

Sensys Gatso Group

Sector: Information Technology

Many strings to its bow

Full focus on sales execution pays off – a more stable business is being built

Q4 was the fourth quarter in a row with a strong, sequential sales growth. Sensys Gatso attributes the success to a focus on key markets and sales execution, which seems to have worked well. The recurring revenue of the order intake was SEK 76m equal to 24 % - about the same level as last year. Sensys Gatso's goal is to increase this number and build a more stable business by broadening its offering to new solutions and let customers gradually add more functions. Thus, the new FLUX architecture is built as a future proof platform where the customer can gradually and quickly add more solutions beyond speed and red light such as: distracted driving, parking, illegal movement (illegal turns, driving in bus lanes), illegal entry (environmental zones, weight control) and safety zones (schools and road works). In 2019, Sensys Gatso will start phasing in FLUX and phasing out the T-Series but it is important to note that this is a controlled, slow process. Customers have built their solutions adapted to the T-Series and there is a large installed base that needs service and provides repeat orders. Another priority, we believe, is to take part in the consolidation. A local UK competitor, Redspeed, was recently acquired by a conglomerate. Sensys Gatso saw the opportunity but passed: We assume it was not attractive enough.

SEK 480m in order intake during 2018 – Q1 is seasonally weak

Sensys Gatso during 2018 won orders worth of SEK 480m and another SEK 240m in procurement awards, which in our view provides a strong base for 2019. The first quarter is soon over and has so far not brought any larger deals, but one should note that Q1 is usually a weak quarter and that there are large fluctuations in the system sales order intake, meaning we are not worried at this point.

The strategy seems to work - we raise our base case

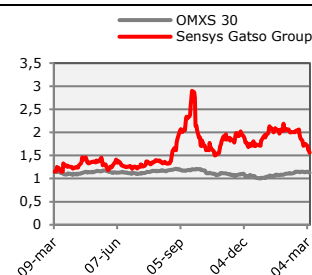
We have lowered our short-term expectations for Oklahoma. However, the company has many strings to its bow. The strong order intake during H1'19 was e.g. much more diversified in terms of different solutions and geographies than we expected. It provides evidence that the strategy not only looks good on paper but also works IRL. We keep our fair value range but we raise our long-term estimates and our base case to SEK 1.8 per share (previously 1.7).

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	293	383	476	586	700	752
EBITDA	-16	38	65	142	179	185
EBIT	-55	1	28	93	145	155
EPS (adj.)	-0.1	0.0	0.0	0.1	0.1	0.1
EV/Sales	4.5	4.4	2.7	2.1	1.6	1.3
EV/EBITDA	-83.0	45.1	19.8	8.5	6.2	5.4
EV/EBIT	-24.0	2875.6	46.9	13.0	7.7	6.5
P/E	-23.5	-373.1	71.6	18.4	12.0	11.2

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)	1.5
Market Cap (MSEK)	1324
Net Debt 19E (MSEK)	-31
Free Float	82 %
Avg. daily volume ('000)	7

ANALYSTS

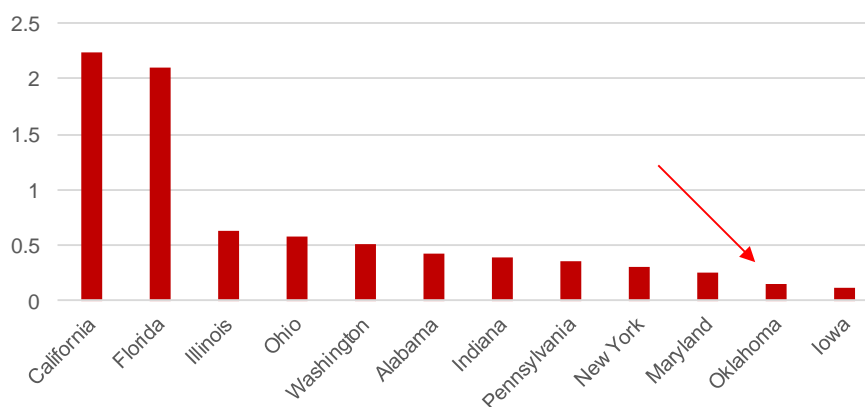
Viktor Westman
viktor.westman@redeye.se
Eddie Palmgren
eddie.palmgren@redeye.se

Many strings to its bow

Oklahoma is now implemented – still too early to talk about other states

The implementation in Oklahoma is now finally finished after 1.5 years. As Oklahoma was the first program of its kind there were a couple of challenges and considerations along the way, including e.g. legal implications. We find this positive as these learnings could give the company a first mover head-start compared to eventual competition. Given the uncertainty around Oklahoma in this early stage, Sensys Gatso wants to wait and see before talking more about the market potential for uninsured vehicles. Clearly the theoretical market is big, as we described in our previous update where we calculated an 8m vehicle volume TAM based on the company’s existing markets that have 15 % of the total unlicensed vehicles, as indicated in the graph below.

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



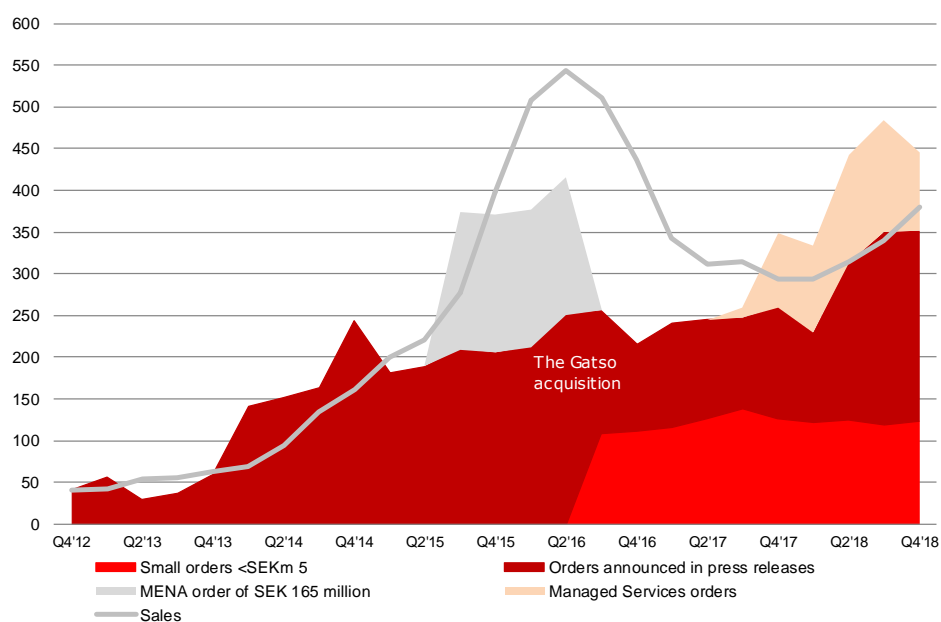
Source: Redeye Research, Sensys Gatso, Statista & IRC

As can be seen above, the number of unlicensed cars in Oklahoma seem to be substantially smaller than we first thought and more in line with Sensys Gatso’s guidance of SEK 17m. In addition, the Oklahoma project is combined with a big campaign to remember people to buy insurance, but even so it is common in the US to only insure the car by the month and not for a full year. Thus, even if drivers get insurance right now, they could soon be without insurance by e.g. forgetting to renew the insurance, meaning the sales for Sensys Gatso might be a little more durable over time compared to our first expectations of a big jump during the first months followed by a ramp-down.

Total order intake of SEK 480m and another SEK 240m in procurement awards

The Q4 order intake of SEK 144m consists of SEK 26m smaller, non-announced orders, which is in line with previous quarters, meaning slightly above SEK 100m on trailing 12 months (see the graph below). SEK 37m of the order intake was related to Managed Services. The total order intake for 2018 sums up to SEK 480m and one third (34 %) is of recurring nature. In addition, there are won procurement awards of about SEK 240m that is not included in the order intake. All in all, Sensys Gatso has a very stable basis for 2019.

Sales & order intake* R12M (SEKm)



* = Incl. Redeye's assumptions.

From Q3'16 we break out the small orders (below SEKm 5) from the total order intake & the same thing for Managed Services from Q3'17

Source: Redeye Research & Sensys Gatso

Q1 is soon over and has not brought any larger deals thus far, but one should note that Q1 is usually a weak quarter and that there are large fluctuations in the system sales order intake, meaning we are not worried at this point.

Here are a few quick comments related to the Q4 orders from the different regions in System Sales:

1. In France, reportedly 60 % of the cameras in the country have been vandalized due to the yellow jackets movement. Damages are of various degrees, everything from cameras being covered to being burned. One should note that most of Sensys Gatso's cameras in France are in-vehicle systems that are not affected by the vandalization. Sensys Gatso says it is too early to tell whether this will provide opportunities for the company. We assume that the fixed cameras ruined by protesters could lead to an even better case for in-vehicle systems.
2. Sensys Gatso does not know for sure if the Croatian deal of SEK 9m could grow larger (as indicated by some articles) but it assumes that the customer could order more systems if Sensys Gatso does a good job, which is something the company usually does as the customer retention is very high.
3. We also note the Puls deal for 170 locations in Amsterdam which is small but likely has very high margins as it seems to be a pure software deal. The average value per year is only SEK 1.2m but we assume more locations or use cases could be added. In addition, a prohibition on using mobile phones in cars is on the way in Netherlands. If the country wants to enforce this prohibition it could be an interesting opportunity for Sensys Gatso's distracted driving solution.
4. As for the Saudi contract of SEK 100m with a first order of SEK 66m, Sensys Gatso earlier said that this order (the SEK 66m one) to a large extent would be delivered in Q4. However, there has been delays in deliveries, but this is not related to Sensys Gatso. The company still expects the full contract to be delivered.

5. The SEK 50m order from the Swedish Transport Administration does not contain any cameras for the municipal roads. Sensys can implement such solutions but it is not up to the company to decide. Thus, the municipal potential is still there but we assume the Swedish Transport Administration and the municipalities need to come to an agreement first.

In Managed Services, Sensys Gatso and the customer in Marlboro, Maryland, together decided to terminate the contract due to rejected preliminary proposals and that the locations proposed were not financially viable (not enough traffic). However, no sales will be lost as the contract had not started yet (we thought it had). It is also more than compensated by the big contract of SEK 32m in Rhode Island. Thus, the mix with small and large contracts continue. The big differences in the contract values can depend on many things, the number of lanes or cameras and if the deal is related to speed and/or red light. Some programs might e.g. start out small but then grow as the state allows additional enforcement.

Competition: Consolidation in UK

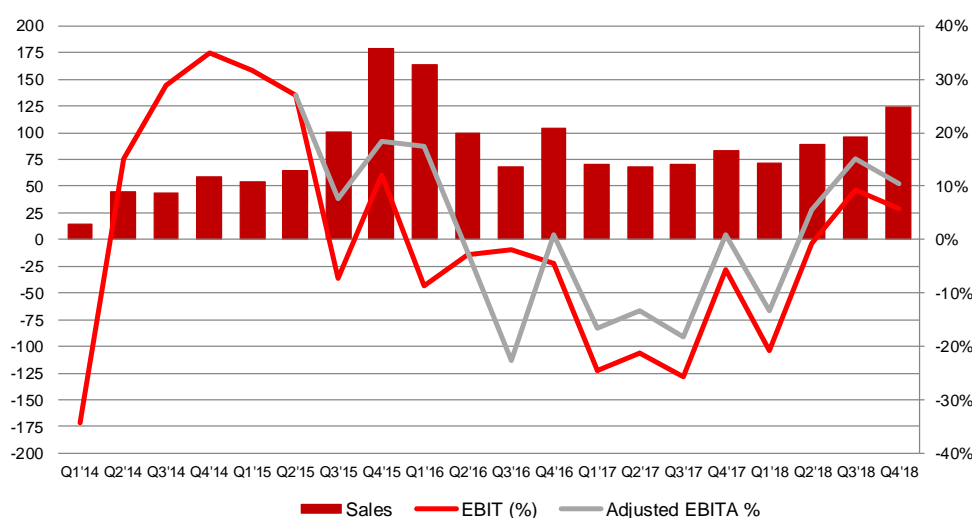
Redspeed, a smaller, local UK player was recently acquired by Sdiptech. Sdiptech is a Swedish infrastructure conglomerate that is mostly involved in construction companies. It has never been active in the traffic enforcement space. Jenoptik is also part of a very diversified conglomerate, albeit it is significantly larger. Sdiptech has a large net debt so we do not find it likely that it can or will back up Redspeed with any significant financing rounds for expensive international expansion. Our research thus far rather indicates that Sdiptech will let Redspeed continue with business as usual, especially since Redspeed is margin accretive to Sdiptech. We will continue to keep an eye on Redspeed but at the very moment the Redspeed competition is solely related to UK. As mentioned above, Sensys Gatso was aware of Redspeed and decided not to participate. According to our sources in the industry, Redspeed has had problems and was for sale over a long period of time before the acquisition.

Redflex recently reported a 58 % growth in confirmed project sales orders for EMEA and APAC – its so-called International segment. Redflex also says it has won a number of contracts in Australia, Europe and the Middle East, i.e. it continues to do very well outside of US. The pipeline in International is said to be robust and coming investments in sales and business development indicates an even more aggressive approach. In the US, Redflex is also doing pretty ok with a 90 % retention, which could be compared to Sensys Gatso's retention that is close to 100 %. Maryland is the only known termination and as mentioned above, it was mutual.

Last, we have had a closer look at in-vehicle systems, which is Sensys Gatso's strongest position. There is a competing product for in-vehicles from Turkish Ekin. Ekin launched the second generation of this system last year but we cannot detect any significant international traction so far.

Q4: Saudi below expectations – everything else in line

Following four quarters of consistent, sequential growth (see the graph below), 2018 was crowned by a strong sales growth of 49 %, although margins were slightly lower than Q3'18 due to the sales mix (lower Managed Services revenue due to winter seasonality).

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

We missed the sales outcome by 25 % (see the table below) due to higher expectations on Saudi that we thought would be delivered to a large extent during Q4, but it only appears that about SEK 28m was delivered. We want to highlight that none of the Saudi revenue has been lost but only deferred to 2019. Besides that, costs and margins were in line with our estimates.

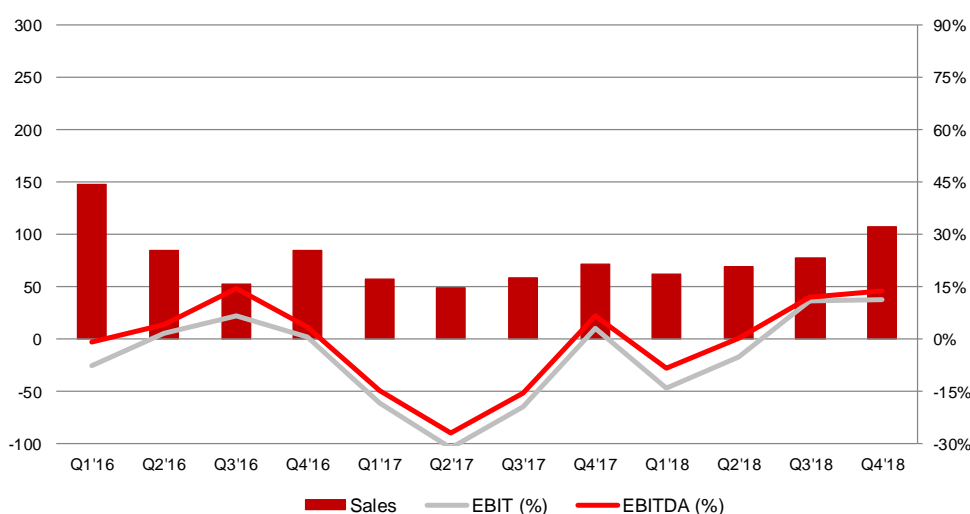
Outcome vs. estimates

SEKm	Q4'17	Q4'18E	Q4'18A	Dif.
Sales	83	167	124	-25%
EBITDA	5	30	17	-45%
EBITA	1	27	13	-51%
EBIT	-5	21	7	-65%
EPS (SEK)	-0.01	0.02	0.01	
Sales growth(YoY)	-20%	101%	49%	
Gross margin	44%	38%	41%	
EBIT margin	-6%	12%	6%	
EPS growth (YoY)	n/a	n/a	n/a	

Source: Redeye Research, Sensys Gatso

Looking at the different business areas, System Sales continued to be the driving force of earnings and reported an EBIT margin of 11 %, as indicated in the graph below.

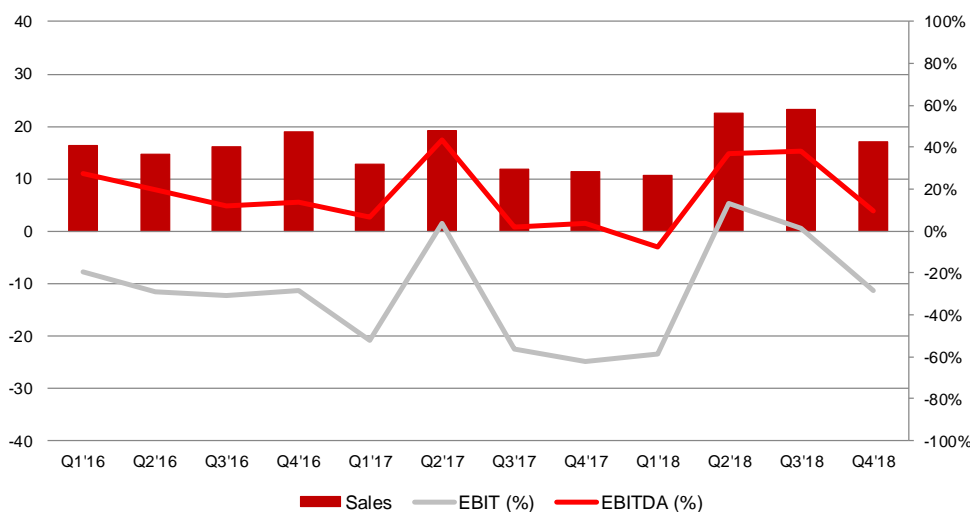
System Sales: Revenue (SEKm) & margins (%)



Source: Redeye Research, Sensys Gatso

Managed Services has a good scalability and the OPEX only increased by approximately SEK 1m from the new programs, meaning the EBITDA margin came in at 10 % despite weak sales of SEK 17m (see the graph below). There is seasonality in the revenues from less car driving during winter but Sensys Gatso also added that Q3 was extraordinary strong as it was boosted by intensified collection efforts. Since there were such good results from this method in Q3, we wonder why the company does not apply it to every quarter.

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



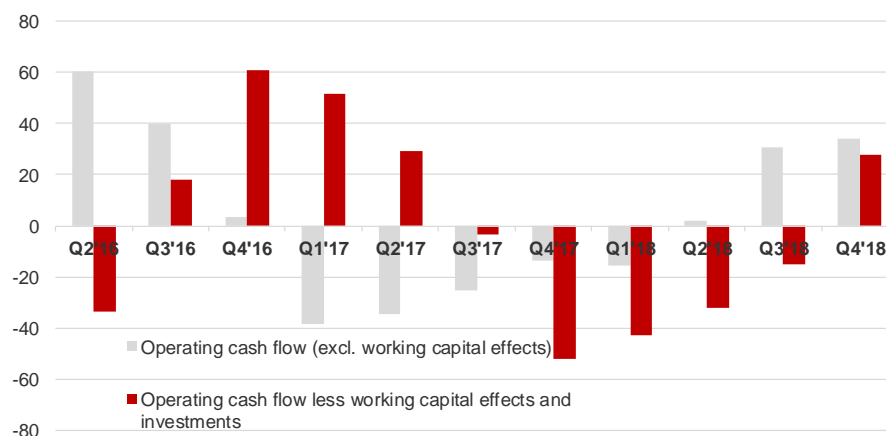
Source: Redeye Research, Sensys Gatso

Manages Services in US is the priority number 1. The migration to Managed Services in other parts of the world will continue to take time but Sensys Gatso is convinced it will happen eventually. The German contract in the beginning of Q4 is proof of that but we do not see an imminent spreading of the Managed Services model to other countries. Our take is that Managed Services contracts outside US might become a priority in the future when these markets are more ready for it.

The cash flow is getting better and better

The Q4 operating cash flow of SEK 39m (SEK 17m excl. working capital effects) impressed us. Q4 was the first quarter since Q2'17 that the rolling 12-month operating cash flow less investments was positive, as can be seen in the graph below that clearly shows the company's turnaround from the absolute bottom one year ago.

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



Source: Redeye Research, Sensys Gatso

Cash amounted to a stable SEK 77m at the end of the period but total available means equal SEK 153m, including the credit facilities. As usual, a significant part of the cash flows (SEK 8.5m) were reinvested in the business.

Financial estimates

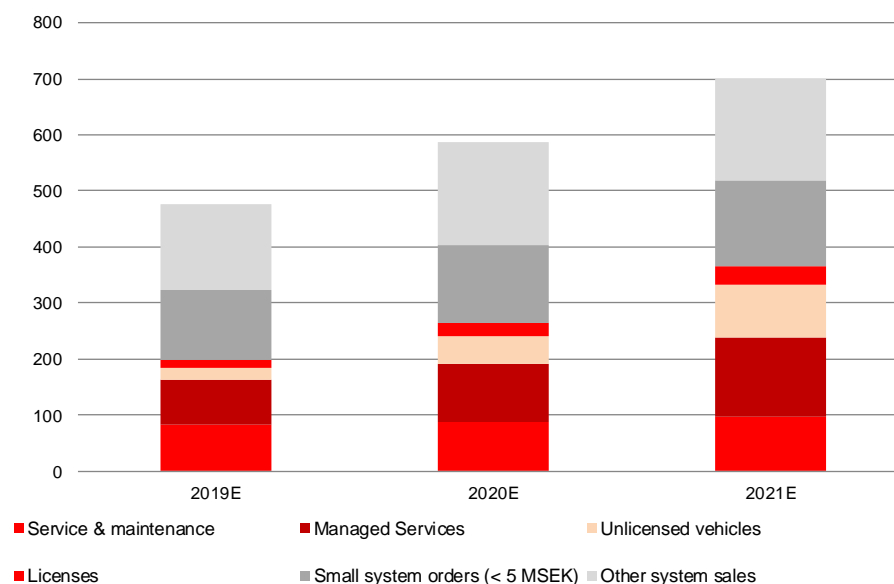
We lower our short-term Oklahoma estimates due to the IRC market data (see above on page 2) indicating substantially fewer uninsured cars (140 000 – 150 000 in total) compared to our initial estimates, meaning 14 % lower sales for 2019. As Managed Services has much higher margins this revision has a large effect on our 2019 earnings (see the table below) but for 2020-2021 our changes are minor.

Changes in Redeye's estimates		2018E	2019E	2020E	2021E
SEKm					
Sales	Old	423	550	614	695
	New	383	476	586	700
	change (%)	-9%	-14%	-5%	1%
EBITDA	Old	51	106	137	172
	New	38	65	142	179
	change (%)	-26%	-38%	4%	4%
EBIT	Old	14	67	100	141
	New	1	28	93	145
	change (%)	-96%	-59%	-7%	3%
EPS	Old	0.01	0.07	0.09	0.12
	New	-0.01	0.02	0.08	0.13
	change (%)	-153%	-69%	-7%	4%

Source: Redeye Research, Sensys Gatso

Our new estimates for unlicensed vehicles can be seen in the graph below. We include some revenue from new customers in this space from the end of 2020.

Sales assumptions (SEKm)



Source: Redeye Research & Sensys Gatso

The fire is a short-term concern that needs to be handled. In addition to close contact, the CEO has met two times with Prodrive, indicating that this is an important priority. We expect a loss of SEK -5m in Q1 due to the Prodrive fire but we believe H2'18 will compensate for that.

Sensys Gatso: Quarterly estimates (SEKm)											
(SEKm)	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019
Sales	293	72	89	96	124	380	84	100	139	152	476
Growth (%)	-33%	1%	30%	35%	49%	30%	17%	13%	46%	22%	25%
Gross margin (%)	40%	35%	44%	49%	41%	42%	43%	42%	40%	39%	41%
System sales	238	62	69	77	108	317	60	74	112	127	373
Growth (%)	-36%	7%	41%	31%	50%	33%	-13%	-4%	4%	-60%	18%
Managed Services	55	11	23	23	17	74	23	26	28	25	102
Growth (%)	-16%	-17%	18%	95%	49%	33%	3%	11%	63%	-66%	39%
EBITDA	-16	-6	9	18	17	38	4	11	27	24	65
EBITA	-32	-10	5	15	13	23	0	7	23	20	50
EBITA (%)	-11%	-13%	6%	15%	10%	6%	0%	7%	17%	13%	11%
EBIT	-55	-15	-1	9	7	1	-5	1	17	14	28
EBIT (%)	-19%	-21%	-1%	9%	6%	0%	-6%	1%	12%	9%	6%
EPS	-0.07	-0.02	0.00	0.00	0.01	-0.01	0.00	0.00	0.01	0.02	0.02

Source: Redeye Research, Sensys Gatso

In 2019, Sensys Gatso expects to see the full impact from the new Managed Services programs of 2018. The time it takes to get up and running with a new contract varies a lot depending if there are infrastructure like e.g. electricity etc. in place. Takeover contracts from competitors are usually much faster from that aspect.

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 1.8 SEK

Our base case makes the following assumptions: System revenue grows by CAGR 5 percent in 2018-2024, largely driven by increased geographical expansion of the unique in-vehicle solution, which today only is sold in France, two countries in the Middle East and Australia. Our base case expects an average of 70,000 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 50 million. CAGR for Managed Services revenue (incl. uninsured vehicles) and recurring revenue (i.e. software and service as well as operator revenue) amounts to 31 percent and 20 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 14 percent in the period 2018-2024 and then 8 % until 2027. 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, 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 48 percent CAGR growth during 2018-2024 (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 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 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.

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	2017	2018	2019E	2020E	2021E
Net sales	293	383	476	586	700
Total operating costs	-309	-346	-410	-444	-521
EBITDA	-16	38	65	142	179
Depreciation	-14	-11	-11	-14	-15
Amortization	-25	-26	-26	-35	-19
Impairment charges	0	0	0	0	0
EBIT	-55	1	28	93	145
Share in profits	0	0	0	0	0
Net financial items	-4	-4	-4	-3	-1
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-59	-3	24	91	144
Tax	3	-1	-5	-18	-33
Net earnings	-55	-5	19	73	111

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
<i>Current assets</i>					
Cash in banks	59	77	80	153	208
Receivables	71	57	76	97	119
Inventories	63	72	90	106	123
Other current assets	28	22	27	29	32
Current assets	221	228	273	385	481
<i>Fixed assets</i>					
Tangible assets	35	42	50	59	70
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	239	251	251	251	251
Cap. exp. for dev.	88	63	41	28	21
0 intangible rights	3	10	18	11	15
0 non-current assets	0	0	0	0	0
Total fixed assets	365	367	360	350	358
Deferred tax assets	38	37	37	37	37
Total (assets)	624	632	671	772	877
Liabilities					
<i>Current liabilities</i>					
Short-term debt	26	10	10	10	0
Accounts payable	31	28	40	53	67
0 current liabilities	64	67	78	94	108
Current liabilities	121	106	129	157	174
Long-term debt	56	49	39	30	0
0 long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	177	154	168	187	174
Deferred tax liab	23	17	22	26	30
Provisions	4	7	9	11	13
Shareholders' equity	420	454	472	548	660
Minority interest (BS)	0	0	0	0	0
Minority & equity	420	454	472	548	660
Total liab & SE	624	632	671	772	877

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	293	383	476	586	700
Total operating costs	-309	-346	-410	-444	-521
Depreciations total	-39	-37	-38	-49	-33
EBIT	-55	1	28	93	145
Taxes on EBIT	3	0	-6	-19	-33
NOPLAT	-52	0	21	75	112
Depreciation	39	37	38	49	33
Gross cash flow	-13	37	59	124	145
Change in WC	-17	11	-19	-11	-14
Gross CAPEX	-6	-39	-31	-38	-41
Free cash flow	-36	10	9	75	90

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	67%	72%	70%	71%	75%
Debt/equity ratio	20%	13%	11%	7%	0%
Net debt	23	-18	-31	-113	-208
Capital employed	444	436	441	435	451
Capital turnover rate	0.5	0.6	0.7	0.8	0.8

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	-33%	31%	24%	23%	19%
EPS growth (adj)	76%	-92%	-503%	290%	53%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	11.3 %	NPV FCF (2018-2020)	152
		NPV FCF (2021-2027)	623
		NPV FCF (2028-)	753
		Non-operating assets	77
		Interest-bearing debt	-59
		Fair value estimate MSEK	1546
Assumptions 2017-2023 (%)			
Average sales growth	13.3 %	Fair value e. per share, SEK	1.8
EBIT margin	19.6 %	Share price, SEK	1.5

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-14%	-1%	4%	14%	18%
ROCE	-11%	0%	5%	17%	23%
ROIC	-11%	0%	5%	17%	26%
EBITDA margin	-5%	10%	14%	24%	26%
EBIT margin	-19%	0%	6%	16%	21%
Net margin	-19%	-1%	4%	12%	16%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.07	-0.01	0.02	0.08	0.13
EPS adj	-0.07	-0.01	0.02	0.08	0.13
Dividend	0.00	0.00	0.00	0.00	0.03
Net debt	0.03	-0.02	-0.04	-0.13	-0.24
Total shares	844.91	860.02	860.02	866.02	866.02

VALUATION	2017	2018	2019E	2020E	2021E
EV	1,316.1	1,693.7	1,293.6	1,211.5	1,116.0
P/E	-23.5	-373.1	71.6	18.4	12.0
P/E diluted	-23.5	-373.1	71.6	18.4	12.0
P/Sales	4.4	4.5	2.8	2.3	1.9
EV/Sales	4.5	4.4	2.7	2.1	1.6
EV/EBITDA	-83.0	45.1	19.8	8.5	6.2
EV/EBIT	-24.0	2,875.6	46.9	13.0	7.7
P/BV	3.1	3.8	2.8	2.4	2.0

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	-23.0 %	Net sales	27.4 %
3 month	-13.5 %	Operating profit adj	n/a
12 month	33.9 %	EPS, just	n/a
Since start of the year	-15.4 %	Equity	6.0 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
(Gc) BNP Paribas Sec Services Paris	19.1 %	19.1 %
Gatso Special Products B.V. (same as the one above)	19.0 %	19.0 %
Avanza Pension	4.3 %	4.3 %
Per Wall	2.7 %	2.7 %
Inger Bergstrand	2.4 %	2.4 %
Nordnet Pensionsförsäkring	1.7 %	1.7 %
AXA	1.4 %	1.4 %
Boston State Street Bank & Trust Com.	1.1 %	1.1 %
Swedbank Försäkring	1.0 %	1.0 %
Per Hamberg	0.9 %	0.9 %

SHARE INFORMATION	
Reuters code	SENS.ST
List	Small Cap
Share price	1.5
Total shares, million	860.0
Market Cap, MSEK	1324.4

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

ANALYSTS		Redeye AB
Viktor Westman		Mäster Samuelsgatan 42, 10tr
viktor.westman@redeye.se		111 57 Stockholm

Eddie Palmgren
eddie.palmgren@redeye.se

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 – Cyclicity, and 8 – Forthcoming binary events.

Redeye Equity Research team

Management

Björn Fahlén

bjorn.fahlen@redeye.se

Håkan Östling

hakan.ostling@redeye.se

Technology Team

Jonas Amnesten

jonas.amnesten@redeye.se

Henrik Alveskog

henrik.alveskog@redeye.se

Dennis Berggren

dennis.berggren@redeye.se

Havan Hanna

havan.hanna@redeye.se

Kristoffer Lindström

kristoffer.lindstrom@redeye.se

Fredrik Nilsson

fredrik.nilsson@redeye.se

Tomas Otterbeck

tomas.otterbeck@redeye.se

Eddie Palmgren

eddie.palmgren@redeye.se

Viktor Westman

viktor.westman@redeye.se

Editorial

Jim Andersson

jim.andersson@redeye.se

Eddie Palmgren

eddie.palmgren@redeye.se

Ludvig Svensson

ludvig.svensson@redeye.se

Life Science Team

Anders Hedlund

anders.hedlund@redeye.se

Arvid Necander

arvid.necander@redeye.se

Klas Palin

klas.palin@redeye.se

Mathias Spinnars

mathias.spinnars@redeye.se

Erik Nordström (Trainee)

erik.nordstrom@redeye.se

Jakob Svensson (Trainee)

jakob.svensson@redeye.se

Disclaimer

Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

Limitation of liability

This document was prepared for information purposes for general distribution and is not intended to be advisory. The information contained in this analysis is based on sources deemed reliable by Redeye. However, Redeye cannot guarantee the accuracy of the information. The forward-looking information in the analysis is based on subjective assessments about the future, which constitutes a factor of uncertainty. Redeye cannot guarantee that forecasts and forward-looking statements will materialize. Investors shall conduct all investment decisions independently. This analysis is intended to be one of a number of tools that can be used in making an investment decision. All investors are therefore encouraged to supplement this information with additional relevant data and to consult a financial advisor prior to an investment decision. Accordingly, Redeye accepts no liability for any loss or damage resulting from the use of this analysis.

Potential conflict of interest

Redeye's research department is regulated by operational and administrative rules established to avoid conflicts of interest and to ensure the objectivity and independence of its analysts. The following applies:

- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, effective from 30 days before its covered company comes with financial reports, such as quarterly reports, year-end reports, or the like, to the date Redeye publishes its analysis plus two trading days after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management, and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

Redeye's research coverage

Redeye's research analyses consist of case-based analyses, which imply that the frequency of the analytical reports may vary over time. Unless otherwise expressly stated in the report, the analysis is updated when considered necessary by the research department, for example in the event of significant changes in market conditions or events related to the issuer/the financial instrument.

Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2019-03-10)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	49	47	19	11	20
3,5p - 7,0p	90	87	120	42	55
0,0p - 3,0p	13	18	13	99	77
Company N	152	152	152	152	152

Duplication and distribution

This document may not be duplicated, reproduced or copied for purposes other than personal use. The document may not be distributed to physical or legal entities that are citizens of or domiciled in any country in which such distribution is prohibited according to applicable laws or other regulations.

Copyright Redeye AB.

CONFLICT OF INTERESTS

Viktor Westman owns shares in the company : No

Eddie Palmgren owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.