

# Ependion

Sector: Technology

## Softer Q4, but structural growth remains in the medium to long-term

Redeye updates its estimates after Ependion's Q4 2023 report, which was slightly weaker than our estimates on the sales side, which then carried on to the EBIT margin, impacting it negatively. Although 2023 has been a good year sales-and margin-wise, question marks remain regarding the general industrial economy and its impact in the near-future. On the other hand, the structural growth stays intact and Ependion is well-positioned in the medium-to long-term.

### A soft Q4 with muted near-term demand – strong backlog as a cushion

Ependion's Q4 2023 was weaker than we expected. Sales and EBIT amounted to SEK590m and SEK61.5m, translating into a growth rate of 0% y/y (organic was negative) and a margin of 10.4%. Redeye's estimates were SEK632m (more or less in line with Q3 2023 and implying a growth rate of 7% y/y) and SEK91m (14% margin), and thus sales were 7% lower than expected, while the EBIT was 30% lower than our estimate (this clearly highlights that the operating leverage goes both ways). The share price has reacted negatively by -15% after the report, and we believe it is a mix of Beijer Electronics and Westermo's order intakes (and perhaps Westermo's upward-moving sales trend breaking). The order intake amounted to SEK478m, down by 21% y/y in Q4 2023. On the other hand, Ependion's order backlog is strong at SEK1247m.

### Investments continue in unabated pace – setting up robust growth over time

Nonetheless, 2023 has been a rather good year for Ependion and all the structural growth drivers remain. The group is also investing for the future, both in terms of product development, like the new X3 series that is set to be launched in late 2024, but also through geographical presence. India and Denmark were highlighted in the report for Westermo.

### Some adjustments to the estimates – uncertainty when the curves are turning

Although trends like digitization and the green transition continue to serve as strong growth drivers in the medium to long-term, uncertainty regarding the general industrial economy has emerged (and higher interest rates have impacted some projects). Thus, we lower our near-term sales (2024-2026) to be somewhat more conservative, which also impacts the margins due to the volume drop. On the other hand, we know that Ependion has demonstrated good profitability with larger sales volumes, and thus we boost the medium-term margin profile slightly to mirror this. The net effect is close to zero. It is important to know that single years have limited impact on the valuation, and it is rather the longer-term earnings power that really matters. We reiterate our fair value range of SEK65-190, with a base case of SEK130.

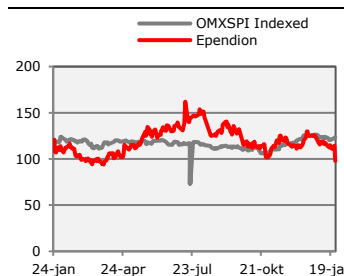
Ependion - near-term forecasts											Share price: 97		
(SEKm)	2020	2021	2022	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e		
Net sales	1438	1619	2128	2471	596	613	627	635	2471	2688	2932		
Growth (%)	-7,8%	13%	31%	16,1%	-4,4%	-3,9%	1,3%	7,7%	0,0%	8,8%	9,1%		
EBITDA	164	218	355	474	110	118	125	128	481	546	467		
EBITDA margin (%)	11%	13%	17%	19,2%	18,4%	19,3%	19,9%	20,1%	19,5%	20,3%	15,9%		
EBIT	16	68	201	322	72	79	85	87	322	374	425		
EBIT margin (%)	1,1%	4,2%	9,4%	13,0%	12,0%	12,9%	13,5%	13,7%	13,0%	13,9%	14,5%		
EV/Sales				1,4					1,3	1,1	1,0		
EV/EBITDA				7,5					6,8	5,6	6,2		
EV/EBIT				11,0					10,2	8,2	6,9		

Source: Ependion, Redeye Research

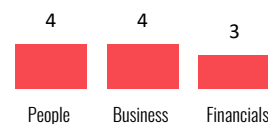
### FAIR VALUE RANGE

BEAR	BASE	BULL
65	130	190

### VERSUS OMXS30



### REDEYE RATING



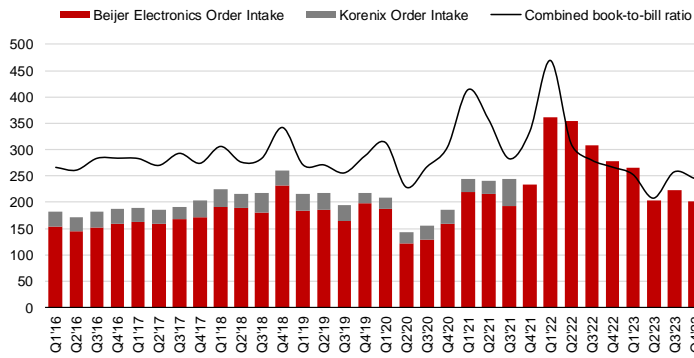
### KEY STATS

Ticker	EPEN
Market	Mid Cap
Share Price (SEK)	97
Market Cap (SEKm)	2836
Net Debt (SEKm)	713
Free Float	54%
Avg. daily volume ('000)	16

### ANALYSTS

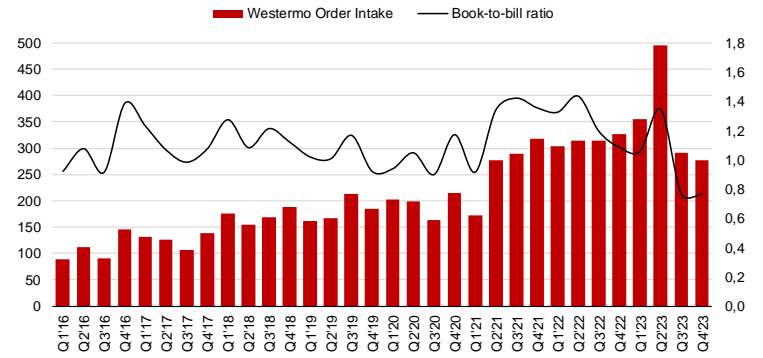
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New operating segment - Beijer Electronics and Korenix, quarterly development since 2016 (SEKm)



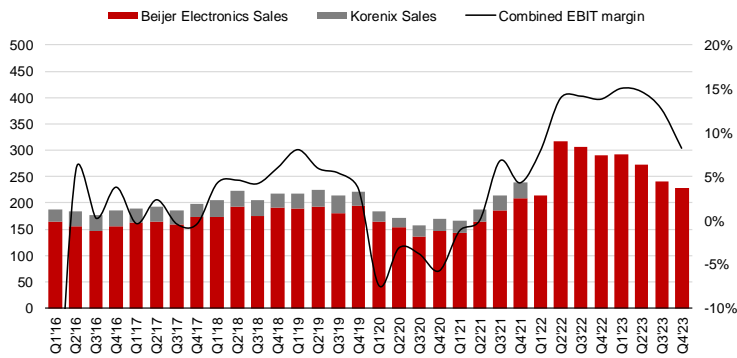
Source: Ependion, Redeye Research

Westermo's order intake (SEKm) and book-to-bill ratio, quarterly development since 2016



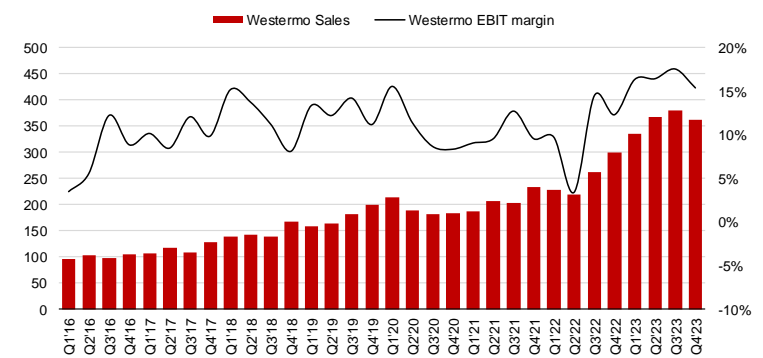
Source: Ependion, Redeye Research

New operating segment - Beijer Electronics and Korenix, quarterly development since 2016 (SEKm)



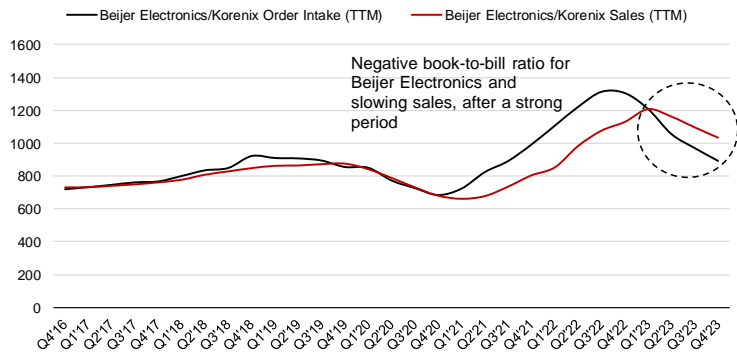
Source: Ependion, Redeye Research

Westermo's sales (SEKm) and EBIT margin (%), quarterly development since 2016



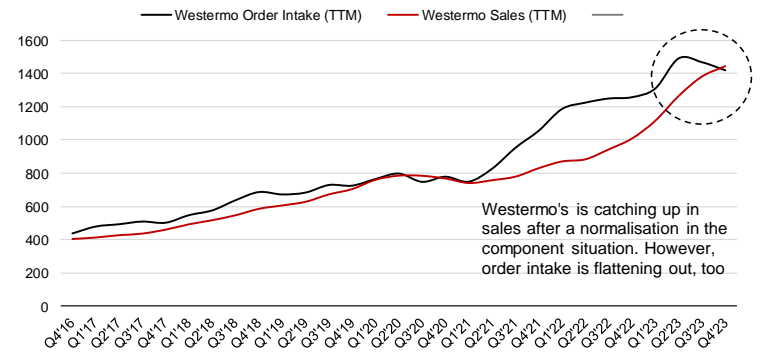
Source: Ependion, Redeye Research

Order intake and sales rolling-twelve (SEKm)



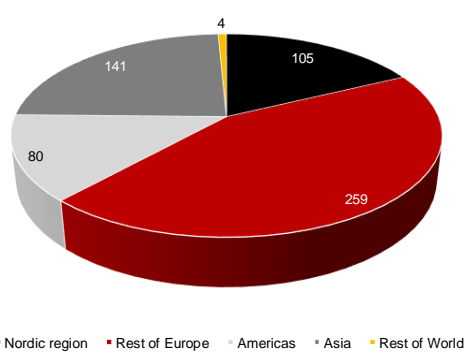
Source: Ependion, Redeye Research

Order intake and sales rolling-twelve (SEKm)



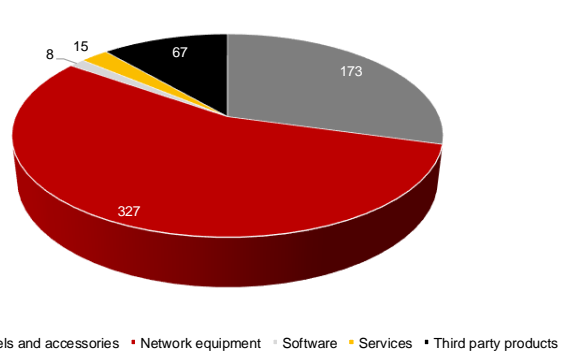
Source: Ependion, Redeye Research

Ependion's geographical sales distribution in Q4 2023



Source: Ependion, Redeye Research

Ependion's category sales distribution in Q4 2023



Source: Ependion, Redeye Research

## Q4 2023 Review

SEKm	Westermo			Beijer Electronics			Ependion		
	Q4'23	Q4'22	change	Q4'23	Q4'22	change	Q4'23	Q4'22	change
Order intake	277	326	-15%	201	279	-28%	478	602,8	-21%
Sales	362	300	21%	228	291	-21%	590	589	0%
EBIT	56	37	51%	19	40	-53%	61	63	-2%
EBIT-margin	15,4%	12,3%		8,3%	13,9%		10,4%	10,7%	

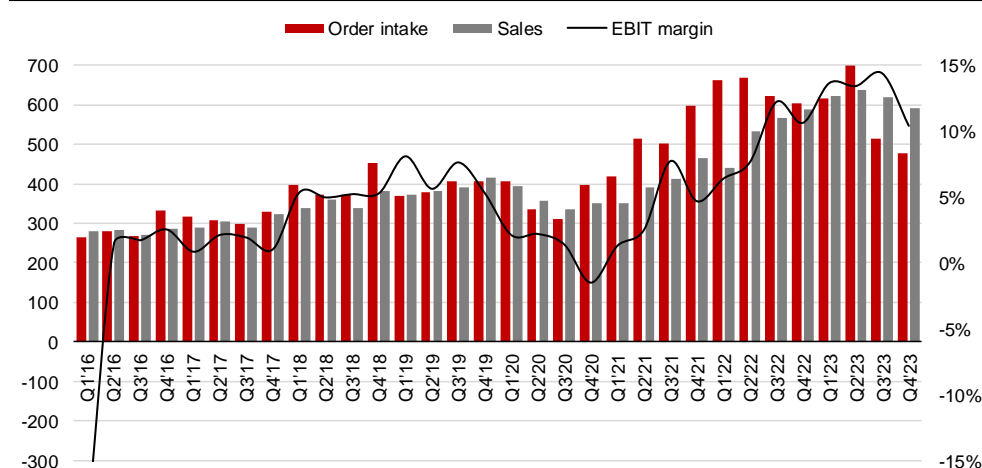
Sources: Ependion

### Order intake, sales and margins on a group level

Ependion's Q4 2023 was weaker than expected. Sales and EBIT amounted to SEK590m and SEK61.5m, translating into a growth rate of 0% y/y (the organic growth was slightly negative) and a margin of 10.4%. Redeye's estimates were SEK632m (more or less in line with Q3 2023 and implying a growth rate of 7% y/y) and SEK91m (14% margin), and thus sales were 7% lower than expected, while the EBIT was 30% lower than our estimate (this clearly highlights that the operating leverage goes both ways).

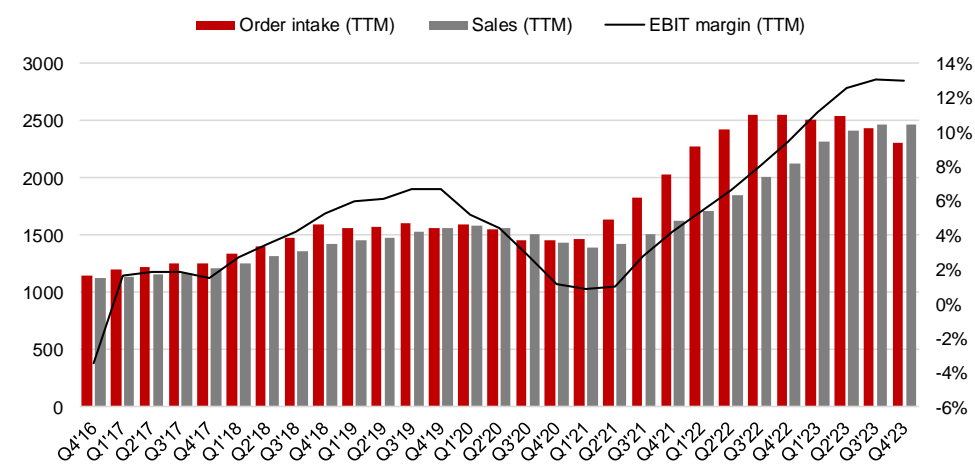
Americas and the Rest of Europe grew by 1% and 9% y/y, respectively, while Asia and the Nordics both declined by 6% y/y. Asia, which showed exceptional sales numbers in 2022, has slowed considerably in 2023, significantly affecting Beijer Electronics.

Ependion's order intake (SEKm), sales (SEKm) and EBIT margin (%)



Source: Ependion, Redeye Research

Ependion's trailing twelve-month order intake (SEKm), sales (SEKm) and EBIT margin (%)



Source: Ependion, Redeye Research



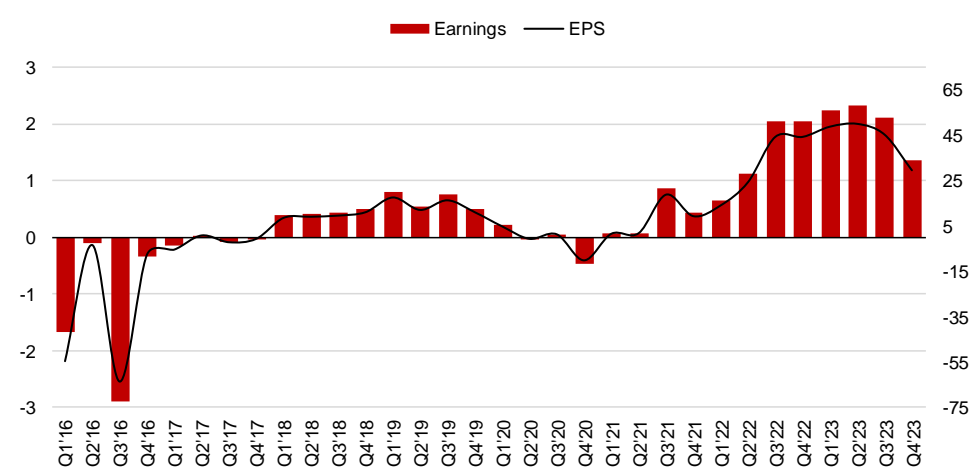
The order intake amounted to SEK478m in Q4 2023, down by 21% y/y. The order intake decreased for both business segments, and it was the second quarter in a row where it was below SEK500m (after six quarters in a row where it was SEK600m or above). However, one should be mindful that Q2 2023 included a one-off boost of SEK100m in the order intake, thanks to a Westermo customer extending its order horizon and that this has impacted both Q3 and Q4 2023 negatively. Thus, one should view that order intake on a rolling twelve-month basis.

Still, in the report, it is clear that the macroeconomic environment is impacting. CEO Jenny Sjö Dahl writes: "The more mixed pattern in the development of our business that we saw already the second and third quarters also affected the past period. After some record breaking quarters, we are now seeing a period of weaker demand development, which reflects the uncertainty in the world economy." It is clear that management is quite uncertain about the next couple of quarters: "Looking at 2024, the external factors are still uncertain and geopolitical and economic developments can go both in a more positive and in a more negative direction." On the other hand, the medium to long-term confidence is still radiant and megatrends like digitization and the green transition drive strong demand.

Q3 2023 broke 11 quarters in a row-trend with a book-to-bill ratio at or above 1x. Q4 2023 was no different with 0.81x. Although we want to see this level go up again and exceed 1x (implying growth), it is also good that the sales conversion has improved in the last couple of quarters and that especially Westermo now is able to ship to its customers, as the component issues have eased. In the report, Ependion stated that Westermo's sales were "driven by continued high delivery rates."

The lower EBIT, due to operating leverage working backwards, and higher interest rates, led to Ependion's earnings to decrease to SEK34.4m (down from SEK51.1m a year ago), leading to the EPS to decline to SEK1.18 (down from SEK1.77 in Q4 2022 and SEK1.81 in Q3 2023).

Ependion's earnings (SEKm) and Earnings per share (SEK)



Source: Ependion, Redeye Research

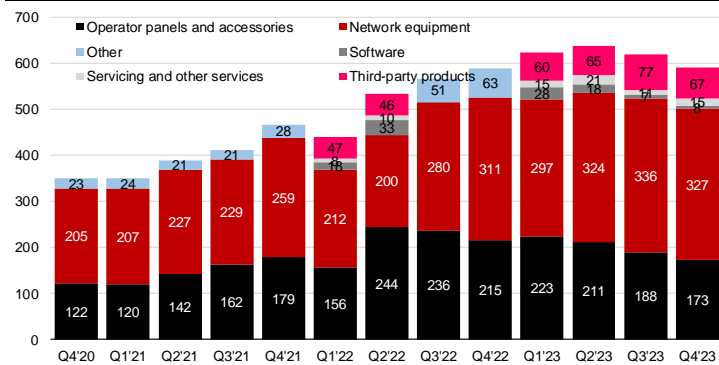
### Summary of 2023

On a full year basis, Ependion reported sales of SEK2471m, up by 16% y/y and 13% adjusted for currency effects. However, the order intake decreased by 10% (12% currency-adjusted), after a strong 2022. Normalisations in order horizons and a poorer macroeconomic environment have both taken a toll. The profitability improved significantly in 2023, and the EBIT rose to SEK322m, up from SEK201m in 2022. Thus, the margin strengthened from 9.4%

to 13%. These numbers should be benchmarked to Ependion’s financial goals of an annual organic growth rate of 10% and an EBIT margin of at least 15%.

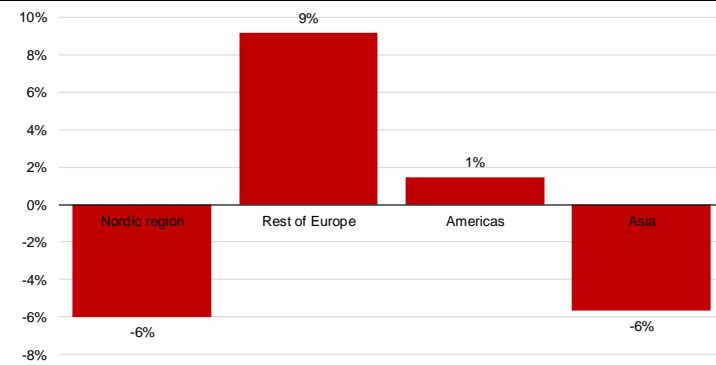
Ependion’s earnings amounted to SEK200.4m (up by 37% y/y from SEK146.4m). The free cash flow was also up by a substantial amount and ended at SEK118m (most of which came in Q4 2023, in part because the inventory levels reverted). Still, it is good to actually see Ependion deliver on the cash flow-side, too, after a period of subdued numbers.

Product and service category sales



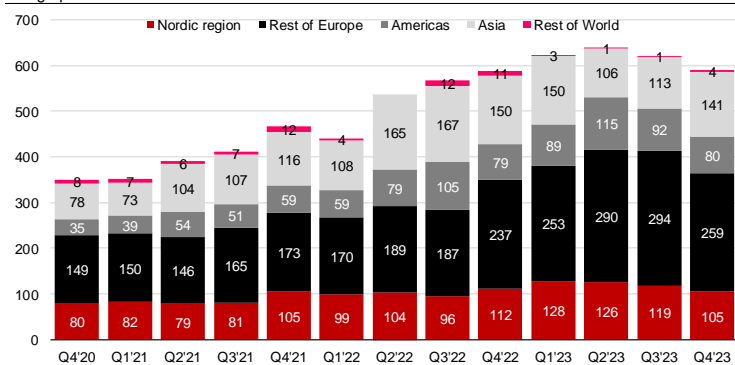
Source: Ependion, Redeye Research

Geographical growth rates in Q4 2023 (Rest of world excluded due to extreme volatility)



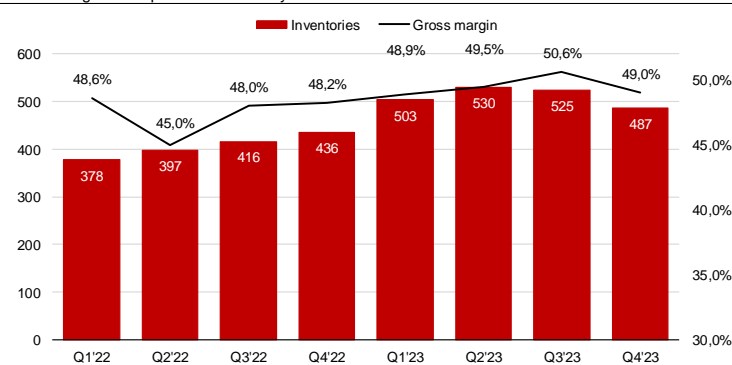
Source: Ependion, Redeye Research

Geographical sales distribution



Source: Ependion, Redeye Research

Gross margin development and inventory levels

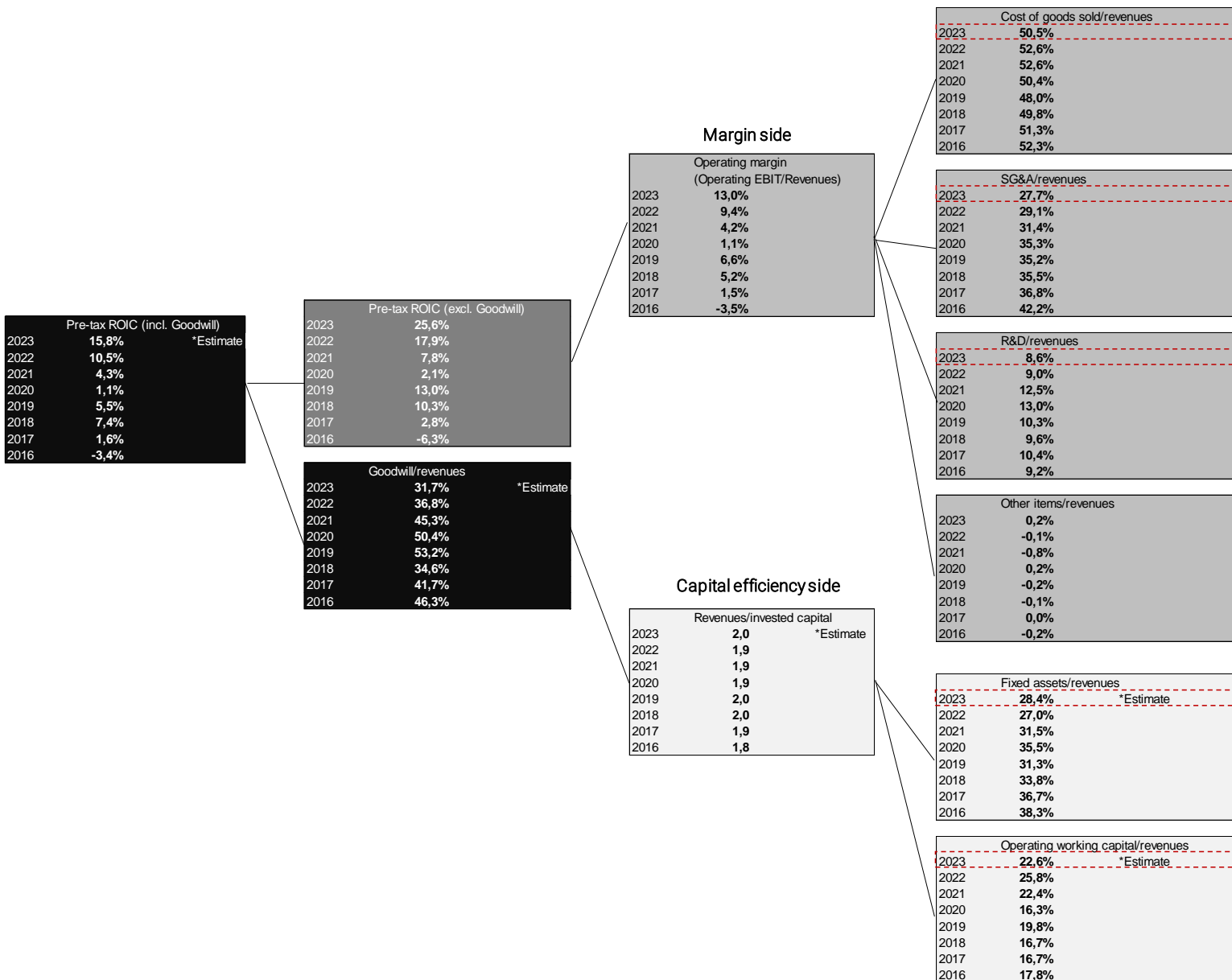


Source: Ependion, Redeye Research

If one takes a look at Ependion’s return on invested capital (ROIC) tree on the next page, one can see that there have been major improvements in the two last years, primarily on the margin side. R&D and SG&A as a percentage of sales have scaled well with additional volumes, but we believe there is still some room of improvement when it comes to the gross margin, not least if Ependion can charge for software and services (tasks that are already being conducted today).

We estimate Ependion’s pre-tax ROIC to be about 15% in 2023, and thus it should comfortably be above the cost of capital at this point in time. With small improvements on the margin side ( $\geq 15\%$ ) and on the capital efficiency-side (lower inventory, for example), we believe Ependion can go above 20%. That would mark a clear quality company, in our opinion.

Ependion's pre-tax ROIC tree 2016-2023 (Redeye's estimates - be mindful that we assume some numbers, as the reporting does not include them)



Source: Ependion, Redeye Research

## Westermo



If one takes a more granular look at the two business segments, starting with the biggest, Westermo, one can see a continuation of a slower order intake flow. It amounted to SEK277.4m (down by 15% y/y). Ependion comments: "The level of activity, as well as our confidence in the future, remain high even though this quarter was marked by weaker base demand in all focus segments, while no major orders were booked. The order intake was also negatively affected by an adjustment of booked orders that a large customer in the train segment carried out as a result of the high order bookings during the first half of 2023."

During Q4, Westermo was able to ship parts of the delayed order book, stemming from the component crisis, which now seems to be over. The order backlog now stands at SEK935.8m, down from SEK1045m in Q3 2023 (-10% q/q).

Westermo's sales amounted to SEK361.9m, corresponding to a growth rate of 21% y/y. The increased sales volumes, together with higher efficiency in the production apparatus and a normalisation of purchasing costs for materials, meant that Westermo once again reported a good EBIT of SEK55.7m (up by 51% y/y and translating into a margin of 15.4%). This was, however, lower than Q3 2023's margin of a whopping 17.6%. As a reference, between 2016 and 2022, the average EBIT margin for Westermo was 10.5%.



In the Q4 2023 report, Ependion also mentioned that Westermo is strategically expanding its global presence by establishing a legal entity in Bangalore/Bengaluru, India, focusing on sales and production. This move aligns with India's significant plans for major investments in railway infrastructure over the next decade. The decision to have a local presence is driven by the need to actively participate in the anticipated growth, particularly as a partner to leading train builders. There are also great business opportunities in the growing energy market in India. Worth pointing out is that India *prefers/demands* locally manufactured products.

We do not think it is a coincidence that Alstom, one of Westermo's largest and most long-standing customers/partners highlighted on its investor deck on January 24 the Indian ramp-up. Moreover, when we checked Alstom India's website, we saw that the country headquarter is situated in Bangalore/Bengaluru, as well. Alstom has 9,000 employees and 6 manufacturing sites spread across the country according to its website. Furthermore, it seems like Alstom is also partly exporting, to Australia, for example, from its Indian operations. However, when we asked management about India being a hub for Asia-Pacific as a whole, the response was rather that this investment would serve the Indian market. The establishment in Bangalore requires an initial investment of around SEK10m and involves the recruitment of approximately 10 employees for sales, support, and local assembly of products related to trains and railways. We believe this is just the first stepping-stone, and that India will likely become a significant market for Westermo (and Beijer Electronics) over the next decade. As a reference, China, a market with a similar population size, accounted for 11% of Ependion's sales in 2022.



Additionally, Westermo has also decided to open a unit in Denmark to tap into the growing energy segment. Given the fact that Denmark has a lot of renewable energy in its energy mix, being a pioneer in wind farms, it seems like a good idea having resources locally and available for the grid upgrade. It also shows that there are small growth pockets close to the home markets, too.



## Beijer Electronics

Beijer Electronics' order intake decreased to SEK201.1m, down from SEK278.6m a year ago, translating into a decline of 28% (same as in Q3). Ependion states that: "the quarter was characterized by the same pattern as in recent periods, with shorter order horizons that are now two to three months, weak development in China and Taiwan in particular, and deteriorating general industrial economy." During 2021-2022, when there were general component shortages in the industry, many customers opted for an order horizon of up to 12 months, which has now returned to the more normal 2-3 months, thereby negatively affecting the order intake for a couple of quarters. On the other hand, the deteriorating general industrial economy is a bad sign in the near-term and will act as a natural ebb for the order intake. Q4 2023 had the weakest order intake since Q3 2021 (and then there is also a price component in the latest order intake, which means that product volumes are likely even weaker).

Beijer Electronics order backlog stood at SEK311.5m, compared to SEK354m at the end of Q3 2023. Worth noting, was that during Q3, the entity made a review of the order backlog and reduced it by SEK34m regarding orders placed in China during 2022. Not a good sign.

Sales amounted to SEK228.3m, down by 21% y/y, from SEK290.6m in Q4 2022. In the report, it says: "Asia continued to develop weakly, while Europe was stable. For North America, the fourth quarter was weaker." When we asked about North America on the conference call, CEO Sjö Dahl said that: "The customer structure is a little bit different. In Europe, we have a very broad customer base. Lots of customers, some are up and some are down, and that's kind of helps with the stability, whereas in the U.S., we are more dependent on a few customers. And there, we also see a little bit of seasonality in the demand when it comes to North America." CFO Joakim Laurén added: "It's relatively stable in the U.S. also. We don't expect it to go more down. That is not what we want to convey. So it's both on the EMEA and the U.S. side, it's quite stable. And Asia, it's still on a low we'll see when we see things picking up in Asia. That's very hard to say when."

Beijer Electronics' EBIT was SEK18.9m in Q4 2023, translating into a margin of 8.3% (down from 13.9% in Q4 2022 and 12.7% in Q3 2023). In Q3 2023, Beijer Electronics initiated a cost reduction package focusing mainly on Asia, which is set to reduce costs with SEK20m on an annual level, with full effect from 2024, i.e., not in this quarter.

In Q3 2023, Beijer Electronics' new CEO, Kristine Lindberg, and her team, began a task to review, clarify and sharpen the business entity's long-term growth strategy. This review is now completed and Ependion will present it, among other things (we believe) on a new Capital Markets Day in March 2024.

In the report, Ependion also mentioned that: "Both during the period and the full year of 2023, Beijer Electronics has invested significant amounts in the development of next generation operator panels (HMIs). The new X3 series, which will be launched at the end of 2024 and is based on Windows-based software, means greater opportunities to tailor the products to the needs of customers. In combination with WebIQ, this means that the business entity creates an even more modern and competitive offer."

Thus, although 2024 might be rather uncertain year for Beijer Electronics, given the deteriorating general industrial economy, it should rebound in the medium-term. The new growth strategy (which, to our understanding, will focus more on niches) and the launch of X3, could be triggers for a new growth spurt. This would we welcomed and a catalyst for the stock.



## Estimates

We have repeatedly emphasized in the latest updates that the uncertainty is quite high, and as a result, our forecasts in the near term are uncertain as well. Is Q4 2023 a crossroad, where a deterioration in the general economy could impact sales in 2024, 2025 and 2026, or have we already witnessed the largest drop? 2022 was a very strong year sales-wise, and thus one should also keep that in mind when benchmarking the 2023 numbers, especially on Beijer Electronics' side, which experienced a boost thanks to the component crisis at some competitors.

On a full-year basis, Westermo's order intake has increased by 13%, to SEK1422m, while Beijer Electronics' has declined by 32% to SEK892m. The two order intakes combined amount to SEK2313m, lower than 2023's sales of SEK2471m. However, we know that the order intake can increase quickly on both sides. If Westermo adds a few larger orders in the energy segment side for example (which has been flattish), they would support good growth (should train and trackside remain stable, all things equal). Beijer Electronics' customers can also shift quickly, which we saw in 2022 (although this boost was partly artificial due to the component situation). Still, with a 2–3-month order horizon on Beijer Electronics' side, it can turn fast. Moreover, Ependion still has an order backlog of SEK1247m to ship, on top of the new orders arriving.

With this in mind, we lower our 2024 to 2026 estimates slightly, until we see a stabilisation in Beijer Electronics primarily. We are not too worried about Westermo, as large project orders can impact the order intake significantly in single quarters. Moreover, in Q3 2023, the sales were lifted by the subsidiary working through the order backlog efficiently. The lower sales estimates impact profitability, too. Although not visible in the graph below, we are also increasing the medium-term margin profile of Ependion, as we believe it has shown that it can earn good profits with larger volumes. Ependion is, not exclusively, but to a large extent, a volume game and with the forecasted volumes we assume, margins should naturally follow suit. Ependion itself seems conflicted in its outlook. "Ependion operates in attractive markets with good underlying growth and, in the mid term, has good prospects for reaching both the growth and profitability targets. Investments in societally important infrastructure such as trains, railways and energy production and electricity distribution are increasing. At the same time, there is still a great deal of uncertainty about the development in 2024, both in geopolitical and economic terms. The mixed picture we have seen for some time is therefore expected to persist in 2024." We see the growth come back in 2025, after a flattish 2024, in our forecasts.

### Ependion: Estimate changes, '24e-'26e

(SEKm)	Old			New			Changes		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Sales	2635	2894	3129	2471	2688	2932	-6%	-7%	-6%
EBIT	382	446	471	322	374	425	-16%	-16%	-10%

Source: Redeye Research

### Ependion: Actuals & Estimates, '21-'26e

(SEKm)	2021	2022	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e
<b>Sales (group adjusted)</b>	<b>1 619</b>	<b>2 128</b>	<b>2 471</b>	<b>596</b>	<b>613</b>	<b>627</b>	<b>635</b>	<b>2 471</b>	<b>2 688</b>	<b>2 932</b>
growth y/y	3,9%	31%	16%	-4,4%	-3,9%	1,3%	7,7%	0,0%	8,8%	9,1%
Beijer Electronics	806	1128	1033	227	229	234	237	927	1020	1101
Westermo	831	1010	1444	372	386	395	398	1550	1675	1837
Total costs (excl. D&A)	1 401	1 774	1 774	524	534	543	548	2 149	2 030	2 219
<b>EBITDA</b>	<b>218</b>	<b>355</b>	<b>474</b>	<b>110</b>	<b>118</b>	<b>125</b>	<b>128</b>	<b>481</b>	<b>546</b>	<b>467</b>
(%)	13,5%	16,7%	19,2%	18,4%	19,3%	19,9%	20,1%	19,5%	20,3%	15,9%
D&A	150	154	154	38	37	39	38	157	188	196
<b>EBIT</b>	<b>68</b>	<b>201</b>	<b>322</b>	<b>72</b>	<b>79</b>	<b>85</b>	<b>87</b>	<b>322</b>	<b>374</b>	<b>425</b>
(%)	4,2%	9,4%	13,0%	12,0%	12,9%	13,5%	13,7%	13,0%	13,9%	14,5%

Source: Ependion, Redeye Research

## Valuation

SaaS Company	EV/SALES			EV/EBIT			Sales growth			EBIT margin		
	23e	24e	25e	23e	24e	25e	23e	24e	25e	23e	24e	25e
CTT	9,6	6,5	5,0	25	19	15	29%	46%	28%	39%	35%	34%
Hexagon	5,6	5,2	4,8	21	19	17	8%	6%	7%	27%	28%	29%
Tomra	2,4	2,4	2,1	25	21	15	17%	0%	12%	10%	11%	14%
Troax	4,5	4,2	3,8	24	21	19	-6%	6%	9%	19%	20%	20%
HMS	7,6	7,6	6,7	31	36	29	20%	1%	12%	25%	21%	23%
Belden	1,5	1,6	1,4	10	11	9	-5%	-7%	11%	15%	14%	16%
Advantech	4,2	3,9	3,4	23	20	18	-6%	7%	11%	19%	19%	19%
Spectris	2,4	2,3	2,1	13	12	11	11%	3%	5%	18%	18%	19%
Siemens	2,2	2,1	1,9	16	14	13	8%	4%	5%	14%	14%	15%
Rockwell	4,1	3,9	3,7	19	20	18	17%	3%	5%	21%	19%	20%
<b>Average</b>	<b>4,4</b>	<b>4,0</b>	<b>3,5</b>	<b>21</b>	<b>19</b>	<b>16</b>	<b>9%</b>	<b>7%</b>	<b>10%</b>	<b>21%</b>	<b>20%</b>	<b>21%</b>
<b>Median</b>	<b>4,1</b>	<b>3,9</b>	<b>3,6</b>	<b>22</b>	<b>19</b>	<b>16</b>	<b>9%</b>	<b>4%</b>	<b>10%</b>	<b>19%</b>	<b>19%</b>	<b>20%</b>
Ependion	1,4	1,3	1,1	11	10	8	16%	0%	9%	13%	13%	14%

Source: Redeye, Company reports, FactSet

Ependion is priced well below many of its peers, which many times are substantially larger in size. We also believe, although to a lesser extent than before, that Ependion has had a "historical discount" because of its turnaround years. The product portfolio's market reception in recent years, together with added volumes and improved margins, paint a more optimistic picture. We believe that Ependion, over time and with increased size, will move closer to its peers.

We are not changing our fair value range after this quarterly report, although we have lowered near-term sales and EBIT, and increased the medium-term profit profile.

### Bear Case SEK65

- 6% sales CAGR 2024-2028
- 6% sales CAGR 2029-2037
- 10% EBIT margin on average 2024-2028
- 9% EBIT margin on average 2029-2037
- Terminal growth rate of 2%
- Terminal EBIT margin of ~7%

In our bear case, we assume slower overall growth and a lower profit profile, where competition takes a larger bite of the market cake. Ependion continues to have below average margins and profitability on invested capital (ROIC). It is still profitable. The WACC is about 9% throughout the full DCF, in part due to debt financing.

### Base Case SEK130

- 8% sales CAGR 2024-2028
- 6% sales CAGR 2029-2037
- 14% EBIT margin on average 2024-2028
- 12.5% EBIT margin on average 2029-2037
- Terminal growth rate of 2%
- Terminal EBIT margin of ~10%

Ependion grows slightly less than the financial target. Meanwhile, it strengthens its margins and has an average of about 14%, which is also slightly more conservative compared to the >15% margin target. The EBIT margin peaks at around 15% and then goes down as competition increases in its segment (although slower than previously estimated). Ependion has, nonetheless, substantially higher 'lower levels' in this scenario compared to its history. The WACC is about 9% throughout the full DCF, in part due to debt financing.

### Bull Case SEK190

- 10% sales CAGR 2024-2028 (impacted slightly by near-term growth)
- 6% sales CAGR 2029-2037
- 16% EBIT margin on average 2024-2028
- 14% EBIT margin on average 2029-2037
- Terminal growth rate of 2%
- Terminal EBIT margin of ~12%

Ependion reaches the growth target of a 10% annual growth and EBIT margins of around 15% in our bull case. Westermo's WeGrow strategy is successful, and it creates market-leading roles in trackside and power distribution. Beijer Electronics also improves its profitability with fewer product platform families and more cooperation. Ependion's profitability is in line with other well-managed industrial companies. The WACC is about 9% throughout the full DCF, in part due to debt financing.

	2021	2022	2023	2024E
<b>INCOME STATEMENT</b>				
Net sales	1619	2128	2471	2471
Cost of Revenues	795	1052	1248	1199
Gross Profit	823	1076	1223	1272
Operating Expenses	605	722	749	792
<b>EBITDA</b>	218	355	474	481
Depreciation & Amortization	150	154	152	159
<b>EBIT</b>	68	201	322	322
Net Financial Items	-19	-15	-46	-40
EBT	50	186	275	282
Income Tax Expenses	14	40	75	59
Non-Controlling Interest	4	5	5	5
<b>Net Income</b>	36	146	200	223
<b>BALANCE SHEET</b>				
<b>Assets</b>				
Current assets				
Cash & Equivalents	147	160	142	417
Inventories	257	437	487	487
Accounts Receivable	363	396	407	407
Other Current Assets	67	83	52	52
<b>Total Current Assets</b>	834	1076	1089	1363
Non-current assets				
Property, Plant & Equipment, Net	85	80	86	42
Goodwill	785	785	783	783
Intangible Assets	274	347	474	524
Right-of-Use Assets	96	82	99	59
Shares in Associates	0	0	0	0
Other Long-Term Assets	65	62	42	42
<b>Total Non-Current Assets</b>	1305	1357	1484	1449
<b>Total Assets</b>	2139	2433	2572	2812
<b>Liabilities</b>				
Current liabilities				
Short-Term Debt	247	310	168	168
Short-Term Lease Liabilities	48	38	39	39
Accounts Payable	166	166	195	195
Other Current Liabilities	247	221	228	245
<b>Total Current Liabilities</b>	708	734	630	646
Non-current liabilities				
Long-Term Debt	355	388	463	463
Long-Term Lease Liabilities	59	60	60	60
Other Long-Term Liabilities	282	257	256	256
<b>Total Non-current Liabilities</b>	697	704	779	779
Non-Controlling Interest	4	5	5	5
Shareholder's Equity	729	989	1159	1382
<b>Total Liabilities &amp; Equity</b>	2139	2433	2572	2812
<b>CASH FLOW</b>				
NOPAT	49	158	234	255
Change in Working Capital	-226	-266	8	17
Operating Cash Flow	85	201	212	398
Capital Expenditures				
Capital Expenditures	-21	-16	-22	25
Investment in Intangible Assets	-42	-109	-152	-148
Investing Cash Flow	-174	-125	-232	-124
Financing Cash Flow				
Financing Cash Flow	114	-38	-111	0
Free Cash Flow	22	76	38	274

## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 point. The maximum score for a valuation key is 5 points.

### Rating changes in the report

### Rating changes in the report

#### **People: 4**

The People rating is based on quantitative scores in seven sub-categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board. In our rating assessment, Ependion gains the highest points from its open communication, qualified and experienced board, and compensation. Relevant industry experience characterizes Ependion's management and board of directors. Management shows a good understanding for the targeted markets and has a clear long-term focus. Ependion has shown solid progress with current management, which we judge to have completed the company's turnaround.

#### **Business: 4**

The Business rating is based on quantitative scores in five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks. Ependion receives the highest scores in Value Proposition and Operational Risk. The company operates in large, fragmented growth markets, primarily related to the digitalization trend. Long customer relationships characterize its business, where products are designed into customers' systems -laying the ground for potentially durable competitive advantages (switching costs).

#### **Financials: 3**

The Financials rating is based on quantitative scores in five sub-categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality. Although currently showing solid progress, Ependion's financial rating is burdened by a couple of years of negative results and free cash flow. As additional profitability improvements are expected, we see room for an increased rating going forward. The company has a solid capital structure, the business is diversified, and we see no risk of needing to raise external capital going forward. On the negative side, the business is cyclical, implying that there is a risk of negative growth in a period of economic downturn.

## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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### Redeye Rating (2024-01-26)

Rating	People	Business	Financials
5	32	15	4
3-4	149	133	44
0-2	5	38	138
<b>total</b>	<b>186</b>	<b>186</b>	<b>186</b>

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### CONFLICT OF INTERESTS

Mark Siöstedt owns shares in the company: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.