Sensys Gatso Group

Sector: Information Technology

Out of little acorns grow a massive TRaaS oak

TRaaS growing 21% y/y – representing 50% of Q2 sales

As our headline says, we view Sensys Gatso as a future TRaaS oak that will grow from little acorns (i.e. many, smaller streams of recurring revenue). The TRaaS sales in Q2'19 is growing steadily at 21% y/y (equal to sales of SEK 48m), which we feel is the main message from the report. For H1'19, the corresponding figures are 24% and SEK 84m. The TRaaS exposure of sales increased from 45% to 50% in Q2'19, compared to Q2'18. For H1'19, TRaaS accounts for 48% of total sales. As we will elaborate further below, there is not only solid TRaaS experience in the US where Sensys Gatso started over a decade ago and has loyal customers. Sales are well diversified across the regions and the product offering. The second takeaway from Q2 is that the profitability was hampered in the short run by three large programs that are ramping in brand new areas. When these investments are finished they can easily be cloned to other customers (see further below).

Diversified order intake of SEK 141m consisting of 75% TRaaS

The order intake amounted to SEK 141m, whereof 75% recurring TRaaS revenue to be distributed over ~5 years. Moreover, the order intake is widely spread over regions and solutions from the company's broad repertoire. We are especially impressed by the new Latin American beachhead in Colombia (two orders worth of SEK 19m in total) and the SEK 44m contract in Maryland, US, including the first parking solution that is also the first third party solution running on the company's unique, open Puls/Xilium architecture. Last but not least, the Oklahoma contract is finally starting to ramp as it gradually deploys new systems.

Shares are down as investors are more focused on costs than long-term growth potential

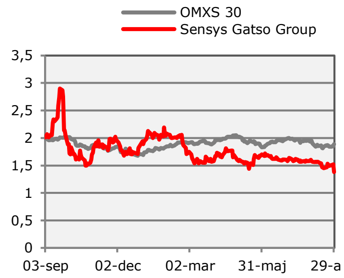
Shares are down -13% during the last week as investors did not like the increased costs of the Q2 report. We have also lowered our short-term earnings estimates by on average SEK 14m per year for 2019-2021E, but we leave our valuation intact. When companies transform their businesses to recurring revenue it is common that these changes are often initially neglected by investors since short-term growth is hampered. If Sensys Gatso could keep up its solid TRaaS order intake we believe that there will be a change of perception and consequently a stock price appreciation.

KEY FINANCIALS (SEK)	2017	2018	2019E	2020E	2021E	2022E
Net sales	293	383	491	589	700	764
EBITDA	-16	37	61	122	179	199
EBIT	-55	1	10	76	137	157
EPS (adj.)	-0.1	0.0	0.0	0.1	0.1	0.1
EV/Sales	4.5	4.0	2.4	1.9	1.5	1.2
EV/EBITDA	-83.0	41.3	19.8	9.3	5.8	4.7
EV/EBIT	-24.0	2627.4	117.7	14.9	7.6	6.0
P/E	-23.5	-341.2	207.3	20.6	11.5	9.9

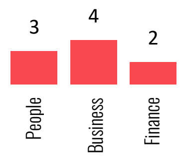
FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	**1.8**	3.4

SENS.ST



REDEYE RATING



KEY STATS

Ticker	SENS.ST
Market	Small Cap
Share Price (SEK)	1.4
Market Cap (MSEK)	1178
Net Debt 19E (MSEK)	24
Free Float	82 %
Avg. daily volume ('000)	7

ANALYSTS

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

Migthy TRaaS oak growing from little acorns

The second important thing in the report that Sensys Gatso wants to highlight, aside of TRaaS, is that there are three new programs in brand new areas ramping up. This is what Sensys Gatso means when it says that the increased costs in the quarter are tied to coming revenue. The three programs are located in the US (uninsured vehicles in Oklahoma), Netherlands (point-to-point speed enforcement) and Australia (mobile in-vehicle dual speed measuring system). The initial phases of these programs are costly but when the solutions are up and running, after Q4 (to our best assessment) the company can basically copy and paste them to other customer and regions, i.e. there is a strong scalability. The new solutions are also signs of the innovate power of the company. We especially like that the new architecture is scalable and can include third party hardware, which is also something that sets the company apart from the pack. There are in theory many potential traffic violations that could be the subject to enforcement. From a visionary aspect, thinking about the company's position in the long run, we argue that this approach could make Sensys Gatso a significantly larger player in multiple subsectors of intelligent transportation and smart, environmentally friendly cities.

Diversified, high quality order intake with 75% recurring revenue

The order intake of SEK 141m (whereof SEK 51m in system sales) was solid but still 23% lower than the record order intake of Q2'18 that was the second-best quarter ever, driven by the Dutch tender of SEK 66m, i.e. comps were tough. The H1'19 order intake of SEK 241m is in line with last year though and looking at rolling 12 months, the order intake amounts to a solid SEK 486m. As we noted in our report note, the recurring part of the order intake is as high as 75%.

The past months have been eventful with a steady order flow. Below we do a quick recap and list all 10 announcements during Q2 and thus far in Q3, in chronological order. The first two orders were included in our Q1 update. Below, we will elaborate a bit more on a few of the other eight that we believe are extra important. Our general main takeaway is how diversified the business and the order intake is when it comes to regions and products.

New contracts Q2'19 - Q319

Geography	Type of appl.	TRaaS	Value	Period	Comment
Austalia	Maint. of in-vehicle	Yes	SEK 22m	6 yrs	Additional SEK 75m expected
New York, US	Red light	Yes, Man.Serv.	SEK 12m	5 yrs	Extension
Iowa, US	Speed	Yes, Man.Serv.	SEK 6m	5 yrs	2+2 option years and potential expansion in the county over time
Maryland, US	Red light, school, parking	Yes, Man.Serv.	SEK 44m	5 yrs	First parking solution. Also see separate section below
Australia	ANPR	No	SEK 7m	Q4'19	Upgrade of traffic safety systems
Iowa, US	Red light & speed	Yes, Man.Serv.	SEK 19m	3 yrs	Extension. Customer since 2011
France	In-vehicle	No	SEK 16m	H2'19	Continuation of the project that started in 2013
Saudi Arabia	In-vehicle	No	n/a	Q3'19	Delivery of the fourth batch (SEK 14m) of the SEK 100m contract
Colombia	Red light, speed & bus	Yes, 30%	SEK 9m	5 yrs	Equipment and software. 5th largest state
Colombia	Red light & speed	Yes, 30%	SEK 10m	5 yrs	1 million people in this state

Source: Redeye Research, Sensys Gatso

In France, we see solid potential for the ambulatory in-vehicle offering, given the yellow jacket movement that has targeted fixed cameras provided by the competition. Out of the new fixed cameras that were installed by the local French competitor during this summer, several of them have been hacked down by chainsaws, hit by shotguns or vandalized in other creative ways. In Savoie, one of the six new cameras was burned down within just a few days and two more were vandalized even before installation was completed. Sensys Gatso says its recent SEK 16m order from France is a sign that there is solid demand for the in-vehicle solutions. We find this logical as these cameras that are mounted in moving vehicles are not affected by the vandalization. There are no volume limits in the old in-vehicle contract from 2013, meaning the customer has the possibility to continue buying under this agreement. However, Sensys Gatso does not want to speculate around future orders from France.

Large contract of SEK 44m in Maryland including the new parking offering

The Mount Rainier contract in Maryland, US, is a very interesting contract from several aspects. One of them, that we mentioned already in our note when the news came out, is the contract size of SEK 44m in relation to the 8 000 inhabitants of Mount Rainier and the fact that the agreement only will use five cameras. However, there is a lot of traffic passing by on Route 1 (US 1) - a major north-south route on the East Coast. We assume there could be many other, similar, smaller, coastal cities in need of traffic enforcement.

The other interesting aspect is the parking management solution for enforcement of on street parking violations. When police detect an illegally parked car by ANPR they use the company's Xilium back office system to report it. Mount Rainier is one good, early example of how Sensys Gatso, when in control of the back office, easily can add adjacent solutions from third parties to its platform (i.e. the parking solution is not a Sensys Gatso product). It is the entire infrastructure, including Xilium, and not only PULS that is compatible with third party devices (sensor agnostic).

We estimate that there are at least 25 million on street parking spots in the US, allowing for a big market (even though many spots are free of charge), but we do not expect Sensys Gatso to push this solution in the same way as its proprietary solutions. However, if customers want to add parking solutions there is no issue for Sensys Gatso to provide it.

A Latin American bridgehead in Colombia

The two Colombian deals of in total SEK 19m, according to Sensys Gatso, represent a growing concern for the 80 000 (and growing) annual traffic casualties in the region. The orders are 70% system hardware deals with currently a 30% TRaaS component to be delivered over 5 years. In the longer run, we believe Sensys Gatso will try to increase the TRaaS part. One of the deals mentioned vehicle classification and statistics. This means counting vehicles to better understand the traffic flow.

The market is decentralized, meaning deals are done state by state. There is a need for using local partners in the different states, or departments as they are called in Colombia. The departments of Cesar and Bolivar has 1 million and 2 million inhabitants respectively. In total however, Colombia has a population of 49 million people, meaning huge potential. Not only do we assume more cities to join in in Colombia; we also believe that these Colombian contracts are a good base that could spearhead a Latin American expansion into other countries.

Oklahoma starting to generate revenue – more systems to be deployed

Oklahoma is starting to generate revenue, ramping towards the guidance of SEK 17m per year. The roll-out of systems has been gradual and more systems will be deployed as soon as the customer has decided where to put them. As previously described, we believe Sensys is moving slower in Oklahoma, compared to the usual speed or red light contracts, as the uninsured vehicles area is a new territory. We believe the step-by-step approach will allow Sensys Gatso to continue fine-tuning the software and gathering important knowledge for future expansions of this offering in other cities or states.

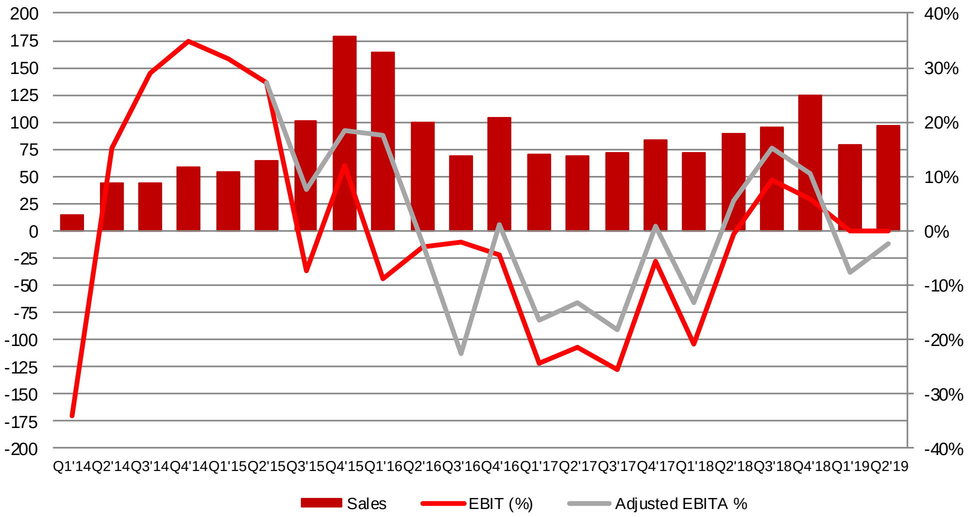
Japan is not dead – but focus on the TRaaS story instead

We do not believe Japan is dead, but we suggest that investors should focus more on the TRaaS story instead.

Q2: Higher losses due to weaker gross margins

As mentioned in our initial report comment, sales of SEK 97m were in line, but the operating loss of SEK -8m (see the graph below) was SEK 7m higher than expected due to a weaker gross margin of 38% (expected 42%). The higher OPEX is due to 41 more full time employees compared to last year. This was expected and is, we believe, to a large part related to Managed Services.

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

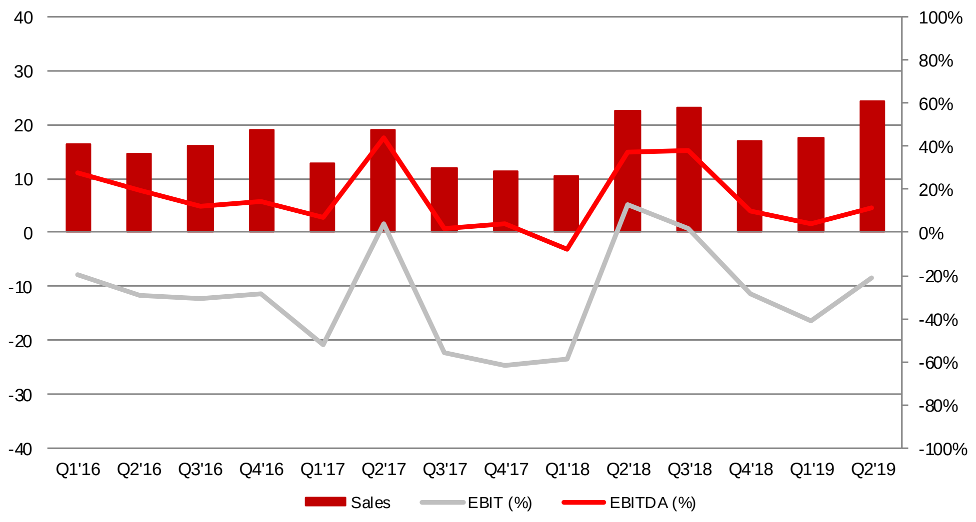


* = EBITA adjusted for acquisition costs of SEKm 7.4 in Q3'15 and for the cost reduction program and additional Gatso consideration

Source: Redeye Research, Sensys Gatso

Looking at the different business areas, Managed Services remained EBITDA positive and sales grew 40% even though Oklahoma is only partly contributing thus far (see the graph below).

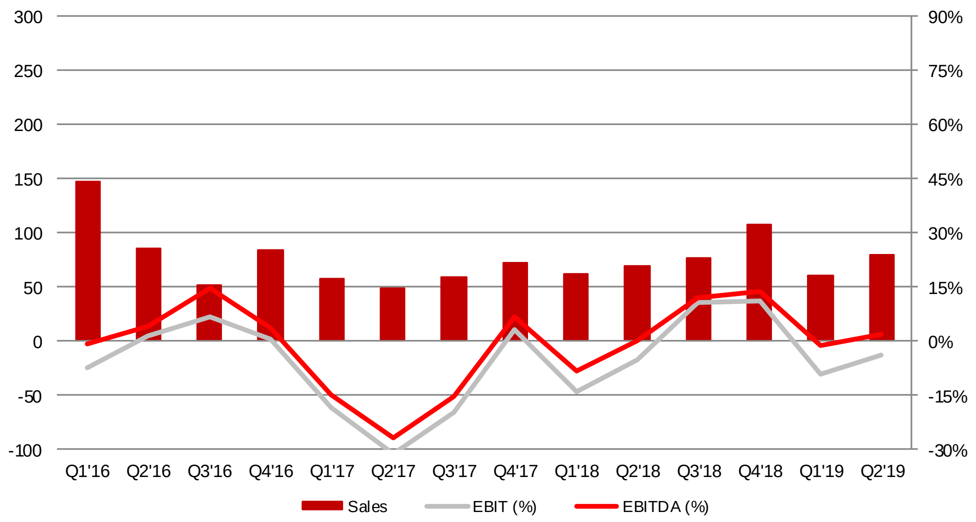
Managed Services: Revenue (SEKm) & margins (%)



Source: Redeye Research, Sensys Gatso

The operating profit/loss in System Sales improved sequentially due to higher sales, as indicated in the graph below. We also note that the recurring part of the revenue was almost 30% (29.4%).

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

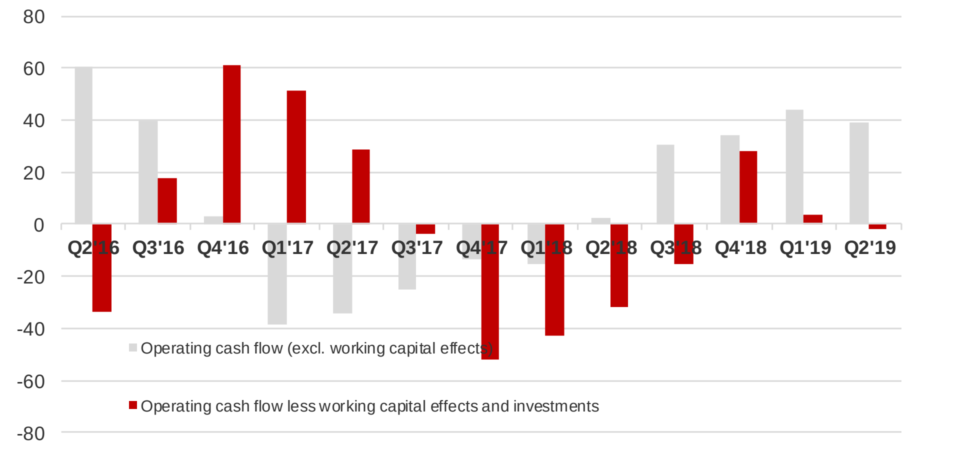


Source: Redeye Research, Sensys Gatso

The cash position is ok

The operating cash flow before working capital was SEK 5m, keeping the R12m stable at about SEK 40m (see the graph below), but adding working capital effects of SEK -8m (inventory & work in progress) and investments of SEK -10m cash fell, amounting to SEK 56m at the end of the period, although taking out the used credit facility of SEK 24m the actual number would be about SEK 32m at the end of the period. However, Sensys Gatso says the balance sheet is strong.

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



Source: Redeye Research, Sensys Gatso

The company supported this statement by repaying EUR 1m of the vendor loan following the period (last year's installment was not repaid and instead converted to equity). This should mean that cash are below SEK 24m if cash flows have not turned positive in Q3. However, we still believe that H2 will be significantly stronger, also in terms of cash flow, so we indeed believe that the cash position is solid.

Financial estimates

We have only made minor changes in our sales estimates (see the table below) as most of the orders are related to TRaaS and hence will play out over the next five years. However, we underestimated the costs, (both fixed and variable costs), meaning we need to lower our earnings estimates for years 2019-2021E.

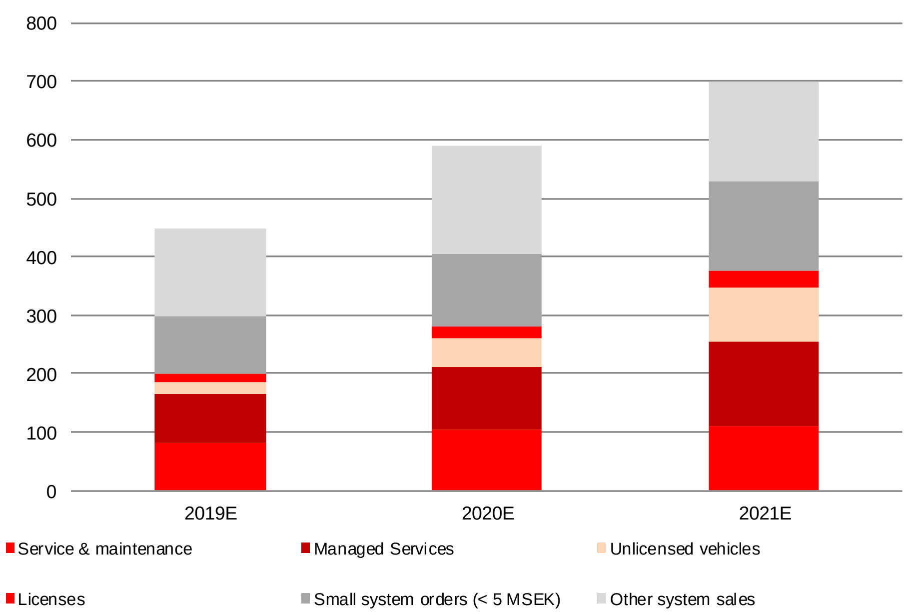
Changes in Redeye's estimates

SEKm		2019E	2020E	2021E
Sales	Old	478	586	700
	New	*491*	*589*	*700*
	change (%)	3%	0%	0%
EBITDA	Old	71	140	188
	New	61	122	179
	change (%)	-14%	-13%	-4%
EBIT	Old	22	93	145
	New	10	76	137
	change (%)	-54%	-18%	-6%
EPS	Old	0.02	0.08	0.13
	New	0.01	0.07	0.12
	change (%)	-62%	-19%	-6%

Source: Redeye Research, Sensys Gatso

As indicated by the graph below, TRaaS is driving the growth.

Sales assumptions (SEKm)



Source: Redeye Research & Sensys Gatso

Quarterly estimates

Sensys Gatso does not disclose its order book, but we assume that a large part of the orders from 2018 and H1'19 is for delivery in H2'19 and has not been delivered yet, suggesting a strong Q3 and Q4.

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	78	97	150	166	491
Growth (%)	*-33%*	*1%*	*30%*	*35%*	*49%*	*30%*	*9%*	*9%*	*57%*	*33%*	*29%*
Gross margin (%)	40%	35%	44%	49%	41%	42%	37%	38%	38%	40%	38%
System sales	238	62	69	77	108	317	61	79	123	139	402
Growth (%)	-36%	7%	41%	31%	50%	33%	-11%	2%	14%	29%	27%
Managed Services	55	11	23	23	17	74	18	25	28	27	97
Growth (%)	-16%	-17%	18%	95%	49%	33%	65%	8%	20%	57%	31%
EBITDA	-16	-6	9	18	17	37	0	4	25	31	61
EBITA	**-32**	**-10**	**5**	**15**	**13**	**23**	**-6**	**-2**	**19**	**24**	**35**
EBITA (%)	***-11%***	***-13%***	***6%***	***15%***	***10%***	***6%***	***-8%***	***-2%***	***12%***	***15%***	***7%***
EBIT	-55	-15	-1	9	7	1	-12	-8	13	18	10
EBIT (%)	*-19%*	*-21%*	*-1%*	*9%*	*6%*	*0%*	*-16%*	*-9%*	*8%*	*11%*	*2%*
EPS	-0.07	-0.02	0.00	0.00	0.01	-0.01	-0.01	-0.01	0.01	0.02	0.01

Source: Redeye Research, Sensys Gatso

Investment Case

- Growing recurring revenue from Managed Services
- Large potential in growing with existing customers
- Share price normally 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 20 months of the Trump administration.

Large potential in growing with existing customers

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 easily get huge, which is due to the fact that about 25 percent of all vehicles in Oklahoma lack insurance. In Florida, one of Sensys Gatso's other eight states, the proportions of uninsured vehicles are essentially the same as 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 a good example of leveraging the company's expertise and competitive advantages in securing a so called unbroken chain of evidence. 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 movement from SEK 1.3 to over SEK 5.5 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 solutionsThe publisher, 505 Games, will take 55 percent of gross revenue.

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.

Rating changes in the report: No changes - but updated rating model

People: 3

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. 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.

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

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INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	293	383	491	589	700
Total operating costs	-309	-346	-430	-467	-520
EBITDA	-16	37	61	122	179
Depreciation	-14	-11	-20	-20	-21
Amortization	-25	-26	-31	-26	-22
Impairment charges	0	0	0	0	0
EBIT	-55	1	10	76	137
Share in profits	0	0	0	0	0
Net financial items	-4	-4	-4	-4	-3
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-59	-3	6	72	134
Tax	3	-1	-1	-14	-31
Net earnings	-55	-5	6	58	103

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
Current assets					
Cash in banks	59	77	65	120	176
Receivables	99	79	106	124	143
Inventories	63	72	93	106	122
Other current assets	0	0	0	0	0
Current assets	221	228	264	350	441
Fixed assets					
Tangible assets	35	42	80	82	87
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	239	251	256	256	256
Cap. exp. for dev.	88	63	39	23	14
O intangible rights	3	10	18	21	24
O non-current assets	0	0	0	0	0
Total fixed assets	365	367	392	383	382
Deferred tax assets	38	37	37	37	37
Total (assets)	624	632	694	771	861
Liabilities					
Current liabilities					
Short-term debt	26	10	20	20	10
Accounts payable	95	95	122	147	174
O current liabilities	0	0	0	0	0
Current liabilities	121	106	142	167	184
Long-term debt	56	49	69	59	29
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	177	154	211	227	213
Deferred tax liab	23	17	17	17	17
Provisions	4	7	7	7	7
Shareholders' equity	420	454	459	520	624
Minority interest (BS)	0	0	0	0	0
Minority & equity	420	454	459	520	624
Total liab & SE	624	632	694	771	861

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	293	383	491	589	700
Total operating costs	-309	-346	-430	-467	-520
Depreciations total	-39	-37	-51	-46	-43
EBIT	-55	1	10	76	137
Taxes on EBIT	3	0	-1	-15	-31
NOPLAT	-52	0	9	61	105
Depreciation	39	37	51	46	43
Gross cash flow	-13	37	60	107	148
Change in WC	-17	11	-21	-6	-9
Gross CAPEX	-6	-38	-76	-37	-41
Free cash flow	-36	10	-38	64	98

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	67%	72%	66%	68%	72%
Debt/equity ratio	20%	13%	19%	15%	6%
Net debt	23	-18	24	-41	-136
Capital employed	444	436	483	480	487
Capital turnover rate	0.5	0.6	0.7	0.8	0.8

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	-33%	31%	28%	20%	19%
EPS growth (adj)	76%	-92%	-224%	906%	79%

DCF VALUATION	
WACC (%)	12.5 %

Assumptions 2017-2023 (%)	
Average sales growth	13.0 %
EBIT margin	18.5 %

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-14%	-1%	1%	12%	18%
ROCE	-11%	0%	2%	13%	22%
ROIC	-11%	0%	2%	13%	22%
EBITDA margin	-5%	10%	12%	21%	26%
EBIT margin	-19%	0%	2%	13%	20%
Net margin	-19%	-1%	1%	10%	15%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.07	-0.01	0.01	0.07	0.12
EPS adj	-0.07	-0.01	0.01	0.07	0.12
Dividend	0.00	0.00	0.00	0.00	0.03
Net debt	0.03	-0.02	0.03	-0.05	-0.16
Total shares	844.91	860.02	860.02	866.02	866.02

VALUATION	2017	2018	2019E	2020E	2021E
EV	1,316.1	1,547.5	1,201.9	1,137.6	1,041.9
P/E	-23.5	-341.2	207.3	20.6	11.5
P/E diluted	-23.5	-341.2	207.3	20.6	11.5
P/Sales	4.4	4.1	2.4	2.0	1.7
EV/Sales	4.5	4.0	2.4	1.9	1.5
EV/EBITDA	-83.0	41.3	19.8	9.3	5.8
EV/EBIT	-24.0	2,627.4	117.7	14.9	7.6
P/BV	3.1	3.5	2.6	2.3	1.9

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	-12.7 %	Net sales	29.4 %
3 month	-19.4 %	Operating profit adj	n/a
12 month	-26.0 %	EPS, just	n/a
Since start of the year	-24.7 %	Equity	4.6 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
(Gc) BNP Paribas Sec Services Paris	19.0 %	19.0 %
Gatso Special Products B.V. (same as 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	1.4 %	1.4 %
Boston State Street Bank & Trust Com.	1.1 %	1.1 %
Swedbank Försäkring	1.0 %	1.0 %
Danica Pension	0.9 %	0.9 %
AXA	0.9 %	0.9 %

SHARE INFORMATION	
Reuters code	SENS.ST
List	Small Cap
Share price	1.4
Total shares, million	860.0
Market Cap, MSEK	1178.2

MANAGEMENT & BOARD	
CEO	Ivo Mönnink
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

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.

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

Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se

Viktor Westman
viktor.westman@redeye.se

Linus Sigurdsson (Trainee)
linus.sigurdsson@redeye.se

Editorial

Jim Andersson
jim.andersson@redeye.se

Eddie Palmgren
eddie.palmgren@redeye.se

Mark Sjöstedt
mark.sjostedt@redeye.se

Johan Kårestedt (Trainee)
johan.karestedt@redeye.se

Life Science Team

Anders Hedlund
anders.hedlund@redeye.se

Arvid Necander
arvid.necander@redeye.se

Erik Nordström
erik.nordstrom@redeye.se

Klas Palin
klas.palin@redeye.se

Jakob Svensson
jakob.svensson@redeye.se

Ludvig Svensson
ludvig.svensson@redeye.se

Oskar Bergman (Trainee)
oskar.bergman@redeye.se

Alexander Ribrant (Trainee)
alexander.ribrant@redeye.se

Disclaimer

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Redeye Rating (2019-09-02)

Rating	People	Business	Financials
5p	11	8	1
3p - 4p	59	49	29
0p - 2p	14	27	54
Company N	84	84	84

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CONFLICT OF INTERESTS

Westman owns shares in the company : Yes
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.