

Initial Research

2021-10-01

USWE: Packing a punch

- Performance sports gear with a sharply defined brand strategy
- Rapid sales growth and impressive gross margins
- We set an initial fair value interval of SEK 73.00 – 92.00 per share

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Stock ticker: USWE
Industry: Consumer goods
Listed on: First North Stockholm
Latest stock price (SEK): 55,40
Market cap (MSEK): 238,5
Enterprise Value (MSEK): 207,3
Total number of shares (M): 4,31
- of which free float (M): 2,26

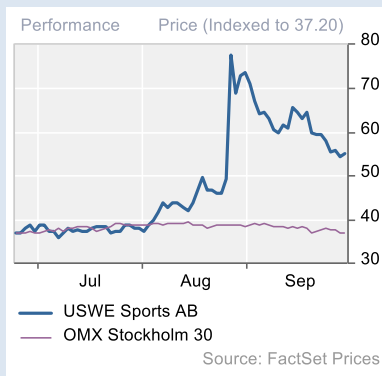
VHCF fair value per share
DCF model SEK 73,00 - 92,00

USWE Sports AB
Address: Bronsälldersgatan 1
213 76 Malmö
Webpage: uswe-sports.com
CEO: Jacob Westerberg

Main owners (31 Jul 2021)

Owner	Capital (%)
Fosielund Holding AB	22,8%
Hexiron AB	13,0%
Tibia Konsult AB	11,7%
Ålandsbanken	8,5%
Poqvint AB	6,0%

Stock price history



	-1m	-3m	-12m
Change (%)	-20,3	41,0	na
52 w k range (Low/Hi) - SEK		29,00 - 82,80	

Source: FactSet

USWE has carved out an attractive niche in premium backpacks and hydration systems for athletes in fast-paced endurance sports. The patented harness system provides a bounce-free fit and enables athletes to focus fully on their sports while carrying necessary gear. This sets USWE's products apart from mass-market backpacks that are bouncy and uncomfortable.

Growth has accelerated quickly in the last few years as the product offering has grown to cover motorsport, biking, running, speed hiking and skiing. Interest in individual outdoor sports like these has soared during the pandemic and the future trends suggest continued growth. USWE has been able to capitalise on this interest by recording 118 percent sales growth in the latest 12-month period compared to the previous period. Gross margins have consistently exceeded 50 percent for the last two years and the net profit has recently turned to positive numbers.

The company has ambitious plans for the brand, which targets a sharply defined group of "weekend warriors" – hobby athletes who are highly dedicated to their sport, who are eager to spend to get the best gear and who see their sport as part of their identity. By meeting their high demands, USWE believes it can leverage on the brand to target these customers with additional product categories. The growth ambition is expressed as a financial goal of at least 40 percent profitable sales growth annually.

Our valuation model only takes into account the current product offering (including the recent VOID acquisition) and the assumed organic growth. The DCF model suggests a fair value of SEK 73.00 – 92.00 per share given our current assessment of the risks. We still see significant valuation upgrade potential from here, which can be triggered by growth opportunities not captured by the model or by a solidified market position which markedly lowers our assessment of the risk.

Table 1: Financial Overview

MSEK	2020/21	2021/22e	2022/23e	2023/24e	2024/25e
Net turnover	44,0	96,4	138,0	193,5	233,3
Growth (%)	55,3%	119,1%	43,1%	40,3%	20,6%
Gross margin (%)	57,2%	54,5%	55,0%	55,0%	55,0%
EBIT	0,9	7,6	12,4	30,5	46,0
EBIT margin (%)	2,0%	7,8%	8,9%	15,7%	19,6%
Cash holdings	1,5	35,0	41,2	65,6	104,0
Total assets	32,3	95,0	106,8	137,3	178,7
Total equity	12,8	70,6	81,7	106,0	142,5
Solidity (%)	39,4%	74,3%	76,5%	77,2%	79,7%
P/E	36,8	40,1	24,3	9,8	6,5
ROE	50,8%	8,4%	12,0%	22,9%	25,6%
EV/EBIT (x)	231,1	27,3	16,8	6,8	4,5
EV/Sales (x)	4,7	2,2	1,5	1,1	0,9

Source: Västra Hamnen Corporate Finance

Table of contents

What does USWE do?	2
What is the market potential?.....	8
What is the competitive situation?	10
What are USWE's competitive advantages?.....	12
What is the earnings outlook?.....	13
What is the cash situation?.....	15
What is the fair value for the stock?	16
What is behind the numbers?	18
What could go wrong?.....	19
Coming events	19
Appendix: Valuation method	21

What does USWE do?

USWE produces and sells branded sports equipment, focusing on athletes in fast-paced activities and their need for hydration and carrying other gear during sports. Its products feature a patented harness solution built into a variety of backpacks, which delivers a bounce-free fit and maximum freedom of movement for the wearer. From its headquarters in Malmö, Sweden, it addresses a global market in a select number of sports activities, namely motorsport, biking, running, speed hiking and skiing.

Optimised for the toughest conditions

The solution was born out of a painful insight that most backpacks on the market are uncomfortable to wear when moving around rapidly, because their loose fit make them bounce around the carrier's back. The inventors, Karl-Johan Engdahl and Jörgen Gustafsson, both veterans of the motocross- and enduro racing community, realised that backpack design was typically optimised for weight distribution of heavy cargos. No products met the requirement of enduro racers that wanted a light-weight backpack that stayed in place and moved with the driver. Starting in 2007, they cooperated with several motocross- and enduro teams to explore alternative harness designs. This eventually led to the invention of the No Dancing Monkey (NDM) design, now patented.

Strong brand portable across activities

While the first products focused on motorsport, the company soon realised that the same need is found among mountain bikers, runners and skiers. It has therefore branched into all of these segments with product designs optimised for each activity. At the heart of the brand strategy is a focus on elite athletes as well as adventurous hobby sports enthusiasts. The goal is to establish the brand as representing values such as underdog, challenger and rebel. The long-run ambition is to target the core customer groups across several activities and develop additional products that speak to those who identify with the brand.

Rapid expansion and growing profits

In 2017, the company set out an ambitious plan to expand sales under new leadership and with a broadened product portfolio. Since then, its net sales have grown at a CAGR of 61 percent and shows no signs of slowing. The latest 12-month sales revenue logged a 118 percent growth over the previous 12 months. The company has also swung to positive net profits this year and we see continued strong profit growth in the coming years.

USWE currently works towards extending growth in USA while establishing a strong position in Europe. In connection with the IPO on Nasdaq First North Sweden in June 2021, USWE communicated new financial goals. The goal is currently expressed as profitable growth of least 40 percent annually.

Patented "No Dancing Monkey" harness

Products

USWE's products mainly consist of action backpacks and hydration systems for different activities. In addition, they have accessories that can be added to their backpacks, such as action camera harnesses. As for the backpacks, they all have one thing in common, namely the harness technology used to keep the backpack stable and in place, which is called No Dancing Monkey (NDM).

The idea behind the technology is to create an action backpack that does not bounce about and that stays fitted and still on one's back. The name is derived from the analogy of previous action backpacks being so loose and sliding around that they felt like having a monkey dancing around on one's back.

Optimal fit and freedom of movement

The central piece of the harness, that enables the bounce-free fit, is a 4-point suspension located in the middle of the chest. Once the 4-point suspension is locked, shoulder straps, chest straps and adjustable velcro straps allow the user to make final fit adjustments. The harness also has a tube clip that allows for access to the hydration tube. The idea is to provide as good a fit as possible without limiting breathing capacity or body movement.

Figure 1: The NDM harness technology



Image: USWE Sports AB

A variety of backpack sizes and sports orientation

There are two versions of the NDM harness that are optimised for different sizes of action backpacks. NDM 1.0 ("the race suspension") is the original harness and is used for action backpacks with sizes ranging from 2L to 16L, whereas NDM 2.0 ("the heavy duty suspension") is used for bigger sizes ranging from 18L to 30L. The latter can potentially support backpacks up to 50 L. The backpacks themselves are primarily designed for biking, running, speed hiking, motorsport, and skiing, while the accessories are suited to all the activities. USWE offers six different product categories: hydration backpacks, protector backpacks, daypacks, winter backpacks, running vests and accessories.

Hydration backpacks

The hydration backpacks are smaller compared to the regular action backpacks offered by USWE and include a hydration bladder as well as pockets for phone, credit card or key storage. The storage size ranges from 3L up to 15L and the hydration bladders range from 1.5L to 3L. USWE offers different hydration backpack models designed for biking, running and motorsport. The difference between the models is mostly in design and not in function, as they all are more suited to speed than storage.

Figure 2: USWE hydration backpack



Image: USWE Sports AB

Protector backpacks

Protector backpacks are larger than hydration backpacks and include a CE-certified back protector used to minimize risk of injury during highspeed action. The protector backpack also has a waist support belt to provide further stability. The back panel has ventilation, and the backpack is equipped with storage compartments and a helmet carry system. Protector backpacks come in volumes of 15L to 25L storage capacity. They do not include a hydration bladder but have space for one if bought separately. USWE offers different models, where one is more suited to biking (mountain biking) and the other to skiing.

Figure 3: USWE protector backpack



Image: USWE Sports AB

Figure 4: USWE daypack



Image: USWE Sports AB

Daypacks

The third backpack category, the daypack, has a rolltop opening and an adjustable back panel. Some models come in a waterproof variety. Additional features include side pocket compartments, a waterproof zip pocket, LED-light attachment points, reflective points for visibility, and a helmet carry system. A hydration bladder can be inserted if bought separately. The daypack's sizes range from 16L up to 30L. USWE offers various models for biking, speed hiking and motorsport.

Winter backpacks

USWE also offers the daypack, protector backpack and hydration backpack in winter versions. The winter versions all have the same features as the regular version, but in addition they have insulated shoulder straps. These shoulder straps make use of a technology named Thermo Cell, for which USWE has filed a patent application. The shoulder straps utilize the heat from the body during physical activity and keeps the hydration tube from freezing. It has been tested and confirmed to keep the hydration tube frost-free in temperatures down to -26°C. The backpacks can store 16L, 25L or 30L while the hydration backpacks can store 4L or 10L. The winter backpack models are designed for skiing (cross-country and downhill) but can be used for the other activities in cold temperatures.

Figure 5: USWE winter backpack



Image: USWE Sports AB

Figure 6: USWE running vest



Image: USWE Sports AB

Running vests

USWE also offers running vests. The vest includes the NDM technology, Polygiene treatment to keep the vest fresh and odour-free and to expand its lifespan, two pockets with hydration flasks, reflective points and other small pockets for food storage and such. The two flasks are 500ML. An additional hydration bladder can be fitted to the running vest model. This product is primarily designed for running activities.

Accessories

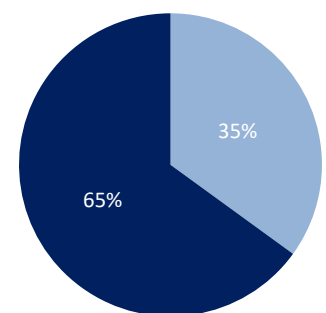
In addition to the above, USWE offers a variety of accessories. USWE's four product offerings within accessories consist of waist packs and belts, pack accessories, hydration accessories and apparel. Waist packs and belts include e.g. hydration hip packs and hip belts while pack accessories include things such as action camera harnesses and phone pockets. Hydration accessories include a variety of hydration bladders, while merchandise T-shirts and hats are sold within apparel.

Omnichannel sales strategy

Business Strategy

USWE's sales strategy is based on an omnichannel model. Sales are conducted through the company's own web shop, through physical resellers and their web shops, through online resellers such as Amazon, and through distributors. In recent years, investments in e-commerce have helped USWE grow the proportion of sales conducted directly to the consumer (D2C). Around 35 percent of sales are D2C while business to business (B2B) sales through distributors and resellers account for 65 percent of sales.

Figure 7: Sales channel mix



■ D2C (USWE web shop) ■ B2B

Source: USWE Sports AB

Elite sponsorship exposes products to weekend warriors

A key aspect of USWE's business strategy is to sponsor elite athletes with products in order to achieve product visibility at elite sports events. USWE particularly targets a customer group referred to as "weekend warriors", i.e. dedicated hobby athletes with high product expectations and a keen interest in the latest innovations. These weekend warriors tend to look to the elite and demand the same kind of equipment. They are eager to spend money to get premium products like USWE's and identify with their activities and with the USWE brand.

Strong brand equity means portability to new products

For these weekend warriors, USWE wants to focus on their needs and establish the brand as a trusted supplier of premium and lifestyle-defining goods. The strategy is to take advantage of this position by launching additional products that appeal to the same audience in other activities and circumstances. The company has not specified which additional product categories this would entail, but we assume they would be associated with the outdoors, with adventure sports and an active lifestyle.

VOID Cycling take-over widens the product reach

Related to this is USWE's recent acquisition of VOID Cycling, who sell cycling apparel online. VOID Cycling has historically offered clothing lines for road cyclists, but a common interest in the mountain bike market brought USWE and VOID together in a collaboration in early 2021. The companies saw synergies in launching a common line of backpacks and clothing for mountain bikers, given their shared customer focus and brand values. There are also synergies in allowing mutual access to each other's distribution channels. The collaboration ended with an agreement that USWE should acquire all assets of VOID Cycling and the transaction was completed on 20 September this year. USWE were to pay SEK 10 million in cash consideration at the time of acquisition, plus a potential earn-out payment of up to SEK 4 million next year. The common product line is due for release next spring.

USWE's expansion into other related product segments could occur mostly through organic growth, but we expect that acquisitions such as that of VOID Cycling will form a significant part of the growth strategy in the future.

Room to grow as challenger brand

The company intends to establish strong brand awareness among their weekend warriors through their backpacks. USWE also intends to market their brand as an underdog, challenger, and rebel. These principles, along with their high-quality products, are intended to create a strong brand equity. By adopting a challenger position, USWE cannot simultaneously strive to become a market leader, as this would contradict the brand identity. This is of limited concern for the time being, however, as USWE still has plenty of room to grow within its chosen niche.

Important partnerships in manufacturing and design

An important step in creating this brand and high-quality product is the choice of suppliers and partners. USWE outsources all manufacturing and enjoys a close working relationship with a small number of counterparties. For the USWE brand, the company relies especially on two partners with whom they cooperate closely. Since June 2020, production is done by a Korean manufacturer stationed in Vietnam (with two factories in Ho Chi Minh City). This manufacturer is also a supplier to some of the biggest players within the outdoor

segment in USA and Europe. The other partner is KISKA, an Austrian design and brand agency. The design of each USWE product is done in close collaboration with KISKA, who have an esteemed reputation in the market. The design needs to accentuate the brand principles discussed earlier. With the takeover of VOID cycling, USWE also inherits well established manufacturing partnerships with contractors in China and Lithuania.

Another important supplier is HydraPak, from whom USWE purchases the hydration reservoirs and soft flasks included with their backpacks. HydraPak are considered to offer the best hydration reservoirs on the market and also supplies hydration solutions to many of USWE's competitors. These components are considered the most generic component of a backpack, hence USWE has decided to purchase it from a supplier instead of manufacturing it themselves.

Omnichannel marketing has proved successful

Marketing of the above-mentioned principles and products is primarily concentrated to USWE's own channels. However, the goal is to increase sales through all channels (total sales), not only their own channels. This strategy has been successful in USA, where marketing has proved to help increase sales both through their own channels but also through distributors such as Amazon.

Company and key personnel

As of September 2021, USWE employs ten people and works with one person on a consultancy basis. All the employees are stationed in Malmö at the company's office and the consultant is stationed in USA. Management consists of five people whereas the other five employees work within accounting, marketing, sales, customer support, logistics and inventory. The USA-based consultant focuses on marketing in relation to media and events. In addition, the company hires part-time consultants to help with marketing and design. Below is a short presentation of the key personnel found within USWE.

CEO Jacob Westerberg took charge of USWE in 2017. Before taking the reins at the company, Westerberg spent more than a decade in various roles at the testing and inspection company ALcontrol. Having started as IT Manager and progressed to Business Area Manager, he served as CEO of its Norwegian subsidiary from 2013 until he left for USWE in 2017. Westerberg is also captain of USWE Adventure Team, a leading international team competing in elite endurance events focused on so called expedition/adventure races.

CFO Bo-Göran Jaxelius joined the company in 2021. Jaxelius has a wealth of experience from previous senior finance roles within Sweden. Two listed firms where he has worked as CFO are Zaplox and Precise Biometrics, while his other CFO-experiences include spells at BrainLit, Scalado, IIOX and Decuma. Most of his roles have involved software companies, but Jaxelius also has experience from Deloitte as an auditor.

Marketing Director Karl-Johan Engdahl co-founded USWE in 2007 with Jörgen Gustafsson and took employment in the company from 2008. He has extensive experience within sales and marketing, having studied marketing at Berghs School of Communication and IHM Business School and worked professionally in marketing and sales for 25 years. Engdahl has a keen sporting interest; he has competed in both motocross and enduro for many years.

Production Manager Jörgen Gustafsson is the other co-founder of USWE, but he became an employee of the company only in 2011. Gustafsson also has a solid background in sports. He has worked as a race technician for Husqvarna's motorbike team and has experience working for Yamaha's factory team at the world championships for motocross.

Sales Director Staffan Ahltin joined USWE during the summer of 2021. He has 18 years of sales experience having worked for the paddling company Point 65 and the vertical environment company C2 Vertical Safety. Ahltin's most recent role before moving to USWE was as CEO for the headlamp firm LEDX Lights.

Three owners control 47.5% of the company

Owners and financing

There are three main owners with more than a 10 percent stake each in USWE. Together, they own 47.5 percent of the capital and votes in the company.

The biggest owner, with 22.8 percent of the shares, is Fosielund Holding AB and its owner, Joel Eklund. Fosielund Holding is an investment company with many interests in small- and medium-sized companies, often located in the Skåne region. The Eklund family also owns the dental hygiene company TePe. Fosielund Holding made their first investment in USWE in September 2019 and acted as cornerstone investor in connection with the IPO in June 2021, at which point it became the company's largest owner.

The second and third largest owners, with ownership stakes of 13.0 percent and 11.7 percent respectively, are Hexiron AB and Tibia Konsult AB. Both of them have been among the company's largest owners since an early stage and have contributed to all subsequent capital increases. Hexiron AB is a family business with interests predominantly in real estate in and around Lund, Sweden. Tibia Konsult AB is a holding company founded by the late Sten K. Johnson and now managed by his heirs. The company has total book assets of more than SEK 2 billion spanning a variety of businesses in technology, trade and real estate.

Significant ownership among key employees

The above listed key employees together owned 10.5 percent of the shares as of 31 July this year. The biggest individual owners among them were Westerberg, Gustafsson and Engdahl with holdings of 4.2 percent, 3.6 percent and 2.6 percent, respectively. In addition, Westerberg, Gustafsson, Jaxelius and Ahltin all have a stake in the company through participation in warrant programmes.

History

- 2007:** USWE Sports AB is founded in Staffanstorps, Sweden
- 2015:** Expands geographically through international distributors
Product mix is expanded to include biking and mountain biking in particular
- 2017:** Jacob Westerberg is appointed CEO
Ambition to grow 50 percent per year is established
- 2018:** Launches the web shop with a focus on D2C
Revenue increased from SEK 0.4 million to SEK 4 million
Pricing model altered to maintain a gross margin above 50 percent
Releases its first running vest and thereby enters its third market
- 2019:** Launches Thermo Cell for winter backpacks
SEK 10 million is raised to fund the expansion into USA
- 2020:** Negatively impacted by to the Covid-19 pandemic
Launches bigger backpacks (16L-30L)
Production moves to a venerable Korean manufacturer with factories in Vietnam
Entire product line is updated
- 2021:** IPO on Nasdaq First North with a SEK 50 million new equity issue
Acquires VOID Cycling, USWE's first ever acquisition

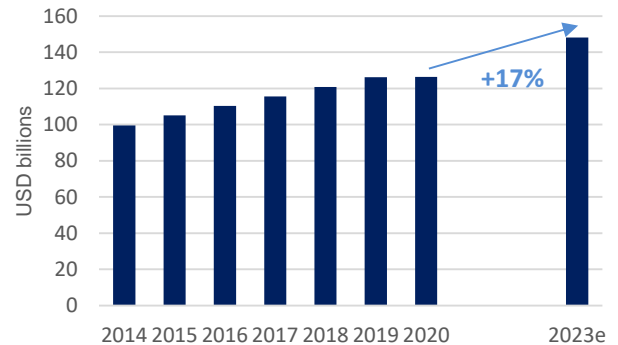
A USD 150bn market by 2023?

What is the market potential?

The global market for sports equipment had a turnover of USD 126 billion in 2019, according to the research firm Statista. Their research points to continued increase in the years ahead and they forecast the market to grow to almost USD 150 billion by 2023, cf. Figure 8. However, the COVID-19 pandemic hit this market in 2020 and the industry was affected in a variety of ways.

According to the McKinsey report Sporting Goods 2021, the global sporting goods industry in 2020 experienced its first contraction since the 2008 financial crisis. That was in aggregate, but zooming in on subsectors in the industry reveals that they differ significantly in terms of outcomes. The pandemic has produced many losers but also a few clear winners.

Figure 8: Size of the global sports equipment market

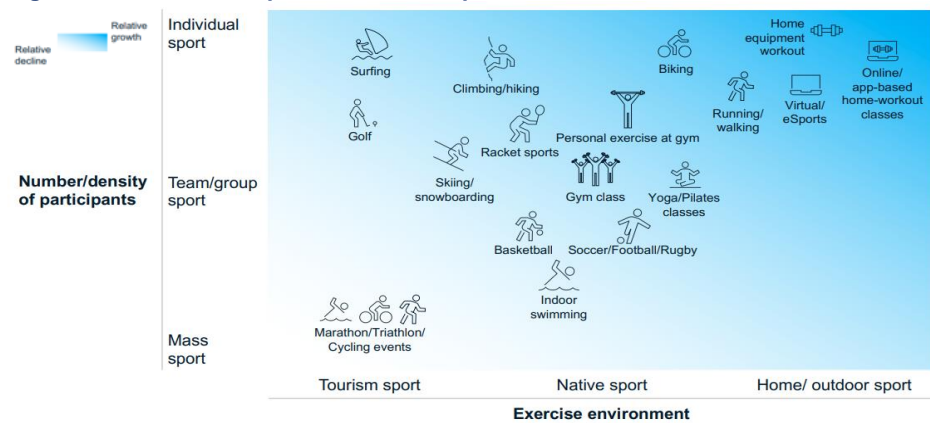


Source: Statista

Individual outdoor sports have soared in popularity

The biggest setbacks were suffered by organised sports, team sports and indoor sports, as they were the ones most directly affected by lockdowns and restrictions. At the other end of the spectrum were individual and outdoor sports, which enjoyed a significant upswing. The McKinsey report plots a number of sports in a 2-dimensional space depending on their positioning towards the winning traits during the pandemic, cf. Figure 9. As can be seen, sports for which USWE offers products such as biking, running and hiking are all located towards the upper right-hand corner with the activities that have grown the most.

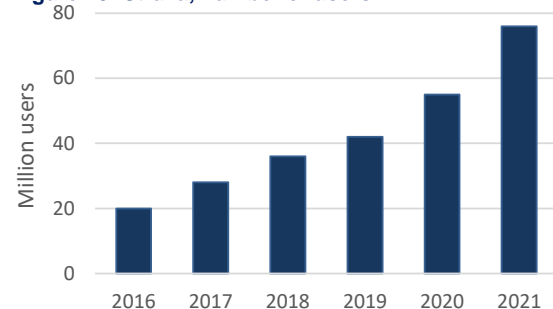
Figure 9: Pandemic's impact on different sports



Source: McKinsey & Co. Sporting Goods Survey October 2020

There are many independent data points suggesting a solid increase for individual and outdoor sports during the pandemic. One example is the soaring popularity of exercise tracking apps for those sports. One such app is Strava, which is predominantly used by runners and cyclists. Its user statistics show an 81 percent increase in users between 2019 and 2021, cf. Figure 10.

Figure 10: Strava, number of users



Source: businessofapps.com

The pandemic may have sped up existing trends

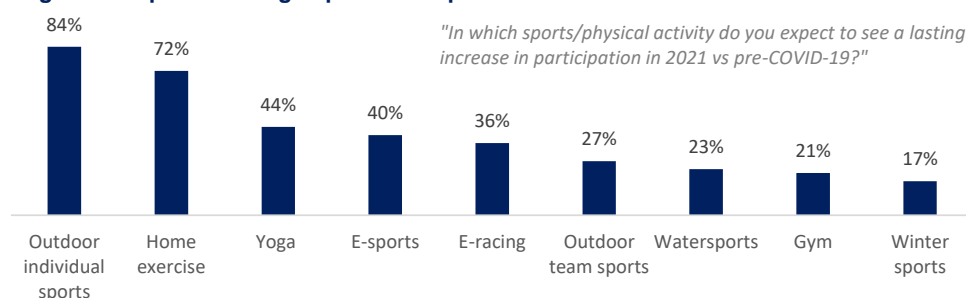
A key question is whether this is a temporary, pandemic-induced blip or something more sustainable. There are indications that some of these trends were already present before the pandemic, and that COVID-19 merely accelerated their progression. A survey conducted by the US Sports & Fitness Industry Association found that the participation rate in team sports among pre-teen children fell from 45 percent in 2008 to 38 percent in 2018. In parallel, there has been an increased interest in activities like cycling. Another study, commissioned by the Observatory for Sport in Scotland, found that Scottish adult participation in all sports fell 4 percent between 2007 and 2016. However, individual sports such as running, cycling and gym visits increased on average 24 percent during the same period.

Gen Z prefers non-traditional and individual sports

Studies of "Generation Z" (people born between 1995 and 2012) show a clear tendency in the same direction. These young people are increasingly turning away from traditional sports and team sports, that are perceived as time consuming and boring. Instead, they are turning to non-traditional and adventurous sports, activities that are self-organised, immediately available and that provide a means of expressing their identity.

This points in the direction of future growth for outdoor adventure sports. The outlook is further underscored by survey results presented in the McKinsey study, where individuals were asked about their opinions regarding the lasting effect of increased sports activities after the pandemic. The activities where the survey participants expected the highest lasting effect were in outdoor individual sports such as running, cycling and hiking, where 84 percent of the respondents expected a sustained increase.

Figure 11: Sports' lasting impact of the pandemic



Source: McKinsey & Co. Sporting Goods Survey October 2020

Estimating the magnitude of the addressable market is complicated by the fact that there are few reliable data points on the number of participants in self-organised sporting activities. A person who gets their exercise by running, cycling or off-road motorcycle racing in their spare time does not necessarily register in any official statistics.

By way of proxy, we may look at the attendance figures for mass sporting events that welcome hobby athletes. We assume that most people who train for endurance races in any of the relevant sports will need to use some hydration or other backpack during training. This makes them potential customers for USWE's products.

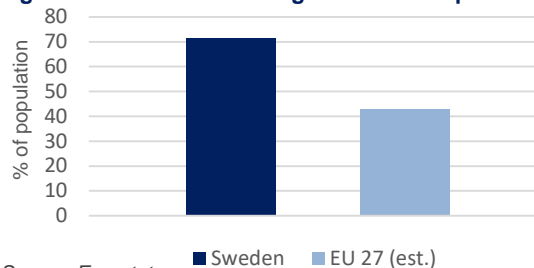
100k-200k people in Sweden join endurance races each year

In Sweden, the biggest endurance races in running, mountain biking and cross-country skiing include massive events such as Lidingöloppet, Stockholm Marathon, Cykelvasan and Vasaloppet. Each of them attracts tens of thousands of participants every year. Together with the long list of smaller events, it is safe to assume that some 100-200 thousand people participate in organised endurance races in Sweden every year. On top of this comes a great number of hobby athletes who train but have no interest in organised racing, those who race sporadically but not every year, and those who engage in adventure sports such as alpine touring/randonnee skiing for which there are few organised events. The core market for hydration backpacks could therefore safely be estimated to exceed 200 thousand people in a country like Sweden. This would be equivalent to roughly 2 percent of the population.

We estimate the core market to include 15 million consumers

In order to scale the Swedish data to the other geographical markets that USWE addresses, we need to adjust for the fact that sports participation is higher in Sweden than most other countries. A study from Eurostat in 2014 showed that 71 percent of adults in Sweden participate at least weekly in sports or other physical activities. That puts Sweden near the top in Europe. The average participation rate across EU was significantly lower at 43 percent.

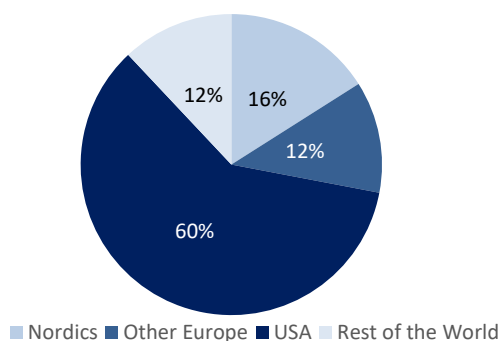
Figure 12: Adults exercising at least once per week 2014



Source: Eurostat

USWE operates in a global market, but in actual numbers, 88 percent of its sales go to the Nordics, other Europe, and USA, cf. Figure 13. The remaining 12 percent labelled “Rest of the world” comprises primarily of Brazil, Mexico, Israel, South Africa and Australia. Together, these target markets include a population of around 1 500 million. In these markets, the share of the population involved in relevant sports is probably not the 2 percent we assumed for Sweden. Considering the lower overall sports participation exemplified by Europe, and lower income levels in most markets, a better guess for the entire target market may be in the area of 1 percent of the population. That would still add up to a target market of roughly 15 million consumers.

Figure 13: Geographic sales mix FY 2020/21



Source: USWE Sports AB

What is the competitive situation?

A scan reveals that the market for outdoor backpacks is crowded with more than a dozen competitors present. There are a few potential reasons for this. Customers in this market are willing to spend considerable money on a good product, meaning margins are attractive. Entry barriers are also presumably low, considering that backpacks are not a specialized product that necessitate high levels of investment.

Competitors vary by positioning and target groups. Certain companies focus on a broad group of customers and seek to achieve economies of scale in production. On the other side of the spectrum are participants who hold a premium position. A second distinction can be made between performance vis-à-vis recreational use. USWE’s positioning is towards a very high-performance standard while offering premium products. Below is a short list of USWE’s most prominent competitors.

Camelbak (Private: US) was founded in 1989 and was acquired by American outdoor sports and recreation products company **Vista Outdoor Inc.** (NYSE: VSTO) in 2015. The company offers four main product segments. The first, and most prominent, is backpacks (hydration backpacks in particular). These are aimed at cyclists and hikers for the most part. The second is pack accessories, such as reservoirs and purification systems. The third is water bottles and the final product segment is backpacks built with more protection aimed at military customers. Camelbak is headquartered in California, USA, and the latest available financial data for the

Figure 14: Camelbak backpack



Image: Camelbak

A handful competitors resemble USWE in positioning

company, from 2015, shows they employ about 400 people and turn over around USD 150 million.

EVOC (Private: DE) was founded in 2008. The name is an acronym for evolution concept, and the company's products are divided into four segments. The backpack offering ranges from protector backpacks to backpacks for cyclists, skiers, outdoor hikers and photographers. The second product segment is bags for bike transport, skiing and general travel. The third is apparel such as clothes and gloves and the last segment is bike accessories. EVOC is mainly focused on the biking segment with certain products tailored to skiers and travellers. The company's branding seems to indicate a concerted focus on high quality and on products that are protective. USWE estimates that EVOC has an annual turnover in the area of USD 150-200 million while the number of employees is around 40.

Figure 15: EVOC backpack



Image: EVOC

Ultimate Direction (Private: US) is a company that was founded in 1985 with a focus on hydration packs and is owned by outdoor product company **Exxel Outdoors** (Private: US). The company offers five different product categories: packs, vests, waistbelts, water bottles and accessories. The packs are mainly aimed at hikers whereas the vests are meant to appeal to speed hikers or runners. The waistbelts are also suited to runners and for the most part provide some sort of hydration. Ultimate Direction can therefore be said to tailor to the outdoor needs of hikers and runners, while their primary focus is that of hydration and hiking storage. Estimates of the company's annual revenue amount to somewhere around USD 20 million and they are thought to employ ca. 50 employees.

Figure 16: Ultimate Direction running vest



Image: Ultimate Direction

Salomon (Private: FR) was founded in 1947 and is owned by sporting goods conglomerate **Amer Sports** (Private: FI). The company is well-known for being one of the main manufacturers historically of skis and skiing boots. Today, Salomon offers eight broad product categories: shoes, tops, bottoms, skiing, snowboarding, cross-country skiing, bags and accessories. The product category that competes with USWE is bags. This category offers running vests, hydrations belts, skiing and hiking bags as well as water bottles and reservoirs. The skiing bags do not include an hydration system and are more suited to long ski trips rather than fast-paced ones. In 2018, the company had an annual turnover of USD 830 million while number of employees is estimated at 3 000.

Figure 17: Salomon hydration vest



Image: Salomon

Specialised backpack providers offer some competition

All four abovementioned competitors have two things in common with USWE. They are focused on performance rather than recreation and they all aim to achieve a premium market position rather than high sales volumes. The backpack market, however, consists of different clusters of companies. One such cluster consists of pure backpack companies who specialize in outdoor backpacks and have a broad set of products. **Osprey**, **Gregory** and **Deuter** belong in this category. All three are more recreation-oriented and market themselves to families rather than to weekend warriors. Some companies, like Osprey, have products aimed more at performance, such as running vests, within their product portfolio but the main focus is still on recreation.

General outdoor companies have competing products

The third cluster of companies consists of companies active within the entire outdoor market who offer backpacks as a part of their broader product offering. Most of these companies are more recreation-oriented and seek to obtain high sales volumes rather than a

premium position. This cluster consists of companies such as **North Face, Arcteryx, Haglöfs, Norröna, Bergans, Mammut** and **Dynafit**. North Face, for example, are heavily focused on clothes and jackets rather than backpacks whereas Norröna focus more on clothing in general and accessories like hats and gloves. Figure 18 below illustrates USWE's classification of the competitive situation and their categorization of some of their competitors along the parameters discussed in this section.

Figure 18: USWE's competitors

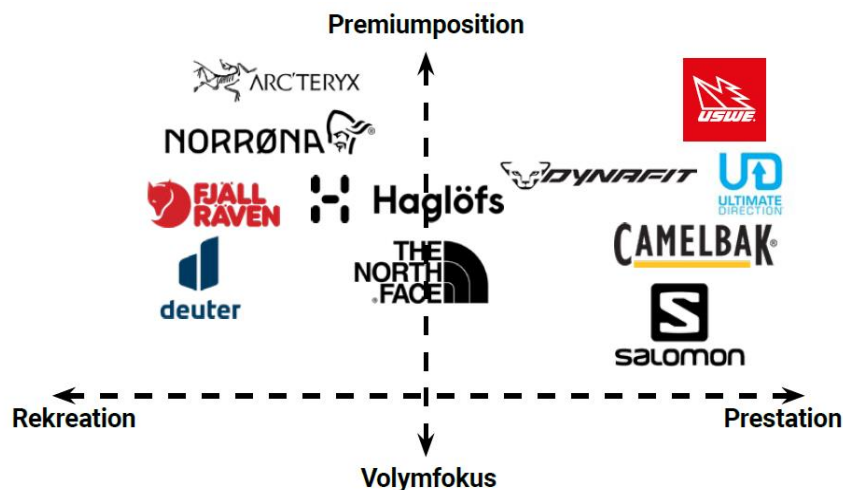


Image: USWE Sports AB

What are USWE's competitive advantages?

USWE has found a unique niche in a crowded market, with a pronounced focus on weekend warriors and fast-paced activities. We believe the following factors constitute USWE's competitive advantages and make them unique in the market.

Patented harness. USWE's harness system, the NDM technology, is a key reason why their products are of such high quality. The harness is protected by a patent until 2035, meaning investors need not worry about competitors challenging USWE's technology.

Brand strategy. The company's business strategy is built on a unique and clear brand proposition that speaks to the weekend warriors. USWE's brand proposition permeates every single part of their business. Partners, such as KISKA and the manufacturer in Vietnam, are carefully chosen and made aware of USWE's brand values, while the website, the company culture and marketing material all portray a coherent brand image.

Word-of-mouth. A combination of product quality and brand positioning has resulted in USWE receiving glowing recommendations from customers in a variety of different forums. Professional reviews have repeatedly appointed USWE's products as test winners. In addition, our anecdotal survey of online chat forums shows that USWE is very often the favourite when users recommend backpacks or running vests to each other. This word-of-mouth marketing is very valuable and validates USWE's business strategy.

Innovation. Considering that the company initially made a harness system optimised for motocross, it speaks to the company's innovation capabilities that products have since been launched for use in biking, running and skiing. The winter backpacks with the Thermo Cell technology are further evidence of this progression. This points to a high level of innovation within the company and bodes well for future product additions.

Understanding market needs. The majority of USWE's products are developed in close collaboration with top athletes while many employees are active users of the company's products themselves. This means the company has a deep understanding of what the market needs and what gap in the market a new product has to bridge. The Thermo Cell technology

is an example of that, where competitors' hydration backpacks have a tendency to freeze more often. Therefore, USWE developed Thermo Cell to overcome that issue.

Track record. Despite the company's relatively short history, management has been able to deliver a very impressive track record. Sales have grown substantially while the company's gross margins have consistently exceeded 50 percent. This could further improve if volumes are scaled up even more. This track record should also instil confidence in investors that USWE will be able to meet, or exceed, their financial targets since they have done so previously.

Omni-channel strategy. It is a good sign of product quality that online resellers, e.g. Amazon, want to sell USWE's products despite competing directly with USWE's own web shop. This also means USWE has a competitive advantage when they expand to a new country or region. They can adapt their sales channel strategy to match the needs of that market. If a certain market necessitates resellers within stores or resellers online such as Amazon instead of the company's own web shop, then USWE has the resources and capabilities to tailor their sales strategy to that market.

What is the earnings outlook?

To help us estimate a fair value of the company and its stock, we have developed a set of economic projections for the company's future earnings. In this economic scenario, we have only included organic revenue growth. USWE's current expansion phase means we believe the company will grow substantially in the future.

We assume 40% organic growth p.a. through 2023/24

For the period until the end of FY 2023/24¹, our projections entail that USWE meets the financial goal of growing at least 40 percent annually. We believe this can be achieved primarily through organic growth. However, for the period beyond 2023/24 we believe USWE will have to become active on the acquisition front to maintain a similar growth rate. Our forecast for USWE's revenue also includes sales growth from VOID Cycling. As USWE effectively took over VOID Cycling's assets on the 20 September, the full effect of the acquisition will be visible during calendar Q4. Currently, VOID Cycling has an annual turnover of SEK 8 million and we have assumed that VOID Cycling will grow at the same rate as USWE during the forecast period.

Our revenue forecast further assumes a continuation of the seasonal pattern that is visible in historic revenue figures. The first two quarters of every calendar year tend to come out at roughly equal size, while Q3 is slightly lower and sales for Q4 are usually the highest.

Further out, we see less organic and more acquired growth

Looking further ahead, we have assumed USWE's organic sales growth to slow to 20 percent during FY 2024/25 and thereafter to 10 percent annually until 2028/29. Afterwards, sales grow by 5 percent p.a. until a perpetual growth rate of 2.5 percent is reached after 2030/31. This growth rate entails that USWE reaches SEK 258 million in revenue FY 2025/26.

This number corresponds well with our assessment of USWE's addressable market. A survey of USWE's web shop suggests an average retail price for its backpacks around SEK 1 500. After deducting items such as V.A.T. and reseller/distributor margins, a reasonable guess is that USWE can book a revenue of around SEK 750 per backpack on average. In an earlier section, we estimated that USWE's core market could constitute around 15 million people. If USWE's sales during FY 2025/26 are SEK 258 million, that could imply that 2.3 percent of the customers in USWE's core market would purchase a USWE backpack that

¹ USWE uses a split financial year that runs from April to March. USWE's first quarter therefore corresponds to the calendar year's second quarter. References in this text with regards to individual quarters refer to calendar quarters, but references in this text with regards to annual numbers refer to USWE's fiscal year from April to March.

year, netting the company SEK 750 per backpack. This does not appear unreasonable in our opinion.

We leave room for further upgrades later

Despite USWE's expressed ambition to expand into other product categories, our revenue forecast only takes USWE's backpacks as well as VOID Cycling's existing products into account for now. We fully recognise USWE's potential to expand horizontally, but currently we have no data to form projections on. Therefore, we prefer to keep the model conservative for now and leave room for future revenue upgrades when such an expansion has materialized.

An impressive 55% gross margin looks likely

As for the gross margin, USWE's numbers have fluctuated historically. However, the gross margin seems to have stabilized during the last three quarters at levels around 55 percent. As we have no indication of a change in the margin going forward, we have decided to forecast a gross margin of 55 percent based on the company's past performance.

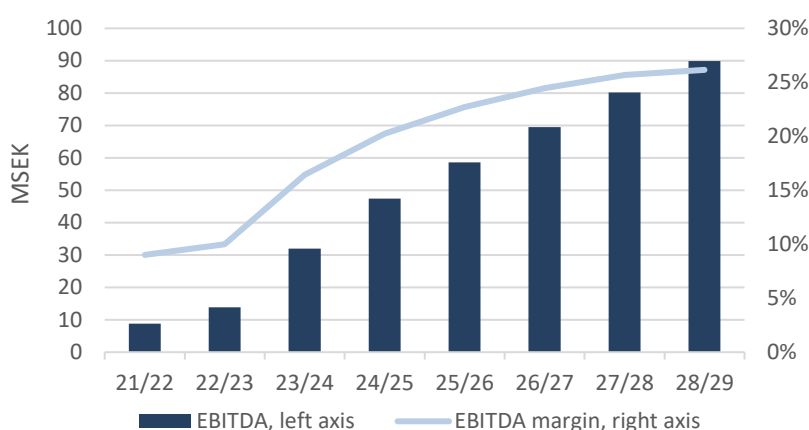
Future OPEX growth largely from staff additions and marketing

Our forecast of operating expenses consists of two separate items: personnel expenses and other external expenses. As we have forecast a substantial revenue growth for USWE, we expect that the company will have to increase the number of employees. Our estimate of personnel expenses is expected to grow over time in step with the growing number of employees.

As for other external expenses, we assume consultant fees and marketing expenses make up the majority of this expense. Going forward, we assume that USWE will scale up their workforce internally rather than externally, hence the consultancy costs are assumed to grow at a relatively modest rate. As for marketing, we assume this expense will grow at a lower rate than revenue but at a higher rate than consultant fees. This means USWE's operating expenses will grow mainly due to staff additions and marketing expenses.

The last aspect to highlight is USWE's deferred tax asset as a result of their past net operating loss. The company's income statement will show a tax expense going forward as a result of their profitability. However, this will not entail actual cash tax outlays due to their deferred tax assets. In our model, we forecast that cash tax payments will occur at the beginning of 2023.

Figure 19: Annual EBITDA and EBITDA margins



Source: Västra Hamnen Corporate Finance

Taken together, this implies a significant growth of the EBITDA margin from about 9 percent 2021/22 to a more steady-state margin of 23 percent 2025/26. The main reason for this is our belief that revenues will continue to grow at a higher pace than operating costs. As for the profit margin, we have forecast a growth from about 6 percent 2021/22 to a margin exceeding 17 percent in 2025/26.

Table 2: Summary income statement

MSEK	2020/21	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e
Net sales	44,0	96,4	138,0	193,5	233,3	257,4	283,2
Capitalized development cost	0,7	0,7	0,8	0,9	0,9	0,9	1,0
COGS	-18,8	-43,9	-62,1	-87,1	-105,0	-115,8	-127,4
Opex	-24,1	-44,5	-62,9	-75,4	-81,9	-83,9	-87,3
EBITDA	1,8	8,7	13,8	31,9	47,4	58,6	69,4
Amortisation & Depreciation	-0,9	-1,2	-1,5	-1,4	-1,4	-1,3	-1,3
EBIT	0,9	7,6	12,4	30,5	46,0	57,3	68,2
Net financial items	-0,5	-0,1	0,0	0,0	0,0	0,0	0,0
Taxes	6,1	-1,5	-2,5	-6,3	-9,5	-11,8	-14,0
Net profit	6,5	6,0	9,8	24,2	36,5	45,5	54,1

Source: Västra Hamnen Corporate Finance

Cash reserves as of September 30th estimated at SEK 37 million

What is the cash situation?

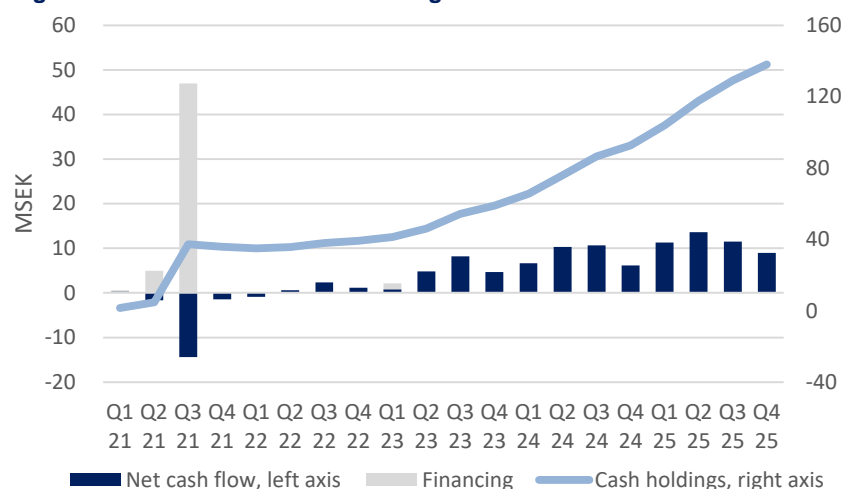
In USWE's calendar Q2 report, the company reported cash holdings of SEK 4.8 million at the end of June. The IPO occurred towards the end of June during the second calendar quarter, however the net proceeds from the equity issue was not received before July during the third quarter. The net cash injection amounts to about SEK 42 million. Furthermore, USWE paid SEK 10 million for VOID Cycling's assets during the third quarter. We forecast USWE's cash holdings to be around SEK 37 million at the end of the third quarter.

Significant investment outlays are possible

From thereon, we estimate a stable increase in the company's cash holdings. However, we do foresee that some changes could well occur in the future if USWE is to meet its financial target of growing over 40 percent annually. Primarily, we suspect that investments in the shape of developing their own products (R&D) and/or acquisitions will have to be made. This is especially relevant since USWE aims to grow through sales of not just backpacks but also other products. There is a possibility that the company will need external financing in the future in order to fund large-scale acquisitions. This is, however, speculative and such events are not included in our scenario.

Warrant programmes could provide some cash

As USWE is in such a growth phase, we have no reason to believe earnings will be paid out as dividends. However, the company has two outstanding warrant programs issued to key members of the management team. The first warrant program was issued to CEO Jacob Westerberg in 2020 and gives him the right to buy 60 000 shares during Q1 2023. The strike price is SEK 21.28 meaning the warrants are currently *in-the-money*. We have therefore assumed they will be exercised in full and have added the subscription proceeds of SEK 1.28 million to our cash flow forecast for Q1 2023.

Figure 20: Cash flow and cash holdings

Source: Västra Hamnen Corporate Finance

The second warrant program was issued to key members of the management team in Q3 2021. The strike price is SEK 138 and gives the holders the right to buy 45 000 shares in total during Q3 2024. As the warrants are currently *out-of-the-money*, its proceeds are not

accounted for in our cash flow forecast. Lastly it is worth highlighting that because of its deferred tax asset, USWE will not pay any cash taxes until Q1 2023 in our scenario.

What is the fair value for the stock?

We apply two techniques to estimate the fair value for the company. The first is a discounted cash flow (DCF) model based on the economic scenario described above and the second is a peer valuation.

A two-step DCF valuation

Our DCF calculation comprises two steps (see details in the appendix). In the first step, we estimate the fair enterprise value assuming that the company survives until it reaches sustainable profitability. In the second step, we multiply this enterprise value with a risk coefficient, reflecting the probability of it reaching the profitable stage. This method is recommended for young companies on the way to their first year of profit, but we think it is also applicable for USWE. Considering its short history and that it recently turned profitable, it is hard to argue that USWE has passed the threshold to becoming *sustainably* profitable. According to our estimates, a rapid and stable increase in profits is about a year's time away. Hence, we assign 70 – 90 percent probability that sustainable profitability will occur. The 70 and 90 percent will therefore be our risk coefficients.

We apply a WACC of 14 percent

Since the risk coefficient adjusts for the risk of non-survival, we can apply a lower discount rate than would otherwise be the case. We have chosen to discount future cash flows by a weighted average cost of capital (WACC) rate of 14 percent. Arguments in favour of a lower WACC could be that the company has posted stable gross margins over 50 percent, that their products and brand is established in Europe and North America and that their historic revenue growth has been high. On the other hand, the market for consumer durables is subject to strong cyclicity, competition on the backpack market is strong despite USWE's positioning and there is an inherent risk in being a small company in financial market terms. The latter justifies a risk premium, and a WACC of 14 percent compensates for these risks and leaves room for future valuation upgrades as the company demonstrates increasing robustness to the risk factors.

The net present value of cash flows during the model's forecast period until 2030/31 sums up to SEK 201.4 million. To this we add a discounted terminal value of all cash flows from 2031 onward, assuming a growth rate of 2.5 percent in perpetuity. Together, this implies a fair enterprise value of SEK 405.5 million before adjusting for survival risk.

As mentioned earlier, we regard USWE's probability of reaching sustainable profitability to be within the range of 70 to 90 percent. We use these figures as multiples to risk adjust our estimated enterprise value. Our estimate of the fair enterprise value is SEK 283.9 million using 70 percent risk weight and SEK 365.0 million when applying a 90 percent risk weight.

DCF model yields a fair value of SEK 73.00 – 92.00 per share

To go from fair enterprise value to fair market capitalisation we add the company's cash holdings and subtract all interest-bearing debt. This leaves us with a fair market valuation of the equity at SEK 315.1 million using 70 percent risk weight and SEK 396.2 million using a weight of 90 percent. **After full dilution for outstanding warrants, this is equivalent to a fair value per share of SEK 73.00 and 92.00, respectively.**

Table 3: DCF model assumptions

MSEK	21/22e	22/23e	23/24e	24/25e	25/26e	26/27e	27/28e	28/29e
Total revenues	97,1	138,8	194,4	234,3	258,4	284,1	312,5	343,7
EBIT	12,4	30,5	46,0	57,3	68,2	78,9	88,6	92,8
EBIT margin	12,7%	22,0%	23,7%	24,5%	26,4%	27,8%	28,4%	27,0%
Adj. Taxes	0,0	-4,2	-9,5	-11,8	-14,0	-16,3	-18,3	-19,1
NOPLAT (= EBIT - tax)	12,4	26,3	36,5	45,5	54,1	62,7	70,4	73,7
Depreciation	1,5	1,4	1,4	1,3	1,3	1,3	1,2	1,2
Capex + Working cap	-6,7	-8,7	-2,5	0,0	-4,6	-5,0	-5,5	-3,6
Net cash flow	7,2	19,0	35,4	46,8	50,8	58,9	66,1	71,3

DCF (MSEK)		Sensitivity analysis (value per share, SEK)			
		Prob of profitability			
		60%	70%	80%	90%
WACC	14,0%	14,0%			
Enterprise value (EV)	405,5	405,5			
Prob of profitability	70%	90%			
Risk adjusted EV	283,9	365,0			
Net cash	31,2	31,2			
Fair value market cap	315,1	396,2			
Number of shares (M)	4,31	4,31			
Fair value/share (SEK)	73,00	92,00			

Source: Västra Hamnen Corporate Finance

We have also performed a so-called peer valuation, meaning a valuation based on what values the market assigns to comparable companies. It is difficult to compare companies against one another before they reach a level of profitability that is representative of their long-run potential. Profit is after all the most common scaling parameter for comparison.

Since we expect USWE's profits to grow substantially over the next few years, we have chosen our sales and profit forecast for the year 2024/25 as a basis for the peer valuation. We believe these forecasts better represent a stage where USWE has matured with regards to their profitability. The use of forward-looking data also acts as a quality check for our forecast.

In order to screen for suitable peers, certain parameters have been set. The industry classification is set to companies active within Sporting and Athletic Goods. Only companies with gross margins over 30 percent are considered, given USWE's gross margin of around 50 percent. Net profits have to be positive and companies from Europe and North America were deemed suitable peers. After further examination of product offering and suitability, the four peers shown in Table 4 below were chosen.

A drawback of the peers is that they are substantially bigger in size, both in terms of market cap and sales, compared to USWE. They are also more mature as they have enjoyed many years of profitable operations behind them. However, we believe these peers illustrate the potential USWE has if they can reach maturity. We have also compensated for this discrepancy in maturity by applying USWE's forecasted financials for 2024/25, where we believe USWE will be a more mature company. Sales are forecast to be SEK 234 million, EBITDA SEK 47 million and net profit SEK 37 million in 2024/25. The peer group comparison is far from perfect, but it serves as a helpful reality check of our DCF valuation.

Table 4: Peer analysis

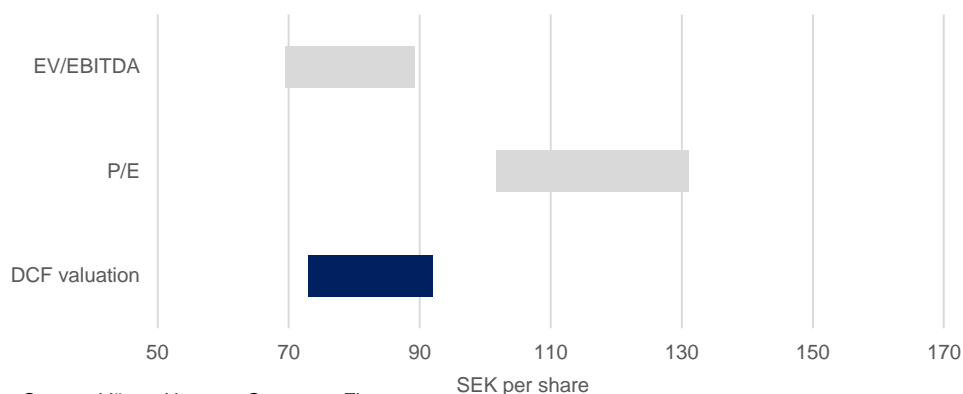
MSEK	Market cap	Net profit T12M	P/E	Enterprise value (EV)	EBITDA	Sales	EV/EBITDA	EV/sales
USWE	238,5	11,2	21,3x	207,3	7,6	65,0	27,3x	3,2x
American Outdoor Brands, Inc. (US)	3 158,0	161,3	20,0x	2 819,7	384,0	2 425,6	7,0x	1,2x
Thule Group AB (SE)	45 484,7	1 166,0	27,4x	32 427,4	1 736,0	7 828,0	18,7x	4,1x
Acushnet Holdings Corp. (US)	31 258,9	883,7	31,7x	27 218,8	1 816,6	14 839,6	16,5x	2,1x
Johnson Outdoors Inc. Class A (US)	8 476,6	522,3	15,7x	6 232,7	813,3	5 619,5	7,6x	1,2x
Median			23,7x				12,1x	
USWE 2024/25e		36,5			47,4	234,3		
Fair value per share, SEK			102,00 - 131,00				69,00 - 89,00	

Source: Factset, Västra Hamnen Corporate Finance

Peer valuation indicates fair value between 69.00 and 131.00 SEK per share

We have taken the median profit multiples of the peer group and applied them to USWE's estimated profits for 2024/25, discounted the resulting company valuation back to the present and finally applied the two risk coefficients 70 and 90 percent as in the DCF model. **In summary, the peer analysis suggests a fair value of between SEK 102.00 and 131.00 per share using P/E and between SEK 69.00 and 89.00 based on EV/EBITDA.**

Figure 21: Football field - DCF, P/E, EV/EBITDA



Source: Västra Hamnen Corporate Finance

What is behind the numbers?

In our research we try to look beyond the reported numbers to see if the company uses accounting methods or reports items off the income statement or balance sheet that could impact our interpretation of its official figures. The underlying economics of the company could be stronger or weaker than they appear at first glance, and this could be important for our valuation.

Our valuation is adjusted for potential dilution

In the case of USWE, there are only a few minor factors to be aware of. The most important regards the existence of warrant programmes for key employees, which may cause dilution for existing shareholders. We described the details of the warrant programmes in the cash flow section above. The first programme, which runs until 2023, is *in-the-money* and thus likely to be exercised. This will cause a dilution of about 1.4 percent for existing shareholders. The other, running until 2024, is currently deep *out-of-the-money*. Should it be exercised, it would cause a dilution of 1.0 percent. We have adjusted for both potential dilution events in our valuation by counting the current market value of all outstanding warrants as a liability for the company.

Modest capitalisation is a strength

Otherwise, there is little to remark upon. The company is conservative in capitalising development costs and had a modest SEK 5.2 million in intangible assets on the balance sheet at the end of Q2 2021. Companies usually have some discretion on how much to expense and how much to capitalise of their development costs. We regard it as a strength in the financial reporting when companies hold back on capitalising. Excessive capitalising may project an unduly strong image of the present while glossing over the fact that these assets will lead to higher depreciation costs in later periods.

We also note that USWE has reported a few business transactions with related parties. The largest of these pertains to the rental of office space from a company owned by USWE's main owner, Fosielund Holding. The magnitude of all such transactions is small however, and appear to be fully in line with market rates.

Lock-ups limit stock sales short term

Finally, it is reassuring that the company has secured lock-up agreements covering 98 percent of the shares outstanding before the IPO. The lock-up agreements run for either 180 or 360 days, meaning most of the main owners cannot sell shares until late December this year at the earliest.

What could go wrong?

All companies are exposed to risk and USWE is no exception. In our assessment, a handful of risks deserve special attention since they are key to the success or failure of the company.

COVID-19 could cause supply disruptions

In the short run, the biggest potential threat is related to the COVID-19 pandemic. The pandemic may have caused demand to accelerate faster than it would have otherwise. However, on the supply side it may still present important obstacles. All of USWE's production takes place in Vietnam, a country where the vaccination rate is still very low. Shipments are primarily intended to go by sea from Vietnam out to the various target markets. One cannot rule out serious new outbreaks in Asia with lockdowns and other restrictions in their wake. This could lead to disruption of production as well as transports, which could delay sales revenues for USWE.

Future investments implicate risk taking

USWE has succeeded so far in growing both fast and profitably. However, the aggressive growth strategy cannot be fulfilled without taking substantial risk in the future. We expect growth to come from a combination of acquisitions and the development and launch of new product categories. Both of these will imply risks, especially related to the ease with which one can integrate new businesses, the cost of new development, the receptiveness of new market segments and any strategic pushback from incumbent competitors in new markets.

Strength of the brand to be tested

The company puts the USWE brand at the centre of its strategy and it intends to achieve growth partly by leveraging the power of the brand. While the market strategy comes across as well considered, there is always uncertainty around what the cost will be. It is difficult to assess how easy it will be to establish the brand in new segments, and to persuade new markets that USWE products represent superior quality. It is possible that the strategy will require unexpectedly high investments in marketing to be successful.

Competitors may launch more similar products

Even in the company's present markets, there is a high number of competitors. USWE has carved out a niche with its focus on high-speed sports and on bounce-free fit, where other competitors have a broader focus. The sheer number of suppliers in this market implies a significant risk that some of them could decide to target USWE's niche at some point.

The manufacturing agreement with USWE's supplier in Vietnam is important for the company. Besides HydraPak, from which USWE buys ready-made hydration bladders, this contract manufacturer is USWE's only supplier of size. The manufacturing deal was awarded to this supplier as recently as June 2020 after careful consideration of which suppliers could deliver the best quality worldwide. None of the parties are bound by long-term agreements, however. In USWE's assessment, only a handful of suppliers can deliver the same quality. While a change of supplier is possible, it is clear that the transition could be risky in terms of costs and potentially delayed deliveries.

Downstream in the value chain, we regard USWE's position to be well diversified with its omnichannel strategy. The company also has a fairly well-distributed customer portfolio, making it not very dependent on any big customer. The demand side could however be sensitive to demand swings related to general economic conditions, as all consumer discretionary spending tends to correlate with the business cycle.

Coming events

Upcoming quarterly report needs careful interpretation

We believe there are three coming events that could have an impact on USWE and their investors. The first of these is the upcoming quarterly report for calendar quarter Q3 2021. In our forecast, we have estimated that net sales will amount to SEK 15.0 million. This revenue figure is down from SEK 29.4 million the previous quarter, however it needs to be interpreted with care. First, the previous quarter's sales (calendar Q2) were inflated by around SEK 10 million of sales that originated from Q1 but where the sales revenues were recognised in Q2 due to delays. Corrected for this, sales in Q2 were only SEK 19.4 million. Second, it is important to bear the seasonal pattern in mind; the third quarter is usually USWE's weakest revenue-wise. Third, the sales forecast for Q3 2021 still represents a growth of 62 percent compared to the corresponding quarter in 2020. It is therefore

important that the market and investors bear these factors in mind when the upcoming Q3 report is released.

Look out for new products and acquisitions

Another coming event that is important to keep in mind is the launch of new products and acquisitions. As discussed previously, USWE's ambitious financial target of profitably growing over 40 percent annually can combine both organic and acquired growth. Therefore, the launch of new products could be vital to securing the company's future growth. Likewise, any further acquisitions will signal a continuation of the company's growth. However, we have no timeline of when such events might occur, but they are nonetheless important to monitor.

VOID Cycling takeover to trigger new products

Ultimately, another event that is worth monitoring is the integration of VOID Cycling. As USWE has acquired VOID's assets, there will be product launches aimed at bridging the gap between VOID's clothing for road bike and USWE's mountain bike products. VOID has already prepared the launch of a mountain bike clothing line. The combined company has also announced the launch of a "USWE + VOID co-lab collection" to hit the market for the spring/summer season 2022. These product launches are likely to drive increased sales while synergies should be experienced in the marketing, sales and distribution channels. This would further validate USWE's strategy of expanding horizontally with their weekend warrior customers.

Financial calendar

11 Nov 2021	Quarterly report Jul-Sep 2021
3 Feb 2022	Quarterly report Oct-Dec 2021
12 May 2022	Full-year report 2021/2022
29 Jul 2022	Quarterly report Apr-Jun 2022

Appendix: Valuation method

Companies in an early stage usually report negative net profits and may have many years left until they turn a profit. Sometimes they even have years until their first significant sales revenues. The difficulty in valuing growth companies with limited historical records is that the valuation rests on uncertain estimates of future earnings; more uncertain than for companies with years of stable profits on record. There is little in terms of historical figures on which to base estimates of future revenues, future profit margins and other items.

To handle these challenges, we choose to follow a generally accepted method for valuing growth companies described by finance professor Aswath Damodaran¹⁾ among others. Instead of scaling the discount rate (WACC) to account for all the risks and uncertainties associated with a young company, we use a two-stage valuation approach:

- First, we estimate fair enterprise value under the explicit assumption that the company survives until its first year of sustainable profits. We use a WACC commensurate with the circumstances of the company once it reaches profitability.
- Second, we adjust the estimated enterprise value by multiplying with a probability factor reflecting the likelihood that the company survives.

With each passing period after the initial valuation, the probability factor may be adjusted based on the company's development and our updated assessment of its chances of survival.

1) **Damodaran, Aswath**, "Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges", Stern School of Business, New York University, May 2009

Income Statement - Annual Data

kSEK	2020/21	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e
Net sales	43 989	96 379	137 965	193 537	233 344	257 411	283 152	311 467
Capitalized development cost	678	734	837	871	906	943	981	1 021
Other revenues	15	0	0	0	0	0	0	0
Total revenues	44 682	97 113	138 802	194 407	234 250	258 354	284 133	312 488
Cost of goods sold	-18 812	-43 897	-62 084	-87 091	-105 005	-115 835	-127 418	-140 160
Gross profit	25 870	53 216	76 718	107 316	129 245	142 519	156 715	172 328
Other operating expenses	-17 305	-32 827	-49 387	-59 943	-64 740	-65 588	-67 827	-71 497
Personnel costs	-6 760	-11 647	-13 488	-15 447	-17 135	-18 322	-19 450	-20 648
EBITDA	1 805	8 742	13 842	31 926	47 371	58 609	69 438	80 183
Amortisation & depreciation	-908	-1 155	-1 477	-1 417	-1 365	-1 322	-1 287	-1 259
EBIT	897	7 587	12 365	30 509	46 005	57 287	68 150	78 924
Net financial items	-519	-93	0	0	0	0	0	0
EBT	378	7 494	12 365	30 509	46 005	57 287	68 150	78 924
Taxes	6 108	-1 544	-2 547	-6 285	-9 477	-11 801	-14 039	-16 258
Net profit	6 486	5 951	9 818	24 224	36 528	45 486	54 111	62 666
Earnings per share (SEK)	n/a	1,38	2,26	5,55	8,37	10,42	12,40	14,36
Growth (%)								
Net turnover	55,3%	119,1%	43,1%	40,3%	20,6%	10,3%	10,0%	10,0%
EBITDA	na	384,3%	58,3%	130,6%	48,4%	23,7%	18,5%	15,5%
EBIT	na	745,8%	63,0%	146,7%	50,8%	24,5%	19,0%	15,8%
Net profit	na	-8,3%	65,0%	146,7%	50,8%	24,5%	19,0%	15,8%
% of revenues (%)								
Gross margin	57,2%	54,5%	55,0%	55,0%	55,0%	55,0%	55,0%	55,0%
EBITDA margin	4,0%	9,0%	10,0%	16,4%	20,2%	22,7%	24,4%	25,7%
EBIT margin	2,0%	7,8%	8,9%	15,7%	19,6%	22,2%	24,0%	25,3%
EBT margin	0,8%	7,7%	8,9%	15,7%	19,6%	22,2%	24,0%	25,3%
Profit margin	14,5%	6,1%	7,1%	12,5%	15,6%	17,6%	19,0%	20,1%
Personnel costs	15,4%	12,1%	9,8%	8,0%	7,3%	7,1%	6,9%	6,6%
Total OPEX	54,7%	46,1%	45,6%	39,0%	35,1%	32,6%	30,8%	29,6%
Profitability (%)								
ROE	50,8%	8,4%	12,0%	22,9%	25,6%	24,2%	22,4%	20,6%
ROIC	neg	16,6%	23,8%	58,9%	93,3%	115,3%	129,5%	141,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2020/21	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e
Cash and cash eq	1 492	35 011	41 243	65 559	104 018	149 223	201 042	261 088
Inventory	7 411	19 020	25 438	28 899	27 221	27 761	30 227	32 940
Trade receivables	11 950	19 508	21 199	25 688	30 245	32 902	35 825	39 040
Tax credit	103	0	0	0	0	0	0	0
Other receivables	204	1 483	2 149	2 930	3 450	3 753	4 086	4 453
Prepayments and accrued income	359	422	414	410	409	409	409	409
Total current assets	21 519	75 445	90 442	123 485	165 343	214 048	271 589	337 929
Tangible assets	340	311	281	254	230	208	188	170
Intangible assets	4 381	14 706	14 096	13 577	13 143	12 785	12 499	12 279
Financial assets	6 108	4 564	2 017	0	0	0	0	0
Total fixed assets	10 829	19 582	16 395	13 832	13 373	12 993	12 687	12 449
Total assets	32 348	95 027	106 837	137 317	178 716	227 041	284 276	350 378
Short-term debt	4 785	3 911	3 911	3 911	3 911	3 911	3 911	3 911
Trade payables	5 103	8 779	9 539	13 004	15 312	16 657	18 136	19 764
Other short-term liabilities	3 664	2 926	4 240	5 780	6 805	7 403	8 061	8 784
Accrued expenses and prepaid income	6 040	8 779	7 419	8 670	10 208	11 104	12 091	13 176
Total current liabilities	19 592	24 394	25 110	31 365	36 236	39 075	42 199	45 635
Long-term liabilities	0	0	0	0	0	0	0	0
Total equity	12 756	70 633	81 727	105 952	142 480	187 966	242 078	304 743
Total equity and liabilities	32 348	95 027	106 837	137 317	178 716	227 041	284 276	350 378

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2020/21	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e
Operating activities	1 288	8 649	13 842	27 658	37 894	46 808	55 399	63 925
Changes in working capital	-980	-15 604	-8 051	-2 471	1 472	-661	-2 598	-2 858
Investing activities	0	-11 451	-837	-871	-906	-943	-981	-1 021
Financing activities	-1 660	51 925	1 277	0	0	0	0	0
Cash flow for the period	-6 961	33 519	6 231	24 316	38 460	45 205	51 819	60 046
Beginning cash balance	2 741	1 492	35 011	41 243	65 559	104 018	149 223	201 042
Adjustments	0	0	0	0	0	0	0	0
Ending cash balance	1 492	35 011	41 243	65 559	104 018	149 223	201 042	261 088

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data *)

kSEK	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e	Q2 2022e
Net sales	9 266	10 657	15 741	29 372	14 973	22 365	29 668	31 492
Capitalized development cost	105	180	238	128	200	202	204	206
Other revenues	15	0	0	0	0	0	0	0
Total revenues	9 386	10 837	15 979	29 500	15 173	22 567	29 872	31 698
Cost of goods sold	-3 731	-4 842	-6 983	-13 744	-6 738	-10 064	-13 351	-14 171
Gross profit	5 655	5 995	8 996	15 756	8 435	12 503	16 522	17 526
Other operating expenses	-3 504	-4 632	-5 102	-7 530	-6 080	-8 091	-11 126	-11 712
Personnel costs	-1 160	-1 821	-2 424	-2 641	-2 900	-3 015	-3 091	-3 199
EBITDA	991	-458	1 470	5 585	-545	1 397	2 305	2 615
Amortisation & depreciation	-192	-192	-332	-253	-138	-384	-380	-375
EBIT	799	-650	1 138	5 332	-683	1 012	1 925	2 240
Net financial items	-62	-187	-134	-93	0	0	0	0
EBT	737	-837	1 004	5 239	-683	1 012	1 925	2 240
Taxes	0	0	6 108	-1 079	141	-209	-397	-461
Net profit	737	-837	7 112	4 160	-542	804	1 529	1 778
Earnings per share (SEK)	n/a	n/a	2,62	0,97	-0,13	0,19	0,36	0,41
Y-o-Y Growth (%)								
Net turnover	35,7%	56,1%	100,6%	252,8%	61,6%	109,9%	88,5%	7,2%
EBITDA	na	na	na	na	na	na	56,8%	-53,2%
EBIT	na	na	na	na	na	na	69,2%	-58,0%
Net profit	na	na	na	na	na	na	-78,5%	-57,3%
% of revenues (%)								
Gross margin	59,7%	54,6%	55,6%	53,2%	55,0%	55,0%	55,0%	55,0%
EBITDA margin	10,6%	neg	9,2%	18,9%	neg	6,2%	7,7%	8,2%
EBIT margin	8,5%	neg	7,1%	18,1%	neg	4,5%	6,4%	7,1%
EBT margin	7,9%	neg	6,3%	17,8%	neg	4,5%	6,4%	7,1%
Profit margin	7,9%	neg	44,5%	14,1%	neg	3,6%	5,1%	5,6%
Personnel costs	12,5%	17,1%	15,4%	9,0%	19,4%	13,5%	10,4%	10,2%
Total OPEX	50,3%	60,6%	47,8%	34,6%	60,0%	49,7%	47,9%	47,4%
Profitability (%)								
ROE	11,4%	neg	55,8%	6,0%	neg	1,2%	2,2%	2,5%
ROIC	9,5%	-8,6%	7,9%	24,3%	neg	2,4%	4,2%	4,7%

Source: Västra Hamnen Corporate Finance

* Calendar quarters

Balance Sheet - Quarterly Data *)

kSEK	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e	Q2 2022e
Cash and cash eq	1 570	1 428	1 492	4 762	37 334	35 868	35 011	35 601
Inventory	4 201	7 583	7 411	11 633	12 922	16 544	19 020	20 189
Trade receivables	8 593	9 232	11 950	17 071	18 050	17 157	19 508	18 981
Tax credit	0	27	103	127	0	0	0	0
Other receivables	372	131	204	1 736	749	1 118	1 483	1 575
Prepayments and accrued income	177	169	359	624	332	371	422	437
Total current assets	14 913	18 570	21 519	35 953	69 387	71 059	75 445	76 783
Tangible assets	278	287	340	336	328	319	311	304
Intangible assets	3 501	4 205	4 381	5 178	15 049	14 874	14 706	14 545
Financial assets	0	0	6 108	5 029	5 170	4 961	4 564	4 103
Total fixed assets	3 779	4 492	10 829	10 543	20 546	20 155	19 582	18 952
Total assets	18 692	23 062	32 348	46 496	89 933	91 213	95 027	95 734
Short-term debt	2 099	2 829	4 785	3 911	3 911	3 911	3 911	3 911
Trade payables	2 518	2 603	5 103	10 640	7 384	6 618	8 779	8 542
Other short-term liabilities	2 953	3 610	3 664	664	2 215	2 757	2 926	3 106
Accrued expenses and prepaid income	2 980	6 714	6 040	9 410	8 123	8 824	8 779	7 765
Total current liabilities	10 550	15 756	19 592	24 625	21 633	22 109	24 394	23 324
Long-term liabilities	1 660	1 660	0	0	0	0	0	0
Total equity	6 482	5 646	12 756	68 842	68 300	69 104	70 633	72 411
Total equity and liabilities	18 692	23 062	32 348	93 467	89 933	91 213	95 027	95 734

Source: Västra Hamnen Corporate Finance

Cash flow statement *)

kSEK	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e	Q2 2022e
Operating activities	931	-645	1 336	5 492	-545	1 397	2 305	2 615
Changes in working capital	-3 181	677	-1 005	-6 131	-3 854	-2 660	-2 958	-1 820
Investing activities	0	0	0	-1 045	-10 000	-202	-204	-206
Financing activities	0	-7 565	296	4 954	46 971	0	0	0
Cash flow for the period	-2 250	-7 533	627	3 270	32 572	-1 466	-857	589
Beginning cash balance	3 041	1 570	1 428	1 492	4 762	37 334	35 868	35 011
Adjustments	0	0	0	0	0	0	0	0
Ending cash balance	1 570	1 428	1 492	4 762	37 334	35 868	35 011	35 601

Source: Västra Hamnen Corporate Finance

* Calendar quarters

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