



ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 1 March 2022

Björn Borg

Q4 ends a strong 2021

Continuing to deliver

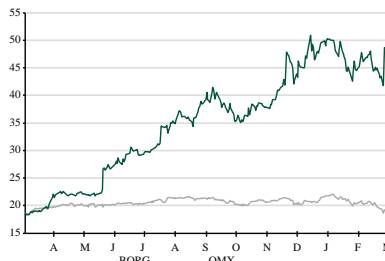
Sales for Q4 were SEK 181 million (SEK 160 million), corresponding to growth of 13% and in line with our estimate of SEK 183 million. Own e-commerce and e-tailers totalled SEK 63 million (35% of sales). Operating profit amounted to SEK 10 million against our estimate of SEK 13 million, with the difference partly explained by the fact that the gross margin (53%) was about one percentage point lower than our estimate.

Strong profitability and increased dividend

Profitability remains strong, and for the full year the company reported an operating margin of 14%, which is strong and exceeds the company's own target of 10%. Björn Borg proposes a higher dividend of SEK 2.5 per share (SEK 1.5). This dividend corresponds to 73% of EPS for 2021. We note that the company continues to have good cost control and sees good prospects for strong margins in 2022.

Estimate adjustments and higher valuation

We have chosen to make adjustments to revenues and profitability for the coming years, see details in the segment on estimate changes. We are also changing the valuation method to an SotP that values own e-commerce and other sales separately. We see a new fair value of SEK 58-60 per share (SEK 53-55).

Estimate Changes (kr)				Estimates (kr)				Risk and Potential		
	Now	Before			21	22e	23e	24e	Motivated value	58.0 - 60.0
EPS, adjusted 22e	3.8	3.1	23.1%	Sales, mkr	768	843	880	933	Current price	47.2
EPS, adjusted 23e	4.1	3.4	20.7%	Growth	9%	10%	4%	6%	Risk level	Medium
EPS, adjusted 24e	4.7	4.7	0.0%	EBITDA, mkr	140	161	162	179	<div>One Year Performance Chart</div> 	
<div>Calendar Events</div> <div>Q1-rapport2022-05-19</div>				EBIT, mkr	104	123	134	151		
				EPS, adjusted	3.4	3.8	4.1	4.7		
				EPS growth	357%	11%	9%	13%		
				Equity/share	13.5	15.3	17.4	20.1		
				Dividend/share	2.0	2.0	2.0	2.0		
<div>Key Figures (mkr)</div>				EBIT margin	13.5%	14.6%	15.2%	16.2%	<div>Analysts</div> <div>hjalmar.jernstrom@penser.se</div>	
				ROE	25.4%	24.9%	23.7%	23.3%		
				ROCE	24.9%	31.8%	36.4%	34.0%		
				EV/Sales	1.6x	1.5x	1.4x	1.3x		
				EV/EBITDA	8.8x	7.6x	7.6x	6.8x		
				EV/EBIT	11.8x	9.9x	9.2x	8.1x		
				P/E, adjusted	13.8x	12.4x	11.4x	10.0x		
				P/Equity	3.5x	3.1x	2.7x	2.3x		
				Dividend yield	4.2%	4.2%	4.2%	4.2%		
				FCF yield	5.3%	10.7%	10.4%	3.4%		
				Net debt/EBITDA	0.6g	0.0g	(0.4)g	(0.3)g		

Number of shares	25m
Market cap	1,187
Net debt	37
EV	1,224
Free float	90%
Average number of daily traded shares	29(k)
Reuters/Bloomberg	BORG.ST/BORG SS



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Overview

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Investment Case

Björn Borg's transition from an underwear company into a sportswear brand has been hampered by the Covid-19 pandemic and shutdowns in the company's core markets. 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. We believe that its brand is a great strength for Björn Borg, and that the strong brand recognition contributes to solid pricing power.

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 e-commerce and sales via external e-tailers made up 35% of sales in Q4 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 supported by a DCF model. We value the company using an SotP that values its own online operations separately. We apply a multiple for own online sales of 17x EBIT for 2023e, and value other sales at 10x EBIT for 2023e. This generates a fair value of SEK 58-60 per share. We believe Björn Borg is positioned to continue to grow its online business. Björn Borg continues to show the aspects it previously worked towards, such as increased gross margins through a reduced average discount. We support the valuation with a DCF model.

The quarter in detail

Sales for Q4 were SEK 181 million (SEK 160 million), corresponding to growth of 13% and in line with our estimate of SEK 183 million. Own e-commerce and e-tailers totalled SEK 63 million (35% of sales). Operating profit amounted to SEK 10 million against our estimate of SEK 13 million, with the difference partly explained by a gross margin about one percentage point lower than our estimate – the gross margin was 53%. Overall, however, Björn Borg continues to show the good cost control it initiated in 2020. Björn Borg is upping its dividend to SEK 2.5 per share (1.5), corresponding to approximately 73% of EPS for 2021.

Estimate changes

We are updating our cost estimates for the coming years, primarily based on a slightly increased estimate for marketing. At the same time, however, we are lowering the estimates for other expenses and selling costs, which included bad-debt losses in 2021. The combined effect gives strong margin assumptions for 2022-2023. We note that own e-commerce alone shows an operating margin of about 20%, which we consider to be strong. Overall, we anticipate that large parts of the company's savings from 2020 will continue into 2022, leading to strong EBIT margins.

New estimates	2022e	2023e	2024e
Revenue	843 121	880 157	932 285
Growth	9,8%	4,4%	5,9%
EBIT	123 023	133 809	151 294,8
Operating margin	15%	15%	16%
EPS	3,80	4,14	4,70

Previous estimates	2022e	2023e	2024e
Revenue	828 522	860 561	
Growth	7%	4%	
EBIT	100 722	111 442	
Operating margin	12,2%	12,9%	
EPS	3,10	3,44	

Change, %	2022e	2023e	2024e
Revenue	2%	2%	
EBIT	22%	20%	
EPS	23%	21%	

Valuation

We value Björn Borg by applying a multiple approach supplemented with a DCF model. We have changed the valuation method to reflect the value in own e-commerce and apply a multiple to own online sales that values them independently of other sales. We assume that own online sales can achieve an operating margin of 18% in 2023 and constitute approximately 16% of total sales at that time. We apply a multiple for own online sales of 17x EBIT for 2023e, and value other sales at 10x EBIT for 2023e. The difference is justified by the possibility of higher profitability in the online business, and online brand companies have higher multiples. We are therefore also updating our portfolio of comparison companies, see next page.

Valuation output	
Last paid	48
Aktier	25
Mkt cap	1 203
EV	1 300
Cash	97
Debt	134
Net debt	37
Multiple (online EBIT 23e x)	17
Multiple (physical + etailers EBIT 23e x)	10
Target EV	1 512
Less net debt	(37)
Target mkt cap	1474
Price per share	59

Below is a summary of our DCF model. All in all, the DCF model justifies a value per share of SEK 62. Our multiple approach together with the DCF model means that we see a fair value of SEK 58–60 per share (SEK 53–55). Valuation levels for brand companies and retailers are shown below.

Valuation output	
Sum of PV of FCF (explicit period)	1 018 640
PV of terminal value (perpetuity formula)	570 261
Enterprise value	1 588 901
Latest net debt	37 300
Minority interests & other	0
Equity value	1 551 601
No. of shares outstanding (millions)	25 148
Equity value per share (SEK)	62

Implicit multipl.	2021	2022	2023
EV/Sales	2,1	1,9	1,8
EV/EBITDA	11,4	9,9	9,8
EV/EBIT	15,3	12,9	11,9
EV/NOPLAT	19,2	16,2	14,9
P/E			
ROIC/WACC			
Current Share price			47,2

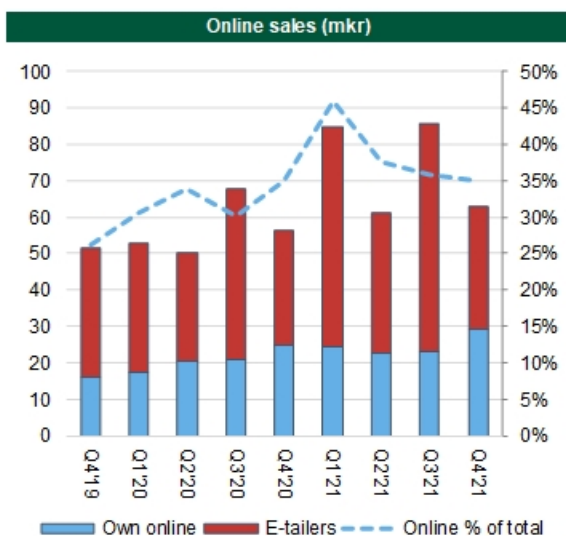
WACC assumptions	
Risk free nominal rate	0,4%
Risk premium	7,0%
Extra risk premium	0,3%
Beta	1,2
Cost of equity	9,2%
Cost of debt (pre-tax)	3,0%
Tax rate	22%
Target debt/(debt + equity)	10%
WACC	8,5%

Terminal value assumptions	
Long term growth rate	1,0%
Long term EBIT margin	12,0%
Depreciation (% of sales)	2,0%
Capex (% of sales)	2,0%
Working cap. (% of sales)	-2,6%
Tax rate	20%

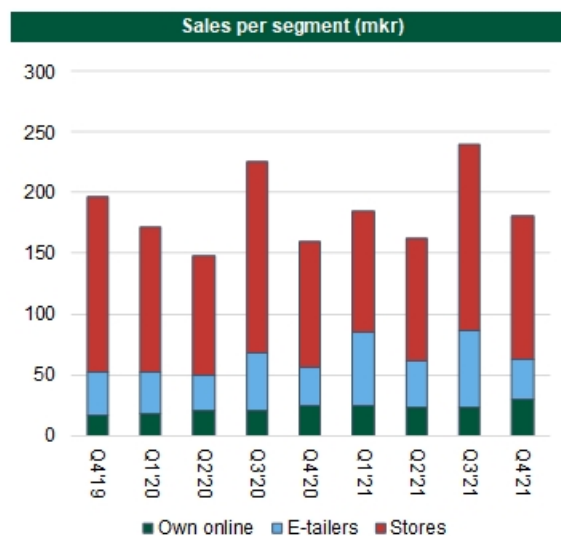
Sensitivity analysis

		Long-term growth rate				
		0,0%	0,5%	1,0%	1,5%	2,0%
WACC	7,5%	64	67	70	74	78
	8,0%	60	63	65	68	72
	8,5%	57	59	62	64	67
	9,0%	54	56	58	60	63
	9,5%	52	53	55	57	59

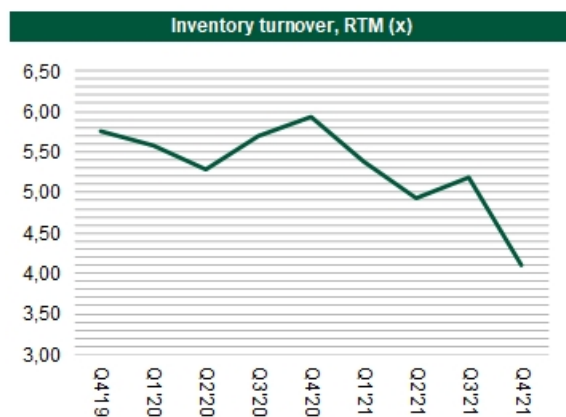
		Long-term EBIT margin				
		7,0%	9,5%	12,0%	14,5%	17,0%
WACC	7,5%	53	62	70	78	87
	8,0%	50	58	65	73	80
	8,5%	48	55	62	68	75
	9,0%	46	52	58	64	71
	9,5%	44	49	55	61	66



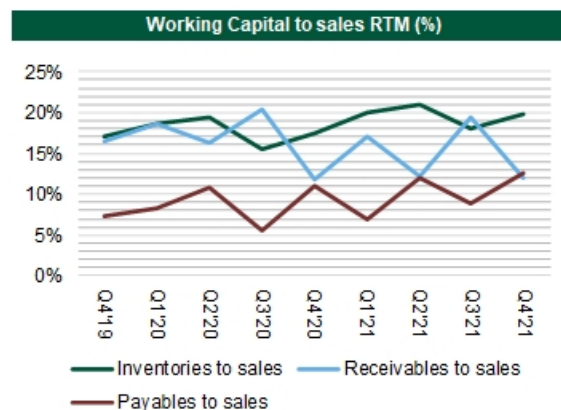
Source: Company reports, EPB



Source: Company reports, EPB



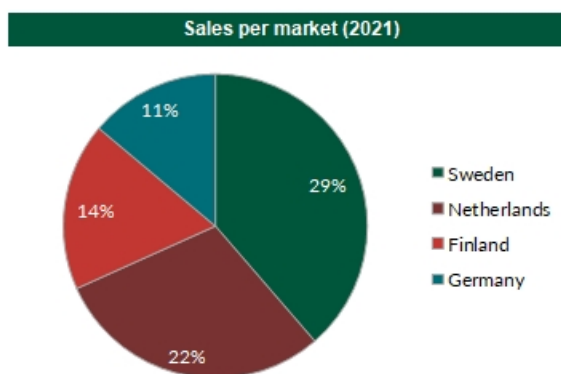
Source: Company reports, EPB



Source: Company reports, EPB

Shareholder data		
Shareholder	Votes	Shares
Martin Bjäringer	9,9%	9,9%
Mats Nilsson	6,5%	6,5%
Schotteniusfamiljen	5,6%	5,6%
Lazard	5,2%	5,2%
Other	73%	73%
Chairman	Heiner Olbrich	
CEO	Henrik Bunge	
CFO	Jens Nyström	
Contact	Pernilla Johansson	
Website	www.corporate.bjornborg.com	

Source: Holdings, Björn Borg. Updated 2021-12-31



Source: Company reports, EPB

Income Statement

SEK m	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net sales	696	710	757	705	768	843	880	932
Other operating income	8	7	22	29	28	22	22	22
Cost of goods sold	-320	-303	-351	-335	-352	-377	-387	-401
Gross profit	376	407	406	370	417	466	493	531
Selling and administrative expenses	-319	-334	-320	-324	-305	-328	-353	-374
Other operating costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBITDA	65,3	79,9	108,6	74,5	139,6	160,7	161,8	179,3
Depreciation/amortization	-9,9	-8,9	-57,2	-40,8	-35,5	-37,7	-28,0	-28,0
EBIT	55,4	71,0	51,4	33,7	104,1	123,0	133,8	151,3
Extraordinary Items								
Adjusted EBIT	55,4	71,0	51,4	33,7	104,1	123,0	133,8	151,3
Net financial items	-4,0	3,0	-2,7	-16,1	2,8	-3,2	-3,2	-3,2
Profit before tax (EBT)	51,4	74,0	48,7	17,6	106,9	119,8	130,6	148,1
Income tax	-14,0	-14,1	-9,7	1,3	-20,8	-24,2	-26,4	-29,9
Minority Interest								
Net Income	37,4	59,9	38,9	18,8	86,0	95,6	104,2	118,2
Net Income (Adjusted)	37,4	59,9	38,9	18,8	86,0	95,6	104,2	118,2

Balance Sheet

SEK m	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Assets								
Goodwill	36	35	35	34	35	35	35	35
Other Intangible assets	193	197	329	198	188	188	188	188
Tangible fixed assets	15	15	18	17	15	8	8	6
Other fixed assets	23	23	15	16	16	16	16	16
Total fixed assets	266	271	397	265	317	290	273	253
Inventory	110	140	128	123	152	169	167	177
Accounts receivable	91	130	125	84	92	101	106	112
Other current assets	21	14	20	77	23	25	26	28
Cash and cash equivalents	53	36	29	70	97	131	181	240
Total current assets	274	320	302	355	363	426	480	557
Total assets	541	591	699	619	681	716	753	810
Equity and liabilities								
Equity	277	288	265	291	339	367	439	506
Minority Interest	0,49	-5,86	0,00	0,00	0,00	0,00	0,00	0,00
Total equity	277	282	265	291	339	367	408	464
Non-current liabilities	125	150	150	99	99	120	114	108
Other non-current liabilities	66	47	137	75	75	19	11	6
Total non-current liabilities	191	197	287	174	174	139	125	113
Accounts payable	20	38	56	77	97	110	114	121
Other current liabilities	52,0	74,8	92,0	76,8	73,9	93,2	99,6	108,9
Total current liabilities	72	112	148	154	191	211	220	233
Total equity and liabilities	541	591	699	619	681	716	753	810

Cash Flow Statement

SEK m	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
EBITDA	22	19	52	10	104	123	134	151
Changes in working capital	-8	-54	21	89	-53	-9	5	-5
Cash flow from operating activities	57	20	113	143	68	124	137	141
Investments	15	-16	-13	-9	-5	-10	-10	-9
Free Cash Flow	73	4	100	134	63	114	127	133
Dividends	-50	-50	-50	0	-38	-63	-63	-63
Right issue/Share buyback	0	0	0	0	0	0	0	0
Acquisitions	28	-2	0	0	0	0	0	0
Debt financing and other adjustments	-5	-7	-4	-3	0	-17	-14	-11
Cash Flow	7	-21	-8	43	25	34	50	58
Adjustments for non-cash items	0	0	0	0	0	0	0	0
Net debt (Adjusted)	90	114	262	128	17	-34	-98	-168

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