

Update: Report Q3 2020

2020-10-21

Hövding: Back on track

- Returns from crisis with its best-ever sales volume
- Near-term uncertainty but cost cuts and beneficial trends brighten the outlook
- We raise our fair value estimate to SEK 21.10 – 30.50 per share

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Stock ticker:	HOVD
Industry:	Consumer goods
Listed on:	Nasdaq First North
Latest stock price (SEK):	26,75
Market cap (MSEK):	743,7
Enterprise Value (MSEK):	677,6
Total number of shares (M):	27,52
- of which free float (M):	13,90

VHCF fair value per share

DCF model 21,10 - 30,50 SEK

Hövding Sverige AB

Address: Bergsgatan 33
214 22 Malmö

Webpage: hovding.se

CEO: Fredrik Carling

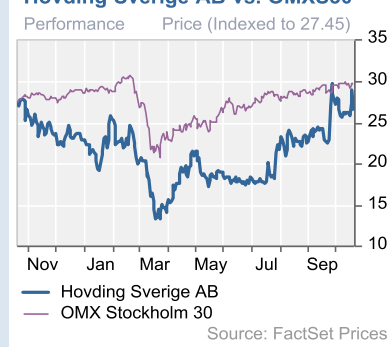
Main owners (30 Jun 2020)

Capital (%)

Fosielund Holding AB	21,0
Safetech International Holding AB	20,0
Carl-Olof och Jenz Hamrins Stiftelse	10,3
VIH Sw eden AB	10,2

Stock price history

Hövding Sverige AB vs. OMXS30



	-1m	-3m	-12m
Change (%)	17,1	31,6	-2,6
52 w k range (Low /Hi) - SEK	12,77 / 30,00		

Source: FactSet

Hövding's report for the third quarter was generally better than we had expected and suggests that the company has made its way through most of its COVID-induced problems. In terms of units sold, Q3 2020 was the company's best quarter ever, narrowly beating Q4 of last year. The missed sales in Q1 and Q2 appear to have been primarily caused by lockdowns. Uncertainty about the near term is still high, not least as some European countries are imposing partial lockdowns due to a second wave of infections. Long term, we see encouraging signs in an accelerated shift of commuters from public transport to bicycle riding, and the rise of eBikes. Together with tighter cost control, this has triggered an upward revision of our fair value estimate for the share.

The Q3 financials of the company beat our estimates on almost all accounts, cf. Table 2 next page. Revenues beat our estimate by SEK 6.3 million or more than 15 percent. This is explained by the sales volume, which overshot our expectation equally much, posting 28.6 thousand units sold as opposed to our estimate of 25 thousand. Because of the higher volume, Cost of goods sold was naturally higher. Gross profit thus came in SEK 2.3 million better than our estimate at SEK 12.4 million and the gross margin matched our forecast at 24 percent.

Operating costs were slightly higher than our expectation. This was fully explained by higher than expected Personnel expenses, which came in SEK 1.6 million higher than our estimate. This number needs a little explanation, however. In the report, Hövding points out that OPEX in Q3 was boosted by SEK 3.8 million in one-time charges related to downsizing, which will lead to cost savings further out. Of the 3.8 million, SEK 2.9 million were Personnel expenses and 0.9 million were included in Other costs. Adjusted for these extraordinary items, OPEX was actually SEK 3.1 million lower than our estimate, see Table 3 next page.

Table 1: Financial Overview

MSEK	2 018	2 019	2020e	2021e	2022e
Net sales	92,5	112,9	154,2	280,5	427,0
Grow th (%)	63,2%	22,0%	36,5%	81,9%	52,2%
Gross margin (%)	22,7%	26,1%	23,4%	28,3%	28,4%
EBIT	(41,5)	(51,0)	(37,9)	16,5	57,1
EBIT margin (%)	neg	neg	neg	5,8%	13,3%
Cash holdings	66,5	20,4	66,8	88,3	162,6
Total assets	95,7	78,8	125,5	176,9	287,8
Total equity	62,1	11,4	54,7	71,2	128,3
Solidity (%)	64,9%	14,4%	43,5%	40,2%	44,6%
P/E	neg	neg	neg	45,1	13,0
ROE	neg	neg	neg	23,2%	44,5%
EV/EBIT (x)	neg	neg	neg	41,1	11,9
EV/Sales (x)	7,3	6,0	4,4	2,4	1,6

Source: Västra Hamnen Corporate Finance

Table 2: Estimates vs actual, Q3 2020

kSEK	Q3 '19	Q3 '20est	Q3 '20act	Diff
Sold units	11 199	25 000	28 586	3 586
Net Revenues	18 583	40 400	45 312	4 912
Other Revenues	13	355	1 728	1 373
Total Revenues	18 596	40 755	47 040	6 285
Cost of Goods Sold	(13 627)	(30 600)	(34 628)	(4 028)
Personnel Expenses	(8 258)	(8 532)	(10 107)	(1 575)
Other Operating Expenses	(11 372)	(9 893)	(8 993)	900
Total OPEX	(33 257)	(49 026)	(53 728)	(4 702)
EBITDA	(14 661)	(8 271)	(6 688)	1 583
Amortisation and Depreciation	(605)	(829)	(1 190)	(361)
EBIT	(15 266)	(9 100)	(7 878)	1 222
Net Financial Items	(52)	-	(219)	(219)
EBT	(15 318)	(9 100)	(8 097)	1 003
Net Profit	(15 318)	(9 100)	(8 097)	1 003
Cash and Equivalents	26 687	65 361	66 134	773
Total Equity	21 496	57 766	56 119	(1 647)

Source: Västra Hamnen Corporate Finance

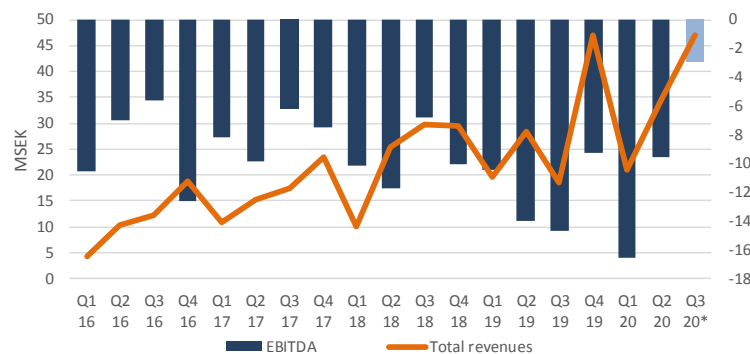
Table 3: Estimates vs actual, excluding one-time charges

kSEK	Q3 '20est	Q3 '20act	Diff
Sold units	25 000	28 586	3 586
Net Revenues	40 400	45 312	4 912
Other Revenues	355	1 728	1 373
Total Revenues	40 755	47 040	6 285
Cost of Goods Sold	(30 600)	(34 628)	(4 028)
Personnel Expenses	(8 532)	(7 209)	1 323
Other Operating Expenses	(9 893)	(8 141)	1 752
Total OPEX	(49 026)	(49 978)	(952)
EBITDA	(8 271)	(2 938)	5 333
Amortisation and Depreciation	(829)	(1 190)	(361)
EBIT	(9 100)	(4 128)	4 972
Net Financial Items	-	(219)	(219)
EBT	(9 100)	(4 347)	4 753
Net Profit	(9 100)	(4 347)	4 753
Cash and Equivalents	65 361	66 134	773
Total Equity	57 766	56 119	(1 647)

Source: Västra Hamnen Corporate Finance

Adjusted for one-time charges, EBITDA came in a full SEK 5.3 million stronger than our estimate with a print at SEK -2.9 million. This is the smallest operating loss since Hövding went public (see Figure 1 below) and shows that breakeven is within reach.

Figure 1: Revenues and EBITDA



* Q3 EBITDA adjusted for one-time charges

Source: Västra Hamnen Corporate Finance

Resurgence of COVID-19 infections a short-term risk

It is obvious that the lockdowns this spring caused a marked slowdown in sales. The question now is whether the story could repeat. The situation is currently very uncertain in many European countries, with rapid increase in infection rates and a renewal of protective measures. Among Hövding's most important markets, Germany has already put in place some restrictive measures, although nothing on the scale of the lockdowns in the spring. The Nordics are so far operating as in recent months, but it is hard to rule anything out at this point. Therefore, we have decided to scale back our revenue estimate for Hövding for Q4 this year, which is usually the strongest quarter of the year thanks to Christmas shopping. We cut our sales estimate from SEK 60.4 million to SEK 55.2 million simply as a risk-adjustment. This would still make the current quarter Hövding's best on record.

More bike commuters and more eBikes

Looking further ahead, we are encouraged by the strong Q3 and take that as indication that Hövding's product is enjoying healthy demand, despite – or maybe partly because of – the pandemic. Sales of commuter bicycles have reportedly been very strong in recent months as people who go back to work try to avoid public transport. The everyday bicyclists are Hövding's target customers. At the same time, media report that the percentage of commuters choosing an electric bicycle (eBike) over a standard one has never been higher. With the higher speed of eBikes comes a higher tendency to wear protective headgear and with the higher cost comes a higher propensity to spend money on a premium helmet.

Getting a real foothold in Germany

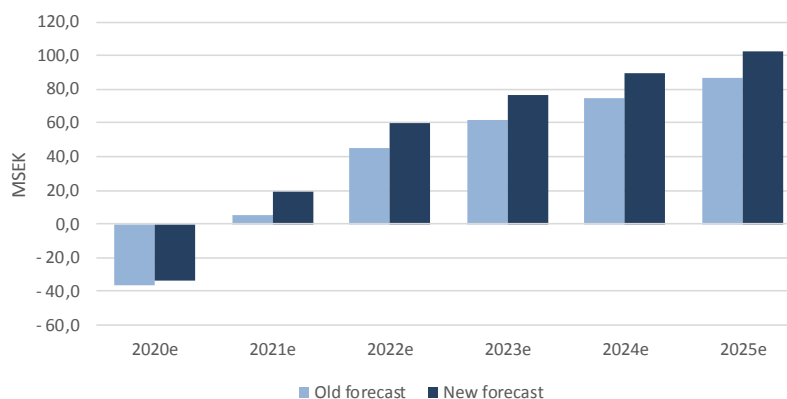
In addition, we regard it as positive that Hövding is making a real impact on the big German market. Sales in Germany increased 90 percent in Q3 compared with Q2, which is hard to evaluate since Q2 was hampered by lockdowns. More persuading was the fact that Germany accounted for 27 percent of sales in Q3. Given Hövding's strong focus on big cities,

we assume that the thousands of new helmets sold in Germany were concentrated to a small handful of cities, which greatly contributes to their visibility on the streets. For an innovative product like Hövding, visibility can drive network effects where more customers consider the product the more units they see.

Improved EBITDA outlook in our scenario

Summing the positives while weighing the near-term uncertainty, we have made a small upward revision of our sales forecast. In addition, based on the company's statement that the now completed cost cuts will lead to savings of about SEK 7 million per year, we have also trimmed the OPEX forecast in our model. Taken together, our EBITDA estimates for the next few years are revised slightly higher, cf. Figure 2 below.

Figure 2: EBITDA, new and old forecast



Source: Västra Hamnen Corporate Finance

We see fair value at 21.10 - 30.50 SEK per share

The changes are substantial enough to trigger an upward revision of our valuation interval for the share. From our previous fair value estimate of SEK 18.40 – 26.30 SEK per share, **we now raise our fair value interval to SEK 21.10 – 30.50 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	154 191	280 518	427 042	491 099
Other revenues	9 615	10 289	2 076	571	3 403	4 016	4 149	4 219
Total revenues	45 338	66 983	94 612	113 490	157 593	284 535	431 191	495 317
Cost of goods sold	(37 721)	(44 359)	(71 535)	(83 490)	(118 070)	(201 061)	(305 628)	(351 473)
Gross profit	7 617	22 624	23 077	30 000	39 523	83 474	125 563	143 845
Personnel costs	(21 435)	(25 194)	(29 651)	(35 257)	(35 949)	(29 871)	(31 084)	(31 946)
Other external costs	(21 249)	(27 662)	(31 776)	(42 801)	(34 257)	(33 138)	(33 806)	(34 487)
Other operating expenses	(764)	(1 571)	(481)	(270)	(2 863)	(1 200)	(1 200)	(1 200)
EBITDA	(35 831)	(31 803)	(38 831)	(48 328)	(33 545)	19 265	59 473	76 212
Amortisation & depreciation	(9 417)	(9 227)	(2 656)	(2 654)	(4 352)	(2 763)	(2 325)	(1 968)
EBIT	(45 248)	(41 030)	(41 487)	(50 982)	(37 897)	16 502	57 149	74 245
Net financial items	137	42	7	53	(430)	-	-	-
EBT	(45 111)	(40 988)	(41 480)	(50 929)	(38 327)	16 502	57 149	74 245
Taxes	-	-	-	-	-	-	-	-
Net profit	(45 111)	(40 988)	(41 480)	(50 929)	(38 327)	16 502	57 149	74 245
Earnings per share (SEK)	(5,51)	(2,77)	(2,25)	(2,33)	(1,57)	0,60	2,08	2,70
Growth (%)								
Net revenues	na	58,7%	63,2%	22,0%	36,5%	81,9%	52,2%	15,0%
EBITDA	na	na	na	na	na	na	208,7%	28,1%
EBIT	na	na	na	na	na	na	246,3%	29,9%
Net profit	na	na	na	na	na	na	246,3%	29,9%
% of revenues (%)								
Gross margin	-5,6%	21,8%	22,7%	26,1%	23,4%	28,3%	28,4%	28,4%
EBITDA margin	neg	neg	neg	neg	neg	6,8%	13,8%	15,4%
EBIT margin	neg	neg	neg	neg	neg	5,8%	13,3%	15,0%
EBT margin	neg	neg	neg	neg	neg	5,8%	13,3%	15,0%
Profit margin	neg	neg	neg	neg	neg	5,8%	13,3%	15,0%
Personnel costs	60,0%	44,4%	32,0%	31,2%	23,3%	10,6%	7,3%	6,5%
Total OPEX	121,6%	96,0%	66,9%	69,4%	47,4%	22,9%	15,5%	13,8%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	23,2%	44,5%	36,7%
ROIC	neg	neg	neg	neg	neg	527,9%	-1030,8%	-719,1%
ROCE	neg	neg	neg	neg	neg	14,5%	28,8%	24,9%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Subscr but not paid-in cap	-	-	-	-	-	-	-	-
Inventories	7 079	12 447	6 013	20 848	22 000	37 596	56 588	65 077
Account receivable	9 159	13 602	13 977	18 019	17 896	31 472	47 441	54 557
Tax receivables	422	599	717	775	1 072	1 885	2 842	3 268
Prepaid costs & accrued incom	3 810	5 550	1 175	159	1 383	2 431	3 665	4 215
Other receivables	89	1 005	151	585	1 560	2 743	4 135	4 756
Cash and cash equivalents	34 082	21 634	66 464	20 353	66 805	88 301	162 607	245 141
Total current assets	54 641	54 837	88 497	60 739	110 716	164 430	277 280	377 014
Tangible assets	930	960	641	2 474	1 947	1 957	1 965	1 972
Intangible assets	11 683	2 874	6 526	15 499	12 792	10 419	8 486	6 912
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	12 665	3 886	7 219	18 025	14 791	12 428	10 503	8 936
Total assets	67 306	58 723	95 716	78 764	125 507	176 858	287 783	385 950
Accounts payable	8 078	10 813	15 001	49 606	46 201	67 674	101 859	117 138
Accrued cost & prepaid income	7 496	3 196	5 653	5 865	9 798	15 317	23 088	26 551
Other liabilities	987	1 082	557	1 477	1 751	3 079	4 642	5 338
Total current liabilities	16 561	15 091	21 211	56 948	57 750	86 069	129 589	149 027
Other provisions	10 727	9 257	12 371	10 457	13 106	19 636	29 893	34 377
Total equity	40 018	34 375	62 134	11 359	54 651	71 153	128 301	202 546
Total equity and liabilities	67 306	58 723	95 716	78 764	125 507	176 858	287 783	385 950

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)	(31 194)	25 795	69 730	80 696
Changes in working capital	4 506	(14 114)	17 290	17 384	(2 855)	(3 899)	4 976	2 237
Investing activities	(1 056)	(447)	(5 966)	(13 460)	(1 119)	(400)	(400)	(400)
Financing activities	38 608	35 345	69 239	153	81 620	-	-	-
Cash flow for the period	15 572	(12 447)	44 853	(48 099)	46 452	21 496	74 306	82 534
Beginning cash balance	18 696	34 082	21 634	66 464	18 365	64 817	86 313	160 619
Adjustments	(186)	(1)	(23)	-	-	-	-	-
Ending cash balance	34 082	21 634	66 464	18 365	64 817	86 313	160 619	243 153

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e
Net revenues	18 583	46 467	20 953	33 493	45 312	54 433	41 714	62 590
Other revenues	13	504	35	852	1 728	788	859	1 067
Total revenues	18 596	46 971	20 988	34 345	47 040	55 220	42 573	63 657
Cost of goods sold	(13 627)	(36 264)	(17 881)	(25 410)	(34 628)	(40 151)	(29 899)	(44 861)
Gross profit	4 969	10 707	3 107	8 935	12 412	15 069	12 675	18 796
Personnel costs	(8 258)	(9 664)	(9 926)	(8 632)	(10 107)	(7 284)	(7 357)	(7 430)
Other external costs	(11 325)	(10 272)	(8 305)	(9 629)	(8 141)	(8 182)	(8 223)	(8 264)
Other operating expenses	(47)	-	(1 495)	(216)	(852)	(300)	(300)	(300)
EBITDA	(14 661)	(9 229)	(16 619)	(9 542)	(6 688)	(696)	(3 204)	2 802
Amortisation & depreciation	(605)	(980)	(1 196)	(1 194)	(1 190)	(772)	(737)	(705)
EBIT	(15 266)	(10 209)	(17 815)	(10 736)	(7 878)	(1 468)	(3 941)	2 097
Net financial items	(52)	72	(129)	(82)	(219)	-	-	-
EBT	(15 318)	(10 137)	(17 944)	(10 818)	(8 097)	(1 468)	(3 941)	2 097
Taxes	-	-	-	-	-	-	-	-
Net profit	(15 318)	(10 137)	(17 944)	(10 818)	(8 097)	(1 468)	(3 941)	2 097
Earnings per share (SEK)	(0,69)	(0,45)	(0,76)	(0,46)	(0,29)	(0,05)	(0,14)	0,08
Y-o-Y Growth (%)								
Net revenues	(37,6%)	58,3%	6,7%	18,6%	143,8%	17,1%	99,1%	86,9%
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	26,7%	22,0%	14,7%	24,1%	23,6%	26,2%	28,3%	28,3%
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	44,4%	20,8%	47,4%	25,8%	22,3%	13,4%	17,6%	11,9%
Total OPEX	105,6%	42,9%	94,1%	55,2%	42,2%	29,0%	38,1%	25,6%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	4,0%
ROIC	neg	neg	neg	neg	neg	neg	neg	(514,6%)
ROCE	neg	neg	neg	neg	neg	neg	neg	2,5%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e
Subscr but not paid-in cap	-	-	12 902	-	-	-	-	-
Inventories	16 389	20 848	35 821	29 234	27 792	22 000	16 383	24 581
Account receivable	11 127	18 019	5 425	11 991	16 029	17 896	13 714	20 577
Tax receivables	666	775	520	644	768	1 072	822	1 233
Prepaid costs & accrued incom	549	159	1 780	1 293	506	1 383	1 060	1 590
Other receivables	330	585	743	645	595	1 560	1 195	1 794
Cash and cash equivalents	26 687	20 353	5 647	10 927	66 134	66 805	59 798	68 434
Total current assets	55 748	60 739	49 936	54 734	111 824	110 716	92 972	118 210
Tangible assets	2 660	2 474	2 292	2 147	1 971	1 947	1 950	1 953
Intangible assets	11 975	15 499	15 445	14 431	13 465	12 792	12 152	11 545
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	14 687	18 025	17 789	16 630	15 488	14 791	14 154	13 549
Total assets	70 435	78 764	80 627	71 364	127 312	125 507	107 126	131 759
Accounts payable	33 207	49 606	48 646	44 248	45 839	46 201	34 404	51 621
Accrued cost & prepaid income	5 316	5 865	5 254	5 944	10 623	9 798	6 674	10 014
Other liabilities	696	1 477	621	5 950	6 250	1 751	1 342	2 013
Total current liabilities	39 219	56 948	54 521	56 142	62 712	57 750	42 420	63 649
Other provisions	9 720	10 457	9 422	9 357	8 481	13 106	13 996	15 304
Total equity	21 496	11 359	16 684	5 866	56 119	54 651	50 710	52 806
Total equity and liabilities	70 435	78 764	80 627	71 365	127 312	125 507	107 126	131 759

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e
Operating activities	(18 481)	(8 530)	(17 528)	(9 812)	(7 783)	3 929	(2 315)	4 109
Changes in working capital	9 052	6 514	(6 585)	2 226	4 687	(3 183)	(4 593)	4 627
Investing activities	(4 118)	(4 318)	(960)	(36)	(48)	(75)	(100)	(100)
Financing activities	-	-	10 367	12 902	58 351	-	-	-
Cash flow for the period	(13 547)	(6 334)	(14 706)	5 280	55 207	671	(7 007)	8 637
Beginning cash balance	38 246	26 687	20 353	5 647	10 927	66 134	66 805	59 798
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	26 687	20 353	5 647	10 927	66 134	66 805	59 798	68 434

Source: Västra Hamnen Corporate Finance

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