Sensys Gatso Group

Sector: Information Technology

An Essential Business

Redeye lowers the 2020 estimates in Managed Services due to lockdowns in US, meaning less driving. However, we maintain our longer-term assumptions and valuation, as well as a positive view of the stock and the recurring revenue story.

Q1: Solid growth in recurring revenue – higher costs from implementation

EBIT amounted to SEK -14m (expected -4m) due to temporary higher cost from implementation of larger, new programs. The recurring TRaaS revenue of SEK 53m continued to grow at a strong pace (47%), once again driven by a rapid Managed Services growth of 94%. In our view, there is no relation between the record low Q1 order intake of SEK 33m and Corona. It is more a matter of the typical quarterly volatility.

An essential business for customers

In current Corona times, the long sales cycles provide strength relative to other businesses. According to Sensys Gatso, there are no material changes in customer dialogues or projects, compared to pre-Corona, which is because the solutions are considered a necessity all over the World. Nonetheless, we lower our 2020 estimates in Managed Services due to the US lockdowns, as we expect the stay-at-home-orders to have a negative effect on driving, in the short run. Thus far, only three of Sensys Gatso's 13 US states have reopened (excl. Iowa that never closed). We assume its three active school programs will be down until school starts in the end of August, which we think will affect sales by on average SEK 7.5m per quarter. Last, we take additional precautions by lowering our 2020 roll-out assumptions for the big Costa Rica contract (SEK 192m) due to delays in the final contract signing. However, we note that the company seems very optimistic about sealing the deal in Q2, without any delays in implementation.

+60% upside to the base case of SEK 1.8

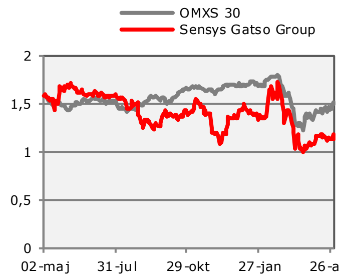
Aside of cutting our EBIT by SEK 40m for 2020, we retain our long-term view and our valuation with a base case of SEK 1.8, corresponding to an upside of +60%. Cash improved to SEK 52m, and SEK 19m excluding used credit. We think the financing is passable, considering coming cash flows from the solid order book and the new Rabobank credit facility of SEK 50m, which in essence is a done deal, in our view. We think announcements of new contracts verifying a limited Corona impact will drive the stock price.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	383	406	460	607	666	751
EBITDA	37	29	41	84	128	151
EBIT	1	-24	-13	52	98	121
EPS (adj.)	0.0	0.0	0.0	0.0	0.1	0.1
EV/Sales	4.0	3.1	2.3	1.7	1.4	1.1
EV/EBITDA	41.3	43.6	25.6	12.0	7.3	5.5
EV/EBIT	2627.4	-51.1	-77.8	19.5	9.6	6.9
P/E	-341.2	-74.2	-70.7	26.1	13.2	10.5

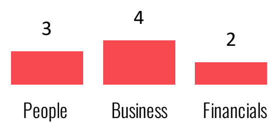
FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	**1.8**	3.4

SENS.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	SENS.ST
Market	Small Cap
Share Price (SEK)	1.1
Market Cap (MSEK)	979
Net Debt 20E (MSEK)	58
Free Float	82 %
Avg. daily volume ('000)	7

ANALYSTS

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An Essential Business

The order intake of SEK 33m (whereof 28m included in the Georgia contract of January) is a record low for the five-year old Sensys and Gatso consolidation, even considering seasonal effects where the first quarter is usually slow, as budgets are finished after the quarter. We think it is a coincidence that this weak quarter took place during the Corona times. Aside of minor delays in the Costa Rica final paperwork, there are no changes in customer dialogues etc., compared to pre-Corona, which we find reassuring as many other firms have reported delays. Sensys Gatso added that it has not experienced any material delays in the projects and therefore concludes that the Corona impact is limited (we will discuss Managed Services below, where we think the limited effect is located). In System Sales we cannot see any effect, at the moment.

The company has long sales cycles and extensive lead times, which is a relative strength compared to many other businesses. We assume the company has a solid leads and sales pipeline that it has built over the past years. However, if the Corona virus continues to haunt the world in the same manner in 2021, we assume entirely new deals will be harder to pursue, as long as the company cannot travel and physically meet new customers.

Following governmental approval, and due to being considered an essential business, Sensys Gatso's employees in the US are allowed to process and send out citations from home. In our view, this is proof of the innovation focus and flexibility of the company. We also note that as much as 80% of the employees are working from home. In our view, this indicates how much more software-centric the company is nowadays.

Moreover, Sensys Gatso clarified that its financial targets are not based on losing market shares in System Sales, but rather a cautious market size assumption, where it uses a smaller addressable market than the market forecast from MarketsandMarkets. Thus, Sensys Gatso is looking to defend its System Sales market shares.

An essential business for customers

We think one important reason behind Sensys Gatso being seen a necessity for customers is that emptier roads increase the risk of speeding. Since hospitals are overloaded with Corona patients and have little room for traffic accident victims, Sensys Gatso's campaigning for safer driving has been extra intensive. Moreover, Sensys Gatso states that its solutions are considered a necessity not only in US, but all over the World. From a quick glance at the death statistics, we think there is something to this. Surely, European countries have more means to invest, but in Europe there are "only" ~25 000 traffic casualties per year, compared to over 1.2 million worldwide.

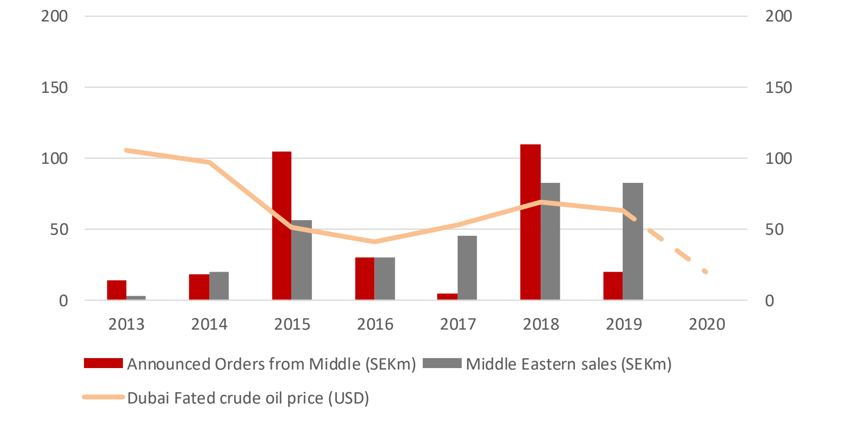
In our Q1 note, we said that the company's products could be seen as an infrastructure investment to stimulate the economy, which we think holds true in many markets. In the US, however, there is no investment at all for the customer. It is just a pure revenue source, as Sensys Gatso makes the whole investment, for a revenue cut.

During the period the company won an interesting contract in the Caribbean. The size (SEK 2.5m) was not exciting, but we find it interesting that a customer buys the Xilium software standalone to use with competing hardware. We believe software in general is sticky revenue and that such contracts are not replaced easily.

No visible link between Middle Eastern orders and the oil price

We have noticed the recent turmoil in the oil price. Historically, we have heard that a lower oil price could be positive for Sensys Gatso (forcing investments in order to receive additional, much-needed income), as well as negative (no money for investments). In the graph below, we have tried to seek which description of the oil price effect that is the most accurate one. The best year for the order intake from the Middle East was 2015 (excl. the big North African order of SEK 165m), when oil prices had just dropped about 50%, from close to USD 100 to USD ~50. Most of Sensys Gatso's orders came in H2'15, while the oil price decline happened one year earlier, in H2'14. It is possible though that customers had already planned for the investments one year in advance (i.e. when oil income was high). The other spike in Middle Eastern orders came in 2018, following two years of strong recovery to USD 70, from the bottom in 2016 at USD ~40 (although one should note that the Saudi contract of SEK 100m is a big outlier in the data). In conclusion, we find no solid evidence of oil prices affecting the customers, in either direction.

Middle Eastern sales & order intake (SEKm) in relation to the oil price (USD)



Source: Sensys Gatso, Redeye Research

Lockdowns in most US states

We assume the US lockdowns will have a substantial, short-term, negative effect on the driving, and consequently Managed Services. In the table below, we have summarized the lockdowns (stay-at-home-orders) in Sensys Gatso's US states. Only three of the company's states have reopened, but these are single program states (Alabama and Oklahoma, plus Georgia that is not yet operational). Two major markets that are still closed down is Ohio and Illinois (7 and 9 programs, respectively). Worth noticing is that the important Iowa state never went under lockdown.

Lockdown status in the US

State	Ongoing lockdown?	School zones?	N.o. programs
Alabama	Reopened		1
California	Yes		1
Florida	Yes		3
Georgia	Reopened	Yes	1
Illinois	Yes		9
Indiana	Yes		n/a
Iowa	No		6
Maryland	Yes	Yes	2
New York	Yes	Yes	2
Ohio	Yes		7
Oklahoma	Reopened		1
Pennsylvania	Yes		1
Rhode Island	Yes	Yes	1

Source: Redeye Research, Wall Street Journal

The three up-and-running school programs (excl. Georgia) might not seem like a large number, since the company has 35 programs in total. However, all school programs are rather big revenue-wise. The total contract value for the school programs is SEK 134m for an average period of 4.5 years, equal to about SEK 30m per year or SEK 7-8m per quarter. We assume the school programs will be on hold until schools open again in late august (see further our financial estimates).

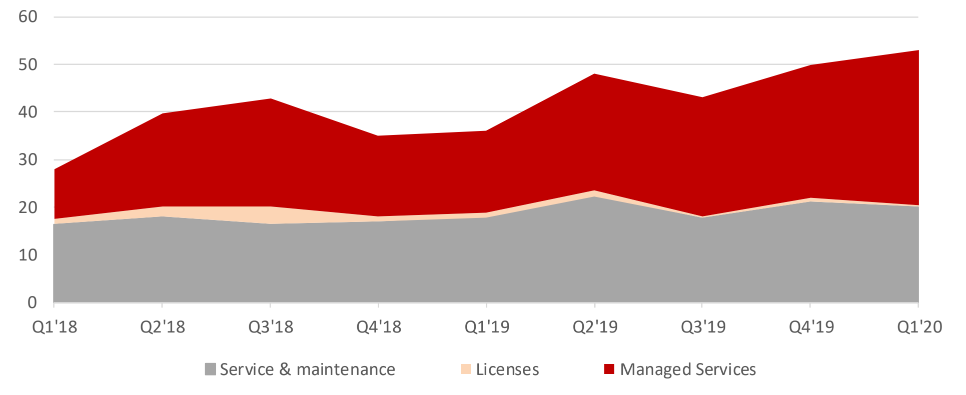
Costa Rica due in Q2

The major Costa Rica contract of SEK 192m is slightly delayed as the final legal details is a bit harder to work out in Corona times. We especially note that Sensys Gatso sounds optimistic around Costa Rica, expecting a final announcement in Q2. The company expects no delay in implementation. However, we lower our Costa Rica assumptions for 2020, expecting 45% to be delivered in Q4 (previously 65%).

TRaaS: Continuing strong growth

TRaaS sales had a strong growth of 47%, equal to SEK 53m, once again driven by a strong Managed Services growth (+94%). We note that TRaaS was 56% of total sales during Q1, although we focus more on the absolute sales number, and not so much on the TRaaS ratio, since system sales fluctuate a lot, plus there are ambitions to grow in this area as well. During 2019, nine of the 13 new TRaaS contracts were new programs, and four were extensions. All contracts combined were valued at SEK 379m.

TRaaS Sales (SEKm)



Source: Redeye Research & Sensys Gatso

The TRaaS model will bring recurring revenue over many years, since the average contract period is five years. However, please note this means that sales are actually lower during the first years. In new geographies, we think customers to a larger extent will go for TRaaS, but the company is not forcing TRaaS upon customers in the established European market where adoption will take longer. Therefore, in the annual report, it is stated that the 2025 strategy has been built around home markets (Sweden and the Netherlands) and the growth markets in the Middle East, North America and Latin America.

There is a general need to educate customers about the merits of TRaaS. However, Sensys Gatso says there are multiple, possible entry points due to the width of the platform. The deciding factor will be which segment a given country is most willing to outsource. The architecture is scalable, but software adaptions will vary since violations in the regulations can mean different things in different countries.

Q1: Higher costs from implementation of new programs

As indicated in the table below, sales of SEK 96m were 14% below our projections. The lower EBIT of -14m (expected -4m) was due to the weak gross margin of 30% (expected 37%). Higher costs from implementation of new programs in Australia (the new in-vehicle solution) and Buffalo, Rhode Island, hampered margins temporarily. Warning periods, like in Buffalo, is nothing new, but what is a bit special is the large volumes, which had an extra-large effect in Q1. Many violations were processed, letters sent to drivers etc., but revenue is never collected during the warning periods. We assume the higher costs could be an indication of higher volumes remaining after the warning period.

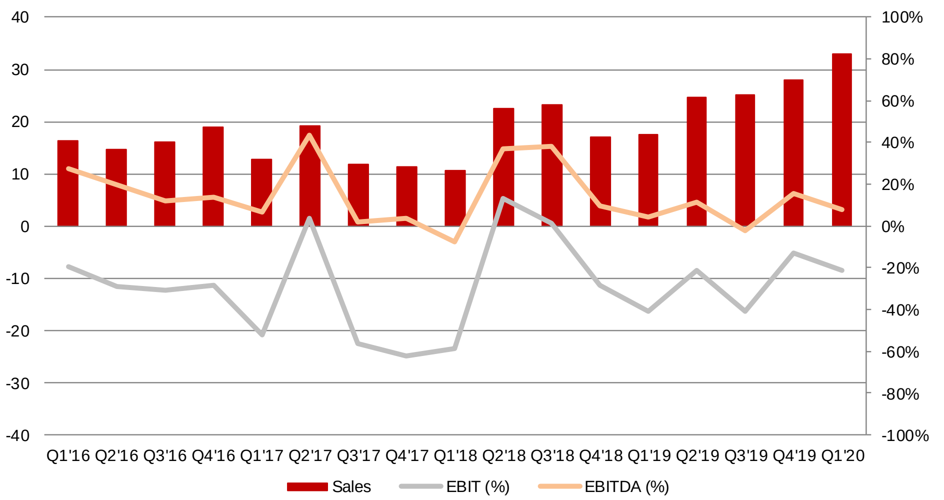
Outcome vs. estimates

SEKm	Q1'19	Q1'20E	Q1'20A	Dif.
Sales	78	111	96	-14%
EBITDA	0	9	1	-88%
EBITA	**-6**	**0**	**-9**	**10277%**
EBIT	-12	-4	-14	220%
EPS (SEK)	-0.01	0.00	-0.02	
Sales growth(YoY)	9%	42%	22%	
Gross margin	37%	37%	30%	
EBIT margin	-16%	-4%	-14%	
EPS growth (YoY)	n/a	n/a	n/a	

Source: Redeye Research, Sensys Gatso

Managed Services sales of SEK 33m (expected 26m) equals a growth of 94%. The Buffalo effect mentioned is seen in the lower margins compared to Q4, despite a strong q/q sales growth (see the graph below).

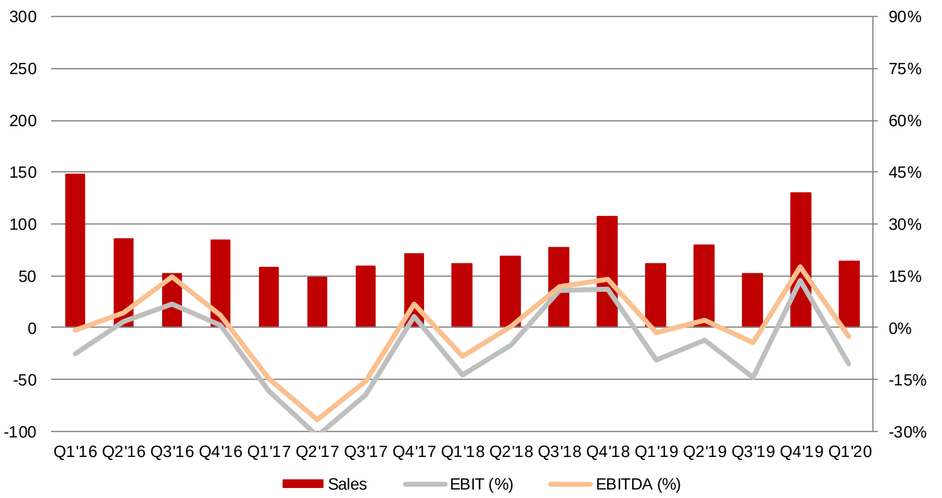
Managed Services: Revenue (SEKm) & margins (%)



Source: Redeye Research, Sensys Gatso

System Sales margins fell back from the record levels in Q4 (see the graph on the next page), also clearly affected by one-time costs, although we do not know how large.

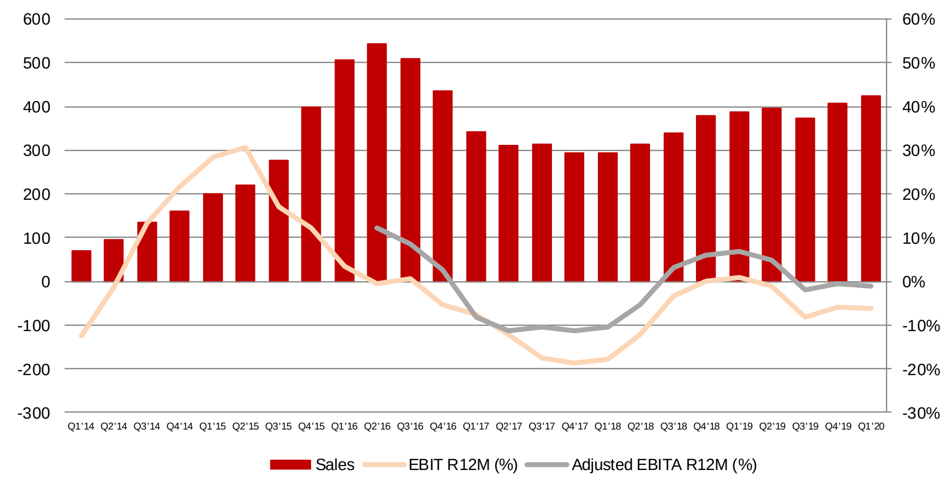
System Sales: Revenue (SEKm) & margins (%)



Source: Redeye Research, Sensys Gatso

Looking at the trailing 12-month figures (for easing of quarterly volatility effects) in the graph below, the company needs to be above SEK 400m for EBIT break-even.

R12M sales (SEKm), EBIT & adjusted EBITA (%)

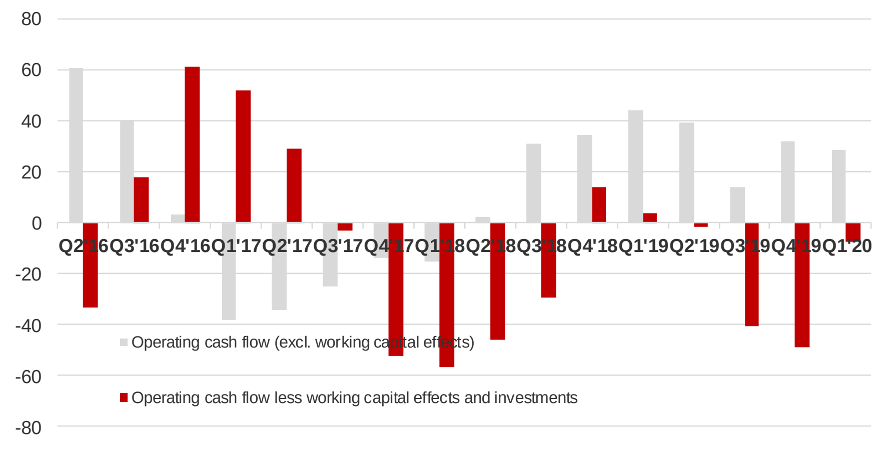


Källa: Redeye Research & Sensys Gatso

SEK 50m credit from Rabobank essentially in the bag

The operating cash flow of SEK 20m was entirely driven by decreased working capital of SEK 24m (see the graph below, on next page). Thus, Sensys Gatso did not fulfill the covenants for one of its credit facilities of SEK 15m, but the company received a waiver from the bank.

Operating cash flow on a rolling 12-month basis (SEKm)

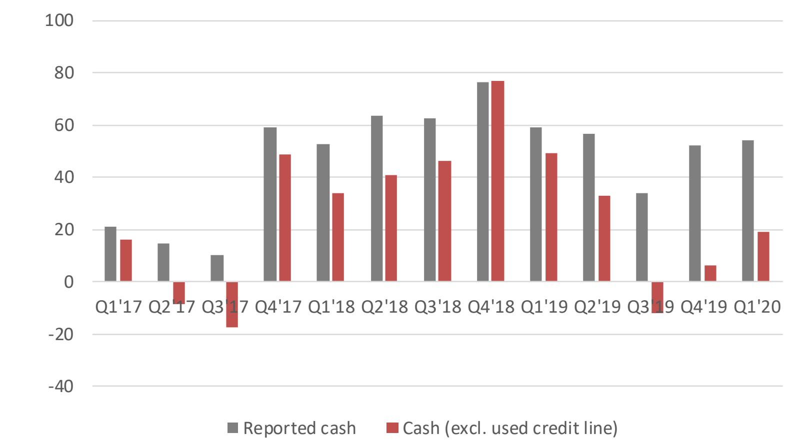


Source: Redeye Research, Sensys Gatso

The SEK 50m increase in the credit line from Rabobank was approved and agreed upon. In addition, term sheets were signed, but the final paperwork on minor details still remains, before final signing. We therefore believe the contract is de facto in the bag.

Following some weaker quarters for the balance sheet, the cash position improved to SEK 54m, or SEK 19m excluding the used credit facilities (see the graph below). Total cash available is SEK 92m, excluding the first SEK 12.5m tranche from Rabobank that is expected to become available in Q2. As we have touched on previously, the current balance sheet does not leave a lot of room for opportunistic actions in the Corona crisis, e.g. M&A. However, with solid cash flows from the current order book, we see no urgent need for new financing, for now.

Cash & credit line usage



Source: Redeye Research, Sensys Gatso

New blood from Veoneer to the Board of Directors

Finally, we note that the Nomination Committee has nominated Veoneer's CTO Nishant Batra to the Board of Directors. We think Batra's background in technology and software is highly relevant and beneficial.

Financial estimates

We trim our 2020 sales estimates by 16% (see the table below) by lowering our Managed Services assumptions due to lower traffic from the lockdowns (stay at home orders) that are still in place in most states, and school programs on hold until school starts in late August. We do not know how fast the programs can be restarted. We assume it is not just pushing a button, but since there is a clear timeline, we expect Sensys Gatso to have the school programs up and running by the start of September. Moreover, we assume that 45% of the Costa Rica contract will be delivered in 2020 (previously 65%).

Changes in Redeye's estimates

SEKm		2020E	2021E	2022E
Sales	Old	549	607	667
	New	*460*	*607*	*666*
	change (%)	-16%	0%	0%
EBITDA	Old	80	107	133
	New	41	84	128
	change (%)	-49%	-21%	-4%
EBIT	Old	27	66	96
	New	-13	52	98
	change (%)	-149%	-22%	2%
EPS	Old	0.02	0.06	0.08
	New	-0.02	0.04	0.09
	change (%)	-178%	-23%	1%

Source: Redeye Research, Sensys Gatso

From Q3'20, we assume a significantly lower amortization of the Gatso assets as the only remaining asset then will be the brand (amortized over 10 years).

Costa Rica is the reason behind sales picking up the pace in Q4, although y/y comps are hard. We expect sales in Q2 and Q3 to be driven by the orders announced in 2019.

Sensys Gatso: Quarterly estimates (SEKm)

(SEKm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020
Sales	380	78	97	73	158	406	96	107	100	158	460
Growth (%)	*30%*	*9%*	*9%*	*-24%*	*27%*	*7%*	*22%*	*10%*	*37%*	*0%*	*13%*
Gross margin (%)	42%	37%	38%	34%	35%	36%	30%	33%	36%	36%	34%
System sales	317	61	79	52	130	323	64	88	77	127	355
Growth (%)	33%	-11%	2%	-51%	21%	2%	-20%	68%	-41%	-2%	10%
whereof TRaaS	76	19	23	18	22	82	20	21	27	31	99
Growth (%)	n/a	9%	17%	-10%	22%	9%	7%	-11%	49%	40%	20%
Managed Services	74	18	25	25	28	95	33	18	24	31	106
Growth (%)	33%	65%	8%	8%	64%	29%	88%	-26%	-7%	11%	11%
EBITDA	37	0	4	-3	27	29	1	8	7	24	41
EBITA	**23**	**-6**	**-2**	**-12**	**18**	**-2**	**-9**	**-1**	**-3**	**14**	**1**
EBITA (%)	***6%***	***-8%***	***-2%***	***-16%***	***12%***	***0%***	***-9%***	***-1%***	***-3%***	***9%***	***0%***
EBIT	1	-12	-8	-18	14	-24	-14	-8	-4	13	-13
EBIT (%)	*0%*	*-16%*	*-9%*	*-24%*	*9%*	*-6%*	*-14%*	*-8%*	*-4%*	*8%*	*-3%*
EPS	-0.01	-0.01	-0.01	-0.02	0.02	-0.02	-0.02	-0.01	0.00	0.01	-0.02

Source: Redeye Research, Sensys Gatso

Investment Case

Growing recurring revenue from Managed Services & TRaaS
Large potential in new adjacent areas
Share price normally driven by big deals

Growing recurring revenue from Managed Services & TRaaS

The TRaaS (Traffic Enforcement-as-a-service) business with its long contracts and repeat revenue, is a critical factor in securing a sustainable growth and will therefore determine the long-term performance of the shares. Most notably, Managed Services is important as it has higher margins. The Gatso part of Sensys Gatso has during the past decade committed a lot of hard work and investments in building a strong foothold in the US. Moreover, the TRaaS model is easy and steady spreading across the World. The Company has so far never lost a Managed Services contract but it has taken over a few contracts from competitors.

Large potential in new adjacent areas

During the fall of 2017, Sensys Gatso won an important ANPR contract for uninsured vehicle enforcement in Oklahoma - a brand new area for the company as well as the very first program of its kind. In Oklahoma, Sensys Gatso takes full responsibility for administration of tickets and therefore receives about 40-50% of every citation during the contract period. In all of the US states where Sensys Gatso is present there are substantially more uninsured vehicles than in Oklahoma. Thus, there is a major upside if Sensys Gatso can get others of its customers on board for programs similar to Oklahoma. Using ANPR for uninsured vehicles is one good illustration of how the company can leverages its expertise and competitive advantages (securing an unbroken chain of evidence) in other adjacent areas, but there are other possibilities as well, e.g. school zones, distracted driving, environmental zones, etc. Besides the evidence integrity issues there are two other important barriers to entry for smaller, local players: The size and stability requirements of customers in order for them to assure reliable long-term delivery and the unique type approval procedures in each country.

Share price driven by big deals

The shares have always been driven by announcements of major deals, such as the skyrocketing of about 360 % in the fall of 2015, which was largely related to the gigantic North African order worth SEK 165 million. The business and the stock will remain volatile. Larger System Sales orders will remain important catalysts, although the most significant event would be a new, major Managed Services contract.

Valuation

Bear Case 1.0 SEK

Our bear case has two key differences compared to base case, related to Managed Services and uninsured vehicles. In Managed Services we expect a status quo in the US market with no improvement but also no deteriorated market conditions. We estimate that Sensys Gatso will continue to have stable growth in line with the market, meaning a CAGR revenue growth of about 9 percent (excl. uninsured vehicles). This would yield Managed Services revenue of close to SEK ~150m in 2024, i.e. around twice today's levels but less than half of our base case levels. In our bear case we expect a tough competition within ANPR solutions for uninsured vehicles related to the major US players, meaning a failure in growing in other states with programs similar to Oklahoma. We do however expect Oklahoma to deliver annual sales of about SEK 20m. With the solid growth from Managed Services and Oklahoma Sensys Gatso should be able to put up a decent CAGR growth in recurring revenue of 16% during 2018-2024, meaning recurring revenue of about 50 percent. The gross margin in our bear case averages 42%, despite the pressure on the gross margin on the systems side, thanks to the company's focus on recurring revenue. The fixed costs average 32% of sales, slightly higher than the base case, which is of course explained by the lower sales level. In the bear case, and with the above estimates, revenue would grow by 8% in 2018-2024 while the EBIT margin would rise to 8 percent on average, with a long-term sustainable EBIT margin of 12 percent.

Base Case 1.8 SEK

All our scenarios use a required rate of return of 11% and a 2% terminal growth. Our base case makes the following assumptions: System revenue growth of 7% during 2018-2024, due to the transformation to Managed Services and recurring TRaaS revenue. We believe this is reasonably conservative, considering the market estimates of 10% growth. Our base case expects a CAGR of 63% within uninsured vehicles, meaning annual revenus reaching SEK ~80m in 2024 as customers in other shates outside Oklahoma join in. The CAGR for Managed Services revenue (incl. uninsured vehicles) and recurring revenue (i.e. software and service as well as operator revenue) amounts to 30% and 16%, respectively, which represents a share of on average about 60% recurring revenue, reaching 65% in 2024. The average gross margin for the group is 41% in 2018-2024 due to gradual growth in Managed Services and TRaaS revenues. The fixed costs average 32% of sales in 2018-2024. With our assumptions above, average annual revenue growth totals 14% in the period 2018-2024 and then 11% until 2027. During the same period, the EBIT margin is approximately 9% on average (due to initial losses) but rises to an average of 13% in 2020-2024 and subsequently to 20 percent in the long term, following peak margins of 26 % during years 2024-2027.

Bull Case 3.4 SEK

Similar to our bear case our bull scenario is based on different assumptions for Managed Services and uninsured vehicles compared to our base case. In our bull case we see a chance for an improved US Managed Services market in which it should be possible for Sensys Gatso to have a higher growth meaning about 25 percent higher revenue than our base case and a 46% Managed Services CAGR growth during (including uninsured vehicles). As for uninsured vehicles we expect Sensys to win several other programs, meaning on average 25 000 citations more every year than in our base case, leading up to almost 200 000 citations in total during year 2024. While this might not seem that much an average fee for Sensys Gatso of USD 74 means sales of about SEK 460m in 2024. We expect that Sensys Gatso in bull case reaches recurring revenues of about 75% in 2024. This will also imply higher gross margins of on average 50 percent. Fixed costs average 28 percent of sales in 2018-2024. We assume that the company will invest in addressing increasingly interesting opportunities in areas such as smart cities, and that the growth journey is therefore extended. Sales will in our optimistic scenario grow by an average of 20% annually in 2018-2024, before gradually starting to decrease towards the level of market growth. The EBIT margin averages 21% in 2018-2024 driven by an increased proportion of Managed Services revenues, which we believe is in line with the TRaaS strategy. With a successful execution of such a high-margin strategy, it would not be unlikely to have a long-term EBIT margin of 30 percent.

Catalysts

Large Managed Services contracts

The most important catalyst for the stock is large Managed Services orders, given the margin profile and the recurring revenue. We especially look forward to orders from new adjacent areas, like the uninsured vehicles enforcement program in Oklahoma.

IMPACT				
Downside		Upside		Time Frame
Significance	Likelihood	Significance	Likelihood	
Moderate	Unlikely	Moderate	Possible	Mid

Large system orders

The share price is largely driven by the announcement of major orders. For the next quarters we see larger orders from several geographies, especially related to the competitive offering within in-vehicle solutions

IMPACT				
Downside		Upside		Time Frame
Significance	Likelihood	Significance	Likelihood	
Moderate	Unlikely	Moderate	Highly likely	Mid

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: 3

The Gatso acquisition in summer 2015 was a logical acquisition of stability in the form of a high proportion of much-needed recurring revenue, but the order intake has not been convincing until recently. Sensys Gatso's new CEO has worked in entirely different industries, but parts of the management team have extensive experience from working a long time for Gatso, although the old Sensys management team has left. Communication and transparency are on the path to improvement but, in many respects, there is still a black box. The incentive scheme is reserved for the CEO only, which is not ideal, according to us. In conjunction with the acquisition, Sensys Gatso gained an industrial principal shareholder. The former Gatso management holds ~19% of the shares in all, and has committed operationally to the management. Shareholdings among the rest of the management are still too low, in our opinion. All members of the board own shares, but the size of the board member holdings generally are too small.

Business: 4

Gatso brings significant recurring revenues from Managed Services as well as other service and maintenance sales. However, competition remains intense even after the Gatso acquisition. The European market appears to be in need of consolidation, and the company has an interesting position as a market leader on the system side. The size and stability after the Gatso acquisition should provide greater credibility with customers and an opportunity for the company to capitalise in a market where fatal road accidents are taken increasingly seriously. It should be noted though that the market conditions are largely affected by the volatile political climate.

Financials: 2

Gatso's historical earnings stability has so far not broken through to the combined total sales of Sensys and Gatso. The operating profit peaked at SEK 49 million in 2015 and has mostly been negative since then. However, it should be noted that market conditions and the order intake have improved significantly. Despite some tough years the company has had a relatively strong cash flow, which is not seen on the EBIT level due to high depreciation and amortisation, although EBITDA has also trended downward. A higher profitability rating requires not only uninterrupted profitability but also higher profitability. Despite several weak quarterly bottom lines, net debt has been reduced with the help of good cash flows. Following having repaid a large part of the debt the balance sheet now looks solid. However, current sales levels are not quite enough to cover much more than the current costs. The company therefore relies on its credit facility remaining in place, alternatively improved revenues. The dependence on individual large deals can be significant from time to time, but at present the order intake, procurement awards and the order book are all to a large extent more or less related to multiannual contracts or recurring revenue.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	383	406	460	607	666
Total operating costs	-346	-378	-420	-523	-538
EBITDA	37	29	41	84	128
Depreciation	-11	-17	-22	-22	-20
Amortization	-26	-36	-32	-10	-10
Impairment charges	0	0	0	0	0
EBIT	1	-24	-13	52	98
Share in profits	0	0	0	0	0
Net financial items	-4	-4	-4	-3	-2
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-3	-28	-17	49	96
Tax	-1	12	3	-11	-22
Net earnings	-5	-16	-14	37	74

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
Current assets					
Cash in banks	77	52	23	30	71
Receivables	79	102	113	140	147
Inventories	72	97	106	131	137
Other current assets	0	0	0	0	0
Current assets	228	252	242	301	354
Fixed assets					
Tangible assets	42	101	97	91	90
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	251	257	257	257	257
Cap. exp. for dev.	39	23	9	7	5
O intangible rights	34	30	14	15	20
O non-current assets	0	0	0	0	0
Total fixed assets	367	412	377	370	373
Deferred tax assets	37	45	45	45	45
Total (assets)	632	708	664	716	772
Liabilities					
Current liabilities					
Short-term debt	10	67	31	20	10
Accounts payable	95	110	124	161	173
O current liabilities	0	0	0	0	0
Current liabilities	106	177	155	181	183
Long-term debt	49	63	50	39	19
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	154	240	206	221	202
Deferred tax liab	17	10	10	10	10
Provisions	7	10	10	10	10
Shareholders' equity	454	449	439	476	550
Minority interest (BS)	0	0	0	0	0
Minority & equity	454	449	439	476	550
Total liab & SE	632	708	664	716	772

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	383	406	460	607	666
Total operating costs	-346	-378	-420	-523	-538
Depreciations total	-37	-53	-54	-32	-30
EBIT	1	-24	-13	52	98
Taxes on EBIT	0	5	3	-12	-22
NOPLAT	0	-19	-11	40	76
Depreciation	37	53	54	32	30
Gross cash flow	37	34	43	72	106
Change in WC	11	-33	-6	-15	-1
Gross CAPEX	0	-98	-19	-26	-32
Free cash flow	49	-97	18	32	73

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	72%	63%	66%	66%	71%
Debt/equity ratio	13%	29%	19%	13%	5%
Net debt	-18	77	58	29	-42
Capital employed	436	526	497	505	508
Capital turnover rate	0.6	0.6	0.7	0.8	0.9

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	31%	6%	13%	32%	10%
EPS growth (adj)	-92%	244%	-13%	-371%	98%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	11.2 %	NPV FCF (2020-2021)	98
		NPV FCF (2022-2028)	623
		NPV FCF (2029-)	874
		Non-operating assets	52
		Interest-bearing debt	-129
		Fair value estimate MSEK	1518
Assumptions 2020-2026 (%)			
Average sales growth	14.2 %	Fair value e. per share, SEK	1.8
EBIT margin	14.8 %	Share price, SEK	1.1

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	-1%	-3%	-3%	8%	14%
ROCE	0%	-4%	-2%	10%	18%
ROIC	0%	-4%	-2%	8%	15%
EBITDA margin	10%	7%	9%	14%	19%
EBIT margin	0%	-6%	-3%	9%	15%
Net margin	-1%	-4%	-3%	6%	11%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-0.01	-0.02	-0.02	0.04	0.09
EPS adj	-0.01	-0.02	-0.02	0.04	0.09
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.02	0.09	0.07	0.03	-0.05
Total shares	860.02	860.02	866.02	866.02	866.02

VALUATION	2018	2019	2020E	2021E	2022E
EV	1,547.5	1,246.6	1,036.9	1,007.8	936.5
P/E	-341.2	-74.2	-70.7	26.1	13.2
P/E diluted	-341.2	-74.2	-70.7	26.1	13.2
P/Sales	4.1	2.9	2.1	1.6	1.5
EV/Sales	4.0	3.1	2.3	1.7	1.4
EV/EBITDA	41.3	43.6	25.6	12.0	7.3
EV/EBIT	2,627.4	-51.1	-77.8	19.5	9.6
P/BV	3.5	2.6	2.2	2.1	1.8

SHARE PERFORMANCE		GROWTH/YEAR	18/20E
1 month	4.6 %	Net sales	9.5 %
3 month	-16.3 %	Operating profit adj	n/a
12 month	-28.5 %	EPS, just	73.1 %
Since start of the year	-16.9 %	Equity	-1.7 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
BNP Paribas Sec Services Paris	19.1 %	19.1 %
Gatso Special Products B.V.	19.0 %	19.0 %
Avanza Pension	4.1 %	4.1 %
Per Wall	2.7 %	2.7 %
Inger Bergstrand	2.4 %	2.4 %
Nordnet Pensionsförsäkring	1.8 %	1.8 %
State Street Bank And Trust co	1.1 %	1.1 %
AXA	1.1 %	1.1 %
Swedbank Försäkring	1.0 %	1.0 %
Per Hamberg dödsbo	0.9 %	0.9 %

SHARE INFORMATION	
Reuters code	SENS.ST
List	Small Cap
Share price	1.1
Total shares, million	866.0
Market Cap, MSEK	978.6

MANAGEMENT & BOARD	
CEO	Ivo Mönnink
CFO	Simon Mulder
IR	n/a
Chairman	Claes Ödman

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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.

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Disclaimer

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Redeye Rating (2020-05-03)

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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CONFLICT OF INTERESTS

Westman owns shares in the company : No

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