

Update: Report Q4 2023

2024-02-26

Serstech: Breaking even into 2024

- Net sales increased by 268 per cent during 2023
- Still significant variations between quarters
- We maintain our fair value of SEK 1.79 per share

Analysts

Tobias Karlsson
076-8337098
tobias.karlsson@vhcorp.se

Martin Dominique
073-3607085
martin.dominique@vhcorp.se

Stock ticker: SERT
Industry: Security
Listed on: Nasdaq First North
Latest share price (SEK): 0.81
Market cap (MSEK): 168.3
Enterprise Value (MSEK): 149.8
Total number of shares (M): 206.7
- of which free float (M): 180.4

VHCF fair value per share
DCF model SEK 1.79

Serstech
Address: Äldermansgatan 13
227 64 Lund
Webpage: serstech.com
CEO: Stefan Sandor

Main owners (31 Dec 2023) Capital (%)

Avanza Pension	9.2
Nordnet Pensionsförsäkring	5.1
Jens Munch	4.1
Stefan Sandor	4.1
Agne Johansson	2.7

Share price history (SEK)



	-1m	-3m	-12m
Change (%)	29.2	45.4	124.2
52 wk range (Low/Hi) - SEK	0.33 / 0.81		

Source: Västra Hamnen Corporate Finance

Serstech has had a strong start to the year with significant deals during the first month of 2024 already making this the second-best year of the company's history in terms of total order value. In 2023, Serstech reached several milestones and successfully converted pent-up demand from the pandemic into realised deals.

This resulted in net sales of MSEK 62.9 (17.1) and their first profitable year with net earnings of MSEK 0.7 (-29.6). Serstech improved its EBITDA by MSEK 34.1 for 2023, reaching MSEK 12.9 by end-of-year. The outlook for the coming years remains promising and we still anticipate operating leverage and successively increasing margins.

See CEO **Stefan Sandor** talk more about the 2023 financial statement in the [web conference](#) held in conjunction with the release of the report.

Further, we see a promising development with end customers integrating Serstech's instruments and software into their systems. We believe that by offering solutions rather than standalone devices, Serstech has been able to secure recurring orders from satisfied customers.

In summary, the financial outcome of the year-end report led to minor changes in our model. We maintain our fair value of SEK 1.79 per share. Reaching break-even already in 2023 de-risks the investment case and increases expectations for the coming years.

Looking ahead, we continue to expect orders of increasing size, although quarterly variations are expected.

Table 1: Financial Overview

MSEK	2021	2022	2023	2024e	2025e
Total revenues	24.8	22.4	68.3	98.0	121.8
Growth (%)	-22.2%	-9.8%	204.8%	43.4%	24.3%
EBITDA	-3.3	-21.2	12.9	30.1	42.3
EBITDA margin (%)	neg	neg	18.5%	30.7%	34.7%
EBT	-10.3	-29.5	0.8	16.9	28.1
Cash holdings	19.6	1.9	18.5	19.5	45.4
Total assets	66.6	52.5	59.7	77.4	107.5
Total equity	56.1	26.6	48.0	64.8	93.0
Solidity (%)	84.3%	50.7%	80.3%	83.8%	86.5%
P/E	neg	neg	235.3	10.0	6.0
ROE	neg	neg	1.0%	26.0%	30.3%
EV/EBIT (x)	neg	neg	156.8	8.8	5.3
EV/Sales (x)	6.0	6.7	2.2	1.5	1.2

Source: Västra Hamnen Corporate Finance

Order updates

Announced orders of MSEK 21.7

By the end of 2023, Serstech received an order of MSEK 2.9 from its partner **Youngjin Solutec** in South Korea. The order consists of the *Serstech 100 indicator* and *Serstech ChemDash* software. The **Korean National Police Agency** (KNPA) is a returning customer, showing continued trust in Serstech's offering. The order will be delivered and invoiced in the first quarter of 2024.

The order trend remains positive and 2024 has started with three orders. In January, Serstech received an order of MSEK 5.5 from its partner **Safeware** in the US, consisting of the *Serstech Arx*, the patented *SERS kit* and the Serstech ChemDash software. The customer, **Colorado State Patrol**, is a distinguished law enforcement organisation. The order will be delivered and invoiced during Q1.

Furthermore, Serstech received its second order from the Chilean law enforcement **Carabineros**. The order was received from its partner **Aerotech** in Chile. The order was for the Serstech 100 Indicator and the SERS kit. In total, the order amounted to MSEK 2.8 and will be delivered and invoiced in the first quarter of 2024.

Serstech's partner in Singapore, **Kaiser-SGI**, placed an order regarding the Serstech Arx, the SERS Kit and the Serstech ChemDash software. The order value amounted to MSEK 10.5 and they will be delivered and invoiced in March or April this year.

To summarise, these accumulated orders are valued at MSEK 21.7.

ISO certification

In December 2023, Serstech was certified according to ISO 9001:2015 and ISO 14001:2015 standards. The ISO 9001 standard outlines the requirements for a quality management system while the ISO 14001 relates to environmental management systems. Achieving ISO certifications will enhance Serstech's competitiveness during the assessment process of certain tender bids.

Financial update after Q4

Orders vary across quarters

The financials reported in *Table 2* show the differences between the reported numbers and our estimates. There is a considerable difference between our estimates and the actual numbers for the net revenues. Although increasing by 21 per cent in comparison to the same period last year, we were off by a considerable amount on this figure. This is mainly due to the significant variation between the quarters for Serstech, as guided by the company.

Despite the variation, we believe the underlying trend over a rolling period gives a fair justification for the company's growth. In line with Serstech's projection, we will focus our estimates to fit the long-term trend based on annual reports. This means that quarterly updates after this one will most likely see similar differences.

Serstech reported other revenues including grants for the SERSing project which was not incorporated in our estimates for the quarter.

Lower COGS than estimated

Further, the cost of goods sold, and other operating expenses came in lower than our estimates. Other operating expenses for the corresponding period were higher than

they were last year when corrected for the one-off provision. This was mainly caused by higher sales and R&D-related costs.

We note a difference in the personnel expenses, mainly due to the workforce being expanded into 25 members which was not considered in our prior estimates.

Table 2: Estimates vs actual, Q4 2023

TSEK	Q4 '22	Q4 '23e	Q4'23 act	Diff
Net Revenues	3 488	10 895	4 209	-6 686
Other Revenues	829	0	3 105	3 105
Total Revenues	4 317	10 895	7 314	-3 581
Cost of Goods Sold	-2 421	-2 963	-1 783	1 180
Gross Profit	1 896	7 932	5 531	-2 401
Personnel Expenses	-2 852	-4 423	-5 994	-1 571
Other Operating Expenses	-12 194	-5 356	-3 927	1 429
Total OPEX	-15 046	-9 779	-9 921	-142
EBITDA	-13 150	-1 848	-4 390	-2 542
Amortisation and Depreciation	-2 994	-3 130	-3 015	115
EBIT	-16 144	-4 978	-7 405	-2 427
Net Financial Items	-86	-48	94	142
EBT	-16 230	-5 026	-7 311	-2 285
Net Profit	-16 230	-5 026	-7 319	-2 293
Cash and Equivalents	1 866	11 417	18 472	7 055
Total Equity	26 616	50 241	47 972	-2 269

Source: Västra Hamnen Corporate Finance

Serstech reported a larger cash amount than we had modelled for. During the fourth quarter, the company reported better management of working capital, especially accounts receivable. This improved the cash flow considerably and will cause us to reevaluate our assumptions of the company's working capital management going forward.

In summary, the Q4 figures led to minor short-term model adjustments, keeping our long-term scenario intact. We increase our revenue estimates for the coming two quarters due to the three orders received in this quarter. As mentioned, we expect to see a large variation between quarters.

Expecting positive order trend to continue

The compounded annual growth rate of 50 per cent per year for the following five-year period is kept intact, which is also in line with Serstech's stated guidance.

Where do we go from here?

Aiming for improved margins

During the conference call, Stefan Sandor, talked about one of the focus areas this year, to implement cost-cutting measures in the production process to lower the cost of goods sold. In part, this will be achieved by lowering the number of hours worked on individual products, and by a more efficient purchasing process. The goal is to achieve a gross profit margin of 80 per cent for the 2025 financial year. This is earlier than we estimate in our model, and we will monitor the development closely.

We expect operating expenses to remain relatively fixed whilst scaling revenue. However, we have increased our forecasts of personnel expenses going forward due to the increase in the workforce during 2024. Additionally, we are reducing our estimates for other operating expenses, as the previously elevated level for this financial item in 2023 was affected by a provision for a short-time allowance.

We argue that Serstech's competitiveness heavily relies on its ability to stay at the forefront of technology, product development and cost-cutting measures. During the

latter part of 2023, Serstech finished its redesign of the Serstech ARX product, and it will now have a better capacity to meet the increased customer demand.

Going forward, we estimate continued high growth and increased profitability driven by a strong demand for Serstech's products. The company's selling points involve the easy-to-use Serstech Arx and its competitive price point.

Decreased funding risk

In Q4, the firm presented orders pending into 2024 of MSEK 21.7 which bodes well for continued growth. With a strong cash position of MSEK 18.5 and expected profitability, we do not estimate the need for further share issues. Breaking even in 2023 further decreases the financial risk in the investment case.

Recurring customers add value

During the Q4 call, Stefan Sandor also talked about the importance of recurring customers. A few years ago, many orders came from first-time buyers, now, customers have endorsed the product and are starting to come back for new purchases. This behaviour validates Serstech's offering and would potentially also imply a less time-consuming sales process.

Although we are positive about the outlook for sales and earnings, we are somewhat below Serstech's projections and ambitions. Still, our model suggests a fair value significantly higher than the current market capitalisation.

Minor changes in our model prompted us to keep the fair value of the company at SEK 1.79 per share.

Income Statement - Annual Data

kSEK	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Net revenues	20 488	18 651	17 112	62 914	97 974	121 759	156 356	184 414
Capitalized work for own account	5 914	3 321	3 615	3 102	0	0	0	0
Other revenues	5 513	2 873	1 684	2 285	0	0	0	0
Total revenues	31 915	24 845	22 411	68 301	97 974	121 759	156 356	184 414
Cost of goods sold	-8 181	-6 442	-7 795	-17 423	-24 146	-26 497	-32 045	-36 883
Personnel costs	-15 415	-14 431	-13 739	-18 797	-26 660	-32 981	-40 748	-49 030
Other external costs	-5 159	-6 813	-16 671	-19 181	-17 091	-19 994	-24 375	-28 975
Other operating expenses	0	-417	-5 450	0	0	0	0	0
EBITDA	3 160	-3 258	-21 245	12 900	30 077	42 288	59 189	69 526
Amortisation & depreciation	-8 782	-6 853	-8 033	-11 946	-13 139	-14 166	-15 439	-17 006
EBIT	-5 622	-10 111	-29 278	955	16 938	28 122	43 750	52 521
Financials, net	-190	-147	-209	-203	-72	0	0	0
EBT	-5 812	-10 258	-29 487	752	16 866	28 122	43 750	52 521
Taxes	-4	6	-80	-37	0	0	0	-6 568
Net profit	-5 816	-10 252	-29 566	715	16 866	28 122	43 750	45 952
Earnings per share (SEK)	-0,10	-0,12	-0,35	0,00	0,08	0,14	0,21	0,22
Growth (%)								
Net revenues	na	-22,2%	-9,8%	204,8%	43,4%	24,3%	28,4%	17,9%
EBITDA	na	na	na	na	137,7%	40,6%	40,0%	17,5%
EBIT	na	na	na	na	2289,0%	66,0%	55,6%	20,0%
Net profit	na	na	na	na	3435,8%	66,7%	55,6%	5,0%
% of revenues (%)								
EBITDA margin	7,0%	neg	neg	18,5%	30,7%	34,7%	37,9%	37,7%
EBIT margin	neg	neg	neg	1,0%	17,3%	23,1%	28,0%	28,5%
EBT margin	neg	neg	neg	0,7%	17,2%	23,1%	28,0%	28,5%
Profit margin	neg	neg	neg	0,7%	17,2%	23,1%	28,0%	24,9%
Personnel costs	75,2%	77,4%	80,3%	29,9%	27,2%	27,1%	26,1%	26,6%
Total OPEX	100,4%	116,1%	209,6%	60,4%	44,7%	43,5%	41,7%	42,3%
Profitability (%)								
ROE	neg	neg	neg	1,0%	26,0%	30,3%	32,0%	25,2%
ROIC	neg	neg	neg	2,5%	29,2%	46,1%	63,2%	67,9%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Inventories	2 195	3 008	1 868	3 491	2 762	3 227	3 744	4 318
Receivables	3 618	800	11 478	3 611	12 265	11 483	14 042	16 192
Current tax assets	0	129	196	0	250	250	250	250
Other short-term receivables	1 271	1 145	1 707	1 425	8 394	10 478	12 813	14 775
Prepaid costs & accrued income	2 067	459	818	1 031	803	799	832	872
Cash and cash equivalents	11 396	19 574	1 866	18 472	19 546	45 369	82 538	122 078
Total current assets	20 547	25 115	17 933	28 030	44 019	71 606	114 220	158 486
Tangible assets	377	337	192	379	1 091	1 501	1 801	2 072
Intangible assets	35 305	41 054	34 351	31 220	32 188	34 291	37 325	41 176
Financial assets	20	52	69	81	81	81	81	81
Total fixed assets	35 702	41 443	34 612	31 680	33 360	35 873	39 207	43 330
Total assets	56 249	66 558	52 545	59 710	77 379	107 479	153 426	201 816
Advance payments from customers	306	66	10 064	61	0	0	0	0
Liabilities to credit institutions	1 600	1 699	739	1 800	0	0	0	0
Accounts payable	3 985	3 759	4 957	3 134	3 453	4 034	4 681	5 397
Accrued cost & prepaid income	4 541	3 885	5 295	4 943	6 905	8 069	9 361	10 795
Other short term liabilities	402	610	464	873	1 036	1 210	1 404	1 619
Short term tax liabilities	202	311	195	124	345	403	468	540
Total current liabilities	11 036	10 330	21 714	10 935	11 739	13 717	15 914	18 351
Provisions	122	118	216	802	802	802	802	802
Long term liabilities	1 219	0	0	0	0	0	0	0
Total equity	43 872	56 110	26 616	47 972	64 838	92 960	136 709	182 662
Total equity and liabilities	56 249	66 558	48 546	59 709	77 378	107 478	153 425	201 815

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Operating activities	1 935	-3 433	-14 950	13 286	30 005	42 288	59 189	62 958
Changes in working capital	9 273	2 803	1 792	-5 654	-12 311	214	-3 247	-2 289
Investing activities	-14 306	-12 560	-7 590	-9 003	-14 819	-16 679	-18 772	-21 129
Financing activities	-17	21 357	3 040	17 977	-1 800	0	0	0
Cash flow for the period	-3 115	13 956	-17 708	16 606	1 074	25 822	37 169	39 541
Beginning cash balance	15 159	11 396	19 574	1 866	18 472	19 546	45 369	82 538
Ending cash balance	11 396	19 574	1 866	18 472	19 546	45 369	82 538	122 078

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024e	Q2 2024e	Q3 2024e
Net revenues	3 488	12 337	32 775	13 593	4 209	19 946	22 540	27 509
Capitalized work for own account	640	674	609	631	1 188	0	0	0
Other revenues	189	112	166	85	1 917	0	0	0
Total revenues	4 317	13 123	33 550	14 309	7 314	19 946	22 540	27 509
Cost of goods sold	-2 421	-3 293	-8 586	-3 761	-1 783	-5 224	-5 903	-6 718
Personnel costs	-2 852	-4 010	-4 128	-4 695	-5 994	-6 180	-6 493	-6 821
Other external costs	-6 142	-4 621	-5 674	-5 150	-3 870	-4 025	-4 186	-4 353
Other operating expenses	-6 052	0	0	0	-57	0	0	0
EBITDA	-13 150	1 199	15 162	703	-4 390	4 517	5 958	9 617
Amortisation & depreciation	-2 994	-2 947	-2 980	-3 004	-3 015	-3 198	-3 255	-3 313
EBIT	-16 144	-1 748	12 182	-2 301	-7 405	1 319	2 704	6 304
Financials, net	-86	-85	-127	-86	94	-36	-24	-12
EBT	-16 230	-1 833	12 055	-2 387	-7 311	1 283	2 680	6 292
Taxes	0	-14	2	-8	-8	0	0	0
Net profit	-16 230	-1 847	12 057	-2 395	-7 319	1 283	2 680	6 292
Earnings per share (SEK)	-0,19	-0,01	0,06	-0,02	-0,04	0,01	0,01	0,03
Y-o-Y Growth (%)								
Net revenues	19,9%	500,6%	288,1%	335,0%	20,7%	61,7%	-31,2%	102,4%
EBITDA	na	na	na	na	na	246,1%	-62,9%	na
EBIT	na	na	na	na	na	na	-79,3%	na
Net profit	na	na	na	na	na	na	-79,3%	na
% of revenues (%)								
EBITDA margin	neg	9,9%	47,9%	neg	neg	22,6%	26,4%	35,0%
EBIT margin	neg	neg	39,0%	neg	neg	6,6%	12,0%	22,9%
EBT margin	neg	neg	38,6%	neg	neg	6,4%	11,9%	22,9%
Profit margin	neg	neg	38,6%	neg	neg	6,4%	11,9%	22,9%
Personnel costs	66,1%	30,6%	12,3%	32,8%	82,0%	31,0%	28,8%	24,8%
Total OPEX	348,5%	65,8%	29,2%	68,8%	135,6%	51,2%	47,4%	40,6%
Profitability (%)								
ROE	neg	neg	20,6%	neg	neg	2,6%	5,2%	10,8%
ROIC	neg	neg	18,5%	neg	neg	2,4%	4,7%	11,2%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024e	Q2 2024e	Q3 2024e
Inventories	1 868	2 775	3 457	3 238	3 491	2 290	2 588	2 945
Receivables	11 478	4 069	31 149	16 553	3 611	13 115	14 821	12 059
Current tax assets	196	249	303	356	0	250	250	250
Other short-term receivables	1 707	2 531	3 163	1 809	1 425	5 984	6 762	8 253
Accrued cost & prepaid income	818	501	460	533	1 031	650	689	747
Cash and cash equivalents	1 866	18 423	7 850	17 844	18 472	6 677	6 809	14 429
Total current assets	17 933	28 548	46 382	40 333	28 030	28 966	31 918	38 683
Tangible assets	192	153	139	126	379	604	793	953
Finacial assets	69	73	75	78	81	81	81	81
Intangible assets	34 351	32 928	31 858	31 050	31 220	31 339	31 544	31 829
Total fixed assets	34 612	33 154	32 072	31 254	31 680	32 024	32 418	32 863
Total assets	52 545	61 702	78 454	71 587	59 710	60 990	64 336	71 546
Advance payments from customers	10 064	2 094	1 020	1 229	61	0	0	0
Liabilities to credit instituions	739	2 400	2 400	2 400	1 800	1 200	600	0
Accounts payable	4 957	3 129	5 565	5 455	3 134	2 862	3 235	3 681
Accrued cost & prepaid income	5 295	6 462	4 292	5 412	4 943	5 725	6 469	7 362
Other short term liabilities	464	541	5 043	784	873	859	970	1 104
Short term tax liabilities	195	118	134	121	124	286	323	368
Total current liabilities	21 714	14 744	18 454	15 401	10 935	10 932	11 598	12 515
Provisions	216	216	761	920	802	802	802	802
Long term liabilities	4 000	1 200	600	0	0	0	0	0
Total equity	26 616	45 543	58 639	55 267	47 972	49 255	51 935	58 227
Total equity and liabilities	52 546	61 703	78 454	71 588	59 709	60 989	64 335	71 545

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024e	Q2 2024e	Q3 2024e
Operating activities	-6 724	1 192	15 939	-423	-4 430	4 481	5 934	9 605
Changes in working capital	5 333	-2 790	-24 697	12 990	9 097	-12 134	-1 555	2 373
Investing activities	-1 595	-1 485	-1 886	-2 186	-3 439	-3 542	-3 648	-3 758
Financing activities	-70	20 373	-600	-539	-600	-600	-600	-600
Cash flow for the period	-3 056	17 290	-11 244	9 842	628	-11 795	131	7 620
Beginning cash balance	5 138	1 866	18 423	7 850	17 844	18 472	6 677	6 809
Ending cash balance	1 866	18 423	7 850	17 844	18 472	6 677	6 809	14 429

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Stortorget 13 A

211 22 Malmö

Telefon: +46 40 200 250

E-post: info@vhcorp.se

Marketing material commissioned by Serstech

