

Oatly Group AB

Got Oats? Disrupting Dairy Sustainably – Initiate w/ a Buy & \$34 PT

June 14, 2021

Key Takeaway

We initiate coverage on Oatly Group, the world's largest manufacturer of dairy alternative oat-based products, with a Buy rating and a \$34 PT. Given the plant-based tailwind backing the brand along with a ~\$900bn TAM, combined with a planned capacity expansion to drive margins and to meet heightened global demand, OTLY has a long runway for sustained, elevated growth and margin expansion vs. CPG peers, in our view.

JEF acted as a bookrunner in Oatly's May 2021 IPO

A purpose-driven brand disrupting global dairy. Oatly is the world's largest manufacturer of dairy alternative oat-based products, with a purpose-driven philosophy for sustainability. Along with its [brand purpose](#) and product portfolio, Oatly has successfully penetrated international markets using its proven multi-channel strategy, while plant-based dairy products are quickly becoming mainstream given the increasing appeal of values-driven [plant-based food](#) to the everyday consumer, providing an ongoing tailwind for the brand.

JEF TAM analysis suggests long growth runway w/ ~\$900bn TAM. While oat milk volume is still only one-fourth the size of almond milk volume, it's now double the size of soy milk and rapidly gaining share in the global milk alternative category. Our bottom-up analysis suggests that Oatly's TAM nears ~\$900bn. While we've included other smaller dairy alternative categories (ice cream/yogurt/other), we still find 80%+ of the global opportunity emanating from milk. We foresee Oatly's sales approaching \$2bn in FY'23, or an implied ~68% CAGR, the fastest revenue growth potential found in broader CPG.

Building capacity to meet heightened demand. Production capacity has been Oatly's main growth constraint, as demand for its products has significantly outpaced available supply. IPO proceeds will be used to expand capacity to 1,500 liters by 2023, ~4x its 2020 capacity, after successfully expanding capacity ~3x between 2018-2020. The increase in capacity should allow Oatly to meet the heightened global demand and to drive its best-in-class top-line growth, while decreasing its costs per unit as it spreads production-related costs over greater manufacturing volumes.

Taking it in-house to drive margin expansion. The company plans not only to expand capacity, but also to invest in wholly-owned manufacturing facilities to drive margin expansion, as the end-to-end manufacturing footprint in Sweden and the positive EBITDA profile in EMEA have shown that the self-manufacturing model can result in a significantly improved margin profile. We expect the company to turn profitable in 3 years, with EBITDA margin expanding ~1,800bps from (~8%) in 2020 to ~10% in 2023.

Valuation analysis suggests \$34 fair value per share; initiate with a Buy. Our valuation is based on our FY'23 top-line forecast and a ~9.5x EV/Sales multiple, or a ~10% premium to Beyond Meat (BYND, Hold), which we find logical given Oatly's superior expected go-forward revenue CAGR (off a slightly higher base) and expedited path to profitability. Our DCF analysis also supports our PT.

Initiating Coverage

USA | Food Products

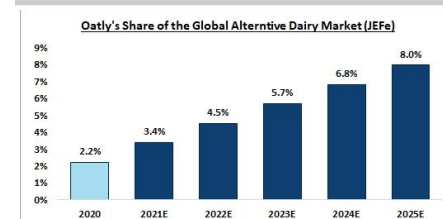
RATING	BUY
PRICE	\$28.73 [^]
MARKET CAP	\$17.0B
PRICE TARGET (PT)	\$34.00
UPSIDE SCENARIO PT	\$45.00
DOWNSIDE SCENARIO PT	\$25.00

[^]Prior trading day's closing price unless otherwise noted.

FY Dec

USD	2020A	2021E	2022E	2023E
EPS	(0.10)	(0.26)	(0.14)	0.07
FY P/E	NM	NM	NM	NM

Rapid Share Gains Expected



Source: Jefferies Research, Euromonitor

~68% Sales CAGR through FY'23



Source: Jefferies Research, company data

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OATLY GROUP AB (OTLY)

Estimates				
USD	2020A	2021E	2022E	2023E
Rev. (MM)	421.0	690.0	1,278.0	1,983.0
Previous				
EBITDA (MM)	(33.0)	(105.0)	(21.0)	190.0
Previous				
EPS				
Q1	(0.01)	(0.05)A	(0.06)	0.00
Previous				
Q2	(0.01)	(0.09)	(0.06)	0.01
Previous				
Q3	(0.02)	(0.07)	(0.02)	0.02
Previous				
Q4	(0.06)	(0.05)	0.00	0.03
Previous				
FY Dec	(0.10)	(0.26)	(0.14)	0.07
Previous				

Valuation				
	2020A	2021E	2022E	2023E
FY P/E	NM	NM	NM	NM
EV/Rev	38.0x	23.2x	12.5x	8.1x
P/Rev	40.4x	24.6x	13.3x	8.6x
EV/EBITDA	NM	NM	NM	84.2x

Market Data	
52-Week Range:	\$28.73 - \$19.99
Total Entprs. Value	\$16.0B
Avg. Daily Value MM (USD)	198.04
Float (%)	16.4%

The Long View

Scenarios

Base Case

- Sales CAGR of ~68% for FY'21-23, in line with guidance
- Operating margins improve by ~500 bps to ~4% in FY'23 (from FY'20), benefiting from production mix shift & operating leverage
- Shares trade in line with BYND given the business life cycle stage of both companies and plant-based product portfolios
- \$34 price target: Based on 9.5x EV/sales multiple on ~\$2bn FY'23 sales

Upside Scenario

- 20% sales upside on faster penetration growth across regions
- 200 bps operating margin upside from faster-than-expected in-house capacity rollout and better operating leverage
- \$45 price target: Based on 10.8x EV/Sales multiple on ~\$2.4bn in FY'23 sales

Downside Scenario

- 10% sales downside based on market share pressure given increased competition and slower-than-expected HHP
- 200 bps operating margin downside from delay in capacity expansion, higher growth investments, and less operating leverage
- \$25 price target: Based on ~7.5x EV/Sales multiple on ~\$1.8bn in FY'23 sales

Investment Thesis / Where We Differ

- Oatly is the world's largest manufacturer of dairy alternative oat-based products, with a purpose-driven philosophy for sustainability.
- Our bottom-up TAM analysis suggests a long runway of growth ahead and points to \$900bn (split \$540bn in retail outlets/\$370bn in foodservice). Company's on-trend product portfolio and purpose-driven brand is well-positioned to succeed given strong brand awareness, global footprint, and increased consumer focus on health and wellness
- Strong margin expansion opportunity as the company benefits from production mix shift to in-house and operating leverage
- Our Buy rating is predicated on the long-term market opportunity and attractive growth attributes in the plant-based dairy industry, Oatly's position within, and its ability to expand margins longer term

Catalysts

- Announcements regarding new product innovations, new retail distribution gains, regional expansions, or foodservice partnerships
- Faster-than-expected sales and margin expansion results
- Tracked-channel retail trends

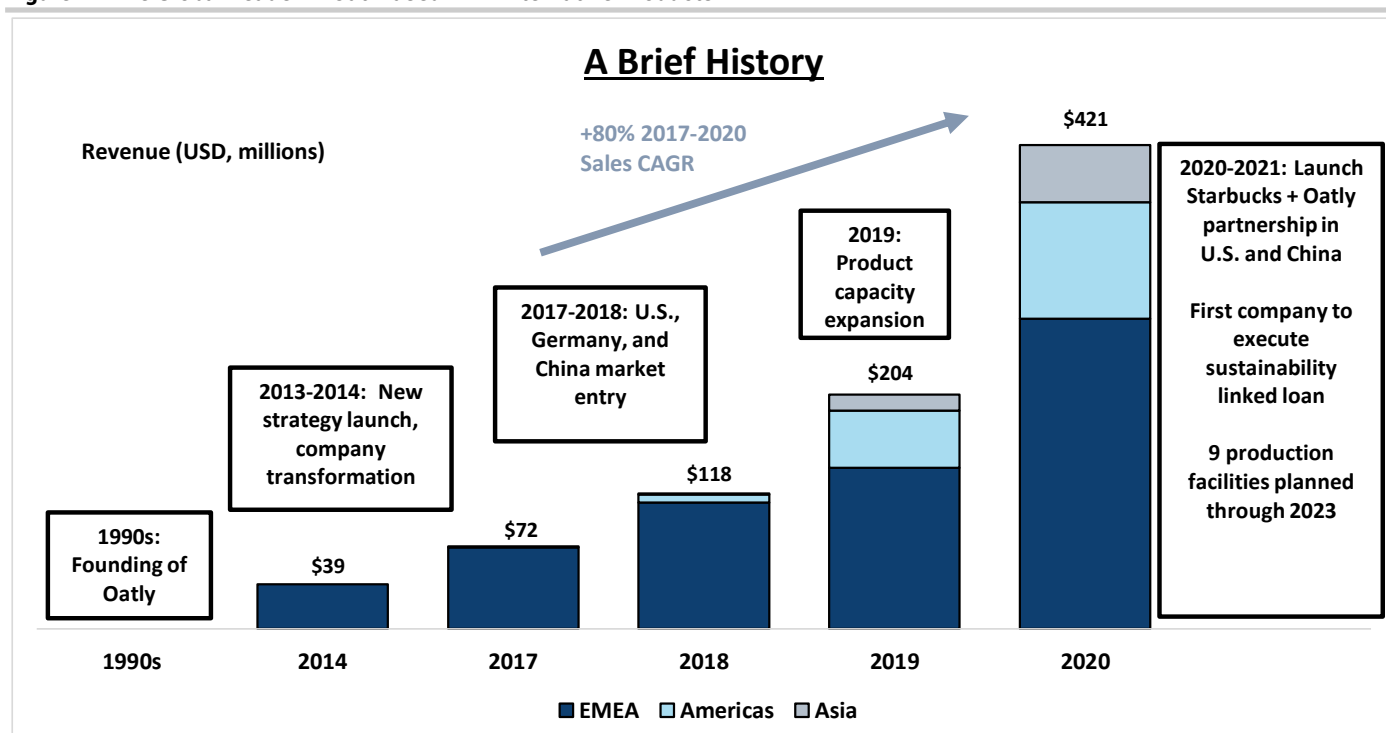
Table of Contents

The Global Leader in Oat-Based Milk Alternatives.....	4
Gaining Share via Increased Consumer Acceptance & Declining Dairy Consumption.....	7
An Attractive Addressable Market Suggests Material Oatly Sizing Potential.....	15
Capacity the Bottleneck, but Quickly Changing to Meet Demand.....	25
Production Mix & Efficiencies + Operating Leverage to Drive Margins.....	27
IPO Funding Capital Needs, Yet Not FCF Positive until '24?.....	32
Valuation Analysis Suggests \$34 Fair Value per Share.....	34
Risk Factors.....	39
Management Background.....	40

The Global Leader in Oat-Based Milk Alternatives

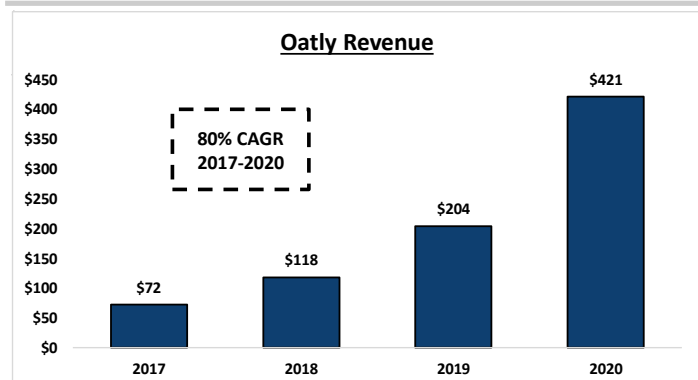
Leading global oat-based dairy alternative brand. Oatly is the world's original and largest manufacturer of dairy alternative oat-based products, with a purpose-driven philosophy for sustainability and the overall betterment of the planet. The company was founded in the 1990s when a group of scientists at Lund University in Sweden set out to find a replacement to dairy-based milk after discovering that approximately two-thirds of the global population could not process cow's milk due to lactose intolerance. They found the solution in the base crop of oats by developing a proprietary, patented process using enzymes to break down oats into tasty foods, while retaining its nutritional benefits. With that, the Oatly team launched the world's first oat milk product under the Oatly brand in 2001. Since then, the company has expanded globally as the leader in oat-based dairy products, beginning in Europe, and further expanding into the Americas in 2017, and Asia in 2018. Through its successful expansions, Oatly has been able to achieve unparalleled growth, reporting a revenue and gross profit CAGR of 80% and 61%, respectively, between 2017 and 2020, reaching sales of \$421m. This rapid growth is driving not only the oat-based dairy category, but the overall dairy alternative category across its key markets. For example, since Oatly launched in Germany in 2018, oat milk's share of the total dairy alternative category has jumped from ~23% to ~60% in 2020. We believe Oatly's on-trend and purpose-driven brand can continue to drive growth through accelerated brand awareness, new market expansion through a proven multi-channel strategy, product innovation, and global capacity expansion to capture immense levels of demand that trumps the current supply.

Figure 1 - The Global Leader in Oat-Based Milk Alternative Products



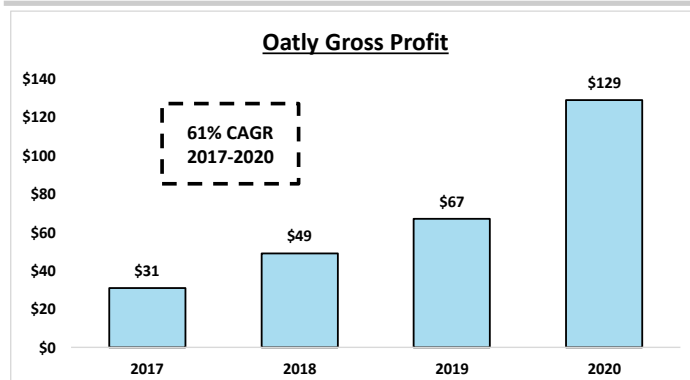
Source: Jefferies Research, company presentations

Figure 2 - Between 2017-2020 Oatly has an ~80% sales CAGR...



Source: Jefferies Research, company filings

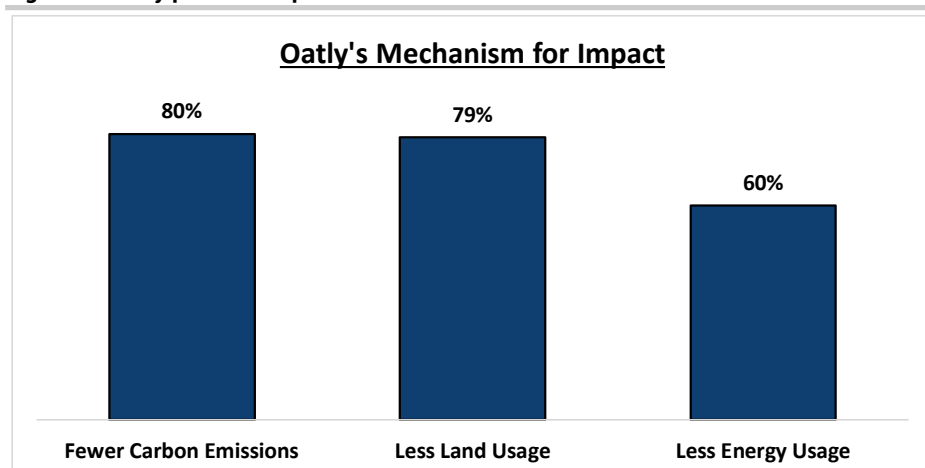
Figure 3 - ...and a ~61% Gross Profit CAGR



Source: Jefferies Research, company filings

Focus on health and sustainability driving mission to transform global dairy industry with oats. Traditional food production is one of the biggest drivers of human-created environmental impact, and at the same time, today's food system does not meet the nutritional needs of humans and is increasing the prevalence of food-based diseases across the globe. With these issues in mind, Oatly relaunched its strategy in 2012 and created a brand phenomenon that speaks to the emerging priorities of sustainability, trust, and health. These core values are built for what the world is becoming, and Oatly makes every decision with these values in mind. It lists all the ingredients that go into its products and where they come from, work with dairy farmers in Sweden and in the U.S. to explore the benefits of a shift to oat crops, added carbon footprint labeling to all its products in Europe so consumers could grow more aware of the impact their food has on the planet, and were the first company in Europe to use a fleet of electric trucks for heavy-duty commercial shipping. The mission also speaks through the products themselves. Its process is more sustainable and better for the planet than the traditional dairy process. For example, as seen in Figure 4, one liter of Oatly product consumed in place of cow's milk results in ~80% less greenhouse gas emissions, 79% less land usage, and 60% less energy consumption.

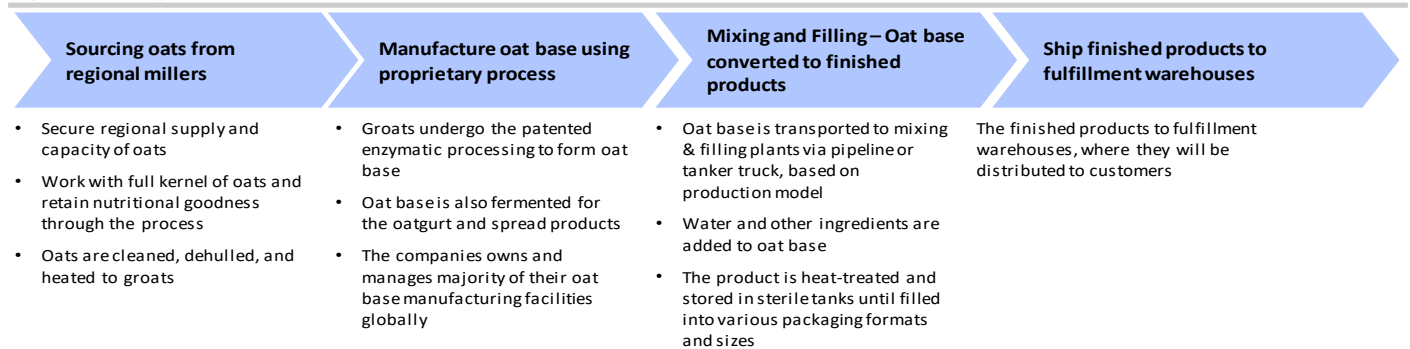
Figure 4 - Oatly production process more sustainable vs. cow's milk



Source: Jefferies Research, company filings

The production journey from oats to oat milk. The process begins by sourcing oats from local farmers to minimize transportation distances in order to lower emissions and expenses. From there, the full kernels of oats are cleaned, dehulled, and heated to groats. The groats then go through Oatly's patented enzymatic processing to form the oat base. When the oat base is ready, it is transported to the mixing & filling plants where water and other ingredients are added. Once ready the product is heat-treated and stored in sterile tanks until filled into the various packages, which are made from 86% renewable materials such as paper, fiber or bioplastics. Lastly, the final packaged products are shipped to fulfillment warehouses, where they are distributed to customers.

Figure 5 - Oatly's Production Process



Source: Jefferies Research, company data

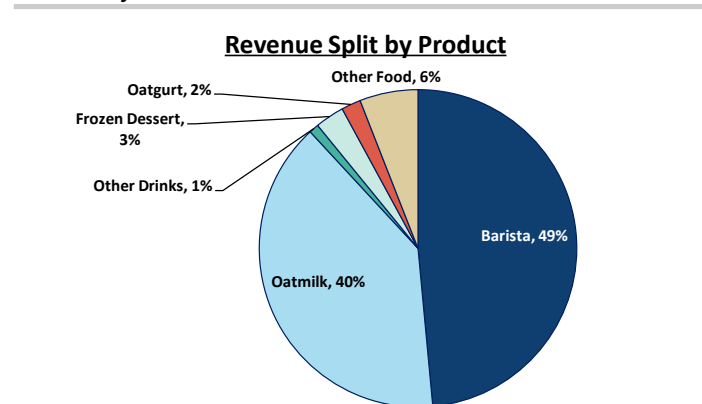
Global dairy alternative brand, not just milk. The launch of Oatly's oat milk product has been widely successful and is now the largest oat milk brand in the U.S., the U.K., Germany, and Sweden, and is the fastest growing nondairy milk brand in those same markets. Additionally, Oatly was the category creator in China, and has over 50% market share of Alibaba's online platform Tmall. After seeing the success of oat milk, Oatly began to expand its product portfolio across dairy, with the ambition of becoming a global plant-based dairy alternative company and penetrating the ~\$1T dairy industry. Through its commitment to oats, Oatly has been able to unlock the breadth of the dairy portfolio and in 2020, its revenue split by product was ~49% Barista (creamier oat milk), ~40% Oat milk, ~6% other food, ~3% frozen dessert ~2% oatgurt, and ~1% other drinks.

Figure 6 - Oatly has well-diversified product portfolio...



Source: Jefferies Research, company data

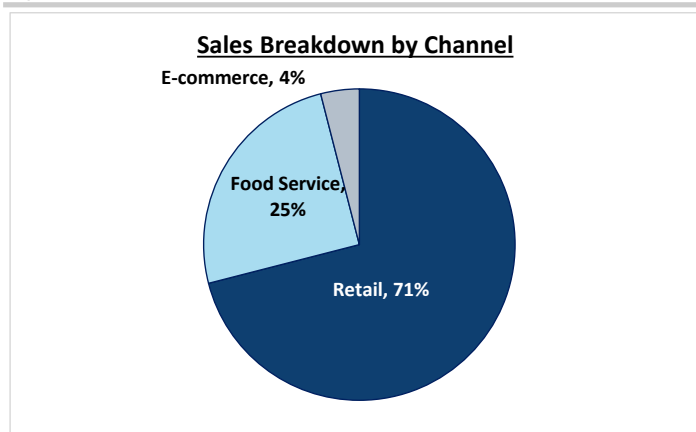
Figure 7 - ...and plans to expand its product portfolio across the entire dairy aisle



Source: Jefferies Research, company filings

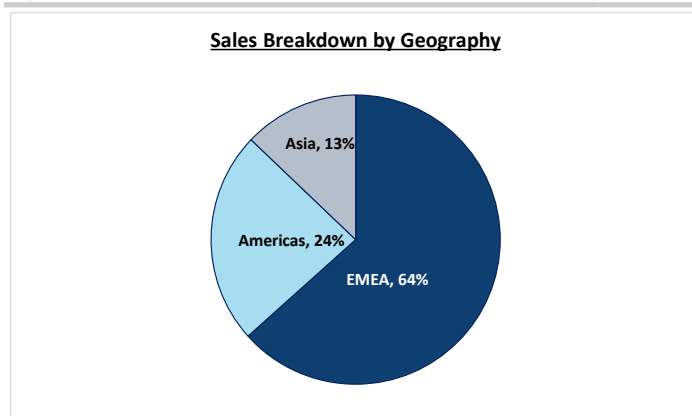
Proven multi-channel strategy driving global expansion. Along with its brand purpose and product portfolio, Oatly has successfully penetrated international markets using its proven multi-channel strategy. In 2020, its products were sold through retail stores (71% of sales), foodservice (25% of sales), and e-commerce (4% of sales). When entering new markets, Oatly uses a foodservice led expansion to build awareness and loyalty to the brand through the specialty coffee market. This ultimately drives sales through the retail and e-commerce channels. The company has tailored this strategy for many successful market launches, including the U.K., Germany, the U.S., and China. Given the success of the strategy, Oatly is now a global brand in 20 markets and offers dozens of product lines across ~60,000 retail doors and ~32,200 coffee shops. Its products are sold in EMEA (64% of sales), the Americas (24% of sales), and Asia (13% of sales) through a variety of channel and customer types, from small market coffee shops to international franchises like Starbucks and Pizza Hut, retailers like Walmart, Target, Whole Foods, Sainsbury's and Kroger, and e-commerce sites like Amazon, Tmall, and JD.com.

Figure 8 - ~71% of total sales are in the retail channel



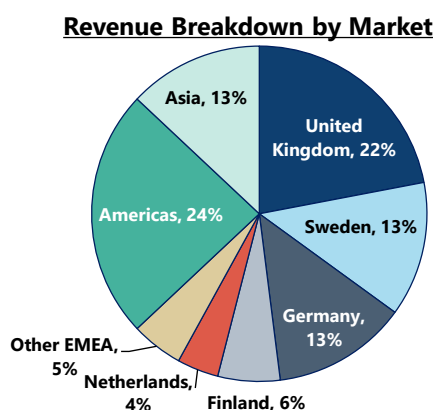
Source: Jefferies Research, company filings

Figure 9 - ~64% of sales in 2020 were from the EMEA region...



Source: Jefferies Research, company filings

Figure 10 - ...however, the Americas is Oatly's largest market

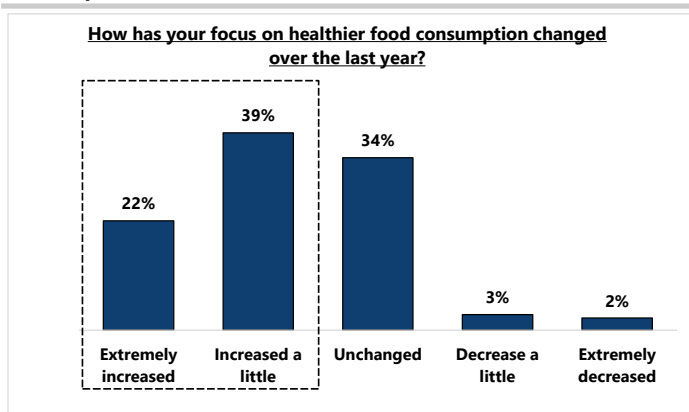


Source: Jefferies Research, company filings

Gaining Share via Increased Consumer Acceptance & Declining Dairy Consumption

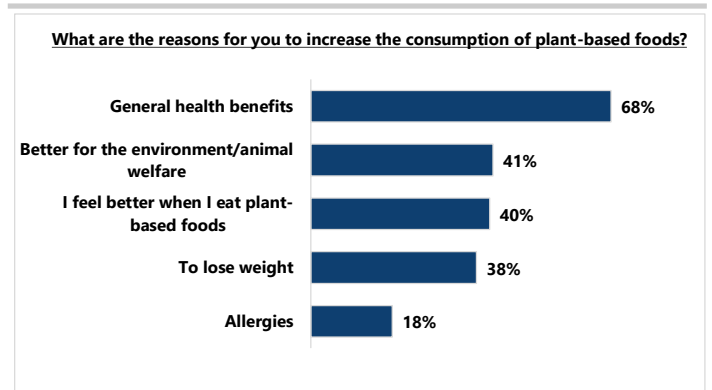
Plant-based tailwind backing the brand. Oatly is well positioned to benefit from the global shift towards plant-based products. As we detailed in our [plant-based note](#) in early April, there is an increased consumer focus on health and wellness and consuming more plant-based foods is one of the prominent ways in which consumer plan to do so. When asked how focus on healthier food consumption has changed over the last year, 61% of consumers stated that it has increased, with 22% having said their focus on healthier food consumption has “extremely increased.” And when asked why they wanted to increase consumption of plant-based foods, 68% of respondents said for general health benefits, and 41% said that eating plant-based foods is better for the environment and animal welfare. Additionally, when asked which plant-based category have you recently purchased, 37%, the top answer, said milk. The consumer focus on health and wellness is likely to provide a long-term tailwind for Oatly, especially given its brand purpose on being better for the planet and as a plant-based milk company.

Figure 11 - 61% of consumers stated that their focus on healthier consumption has increased...



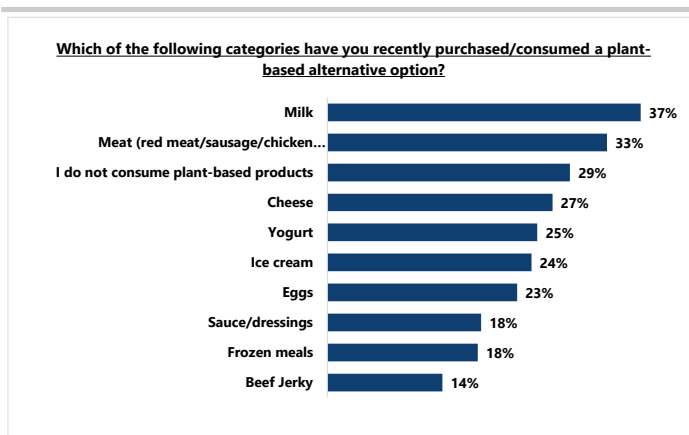
Source: Jefferies Research

Figure 12 - ...with 68% stating that the reason was for general health benefits...



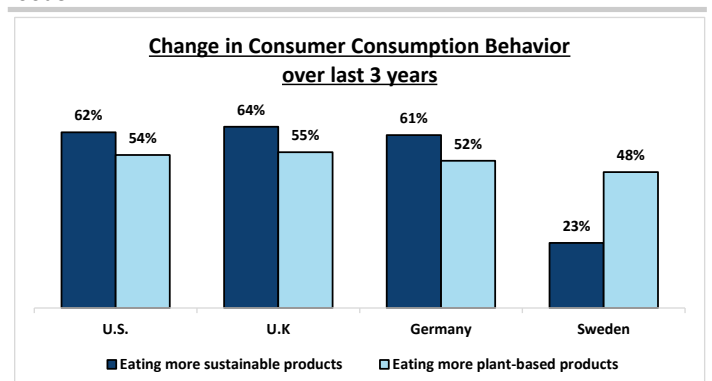
Source: Jefferies Research

Figure 13 - ...and 37% said they recently purchased plant-based milk



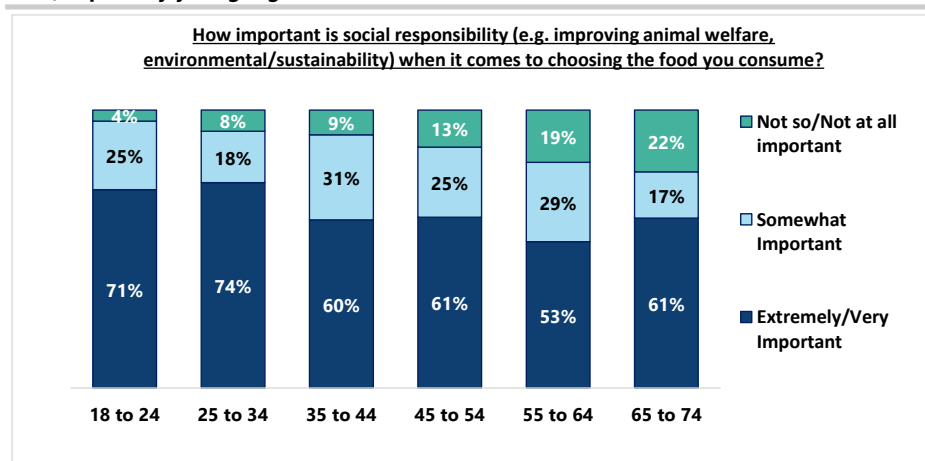
Source: Jefferies Research

Figure 14 - Consumers are eating more sustainable/plant-based foods



Source: Jefferies Research, company filings; Survey conducted by Oatly, Jan 2021.

Figure 15 - Social responsibility is top of mind for most consumers when purchasing food, especially younger generations

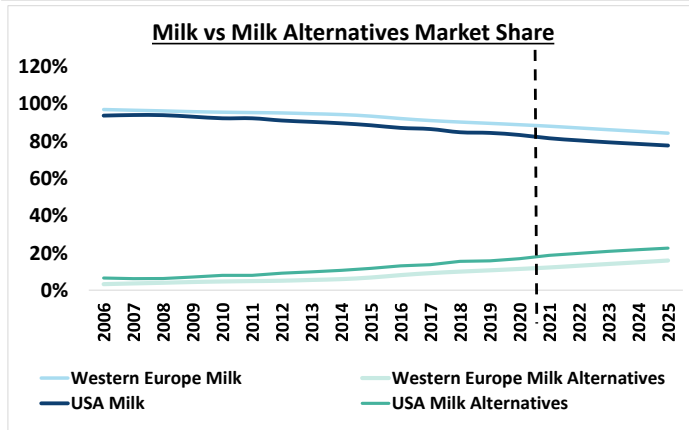


Source: Jefferies Research

Plant-based milk becoming mainstream. According to the survey commissioned by Oatly in Jan 2021, 35-40% of the adult population has purchased plant-based milk in the last three months in the U.S., the U.K, Germany, China, and Sweden, with 60-70% of the category's consumers joining in the last two years alone, showing that plant-based dairy is quickly becoming mainstream and the value proposition of these products increasingly appeals to the everyday consumer. Additionally, in the U.S. in the last three years, 32% of consumers have reduced or stopped their dairy milk intake, while two-thirds of these consumers have now shifted at least part of their dairy consumption to plant-based milk alternatives and are using these products for similar occasions as they would for animal-based dairy. Lastly, the plant-based category is benefiting from a consumer shift towards more conscious eating, with ~60% of consumers in the U.S. citing that they lead a much healthier lifestyle and eat significantly healthier, while 43% mentioned they are eating more sustainable products than three years ago. All that said, plant-based milk is expected to continue to grow and gain traction as new consumers enter the category, as well as increasing the per liter consumption of existing consumers.

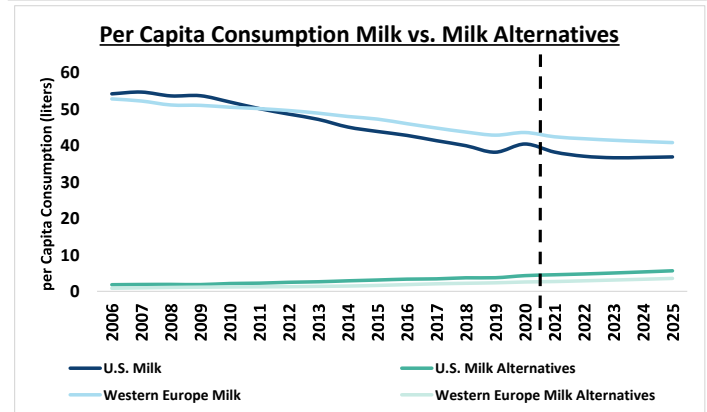
Gaining share in total milk/milk alternative category. With increased consumer focus on health and wellness and plant-based foods evident, we can reasonably assume that plant-based categories will continue to gain share from their animal-based counterpart. That said, looking at retail data on milk vs. milk alternatives in two of Oatly's key markets, we can see that milk alternatives have consistently taken share of the total milk category over the past decade, and are expected to continue to do so at an accelerated rate. According to Euromonitor, in the U.S., milk alternatives share of total milk reached ~17% in 2020 and is expected to reach ~23% by 2025, while in Western Europe, milk alternatives share of total milk reached ~11% in 2020, and is expected to reach ~16% by 2025. Additionally, in Figure 16 we can see that per capita dairy milk consumption in the U.S. and Western Europe has consistently declined between 2006 and 2019, while per capita milk alternative consumption has steadily increased during the same time period, with both trends expected to continue. An increased plant-based milk presence will benefit Oatly and should provide a tailwind for top-line growth as oat milk continues to expand its presence within the ever-expanding plant-based milk category.

Figure 16 - Milk alternatives have steadily taken share from milk in the U.S. and Western Europe...



Source: Jefferies Research, Euromonitor

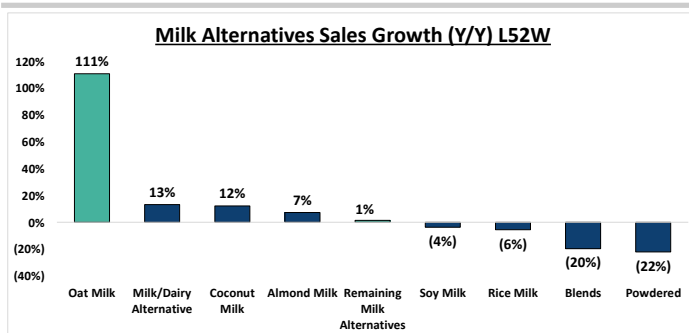
Figure 17 - ...while per capita milk consumption has steadily declined



Source: Jefferies Research, Euromonitor

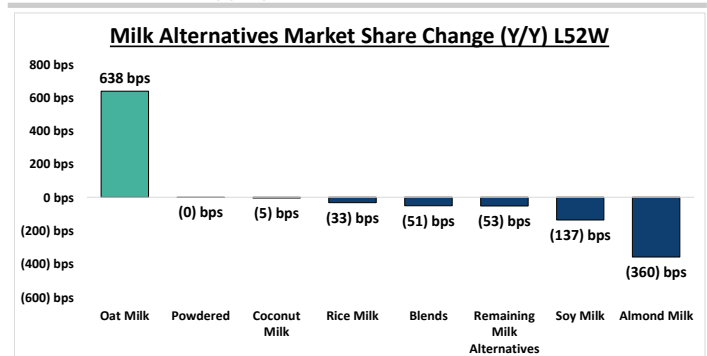
Oat milk driving the U.S. milk alternatives category. Retail sales data shows that oat-based products are the driving force behind the increased consumer demand for plant-based milk alternatives. Oats are uniquely positioned vs. other crops to dominate the plant-based dairy category given (1) inherent sustainable characteristics, (ii) flexibility within the supply chain, (iii) widely accessible to a range of eaters, (iv) nutritional advantages, and (v) cultural advantages. Using the U.S. as a proxy, we can see that oat milk is the fastest growing sub-category within U.S. retail tracked channels milk alternative category, and oat milk is the only one outgrowing the overall category, growing sales 111% y/y in the L52W, and driving overall category growth. As we can see in Figure 19, oat milk's rapid growth has led to a ~640 bp increase in share of the milk alternatives category, gaining all the available share and jumping from ~7% in the YA period to ~14% in the L52W. Additionally, as seen in Figure 23, during the L52W oat milk gained the most share of the total milk/milk alternative category, gaining ~115 bps, while cow's milk lost ~160 bps during the same period.

Figure 18 - Oat milk is the fastest growing milk alternative in U.S. tracked channels...



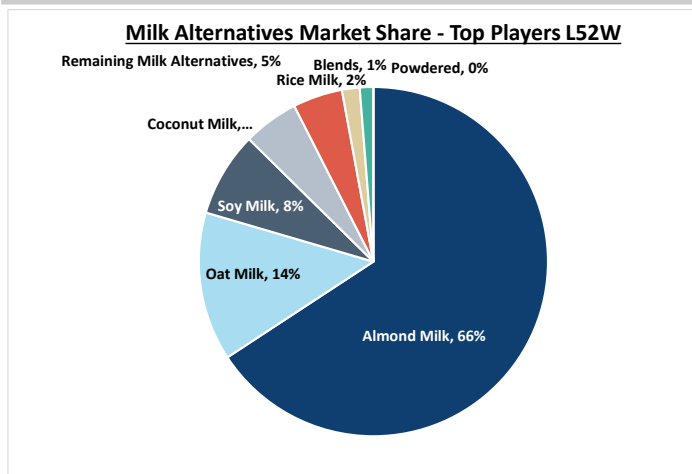
Source: Jefferies Research, Nielsen xAOC+C

Figure 19 - ...and has gained all the available share over the L52W, with almond milk lagging



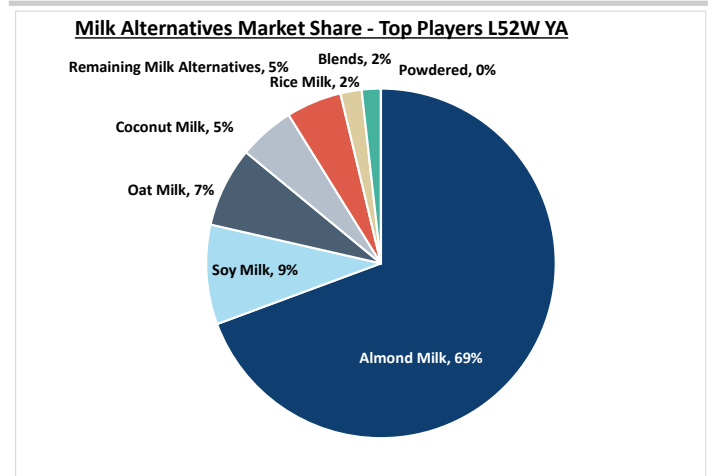
Source: Jefferies Research, Nielsen xAOC+C

Figure 20 - Almond milk is still the largest category in milk alternatives...



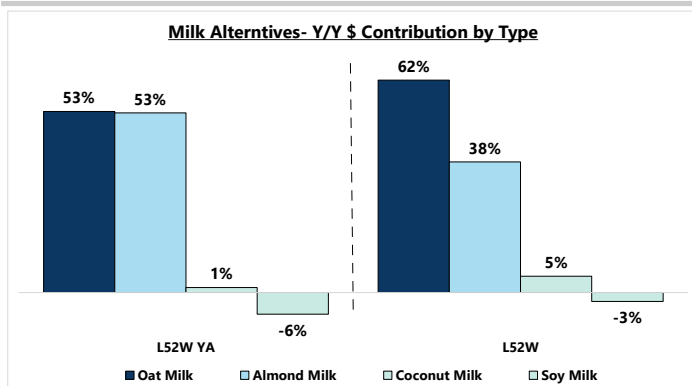
Source: Jefferies Research, Nielsen xAOC+C

Figure 21 - ...but Oat milk jumped from 7% YA to 14% in the L52W



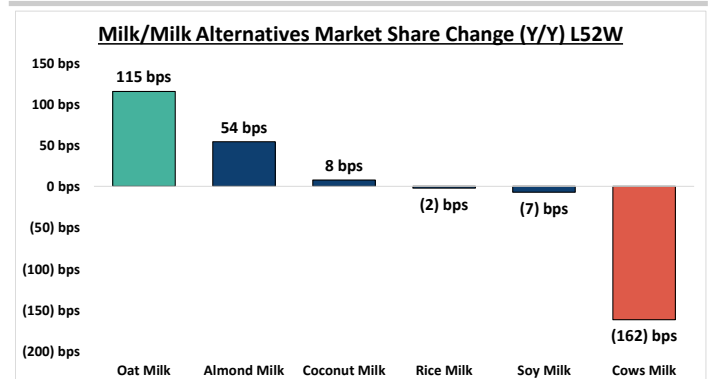
Source: Jefferies Research, Nielsen xAOC+C

Figure 22 - Oat milk contributed the most sales dollars y/y to the category



Source: Jefferies Research, Nielsen xAOC+C

Figure 23 - Oat milk has also gained the most share in the total milk/milk alternatives category in the L52W

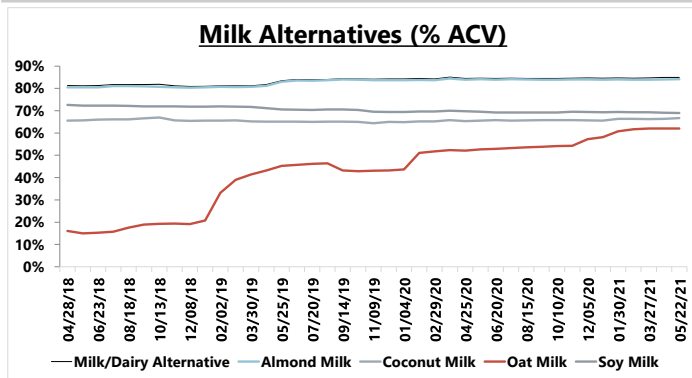


Source: Jefferies Research, Nielsen xAOC+C

Increased demand driving oat milk growth through distribution, velocity, and shelf space.

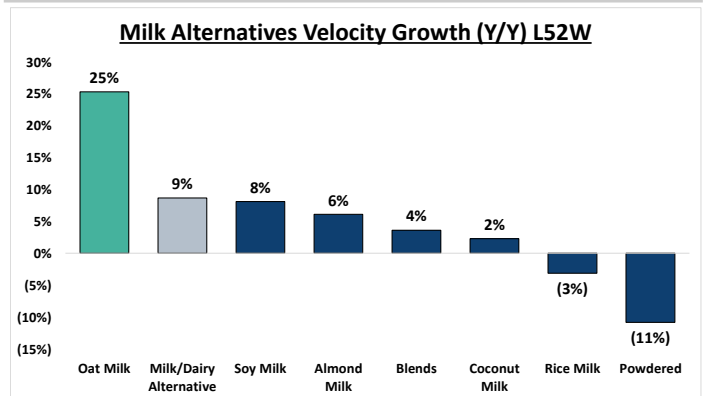
Oat milk's growth can be captured using a few metrics: (i) rapidly increasing distribution, (ii) category leading velocity growth, and (iii) category leading # of items per store growth. All in, oat milk is increasing its distribution, growing its shelf space, and selling faster than any other dairy alternative sub-category. As seen in Figure 24, oat milk's distribution, measured in % ACV, has jumped from ~15% in early 2018 to ~60% in 2021, while other dairy alternatives' distribution has remained relatively steady or even fallen during the same span. As seen in Figure 25, Oat milk is not only leading all other milk alternatives in velocity growth, it is also driving the total milk alternative category velocity growth as the only sub-category growing faster than the overall category. And as seen in Figure 26, oat milk has increased its average # of items per store faster than any other milk alternative, growing ~38% y/y in the L52W. All this shows the elevated levels of demand for oat milk vs. other milk alternatives.

Figure 24 - Oat milk distribution has improved dramatically since 2018...



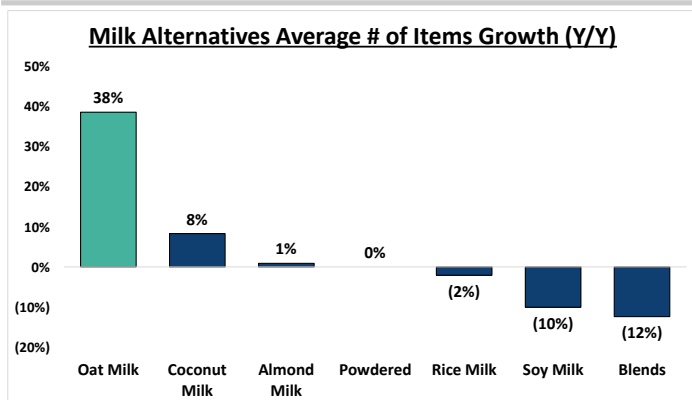
Source: Jefferies Research, Nielsen xAOC+C

Figure 25 - ...while its velocity growth is the strongest in the entire category



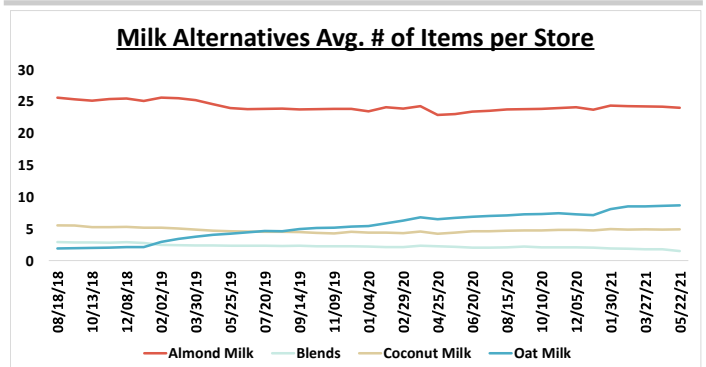
Source: Jefferies Research, Nielsen xAOC+C

Figure 26 - Oat milk is expanding shelf space at the fastest rate...



Source: Jefferies Research, Nielsen xAOC+C

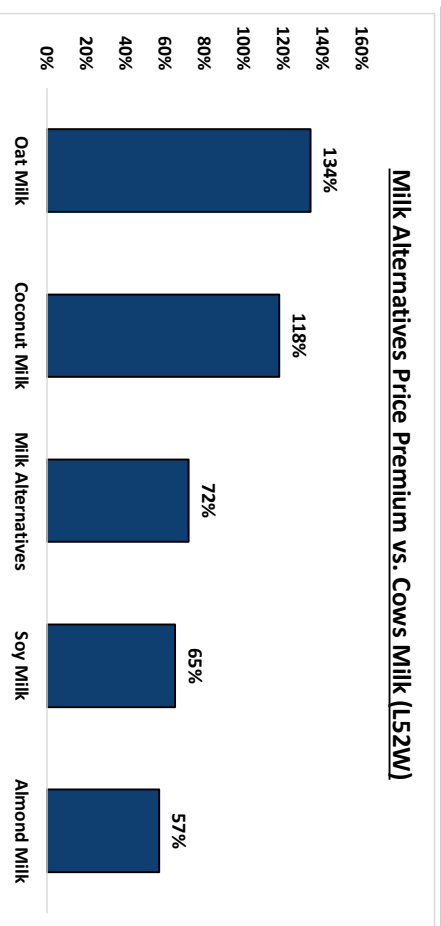
Figure 27 - ...vs. other milk alternative categories



Source: Jefferies Research, Nielsen xAOC+C

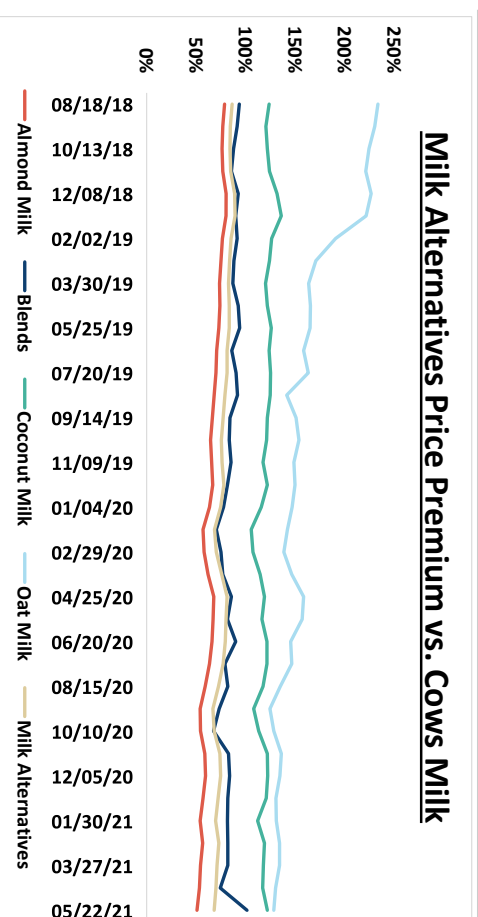
Elevated pricing not swaying momentum; however, private label a potential threat. Oat milk is the premium dairy alternative option. As seen in Figure 28, oat milk in the L52W was priced at a ~134% premium to cow's milk vs. category average price premium of ~72%, with almond milk at a ~57% price premium. Additionally, as seen in Figure 29, oat milk is consistently the highest priced milk alternative, although that price premium has decelerated over the past three years. Given elevated demand for oat milk, this higher price point has helped drive sales growth, and is further evidence of oat milk's popularity and increased demand vs other alternatives, proving customers are willing to pay a higher price for the product. That being said, private label could be a potential threat to sustained category pricing, in our view. As we can see in almond milk and soy milk (who have the highest private label penetration, and the lowest price premiums vs cow's milk), when private label penetration is relatively higher, category pricing tends to decline. This will be something to watch going forward in the oat milk category, as private label now only holds 5% penetration of the sub-category.

Figure 28 - Oat milk is priced at a ~134% premium to cow's milk...



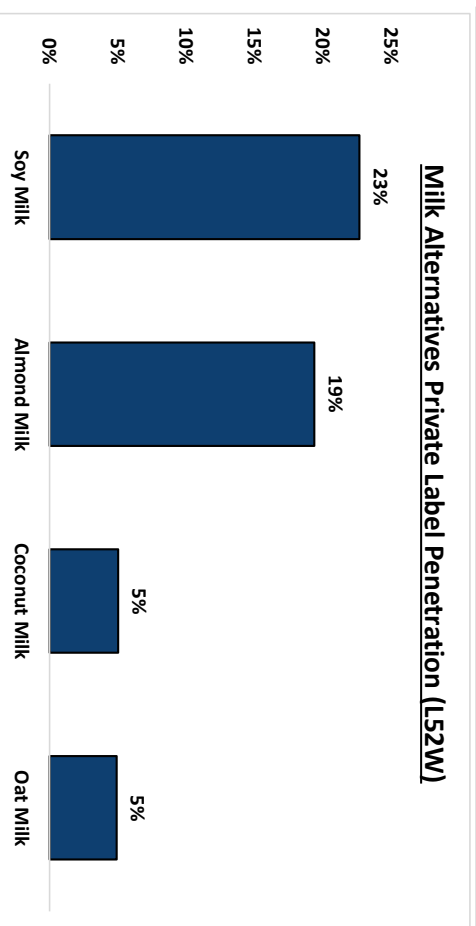
Source: Jefferies Research, Nielsen XAOC+C

Figure 29 - ...but that premium has declined over the past 3 years



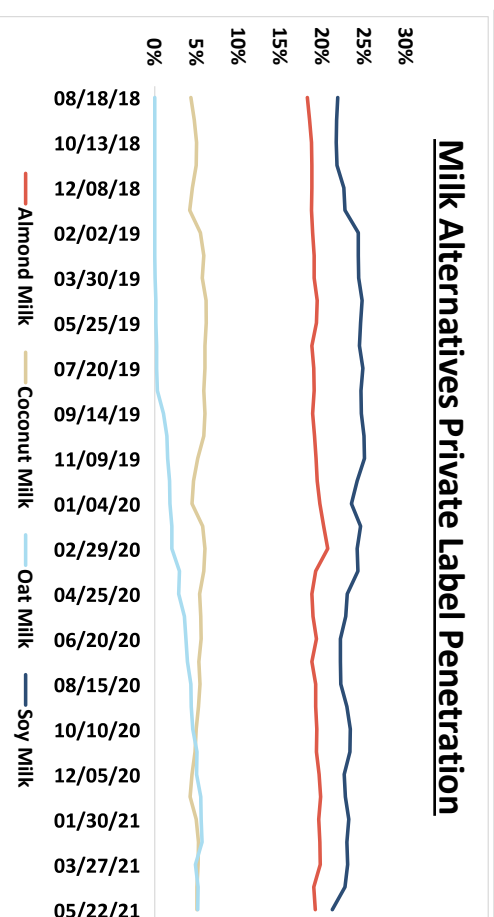
Source: Jefferies Research, Nielsen XAOC+C

Figure 30 - Private label could be a threat to category premiumization...



Source: Jefferies Research, Nielsen XAOC+C

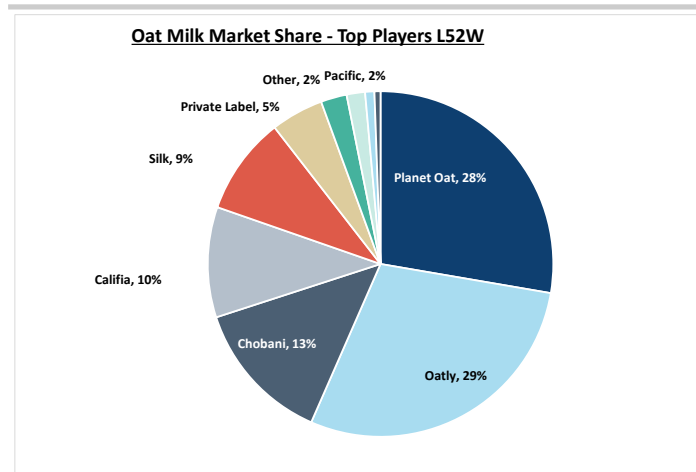
Figure 31 - ...and tends to drag down overall category price



Source: Jefferies Research, Nielsen XAOC+C

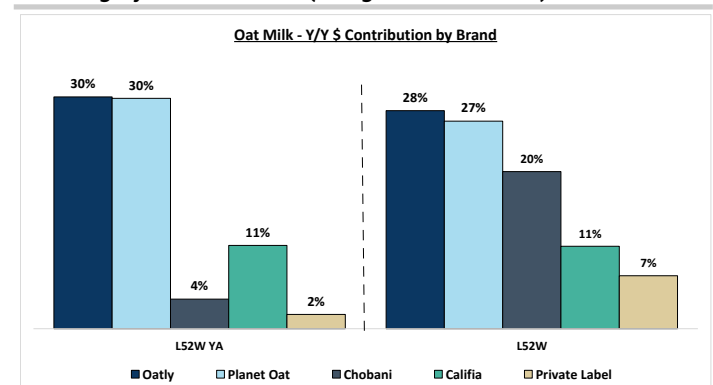
Largest player in oat milk, but competition heating up. Within U.S. tracked channels, Oatly competes in three categories, oat milk (~89% of tracked channel sales), ice cream (~10% of tracked channel sales), and yogurt (~1% of tracked channel sales). Within oat milk, Oatly is the largest brand in terms of dollar sales, with ~29% dollar share of the category over the L52W weeks, followed by Planet Oat (~28%) and Chobani (~13%). Oatly underperformed the category during the L52W likely due to capacity constraints, and lost ~190 bps of market share, as new players and private label stepped up and gained share. In our view, once Oatly is able to execute on planned capacity expansions, it should regain lost share of the category and become one of the faster growing players. To add to its milk portfolio, Oatly recently entered the plant-based ice cream and plant-based yogurt categories and is one of the faster growing players in each. Expansion across the dairy aisle will be another chance for Oatly to drive growth and gain shelf space in stores. All in, Oatly is well positioned for long-term sustained growth as the largest player in the oat milk category, which is rapidly growing and taking share of the total milk alternatives category, which is taking share from dairy milk, all while additional opportunities across the aisle in other plant-based dairy categories exist.

Figure 32 - Oatly the largest U.S. player in Oat Milk category with ~29% share in tracked retail channels...



Source: Jefferies Research, Nielsen xAOC+C

Figure 33 - ...and has contributed the most incremental dollars to the category over the L52W (along with Planet Oat)



Source: Jefferies Research, Nielsen xAOC+C

An Attractive Addressable Market Suggests Material Oatly Sizing Potential

So the question quite simplistically is how big can Oatly get? We address this question using our detailed bottom-up total addressable market (TAM) analysis. In the section below, we detail our analysis and our assumptions used to size the dairy alternatives market and top-line opportunity for Oatly within retail and foodservice channels.

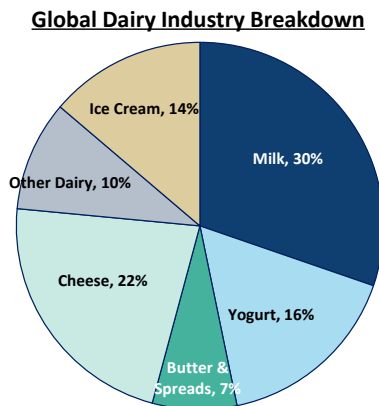
Addressable market analysis points to a large opportunity with accelerating adoption.

Oatly participates in the large global dairy industry, which consists of milk, yogurt, ice cream and frozen dessert, creamer, butter, and other dairy products. Per Euromonitor, the global dairy products industry retail sales were estimated to be ~\$592bn in 2020 and are expected to reach ~\$773bn by 2025, growing at ~5.5% CAGR. In terms of the total dairy sales breakdown, milk (~30%) is the largest sub-category of total dairy sales, followed by cheese (22%), yogurt (16%), ice cream (14%), and butter/other dairy (~18%).

However, we simply don't find the total dairy market to be completely addressable by plant-based dairy alternatives given the breadth of current product offerings, manufacturing complexities, and functionality. In our view, cheese, spreads, and some other dairy (cooking products, dips, etc.) should be more complicated to replicate across taste, texture, and formulation. We assume, therefore, that the majority of the milk, yogurt, and ice cream categories are addressable by plant-based dairy, but only 70% of the cheese, butter, spreads, and other dairy categories are addressable.

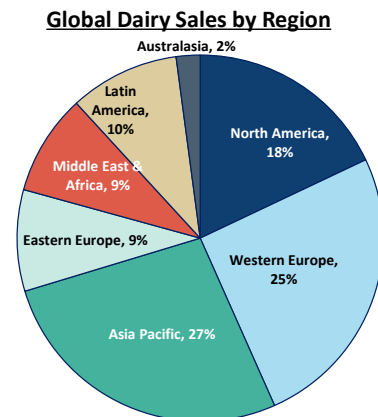
By region, Asia Pacific (~27%), Western Europe (~25%), and North America (~18%) together represent ~70% of total global dairy sales.

Figure 34 - Milk (~30%) is the largest sub-category, followed by cheese (22%), yogurt (16%), and ice cream (14%)



Source: Jefferies Research, Euromonitor

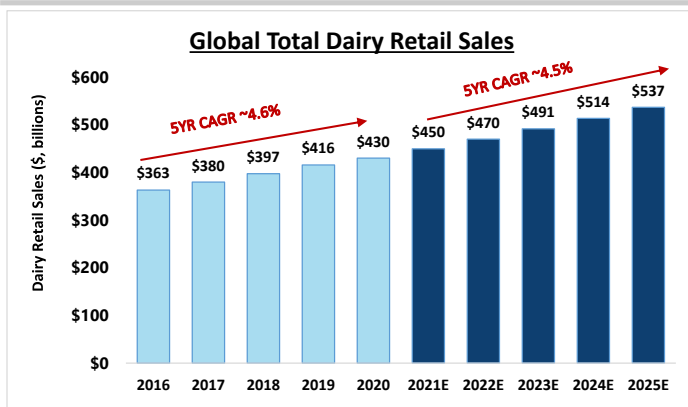
Figure 35 - Asia Pacific (~27%) is the biggest region followed by Western Europe (25%) and North America (18%)



Source: Jefferies Research, Euromonitor

Our base case assumptions suggest a global TAM of ~\$900bn, split between \$540bn in retail and \$370bn in foodservice by 2025. Using Euromonitor data for total sales by category and by region within retail (grossed down by 25% for retail margin) along with our region/category specific assumptions, we estimate a total retail addressable market of \$537bn by 2025, growing at a ~4.5% CAGR. Additionally, foodservice represents a significant opportunity for Oatly, especially in coffee shops, which expands the total addressable market even further, in our view. Using a retail/foodservice split of ~60%/40%, per company presentation, we estimate ~\$370bn as addressable in foodservice sales. All in, we estimate the total global addressable market size of ~\$900bn.

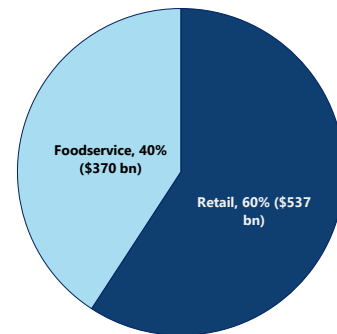
Figure 36 - We estimate the total retail addressable market of \$537bn by 2025, growing at ~4.5% CAGR



Source: Jefferies Research, Euromonitor

Figure 37 - ...and total addressable market of ~\$900bn given foodservice and retail split of 60%/40%

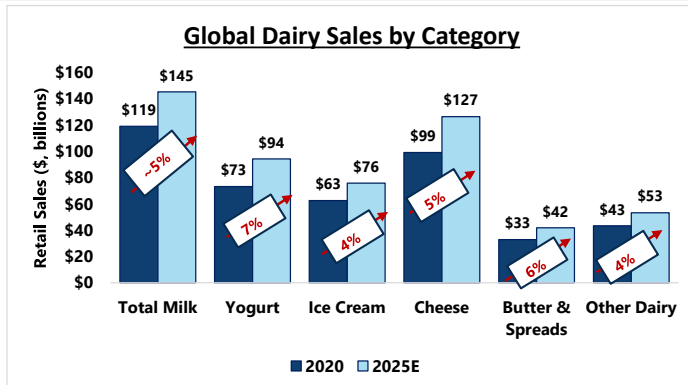
Total Global Addressable Market



Source: Jefferies Research, Euromonitor, company presentation

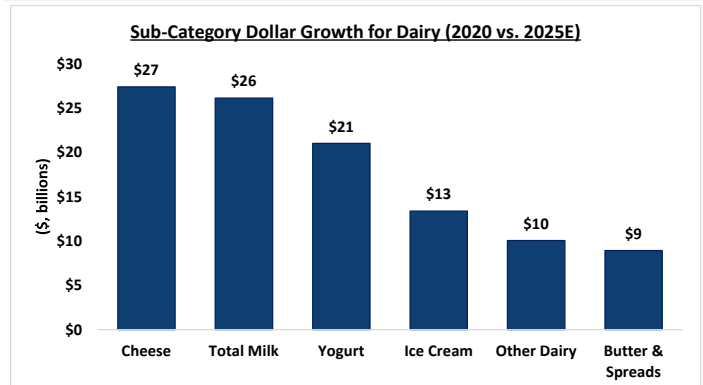
We estimate >80% of absolute dollar growth contribution to the category from milk, yogurt, ice cream, and cheese with the remainder coming from butter/spreads and other dairy.

Figure 38 - >80% of absolute dollar growth is expected from milk, yogurt, ice cream, and cheese...



Source: Jefferies Research, Euromonitor

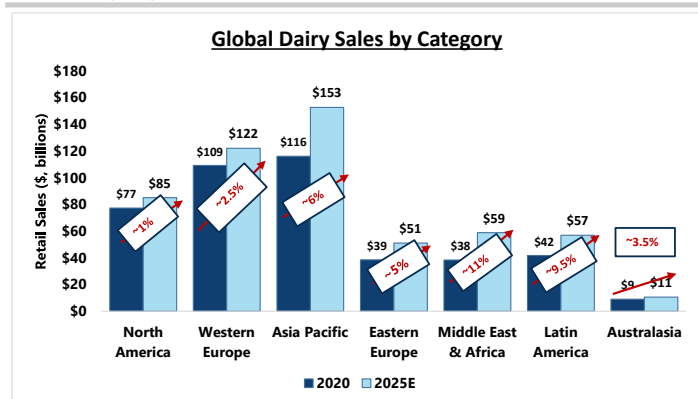
Figure 39 - ...with the four categories contributing ~\$87bn in absolute dollar growth



Source: Jefferies Research, Euromonitor

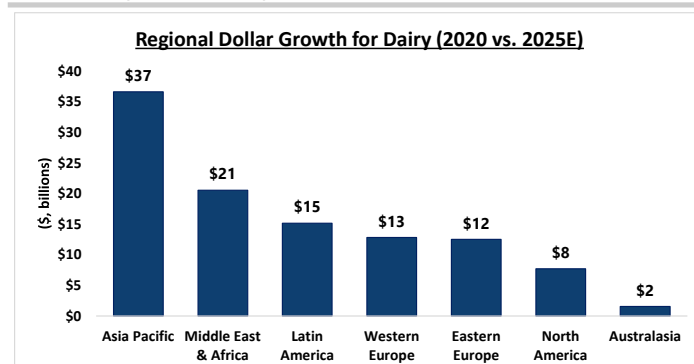
While North America, Western Europe, and Asia Pacific represent ~70% of sales, we estimate Asia Pacific, Middle East & Africa, and Latin America to contribute ~70% of total dollar growth for the total dairy category.

Figure 40 - Within regions, majority of growth is expected from developing regions...



Source: Jefferies Research, Euromonitor

Figure 41 - ...with Asia Pacific, Middle East & Africa, and LatAm contributing 70% of the growth



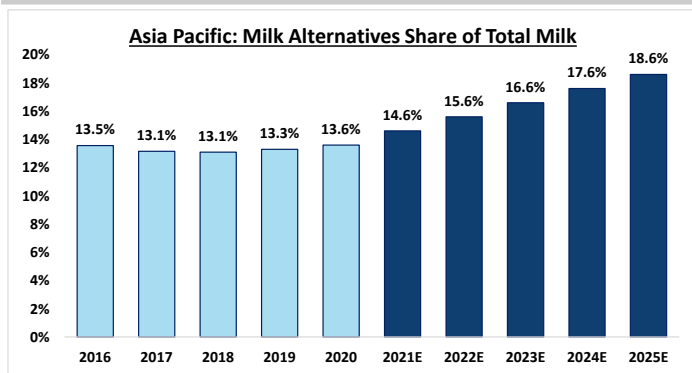
Source: Jefferies Research, Euromonitor

There are a number of favorable trends that are driving (and should continue to drive) conversion to plant-based dairy from dairy in the future, including: (i) the seismic shift in consumer demand with a focus on sustainability and health and (ii) favorable demographics, as Millennials and GenZ consumers are seemingly more plant-based and sustainably friendly.

Environmental welfare and health the primary drivers of plant-based dairy adoption. Traditional dairy products have seen a steady decline in per capita consumption over the past 15 years, most significantly in Western countries. The trend has been driven primarily by an increased focus on health (concerns around indigestion and allergies/intolerances) and environmental welfare (sustainability, animal welfare). Given the focus on health and sustainability, more consumers have been moving and continue to move toward plant-based products, as a clear link exists between plant-based dairy alternative adoption and those consumers who want to “do good” for themselves and the planet, as plant-based diets typically reduce the risk of developing numerous chronic diseases, while also requiring fewer natural resources for production.

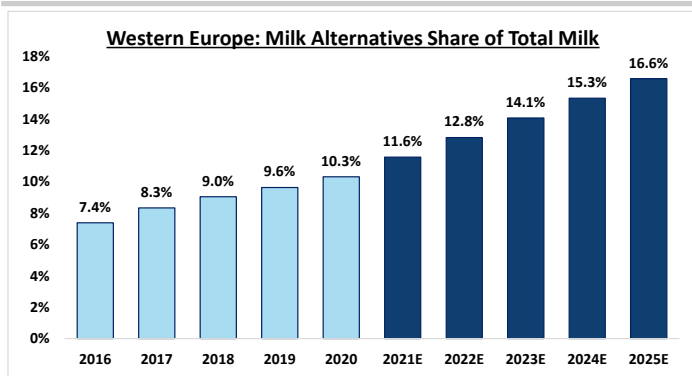
While the plant-based dairy category has been on-trend and popular for a while, the penetration of dairy alternatives remains low across various categories and regions. In the Western markets, the U.S. dominates, but Western Europe has also gained momentum in recent years, driven by strong traction for plant-based dairy in major markets such as the U.K., France, and Germany. However, the dynamics are very different when it comes to the Asia Pacific region with a majority of sales coming from soy milk.

Figure 42 - Milk alternatives share of the total milk category expected to increase...



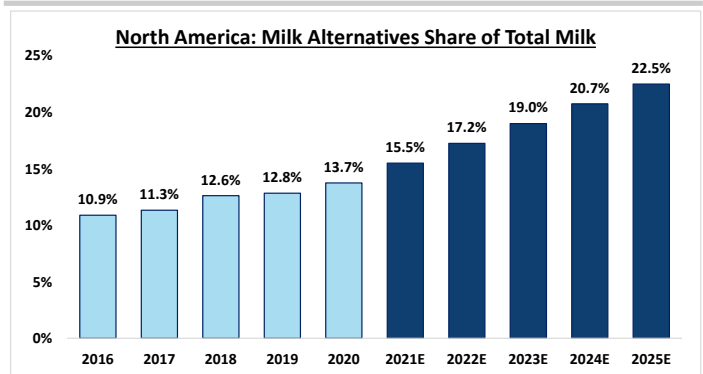
Source: Jefferies Research, Euromonitor

Figure 44 - ...as consumer adoption and product innovation expand



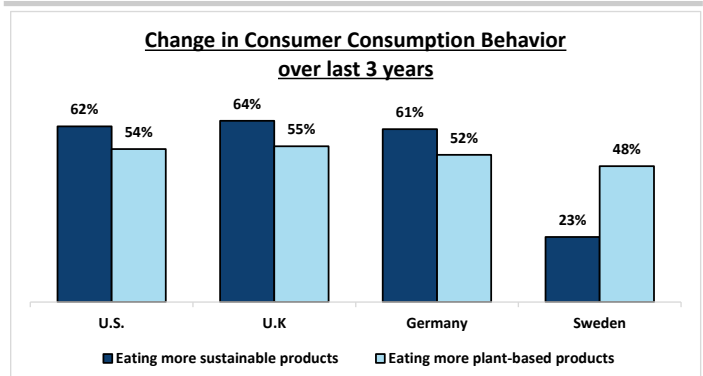
Source: Jefferies Research, Euromonitor

Figure 43 - ...across Oatly's three key markets...



Source: Jefferies Research, Euromonitor

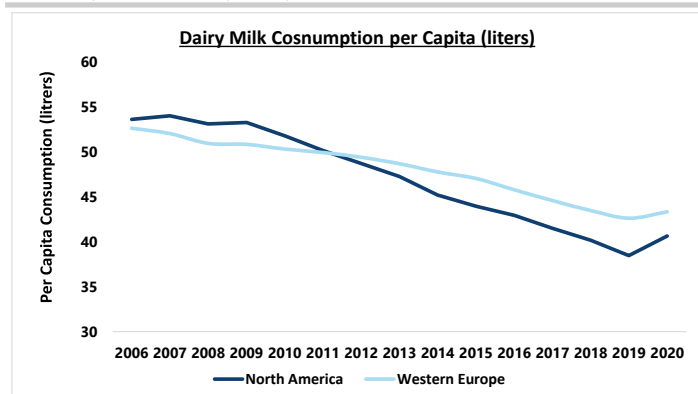
Figure 45 - Consumers are eating more sustainable/plant-based foods



Source: Jefferies Research, company filings; Survey conducted by Oatly, Jan 2021.

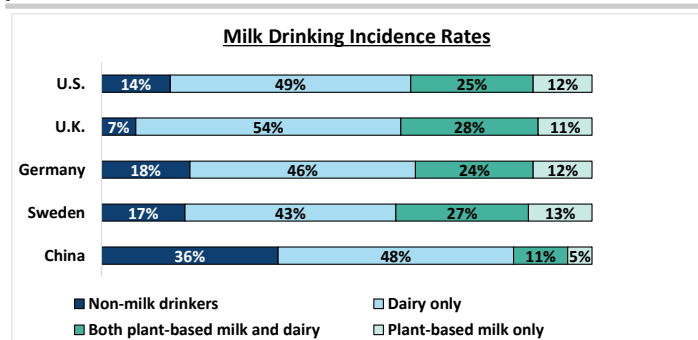
The success of plant-based milk represents a significant opportunity for other plant-based dairy categories. Our analysis shows that dairy milk consumption per capita has been steadily declining for over a decade across Oatly's key markets. Moreover, of those reducing the purchase/consumption, over half are purchasing plant-based milk. We expect an increase in conversion and consumer engagement in the plant-based dairy category to continue in the future given: (i) health and climate conscious consumers are increasingly opting to drink plant-based milk in lieu of its animal-derived counterparts and (ii) a cohort of consumers cannot consume dairy given lactose intolerance and allergies. The success and popularity of plant-based milk has laid the groundwork for growth in other plant-based dairy categories (ice cream, yogurt, butter, cheese, spreads, dips, etc.), in our view. Using the success of plant-based milk as an analog, we expect the consumption of plant-based dairy to accelerate further across categories in the coming years, as the category benefits from growing offerings and product innovations, as well as ongoing consumer acceptance.

Figure 46 - Dairy milk consumption per capita has been steadily declining across Oatly's key markets



Source: Jefferies Research, Euromonitor

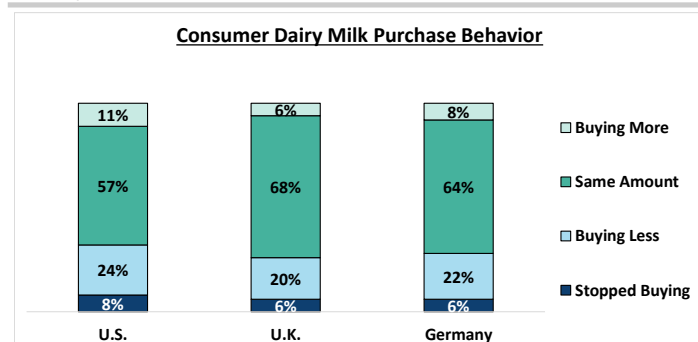
Figure 48 - Plant-Based Dairy is gaining traction and increasing penetration across markets



Source: Jefferies Research, Euromonitor

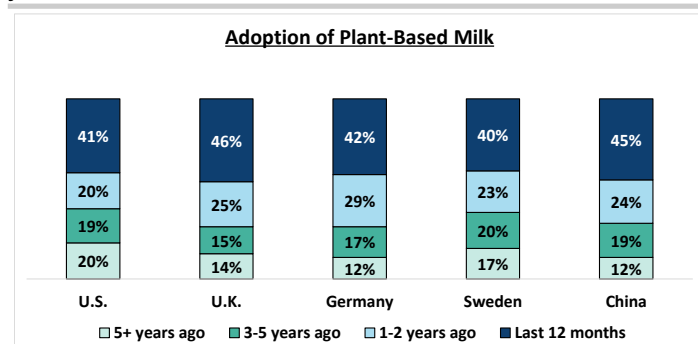
Exposure to favorable demographics also a tailwind. While plant-based dairy has fairly broad appeal, Millennial and Gen Z consumers have shown an even greater propensity to consume plant-based products given these specific generations so far have been more prone to overall food sourcing, environment impact and animal welfare issues when making purchase decisions. Given their focus on health and environmental issues, younger generations have had a noticeable impact on trends within the food industry and are likely to continue to influence the competitive backdrop, especially given they together form the largest consumer group (~4.9 billion people worldwide). As per a Nielsen study (published Jan 2015), the willingness to pay a premium for sustainably sourced ingredients is more pronounced with younger generations (~41% of Gen Z and ~32% of Millennials) vs. older generations (~21% baby boomer and ~16% silent generation). That said, the demographic support for plant-based dairy seems evident given younger consumers are increasingly influencing the purchase behavior of elders. Additionally, a survey commissioned by Oatly indicated that consumers are 4-6x more likely to purchase, protect, and champion purpose-driven products and companies, a clear tailwind for the plant-based dairy category and for Oatly. Our recent work with Accenture, [Purpose of Brands: Shifting Paradigm in CPG; Big Brands Must Evolve](#), also supports such claims, as value driven attributes and brand purpose are increasingly important in the CPG landscape.

Figure 47 - ~30% of respondents have reduced their consumption of dairy



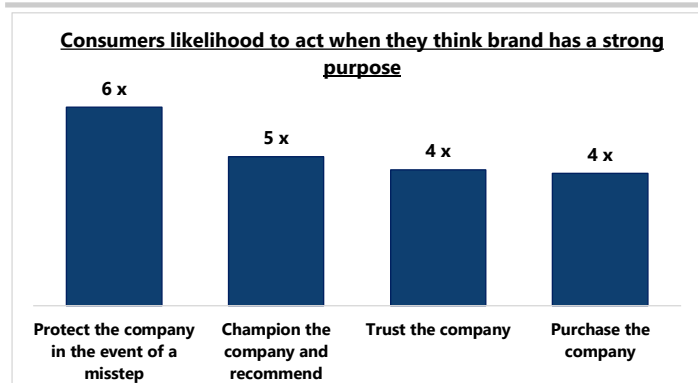
Source: Jefferies Research, company data

Figure 49 - Adoption of plant-based milk has accelerated in recent years



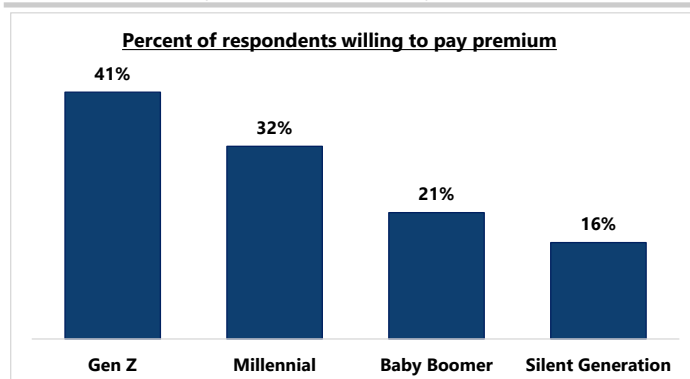
Source: Jefferies Research, company filings

Figure 50 - Consumers are 4-6x more likely to purchase and champion purpose-driven companies



Source: Jefferies Research, company presentation

Figure 51 - ...with younger generation more likely to pay a premium for healthy and environmentally responsible foods

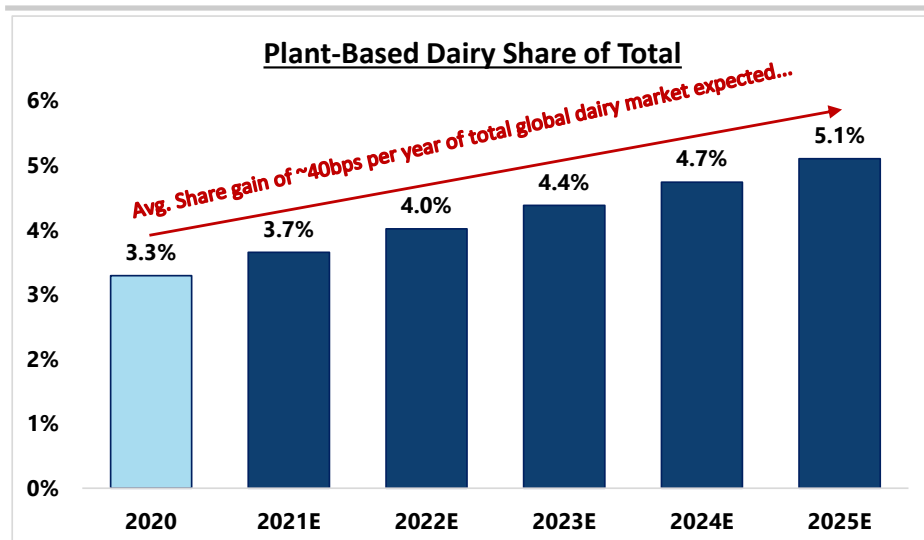


Source: Jefferies Research, company data

Our five-year industry model contemplates continued market share gains for plant-based dairy. Given the secular shift in consumer demand from traditional dairy to plant-based dairy, we forecast plant-based dairy to continue to increase its share of total dairy. Specifically, in our base case, we forecast plant-based dairy to gain ~40bps of share of total dairy and reach ~5% of total by 2025 vs. ~3% in 2020.

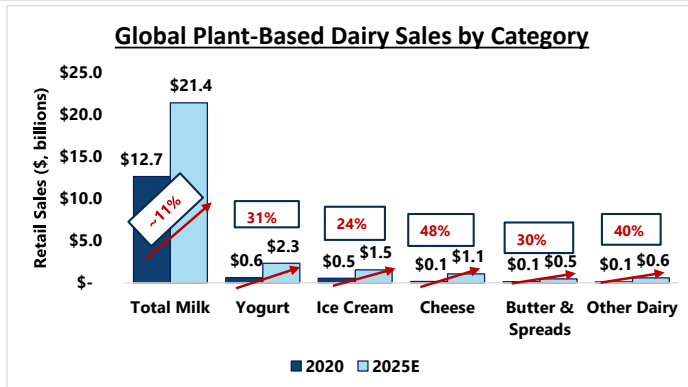
Within the plant-based dairy categories, yogurt and ice cream have experienced strong development in the last five years and are expected to maintain strong growth momentum.

Figure 52 - We estimate plant-based dairy to reach ~5% penetration of total dairy by 2025



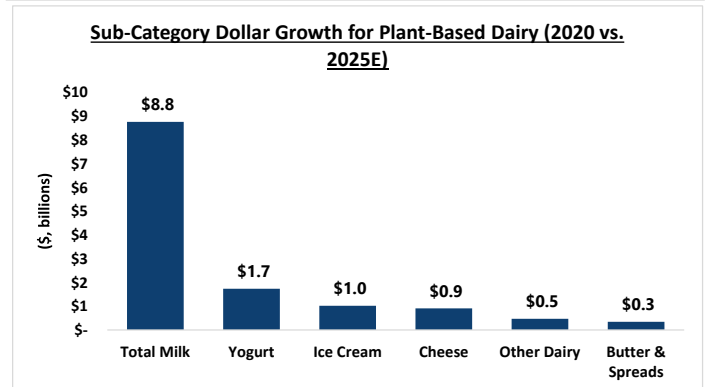
Source: Jefferies Research, company data

Figure 53 - Besides milk, yogurt and ice cream are the other categories that have gained strong momentum in recent years



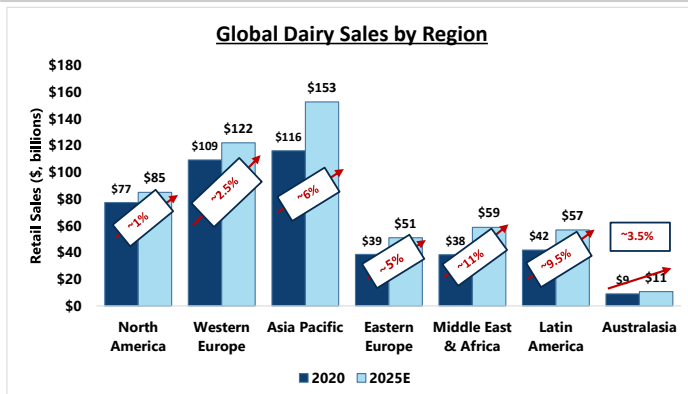
Source: Jefferies Research, Euromonitor

Figure 54 - ...however, plant-based milk remains the biggest contributor to growth in terms of absolute dollars



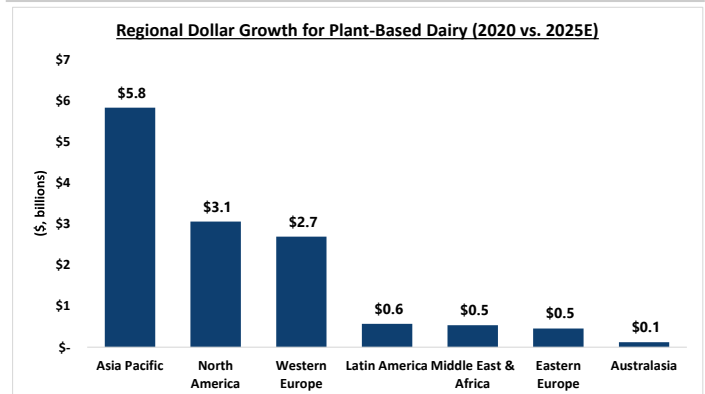
Source: Jefferies Research, Euromonitor

Figure 55 - North America, Western Europe, and Asia Pacific represent ~70% of total sales...



Source: Jefferies Research, Euromonitor

Figure 56 - ...and expected to contribute ~88% of absolute dollar growth



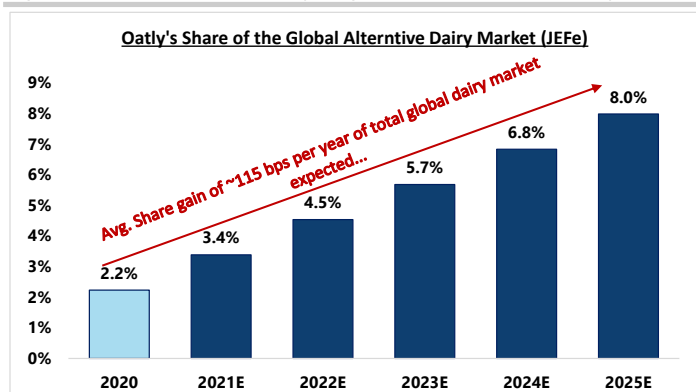
Source: Jefferies Research, Euromonitor

Oats the rising star. Over a short period of time, oat milk has gained strong traction among dairy-averse consumers and beyond as consumers have become enamored by oat milks similarity to dairy milk and its taste. Moreover, oat milk has increasingly become popular with coffee shops and baristas given it can foam and mix like dairy milk (i.e., without breaking/separating) making it the most sustainable dairy alternative for hot beverages. Given all these factors combined, we expect significant growth in penetration rates for oat milk as a % of total plant-based dairy.

Popularity of Oats within plant-based dairy to persist, providing a tailwind to Oatly's well-diversified product portfolio. Oatly's portfolio is well-positioned within the plant-based dairy category to benefit from strong demand and secular tailwinds. The company is focused on growth of distribution and market share within the company's existing regions U.S., Asia, and EMEA, which represents ~ 70% of the total dairy market. That said, the company still has plenty of room to grow and expand within its current market. For example, within Europe, the company is in early stages of development within some of the largest dairy markets (Spain, France, and Italy), which represent >\$50bn in retail sales. Moreover, the company has significant opportunity to expand into new international markets such as LatAm given company's global footprint.

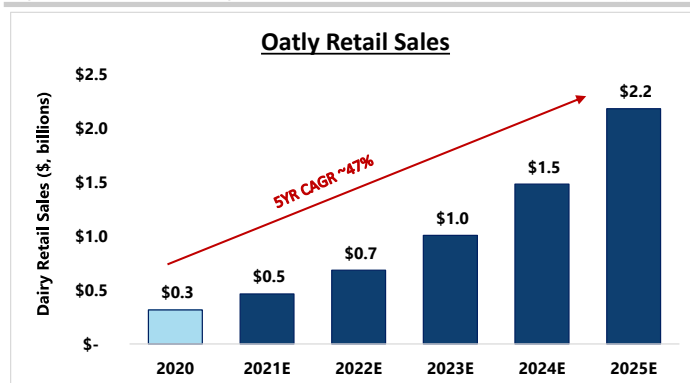
In our base case, we estimate Oatly's retail market share to increase to 8% of the total plant-based dairy by 2025 vs. 2% in 2020, representing ~\$2.2bn in sales (5YR CAGR 47%). In addition, in the foodservice channel, we project a CAGR of 54% over the next five years, representing ~\$912m in sales, which we believe is achievable especially given the strong traction of oat milk has received relative to other plant-based dairy alternatives. All in, we expect Oatly to reach ~\$3.1bn in sales by 2025, representing a 5YR CAGR of ~49%.

Figure 57 - We estimate Oatly to gain ~115bps of share a year...



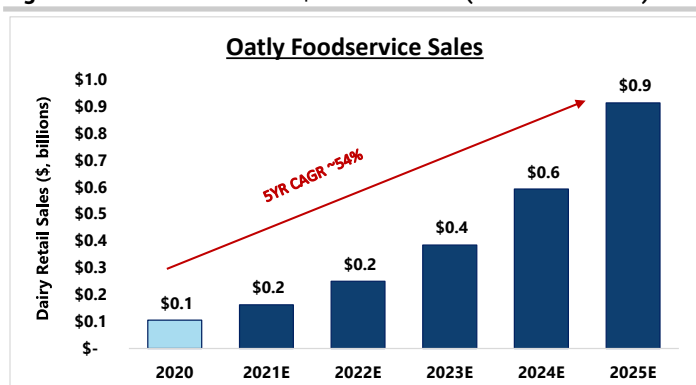
Source: Jefferies Research, Euromonitor

Figure 58 - ...resulting in ~\$2.2bn in sales (47% 5-YR CAGR)



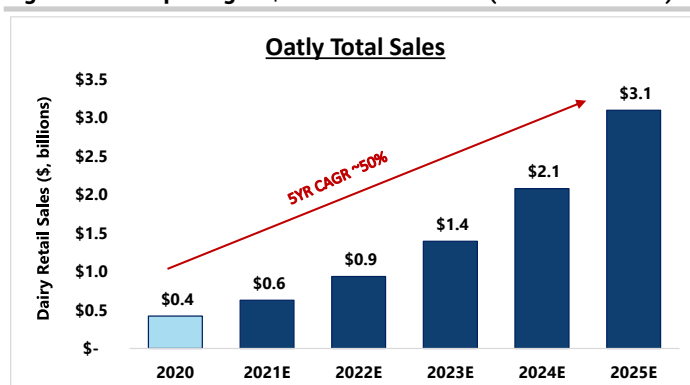
Source: Jefferies Research, Euromonitor

Figure 59 - ...foodservice to \$0.9bn in sales (54% 5-YR CAGR)...



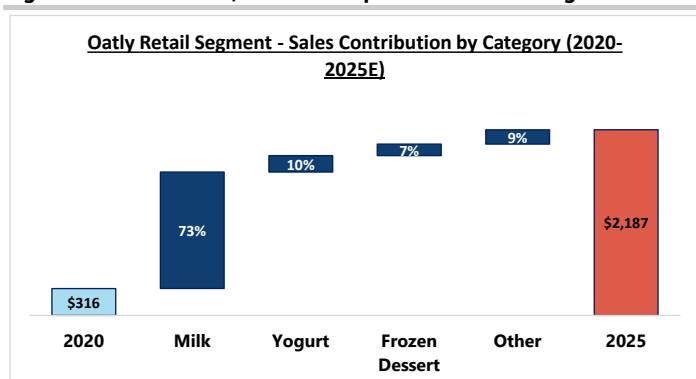
Source: Jefferies Research, Euromonitor, company data

Figure 60 - ...equating to \$3.1bn in total sales (50% 5-YR CAGR)



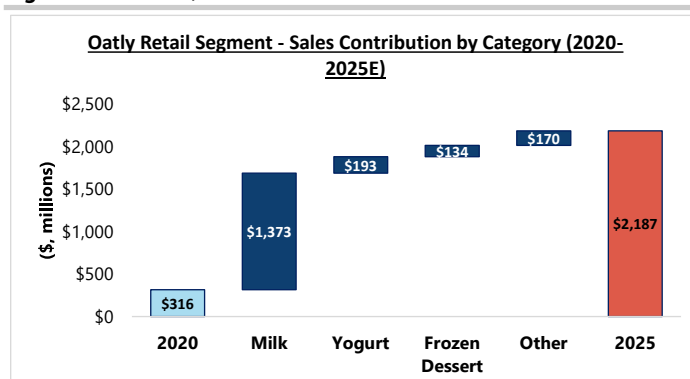
Source: Jefferies Research, Euromonitor, company data

Figure 61 - ...however, milk still exp. to drive >70% of growth...



Source: Jefferies Research, company data

Figure 62 - ...or ~\$1.37bn in absolute sales



Source: Jefferies Research, company data

Key assumptions used in our scenario analysis:

Base Case: Our base case assumes strong penetration rates across various categories and regions driven by better than expected acceptance from consumers and improved service levels strong execution.

- **Total Dairy Alternative Market:** We forecast strong penetration increasing from ~3% in 2020 to ~5% in 2025, representing ~\$27.5bn in sales within retail.
- **Oatly Sales:** We forecast Oatly sales to approach ~\$3.1bn in sales (5YR CAGR of 50%) with retail sales reaching ~\$2.2bn (~8% share of total plant-based dairy, 5YR CAGR 47%) and foodservice sales reaching ~\$0.9 bn (5YR CAGR 54%).

Bull Case: Our bull case assumes better-than-expected penetration rates across categories and regions driven by better than expected acceptance from consumers, service levels, and new product introductions.

- **Total Dairy Alternative Market:** We forecast strong penetration gains increasing from ~3% in 2020 to ~6% in 2025, representing ~\$34bn in sales within retail.
- **Oatly Sales:** We forecast Oatly sales to approach ~\$5.2bn in sales (5YR CAGR of 65%) with retail sales reaching ~\$3.5bn (~10% share of total plant-based dairy, 5YR CAGR 62%) and foodservice sales reaching ~\$1.7bn (5YR CAGR 75%).

Bear Case: Our bear case assumes lower-than-expected penetration given limited success of new product offerings across categories and lower-than-expected sales growth given demand/supply imbalance. And increased competition from other players and new entrants.

- **Total Dairy Alternative Market:** We forecast strong penetration increasing from ~3% in 2020 to ~3.8% in 2025, representing ~\$20bn in sales within retail.
- **Oatly Sales:** We forecast Oatly sales to approach ~\$1.3bn in sales (5YR CAGR of 25%) with retail sales reaching ~\$0.98bn (~5% share of total plant-based dairy, 5YR CAGR 25%) and foodservice sales reaching ~\$0.32bn (5YR CAGR 25%).

Figure 63 - 5-Year Plant-Based Dairy Total Addressable Market Analysis

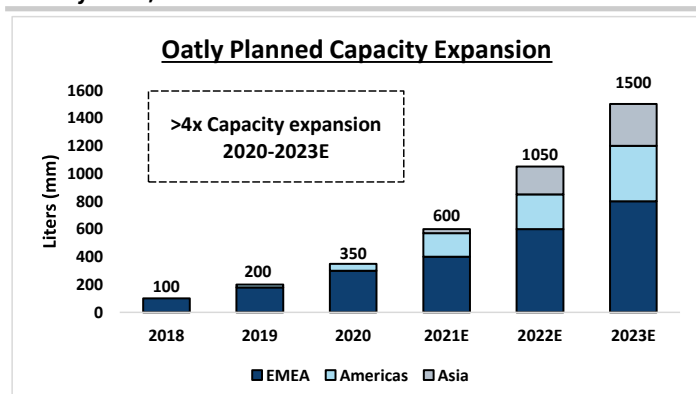
	Market Size			Industry Sales Scenario Analysis						% of Mix - Industry					
				Bear		Base		Bull							
	2016	2020	CAGR	2025e	CAGR	2025e	CAGR	2025e	CAGR	2016	2020	2025e	Bear	Base	Bull
(\$, millions)															
Total Dairy Market (Retail)	\$363,139	\$430,227	4%	\$499,740	3.0%	\$537,036	4.5%	\$576,307	6.0%	100%	100%	100%	100%	100%	100%
Total Milk	\$102,734	\$119,159	4%	\$136,186	2.7%	\$145,271	4.0%	\$154,929	5.4%	28%	28%		27%	27%	27%
Yogurt	\$60,012	\$73,200	5%	\$87,291	3.6%	\$94,212	5.2%	\$101,217	6.7%	17%	17%		17%	18%	18%
Ice Cream	\$55,257	\$62,522	3%	\$70,425	2.4%	\$75,894	4.0%	\$82,254	5.6%	15%	15%		14%	14%	14%
Cheese	\$81,604	\$99,145	5%	\$116,396	3.3%	\$126,508	5.0%	\$137,342	6.7%	22%	23%		23%	24%	24%
Butter & Spreads	\$26,417	\$32,899	6%	\$39,087	3.5%	\$41,810	4.9%	\$44,097	6.0%	7%	8%		8%	8%	8%
Other Dairy	\$37,115	\$43,301	4%	\$50,354	3.1%	\$53,342	4.3%	\$56,468	5.5%	10%	10%		10%	10%	10%
Market Penetration															
				Market Penetration Scenario Analysis						Market Size					
				Bear		Base		Bull		Sales (\$, mm)					
				2025e	Chg p.a.	2025e	Chg p.a.	2025e	Chg p.a.	Bear	Base	Bull	Bear	Base	Bull
Total Dairy Alternative Market (Retail)	\$14,166		3.3%	3.8%	11 bps	5.1%	36 bps	5.9%	52 bps	\$19,236	\$27,408	\$34,013	6%	14%	19%
Milk Alternatives	\$12,657		11%	11%	13 bps	15%	82 bps	17%	119 bps	\$15,357	\$21,418	\$25,653	4%	11%	15%
Yogurt	\$598		0.82%	2%	19 bps	2%	33 bps	3%	49 bps	\$1,556	\$2,332	\$3,320	21%	31%	41%
Ice Cream	\$529		0.85%	1%	8 bps	2%	24 bps	2%	32 bps	\$888	\$1,548	\$2,007	11%	24%	31%
Cheese	\$149		0.15%	1%	10 bps	1%	14 bps	1%	20 bps	\$745	\$1,060	\$1,568	38%	48%	60%
Butter & Spreads	\$125		0.38%	3%	45 bps	3%	61 bps	4%	78 bps	\$332	\$472	\$647	22%	30%	39%
Other Dairy	\$108		0.25%	1%	9 bps	1%	17 bps	1%	24 bps	\$358	\$577	\$820	27%	40%	50%
Market Share															
				Market Share Scenario Analysis						Sales (\$, mm)					
				Bear		Base		Bull							
				2025e	Chg p.a.	2025e	Chg p.a.	2025e	Chg p.a.	Bear	Base	Bull	Bear	Base	Bull
Oatly - Share by Category															
Oatly															
Milk Alternatives	\$281		2%	5%	50 bps	8%	110 bps	10%	160 bps	\$725	\$1,654	\$2,622	21%	43%	56%
Yogurt	\$6		1%	5%	80 bps	9%	150 bps	10%	170 bps	\$79	\$200	\$317	66%	99%	119%
Frozen Dessert	\$9		2%	6%	80 bps	9%	150 bps	10%	160 bps	\$51	\$144	\$196	40%	72%	83%
Other Food	\$19		5%	6%	30 bps	9%	80 bps	10%	100 bps	\$93	\$189	\$302	37%	58%	74%
Oatly's Total Sales	\$316		2%	5%	54 bps	8%	115 bps	10%	158 bps	\$948	\$2,187	\$3,438	25%	47%	61%
Oatly Sales															
				Oatly Sales Scenario Analysis						% of Mix					
				Bear		Base		Bull		% of Growth					
				2025e	CAGR	2025e	CAGR	2025e	CAGR	Bear	Base	Bull	Bear	Base	Bull
Oatly Total Company Sales															
Retail	\$96	\$316	182%	\$948	25%	\$2,187	47%	\$3,438	61%	75%	71%	67%	75%	70%	66%
Foodservice	\$22	\$105	217%	\$321	25%	\$912	54%	\$1,729	75%	25%	29%	33%	25%	30%	34%
Total	\$118	\$421	189%	\$1,270	25%	\$3,099	49%	\$5,167	65%	100%	100%	100%	100%	100%	100%

Source: Jefferies Research, Euromonitor, company data

Capacity the Bottleneck, but Quickly Changing to Meet Demand

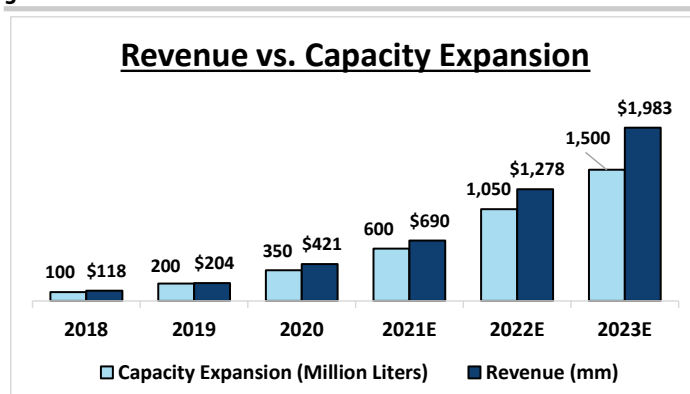
Capacity expansion to drive margins and support revenue growth. Production capacity has been the greatest constraint on Oatly's growth as demand for its products has significantly outpaced available supply. Given the demand/supply dynamic, Oatly plans to use the proceeds of the IPO to fund major capacity expansion to drive top-line growth and increase its ability to meet the existing and growing consumer demand. Furthermore, the company plans to increasingly invest in wholly-owned end-to-end manufacturing facilities to drive margin upside given the proven success at its Sweden plant. The demonstrated end-to-end manufacturing footprint in Sweden and the positive EBITDA profile in EMEA is evidence that the transition to a self-manufacturing footprint is likely to result in a significantly improved margin profile. As the company continues to scale production, minimize the use of third-party co-packers, and spread production-related costs over greater manufacturing volumes overtime, manufacturing costs on a per unit basis will decrease and the gross and EBITDA margin profile should improve across the portfolio.

Figure 64 - Production capacity expected to expand to ~1,500mm liters by 2023, or >4x vs. 2020



Source: Jefferies Research, company filings

Figure 65 - ...which will help fulfill demand and drive top-line growth



Source: Jefferies Research, company filings

Figure 66 - Oatly current and planned production footprint

Production Plant	Location	Type	Products	Date Plant Comes Online	Net Capacity Additions	Notes
Landskrona	Sweden, EMEA	Self-manufacturing	oatmilk, oatgurts, creams, oat based for frozen desserts	2006	215	75 mm liters of capacity expansion to be added by 2021 & 2022
Millville	New Jersey, U.S	Hybrid	Drinks, oat base for oatgurt	2019	215	75 mm liters of additional capacity to be added by 2020
Vlissingen	Netherlands, EMEA	Hybrid	Oatmilk	2019	318	240 mm liters of additional capacity to be added by 2021
Ogden	Utah, U.S	Self-manufacturing	Drinks	2021	167	End-to-End facility to serve East Coast Demand
Maanshan	China, Asia	Self-manufacturing	Oat base and Barista drinks	2021E	150	Factory to launch in fall of 2021 and ramp to 150 mm liters by 2023
Singapore	Singapore	Self-manufacturing	Oat base	2021E	75	Launch in spring 2021
U.K Greenfield	U.K. EMEA	Self-manufacturing		2023E	300	
Asia Greenfield	China, Asia	Self-manufacturing		2023E	108	
USA III	Texas	Self-manufacturing		2023E	106	

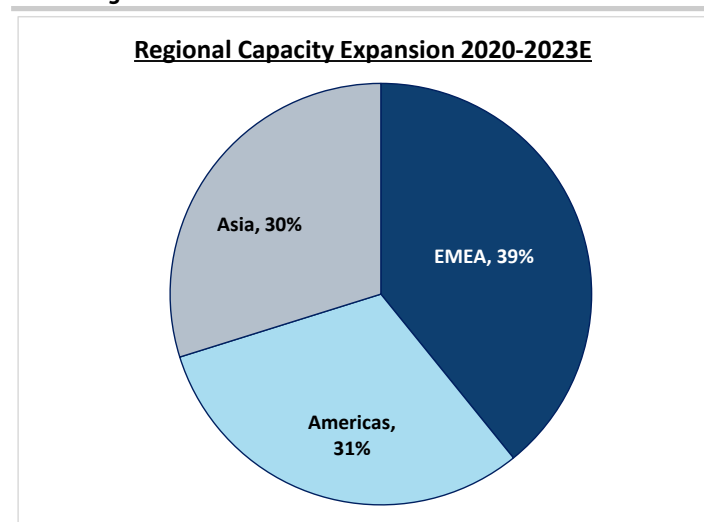
Source: Jefferies Research, company data

Shift to self-manufacturing model forthcoming. To meet consumer demand, Oatly has made substantial investments to scale production and plans to continue to use the majority of its capex dollars on strategic production capacity investments. Oatly currently operates four manufacturing facilities across its key markets. The company started with one end-to-end facility in Sweden, and in 2019 the company opened two new facilities, one in the U.S. and one in the Netherlands. In spring 2021, it opened its second U.S. facility,

while an additional three facilities in Singapore, China, and the U.K. are currently under construction or in the planning stages, all while expanding capacity at its current facilities. Most of the current production uses co-packing and hybrid models, as they are easy, time efficient, and necessary to meet the near-term demand. All in, as seen in Figures 64 and 65 above, Oatly is planning to use the proceeds from its IPO to expand capacity from 1 facility and ~100mm liters of oatbase in 2018 to 9 facilities and ~1,500mm liters of oatbase in 2023, while transitioning from 24% of volumes using a self-manufactured model to ~50-60% of volumes using a self-manufactured model in 2023 (Figure 68). Detailed capacity expansion plans can be seen in Figure 66, and as seen in Figure 66, the expansion is across all three of its key markets with a focus on the self-manufacturing model, as the company tries to satisfy global demand, expand gross margins and attain positive EBITDA margins.

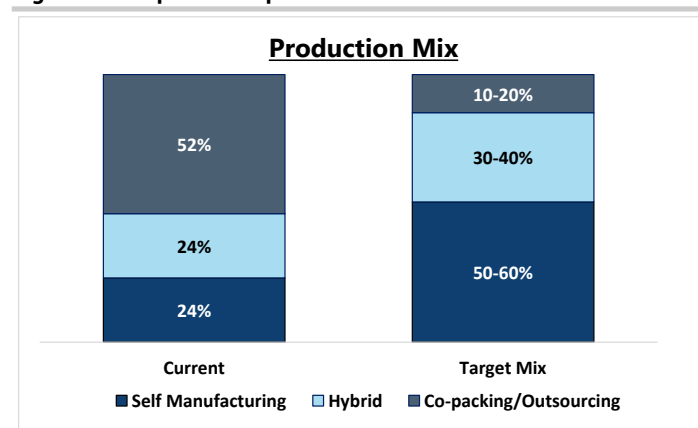
Success in EMEA a blueprint for Asia, the Americas. Using EMEA and the original Sweden plant as a proxy, we can see that the end-to-end model accelerated the positive EBITDA profile in the region, as operating leverage was realized driven by significant top-line growth. As seen in Figure 78, EMEA has had a positive EBITDA since 2018 and accelerated ~400 bps between 2019 and 2020, while both the Americas and Asia have negative EBITDAs. Although this is partially driven by the company's relatively recent entrance in the Americas and Asia, the production models used plays a significant role in the margin profile, in our view. Given the success in EMEA, we are confident in the margin expansion story in the Americas and Asia if Oatly is able to successfully build out capacity and incorporate the self-manufactured end-to-end model.

Figure 67 - Capacity expansion relatively equally distributed across regions



Source: Jefferies Research, company filings

Figure 68 - Expected LT production mix



Source: Jefferies Research, company data

Production Mix & Efficiencies + Operating Leverage to Drive Margins

Substantial margin opportunity driven by production mix shift, operating leverage, and production efficiencies. While Oatly has so far been unprofitable and is likely to run at a loss in 2021 and 2022, we expect 2023 to be the year of positive material profitability improvement. We expect an improvement in margins over the next several years as benefits from production mix shift from co-packing/complete outsourcing to Hybrid/end-to-end manufacturing, better operating leverage, and production efficiencies continue to ramp. Oatly's long-term financial targets call for 40% gross margin and ~20% EBITDA margin suggesting some significant progress on EBITDA margin in the coming years as the business ramps in-house production capabilities and builds scale.

Figure 69 - We expect production mix, operating leverage, and production efficiencies to be the key drivers of margin expansion

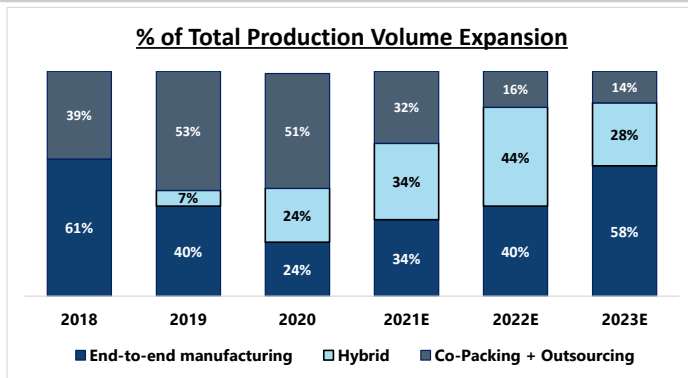
Revenue Drivers	Innovation and new product launches	Increased penetration across channels and consumers	Continued growth in plant-based dairy adoption both at-home and away-from-home
Gross Profit Drivers	Product mix shift to branded from private label	Supply Chain and production Structure	Production Efficiencies driven by higher utilization
SG&A Drivers	Leverage On Growing Business	Marketing Expansion Efforts	On-Going Public Co. Costs

Source: Jefferies Research, company data

Investment in self-manufacturing the primary driver of gross margin expansion. We forecast Oatly gross margins to increase by ~840 bps from 30.7% in FY'20 to 39.1% in FY'23. In FY'21, we are modeling a gross margin of 29.3% (down 140 bps y/y) as we expect fluctuations given mix of new distribution by sales channel and regions, higher slotting fees as Oatly ramps-up in Americas grocery distribution, higher freight costs, and timing of new capacity coming online. Longer-term the production mix shift from co-packing/complete outsourcing to Hybrid/end-to-end manufacturing is expected to be the primary driver of gross margin improvement, with production efficiencies and favorable procurement terms given scale also expected to be a meaningful swing factor. At present, the production mix is more heavily weighted towards co-packing & complete outsourcing (>50% in 2020), however, is expected to shift to more in-house models as the company invests in self-manufacturing production models with Hybrid (from 24% to 30-40%) and end-to-end self-manufacturing (from 24% to 50-60%) representing greater percent of the production mix. Taking greater proportion of production in-house could precipitate ~840bps of gross margin upside from FY'21-'23. Given gross margin expansion is highly correlated with the company's production mix, the timing of margin capture is contingent on the company's

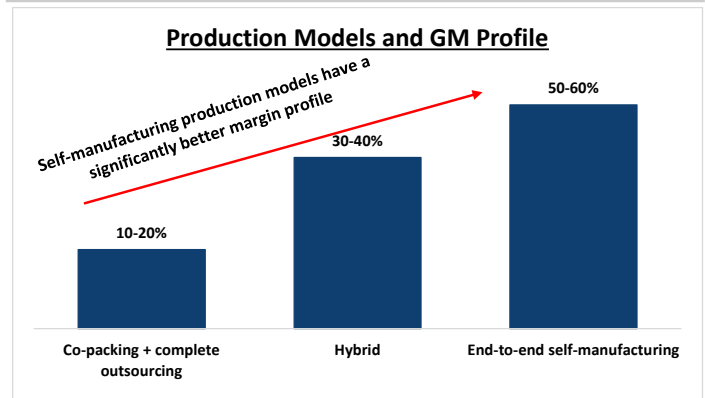
ability to bring new production plants online and shift production mix to in-house. That said, as self-manufacturing comes online, we should see gross margins improve and stabilize.

Figure 70 - Production mix progression to more in-house given capacity expansion



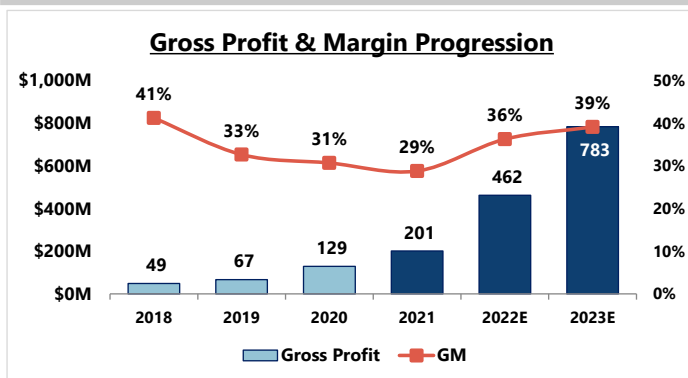
Source: Jefferies Research, company data

Figure 71 - ...resulting in margin expansion given better margin profile of in-house production



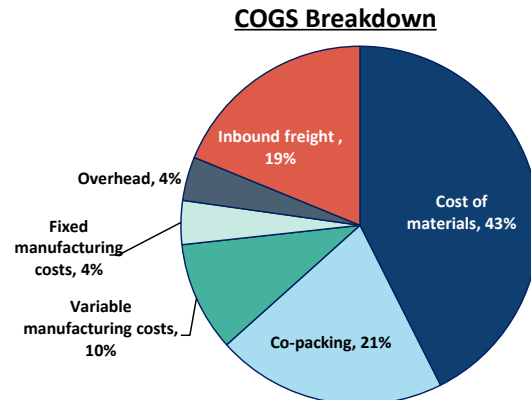
Source: Jefferies Research, company data

Figure 72 - ...production mix shift to in-house manufacturing to result in significant GM expansion



Source: Jefferies Research, company data

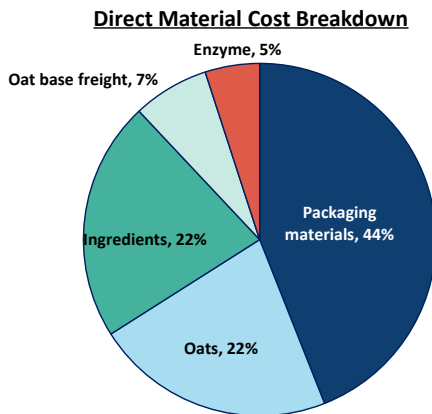
Figure 73 - COGS breakdown



Source: Jefferies Research, company data

COGS as a % of sales to decline as capacity expands. The company expects composition of COGS to shift as it localizes and moves towards in-house production. Moreover, COGS as % of sales should decline as company expands, localizes, and optimizes its production footprint, which should in turn provide positive tailwind to margins. Given a successful expansion, with capacity expanding to ~1,500mm liters, ~50-60% of volume produced using a self-manufactured end-to-end model, continued elevated demand driving revenues, and realized operative leverage we forecast EBITDA margins to be positive in 2023 for the first time, improving significantly from -15.2% in FY'21 to 9.6% in FY'23.

Figure 74 - Direct material cost breakdown

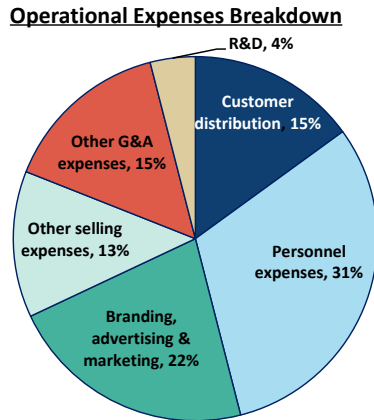


Source: Jefferies Research, company data

Operating leverage also a material contributor to Oatly's margins. We expect operating leverage to also be a material contributor to Oatly's margin expansion in the future as the company leverages strong sales growth (~70% CAGR through 2023) on its fixed cost base. We forecast total expenses as a % of sales to rise from 41.9% in FY'20 to 48.5% in FY'21, before declining to 34.6% in FY'23 with scale on fixed overheads as revenue ramps and more moderate growth in expenses. Total expenses primarily comprise SG&A and R&D expenses.

- SG&A margin to improve materially over time.** Oatly's SG&A expenses primarily includes personnel, brand awareness and advertising costs, and customer distribution expenses, representing over 65% of total. While SG&A expenses are expected to grow in absolute terms as Oatly invests in the long-term growth of the business, they will decline over time as % of revenue. In 2021, we forecast ~70% growth in SG&A dollars, as the company invests in internal operations, expanded marketing efforts, personnel, IT, compliance and public company expenses. However, since these expenses are not growing 1:1 with revenue, we expect SG&A margin to improve over time. As a % of sales, we model SG&A of 43.1% in FY'21, 36.6% in FY'22, and 31.8% in FY'23.
- R&D expense to remain high, but expected to ebb slightly as a percentage of sales.** Oatly has invested significantly in R&D and plans to continue to invest as it works on developing new products. This approach makes complete sense; Oatly has a desirable start in oat based milk in part to its coming up with a better product, but given the high competitive intensity in the space it is important for Oatly to stay ahead of the curve and diversify its product offerings to maintain/capture additional share. In our model, we forecast R&D as a % of sales of 3% in FY'21 and FY'21, with a 40 bps decline in FY'23 to 2.6%.

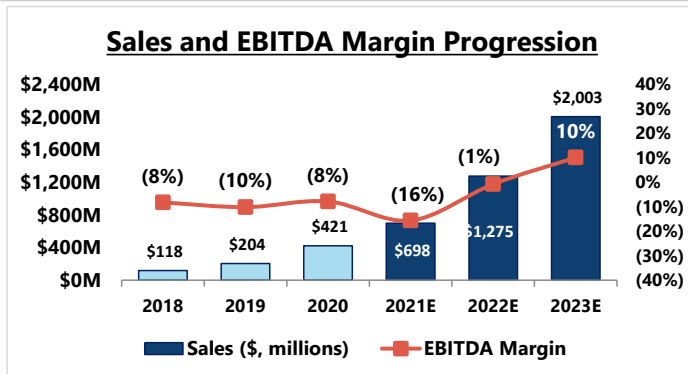
Figure 75 - Operational expenses breakdown



Source: Jefferies Research, company data

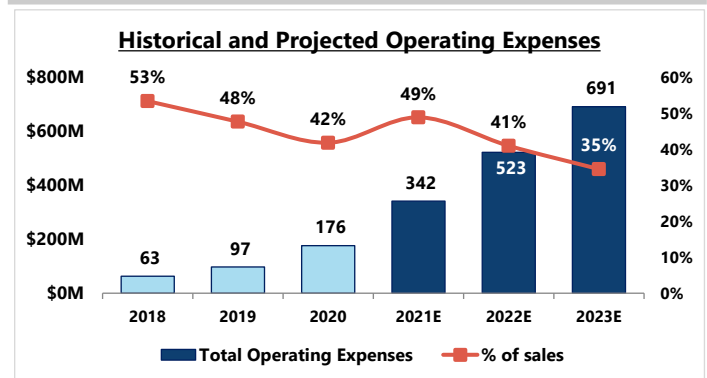
Production mix, scale benefits, and efficiencies to result in significant EBITDA margin upside. As a result of the above discussed levers, we expect material improvement in Oatly's EBITDA margins, with 2023 the year of positive material profitability improvement. We forecast Oatly's EBITDA margins to trough to -15.2% in FY'21 and then improve significantly to -1.6% in FY'22 and 9.6% in FY'23 with each of the three segments turning profitable by 2023.

Figure 77 - We expect Oatly to turn profitable in FY'23



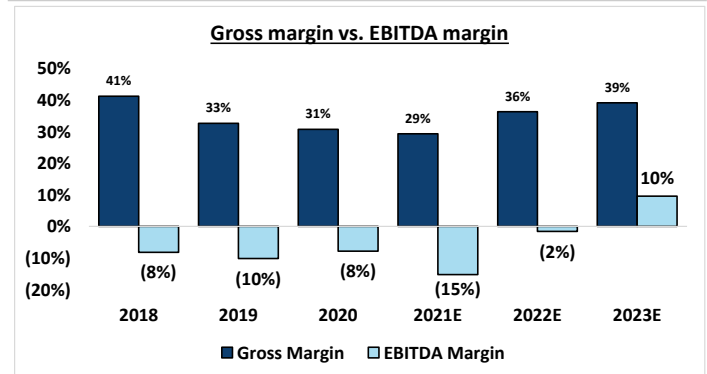
Source: Jefferies Research, company data

Figure 76 - Operating leverage also expected to be a material contributor as company gains scale



Source: Jefferies Research, company data

Figure 78 - Gross margin vs. EBITDA margin progression

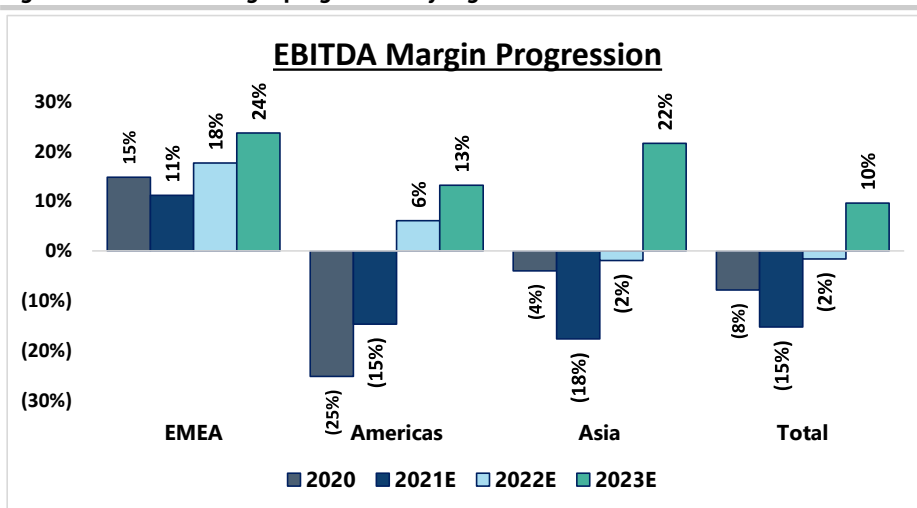


Source: Jefferies Research, company filings

- **EMEA:** We expect margins to continue to benefit from operating leverage and higher in-house production mix given manufacturing plants in Landskrona and Vlissingen. For EMEA segment, we model EBITDA margins of ~11% in FY'21, ~17.5% in FY'22, and ~23.5% in FY'23.
- **Americas:** Expect margins to remain pressured as the company continues to invest in branding and establishing in the region and utilize sub-optimal production to meet demand. However, we expect margins to benefit over time benefiting from increase in self-manufacturing capabilities, production localization, and economies of scale. For Americas segment, we model EBITDA margins of ~-14.5% in FY'21, ~-6.1% in FY'22, and ~13% in FY'23.

- Asia:** The current margins are reflective of early stage presence of Oatly within the region as the company focuses on building operational infrastructure and growing brand awareness. Per guidance, Asia is expected to run at an EBITDA loss in 2021 and 2022, with 2023 the year of positive material profitability improvement benefiting from localization of production, self-manufacturing capabilities, and economies of scale. For Asia segment, we model EBITDA margins of ~-17.6% in FY'21, -1.9% in FY'22, and ~21.5% in FY'23.

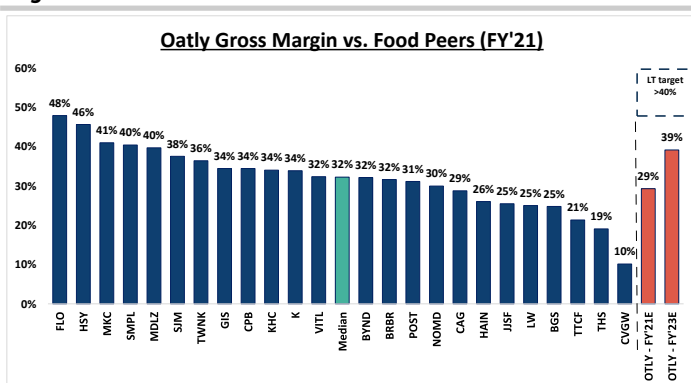
Figure 79 - EBITDA margin progression by region



Source: Jefferies Research, company data

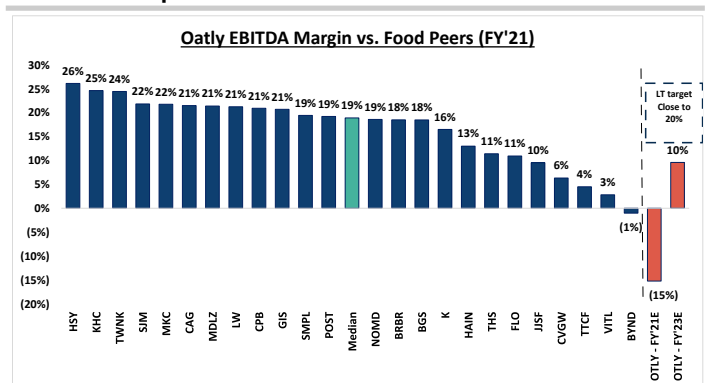
Margin targets comparable to many food peers, so not a stretch. Oatly's gross margins are currently near the median for packaged food peers, while the company's long-term target assumes that the company will approach best-in-class levels (~40%) over time. Oatly also has a goal of approaching a 20% EBITDA longer-term, which implies a significant improvement over time to a level essentially in line with the food peer group median. We believe this is achievable as the company benefits from scale, production efficiencies, the production mix shift, and potentially margin mix positive product innovation.

Figure 80 - Oatly's GM currently near food peer median, with LT target in best-in-class bucket



Source: Jefferies Research, company data

Figure 81 - Oatly targets an EBITDA margin approaching 20% LT, near 19% food peer median



Source: Jefferies Research, company data, FactSet

IPO Funding Capital Needs, Yet Not FCF Positive until '24?

Majority of IPO proceeds focused on funding capacity expansions. Given the greatest constraint on Oatly's growth (and profitability) has been in-house production capacity, the company plans to add additional manufacturing facilities near-term. To this extent, the majority of proceeds from the IPO are earmarked for funding future capital spending needs. Per management, Oatly plans to invest ~\$1.29bn in production facilities with ~\$860m funded by cash, with the remaining ~\$430m funded by equipment lease financing. Therefore, we estimate FCF burn of approximately \$930m in FY'21 and FY'22 when combined, with a more modest ~\$60m cash draw in FY'23. Given the near-term capex needs and the cash burn over the next few years, we see the need for additional cash and would not be shocked to see additional funds raised through debt in the forward years in order to help fund operations. We model a \$200m cash raise in long-term debt in the out years (\$100m each in FY'22 and FY'23). With upfront capex needs decelerating post-FY'23 and profitability ramping, we've assumed the company turns FCF positive in FY'24.

Figure 82 - We expect Oatly to draw down more debt in out years given capacity expansion needs and near-term cash burn

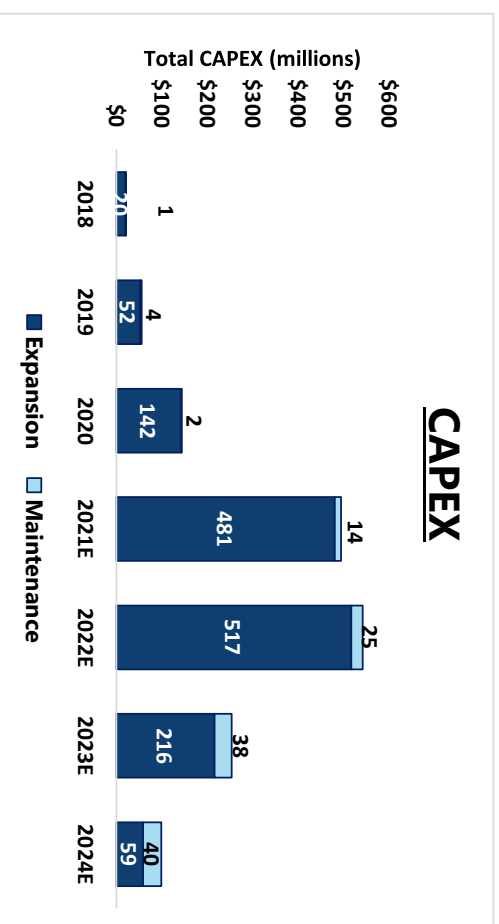
\$ in Millions	2019	2020	FY19-20	2021E	2022E	2023E	2024E	FY21-24E
Cash Sources:								
Free Cash Flow	(104)	(186)	(289)	(520)	(410)	(64)	65	(930)
Net Debt Issuance	50	10	61	-	148	144	40	333
Net Share Issuance	49	269	319	1,020	-	-	-	1,020
Other Sources	-	1	1	-	-	0	7	7
Cash Uses:								
Net Debt Payment	-	-	-	(96)	-	-	-	(96)
Net Share Repurchase	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-
Other Uses	(6)	-	(6)	(0)	(0)	-	-	(1)
Change in Cash Balance	(10)	95	85	404	(262)	81	111	334
Beginning Cash	21	11	21	105	509	247	328	105
Ending Cash	11	105	105	509	247	328	439	439
Cash as % of sales	5%	25%		74%	19%	17%	18%	
Net Debt/EBITDA	n.m.f	n.m.f	n.m.f	n.m.f	n.m.f	2.3x	1.2x	1.2x

Source: Jefferies Research, company filings

Initial capex needs high given capacity expansion needs to achieve future growth plans.

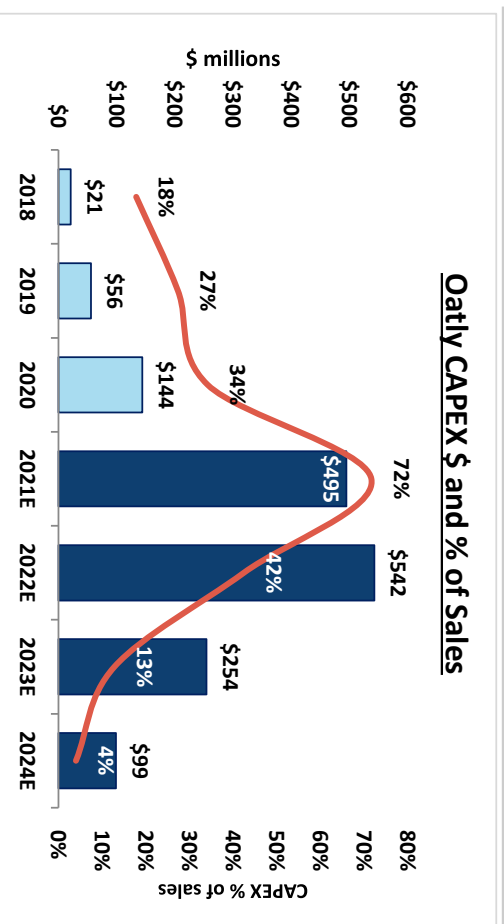
The company estimates ~\$1.2bn in expansion and ~77m in maintenance capex over the next three years as it needs to invest in production facilities to fulfill demand. While the primary growth capex is focused on expanding production capacity in different regions of operation and for enabling innovation, we also expect the company to invest in enhancing its existing product formulations and production processes. Given company's growth plans the capex needs as a % of sales are higher than the peer group. That said, we do expect the capex needs to normalize at ~4% of sales longer term.

Figure 83 - Management has guided to ~\$1.3bn in capex over the next three years...



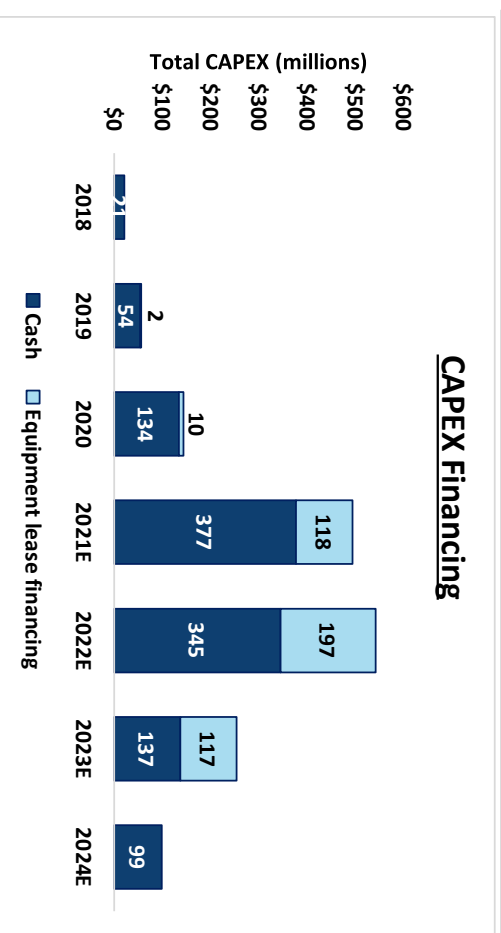
Source: Jefferies Research, company presentation

Figure 85 - Given Oatly's goal of expanding globally and bringing production in-house...



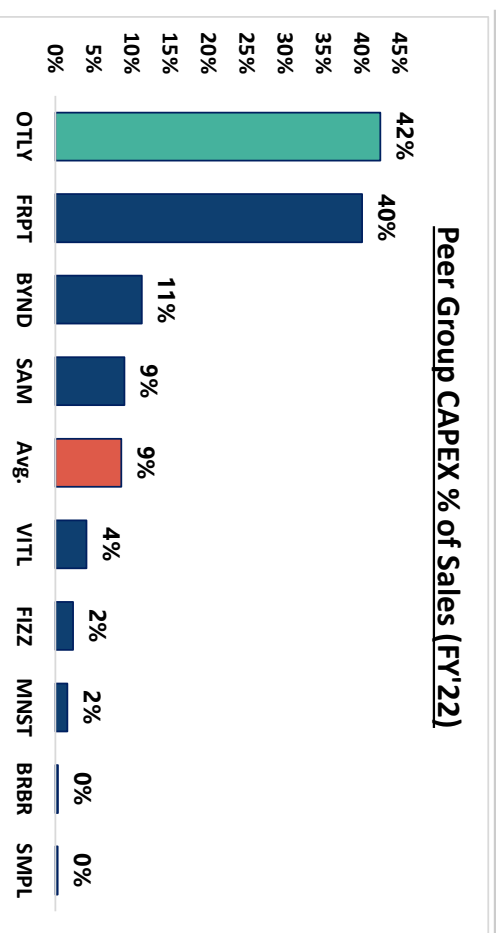
Source: Jefferies Research, company filings

Figure 84 - ...with ~\$860m funded in cash and the remainder through equipment lease financing



Source: Jefferies Research, company data

Figure 86 - ...capex needs are higher in initial years but expected to normalize later



Source: Jefferies Research, company data

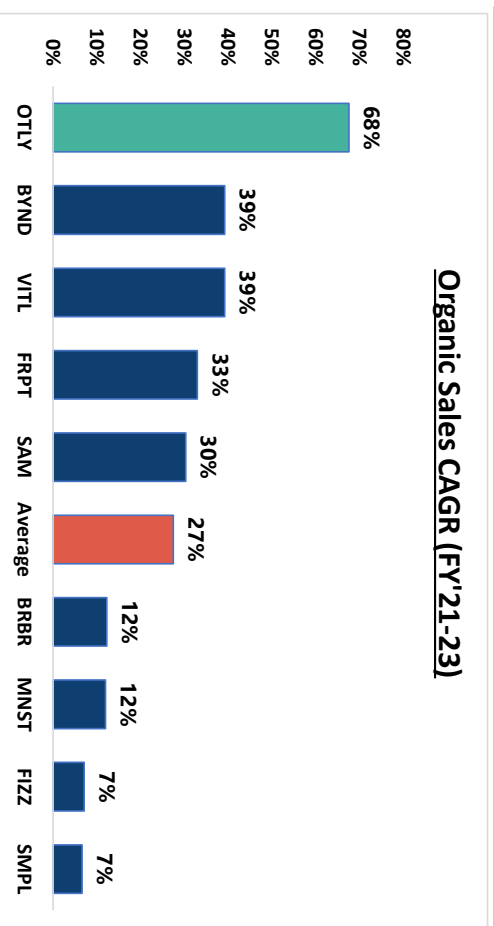
Valuation Analysis Suggests \$34 Fair Value per Share

We initiate on Oatly with a \$34 price target, based on our peer comparable-multiple analysis and corroborated by DCF. We arrive at our PT of \$34 using an EV/Sales multiple on our FY'23 top-line forecast. Given that Oatly is still in the early stages of growth with positive EBITDA profitability not expected until FY'23 (and FCF not positive until FY'24 by our forecasts), we find valuing the company on a sales multiple basis the most appropriate valuation methodology, similar to many high-growth companies. Our DCF analysis also points to \$34 fair value per share.

Oatly's high-growth profile relative to peers is the differentiating factor. In building a comp set for Oatly, we've focused on high growth staples peers. We view BYND, VITL, BRBR, SMPL, FRPT, MNST, FIZZ, and SAM as the most relevant peer set for Oatly across the high growth consumer staples spectrum given the company's differentiated growth outlook. Oatly's anticipated +68% sales CAGR from FY'21-23 vastly outpaces the high growth peer average of 27%. Specifically, Oatly's expected financial profile in FY'23 relative to its growth peers shows that its sales growth is the best-in-class. In our view, Oatly offers a distinct investment opportunity for investors to participate in the long-term secular shift from traditional dairy to plant-based dairy. We are favorably predisposed to the attractive growth attributes of the plant-based dairy industry, Oatly's position within the industry, and its ability to expand margin longer term through its production mix shift, operating leverage, and production efficiency potential.

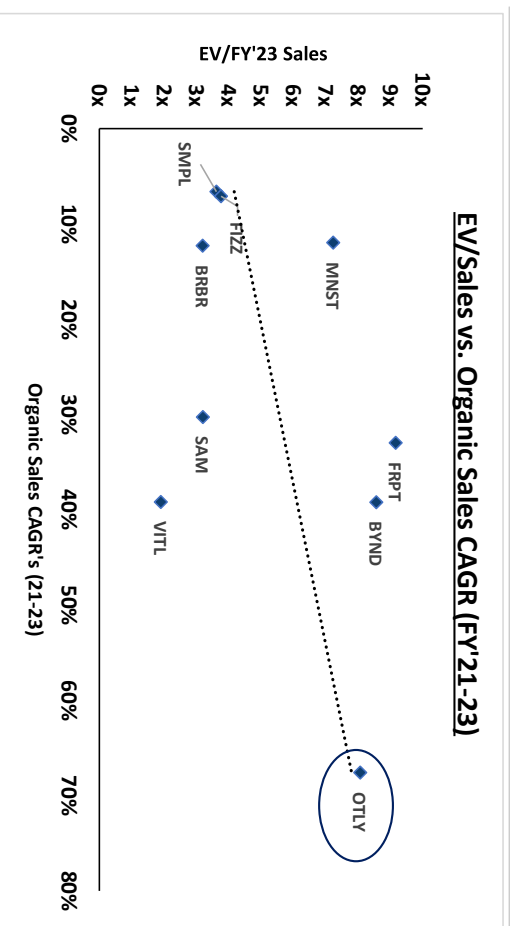
Valuing at a premium to Beyond Meat given Oatly's superior expected revenue CAGR & expedited path to profitability; initiate with a Buy and \$34 PT. Our \$34 PT is based on our FY'23 sales estimate of ~\$2bn and a ~9.5x EV/Sales multiple, or a ~10% premium to Beyond Meat's multiple, which we believe makes sense given Oatly's superior expected go-forward FY'21-23 revenue CAGR (~68% vs. ~37% for BYND) off a slightly higher base and its expedited path to profitability. Additionally, the multiple could get a further boost from Oatly executing seamlessly on its capacity expansion plan, enabling quick in-house capacity rollout that could easily support ramped revenue growth and margin expansion ahead of expectations given the company's established global footprint and diversified product portfolio. Our DCF analysis also points to \$34 fair equity value per share, which we base off ~\$8.5bn revenue in 2030 (or a 35% CAGR from 2020 as the company benefits from higher household penetration), an ~18% EBITDA margin, a ~7% WACC, and a 5% terminal growth rate.

Figure 87 - Oatly's organic sales CAGR is ~2.5x the relevant peer group



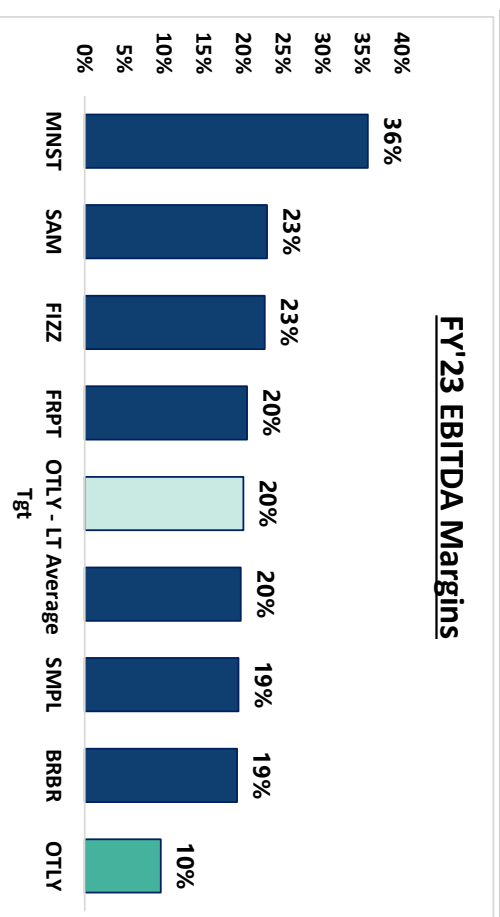
Source: Jefferies Research, FactSet, company filings

Figure 89 - While Oatly is trading at a premium to the peer group average...



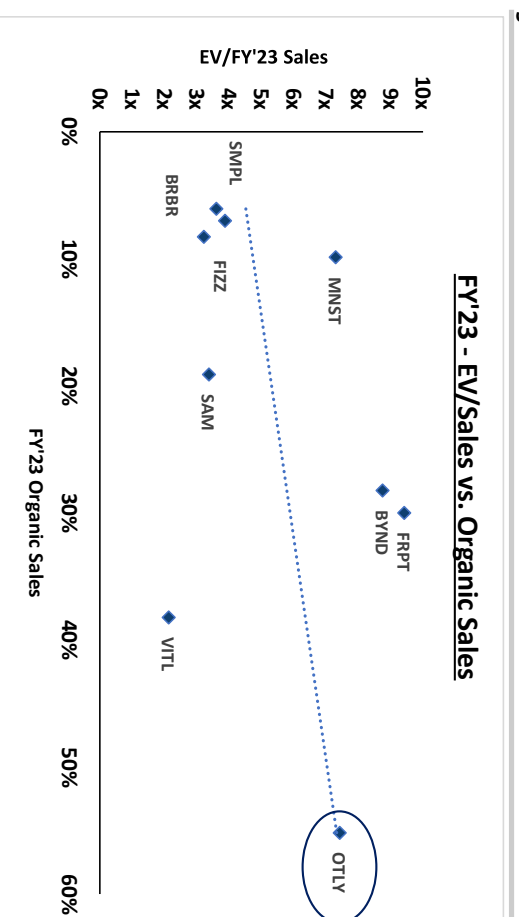
Source: Jefferies Research, FactSet, Visible Alpha consensus

Figure 88 - EBITDA margin at low end of group, but LT target in line



Source: Jefferies Research, FactSet, company data

Figure 90 - ...the stock is trading at a ~15% discount to BYND, despite superior expected growth



Source: Jefferies Research, FactSet, Visible Alpha consensus

Figure 91 - Oatly's Comparable Company Valuation Metrics

Company Name	Ticker	JEF Rating	Current		EV	EV/Sales			Organic Sales ('21-'23 CAGR)	EBITDA Margin	
			Price (USD)	Mkt Cap		2021E	2022E	2023E		FY'22E	FY'23E
Beyond Meat, Inc.	BYND	Hold	\$149	\$9,423	\$9,440	16.8x	11.5x	8.6x	39%	5%	8%
Vital Farms, Inc.	VITL	Buy	\$22	\$865	\$763	3.0x	2.4x	1.9x	39%	5%	9%
Bellring Brands, Inc. Class A	BRBR	Buy	\$28	\$3,888	\$4,479	3.8x	3.5x	3.2x	12%	19%	19%
Simply Good Foods Co	SMPL	Hold	\$35	\$3,370	\$3,853	4.1x	3.8x	3.6x	7%	19%	19%
Freshpet Inc	FRPT	Buy	\$168	\$7,258	\$6,925	16.0x	12.1x	9.2x	33%	17%	20%
Monster Beverage Corporation	MNST	Buy	\$94	\$49,421	\$47,285	8.8x	8.0x	7.2x	12%	36%	36%
National Beverage Corp.	FIZZ	Hold	\$49	\$4,604	\$4,492	4.0x	3.8x	3.8x	7%	23%	23%
Boston Beer Company, Inc. Class A	SAM	Underperform	\$1,029	\$12,643	\$12,563	4.9x	3.9x	3.2x	30%	22%	23%
Oatly Group AB	OTLY	Buy	\$29	\$17,001	\$15,993	23.2x	12.5x	8.1x	68%	(2%)	10%
Average (excluding Oatly)						7.7x	6.1x	5.1x			

Source: Jefferies Research, FactSet, Visible Alpha consensus

Our discounted cash flow analysis corroborates our comparable analysis method and supports our \$34 price target. Our DCF is based on the following assumptions:

- **Net Sales** reaching ~\$8.5bn by 2030, a CAGR of 35% from 2020 as the company benefits from higher household penetration.
- **EBITDA Margin** of 18.9% in 2030 (+2,675 basis points above 2020). We assume Oatly's lack of size/scale vs. other food peers and higher relative R&D costs will result in depressed EBITDA margin profile through FY'23, with ongoing margin expansion per year through 2030 as the company benefits from its production mix shift, operating leverage, and production efficiency potential.
- **WACC** of ~7.3% based on unlevered beta of 0.94 (determined by using peer group average).
- **Terminal growth rate** of 5%.
- **Capital structure** of 98% equity and 1% debt.

Figure 92 - Our 0.94 levered beta is based on comparable peer betas

Company Name	Ticker	Raw Beta	Levered Beta	Tax Rate	Debt	Equity	Debt/Equity	Unlevered Beta
Beyond Meat, Inc.	BYND	0.81	0.88	20.0%	\$1,142	\$9,282	12%	0.91
Vital Farms, Inc.	VITL	0.78	0.86	24.9%	\$1	\$864	0%	0.79
BellRing Brands, Inc. Class A	BRBR	0.71	0.81	24.0%	\$625	\$1,117	56%	1.14
Simply Good Foods Co	SMPL	0.91	0.94	23.9%	\$574	\$3,356	17%	1.04
Freshpet Inc	FRPT	1.31	1.20	23.5%	\$8	\$7,262	0%	1.31
Monster Beverage Corporation	MNST	0.90	0.94	23.5%	\$23	\$49,563	0%	0.90
National Beverage Corp.	FIZZ	0.55	0.70	23.5%	\$40	\$4,551	1%	0.55
Boston Beer Company, Inc. Class A	SAM	0.84	0.89	26.5%	\$65	\$12,637	1%	0.84
Average								0.94
Median								0.91

Oatly's Beta Calculation	
Peer Group Average	0.94
Total Debt (FY'21 JEF)	\$158
Market Capitalization	\$15,770
Debt/Equity	1%
Oatly Tax Rate	25%
Levered Beta	0.94

Source: Jefferies Research, FactSet

Figure 93 - Our discounted cash flow analysis points to a \$34 price target

Fiscal Year End December (US\$mm)	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Sales	\$204	\$421	\$690	\$1,278	\$1,983	\$2,517	\$3,167	\$4,004	\$4,926	\$5,926	\$7,094	\$8,452
Operating Profit	\$ (29)	\$ (46)	\$ (135)	\$ (71)	\$ 77	\$ 178	\$ 282	\$ 401	\$ 527	\$ 700	\$ 924	\$ 1,263
<i>Margin</i>	<i>(14%)</i>	<i>(11%)</i>	<i>(20%)</i>	<i>(6%)</i>	<i>4%</i>	<i>7%</i>	<i>9%</i>	<i>10%</i>	<i>11%</i>	<i>12%</i>	<i>13%</i>	<i>15%</i>
<i>Y/Y Δ Operating Margin (bps)</i>	<i>320 bps</i>	<i>(858 bps)</i>	<i>1396 bps</i>	<i>943 bps</i>	<i>319 bps</i>	<i>183 bps</i>	<i>110 bps</i>	<i>69 bps</i>	<i>112 bps</i>	<i>121 bps</i>	<i>191 bps</i>	
<i>Taxes</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 19</i>	<i>\$ 45</i>	<i>\$ 70</i>	<i>\$ 100</i>	<i>\$ 132</i>	<i>\$ 175</i>	<i>\$ 231</i>	<i>\$ 316</i>
<i>Tax rate</i>					<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Adjusted NOPAT	\$ (29)	\$ (46)	\$ (135)	\$ (71)	\$ 58	\$ 134	\$ 211	\$ 300	\$ 395	\$ 525	\$ 693	\$ 947
<i>% change</i>		<i>59.8%</i>	<i>192.2%</i>	<i>(47.3%)</i>	<i>(181.3%)</i>	<i>131.4%</i>	<i>58.4%</i>	<i>42.1%</i>	<i>31.5%</i>	<i>32.9%</i>	<i>32.0%</i>	<i>36.7%</i>
Plus: Depreciation & Amortization	8	13	31	51	113	126	127	160	197	237	284	338
Less: Change in Working Capital	-	(108)	120	26	73	63	52	68	74	81	95	110
Less: Capex, Net	54	134	377	345	137	101	127	160	197	237	284	338
Free Cash Flow	(74)	(59)	(600)	(391)	(39)	96	159	233	321	444	599	837
Less: Dividends	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow, Net of Dividends	(74)	(59)	(600)	(391)	(39)	96	159	233	321	444	599	837
Terminal Value												\$ 38,005

Fair Equity Value - DCF Method	
FCFF Present Value	\$585
Terminal Value Present Value	\$18,764
Enterprise Value	\$ 19,349
Less: Net Debt	(\$1,008)
Less: Minority Interest	-
Implied Equity Value	\$ 20,357
Shares Outstanding	592
Implied Equity Value per Share (USD)	\$ 34

WACC Calculation	
Cost of Equity	7.3%
After-Tax Cost of Debt	8.6%
Debt / Total Capital	1%
Equity / Total Capital	99%
WACC	7.3%
Terminal Growth Rate	5.0%

Source: Jefferies Research, company data

Risk Factors

- **Heightened Competition:**
 - Oatly operates in a highly-competitive category with potential private label threat
 - Numerous brands and products compete for limited retail, coffee shop, foodservice and restaurant customers and shelf space
- **Price Risk**
 - Oatly sells its products at a significant premium to traditional dairy and other plant-based products.
 - Increased competitive activity and potential private label penetration could affect Oatly's premium pricing power
- **Capacity**
 - Company's go-forward top-line forecasts are highly contingent on capacity expansion plans
 - Inability to meet capacity timeline could prolong bottleneck effect and cause company to lose customers given lack of ability to meet demand
- **Cash**
 - Given company's high cash burn rate; its inability to raise cash or get access to funding can negatively impact business operations and growth trajectory

Management Background

Toni Petersson – Chief Executive Officer

Mr. Petersson has served as Chief Executive Officer of Oatly since November 2012. Mr. Petersson brought a new perspective to the company and under his leadership, Oatly transformed from a producer of plant-based dairy to a purpose-driven brand, with a focus on sustainability and health. Prior to joining Oatly in 2012, Mr. Petersson made a career of founding many businesses including Izakaya Koi, Koi Brands, Koi Concept, and Spangatan Fastighetsförvaltning AB, before serving as CEO of Boblbee, a patented hard shell backpack and back protection company, from October 2009 to November 2012. Mr. Petersson holds a diploma in Marketing Strategy from IHM Business School and completed the Business Fundamental Program at Executive Foundation Lund.

Peter Bergh – Chief Operating Officer

As Chief Operating Officer & Deputy CEO, Peter Bergh builds the foundation for Oatly's global business across commercial, production & supply, finance, and technology. Prior to Oatly worked with PWC in Sweden for 14 years.

Christian Hanke – Chief Financial Officer

Mr. Hanke has served as Chief Financial Officer of Oatly since March 2020. Prior to joining Oatly, Mr. Hanke served as Interim Chief Financial Officer and Vice President, Corporate Controller from March 2019 to March 2020 and Vice President, Corporate Controller from November 2016-March 2019 at Autoliv, an automotive safety supplier. Prior to Autoliv, Mr. Hanke served as Vice President, Financial Controller of Nasdaq Stockholm overseeing the EMEA and Asia Finance function from April 2013 to November 2016. Mr. Hanke, has a Bachelor's degree in Business Administration, with a focus in Accounting from Uppsala University, and is a Certified Public Accountant.

John Schoolkraft – Chief Creative Officer

Mr. Schoolkraft has served as Chief Creative Officer of Oatly since 2012, and along with Mr. Petersson, helped develop Oatly from a producer of oat-based drinks into a global movement focused on sustainability and health. Prior to joining Oatly, Mr. Schoolkraft founded Schoolkraft SL, a small consulting firm which helped European companies, and worked there from April 2006 to December 2015. Prior to founding Schoolkraft SL, Mr. Schoolkraft served as the creative director at Adtomic from April 2005 to April 2006. Mr. Schoolkraft holds a BA in Languages and Literature from the University of Washington.

Johan Rabe – Chief Supply Chain Officer

Mr. Rabe joined Oatly in September 2020 as President, Supply & Manufacturing, and served that role until February 2021, when he was promoted to Chief Supply Chain Officer. Prior to Oatly, Mr. Rabe spent over 26 years at Tetra Pak, a food packaging and processing company, serving a variety of roles including Vice President, Sales Management, Managing Director North Europe, and finally Vice President, Sales Management Cluster Europe and Central Asia. Mr. Rabe holds a BA in Economics from the University of Virginia, and an Executive MBA from Copenhagen Business School.

Figure 94 - Oatly - Quarterly Income Statement

Fiscal Year End December (US\$mm)	2018	2019	MAR	JUN	SEP	DEC	2020	MAR	JUN	SEP	DEC	2021E	2022E	2023E	2024E	2025E
			1Q20	2Q20	3Q20	4Q20		1Q21A	2Q21E	3Q21E	4Q21E					
Sales	\$ 118	\$ 204	\$ 84	\$ 95	\$ 115	\$ 127	\$ 421	\$ 140	\$ 148	\$ 190	\$ 212	\$ 690	\$ 1,278	\$ 1,983	\$ 2,517	\$ 3,167
Cost of Goods Sold	69	137	57	64	79	92	292	98	113	133	144	488	814	1,207	1,525	1,910
Cost of Goods / Sales (%)	58.8%	67.4%	67.6%	67.7%	68.7%	72.3%	69.3%	70.1%	76.2%	69.8%	68.2%	70.7%	63.7%	60.9%	60.6%	60.3%
Y/Y Δ COGS / Sales (bps)			407 bps	259 bps	(281 bps)	412 bps	196 bps	245 bps	850 bps	110 bps	(410 bps)	139 bps	(700 bps)	(286 bps)	(30 bps)	(25 bps)
Gross Profit	49	67	27.3	30.8	36.0	35.2	129	42	35	58	67	202	464	776	993	1,257
Gross Margin (%)	41.2%	32.6%	32.4%	32.3%	31.3%	27.7%	30.7%	29.9%	23.8%	30.2%	31.8%	29.3%	36.3%	39.1%	39.4%	39.7%
Y/Y Δ Gross Margin (bps)			(407 bps)	(259 bps)	281 bps	(412 bps)	(196 bps)	(245 bps)	(850 bps)	(110 bps)	410 bps	(139 bps)	700 bps	286 bps	30 bps	25 bps
Selling, General & Administrative		93	31	33	41	63	168	63	73	80	82	298	479	624	728	875
SG&A / Sales (%)		45.8%	36.6%	35.0%	35.4%	49.6%	39.8%	45.1%	49.3%	42.1%	38.6%	43.2%	37.5%	31.5%	28.9%	27.6%
Y/Y Δ SG&A / Sales (bps)		4,579 bps	(619 bps)	(1,213 bps)	(820 bps)	119 bps	(597 bps)	852 bps	1,436 bps	675 bps	(1,100 bps)	337 bps	(570 bps)	(602 bps)	(257 bps)	(127 bps)
Research & Development		4	1	1	2	3	7	3	5	6	6	21	38.4	51	60	69
Research & Development / Sales (%)		2.1%	1.4%	1.4%	1.5%	2.1%	1.6%	2.2%	3.7%	3.2%	2.9%	3.0%	3.0%	2.6%	2.4%	2.2%
Y/Y Δ R&D / Sales (bps)			(16 bps)	(60 bps)	(104 bps)	(16 bps)	(49 bps)	81 bps	230 bps	175 bps	83 bps	140 bps	(1 bps)	(43 bps)	(20 bps)	(20 bps)
Other Operating Expense/(Income)		(0)	0	1	2	(1)	2	2	5	6	6	18	17	24	27	31
Other Operating Expense (Income) / Sales (%)		(0.2%)	0.5%	0.5%	1.4%	(0.8%)	0.4%	1.3%	3.1%	3.1%	2.6%	2.6%	1.3%	1.2%	1.1%	1.0%
Y/Y Δ Other Expense (Income) / Sales (bps)		(20 bps)	121 bps	61 bps	246 bps	(133 bps)	61 bps	77 bps	260 bps	173 bps	321 bps	217 bps	(125 bps)	(12 bps)	(13 bps)	(11 bps)
Total Expenses	63	97	32	35	44	65	176	68	83	92	93	337	535	699	815	975
Total Expenses / Sales (%)	53.4%	47.7%	38.5%	36.9%	38.2%	51.0%	41.9%	48.6%	56.1%	48.4%	44.1%	48.8%	41.8%	35.3%	32.4%	30.8%
Y/Y Δ Total Expenses / Sales (bps)			(572 bps)	(514 bps)	(1,212 bps)	(677 bps)	(30 bps)	1,010 bps	1,926 bps	1,023 bps	(696 bps)	695 bps	(697 bps)	(658 bps)	(289 bps)	(158 bps)
EBITDA	\$ (10)	\$ (21)	\$ (2)	\$ (1)	\$ (5)	\$ (25)	\$ (33)	\$ (22)	\$ (40)	\$ (27)	\$ (16)	\$ (105)	\$ (21)	\$ 190	\$ 304	\$ 409
EBITDA Margin (%)	(8.2%)	(10.2%)	(2.8%)	(1.3%)	(4.0%)	(19.5%)	(7.8%)	(16.0%)	(27.0%)	(14.0%)	(7.6%)	(15.2%)	(1.6%)	9.6%	12.1%	12.9%
Y/Y Δ EBITDA Margin (bps)		(194 bps)	82 bps	912 bps	830 bps	(714 bps)	234 bps	(1,320 bps)	(2,576 bps)	(1,000 bps)	1,189 bps	(742 bps)	1,363 bps	1,119 bps	249 bps	83 bps
Depreciation & Amortization		8	3	3	3	4	13	4	8	8	10	29	50	113	126	127
Operating Income	(29)	(5)	(4)	(8)	(29)	(46)	(26)	(48)	(35)	(26)	(135)	(71)	77	178	282	
Operating Margin (%)	(14.1%)	(6.1%)	(4.6%)	(6.9%)	(22.6%)	(10.9%)	(18.7%)	(32.3%)	(18.2%)	(12.3%)	(19.5%)	(5.6%)	3.9%	7.1%	8.9%	
Y/Y Δ Operating Margin (bps)		(1,413 bps)	108 bps	953 bps	958 bps	(595 bps)	320 bps	(1,254 bps)	(2,776 bps)	(1,132 bps)	1,026 bps	(858 bps)	1,396 bps	943 bps	319 bps	183 bps
Interest Expense		4	3	0	2	6	11	2	5	5	5	17	13	25	32	33
Pretax Income	(32)	(8)	(4)	(10)	(35)	(57)	(28)	(53)	(40)	(31)	(152)	(84)	52	146	249	
Income Tax Expense/(Benefit)	1	0	0	1	1	2	2	-	-	-	-	2	-	13	37	62
Tax Rate (%)	3.9%	4.5%	9.6%	5.6%	3.1%	4.2%	6.9%	0.0%	0.0%	0.0%	1.3%	0.0%	25.0%	25.0%	25.0%	
Net Income to Common Stockholders	\$ (34)	\$ (8.2)	\$ (5)	\$ (10)	\$ (36)	\$ (59)	\$ (30)	\$ (53)	\$ (40)	\$ (31)	\$ (154)	\$ (84)	\$ 39	\$ 110	\$ 187	
Extraordinary Items		2	(0)	-	-	1	-	-	-	-	-	-	-	-	-	-
Net Income, IFRS	(36)	(8)	(5)	(10)	(37)	(60)	(30)	(53)	(40)	(31)	(154)	(84)	39	110	187	
EPS, Excluding Extraordinary Items	\$ (0.06)	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.06)	\$ (0.10)	\$ (0.05)	\$ (0.09)	\$ (0.07)	\$ (0.05)	\$ (0.26)	\$ (0.14)	\$ 0.07	\$ 0.19	\$ 0.32	
% of Annual EPS	100%	14%	8%	18%	61%	100%	20%	34%	26%	20%	100%	100%	100%	100%	100%	
Diluted EPS, IFRS (reported)		592	592	592	592	592	592	592	592	592	592	592	592	592	592	592
Shares Outstanding - Diluted																
Dividend per Share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NOPAT																

Income Statement (Y/Y %)																
Sales		73.0%	109.0%	101.6%	125.6%	93.7%	106.5%	66.2%	55.2%	66.1%	66.6%	63.8%	85.2%	55.2%	26.9%	25.8%
Cost of Goods Sold			122.4%	109.6%	116.7%	105.4%	112.5%	72.3%	74.6%	68.7%	57.1%	67.1%	66.8%	48.2%	26.3%	25.3%
Gross Profit			85.7%	86.6%	147.8%	68.6%	94.1%	53.7%	14.4%	60.2%	91.2%	56.4%	129.4%	67.4%	27.9%	26.6%
Research & Development			88.0%	40.2%	32.4%	80.1%	58.5%	162.3%	316.4%	262.9%	132.7%	205.1%	84.5%	32.9%	17.1%	15.2%
Selling, General & Administrative			78.8%	49.7%	83.1%	98.5%	79.6%	104.9%	118.8%	97.7%	29.6%	77.7%	60.7%	30.3%	16.6%	20.3%
Branding, Advertising, and Marketing																
Other Operating Expense/(Income)			(256.1%)	(1,478.4%)	(374.3%)	(265.6%)	(519.1%)	314.7%	809.1%	278.3%	(805.9%)	938.9%	(4.6%)	40.8%	13.8%	13.0%
Total Expenses			84.4%	51.7%	91.6%	92.6%	81.2%	109.8%	136.2%	110.5%	43.9%	91.0%	58.7%	30.8%	16.5%	19.7%
EBITDA			61.2%	(75.0%)	(26.2%)	205.7%	58.9%	862.6%	3,144.2%	477.9%	(35.0%)	219.1%	(80.5%)	(1,025.1%)	59.9%	34.5%
Depreciation & Amortization			94.3%	79.3%	55.4%	39.5%	62.1%	34.0%	150.3%	143.4%	155.0%	124.7%	71.0%	124.5%	11.2%	0.6%
Operating Income			77.9%	(34.8%)	(5.8%)	163.1%	59.8%	405.8%	999.9%	339.7%	(9.2%)	192.2%	(47.3%)	(208.5%)	131.4%	58.4%
Interest Expense			302.7%	(98.6%)	(212.6%)	106.4%	200.9%	(27.5%)	21,597.4%	153.2%	(19.7%)	55.6%	(21.7%)	92.0%	24.3%	3.2%
Pretax Income			119.4%	(47.7%)	48.9%	150.8%	75.5%	259.0%	1,108.3%	302.4%	(11.0%)	166.2%	(44.5%)	(161.3%)	184.1%	70.3%
Net Income			125.0%	(43.1%)	57.8%	138.9%	76.1%	267.4%	1,002.4%	281.0%	(13.7%)	158.7%	(45.2%)	(145.9%)	184.1%	70.3%

Margin & Ratio Analysis																
Cost of Goods Sold		67.4%	67.6%	67.7%	68.7%	72.3%	69.3%	70.1%	76.2%	69.8%	68.2%	70.7%	63.7%	60.9%	60.6%	60.3%
Gross Margin		32.6%	32.4%	32.3%	31.3%	27.7%	30.7%	29.9%	23.8%	30.2%	31.8%	29.3%	36.3%	39.1%	39.4%	39.7%
Research & Development		2.1%	1.4%	1.4%	1.5%	2.1%	1.6%	2.2%	3.7%	3.2%	2.9%	3.0%	3.0%	2.6%	2.4%	2.2%
Selling, General & Administrative		45.8%	36.6%	35.0%	35.4%	49.6%	39.8%	45.1%	49.3%	42.1%	38.6%	43.2%	37.5%	31.5%	28.9%	27.6%
Other Operating Expense/(Income)		(0.2%)	0.5%	0.5%	1.4%	(0.8%)	0.4%	1.3%	3.1%	3.1%	2.6%	2.6%	1.3%	1.2%	1.1%	1.0%
Total Expenses		47.7%	38.5%	36.9%	38.2%	51.0%	41.9%	48.6%	56.1%	48.4%	44.1%	48.8%	41.8%	35.3%	32.4%	30.8%
EBITDA Margin		(10.2%)	(2.8%)	(1.3%)	(4.0%)	(19.5%)	(7.8%)	(16.0%)	(27.0%)	(14.0%)	(7.6%)	(15.2%)	(1.6%)	9.6%	12.1%	12.9%
Depreciation & Amortization		4.0%	3.4%	3.3%	2.8%	3.1%	3.1%	2.7%	5.3%	4.2%	4.7%	4.3%	3.9%	5.7%	5.0%	4.0%
Operating Margin		(14.1%)	(6.1%)	(4.6%)	(6.9%)	(22.6%)	(10.9%)	(18.7%)	(32.3%)	(18.2%)	(12.3%)	(19.5%)	(5.6%)	3.9%	7.1%	8.9%
Interest Expense		1.8%	3.1%	0.0%	1.7%	4.9%	2.6%	1.4%	3.4%	2.6%	2.4%	2.4%	1.0%	1.3%	1.3%	1.0%
Pretax Income		(15.9%)	(9.3%)	(4.6%)	(8.6%)	(27.4%)	(13.5%)	(20.1%)	(35.7%)	(20.8%)	(14.7%)	(22.0%)	(6.6%)	2.6%	5.8%	7.9%
Tax Rate		3.9%	4.5%	9.6%	5.6%	3.1%	4.2%	6.9%	0.0%	0.0%	0.0%	1.3%	0.0%	25.0%	25.0%	25.0%
Net Income		(16.5%)	(9.7%)	(5.0%)	(9.1%)	(28.3%)	(14.1%)	(21.4%)	(35.7%)	(20.8%)	(14.7%)	(22.2%)	(6.6%)	1.9%	4.4%	5.9%

Source: Jefferies Research, company data

Figure 95 - Oatly - Annual Balance Sheet

Fiscal Year End December (US\$m)	2018	2019	2020	2021E	2022E	2023E	2024E
ASSETS							
Cash and Cash Equivalents	\$ 11	\$ 105	\$ 500	\$ 247	\$ 328	\$ 447	
Accounts Receivable	44	71	93	141	218	277	
Inventories	29	39	59	90	133	175	
Other Current Assets	11	24	28	29	33	38	
Total Current Assets	95	249	689	507	712	937	
Property, Plant and Equipment, Net	120	276	739	1,231	1,372	1,346	
Intangible Assets	4	13	20	26	32	32	
Goodwill	127	144	144	144	144	144	
Other Assets	4	7	7	7	7	7	
Deferred Income Taxes	0	0	-	-	-	-	
Total Assets	\$ 349	\$ 679	\$ 1,599	\$ 1,914	\$ 2,265	\$ 2,466	
LIABILITIES							
Trade Payables	30	45	66	102	139	160	
Line of Credit	38	12	39	87	132	172	
Accrued Expenses	26	60	71	85	97	114	
Other Current Liabilities	2	112	6	8	11	15	
Total Current Liabilities	96	229	181	283	378	461	
Long-term liabilities to credit institutions	64	116	111	408	626	626	
Other Liability, Non-Current	1	0	8	8	8	15	
Total Liabilities	\$ 161	\$ 353	\$ 300	\$ 699	\$ 1,012	\$ 1,102	
EQUITY							
Total Equity	\$ 188	\$ 326	\$ 1,299	\$ 1,215	\$ 1,253	\$ 1,363	
Total Liabilities & Equity	\$ 349	\$ 679	\$ 1,599	\$ 1,914	\$ 2,265	\$ 2,466	
Financial Metrics							
Total Debt	\$ 103	\$ 136	\$ 158	\$ 504	\$ 766	\$ 813	
Net Debt	\$ 93	\$ 31	\$ (351)	\$ 256	\$ 438	\$ 366	
Total Capitalization (Total Debt + Total Equity)	\$ 291	\$ 462	\$ 1,456	\$ 1,718	\$ 2,019	\$ 2,176	
Net Operating Assets	\$ 1	\$ 123	\$ 513	\$ 232	\$ 344	\$ 491	
Total Debt/Equity	0.5x	0.4x	0.1x	0.4x	0.6x	0.6x	
Total Debt/Capitalization	35.5%	29.4%	10.8%	29.3%	37.9%	37.4%	
Net Debt/Capitalization	31.8%	6.6%	(24.1%)	14.9%	21.7%	16.8%	
Total Debt/EBITDA	(5.0x)	(4.1x)	(1.5x)	(24.5x)	4.0x	2.7x	
Net Debt/EBITDA	(4.5x)	(0.9x)	3.3x	(12.5x)	2.3x	1.2x	
Book Value per Share	\$ 0.32	\$ 0.55	\$ 2.19	\$ 2.05	\$ 2.12	\$ 2.30	
Operating Efficiency							
Working Capital (Ex-Cash and Debt)	\$ 26	\$ (82)	\$ 38	\$ 64	\$ 137	\$ 200	
Change in Working Capital (Ex-Cash and Debt)	\$	\$ (108)	\$ 120	\$ 26	\$ 73	\$ 63	
Working Capital / Sales	12.8%	(19.5%)	5.5%	5.0%	6.9%	8.0%	
ROE	(19.0%)	(23.5%)	(18.9%)	(6.7%)	3.1%	8.4%	
ROA	(10.2%)	(11.7%)	(13.5%)	(4.8%)	1.9%	4.6%	
ROIC	(9.9%)	(12.2%)	(14.0%)	(4.5%)	3.1%	6.4%	
Asset Turnover	0.6x	0.8x	0.6x	0.7x	0.9x	1.1x	
Receivables Turnover	4.6x	7.3x	8.4x	10.9x	11.1x	10.2x	
Inventory Turnover	4.8x	8.6x	9.9x	11.0x	10.9x	9.9x	
Payable Turnover	4.6x	7.8x	8.8x	9.7x	10.0x	10.2x	
Days Sales Outstanding	79	50	43	33	33	36	
Days Sales in Inventory	77	42	37	33	34	37	
Days Payable Outstanding	80	47	42	38	36	36	
Cash Conversion Cycle (DSO+DSI-DPO)	76	45	39	29	30	37	

Source: Jefferies Research, company data

Figure 96 - Oatly - Annual Cash Flow Statement

Fiscal Year End December (US\$m)	2018	2019	2020	2021E	2022E	2023E	2024E
OPERATING ACTIVITIES							
Net Income	\$ (36)	\$ (60)	\$ (154)	\$ (84)	\$ 39	\$ 110	
Depreciation and Amortization	8	13	31	51	113	125.9	
Changes in Other Non-Cash Items	5	8	0	-	-	-	
(Increase)/Decrease in Working Capital	(17)	(5)	(14)	(26)	(73)	(63)	
Accounts Receivable	(22)	(47)	(78)	(78)	(59)	(59)	
Inventories	(20)	(31)	(43)	(43)	(43)	(43)	
Other Current Assets	(3)	(2)	(3)	(3)	(5)	(5)	
Accounts Payable	21	36	37	21	21	21	
Accrued Expenses and Other Liabilities	11	17	14	22	22	22	
Cash Flow from Operating Activities	(39)	(44)	(136)	(69)	78	173	
INVESTING ACTIVITIES							
Purchases of Intangible Assets	(3)	(7)	(7)	(6)	(6)	-	
Purchases of Property, Plant and Equipment	(56)	(134)	(495)	(542)	(254)	(101)	
Equipment Lease Financing	2	-	118	198	118	-	
Paid Earnout	(8)	-	-	-	-	-	
Other Investment Activities	(1)	0	-	-	-	-	
Cash Flow from Investing Activities	(65)	(141)	(384)	(351)	(142)	(101)	
FINANCING ACTIVITIES							
New Shares Issued & Other Capital Contributions	49	269	1,020	-	-	-	
Change in Line of Credit	50	10	27	48	44	40	
Long Term Debt	-	-	(123)	100	100	-	
Other Financing Activities	(4)	(6)	(0)	(0)	0	7	
Cash Flow from Financing Activities	96	274	924	148	145	47	
Net (Decrease) Increase in Cash and Equivalents	(10)	95	484	(262)	81	119	
Cash and Cash Equivalents at Beginning of Period	21	11	105	509	247	328	
Cash and Cash Equivalents at End of Period	\$ 11	\$ 105	\$ 509	\$ 247	\$ 328	\$ 447	
Cash Flow Metrics							
Cash as % of Sales		5.2%	25.0%	73.8%	19.3%	16.5%	17.7%
Capex as % of Sales		27.4%	31.9%	71.7%	42.5%	12.8%	4.0%
Capex as % of PP&E		46.5%	48.7%	66.9%	44.1%	18.5%	7.5%
D&A as % of Sales		4.0%	3.1%	4.5%	4.0%	5.7%	5.0%
D&A as % of PP&E		6.7%	4.8%	4.2%	4.2%	8.2%	9.3%
CFO Growth (Y/Y %)			13.3%	207.0%	(56.3%)	(231.8%)	120.4%
Free Cash Flow	\$ (104)	\$ (186)	\$ (520)	\$ (410)	\$ (64)	\$ 72	
FCF Growth (Y/Y %)		78.9%	180.2%	(21.2%)	(84.4%)	(212.7%)	
FCF per Share	\$ (0.18)	\$ (0.31)	\$ (0.88)	\$ (0.69)	\$ (0.11)	\$ 0.12	
Annual Average Stock Price			25	25	25	25	
FCF Yield (%)			(4%)	(3%)	(0%)	0%	
FCF Yield Usage for Dividends			0%	0%	0%	0%	
FCF Yield Usage for Repurchases			0%	0%	0%	0%	
Dividends as % of FCF		0%	0%	0%	0%	0%	
Share Repurchases as % of FCF		0%	0%	0%	0%	0%	
Price/FCF per Share			(28.4x)	(36.1x)	(231.2x)	205.2x	
Price/FCF per Share (1Y Forward)			(36.1x)	(231.2x)	205.2x	109.8x	
Sales to CFO Conversion	(19.2%)	(10.5%)	(19.7%)	(4.7%)	4.0%	6.9%	
EBITDA to CFO Conversion	188.6%	134.4%	129.3%	289.5%	41.2%	56.9%	
Net Income to CFO Conversion	116.1%	74.7%	88.6%	70.7%	202.7%	157.3%	
Dividends as % of Net Income	0%	0%	0%	0%	0%	0%	

Source: Jefferies Research, company data

Company Description

Oatly Group AB

Oatly is the leading global manufacturer of dairy alternative oat-based products, with a purpose-driven philosophy for sustainability, as the product is lower in carbon emissions, as well as land and energy use, relative to traditional cow's milk.

Company Valuation/Risks

Oatly Group AB

Our valuation is based on an equally-weighted EV/Sales multiple on our FY'23 top-line forecast and our DCF analysis. Key risks to our forecast include: (i) heightened competition, (ii) execution risk, and (iii) price premium vs. traditional dairy

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published June 14, 2021 , 00:48 ET.

Recommendation Distributed June 14, 2021 , 03:55 ET.

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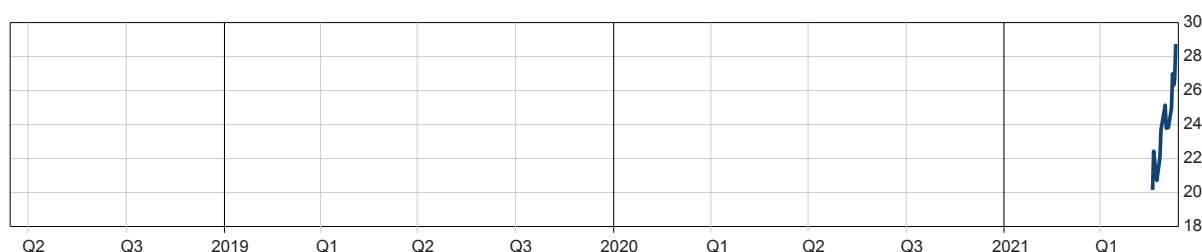
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Rating and Price Target History for: Oatly Group AB (OTLY) as of 06-11-2021



Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1753	62.67%	176	10.04%	29	1.65%
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