# Beijer Group

Sector: Industrial Goods & Services

## Volume and Operational Excellence

*Redeye increases its estimates and fair value range of Beijer Group after a review of the case. We argue that the company offers investors a compelling combination of organic and acquired growth, coupled with margin expansion and a good chance of multiple rerating. This thanks to a rejuvenated high-end product portfolio, years of relation-building, and a well-staffed organization, ready for when demand returns across its markets.*

### Looking beyond Covid-19

Beijer Group reported a lukewarm Q1'21, which was affected by both the pandemic and a global shortage of certain electronic components. But there were positive signs as well, such as a Beijer Electronics' order intake (+25% y/y adjusted for currency effects).

Nonetheless, current headwinds are temporary, and Redeye would like to highlight Beijer Group's strengthening position within its markets. The company has invested heavily in R&D and bolt-on acquisitions, and the renewed product portfolio is steadily gaining traction. We believe investors underestimate the signaling value of major design wins to customers such as Alstom and Otis.

### Operating leverage and volume

We expect Beijer Group to achieve much better EBIT margins (~15%), on the back of increased volumes and operational excellence. Further efficiencies in the supply chain could improve the gross margin by a couple of percentage points, and the current SG&A levels are capable of handling sales volumes that are 30-40% above today's levels (i.e., SEK >2bn).

### No optimism priced in

We argue that Beijer Group offers investors a compelling combination of steady organic growth (and some acquired), coupled with margin expansion and a good chance of multiple rerating. The company trades at a significant discount compared to both Nordic industrial peers and international peers in the same industry.

We believe the reason lies in Beijer Group's historical difficulties to achieve good margins and returns on invested capital. However, we expect this to change in the coming years, thanks to the high-end product portfolio and the ensuing operating leverage when volumes increase. We have already seen signs of it in the incremental EBIT margins prior to the pandemic. Thus, we have increased our base case to SEK 65 (SEK 42).

**Beijer Group - near-term forecasts**

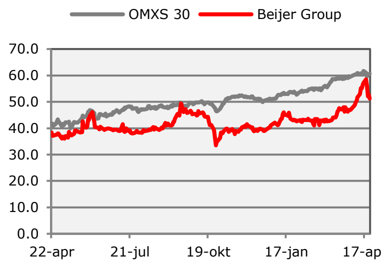
| (SEKm) | 2018 | 2019 | 2020 | Q1'21A | Q2'21E | Q3'21E | Q4'21E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 1417 | 1559 | 1438 | 351 | 401 | 421 | 455 | 1628 | 1831 | 2050 |
| Growth (%) | 17,5% | 10,0% | -7,8% | -11,2% | 12,1% | 25,7% | 30,4% | 13,2% | 12,5% | 12,0% |
| EBITDA | 151 | 227 | 123 | 39 | 59 | 70 | 80 | 249 | 361 | 505 |
| EBITDA margin (%) | 10,6% | 14,6% | 8,6% | 11,2% | 14,7% | 16,7% | 17,6% | 15,3% | 19,7% | 24,6% |
| EBIT | 74 | 103 | 16 | 5 | 21 | 32 | 41 | 99 | 211 | 330 |
| EBIT margin (%) | 5,2% | 6,6% | 1,1% | 1,3% | 5,3% | 7,6% | 9,0% | 6,1% | 11,5% | 16,1% |
| EPS | 1,5 | 2,3 | -0,21 | 0,06 | 0,54 | 0,84 | 1,09 | 2,5 | 5,5 | 8,9 |
| EV/Sales | | | | | | | | 1,3 | 1,2 | 1,1 |
| EV/EBITDA | | | | | | | | 8,8 | 6,0 | 4,3 |
| EV/EBIT | | | | | | | | 22,1 | 10,4 | 6,6 |

Source: Beijer Group, Redeye Research

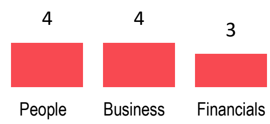
**FAIR VALUE RANGE**

| BEAR | BASE | BULL |
|---|---|---|
| 35 | 65 | 95 |

**VERSUS OMXS30**




**REDEYE RATING**




**KEY STATS**

| | |
|---|---|
| Ticker | BELE |
| Market | Small Cap |
| Share Price (SEK) | 51,3 |
| Market Cap (MSEK) | 1480 |
| Net Debt 21E (MSEK) | 701 |
| Free Float | 45 % |
| Avg. daily volume ('000) | 80 |

**ANALYSTS**

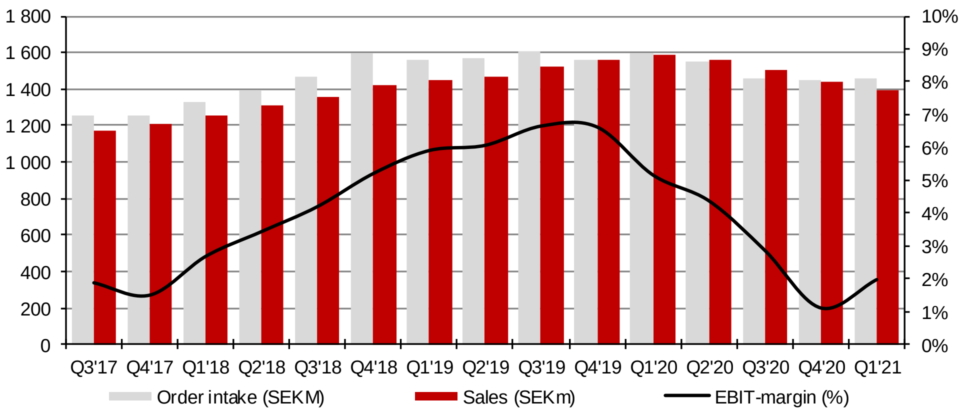
Mark Siöstedt
mark.siostedt@redeye.se
Henrik Alveskog
henrik.alveskog@redeye.se

# Q1'21

Q1'21 sales decreased by 11% y/y and amounted to SEK 351m. However, sales were in line with Q4'20 and the EBIT returned to black numbers, SEK 4.6m, on the back of the cost-savings program initiated early last year. Free cash flow was SEK -18m, mainly driven by increases in working capital.

Moreover, the report's most important number, the order intake, continued to show sequential strength and ended at SEK 417m, up ~3% y/y and 5% q/q. Beijer Electronics and Korenix were responsible for the increase, while Westermo had a little quieter quarter. One should remember that Westermo has an element of project business, which means that order intake can fluctuate between individual quarters. Q1'20 was also a record quarter for Westermo, which made the comps harder to beat. Nonetheless, management sounded confident on the conference call that larger orders are to be expected later this year. In January, Beijer Group announced that Westermo had signed a five-year supply agreement with the French train manufacturer Alstom, worth at least SEK 250m.

Beijer Group: Trailing twelve months (TTM) order Intake, sales, and EBIT margin




Sources: Beijer Group, Redeye Research

Beijer Electronics' order intake, with strong demand in all geographical regions: Americas, EMEA, and APAC, was the report's highlight. We expect that the entity will return to solid profitability in 2021. The overall backlog is at SEK 565m, which is an all-time high and the book-to-bill ratio indicates that there is a solid demand recovery in the market.

Covid-19 is still impacting the markets, and some customers have deferred orders, and transactions take a little longer to execute. Furthermore, Westermo, Beijer Electronics, and Korenix had some losses of deliveries due to a global shortage of certain electronic components, negatively impacting sales by around 8-10%. However, the shortage seems to be transitory, and Beijer Group has not permanently lost business. Thus, we expect Beijer Group to 'win back' the lost sales in Q2 and Q3.

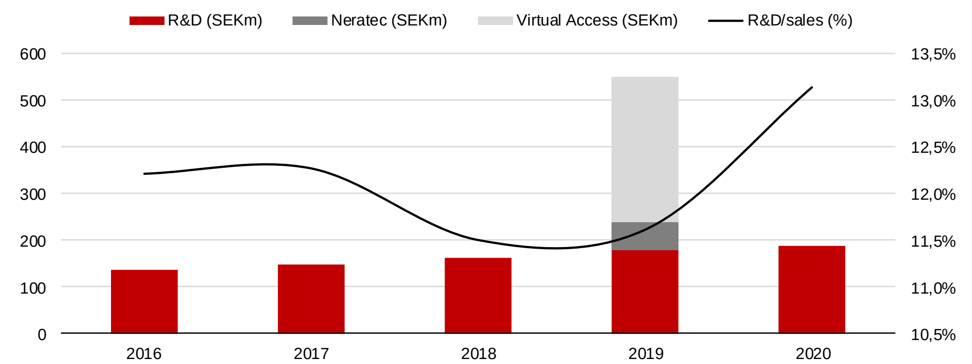
# Beijer Group – So Far

When Beijer Group and Mitsubishi Electric terminated their 33-year long partnership agreement at the turn of the year 2015/16, Beijer Group's product portfolio was, to a large degree, end of life.

From 2016 and forward, management, with CEO Per Samuelsson at the helm, spearheaded a portfolio renewal program with substantial investments in R&D, as well as new recruitments in marketing, sales, and support. Management also decentralized the organization, so more decisions were made closer to the customer (and to easier keep an ear to the rail, so to speak).

Since 2016, Beijer Group has invested more than SEK 800m in R&D and constantly kept the R&D in relation to sales in the range of ~11.5-13%. Moreover, the bolt-on acquisitions of Neratec, Virtual Access, and ELTEC have added additional capacity. In total, around SEK 1.45bn has been invested (or will be, depending on future outcomes) since the partnership ended, including capital expenditures and the contingent considerations. That is equivalent to the company's current market capitalization.

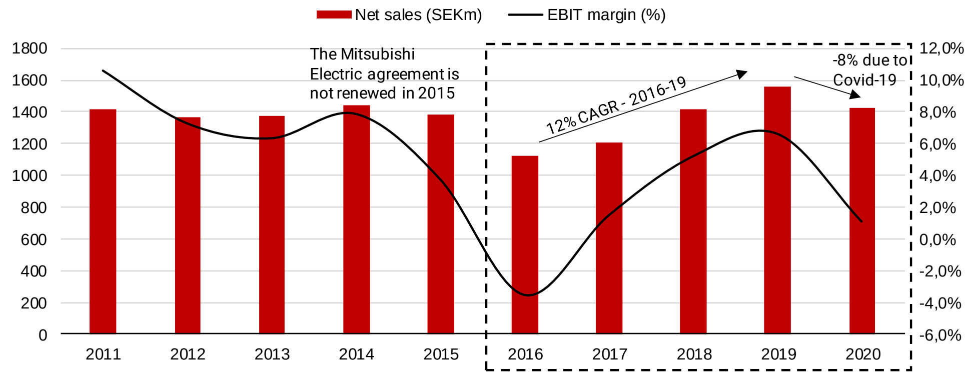
Around SEK 1.3bn has been invested since 2016 in R&D and bolt-on acquisitions (including contingent consideration)




Source: Beijer Group, Redeye Research

Beijer Group's business model builds on design wins, often with successive ramp-ups over time and additional orders from satisfied customers. Between 2016 and 2019, Beijer started to show traction in the market, although profitability still was lackluster. It grew by a CAGR of 12% in the period before Covid-19, but the pandemic and the entailing uncertainty broke the positive upward-moving trend. Thus, Beijer Group never reached the critical mass, where the fixed and semi-fixed costs start to spread out on larger volumes, seriously reshaping the margins. However, there were signs of it happening in the last two years, as the incremental EBIT margin was 22% between 2017 and 2019.

Steady turnaround since 2016 (excluding Covid-19's impact on 2020)



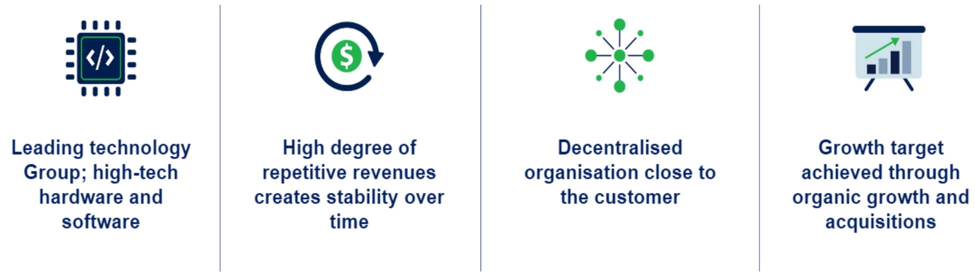

Source: Beijer Group, Redeye Research

Beijer Group has financial targets of achieving at least 7% in annual growth and having an EBIT margin of 10% over a business cycle. It has managed the growth part, but not yet the margins.

On the other hand, all business entities in Beijer Group (and future acquisitions) are expected to have the capability to grow organically at 10% a year and generate an EBIT margin of 15%. According to management, the rejuvenated product portfolio is truly (and finally) competitive on the global stage. Several medium to large-sized design wins back that up, indicating that the financial targets could be upgraded in the near term when EBIT hits >10%.

Insiders have also acquired shares in recent months (partly tied to the incentive program where they have to match their stakes).

Beijer Group's stated reasons to invest in the company




Source: Beijer Group, Redeye Research

# The Design Win Process

## Long Product Cycles

Beijer Group's business model builds on 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 the 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.

WeOS - a leading-edge industrial network operating system


Source: Beijer Group, Redeye Research

Well-functioning partnerships create exclusivity and stickiness (barriers to entry). For example, Beijer Electronics and Alfa Laval have long-standing cooperation on the ballast water treatment system side. Beijer Electronics' initial design win, eight-nine years ago, has successively been renewed when new ballast water treatment systems have been developed/upgraded, and marketed. Also, more than 50% of Westermo's sales are from design wins with recurring features.

### Trust and technical expertise

There is a big difference between larger and smaller design wins. If Beijer Group's component has a relatively low value in the customer's eyes, both companies' engineers often work together, and the process is usually not as competitive. On the other hand, if the component is critical or the design win's total lifetime value is significant, Beijer Group's customers generally use procurement officers and deeper due diligence. The process then becomes more competitive, as the customers typically evaluate several potential suppliers. Larger corporations also try to price pressure as much as they can.

However, once a manufacturer has selected its supplier(s), the procurement creates exclusivity. Manufacturers try to keep the number of suppliers down to one or two for a single component, as it would not be feasible to have four or five suppliers for the same part.

Trusted supplier to world-leading companies


Source: Beijer Group, Redeye Research

A great illustrative example of this is Beijer Electronics' SEK 150m five-year agreement with the global elevator company Otis. Otis conducted in-depth due diligence, where it audited Beijer's manufacturing plants, its ability to manage the supply chain, and the technical expertise/support. Beijer Group's entities work in a business environment where trust is essential, and being a reliable supplier is more than just having the right technical expertise. Should Beijer Electronics' component fail (display solutions in the elevator dispatching system Compass 360), then Otis would not be able to sell its elevator system worldwide for as long as the issue is not resolved, which would lead to lost sales (and huge costs). Stability is crucial if a design win means that a whole end-product relies on the component. Also, besides the qualities mentioned above, Beijer Group's ownership base (Stena, etc.) and its solid financials are important as well. Beijer Group is big enough to be a safe and stable partner and small enough to be nimble and easy to cooperate with.

### Long relations and stickiness

The B2B process is often complex, and inter-personal and inter-organizational relations are crucial. Beijer Group's Otis connection originated from a US-based acquisition, where management had ties to the elevator manufacturer, which helped in the initial process.

With time, inter-personal relations shift into more inter-organizational, as engineers cooperate and develop new solutions. In the Alstom/Bombardier Transportation cases, year-long relations lie behind larger design wins, such as the SEK 250m agreement in January 2021. Collaborations on a range of small to medium-sized projects can turn into larger ones when the companies have come to know each other well.

When one has passed the 'needle's eye' and won a procurement, there are positive spill-over effects and long-term stickiness. Well-functioning collaborations unsurprisingly increase the likelihood of follow-up orders and new design wins. It is more cost-efficient and bears lower risk for a manufacturer to continue working with a well-functioning supplier already in the loop, then starting all over again.

Thus, a design win can carry a much higher value than the initial order gives shine off. This is especially true when larger long-term design wins are announced, such as with Otis and Alstom, as it confirms trust and commitment. Beijer Group's engineers will then work closely with the manufacturers' engineers, forging closer relations and a deeper understanding of each other's needs. Moreover, Beijer Group can then accordingly adjust its components to fit the customers' forward-looking requirements. It is a strong competitive advantage for an incumbent supplier.

**Westermo's agreement with Alstom – a good example of the business model**

Westermo's five-year supply agreement with the French train manufacturer Alstom, worth at least SEK 250m, is a good example of how the general business model works. Westermo had been a supplier of data communication equipment to Alstom since 2017 and signed several small to medium-sized agreements before the larger one. Thus, the two organizations knew each other well.

Westermo's product portfolio contains quality components that 'always work.' Robustness, reliability, and a reasonable total cost of ownership are important factors, while a low initial price does not carry the same weight. Communication components (switches, etc.) are only a tiny fraction of a train's total cost (around one percent or even less). Westermo's ethernet switches can cost SEK 2-10 thousand each, and a carriage needs four to eight switches. Thus, the quality of critical components is more important than a 20% lower price. When large volume agreements are signed, Westermo can do some customization. Otherwise, it usually works as much as it can with standardized equipment.

High-speed communication networks on-board rail vehicles

Source: Westermo, Redeye Research

The five-year agreement gives Westermo exclusive rights to supply certain Alstom train series with networking technology for video surveillance, passenger information, and loudspeaker systems onboard. Furthermore, the contract specifies a minimum volume (and value) but could expand if Alstom's train sales forecasts increase, giving the agreement a built-in optionality of higher sales (to low or no incremental expenses below the cost of goods sold for Westermo).

If the cooperation works well, new design wins could be inked, with low risk for Alstom, and much upside for Westermo in terms of volume.

# Markets and Competition

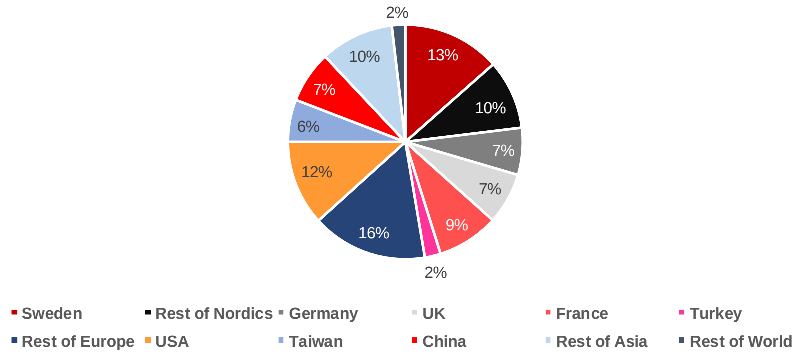
### Current markets

Although Beijer Group is a global company serving customers worldwide, Europe is its primary market, making up more than 60% of the sales. Many of its largest customers are Western companies, such as Alstom (including Bombardier Transportation), Otis, Stadler, and Alfa Laval.

Main customer segments


Source: Beijer Group, Redeye Research

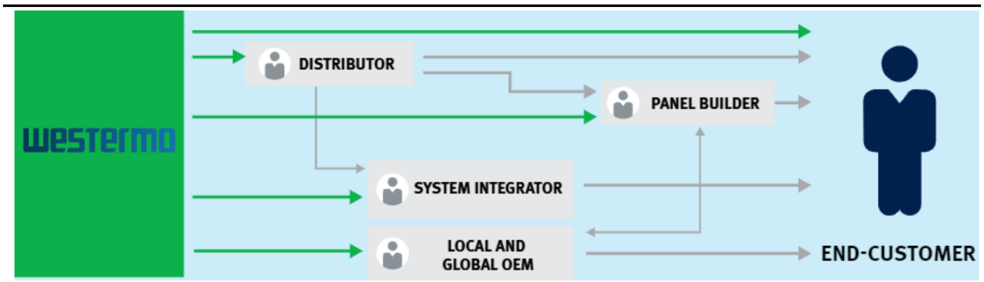
Geographical market in 2020




Source: Beijer Group, Redeye Research

Westermo, the largest entity in Beijer Group, both sales, and EBIT-wise, addresses the infrastructure market, including transportation systems, energy systems, and water supply, as well as a range of industrial sectors. Westermo is estimated to have around 5% of the global industrial network product market share. The industrial data communication market, which Korenix operates in as well, is expected to grow by >9% a year. The total addressable market is about SEK 15bn. Moreover, Westermo has carved out a market-leading role in the train segment in recent years and gained a global market share of approximately 20%.

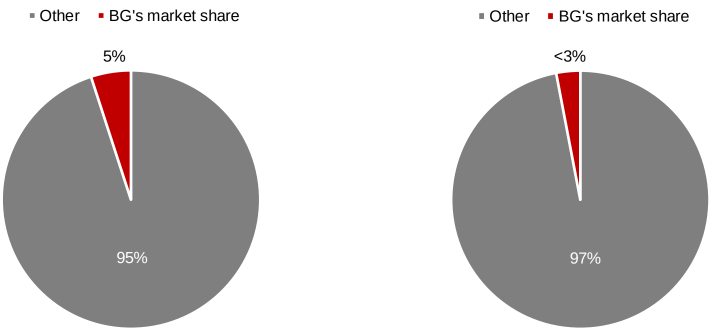
Westermo's sales channel structure




Source: Beijer Group, Redeye Research

Westermo's target markets have a relatively low number of direct competitors, with the proper certificates, technical know-how, stability, and support functions. Instead of competing with ten different companies in procurements, there might be two or three only. As we have already mentioned, price is often not the critical factor, but reliability and robustness, as many components are mission-critical. Westermo is known for quality, and its brand is well-recognized in the West. In Asia-Pacific, the brand is not as widely known today, although it is on the rise.

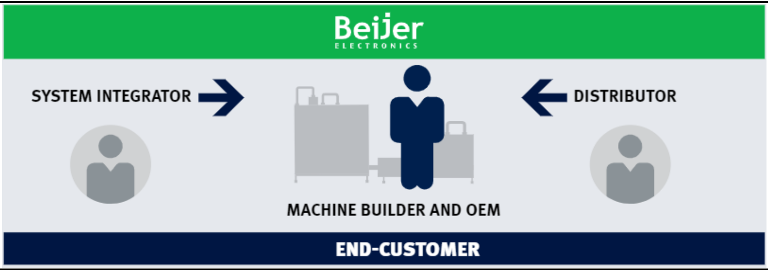
Communication (SEK15bn) on the left and Interaction between people and technology (SEK36bn) on the right




Source: Beijer Group, Redeye Research

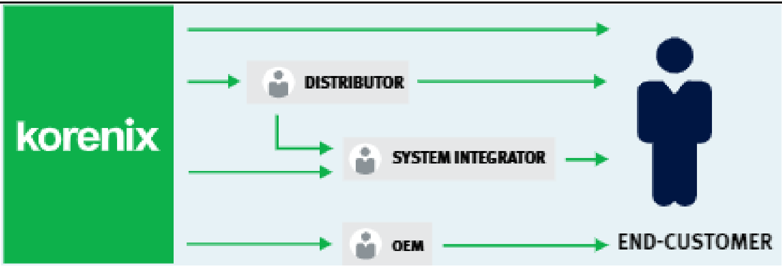
Beijer Electronics is at the leading edge of robust digital solutions and provides specialized, tailored solutions for specific applications in segments like building automation, infrastructure, and water & wastewater. The HMI (hardware, software, and service) market is worth around SEK 36bn and has an expected 6-7% growth rate. Beijer Electronics has more than 3,000 customers worldwide and a market share of <3%. Beijer Electronics is strong in the marine area (ballast water, exhaust purification HMIs) and has a steady foothold in the elevator segment, thanks to the agreement with Otis.

Beijer Electronics' sales channel structure




Source: Beijer Group, Redeye Research

Korenix's sales channel structure

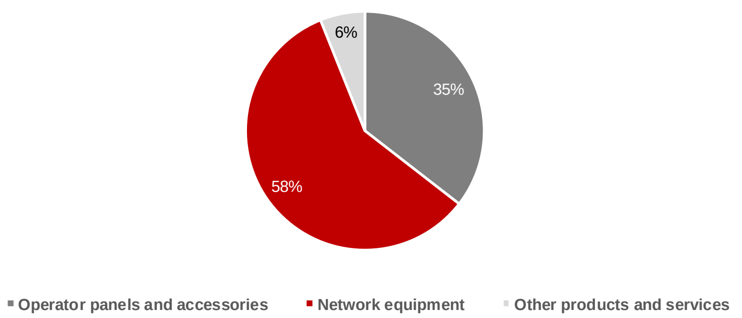



Source: Beijer Group, Redeye Research

Lastly, Korenix primarily focuses on communication solutions for surveillance, security, information, and communication systems. It is collaborating more and more with Beijer Electronics' sales and distribution networks, leveraging the organization to reach more customers in the West.

There are many large corporations with broad product portfolios competing in the different markets. In Europe and the US, the German company Hirschmann (owned by the American conglomerate Belden) is the main competitor of Westermo. In contrast, the two Taiwanese technology companies Advantech and Moxa, are the main competitors in the Asia-Pacific region (where Westermo today has relatively limited sales). Furthermore, large global companies such as UK-based Spectris (with Red Lion), German-based Siemens, and US-based Rockwell offer ethernet switches, HMIs, and general connectivity devices, competing against Westermo, Beijer Electronics, and Korenix alike.

Sales by category in 2020



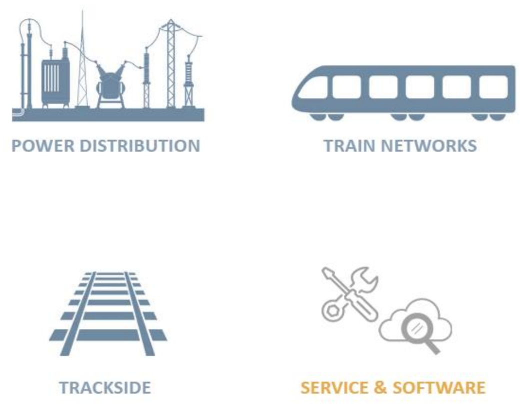

Source: Beijer Group, Redeye Research

## New growth areas

The SEK 1.3bn invested in R&D and bolt-on acquisitions have not only strengthened the current product portfolio but made inroads possible in new areas, such as the train segment, trackside, and energy distribution. Beijer Group took a strategic decision a few years ago to focus on these segments, and in 2021, Westermo had achieved a market-leading role in the train segment, with ~20% market share. Trackside and power distributions are the following growth legs.

Moreover, Beijer Electronics is rapidly growing through its X2-series, and Korenix is introducing the Korenix OS platform, which consists of both upgraded software and hardware.

Westermo's WeGrow strategy




Source: Beijer Group, Redeye Research

**Bolt-on acquisitions**

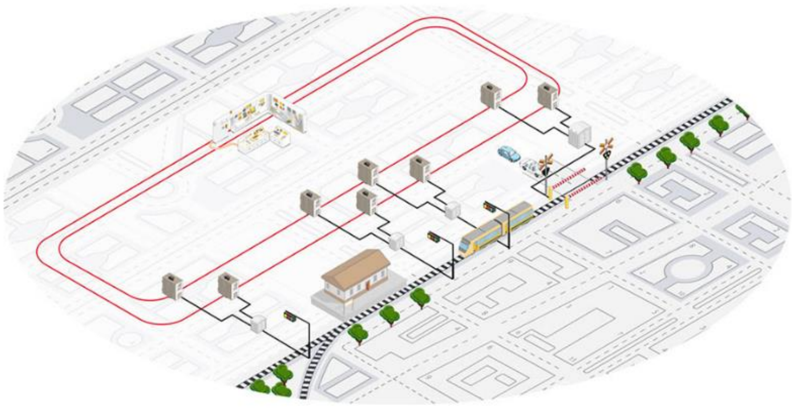
| | |
|---|---|
| **Neratec**, a technology company specialized in WLAN products with a high focus on reliable and robust wireless communication solutions for the train and trackside sector. | **Revenues: SEK 62m (2018)** |
| **Virtual Access**, a technology company specialized in wireless industrial routers and gateways and managed connectivity services for customers mainly in the utility, traffic management and telecommunications sector. | **Revenues: SEK 130m (2019)** |
| **ELTEC**, an innovative player providing wireless communication solutions for passenger information, infotainment and passenger Wi-Fi. | **Revenues: SEK 65m (2020)** |

Source: Beijer Group, Redeye Research

Neratec added capabilities in both the train networks and the trackside segments, while ELTEC's portfolio primarily focuses on train networks. Virtual Access's remote access portfolio (cellular routers etc.) largely strengthened the power distribution and utility side.

Westermo and Neratec had had a close collaboration for many years before the acquisition in 2019. The two organizations knew each other well, and they both catered to a common customer, Alstom (around 80-90% of Neratec's revenues came from Alstom). Westermo's Neratec acquisition, and Alstom's acquisition of Bombardier Transportation (which was another important customer to Westermo), made Alstom Westermo's (and Beijer Group's) largest customer. We estimate that the French train manufacturer constitutes around 10% of Beijer Group's total revenues.

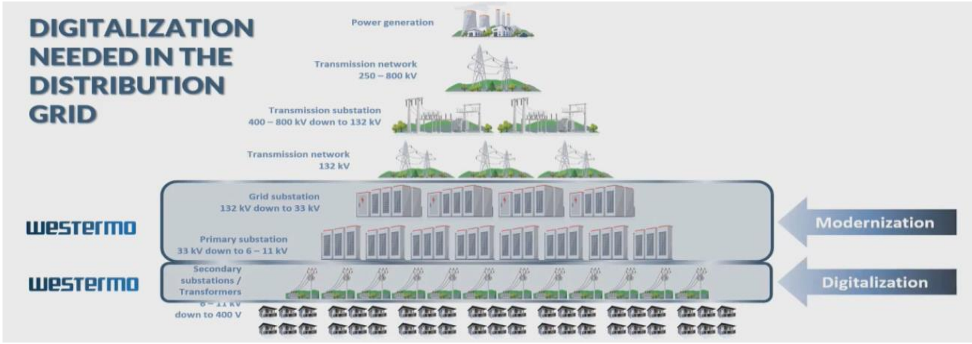
Trackside - Lynx Ethernet switches and Wolverine Ethernet extenders are among the products used



Source: Beijer Group, Redeye Research

Neratec's offering, together with ELTEC's focus on wireless communication solutions for passenger information, infotainment, and passenger Wi-Fi, give Westermo a well-rounded portfolio targeting train manufacturers, operators, and railway operators. It also consolidates Westermo's market-leading position. The two smaller companies, which have predominantly sold to European customers, can also leverage Westermo's worldwide sales organization and distribution network, thereby increasing revenues.

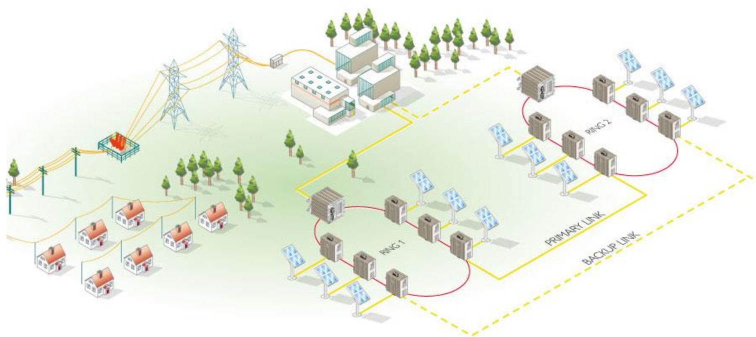
The power distribution side needs digitalization and modernization




Source: Beijer Group, Redeye Research

Virtual Access was the largest of the three bolt-on acquisitions, and its wireless communication equipment portfolio complements Westermo's growth strategy in the power distribution field. As more countries look to upgrade their electrical grid and make it 'smart', Virtual Access' and Westermo's portfolio of cellular routers will become necessary. Hundreds of thousands of units, like the RedFox-5728, will be needed when the substations are being modernized and digitalized. The cellular routers' reliable connections, large-scale deployment, and cybersecurity standards are essential to creating a smart grid scheme for more green energy, where consumers also become prosumers.

Energy distribution segment a new growth area




Source: Beijer Group, Redeye Research

The train network side is, by far, the largest of the three new growth areas. As we previously said, Alstom alone makes up a big chunk of the total revenues. Westermo has already proved that it is competitive in the areas where it focuses, and we expect trackside (which overlaps with the train networks side) and power distribution to become equally important revenue-wise. Thus, in a few years, the three segments should contribute with sales of SEK >1bn a year.

# Volume and Operational Excellence

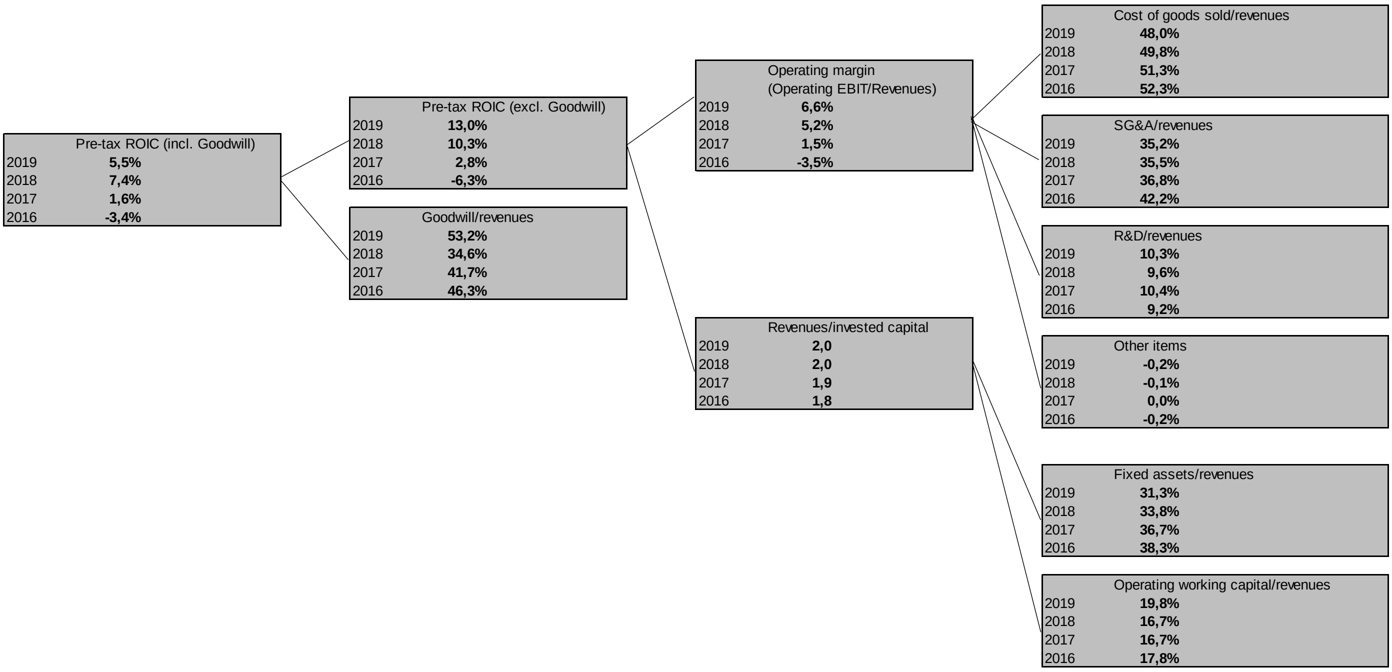
## Incremental profitability is promising

Before 2020 and Covid-19, Beijer Group was on an upward trend, both growth and margin-wise. The company achieved yearly growth of 12% between 2016, when it set out its new strategic direction, and 2019 (pre-Covid-19). Beijer Group also turned an operating loss into a positive EBIT of more than SEK 100m.

Although the operating margin was 6.6% in 2019 and 5.2% in 2018, the incremental margin was 21% and 26%, respectively, indicating extraordinary operating leverage in the business. There have also been some improvements on the capital turnover side, which has gone from 1.8x to 2x.

Beijer Group is a volume case but also an operational excellence case. Before proceeding to our financial forecasts, we believe it is important to take a hard look at the company's ROIC tree, assessing where the prior improvements have happened and why. The pre-tax ROIC of 13% in 2019 (excluding goodwill) was not stellar by any means. Nonetheless, the analysis highlights areas where future improvements are to be expected.

Beijer Group's pre-tax ROIC tree 2016-2019 (Redeye's estimates)




Source: Beijer Group, Redeye Research

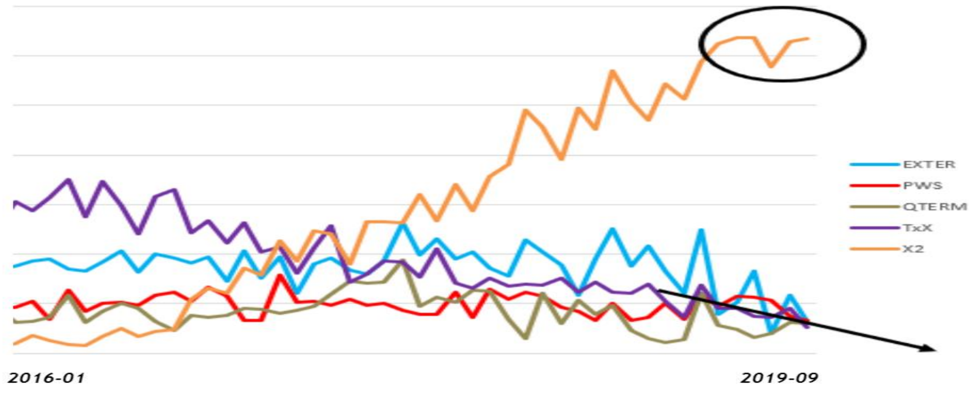
Starting on the operating margin side of the ROIC tree, one can focus on the three larger cost areas: cost of goods sold, SG&A and R&D. Broadly, one can say that gross margins tell you more about the business and operating margins more about management, although in Beijer Group's case, we see that this is only partly true.

### Gross margin

Beijer Group does not operate in an industry with very high gross margins. Nonetheless, management has had certain authority to change it for the better, which it also has done in the years before Covid-19. When Beijer Group and Mitsubishi Electric parted ways in 2015, a meaningful share of the product portfolio was end-of-life. Four years later, more than 65% of all sales were from products launched between 2016 and 2020. The regenerated product range (which includes more software) provides a higher overall gross margin, which one can see in the ROIC tree. It has gone from less than 48% to 52% in just a few years.

The product mix partly explains the gross margin improvement, but perhaps the most impactful shift was 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. One good example is Beijer Electronics' focus on the X2 series, 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.

X2 and the phase out of older product families




Source: Beijer Group, Redeye Research

Westermo and Korenix are following a similar pattern, with standard operating systems and product families. Westermo has its WeOS operating systems and hardware platforms such as Viper, RedFox and Lynx. Korenix, in turn, has the Korenix OS Platform and JetNet 5200 series.

Legacy products that have been phased out between 2016 and 2020 - improving the gross margin


Source: Beijer Group, Redeye Research

Beijer Group tightened the supply chain by gathering around common structures, thereby requiring 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.

Lastly, more collaboration in the supply chain between the business entities will further improve efficiency and reduce slack, according to management.

Common standards drive profitability -X2 series and its iX operating system

Source: Beijer Group, Redeye Research

## SG&A

The operational leverage is evident in the SG&A cost side. In 2016, sales and administrative costs were slightly above SEK 470m on SEK 1.1bn in sales. In 2019, the figure was SEK ~550m (up around 17%), while sales were SEK >1.5bn (up by almost 40%).

In 2020, management also initiated a savings program targeting overhead costs at Beijer Electronics and Korenix, eliminating SEK 40-45m on an annual basis. The cost-savings program serves as an excellent example of how Beijer Group can slim its operations without losing capacity. Over the years, it has acquired a substantial number of companies and incurred overlapping functions/departments in the process, which can be centralized and better coordinated. Redundancies, such as having two warehouses in Taipei (one for Beijer Electronics and one for Korenix), are low-hanging fruit. So is the increased collaboration between the two entities in the sales and distribution in Europe and North America.

Thus, Beijer Group can sustain current sales on an SG&A cost base of slightly above SEK 500m, or almost two percentage points better than in 2019. According to management, it can grow by 30-40% without adding too many new overhead costs, indicating that SG&A as a percentage of sales could move down to 30% (or below).

## R&D

Perhaps the most telling parameter is the R&D spending, which has typically been around 9-10% of sales (in 2020, it hit 13% as sales decreased). The R&D commitment shows that management is not particularly interested in window-dressed short-term earnings, nor that Beijer Group will save its way to an EBIT margin of 15%. Instead, it is a clear signal that the company has organic growth opportunities readily available. According to management, payback times are around 2.5-4 years, and projects such as X2 and iX have high ROICs. We estimate that roughly two-thirds of the R&D are growth-oriented, and one-third are maintenance-related. Much of the growth R&D has been in the train, trackside, and power distribution areas (Westermo). We deem that SEK 170-200m a year is enough to sustain a growth rate of around 10% at the moment. Continuous investments are necessary to stay at the technical forefront, however, we expect it to diminish as a percentage of sales.

Beijer Group has for the last five years replaced end-of-life products with a competitive offering. Today it consists of high-end products, and we are also starting to see more and larger customer orders from companies such as Alstom and Otis. These are telltale signs of successful R&D spending, as Beijer Group can compete effectively in the global market (and therefore a leading indicator of better margins ahead, as more volumes are expected).

In summary, Beijer Group's organization is intact and ready for when demand starts to pick up (which there are signs of). The core structure in development, sales, and supply chain are all up-and-running (although more efficiently). Further efficiencies are likely to be found, but the most critical factor for the operating margin is volume.

**Asset side**

Capital turnover advanced to 2x in 2019, up from 1.8x in 2016, thanks to improvements in the usage of fixed assets as volumes have increased. We believe this trend will continue. For example, Westermo's manufacturing facility in Stora Sundby expanded its capacity significantly in 2019, and further cooperation between Beijer Electronics and Korenix will also likely play a role.

On the operating working capital side, the trend has moved in the opposite direction. One of the leading causes was the build-up in accounts receivables (partly reversed in 2020). The accounts receivables/revenue growth ratio was 1.2x between 2016 and 2019, indicating that Beijer Group was extending better credit terms to its customers. Perhaps the more prominent deals with the multinational companies can explain some of it. We have no indications of customers having liquidity problems. On the other hand, inventories grew slower than sales between 2016 and 2020, partly mitigating the receivable build-up.

On the current liabilities side, accounts payables have been flat, despite the higher cost of goods sold. However, the days for suppliers to repay are on normal levels, and we are not drawing any drastic conclusions. All in all, the operating working capital has moved up a few percentage points between 2016 and 2019 but is not at an alarming rate.

Finally, a short comment on the goodwill post on the balance sheet, which was SEK ~800m in 2019 (in 2020, Beijer Group reclassified SEK 50m in goodwill as customer contracts and technical platform items). The pre-tax ROIC, including goodwill, is presumably lower than the cost of capital (~6.5%), indicating that Beijer Group has either purchased underperforming companies, not been able to extract synergies, paid too much, or that it is too early to make a final conclusion, as many of the acquisitions have not yet had time to set their marks.

Korenix has for a long time shown sluggish and unprofitable sales, while Westermo has had stellar results. Nonetheless, Westermo's contributions have not been enough to outweigh other 'old sins' that show up in the goodwill post. We argue the reason is a combination of all the factors mentioned above. Price has undoubtedly been a significant aspect, but one should also remember that two acquisitions were made in 2019 (Neratec and Virtual Access). Thus, the goodwill showed up on the balance sheet in full force, but not the sales contributions. Nevertheless, having a low single-digit pre-tax ROIC is not adequate.

Should Beijer Group achieve a 15% EBIT margin, all other things being equal, the pre-tax ROIC would increase to 30% (excluding goodwill) and 15% (including goodwill) with current capital turnover. That would be comfortably above the cost of capital.

# Future Profitability

## Volumes, volumes, and operational excellence

Beijer Group's financial targets of having a growth rate of 7% a year and a minimum EBIT margin of 10% over a business cycle put it below the peer average's numbers. However, the capacity targets of organic growth of 10% and an EBIT margin of 15% put it more or less in line with peers.

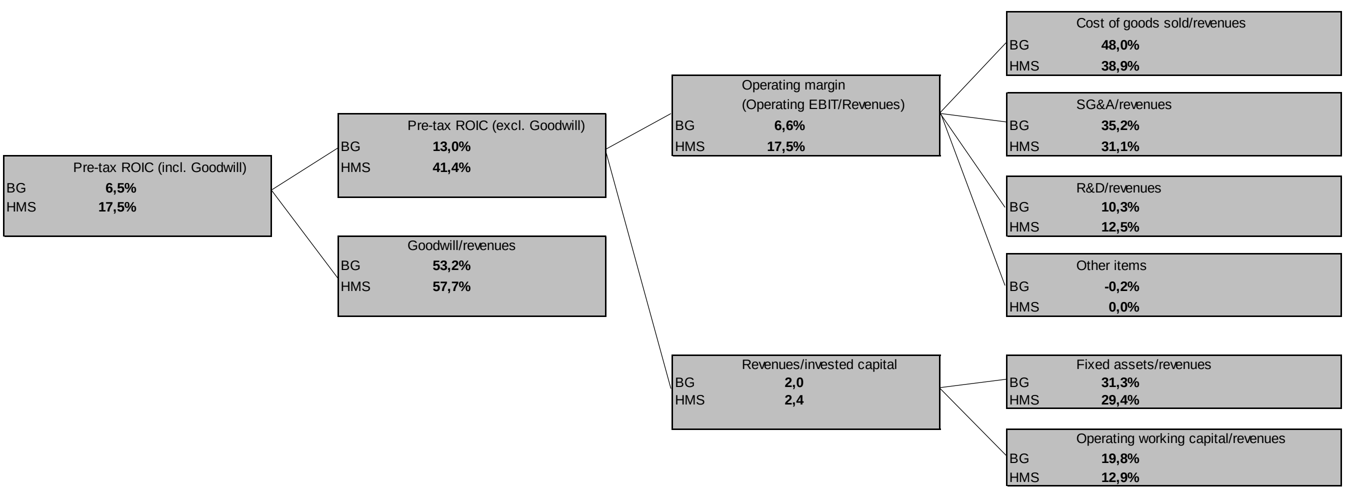
This is a volume case sprinkled with operational excellence. Echoing the management team, if Beijer Group did not achieve 8-10% growth a year, with expanding markets and a high-end product portfolio, it would be a big failure.

We argue that Beijer Group's current valuation does not correctly include the previous year's progress and that the company is unfairly punished for 'old sins,' which take time to readjust. The decentralization of the organization and the rejuvenation of the product portfolio are slowly starting to bear fruit, which the ever-larger design wins demonstrate. Covid-19 interrupted a steady trend of growing sales (12% CAGR), and Beijer Group was just about to hit the critical volumes where the operating leverage start kicking in. Given that Beijer Group has grown in line with the relevant peer groups, investors must question the EBIT margin (and its durability),

| | Enterprise Value | Sales | EV/Sales | | | EV/EBIT (x) | | | Sales growth | | | EBIT margin | | | Gross margin |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | (local) | 21E | 21E | 22E | 23E | 21E | 22E | 23E | 21E | 22E | 23E | 21E | 22E | 23E | 2020 |
| CTT | 2 358 | 193 | 12,2 | 7,3 | 5,9 | 45 | 19 | 16 | -4% | 66% | 24% | 27% | 38% | 38% | 74% |
| Hexagon | 315 992 | 42 251 | 7,5 | 6,9 | 6,5 | 27 | 25 | 23 | 10% | 6% | 5% | 27% | 28% | 28% | 64% |
| IAR | 1 985 | 409 | 4,9 | 4,0 | n/a | 18 | 13 | n/a | 10% | 20% | n/a | 26% | 30% | n/a | 86% |
| Tomra | 63 879 | 10 717 | 6,0 | 5,5 | 4,8 | 42 | 37 | 30 | 6% | 9% | 14% | 14% | 15% | 16% | 62% |
| Troax | 21 205 | 2 319 | 9,1 | 7,5 | 6,3 | 44 | 36 | 29 | 39% | 13% | 13% | 21% | 21% | 21% | 39% |
| HMS | 17 106 | 1 888 | 9,1 | 8,2 | 7,5 | 40 | 37 | 31 | 29% | 10% | 6% | 23% | 22% | 24% | 62% |
| Belden | 2 978 | 2 027 | 1,5 | 1,4 | 1,4 | 13 | 11 | 11 | 9% | 3% | 2% | 12% | 13% | 12% | 36% |
| Advantech | 263 179 | 57 554 | 4,6 | 4,0 | 3,6 | 25 | 22 | 19 | 13% | 12% | 12% | 18% | 19% | 18% | 40% |
| Spectris | 3 601 | 1 302 | 2,8 | 2,6 | 2,5 | 18 | 16 | 15 | -3% | 4% | 5% | 15% | 16% | 16% | 55% |
| Siemens | 1 419 833 | 592 684 | 2,4 | 2,2 | 2,1 | 21 | 17 | 15 | 2% | 5% | 4% | 11% | 13% | 14% | 35% |
| Rockwell | 31 954 | 6 973 | 4,6 | 4,3 | 4,1 | 25 | 22 | 20 | 10% | 7% | 4% | 18% | 19% | 20% | 41% |
| **Average** | **194 916** | **65 302** | **5,9** | **4,9** | **4,5** | **29** | **23** | **21** | **11%** | **14%** | **9%** | **19%** | **21%** | **21%** | **54%** |
| **Median** | **21 205** | **2 319** | **4,9** | **4,3** | **4,4** | **25** | **22** | **20** | **10%** | **9%** | **5%** | **18%** | **19%** | **19%** | **55%** |
| Beijer Group | 2181 | 1628 | 1,3 | 1,2 | 1,1 | 22 | 10 | 7 | 13% | 12% | 12% | 6% | 12% | 16% | 50% |

*Source: Redeye, Company reports, Eikon*

Beijer Group's pre-tax ROIC tree in contrast to HMS (2019)




Source: Beijer Group, HMS, Redeye Research as the multiples are severely below the average and median. We believe that is about to change.

Beijer Group and HMS are often compared to each other, as they both work with industrial communication, their sales volumes are similar, and they are both headquartered in Sweden (and listed locally). HMS has, however, consistently been able to achieve superior profitability on its sales, which we can see is mainly tied to the much higher gross margin. It has also been able to operate with a lower SG&A cost base in relation to sales, while spending more on R&D. It is also an owner-operated business.

The investing community values HMS's margins high, as it is trading at an EV/S of ~9x on 2021's numbers, compared to Beijer Group's ~1.3x. HMS's growth is expected to be somewhat higher than the peer average in 2021 and then converge to around 10% (i.e., close to Beijer Group). Thus, we believe the main differentiator is confidence in profitability and durability, leading to an eye-popping valuation difference.

### Cost side

Sales growth and margins go hand in hand. But as the sales growth has been quite all right, the operating leverage never had the chance to kick in truly. However, in some quarters in 2019, Beijer Group almost accomplished an EBIT margin of 10%. As we previously stated, the incremental EBIT margins were 22% between 2017 and 2019, proving that additional sales were paying off generously.

Management believes it can find further efficiencies in the supply chain and better set prices on its products. Moreover, fewer product families, standard operating systems, added software, and a more lucrative product mix will strengthen the gross margin. Management believes it can improve by 3-4 percentage points in a couple of years, heavily impacting the EBIT margin and the ROIC.

We have also seen that Beijer Group can operate its current business of SEK 1.4bn with an SG&A slightly above SEK 500m, or at a rate of 35% of sales. Management has repeatedly said that Beijer Group's sales volumes could increase by 30-40% without it having to change its cost base significantly below the cost of goods sold. In early 2020, Beijer Electronics and Korenix initiated a cost-savings program, reducing the overhead expenses by SEK 40-45m annually. Beijer Group's core organization is still intact and is fully ready when the markets pick up the pace again. We, therefore, expect the SG&A levels to shrink as a percentage of sales and move closer to 30% (and potentially below).

We also account for a stable R&D spending, at SEK 170-200m a year. The R&D levels are more discretionary in nature, but management has said that current levels are needed to stay competitive. However, bigger spending is not necessary to sustain the market position, and we, therefore, expect it to decrease as a percentage of sales as volumes increase.

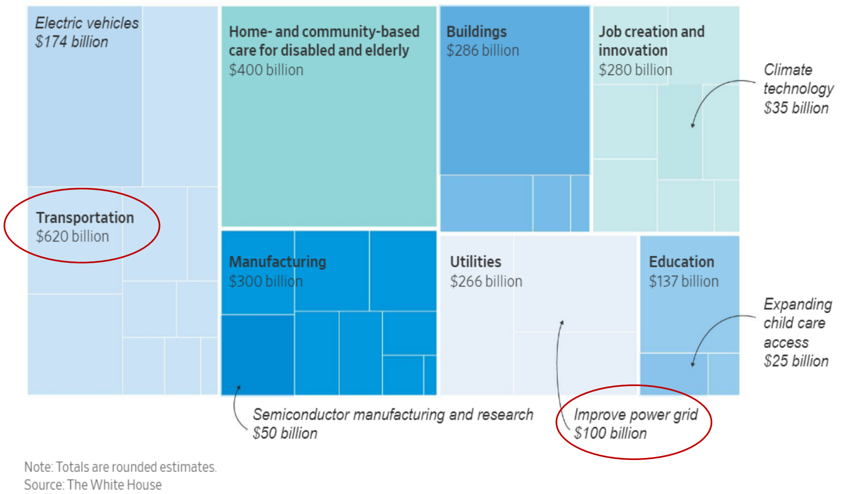
All in all, Beijer Group has a stable cost basis below the gross margin of SEK 670m to SEK 750m, which should not change considerably if sales were up by 30-40%, or SEK 450m to SEK 600m. With a strengthened gross margin of 53-55%, the EBIT could grow to SEK 300-350m in just a couple of years (an EBIT margin of >15%, in line with international peers) on sales of SEK 2-2.1bn.

### Sales

Beijer Group operates in growing markets with significant investment needs. The HMI (hardware, software, and service) market, worth around SEK 36bn, is expected to grow by 6-7% annually, and the industrial data communication market, worth around SEK 15bn, is expected to grow by >9% a year. Thus, Beijer Group has to 'only' grow slightly faster than the markets themselves to achieve its financial goal.

Beijer Group's management has chosen to focus on niche markets, such as train, trackside, and power distribution, where the upgrade need is urgent. There are expectations of considerable investments in all these areas in the next 15 years. We are already starting to see large budget commitments, such as US president Joe Biden's USD 2.3tn infrastructure plan. Even the GOP senators' counterproposal of USD 568bn is significant and dedicates USD 61bn to public transit systems and USD 20bn to rail, among other things. In Europe, similar fiscal spending plans are being submitted by politicians, such as the European Green Deal. These investments benefit many of Beijer Group's customers, thereby increasing demand for ethernet switches, cellular routers, HMIs, etc.

Biden's Infrastructure Plan




Source: Wall Street Journal, The White House, Redeye Research

Moreover, Beijer Group's current design wins will add recurring revenues for years to come, as some product cycles can be up to ten years long. New orders will be added on top of an increasingly stable base. We believe investors underestimate this snowball effect today.

Looking beyond Covid-19, we want to assess the normalized revenue levels of Beijer Group. Although not perfect, we choose to look at 2019's numbers for guidance and then add the acquisitions' run rates.

Westermo's quarterly sales pre-acquisitions were around SEK 165m, which on an annual basis would be SEK 660-700m. Moreover, Neratec (SEK >60m), Virtual Access (SEK 130m), and ELTEC (SEK 65m) will add additional revenues on top. In total, Westermo should be able to, at least, sell for SEK >900m (estimated conservatively). Beijer Electronics' quarterly sales were consistently between SEK 180-195m in 2019, or SEK 750 annually. Given that the Otis contract is successively ramping up and oil prices have rebounded to levels where new investments are being made, we believe the entity should be able to return to similar levels in the near term. Lastly, Korenix's sales were around SEK 100m in both 2018 and 2019. With its expanded collaboration with Beijer Electronics and the recent product portfolio upgrade, we expect it to do SEK >100m.

All in all, we believe Beijer Group's normalized revenue rate is SEK 1.765m (conservatively calculated) but could be as high as SEK 1.900m (as the entities continued to reap new design wins in 2020, even though sales fell in the short term). The order book was at an all-time high at the end of Q1'21. Thus, we expect Beijer Group to grow faster than 10% as soon as the markets return to a 'normal state' and, after that (medium-term), to grow at least as fast as the market itself (7-10%).

## New Estimates

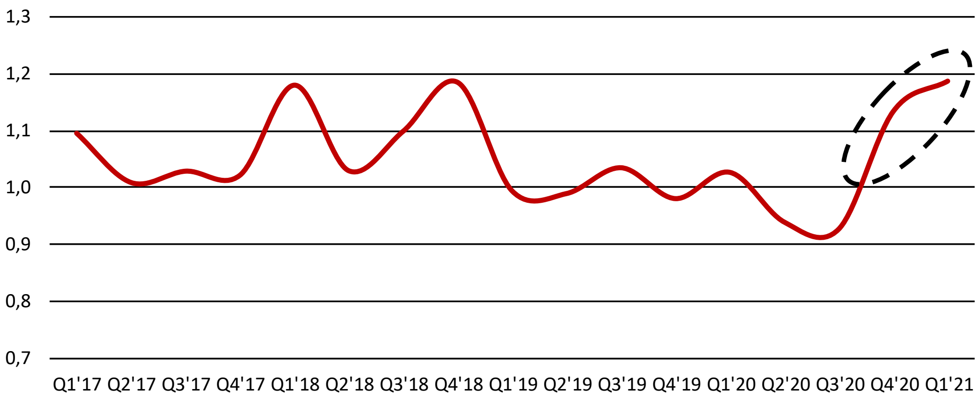
Our base case includes a rebound in H2’21, followed by a couple of years where growth exceeds 10%. Moreover, we believe the volumes from areas such as train networks, trackside, power distribution, and increased traction of Beijer Electronics’ X2-series (in all its forms) will help the company hit the critical mass where operating leverage kicks in. As we previously stated, the costs below the gross margin are quite fixed. When Beijer Group has won a design win, its customers handle most of the sales.

**Beijer Group: Estimates, '20-'23E**

| (SEKm) | 2020 | Q1'21A | Q2'21E | Q3'21E | Q4'21E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|
| **Sales** | **1 438** | **351** | **401** | **421** | **455** | **1 628** | **1 831** | **2 050** |
| *growth y/y* | *-7,8%* | *-11,2%* | *12,1%* | *25,7%* | *30,4%* | *13,2%* | *12,5%* | *12,0%* |
| Beijer Electronics | 599 | 144 | 168 | 171 | 189 | 672 | 750 | 830 |
| Westermo | 769 | 187 | 212 | 227 | 238 | 865 | 1000 | 1130 |
| Korenix | 84 | 22 | 20 | 23 | 28 | 94 | 105 | 115 |
| Total costs (excl. D&A) | 1 273 | 312 | 342 | 351 | 375 | 1 379 | 1 470 | 1 545 |
| **EBITDA** | **164** | **39** | **59** | **70** | **80** | **249** | **361** | **505** |
| (%) | 11,4% | 11,2% | 14,7% | 16,7% | 17,6% | 15,3% | 19,7% | 24,6% |
| D&A | 148 | 35 | 38 | 38 | 39 | 150 | 150 | 175 |
| **EBIT** | **16** | **5** | **21** | **32** | **41** | **99** | **211** | **330** |
| (%) | *1,1%* | *1,3%* | *5,3%* | *7,6%* | *9,0%* | 6,1% | 11,5% | 16,1% |
| **EPS** | **-0,21** | **0,06** | **0,54** | **0,84** | **1,09** | **2,53** | **5,47** | **8,88** |

Source: Beijer Group, Redeye Research

Book-to-bill ratio - demand is on the rise




Sources: Beijer Group, Redeye Research

# Valuation

## Bear Case SEK 35

- CAGR sales ~6.5% next ten years
- Average EBIT margin of ~9.5% coming ten year
- 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. 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 (ROIC).

## Base Case SEK 65

- CAGR sales ~9% next ten years
- Average EBIT margin of ~12% coming ten year
- 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 17% and then goes down as competition increases in its segments. Beijer Group has, nonetheless, substantially higher 'lower levels' in this scenario. Not all business entities accomplish their capacity goal.

## Bull Case SEK 95

- CAGR sales slightly ~10% next ten years
- Average EBIT margin of ~15% coming ten year
- 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.

| Income Statement | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| Revenues | 1 438 | 1 628 | 1 831 | 2 050 |
| Cost of Revenues | 728 | 807 | 879 | 964 |
| Other COGS | - | - | - | - |
| Gross Profit | 710 | 821 | 952 | 1 087 |
| Selling Expenses | 289 | 287 | 293 | 297 |
| Administrative Expenses | 245 | 253 | 265 | 277 |
| R & D Expenses | 156 | 179 | 179 | 178 |
| Other Op. Expense / (Income) | 3 | 3 | 4 | 4 |
| Exchange Rate Differences | - | - | - | - |
| EBITDA | 164 | 249 | 361 | 505 |
| Depreciation | 24 | 23 | 22 | 22 |
| Amortization | 84 | 84 | 89 | 90 |
| Amortization of Right-to-Use Assets | 41 | 42 | 39 | 64 |
| EBIT | 16 | 99 | 211 | 330 |
| Associated Income / (loss) | - | - | - | - |
| Interest Income | - | - | 1 | 1 |
| Interest Expenses | 22 | 6 | 10 | 4 |
| Interest Expenses, Lease Liabilities | - | - | 2 | 3 |
| Exchange Rate Differences | - | - | - | - |
| Non-recurring Income / (Expenses) | - | - | - | - |
| EBT | (6) | 93 | 200 | 324 |
| Income Tax Expenses | 0 | 20 | 42 | 68 |
| Non-Controlling Interest | - | - | - | - |
| Net Income | (6) | 73 | 158 | 256 |

| Cash Flow Statement | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Operating Cash Flow | 194 | 143 | 293 | 420 |
| **Investing Activities** | | | | |
| Investing Cash Flow | (82) | (96) | (137) | (154) |
| **Financing Activites** | | | | |
| **Financing Cash Flow** | **(101)** | **(73)** | **(152)** | **(111)** |
| **Net Cash Flow** | **11** | **(27)** | **3** | **155** |
| **Cash Balance** | **121** | **100** | **103** | **258** |

| Balance Sheet | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash & Equivalents | 121 | 100 | 103 | 258 |
| Inventories | 177 | 221 | 241 | 251 |
| Accounts Receivable | 251 | 312 | 351 | 393 |
| Other Current Assets | 46 | 49 | 55 | 62 |
| **Total Current Assets** | 595 | 682 | 750 | 964 |
| **Non-Current Assets** | | | | |
| Property, Plant & Equipment, Net | 96 | 88 | 103 | 122 |
| Goodwill | 766 | 777 | 777 | 777 |
| Intangible Assets | 267 | 270 | 263 | 266 |
| Right-of-Use Assets | 99 | 130 | 255 | 335 |
| Shares in Associates | - | - | - | - |
| Other Long-Term Assets | 61 | 63 | 81 | 102 |
| Total Non-Current Assets | 1 289 | 1 328 | 1 480 | 1 603 |
| **Total Assets** | 1 884 | 2 011 | 2 231 | 2 566 |
| **Current Liabilities** | | | | |
| Short-Term Debt | 153 | 114 | - | - |
| Short-Term Lease Liabilities | 30 | 33 | 33 | 33 |
| Accounts Payable | 103 | 122 | 132 | 145 |
| Advances From Customers | 2 | 2 | 4 | 4 |
| Prepaid Income | - | - | - | - |
| Accrued Expenses | 125 | 130 | 146 | 164 |
| Other Current Liabilities | 27 | 33 | 33 | 31 |
| **Total Current Liabilities** | 439 | 432 | 348 | 377 |
| **Non-Current Liabilities** | | | | |
| Long-Term Debt | 390 | 388 | 388 | 388 |
| Long-Term Lease Liabilities | 105 | 135 | 261 | 341 |
| Other Long-Term Liabilities | 310 | 309 | 330 | 349 |
| Total Non-current Liabilities | 804 | 833 | 979 | 1 078 |
| | - | - | - | - |
| Non-Controlling Interest | 4 | 4 | 4 | 4 |
| | - | - | - | - |
| Shareholder's Equity | 637 | 742 | 900 | 1 108 |
| | - | - | - | - |
| Total Liabilities & Equity | 1 884 | 2 011 | 2 231 | 2 566 |

# 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

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.

# Redeye Equity Research team

## Management

Björn Fahlén
bjorn.fahlen@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

## Technology Team

Jonas Amnesten
jonas.amnesten@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

Viktor Westman
viktor.westman@redeye.se

Forbes Goldman
forbes.goldman@redeye.se

Mark Siöstedt
mark.siostedt@redeye.se

Danesh Zare
danesh.zare@redeye.se

Mattias Ehrenborg
mattias.ehrenborg@redeye.se

## Editorial

Mark Siöstedt
mark.siostedt@redeye.se

Joel Karlsson
joel.karlsson@redeye.se

## Life Science Team

Gergana Almquist
gergana.almquist@redeye.se

Oscar Bergman
oscar.bergman@redeye.se

Anders Hedlund
anders.hedlund@redeye.se

Niklas Elmhammer
niklas.elmhammer@redeye.se

Mats Hyttinge
mats.hyttinge@redeye.se

Filip Einarsson
filip.einarsson@redeye.se

Fredrik Thor
fredrik.thor@redeye.se

# Disclaimer

Important information
Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and

investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.
Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

Limitation of liability
This document was prepared for information purposes for general distribution and is not intended to be advisory. The information contained in this analysis is based on sources deemed reliable by Redeye. However, Redeye cannot guarantee the accuracy of the information. The forward-looking information in the analysis is based on subjective assessments about the future, which constitutes a factor of uncertainty. Redeye cannot guarantee that forecasts and forward-looking statements will materialize. Investors shall conduct all investment decisions independently. This analysis is intended to be one of a number of tools that can be used in making an investment decision. All investors are therefore encouraged to supplement this information with additional relevant data and to consult a financial advisor prior to an investment decision. Accordingly, Redeye accepts no liability for any loss or damage resulting from the use of this analysis.

Potential conflict of interest
Redeye's research department is regulated by operational and administrative rules established to avoid conflicts of interest and to ensure the objectivity and independence of its analysts. The following applies:

- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, from the date Redeye publishes its analysis plus one trading day after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

Redeye's research coverage
Redeye's research analyses consist of case-based analyses, which imply that the frequency of the analytical reports may vary over time. Unless otherwise expressly stated in the report, the analysis is updated when considered necessary by the research department, for example in the event of significant changes in market conditions or events related to the issuer/the financial instrument.

Recommendation structure
Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2021-05-03)

| Rating | People | Business | Financials |
|---|---|---|---|
| 5p | 23 | 18 | 3 |
| 3p - 4p | 106 | 87 | 40 |
| 0p - 2p | 5 | 29 | 91 |
| Company N | 134 | 134 | 134 |

Duplication and distribution
This document may not be duplicated, reproduced or copied for purposes other than personal use. The document may not be distributed to physical or legal entities that are citizens of or domiciled in any country in which such distribution is prohibited according to applicable laws or other regulations.


**CONFLICT OF INTERESTS**

Mark Siöstedt owns shares in the company: No
Henrik Alveskog 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.