

To the board of directors in Dustin

Protector Forsikring see an equity raise, especially at this size, wiping out existing shareholder capital as the last resort when all other alternatives have been tried.

The share issue as proposed will lead to increased ownership share for the guarantor. Effectively transferring significant value to the largest shareholder Axel Johnson, at the expense of other shareholders. Hence, a conflict of interest exists in the shareholder base – also implying a large risk for negative consequences and publicity.

Summary – rationale for 1,75B equity raise not being right today

1. No acute need of capital raise exists today. In meeting with CEO (9.10.2023), we learned the following.
 - a. **No breach of bank agreement currently.** Bank agreement renegotiated post Q323, with covenant waiver for 5 quarters (4,5x covenant thereafter)
 - b. Mgmt. assessment that we currently **do not have a debt issue, but a market issue** – i.e. no structural need to improve the balance sheet
 - i. NIBD to EBITDA is around target range, once market and hence EBITDA normalizes.
 - c. **High likelihood of market normalization in 2024** – hence high likelihood of equity raise being unnecessary.
 - i. Short product life cycle and hence short business cycle
 - ii. Management sees high likelihood of normalization of market early 2024, in line with other industry players
 - d. Rationale for capital raise is to move focus from balance sheet to operations. So far, we have not seen material negative impact on operations – CEO's assessment is that Dustin gains market share
2. The proposed equity raise will be done **well below fundamental value** (-90% in 2Y), in effect wiping out existing shareholder capital, destroying significant value.
 - a. Significant discount to recent bid level – concluded unjustified by independent bid committee
 - b. Significant discount to peers (EV/EBITA)
 - c. EV normalized EBITA of 4-6
 - i. To retrospectively finance the Centralpoint acquisition of 15x EV/EBITA. Which unfortunately would cement very poor capital allocation (buy high and sell low)
3. Due to point 2 above – an **equity raise at current share prices should be the last resort** when no other alternative exist. The board have to our understanding not properly evaluated all other alternatives, e.g.
 - a. Sale of whole or parts of the company
 - i. Recently a bid for the whole company at 28,5 SEK was presented. A structured sales process of the whole company would clearly better protect shareholder value than the proposed share issue (i.e. selling the company at perhaps 10 per share)
 - b. Issue of a subordinated HY- or convertible bond
 - i. The industry peer Foxway recently issued a HY bond at 5,3x leverage
 - ii. Convertible an alternative offering lower dilution and lower interest costs
 - c. Smaller share issue
 - i. An equity raise at current share price levels should be the last resort – only done if and when absolutely needed, at no larger size than needed.
 - d. Also operational levers such as sale of receivables have been investigated, but not utilized.
 - e. We have **not with 30 year experience seen a such dilutive equity raise**, when opportunity to wait existed
4. **A significant conflict of interest exist** and hence a corporate governance issue
 - a. Axel Johnson have shown intention to increase its shareholding in Dustin and recently launched a bid for the whole company

- b. The board has no representation from other large shareholders other than Axel Johnson (3 representatives)
- c. The proposed guaranteed capital raise will lead to increased shareholding for Axel Johnson, transferring significant value from those shareholders unable or unwilling to defend their ownership share.

We have not in 30 years of experience seen an equity raise of this dilutive effect if it was not absolutely the last resort. It would also unfortunately destroy the track record of Dustin as a listed company (and hence the Board) and be a large credibility hit – a measure opposed to recent shareholder communication implying need to fully revise recently launched long term EPS target.

Our assessment is that there is a **high likelihood that this can be avoided**, where expected market recovery will solve the debt and covenant issues. Waiting 3 quarters have in our opinion very limited downside, but huge upside – a bet we should take every time.

Based on above, our input as an external shareholder in Dustin, is to not proceed with an equity raise of this size and timing.

Thank you for your consideration.

Best regards,

Jonas Backman Senior Portfolio Manager and part of nomination committee

Dag Marius Nereng, Chief investment Officer