



ERIK PENSER BANK

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BTS Group

Growth below our year end estimate but solid profitability in the quarter

Weak growth in the quarter

Net sales reached SEK 703m in Q2, representing growth of 6%, although unchanged when adjusted for FX. We have assumed 12% growth for the full year. The weak organic growth was caused by the concerns previously seen in the US market – chiefly among tech companies – having spread to Europe and some other markets. EBITA for Q2 came in at SEK 106m, suggesting a margin of 15.1%. For the full year, we have forecast EBITA of SEK 350m and a margin of 12.3%. The quarter's solid margin offers proof that the initiatives BTS has taken to increase profitability are bearing fruit. Based on the uncertain development in the quarter, the company has lowered its guidance to 2023 ending in line with 2022 (previously: 2023 to be a better year than 2022).

Strong history justifies premium valuation

Since its listing in 2001 BTS has seen currency-adjusted growth of 13% on average, while EBITA has grown by 16% over the same period. Given BTS's status as the leader in a fragmented market, we expect this growth to continue. Over the past two years, the margin has improved versus the historical average, leading to an increase in return on equity. Thanks to its strong past, we consider DCF the best valuation method for the company.

Q2 profitability demonstrates BTS's strength

Based on the uncertain economic situation, we lower our revenue estimates for BTS by 3.9% on average across our forecast period. Prompted by the updated guidance, we reduce our 2023 EPS estimate by 6%. We believe, however, that growth will pick up again in 2024–2025, meaning we only lower our revenue estimates for those years by 3.7% and our EPS estimates for the same years by an average of 4.1%. We have previously highlighted the low volatility in BTS's EBITA margin as one of the company's strengths, as confirmed by the Q2 report. We leave our fair value unchanged.

Change in estimates			Forecast (SEK m)				Value and risk														
	23e	24e	25e	2022	2023e	2024e	2025e	Fair value	SEK 370 - 380												
Total revenue	-4,5%	-4,1%	-3,2%	2 530	2 715	3 089	3 398	Share price	SEK 275												
EBITDA, adj.	-4,1%	-2,3%	-3,7%	Revenue growth	29%	7%	14%	10%	Risk level	Medium											
EPS, adj.	-6,0%	-3,2%	-4,9%	EBITDA, adj.	420	411	494	552	<div style="background-color: #004a99; color: white; padding: 5px; text-align: center;">Price Performance 12 months</div>												
<div style="background-color: #004a99; color: white; padding: 5px;">Upcoming events</div>			EBIT, adj.	303	288	374	432														
			EPS, adj.	10,2	10,3	12,5	14,9														
Q3 - report	10 November 2023		EPS growth, adj.	20%	1%	22%	19%														
Q4 - report	14 February 2024		Dividend per share	5,4	5,5	6,5	7,8														
<div style="background-color: #004a99; color: white; padding: 5px;">Company facts (SEK m)</div>			EBIT margin	12,0%	10,6%	12,1%	12,7%														
			ROE, adj.	18,0%	15,8%	17,6%	19,0%														
Number of shares	19m		ROCE, adj.	27,6%	22,9%	27,2%	28,3%														
Market capitalization	5 173		EV/Sales	2,0x	1,9x	1,6x	1,5x														
Net debt	-113		EV/EBITDA	12,0x	12,3x	10,3x	9,2x														
EV	5 060		EV/EBIT	16,7x	17,5x	13,5x	11,7x														
Free float	81%		P/E, adj.	28,5x	26,0x	21,3x	17,9x	<div style="background-color: #004a99; color: white; padding: 5px;">Conflicts of interest</div> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Transactions 12m</td> <td></td> <td style="text-align: center;">✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser		✓	Transactions 12m		✓
	Yes	No																			
Liquidity provider		✓																			
Certified adviser		✓																			
Transactions 12m		✓																			
Daily trading volume, average	6k		Dividend yield	1,9%	2,1%	2,4%	2,9%														
Bloomberg Ticker	BTSB SS EQUITY		FCF yield	2%	2%	8%	6%														
<div style="background-color: #004a99; color: white; padding: 5px;">Analyst</div>			Net debt / EBITDA	-1,4x	-1,4x	-1,8x	-1,9x														
Rikard Engberg																					
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Investment case

BTS is the market leader in simulation and implementation of business strategies. Since its IPO in 2001, the company has bolstered its currency-adjusted turnover by around 13% each year, while its EBITA has risen by 16% annually. This outstrips the management consulting industry as a whole at 6–8% over the same period. We believe this is explained by three facets: 1) BTS has built a loyal client base over the years, with some 80% of revenues now stemming from previous customers. This has led the company to successful and maintained growth in profitability even in turbulent times, distinguishing BTS from other listed consulting firms. 2) It has succeeded when complementing its business with acquisitions. 3) Historically, it has shown especially high employee satisfaction – thanks to an entrepreneurial, results-oriented, and robust culture of engagement – and this is an essential element in sustaining high growth.

Company profile

BTS, a consultancy firm within strategy implementation, has, since its IPO in 2001, shown an impressive performance in both turnover and profits. The company's principal product is training programmes (63% of 2022 turnover). These programmes simulate strategies and decision-making for much of an organisation. One example is a project that a software industry client rolled out in Q4 2022, allowing 30,000 salespeople to participate in a simulation programme. During the pandemic, BTS was able to reorganise its deliveries from a focus on physical products to virtual and digital services, confirming the company's strong culture and its ability to adapt. Beyond its high organic growth, BTS has also proven its ability to implement change.

Over the past ten years, BTS has reported ROE of 17% on average – among the highest of the consultancy firms we have looked at listed on the Stockholm stock exchange. In addition to having one of the highest ROEs among the companies we cover, it also boasts the lowest volatility in ROE, which we believe justifies a premium over other Swedish consulting companies. We believe its low ROE volatility can be attributed to its services being sought-after in most economic climates and as it relies on repeat customers that, in times of crisis, invest in simulations and implementation of new strategies.

BTS is a global company with some 1,200 employees. Its key market is North America, accounting for around 50% of turnover in 2022. Europe accounts for 18% of turnover. Other markets represent 26%. This global presence is a consequence of the smaller acquisitions BTS has carried out in the years before its IPO. We believe its geographical coverage also contributes to the low volatility in its turnover and profits.

Valuation

Given the stable cash flows in BTS, we have chosen to value the share using a DCF model. Our DCF suggests a valuation of SEK 370–380, and we currently see healthy support for the share price thanks to expanding dividends. We consider the main share price triggers to be new, smaller acquisitions that strengthen the company's organic growth

The quarter in detail

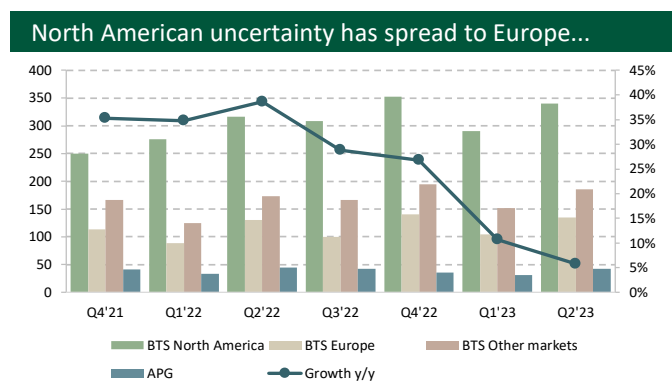
BTS North America: Revenues reached SEK 340m in the quarter, suggesting currency-adjusted growth of 1%. Uncertainty persists in the tech sector, but this is offset by robust demand from the financial services, energy, and biotech/pharma sectors, among others. EBITA reached SEK 49.4m in Q2, suggesting a margin of 14.5%. We thus believe the company's initiatives to strengthen its profitability are bearing fruit.

BTS Europe: Net sales came in at SEK 135m for Q2, implying currency-adjusted growth of -2%. Q2 EBITA was SEK 25.4m, representing a margin of 18.8%. We believe the margin will strengthen during H2, primarily in Q4, thanks to efficiency initiatives taken during the year.

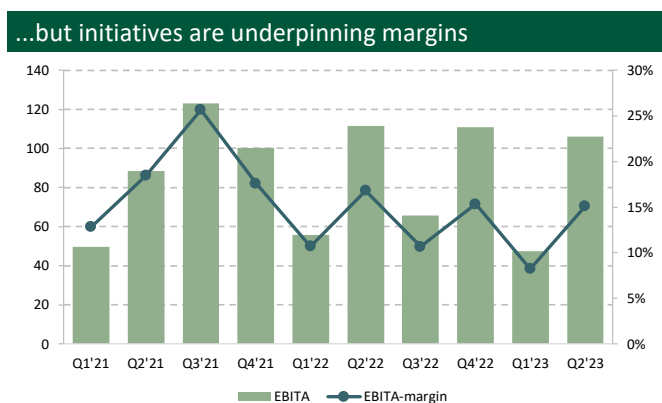
BTS Other Markets: Net sales reached SEK 186m, suggesting currency-adjusted growth of 4%. The growth was driven by the Middle East, South Africa, and South East Asia. EBITA came in at SEK 28.6m in Q2, suggesting a margin of 15.4%. The increased focus on operational streamlining and sharing of expertise had a positive effect on the margin. We believe these initiatives will bolster the margin further.

APG: Net sales reached SEK 42m in the quarter, representing currency-adjusted growth of -13%. EBITA came in at SEK 1.1m, corresponding to a margin of 2.5%.

Despite the weak development in net sales in Q2, we believe the numbers confirm the robust nature of BTS's business. We expect it to come out of this temporary dip in demand with higher profitability than before given its current initiatives. We thus anticipate margin expansion.



Source: Company



Source: Company

Estimate changes

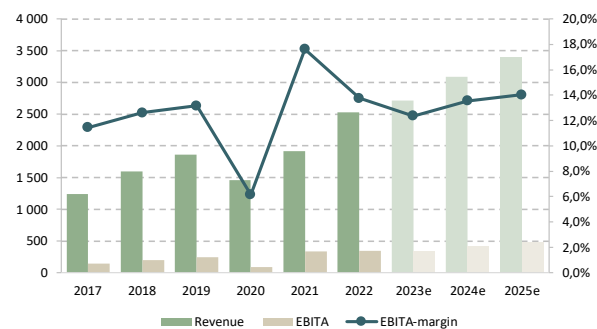
Prompted by the reduced full-year guidance, we lower our revenue estimate by 4.5% for 2023 and our EPS by 6%. As BTS is still securing customers and taking market share, we make only marginal amendments to our 2024–2025 revenue forecasts, lowering them by 3.7% on average. We believe the company's initiatives this year will contribute to solid long-term profitability, meaning we only adjust our EPS estimates by -4.1%.

We expect BTS to undergo a recovery in its growth in the coming years...



Källa: EPB

...while the initiatives taken this year will bolster the margin towards the financial targets



Källa: EPB

Valuation

Given BTS's history of robust organic growth and low margin volatility, we consider DCF the best valuation approach. Our DCF model suggests a fair value of SEK 370–380. We note that the share currently trades at a discount on historical average EV/EBITDA NTM of around 12% compared with its five-year average.

DCF valuation

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	3 275	Risk free nominal rate	2,5%	Long term growth rate	2,0%
PV of terminal value (perpetuity formula)	3 782	Risk premium	5,5%	Long term EBIT margin	15,0%
Enterprise value	7 058	Small cap premium	0,0%	Depreciation (% of sales)	5,0%
Latest net debt	-113	Extra risk premium	1%	Capex (% of sales)	5,0%
Minority interests & other	0	Cost of equity	8,5%	Working cap. (% of sales)	3,5%
Equity value	7 171	Cost of debt (pre-tax)	0,0%	Tax rate	22%
No. of shares outstanding (millions)	19	Tax rate	0%		
Equity value per share	370	Target debt/(debt + equity)	10%		
		WACC	8,5%		

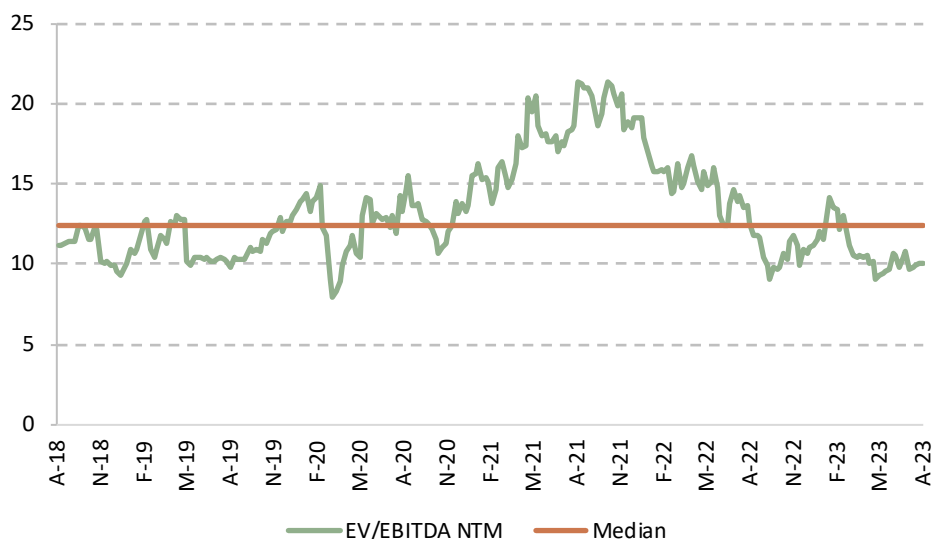
Sensitivity analysis

Sensitivity analysis

		Long-term growth rate					Long-term EBIT margin						
		1,0%	1,5%	2,0%	2,5%	3,0%			10,0%	12,5%	15,0%	17,5%	20,0%
WACC	7,5%	389	412	439	472	511	WACC	7,5%	321	380	439	498	558
	8,0%	360	380	402	428	460		8,0%	297	349	402	454	507
	8,5%	335	351	370	392	417		8,5%	276	323	370	417	464
	9,0%	313	327	343	361	382		9,0%	258	301	343	385	427
	9,5%	294	306	319	335	352		9,5%	243	281	319	358	396

Källa:EPB

Currently trading at a discount versus historically



Källa:

Income statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	1 243	1 598	1 865	1 464	1 917	2 530	2 715	3 089	3 398
Other operating income	0	0	0	0	49	0	0	0	0
Total revenue	1 243	1 598	1 865	1 464	1 966	2 530	2 715	3 089	3 398
Gross profit	1 243	1 598	1 865	1 464	1 966	2 530	2 715	3 089	3 398
Other Operating Expenses	-1 092	-1 384	-1 554	-1 309	-1 557	-2 110	-2 305	-2 596	-2 847
EBITDA	151	214	311	155	408	420	411	494	552
EBITDA, adjusted	151	214	311	155	408	420	411	494	552
Depreciation	-9	-12	-66	-65	-71	-72	-75	-75	-75
EBITA, adjusted	142	202	245	90	337	349	336	419	477
Amortization	-10	-18	-20	-26	-33	-46	-47	-45	-45
EBIT	132	183	226	65	305	303	288	374	432
EBIT, adjusted	132	183	226	65	255	303	288	374	432
Net Financial Items	-1	-4	-9	-14	-16	-14	-17	-22	-18
Profit before tax	131	180	216	51	289	289	272	352	414
Profit before tax, adjusted	131	180	216	51	239	289	272	352	414
Taxes	-33	-54	-66	-16	-74	-91	-72	-109	-124
Net income	98	126	151	35	215	198	199	243	289
Net income, adjusted	98	126	151	35	165	198	199	243	289
Sales Growth	-	29%	17%	-22%	34%	29%	7%	14%	10%
Gross Margin	100,0%	100,0%	100,0%	100,0%	>100%	100,0%	100,0%	100,0%	100,0%
EBIT Margin, Adjusted	10,7%	11,5%	12,1%	4,4%	13,3%	12,0%	10,6%	12,1%	12,7%
EPS, Adjusted	5,20	6,63	7,80	1,82	8,53	10,2	10,3	12,5	14,9
EPS Growth, Adjusted	-	28%	18%	-77%	>100%	20%	1%	22%	19%

Source: BTS Group, EPB

Cash flow statement

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	132	183	226	65	305	303	288	374	432
Other Cash flow Items	-33	-23	10	35	12	48	33	-11	-22
Changes in working capital	-1	-2	-18	143	-5	-152	-167	104	-71
Cash flow from operating activities	98	158	217	242	312	199	154	467	338
Investments in Fixed Assets	-18	-19	-	-12	-12	-61	-50	-50	-50
Investments in intangible fixed assets	0	0	-	-8	-7	0	0	0	0
Other Cash flow from investments	-63	-18	-38	-127	-163	-15	0	0	0
Cash Flow From Investments	-80	-37	-38	-148	-182	-76	-50	-50	-50
Free cash flow	18	121	180	95	130	123	104	417	288
New share issue / repurchase	-	6	23	-	-	-	-	-	-
Change in liabilities	101	-23	-	328	-79	-116	0	0	0
Dividends	-47	-53	-69	-69	-23	-93	-105	-107	-126
Other items	0	0	-86	-46	-58	0	0	0	0
Cash flow from financing	55	-71	-132	213	-161	-209	-105	-107	-126
Cash flow	73	50	47	307	-30	-85	0	310	162
Net debt	-200	-262	-316	-591	-594	-577	-577	-887	-1 050

Source: BTS Group, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS									
Goodwill	421	455	536	549	830	909	862	817	771
Other intangible assets	87	72	82	75	115	121	121	121	121
Tangible fixed assets	34	39	220	185	180	186	161	136	111
Financial assets	8	15	13	17	22	28	28	28	28
Total fixed assets	550	581	851	826	1 147	1 244	1 171	1 101	1 030
Accounts receivable	335	512	514	409	557	723	950	865	952
Other current assets	141	172	187	134	194	215	215	215	215
Cash and cash equivalents	200	262	316	591	594	577	577	887	1 050
Total current assets	676	947	1 018	1 134	1 345	1 515	1 742	1 967	2 216
TOTAL ASSETS	1 226	1 528	1 869	1 960	2 492	2 758	2 913	3 068	3 247
EQUITY AND LIABILITIES									
Equity	581	704	840	710	983	1 213	1 308	1 444	1 607
Total equity	581	704	840	710	983	1 213	1 308	1 444	1 607
Other long-term liabilities	305	284	364	431	543	543	543	543	543
Total long-term liabilities	305	284	364	431	543	543	543	543	543
Other current liabilities	341	540	665	820	966	1 003	1 063	1 081	1 097
Total current liabilities	341	540	665	820	966	1 003	1 063	1 081	1 097
TOTAL EQUITY AND LIABILITIES	1 226	1 528	1 869	1 960	2 492	2 758	2 913	3 068	3 247

Source: BTS Group, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	29%	17%	-22%	34%	29%	7%	14%	10%
EBITDA growth, adjusted	-	42%	45%	-50%	>100%	3%	-2%	20%	12%
EBIT growth, adjusted	-	39%	23%	-71%	>100%	19%	-5%	30%	16%
EPS growth, adjusted	-	28%	18%	-77%	>100%	20%	1%	22%	19%
Gross margin	100,0%	100,0%	100,0%	100,0%	>100%	100,0%	100,0%	100,0%	100,0%
EBITDA margin	12,1%	13,4%	16,7%	10,6%	21,3%	16,6%	15,1%	16,0%	16,2%
EBITDA margin, adjusted	12,1%	13,4%	16,7%	10,6%	21,3%	16,6%	15,1%	16,0%	16,2%
EBIT margin	10,7%	11,5%	12,1%	4,4%	15,9%	12,0%	10,6%	12,1%	12,7%
EBIT margin, adjusted	10,7%	11,5%	12,1%	4,4%	13,3%	12,0%	10,6%	12,1%	12,7%
Profit margin, adjusted	7,9%	7,9%	8,1%	2,4%	8,6%	7,8%	7,3%	7,9%	8,5%

Source: BTS Group, EPB

Return

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	20%	20%	5%	20%	18%	16%	18%	19%
ROCE, adjusted	Neg.	29%	29%	8%	30%	28%	23%	27%	28%
ROIC, adjusted	Neg.	45%	47%	20%	>100%	59%	42%	58%	77%

Source: BTS Group, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Accounts receivable / total revenue	27%	32%	28%	28%	28%	29%	35%	28%	28%
Total short-term liabilities / total cost	31%	39%	43%	63%	62%	48%	46%	42%	39%
Working capital / total revenue	11%	9%	2%	-19%	-11%	-3%	4%	0%	2%
Capital turnover rate	2,1x	2,3x	2,2x	2,1x	2,0x	2,1x	2,1x	2,1x	2,1x

Source: BTS Group, EPB

Financial position

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	-200	-262	-316	-591	-594	-577	-577	-887	-1 050
Equity ratio	47%	46%	45%	36%	39%	44%	45%	47%	50%
Net debt / equity	-0,3x	-0,4x	-0,4x	-0,8x	-0,6x	-0,5x	-0,4x	-0,6x	-0,7x
Net debt / EBITDA	-1,3x	-1,2x	-1,0x	-3,8x	-1,5x	-1,4x	-1,4x	-1,8x	-1,9x

Source: BTS Group, EPB

Per share data

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	5,20	6,63	7,80	1,82	11,1	10,2	10,3	12,5	14,9
EPS, adjusted	5,20	6,63	7,80	1,82	8,53	10,2	10,3	12,5	14,9
FCF per share	0,95	6,36	9,29	4,90	6,72	6,37	5,38	21,5	14,9
Dividend per share	2,80	3,60	3,60	1,20	4,80	5,40	5,50	6,50	7,80
Number of shares after dilution, average	18,9	19,0	19,3	19,3	19,4	19,4	19,4	19,4	19,4

Source: BTS Group, EPB

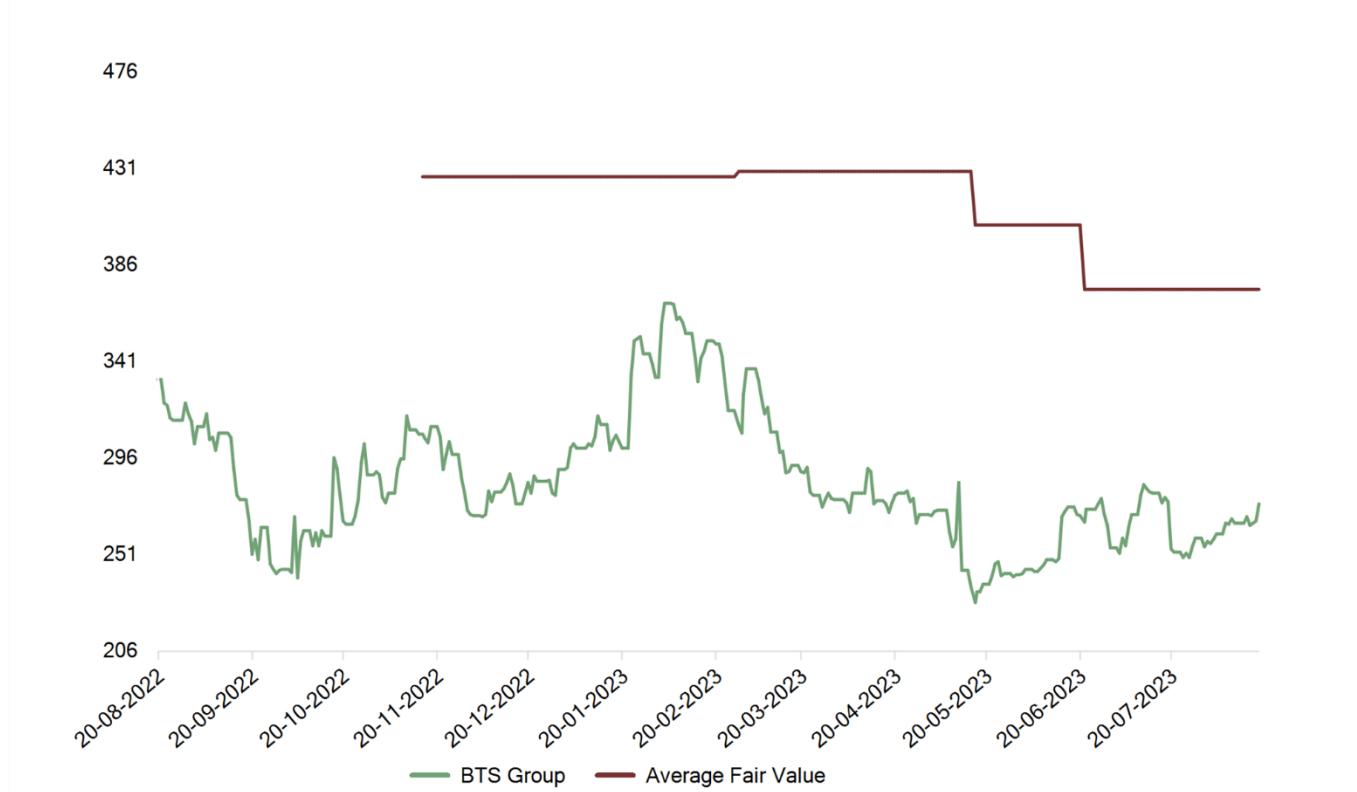
Valuation

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	18,0x	19,1x	30,5x	119,0x	47,2x	28,5x	26,0x	21,3x	17,9x
P/BV	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/FCF	98,0x	20,0x	25,6x	44,3x	60,0x	45,7x	49,6x	12,4x	17,9x
FCF-yield	1%	5%	4%	2%	2%	2%	2%	8%	6%
Dividend yield	3,0%	2,8%	1,5%	0,6%	1,2%	1,9%	2,1%	2,4%	2,9%
Payout ratio, adjusted	53,8%	54,3%	46,2%	65,8%	56,3%	52,9%	53,5%	51,9%	52,2%
EV/Sales	1,3x	1,3x	2,3x	2,5x	3,7x	2,0x	1,9x	1,6x	1,5x
EV/EBITDA, adjusted	10,4x	10,1x	13,8x	23,2x	17,7x	12,0x	12,3x	10,3x	9,2x
EV/EBIT, adjusted	11,8x	11,7x	19,0x	55,7x	28,3x	16,7x	17,5x	13,5x	11,7x
EV	1 566	2 153	4 281	3 600	7 213	5 061	5 060	5 060	5 060
Share price, year end	93,5	127	238	217	403	291	267	267	267

Source: BTS Group, EPB

Share Price and Fair Value Chart

BTS Group (BTSB SS EQUITY)



Source: EPB, IDC

Disclosure

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The valuation method and approach used to determine fair value are specified in the analysis and may vary from one company to the next. Material assumptions used in the valuation are based on market data available at any given time and upon a scenario for a company's future performance that we believe to be reasonable. The valuation method should be read together with the risk classification. Regarding risk classification: The share is classified according to a High/Medium/Low scale, based on several known metrics that are relevant to the Company. A general guideline for a "low risk" classification is that the Company has positive cash flow and that no individual factor affects revenues by more than 20%. A corresponding general description of "high risk" is that the Company has not achieved positive cash flow or that an individual factor affects revenues by more than 50%.

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General

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