

Update: Report Q1 2021

2021-05-05

Hövding: Price hike to support margins

- Net loss for Q1 as expected despite revenues below our forecast
- 16 percent increased retail price will support gross margin
- We maintain our valuation interval SEK 21.10 – 30.50 SEK per share

Analysts

Alf Riple, CFA
073-840 4008
alf.riple@vhcorp.se

Jens Jacob Aabel Nordkvist
073-422 5876
jensjacob.aabelnordkvist@vhcorp.se

Stock ticker: HOVD
Industry: Consumer goods
Listed on: Nasdaq First North
Latest stock price (SEK): 19,50
Market cap (MSEK): 542,1
Enterprise Value (MSEK): 476,0
Total number of shares (M): 27,73
- of which free float (M): 14,10

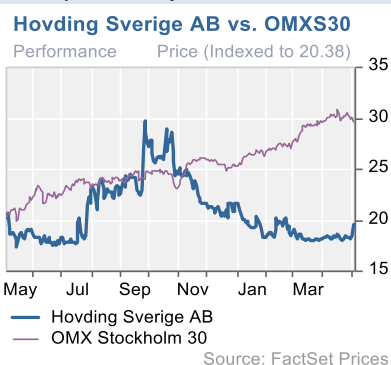
VHCF fair value per share
DCF model 21,10 - 30,50 SEK

Hövding Sverige AB
Address: Bergsgatan 33
214 22 Malmö
Webpage: hovding.se
CEO: Fredrik Carling

Main owners (31 Dec 2020) Capital (%)

Fosielund Holding AB	26,6
Safetech International Holding AB	19,8
Carl-Olof och Jenz Hamrins Stiftelse	10,3
Avanza pension	3,9
Wikow invest	3,2

Stock price history



	-1m	-3m	-12m
Change (%)	6,2	3,8	-3,7
52 w k range (Low /Hi) - SEK	12,77 / 30,00		

Source: FactSet

Hövding's report for the first quarter of 2021 further confirms the company's growth trajectory, despite Q1 normally being Hövding's weakest and most difficult quarter to forecast. Net revenue, despite falling short of our forecasts, grew by 57 percent compared to the same period last year and reached SEK 33.2 million. The company also illustrated an impressive cost control by reporting operating expenses of SEK 14.8 million, well below our estimates. This cost control entails that net loss was almost in line with our estimates. We therefore make only a few minor modifications to our forecast model. Hövding is still on cue to turn profitable later in 2021, hence we maintain our valuation interval of SEK 21.10 – 30.50 per share.

The biggest news from the quarterly report is that Hövding as of 1 April increased the recommended retail price of their helmets to SEK 3 499 from SEK 2 999. The effect of this price increase will mainly be visible in Q3 as the market shifts from the old to the new price during Q2. In Tuesday's [web conference](#), Hövding's CEO Fredrik Carling explained that the increase was possible because the product now has a market position where the customers are not very price sensitive. The price increase will be split proportionately between Hövding and their commercial partners. The main reason for the price increase of around 16% was to increase the gross margin, partly in response to higher cost of goods.

Hövding's gross margin during the quarter was lower than we expected, in part because of shipping problems. Shipping costs increased during the quarter and the added complexity meant more resources had to be invested in supply chain management. Products also needed to be transported by air from China, where they are manufactured, which is more expensive than sea transport. This increased cost of goods sold during the period and therefore decreased the gross margin.

Table 1: Financial Overview

MSEK	2018	2019	2020	2021e	2022e
Net sales	92,5	112,9	152,5	282,4	458,9
Growth (%)	63,2%	22,0%	35,1%	85,2%	62,5%
Gross margin (%)	22,7%	26,1%	22,6%	23,7%	28,0%
EBIT	(41,5)	(51,0)	(43,8)	(3,0)	54,9
EBIT margin (%)	neg	neg	neg	neg	11,9%
Cash holdings	66,5	20,4	62,0	69,4	141,6
Total assets	95,7	78,8	114,2	165,6	276,0
Total equity	62,1	11,4	53,1	50,0	104,9
Solidity (%)	64,9%	14,4%	46,5%	30,2%	38,0%
P/E	neg	neg	neg	neg	9,7
ROE	neg	neg	neg	neg	19,9%
EV/EBIT (x)	neg	neg	neg	neg	8,5
EV/Sales (x)	5,1	4,2	3,1	1,7	1,0

Source: Västra Hamnen Corporate Finance

Significant difference in revenue yet bottom-line close to forecasts

A comparison between the reported financials and our forecasts is summarised in Table 2 below. Total revenues were significantly lower than we expected due to a lower sales volume of units. However, this means cost of goods sold was also significantly lower than expected and means the difference between actual and estimated gross profit is far lower than the difference in revenue. Hövding's impressive cost control, a plan the company has communicated earlier, resulted in unexpectedly low operating expenses, well below our forecasts. In conclusion, net profit for the period deviated only SEK 1.6 million from our forecast. Cash and total equity also came in largely as expected.

Table 2: Estimates vs. actual, Q1 2021

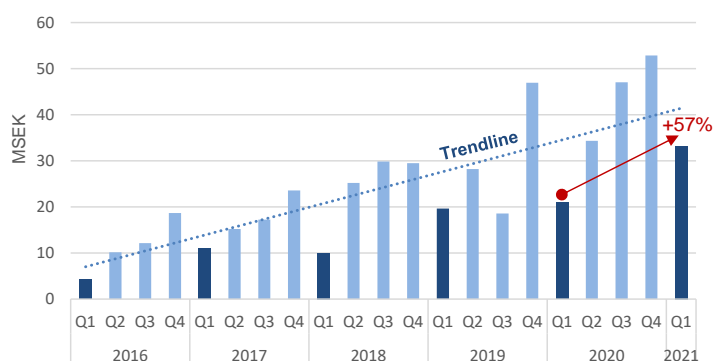
kSEK	Q1 '20	Q1 '21est	Q1 '21act	Diff
Sold units	13 646	25 927	21 476	(4 451)
Net Revenues	20 953	40 851	33 185	(7 666)
Other Revenues	35	687	23	(664)
Total Revenues	20 988	41 538	33 208	(8 330)
Cost of Goods Sold	(17 881)	(30 537)	(25 873)	4 664
Gross profit	3 107	11 001	7 335	(3 666)
Personnel Expenses	(9 926)	(8 307)	(7 970)	337
Other Operating Expenses	(9 800)	(9 218)	(6 861)	2 357
Total OPEX	(19 726)	(17 525)	(14 831)	2 694
EBITDA	(16 619)	(6 525)	(7 496)	(971)
Amortisation and Depreciation	(1 196)	(695)	(1 300)	(605)
EBIT	(17 815)	(7 219)	(8 796)	(1 577)
Net Financial Items	(129)	-	(60)	(60)
EBT	(17 944)	(7 219)	(8 856)	(1 637)
Net Profit	(17 944)	(7 219)	(8 856)	(1 637)
Cash and Equivalents	5 647	53 506	53 172	(334)
Total Equity	16 684	45 837	44 199	(1 638)

Source: Västra Hamnen Corporate Finance

Q1 numbers difficult to forecast

It is worth highlighting that Hövding's Q1 numbers have historically varied significantly and are therefore very difficult to estimate. Figure 1 below illustrates this where the company's historical quarterly net revenues since 2016 are shown. The sales for Q1 tend to deviate significantly and unsystematically from the general trend encompassing all quarters.

Figure 1: Net revenues



Source: Hövding, Västra Hamnen Corporate

Positive developments in France

Looking ahead, Hövding stated that the growth in France during the quarter was very positive and that more focus will be diverted to increasing their market share there. The company's three main markets, Sweden, Denmark, and Germany, all progressed well and are expected to do so going forward. The company's new CFO will join in the middle of June and will contribute towards Hövding's work with their online presence using previous experience from e-commerce. Lastly, Hövding's partnership with the sporting goods chain XXL is progressing well since its establishment a couple of months ago and will continue to provide attractive online presence and sales, primarily in Norway.

Valuation interval unchanged

In conclusion, we make only slight modifications to our forecast model at this point. We have trimmed our sales volume and gross margin forecasts slightly for the next couple of quarters but raised the expected unit sales price longer out, and the adjustments largely cancel out. **We therefore maintain our valuation interval SEK 21.10 – 30.50 per share for Hövding.**

Income Statement - Annual Data

kSEK	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Net revenues	92 536	112 919	152 517	282 411	458 866	530 308	587 153	638 396
Other revenues	2 076	571	2 720	1 715	1 933	1 974	2 004	2 035
Total revenues	94 612	113 490	155 237	284 126	460 799	532 283	589 156	640 431
Cost of goods sold	(71 535)	(83 490)	(118 016)	(215 596)	(330 510)	(380 098)	(420 841)	(457 569)
Gross profit	23 077	30 000	37 221	68 530	130 289	152 185	168 315	182 861
Personnel costs	(29 651)	(35 257)	(37 095)	(33 394)	(35 100)	(36 074)	(36 800)	(37 542)
Other external costs	(31 776)	(42 801)	(35 802)	(29 622)	(32 727)	(33 386)	(34 059)	(34 745)
Other operating expenses	(481)	(270)	(2 881)	(5 436)	(5 436)	(5 436)	(5 436)	(5 436)
EBITDA	(38 831)	(48 328)	(38 557)	78	57 025	77 289	92 020	105 138
Amortisation & depreciation	(2 656)	(2 654)	(5 193)	(3 119)	(2 094)	(1 780)	(1 524)	(1 315)
EBIT	(41 487)	(50 982)	(43 750)	(3 041)	54 932	75 509	90 496	103 823
Net financial items	8	53	(496)	(60)	-	-	-	-
EBT	(41 479)	(50 929)	(44 246)	(3 101)	54 932	75 509	90 496	103 823
Taxes	-	-	-	-	-	-	-	-
Net profit	(41 479)	(50 929)	(44 246)	(3 101)	54 932	75 509	90 496	103 823
Earnings per share (SEK)	(2,25)	(2,33)	(1,78)	(0,11)	1,98	2,72	3,26	3,74
Growth (%)								
Net revenues	63,2%	22,0%	35,1%	85,2%	62,5%	15,6%	10,7%	8,7%
EBITDA	na	na	na	na	72624,6%	35,5%	19,1%	14,3%
EBIT	na	na	na	na	na	37,5%	19,8%	14,7%
Net profit	na	na	na	na	na	37,5%	19,8%	14,7%
% of revenues (%)								
Gross margin	22,7%	26,1%	22,6%	23,7%	28,0%	28,3%	28,3%	28,3%
EBITDA margin	neg	neg	neg	0,0%	12,4%	14,5%	15,6%	16,4%
EBIT margin	neg	neg	neg	neg	11,9%	14,2%	15,4%	16,2%
EBT margin	neg	neg	neg	neg	11,9%	14,2%	15,4%	16,2%
Profit margin	neg	neg	neg	neg	11,9%	14,2%	15,4%	16,2%
Personnel costs	32,0%	31,2%	24,3%	11,8%	7,6%	6,8%	6,3%	5,9%
Total OPEX	66,9%	69,4%	49,7%	24,2%	16,0%	14,1%	13,0%	12,2%
Profitability (%)								
ROE	neg	neg	neg	neg	19,9%	20,0%	23,9%	21,3%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Subscr but not paid-in cap	-	-	-	-	-	-	-	-
Inventories	6 013	20 848	18 328	42 856	61 730	71 235	78 358	84 627
Account receivable	13 977	18 019	15 642	34 399	51 598	59 631	65 595	70 842
Tax receivables	717	775	892	2 061	3 091	3 572	3 930	4 244
Prepaid costs & accrued income	1 175	159	931	2 658	3 986	4 607	5 068	5 473
Other receivables	151	585	2 450	2 999	4 498	5 198	5 718	6 175
Cash and cash equivalents	66 464	20 353	62 024	69 405	141 594	225 590	322 789	432 515
Total current assets	88 497	60 739	100 267	154 377	266 498	369 834	481 456	603 876
Tangible assets	641	2 474	1 835	1 731	1 781	1 821	1 855	1 882
Intangible assets	6 526	15 499	12 058	9 400	7 657	6 236	5 080	4 137
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	7 219	18 025	13 945	11 183	9 489	8 110	6 986	6 071
Total assets	95 716	78 764	114 212	165 560	275 987	377 943	488 442	609 947
Accounts payable	15 001	49 606	38 002	77 141	111 114	128 222	141 044	152 328
Accrued cost & prepaid income	5 653	5 865	8 378	16 741	25 111	29 021	31 923	34 476
Other liabilities	557	1 477	4 633	3 365	5 048	5 834	6 418	6 931
Total current liabilities	21 211	56 948	51 013	97 248	141 274	163 077	179 385	193 735
Other provisions	12 371	10 457	10 143	18 357	29 826	34 470	38 165	41 496
Total equity	62 135	11 359	53 056	49 954	104 886	180 395	270 892	374 714
Total equity and liabilities	95 717	78 764	114 212	165 559	275 986	377 942	488 441	609 946

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2018	2019	2020	2021e	2022e	2023e	2024e	2024e
Operating activities	(35 709)	(50 189)	(39 360)	8 232	68 495	81 933	95 715	108 469
Changes in working capital	17 290	17 384	(3 799)	(494)	4 094	2 463	1 883	1 657
Investing activities	(5 966)	(13 460)	(1 113)	(357)	(400)	(400)	(400)	(400)
Financing activities	69 239	153	85 943	-	-	-	-	-
Cash flow for the period	44 854	(48 099)	41 671	7 381	72 189	83 996	97 198	109 726
Beginning cash balance	21 634	66 464	20 353	62 024	69 405	141 594	225 590	322 789
Adjustments	(24)	-	-	-	-	-	-	-
Ending cash balance	66 464	20 353	62 024	69 405	141 594	225 590	322 789	432 515

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e
Net revenues	20 953	33 493	45 312	52 759	33 185	56 249	88 348	104 629
Other revenues	35	852	1 728	105	23	684	641	367
Total revenues	20 988	34 345	47 040	52 864	33 208	56 933	88 989	104 996
Cost of goods sold	(17 881)	(25 410)	(34 628)	(40 097)	(25 873)	(43 718)	(67 792)	(78 213)
Gross profit	3 107	8 935	12 412	12 767	7 335	13 214	21 197	26 783
Personnel costs	(9 926)	(8 632)	(10 107)	(8 430)	(7 970)	(8 390)	(8 474)	(8 559)
Other external costs	(8 305)	(9 629)	(8 141)	(9 727)	(5 502)	(8 000)	(8 040)	(8 080)
Other operating expenses	(1 495)	(216)	(852)	(318)	(1 359)	(1 359)	(1 359)	(1 359)
EBITDA	(16 619)	(9 542)	(6 688)	(5 708)	(7 496)	(4 535)	3 324	8 785
Amortisation & depreciation	(1 196)	(1 194)	(1 190)	(1 613)	(1 300)	(633)	(606)	(581)
EBIT	(17 815)	(10 736)	(7 878)	(7 321)	(8 796)	(5 167)	2 718	8 204
Net financial items	(129)	(82)	(219)	(66)	(60)	-	-	-
EBT	(17 944)	(10 818)	(8 097)	(7 387)	(8 856)	(5 167)	2 718	8 204
Taxes	-	-	-	-	-	-	-	-
Net profit	(17 944)	(10 818)	(8 097)	(7 387)	(8 856)	(5 167)	2 718	8 204
Earnings per share (SEK)	(0,76)	(0,46)	(0,29)	(0,27)	(0,32)	(0,19)	0,10	0,30
Y-o-Y Growth (%)								
Net revenues	6,7%	18,6%	143,8%	13,5%	58,4%	67,9%	95,0%	98,3%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
Gross margin	14,7%	24,1%	23,6%	24,0%	22,0%	22,3%	23,3%	25,2%
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	47,4%	25,8%	22,3%	16,0%	24,0%	14,9%	9,6%	8,2%
Total OPEX	94,1%	55,2%	42,2%	35,0%	44,7%	31,6%	20,2%	17,2%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	1,9%	5,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e
Subscr but not paid-in cap	12 902	-	-	-	-	-	-	-
Inventories	35 821	29 234	27 792	18 328	22 937	26 351	37 146	42 856
Account receivable	5 425	11 991	16 029	15 642	13 247	18 493	29 046	34 399
Tax receivables	520	644	768	892	591	1 108	1 740	2 061
Prepaid costs & accrued incom	1 780	1 293	506	931	1 250	1 429	2 244	2 658
Other receivables	743	645	595	2 450	1 159	1 612	2 532	2 999
Cash and cash equivalents	5 647	10 927	66 134	62 024	53 172	46 383	56 205	69 405
Total current assets	49 936	54 734	111 824	100 267	92 356	95 375	128 913	154 377
Tangible assets	2 292	2 147	1 971	1 835	1 686	1 702	1 717	1 731
Intangible assets	15 445	14 431	13 465	12 058	10 964	10 416	9 895	9 400
Financial assets	52	52	52	52	52	52	52	52
Total fixed assets	17 789	16 630	15 488	13 945	12 702	12 170	11 664	11 183
Total assets	80 627	71 364	127 312	114 212	105 058	107 544	140 577	165 560
Accounts payable	48 646	44 248	45 839	38 002	40 973	45 515	66 863	77 141
Accrued cost & prepaid income	5 254	5 944	10 623	8 378	7 396	9 000	14 136	16 741
Other liabilities	621	5 950	6 250	4 633	1 490	1 809	2 842	3 365
Total current liabilities	54 521	56 142	62 712	51 013	49 859	56 324	83 840	97 248
Other provisions	9 422	9 357	8 481	10 143	10 999	12 188	14 985	18 357
Total equity	16 684	5 866	56 119	53 056	44 199	39 032	41 750	49 954
Total equity and liabilities	80 627	71 365	127 312	114 212	105 057	107 543	140 576	165 559

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e
Operating activities	(17 528)	(9 812)	(7 783)	(4 237)	(6 700)	(3 346)	6 122	12 157
Changes in working capital	(6 585)	2 226	4 687	(4 127)	(2 095)	(3 343)	3 801	1 143
Investing activities	(960)	(36)	(48)	(69)	(57)	(100)	(100)	(100)
Financing activities	10 367	12 902	58 351	4 323	-	-	-	-
Cash flow for the period	(14 706)	5 280	55 207	(4 110)	(8 852)	(6 789)	9 822	13 200
Beginning cash balance	20 353	5 647	10 927	66 134	62 024	53 172	46 383	56 205
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	5 647	10 927	66 134	62 024	53 172	46 383	56 205	69 405

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Jungmansgatan 12

211 11 Malmö

Telefon: +46 40 200 250

E-post: info@vhcorp.se

www.vhcorp.se

