

Update: Report Q4 2018

2019-03-14

Hövding: Delivery hiccups, strong margin

- Lower than expected sales in Q4 partly compensated in January
- Surprisingly strong gross margin in latest quarter
- Preparations for version 3.0 go according to plan

Responsible analyst

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Stock ticker: HOVD
Industry: Consumer goods
Listed on: Nasdaq First North
Latest stock price (SEK): 17,65
Market cap (MSEK): 393,3
Enterprise Value (MSEK): 326,8
Total number of shares (M): 22,28
- of which free float (M): 10,30

VHCF fair value per share

DCF model 18,00 - 25,50 SEK

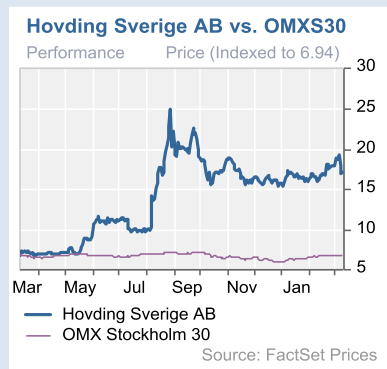
Hövding Sverige AB

Address: Bergsgatan 33
214 22 Malmö
Webpage: hovding.se
CEO: Fredrik Carling

Main owners (30 Oct 2018)

Owner	Capital (%)
Indigo Capital	21,1
LMK Industri AB	11,8
VIH Sweden AB	10,4
Carl-Olof och Jenz Hamrins Stiftelse	10,3
Avanza Pension	3,4

Stock price history



	-1m	-3m	-12m
Change (%)	3,9	7,9	147,1
52 w k range (Low /Hi) - SEK		6,50 / 26,00	

Source: FactSet

Hövding published results for Q4 and full year 2018 late last week. The biggest deviations from our scenario were in sales volume and gross margin, which surprised in opposite directions.

In our latest research dated mid-February, we had estimated sales volume in Q4 at just over 21 000 units. The reported outcome fell almost 2 000 units short of our estimate and landed at 19 061 units. Compared with Q4 2017, the volume growth was 28 percent, less than half the y-o-y growth in the previous three quarters.

This was disappointing but may not be as bad as it looks. Hövding explains that the underwhelming numbers were caused by disruptions in their supply chain, which forced them to delay into January some shipments which were planned for December. Sales that were pushed into Q1 may therefore to some extent make up for the lost December sales. As evidence, Hövding disclosed that sales for the four months October through January were up 56 percent year-on-year. This is more in line with the recent trend.

At the teleconference following the report, we asked CEO Fredrik Carling if the company had taken any actions to avoid similar disruptions in the future. In response, Carling explained that inventories were low going into Q4 because of unexpectedly strong demand in Q3, which made them unusually vulnerable to the delayed supplies. Looking ahead, Hövding will manage the transition from version 2.0 to 3.0 with a view to avoiding huge left-overs of obsolete models. Consequently, inventories will be kept low also in H1 2019. After the launch of version 3.0 however, inventory management will be much easier since the new model comes in only one size. This greatly reduces the risk of inventory shortages from autumn 2019 onward.

Table 1: Financial Overview

MSEK	2017	2018	2019e	2020e	2021e
Net sales	56,7	92,5	174,5	261,0	367,2
Growth (%)	58,7%	63,2%	88,6%	49,6%	40,7%
Gross margin (%)	21,8%	22,7%	23,7%	25,2%	25,4%
EBIT	(41,0)	(41,5)	(48,6)	(4,5)	17,3
EBIT margin (%)	neg	neg	neg	neg	4,7%
Cash holdings	21,6	66,5	21,8	12,8	26,0
Total assets	58,7	95,7	85,5	101,7	148,3
Total equity	34,4	62,1	13,6	9,1	26,4
Solidity (%)	58,5%	64,9%	15,9%	8,9%	17,8%
P/E	neg	neg	neg	neg	22,8
ROE	neg	neg	neg	neg	65,5%
EV/EBIT (x)	neg	neg	neg	neg	18,9
EV/Sales (x)	5,8	3,5	1,9	1,3	0,9

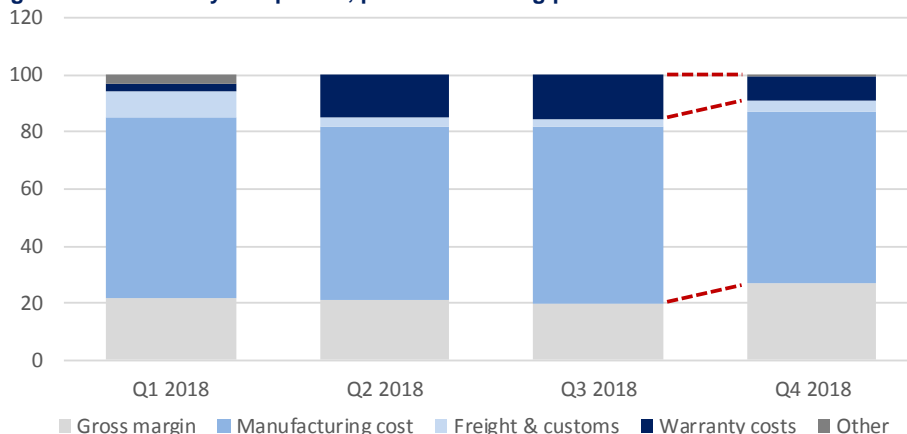
Source: Västra Hamnen Corporate Finance

27 percent gross margin, much higher than forecast

The Q4 report surprised on the positive side with respect to gross margin. We had estimated a margin of 20 percent, in line with the latest quarters, but the company instead posted a gross margin of 27 percent. The company cites improvements in product quality, meaning lower warranty cost for returned units, as well as lower procurement costs.

Studying the composition of unit costs, it seems to us that the drop in warranty claims is by far the biggest contributor, cf Figure 1. Hövding released a software update in early 2018 to address the problem of airbags being inflated erroneously. According to the CEO, Hövding is now starting to see some effect of the update on the number of warranty claims, and we take this to mean that some of the margin improvement should be sustainable.

Figure 1: Unit cost by component, percent of selling price



Source: Hövding, Västra Hamnen calculations

Carling explained that the quality improvement also indicated that reservations made in Q2 and Q3 were too high, and a one-off adjustment of previously made provisions contributed to the margin improvement in Q4. Part of the margin boost is therefore to be regarded as non-recurring. Looking farther ahead however, Hövding expects the improvement in manufacturing procedures for version 3.0 to contribute to sustained higher margins once the version change is completed.

We consider raising our long-term margin assumptions

In our valuation model, we have revised our margin assumptions slightly upwards for 2019. We have however not revised our long-term margin assumption of 25 percent for 2020 onward, although we will consider this for our next model revision. For now, we choose to monitor the development before changing our scenario.

Net revenues in Q4 came in very close to our forecast although we overestimated the number of units. This is explained by higher than expected selling prices. In our model we had assumed a conservative SEK 1 400 per unit, whereas the reported figures imply an average price in the quarter upwards of SEK 1 500.

Our selling price assumptions may be too low

Selling prices in foreign markets were higher when counted in SEK, due to a weakening of the Swedish krona. For now, we regard this effect as temporary. In addition, we underestimated average selling prices by assuming that sales through distributors would grow to a larger share of total sales. Distributor sales means lower selling prices for Hövding. If the UK, where Hövding sells directly to resellers, grows to a significant share of total sales, we may have to change our assumptions. Like the gross margin, we will collect more evidence on selling prices before possibly changing our model.

Table 2: Estimates vs actual, Q4 2018

kSEK	Q4 '17	Q4 '18e	Q4 '18 actual	Diff
Sold units	14 945	21 009	19 061	-1 948
Net Revenues	21 437	29 559	29 349	-210
Other Revenues	2 135	0	136	136
Total Revenues	23 572	29 559	29 485	-74
Cost of Goods Sold	(16 718)	(23 603)	(21 535)	2 068
Personnel Expenses	(6 806)	(7 020)	(8 243)	(1 223)
Other Operating Expenses	(7 545)	(6 669)	(9 811)	(3 142)
Total OPEX	(31 069)	(37 292)	(39 589)	(2 297)
EBITDA	(7 497)	(7 733)	(10 104)	(2 371)
Amortisation and Depreciation	(2 325)	(411)	(1 082)	(671)
EBIT	(9 822)	(8 144)	(11 186)	(3 042)
Net Financial Items	40	-	28	28
EBT	(9 782)	(8 144)	(11 158)	(3 014)
Net Profit	(9 782)	(8 144)	(11 158)	(3 014)
Cash and Equivalents	21 634	74 338	66 464	(7 874)
Total Equity	34 375	65 148	62 134	(3 014)

Source: Västra Hamnen Corporate Finance

Higher OPEX in the runup to version change

As shown in Table 2, other operating expenses were clearly higher than we had expected and also markedly higher than in the previous quarters. Hövding attributes the cost increase to the preparations for version 3.0. We had expected the bulk of extra spending to kick in at the time of launch and be related to marketing costs, especially. But there will be higher costs even in the next few quarters related to developing, testing and CE registration. We have therefore revised our cost estimates upwards for Q1 and Q2 this year.

Preparation for version 3.0 goes according to plan

Hövding reports that progress towards the launch of Hövding 3.0 is going according to plan. The company is currently working with suppliers to prepare the start of manufacturing which is to occur later this spring. Important milestones such as detailed design and the selection of and signing of agreements with suppliers have been completed. The most important remaining hurdle is the CE mark.

In summary, we make only minor adjustments to our valuation model at this point. We decide to keep our fair value estimate for the stock at SEK 18.00 – 25.50 per share for the time being.

Income Statement - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Net revenues	35 723	56 694	92 536	174 491	260 986	367 190	456 414	524 876
Other revenues	9 615	10 289	2 076	558	580	604	628	654
Total revenues	45 338	66 983	94 612	175 049	261 567	367 794	457 043	525 530
Cost of goods sold	(37 721)	(44 359)	(71 535)	(133 123)	(195 094)	(274 036)	(340 073)	(391 084)
Gross profit	7 617	22 624	23 077	41 926	66 473	93 758	116 969	134 446
Personnel costs	(21 435)	(25 194)	(29 651)	(31 324)	(32 503)	(33 740)	(35 110)	(36 084)
Other external costs	(21 249)	(27 662)	(31 776)	(57 836)	(37 292)	(41 767)	(44 414)	(45 746)
Other operating expenses	(764)	(1 571)	(481)	-	-	-	-	-
EBITDA	(35 831)	(31 803)	(38 831)	(47 234)	(3 322)	18 251	37 446	52 616
Amortisation & depreciation	(9 417)	(9 227)	(2 656)	(1 344)	(1 133)	(982)	(874)	(786)
EBIT	(45 248)	(41 030)	(41 487)	(48 578)	(4 455)	17 269	36 571	51 830
Net financial items	137	42	7	-	-	-	-	-
EBT	(45 111)	(40 988)	(41 480)	(48 578)	(4 455)	17 269	36 571	51 830
Taxes	-	-	-	-	-	-	-	-
Net profit	(45 111)	(40 988)	(41 480)	(48 578)	(4 455)	17 269	36 571	51 830
Growth (%)								
Net revenues	na	58,7%	63,2%	88,6%	49,6%	40,7%	24,3%	15,0%
EBITDA	na	na	na	na	na	na	105,2%	40,5%
EBIT	na	na	na	na	na	na	111,8%	41,7%
Net profit	na	na	na	na	na	na	111,8%	41,7%
% of revenues (%)								
Gross margin	-5,6%	21,8%	22,7%	23,7%	25,2%	25,4%	25,5%	25,5%
EBITDA margin	neg	neg	neg	neg	neg	5,0%	8,2%	10,0%
EBIT margin	neg	neg	neg	neg	neg	4,7%	8,0%	9,9%
EBT margin	neg	neg	neg	neg	neg	4,7%	8,0%	9,9%
Profit margin	neg	neg	neg	neg	neg	4,7%	8,0%	9,9%
Personnel costs	60,0%	44,4%	32,0%	18,0%	12,5%	9,2%	7,7%	6,9%
Total OPEX	121,6%	96,0%	66,9%	51,1%	26,7%	20,6%	17,4%	15,6%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	65,5%	58,1%	45,2%
ROIC	neg	neg	neg	neg	neg	51,7%	95,1%	120,7%
ROCE	neg	neg	neg	neg	neg	25,9%	30,1%	26,7%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Inventories	7 079	12 447	6 013	27 766	39 996	56 180	67 639	77 785
Account receivable	9 159	13 602	13 977	21 921	32 103	45 167	54 467	62 637
Tax receivables	422	599	717	1 334	1 953	2 748	3 313	3 810
Prepaid costs & accrued income	3 810	5 550	1 175	5 334	7 812	10 991	13 254	15 242
Other receivables	89	1 005	151	1 267	1 855	2 610	3 148	3 620
Cash and cash equivalents	34 082	21 634	66 464	21 818	12 827	26 034	64 891	118 020
Total current assets	54 641	54 837	88 497	79 440	96 547	143 730	206 712	281 115
Tangible assets	930	960	641	708	811	1 031	1 211	1 357
Intangible assets	11 683	2 874	6 526	5 315	4 329	3 526	2 872	2 339
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	12 665	3 886	7 219	6 075	5 192	4 610	4 135	3 749
Total assets	67 306	58 723	95 716	85 515	101 739	148 340	210 848	284 864
Accounts payable	8 078	10 813	15 001	36 096	47 996	67 417	81 167	93 342
Accrued cost & prepaid income	7 496	3 196	5 653	13 335	17 576	21 981	26 507	30 484
Other liabilities	987	1 082	557	3 334	4 882	6 869	8 284	9 526
Total current liabilities	16 561	15 091	21 211	52 765	70 455	96 267	115 958	133 352
Other provisions	10 727	9 257	12 371	19 194	22 184	25 703	31 949	36 741
Total equity	40 018	34 375	62 134	13 556	9 101	26 370	62 941	114 771
Total equity and liabilities	67 306	58 723	95 716	85 515	101 739	148 340	210 848	284 864

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Operating activities	(26 486)	(33 231)	(35 710)	(40 411)	(332)	21 771	43 691	57 409
Changes in working capital	4 506	(14 114)	17 290	(4 034)	(8 409)	(8 164)	(4 434)	(3 880)
Investing activities	(1 056)	(447)	(5 966)	(200)	(250)	(400)	(400)	(400)
Financing activities	38 608	35 345	69 239	-	-	-	-	-
Cash flow for the period	15 572	(12 447)	44 853	(44 646)	(8 991)	13 207	38 857	53 129
Beginning cash balance	18 696	34 082	21 634	66 464	21 818	12 827	26 034	64 891
Adjustments	(186)	(1)	(23)	-	-	-	-	-
Ending cash balance	34 082	21 634	66 464	21 818	12 827	26 034	64 891	118 020

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Net revenues	8 220	25 190	29 777	29 349	20 956	30 011	56 848	66 676
Other revenues	1 817	30	93	136	137	139	140	142
Total revenues	10 037	25 220	29 870	29 485	21 093	30 149	56 988	66 818
Cost of goods sold	(6 379)	(19 938)	(23 683)	(21 535)	(16 136)	(23 108)	(43 205)	(50 674)
Gross profit	3 658	5 282	6 187	7 950	4 957	7 041	13 784	16 144
Personnel costs	(7 316)	(7 205)	(6 887)	(8 243)	(7 600)	(7 752)	(7 907)	(8 065)
Other external costs	(6 531)	(9 298)	(6 176)	(9 771)	(8 360)	(9 302)	(20 012)	(20 162)
Other operating expenses	-	(548)	107	(40)	-	-	-	-
EBITDA	(10 189)	(11 769)	(6 769)	(10 104)	(11 003)	(10 013)	(14 135)	(12 083)
Amortisation & depreciation	(809)	(230)	(535)	(1 082)	(358)	(343)	(328)	(314)
EBIT	(10 998)	(11 999)	(7 304)	(11 186)	(11 361)	(10 356)	(14 463)	(12 398)
Net financial items	(40)	-	19	28	-	-	-	-
EBT	(11 038)	(11 999)	(7 285)	(11 158)	(11 361)	(10 356)	(14 463)	(12 398)
Taxes	-	-	-	-	-	-	-	-
Net profit	(11 038)	(11 999)	(7 285)	(11 158)	(11 361)	(10 356)	(14 463)	(12 398)
Y-o-Y Growth (%)								
Net revenues	(4,8%)	112,9%	101,3%	36,9%	154,9%	19,1%	90,9%	127,2%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
Gross margin	22,4%	20,8%	20,5%	26,6%	23,0%	23,0%	24,0%	24,0%
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	89,0%	28,6%	23,1%	28,1%	36,3%	25,8%	13,9%	12,1%
Total OPEX	168,5%	67,7%	43,5%	61,5%	76,2%	56,8%	49,1%	42,3%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Inventories	19 005	13 195	9 203	6 013	8 842	12 662	23 674	27 766
Account receivable	5 554	14 643	14 040	13 977	6 890	9 866	18 690	21 921
Tax receivables	437	513	607	717	419	600	1 137	1 334
Prepaid costs & accrued income	7 827	2 007	723	1 175	1 676	2 401	4 548	5 334
Other receivables	380	272	579	151	398	570	1 080	1 267
Cash and cash equivalents	12 719	7 611	84 681	66 464	59 761	48 507	34 300	21 818
Total current assets	45 922	38 241	109 833	88 497	77 986	74 607	83 429	79 440
Tangible assets	876	798	776	641	659	676	692	708
Intangible assets	2 172	7 694	7 438	6 526	6 200	5 890	5 595	5 315
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	3 100	8 544	8 266	7 219	6 911	6 618	6 339	6 075
Total assets	49 022	46 785	118 099	95 716	84 897	81 224	89 768	85 515
Accounts payable	13 132	20 556	22 382	15 001	14 147	18 993	33 143	36 096
Accrued cost & prepaid income	3 774	3 894	8 214	5 653	4 191	6 002	11 370	13 335
Other liabilities	464	884	1 751	557	1 048	1 501	2 842	3 334
Total current liabilities	17 370	25 334	32 347	21 211	19 386	26 496	47 355	52 765
Other provisions	8 315	10 113	12 460	12 371	14 738	14 312	16 460	19 194
Total equity	23 337	11 338	73 292	62 134	50 773	40 417	25 953	13 556
Total equity and liabilities	49 022	46 785	118 099	95 716	84 897	81 224	89 768	85 515

Source: Västra Hamnen Corporate Finance

Kassaflödesanalys - kvartalsvis data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Operating activities	(11 171)	(9 971)	(4 403)	(10 165)	(8 636)	(10 439)	(11 987)	(9 349)
Changes in working capital	2 279	10 537	12 491	(8 017)	1 983	(765)	(2 169)	(3 083)
Investing activities	-	(5 674)	(257)	(35)	(50)	(50)	(50)	(50)
Financing activities	-	-	69 239	-	-	-	-	-
Cash flow for the period	(8 892)	(5 108)	77 070	(18 217)	(6 703)	(11 254)	(14 207)	(12 482)
Beginning cash balance	21 634	12 719	7 611	84 681	66 464	59 761	48 507	34 300
Adjustments	(23)	-	-	-	-	-	-	-
Ending cash balance	12 719	7 611	84 681	66 464	59 761	48 507	34 300	21 818

Source: Västra Hamnen Corporate Finance

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