Hanza: Mixed Outlook for 2024 – Orbit One and 2025 In Focus

Hanza **Research Update** 2024-02-15 06:45 **Updated** 2024-02-15 06:46

Redeye retains its positive stance towards Hanza despite a somewhat softer Q4 report than expected, resulting in slightly lowered forecasts and Base Case. A somewhat softening market outlook and the integration of Orbit One will likely put some pressure on H1 2024 – relative to strong comparison figures in H1 2023. At the same time, upward revisions of the financial targets, Orbit One, and Hanza's full-service offering set it for an interesting 2025 and beyond.


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Softening Outlook

Underlying FX adjusted sales increased by 4% y/y to SEK1 056m (1 001), slightly below our forecast of SEK1 114m. While Other Markets roughly matched our forecast, Main Markets had slower growth than we anticipated. EBITA (adjusted for SEK13m in M&A costs and a revaluation of an earn-out) came in 7% short of our expectations. While Other Markets beat our forecast somewhat, thanks to a better-than-expected margin, Main Markets was 8% below due to lower sales, as the margin roughly matched our expectations. Management sees a mixed demand situation at the start of 2024. Some customers are seeing reduced demand while others continue to grow. However, management believes its position and strategy enable Hanza to grow organically despite softer economic conditions. Nevertheless, it is a somewhat softer picture relative to Q3.

Increased Targets for 2025

In conjunction with the CMD, Hanza raised its 2025 sales and EBITA margin targets. While an increase of the previous SEK5bn target was expected following the acquisition of Orbit One, the new SEK6.5bn target implies high organic growth (11.3% CAGR relative to 2023 pro forma) or further M&A or a combination of both. The increase in the EBITA margin target from above 8% at the end of 2025 to above 8% in the full year 2025 might seem defensive, considering Hanza's 8.4% EBITA margin in 2023. However, 2023 was a very strong year for Main Markets margin-wise, and with Orbit One joining the numbers (6.0% EBITA margin in 2023) along with a somewhat softer market, we believe it makes sense. Also, the target stipulates a minimum of 8%.

New Base Case SEK90 (92)

We lower our Base Case somewhat to SEK 90 (92) on the back of slightly reduced short-term forecasts. Our long-term assumptions are left roughly unchanged. Despite the recent strong operational performance, with high growth and improving margins during 2023, Hanza is still trading at a discount (8x EBIT 2024) to the average (10x EBIT), although often bigger manufacturing service companies.

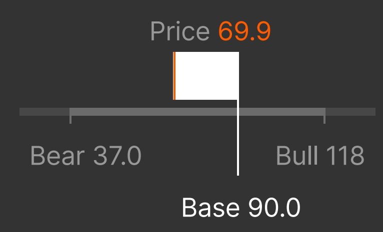
Key financials

SEKm	2023	2024e	2025e	2026e	2027e
Revenues	4,154.0	5,489.2	6,036.9	6,398.4	6,781.6
Revenue Growth	16.4%	32.1%	10.0%	6.0%	6.0%
EBITDA	464.7	567.4	660.0	725.1	789.2
EBIT	328.0	413.8	495.8	545.2	595.6
EBIT Margin	7.9%	7.6%	8.2%	8.5%	8.8%
Net Income	215.0	314.2	382.2	423.2	465.1
EV/Revenue	0.8	0.6	0.5	0.5	0.4
EV/EBIT	10.2	7.7	6.3	5.5	4.8

REDEYE

REDEYE QUALITY RATING

FAIR VALUE RANGE



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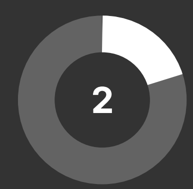

KEY STATS

Market Cap	3.0 BSEK
Entprs. Value (EV)	3.2 BSEK
Net Debt (2024e)	160.8 MSEK
30 Day Avg Vol	95 K
Shares Outstanding	43.7M
Price / Earnings	9.6x
PEG	0.2x
Dividend Yield	2.6%

Data from 2024-02-15 06:47

IMPORTANT INFORMATION

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Table of contents

Review of Q4 2023

Estmates vs. Actuals					
Sales	**Q4E 2023**	**Q4A 2023**	**Diff**	**Q4A 2022**	**Q3A 2023**
Net sales	1114	1056	-5%	1001	955
Y/Y Growth (%)	11%	5%		40%	14%
Main Markets	655	605	-8%	570	547
Y/Y Growth (%)	20%	6%		40%	22%
EBITA (MM)	69	63	-8%	42	68
EBITA margin	10.5%	10.4%		7%	12%
Other Markets	459	447	-3%	437	405
Y/Y Growth (%)	13%	2%		41%	4%
EBITA (OM)	28	29	2%	24	23
EBITA margin	6.2%	6.5%		5%	6%
Earning					
EBITA	96	89	-7%	63	89
EBITA Margin (%)	*8.6%*	*8.4%*		*6.3%*	*9.3%*
EBIT	92	71	-23%	57	85
EBIT Margin (%)	*8.2%*	*6.7%*		*5.7%*	*8.9%*
Diluted EPS	1.63	1.15	-29%	1.01	1.22

Somewhat Below our Expectations

Underlying sales (adjusted for FX and last year's invoicing of exceptionally high energy and material costs) grew 3% organically y/y and was 5% below our forecast. Main Markets came in 8% below our forecast and the organic growth was 4.6% y/y. Other Markets came in 3% short relative to our expectations, and the organic growth was -1.4% y/y. After a strong start to 2023, the organic growth rates are now at more modest levels. Although it is against tough comparison numbers, the weaker economic environment also impacts Hanza. Nevertheless, organic growth remains positive.

Management states that some customers have experienced weaker demand during the start of 2024. At the same time, some customers continue to grow. In Q3, Hanza stated it sees continued organic growth among current customers. While Hanza does not want to disclose its view of the net effect of some customers increasing and others decreasing their demand, we believe the Q4 statement suggests a somewhat softer outlook. However, considering the softer macroeconomic environment, which so far has not had a significant impact on Hanza, a slightly softer market outlook is not surprising.

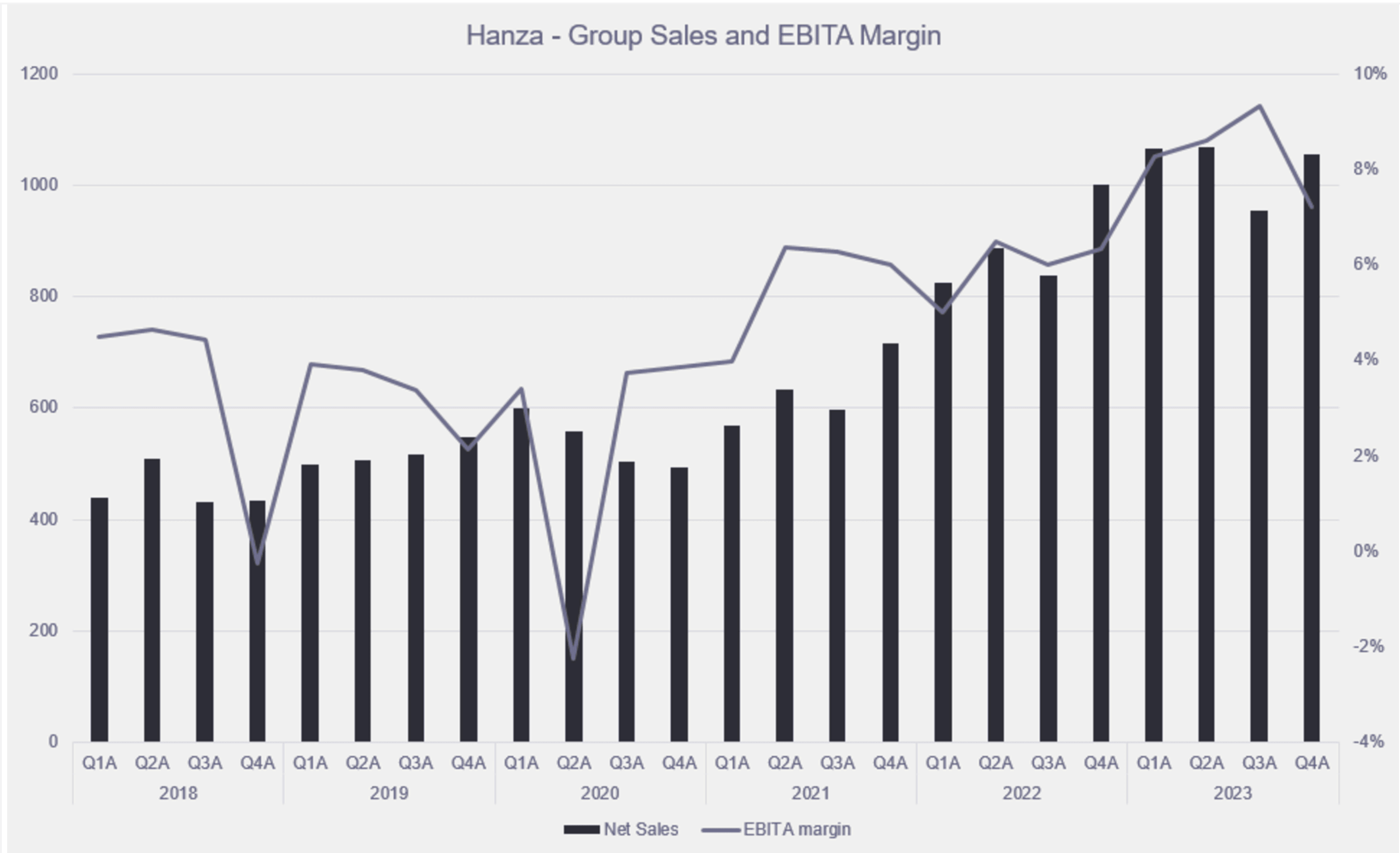
On the other hand, the raised 2025 sales target of SEK6.5bn (SEK5bn) – which, however, allows for M&A – implies management has a positive mid-term outlook. We will return to the new financial targets in the section about the capital markets day.

Also, management highlights that softer macroeconomic conditions can trigger product companies to evaluate their production chains – leaving opportunities for Hanza to gain market share. In addition, the interest in regionalised production remains high, which seems reasonable considering the increasing geopolitical turmoil in many areas, for example. The backsourcing or regionalisation is mostly about new production for the European/American markets being manufactured in those regions rather than production moving back from Asia, although that happens sometimes as well.

EBITA (adjusted for SEK13m in M&A costs and a revaluation of an earn-out related to Beyers) was SEK89m (63), corresponding to an EBITA margin of 8.4% (6.3). Due to softer sales in Main Markets, the outcome was 7% below our forecast of SEK96m. While the positive revaluation of the earn-out hurts (non-adjusted) EBITA in the quarter, we consider upward revaluations of earn-out as a positive, indicating stronger than expected performance in the acquired company – the German-based Beyers acquired in 2021 in this case. Other Markets beat our forecasts by 2% thanks to a somewhat stronger EBITA margin than expected. We are encouraged to see Other Markets taking another step towards the >8% target level, with an EBITA margin amounting to

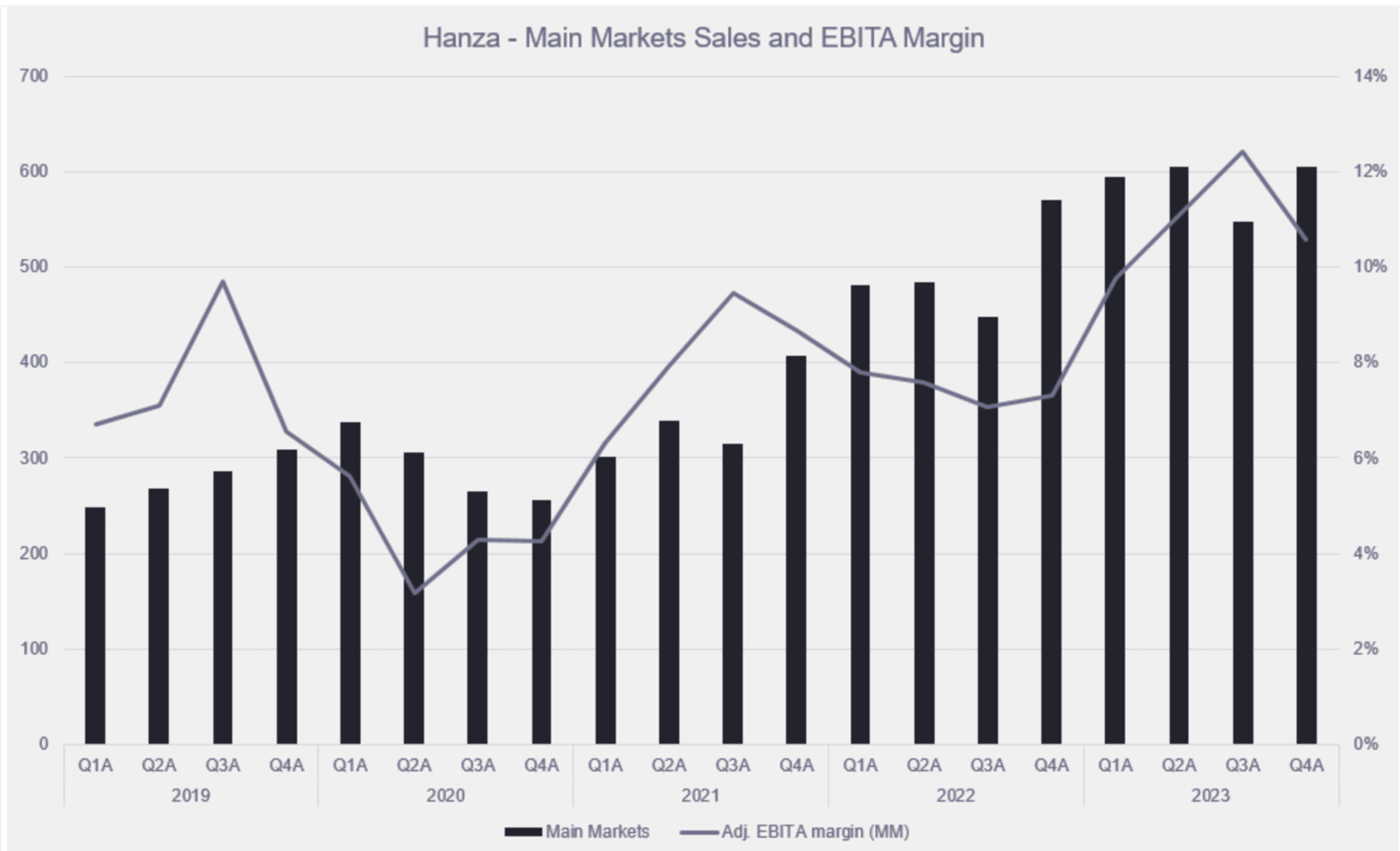
6.5% in Q4, up from 5.7% in Q3. Overall, while the group level margin was below our forecasts and lower than the 9.3% level seen in Q3 2023, the 8.4% adjusted EBITA margin is healthy and above the 2025 >8% target.

In the long run, we believe Other Markets should be able to achieve margins in line with Main Markets, although our Base Case assumptions are somewhat more defensive – expecting EBITA margins of 8% from 2026.



Source: Hanza

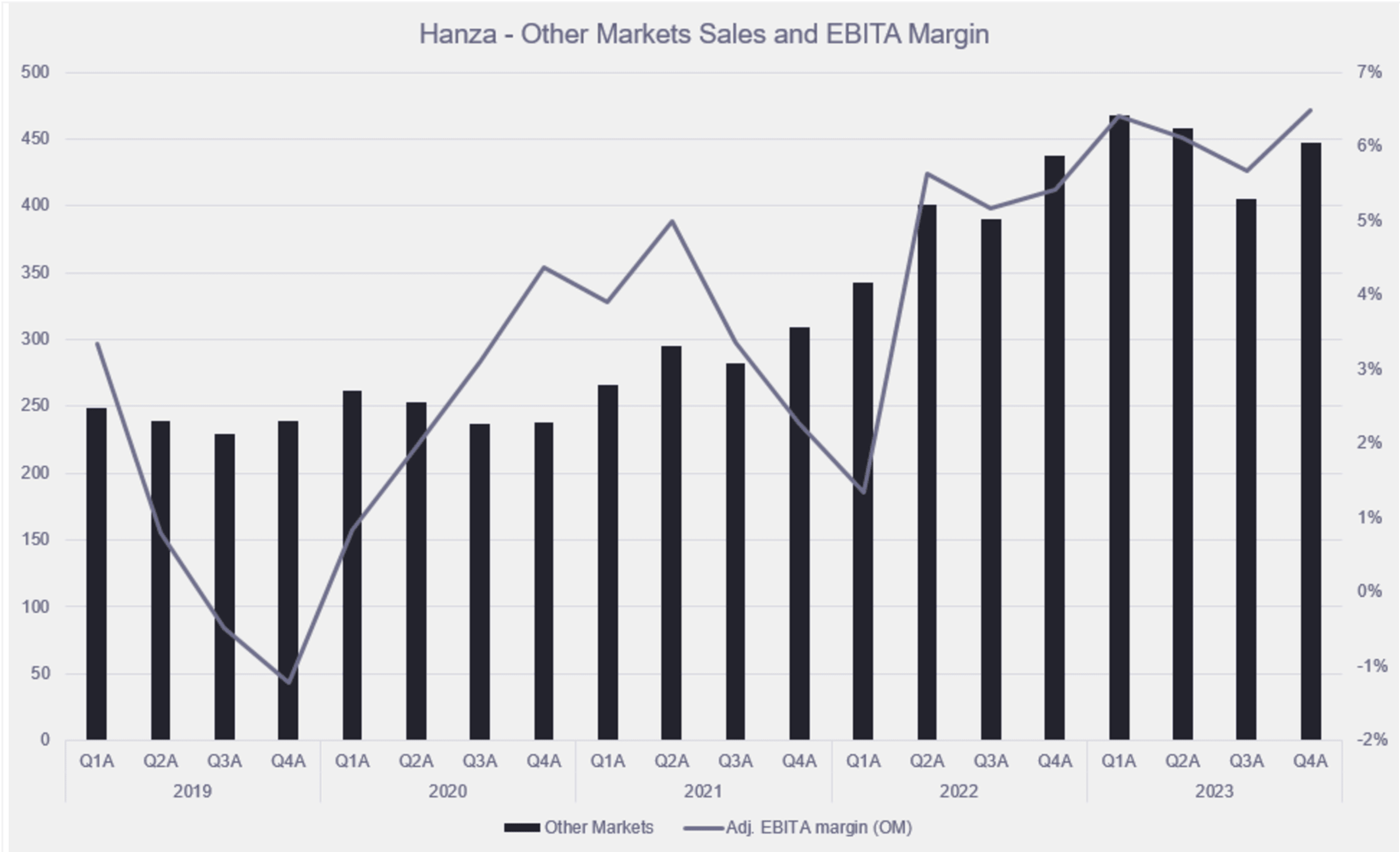
Main Markets



Source: Addnode

Main Markets consist of the Swedish, Finnish, and German clusters. The Swedish cluster is the largest and the most profitable cluster, with manufacturing facilities mainly located in Årjäng and Töcksfors, Värmland, along with the recently acquired facility in Ronneby, Blekinge. The German cluster is less mature but has seen substantial improvements in profitability during the last year. The Finnish cluster is somewhere in between, in terms of maturity and profitability.

Other Markets



Source: Addnode

Other Markets consist of the Baltic, Central European, and Chinese clusters. The Baltic cluster is the largest and likely the most profitable, with manufacturing facilities in Tartu and Narva, Estonia. The Central Europan cluster is less mature but will increase significantly in size with the recently acquired Orbit One factory in Poland. The Chinese cluster is Hanza's smallest and the only cluster outside of Europe.

Highlight from the Capital Markets Day

We recommend the full Capital Markets Day recording for those interested in a deep dive in Hanza.

Raised Financial Targets

In conjunction with the CMD, Hanza raised its 2025 sales and EBITA margin targets. While an increase of the previous SEK5bn target was expected following the acquisition of Orbit One – as Hanza reached the previous target already in its 2023 pro forma – the new SEK6.5bn target implies high organic growth (11.3% CAGR relative to 2023 pro forma) or further M&A or a combination of both. Considering the somewhat soft macroeconomic environment, we believe 11.3% organic growth will be challenging. Thus, we believe Hanza will reach the target through a combination of M&A and organic growth. Our revised forecast for 2025 sales is SEK6 046m. However, it excludes any future M&A.

The increase in the EBITA margin target from above 8% at the end of 2025 to above 8% in the full year 2025 might seem defensive, considering Hanza's 8.4% EBITA margin in 2023. However, 2023 was a very strong year for Main Markets margin-wise, and with Orbit One joining the numbers (6.0% EBITA margin in 2023) along with a somewhat softer market, we believe it makes sense. Also, the target stipulated a minimum of 8%, which should imply 8% in a soft market and an even higher number in a normal or favourable market. We assume an 8.4% EBITA margin in 2025 in our revised forecasts.

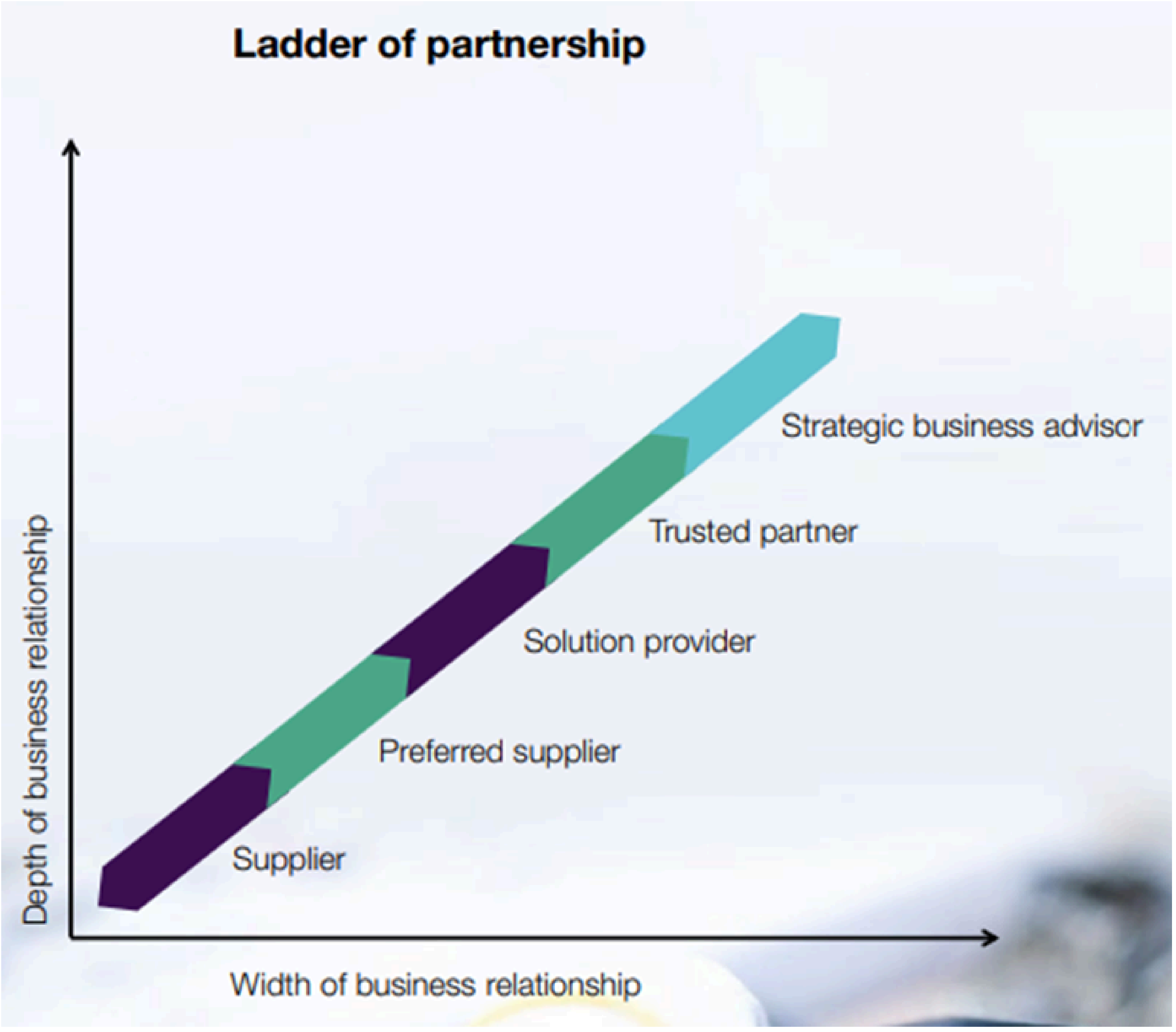
KPI	Previous target / policy	Updated target / policy	Change
Growth	Sales 5 bn SEK in 2025	Sales 6.5 bn SEK in 2025	Increased
Profitability	Operating margin at end of 2025: Minimum 8%	Operating margin 2025: Minimum 8%	Increased
Capital structure	Equity/Assets ratio: Minimum 30%	Equity/Assets ratio: Minimum 30%	Unchanged
Debt ratio	Net debt/EBITDA: Maximum 2.5 times	Net debt/EBITDA: Maximum 2.5 times	Unchanged
Dividend	30% of profit after tax, with consideration of the company's financial status.	30% of profit after tax, with consideration of the company's financial status.	Unchanged

Highlighting the Importance of Value-Add Services

While being a negligible share of total sales, Hanza's Capital Markets Day highlighted the importance of Hanza's service offering as a driver for new customers, upsell, and customer retention. The service offering includes the following areas:

- Advisory services on how to tailor-make a supply chain (MIG)
- R&D services, unloading/helping customers R&D
- Design for Excellence and Design for Manufacturing

In addition to the regional and complete manufacturing clusters – which, at roughly SEK1bn in sales, typically can handle shifts in demand well, resulting in stable and healthy margins – Hanza's service offering is an important differentiator to competitors. As basic contract manufacturing is more or less commoditised, we believe getting a closer connection to customers is important to achieve solid and sustainable profits. The clusters enable Hanza to manufacture several components of full products for its customers, increasing the width of its relationship. The services, where Hanza, for example, helps with R&D, increase the depth of cooperation. For customers engaged in both, we believe there are substantial switching costs.



We believe it makes sense for companies focused on developing and designing products to consult Hanza's manufacturing experts to optimise the manufacturing process. This is because they have experience with similar products and deep know-how in the capabilities of Hanza's clusters. The potential benefits are several. For example, production costs can be lowered by altering the design of a new or existing product to fit a modern and automated machine park better. Similar freight and material utilisation opportunities exist where changes can reduce costs, emissions, and waste.

The picture below illustrates how Hanza Tech Solutions works with the clusters, helping assist customers' R&D with manufacturing expertise.

Estimate Revisions: EBITA 2024-25 Down by 4-9%

We lower our sales forecasts by 2-4% for 2024-25 and our EBITA estimates by 4-9%. The following changes mainly drive the revisions:

- While management is cautious in commenting on its market view, we interpret its statements about customer demand as somewhat softer compared to Q3, resulting in a slight cut of our sales forecasts. Also, the soft general macroeconomic conditions – which Hanza, so far, has mitigated well – support a more defensive view.
- The pro forma forecast for Orbit One of 6.4% on the EBITA level for 2023 – announced in conjunction with the deal – has been cut to 6.0% at the CMD. While irrelevant to the long-term potential of the merged Swedish cluster, it hurts our 2024 margin assumptions.
- The somewhat lowered sales forecasts slightly negatively impact our margin forecasts due to lower utilisation.

We expect H1 2024 to be softer than H2. First, we expect a swift integration of Orbit One, hurting margins somewhat in H1. Second, the SEK100m annual value deal with Mitsubishi will start positively impacting H2 2024. As the integration of Orbit One is finalised, we expect increasing margins from H2 2024 and throughout 2025.

Estimate Revisions

Sales	FYE 2024	Old	Change	FYE 2025	Old	Change
Net sales	5477	5698	-3.9%	6025	6154	-2.1%
Y/Y Growth (%)	32%	36%		10%	8%	
Main Markets	3053	3143	-2.9%	3359	3395	-1.1%
Y/Y Growth (%)	30%	31%		10%	8%	
EBITA (MM)	270	297	-9.0%	319	329	-3.0%
EBITA margin	9%	9%		10%	10%	
Other Markets	2424	2555	-5.1%	2666	2759	-3.4%
Y/Y Growth (%)	36%	43%		10%	8%	
EBITA (OM)	163	177	-7.8%	195	207	-6.0%
EBITA margin	7%	7%		7%	8%	
Earning						
EBITA	427	468	-8.7%	508	530	-4.2%
EBITA Margin (%)	*7.8%*	*8.2%*		*8.4%*	*8.6%*	
EBIT	414	454	-8.9%	496	518	-4.3%
EBIT Margin (%)	*7.6%*	*8.0%*		*8.2%*	*8.4%*	
Diluted EPS	7.27	7.49	-2.9%	8.85	8.60	2.9%

Source: Hanza & Redeye Research

We expect SEK6bn in sales and 8.4% in EBITA margin on our revised forecasts. A slightly higher margin than the >8% Hanza targets but somewhat lower sales compared to the SEK6.5bn target. However, our forecasts do not include any future M&A, and we interpret management as the target is likely to be reached by a combination of organic and acquired growth. With an net debt to EBITDA (2024e) of 1.2x (including Orbit One purchasing price), Hanza has financial room for further acquisitions.

Forecasts

Sales	FYA 2023	Q1E 2024	Q2E 2024	Q3E 2024	Q4E 2024	FYE 2024	FYE 2025	FYE 2026
Net sales	4144	1375	1376	1303	1423	5477	6025	6386
Y/Y Growth (%)	17%	29%	29%	36%	35%	32%	10%	6%
Main Markets	2351	755	767	728	803	3053	3359	3560
Y/Y Growth (%)	19%	27%	27%	33%	33%	30%	10%	6%
EBITA (MM)	256	64	67	66	74	270	319	349
EBITA margin	11%	9%	9%	9%	9%	9%	10%	10%
Other Markets	1778	620	609	575	620	2424	2666	2826
Y/Y Growth (%)	13%	32%	33%	42%	39%	36%	10%	6%
EBITA (OM)	110	39	40	39	45	163	195	212
EBITA margin	6%	6%	7%	7%	7%	7%	7%	8%
Earning								
EBITA	345	102	105	103	118	427	508	555
EBITA Margin (%)	*8.3%*	*7.4%*	*7.6%*	*7.9%*	*8.3%*	*7.8%*	*8.4%*	*8.7%*
EBIT	328	98	101	100	115	414	496	545
EBIT Margin (%)	*7.9%*	*7.1%*	*7.4%*	*7.7%*	*8.0%*	*7.6%*	*8.2%*	*8.5%*
Diluted EPS	4.98	1.72	1.78	1.75	2.03	7.27	8.85	9.80

Source: Hanza & Redeye Research

Valuation

We lower our Base Case somewhat to SEK 90 (92) on the back of slightly reduced short-term forecasts. Our long-term assumptions are left roughly unchanged.

Fair Value Range - Assumptions

	Bear Case	Base Case	Bull Case
Value per share, SEK	**37**	**90**	**118**
Sales CAGR			
2024 - 2031	4%	6%	7%
2031 - 2041	1%	3%	3%
Avg EBIT margin			
2024 - 2031	8%	9%	10%
2031 - 2041	5%	9%	10%
Terminal EBIT Margin	6%	8%	9%
Terminal growth	2%	2%	2%
WACC	10%	10%	10%

Source: Redeye Research

Peer Valuation

Despite the recent strong operational performance, with high growth and improving margins during 2023, Hanza is still trading at a discount to the average, although often bigger, manufacturing service companies. We believe the discount will decrease further, given that Hanza continues its strong operational performance.

Manufacturing	EV	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
Company	(SEKm)	23E	24E	25E	23E	24E	25E	23E	24E	25E	23E	24E	25E
Incap	2 110	0.8	0.6	0.5	6	5	4	-11%	11%	10%	13%	14%	14%
Kitron	8 987	1.0	0.9	0.8	12	11	9	35%	9%	9%	8%	8%	8%
Nolato	13 229	1.3	1.1	1.0	16	12	10	-3%	8%	6%	8%	10%	10%
Scanfil	5 902	0.6	0.5	0.5	8	8	7	8%	3%	3%	7%	7%	7%
Inission	1 184	0.6	0.5	0.5	10	9	7	10%	5%	5%	6%	6%	6%
NCAB	13 651	3.0	2.8	2.5	22	20	18	2%	6%	7%	14%	14%	14%
Hanza	**2 876**	**0.7**	**0.6**	**0.5**	**9**	**8**	**6**	**17%**	**32%**	**10%**	**8%**	**8%**	**8%**
Average	**7 511**	**1.1**	**1.0**	**0.9**	**12**	**10**	**9**	**8%**	**11%**	**7%**	**9%**	**9%**	**10%**
Median	**7 444**	**1.2**	**1.1**	**1.0**	**13**	**11**	**10**	**11%**	**11%**	**7%**	**9%**	**9%**	**9%**

Source: Redeye, Company reports, FactSet

Investment thesis

Case

Riding the Back-Shoring Trend with its Unique Cluster Strategy

With its 'All you need is one' cluster-based strategy, Hanza, and its experienced management take a unique approach that differentiates it from manufacturing service companies. By gathering several manufacturing technologies in a single location, Hanza can reduce costs, lead times, and environmental footprint. Having almost every cluster in the end market or in close-by low-cost countries, Hanza is set to benefit from the ongoing back-shoring trend. Quarterly reports with strong operational performance, particularly improvements in immature clusters, are the main catalysts.

Evidence

Proven Track-Record in Mature Clusters

The Main Markets segment, including the mature Swedish and Finnish clusters as well as the newly established German cluster, has an EBITA margin of about 8% - implying sector-leading margins in the mature Swedish and Finnish clusters. As the other clusters mature, we expect their margins to approach Swedish levels gradually. Since late 2021, Hanza has seen a surge in organic sales growth following the pandemic. While a rebound from the pandemic has a positive effect, we believe the strong numbers also result from increasing interest in back-shoring.

Challenge

Cyclical Exposure Through Customers' Volume Fluctuations

While Hanza seldom loses customers, its revenues depend on the customers' volumes. During the pandemic in 2020, organic sales fell by about 10%, putting pressure on margins. Thus, Hanza is, to some extent, exposed to market cycles. However, following recent acquisitions and organic customer intake, we believe the diversification between sectors has improved. In addition, the back-shoring trend should help Hanza attract new customers in economic downturns.

Challenge

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 a successful presence outside the Nordics, such as in Tartu, Estonia.

Valuation

Fair Value SEK 90

Our DCF model shows a fair value of SEK 90, which is also supported by a peer valuation. While Hanza has been trading at a discount to peers historically, considering its improvements regarding organic sales growth and margins, we believe Hanza should trade on par with peers.

Quality Rating

People: 4

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.

Financials

Income statement

SEKm	2023	2024e	2025e	2026e	2027e
Revenues	4,154.0	5,489.2	6,036.9	6,398.4	6,781.6
Cost of Revenue	2,334.0	3,395.8	3,735.4	3,959.5	4,197.1
Operating Expenses	1,345.3	1,513.9	1,629.5	1,701.7	1,783.2
EBITDA	464.7	567.4	660.0	725.1	789.2
Depreciation	65.6	82.8	95.0	112.9	128.4
Amortizations	17.0	13.5	11.9	9.7	7.9
EBIT	328.0	413.8	495.8	545.2	595.6
Shares in Associates	0.00	0.00	0.00	0.00	0.00
Interest Expenses	-80.0	-35.3	-35.3	-35.3	-35.3
Net Financial Items	80.0	35.3	35.3	35.3	35.3
EBT	248.0	378.6	460.5	509.9	560.3
Income Tax Expenses	-33.0	-64.4	-78.3	-86.7	-95.3
Net Income	215.0	314.2	382.2	423.2	465.1

Balance sheet

Assets

Non-current assets

SEKm	2023	2024e	2025e	2026e	2027e
Property, Plant and Equipment (Net)	714.0	1,032.5	1,227.6	1,395.7	1,565.1
Goodwill	387.0	570.5	595.5	595.5	595.5
Intangible Assets	77.0	63.5	51.6	41.9	34.0
Right-of-Use Assets	186.0	186.0	186.0	186.0	186.0
Other Non-Current Assets	23.0	23.0	23.0	23.0	23.0
Total Non-Current Assets	1,387.0	1,875.5	2,083.7	2,242.1	2,403.6

Current assets

SEKm	2023	2024e	2025e	2026e	2027e
Inventories	936.0	1,369.3	1,506.2	1,596.6	1,692.4
Accounts Receivable	175.0	219.1	241.0	255.5	270.8
Other Current Assets	91.0	164.3	180.7	191.6	203.1
Cash Equivalents	340.0	35.1	74.2	206.2	364.5
Total Current Assets	1,542.0	1,787.8	2,002.2	2,249.9	2,530.7
Total Assets	2,929.0	3,663.3	4,085.9	4,491.9	4,934.4

Equity and Liabilities

Equity

SEKm	2023	2024e	2025e	2026e	2027e
Non Controlling Interest	0.00	0.00	0.00	0.00	0.00
Shareholder's Equity	1,345.0	1,626.8	1,930.5	2,258.1	2,617.4

Non-current liabilities

SEKm	2023	2024e	2025e	2026e	2027e
Long Term Debt	0.00	0.00	0.00	0.00	0.00
Long Term Lease Liabilities	440.0	440.0	440.0	440.0	440.0
Other Non-Current Lease Liabilities	159.0	159.0	159.0	159.0	159.0
Total Non-Current Liabilities	599.0	599.0	599.0	599.0	599.0

Current liabilities

SEKm	2023	2024e	2025e	2026e	2027e
Short Term Debt	196.0	196.0	196.0	196.0	196.0
Short Term Lease Liabilities	53.0	53.0	53.0	53.0	53.0
Accounts Payable	450.0	712.0	783.2	830.2	880.0
Other Current Liabilities	286.0	476.5	524.2	555.6	589.0
Total Current Liabilities	985.0	1,437.5	1,556.4	1,634.8	1,718.0
Total Liabilities and Equity	2,929.0	3,663.3	4,085.9	4,491.9	4,934.4

Cash flow

SEKm	2023	2024e	2025e	2026e	2027e
Operating Cash Flow	277.0	369.6	490.0	565.9	619.2
Investing Cash Flow	-296.0	-584.8	-315.1	-281.0	-297.9
Financing Cash Flow	217.0	-89.7	-135.8	-152.8	-163.1

Rating 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 longterm earnings growth.

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

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

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

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

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

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

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

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

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Disclaimer

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