



ERIK PENSER BANK

Penser Access | Office Equipment/Supplies | Sweden | 15 July 2022

ITAB Shop Concept

Good performance in difficult circumstances

Challenging external factors in Q2 22

ITAB reported EBIT of SEK 55m (38) for Q2 22, SEK 79m (81) excluding items affecting comparability. Organic growth was 10%, driven mainly by price increases. With high-cost inflation, component shortages, shutdown of Russian operations and high input goods prices, the environment has been challenging. On the customer side, the company says that some are beginning to express concern about the future.

Forecasts lowered in view of the poorer consumer economy

In our view, ITAB is continuing its journey towards becoming a more profitable and fast-growing company, although One ITAB is more or less complete in terms of cost savings. EBITDA forecasts are lowered for -22e to -24e by 9%, 28% and 25% based on current margin levels combined with a weaker consumer economy and other supply-disrupting factors like high prices for input goods.

Low valuation and improved profit growth

We are lowering our fair value to SEK 19.5-20.5 (25.5-26.5) based on our DCF value of SEK 20. The company has so far not achieved full compensation for cost inflation, but as input goods prices continue normalising and One ITAB continues to deliver, we believe underlying profit growth will return and create the prerequisites for revaluation.

| Calendar Events | | Estimates (kr) | | | | Risk and Potential | | |
|---------------------------------------|-------------------|-----------------|---------|-------|-------|--------------------|-----------------------------------|---------|
| Interim report Q3 2022 | 2022-10-28 | 21 | 22e | 23e | 24e | Motivated value | 19.5 - 20.5 | |
| Key Figures (mkr) | | Sales, mkr | 6,245 | 7,022 | 7,509 | 7,772 | Current price | SEK10.1 |
| Number of shares | 218m | Growth | 17% | 12% | 7% | 4% | Risk level | Medium |
| Market cap | 2,203 | EBITDA, mkr | 499 | 548 | 593 | 642 | One Year Performance Chart | |
| Net debt | 1,398 | EBIT, mkr | 224 | 282 | 351 | 393 | | |
| EV | 3,601 | EPS, adjusted | 1.1 | 0.9 | 1.2 | 1.4 | | |
| Average number of daily traded shares | 92(k) | EPS growth | nm | (11)% | 31% | 12% | | |
| Reuters/Bloomberg | ITABb.ST/ITABB:SS | Equity/share | 12.2 | 13.7 | 14.6 | 15.4 | | |
| | | Dividend/share | 0.0 | 0.4 | 0.6 | 0.7 | | |
| | | EBIT margin | 6.2% | 4.7% | 4.7% | 5.1% | | |
| | | ROE | 9.8% | 7.3% | 8.8% | 9.3% | | |
| | | ROCE | 6.3% | 6.2% | 7.0% | 7.5% | | |
| | | EV/Sales | 0.6x | 0.5x | 0.5x | 0.5x | | |
| | | EV/EBITDA | 7.2x | 6.6x | 6.1x | 5.6x | | |
| | | EV/EBIT | 16.1x | 12.8x | 10.3x | 9.2x | Analysts | |
| | | P/E, adjusted | 9.5x | 10.7x | 8.1x | 7.3x | orjan.roden@penser.se | |
| | | P/Equity | 0.8x | 0.7x | 0.7x | 0.7x | | |
| | | Dividend yield | 0.0% | 4.0% | 5.9% | 6.4% | | |
| | | FCF yield | (14.9)% | 8.2% | 6.8% | 9.1% | | |
| | | Net debt/EBITDA | 2.5g | 1.9g | 1.7g | 1.4g | | |



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Overview

Good performance in difficult circumstances

Investment Case

ITAB is one of the leading suppliers of shop fittings in Europe. In 2021, Grocery accounted for 58% of sales, Home Improvements for 14%, Fashion of 7% and Other Customer Groups for 21%. Segments in Other Customer Groups include pharmacies, fuel stations, cafés and restaurants. The business is concentrated to Europe including the UK, with 82% of sales in 2021. Eastern Europe accounted for 10% and RoW for 8%.

Leader in a fragmented market with great consolidation potential

The market for shop fittings is highly fragmented, with an estimated thousands of suppliers in a number of different niches. ITAB's market share in Europe is estimated to be in the high single digits, compared with the grocery trade's largest players which have over 20% in local market share in many countries. As the retail market evolves, we predict that shop fitting suppliers will need to offer more advanced services, which in turn is expected to drive consolidation. With its leading position, ITAB has an excellent starting point to participate in this.

Stable underlying demand from the grocery market

Real growth in the grocery market in Europe has historically been 1% over time and market participants demonstrate low volatility in growth and margins. This provides good visibility surrounding underlying demand for ITAB's products. To an increasing extent, market players are demanding products that improve in-store efficiency - such as self checkout systems - and we also believe the rising share of online shopping in the sector is going to result in a need to connect and link the various sections of a store, representing new business opportunities for ITAB.

Action plan will lead to a more profitable company

The One ITAB transformation plan aimed at raising ITAB's profitability by 2023 was launched in late 2019. Programme elements include the realisation of synergies, cost efficiencies and changes to the production organisation. As the company updated its guidance in the 2021 YE report, we believe ITAB will achieve its goal.

Valuation approach

We see a fair value of SEK 19.5-20.5 per share, based on a DCF valuation. There may be further potential if the company carries out value-add acquisitions. We assess the risk as medium-high due to uncertainty related to growth related to changes in the retail market and because the full effects of the transformation programme have yet to be realised.

DCF valuation including sensitivity analysis

| Valuation output | |
|---|--------------|
| Sum of PV of FCF (explicit period) | 2 476 |
| PV of terminal value (perpetuity formula) | 3 373 |
| Enterprise value | 5 849 |
| Latest net debt | 1 398 |
| Minority interests & other | 154 |
| Equity value | 4 297 |
| No. of shares outstanding (millions) | 218 |
| Equity value per share (SEK) | 20 |

| Implicit multipl. | 2022 | 2023 | 2024 |
|---------------------|------|------|------|
| EV/Sales | 0,8 | 0,8 | 0,8 |
| EV/EBITDA | 10,7 | 9,9 | 9,2 |
| EV/EBIT | 20,8 | 16,7 | 14,9 |
| EV/NOPLAT | 25,9 | 20,8 | 18,6 |
| P/E | | | |
| ROIC/WACC | | | |
| Current Share price | | | 10 |

| WACC assumptions | |
|-----------------------------|------|
| Risk free nominal rate | 2,5% |
| Risk premium | 5,5% |
| Extra risk premium | 1,0% |
| Beta | 1,0 |
| Cost of equity | 9,0% |
| Cost of debt (pre-tax) | 2,0% |
| Tax rate | 20% |
| Target debt/(debt + equity) | 0% |
| WACC | 9,0% |

| Terminal value assumptions | |
|----------------------------|-------|
| Long term growth rate | 2,0% |
| Long term EBIT margin | 8,0% |
| Depreciation (% of sales) | 2,0% |
| Capex (% of sales) | 2,0% |
| Working cap. (% of sales) | 23,0% |
| Tax rate | 20% |

| | | Long-term growth rate | | | | |
|------|-------|-----------------------|------|------|-------|-------|
| | | 1,0% | 1,5% | 2,0% | 2,5% | 3,0% |
| WACC | 7,0% | 29 | 30 | 32 | 35 | 38 |
| | 8,0% | 23 | 24 | 25 | 26 | 28 |
| | 9,0% | 18 | 19 | 20 | 21 | 22 |
| | 10,0% | 15 | 15 | 16 | 16 | 17 |
| | 11,0% | 12 | 12 | 13 | 13 | 14 |
| | | Long-term EBIT margin | | | | |
| | | 3,0% | 5,5% | 8,0% | 10,5% | 13,0% |
| WACC | 7,0% | 14 | 23 | 32 | 42 | 51 |
| | 8,0% | 11 | 18 | 25 | 32 | 39 |
| | 9,0% | 9 | 14 | 20 | 25 | 30 |
| | 10,0% | 7 | 12 | 16 | 20 | 24 |
| | 11,0% | 6 | 9 | 13 | 16 | 20 |

Källa: EPB

Estimate changes

Old estimates **2022e** **2023e** **2024e**

| | | | |
|----------------|-------|-------|-------|
| Revenue | 6 634 | 7 101 | 7 350 |
| EBITDA | 602 | 829 | 861 |

New estimates **2022e** **2023e** **2024e**

| | | | |
|----------------|-------|-------|-------|
| Revenue | 7 022 | 7 509 | 7 772 |
| EBITDA | 548 | 593 | 642 |

Difference **2022e** **2023e** **2024e**

| | | | |
|----------------|-----|------|------|
| Revenue | 6% | 6% | 6% |
| EBITDA | -9% | -28% | -25% |

Källa: EPB

P&L and Cash Flow

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 5 417 | 6 381 | 6 031 | 6 064 | 5 323 | 6 245 | 7 022 | 7 509 | 7 772 |
| Cost of goods sold | -3 923 | -4 552 | -4 423 | -4 441 | -3 906 | -4 565 | -5 172 | -5 481 | -5 673 |
| Gross profit | 1 494 | 1 829 | 1 608 | 1 623 | 1 417 | 1 680 | 1 850 | 2 027 | 2 098 |
| Selling expenses | -861 | -1 071 | -1 140 | -1 183 | -1 015 | -1 101 | -1 241 | -1 322 | -1 349 |
| Administrative expenses | -255 | -305 | -294 | -286 | -285 | -338 | -346 | -359 | -361 |
| Other income | 33 | 75 | 91 | 121 | 24 | 0 | 21 | 8 | 8 |
| Other expenses | -40 | -28 | -35 | -18 | -29 | -17 | -2 | -4 | -4 |
| EBIT (adjusted) | 375 | 451 | 180 | 171 | 112 | 390 | 327 | 351 | 393 |
| Non-recurring items | -4 | 49 | 50 | 86 | 0 | -166 | -45 | 0 | 0 |
| EBIT | 371 | 500 | 230 | 257 | 112 | 224 | 282 | 351 | 393 |
| Financial income | 28 | 3 | 6 | 7 | 5 | 14 | 11 | 4 | 4 |
| Financial expenses | -38 | -71 | -79 | -90 | -117 | -82 | -41 | -2 | -2 |
| Pre-tax profit | 361 | 432 | 157 | 174 | 0 | 156 | 252 | 353 | 394 |
| Taxes | -101 | -103 | -60 | -54 | -22 | -53 | -68 | -80 | -89 |
| Minority interest | -19 | -10 | -7 | 0 | 1 | -2 | -9 | -3 | -3 |
| Net profit (reported) | 241 | 319 | 90 | 120 | -21 | 101 | 175 | 270 | 302 |
| Net profit (adjusted) | 244 | 283 | 61 | 61 | 0 | 208 | 206 | 270 | 302 |

Source: EPB

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| Net profit (reported) | 241 | 319 | 90 | 120 | -21 | 101 | 175 | 270 | 302 |
| Other operating activities | 137 | 24 | 73 | 165 | 438 | 323 | 269 | 245 | 253 |
| Working capital changes | 18 | -153 | 337 | 193 | 394 | -589 | -34 | -82 | -61 |
| Net cash from operating activities | 396 | 190 | 500 | 478 | 811 | -165 | 410 | 433 | 494 |
| Investments | -192 | -213 | -152 | -289 | -167 | -227 | -230 | -284 | -294 |
| Disposals | 10 | 19 | 52 | 174 | 0 | 0 | 0 | 0 | 0 |
| Free cash flow | 214 | -4 | 400 | 363 | 644 | -392 | 180 | 149 | 200 |
| Dividends | -170 | -179 | -179 | 0 | 0 | 0 | 0 | -87 | -131 |
| New issue / share buy backs | 0 | 0 | 0 | 0 | 0 | 733 | 0 | 0 | 0 |
| Acquisitions | -737 | -101 | -142 | 24 | 0 | -40 | -60 | 0 | 0 |
| Changes in debt and other adjustments | 823 | 182 | -101 | -364 | -221 | -852 | 318 | 0 | 0 |
| Cash flow | 130 | -102 | -22 | 23 | 423 | -551 | 438 | 62 | 69 |
| Effect of exchange rate changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net debt / cash (ex IFRS 16) | 1 755 | 2 162 | 2 133 | 1 786 | 1 121 | 609 | 490 | 428 | 359 |
| Net debt / cash (incl. IFRS 16) | 1 755 | 2 162 | 2 142 | 2 549 | 1 777 | 1 239 | 1 058 | 996 | 927 |

Source: EPB

Balance sheet

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | | | | |
| Goodwill | 1 436 | 1 576 | 1 634 | 1 669 | 1 599 | 1 644 | 1 735 | 1 735 | 1 735 |
| Other intangible assets | 161 | 176 | 173 | 168 | 144 | 112 | 97 | 81 | 67 |
| Property, plant & equipment | 865 | 945 | 939 | 1 606 | 1 367 | 1 366 | 1 359 | 1 417 | 1 475 |
| Financial fixed assets | 107 | 113 | 109 | 115 | 107 | 135 | 116 | 116 | 116 |
| Associates | 0 | 0 | 0 | 15 | 12 | 11 | 10 | 10 | 10 |
| Other fixed assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total fixed assets | 2 569 | 2 810 | 2 855 | 3 573 | 3 229 | 3 268 | 3 317 | 3 358 | 3 403 |
| Inventories | 1 036 | 1 174 | 1 019 | 926 | 698 | 1 176 | 1 458 | 1 531 | 1 585 |
| Accounts receivable | 1 100 | 1 154 | 945 | 876 | 755 | 1 372 | 1 477 | 1 551 | 1 605 |
| Other current assets | 206 | 234 | 274 | 219 | 145 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 404 | 285 | 271 | 302 | 692 | 208 | 668 | 730 | 799 |
| Total current assets | 2 746 | 2 847 | 2 509 | 2 323 | 2 290 | 2 756 | 3 604 | 3 813 | 3 990 |
| Total assets | 5 315 | 5 657 | 5 364 | 5 896 | 5 519 | 6 024 | 6 921 | 7 171 | 7 393 |
| Equity and liabilities | | | | | | | | | |
| Equity | 1 512 | 1 664 | 1 598 | 1 748 | 1 607 | 2 654 | 2 995 | 3 178 | 3 349 |
| Non-controlling interest | 122 | 120 | 128 | 128 | 118 | 128 | 155 | 158 | 161 |
| Equity and non-controlling interest | 1 634 | 1 784 | 1 726 | 1 876 | 1 725 | 2 782 | 3 150 | 3 336 | 3 510 |
| Long-term financial debt | 1 019 | 1 487 | 1 645 | 1 297 | 697 | 1 067 | 1 087 | 1 087 | 1 087 |
| Postretirement benefits reserves | 32 | 32 | 38 | 40 | 29 | 0 | 0 | 0 | 0 |
| Deferred income tax liabilities | 77 | 72 | 54 | 48 | 41 | 45 | 45 | 45 | 45 |
| Other long-term obligations | 217 | 39 | 29 | 652 | 557 | 630 | 712 | 712 | 712 |
| Total long-term liabilities | 1 345 | 1 630 | 1 766 | 2 037 | 1 324 | 1 742 | 1 844 | 1 844 | 1 844 |
| Short-term financial debt | 1 119 | 928 | 724 | 751 | 1 088 | 380 | 639 | 639 | 639 |
| Accounts payable | 641 | 676 | 619 | 627 | 621 | 519 | 597 | 627 | 649 |
| Income taxes payable | 68 | 51 | 40 | 19 | 43 | 0 | 0 | 0 | 0 |
| Other current liabilities | 508 | 588 | 489 | 586 | 718 | 601 | 691 | 725 | 750 |
| Total current liabilities | 2 336 | 2 243 | 1 872 | 1 983 | 2 470 | 1 500 | 1 927 | 1 991 | 2 039 |
| Total equity and liabilities | 5 315 | 5 657 | 5 364 | 5 896 | 5 519 | 6 024 | 6 921 | 7 171 | 7 393 |

Source: EPB

Growth and margins

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales growth | 4% | 18% | -5% | 1% | -12% | 17% | 12% | 7% | 3% |
| EBIT growth, adjusted | -26% | 20% | -60% | -13% | -28% | 236% | -17% | 7% | 12% |
| EPS growth, adjusted | -31% | 16% | -78% | -1% | -100% | n/a | -11% | 31% | 12% |
| Gross margin | 27,6% | 28,7% | 26,7% | 26,8% | 26,6% | 26,9% | 26,3% | 27,0% | 27,0% |
| EBITDA margin | 8,9% | 10,0% | 6,2% | 8,8% | 7,1% | 8,0% | 7,8% | 7,9% | 8,3% |
| EBIT margin | 6,9% | 7,1% | 3,0% | 2,8% | 2,1% | 6,2% | 4,7% | 4,7% | 5,1% |
| Tax rate | 28% | 24% | 38% | 31% | 31% | 34% | 27% | 23% | 23% |

Source: EPB

Capital efficiency

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|------|------|------|------|------|------|-------|-------|-------|
| ROE, adjusted | 16% | 18% | 4% | 4% | 0% | 10% | 7% | 9% | 9% |
| ROCE, adjusted | 17% | 14% | 5% | 5% | 3% | 11% | 7% | 7% | 8% |
| ROIC | 9% | 10% | 4% | 5% | 2% | 5% | 5% | 6% | 6% |
| Investments | 192 | 213 | 152 | 164 | 45 | 93 | 108 | 142 | 147 |
| Investments / sales | 4% | 3% | 3% | 3% | 1% | 1% | 2% | 2% | 2% |
| Selling and administrative expenses / sales | 21% | 22% | 24% | 24% | 24% | 23% | 23% | 22% | 22% |
| Inventories / sales | 19% | 18% | 17% | 15% | 13% | 19% | 21% | 20% | 20% |
| Accounts receivable / sales | 20% | 18% | 16% | 14% | 14% | 22% | 21% | 21% | 21% |
| Accounts payable / sales | 12% | 11% | 10% | 10% | 12% | 8% | 9% | 8% | 8% |
| Net working capital / sales | 21% | 19% | 18% | 14% | 7% | 23% | 23% | 23% | 23% |
| Capital turnover | 1,3x | 1,2x | 1,1x | 1,1x | 0,9x | 1,1x | 1,1x | 1,1x | 1,1x |

Source: EPB

Financial position

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Net debt | 1 755 | 2 162 | 2 142 | 2 549 | 1 777 | 1 239 | 1 058 | 996 | 927 |
| Equity ratio | 31% | 32% | 32% | 32% | 31% | 46% | 46% | 47% | 47% |
| Net debt to equity | 107% | 121% | 124% | 136% | 103% | 45% | 34% | 30% | 26% |
| Net debt / EBITDA | 3,6x | 3,4x | 5,8x | 4,8x | 4,7x | 2,5x | 1,9x | 1,7x | 1,4x |

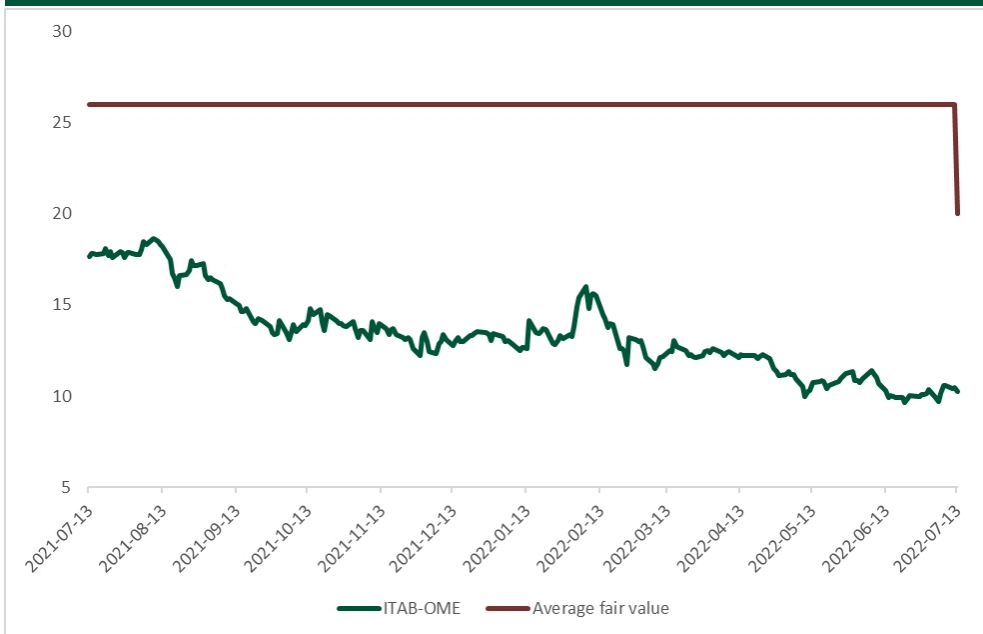
Source: EPB

Per share data

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| EPS, reported | 2,3 | 3,0 | 0,9 | 1,2 | -0,2 | 0,5 | 0,8 | 1,2 | 1,4 |
| EPS, adjusted | 2,3 | 2,7 | 0,6 | 0,6 | 0,0 | 1,1 | 0,9 | 1,2 | 1,4 |
| FCF per share | 2,0 | -0,2 | 3,4 | 1,8 | 6,3 | -2,0 | 0,8 | 0,7 | 0,9 |
| Dividend per share | 1,8 | 1,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,4 | 0,6 | 0,7 |
| Equity per share | 14,8 | 16,3 | 15,6 | 17,1 | 15,7 | 12,2 | 13,7 | 14,6 | 15,4 |
| Fully diluted number of shares by year-end (m) | 102,4 | 102,4 | 102,4 | 102,4 | 102,4 | 218,1 | 218,1 | 218,1 | 218,1 |

Source: EPB

Average fair value and share price



Source: Factset, EPB

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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