



ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 13 May 2021

Björn Borg

The value of online growth

Reference transaction in online shopping

We note a recent transaction that has revealed how the market prices companies showing strong growth in online clothing sales. We have specifically looked at an off-exchange transaction in the retail sportswear segment. We believe this reference transaction has several similarities with Björn Borg and that particular parts of Björn Borg can be compared operationally.

Global sportswear brand

Swedish sportswear brand Stronger is being sold to Danish Polaris. Stronger was founded in 2014 and sells sportswear with a broad geographical focus. The company has shown solid growth during 2016–2020, and for full year 2020 had profitability of approximately 14%. The strong growth is probably a result of substantial and effective marketing efforts.

Reference transactions strengthen our case

We believe that the ongoing transactions strengthen our case that Björn Borg's brand is currently not fully reflected in its valuation. We are leaving our estimates and fair value unchanged, but we still see a large upside in the Björn Borg share price.

Estimate Changes (SEK)			Estimates (SEK)					Risk and Potential		
	Now	Before		20	21e	22e	23e	Motivated value	33.00 - 35.00	
EPS, adj 21e	1.78	1.78	0.0%	Sales,m	705	730	774	813	Current price	23.00
EPS, adj 22e	2.42	2.42	0.0%	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	0.94x	0.91x	0.86x	0.82x		
				EV/EBITDA	8.9x	6.6x	5.4x	5.0x		
				EV/EBIT	19.7x	11.3x	8.4x	7.5x		
				P/E, adj	30.7x	12.9x	9.5x	8.4x		
				P/Equity	2.0x	1.9x	1.8x	1.6x		
				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	578
Net Debt	86
EV	664
Free Float	90.00%
Avg. No. of Daily Traded Sh.	29.0(k)

One Year Performance Chart	

Analysts	
hjalmar.jernstrom@penser.se	



ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 13 May 2021

Overview

The value of online growth

Investment Case

Björn Borg's transition from an underwear company into a sportswear brand has been hampered by the pandemic and shutdowns in the company's core markets during the first half of 2020. In the long term, however, the health and fitness trend will continue to drive the company's growth. Despite its 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. Given the company's lower profitability and regional focus exclusively on northern Europe, a discount is justified against other brand companies, although the current discount is unjustifiably high.

Company Profile

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 62% of brand sales in 2020. The underwear product area accounted for the majority of sales in 2020, at 56%, while sports apparel accounted for some 13%. Own ecommerce 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%.

Valuation approach

We value Björn Borg using a multiple approach compared with companies that have the same sector exposure and growth potential. Björn Borg is valued at a discount to the sector, and in our judgement this discount is not fully justified. Björn Borg is traded at EV/EBIT 11x for 2021e and 8x for 2022e, which is closer to a retailer without the pricing freedom of a brand. Our comparison group of retailers trades at EV/EBIT 14x for 2021e, while brand companies are traded at EV/EBIT 26x for 2021e.

We believe Björn Borg is positioned to continue to grow its online business. We also note that the company has a strong brand in several segments and we find it has the potential to improve the discount level of its products. A discount of 40% against sector companies with their own brand gives a multiple of just under 16x EBIT. We see a fair value of SEK 33-35 at medium risk. The valuation is supported by our DCF model, which indicates a fair value of SEK 34 per share. The DCF model applies a WACC of 11%, growth beyond the forecast period of 1.5%, and an operating margin in line with Björn Borg's target of 10%.

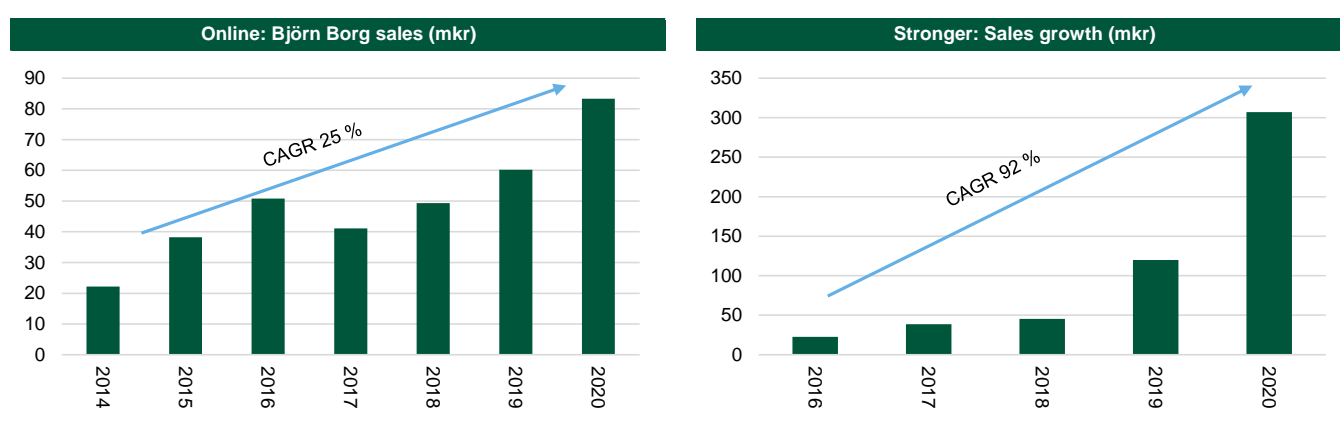
Target Price

33 - 35 SEK

Reference transactions

Stronger has shown strong historical sales growth. One contributing factor to its successful expansion is effective marketing, partly using channels such as influencers and social media. Its sales have grown sharply and the company has gone from sales of SEK 45 million in 2018 to SEK 120 million in 2019 and more than SEK 300 million in 2020. During the period 2016–2020, Stronger has grown at a CAGR of 92%. It is worth pointing out that Stronger has grown vigorously online in 2020, and that it has benefited from the general shift of clothing from the high street to online. Net profit in 2020 was SEK 44 million, which corresponds to a profit margin of 14%.

Björn Borg grew its own online business by 38% in 2020. Since 2014, the company has expanded online by a CAGR of 25%, meaning slower growth for Björn Borg. However, we believe that Björn Borg's profitability is higher if you adjust for its distribution-based operations. The steep growth for Stronger has probably been a result of a relatively aggressive marketing strategy that has depressed its margins.



With profit in 2020 of SEK 44 million and a price tag of SEK 1,500 million, the transaction is being made at 5x sales and 34x net profit for 2020. Below are some data points for the transaction.

Company	Transaction	Revenue	Growth 2020	Profitability	Price	P/S
Stronger	Acquisition	300 mkr (2020)	158%	14%	1 500 mkr	5x (2020)

Source: Company data

Stronger's strong growth track record should be rewarded and reflected in the multiple. However, we believe that if you look beyond Björn Borg's distribution segment, the remaining sales have higher profitability than Stronger's (which sells online). We believe that Stronger's growth comes from greater marketing expenses. Assuming that Björn Borg's online business has a profitability in line with or better than Stronger's, various assumptions about transaction multiples can illustrate the value of online growth. Below are some fictitious scenarios based on the transaction multiple (P/E) and profitability (net profit, %) and what this means for the value of Björn Borg (based on the current market capitalization). The remarkably higher growth for Stronger should be rewarded, at the same time as a discount is justified by the fact that Björn Borg is likely to have greater profitability.

		Value of Björn Borg online segment (mkr)				
		P/E (x)				
		15	20	30	34	40
BORG: Net profit, online (%)	6%	75	100	150	170	200
	8%	100	133	200	227	267
	10%	125	167	250	283	333
	12%	150	200	300	340	400
	14%	175	233	350	397	466
	16%	200	267	400	453	533

		Online % of market cap				
		P/E (x)				
		15	20	30	34	40
BORG: Net profit, online (%)	6%	13%	17%	26%	29%	35%
	8%	17%	23%	35%	39%	46%
	10%	22%	29%	43%	49%	58%
	12%	26%	35%	52%	59%	69%
	14%	30%	40%	60%	69%	81%
	16%	35%	46%	69%	78%	92%

Income statement

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net sales	696	710	757	705	730	774	804
Other operating income	8	7	22	29	24	24	24
Cost of goods sold	-320	-303	-351	-335	-329	-329	-338
Gross profit	376	407	406	370	401	445	466
Selling and administrative expenses	-319	-334	-320	-324	-323	-346	-358
Other operating costs							
EBITDA	65,3	79,9	108,6	74,5	101,3	122,9	132,1
Depreciation/amortisation	-9,9	-8,9	-57,2	-40,8	-42,4	-43,7	-45,0
EBIT	55,4	71,0	51,4	33,7	58,9	79,2	87,1
Extraordinary Items							
Adjusted EBIT	55,4	71,0	51,4	33,7	58,9	79,2	87,1
Net financial items	-4,0	3,0	-2,7	-16,1	-2,7	-2,7	-2,7
Profit before tax (EBT)	51,4	74,0	48,7	17,6	56,2	76,5	84,3
Income tax	-14,0	-14,1	-9,7	1,3	-11,5	-15,7	-17,3
Minority Interest							
Net Income	37,4	59,9	38,9	18,8	44,7	60,8	67,1
Net Income (Adjusted)	37,4	59,9	38,9	18,8	44,7	60,8	67,1

Balance sheet

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Assets							
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
Total fixed assets	266	271	397	265	261	223	183
Inventory	110	140	128	123	131	139	145
Accounts receivable	91	130	125	84	110	116	121
Other current assets	21	14	20	77	43	43	43
Cash and cash equivalents	53	36	29	70	70	129	187
Total current assets	274	320	302	355	354	427	496
Total assets	541	591	699	619	616	650	678
Equity and liabilities							
Equity	277	288	265	291	298	321	350
Minority Interest	0,49	-5,86	0,00	0,00	0,00	0,00	0,00
Total equity	277	282	265	291	298	321	350
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
Total non-current liabilities	191	197	287	174	174	174	174
Current liabilities	0	0	7	0	0	0	0
Accounts payable	20	38	56	77	67	78	77
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
Total current liabilities	72	112	148	154	144	155	154
Total equity and liabilities	541	585	699	619	616	650	678

Cash Flow Statement

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA	65	80	109	75	101	123	132
Changes in working capital	-8	-54	21	89	-44	-4	-10
Other items	0	0	0	0	0	0	0
Cash flow from operating activities	57	20	113	143	43	101	102
Net financial expenses	-2	-3	-3	-16	-3	-3	-3
Income taxes paid	-3	-1	-10	1	-12	-16	-17
Investments	15	-16	-13	-9	-5	-5	-5
Free Cash Flow	73	4	100	134	38	96	97
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
Cash Flow	7	-21	-8	43	0	58	59
Adjustments for non-cash items	0	0	0	0	0	0	0
Net debt (Adjusted)	90	114	262	128	128	70	11

This publication (“the Publication”) has been compiled by Erik Penser Bank (“the Bank”) exclusively for clients of the Bank. The contents are based on information from publicly available sources which have been deemed reliable. No guarantee is extended as to the accuracy and completeness of the contents of the document or the forecasts and recommendations provided therein. The Bank may permit employees of another department or analysed company (“the company”) to read facts or series of facts in order to verify the same. The Bank does not disclose conclusions or assessments included in the Publication in advance. Opinions stated in the Publication are those of the analyst at the time the Publication was prepared and such opinions are subject to change. No assurance is provided that future events will be in accordance with opinions stated in the Publication.

The information in the Publication must not be understood as encouragement or recommendation to enter into transactions. The information does not take into account an individual recipient’s investment knowledge and experience, financial situation, or investment goals. The information thus does not constitute a personal recommendation or investment advice.

The Bank disclaims all liability for direct or indirect loss that may be based upon the Publication. Investments in financial instruments are associated with financial risk. The investment may go up or down in value or become entirely worthless. Past favourable performance of an investment is not a guarantee of future performance.

Fair value and risk

The fair value reflects a value for the share on the day the analysis is published in a range corresponding to approximately 5-10%. The Bank uses several different valuation models to value financial instruments, such as cash flow models, valuation of multiples and breakup value analysis.

The valuation method and the approach for determining the fair value should be apparent in the analysis and may vary from company to company. Significant assumptions used in valuations are based on currently available market data and a scenario for the company’s future development that we consider reasonable. As regards risk, the share is classified on a High-Medium-Low scale based on a number of known parameters relevant to the company. A general guideline for being classified as low risk is that the company has positive cash flow and that no individual factor affects net sales by more than 20%. The corresponding general description of high risk is that the company has not achieved positive cash flow or that an individual factor affects net sales by more than 50%.

The research presented in the Publication was performed in accordance with the terms and conditions of the “Penser Access” service that the Bank performs on behalf of analysed companies. The analysed company remunerates the Bank for the aforementioned service. The fair value and risk classifications are continuously updated. Click here <https://www.penser.se/historiska-analysrekommendationer/> to view the history of investment recommendations issued by the Bank.

General

The Bank’s consent is required to copy or disseminate the Publication in whole or in part. The Publication must not be disseminated or made available to any natural or legal person in the United States of America (other than as provided under Rule 15a-16, Securities Exchange Act of 1934), Canada, or any other country that imposes statutory restrictions on the dissemination and availability of the contents of the material.

The Bank has prepared an Ethics Policy and a Conflicts of Interest Policy. The aim of these policies is to protect against and prevent conflicts between the interests of clients and departments within the Bank. The approach used by the Bank to prevent conflicts of interest includes restrictions on communications (Chinese Walls). The Research Department is physically separated from the Corporate Finance department, which occupies separate premises. The Corporate Finance department is not permitted to participate in the production of a Publication or to express opinions on a Publication. However, there may from time to time exist a client relationship or advisory situation between a company covered in a Publication and a department of the Bank other than the Research Department. The Bank has drawn up internal restrictions concerning when employees are permitted to conduct trades in a financial instrument that is the subject of an Investment Recommendation.

From time to time, the Bank performs assignments for a company that is mentioned in a Publication. The Bank may, for example, be acting as an advisor or issuer agent to the company or as the liquidity guarantor for one of the company’s securities. If such is the case, this has been stated in the Publication. The Bank, its owners, directors, or employees may own shares in companies mentioned in the Publication. All employees of the Bank must report their holdings in securities and must report all transactions. The Bank and its employees comply with guidelines issued by the Swedish Securities Dealers Association concerning employee transactions. The analyst who has prepared Investment Research as referred to in Chapter 11, section 8 of the Swedish Financial Supervisory Authority’s Regulations regarding securities (FFFS 2007:16) and others involved in this work are not permitted to trade on their own account in the covered Financial Instrument or related Financial Instruments in contravention of the applicable recommendation. The Bank’s Compliance Department monitors all employee transactions.

The Bank pays salaries to analysts, which may also consist of a share of the Bank’s profits but which is never linked to the financial performance of another department. Neither the Bank nor the individuals who compiled the Publication have holdings (long or short) in the financial instruments issued by the analysed company that exceed 0.5% of the analysed company’s share capital.

For the company in question, the Bank also conducts research in accordance with the terms of the “Penser Access” paid-for service. Click here <https://epaccess.penser.se/> for more information about this service.

Erik Penser Bank is authorised to conduct securities operations and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen)

Erik Penser Bank (*publ.*)

Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM

tel: +46 8 463 80 00 fax: +46 8 678 80 33 www.penser.se