Sensys Gatso Group

Sector: Information Technology

Going for the gusto

The solid trend continues – stronger EBIT than our estimates

Sensys Gatso not only broke even in Q3 but also had solid earnings of SEK 9m (exp. 0m), i.e. it followed the previous trend of coming in better than our estimate. The order intake amounted to SEK 101m, a 190 % growth if one includes the SEK 70m Australian procurement award for in-vehicle. The conference call was informative around important subjects. Sensys Gatso emphasized a focus on growing the recurring revenue by not only expanding in Managed Services around the World but also expansion of the service scope in System Sales. Another thing we have asked for, for a long time, is an update on the next product generation and we are therefore pleased to hear that it will be presented in December. The new flexible, scalable platform include various use cases. Several of them we already know from before but there were also a few new solutions discussed on the call, such as parking and distracted driving. All in all, there's lots of good stuff going on.

Potential volumes of uninsured vehicles in the company's 12 US states could be large but it is too early to tell

There are in total about 54 million registered cars in Sensys Gatos's 12 existing US states (incl. Washington where old Sensys previously has done business), whereof 15 %, i.e. 8 million, are unlicensed. However, only about 1 % of the unlicensed cars are in Oklahoma. Thus, the volume TAM in Sensys Gatos's existing markets seems large but the company emphasizes that it is too early to talk about this potential. In one year from now, it will have a better picture. Nevertheless, 70 % of the unlicensed vehicles are from the top 20 states and Sensys Gatso is active in 6 of these states and in 4 of the top 8 states. Putting it all together, Sensys Gatso already has access to the majority of the total volumes of uninsured vehicles for all states (52 %) due to its relations in traditional Managed Services.

No changes in our valuation or rating

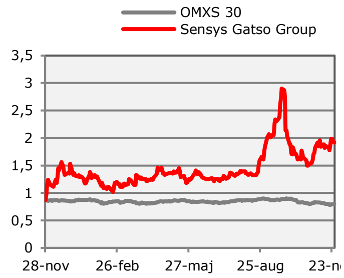
We do not raise our uninsured vehicle estimates as we await more data. We keep our valuation and our Redeye Rating since the business progress is solid and we support how Management runs the company. However, future additional dilution of the minority shareholders (provided the strong earnings continue) could discourage institutional investors from investing in the company and raise the risk premium, i.e., if that happens, we will lower the Management and/or ownership rating.

KEY FINANCIALS (SEKm)	2016	2017	2018E	2019E	2020E	2021E
Net sales	437	293	423	550	614	695
EBITDA	25	-16	51	106	137	172
EBIT	-23	-55	14	67	100	141
EPS (adj.)	0.0	-0.1	0.0	0.1	0.1	0.1
EV/Sales	2.3	4.5	4.0	3.0	2.5	2.1
EV/EBITDA	39.6	-83.0	33.0	15.4	11.2	8.3
EV/EBIT	-43.2	-24.0	121.0	24.2	15.3	10.1
P/E	-38.0	-23.5	232.1	27.2	21.1	15.5

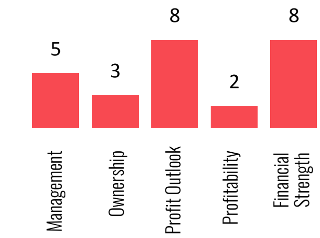
FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	1.7	3.4

SENS.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	SENS.ST
Market	Small Cap
Share Price (SEK)	1.9
Market Cap (MSEK)	1660
Net Debt 18E (MSEK)	33
Free Float	82 %
Avg. daily volume ('000)	7

ANALYSTS

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Going for the gusto

We have previously been wondering what the strategic priorities ahead will be and are therefore pleased to see that the report and the conference call was very clear from a strategy perspective. Sensys Gatso mentioned the following priorities ahead.

1. A scalable, flexible software and hardware platform fitted for several different use cases.
   The company even announced that it will present this new product platform in December, at 2018 Gulf Traffic in Dubai - a lot faster than we had hoped for. These are very good news as we have previously pointed out an increasing need for a more cost-efficient, new architecture. We think there is a good case for improving the position in fixed systems with the help from the new platform.
2. Expand Managed Services in the US as well as in other geographies
   This is a good but perhaps tough objective given the political climate in the US. There is also lots of investments required for growing the Managed Services business outside of the US, but we still believe it is the way forward as it is a key aspect of growing the recurring revenue.
3. Increase the recurring revenue within System Sales
   This will be done by expanding the service scope in existing markets. The recurring revenue is currently 18 % of the System Sales order intake YTD. Unlike Managed Services, this will not expand the margins, but it drives recurring top line.

As for point number 1 above, we especially noted that Sensys Gatso is working on (and is making solid progress in) a solution to cope with distracted driving, which is a good move, we believe. Drivers that are distracted by e.g. their smartphones now kill more people in traffic than drunk driving. The company wants to keep all details to itself at this point in time in order not to give any clues to the competitors. Another interesting vertical mentioned is parking solutions. The scalable architecture also implies solid up-sell opportunities across the World in areas such as illegal movement (illegal turns, driving in bus lanes), illegal entry (environmental zones, weight control) and safety zones (schools and road works). Good existing examples are the sustainable cities investment in Amsterdam where ANPR technology (basically the same as in Oklahoma) is used to make sure heavy trucks are not driving in areas where they are not supposed to. Yesterday, the company were also awarded a Low Emission Zone enforcement contract in Amsterdam where the company's software platform Puls will be used to prevent polluting vehicles from entering the center area.

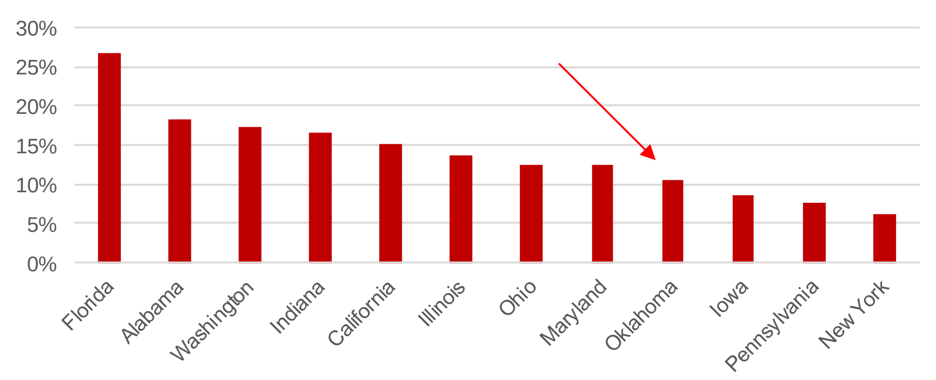
Seemingly large potential for uninsured vehicle solutions in the other US states

The company finally got the green light in Oklahoma in the beginning of November as the customer's databases were finally restructured. The order value is still only estimated to SEK 17m, but we believe the potential might be larger than that even though the number of uninsured drivers in Oklahoma seems to be a bit lower than our first assessment. As mentioned, we see no major Oklahoma effect in Q4 since we expect the first payments in mid-December, at the earliest (Sensys said late December). More important, Oklahoma can eventually unlock the potential in other, significantly larger markets, which we will outline further below. As Sensys Gatso wrote in the report, "*this program is the first of its kind in the nation and one that will likely be replicated in several states across the country*". All eyes are on Oklahoma now and the company is talking to potential customers in other states as well.

Oklahoma has, according to Sensys Gatso, been ranked number one in uninsured vehicles. There is a rising sense of urgency in Oklahoma though and recent studies suggest that Oklahoma has managed to cut the number of uninsured drivers in more than half (11 %

compared to 26 % in 2012). According to data from Insurance Research Council (IRC) one in every eight drivers in the whole US was uninsured in 2015. In the graph below, we use the IRC data to present the ratio of uninsured vehicles in Sensys Gatos's 12 US markets (we include Washington as the old Sensys Traffic has previously done business here but there is no current Managed Services contract in Washington).

Uninsured vehicles as a percentage of registered cars (%)

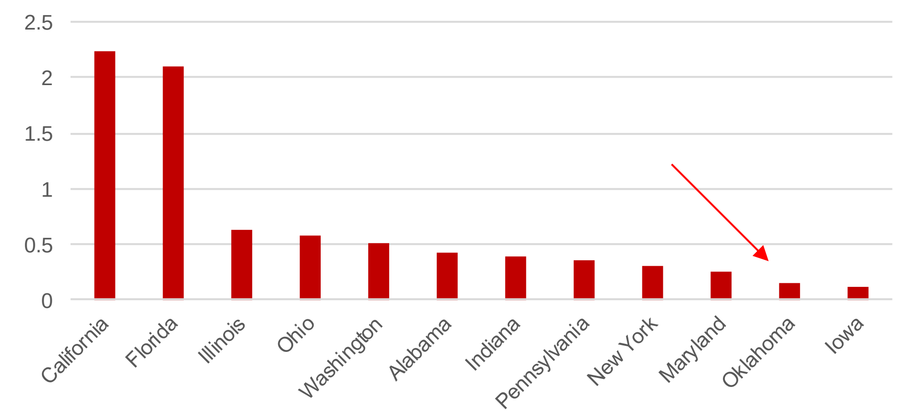


Source: Redeye Research, Sensys Gatso, Statista & IRC

There are in total about 54 million registered cars in Sensys Gatos's 12 existing US states, whereof 15 % (8 million) are unlicensed. However, only about 1 % of the unlicensed cars are in Oklahoma. In our opinion, this suggests that the volume TAM in Sensys Gatos's other existing markets might be 100 times larger than Oklahoma. However, we want to emphasize that Sensys Gatso remains cautious around the potential for uninsured vehicles. As previously mentioned, Oklahoma is the first program of its kind. Results need to come in before the company can assess the Oklahoma opportunity as well as the impact on the addressable market in other states. It believes it's best to wait one year in order to assess the TAM in an appropriate way. We concur. Thus, we have not yet raised our estimates for uninsured vehicles, as we want to wait and see how Oklahoma turns out.

70 % of the unlicensed vehicles are from the top 20 states and Sensys Gatso is active in six of them. In addition, the company does business in 4 of the 8 top states. Putting it all together, Sensys Gatso already seems to have access to the majority of the TAM in terms of unlicensed vehicles (52 %) for all US states combined. The distribution of uninsured vehicles between the states and the potential outside Oklahoma is evident when looking at the graph below.

Total n.o. uninsured vehicles per state (million)

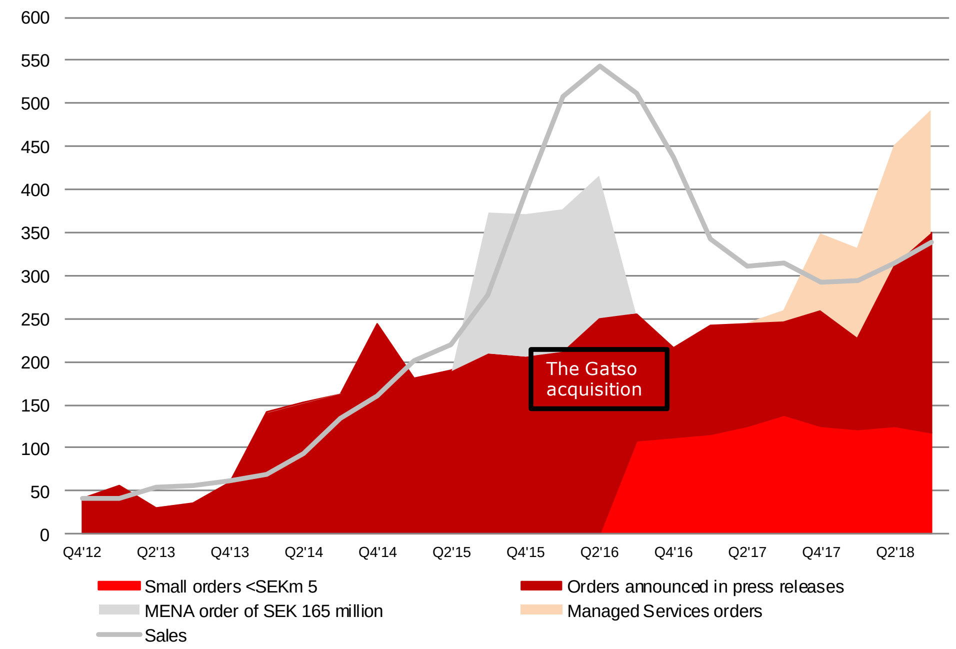


Source: Redeye Research, Sensys Gatso, Statista & IRC

The order intake of Q3 up 190 % (incl. procurement awards)

The order intake of Q3 was SEK 101m. The second batch in the Saudi in-vehicle contract (SEK 66m) has already been included in Q2, meaning the underlying order intake for smaller orders in Q3 was about SEK 26m – in line with previous quarters. We assume a large part of these smaller orders are recurring since Sensys Gatso stated that 18 % of the System Sales order intake YTD is recurring. The order intake amounts to SEK 493m on a rolling 12-month basis (see the graph below). In addition, Sensys Gatso has received a procurement award of SEK 70m in Australia related to in-vehicle solutions. Including this deal, the order intake in Q3 is up 190 % y/y.

Sales & order intake* R12M (SEKm)



* = Our assumptions, including orders received before consolidation in August 2015 but excluding a service contracts for Q3'15 (size unknown) & SEKm 30 of service in the Australia deal. From Q3'16 we break out the small orders (less than SEKm 5) from the total order intake

Source: Redeye Research & Sensys Gatso

In Sweden, the company says there is no problem in selling to municipalities but there is an issue related to how to process the citations as this is something that the government has been responsible for, via the Swedish Transport Administration (Trafikverket). Also worth mentioning is that Sensys Gatso Sweden has a new General Manager, Jörgen Andersson. Andersson has been ten years with the company, so he should have a lot of valuable experience.

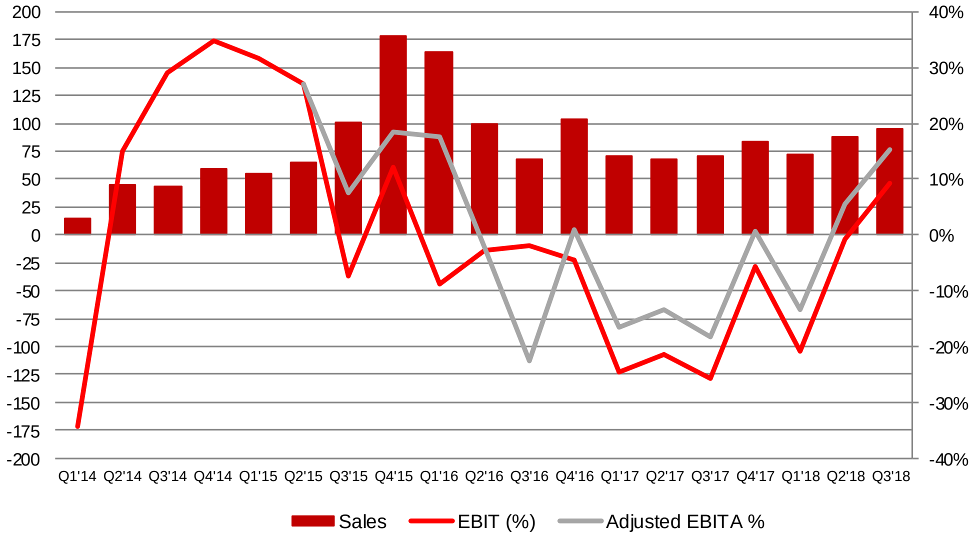
At the end of September, Sensys Gatso received a Saudi in-vehicle order of SEK 66m related to the SEK 100m contract (find our comment here). This is the contract that the company said would be delivered, to a large extent, during Q4'18.

The company won its largest German Managed Services contract so far in October - a good achievement in a market with tough competition from strong local players. This is the third contract for Sensys Gatso in Germany. In the press release, the deal was labelled "Managed Services" but the contract is very different and limited compared to the US Managed Services contracts. On the call, the CEO said that Germany is gradually approaching a Managed Services model. In this particular contract, the German customer will use the Xilium back office software and equipment and then pay a service fee for every citation it sends out. The collection of the payments is done by the local government though, which is the main difference from the US and explains the relatively low contract value (SEK 5m over 5 years). We believe more scale is required in order for Germany to be a good business, but this contract could be a base for further expansion. We have low expectations on Germany though due to the competition (namely Jenoptik). Nevertheless, the deal is, in our view, an interesting sign of Managed Services becoming more popular outside of US, in general.

Q3: Strong gross margins drove solid earnings

Sales and margins continued to improve as can be seen in the table below.

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

As we have already mentioned, in our initial report comment, there were no specific surprises in the numbers. The gross margin of 49 % (expected 39 %) is volatile over the quarters and therefore hard to predict. On the call, Sensys Gatso said that the reason for the good gross margins are predominately a strong sales and product mix. This resulted in EBIT of SEK 9m, coming in 3 472 % over our prognosis (see the table below), even though sales were 4 % lower and fixed costs were in line.

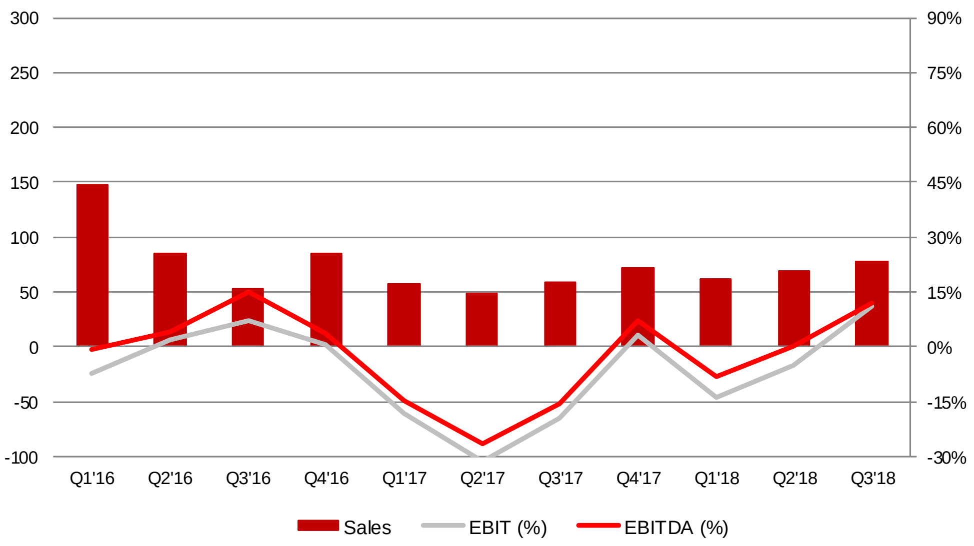
Outcome vs. estimates

SEKm	Q3'17	Q3'18E	Q3'18A	Dif.
Sales	71	99	96	-4%
EBITDA	-9	9	18	97%
EBITA	**-13**	**6**	**15**	**162%**
EBIT	-18	0	9	3472%
EPS (SEK)	-0.03	0.00	0.00	
Sales growth(YoY)	4%	40%	35%	
Gross margin	32%	39%	49%	
EBIT margin	-26%	0%	9%	
EPS growth (YoY)	416%	n/a	n/a	

Source: Redeye Research, Sensys Gatso

Looking at the different business areas, System Sales continued to improve earnings and reported an EBIT margin of 11 %, which is the best quarter thus far for Sensys and Gatso combined, after the acquisition in 2015 (see the graph below).

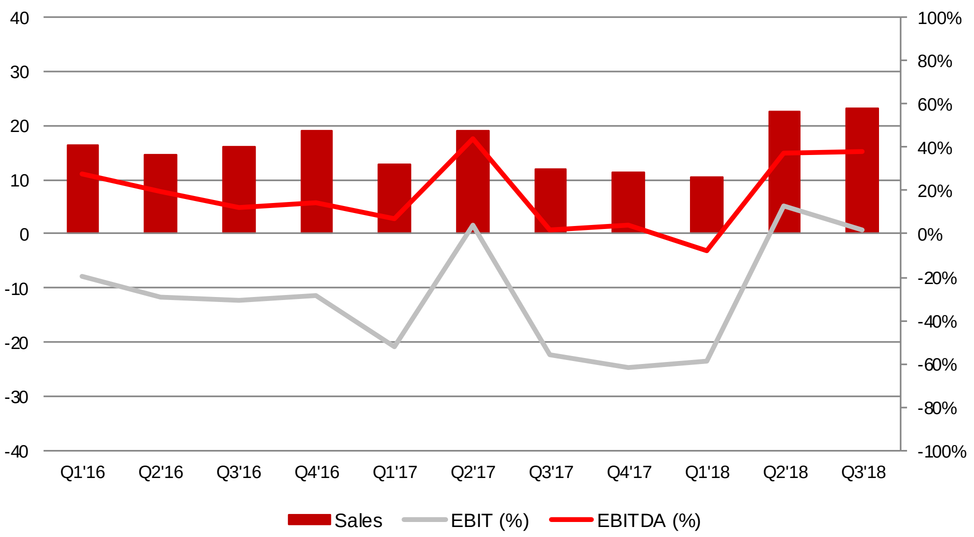
System Sales: Revenue (SEKm) & margins (%)



Source: Redeye Research, Sensys Gatso

Managed Services sales amounted to SEK 23m compared to SEK 12m during last year (see the graph below), which is solid considering that there was no revenue from Oklahoma yet and Ohio was scheduled to start in Q4. Sensys Gatso attributed the strong growth to the restart in Iowa and the company's ability to quickly scale up and down. The EBITDA margin of 38 %, in line with Q2, is impressive but as all Managed Services profits are invested back into the business and depreciation is high the EBIT remains around break-even.

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

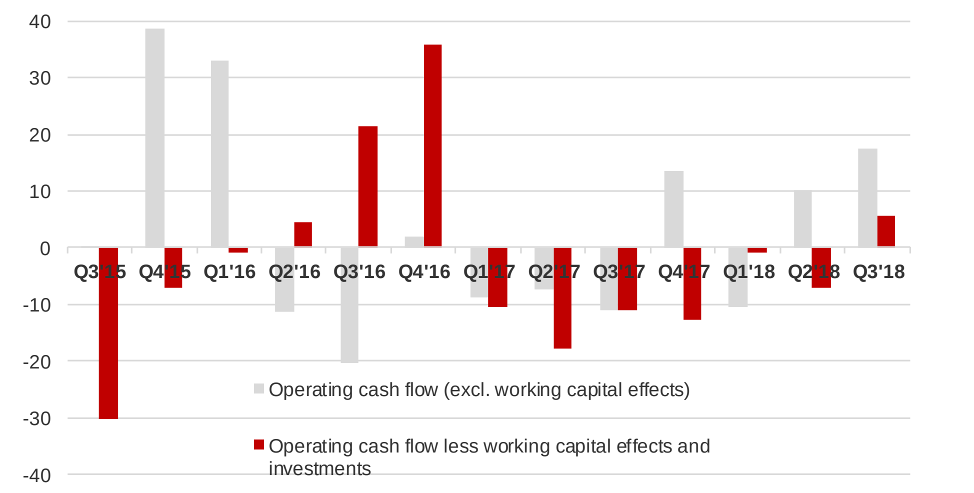


Source: Redeye Research, Sensys Gatso

Solid cash position of SEK 62m … but the company converted debt to equity

The operating cash flow was solid at SEK 18m and SEK 12m before and after working capital requirements (see the table below). As we interpret the company, it needs the cash for investments, which we believe relates to both internal investments and potential M&A.

Operating cash flow (SEKm)



Source: Redeye Research, Sensys Gatso

Parts of the first instalment of the shareholder loan from the Gatso acquisition was not fully repaid during the quarter, which led to conversion of the debt to equity, at a large discount of SEK 1.16 compared to the share price. We find this move and the associated dilution a bit questionable as there seems to have been enough cash to pay the whole instalment. Management has been very good at cost control in terms of the P&L, but dilution is also a cost for the shareholders. However, the action is still defendable in the light of eventual cash needs for investments and uncertainty around future earnings as the company has just broke even after a long unprofitable streak. On the call, the CEO said that the company based its decision on executing the business plan, which we assume requires cash for internal investments and quite possibly also M&A eventually.

The Gatsonides family kept the vast majority of their new shares from the converted vendor loan but immediately dumped 8 % of them at a high arbitrage return. Gatsonides still has shareholdings of 19 % of the total shares outstanding and only sold a minor position in relation to the total amount of its holdings (0.7%).

All in all, we believe there is a risk that the actions related to the conversion could make professional minority shareholders, such as institutions, a bit less prone to invest in the company, which raises the risk. We do not have the whole picture but with great humility we argue that repaying the whole debt instead of converting it to equity would, from our perspective, perhaps have been better for all shareholders.

Financial estimates

We had not expected such a rapid delivery of the second Saudi batch, meaning we need to raise our 2018 estimates. Other than that, we only make minor changes (see the table below)

Changes in Redeye's estimates

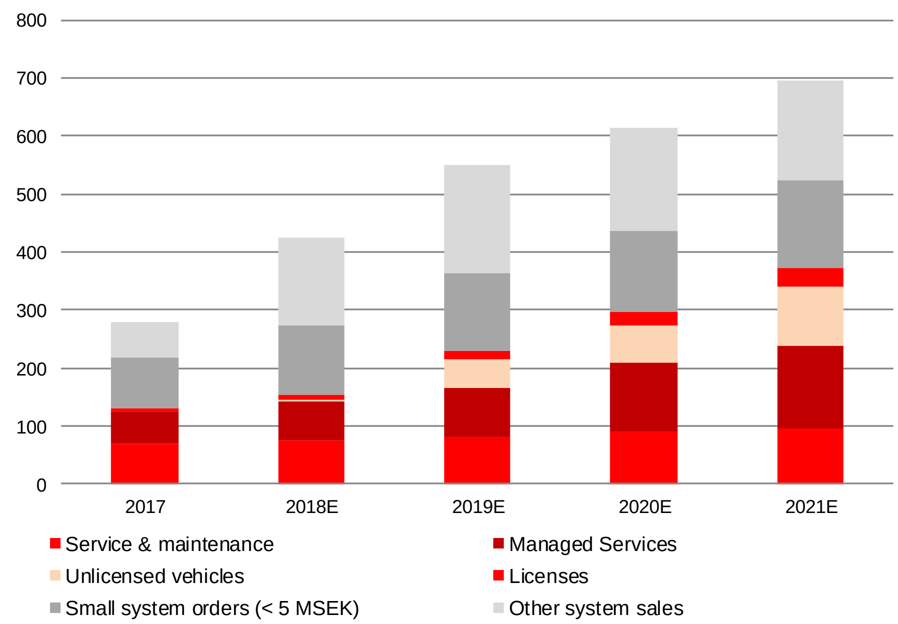
SEKm		2018E	2019E	2020E	2021E
Sales	Old	386	539	615	715
	New	*423*	*550*	*614*	*695*
	change (%)	10%	2%	0%	-3%
EBITDA	Old	29	102	140	181
	New	51	106	137	172
	change (%)	77%	3%	-3%	-5%
EBIT	Old	-8	68	105	149
	New	14	67	100	141
	change (%)	-284%	-1%	-4%	-6%
EPS	Old	-0.01	0.08	0.10	0.14
	New	0.01	0.07	0.09	0.12
	change (%)	-169%	-6%	-6%	-7%

Source: Redeye Research, Sensys Gatso

During the year Sensys Gatso has recruited 14 new full-time employees, primarily related to new contracts in Managed Services. However, it should be noted that these employee costs are part of the COGS, i.e. will not affect the overhead costs.

Even though the number of unlicensed drivers in Oklahoma seems to be a bit smaller than we first thought our view is that the opportunity for uninsured vehicles could be large. However, as mentioned, Sensys Gatso believes it is a bit too early to judge the potential and prefers to wait one year and see how Oklahoma turns out. We concur and have therefore not raised our estimates for unlicensed vehicles, as can be seen in the graph below:

Sales assumptions (SEKm)



Source: Redeye Research & Sensys Gatso

With most of the Saudi order expected in the Q4 books as well as many other smaller orders within System Sales we see a strong finish of 2018 and triple digit sales growth (see the table below).

Sensys Gatso: Quarterly estimates (SEKm)

(SEKm)	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018
Sales	437	71	68	71	83	293	72	89	96	167	423
Growth (%)	*10%*	*-57%*	*-32%*	*4%*	*-20%*	*-33%*	*1%*	*30%*	*35%*	*101%*	*44%*
Gross margin (%)	34%	35%	47%	32%	44%	40%	35%	44%	49%	38%	41%
System sales	370	58	49	59	72	238	62	69	77	142	351
Growth (%)	*n/a*	-61%	-42%	13%	-15%	-36%	7%	41%	31%	98%	48%
Managed Services	66	13	19	12	11	55	11	23	23	25	81
Growth (%)	*n/a*	-21%	30%	-26%	-40%	-16%	-17%	18%	95%	117%	47%
EBITDA	25	-8	-5	-9	5	-16	-6	9	18	30	51
EBITA	**-6**	**-12**	**-9**	**-13**	**1**	**-32**	**-10**	**5**	**15**	**26**	**36**
EBITA (%)	***-1%***	***-17%***	***-13%***	***-18%***	***1%***	***-11%***	***-13%***	***6%***	***15%***	***16%***	***9%***
EBIT	-23	-17	-15	-18	-5	-55	-15	-1	9	21	14
EBIT (%)	*-5%*	*-24%*	*-21%*	*-26%*	*-6%*	*-19%*	*-21%*	*-1%*	*9%*	*12%*	*3%*
EPS	-0.04	-0.02	-0.02	-0.02	-0.01	-0.07	-0.02	0.00	0.00	0.02	0.01

Source: Redeye Research, Sensys Gatso

Investment Case

- Growing recurring revenue from Managed Services
- Large potential in growing with existing customers within e.g. uninsured vehicles
- Share price driven by big deals

Growing recurring revenue from Managed Services

The US Managed Services business with its high margins, 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. 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. 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 during the first two years of the Trump administration.

Large potential in growing with existing customers within e.g. uninsured vehicles

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. Sensys Gatso takes full responsibility for administration of tickets and therefore the initial terms reward Sensys Gatso by as much as USD 80 for every citation. When we do the math and glance at statements from Gatso USA we note that the numbers could get huge, which is due to the fact that about 11-25 % of all vehicles in Oklahoma lack insurance. 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 leverages its expertise and competitive advantages in securing a so called unbroken chain of evidence but there are other possibilities as well. One example is the Netherlands where the company's technology is used to monitor heavy trucks and polluting vehicles i.e. creating environmental zones. 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 will remain volatile and larger System Sales orders should continue to be important catalysts, although the most significant event would be a new contract similar to Oklahoma.

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 130m in 2024, i.e. twice today's levels but only about 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 initial sales of about SEK 60m, based on about 100 000 citations. 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 15 percent during 2018-2024, meaning recurring revenue of about 60 percent - not too far from our base case. The gross margin in our bear case averages 46 percent in 2018-2024 despite the pressure on the gross margin on the systems side, thanks to the company’s focus on recurring revenue. The fixed costs average 33 percent of sales in 2018-2024, 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 13 percent in 2018-2024 while the EBIT margin would rise to 13 percent on average, close to a long-term sustainable EBIT margin of 12 percent.

Base Case 1.7 SEK

Our base case makes the following assumptions: System revenue grows by CAGR 25 percent in 2018-2024, largely driven by increased geographical expansion of the unique in-vechicle solution, which today only is sold in France, two countries in the Middle East and Australia. Our base case expects an average of 150,000 fines collected within uninsured vehicles, which with an average cut of USD 74 (USD 80 for the first two years) for Sensys per fine means annual revenue in excess of about SEK 100 million. CAGR for Managed Services revenue (incl. uninsured vehicles) and recurring revenue (i.e. software and service as well as operator revenue) amounts to 25 percent and 23 percent respectively in the period 2018-2024, which represents a share of on average about two thirds recurring revenue. The average gross margin for the group is 47 percent in 2018-2024 due to gradual growth in Managed Services and software revenues. The fixed costs average 31 percent of sales in 2018-2024. With our assumptions above, average annual revenue growth totals 21 percent in the period 2018-2024. During the same period, the EBIT margin is approximately 16 percent on average (due to losses in 2018) but rises to an average of 20 percent in 2019-2024 and subsequently to 20 percent in the long term.

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 48 percent CAGR growth during 2018-2024 (including uninsured vehicles). As for Oklahoma and uninsured vehicls 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 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 500m in 2024. We expect that Sensys Gatso in bull case reaches recurring revenues of over 70 percent during 2023 and on average 68 percent during 2018-2024. 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, meaning only 3 percentage points lower OPEX than our base scenario. Sales will in our optimistic scenario grow by an average of 24 percent annually in 2018-2024, before gradually starting to decrease towards the level of market growth. The EBIT margin averages 22 percent in 2018-2024 driven by an increased proportion of software and operator revenues, which we believe is in line with the 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

New orders similar to Oklahoma

The uninsured vehicles enforcement program in Oklahoma is a new business area for Sensys, which looks very promising as Sensys receives as much as 80 USD per citation in Oklahoma. About 11-25 percent of the cars in Oklahoma are uninsured and in other states these figures seems even higher, meaning great potential for Sensys.

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

Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report

No changes for now but if the Company continues to not repay the Gatso vendor loan and dilute the minority shareholders despite making lots of money we will lower the Management and/or ownership score.

Management: 5.0

The Gatso acquisition in summer 2015 seemed to be a well-timed, 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 experience from entirely other 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.

Ownership: 3.0

In conjunction with the acquisition, Sensys Gatso gained an industrial principal shareholder. The former Gatso management holds 19 percent 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 excluding the COB's holdings no one owns more than 100 000 shares on average.

Profit Outlook: 8.0

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.

Profitability: 2.0

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 been negative during 2016-2018. However, it should be noted that market conditions and the order intake have improved significantly during 2018. 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.

Financial Strength: 8.0

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	2016	2017	2018E	2019E	2020E
Net sales	437	293	423	550	614
Total operating costs	-411	-309	-375	-445	-477
EBITDA	25	-16	51	106	137
Depreciation	-13	-14	-11	-12	-17
Amortization	-35	-25	-26	-26	-20
Impairment charges	0	0	0	0	0
EBIT	-23	-55	14	67	100
Share in profits	0	0	0	0	0
Net financial items	-7	-4	-4	-3	-1
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-30	-59	10	64	99
Tax	6	3	-3	-3	-20
Net earnings	-24	-55	7	61	79

BALANCE SHEET	2016	2017	2018E	2019E	2020E
Assets					
Current assets					
Cash in banks	22	59	41	62	145
Receivables	63	71	66	94	104
Inventories	47	63	72	94	101
Other current assets	28	28	31	38	41
Current assets	160	221	211	287	392
Fixed assets					
Tangible assets	43	35	38	55	61
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	239	239	251	251	251
Cap. exp. for dev.	113	88	65	50	39
O intangible rights	2	3	9	7	7
O non-current assets	0	0	0	0	0
Total fixed assets	398	365	363	363	359
Deferred tax assets	52	38	35	35	35
Total (assets)	609	624	609	685	786
Liabilities					
Current liabilities					
Short-term debt	19	26	26	10	10
Accounts payable	21	31	34	56	61
O current liabilities	67	64	48	78	94
Current liabilities	107	121	108	145	165
Long-term debt	80	56	48	19	9
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	187	177	156	163	175
Deferred tax liab	32	23	19	24	29
Provisions	4	4	7	9	11
Shareholders' equity	387	420	427	488	571
Minority interest (BS)	0	0	0	0	0
Minority & equity	387	420	427	488	571
Total liab & SE	609	624	609	685	786

FREE CASH FLOW	2016	2017	2018E	2019E	2020E
Net sales	437	293	423	550	614
Total operating costs	-411	-309	-375	-445	-477
Depreciations total	-49	-39	-37	-38	-36
EBIT	-23	-55	14	67	100
Taxes on EBIT	4	3	-4	-3	-20
NOPLAT	-19	-52	10	64	80
Depreciation	49	39	37	38	36
Gross cash flow	30	-13	47	102	117
Change in WC	73	-17	-21	-3	-2
Gross CAPEX	-10	-6	-35	-38	-32
Free cash flow	92	-36	-9	61	83

CAPITAL STRUCTURE	2016	2017	2018E	2019E	2020E
Equity ratio	63%	67%	70%	71%	73%
Debt/equity ratio	26%	20%	17%	6%	3%
Net debt	77	23	33	-33	-125
Capital employed	463	444	460	455	445
Capital turnover rate	0.7	0.5	0.7	0.8	0.8

GROWTH	2016	2017	2018E	2019E	2020E
Sales growth	10%	-33%	45%	29%	12%
EPS growth (adj)	-153%	76%	-113%	753%	29%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	11.3 %	NPV FCF (2018-2020)	126
		NPV FCF (2021-2027)	588
		NPV FCF (2028-)	755
		Non-operating assets	59
		Interest-bearing debt	-82
		Fair value estimate MSEK	1446
Assumptions 2017-2023 (%)			
Average sales growth	13.7 %	Fair value e. per share, SEK	1.7
EBIT margin	17.3 %	Share price, SEK	1.9

PROFITABILITY	2016	2017	2018E	2019E	2020E
ROE	-6%	-14%	2%	13%	15%
ROCE	-4%	-11%	3%	13%	18%
ROIC	-4%	-11%	2%	14%	18%
EBITDA margin	6%	-5%	12%	19%	22%
EBIT margin	-5%	-19%	3%	12%	16%
Net margin	-6%	-19%	2%	11%	13%

DATA PER SHARE	2016	2017	2018E	2019E	2020E
EPS	-0.04	-0.07	0.01	0.07	0.09
EPS adj	-0.04	-0.07	0.01	0.07	0.09
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	0.12	0.03	0.04	-0.04	-0.14
Total shares	657.16	844.91	860.02	860.02	866.02

VALUATION	2016	2017	2018E	2019E	2020E
EV	1,003.4	1,316.1	1,692.6	1,626.4	1,534.5
P/E	-38.0	-23.5	232.1	27.2	21.1
P/E diluted	-38.0	-23.5	232.1	27.2	21.1
P/Sales	2.1	4.4	3.9	3.0	2.7
EV/Sales	2.3	4.5	4.0	3.0	2.5
EV/EBITDA	39.6	-83.0	33.0	15.4	11.2
EV/EBIT	-43.2	-24.0	121.0	24.2	15.3
P/BV	2.4	3.1	3.9	3.4	2.9

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	27.0 %	Net sales	-1.2 %
3 month	18.4 %	Operating profit adj	n/a
12 month	121.8 %	EPS, just	n/a
Since start of the year	26.1 %	Equity	5.1 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Gatso Special Products B.V.	17.6 %	17.6 %
Avanza Pension	4.5 %	4.5 %
Per Wall	2.7 %	2.7 %
Inger Bergstrand	2.6 %	2.6 %
Nordnet Pensionsförsäkring	2.0 %	2.0 %
AXA	1.4 %	1.4 %
Swedbank Försäkring	1.1 %	1.1 %
Per Hamberg	0.9 %	0.9 %
Livförsäkringsbolaget Skandia	0.8 %	0.8 %
Dimensional Fund Advisors	0.8 %	0.8 %

SHARE INFORMATION	
Reuters code	SENS.ST
List	Small Cap
Share price	1.9
Total shares, million	860.0
Market Cap, MSEK	1659.8

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

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Redeye Rating and Background Definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

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Redeye Rating (2018-11-28)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	44	47	19	10	21
3,5p - 7,0p	90	81	117	38	51
0,0p - 3,0p	13	19	11	99	75
Company N	147	147	147	147	147

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Viktor Westman owns shares in the company : No

Eddie Palmgren owns shares in the company : No

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