

Update: Report Q2 2019

2019-08-21

Hövding: Version 3 ready for launch

- Net operating loss higher than expected in Q2
- Sustained higher gross margin is proof of company progressing
- We raise our fair value interval to SEK 20,10 – 29,30 per share

Responsible analyst

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Stock ticker: HOVD
Industry: Consumer goods
Listed on: Nasdaq First North
Latest stock price (SEK): 32,40
Market cap (MSEK): 721,9
Enterprise Value (MSEK): 683,7
Total number of shares (M): 22,28
- of which free float (M): 11,90

VHCF fair value per share

DCF model 20,10 - 29,30 SEK

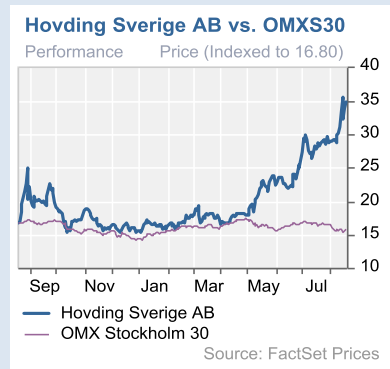
Hövding Sverige AB

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

Main owners (31 Jul 2019)

Owner	Capital (%)
Indigo Capital	21,1
Fosielund Holding AB	16,9
Carl-Olof och Jenz Hamrins Stiftelse	10,3
VIH Sweden AB	10,2
Avanza Pension	3,7

Stock price history



	-1m	-3m	-12m
Change (%)	22,8	50,9	108,3
52 w k range (Low /Hi) - SEK		15,10 / 38,10	

Source: FactSet

In its report for Q2 2019, Hövding reported an increase in sold units to 18 435, which is an increase of 8 percent compared to Q2 last year. During the same period, the revenue grew 12 percent. This was below our estimate. In addition, Q2 was marked by extra costs relating to the forthcoming launch of Hövding 3. In combination this put the net loss higher than our estimate. However, we regard this as a short-term issue. More importantly for our valuation, it has now been confirmed that the higher gross margins are likely to be upheld in the future, especially with the logistical improvements following the launch of Hövding 3. Therefore we have decided to increase our fair value interval for the share.

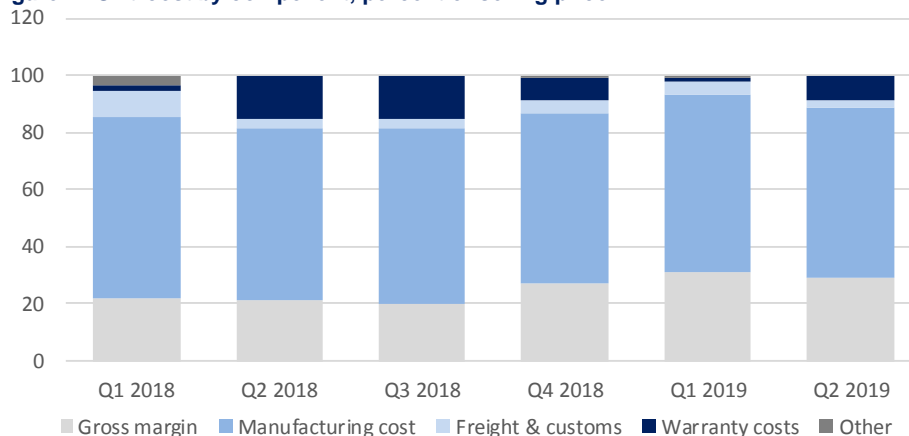
In our earlier estimates of the gross margin we have assumed a conservative 25%, which the company has been outperforming consistently since Q3 2018. We have now decided to revise our long-term gross margin assumption from 25% to 28% in our valuation model. The improvements can be seen in figure 1 on the next page. The gross margin has been established at a higher level as the company has succeeded at lowering warranty costs. With that said, even this forecasted gross margin of 28% might be subject to upward revision depending on the profitability of the new Hövding 3. According to the company, the new version has several benefits in the manufacturing, logistical and shipping processes, suggesting even lower unit costs in the future.

As for the launch of Hövding 3, no definitive launch date has been announced. However, it has been hinted that it will take place during September which means that version 3 will be able to generate revenue during the third quarter. It is likely that distributors and retailers will build stocks of the new version, which might further boost sales during the third and fourth quarter of 2019.

Table 1: Financial Overview

MSEK	2017	2018	2019e	2020e	2021e
Net sales	56,7	92,5	130,0	262,3	369,1
Growth (%)	58,7%	63,2%	40,5%	101,8%	40,7%
Gross margin (%)	21,8%	22,7%	28,7%	28,2%	28,3%
EBIT	(41,0)	(41,5)	(57,6)	(5,7)	22,8
EBIT margin (%)	neg	neg	neg	neg	6,2%
Cash holdings	21,6	66,5	16,1	14,3	33,7
Total assets	58,7	95,7	60,9	92,7	141,4
Total equity	34,4	62,1	4,8	9,1	31,9
Solidity (%)	58,5%	64,9%	7,8%	9,8%	22,5%
P/E	neg	neg	neg	neg	34,2
ROE	neg	neg	neg	neg	71,5%
EV/EBIT (x)	neg	neg	neg	neg	32,5
EV/Sales (x)	13,1	8,0	5,7	2,8	2,0

Source: Västra Hamnen Corporate Finance

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

Source: Hövding, Västra Hamnen calculations

Hövding 3 supports Bluetooth and mobile application

The new version of the Hövding will be equipped with Bluetooth connectivity and will connect to the company's new mobile application. This is said to further improve the safety and protection for the cyclists. This also enables Hövding to collect valuable user data about its users' cycling habits, which can be profitably refined and sold to commercial interests and city planners, etc. This could potentially become another revenue stream.

Looking at the past quarter performance versus our estimates, the main difference originates from Other operating expenses. These exceeded SEK 17 million compared to our estimated SEK 9.3 million. The company writes that about half of these costs are one-time costs related to the launch of the Hövding 3. We previously estimated these costs to be temporally higher for this exact reason, however, we thought the main impact would be shown during the third and fourth quarter of the current year. We got the impression that this is merely a timing issue and not a sign of higher overall costs in connection with the launch. Consequently, we have lowered our estimates of Other external costs in Q3 and Q4 by roughly as much as we miscalculated the costs in Q2.

Otherwise the company's report is fairly in line with our expectations. The difference in sold units is notable, and the difference is due to the depletion of the current stock of Hövding 2.0. The silver lining being that if distributors are running low on the current version of Hövding, there is reason to believe that the launch of the version 3 will face even higher demand when entering the market.

Table 2: Estimates vs actual, Q2 2019

kSEK	Q2 '18	Q2 '19est	Q2 '19act	Diff
Sold units	17 074	21 436	18 435	(3 001)
Net Revenues	25 190	31 082	28 229	(2 853)
Other Revenues	30	139	30	(109)
Total Revenues	25 220	31 221	28 259	(2 962)
Cost of Goods Sold	(19 938)	(23 312)	(20 122)	3 190
Personnel Expenses	(7 205)	(7 752)	(8 808)	(1 056)
Other Operating Expenses	(9 846)	(9 302)	(17 221)	(7 919)
Total OPEX	(36 989)	(40 366)	(46 151)	(5 785)
EBITDA	(11 769)	(9 145)	(17 892)	(8 747)
Amortisation and Depreciation	(230)	(341)	(538)	(197)
EBIT	(11 999)	(9 486)	(18 430)	(8 944)
Net Financial Items	-	-	1	1
EBT	(11 999)	(9 486)	(18 429)	(8 943)
Net Profit	(11 999)	(9 486)	(18 429)	(8 943)
Cash and Equivalents	7 611	45 407	38 246	(7 161)
Total Equity	11 338	40 771	31 981	(8 790)

Source: Västra Hamnen Corporate Finance

Cash reserves lower than expected

The reported cash situation at the end of the quarter is SEK 38.2 million, which is lower than expected and is directly attributable to higher net operating loss. The cash reserve raises questions about future financing needs, and our valuation model at present suggests that the company might need SEK 10 million in new financing in the first quarter of 2020. However, this is highly dependent on the success of the launch of the new Hövding and could possibly be worked out with bridge financing instead of raising new equity.

The Q2 report might have underperformed in the short-term with higher net loss than expected. However, from a valuation standpoint it is much more important that the company appears to sustain the higher gross margin. **In conclusion, we revise out fair value estimate from previously SEK 18.00 – 25.50 to SEK 20.10 – 29.30 per share, while future upgrades may be on the cards if the new Hövding 3 is able to raise the margin levels even further.**

Table 3: DCF model assumptions

MSEK	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Total revenues	130,1	262,5	369,2	459,8	528,8	586,0	637,8	678,3
EBIT	(57,6)	(5,7)	22,8	46,7	64,4	79,0	92,1	101,8
EBIT margin	-44,2%	-2,2%	6,2%	10,1%	12,2%	13,5%	14,4%	15,0%
Adj. Taxes	-	-	-	-	-	-	-	(17,6)
NOPLAT (= EBIT - tax)	(57,6)	(5,7)	22,8	46,7	64,4	79,0	92,1	84,3
Depreciation	1,7	1,1	0,9	0,8	0,8	0,7	0,6	0,6
Capex + Working cap	4,7	(16,6)	(7,8)	(4,4)	(3,9)	(3,1)	(2,8)	(2,3)
Net cash flow	(51,2)	(21,1)	15,9	43,1	61,2	76,6	89,9	82,5

DCF (MSEK)

WACC	12,0%	12,0%
Enterprise value (EV)	687,3	687,3
Prob of profitability	60%	90%
Risk adjusted EV	412,4	618,6
Options	(3,4)	(3,4)
Net cash	38,2	38,2
Fair value market cap	447,2	653,4
Number of shares (M)	22,28	22,28
Fair value/share (SEK)	20,10	29,30

Sensitivity analysis (value per share, SEK)

		Prob of profitability			
		60%	70%	80%	90%
WACC	16%	13,40	15,40	17,40	19,40
	14%	16,20	18,60	21,00	23,50
	12%	20,10	23,20	26,20	29,30
	10%	26,00	30,10	34,20	38,30
	8%	36,30	42,10	47,90	53,60

Source: Västra Hamnen Corporate Finance

Income Statement - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Net revenues	35 723	56 694	92 536	130 009	262 349	369 106	459 698	528 653
Other revenues	9 615	10 289	2 076	115	126	131	136	141
Total revenues	45 338	66 983	94 612	130 123	262 474	369 237	459 834	528 794
Cost of goods sold	(37 721)	(44 359)	(71 535)	(92 740)	(188 320)	(264 557)	(329 000)	(378 350)
Gross profit	7 617	22 624	23 077	37 384	74 155	104 680	130 834	150 445
Personnel costs	(21 435)	(25 194)	(29 651)	(34 991)	(35 930)	(37 297)	(38 811)	(39 887)
Other external costs	(21 249)	(27 662)	(31 776)	(57 809)	(42 316)	(43 169)	(44 039)	(44 926)
Other operating expenses	(764)	(1 571)	(481)	(465)	(484)	(484)	(484)	(484)
EBITDA	(35 831)	(31 803)	(38 831)	(55 881)	(4 575)	23 731	47 500	65 147
Amortisation & depreciation	(9 417)	(9 227)	(2 656)	(1 685)	(1 087)	(945)	(844)	(761)
EBIT	(45 248)	(41 030)	(41 487)	(57 566)	(5 662)	22 786	46 657	64 386
Net financial items	137	42	7	33	-	-	-	-
EBT	(45 111)	(40 988)	(41 480)	(57 533)	(5 662)	22 786	46 657	64 386
Taxes	-	-	-	-	-	-	-	-
Net profit	(45 111)	(40 988)	(41 480)	(57 533)	(5 662)	22 786	46 657	64 386
Earnings per share (SEK)	(5,51)	(2,77)	(2,25)	(2,58)	(0,25)	1,02	2,09	2,89
Growth (%)								
Net revenues	na	58,7%	63,2%	40,5%	101,8%	40,7%	24,5%	15,0%
EBITDA	na	na	na	na	na	na	100,2%	37,2%
EBIT	na	na	na	na	na	na	104,8%	38,0%
Net profit	na	na	na	na	na	na	104,8%	38,0%
% of revenues (%)								
Gross margin	-5,6%	21,8%	22,7%	28,7%	28,2%	28,3%	28,4%	28,4%
EBITDA margin	neg	neg	neg	neg	neg	6,4%	10,3%	12,3%
EBIT margin	neg	neg	neg	neg	neg	6,2%	10,1%	12,2%
EBT margin	neg	neg	neg	neg	neg	6,2%	10,1%	12,2%
Profit margin	neg	neg	neg	neg	neg	6,2%	10,1%	12,2%
Personnel costs	60,0%	44,4%	32,0%	26,9%	13,7%	10,1%	8,4%	7,5%
Total OPEX	121,6%	96,0%	66,9%	71,7%	30,0%	21,9%	18,1%	16,1%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	71,5%	59,4%	45,1%
ROIC	neg	neg	neg	neg	neg	74,0%	131,8%	163,1%
ROCE	neg	neg	neg	neg	neg	30,8%	32,9%	27,9%

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	18 823	34 354	48 262	58 113	66 830
Account receivable	9 159	13 602	13 977	13 072	28 715	40 400	48 719	56 027
Tax receivables	422	599	717	1 193	1 747	2 458	2 964	3 408
Prepaid costs & accrued inco	3 810	5 550	1 175	4 771	6 987	9 831	11 855	13 633
Other receivables	89	1 005	151	1 133	1 660	2 335	2 816	3 238
Cash and cash equivalents	34 082	21 634	66 464	16 081	14 253	33 705	83 101	149 133
Total current assets	54 641	54 837	88 497	55 073	87 716	136 990	207 567	292 270
Tangible assets	930	960	641	709	812	1 032	1 212	1 358
Intangible assets	11 683	2 874	6 526	5 065	4 125	3 360	2 737	2 229
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	12 665	3 886	7 219	5 826	4 989	4 445	4 001	3 639
Total assets	67 306	58 723	95 716	60 900	92 705	141 435	211 568	295 909
Accounts payable	8 078	10 813	15 001	28 235	41 225	57 914	69 735	80 196
Accrued cost & prepaid incon	7 496	3 196	5 653	11 928	15 722	19 662	23 710	27 267
Other liabilities	987	1 082	557	2 982	4 367	6 144	7 409	8 521
Total current liabilities	16 561	15 091	21 211	43 145	61 314	83 720	100 855	115 983
Other provisions	10 727	9 257	12 371	13 001	22 300	25 837	32 179	37 006
Total equity	40 018	34 375	62 134	4 754	9 092	31 878	78 534	142 920
Total equity and liabilities	67 306	58 723	95 716	60 900	92 705	141 435	211 568	295 909

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)	(55 218)	4 723	27 269	53 842	69 974
Changes in working capital	4 506	(14 114)	17 290	4 975	(16 302)	(7 416)	(4 046)	(3 542)
Investing activities	(1 056)	(447)	(5 966)	(292)	(250)	(400)	(400)	(400)
Financing activities	38 608	35 345	69 239	153	10 000	-	-	-
Cash flow for the period	15 572	(12 447)	44 853	(50 383)	(1 829)	19 452	49 396	66 032
Beginning cash balance	18 696	34 082	21 634	66 464	16 081	14 253	33 705	83 101
Adjustments	(186)	(1)	(23)	-	-	-	-	-
Ending cash balance	34 082	21 634	66 464	16 081	14 253	33 705	83 101	149 133

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Net revenues	29 777	29 349	19 640	28 229	22 500	59 640	43 106	60 076
Other revenues	93	136	24	30	30	31	31	31
Total revenues	29 870	29 485	19 664	28 259	22 530	59 670	43 137	60 107
Cost of goods sold	(23 683)	(21 535)	(13 477)	(20 122)	(16 200)	(42 941)	(30 943)	(43 124)
Gross profit	6 187	7 950	6 187	8 137	6 330	16 730	12 195	16 983
Personnel costs	(6 887)	(8 243)	(8 527)	(8 808)	(8 741)	(8 915)	(8 915)	(8 915)
Other external costs	(6 176)	(9 771)	(8 936)	(17 100)	(15 804)	(15 970)	(10 500)	(10 553)
Other operating expenses	107	(40)	(102)	(121)	(121)	(121)	(121)	(121)
EBITDA	(6 769)	(10 104)	(11 378)	(17 892)	(18 335)	(8 276)	(7 342)	(2 605)
Amortisation & depreciation	(535)	(1 082)	(531)	(538)	(315)	(301)	(289)	(277)
EBIT	(7 304)	(11 186)	(11 909)	(18 430)	(18 649)	(8 578)	(7 631)	(2 882)
Net financial items	19	28	32	1	-	-	-	-
EBT	(7 285)	(11 158)	(11 877)	(18 429)	(18 649)	(8 578)	(7 631)	(2 882)
Taxes	-	-	-	-	-	-	-	-
Net profit	(7 285)	(11 158)	(11 877)	(18 429)	(18 649)	(8 578)	(7 631)	(2 882)
Earnings per share (SEK)	(0,46)	(0,50)	(0,53)	(0,83)	(0,84)	(0,38)	(0,34)	(0,13)
Y-o-Y Growth (%)								
Net revenues	101,3%	36,9%	138,9%	12,1%	(24,4%)	103,2%	119,5%	112,8%
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	20,5%	26,6%	31,4%	28,7%	28,0%	28,0%	28,2%	28,2%
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	23,1%	28,1%	43,4%	31,2%	38,8%	14,9%	20,7%	14,8%
Total OPEX	43,5%	61,5%	89,4%	92,2%	109,6%	41,9%	45,3%	32,6%
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	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Inventories	9 203	6 013	7 594	2 051	8 877	18 823	18 650	23 630
Account receivable	14 040	13 977	5 974	12 953	7 397	13 072	16 534	19 751
Tax receivables	607	717	447	556	450	1 193	862	1 202
Prepaid costs & accrued inco	723	1 175	1 152	717	1 800	4 771	3 449	4 806
Other receivables	579	151	936	809	428	1 133	819	1 141
Cash and cash equivalents	84 681	66 464	53 332	38 246	16 327	16 081	11 916	12 855
Total current assets	109 833	88 497	69 435	55 332	35 278	55 073	52 230	63 385
Tangible assets	776	641	759	678	694	709	724	738
Intangible assets	7 438	6 526	6 069	5 612	5 331	5 065	4 812	4 571
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	8 266	7 219	6 880	6 342	6 078	5 826	5 588	5 361
Total assets	118 099	95 716	76 315	61 674	41 356	60 900	57 818	68 746
Accounts payable	22 382	15 001	8 807	11 313	12 427	28 235	25 432	33 081
Accrued cost & prepaid incon	8 214	5 653	5 493	6 079	4 500	11 928	7 759	10 814
Other liabilities	1 751	557	555	908	1 125	2 982	2 155	3 004
Total current liabilities	32 347	21 211	14 855	18 300	18 052	43 145	35 347	46 899
Other provisions	12 460	12 371	11 203	11 393	9 972	13 001	15 347	17 606
Total equity	73 292	62 134	50 257	31 981	13 332	4 754	7 124	4 241
Total equity and liabilities	118 099	95 716	76 315	61 674	41 356	60 900	57 818	68 746

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Operating activities	(4 403)	(10 165)	(12 514)	(17 701)	(19 756)	(5 247)	(4 995)	(347)
Changes in working capital	12 491	(8 017)	(426)	2 462	(2 113)	5 052	(9 120)	1 336
Investing activities	(257)	(35)	(192)	-	(50)	(50)	(50)	(50)
Financing activities	69 239	-	-	153	-	-	10 000	-
Cash flow for the period	77 070	(18 217)	(13 132)	(15 086)	(21 919)	(245)	(4 165)	939
Beginning cash balance	7 611	84 681	66 464	53 332	38 246	16 327	16 081	11 916
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	84 681	66 464	53 332	38 246	16 327	16 081	11 916	12 855

Source: Västra Hamnen Corporate Finance

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