REDEYE

Update

Equity Research

3 October 2018

Westpay

Sector: Information Technology

Delays, but the potential remains the same

Customers hold of orders and wait for the new product launch

The financials during Q2 was almost spot-on our estimate. One should note that the Q2 last year was very strong and that was one of the reasons we modeled an organic drop. We have seen a decrease in the number of larger announced orders from the company. We believe this is an effect of the larger product launch that the company is working on, i.e., customers wait for the new versions instead of ordering the old. We expect to see a temporary decrease in card terminal volumes during the coming quarter, this will affect the profitability and sales level negatively. The revenue ramp-up from international markets is also delayed and we will likely see increasing volumes during H1'19.

It's never linear when it comes to small companies

The trajectory is never linear for a small growth company, and there will be hick-ups along the road. Despite some delays that will affect the coming quarts we find that the company continues to deliver essential milestones and collaboration. During the last twelve months, some of the key happenings include among others; Cirralto agreement, Elavon cooperation with a transaction-based income for Westpay, Gold partner to Oracle and more. In hindsight, we have underestimated the time it takes to enter new regions, at the same time the potential remains the same according to us. Delays of a year or so makes no real difference for the value of the company but affects the sentiment as most investors have a short-term view. We feel confident that we will see a commercial breakthrough within a time-frame of 8-18 months.

The potential remains the same, but the sentiment is down

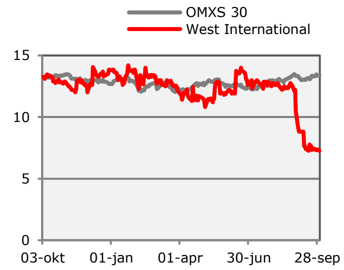
We have adjusted our projections downwards given the lower activity for announced orders and that the company's own statement that the international revenue ramp-up takes longer than expected. Our updated Base-case now amounts to 13 (18) SEK per share. Our Valuation range remains almost intact as we believe the long-term potential has not been altered. Today Westpay trades at about 1.8x trailing twelve-month sales, far of the peak at 3.5x. We find it likely that we will see some year over year decline in sales in the coming quarters. Thus it's possible that the valuation multiple might drop further. However, when the company starts to show progress in the new markets, the growth expectation will most likely return.

KEY FINANCIALS	2016	2017	2018E	2019E	2020E	2021E
Net sales	77	93	85	113	152	183
EBITDA	6	11	-1	13	20	35
EBIT	3	6	-6	8	14	27
EPS (adj.)	0.1	0.2	-0.2	0.3	0.5	0.9
EV/Sales	1.6	2.8	1.8	1.4	1.0	0.8
EV/EBITDA	20.0	24.3	n.m.	11.9	7.8	4.0
EV/EBIT	39.1	40.7	n.m.	19.0	11.2	5.2
P/E	63.5	61.7	n.m.	26.1	15.6	7.9

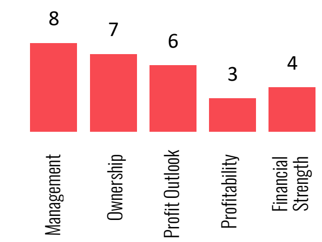
FAIR VALUE RANGE

BEAR	BASE	BULL
4.0	13.0	26.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	WPAY
Market	Nasdaq
Share Price (SEK)	7.4
Market Cap (MSEK)	166
Net Debt 18E (MSEK)	-10
Free Float	80 %
Avg. daily volume ('000)	92

ANALYSTS

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Spot on projections

Estimate vs outcome - Westpay				
MSEK	2017 Q2	2018 Q2A	2018 Q2E	Diff %
Net sales	25,6	22,4	23,0	-3%
Gross profit	14,8	12,3	12,4	-1%
EBITDA	4,0	0,7	0,9	n.m.
EBIT	2,9	-0,6	-0,4	n.m.
Growth	10%	-12%	-10%	
Gross profit margin	58%	55%	54%	
EBITDA margin	15%	3%	4%	
EBIT margin	11%	-3%	-2%	

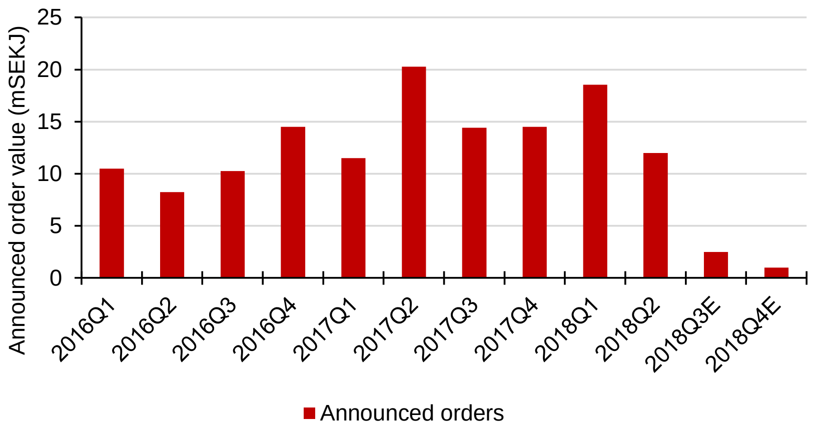
Source: Redeye Research

The financials during Q2 was almost spot-on our estimate. One should note that the Q2 last year was very strong and that was one of the reasons we modeled an organic drop. The net sales during the period landed at SEK 22.4m, which corresponds to a decline of 12%. The gross margin held up well, and just as we thought it declined from the extreme level during Q1'18. The company delivered two cash equipment orders to ABSA Bank and Bangkok Bank with a value of about SEK 5.5m, the cash equipment deals is good money but at lower gross profit margins. The number of employees at the end of the quarter amounted to 33; this is an annual increase of 27%. We now expect the hiring rate to plan out a bit as the company is now well staffed for growth. In conjunction with the release of the Q2 report Westpay also announced that they had signed a 4-year agreement with the Australian Cirallto, the company states that the minimum value of the deal is SEK 30m.

Announced order activity has dropped

Westpay does not report order backlog or booking, but they announce larger orders, something we track. The number of larger orders announced by the company has seen a distinct drop during the past months. We believe this is an effect of the larger product launch that the company is working on, i.e., customers wait for the new versions instead of ordering the old. We believe that the new product line will be presented in a relatively short period of time. The CEO Sten Karlsson talks about the new products in a recent investor presentation and is clearly excited about the new launch. The video can be seen here.

Announced order value at delivery (mSEK)



Source: Redeye Research

Next quarter estimates – Awaiting an international break-through

Next quarter - Westpay		
	2017	2018
MSEK	Q3	Q3E
Net sales	23.3	18.2
Gross profit	12.4	8.2
EBITDA	2.6	-4.4
EBIT	1.3	-5.3
Growth	32%	-22%
Gross profit margin	53%	45%
EBITDA margin	11%	-24%
EBIT margin	6%	-29%

Source: Redeye Research

Westpay states they expect to see a full-year relative in line with the previous. This should translate to roughly SEK 52m in income during H2. Given the number of announced orders thus far we believe those figures will be hard to reach. Currently, there hasn't been that many announced deals for Q3 and Q4 and the orders are usually announced at least one month in advance so Q4 could still be filled up. For Q3 we know only three deals; SEK 1.5m to OpenSolution, SEK 3+1m to MAX Hamburgers, this can we compared to a total amount of SEK 14m that was announced prior last year's Q3 report. As explained earlier, the company is working on a major product release. We expect that the new versions to be introduced before the end of Q4, this could lead to a surge during Q4 but that is hard to project in beforehand. As always, the recurring revenue levels continue to grow and today amounts to about 10-14% of annual sales. The recurring revenue creates a buffer in lower volume quarters.

We expect to see net sales during the next quarter of SEK 18.2m. The income mix will likely be relatively weak with a lot of cash equipment revenue, this will hurt the gross margin. The company is staffing up to handle the expected growth during the coming years, as such we model increased SG&A in relation to sales. Our assumption lead to a projected EBIT of SEK -5.3m.

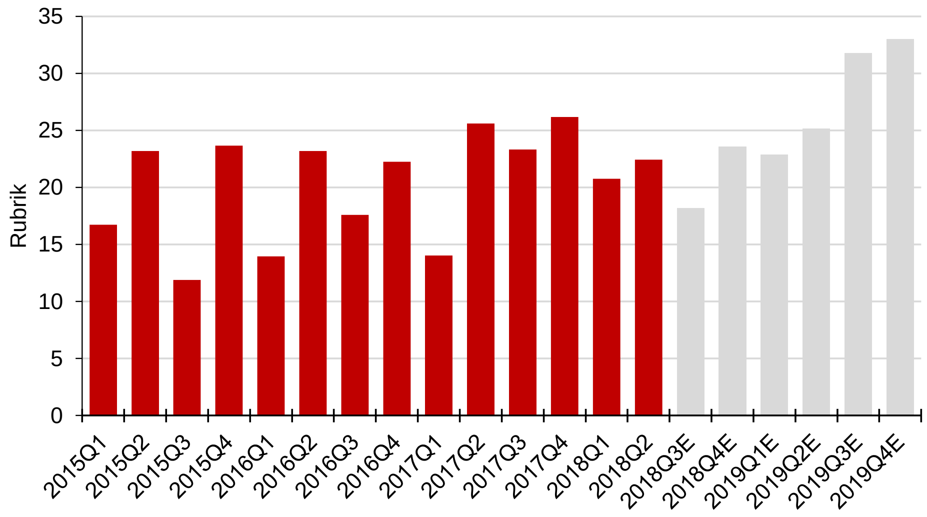
Is never linear

For a small growth company like Westpay, the growth trajectory are never linear. Despite some delays that will affect the coming quarts we find that the company continues to deliver essential milestones and collaborations. During the last twelve months, some of the key happenings include:

- Cirralto agreement; minimum value of SEK 30m during four years.
- Elavon cooperation with a transaction-based income for Westpay
- Gold partner to Oracle
- A new online offering
- Cooperation with Svenska Handelsbanken
- Certification in: Sri Lanka, South Africa,
- Entered Denmark, Polen, and more European countries

Expansion to new markets takes time, and we now believe that we should see increasing volumes from the international regions during H1'19. Previously we thought that we would see a ramp-up during the coming two quarters.

Westpay: Net sales (mSEK)

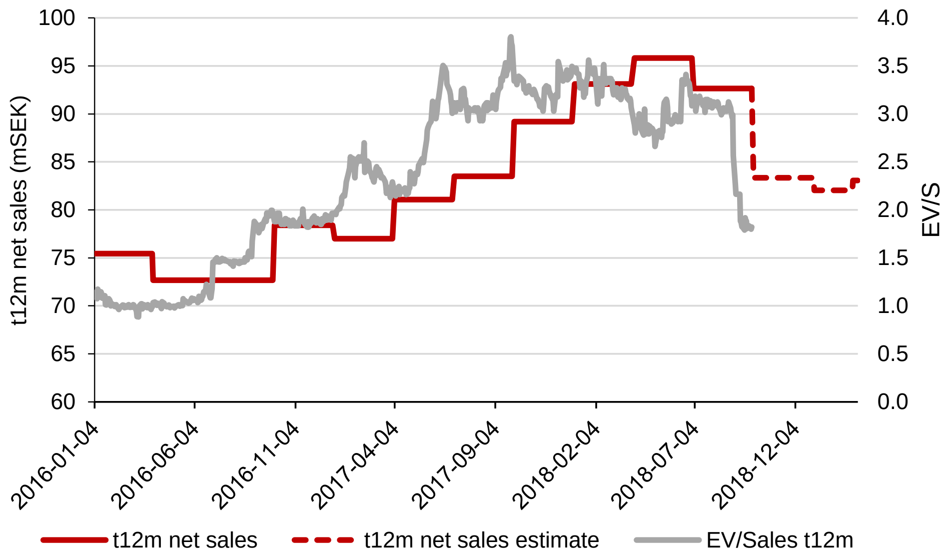


Source: Redeye Research

In hindsight we, and likely the company also, have underestimated the time it takes to enter new regions, at the same time the potential remains the same. Delays of a year or so makes no real difference for the value of the company, but effects investor sentiment as most have a short-term view. The company continues to deliver new milestones and new agreements; this still makes us confident that we will see a commercial breakthrough within a time-frame of 8-18 months.

A gauge of the investor sentiment can be viewed in the following graph of EV/S and net sales based on trailing twelve-month figures. Today the company trades at about 1.8x trailing twelve-month sales, far below the peak of 3.5x. As we find it likely that we will see some year over year decline in sales the coming quarters, it's possible that the valuation multiple might drop further. However, when the company starts to show progress in the new markets, the growth expectation will most likely return again. We model increased sales during H1'19.

Westpay: EV/S trailing twelve-month



Source: Redeye Research

Is the cash level an issue?

We still believe that there will be an increased sale from new markets with a break-through during H1’19. However, we are now heading into one quarter, or possibly two, with weak results. At the end of Q2’18, the company had SEK 2.6m in cash and SEK 5.3m in an unused overdraft facility totaling SEK 8m. We believe that the EBIT in H2 will amount to roughly SEK -6m. We see two alternatives:

1. Increase the overdraft facility by maybe about SEK 6-10m, given the client relationship Westpay have with the bank this should not be an issue
2. A share issue of SEK 10-15m. The likely capital need amounts to roughly SEK 5m. However, that’s a to low figure to raise in an issue.

We view the first alternative as the most likely but cannot state that the risk of dilution through a rights issue is totally neglectable.

Cash and EBIT Westpay

Period	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18E	Q4'18E
Cash	13.3	14.4	19.1	12.5	13.8	11.8	12.3	1.6	2.6		
Unused overdraft fac.	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.3		
Total	**19**	**20**	**25**	**19**	**20**	**18**	**18**	**8**	**8**		
EBIT	3	0	1	3	3	1	1	1	-1	-5	-1

Source: Redeye Research

The potential remains the same

The company continues to build for the future with a focus on their international expansion. The new agreement with Cirralto signals that they are moving forward. At the same time, the real commercial breakthrough from the new growth regions is yet to materialize. As discussed earlier; we thought we would see increased international volumes during H2’18. Even though there is some delay, we find that the underlying value and potential have not changed. We estimate that the Swedish total addressable market (TAM) is worth about SEK 320m on an annual basis, Westpay also has a presence in South Africa with ABSA Bank. Our estimated TAM for the new regions is close to SEK 4bn in annual value. This does not change just because it takes a little longer time.

Estimated TAM EFTPOS in new regions

Germany		South Asia	
TAM per year (mSEK)	**1200**	**TAM per year (mSEK)**	**450**
EFPOS per 1000 habit.	**10**	**EFPOS per 1000 habit.**	**2**
Maturity:	**Growth**	**Maturity:**	**Growth**

Australia		South Africa	
TAM per year (mSEK)	**1540**	**TAM per year (mSEK)**	**690**
EFPOS per 1000 habit.	**41**	**EFPOS per 1000 habit.**	**7**
Maturity:	**Mature**	**Maturity:**	**Mid growth**

sum: 3880

Source: BIS, Riksbanken & Redeye Research

It takes time, but that's why it's attractive

In the CEO letter, Westpay says that they now expect the full-year revenue to be in line with last year's level. We had previously modeled a 14% increase. The main reason for this is that the company is experiencing some delays in the international markets. To establish themselves in new market regions Westpay needs to clear regulatory hurdles, have technology in place and go through extensive certifications. All these obstacles take time and might cause delays, but this is one of the main reasons why view Westpay as an attractive business; significant barriers to entry protect them when established.

The mots of Westpay's business

We believe Westpay benefits from two main sustainable competitive advantages. A sustainable competitive advantage, or a "moat", is something that is not easy to replicate and protects the company's income and profits. The two we find that Westpay benefits from; barriers to entry for new players due to regulatory hinders as well as lock-in effects on customers that creates a switching cost.

Regulatory barriers

- Approval from card companies - A terminal must be approved by the major card companies MasterCard, VISA, AMEX and JCB. This is critical for these cards to be used in the terminals and without this approval, a card terminal cannot be sold because the usage function is strictly limited. The process of approval varies in time but could take up to two years.

- Security Requirements - A card terminal must follow the security requirements imposed by various card organizations. Example on these standards are; Payment Application Data Security Standard (PA-DSS), previously called Payment Application Best Practices (PABP), is the global security standard created by Payment Card Industry Security Standards Council (PCI SSC). PADSS was conducted in an attempt to define a standard for software vendors who develop payment applications. The standard aims to prevent card data being disseminated to third parties. In that process, the standard also dictates that software providers develop payment applications that are compatible with Payment Card Industry Data Security Standards (PCI DSS). Other types of security requirements are followed by PNC E2EE, PNC SAC and BCA SEC. Well as you see, there is a handful of different requirements that need to be cleared before a terminal can be used or sold.

- Other Approvals and Certifications - Terminals and the software must also go through a variety of other approval and certifications before they can be used. Examples may be approval from local PSPs.

All our examples are a simplified version of the reality; we want to explain that it's complex to enter new markets as there are significant hurdles to clear. But when everything is in place the market position is most often very appealing.

High switching costs

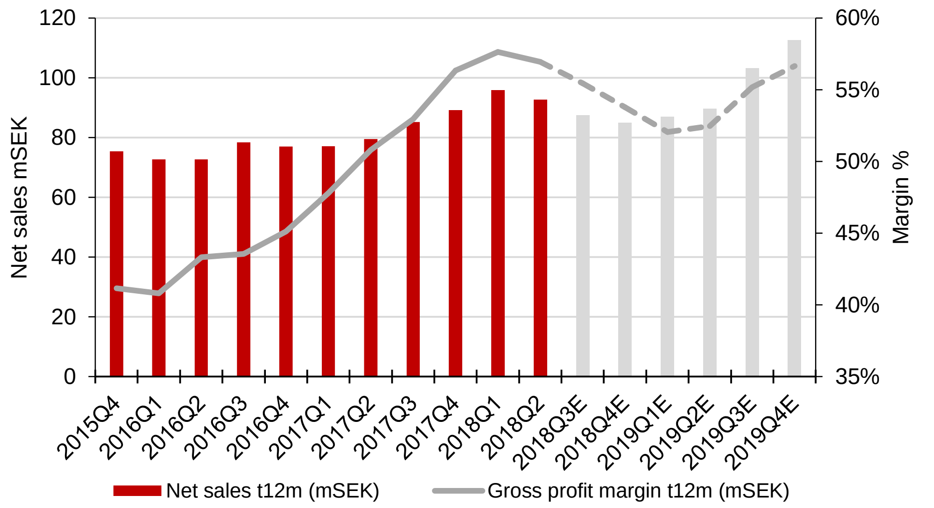
A locking effect refers to the "cost" a customer experiences by replacing the product, if this cost is high, reduces the risk that the customer will change supplier.

A PSP that sells a terminal from Westpay have put down a considerable amount of time and money to integrate their own payment gateway with Westpay's payment application software. Then the PSP must receive certification their own software in combination with the card terminal software. The steps needed to start using a terminal is many, this also then creates a cost for changing supplier.

Elavon could be a game changer

During the period Westpay signed a cooperation agreement with Elavon. We believe the market has not fully understood the scope of the deal. Elavon is a global card acquirer player with over 1.3 million customers. Westpay's offering will be considerable strengthen through the Elavon cooperation, which should lead to an even faster roll-out in the European countries. One important note is that Westpay will receive recurring revenue based on all transactions, which will further strengthen the gross margin going forward. Even though it's hard to say which volumes the agreement with Elavon might bring during the coming years, we find it clearly positive. We argue that we should be seeing increased gross profit margins as the volumes from new market regions start to kick in. We now model lower margins in the coming two quarters due to lower sales volumes and income mix. However the gross profit margin will continue to expand beyond that.

Westpay: Net sales t12m (mSEK) & Gross profit margin t12m (%)



Source: Redeye Research

The reason that Westpay's gross margin strengthens and will continue to increase is:

- Growing base of installed terminals - As the installed base of terminals grows, service charges increase steadily. Today about 12% of the annual income is recurring.
- Continued strengthened sales mix - Sales of the classic Cash System equipment continue to decrease as a percentage of total revenues. As gross revenues in both Card Terminal and Self-service are far higher, the margin is further increased.
- Improved offer in Self-service - West has started to deliver their proprietary card terminals within their self-service offering previously Ingenico was used. This leads to increased profitability on segment sales.

- **Strong Profitability on new business abroad** - In many of the overseas businesses, Westpay has a far higher service revenue than in Sweden, which will lead to a sharp rise in repetitive revenues in the future. The software business with ABSA is also an example of a deal for very good profitability. Similar business in the future may occur.

Estimate changes - delays

As explained earlier we have made some quite significant estimate revision, mainly as the international revenue up-takes takes longer time than we previously expected. We do believe that the long-term potential remains the same.

Estimate changes		
MSEK	**2018E**	**2019E**
Net sales		
Old	**107**	**144**
New	**85**	**113**
% change	**-20%**	**-22%**
EBITDA		
Old	**12**	**22**
marginal	*11.2%*	*15.3%*
New	**-1**	**13**
marginal	*-1.1%*	*11.7%*
% change	**n.m.**	**-40%**
EBIT		
Old	**6**	**15**
marginal	*5.6%*	*10.4%*
New	**-6**	**8**
marginal	*-6.7%*	*7.3%*
% change	**n.m.**	**-45%**

Source: Redeye Research

Investment Case

- **Global expansion not yet discounted**: Today's valuation indicates that the market has not yet understood the opportunities with the expansion abroad and the sales growth and profitability that it will lead to.
- **Moving up the value chain leads to improved profitability**: The company invests in its technical platform, which means that West will soon be able to make money on transaction volumes, which will lead to increased profitability and the possibility of more rapid international expansion.
- **High entry barriers:** Westpay operates in a market where there are major obstacles for new companies to establish themselves. Primary competitive advantages are heavy technology investments, long start-up times in new markets and lock-in effects

Moving up the value chain

Westpay is a company that has changed sharply in recent years. Thanks to investments in the Card Terminal segment, the company has significantly improved its profitability in terms of a gross margin expansion. The company has managed to achieve significant traction with their competitive offering and is now one of the largest PoS suppliers in Sweden. Westpay's Card Terminals are at the forefront of technology, security, and function and are competitively priced. We believe that the company has excellent opportunities to continue to gain market share in Sweden and we see a strong expansion abroad in the coming years. The international development and the launched payment gateway will lead to increased profitability as the company takes a step in the value chain.

High barriers to entry

In Sweden, in addition to Westpay, there are only 3-4 other players in the Card Terminal market. The most prominent player is Verifone and Ingenico is number two. These two players strongly dominate the world market. One of the main reasons why there are only a few players in such a big market is that existing players, such as Westpay, are protected by high barriers to entry. The regulatory requirements on Card Terminals are very high. The terminals must be approved according to the card companies regulations and a number of regional and international safety standards. This creates real barriers to entry. There is also a strong lock-in effect with customers, which creates high switching costs. Customers to West are PSPs. A PSP has developed software in the form of a gateway that needs to be integrated with the software in the card terminal provided by Westpay; then they must be certified together according to different security standards. After a PSP, which sells the terminal to merchants, has begun to sell a terminal from a supplier, they would prefer to avoid changing it. This leads to a lock-in effect on West's customers as they do not like to change a supplier of terminals.

Expansion abroad drives growth

Westpay has a clear goal and strategy with international expansion. The company has already established itself in a number of geographic markets where sales potential is high and entered strategic partnerships. We believe the expansion in new markets regions will be the most significant driver of growth the coming years. We believe that the stock market has not yet revealed how much sales potential is actually at Westpay. The company is still relatively undiscovered, in particular, it has gone a long way since one of Sweden's largest card terminals supplier is a small company listed on First North.

Counter-arguments (Bear points)

- Risk of relying on a partner: Westpay's expansion abroad is clearly dependent on their partners succeeding as the company has no own sales in the new markets. The company cannot control the amount of effort the partner makes.

- New regulations can affect and change: The banking industry as a whole undergoes a number of changes. New laws and regulations may lead to complications in the establishment of new markets or possibly simplification for competitors.
- Subdued technology investments: Continued investment in payment infrastructure is important to Westpay. Should the economic decline, there is a risk that planned expenditures by West end customers will be postponed in the future.

Valuation

We have adjusted our projections downwards given the lower activity for announced orders and that the company's own statement that the international revenue ramp-up takes longer than expected. Our updated Base-case now amounts to 13 (18) SEK per share. Our Valuation range remains almost intact.

Bear Case 4.0 SEK

Key model assumptions:
CAGR of 8% during the next ten years
Average EBIT margin of 10%
Terminal FCF growth of 2%
Terminal EBIT margin of 14%

In our Bear-case, we use the assumption that the company's international expansion does not work out that well and only contributes to modest growth in sales. We assume that the company continues to grow slightly in Sweden and then mature at a 20 percent market share then grow by around 4 percent per year. In this scenario, we assume that competition is increasing, which pushes margins and growth opportunities.

Base Case 13.0 SEK

Key model assumptions:
CAGR of 15% during the next ten years
Average EBIT margin of 17%
Terminal FCF growth of 2%
Terminal EBIT margin of 22%

In our Base-case, we assume some success in the international expansion. We also model an up-take within the Self-Service segment and that the company signs more new core customers, like MAX Hamburgers today, thanks to being an Oracle Gold Partner. The international expansion leads to new types of income streams like transaction-based fees; this leads to increased gross profit margins. There is still much to prove so we are still quite conservative regarding volumes from the international expansion in our projections.

Bull Case 26.0 SEK

Key model assumptions:
CAGR of 20% during the next ten years
Average EBIT margin of 25%
Terminal FCF growth of 2%
Terminal EBIT margin of 28%

In our Bull-case, we assume that the company succeeds faster in gaining market share in the new geographical growth areas as well as successful re-investments into the online venture. This scenario requires higher CAPEX as this expansion costs money in terms of development, but this is weighed up thanks to the rapid growth and improved margins. In this scenario, we expect Westpay to be re-evaluated more like a "FinTech company." In this scenario, we assume that the company can reach

Relative valuation

Westpay has no listed competitors or similar companies in Sweden, and the public competitors such as Ingenico and Pax are much larger. iZettle, acquired by PayPal, would have been a nice addition. Eve thought Square is not directly comparable and have a different focus we choose to include them. Verifone was recently acquired and are no longer a public company. Verifone was bought-out for about 2.4x sales and 11.4x EBITDA.

We believe that such high growth the West will experience should be valued higher than the current depressed levels that only focus on delays of the international expansion. Westpay is still early in their growth trajectory, so it is somewhat misleading to focus on the current year's earnings.

Peer valuation Westpay (MSEK)

		EV/Sales		EV/EBITDA		Sales CAGR		EBITDA margin	
Bolag	**EV**	**2018E**	**2019E**	**2018E**	**2019E**	**2018E**	**2019E**	**2018E**	**2019E**
Square	355 315	12.8x	11.9x	65.4x	58.5x	14%	8%	20%	20%
Ingenico	61 209	3.8x	3.7x	22.2x	22.1x	-2%	5%	17%	17%
Verifone	28 903	2.4x	2.4x	11.4x	11.0x	-7%	2%	21%	21%
Cardtronics	19 827	4.1x	3.5x	29.6x	24.1x	24%	16%	14%	15%
PAX	2 855	0.2x	0.1x	1.4x	0.7x	-28%	40%	15%	21%
Medel	**116 313**	**4.7x**	**4.3x**	**26.0x**	**23.3x**	**7%**	**8%**	**18%**	**18%**
Median	**45 056**	**3.8x**	**3.5x**	**22.2x**	**22.1x**	**6%**	**6%**	**18%**	**18%**
Westpay	**154**	**1.8x**	**1.4x**	**n.m.**	**11.7x**	**-8%**	**32%**	**-1%**	**12%**

Source: Bloomberg & Redeye Research

Catalysts

Revenue ramp-up abroad

Besides Sweden the company now have partnerships and EFTPOS's soon or already operational in; Denmark, Finland, Germany, Poland, Norway, South Africa, Southeast Asia and Australia. These markets will start generating substantial revenue during 2019.

International expansion

Further international expansion for their card terminals to more countries is the largest value catalysts for Westpay. The expansion will lead to higher turnover levels for the Card Terminals segment, which will create higher margins and increase the future cash flow.

Acquisition

The payment business is flooded with M&A. Mostly larger PSPs acquiring smaller players. It is reasonable to believe that West might be an attractive acquisitions target.

Recurring revenue on the rise

During 2017 roughly 11% of revenue was on a recurring basis, this income type is on the rise thanks to an expanding base of operating EFTPOS. Contracts sign with partners outside of Sweden has a much higher recurring income stream; this will enhance both the stability and profitability going onward

Margin improvement through value chain expansion

The company invests in their technical platform and now have launched a payment gateway, which means that West will be able to make money on transaction volumes, leading to long-term enhanced profitability

Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report

No changes in Rating

Management: 8.0

The ownership structure in Westpay is another of the company's main strengths. The high rating is mainly because both the board and the management of the company have major ownership in the company. The Board and the CEO together hold close to 25 percent of the capital. We find this as positive as it contributes to a shareholder-friendly focus. Of course, we would like to see institutions as major owners, but we are aware that for a company of Westpays' size rarely gets that kind of owner.

Ownership: 7.0

We find the opportunities for growth to be very strong for the company. Future focus will be on Card Terminals where the company has a great opportunity to take further market shares and launch their terminals internationally, and the new Online offering should warrant strong opportunities ahead. The company is number three in Sweden, but the market share is not directly large compared to Verifone and Ingenico. We have identified two different types of sustainable competitive advantages that protect the company. Partly regulatory barriers that block new entrants from entering the market as well as lock-in effects of Westpay's customers due to development costs at PSPs and Cash System suppliers.

Profit Outlook: 6.0

Westpay has experienced a favorable development in recent years, which has led to increasingly improved profitability. However, the rating score is relatively low since our profitability rating primarily looks at the history and is not forward-looking. We will increase our rating as the company continues to deliver improving results.

Profitability: 3.0

Westpay has experienced a favorable development in recent years, which has led to increasingly improved profitability. However, the rating score is relatively low since our profitability rating primarily looks at the history and is not forward-looking. We will increase our rating as the company continues to deliver improving results.

Financial Strength: 4.0

Westpay's financial strength is considered to be good. The company has a diversified customer portfolio, and are entering both new market regions and verticals within the payment space.

INCOME STATEMENT	2016	2017	2018E	2019E	2020E
Net sales	77	93	85	113	152
Total operating costs	-71	-83	-86	-100	-132
EBITDA	6	11	-1	13	20
Depreciation	0	0	0	-1	-1
Amortization	-3	-4	-4	-4	-6
Impairment charges	0	0	0	0	0
EBIT	3	6	-6	8	14
Share in profits	0	0	0	0	0
Net financial items	0	0	0	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	3	6	-6	8	14
Tax	-1	-2	1	-2	-3
Net earnings	2	4	-4	6	11

BALANCE SHEET	2016	2017	2018E	2019E	2020E
Assets					
Current assets					
Cash in banks	19	12	10	11	15
Receivables	9	18	17	23	30
Inventories	19	23	20	27	33
Other current assets	3	0	0	0	0
Current assets	51	54	48	61	79
Fixed assets					
Tangible assets	1	1	1	1	1
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	8	11	10	14	19
O non-current assets	0	0	0	0	0
Total fixed assets	9	13	12	14	19
Deferred tax assets	4	2	2	2	2
Total (assets)	64	68	61	77	101
Liabilities					
Current liabilities					
Short-term debt	0	0	0	3	5
Accounts payable	24	24	21	28	38
O current liabilities	3	0	0	0	0
Current liabilities	27	24	21	31	43
Long-term debt	0	0	0	0	0
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	27	24	21	31	43
Deferred tax liab	0	0	0	0	0
Provisions	0	2	2	2	2
Shareholders' equity	36	42	38	44	55
Minority interest (BS)	0	0	0	0	0
Minority & equity	36	42	38	44	55
Total liab & SE	64	68	61	77	101

FREE CASH FLOW	2016	2017	2018E	2019E	2020E
Net sales	77	93	85	113	152
Total operating costs	-71	-83	-86	-100	-132
Depreciations total	-3	-4	-5	-5	-6
EBIT	3	6	-6	8	14
Taxes on EBIT	0	0	0	0	0
NOPLAT	3	6	-6	8	14
Depreciation	3	4	5	5	6
Gross cash flow	6	11	-1	13	20
Change in WC	3	-13	1	-5	-4
Gross CAPEX	-6	-8	-4	-8	-11
Free cash flow	4	-10	-4	0	5

CAPITAL STRUCTURE	2016	2017	2018E	2019E	2020E
Equity ratio	56%	62%	62%	57%	55%
Debt/equity ratio	0%	0%	0%	6%	10%
Net debt	-19	-12	-10	-8	-10
Capital employed	17	30	28	36	45
Capital turnover rate	1.2	1.4	1.4	1.5	1.5

GROWTH	2016	2017	2018E	2019E	2020E
Sales growth	2%	21%	-8%	32%	35%
EPS growth (adj)	293%	99%	-198%	-248%	68%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	11.9 %	NPV FCF (2018-2020)	-2
		NPV FCF (2021-2027)	118
		NPV FCF (2028-)	165
		Non-operating assets	12
		Interest-bearing debt	0
		Fair value estimate MSEK	293
Assumptions 2017-2023 (%)			
Average sales growth	21.5 %	Fair value e. per share, SEK	12.9
EBIT margin	11.3 %	Share price, SEK	7.4

PROFITABILITY	2016	2017	2018E	2019E	2020E
ROE	8%	11%	-11%	16%	22%
ROCE	11%	16%	-14%	20%	26%
ROIC	15%	37%	-19%	30%	39%
EBITDA margin	8%	11%	-1%	12%	13%
EBIT margin	4%	7%	-7%	7%	9%
Net margin	3%	5%	-5%	6%	7%

DATA PER SHARE	2016	2017	2018E	2019E	2020E
EPS	0.10	0.19	-0.19	0.28	0.47
EPS adj	0.10	0.19	-0.19	0.28	0.47
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.84	-0.54	-0.45	-0.37	-0.43
Total shares	22.75	22.75	22.75	22.75	22.75

VALUATION	2016	2017	2018E	2019E	2020E
EV	120.4	257.7	155.9	157.6	156.2
P/E	63.5	61.7	-38.6	26.1	15.6
P/E diluted	63.5	61.7	-38.6	26.1	15.6
P/Sales	1.8	2.9	2.0	1.5	1.1
EV/Sales	1.6	2.8	1.8	1.4	1.0
EV/EBITDA	20.0	24.3	-168.8	11.9	7.8
EV/EBIT	39.1	40.7	-27.4	19.0	11.2
P/BV	3.9	6.4	4.4	3.8	3.0

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	-19.8 %	Net sales	5.3 %
3 month	-41.4 %	Operating profit adj	�
12 month	-44.3 %	EPS, just	�
Since start of the year	-46.7 %	Equity	2.4 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Nordnet Pensionsförsäkring	16.5 %	16.5 %
Avanza Pension	9.1 %	9.1 %
Malte Roggentin	8.3 %	8.3 %
Per Jörgen Roland Nordlund (med bolag)	5.9 %	5.9 %
Göran Sparrdal	4.7 %	4.7 %
Ejderholmen AB	4.4 %	4.4 %
Sten Karlsson (med bolag)	3.0 %	3.0 %
Roger Andersson	2.4 %	2.4 %
Thomas Wernhoff	1.6 %	1.6 %
Elementa Management	1.0 %	1.0 %

SHARE INFORMATION	
Reuters code	
List	
Share price	7.4
Total shares, million	22.5
Market Cap, MSEK	166.1

MANAGEMENT & BOARD	
CEO	Sten Karlsson
CFO	Lars Levin
IR	
Chairman	Christina Detlefsen

FINANCIAL INFORMATION

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Redeye Rating and Background Definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

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Disclaimer

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Redeye Rating (2018-10-03)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	45	47	17	10	21
3,5p - 7,0p	88	79	117	36	50
0,0p - 3,0p	13	20	12	100	75
Company N	146	146	146	146	146

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CONFLICT OF INTERESTS

Kristoffer. Lindström. owns shares in the company Westpay: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.