

## Modern Dental

### Margin expansion, Sales growth acceleration, China and Aligners; New PT HK\$12.3

1 June 2021

#### Key Takeaway

We are raising our PT for Modern Dental to HK\$12.3, implying 50% upside. Preliminary 1Q21 data showed: 1) Modern Dental is running on a much improved margin profile and 2) sales growth is accelerating (especially in China). The company will also launch its aligner later this year or next year. All above-mentioned will be key drivers to propel future stock performance. Reiterate Buy.

**1Q21** – Sales was HK\$701mn (+33%YOY, or +20% vs. 1Q19). Net margin was 15-18% (much better than the 6.9% booked in 2019 and 10.2% in 2020).

**Margin expansion** – 1Q21 GM was 52-54% in 1Q21 vs. 49.8% in 2020 and 48.0% in 2019. EBITDA margin was 24.5%-27.5%, vs. 19.1% in 2020 and 16.5% in 2019. These operation metrics showed Modern Dental is now on a much better margin profile than before. We believe this is sustainable and could even improve through higher margined products, better scale of economy and recovery in North America.

**Sales growth acceleration** – is seen in all geographical areas (except North America, which is improving as well). See below for sales growth (YOY%) comparison between 1Q21 vs. 1Q19 (vs. 1Q20 is less meaningful given COVID-19).

#### Exhibit 1 - Sales growth acceleration or improvement seen in all regions

YOY%	2018	2019	2020	1Q20	1Q21	1Q21 vs. 1Q19
Revenue	6%	4%	-9%	-9%	33%	20%
Europe	10%	4%	-4%	-4%	33%	28%
North America	0%	1%	-18%	1%	-4%	-3%
Greater China	11%	13%	-7%	-37%	107%	31%
Mainland China				-58%	233%	40%
Non-Mainland China				-13%	40%	21%
Australia	3%	-10%	-3%	-2%	28%	25%
Other regions	-4%	36%	9%	9%	90%	108%

Source: Company data

More importantly, mainland China sales reached HK\$97mn in 1Q21 (+233%YOY, or +40% vs. 1Q19). We believe this will be one of the key growth areas for Modern Dental in upcoming years. Its new mid-market strategy in China, by using raw materials that are more affordable (lower ASP) but carry, surprisingly, higher margins, while leveraging its premium brand equity, may allow market share gain in China going forward. Globally, digitalization cases in 1Q21 also increased to 38k (+90%YOY). We note 1Q is typically the weakest quarter with 2Q the best quarter of the year. 1H and 2H are usually pretty even historically (excluding COVID-19).

**Financials** – We now expect 21E/22E sales to reach HK\$2.7/3.0bn (+23%/12%YOY) with adj. net income of HK\$439/507mn (+96%/16%YOY). We project EPS to be HK \$0.46/0.53 in 21E/22E with a dividend payout ratio of 35% in both years, respectively.

**Aligners an incremental value of HK\$1.4/sh on top of core business HK\$10.9/sh** – Modern Dental's aligner will be launched likely late 2021E or 2022E. Conservatively assuming 2% market share in the space with a net margin of 20% by 2033E, aligners could add HK\$1.4/sh (see our model and sensitivity analysis inside), on top of our valuation for its core business of HK\$10.9/sh.

**Valuation** – Our DCF-based SOTP valuation for Modern Dental is HK\$12.3 (implying a 2021E EV/EBITDA of 15.9x vs. its peer average of 16.6x).

#### Target | Estimate Change

ASIA-PACIFIC excl. Japan | Healthcare Services

RATING	BUY
PRICE	HK\$8.17^
MARKET CAP	HK\$7.8B / \$1.0B
PRICE TARGET (PT)	HK\$12.30 (FROM HK\$7.30)
UPSIDE SCENARIO PT	HK\$16.00
DOWNSIDE SCENARIO PT	HK\$6.00

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

#### FY Dec

HKD	2020A	2021E	2022E	2023E
EPS	0.11	↑0.46	↑0.53	↑0.59
Prev.		0.34	0.42	0.50

#### Exhibit 2 - 1Q21 margins by regions

1Q21	GM	EBITDA	Net margin
Overall margin	53.0%	26.0%	16.5%
Ex-North America	55.0%	30.0%	20.0%
North America	46.4%	12.8%	5.0%

Source: Company data. \*midpoint was used for the margin ranges

See our recent note on Modern Dental: New PT Implies 100% Upside; Significant Margin Expansion Ahead ([link](#))

Christopher Lui \*

Equity Analyst  
+852 3743 8768  
christopher.lui@jefferies.com

Ruyi Tang, CFA \*

Equity Analyst  
+852 3743 8074  
ruyi.tang@jefferies.com

Gabriel Wong, PhD \*

Equity Associate  
+852 3743 8017  
gwong2@jefferies.com

Please see analyst certifications, important disclosure information, and information regarding the status of non-US analysts on pages 9 to 14 of this report.

\* Jefferies Hong Kong Limited

## MODERN DENTAL (3600 HK)

Estimates				
HK\$	2020A	2021E	2022E	2023E
Rev. (MM)	2,190.2	↑ 2,691.1	↑ 3,026.7	↑ 3,290.3
<i>Previous</i>		2,536.4	2,751.8	2,932.9
Net Profit	107.8	↑ 438.9	↑ 507.2	↑ 563.7
<i>Previous</i>		327.6	401.4	476.1
EPS	0.11	↑ 0.46	↑ 0.53	↑ 0.59
<i>Previous</i>		0.34	0.42	0.50

Market Data	
52-Week Range:	HK\$8.23 - HK\$1.17
Total Entprs. Value	HK\$8.0B
Avg. Daily Value MM (USD)	7.61
Float (%)	33.8%

## The Long View

### Scenarios

#### Base Case

Margin expansion and slightly-faster than industry growth;

PT of HK\$12.3 derived from DCF-based valuation.

#### Upside Scenario

Less ASP pressure;

New product launches and fast sales ramp-up;

New M&As with attractive valuation;

PT of HK\$16.0 derived from DCF-based valuation.

#### Downside Scenario

Higher ASP downside pressure;

COVID-19 situation worsens, causing more lockdowns;

PT of HK\$6.0 derived from DCF-based valuation.

### Investment Thesis / Where We Differ

Modern Dental is a global leading dental prosthetic device provider. We like its global layout and scale, efficient distribution network, cost advantages and consolidation opportunities. We expect Modern Dental to grow at a faster rate than the industry, thanks to higher penetration of its existing and new products, margin expansion from economies of scale and cost-saving strategies.

### Catalysts

New product launches/rising penetration;

New M&A deals.

## Exhibit 3 - Our DCF-based valuation for Modern Dental's aligner

China	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	US	2020E	
Population (mn)	1,439	1,445	1,451	1,457	1,462	1,468	1,474	1,480	1,486	1,492	1,498	1,504	1,510	1,516	1,522	1,528	Population (mn)	330	
YOY%		0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	YOY%		
Malocclusion cases	1,040	1,044	1,048	1,053	1,057	1,061	1,065	1,069	1,074	1,078	1,082	1,087	1,091	1,095	1,100	1,104	Malocclusion cases	245	
Penetration (%)	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	72%	Penetration (%)	74%	
Treated cases	3.1	4.2	5.2	6.3	7.4	8.5	9.6	10.7	11.8	12.9	14.0	15.2	16.3	17.5	18.7	19.9	Treated cases	4.4	
Penetration (%)	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	Penetration (%)	1.8%	
Aligners	0.3	0.5	0.7	0.9	1.1	1.4	1.6	1.9	2.2	2.6	3.0	3.3	3.8	4.2	4.7	5.2	Aligners	1.4	
Penetration	11.0%	12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%	19.0%	20.0%	21.0%	22.0%	23.0%	24.0%	25.0%	26.0%	Penetration	31.9%	
YOY%		46.3%	36.1%	29.8%	25.6%	22.4%	20.0%	18.1%	16.6%	15.3%	14.2%	13.3%	12.5%	11.8%	11.1%	10.6%	*CIC		
Patient share	2.0%	0.1%	0.3%	0.4%	0.6%	0.7%	0.9%	1.0%	1.2%	1.4%	1.5%	1.7%	1.8%	2.0%	2.2%	2.3%			
Patients to use the aligner ('000)		0.50	2.04	3.53	6.20	9.75	14.31	19.98	26.88	35.13	44.85	56.15	69.17	84.03	100.85	119.76			
ASP per aligner (HKD)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000			
YOY%		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
Sales (HK\$ mn)		5	20	35	62	98	143	200	269	351	448	562	692	840	1,008	1,198			
Net margin	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%			
Net income (HK\$mn)		1	4	7	12	20	29	40	54	70	90	112	138	168	202	240			
<b>DCF (base)</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>	<b>2034E</b>	<b>2035E</b>			
Capex	5%	(0)	(1)	(2)	(3)	(5)	(7)	(10)	(13)	(18)	(22)	(28)	(35)	(42)	(50)	(60)			
D&A	10%	0	0	0	1	1	2	3	4	6	8	11	14	18	23	29			
NWC	0.3%	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)	(1)			
CF		0	1	3	6	10	16	23	33	44	58	75	95	118	144	174	208		
WACC	8%																		
PV (HK\$mn)		0	1	3	5	8	12	16	21	26	32	38	44	51	58	65	72		
NPV ('21E-'35E) (HK\$mn)	449																		
Terminal growth rate	0%																		
Terminal value (HK\$mn)	906																		
<b>DCF value (HKD mn)</b>	<b>1,356</b>																		
Shares (mn)	957																		
Stakes	100%																		
HKD/share	1.4																		

Source: Jefferies, CIC

## Exhibit 4 - Sensitivity analysis for Modern Dental's aligner

WACC	Implied patient share					
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
6%	0.5	1.1	1.6	2.2	2.7	3.2
7%	0.4	0.9	1.3	1.7	2.1	2.6
8%	0.4	0.7	1.0	1.4	1.7	2.1
9%	0.3	0.6	0.9	1.1	1.4	1.7
10%	0.3	0.5	0.7	1.0	1.2	1.4

Source: Jefferies

## Exhibit 5 - Revenue model

Revenue model										
HK\$ '000	2018	2019	1Q20	2020	1Q21	2021E	2022E	2023E	2024E	2025E
<b>Revenue by regions</b>										
Revenue	2,315,467	2,399,548	528,109	2,190,208	700,800	2,691,060	3,026,682	3,290,271	3,515,902	3,708,315
Europe	924,601	957,616	225,600	916,731	300,300	1,145,914	1,283,423	1,386,097	1,469,263	1,542,726
North America	688,431	697,082	169,600	571,170	163,200	656,846	689,688	710,378	731,690	753,640
Greater China	466,956	527,033	82,900	489,234	172,000	638,764	775,750	894,700	998,496	1,080,075
Mainland China		316,220	29,203	293,540	97,100	411,086	534,411	641,294	737,488	811,237
Non-Mainland China		210,813	53,689	195,694	74,900	227,678	241,339	253,406	261,008	268,838
Australia	221,615	198,983	47,800	192,569	61,100	231,083	258,813	279,518	296,289	311,103
Other regions	13,864	18,834	2,209	20,504	4,200	18,454	19,007	19,577	20,165	20,770
<b>YOY%</b>										
Revenue	6%	4%	-9%	-9%	33%	23%	12%	9%	7%	5%
Europe	10%	4%	-4%	-4%	33%	25%	12%	8%	6%	5%
North America	0%	1%	1%	-18%	-4%	15%	5%	3%	3%	3%
Greater China	11%	13%	-37%	-7%	107%	31%	21%	15%	12%	8%
Mainland China			-58%	-7%	233%	40%	30%	20%	15%	10%
Non-Mainland China			-13%	-7%	40%	16%	6%	5%	3%	3%
Australia	3%	-10%	-2%	-3%	28%	20%	12%	8%	6%	5%
Other regions	-4%	36%	9%	9%	90%	-10%	3%	3%	3%	3%
<b>As % of total</b>										
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Europe	40%	40%	43%	42%	43%	43%	42%	42%	42%	42%
North America	30%	29%	32%	26%	23%	24%	23%	22%	21%	20%
Greater China	20%	22%	16%	22%	25%	24%	26%	27%	28%	29%
Mainland China		13%	6%	13%	14%	15%	18%	19%	21%	22%
Non-Mainland China		9%	10%	9%	11%	8%	8%	8%	7%	7%
Australia	10%	8%	9%	9%	9%	9%	9%	8%	8%	8%
Other regions	1%	1%	0%	1%	1%	1%	1%	1%	1%	1%

Source: Company data, Jefferies estimates (E)

## Exhibit 6 - Income statement

Income Statement									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
<b>Net sales</b>	<b>2,181,292</b>	<b>2,315,467</b>	<b>2,399,548</b>	<b>2,190,208</b>	<b>2,691,060</b>	<b>3,026,682</b>	<b>3,290,271</b>	<b>3,515,902</b>	<b>3,708,315</b>
COGS	(1,119,780)	(1,236,131)	(1,246,617)	(1,100,220)	(1,267,388)	(1,417,182)	(1,530,348)	(1,626,057)	(1,713,960)
<b>Gross profit</b>	<b>1,061,512</b>	<b>1,079,336</b>	<b>1,152,931</b>	<b>1,089,988</b>	<b>1,423,671</b>	<b>1,609,500</b>	<b>1,759,922</b>	<b>1,889,845</b>	<b>1,994,355</b>
Selling expenses	(265,926)	(275,142)	(294,352)	(251,410)	(296,017)	(332,935)	(361,930)	(386,749)	(407,915)
G&A expenses	(586,525)	(616,797)	(608,278)	(549,383)	(538,212)	(605,336)	(658,054)	(703,180)	(741,663)
R&D expenses	0	(13,761)	(7,447)	(6,434)	(7,905)	(8,891)	(9,666)	(10,328)	(10,894)
<b>Operating income</b>	<b>209,061</b>	<b>173,636</b>	<b>242,854</b>	<b>282,761</b>	<b>581,538</b>	<b>662,337</b>	<b>730,273</b>	<b>789,587</b>	<b>833,883</b>
D&A	90,259	95,478	152,904	135,751	138,139	138,521	139,275	133,757	129,055
<b>EBITDA</b>	<b>299,320</b>	<b>269,114</b>	<b>395,758</b>	<b>418,512</b>	<b>719,676</b>	<b>800,859</b>	<b>869,548</b>	<b>923,344</b>	<b>962,938</b>
Other income	23,469	10,797	13,467	26,139	0	0	0	0	0
Other gains / (loss) net	(1,582)	(12,533)	(17,177)	(150,695)	0	0	0	0	0
Finance income	443	547	1,270	1,255	2,265	2,888	3,739	4,654	5,628
Finance costs	(28,582)	(51,516)	(37,902)	(33,699)	(31,741)	(29,784)	(27,826)	(25,869)	(23,911)
Share of results of associates	(1,288)	(1,929)	(504)	(1,537)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
<b>Pretax income</b>	<b>201,521</b>	<b>119,002</b>	<b>202,008</b>	<b>124,224</b>	<b>550,561</b>	<b>633,942</b>	<b>704,686</b>	<b>766,872</b>	<b>814,100</b>
Taxes	(44,158)	(35,762)	(41,563)	(16,565)	(111,673)	(126,788)	(140,937)	(153,374)	(162,820)
Effective tax rate	21.9%	30.1%	20.6%	13.3%	20.3%	20.0%	20.0%	20.0%	20.0%
Net income	157,363	83,240	160,445	107,659	438,888	507,153	563,748	613,498	651,280
Minority Interest	(1,992)	2,151	1,112	104	0	0	0	0	0
<b>Net income to common</b>	<b>155,371</b>	<b>85,391</b>	<b>161,557</b>	<b>107,763</b>	<b>438,888</b>	<b>507,153</b>	<b>563,748</b>	<b>613,498</b>	<b>651,280</b>
<b>Diluted EPS (HK\$)</b>	<b>0.156</b>	<b>0.086</b>	<b>0.165</b>	<b>0.112</b>	<b>0.457</b>	<b>0.530</b>	<b>0.589</b>	<b>0.641</b>	<b>0.681</b>
<b>Adjusted net profit to common</b>	<b>155,371</b>	<b>96,951</b>	<b>164,810</b>	<b>224,274</b>	<b>438,888</b>	<b>507,153</b>	<b>563,748</b>	<b>613,498</b>	<b>651,280</b>
<b>Adjusted diluted EPS (HK\$)</b>	<b>0.156</b>	<b>0.097</b>	<b>0.168</b>	<b>0.233</b>	<b>0.457</b>	<b>0.530</b>	<b>0.589</b>	<b>0.641</b>	<b>0.681</b>
Diluted sh o/s ('000)	998,520	997,151	980,162	961,914	959,428	956,941	956,941	956,941	956,941
<b>Dividend</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
DPS (HK\$)	0.05	0.03	0.05	0.07	0.15	0.17	0.19	0.21	0.22
YOY%	52%	-28%	61%	32%	116%	16%	11%	9%	6%
Dividend payout ratio	30%	34%	32%	30%	35%	35%	35%	35%	35%
<b>Margin Analysis</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Gross margin</b>	<b>48.7%</b>	<b>46.6%</b>	<b>48.0%</b>	<b>49.8%</b>	<b>52.9%</b>	<b>53.2%</b>	<b>53.5%</b>	<b>53.8%</b>	<b>53.8%</b>
Selling expense as % of sales	12.2%	11.9%	12.3%	11.5%	11.0%	11.0%	11.0%	11.0%	11.0%
G&A expense as % of sales	26.9%	26.6%	25.3%	25.1%	20.0%	20.0%	20.0%	20.0%	20.0%
R&D expense as % of sales	0.0%	0.6%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Operating margin</b>	<b>9.6%</b>	<b>7.5%</b>	<b>10.1%</b>	<b>12.9%</b>	<b>21.6%</b>	<b>21.9%</b>	<b>22.2%</b>	<b>22.5%</b>	<b>22.5%</b>
<b>EBITDA margin</b>	<b>13.7%</b>	<b>11.6%</b>	<b>16.5%</b>	<b>19.1%</b>	<b>26.7%</b>	<b>26.5%</b>	<b>26.4%</b>	<b>26.3%</b>	<b>26.0%</b>
Pretax margin	9.2%	5.1%	8.4%	5.7%	20.5%	20.9%	21.4%	21.8%	22.0%
<b>Net margin</b>	<b>7.1%</b>	<b>3.7%</b>	<b>6.7%</b>	<b>4.9%</b>	<b>16.3%</b>	<b>16.8%</b>	<b>17.1%</b>	<b>17.4%</b>	<b>17.6%</b>
<b>Adjusted net margin</b>	<b>7.1%</b>	<b>4.2%</b>	<b>6.9%</b>	<b>10.2%</b>	<b>16.3%</b>	<b>16.8%</b>	<b>17.1%</b>	<b>17.4%</b>	<b>17.6%</b>
<b>% YOY Change</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>Net sales</b>	<b>33%</b>	<b>6%</b>	<b>4%</b>	<b>-9%</b>	<b>23%</b>	<b>12%</b>	<b>9%</b>	<b>7%</b>	<b>5%</b>
Gross profit	21%	2%	7%	-5%	31%	13%	9%	7%	6%
Selling expense	44%	3%	7%	-15%	18%	12%	9%	7%	5%
G&A expense	17%	5%	-1%	-10%	-2%	12%	9%	7%	5%
R&D expense	NA	NA	-46%	-14%	23%	12%	9%	7%	5%
<b>Operating income</b>	<b>7%</b>	<b>-17%</b>	<b>40%</b>	<b>16%</b>	<b>106%</b>	<b>14%</b>	<b>10%</b>	<b>8%</b>	<b>6%</b>
<b>EBITDA</b>	<b>12%</b>	<b>-10%</b>	<b>47%</b>	<b>6%</b>	<b>72%</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>	<b>4%</b>
Pretax income	32%	-41%	70%	-39%	343%	15%	11%	9%	6%
<b>Net income</b>	<b>53%</b>	<b>-45%</b>	<b>89%</b>	<b>-33%</b>	<b>307%</b>	<b>16%</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>
<b>Adjusted net income</b>	<b>53%</b>	<b>-38%</b>	<b>70%</b>	<b>36%</b>	<b>96%</b>	<b>16%</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>
<b>Adjusted diluted EPS</b>	<b>52%</b>	<b>-38%</b>	<b>73%</b>	<b>39%</b>	<b>96%</b>	<b>16%</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>
Diluted shares outstanding	1%	0%	-2%	-2%	0%	0%	0%	0%	0%

Source: Company data, Jefferies estimates (E)

## Exhibit 7 - Balance sheet

Balance sheet									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Inventories	81,861	110,906	115,274	128,021	115,040	156,749	136,743	175,104	153,601
Trade receivables	413,682	380,443	423,271	473,105	485,355	509,719	572,014	583,899	635,273
Cash and cash equivalent	368,660	380,393	393,905	697,827	991,617	1,268,342	1,644,723	2,048,989	2,479,088
Pledged bank deposits	12,467	11,482	5,330	4,828	4,828	4,828	4,828	4,828	4,828
Prepayments and other receivables	59,858	58,294	64,739	71,783	71,783	71,783	71,783	71,783	71,783
Other current asset	10,983	17,851	20,098	15,173	15,173	15,173	15,173	15,173	15,173
<b>Current assets</b>	<b>947,511</b>	<b>959,369</b>	<b>1,022,617</b>	<b>1,390,737</b>	<b>1,683,795</b>	<b>2,026,593</b>	<b>2,445,264</b>	<b>2,899,776</b>	<b>3,359,746</b>
PP&E	326,703	433,810	498,613	518,915	552,073	587,026	567,341	553,355	543,901
Intangible assets	1,785,948	1,671,901	1,800,724	1,690,625	1,613,515	1,539,922	1,469,686	1,402,653	1,338,677
Investment in associates	10,325	8,396	9,625	761	761	761	761	761	761
Deferred income tax	9,090	10,814	11,832	49,294	49,294	49,294	49,294	49,294	49,294
Other non-current assets	60,653	21,771	17,830	14,756	13,256	11,756	10,256	8,756	7,256
<b>Non-Current assets</b>	<b>2,192,719</b>	<b>2,146,692</b>	<b>2,338,624</b>	<b>2,274,351</b>	<b>2,228,899</b>	<b>2,188,759</b>	<b>2,097,337</b>	<b>2,014,819</b>	<b>1,939,889</b>
<b>Total Assets</b>	<b>3,140,230</b>	<b>3,106,061</b>	<b>3,361,241</b>	<b>3,665,088</b>	<b>3,912,695</b>	<b>4,215,351</b>	<b>4,542,601</b>	<b>4,914,595</b>	<b>5,299,635</b>
Trade payables	57,195	64,319	70,026	67,670	71,222	84,086	83,624	94,574	93,257
Accruals and other payables	179,947	170,440	197,839	230,627	230,627	230,627	230,627	230,627	230,627
Current income tax liabilities	43,477	40,152	48,902	73,881	73,881	73,881	73,881	73,881	73,881
ST Bank borrowings	270,360	30,171	106,336	187,680	187,680	187,680	187,680	187,680	187,680
Other current liabilities	0	0	53,337	41,395	41,395	41,395	41,395	41,395	41,395
<b>Current Liabilities</b>	<b>550,979</b>	<b>305,082</b>	<b>476,440</b>	<b>601,253</b>	<b>604,805</b>	<b>617,669</b>	<b>617,207</b>	<b>628,157</b>	<b>626,840</b>
LT Bank Borrowings	447,098	779,072	696,012	673,063	623,063	573,063	523,063	473,063	423,063
Deferred tax liabilities	23,379	18,774	16,047	11,250	11,250	11,250	11,250	11,250	11,250
Other non-current liabilities	13,781	10,931	150,335	123,005	123,005	123,005	123,005	123,005	123,005
<b>Non-Current Liabilities</b>	<b>484,258</b>	<b>808,777</b>	<b>862,394</b>	<b>807,318</b>	<b>757,318</b>	<b>707,318</b>	<b>657,318</b>	<b>607,318</b>	<b>557,318</b>
<b>Total Liabilities</b>	<b>1,035,237</b>	<b>1,113,859</b>	<b>1,338,834</b>	<b>1,408,571</b>	<b>1,362,123</b>	<b>1,324,987</b>	<b>1,274,525</b>	<b>1,235,475</b>	<b>1,184,158</b>
Share capital	77,500	77,500	76,078	74,592	74,592	74,592	74,592	74,592	74,592
Reserve	2,019,990	1,918,744	1,944,742	2,173,069	2,467,124	2,806,917	3,184,628	3,595,671	4,032,029
<b>Shareholders' Equity (w/out MI)</b>	<b>2,097,490</b>	<b>1,996,244</b>	<b>2,020,820</b>	<b>2,247,661</b>	<b>2,541,716</b>	<b>2,881,509</b>	<b>3,259,220</b>	<b>3,670,263</b>	<b>4,106,621</b>
Minority interest	7,503	(4,042)	1,587	8,856	8,856	8,856	8,856	8,856	8,856
<b>Total Liabilities and SE</b>	<b>3,140,230</b>	<b>3,106,061</b>	<b>3,361,241</b>	<b>3,665,088</b>	<b>3,912,695</b>	<b>4,215,351</b>	<b>4,542,601</b>	<b>4,914,595</b>	<b>5,299,635</b>

Source: Company data, Jefferies estimates (E)

## Exhibit 8 - Cash flow statement

Cash Flow Statement									
HK\$ '000	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
<b>Profit before tax</b>	<b>201,521</b>	<b>119,002</b>	<b>202,008</b>	<b>124,224</b>	<b>550,561</b>	<b>633,942</b>	<b>704,686</b>	<b>766,872</b>	<b>814,100</b>
Depreciation of PP&E	53,183	57,439	57,551	58,641	61,029	64,928	69,039	66,724	65,079
Amortization of intangible assets	37,076	38,039	95,353	77,110	77,110	73,593	70,236	67,033	63,975
Asset impairment	(2,715)	516	195	0	0	0	0	0	0
Share of results of associates	1,288	1,929	504	1,537	1,500	1,500	1,500	1,500	1,500
Interest income	(443)	(547)	(1,270)	(1,255)	(2,265)	(2,888)	(3,739)	(4,654)	(5,628)
Finance cost	28,582	51,516	37,902	33,699	31,741	29,784	27,826	25,869	23,911
Gain/loss on disposal of PP&E	(95)	156	(487)	0	0	0	0	0	0
Others	6,748	(226)	1,270	216,844	0	0	0	0	0
<b>Net change in WC</b>	<b>(73,983)</b>	<b>(9,970)</b>	<b>(11,818)</b>	<b>(89,261)</b>	<b>4,284</b>	<b>(53,209)</b>	<b>(42,752)</b>	<b>(39,295)</b>	<b>(31,189)</b>
<b>Cash generated from operations</b>	<b>251,162</b>	<b>257,854</b>	<b>381,208</b>	<b>421,539</b>	<b>723,960</b>	<b>747,650</b>	<b>826,797</b>	<b>884,048</b>	<b>931,750</b>
Income tax paid	(56,489)	(52,961)	(38,982)	(21,362)	(111,673)	(126,788)	(140,937)	(153,374)	(162,820)
<b>Net cash from operating activities</b>	<b>194,673</b>	<b>204,893</b>	<b>342,226</b>	<b>400,177</b>	<b>612,287</b>	<b>620,861</b>	<b>685,860</b>	<b>730,674</b>	<b>768,929</b>
Proceeds from disposal of PP&E	1,506	1,696	7,762	0	0	0	0	0	0
Finance income	443	547	1,270	1,255	2,265	2,888	3,739	4,654	5,628
Acquisition of PP&E	(191,360)	(140,679)	(138,712)	(72,446)	(94,187)	(99,880)	(49,354)	(52,739)	(55,625)
Acquisition of intangible assets	0	0	(8,802)	0	0	0	0	0	0
Acquisition of subsidiaries	1,563	0	(3,224)	0	0	0	0	0	0
Increase in restricted cash	(8,741)	985	6,152	0	0	0	0	0	0
Others	(15,178)	(5,151)	(3,032)	24,227	0	0	0	0	0
<b>Net cash from investing activities</b>	<b>(211,767)</b>	<b>(142,602)</b>	<b>(138,586)</b>	<b>(46,964)</b>	<b>(91,922)</b>	<b>(96,992)</b>	<b>(45,615)</b>	<b>(48,085)</b>	<b>(49,997)</b>
Proceeds from bank borrowings	206,895	805,006	20,000	81,344	0	0	0	0	0
Repayments of bank borrowings	(118,602)	(742,513)	(29,970)	(22,949)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Proceeds from shares issued	0	0	0	0	0	0	0	0	0
Shares repurchase	0	(16,420)	(30,819)	(6,867)	0	0	0	0	0
Dividends paid to equity holders	(34,000)	(40,000)	(44,085)	(67,373)	(144,833)	(167,361)	(186,037)	(202,454)	(214,923)
Acquisitions of non-controlling interests	0	(20,591)	(5,585)	0	0	0	0	0	0
Interest paid	(25,139)	(23,962)	(28,584)	(33,699)	(31,741)	(29,784)	(27,826)	(25,869)	(23,911)
Others	(1,093)	(648)	(64,994)	(39,684)	0	0	0	0	0
<b>Net cash from financing activities</b>	<b>28,061</b>	<b>(39,128)</b>	<b>(184,037)</b>	<b>(89,228)</b>	<b>(226,574)</b>	<b>(247,144)</b>	<b>(263,863)</b>	<b>(278,323)</b>	<b>(288,834)</b>
Net change in cash	10,967	23,163	19,603	263,985	293,790	276,724	376,381	404,266	430,099
Cash at beginning of period	337,004	368,660	380,393	393,905	697,827	991,617	1,268,342	1,644,723	2,048,989
Exchange (losses)/gains	20,689	(11,430)	(6,091)	7,373	0	0	0	0	0
Cash restatement	0	0	0	32,564	0	0	0	0	0
<b>Cash at end of period</b>	<b>368,660</b>	<b>380,393</b>	<b>393,905</b>	<b>697,827</b>	<b>991,617</b>	<b>1,268,342</b>	<b>1,644,723</b>	<b>2,048,989</b>	<b>2,479,088</b>

Source: Company data, Jefferies estimates (E)

## Exhibit 9 - Key ratios

Ratios	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
AR days	65	63	61	75	65	60	60	60	60
AP days	21	18	20	23	20	20	20	20	20
Inventory days	25	28	33	40	35	35	35	35	35
Capex as % of sales	8.8%	6.1%	5.8%	3.3%	3.5%	3.3%	1.5%	1.5%	1.5%
D&A as % of PP&E	30.7%	17.6%	13.3%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%
Current ratio	1.7x	3.1x	2.1x	2.3x	2.8x	3.3x	4.0x	4.6x	5.4x
Quick ratio	1.6x	2.8x	1.9x	2.1x	2.6x	3.0x	3.7x	4.3x	5.1x
Cash ratio	0.7x	1.2x	0.8x	1.2x	1.6x	2.1x	2.7x	3.3x	4.0x
OCF/share	0.2	0.2	0.3	0.4	0.6	0.6	0.7	0.8	0.8
FCF/share	0.0	0.1	0.2	0.3	0.5	0.5	0.7	0.7	0.7
ROA	5%	3%	5%	3%	11%	12%	12%	12%	12%
ROE	7%	4%	8%	5%	17%	18%	17%	17%	16%
Dividend pay-out ratio	30%	39%	32%	63%	33%	33%	33%	33%	33%
Net Gearing Ratio	17%	22%	20%	7%	-7%	-18%	-29%	-38%	-45%

Source: Company data, Jefferies estimates (E)



## Company Description

### Modern Dental

Modern Dental is a global dental prosthetic device provider with two major product lines: fixed prosthetic devices such as crowns and bridges; and removable prosthetic devices such as removable dentures.

## Company Valuation/Risks

### Modern Dental

Our PEG based PT for Modern Dental is HK\$12.3. Risks: goodwill impairment, ASP pressure, competition, M&A integration risks.

## Analyst Certification:

I, Christopher Lui, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Ruyi Tang, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Gabriel Wong, PhD, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

**Registration of non-US analysts:** Christopher Lui is employed by Jefferies Hong Kong Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the FINRA Rule 2241 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

**Registration of non-US analysts:** Ruyi Tang, CFA is employed by Jefferies Hong Kong Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the FINRA Rule 2241 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

**Registration of non-US analysts:** Gabriel Wong, PhD is employed by Jefferies Hong Kong Limited, a non-US affiliate of Jefferies LLC and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies LLC, a FINRA member firm, and therefore may not be subject to the FINRA Rule 2241 and restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

## Investment Recommendation Record

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

Recommendation Published	May 31, 2021 , 19:45 ET.
Recommendation Distributed	May 31, 2021 , 19:45 ET.

## Explanation of Jefferies Ratings

**Buy** - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

**Hold** - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

**Underperform** - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is

plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

NC - Not covered. Jefferies does not cover this company.

Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes securities whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

## Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

## Jefferies Franchise Picks

Jefferies Franchise Picks include stock selections from among the best stock ideas from our equity analysts over a 12 month period. Stock selection is based on fundamental analysis and may take into account other factors such as analyst conviction, differentiated analysis, a favorable risk/reward ratio and investment themes that Jefferies analysts are recommending. Jefferies Franchise Picks will include only Buy rated stocks and the number can vary depending on analyst recommendations for inclusion. Stocks will be added as new opportunities arise and removed when the reason for inclusion changes, the stock has met its desired return, if it is no longer rated Buy and/or if it triggers a stop loss. Stocks having 120 day volatility in the bottom quartile of S&P stocks will continue to have a 15% stop loss, and the remainder will have a 20% stop. Franchise Picks are not intended to represent a recommended portfolio of stocks and is not sector based, but we may note where we believe a Pick falls within an investment style such as growth or value.

## Risks which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

Rating and Price Target History for: Modern Dental Group (3600 HK) as of 05-28-2021



**Notes:** Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

## Distribution of Ratings

Distribution of Ratings						
			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	1739	62.46%	181	10.41%	27	1.55%
HOLD	910	32.69%	21	2.31%	5	0.55%
UNDERPERFORM	135	4.85%	1	0.74%	0	0.00%

## Other Important Disclosures

Jefferies does business and seeks to do business with companies covered in its research reports, and expects to receive or intends to seek compensation for investment banking services among other activities from such companies. As a result, investors should be aware that Jefferies may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group LLC ("Jefferies") group companies:

**United States:** Jefferies LLC which is an SEC registered broker-dealer and a member of FINRA (and distributed by Jefferies Research Services, LLC, an SEC registered Investment Adviser, to clients paying separately for such research).

**United Kingdom:** Jefferies International Limited, which is authorized and regulated by the Financial Conduct Authority; registered in England and Wales No. 1978621; registered office: 100 Bishopsgate, London EC2N 4JL; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

**Hong Kong:** Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number ATS546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

**Singapore:** Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

**Japan:** Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Tokyo Midtown Hibiya 30F Hibiya Mitsui Tower, 1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

**India:** Jefferies India Private Limited (CIN - U74140MH2007PTC200509), licensed by the Securities and Exchange Board of India for: Stock Broker (NSE & BSE) INZ000243033, Research Analyst INH000000701 and Merchant Banker INM000011443, located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India; Tel +91 22 4356 6000.

**Australia:** Jefferies (Australia) Securities Pty Limited (ACN 610 977 074), which holds an Australian financial services license (AFSL 487263) and is located at Level 22, 60 Martin Place, Sydney NSW 2000; telephone +61 2 9364 2800.

This report was prepared by personnel who are associated with Jefferies (Jefferies International Limited, Jefferies Hong Kong Limited, Jefferies Singapore Limited, Jefferies (Japan) Limited, Tokyo Branch, Jefferies India Private Limited), Jefferies (Australia) Pty Ltd; or by personnel who are associated with both Jefferies LLC and Jefferies Research Services LLC ("JRS"). Jefferies LLC is a US registered broker-dealer and is affiliated with JRS, which is a US registered investment adviser. JRS does not create tailored or personalized research and all research provided by JRS is impersonal. If you are paying separately for this research, it is being provided to you by JRS. Otherwise, it is being provided by Jefferies LLC. Jefferies LLC, JRS, and their affiliates are collectively referred to below as "Jefferies". Jefferies may seek to do business with companies covered in this research report. As a result, investors should be aware that Jefferies may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only one of many factors in making their investment decisions. Specific conflict of interest and other disclosures that are required by FINRA and other rules are set forth in this disclosure section.

\*\*\*

If you are receiving this report from a non-US Jefferies entity, please note the following: Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, as amended, this material is distributed in the United States by Jefferies LLC, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6 under the US Securities Exchange Act of 1934, as amended. Transactions by or on behalf of any US person may only be effected through Jefferies LLC. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited ("JIL") and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed.

JIL allows its analysts to undertake private consultancy work. JIL's conflicts management policy sets out the arrangements JIL employs to manage any potential conflicts of interest that may arise as a result of such consultancy work. Jefferies LLC, JIL and their affiliates, may make a market or provide liquidity in the financial instruments referred to in this report; and where they do make a market, such activity is disclosed specifically in this report under "company specific disclosures".

For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). In Singapore, Jefferies Singapore Limited ("JSL") is regulated by the Monetary Authority of Singapore. For investors in the Republic of Singapore, this material is provided by JSL pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in

connection with this material, please contact JSL, located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950. In Japan, this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. The research in relation to this report is conducted outside the People's Republic of China ("PRC"). This report does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. In India, this report is made available by Jefferies India Private Limited. In Australia, this report is issued and/or approved for distribution by, or on behalf of, Jefferies (Australia) Securities Pty Ltd. It is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Corporations Act"), in connection with their consideration of any investment or investment service that is the subject of this report. This report may contain general financial product advice. Where this report refers to a particular financial product, you should obtain a copy of the relevant product disclosure statement or offer document before making any decision in relation to the product. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, and their respective officers, directors, and employees, may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. This material is provided solely for informational purposes and is not tailored to any recipient, and is not based on, and does not take into account, the particular investment objectives, portfolio holdings, strategy, financial situation, or needs of any recipient. As such, any advice or recommendation in this report may not be suitable for a particular recipient. Jefferies assumes recipients of this report are capable of evaluating the information contained herein and of exercising independent judgment. A recipient of this report should not make any investment decision without first considering whether any advice or recommendation in this report is suitable for the recipient based on the recipient's particular circumstances and, if appropriate or otherwise needed, seeking professional advice, including tax advice. Jefferies does not perform any suitability or other analysis to check whether an investment decision made by the recipient based on this report is consistent with a recipient's investment objectives, portfolio holdings, strategy, financial situation, or needs. By providing this report, neither JRS nor any other Jefferies entity accepts any authority, discretion, or control over the management of the recipient's assets. Any action taken by the recipient of this report, based on the information in the report, is at the recipient's sole judgment and risk. The recipient must perform his or her own independent review of any prospective investment. If the recipient uses the services of Jefferies LLC (or other affiliated broker-dealers), in connection with a purchase or sale of a security that is a subject of these materials, such broker-dealer may act as principal for its own accounts or as agent for another person. Only JRS is registered with the SEC as an investment adviser; and therefore neither Jefferies LLC nor any other Jefferies affiliate has any fiduciary duty in connection with distribution of these reports.

The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

This report may contain forward looking statements that may be affected by inaccurate assumptions or by known or unknown risks, uncertainties, and other important factors. As a result, the actual results, events, performance or achievements of the financial product may be materially different from those expressed or implied in such statements.

This report has been prepared independently of any issuer of securities mentioned herein and not as agent of any issuer of securities. No Equity Research personnel have authority whatsoever to make any representations or warranty on behalf of the issuer(s). Any comments or statements made herein are those of the Jefferies entity producing this report and may differ from the views of other Jefferies entities.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Jefferies does not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and is not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Neither Jefferies nor any third-party content provider shall be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses,

legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available electronically, and, in some cases, also in printed form. Electronic research is simultaneously made available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Jefferies. Neither Jefferies nor any of its respective directors, officers or employees, is responsible for guaranteeing the financial success of any investment, or accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents. Nothing herein shall be construed to waive any liability Jefferies has under applicable U.S. federal or state securities laws.

For Important Disclosure information relating to JRS, please see [https://adviserinfo.sec.gov/IAPD/Content/Common/crd\\_iapd\\_Brochure.aspx?BRCHR\\_VRSN\\_ID=483878](https://adviserinfo.sec.gov/IAPD/Content/Common/crd_iapd_Brochure.aspx?BRCHR_VRSN_ID=483878) and <https://adviserinfo.sec.gov/Firm/292142> or visit our website at <https://javatar.bluematrix.com/sellside/Disclosures.action>, or [www.jefferies.com](http://www.jefferies.com), or call 1.888.JEFFERIES.

© 2021 Jefferies Group LLC