

Sensys Gatso Group

Sector: Information Technology

Record Orders to Change the Sentiment

Redeye raises the valuation on the back of the record order intake, strong TRaaS growth and the won Costa Rica tender. We believe strong H2'20 figures will change the stock sentiment.

Record order intake

The Q4 order intake grew 68% y/y to SEK 241m, which is an all-time-high order intake for the Sensys and Gatso constellation (we are not exactly sure about the entire history of Gatso that was founded in 1958). The TRaaS order intake for full-year 2019 amounts to SEK 336m and 60% of the total, once again verifying the merits of the TRaaS strategy.

Good chances to land the SEK 192m Costa Rica tender

The order intake does not include the won SEK 192m Costa Rica tender. It is not yet an entirely done deal though. Competitors have appealed, but this is something very common, not only in Costa Rica. As we understand it, Sensys Gatso was the only participant that met the tech requirements. We therefore assume the company has a high chance of success.

22% TRaaS growth target – fully financed

The announced sales target of SEK 1bn for 2025 implies a 16% CAGR, driven by a faster TRaaS sales CAGR of 22%. The company says this growth plan is organic and fully financed. We believe there is a good probability that Managed Services can grow faster than 22%. If this unfolds, we believe the 15% EBITDA minimum target will turn out to be conservative, considering the high margins in Managed Services. In comparison, we estimate 15% EBITDA already in this year, and 22% in 2023.

The capital raising risk has been averted

Cash improved from SEK 32m to 54m (incl. 46m in used credit). Sensys Gatso is looking to increase the credit line by SEK 50m. Together with the solid order book, we feel this could eventually put an end to the stock market's speculation on a need for another offering.

Raised base case – revaluation due in H2'20

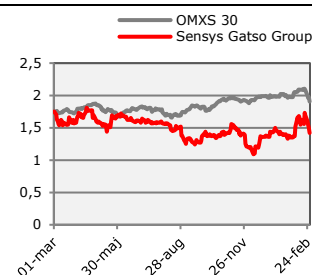
We raise our base case valuation to SEK 1.8 (1.7) due to the record order intake, strong TRaaS growth and Costa Rica. We expect a revaluation in H2, on the back of strong reports, as the stock's sentiment usually has been changed by the earnings releases.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	383	406	550	607	667	752
EBITDA	37	29	80	108	133	162
EBIT	1	-24	27	66	96	124
EPS (adj.)	0.0	0.0	0.0	0.1	0.1	0.1
EV/Sales	4.0	3.1	2.1	1.8	1.6	1.3
EV/EBITDA	41.3	43.6	14.8	10.4	7.8	5.8
EV/EBIT	2627.4	-51.1	43.5	16.8	10.8	7.6
P/E	-341.2	-74.2	63.5	23.0	15.3	11.7

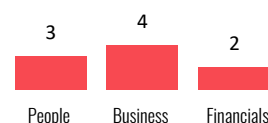
FAIR VALUE RANGE

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)	1.3
Market Cap (MSEK)	1126
Net Debt 20E (MSEK)	55
Free Float	82 %
Avg. daily volume ('000)	7

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The Record Order Intake Will Change the Sentiment

Sensys Gatso maintains its strategic course. The direction became even clearer in Q4 with the new released financial targets. We think the company has a compelling business model of system sales with minimal payback periods, in combination with recurring revenue (TRaaS). Using US as an example, Sensys Gatso moves into one city, and then other cities in that state usually become interested. Schools zones are, as previously mentioned, a great way to get a first foothold in a new state or city.

Following full integration of the previously separate road maps of the Swedish and Dutch parts, Sensys Gatso focus on a single, scalable architecture (Flux) that should work for all situations, with only minor software adaptations for each city. One good up-sell example is starting with speed enforcement and adding other applications. Flux is not only built for handling certain additional use cases like uninsured vehicles, parking, distracted driving etc. The idea is to be fully adaptable even for entirely new solutions that are not yet thought out. We e.g. expect the environment trend to bring new possibilities.

This sensor agnosticism makes for a fully future proof solution, which is something we assume the customers like to hear in the road map discussions. We see similar approaches in other industries and we think it will prove to be a competitive advantage for the company in the future. If we are right, we should eventually see signs of competitors following suit, with Sensys Gatso as a first mover. We think there are few, if any, counter-arguments from customers against the scalable Flux architecture. The only risk, as we see it, is the internal execution from the company.

Reasonably conservative targets

Together with the Q4, the company presented its financial targets, expecting a sales CAGR of 16%, reaching SEK 1bn in sales in 2025. TRaaS is expected to grow faster, at a 22% rate, meaning a System Sales growth of 10%, just in line with the market. On the conference call, the company said the growth target is fully organic, and that the extended credit line by SEK 50m from Rabobank is enough to deliver on the business plan.

In our view, the EBITDA target of 15% is conservative, considering the margin profile of TRaaS. We understand that it is a minimum target, but in our view, we think 20% is also within reach, especially since we expect 15% already in this year. The most crucial component in the margin equation is the Managed Services business, as it has substantially higher margins. Today, Managed Services and Other TRaaS are about the same size, in terms of revenue. We assume Managed Services can grow by at least CAGR 22%, since the TRaaS model overall is accepted in the US market, at least in several different states (the company is currently in 11 different states). TRaaS outside Managed Services is, in our view, a mixed bag margin-wise, with some high-margin spare parts and software, mixed with service commitments that, at best, have margins in line with top consulting firms.

The contract renewal rate is 85%. Since we have not seen any contracts lost to competitors, we assume the remaining 15% is related to camera bans or the issuance of a new tender instead of using the option years.

The four strategic pillars are the exact same and were just more clarified with the financial targets: US expansion, new markets and extending the product offering. These actions are all propelled by the fourth pillar about maintaining a scalable architecture that can be used for many types of applications.

Record order intake

The order intake grew 68% to SEK 241m, driven by SEK 167m from Australia. We do not have the full history of Gatso that was founded in 1958, but we believe this is the highest order intake ever for Sensys Gatso. It should be noted that the order intake does not include the Costa Rica tender from February of SEK 192m (see further below). A Costa Rica order would likely mean another record quarter. The St. Mary's, Georgia contract of SEK 28m (the only order after the period) is also not included. Two thirds of all announced contracts and their order values (~SEK 280m) have been related to TRaaS (see the table below). If we add the non-reported, small TRaaS orders, the TRaaS order intake amounted to SEK 336m, equal to 60% of the total.

Announced new contracts in 2019: TRaaS & non-TRaaS				
Geography	Type of appl.	TRaaS	Value (SEKm)	Exp. delivery*
TRaaS				
Australia	Maint. of in-vehicle	Yes	22	6 yrs
New York, US	Red light	Yes, Man.Serv.	12	5 yrs
Iowa, US	Speed	Yes, Man.Serv.	6	5 yrs
Maryland, US	Red light, school, parking	Yes, Man.Serv.	44	5 yrs
Iowa, US	Red light & speed	Yes, Man.Serv.	19	3 yrs
Colombia	Red light, speed & bus	Yes, 30% of 9m	3	5 yrs
Colombia	Red light & speed	Yes, 30% of 10m	3	5 yrs
New York, US	School zone	Yes, Man.Serv.	30	3 yrs
Iowa, US	Speed	Yes, Man.Serv.	20	5 yrs
Iowa, US	Speed	Yes, Man.Serv.	6	5 yrs
Australia	Maint. of in-vehicle	Yes, 100%	55	6 yrs
Australia	Maint. of fixed systems	Yes, 100%	60	3 yrs
Total			280	5 yrs
non-TRaaS				
Australia	ANPR	No	7	Q4'19
Australia	In-vehicle	Yes (separate TRaaS order)	46	Q4'19
Colombia	Red light, speed & bus	Yes, 70% non-TRaaS of 9m	6	H2'19
Colombia	Red light & speed	Yes, 70% non-TRaaS of 10m	7	H2'19
France	In-vehicle	No	16	H2'19
UAE	Red light & speed	No	12	Q1'20
UAE	Red light & speed	No	8	Q1'20
Australia	In-vehicle	Yes (separate TRaaS order)	52	Until Q1'21
Total			154	

Source: Redeye Research, Sensys Gatso

* = delivery periods stated in the respective press releases, subject to eventual changes or delays

Major tender of SEK 192m in Costa Rica

Recently, the company received notice that it had won a major tender of an expected SEK 192m in Costa Rica, related to 100 speed cameras. However, please note that it is not a fully done deal yet. The contract has not been signed. There have also been appeals from competitors, which is something that is very common in the entire world, not just in Costa Rica. We are humble when it comes to our lack of knowledge around Latin American business customs and laws of procurement etc. Nevertheless, as we understand it, Sensys Gatso was the only participant that met the technology requirements in the procurement. Thus, we assume the company has a good chance of success.

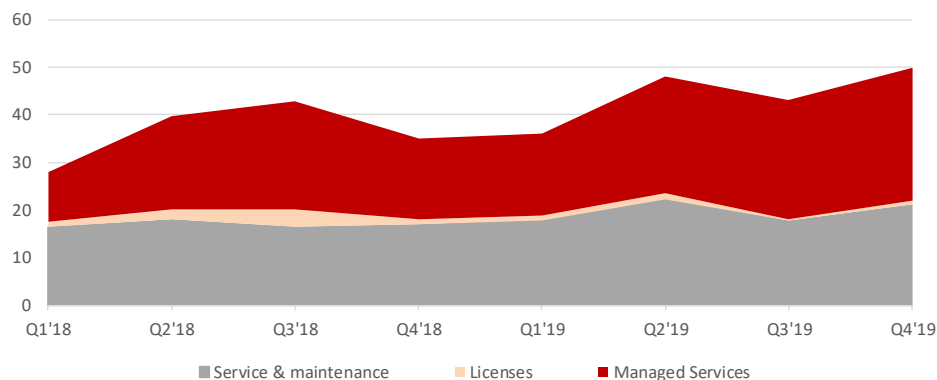
Most regions show solid demand. Besides the SEK 167m in Australian orders, Sensys Gatso has had a strong traction in Latin America. We see eventual ripple effects from Colombia and Costa Rica. We therefore expect the company to channel more resources into this region. In US, Oklahoma is continuing to improve.

The small orders in the underlying order intake was at historically weak levels (SEK 18m), but we think there is a large volatility over the quarters here. On a full-year basis the underlying order intake is in line with last year.

TRaaS: Strong growth

TRaaS sales grew 43% to SEK 50m, driven by a strong Managed Services growth (+68%)

TRaaS Sales (SEKm)



Source: Redeye Research & Sensys Gatso

In our last update, we described the nature of TRaaS revenue, which we feel is worth repeating: *“There are several positive aspects of the TRaaS business model. Most notably, there will be recurring revenue over many years to come. The average contract period for the 13 new TRaaS agreements, mentioned above is ~5 years. The flipside is that the revenue and profits are split over several years, while systems sales result in a rather immediate one-time profit boost. We have seen a couple of examples of companies transforming to recurring revenue. Initially there is a negative effect when profits are delayed, as increased costs precede growth.”*

Well-prepared to deal with Corona

Unlike many other companies, Sensys Gatso, did not emphasize any corona uncertainty in its report, which we believe is because it is well-prepared. Sensys Gatso has secured its deliveries for all of 2020. Following, the Prodrive fire, the company has learned to always have several back-up plans. Moreover, the company has no production in China.

An evolving ESG case?

As for new products, Sensys Gatso mentioned that it currently runs pilots for the distracted driving solution. There is EU regulation in place that will require all vehicles in Europe to include an interior camera for monitoring the driver’s attention. However, this is still several years out. Sensys solution is ready today and it is complementary.

The rising trend of environmental concerns is generally a strong market driver, and we do not see it going away anytime soon. Traffic casualties, congestion and pollution are all matters that are highly relevant to Sensys Gatso. We therefore see a potential for the stock to become an ESG case (Environmental, Social and Governance). Large capital streams and many fund managers have been moving in this direction.

There is also a positive effect from the World-famous Vision Zero. Many potential customers want to meet with the supplier who facilitated this vision.

Q4: Reversion of the delayed revenue from Q3

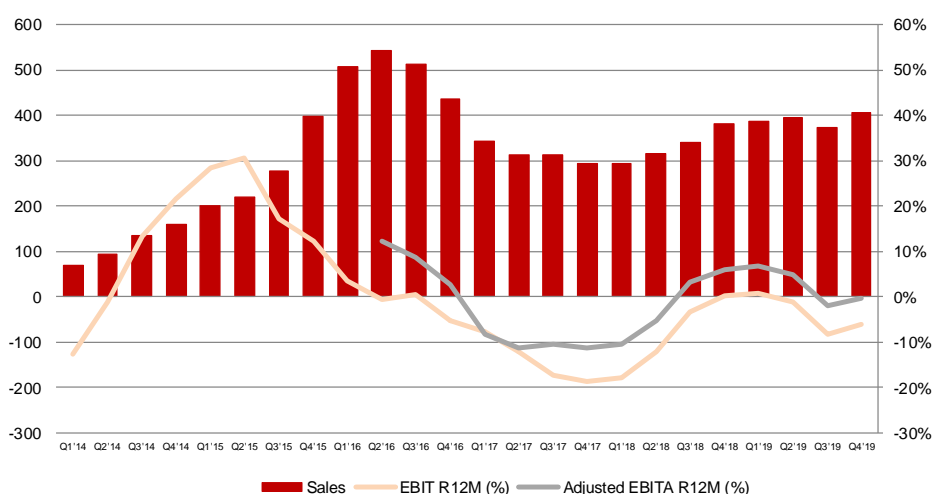
A majority of the missed revenue that we expected in Q3 came in Q4 instead, showing that the Q3 delays for the three large programs were indeed temporary. The strong sales growth of 27% (expected -7%) lead to a hefty EBIT beat of about SEK 20m (see the table below). The gross margin came in as expected. OPEX were a bit lower due to less year-end accruals.

Outcome vs. estimates				
SEKm	Q4'18	Q4'19E	Q4'19A	Dif.
Sales	124	116	158	36%
EBITDA	17	26	27	6%
EBITA	13	0	18	18168%
EBIT	7	-6	14	-332%
EPS (SEK)	0.01	-0.01	0.02	
Sales growth(YoY)	49%	-7%	27%	
Gross margin	41%	38%	35%	
EBIT margin	6%	-5%	9%	
EPS growth (YoY)	n/a	n/a	n/a	

Source: Redeye Research, Sensys Gatso

The downward earnings trend is now broken on a trailing 12-month basis (see the graph below). We use the trailing 12-month figures to adjust for quarterly volatility.

R12M Sales (SEKm), EBIT & adjusted EBITA* (%)

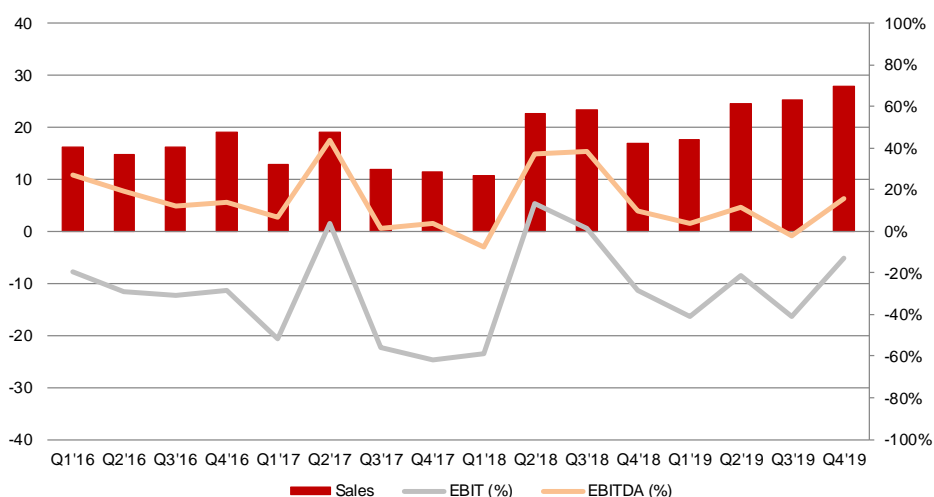


* = EBITA adjusted for acquisition costs of SEKm 7.4 in Q3'15 and for the cost reduction program and additional Gatso consideration

Source: Redeye Research, Sensys Gatso

Managed Services sales were up 64% y/y and the segment returned a strong 16% EBITDA (see the graph below, on next page). It looks like we were right that Q3 had temporarily higher variable costs (cost of revenue) from starting up new programs. In total there are now 34 programs in 11 US states.

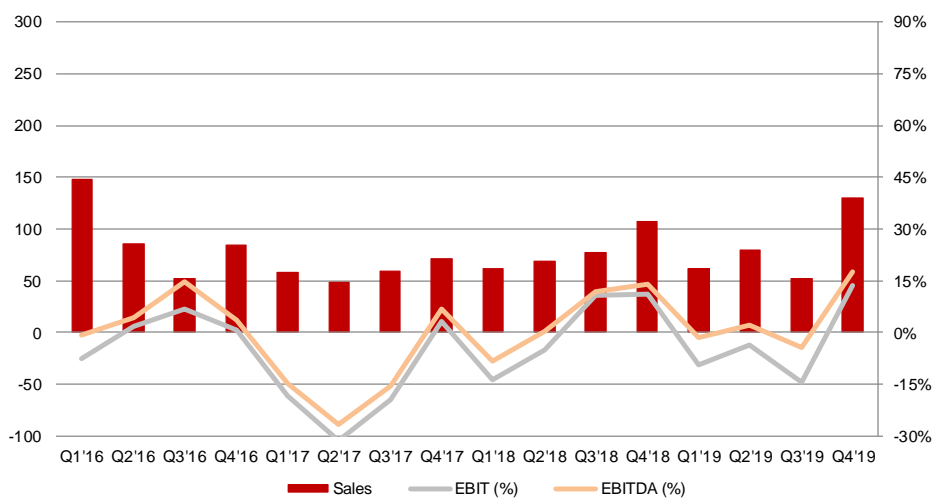
Managed Services: Revenue (SEKm) & margins (%)



Source: Redeye Research, Sensys Gatso

The strong System Sales rendered in the highest EBIT margin ever for the Sensys and Gatso together (14%), as indicated in the graph below. This is a big leap q/q, which shows the scalability in the systems business when sales ramp.

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

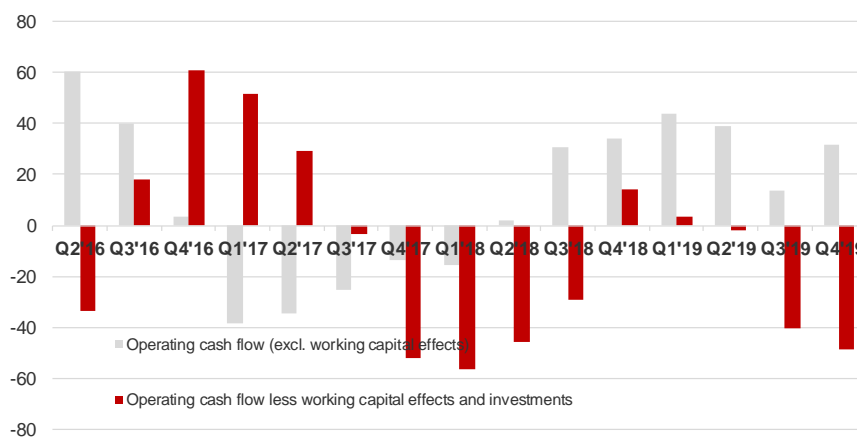


Source: Redeye Research, Sensys Gatso

Strengthened cash position

Operating cash flow amounted to SEK 43m (31m excl. working capital effects), improving the rolling-12-month figures (see the graph below, on next page).

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



Source: Redeye Research, Sensys Gatso

However, CAPEX increased to SEK 21m, following larger investments in Managed Services programs and further developing the FLUX platform. 4m of the loans was amortized. All in all, cash improved SEK 18m from Q3, to SEK 52m, but one should note that used credit facilities amount to SEK 46m, i.e. cash stemming from operations is still low. However, the company is looking to increase the credit at Rabobank by a further SEK 50m (12.5m every six months), meaning we see no urgent need for raising capital. Moreover, the company stated on the call that cash (incl. the SEK 50m from Rabobank) is enough to execute the current business plan. We do assume, however, that the company could be opportunistic and go on the offense with e.g. a directed share issue, if interesting opportunities to consolidate the market and accelerate the growth would present themselves.

Financial estimates

We assume revenue from the St. Mary's contract, starting in Q4. Furthermore, we have assumed a 70% delivery of the systems for Costa Rica in 2020. Thus, we do not expect all systems to be installed and ready for activation by the beginning of Q1'21. The changes lead to higher estimated revenues as can be seen in the graph below. We have not made any significant changes in our mid-term earnings estimates, but we have increased our long-term estimates slightly.

Changes in Redeye's estimates				
SEKm		2020E	2021E	2022E
Sales	Old	464	580	635
	New	549	607	667
	change (%)	18%	5%	5%
EBITDA	Old	40	104	135
	New	80	107	133
	change (%)	97%	3%	-1%
EBIT	Old	-1	68	99
	New	27	66	96
	change (%)	-3075%	-3%	-3%
EPS	Old	0.00	0.06	0.09
	New	0.02	0.06	0.08
	change (%)	-757%	-3%	-4%

Source: Redeye Research, Sensys Gatso

We expect the volatility between the quarters to continue in 2020 (as indicated in the table below).

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	111	130	147	161	549
Growth (%)	30%	9%	9%	-24%	27%	7%	42%	35%	101%	2%	35%
Gross margin (%)	42%	37%	38%	34%	35%	36%	37%	38%	38%	38%	38%
System sales	317	61	79	52	130	323	85	101	117	130	433
Growth (%)	33%	-11%	2%	-51%	21%	2%	7%	93%	-10%	0%	34%
whereof TRaaS	76	19	23	18	22	82	22	21	27	31	100
Growth (%)	n/a	9%	17%	-10%	22%	9%	15%	-11%	49%	40%	22%
Managed Services	74	18	25	25	28	95	26	29	30	31	116
Growth (%)	33%	65%	8%	8%	64%	29%	49%	18%	20%	11%	22%
EBITDA	37	0	4	-3	27	29	9	16	27	28	80
EBITA	23	-6	-2	-12	18	-2	0	8	18	19	44
EBITA (%)	6%	-8%	-2%	-16%	12%	0%	0%	6%	12%	12%	8%
EBIT	1	-12	-8	-18	14	-24	-4	3	13	15	27
EBIT (%)	0%	-16%	-9%	-24%	9%	-6%	-4%	3%	9%	9%	5%
EPS	-0.01	-0.01	-0.01	-0.02	0.02	-0.02	0.00	0.00	0.01	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. We have previously been a bit hesitant towards the US market following the Trump election but the market has not deteriorated thus far.

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 leverage 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 revenue reaching SEK ~80m in 2024 as customers in other states 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	550	607	667
Total operating costs	-346	-378	-470	-500	-533
EBITDA	37	29	80	107	133
Depreciation	-11	-23	-26	-22	-21
Amortization	-26	-30	-26	-19	-16
Impairment charges	0	0	0	0	0
EBIT	1	-24	27	66	96
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	23	64	95
Tax	-1	12	-6	-15	-21
Net earnings	-5	-16	18	49	73

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	77	52	27	53	116
Receivables	79	102	135	140	147
Inventories	72	97	126	130	137
Other current assets	0	0	0	0	0
Current assets	228	252	288	323	399
<i>Fixed assets</i>					
Tangible assets	42	101	88	84	83
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	251	257	257	257	257
Cap. exp. for dev.	63	43	25	15	10
0 intangible rights	10	10	12	15	20
0 non-current assets	0	0	0	0	0
Total fixed assets	367	412	382	371	371
Deferred tax assets	37	45	45	45	45
Total (assets)	632	708	716	739	815
Liabilities					
<i>Current liabilities</i>					
Short-term debt	10	67	29	10	10
Accounts payable	95	110	148	161	173
0 current liabilities	0	0	0	0	0
Current liabilities	106	177	178	171	183
Long-term debt	49	63	48	29	19
0 long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	154	240	226	200	203
Deferred tax liab	17	10	10	10	10
Provisions	7	10	10	10	10
Shareholders' equity	454	449	470	519	592
Minority interest (BS)	0	0	0	0	0
Minority & equity	454	449	470	519	592
Total liab & SE	632	708	716	739	815

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	383	406	550	607	667
Total operating costs	-346	-378	-470	-500	-533
Depreciations total	-37	-53	-53	-41	-37
EBIT	1	-24	27	66	96
Taxes on EBIT	0	5	-6	-15	-22
NOPLAT	0	-19	21	51	75
Depreciation	37	53	53	41	37
Gross cash flow	37	34	73	92	112
Change in WC	11	-33	-24	3	-1
Gross CAPEX	-38	-98	-23	-30	-37
Free cash flow	10	-97	26	66	74

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	72%	63%	66%	70%	73%
Debt/equity ratio	13%	29%	17%	8%	5%
Net debt	-18	77	50	-13	-86
Capital employed	436	526	520	506	506
Capital turnover rate	0.6	0.6	0.8	0.8	0.8

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	31%	6%	35%	10%	10%
EPS growth (adj)	-92%	244%	-212%	176%	50%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	11.2 %	NPV FCF (2020-2021)	132
		NPV FCF (2022-2028)	614
		NPV FCF (2029-)	861
		Non-operating assets	52
		Interest-bearing debt	-129
		Fair value estimate MSEK	1530
Assumptions 2020-2026 (%)			
Average sales growth	10.5 %	Fair value e. per share, SEK	1.8
EBIT margin	16.4 %	Share price, SEK	1.3

PROFITABILITY	2018	2019	2020E	2021E	2022E
RDE	-1%	-3%	4%	10%	13%
ROCE	0%	-4%	5%	12%	16%
ROIC	0%	-4%	4%	10%	15%
EBITDA margin	10%	7%	15%	18%	20%
EBIT margin	0%	-6%	5%	11%	14%
Net margin	-1%	-4%	3%	8%	11%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-0.01	-0.02	0.02	0.06	0.08
EPS adj	-0.01	-0.02	0.02	0.06	0.08
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.02	0.09	0.06	-0.02	-0.10
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	1,176.1	1,112.5	1,039.6
P/E	-341.2	-74.2	63.5	23.0	15.3
P/E diluted	-341.2	-74.2	63.5	23.0	15.3
P/Sales	4.1	2.9	2.0	1.9	1.7
EV/Sales	4.0	3.1	2.1	1.8	1.6
EV/EBITDA	41.3	43.6	14.8	10.4	7.8
EV/EBIT	2,627.4	-51.1	43.5	16.8	10.8
P/BV	3.5	2.6	2.4	2.2	1.9

SHARE PERFORMANCE		GROWTH/YEAR	18/20E
1 month	-3.7 %	Net sales	21.1 %
3 month	7.4 %	Operating profit adj	577.3 %
12 month	-25.7 %	EPS, just	n/a
Since start of the year	-4.4 %	Equity	1.8 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Gatso Special Products B.V.	19.0 %	19.0 %
Avanza Pension	4.2 %	4.2 %
Per Wall	2.7 %	2.7 %
Inger Bergstrand	2.4 %	2.4 %
Nordnet Pensionsförsäkring	1.2 %	1.2 %
State Street Bank And Trust co	1.1 %	1.1 %
AXA	1.1 %	1.1 %
Swedbank Försäkring	1.0 %	1.0 %
Per Hamburg dödsbo	0.9 %	0.9 %

SHARE INFORMATION	
Reuters code	SENS.ST
List	Small Cap
Share price	1.3
Total shares, million	866.0
Market Cap, MSEK	1125.8

MANAGEMENT & BOARD	
CEO	Ivo Mönnik
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 (2020-03-01)

Rating	People	Business	Financials
5p	11	12	4
3p - 4p	92	70	30
0p - 2p	9	30	78
Company N	112	112	112

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Westman owns shares in the company : No

Palmgren owns shares in the company : No

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