



ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 19 May 2021

Björn Borg

Strong on many fronts

The online journey continues

Björn Borg reported revenues in Q1 of SEK 185 million (SEK 172 million), which exceeded our estimate of SEK 165 million. Online growth continues to impress, with expansion in own online sales of 40% y/y. E-tailer sales grew strongly during the first quarter, while store sales fell 11% y/y. Total operating expenses were SEK 87 million against our estimate of SEK 92 million.

Multiple signs of strength

The EBIT margin of 12% for a first quarter was the strongest in the past six years. The gross margin was 53.3% but is charged with write-downs related to inventories. Adjusted for these, the gross margin was stronger and is being driven by a more favourable sales mix, with online making up an increasing share of sales.

Still big upside

We still believe that Björn Borg should be valued at a discount of 40% against sector peers with a brand. A 40% discount on multiples for 2022e gives EV/EBIT of about 12x. This generates a fair value of SEK 34–36 (SEK 33–35). We continue to see medium risk.

Estimate Changes (SEK)			Estimates (SEK)					Risk and Potential		
	Now	Before		20	21e	22e	23e	Motivated value	34.00 - 36.00	
EPS, adj 21e	1.98	1.78	11.7%	Sales,m	705	750	795	825	Current price	24.20
EPS, adj 22e	2.62	2.42	8.4%	Sales Growth	(6.8)%	6.4%	6.0%	3.8%	Risk level	Medium
EPS, adj 23e	2.87	2.72	5.4%	EBITDA, m	75	104	127	136		
				EBIT, m	33.7	64.1	85.6	93.5		
				EPS, adj	0.75	1.98	2.62	2.87		
				EPS Growth	(51.6)%	165.1%	32.0%	9.6%		
				Equity/Share	11.6	12.1	13.2	14.5		
				Dividend	1.50	1.50	1.50	1.50		
				EBIT Marginal	4.8%	8.5%	10.8%	11.3%		
				ROE (%)	6.5%	16.5%	19.9%	19.7%		
				ROCE	8.0%	14.8%	21.3%	25.0%		
				EV/Sales	1.11x	1.04x	0.98x	0.94x		
				EV/EBITDA	10.5x	7.5x	6.2x	5.7x		
				EV/EBIT	23.1x	12.2x	9.1x	8.3x		
				P/E, adj	32.3x	12.2x	9.2x	8.4x		
				P/Equity	2.1x	2.0x	1.8x	1.7x		
				Dividend yield	7.0%	7.0%	7.0%	7.0%		
				FCF yield	24.7%	6.6%	18.1%	18.2%		
				Net Debt/EBITDA	1.7g	1.3g	0.6g	0.1g		

Calendar Events	
Q2-report	2021-08-20

Key Figures (mkr)	
Number of Shares	25.1m
Market cap	609
Net Debt	171
EV	780
Free Float	90.00%
Avg. No. of Daily Traded Sh.	29.0(k)
Reuters/Bloomberg	BORG.ST/BORG SS

One Year Performance Chart	

Analysts	
hjalmar.jernstrom@penser.se	



ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 19 May 2021

Overview

Strong on many fronts

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 46% of sales in Q1 2021. 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

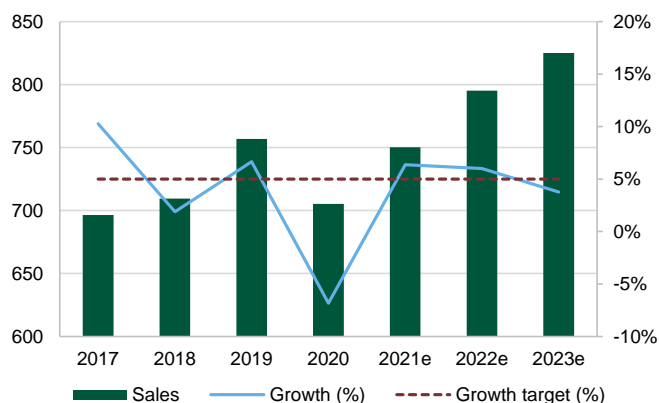
We value Björn Borg using a multiple approach compared with companies that have the same sector exposure and growth potential. Björn Borg is valued at a discount to the sector, and in our judgement this discount is not fully justified. Björn Borg is traded at EV/EBIT 11x for 2021e and 8x for 2022e, which 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 and 21x for 2022e.

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 34–36 at medium risk. The valuation is supported by our DCF model, which indicates a fair value of SEK 33 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%.

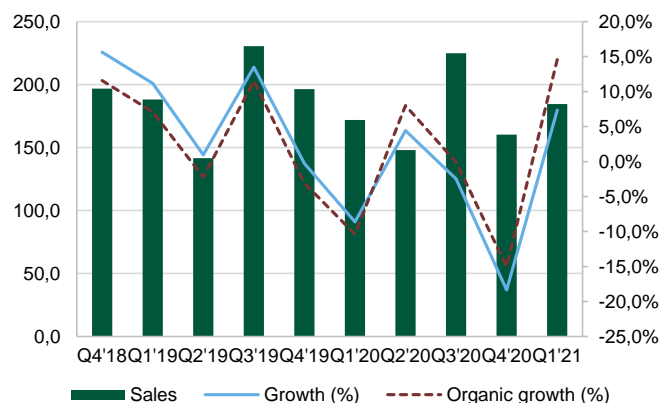
Target Price

34 - 36 SEK

Sales and growth



Sales and growth

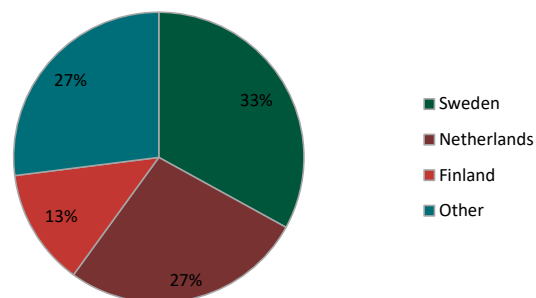


Shareholder data

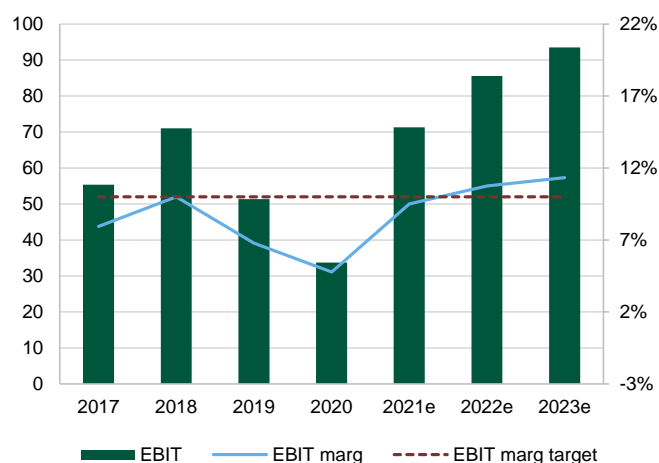
Shareholder	Votes	Shares
Martin Bjäringer	9,9%	9,9%
Mats Nilsson	6,5%	6,5%
Avanza Pension	5,0%	5,0%
Nordnet	4,5%	4,5%
Other	74%	74%

Chairman	Heiner Olbrich
CEO	Henrik Bunge
CFO	Jens Nyström
Contact	Pernilla Johansson
Website	www.corporate.bjornborg.com

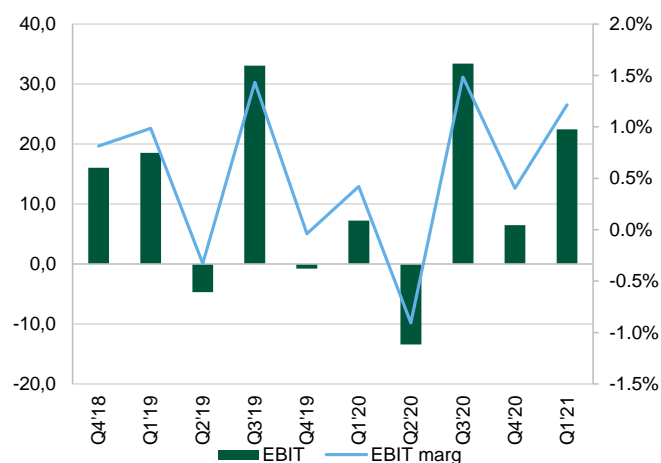
Sales per market



EBIT and margin



EBIT and margin

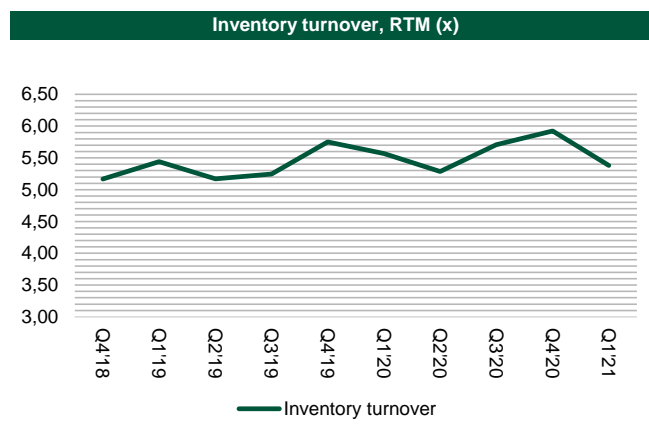
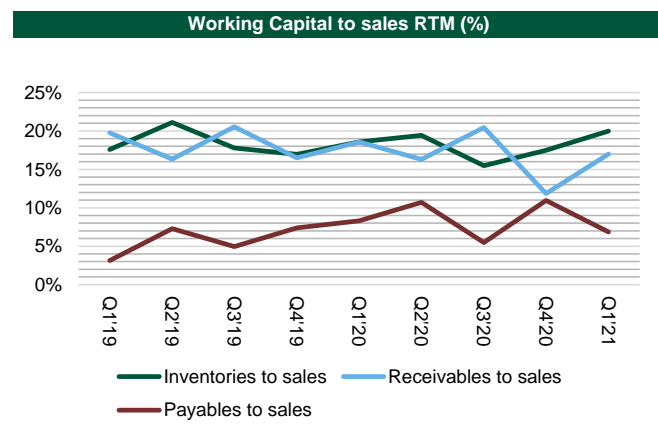
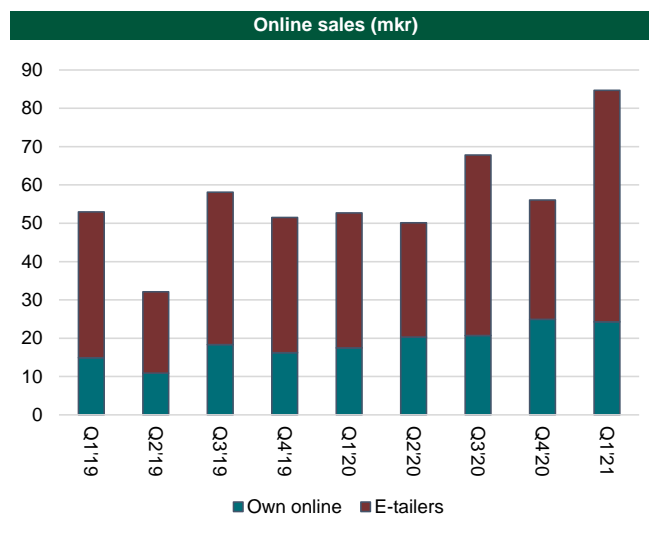
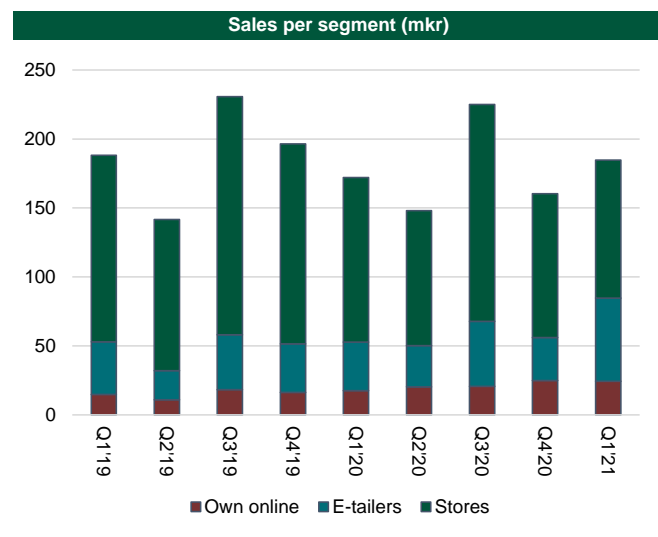


The quarter in detail

Björn Borg continues to deliver strong online growth. The organic growth of 14 % should be compared to Q1 2020, when the company fell back 10% organically. Own online and e-tailers are growing and accounted for 46% of sales during the quarter. However, growth is declining in the physical stores, which weakened 11% this quarter. The company has a gross margin tailwind in terms of currency, but indicates that it continues to reduce discounts, which is in line with the case we have put forward around its pricing ambitions. A favourable sales mix is benefitting the gross margin, while the company is making write-downs that have the opposite effect. Overall, the gross margin was 53.3% (54.1%). Operating costs fell by SEK 9 million y/y and reflect the company's focus on profitability and cost-cutting. Operating expenses were largely in line with our estimate, but the higher sales mean that EBIT of SEK 22.4 million (SEK 7.2 million) exceeded our estimate of SEK 1 million.

Estimate adjustments

We are upping our revenue forecast for the current year to SEK 750 million (previously SEK 730 million) but leaving our growth estimates for coming years unchanged. We are making marginal adjustments to costs for this year and upping EBIT to SEK 64 million (SEK 58 million). We apply a discount of 40% to the multiple (EV/EBIT) for brand companies for 2022e, which generates a fair value of SEK 34–36 (SEK 33–35).



Income statement

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net sales	696	710	757	705	750	795	825
Other operating income	8	7	22	29	27	27	27
Cost of goods sold	-320	-303	-351	-335	-348	-338	-347
Gross profit	376	407	406	370	402	457	479
Selling and administrative expenses	-319	-334	-320	-324	-326	-358	-370
Other operating costs							
EBITDA	65,3	79,9	108,6	74,5	103,9	126,6	135,8
Depreciation/amortisation	-9,9	-8,9	-57,2	-40,8	-39,8	-41,0	-42,3
EBIT	55,4	71,0	51,4	33,7	64,1	85,6	93,5
Extraordinary Items							
Adjusted EBIT	55,4	71,0	51,4	33,7	64,1	85,6	93,5
Net financial items	-4,0	3,0	-2,7	-16,1	-2,5	-2,7	-2,7
Profit before tax (EBT)	51,4	74,0	48,7	17,6	61,6	82,9	90,8
Income tax	-14,0	-14,1	-9,7	1,3	-11,6	-17,0	-18,6
Minority Interest							
Net Income	37,4	59,9	38,9	18,8	49,9	65,9	72,2
Net Income (Adjusted)	37,4	59,9	38,9	18,8	49,9	65,9	72,2

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	192	151	109
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	264	228	191
Inventory	110	140	128	123	135	143	149
Accounts receivable	91	130	125	84	113	119	124
Other current assets	21	14	20	77	43	43	43
Cash and cash equivalents	53	36	29	70	68	129	190
Total current assets	274	320	302	355	359	434	505
Total assets	541	591	699	619	623	662	696
Equity and liabilities							
Equity	277	288	265	291	303	331	366
Minority Interest	0,49	-5,86	0,00	0,00	0,00	0,00	0,00
Total equity	277	282	265	291	303	331	366
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	69	80	79
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	146	157	156
Total equity and liabilities	541	585	699	619	623	662	696

Cash Flow Statement

	2017A	2018A	2019A	2020A	2021E	2022E	2023E
EBITDA	65	80	109	75	104	127	136
Changes in working capital	-8	-54	21	89	-49	-4	-11
Other items	0	0	0	0	0	0	0
Cash flow from operating activities	57	20	113	143	41	103	104
Net financial expenses	-2	-3	-3	-16	-3	-3	-3
Income taxes paid	-3	-1	-10	1	-12	-17	-19
Investments	15	-16	-13	-9	-5	-5	-5
Free Cash Flow	73	4	100	134	36	98	99
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	-2	61	61
Adjustments for non-cash items	0	0	0	0	0	0	0
Net debt (Adjusted)	90	114	262	128	130	70	9

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