Hanza Holding

Sector: Industrial Goods & Services

Margin Momentum

Redeye initiates coverage of Hanza Holding, a manufacturing service company whose unique cluster approach is set to generate significant value as it lifts margins in its non-Nordic business. This positive outlook is not reflected at the share's current level, which remains well below our base case.

'All you need is one'

Hanza's unique 'All you need is one' cluster-based manufacturing strategy has attracted many well-known companies. Gathering several technologies at single locations in the Nordics/Baltics, central Europe and China, often near the end-customer, reduces costs, lead times and environmental footprint. Its consulting services could see stronger demand too as coronavirus increases focus on manufacturing chain durability.

RotW potential

While Hanza's two segments – Nordics and RotW – have similar sales, the local markets generated some 70% of adjusted 2019 EBITA. As the disparity is mostly due to internal RotW projects that ended in late 2019, we anticipate a gradual improvement in the segment's margins – up 60bp this year (from 2019's 2.6%) and a further 50bp in 2021.

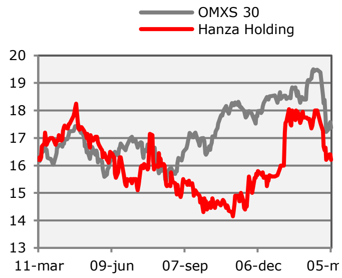
Underappreciated value

Although we expect Hanza to fall short of management's 6% target for the group EBIT margin in 2022 (we look for 4.6%) and forecast only around 4% in annual organic sales growth, we still see considerable underappreciated value in the case. Our fair value range is SEK 11-35 per share, with upside potential of 40% to our base case.

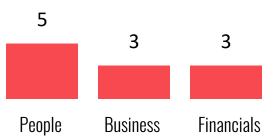
FAIR VALUE RANGE

BEAR	BASE	BULL
11.0	21.0	35.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	HANZA
Market	Small Cap
Share Price (SEK)	15.1
Market Cap (MSEK)	513
Net Debt 20E (MSEK)	395
Free Float	71%
Avg. daily volume ('000)	1 090

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	1811	2068	2374	2473	2576	2684
EBITDA	118	149	183	201	216	228
EBIT	54	57	91	106	117	126
EPS (adj.)	0.7	0.8	1.7	2.1	2.3	2.6
EV/Sales	0.4	0.5	0.4	0.3	0.3	0.3
EV/EBITDA	5.8	6.9	5.0	4.2	3.7	3.2
EV/EBIT	12.7	18.0	10.0	7.9	6.7	5.8
P/E	20.6	20.3	8.8	7.3	6.5	5.8

ANALYSTS

Fredrik Nilsson
fredrik.nilsson@redeye.se
Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se

Investment case

Unique take on manufacturing

With its 'All you need is one' cluster-based strategy, Hanza and its experienced management take a unique approach that differentiates it among manufacturing service companies. By gathering several manufacturing technologies in a single location (often near the end-customer), Hanza can reduce costs, lead times and environmental footprint.

Hanza offers consultant services, such as MIG, that help product companies streamline their use of manufacturing services. MIG plays an important role in acquiring new customers but has not yet reached its full potential.

While our meetings with cluster management suggest that 'All you need is one' has yet to be fully implemented, we are positive to Hanza's unique, long-term strategy. While its stock market journey had a bumpy start, industry-leading margins in its Nordic segment and an impressive customer list prove the strength of its concept.

Germany key to RotW earnings potential

We view the Central European cluster as the key to improving the RotW segment, which contributed over 50% of sales but only around 30% of EBITA in 2019. 2019's acquisition of Ritter established a presence in Germany, as well as expanding the cluster. Europe's industrial powerhouse, Germany offers Hanza significant growth opportunities with its so-called Mittelstand (Hanza's focus segment). Also, as many German businesses are cautious about entering China directly, Hanza's Chinese factories offer a smooth outsourcing alternative. Some have already moved production to its cluster in China.

We see prospects for increased RotW margins as the Central European cluster grows and matures - achieving gradually lower implementation costs, for example.

Backsourcing benefit

Hanza benefits from several trends that are moving manufacturing back to Europe, such as Environmental, Social and Governance (ESG) issues, trade wars and increasing labor costs in distant regions. With the bulk of its manufacturing facilities within the EU, we believe Hanza can meet high ESG standards better than most production in distant, often undemocratic regions. Moreover, its cluster strategy has an inherently lower environmental footprint.

Margin expansion not priced in

At current levels the share does not reflect the significant margin increase we expect in the Rest of the World (RotW) segment in the coming years. Several internal projects ended in 2019, which should boost margins this year and onwards. We expect the RotW adjusted EBITA margin to increase to 4.0% in 2022 (2.6% in 2019), driving the group EBIT margin to 4.6% (2.7% in 2019). While we factor in a substantial increase, our margin forecast is conservative versus Hanza's 6% target.

We value Hanza Holding at SEK 21 per share, implying a 2021E EV/EBITA multiple of around 10x and upside of some 40% from current levels.

Counter-thesis

Lack of transferability

Hanza's success in the Nordics may not result from its 'All you need Is one' cluster strategy, but rather follow from smart acquisitions and a management team with close connections to several Nordic product companies. If so, it may struggle to achieve solid profitability outside of the Nordics. However, it has already established successful presences outside the Nordics, such as in Tartu, Estonia.

Unsuccessful expansion

In the summer of 2019 Hanza acquired Ritter in Germany and expanded its central European cluster significantly. As Hanza is aiming for a full integration, the risk and potential reward is higher than on a typical decentralized acquisition. Employees, management and/or customers could oppose Hanza's plans. However, as Hanza has experience of taking over businesses successfully, we view the risk as limited.

Catalysts

Higher RotW profitability

With over 50% of run-rate revenues but only around 30% of 2019 EBITA, a margin increase in the Rest of the World segment stands out as an obvious potential catalyst in the coming years. Even a small increase in the RotW margin level – up from an adjusted ~2.6% in 2019 – would be enough for significant earnings growth at the group level.

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Company profile

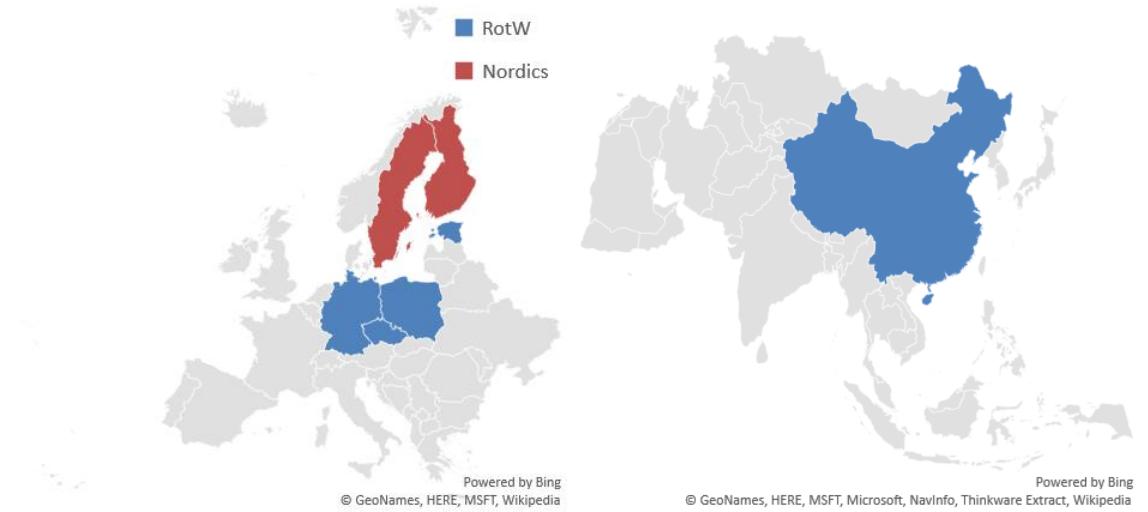
Hanza Holding is a Swedish manufacturing service company founded in 2008. Its main differentiator, called 'All you need is one' by the company, is its use of manufacturing clusters, combining several manufacturing technologies in one location. This creates a one-stop-manufacturing-shop for product companies. Hanza can thus serve a product company's entire manufacturing needs, reducing lead times and the environmental footprint, and, according to Hanza, also cutting costs for its customers. Hanza also offers advisory services, called MIG (Manufacturing Solutions for Increased Growth and Earnings) and MCS (Material Compliance Solutions).

Hanza's customer portfolio is impressive, including several well-known European product companies across a number of different industries. We argue that its solid customer portfolio indicates that Hanza's cluster strategy is attractive to product companies.

Source: Hanza Holding

The company has annual revenues in excess of SEK 2bn and an adjusted EBITA margin of about 4%. Hanza has operations in Sweden, Finland, Germany, Estonia, Poland, Czech Republic, and China. Sweden and Finland constitute the Nordic segment and the rest form the Rest of World (RotW) segment.

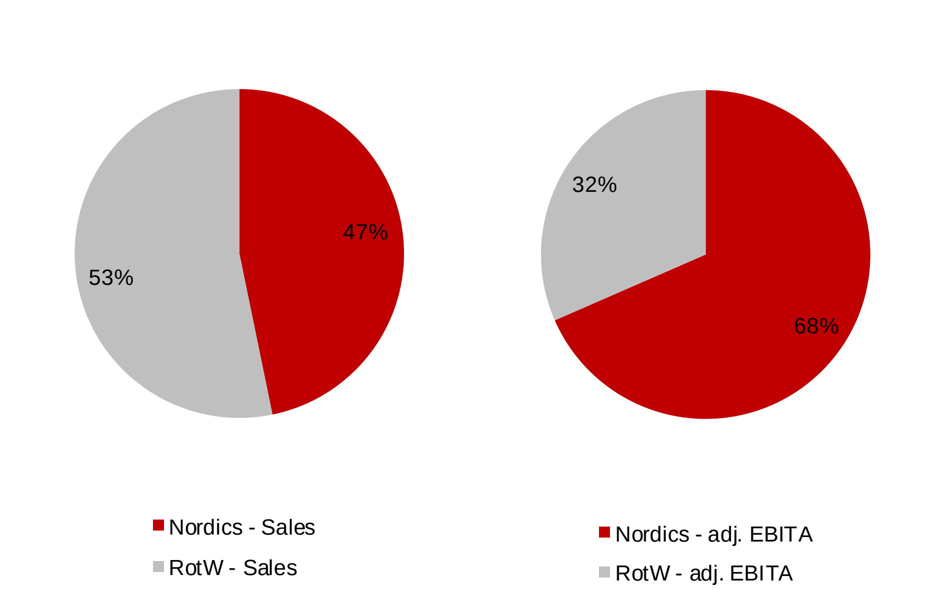
Hanza Holding's presence



Source: Redeye Research, Hanza Holding

The segments are close to equal in size in sales terms, while the margins are several times higher in the more mature Nordic segment relative to RotW. As Hanza's business model is the same, regardless of geography, we believe RotW should able to gradually approach the Nordic margin level – which is among the best in the sector – over time. We expect RotW to subsequently outgrow Nordics thanks to acquisitions.

Sales and adj. EBITA split 2019



Source: Redeye Research, Hanza Holding

Hanza's manufacturing facilities are also split into clusters, of which it currently has five. We believe Hanza will grow its cluster in Central Europe by adding additional factories through acquisitions. We also expect that Hanza could make acquisitions to strengthen the other clusters as well.

Manufacturing Clusters			
Location	**# of factories**	**# of employees**	**Segment**
Sweden	5	361	Nordics
Finland	3	127	Nordics
Baltics	3	725	RotW
Central Europe	5	181+	RotW
China	1	73	RotW

Source: Redeye Research, Hanza Holding

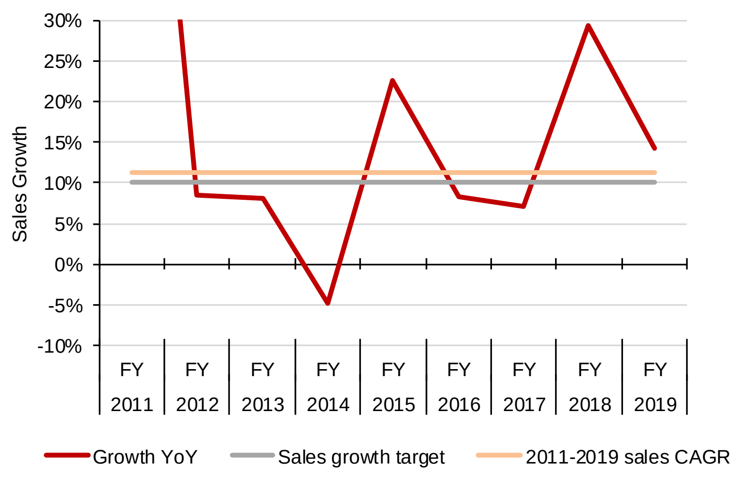
Financial targets

Hanza Holding has four financial targets:

- Average sales growth of at least 10% per year over a business cycle
- Average EBIT margin of at least 6% over a business cycle
- Solvency ratio of at least 30%
- Dividend of approximately 30% of profit after tax

Since 2011, Hanza's sales CAGR has been ~11%, which is slightly above its 10% target. This growth has mainly been driven by M&A, with the organic sales CAGR at around 3%. However, as Hanza typically divests acquired non-core revenue, underlying organic growth has been above 3%.

Sales growth vs target

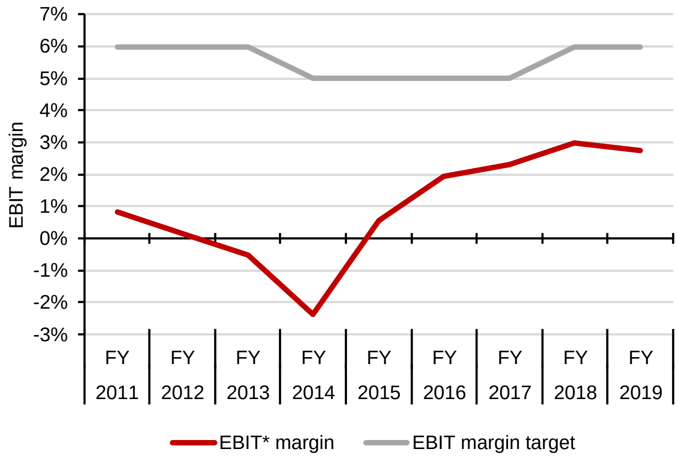


Source: Redeye Research, Hanza Group

In 2014, Hanza's sales suffered from weaker demand from one of its largest non-Nordic customers. This customer had significant exposure to the Russian market, which was affected by the annexation of Crimea. Also, many of Hanza's Finnish customers exported to Russia and were thus also impacted. While Hanza did not lose any customers, its annual volumes dropped by SEK ~130m, corresponding to ~13% of 2013 sales, due to weakness in the Russian market.

Since then, Hanza has seen healthier sales growth and increasing margins, and its exposure to single markets, industries and customers has decreased as the company has grown.

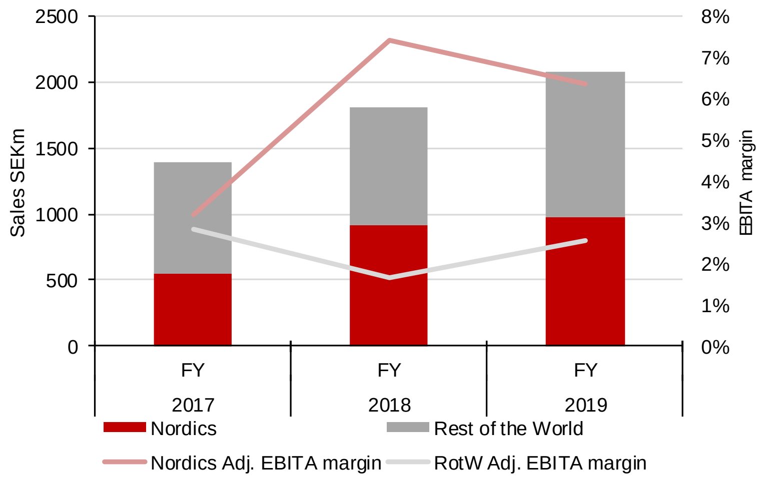
EBIT margin vs target



*Source: Redeye Research, Hanza Group | *ex. negative goodwill*

While Hanza's EBIT margin trend has been positive since 2014, the company has not reached its EBIT margin target so far. However, the underlying business areas paint a different picture. While the RotW segment has reported an EBITA margin of ~2%, the more mature Nordic segment has performed above the 6% margin target over the past two years. Note that Hanza's financial target refers to EBIT, whereas the segments report in EBITA. However, the difference is minimal as amortisation of intangibles amounted to just ~0.5% of sales in 2019.

Net sales and EBITA margin



Source: Redeye Research, Hanza Group

We argue that the solid margin level in the Nordic segment implies that Hanza's business model can deliver EBIT margins in line with the target. We believe RotW should be able to achieve similar margins as its cluster matures and if Hanza continues to expand its smaller clusters. However, the track record is short even in the Nordic segment. The current Hanza business (more than 50% of sales relate to acquisitions made since 2014) has not yet proven itself in weak economic conditions, as there have been no great tests of its strength so far.

We consider the solvency target of at least 30% to be reasonable. In Q3 2019, just after the acquisition of Ritter, the solvency ratio was a little over 30%. We believe it is acceptable to touch the lower limit of the target after a significant acquisition. We prefer to look at net debt/EBITDA though. Applying Q4 net debt to our EBITDA forecast for 2020, we arrive at net debt/EBITDA of ~2x for Hanza, which we consider reasonable in the wake of a major acquisition.

Moreover, we find the dividend target of 30% sensible, leaving some funds available for investments and acquisitions. However, we would prefer a more opportunistic target, with attractive acquisitions as a priority. If there are no interesting opportunities, then Hanza could pay out dividends. We accept that most companies have a dividend target as a percentage of earnings though.

Management, board, and owners

Current CEO Erik Stenfors is the founder of Hanza and has led the company since its inception in 2008. Prior to Hanza Holding, Mr Stenfors was CEO of listed Swedish manufacturer Note (market cap of SEK ~1bn), which he also founded. He has vast experience in the manufacturing industry. While Hanza experienced quite a weak development until 2015, the company's "All you need is one" strategy seems to work well, as its Nordic segment has among the highest margins in the sector. We argue that the successful strategy indicates that Mr Stenfors has a good understanding of the industry.

5Lars Åkerblom has been CFO of Hanza since 2010 and has experience from several listed companies. The rest of top management is a mix of quite new and long-term employees, although all have relevant experience from similar positions at well-known companies.

Hanza Holding - Management

Name	Position	Joined	Note	# of shares
Erik Stenfors	CEO	2008	Founder of Hanza and Note. Former CEO of Note.	391 156
Lars Åkerblom	CFO	2010	Former CFO of Pricer, Nocom (IAR).	110 210
Bengt Emesten	Head Sourcing & Logistics	2008	Founder of Qcom. Former CEO of Note Components	8 570
Petra Duprez	Head of HR	2017	Former Head of CSR and VP HR of Getinge.	0
Andreas Nordin	COO	2017	Former CEO of Ericsson's manufacturing facilities in Estonia, Brazil and Mexico	0

Source: Redeye Research, Hanza Holding

The board of directors is predominantly made up of people with experience from product companies and manufacturing, which we find favourable for a business such as Hanza. Also, three of the five directors have significant shareholdings in the company.

Hanza Holding - Board of Directors

Name	Position	Joined	Note	# of shares
Francesco Franzé	MoB	2015	SVP of Husqvarna.	3 410 000
Håkan Halén	MoB	2015	Former CFO of Hexagon.	1 997 470
Gerald Engström	MoB	2017	Founder and former CEO of Systemair.	5 710 637
Helene Richmond	MoB	2017	Managing Director at Enertech AB. MoB of NIBE.	39 000
Sofia Axelsson	MoB	2018	VP Brand & Marketing of Husqvarna.	4 000

Source: Redeye Research, Hanza Holding

The ownership list correlates well with the board of directors, as the two largest owners are present on the board. The largest owner, with almost 20% of capital and votes, is Gerald Engström, the founder and former CEO of product company Systemair. The second-largest owner is Francesco Franzé, who is a Senior VP at Husqvarna.

Lannebo Fonder is the lone institutional investor among the top ten owners. We find it likely that more institutional investors will join the top ten list, as the number of micro-cap funds is increasing and as Hanza's operational performance has improved recently.

CEO Erik Stenfors is the 12th-largest owner, holding ~1.3% of capital and votes. According to Holdings, this is his only major position in any listed Swedish company.

In total, we argue that Hanza has a favourable ownership structure including major ownership by the board, decent holdings by the CEO, and an institutional investor among the top ten shareholders.

Hanza Holding - Ownership structure

Name	Capital %	Votes %	Verified
Gerald Engström	19.1%	19.1%	2019-12-31
Francesco Franzé	10.1%	10.1%	2019-07-30
Ritter Beteiligungs Gmbh	8.8%	8.8%	2019-07-25
Nordnet Pensionsförsäkring	7.6%	7.6%	2019-12-31
Avanza Pension	7.6%	7.6%	2019-12-31
Massimiliano Franzé	6.8%	6.8%	2018-05-21
Håkan Halén	5.9%	5.9%	2019-12-31
Svenska Handelsbanken AB for PB	5.2%	5.2%	2019-12-31
Lannebo Fonder	4.6%	4.6%	2019-12-31
Eugen Steiner	3.5%	3.5%	2019-12-31
Nordic Cross Asset Management	1.7%	1.7%	2019-12-31
Hamberg Förvaltning AB	1.5%	1.5%	2019-12-31
Erik Stenfors	1.3%	1.3%	2019-12-31

Source: Holdings

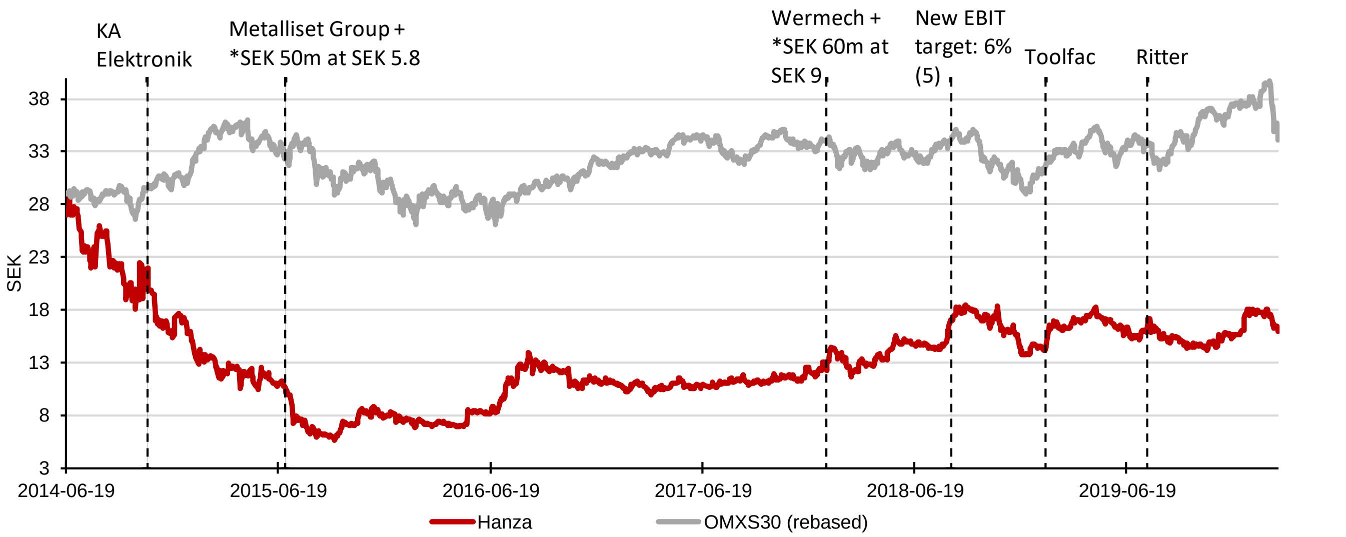
All in all, we believe Hanza has solid management, board, and owners, all featuring entrepreneurial people with previous experience of founding and running similar businesses.

The stock

Since its listing in mid-2014, the stock price performance has been weak. While the IPO was oversubscribed, the stock price dropped significantly immediately after listing for no obvious reason. This decline persisted until the end of 2015 as Hanza suffered from lower demand from those customers with significant exposure to Russia, owing to the sanctions after the Crimea annexation.

Since then, Hanza has been on the right track, slowly gaining investor confidence. Investors who participated in the rights issues to finance acquisitions in 2015 and 2018 have so far been rewarded.

Hanza Holding - Share price



*Source: Redeye Research, Nasdaq Stockholm | *Share issue*

We believe the market has priced in Hanza's healthy Nordic segment but has largely ignored the potential in the RotW segment and the interesting acquisition of Ritter.

While Avanza's corporate finance department ran the stock listing, Hanza has only about 1,000 owners with accounts at Avanza, suggesting that most small-scale private investors have failed to find Hanza. Considering this and that there are only two institutional investors in Hanza, we see the potential for a substantial increase in investor attention should the share continue its successful development.

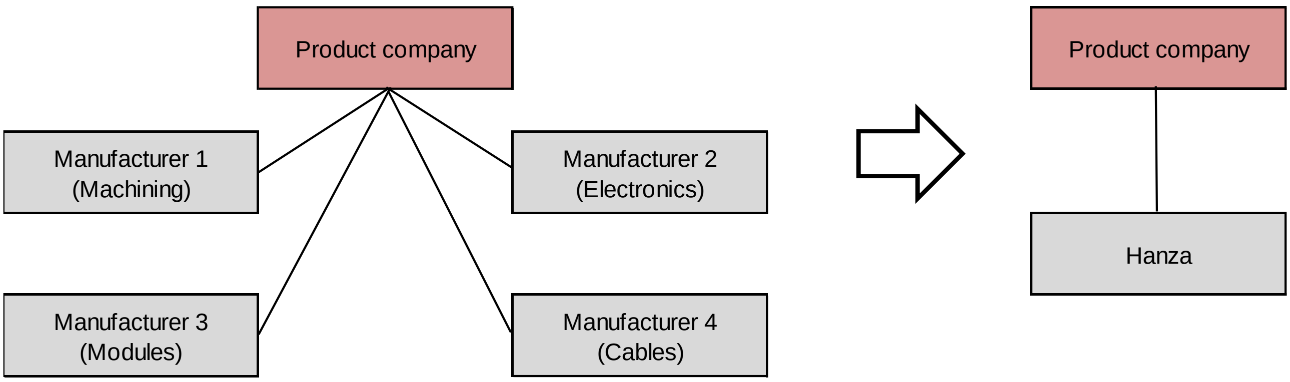
Business overview

"All you need is one"

Hanza Holding is a manufacturing service company, helping product companies make their products. There are several reasons for a product company to outsource its manufacturing. First, outsourcing can allow the product company to focus its operations on its core business of product development. Second, it means the product company does not have to invest in production facilities. Third, the product company can use the manufacturing company's expertise and experience in production processes.

In addition to the typical manufacturing company business model, Hanza offers a wide range of production methods that can often serve a product company's entire manufacturing needs. Hanza calls its manufacturing offering "All you need is one," playing on the company's ability to manufacture a wide range of components and to assemble complete products.

Example of traditional manufacturing and Hanza's "All you need is one"



Source: Redeye Research, Hanza Holding

According to Hanza, its "All you need is one" approach has several benefits over traditional manufacturing. As Hanza can produce several types of components and can assemble complete products within a small geographical area (which Hanza calls a cluster), the company is able to reduce both lead times and the environmental footprint relative to traditional manufacturing. Its clusters are generally located near the end-customer and in rural areas, where the competition for personnel is lower than in metropolitan areas. As demand fluctuates, Hanza relocates employees between the factories in each cluster. Hanza claims that its cluster strategy results in lower total costs for its customers, a statement we find fair given Hanza's robust customer list.

How the clusters work – Sweden as an example

To illustrate how the clusters work, we will look at the Swedish cluster. It is largely located in Värmland (4 out of 5 factories), serving Sweden and eastern Norway, where the bulk of the Norwegian onshore economy is located. The cluster's location allows fast lead times and a low environmental footprint. The cluster offers sheet and heavy mechanics, machining, PCB assembly, system integration, and box building and complex assembly as manufacturing technologies.

Manufacturing several different parts and/or assembling the product is when we believe the clusters are most efficient. According to cluster management, about 10% of sales in the

Swedish cluster currently stem from "cluster deals". Examples of products using several of the Swedish cluster's manufacturing technologies are Tomra's reverse vending machines, Picadeli's salad bars, and Strongpoint's dispensers. Many products are made by combining parts from different clusters. Such deals constitute a much larger share of total sales than the single-cluster deals. An example is the 3M Peltor, where the PCB is made in Sweden and the cables in Estonia.

We believe that, on average, inter-cluster products have high margins, and we would like to see the number of these increase. We understand there are ongoing discussions with current customers about moving additional production to Hanza. Note that Wermech (about 35% of sales in the Swedish cluster) was acquired by Hanza at the beginning of 2018, suggesting potential for additional cluster products going forward.

We have visited the factories in the Swedish cluster and were impressed by the high level of automation, especially at the machining, sheet, and heavy mechanics factory in Töcksfors. The Nordic segment's EBITA margin is among the highest in the sector and, according to management, the Swedish cluster surpasses the Finnish in terms of profitability. The margin in the Swedish cluster is likely top-of-the-line, which we believe reflects the high level of automation.

Decentralisation might put "All you need is one" focus at risk

Our impression is that the clusters are quite decentralised. While this seems to work very well in the Nordic segment at least, it might put the "All you need is one" strategy at risk. To us, the clusters' management focuses only on that cluster, which is understandable for many reasons but can jeopardise "All you need is one" deals where a customer moves most or all its manufacturing to Hanza across several clusters. According to management, the decentralised structure works well when handling multi-cluster deals as well, as the Swedish cluster can arrange production for customers in Hanza's other clusters. As mentioned earlier, there are several examples of multi-cluster deals.

More than a manufacturing partner

Hanza also offers two consultancy services: MIG (Manufacturing Solutions for Increased Growth and Earnings) and MCS (Material Compliance Solutions). MIG analyses and aims to improve the production chain of a product company so as to increase growth and profitability. Hanza intends to use MIG to add additional customers by showing them the benefits of choosing Hanza as their production partner.

According to management, few new customers have so far been added through MIG. However, we believe MIG's contribution will increase, although from low levels. According to the head of the Swedish cluster, the cluster typically adds one customer a year at present, while he believes two larger deals of about SEK 40-50m is a reasonable target in the future. If achieved, this would result in ~5% annual organic growth for the cluster, which would be significant.

In some cases, Hanza has a robust partnership with a customer, and acts as more than just a manufacturing partner. For example, Hanza has two engineers located at Tomra's head office in Oslo, helping Tomra with the development of its products. Hanza has been assisting Tomra in the development of the new TOMRA R1, a multi-feed reverse vending machine that can accept any type of bottle or can simultaneously.

Acquisition strategy

Since its listing in 2014, Hanza has made five acquisitions, adding a total of SEK ~1,300m and paying an average ~6x EBIT. It has typically divested parts of the acquired businesses during the integration process, largely to concentrate production at the clusters. Most clusters include examples of this, although there are also examples of Hanza holding on to peripheral production facilities, such as the Åtvidaberg factory in the Swedish cluster. In many cases, Hanza also divests non-core revenue from the acquired businesses.

Company	Date	Business unit	Cluster	Sales	EBIT*	EV/EBIT*
Ritter	2019-07-25	RotW	C. Europe	448	36,2	6,0
Toolfac	2019-01-31	Nordics	Finland	80	6,4	7,1
Wermech	2018-01-18	Nordics	Sweden	300	20,0	8,4
Metalliset Group	2015-07-01	Both	Many	375	32,6	2,1
KA Elektronik	2014-11-05	Nordics	Sweden	75	4,9	n/a

*Source: Redeye Research, Hanza Holding |*Estimated D&A of 3.3% of sales to convert EBITDA to EBIT*

Sales and EBIT in the table above refer to the data disclosed by Hanza at the time of the acquisition. It is typically the current or previous year's figures for the acquired company.

When acquiring, Hanza aims to either strengthen a present cluster or add a new one. As far as we understand, and judging by Hanza's actions so far, management favours quite robust integration, in line with its cluster strategy. Hanza typically sacrifices the immediate sales and earnings boost from a decentralised acquisition to build its clusters for the long term, instead taking on non-recurring costs related to relocation and reorganisation and eliminating non-core revenue.

When integrating a company, Hanza implements its group-wide IT strategy and integrates the acquired company and factories into the "All you need is one" strategy. Hanza creates synergies mainly by widening its offering – for example, by adding additional manufacturing technologies – to both existing and acquired customers. The group also realises synergies from cheaper raw materials, which can be bought in larger volumes.

While Hanza's M&A method eliminates most of the immediate positive effect typically seen when Addnode, Lagercrantz, and Sdiptech integrate new companies, we consider this process to be consistent with its overall strategy. As a manufacturing company, Hanza is valued at ~12x EBIT (2021E), which is lower than the general acquirer on the stock market. However, given the average acquisition multiple of ~6x EBIT, Hanza is still able to achieve multiple arbitrages. Considering Hanza's operational development since 2014, it appears its integration of acquired businesses has been successful, adding long-term value so far.

We believe Hanza will continue to acquire. We assume the company's top priority will be to increase its presence in Germany, a large market where Hanza so far only has one factory. Also, according to management, there is significant potential in German customers using Hanza's manufacturing cluster in China, as German companies have generally been more cautious about producing abroad than their Nordic peers. Like elsewhere, Hanza is not focusing on the automotive industry with its German expansion, but instead on the so-called "Mittelstand" of all kinds of product companies.

We would not rule out further acquisitions in the more mature clusters, such as Sweden, though. Our impression is that the Swedish cluster wants to expand into eastern Sweden, foremost in the area around the Åtvidaberg factory, 200km south west of Stockholm.

Industry outlook

Market trends

We believe that several market trends work in favour of Hanza's near-customer cluster strategy, such as trade wars, ESG, and reshoring.

Trade wars

We expect ongoing trade wars and the threat of additional fights will decrease product companies' willingness to outsource manufacturing facilities to distant regions. While sourcing production in distant low-cost regions might reduce total production costs through current trade deals – especially for labour-intensive manufacturing – we believe companies will now consider the risk of changed trading terms to a greater extent due to recent events, such as US trade policies and Brexit.

As most of Hanza's production facilities and customers are within the EU, we expect the company will benefit from actual trade wars and the increased risk of such. While Hanza has facilities in China, most of its labour-intensive manufacturing is located within the EU, mainly in Estonia.

ESG in focus

Environmental, social, and governance issues have increased in importance for companies in recent years, driven by both regulations and consumers. One of the benefits of Hanza's cluster strategy is the reduced environmental footprint, as the different production technologies are usually are located close to each other and to end-customers.

Moreover, with the bulk of its production facilities in Europe, Hanza has high social and governance standards, in our view. When outsourcing to a distant low-cost region, it can often be difficult to assure high social and governance standards.

In addition, Hanza offers a service called MCS (Material Compliance Solution), which aims to improve its customers' ability to comply with environmental regulations by analysing the components and materials.

Backsourcing

While ESG and trade wars could be factors driving backsourcing, we argue that several long-present trends have also favoured reshoring. For example, labour costs are rising in most regions where manufacturing is typically outsourced to, such as eastern Asia. Also, as technology evolves, automation is becoming increasingly competitive relative to labour, gradually decreasing the cost advantages of outsourcing to a low-cost region. For example, the Labour Cost Index for China doubled between 2009 to 2019, according to the National Bureau of Statistics of China.

Combining the decreasing cost advantage with the increased risk of trade wars and the growing importance of ESG, we believe the reshoring trend will continue and probably intensify.

While the COVID-19 virus will most likely have a negative short-term effect, at least in Q1 2020, the disturbance it causes to intercontinental manufacturing chains will likely increase product companies' focus on their manufacturing chains, which could benefit Hanza in the long term. This is a further advantage of Hanza being a single company with near-customer manufacturing clusters offering a wide range of manufacturing with short lead times.

Manufacturing service companies becoming experts

As a fast time-to-market is growing in importance, manufacturing service companies have an important role to play in the development of new products. They have experience and knowledge of different types of materials and production methods that product companies often lack. For example, as mentioned earlier, Hanza is helping Tomra with the development of its reverse vending machines.

Market forecasts

Reed Electronics Research expects the European electronic manufacturing service industry to grow by about 3% annually until 2022. The European market was worth EUR 30.6bn in 2017, corresponding to about 8% of the global market. To reach its annual growth target of 10%, Hanza will have to outperform the market, even assuming half of its growth target is acquired growth.

The market is fragmented though, and we believe it will be the success of its cluster strategy rather than market growth that determines Hanza's growth rate.

Competition

Due to the lack of proprietary products, a manufacturing service company typically experiences tough competition, making price a key factor. Other factors, such as time-to-market, production- and logistics know-how, and the ability to provide full-service manufacturing, are important differentiators.

Hanza differentiates itself with its cluster-based, "All you need is one" strategy. Given its impressive customer list, we believe the strategy seems to work well, especially in the Nordics segment, where Hanza has among the highest margins in the sector. Yet, our impression from visiting the Swedish cluster is that a significant share of sales is generated through "traditional manufacturing". However, as Wermech, which constitutes almost half of the current Swedish cluster, was only acquired in 2018, we find this reasonable, with a gradual transition towards "All you need is one" likely to come.

Moreover, Hanza differentiates itself through its MIG and MCS services as well. So far, few customers have used either of the services though. We believe Hanza has a unique and interesting approach to differentiating itself from other manufacturing service companies, but the importance of its service offering is relatively limited so far, while the "All you need is one" strategy still plays an important role.

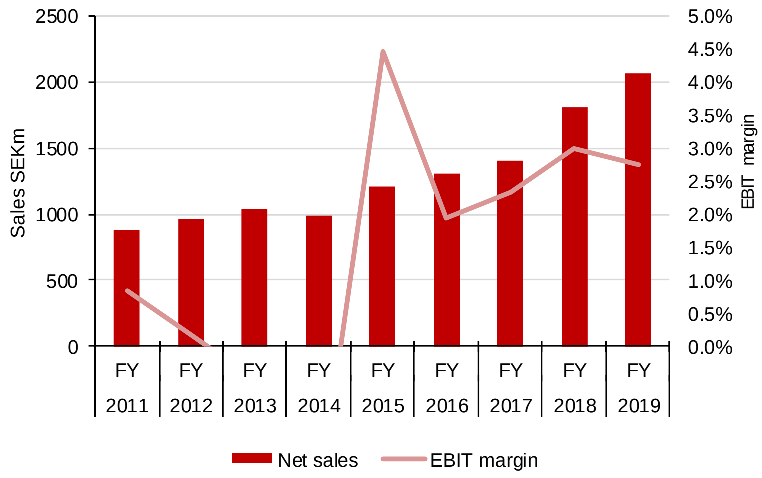
The market in which Hanza operates is fragmented and there are several other listed manufacturing service companies in the Nordics, such as Note, Scandfil, Inission, and AQ Group.

Financials and estimates

The journey so far

Since its founding in 2008, Hanza Holding has experienced a mixed development. Until 2015, the EBIT margin was volatile at low levels, and in 2014 it was hit by negative growth and negative EBIT. The shortfall stemmed mainly from customers with Russian exposure lowering their volumes significantly in the wake of the annexation of Crimea.

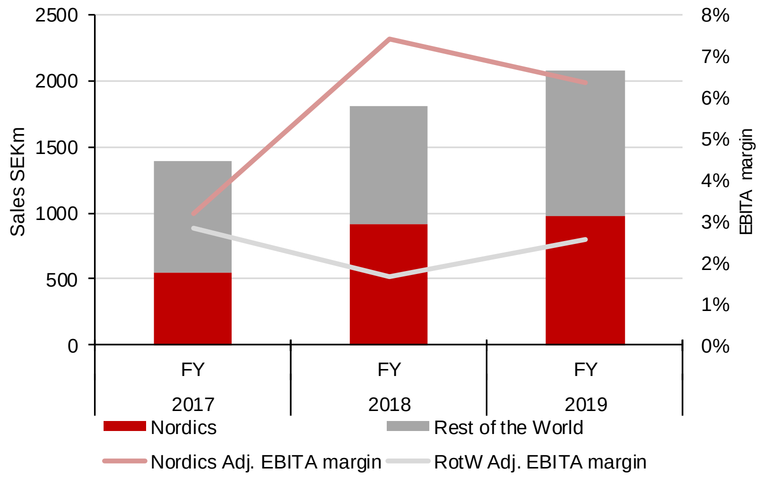
Group - Net sales and EBIT margin



Source: Redeye Research, Hanza Group

Since 2015, the indirect exposure to Russia has been minimal and Hanza's margins and growth have been solid. Acquisitions have been the main source of the 2015-2019 sales CAGR of ~15%, with organic CAGR at ~4% during the same period. This is in line with market growth. More impressively, Hanza has been able to increase its EBIT margin gradually, hitting 3% in 2018 (more than 4% when adjusted for non-recurring costs).

Net sales and EBITA margin

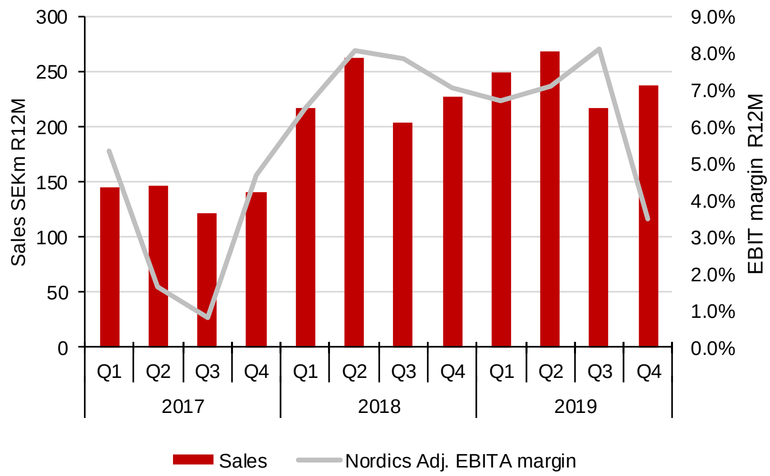


Source: Redeye Research, Hanza Group

Nordics

The Nordic segment, consisting of the Swedish and Finnish clusters, has been solid for the past two years. Although Hanza has only disclosed data on a segment level since 2017, it has averaged margins of about 7% over this period, which are among the best in the industry. The margin level dropped in Q4 2019, mainly due to a longer holiday factory shutdown than usual.

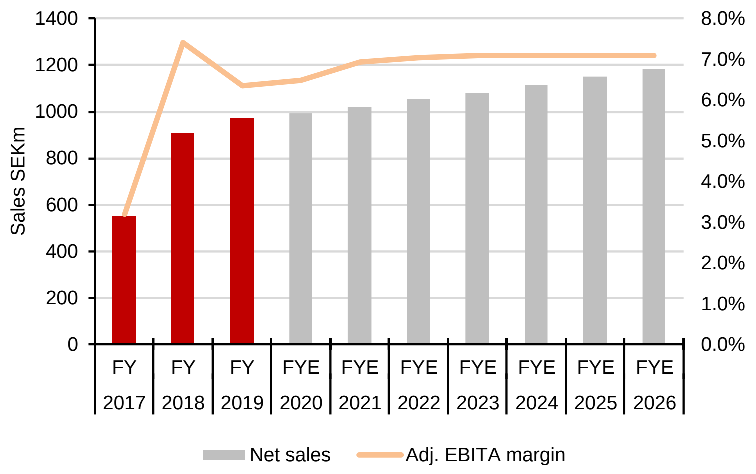
Net sales and EBITA margin - Nordics



Source: Redeye Research, Hanza Group

We expect EBITA margins of about 7%, slightly higher than the 2019 level of 6.5%. We believe it will be difficult to achieve any substantial margin gains, as the Nordic segment's level is already among the best in the sector. We assume the EBITA margin will reach 7% in 2022, in line with Hanza's group-level EBIT target of 6%.

Nordics - Forecasts



Source: Redeye Research, Hanza Group

We forecast organic growth of 3%, in line with estimated market growth and historical levels. We assume that the Nordic segment will largely be a cash cow financing investments in RotW clusters. We argue that the mature and profitable Nordic segment constitutes the bulk of the enterprise value in today's Hanza. Also, we would not rule out acquisitions in the segment, believing factories in eastern Sweden is one option.

We expect the COVID-19 virus to have a negative impact on both sales and margins in Q1 2020, mainly due to a shortage of PCBs from China. However, we believe large parts of the Nordic business, working primarily with metal, will be chiefly unaffected. According to management, supply chain issues, mainly related to PCBs, started in mid-January and ended in late February. Hanza expects to be able to catch up the lost production during H1 2020. However, as the spread of COVID-19 persists, the situation may change.

Nordics - Financial forecasts Base-case

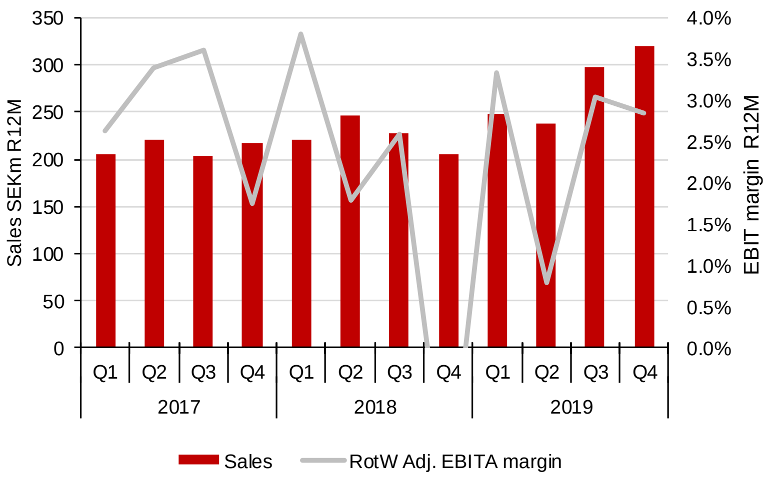
(SEKm)	2019	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E
Net sales	**971**	**246**	**273**	**226**	**247**	**992**	**1021**	**1052**
Growth YoY	*6.7%*	*-1.3%*	*2.0%*	*4.0%*	*4.0%*	*2.1%*	*3.0%*	*3.0%*
Organic	*-4.1%*	*-4.0%*	*2.0%*	*4.0%*	*4.0%*	*1.4%*	*3.0%*	*3.0%*
FX	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
M&A	*10.8%*	*2.7%*	*0.0%*	*0.0%*	*0.0%*	*0.7%*	*0.0%*	*0.0%*
Adj. EBITA	**61.6**	**13.5**	**19.1**	**16.9**	**14.8**	**64.4**	**70.7**	**74.1**
Adj. EBITA margin	*6.3%*	*5.5%*	*7.0%*	*7.5%*	*6.0%*	*6.5%*	*6.9%*	*7.0%*

Source: Redeye Research, Hanza

Rest of World

This segment – consisting of the Baltic, Central European, and Chinese clusters – generated more than 50% of sales in 2019 but only 15% of adjusted EBITA. Given average adjusted EBITA below 2% for the past three years (we do not have access to older data), RotW is far short of Hanza's EBIT margin target of 6%. However, we see solid prospects for higher levels in the future.

Net sales and EBITA margin - RotW

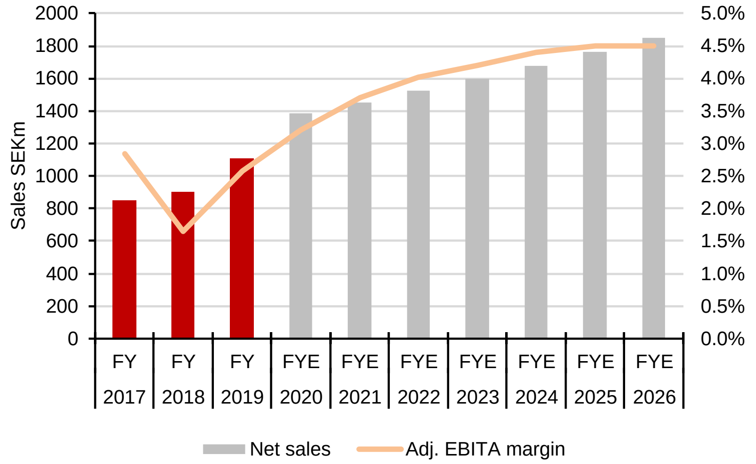


Source: Redeye Research, Hanza Group

We believe the more mature Baltic cluster is performing well, in line with Hanza's target, while the smaller clusters in China and Central Europe are likely at break-even at best. The acquisition of Germany's Ritter in July 2019 will add SEK ~450m in sales, likely doubling the size of the Central European cluster and providing it with additional manufacturing technologies. Given its EBIT margin of ~8%, Ritter should, excluding integration costs, expand the segment's EBITA margin by about two percentage points. Also, the German acquisition has already resulted in deals for Hanza's Chinese cluster.

According to management, the main reason for the lower margin in RotW relative to Nordics is the many ongoing efficiency measures in RotW. While we find it reasonable that these activities are necessary to restructure the segment's factories into a well-oiled cluster, we believe the differences in adjusted EBITA of SEK ~50m between Nordics and RotW in 2018 and of SEK ~30m in 2019 indicate significant costs for these ongoing activities. In its early days, Hanza acquired several companies with weak track records and it is likely that these need substantial investments before they turn profitable.

Rotw - Forecasts



Source: Redeye Research, Hanza Group

We forecast RotW's EBITA margin to gradually increase. Hanza's strategy of "All you need is one" and the clusters works well in the Nordics and the customer list is impressive. We believe Hanza has a good chance of replicating this with a profitable business internationally as the clusters grow and as acquisitions are integrated.

We expect the adjusted EBITA margin in RotW to reach 4% in 2022. We assume a gradual increase that is likely to be interrupted occasionally by the integration of further acquisitions, although we do not include future M&A in our forecast.

Rest of the World - Financial forecasts Base-case

(SEKm)	2019	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E
Net sales	**1105**	**341**	**355**	**351**	**336**	**1382**	**1452**	**1524**
Growth YoY	*22.7%*	*37.1%*	*49.0%*	*17.5%*	*5.0%*	*25.1%*	*5.0%*	*5.0%*
Organic	*22.7%*	*-8.0%*	*2.0%*	*5.0%*	*5.0%*	*1.4%*	*5.0%*	*5.0%*
FX	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
M&A	*0.0%*	*45.1%*	*47.0%*	*12.5%*	*0.0%*	*23.6%*	*0.0%*	*0.0%*
Adj. EBITA	**28.4**	**8.5**	**9.9**	**14.0**	**11.8**	**44.2**	**53.7**	**61.3**
Adj. EBITA margin	*2.6%*	*2.5%*	*2.8%*	*4.0%*	*3.5%*	*3.2%*	*3.7%*	*4.0%*

Source: Redeye Research, Hanza

RotW's EBITA of 4% is below Hanza's target of 6% (EBIT on a group level), which the company aims to reach by 2022 at the latest. We would like to see a clear path towards stable and higher margins before we increase our assumptions. However, our estimate of an increase from 1% in 2019 to 4% in 2022 would result in a significant rise in EBITA for RotW.

For 2020, we forecast growth of 3% as we believe Hanza will focus on the integration of Ritter rather than hunting new customers. We assume annual organic growth of 5%, slightly higher than Hanza's historical average of ~3.5% and somewhat above the estimated market growth.

We believe that Hanza can, through its establishment in Germany, attract new customers thanks to its cluster strategy.

We forecast the adjusted EBITA margin in RotW increasing to about 3% in 2020, foremost thanks to Ritter's contribution to the numbers. However, we expect integration costs (mainly related to IT) to dampen the result in 2020. Note that these costs are not considered one-offs and so they also affect adjusted EBITA.

For Q1 2020, we expect the COVID-19 virus to have a negative impact on both sales and margins, mainly due to a shortage of PCBs from China. Also, Hanza closed its Chinese factory for a few weeks during the initial outbreak. However, this factory is now up and running and as it only accounts for a small part of RotW, we do not expect a major impact.

Group summary

On the group level, we forecast a gradual increase in margins, mainly thanks to improvements in the RotW segment. However, owing to acquisitions and their integration, plus the impact of business cycles, the path towards higher levels will likely be more volatile than our forecast. For 2022, we estimate 4.6% on the EBIT level, which is below Hanza's target of 6%, but is still a significant increase on the 2.9% reported for 2019.

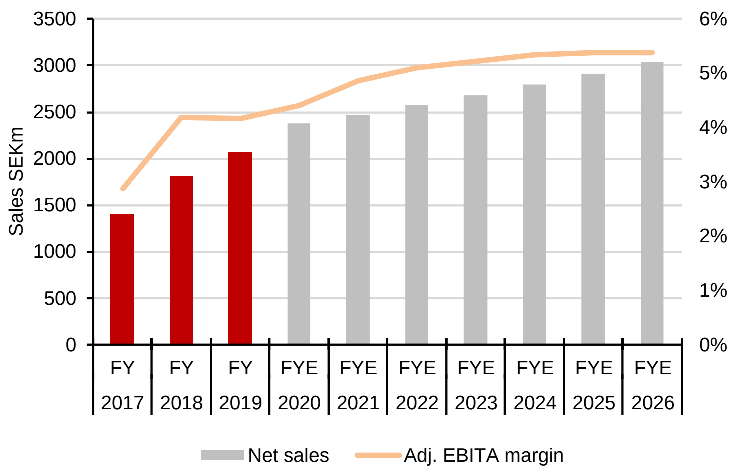
Several factors speak in favour of management's target of 6%. For example, the Nordics segment performs above the target and there is no reason why RotW should not have the same margin as it matures, since it shares the same business model. However, Hanza has only been profitable for a few years and while its business is diversified, the current Hanza (much of which has been acquired post-2014) has not experienced an economic downturn.

We want to see a clear trend towards higher margins in RotW before we feel confident to raise our base-case forecast to match Hanza's target.

Combining our organic growth forecasts for Nordics and RotW, we arrive at group-level organic growth of ~4.2% for 2021 and on. We expect the 2020 figure to be lower as Hanza is focusing on the Ritter integration.

Given Hanza's solid customer list and its unique strategy, we believe the company should be able to outperform the market in terms of growth. However, our forecast of 4.2% is just slightly higher than the forecast market growth of 3%. As with margins, we would like to see signs of higher organic growth before we increase our base-case assumptions.

Group - Forecasts



Source: Redeye Research, Hanza Group

Valuation

We use a WACC of 10% across our base, bull and bear cases. The main difference between the three is the margins we forecast for the RotW segment.

Base case – SEK 21.00

Our base case of SEK 21, which represents an upside of around 40% from the current share price, corresponds to a 2021E EV/EBITA multiple of some 10x. While we assume a significant increase in RotW margins to boost group EBIT margin to 4.6% in 2022 (up from 2.7% in 2019), our forecast is conservative compared to Hanza's target of 6% by then.

Key assumptions

- Average organic growth of 3% in the Nordics (2020-27)
- Average organic growth of 4.5% in RotW (2020-27)
- Terminal growth of 2% (Nordics, RotW, and Group)
- Average EBITA margin of 7.0% in the Nordics (2020-27)
- Average EBITA margin of 4.1% in RotW (2020-27)
- Terminal EBITA margin of 7.1% in the Nordics
- Terminal EBITA margin of 4.5% in RotW
- Terminal Group EBITA margin of 5.4%

Group - Financial forecasts Base-case

(SEKm)	2019	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E
Net sales	**2068**	**586**	**629**	**576**	**582**	**2374**	**2473**	**2576**
Growth YoY	*14.2%*	*17.8%*	*24.1%*	*11.8%*	*6.3%*	*14.8%*	*4.2%*	*4.2%*
Organic	*-1.5%*	*-6.0%*	*2.0%*	*4.6%*	*6.3%*	*1.9%*	*4.2%*	*4.2%*
FX	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
M&A	*15.7%*	*23.8%*	*22.1%*	*7.2%*	*0.0%*	*13.0%*	*0.0%*	*0.0%*
Adj. EBITA	**86.1**	**21.0**	**28.1**	**30.0**	**25.6**	**104.6**	**120.4**	**131.4**
Adj. EBITA margin	*4.2%*	*3.6%*	*4.5%*	*5.2%*	*4.4%*	*4.4%*	*4.9%*	*5.1%*
EBIT	**56.8**	**17.5**	**24.6**	**26.5**	**22.1**	**90.6**	**106.4**	**117.4**
EBIT margin	*2.7%*	*3.0%*	*3.9%*	*4.6%*	*3.8%*	*3.8%*	*4.3%*	*4.6%*

Source: Redeye Research, Hanza

Measured on EV/EBIT, Hanza's valuation is in line with the peer group averages for 2020 and 2021, respectively. Hanza's unique strategy and its significant RotW margin potential leads us to argue that Hanza deserves a higher valuation. Also, note that Hanza's EBIT is depressed by amortizations of intangible assets related to acquisitions and for EV/EBITDA Hanza is trading at a ~30% discount.

Company	EV (SEKm)	EV/SALES 20E	EV/SALES 21E	EV/EBITDA (x) 20E	EV/EBITDA (x) 21E	EV/EBIT (x) 20E	EV/EBIT (x) 21E	Sales growth (%) 20E	Sales growth (%) 21E	EBIT margin (%) 20E	EBIT margin (%) 21E
Incap	665	0.5	0.5	4.2	4.0	4.9	4.6	3.5	3.4	10.9	11.1
Kitron	2 485	0.6	0.6	6.6	5.8	9.1	8.2	9.2	9.3	6.8	7.0
Nolato	14 525	1.5	1.4	9.4	8.4	12.8	11.3	8.5	7.4	11.9	12.6
Scanfil	3 499	0.5	0.5	5.6	5.4	7.6	7.2	3.4	5.0	6.9	7.0
Inission	476	0.4	0.4	5.1	4.8	6.0	5.7	4.7	3.0	6.9	7.1
NCAB	2 209	1.1	1.0	10.6	9.8	11.5	10.6	7.7	6.6	9.4	9.6
Elos Medtech	986	1.2	n/a	6.1	n/a	10.3	n/a	9.1	n/a	11.3	n/a
Average	**4 030**	0.8	0.7	6.8	6.4	8.9	7.9	6.6	5.8	9.2	9.0
Median	**2 347**	0.6	0.5	6.1	5.6	9.1	7.7	7.7	5.8	9.4	8.3
Hanza Holding	**1 170**	**0.5**	**0.5**	**4.9**	**4.1**	**9.9**	**7.8**	**14.8**	**4.2**	**3.8**	**4.3**

Source: Redeye Research, Bloomberg

Bear case – SEK 11.00

Key assumptions

- Average organic growth of 2% in the Nordics (2020-27)
- Average organic growth of 3.6% in RotW (2020-27)
- Terminal growth of 2% (Nordics, RotW and Group)
- Average EBITA margin of 6.0% in the Nordics (2020-27)
- Average EBITA margin of 2.6% in RotW (2020-27)
- Terminal EBITA margin of 6.1% in the Nordics
- Terminal EBITA margin of 3.0% in RotW
- Terminal group EBITA margin of 4.1%

Group - Financial forecasts Bear-case

(SEKm)	2019	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E
Net sales	**2068**	**584**	**626**	**574**	**580**	**2364**	**2439**	**2517**
Growth YoY	*14.2%*	*17.3%*	*23.6%*	*11.4%*	*5.9%*	*14.3%*	*3.2%*	*3.2%*
Organic	*-1.5%*	*-6.5%*	*1.5%*	*4.2%*	*5.9%*	*1.4%*	*3.2%*	*3.2%*
FX	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
M&A	*15.7%*	*23.8%*	*22.1%*	*7.2%*	*0.0%*	*13.0%*	*0.0%*	*0.0%*
Adj. EBITA	**86.1**	**13.4**	**19.9**	**22.3**	**17.9**	**73.4**	**87.0**	**95.5**
Adj. EBITA margin	*4.2%*	*2.3%*	*3.2%*	*3.9%*	*3.1%*	*3.1%*	*3.6%*	*3.8%*
EBIT	**56.8**	**9.9**	**16.4**	**18.8**	**14.4**	**59.4**	**73.0**	**81.5**
EBIT margin	*2.7%*	*1.7%*	*2.6%*	*3.3%*	*2.5%*	*2.5%*	*3.0%*	*3.2%*

Source: Redeye Research, Hanza

Bull case – SEK 35.00

Key assumptions

- Average organic growth of 5.0% in the Nordics (2020-27)
- Average organic growth of 6.3% in RotW (2020-27)
- Terminal growth of 2% (Nordics, RotW and Group)
- Average EBITA margin of 7.5% in the Nordics (2020-27)
- Average EBITA margin of 6.1% in RotW (2020-27)
- Terminal EBITA margin of 7.6% in the Nordics
- Terminal EBITA margin of 6.5% in RotW
- Group level terminal EBITA margin of 6.8%

Group - Financial forecasts Bull-case

(SEKm)	2019	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E
Net sales	**2068**	**591**	**634**	**581**	**587**	**2394**	**2541**	**2697**
Growth YoY	*14.2%*	*18.8%*	*25.2%*	*12.7%*	*7.2%*	*15.8%*	*6.2%*	*6.2%*
Organic	*-1.5%*	*-5.0%*	*3.1%*	*5.4%*	*7.2%*	*2.8%*	*6.2%*	*6.2%*
FX	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
M&A	*15.7%*	*23.8%*	*22.1%*	*7.2%*	*0.0%*	*13.0%*	*0.0%*	*0.0%*
Adj. EBITA	**86.1**	**29.4**	**37.0**	**38.4**	**33.8**	**138.6**	**159.1**	**175.4**
Adj. EBITA margin	*4.2%*	*5.0%*	*5.8%*	*6.6%*	*5.8%*	*5.8%*	*6.3%*	*6.5%*
EBIT	**56.8**	**25.9**	**33.5**	**34.9**	**30.3**	**124.6**	**145.1**	**161.4**
EBIT margin	*2.7%*	*4.4%*	*5.3%*	*6.0%*	*5.2%*	*5.2%*	*5.7%*	*6.0%*

Source: Redeye Research, Hanza

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.

People: 5

Hanza receives a high rating for people, as both management and owners have favorable characteristics. CEO Erik Stenfors has vast experience of the manufacturing service industry, including being the founder and CEO of both Note and Hanza. Hanza's largest sharholder is Gerald Engström, the founder and majority owner of Systemair. As a result, Hanza also has the support of a product company veteran.

Business: 3

Lacking clear differentiators, competition in the manufacturing service industry is typically tough. While Hanza has a unique take on the industry, we believe it is still difficult for it to increase prices for example. All the same, Hanza is a close and important partner for several of its customers. Moreover, it has decent diversification across both sectors and customers. Overall, Hanza receives an average rating for Business.

Financials: 3

While Hanza's near-term financial performance is strong, the long-term track-record has been weak, which lowers the Financials rating. Its solid financial position is positive, while the low-margin nature of its business is negative for the rating. In summary, Hanza receives an average rating for Financials. Several consecutive years of solid performance would lift the rating, though.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	1,811	2,068	2,374	2,473	2,576
Total operating costs	-1,692	-1,919	-2,191	-2,271	-2,360
EBITDA	118	149	183	201	216
Depreciation	-52	-85	-78	-79	-82
Amortization	-12	-8	-14	-16	-16
Impairment charges	0	0	0	0	0
EBIT	54	57	91	106	117
Share in profits	0	0	0	0	0
Net financial items	-25	-25	-16	-16	-16
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	29	32	75	90	102
Tax	-8	-9	-16	-20	-22
Net earnings	21	24	58	70	79

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
Current assets					
Cash in banks	78	67	14	63	94
Receivables	102	122	124	129	134
Inventories	290	423	451	445	464
Other current assets	10	45	45	45	45
Current assets	479	657	634	682	737
Fixed assets					
Tangible assets	270	422	444	462	477
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	265	299	299	299	299
Cap. exp. for dev.	66	113	99	83	66
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total fixed assets	600	835	842	844	843
Deferred tax assets	16	31	31	31	31
Total (assets)	1,096	1,523	1,507	1,558	1,611
Liabilities					
Current liabilities					
Short-term debt	131	198	408	391	370
Accounts payable	285	232	367	383	399
O current liabilities	29	84	84	84	84
Current liabilities	445	514	860	858	853
Long-term debt	207	412	0	0	0
O long-term liabilities	33	53	53	53	53
Convertibles	0	0	0	0	0
Total Liabilities	686	979	913	911	906
Deferred tax liab	0	46	46	46	46
Provisions	0	0	0	0	0
Shareholders' equity	411	498	549	601	660
Minority interest (BS)	0	0	0	0	0
Minority & equity	411	498	549	601	660
Total liab & SE	1,096	1,522	1,507	1,558	1,611

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	1,811	2,068	2,374	2,473	2,576
Total operating costs	-1,692	-1,919	-2,191	-2,271	-2,360
Depreciations total	-64	-92	-92	-95	-98
EBIT	54	57	91	106	117
Taxes on EBIT	-16	-15	-20	-23	-26
NOPLAT	39	42	71	83	92
Depreciation	64	92	92	95	98
Gross cash flow	103	134	163	178	190
Change in WC	-3	-187	106	16	-8
Gross CAPEX	-307	-327	-100	-97	-97
Free cash flow	-207	-380	169	97	85

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	37%	33%	36%	39%	41%
Debt/equity ratio	82%	123%	74%	65%	56%
Net debt	260	543	395	327	276
Capital employed	671	1,041	943	929	936
Capital turnover rate	1.7	1.4	1.6	1.6	1.6

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	29%	14%	15%	4%	4%
EPS growth (adj)	0%	13%	117%	21%	13%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	10.0 %	NPV FCF (2020-2021)	303
		NPV FCF (2022-2028)	368
		NPV FCF (2029-)	585
		Non-operating assets	67
		Interest-bearing debt	-610
		Fair value estimate MSEK	713
Assumptions 2020-2026 (%)			
Average sales growth	4.2 %	Fair value e. per share, SEK	21.0
EBIT margin	4.6 %	Share price, SEK	15.1

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	6%	5%	11%	12%	13%
ROCE	9%	6%	9%	11%	12%
ROIC	9%	6%	7%	9%	10%
EBITDA margin	7%	7%	8%	8%	8%
EBIT margin	3%	3%	4%	4%	5%
Net margin	1%	1%	2%	3%	3%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	0.70	0.79	1.71	2.07	2.34
EPS adj	0.70	0.79	1.71	2.07	2.34
Dividend	0.25	0.25	0.51	0.62	0.70
Net debt	8.71	18.19	11.61	9.64	8.12
Total shares	29.87	29.87	33.98	33.98	33.98

VALUATION	2018	2019	2020E	2021E	2022E
EV	688.8	1,021.2	907.7	840.5	789.1
P/E	20.6	20.3	8.8	7.3	6.5
P/E diluted	20.6	20.3	8.8	7.3	6.5
P/Sales	0.2	0.2	0.2	0.2	0.2
EV/Sales	0.4	0.5	0.4	0.3	0.3
EV/EBITDA	5.8	6.9	5.0	4.2	3.7
EV/EBIT	12.7	18.0	10.0	7.9	6.7
P/BV	1.0	1.0	0.9	0.9	0.8

SHARE PERFORMANCE		GROWTH/YEAR	18/20E
1 month	-10.2 %	Net sales	14.5 %
3 month	1.3 %	Operating profit adj	29.4 %
12 month	-1.9 %	EPS, just	56.9 %
Since start of the year	1.6 %	Equity	15.6 %

SHARE INFORMATION	
List	Small Cap
Share price	15.1
Total shares, million	34.0
Market Cap, MSEK	513.1

MANAGEMENT & BOARD	
CEO	Erik Stenfors
CFO	Lars Åkerblom
Chairman	Francesco Franzé

FINANCIAL INFORMATION

ANALYSTS	Redeye AB
Fredrik Nilsson	Mäster Samuelsgatan 42, 10tr
fredrik.nilsson@redeye.se	111 57 Stockholm
Oskar Vilhelmsson	
oskar.vilhelmsson@redeye.se	

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

Håkan Östling
hakan.ostling@redeye.se

Technology Team

Jonas Amnesten
jonas.amnesten@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Havan Hanna
havan.hanna@redeye.se

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Erika Madebrink
erika.madebrink@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

Eddie Palmgren
eddie.palmgren@redeye.se

Magnus Skog
magnus.skog@redeye.se

Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se

Viktor Westman
viktor.westman@redeye.se

Linus Sigurdsson (Trainee)
linus.sigurdsson@redeye.se

Editorial

Eddie Palmgren
eddie.palmgren@redeye.se

Mark Siöstedt
mark.siostedt@redeye.se

John Hintze
john.hintze@redeye.se

Johan Kårestedt (Trainee)
johan.karestedt@redeye.se

Life Science Team

Gergana Almquist
gergana.almquist@redeye.se

Oscar Bergman
oscar.bergman@redeye.se

Anders Hedlund
anders.hedlund@redeye.se

Arvid Necander
arvid.necander@redeye.se

Erik Nordström
erik.nordstrom@redeye.se

Klas Palin
klas.palin@redeye.se

Jakob Svensson
jakob.svensson@redeye.se

Ludvig Svensson
ludvig.svensson@redeye.se

Disclaimer

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Redeye Rating (2020-03-10)

Rating	People	Business	Financials
5p	12	12	4
3p - 4p	94	72	31
0p - 2p	10	32	81
Company N	116	116	116

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CONFLICT OF INTERESTS

Fredrik Nilsson owns shares in the company : No

Oskar Vilhelmsson 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.