



## ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 5 March 2021

# Björn Borg

## Online growth strengthens margins

### Online growth remains strong

Björn Borg's fourth-quarter sales were SEK 160m (196), corresponding to growth of -18.4% y/y (-15% organic). This was lower than our estimate of SEK 175m. Own e-commerce continued to gain, and grew by 53% y/y. Together, own e-commerce and e-tailers accounted for 35% of revenues.

### Strengthened gross margin

The gross margin was 57%, which is a strong gain y/y (51%). Adjusted for currency effects, the gross margin was 53%. Operating expenses including depreciation and amortisation amounted to SEK 90m, against our estimate of SEK 85m. The strong gross margin was a result of a larger share of sales from online channels. Björn Borg proposes a dividend of SEK 1.50 per share (SEK 0).

### Estimate adjustments strengthen cash flows

We are downwardly adjusting revenues for 2021e, but we expect unchanged growth in 2022e. We are upping the gross margin 2021e-2022e and trimming our estimates for working capital in the coming years, which strengthens cash flow in our DCF model. Our multiple valuation combined with the DCF model generates a fair value of SEK 27-29 (24-26).

Estimate Changes (SEK)			Estimates (SEK)					Risk and Potential		
	Now	Before		20	21e	22e	23e	Motivated value	27.00 - 29.00	
EPS, adj 21e	1.78	1.79	-0.8%	Sales,m	705	730	774	813	Current price	19.40
EPS, adj 22e	2.42	2.75	-12.1%	Sales Growth	(6.8)%	3.5%	6.0%	5.0%	Risk level	Medium
EPS, adj 23e	2.72	2.72	0.0%	EBITDA, m	75	101	123	134		
				EBIT, m	33.7	58.9	79.2	88.9		
				EPS, adj	0.75	1.78	2.42	2.72		
				EPS Growth	(51.6)%	-%	36.1%	12.6%		
				Equity/Share	11.6	11.8	12.8	14.0		
				Dividend	1.50	1.50	1.50	1.50		
				EBIT Marginal	4.8%	8.1%	10.2%	10.9%		
				ROE (%)	6.5%	15.0%	18.9%	19.5%		
				ROCE	8.0%	13.8%	20.3%	24.4%		
				EV/Sales	0.81x	0.79x	0.74x	0.71x		
				EV/EBITDA	7.7x	5.7x	4.7x	4.3x		
				EV/EBIT	17.0x	9.7x	7.2x	6.5x		
				P/E, adj	25.9x	10.9x	8.0x	7.1x		
				P/Equity	1.7x	1.6x	1.5x	1.4x		
				Dividend yield	7.0%	7.0%	7.0%	7.0%		
				FCF yield	24.7%	7.0%	17.7%	17.7%		
				Net Debt/EBITDA	1.7g	1.3g	0.6g	0.1g		

### Calendar Events

Q1-report 2021-05-18

### Key Figures (mkr)

Number of Shares 25.1m  
 Market cap 488  
 Net Debt 86  
 EV 574  
 Free Float 76.00%  
 Avg. No. of Daily Traded Sh. 29.0(k)  
 Reuters/Bloomberg BORG.ST/BORG.SS

### One Year Performance Chart



### Analysts

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## Overview

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### Online growth strengthens margins

#### Investment Case

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Björn Borg is undergoing a transition from being an underwear company to operating in the sportswear and exercise apparel sector, and the strong growth in health and exercise is therefore a persuasive driver. Björn Borg has a high level of brand recognition among consumers even though the market for exercise apparel is dominated by large global companies. Despite this strong brand, Björn Borg is today valued on a par with or lower than other clothing retailers. We believe a brand valuation is more relevant. As the company continues to grow its online sales and strengthen its profitability, we expect this valuation gap may narrow.

#### Company Profile

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Björn Borg is a Swedish fashion company that designs and sells underwear, footwear, sportswear and other products under its own Björn Borg brand. The company's two largest markets are the Netherlands and Sweden, which together accounted for just over 60% of brand sales in 2020. The underwear product area accounted for the majority of sales in 2020, at 56%, while sports apparel accounted for 13%. Own e-commerce and sales via external e-tailers made up 35 % of sales in Q4 2020.

Björn Borg updated its financial targets in 2019. The new targets are annual sales growth of 5%, an annual operating margin of 10%, an annual dividend of at least 50% of net profit after tax, and an equity/assets ratio not less than 35%. Apart from in 2018, Björn Borg has hit its growth target since 2013.

#### Valuation approach

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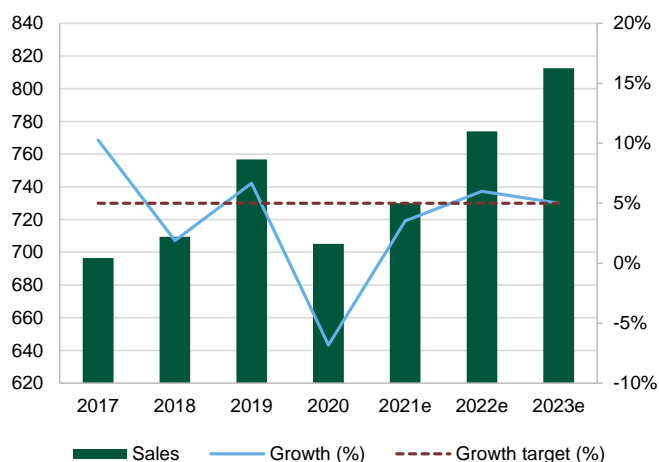
We value Björn Borg using a multiple approach against companies with the same sector exposure and growth potential, as well as using a DCF model. Björn Borg is valued at a discount to the sector, which is not entirely justified in our assessment. The company is traded at EV/EBIT 7.2x for 2022e, which is closer to a retailer without the pricing freedom of a brand. Our comparison group of retailers trades at EV/EBIT 16x for 2022e, while branded companies are traded at EV/EBIT 21x for 2022e. We are downwardly adjusting revenues, while the higher gross margin during the forecast period creates an opportunity to increase profitability in the long run. We are also reducing our estimates of working capital tied up, which will strengthen cash flow in our DCF model for the coming years. We see a fair value of SEK 27-29 at medium risk. The model is supported by our DCF assessment, which indicates a fair value of SEK 29 per share. The DCF model applies a WACC of 13%, growth beyond the forecast period of 1.5%, and an operating margin in line with Björn Borg's target of 10%.

#### Target Price

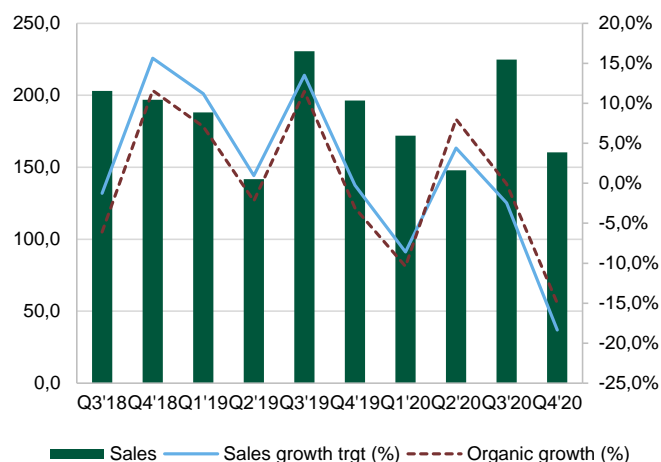
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27-29 SEK

### Sales and growth



### Sales and growth



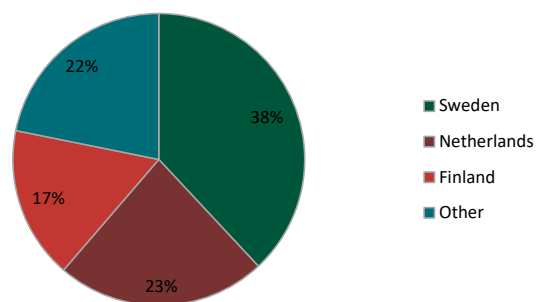
### Shareholder data

Shareholder	Votes	Shares
Martin Bjäringer	9,9%	9,9%
Fjärde AP-fonden	6,7%	6,7%
Mats Nilsson	6,5%	6,5%
Avanza Pension	5,0%	5,0%
Other	72%	72%

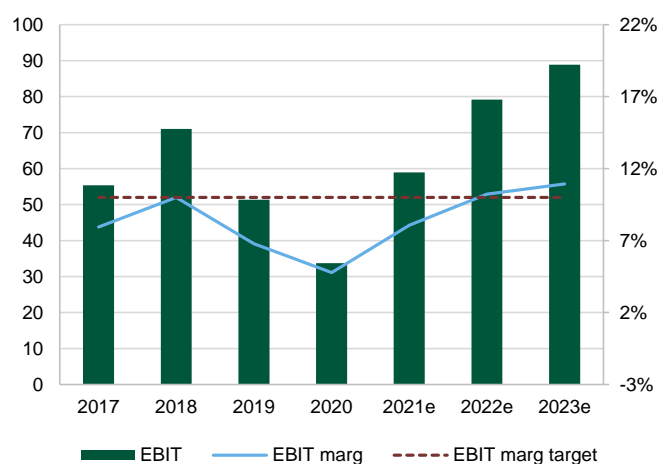
  

Chairman	Heiner Olbrich
CEO	Henrik Bunge
CFO	Jens Nyström
Contact	Pernilla Johansson
Website	<a href="http://www.corporate.bjornborg.com">www.corporate.bjornborg.com</a>

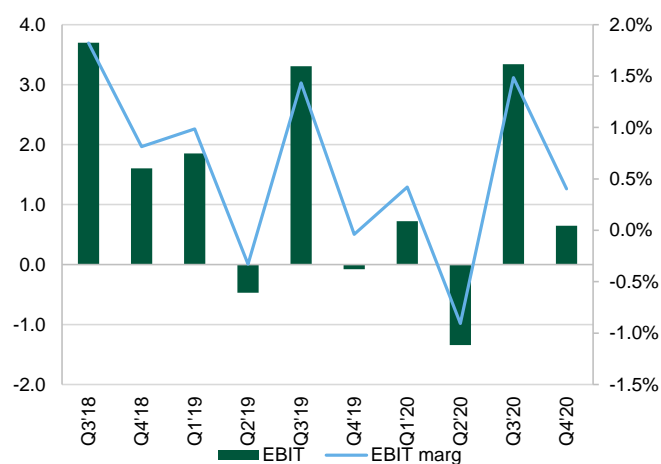
### Sales per market



### EBIT and margin



### EBIT and margin

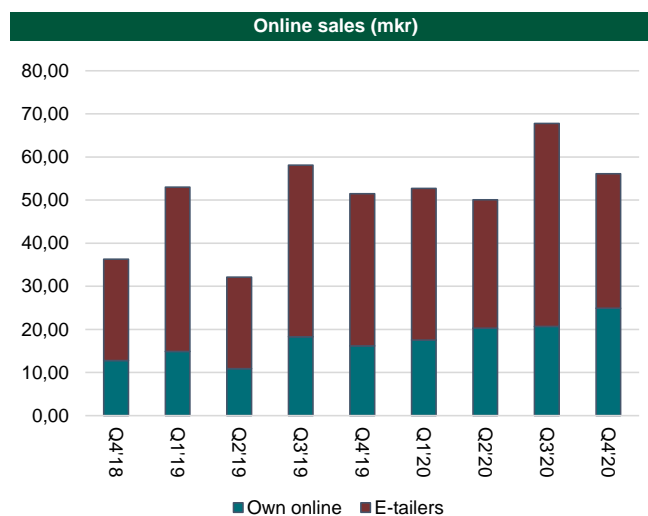
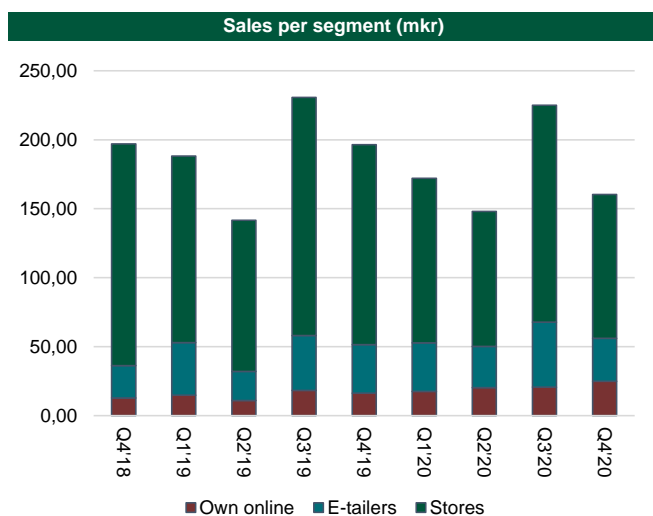


## The quarter in detail

Björn Borg's sales for the fourth quarter were SEK 160 million (196), which corresponds to growth of -18.4% y/y (-15% organic). This was lower than our estimate of SEK 175 million. The gross margin was 57%, which is a strong gain y/y (51%). Adjusted for currency effects, the gross margin was 53%. Sales in Benelux continue to have a negative impact on growth, and currency-adjusted sales decreased by 46% y/y in Q4, with much of the setback attributable to closures in these countries. Growth in the region has also had very tough comparative figures since warehouse closures in the Netherlands during 2019 led to discounting that created growth in this geography.

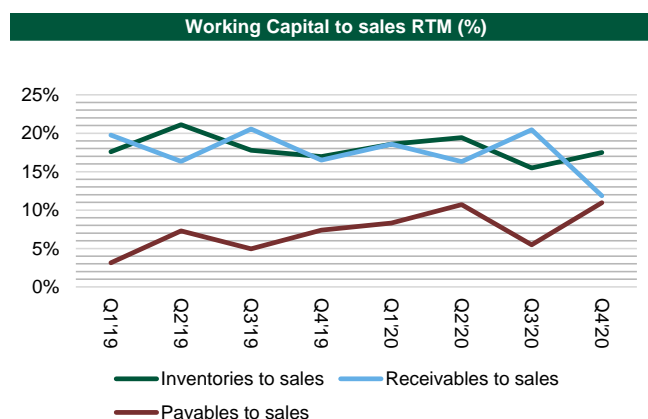
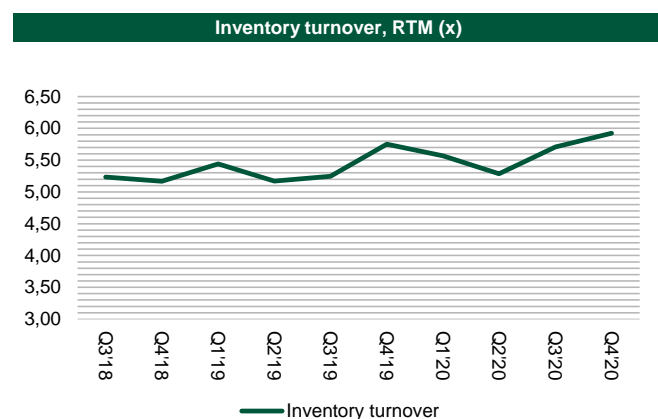
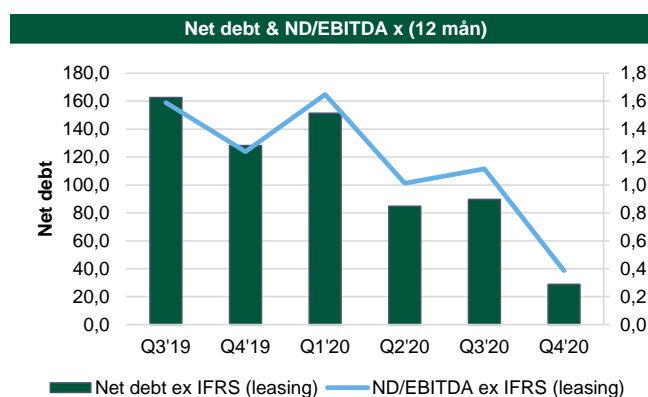
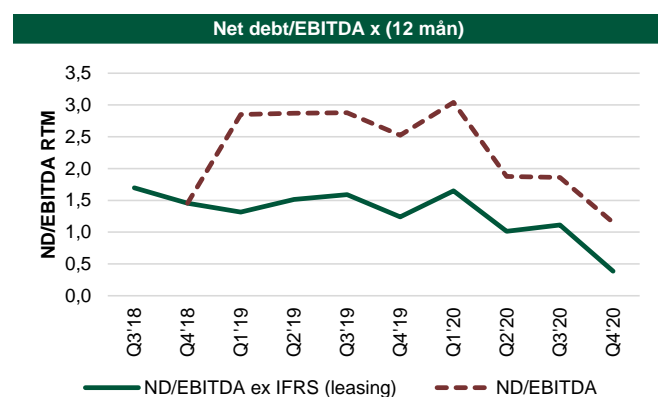
Operating expenses including depreciation and amortisation amounted to SEK 90 million against our estimate of SEK 85 million, with the difference explained partly by somewhat higher than expected depreciation and amortisation. The high gross margin led to EBIT of SEK 6.5 million compared to an expected SEK 4.9 million. Björn Borg proposed a dividend of SEK 1.50 per share, corresponding to SEK 37.7 million. Last year the company paid no dividend.

The continued growth in online sales is strongly positive. Own e-commerce grew by 53% in the quarter and accounts for more than a third of total revenues. Online selling therefore continues the positive growth trend that has become apparent during the pandemic. Inventory levels at the end of the quarter were 17% of rolling 12-month sales, in line with Q4 2019. The graphs below show the performance by sales channel.



## Reducing net debt and reintroducing dividends

The company announced that it will distribute SEK 1.50 per share for 2020, corresponding to SEK 37.7 million. At the end of Q4, Björn Borg had cash and cash equivalents of SEK 70.2 million, as well as an unutilised bank facility of SEK 141 million. Net debt excluding lease liabilities was SEK 28.8 million (128.2), with the change mainly due to reduced working capital. This is shown in the tables below, which set out Björn Borg's financial position. Since the beginning of 2020, the company has downwardly adjusted its debt ratio (net debt/rolling 12-month EBITDA). This ratio has even decreased when including lease liabilities. The graphs also show the turnover rate (x) and the company's working capital in relation to rolling 12-month sales. Accounts receivable were down in the quarter and, together with increased accounts payable, we note that working capital contributed to the strengthened net cash.



## Adjustments

We note that Björn Borg had a strong gross margin for the quarter of 56.6% (50.8%), which is a significant improvement y/y. Of this, 3.5 percentage points come from currency effects and are explained by the strengthening of the krona during the period. A currency-adjusted gross margin of 53.1% is still impressive and we estimate that it comes from online sales becoming a larger part of the total revenue, as online revenue has a higher gross margin. We are upwardly adjusting our long-term forecast for the company's gross margin to 56% in 2022, and for 2023 we estimate that Björn Borg may have a gross margin of 57% once online sales make up a larger share of the company's revenue.

Given the backdrop of lower sales in Q4, we are trimming back our revenue estimate for 2021 to SEK 730 million, corresponding to a reduction of SEK 26 million. However, we are making some adjustments to the cost base following

indications from the company. This means that the reduction in EBIT 2021 is only slight, from SEK 60 million to SEK 59 million. We envisage unchanged growth for 2022e and 2023e, at 5%.

Furthermore, we are adjusting the levels of working capital. We note that Björn Borg has worked to improve its capital tied up, and although we expect that the company is likely to need to expand its inventory going forward, we envisage that the total working capital can be improved and will help to strengthen cash flow in the coming years. We expect Björn Borg to have working capital that is 24% of sales in 2021.

**Income statement**

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net sales	696	710	757	705	730	774	813
Other operating income	8	7	22	29	24	24	24
Cost of goods sold	-320	-303	-351	-335	-329	-329	-341
Gross profit	<b>376</b>	<b>407</b>	<b>406</b>	<b>370</b>	<b>401</b>	<b>445</b>	<b>471</b>
Selling and administrative expenses	-319	-334	-320	-324	-323	-346	-361
Other operating costs							
<b>EBITDA</b>	<b>65,3</b>	<b>79,9</b>	<b>108,6</b>	<b>74,5</b>	<b>101,3</b>	<b>122,9</b>	<b>133,8</b>
Depreciation/amortisation	-9,9	-8,9	-57,2	-40,8	-42,4	-43,7	-45,0
<b>EBIT</b>	<b>55,4</b>	<b>71,0</b>	<b>51,4</b>	<b>33,7</b>	<b>58,9</b>	<b>79,2</b>	<b>88,9</b>
Extraordinary Items							
<b>Adjusted EBIT</b>	<b>55,4</b>	<b>71,0</b>	<b>51,4</b>	<b>33,7</b>	<b>58,9</b>	<b>79,2</b>	<b>88,9</b>
Net financial items	-4,0	3,0	-2,7	-16,1	-2,7	-2,7	-2,7
<b>Profit before tax (EBT)</b>	<b>51,4</b>	<b>74,0</b>	<b>48,7</b>	<b>17,6</b>	<b>56,2</b>	<b>76,5</b>	<b>86,1</b>
Income tax	-14,0	-14,1	-9,7	1,3	-11,5	-15,7	-17,7
Minority Interest							
<b>Net Income</b>	<b>37,4</b>	<b>59,9</b>	<b>38,9</b>	<b>18,8</b>	<b>44,7</b>	<b>60,8</b>	<b>68,5</b>
<b>Net Income (Adjusted)</b>	<b>37,4</b>	<b>59,9</b>	<b>38,9</b>	<b>18,8</b>	<b>44,7</b>	<b>60,8</b>	<b>68,5</b>

**Cash Flow Statement**

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA	65	80	109	75	101	123	134
Changes in working capital	-8	-54	21	89	-44	-4	-13
Other items	0	0	0	0	0	0	0
<b>Cash flow from operating activities</b>	<b>57</b>	<b>20</b>	<b>113</b>	<b>143</b>	<b>43</b>	<b>101</b>	<b>101</b>
Net financial expenses	-2	-3	-3	-16	-3	-3	-3
Income taxes paid	-3	-1	-10	1	-12	-16	-18
Investments	15	-16	-13	-9	-5	-5	-5
<b>Free Cash Flow</b>	<b>73</b>	<b>4</b>	<b>100</b>	<b>134</b>	<b>38</b>	<b>96</b>	<b>96</b>
Dividends	-50	-50	-50	0	-38	-38	-38
Right issue/Share buyback	0	0	0	0	0	0	0
Acquisitions	28	-2	-9	-5	0	0	0
Debt financing and other adjustments	-13	-14	-4	-3	0	0	0
<b>Cash Flow</b>	<b>7</b>	<b>-21</b>	<b>-8</b>	<b>43</b>	<b>0</b>	<b>58</b>	<b>58</b>
Adjustments for non-cash items	0	0	0	0	0	0	0
<b>Net debt (Adjusted)</b>	<b>90</b>	<b>114</b>	<b>262</b>	<b>128</b>	<b>128</b>	<b>70</b>	<b>12</b>

**Balance sheet**

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
<b>Assets</b>							
Goodwill	36	35	35	34	34	34	34
Other Intangible assets	193	197	329	198	190	146	101
Tangible fixed assets	15	15	18	17	22	27	32
Other fixed assets	23	23	15	16	16	16	16
<b>Total fixed assets</b>	<b>266</b>	<b>271</b>	<b>397</b>	<b>265</b>	<b>261</b>	<b>223</b>	<b>183</b>
Inventory	110	140	128	123	131	139	146
Accounts receivable	91	130	125	84	110	116	122
Other current assets	21	14	20	77	43	43	43
Cash and cash equivalents	53	36	29	70	70	129	187
<b>Total current assets</b>	<b>274</b>	<b>320</b>	<b>302</b>	<b>355</b>	<b>354</b>	<b>427</b>	<b>498</b>
<b>Total assets</b>	<b>541</b>	<b>591</b>	<b>699</b>	<b>619</b>	<b>616</b>	<b>650</b>	<b>681</b>
<b>Equity and liabilities</b>							
Equity	277	288	265	291	298	321	352
Minority Interest	0,49	-5,86	0,00	0,00	0,00	0,00	0,00
<b>Total equity</b>	<b>277</b>	<b>282</b>	<b>265</b>	<b>291</b>	<b>298</b>	<b>321</b>	<b>352</b>
Non-current liabilities	125	150	150	99	99	99	99
Provisions for pensions	0	0	0	0	0	0	0
Deferred tax liabilities							
Other non-current liabilities	66	47	137	75	75	75	75
<b>Total non-current liabilities</b>	<b>191</b>	<b>197</b>	<b>287</b>	<b>174</b>	<b>174</b>	<b>174</b>	<b>174</b>
Current liabilities	0	0	7	0	0	0	0
Accounts payable	20	38	56	77	67	78	78
Tax liability	0	0	0	0	0	0	0
Other current liabilities	52,0	74,8	84,7	76,8	76,8	76,8	76,8
<b>Total current liabilities</b>	<b>72</b>	<b>112</b>	<b>148</b>	<b>154</b>	<b>144</b>	<b>155</b>	<b>155</b>
<b>Total equity and liabilities</b>	<b>541</b>	<b>585</b>	<b>699</b>	<b>619</b>	<b>616</b>	<b>650</b>	<b>681</b>



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