

Update: Report Q1 2022/23

2022-08-05

USWE: Another acquisition announced

- Demand strong despite slightly lower-than-expected sales
- Acquisition of Giant Loop for SEK 30 million announced
- We maintain our valuation interval of SEK 73.00 – 92.00 per share

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Stock ticker: USWE
Industry: Consumer goods
Listed on: First North Stockholm
Latest stock price (SEK): 39,00
Market cap (MSEK): 167,9
Enterprise Value (MSEK): 158,6
Total number of shares (M): 4,31
- of which free float (M): 2,26

VHCF fair value per share
DCF model SEK 73,00 - 92,00

USWE Sports AB
Address: Bronsåldersgatan 1
213 76 Malmö
Webpage: uswe.com
CEO: Jacob Westerberg

Main owners (30 Jun 2022)

	Capital (%)
Fosielund Holding AB	26,2%
Hexiron AB	13,0%
Tibia Konsult AB	11,7%
Ålandsbanken	6,8%
Poqvint AB	5,3%

Stock price history



	-1m	-3m	-12m
Change (%)	-18,8	-36,1	-6,5
52 w k range (Low /Hi) - SEK	30,00	82,80	

Source: Börldata

USWE's report for Q1 2022/23 showcased a revenue and profitability that came in slightly below our forecast. Despite USWE experiencing lower order volumes from distributors due to high inventory levels during the quarter, the demand from consumers continues to be strong. In addition to launching a new web page and VOID recording its best quarter yet, USWE announced the acquisition of Giant Loop for SEK 30 million. We keep our long-term scenario intact for USWE and therefore choose to maintain our fair value estimate for the share.

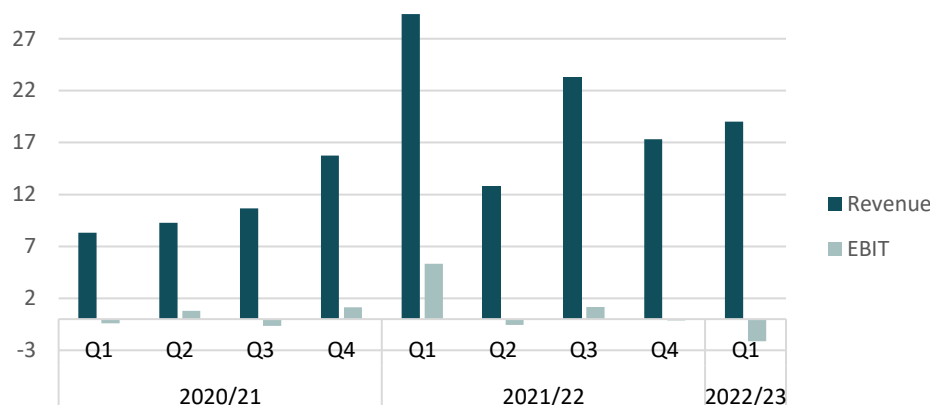
The revenue for the quarter of SEK 19.0 million (SEK 29.4 million) entailed a 35 percent decrease compared to last year, cf. Figure 1. However, last year's quarter was boosted by a delayed delivery of SEK 10.0 million from the previous quarter. COGS were SEK 8.6 million, resulting in a gross margin of 54.5 percent (53.2 percent). OPEX amounted to SEK 12.5 million leading to a negative EBITDA of SEK -1.7 million (SEK 5.6 million). Profit for the period was SEK -1.7 million (SEK 4.2 million) and cash holdings amounted to SEK 33.2 million at quarter's end.

Caution among USWE's distributors is the main reason for USWE's sales being slightly lower during the quarter than the company itself expected. During the [web conference](#) held in connection with the report, CEO Jacob Westerberg explained how high inventory levels of various goods have made distributors reluctant to place new orders through their partners. This came after the component and product shortage that prevailed in the wake of the Covid-19 pandemic and the supply-chain problems that followed. Delayed and large orders from different partners have therefore arrived simultaneously and drastically increased distributors' inventory levels.

Table 1: Financial Overview

MSEK	2020/21	2021/22	2022/23e	2023/24e	2024/25e
Net turnover	44,0	82,8	115,4	162,4	211,2
Growth (%)	55,3%	88,3%	39,3%	40,8%	30,0%
Gross margin (%)	57,2%	52,5%	54,2%	55,0%	55,0%
EBIT	0,9	5,8	0,9	13,6	33,8
EBIT margin (%)	2,0%	6,9%	0,7%	8,3%	15,9%
Cash holdings	1,5	11,5	17,8	28,1	40,7
Total assets	32,3	87,9	107,6	117,4	146,0
Total equity	12,8	69,3	81,3	92,0	118,8
Solidity (%)	39,4%	78,9%	75,6%	78,4%	81,4%
P/E	25,9	37,3	318,5	15,7	6,3
ROE	50,8%	6,5%	0,6%	11,6%	22,5%
EV/EBIT (x)	176,8	27,2	182,2	11,7	4,7
EV/Sales (x)	3,6	1,9	1,4	1,0	0,8

Source: Västra Hamnen Corporate Finance

Figure 1: USWE's revenue and EBIT (SEKm)

Source: Västra Hamnen Corporate

Consumer demand remains strong

However, the demand for USWE's products from consumers remains strong. In fact, distributors' sales to consumers continue to grow at a high rate according to Westerberg; distributors' sales in the U.S. increased close to 100 percent compared to a year ago. Normally, this would have entailed larger orders from distributors during the quarter, but the large inventory levels have instead entailed smaller order volumes. However, the continued strong demand from consumers for the company's products means that USWE expects distributors' order volumes to return to normal levels during the period December 2022 to March 2023, i.e. the period when distributors place orders for the upcoming spring and summer.

Second skin care product to launch in August

The company has also been affected by manufacturing delays in Asia, where it is proving difficult to bring back competent employees to the factories after the Covid-19 pandemic. As an example, Westerberg mentioned that the second product within the company's skin care product line, a chamois cream for bikers, was due to be launched around Vätternrundan, which took place between June 17 and 18 this summer. Manufacturing delays entail, however, that the product will now be launched in August.

New D2C platform launched

Other news from the quarter include the launch of USWE's new D2C platform (i.e. web page). The company experienced strong growth through this channel in the U.S., where demand continues to be strong. However, technical issues for the D2C platform meant remaining markets recorded low growth and profitability, with the latter partly explained by the cost of consultants needed to solve the platform's technical issues. The new and now fully operational D2C platform will improve customers' purchasing experience, search engine optimization and product branding for USWE.

Strong quarter from VOID

With regards to VOID, Westerberg stated that both the launch in June of new VOID products and of the USWE + VOID co-lab collection was well-received after having been tested in a large scale at Vätternrundan. This notion is backed up by the financials of the quarter, with VOID recording its best quarter since the acquisition (SEK 3.7 million). VOID therefore constituted 19 percent of USWE's total sales for the period, which is significantly higher than previously. However, part of this sales growth (164 percent compared to the previous quarter) is likely attributable to seasonality, with spring and summer being VOID's strongest period.

Lower revenue but higher gross margin than expected

Continuing with the financials for the quarter, table 2 below illustrates the differences between our forecast and the actual outcome for the quarter. The discrepancy in revenue of SEK 4.8 million is due to our forecast not taking into account the abovementioned factors, such as low order volumes from distributors and production delays. The difference of SEK 2.4 million in gross profit can in turn largely be attributed to the company's revenue being lower than expected and to USWE's gross margin of 54.5 percent being slightly higher than our forecast of 53 percent.

Table 2: Estimates vs actual, Q1 2022/23

kSEK	Q1 '21/22	Q1 '22/23e	Q1 '22/23a	Diff
Net Revenues	29 372	23 818	19 006	-4 812
Other Revenues	0	0	0	0
Total Revenues	29 500	24 353	19 447	-4 906
Cost of Goods Sold	-13 744	-11 194	-8 645	2 549
Gross Profit	15 756	13 159	10 802	-2 357
Other Operating Expenses	-7 530	-9 966	-9 014	952
Personnel Expenses	-2 641	-3 647	-3 501	146
Total OPEX	-10 171	-13 612	-12 515	1 097
EBITDA	5 585	-453	-1 713	-1 260
Amortisation and Depreciation	-253	-509	-408	101
EBIT	5 332	-962	-2 121	-1 159
Net Financial Items	-93	0	-8	-8
EBT	5 239	-962	-2 129	-1 167
Tax	-1 079	198	439	241
Net Profit	4 160	-764	-1 690	-926
Cash and Equivalents	4 762	14 980	33 218	18 238
Total Equity	68 842	68 568	67 642	-926

Source: Västra Hamnen Corporate Finance

Higher cash conversion than forecasted

The difference in other operating expenses of almost SEK 1.0 million is mainly explained by USWE's marketing costs being lower than our forecast, with the technical issues with the D2C platform meaning less marketing than planned was carried out during the quarter. Ultimately, the discrepancy in cash of SEK 18.2 million is explained by differences in working capital and by USWE securing a loan to fund the acquisition of Giant Loop.

Acquisition of Giant Loop and Armadillo Bag announced

On the 22nd of June, USWE announced they had agreed to acquire the American company Giant Loop for a total of about SEK 30 million. Giant Loop, based in Oregon, is a successful brand known for its off-road motorcycle soft luggage products. Included in the acquisition is Armadillo Bag, a brand created by Giant Loop's founder that focuses on international overland travel. Its primary product is a liquid power reservoir. The acquisition allows USWE to broaden their product portfolio and provides a better foundation for future growth in the U.S. as both brands are highly successful in North America, according to Westerberg.

Total purchase price of SEK 30 million

The transaction was closed on the 1st of July. Of the total purchase price, SEK 15.3 million has been paid in cash and SEK 10.2 million through newly issued shares in USWE on the closing date. The remaining SEK 5 million is to be paid out in July 2024. The transaction also includes a potential earn-out of SEK 10 million. The total earn-out amount is dictated by how Giant Loop and Armadillo Bag develop with regards to revenue and earnings as per the 30th of June 2024.

Synergies expected within sales and logistics

Westerberg and CFO Bo-Göran Jaxelius highlighted during the web conference multiple synergies they aim to achieve. Giant Loop has historically grown organically at a stable rate having lacked the resources to grow substantially. With USWE now providing the resources, an increased growth rate should be achievable. The acquisition also

enables USWE to establish a warehouse in the U.S., which is their biggest market, providing production and logistic benefits. Ultimately, despite Giant Loop's biggest market currently being North America, their products are seen as important for USWE's European growth. This is because soft luggage products can be adapted to the e-bike market, a market which displays strong growth in the Alp region. Giant Loop will contribute with revenue and margins during the current quarter, with the aforementioned synergies becoming apparent during Q4 2022/23 (January to March 2023).

We make a few adjustments to our valuation model

This acquisition, in combination with other happenings recorded during the quarter, means we choose to make a few adjustments to our valuation model. USWE's somewhat lower organic growth means we decrease our revenue forecast for USWE (excluding VOID and Giant Loop) in the short-term. However, this is weighed up by the addition of Giant Loop's revenue contribution of about SEK 7.5 million per quarter (SEK 30 million annually).

Increased personnel expenses

With regards to OPEX, we have slightly adjusted our marketing forecast in response to the lower revenue forecast for USWE, whilst we have increased our forecast for the current quarter (Q2 2022/23) to account for acquisition expenses. Furthermore, personnel expenses have been increased to account for Giant Loop's eight employees. Ultimately, we make some changes to our debt and cash forecast to account for the payment structure of the acquisition.

We maintain our valuation interval

In short, our valuation model continues to project USWE to reach its objective of profitably growing 40 percent annually and we therefore maintain our valuation interval of SEK 73.00 – 92.00 per share.

Income Statement - Annual Data

kSEK	2020/21	2021/22	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e
Net sales	43 989	82 835	115 375	162 436	211 225	260 374	298 783	326 613
Capitalized development cost	678	943	1 791	1 863	1 939	2 018	2 100	2 185
Other revenues	15	1 070	0	0	0	0	0	0
Total revenues	44 682	84 848	117 166	164 300	213 164	262 391	300 882	328 798
Cost of goods sold	-18 812	-39 361	-52 885	-73 096	-95 051	-117 168	-134 452	-146 976
Gross profit	25 870	45 487	64 281	91 203	118 113	145 223	166 430	181 822
Other operating expenses	-17 305	-26 813	-41 888	-53 019	-58 938	-63 617	-68 349	-71 443
Personnel costs	-6 760	-11 232	-18 275	-20 197	-20 992	-21 576	-22 427	-23 633
EBITDA	1 805	7 442	4 119	17 988	38 182	60 030	75 655	86 746
Amortisation & depreciation	-908	-1 612	-3 248	-4 405	-4 386	-4 365	-4 142	-3 949
EBIT	897	5 830	871	13 583	33 796	55 665	71 512	82 797
Net financial items	-519	-150	-208	-144	-60	-2	0	0
EBT	378	5 680	663	13 439	33 737	55 663	71 512	82 797
Taxes	6 108	-1 178	-136	-2 769	-6 950	-11 467	-14 732	-17 056
Net profit	6 486	4 502	527	10 671	26 787	44 196	56 781	65 741
Earnings per share (SEK)	n/a	1,05	0,09	2,32	5,82	9,60	12,34	14,29
Growth (%)								
Net turnover	55,3%	88,3%	39,3%	40,8%	30,0%	23,3%	14,8%	9,3%
EBITDA	na	312,3%	-44,7%	336,7%	112,3%	57,2%	26,0%	14,7%
EBIT	na	549,9%	-85,1%	1459,9%	148,8%	64,7%	28,5%	15,8%
Net profit	na	-30,6%	-88,3%	1924,5%	151,0%	65,0%	28,5%	15,8%
% of revenues (%)								
Gross margin	57,2%	52,5%	54,2%	55,0%	55,0%	55,0%	55,0%	55,0%
EBITDA margin	4,0%	8,8%	3,5%	10,9%	17,9%	22,9%	25,1%	26,4%
EBIT margin	2,0%	6,9%	0,7%	8,3%	15,9%	21,2%	23,8%	25,2%
EBT margin	0,8%	6,7%	0,6%	8,2%	15,8%	21,2%	23,8%	25,2%
Profit margin	14,5%	5,3%	0,4%	6,5%	12,6%	16,8%	18,9%	20,0%
Personnel costs	15,4%	13,6%	15,8%	12,4%	9,9%	8,3%	7,5%	7,2%
Total OPEX	54,7%	45,9%	52,1%	45,1%	37,8%	32,7%	30,4%	29,1%
Profitability (%)								
ROE	50,8%	6,5%	0,6%	11,6%	22,5%	27,1%	25,8%	23,0%
ROIC	neg	7,9%	0,9%	15,5%	33,5%	53,5%	66,9%	75,6%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2020/21	2021/22	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e
Cash and cash eq	1 492	11 475	17 805	28 060	40 694	81 898	136 432	200 062
Inventory	7 411	19 524	20 293	22 050	22 534	25 313	28 176	30 762
Trade receivables	11 950	29 780	16 911	19 600	34 427	41 251	45 917	50 131
Tax credit	103	178	0	0	0	0	0	0
Other receivables	204	538	1 715	2 236	2 856	3 422	3 809	4 159
Prepayments and accrued income	359	1 151	1 009	981	976	976	976	976
Total current assets	21 519	62 646	57 734	72 926	101 487	152 860	215 310	286 090
Tangible assets	340	446	400	362	327	295	267	241
Intangible assets	4 381	19 896	44 628	42 125	44 230	41 914	39 900	38 163
Financial assets	6 108	4 929	4 793	2 024	-8	-8	-8	-8
Total fixed assets	10 829	25 271	49 821	44 511	44 549	42 201	40 159	38 395
Total assets	32 348	87 917	107 555	117 437	146 036	195 061	255 468	324 485
Short-term debt	4 785	0	825	0	0	0	0	0
Trade payables	5 103	5 960	7 610	9 922	12 675	15 188	16 906	18 457
Other short-term liabilities	3 664	580	3 382	4 410	5 634	6 750	7 514	8 203
Accrued expenses and prepaid income	6 040	12 045	5 919	6 615	8 450	10 125	11 270	12 305
Total current liabilities	19 592	18 585	17 736	20 947	26 759	32 063	35 690	38 966
Long-term liabilities	0	0	8 475	4 475	475	0	0	0
Total equity	12 756	69 332	81 344	92 015	118 802	162 998	219 779	285 520
Total equity and liabilities	32 348	87 917	107 555	117 437	146 036	195 061	255 468	324 485

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2020/21	2021/22	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e
Operating activities	1 288	7 292	3 911	17 844	33 206	48 561	60 923	69 690
Changes in working capital	-980	-25 239	9 569	-901	-10 115	-4 864	-4 289	-3 874
Investing activities	0	-17 233	-27 934	-1 863	-6 457	-2 018	-2 100	-2 185
Financing activities	-1 660	45 163	20 785	-4 825	-4 000	-475	0	0
Cash flow for the period	-6 961	9 983	6 330	10 255	12 634	41 204	54 534	63 630
Beginning cash balance	2 741	1 492	11 475	17 805	28 060	40 694	81 898	136 432
Adjustments	0	0	0	0	0	0	0	0
Ending cash balance	1 492	11 475	17 805	28 060	40 694	81 898	136 432	200 062

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q2 2021/22	Q3 2021/22	Q4 2021/22	Q1 2022/23	Q2 2022/23e	Q3 2022/23e	Q4 2022/23e	Q1 2023/24e
Net sales	12 832	23 311	17 320	19 006	25 290	36 788	34 292	36 041
Capitalized development cost	105	180	530	441	445	450	454	459
Other revenues	444	352	274	0	0	0	0	0
Total revenues	13 381	23 843	18 124	19 447	25 735	37 237	34 746	36 500
Cost of goods sold	-5 624	-11 760	-8 233	-8 645	-11 886	-16 922	-15 431	-16 218
Gross profit	7 757	12 083	9 891	10 802	13 849	20 315	19 315	20 281
Other operating expenses	-5 705	-7 327	-6 251	-9 014	-9 086	-11 790	-11 998	-12 405
Personnel costs	-2 317	-3 048	-3 226	-3 501	-4 900	-4 925	-4 949	-4 974
EBITDA	-265	1 708	414	-1 713	-137	3 601	2 367	2 902
Amortisation & depreciation	-289	-533	-537	-408	-536	-1 161	-1 143	-1 126
EBIT	-554	1 175	-123	-2 121	-673	2 440	1 224	1 776
Net financial items	-36	-10	-11	-8	-77	-67	-57	-47
EBT	-590	1 165	-134	-2 129	-750	2 374	1 168	1 730
Taxes	122	-240	19	439	154	-489	-241	-356
Net profit	-468	925	-115	-1 690	-595	1 885	927	1 373
Earnings per share (SEK)	-0,11	0,21	-0,03	-0,39	-0,13	0,42	0,20	0,30
Y-o-Y Growth (%)								
Net turnover	38,5%	118,7%	10,0%	-35,3%	97,1%	57,8%	98,0%	89,6%
EBITDA	na	na	-71,8%	na	na	110,8%	471,8%	na
EBIT	na	na	na	na	na	107,7%	na	na
Net profit	na	na	na	na	na	103,8%	na	na
% of revenues (%)								
Gross margin	56,2%	49,6%	52,5%	54,5%	53,0%	54,0%	55,0%	55,0%
EBITDA margin	neg	7,2%	2,3%	neg	neg	9,7%	6,8%	8,0%
EBIT margin	neg	4,9%	neg	neg	neg	6,6%	3,5%	4,9%
EBT margin	neg	4,9%	neg	neg	neg	6,4%	3,4%	4,7%
Profit margin	neg	3,9%	neg	neg	neg	5,1%	2,7%	3,8%
Personnel costs	18,1%	13,1%	18,6%	18,4%	19,4%	13,4%	14,4%	13,8%
Total OPEX	62,5%	44,5%	54,7%	65,8%	55,3%	45,4%	49,4%	48,2%
Profitability (%)								
ROE	neg	1,3%	neg	neg	neg	2,4%	1,1%	1,7%
ROIC	neg	1,7%	neg	neg	neg	2,4%	1,3%	1,9%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q2 2021/22	Q3 2021/22	Q4 2021/22	Q1 2022/23	Q2 2022/23e	Q3 2022/23e	Q4 2022/23e	Q1 2023/24e
Cash and cash eq	24 503	16 901	11 475	33 218	15 004	9 912	17 805	16 401
Inventory	11 102	15 112	19 524	20 191	16 282	23 181	20 293	21 328
Trade receivables	18 724	27 309	29 780	21 351	20 786	24 189	16 911	17 774
Tax credit	128	152	178	104	0	0	0	0
Other receivables	1 200	300	538	1 120	1 264	1 839	1 715	1 802
Prepayments and accrued income	623	799	1 151	1 021	899	967	1 009	974
Total current assets	56 280	60 573	62 646	77 005	54 236	60 089	57 734	58 279
Tangible assets	339	350	446	432	421	411	400	390
Intangible assets	15 893	16 681	19 896	21 024	46 006	45 306	44 628	43 971
Financial assets	5 150	4 910	4 929	5 368	5 522	5 033	4 793	4 436
Total fixed assets	21 382	21 941	25 271	26 824	51 950	50 750	49 821	48 798
Total assets	77 662	82 514	87 917	103 829	106 186	110 839	107 555	107 077
Short-term debt	0	0	0	3 825	2 825	1 825	825	0
Trade payables	6 166	6 081	5 960	16 231	6 513	10 200	7 610	7 998
Other short-term liabilities	717	553	580	549	1 954	3 709	3 382	3 555
Accrued expenses and prepaid income	2 257	6 433	12 045	4 107	7 164	6 491	5 919	5 332
Total current liabilities	9 140	13 067	18 585	24 712	18 456	22 224	17 736	16 885
Long-term liabilities	0	0	0	11 475	10 475	9 475	8 475	7 475
Total equity	68 522	69 447	69 332	67 642	77 255	79 140	81 344	82 717
Total equity and liabilities	77 662	82 514	87 917	103 829	106 186	110 839	107 555	107 077

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q2 2021/22	Q3 2021/22	Q4 2021/22	Q1 2022/23	Q2 2022/23e	Q3 2022/23e	Q4 2022/23e	Q1 2023/24e
Operating activities	-301	1 698	403	-1 721	-213	3 535	2 311	2 856
Changes in working capital	-9 159	-7 968	-1 981	9 686	-700	-6 177	6 760	-1 976
Investing activities	-11 008	-1 332	-3 848	-1 522	-25 508	-450	-454	-459
Financing activities	40 209	0	0	15 300	8 208	-2 000	-723	-1 825
Cash flow for the period	19 741	-7 602	-5 426	21 743	-18 214	-5 092	7 893	-1 404
Beginning cash balance	4 762	24 503	16 901	11 475	33 218	15 004	9 912	17 805
Adjustments	0	0	0	0	0	0	0	0
Ending cash balance	24 503	16 901	11 475	33 218	15 004	9 912	17 805	16 401

Source: Västra Hamnen Corporate Finance

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