



ERIK PENSER BANK

Penser Access | IT Services | Sweden | 10 November 2023

BTS Group

Implementing measures to strengthen profitability

Diminishing profitability in the quarter

Net sales came in at SEK 633m in the quarter, down 1% when adjusted for currencies. All geographical segments showed FX-adjusted results around zero, suggesting that the uncertainty in the North American market that started in late 2022 has spread globally. EBITA was down 19% y/y to SEK 53m, with a margin of 8.4%. The decline was partly the result of extraordinary costs of SEK 1.2m stemming from the closure of a local office in Spain in order to reduce the cost base.

Ambitious guidance for current year

We leave our estimate for turnover unchanged for this year as we have previously anticipated a slowdown in H2. We lower our EPS estimate for this year by 6.9% though. In our view, the maintained guidance is ambitious given the market situation, with a record quarter required for the company to reach this. Considering the Q3 margin development, we take a cautious stance. We lower our 2024–2025 EPS estimates by an average of 8.5% as we have a conservative view of the margin improvements from the efficiency measures taken during 2023.

Still positive on the share

Based on our recent estimate changes, we adjust our fair value marginally to SEK 340–360 (370–380). We believe BTS has a long history of delivering solid profit growth and we expect it to navigate the current market turbulence with higher margins than historically thanks to its efficiency measures, but we are cautious about the effect of these improvements on our estimates until we see a change for the better. In conclusion, we believe the current valuation and share price represent a good entry point given that BTS tends to come our stronger from periods of uncertainty.

Estimate changes			Forecasts (SEKm)				Valuation and risk														
	23e	24e	25e	2022	2023e	2024e	2025e	Fair value	SEK 340 – 360												
Total revenues	-0,6%	-4,8%	-3,9%	2 530	2 699	2 941	3 267	Share price	SEK 247												
EBITDA, adj.	-4,1%	-6,4%	-5,9%	Growth	29%	7%	9%	11%	Risk level	Medium											
EPS, adj.	-6,9%	-9,0%	-7,9%	EBITDA, adj.	420	394	462	519	<div style="background-color: #006633; color: white; padding: 2px;">12-mth share price development</div>												
<div style="background-color: #006633; color: white; padding: 2px;">Coming events</div>			EBIT, adj.	303	269	342	399														
			EPS, adj.	10,2	9,6	11,4	13,8														
Q4 - report	14 February 2024		EPS growth, adj.	20%	-6%	19%	21%														
<div style="background-color: #006633; color: white; padding: 2px;">Company details (SEKm)</div>			Dividend per share	5,4	5,5	6,5	7,5	<div style="background-color: #006633; color: white; padding: 2px;">Conflicts of interest</div> <table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Market maker</td> <td></td> <td>✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td>✓</td> </tr> <tr> <td>Transactions, 12 mth</td> <td></td> <td>✓</td> </tr> </tbody> </table>			Yes	No	Market maker		✓	Certified adviser		✓	Transactions, 12 mth		✓
				Yes	No																
Market maker		✓																			
Certified adviser		✓																			
Transactions, 12 mth		✓																			
Number of shares	19m		EBIT margin	12,0%	10,0%	11,6%	12,2%														
Market capitalisation	4 776		ROE, adj.	18,0%	14,8%	16,3%	18,0%														
Net debt	-112		ROCE, adj.	27,6%	21,4%	25,3%	27,0%														
EV	4 664		EV/Sales	2,2x	1,7x	1,6x	1,4x														
Free float	81%		EV/EBITDA	13,1x	11,8x	10,1x	9,0x														
Daily trading volume, average	10k		EV/EBIT	18,3x	17,4x	13,6x	11,7x														
Bloomberg Ticker	BTSB SS EQUITY		P/E, adj.	28,5x	25,8x	21,6x	17,9x														
<div style="background-color: #006633; color: white; padding: 2px;">Analyst</div>			Dividend yield	1,9%	2,2%	2,6%	3,0%														
			FCF yield	2%	2%	5%	6%														
Rikard Engberg			Net debt/EBITDA	-1,4x	-1,4x	-1,5x	-1,7x														
rikard.engberg@penser.se																					

Investment case

BTS is the market leader in simulation and implementation of business strategies. Since its listing in 2001, the company has increased its currency-adjusted turnover by some 13% a year and its EBITA annually by 16%. 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 model suggests a valuation of SEK 340–360 (370–380). We consider the key share price triggers will be new, smaller acquisitions that bolster organic growth and that the launched programmes start to have a positive impact on margins.

The quarter in detail

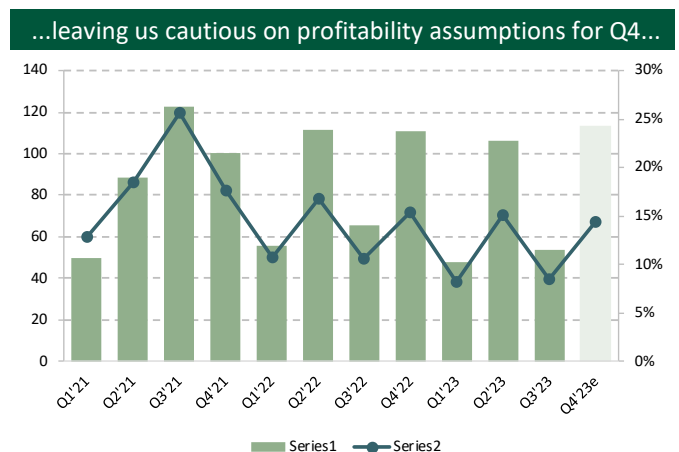
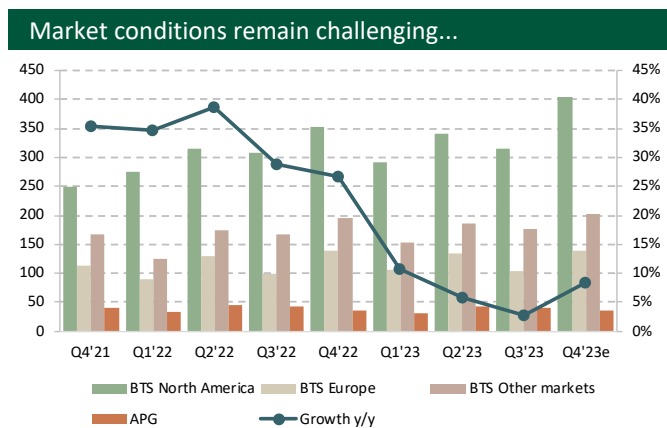
BTS North America: Net sales in the quarter came in at SEK 315m, implying FX-adjusted growth of 0%. During Q3, the company has started to see increased activity in the US tech sector – where the downturn began. EBITA reached SEK 28m in the quarter, with a margin of 8.9%. The effects of the cost savings announced in Q1 started to show during Q3, and we expect the full impact in Q4. BTS indicates that EBITA will strengthen in Q4 thanks to increased sales and the efficiency measures.

BTS Europe: Net sales were SEK 104m in the quarter, representing FX-adjusted growth of -4%. EBITA came in at SEK 2.9m, with the margin at 2.8%. The weak growth in Europe can be attributed to projects having been cancelled or postponed. The low margin is the result of a change in the services mix and temporarily elevated personnel costs. BTS expects the European market to remain challenging during Q4, but that improved staff deployment and the efficiency measures will start to take effect in the quarter.

BTS Other Markets: Net sales came in at SEK 176m, suggesting FX-adjusted growth of 3%. EBITA was SEK 20.4m, with a margin of 11.6%. Margins in Q3 were impacted by extraordinary costs associated with the efficiency initiatives. We believe it likely BTS will be able to deliver on its guidance for both improved growth and profitability in this segment in Q4.

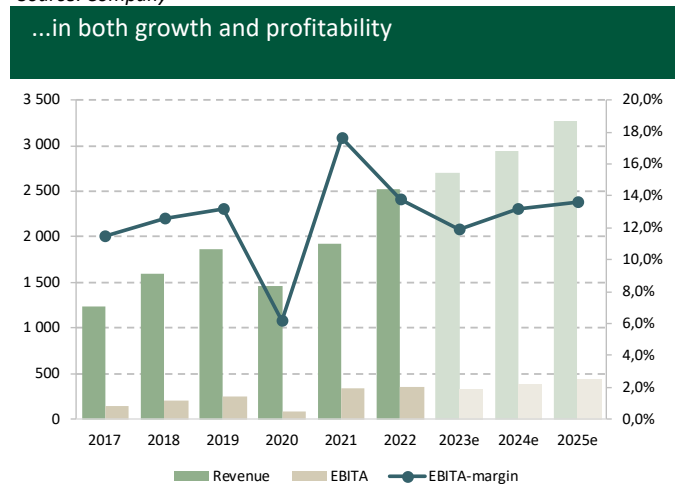
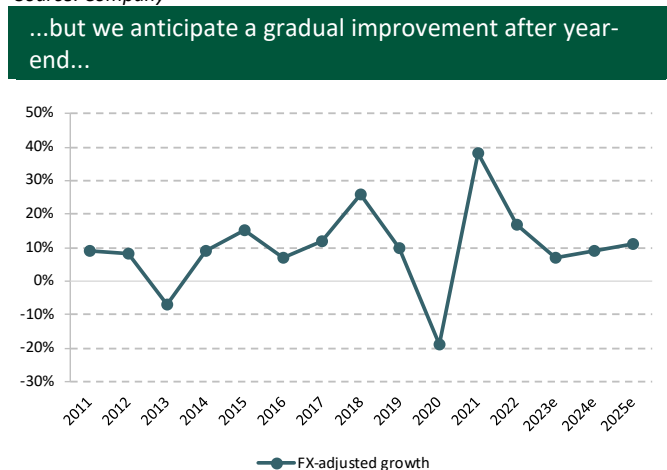
APG: Net sales in the quarter were SEK 39m, suggesting FX-adjusted growth of -10%. EBITA came in at SEK 1.1m, with a margin of 2.5%.

Overall, we see challenges across BTS's markets, and we thus take a conservative stance on how the year will end.



Source: Company

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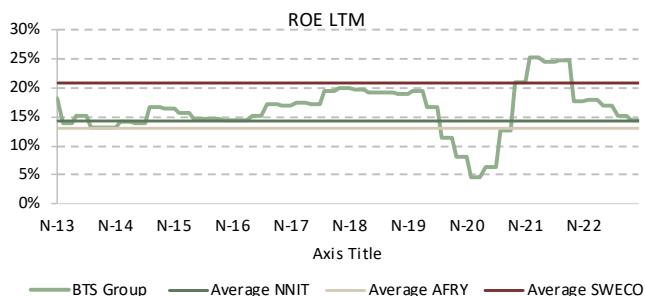


Source: EPB

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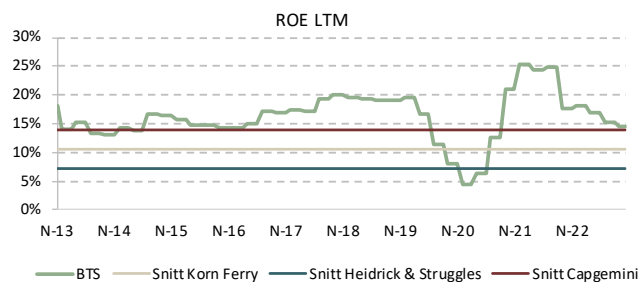
Valuation

Low volatility in ROE compared to swedish peers...



Source: Factset

...and higher absolute levels than international peers



Source: Factset

Valuation	MCAP (sek)	EV (sek)	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
			LTM	2024	2025	LTM	2024	2025	LTM	2024	2025	LTM	2024	2025
Mind Gym	552	495	0,66x	0,65x	-	6,82	6,59	-	11,7x	17,6x	-	nm	30,1x	-
Korn Ferry	27 005	26 688	0,83x	0,83x	0,77x	5,53	5,79	5,26	6,7x	7,1x	6,4x	13,4x	10,6x	8,9x
Heidrick & Struggles Intl	5 479	2 685	0,23x	0,22x	0,21x	1,59	1,96	1,81	1,9x	2,9x	-	9,0x	8,0x	6,9x
Accenture	2 117 842	2 061 616	2,86x	2,76x	2,59x	16,05	14,58	13,42	18,3x	17,8x	16,4x	27,9x	24,6x	22,8x
Capgemini	344 193	389 695	1,45x	1,37x	1,30x	9,27	8,56	7,91	11,6x	10,4x	9,4x	17,1x	13,7x	12,3x
Nordic Peers														
Knowit AB	3 925	5 071	0,70x	0,69x	0,67x	7,18	6,55	5,86	14,3x	11,7x	9,6x	nm	12,8x	9,7x
NNIT A/S	3 177	4 360	1,86x	1,43x	1,25x	58,27	9,95	7,36	-	12,0x	8,5x	-	10,7x	7,6x
Netcompany Group	17 874	21 360	2,28x	1,95x	1,75x	12,31	11,34	9,64	17,1x	14,6x	12,0x	20,4x	16,4x	13,3x
Sweco AB Class B	37 134	43 444	1,58x	1,42x	1,35x	11,62	12,52	11,62	17,6x	14,9x	13,7x	20,9x	17,0x	15,9x
Bouvet ASA	5 623	5 475	1,65x	1,43x	1,30x	11,07	10,20	9,46	13,3x	12,6x	11,5x	17,3x	16,8x	15,3x
AFRY AB Class B	13 239	18 201	0,69x	0,65x	0,62x	6,56	6,30	5,77	9,9x	9,1x	8,0x	11,2x	9,6x	8,4x
BTS Group AB Class B	4 960	4 847	1,85x	1,57x	1,44x	12,00	9,56	8,43	17,0x	12,5x	10,7x	26,7x	18,3x	15,4x
Mean			1,39x	1,25x	1,21x	13,19	8,66	7,87	12,7x	11,9x	10,6x	18,2x	15,7x	12,4x
Median			1,51x	1,40x	1,30x	10,17	9,06	7,91	13,3x	12,2x	10,1x	17,3x	15,1x	12,3x
VS BTS			22%	13%	10%	18%	6%	7%	27%	2%	5%	55%	21%	26%

Source: Factset

DCF

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	3 014	Risk free nominal rate	2,5%	Long term growth rate	2,0%
PV of terminal value (perpetuity formula)	5 452	Risk premium	5,5%	Long term EBIT margin	14,2%
Enterprise value	8 466	Small cap premium	0,0%	Depreciation (% of sales)	5,0%
Latest net debt	-112	Extra risk premium	1%	Capex (% of sales)	4,5%
Minority interests & other	0	Cost of equity	8,5%	Working cap. (% of sales)	3,5%
Equity value	8 578	Tax rate			22%
No. of shares outstanding (millions)	19				
Equity value per share	443				

Sensitivity analysis

	Long-term growth rate					Long-term EBIT margin					
	1,0%	1,5%	2,0%	2,5%	3,0%	7,5%	12,0%	13,0%	14,2%	15,0%	16,0%
7,5%	463	495	533	578	633	485	509	539	558	582	
8,0%	424	451	482	518	562	439	460	487	504	525	
WACC 8,5%	391	413	439	469	504	400	420	443	458	478	
9,0%	362	380	402	427	456	367	385	406	419	437	
9,5%	336	352	371	392	416	339	355	374	386	402	

Source: EPB

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	2 699	2 941	3 267
Other operating income	0	0	0	0	49	0	0	0	0
Total revenues	1 243	1 598	1 865	1 464	1 966	2 530	2 699	2 941	3 267
Gross profits	1 243	1 598	1 865	1 464	1 966	2 530	2 699	2 941	3 267
Other operating costs	-1 092	-1 384	-1 554	-1 309	-1 557	-2 110	-2 305	-2 479	-2 748
EBITDA	151	214	311	155	408	420	394	462	519
EBITDA, adjusted	151	214	311	155	408	420	394	462	519
Depreciation	-9	-12	-66	-65	-71	-72	-73	-75	-75
EBITA, adjusted	142	202	245	90	337	349	321	387	444
Amortisation	-10	-18	-20	-26	-33	-46	-52	-45	-45
EBIT	132	183	226	65	305	303	269	342	399
EBIT, adjusted	132	183	226	65	255	303	269	342	399
Net financial items	-1	-4	-9	-14	-16	-14	-17	-22	-18
Profit/loss before tax	131	180	216	51	289	289	252	320	381
Profit/loss before tax, adjusted	131	180	216	51	239	289	252	320	381
Total taxes	-33	-54	-66	-16	-74	-91	-66	-99	-114
Net income	98	126	151	35	215	198	185	221	267
Net income, adjusted	98	126	151	35	165	198	185	221	267
Revenue growth	-	29%	17%	-22%	34%	29%	7%	9%	11%
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%	10,0%	11,6%	12,2%
EPS, adjusted	5,20	6,63	7,80	1,82	8,53	10,2	9,57	11,4	13,8
EPS growth, adjusted	-	28%	18%	-77%	>100%	20%	-6%	19%	21%

Source: BTS Group, EPB

Cash flow analysis

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	132	183	226	65	305	303	269	342	399
Other cash flow items	-33	-23	10	35	12	48	42	-1	-12
Changes in working capital	-1	-2	-18	143	-5	-152	-163	-72	-32
Cash flows from operating activities	98	158	217	242	312	199	148	268	354
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 flows from investment activities	-80	-37	-38	-148	-182	-76	-50	-50	-50
Free cash flows	18	121	180	95	130	123	98	218	304
Rights issues / buybacks	-	6	23	-	-	-	-	-	-
Changes 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 flows from financing activities	55	-71	-132	213	-161	-209	-105	-107	-126
Cash flows	73	50	47	307	-30	-85	-6	112	178
Net debt	-200	-262	-316	-591	-594	-577	-571	-682	-862

Source: BTS Group, EPB

Balance sheet

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS									
Goodwill	421	455	536	549	830	909	857	812	766
Other intangible assets	87	72	82	75	115	121	121	121	121
Tangible fixed assets	34	39	220	185	180	186	163	138	113
Financial fixed assets	8	15	13	17	22	28	28	28	28
Total fixed assets	550	581	851	826	1 147	1 244	1 168	1 098	1 027
Trade receivables	335	512	514	409	557	723	945	1 029	1 078
Other current assets	141	172	187	134	194	215	215	215	215
Cash and cash equivalents and short-term investments	200	262	316	591	594	577	571	682	862
Total current assets	676	947	1 018	1 134	1 345	1 515	1 730	1 927	2 154
TOTAL ASSETS	1 226	1 528	1 869	1 960	2 492	2 758	2 898	3 025	3 182
EQUITY AND LIABILITIES									
Equity	581	704	840	710	983	1 213	1 294	1 408	1 549
Total equity	581	704	840	710	983	1 213	1 294	1 408	1 549
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	1 062	1 074	1 090
Total current liabilities	341	540	665	820	966	1 003	1 062	1 074	1 090
TOTAL EQUITY AND LIABILITIES	1 226	1 528	1 869	1 960	2 492	2 758	2 898	3 025	3 182

Source: BTS Group, EPB

Growth and margins

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	29%	17%	-22%	34%	29%	7%	9%	11%
EBITDA growth, adjusted	-	42%	45%	-50%	>100%	3%	-6%	17%	12%
EBIT growth, adjusted	-	39%	23%	-71%	>100%	19%	-11%	27%	17%
EPS growth, adjusted	-	28%	18%	-77%	>100%	20%	-6%	19%	21%
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%	14,6%	15,7%	15,9%
EBITDA margin, adjusted	12,1%	13,4%	16,7%	10,6%	21,3%	16,6%	14,6%	15,7%	15,9%
EBIT margin	10,7%	11,5%	12,1%	4,4%	15,9%	12,0%	10,0%	11,6%	12,2%
EBIT margin, adjusted	10,7%	11,5%	12,1%	4,4%	13,3%	12,0%	10,0%	11,6%	12,2%
Profit margin, adjusted	7,9%	7,9%	8,1%	2,4%	8,6%	7,8%	6,9%	7,5%	8,2%

Source: BTS Group, EPB

Profitability

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	20%	20%	5%	20%	18%	15%	16%	18%
ROCE, adjusted	Neg.	29%	29%	8%	30%	28%	21%	25%	27%
ROIC, adjusted	Neg.	45%	47%	20%	>100%	59%	40%	47%	56%

Source: BTS Group, EPB

Capital efficiency

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Trade receivables / total revenues	27%	32%	28%	28%	28%	29%	35%	35%	33%
Total current liabilities / total expenses	31%	39%	43%	63%	62%	48%	46%	43%	40%
Working capital / total revenues	11%	9%	2%	-19%	-11%	-3%	4%	6%	6%
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	-571	-682	-862
Equity asset ratio	47%	46%	45%	36%	39%	44%	45%	47%	49%
Net debt/equity ratio	-0,3x	-0,4x	-0,4x	-0,8x	-0,6x	-0,5x	-0,4x	-0,5x	-0,6x
Net debt / EBITDA	-1,3x	-1,2x	-1,0x	-3,8x	-1,5x	-1,4x	-1,4x	-1,5x	-1,7x

Source: BTS Group, EPB

Share data

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	5,20	6,63	7,80	1,82	11,1	10,2	9,57	11,4	13,8
EPS, adjusted	5,20	6,63	7,80	1,82	8,53	10,2	9,57	11,4	13,8
FCF per share	0,95	6,36	9,29	4,90	6,72	6,37	5,08	11,3	15,7
Dividend per share	2,80	3,60	3,60	1,20	4,80	5,40	5,50	6,50	7,50
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

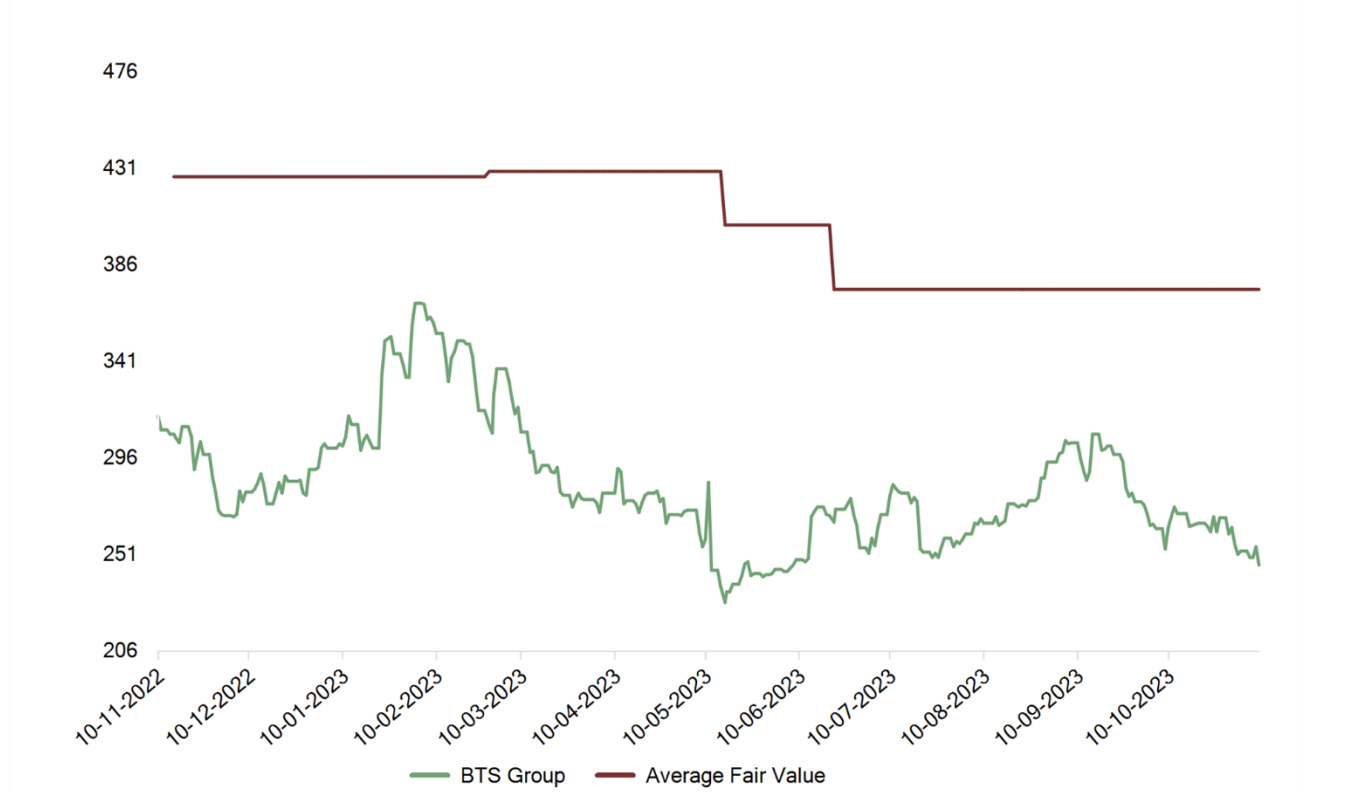
Valuation

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	18,0x	19,1x	30,5x	119,0x	47,2x	28,5x	25,8x	21,6x	17,9x
Price/book value	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/FCF	98,0x	20,0x	25,6x	44,3x	60,0x	45,7x	48,5x	21,9x	15,7x
FCF yield	1%	5%	4%	2%	2%	2%	2%	5%	6%
Dividend yield	3,0%	2,8%	1,5%	0,6%	1,2%	1,9%	2,2%	2,6%	3,0%
Payout ratio, adjusted	53,8%	54,3%	46,2%	65,8%	56,3%	52,9%	57,5%	57,0%	54,5%
EV/Sales	1,3x	1,3x	2,3x	2,5x	3,7x	2,0x	1,7x	1,6x	1,4x
EV/EBITDA, adjusted	10,4x	10,1x	13,8x	23,2x	17,7x	12,0x	11,8x	10,1x	9,0x
EV/EBIT, adjusted	11,8x	11,7x	19,0x	55,7x	28,3x	16,7x	17,4x	13,6x	11,7x
EV	1 566	2 153	4 281	3 600	7 213	5 061	4 664	4 664	4 664
Share price	93,5	127	238	217	403	247	247	247	247

Source: BTS Group, EPB

Share price and average fair value

BTS Group (BTSB SS EQUITY)



Source: EPB, IDC

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