



## ERIK PENSER BANK

Penser Access | Apparel/Footwear | Sweden | 24 May 2022

# Björn Borg

## 2022 off to a strong start

### Strong growth for physical sales

Björn Borg had sales of SEK 227m in Q1, corresponding to growth of 23% y/y. Own e-commerce and e-tailers grew by 7% y/y and accounted for 40% of sales. Physical sales in own stores and via wholesalers were surprisingly strong and grew by 44% and 35% respectively. In addition, sportswear delivered strong growth of 34%, and 20% of sales in Q1.

### Strong profitability despite dip in gross margin

The gross margin for the quarter was 50% (53%), 53% adjusted for currency movements (50%). The gross margin was impacted by FX and higher freight costs in Q1. Operating costs rose slightly y/y but were mainly as expected. The operating margin increased y/y to 13% (12%).

### Lowering this year but raising 2023-24

We have chosen to make adjustments to revenues and profitability for the coming years; see details in the segment on estimate changes. We apply an SotP valuation method to Björn Borg that values e-commerce and other sales separately. The valuation is augmented with a DCF model. We see an unchanged fair value of SEK 58-60 per share.

Estimate Changes (kr)				Estimates (kr)					Risk and Potential	
	Now	Before		21	22e	23e	24e	Motivated value	58.0 - 60.0	
EPS, adjusted 22e	3.6	3.8	-4.2%	Sales, mkr	768	868	899	953	Current price	45.3
EPS, adjusted 23e	4.2	4.1	1.7%	Growth	9%	13%	4%	6%	Risk level	Medium
EPS, adjusted 24e	4.8	4.7	1.7%	EBITDA, mkr	140	155	164	182		
				EBIT, mkr	104	118	136	154		
				EPS, adjusted	3.4	3.6	4.2	4.8		
				EPS growth	357%	7%	15%	13%		
				Equity/share	13.5	15.1	17.4	20.1		
				Dividend/share	2.0	2.0	2.0	2.0		
				EBIT margin	13.5%	13.6%	15.1%	16.1%		
				ROE	25.4%	24.1%	24.3%	23.7%		
				ROCE	24.9%	30.0%	36.6%	34.0%		
				EV/Sales	1.6x	1.4x	1.4x	1.3x		
				EV/EBITDA	8.8x	8.0x	7.5x	6.8x		
				EV/EBIT	11.8x	10.5x	9.1x	8.0x		
				P/E, adjusted	13.2x	12.4x	10.7x	9.5x		
				P/Equity	3.4x	3.0x	2.6x	2.2x		
				Dividend yield	4.4%	4.4%	4.4%	4.4%		
				FCF yield	5.5%	10.1%	11.1%	3.5%		
				Net debt/EBITDA	0.6g	0.1g	(0.4)g	(0.3)g		

Calendar Events		
Q2'22		2022-08-19
Q3'22		2022-11-18

Key Figures (mkr)		
Number of shares		25m
Market cap		1,138
Net debt		95
EV		1,233
Free float		90%
Average number of daily traded shares		29(k)
Reuters/Bloomberg	BORG.ST/BORG SS	

### One Year Performance Chart

### Analysts

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## Overview

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### 2022 off to a strong start

#### Investment Case

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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 during the pandemic. 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 par with or lower than other clothing retailers. We believe a brand valuation is more relevant. We believe the brand is a great strength for Björn Borg, and that the strong brand recognition contributes to solid pricing power.

#### Company Profile

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Björn Borg is a Swedish fashion company that designs and sells underwear, footwear, sportswear and other products under its own Björn Borg brand. The company's two largest markets are the Netherlands and Sweden, which together accounted for just over 55% of brand sales in 2021. The underwear product area accounted for the majority of sales in 2021, at 59%, while sports apparel accounted for 17%. Own e-commerce and sales via external e-tailers accounted for 40% of sales in Q1 22.

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

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We value Björn Borg using a multiple approach supported by a DCF model. We value the company using an SotP that values its own e-commerce 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 demonstrate the aspects it previously worked towards, such as increased gross margins through a reduced average discount. We support the valuation with a DCF model, as detailed below.

## The quarter in detail

Björn Borg had sales in Q1 of SEK 227 million (SEK 185 million) corresponding to growth of 23%. Organic growth (adjusted for currency movements) was 20%. Brick-and-mortar stores made a strong contribution to growth, where own stores grew by 44% and sales via wholesalers to other retailers grew 35%. Own online sales grew by 3% and e-tailers grew by 9% y/y. On the whole, revenues strongly exceeded our estimate of SEK 197 million for Q1, due primarily to the brick-and-mortar sales trend.

The gross margin was 50% (53%) and the currency-adjusted margin was 53% (50%). There were no major surprises in operating costs and EBIT amounted to SEK 29 million, corresponding to a margin of 13%. Quarterly profit was reduced by the first tranche of the incentive programme from 2019. The amount in Q1 was SEK 3.9 million.

## Estimate changes

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We are updating our estimates for the coming years to reflect growth during the quarter. We are adjusting the estimates for upcoming quarters for both online sales and brick-and-mortar sales. The net effect for 2022 is 3% for the current year and 2% in 2023. We are adjusting the operating margin estimate for this year down by about 1 point, based on expectations of a lower gross margin.

<b>New estimates</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Revenue	868 114	899 434	952 720
Growth	13,0%	3,6%	5,9%
EBIT	117 709	135 965	153 780,6
Operating margin	14%	15%	16%
EPS	3,65	4,21	4,78

<b>Previous estimates</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Revenue	842 948	880 397	932 900
Growth	10%	4%	6%
EBIT	123 193	133 682	151 225
Operating margin	14,6%	15,2%	16,2%
EPS	3,81	4,14	4,70

<b>Change, %</b>	<b>2022e</b>	<b>2023e</b>	<b>2024e</b>
Revenue	3%	2%	2%
EBIT	-4%	2%	2%
EPS	-4%	2%	2%

Source: EPB

## Valuation

We value Björn Borg using a multiple approach augmented by a DCF model. We are retaining the multiple approach for separate valuation of e-commerce and brick-and-mortar. We assume that own online sales have the capacity to reach an operating margin of 18% in 2023 and account for about 15% of total sales in 2023. 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.

Valuation output	
Last paid	45
Aktier	25 148
Mkt cap	1 137 947
EV	1 232 947
Cash	13 499
Debt	108 500
Net debt	95 000
Multiple (online EBIT 23e x)	17
Multiple (physical + etailers EBIT 23e x)	10
Target EV	1 527 497
Less net debt	(95 000)
Target mkt cap	1 432 497
<b>Price per share</b>	<b>57</b>

Källa: EPB

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

Valuation output	
Sum of PV of FCF (explicit period)	1 023 133
PV of terminal value (perpetuity formula)	568 783
<b>Enterprise value</b>	<b>1 591 915</b>
Latest net debt	95 000
Minority interests & other	0
<b>Equity value</b>	<b>1 496 915</b>
No. of shares outstanding (millions)	25 148
<b>Equity value per share (SEK)</b>	<b>60</b>

WACC assumptions	
Risk free nominal rate	2,5%
Risk premium	5,5%
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%	62	65	68	71	76
	8,0%	58	61	63	66	70
	8,5%	55	57	<b>59</b>	62	65
	9,0%	52	54	56	58	61
	9,5%	50	51	53	55	57

		Long-term EBIT margin				
		7,0%	9,5%	12,0%	14,5%	17,0%
WACC	7,5%	51	59	68	76	84
	8,0%	48	56	63	71	78
	8,5%	46	53	<b>59</b>	66	73
	9,0%	44	50	56	62	69
	9,5%	42	47	53	59	64

## Company peers

Brands	EV/EBIT			P/E			EV/Sales		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
RVRC Holding AB	20,5	17,8	14,2	26,8	23,3	18,6	5,9	4,5	3,6
Lululemon Athletica Inc	20,9	17,6	16,1	29,3	24,8	21,4	4,7	4,1	3,6
Under Armour, Inc. Class A	12,2	10,2	9,3	15,6	11,8	10,6	0,9	0,8	0,8
Fenix Outdoor	12,0	10,3	9,6	15,4	13,1	12,1	1,6	1,5	1,5
NIKE, Inc. Class B	21,1	17,3	N/A	23,6	19,9	17,2	3,3	3,0	2,8
adidas AG	16,1	13,1	11,1	19,0	15,4	12,8	1,5	1,4	1,3
<b>Average exkl Borg</b>	17,1	14,4	12,0	21,6	18,1	15,5	3,0	2,5	2,2
<b>Median exkl Borg</b>	18,3	15,2	11,1	21,3	17,7	15,0	2,5	2,3	2,1
<b>Björn Borg</b>	10,5	9,1	8,1	12,5	10,8	9,5	1,4	1,4	1,3

Source: Erik Penser Bank (Ejörn Borg-estimat), Factset (övriga estimat)

Retail	EV/EBIT			P/E			EV/Sales		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Gap, Inc.	16,0	10,8	8,4	8,8	6,7	6,2	0,6	0,6	0,6
H&M Hennes & Mauritz	15,9	13,4	11,9	18,9	15,4	13,5	1,2	1,1	1,1
Foot Locker, Inc.	9,4	10,5	N/A	7,0	7,4	6,8	0,7	0,7	0,7
Next plc	10,4	10,1	9,6	11,2	11,1	10,4	1,9	1,8	1,8
XXL ASA	16,2	12,3	10,3	13,2	8,4	6,5	0,6	0,5	0,5
<b>Average exkl Borg</b>	13,6	11,4	10,1	11,8	9,8	8,7	1,0	1,0	0,9
<b>Median exkl Borg</b>	15,9	10,8	10,0	11,2	8,4	6,8	0,7	0,7	0,7
<b>Björn Borg</b>	10,5	9,1	8,1	12,5	10,8	9,5	1,4	1,4	1,3

Source: Erik Penser Bank (Ejörn Borg-estimat), Factset (övriga estimat)

Brands	Gross margin			EBIT-margin			FCF/sales		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
RVRC Holding AB	72%	72%	71%	28%	26%	26%	1%	4%	5%
Lululemon Athletica Inc	57%	57%	58%	22%	23%	22%	2%	3%	3%
Under Armour, Inc. Class A	50%	49%	49%	7%	8%	8%	5%	8%	8%
Fenix Outdoor	N/A	N/A	N/A	14%	15%	16%	9%	10%	10%
NIKE, Inc. Class B	47%	48%	49%	16%	17%	N/A	3%	5%	5%
adidas AG	51%	51%	52%	9%	11%	12%	5%	6%	7%
<b>Average exkl Borg</b>	55%	56%	56%	16%	17%	17%	4%	6%	6%
<b>Median exkl Borg</b>	51%	51%	52%	15%	16%	16%	4%	5%	6%
<b>Björn Borg</b>	53%	56%	57%	14%	15%	16%	12%	14%	14%

Source: Erik Penser Bank (Ejörn Borg-estimat), Factset (övriga estimat)

Retail	Gross margin			EBIT-margin			FCF/sales		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Gap, Inc.	40%	40%	45%	4%	5%	7%	13%	14%	30%
H&M Hennes & Mauritz	52%	52%	52%	7%	7%	8%	9%	10%	10%
JD Sports Fashion Plc	30%	30%	30%	8%	8%	7%	14%	13%	14%
Next plc	49%	50%	49%	18%	18%	18%	6%	8%	8%
Foot Locker, Inc.	39%	39%	39%	4%	4%	5%	39%	25%	11%
<b>Average exkl Borg</b>	42%	42%	43%	8%	9%	10%	16%	14%	15%
<b>Median exkl Borg</b>	40%	40%	45%	7%	7%	8%	13%	13%	11%
<b>Björn Borg</b>	53%	56%	57%	14%	15%	16%	12%	14%	14%

Source: Erik Penser Bank (Ejörn Borg-estimat), Factset (övriga estimat)

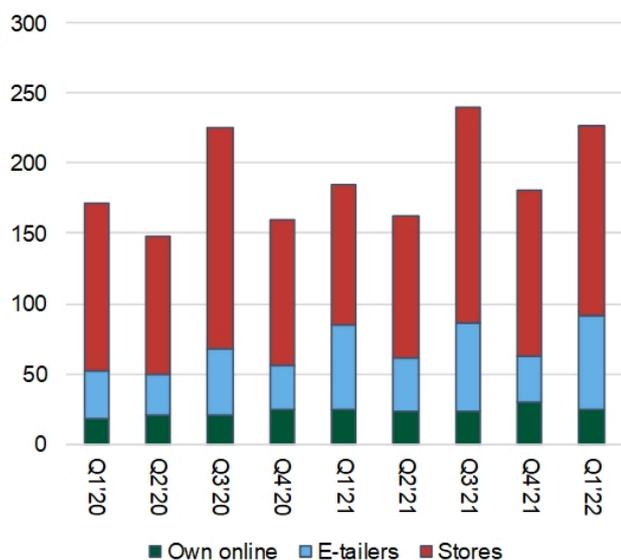
Brands	Sales growth			EBIT growth			EPS growth		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
RVRC Holding AB	53%	26%	25%	53%	15%	25%	54%	15%	26%
Lululemon Athletica Inc	21%	15%	13%	23%	17%	14%	20%	18%	16%
Under Armour, Inc. Class A	2%	10%	4%	-10%	30%	9%	-9%	32%	11%
Fenix Outdoor	13%	4%	3%	18%	16%	8%	35%	17%	8%
NIKE, Inc. Class B	12%	11%	8%	24%	18%	15%	23%	19%	16%
adidas AG	13%	9%	8%	17%	22%	17%	23%	23%	20%
<b>Average exkl Borg</b>	19%	12%	10%	21%	20%	15%	24%	21%	16%
<b>Median exkl Borg</b>	13%	10%	8%	21%	17%	14%	23%	19%	16%
<b>Björn Borg</b>	13%	4%	6%	13%	16%	13%	7%	15%	13%

Source: Erik Penser Bank (Björn Borg-estimat), Factset (övriga estimat)

Retail	Sales growth			EBIT growth			EPS growth		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
Gap, Inc.	-2%	4%	3%	-22%	28%	10%	-14%	32%	7%
H&M Hennes & Mauritz	9%	5%	4%	-2%	21%	14%	3%	23%	14%
Foot Locker, Inc.	-5%	-2%	0%	-39%	-10%	-1%	-42%	-5%	9%
Next plc	9%	3%	5%	2%	3%	5%	5%	0%	7%
XXL ASA	0%	5%	4%	-21%	31%	23%	-4%	57%	29%
<b>Average exkl Borg</b>	2%	3%	3%	-16%	14%	10%	-11%	21%	13%
<b>Median exkl Borg</b>	0%	4%	4%	-21%	21%	10%	-4%	23%	9%
<b>Björn Borg</b>	13%	4%	6%	13%	16%	13%	7%	15%	13%

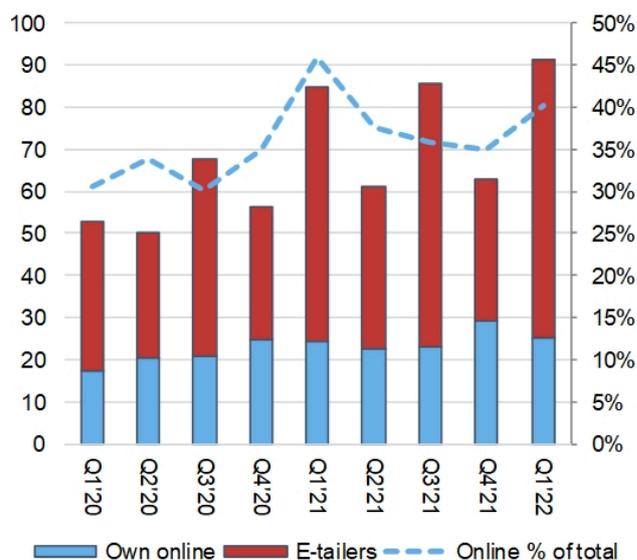
Source: Erik Penser Bank (Björn Borg-estimat), Factset (övriga estimat)

### Sales per segment (mkr)



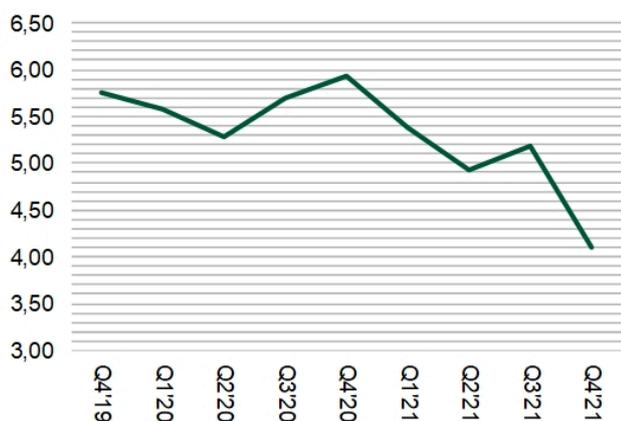
Source: Company reports, EPB

### Online sales (mkr)



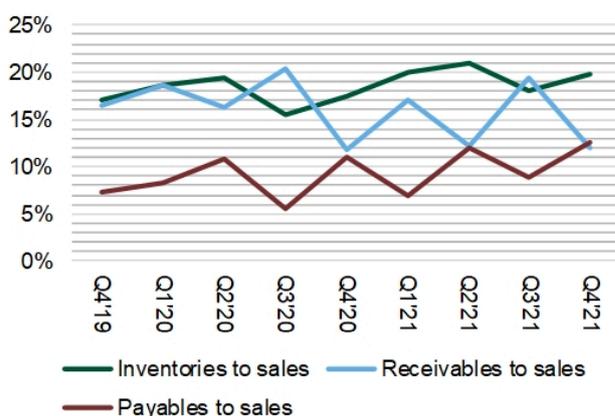
Source: Company reports, EPB

### Inventory turnover, RTM (x)



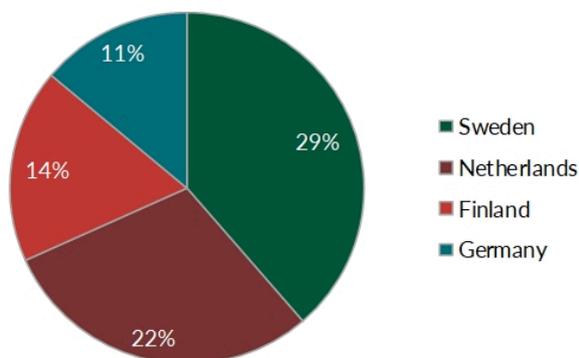
Source: Company reports, EPB

### Working Capital to sales RTM (%)



Source: Company reports, EPB

### Sales per market (2021)



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	<a href="http://www.corporate.bjornborg.com">www.corporate.bjornborg.com</a>

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

## Income statement

SEK m	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Net sales	696	710	757	705	768	868	899	953
Other operating income	8	7	22	29	28	26	22	22
Cost of goods sold	-320	-303	-351	-335	-352	-408	-396	-410
Gross profit	<b>376</b>	<b>407</b>	<b>406</b>	<b>370</b>	<b>417</b>	<b>460</b>	<b>504</b>	<b>543</b>
Selling and administrative expenses	-319	-334	-320	-324	-305	-332	-362	-383
Other operating costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>EBITDA</b>	<b>65,3</b>	<b>79,9</b>	<b>108,6</b>	<b>74,5</b>	<b>139,6</b>	<b>154,7</b>	<b>164,0</b>	<b>181,8</b>
Depreciation/amortization	-9,9	-8,9	-57,2	-40,8	-35,5	-37,0	-28,0	-28,0
<b>EBIT</b>	<b>55,4</b>	<b>71,0</b>	<b>51,4</b>	<b>33,7</b>	<b>104,1</b>	<b>117,7</b>	<b>136,0</b>	<b>153,8</b>
Extraordinary Items								
<b>Adjusted EBIT</b>	<b>55,4</b>	<b>71,0</b>	<b>51,4</b>	<b>33,7</b>	<b>104,1</b>	<b>117,7</b>	<b>136,0</b>	<b>153,8</b>
Net financial items	-4,0	3,0	-2,7	-16,1	2,8	-2,5	-3,2	-3,2
<b>Profit before tax (EBT)</b>	<b>51,4</b>	<b>74,0</b>	<b>48,7</b>	<b>17,6</b>	<b>106,9</b>	<b>115,2</b>	<b>132,8</b>	<b>150,6</b>
Income tax	-14,0	-14,1	-9,7	1,3	-20,8	-23,4	-26,8	-30,4
Minority Interest								
<b>Net Income</b>	<b>37,4</b>	<b>59,9</b>	<b>38,9</b>	<b>18,8</b>	<b>86,0</b>	<b>91,8</b>	<b>105,9</b>	<b>120,2</b>
<b>Net Income (Adjusted)</b>	<b>37,4</b>	<b>59,9</b>	<b>38,9</b>	<b>18,8</b>	<b>86,0</b>	<b>91,8</b>	<b>105,9</b>	<b>120,2</b>

Source: Company reports, EPB

## Balance sheet

SEK m	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
<b>Assets</b>								
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
<b>Total fixed assets</b>	<b>266</b>	<b>271</b>	<b>397</b>	<b>265</b>	<b>317</b>	<b>290</b>	<b>272</b>	<b>253</b>
Inventory	110	140	128	123	152	174	171	181
Accounts receivable	91	130	125	84	92	104	108	114
Other current assets	21	14	20	77	23	26	27	29
Cash and cash equivalents	53	36	29	70	97	124	177	237
<b>Total current assets</b>	<b>274</b>	<b>320</b>	<b>302</b>	<b>355</b>	<b>363</b>	<b>428</b>	<b>483</b>	<b>561</b>
<b>Total assets</b>	<b>541</b>	<b>591</b>	<b>699</b>	<b>619</b>	<b>681</b>	<b>718</b>	<b>755</b>	<b>814</b>
<b>Equity and liabilities</b>								
Equity	277	288	265	291	339	363	411	469
Minority Interest	0,49	-5,86	0,00	0,00	0,00	0,00	0,00	0,00
<b>Total equity</b>	<b>277</b>	<b>282</b>	<b>265</b>	<b>291</b>	<b>339</b>	<b>363</b>	<b>406</b>	<b>463</b>
Non-current liabilities	125	150	150	99	99	120	114	108
Other non-current liabilities	66	47	137	75	75	19	11	6
<b>Total non-current liabilities</b>	<b>191</b>	<b>197</b>	<b>287</b>	<b>174</b>	<b>174</b>	<b>139</b>	<b>125</b>	<b>113</b>
Accounts payable	20	38	56	77	97	113	117	124
Other current liabilities	52,0	74,8	92,0	76,8	73,9	96,2	101,9	111,3
<b>Total current liabilities</b>	<b>72</b>	<b>112</b>	<b>148</b>	<b>154</b>	<b>191</b>	<b>217</b>	<b>225</b>	<b>238</b>
<b>Total equity and liabilities</b>	<b>541</b>	<b>591</b>	<b>699</b>	<b>619</b>	<b>681</b>	<b>718</b>	<b>755</b>	<b>814</b>

Source: Company reports, EPB

## Cash flow statement

SEK m	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Operating profit	22	19	52	10	104	118	136	154
Adjustments	7	3	-3	10	17	11	-2	-6
Changes in working capital	-8	-54	21	89	-53	-11	6	-5
<b>Cash flow from operating activities</b>	<b>57</b>	<b>20</b>	<b>113</b>	<b>143</b>	<b>68</b>	<b>117</b>	<b>140</b>	<b>143</b>
Investments	15	-16	-13	-9	-5	-10	-10	-9
<b>Free Cash Flow</b>	<b>73</b>	<b>4</b>	<b>100</b>	<b>134</b>	<b>63</b>	<b>107</b>	<b>129</b>	<b>135</b>
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
<b>Cash flow from financing</b>	<b>-27</b>	<b>-59</b>	<b>-54</b>	<b>-3</b>	<b>-38</b>	<b>-80</b>	<b>-77</b>	<b>-74</b>
<b>Cash Flow</b>	<b>7</b>	<b>-21</b>	<b>-8</b>	<b>43</b>	<b>25</b>	<b>28</b>	<b>53</b>	<b>60</b>
Adjustments for non-cash items	0	0	0	0	0	0	0	0
<b>Net debt (Adjusted)</b>	<b>90</b>	<b>114</b>	<b>262</b>	<b>128</b>	<b>17</b>	<b>-27</b>	<b>-94</b>	<b>-166</b>

Source: Company reports, EPB

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