

Update

2020-03-18

Hövding: Uncertain times ahead

- Virus-related uncertainties make us lower our sales forecast
- Recently closed equity issue secures financing until breakeven
- We cut our fair value interval to SEK 16.20 – 23.60 per share

Analysts

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Stock ticker: HOVD
Industry: Consumer goods
Listed on: Nasdaq First North

Latest stock price (SEK): 14,20
Market cap (MSEK): 335,0
Enterprise Value (MSEK): 296,8
Total number of shares (M): 23,59
- of which free float (M): 11,90

VHCF fair value per share

DCF model 16,20 - 23,60 SEK

Hövding Sverige AB

Address: Bergsgatan 33
214 22 Malmö

Webpage: hovding.se
CEO: Fredrik Carling

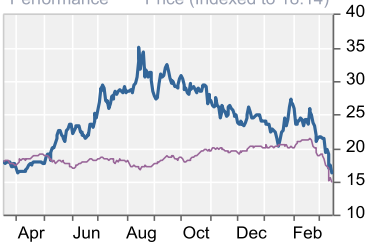
Main owners (31 Jul 2019)

Company	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

Hövding Sverige AB vs. OMXS30

Performance Price (Indexed to 18.14)



Source: FactSet Prices

	-1m	-3m	-12m
Change (%)	-32,5	-35,6	-9,0
52 w k range (Low /Hi) - SEK	15,10 / 38,10		

Source: FactSet

These are trying times for all businesses, and not least for those in consumer-facing industries. Due to the COVID-19 pandemic there are disruptions of supply lines. In addition, as more and more people practice “social distancing”, customers stay away from physical stores and restaurants. Nobody knows how deep and how long the slump will be, but it would be imprudent not to risk-adjust sales scenarios for consumer goods companies at the present stage.

Hövding has already experienced some supply side irregularities, as could be suspected given that its main supplier is located in China. During the most intensive lockdown period, the company lost about two weeks' worth of production during the standstill. However, Hövding's supply chain is designed for fairly long lead times, which means the units produced in February were not expected to be sold for 3 or 4 months anyway. Besides, the supplier Nihon Plast has informed Hövding that the lost production will be recovered soon.

There is a separate problem with transports. Due to freight disruptions, shipments from China are currently 3 weeks behind schedule. Even this delay will eventually be caught up, and the company expects the delay to be shortened by about one week per month from here, meaning that everything will be on schedule again during the course of May. The implication is that inventories in Europe will be lower during this period, so shortages could keep Hövding from meeting customer demand if sales should increase unexpectedly in the next few months.

We think this is a minor concern. The real problem will probably be the exact opposite, that demand drops as customers stay away from the shops.

Table 1: Financial Overview

MSEK	2 018	2 019	2020e	2021e	2022e
Net sales	92,5	112,9	203,1	326,5	406,8
Grow th (%)	63,2%	22,0%	79,8%	60,8%	24,6%
Gross margin (%)	22,7%	26,1%	27,0%	28,3%	28,4%
EBIT	(41,5)	(51,0)	(24,6)	11,4	32,7
EBIT margin (%)	neg	neg	neg	3,5%	8,0%
Cash holdings	66,5	20,4	20,0	42,1	84,5
Total assets	95,7	78,8	85,9	136,5	193,7
Total equity	62,1	11,4	9,7	21,1	53,8
Solidity (%)	64,9%	14,4%	11,3%	15,5%	27,8%
P/E	neg	neg	neg	31,9	11,1
ROE	neg	neg	neg	53,9%	60,7%
EV/EBIT (x)	neg	neg	neg	28,6	9,9
EV/Sales (x)	3,5	2,9	1,6	1,0	0,8

Source: Västra Hamnen Corporate Finance

Hövding's products are sold through both physical shops and online channels. We estimate that about one third of total sales originate online, and online sales may to some extent make up for dwindling high street sales as customers prefer to shop from home. But with radically fewer people out shopping, it is a fair guess that total sales will shrink noticeably.

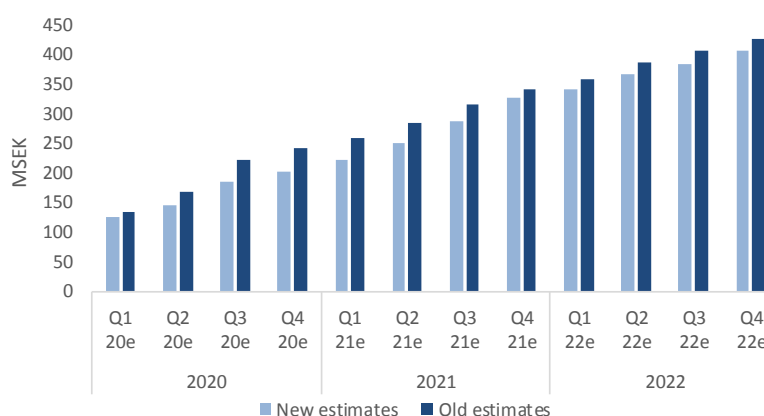
Consumer durables at risk

To make matters worse, the slump in consumer spending has already led to layoffs in many of the directly affected sectors, which could be an early warning of a serious downturn in the economy. The knock-on effects could put jobs in other sectors in jeopardy as well. Typically, consumer durables are among the products most severely hit when consumers prepare for hard times, and Hövding helmets belong in this category. As a silver lining though, the fear of virus contagion is according to anecdote driving people away from public transport and onto other means, including bicycling. This could possibly support demand for Hövding helmets among the newly converted bicycle commuters.

We lower our sales forecast

Taken together, we remain convinced that Hövding will continue to grow on the strength of the new Hövding 3. The macroeconomic scenario will however make it tough to grow at the pace we forecasted in our previous scenario. It is difficult to predict how hard the current crisis will hit, but given the uncertainty, the prudent thing to do is to adjust our economic scenario to a slower growth path for sales this year. We have therefore lowered the projected sales forecast for 2020 to reflect the ongoing events. As can be seen in Figure 1 below, we believe that the most substantial shock to the economy from COVID-19 is found in the near term, and eventually we expect the sales to recover some of the missed sales from this year. As a consequence, we do not believe that Hövding will reach its revenue target of SEK 250 million this year, and we expect the sales to be closer to SEK 200 million.

Figure 1: 12-months rolling sales forecast



Higher cost of manufacturing

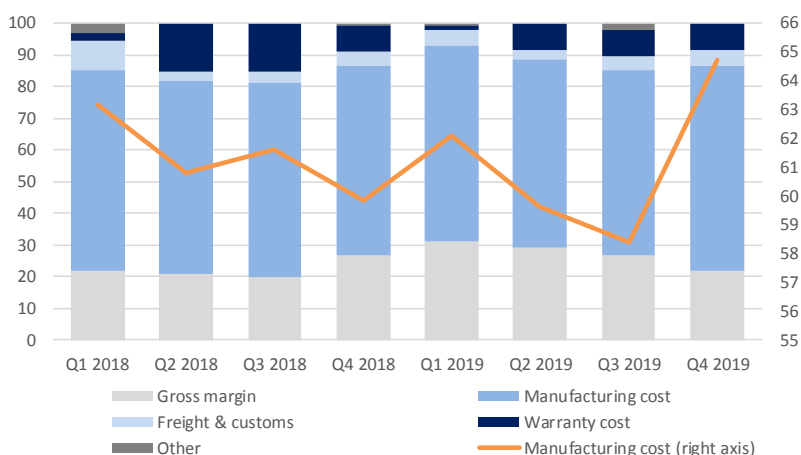
In the Q4 report, Hövding reported a gross margin of 22 percent, which is the lowest in more than a year. However, this number is affected by one-off transportation costs during the period. When adjusting for this extra cost, the gross margin came in at around 25 percent. When breaking down the cost components of the new Hövding 3 further, the manufacturing cost stands out. As can be seen in Figure 2 below, the manufacturing cost has increased to the highest level in the last two years. This is related to several of the new features in the Hövding 3 which is making it more expensive to manufacture than its predecessor, such as an adjustable collar and Bluetooth connectivity. It is not reasonable to draw any significant conclusions from comparing the gross margins between two different models, but it can rather work as a benchmark for what to expect from the gross margin in the future.

We temporary lower our estimated gross margin

Based on this, we have chosen to lower our expected gross margin for H1 2020 to 25 percent, down from 28 percent. However, with the upgraded functions from the new version, we believe that Hövding will be able to gradually increase the sales price charged towards distributors and resellers, which will boost the margins ahead. In addition, as Hövding manufactures higher quantities, it will be able to negotiate better contracts on goods used in

production, leading to an improved margin. It is also reasonable to believe that the warranty cost component will decrease, as Hövding collects user feedback and improves its products. We have therefore chosen to model a gross margin of 28 percent from H2 2020 and onwards.

Figure 2: Unit cost by component, percent of selling price



Source: Hövding, Västra Hamnen calculations

Cost shifting towards marketing

As for operating expenditure, we believe that the cost structure will change moving forward. Previously, development cost has been a big cost component, which we now believe will shift towards higher marketing costs. We believe that these two effects will cancel out and we have therefore not changed our forecast for operating expenditure.

Looking at the quarterly financial outcomes, we had foreseen higher Other Operating Expenses due to extraordinary expenses related to the launch of the Hövding 3. We estimated this item to SEK 16 million, compared to the actual cost of SEK 10 million. This difference could be explained by the amount of free advertising that Hövding 3 received through reseller campaigns. However, moving into 2020 this hype might have settled, leading Hövding to pay more for advertising.

For the balance sheet items, the cash reserves came in at almost SEK 5 million higher than our estimates. This is most likely due to the hefty increase in accounts payable during the period. According to the company, Hövding has been able to negotiate better credit terms with one of its main suppliers, leading to a working capital reduction of almost SEK 6 million, boosting the cash reserve compared to our estimates. The reason why Total Equity was reported SEK 6.6 million higher than we expected is that the company has decided to retroactively restate previous quarters' development costs as an intangible asset.

Table 2: Estimates vs actual, Q4 2019

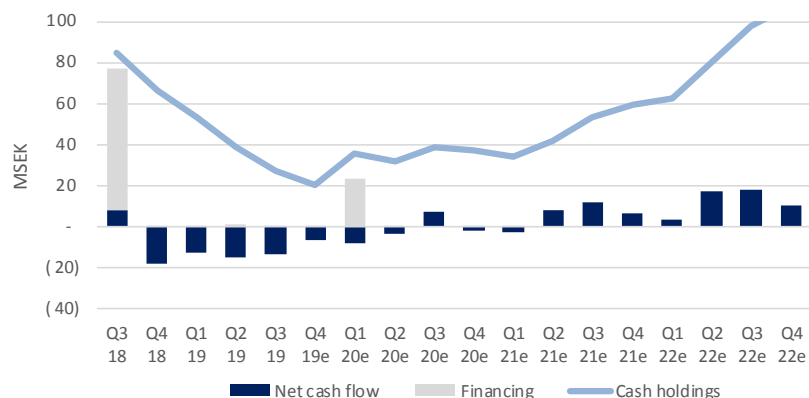
kSEK	Q4 '18	Q4 '19est	Q4 '19act	Diff
Sold units	19 061	36 000	28 551	(7 449)
Net Revenues	29 349	55 080	46 467	(8 613)
Other Revenues	136	13	504	491
Total Revenues	29 485	55 093	46 971	(8 122)
Cost of Goods Sold	(21 535)	(39 658)	(36 264)	3 394
Personnel Expenses	(8 243)	(8 915)	(9 664)	(749)
Other Operating Expenses	(9 811)	(16 017)	(10 272)	5 745
Total OPEX	(39 589)	(64 590)	(56 200)	8 390
EBITDA	(10 104)	(9 497)	(9 229)	268
Amortisation and Depreciation	(1 082)	(391)	(980)	(589)
EBIT	(11 186)	(9 888)	(10 209)	(321)
Net Financial Items	28	-	72	72
EBT	(11 158)	(9 888)	(10 137)	(249)
Net Profit	(11 158)	(9 888)	(10 137)	(249)
Cash and Equivalents	66 464	15 606	20 353	4 747
Total Equity	62 134	4 790	11 359	6 569

Source: Västra Hamnen Corporate Finance

We see no more equity issues

Hövding recently finished a capital increase that brought in SEK 23.3 million after transaction costs. We had anticipated a capital increase during the quarter, although slightly smaller at SEK 10 million. We believe that this capital increase will be sufficient to bring the company to a self-financing state with positive cash flows and we have therefore not modelled any more capital acquisitions.

Figure 3: Cash flow and cash holdings



Source: Västra Hamnen Corporate Finance

We lower our fair value interval

The world is facing unprecedented challenges related to the outbreak of COVID-19. However, it is too early to say how these effects will play out in the long run. At the current stage we feel that it is appropriate to change our valuation model as household spending likely will drop significantly. Hövding has good possibilities to tackle a falling supply of products, but if the demand side is non-present there is not much that can be done. After adjusting our valuation model with the aforementioned changes, it is pointing to a lower value per share. **We therefore lower our fair value interval to SEK 16.20 – 23.60 per share.**

Income Statement - Annual Data

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Net revenues	35 723	56 694	92 536	112 919	203 070	326 521	406 761	467 775
Other revenues	9 615	10 289	2 076	571	2 067	2 151	2 238	2 329
Total revenues	45 338	66 983	94 612	113 490	205 137	328 672	408 999	470 104
Cost of goods sold	(37 721)	(44 359)	(71 535)	(83 490)	(148 159)	(234 034)	(291 113)	(334 780)
Gross profit	7 617	22 624	23 077	30 000	56 978	94 638	117 886	135 324
Personnel costs	(21 435)	(25 194)	(29 651)	(35 257)	(35 930)	(37 297)	(38 811)	(39 887)
Other external costs	(21 249)	(27 662)	(31 776)	(42 801)	(42 316)	(43 169)	(44 039)	(44 926)
Other operating expenses	(764)	(1 571)	(481)	(270)	-	-	-	-
EBITDA	(35 831)	(31 803)	(38 831)	(48 328)	(21 268)	14 173	35 036	50 511
Amortisation & depreciation	(9 417)	(9 227)	(2 656)	(2 654)	(3 350)	(2 788)	(2 345)	(1 984)
EBIT	(45 248)	(41 030)	(41 487)	(50 982)	(24 617)	11 385	32 691	48 526
Net financial items	137	42	7	53	-	-	-	-
EBT	(45 111)	(40 988)	(41 480)	(50 929)	(24 617)	11 385	32 691	48 526
Taxes	-	-	-	-	-	-	-	-
Net profit	(45 111)	(40 988)	(41 480)	(50 929)	(24 617)	11 385	32 691	48 526
Earnings per share (SEK)	(5,51)	(2,77)	(2,25)	(2,33)	(1,10)	0,51	1,47	2,18
Growth (%)								
Net revenues	na	58,7%	63,2%	22,0%	79,8%	60,8%	24,6%	15,0%
EBITDA	na	na	na	na	na	na	147,2%	44,2%
EBIT	na	na	na	na	na	na	187,1%	48,4%
Net profit	na	na	na	na	na	na	187,1%	48,4%
% of revenues (%)								
Gross margin	-5,6%	21,8%	22,7%	26,1%	27,0%	28,3%	28,4%	28,4%
EBITDA margin	neg	neg	neg	neg	neg	4,3%	8,6%	10,7%
EBIT margin	neg	neg	neg	neg	neg	3,5%	8,0%	10,3%
EBT margin	neg	neg	neg	neg	neg	3,5%	8,0%	10,3%
Profit margin	neg	neg	neg	neg	neg	3,5%	8,0%	10,3%
Personnel costs	60,0%	44,4%	32,0%	31,2%	17,7%	11,4%	9,5%	8,5%
Total OPEX	121,6%	96,0%	66,9%	69,4%	38,5%	24,6%	20,4%	18,1%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	53,9%	60,7%	47,4%
ROIC	neg	neg	neg	neg	neg	478,3%	-1143,4%	-659,7%
ROCE	neg	neg	neg	neg	neg	20,2%	31,0%	28,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Inventories	7 079	12 447	6 013	20 848	25 163	40 399	48 645	55 942
Account receivable	9 159	13 602	13 977	18 019	21 032	33 819	40 782	46 900
Tax receivables	422	599	717	775	1 260	2 026	2 443	2 810
Prepaid costs & accrued inco	3 810	5 550	1 175	159	1 625	2 613	3 151	3 623
Other receivables	89	1 005	151	585	1 833	2 948	3 555	4 088
Cash and cash equivalents	34 082	21 634	66 464	20 353	20 030	42 126	84 521	140 826
Total current assets	54 641	54 837	88 497	60 739	70 943	123 931	183 097	254 188
Tangible assets	930	960	641	2 474	2 249	2 203	2 165	2 135
Intangible assets	11 683	2 874	6 526	15 499	12 624	10 282	8 375	6 822
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	12 665	3 886	7 219	18 025	14 925	12 537	10 592	9 008
Total assets	67 306	58 723	95 716	78 764	85 868	136 468	193 690	263 197
Accounts payable	8 078	10 813	15 001	49 606	45 293	72 718	87 562	100 696
Accrued cost & prepaid incon	7 496	3 196	5 653	5 865	11 515	16 458	19 847	22 824
Other liabilities	987	1 082	557	1 477	2 058	3 309	3 990	4 588
Total current liabilities	16 561	15 091	21 211	56 948	58 866	92 485	111 399	128 109
Other provisions	10 727	9 257	12 371	10 457	17 261	22 856	28 473	32 744
Total equity	40 018	34 375	62 134	11 359	9 742	21 126	53 817	102 344
Total equity and liabilities	67 306	58 723	95 716	78 764	85 868	136 468	193 690	263 197

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Operating activities	(26 486)	(33 231)	(35 710)	(50 189)	(14 464)	19 768	40 653	54 781
Changes in working capital	4 506	(14 114)	17 290	17 384	(8 610)	2 729	2 142	1 923
Investing activities	(1 056)	(447)	(5 966)	(13 460)	(250)	(400)	(400)	(400)
Financing activities	38 608	35 345	69 239	153	23 000	-	-	-
Cash flow for the period	15 572	(12 447)	44 853	(48 099)	(323)	22 097	42 394	56 305
Beginning cash balance	18 696	34 082	21 634	66 464	18 365	18 042	40 138	82 533
Adjustments	(186)	(1)	(23)	-	-	-	-	-
Ending cash balance	34 082	21 634	66 464	18 365	18 042	40 138	82 533	138 838

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Net revenues	19 640	28 229	18 583	46 467	31 466	49 022	58 608	63 974
Other revenues	24	30	13	504	509	514	519	524
Total revenues	19 664	28 259	18 596	46 971	31 975	49 536	59 128	64 498
Cost of goods sold	(13 477)	(20 122)	(13 627)	(36 264)	(23 522)	(36 645)	(42 070)	(45 922)
Gross profit	6 187	8 137	4 969	10 707	8 453	12 891	17 057	18 576
Personnel costs	(8 527)	(8 808)	(8 258)	(9 664)	(8 915)	(8 915)	(9 005)	(9 095)
Other external costs	(7 989)	(13 215)	(11 325)	(10 272)	(10 500)	(10 553)	(10 605)	(10 658)
Other operating expenses	(102)	(121)	(47)	-	-	-	-	-
EBITDA	(10 431)	(14 007)	(14 661)	(9 229)	(10 962)	(6 577)	(2 553)	(1 176)
Amortisation & depreciation	(531)	(538)	(605)	(980)	(899)	(856)	(816)	(779)
EBIT	(10 962)	(14 545)	(15 266)	(10 209)	(11 861)	(7 433)	(3 368)	(1 955)
Net financial items	32	1	(52)	72	-	-	-	-
EBT	(10 930)	(14 544)	(15 318)	(10 137)	(11 861)	(7 433)	(3 368)	(1 955)
Taxes	-	-	-	-	-	-	-	-
Net profit	(10 930)	(14 544)	(15 318)	(10 137)	(11 861)	(7 433)	(3 368)	(1 955)
Earnings per share (SEK)	(0,53)	(0,65)	(0,69)	(0,45)	(0,53)	(0,33)	(0,15)	(0,09)
Y-o-Y Growth (%)								
Net revenues	138,9%	12,1%	(37,6%)	58,3%	60,2%	73,7%	215,4%	37,7%
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	31,4%	28,7%	26,7%	22,0%	25,2%	25,2%	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	43,4%	31,2%	44,4%	20,8%	28,3%	18,2%	15,4%	14,2%
Total OPEX	84,6%	78,4%	105,6%	42,9%	61,7%	39,7%	33,5%	30,9%
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 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Inventories	7 594	2 051	16 389	20 848	14 177	20 080	23 052	25 163
Account receivable	5 974	12 953	11 127	18 019	12 069	16 117	19 269	21 032
Tax receivables	447	556	666	775	620	966	1 154	1 260
Prepaid costs & accrued inco	1 152	717	549	159	799	1 245	1 489	1 625
Other receivables	936	809	330	585	902	1 405	1 680	1 833
Cash and cash equivalents	53 332	38 246	26 687	20 353	26 838	19 253	20 054	20 030
Total current assets	69 435	55 332	55 748	60 739	55 405	59 065	66 697	70 943
Tangible assets	759	678	2 660	2 474	2 400	2 330	2 289	2 249
Intangible assets	7 016	10 444	11 975	15 499	14 724	13 988	13 288	12 624
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	7 827	11 174	14 687	18 025	17 176	16 370	15 629	14 925
Total assets	77 262	66 506	70 435	78 764	72 581	75 435	82 326	85 868
Accounts payable	8 807	11 313	33 207	49 606	30 933	36 143	41 494	45 293
Accrued cost & prepaid incon	5 493	6 079	5 316	5 865	5 664	8 824	10 550	11 515
Other liabilities	555	908	696	1 477	1 012	1 577	1 885	2 058
Total current liabilities	14 855	18 300	39 219	56 948	37 609	46 544	53 929	58 866
Other provisions	11 203	11 393	9 720	10 457	12 474	13 826	16 701	17 261
Total equity	51 204	36 813	21 496	11 359	22 498	15 065	11 697	9 742
Total equity and liabilities	77 262	66 506	70 435	78 764	72 581	75 435	82 326	85 868

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Operating activities	(11 567)	(13 816)	(18 481)	(8 530)	(8 944)	(5 225)	322	(616)
Changes in working capital	(426)	2 462	9 052	6 514	(7 521)	(2 309)	553	667
Investing activities	(1 139)	(3 885)	(4 118)	(4 318)	(50)	(50)	(75)	(75)
Financing activities	-	153	-	-	23 000	-	-	-
Cash flow for the period	(13 132)	(15 086)	(13 547)	(6 334)	6 485	(7 584)	800	(24)
Beginning cash balance	66 464	53 332	38 246	26 687	20 353	26 838	19 253	20 054
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	53 332	38 246	26 687	20 353	26 838	19 253	20 054	20 030

Source: Västra Hamnen Corporate Finance

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