

April 17, 2020

## Dear Clients and Colleagues:

Over the past few weeks we reiterated our view that the current market environment has created buying opportunities for investors with a long-term time horizon. Royal Unibrew, a company we recently added to our international portfolios, is one such example.

Royal Unibrew is a Danish beverage producer operating in Eastern and Western Europe, several Caribbean countries, America and Africa. Its product portfolio includes branded beers, malt beverages, non-alcoholic beverages and soft drinks. In addition to developing its own branded products, Royal Unibrew offers PepsiCo and Heineken products under license agreements by which it produces and markets their international brands in the local market. Royal Unibrew employs more than 2,000 people and generates around 90% of its revenue from Western Europe and the Baltics. For the 2019 fiscal year, the company reported sales of US\$1.1 billion, EBITDA of US\$273 million and a net debt to EBITDA rate of 0.7x.

We believe that Royal Unibrew's multi-beverage strategy will continue to drive returns and secure long-term growth. The company should benefit from the synergies of past acquisitions and a more favourable input cost. In tough times, the company has also proven to be efficient on the cash preservation side.

While the consumption of alcohol tends to increase during a crisis, social distancing measures have changed how and where alcohol is consumed. Beverage stocks are not immune to the COVID-19 demand shock. Demand that comes from on-trade segments, such as restaurants, bars and hotels, has been negatively impacted due to restrictions imposed by authorities. Royal Unibrew has experienced some business conversion from on-trade to off-trade; but some of the lost volume from the on-trade segment should be mitigated by the good performance of the off-trade segment.

### **Market size**

- Based on applied market research, the European beer market is projected to reach US\$159 billion by 2025, growing at 1.5%-2% per annum. Beer volume has been trending down as consumers shift to more premium alcohols.
- The premium and craft segment is expected to represent 35% of the overall market.
- Specialty categories, like energy drinks, water, cider and crafts, are growing at 4%-5% per annum.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

### *Growth strategy*

- Adding product category and rolling out brands internationally.
- Refreshing the line of products with innovation or acquisitions.
- Gaining share from other beverage companies.
- Signing more distributors (anchor brands and local brands).
- Premiumization of the portfolio (e.g., ready-to-drink cocktails like the CULT brand).

### *Strengths*

- Successfully transitioned the portfolio mix to follow consumer preferences (premium, local brands, less sugar, craft and specialty, non-alcoholic). The company has shown a strong ability to innovate and upgrade its product line (e.g., Lorina Organic Lemonade, Nohrlund organic cocktails).
- Partnerships and strong relationships with beverage companies like PepsiCo, Diageo and Heineken.
- Strong balance sheet with a flexible cost structure.
- Best in class in terms of operating margins and return on invested capital.
- Strong market position in the Nordic countries with a nice geographical diversification mix.

### *Opportunities*

- Cross-selling opportunity between certain product categories and countries.
- Consumer consumption trends are evolving; health-driven behaviour (organic, non-sugar drinks), connection to the local community, environmental concerns. Also, low and non-alcoholic beverages.
- Strong premiumization trends: marketing campaigns encouraging consumers to trade up.
- Diversifying into other geographic regions.
- Positive emerging market demographics that should experience an increase in its per capita beverage consumption.
- Merger and acquisition (M&A) deals as some competitors could be in deleveraging mode.

### *Risks*

- COVID-19 restrictions; one-third of sales are from on-trade customers like restaurants, bars and hotels.
- Unfavourable weather conditions tend to affect beverage companies.
- Failing to adjust to customers' preferences over time.
- Regulations.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.

We have very little visibility into how long social distancing restrictions will last, but the gradual re-opening of Denmark and Austria this week is a positive sign. Given Unibrew's solid balance sheet, cost controls and a strong product portfolio, we believe that the company will prove its resilience in a weaker economic environment. Once the pandemic is over, we expect a steep recovery. In addition, the company should face easy comparisons in 2021, compared to 2020, supported by a softening in social distancing restrictions and the return of sporting events like the Euro Cup and the Olympics.

Have a great weekend.

The Global Alpha team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. This report is not approved, reviewed or produced by MSCI.