ERIK PENSER BANK

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Strax

A leader in mobile phone accessories

Brand builder

We are initiating our coverage of STRAX, a distributor of mobile phone accessories. The company sells products under its own brands as well as licensed and third-party brands, and focuses geographically on Europe and North America. STRAX has a track record of successfully developing brands and selling them at attractive multiples, and we regard this mechanism as an attractive aspect of the company's operations.

Ready for mobile market comeback

We have identified several attractive aspects of the company, the market and the share. It has a level of cost control that, together with an operational focus on Own Brands, will probably mean higher margins in the future. We note that the market for mobile phones is expected to return to growth after a tough 2020. In our opinion, the share is attractively valued and an appreciation may be on the cards.

Valuation indicates upside

Our valuation against peers indicates a fair value of SEK 5.50–5.80 per share, and this is supported by a DCF model. We note that the valuation has a significant upside if the company in future divests portfolio companies at multiples in line with previous sales such as Gear4. We judge the risk as medium.

Estimate Changes (EUR)

	Now	Before	
EPS, adj 21e	0.02	0.02	0.0%
EPS, adj 22e	0.04	0.04	0.0%

Calendar Events

Q1 2021	2021-05-26

Key Figures (EURm)

Number of Shares	120.6m
Market cap	492
Net Debt	355
EV	847
Free Float	30.00%
Avg. No. of Daily Traded Sh.	185.0(k)

Estimates (EUR)

	20	21e	22e
Sales,m	112	126	143
Sales Growth	(1.6)%	13.1%	13.0%
EBITDA, m	8.5	10.5	13.1
EBIT, m	6.8	8.8	11.4
EPS, adj	0.01	0.02	0.04
EPS Growth	(138.5)%	232.2%	90.7%
Equity/Share	0.1	0.1	0.1
Dividend	0.00	0.00	0.00
EBIT Marginal	6.1%	7.0%	8.0%
ROE (%)	3.7%	10.9%	17.2%
ROCE	6.8%	8.4%	9.8%
EV/Sales	7.58x	6.70x	5.92x
EV/EBITDA	99.3x	80.3x	64.5x
EV/EBIT	125.1x	95.8x	74.1x
P/E, adj	70.2x	21.1x	11.1x
P/Equity	39.0x	39.0x	39.0x
Dividend yield	0.0%	0.0%	0.0%
FCF yield	(3.3)%	2.0%	3.3%
Net Debt/EBITDA	3.1g	2.3g	1.5g

Risk and Potential

Motivated value	5.50 - 5.80
Current price	SEK4.08
Risk level	Medium

One Year Performance Chart

Analysts

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Overview

A leader in mobile phone accessories

Investment Case

We have identified a number of attractive factors related to STRAX's market position, business model, cost structure and valuation.

- The resilience of STRAX's business model became apparent in 2020. Through tough cost control, STRAX managed to achieve 10% EBIT growth during a year when the entire smartphone market fell by more than 10%, which hit STRAX's main segment of mobile accessories hard. STRAX has been proactive in launching Health & Wellness – an attractive addition to the company's offering.
- STRAX is now pleasingly positioned. The smartphone market is expected to make a comeback in 2021, including the accessories segment, and STRAX estimates that its two growth areas of Health & Wellness and Audio will continue to grow this year as well.
- Rising volumes will reveal the scalability of the business model. In addition to the tough cost control, STRAX has become more stringent in terms of the multiples it pays for acquisitions. The online business is being developed without major cost build-up, and license agreements are being signed on stricter terms. The gross margin increased during last year's difficult market, and most of the costs are fixed. This means that a recovery in volumes will result in a gradually rising EBIT margin for several years to come.
- In addition to cost control, the focus on Own Brands will lead to higher margins. The gross margin in 2020 was 26% for STRAX at the consolidated level, but 32% on Own Brands. A larger share of sales from Own Brands therefore means further support for positive margin development.
- The valuation is low. A multiple valuation and cash flow analysis result in a fair value of SEK 5.50–5.80.
- Our fair value has a significant upside if STRAX succeeds in developing as little as one single brand in addition to Urbanista to levels in line with Urbanista or Gear4.

Company Profile

STRAX operates in the market for mobile phone accessories. The company sells products under its own, licensed and third-party brands and focuses geographically on Europe and North America.

Valuation approach

We value STRAX by applying a multiple approach and a cash flow model. STRAX trades in line with its sector peers in terms of P/E, but has a discount in terms of EV/EBIT 2023e. Using our estimates, we believe that STRAX's EBIT margin will approach 9–10% in 2022–2023, and should thus justify a valuation of around 8x EV/EBIT for 2022e, which is in line with Doro and Cellularline, which have a similar EBIT margin. Our multiple valuation justifies a value of SEK 5.50–5.80 per share. Our cash flow analysis gives a value of around SEK 6 per share.

Target Price

5,50–5,80 kr

Investment case

STRAX has a natural focus on both Distribution and Own Brands. Distribution accounts for 60% of EBIT and demonstrated in 2020 that it functions as a cushion for the company. At a time when the market for mobile accessories fell sharply, STRAX was able to create new revenue streams by using its network of suppliers, retailers and customers to sell other products and thus protect its earnings.

At current levels, STRAX has a substantial share price upside both relative to peers and based on a cash flow valuation. In the long term, however, we believe that the great potential to create value in the company lies in profiling itself as a developer of brands. STRAX has extensive experience of brand building and has built-in infrastructure for both launching and developing brands in mobile accessories. If STRAX is able to build up its online platform to a larger volume and at the same time succeeds in building its own brands, it is in this area that the great value of the company lies.

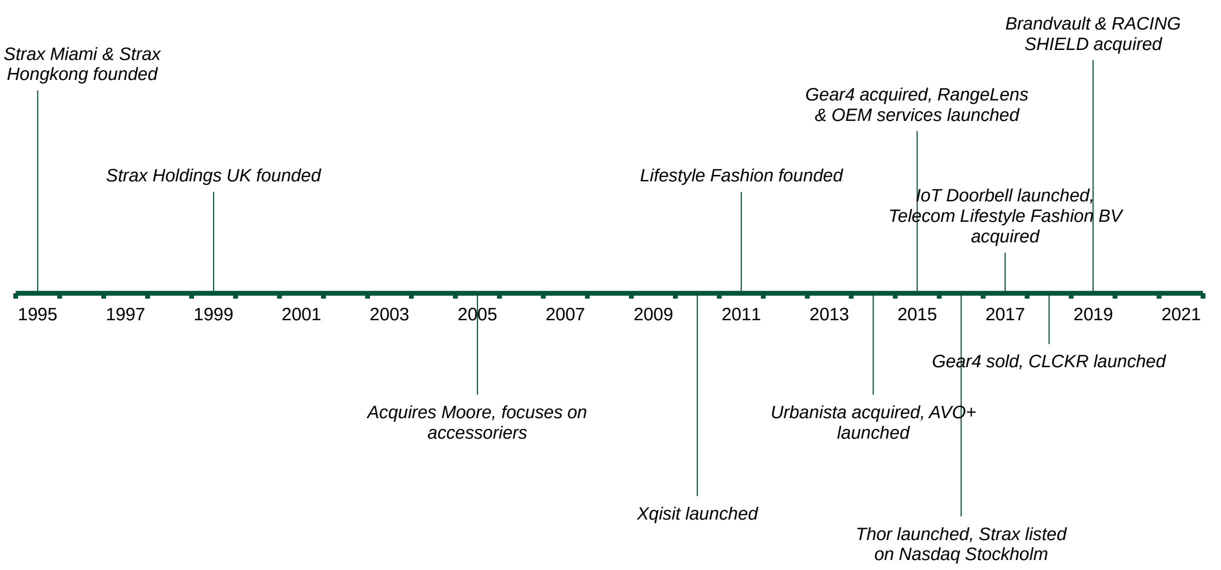
The value of Own Brands is partly illustrated by the sale of Gear4, a transaction that took place at 1.5x sales. Urbanista is today the strongest brand in STRAX, and with the same valuation, would correspond to SEK 300 million or 75% of the value of the whole of STRAX. If STRAX can continue to create new brands and develop existing brands to achieve similar sales successes, the entire Own Brands business area could be valued at 1–1.5x sales.

We assume that Own Brands will in 2025e have around SEK 900 million in sales and account for 50% of sales in STRAX. There is a clear possibility that the Own Brands segment would then be valued in excess of SEK 1 billion. This scenario illustrates the long-term potential for STRAX, and we believe that an appreciation of the valuation may come as the company succeeds in establishing itself as a brand developer rather than just a provider of mobile accessories.

Background

STRAX was founded in 1995 in Miami and Hong Kong. The company currently has about 200 employees and operates in 12 countries. STRAX's logistics and distribution centre and head office are located in Germany and the company is listed on Nasdaq in Stockholm. CEO Gudmundur Palmason has worked at STRAX since 1999. The company initially sold both mobile phones and accessories but was split into two, at which point the present-day STRAX focused exclusively on selling mobile accessories. The CEO is STRAX's largest shareholder with 26% of the stock.

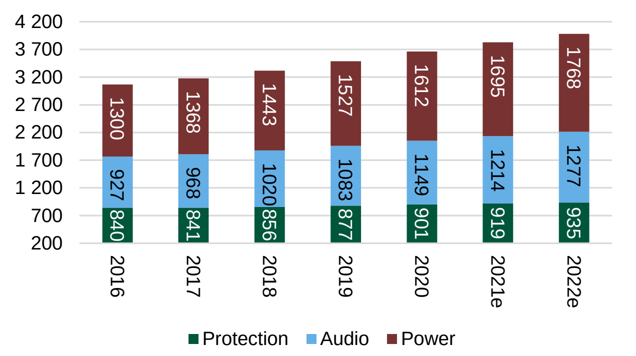
Timeline



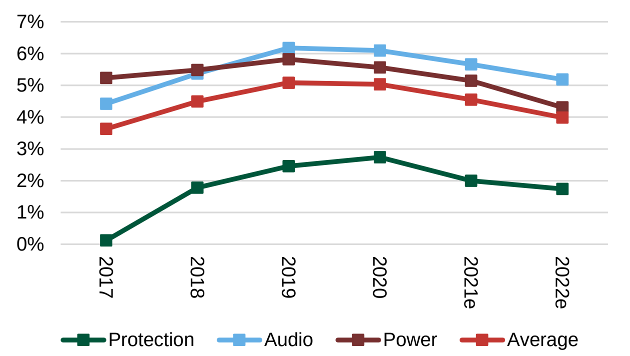
Market

STRAX operates in the global market for mobile phone accessories, which can be divided into three different product areas: Protection (products related to protecting phones), Power (products related to battery life, such as external batteries, chargers and cables) and Audio (products related to audio, such as headphones and small external speakers). Every year, sales of smartphones globally amount to about 1.5 billion new devices. The existing base amounts to approximately 6.5–7.0 billion units, which in total constitutes the addressable market for STRAX's products.

Number of mobile accessories sold annually (m)



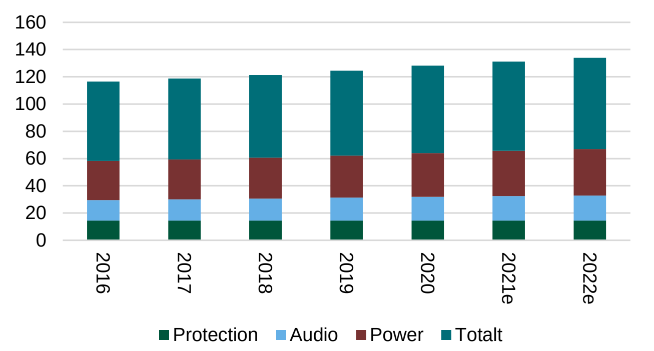
Growth in mobile accessories sold annually (%)



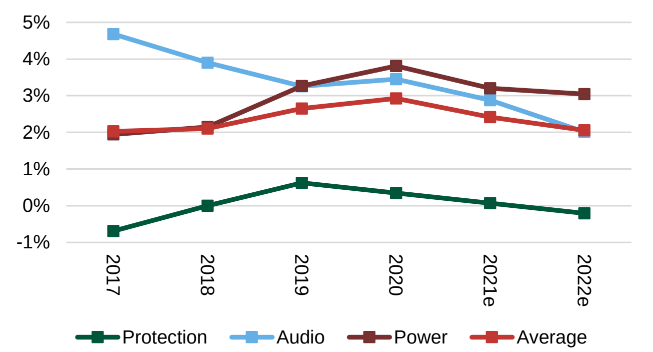
The global market demonstrates different conditions for the Power, Protection and Audio segments. The Power segment is largest in terms of both the number of units sold and sales. Protection is the smallest in terms of value, but has stable volumes. Audio and Power both show growing volumes, while volume growth in Protection is limited.

Since the Protection products are mainly accessories for mobile phones, the sales trend tracks smartphone sales. However, sales are not linear with smartphone sales because the number of accessories (headphones, covers, chargers, etc) is normally more than one per phone. New sales of smartphones decreased last year (approximately -10% in 2020). At the same time, STRAX's sales for Accessories decreased by 24%. Peers such as Italian Cellular Line and Bigben in France had similar declines. In May–June, 80% of all shops in Europe were closed, which greatly affected sales in physical stores.

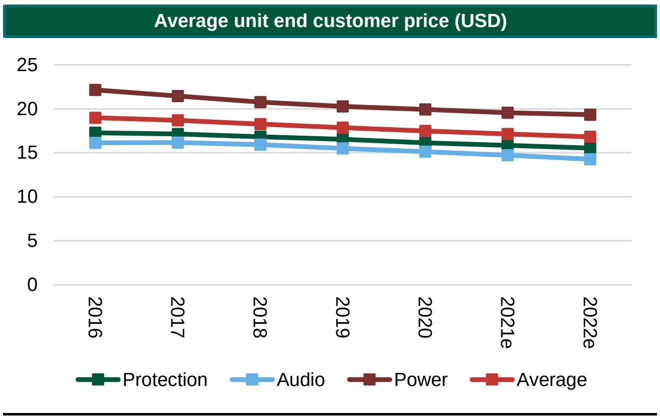
Market sales per segment (EUR BN)

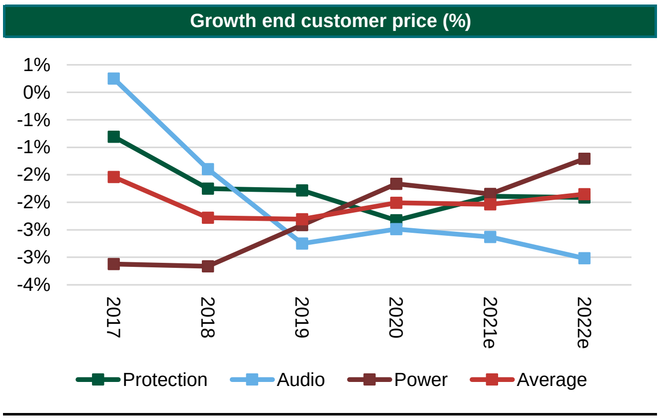


Growth in market sales (%)



In terms of the total value of annual sales, products in the Power segment are slightly larger than Audio and Protection combined. Power is growing slightly more in terms of value compared to Audio, while Protection has shown stagnant sales growth since 2019.





The market for mobile accessories is highly competitive and the price per unit is falling by 2–3% per year in all product areas. At the same time, both the quality and the degree of technical complexity of products in Audio and Power are rising, which means that the real price pressure on products in these segments is even greater.

Market positioning

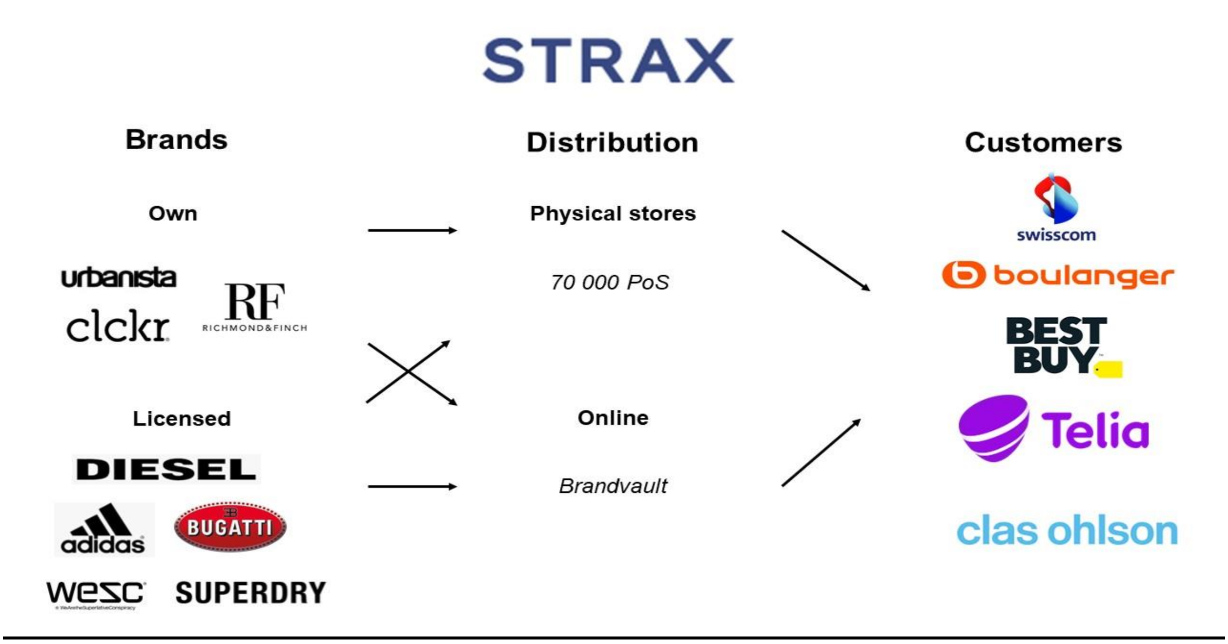
STRAX owns and develops brands in accessories for mobile phones using an omnichannel strategy. In response to the outbreak of Covid-19, the company has recently added a new product area, Health & Wellness. A recently implemented strategy divides the operations into two areas. The division of the company into Own Brands and Distribution was carried out for accounting purposes in 2020 and has, according to STRAX, provided clearer management and communication in the two business areas.

- **Own Brands:** Includes brands such as Urbanista, Clckr, Richmond & Finch, Planet Buddies, Xqisit, AVO+ and licensed brands such as Adidas, Diesel, SuperDry and WeSC.
- **Distribution:** STRAX (consumers and companies) and Brandvault (online sales)

Business flow

STRAX's business concept is to develop various brands in mobile phone accessories and other product areas. The company employs its extensive distribution platform to bring the products to its customer base.

Business overview



Own Brands
Within the Own Brands business, the company's strategy is to create value by acquiring new brands for further development, as well as to develop new and entirely own brands. In order to utilise its large distribution capacity, STRAX also sells external brands under licence.

Acquired brands:

Urbanista

Urbanista is a Swedish lifestyle audio brand that was acquired in 2014. The products consist of headphones (in-ear, over-ear and on-ear) and small speakers. Sales have increased since 2014 from approximately EUR 7 million to about EUR 23 million in 2019. Sales take place both via physical stores and online (accounting for about 25%).

Richmond & Finch

Richmond & Finch is a Scandinavian company that STRAX acquired as recently as 2019. The products consist of more luxury-oriented and fashion-designed phone cases and cases for high-quality headphones. The focus has been on restructuring the company's organisation, and sales have been static at around EUR 30–35 million in recent years.

Internally launched brands:

CLCKR

CLCKR is an internally launched brand that was created in 2018. The products consist of phone cases with integrated aids, known as attachables, which make it possible to hold the phone in different positions. This market is estimated in the US to amount to over USD 300 million. The focus for this brand is the US market, where its products are sold mainly through physical retailers such as AT&T, Best Buy and HSN & QVC.

Planet Buddies

The online Planet Buddies brand markets products specially developed for children – headphones, speakers, cases and holders for both phones and tablets. Furthermore, the launch of two more internal brands within Audio is planned for 2021 with a digital sales platform.

Licensing:

Telecom Lifestyle Fashion

This company was founded in 2011 and was acquired by STRAX in 2017. TLF acts as a partner for international brands in lifestyle and fashion that want to expand in accessories for mobile phones. The company has exclusive licence agreements with companies like Adidas, Bugatti, WeSC and Diesel. Sales in 2020 were around EUR 10 million, i.e. close to 10% of STRAX's total sales. TLF is the company in the group that has the largest share of online sales, with approximately 50% each through online sales and physical retailers.

Licenses normally extend over 3 years and are based on sales estimates for the period. STRAX pays around 10% in licence fees, but if revenues fail to reach predicted levels STRAX is still required to pay a certain guaranteed amount. The agreements are relatively complex because they are based on estimates of future sales. For example, STRAX had a licence agreement with Hugo Boss that was really successful in year one, average year two and significantly worse in year three. However, Hugo Boss was an important contract to win because it made it easier to bring in other well-known brands. Adidas is an example of a contract that has worked well in every year.

Positioning of different brands

Both its own brands and the licensed brands are in the middle to high price segments, and STRAX does not own any brands in the low-price segment. The low-price segment offers products that are sold to the mass market through outlets such as petrol stations, newsstands and large department store chains. The pricing in that part of the market is constantly under intense pressure, and the pricing power of these brands is low.

The creation of a unique brand identity can keep prices up. The prime example of this is Urbanista, which has managed to profile its headphones and speakers as high-end but not in the luxury segment. This gives Urbanista a strong position. The products have a price that reaches a larger number of customers than the most expensive brands, but are also higher-end than low-price brands. A brand has more impact on the price than the product itself.

STRAX's strategy is to offer several different brands because certain types of products and brands are suitable for selling through different distribution channels. Brands like RF and Clckr, as well as Adidas's premium products, are focused on fashion and more expensive stores, while Adidas's regular product range is sold to a greater extent in phone shops and consumer electronics stores. Urbanista is sold in both high-end stores and phone shops.

Brand overview

Brand portfolio strategy

An important aspect of STRAX's strategy is to manage its portfolio of brands. New brands are created by STRAX itself or are purchased and further developed, and once sales achieve strong growth a divestment of the brand may be considered.

Competitive advantages

The advantage that STRAX has is that it is niched in mobile accessories and has handled a number of different brands in the area for a long time. This has allowed STRAX to build multiple competitive advantages:

- **Knowledge**: STRAX has extensive experience of working in the niche, making it the go-to partner for a brand wanting to reach out with an accessory. STRAX knows what products the market wants, and the types of distribution channels and marketing that are required. Before a product is launched, STRAX runs test campaigns to see if it is successful.
- **Suppliers and supply chain management**: STRAX has well-established relationships with suppliers, knows which ones to trust and which ones are best suited for different types of product manufacturing. Most of the suppliers are in Asia, with about fifty suppliers for licensed brands and another 70–80 within Own Brands. In total, STRAX has 18 people in the company who work exclusively with the Asian supply chain. This is important for global brands like Adidas because its brand is the most important asset it has, and it must be certain that its brand will not be undermined by substandard quality or late deliveries.
- **STRAX's customer list** consists of major established companies all over the world. Customers know that STRAX has knowledge of the market for mobile phone accessories and that it works closely with customers in long-term relationships. The customer list consists of a number of well-known names such as MediaMarkt, T-Mobile, Carrefour and Dixons Carphones, as well as most major points of sale for mobile accessories worldwide. Customers often use STRAX for innovations, and know that the products will be sellable. In other words, STRAX is more of a partner than a distributor. The confidence built up among customers means that STRAX can quickly sell a new product, such as the face masks that were launched in 2020.
- **Positioning**: STRAX has a unique position with both its own brands and distribution in mobile phone accessories. No other provider has both of these.

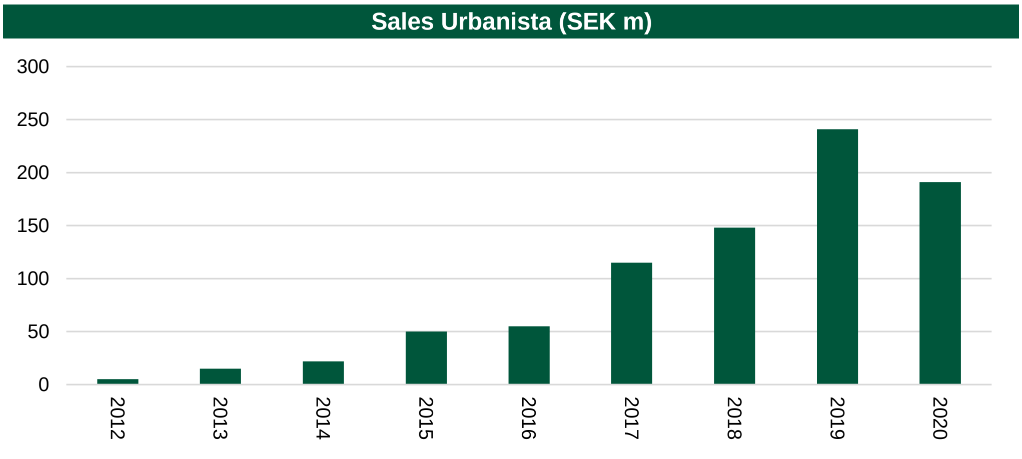
- **Global distribution** through more than 70,000 points of sales. This reach is unique in accessories and gives STRAX a very attractive position. There are larger distributors with a larger reach, but these are focused solely on mobile phones and handsets – not accessories.

Value creation in brands

An example of the values that can be created by developing brands is the acquisition of Gear4, which was purchased in 2015 for approximately EUR 5.5 million with operations at that time including both Audio and Protection. During the period 2015–2018, sales increased from EUR 1 million to over EUR 20 million, and when Gear4 was sold at the end of the period to listed US company ZAGG the price tag was EUR 35 million, which is a return of over 600% in 3 years. The sale price corresponded to a valuation of 1.5x sales.

Gear4 is a clear example of how a brand can be developed. Gear4 had a good product portfolio within Audio when it was acquired, but also had a portfolio within Cases that was underdeveloped. STRAX repositioned the business to focus more on Cases and then drove the products through its distribution and managed to increase sales significantly. At the time of the acquisition, the buyer ZAGG had 100,000 points of sales in the United States. For the most part, it is possible to reach a certain level of sales if a brand is successful, but once that level has been established it is difficult and expensive to shift it up to the next level. This is when it may be appropriate to sell a brand.

Although Gear4 was sold for a good price, not all of STRAX's revenues disappeared as it retained the distribution of the products in various countries. Gear4 is a clear example of STRAX making money from both the brand and the distribution of the brand. In terms of the own brands that STRAX has today, Urbanista is by far the most important asset, with sales that have multiplied many times over since it was founded. Urbanista had a tough time in 2020 and was hit hard by retail closures, meaning that sales for 2020 were SEK 191 million compared with SEK 241 million in 2019. Despite the decline in sales, Urbanista accounts for close to 20% of STRAX's total sales and half of its Own Brands sales. Below is the sales growth for Urbanista since the company was founded.



In terms of the brands portfolio, total sales within Own Brands were approximately SEK 400 million in 2020, with Urbanista accounting for approximately half and the licence deal in TLF about SEK 100 million. In other words, other brands together account for approximately SEK 100 million in sales.

Of these other brands, Thor and Xquisit have been around for a long time, while Clckr, Richmond & Finch and Planet Buddies are relatively new additions to the portfolio and currently have rather limited sales. Two new portfolio brands will also be created this year and will be focused exclusively on online sales.

STRAX expresses optimism about the development potential in the portfolio. Clckr and Richmond & Finch, for example, are both currently only sold online, but Clckr's products may be distributed throughout the AT&T sales network. This is a network of approximately 5,700 points of sale, most of which are currently closed due to Covid-19, which should provide a sales boost once the networks reopen. This is only one example of the growth potential, and STRAX believes that all the brands in its portfolio could grow strongly.

A brand is only adopted into the portfolio if it is positioned to be able to achieve at least EUR 10 million in sales. Even though the portfolio of these smaller brands currently has relatively modest sales, the examples of Gear4 and Urbanista show that growth can be rapid once it starts to pick up. Consequently, the brand portfolio now represents large potential value in STRAX that is not very obvious.

Distribution

The distribution platform itself consists of two parts. One is the purely physical points of sale, selling mobile phones and therefore also accessories. These customers are retail chains, phone shops, electronics chains and the like.

The other distribution platform is pure online sales managed by Brandvault. Brandvault was formed in 2018 and acquired by STRAX in 2019. The business handles STRAX's own brands and third-party brands in various global online marketplaces such as Amazon and Ebay. Brandvault offers various types of consulting services in marketing and had sales of approximately EUR 7 million in 2020. The two parts of the distribution platform together create a large sales network that is a key element for attracting and creating new brands in the company.

What this sales network will look like in the future remains to be seen. Retailers in general are having a tough time, and closures began before Covid due to the fierce online competition. The pandemic has accelerated this trend, which is global but happening fastest in Europe, with the UK at the forefront. The same trend of closures is happening in the United States, but is slower and many retailers are still surviving.

The transition for retailers to online means that they will all have to change their distribution models, but STRAX is convinced that the majority of its retailers will still exist in five years, even if they will have to adapt to a suitable size in terms of balance between online and physical distribution. The company believes that there will always be a demand for physical shopping.

STRAX thus receives revenue both from selling its own brands and from taking payment for other brands that gain access to the STRAX distribution platform. The distribution business provides access to sales channels for both its own and licensed brands. It has agreements with all major manufacturers of accessories for mobile phones and also with telecom operators and other sales channels. The business has annual sales of approximately EUR 70 million, and further complementary add-on acquisitions may be considered going forward. STRAX's distribution platform has European and North American arms:

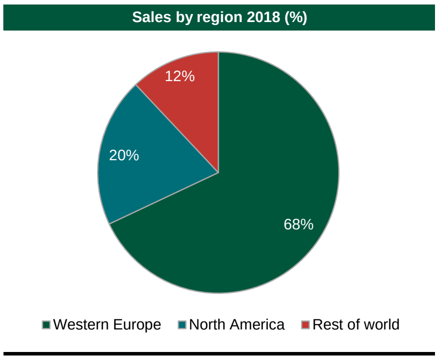
The European arm consists of a centralised warehouse in Germany and over 30,000 different points of sale in Germany, Benelux, the Nordic countries, France, Poland, the Alps (around northern Italy) and the UK & Ireland, including companies such as Mediamarkt, Dixons, T-Mobile, Telia, Vodafone, Carrefour, Telenor and Swisscom.

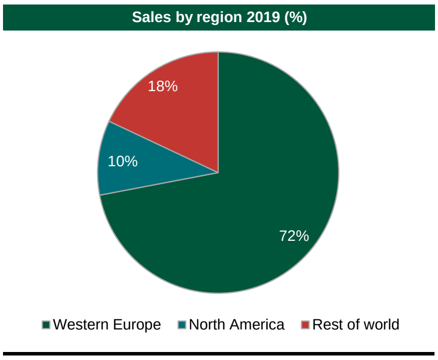
In North America, STRAX is represented in Seattle, Minneapolis and Miami: The North American distribution platform consists of over 35,000 different points of sale and is represented by companies such as Verizon, AT&T, Walmart, Nordstrom and London Drugs. Other international sales come from more than 10,000 points of sale in mainly South Africa, Japan, the Middle East, Australia, New Zealand, Turkey and Spain. The international platform is divided into both physical and online sales via companies such as Amazon, Turkcell, Ebay and Kitamura.

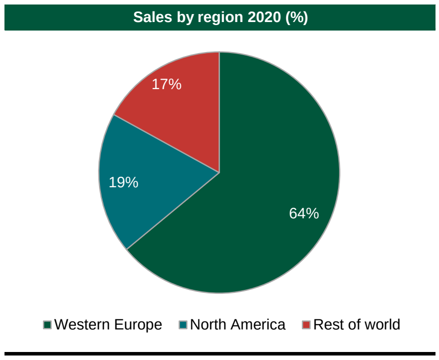
STRAX still sees it as an edge to have a large distribution capacity because it enables products to enter the market quickly. STRAX has exclusivity for some own products. For example, two new models of headphones within Audio will be released in Q2 this year, which will only be sold online through STRAX's own platform.

Regional distribution

The majority of STRAX's sales take place in Europe, which represents about two thirds of the company's total sales.







Distribution gives an opportunity to quickly adapt the business

A focus on selling accessories in the mobile phone market poses challenges. The entire market is experiencing limited growth and structural price pressure. With this in mind, STRAX is acting rapidly to adapt the company to constantly changing market conditions, and there are several examples of this.

In 2005, the company only sold mobile phones but realised that that market competition was too tough. By 2006, STRAX had realigned to mobile accessories. The goal in 2010 was to reach a 30% share of sales in Own Brands, and by 2014 the share had reached 50% (the percentage then dropped back following the sale of Gear4). Last year, sales of mobile accessories plummeted because of the pandemic, and STRAX prioritised online sales and launched a new business in Health & Wellness, including sales of face masks. Although this business area was launched as recently as April 2020, sales reached around EUR 20 million in 2020, or 20% of STRAX's total sales.

The speed of adapting its distribution to online sales while simultaneously filling the channel with new products saved STRAX from a major loss of revenue, which demonstrates the value of having strong distribution capacity with established customer relationships. Retailers in the distribution network are always demanding new products to sell, and STRAX has experience and the know-how of what products work in its network.

Acquisitions

STRAX has had acquisitions as part of its growth strategy since the company was formed. And much of the value built up in the company comes from acquisitions in which STRAX has succeeded in further developing brands such as Gear4 and Urbanista, leading to a marked increase in sales.

At present, however, the balance sheet will not allow any major acquisitions. With its new borrowing of EUR 20 million from Proventus, its net debt is around EUR 35 million. However, the debts include around EUR 20 million in a working capital facility to allow liquidity for large shipments in Health & Wellness, where customers are often big organisations that require certainty of delivery.

That said, STRAX still sees opportunities in making acquisitions. Transactions can be structured to make them cashflow neutral by using earnouts, so an acquisition does not necessarily require much higher debt. There are also interesting opportunities in the current market, with multiple players under pressure.

Distribution still accounts for over 60% of STRAX's revenue and over 70% of EBIT, and with STRAX believing that this will be a continued competitive advantage, the company does not rule out the possibility of acquiring retailers. There are several places in Europe where STRAX does not yet have any presence, and there are 2–3 players in each European country willing to sell. Therefore, STRAX believes that now may be the time to acquire distribution. STRAX believes that sales could return to 80–90 % of the level before Covid-19. The opportunity lies in buying a distributor cheaply, centralising all stock to STRAX's own central warehouse in Europe, and then riding the wave when sales return.

Purely in terms of perception, this kind of deal runs the risk of a negative reception from the market since Distribution has both lower margins and growth than Own Brands. STRAX believes, however, that in terms of earnings it is fairly easy to make this kind of deal profitable almost immediately.

- Firstly, STRAX would factor a large part of the earnout into the price of this kind of acquisition.

- Secondly, STRAX could directly push its brands into the acquired network and quickly achieve economies of scale.
- Thirdly, STRAX works with only two warehouses, one in the UK and one in Germany (for the whole of Europe), and could therefore immediately close down parts of the acquired company and achieve cost synergies.

Financial targets

STRAX has so far not communicated clear financial targets for the business, but will this autumn discuss the business plan in the medium and long term. It is therefore possible that financial targets will be announced in connection with this business planning. Financial targets for growth, margins and debt would facilitate investor understanding of the company.

Defensive qualities

STRAX's sales were hit hard by the outbreak of Covid-19 in 2020. Approximately 90% of all its sales take place via physical points of sale, and many of these were closed when the spread of infection was at its worst in the second quarter of 2020. Despite this, the company managed to maintain full-year sales at almost unchanged levels compared to 2019 and also achieve an increase of 10% in EBIT.

Key financial ratios		
	2019	2020
Sales growth (%)		-2%
Own brands		3%
- Urbanista		-21%
- Other brands		41%
Distribution		-4%
Sales (% of total)		
Own brand	35%	36%
Distribution	65%	64%
EBIT growth (%)		10%
Own brand		46%
Distribution		-4%
Gross margin (%)	**24%**	**26%**
Own brand	27%	32%
Distribution	23%	22%
EBIT (% of total)		
Own brand	30%	41%
Distribution	83%	72%
Other	-13%	12%
EBIT margin (%)	**5,4%**	**6,1%**
Own brand	4,8%	6,8%
Distribution	6,8%	6,8%

The downturn in Accessories was very sharp in 2020, with a slide of 24%. Global sales of smartphones decreased last year, which had a negative impact on sales of accessories for mobile phones and especially on protective products such as mobile phone cases.

This downturn was parried by STRAX opening up a new product area – Health & Wellness (H&W) – which generated sales of approximately EUR 25 million during the year, corresponding to about 23% of total sales. A strong contributor to the increase in sales in Health & Wellness was the transition STRAX made to start selling face masks.

Profitability increased in 2020 compared with 2019. Because Own Brands succeeded in increasing both sales and the gross margin, STRAX's EBIT rose by 10% compared with the previous year. After a weak first half-year, the gross margin rose sharply in H2 and increased by 1 percentage point to 26% for the full year.

Overall, STRAX has succeeded in managing the negative effects of Covid-19 well, with a maintained level of sales, flat costs and increased profitability through a higher gross margin. Contributing to the stability of the earnings has been that management showed an ability to broaden the company's product range as necessary through the creation of H&W, which has contributed to greater diversification and less dependence on the mobile market. We do not see this as a one-off, but more as a long-term strategic choice where the company could more opportunistically come up with new launches in other product areas in the coming years.

Forecasts

Recovery in global sales of mobile phones and a roll-back of restrictions should give STRAX a good starting point for increasing sales in 2021. According to Gartner Inc, sales of smartphones globally are expected to increase by 11% in 2021 and thus return to the level for 2019.

Global phone sales (units, m)			
	2019	2020	2021e
Units	1 541	1 379	1 535
Growth		-10,5%	11,3%

Source: Gartner

Longer forecasts assume that smartphone sales over the period 2021–2026 will see a growth rate of 11% per year (Mordor Intelligence). Growth has been strong for many years but the penetration of smartphones is now high, with close to 90% for households in the US and 50% penetration globally. It is assumed that growth in the coming years will be primarily driven by a shift from penetration to replacement, with 5G phones and folding phones replacing older handsets.

STRAX's core business is strongly dependent on the sale of mobile phones and will benefit from the fact that growth is now picking up. Increased easing of restrictions, greater freedom of movement and increased travel will also have a positive effect on STRAX's sales. This is particularly true in Own Brands, where sales of more fashion-oriented products such as Urbanista will benefit from increased physical mobility and travel.

However, the positive effects of lighter restrictions will be gradual, which means that we anticipate sales growth for STRAX to be moderate during the first half of the year but accelerate during the second half of 2021 and the first half of 2022. We expect 2021 to be a strong year for STRAX and estimate that total sales will increase by around 20% compared to 2020 and then reach 6–7% growth during 2022–2023.

We do not expect sales within H&W to increase in the same way in 2021, but this will be offset by strong development in other parts of Own Brands. Sales within Own Brands consist of approximately 50% Urbanista, with the remainder from other brands. We assume that the recovery in travel, combined with new products, will give Urbanista a strong sales boost in 2021, after which it will retain a growth rate of around 15% per annum. For other brands within Own Brands, we assume that the recovery will be around 20% in 2021 and then around 10% sales growth per year. Overall, we predict that Own Brands will grow by 30% in 2021 and by 10–13% in the following years.

A reopening of communities and the consequent expansion of points of sale for STRAX products should mean that Distribution will also be able to increase sales significantly in 2021, and we forecast sales growth of 10% for 2021 followed by a low growth level. STRAX points out that the outbreak of Covid-19 has created a situation where a number of new business opportunities have been created in the distribution business that could enable further add-on acquisitions of distribution capacity in the future. Overall, our estimates point to sales growth in distribution of about 6% for 2021 and around 3% for the following years.

Increased volumes will drive margin expansion in the coming years

Despite the problematic year in 2020, STRAX still managed to increase its EBIT margin from 5.4% to 6.1% through an improvement in the gross margin within Own Brands. We believe that this improvement will continue and intensify in the coming years in line with enhanced volumes, and we estimate that the EBIT margin could expand up to 9–10% in the coming years.

Cost control at STRAX is strong, and since about 90% of the costs are fixed, increased volumes will result in a relatively rapid positive effect on profits. It is mainly the contribution from Own Brands that will raise the overall margin in the company. A continued strengthening of the gross margin, mainly through strong volume growth to around 34%, will lead the EBIT margin to rise towards 15% in 2023. For Distribution, we foresee more stable development with a maintained gross margin of around 23% and with an EBIT margin around 9–10% in the coming years.

Some uncertainty about the effect of increased online sales

Despite the positive effect of higher volumes, there is uncertainty about how migration towards increased online sales could impact STRAX's margins. At present, online sales make up about 10% of total sales, and the company aims to increase its online sales to approximately 50% within three years. The margin for online sales will be lower than on physical sales, and during the time that the company is establishing its brand and building an online platform, the costs may mean the contribution from this part of the business is limited.

Uncertainty about the performance of H&W

H&W was launched during Covid-19 and made a strong contribution to sales in 2020. The question is how this product segment will perform in the future as the positive effects from Covid-19 diminish. Initially, the contribution from H&W may be limited in relation to other product categories, but should in the long run be able to adapt to normal conditions and achieve stable volumes and margins.

Valuation

Peer valuation and cash flow analysis give a fair value of SEK 5.5–5.8

There are a number of different manufacturers and brands of mobile phone accessories, some of which are sold by mobile phone manufacturers such as Apple. Of the pure accessory manufacturers, many are unlisted, such as Zound Industries, Harman, GN Group or Incipio.

There are only relatively few listed pure accessory manufacturers. The following group of companies are reasonable to compare with STRAX in terms of valuation. Northbaze is a Swedish company that only sells headphones, and Doro is also Swedish and focuses on telecom equipment for seniors. Cellularline is Italian, Bigben French and Plantronics American, and all three of these companies are active in consumer electronics or accessories for mobile phones. All companies in the peer group, except Plantronics, have EBIT margins below 10% for 2020, which reflects the tough competition in the sector.

Key financial ratios (consensus, STRAX EPB est.)									
				P/E			P/S		
	Currency	Price	Mkt cap	2021e	2022e	2023e	2021e	2022e	2023e
STRAX	SEK	4	484	22	11	8	0,4	0,4	0,3
Northbaze	SEK	2	156	10	7	4	0,9	0,8	0,7
Doro	SEK	59	1 409	13	12	11	0,8	0,8	0,8
Cellularline	EUR	5	91	10	7	6	0,7	0,6	0,6
Bigben Interaciv	EUR	20	399	22	15	13	1,4	1,2	1,1
Plantronics	USD	38	1 566	10	10	9	0,9	0,9	0,8
Avg ex STRAX				13	10	9	1,0	0,9	0,8

STRAX is therefore traded roughly in line with the other companies in terms of P/E, but with a 30% discount on EV/EBIT 2023 and a significant discount in terms of P/Sales. We believe that a fair value per share for STRAX should be around SEK 5.5. With our estimates, we assume that the STRAX's EBIT margin will approach 9–10% in 2022–2023 and should therefore justify a valuation of around 8x EV/EBIT for 2022e, which is in line with Doro and Cellularline, which have a similar EBIT margin.

The fair value corresponds to a P/E valuation of 16x for 2022e and 11x for 2023e, which means a valuation in line with Doro but a premium against Cellularline. On the other hand, the fair value corresponds to a valuation of around 0.5x sales, which is still clearly below the other companies.

Our cash flow analysis gives a value of around SEK 6 per share. The model is based on forecasts up to and including 2028. We have applied a WACC of 12%, which includes a supplement to reflect the company size since STRAX's market capitalisation is less than SEK 500 million. Growth will slow slightly to reach 5% top-line by 2027.

Key financial ratios (consensus, STRAX EPB est.)									
				EV/EBIT			EBIT marg (%)		
	Currency	Price	Mkt cap	2021e	2022e	2023e	2021e	2022e	2023e
STRAX	SEK	4	484	9	7	6	6%	7%	8%
Northbaze	SEK	2	156	39	11	7	-3%	2%	6%
Doro	SEK	59	1 409	10	8	7	6%	8%	9%
Cellularline	EUR	5	91	19	9	7	-2%	6%	9%
Bigben Interaciv	EUR	20	399	11	8	7	9%	11%	13%
Plantronics	USD	38	1 566	12	10	9	14%	15%	15%
Avg ex STRAX				18	9	7	5%	8%	10%

The value of the brand portfolio could create a significant upside in fair value

It should be noted that STRAX's market cap is SEK 420 million today, i.e. close to the value at which Gear4 was sold. This means that STRAX is in principle today valued at the equivalent of one single successful brand. Without it being a stated strategy so far, STRAX is willing to sell brands if the price is right, and it is therefore interesting to see what each brand in the group could be worth.

Urbanista is today by far the largest brand in terms of sales. The company had sales of EUR 20 million in 2019, and increased its sales 6–8 times over in a few years. Last year, Urbanista alone accounted for almost 20% of STRAX's sales, but was hit hard by the pandemic in 2020. The company's positioning is solid since Audio is the strongest growing segment in accessories, and Urbanista also has an above-average price point. This is the right positioning for renewed rapid growth. STRAX says that Urbanista's profitability is close to that Gear4 had, and with a P/Sales multiple in line with the Gear4 sale at 1.5x the value of Urbanista is at least around SEK 300 million, or over 60% of the current market cap of STRAX. The remainder of STRAX is in that case valued at SEK 170 million, i.e. approximately equivalent to the value of only one more brand in its portfolio, if that brand reaches the sales ambition of at least EUR 10 million and is valued at 1.5x sales. If this were to be the case, all the other STRAX brands, the licensing business and the entire distribution would be valued at zero, i.e. for free. This is of course just an example calculation, but it shows the potential that exists in the STRAX brand portfolio and that our fair value for the company is conservative.

Shareholders

Shareholders
The two largest shareholders in STRAX AB are Gudmundur Palmason, CEO and company director, and Ingvi Tyr Tomasson, a company director, with 26.1% and 25.9 % respectively of capital and votes. The third largest shareholder is Per-Arne Åhlgren, who controls 18.2% of shares. Other major shareholders include Norwegian company Anchor Secondary 4 AS, with 4.7 % of capital and votes, and Avanza Pension, with its 2.9 % shareholding.

Board of Directors
The current board of STRAX consists of 1 + 4 ordinary board members, presented below.
Bertil Villard, Chairman
Elected 2003, Chairman since 2016. Other posts include directorships with Landsort Care AB, 3 och 4 AB, Azelio AB, Prior & Nilsson Fond och Kapitalförvaltning AB, Polaris A/S and iCoat AB. Bertil has previous experience as a corporate lawyer for Swedish Match AB, Stora Kopparberg AB and Esselte AB, as well as previous managerial positions in Corporate Finance at ABN Amro Alfred Berg Fondkommission, and was a partner at law firm Vinge.
Anders Lönnqvist, Director
Elected 2000. Other posts include Chairman of Nouvago Capital AB and Stronghold Invest AB, and Director at SSRS Holding AB (Elite Hotels) and Rental United. Anders has been active in development and investment companies such as Hevea AB, Investment AB Beijer and Schatullet AB. Anders is also a shareholder and Chairman of Servisen Group AB.
Ingvi T. Tomasson, Director
Elected 2016. Other directorships Tommi's Burger Joint. Ingvi is also Chairman and CEO of IK Holdings, and CEO of STRAX Americas, Inc.
Pia Anderberg, Director
Elected 2018. Other posts include Chairman of Mitt Liv and Director at Åhléns, Novax, Hyper Island and DIB Services AB. Pia has experience as an investor and entrepreneur, and has also worked as director of HR and renewal at Axel Johnson. She is also the founder of several companies such as Novare Human Capital and Samsari.
Gudmundur Palmason, Director
Elected 2016. Gudmundur is also CEO of the STRAX group. Other board posts include Director of Zymetech ehf., Urbanista AB, Viss ehf., Fortus hf., XOR ehf., SRX ehf., Enzymatica AB, SRX Limited, TLF BV and Richmond & Finch.

Executive Management
STRAX AB's executive management consists of:
Gudmundur Palmason
Chairman and CEO.
Johan Heijbel
CFO since 2016. Other posts include Director at Novestra Financial Services AB, Sowntone Ltd., WeSC AB and Richmond & Finch.

ESG analysis

STRAX's products within mobile accessories and various marketing services related to catalogues, advertising, packaging and distribution are distributed globally and therefore impact certain global environmental aspects that are important to highlight. STRAX works in a conscious way to try to offset emissions much as possible and to strengthen social conditions among employees, suppliers and other partners. By implementing policies and codes of conduct, STRAX contributes to better conditions for affected parties.

Environment
STRAX is responsible for the impact of operations on the outside world and has taken initiatives to reduce the group's environmental impact. By optimising the use of natural resources and utilising materials that are compostable or biodegradable, the products have a small climate footprint. Transport is an environmental issue for STRAX's operations as the geographical location of the production facilities entails challenges for global distribution from an ecological perspective. STRAX has chosen to focus further on a reduced environmental footprint in everyday business among employees. Through the creation of the steering group STRAX+, significant sustainability issues in various areas are raised in order to anchor the work in the business.

Social
In addition to the environmental sustainability aspects, STRAX sees the importance of promoting a good working environment. Social sustainability must follow the entire value chain and be monitored through audits at all new major suppliers. STRAX has introduced third-party validation of social responsibility among strategic partners as a complement to the internal audits, which in themselves involve regular visits to the factories. This, among other things, is the basis for the work to be able to promote safety and fairness in working conditions within the STRAX group. To guarantee this, STRAX has implemented a governance structure, known as Corporate Social Responsibility (CSR), which also highlights the criteria used in supplier evaluations.

Governance
STRAX applies the Responsible Business Alliance's (RBA) code of conduct to set requirements for suppliers and maintain clear communication about what expectations and quality assurance are required to be a supplier. STRAX works continuously against bribery, corruption and fraud through the implemented codes of conduct both internally and in supplier relationships. STRAX strives to maintain a high ethical standard towards employees, partners and customers. The company has zero tolerance for corruption, bribery and fraud and has therefore developed policies to avoid unethical actions.

Income statement								
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net sales	92	100	107	114	112	126	143	153
Cost of goods sold	-66	-72	-81	-86	-83	-92	-104	-110
Gross profit	**26**	**28**	**26**	**28**	**29**	**34**	**39**	**43**
Selling expenses	-14	-15	-21	-16	-18	-20	-22	-23
Administrative expenses	-5	-7	-9	-5	-4	-5	-5	-6
Other operating expenses	-7	-5	-2	-8	-12			
Other operating income	6	5	4	8	12			
EBITDA	**7**	**8**	**1**	**8**	**9**	**11**	**13**	**16**
Depreciation and amortization	-2	-3	-4	-2	-2	-2	-2	-2
EBIT	**5**	**6**	**-2**	**6**	**7**	**9**	**11**	**14**
Net financial items	-1	-2	24	-6	-6	-6	-6	-6
Profit before taxes	**4**	**4**	**22**	**0**	**1**	**3**	**5**	**8**
Tax	-1	-2	-5	-2	0	-1	-1	-2
Profit or loss for the period	**3**	**2**	**17**	**-2**	**1**	**2**	**4**	**6**

Cash Flow Statement								
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Profit before tax	4	4	22	0	1	3	5	8
Adjustments	3	5	-21	8	8	2	2	2
Paid taxes	0	-1	-1	-1	0	-1	-1	-2
Operating cash flow before changes in working capital	**6**	**8**	**0**	**8**	**8**	**4**	**6**	**8**
Changes in working capital	-4	-4	-3	-4	-11	-1	-1	1
Cash flow from operations	**2**	**4**	**-3**	**3**	**-3**	**3**	**5**	**9**
Investment in intangible assets	-1	0	1	-1	-2	0	0	0
Investments in tangible assets	-2	-2	-2	-1	0	-1	-1	-1
Investments in subsidiaries	-2	-7	22	0	0	0	0	0
Cash flow from investments	**-5**	**-10**	**21**	**-2**	**-2**	**-1**	**-1**	**-1**
Cash flow from financing activities	**2**	**8**	**1**	**-22**	**9**	**0**	**0**	**0**
Cash flow for the period	**-1**	**2**	**19**	**-21**	**4**	**3**	**5**	**8**

Balance Sheet								
	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E
ASSETS								
Goodwill	20	27	21	28	28	28	28	28
Other intangible assets	1	4	1	4	4	4	4	4
Tangible fixed assets	2	2	1	1	1	2	2	3
Other assets	4	1	2	1	3	3	3	3
Non-current assets	**26**	**34**	**25**	**34**	**36**	**35**	**35**	**36**
Inventories	11	10	15	17	28	28	24	24
Tax receivables	0	1	1	1	1	1	1	1
Accounts receivables	13	26	28	26	19	24	33	35
Other assets	8	7	14	20	8	8	8	8
Cash and cash equivalents	4	6	25	4	7	10	15	23
Current assets	**36**	**49**	**83**	**69**	**63**	**71**	**81**	**92**
Total assets	**63**	**83**	**108**	**103**	**99**	**106**	**116**	**128**
EQUITY								
Share capital	12	13	13	13	13	13	13	13
Other	6	8	22	7	0	8	12	18
Total equity	**18**	**21**	**34**	**20**	**18**	**20**	**25**	**31**
LIABILITIES								
Tax liabilities	0	0	0	3	0	0	0	0
Other non-current liabilities	6	13	10	9	43	43	45	46
Non-current liabilities	**6**	**13**	**10**	**12**	**43**	**43**	**45**	**46**
Accounts payable	14	18	22	22	16	20	25	28
Other liabilities	25	31	42	48	22	22	22	22
Current liabilities	**39**	**49**	**63**	**70**	**38**	**42**	**47**	**50**
Total equity and liabilities	**63**	**83**	**108**	**103**	**99**	**106**	**116**	**128**

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