# Hanza Holding

Sector: Industrial Goods & Services

## Poised for Post-Corona Manufacturing

Redeye remains positive to Hanza following a Q1 in line with our forecast – Corona crisis shrinking organic sales and adj. EBITA YoY. While the Corona crisis will hit 2020, we believe Hanza is positioned for growth in the Post-Corona crisis manufacturing landscape. We leave our forecasts and Base case unchanged.

**Unchanged forecasts – Base case still SEK 17 (17)**

We leave our sales, and adjusted EBITA forecasts largely unchanged for both 2020 and 2021. We argue that our case in Hanza Holding remains intact, despite the Corona crisis. We still believe Hanza will be able to show significant margin increases, although from 2021 instead of 2020, all because of the Corona crisis. While 2020 will be harsh, we argue that the market has low expectations also in 2021 and beyond at the current share price. We remain positive to Hanza and keep our Base case at SEK 17.

**Expect an increasing Corona crisis impact in Q2**

During Q1, Hanza experienced negative impacts of the Corona crisis due to the temporary closure of its Chinese factory, shortage of components in Europe, and lowered demand in some segments by mid-March. Management expects an accelerating decline in Q2, in line GDP forecasts. We forecast organic growth of -15% in Q2.

**Long-term opportunity**

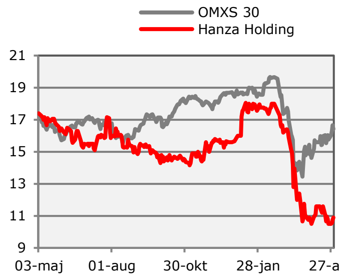
While 2020 most likely will be a lost year, in terms of both organic growth and, more importantly, margin increases, Hanza could very well become a long-term winner on the Corona crisis. The Corona crisis has highlighted today's fragile supply chains, and, going forward, we argue that supply chain durability will increase in priority among most product companies. Considering Hanza's cluster-based near-customer strategy, we believe Hanza will benefit from an increased focus on durable supply chains.

| KEY FINANCIALS (SEKm) | 2018 | 2019 | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Net sales | 1811 | 2068 | 2163 | 2345 | 2436 | 2538 |
| EBITDA | 118 | 149 | 110 | 176 | 190 | 220 |
| EBIT | 54 | 57 | 15 | 82 | 91 | 120 |
| EPS | 0.7 | 0.8 | 0.0 | 1.6 | 1.8 | 2.5 |
| EV/Sales | 0.4 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 |
| EV/EBITDA | 5.8 | 6.9 | 7.4 | 4.3 | 3.8 | 3.0 |
| EV/EBIT | 12.7 | 18.0 | 53.8 | 9.2 | 7.8 | 5.5 |
| P/E | 20.6 | 20.3 | -259.7 | 6.8 | 5.9 | 4.3 |

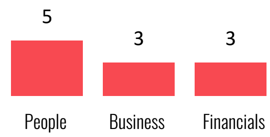
**FAIR VALUE RANGE**

| BEAR | BASE | BULL |
|---|---|---|
| 7.0 | 17.0 | 30.0 |

**VERSUS OMXS30**




**REDEYE RATING**




**KEY STATS**

| | |
|---|---|
| Ticker | HANZA |
| Market | Small Cap |
| Share Price (SEK) | 10.9 |
| Market Cap (MSEK) | 370 |
| Net Debt 20E (MSEK) | 442 |
| Free Float | 70 % |
| Avg. daily volume ('000) | 920 |

**ANALYSTS**

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# Largely in line with forecast – negative impact of the Corona crisis

Net sales increased by 20% YoY to SEK 599m, in line with our forecast. While Hanza does not report its organic growth, we believe that organic growth was negative by a few percents. Given the temporary shutdown of Hanza's Chinese factoring during the quarter, we argue that the outcome of the revenue in this quarter is rather solid.

Adjusted EBITA and EBITA (no one-offs) came in at SEK 20.4m, slightly below our forecast of SEK 21.3m. The adjusted EBITA margin fell to 3.4% (5.0). Thus, while holding organic sales almost unchanged, Hanza lost 1.5 percentage points in adjusted EBITA margin. According to management, the declining margin was due to Hanza being staffed for increasing volumes.

**Actuals vs Forecast - Group 1Q20**

| (SEKm) | 1Q19 | 1Q20 | 1Q20E | Diff |
|---|---|---|---|---|
| **Net sales** | **498** | **599** | **596** | *0.5%* |
| *Growth YoY* | *13.5%* | *20.4%* | *19.8%* | |
| *Organic* | | | *-4.0%* | |
| *M&A* | | | *23.8%* | |
| **Adj. EBITA** | **25.0** | **20.4** | **21.3** | *-4.2%* |
| *Adj. EBITA margin* | *5.0%* | *3.4%* | *3.6%* | |
| EBITA | 19.5 | 20.4 | 21.3 | *-4.2%* |
| *EBITA margin* | *3.9%* | *3.4%* | *3.6%* | |

*Source: Redeye Research, Hanza*

During the first quarter, Hanza has experienced several waves of negative impact of the Corona crisis. First, by the temporary shutdown of Hanza's Chinese factory. Second, the Corona crisis in China created a shortage of some components in Europe. Third, demand for some of Hanza's products weakened in Europe and else were due to lockdowns. The slowdown in demand took place in the second half of mars. While the group level impact has not been dramatic, the impact on certain factories has been significant.

Management believes that demand for Hanza's services will decline further during Q2, and given leading indicators and GDP forecasts, we find that statement reasonable. We will get back to our forecasts in the Financial Forecast section.

In April, management initiated an action program aimed at reducing fixed costs. Among other things, Hanza has reduced the number of employees by a total of 90 in Sweden and Estonia. Also, in Germany and Poland, Hanza has implemented short-term work. The factory in Åtvidaberg, in the Swedish cluster, will shut down, and the production will move to a similar factory in Årjäng.

Management assumes that the cost-reducing initiatives will cost up to SEK 25m, which of the majority is non-cash items. Thus, we forecast a SEK 25m one-off cost in Q2 2020.

As Hanza has changed its segment reporting from Nordics (Sweden, Finland) and Rest of the World (Estonia, Germany, Central Europe, China) to Main markets (Sweden, Finland, Germany) and Other markets (Baltics, Central Europe, China). The only difference is that Hanza has moved the newly formed German cluster (earlier a part of Central Europe) to Nordics and renamed it Main markets.

However, as our forecast was based on the previous segment, we did not have any segment forecasts.

**Actuals vs Forecast - Main markets 1Q20**

| (SEKm) | 1Q19 | 1Q20 |
|---|---|---|
| **Net sales** | **249** | **338** |
| *Growth YoY* | | *35.6%* |
| **Adj. EBITA** | **16.7** | **19.0** |
| *Adj. EBITA margin* | *6.7%* | *5.6%* |

*Source: Redeye Research, Hanza*

Nevertheless, while decreasing its margin YoY, the Main markets held on to a decent level of 5.6% (EBITA). However, Other market's EBITA margin was barely in positive territory. Besides the temporary closure of the Chinese factory, the main reason for the decreasing margin was lowered demand in the Estonian cluster. We believe that Estonia has been the most profitable cluster in the Rest of the World/Other markets. Thus, declining volumes in Estonia should have a significant impact on the segment's EBITA margin.

**Actuals vs Forecast - Other markets 1Q20**

| (SEKm) | 1Q19 | 1Q20 |
|---|---|---|
| **Net sales** | **248** | **261** |
| *Growth YoY* | | *5.2%* |
| **Adj. EBITA** | **8.3** | **2.2** |
| *Adj. EBITA margin* | *3.3%* | *0.8%* |

*Source: Redeye Research, Hanza*

## Long-term opportunity

While 2020 most likely will be a lost year, in terms of both organic growth and, more importantly, margin increases, Hanza could very well become a long-term winner on the Corona crisis. The Corona crisis has highlighted today's fragile supply chains, and, going forward, we argue that supply chain durability will increase in priority among most product companies. Considering Hanza's cluster-based near-customer strategy, we believe Hanza will benefit from an increased focus on durability.

While Hanza has one factory in China, the bulk of its factories are in its so-called Main markets, consisting of Germany and the Nordics, and in nearby European countries with lower labor costs such as Estonia and Poland. We believe the mix of highly automated factories in the customers' markets and more labor-intensive factories in lower-cost neighboring regions make an attractive trade-off between production costs and supply chain durability. This especially considering the Corona crisis and relative to Asian production for the European market.

# Financial Forecasts

We leave our sales and adjusted EBITA forecasts for both 2020 and 2021largely unchanged. However, due to the expected one-off cost of SEK 25m related to the cost reduction program, we lower our EBIT forecast by 65%.

**Group - Estimate revisions 1Q2020**

| | 2020 | | | 2021 | | |
|---|---|---|---|---|---|---|
| (SEKm) | New | Prev. | Change | New | Prev. | Change |
| **Net sales** | **2163** | **2124** | *1.8%* | **2345** | **2346** | *0.0%* |
| *Growth* | *5%* | *3%* | | *8%* | *10%* | |
| *Organic* | *-7%* | *-10%* | | *8%* | *10%* | |
| *M&A* | *12%* | *13%* | | *0%* | *0%* | |
| **Adj. EBITA** | **54** | **57** | *-4.3%* | **96** | **93** | *2.5%* |
| *Adj. EBITA margin* | *2.5%* | *2.7%* | | *4.1%* | *4.0%* | |
| EBIT | 15 | 43 | *-64.6%* | 82 | 79 | *2.9%* |
| *EBIT margin* | *0.7%* | 2.0% | | *3.5%* | *3.4%* | |

*Source: Redeye Research*

In line with the management's statement, we expect a further decline in revenues in Q2. We assume an organic growth of -15%. Our estimate is based on GDP forecasts by Konjunkturinstitutet and IMF, which both expect a decline of ~11% during Q2. Konjunkturinstitutet's estimate is from the 29 of April, while IMF's is from the 6 of April. We believe that Hanza's markets outside of Sweden will experience a more significant slowdown relative to Sweden due to lockdowns, and we would not be surprised if the IMF were to weaken its forecast. Thus, we forecast a larger decline of Hanza's revenue compared to Swedish GDP in Q2.

For Q3, we expect a decline of 10%. Also, that estimate is based on GDP forecasts. For the full year 2020, we expect a decrease in organic sales of ~7.5% and an adjusted EBITA margin of 2.5% (4.2). From 2021 and onwards, we expect a rebound in revenue growth and gradually increasing margins.

**Group - Financial forecasts Base-case**

| (SEKm) | 2019 | 1Q20 | 2Q20E | 3Q20E | 4Q20E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|
| **Net sales** | **2068** | **599** | **526** | **498** | **540** | **2163** | **2345** | **2439** |
| *Growth YoY* | *14.2%* | *20.4%* | *3.8%* | *-3.5%* | *-1.4%* | *4.6%* | *8.4%* | *4.0%* |
| *Organic* | | | *-15.0%* | *-10.0%* | *-1.4%* | *-7.4%* | *8.4%* | *4.0%* |
| *M&A* | | | *18.8%* | *6.5%* | *0.0%* | *12.0%* | *0.0%* | *0.0%* |
| **Adj. EBITA** | **86.1** | **20.4** | **7.4** | **8.5** | **17.9** | **54.2** | **95.5** | **105.4** |
| *Adj. EBITA margin* | *4.2%* | *3.4%* | *1.4%* | *1.7%* | *3.3%* | *2.5%* | *4.1%* | *4.3%* |
| **EBIT** | **56.8** | **16.8** | **-21.1** | **5.0** | **14.4** | **15.1** | **81.5** | **91.4** |
| *EBIT margin* | *2.7%* | *2.8%* | *-4.0%* | *1.0%* | *2.7%* | *0.7%* | *3.5%* | *3.7%* |

*Source: Redeye Research, Hanza*

# 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.

### Expanding into Germany

By the acquisition of Ritter in 2019, Hanza established presence in Germany. 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.

### 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.

# 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.

# Valuation

## Bear Case 7.0 SEK

Average organic growth of 2% in the

Terminal growth of 2%

Average EBITA margin of 3.5% in the (2020-27)

Terminal group EBITA margin of 4.1%

## Base Case 17.0 SEK

Average organic growth of 4% in the

Terminal growth of 2%

Average EBITA margin of 4.5% in the (2020-27)

Terminal group EBITA margin of 5.3%

## Bull Case 30.0 SEK

Average organic growth of 5% in the

Terminal growth of 2%

Average EBITA margin of 5.5% in the (2020-27)

Terminal group EBITA margin of 6.5%

# Summary Redeye Rating

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

## Rating changes in the report: None

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 | 2,163 | 2,345 | 2,436 |
| Total operating costs | -1,692 | -1,919 | -2,053 | -2,169 | -2,246 |
| EBITDA | 118 | 149 | 110 | 176 | 190 |
| Depreciation | -52 | -85 | -81 | -79 | -83 |
| Amortization | -12 | -8 | -14 | -15 | -15 |
| Impairment charges | 0 | 0 | 0 | 0 | 0 |
| EBIT | 54 | 57 | 15 | 82 | 91 |
| Share in profits | 0 | 0 | 0 | 0 | 0 |
| Net financial items | -25 | -25 | -16 | -12 | -12 |
| Exchange rate dif. | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | 29 | 32 | -1 | 70 | 80 |
| Tax | -8 | -9 | -1 | -15 | -18 |
| Net earnings | 21 | 24 | -1 | 55 | 62 |

| BALANCE SHEET | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Assets | | | | | |
| *Current assets* | | | | | |
| Cash in banks | 78 | 67 | 0 | 0 | 0 |
| *Receivables* | 102 | 122 | 113 | 122 | 127 |
| Inventories | 290 | 423 | 411 | 422 | 438 |
| Other current assets | 10 | 45 | 45 | 45 | 45 |
| Current assets | 479 | 657 | 569 | 590 | 611 |
| *Fixed assets* | | | | | |
| Tangible assets | 270 | 422 | 450 | 468 | 482 |
| 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 | 84 | 68 |
| O intangible rights | 0 | 0 | 0 | 0 | 0 |
| O non-current assets | 0 | 0 | 0 | 0 | 0 |
| Total fixed assets | 600 | 835 | 849 | 851 | 850 |
| Deferred tax assets | 16 | 31 | 31 | 31 | 31 |
| Total (assets) | 1,096 | 1,523 | 1,449 | 1,472 | 1,492 |
| Liabilities | | | | | |
| *Current liabilities* | | | | | |
| Short-term debt | 131 | 198 | 338 | 319 | 295 |
| Accounts payable | 285 | 232 | 335 | 363 | 377 |
| O current liabilities | 29 | 84 | 84 | 84 | 84 |
| Current liabilities | 445 | 514 | 757 | 766 | 756 |
| Long-term debt | 207 | 412 | 104 | 64 | 47 |
| O long-term liabilities | 33 | 53 | 53 | 53 | 53 |
| Convertibles | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 686 | 979 | 915 | 883 | 857 |
| Deferred tax liab | 0 | 46 | 46 | 46 | 46 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 411 | 498 | 489 | 543 | 589 |
| Minority interest (BS) | 0 | 0 | 0 | 0 | 0 |
| Minority & equity | 411 | 498 | 489 | 543 | 589 |
| Total liab & SE | 1,096 | 1,522 | 1,449 | 1,472 | 1,492 |

| FREE CASH FLOW | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Net sales | 1,811 | 2,068 | 2,163 | 2,345 | 2,436 |
| Total operating costs | -1,692 | -1,919 | -2,053 | -2,169 | -2,246 |
| Depreciations total | -64 | -92 | -95 | -95 | -98 |
| EBIT | 54 | 57 | 15 | 82 | 91 |
| Taxes on EBIT | -16 | -15 | -3 | -18 | -20 |
| NOPLAT | 39 | 42 | 12 | 64 | 71 |
| Depreciation | 64 | 92 | 95 | 95 | 98 |
| Gross cash flow | 103 | 134 | 106 | 158 | 169 |
| Change in WC | -3 | -187 | 124 | 8 | -7 |
| Gross CAPEX | -307 | -327 | -109 | -97 | -97 |
| Free cash flow | -207 | -380 | 122 | 69 | 66 |

| CAPITAL STRUCTURE | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Equity ratio | 37% | 33% | 34% | 37% | 40% |
| Debt/equity ratio | 82% | 123% | 91% | 70% | 58% |
| Net debt | 260 | 543 | 442 | 383 | 342 |
| Capital employed | 671 | 1,041 | 931 | 926 | 932 |
| Capital turnover rate | 1.7 | 1.4 | 1.5 | 1.6 | 1.6 |

| GROWTH | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Sales growth | 29% | 14% | 5% | 8% | 4% |
| EPS growth (adj) | 0% | 13% | -105% | - | 14% |

| DCF VALUATION | | CASH FLOW, MSEK | |
|---|---|---|---|
| WACC (%) | 10.0 % | NPV FCF (2020-2021) | 223 |
| | | NPV FCF (2022-2028) | 328 |
| | | NPV FCF (2029-) | 561 |
| | | Non-operating assets | 67 |
| | | Interest-bearing debt | -610 |
| | | Fair value estimate MSEK | 569 |
| Assumptions 2020-2026 (%) | | | |
| Average sales growth | 4.7 % | Fair value e. per share, SEK | 16.7 |
| EBIT margin | 3.8 % | Share price, SEK | 10.9 |

| PROFITABILITY | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| ROE | 6% | 5% | 0% | 11% | 11% |
| ROCE | 9% | 6% | 1% | 9% | 10% |
| ROIC | 9% | 6% | 1% | 7% | 8% |
| EBITDA margin | 7% | 7% | 5% | 8% | 8% |
| EBIT margin | 3% | 3% | 1% | 3% | 4% |
| Net margin | 1% | 1% | 0% | 2% | 3% |

| DATA PER SHARE | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| EPS | 0.70 | 0.79 | -0.04 | 1.61 | 1.83 |
| EPS adj | 0.70 | 0.79 | -0.04 | 1.61 | 1.83 |
| Dividend | 0.25 | 0.25 | 0.00 | 0.48 | 0.55 |
| Net debt | 8.71 | 18.19 | 13.02 | 11.26 | 10.07 |
| Total shares | 29.87 | 29.87 | 33.98 | 33.98 | 33.98 |

| VALUATION | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| EV | 688.8 | 1,021.2 | 812.8 | 752.9 | 712.6 |
| P/E | 20.6 | 20.3 | -259.7 | 6.8 | 5.9 |
| P/E diluted | 20.6 | 20.3 | -259.7 | 6.8 | 5.9 |
| 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 | 7.4 | 4.3 | 3.8 |
| EV/EBIT | 12.7 | 18.0 | 53.8 | 9.2 | 7.8 |
| P/BV | 1.0 | 1.0 | 0.8 | 0.7 | 0.6 |

| SHARE PERFORMANCE | | GROWTH/YEAR | 18/20E |
|---|---|---|---|
| 1 month | 3.8 % | Net sales | 9.3 % |
| 3 month | -38.6 % | Operating profit adj | -47.2 % |
| 12 month | -37.4 % | EPS, just | � |
| Since start of the year | -30.4 % | Equity | 9.1 % |

| SHAREHOLDER STRUCTURE % | CAPITAL | VOTES |
|---|---|---|
| Gerald Engström | 19.9 % | 19.9 % |
| Francesco Franzé | 10.1 % | 10.1 % |
| Clearstream Banking S.A. W8imy | 9.5 % | 9.5 % |
| Ritter Beteiligungs Gmbh | 8.8 % | 8.8 % |
| Nordnet Pensionsförsäkring | 7.6 % | 7.6 % |
| Avanza Pension | 7.1 % | 7.1 % |
| Massimiliano Franzé | 6.8 % | 6.8 % |
| Håkan Halén | 5.9 % | 5.9 % |
| Svenska Handelsbanken AB for PB | 5.2 % | 5.2 % |
| Lannebo Fonder | 4.6 % | 4.6 % |

| SHARE INFORMATION | |
|---|---|
| Reuters code | |
| List | |
| Share price | 10.9 |
| Total shares, million | 34.0 |
| Market Cap, MSEK | 370.4 |

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

**FINANCIAL INFORMATION**


| ANALYSTS | Redeye AB |
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# 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

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| Rating | People | Business | Financials |
|---|---|---|---|
| 5p | 12 | 11 | 4 |
| 3p - 4p | 103 | 78 | 30 |
| 0p - 2p | 8 | 34 | 89 |
| Company N | 123 | 123 | 123 |

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Oskar Vilhelmsson owns shares in the company : No

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