REDEYE

Update

Equity Research

24 November 2021

Beijer Group

Sector: Technology

Energizing Times

Redeye revisits its estimates following a closer look at the power distribution side of the WeGrow initiative. We also believe the recent order intake/design wins are meaningful and positive telltale signs supporting a more optimistic mid-term view of the case. The Q3 report was in line with Redeye's estimates and, as expected, strong, showing good business momentum across the board.

Many things to like in the Q3

Beijer Group's Q3 was in line with Redeye's estimates, but nonetheless strong. Net sales increased by 23% y/y and 5.6% q/q, to SEK 412m (335m). Moreover, net sales were negatively impacted by the global component shortage of about 10%, and thus, it could have been around SEK 40m higher in a normal scenario (SEK 452m or an increase of 35% y/y). Demand is still on high levels, with an order intake exceeding SEK 500m for the second quarter in a row. But perhaps the most pleasing number in the report was the EBIT margin of 8%, where both Westermo and Beijer Electronics showed stable profits.

Design wins, long product cycles and at last… improving EBIT margins

We have talked extensively about Beijer Group's operating leverage in previous updates but would like to continue hammering in that message. Beijer Group's rejuvenated product portfolio, growing target markets, and an increasing amount of design wins should enable the company to achieve an EBIT margin of >15% sooner than later. The train segment, a part of the WeGrow strategy, is a good indicator of how the business model works when it starts rolling. We expect similar results in the energy side and have thus increased our forecasts somewhat going forward.

Revised base case

Redeye increases the fair value range of Beijer Group on the back of excellent customer demand for its products, a record-high order book, and a solid growth outlook, in part because of the WeGrow strategy's success but also because of the X2-series. Redeye's new base case is SEK 82 (70).

Beijer Group - near-term forecasts

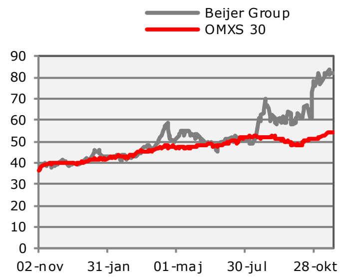
(SEKm)	2018	2019	2020	Q1'21A	Q2'21A	Q3'21A	Q4'21E	2021E	2022E	2023E
Net sales	1417	1559	1438	351	390	412	433	1585	1902	2159
Growth (%)	17,5%	10,0%	-7,8%	-11,2%	9,0%	23,0%	23,6%	10,3%	20,0%	13,5%
EBITDA	151	227	164	39	47	69	73	229	377	536
EBITDA margin (%)	10,6%	14,6%	11,4%	11,2%	12,1%	16,8%	16,8%	14,4%	19,8%	24,8%
EBIT	74	103	16	5	10	32	35	81	228	358
EBIT margin (%)	5,2%	6,6%	1,1%	1,3%	2,5%	7,8%	8,0%	5,1%	12,0%	16,6%
EV/Sales								2,0	1,7	1,5
EV/EBITDA								14,0	8,5	6,0
EV/EBIT								39,4	14,0	8,9

Source: Beijer Group, Redeye Research

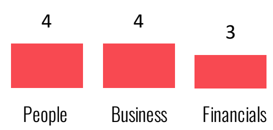
FAIR VALUE RANGE

BEAR	BASE	BULL
40.0	82.0	115.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BELE
Market	Small Cap
Share Price (SEK)	82.0
Market Cap (MSEK)	2371
Net Debt 21E (MSEK)	823
Free Float	53 %
Avg. daily volume ('000)	4800

ANALYSTS

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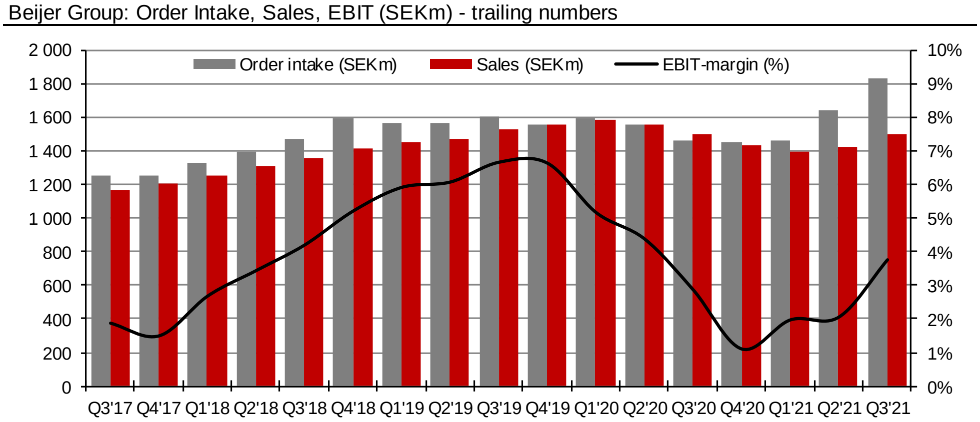
Q3 – Strong quarter (and in line with our estimates)

	Beijer Electronics			Westermo			Korenix			Beijer Group		
SEKm	Q3'21	Q3'20	change	Q3'21	Q3'20	change	Q3'21	Q3'20	change	Q3'21	Q3'20	change
Order intake	192	128	50%	290	164	77%	25	22	14%	502	310	62%
Sales	186	137	36%	204	182	12%	28	20	41%	412	335	23%
EBIT-margin	8%	neg		13%	9%		neg	neg		8%	1%	

Sources: Redeye Research, Beijer Group

Last thing first, a recap of the latest quarterly report. Q3'21 sales increased by 23% y/y to SEK 412m (335m) and 5.6% q/q. Our Q3 estimates pointed at net sales SEK 425m, so we were fairly on point (difference of 3%). Moreover, net sales were negatively impacted by the global component shortage of about 10%, and thus, it could have been around SEK 40m higher in a normal scenario (SEK 452m or an increase of 35% y/y). CEO Per Samuelsson commented: "Several signals are pointing in the right direction, including generally positive demand." We believe this statement encapsulates the quarter well. The organic growth rate (excluding ELTEC's contribution) amounted to around 20% y/y.

Beijer Group: Order Intake, Sales, EBIT (SEKm) - trailing numbers



Sources: Redeye Research, Beijer Group

High incremental EBIT margins despite headwinds

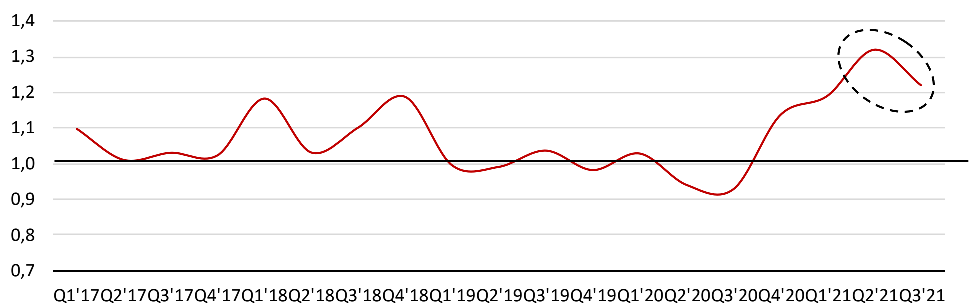
In Q2, we wrote that "The order book of SEK 514m (all-time high) indicates that H2 could present sales numbers that surpass the best quarters before the Covid-19, which also should help Beijer Group show the operational leverage. Thus, we expect both sales and profitability improvements in H2." In Q3'21, the EBIT amounted to SEK 32m, corresponding to a margin of 7.6% (our estimate was also an EBIT of SEK 32m or 7.5%). Beijer Group's operational leverage is substantial, something we have talked about in previous updates, and we believe the group has the possibility to expand EBIT margins to 15% if it reaches around SEK 2bn in topline which it is on path of doing, given that the quarterly order intake stays above SEK >500m (which it has for two quarters in a row).

Westermo's and Beijer Electronics' EBIT margins were 13% and 8%, respectively, in Q3, while Korenix's reported a modest loss. However, Beijer Group's incremental EBIT margin was 35% in the quarter, with Westermo's reaching 46% and Beijer Electronics' 31%. This is despite earnings being hit by higher supply chain costs and loss of sales resulting from the component shortage. Both Westermo and Beijer Electronics have raised prices toward their end-customers and are indicating that more increases are expected in the coming quarters. Westermo raised prices across the board at the mid-point of the year by a few percentage points, and we believe Beijer Electronics has done its hikes at a similar time. Thus, it should take a few months (in general 6-9) for it to fully show up in the income statement, as much of the order book in the near-term will be delivered on the old prices at lower margins (in Q2'21, it was reported to be around SEK 750m). We expect Beijer Electronics's price increases to show earlier than Westermo's, as its lead times are shorter. However, we believe that some of Westermo's larger contracts are being renegotiated and adjusted. All in all, the incremental EBIT margins show the powerful operating leverage of Beijer Group, and it hit 35% despite supply chain issues affecting both sales and cost of goods sold, coupled with Korenix's negative EBIT contribution. Should all things align, we believe the incremental EBIT margins can be slightly below the gross margin of around ~50%, up until the group hits a new 'cost ceiling' where it needs to add more OPEX and CAPEX again (around SEK >2bn). Consequently, the EBIT margin should continue to strengthen going forward if the demand side stays strong and Beijer Group is able to supply without too much disruption (like in Q3). More sales (with low incremental OPEX) coupled with higher gross margins are a profitable combination, and the 'lost' SEK 40m would have added around SEK 15-20m more in EBIT, pushing the margin above 10%.

Broad-based demand

The order intake is perhaps the most critical number in the report. It was exceptionally strong at SEK 504m (the second highest after Q2, where it landed on SEK 514m). The order intake was up by 62% y/y and broad-based, both business entity-wise and geographically, thus giving it an extra qualitative stamp of approval. We asked management on the conf call how much of the order intake that was potentially boosted by the fact that their customers might place orders for a delivery longer time ahead than usual given the component shortage's impact on lead time. Other players in the field, such as HMS, has flagged for this, but it seems like the majority of Beijer Group's sales are not going into its end-customers inventories. Thus, most demand originates from the rejuvenated product portfolio and not from conservative customers bunkering (Beijer Group has some visibility of its end-customers' inventory levels). That is of course a very good sign. Book-to-bill decreased to ~1.2x, still high but lower nonetheless compared to Q2 where it exceeded 1.3x. We expect this ratio to gradually move towards 1x again.

Book-to-bill ratio



Sources: Redeye Research, Beijer Group

Redeye is positive to the Q3 report, which was in line with our estimates. The underlying business momentum is strong, and the renewed product portfolio and bolt-on acquisitions perform well. Beijer Group has also launched several new products, including DIN-rail managed Ethernet switches, modular RTU32M solution, and Merlin (more on that later).

R&D, design wins and the WeGrow Initiative

The uplifting Q3 numbers are the 'mere byproduct' of years of investments, organizational/cultural adjustments, hard work, and multiple design wins. Beijer Group's management has invested heavily into R&D since 2016 and it has, as a percentage of revenues, been around 11-13% per year (expensed and capitalized). The company has also made several bolt-on acquisitions (Neratec, Virtual Access, and most recently ELTEC) that have added both new products and valuable customer relations. The combination of focused R&D spending and bolt-on acquisitions have led Beijer Group to have one of the most complete and competitive product portfolios out in the market, translating into evermore design wins and a network of pleased customers. Almost 70% of all sales derive from new products that have been launched in the last five years and the payback time is on average 2-3 years (i.e., good return on investment on the R&D).

Leading high-tech hardware and software product portfolio

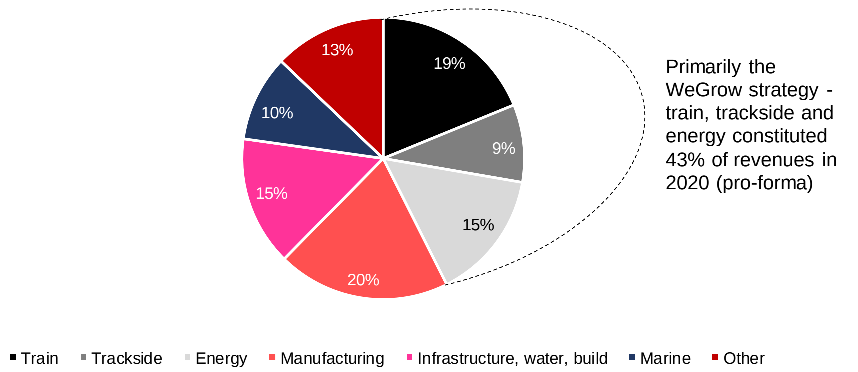
Source: Beijer Group, Redeye Research

Beijer Group's business model builds on a high degree of close collaborations with customers in long-term development projects. Finished products (HMIs, ethernet switches, routers, etc.) are often specific to and embedded in the customers' end-products/solutions. A design win can generate repeatable and stable revenues for a long time (product cycles can be up to ten years). Beijer Group does not typically need any major sales efforts after a win, as its customers sell the complete products/solutions to their end customers. Thus, Beijer Group grows with its customers. Moreover, ongoing collaborations also offer an opportunity for business expansion, for example, in the form of software upgrades or new design wins.

A snapshot of Beijer Group's customer portfolio

Source: Beijer Group, Redeye Research

Pro-forma sales FY 2020 (including ELTEC) based on segment

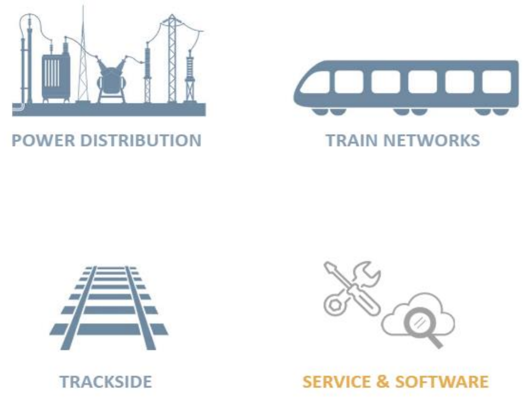


Source: Beijer Group, Redeye Research

WeGrow

An area clearly showing this business model in full force is Westermo's WeGrow initiative. In late 2018, Westermo formulated and adopted a new strategic plan for 2019-2021 called WeGrow, which was set out to build on the company's success in the train segment and the available product portfolio back then. Apart from a continued initiative in train networks, the plan involved targeting initiatives in network solutions for the rail infrastructure and the power distribution segment. In the 2020 annual report, Beijer Group wrote that "Various research reports estimate the global market value of industrial network products at some 15 billion SEK. Investment cycles vary, with lower growth in some years, although in the long term, the market has achieved yearly growth of over 10%."

Westermo's WeGrow strategy



Source: Beijer Group, Redeye Research

Train Networks and Trackside

The train segment illustrates how the business model builds on design wins, often with successive ramp-ups over time and additional orders from satisfied customers. Westermo's largest customer, Bombardier Transportation, which was acquired by Alstom in early 2021, became a major buyer of data communication for trains and trackside systems after a 15-year long period of relations building. The process commonly starts with a new customer, such as Bombardier Transportation, testing Westermo as a new supplier on a smaller project, where the two companies' engineering teams in turn get to know each other and collaborate closely. When trust is established, supply chain inspected, and quality recognized, bigger orders might start to arrive. This means that the first hurdle has been successfully cleared and multi-year contracts/major design wins can be received. These contracts are valuable, because if

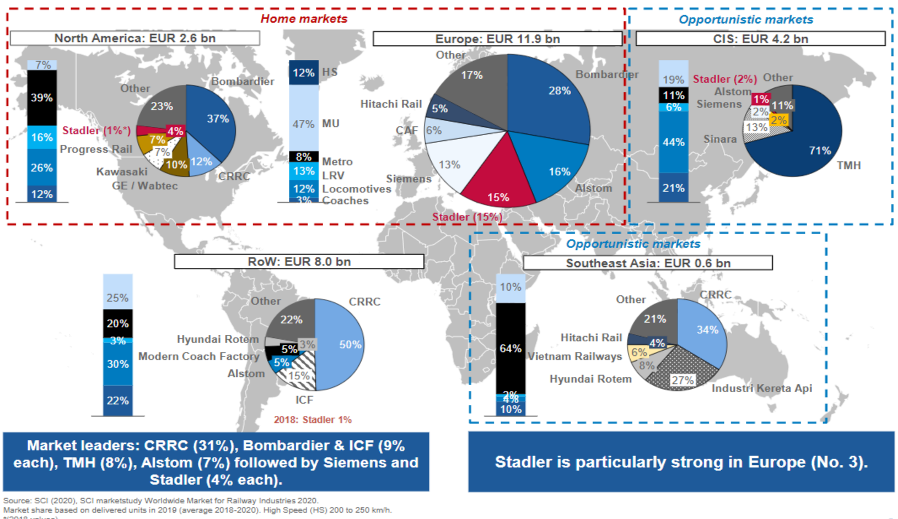
Westermo's products, let's say the Viper ethernet switches (which is the most sold product family – 30% of revenues) gets designed in a new train model, then Westermo will earn repetitive orders every time the train manufacturer wins a tender with that model series.

A recent example of this was when Stadler awarded Westermo the contract to supply data communications technology for a new fleet of trains for the Berlin metro in Germany. The five-year contract is worth at least SEK 50m, and Westermo will provide up to 8,500 of its compact Viper Ethernet switches to manage data networks on the BVG J/JK-series underground rail carriages. The contract includes data communication technology for 606 cars with an option on an additional 894 cars. Consequently, this contract gives Westermo three things: 1) a multi-year contract worth a minimum SEK 10m a year; 2) a chance of earning up to SEK 25m a year if the additional option is fully exercised (3.2% of Westermo's 2020 sales); and 3) new orders every time the J/JK-series underground rail carriages win a tender.

The train segment is dominated by a few players, such as CRRC (China), Alstom/Bombardier (France/Canada), Siemens (Germany), Stadler (Switzerland) etc. Therefore, by winning the trust of a handful of these giants, Westermo has established a market-leading position as a data communication supplier. The bolt-on acquisitions of Neratec and ELTEC have also added on-board and infotainment systems in addition to the mission-critical communication equipment. Westermo's CEO, Jenny Sjödahl, commented the Stadler deal with "One of our major strengths is our ability to provide networking solutions suitable for both train management applications and systems for enhancing passenger experience-which was a key requirement for this project" and thus, Westermo has become more and more of a trusted 'one-stop-shop' for train manufacturers. Thus, by having many design wins, Westermo's earnings are protected by high switching costs, enabling it to have stable and relatively good margins.

The Neratec acquisition gave Westermo both onboard applications, as well as trackside applications (train to ground) and was a long-term supplier to Alstom (80-90% of its revenue was derived from that single customer). ELTEC specializes in wireless communication for connected trains and is an innovative player providing wireless communication solutions for passenger information, infotainment and passenger Wi-Fi. As we saw from Mrs. Sjödahl's statement in conjunction with the Stadler contract, these complementary product portfolios were critical to win the big order. (Worth noticing was that Stadler tested Neratec's WLAN products in 2020 with a smaller order in Atlanta, US, worth around SEK 3-4m).

The train segment is dominated by a few global players (market share based on delivered units 2018-2020)



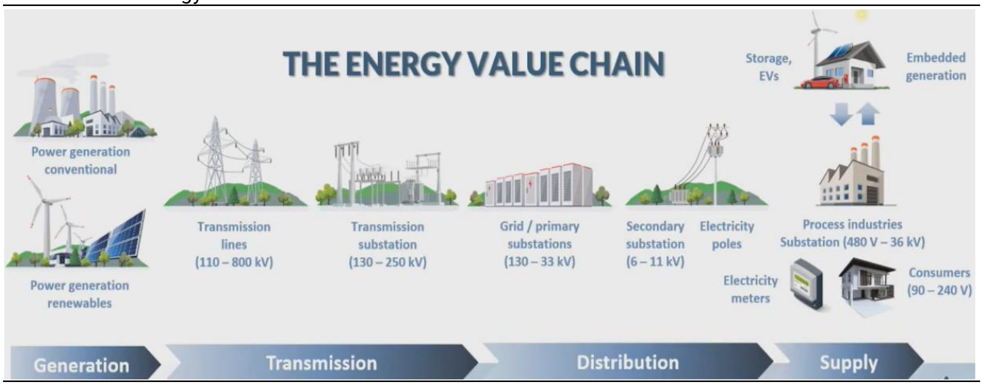
Source: Stadler, Redeye Research

While the train segment is dominated by a few global players, the trackside customer base partly overlaps, as most larger train manufacturers also have a trackside system division, but not entirely. In the trackside segment (rail infrastructure), there are also regional stakeholders such as Trafikverket (Swedish Transport Administration), Massachusetts Bay Transportation Authority and Deportment for Transportation (the British ministerial department), and train operators like MTR Corporation and FirstGroup.

Thus, there are several benefits by focusing on the train and trackside. First, Westermo's long-established relationships with the train manufacturing divisions in the global companies like Alstom and Stadler gives it credibility and inroads to their trackside signaling divisions. Therefore, the hurdles are lower to gain design wins. Secondly, Westermo has many years of experience of robust data communication, and the train networks products intersect with trackside applications. Westermo can provide robust and versatile solutions for non-safety systems such as emergency phones, video surveillance, point heaters and more, as well as safety systems such as interlocking/signaling systems, train detection systems and more.

Combined, train and trackside, which we view as the two 'closer ones' in the WeGrow strategy, constituted slightly more than 1/4th of all revenues in 2020 (pro-forma). The share is also growing, which is evident by a range of mid-sized orders, combined with multi-year contracts from Alstom (SEK >250m), Stadler (SEK >50m), and one of North America's largest train companies (SEK 80m), starting in 2021/2022. It is also worth mentioning that one prominent train manufacturer, in this case, Alstom, has 150,000 vehicles in commercial service worldwide that continuously need refurbishment (new hardware and software). As Westermo's products in an ever-increasing rate are being used when new trains are built, it also creates a lucrative aftermarket as it is a high chance that, for example, an old Viper ethernet switch will be replaced with a new Viper ethernet switch when needed. This is a focus area for Westermo, that wants to improve in the serviceable aftermarket and thereby gain lucrative and repetitive mid-sized orders. ELTEC has been very good at the refurbishment market and it constitutes a large share of its total sales, as the onboard infotainment systems quickly get outdated. The German ICE trains for example, has their third-generation infotainment products, and will soon implement their fourth.

The tradtional energy value chain



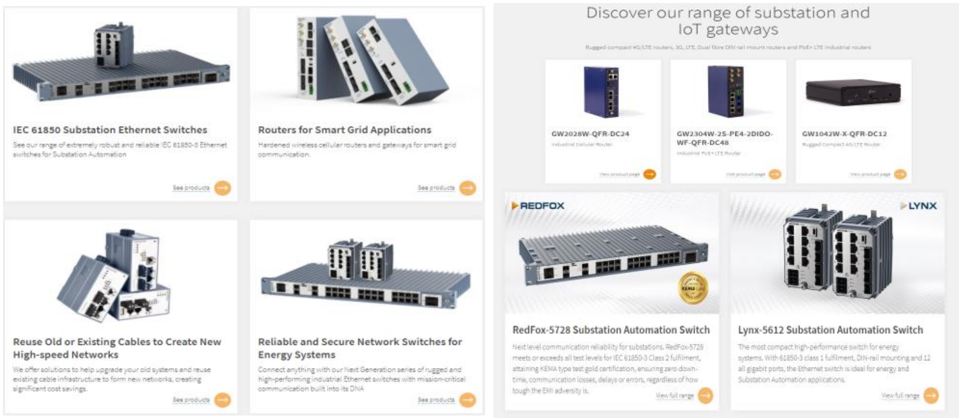
Source: Beijer Group, Redeye Research

Power Distribution

In late 2019, Westermo acquired the Irish company Virtual Access, which specializes in wireless industrial routers, gateways, and managed connectivity services for customers mainly in the utility, traffic management, and telecommunications sectors. In the press release, Mrs. Sjödahl commented that: "The acquisition of Virtual Access will strengthen Westermo's offering to the Power distribution and Utility markets to include a strong remote access portfolio that we can channel via our worldwide sales network. This acquisition supports our

WeGrow strategy in a superb way. Virtual Access in Ireland will be the technology centre for cellular remote access solutions within Westermo."

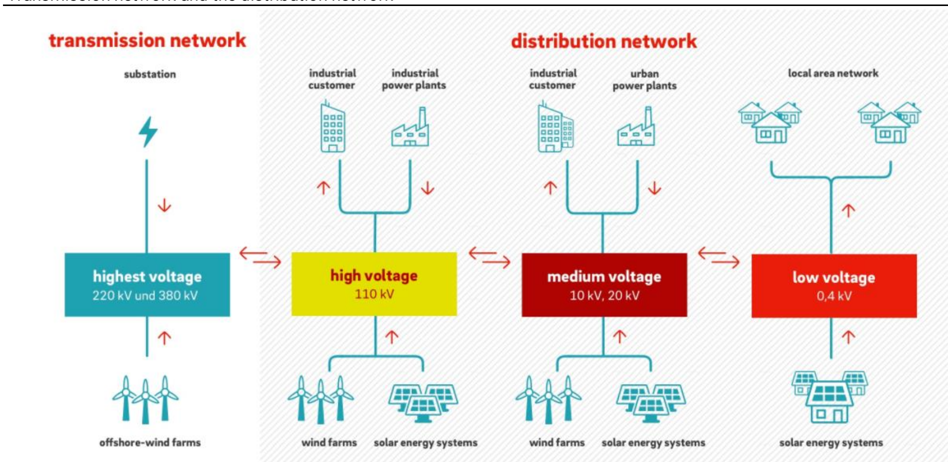
Parts of Westermo's energy product portfolio



Source: Beijer Group, Redeye Research

Virtual Access' cellular technology launched the third field in the WeGrow strategy, that of power distribution. In 2020, 'energy' constituted 15% of the pro-forma revenues of around SEK 1.5bn, or approximately SEK 225m. That can be compared to Virtual Access' sales of SEK ~130m when it was acquired. CEO Per Samuelsson has mentioned that the energy/power distribution segment could become the single largest income stream in a few years' time and consequently it is important to understand the market dynamics and how Westermo will accomplish the ramp-up. Westermo's products are primarily targeting the distribution side of the energy value chain, with grid, primary and secondary substations as the focus areas.

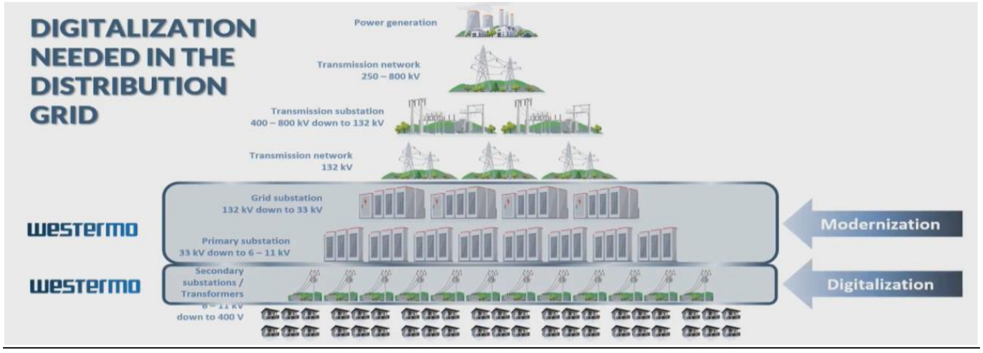
Transmission network and the distribution network



Source: E. ON, Redeye Research

In contrast to the train and trackside segments, the power distribution market is more decentralized. There are not a handful of global players serving the whole market but instead a long range of stakeholders on different levels of the value chain. In the European Commission report Distribution System Operator Observatory 2020, the main stakeholders are cited as: "In Europe, operations of electricity grids are distinct into two different realms: electricity transmission, managed by Transmission System Operators, takes care of High Voltage grids, while electricity Distribution (mostly dealing with Medium and Low Voltage, down to the consumers' meters) is managed by Distribution System Operators."

The power distribution side needs digitalization and modernization



Source: Beijer Group, Redeye Research

As the picture above illustrates, Westermo is primarily targeting the distribution grid in the 132-0.4 kV range, and thus, the main customer group should be the distribution system operators. In the EU, there are 44 transmission system operators (TSOs) and around 2400 distribution system operators (DSOs). The DSO market is in general fragmented, but depending on the country, there can be a lot of small local DSOs, multiple DSOs of different sizes or a few big DSOs.

In the Distribution System Operator Observatory 2020 report, the problems Westermo's product portfolio is set out to solve are described as: "…the trends of decentralisation and digitalisation are at the core of the energy transition. The DSO networks, which were traditionally simpler in their operation, due to unidirectional power flows and minimum controllability, are transforming into a smart grid with multiple assets, including besides loads also DER, storage, etc. The operation of such network requires much more monitoring and controllability than the traditional DSO network, at least in the same level as a TSO network. To achieve the asset monitoring at the customers' premises, installation of smart metering infrastructure is necessary. Moreover, to timely tackle issues of congestions, voltage control, stability, etc., the possibility of remote control of the distribution network substations is crucial. The classic SCADA systems are widely used by the DSOs, and now even more for additional types of control at substations, feeders, and end-user loads."

To summarize, the grid is becoming ever more complex. When consumers produce their own electricity (with solar cells, for example) and send the surplus back into the grid to other consumers, the traditional flow of one direction (from a centralized power plant) is no longer the case. Thus, DSOs need to monitor and control the very edge of the electricity grid, which requires communication with primary and secondary substations. Hence, Westermo's cellular routers enable the DSOs to control/monitor the smart grid from a distance cost-effectively which is essential, given that one electricity company can have several thousand substations spread out over a large geographical area. The Merlin industrial cellular routers and Lynx switches offer the highest mean time between failures (MTBF) on the market. Its dual-SIM feature provides a redundant connection to control centers.

Table 1: Number of DSOs in the EU

	Country	Number of DSOs per country	Number of DSOs > 100,000 customers
1	Austria	126	11
2	Belgium	16	12
3	Bulgaria	4	4
4	Croatia	1	1
5	Cyprus	1	1
6	Czech Republic	290	3
7	Denmark	40	10
8	Estonia	34	1
9	Finland	77	9
10	France	144	6
11	Germany	883	80
12	Greece	1	1
13	Hungary	6	6
14	Ireland	1	1
15	Italy	128	8
16	Latvia	11	1
17	Lithuania	6	1
18	Luxembourg	4	1
19	Malta	1	0
20	Netherlands	6	6
21	Poland	184	5
22	Portugal	13	1
23	Romania	51	8
24	Slovakia	3	3
25	Slovenia	1	1
26	Spain	354	5
27	Sweden	170	6
	Total	2556	182

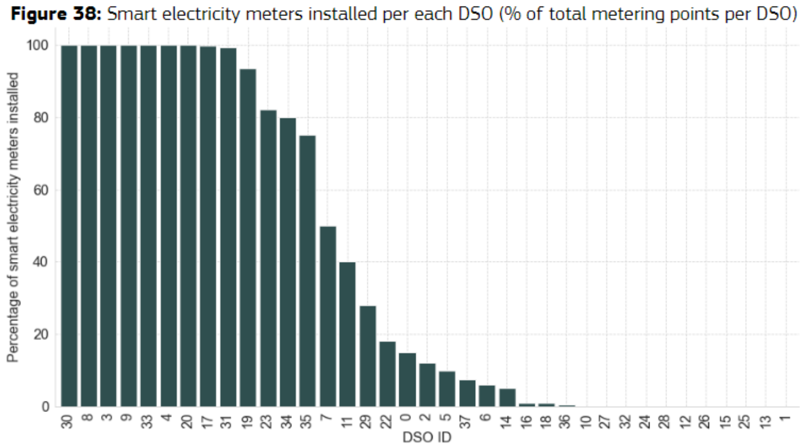
Source: Eurelectric, 2020.

As one can see, the European countries have quite different structures, with, for example, Germany at 883 DSOs, while Greece only has one. If we take Sweden as a more granular example, one can see that there are 170 DSOs of different sizes. Only 6 out of 170 (or 3.5%) have more than 100,000 customers connected to their distribution systems. There are three dominant local market leaders in Sweden: E. ON, Vattenfall, and Ellevio, which have a full distribution range from 130 – 0.4 kV. Then there are several mid-sized DSOs, such as Karlstads Energi and Norrtälje Energi. And lastly, there are many smaller local DSOs, often with only a few thousand customers, like Västervik Miljö & Energi (that serve low ranges like 20 – 0.4 kV). Combined, all the Swedish DSOs service around 175,000 substations.

Consequently, would Westermo become a supplier of equipment to E. ON, Vattenfall, or Ellevio in Sweden (directly or indirectly through service companies or substation manufacturers such as Holtab), we expect the order values to be quite substantial. Westermo has already served numerous sizeable European utility operators, from Spain to Austria, to help them transition to a smart grid infrastructure. Westermo writes on its website: “With electricity companies having perhaps more than 100,000 secondary substations to manage from a single control centre, maintenance is usually reactive, making it harder to maintain the quality of energy supply. Considering the high number of devices to be installed, ease of configuration and maintenance is essential to ensure these projects are viable.” High mean time between failures, high cybersecurity standards, and cost-effective rollouts are therefore critical.

In contrast to the train segment, where single large orders or framework agreements of SEK 50-250m are inked, the power distribution side has so far not resulted in any sizeable orders being solely announced by Beijer Group, further confirming the market’s more decentralized character. We expect many mid-sized orders going forward, which should give Westermo a steadier order intake flow. We believe these orders will go ‘under the radar’ but nonetheless be significant, combined.

Smart metering infrastructure

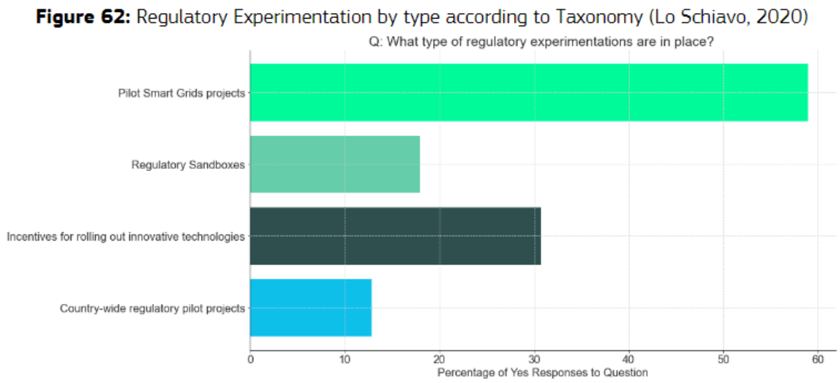


Source: Distribution System Operator Observatory 2020, Redeye Research

An indicator of how the DSO operations' digitalization is progressing is the roll-out of smart meters. Of almost 140 million metering points managed by the European DSOs replying to the Distribution System Operator Observatory 2020 survey, around 88 million have already been replaced with smart meters, equivalent to 63% of the total metering points. Moreover, the installation rate is very uneven, with half of the answering parties having only 12% smart meters of their total metering points. The EU has a directive of targeting 80%, and if that is going to be met in a few years' time, an additional 23 million smart meters must be installed. The report concludes that if one assumes an average cost of EUR 200 to equip each metering point with a smart meter alternative, the subsequent investments will correspond to roughly EUR 4.6bn in the coming years.

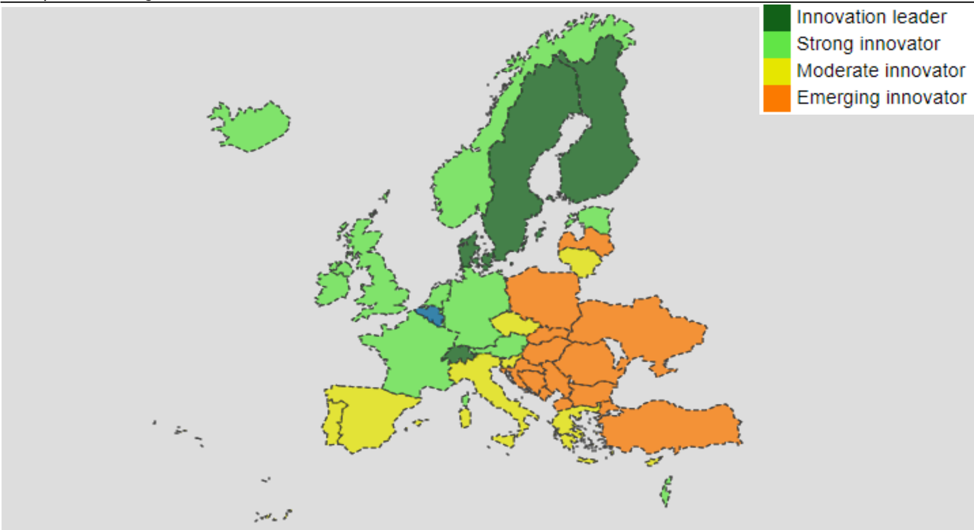
Lastly, the report concludes that "Control and observability over the distribution grid can also be achieved by remotely controlling substations: data point to the fact that while this type of asset control is well-spread at the HV - MV substations, it is not common at MV level: over 3/4 of respondents had less than 7.5% of their MV substations remotely controllable. Conversely, the use of SCADA systems is in place for almost all DSOs in our sample. When dealing with management of advanced technologies, the picture becomes fragmented: they are used for asset planning and investment strategies, sensors are widespread for detection of outages, while the majority is not implementing advanced load, storage or DER management tools."

New technology is set to enter the grid systems over the coming years - pushed by different types of incentives and projects



Source: JRC, 2020, Redeye Research

European and Regional Innovation Scoreboards 2021



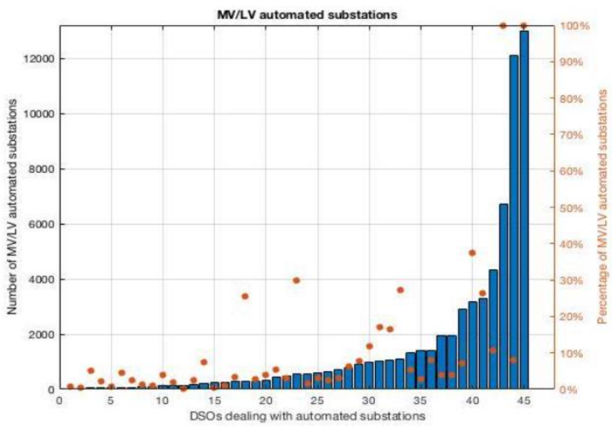
Source: interactivetool.eu, Redeye Research

Consequently, it seems to be a gap in the market ready to be filled with new routers such as the Merlin range. We expect Westermo to target many of the MV substations and make them remotely controllable/digitalized. We also assume a successive rollout not dissimilar to the smart metering one, where certain DSOs lead the push forward. Countries with high innovation pace and much renewable energy in the grid systems should be the first out.

We would not be surprised to see the power distribution revenues alone exceed SEK 0.5bn in a couple of years (i.e., be important for the order intake 2022/23 and forward). Given the extensive investment plans of hundreds of European DSOs as more renewable energy enters the grid systems, and that over 3/4 of the respondents of the Distribution System Operator Observatory 2020 survey had less than 7.5% of their MV substations remotely controllable today, we expect a significant market pickup. The newly launched Merlin range has been "designed to be easy to install and maintain. When coupled with Westermo's zero touch deployment software activator, the Merlin devices provide cost-effective, reliable and consistent onboarding within large-scale projects." The first Merlin products are the 4600 series, targeting the smart grid, demanding industrial and trackside rail applications (highlighting Westermo's product portfolio synergy once again). The routers meet the requirements of IEC 61850-3 Class 1 Medium Voltage substation and railway trackside EN 50121-4 standards.

Low automation grade of European MV/LV substations

Figure 31. Number of automated MV/LV substations for the DSOs that deal with automated substations



Source: JRC 2018, Redeye Research

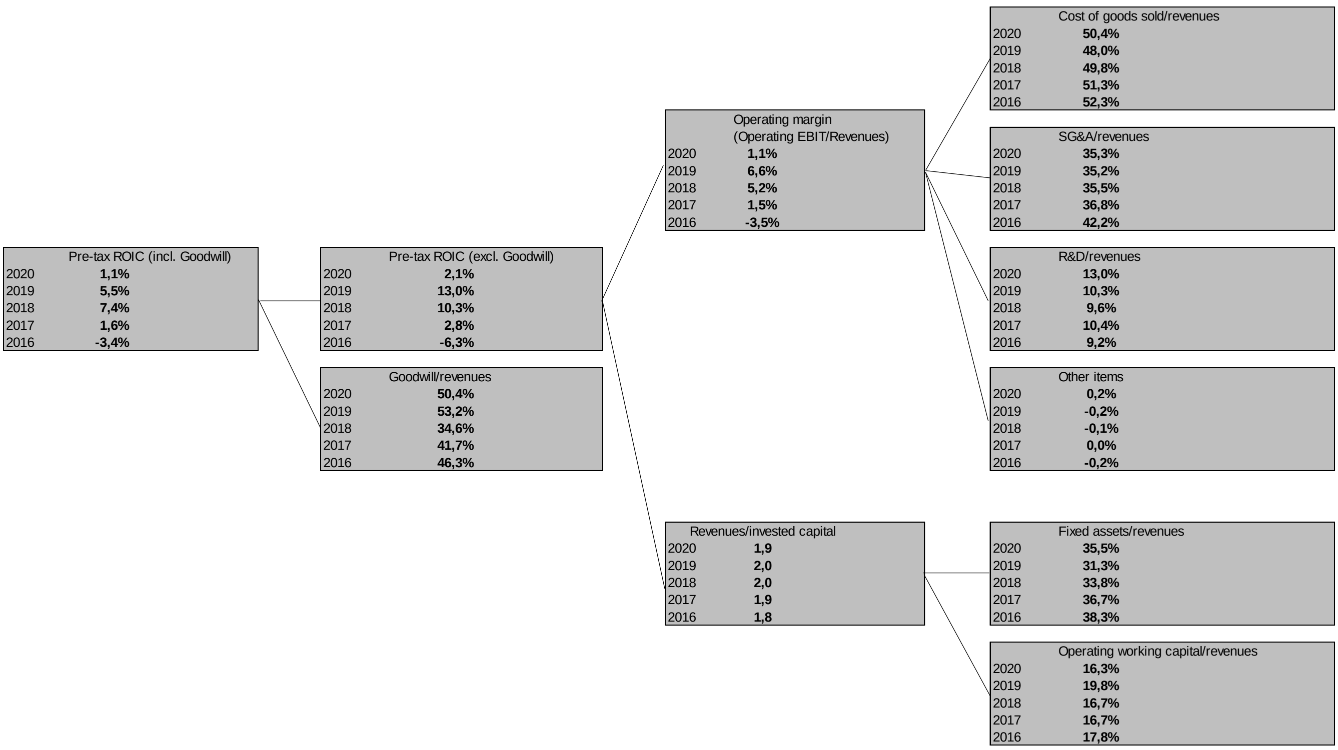
Operating Leverage

Profitability follows larger volumes and operational excellence. Beijer Group's management has worked extensively with both in the form of R&D, bolt-on acquisitions, organizational changes (more decentralized structure where decisions are pushed closer to the customers) and cost-savings programs, to name a few. In short, excluding 2020, which must be considered an outlier year, Beijer Group has improved the gross margin and SG&A as a percentage of sales every year.

Beijer Electronics' is a good example of how the gradual improvements have been accomplished. First, sales increased from around SEK 623m to SEK 756m between 2016 and 2019. This while the organization stayed more or less even with around 350-370 employees (it even decreased in 2020 following the cost-savings programs). Moreover, Beijer Electronics made a strategic decision to center around just a few product families/platforms. Many end-of-life platforms, some of which entered through acquisitions, were phased out. This phase-out is now completed in 2021, and the company's X2-series are built on a common platform and operating system (iX). It is a step away from a previous situation where a handful of platforms were in use, that needed a more complex supply chain. The tightened X2 supply chain requires fewer spare parts (printed circuit boards, for example). Moreover, it is cheaper and easier to maintain and further develop products by having a common hardware and software standard, driving complexity down and profitability up. Around 80% of Beijer Electronics' products are standardized and 20% tailor-made.

For Westermo, which has more large projects/orders, approximately 60-70% of the total sales are of standardized products, while 30-40% are customized. However, Westermo has recently been better at packaging and charging for specialized solutions, as consulting/maintenance often is more complex and costly.

Beijer Group's pre-tax ROIC tree 2016-2020 (Redeye's estimates)



Source: Beijer Group, Redeye Research

New Estimates

Q3'21 was almost exactly in line with our estimates, and we are not making any significant near-term changes. We decrease our 2021 estimates by 2% because of the component shortage, keep the 2022e intact and increase the 2023e with 2.5%. However, we are upping the mid-term estimates to a certain degree, as we believe the current business momentum is more than a general demand pickup and instead telltale signs that some of the management's organizational changes have taken root. As we previously mentioned, the combination of focused R&D spending and bolt-on acquisitions have led Beijer Group to have one of the most complete and competitive product portfolios out in the market, translating into evermore design wins and a network of pleased customers. Almost 70% of all sales derive from new products that have been launched in the last five years and the payback time is on average 2-3 years (i.e., good return on investment on the R&D). Finished products (HMIs, ethernet switches, routers, etc.) are often specific to and embedded in the customers' end-products/solutions. A design win can generate repeatable and stable revenues for a long time (product cycles can be up to ten years).

Thus, we believe Beijer Group can start to harvest some of the plants and benefit from numerous design wins over the next couple of years. This does not mean that we believe Beijer Group will slow down in any way, but instead that some of the early investments are finally 'catching up' and will show up in the P&L in the form of stable sales to low incremental OPEX (translating to improved profitability). Consequently, the growth today is more constrained by external factors (component shortages) than on actual customer demand, which seem to be at all-time highs, just like the order backlog of SEK >850m.

Beijer Group: Estimates, '20-'23E

(SEKm)	2020	Q1'21A	Q2'21A	Q3'21A	Q4'21E	2021E	2022E	2023E
Sales (group adjusted)	**1 438**	**351**	**390**	**412**	**433**	**1 585**	**1 902**	**2 159**
growth y/y	*-7,8%*	*-11,2%*	*9,0%*	*23,0%*	*23,6%*	*10,3%*	*20,0%*	*13,5%*
Beijer Electronics	599	144	164	186	189	683	800	886
Westermo	769	187	206	204	220	817	1001	1162
Korenix	84	28	29	29	29	102	115	126
Total costs (excl. D&A)	1 273	312	343	342	360	1 357	1 525	1 623
EBITDA	**164**	**39**	**47**	**69**	**73**	**229**	**377**	**536**
(%)	11,4%	11,2%	12,1%	16,8%	16,8%	14,4%	19,8%	24,8%
D&A	148	35	37	37	38	148	148	178
EBIT	**16**	**5**	**10**	**32**	**35**	**81**	**228**	**358**
(%)	*1,1%*	*1,3%*	*2,5%*	*7,8%*	*8,0%*	*5,1%*	*12,0%*	*16,6%*

Source: Beijer Group, Redeye Research

Valuation

	EV	Sales	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin			Gross margin
Company	**(local)**	**20A**	**20A**	**21E**	**22E**	**20A**	**21E**	**22E**	**20A**	**21E**	**22E**	**20A**	**21E**	**22E**	**21E**
CTT	3 164	201	15,8	19,9	10,1	78	93	27	-43%	-21%	97%	20,3%	21,4%	37,7%	100,1%
Hexagon	357 112	39 564	9,0	8,2	7,5	43	29	26	-4%	10%	9%	21,0%	27,9%	28,5%	64,1%
IAR	90 707	9 941	9,1	8,6	7,9	79	60	55	6%	6%	9%	11,6%	14,3%	14,4%	44,7%
Tomra	24 900	1 717	14,5	9,8	9,1	77	45	42	-3%	47%	8%	18,9%	22,1%	21,5%	39,0%
Troax	1 104	345	3,2	3,2	3,0	12	13	10	-11%	0%	8%	26,2%	25,6%	28,5%	68,7%
HMS	25 891	1 467	17,7	13,5	12,0	92	56	53	-3%	31%	12%	19,2%	23,9%	22,5%	63,0%
Belden	2 995	1 863	1,6	1,3	1,2	24	10	9	-13%	26%	4%	6,7%	13,2%	13,6%	36,1%
Advantech	299 046	51 119	5,8	5,2	4,6	33	31	25	-6%	12%	13%	17,6%	16,9%	18,5%	38,0%
Spectris	4 217	1 336	3,2	3,2	3,1	937	20	18	-18%	-1%	3%	0,3%	16,1%	17,2%	n/a
Siemens	132 532	57 139	2,3	2,2	2,0	19	20	16	-2%	7%	6%	12,4%	11,0%	12,7%	35,7%
Rockwell	40 290	6 331	6,4	5,7	5,2	33	31	27	-5%	12%	9%	19,5%	18,4%	19,3%	41,1%
Median	**25 891**	**1 863**	**6,4**	**5,7**	**5,2**	**43**	**31**	**26**	**-5%**	**10%**	**9%**	**19%**	**18%**	**19%**	**43%**
Average	**89 269**	**15 548**	**8,1**	**7,3**	**6,0**	**130**	**37**	**28**	**-9%**	**12%**	**16%**	**16%**	**19%**	**21%**	**53%**

Source: Redeye, FactSet

We increase our fair value range slightly, seeing higher demand for the Beijer Group's product portfolio. And we are primarily upping the mid-term estimates.

One can also see that Beijer Group trades at a discount compared to many peers that have shown more stable profitability in the last couple of years. With time, this discount should shrink.

Bear Case SEK 40

- CAGR sales ~6.5% next ten years
- Average EBIT margin of ~10% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 7%

In our bear case, we assume a slower pick up after the Covid-19 pandemic and prolonged effects from component shortages. Moreover, the WeGrow strategy does not lead to much greater growth and margins as competition increases in the segments. Beijer Group continues to have below average margins and profitability on invested capital (ROIC).

Base Case SEK 82

- CAGR sales ~10% next ten years
- Average EBIT margin of ~13% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 8%

Beijer Group grows at >7% annually in our base case and improves its margins, thus beating its financial goals. EBIT peaks at 16.5% and then goes down as competition increases in its segments to around 12%. Beijer Group has, nonetheless, substantially higher 'lower levels' in this scenario. Not all business entities accomplish their capacity goals.

Bull Case SEK 115

- CAGR sales ~11% next ten years
- Average EBIT margin of ~15% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 10%

Beijer Group meets the capacity targets of 10% in 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 and Korenix also improve their profitability with fewer product platform families and more cooperation. Beijer Group's profitability is in line with other well-managed industrial companies. We also expect a multiple rerating.

	2020	2021E	2022E	2023E
INCOME STATEMENT				
Revenues	1438	1585	1902	2159
Cost of Revenues	724	779	913	1004
Gross Profit	713	806	989	1155
Operating Expenses	549	578	612	619
EBITDA	164	229	377	536
Depreciation & Amortization	148	148	148	178
EBIT	16	81	228	358
Net Financial Items	-22	-16	-11	-4
EBT	-6	65	216	352
Income Tax Expenses	0	14	45	74
Non-Controlling Interest	4	4	4	4
Net Income	-6	51	170	278
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	121	100	100	134
Inventories	177	213	250	261
Accounts Receivable	251	304	365	414
Other Current Assets	46	48	57	65
Total Current Assets	595	665	772	874
Non-current assets				
Property, Plant & Equipment, Net	96	86	103	124
Goodwill	766	845	845	845
Intangible Assets	267	292	281	283
Right-of-Use Assets	99	101	242	333
Shares in Associates	0	0	0	0
Other Long-Term Assets	61	65	84	106
Total Non-Current Assets	1289	1390	1555	1691
Total Assets	1884	2055	2327	2564
Liabilities				
Current liabilities				
Short-Term Debt	153	270	138	0
Short-Term Lease Liabilities	30	53	53	53
Accounts Payable	103	117	138	151
Other Current Liabilities	153	159	190	209
Total Current Liabilities	439	599	519	414
Non-current liabilities				
Long-Term Debt	410	344	344	344
Long-Term Lease Liabilities	69	70	211	302
Other Long-Term Liabilities	326	301	342	367
Total Non-current Liabilities	804	716	898	1013
Non-Controlling Interest	4	4	4	4
Shareholder's Equity	637	736	906	1133
Total Liabilities & Equity	1884	2055	2327	2564
CASH FLOW				
NOPAT	16	64	180	283
Change in Working Capital	37	-48	-55	-35
Operating Cash Flow	194	40	305	445
Capital Expenditures	-59	-4	-38	-43
Investment in Intangible Assets	-23	-22	-86	-97
Investing Cash Flow	-82	-191	-143	-162
Financing Cash Flow	-101	124	-162	-249
Free Cash Flow	112	14	181	305

DCF Valuation Metrics	**Sum FCF (SEKm)**
Initial Period (2021–2024)	657,27
Momentum Period (2025–2029)	912,60
Stable Period (2030–)	1602,13
Firm Value	3171,99
Net Debt	821,72
Equity Value	2350,27
Fair Value per Share	81,18

	2020	2021E	2022E	2023E
CAPITAL STRUCTURE				
Equity Ratio	0,3	0,4	0,4	0,4
Debt to equity	0,9	0,8	0,5	0,3
Net Debt	442	514	382	211
Capital Employed	1445	1456	1808	2151
Working Capital Turnover	7,6	6,7	6,5	6,6
GROWTH				
Revenue Growth	-8%	10%	20%	14%
Basic EPS Growth	-109%	-940%	232%	63%
Adjusted Basic EPS Growth	-109%	-940%	232%	63%
PROFITABILITY				
ROE	-1%	7%	21%	27%
ROCE	1%	6%	13%	17%
ROIC	1%	5%	12%	18%
EBITDA Margin (%)	11%	14%	20%	25%
EBIT Margin (%)	1%	5%	12%	17%
Net Income Margin (%)	0%	3%	9%	13%
VALUATION				
Basic EPS	-0,2	1,8	5,9	9,6
Adjusted Basic EPS	-0,2	1,8	5,9	9,6
P/E	neg	62,7	18,9	11,6
EV/Revenue	2,6	2,4	1,9	1,6
EV/EBITDA	22,7	16,3	9,6	6,4
EV/EBIT	235,3	46,1	15,8	9,6
P/B	5,1	4,4	3,6	2,8

SHAREHOLDER STRUCTURE	**CAPITAL**	**VOTES %**
Stena	29,4%	29,6%
Svolder	15,1%	15,2%
Nordea Fonder	12,4%	12,5%
Fjärde AP-fonden	9,4%	9,5%
Cliens Fonder	3,6%	3,6%

SHARE INFORMATION	
Reuters code	BELE.b
List	Small Cap
Share price	---,--
Total shares, million	28,9519

MANAGEMENT & BOARD	
CEO	Per Samuelsson
CFO	Joakim Laurén
Chairman	Bo Elisson

ANALYSTS	Redeye AB
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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 points. The maximum score for a valuation key is 5 points.

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, Beijer Group gains the highest points from its open communication, qualified and experienced board, and compensation. Relevant industry experience characterizes BELE's management and board of directors. Management shows a good understanding for the targeted markets and has a clear long-term focus. BELE 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. Beijer Group 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, BELE'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 (2021-11-24)

Rating	People	Business	Financials
5	32	14	3
3-4	139	125	43
0-2	5	37	130
Total	176	176	176

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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.