



"SOUR ON AN OAT-LIER INVESTMENT"

/ STRONG SELL OPINION /

Oatly Group AB | NASDAQ: OTLY



SPRUCE POINT  
CAPITAL MANAGEMENT

INVESTMENT RESEARCH REPORT

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# Spruce Point's Success Shorting Food And Consumer Products Companies

## Spruce Point Capital Is An Industry Recognized Research Activist Investment Firm Founded In 2009

- Founded by Ben Axler, a former investment banker with 20 years experience on Wall Street
- Named one of the top Activist Short sellers in world in 2020 by [Activist Insight Review](#)
- Track record of exposing stock promotion with insightful short-selling opinions in the food and consumer space

|                           |   |   |    |
|---------------------------|--|---|---|
| <b>Report</b>             | Nasdaq: BDBD   <a href="#">Feb 2013</a> , <a href="#">Mar 2013</a> *   | <a href="#">Sept 2018</a>   | NYSE: CHD   <a href="#">Sept 2019</a>   |
| <b>Market Cap</b>         | \$1.0 billion  | \$1.1 billion   | \$22.7 billion  |
| <b>Company Promotion</b>  | Smart roll-up acquirer of food brands including: Smart Balance butter, and leading gluten free products such as Glutino, Udi's and Evol  | Stable supermarket chain generating free cash flow and paying a steady dividend   | Best of breed roll-up acquiror of personal care and consumer products with the core Arm & Hammer brand providing a stable backbone to diversify into other products   |
| <b>Our Criticism</b>      | Boulder Brands was facing a patent cliff on its Smart Balance butter and embarked on an expensive and levered acquisition spree to diversify into the faddish gluten free market. Segment realignments and questionable accounting were being used to mask fundamental strains. The CEO Hughes was highly promotional and had a questionable history of value creation | Poorly-positioned regional supermarket in hypercompetitive Northeast region that is a step behind supermarket megatrends. Big data and consumer insights suggest decline in unique shoppers, avg. transactions per shopper, and avg. ticket price. Poor reporting standards and governance. Temporarily inflated cash flow due to accounting change | New management is more aggressive, using financial and accounting tactics to inflate the share price. The recent acquisition of FLAWLESS hair care was expensive and will disappoint investors. Governance lapses have allowed management to reap unjust bonuses based on non-cash gains. Shares at \$80 trade 8% above analyst targets   |
| <b>Successful Outcome</b> | Boulder took a significant goodwill impairment charge in <a href="#">Q3'2014</a> and guided results significantly below estimates by finally admitting headwinds in its spreads business and margin pressures. In June 2015, the <a href="#">CEO resigned</a>  | Numerous store closures and Weis makes wide-ranging <a href="#">price cuts</a> across all products after our report. Cash flow normalizes after benefits of accounting changes we highlighted that boosted the stock price  | Within the first quarter after our report, CHD <a href="#">reported</a> disappointing Q3 sales results, cut its full year sales guidance, and issued Q4 earnings at \$0.54, below the \$0.62 expected. CHD blamed higher sales and marketing expenses on FLAWLESS. CHD's new 10-K added risk factors around financial controls and its Chief Accounting Officer is " <a href="#">retiring</a> " |

- Reports produced by Prescience Point of which Mr. Axler was a contributing author. Past performance is no guarantee of future success. Please read our disclaimer at the front of this presentation.
- The recommendations shown above are not intended to be exhaustive. A full list of all recommendations made over the past twelve months can be found on our website

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## *Executive Summary*

# *Sour On Oatly: \$6.40 – \$14.90 (30% – 70%) Intermediate Downside Risk*

Spruce Point has assembled significant evidence to suggest that the walls are collapsing on Oatly's (Nasdaq: OTLY or "the Company") ambitions to dominate the oat milk market. While investors are enamored with its sales growth in the plant-based food fad, and its commitment to ESG practices, we believe they should be focused on its loss of market share in Sweden and the U.S., minimal barriers to entry, lack of competitive advantages, rising commodity input costs, and supply challenges created partly through poorly planned production facilities. As such, we believe Oatly will sorely disappoint investors and will never achieve profitability. Spruce Point believes investors should be focused on Oatly's ESG practices, and our extensive FOIAs and research which exposes so-called "proprietary" aspects of its production process (e.g. key ingredients and formulations, specific machinery, and warehousing plans). In addition, we believe investors are not focused on multiple accounting and financial control weakness which we believe have manifested in revenue and gross margin overstatement of 640bps. Our concerns are documented by former employee interviews and glaring signs of projected capex inflation running 77% higher than historical costs after Oatly has churned through three auditors in six years. Investors should also be concerned that its CFO and Audit Chair both obscure their roles at prior corporate accounting scandals. Oatly's valuation has mysteriously ballooned nearly 6x since a \$200m investment by Blackstone in July 2020 despite our evidence pointing to market share loss. Oatly is trading at 17x '21E sales and 75x adjusted gross profit and a \$12bn valuation (57% of the 2025 total projected non-dairy milk market). We believe its valuation is unsustainable and will end poorly for new investors. Spruce Point is calling for the Board to hire an independent forensic accountant to open an investigation to evaluate our claims. We see 30%-70% intermediate downside risk as it fails to achieve lofty targets baked into its valuation. There is long-term potential that Oatly faces insolvency when investors realize that the oat milk food fad has matured and interest in funding money losing businesses wanes.



## **We Believe Oatly Doesn't Practice What It Preaches In Terms of Good Environmental, Social, and Governance (ESG) Practices**

Spruce Point has unearthed Oatly's first detailed sustainability report and takes issue with how Oatly presents its progress to investors as the first slide of its Investor Presentation (June 2021). The analysis is based on a 2013 study (updated in 2016) which doesn't include its recent expansion into the U.S. and Asia, which we believe have been poorly planned and executed. In addition, we believe Oatly has "cherry-picked" the study's results by failing to show that its impact on water consumption is worse than dairy milk. Through a FOIA request, we learned that Oatly's production process also generates dangerous volumes of wastewater that requires it to build its own treatment facilities. Oatly is even out of compliance with EPA regulations in NJ. Oatly's first study discusses the importance of transportation costs, accounting for nearly 1/3rd of its environmental impact. Yet, in Oatly's quest for rapid business growth and its race to IPO, we believe it has recklessly disregarded these costs, and also sought to obscure the impact of shipping costs in its financial statements. Oatly also says 49% of its current climate impact comes from ingredients, with 73% of this ingredient impact tied to oats. It stands to reason that Oatly should be locating its facilities as close as possible to its oat supply. However, we find evidence that Oatly has not only located production facilities thousands of miles from its oat sources, but also massively overpaid and run wildly overbudget in its capital planning. Now as a public company, we believe Oatly is asking investors to pour nearly \$1.0 billion into existing and expansionary capex to fix management's blunders. We estimate cost per liter of new capacity will cost upwards of 77% more than Oatly's historical cost and continue to make its business non-economical. Oatly took flack for the investment it received from Blackstone in 2020 when an activist pointed out a connection to the deforestation of the Amazon. However, Spruce Point also points out the Oatly uses Olam International for its supply of Cocoa. Olam has often been criticized for not being transparent and contributing to deforestation and endangerment of species in Africa.



## **CFO and Key Board Members Hide Involvements With Corporate Accounting Scandals and Food Business Failures**

Oatly promises to be a good company, putting people ahead of the reckless pursuit of profits. It also strives to provide transparency about its products and suppliers to the consumer. However, we find it has taken a different approach to investors. Oatly's CFO Christian Hanke provides an incomplete biography that obscures his role as Manager of Financial Reporting at Stratus Technologies (1999 - 2005). During his time at Stratus, it restated financials over a multi-year period related to revenue recognition and lease accounting. In addition, Oatly appointed Frances Rathke as Chair of its Audit Committee. In the past, Ms. Rathke misrepresented her CPA status. In addition, while she was the CFO, Treasurer and Chief Accounting Officer (she omits her Chief Accounting Officer role from her biography) of Green Mountain Coffee Roasters (Nasdaq: GMCR), it was investigated by the SEC for its accounting practices and restated financials related to incentives (that hit revenue) and inventory. Ironically, Oatly fails to disclose revenue incentives and we find issues with its inventory accounting methods. Lastly, Oatly's Chairman of the Board fails to disclose his role at Genius Foods, a struggling food company that chased the once hot gluten-free fad.

# Employee Interviews Match Observations of Problems In Oatly's Financial Reporting

|   |  |  |
|---|--|--|
| ✓ | <b>Recent Former Employee Interviews Reveal Glaring Warning Signs About The Financial Statements And Poor Decisions Related To Expansionary Capex</b>                        | We interviewed a former U.S. manager and accounting professional of its North American business. When we asked the accountant about the #1 risk of investing, the response was <i>"are the financial statements accurate?"</i> Concerns were raised about the plant-by-plant capex and depreciation. In addition, concerns were raised about capex inflation at its NJ and Utah production facilities. <i>"My jaw dropped"</i> was the reaction from the manager about the \$10m paid for a former plumbing station in rural southern NJ that would become its East Coast production hub. Our FOIA uncovered that location was inspected by local environmental health experts and cited for excessive trash dumping. In addition, FOIAs reveal that Oatly has struggled with expansion plans since the property is acreage constrained, and its neighbor, the local Board of Education, has generally been reluctant to sell its property to Oatly. In 2019 Oatly announced that Utah would be its West Coast hub, with a budget of \$40 - \$50m. The plant was described by a former executive as <i>"not optimal and chasing short-term tax incentives"</i> . Two former employees agreed that Utah's actual capex is running more than 100% over budget at \$100m, and a recent facility inspection report Spruce Point uncovered shows it is still not complete in Q1 2021. |
| ✓ | <b>Three Auditors In Six Years</b><br><br><b>Production Volumes Suspiciously Revised To "Estimated" And Revenues Not Adding Up</b>   | Oatly has churned through three auditors in six years, a fact it doesn't disclose in its prospectus. We find inconsistent U.S. segment revenue and consolidated reported revenue. Oatly subtly modified a critical slide in its June 2021 Investor Presentation, that also appeared in its prospectus. A footnote now calls out that finished goods of oat base production volume are an "estimate". We believe that if volumes of production are an "estimate" then Oatly's entire reported revenue stream should also be qualified. Oatly claims no seasonal revenue patterns. Yet, we found a research analysis of Oatly produced at Sweden's Lund University showing clear historical seasonal patterns. Oatly says U.S. revenues were \$12m in 2018 vs. public reports of \$6m. 2018 results are "unaudited" and derived from Swedish GAAP restated to IFRS. When we asked a former North American manager, we were told 2018 revenues were approximately \$4-\$8m. Oatly's MD&A does not provide investors with promotional discounts and incentives to bridge gross vs. net revenues, average selling prices, or foreign exchange ("FX") impact on sales. We believe investors should tread carefully that Oatly has misstated revenues.  |
| ✓ | <b>Gross Margin Not Reported Consistent With Industry Practice Leads to 640bp Overstatement, While COGS Disclosures Are Severely Lacking</b>                                 | Oatly points investors prominently to sales and gross profit in its prospectus. We believe the reason is because these are its only two "positive" financial metrics. However, we believe Oatly's gross margins are not reported accurately and consistent with food industry best practices. Based on our industry analysis, a majority of public peers report outbound shipping costs in COGS. Oatly, puts the cost in SG&A. As a result, we estimate Oatly's 2020 adjusted gross margin is 23.7% vs. 30.1% reported, or 640 basis points lower, and well below industry peers. In our discussion with former employees, we learned that Oatly has struggled with logistics and high shipping costs. As noted, transportation costs are a big driver of Oatly's climate impact, yet it doesn't appear to have optimized these costs. Oatly's MD&A gives investors zero insights into its COGS drivers, such as product mix, commodity cost impact, FX, or overhead operating leverage.   |
| ✓ | <b>The Word "Commodity" Appears Zero Times In Oatly's Prospectus. Commodity Costs Such As Oats and Rapeseed Oils, Main COGS Inputs, Are Rising Fast And Not Being Hedged</b> | Spruce Point observes that Oatly's prospectus highlights and discloses financial risks to FX, interest rate, credit, and liquidity, but doesn't say a word about commodity risks. Yet, in its 2019 Sustainability Report oats and rapeseed oil were 87% and 7% of purchase volumes. Furthermore, Canada has historically supplied 10% of Oatly's total oat needs and is critical to fueling its U.S. growth. Oatly's U.S. President said that 90% of its oats come from Western Canada. This appears to be problematic as Canadian oat production was recently forecasted to decline by the USDA. Canada is also critical to supplying Oatly's rapeseed. Global trade volume in this oil is also expected to decline led by reduced availability in Canada. With benchmark oat and rapeseed futures prices up 33% and 38% YTD, investors should have legitimate concerns about Oatly's ability to source enough supply to meet its quality and price objectives, while expanding margins in the face of rising and unhedged commodity costs.   |

# Oatly's Capex Planning And Reporting Is Problematic And Its Brand Is of Little Value



**Inventory Accounting Doesn't Seem Right And Confirmed By Former Employee Interview**

Oatly's foreign filings indicate it used FIFO accounting, but its SEC filings do not disclose what method it uses. According to a former employee knowledgeable about its accounting, there were errors in the system that had to be fixed and changes to inventory accounting policies made in recent years. Yet, no accounting policy changes were disclosed in its SEC filings. According to Oatly's "Production Process Overview" it manufactures oat base, which is then transported to a filing plant (where applicable) and then converted into a finished product. Yet, Oatly discloses no "work in process" inventory accounts in SEC filings, whereas references were made in its foreign financials. Total inventories are growing faster than revenues, a classic sign that suggests costs are being left on the balance sheet. With demand high according to Oatly, it appears unusual to us that finished goods are growing faster than sales, while raw materials didn't change at all from 2019-2020 even with three new production facilities coming online.



**Evidence That Capex Is Inflated And Doesn't Add Up. We Believe Inflated Capex Is Generally A Sign Consistent With Inflated Profits**

**New Capacity Additions Up To 77% Higher Than Historical Additions That Have Been Delayed**

If in fact Oatly's revenues are overstated, costs understated, and net income overstated, one way to balance inflated profits on the asset side of the balance sheet is to inflate capex. We observe that Oatly has engaged in a questionable property transaction in NJ, purchasing a \$650k property that was a trash dump and former plumbing facility for \$9.7m months later, while bundling in \$7.5m of equipment as part of the property purchase. Now it is claiming \$110m of capex needs at the former NJ plumbing facility, including a wastewater treatment facility. Our FOIA indicates that Oatly has been aware of dangerously high wastewater readings since 2019. The facility is out of EPA compliance for the past few quarters. In Utah, capex is running more than 100% over budget. We find anomalies between capex through the cash flow statement and additions to the balance sheet. There is also evidence of phantom asset sales with no associated cash inflows. We also have evidence to suggest that Oatly is delaying movement of assets from "Construction in Progress" to completed assets. In 2019, Oatly completed three expansion projects in Sweden, the Netherlands and the U.S. Related documents show that these projects cost approximately \$61 million. However, Oatly only transferred \$45m from the "Construction in Progress" to completed fixed asset accounts. As a result, we estimate depreciation expense and net income loss were understated by 5%. Oatly is telling investors it now needs \$750m - \$1,000bn of capex to increase capacity from 350m to 1,400m liters of oat base, implying \$0.72 - \$0.95 per liter. We estimate historical capacity additions have been \$0.64 per liter, thus new expansion capex is 11% - 48% higher. Even some of Oatly's sell-side analysts disagree with its capex projections. Barclays is estimating \$1.13 per liter of capacity addition, or 77% higher than our estimated historical cost of \$0.64 per liter.



**Oatly Claims Proprietary Methods Critical To Its Business, Our Exhaustive Research Exposes Critical Aspects of Its Business**

**Little Brand Value In Oatly According To Founder Bjorn Oste**

Oatly stresses that it has proprietary production processes and trade secrets and that it has taken reasonable measures to protect such information. Through exhaustive FOIA requests and web searches, Spruce Point disagrees and finds detailed ingredient and formulas, production process information and diagrams, warehousing schematics, production and packaging equipment makes and models, and hazardous chemical uses. As a result, we believe Oatly overstates the proprietary nature of its business, and that in the long-run, any such advantages will be competed away. At the core, oat milk is made from oats, water, enzymes and flavoring ingredients. There are many articles on the internet that teach how to make oat milk more cost effectively than purchasing it at retail. In addition, dozens of competitors are flooding the market with innovative oat products that now include blends with other healthy ingredients. We believe this will only complicate Oatly's chances of success in the market.

Investors that believe Oatly's "brand value" will protect it from commoditization might also be surprised by the words of its founder Oste. Oatly's prospectus mentions the word "brand" two hundred and thirteen times (213), but founder Bjorn Oste said in a 2019 interview: *"Consumers don't want brands, they don't care about brands. They care about something else, values, stories, and messages, right? Just so happens you can a message around a brand. But at the end of the day, who cares about brands?"*

# *Evidence Shows Oatly Losing U.S. Market Share And China Expansion Is Behind Schedule. Extreme Valuation Leaves Little Room For Error*

|   |  |  |
|---|--|--|
| ✓ | <b>U.S. Channel Checks Show Market Share Loss In Milk And New Entrants Into Yogurt and Ice Cream. New Signs of Discounting</b>   | Oatly is having issues supplying the market, and from the lips of its Chief Marketing Officer (aka Mind Control Officer) John Schoolcraft, this should be viewed as a sign of “success”. The narrative being spun is that Oatly is in such high demand. However, we believe its problems reflect its ineptitude in forecasting and production execution. For example, in mid 2019, the CEO projected \$230m of sales, but actual results came in 11% lower. Based on channel checks and discussions with distributors, they are not waiting for Oatly to fix its issues and are stocking among dozens of new competitors. It is evident to us that Oatly is losing market share to Chobani and Califia Farms. We have been tracking Oatly’s core oat milk product online at major food retailers such as Amazon, Walmart and Kroger’s and find evidence it is losing promotional prominence and even being price discounted. We also believe Oatly faces waning chances of success in yogurt and ice cream. We find evidence that its yogurt is also being price discounted and losing shelf space. In addition, new vegan ice creams are hitting the market and being given away, or shipped, for free.   |
| ✓ | <b>Holes In The China Growth Story...<br/><br/>Conflicting Stories And Evidence of Construction Behind Schedule</b>  | Oatly is claiming 2020 sales growth of 450% in China, with a Starbucks partnership, and substantial ecommerce success with 21% of sales through the channel. However, it doesn’t say that it failed earlier in its China ambitions, and that it has made conflicting statements about how it succeeded this time around. Oatly gained limited traction in China in 2011-2013 under the effort of founder Oste. In addition, its story about how it entered the market in 2018 first through coffee and tea shops is not accurate according to a conflicting statement from its China President, who said it initially failed miserably in supermarkets. While Oatly claims success through ecommerce in China, in the U.S. it doesn’t appear to have nearly the same traction with Amazon, which is not a material customer. There is evidence of exaggerated claims made regarding Oatly’s China business. Its Asian president made a statement in China during September 2020 that mainland China had more than 10,000 cafes. However, SEC filings indicate that China foodservice (coffee and tea shops) were closer to 8,000 – 8,200 locations (mostly Starbucks). Oatly claims it will be in production in China by H2 2021. However, based on our evidence it has materially fallen behind stated production plans in Utah and New Jersey, we were skeptical of Oatly’s claims. Spruce Point sent an investigator to Oatly’s Maanshan China operations. We found a facility that is unlikely close to being operational. Meanwhile, we expect the market to become more competitive as Vitasoy just launched a new oat milk.   |
| ✓ | <b>When The Oat Milk Category Matures, Upside Through Research and Development Has Been Stripped Away By the Founder</b>   | One former employee we spoke with believes that Oatly is already planning for the maturity of the oat milk product cycle. In an interview, Oatly’s founder says he and his brother purchased the R&D from Oatly through the formation of Adventure AB in 2008. In fact, Oatly’s 2020 R&D was just 1.5% of sales, which is vastly lower than other high growth plant-based food companies and traditional CPG players. Oatly’s founder has been incubating what it thinks is the next milk opportunity in Bolivia, through a quinoa-based milk called Quiny. Unfortunately, Oatly investors have no stake in this if the market for quinoa milk takes off. More broadly, co-founder Bjorn Oste continues to serve on Oatly’s Board, yet his equity has been diluted to below 5%. Investors should be troubled that Mr. Oste spends time developing competing products and has 100% of the upside if they succeed. Oatly says one of its “ <i>Growth Strategies</i> ” is to “ <i>Extend Product Offerings through Innovation</i> ”. However, we believe the evidence shows that Oatly has experienced more recent product failures than successes. Using the Wayback Machine we see that it has had recent product failures in breakfast or energy drinks. Oatly also stopped disclosing in foreign filings sales from new products after 2018.  |
| ✓ | <b>Beyond Stretched Valuation Likely To Compress As Supply Challenges Persist, Market Share Is Lost, And Goals Missed 30% - 70% Intermediate &amp; 100% Long-term Downside</b> | Oatly’s valuation is beyond reason when compared with its market opportunity, and other high-flying plant-based food companies such as Beyond Meat. Per Euromonitor, its own data source, the plant-based dairy market in its key regions is expected to be \$21 billion by 2025. However, Oatly’s current valuation is almost \$12 billion, or 57% of the potential market. Based on our current observations of the competitive dynamics, it would seem unlikely to us that Oatly ever captures this percentage of the market. Sell-side analysts point to Beyond Meat’s inflated valuation to justify Oatly’s premium valuation. Yet, most Street reports conspicuously fail to see OTLY’s gross margin is 500bps below BYND and exclude other lower multiple non-dairy comps such as SunOpta and even Vitasoy, a purer play in non-dairy drinks, when trying to value Oatly. Oatly trades at an astronomical 17x and 75x 2021E sales and adjusted gross margin. We believe it is at high risk of missing lofty street estimates due to delays in plant expansions in the U.S. and China, increased discounting, and rising in commodity costs. We had prior success betting against Oatly’s most bullish analyst, Bill Chappell, who claims Oatly is worth \$35/share. Mr. Chappell once claimed Boulder Brands (Nasdaq: BDBD) was worth \$23/sh and ignored our forensic research calling it a “Strong Sell”. In June 2015, the CEO resigned, goodwill was impaired, and Boulder was acquired for \$11/share, or 52% below Chappell’s price target. Our intermediate price target for Oatly is \$6.40 – \$14.90 (30% – 70%) lower, with up to 100% long-term downside risk as investors come to grips that Oatly will likely never make money in the notoriously fickle and deflationary food industry. |



## *Bull Vs. Bear Debate*



**Honest And Trustworthy Management And Board**



**Accurate, Transparent, And Trustworthy Financial Statements**



**Value In Building A Global Brand In The Oat Milk Category**



**Focus on Growth Over Profits Will Pay Long-Term Dividends**



**International Growth Opportunities In The U.S. and China**



**Valuation Upside Through Broadening TAM And Product Offering**



Management and Board members obscure past involvements in accounting scandals and failures in chasing food fads



Clear evidence of financial control issues, misstatements and omissions. Three auditors in six years. Limited explanations of revenue and cost drivers, and no mention of commodity risks (eg. Oats/oils) to the business



Oatly's Founder (and Board Member) Oste on record admitting that brands have little value



We believe a decoy to provide insiders time to cash out. Currently losing market share to lower priced and more reliable competitors based on our checks, while Oatly struggles to supply. Future capex costs ~77% higher



Well-timed pivot abroad in 2016 after market share was starting to be lost in Sweden. U.S. is failing, China has failed before, and we believe currently behind schedule




The founder stripped out the R&D and is already plotting quinoa as the next non-dairy milk fad. Valuation is higher than Beyond Meat and implies Oatly is valued as if it has 57% of the market by 2025. High multiple compression risk

## *Our Assessment of Oatly*

After reading our report and reviewing Oatly's corporate credo, we believe you will form a very different opinion.

| Oatly                               | Spruce Point Assessment  |
|-------------------------------------|--|
| <b>BE HONEST</b>                    | Honesty starts with transparency. Why are management and Board biographies incomplete?             |
| <b>BE FEARLESS</b>                  | You should be in fear. Executives have gone to jail for breaking securities laws                   |
| <b>BE HUMAN AND NOT A LOGO</b>      | Be human and do the right thing; issue a non-reliance opinion on your financial statements         |
| <b>BE CONSISTENTLY INCONSISTENT</b> | About the only thing we agree with. Consistent inconsistencies in your financial reporting         |
| <b>BE INTERESTING</b>               | You're not interesting. Oatly is just one of dozens of companies pitching an ESG story in oat milk |
| <b>BE WORLD CLASS</b>               | World class in "Mind Control" marketing. We believe a second-rate finance and operations team.     |
| <b>DON'T BE EVIL</b>                | Be original dammit! Google already took that   |

# Oatly's Marketing Spin Tries To School The Public That Supply Shortages Are A Success



**Warning:** "Be Honest" and "Don't Be Evil"...right? Since at least 2019, Oatly has tried to shape the narrative that there's a national oat milk shortage, and this should be viewed as a success. However, we believe the truth about the underlying cause of the shortage is much more grim and a function of management's ineptitude and the harmful side effects of producing oat milk.

John  
Schoolcraft:  
Oatly's  
Creative  
Director of  
Mind Control

*"How do you measure success? The answer is right here. We launched in the US and within 9 months there was a national oat milk shortage. It's cool but not cool because you want to supply that. We've come to realize we'll never be able to make enough oat milk. The demand is more great than the supply. It doesn't matter how fast we build our factories, because we're building them as fast as we can. And that's a cool way to measure success."*



**WE WILL NEVER  
BE ABLE TO MAKE  
ENOUGH OAT MILK**

John Schoolcraft of Oatly on How to Crack Consumer Marketing Without a Marketing Team

# Reality: Evidence of Poor Capex Planning And Ongoing Issues With Wastewater Treatment

**Warning:** From testing results of wastewater generated from Oatly's main U.S. production facility in NJ in 2019, there were indications of very high concentrations of TSS (Total Suspended Solids), COD (Chemical Oxygen Demand) and CBOD (Carbonaceous Biochemical Oxygen Demand). Oatly must adhere to state regulations with its wastewater, as high TSS/COD/CBOD levels can cause harm to wildlife and human health.<sup>(1)</sup> As of 2021, we believe Oatly still hasn't fully rectified the problem, and is in the process of having to build a wastewater treatment facility.

From: Gioia, Salvador  
Sent: Tuesday, May 21, 2019 7:42 AM  
To: ted danforth  
Cc: anca.gavris@oatly.com; Prohovich, Brian; Caragnato, Wayne; Santiago, Michael  
Subject: RE: Oatly Wastewater Results

Follow Up Flag:  
Flag Status: Flagged

Ted,  
I have the results for the composite and grab sample taken on 5/15/2019 from our lab. The numbers were very high on most of the results and I think we need to talk about how we are going to move forward. The Sewer plant can not handle this type of load with the estimated flow you are having. When OATLY came to the city they filled out paper work stating that their flow would be 5,000-9,000 gallons a day and they are going well above that at the moment. They also claimed that their CBOD would be around 800-1200 mg/l and TSS 1000-1200 mg/l and the results are showing much higher concentrations. With the higher flows and concentrations we can't handle that load at the plant so we will have to discuss the install of some type of pretreatment system that will reduce the TSS, COD, and CBOD to acceptable levels in order for the Sewer Plant to be able to handle the load. I will be up at engineering at 9am this morning and will try to call your cell phone.

Sal Gioia

Grab sample (cleaning process)  
TSS = 120 mg/l  
COD = 1840 mg/l  
PH = 12.70  
CBOD = 855 mg/l  
  
24hr composite sample (total process)  
TSS = 730 mg/l  
COD = 4510 mg/l  
PH = 11.64  
CBOD = 2040 mg/l

Evidence suggests that Oatly significantly misrepresented its water flow and dangerous by-products to the city.

From: ted danforth <tdanforth@gmail.com>  
Sent: Friday, May 17, 2019 2:40 PM  
To: Gioia, Salvador <Salvador.Gioia@millvillej.gov>  
Cc: anca.gavris@oatly.com  
Subject: Oatly Wastewater Results

Sal - As promised, here are some partial results from samples collected from Oatly. I was hoping for some more results today, but haven't seen anything yet. Should have most of the results in by next week.

Note that the results still represent the plant in "start-up" mode and expect concentrations will drop as time goes on. I am working on getting daily flows as well.

Call me with any questions. I will touch base next week when we get more results.

Oatly Inc.

Millville, NJ

Wastewater Testing Results

|             |           | Final  | Interim | Interim |         |
|-------------|-----------|--------|---------|---------|---------|
| Date        | Millville | 5/7/19 | 5/8/19  | 5/9/19  | 5/13/19 |
| Sample #    | Limits    | 181447 | 181566  | 181680  | 181953  |
| TDS         |           | 2,700  |         |         |         |
| TSS         | 1500      | 380    | 1,000   | 2,110   |         |
| pH          | 5-10      | 12     | 8       | 5       |         |
| NH3-N       |           | 9      | 2       | 9       |         |
| P(T)        |           | 6      | 4       | 5       |         |
| BOD         | 500       | 1,480  |         |         |         |
| BOD Soluble |           | 856    |         |         |         |
| COD         |           | 2,580  | 4,750   | 9,750   |         |

Ted Danforth  
TSD Environmental, Inc.  
  
400 Gray Rd.  
North Yarmouth, ME 04097  
207-857-8255  
ted@tsdenviro.com

# Timely Pivot To International Markets And A “Growth Story” To Sell Stock

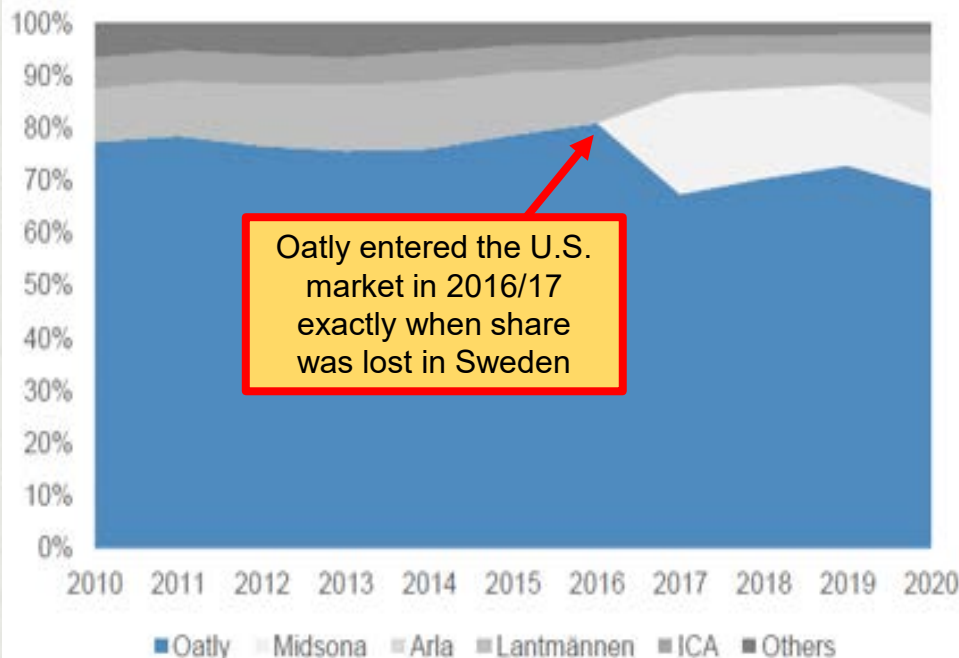
**Warning:** Before getting too excited about the Oatly story, consider what has happened in its home market of Sweden. Oatly’s prospectus says that in Sweden it had 53% market share of sales in total alternative dairy products in 2020, according to Nielsen. However, it doesn’t say much about what its market share was leading up to 2020. According to Euromonitor, another source it cites, Oatly’s share started falling in 2016-2017, at the same time frame it shifted to international expansion into the U.S., China and other European markets. We also observe that Oatly stopped disclosing Swedish market share results in foreign filings after 2016.

## What Oatly Says

*“In our home market of Sweden, Oatly products had a 53% market share of sales in the total alternative dairy products non-milk based category as of 2020, according to Nielsen. The success achieved in our home market, in terms of brand awareness and new product development, has become a clear “north star” for future international expansion.”*

Source: [Oatly IPO prospectus](#)

Sweden: Oatly’s Share vs. Alternative Milks Over Time



Oatly entered the U.S. market in 2016/17 exactly when share was lost in Sweden

Oatly Stopped Disclosing Market Share In Foreign Filings

### Significant events during the financial year

2015 was yet another strong year for the company. Sales have developed well with good sales growth in the Company’s main markets of Sweden, Finland, Germany and the UK. In total, sales for the year amounted to SEK 363 million, which is equivalent to a growth of 35%. In Sweden, Oatly operates the Non-Dairy category, which grew by 28% in 2015. Growth for the company’s brand during the same period was 42% and market share in December 2015 was 42%.

### Significant events during the financial year


2016 was once again a strong year for Oatly. Sales developed well, with good turnover in the majority of the company’s main markets. Developments in Finland and the Netherlands were exceptionally good, while sales growth in the UK was hampered by the weak pound. Sales in the UK rose by 14% compared to 2015, however, volume growth was 26%. In total sales for the year were approximately SEK 475 m which corresponds to growth of 31%. In Sweden, Oatly leads the Non-Dairy category, which grew by 21% in 2016, a lower growth rate than the previous year (28%). Growth for the company’s brand was 27% during the same period. Market share increased and reached 44% in December 2016.

Source: [2015](#) and [2016](#) report




*We Believe Oatly Doesn't Practice  
What It Preaches: Stress Testing  
Oatly's Sustainability Claims And  
Practices*

# *We Believe Oatly Doesn't Practice What It Preaches*



Spruce Point believes that Oatly is not practicing what it preaches about being a “good company” and doing the right thing for society before the pursuit of reckless profits. We will show why we believe Oatly, its Board and management, have not acted in a way that gives the public a clear and accurate representations of its financials, accounting, and business risks. In addition, we will show why we believe it has made business decisions that go against its own sustainability best practices. In short, we believe Oatly has acted recklessly in pursuit of profits to race towards an IPO to sell its stock at an inflated valuation.

## Oatly's Broken Promise?



We promise to be a good company which means that our drive to help people upgrade their lives always comes before the reckless pursuit of profit.

Source: [Oatly website](#)

## We Will Show Why We Believe Oatly Has Made Decisions Contrary To Its Claims And Best Practices To Drive Sustainability

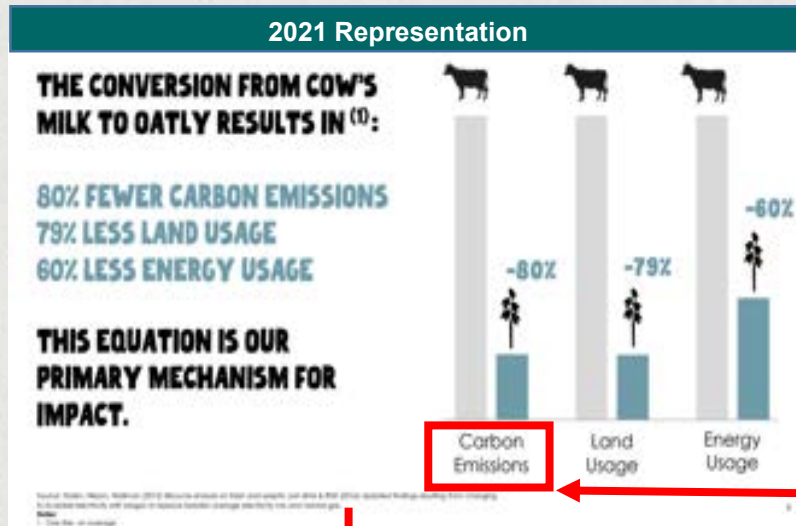
### ABOUT OATLY

We are the world's original and largest oat drink company. For over 25 years, we have exclusively focused on developing expertise around oats: a global power crop with inherent properties suited for sustainability and human health. Our commitment to oats has resulted in core technical advancements that enabled us to unlock the breadth of the dairy portfolio, including alternatives to milks, ice cream, yogurt, cooking creams, and spreads. Headquartered in Malmö, Sweden, the Oatly brand is available in more than 20 countries globally.

Source: [Oatly website](#)

# Questioning Oatly's Environmental Impact Claims

Spruce Point takes issue with Oatly's first slide of its June 2021 Investor Presentation. The analysis is based on a 2013 study (updated in 2016) which doesn't include its recent expansion into the U.S. and Asia, which we believe has been poorly planned and executed. In addition, we believe Oatly has "cherry-picked" the study's results by failing to show that its impact of water consumption is worse than milk, and transportation costs have been poorly managed.



Narrower interpretation

Source: [Oatly Investor Presentation](#), June 2020

Study not updated since 2016 so doesn't include the impact of U.S. or Asia expansion, which we believe have been problematic

The study shows that both of the Oatly oat drink types have a lower environmental impact than semi-skimmed milk. This can be explained by the fact that milk production is a more complex process, including the feeding of animals, management of manure and methane emissions associated with animal rumination. The table below summarises the overall results of the environmental impact of one litre of aseptic oat drink, one litre of fresh oat drink and one litre of semi-skimmed milk.

| Environmental Impact      | Aseptic oat drink | Fresh oat drink | Milk    | Unit           |
|---------------------------|-------------------|-----------------|---------|----------------|
| Impact on climate         | 0.4               | 0.5             | 1.3     | kg CO2 eq      |
| Primary energy            | 7.7               | 9.2             | 19.6    | MJ eq.         |
| Soil eutrophication       | 0.005             | 0.006           | 0.103   | mol N eq.      |
| Freshwater eutrophication | 0.00010           | 0.00019         | 0.00008 | kg P eq.       |
| Marine eutrophication     | 0.002             | 0.002           | 0.006   | kg N eq.       |
| Acidification             | 0.002             | 0.002           | 0.024   | mol H+ eq.     |
| Tropospheric ozone        | 0.001             | 0.002           | 0.004   | kg NMVOC eq.   |
| Land use                  | 0.6               | 0.6             | 2.9     | mt             |
| Water consumption         | 0.0005            | 0.008           | 0.0009  | m of water eq. |

*Pink indicates the greatest environmental impact of the drinks within the same impact category.*

Source: [2017 Sustainability Report](#), p. 30

Oatly failed to show its water impact relative to milk, which is worse

# Lip Service To Sustainability: Cherry Picking Water Consumption Impact

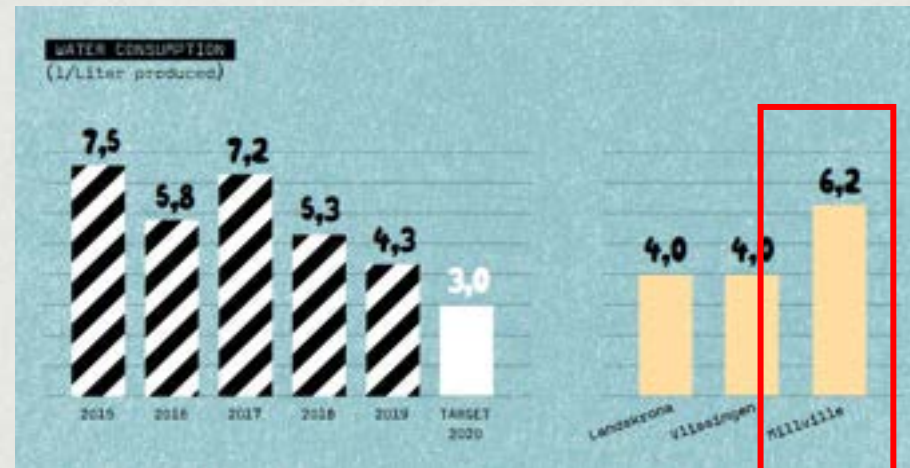
Oatly has known that water consumption is a big variable into its oat milk production process ever since it commissioned its environmental sustainability study in 2013. Water has a greater environmental impact in oat milk production relative to traditional milk. Yet, when Oatly entered the U.S. and paid almost \$10m for a used plumbing facility, it apparently did not plan its water needs well. Oatly's own 2019 Sustainability Report shows the Millville, NJ facility consumed 55% more water per liter of oat base produced than its Swedish and Netherlands facilities. Now more than two years into production, Oatly is applying to build a wastewater treatment facility in NJ.

The study shows that both of the Oatly oat drink types have a lower environmental impact than semi-skimmed milk. This can be explained by the fact that milk production is a more complex process, including the feeding of animals, management of manure and methane emissions associated with animal rumination. The table below summarises the overall results of the environmental impact of one litre of aseptic oat drink, one litre of fresh oat drink and one litre of semi-skimmed milk.

| Environmental Impact      | Aseptic oat drink | Fresh oat drink | Milk    | Unit            |
|---------------------------|-------------------|-----------------|---------|-----------------|
| Impact on climate         | 0.4               | 0.5             | 1.3     | kg CO2 eq       |
| Primary energy            | 7.7               | 9.2             | 19.6    | MJ eq.          |
| Soil eutrophication       | 0.005             | 0.006           | 0.103   | mol N eq.       |
| Freshwater eutrophication | 0.00010           | 0.00019         | 0.00008 | kg P eq.        |
| Marine eutrophication     | 0.002             | 0.002           | 0.006   | kg N eq.        |
| Acidification             | 0.002             | 0.002           | 0.024   | mol H+ eq.      |
| Tropospheric ozone        | 0.001             | 0.002           | 0.004   | kg NMVOC eq.    |
| Land use                  | 0.6               | 0.6             | 2.9     | m2              |
| Water consumption         | 0.0005            | 0.008           | 0.0009  | m3 of water eq. |

*Pink indicates the greatest environmental impact of the drinks within the same impact category.*

Source: [Internal Report for Oatly AB](#), Swedish Institute of Food and Biotechnology, 2013



Source: 2019 [Oatly Sustainability Report](#)

**Major Site Plan Application:** Innovation now seeks development of the remainder of the Block 581; Lot 1 property. The Application seeks preliminary and final major site plan approval for a 2-phase construction project including the construction of an approximate 125,286SF food processing facility, with attendant site improvements including, without limitation, drive access from Gorton Road, truck maneuvering, storage and loading dock areas, vehicular parking areas, waste water treatment facility designed to treat commercial/industrial waste from both the existing Oatly facility and the proposed facility, landscaping, lighting and storm water management. The proposed processing facility, to be operated by Innovation, will process and

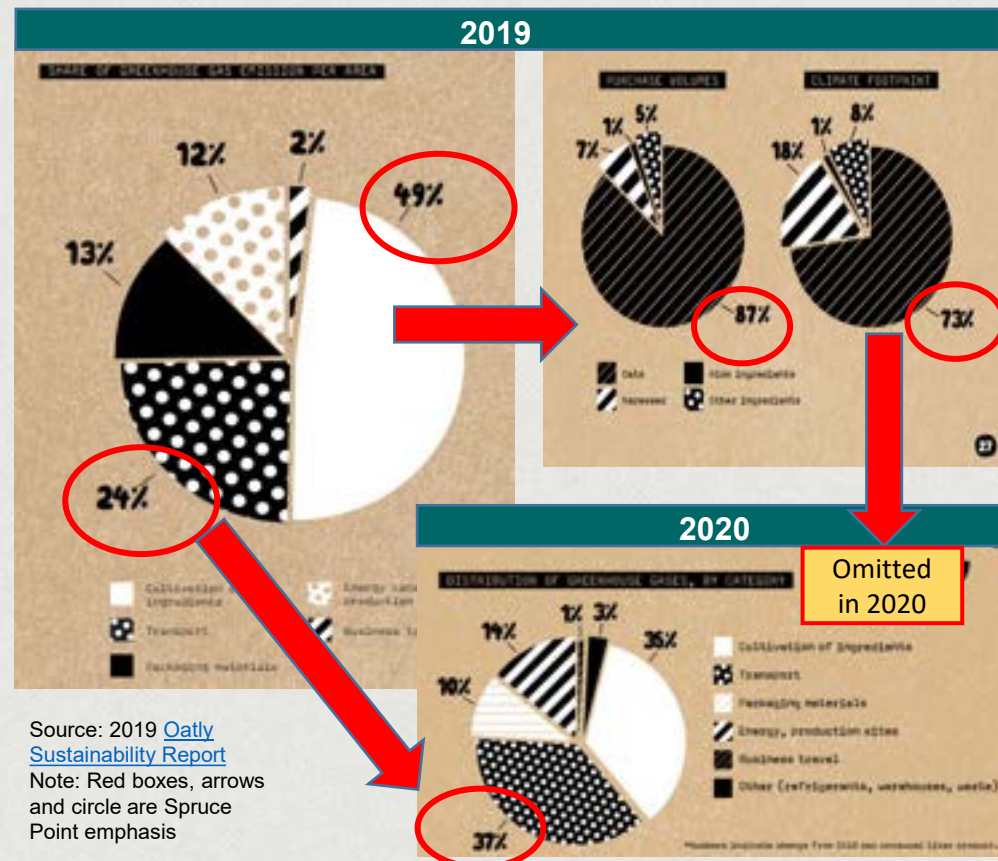
Source: Feb 2021, [Millville, NJ](#) Note: Red box and underline are Spruce Point emphasis

# Lip Service To Sustainability: Cherry Picking Transportation Impact

Oatly's seminal internal sustainability study from 2013 discusses the importance of transportation costs, accounting for nearly 1/3<sup>rd</sup> of its environmental impact. Yet, in Oatly's quest for rapid business growth and its race to IPO, we believe it has recklessly managed these costs, and also sought to obscure the impact of shipping costs in its financial statements (See Slide: [Oatly's Gross Margin's Fail To Capture Outbound Shipping Costs In Conformity With Industry Standards](#)). From the charts in the bottom right below, we also see that in 2020 Oatly says 35% of its current climate impact comes from ingredients, with 84% of this ingredient (based on volume) impact tied to oats.

## Conclusions:

- The study shows that Oatly oat drinks have a lower environmental impact than semi-skimmed milk.
- The life cycle assessment shows that with the current production set-up (with the fresh drink production in Germany) that, from an environmental perspective, the aseptic drink is preferable to the fresh drink. If the production of the fresh drink would take place in Sweden instead (with the same process parameters, but with the Swedish ratio), the results would have been different and the distinction between the aseptic and fresh drinks would have been small.
- The plant in Landskrona is a hotspot for the production of the aseptic drink with regards to impact on climate, energy and water consumption.
- The plant in Germany is a hotspot for the production of the fresh drink in terms of impact on climate, energy and water consumption, and freshwater eutrophication.
- Climate contribution from transport accounts for about a third of the total climate contribution from oat drinks, with a slightly greater contribution from the fresh product. This is partly because the fresh drink has longer transport times and that this transport is refrigerated.
- Home transport, that's to say the private transport made by the consumer, has the greatest environmental impact.
- The transport from Oatly to wholesale gives a relatively large negative contribution to the environment and should be analysed in more detail.
- Contribution to climate from cold storage (after production) of the fresh oat drink is marginal.
- There is potential for improvement in both the aseptic and fresh oat drink production processes.
- The environmental impact of the aseptic drink packaging is larger than that of the fresh drink packaging.



# Lip Service To Sustainability: Cherry Picking Transportation Impact (cont'd)

Recall from the [prior slide](#), that transportation and oats are two major components of Oatly's environmental impact. However, in its quest to grow and rush an IPO so investors can cash out, we believe there is clear evidence of Oatly disregarding these enormous climate factors. **For instance, in Oatly's U.S. expansion, its production facilities are nowhere close to Western Canada, where its U.S. President is on record saying 90% of its oats come from.**<sup>(1)</sup> In addition, Oatly is pushing its Asia and China expansion story, while oats are being sourced from Sweden, or up to 6,000 miles away!

## Oatly's U.S. President said that 90% of its oats come from Western Canada.<sup>(1)</sup>

- Oatly's first production facility is located in New Jersey, or approximately 3,000 miles away from its oat supply:
  - **Fmr. Oatly North American Manager:** "I don't know why they would pay (\$10m for a used plumbing facility in NJ), but my jaw dropped when I heard it"
  - **Fmr. Oatly Accounting Professional:** "In the system, there were issues with tracking items. We had so many warehouses, there was no control or coordination"
- Oatly's second production facility is located in Utah
  - **Fmr. Oatly North American Manager:** "I think Utah was the wrong place, wrong location. They were looking more at the tax credits (a short-term one shot deal). I was looking more in the Pacific Northwest, to fit more with the green sustainability, North/South trucking routes and production. Utah is an improvement in the West, but not optimal as far as I'm concerned."

## Oatly's Asia Expansion Also Shows Extreme Distance From Oat Sourcing

*"This strategic partnership is a testament to Yeo's unwavering commitment to manufacturing standards and high standing in the food and beverage industry in Asia," Yeo's Group chief executive officer Samuel Koh told The Business Times.*

*The Singapore facility will produce 60 million litres of oat milk a year at launch, and has the option to scale up further with additional investment. **The oats will be sourced from Sweden.***

*Johnny Teo, executive director for food, healthcare and biomedical at Enterprise Singapore, said: "This collaboration between Yeo's and Oatly is an example of a strategic cross-border partnership that capitalises on complementary capabilities among different players in the food ecosystem, which we hope to see more in Singapore".*

<sup>1)</sup> "Yeo's, Oatly in S\$30m tie-up to produce oat drink for Asia in Singapore", [Business Times](#), Nov 2018

# Supplier of Questionable Nature

Oatly names a supplier “Olam” as its source for Cocoa powder. Oatly came under activist scrutiny when it accepted a \$200m investment from Blackstone for its connections to deforestation.(1) Yet, Olam also has a long history of alleged ties to forest destruction. A report released by the NGO Mighty Earth and Gabon-based NGO Brainforest on December 12, 2016 revealed that Olam was operating a secretive palm oil trading operation worldwide, particularly with its third-party suppliers in Asia.(2) Olam was accused of endangering the forest habitats of gorillas, chimpanzees and forest elephants due to widespread deforestation.(3) It was revealed that in Gabon, Olam had cut 26,000 hectares (64,000 acres) of forest for palm oil.(4)

## Oatly Chocolate Milk



**COCOA POWDER**

Origin: Netherlands.

Supplier: Olam

Source: [Oatly Chocolate Milk](#)

## Oatly Chocolate Frozen Dessert



**COCOA POWDER**

Origin: West Africa

Supplier: Olam

Source: [Oatly Chocolate Frozen Dessert](#)

Source: Excerpts from Wikipedia history on Olam

1. [“Activists sour on Oatly vegan milk after stake sold to Trump-linked Blackstone”](#), the Guardian, Sept 1, 2020
2. [“Palm Oil’s Black Box”](#), Mighty Earth, December 2016.
3. [“Olam under fire over Africa deforestation”](#), Financial Times, 11 December 2016.
4. [“Palm oil giant defends its deforestation in Gabon, points to country’s ‘right to develop’”](#), Mongabay, 19 December 2016



*Oat-Lies About Management And  
The Board: Undisclosed Ties To  
Accounting Scandals and Business  
Failures*

# Weak Management Structure

**Warning:** How is it that after more than 20 years in business, Oatly does not have in place named executives, or a structure beyond the CEO and CFO in its IPO prospectus? The Company has experienced challenges with its growth, yet it doesn't have a named COO accountable to investors? Should a \$12 billion public company really be operating with such a thin bench of accountable executive talent? Oatly's websites lists some additional executives, but provides no biographies.<sup>(1)</sup>

| Role  | Officer         | Core Skills                        | Biography  |
|---|-----------------|------------------------------------|--|
| Chief Executive Officer, Board                      | Toni Petersson  | Entrepreneurship, Marketing, Sales | Mr. Petersson founded several businesses, including companies in the hospitality industry and a real estate company, before he served as the CEO of Boblbee Interim CFO and VP, Corporate Controller at Autoliv. VP, Financial Controller of Nasdaq Stockholm. Mr. Hanke holds a degree in Business Administration, with a concentration in Accounting and a CPA |
| Chief Financial Officer                             | Christian Hanke | Finance and Accounting             |  |
| Chief Legal Officer                                 | ?               | ?                                  | ?  |
| Chief Operations Officer / Logistics & Supply Chain | ?               | ?                                  | ?  |
| Human Resources                                     | ?               | ?                                  | ?  |
| Product Development / R&D                           | ?               | ?                                  | ?  |
| Chief Sustainability Officer                        | ?               | ?                                  | ?  |
| Regional Heads                                      | ?               | ?                                  | ?  |

Source: [Prospectus](#)

1) As of July 2021, the Company investor relations [website](#) now lists certain names and titles, but with no biographies

# Oatly's CFO Omits His Role At A Prior Accounting Scandal



**Warning:** Oatly's CFO Christian Hanke provides an incomplete biography that obscures his role as Manager of Financial Reporting at Stratus Technologies (1999 - 2005). During his time at Stratus, the Company disclosed a multi-year financial restatement related to revenue recognition and lease accounting.

## CFO Hanke's Official Oatly Biography Fails To Disclose His Role At Stratus Technologies

**Christian Hanke** has served as our Chief Financial Officer since March 2020. Prior to joining the Company, Mr. Hanke served as the Interim Chief Financial Officer and Vice President, Corporate Controller from March 2019 to March 2020 and Vice President, Corporate Controller of Autoliv from November 2016 to March 2019. Mr. Hanke served as the Vice President, Financial Controller of Nasdaq Stockholm overseeing the EMEA and Asia Finance function from April 2013 to November 2016. Mr. Hanke holds a Bachelor's degree in Business Administration, with a concentration in Accounting, from Uppsala University. Mr. Hanke is a Certified Public Accountant.

Source: [Oatly website](#) and [F-1](#)

## Hanke Oversaw Financial Reporting At A Company That Told Investors Its Financials Couldn't Be Relied Upon



### Manager Financial Reporting

Stratus Technologies

Sep 1999 – Jun 2005 · 5 yrs 10 mos

Consolidation, US GAAP, SEC reporting,

## Major Accounting Restatement and Non-Reliance on Financials During Hanke's Time At Stratus Technologies

We have identified and are currently reviewing certain customer transactions for which revenue was recognized and reported in the consolidated financial statements of Stratus Technologies International, S.à r.l. for fiscal 2004 and the first quarter of fiscal 2005. The accounting issues identified in these transactions relate to the timing of the recording of revenue, and not whether the sales can be recorded as revenue. For these transactions, the products for which we have recognized revenue have been delivered, are currently in use by our customers in their operations and have either been paid for or are expected to be paid for in the ordinary course. We are reassessing the appropriate periods in which the revenue for these transactions should be recognized. While we do not expect this review to result in changes to historical cash flow, it is likely that some or all of the revenue recorded for these transactions in previous financial periods could be deferred to future periods, thereby affecting the consolidated financial statements of Stratus Technologies International, S.à r.l. for fiscal 2004 and the first quarter of fiscal 2005 and resulting in a restatement for those periods. We are working with our internal auditors, Ernst & Young, and our independent auditors, PricewaterhouseCoopers, on this detailed review of prior period revenue transactions, their potential impact on revenue, cost of goods sold and inventory and our internal controls generally. At this time, we do not have an anticipated date for the completion of our review or the release of any appropriate restated financial results. **Accordingly, pending completion of this review, the consolidated financial statements of Stratus Technologies International, S.à r.l. for fiscal 2004 and the first quarter of fiscal 2005 should not be relied upon as an accurate reflection of our financial results for these periods.**

Source: [Stratus Technologies](#) and [prospectus](#)

Source: Christian Hanke [LinkedIn](#)

# Audit Chair Tied To Accounting Scandal And SEC Investigation At Green Mountain Coffee (Nasdaq: GMCR)

**Warning:** Given concerns we will document about Oatly's: 1) Lack of adequate financial disclosures, 2) Three auditors in six years, and 3) Evidence of key financial and operational metrics not adding up, we find it curious that the Company appointed Frances Rathke to the Board. What Ms. Rathke's biography fails to omit is that while CFO, Treasurer (**and Chief Accounting Officer**) of Green Mountain Coffee (Nasdaq: GMCR), the Company came under investigation by the SEC, and in 2010, announced a multi-year financial restatement from 2007-2010.<sup>(1)</sup> Key errors were found tied to accounting for incentives (that hit revenue) and inventory. Also, Oatly fails to disclose that Ms. Rathke was interim CFO of Wild Oats Markets, Inc (Nasdaq: OATS). Immediately upon hiring her, the Company filed amended 10K/A and 10Q/A forms "to correct certain clerical errors and to supplement certain information previously provided". **Rathke also claimed to be a CPA for 15 years after her license expired.**<sup>(3)</sup> If in fact Oatly's financials are plagued with errors and material financial misstatements, we believe Ms. Rathke's experience on the Board may eventually be useful.

Frances Rathke  
Biography  
From Oatly Fails  
To Say She Was  
Also Chief  
Accounting  
Officer

Frances Rathke will join our board of directors upon the completion of this offering. **Ms. Rathke served as the CFO and Treasurer of Keurig Green Mountain, Inc. from 2003 to 2015, as well as the Strategic Advisor to the CEO in 2015,** and she served as the CFO and Secretary from 1990 to 2000 and the Corporate Controller from 1989 to 1990 of Ben & Jerry's Homemade, Inc. Ms. Rathke has served on the board of directors, including serving on the Audit Committee and Compensation Committee, of Planet Fitness, Inc. since 2016. She also currently serves on the board of directors of several private companies, including Green Mountain Power Corporation, Northern New England Energy Corporation, John Hancock Investment Management, Flynn Center for Performing Arts and Citizen Cider Holding, Inc. Ms. Rathke holds a Bachelor's of Science in Accounting and Business Administration from the University of Vermont and **previously was a certified public accountant.**

Frances  
Rathke  
Biography  
From GMCR Says  
She is a CPA<sup>(3)</sup>

Frances G. Rathke has served as Chief Financial Officer of Green Mountain Coffee since October 2003, and as Interim Chief Financial Officer of the Company since April 2003. Prior to that, Ms. Rathke worked as a financial consultant with various food manufacturers and food retailers from July 2001 to April 2003. **One of these consulting assignments included the position of Interim Chief Financial Officer for Wild Oats Markets, Inc., a supermarket chain, from July 2001 to December 2001.** Prior to this, Ms. Rathke served as Chief Financial Officer for Ben & Jerry's Homemade, Inc., an ice cream manufacturer, from April 1989 to August 2000. From September 1982 to March 1989, Ms. Rathke practiced public accounting and auditing with Coopers & Lybrand LLC, and **is a certified public accountant.**

Source: Green Mountain 2008 [10-K](#)

Rathke  
Was Chief  
Accounting  
Officer During  
GMCR Scandal

/s/ Frances G. Rathke  
FRANCES G. RATHKE

Chief Financial Officer, Treasurer,  
and Secretary (Principal Financial  
and Accounting Officer)

December 8, 2004

Source: Green Mountain 2004 [10-K](#)

/s/ Frances G. Rathke  
FRANCES G. RATHKE

Chief Financial Officer,  
Treasurer, and Secretary  
(Principal Financial  
and Accounting Officer)

November 25, 2009

Source: Green Mountain 2009 [10-K](#)

- 1) [Green Mountain Coffee Roasters, Inc. Announces Restatement of Financials](#), Nov 19, 2010 and [8-K](#)
- 2) Wild Oats files [10K/A](#) and [10Q/A](#) after hiring Rathke in July 2001
- 3) Rathke's [CPA license expired in 1993](#), yet her biography claimed she is a CPA through 2008

# Chairman of The Board Conceals Prior Food Failure Chasing The Latest “Hot” Trend

**Warning:** We believe Oatly's Chairman of the Board provides a disingenuous biography that fails to capture his recent experience with Genius Foods Ltd. In fact, director Hours was also associated with this failing baked goods company that chased the once hot gluten-free trend. In fact, after Verlinvest, currently the largest investor in Oatly, invested in Genius Foods it had a product recall for producing gluten-free products that contained gluten.<sup>(1)</sup> More recently, Genius Foods had another product recall from including egg in a product not purported to contain egg.<sup>(2)</sup>

## Official Oatly Board Member Biographies Fail To Mention Genius Foods

### ERIC MELLOUL

Chairman of the Board

Eric Melloul has served as a member of our board of directors since November 2016. Mr. Melloul has served as a Managing Director for Verlinvest since August 2008. Prior to Verlinvest, Mr. Melloul served as Global Marketing VP and China Commercial Head for Anheuser-Busch InBev from 2003 to 2008 and as an Associate Partner at McKinsey & Company from 1999 to 2003. Mr. Melloul has served on the board of directors for Vita Coco (All Market Inc.), Hint Inc. and Mutti S.p.A.. Mr. Melloul holds a MBA from the Kennedy School at Harvard University and a Post Graduate Diploma from the London School of Economics and Political Science.

\* Chairman of the Board

Member of the Remuneration Committee

### BERNARD HOURS

Bernard Hours has served as a member of our board of directors since March 2019. Mr. Hours has served as the President of Andros España and Chef Sam in Spain since January 2017. Mr. Hours also currently serves as the President of Metved Limited, a position he has held since December 2014. Prior to these roles, Mr. Hours served as the Chief Operating Officer of Danone S.A. from 2008 to 2014. Mr. Hours currently serves on the board of directors of Essilor International since 2009 and on the board of directors of Verlinvest since 2015. Mr. Hours holds a degree in Business from HEC Paris.

Source: [Oatly Board of Directors](#)

### Genius Foods Limited

#### Directors' Report

#### For the year ended 31 December 2017

The directors present their report and financial statements for the year ended 31 December 2017 (2016: period ended 31 December 2016).

Details of significant events since the balance sheet date, financial risks and an indication of likely future developments in the business of the company and the Group are included in the Strategic Report.

#### Results and dividends

The consolidated statement of comprehensive income for the period is set out on page 10.

The directors do not recommend payment of a dividend. No dividend was paid in the prior period.

#### Directors

The directors, who served throughout the year except as noted, were as follows:

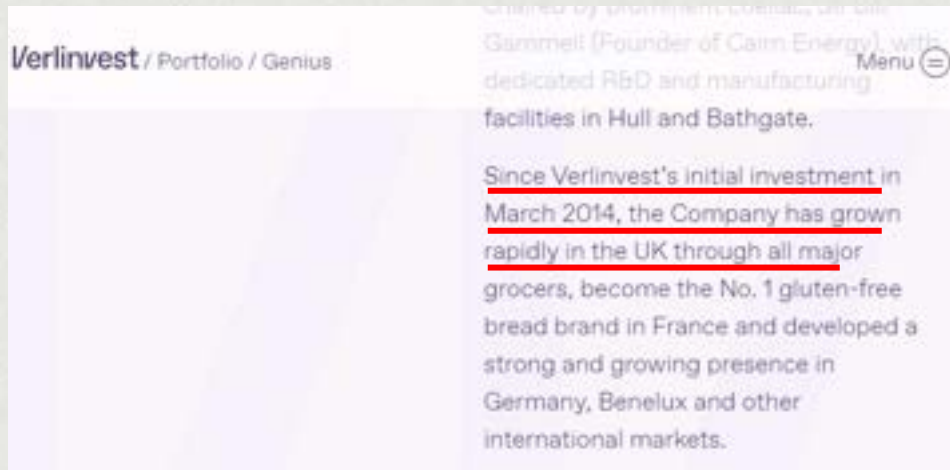
J Bradley  
L Bruce-Gardyne  
F De Mevius (resigned 1 April 2017)  
J Dunsmore  
Sir W Gammell  
B Hours (appointed 1 April 2017)  
E Melloul  
E Murray

Source: [Genius Foods 2017](#)

- 1) “Genius Foods recalls gluten-free products due to gluten findings”, [BakeryAndSnacks.com](#), Jun 2015
- 2) “Genius recalls Cinnamon & Raisin Bagels due to undeclared egg”, [Scotland Food Standards](#), March 2019

# We Believe Oatly's Largest Investor Has Failed Chasing Other Food Fads

**Warning:** Oatly's largest investor Verinvest describes Genius Foods, a Scottish gluten-free brand with a presence in Europe, as a success. Verinvest made a "significant investment" in 2014 when gluten-free was the latest hot trend in the food industry. Since then, revenues haven't materially changed, while operating losses have doubled even with restructuring.<sup>(1)</sup>



Source: [Verinvest](#)

## Business review

Genius and its subsidiaries produce, market, distribute and sell gluten free products.

Genius completed its program to exit unbranded, low margin lines and become a 100% branded business during 2017. The focus to simplify operations continued with the closure and subsequent disposal of the Hull site (following the transfer of Hull assets and trade to Bathgate), along with significant one-time restructuring activity. On the back of this program underlying Gross Margins improved for a second consecutive year with the full year benefit yet to show. Genius continues to focus on driving fewer higher potential lines in large international markets.

1) Genius Foods receives "significant" Verinvest injection, [TheGrocer.co.uk](#), April 5, 2014

Source: Genius Foods [2015](#), [2017](#), and [2019](#) filings

## Genius 2019 Sales and EBIT 2019: £34.4 / (£ 3.4) Million

### Genius Foods Limited

#### Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

|                         | Note | 2019<br>£'000 | 2018<br>£'000 |
|-------------------------|------|---------------|---------------|
| <b>REVENUE</b>          | 4    | 34,388        | 30,671        |
| Cost of sales           |      | (21,172)      | (18,424)      |
| <b>GROSS PROFIT</b>     |      | 13,216        | 12,247        |
| Other operating income  |      | 116           | 97            |
| Distribution costs      |      | (1,120)       | (1,318)       |
| Administrative expenses |      | (15,618)      | (16,358)      |
| Impairment              | 5    | -             | (362)         |
| <b>OPERATING LOSS</b>   |      | (3,406)       | (5,694)       |

## Genius 2014 Sales and EBIT: £41.9 / (£1.5) Million

### GENIUS FOODS LIMITED

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 3 JANUARY 2015

|  | Notes | 52 Weeks ended<br>3 Jan 2015<br>£ | 52 Weeks ended<br>4 Jan 2014<br>£ |
|--|-------|-----------------------------------|-----------------------------------|
| Turnover   | 2     | 41,990,735                        | 30,415,984                        |
| Cost of sales                                    |       | (27,507,779)                      | (22,233,018)                      |
| Gross profit                                     |       | 14,482,956                        | 8,182,966                         |
| Distribution costs                               |       | (832,697)                         | (400,822)                         |
| Administrative expenses:                         |       |                                   |                                   |
| - other than exceptional administrative expenses |       | (14,829,481)                      | (8,197,649)                       |
| - exceptional administrative expenses            | 4     | (413,635)                         | (467,000)                         |
| Total administrative expenses                    |       | (15,243,116)                      | (8,664,649)                       |
| Other operating income                           |       | 19,426                            | 55,313                            |
| <b>Operating loss</b>                            | 4     | (1,573,435)                       | (817,290)                         |



*Former Employee Interviews Shine A  
Light On Undisclosed Accounting  
Problems And Poor Capital Spending  
Decisions*

# Opinion On Biggest Investment Risks Points To Concerns About “Financial Statement Accuracy”

An interview with a former employee in a financial accounting capacity raised concerns about the accuracy of the financials statements, working capital terms, management suitability as a public company and risks to transfer pricing.

Spruce  
Point  
Question

*“What do you think are the biggest investment risks to the Oatly story?”*

Former Oatly  
Accounting  
Professional

*“**Number one is the state of accuracy of the information that Oatly provides.** I would make emphasis on division by division. EMEA, Europe, including Sweden. The U.S. is right now number one contributor to sales. The marketing channel and expectations from China from the Company; that’s from a sector perspective. **If I were to invest, want to make sure the financials are accurate and telling the right story.** Coming back to your question about net sales. What is included in the net sales? I think the operating expenses make sense. In the balance sheet, **I would like to see the composition of the fixed asset, to see plant by plant, and what is the depreciation they are taking.** I would like to see the accounts receivables because normally Oatly is in the 30 day process, but with some customers we have to pay immediately. The cycle of the cash is not in the favor of the Company.”*

Spruce Point  
Question

*“To be clear on the cycle of cash, are you saying that they grant terms to customers for payment that are longer and more favorable than they receive from suppliers”*

Former Oatly  
Accounting  
Professional

*“**Absolutely, yes.** Can be 60 or 90 days (for customer payment). During COVID19 we had to write off a decent amount of receivables to the coffee shop sector. Oatly pays very generously to the vendors, like 7 to 30 days. I tried to get 60 or 90 days but couldn’t make it only with a couple, non-important customers. Amazon pays cash immediately, but they are not a material customer.”*

*“**My number two reason I didn’t invest in Oatly,** and I have good memories of my time there and disappointed I couldn’t continue, **but my main focus is on the management.** Toni (the CEO) is not a public company leader. In my opinion, he’s not what Blackstone is looking for. Toni is great, but the brain in the organization is John Schoolcraft (Chief Creative Officer aka Mind Control Officer) I believe the management team is different from managers I know in the public sector.”*

Spruce Point  
Question

*“Getting back to the points you raised I’d want to know more about their capital assets and depreciation. Does that mean to suggest you believe they’ve been aggressive in capitalizing costs and depreciating things too slowly.*

Former Oatly  
Accounting  
Professional

*“**Absolutely. It’s a thing to me that has to be disclosed. I don’t have the answer but it’s a feeling. I really think that capitalizing certain expenses, and accelerating depreciation, has been in their favor.** The other topic I don’t want to forget is transfer pricing because it is important. It’s not related to the balance sheet. They have a simple criteria. For example, 2019 has \$2m in costs, and Sweden would say you need 2.5% in profits. When you are playing with taxes, I don’t know what you can do in Sweden to explain, but I don’t know if you can do it so easily in the U.S. So now they’re public, I’d be very careful about the tax treatment and if there are any issues with transfer pricing.”*

# Interview With Former Oatly Accounting Professional Reveals Problems

## Spruce Point Question

*"Oatly doesn't disclose sales discounts and allowances affecting net revenue, but would you say that they had to be very aggressive to grow?"*

## Former Oatly Accounting Professional

*"Yes, to do what they had to do to come to market. They were very aggressive when Chobani came to the market with oat milk. Immediately they went to (retailers) and said you can't take them, take us. And that has a price. You can't go to places like Whole Foods, because they would say sorry. In places like Starbucks, yes they can do it because they are partners."*

## Spruce Point Question

*"Shipping costs, costs to move product to customers, that doesn't hit Gross Margin but goes through SG&A. Is that correct?"*

## Former Oatly Accounting Professional

*"Freight affects the gross margin. Normally, Oatly pays the freight. If the freight is paid by the customer, no problem. We tried, in the beginning when we were small, we had no power to have customers pay the freight. Also, there was a big problem in the system, but I was able raise the topic with the team to fix it. We had negative gross margin. I said, what is going on here, how can we produce losing money? **In the system, there were issues with tracking items. We had so many warehouses, there was no control or coordination....We tried to fix it, and that brought big changes in the freight and improvement in gross margin. Originally, we used standard cost (inventory accounting) and the standard cost wasn't established properly. Raw materials, labor and clearly the big factor and issue was overhead. It was just a percentage, but it was totally out of proportion. So we went to a different system. We tried to go to ABC (activity-based costing) but the plant was too new and we didn't have enough expert people, and we couldn't do it. I think the Company is very aware that this is an issue, especially now in a public environment. The cost needs to be released (chuckle), that information has to be accurate. I think now with the people and the team Blackstone is building, that's something they know how to work with.**"*

## Spruce Point Question

*"So just to be clear. You really think the gross margins were negative in the U.S.?"*

## Former Oatly Accounting Professional

*"Yes in 2018 and 2019, I was there, I saw it. The freight was extremely high and not considered part of the cost of goods sold. Then the Company moved with the supply chain optimizing the cost analysis and started making a decent gross profit in 2020. And clearly because the Company was paying extremely high freight, it was affecting the gross margin."*

# Critical Insights From A Former Oatly Employee

A former Oatly accounting professional reveals undisclosed accounting policy changes. In addition, by multiple accounts, Oatly's NJ facility was producing by April – May 2019, yet it did not formally recognize the capital expenditures until October 2019. By doing so, we believe Oatly has delayed recognition of depreciation costs and understated its financial losses to investors.<sup>(1)</sup>

## Spruce Point Question

*"So just to be clear. Was there a formal change of accounting policy at the group level between 2019 and 2020?"*

## Former Oatly Accounting Professional

**"Yes, it was changed because a new CFO came.** He came with a lot of expertise. For all those years of Oatly, the finance and accounting function didn't grow with the Company and was behind. They needed to professionalize. He took over and made changes, probably restructured the finance and accounting department with more emphasis on costing. The prior CFO, Peter Bergh, became COO."

## Spruce Point Question

*"Let's drill down on the NJ Plant. They paid \$10m for the Millville facility. But I don't understand the same land and facility sold for approximately \$650,000 not much earlier. What exactly went on there?"*

## Former Oatly Accounting Professional

*"Oatly was having issues that it couldn't produce product in 2017 and 2018. Mike (Oatly's North American President) was looking for a plant to produce and a very good friend of the Catalana family (Innovation Foods and owner of the property). I think the \$10 million included equipment. **I was working with Sweden in terms of when we were going to recognize the capex. The answer was Oct 2019.** The value of the equipment was close to \$7.5 million, that's what I remember. There were a good number of expenses, and they were audited by E&Y. I think if I remember, but I would not be wrong saying that \$2 million was only in professional fees for engineers, blueprints, NJ controls, but these fees were capitalized."*

## Sources Confirm NJ Was Operating Before The Capex Was Recognized

*"Fifteen months later, the dark days have brightened—for baristas, coffee lovers, and especially Oatly AB. **In April, the Swedish company widely credited with creating the oat milk category opened a \$15 million U.S. processing plant in Millville, N.J.—the first outside Europe.** The factory produces about 750,000 gallons of oat base—a thick, lightly sweet liquid that's the main ingredient in all Oatly products—on a monthly basis, according to the company (it won't disclose total volume)."*

Source: "Oatly's Path to Alt-Milk World Domination Starts in New Jersey", [Bloomberg](#), July 31, 2019

1) [FoodNavigator](#) reports the opening of the facility in May 2019. "Wow, no cow, Innovation Foods to open \$45m processing and packaging facility for Oatly in New Jersey in 2022", March 26, 2021

# Opinions And Evidence of Poor Capex Planning

## Spruce Point Question

*"Do you have a range of how much they spent to acquire the NJ facility and get it to producing oat milk?"*

## Former Oatly U.S. Manager

*"The way the facility was built, it was leased, but the plant has been Oatly. **That being said, I know they purchased it and totally overpaid for it, upward of \$10m.** I don't know why they would pay that much, **but my jaw dropped when I heard it.**"*

## Spruce Point Question

*"What do you think of the decision to expand in Utah and how much do you think they're spending in Utah?"*

## Former Oatly U.S. Manager

*"**I think Utah was the wrong location...**an improvement to be in the West, but not optimal as far as I'm concerned. Economic incentives were the main driver, unfortunately to me, but it's just a one-shot thing in the early days, but in the long-run it's a short-term view. They spent too much. I think they are close to \$100m. The original budget is \$50m. **It's been delayed a year and half due to Covid-19. I've heard they're close to \$100m which is insane.**"*

## Former Accounting Professional When Asked About Utah Being Over \$100m

*"(chuckle) **Ah yes, I don't have the numbers, but I know, it's not a rumor it's public information that the budget was poor. It wasn't professional the way it was done.** In my opinion, it should have different features. It moved too fast, We didn't believe Utah was going to happen because of Covid-19... **they were over budget by maybe 200% over expected.**"*

## Oatly NJ Facility "A Former Plumbing Warehouse"

10. Mr. Catalana testified that Innovation Foods, LLC is a family business with 85% of employees sourced from the Cumberland/ Salem County area. The family business includes Cumberland Dairy and other entities which engage in contract manufacturing for a host of national customers. They manufacture, warehouse, and distribute beverage and other products to support an array of brands. He testified that since 2018, the project has rapidly advanced. They took a former plumbing warehouse and made a state of the art facility to manufacture oat base. Their first effort was on behalf of Oatly, a Scandinavian company with a proprietary process. The facility was completed in under 10 months.

| Location      | Details                                 | Date         | Cost (m) | Sq Feet | Cost / Sqft  |
|---------------|---|--------------|----------|---------|--------------|
| Millville, NJ | <a href="#">Plumbing Warehouse</a>      | Oct 2019     | \$9.7    | 19,000  | <b>\$511</b> |
| Millville, NJ | Phase I/II <a href="#">Expansion</a>    | 2021-fwd     | \$45.0   | 125,286 | \$359        |
| Ogden, UT     | Expansion ( <a href="#">announced</a> ) | 2019-To Date | \$40.0   | 135,000 | \$296        |
| Ogden, UT     | Expansion (rumored)                     | 2019-To Date | \$100.0  | 135,000 | <b>\$741</b> |
| Ft Worth, TX  | Expansion ( <a href="#">announced</a> ) | 2021         | \$84.0   | 280,000 | \$300        |

# Evidence of Poor Capex Planning



As we [previously pointed out](#), approximately 60% of Oatly's climate sustainability impact is related to oats and transportation. Yet, Oatly spent \$10m on purchasing a used plumbing facility from its co-packer? We believe the CEO's response to a question of why it chose Millville is whimsical and displays a lack of in depth planning.

Oatly U.S.  
President  
Messersmith

"Messersmith said the Millville **project materialized because of its proximity to supply partners**. Two area businesses, Cumberland Dairy and Innovation Foods, co-pack Oatly products under a multi-year supply agreement."

"90% of our oats come from Western Canada"

[Oatly U.S. President at Food Loves Tech Expo](#), Nov 2018

Oatly CEO  
Peterson on  
Why Millville?

"It was obvious to open on the East coast and not anywhere else. The sky is blue, the people are nice. Can't be better, right?"

Source: "Oat Milk is taking over your town. Here's how", [Vice Interview](#), March 2019

\$10 Million Paid  
For An Old  
Plumbing Facility  
Built In 1972



# Evidence of Poor Capex Planning: Stymied By The Board of Education

It appears that Oatly's U.S. production facility in Millville, NJ was poorly planned and didn't factor in expansion challenges. In order to expand production and ease congestion, Oatly has wanted to purchase an adjacent parcel of land (and even the entire lot) from the City's Board of Education (BOE) ever since 2018. However, the BOE has not been willing to sell, and the hold-up continues to present challenges to Oatly as evidenced in a recent letter from May 2021.

June 2018

Jeanne Parkinson

From: Kell, Bryce <bryce.kell@millville.org>  
Sent: Monday, June 25, 2018 10:48 AM  
To: Samantha Silvers  
Subject: RE: Millville Board of Ed

Samantha,

At this time, we are not interested in selling a piece of the Orange St. property.

Bryce Kell  
Business Administrator  
Millville Board of Education  
856-327-6005

From: Samantha Silvers [mailto:samantha.silvers@millville.gov]  
Sent: Monday, June 18, 2018 11:19 AM  
To: Kell, Bryce  
Cc: Donald Ayres  
Subject: FW: Millville Board of Ed

Bryce,

We have a company who purchased 719 Orange Street, Block 581 Lot 1, which is adjacent to the BOE property at 701 Orange St, Block 581 Lot 2. They reached out to me to see if the BOE would be open to discussion for them to purchase a small amount of property from Lot 2. My initial understanding is that it would be to improve circulation around the existing building. Please let me know if this is something that you are open to and then I can put you in contact with the owner. I appreciate your help with this.

Thank you,  
Samantha Silvers, BOE, PP

City of Millville  
12 S. High Street  
P.O. Box 689  
Millville, NJ 08332

856-825-7000 ext141  
[www.millville.gov/210/Planning](http://www.millville.gov/210/Planning)

August 2020

From: Samantha Silvers <samantha.silvers@millville.gov>  
Sent: Tuesday, August 18, 2020 10:15:55 AM  
To: Nick <Nick@Innovation-Foods.com>  
Subject: Fwd: Orange Street BOE Property

FYI-no go

Sent from my iPhone

Begin forwarded message:

From: "Cruzan, Ryan" <Ryan.Cruzan@millville.org>  
Date: August 18, 2020 at 10:00:17 AM EDT  
To: Samantha Silvers <samantha.silvers@millville.gov>  
Subject: RE: Orange Street BOE Property

Hi Samantha:

The school district isn't interested in selling our warehouse at this time.

-Ryan

Ryan Cruzan  
District Facilities Manager  
Millville Board of Education

May 2021



26 May 2021

Mr. Steve Alcorn  
Fire Marshall, City of Millville  
420 Buck St.  
Millville, NJ 08332

Re: Oatly, Inc. - Fire Lane Relocation

Dear Mr. Alcorn:

It is my understanding that you have discussed the proposed construction and winter operations at the Oatly facility on 719 Orange St. with Mr. Kevin Poloff, Utility Manager at the facility.

As Kevin may have explained, the facility is in discussions with the Board of Education to acquire an additional 100' of property on the western edge of their current boundary. The purpose of this acquisition is to allow the relocation of the fire lane to facilitate the relocation of the temporary wastewater storage tanks during the winter months and to allow access to the facility during upcoming construction activities. Currently these storage tanks are located on the south side of the facility, where much of the construction activity will be occurring and there are concerns with temporary lines freezing during lower temperatures due to the distance from the facility.

Because the discussions with the Board of Education are taking a bit longer than expected, we are seeking approval to relocate those temporary storage tanks immediately which would block the access to the facility along this route. I stress that there are several other avenues of access and this relocation would only be an issue while the adjacent parcel is acquired and cleared.

Attached is a general site drawing that shows the approximate location of the proposed property expansion and where the temporary tanks would be located.

Thank you in advance for your consideration on this matter. If you have any questions, please feel free to call me or speak directly to Kevin.

Sincerely,

Anca Gavril  
Plant Manager  
Oatly, Millville  
203-432-1805

# Evidence of Poor Capex Planning: Wastewater Treatment

**Warning:** From early testing results of waster water generated from Oatly's facility, there were indications of very high concentrations of TSS (Total Suspended Solids), COD (Chemical Oxygen Demand) and CBOD (Carbonaceous Biochemical Oxygen Demand). Oatly must adhere to state regulations with its waster water, as high TSS/COD/CBOD levels can cause harm to wildlife and human health.<sup>(1)</sup>

From: Gioia, Salvador  
Sent: Tuesday, May 21, 2019 7:42 AM  
To: ted danforth  
Cc: anca.gavris@oatly.com; Prohovich, Brian; Caragnato, Wayne; Santiago, Michael  
Subject: RE: Oatly Wastewater Results

Follow Up Flag:  
Flag Status: FollowUp  
Flagged

Ted,  
I have the results for the composite and grab sample taken on 5/15/2019 from our lab. The numbers were very high on most of the results and I think we need to talk about how we are going to move forward. The Sewer plant can not handle this type of load with the estimated flow you are having. When OATLY came to the city they filled out paper work stating that their flow would be 5,000-9,000 gallons a day and they are going well above that at the moment. They also claimed that their CBOD would be around 800-1200 mg/l and TSS 1000-1200 mg/l and the results are showing much higher concentrations. With the higher flows and concentrations we can't handle that load at the plant so we will have to discuss the install of some type of pretreatment system that will reduce the TSS, COD, and CBOD to acceptable levels in order for the Sewer Plant to be able to handle the load. I will be up at engineering at 9am this morning and will try to call your cell phone.

Sal Gioia

Grab sample (cleaning process)  
TSS = 120 mg/l  
COD = 1840 mg/l  
PH = 12.70  
CBOD = 855 mg/l  
  
24hr composite sample (total process)  
TSS = 730 mg/l  
COD = 4510 mg/l  
PH = 11.64  
CBOD = 2040 mg/l

Evidence suggests that Oatly significantly misrepresented its water flow and dangerous by-products to the city.

From: ted danforth <tdanforth@gmail.com>  
Sent: Friday, May 17, 2019 2:40 PM  
To: Gioia, Salvador <Salvador.Gioia@millvillej.gov>  
Cc: anca.gavris@oatly.com  
Subject: Oatly Wastewater Results

Sal - As promised, here are some partial results from samples collected from Oatly. I was hoping for some more results today, but haven't seen anything yet. Should have most of the results in by next week.

Note that the results still represent the plant in "start-up" mode and expect concentrations will drop as time goes on. I am working on getting daily flows as well.

Call me with any questions. I will touch base next week when we get more results.

Oatly Inc.

Millville, NJ

Wastewater Testing Results

| Date        | Millville Limits | Final 5/7/19 | Interim 5/8/19 | Interim 5/9/19 | 5/13/19 |
|-------------|------------------|--------------|----------------|----------------|---------|
| Sample #    |                  | 181447       | 181566         | 181680         | 181953  |
| TDS         |                  | 2,700        |                |                |         |
| TSS         | 1500             | 380          | 1,000          | 2,110          |         |
| pH          | 5-10             | 12           | 8              | 5              |         |
| NH3-N       |                  | 9            | 2              | 9              |         |
| P(T)        |                  | 6            | 4              | 5              |         |
| BOD         | 500              | 1,480        |                |                |         |
| BOD Soluble |                  | 856          |                |                |         |
| COD         |                  | 2,580        | 4,750          | 9,750          |         |

Ted Danforth  
TSD Environmental, Inc.  
  
408 Gray Rd.  
North Yarmouth, ME 04097  
207-857-8255  
ted@tsdenviro.com

# Evidence of Poor Capex Planning: Wastewater Treatment (cont'd)



**Warning:** Oatly has known about its wastewater issues in NJ since May 2019. Its environmental consultant suggested a permanent system could be installed almost as quickly as a temporary one. As of 2021, Oatly still has not completed a wastewater facility.

## Samantha Silvers

From: ted.danforth <tdanforth@gmail.com>  
Sent: Friday, May 24, 2019 3:38 PM  
To: Gioia, Salvador  
Cc: Prohovich, Brian; Samantha Silvers; Carognato, Wayne; Santiago, Michael; Burke, Regina; Hood, Drew; enca.gavis@oatly.com  
Subject: Re: Oatly Pretreatment

Sai - Had a good call with the Oatly folks today. Here is a quick update based on that call:

1. Keystone Engineering has been retained to begin the NJDEP Permitting process and the design of a WWTP.
2. Oatly has committed to installing a treatment system that will assure compliance with the Millville limits. It may be installed in phases to match the projected flows - more to come on this.
3. There is a major effort underway to accurately predict the flows from the facility now and in the future. This will be critical to a functional design.
4. Oatly will not discharge any wastewater to Millville until the system is in place. Note that they may seek approval for batch discharges that have been demonstrated w/ Millville limits at sometime in the future.
5. The facility is investigating a temporary treatment system, but your team would be intimately involved in any system installation, should it look feasible. Most likely, a permanent system can be installed almost as quickly as a temporary one.
6. We may need Millville's support and assistance in moving the NJDEP Permitting process along. My experience is that this could be a major delay in the whole process.

Hope this helps. As a more formal schedule is developed, we will be sure to keep you in the loop. I have copied Drew Hood of Keystone Engineering above. Drew may be in touch with questions, forms and such.

Thanks and feel free to reach out to me next week with any questions.

Ted Danforth  
TSD Environmental, Inc.

488 Gray Rd.  
North Yarmouth, ME 04097  
207-857-9255  
[ted@tsdenviron.com](mailto:ted@tsdenviron.com)



## Wastewater


4. The option of a wastewater pretreatment plant has been discussed with the City of Millville's technical staff and owners of the site. No plans to add a pretreatment have been made. Also, the proposed subdivision may not allow enough room to build a pretreatment plant. Testimony shall be made as to how the wastewater issue will be handled on site before entering the City's wastewater treatment plant.

Source: Planning Board Review Engineering Report, 6/5/2019

*"Most likely, a permanent system can be installed almost as quickly as a temporary one"*

More than 2 years later and Oatly still does not have a wastewater plant in place

# Evidence Its NJ Production Facility Was Used As A Trash Dump



**Warning:** Cumberland County Health inspectors investigating the area of Oatly's facility documented "*large piles of trash*" such as tires, old sinks, floor tiles and other debris. Innovation Foods was notified about this in early 2019 prior to selling the property to Oatly later that year.

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**From:** Paul Wolcott <[pwolcott@cumberlanddairy.com](mailto:pwolcott@cumberlanddairy.com)>  
**Sent:** Wednesday, February 13, 2019 2:40 PM  
**To:** Carmine Catalana; Frank Catalana; [dayecatalana@gmail.com](mailto:dayecatalana@gmail.com); Nick Catalana  
**Cc:** 'Joe Santini'; Arthur Ogren; Paul Wolcott  
**Subject:** Re: Visit from County Health Inspectors (Property Trash Violation)

I just received a visit from (2) County Heath Inspectors, Nicole Giacalone and Emma Nolan. Card are attached.

The reason for the visit is our Property on the Gorton Road side is in trash and dumped tire violation. Apparently, the health department was back there today investigating the area and took pictures of 47 tires that were dump a large piles of trash, old sinks, floor tile and other debris. They our giving us 30 days to have it cleaned up. The clean-up procedure must be documented on the trash removal, meaning if we have Ray Harvey do the clean up the county must have a copy of the invoice also if we Giordano we need to have their paperwork on where they take and depose of the tires and debris Let me know your thoughts and I will get started on it.


Paul D. Wolcott  
[pwolcott@innovation-foods.com](mailto:pwolcott@innovation-foods.com)  
609-774-1859

# Failure To Disclose Environmental Regulatory Non-Compliance For Almost A Year

**Warning:** Oatly regularly touts its good corporate citizenship to the environment. In its 2019 Sustainability Report, it hinted that its growth was placing strains on its short-term ability to improve its environmental footprint, but pledged to “*make things right again*” with various improvements. However, Spruce Point believes that it has back-tracked on this pledge. We find that it has unremedied EPA violations for over a year.

Three-Year Compliance History by Quarter

[Download Data](#) 

| Malta | Program/Pollutant/Violation Type       | QTR 1                   | QTR 2                   | QTR 3                   | QTR 4                   | QTR 5                   | QTR 6                   | QTR 7                   | QTR 8                   | QTR 9                    | QTR 10                   | QTR 11                   | QTR 12                   | QTR 13+  |
|-------|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|---|
|       | CWA (Source ID: NJ0299333)             | 04/01-06/30/18          | 07/01-09/30/18          | 10/01-12/31/18          | 01/01-03/31/19          | 04/01-06/30/19          | 07/01-09/30/19          | 10/01-12/31/19          | 01/01-03/31/20          | 04/01-06/30/20           | 07/01-09/30/20           | 10/01-12/31/20           | 01/01-03/31/21           | 04/01-07/02/21  |
|       | Facility Level Status                  | No Violation Identified | No Violation Identified | No Violation Identified | No Violation Identified | No Violation Identified | No Violation Identified | No Violation Identified | No Violation Identified | Violation Identified     | Violation Identified     | Violation Identified     | Violation Identified     | Violation Identified  |
|       | Quarterly Noncompliance Report History |                         |                         |                         |                         |                         |                         |                         |                         | Reportable Noncompliance | Reportable Noncompliance | Reportable Noncompliance | Reportable Noncompliance |   |

Source: [EPA website](#)

It seems our products are so popular that we struggle to meet the demand. If people love Oatly and want more, we want to be better at getting it to them. And we're off to a decent start: In 2019 we produced around 165 million liters of product, a whopping 93% increase compared to 2018. We've built two new production sites—one in Vlissingen in the Netherlands, and one in Millville, New Jersey in the US—both of which opened in 2019. Because the focus was on finalizing and starting up these sites, the increased production capacity initially had a negative impact on our overall environmental footprint. But we always think long-term, and the plan is to catch up and make things right again with various improvements at these locations. During 2020, we also plan to start building two additional production sites—another in the US and our first one in Asia (Singapore).

Source: [2019 Sustainability Report](#)

# Considering Poor Historical Capex Planning, There Is Significant Implied Capex Inflation In Oatly's Growth Plans

**Warning:** Oatly makes it difficult for investors to gauge how much capacity has been added relative to its historical capital expenditures. In fact, the Company has made only one formal disclosure (Netherlands) about its capacity addition. However, Spruce Point has heavily researched this topic and provides evidence that, since embarking on its capacity growth plan in 2017, it has spent \$230m to add approximately 357m of liters of oat base capacity. We believe this implies a cost of \$0.64 per liter. However, as part of its IPO growth plans, Oatly has laid out guidance to add another 1,050 liters of capacity and has provided capex ranges of 2021: \$350-\$400m, 2022: \$300-\$400m and 2023E: \$100-\$200m. Therefore, we estimate a low, middle and high range for new capacity that implies an 11% - 48% increase in capex costs.

**Oatly Historical Capex  
Since Expansion Phase**

| Year             | Capex          |
|------------------|----------------|
| 2017             | \$15.2         |
| 2018             | \$26.9         |
| 2019             | \$53.8         |
| 2020             | \$134.3        |
| <b>Total (A)</b> | <b>\$230.1</b> |

Source: Prospectus figures for 2019 and 2020. Swedish historical filings converted at average SEK rate for 2017-2018  
Note: Excludes intangible asset purchases which would increase cost by ~\$10m

**Oatly Recent Capacity Added Since  
Expansion Phase**

| Location           | New Capacity Liters (m) | Source  |
|--------------------|-------------------------|---|
| Landskrona, Sweden | 50                      | <a href="#">Slide From Supply Chain Conf 2018</a> said 100m by 2020 from 50m ( <a href="#">2017</a> ) |
| Netherlands        | 120                     | <a href="#">Press Release</a>   |
| Millville, NJ      | 47                      | <a href="#">CEO said Utah is 3x the capacity than NJ</a>  |
| Ogden, UT          | 140                     | <a href="#">Utah DEQ public disclosure</a>  |
| <b>Total (B)</b>   | <b>357</b>              |   |

**(A/B) = Cost per liter of capacity: \$0.64**

**Oatly Projected 2021-2023 Capex Needs**

| \$ in mm   | Low           | Middle        | High          |
|--|---------------|---------------|---------------|
| New Capacity (mil liters)                            | 1,050         | 1,050         | 1,050         |
| Cost Range   | \$750         | \$875         | \$1,000       |
| <b>Cost Per Liter</b>                                | <b>\$0.71</b> | <b>\$0.83</b> | <b>\$0.95</b> |
| <b>% Inc vs. Estimated Historical Cost of \$0.64</b> | <b>+11%</b>   | <b>+29%</b>   | <b>+48%</b>   |

Source: [Oatly Investor Presentation](#), June 2021, slide 23  
"Significant Upside For Growth As We Invest To Capture Demand"

# Utah Capex Inflation

**Warning:** On January 8, 2019 Oatly announced it would expand production into Utah, with plans to add up to 50 jobs, and up to \$40m in capital investment in Weber County over the next 7 years.<sup>(1)</sup> The opening and ramp up in the facility has fallen well behind schedule. The CEO said the facility should be open before the end of 2020. A recent inspection report from late March 2021 shows that it is not fully operational (see below). When we asked a former Oatly's U.S. manager, we heard that the initial capital budget was \$50m, a belief that Oatly overpaid for the facility, and that the actual capital cost was "close to \$100m".

U.S. President  
on The Utah  
Facility

***"A second factory should open in Utah before the end of the year, Messersmith said, though the timeline for completion and beginning production was slowed down significantly by the coronavirus pandemic."***

Source: "How Oatly Accelerated Growth During The Pandemic", [Fooddive.com](https://www.fooddive.com/news/how-oatly-accelerated-growth-during-the-pandemic/), Nov 16, 2020

Spruce Point  
Interview  
Former  
Oatly U.S.  
Manager

***"I think Utah is the wrong place and location. They only looked at the credits they could get from the area. Its an improvement but not an optimal spot. The economic incentives are a one-shot thing in the early days. In the long run it does not apply anymore. As far as I am concerned it was a short-term view... I know they spent too much. The original budget was \$50 million. With a year and a half delay and costs increases related to COIVD, I heard they are close to \$100 million."***

As of  
March 14, 2021  
Recent EPA  
Inspection  
Shows That The  
Dry and  
Ingredient  
Stations Were  
Still Not Fully  
Installed or  
Operating

## PROCESS DESCRIPTION:

DAQC-2021-004648

The site receives oat kernels from either trucks or railcars. The oat kernels are pneumatically loaded into one of six storage silos. The emissions generated from transferring oat kernels to the storage silos are routed through a shared baghouse. Oat kernels are then transferred pneumatically to one of two oatmilk process lines. Each process line has a baghouse through which emissions are routed. Oats are then mixed with water and treated with heat. Enzymes are added to the oat slurry. Oat fiber is removed through a decanting process, and the resultant solid materials are trucked off site. The remaining fluid is called oat base. The finished oat base is currently pumped into trucks and taken off-site to other facilities to finish creating the oatmilk product.

The dry ingredient station was not fully installed or operating during this inspection. Miscellaneous dry ingredients will be

added into each batch to flavor the product. Emissions from solid ingredient additions will be routed through a baghouse. The liquid ingredient filling station was not fully installed or operating during this inspection. Liquid ingredients will be added for flavoring. A cocoa flavoring ingredient contains ethanol, a VOC. The VOC's will vent fugitively into the room.

<sup>1)</sup> "Oatly Selects Utah for Future Expansion", [Utah.gov](https://www.utah.gov/news/2019/01/08/oatly-selects-utah-for-future-expansion/), Jan 8, 2019

# Capex Being Now Talked Higher Than Management's Estimates

**Warning:** Oatly made its capex projections public in its prospectus and investor presentation. However, not all analysts appear bought into the Company's statements for \$750 - \$1,000m in capital spending to reach 1,400m liters. Jefferies thinks Oatly will get to 1,500m liters, but at a total cost of \$1.2bn. **So the incremental 100m liters will cost an astounding \$200m and total capacity additions from 350m to 1,500m are \$1.04 per liter, or 63% higher than our estimated historical cost!** JP Morgan on the other hand, thinks the capacity expansion to 1,400m liters will be slightly above \$1.0bn, but that the Company will never actually use it, claiming 80% capacity utilization by 2023. If demand is so robust, why not 100% utilization?

Oatly's 2021E-23E Projected Capex Range: \$750 - \$1,000m

## CAPITAL EXPENDITURES (2)

(\$MM)

### CAPACITY EXPANSION

| 2021              | 2022 <sup>(1)</sup> |
|-------------------|---------------------|
| • Landskrona (SE) | • Milville (U.S.)   |
| • Vissingen (NL)  |                     |

### NEW FACILITIES

| 2021             | 2023 <sup>(1)</sup>   |
|------------------|-----------------------|
| • Ogden (U.S.)   | • Peterborough (U.K.) |
| • Maanthen (CN)  | • Asia III            |
| • Singapore (SG) | • U.S. III            |



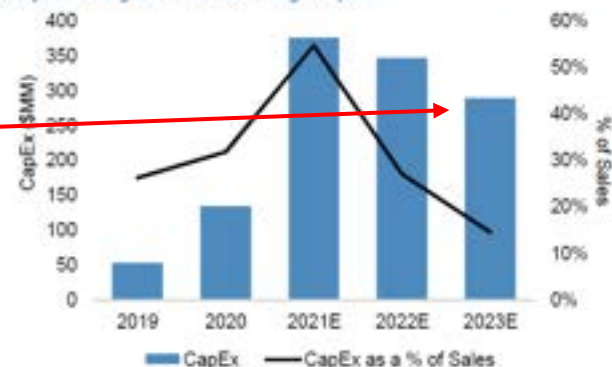
Source: Oatly [Investor Presentation](#), Jun 3, 2021

Jefferies Growth Capex 20% Higher Than Oatly's Highest Estimate. Yet Modeling 1,500m liters vs. Company's 1,400m liters guidance

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

JP Morgan Is At \$1,011m Total Capex

Figure 121: We model elevated net capital expenditures over the next three years as Oatly builds a global manufacturing footprint



JPM pushing up out year capex need to \$290m vs. \$100 - \$200m company guidance

"We model modest slack capacity in all periods but utilization rising over time to nearly 80% by the end of 2023E"

Source: Company reports and J.P. Morgan estimates. Note: Listed capex is net of equipment lease financing

# Capex Being Now Talked Higher Than Management's Estimates (Cont'd)

**Warning:** Barclays has Oatly's total capex at \$1.3 billion from 2021 – 2023E. They are modeling a 1.5 billion liters of capacity, or an additional 100m liters above Oatly's guidance. However, that extra capacity is \$300m more than Oatly's maximum estimated capex of \$1.0 billion. **Therefore, Barclays is estimating \$1.13 per liter of capacity addition, or 77% higher than our estimated historical cost of \$0.64 per liter!** Despite Barclays disagreement with management on capex costs, it has a \$34 per share price target on the stock (\$1 below the street high \$35/sh).

Oatly's 2021E-23E Projected Capex Range: \$750 - \$1,000m

## CAPITAL EXPENDITURES (2)

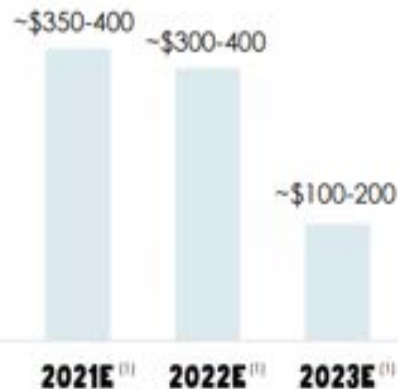
(\$MM)

### CAPACITY EXPANSION

- 2021 2022 <sup>(1)</sup>
- Landskrona (SE)
  - Vissingen (NL)
  - Milville (U.S.)

### NEW FACILITIES

- 2021 2023 <sup>(1)</sup>
- Ogden (U.S.)
  - Moonshan (CN)
  - Singapore (SG)
  - Peterborough (U.K.)
  - Asia III
  - U.S. III



Source: Oatly [Investor Presentation](#), Jun3 2, 2021

## Barclays Modeling 1.5bn liters by 2023, With Total Capex At Approximately \$1.3 billion


To date, the key constraint on OTLY's growth has been capacity. That is, we believe OTLY is selling every liter it produces, is having to limit its distribution expansion, and is having difficulty with service levels at existing customers, as it is simply unable to keep up with demand. Currently, OTLY has three production facilities and a capacity of ~350mm liters. That said, OTLY plans to aggressively ramp up its capacity over the next several years, with a target of expanding its capacity by ~4x to 1.5bn liters in 2023 as its production footprint count increases to nine facilities.

FIGURE 46

Our DCF valuation suggests a value per share of \$34 for OTLY

| \$mm                      | Building Capacity |        |          |        |       |       |       |
|---------------------------|-------------------|--------|----------|--------|-------|-------|-------|
|                           | FY21e             | FY22e  | FY23e    | FY24e  | FY25e | FY26e | FY27e |
| Revenue                   | 684               | 1,271  | 1,980    | 2,871  | 4,020 | 5,427 | 7,055 |
| YOY %                     | 85.9%             | 55.8%  | 45.0%    | 40.0%  | 35.0% | 30.0% |       |
| EBIT                      | (179)             | (128)  | (9)      | 102    | 263   | 463   | 743   |
| YOY%                      | -28.5%            | -92.8% | -1206.6% | 158.8% | 76.3% | 60.5% |       |
| Margin                    | -26.1%            | -10.1% | -0.5%    | 3.5%   | 6.5%  | 8.5%  | 10.5% |
| YOY Δ                     | 16.1%             | 9.6%   | 4.0%     | 3.0%   | 2.0%  | 2.0%  |       |
| Operating Cash Taxes      | -                 | -      | -        | 22     | 58    | 102   | 164   |
| Effective Tax Rate        | 22%               | 22%    | 22%      | 22%    | 22%   | 22%   | 22%   |
| NOPLAT                    | (179)             | (128)  | (9)      | 79     | 205   | 361   | 580   |
| +D&A                      | 29                | 50     | 113      | 129    | 181   | 244   | 317   |
| % of Sales                | 4.3%              | 3.9%   | 5.7%     | 4.5%   | 4.5%  | 4.5%  | 4.5%  |
| - Change in WC            | (6)               | (73)   | (103)    | (116)  | (149) | (183) | (212) |
| % of Change in Sales      |                   | 12.4%  | 14.6%    | 13.0%  | 13.0% | 13.0% | 13.0% |
| - Capex                   | (495)             | (543)  | (254)    | (557)  | (676) | (782) | (857) |
| % of Sales                | 72.3%             | 42.7%  | 12.8%    | 19.4%  | 16.8% | 14.4% | 12.1% |
| Incremental Revenue/Capex |                   |        |          | 1.6    | 1.7   | 1.8   | 1.9   |
| Unlevered FCF             | (650)             | (693)  | (253)    | (464)  | (439) | (359) | (171) |
| % of Year Remaining       | 55%               |        |          |        |       |       |       |
| Discount Factor           | 98%               | 93%    | 86%      | 80%    | 74%   | 69%   | 64%   |
| Net Present Value of FCF  | (351)             | (642)  | (218)    | (371)  | (326) | (248) | (110) |

# Oatly Fails To Disclose A Recent Auditor Change; Three Auditors In 6 Years



**Warning:** Spruce Point finds it unusual that Oatly made an auditor change within the past two years before coming public. **Furthermore, Oatly did not explicitly point out this change of auditor to investors.** From our experience this is highly unusual. The Company's SEC filings state that Ernst & Young AB has served as its auditor since 2019. From foreign filings, we see that PwC was its auditor of record from 2016 - 2017. Deloitte AB served as auditor of record in years prior. While auditor rotations can be viewed positively, we believe three auditors in six years is excessive in light of the accounting anomalies we have identified related to sales, gross margins, inventories and capex.

/s/ Ernst & Young AB

We have served as the Company's auditors since 2019

Stockholm, Sweden

March 24, 2021

F-2

Source: [F-1 SEC Registration document](#), F-2

Our auditor's report was submitted on 18 06 2019

Öhrlings PricewaterhouseCoopers AB

Bo Hjalmarsson  
Authorised Public Accountant

Source: 2018 [Companieshouse Report](#)

Malmö 31/3 2016

Deloitte AB


*Signature on Swedish original*

Per-Arne Pettersson  
Authorized public accountant

Source: [Oatly AB 2015 Annual Report](#) at Companieshouse UK



*Signs of Financial Strain And  
Accounting Shenanigans That Closely  
Mirror Former Employee Claims*



**Warning:** While Oatly does warn investors about a Material Weakness of its internal control over financial reporting, we believe it does not adequately explain the exact impact to its financials. Spruce Point finds evidence that revenues, gross profits, inventory, capex, and employee accounts are inaccurate. Thus, we call into question the accuracy of Oatly's entire financial statements.

## Material Weakness Discussion

*“In the course of auditing our consolidated financial statements as of and for the years ended 2020 and 2019, we and our independent registered public accounting firm identified material weaknesses in our internal control environment driven by (i) our technology access related environment and change control processes not supporting an efficient or effective internal control framework, (ii) lack of documented policies and procedures in relation to our business processes and entity level controls as well as lack of evidence of performing controls and (iii) inadequate segregation of duties.”*

*“To remedy our identified material weaknesses, we are in the process of adopting several measures intended to improve our internal control over financial reporting, including: (i) implementing formal access and change controls, and making changes to our information technology systems such as implementing new systems and improving the control environment including the reduction of manual tasks; (ii) establishing comprehensive accounting guidelines in relation to our accounting policies, clarifying reporting requirements for, non-recurring and complex transactions, implementing a procedures manual and providing internal training to accounting and finance personnel in relation to policies and procedures, hiring additional accounting and finance personnel, and improving the month-end close process and establishing more robust and formalized processes supporting internal control over financial reporting; and (iii) securing adequate segregation of duties.”*

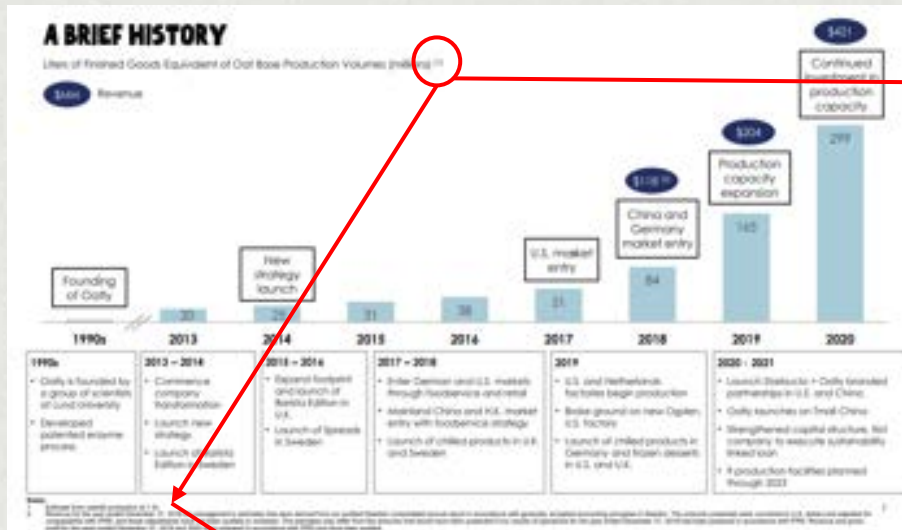


## *Signs of Revenue Overstatement*

# Warning: Oatly Recently Qualified Its Production Figures Tied To Revenue

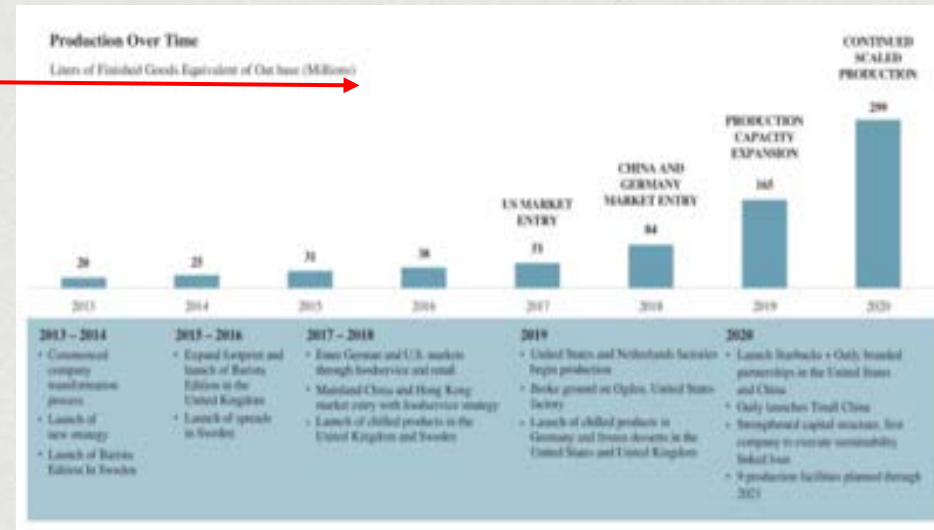
**Warning:** Oatly recently added a key footnote to a critical slide that has appeared both in its IPO prospectus, and now in its June 2021 Investor Presentation. The footnote calls out that finished goods of oat base production volume are an “estimate”. **We believe that If volumes of production are an “estimate” than Oatly’s entire reported revenue stream should also be qualified.**

## Updated Production History Now Footnoted As “Estimate”



“Estimate from oat milk production at 1.3x”

## Production History As Filed With SEC



# Beware: We Believe Oatly's Revenue Disclosures Are Inadequate



**Warning:** We believe Oatly's revenue disclosures are insufficient and not what we'd expect from a company with a 20-year operational history. Below we detail where we believe Oatly falls short on revenue disclosures.

## What Oatly Says In Its MD&A

*"Revenue increased by \$217.3 million, or 106.5%, to \$421.4 million for the year ended December 31, 2020, net of sales discounts, rebates and trade promotions, from \$204.0 million for the year ended December 31, 2019, which was primarily a result of additional supply provided from our Millville, New Jersey and Vlissingen, the Netherlands plants. In addition, we launched an exclusive arrangement with Starbucks in Asia, which created a significant demand for our oatmilk products in China in particular. Our revenue increased despite the partial shutdown of the food services channel in some of our larger markets in EMEA and the United States due to the COVID-19 pandemic, as we offset this decline with a significant increase in retail volumes"*

Source: [Prospectus](#)

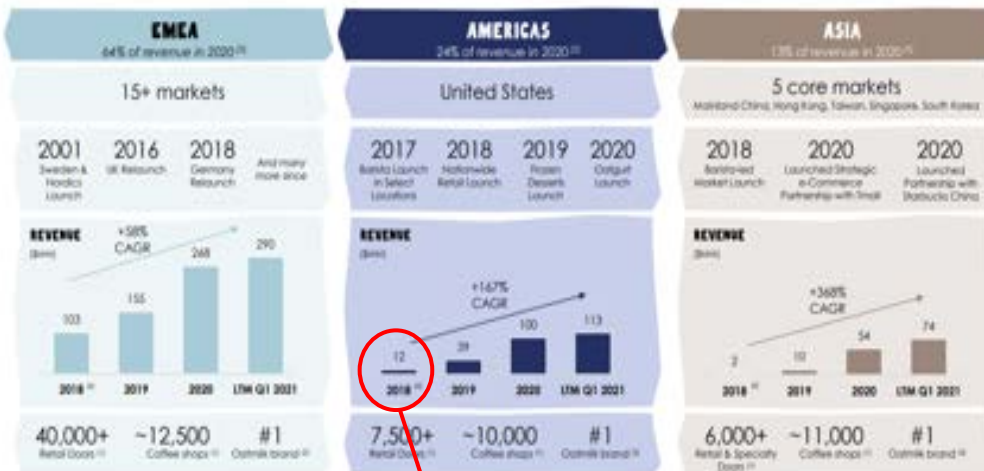
| What Oatly Doesn't Say | Volume impact  | Price Impact  | By Product Mix (And New Products)   | FX Impact   | Sales Discounts, Coupons, Rebates   |
|------------------------|--|---|---|---|---|
| <b>Net Revenues</b>    | <p>✗</p> <p>Provided annual liters of finished good equivalent oat base. However, did not provide Q1 figures in its prospectus</p> | <p>✗</p> <p>Doesn't provide any insights into average selling price trends. This is important to gauge competitiveness in a typically deflationary product category</p> | <p>✗</p> <p>Says that 90% of sales were oat milk but provides no further detail. SEC filings (unlike prior Swedish financials) don't disclose sales from new products in the past 36 months</p> | <p>✗</p> <p>Reports sales in three world regions and hedging activities but doesn't quantify FX impact on sales</p> | <p>✗</p> <p>Discounts, rebates and coupons are deducted from gross to reported net revenues. Oatly doesn't provide a bridge so investors can gauge promotional activity</p> |

# U.S. Sales In Question

**Warning:** Oatly's 2018 U.S. sales can't be reconciled and vary by 100%. Both Nielsen and a Swedish magazine reported \$6m of sales in 2018, whereas Oatly just disclosed \$12m of sales in its new investor presentation. We believe this adds further credibility to our concerns about the accuracy of Oatly's financial reporting.

## New Investor Presentation Discloses 2018 U.S. Sales of \$12 million.... BUT

### GLOBAL COMMERCIAL SUCCESS IN MORE THAN 20 MARKETS ACROSS THREE CONTINENTS



1. As of September 30, 2020.  
2. Based on data from Nielsen, the U.S. and Germany for the first year (2017) and ending December 31, 2020. Nielsen data from Nielsen.  
3. By market share in the United States for the 12 weeks ending December 20, 2020. Nielsen data from Nielsen.  
4. The "Top" Food Brand awards are as of January 2021.  
5. Nielsen, region-based and not a 100% due to rounding.  
6. Revenue for the year ended December 31, 2019 are management's estimates that were derived from an audited financial statement and annual report in accordance with generally accepted accounting principles in Sweden. The amounts presented were converted to U.S. dollars and adjusted for currency, and other adjustments have not been audited or reviewed. The amounts for the periods for the year ended September 30, 2019 and 2020 were prepared in accordance with IFRS. Revenue and gross profit for the year ended September 30, 2019 and 2020 were prepared in accordance with IFRS and have been audited.

Source: [Investor Presentation](#), June 3, 2021

This is the first full disclosure of Oatly's 2018 revenue figure. It is contradicted by various other sources, including Nielsen. Note: footnoted as an "estimate" derived from Swedish GAAP and not audited

## Two Credible Sources Report \$6m of 2018 U.S. Sales

"Oatly's growth has been impressive. It has contributed to U.S. sales of oat milk going **from \$6 million in 2018** to about \$40 million in 2019."

Source: "THE RISE OF OATLY", [UMGAS Magazine](#), a Swedish-American Gathering Place

"From 2018 to 2019, sales of oat milk skyrocketed **from \$6 million** to nearly \$40 million, Genevieve Aronson, VP of communications at Nielsen, told CNBC Make It."

Source: "How Oatly went from a decades-old obscure brand to a \$10 billion IPO", [CNBC](#), May 20, 2021

# Revenue Overstatement Verified By Key Oatly U.S. Manager



Spruce Point interviewed a senior manager working to grow Oatly's U.S. business who was with the Company during the pre-revenue, pre-product launch period, and through 2019. According to this expert's words, the Company's revenues were in the range of \$4 to \$8 million in 2018. This is substantially lower than the \$12 million of revenue Oatly recently reported.

## Spruce Point Question

*"We're trying to understand the trajectory of U.S. sales from 2017 onward. Can you provide a rough estimate?"*

## Former Oatly U.S. Manager

*"When we launched the first year we did probably a hundred thousand cases, so that could have been between \$1 and \$2 million of revenue for the first year, and quadrupled in the second year."*

## Spruce Point Question

*"So just to be clear, if sales were \$1 to \$2 million in 2017 and in 2018 it quadrupled, so sales would have been \$4 to \$8 million?"*

## Former Oatly U.S. Manager

*"Yes, it probably would have been close to that."*

Note: Spruce Point interviewed another former employee who joined in late 2019 who claimed 2018 sales were \$11m

# Accounts Receivable Growth Diverging From Sales Growth

**Warning:** We observe periods of large divergence in revenue and accounts receivable growth rates at Oatly. This is a classic sign of potential accounting shenanigans and is often cited as a top red flag to predict accounting scandals.<sup>(1,2)</sup> This could suggest Oatly is loosening credit terms to lower quality customers. The large increase in revenue in 2020 relative to a slowdown in receivables could suggest a pull forward of revenue recognition. Recall that Oatly's CFO oversaw the financial reporting at Stratus Technologies, which issued a non-reliance opinion after discovering revenue had been recorded at incorrect periods.

**Oatly CFO  
Prior Role At  
Stratus  
Technologies**

*"We have identified and are currently reviewing certain customer transactions for which revenue was recognized and reported in the consolidated financial statements of Stratus Technologies International, S.à r.l. for fiscal 2004 and the first quarter of fiscal 2005. The accounting issues identified in these transactions relate to the timing of the recording of revenue, and not whether the sales can be recorded as revenue.... Accordingly, pending completion of this review, the consolidated financial statements of Stratus Technologies International, S.à r.l. for fiscal 2004 and the first quarter of fiscal 2005 should not be relied upon as an accurate reflection of our financial results for these periods."*

Source: [Stratus Technologies](#)

| \$ millions                | 2017   | 2018    | 2019    | 2020    | Cumulative Growth '16-20 |
|----------------------------|--------|---------|---------|---------|--------------------------|
| Total Revenue              | \$75.6 | \$118.0 | \$204.0 | \$421.4 |                          |
| % YoY growth               | 36.2%  | 56.2%   | 72.9%   | 106.5%  | 659.3%                   |
| Liters Produced            | 52.5   | 85.5    | 165.0   | 299.0   | 686.8%                   |
| % YoY growth               | 34.2%  | 64.7%   | 96.4%   | 81.2%   |                          |
| Accounts Receivable, net   | \$12.4 | \$25.1  | \$44.3  | \$71.3  |                          |
| % YoY growth               | 44.4%  | 102.7%  | 76.3%   | 60.9%   | 730.5%                   |
| Accounts Receivables/Sales | 16%    | 21%     | 22%     | 17%     |                          |

Source: Companieshouse UK filings for 2017-2018 converted at average historical SEK rates, F-1 Registration Statement for 2019-2020.

- 1) "How to Predict the Next Fiasco In Accounting and Bail Early", [Wall St Journal](#), Jan 2002
- 2) "How To Detect And Prevent Financial Statement Fraud", [ACFE](#) – Association of Certified Fraud Examiners

# We Believe Management Lacks Credibility With Its Sales Forecasts



**Warning:** Oatly is selling investors on its big revenue growth plans. Yet, there is already evidence that management recently fell short of its boastful plans and has limited visibility to project sales. According to a mid-year 2019 interview, it projected \$230m of sales, but actual full year revenues fell short by 11%.

What  
Oatly Says  
Pre-IPO  
Hype

*"Oatly's sales were about \$110 million in 2018, up from \$68 million a year earlier, Petersson says. **He expects double that, about \$230 million, for 2019.**"*

Source: "Oatly's Path to Alt-Milk World Domination Starts in New Jersey", [Bloomberg](#), July 31, 2019

What  
Actually  
Happened



**Warning:** Even with almost 60% of the year completed in 2019, Oatly's sales of \$204m fell short by \$26m, or 11% below plan

Source: Oatly [F-1](#) SEC filing

# And Management Lacks Credibility When Its Own Sales Figures Don't Add Up (2018)



**Warning:** When revenues don't add up, it undermines the integrity of the entire financial statements. We find evidence of divergent revenue figures in 2018.

## 2018 Annual Report

### Sales, earnings and financial position, Group (KSEK)

| Group                      | 2018      | 2017      | 2016      |
|----------------------------|-----------|-----------|-----------|
| Net sales                  | 1,037,941 | 645,095   | 475,100   |
| Loss after financial items | -267,175  | -159,310  | -23,779   |
| Total assets               | 2,173,624 | 1,826,961 | 1,796,551 |
| Equity/assets ratio (%)    | 72.0      | 79.7      | 86.4      |
| Number of employees        | 249       | 150       | 120       |

| Parent Company                    | 2018      | 2017      | 2016      |
|-----------------------------------|-----------|-----------|-----------|
| Net sales                         | 3,360     | 2,520     | 0         |
| Profit/loss after financial items | 18        | -4,640    | -5,084    |
| Total assets                      | 1,916,393 | 1,649,048 | 1,527,430 |
| Equity/assets ratio (%)           | 96.0      | 95.4      | 95.4      |
| Number of employees               | 2         | 2         | 0         |

Source: [2018 Financial Report](#)

## 2018 Sustainability Report

Our total growth for 2018 was 65%, and we had a turnover of 1028 million SEK. Our growth is also reflected in a 70% increase in number of employees. This pie chart shows the size of our various markets. The "Other" slice includes China, Norway, Spain and the US. Our bestselling Barista Edition oat drink has made cafes one of our most important sales channels.

Source: [2018 Sustainability Report](#)

# More Evidence Revenues And Employees Don't Add Up (2017)

**Warning:** In a 2018 presentation, Oatly provided a slide that showed 2017 sales at SEK 630m and employees at 170. These figures differ from regulatory filings made which show 2017 sales at SEK 645m and 150 employees.



Source: [YouTube](#)

## Sales, earnings and financial position, Group (kSEK)

| Group                      | 2019      | 2018      | 2017      | 2016      |
|----------------------------|-----------|-----------|-----------|-----------|
| Net sales                  | 1,949,075 | 1,037,941 | 645,095   | 475,100   |
| Loss after financial items | -418,114  | -267,175  | -159 310  | -23 779   |
| Total assets               | 2,856,170 | 2,173,624 | 1,826,961 | 1,796,551 |
| Equity/assets ratio (%)    | 53.4      | 72.0      | 79.7      | 86.4      |
| Number of employees        | 395       | 249       | 150       | 120       |

| Parent company                    | 2019      | 2018      | 2017      | 2016      |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Net sales                         | 31,051    | 3,360     | 2,520     | 0         |
| Profit/loss after financial items | 4,440     | 18        | -4,640    | -5,084    |
| Total assets                      | 2,394,171 | 1,916,393 | 1,649,048 | 1,527,430 |
| Equity/assets ratio (%)           | 96.7      | 96.0      | 95.4      | 95.4      |
| Number of employees               | 15        | 2         | 2         | 0         |

Source: 2019 [Companieshouse Report](#)

# Seasonality or No Seasonality?



**Warning:** Oatly's prospectus claims there is no pronounced seasonality in its business. However, Spruce Point uncovered an academic study in Sweden, at the same university its founder conducted its research, that contradicts this. In fact, the report claims that since launch, Oatly has experienced a seasonable pattern.

What  
Oatly Says  
In Its  
Prospectus

**"Seasonality:** To date, we have not experienced any pronounced seasonality, but such fluctuations may have been masked by our rapid growth."

Source: [Prospectus](#), p. 31

What Has  
Actually Been  
Observed At  
Oatly  
Since Launch

The number of outgoing customer orders are approximately twice as high as the number of incoming orders. The customer orders have seasonality on a yearly basis where the sales go down in the summer and around New Year, the sales trend lines as can be seen in figure 4.9. This trend for Oatly's sales has been apparent since launch. The trend has remained stable but has moved up each year to a higher level since 2009. During the last years the average number of pallets in storage has increased in line with the increased rate of production. The stable inflow from production and the yearly seasonality in demand results in a fairly stable storage level with yearly peak in the end of the summer and around New Year as shown in figure 4.10.

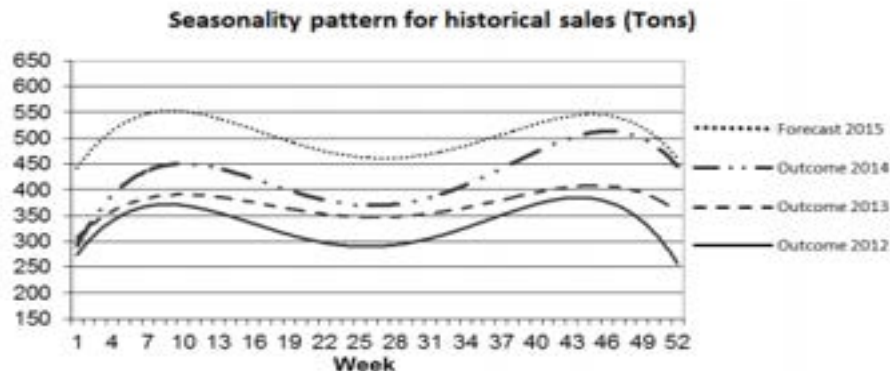


Figure 4.9: Seasonality pattern for historical sales (Tons)

# Basic Employee Errors



**Warning:** Employee counts also differ widely depending on what documents are referenced.

## SEC and Foreign Filings

### Employees

For the years ended December 31, 2018, 2019 and 2020, we had 290, 520 and 792 employees, respectively.

Source: [F-1 Registration Statement](#)

Havre Global AB  
Corp. ID no. 559081-1989

### Sales, earnings and financial position, Group (kSEK)

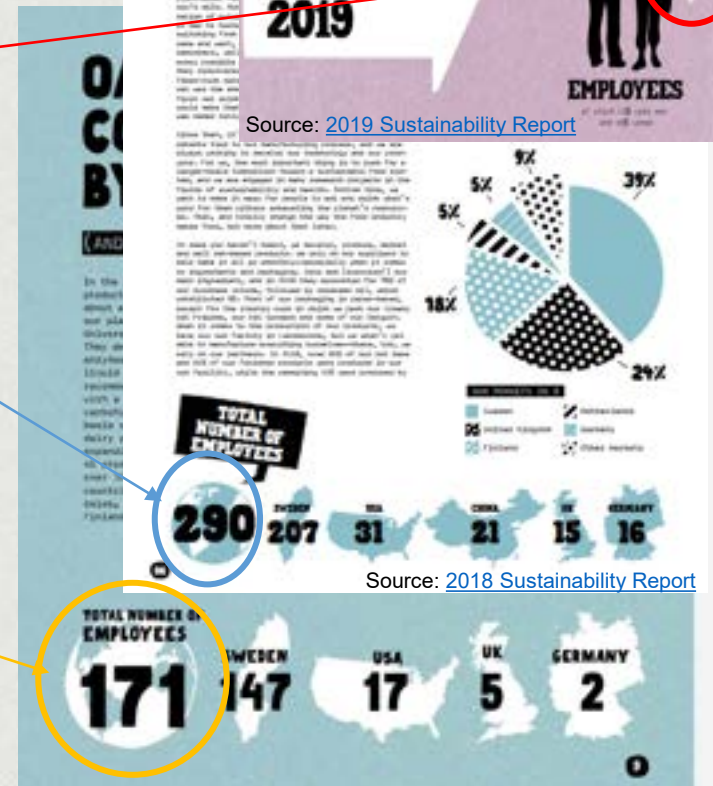
| Group                      | 2019      | 2018      | 2017      | 2016      |
|----------------------------|-----------|-----------|-----------|-----------|
| Net sales                  | 1,949,075 | 1,037,941 | 645,095   | 475,100   |
| Loss after financial items | -418,114  | -267,175  | -159,310  | -23,779   |
| Total assets               | 2,856,170 | 2,173,624 | 1,826,961 | 1,796,551 |
| Equity/assets ratio (%)    | 53.4      | 72.0      | 79.7      | 86.4      |
| Number of employees        | 395       | 249       | 150       | 120       |

| Parent company                    | 2019      | 2018      | 2017      | 2016      |
|-----------------------------------|-----------|-----------|-----------|-----------|
| Net sales                         | 31,051    | 3,360     | 2,520     | 0         |
| Profit/loss after financial items | 4,440     | 18        | -4,640    | -5,084    |
| Total assets                      | 2,394,171 | 1,916,393 | 1,649,048 | 1,527,430 |
| Equity/assets ratio (%)           | 96.7      | 96.0      | 95.4      | 95.4      |
| Number of employees               | 15        | 2         | 2         | 0         |

Source: 2019 [Companieshouse Report](#)

## Oatly Sustainability Reports





## *Signs of Gross Margin Overstatement*

# We Believe Oatly's COGS Disclosures Are Inadequate








**Warning:** We believe Oatly's cost disclosures are insufficient and not what we'd expect from a company with a 20-year operational history. Below we detail where we believe Oatly falls short on quantifying COGS disclosures.

## What Oatly Says

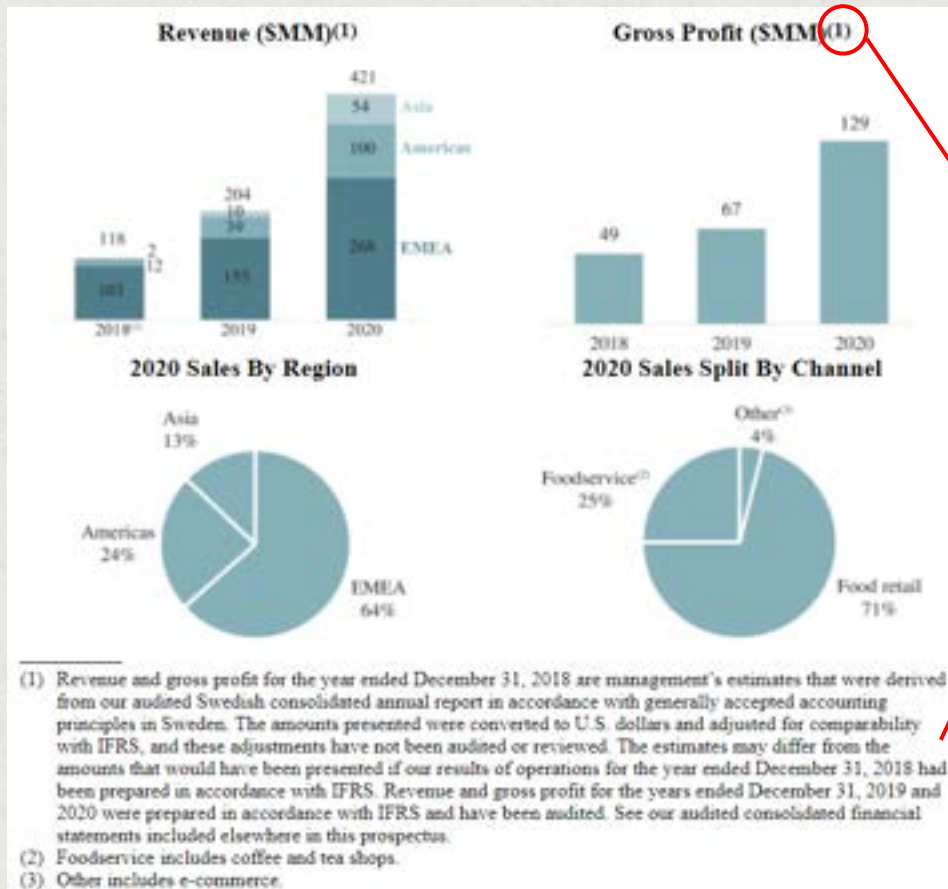
*"Gross profit increased by \$62.7 million, or 94.1%, to \$129.2 million for the year ended December 31, 2020 from \$66.6 million. Gross margin decreased by 1.9%, to 30.7% for the year ended December 31, 2020 from 32.6% for the year ended December 31, 2019, which is due to a number of factors, including a change in channel mix from foodservice to retail, our greater reliance on co-packer outsourcing production compared to 2019 as well as an increase in logistics costs. The COVID-19 pandemic and changing consumption patterns increased demand for logistics services, resulting in higher freight rates during the second half of 2020 across our segments. We also experienced higher container rates for our shipments from EMEA to Asia during 2020."*

Source: [Prospectus](#)

| What Oatly Doesn't Say    | By Product Mix   | FX Impact   | Commodity Input Costs   | Operational Efficiency Impact  | Shipping Costs  |
|---------------------------|--|---|---|--|---|
| <b>Cost of Goods Sold</b> | <br>No disclosure on how costs are impacted by changes in product mix | <br>Oatly is operating in multiple countries in the Euro, UK, US and Asia/China regions. Currencies impact costs | <br>Oats, rapeseed oil, cocoa, water and utilities are all key inputs into production, but Oatly quantifies none of the impact | <br>There are no insights into how Oatly's expansion and capacity utilization are impacting margins | <br>We will illustrate why we believe Oatly's gross margin financial reporting is flawed by omitting outbound shipping costs |

# Oatly's Prominently Displays Gross Profit As A Key Financial Metric.....But Guess What.....

**Warning:** Setting aside the fact that Oatly discloses that 2018 figures are “estimates” derived from Swedish GAAP accounts that are converted and re-cast into IFRS, it also fails to disclose that its Gross Profit presentation is not comparable to how other companies in its industry present this metric. On the next slide, we will illustrate that Oatly fails to capture shipping costs as a critical expense in COGS. We believe this is a material omission that leaves investors with a potentially misleading view of its financial performance.



**Read the fine print!** No where does it say that Oatly's Gross Profit may not be directly comparable to industry peers as a result of a financial decision it has made related to distribution costs.<sup>(1)</sup>

1) Note: Beyond Meat explicitly tells investors: "we include outbound shipping and handling costs within SG&A expenses. As a result, our gross profit and gross margin may not be comparable to other entities that present all shipping and handling costs as a component of cost of goods sold" Source: [10-K](#), p. 70

# Oatly's Gross Margin's Fail To Capture Outbound Shipping Costs In Conformity With Industry Standards



**Warning:** Oatly's Gross Margin is overstated because it fails to include outbound shipping and handling costs. After a review of many public companies in the dairy, frozen and packaged foods space, we find this to be industry standard.

## What Oatly Says

**"Cost of goods sold consists primarily** of the cost of oats and other raw materials, product packaging, co-manufacturing fees, direct labor and associated overhead costs and property, plant and equipment depreciation. **Our cost of goods sold also includes warehousing and transportation of inventory.** **Selling, general and administrative expenses include primarily** personnel related expenses, brand awareness and advertising costs, costs associated with consumer promotions, product samples and sales aids. **These also include outbound shipping and handling costs** and other functional related selling and marketing expenses, depreciation and amortization expense on non-manufacturing assets and other miscellaneous operating items."

Source: [Prospectus](#)

| Company                            | Disclosure of Shipping, Handling and Warehousing Costs  |
|------------------------------------|---|
| <a href="#">Lifeway Foods</a>      | <b>We account for product shipping and handling as fulfillment activities</b> with revenues for these activities recorded within net revenue and <b>costs recorded within cost of goods sold.</b>   |
| <a href="#">Mondelez</a>           | <b>We account for product shipping, handling and insurance as fulfillment activities</b> with revenues for these activities recorded within net revenue and <b>costs recorded within cost of sales</b>  |
| <a href="#">Hain Celestial</a>     | Sales includes shipping and handling charges billed to the customer and are reported net of discounts, trade promotions and sales incentives, consumer coupon programs and other costs, including estimated allowances for returns, allowances and discounts associated with aged or potentially unsalable product, and prompt pay discounts. <b>Shipping and handling costs are accounted for as a fulfillment activity of our promise to transfer products to our customers and are included in cost of sales line item</b> |
| <a href="#">Danone</a>             | The cost of goods sold mainly comprises industrial costs (including raw material costs, depreciation of industrial assets and personnel costs relating to production activity) and <b>certain logistics and transportation costs.</b>   |
| <a href="#">Simply Good Foods</a>  | During the fifty-three weeks ended August 31, 2019, <b>certain reclassifications were made to previously reported amounts to conform to the current presentation.</b> On the consolidated statement of operations, <b>outbound freight previously included in distribution, distribution center expenses previously included in General and administrative, and depreciation for equipment used in warehouse operations were reclassified to Cost of goods sold.</b>  |
| <a href="#">Whole Earth Brands</a> | The Company made an accounting policy election to exclude from the measurement of the transaction price sales taxes and all other items of a similar nature, and also elected to account for shipping and handling activities as a fulfillment of the promise to transfer the goods. <b>Accordingly, shipping and handling costs are included in cost of sales.</b>   |
| <a href="#">Laird Super Food</a>   | <b>Our cost of goods sold consists primarily</b> of raw material costs, labor costs directly related to producing our products, including wages and benefits, <b>shipping costs</b> , lease expenses and other factory overhead costs related to various aspects of production, warehousing and shipping.   |
| <a href="#">SunOpta</a>            | <b>Shipping and handling costs are included in cost of goods sold on the consolidated statements of operations.</b>   |

# We Estimate Oatly's Gross Margin Is Inflated By 640 bps



**Warning:** We estimate that Oatly's Gross Margin is 640bps lower when including outbound transportation and logistics costs. Based on an interview with a former employee, this has been a material cost that made its U.S. gross margins negative.

Former Oatly  
Accountant  
on Impact of  
Shipping

*"Yes in 2018 and 2019, I was there, I saw it. The freight was extremely high and not considered part of the cost of goods sold. Then the company moved with the supply chain optimizing the cost analysis and started making a decent gross profit in 2020. And clearly because the Company was paying extremely high freight, it was affecting the gross margin."*

What  
Oatly Says

*"Failure by our logistics providers to deliver our products on time, or at all, could result in lost sales. We currently rely upon third-party logistics providers for the distribution of our products. Our utilization of third parties for distribution and transportation handling is subject to risks, including increases in fuel prices, which would increase our shipping costs, and labor matters (including illness or absenteeism in workforce), inclement weather or other disruptions, including as a result of the COVID-19 pandemic, any of which may impact the ability of these providers to provide distribution services that adequately meet our needs."*

## Comparable Public Foods Company Shipping Costs With Sales In The \$400-\$600m Range

| Company           | Financials \$mm | 2019    | 2020    |
|-------------------|-----------------|---------|---------|
| Beyond Meat       | Net Sales       | \$297.9 | \$406.8 |
|                   | Shipping Cost   | 10.9    | 11.9    |
|                   | % of Net Sales  | 3.7%    | 2.9%    |
| Simply Good Foods | Net Sales       | \$431.4 | \$523.4 |
|                   | Shipping Cost   | 27.2    | 32.3    |
|                   | % of Net Sales  | 6.3%    | 6.2%    |
| Tootsie Roll      | Net Sales       | \$523.6 | \$467.4 |
|                   | Shipping Cost   | 49.3    | 42.6    |
|                   | % of Net Sales  | 9.4%    | 9.1%    |

## Oatly's Adjusted Gross Margin For Outbound Shipping Costs Estimated at 6% of Sales, In The Range of Peer Analysis (Right Side)

| \$ in mm   | 2020                     | 3/31/20                 | 3/31/21                 | LTM 3/31/21              |
|--|--------------------------|-------------------------|-------------------------|--------------------------|
| Net Sales  | \$421.4                  | \$84.2                  | \$140.1                 | \$477.2                  |
| Gross Profit<br>% margin                           | \$129.2<br>30.7%         | \$27.3<br>32.4%         | \$41.9<br>29.9%         | \$143.9<br>30.1%         |
| Less: Estimated<br>Shipping Costs<br>As % of Sales | \$25.2<br>6.0%           | \$4.6<br>5.5%           | \$10.0<br>7.2%          | \$30.6<br>6.4%           |
| <b>Adjusted<br/>Gross Margin</b>                   | <b>\$104.0<br/>24.7%</b> | <b>\$22.7<br/>26.9%</b> | <b>\$31.9<br/>22.8%</b> | <b>\$113.3<br/>23.7%</b> |

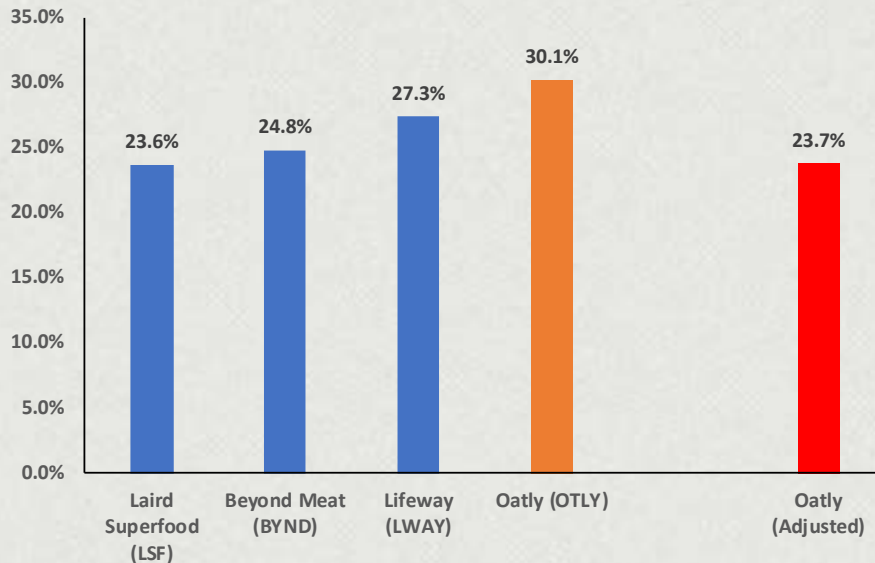
Note: Jefferies initiation report says 15% of SG&A is shipping costs

# Pro Forma Adjusted Gross Margins



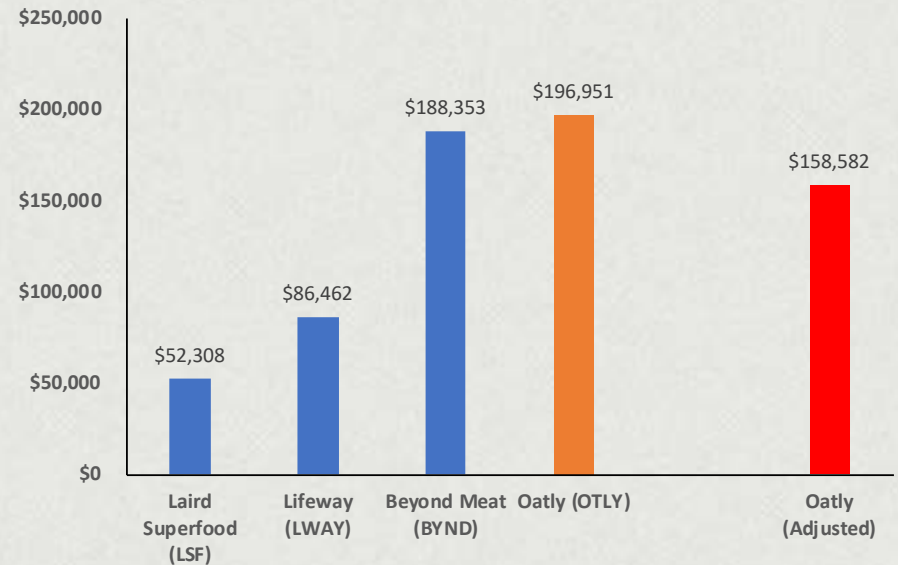
**Warning:** At best, we estimate that Oatly's Gross Margin is on par, to slightly below, its peer plant and dairy specialty foods peers after adjusting for outbound shipping costs.

Oatly's LTM Gross Margin vs. Plant and Dairy Based Peers



Note: Beyond Meat also adjusted for outbound shipping costs

2020A Gross Margin Per Average Employee



Note: Average total full-time employees

# Failure To Disclose Commodity Risks

**Warning:** Spruce Point observes that Oatly highlights and discloses risks to foreign exchange, interest rate, credit, and liquidity, but doesn't say a word about commodity risk. Yet, in its 2019 Sustainability Report oats and rapeseed oil were 87% and 7% of purchase volumes. Furthermore, Canada has historically supplied 10% of Oatly's total oat needs and is critical to fueling its U.S. growth. **Oatly's U.S. President said that 90% of its oats come from Western Canada.**<sup>(1)</sup> This appears to be problematic as Canadian oat production was recently forecasted to decline by the USDA.<sup>(2)</sup> Canada is also critical to supplying Oatly's rapeseed, global trade volume is also expected to decline led by reduced availability in Canada.<sup>(3)</sup>

## Not A Single Mention of "Commodity Risk" By Oatly

### Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks in the ordinary course of our business. These risks primarily consist of foreign exchange risk, interest rate risk, credit risk and liquidity risk as follows. For further discussion and sensitivity analysis of these risks, see Note 3 to our consolidated financial statements, which are included elsewhere in this prospectus.

#### Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. We are primarily exposed to currency risk in group companies with SEK as the functional currency. The primary risks in these companies are USD/SEK, GBP/SEK and EUR/SEK due to sales (trade receivables), purchases (trade payables) and borrowings. We monitor a forecast of highly probable cash flows for each currency and aim to achieve a natural match of inflows and outflows. For those currencies that have a net cash flow that is positive, derivatives are used to manage the risk for up to 75% of the exposure for the following 12 months. We do not apply hedge accounting. During 2019, we used forward contracts and currency swaps to manage the risk of primarily intracurrency sales as GBP in group companies with functional currency SEK. As at March 31, 2021 and December 31, 2020, we had currency derivatives of \$16 million for which the fair value was \$13 million and \$20 million for which the fair value was \$0.8 million, respectively.

We are also exposed to currency risk when foreign subsidiaries with a functional currency other than USD are consolidated, primarily for EUR, SEK and GBP. Our policy is not to hedge the translation exposure related to net foreign assets to reduce translation risk in the consolidated financial statements.

#### Interest rate risk

Our main interest rate risk arises from long-term liabilities to credit institutions with variable rates (primarily the Stockholm Interbank Offered Rate "Stibor" 3 Months and Euro Interbank Offered Rate "Euribor" 3 Months), which expose us to cash flow interest rate risk. As at March 31, 2021, the nominal amount of liabilities to credit institutions with variable interest rate were \$345.2 million, of which \$5.1 million were swapped using floating-to-fixed interest rate swaps for the risk in Stibor 3 Months. As at December 31, 2020, the nominal amount of liabilities to credit institutions with variable interest rate were \$37.6 million, of which \$5.7 million were swapped using floating-to-fixed interest rate swaps for the risk in Stibor 3 Months, and as at December 31, 2020, the nominal amount of liabilities to credit institutions with variable interest rate were \$72.1 million, of which \$5.9 million were swapped using floating-to-fixed interest rate swaps for the risk in Stibor 3 Months.

#### Credit risk

Credit risk arises primarily from cash and cash equivalents and debt instruments carried at amortized cost. We manage financial counterparty credit risk on a group basis. The external financial counterparties must be high-quality international banks or other major participants in the financial markets, in each case, with a minimum investment grade rating BBB- / Baa3. The rating of the financial counterparties used during 2020 and 2019 were in the range from BBB- to AAA.

Customer and supplier credit risk is mitigated through credit risk assessment, credit limit setting in case of payment obligations overdue and through the contractual terms. There are no significant concentrations of credit risk in regards of exposure to specific industry sectors and/or regions. For the year ended December 31, 2020, no customer accounted for 10% or more of revenue, and for the year ended December 31, 2019, one customer accounted for approximately 10% of our revenue, giving rise to some credit risk concentration. We have not historically had any incurred losses from this customer.

#### Liquidity risk

Liquidity risk is our risk of not being able to meet the short-term payment obligations due to insufficient funds. As at March 31, 2021, December 31, 2020 and 2019, we held cash and cash equivalents of \$55.6 million, \$10.4 million and \$10.6 million, respectively, that were available for managing liquidity risk. Due to the dynamic nature of the underlying businesses, we maintain flexibility in funding by maintaining availability under committed credit lines.

Source: [F-1 SEC Registration document](#), pp. 89-90

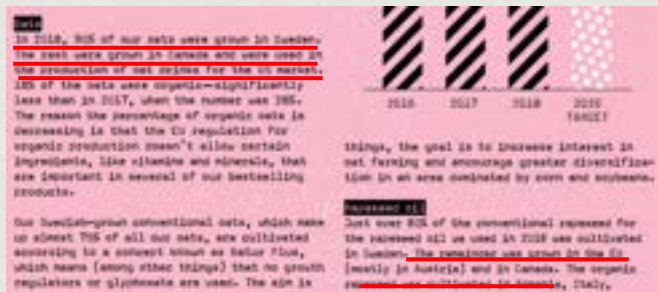
- 1) [Oatly U.S. President at Food Loves Tech Expo](#), Nov 2018
- 2) [USDA Grain and Feed Annual](#), April 23, 2021
- 3) [USDA Oilseeds: World Markets and Trade](#), May 12, 2021

87% of  
Total  
Volume  
Purchases  
Are Oats

Since then, it's been all about oats for us. To be more specific, we develop, produce, market and sell oat-based products. And in 2019, we produced 185 million liters of product, which was almost double (a 93% increase) the amount we produced in 2018. In order to make it all run smoothly, we rely on help from our suppliers, especially when it comes to ingredients and packaging. Oats are our main ingredient, as you might guess, and in 2019 they accounted for 87% of our purchase volume, followed by rapeseed oil, which constituted 7%. Most of our packaging is paper-based, except for the plastic cups in which we pack our Creamy Oat Fraiche, our Oat Spreads and some of our Oatpurt.

Source: [2019 Sustainability Report](#)

Canada  
Supplies  
10% of  
Oats in  
and Big  
Rapeseed  
Supplier In  
2019



Source: [2018 Sustainability Report](#)

Canada  
Listed 2<sup>nd</sup>  
As Oat  
Supplier In  
2020

We currently work closely with five suppliers for the oats used in our products. We purchase our oats from farmers in Sweden, Canada, the Baltic states Malaysia, and Finland through millers in Sweden, Denmark, the United States and Belgium, so our supply may be particularly affected by any adverse events in these countries. We have in the past experienced interruptions in the supply of oats from one supplier that resulted in delays in delivery to us. We could experience similar delays in the future from any of these suppliers. Any disruption in the supply of oats from these suppliers would have a material adverse effect on our business if we cannot replace these suppliers in a timely manner or at all.

Source: [F-1 SEC Registration document](#), p. 24

# Dear Oatly: Why Do You Fail To Discuss Commodity Prices?

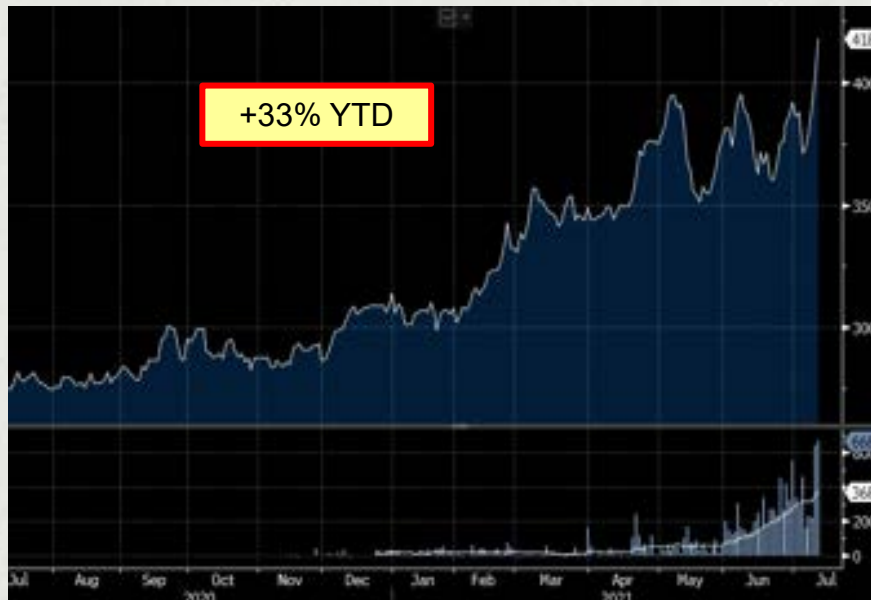
**Warning:** Oat prices and rapeseed oil, as measured by futures contracts, are up sharply in 2021. Curiously, Oatly fails to say anything about the effect of these commodity prices on its business prospects.

Oatly Focuses on  
Quality, Not Price  
When Discussing  
Raw Materials

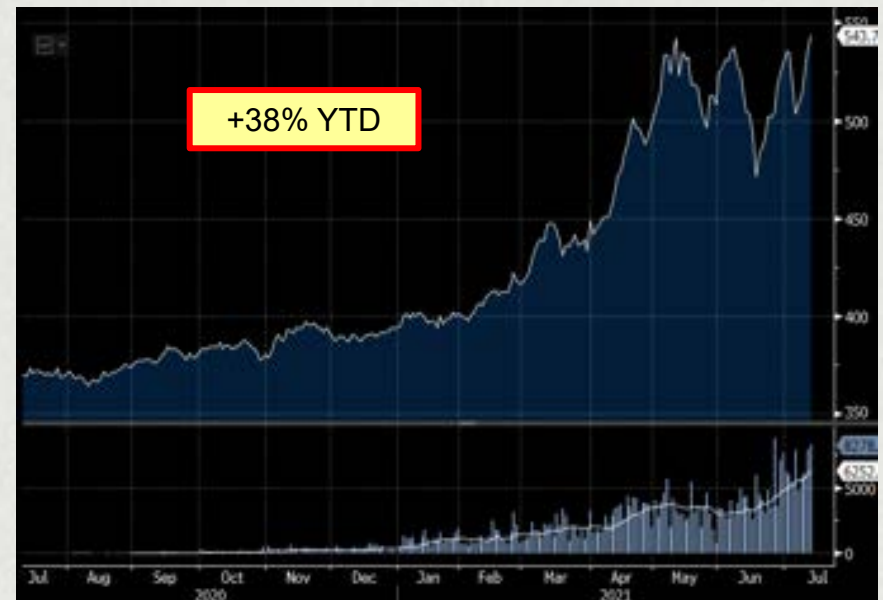
*"We may have general difficulties in obtaining raw materials, particularly oats, due to our high quality standards."*

Source: [F-1 SEC Registration document](#), pp. 25

Dec 2021 Oat Futures Prices, CME



Nov 2021 Rapeseed Futures Prices, Euronext



Source: Bloomberg, [CME](#) and [Euronext](#)

# Oatly Rapeseed Supplier Hints At Prices Staying Elevated

**Warning:** Oatly's own rapeseed supplier sheds light on multiple factors elevating prices, but doesn't articulate a clear reason as to why they should come down in the near term. He outlines multiple factors such as COVID19, supply chain disruption and competition from biofuels as factors impacting the price.

Alexander  
Morrow  
Sloane  
Barclays Bank  
PLC, Research  
Division

*"I was just on -- in your appendix, you obviously showed that the raw material prices and talk about levels for palm oil and rapeseed oil that are unusually high. I appreciate you don't have a crystal ball to kind of necessarily kind of predict the future on these oils. But in terms of the drivers behind the run-up that we've seen, I'd be interested in your view as to how much is just kind of cyclical factors, weaker dollar and reopening versus maybe more structural factors in terms of kind of increased demand for these oils from alternative industries, yes, that would be great."*

*"Yes. With the risk of being a long conversation, we can certainly take a few things off-line in case of more interest. But there are a few things impacting. And I -- one, I don't have the crystal ball, but you don't have all the pieces of the puzzle, but I'll give you a few. So for example, a bit due to COVID, there is a bit impact in supply, meaning that the possibility to get workforce into Malaysia, Indonesia and so forth is, to some extent, impacting."*

***So there's, call it, a bit of disturbance into the supply chain and supply. But also you have with regards to palm and biofuel, there are dynamics between subsidizing for biofuel versus food, et cetera, but that also has an impact, which we are not controlling ourselves. And then you have a general, call it, impact from volume flows and dynamics partly linked to COVID and partly linked to just normal business dynamics.***

*So there are a few things impacting it due to that. **And then when you look at this going forward, there is an expectation that prices will come down, but that has been rolling a bit. So at the moment, we're moving -- we're sliding sideways.** But for sure, historically, when prices have gone up steeply, they also start to come down eventually usually slower pace. But again, I don't have that crystal ball."*



## *Signs of Inventory Accounting Overstatement*

# Interview With Former Oatly Accounting Professional Reveals Problems

**Warning:** Recall from our interview of a former Oatly employee with knowledge of its finance and accounting, issues were raised about problems with inventory accounting and recent changes in policy made, though not disclosed in the IPO prospectus.

Spruce Point  
Question

*"Shipping costs, costs to move product to customers, that doesn't hit Gross Margin but goes through SG&A. Is that correct?"*

Former Oatly  
Accounting  
Professional

*"Freight affects the gross margin. Normally, Oatly pays the freight. If the freight is paid by the customer, no problem. We tried, in the beginning when we were small, we had no power to have customers pay the freight. Also, there was a big problem in the system, but I was able raise the topic with the team to fix it. We had negative gross margin. I said, what is going on here, how can we produce losing money? **In the system, there were issues with tracking items. We had so many warehouses, there was no control or coordination....We tried to fix it, and that brought big changes in the freight and improvement in gross margin. Originally, we used standard cost (inventory accounting) and the standard cost wasn't established properly. Raw materials, labor and clearly the big factor and issue was overhead. It was just a percentage, but it was totally out of proportion. So we went to a different system. We tried to go to ABC (activity-based costing) but the plant was too new and we didn't have enough expert people, and we couldn't do it. I think the Company is very aware that this is an issue, especially now in a public environment. The cost needs to be released (chuckle), that information has to be accurate. I think now with the people and the team Blackstone is building, that's something they know how to work with.**"*

Spruce Point  
Question

*"So just to be clear. Was there a formal change of accounting policy at the group level between 2019 and 2020?"*

Former Oatly  
Accounting  
Professional

*"**Yes, it was changed because a new CFO came.** He came with a lot of expertise. For all those years of Oatly, the finance and accounting function didn't grow with the Company and was behind. They needed to professionalize. He took over and made changes, probably restructured the finance and accounting department with more emphasis on costing. The prior CFO, Peter Bergh, became COO."*

# Inventory Growth Diverging From Sales Growth

**Warning:** We observe that inventory growth has been growing faster than revenue growth. Oatly has been claiming that demand is far outpacing its ability to deliver product to market, and that it's planning substantial new plant capacity additions. However, if this were the case, we would expect raw materials and consumables to be growing faster than finished goods. Instead, raw and consumables didn't grow at all between 2019 – 2020, and this is with the expansion at Landskrona, Sweden having been completed in early 2019, and both the Netherlands and Millville, NJ plants all coming online.<sup>(1)</sup> Instead, finished goods have been exploding in growth while advances to suppliers are also increasing. **A common financial shenanigan is to overstate inventory to understate Cost of Goods Sold and inflate Net Income.** Ironically, Oatly just appointed Director Frances Rathke to the Board, who had direct involvement in an accounting scheme that overstated inventories and inflated Net Income.

**Oatly Director Rathke's Experience With Inflating Inventory**

## **Green Mountain Coffee Roasters, Inc. Announces Restatement of Financials**

*"This error is the result of applying an incorrect standard cost to intercompany K-Cup inventory balances in consolidation. This error resulted in an overstatement of the consolidated inventory and an understatement of the cost of sales."*

Source: [Green Mountain Coffee Roasters, Inc. Announces Restatement of Financials](#), Nov 19, 2021 and [8-K](#)

| \$ millions              | 2017         | 2018         | 2019          | 2020          | Cumulative Growth '16-20                               |
|--------------------------|--------------|--------------|---------------|---------------|--|
| Total Revenue            | \$75.6       | \$118.0      | \$204.0       | \$421.4       |  |
| % YoY growth             | 36.2%        | 56.2%        | 72.9%         | 106.5%        | 659.3%   |
| Liters Produced          | 51.0         | 84.0         | 165.0         | 299.0         | With 3 expansion plants completed in 2019 - no growth? |
| % YoY growth             | 34.2%        | 64.7%        | 96.4%         | 81.2%         |  |
| Raw and Consumable       | \$1.8        | \$3.0        | \$7.3         | \$7.1         | 297.1%   |
| Finished Goods           | 2.6          | 5.8          | 21.1          | 30.9          | 1,092.0%   |
| Advances To Suppliers    | 0.1          | 0.0          | 0.3           | 1.2           | 1,833.9%   |
| <b>Total Inventories</b> | <b>\$4.4</b> | <b>\$8.7</b> | <b>\$28.7</b> | <b>\$39.1</b> | <b>783.3%</b>  |

With Demand So High According To Oatly, Why Are Finished Goods Growing Faster Than Sales?

Source: Companieshouse UK filings for 2017-2018 converted at average historical SEK rates per Riksbank, F-1 Registration Statement for 2019-2020.

1) [2019 Annual Report](#) Under "Significant Events During The Financial Year"

# Inventory Accounting Doesn't Reflect Economic And Production Realities of Its Business

**Warning:** By Oatly's own admission, it manufactures "oat base" which is turned into a final product. However, its current accounting does not track "work in progress". Yet clearly, before Oatly converted to IFRS to go public, Oatly did track "work in progress", and described using the FIFO method for inventory. In periods of inflation (such as now with rising commodity prices), FIFO accounting will flatter Gross Margins. We observe that Oatly has also started to disclose "Advances to suppliers". With 87% and 7% of purchasing volume tied to oats and rapeseed oil (both experiencing price inflation), Oatly may also be getting a short-term benefit from having locked-in beneficial commodity input costs.<sup>(1)</sup>

## Production Process Overview

The Oatly production journey consists of the following key steps, beginning with our core science and oat base technology:

- **Manufacturing our proprietary oat base.** Oats are cleaned, dehulled and heated to groats, which then undergo our patented enzymatic processing to form the basis of our core oat base. Critically, our process separates out insoluble oat fiber fractions, retaining beneficial, soluble dietary fibers (beta-glucans). We own and manage the majority of our oat base manufacturing facilities globally. To minimize the risk of infringement of our IP rights, we only outsource a limited number of oat base recipes.
- **Transporting the oat base to a filling plant, where applicable.** In instances where we are using a co-partner, we transport the oat base to a filling plant, either by a pipeline to a nearby filling plant or by a tanker truck to co-packers, who assist us with mixing and filling.
- **Turning oat base into finished products.** In the mixing and filling stages, we turn oat base into the variety of products that we sell. This process takes on different forms based on the end product. For our oatmalks, we add water and other ingredients, such as flavors and vitamins to our oat base, which are mixed together to become an Oatly formula. The product is then Ultra-High Temperature ("UHT") treated and stored in a sterile tank until packaged in different formats and sizes.
- **Delivering products to fulfillment warehouses.** We then take the finished products to our fulfillment warehouses, where they will be distributed to our customers.

## Pre-IPO Financial Reporting

### Consolidated Income statement KSEK

|  | Note | 1 Jan 2019<br>-31 Dec 2019 | 1 Jan 2018<br>-31 Dec 2018 |
|--|------|----------------------------|----------------------------|
| Net sales  | 2    | 1,949,075                  | 1,037,941                  |
| Changes in products in progress, finished goods and work in progress |      | 146,397                    | 28,086                     |
| Other operating income   |      | 10,333                     | 510                        |
| <b>Operating income</b>  |      | <b>2,105,805</b>           | <b>1,066,537</b>           |
| <b>Operating expenses</b>  |      |                            |                            |
| Raw materials and consumables  |      | -1,164,929                 | -489,346                   |

### Inventories

Inventories are calculated in accordance with the lowest-value principle at the lower of the cost and the fair value. In determining the cost, the first-in-first-out principle is applied. Fair value is the calculated sale value less the estimated sales expenses. Collective valuation is applied for homogeneous groups.

## IPO Reporting: Where Is Work In Progress Inventory Represented By Oat Base Before Converted To Final Products?

### 17. Inventories

|                               | 2020          | 2019          |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 7,056         | 7,303         |
| Finished goods                | 30,875        | 21,195        |
| <b>Advances to suppliers</b>  | <b>1,184</b>  | <b>313</b>    |
| <b>Total</b>                  | <b>39,115</b> | <b>28,811</b> |

Inventories recognized as an expense during the year ended December 31, 2020 amounted to \$251.2 (\$127.9) million and were included in cost of goods sold.


## Why No Mention of FIFO Accounting?

### 2.12. Inventories

Raw materials and finished goods are stated at the lower of cost and net realizable value. Costs consist of direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure. Overhead expenditures are allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group reviews inventory quantities and records a provision for excess and obsolete inventory based primarily on historical demand and the age of the inventory, among other factors.

Source: [F-1 SEC Registration document](#)

# Two Sets of Inventory Books: Internal vs. External Reporting?



**Warning:** A recent job posting references *“timely verification of production posting to ensure proper finished and semi-finished inventory is reported”*. We interpret semi-finished as work-in-process inventory. Why does Oatly now claim to have semi-finished inventory when its external financial reporting does not include it?

## THE ORIGINAL OATLY!

- Work closely with Manufacturing and Operations teams to ensure accurate and timely capture of all production costs.
- Complete monthly close; review open PO reports, prepare monthly expense accruals, review all expense accounts for errors and correct as needed
- Prepare and maintain monthly & quarterly balance sheet reconciliations; review and analyze production order variances after settlement routinely during the month and at month end, prepare/review production order variance and cycle count reports and analyze significant variances on a daily basis and summarize at month end
- Prepare monthly reports of results, monthly forecasts and annual operating plan
- Provide complete accurate and timely financial support to operating management as needed; participate in annual planning process, monitor and report on capital expenditures
- Timely verification of production postings to ensure proper finished and semi-finished inventory is reported; assist production to ensure orders are closed and goods issue errors are correct, assist in researching and resolving cycle count variances ensure accuracy of the physical inventory and reported results, investigate and explain book to physical adjustments
- Monitor bills-of-material accuracy and coordinate changes with D365 Master Data group, including changes to standard costs and new item set-up
- Monitor capital expenditures vs plan and ensure and ensure invoices classified according to company policies
- Conduct formal meetings with Manufacturing and Finance teams to discuss all plant issues
- Document and understand ERP systems, hardware and reporting conventions
- Assist in any special projects

“Semi-Finished”  
Inventory sounds like  
work-in-process  
inventory. Why isn’t this  
reported externally?

Source: Oatly job posting, Ogden, UT  
Plant Assistant Controller (since filled).  
Another [Supply Chain Analyst Job](#) also  
references semi-finished inventory



## *Signs of Capex Overstatement*

# Divergence of Capex Through Cash Flow Statement And Balance Sheet

**Warning:** There is evidence to suggest aggressive capitalization of costs on the balance sheet. In 2017-2018 we see that purchases of fixed assets reported through the cash flow statement near perfectly match additions to the PP&E accounts in the footnotes. However, in 2019-2020 we see a growing divergence. Recall that we also observe that inventory and accounts receivable have grown faster than sales. One possible explanation is that sales may have been pulled forward and inventory overstated. In this potential scenario, recent historical losses would be understated. To plug the gap on the asset side of the balance sheet, Oatly could be inflating PP&E asset accounts.

|                             |                                   | From Pre-IPO Swedish GAAP Filings (SEK) |             |                           | Post IPO – IFRS (US\$ in thousands) |           |
|-----------------------------|-----------------------------------|---|-------------|---------------------------|-------------------------------------|-----------|
| Account                     | Location                          | 2017                                    | 2018        | 2019                      | 2019                                | 2020      |
| Land And Building (A)       | Footnotes to Financial Statements | SEK 3,445                               | SEK 1,221   | SEK 11,597                | \$536                               | \$294     |
| Plant and Machinery (B)     | Footnotes to Financial Statements | 83,904                                  | 53,846      | 45,991                    | 1,151                               | 1,915     |
| Construction in Process (C) | Footnotes to Financial Statements | 42,111                                  | 179,493     | 485,832                   | 52,396                              | 142,203   |
| Total Additions (A+B+C)=D   | Footnotes to Financial Statements | SEK 129,460                             | SEK 233,461 | SEK 543,420               | \$54,080                            | \$144,412 |
| Additions to PP&E (E)       | Cash Flow Statement               | 129,505                                 | 233,461     | 508,529                   | 53,566                              | 134,283   |
| Variance (D-E)              |                                   | -46                                     | 0           | 34,891<br>(note: ~\$3.7m) | \$514                               | \$10,129  |

Source: Companieshouse UK filings for 2017-2019 SEK and F-1 Registration Statement for IFRS 2019-2020. SEK converted at average FX rates per Riksbank

**Note:** Conversion to IFRS greatly eliminated the disparity in 2019 from \$3.7m to \$0.5m but now it's grown to \$10.1m

# Asset Sales With No Cash Consequence?

**Warning:** Given our concerns that capex is overstated, one way to potentially “flush” it would be to dispose of it. Therefore, we investigated Oatly’s “Disposal of PP&E” in its SEC filings. To verify that these are actual asset sales, we cross-referenced it against the historical foreign filings which are called “Loss on Sale of Assets”. Notice carefully, that Oatly does not report any cash associated with asset sales that should flow through the “Investing Activities” section of the cash flow statement.

Consolidated statement of cash flows

For the year ended December 31  
(in thousands of U.S. dollars)

|   | Note     | 2020             | 2019            |
|---|----------|------------------|-----------------|
| <b>Operating activities</b>   |          |                  |                 |
| Net loss  |          | (60,361)         | (35,625)        |
| Adjustments to reconcile net loss to net cash flows   |          |                  |                 |
| Depreciation of property, plant and equipment and right-of-use assets and amortization of intangible assets | 13,118   | 8,094            |                 |
| Impairment loss on trade receivables  | 448      | 2,219            |                 |
| Share-based payments expense  | 1,014    | 1,922            |                 |
| Finance income  | (515)    | (47)             |                 |
| Finance costs   | 11,372   | 3,655            |                 |
| Income tax expense  | 2,411    | 1,258            |                 |
| Loss on disposal of property, plant and equipment   | 1,176    | —                |                 |
| Other   | 52       | 87               |                 |
| Interest received   | 60       | 4                |                 |
| Interest paid   | (6,488)  | (2,715)          |                 |
| Income tax paid   | (1,226)  | (1,277)          |                 |
| Changes in working capital:   |          |                  |                 |
| Increase in inventories   | (10,304) | (20,187)         |                 |
| Increase in trade receivables, other current receivables, prepaid expenses                                  | (38,679) | (29,116)         |                 |
| Increase in trade payables, other current liabilities, accrued expenses                                     | 43,614   | 32,611           |                 |
| <b>Net cash flows used in operating activities</b>  |          | <b>(44,308)</b>  | <b>(39,117)</b> |
| <b>Investing activities</b>   |          |                  |                 |
| Purchase of intangible assets   | 12       | (7,454)          | (2,999)         |
| Purchase of property, plant and equipment   | 13       | (134,283)        | (53,566)        |
| Payments from: (for) financial instruments  |          | 364              | (527)           |
| Contingent consideration paid   | 16       | —                | (7,594)         |
| <b>Net cash flows used in investing activities</b>  |          | <b>(141,373)</b> | <b>(64,086)</b> |

Source: [Oatly Prospectus](#)

## Note 23 Adjustments for non-cash items Group

|   | 2019           | 2018           |
|---|----------------|----------------|
| Depreciation/amortisation                         | 183,671        | 159,949        |
| Loss on sale of assets                            | 832            | 2,132          |
| Cost of earnout paid                              | 4,300          | 0              |
| Unrealised exchange rate differences and interest | 11,511         | 5,102          |
|   | <b>200,314</b> | <b>167,183</b> |

Source: 2019 [Companieshouse Report](#)

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# Capex Procured In A Non-Transparent Fashion Through Bundling

**Warning:** Oatly paid \$9.7m for its Millville, NJ (land, structures, equipment and services) when the previous owner paid just \$637,500 for the identical facility (land and structures). Spruce Point believes that technically, Oatly should have bifurcated the purchase between: 1) The land and structures, 2) An asset purchase for the equipment, and 3) Procurement of services.

## Prior Owner Deed (Feb 2018): \$637,500

Cumberland County Clerk

BK 04164 PG 1066

03/08/2018 01:46 PM

3 of 8

Prepared by:  
  
Alan K. Kagan, Esq.

### DEED

This Deed is made on February 28, 2018

**BETWEEN** NEXT DOOR PROPERTIES, LLC, a New Jersey limited liability company,

With a business address 2516 Mays Landing Road, Millville, NJ 08332 referred to as the Grantor,

**AND**

719 ORANGE STREET, LLC, a New Jersey limited liability company,

With an address of 2921 Eagles Court, Vineland, NJ 08361 referred to as the Grantee.

The words "Grantor" and "Grantee" shall mean all Grantors and all Grantees listed above.

**Transfer of Ownership.** The Grantor grants and conveys (transfers ownership of) the property described below to the Grantee. This transfer is made for the sum of SIX-HUNDRED, THIRTY-SEVEN THOUSAND, FIVE-HUNDRED (\$637,500.00) DOLLARS. The Grantor acknowledges receipt of this money.

**Tax Map Reference.** (N.J.S.A. 46:26-A-3) City of Millville Tax Map as: Block No. 581 Lot No. 1

**Property.** The property consists of the land and all the buildings and structures on the land in City of Millville, County of Cumberland, and State of New Jersey. The legal description is:

See Attached Legal Description.

Street Address of Property: 719 ORANGE STREET, MILLVILLE, NJ, 08332

**Recitals.** Being the same lands and premises, which became vested in NEXT DOOR PROPERTIES LLC, by Deed from Realis, Inc., a corporation of the State of NJ, dated June 28, 2013, recorded July 5, 2013 in the Cumberland County Clerk/Register's Office in Deed Book 4106, Page 6258.

**Exceptions.** This conveyance is made subject to all easements and restrictions of record.

**Promises by Grantor.** The Grantor promises that the Grantor has done no act to encumber the property. This promise is called a "covenant as to grantor's acts" (N.J.S.A. 46:4-6). This promise means that the Grantor has not allowed anyone else to obtain any legal rights which affect the property (such as by making a mortgage or allowing a judgment to be entered against the Grantor).

## Oatly (Sept 2019): \$9,777,229.52

Cumberland County Clerk

BK 04186 PG 1276

10/22/2019 01:36 PM

3 of 10

PREPARED BY:  
Amy M. Kearney, Esquire  
ARCHER & GREINER  
A PROFESSIONAL CORPORATION  
Preparer signature no longer required per NJSA 46:26A-3.

### DEED

This Deed is made on September 30, 2019, delivered October 11, 2019

**BETWEEN** 719 ORANGE STREET, LLC, a New Jersey limited liability company, whose address is 2921 Eagles Court, Vineland, New Jersey 08361, referred to as the Grantor.

**AND** OATLY US OPERATIONS & SUPPLY INC., a Delaware corporation, whose address is 220 East 42<sup>nd</sup> Street, Suite 409A, New York, New York 10017, referred to as the Grantee.

The words "Grantor" and "Grantee" shall mean all Grantors and all Grantees listed above.

**Transfer of Ownership.** The Grantor grants and conveys (transfers ownership of) the property described below to the Grantee. This transfer is made for the sum of NINE MILLION SEVEN HUNDRED SEVENTY SEVEN THOUSAND TWO HUNDRED TWENTY NINE AND 52/100 DOLLARS (\$9,777,229.52). The Grantor acknowledges receipt of this money.

**Tax Map Reference.** (N.J.S.A. 46:26A-3) Municipality of Millville, Block No. 581, Lot No. 1.01.

**Property.** The property consists of the land and all the buildings and structures on the land in the City of Millville, County of Cumberland and State of New Jersey, commonly known as 725 Orange Street, Millville, New Jersey. The legal description is:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.

SUBJECT TO easements and restrictions of record.

BEING the same land and premises which became vested in 719 Orange Street, LLC, by Deed from Next Door Properties, LLC, dated February 28, 2018, recorded in the Office of the Clerk of Cumberland County on March 8, 2018, in Deed Book 4164, Page 1066, as Instrument No. 549691.

# Capex Procured In A Non-Transparent Fashion Through Bundling (Cont'd)

**Warning:** By structuring the purchase the way it chose, Oatly could potentially be misallocating the purchase price to areas such as land (which is not depreciated) and building and fixtures. Per Oatly's disclosure, it depreciates buildings and fixtures over 8 – 40 years vs. 3 – 15 years for plant and machinery. Thus, allocating more fixed assets to land, buildings and fixtures vs. equipment could inflate earnings. Oatly does not give granular disclose of its PP&E accounts (see bottom right table). Per our interview with a former employee, there was a concern raised about fixed asset composition and depreciation.

Former Oatly  
Accounting  
And Control  
Professional  
on Biggest  
Investment  
Risks

**"Number one is the state of accuracy of the information that Oatly provides. I would make emphasis on division by division. EMEA, Europe, including Sweden. The U.S. is right now number one contributor to sales. The marketing channel and expectations from China from the Company; that's from a sector perspective. If I were to invest, want to make sure the financials are accurate and telling the right story. Coming back to your question about net sales. What is included in the net sales? I think the operating expenses make sense. In the balance sheet, I would like to see the composition of the fixed asset, to see plant by plant, and what is the depreciation are they taking. I would like to see the accounts receivables because normally Oatly is in the 30 day process, but with some customers we have to pay immediately. The cycle of the cash is not in the favor of the Company."**

## Oatly Depreciation Schedule

Depreciation of assets is calculated using the straight-line method to allocate the cost of the assets, net of their residual values, over the estimated useful life of each component of an item of buildings and plant and machinery as follows:

- Buildings and fixtures 8-40 years
- Plant and machinery 3-15 years

Source: [Oatly prospectus](#), p. F-14

## Oatly Does Not Give Much Detail on PP&E And Instead Lumps Land With Buildings, And Plant With Machinery

### 13. Property, plant and equipment

|                             | Land and<br>buildings | Plant and<br>machinery | Construction in<br>progress | Total          |
|-----------------------------|-----------------------|------------------------|-----------------------------|----------------|
| <b>Cost</b>                 |                       |                        |                             |                |
| At January 1, 2019          | 18,580                | 17,782                 | 16,533                      | 52,895         |
| Additions                   | 536                   | 1,151                  | 52,393                      | 54,080         |
| Disposals                   | —                     | —                      | (88)                        | (88)           |
| Reclassifications           | 14,246                | 31,474                 | (45,721)                    | (1)            |
| Exchange differences        | (677)                 | (496)                  | (368)                       | (1,541)        |
| <b>At December 31, 2019</b> | <b>32,685</b>         | <b>49,911</b>          | <b>22,749</b>               | <b>105,345</b> |
| Additions                   | 294                   | 1,915                  | 142,203                     | 144,412        |
| Disposals                   | —                     | (477)                  | (1,051)                     | (1,528)        |
| Reclassifications           | 3,395                 | 2,218                  | (5,613)                     | —              |
| Exchange differences        | 2,620                 | 4,195                  | 5,699                       | 12,514         |
| <b>At December 31, 2020</b> | <b>38,994</b>         | <b>57,762</b>          | <b>163,987</b>              | <b>260,743</b> |

Source: [Oatly Prospectus](#) p. F-37

# Construction in Process Transfers Once Completed In 2019 Don't Add Up

In 2019, Oatly competed three expansion projects in Sweden, the Netherlands and the U.S. Related documents show that these projects cost approximately \$61 million. However, Oatly only transferred \$45m from the "Construction in Progress" to completed fixed asset accounts. [Recall from our interview of a former Oatly financial controller](#) asking about biggest investment risks, questions were raised about the fixed asset accounting for plants and the associated depreciation. It appears from our analysis, that Oatly is failing to, or delaying, the recognition of depreciable fixed assets. In this case by delaying (\$60.9-\$45.7=\$15.2m) of fixed asset recognition, Oatly could be overstating operating losses by ~\$1.5m, or 5%.<sup>(1)</sup>

2019  
Annual Report

2015  
Annual Report

Expansion of the production plant in Landskrona, Sweden was completed in early 2019, which resulted in a pronounced increase in production capacity. The production facilities in Vlissingen (Netherlands) and Millville (US) went into operation in 2019. In addition, two further production facilities are being established in Ogden (US) and Singapore, which are scheduled to enter into operation in late 2020 or early 2021.

~\$41m

A plan was adopted during the year for expansion of the company's production facility in Landskrona. In order to meet the strong growth, investments of approx SEK 350 million are planned for the 2015-2020 period. Production capacity will thereby increase successively from around 30 million liters per year to around 100 million liters per year

## Total Capex Spend For Three Plants

| Location      | Capex Cost \$m |
|---------------|----------------|
| Landskrona    | \$41.0         |
| Netherlands   | \$10.1         |
| Millville, NJ | \$9.8          |
| <b>Total</b>  | <b>\$60.9</b>  |

## Netherlands 2019 PP&E \$10.1m

|  |   |
|--|---|
| <p>1. Financial statements</p> <p>2. Company financial statements</p> <p>3. Balance sheet</p>  | <p>Balance sheet</p> <p>Assets</p> <p>Liabilities</p> <p>Equity</p>   |
| <p>Fixed assets</p> <p>Intangible assets</p> <p>Property, plant and equipment</p> <p>Investments</p> <p>Financial assets</p> <p>Other assets</p> | <p>Current liabilities</p> <p>Long-term liabilities</p> <p>Equity</p> |

## Millville, NJ Facility \$9.8m

|  |                |
|--|----------------|
| <p>DEED</p> <p>This Deed is made on <u>September 30, 2019</u>, delivered <u>October 11, 2019</u></p> <p>BETWEEN <u>719 ORANGE STREET, LLC</u>, a New Jersey limited liability company, whose address is 2921 Eagles Court, Vineland, New Jersey 08361, referred to as the Grantor.</p> <p>AND <u>OATLY US OPERATIONS &amp; SUPPLY INC.</u>, a Delaware corporation, whose address is 220 East 42nd Street, Suite 409A, New York, New York 10017, referred to as the Grantee.</p> <p>The words "Grantor" and "Grantee" shall mean all Grantors and all Grantees listed.</p> <p><b>Transfer of Ownership.</b> The Grantor grants and conveys (hereinafter ownership of) the property described below to the Grantee. This transfer is made for the sum of NINE MILLION SEVEN HUNDRED SEVENTY SEVEN THOUSAND TWO HUNDRED TWENTY NINE AND 22/100 DOLLARS (\$9,777,229.52). The Grantee acknowledges receipt of this money.</p> <p>No. 1.01.</p> <p><b>Property.</b> The property consists of the land and all the buildings and structures on the land in the City of Millville, County of Cumberland and State of New Jersey, commonly known as 725 Orange Street, Millville, New Jersey. The legal description is:</p> <p>SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.</p> <p>SUBJECT TO easements and restrictions of record.</p> <p>BEING the same land and premises which became vested in 719 Orange Street, LLC, by Deed from Next Door Properties, LLC, dated February 28, 2018, recorded in the Office of the Clerk of Cumberland County on March 8, 2018, in Deed Book 4164, Page 1066, as Instrument No. 549691.</p> | <p>3 of 10</p> |
|--|----------------|

## Oatly Consolidated Accounts

### 13. Property, plant and equipment

|                          | Land and buildings | Plant and machinery | Construction in progress | Total      |
|--------------------------|--------------------|---------------------|--------------------------|------------|
| <b>Cost</b>              |                    |                     |                          |            |
| At January 1, 2019       | 18,580             | 17,782              | 16,533                   | 52,895     |
| Additions                | 536                | 1,151               | 52,393                   | 54,080     |
| Disposals                | —                  | —                   | (88)                     | (88)       |
| <b>Reclassifications</b> | <b>14,246</b>      | <b>31,474</b>       | <b>(45,721)</b>          | <b>(1)</b> |
| Exchange differences     | (677)              | (496)               | (368)                    | (1,541)    |
| At December 31, 2019     | 32,685             | 49,911              | 22,749                   | 105,345    |

Source: [Oatly Prospectus](#) p. F-37

Source: Netherlands Corporate Registry

Source: Cumberland County Property Records

1) Assumed 10yr average depreciation. 2019 operating loss was \$30.7m



*A Production Process And Formula  
Not So Proprietary Exposes A  
Material Adverse Event*

## Oatly Stresses It Has Proprietary Processes, Which If Exposed, Could Cause A Material Adverse Effect....



**Warning:** Oatly claims its processes are proprietary and very hard to copy, but acknowledges a risk that, as it grows, its trade secrets, confidential information and know-how could become more broadly known. Oatly stresses that this risk could have a material adverse effect on its business.

### What Oatly Says Pre-IPO Hype

*“Oatly employs the same proprietary, “very hard to copy” process in the 25,000-square-foot New Jersey factory as it does in Landskrona, Sweden. It can’t divulge many details, since it’s proprietary. **“The process is very sensitive,”** says Anca Gavris, the Millville plant manager and its first employee. “Everything needs to be to perfection.”*

Source: “Oatly’s Path to Alt-Milk World Domination Starts in New Jersey”, [Bloomberg](#), July 31, 2019

### What Oatly Says In Its Prospectus

***“We are also subject to the risk that as we continue to expand, our trade secrets, confidential information and the know-how related to our oat base and other proprietary products could be leaked, intentionally or unintentionally, misappropriated or stolen, which could have an adverse effect on our business and results of operations.** As we continue to expand our production facilities around the world, we may need to put in place further legal, technological and other measures to ensure that our trade secrets, confidential information and know-how are adequately protected, which could result in increased costs.”*

Source: [Prospectus](#), p. 31

# Oatly's Ingredients And Proportions Exposed

Spruce Point has found a confidential report prepared for Oatly that was designed to help Oatly assess the environmental impact of its aseptic and fresh oat milk product relative to dairy milk. In the document there is detailed information and assumptions about quantities of ingredients needed. This could allow competitors to more easily replicate its products.

## Quantities of ingredients

The recipe in Table 7 shows the ingredient amount per kg of product. The values for the food flows in Table 7 have been adjusted upwards by a factor of 1.01 (about 1%) to take into account product wastage which goes to the production of biogas.

**Table 7: Quantities of ingredients used in aseptic oat drink**

| Ingredient            | Amount per kg of product (kg) |
|-----------------------|-------------------------------|
| Water                 | 0.91                          |
| Oat groats            | 0.13                          |
| Dry oat fibre removed | -0.02                         |
| Water removed         | -0.033                        |
| Rapeseed oil          | 0.008                         |
| Calcium carbonate     | 0.002                         |
| Tricalcium phosphate  | 0.001                         |
| Dicalcium phosphate   | 0.0005                        |
| Salt                  | 0.001                         |
| Enzyme (excluded)     | 0.0001                        |
| Vitamin (excluded)    | 0.00002                       |
| Total:                | 0.99962                       |

## Quantities of ingredients

The recipe in Table 9 shows the amount of ingredient added per kg of oat base.

**Table 9: Quantities of ingredients used to make the fresh oat base**

| Ingredient            | Amount per kg oat base (kg) |
|-----------------------|-----------------------------|
| Water                 | 0.89                        |
| Oat groats            | 0.18                        |
| Dry oat fibre removed | -0.027                      |
| Water removed         | -0.043                      |
| Total:                | 1.0                         |

## Summary of the inventory data for the production of fresh oat base at the Oatly plant

As with the aseptic oat drink, the vast majority of the inventory parameters have been developed specifically for the oat base and are based on the production of fresh oat drink in 2012, equating to 1,350 tonnes.

Table 10 summarises data on the inflows and outflows used in the modelling and calculations for the production of oat base for the fresh oat drink at the plant in Landskrona.

**Table 10: Input data for the production of oat base for the fresh oat drink at Oatly, Landskrona**

| Input                        | Amount               | Comment   |
|------------------------------|----------------------|---|
| Production oat base          | 1,350 tonnes         |   |
| Electricity consumption      | 59,272 kWh           | Average Swedish electricity                                       |
| Natural gas                  | 69,173 kWh           | Specified as resulting energy                                     |
| Water for cooling            | 4,320 m <sup>3</sup> |   |
| Water for cleaning, rinsing  | 2,820 m <sup>3</sup> |   |
| Oat fibre slurry             | 35,910 kg            | 100% DM, for pig feed   |
| Nitric acid HNO <sub>3</sub> | 1,629 kg             | 53% concentration   |
| Lye NaOH                     | 1,445 kg             | 50% concentration   |
| N <sub>2</sub> ot            | 110 kg               | Emissions to water, water treatment included                      |
| P <sub>2</sub> ot            | 0.78 kg              | Emissions to water, water treatment included                      |
| BOD                          | 510 kg               | Emissions to water, water treatment included, allocated with 0.13 |
| COD                          | 2,140 kg             | Emissions to water, water treatment included, allocated with 0.13 |

# Oatly's Production Process Now Exposed

**Warning:** While Oatly claims its processes and know-how are proprietary and include trade secrets, we believe it has done little to try to protect sensitive information from becoming public. Spruce Point finds very detailed information about its newest production facility in Ogden, UT which reveals critical manufacturing assumptions and process diagrams.

## Key Production And Ingredient Proportions And Assumptions Revealed

**Form 3** Company: Oatly, Inc.  
**Process Information** Site: Ogden, Utah  
**Utah Division of Air Quality**  
**New Source Review Section**

**Process Information - For New Permit ONLY**

1. Name of process: Cut Milk Manufacturing 2. End product of this process: Cut Milk

3. Process Description:  
 Receive Cut Kernels and grind with water. Further process with enzymes and heat treatment then remove fibers through decanting process. This makes the oatbase ingredient which is used to make different oat milk products. Flavors, oils, and sugar are added to make the final products which go under heat treatment before packaging for commercial sales.

**Operating Data**

4. Maximum operating schedule:  
 1,818 hours/year  
 7 days/week  
 260 weeks/year

5. Percent annual production by quarter:  
 Winter: 25% Spring: 25%  
 Summer: 25% Fall: 25%

6. Maximum hourly production (indicate units):  
 25,000 Liters Oatbase

7. Maximum annual production (indicate units):  
 140,000,000 Liters Oatbase

8. Type of operation:  
 Continuous ☐ Batch ☒ Intermittent ☐

9. Pouch, indicate minutes per cycle: 90.00  
 Minutes between cycles: 2.00

10. Materials and quantities used in process:

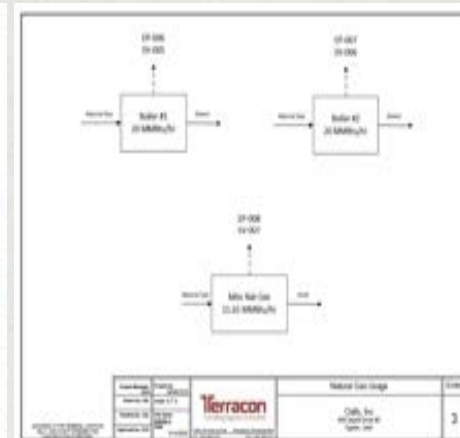
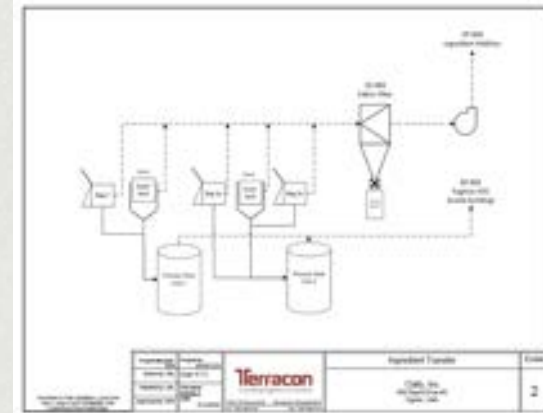
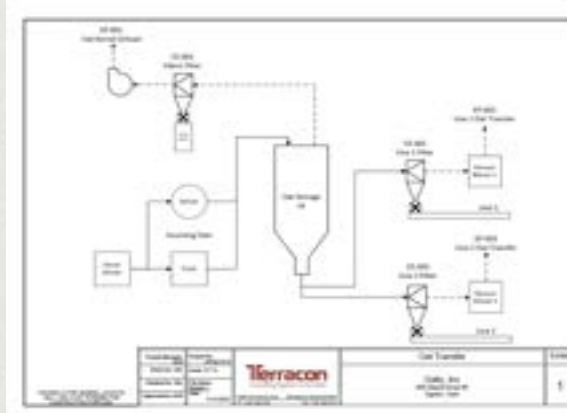
| Material                             | Maximum Annual Quantity (indicate units) |
|--------------------------------------|--|
| Cut Kernels                          | 71,000,000.00 Pounds                     |
| Dry Ingredients (sugar, cacao, etc.) | 3,066,000.00 Pounds                      |

11. Process-Existing Units with pollution control equipment:

| Existing Unit(s)   | Capacity(s)   | Manufacture Date(s) |
|--------------------|---------------|---------------------|
| Cut Kernel Unit(s) | 41,000 Lbs/hr | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |
| Cut Milk Transfer  | 2,500 Lbs/hr  | 06/01/20            |

\*If additional space is required, please create a spreadsheet or Word processing document and attach to form.  
 Page 1 of 1

## Key Process And Facility Diagrams Exposed



# Oatly's Warehousing Operations Exposed

**Warning:** Oatly claims its processes and know-how are proprietary and include trade secrets, yet it openly let graduate students from the Lund University into its warehouse to study its processes and produce an academic paper with detail observations about its business. In addition, Oatly has released warehouse and automation videos showing its pallet operations using InterSystem.<sup>(1)</sup>

## Warehousing Insights Into Oatly's First Manufacturing Facility in Landskrona, Sweden

### 4.2. Mapping of Activities in the Oatly Warehouse

With its base in the warehousing process found in literature the Oatly warehouse has been mapped. These activities will be further elaborated for the Oatly case in this section. Figure 4.5, shows a sketch adapted from Tompkins et al. (2010) over the activities in the Oatly warehouse. The process mapping showed that unnecessary double handling in the warehouse is mainly induced during the receiving, to reduce honeycombing in storage, shipping and the ancillary activities, especially laboratory tests, currently conducted in the warehouse. The laboratory tests are necessary but non-value adding while the movements to reduce honeycombing is a non-value adding movement for the pallet which is why it should be reduced. The main change in the activity landscape for the future operations in the warehouse is the plan to move the pallet mounting station into the warehouse from the production facility. This move would facilitate a more even flow for the receiving activity compared to the current truckloads.

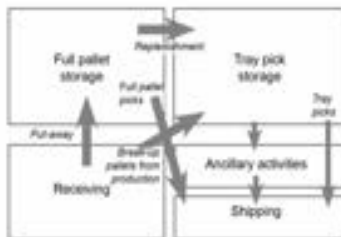


Figure 4.5. Sketch over the process flow within the Oatly warehouse inspired and adapted from Tompkins et al. (2010)

A sketch over the Landskrona warehouse is shown in Figure 4.6. The warehouse is firstly divided in a refrigerated and an ambient part and secondly between single-deep storage racks and deep storage racks. The deep storage racks, called maxi-packers, are in the refrigerated area 35-deep and 21-deep in the ambient part. The 35-deep maxi-packer accounts for 1715 pallet positions whereas it accounts for 2184 in the ambient zone. The remaining 600 pallet positions are found in the single-deep racks. In the maxi-packer an automatic pallet mover is used to move pallets into the lane as far down as possible. The rack system ensures a FIFO dispatching policy which is a

### Applying the Framework to the Oatly Case

requirement for the perishable goods handled. To efficiently use the rack system it is not possible to store different articles in the same lane thus resulting in honeycombing waste. As a result the warehouse must be considered full even when there are free pallet positions in the warehouse. To avoid honeycombing waste the workers in the warehouse move pallets from the maxi-packer to single-deep racks when the amount of pallets in a lane is low which results in that approximately 8 % of the pallets are double handled. Apart from full pallet storage the bottom shelf is one aisle is reserved for broken pallets where tray-picks are conducted.



Figure 4.6. Sketch over the Oatly warehouse

A flowchart of activities performed in the Oatly warehouse is shown in Figure 4.7. The main activities in the warehouse are receiving, put-away, storage, picking and shipping. Apart from these, the ancillary activities regarding to expi. pallets and laboratory identification are also performed. The warehouse receives all three goods via truck through the shipping and receiving docks. The products produced in Landskrona are packed in full pallet loads and placed in a lorry, which is fetched by a warehouse employee whenever it is full. Subcontractors' products are shipped to Landskrona by lorry. When the lorry arrives to the warehouse the driver registers in the warehouse office and is allocated to a dock. The pallets are then moved out of the lorry with a pallet truck into the warehouse. When receiving goods the pallets should be placed on the abundant/round square (RD square) to offload the lorry as quickly as possible. However, this is not shown the case since the RD square often is full with ready-to-ship orders that are awaiting pick-up. For this reason received pallets are placed in the aisles to await put-away. To avoid the extra handling from having the lorry transport between the Landskrona production and warehouse, Oatly plans to install an automated transport line. This would result in a continuous flow to the warehouse of either pallets or trays which would both alleviate the docks as well as smoothen the workflow for the warehouse. This kind of automatic system would affect the structure and layout in the warehouse and the work processes. As Oatly plans to expand the production site in Landskrona the portion of the total flow and the inflow can increase through this channel.

The pallet loads produced in Landskrona receive their identity in the last step of the production line. This means that the pallets can be put directly to their designated location upon arrival in the warehouse. The pallets are moved out of the trailer with a pallet lifter and set down on the RD square. The label is then scanned and put-away is conducted with a reach truck. Depending on the pallet location the first thing is to move the automated pallet mover to the right lane/lot



Figure 4.7. Flowchart of activities performed in the Oatly warehouse



**Warning:** Oatly claims its processes and know-how are proprietary and include trade secrets, yet it has done little to protect the names of equipment suppliers and model numbers used for boilers and water heating systems, conveyors, and case packers. Oatly's packaging partner Innovation Foods LLC has left a trail of UCC Lien filings that give away vital information that competitors could use to replicate its production and packaging process.

[illegible]

# Oatly's Chemical Inputs Exposed

**Warning:** Oatly doesn't mention that there are a variety of hazardous chemicals used throughout its manufacturing facility. In New Jersey it has to fill out a [Community Right To Know Survey](#) that details quantities and locations of hazardous materials. From the disclosure, we learn the amount of daily inventoried oats in outside silos is 50k-90k pounds. Oat grain dust is a combustible, and therefore, has to be disclosed.

## Sample Disclosures Give Further Insight Into Oatly's Manufacturing

NEW JERSEY DEPARTMENT OF ENVIRONMENTAL PROTECTION  
COMMUNITY RIGHT TO KNOW SURVEY FOR 2020  
For State and Federal Community Right to Know Reporting

Facility ID: 0000014000 Date: 04/28/2020 04/28/2020  
Facility Name: OATLY INC. 710 ORANGE ST. HOLLYWOOD, NJ 08033  
Facility Location: 710 ORANGE ST. HOLLYWOOD, NJ 08033

(a) State this facility produces, stores in one (1) or more (multiple) hazardous substances:  
1. In any quantity? Yes ( ) No ( )  
2. Above threshold? Yes ( ) No ( )

(b) Facility Status: Active  
Business Activity: MANUFACTURING OF OAT MILK  
Hazardous Waste: No RSD exemption

(c) Facility Emergency Contact:  
Name: JOSEPH DOLAN Title: SVP MANAGER  
Phone Number: (609) 630-0700  
Email Address: JOSEPH.DOLAN@OATLY.COM

(d) Emergency Response Plan:  
Is this facility subject to Chemical Accident Prevention under Section 122 of CM 17:27, Part 10, Sub 10? No  
Is this facility subject to Emergency Planning under Section 102 of SPHSA, PHS 296 Part 100.100? Yes

(e) Facility Section Approval/Consent:  
Is this facility subject to Chemical Accident Prevention under Section 122 of CM 17:27, Part 10, Sub 10? No  
Is this facility subject to Emergency Planning under Section 102 of SPHSA, PHS 296 Part 100.100? Yes

(f) Facility Section Approval/Consent:  
Is this facility subject to Chemical Accident Prevention under Section 122 of CM 17:27, Part 10, Sub 10? No  
Is this facility subject to Emergency Planning under Section 102 of SPHSA, PHS 296 Part 100.100? Yes

(g) Facility Section Approval/Consent:  
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(z) Facility Section Approval/Consent:  
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Is this facility subject to Emergency Planning under Section 102 of SPHSA, PHS 296 Part 100.100? Yes

Facility ID: 0000014000 Page 2 of 3  
OATLY INC. 710 ORANGE ST. HOLLYWOOD, NJ 08033  
PART 2  
2020 CHEMICAL INVENTORY REPORT  
Reporting Period: January 1 - December 31, 2020

Substance Name: APCO 2500 BUSHOIL ACID CAS #: 7004-09-0  
Location: OUTDOOR OAT SILOS Sub #: 1700 IOT #: 1000

Physical state: ( ) Pure (X) Mixture  
Physical state: ( ) Solid (X) Liquid ( ) Gas

Container type: Plastic drum  
Max. daily inventory: 1,000 to 2,499 pounds  
Avg. daily inventory: 1,000 to 2,499 pounds  
Days on site: 365  
Storage pressure: Ambient pressure  
Storage temperature: Ambient temperature  
Trade Secret: No  
SPHSA-Only: Yes  
Hazardous Waste: No

Physical Hazards:  
( ) Explosive  
( ) Flammable (gases, liquids, solids, or solids)  
( ) Corrosive (liquids, solids or gases)  
( ) Self-reactive  
( ) Pyrophoric (liquids or solids)  
( ) Oxidizing  
( ) Self-heating  
( ) Organic peroxide  
( ) Corrosive to metal  
( ) In contact with water emits flammable gas  
( ) Health hazard not otherwise classified  
( ) No physical hazards per SDS

Health Hazards:  
(X) Acute toxicity (any route of exposure)  
(X) Skin corrosion or irritation  
(X) Serious eye damage or eye irritation  
(X) Respiratory or skin sensitization  
(X) Germ cell mutagenicity  
(X) Carcinogenicity  
(X) Reproductive toxicity  
(X) Specific target organ toxicity (single or repeated exposure)  
(X) Aspiration hazard  
(X) Gas under pressure (compressed gas)  
(X) In contact with water emits flammable gas  
(X) Health hazard not otherwise classified  
(X) No health hazards per SDS

SPHSA Section 102 Exempted Hazardous Substances:  
Substance Name: APCO 2500 BUSHOIL ACID CAS #: 7004-09-0 Sub #: 1700 Max. daily inventory: 1,000 to 2,499 pounds

Facility ID: 0000014000 Page 3 of 3  
OATLY INC. 710 ORANGE ST. HOLLYWOOD, NJ 08033  
PART 3  
2020 CHEMICAL INVENTORY REPORT  
Reporting Period: January 1 - December 31, 2020

Substance Name: ORGANIC OAT GRAIN DUST CAS #: 7004-09-0  
Location: OUTDOOR OAT SILOS Sub #: 1700 IOT #: 1000

Physical state: (X) Pure ( ) Mixture  
Physical state: ( ) Solid (X) Liquid ( ) Gas

Container type: Silo  
Max. daily inventory: 50,000 to 90,000 pounds  
Avg. daily inventory: 50,000 to 90,000 pounds  
Days on site: 365  
Storage pressure: Ambient pressure  
Storage temperature: Ambient temperature  
Trade Secret: No  
SPHSA-Only: Yes

Physical Hazards:  
( ) Explosive  
(X) Flammable (gases, liquids, solids, or solids)  
(X) Corrosive (liquids, solids or gases)  
( ) Self-reactive  
(X) Pyrophoric (liquids or solids)  
( ) Oxidizing  
( ) Self-heating  
( ) Organic peroxide  
( ) Corrosive to metal  
( ) In contact with water emits flammable gas  
(X) Health hazard not otherwise classified  
( ) No physical hazards per SDS

Health Hazards:  
(X) Acute toxicity (any route of exposure)  
(X) Skin corrosion or irritation  
(X) Serious eye damage or eye irritation  
(X) Respiratory or skin sensitization  
(X) Germ cell mutagenicity  
(X) Carcinogenicity  
(X) Reproductive toxicity  
(X) Specific target organ toxicity (single or repeated exposure)  
(X) Aspiration hazard  
(X) Gas under pressure (compressed gas)  
(X) In contact with water emits flammable gas  
(X) Health hazard not otherwise classified  
(X) No health hazards per SDS

Substance Name: PROPANE CAS #: 50-09-0  
Location: PROPANE BOILER OUTSIDE Sub #: 1704 IOT #: 1010

Physical state: (X) Pure ( ) Mixture  
Physical state: ( ) Solid (X) Liquid (X) Gas

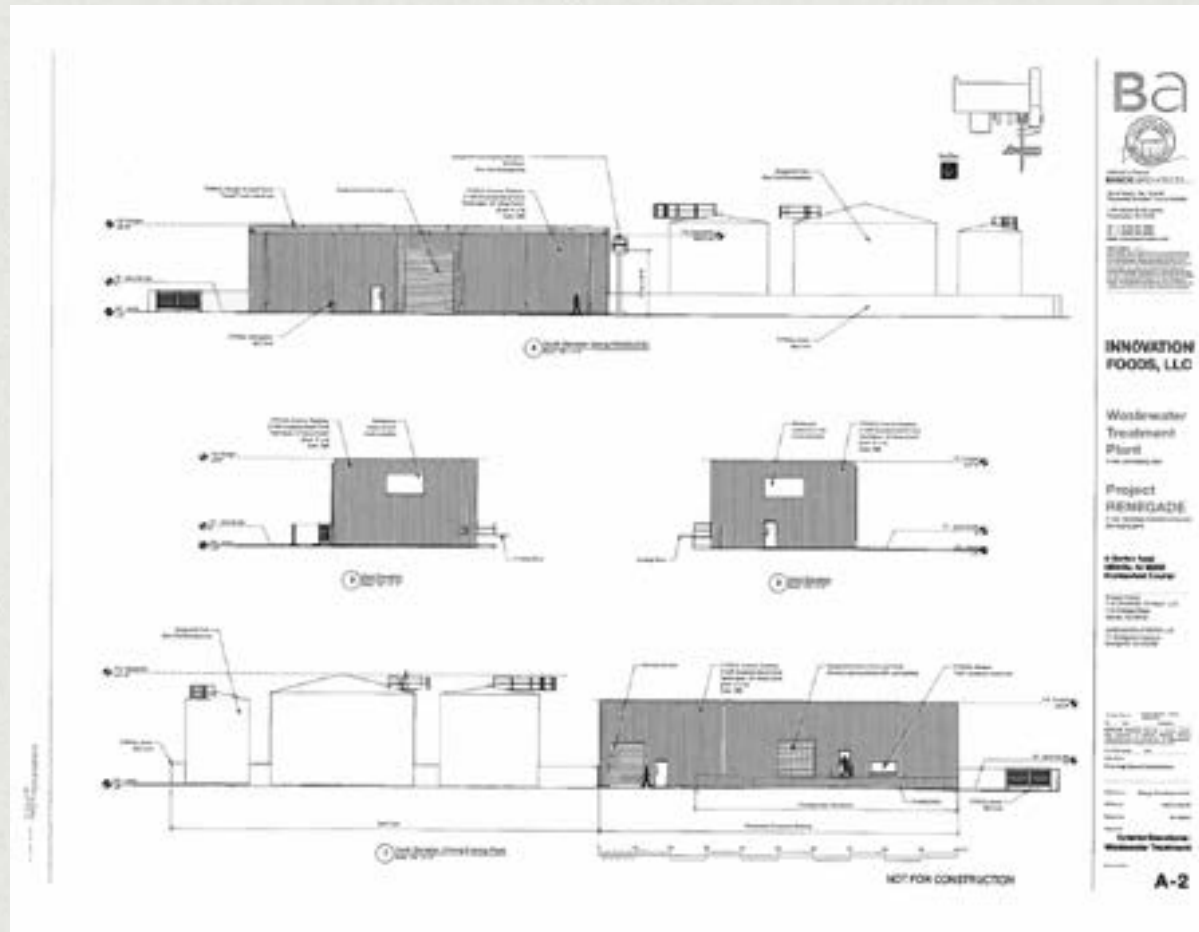
Container type: Cylinder  
Max. daily inventory: 100 to 499 pounds  
Avg. daily inventory: 10 to 99 pounds  
Days on site: 365  
Storage pressure: Greater than ambient pressure  
Storage temperature: Ambient temperature  
Trade Secret: No  
SPHSA-Only: No

Physical Hazards:  
(X) Explosive  
(X) Flammable (gases, liquids, solids, or solids)  
(X) Corrosive (liquids, solids or gases)  
(X) Self-reactive  
(X) Pyrophoric (liquids or solids)  
( ) Oxidizing  
( ) Self-heating  
( ) Organic peroxide  
( ) Corrosive to metal  
(X) Gas under pressure (compressed gas)  
(X) In contact with water emits flammable gas  
(X) Health hazard not otherwise classified  
(X) No physical hazards per SDS

Health Hazards:  
(X) Acute toxicity (any route of exposure)  
(X) Skin corrosion or irritation  
(X) Serious eye damage or eye irritation  
(X) Respiratory or skin sensitization  
(X) Germ cell mutagenicity  
(X) Carcinogenicity  
(X) Reproductive toxicity  
(X) Specific target organ toxicity (single or repeated exposure)  
(X) Aspiration hazard  
(X) Gas under pressure (compressed gas)  
(X) In contact with water emits flammable gas  
(X) Health hazard not otherwise classified  
(X) No health hazards per SDS

# *Oatly's Wastewater Facility Exposed*


Spruce Point has uncovered schematics of Oatly's wastewater treatment facility. They are using Bosco Architects.





*U.S. Channel Checks And Forensic  
Clues Illustrate Why We Believe Its  
Expansion Is Failing*

# Oat Milk: A Low Tech Food Product

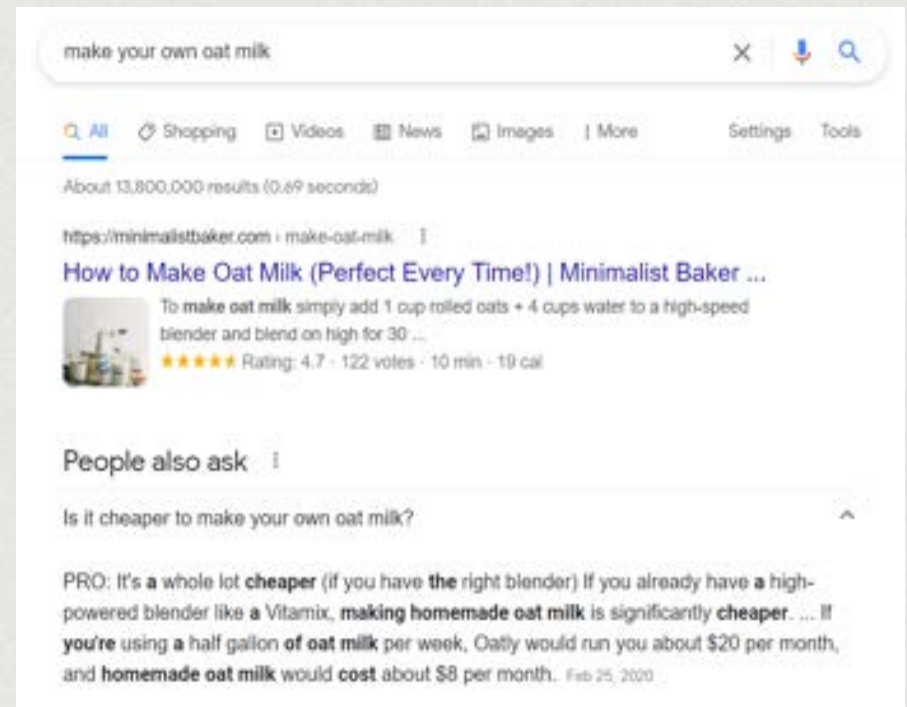


**Warning:** Unlike traditional cow's milk that is costly to make and requires pasteurization, oat milk can be made at home with two simple ingredients (oats and water) at a lower cost than purchasing product at retail. There are plenty (13.8 million to be exact) websites that will provide instructions on how to make it according to Google. We should expect that a low-tech food product to become more competitive over time.

## To Make Milk, You Need A Cow



## To Make Oat Milk, You Need Oats and Water!

A screenshot of a Google search results page for the query "make your own oat milk". The search bar at the top shows the query. Below the search bar, there are tabs for "All", "Shopping", "Videos", "News", "Images", and "More". The search results show "About 13,800,000 results (0.69 seconds)". The first result is from "https://minimalistbaker.com - make-oat-milk" with the title "How to Make Oat Milk (Perfect Every Time!) | Minimalist Baker ...". The snippet for this result says: "To make oat milk simply add 1 cup rolled oats + 4 cups water to a high-speed blender and blend on high for 30 ...". Below the snippet, there is a star rating of 4.7, 122 votes, and a time of 10 min. Below the search results, there is a section titled "People also ask" with the question "Is it cheaper to make your own oat milk?". The answer to this question is: "PRO: It's a whole lot cheaper (if you have the right blender) If you already have a high-powered blender like a Vitamix, making homemade oat milk is significantly cheaper. ... If you're using a half gallon of oat milk per week, Oatly would run you about \$20 per month, and homemade oat milk would cost about \$8 per month. Feb 25, 2020".

# Timely Pivot To International Markets And A “Growth Story” To Sell Stock

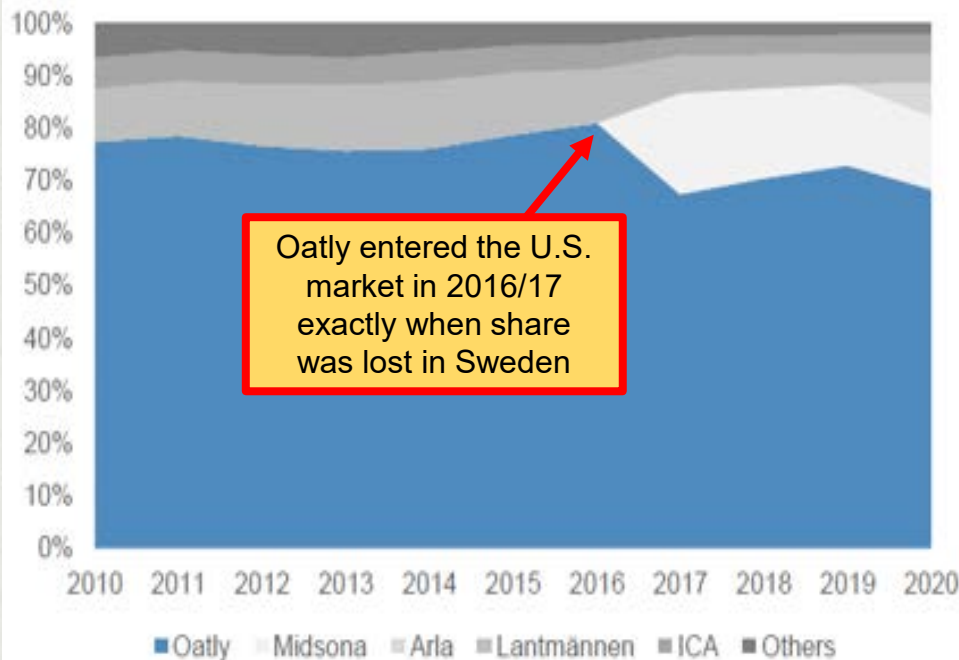
**Warning:** Before getting too excited about the Oatly story, consider what has happened in its home market of Sweden. Oatly’s prospectus says that in Sweden it had 53% market share of sales in total alternative dairy products in 2020, according to Nielsen. However, it doesn’t say much about what its market share was leading up to 2020. According to Euromonitor, another source it cites, Oatly’s share started falling in 2016-2017, at the same time frame it shifted to international expansion into the U.S., China and other European markets. We also observe that Oatly stopped disclosing Swedish market share results in foreign filings after 2016.

## What Oatly Says

*“In our home market of Sweden, Oatly products had a 53% market share of sales in the total alternative dairy products non-milk based category as of 2020, according to Nielsen. The success achieved in our home market, in terms of brand awareness and new product development, has become a clear “north star” for future international expansion.”*

Source: [Oatly IPO prospectus](#)

Sweden: Oatly’s Share vs. Alternative Milks Over Time



Oatly entered the U.S. market in 2016/17 exactly when share was lost in Sweden

Oatly Stopped Disclosing Market Share In Foreign Filings

### Significant events during the financial year

2015 was yet another strong year for the company. Sales have developed well with good sales growth in the Company’s main markets of Sweden, Finland, Germany and the UK. In total, sales for the year amounted to SEK 363 million, which is equivalent to a growth of 35%. In Sweden, Oatly operates the Non-Dairy category, which grew by 28% in 2015. Growth for the company’s brand during the same period was 42% and market share in December 2015 was 42%.

### Significant events during the financial year

2016 was once again a strong year for Oatly. Sales developed well, with good turnover in the majority of the company’s main markets. Developments in Finland and the Netherlands were exceptionally good, while sales growth in the UK was hampered by the weak pound. Sales in the UK rose by 14% compared to 2015, however, volume growth was 26%. In total sales for the year were approximately SEK 475 m which corresponds to growth of 31%. In Sweden, Oatly leads the Non-Dairy category, which grew by 21% in 2016, a lower growth rate than the previous year (28%). Growth for the company’s brand was 27% during the same period. Market share increased and reached 44% in December 2016.

Source: [2015](#) and [2016](#) report

# Oatly Claims It's Not A Brand, But It Is Obsessed With The Word



**Warning:** Oatly's prospectus mentions the word "brand" two hundred and thirteen times (213), which we believe emphasizes the importance of Oatly's brand to its success in the hypercompetitive food industry. In a 2019 interview, Oatly's founder and Board member Bjorn Oste talked about the irrelevance of the brand. Also Chief Mind Control Officer John Schoolcraft said in a 2018 presentation that Oatly isn't interested in building a brand, but rather a cult.<sup>(1)</sup>

Oatly  
Founder  
Bjorn Oste  
Interview

*"In the historically commoditized dairy category, **we have created a brand phenomenon** that speaks to emerging consumer priorities of sustainability, trust and health. Our integrated in-house team of creative, communications and customer relations experts reach consumers in a way that is honest and human. Across many kinds of media, we create thought-provoking, conversation-sparking content to engage people around our mission and **drive awareness for the brand**. Our company values are communicated not only in the things we say, but also in the things we do—like putting carbon impact labels on our packaging and launching public campaigns to inspire policy change. **The voice, actions, products and values represented by the Oatly brand drive our commercial success and mission.**"*

*"When you launch something new you have to have a very compelling product and a story behind it. **It's so much about story telling. Any segment today in the food industry and its going through premiumization.** You don't just buy Heinz baked beans anymore. You buy the cool dude from Texas with the really cool story of his Grandma and he resigned from his seven-digit paid gig as a lawyer in a fancy law firm. It's about authenticity and back to the roots."*

*"I see this in a micro form with my 15 year old daughter, with her tribe and how they share on Whatsapp or whatever app they use. They share pictures all the time. What pictures do they share? It's all about building their own personal brands. I'm here with a cool dude. They wouldn't share pictures of hanging out with their dad in the back yard. That doesn't build their brand in that community. We're all becoming our own individual brands in some sense... And I hate to use the word brand there... **Consumers don't want brands, they don't care about brands.** They care about something else, values, stories, and messages, right? **Just so happens you can a message around a brand. But at the end of the day, who cares about brands"***

Source: [The Pivotal Leader Interview with Oatly Founder Bjorn Oste](#), April 3, 2019

1) John Schoolcraft's Keynote at PING Festival 2018: Building a cult to change the world ([YouTube](#))

# Oat Milk Is The Latest Trend, But We Believe Pea Milk Is The Next One Ready To Take Share...

**Warning:** While oat milk is trying to gain share amongst established plant-based milks such as soy and almond, we believe capital is already flowing into the next hot plant trend: peas. Ripple Foods was an early mover, and is backed by Goldman Sachs, and other deep-pocketed investors laying the groundwork for its global expansion. NotCo is backed by Jeff Bezos, the world's richest man. In addition, Nestle just last month launched its Wunda pea brand in Europe. In addition, other start-ups are quickly sprouting.

Today's  
Choices

SOY MILK

ALOMOND MILK

OAT MILK

Today And  
The Future  
Choices:  
Pea Milk

**Nestlé's Wunda<sup>(1)</sup>**  
(Europe)



**Ripple<sup>(2,3)</sup>**  
(North America, Asia)



**Sproud<sup>(4)</sup>**  
(Europe)



**Vly<sup>(5)</sup>**  
(Europe)



**NotCo<sup>(6)</sup>**  
(US)



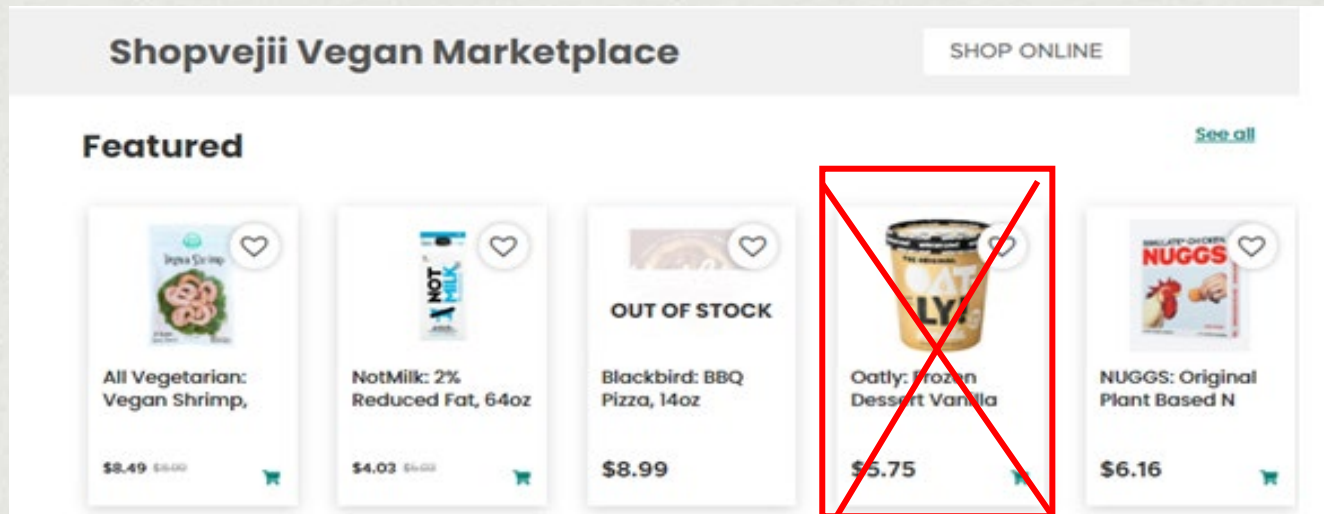
Sources:

- 1) "Nestlé's new pea-based milk alternative is epic in everything", May 2021, [Nestle PR](#)
- 2) "Goldman Sachs Invests in Pea Milk Startup Ripple Foods", Feb 2018, [WholeFoods Magazine](#)
- 3) "Hong Kong's Multizen Holdings Invests in Ripple Foods, Laying the Groundwork for Pea-Based Dairy to Enter Asia", July 2020, [Vegconomist](#)
- 4) "Swedish 'Zebra' Pea Milk Startup Sproud Bags US\$6.5M As Investment Pours Into Alt Dairy", Jan 2021, [GreenQueen](#)
- 5) "Vly Raises €6.1M For Yellow Pea-Based Milk That 'Matches Cow's Milk for Nutrients, Taste & Functionality'", May 2021, [Vegconomist](#)
- 6) "Bezos backed NotCo Launches NotMilk in the United States at Whole Foods Market Stores", Nov 2020, [NotCo PR](#)

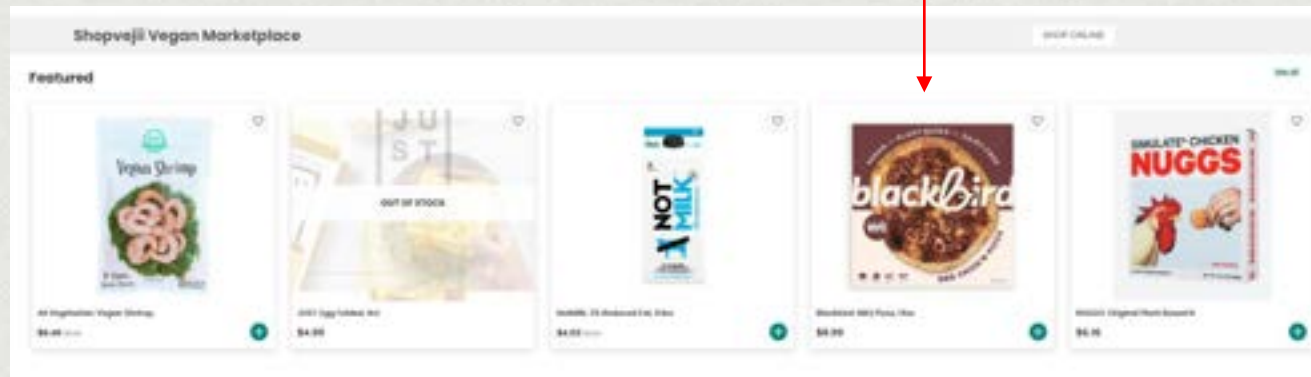
# Pea Milk Leader NotMilk Already Promoting On The Largest Vegan Platform

**Warning:** Specialized plant-based vegan food platforms are popping up. We believe an early leader in the space is ShopVeji. Brands are competing to promote their products. We find that NotMilk is positioning itself prominently on the website. Oatly's vegan ice cream was recently bumped from the top five "featured" products on the homepage.

July 1st



July 8th



# Oatly Has Made No Effort To Target Kids



According to the USDA, milk consumption is highest among children, especially in the ages of 2 and 12. Yet, Oatly doesn't appear to have much of a targeted sales or marketing effort to this demographic. If their goal is to change consumer behavior and in favor of oat milk and dominate the category, Spruce Point believes it would be wise to persuade parents and children that non-dairy milks are better alternatives.

Oatly Focusing  
On Generation  
Z and  
Millennials

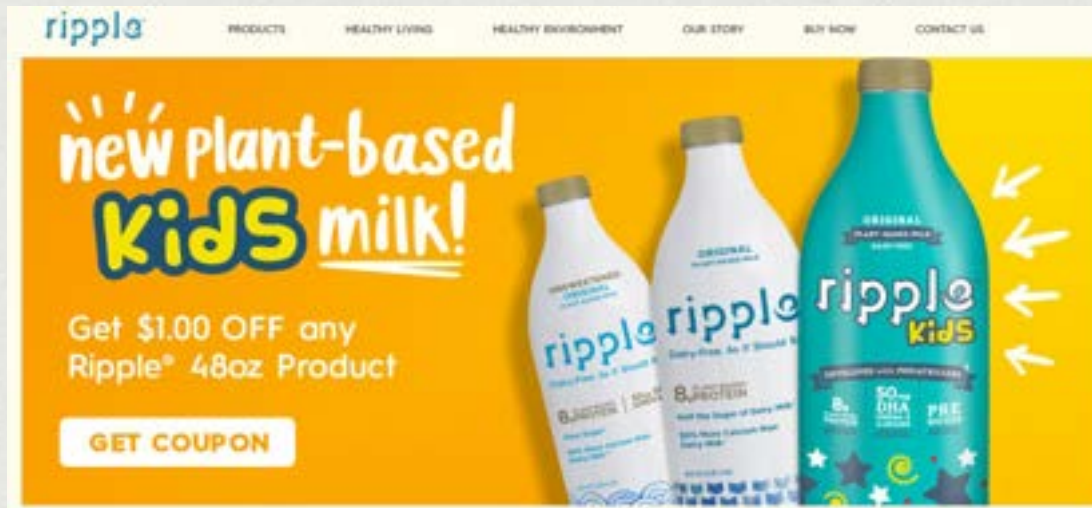
*"In parallel, change is rocking the consumer landscape, as the growing concerns for the environment and interest in health and nutrition have started to drive real, scaled behavioral changes around consumer purchase choices. **Generation Z and Millennials will become the dominant global generations in the coming years, bringing to the market a new set of values and expectations.**"*

Oatly Names  
Ripple As A  
Competitor

*"Our competitors include traditional consumer packaged goods companies such as PepsiCo, Coca-Cola, and Chobani, traditional dairy companies, such as Nestlé, Danone, Lactalis, Fonterra HP Hood, Arla Foods and Valio, plant-based dairy companies, such as Blue Diamond Growers, Califia Farms, **Ripple Foods**, and Ecotone, new market entrants building lab-based products and private-label brands."*

Ripple's  
Products Are  
"Pea" Based  
And Not Oat  
Based

Ripple Is  
Targeting Kids



Source: [Ripple Foods](https://www.ripplefoods.com/)

# Diseconomies of Scale: U.S. Growth Story Has Intensifying Problems

**Warning:** Oatly's prospectus doesn't provide any color on the Management Discussion & Analysis (MD&A) about segment performance. Upon analyzing recent trends in the Americas segment, one of its fastest revenue growing areas, we find that its EBITDA margin contracted materially in Q1 2020 to -46.8%. With 65% year-over-year revenue growth in Q1, margins contracted by 21.7%. Oatly owes investors a precise explanation of why its margins fell so materially.

## Oatly's Americas (Majority U.S.) Segment Reporting






















| \$ millions                              | 2019            | 2020            | Q0 2020        | Q1 2021         |
|--|-----------------|-----------------|----------------|-----------------|
| Revenue from External Customers          | \$39.1          | \$100.0         | \$20.3         | \$33.5          |
| Intersegment Revenue                     | --              | \$0.2           | --             | \$0.03          |
| Total Segment Revenue                    | \$39.1          | \$100.2         | \$20.3         | \$33.6          |
| % YoY growth                             | --              | 56%             |                | 66%             |
| <b>Segment EBITDA</b>                    | <b>(\$13.7)</b> | <b>(\$25.1)</b> | <b>(\$4.3)</b> | <b>(\$15.6)</b> |
| % Margin                                 | -34.9%          | -25.1%          | -21.2%         | <b>-46.8%</b>   |
| Non-current (Long-Term) Assets           | \$52.7          | \$142.6         | NA             | NA              |
| <b>Segment EBITDA / Long-Term Assets</b> | <b>-26.0%</b>   | <b>-17.5%</b>   | NA             | NA              |

Source: Oatly [Prospectus](#), Segment Information, p. 85

## Dear Oatly: Be Honest, What's Your Edge?



Investors are high on oat milk if they truly believe Oatly stands a long-term chance of maintaining a competitive edge in a category that Spruce Point believes is becoming rapidly saturated. New brands are introducing new flavor varieties, and many are at lower cost. Mass merchants such as Target, and deep discounters such as Aldi, already have house brands. We believe Oatly stands little chance of maintaining its historical growth rate and ASPs will invariably contract.

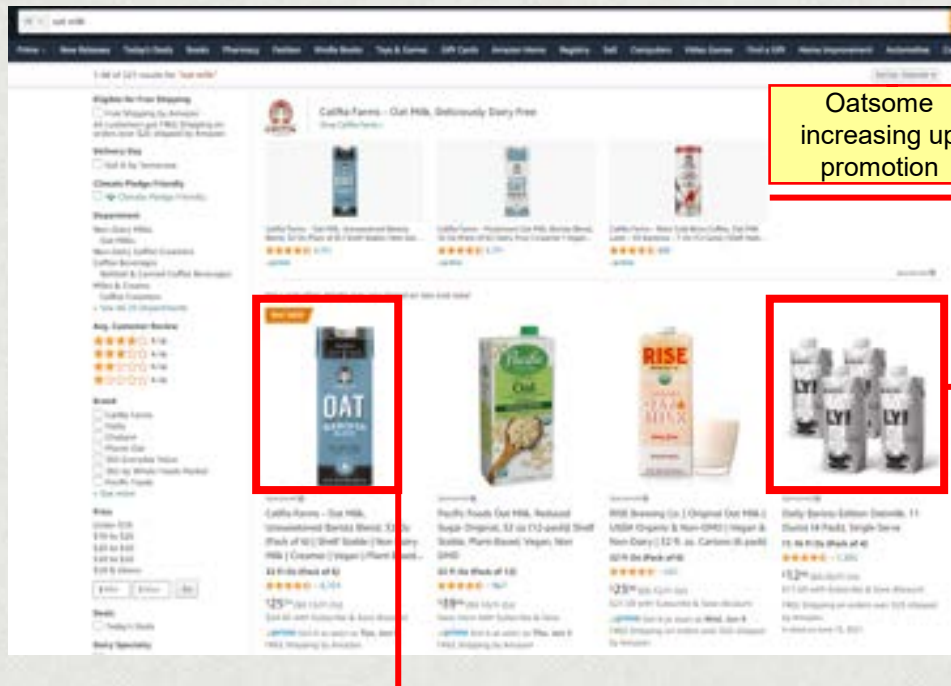
| Quaker Oats (Pepsi)   | Chobani Oat   | Nesquik   | Califia Farms   | Rise Brewing  | Koita   | Willas Kitchen  |
|---|---|---|---|---|---|---|
|     |    |    |   |    |    |    |
| Simply Oat (Coca-Cola)  | Nutty-Life  | Silk Oat Milk (Danone)  | Kroger's Simple Truth   | Planet Oat  | Elmhurst  | Oatsome Better Body Foods   |
|    |   |   |  |   |   |   |
| Pacific Foods Oat Milk  | Dream Oat   | Minor Figures Oat Milk Barista  | Trader Joe's Friendly Farms   | Target Good & Gather  | Wegman's  | Malk Organic Oat Milk   |
|  |  |  |  |  |  |  |

# Oatly At Amazon



Amazon, the most dominant retailer in the world, lists Califia Farms Oat Milk as its “Best Seller”. We believe Oatly has a poor product placement on the website and is being pushed farther down on search results according to our recent tracking. We observe that Oatly’s price per fluid ounce is \$0.30 cents, or 3x Pacific Oat milk.

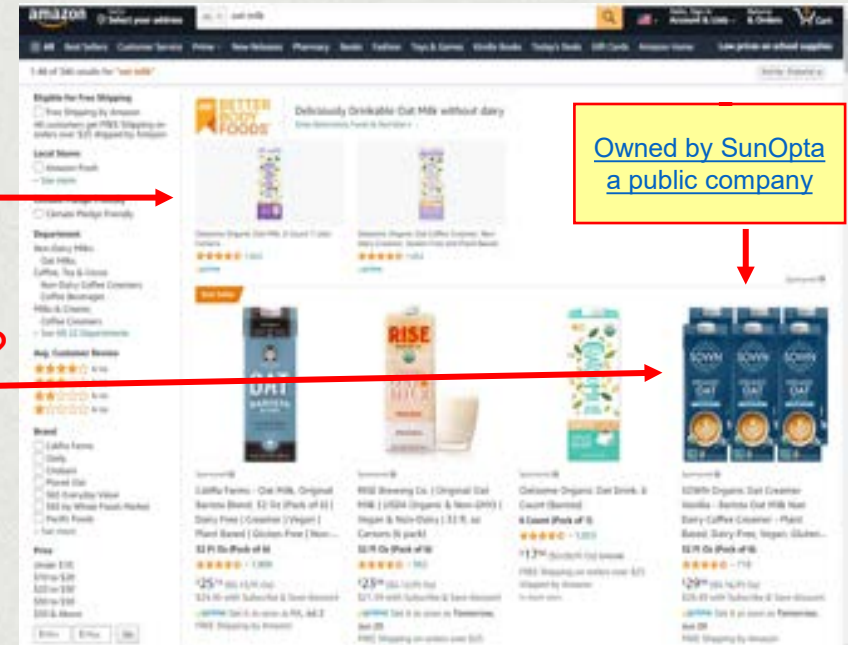
## (Early June 2021) Amazon Search For “Oat Milk”



**Oatsome increasing up promotion**

??

## (Late June 2021) Amazon Search For “Oat Milk”



[Owned by SunOpta a public company](#)

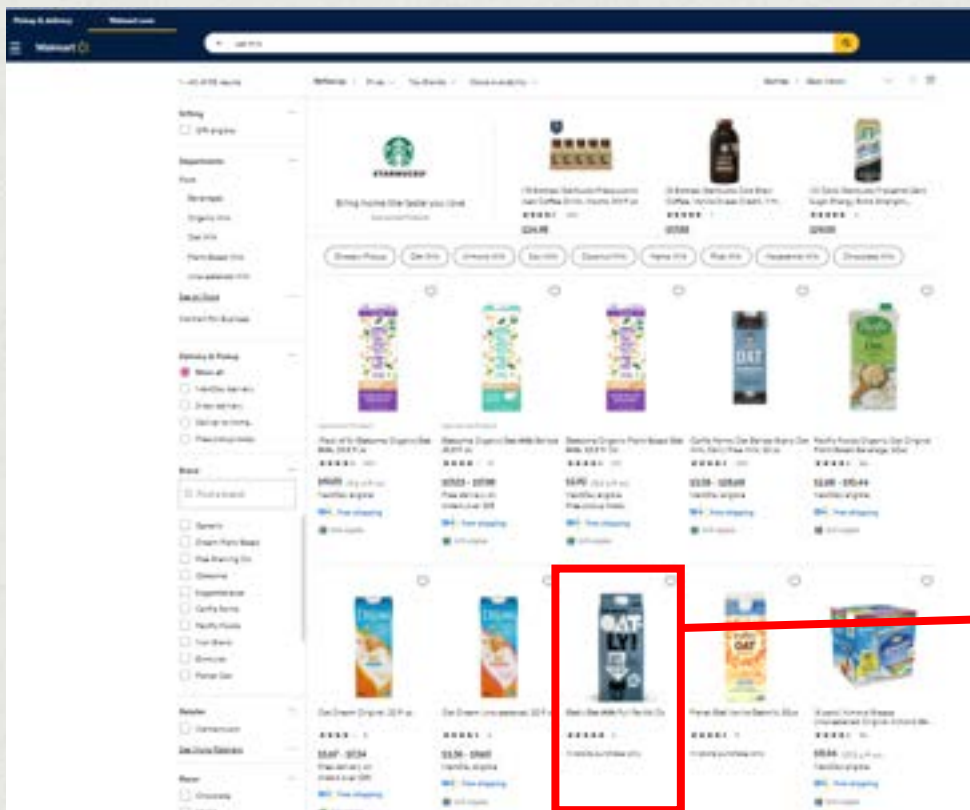
We believe “Best Seller” Califia Farms Will Win The Oat Milk battle, having a broader plant-based product portfolio, and sovereign wealth fund backers with deep pockets

# Oatly Is Disadvantaged At Walmart, The Largest Food Retailer In America

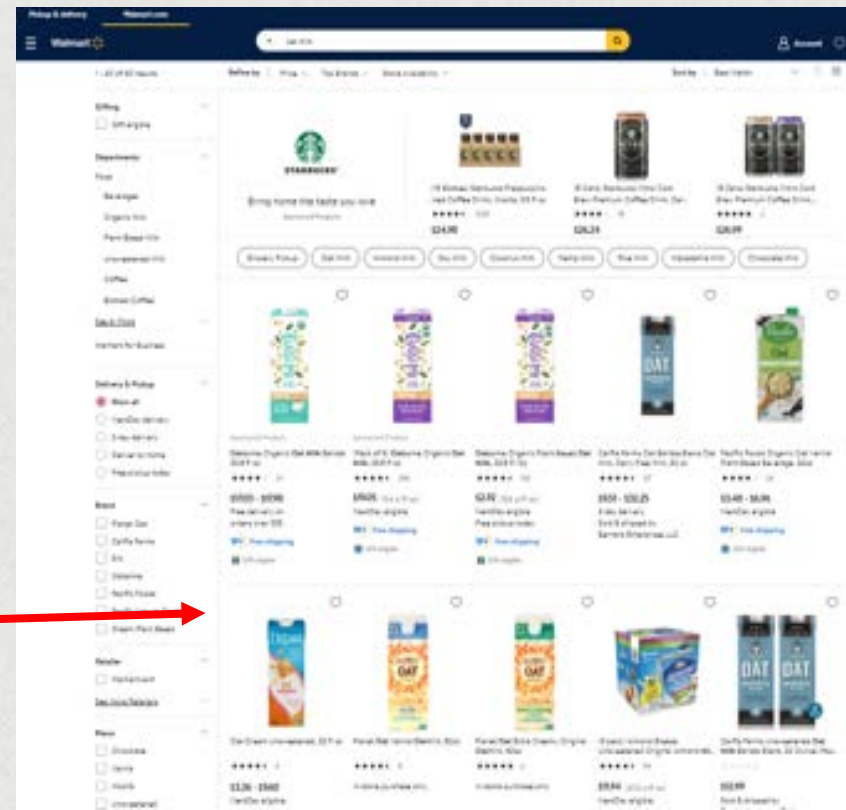


Walmart is the largest food retailer in America by sales. A review of its oat milk offering online illustrate the disadvantages faced by Oatly. In early June 2021, Walmart only offered Oatly online while other brands are offered with free shipping. However, by early July, Oatly no longer is being featured and is being sold and shipped by a third party.<sup>(1)</sup>

## (Early June 2021) Walmart Search For “Oat Milk”



## (Early July 2021) Walmart Search For “Oat Milk”



Source: Walmart and Spruce Point Research

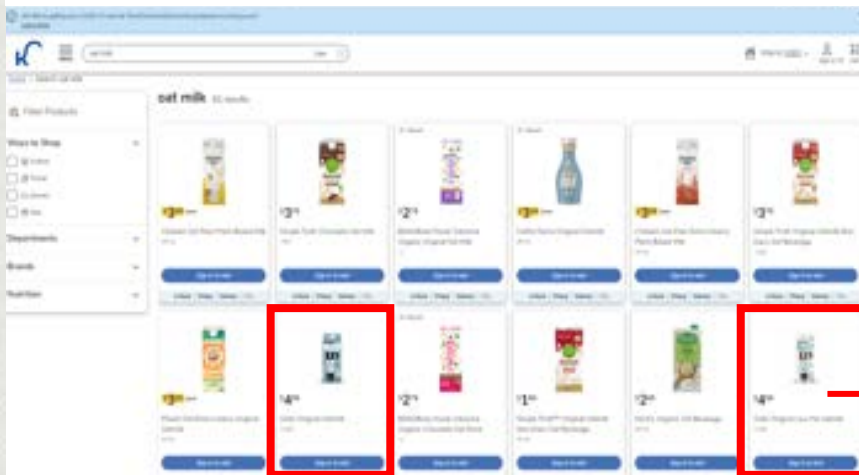
Notice there's no free shipping unlike almost every other product and no price!

# Oatly's Price Was Just Cut At Kroger While Silk Entered At The Low End

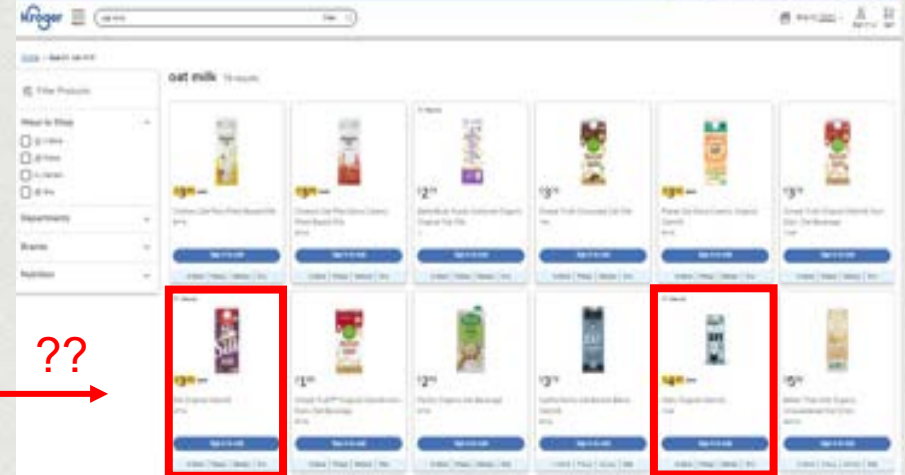


Kroger is the second largest food retailer in America by sales. A review of their oat milk offering online illustrate the disadvantages faces by Oatly. Oatly's price was cut by \$0.50. In addition, we find that it lost a SKU among the top 12 offerings. Silk increased its promotion and is the low-cost leader.

(Early June 2021) Kroger Search For "Oat Milk"



(Late June 2021) Kroger Search For "Oat Milk"

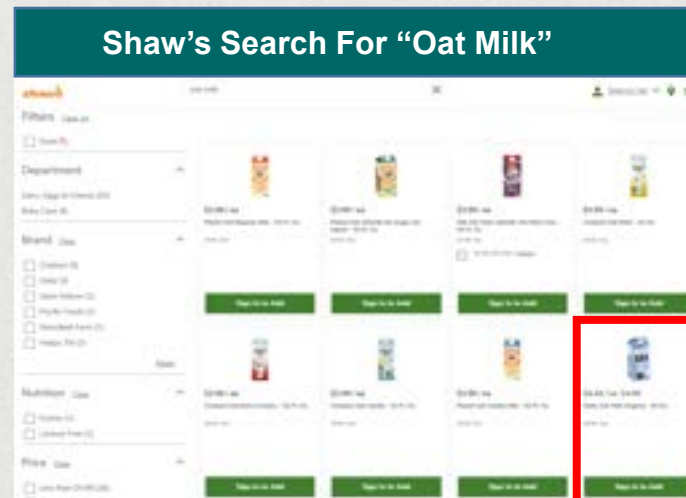
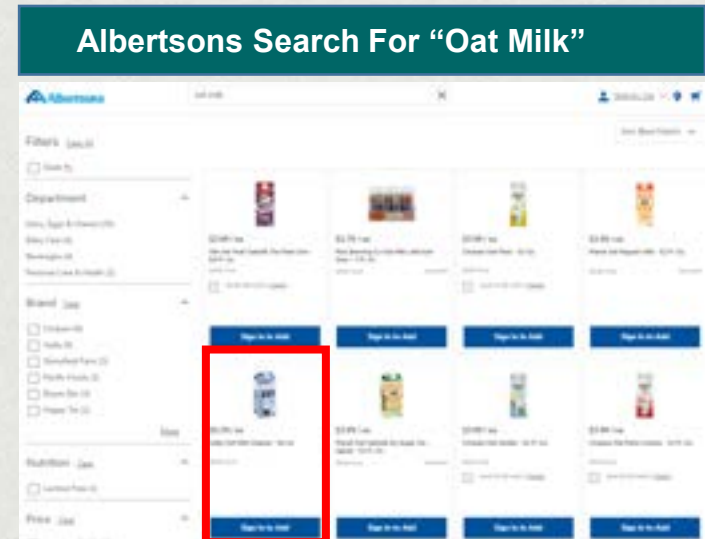
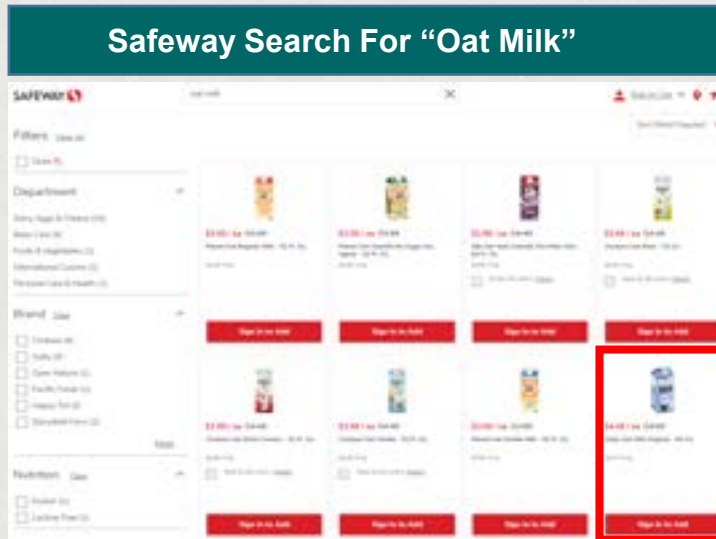


Price Comparison At Kroger

|              | Better Body Oatsome | Oatly                        | Chobani Oat | Califia Farms | Planet Oat | Simple Truth | Rise Brewing | Oat Silk |
|--------------|---------------------|------------------------------|-------------|---------------|------------|--------------|--------------|----------|
| Per ½ Gallon | \$5.28              | \$4.49<br>(down from \$4.99) | \$4.91      | \$4.65        | \$3.79     | \$3.79       | \$3.69       | \$3.49   |

# Oatly At Albertsons, The 3<sup>rd</sup> Largest Food Retailer In The U.S.

Albertsons is the third largest supermarket in the U.S. operating under various regional brands such as Shaw's, Von's and Safeway. A search for "oat milk" and "most popular" consistently returns Silk, Chobani and Planet Oat ahead of Oatly.

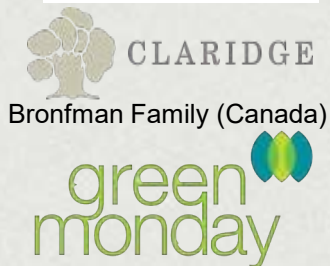


Oatly is the  
only brand  
being offered  
on discount

# We Believe Califia Farms Will Win The Oat Milk Wars

We believe Oatly's grand ambitions to grow in the U.S. are being challenged by Califia Farms, a California plant-based food manufacturer. Califia has a broader line of almond and coconut milks on the shelf and has also expanded into oat milk. Califia was earlier than Oatly to align itself with high profile celebrity product endorsers and has raised more capital earlier from a deeper bench of sovereign wealth and institutional investors. Califia is anchored by the Qatar Investment Authority, Singapore's Temasek, and the wealthy Bronfman family in Canada. Oatly's decision to partner with Blackstone drew significant media backlash from astute observers that questioned Blackstone's commitment to environmental sustainability.<sup>(1)</sup> In addition, we expect Impossible Foods, also backed by Temasek, Bill Gates, Google Ventures, and a roster of celebrities (including Jay-Z) to enter the non-dairy milk market.

## Califia Farms



## Oatly



Verlinvest (Belgium)  
and  
China Resources



Leo  
49M Instagram  
Followers

Oprah  
20M Instagram  
Followers

<sup>1)</sup> "Califia Farms Raises \$50M From Leo DiCaprio, Jared Leto, Others" ([July 2018](#))  
"Califia Farms Raises \$225M From Qatar, Singapore Temasek, Others" ([Jan 2020](#))

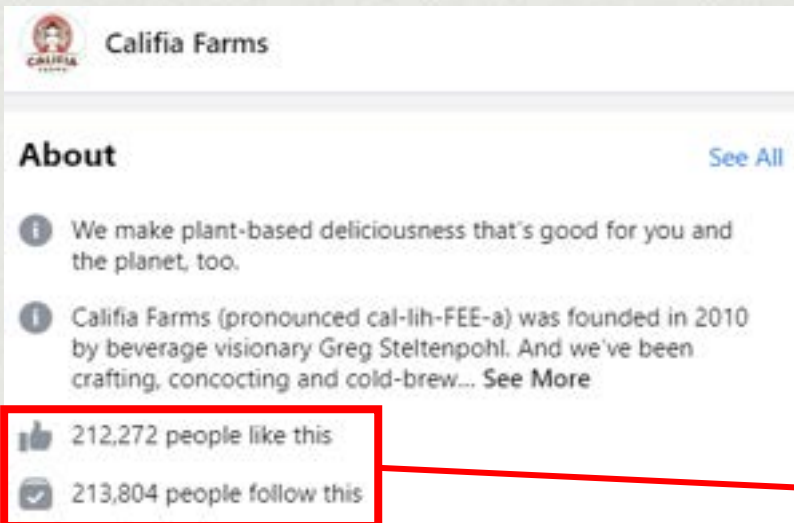
"Oat milk maker Oatly raises \$200 million from Oprah, Howard Schultz, Jay-Z, Blackstone" ([July 2020](#))  
"Oatly raises ~\$1.0bn in IPO, with \$839m to deploy after debt paydown" ([Prospectus](#))

<sup>1)</sup> "Activists sour on Oatly vegan milk after stake sold to Trump-linked Blackstone", [The Guardian](#)

# Oatly vs. Califia Social Media Presence

We believe brand identity is a critical success factor in the food space. There's already evidence prices are deflating, and the long run winner must be able to connect and market to the broadest audience possible. Califia Farms was founded in 2010 and has a nearly identically sized social media following to Oatly, which was founded over 27 years ago.

## Califia Farms



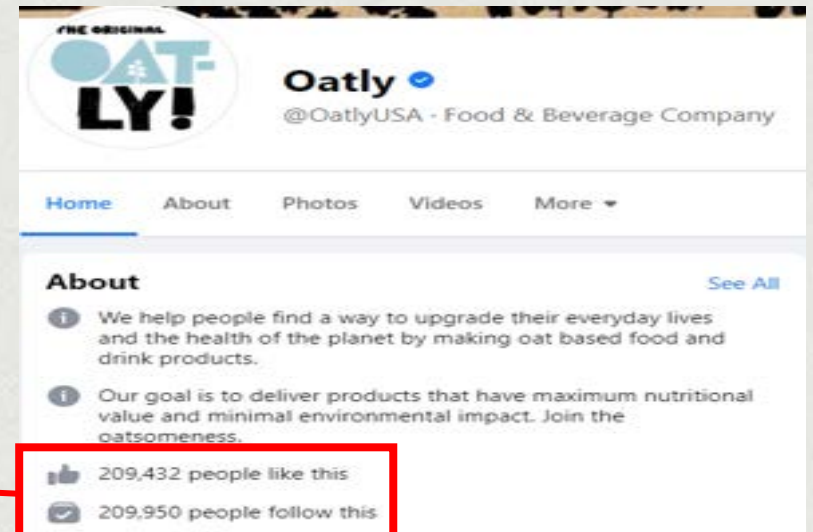
**About** [See All](#)

- We make plant-based deliciousness that's good for you and the planet, too.
- Califia Farms (pronounced cal-ih-FEE-a) was founded in 2010 by beverage visionary Greg Steltenpohl. And we've been crafting, concocting and cold-brew... [See More](#)

212,272 people like this

213,804 people follow this

## Oatly



**About** [See All](#)

- We help people find a way to upgrade their everyday lives and the health of the planet by making oat based food and drink products.
- Our goal is to deliver products that have maximum nutritional value and minimal environmental impact. Join the oatsomeness.

209,432 people like this

209,950 people follow this

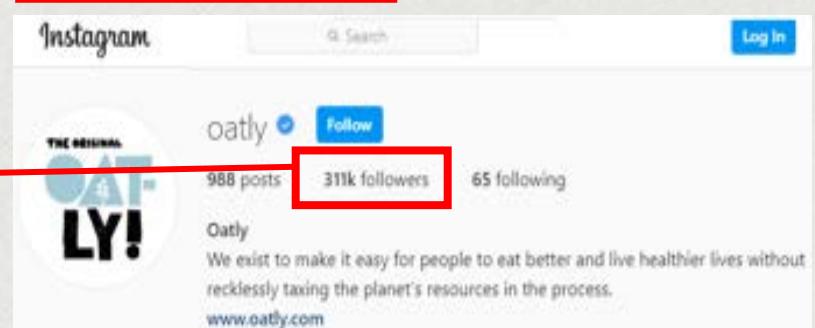


**Instagram** [Search](#)

**califiafarms** [Follow](#)

3,154 posts **302k followers** 1,735 following

Califia Farms  
Milking 🌱 plants 🌱 for all they've got.  
Making a dairy-free kitchen 🍷 and coffee bar ☕ a delight for all.  
[clicklinkin.bio/califiafarms](https://clicklinkin.bio/califiafarms)



**Instagram** [Search](#) [Log In](#)

**oatly** [Follow](#)

988 posts **311k followers** 65 following

Oatly  
We exist to make it easy for people to eat better and live healthier lives without recklessly taxing the planet's resources in the process.  
[www.oatly.com](https://www.oatly.com)

## Califia Farms Is Price Promoting To Gain Share



We find evidence that Califia Farms is aggressively price promoting its new Oat Milk as incentives to gain share. We believe it's only a matter of time before Oatly is faced with the reality it too will need to lower prices in order to stimulate growth and protect market share.



Source: ShopRite supermarkets



Source: Walmart's Every Day Low Price

# Oatly Is Having Stocking Issues, And Competitors Are Taking Advantage

Oatly would like investors to believe that demand is so strong that it's sold out, but Spruce Point believes that it is having issues producing adequate supply in the U.S. In fact, Oatly has suffered from production challenges in Europe too. Our retail and distributor checks confirm this issue. One wholesaler said it is bringing in competitive products to fill the product gap. Competitors are not stopping price discounting promotions even while Oatly can't be purchased.



Source: Target channel check mid and late June 2021



**"We are currently experiencing a minor shortage of Oatly, but we should be fine in a couple of weeks. Pricing would not change from your first order; it generally says the same price. We also have other great oat milks such as Califia Oat, Chobani Oat, Pacific Oat, and Chobani Oat. Pricing for these other brands vary between \$1 - \$2 dollars more or less."**

Source: Spruce Point distributor check, Northeast

**"Our stock of Oatly has been unreliable and unstable lately. We have been experiencing frequent shortages. It's currently out of stock again, and it may be out of stock for a few weeks. For this reason, we brought in 3 other brands of Barista oat milk. In terms of popularity, it seems that it's a matter of personal choice and preference, and all three are in good demand. However, I think that coffee shops prefer either Minor Figures or Elmhurst over Pacific."**

Pacific Barista Oat - 12 x 32oz - \$30.00/cs

Minor Figures Organic Barista Oat - 6 x 1L - \$18.00

Elmhurst Barista Oat - 6 x 1L - \$19.50, it's also certified gluten-free

Barista Oatly - 12 x 32oz - \$33.00

The price on Oatly has been stable, but I don't know if and when it is going to change."

Source: Spruce Point distributor check, Pacific Northwest

Poor product placement, out-of-stock and more expensive than Target house brand. In addition, now Silk Oat is promoting 2 for \$5.0

How loyal will customers be if they can't purchase Oatly?

# Ice Cream: Good Luck!



**Warning:** Oatly's expansion into other product categories, notably vegan ice cream, is being tested in a brutally competitive and promotional environment. In addition to established players, there are other new entrants popping up such as Nick's, who like Oatly, is a Swedish vegan food producer. Nick's is offering free online shipping. Brave Robot, a U.S.-based producer, is literally giving away free pints to customers and challenging Oatly with sustainability messaging.<sup>(1)</sup>

## Oatly Ice Cream: No Discounts In A Promotional Space



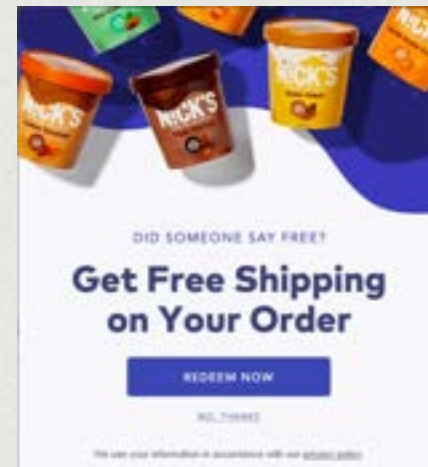
Source: Stop & Shop supermarkets owned by Ahold

## Free Pint Rebate



Source: [Brave Robot](#)

## Free Shipping



Source: [Nick's launched in 2021](#)

1) "Planet Positive Pints: Brave Robot Ice Cream, Made with Perfect Day, to Feature Carbon Footprint on Packaging Nationwide this Summer", [Company PR](#), May 19, 2021,

# Yogurt: Good Luck Too!

**Warning:** Oatly's expansion into other product categories, notably yogurt, is also being tested in a brutally competitive and promotional environment. Chobani already has an oat yogurt on the market **and is increasing price discounting as low as a \$1 at selected locations**. We are now starting to see Oatly engage in promotional behavior too. At Whole Foods and Stop & Shop (owned by Ahold) it is now being offered on sale at 2 for \$3.00 (\$1.50/ea). Stop & Shop which has over 400 locations in the Northeast U.S. is eliminating SKUs.

Chobani Oat Offered 50% Off Next To Oatly



Source: Shoprite

Oatly Bottom Row (Right). Chobani Oat and Silk Increase Discounts



Oatly (Same Location) Now Being Discounted



Source: Stop & Shop (Ahold)  
Mid June 2021

Oatly Now Discounted



Source: Whole Foods



Source: Stop & Shop (Ahold) - Early June 2021 (top) and  
Early July 2021 (bottom)

Yogurt stocker told us that Oatly  
SKUs are being reduced

## Oat Creamer: Good Luck!



**Warning:** If Oatly expects to make new product introductions into adjacent markets, we believe it won't be easy. For example, all key competitors are already marketing oat creamers at supermarkets and online.

### Oatly's Leading Competitors Are Already In The Oat Creamer Market



Source: Planet Oat, Silk, Chobani, Califia Farms, and SunOpta

# Why Just Settle For Oat Milk, When You Can Have A Blended Plant Product?

**Warning:** Competitors such as Good Karma are already marketing “blended” plant-based milks which combine the benefits of oat, pea, and flax. We believe these blended plant milks will add additional competitive pressures to the category. Good Karma spun out of Dean Foods and is offering free shipping to help promote the brand. Laird’s has an oat and macadamia nut milk in powdered form. Oatly has yet to expand into the powdered milk category, but competitors are already staking claim.

**Good Karma’s Plantmilk Blend Combines Oat, Pea, and Flax**

FREE Shipping On All Orders For A Limited Time Only!



Source: [Good Karma](#)

**Laird’s Has A Powdered Milk Now On The Market, Oatly Has Yet To Expand There**

FREE Shipping on all US orders\*  
FOR A LIMITED TIME  
**FREE GIFT WITH \$60 PURCHASE\***



Source: [Laird's Superfood](#)

**Malibu Mylk Has An Oat and Flax Blend Also With Free Shipping**



Source: [Malibu Mylk](#)

# Only A Matter of Time....



**Warning:** Based on public commentary, and patent applications pending, we believe it is only a matter of time until Impossible Foods enters the non-dairy milk category, which we believe will put further competitive pressures on Oatly. Impossible Foods has raised over \$1.5 billion and has a roster of sovereign wealth funds, hedge funds, celebrities, Google Ventures and Bill Gates behind it.<sup>(1,2)</sup>

## Oatly Risk Factor

*"Our competitors also may obtain patents or other similar protected formulas that may hinder our ability to develop new products or enter new categories, which could have a material adverse effect on our growth."*

10-22-20 | WORLD CHANGING IDEAS

## Impossible Foods is branching out from burgers. Next up: Milk

The maker of one of the most popular new meatless burgers is working on a better option for nondairy milk.

There's already almond, oat, cashew, and soy plant-based milks on the market, but soon, there might also be Impossible Milk. The makers of the meatless burger that "bleeds" are working on a plant-based milk that tastes and acts like it comes from a cow.

The company says it already has an Impossible Milk prototype, developed in its lab in Redwood City, California, that has a creamy texture and can be blended into hot beverages without curdling. Replicating dairy without the use of cows is another way Impossible is trying to curb our reliance on animal agriculture, which is the leading cause of deforestation, biodiversity loss, and water and air pollution, and accounts for about 14.5% of global human-caused greenhouse gas emissions.

Source: [Fast Company](#), Oct 22, 2020

- 1) [Wikipedia Financing](#)
- 2) [Company Press Release](#)

## Impossible Foods U.S. Patent Application Talks About Non-Dairy Uses

**[0342]** In one embodiment, dairy milk and milk products such as ice cream, whey, cream, yoghurt, sour cream or butter fat are substituted by a non-dairy cream fraction made as described herein. In one embodiment, a non-dairy cream fraction comes from a single source or multiple sources described herein. In one embodiment, dairy milk and milk products are substituted by any non-dairy milk described herein. In one embodiment, dairy milk and milk products are substituted by purified plant proteins described herein. In one embodiment, dairy milk and milk products are substituted by soft solid stable emulsions made from single or multiple plant oil and single or multiple purified plant proteins.

### 1. Other Applications:

**[0343]** In one embodiment, non-dairy plant cream fraction can be used as a substitute for dairy milk and dairy milk products to make non-dairy milk chocolate bars or non-dairy milk chocolate confectionary.

**[0344]** In one embodiment, non-dairy plant cream fraction and purified plant proteins can be used as substitute for dairy milk and dairy milk products to make non-dairy milk chocolate bars or a non-dairy milk chocolate confectionary.

**[0345]** In one embodiment, non-dairy plant cream fraction and plant proteins can be used to make chocolate mousse. Traditional main chocolate mousse ingredients are bitter-sweet or semisweet chocolate, dairy butter and eggs. In one embodiment, dairy butter can be substituted by a non-dairy plant cream fraction. In one embodiment, dairy butter and eggs can be substituted by a non-dairy plant cream fraction and a foam stabilizing plant seed storage proteins such as pea albumin.

Source: US Patent Application, [Impossible Foods, Inc.](#), "Methods and Compositions For Consumables", Publication Date: Feb 25, 2021



## *Holes In The China Growth Story*

# Oatly Has Made Conflicting Statements About Its China Strategy And Success

Oatly is claiming 2020 sales growth of 450% in China, and substantial ecommerce success with 21% of sales through the channel. However, it doesn't say that it failed earlier in its China ambitions, and that it has made conflicting statements about how it succeeded this time around.

**Fact:** Oatly gained limited traction in China in 2011-2013 under the effort of founder Oste. In addition, its story about how it entered the market in 2018 first through coffee and tea shops is not accurate according to a statement from its China President. While Oatly claims great success through ecommerce in China, in the U.S. it doesn't appear to have nearly the [same traction or success with Amazon](#), which is not a material customer.

Oatly First  
Entered China In  
2011 – 2013  
With Founder  
Oste  
But Doesn't  
Appear To Have  
Had Success



Source: [LinkedIn](#)

| Sales per market<br>Amounts in SEK  | The group<br>2013 | The group<br>2012 | Oatly AB<br>2013 | Oatly AB<br>2012 |
|-------------------------------------|-------------------|-------------------|------------------|------------------|
| Sweden                              | 118 081           | 110 643           | 117 932          | 110 643          |
| The Nordic countries, except Sweden | 35 770            | 26 434            | 35 770           | 26 434           |
| Europe, except the Nordic countries | 68 561            | 61 193            | 58 951           | 58 920           |
| Rest of the world                   | 707               | 669               | 707              | 669              |
| <b>Total</b>                        | <b>223 119</b>    | <b>198 939</b>    | <b>213 360</b>   | <b>196 666</b>   |

Source: 2013 [Companieshouse Report](#)

Oatly's  
Prospectus Says  
China's First  
Focus Was  
Specialty Shops

***"In 2018, we entered China, focusing again on penetrating specialty coffee and tea shops and quickly generating a powerful brand resonance with consumers. We have since used premier foodservice partnerships to rapidly expand across the broader Asian region and facilitate market education for consuming plant-based milks as alternatives to dairy products, particularly with coffee and tea."***

Source: [Oatly IPO prospectus](#), p. 5

Its President Says  
Something  
Different,  
Supermarkets

***"Zhang Chun, who was in charge of introducing Oatly into China, recalled with emotion that when it entered the Chinese market in 2018, Oatly first entered Ole, a high-end boutique supermarket owned by China Resources, but "basically no one was interested in it."***

Source: "Enter more than 10000 coffee shops, or consider building factories in China! We had a chat with the top management of Oatly milk", [China Food Press](#), Sept 27, 2020

# China Growth... Not So Fast

**Warning:** There is evidence of exaggerated claims made regarding Oatly's China business. Its Asian president made a statement in China during September 2020 that mainland China had more than 10,000 cafes. However, SEC filings indicate that China foodservice (coffee and tea shops) were closer to 8,000 – 8,200 locations.

Quote From  
Oatly Asia  
President  
10,000 cafes  
in China

*"With the establishment of boutique coffee shop, oatly even won a "big customer" in China this year: Starbucks, the world's largest coffee chain. **According to Zhang Chun, OATLY (President of Oatly Asia), including Starbucks, has entered more than 10 thousand cafes in mainland China.** At present, among the channels developed by oatly, catering accounts for a large part of sales, and there are also retail, e-commerce and special channel."*

Source: "Enter more than 10000 coffee shops, or consider building factories in China! We had a chat with the top management of Oatly milk", [China Food Press](#), Sept 27, 2020

Oatly's  
Statement In  
SEC Filings

*"Our growth in China demonstrates the effectiveness of this expansion strategy. We successfully entered the Chinese market in 2018 **through the specialty coffee and tea channel, which we have since scaled to over 8,000 doors at the end of 2020.** As a result of the consumer excitement we built around the Oatly brand with this launch, we were able to rapidly scale our regional presence through a strategic e-commerce partnership with Alibaba and an exclusive branded partnership with Starbucks in China, with over 4,700 locations in China exclusive to us as of December 31, 2020. Within approximately two years of entering the Chinese market, we had over **9,500 foodservice and retail points of sale** in total with a growth rate of over 450% as of December 31, 2020."*

*"We believe the Asia region, with a primary focus on China, represents one of our largest near term opportunities. In China, **following our foodservice-led strategy executed in the specialty coffee and tea channel, as of December 31, 2020, we had more than 8,200 points of sale in the channel, including an exclusive branded Starbucks partnership with 4,700 locations in China exclusive to us and partnerships with other renowned shops** such as Manner, Tim Hortons, Peet's, Costa and HEYTEA. We are further expanding our footprint in the foodservice channel and increasing our food retail presence in China."*

Source: Oatly [F-1 Registration Statement](#), p. 2 and p. 13-14

# *We Believe The China Growth Story Is Behind Schedule*



Spruce Point sent an investigator to check on Oatly's Maanshan China operations. Oatly claims it will be in production by the second half of 2021. However, based on our evidence it has materially fallen behind stated production plans in Utah and New Jersey, we were skeptical of Oatly's claims. What we found was a facility that we believe is unlikely to be operational soon. On the ground color suggests that the facility is owned by [Jincadi](#), a Maashan specialty food producer that made soy milk, and also ventured into oat milk but failed.

Oatly China  
Per  
Prospectus

*"We recently began production at our facility in Ogden, Utah, and we expect to begin production at a new facility in Singapore in the first half of 2021 **and at a facility in Maanshan, China in the second half of 2021.**"*

## Oatly Maanshan Production Facility – Mid June 2021

Production Facility Looks Barely Started



Sign Reads  
"Oatly Project Training"



Outside View of Production Facility –  
Former Failed Oat Milk Producer



# Consumers Complain of Dated Products

Oatly talks of its great success in China in its prospectus, but behind the scenes, we believe its struggled to supply the market. In its 2019 Sustainability report, it said, “See, normally we try to send everything to Asia by boat. But we had quality issues at our production site in Landskrona that resulted in production delays. So, to make up the time, 7% of the 2019 volume to Asia had to be transported by flight.”<sup>(1)</sup> However, from recent product China reviews, it doesn’t appear that Oatly has fixed the problem. There are a multitude of customers complaining about old product that was produced months ago and shipped damaged.

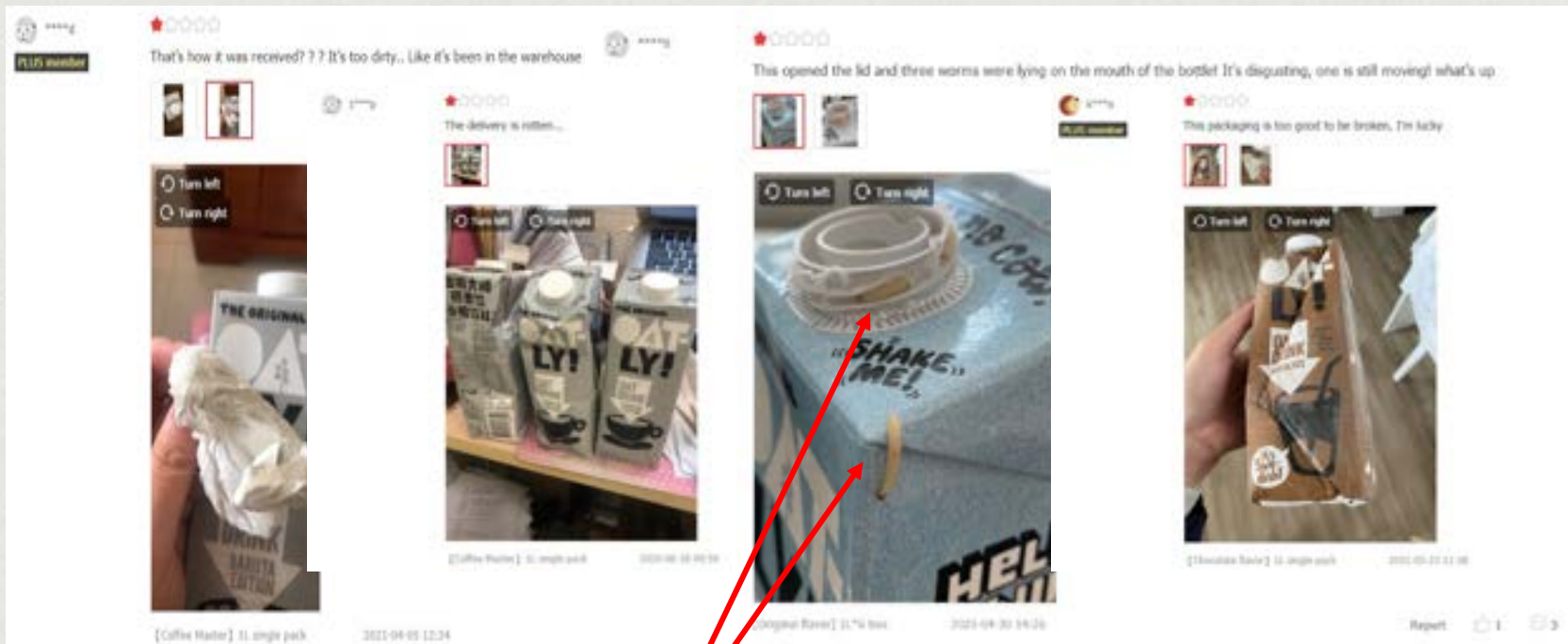


Source: [JD.com](https://jd.com)

1) [2019 Sustainability Report](#)

# Plenty of Damaged Products Complaints

Beyond freshness, packaging and cleanliness of the product appears to be the second biggest complaint. One of the more disturbing complaints identified worms within the seal of the mouth. While Oatly talks about wanting to develop its own start to finish production and packaging network, it might be too late to repair the damage done to consumers.



# Dominant Player Enters China Market



Vitasoy is a globally recognized player in plant-based drinks, with a strong presence in Asia and China. It has nearly a billion dollars of sales and strong profitability. The Company recently announced it would launch a new Oat drink.

## INNOVATION

Exciting new products to sustain core categories growth

### VITA OAT



### VITA LEMON TEA SPARKLING



维他奶



Vitasoy  
Your Soy Experience

23



## *R&D Upside Stripped Away And Extreme Valuation And Downside Risk*

# We Successfully Bet Against Oatly's Most Bullish Analyst In The Past

Oatly's average analyst price target is \$30.82 per share, but Truist (Formerly SunTrust Robinson Humphrey) has a Street high \$35/share price target. Its most bullish analyst is William B. Chappell, Jr. We have a history of calling out this analyst's overly promotional and bullish stock calls related to Boulder Brands (Nasdaq: BDBD), another food fad "growth" story.<sup>(1)</sup> Boulder ultimately took a significant goodwill impairment charge in [Q3'2014](#) and guided results significantly below estimates by finally admitting headwinds in its spreads business and margin pressures. **In June 2015, the [CEO resigned](#), and Boulder was acquired for \$11/share, or 52% below Chappell's price target.**

## Chappell Ups Boulder Price Target To \$23/share – May 2014

Conviction upgrade to \$23/sh



**Cracking Open a Profit Machine: Upgrading to Buy with \$23 Price Target**

**What's New:** We are raising our rating on BDBD from Neutral to Buy and our 12-month price target from \$15 to \$23. In our opinion, BDBD will continue to post solid top-line growth over the next few years due to (1) continued expansion of the gluten-free trend, (2) portfolio expansion into tangential categories and (3) the eventual stabilization of the Smart Balance franchise. However, we believe the primary driver of the stock will be margin expansion with the potential to increase EBITDA by +50% and more than double EPS over the next few years.

**Growth Story Still in the Hazy Stages:** In our opinion, the company can easily achieve its goal of 15-20% growth for its Natural segment (50% of total sales) over the next few years. This growth will be led by: (1) continued consumer awareness of gluten-free, (2) expanded household penetration of BDBD's Udi's and Glutino brands, and (3) SKU proliferation into the frozen-food section through its Udi's and EVOLO brands. Furthermore, if the company is able to simply stabilize the legacy Smart Balance brand, with the help of new non-GMO offerings, the growth of the Natural segment will no longer be overshadowed, and therefore more apparent to investors.

**...But the Margin Potential is What Gets Us Really Excited:** While continued growth is certainly essential for BDBD's success, we believe the real key to the story is margin potential as a result of operational improvements and manufacturing efficiencies. Recall, this past November the company hired COO Jim Langston, who brings an extensive background of CPG companies. He not only identified more efficient manufacturing processes and new machinery, but also, actually laid out gross margin targets for each business. Based on these targets, we estimate that the company can nearly double EBITDA and nearly triple EPS in the next 2-3 years.

**Cracking Up Over Egg Whites:** Last Thursday, BDBD reported weak 1Q results and lowered 2014 guidance, sending the shares 18% lower. The primary culprit behind the resubguidance was spiking egg white prices, a key ingredient for gluten-free bakery products. In fact, higher egg white prices are expected to penalize 2014 EPS by \$0.12 or 26% of our 2014 EPS forecast. We are comfortable that the company has taken the necessary steps to mitigate further damage to 2014. Looking forward, we see the

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**Equity Research**

## Chappell Street High Price Target On Oatly

|                   |                        |              |    |
|-------------------|------------------------|--------------|----|
| Truist Securities | William B Chappell ... | ♦ buy        | 35 |
| Jefferies         | Rob Dickerson          | ♦ buy        | 34 |
| Barclays          | Andrew Lazar           | ♦ overweight | 34 |

Source: Bloomberg

## Boulder Acquired for \$11/sh – Nov 2015

PARSIPPANY, N.J. and BOULDER, Colo., Nov. 24, 2015 /PRNewswire/-  
- Pinnacle Foods Inc. and Boulder Brands, Inc. today announced that they have entered into a definitive agreement for the acquisition of Boulder Brands by Pinnacle Foods, in a strategic, synergy-rich transaction that expands Pinnacle's presence in growing and complementary health and wellness categories. The transaction also expands Pinnacle's presence in the natural and organic retail channel and provides Pinnacle with a new growth platform in refrigerated foods.

Under the terms of the agreement, Pinnacle Foods intends to launch a tender offer to acquire all of the outstanding shares of Boulder Brands for \$11.00 per share, in a transaction valued at approximately \$975 million, including approximately \$265 million of net debt. The transaction is subject to customary closing conditions and is expected to be completed in the first quarter of 2016. Pinnacle expects the transaction to be accretive to EPS beginning in 2016.

Source: [Pinnacle Foods acquired Boulder Brands](#)

<sup>1)</sup> Ben Axler co-authored a report with Prescience Point calling out the accounting strains and pressures observed in Boulder's reporting, [Feb 2013](#), [Mar 2013](#)

# Oat Milk: A Fad That Even People Associated With Oatly Realize Will Likely Fizzle; R&D Upside Stripped From Oatly Shareholders



**Warning:** Spruce Point believes that Oatly knows that the oat product life cycle will eventually mature and decline like many food product lifecycles. Unfortunately, Oatly spends very little on R&D – just 1.5% of sales in 2020 – to foster new product development. According to Oatly founder, its “mothership” of innovation was stripped out into a separate entity called Aventure AB. Aventure is developing and promoting Quinoa milk in Latin America as its next bet on plant milk. Unfortunately, if the product does in fact take off, Oatly investors won’t own it. Oatly investors should be concerned that founder Oste, who is also on the Board, is working to develop competitive products to Oatly.

Former  
Oatly  
Employee  
Interview

*“But I think the big plan at Oatly is that they know that the cycle of life of this product is not forever. That happened with soy and almonds. So they are ready now. They have a product after oat, and that is Quinoa. The same owners of Oatly have a company in Bolivia with production of quinoa and the company is named Quiny.”*

Oatly  
Founder  
Bjorn Oste  
Interview

*“In 2008 we bought out the R&D unit and took it out of the company and created a new innovation vehicle called Aventure AB. Aventure AB is a play on words (Avena in Latin is oats + ventures). In there it was our own company and the two of us own it and created an environment to go bananas, to keep creating stuff. When people ask me who do I work for, well the answer is a lot of companies. The core of everything, the mothership is Aventure where we create and innovate.”*

Source: [The Pivotal Leader Interview with Oatly Founder Bjorn Oste](#), April 3, 2019

aventure



Source: Adventure AB [website](#)



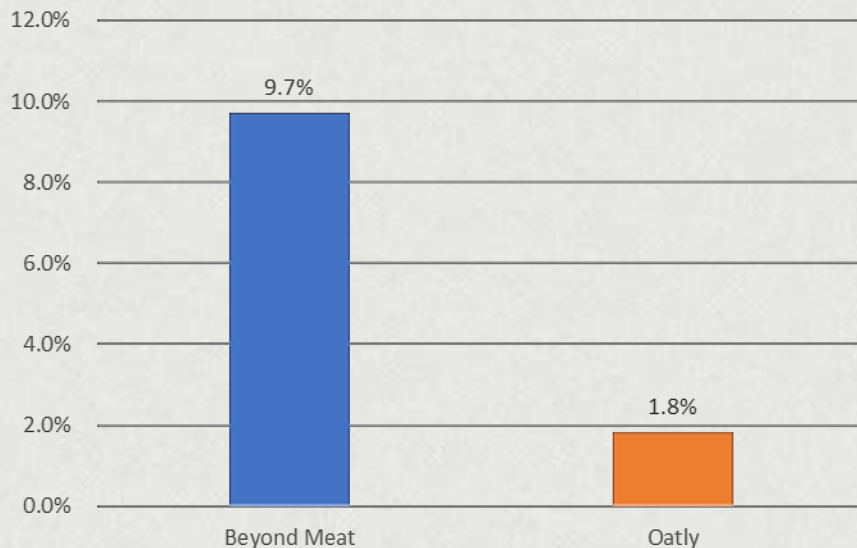
Source: “Oatly Developers To Launch Vegan Quinoa Milk”, [Vegnews](#), Nov 2019

Food technology company Swebol Biotech recently filed a patent for new vegan milk alternative Quiny. The company—which was founded in 2015 by Adventure AB, the business developer behind vegan brand Oatly—is comprised of a team of researchers from Bolivia and Sweden that developed vegan milk from royal white quinoa that is ethically sourced from the Andes in Bolivia. The unsweetened beverage will be available as a ready-to-drink milk or powder in regular and chocolate flavors. “Our background is with oats and Oatly, and we strongly believe we can do it again with this unique collaboration, Quiny,” Swebol CEO Olof Böök told Foodnavigator-USA. “It’s well known that the quality of quinoa grown in Bolivia is one of the best in the world, so we use the best quality raw material combined with the knowledge we had to make liquid oats.”

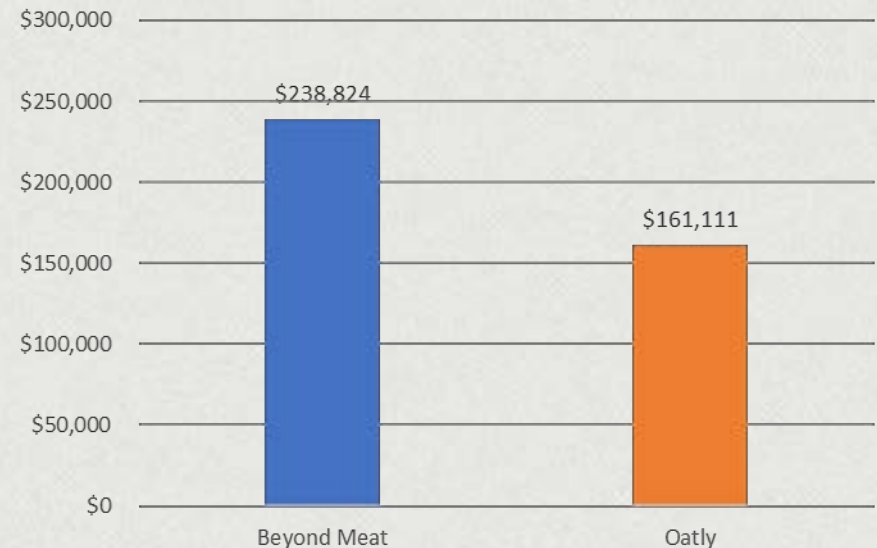
# Underinvesting In R&D Relative To Leading Plant-Based Food Companies

Spruce Point finds Oatly's research and development spending as a percentage of sales is materially lower than its high growth, high multiple plant-based food peer Beyond Meat. To put Oatly's \$9m of annual R&D spending into perspective, Danone, which has a big plant-based food business spends over EUR 300m annually. Danone doesn't disclose how much of that is plant-based foods but booked over EUR 3.1 billion in essential dairy and plant-based revenues in Q1 2021.

**R&D Expense as % of Sales**



**R&D Expense per R&D Employee**



Note: Based on LTM financials  
Source: Company financials

# Oatly Promotes Product Expansion Potential, But We Find Evidence of Recent Product Failures

**Warning:** Oatly's prospectus says one of its "Growth Strategies" is to "Extend Product Offerings through Innovation". However, we believe the evidence shows that Oatly has experienced more recent product failures than successes. Using the Wayback Machine, we see recent product failures in breakfast and energy drinks. Oatly also stopped disclosing sales from new products after 2018.

Oatly's  
Claim From  
The IPO  
Prospectus

*"We believe past success of our new product introductions as well as our consumer brand loyalty will drive the successful launch of new products."*

Last  
Disclosed  
Sales From  
New  
Products In  
2018

A new range of chilled natural oat drinks was launched in 2018, including the varieties of Lätt (skinny), Mellan (semi), Mellan Eko (semi organic) and Deluxe. During the year, the Group launched two new flavours in the ice-cream range (Double Chocolate Fudge and Oatly Salty Caramel & Hazelnut), two new flavours in the Ready To Go category (Caffe Latte and Mocha Latte) and two new flavours in the sandwich spread range (PåMackan Vitlök/gurka (garlic and cucumber) and Tomat Basilika (tomato basil)). Total sales of new products (products launched during that last 36 months) accounted for approximately 17% of annual net sales in the Havre Global Group.

Source: 2018 [Companieshouse Report](#)

## Oatly Talks About A Robust Product Portfolio Fueling Growth

## Many Undisclosed Product Failures: Breakfast Drinks, Energy Drinks, Ice Cream on Stick



Source: [Investor Presentation](#) June 2021, slide 8



Source: Wayback Machine ([2016](#)) and ([2018](#))



We believe investors are ascribing an irrationally high valuation to Oatly. Per the Company's own trusted data source of Euromonitor, the plant-based dairy market in its key regions is expected to be \$21 billion by 2025. However, Oatly's current valuation is almost \$12 billion, or 62% of the projected market. Based on our current observations of the competitive dynamics, it would seem unlikely to us that Oatly ever captures such a high percentage of the market.

## Plant-Based Dairy Market Relative To Oatly's Valuation

| \$ in billions                     | 2020          | 2025E         |
|------------------------------------|---------------|---------------|
| Asia                               | \$8.0         | \$8.0         |
| U.S.                               | \$5.0         | \$7.0         |
| EMEA                               | \$4.0         | \$6.0         |
| <b>Total Market</b>                | <b>\$17.0</b> | <b>\$21.0</b> |
| Oatly Current Enterprise Valuation | \$12.0        | \$12.0        |
| <b>% Valuation of Total Market</b> | <b>71%</b>    | <b>57%</b>    |

Source: Euromonitor per Oatly [F-1 Registration Statement](#), pp 97 - 98

Note: Asia is ex: soy in China and expected to "increase moderately" by 2025

# Instructive To Look At WhiteWave Foods As A Valuation Data Point

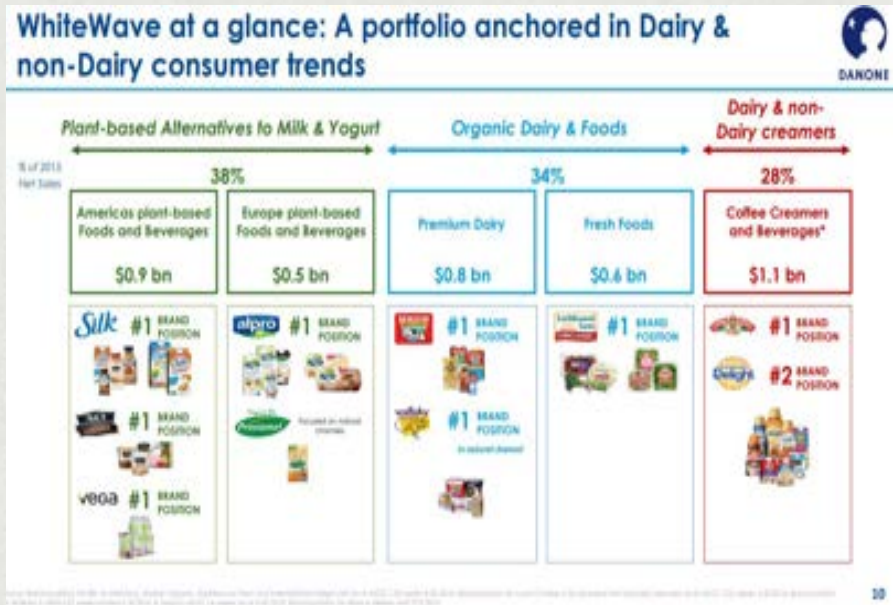
To put into perspective how inflated Oatly's current \$13 billion value currently is, we believe investors should look at what Danone paid to enter the market through its acquisition of WhiteWave Foods (NYSE: WWAV) for \$12.7 billion. WWAV currently has a strong position in plant-based dairy, yogurt and creamers through its leading brand Silk™. WWAV had EBITDA margins (post synergies) over 20%, high single digit growth, and strong free cash flow when it was acquired at just 2.7x 2017E sales in April 2017. We believe that even if Oatly could grow into a multibillion dollar a year in sales company, by that time its sales growth rate and multiple would compress, leaving it with substantial downside to the current price.

## WhiteWave Foods Deal Valuation From Management Projections. Announced July 2016

| \$ in mm                                     | 2016E        | 2017E        | 2018E        |
|--|--------------|--------------|--------------|
| Revenue                                      | \$4,346      | \$4,723      | \$5,101      |
| % growth                                     | 12.4%        | 8.7%         | 8.0%         |
| Gross Margin                                 | \$1,453      | --           | --           |
| % margin                                     | 34.6%        | --           | --           |
| Adjusted EBITDA                              | \$596        | \$703        | \$808        |
| % margin                                     | 13.7%        | 14.9%        | 15.8%        |
| Adjusted EBITDA (w/ \$300m annual synergies) | \$896        | \$1,003      | \$1,108      |
| % margin                                     | 20.6%        | 21.2%        | 21.7%        |
| <b>EV / Revenue</b>                          | <b>2.9x</b>  | <b>2.7x</b>  | <b>2.5x</b>  |
| <b>EV / Gross Profit</b>                     | <b>8.6x</b>  | <b>--</b>    | <b>--</b>    |
| <b>EV / Adj EBITDA (w/synergies)</b>         | <b>14.0x</b> | <b>12.5x</b> | <b>11.3x</b> |

Source: [WhiteWave Fairness Opinion](#)

## WhiteWave Foods Leading Brands In Plant-Based Alternatives And Organic Dairy



Source: [WhiteWave / Danone Deal Presentation](#)

## *Beyond Absurd: Instructive To Look At Beyond Meat To Gauge Level of Froth In Oatly Shares*



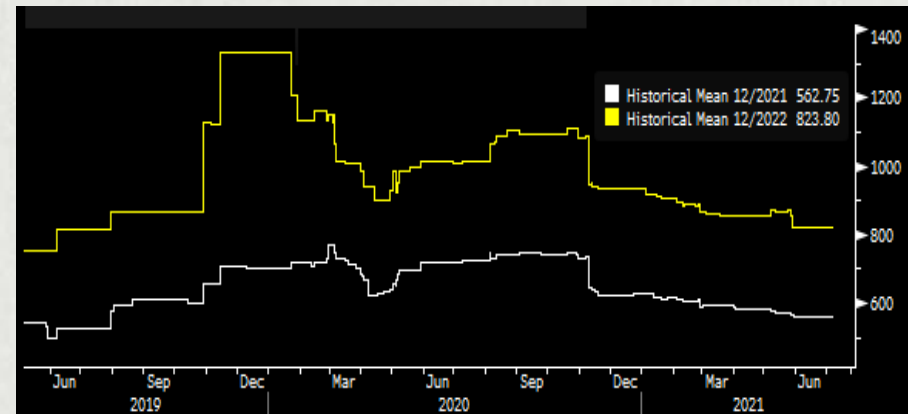
We believe investors should look to Beyond Meat (Nasdaq: BYND) as an instructive example of how to value Oatly. Shortly after its IPO and chorus of “Strong Buy” recommendations, its 2021 – 2022 revenue expectations and multiple expanded. However, over time, revenue expectations are being tempered and its multiple is compressing. On average, BYND has traded at average one and two year forward multiples of 17x and 11x, respectively. However, BYND has significantly better gross margins that are more than 500bps higher than OTLY’s. At the current time, Oatly is trading at 17x and 9.5x 2021/2022E sales. We believe there is significant room for Oatly’s multiple to compress below BYND’s.

### Beyond Meat’s Historical EV / Projected Sales Valuation

Median EV / Curr Yr Sales: 17x  
Median EV / Next Yr Sales: 11x



### Beyond Meat’s Sales Expectations For 2021 and 2022 Were Initially Too High And Have Continued To Come Down



# Extreme Relative Valuation

Wall Street reports on Oatly conspicuously fail to include other dairy comps, and even plant-based milk producers such as Vitasoy and SunOpta, when trying to value Oatly. Is it because they command lower multiples? Oatly trades at an astronomical 17x and 75x 2021E sales and adjusted gross margin. We believe it is at high risk of missing lofty street estimates due to delays in plant expansion in the U.S., and evidence of share loss.

\$ in millions, except per share figures

| Name (Ticker)                        | Stock Price<br>7/14/2021 | Adj Ent.<br>Value | 2021E<br>Gross<br>Margin | 2021E<br>OCF<br>Margin | 2021E<br>EBITDA<br>Margin | Sales Growth |              | EV / Sales   |             | EV / Gross Profit |              |
|--------------------------------------|--------------------------|-------------------|--------------------------|------------------------|---------------------------|--------------|--------------|--------------|-------------|-------------------|--------------|
|                                      |                          |                   |                          |                        |                           | '20E-'21E    | '21E-'22E    | 2021E        | 2022E       | 2021E             | 2022E        |
| Danone (BN FP)                       | \$70.08                  | \$63,052          | 48.1%                    | 11.9%                  | 18.5%                     | 18.7%        | 3.1%         | 2.2x         | 2.2x        | 4.7x              | 4.5x         |
| Saputo (SP CN)                       | \$29.27                  | \$15,118          | 29.8%                    | 8.7%                   | 10.8%                     | 11.8%        | 2.4%         | 1.2x         | 1.2x        | 4.2x              | 4.0x         |
| Beyond Meat (BYND)                   | \$136.28                 | \$8,594           | 28.2%                    | -7.5%                  | -2.4%                     | 38.0%        | 46.7%        | 15.3x        | 10.4x       | 54.3x             | 37.1x        |
| Nomad Foods (NOMD)                   | \$28.00                  | \$6,398           | 29.9%                    | 13.8%                  | 18.6%                     | 23.8%        | 4.9%         | 2.1x         | 2.0x        | 6.9x              | 6.5x         |
| Hain Celestial (HAIN)                | \$39.16                  | \$4,276           | 26.0%                    | 15.2%                  | 13.1%                     | -6.4%        | 1.6%         | 2.2x         | 2.2x        | 8.2x              | 7.7x         |
| Vitasoy (HK 345)                     | \$3.28                   | \$3,495           | 52.6%                    | 16.6%                  | 14.7%                     | 7.6%         | 11.0%        | 3.4x         | 3.0x        | 6.3x              | 5.7x         |
| Simply Good Foods (SMPL)             | \$36.79                  | \$4,001           | 40.6%                    | 13.1%                  | 20.2%                     | 22.9%        | 8.2%         | 3.9x         | 3.6x        | 9.6x              | 8.8x         |
| Bellring Brands (BRBR)               | \$31.43                  | \$4,141           | 31.7%                    | 10.2%                  | 18.4%                     | 18.1%        | 9.8%         | 3.4x         | 3.1x        | 10.7x             | 9.5x         |
| The Tattooed Chef (TTCF)             | \$20.60                  | \$1,459           | 24.1%                    | NA                     | 1.4%                      | 61.3%        | 34.9%        | 6.1x         | 4.5x        | 25.3x             | 18.7x        |
| SunOpta (STKL)                       | \$11.27                  | \$1,283           | 14.8%                    | 7.1%                   | 8.5%                      | 6.2%         | 8.7%         | 1.5x         | 1.4x        | 10.3x             | 9.1x         |
| Vital Farms (VITL)                   | \$18.77                  | \$715             | 25.2%                    | NA                     | 3.3%                      | 17.4%        | 25.6%        | 2.8x         | 2.3x        | 11.3x             | 8.9x         |
| Whole Earth Brands (FREE)            | \$12.83                  | \$876             | 34.4%                    | -0.4%                  | 16.7%                     | 82.4%        | 9.7%         | 1.7x         | 1.6x        | 5.1x              | 4.5x         |
| Laird's Superfood (LSF)              | \$28.72                  | \$195             | 29.0%                    | -38.1%                 | -30.3%                    | 76.9%        | 57.4%        | 4.2x         | 2.7x        | 14.6x             | 7.0x         |
| Lifeway Foods (LWAY)                 | \$6.07                   | \$90              | 27.3%                    | 7.5%                   | 10.0%                     | 5.0%         | 5.0%         | 0.8x         | 0.8x        | 3.1x              | 2.9x         |
| <b>Max</b>                           |                          |                   | 52.6%                    | 16.6%                  | 20.2%                     | 82.4%        | 57.4%        | 15.3x        | 10.4x       | 54.3x             | 37.1x        |
| <b>Average</b>                       |                          |                   | 31.6%                    | 4.8%                   | 8.7%                      | 27.4%        | 16.4%        | 3.6x         | 2.9x        | 12.5x             | 9.6x         |
| <b>Min</b>                           |                          |                   | 14.8%                    | -38.1%                 | -30.3%                    | -6.4%        | 1.6%         | 0.8x         | 0.8x        | 3.1x              | 2.9x         |
| <b>Oatly (OTLY)</b>                  | <b>\$21.13</b>           | <b>\$11,663</b>   | <b>29.5%</b>             | <b>-14.0%</b>          | <b>-19.6%</b>             | <b>61.8%</b> | <b>82.7%</b> | <b>17.1x</b> | <b>9.4x</b> | <b>58.0x</b>      | <b>26.2x</b> |
| <b>Spruce Pt Gross Pft. Adjusted</b> | <b>\$21.13</b>           | <b>\$11,663</b>   | <b>23.0%</b>             | <b>-14.0%</b>          | <b>-19.6%</b>             | <b>61.8%</b> | <b>82.7%</b> | <b>17.1x</b> | <b>9.4x</b> | <b>74.4x</b>      | <b>31.4x</b> |

# Spruce Point Estimates 30% – 70% Downside


We arrive at our price targets by normalizing Oatly's stratospheric sales multiple and adjusting its Gross Profit to conform with industry peers.

\$ in millions, except per share amounts

| Valuation Method   | Low Price  | High Price   | Note  |
|--|--|--|---|
| <b><u>Multiple of Revenues</u></b><br>2021E Revenues<br><b>Enterprise Value</b><br>Less: Debt<br>Plus: Cash and Securities<br><b>Equity Value</b><br>Diluted Shares<br><b>Price Target</b><br>% Downside   | <b>10x</b><br>\$648<br><b>\$6,475</b><br>(\$85)<br>\$927<br><b>\$7,317</b><br>592<br><b>\$12.36/sh</b><br><b>-42%</b>                                    | <b>12x</b><br>\$661<br><b>\$7,934</b><br>(\$85)<br>\$927<br><b>\$8,776</b><br>592<br><b>\$14.82/sh</b><br><b>-30%</b>                                    | Based on our U.S. channel checks at physical and online retail and distributor levels, we believe Oatly is facing continued challenges supplying the market, and the competition is capitalizing on Oatly's dysfunction by seizing share. We believe Oatly will also face difficult comps in China and fall behind its timeline in fully opening its Maanshan facility. Our sales estimate is 3-5% below consensus. We believe Oatly's multiple will compress below BYND's once investors see its gross margin is 500bps less |
| <b><u>Multiple of Gross Profit</u></b><br>2021E Gross Margin<br><u>Less: Shipping and logistics costs</u><br><b>Adjusted Gross Margin</b><br><u>Gross Margin</u><br><b>Enterprise Value</b><br>Less: Debt<br>Plus: Cash and Securities<br><b>Equity Value</b><br>Diluted Shares<br><b>Price Target</b><br>% Downside | <b>20.0x</b><br>29.5%<br>-6.5%<br><b>23.0%</b><br>\$149<br><b>\$2,978</b><br>(\$85)<br>\$927<br><b>\$3,821</b><br>592<br><b>\$6.45/sh</b><br><b>-70%</b> | <b>30.0x</b><br>29.5%<br>-6.5%<br><b>23.0%</b><br>\$152<br><b>\$4,562</b><br>(\$85)<br>\$927<br><b>\$5,404</b><br>592<br><b>\$9.13/sh</b><br><b>-57%</b> | After sales, Oatly's only other positive financial metric is gross profit. However, we believe it overstates its results by excluding costly shipping and logistics expenses. We have detailed why the Company has made poor production facility locations. The average 2021E EV/GP for high growth plant-based food peers of BYND, TTCF, and LSF is ~30x, but OTLY's adjusted gross margin is the lowest of all. TTCF trades at 25x  |

Note: Downside based on \$23.40/share

# Schooling The Market On Impossible Economics: Famous Last Words Before Oatly's Stock Price May One Day Goes To Zero.....



**Warning:** If in fact Oatly is right and that it will never be able to supply enough oat milk, then we believe its future will be doomed. We expect competitors will continue to fill the void and take market share. In the long run, we see a real possibility that Oatly is squeezed out of the market and towards insolvency.

John Schoolcraft:  
Oatly's Creative  
Director of Mind  
Control

*"How do you measure success? The answer is right here. We launched in the US and within 9 months there was a national oat milk shortage. It's cool but not cool because you want to supply that. **We've come to realize we'll never be able to make enough oat milk.** The demand is more great than the supply. **It doesn't matter how fast we build our factories, because we're building them as fast as we can.** And that's a cool way to measure success."*



**WE WILL NEVER  
BE ABLE TO MAKE  
ENOUGH OAT MILK**

John Schoolcraft of Oatly on How to Crack Consumer Marketing Without a Marketing Team