

Penser Access | Commercial Services & Supplies | Sweden | 14 November 2022

Loudspring (Eagle Filters Group)

Eagle Filters accelerates

Eagle Filters ready for continued expansion

Eagle Filters generated revenues of EUR 2.6 m for the first three quarters of the year, corresponding to 10% growth y/y. Although there are still some bottlenecks related to materials supply, logistics and working capital, Loudspring has assessed Eagle Filters' underlying market as strong at present. Eagle Filters also made it possible during the quarter to secure bank financing by paying in full all debt related to the corporate restructuring programme.

Q3 revenues

In our assessment, the company still has the potential to achieve revenues within Eagle Filters within the range of its targets for 2022, of EUR 4.5–6.0 m. Considering current production capacity and limitations relating to other bottlenecks, we believe the company has the potential to achieve the lower end of the range. Ahead of 2023, we are optimistic that Eagle Filters will be able to secure working capital and capitalise on the strong underlying market.

Valuation


We are adjusting our revenue estimate to reflect order intake after the quarter and the order book at the end of Q3. We are adjusting down for this year, but raising the estimate for 2023-2024. We are also adjusting the balance sheet to reflect the capital raise in Q3. We are raising our fair value to EUR 0.16 – 0.17 (0.14 - 0.15).

Estimate change (€)				
	22e	Δ%	23e	Δ%
EBITDA, adj.	-1	0,0	-1	0,0
EPS, adj.	0,0	14,7	0,0	22,4
Upcoming events				
Q4 - report	Not published			
Company facts (€ m)				
Number of shares	100m			
Market capitalization	8			
Net debt	2			
EV	8			
Free float	66%			
Daily trading volume, average	4k			
Bloomberg Ticker	LOUDS SS EQUITY			
Analyst				
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Forecast (€ m)				
	2021	2022e	2023e	2024e
EBITDA, adj.	-1	-1	-1	-1
EBIT, adj.	-1	-1	-1	-1
EPS growth	17%	85%	N.m.	N.m.
BV/share	0,2	0,1	0,1	0,1
EV/Sales	78,9x	74,6x	82,1x	90,1x
P/BV	0,9x	0,7x	0,7x	0,8x
Net debt / EBITDA	-7,8x	-4,5x	-5,8x	-7,2x

Value and risk	
Fair value	EUR 0,16 – 0,17
Share price	SEK 1,0
Risk level	Medel

Price Performance 12 months



Conflicts of interest		
	Yes	No
Liquidity provider		✓
Certified adviser	✓	
Transactions 12m		✓

Investment case

Loudspring (holding company of Eagle Filters) initiated a strategic transformation in 2021, by which the company transitioned from investment firm focused on green growth companies to one focused around a core in Eagle Filters. As a result, all other assets are subject to sale in order to ensure a strong financial position for Eagle Filters. Loudspring owns 100% of Eagle Filters and minority interests in several other smaller companies.

Eagle Filters

Eagle Filters manufactures high-performance gas turbine filters for gas-fired power plants that deliver large savings to the customer with a very short payback period. Following the outbreak of the Covid-19 pandemic in 2020, the company adapted its operations to begin manufacturing respirators supported by its filter expertise. The company reported revenue of EUR 2.9 m in 2021 with EBITDA of EUR -2.4 m. Loudspring's ownership stake is 100%.

Enersize

Enersize offers software-based analysis tools for energy optimisation of compressed air systems. The company reported revenue of EUR 0.2 m in 2021 with EBIT of EUR -1.9 m. Enersize is listed on Nasdaq First North and Loudspring's ownership stake is 4.2%.

Nuuka Solutions

Nuuka Solutions offers cloud-based building performance solutions to large property managers, cities, and retail chains. The addressable market is very large, and the business model is scalable. The company reported revenue of EUR 1.4 m in 2021 with EBITDA of EUR -1.4 m. Loudspring's ownership stake is 24.2%. Other partners include YIT Ventures.

Sofi Filtration

Sofi Filtration specialises in industrial water purification, offering a self-cleaning automated micro-filtration system that uses a cross-flow filtration technique for cost-effective filtration of large quantities of water. The company reported revenue of EUR 0.1 m in 2021 with EBITDA of EUR -0.4 m. Loudspring's ownership stake is 19.6%. Other partners include Emerald Technology Ventures.

Other, smaller holdings include Aurelia Turbines, Metgen, Sansox and Swap.com.

Valuation

Fair value per share is calculated at EUR 0.16 using a sum of the parts model (SOTP) based on estimates for the unlisted portfolio companies and with listed holdings measured at market value. We see a medium risk, primarily because the portfolio companies are still small and have generally not achieved stable profitability, which means additional financing needs may arise in the companies and in Loudspring centrally. We note that the company owns only minor stakes in Nuuka Solutions, Sofi Filtration and Enersize. Accordingly, there is no immediate need for the company to assist in connection with capital raises in the subsidiaries, which reduces the risk.

The quarter in detail

Loudspring's transformation to a company that revolves around the core holding, Eagle Filters, continued in Q3 and after the end of the quarter, Loudspring announced that the name of the company will be changed to Eagle Filters Group Oyj. The core business of the company is now manufacture and sale of industrial gas turbine filters and respirators. The revenue forecast for 2022 is in the range of EUR 4.5–6.0 m.

Revenue for Eagle Filters was EUR 2.6 m in Q3, corresponding to growth of 9% y/y. The order book for Q3 amounted to EUR 1.4 m and Loudspring reports a strong underlying market for the company's products. Loudspring secured funding during the quarter through a directed share issue of EUR 1.5 m.

We believe Eagle Filters is positioned for accelerating growth. With improved opportunity to build up working capital and expanded production capacity, we believe Eagle Filters will be able to capitalise on the strong underlying market in the next period.

Loudspring announced after the end of the quarter that Eagle Filters has received an order worth EUR 2.8 m, equating to about SEK 30 m. The order will show up in the order book for Q4. Delivery will also begin in Q4 and is expected to be completed in 2023. The total order value of about EUR 2.8 m should be considered in relation to total revenue of 2.6 m during Q1-Q3.

Estimate changes

Our estimate changes for the portfolio companies are summarised below. We are choosing primarily to adjust our revenue estimate for Eagle Filters to reflect the strong order and expectations for the company's continued negotiations with other customers. The net effect is that we are adjusting our estimate for 2022 downward, where our current view is that Eagle Filters can achieve revenues of EUR 4.5 m, which is at the lower end of the company's own target range. After we add the order for EUR 2.8 m, the net effect thus becomes an increase of the revenue estimate for 2023–2024. Margin targets remain unchanged for 2023–2024.

Estimate changes			
Current estimates	2022e	2023e	2024e
Eagle Filters: Sales	6,1	7,3	8,7
Eagle Filters: EBITDA	0,6	1,1	1,7
Nuuka Solutions: Sales	1,8	2,1	2,5
Nuuka Solutions: EBITDA	-0,1	0,1	0,2
Sofi Filtration: Sales	0,6	0,7	0,7
Sofi Filtration: EBITDA	0,0	0,0	0,1
Previous estimates	2022e	2023e	2024e
Eagle Filters: Sales	6,9	8,3	10,0
Eagle Filters: EBITDA	0,7	1,3	2,0
Nuuka Solutions: Sales	2,3	2,7	3,2
Nuuka Solutions: EBITDA	-0,1	0,1	0,2
Sofi Filtration: Sales	1,5	1,6	1,7
Sofi Filtration: EBITDA	0,2	0,2	0,2
Changes %	2022e	2023e	2024e
Eagle Filters: Sales	-13%	-13%	-13%
Eagle Filters: EBITDA	-14%	-16%	-13%
Nuuka Solutions: Sales	-22%	-22%	-22%
Nuuka Solutions: EBITDA	0%	0%	0%
Sofi Filtration: Sales	-60%	-58%	-56%
Sofi Filtration: EBITDA	-100%	-79%	-56%

Source: EPB, Loudspring

Source: EPB

Valuation

Our valuation method is summarised below. We apply EV/Sales for 2024 of 2.2x for Eagle Filters (1.9x), driven by an improved financial position that enables the company to capitalise on the underlying market. We apply EV/Sales for 2024 of 6x for Nuuka Solutions and 6.5x for Sofi Filtration. Our sum-of-the-parts model indicates a fair value of EUR 0,16 per share, and our DCF model generates a fair value of EUR 0,13 per share. All aspects considered, we arrive at a fair value of EUR 0.16-0.17 per share (0.14-0.15).

SOTP valuation

Core holdings	EV/Sales 2024e	Equity value 100%	Loudspring stake	Value to Loudspring
Eagle Filters	2,2x	18,1	100%	18,1
Enersize (@ mkt cap)	n/a	1,6	4%	0,1
Nuuka Solutions	6,0x	17,5	24%	3,7
Sofi Filtration	6,5x	2,4	20%	0,6
Sub-total				22,4
Other holdings				0,0
Gross asset value				22,4
Net (debt) / cash + Additional capital requirement				(1,4)
Holding company costs*				(4,8)
Net asset value				16,2
Outstanding shares (million)				100,2
NAV per share (EUR)				0,16

*Calculated as 5x annualized OPEX

Source: EPB

	EV/Sales Eagle Filters (x)				
	1,8	2,0	2,2	2,4	2,6
Fair value per share Eagle Filters Group (EUR)	0,14	0,15	0,16	0,17	0,18

Source: EPB

Peer group

		EV/EBIT (x)				
		2021	2022	2023	2024	2025
DCI-US	Donaldson Company, Inc.	20,3	16,5	13,1	13,2	12,4
301081-CN	Yanpai Filtration Technology Co. Ltd. Cla:	22,7	N/A	N/A	N/A	N/A
PH-US	Parker-Hannifin Corporation	17,5	11,6	13,2	12,4	11,2
Avg.		20,2	14,0	13,2	12,8	11,8

		EV/Sales (x)				
		2021	2022	2023	2024	2025
DCI-US	Donaldson Company, Inc.	3,1	2,2	2,0	2,0	1,9
301081-CN	Yanpai Filtration Technology Co. Ltd. Cla:	3,05	N/A	N/A	N/A	N/A
PH-US	Parker-Hannifin Corporation	3,05	2,3	2,5	2,4	2,2
Avg.		3,1	2,3	2,3	2,2	2,1

Source: Factset

DCF model

Below is a summary of our DCF model. Key assumptions include a portfolio exit after 2025 and a discount rate of 13.1%. The discount rate is set based on risk-free interest of 2.5%, a risk premium of 5.5% and an additional risk premium of 6%. Eagle Filters have a relatively high recurring revenue ratio, which reduces the risk of revenue churn. However, the market risk is related to factors including the company's potential to generate new capital injections, should such be on the cards in the future. Overall, we see a discount rate of 13.1%.

Valuation output	
Sum of PV of FCF (explicit period)	16 160,3
PV of terminal value (perpetuity formula)	0
Enterprise value	16 160
Latest net debt	2 884
Minority interests & other	0
Equity value	13 276
No. of shares outstanding (millions)	100
Equity value per share (EUR)	0,13

Source: EPB

WACC assumptions	
Risk free nominal rate	2,5%
Risk premium	5,5%
Extra risk premium	6,0%
Beta	1,0
Cost of equity	14,0%
Cost of debt (pre-tax)	3,0%
Tax rate	22%
Target debt/(debt + equity)	8%
WACC	13,1%

Terminal value assumptions	
Long term growth rate	3,0%
Long term EBIT margin	9,0%
Depreciation (% of sales)	2,0%
Capex (% of sales)	2,0%
Working cap. (% of sales)	-2,6%
Tax rate	22%

Sensitivity analysis

		Long-term growth rate				
		2,0%	2,5%	3,0%	3,5%	4,0%
WACC	12,1%	0,135	0,135	0,135	0,135	0,135
	12,6%	0,134	0,134	0,134	0,134	0,134
	13,1%	0,132	0,132	0,132	0,132	0,132
	13,6%	0,131	0,131	0,131	0,131	0,131
	14,1%	0,130	0,130	0,130	0,130	0,130
		Long-term EBIT margin				
		4,0%	6,5%	9,0%	11,5%	14,0%
WACC	12,1%	0,135	0,135	0,135	0,135	0,135
	12,6%	0,134	0,134	0,134	0,134	0,134
	13,1%	0,132	0,132	0,132	0,132	0,132
	13,6%	0,131	0,131	0,131	0,131	0,131
	14,1%	0,130	0,130	0,130	0,130	0,130

Source: EPB

Income statement								
	2017	2018	2019	2020	2021	2022e	2023e	2024e
Other operating costs	-1	-2	-1	-1	-1	-1	-1	-1
EBITDA	-1	-2	-1	-1	-1	-1	-1	-1
EBITDA, adjusted	-1	-2	-1	-1	-1	-1	-1	-1
EBITA, adjusted	(1)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
EBIT	-1	-2	-1	-1	-1	-1	-1	-1
EBIT, adjusted	-1	-2	-1	-1	-1	-1	-1	-1
Net financial items	0	-2	-3	-1	-1	1	0	0
Profit before tax	-2	-4	-4	-1	-2	0	-1	-1
Profit before tax, adjusted	-2	-4	-4	-1	-2	0	-1	-1
Net income	-2	-4	-4	-1	-2	0	-1	-1
Net income, adjusted	-2	-4	-4	-1	-2	0	-1	-1

Source: Loudspring, EPB

Cash flow statement								
	2017	2018	2019	2020	2021	2022e	2023e	2024e
EBIT	-1	-2	-1	-1	-1	-1	-1	-1
Other Cash flow Items	0	(2)	(3)	(1)	(1)	1	0	0
Cash flow from operating activities	-1	-4	-4	-1	-2	0	-1	-1
Other items	0	0	-1	0	-2	-1	0	0
Free cash flow	-2	-7	-6	-6	-3	-1	-1	-1
New share issue / repurchase	5	0	1	5	1	3	0	0
Changes in debt	0	2	2	0	1	0	2	0
Cash flow	3	-5	-3	0	-1	1	1	-1
Net debt	-3	1	3	3	5	4	5	7

Source: Loudspring, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022e	2023e	2024e
ASSETS								
Financial assets	0	1	2	5	6	6	6	6
Other fixed assets	0	0	1	1	0	0	0	0
Total fixed assets	20	11	8	13	12	10	10	10
Other current assets	1	1	2	0	4	6	6	6
Cash and cash equivalents	4	0	0	1	0	1	1	0
Total current assets	5	2	2	1	4	7	8	7
TOTAL ASSETS	25	13	11	14	15	17	18	16
EQUITY AND LIABILITIES								
Equity	23	11	7	10	9	12	10	9
Total equity	23	11	7	10	9	12	10	9
Long-term interest-bearing liabilities	0	1	3	3	4	4	6	6
Total long-term liabilities	2	1	3	3	4	4	6	6
Short-term interest-bearing liabilities	0	1	1	1	2	1	1	1
Other current liabilities	0	0	0	0	1	0	0	0
Total current liabilities	1	1	1	1	2	1	1	1
TOTAL EQUITY AND LIABILITIES	25	13	11	14	15	17	18	16

Source: Loudspring, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Revenue growth	-	>100%	>100%	N.m.	N.m.	N.m.	0%	0%
EBITDA growth, adjusted	-	N.m.	50%	5%	15%	N.m.	0%	0%
EBIT growth, adjusted	-	N.m.	49%	13%	18%	N.m.	0%	0%
EPS growth, adjusted	-	N.m.	N.m.	72%	17%	85%	N.m.	N.m.
Gross margin	Neg.	Neg.	61,1%	93,5%	58,3%	98,5%	98,5%	98,5%
EBITDA margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBITDA margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Loudspring, EPB

Return

	2017	2018	2019	2020	2021	2022e	2023e	2024e
ROE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Loudspring, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Accounts payable / COGS	>100%	58%	63%	>100%	24%	>100%	>100%	>100%
Total short-term liabilities / total cost	58%	45%	96%	>100%	>100%	95%	95%	95%
Working capital / total revenue	>100%	>100%	>100%	25%	>100%	>100%	>100%	>100%
Capital turnover rate	0,0x	0,0x	0,0x	0,0x	0,0x	0,0x	0,0x	0,0x

Source: Loudspring, EPB

Financial position

	2017	2018	2019	2020	2021	2022e	2023e	2024e
Net debt	-3	1	3	3	5	4	5	7
Equity ratio	91%	86%	63%	71%	61%	69%	59%	56%
Net debt / equity	-0,1x	0,1x	0,5x	0,3x	0,5x	0,4x	0,5x	0,7x
Net debt / EBITDA	2,9x	-0,9x	-3,7x	-4,1x	-7,8x	-4,5x	-5,8x	-7,2x

Source: Loudspring, EPB

Per share data

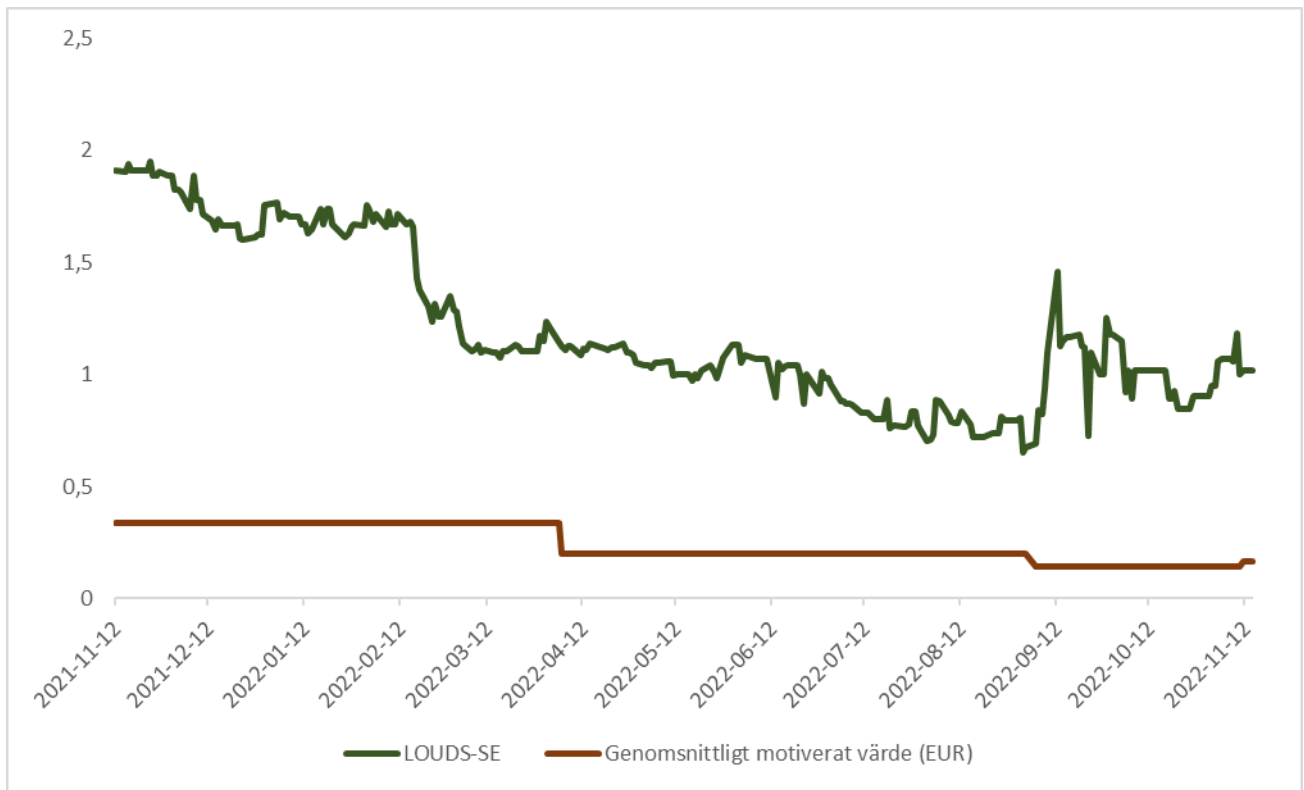
	2017	2018	2019	2020	2021	2022e	2023e	2024e
EPS	-0,06	-0,14	-0,16	-0,04	-0,04	-0,01	-0,01	-0,01
EPS, adjusted	-0,06	-0,14	-0,16	-0,04	-0,04	-0,01	-0,01	-0,01
FCF per share	-0,10	-0,27	-0,21	-0,17	-0,07	-0,01	-0,01	-0,01
Book value per share	0,90	0,41	0,25	0,28	0,18	0,12	0,10	0,09
Number of shares, m	25,3	26,7	26,7	36,9	52,7	100	100	100
Number of shares after dilution, average	24,2	26,0	26,7	31,8	44,8	76,5	100	100

Source: Loudspring, EPB

Valuation

	2017	2018	2019	2020	2021	2022e	2023e	2024e
P/E, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/BV	2,6x	0,8x	1,2x	1,5x	0,9x	0,7x	0,7x	0,8x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
FCF-yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	1 995,7x	141,0x	54,7x	124,5x	78,9x	74,6x	82,1x	90,1x
EV/EBITDA, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EV	58	10	11	23	14	12	13	14
Share price, year end	2,3	0,3	0,3	0,4	0,2	0,1	0,1	0,1

Source: Loudspring, EPB



Source: EPB, Factset

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