ERIK PENSER BANK

Penser Access | Software | Sweden | 23 November 2023

eEducation Albert

Steps towards profitability

B2B still delivering

Net sales hit SEK 48.3m in the quarter, which was an increase of 46% y/y. Organic growth came in at -11% as lower marketing led to greater churn in B2C. This is reflected in revenues from the B2C business of SEK 24.1m, which represents growth of -3.6% y/y. Q3 2023 ARR was SEK 203.8m, representing growth of 34%, of which -21% was organic. This negative organic growth in ARR can largely be explained by the same factors as for net sales above. Marketing expenses in Q3 2023 were less than one-third of those in Q3 2022, explaining the negative organic growth. We believe the churn will stabilise in the coming quarters as "marginal" customers have now left. EBITA came in at SEK -6.8m, up from SEK -21.4m for Q3 2022. The company is thus moving gradually towards EBITA figures in the black at the pace we expected, and we forecast it reaching this in 2024.

Adjusting for continued lower marketing expenses

Based on the lower organic growth, primarily in B2C, we cut our net sales estimates by an average of 10% for 2024–2025. We believe the company will balance marketing investments against its aim of achieving decent profitability. With the report, the company also stated it is beginning to identify and realise cost synergies. Along with our reduction in marketing investment estimates, this cost base optimisation will reduce EBITDA by SEK 6.9m for 2024 and by SEK 12m for 2025. We thus believe the company will move towards positive EBITA earlier than we anticipated at the start of the year.

Share remains misunderstood

We have previously been clear in our belief that the market prices Albert in line with consumer subscription services, which are undervalued on the stock market. At present, Albert sees some 51% of its revenues from its B2B business. We believe these revenues should be valued differently as they see less churn and require lower marketing expenses – something not currently reflected in the valuation. After reducing estimates, we also lower our fair value to SEK 32–34 (45–47). Albert currently trades at a P/B of 0.8x. Its cash position as of Q3 2023 was SEK 94m, in contrast to its market cap of some SEK 190m.

Estimate changes

	23e	24e	25e
Total revenues	-3,8%	-8,1%	-10,5%
EBITDA, adj.	nm	-23,6%	-19,6%
EPS, adj.	nm	nm	nm

Coming events

Q4 - report	23 February 2024

Company details (SEKm)

Number of shares	25m
Market capitalisation	188
Net debt	-83
EV	104
Free float	74%
Daily trading volume, average	6k
Bloomberg Ticker	ALBERT SS EQUITY

Analyst

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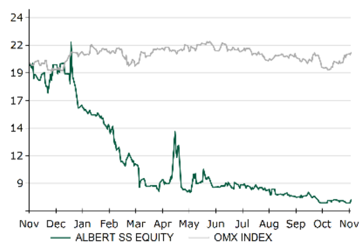
Forecasts (SEKm)

	2022	2023e	2024e	2025e
Total revenues	141	214	253	310
Growth	>100%	52%	18%	23%
EBITDA, adj.	-71	-13	22	49
EBIT, adj.	-102	-75	-42	-15
EPS, adj.	-5.6	-3.5	-1.7	-0.7
EPS growth, adj.	N.m.	N.m.	N.m.	N.m.
Equity per share	13.6	9.2	7.5	6.8
EBIT margin	Neg.	Neg.	Neg.	Neg.
ROE, adj.	Neg.	Neg.	Neg.	Neg.
ROCE, adj.	Neg.	Neg.	Neg.	Neg.
EV/Sales	1.8x	0.5x	0.4x	0.3x
EV/EBITDA	Neg.	-8.3x	4.7x	2.1x
EV/EBIT	Neg.	-1.4x	-2.5x	-6.8x
P/E, adj.	-3.5x	-2.1x	-4.4x	-10.7x
Price/book value	1.5x	0.8x	1.0x	1.1x
FCF yield	-43%	-64%	-8%	0%
Net debt/EBITDA	1.5x	4.8x	-2.0x	-0.9x

Valuation and risk

Fair value	SEK 32.0 – 34.0
Share price	SEK 6.7
Risk level	Medium

12-mth share price development



Conflicts of interest

	Yes	No
Market maker	✓	
Certified adviser	✓	
Transactions, 12 mth		✓

Investment case

Higher share of recurring revenues with lower volatility: Thanks to acquisitions, Albert has evolved from a company focused on consumer services to having around 50% of its turnover from B2B operations, with schools and larger educational groups as the target group. These revenues offer lower volatility and do not require the same level of investments into marketing. We believe the market overlooks this development, as the company is valued as a consumer company.

Profitability on the cards: As Albert has increased its focus on B2B operations, marketing expenses represent a lower share of turnover. The company has thus successively improved its profitability during H1 2023. We believe the company will soon reach positive cash flows, along with positive EBITDA. This should prove a share price catalyst. We believe the company's solid balance sheet, with its large net cash position, will be more than enough for it to achieve profitability soon.

Sustainability: We believe sustainability is a key driving force in Albert's sales – tied in with no.4 of the UN's Sustainable Development Goals: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. The company's activities aim to increase the availability of study help for children at a significantly lower cost than many other alternatives. As a result of its acquisitions, Albert can now work towards better and more accessible education in a number of European countries.

Company profile

Albert has developed the leading platform for mathematics and a number of other subjects in the Swedish market, and it has started its expansion into other European countries. The platform is module-based and linked to national curriculums, which means it can rapidly build a presence in a new market and expand the range of topics.

Albert sells its product as SaaS solutions to parents of primary school children. The company currently has ARR (annual recurring revenues) of SEK 206m. By selling its services on a subscription basis, Albert reduces the volatility in its revenues and enables stable long-term growth. The company targets turnover of SEK 500m in 2025, which is partly the basis for our estimates.

In Europe, there are currently only 15 edtech company with a valuation exceeding USD 100m. Albert has proven itself one of the leading consolidators in this fragmented market. We anticipate economies of scale from the position it has built for itself.

Valuation

We have chosen to apply a multiples valuation using our 2025 estimates for Albert. We have then discounted this to present value using a discount rate of 15% as a proxy for IRR, which leads to a fair value of SEK 32–34.

Brief overview of the quarter

B2C: B2C revenues came in at SEK 24.1m, representing growth of -3.5%. We believe a large share of the negative organic growth of -11% stemmed from Q3 2023 marketing investments being one-third of the level in Q3 2022.

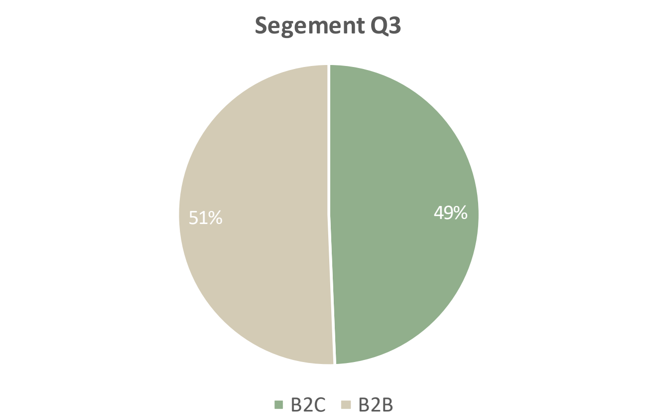
B2C accounted for about 50% of ARR in Q3 2023. We thus believe the company has now "churned away" a large part of the low-margin customers that had been added. Moreover, we see more and more customers signing up for annual subscriptions, which will also reduce churn. The Holy Owly language app was launched in Sweden during the quarter. The app will be sold alongside Albert and Albert Junior. Albert Junior has been launched on the French market together with Holy Owly. We believe this market will be a solid growth contributor in the future thanks to the high willingness to pay and low competition than the Swedish market.

B2B: B2B revenues reached SEK 24.7m in the quarter, implying growth of 205% y/y. This stellar growth was primarily driven by acquisitions undertaken during the year. During the quarter, Strawbees was launched in the UK market. The company anticipates high sales synergies, as it is already present in most schools in the UK.

EBITA was SEK -6.9m in the quarter, versus SEK -21.4m for Q3 2022. The y/y improvement showcases that the company has – just as it communicated in Q4 2022 – reduced its marketing investments so as to reach profitability sooner. We believe the reduced marketing investments combined with the company starting to see cost synergies means it can reach positive EBITA figures next year.

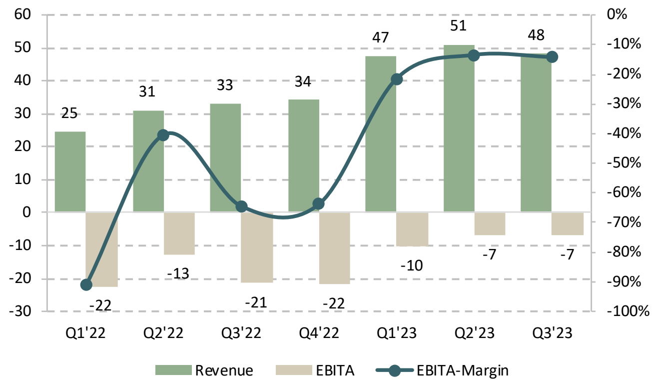
We thus expect Albert to continue on its journey towards profitability in the near term – we expect this during 2024.

New revenue mix will reduce volatility...



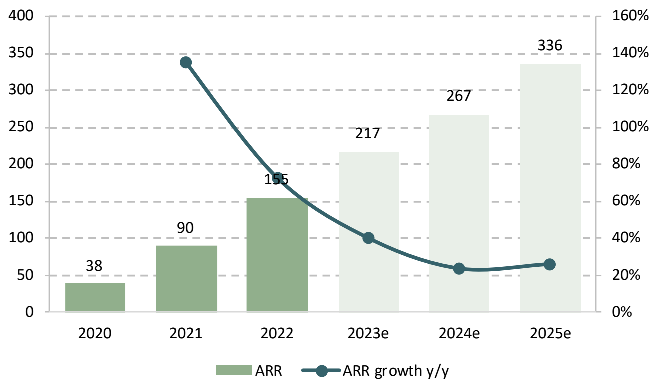
Source: Company

…as Albert approaches profitability



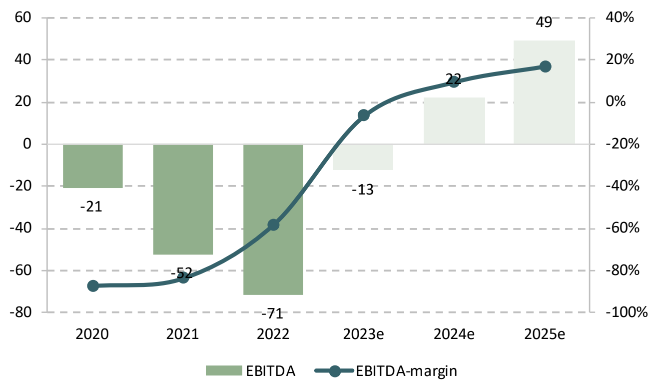
Source: Company

We expect ARR growth to remain robust...



Source: EPB

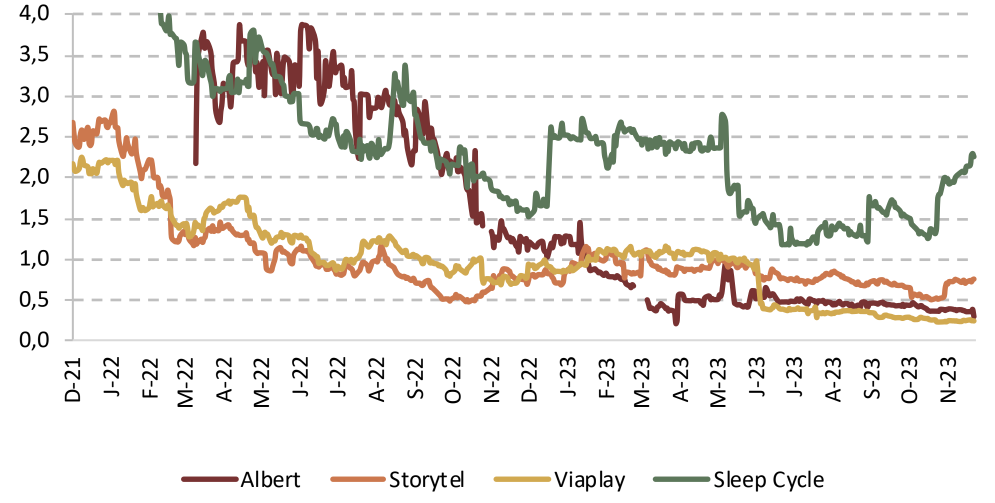
...meaning the company closes in on profitability in H2 2024



Source: EPB

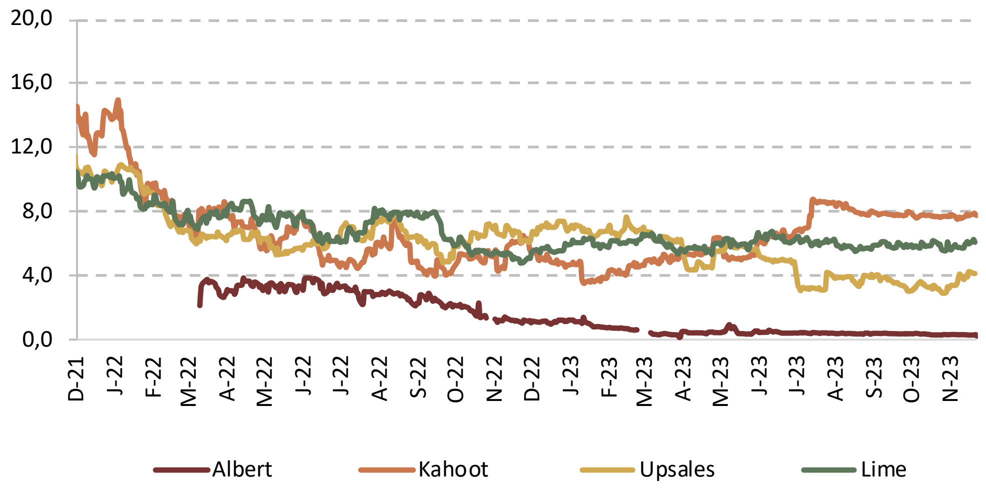
Valuation

Previous premium on subscription services lost on fwd EV/Sales...



Source: Factset

…despite acquisitions making it closer to a B2B SaaS company



Source: Factset

Sensitivity analysis

X-axis WACC, Y-axis EV/Sales 2025

	13,5%	**14,0%**	**14,5%**	**15,0%**	**16,0%**
2,0	20	20	20	20	20
2,5	25	25	25	25	25
3,0	30	30	30	30	30
3,5	35	35	35	35	35
4,0	40	40	40	40	40
4,5	45	45	45	45	45
5,0	50	50	50	50	49

Source: EPB

DCF

Valuation output	
Sum of PV of FCF (explicit period)	219
PV of terminal value (perpetuity formula)	295
Enterprise value	**515**
Latest net debt	-83
Minority interests & other	0
Equity value	**598**
No. of shares outstanding (millions)	18
Equity value per share	**33,9**

WACC assumptions	
Risk free nominal rate	2,5%
Risk premium	5,5%
Small Cap Premium	6,0%
Extra risk	0,5%
WACC	**14,5%**

Terminal value assumptions	
Long term growth rate	2,5%
Long term EBIT margin	28,0%
Depreciation (% of sales)	5,0%
Capex (% of sales)	3,5%
Working cap. (% of sales)	3,0%
Tax rate	22%

Sensitivity analysis

		Long-term growth rate				
		1,5%	2,0%	2,5%	3,0%	3,5%
	11,5%	35	37	38	40	41
	12,0%	34	35	36	37	39
WACC	14,5%	32	33	34	35	36
	13,0%	30	31	32	33	34
	13,5%	29	29	30	31	32

		Long-term EBIT margin				
		23,0%	25,5%	28,0%	30,5%	33,0%
	13,5%	33	36	38	41	43
	14,0%	31	34	36	38	41
WACC	14,5%	30	32	34	36	38
	15,0%	28	30	32	34	36
	15,5%	27	28	30	32	34

Source: EPB

Income statement

	2020	2021	2022	2023e	2024e	2025e
Net sales	**24**	**63**	**123**	**197**	**229**	**286**
Other operating income	6	8	18	18	24	24
Total revenues	**30**	**70**	**141**	**214**	**253**	**310**
Gross profits	**30**	**70**	**141**	**214**	**253**	**310**
Other operating costs	-50	-123	-213	-227	-231	-261
EBITDA	**-21**	**-52**	**-71**	**-13**	**22**	**49**
EBITDA, adjusted	**-21**	**-52**	**-71**	**-13**	**22**	**49**
EBITA, adjusted	**-21**	**-52**	**-71**	**-13**	**22**	**49**
Amortisation of intangible assets	-5	-5	-31	-63	-65	-65
EBIT	**-26**	**-57**	**-102**	**-75**	**-42**	**-15**
EBIT, adjusted	**-26**	**-57**	**-102**	**-75**	**-42**	**-15**
Profit/loss before tax	**-26**	**-57**	**-102**	**-75**	**-42**	**-15**
Profit/loss before tax, adjusted	**-26**	**-57**	**-102**	**-75**	**-42**	**-15**
Total taxes	0	0	5	0	0	-2
Net income	**-26**	**-57**	**-98**	**-75**	**-42**	**-18**
Net income, adjusted	**-26**	**-57**	**-98**	**-75**	**-42**	**-18**
Revenue growth	*-*	*>100%*	*>100%*	*52%*	*18%*	*23%*
Gross margin	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*
EBIT margin, adjusted	*Neg.*	*Neg.*	*Neg.*	*Neg.*	*Neg.*	*Neg.*
EPS, adjusted	*-1.55*	*-3.37*	*-5.63*	*-3.53*	*-1.69*	*-0.70*
EPS growth, adjusted	*-*	*N.m.*	*N.m.*	*N.m.*	*N.m.*	*N.m.*

Source: eEducation Albert, EPB

Cash flow analysis

	2020	2021	2022	2023e	2024e	2025e
EBIT	-26	-57	-102	-75	-42	-15
Other cash flow items	5	6	28	63	65	62
Changes in working capital	9	-1	8	-29	-13	-23
Cash flows from operating activities	**-12**	**-52**	**-66**	**-41**	**9**	**24**
Investments in fixed assets	-6	-8	-17	-	-	-
Investments in intangible fixed assets	-	-	-	-16	-24	-24
Other cash flow from investments	0	-5	-66	-45	0	0
Cash flows from investment activities	**-6**	**-13**	**-83**	**-62**	**-24**	**-24**
Free cash flows	**-18**	**-65**	**-148**	**-103**	**-15**	**0**
Rights issues / buybacks	66	249	0	67	0	0
Changes in liabilities	-1	-1	0	-8	0	0
Cash flows from financing activities	**65**	**248**	**0**	**59**	**0**	**0**
Cash flows	**48**	**183**	**-148**	**-44**	**-15**	**0**
Net debt	**-69**	**-251**	**-104**	**-60**	**-45**	**-45**

Source: eEducation Albert, EPB

Balance sheet

	2020	2021	2022	2023e	2024e	2025e
ASSETS						
Goodwill	-	0	21	48	24	0
Other intangible assets	5	9	48	27	21	16
Other fixed assets	0	13	47	31	20	9
Total fixed assets	**6**	**22**	**116**	**107**	**66**	**26**
Trade receivables	0	5	7	16	18	23
Other current assets	3	1	77	118	137	171
Cash and cash equivalents and short-term investments	69	251	104	60	45	45
Total current assets	**71**	**258**	**189**	**194**	**201**	**239**
Total assets	**77**	**280**	**304**	**300**	**267**	**265**
EQUITY AND LIABILITIES						
Equity	70	267	239	231	188	171
Total equity	**70**	**267**	**239**	**231**	**188**	**171**
Other long-term liabilities	1	0	28	12	12	12
Total long-term liabilities	**1**	**0**	**28**	**12**	**12**	**12**
Trade payables	0	2	7	14	16	20
Other current liabilities	5	10	30	44	50	61
Total current liabilities	**6**	**13**	**36**	**57**	**66**	**81**
TOTAL EQUITY AND LIABILITIES	**77**	**280**	**304**	**300**	**267**	**265**

Source: eEducation Albert, EPB

Growth and margins

	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	>100%	>100%	52%	18%	23%
EBITDA growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	>100%
EBIT growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.
Gross margin	>100%	>100%	>100%	>100%	>100%	>100%
EBITDA margin	Neg.	Neg.	Neg.	Neg.	9.7%	17.2%
EBITDA margin, adjusted	Neg.	Neg.	Neg.	Neg.	9.7%	17.2%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: eEducation Albert, EPB

Profitability

	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.

Source: eEducation Albert, EPB

Capital efficiency

	2020	2021	2022	2023e	2024e	2025e
Inventory / total revenues	-	0%	0%	-	-	-
Trade receivables / total revenues	0%	8%	5%	7%	7%	7%
Total current liabilities / total expenses	12%	10%	17%	25%	29%	31%
Working capital / total revenues	-11%	-8%	34%	36%	35%	36%
Capital turnover rate	0.4x	0.3x	0.6x	0.9x	1.3x	1.8x

Source: eEducation Albert, EPB

Financial position

	2020	2021	2022	2023e	2024e	2025e
Net debt	-69	-251	-104	-60	-45	-45
Equity asset ratio	91%	95%	79%	77%	71%	65%
Net debt/equity ratio	-1.0x	-0.9x	-0.4x	-0.3x	-0.2x	-0.3x
Net debt / EBITDA	3.3x	4.8x	1.5x	4.8x	-2.0x	-0.9x

Source: eEducation Albert, EPB

Share data

	2020	2021	2022	2023e	2024e	2025e
EPS	-1.55	-3.37	-5.63	-3.53	-1.69	-0.70
EPS, adjusted	-1.55	-3.37	-5.63	-3.53	-1.69	-0.70
FCF per share	-1.05	-3.83	-8.57	-4.83	-0.60	-0.01
Equity per share	4.12	15.7	13.6	9.23	7.54	6.83
Number of shares at year-end, m	17.0	17.0	17.6	25.0	25.0	25.0
Number of shares after dilution, average	17.0	17.0	17.3	21.3	25.0	25.0

Source: eEducation Albert, EPB

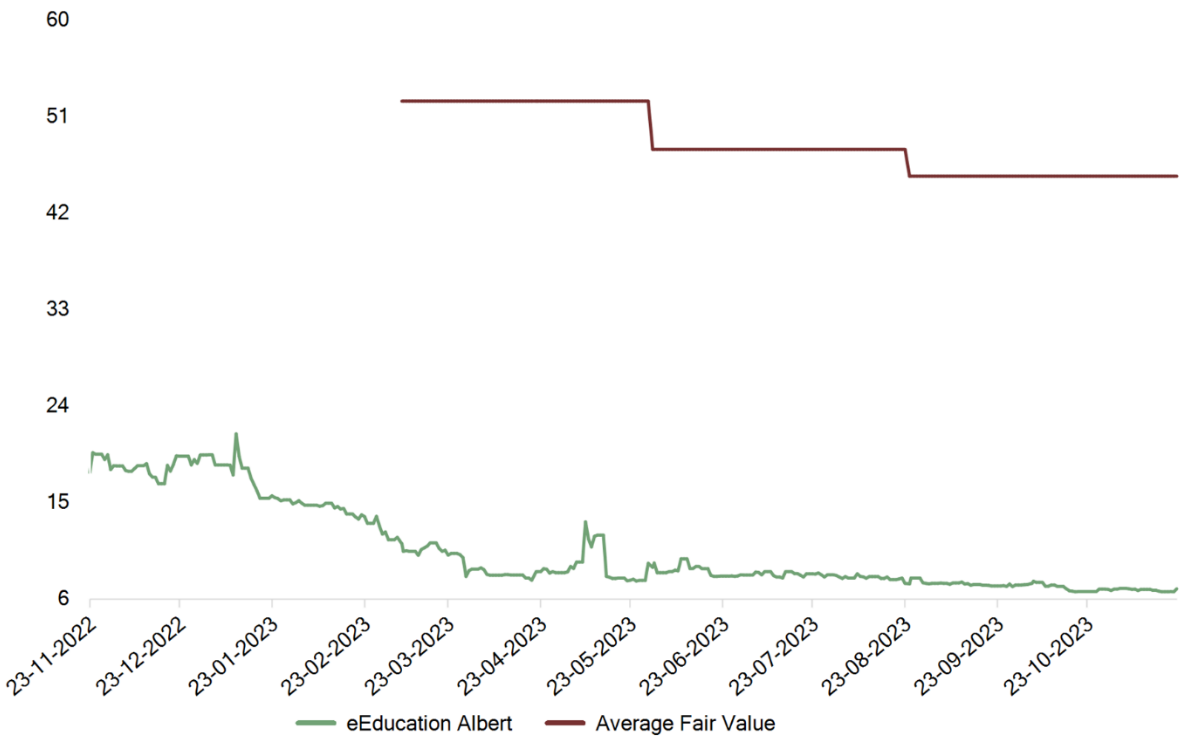
Valuation

	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Price/book value	1.8x	2.7x	1.5x	0.8x	1.0x	1.1x
P/FCF	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
FCF yield	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Dividend yield	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%
EV/Sales	Neg.	6.9x	1.8x	0.5x	0.4x	0.3x
EV/EBITDA, adjusted	Neg.	Neg.	Neg.	-8.3x	4.7x	2.1x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	-1.4x	-2.5x	-6.8x
EV	Neg.	483	248	104	104	104
Share price	-	43.2	20.0	6.8	6.8	7.5

Source: eEducation Albert, EPB

Share price and average fair value

eEducation Albert (ALBERT SS EQUITY)



Source: EPB, IDC

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