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Valuation Disparities Among Nordic Consumer Companies

An Investigation of Why Outliers Differ From the Trend
Line

Master's thesis in Management and Economics of Innovation

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Stena Adactum logo

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Abstract

This master's thesis aims to investigate the factors that drive firm value for Nordic consumer businesses. Understanding the determinants of firm value is crucial for investors, financial analysts and policymakers seeking to make informed decisions and effectively allocate resources. The study employs a comprehensive research framework that integrates both financial and non-financial factors. A mixed-methods approach is utilised, combining quantitative analysis of financial data with qualitative analysis of variables potentially affecting firm value. The findings of this research contribute to the existing literature by identifying the key factors that significantly influence firm value. The results shed light on eleven aspects including financials, price increases, cost savings, ESG, consumer confidence, ownership, M&A, capital structure, brand awareness, competition and share buy-back programmes. The implications of this study extend beyond the academic realm. The identification of critical drivers of firm value helps professional and non-professional investors identify and evaluate potential investment opportunities, although the findings of this study should not be used as any kind of investment advice.

Keywords: firm value, company valuation, financial factors, non-financial factors, Nordic consumer companies.

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Gothenburg, June 2023



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1

Introduction

1.1 Background

Company valuation is a crucial aspect in many areas of finance. Within mergers and acquisitions (M&A) transactions, companies must determine the value of the target company. Mergers and acquisitions are significant events for companies, as they can greatly impact the newly combined entity. Hence, getting the valuation right can mean the difference between a successful and unsuccessful acquisition and ultimately shape the future of the combined entity (Damodaran, 2011). Other areas requiring company valuation include private investments, public offerings, litigation matters and taxable transactions (Sunnucks, 2021).

Assessing the true value of a company is often considered a challenging endeavour by most industry professionals. The intrinsic value of a firm is an estimate of its true value, considering its underlying fundamentals and future cash flows, rather than relying solely on market price or external factors. Given the size, variability and multitude of intangible and tangible assets, as well as the thousands of employees, it can be challenging to determine the value of a business that is greatly influenced by uncertain factors such as future growth and customer preferences (Schmidlin, 2014). In addition, the constant fluctuations in the economy, changing customer preferences, advancements in technology and competition make it even more challenging to accurately value a company. Although there is no certain way to determine the exact value, various methods can be used to estimate a probable range within which the value of the business most likely falls (Koller et al., 2020).

Investment banks and other professional financial analysts generally use three main valuation methods to determine the value of a company. These include the discounted cash flow (DCF) analysis, the comparable companies analysis and the precedent transactions analysis (Pearl & Rosenbaum, 2013) – all of which are further explained in section 2.3.2. Furthermore, comparable companies analysis – i.e., valuing a company based on how the market values its publicly traded peers – is the most trusted valuation method when industry professionals value companies. This is due to its simplicity in terms of calculation,

easily accessible data and simplicity in terms of application (Amouzou, 2022). There are other ways of explaining valuation methods – e.g., in terms of asset-based and profit-based valuation (Hjelström et al., 2022), which are methods further explained in section 2.3.1.

Within the area of comparable companies analysis, regression analysis is a type of comparable companies analysis and a common method used to determine the value of a business (Broström & Larsson, 2015). There are mainly two types of regression analysis used in company valuation – simple and multiple. Simple linear regression analysis establishes a relationship between two variables: one independent and one dependent variable. In contrast, multiple regression analysis uses multiple independent variables to explain the dependent variable. The use of multiple independent variables attempts to make the output estimations more reliable (Blokhin, 2022).

Various research studies have developed multiple regression models to best estimate a company's value (Ko, 2009; Elmberger & Makdisis-Somi, 2016; Åkesson & Harting, 2020). Ko (2009) investigates market capitalisations based on a multiple regression analysis, while Elmberger and Makdisis-Somi (2016), as well as Åkesson and Harting (2020), have used the same method, but to estimate enterprise values. A common approach for a multiple regression analysis when valuing companies is to use the enterprise value (EV) as the dependent variable, as it is a useful way to measure the value of a business. According to Broström and Larsson (2015), a company outlier in a multiple linear regression model could be seen as a company, i.e. data point, heavily deviating its actual enterprise value from its theoretical enterprise value based on the multiple independent variables. These deviations can be found by analysing the absolute values of the standard residuals from the output, which represents the difference between a company's actual and expected enterprise value. According to Thieme (2021), the rule of Cook's distance – which is an estimate of the influence of a data point – could be used. Here, a general rule of thumb is to investigate any point that is more than 3x the mean of all the distances, i.e., the standard residuals. Companies that are outliers can therefore be seen as companies that are being valued substantially less or more than what the multiple regression analysis estimates.

A company's valuation is mostly driven by its ability to generate future cash flows, meaning that the financial performance of a company is the most crucial part of the valuation. However, there are multiple other aspects directly or indirectly affecting a company's ability to generate future cash flows – and therefore, also the company's valuation (Pinto, 2020). For example, environmental, social and governance (ESG) factors are becoming increasingly important in evaluating a company's financial performance and potential for growth, and companies that prioritise ESG factors are likely to be more attractive to investors, resulting in a higher valuation (Ademi & Klungseth, 2022). Other potential

value drivers affecting valuation include competition, capital structure, ownership, management, brand awareness, intellectual property, debt and liabilities, geography, M&A as well as macroeconomic factors.

Extensive research on value drivers has been made in the academic world. For example, Miralles-Quiros et al. (2017) found that sustainability firms that follow ESG principles experience an increase in firm value. Furthermore, Vieira (2017) finds that increased competition in the market leads to a decline in firm value, as it reduces the operating margins of firms in the present, as well as their potential for future growth. Chen et al. (2005) describe that intellectual capital affects a firm's market value. Lastly, where a company is listed could affect its valuation, as Doidge et al. (2004) show that foreign firms listed in the U.S. are worth more.

Value drivers are not only stated in the academic world, but also by practitioners in the financial services industry. For example, Heinzer and Mezzanica (2022) point out the importance of taking into account not only the financial performance but also non-financial metrics, when valuing a company. Additional non-academic sources highlighting drivers of firm value are equity research analysts and CEOs when communicating shareholder-related information to investors. Furthermore, when information is communicated to the market, intraday share price movements could act as great indicators of important value drivers.

Identifying the key value drivers is an important task requiring extensive research. By gaining a comprehensive understanding of the various value drivers, researchers, analysts and businesses can better understand why some companies are valued substantially higher or lower than others. It is crucial for research to delve into the reasons why certain companies are deemed outliers in a valuation model. This importance is emphasised by Stena Adactum, which is a Swedish investment company with which this report is written together with.

To identify key value drivers, the research of this study will develop a framework of important value drivers through a literature review and by analysing outliers outputted from multiple regression models. By doing so, insights into the factors that drive a company's value can be gained as well as insights on how to identify the key determinants distinguishing successful companies from their peers. This approach will provide valuable findings for researchers and practitioners in terms of professional and non-professional investors.

1.2 Stena Adactum

This master's thesis is written in collaboration with Stena Adactum, which is an investment company headquartered in Gothenburg, Sweden. Stena Adactum was founded in the early 2000s with the aim of diversifying the Stena sphere beyond its traditional business areas. The company currently owns ten companies, mostly focused on the consumer business sector, and adopts a long-term investment strategy with active board engagement in all of its investments.

Stena Adactum's investment philosophy centres on acquiring companies with great potential for growth and profitability, and its portfolio includes Ballingslöv International, Beijer Electronics Group, Blomsterlandet, Captum, Envac, Gunnebo, Midsona, Plantehallen, SR Energy and Svedbergs. The company aims to double the value of its investments every five years and is committed to responsible and sustainable investment practices.

Given Stena Adactum's strong presence in the consumer-focused industry and its commitment to responsible and sustainable investment practices, partnering with the company presents an excellent opportunity to gain insights into successful investment strategies and contribute to its ongoing efforts to improve its valuation methods. This partnership will enable the exploration of innovative valuation insights and approaches that can lead to greater accuracy and improved investment decision-making, benefiting Stena Adactum, researchers and the broader investment industry.

1.3 Purpose and Research Question

The purpose of this study is to create a framework clearly illustrating important value drivers – both financial and non-financial – of Nordic consumer businesses. The framework will be created for the consumer business sector since Stena Adactum has a large presence within consumer businesses and since it is one of the largest industries in the Nordics. This framework is intended to serve as a practical guide for Stena Adactum and other readers in assessing important factors driving firm value. Based on the purpose, the following main research question and three sub-questions are investigated:

- What are the critical factors to consider when examining company outliers in a multiple linear regression analysis, for valuing consumer business companies?
 - Which significant factors influencing firm value are commonly addressed in equity research reports?
 - Which significant factors influencing firm value are commonly addressed by chief executive officers (CEOs)?
 - Which significant factors have the most substantial impact on intraday share

price developments?

1.4 Delimitations and Limitations

The study has focused solely on Nordic consumer firms, which have been retrieved from the Refinitiv Eikon database. The analysis has been limited to firms classified under Consumer Discretionary and Consumer Staples (GICS), Consumer Cyclical and Consumer Non-Cyclical (TRBC) and Retail Trade (NAICS) categories. Another criterion for the study is that the companies are headquartered or listed on exchanges in Denmark, Finland, Norway, or Sweden. Only companies with a minimum revenue of EUR 50m in 2022 and positive EBITDA over the last three years have been studied. Furthermore, the analysis has specifically examined company outliers that have accessible equity research reports. The equity research reports included in the analysis have been sourced exclusively from Carnegie, Danske Bank, Nordea and SEB. To evaluate stock price changes, the study has analysed data from a one-year period spanning from April 27, 2022, to April 27, 2023. It is important to note that the findings of this study are not intended for making investment recommendations or providing financial advice.

The study has a few limitations that should be acknowledged. Firstly, while the framework developed in this study is primarily tailored to consumer companies, some of the identified drivers may also be applicable to other sectors. However, their applicability and significance might vary. Another limitation is that the analysis has been restricted to companies defined as consumer companies according to the Refinitiv Eikon database. It's important to recognise that different sources or definitions of the consumer sector may yield different results or interpretations.

In terms of the multiple regression model, it is important to note the inherent challenges in building a model that accurately estimates enterprise value with high statistical significance. As a result, the outliers identified in this thesis may differ from outliers identified using other regression and valuation models. Additionally, the study only analyses eleven outlying companies. Expanding the sample size to include more companies could provide a broader perspective and potentially identify additional important valuation drivers, leading to more statistically significant results. Lastly, the data used in the regression models are influenced by the chosen analysis period. Different time periods or analysing a different group of companies could yield different outliers and potentially highlight other important valuation drivers. It is essential to consider these limitations when interpreting the findings of the study.

2

Theoretical Framework and Previous Research

This section starts with literature including criticism of the efficient market hypothesis (EMH). The EMH criticism suggests that it is possible to beat indexes, making the findings of this report, i.e., the framework of value drivers, relevant. The EMH section is followed by traditional financial valuation components, a valuation section based on its previous section and non-traditional financial valuation components. This section ends with an overview of macroeconomic factors that may affect firm value.

2.1 Efficient Market Hypothesis

The EMH is a theory that suggests that financial markets reflect all available information and that it is impossible to consistently achieve above-average returns through analysing this information or any other method of analysis (Malkiel, 2003).

Malkiel (2003) explains that the hypothesis is based on the idea that there are a large number of rational investors in the market who are constantly seeking to take advantage of any mispricing or undervaluation of securities. As soon as new information becomes available, these investors quickly incorporate it into the current prices of securities, resulting in an efficient market.

According to the EMH and Maverick (2022), there are three different forms of efficiency. Weak-form efficiency implies that all past prices and volume data are reflected in current prices. In other words, technical analysis cannot provide an advantage in predicting future prices. Semi-strong-form efficiency implies that all publicly available information is already reflected in current prices. This means that fundamental analysis cannot provide an advantage in predicting future prices. Strong-form efficiency means that all information, including insider information, is already reflected in current prices. This means that even insider trading cannot provide an advantage in predicting future prices.

Proponents of EMH argue that the theory implies that active trading and market tim-

ing are unlikely to consistently beat the market and that investors should instead focus on creating diversified portfolios that track the market as a whole. Critics of the EMH argue that markets can be inefficient and that it is possible to achieve above-average returns through skilful analysis or luck (Malkiel, 2003).

Furthermore, Conrad (1995) provides additional insights into the criticism of the EMH. His research against the EMH could be summarised in five main areas. First, EMH does not fully account for the impact of psychological biases and irrational behaviour of market participants. Behavioural finance research has shown that individuals can exhibit predictable patterns of behaviour, leading to market inefficiencies and deviations from rational decision-making. Second, EMH assumes equal access and efficient processing of information by all market participants. However, in reality, information is unevenly distributed, with insiders having privileged access. This asymmetry can lead to market inefficiencies and exploitation. Third, market anomalies like momentum, value and small-firm effects challenge market efficiency. These patterns contradict the EMH assumption of market efficiency by indicating consistent outperformance of certain investment strategies. Fourth, EMH assumes markets reflect fundamental values, but historical evidence shows bubbles and crashes. This suggests that markets can be prone to herd behaviour, leading to inefficiencies. Fifth, EMH assumes perfect competition and rational, unconstrained investors. Conrad (1995) argues it overlooks real-world factors like transaction costs, taxes, frictions, constraints and regulations that affect market efficiency.

With an approach based on the criticism of the EMH and the fact that outperforming the market is possible, studying potential factors driving firm value is essential in supporting investment decisions (CFI, 2023). An approach based on the opposite – i.e., the EMH – would mean that the results of this study are of limited use, as an investor then would not be able to make any use of the framework, as the investor in either way is not able to beat the market. Therefore, this study assumes that the criticism of the EMH is valid, making the results of this study useful.

2.2 Financial Valuation Components

There are a couple of heavily adopted financial valuation components used to value a company. These are often included in one or more of the traditional valuation methodologies that will be discussed in section 2.3. Below is a section on traditional financial valuation components.

2.2.1 Equity Value and Enterprise Value

Equity value (EqV), also called market capitalisation or market value, is the measure of a firm's valuation held by its equity owners (Pearl & Rosenbaum, 2013). It can be viewed as the theoretical price to acquire all the equity in a firm. Equity value is calculated with the following formula:

$$\text{Equity Value} = \text{Market Share Price} * \text{Fully Diluted Shares Outstanding} \quad (2.1)$$

To determine a firm's fully diluted shares, it is needed to add the number of shares that are represented by its in-the-money options, warrants and convertible securities to its basic shares outstanding (Pearl & Rosenbaum, 2013).

Enterprise value (EV), also known as firm value, refers to the overall value of a company that includes the combined worth of all ownership stakes and claims on its assets from both its equity and debt holders (Pearl & Rosenbaum, 2013). This metric can be viewed as the takeover price for a whole firm. It can be calculated with the following formula:

$$\begin{aligned} \text{Enterprise Value} = & \text{Equity Value} + \text{Debt} + \text{Preferred Stock} \\ & + \text{Non-controlling Interest} - \text{Cash and Cash Equivalents} \end{aligned} \quad (2.2)$$

Enterprise value is considered independent of a firm's capital structure, which means that modifications to the capital structure should not have an impact on its enterprise value (Pearl & Rosenbaum, 2013). For instance, if a company borrows additional debt that is reflected on its balance sheet as cash, its enterprise value should remain unchanged because the new debt is offset by the increase in cash (i.e., the net debt remains unchanged). Similarly, if a company issues equity and uses the proceeds to pay off its debt, the incremental value of equity is counterbalanced by the reduction in debt. Therefore, these transactions are considered enterprise value-neutral, which means that even though there are alterations in the capital structure, the enterprise value of a company will remain constant. Consequently, similar companies are anticipated to have comparable enterprise value multiples, despite having different capital structures. However, highly leveraged companies may be an exception to this rule, as they might trade at a lower price compared to their peers due to the perceived higher risk of financial distress and potential constraints to growth.

2.2.2 Income Statement Metrics

The income statement is one of the three critical financial statements that provide a comprehensive overview of a company's financial performance over a specific accounting period. Together with the balance sheet and cash flow statement, it offers a clear picture of a company's financial health. The income statement mainly focuses on the company's

revenue, expenses, gains and losses during the period, and is also referred to as the profit and loss (P&L) statement. By providing essential insights into a company's operations, management efficiency, underperforming sectors and industry performance, an income statement is a crucial tool for financial analysis (Chen, 2023). Below follows some of the metrics within the income statement that are important to analyse for valuing a company.

2.2.2.1 Revenue and Revenue Growth

The income statement of a company usually starts with the revenue or sales generated from the sale of its products and services within a specific period (Pearl & Rosenbaum, 2013). This top line, as it's commonly referred to, plays a crucial role in assessing a firm's competitive position in comparison to its peers. Companies with higher sales volumes typically benefit from advantages such as scale, market share, purchasing power and reduced risk, which can result in a premium valuation from the market when compared to smaller counterparts, all other factors being equal. Therefore, sales figures and their trends are critical indicators of a company's financial health and growth potential.

The amount of which a company annually grows its revenue could have a significant impact on its valuation. Trusculescu et al. (2015) states that it is often more important for young companies to deliver high revenue growth, instead of focusing on profitability. In most industries, profitability becomes more important as the industry matures, according to Trusculescu et al. (2015). However, in the Enterprise Resource Planning (ERP) software segment – which the authors investigate – future expected top-line growth is the most important key operating performance indicator, meaning that top-line growth can remain important as an industry matures.

Also, revenue growth seems to be important for the valuation of loss-making companies. Here, the sum of revenue growth and EBITDA margin could be interesting and expressed as the *Rule of 40*, according to Hottenhuis (2020), as it provides a great summary of two important metrics for early-stage companies. The rule means that the sum of the revenue growth and EBITDA margin should become more than 40%.

2.2.2.2 Gross Profit

Gross profit is the profit a company earns after deducting the cost of goods sold (COGS), which represents the expenses directly related to producing its goods and services, from its revenue (Pearl & Rosenbaum, 2013). It is a critical indicator of the company's pricing power and operational efficiency, demonstrating how effectively it manages its costs. Typically, gross profit is presented as a percentage of sales, known as the gross profit margin, which provides an even more insightful view of the company's financial health. By monitoring the gross profit margin, a company can assess its ability to generate profits

from its operations, which is crucial to sustainable growth and success.

2.2.2.3 EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortisation) is a critical profitability metric that helps gauge a company's operating performance (Pearl & Rosenbaum, 2013). Since it is a non-GAAP financial measure that is typically not reported by public companies, it is commonly derived by adding back the depreciation and amortisation (D&A) to the EBIT (earnings before interest and taxes) or operating income/profit figure as shown on the income statement. EBITDA is a widely used proxy for operating cash flow, as it indicates a firm's total cash operating expenses related to producing its products and services. Additionally, EBITDA is often used as a fair comparison tool among companies in the same industry, as it is not affected by differences in tax regimes (tax expense) or capital structure (interest expense). This makes it easier to compare companies and assess their operational efficiency and profitability.

2.2.2.4 EBIT

EBIT (earnings before interest and taxes) is commonly presented as operating income, operating profit, or income from operations on a firm's income statement (Pearl & Rosenbaum, 2013). Similar to EBITDA, EBIT is not impacted by tax regimes and serves as a useful metric for comparing companies with varying capital structures. However, it is less indicative of operating cash flow than EBITDA because it incorporates non-cash expenses related to depreciation and amortisation (D&A). Moreover, D&A can differ among companies due to discrepancies in capital spending, depreciation policies and acquisition histories.

2.2.2.5 Taxes

Prior to arriving at the net income, tax has to be deducted (Pearl & Rosenbaum, 2013). Therefore, valuing a company based on a net earnings multiple – e.g., price/earnings (P/E) – will be affected by taxes. Higher taxes will – everything else equal – imply lower earnings, meaning a higher price-to-earnings multiple. For a company to keep its multiple-based valuation when affected by increased taxes, the equity value has to decrease, meaning the share price decreases. Summing it up, increased taxes affects valuation negatively.

Another aspect that could affect company valuation negatively is linked to international tax avoidance by multinational firms. Zucman (2022) writes that close to 40% of multinational profits — i.e., profits booked by firms outside their headquarters' country — are being shifted to tax havens. The trends of tax avoidance by multinational firms could affect the firms operating domestically negatively, as these domestic firms will have to pay significantly higher amounts of taxes compared to the tax-avoiding firms.

2.2.2.6 Net Income

Net income, also referred to as earnings or the bottom line, is the residual profit that remains after all of a firm's expenses have been deducted (Pearl & Rosenbaum, 2013). This metric reflects the income available to shareholders once the company has satisfied all its obligations to suppliers, vendors, employees, lenders and other parties. Net income is often evaluated on a per-share basis, which is known as earnings per share (EPS).

2.2.2.7 Profit Margins

Similarly to revenue growth, higher profit margins should – everything else equal – generate higher valuations. Profit margins derived from EBITDA and EBIT are widely recognised metrics for assessing a company's operational profitability. As a result, they are commonly used to compare a company's performance with its peers and across different sectors. These measures provide valuable insights into a company's ability to generate profits from its operations and can be used to evaluate its financial health and sustainability over time. By tracking changes in EBITDA and EBIT margins, investors and analysts can identify trends and patterns in a company's financial performance and make informed decisions about its future prospects (Pearl & Rosenbaum, 2013).

EBITDA and EBIT margins are commonly used metrics in the comparable companies analysis, which is described in section 2.3.2.2. When industry professionals such as investment bankers value companies, the comparable company analysis built on metrics based on profit margins is often a commonly used method. This is because similar companies in the same peer group often have very similar financial and business profiles, making it suitable to value them on a multiple based on a profit margin (Sommer & Wöhrmann, 2013)

Moreover, Mahdi and Khaddafi (2020) conducted a study focusing on net profit margins, operating profit margins and gross profit margins (EBIT margins) of consumer companies listed on the Indonesian Stock Exchange. Their research revealed that EBIT margins, in particular, exerted a significant influence on stock prices. On the other hand, the study found that net profit margins and gross profit margins did not demonstrate a significant impact on stock prices.

2.2.3 Balance Sheet Metrics

The balance sheet provides information about a company's assets, liabilities and shareholder equity at a specific point in time. It is a crucial statement for calculating investors' rates of return and evaluating a company's capital structure. By offering a snapshot of a company's financial position, including equity investments, the balance sheet provides a clear picture of what a company owns and owes. It can be used in combination with other

critical financial statements, such as the income statement and cash flow statement, for fundamental analysis and company valuation (Fernando, 2023a). Below follows some of the metrics within the balance sheet that are important to analyse for valuing a company.

2.2.3.1 Assets

More assets should give a higher value to a company. However, assets not recognised on the balance sheet are not directly disclosed in the equity valuation of the company, and therefore it is often hard to determine the exact value of non-tangible assets that are not recognised on the balance sheet (Azamat et al., 2023). Azamat et al. (2023) performed an analysis of intangible assets on 90 American FMCG companies and found that the majority of the 90 companies were undervalued in terms of the value of intangible assets compared with the fundamental and theoretical value, indicating that not only tangible – but also intangible – assets should increase the value of a company.

2.2.3.2 Liabilities

Liabilities are an integral part of a company's financial structure and refer to the debts or obligations that a company owes or has borrowed. Some common examples of liabilities include loans, mortgages, bonds, deferred revenues, warranties, accrued expenses and accounts payable. These obligations are critical for companies to finance their day-to-day operations, support expansion plans, and facilitate seamless transactions with other businesses. As such, assessing a company's liabilities is crucial for evaluating its financial health and long-term sustainability (Hayes, 2023a). According to Cheng and Tzeng (2011), the impact of liabilities on a firm's value can vary, depending on the ratios between its liabilities, assets and equity, as well as the types of liabilities used for valuation purposes. Hence, it is important to consider these factors when evaluating a company's overall worth.

2.2.3.3 Capital Structure

Another area affecting company valuation is an organisation's capital structure, according to Clark Schaefer Hackett (2012). A company's capital structure discloses how a company funds its overall operations and growth. The funding is split between a mix of capital – debt and equity. Debt refers to money that has been borrowed and must be repaid to the lender, often with the addition of interest charges. Typically, debt includes short-term borrowing, long-term debt and a portion of the principal amount of operating leases and redeemable preferred stock. Equity pertains to the ownership rights in a company, which do not require repayment of the investment. Equity is made up of a company's common and preferred stock plus retained earnings (Tuovila, 2023).

For a stock investor seeking companies with great fundamentals, a strong balance sheet

is important to consider when seeking investment opportunities. The utilisation of debt and equity by a company is a vital measure of a sound balance sheet. A robust capital structure, which reflects minimal debt and substantial equity, is indicative of high-quality investment potential. There are a couple of commonly used ratios for capital structure analysis, including the debt ratio, the debt-to-equity ratio and the long-term debt-to-capitalisation ratio (Loth, 2022).

Also, Loth (2022) writes that there is no single debt-to-equity ratio that can serve as a definitive guide. Determining an appropriate balance of debt and equity is contingent upon several factors, such as the industry, line of business and stage of development of a company. However, given that investors benefit from investing in companies with healthy balance sheets, it is generally advisable to maintain a debt-to-equity ratio that indicates low levels of debt and high levels of equity. On the other hand, Loth (2022) notes that also too little debt can be a cause for concern as well, as it can indicate that a company relies too much on its equity, not making use of its assets to further grow the business. Debt is generally cheaper than equity (Kuligowski, 2023), so a company that relies more heavily on debt financing will have a lower cost of capital than a company that relies more heavily on equity financing. This can result in a higher valuation for the company that uses more debt because it is able to generate more profits for each dollar of investment.

2.2.3.4 Dividends

The dividend yield is a metric that evaluates the yearly dividend income received in comparison to the market value per share of a security. In simpler terms, the formula for calculating the dividend yield determines the portion of a company's share price that is distributed as dividends to its shareholders, expressed as a percentage (CFI, 2021).

Furthermore, CFI (2021) writes that the dividend yield formula calculates the cash flows from owning stocks or shares in a company and indicates the percentage of dividends paid to shareholders for every dollar of stock. The ratio can vary based on factors such as the industry and the company's stage of development. For instance, a rapidly growing company might choose to reinvest earnings to support business growth, while a mature company might report a high yield due to a lower potential for future growth. Consequently, the dividend yield ratio does not solely indicate the quality of a company but serves as a tool for investors to identify stocks that align with their investment strategy.

2.2.4 Cash Flow Analysis Metrics

The cash flow statement tracks a company's cash inflows and outflows from operations and external investment sources. It is intuitive as it includes three main categories: operations, investment and financing, with the net cash flow being the sum of these. By

analysing this statement, investors can determine a company's stock value or overall worth. It provides a comprehensive understanding of a company's success (Hayes, 2023c).

2.2.4.1 Future Cash Flows

Free cash flow (FCF) measures a company's financial performance. It shows the cash that a company can produce after deducting the purchase of assets such as property, equipment and other major investments from its operating cash flow. In other words, FCF measures a company's ability to produce what investors care most about – cash that's available to be distributed in a discretionary way. The free cash flow is calculated by subtracting capital expenditure from operating cash flow. This cash flow is taken before the interest payments to debt holders in order to value the total firm (CFI, 2023). The valuation model based on the free cash flow is described in section 2.3.2.1.

2.3 Company Valuation

According to Hjelström et al. (2022), company valuation could be divided into two main categories – asset-based valuation and profit-based valuation. In this section, an overview of company valuation is presented, focusing on literature about valuation methodologies divided into asset-based valuation and profit-based valuation. The valuation methodologies have different pros and cons – a selection of them is described in the sections below. Due to multiple pros and cons, it is important to note that company valuation rarely is based on one method only, but rather as a summary of multiple valuation methodologies. The last part of this section contains literature on valuation multiples.

2.3.1 Asset-based Valuation

This section contains literature on asset-based valuation.

2.3.1.1 Book Value

The book value method approach involves valuing a company based on its net asset value, which is determined by subtracting total liabilities from total assets as reported in the company's balance sheet. This approach primarily considers tangible assets such as property, equipment and inventory. Book value is useful for determining a company's liquidation value or as a benchmark for comparison. However, it has limitations, particularly for companies with significant intangible assets or those operating in rapidly evolving industries. It may not accurately reflect the market value or future earning potential, making it necessary to complement book value analysis with other valuation methods for a comprehensive assessment of a company's worth (Damodaran, 1994).

2.3.1.2 Liquidation Value

The liquidation value method calculates the value of a company's assets assuming they are sold off in a liquidation scenario. It considers the net amount that would be realised after settling all liabilities and costs associated with the liquidation process. The approach assumes a lower value than other valuation methods, as it disregards the company's ongoing operations and potential future profits. This method provides a conservative estimate and is often used in distressed or bankrupt situations to assess the minimum value that could be obtained from asset sales (Koller et al., 2020).

2.3.1.3 Replacement Cost

The replacement cost approach determines the value of a company by estimating the cost of replacing its assets with equivalent assets at current market prices. It considers the cost of acquiring or building similar assets from scratch. This method does not take into account factors such as depreciation or market demand. It provides a conservative estimate and is commonly used for insurance purposes or when assessing the value of unique or specialised assets (Damodaran, 1994).

2.3.2 Profit-based Valuation

This section contains literature on profit-based valuation.

2.3.2.1 Discounted Cash Flow Analysis

The DCF valuation method estimates the intrinsic value of an investment by calculating the present value of its expected future cash flows. Cash flow projections are made, discounted to their present value using a discount rate, and summed to calculate the net present value (NPV). DCF valuation involves making assumptions and has limitations, so it should be used in conjunction with other methods and market considerations (CFI, 2022).

Theoretically, the DCF is the most precise methodology, as it takes into account the future cash flow generation of the target, using company-specific metrics and numbers. Also, the DCF is not dependent on market fluctuations to the same extent as the other valuation methodologies (CFI, 2022).

2.3.2.2 Comparable Companies Analysis

The comparable companies analysis is based on multiples used to compare a target company with its peers. This is a well-known and easily-used method. It is not time-consuming to the same extent as the DCF. Also, this method is more externally verifiable as it takes into account what other investors are willing to pay for similar companies (Sommer &

Wöhrmann, 2013). However, it is essential (and sometimes difficult) to find relevant peers – a weak set of peers with financial and business profiles differing from the target company will most likely indicate a wrong valuation (Street of Wall, n.d.).

2.3.2.3 Precedent Transactions Analysis

The precedent transactions analysis is a valuation method based on the comparable companies analysis – i.e., the method uses valuation multiples based on equity value or enterprise value. The method looks into what buyers have paid when acquiring companies similar to the target company. This method is trustworthy, as it actually shows how much a buyer has been able to pay to acquire the target. On the other hand, precedent transactions are dependent on the current business climate, which may differ from the investment appetite at the time the transaction was made. Another drawback with this method is that it often values companies higher than trading multiples, as the acquirer tends to pay a premium due to several reasons (Kenton, 2022). First, the acquirer gets control over the company. Second, the acquirer can gain synergies from the transaction, meaning that current shareholders want the bidder to reflect synergy potentials in the bid. Third, for publicly traded companies, the bidder has to pay a premium to convince shareholders to accept the offering.

2.3.3 Valuation Multiples

After the key financial statistics have been compiled, the appropriate trading multiples for comparable companies can be calculated. While some sectors may use specialised or sector-specific valuation multiples, the most commonly used multiples involve a measure of market valuation in the numerator (such as enterprise value or equity value) and a universal measure of financial performance in the denominator (such as EBITDA or net income) (Pearl & Rosenbaum, 2013). In the case of enterprise value multiples, the denominator employs a financial statistic that benefits both debt and equity holders, such as sales, EBITDA, or EBIT. In contrast, for equity value (or share price) multiples, the denominator must be a financial statistic that benefits only equity holders, such as net income (or diluted EPS). In terms of valuation, the valuation multiples presented below are mostly used for the comparable companies analysis, as the other valuation methodologies often are based on future cash flow.

2.3.3.1 Equity Value Multiples

The P/E ratio is a widely used and accepted measure in the world of finance (Pearl & Rosenbaum, 2013). It provides valuable insights into how much investors are willing to pay for a company's earnings and growth potential. However, it is crucial to understand the limitations of this ratio. For instance, the P/E ratio may not be relevant for companies with little or no earnings, and differences in capital structure can affect the accuracy of

the ratio when comparing companies. Accounting discrepancies, such as variations in depreciation or taxes, can also lead to meaningful disparities in P/E ratios among similar companies. Therefore, while the P/E ratio remains a valuable tool for investors, it should be analysed in conjunction with other metrics to gain a more complete understanding of a company's financial health and prospects. It is calculated with the following formula:

$$\text{Equity Value} / \text{Net Income} \quad (2.3)$$

2.3.3.2 Enterprise Value Multiples

To determine a company's value, enterprise value multiples are often used based on unlevered financial metrics since enterprise value takes into account both debt and equity (Pearl & Rosenbaum, 2013). The most common multiples used are EV/EBITDA, EV/EBIT and EV/sales. Similar to P/E ratios, enterprise value multiples typically consider forward estimates and last twelve months (LTM) statistics when assessing a company's valuation.

EV/EBITDA is widely accepted as a standard valuation metric for most industries due to its independence from capital structure, taxes, and potential distortions arising from differences in D&A among companies (Pearl & Rosenbaum, 2013). For example, one company may have invested heavily in new machinery and equipment, leading to higher D&A for the present and future years, while another may have deferred capital expenditures to a future period. Consequently, differences in EBIT margins between the two companies may exist, but such variations would not be reflected in EBITDA margins. Although EV/EBIT is less commonly used than EV/EBITDA due to possible disparities related to acquisition-related amortisation and other factors mentioned earlier, it may be helpful in situations where D&A is unavailable. For instance, it can be used when evaluating divisions of public companies or for firms with significant capital expenditures.

The EV/sales multiple is not as widely used as other valuation metrics, but it is still used to assess a company's valuation (Pearl & Rosenbaum, 2013). Although revenue can indicate a company's size, it may not necessarily translate to profitability or cash flow, which are important value drivers. Therefore, EV/sales is primarily used as a confirmation of the earnings-based multiples discussed above. However, in certain sectors or for companies with little or no earnings, EV/sales may be used as a meaningful reference point for the valuation. For instance, an early-stage technology company that is expanding sales aggressively, but has yet to achieve profitability, may use EV/sales to determine its value.

2.4 Non-traditional Factors That Can Affect Firm Value

This section describes non-traditional factors that can affect firm value – i.e., factors that are not directly related to the financial performance of the firm but are still proven to be

able to affect the valuation of a company.

2.4.1 ESG

ESG, which stands for environmental, social and governance, encompasses three significant areas that companies are expected to address. These topics have gained increased attention from investors due to the pressing global challenges the world faces today, including the climate crisis, growing inequality and the need to balance economic and societal interests. Within the environmental pillar, key topics include greenhouse gas emissions, pollution control, recycling practices, water consumption and responsible land use. The social pillar focuses on how companies manage their relationships with stakeholders, ensuring safety and quality in their products as well as maintaining ethical and sustainable supply chains. Lastly, the governance pillar covers aspects such as safeguarding shareholders' rights, promoting board diversity and establishing fair and transparent executive compensation structures (Splawski & Lukács, 2023). By incorporating ESG principles into firm strategies and reporting, the firm demonstrates its commitment to addressing these critical issues and aligning its business practices with broader societal goals.

Miralles-Quiros et al. (2017) conducted a study to explore how sustainability is valued by investors. They examined 1,650 firms that are part of the Dow Jones Sustainability Index Europe, which consists of European sustainability leaders identified by S&P Global, from 2001 to 2013. The index covers ten major European stock markets including Denmark, Finland, Norway and Sweden. The results of the study reveal that firms that follow ESG principles experience an increase in firm value. However, the relationship between sustainability leadership and firm value varies across different stock markets. Specifically, the authors found that the relationship is particularly strong and statistically significant in the German and Swedish markets. This may be due to the lower corporate social responsibility (CSR) transparency requirements in these markets, which could result in a higher valuation for sustainable leaders. Overall, this study highlights the importance of sustainability for firm value and the potential impact of market-specific factors on this relationship. Yu and Zhao (2015) also investigate the relationship between sustainability and firm value. They analysed a total of 2,544 firms worldwide that are part of the global Dow Jones Sustainability Index, between 1999 and 2011. The authors found that the market rewards firms that exhibit strong environmental, social and governance responsibility with a premium, but this relationship varies across different international markets. Specifically, they found that the relationship is stronger in markets where investor protection is stronger.

Ademi and Klungseth (2022) conducted a study to investigate the relationship between firms' ESG performance and their market valuation (Tobin's Q). Tobin's Q expresses the relationship between market value and intrinsic value, i.e., whether a business is over-

or undervalued. They collected and analysed ESG scores from MSCI for 150 firms belonging to the Standard and Poor's 500 (S&P 500) index between 2017 and 2020. Their findings indicate that firms with superior ESG performance are valued higher in the market compared to their industry peers. The study also suggests that these firms demonstrate superior financial performance, as measured by return on capital employed (ROCE). The results of the study are particularly relevant given that they cover the period of the Covid-19 pandemic, and they support the theory that ESG-financial performance is also positive during turbulent economic times. Overall, the study provides valuable insights into the benefits of prioritising ESG performance and highlights the potential for firms to achieve superior financial and market performance by adopting sustainable business practices.

Arnou and Hammarstedt (2021) also conducted a study to investigate the relationship between ESG performance and financial performance in Denmark, Finland, Norway and Sweden. They analysed 244 large-cap firms listed on major Nordic stock exchanges between 2011 and 2020, using firm-specific ESG scores obtained from the Refinitiv Eikon database. Their findings revealed a positive relationship between ESG scores and financial performance, with higher ESG scores resulting in a lower cost of equity. This suggests that sustainable businesses can obtain cheaper financing compared to non-sustainable firms. Moreover, the authors found a positive relationship between ESG scores and valuation multiples in terms of price-to-equity and price-to-book ratios. The study also examined the stock returns of firms during crises, finding a significant relationship between excess return and sustainability performance. This indicates that firms with higher sustainability performance act as a "safe haven" for investors seeking stability and security.

An additional study around ESG relevance is the one written by Kirkerud and Tran (2019). It investigates the value relevance of ESG performance for stock prices in Europe. The conclusion drawn is that a high ESG score affects stock prices positively. Their results suggest that the relationship between a high ESG score and stock prices is stronger within environmentally sensitive industries.

2.4.1.1 Environmental Factors

Al-Najjar and Anfimiadou (2012) conducted a study to investigate the relationship between environmental and financial performance. Their analysis builds upon previous research, which indicates a positive association between the two. They focused on 201 firms listed on the London Stock Exchange, where 94 of them were classified as eco-efficient. The study covers the period between 1999 and 2008. The findings reveal a strong relationship between firm valuation and eco-efficiency. Moreover, the authors found that eco-efficient firms with ISO 14001 certification, which is an external environmental certification, and firms that publish a CSR report are valued even higher than eco-efficient firms that participate in the Business in the Environment (BiE) and the FTSE4Good envi-

ronmental indices. This suggests that external environmental certifications and the publication of CSR reports can signal a firm's commitment to sustainability, which investors value.

Bose et al. (2022) conducted a study that examined the impact of the Covid-19 pandemic on firm value. The authors analysed data from 4,278 firms in 47 countries including Denmark, Finland, Norway and Sweden, which were covered by the Refinitiv Eikon ESG database for 2019 and 2020. Their findings indicate that the pandemic had a significant negative impact on firms' value, but this impact was lower for firms with higher sustainability performance. Moreover, the study suggests that firms in countries with higher levels of stakeholder- and environmental-value-oriented cultures were also impacted less negatively by Covid-19. These results highlight the importance of sustainability and stakeholder engagement in building resilience and mitigating risks during times of crisis. The study provides valuable insights into the relationship between sustainability and firm value in the context of a global crisis and underscores the need for firms to prioritise sustainability practices to ensure long-term success.

In conclusion, it is essential for firms to consider environmental factors as they can significantly impact both firm value and stakeholders' perception of the company. Environmental considerations have become increasingly important in today's business landscape due to the potential consequences they can have on various aspects of a company's operations.

2.4.1.2 Social Factors

Graham et al. (2022) conducted a survey of 1,348 corporate executives in North America. The study found that culture is highly valued among executives, with 91% of them considering it important for their firms. Additionally, 79% of the executives ranked culture among the top drivers of value for their companies. The study also revealed that 54% of the executives would reject an acquisition target if it had a poor cultural fit, while 33% would only consider it if the purchase price was discounted by 10% to 30%.

Edmans (2012) investigated the Fortune list of the 100 Best Companies to Work For in America and found that these companies generated 2.3% to 3.8% higher stock returns per year than their peers from 1984 through 2011. According to the author, the results are consistent with human resource management theories that job satisfaction increases the firm value. Edmans (2012) also reaches the conclusion that corporate social responsibility can increase firm value and that the stock market does not fully value intangible assets.

The study by Jo and Harjoto (2011) examines the relationship between CSR engagement and firm value as measured by Tobin's Q. The results indicate a positive association between CSR engagement and firm value. In a similar vein, Harjoto and Laksmana (2018)

explore the impact of CSR on firm value and identify an indirect positive relationship. Specifically, they suggest that CSR engagement can lead to a reduction in excessive risk-taking and risk avoidance, which in turn contributes to an increase in firm value.

To sum it up, social factors such as culture, job satisfaction and CSR engagement are important for firm value as they are highly valued by executives, ranked among the top drivers of value and have been associated with higher stock returns as well as a reduction in risk-taking.

2.4.1.3 Governance Factors

Ownership

Mi Choi et al. (2012) conducted a study to examine how foreign owners and foreign board members impact firm value, utilising data from the KOSPI200 index in Korea between 2004 and 2007. Their findings indicated that foreign blockholders provide independent monitoring over management. The study revealed an inverted U-shaped correlation between foreign ownership and value enhancement, which suggests that foreign ownership can enhance firm value when it is not too concentrated, but may have a negative effect on firm value if foreign ownership becomes too high.

In a study conducted by Hamberg et al. (2013), 375 firms listed on the Nasdaq OMX Stockholm stock exchange between 2001 and 2010 were analysed to explore the link between founding-family ownership and firm performance, measured by return on net operating assets and value, measured by Tobin's Q. The study found that higher levels of founding-family ownership are associated with increased shareholder value and firm performance. Specifically, firms with more than 60 percent of founding-family ownership showed the greatest improvement in firm performance. The authors suggest that this positive relationship could be attributed to the fact that founding family owners are better equipped to mitigate agency problems between managers and shareholders. The founders' intimate knowledge of the company and successful investments in it may enable them to better align the interests of all stakeholders. According to the authors, these findings are also consistent with earlier research that indicates that majority stakeholders in Sweden do not exploit the benefits of minority shareholders through corporate takeovers.

In 2001, Mishra et al. (2001) conducted a study on 120 non-financial companies listed on the Oslo Stock Exchange as of the end of 1996. The authors classified the firms as either controlled by founding families (53 firms) or non-founding families (67 firms). For a firm to be classified as family-controlled, they looked for the following criteria: 1) the CEO is among the founding family or a relative of the family, 2) the family ownership percentage is at least 10%, or 3) the board includes members of the founding family. The authors confirmed earlier research that family control positively impacts a firm's value.

Additionally, they found that this effect was particularly strong for smaller firms, those with smaller boards, and younger firms where the CEO was among the founding family or a relative. However, they noted that the positive effect weakened when multiple share classes were present.

Lindrud and Valavanis (2015) conducted a study on 73 industrial firms listed on the Nasdaq OMX Stockholm stock exchange between 2009 and 2013 to examine how CEO equity ownership affects firm value. They discovered that CEO ownership has a positive influence on firm value for R&D-conducting firms, which are generally riskier in nature. In such situations, CEO ownership is viewed as a sign of trust in the business, and it has a beneficial effect on firm value. However, they did not find a substantial correlation between CEO ownership and firm value for the overall industrial sector. The authors proposed that CEO ownership is less significant in Sweden than in markets with less concentrated ownership, except in cases where the firms engage in R&D.

Institutional owners, such as pension funds, insurance companies, investment firms, private foundations, endowments and other large organisations that manage funds on behalf of others, are known to have a significant impact on the valuation of listed firms (Kenton, 2021a; Curtis, 2022). The authors explain that institutional investors typically purchase stocks only after conducting extensive and costly research, which gives their ownership a high level of influence on valuation. They are often seen as long-term investors who positively affect the firm's value. However, when institutional investors sell their ownership, the stock price may drop.

Osagie et al. (2005) investigated the relationship between institutional ownership and stock returns by analysing data from a sample of firms. They found that a higher percentage of institutional ownership resulted in a higher stock price. Their results were more indicative of large-cap stocks rather than small-cap stocks. The authors' findings were in line with earlier research indicating a positive relationship between institutional ownership and stock returns.

Summing it up, ownership is important as foreign owners, higher levels of founding-family ownership, CEO ownership and percentage of institutional ownership have a positive impact on firm value.

Board of Directors

Numerous studies have explored the relationship between a company's board of directors and its valuation. For instance, Burt et al. (2018) examined the extent to which directors can impact firm value. Their research indicated that a director's influence on average results in a 0.92% annual change in a firm's value, with the return commonality not attributed to industry or other observable economic connections. The researchers also found

that firms with shared directors have correlated performance. To simplify, their research method exploits the commonality in news across firms which share directors between 1996 and 2015. If directors matter in the sense of influencing their firms, then when a director is seated on two boards, the comovement of those firms' stock should increase.

Yermack's (1996) study examined 452 large U.S. industrial companies between 1984 and 1991 to explore the connection between board size and firm value. Yermack noted that previous research indicated that larger boards could result in poor communication and decision-making, thereby diminishing their effectiveness. As a result, larger boards were linked to lower firm value. Yermack's own research found that the negative correlation between board size and firm value was particularly pronounced for boards that grew from small to medium-sized boards. With a similar loss in value was observed when boards grew from six to twelve members and twelve to 24 members. Specifically, as board size increased, profitability and operating efficiency tended to decline. Even CEO performance, through CEO compensation and the threat of dismissal, seems to be more difficult to increase as the board grows larger. Yermack's findings were consistent across various factors, including company size, industry affiliation, insider stock ownership, growth prospects and alternative corporate governance structures, indicating the robustness of the results.

The correlation between the size of a company's board and its stock market performance is confirmed by other researchers. According to Yermack's (1996) analysis of ten cases where board size either decreased or increased by four members, the stock market tends to react negatively to significant board size growth and positively to significant board size reduction. Yermack found that the average stock market reaction was 2.5%, with a statistically significant range between 2% and 6%.

Oxelheim and Randøy (2003) examined how the presence of North American (foreign) board members affects firm value in 225 Norwegian and Swedish traded companies between 1996 and 1998. They used the market value of the firm to the book value of total assets ratio, which is an approximation of Tobin's Q measurement, to assess firm value. The authors discovered that North-American board members can enhance firm value by improving the company's international orientation and globalisation. Having international board members is a valuable signal of the firm's openness to foreign investors and dedication to corporate transparency. The study found that the positive impact of international board members is more pronounced in larger firms (with a market capitalisation of more than SEK 1bn) and older firms (with over 30 years of experience) in industries such as manufacturing, IT and telecom, and media and publishing.

Mi Choi et al. (2012) further demonstrate that foreign outside directors can improve

firm value by enhancing board independence and expertise when foreign ownership is limited. This indicates the firm's willingness to break managerial ties with controlling shareholders, leading to higher firm value. Nevertheless, the benefits of foreign outside directors are reduced if they represent the private interests of foreign investors. Lastly, the study underscores the importance of board independence as a vital condition for foreign outside directors to effectively oversee management and boost firm value.

The relationship between board diversity and shareholder value creation is a vital component of corporate governance. Carter et al. (2003) investigated this relationship in their study, where they examined the association between corporate governance, board diversity and firm value for Fortune 1,000 firms. Board diversity was defined as the percentage of women, African Americans, Asians, Hispanics and other minorities on the board of directors. The study found a significant positive relationship between the presence of women or minorities on the board and firm value, by measuring Tobin's Q. Even after controlling for size, industry and other corporate governance measures, this relationship remained statistically significant.

Quereshi et al. (2020) also examined the impact of board diversity, specifically the percentage of women, on firm value. Their analysis included 812 listed firms from 22 European countries, and they found a significant positive relationship between the representation of women on boards and firm value. The authors noted that their findings are consistent with previous research that suggests that women's representation on boards enhances corporate monitoring and strengthens a firm's reputation.

Isidro and Sobral (2015) present a different perspective, as they report no direct evidence of a positive relationship between women's representation on boards and firm value for European firms. However, their study does find indirect effects of women's representation on boards, such as a positive association with financial performance in terms of return on assets and return on sales. The authors also found a positive relationship between women's representation on boards and ethical and social compliance, which in turn was associated with higher firm value.

An additional study conducted by Thorsell and Isaksson (2014) researched 122 initial public offerings (IPOs) on the Swedish Stock Exchange from 1996 to 2006. Their research focused on the correlation between the experience of directors and the subsequent performance of IPOs in the aftermarket. Their findings indicated that, in Sweden, the prior experience of directors has a comparatively lesser impact on the long-term aftermarket performance of IPOs compared to other countries that were addressed in their literature review.

To conclude, the board of directors is important to consider as firms with shared directors, smaller board sizes, foreign board members, experienced board members and board diversity typically experience increased valuations.

CEO and Management

Nguyen et al. (2017) investigate a sample of 2,702 Australian firms over the period 2001 to 2011 to find the effects CEO characteristics have on firm performance and value.

The relationship between a CEO's age and firm performance has been a subject of debate in management studies. Although older managers can bring valuable experience to improve the firm's operations, they often exhibit risk aversion and resist change. In contrast, younger managers are more inclined to challenge the status quo and drive growth in their organisations. Studies indicate that as retirement approaches, older CEOs tend to focus on less risky, short-term projects, potentially hurting the firm's long-term growth prospects. Furthermore, companies with older CEOs are linked to lower stock return volatility due to their conservative investment policies. The fact that a shift from a younger CEO to an older one is often met with negative market reactions further supports the notion that CEO age can adversely impact a firm's long-term performance and valuation. The relationship does not either seem to vary across mature and high-growth firms (Nguyen et al., 2017).

Nguyen et al. (2017) also explore the link between CEOs' tenures and firm value. They show that previous research indicates that CEOs with lengthier tenures may have a preference for maintaining the status quo, which can have an adverse impact on how well the firm's environment, organisational structure and strategy are aligned. This misalignment has been shown to negatively affect several financial performance measures, leading to the conclusion that having a CEO with a longer tenure can harm the company's performance. Additionally, longer CEO tenure can result in the CEO becoming firmly entrenched in their position, which could decrease the chances of them being held accountable for poor performance due to their close relationships with board members. Consequently, it is proposed that there is a negative correlation between CEO tenure and firm valuation. However, the negative effects of CEO tenure seem to be more notable in high-growth firms and rapidly changing industries rather than in mature firms and stable industries.

The effect of CEO duality, i.e. the CEO of a company also serves as the chairman of the board of directors, on firm performance and value is also investigated by Nguyen et al. (2017) who state that the literature is mixed. Their own research shows that there is a positive relationship between CEO duality and firm performance, particularly in high-growth firms. They believe that this relationship is because CEO duality leads to quick decision-making, which is crucial in growing industries.

Regarding CEO compensation, Kazan's (2016) study suggests a weak and non-significant

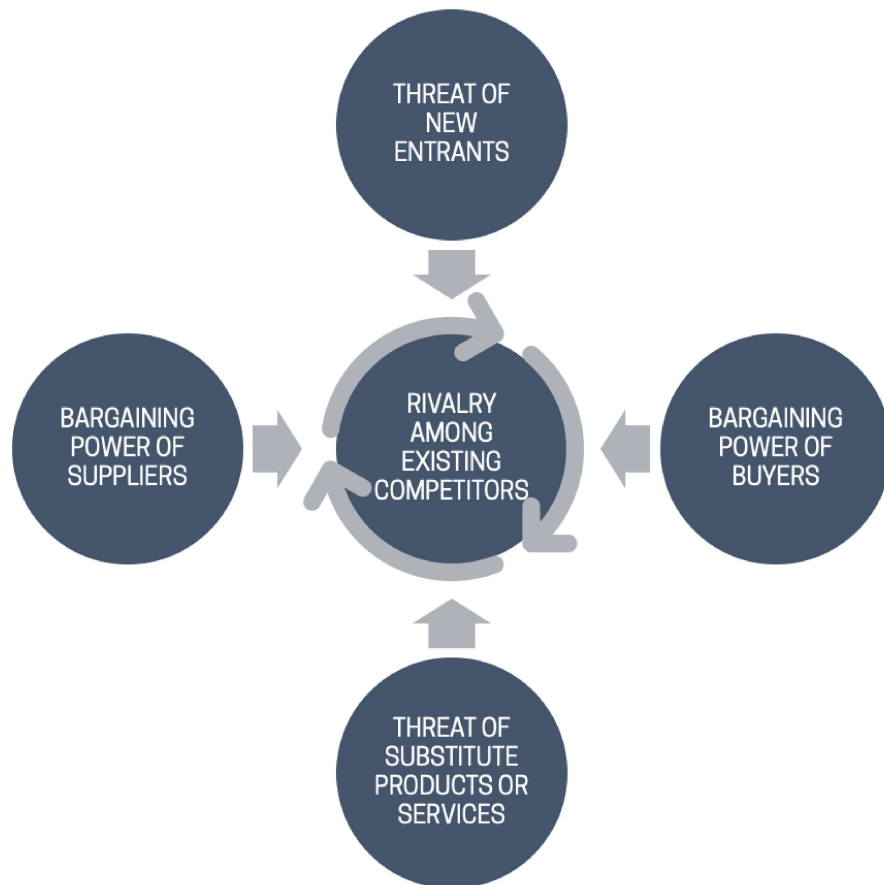
negative relationship with firm performance. The study focused on 45 Scandinavian firms that were listed on the Forbes Global 2,000 List of 2016. Kazan's findings are consistent with those of several previous studies that have also found a limited impact of CEO compensation on firm performance.

To summarise, CEO and management are important since characteristics such as age, tenure, duality and compensation can impact firm value.

2.4.2 Competition

Another interesting aspect potentially affecting firm value could be competition. According to Porter (2008), The Five Forces model – developed by himself in 1979 – is a framework (see Figure 2.1) that helps to understand the competitive dynamics that exist within an industry, driving the distribution of economic value among industry players. According to the framework, three out of five central forces are connected to competition – *Threat of New Entrants*, *Threat of Substitute Products or Services* and *Rivalry Among Existing Competitors*.

Figure 2.1: Porter’s Five Forces



Comment: Porter’s Five Forces is a framework that assesses industry competitiveness by examining the influence of five key factors: supplier power, buyer power, competitive rivalry, threat of substitutes and threat of new entrants.

The force of new entrants in a market influences the power of a company. When it takes fewer resources, both in terms of time and money, for a new competitor to enter and be-

come an effective player in the market, the position of an established company is more susceptible to being weakened significantly. On the other hand, industries with robust barriers to entry offer an advantage to existing companies within that industry, enabling them to charge higher prices and negotiate better terms (Porter, 2008)

The presence of substitute goods or services that can be used in place of a company's offerings presents a potential threat. Companies that offer products or services with no suitable substitutes tend to have more leverage in increasing prices and securing favourable terms. However, when substitutes exist, customers may choose to purchase the competitor's product, resulting in a weaker position for the company (Porter, 2008).

Rivalry Among Existing Competitors refers to the amount and competitiveness of rivals that a company faces. A company's power is diminished when it faces more competitors offering similar products or services (Porter, 2008).

The literature is unambiguous when determining how the amount of competition a company faces affects firm value. In her article, where Vieira (2017) investigates the relationship between industries' competitiveness and investments' riskiness on U.S. firms, the author finds that how market competition affects a company's valuation is simple. She states that increased competition in the market leads to a decline in firm value, as it reduces the operating margins of firms in the present, as well as their potential for future growth.

The findings from Vieira (2017) are consistent with the ones from Wijayanto et al. (2019), who investigate and elucidate the impact of competitive advantage on the financial performance and overall value of 30 manufacturing firms operating in Indonesia. Their findings indicate that competitive advantage has a significant and beneficial impact on both financial performance and firm value in a positive manner. Additionally, the results suggest that financial performance – which in many aspects is determined by competitive advantage, according to the authors – plays a significant role in determining firm value.

Competition is important for firm value because factors such as the threat of new entrants, the threat of substitute products or services and rivalry among existing competitors significantly impact a company's position and valuation, with increased competition leading to a decline in firm value, while competitive advantage positively affects financial performance and overall firm value.

2.4.3 Price Increases and Cost Savings

Moving on from competition, financial aspects in terms of price increases and cost savings could attract investors. McKinsey (2022) explores the strategies businesses can adopt to

navigate inflationary pressures, including the option of increasing prices. When executed effectively, price increases can not only bolster customer relationships but also improve profit margins. However, if implemented poorly, they have the potential to strain customer relations, dampen sales and erode margins. Particularly during periods of elevated inflation, businesses may find it necessary to raise prices in order to maintain their margins because of rising costs. By proactively addressing customers' pain points and cost challenges, businesses can forge new partnerships and enhance customer satisfaction.

Furthermore, Shawn (2021) emphasises the importance of timing and strategy when implementing price increases to minimise customer loss. The author highlights that price adjustments often occur when businesses face cost increases, supply chain constraints and labour shortages. However, being the first among competitors to raise prices can be challenging, as there is a risk of losing customers to other competitors if they do not raise their prices. Consequently, the timing and strategy of price increases play a crucial role in the firm's success.

Kenton (2021b) explains that cost-cutting measures are commonly adopted to enhance profitability, particularly during periods of financial distress or economic downturns. These initiatives often involve various actions, such as workforce reductions, facility closures, office downsizing, supplier changes or supply chain streamlining. However, the author emphasises the importance of striking a balance and not excessively reducing costs, as this could leave the company ill-prepared to meet increased demand. Therefore, careful consideration is necessary when implementing cost-cutting strategies to ensure adequate preparation for future growth while effectively reducing unnecessary expenses.

Price increases and cost savings are important for firm value as effectively executed price increases can enhance profit margins and customer relationships, while strategic cost-cutting measures can improve profitability during financial distress or downturns, but it is crucial to balance cost reductions and price increases to avoid compromising future growth.

2.4.4 M&A Activity

Mergers and acquisitions (M&A) make up another area that dramatically could boost a company's revenue and profits, ultimately increasing the valuation. M&A is the term used to describe the consolidation of companies or their major business assets through financial transactions. M&A activities involve one company purchasing and absorbing another company entirely, merging with it to form a new company, acquiring some or all of its significant assets, making a tender offer for its stock or attempting a hostile takeover (Hayes, 2023b). According to Hayes (2023b), there are three main reasons for executing an M&A agenda. First, in the face of competition, companies often seek to reduce

costs and simultaneously foster innovation. One way to accomplish this is through the acquisition of competing firms, which can eliminate the threat of competition. Second, M&As also enable companies to expand their operations by acquiring new product lines, intellectual property, human capital and customer bases. Third, companies may aim to achieve synergies through the combination of business activities, resulting in improved overall performance and efficiency, as well as reduced costs as each company leverages the strengths of the other.

Whether M&A is value-creating or not depends on multiple factors, according to the literature. Sloan (2021) writes in his report about how M&A can create value. From studying global companies in all industries from 2015 to 2019, he finds that there is a strong, positive correlation between an active M&A agenda and growth in enterprise value as well as total shareholder returns. In order to maximise the M&A value, acquirers have to spend disciplined diligence on costs and synergies, as well as a detailed integration strategy. In simple terms, the analysis of Sloan (2021) suggests that companies that engage in more acquisitions tend to create more value. Surprisingly, companies that did not make any acquisitions saw little to no growth in their enterprise value and total shareholder return, whereas those that engaged in limited M&A activity (between one to five companies) experienced growth in enterprise value and total shareholder return of nearly five times higher than non-acquiring companies. As the number of acquisitions made increases, for every five additional acquisitions, the growth in enterprise value and total shareholder return increased by approximately five percent.

According to Sloan (2021), the technology sector had the greatest impact on enterprise value and total shareholder returns from an active M&A agenda, followed by sectors including healthcare, industrials and consumer goods. Regarding geography, the Americas and Europe saw the greatest positive M&A impact.

However, even if M&A could be a value-creating activity in many cases, there is literature showing that the opposite often occurs. Fernandes (2019) writes in his book about how M&A cost companies billions. He states that – according to history – 60% to 70% of mergers globally fail and will therefore destroy shareholder value rather than create it. He lists five main reasons for a failed deal – valuation, lack of synergies and risks assessment, rationally and objectively evaluated pros and cons of the transaction, lack of mechanisms triggering termination of bad deals as well as successful post-merger integrations.

To sum the M&A area up, it is possible to draw the conclusion that M&A is a complex process that can be both value-creating and value-destroying, highly depending on unique circumstances.

2.4.5 M&A Rumours

There are not only closed M&A deals that could affect firm value but also rumours of M&A activity. According to Chou et al. (2010), financial rumours spread through channels like word of mouth or chat forums, have the potential to skew share prices, causing firms to deviate from their fundamental value. The authors' findings indicate that trading based on M&A rumours can yield profitable outcomes, thereby contradicting the theory of capital market efficiency. However, Strych (2022) highlights that previous literature presents mixed results concerning market efficiency when considering the impact of M&A rumours.

Furthermore, both Chou et al. (2010) and Strych (2022) agree that M&A rumours often result in share price increases and impact firm value. As an investor, it becomes important to closely monitor financial rumours, including those related to M&A activities, as they may offer insights into the factors contributing to higher or lower valuations among companies in the same industry or sector.

M&A rumours are important for firm value as they have the potential to skew share prices and therefore deviate firms from their fundamental value, highlighting the need for investors to monitor and assess the implications of such rumours on company valuations.

2.4.6 Insider Trading

Insider trading is another phenomenon often affecting firm value. The act of trading a company's securities by insiders who possess confidential or material non-public information is known as insider trading. Utilising this confidential information is regarded as a violation of the insider's fiduciary duty. In general and in most countries, companies have to report any securities trading conducted by corporate officers, directors, or other members with access to confidential information. According to most countries' law, individuals who qualify as insiders include a company's officers, directors, or someone controlling at least 10% of a company's equity securities. It is often a criminal offence for these insiders to utilise non-public information, considering it fraudulent and a breach of the insider's fiduciary duty to the company (LLI, 2023). However, there are periods of time when insiders are allowed to trade – these periods are called open windows (U.S. SEC, 2015).

According to the article written by Veenman (2012) studying American companies, there is a clear correlation between insider purchase filings and market reactions. He states that firms with lower quality accruals (higher information uncertainty) tend to exhibit more positive market reactions when insiders purchase stocks. Information uncertainty in this context is defined by a lack of clarity about a company's value, caused by imprecise earn-

ings.

Another article written by Karlsson & Rosensand (2019) gathers information about how stocks listed in Sweden react to insider trading announcements. First, for insider purchases, the authors find significant cumulative average abnormal returns (CAR) on the day of the announcement. The findings indicate that an announcement of insider purchases typically leads to immediate positive abnormal returns, which is also confirmed in the research done by Fidrmuc et al. (2006), Betzer & Tehissen (2009) as well as Dardas and Güttler (2011). According to Jeng et al. (2003), the positive market reactions indicate that outside investors appreciate information about insider purchases because investors presume that insiders who buy have a better understanding of the near- and long-term developments within their own company.

Similarly, Karlsson & Rosensand (2019) find that insider sales lead to significant negative CARs on the day of the announcement, which is in line with the research by Fidrmuc et al. (2006), Betzer & Tehissen (2009) and Dardas & Güttler (2011).

Furthermore, Karlsson & Rosensand (2019) find that on the day of the announcement, cumulative abnormal returns (CARs) of 1.9% for purchases and -1.6% for sales for smaller firms are observed, and CARs of 0.66% for purchases and -0.48% for sales for larger firms. Their findings suggest that there are significant variations in CAR between larger and smaller firms. Therefore, it can be inferred that insider transactions have a stronger signaling effect on smaller firms compared to larger ones.

To sum up, insider trading is important for firm value as it often has a significant impact on stock movements, with insider purchases usually leading to positive abnormal returns and insider sales usually leading to negative abnormal returns, with greater effects observed in smaller firms compared to larger ones.

2.4.7 Regulations

In addition to insider trading, another broader area connected to regulatory concerns is general governmental regulations. According to Davis (2022), government regulations play a significant role in shaping the business landscape, with some companies benefiting from them while others may not. It is not uncommon for companies to express concerns that regulations can adversely impact profits, economic efficiency and job creation. As a result, many businesses have sought loopholes, relocated operations overseas, or even violated antitrust laws. Governments, on the other hand, can support businesses through financial aid, advisory services and other forms of assistance, or they may prioritise consumer and worker protection. For instance, companies that align their operations effectively with new regulations can potentially gain a competitive advantage over their

rivals.

2.4.8 Customer Concentration

An additional aspect that potentially could impact the valuation of a company is customer concentration. Customer concentration refers to a situation where a business relies heavily on a limited number of customers or clients, typically when a single customer accounts for 10% or more of the total revenue, or when the largest five customers account for 25% or more of the revenue. In such cases, the business becomes vulnerable to revenue fluctuations and even a slight decline in revenue, between 10% and 25%, can push the business from a profitable state to a situation where it is no longer breaking even, thereby risking its survival (Bloom, 2023). Regarding customer concentration, the literature points to more than one conclusion when discussing how customer concentration affects company valuation.

Bloom (2023) states that when a business has a concentrated customer base, the risk is heightened for its owners, stakeholders and prospective buyers who evaluate businesses based on the risks associated with their cash flows. For a buyer to invest in such a business, they may require a higher rate of return, which typically translates to a lower purchase price. To maximise the sale price of the business, it is desirable to expand and diversify the customer base as much as possible before initiating a transaction.

On the other hand, Patataoukas (2011) draws a conclusion based on the opposite of the findings from Bloom (2023). The article written by Patataoukas (2011) has documented a positive correlation between customer concentration and accounting rates of return, indicating that companies with a concentrated customer base tend to benefit from increased efficiencies. His analysis indicates that customer concentration increases efficiency gains in the form of reduced operating expenses per unit of sales, as well as enhanced asset utilisation, ultimately leading to a higher valuation. Furthermore, through stock return analyses, Patataoukas (2011) has discovered that investors tend to underestimate the significance of changes in customer-base concentration and its impact on future firm fundamentals when determining stock prices. By capitalising on this underestimation, a trading strategy can be developed that generates abnormal stock returns over the 30-year period studied.

Summarising the customer concentration aspect on firm value, it is safe to say that the customer concentration's impact could be both decreased and increased valuations. A too narrow customer base seems to be of high risk for the management and in terms of valuation, while an efficiently treated high customer concentration could lead to cost savings in terms of economies of scale, eventually leading to higher valuations.

2.4.9 Brand Awareness

Another aspect that has the potential to impact firm value is brand awareness. The term refers to the level of recognition consumers have of a product based on its name. It is desirable for consumers to associate positive attributes that differentiate the product from its competitors with the brand (Kopp, 2022).

The article written by Koh et al. (2009) examines the influence of brand recognition and brand reputation on the value and accounting performance of American multinational restaurant companies while accounting for the extent of their internationalisation. The author's findings yielded a positive impact on brand reputation, meaning that brand reputation positively impacted company valuation. As per the results, the effectiveness of CSR activities on a restaurant company's value performance increases with the level of engagement in such activities. This could be because engaging in CSR activities offers more advantages than drawbacks to restaurant companies, thereby improving their overall value. For instance, adopting practices like hiring a diverse workforce or using eco-friendly alternatives to plastic cups, which are considered CSR initiatives, may not necessarily raise costs for restaurants. Such actions can boost the company's brand reputation, which, in turn, could be linked to a higher firm value (Koh et al., 2009).

Another article further confirming the research by Koh et al. (2009) is the one written by Black et al. (2000). This study's findings confirm prior research which suggests that intangible assets (e.g., brand awareness) generated internally, which are not currently acknowledged as assets, contribute to a company's value and are therefore perceived as assets by investors. The authors provide evidence of the market's ability to value invisible intangible assets, such as goodwill.

To sum it up, brand awareness is important to consider for investors as brand reputation and engagement in CSR activities typically contribute to higher firm value.

2.4.10 Shareholder-directed Company News

Shareholder-directed company news could also affect firm value. Firms are legally required to be transparent and disclose any significant news that may affect their stock prices. In a study by Feuerriegel et al. (2016), around 500 German companies' news releases between 2004 and 2011 were analysed to determine how financial news topics impact stock prices. The 7645 news announcements were split into 40 topics where the authors found that the 6 news topics: technology development, renewable energy, drug testing, medical research, Baltic branches and entertainment usually resulted in positive market reactions. However, news related to the topic of future company development tended to have a negative market impact. Additionally, the study found that much of the

news examined had already been factored into stock prices.

2.4.10.1 Profit Warnings

A specific shareholder-directed company news is a profit warning, which is an announcement made by a company to inform shareholders and the public that its earnings results are expected to fall short of analyst expectations. Typically, a company issues a profit warning in advance of its official earnings results (Chen, 2018). EY Parthenon (2023) has been tracking profit warnings issued by UK firms for 15 years and has found a negative relationship between profit warnings and share prices. For example, in 2022, 305 profit warnings were issued, and the median share price movement was a decrease of 15.3%. This indicates that profit warnings can have a significant impact on a company's stock price and should be carefully considered by investors.

2.4.11 Share Buy-Backs

Share buy-backs make up another area affecting firm value. In Banton's (2023) study, a share buy-back or repurchase is defined as a process in which a company purchases its own shares from the stock market. This move is typically executed when company management perceives that the shares are undervalued. By engaging in a share buy-back, the company reduces its total assets, resulting in enhanced performance metrics such as return on assets and return on equity. Furthermore, by decreasing the number of shares available in the market, the company can accelerate the growth of earnings per share (EPS) as revenue and cash flow increase. If the company maintains a consistent total dividend payout to shareholders while simultaneously reducing the number of shares, each shareholder receives a larger dividend payment. Additionally, in the event of earnings growth and an increased dividend payout, reducing the total number of shares outstanding can amplify dividend growth even further.

Manconi et al. (2019) conducted a study on buy-backs in 31 countries outside the US, revealing a significant positive relationship between share repurchases and excess returns in both the short and long term. Likewise, Lewis and White's (2021) study of over 17,000 U.S. companies found that share buy-backs had a substantial positive influence on stock liquidity and reduced volatility.

Summarising share buy-backs, it is obvious that it is important for firm value as they can enhance performance metrics, increase dividend payments to shareholders, stock liquidity and reduce volatility.

2.4.12 Online Retailing

Moving on to online retailing, the study by Hargrave (2021) explores the advantages and disadvantages of online retailing, highlighting both the positive and negative aspects. One of the key advantages is the lower infrastructure costs associated with online retail, enabling faster movement of products and providing access to a wider customer base. Additionally, online retailing offers the opportunity to streamline operations and reduce staffing needs. Leveraging data analytics is another benefit that online retailers can capitalise on. Furthermore, the integration of physical and online stores allows for the closure of unprofitable stores while maintaining profitable ones. On the other hand, there are also some drawbacks to consider. Building and maintaining an e-commerce website can be costly, shipping expenses can be large and handling online returns can be a costly process for retailers. Another limitation of online retailing is the absence of the physical touch and try experience for customers, which can impact their purchasing decisions. It is important to note that online retailing can have varying effects on firm value, both positive and negative, depending on the specific circumstances and implementation strategies employed by the company.

2.4.13 Intellectual Property

The aspect of intellectual property could also affect firm value. The definition of intellectual capital refers to a distinct collection of intangible assets that provide a company with a competitive edge in a particular market. Unlike financial capital, which is quantifiable and physical, intellectual capital comprises intangible resources. These resources include the knowledge and skills of individual team members, research and innovation capabilities, organisational structure, information systems and training (Wool, 2022).

The article by Chen et al. (2005) uses regression models to investigate the relationship between intellectual capital and firms' current as well as future financial performance. The findings provide evidence in favour of the proposition that a company's intellectual capital has a favourable effect on its market valuation and financial performance, and could serve as a potential predictor of future financial performance. Based on their study, there is empirical evidence to suggest that investors assign a greater value to companies exhibiting superior intellectual capital efficiency. Moreover, firms demonstrating better intellectual capital efficiency experience higher profitability and revenue growth not only in the current year but also in the subsequent year. These findings highlight the significance of intellectual capital in bolstering a company's profitability and revenue growth, eventually and ultimately leading to higher valuations.

Another study investigating the spectrum of intellectual property is the one written by Gamayuni (2015) on the effect of intangible assets on firm value. This study looks

at going-public companies in Indonesia from 2007 to 2009. One conclusion drawn by Gamayuni (2015) is that the cause of the significant difference between book value equity and market value equity is connected to financial statements' limitations in measuring and disclosing intangible assets. Therefore, intellectual capital may have a significant impact on firm value. The author also refers to another article written by McClure (2009) on American companies. This study states that the current book value of 3,500 American companies was only 28% of market value – the same metric was 95% in 1975 – and that it has been a dramatic increase in the value of intangible assets during the last 20 years, further indicating the importance of intellectual property for company valuation.

Concludingly, intellectual property is important for firm value as it has a positive effect on financial performance and serves as a predictor of future financial performance.

2.4.14 Analyst Recommendations

Another external factor potentially affecting firm value is the recommendation given by equity research analysts. Financial sell-side equity analysts provide valuable insights to their clients by publishing research reports and investment recommendations on various stocks. To start their coverage of a stock, analysts often publish an initiating coverage report and subsequently update their research on quarterly earnings, annual earnings or when specific firm-related events occur. The analysts carry out extensive research on the business model, financial performance, valuation, financial estimates and other aspects of the firm. The investment recommendations typically advise whether to "buy", "hold", or "sell" a particular stock (Hayes, 2022).

Loh and Stulz (2011) conducted a study on approximately 154,000 analysts' recommendation changes and earning forecast revisions. The authors found that while recommendation changes can sometimes result in extremely large abnormal returns, this is not usually the case. They identified that around 12% of all recommendation changes were influential on the stock prices and 13% of recommendation changes were influential with the turnover after removing recommendation changes related to cofounding firm news. Additionally, they found that approximately 5% of earning forecast revisions without any recommendation change were influential on the stock prices. In their study, influential stock returns were defined as stock-associated abnormal returns that were in the same direction as the recommendation change and were statistically significant. The authors also observed that a quarter of the analysts in their sample had not made any influential recommendation changes in their histories. Furthermore, influential recommendations were more likely to come from analysts with a proven track record of accuracy. The authors also found that growth firms, small firms, high institutional ownership firms and firms with low analyst activity were more likely to be associated with influential recommendations.

Crawford et al. (2012) study how analysts' initiations of coverage affect stock returns. They show that earlier research about initiations results in short-window returns. For example, Irvine (2003) also conducted a study on analysts' coverage of stocks, more specifically the impact initiation coverages compared to recommendations by analysts who already cover the stock. The author found that the incremental price impact of initiation is around 1% greater than the reaction to a recommendation by an analyst who already covers the stock. Moreover, Crawford et al. (2012) investigate around 40 thousand initiations of U.S. stocks between 1996 and 2006. They found that initiations among firms without any existing analyst coverage had a greater impact on stock returns compared to initiations with already established analyst coverage.

To sum it up, analyst recommendations are also important for firm value as they can result in increased stock returns, especially initiations of coverage reports by analysts.

2.4.15 Geography

Where a company is headquartered and has its operations could, according to the literature, have a major impact on the firm value. According to Gao et al. (2008), the geographic dispersion of a corporation has an impact on its firm valuation. After accounting for the effects of global and industrial diversifications, firms with subsidiaries situated in various regions of the United States experience a valuation discount of 6.2%. The degree of the discount tends to rise as firms expand their operations nationwide. The findings also reveal that corporations with more anti-takeover provisions are likely to have a more extensive geographic presence, and they suffer more significant value discounts compared to their counterparts with fewer such provisions. These results demonstrate that the geographic location of a corporation's activities is a crucial element of its policies and has significant implications for its market valuation.

Another article written by Doust (2021) draws the same conclusions regarding geography and company valuation. The author states that a key factor influencing the decision-making of business owners is access to financing, leading them to favour one geographic area of operation over others.

2.4.16 Listed Market

There are multiple sources stating that where a company has chosen to be listed – both in terms of international geography and domestic types of stock exchanges – could influence its valuation.

Doidge et al. (2004) show in their article that foreign firms listed in the U.S. are worth

more than firms that do not cross-list their shares. They explain that the reason for this outcome is that the owners who have control over the listed firms have greater motivation to restrict their usage of personal benefits from their control. This motivation emerges when the firms possess valuable opportunities for growth that cannot be seized without obtaining external funds. If the owners who have control over the firms lack this motivation, it is improbable that they will permit the firm to be listed in the U.S., since a listing could endanger their capacity to obtain personal benefits from the firm.

Another article on the subject is the one written by Cetorelli and Peristiani (2015), where the authors investigate how companies' valuations are affected by cross-listings to more prestigious and less prestigious markets. They find that firms that cross-list on more reputable markets experience notable increases in their valuations during the five-year period after listing. Conversely, firms that cross-list on less prestigious markets face a significant decline in valuation during the same post-listing period. Additionally, the authors' findings indicate that a firm's future valuation is positively impacted if the destination market raises the company's global reputation.

Chua et al. (2007) use Tobin's Q ratio on global and Nordic companies. More specifically, the mathematical formula behind Tobin's Q ratio is total market value divided by total assets. The key finding of this article is that the Q ratios vary significantly across countries, ranging from 0.73 for Venezuela to 2.11 for Finland during the sample period 1999-2004. Regarding the Nordics, the authors conclude that Norway, Finland, Denmark and Sweden have Q ratios of 1.22, 2.11, 1.65 and 1.66, respectively, meaning that Finnish-listed companies are valued higher than the rest of the Nordic companies based on the Q ratio.

To summarise, the choice of a listed market is important since listing on more reputable markets leads to increased valuations.

2.4.17 Firm Size Effect

Firm size is another area that could affect firm value. Alquist et al. (2018) study the phenomenon of the firm size effect, which indicates that smaller stocks with lower market capitalisations generally outperform larger stocks over time. This leads to a size premium, which is described as the return generated by purchasing small stocks and selling large ones. The size effect was first identified in academic papers during the early 1980s and represented the first significant challenge to the capital asset pricing model (CAPM), which is used as a common asset pricing framework. In their research paper, they do not find robust evidence for reasons to use a size premium. Their conclusion is that the size premium is only valid in some cases and not for all smaller firms.

Song (2023) also investigates the size effect on valuation. The author finds that the firm size cannot only explain the use of a size premium and that in some cases a size discount can also be used for smaller firms.

Hulth (2021) studied small and large-cap portfolios' stock performance over the period 2006 to 2021 for Nasdaq OMX and NYSE. His findings showed that small-cap portfolios outperformed the large-cap portfolios, as well as the OXSGI and NYSE Composite market benchmarks. However, the relative stock performance between small and large-cap varied within and between years. The author argues that there was a size effect over the period and supported that small-cap stocks should have a size premium.

Concludingly, the firm size effect, which suggests that smaller stocks tend to outperform larger stocks over time, has implications for firm value.

2.4.18 Firm Age

Connected to firm size, firm age could be another aspect affecting firm value. Loderer et al. (2012) conducted a study on the relationship between firm age and firm performance. Their data sample consisted of 9,947 listed firms between 1976 and 2009 retrieved from CRSP, COMPUSTAT and COMPUSTAT Industry Segment. The study found that older firms tend to have poorer performance, as indicated by declined Tobin's Q and return on assets, increased costs and a smaller market share. The authors attributed this to the phenomenon of creative destruction, where new entrants often leapfrog incumbent firms. They also noted that older firms may struggle to retain good employees and innovative ideas. Another study conducted by Akben-Selcuk (2016) investigated the relationship between firm age and profitability in a sample of 302 Turkish-listed firms from 2005 to 2014. Their study found a convex relationship between firm age and profitability, suggesting that young firms experience declining profitability in their initial years of operation, but that profitability begins to increase as the firm continues to age. Matemilola et al. (2017) found that the effect on the stock return is positively related to firm age. They argue that as firms grow older they utilise their experiences to manage the debt-equity ratio and take advantage of these benefits.

2.4.19 Stock Liquidity

The liquidity of a stock could also affect the firm value. According to Hayes (2023d), stock liquidity refers to the efficiency and ease of converting stock into cash without causing a significant impact on its market price. It is closely associated with the trading volumes of the stock. For instance, stocks with low trading volumes tend to be more challenging to buy or sell, requiring market participants to pay a higher price or accept a lower selling price in order to acquire or dispose of the stocks. Consequently, low-

liquidity stocks may take longer to convert into cash and may incur higher costs compared to stocks with high liquidity. Additionally, low liquidity can therefore result in a skewed valuation of stocks. Moreover, Hopman (2007) found in his study that buying and selling orders temporarily can move stock prices away from their fundamental value because of uninformed price pressures.

2.4.20 Stock Splits

Splitting stocks is another area potentially creating or destroying value. According to Beers (2022), publicly traded companies have the option to split their stocks to increase the number of shares without directly impacting the overall firm value. As a result of the increased number of shares, the price per share is reduced, while the market capitalisation of the company remains unchanged, theoretically. The primary purpose of a stock split is to enhance the affordability and liquidity of the stock. Furthermore, a stock split can have additional effects on share prices. Firstly, it may lead to an increase in share prices as smaller investors perceive the stock to be more accessible and affordable. Moreover, investors may interpret a stock split as a positive signal from the company, suggesting that its share prices have historically experienced growth and are expected to continue to do so in the future. It is important to note that while stock splits can impact the stock price and investor perception, the underlying fundamentals and value of the company remain unchanged.

2.4.21 Analysts' Peer Group Selection

How analysts select their peer groups in equity research reports could also affect firm value. Listed companies are often covered by equity research analysts conducting research – including valuation – on the covered companies. Also, investment banks perform valuation exercises in various situations for clients, meaning that peer groups have to be chosen. The peer groups make up some kind of industry standard for the valuation of the target company, meaning that the selection of the peer group could influence the valuation of the target company (Eaton et al., 2022).

In their article about peer selection and valuation, Eaton et al. (2022) write about how investment banks' choice of peers in the comparable companies analysis affects the target company's valuation. The authors find that banks, in a strategic move, carefully choose sizable and high-growth peers with high valuation multiples, which are factors that positively correlate with premiums. Their findings support the notion that advisors representing the target firm choose peers with stretched valuation multiples to facilitate negotiations for increased takeover prices. Based on this, it is possible to draw the conclusion that the selection of a peer group with premium valuations heavily could influence the valuation of the target company, even though the target company does not possess the same firm

characteristics in terms of growth, margins and competitive advantage.

2.4.22 Social Media

One last area of non-traditional factors that can possibly affect company valuation is a company's presence on social media. The findings obtained from Luo et al. (2013) and their vector autoregressive models indicate that metrics based on social media, such as consumer ratings and web blogs, are important predictors of a company's equity value. It is noteworthy that while conventional online behavioural metrics, such as web traffic and Google searches, are still useful predictors of a firm's equity value, their relationship is considerably weaker compared to social media metrics, according to Luo et al. (2013). The authors' third finding is that social media has a faster predictive value, i.e., shorter "wear-in" time, than conventional online media.

Another study suggesting similar conclusions is the one written by Yang et al. (2013). This study looks at the impact of social media and traditional media, their respective importance, and the way they influence each other on a company's short-term stock market performance. The researchers utilise a unique and extensive dataset encompassing daily media content from a variety of conventional and social media platforms for 824 publicly traded companies in six industries. The social media platforms comprise blogs, forums and Twitter, while the conventional media includes prominent newspapers, television broadcasting companies and business magazines. The authors evaluate the prevailing sentiment of each media outlet towards a particular company on a daily basis, using stock return and risk as the metrics for assessing the company's short-term performance. Based on the results by Yang et al. (2013), it appears that social media has a more robust correlation with a company's stock market performance than traditional media. Additionally, they observe a significant interplay between social and traditional media in shaping stock market performance, meaning that both sources are important to succeed.

Summing the social media aspect up, it is safe to say that social media – everything else equal — seems to affect company valuation. First, it is important to be present on social media. Second, social media seems to be more relevant than conventional media.

2.5 Macro Environment

There are many different types of macroeconomic factors that can affect businesses. Some examples are inflation, interest rates, FX rates, global events, consumer confidence and economic cycles. The sections below highlight some of the most important macroeconomic factors for consumer businesses.

2.5.1 Macroeconomic Environment Metrics

2.5.1.1 Inflation

Inflation, which refers to the increase in prices of goods and services, diminishes the buying power of individual currency units. Increasing inflation can have harmful effects, such as elevated input costs, potential loss of purchasing power for consumers unless their incomes increase and the possibility of restrictive monetary policy measures to curb inflation that could negatively impact economic growth and employment (Woodford, 2003).

Zucchi (2023) writes that a majority of researchers have discovered a consistent correlation between higher inflation and lower equity valuations. She explains this by stating that the rising prices for goods and services introduce uncertainty into the markets. As inflation rises, corporations may experience impacts on their profits and growth margins, which can influence investor confidence. This, in turn, can affect investors' willingness to take on risks associated with holding stocks.

Furthermore, Zucchi (2023) explains that growth stocks generally suffer more than value stocks during periods of high inflation. Value stocks have stable or declining cash flows, while growth stocks belong to fast-growing but potentially unprofitable companies. Rising interest rates – often following increasing inflation – have a stronger negative impact on growth stocks in the discounted cash flow valuation method, which is why growth stocks are especially vulnerable during periods of high inflation, according to Zucchi (2023).

2.5.1.2 Interest Rates

According to various literature, rising interest rates can affect firm value in multiple ways. Looking at the DCF valuation of a company, Chen et al. (2013) write that higher interest rates can impact the discount rate used in DCF valuation models. As the discount rate increases, the present value of future cash flows decreases, potentially lowering the company's valuation.

Additionally, Mahmudul and Uddin (2017) mean that companies that rely on borrowing funds for expansion or operational needs may face higher borrowing costs as interest rates rise. This can increase their interest expenses, potentially reducing profitability and affecting valuation. Furthermore, Mahmudul and Uddin (2017) write that rising interest rates can affect investor sentiment and risk appetite. As interest rates increase, fixed-income investments become relatively more attractive compared to stocks, potentially leading investors to reallocate their investments. This shift in investor preference can impact stock prices and overall company valuation.

2.5.1.3 FX Rates

Foreign exchange rates, commonly referred to as FX rates, represent the relative values of different currencies in terms of one another. They indicate how much one currency is worth in relation to another. These rates fluctuate continuously due to various economic factors, such as supply and demand, interest rates, geopolitical events and market sentiment. FX rates play a crucial role in international trade and finance, impacting the cost of imports and exports, influencing investment decisions, and affecting the profitability of multinational companies. Traders, businesses and individuals closely monitor and analyse FX rates to manage currency risk and make informed financial decisions (Gang Tian & Ma, 2010).

The literature shows that FX rates can have a significant effect on firm value. Gang Tian and Ma (2010) mention five main areas, including translation of foreign currency assets and liabilities, revenue and expenses, international competitiveness, hedging and risk management as well as general market sentiment.

When a company has subsidiaries or operations in different countries, it may hold assets and liabilities denominated in various currencies. Fluctuations in FX rates can affect the translation of these assets and liabilities into the reporting currency of the company, finally affecting the whole equity value of the company.

Companies that generate a significant portion of their revenues or incur expenses in foreign currencies can be affected by FX rate fluctuations. If a company's revenue is denominated in a foreign currency that strengthens against the reporting currency, the translated revenue will increase, potentially boosting the valuation.

FX rates can influence a company's competitiveness in international markets. A stronger reporting currency relative to foreign currencies can make a company's products or services relatively more expensive in foreign markets, potentially leading to decreased sales and lower valuation.

Effective hedging to protect the company from major currency movements can help stabilise cash flows and reduce the impact of FX rate fluctuations, ultimately reducing firm value impact.

Dramatic currency movements can signal economic instability, geopolitical risks, or changes in business conditions and investors may adjust their valuation and risk assessments based on these factors, impacting the company's stock price and overall valuation.

2.5.2 Global Issues

Financial markets and companies are subject to the influence of various significant events such as natural disasters, financial misconduct and politics. These events can have far-reaching effects on the global economy. An example of such an impact is the Covid-19 pandemic which had a major effect on economies worldwide. De Vet et al. (2021) research the varying degrees of impact experienced by different industries during this crisis. Industries reliant on direct human contact and interaction, such as cultural, creative and aerospace sectors, suffered the most severe consequences. On the other hand, the digital and healthcare industry exhibited resilience and performed well during the pandemic. The pandemic also accelerated some trends such as the digitalisation of businesses due to limitations of physical contact. Additionally, there was an increased emphasis on the transition towards a greener economy, as sustainability became recognised as one of the essential solutions to address the global crisis. Bradley and Stumpner (2021) also studied the impact of Covid-19 on capital markets one year into the pandemic. Their findings highlight several important observations, including the acceleration of certain trends, the emergence of widening gaps between winners and other firms, and the flow of value to mega players. At the start of the pandemic, all sectors experienced historically large and rapid declines in share prices. However, as governments worldwide implemented stimulus packages, market conditions began to stabilise. By early June 2021, some sectors had managed to recover their losses to varying degrees. However, the authors mentioned that industries such as aerospace, air and travel, banking, insurance as well as oil and gas continued to face significant challenges and remained significantly below their pre-pandemic levels.

Another notable event is the Russia-Ukraine war which has a significant negative return on stock markets (Ahmed et al., 2022). According to Jenkins (2023), the war has unleashed a series of consequences such as a slower economic recovery from the pandemic, extensive costs to rebuild Ukraine and less energy and food supply, resulting in a surge in global inflation and rates. The author concludes that the war has increased economic uncertainty and risk. Ahmed et al. (2022) further describe that because of increased political uncertainty, geographic proximity and the sanctions imposed on Russia the European stock markets reacted negatively. Their research also reveals significant share price performance variations across industries, countries and company sizes.

It is crucial to recognise that these issues and trends hold profound implications for financial markets and companies, ultimately influencing their strategies, performance and firm value. It becomes evident that staying attuned to economic market conditions and issues, conducting a thorough analysis and adapting accordingly are crucial steps in capitalising on favourable trends while mitigating substantial losses. As a result of these conditions and issues, the valuation of companies undergoes transformations, and certain

valuations may deviate from their fundamental values.

2.5.3 Consumer Confidence

Consumer confidence measures the level of optimism or pessimism among consumers regarding their expected financial situation. It operates under the assumption that optimistic consumers tend to increase their spending, thereby stimulating the economy, while pessimistic consumers may exhibit spending habits that could contribute to an economic slowdown or recession (Ganti, 2023).

Through a study of short-run returns on eleven European countries from 1986 to 2001, Jansen and Nahujs (2003) find that stock returns are positively correlated with changes in consumer sentiment. Their results indicate that stock market confidence and returns are partly driven by expectations about economy-wide conditions boosted by personal finances among consumers, making it possible for the authors to conclude that rising stock prices and rising sentiment tend to go hand in hand.

Similar to Jansen and Nahujs (2003), Chen (2011) finds that a lack of consumer confidence eventually leads to a high probability of a bear market regime followed by lowered stock returns, further indicating the importance of consumer confidence linked to firm value.

2.5.4 Economic Cycle

According to Niemira and Klein (1994), an economic cycle refers to the alternating phases of expansion and contraction. The authors describe that investors adjust their investment strategies to align with the different stages of the cycle. For example, certain companies' stock prices exhibit a strong correlation with economic fluctuations, leading to their classification as cyclical companies. Non-cyclical stocks don't follow the fluctuations as strictly and therefore usually outperform the market when economic growth decelerates.

De Heer et al. (2000) conducted a study focusing on the valuation of cyclical companies. They examined 34 cyclical companies during a peak year, 31 cyclical companies during a trough year and 43 non-cyclical companies during the period between 1987 and 1998. The findings reveal a bias among equity analysts when assessing cyclical companies. These companies tend to be overvalued during peak years while experiencing significantly lower valuations during trough years. Recognising the economic phase is crucial for investors, as it enables them to determine optimal investment timing and strategies. Each economic cycle directly influences stock prices, profits and corporate earnings. Hence, considering the current stage of the economic cycle holds importance in understanding the reasons for valuation differences among companies.

3

Methodology

For this study, a combination of qualitative and quantitative methods was ideal since a mix of data types was analysed. The initial approach was to perform multiple linear regression analyses on listed Nordic consumer business companies. To ensure comprehensive coverage of the consumer business sector, multiple linear regression analyses on sub-sectors of the consumer business sector were performed. The regression analysis that was used in this study builds on the research Lang (2016) and Montgomery et al. (2013) presented about how to conduct regression analysis.

To value firms, covariates were accurately chosen to fit the data set of Nordic consumer companies. The dependent variable was set to be the company's enterprise value. For a detailed explanation of the regression analysis process, refer to section 3.2.

After the regression analysis, outliers were identified. These outliers were studied to understand why they differ from their estimated enterprise values substantially. Aspects that were examined to determine the causes of these outliers are presented in section 4.

Once the reasons why some companies were outliers, a framework was created that highlights the crucial factors to consider when valuing companies in the consumer business sector and its sub-sectors. Ultimately, the goal was to create a framework with financial and non-financial metrics that are important to analyse to understand why some Nordic companies' actual enterprise values deviate significantly from their estimated enterprise values.

3.1 Data Collection

The first step was to gather financial data of the listed companies. Data was gathered from the Refinitiv Eikon (2023) database, which is a reliable source that provides comprehensive, accurate and up-to-date financial information. If any financial data were missing from Refinitiv Eikon, company annual reports were used to find it. These sources were also used to ensure that the dataset was complete and accurate.

3.1.1 Data Selection

The following criteria in Refinitiv Eikon's database were used to come up with the data set of Nordic consumer business companies:

- Country of Headquarters: Denmark, Finland, Norway, Sweden
- OR
- Country of Exchange: Denmark, Finland, Norway, Sweden
- AND
- GICS Industry Name: Consumer Discretionary and Consumer Staples
- OR
- TRBC Industry Name: Consumer Cyclical and Consumer Non-Cyclical
- OR
- NAICS National Industry Name: Retail Trade
- AND
- 2022 Min Revenue: EUR 50m
- AND
- L3Y Min EBITDA: EUR 0m

The three different business classifications: Global Industry Classification Standard (GICS), The Refinitiv Business Classification (TRBC) and North American Industry Classification (NAICS) were used to certainly include all types of consumer companies.

A minimum revenue of EUR 50m was chosen to exclude small and micro-sized companies, being classified with upper thresholds of EUR 50m and EUR 10m, respectively (European Commission, 2023).

To get companies with similar financial characteristics, a positive EBITDA filter was chosen. Companies with negative EBITDA metrics are often in a different phase than companies with contiguous positive EBITDA metrics and have therefore been excluded.

When the screening mentioned above in Refinitiv Eikon was run, 151 companies were extracted. However, it turned out that not all of these 151 companies should be classified as consumer businesses. The data was therefore cleaned and transformed to ensure that it was suitable for analysis. For example, a couple of companies included in a sub-sector called *Automotive Parts and Accessories Retailers* sell B2B industrial products. Therefore, the list of companies was changed accordingly, to only include consumer businesses.

Also, to make it possible to run regression analyses on all sub-sectors, a couple more adjustments regarding the number of companies were made. For example, the *Bever-*

ages sub-sector included only five companies, making it inappropriate to run a regression analysis on such a few numbers of data points. Therefore, the *Beverages* sub-sector was merged with the *Food Products* sub-sector, making a new sub-sector of 16 companies. In a similar way, the *Fishing & Farming* sub-sector was included in the *Food Products* but then extracted to its sub-sector as there turned out to be eleven *Fishing & Farming* companies. Moreover, for the *Media* sub-sector, the absence of equity research reports for the outlier companies led to the exclusion of this specific segment from the analysis.

In the end, the following consumer sub-sector categories were formed and analysed: Broadline Retail; Fishing & Farming; Food Products & Beverages; Leisure Services; Household Durables; Leisure Products; Specialty Retail and Textiles; Apparel & Luxury. Within these analysed categories a total of 99 companies were included in the analysis and eleven outliers were identified.

3.2 Regression Analysis

To start the analysis, the first step was to develop a suitable multiple linear regression model. The multiple regression model for company valuation was shown to be robust where the results from the model are more precise and close to the true value compared to the comparable companies analysis (Securities Litigation and Consulting Group, 2011). James and Williams (2012) and Acosta-Calzado et al. (2010) also show that a linear regression analysis provides better valuation estimates than a traditional comparable companies analysis.

The regression analysis is used with the purpose to estimate a relationship between a dependent variable (response variable) and a set of independent variables (covariates). Based on the research conducted by Lang (2016), the following formula is used to conduct a multiple linear regression analysis:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \epsilon \quad (3.1)$$

Where Y is the response variable or the dependent variable that is explained by X_i which are called the covariates or the independent variables plus an additional random variable ϵ called the error term. β_i is the regression slope coefficients that have been estimated. The linearity relates only to the slope coefficients that have to be constants (Lang, 2016).

The response variable for all regression analyses was set to enterprise value (EV) since it is a commonly used metric for company valuation, as discussed in section 2.2.1. The enterprise value of the firms comprises the equity value as of 27th April 2023, as well as the full-year 2023 financial figures for debt, preferred stock, non-controlling interest, cash

and cash equivalents. Several firm-specific financial estimates such as revenue, revenue growth, EBITDA, EBIT, net income, cost of goods sold, depreciation and amortisation, total assets, net debt, long-term debt and total equity were tested as covariates. Additionally, different ratios for these financials were also tested in the regression analysis. The covariates were set to analysts' mean estimates for the full-year 2023. One of the reasons for using 2023 estimates was to account for events that had occurred during that year, which would not be included in the 2022 financials. Another reason was that the financial estimates considered events that had not yet happened but were anticipated. However, due to a lack of data for some of the financials, some metrics could not be utilised, such as insufficient 2023 estimates for net debt. Furthermore, the same model cannot be applied to all sub-sectors since different sub-sectors have distinct data sets (different companies). Each sub-sector requires a unique set of covariates to fit the data.

3.2.1 Model Evaluation

The following section describes the tools that were employed to evaluate and improve the model.

3.2.1.1 Hypothesis Testing

First, a hypothesis test – including a null hypothesis and an alternative hypothesis – was performed to assess the accuracy of the model. The null hypothesis proposed that there is a connection between a particular covariate and the response variable, while the alternative hypothesis stated that the response variable is not related to this covariate. The method for conducting the hypothesis testing used was the F-test, which helped to verify the relationship mentioned above, as explained by Lang (2016). The F-statistic was calculated with the following equation:

$$F = \left(\frac{\hat{\beta}_i - \beta_i^0}{\sigma_i} \right)^2, \sigma_i \text{ denotes the standard error} \quad (3.2)$$

With an F distribution calculator, p-values were found with different F-statistics. When the resulting p-values were above the predetermined significance level, it was implied that the selected covariates were significantly related to the response variable, thereby allowing one to reject the null hypothesis (Lang, 2016). Therefore the goal was to minimise the p-values and the highest p-values accepted in this thesis was 0.01.

3.2.1.2 R-Squared

The R-square (R^2) statistic was used for assessing the quality of the model's fit. It represents the portion of the response variable that can be explained by the model and is typically interpreted as a measure of goodness of fit. The value of the R-square statistic

ranges from 0 to 1, as noted by Lang (2016). The following equation was used to calculate the R-square statistic:

$$R^2 = \frac{Var(X\hat{\beta})}{Var(Y)} \quad (3.3)$$

As seen in Table 3.1, most R-Squares were above 0.9 which can be considered as high.

3.2.2 Errors Evaluation

Linear regression should lack endogeneity and multicollinearity errors (Lang, 2016). The following sections explain when these errors occur and how they have been mitigated.

3.2.2.1 Endogeneity

Endogeneity occurs when the error term correlates with at least one covariate, potentially leading to unreliable results. Common causes of endogeneity are sample selection bias, missing relevant covariates, simultaneity and measurement errors, as noted by Lang (2016). However, for this thesis, the characteristics of the data suggested that simultaneity and measurement errors were unlikely. Sample selection bias was also considered to be unlikely. It occurs when the data is not randomly selected, which is described by the error term. Additionally, if relevant covariates were missing, the model would try to explain it by modifying the residuals. Therefore, it was important to select the right covariates to minimise the endogeneity impact, which is confirmed by Lang (2016).

3.2.2.2 Multicollinearity

Multicollinearity occurs when the model is over-parameterised, meaning that the covariates are linearly dependent on the intercept. This dependency leads to an incorrect estimation of the slope coefficients. One approach to identify collinearity that was used was the Variance Inflation Factor-test (VIF), which measures the impact of collinearity among the variables in the regression model. Typically, a VIF value exceeding 10 is considered indicative of harmful multicollinearity, according to Manson and Perrault (1991). The VIF value was calculated using the following formula:

$$\frac{1}{1 - R^2} \quad (3.4)$$

If multicollinearity needed to be reduced, the covariates causing the high VIF value needed to be removed.

After these multiple tests and iterations were conducted, the models were ensured to be

statistically significant and precise, with a high goodness of fit (R-square) and fewer errors. Also, a combination of covariates was set. The outcome is presented below, where the name of the sub-sector is followed by the covariates and the R-squared value.

Table 3.1: *Consumer Sub-sectors Data*

Sub-sector	Companies	Outliers	Covariates	R-Square
Broadline Retail	8	1	EBITDA (%), Revenue	0,997
Fishing & Farming	11	1	EBITDA (%), Revenue	0,901
Food Products & Beverages	16	2	EBITDA (%), Revenue	0,934
Leisure Services	11	1	EBITDA (%), Revenue	0,950
Household Durables	15	1	EBITDA, Revenue	0,996
Leisure Products	11	1	EBITDA (%), Revenue	0,513
Specialty Retail	17	3	EBITDA (%), Revenue	0,702
Textiles, Apparel & Luxury	10	1	EBITDA (%), Revenue	0,987
Total	99	11		

Comment: The table represents the number of companies included in the regression analysis and the number of outliers identified from these analyses. Additionally, the chosen covariates for every regression analysis are stated together with the resulting R-square statistic.

3.3 Analysing Outliers

To detect outliers in a regression model, it is possible to analyse the residuals of the observations. These residuals represent the discrepancy between the actual and predicted responses. By dividing the ordinary residuals by an estimate of their standard deviation, it is possible to determine the magnitude of the residuals in standard deviation units (Par-doe, 2018).

Therefore, the initial step involved identifying outliers by examining the residuals of the observations. To determine outliers, a threshold of 1.5 standard residuals in deviation was employed. To obtain an unbiased perspective on the factors driving firm value, the study did not consider the characteristics of outliers in terms of overvaluation or undervaluation in the results or analysis. This decision was made to avoid potential bias from using

sources that may be influenced by a company's relative valuation. Instead, the regression analysis identified outliers, which were then used to analyse valuation drivers rather than assessing the fairness of overvaluation or undervaluation. Once the outliers were identified, a comprehensive analysis of the reasons for their deviation was conducted. This analysis primarily relied on the examination of various sources including equity research reports, company financial reports, press releases and news reports about the outliers. The focus was on the most recent research reports available, predominantly centred around the companies' first-quarter results for 2023. Additionally, initiation reports were also included in the analysis due to their extensive research content. The equity research reports used for the analysis were sourced from the reputable financial research institutions Carnegie, Danske Bank, Nordea and SEB. The company financial reports analysed mainly consisted of the annual reports for 2022 and the first-quarter reports for 2023. The emphasis was placed on analysing messages from the CEO within these reports. Press releases and news reports were primarily obtained through various channels, including the respective company's investor relations page, the newspaper Dagens Industri and the news platform provided by Placera. By utilising these diverse sources of information, the study aimed to gain a comprehensive understanding of the factors contributing to the outliers' deviation from peers. The extracted factors utilised in the study were determined based on their frequency of mention across the mentioned sources and the emphasis placed on them by the respective sources. By identifying the factors that were consistently and prominently highlighted, the study aimed to capture the key aspects that were deemed important by the sources analysed.

The outliers' stock prices were also analysed for the period 27th of April 2022 to 27th of April 2023, which was retrieved from Refinitiv Eikon. The reasons for the five largest intraday stock movements compared to OMX Nordic EUR PI index for every outlier were analysed and researched. The OMX Nordic PI Index comprises 662 publicly listed Nordic firms (Refinitiv Eikon, 2023). If any of the major movements could not be linked to a specific news event, press release, company report or equity research report, the stock movement was not mentioned in the companies' respective results. To provide readers with an overview of the share price performance over the last twelve months and the ability to monitor significant stock movements mentioned in the results, each case study consists of a figure with the outliers' share price development.

The data that was primarily researched and analysed were income statement metrics, balance sheet metrics, cash flow statement metrics, non-traditional valuation metrics and macroeconomic environment metrics.

3.4 Identifying Important Valuation Factors

Based on the analysis of the outliers, the final step was to summarise the factors that were considered important both by the literature and the results. With these conclusions, a framework was established for why a company may be deviating from the regression model.

Furthermore, the framework additionally emphasises the key factors that influence the value of a company, which are frequently discussed in equity research reports and CEO statements. Finally, it reveals the specific types of events or news that exert the greatest impact on stock prices within a single day.

3.5 Critical Reflection

To ensure that the study met appropriate standards, it was essential to prioritise both reliability and validity. Collis and Huseey (2013) define validity as the degree to which the assessment accurately measures the intended target, while reliability is defined as the likelihood of obtaining similar findings if the same study were to be replicated.

To ensure the study's validity, constant discussions and reflections on the research findings were conducted in collaboration with the study's supervisor and the Stena Adactum team. Multiple diverse sources, including earlier literature, equity research reports, CEO statements and analysis of share price movements were studied to further enhance validity.

If the study were to be replicated using the same data and time period, it is highly probable that the same results would be obtained, as the report's methodology was carefully documented and double-checked to prevent errors. However, if a different time period were analysed, financials and share prices would have changed, potentially resulting in the replacement of outliers by other companies and yielding different results. Furthermore, analysing other industries, markets, or firms overall could also lead to the discovery of new results.

4

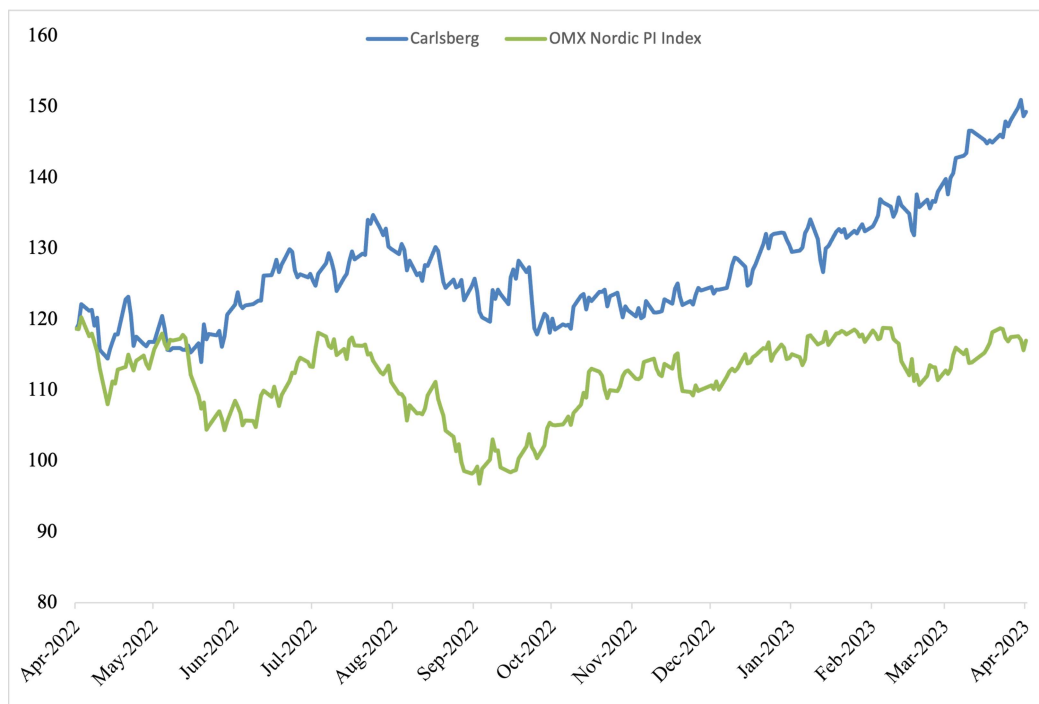
Results

Below is a compilation of the results, i.e., the case studies. For every outlier found from the regression analysis, an extensive review of the most important factors affecting firm value is made. For the outliers, sources including equity research reports, annual and interim reports (CEO statements), press releases and news, as well as share price development are presented.

4.1 Carlsberg

When conducting the regression analysis on the Food Products and Beverages industry group, Carlsberg was identified as an outlier, with an overvaluation of approximately 1.8 standard residuals compared to the rest of the industry group.

Founded in 1847 by brewer J.C. Jacobsen, Carlsberg is one of the largest and most global brewers in the world, with a presence in over 150 countries, a workforce of over 40,000 and around 200 brands. Carlsberg's headquarter is located in Copenhagen and the company generated almost EUR 9,500m in revenue for 2022. Its primary revenue streams come from key brands such as Carlsberg, Tuborg, Grimbergen and 1664/Kronenbourg as well as strong local brands like Holsten and Wusu. Despite China being the largest market in terms of volume, France, the UK and the Nordics remain important contributors to the results of Carlsberg (Carlsberg, 2023b).

Figure 4.1: Carlsberg's Share Price Performance Compared to a Nordic Equity Index

Comment: The figure displays the share price history of Carlsberg A/S and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Carlsberg's price on 27 April 2022.

4.1.1 Financial Guidance

Carlsberg released its first-quarter report on the 27th of April 2023, which included an update to its financial guidance range for 2023. The company narrowed its range for organic growth in EBIT to -2% to +5% from the previous range of -5% to +5% (Carlsberg, 2023a). This change was highlighted by multiple equity research analysts in their reports, indicating its significance (Samsøe, 2023a; Thormann, 2023; Lind Petersen & Heindorff, 2023).

4.1.2 Price Increases, Volume Sales and Consumer Sentiment

Several equity research reports have highlighted Carlsberg's strong price/mix strategy and its positive impact on organic sales growth in the first quarter of 2023 (Samsøe, 2023a; Thormann, 2023; Lind Petersen & Heindorff, 2023). Thormann (2023) from Danske Banke and Lind Petersen and Heindorff (2023) from Nordea attribute the strong price/mix growth to price increases in Europe and a favourable comparable quarter in Q1 2022. Additionally, the price increases, together with higher volumes, have contributed to positive EBIT growth (Lind Petersen & Heindorff, 2023).

Moreover, Carlsberg's share price rose sharply by 3.8% – compared to the index decreasing by 1.2% on the 17th of August 2022, driven by a strong half-year report that surpassed analysts' expectations due to higher EBIT results (Nyhetsbyrå Direkt, 2022a). However, Samsøe (2023a) from SEB and Lind Petersen and Heindorff (2023) expressed concern about the volume performance in Europe during 2023, and a potential consumer retreat. Poulsen and Hart (2022) emphasise that Carlsberg plans to increase its prices to offset rising costs, which, coupled with higher inflation, could make beer a less resilient consumer category. The importance of both volume sales and price increases for Carlsberg's valuation is evident from these comments. Therefore, it is essential to monitor these factors to gain a better understanding of Carlsberg's future growth prospects and market valuation.

4.1.3 ESG

ESG performance is a potential driver that both Samsøe (2023a) and Lind Petersen and Heindorff (2023) highlight in their reports on Carlsberg. Poulsen and Hart (2022) also highlight their ESG efforts and mention launching a new ESG program in August 2022, including a net-zero carbon emissions target across the value chain by 2040. Samsøe (2023a) notes that Carlsberg's ESG performance can positively impact share price and enterprise valuation over time, estimating a potential 7% impact. However, Lind Petersen and Heindorff (2023) assess Carlsberg's ESG rating (B rating) as below the sector average (BBB rating) due to the company's negative exposure to healthy lifestyle trends and increasing interest in craft beers. With investors increasingly focusing on ESG considerations, Carlsberg's ability to manage these issues effectively will be a crucial factor in its long-term success.

4.1.4 Share Buy-Back Programme

One of the major share price movements, 4.2% for Carlsberg's stock – compared to the index increasing by 0.3% – occurred on the 16th of May 2022 (Refinitiv Eikon, 2023). This was most likely because of the update on the transactions within the share buy-back programme that Carlsberg initiated on the 28th of April 2022 (Carlsberg, 2022). Additionally, Samsøe (2023a) highlights the share buy-back programme in his 2023 Q1 equity research report as something positive.

4.1.5 Analyst Recommendation

Another major share price movement, 4.6% for Carlsberg's stock – compared to the index increasing by 0.8% – was on the 15th of June 2022 (Refinitiv Eikon, 2023). This was most likely because Barclays increased its target price from DKK 1,023 to DKK 1,100 and reiterated its buy recommendation (Nyhetsbyrå Direkt, 2022b).

4.1.6 Non-Cyclicalities

On the 5th of April 2023, another major share price movement occurred, 2.2% for Carlsberg's stock – compared to the index decreasing by 1.6% (Refinitiv Eikon, 2023). Cyclical companies had negative stock movements and companies such as healthcare and breweries went strong, because of probable sector rotation from cyclical to non-cyclical stocks (Nyhetsbyrå Direkt, 2023a).

4.1.7 Geographical and Operational Concerns

The report of Samsøe (2023a) identifies increased input costs as a risk in the near term for Carlsberg, given the uncertainty relating to increased input costs. The report also notes that there is a longer-term risk associated with volatility in raw material prices, which could put pressure on Carlsberg's margins if the company is unable to pass on these cost increases to consumers. In addition, the SEB report on the global brewing industry written by Samsøe (2023b) highlights the potential impact of geopolitical tensions on global brewing barley prices. While the resolution of trade disputes between China and Australia could lead to a decline in brewing barley prices, the threat of Russia not renewing the Black Sea grain initiative could push prices higher. These factors underline the importance of monitoring Carlsberg's input costs and supply chain dynamics, as they have the potential to affect the company's financial performance and valuation.

According to Poulsen and Hart (2022), Carlsberg faced significant challenges due to the war in Ukraine and its exposure to Russia. Triches (2023) reported that as of the evening of the 13th of March, 2023, Carlsberg's operations and sales in Russia were still ongoing. However, Chairman Henrik Poulsen acknowledged that the process of exiting Russia is ongoing and difficult. On the 14th of March, Carlsberg's stock experienced a significant drop of -1.8% compared to the index increasing by 2.0%, most likely due to the situation surrounding Russia. This event underscores the potential risks and uncertainties that geopolitical issues can pose to Carlsberg's business and stock performance.

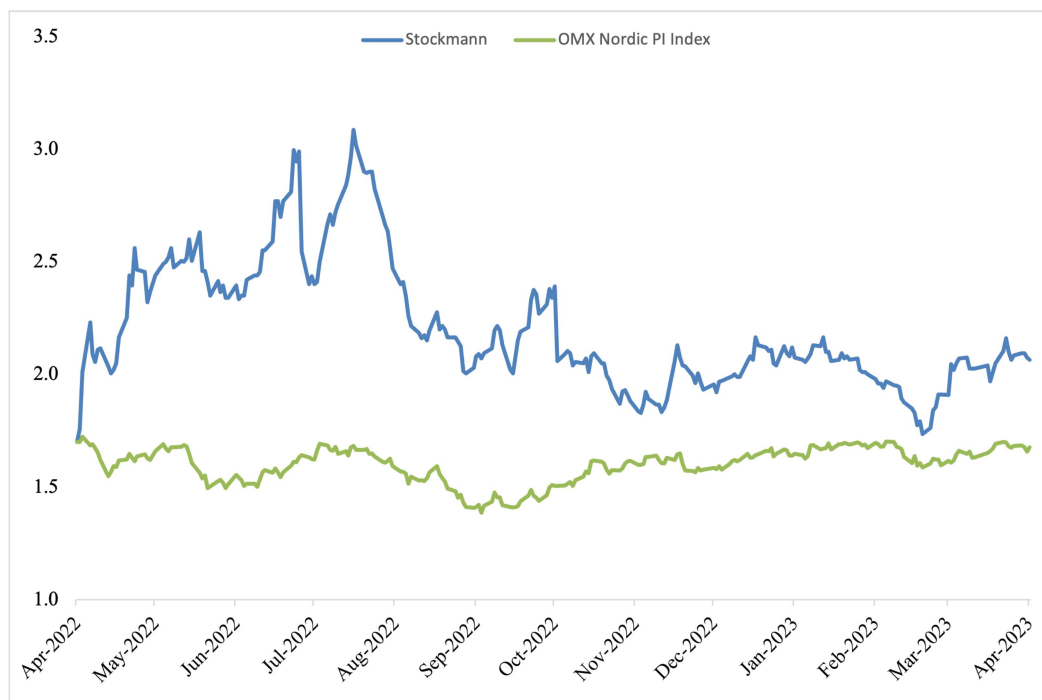
Furthermore, Samsøe (2023a) notes that the re-opening of China post-Covid-19 could be a potential upside risk for Carlsberg. Both Thormann (2023) and Lind Petersen and Heindorff (2023) also mention that the re-opening has had a positive impact on Carlsberg's first-quarter performance, with growth in volumes, which is further confirmed by Poulsen and Hart (2022). Additionally, Lind Petersen and Heindorff (2023) point out that the re-opening reduces the visibility risk for Carlsberg, which could have a positive impact on the company's future earnings. Overall, the re-opening of China is an important factor to consider for Carlsberg's performance, as it could lead to increased demand for the company's products and improved earnings in the near term.

4.2 Stockmann

When conducting the regression analysis on the Broadline Retail industry group, Stockmann was identified as an outlier, with an undervaluation of approximately 1.9 standard residuals compared to the rest of the industry group.

Established in 1862, Stockmann plc is a Finnish retailer with a total of eight department stores that it owns, located in Finland (six), Estonia (one) and Latvia (one). In addition, there are nine other department stores in Russia operating under the Stockmann brand name, owned and managed by Reviva Holdings, with permission to use the Stockmann name until 2023. Stockmann's flagship store, located in Helsinki's city centre, covers a vast retail space of 50,000 square metres and attracts over 17 million visitors annually, making it the largest department store in the Nordic region. Apart from its department stores, Stockmann also manages five shopping malls with a gross leasable area of 142,000 square metres, with half of it occupied by Stockmann. Stockmann's subsidiary, Lindex, has 475 stores spread across 16 countries, including 39 franchised stores. The company had sales of EUR 980m in 2022 (Stockmann, 2023a).

Figure 4.2: Stockmann's Share Price Performance Compared to a Nordic Equity Index



Comment: The figure displays the share price history of Stockmann Oyj and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Stockmann's price on 27 April 2022.

4.2.1 Cost Saving Actions

For Stockmann, various cost-saving actions are important for the valuation of the company, according to multiple sources. According to Wilhelmsson (2023) from Nordea, the company made significant cost-saving actions in both the Stockmann and the Lindex divisions. Furthermore, the Nordea analysis states that the Lindex division's increased gross margins were due to more efficient sourcing and lower freight costs. Going forward, Wilhelmsson (2023) expects the retail market to remain challenging, partly explained by increased purchasing prices and operating costs. Also, Wilhelmsson (2023) expects increased salaries and leasing expenses to weigh on margins, ultimately – everything else equal – leading to lower firm value.

The focus on cost-saving actions is also expressed by the CEO in the annual report of 2022. The CEO states that the company's main focus going forward is growth, cost efficiency and the efficient use of capital (Latvanen, 2023). Additionally, cost savings are not only the focus of the management of Stockmann, but also the consumers. Latvanen (2023) means that a rise in the cost of living stemming from the economic impact of the pandemic, accelerating inflation and rising energy prices has led to weakened consumer purchasing power, indicating consumers' focus on cost savings.

4.2.2 Consumer Confidence

Multiple sources expect consumer consumption going forward to remain on challenging levels for Stockmann, due to various reasons. Latvanen (2023), explains that he expects the business climate to pose challenges in the initial six months of 2023 due to factors including geopolitical instability, inflation and decreased consumer confidence. Furthermore, the CEO states that the return of customers to stores following the pandemic will be an important step towards continued sales growth. Equity research analyst Rahikainen (2023) from SEB mentions that department stores face challenges, as a shifted consumer consumption will lead to sales decline and therefore operating losses in the years to come.

Furthermore, these challenges are shown in the share price development during the releases of the 2022 Q2 and Q3 reports. On the 28th of October and 22nd of July, the Q3 and Q2 reports were released, resulting in share price developments of -13.8% and -14.9%, respectively (Refinitiv Eikon, 2023). These movements were despite robust revenue growth, indicating that decreased margins, which were mainly due to geopolitical instability, inflation, supply chain challenges, COVID-19 restrictions – all leading to changes in consumer behaviour and confidence (Stockmann, 2022a; Stockmann, 2022b) – had a significant impact on the valuation.

4.2.3 Business Development

General business development actions impacting revenue growth and margin improvements have been important value drivers for Stockmann. CEO Latvanen (2023) mentions that actions including a boost of media revenues by using brick-and-mortar stores and digital channels, the launch of project offering experiences in addition to shopping, investments in sustainability and circular economies, investments in digital and multichannel retail as well as continued development of store network and international distribution have led to revenue growth and margin improvements during the year.

The actions mentioned above are shown in the share price development – more specifically on the day of the release of interim reports. On the 29th of April 2022, Stockmann released its Q1 report, pointing out a positive first quarter with robust revenue growth for the group, as well as clearly improved operating results across both divisions (Stockmann, 2022a), resulting in a 14.5% share price increase (Refinitiv Eikon, 2023)

4.2.4 Clearance Sales

According to multiple sources, the valuation of the Stockmann Group has been affected by the high share of clearance sales during the second half of 2022 and the first quarter of 2023. Wilhelmsson (2023) writes that the Stockmann division had a margin decrease during the first quarter of 2023, mainly due to an increased share of clearance sales. Furthermore, the group's CEO elaborates on this matter, stating that the company stopped selling Russian and Belarusian products as well as exporting goods to Russia in an act to protest the war of aggression and show support for Ukraine (Latvanen, 2023).

4.2.5 Capital Structure

The capital structure of the Stockmann Group has been an important subject considered by equity research analysts and the company's CEO. Wilhelmsson (2023) writes that once restructuring debts have been fully paid off, Stockmann is expected to hold a net cash position that excludes leases, with the exception of the EUR 66m bond, which is the only remaining debt instrument. It is expected that the bond will be redeemed ahead of schedule once all disputed claims have been resolved, as it currently limits dividend payouts.

The net cash position is also mentioned by the CEO in his annual CEO review, where he emphasises the fact that one of the group's main achievements for the year was the repayment of the undisputed restructuring debt (Latvanen, 2023).

4.2.6 Ownership

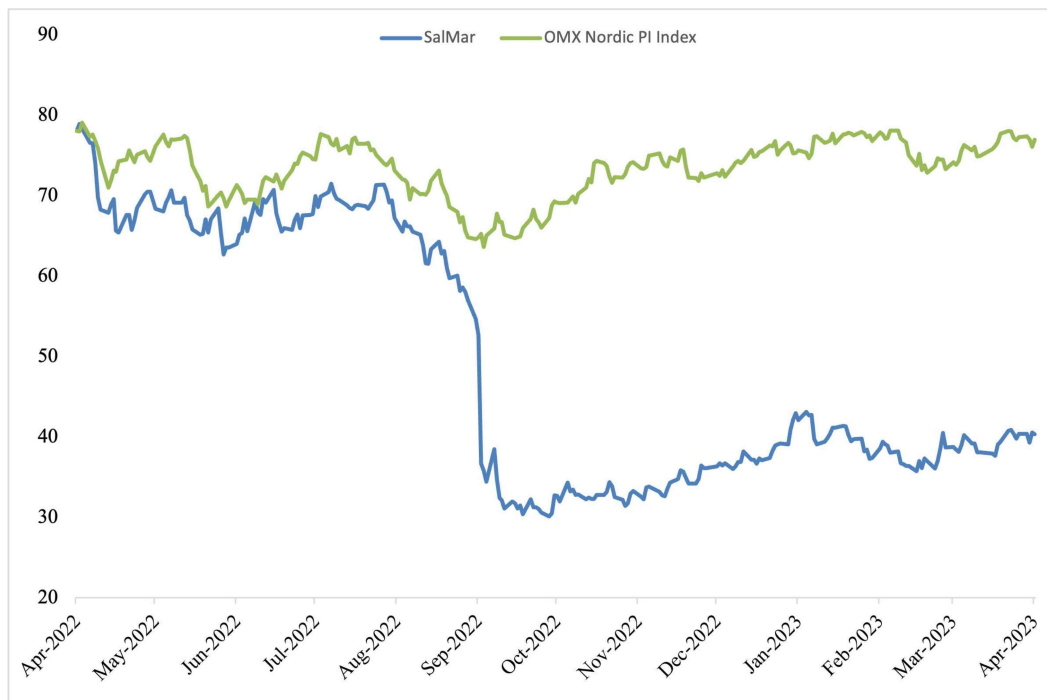
According to share price movements as well as equity research analysts, the ownership structure has had a significant impact on the firm value of Stockmann. According to Wilhelmsson (2023), JC Switzerland Holding (JCH) has acquired 5% of Stockmann's shares, and an agreement on vote pooling has been made between Föreningen Konstsamfundet r.f. and JC regarding their respective holdings in Stockmann. This agreement strongly indicates a willingness to collaborate in advancing the development of the Stockmann segment.

Regarding share price movements, a positive reaction of 7.2% took place on the 28th of March (Refinitiv Eikon, 2023). On this date, the aforementioned agreement (Stockmann, 2023b) as well as purchasing of stocks by a board member were made (Stockmann, 2023c), indicating that the change of ownership had a positive impact on the valuation. Additionally, on the 3rd of May – when the stock price increased by 11.0% (Refinitiv Eikon, 2023) – seven people from the management and board of directors acquired stocks (Stockmann, 2022d), highly indicating that insider transactions had a significant impact on the valuation.

4.3 SalMar

When conducting the regression analysis on the Fishing & Farming industry group, SalMar was identified as an outlier, with an overvaluation of approximately 2.0 standard residuals compared to the rest of the industry group.

SalMar, a Norwegian fish farming enterprise, is among the world's largest producers of farmed salmon. Its primary operations include marine-phase farming, production of broodfish and smolt, processing and sale of farmed salmon. The company holds 100 licenses for Atlantic salmon production in Norway, situated in Trøndelag, Nordmøre, and, via its subsidiary Senja Sjøfarm AS, Troms. In addition, it has a 50% ownership stake in Norskott Havbruk, which operates fish farms as Scottish Sea Farms. Founded in 1991 and headquartered in Frøya, the company has been listed on the Oslo Stock Exchange since 2007. Its largest shareholder is Gustav Magnar Witzøe, which is the founder's son. SalMar distributes farmed salmon in Asia, the United States, Canada, the Russian Federation and Norway, and generated sales of EUR 2bn in 2022 (SalMar, 2023).

Figure 4.3: SalMar's Share Price Performance Compared to a Nordic Equity Index

Comment: The figure displays the share price history of SalMar ASA and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to SalMar's price on 27 April 2022.

4.3.1 Taxes

As of May 2023, there is an ongoing Norwegian resource tax proposal with a significant impact on SalMar's business if voted through, according to equity research analyst Rølland (2023) from SEB. Rølland (2023) thinks that the Norwegian parliament will vote through the resource tax in late June 2023. Following this, he expects 81% of SalMar's 2023 revenues to be subject to the new tax and therefore, an additional tax credit of NOK 1.1bn. Dahl Rose (2023) from Danske Bank also mentions an inherent risk in the final tax scheme – the analyst sees an increased risk of other nations following the Norwegian example.

Furthermore, SalMar's CEO is concerned about the tax proposal. He states that it is sad that Norwegian authorities favourite international competitors in this way and that NOK 45bn of investments have been put on ice, including NOK 2bn of planned investments by SalMar. He also says that the tax proposal is a heavy disadvantage for Norwegian and international investors, who previously viewed Norway as a reliable country in which to invest (Arntsen, 2023).

Another indicator showing that the tax proposal has had a significant valuation impact is the share price development. On the 28th of September 2022, the stock decreased by 30.4% (Refinitiv Eikon, 2023) due to the announcement of the Norwegian proposal of the resource rent tax on aquaculture (DI, 2022a).

4.3.2 Capital Structure

Multiple sources indicate that the debt levels of SalMar are an important valuation indicator going forward. Rølland (2023) believes that if SalMar announces the closing of the Frøy deal, this could serve as a clear catalyst for the stock, given that it would result in a substantial reduction of net debt. He also mentions that a property located in Region South was pre-announced for sale during the first quarter of 2023, as part of the debt-reduction process.

Dahl Rose (2023) mentions that the higher leverage in SalMar increases the company's overall risk profile, potentially leading to the possibility of interest rate costs that may exceed initial estimates. In his view, the merged company presents a potential balance sheet risk, as its current ND/EBITDA ratio of 3.5x is higher than the target of 2.5x by 2024E.

4.3.3 M&A

Several sources indicate that the acquisition of NTS is an important value driver of SalMar. The merger is expected to result in cost and price synergies in the value chain, both in the short and long term. By processing higher volumes at the large in-house harvest stations, fixed costs per kilo should decrease. Additional synergies may include savings on overhead costs related to the delisting of two companies from the stock exchange and the consolidation of the auditor into one for the merged entity. Additionally, SalMar has the opportunity to optimise headcount in the S&D division of the combined company (Rølland, 2023).

Furthermore and following an environment where capacity is the main constraint, Dahl and Dalan (2023) from Nordea mention that the merger will show its full potential going forward. Dahl Rose (2023) explains that SalMar has developed a synergy plan that includes measures to reduce costs throughout the production cycle and that the company has identified potential cost synergies amounting to NOK 671m following the merger. Arntsen (2023) also highlights the deal as an important milestone, as he says that one plus one makes significantly more than two.

The share price performance is also an indicator of the importance of M&A, as the company valuation increased by 7.5% (Refinitiv Eikon, 2023) on the day of the deal announcement.

4.3.4 Cost Saving Actions

According to Rølland (2023), an important part of the NTS deal includes cost savings, which will arise because there will be fewer harvest stations to transport the fish to.

Additionally, Dahl and Dalan (2023) expect continued inflation to put pressure on margins. Although costs are still favourable compared to industry peers, the analysts' estimation suggests a significant increase in costs during the rest of 2023.

Dahl Rose (2023) explains that SalMar is forecasting increased costs and anticipates that costs will exceed the consensus estimates. Additionally, the company will incur a one-time cost of NOK 120m in relation to the transaction with NTS.

4.3.5 ESG

Equity research analysts highlight the ESG aspects of SalMar as important value drivers. Rølland (2023) writes in his report that SalMar sustainability overall ESG risk assessment is high and that the ESG financial assessment suggests a significant positive valuation impact – approximately 8% of enterprise value. He means that ESG considerations are expected to have a generally positive effect on the company's financial value over time, and this impact is projected to grow significantly over the next decade.

Dahl and Dalan (2023) highlight that SalMar is aligned with multiple megatrends by providing a healthy protein source with a lower carbon footprint (feed conversion ratio of 1.2 compared to 2.5 for other protein sources) to meet the demands of an expanding middle class. SalMar is the leader in sustainable offshore farming, which should allow for increased financial output, according to the Nordea analysts.

The ESG aspect is also highlighted by the CEO, as he states that SalMar is ranked among the world's top ten most sustainable protein producers (Arntsen, 2023).

4.3.6 Management

On the 26th of October, a new CFO of SalMar was appointed (DI, 2022b). On the same day, the share price increased by 7.3% (Refinitiv Eikon, 2023), indicating that the newly appointed CFO was highly coveted, as shareholders reacted positively.

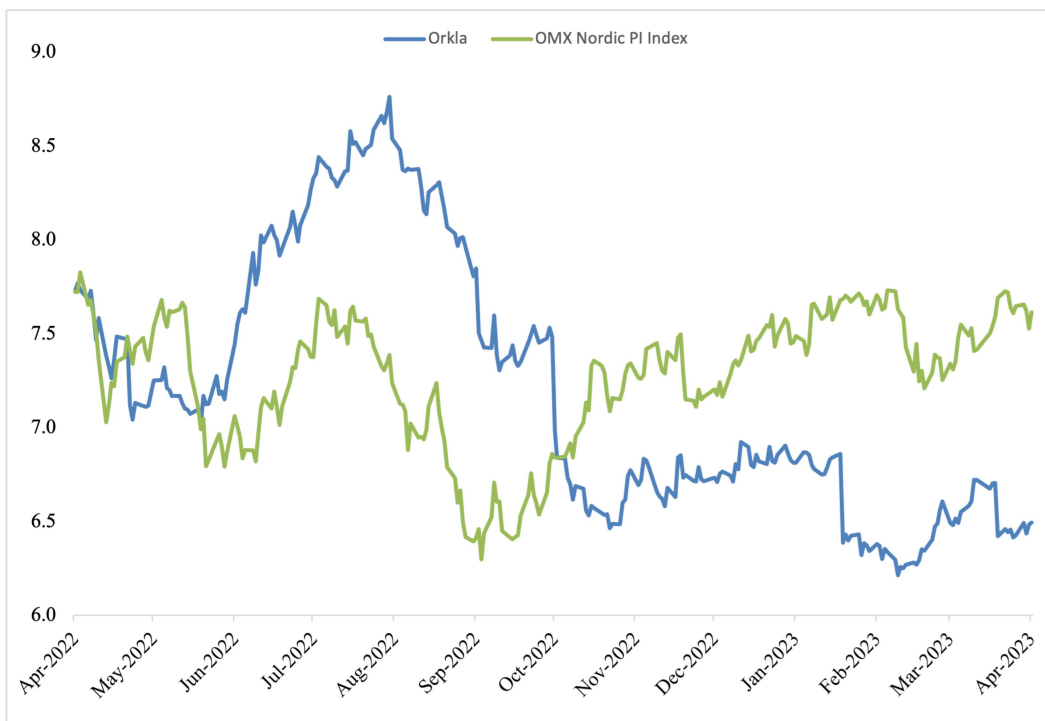
4.4 Orkla

When conducting the regression analysis on the Food Products and Beverages industry group, Orkla was identified as an outlier, with an overvaluation of approximately 1.7

standard residuals compared to the rest of the industry group.

Orkla ASA is a renowned industrial investment company that specialises in investing in consumer-oriented companies and brands within the grocery sector, out-of-home sector and bakeries. With 20,500 employees across its 12 portfolio companies, Orkla has established itself as a prominent player in the industry. Its headquarter is based in Oslo and the company is listed on the Oslo Stock Exchange. In 2022, Orkla generated revenue of nearly EUR 5,600m. Through active portfolio management, Orkla strives to identify and invest in fast-growing consumer segments and markets (Orkla, 2023a).

Figure 4.4: Orkla’s Share Price Performance Compared to a Nordic Equity Index



Comment: The figure displays the share price history of Orkla ASA and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Orkla’s price on 27 April 2022.

4.4.1 Increased Input Costs, Increased Prices and Cost Savings Programme

Fuglu and Heiberg (2023) from SEB note that input costs have increased for Orkla due to current inflation, which has impacted margins. Similarly, Pedersen and Jacobsen (2023) from Nordea mention the negative effect of raw material inflation on EBIT, specifically citing agriculture commodities inflation.

However, Orkla has responded to the higher input costs by increasing its prices, as noted by Fuglu and Heiberg (2023). Lorvik and Svendsen (2022) reported rising food prices from food suppliers, which likely contributed to a 4.2% rise in Orkla's stock - compared to the index trading sideways - on the 4th of July 2022 (Refinitiv Eikon, 2023). Additionally, on the 14th of February 2023 when Orkla released their Q4 2022 report, the stock price fell 6.9% (Refinitiv Eikon, 2023). The reason because of this was because of higher input costs such as energy, raw material, packaging, freight costs and also lower volumes (Orkla, 2023b).

However, Fuglu and Heiberg (2023) believe that Orkla may struggle with inflation throughout 2023 as they may not be able to pass on further input costs to their customers. In addition, the authors note that the Nordic grocery retail market may weaken, and Pedersen and Jacobsen (2023) warn of downside risks to volumes due to high food prices for consumers.

In light of these challenges, Fuglu and Heiberg (2023) highlight the importance of Orkla's cost-saving programme. However, they also express concerns that the restructuring may take longer than anticipated. Overall, these reports suggest that Orkla is navigating a complex market environment and facing a variety of challenges as they strive to maintain strong profitability.

4.4.2 ESG

Selte (2022b) describes that their sustainability work is a large priority with a commitment to net zero emissions of greenhouse gases across their value chain by 2045. In the first quarter of 2023, Pedersen and Jacobsen (2023) awarded Orkla with a strong ESG performance rating of AA, which is above the sector average rating of BBB. The authors highlight that Orkla has strategically positioned itself to drive the integration of sustainability in the food value chain. Additionally, Orkla is well-positioned to capitalise on the growing demand for organic food. Their rating results from high-quality disclosure and a good performing transformation score and ESG footprint.

4.4.3 Business Development

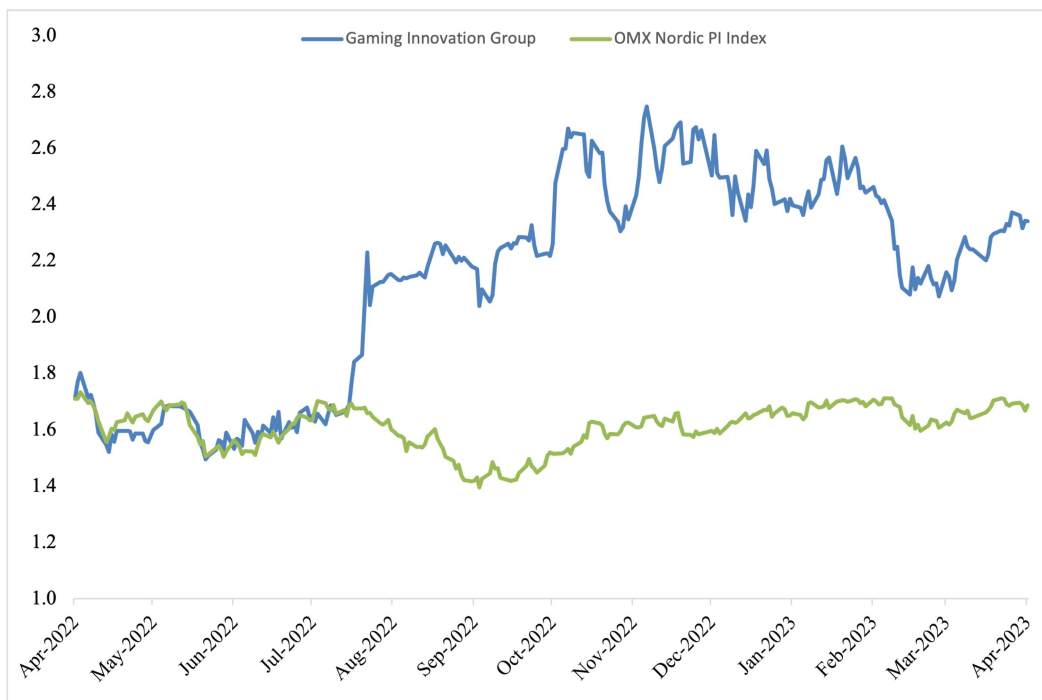
On the 27th of October, 2022, Orkla's share price experienced a decline of 6.7% (Refinitiv Eikon, 2023). This decline was attributed to a weak half-year report that detailed a new business model for Orkla (Nyhetsbyrå Direkt, 2022c). As reported by Selte (2022a) in the third quarter report, Orkla has redefined its ownership role at the group level and will be working towards establishing a number of independent portfolio companies in the future. Additionally, Orkla will be setting up three business service companies to ensure the realisation of key synergies. These changes in ownership and business structure are likely to have contributed to the decline in share price.

4.5 Gaming Innovation Group

When conducting the regression analysis on the Leisure Services industry group, Gaming Innovation Group (GIG) was identified as an outlier, with an undervaluation of approximately 1.8 standard residuals compared to the rest of the industry group.

Gaming Innovation Group is a provider of online gambling (iGaming) services, with the goal of becoming the primary partner for both new and established iGaming companies worldwide. GIG has dedicated significant resources over time to develop a wide range of tools and a cutting-edge technology platform. The company provides comprehensive solutions across the iGaming value chain through its three business segments: Media Services (affiliate marketing and customer acquisition), Platform Services (software and platform solutions) and Sports Betting Services (a proprietary sportsbook product offering). The company had EUR 108m in revenues in 2022 (Gaming Innovation Group, 2023).

Figure 4.5: Gaming Innovation Group's Share Price Performance Compared to a Nordic Equity Index



Comment: The figure displays the share price history of Gaming Innovation Group Inc and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to GIG's price on 27 April 2022.

4.5.1 ESG

The Q1 2023 results report by SEB (2023a) highlights the ESG problems with GIG. The analyst believes that ESG factors will have a significantly negative impact on the company's financial value over the long term and this impact is expected to intensify over the next decade. While the analyst admits that some of the critical ESG factors may be within the company's control, the current approach may not be sufficient in addressing them. Sustainalytics overall ESG risk assessment for the company is low and the ESG financial assessment suggests a very negative financial impact. Furthermore, the ESG aspect is expected to have a 53% negative impact on the total enterprise value, while also raising the cost of equity (SEB, 2023a).

The ESG aspect is also addressed by the CEO, as he states that the company has taken a holistic approach to reviewing the organisation, analysing every aspect through an ESG perspective. As a result, they have pinpointed several areas that could benefit from improvement and have identified specific strategies to enhance ESG practices (Gaming Innovation Group, 2023).

4.5.2 M&A

According to the initiation of coverage report by SEB (2023b), the M&A risk is important in the case of GIG. Like in many acquisition scenarios, there exists a potential risk in effectively integrating the acquired company. This risk may arise from cultural disparities, key personnel departures, or challenges in achieving synergy benefits. Furthermore, if the acquired company fails to meet expectations, there is a risk of goodwill impairments occurring.

The CEO, on the other hand, highlights the M&A agenda as an opportunity rather than a significant risk. He states that the acquisition also enables the company to actively seek additional synergies, leading to enhanced efficiency and cost reductions throughout the entire group, while also further diversifying – i.e., de-risking – and increasing the earnings quality of the unit (Gaming Innovation Group, 2023).

4.5.3 Ownership

On the 17th of August 2022, the GIG share price increased by 9.1% – compared to the index decreasing by 1.2% (Refinitiv Eikon, 2023) – following an announcement of insider trading. According to the announcement, a board member of GIG purchased a significant amount of shares (DI, 2022c). As there were no other announcements this day, the insider trading is seen as the reason for the share price movement.

4.5.4 Financials

The financial development of GIG has been a value driver in the last couple of months, as several sources indicate the importance of the financials. First, the share price increased by 9.5% on the 16th of August (Refinitiv Eikon, 2023), following the reporting of the second quarter of 2023. SEB (2023a) summarises the quarter, mainly focusing on financial development, highlighting extensive organic growth, EBITDA margin improvement as well as very strong operating cash flow. SEB (2023) also expects increased revenue growth going forward.

Second, the financial development is also expressed in the SEB (2023b) report, where the analysts mean that if GIG continues to exhibit growth on a sequential basis and the company effectively leverages the potential synergies between GIG and acquisitions, there is a possibility of achieving a sales CAGR of over 25% in the next three years. Additionally, if margins increase, the investment case could become even more attractive.

Third, the CEO of GIG highlights the financial progress, as he states that he is extremely delighted to deliver a sales 2022 CAGR of 36%, while also expanding the EBITDA margin to 38%, resulting in record high EBITDA (Gaming Innovation Group, 2023).

4.5.5 Regulatory Concerns

GIG is a company highly affected by regulatory changes. SEB (2023a) mentions unfavourable regulatory changes as a main risk in the investment case of GIG. Furthermore, in their initiation report of GIG, SEB (2023b) explains that restrictions on online gambling and related marketing are key risks to their estimates, indicating that these risks are important value drivers. Historically, the iGaming sector has been influenced by this and will most likely continue to be affected in the future.

4.6 Thule Group

When conducting the regression analysis on the Leisure Products industry group, Thule was identified as an outlier, with an undervaluation of approximately 2.3 standard residuals compared to the rest of the industry group.

Established in 1942 in Hillerstorp, Sweden, Thule has grown to become a successful brand with sales spanning 140 countries. It holds a dominant position as a global market leader in various product categories, including roof racks, roof boxes and bike carriers for vehicles. In recent years, Thule has made significant advancements in the field of bike trailers for children and has bolstered its portfolio with child-related products such as child bike seats and strollers. Additionally, Thule excels in European market niches

for RVs and caravans, offering high-quality awnings, tents and bike carriers. Expanding beyond its core expertise, the company has also ventured into sports equipment, luggage and backpacks. In 2022, Thule generated sales of EUR 880m (Thule, 2023).

Figure 4.6: Thule’s Share Price Performance Compared to a Nordic Equity Index



Comment: The figure displays the share price history of Thule Group AB and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Thule’s price on 27 April 2022.

4.6.1 Financials

Multiple sources mention the financial development of Thule as an important value driver. Hagéus et al. (2023) from SEB point out that Thule’s remarkable resilience in maintaining margins during Q1 2023 serves as a strong foundation for considering the company as a high-quality business deserving a premium valuation.

Furthermore, Stjernholm and Ovin (2023) from Nordea expect a slow sales start to Q2 2023, and a gradual recovery as resellers’ inventories are back at normalised levels. Deijenberg and Christiansson (2023) from Carnegie explain that price adjustments are the main reason for Thule to be able to expand its gross margins in the first quarter of 2023.

The share price performance of Thule is also a great indicator of the importance of financial metrics. First, the company announced a trading update on the impact of the

market situation in the bike retail sector. According to the press release, bike retailers had reduced their purchases significantly, leading to decreased sales and profitability until the next biking season in the spring of 2023 (DI, 2022d). On the day of the press release, the share decreased by 8.9% while index increased by 1.8% (Refinitiv Eikon, 2023), highly indicating changes in the guidance of sales and profitability significantly affect the valuation.

4.6.2 ESG

The ESG aspect is a frequently repeated subject among equity research analysts covering Thule. Hagéus et al. (2023) state that over the course of the next decade, ESG factors are projected to have a consistently positive influence on the financial value of the company. The ESG financial assessment indicates a 5% increase in enterprise value as a result of the ESG impact.

Stjernholm and Ovin (2023) state that Thule stands to benefit from the active lifestyle trend due to its durable and high-quality products. However, there are potential risks associated with the company, such as cost inflation caused by dependence on oil-based materials, the responsibility for waste products through extended producer responsibility, and incidents that may occur within the supply chain.

Deijenberg and Christiansson (2023) describe that Thule Group strives to promote sustainability through its range of innovative, high-quality products, manufactured responsibly to minimise their impact on the climate and environment. With a focus on durability and longevity, Thule is dedicated to using safe materials and substances in the production of its goods, supporting its commitment to an environmentally friendly approach, according to the Carnegie analysts.

4.6.3 Consumer Confidence

Various sources mean that consumer confidence has been an important value driver, recently holding back the valuation of Thule. Hagéus et al. (2023) talk a lot about the retail destocking of bike-related products and believe that the destocking will end during the second half of 2023. Stjernholm and Ovin (2023) mention that consumers are financially stressed, meaning that end demand and sales recovery pace could disappoint investors. Lastly, Deijenberg and Christiansson (2023) say that retailers' inventories are still too high, indicating that end-consumer demand deteriorates in the core markets of Thule.

4.6.4 Brand Awareness

Thule has a strong brand and resilient reputation, according to the CEO and equity research analysts. The CEO states that Thule's strong global brand position is built on a foundation of user-friendliness, high-quality products and attractive design that incorporates a long-term sustainable perspective, making it easier for people to lead active lives with their loved ones, eventually strengthening Thule as a global lifestyle brand (Thule, 2023).

Furthermore, Deijenberg and Christianson (2023) mean that the brands of Thule represent the company's most valuable assets.

4.6.5 Management

On the 9th of February 2022, the board of Thule announced that the CEO had been fired and replaced by another executive of the firm (DI, 2022e). On the same day, the share price decreased by 15.0% (Refinitiv Eikon, 2023), indicating that the CEO had been highly appreciated and that the decision by the board negatively surprised investors.

Also, Deijenberg and Christianson (2023) state that there is a possibility of losing some key personnel who have been with Thule under the leadership of the current CEO, who has been with the company since 2006 and served as CEO since 2010.

4.7 GN Group

When conducting the regression analysis on the Household Durables industry group, GN Store Nord was identified as an outlier, with an overvaluation of approximately 3.3 standard residuals compared to the rest of the industry group.

GN Group, established in 1869, is a multinational corporation operating through two divisions: GN Audio (GNA), responsible for 70% of sales, and GN Hearing (GNH) for 30% of sales. With a strong global footprint spanning 100 countries, GN Group employs over 7,500 professionals and is publicly listed on the Nasdaq Copenhagen Stock Exchange (GN Group, 2023). GN Audio has established itself as a global leader in the enterprise headset market, while its market share in consumer headsets remains relatively modest. However, the company has recently expanded its presence in the video collaboration market through the strategic acquisition of Altia. Additionally, GN Audio has made notable progress in the gaming gear market by acquiring SteelSeries. On the other hand, GN Hearing is recognised as the fourth-largest player in the wholesale market for hearing aids worldwide. Moreover, it has been actively establishing a foothold in the online retail market following the acquisition of Lively. In 2022, GN Group achieved a substantial rev-

revenue of EUR 2,500m. In terms of geographical distribution, 41% of sales were attributed to Europe, 37% to North America, and the remaining 22% to other parts of the world (GN Group, 2023).

Figure 4.7: GN Group's Share Price Performance Compared to a Nordic Equity Index



Comment: The figure displays the share price history of GN Group A/S and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to GN Group's price on 27 April 2022.

4.7.1 Financials

During the Q1 release, GN made a slight upgrade to its 2023 financial guidance, primarily driven by the upward revision of guidance for GN Hearing (GNH) as noted by Parkhøi (2023) from SEB and Sørup Ryom (2023) from Danske Bank. GNH now anticipates organic sales growth of 5-10% for 2023, compared to the previous range of 2-8%. Both Parkhøi and Sørup Ryom believe that this adjustment in FY guidance reflects the strong Q1 performance and not necessarily higher expectations for Q2-Q4.

Furthermore, GNH has set its sights on achieving an adjusted EBITA margin of 14-16% for the core business in 2023. This marks an improvement from the previous guidance of 13-16%. In terms of group organic sales growth, the updated guidance now stands at -5% to +7%, an adjustment from the previous range of -6% to +6%.

The first quarter results were especially strong in terms of revenue, organic sales growth and EBITA margins (Granholtm-Leth, 2023; Sørup Ryom, 2023; Parkhøi, 2023). The robust financial performance of the first quarter was also evident in the stock market, as GN's stock price experienced a significant increase of 11.5% upon the release of the quarterly report on the 27th of April, 2023 (Refinitiv Eikon, 2023).

4.7.2 Capital Structure

Parkhøi (2023), Granholtm-Leth (2023) from Carnegie and Sørup Ryom (2023) also focus on GN's capital structure. They communicate that GN Group will release a new capital structure plan shortly and believe this announcement will be a key focal point for the next months. Parkhøi (2023) and Granholtm-Leth (2023) see a financial risk because of GN's high debt burden and that the company may face high refinancing costs in the coming years due to the high debt. Sørup Ryom (2023) highlights that the new financing plan can reduce investors' concern about these issues by for example selling certain assets, divestitures of non-core assets and possibly issuance of new equity.

4.7.3 Organic Growth

Both Parkhøi (2023) and Granholtm-Leth (2023) recognise and acknowledge the impressive organic sales growth reported by GN, aligning with its updated full-year guidance range of -5% to 7%. Parkhøi (2023) attributes this robust performance primarily to strong sales volumes and the successful introduction of new products.

4.7.4 ESG

Olsen (2022) mentions in the Chairman's foreword that the Annual Report 2022 is the first to integrate ESG performance reporting, which indicates GN's progress on sustainability and diversity. Furthermore, Parkhøi (2023) places significant emphasis on the ESG performance of GN. The company's ESG initiatives are recognised as potentially contributing up to 7% of its enterprise value. Parkhøi specifically highlights the substantial influence of GN's carbon emissions and plastic usage on its overall ESG performance, signifying the importance of addressing these areas. Similarly, Granholtm-Leth also acknowledges the ESG performance of GN and underscores the company's unwavering commitment to its ESG goals. Notably, GN is commended for its clean track record, with no past ESG incidents negatively impacting the firm. This recognition further solidifies GN's reputation as a responsible and sustainable organisation, fostering trust and confidence among stakeholders.

4.7.5 Consumer Confidence

In the Chairman's Forewords of the 2022 Annual Report, Olsen (2022) highlights the current and past uncertain and challenging macroeconomic environment for the company, such as the war in Ukraine and soaring inflation leading to declining consumer confidence. Furthermore, the Chairman highlights that GN has been reducing the cost base such as reduction of inventory, targeted budget cuts and reduction of headcount following the worsened situation. Granholm-Leth (2023) believes the main risk to their valuation is a macroeconomic slowdown and reduced demand for enterprise headsets. Furthermore, Parkhøi (2023) believes the main uncertainty for GN Audio relates to the impact on demand from current macroeconomic uncertainty.

4.7.6 Competition

Granholm-Leth (2023) highlights another significant risk, which is the growing competition from other companies. Specifically, in the realm of office equipment products, competition is expected to intensify in the future, with larger players like HP, Cisco and Logitech entering the market. In the field of hearing aids, there is an additional risk that GN may struggle to keep pace with market growth if competitors acquire hearing clinics. This development could potentially impact GN's ability to expand its market share and capture a proportionate portion of the market's growth opportunities.

4.7.7 Dividend

On the 9th of February 2023, GN Group experienced a substantial drop in its stock price, demonstrating a remarkable decrease of -12.9% (Refinitiv Eikon, 2023). This notable drop can be attributed to the release of GN Group deciding to withdraw the dividend for the whole year during the release of the 2022 Annual Report (Nyhetsbyrån Direkt, 2023b).

4.7.8 Acquisition Speculations

On the 24th of May 2022, GN Group experienced a substantial surge in its stock price, demonstrating a remarkable increase of +12.2% compared to the OMX Nordic EUR PI index (Refinitiv Eikon, 2023). This increase can be attributed to the speculations that some firms are interested in acquiring GN (Finwire, 2022).

4.7.9 Change of Board of Directors

On the 26th of June 2023, GN Group witnessed a noteworthy surge in its stock price, marking a significant increase of +10.6% (Refinitiv Eikon, 2023). This remarkable movement can be attributed to the recent announcements regarding changes in GN Group's Board of Directors. Wold-Olsen (2022) conveyed his decision to retire during the Annual

General Meeting held in March 2023. Moreover, Jukka Pekka Pertola, who has served as the Board's Deputy Chair since 2020, will stand for re-election. Notably, the current board has expressed its intention to reconstitute itself with Jukka Pekka Pertola assuming the position of the new chair of the board. Additionally, during the Annual General Meeting, the board will propose the election of Klaus Holse as a fresh member of the Board of Directors for GN Store Nord (GlobeNewswire, 2023). The surge in GN Group's stock price can be attributed to the positive response from investors to these significant changes within the company's leadership structure.

4.8 Lyko Group

When conducting the regression analysis on the Specialty Retail industry group, Lyko Group was identified as an outlier, with an overvaluation of approximately 1.5 standard residuals compared to the rest of the industry group.

Lyko, the leading e-commerce retailer for cosmetics in the Nordic region, offers an extensive selection of products with over 55,000 products spanning haircare, skincare, makeup and fragrances. With operations in eight countries across Northern Europe, Lyko has established itself as a prominent and trusted player in the industry. In 2022, Lyko achieved a revenue of EUR 220m, with nearly 70% of its sales originating from Sweden. While the majority of its sales, approximately 90%, are conducted online, Lyko also operates over 30 physical stores and beauty salons to provide a multi-channel shopping experience for its customers. Lyko has been listed on Nasdaq's First North Growth Market in Stockholm since December 2017 (Lyko, 2022b).

Figure 4.8: Lyko's Share Price Performance Compared to a Nordic Equity Index

Comment: The figure displays the share price history of Lyko Group AB and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Lyko's price on 27 April 2022.

4.8.1 Financials

An important aspect that Lyko (2023) mentions in the first quarter report and multiple other sources is Lyko's financials, especially its high sales growth rate compared to peers (Ekman, 2023; Schmidt, 2023). Lyko reported strong sales growth compared to peers, about 20% during the first quarter, and with relatively intact gross margins despite a volatile market. Between 2017 and 2022, Lyko's sales CAGR has been 26%, which Schmidt (2023) from Danske Bank mentions as impressive given that the underlying market growth only has been around 2% per year. However, Ekman (2022) from Carnegie identifies some near-term risks for Lyko, such as its low and somewhat volatile operating margin, as well as its costly international expansion. On a positive note, Schmidt (2023) expects IT-related expenses to decrease, and the recent establishment of a warehouse hub in Berlin is anticipated to enhance service for German customers while reducing logistical costs for the overall group. The second quarter of 2022 also shows the importance of Lyko's growth which Rickard Lyko, the CEO, highlights (Lyko, 2022a). Even though the results were weak compared to the year before the share price reflected the importance of sales growth. The share price increased by 15.5% on the 15th of July 2022 (Refinitiv Eikon, 2023).

4.8.2 Non-Cyclicalities

Both Ekman (2023) and Schmidt (2023) recognise Lyko as a company with a strong financial track record and emphasise its non-cyclical nature. This attribute contributes to its higher valuation compared to industry peers. However, Ekman and Deijenberg (2022) highlights a potential risk for Lyko, stating that despite its low cyclicalities, the company could be susceptible to a significant decline in consumers' disposable income.

Interestingly, Lyko's 2022 third-quarter report showed that Lyko has remained strong against a decline in consumers' consumption (Forsberg, 2022). When the report was released on the 18th of October the share price increased by 17.4% (Refinitiv Eikon, 2023).

4.8.3 Competition

The competitive landscape is a significant factor to consider, as highlighted by Ekman and Deijenberg (2022). The beauty products industry is known for relatively high entry barriers if you want to become a major player. However, Lyko maintains a robust relative position in the market, aided by its highly automated fulfilment system and low return rates. The automated fulfilment system is also mentioned by Lyko (2022b) as an important aspect of Lyko's success. These factors contribute to its strong competitive advantage. Nevertheless, the report acknowledges the persistent risk of pricing pressure and potential market share loss due to the challenging competitive environment. It is important to recognise that despite Lyko's favourable position, competition remains a constant factor to contend with. On a positive note, Lyko's current strong momentum and investments in automation position the company for the potential to emerge as a prominent market leader not only among online retailers but also within the broader beauty retail industry in the Nordics.

4.8.4 Market Position and International Expansion

Ekman (2023) acknowledges Lyko's remarkable achievement in rapidly establishing itself as one of the leading retailers in the Nordic beauty industry, projecting further market share gains. However, Ekman also emphasises that the success of its expansion outside of the Nordic region has yet to be proven. The non-Nordic markets present an untested territory for Lyko. Ekman and Deijenberg (2022) identify the international roll-out as a notable risk for the company. The profitability and market share Lyko can attain in these new markets remain uncertain. Nevertheless, if Lyko's international expansion proves successful, it holds the potential to significantly exceed growth and earnings expectations. This outcome could justify the premium valuation placed on the company and solidify its position as a strong contender in the beauty industry.

4.8.5 Online Retailing and Covid-19

Ekman and Deijenberg (2022) highlights Covid-19 as a significant factor that positively influenced the online retail sector. The pandemic led to increased sales for many retailers, resulting in improved earnings as the growth in sales outpaced costs. However, following the lifting of Covid restrictions in February 2022, numerous online retailers experienced slowdowns in sales and lower margins. However, the authors holds the belief that the shift towards online retail is not temporary but rather a structural change. They believe that online retailers have the potential to exhibit strong growth rates that surpass the overall market in the long run. The third-quarter report also indicated that Lyko remained strong against the slowdown of online retailing (Forsberg, 2022).

4.8.6 First North Listing

Lyko is currently listed on the Nasdaq First North exchange according to Ekman and Deijenberg (2022). The report suggests that listing on the Nasdaq Stockholm main market could potentially provide more advantages. This is because certain institutional investors may have restrictions on investing in the First North Exchange due to its lower disclosure requirements. Although the choice of listing venue seems to have had a limited impact on Lyko's valuation, the authors believe that it could be a contributing factor to the company's poor stock liquidity.

4.8.7 ESG

Lyko (2022b) mentions in his message from the CEO that sustainability is highly important for them where he mentions that the reduction of carbon dioxide emissions is important. Ekman (2023) assesses Lyko's ESG performance and finds that the company has ambitions to establish itself as a sustainable online retailer. Lyko enforces a supplier code of conduct aligned with global standards such as the UN Global Compact and the OECD's guidelines for multinational enterprises. However, Lyko's ESG reporting is currently limited. Given Lyko's online operations, the transportation of goods contributes to its significant environmental footprint. Ekman (2023) identifies employee working conditions as the most significant sustainability risk, considering that other online retailers have faced allegations of harsh conditions in their fulfilment centres.

4.8.8 Analyst Recommendation

On the 16th of January 2023, Lyko's stock price exhibited a notable increase of 17.8% (Refinitiv Eikon, 2023). This increase can be attributed to Jönsson's (2023) analysis of Lyko, which resulted in the company being chosen as Dagens Industri's weekly stock pick.

4.9 Musti Group

When conducting the regression analysis on the Specialty Retail industry group, Musti was identified as an outlier, with an overvaluation of approximately 2.3 standard residuals compared to the rest of the industry group.

Musti Group, a prominent retailer in the Nordic region, specializes in pet food and accessories. Operating in Finland, Sweden and Norway, the company has recently expanded its services to include nail clipping, vaccinations, grooming and veterinary services. With a diverse range of pet food and accessories, Musti offers both its own brands and exclusive products, which account for over half of its sales. In terms of market share, Musti stands as the clear leader in the Nordics, facing competition primarily from major food retailers. In the fiscal year of 2022, the company generated sales of EUR 390m (Musti Group, 2022b).

Figure 4.9: Musti Group's Share Price Performance Compared to a Nordic Equity Index



Comment: The figure displays the share price history of Musti Group Oyj and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Musti's price on 27 April 2022.

4.9.1 Financials

Multiple equity research analysts point out sales and margins as important value drivers. Wikström and Rahikainen (2023) from SEB describe Musti as not only a story of sales

growth but also as a story of margin improvement. Illmoni (2023) from Carnegie sees potential risks including a significant deceleration in sales growth and a failure to enhance the operating margin.

Furthermore, the share price of the 9th of August 2022 – the same date as the Q2 report was released – increased by 8.1%, vs. index of -1.2% (Refinitiv Eikon, 2023), indicating that the significant sales and profitability improvement, as well as major operating cash flow increase highlighted by the CEO (Musti Group, 2022a), increased the valuation of the company.

Price increases have also been important value drivers. Krokfors and Sandvall (2023) from Nordea and Illmoni (2023) mention that good price increases have boosted the top-line of Musti Group. The Q3 report on the 9th of August 2022 also included highlights on the price increases, as the CEO points out successful price increases as a main driver of higher sales (Musti Group, 2022a).

4.9.2 FX Rates

According to various sources, FX Rates have been affecting Musti heavily. For the first quarter of 2023, Musti's adj. EBIT had a negative FX impact of more than 6% (Wikström & Rahikainen, 2023). Krokfors and Sandvall (2023) state that a stronger SEK and NOK could be a possible short-term positive trigger for the stock. Illmoni (2023) also points out that Musti's margins weakened due to FX headwinds. Not only equity research analysts highlighted the FX problems, but also the CEO, as he mentions the importance of the FX headwinds heavily affecting the margins of the group (Musti, 2023).

4.9.3 ESG

Wikström and Rahikainen (2023) state that ESG factors contribute modestly to the valuation of the shares, with an estimated impact of approximately 3% on the enterprise value. The primary influence lies in the perception of high-quality products and a favourable company image, which are the most significant drivers. Krokfors and Sandvall (2023) mean that their rating of Musti falls below the average of their sample, primarily due to minimal disclosure, particularly in regard to environmental (E) and social (S) metrics.

4.9.4 Consumer Confidence

Confidence in consumer spending has been an important topic according to equity research analysts and the share price development. Wikström and Rahikainen (2023) state that in the case of a shift in consumer behaviour from the premium segment, where Musti operates, to a lower-end segment, the company is likely to experience a decline in sales.

Furthermore, if the transition to online sales occurs more rapidly than anticipated, it could temporarily impact Musti's profit margins. Also, Illmoni (2023) would consider a higher fair valuation given a situation where consumer confidence in the Nordic countries started to improve significantly.

The Musti share price performance of the 8th of November 2022 – a decline of 13.5% vs. index increase of 1.5% (Refinitiv Eikon, 2023) – is also an indicator of the importance of consumer confidence. In the Q4 report released on this day, the CEO highlighted that accelerated inflation has put major pressure on consumer spending, resulting in an adj. EBITA decrease of 9.2% YoY (Musti Group, 2022b).

4.9.5 Competition

Equity research analysts mention competition as an important value driver. Wikström and Rahikainen (2023) state that apart from Musti, the German online pet care retailer Zooplus is the only specialist in the Nordic region. According to the SEB analysts referring to Zooplus, Zooplus held a 5% market share in the Nordic countries in 2020, indicating a monopolistic position of Musti. Krokfors and Sandvall (2023) mention that Musti consistently gains market share from independent competitors, as it has done for years and that the management has asserted that it has also captured market share from grocery stores, which lack a pet-centric service concept. Illmoni (2023) mentions that Musti deserves a premium valuation given its dominance against competitors.

4.9.6 Ownership

On the 27th of May 2022, Musti announced an insider trading transaction made by the CFO. According to the announcement, the CFO purchased a significant amount of Musti shares (Musti Group, 2022). On the same day, the Musti share price increased by 8.8% (Refinitiv Eikon, 2023) and with no other news that day, the transaction by the CFO is most likely the value driver.

4.9.7 M&A

According to various sources, Musti operates in a highly fragmented market, creating opportunities for an active M&A agenda. Wikström and Rahikainen (2023) write that Musti's growth opportunities in Finland are supported by the substantial market share held by fragmented independent operators. This provides an opportunity for Musti to expand by capturing market share from these independent stores or through consolidation efforts.

The CEO mentions that he is excited about the opportunities a recent transaction brings

to the company – he talks about meeting the growing demand for locally and sustainably produced goods and enhancing profitability by bringing the production of our own brands in-house (Musti, 2023).

4.9.8 Brand Awareness

Wikström and Rahikainen (2023) state that Musti exhibits remarkable brand loyalty, boasting 1.3 million loyal customers out of a total Nordic pet population of 5.3 million. Pet care products, particularly pet foods, tend to cultivate a naturally devoted customer base. This is due to the likelihood of customers sticking with a pet food brand that satisfies their pets' preferences and needs.

4.10 Pandora

When conducting the regression analysis on the Textiles, Apparel & Luxury industry group, Pandora was identified as an outlier, with an overvaluation of approximately 1.9 standard residuals compared to the rest of the industry group.

Founded in 1982, Pandora has emerged as one of the leading global jewellery brands, dominating the "affordable luxury" segment. The company operates in a fully integrated manner, with production facilities located in Thailand, and the majority of design work is conducted in-house. With a strong presence in over 100 countries, Pandora's products are distributed through approximately 6,500 retailers, including over 2,500 concept stores. The largest market for the company is the United States, accounting for approximately 30% of group sales. Pandora has a global workforce exceeding 26,000 employees, with over 12,000 individuals employed in Thailand. The company reported 2022 sales of EUR 3.6bn (Pandora, 2023).

Figure 4.10: Pandora's Share Price Performance Compared to a Nordic Equity Index

Comment: The figure displays the share price history of Pandora A/S and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Pandora's price on 27 April 2022.

4.10.1 Financials

Equity research analysts and share price development indicate that financial development is a highly important value driver of Pandora. Godiksen (2023a) from SEB mentions that Pandora trades approximately 40% below global core peers, despite performing better financial metrics and outlook in terms of growth and ROIC. Also, the analyst thinks that Pandora rightly prioritises growth to maximise shareholder value, as well as the focus on price increases will boost margins. Vitfell-Rasmussen (2023) from Danske Bank likes the ability of Pandora to protect margins in a current challenging macro environment.

On the 8th of February 2023, the Pandora share price increased by 10.7% (Refinitiv Eikon, 2023). On the same day, the full-year results of 2022 were announced, arriving in the high-end of the guidance in terms of topline growth and margin improvement (DI, 2023). The positive news was highly appreciated by shareholders, as the share price increased significantly. Furthermore, the share price increased by 10.6% on the 8th of November 2022, when Pandora announced that the company was on track to deliver on the full-year guidance in terms of growth and profitability (DI, 2022f).

4.10.2 Brand Awareness

According to equity research analysts, Pandora has an important asset in its brand. Godiksen (2023a) confirms that company-owned stores continue to outperform stores owned by franchisees. Godiksen (2023b) points out Pandora as the world's largest jewellery brand and that Pandora is well-positioned to capitalise on the trend of branded products outpacing the overall market growth of unbranded products. Further confirmation is given by Vitfell-Rasmussen (2023), who highlights that Pandora has strong brand recognition leading to a solid market position.

4.10.3 Consumer Confidence

Consumer confidence in terms of consumers' ability and willingness to spend money is an important value driver for Pandora, according to equity research analysts and the CEO. Godiksen (2023a) states that their estimates assume a significant deterioration in consumer sentiment. Vitfell-Rasmussen (2023) says that the main risk to their investment case revolves around the uncertainty surrounding consumer sentiment throughout the remainder of 2023. If consumers opt to curtail spending on non-essential items due to increased energy costs and broader inflationary pressure, Pandora's business could face significant implications.

Furthermore, the CEO of Pandora says that elevated uncertainty in terms of consumer spending puts pressure on the macroeconomic outlook. He also says that the company faces a tough U.S. comparison following the stimulus cheques last year (DI, 2022g). These statements were communicated in the Q3 2022 release – on the same day, the share price declined 6.1% (Refinitiv Eikon, 2023), indicating that the weakened consumer confidence heavily affects the valuation of Pandora.

4.10.4 ESG

ESG is highlighted in equity research reports. However, it does not directly affect valuation significantly, but acts more as a potential future value driver. Godiksen (2023a) states that ESG factors contribute slightly to the share's valuation, with an estimated impact of approximately 3% on the enterprise value. The most significant impact is the political risk associated with having all production operations in Thailand. However, this risk is diminishing as the company has initiated the construction of a plant in Vietnam. Additionally, the company is proactively working towards achieving carbon neutrality by 2025.

Brenoe and Herholt Jensen (2023) from Nordea mentions that Pandora is actively implementing measures to establish itself as a sustainable jewellery manufacturer. In 2020, the company undertook various initiatives to enhance its sustainability profile. The Nordea

score reflects a positive impact of a favourable opportunity set and the company's ESG footprint.

4.10.5 M&A

Godiksen (2023b) believes that acquiring existing stores from franchisees and distributors presents a low-risk strategy for Pandora's growth strategy. This approach is expected to generate substantial value, as Pandora can obtain highly profitable stores at attractive single-digit multiples. Furthermore, the analyst means that the acquisitions yield significant value accretion due to the lower acquisition multiples compared to Pandora's own valuation.

4.10.6 Competition

Equity research analysts highlight the importance of Pandora's position and market shares. Godiksen (2023b) points out that Pandora holds a dominant position as the market leader in the affordable jewellery segment, standing out among only a handful of global brands in an otherwise highly fragmented market. According to the analyst, Pandora captured a market share of 1.4% of the global jewellery market in 2022, nearly three times the share of its closest competitor. Vitfell-Rasmussen (2023) also highlights the competitiveness of Pandora, as the analyst confirms a continuation of gaining market shares in important markets.

4.10.7 Share Buy-Back Programme

In parallel with the Q4 reporting of 2022, Pandora announced a share buy-back programme (DI, 2023). On the same day, the share increased by 10.7% (Refinitiv Eikon, 2023). Although the company reported attractive financial numbers, the launch of the share buy-back programme most likely boosted the increased valuation of the company.

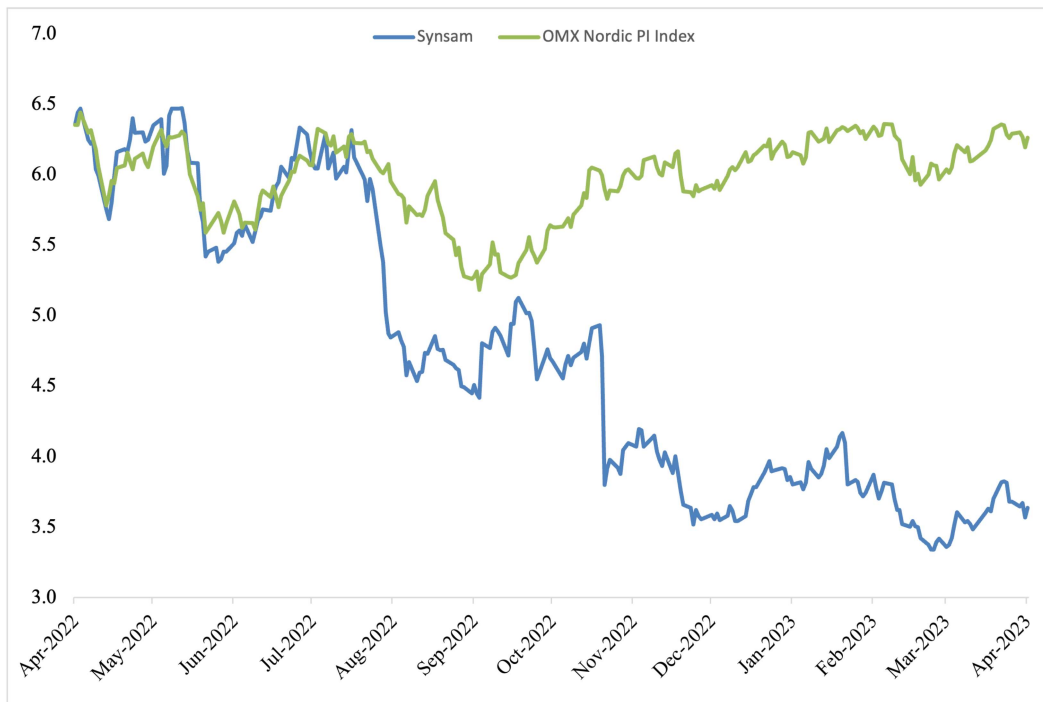
4.11 Synsam

When conducting the regression analysis on the Specialty Retail industry group, Synsam was identified as an outlier, with an overvaluation of approximately 1.8 standard residuals compared to the rest of the industry group.

Synsam Group is a prominent optical retailer in the Nordic region, known for its distinctive and sustainable Lifestyle offerings. With a comprehensive range of products and services dedicated to eye health and fashion, Synsam Group caters to the diverse lifestyles and needs of its customers. The group employs around 4,000 people and operates roughly

500 stores across the Nordics. These stores operate under the brands Synsam, Ai Eyewear and Profil Optik (in Denmark). By leveraging digitalisation, subscription services and other innovative concepts, Synsam Group spearheads innovation in the Nordic optical retail market, enhancing the customer journey, product offerings and ESG initiatives. In 2022, the company generated sales of EUR 460m (Synsam, 2023).

Figure 4.11: Comparison of Synsam’s Share Price Performance with a Nordic Equity Index



Comment: The figure displays the share price history of Synsam AB and the OMX Nordic PI Index for twelve months starting from 27 April 2022. The OMX Nordic PI Index has been rebased to Synsam’s price on 27 April 2022.

4.11.1 Financials

The financial development of Synsam has decreased its valuation during the last twelve months. On the 16th of November – the same day as the release of the reporting for the third quarter of 2022 – the share price declined by 19.4% (Refinitiv Eikon, 2023). According to the report, the company experienced organic sales growth declining from 21% to 10% and a decrease in multiple margin metrics as well (DI, 2022h). The release of the Q2 2022 report on the 24th of August 2022 is also evidence of weak financial performance affecting the valuation, as significantly lower sales growth and margins compared to the same period the prior year got the stock to decrease by 6.6% (DI, 2022i; Refinitiv Eikon, 2023.)

Furthermore, Ovin and Stjernholm (2023) from Nordea expect continued EBITA and gross margins pressure, while a return to growth will trigger the revaluation of Synsam. Jansson and Schmidt (2023) from Danske Bank argue that Synsam should be valued at a discount to its optical peers but at a premium to its Nordic peer group average due to its higher expected sales and higher profitability profile, indicating the importance of sales growth and profitability.

4.11.2 Costs

Equity research analysts argue that costs have been affecting the margins, ultimately decreasing the valuation of Synsam. Jansson and Schmidt (2023) expect increased inflationary pressure arising from higher store rental rates, staff salaries and Synsam's expansion plan, most likely leading to another quarter of weak earnings. These aspects are confirmed by Ovin and Stjernholm (2023), who talks about cost inflation and higher rent costs affecting profitability.

4.11.3 Cost Saving Actions

Jansson and Schmidt (2023) mention that the cost savings program initiated in Q1 2023 may have a higher execution efficiency than the analyst's current estimate. This has the potential to result in cost reductions and improved earnings in the fiscal year 2023/24, which the analyst considers to be an upside risk to the target price. Similarly, Ovin and Stjernholm (2023) talk about the efficiency program of reduction of SEK 103m aiming to reduce opex costs, ultimately increasing margins.

4.11.4 Consumer Confidence

Consumer sentiment is a recurring theme by the CEO and equity research analysts. In the Q3 2022 report, the CEO talks about a weak consumer market affected by electricity prices, inflation and increased interest rates (DI, 2022h). Furthermore, Ovin and Stjernholm (2023) expect a less overstocked industry going forward, meaning that consumer sentiment most likely will improve. Jansson and Schmidt (2023) on the other hand, expects that consumers are trading down for cheaper alternatives, meaning difficulties for Synsam. However, both banks pointing out consumer confidence as an important aspect going forward indicates its importance for the valuation of the company.

4.11.5 Competition

Both equity research analysts and the CEO highlight the importance of the competition in the industry Synsam operates in. The CEO states that the competition among retailers for consumer attention has become increasingly demanding, particularly within the

optical retail and eye health market in the Nordics, which is characterised by intense competition and a strong emphasis on promotional campaigns (DI, 2022h). The CEO further describes the market as a fiercely competitive one, heavily influenced by marketing campaigns. Players are encountering significant difficulties in recruiting opticians – a challenge particularly pronounced in Sweden, but also extends to Norway and Denmark (DI, 2022i).

Furthermore, Ovin and Stjernholm (2023) expect the competition to remain very high going forward, putting pressure on gross margin, as price increases will not be issued by Synsam. Also, Jansson and Schmidt (2023) expect Synsam to gain market share as a result of no price increases. The gain of market share – i.e., fighting competition – could act as a potential upside risk, according to Jansson and Schmidt (2023).

4.11.6 ESG

Equity research analysts highlight various ESG risks. Ovin and Stjernholm (2023) state that the primary ESG risks associated with Synsam pertain to its supply chain. To address these risks, Synsam is an active member of BSCI (Business Social Compliance Initiative) and maintains strict oversight through its purchasing department to ensure that suppliers adhere to BSCI principles. These principles encompass eradicating child labour, forced labour and corruption, while also establishing standards for safety and reasonable working hours. Additionally, Synsam participates in initiatives aimed at providing free glasses to children and individuals in developing countries.

Furthermore, Jansson and Schmidt (2023) expect aspects including a sustainable lifestyle, offering glasses for everyone and glasses getting a second chance through recycling to be important ESG factors driving the valuation going forward.

4.11.7 Share Buy-Back Programme

On the 24th of August 2022 – the same day as the release of the Q2 2022 report – the Synsam share declined by 6.6% (Refinitiv Eikon, 2023). On the same day, Synsam launched a share buy-back programme that most likely got investors to react positively (DI, 2022i). Most likely, this hampered a greater share price decrease – e.g., similar to the one that occurred on the day of the Q3 2022 release, when the share price declined by 19.4% (Refinitiv Eikon, 2023), following a negative report without any other positive news such as a share buy-back programme.

4.11.8 Brand Awareness

Brand awareness is highlighted by Jansson and Schmidt (2023), as the analyst mentions the company's strong brand to imply resilience in the sales figures as well as further market share gains.

5

Analysis

The analysis is aiming to (1) construct the framework of important valuation aspects for Nordic consumer businesses and (2) outline significant value drivers according to equity research analysts, CEOs and intraday share price developments. Based on the case studies, eleven aspects seen as important value drivers are included in the framework. The eleven aspects are financials, price increases, cost savings, ESG, consumer confidence, ownership, M&A, capital structure, brand awareness, competition and share buy-back programmes. Below is a compilation and deep-dive of the eleven aspects making up the framework, as well as information on where the aspect occurs most frequently – in equity research reports, CEO comments or as short-term share price reaction drivers.

5.1 Main Research Question

This section aims to answer the main research question in terms of identifying critical factors for the firm value of Nordic consumer businesses. The main research question is stated below.

- What are the critical factors to consider when examining company outliers in a multiple linear regression analysis, for valuing consumer business companies?

5.1.1 Financials

The financial development of the companies included in the case studies has been highly important for the valuation of the companies, according to the results. The financial development of Carlsberg, GIG, Thule, GN, Lyko, Musti, Pandora and Synsam have been pointed out as valuation drivers in the case studies.

For GIG, financial development in terms of organic growth, EBITDA margin improvements and strong cash flow is highlighted by equity research analysts and the CEO, indicating its importance from a shareholder perspective. Furthermore, positive share price movements occurred following positive news relating to financial performance.

In the case of Lyko, impressive sales growth is mentioned by equity research analysts.

This growth is further compared to both peers and the market as a whole, displaying Lyko as an outstanding performer in terms of growth. A sharp share price increase following a quarterly report pointing out sales growth as a main achievement is further an indicator of the impact financial performance has on valuation.

Musti is another case where the financials have impacted the valuation. Analysts emphasise the importance of Musti's sales growth and margin improvements, indicating the metrics' importance from an investor perspective.

For Synsam, dramatic decreases in organic sales growth as well as worsened margin metrics have led to negative share price performances, according to the results. Furthermore, the analysts expect that a return to growth may trigger the revaluation of Synsam.

The results of the financial aspect are in line with the literature. The literature covers various valuation methodologies, and all of them are based on a company's ability to generate profits, meaning that a company's ability to generate future profits in many cases is the most important aspect to determine firm value. Furthermore, the results disclose that financial development is a core part of most equity research reports and interim reports, indicating the high priority and attention investors put on financial development.

From the results, it is also possible to state that financial development is an outcome of many factors of which some are included as important valuation aspects in the framework outlined in the analysis section of this report. This further indicates the importance of financial development for company valuations.

5.1.2 Price Increases

In the results of four case studies, price increases make up an aspect identified as a potential value driver. For Carlsberg, Orkla, Musti and Pandora, various sources have highlighted the importance of price increases from a shareholder perspective.

In the case of Carlsberg, price increases are mentioned as a cause of the improved price/mix growth Carlsberg has achieved. Additionally, the price increases have led to improved margins, according to the results.

For Orkla, the higher prices the company has put on its products are due to the current macroeconomic environment leading to higher input costs. More specifically, raw material costs, food prices from suppliers, energy prices and freight costs have all risen, leading to price increases to combat the margin challenges arising from increased input costs.

Musti is an example of a case where successful price increases have boosted investor appetite and firm value. According to the results, the price increases have acted as a main driver of higher sales. Furthermore, Pandora is a case where price increases have boosted margins, as explained in the results.

The results related to price increases are in line with the literature. Both sources say that price increases are used mainly to combat increasing input costs. However, the literature also points out several other important aspects regarding price increases. First, the action can not only combat higher input costs and improve margins but also bolster customer relationships. Second, if implemented poorly, price increases may strain customer relations, dampen sales and erode margins. Third, timing is important – being the first among competitors to raise prices can be challenging, as there is a risk of losing customers to competitors.

Summing the aspect of price increases up, it is possible to state that the macroeconomic environment in early 2023 – characterised by high inflation – most likely has contributed to the importance of price increases from a shareholder perspective, meaning that the importance of price increases or their causes may differ during other macroeconomic conditions.

5.1.3 Cost Savings

The results show that cost-saving actions have been an important part from a shareholder perspective. The case studies on Stockmann, SalMar, Orkla and Synsam disclose the importance of cost savings.

To start, the CEO of Stockmann clarifies in his 2022 letter to shareholders that one of the main focuses going forward is cost efficiency. Equity research analysts covering the company also highlight the importance of the company's cost savings programme, which covers both divisions of the group.

In the case of SalMar, the cost savings aspect is mentioned by analysts in two ways. First, the deal with NTS is expected to generate significant cost savings. Second, rising costs due to continued inflation will be of high priority to remain margins at high levels going forward.

Cost savings programmes in Orkla and Synsam are also deemed to attract investors if executed successfully, according to the results.

The literature on the aspect of cost savings is in line with the results, as the literature mainly suggests that cost savings are done to strengthen profitability, which leads to a

more attractive company from a shareholder perspective, ultimately increasing the valuation. Also, the literature highlights the importance of striking a balance between reducing costs and being able to meet demand, which equity research analysts also point out as an important aspect, according to the results.

5.1.4 ESG

The ESG aspect has, according to the results, in most of the case studies affected the company valuation. Companies including Carlsberg, SalMar, Orkla, GIG, Thule, GN Group, Lyko, Musti, Pandora and Synsam experienced ESG-related aspects.

On the ESG factor, the results of Carlsberg show positive and negative aspects. On the positive side, several factors including a net-zero carbon emissions target should impact the enterprise value by approximately 8%. On the negative side, other equity research analysts rate Carlsberg below the average of its peers, indicating a negative view from a shareholder perspective. Similarly to Carlsberg, SalMar is expected to face a valuation boost by its ESG actions – approximately by 7%, according to the results. GIG, on the other hand, faces major ESG problems, affecting the valuation negatively by more than 50%, according to the results. For Musti, the pattern of both positive and negative views is repeated, as equity research analysts are divided on their opinions – some portray the company as positively impacted by ESG factors, while others put the company below its peers on ESG metrics.

ESG is undoubtedly an important topic for investors, as it is a frequently repeated topic among equity research analysts and CEOs when communicating to shareholders, according to the results. The literature confirms the results of the ESG aspect, as various literature state that firms outperforming competitors and peers on ESG metrics deserve – everything else equal – a premium valuation. Even though some analysts do not say that ESG directly impacts valuation, it is possible to draw the conclusion that it is a highly important topic for investors – due to its amount in the research reports – meaning that investors are willing to pay more for ESG-friendly companies.

5.1.5 Consumer Confidence

The results disclose that consumer confidence plays an important role in firm value. The valuations of Carlsberg, Stockmann, Thule, GN, Musti, Pandora and Synsam have been affected by consumer confidence.

For Stockmann, equity research analysts highlight the consumer confidence aspect when prompting that a shifted consumer consumption will lead to a sales decline followed by operating losses. The consumer confidence importance is also highlighted by the CEO,

as he states that customers returning to stores after the pandemic is a vital step towards continued sales growth for the company. Also, the negative share price developments following disappointing Q2 and Q3 reports of 2022 – with the CEO emphasising a weak consumer sentiment – are further indications of the valuation effects of consumer confidence.

The consumer confidence valuation trend is similar for Musti. According to the results, further change in consumer behaviour, shifting away from the premium segment in which Musti operates and towards a lower-end segment, is expected to decrease sales of the company, ultimately leading to lower earnings and therefore lower valuation. A significant share price decrease on the day of the Q4 2022 release – where the CEO talks a lot about the increased pressure on consumer spending – also confirms the consumer confidence impact on valuation.

For the rest of the companies' valuations that are mentioned to be affected by consumer confidence, the trends are similar. The results disclose that financially stressed consumers lead to lower sales, holding back the valuation of companies. These trends are in line with the literature, which shows that increased consumer confidence boosts firm value, while a lack of consumer confidence leads to a high probability of lower stock returns.

As the literature indicates that a lack of consumer confidence affects valuation negatively, it is not surprising that the valuation aspect of consumer confidence occurs in many of the case studies at the time of the writing of this study. As explained in other parts of this study, the macroeconomic environment – and consumer confidence – is under high uncertainty during the Spring of 2023, meaning that if the study would have been written under more stabilised macroeconomic circumstances, the consumer confidence aspect might not have got the same amount of valuation impact and attention.

5.1.6 Ownership

Ownership in terms of insider trading has been a significant value driver directly affecting firm value, according to the results. The share prices of Stockmann, GIG and Musti have seen significant movements following changed ownership structure, mostly focused on insider trading.

The results of Stockmann show two phenomena. First, equity research analysts point out the new large shareholders of Stockmann as a positive development from a shareholder perspective. Second, the share price saw a significant positive movement following an announcement of major insider trading acquisitions. Similarly, the share price of GIG reacted positively when a board member acquired shares. The pattern is further seen in the case of Musti, whose share rose significantly following an insider purchase transaction.

Connecting the literature of ownership to the results, it is safe to state that the literature is aligned with the results of the case studies. According to the literature, stocks should react positively to insider trading news indicating purchasing, and negatively to the opposite. Although the case studies do not include any selling – and therefore negative reactions – it is possible to conclude that ownership and more specifically insider trading has a major intra-day share price effect.

5.1.7 M&A

M&A activity has been mentioned in the results of SalMar, GIG, Musti and Pandora, indicating importance from a shareholder perspective.

The results of SalMar disclose that an acquisition is expected to imply significant cost synergies, strengthening long-term profitability, and ultimately affecting the valuation. Also, a positive share price reaction on the day of the deal announcement indicates the direct affection the M&A confirmation had on firm value. For GIG, the M&A agenda is seen as a risk by equity research analysts and as an opportunity by the CEO. Therefore, the M&A effect of GIG is yet to be confirmed – increased risk would concern investors and accelerated M&A followed by synergies would satisfy investors. For Musti on the other hand – who operates in a highly fragmented market – the perception by equity research analysts and the CEO is the same. Both sources mention growth opportunities and enhanced profitability as M&A results. Regarding Pandora, the perception of equity research analysts differs from GIG, as M&A in the case of Pandora should de-risk the investment case. Furthermore, Pandora's M&A agenda yields significant value due to lower acquisition multiples compared to the valuation of Pandora.

The results of the M&A aspect are twofold – and so is the literature. The literature states that M&A is a complex area that could be value-creating as well as value-destroying. Therefore, the results are in line with the literature and it is possible to conclude that M&A agendas could have a significant valuation impact – both positive and negative.

5.1.8 Capital Structure

Capital structure has been a recurring topic taking place in the results. Companies including Stockmann, SalMar and GN Group have had financial commentary made by equity research analysts and a CEO on the capital structure of the firms.

According to the results stemming from equity research analysts, Stockmann is expected to hold a net cash position once restructuring debts have been fully paid off. Also, the CEO highlighted the net cash position as a main achievement of the year, highly indicat-

ing the importance of capital structure from a shareholder perspective.

Furthermore, the results of SalMar indicate that the closing of a not-yet-closed deal clearly would act as a catalyst for the stock, as the company's net debt then would decrease substantially. The results of SalMar also show that increased leverage may lead to higher interest rate costs, implying lower profitability, and ultimately affecting the valuation. Regarding GN Group, the results disclose the importance of reducing debt to make investors confident and eliminate investors' concerns, which should have an effect on the valuation.

The literature presented in this study is in line with the results on capital structure. According to the literature, investors prioritise companies with sustainable debt levels, indicating that companies with healthy levels of debt should be valued at a premium compared to companies with unhealthy levels of debt. However, the literature also suggests that too little debt can be concerning as it suggests excessive reliance on equity and underutilisation of assets for business expansion. Among the case studies presented in this report, no company has experienced too little debt, but only too large amounts of debt. To sum it up, improved capital structure could boost firm value, according to the results and the literature.

5.1.9 Brand Awareness

According to the results, brand awareness has acted as a value driver in multiple case studies. The valuation of Thule, Musti, Pandora and Synsam have all been affected by the companies' brand recognition, according to equity research analysts and messages by the CEOs.

The results of Thule suggest that the brand makes the company more resilient in challenging economic environments, leading to strong financial performance despite harsh conditions, finally making a less negative impact on the valuation during times with weak consumer demand. The CEO states that Thule's strong global brand position is built on a foundation of user-friendliness, high-quality products and attractive design that incorporates a long-term sustainable perspective, strengthening Thule as a global lifestyle brand.

Furthermore, equity research analysts covering Musti, Pandora and Synsam point out the brand recognition as an important value driver. For Musti, customer stickiness is highlighted as a result of a strong brand. Pandora – who runs company-owned stores with branded products – is deemed to outperform non-branded competitors with a weaker brand. Lastly, the brand of Synsam is expected to imply resilience in the sales figures as well as boost market share gains during weak economic circumstances.

The results of the four companies mentioned above are in line with the literature. Referring to the literature, strong brand recognition should – everything else equal – be linked to higher firm value. Therefore, the literature aligns with the results of the case studies, making brand awareness an important value driver.

5.1.10 Competition

The competitive advantage of the firms studied has turned out to act as a driver of firm value. Via equity research reports and messages from the CEO, competition has been studied and confirmed to be a value driver in GN Group, Lyko, Musti, Pandora and Synsam.

Looking at Synsam, where competition has been highlighted by multiple equity research analysts as well as by the CEO, discloses the importance of competition. Equity research analysts mention that fighting competition and gaining market share could act as a potential upside risk to their target price. Furthermore, the CEO mentions an increasingly demanding competitive environment in two consecutive interim reportings, further confirming the importance of competitive advantage.

For Lyko, high entry barriers put the company in a favourable position, according to the results. Musti holds a close-to-monopolistic position, continuously gaining market shares from independent players and therefore deserves a premium valuation. Furthermore, Pandora has a strong market position, highly recognised by equity research analysts.

The results indicate a strong positive relationship with the literature. The literature says that increased competition in a market – everything else equal – unambiguously leads to decreased firm value. However, the competitive advantage is not directly impacting the valuation, but rather indirectly and directly the financial performance, which on a long-term basis affects the valuation.

Given the frequent occurrence of discussions of a firm's competitive advantage combined with the literature confirming the findings of the five case studies mentioned in this section, it is reasonable to conclude that competition heavily affects market valuation, although this may be on a long-term basis.

5.1.11 Share Buy-Back Programmes

According to the results, share buy-back programmes have affected firm value. Equity research analysts and share price development have indicated that share buy-back programmes have been value drivers for Carlsberg, Pandora and Synsam.

In the case of Carlsberg, the significant share price increase on the 16th of May 2022 indicates the valuation impact share buy-backs could have. This importance is also confirmed by an equity research analyst, further strengthening share buy-backs' importance from a shareholder perspective.

The share price movements of Pandora and Synsam highlighted in the results are also indicators of the effect share buy-backs could have on firm value.

Linking the results to the literature, it is possible to state that the two sources in terms of results and literature are aligned. The key takeaway from the literature is that there exists a significant positive relationship between share repurchases and excess returns in both the short and long term. Also – as a more indirect effect on firm value – share buy-backs reduce total assets, leading to enhanced performance metrics, which could attract investors and boost firm value, according to the literature.

5.2 Sub-questions

This section aims to answer the three sub-questions in terms of identifying critical factors for the firm value of Nordic consumer businesses according to equity research analysts, CEOs and short-term share price movements. The three sub-questions are stated below.

- Which significant factors influencing firm value are commonly addressed in equity research reports?
- Which significant factors influencing firm value are commonly addressed by CEOs?
- Which significant factors have the most substantial impact on intraday share price developments?

The section starts with a visual summary (Table 5.1) of the results of the three sub-questions. Thereafter, explanations of each value driver are given, followed by a final summary highlighting the three most important value drivers connected to each sub-question.

Table 5.1: *Critical Valuation Factors*

Factors	Equity Research	CEO Statement	Share Price Movement
Financial	8	4	7
Price Increases	4	1	0
Cost Savings	4	1	0
ESG	10	6	0
Consumer Confidence	7	5	2
Ownership	1	0	3
M&A	4	3	1
Capital Structure	3	1	0
Brand Awareness	4	1	0
Competition	5	1	0
Share Buy-Back Prog.	1	0	3

Comment: Overview of how often the critical valuation factors have been highlighted within the analysed sources: equity research reports, CEO statements and major intraday share price movements.

The aspect of financial development was mentioned by equity research analysts and the CEO in the case of Carlsberg. For Thule, GN, Pandora and Synsam, the aspect was mentioned by analysts and clearly a cause of major share price movements. For GIG, Lyko and Musti, analysts, CEOs and share price movements covered the financial development aspect.

For the price increases aspect, equity research analysts mentioned the aspect in the cases of Carlsberg, Orkla, Musti and Pandora. Additionally, the CEO mentioned price increases in the case of Musti.

The cost savings aspect was mentioned by equity research analysts and the CEO in the case of Stockmann, and by equity research analysts only in the cases of SalMar, Orkla and Synsam.

For the ESG aspect, none of the companies studied has experienced short-term share price reactions due to ESG announcements. Instead, ESG aspects are mainly covered by equity research analysts and CEOs. Due to this pattern, it is possible to conclude that ESG aspects act as a long-term driver of valuation, not necessarily impacting intra-day movements significantly. More specifically, ESG aspects of Carlsberg, Thule, Musti, Pandora and Synsam are mentioned in equity research reports only. For SalMar, Orkla, GIG, GN Group and Lyko, the ESG aspect is mentioned by equity research analysts and CEOs.

The consumer confidence aspect was mentioned by equity research analysts in the cases of Carlsberg and Thule. For GN, Pandora and Synsam, the aspect was highlighted by analysts and CEOs. For Stockmann and Musti, the factor was seen from all three sources – analysts, CEOs and share price development.

For Stockmann, the ownership aspect was discussed by equity research analysts and disclosed as a share price reaction. For GIG and Musti, it was disclosed as a share price reaction only.

The M&A aspect was mentioned by equity research analysts and CEOs in the case of GIG and Musti. In the case of SalMar, M&A was identified in equity research, by the CEO and as a short-term share price reaction. For Pandora, only equity research analysts highlighted the M&A aspect.

For Stockmann, capital structure has been mentioned by equity research analysts as well as by the CEO. For SalMar and GN Group, it has been mentioned by equity research analysts only.

Strong brand recognition has been highlighted most frequently by equity research analysts. For all four companies mentioned in the brand awareness section, equity research analysts have covered brand awareness. For Thule, the CEO has mentioned brand awareness. None of the four companies has experienced significant short-term share price reactions due to announcements linked to brand awareness.

The aspect of competition has been highlighted by equity research analysts for all five companies mentioned in the competition section. Also, the aspect has been highlighted by the CEO of Synsam.

In the results, the share buy-back programmes have been mentioned in an equity research report for Carlsberg and as a driver of share price development for Carlsberg, Pandora and Synsam.

Summing it up, it is possible to state that ESG and financials have turned out to be the most occurring aspects in the sources of equity research reports, CEOs and drivers of short-term share price movements, according to Table 5.1. For equity research reports, the aspects of ESG, financials and consumer confidence were the most occurring themes. For CEOs, the aspects of ESG, consumer confidence and financials were the most occurring themes. For short-term share price movements, the aspects of financials, ownership and share buy-back programmes were the most occurring themes.

6

Conclusion

This section has three main objectives. First, it outlines the main findings of the research study. Second, it discusses the research process and research limitations. Third, it explains the study's research contributions and suggests further research directions.

6.1 Main Findings

The objective of this study has been to come up with a framework clearly illustrating important value drivers – both financial and non-financial – of Nordic consumer businesses. From this purpose, the following main research question is derived, followed by three sub-questions:

- What are the critical factors to consider when examining company outliers in a multiple linear regression analysis, for valuing consumer business companies?
 - Which significant factors influencing firm value are commonly addressed in equity research reports?
 - Which significant factors influencing firm value are commonly addressed by CEOs?
 - Which significant factors have the most substantial impact on intraday share price developments?

The main research question is answered by the framework built in the analysis. The framework consists of eleven aspects that have proven to be important drivers of firm value. The eleven aspects are financials, price increases, cost savings, ESG, consumer confidence, ownership, M&A, capital structure, brand awareness, competition and share buy-back programmes.

The research of the first sub-question – investigating valuation aspects covered in equity research reports – has outlined value drivers including ESG, financials and consumer confidence.

The research of the second sub-question – investigating valuation aspects covered by CEOs – has outlined value drivers including ESG, consumer confidence and financials.

The research of the third sub-question – investigating valuation aspects resulting in significant intraday share price movements – has outlined value drivers including financials, ownership and share buy-back programmes.

6.2 Research Process and Limitations

This study employed a combination of qualitative and quantitative methods. Initially, multiple linear regression analyses were conducted on listed Nordic consumer business companies. Covariates were carefully selected to accurately fit the dataset of Nordic consumer companies, with the company's enterprise value serving as the dependent variable. Following the regression analysis, outliers were identified and thoroughly examined to understand the reasons behind their substantial deviation from estimated enterprise values. This analysis considered various factors such as ESG performance, capital structures, financial performance, ownership, macro factors, management and consumer confidence. Subsequently, a framework was developed to highlight the essential factors to consider when valuing companies in the consumer business sector and its sub-sectors.

This study's developed framework is best suited for consumer companies, although certain identified factors may have relevance to other sectors. The analysis is based on companies classified as consumer companies within the Refinitiv Eikon database, which may differ from alternative definitions of the consumer sector, potentially leading to varied outcomes and interpretations. The accuracy of multiple regression models in estimating enterprise value with strong statistical significance poses challenges, indicating that outliers identified in this study may differ from those identified using alternative regression and valuation models. It is worth noting that the study focuses on only eleven outlying companies, and a broader perspective could be achieved by expanding the sample size, potentially revealing additional significant valuation drivers and yielding more statistically significant results. Lastly, the findings of the regression models are influenced by the chosen analysis period, suggesting that examining different sets of companies or using different time frames may produce different outliers and highlight alternative valuation drivers.

6.3 Research Contributions and Further Directions

According to the knowledge of the authors of this study, this master's thesis is the first research made on the spectrum of company valuation applying a holistic perspective in terms of including all possible factors driving firm value. Previous research shows that

there are published studies in the field – however, these often have a narrow perspective focusing only on one or a few value drivers.

Based on the previous research and the findings of this study, this master's thesis has two main contributions. First, the primary contribution discloses a framework consisting of eleven factors important to determining firm value. Second, secondary contributions include findings on where these factors occur most frequently – in equity research reports, by CEOs or as short-term share price reactions. Furthermore, the findings of this study have practical applications as professional and non-professional investors could use the framework as an investment guideline, although the findings of this study should not be used as any kind of investment advice.

Three main areas are identified as potential further directions for continuing the research made in this study. First, the main focus of this study has not been to investigate why the eleven factors are important from a shareholder perspective, but only to identify the factors. Applying another perspective – based on interviewing well-known professional investors – could enhance the understanding of why these eleven aspects are acting as value drivers. Second, further research could be done to confirm or deny the findings of this study, which could be done by applying the same methodology to other time periods, industries and geographies. Third, not all aspects affecting firm value mentioned in Section 2 – Theoretical Framework and Previous Research – have been identified in the results. Therefore, aspects including intellectual property, geography, firm size, firm age, listed market, stock splits, analyst peer group as well as social media could be further studied to investigate whether these metrics occur in other another setting – e.g., on other companies, another time frame or for another geography.

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6. Conclusion

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