

Beijer Group

Sector: Technology

Two Are Better Than One (...and a Half)

Beijer Group continued its impressive run with yet another all-time high in Q3'22, beating Redeye's net sales and EBIT estimates. The main difference compared to previous quarters was that both business units performed well simultaneously, with improved sales conversions and a large part of the extra volume going directly down to EBIT, thanks to the group's operating leverage. The company's report was welcomed with a deserved jump in the share price and Redeye raises its base case a bit as well.

Sales and EBIT above forecasts

In our Q2'22 update, we wrote that "should we get a quarter of relative relief in the component availability, we could see Beijer Group fire all on cylinders with both Beijer Electronics and Westermo simultaneously performing well. Westermo has achieved EBIT margins of 15% before and has reported >10% margins on way lower volumes than it is currently reporting." Q3'22 proved to be such a quarter, where both business units performed well, despite the component availability still not being fully resolved. This resulted in sales of SEK567m, compared to Redeye's estimate of SEK534m, i.e., a beat of 6%. The extra volume found its way down to the bottom part of the income statement, resulting in an EBIT margin that strengthened to 12.2% or SEK69m in absolute numbers. Redeye's estimate was an EBIT margin of 10% (SEK53m). Moreover, Beijer Group reported a continued strong order intake of SEK621m, indicating that the demand is still strong in the end markets. In addition, the demand was broad-based, both geographically and business entity-wise, giving it extra durability.

Economic outlook being the joker

On the other hand, even though the current numbers are strong, we must caution that Beijer Group is still a rather cyclical company with ups and downs, especially Beijer Electronics. Westermo ought to be somewhat less cyclical (or late-stage cyclical) as it focuses on segments like train, trackside, and power distribution, all areas that could see steady investment despite the general economy slowing down. Furthermore, Beijer Group's product portfolio is well-positioned to many long-term trends, including increased digitalization, cybersecurity threats, sustainability push, industry 4.0, smart cities, and electrification.

New base case

We raise our base case from SEK91 to SEK98 following the report.

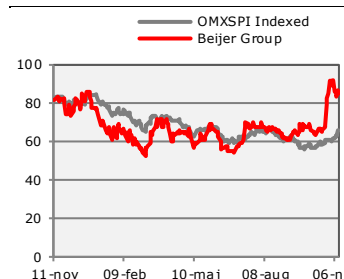
Beijer Group - near-term forecasts										Share price: 82,7			
(SEKm)	2019	2020	2021	Q1'22a	Q2'22a	Q3'22a	Q4'22e	2022a	2023a	2024a			
Net sales	1559	1438	1619	440	533	567	569	2108	2503	2775			
Growth (%)	10,0%	-7,8%	13%	25,4%	36,8%	37,7%	21,9%	30,2%	18,7%	10,8%			
EBITDA	227	164	218	66	80	109	110	365	531	624			
EBITDA margin (%)	14,6%	11,4%	13%	15,1%	15,0%	19,1%	19,3%	17,3%	21,2%	22,5%			
EBIT	103	16	68	28	41	69	71	210	363	430			
EBIT margin (%)	6,6%	1,1%	4,2%	6,4%	7,7%	12,2%	12,5%	9,9%	14,5%	15,5%			
EV/Sales								1,5	1,3	1,2			
EV/EBITDA								8,8	6,0	5,1			
EV/EBIT								15,2	8,8	7,4			
P/E								16,1	8,4	7,1			

Source: Beijer Group, Redeye Research

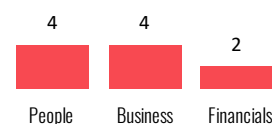
FAIR VALUE RANGE

BEAR	BASE	BULL
47	98	130

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BELE
Market	Mid Cap
Share Price (SEK)	82,7
Market Cap (MSEK)	XX
Net Debt (MSEK)	XX
Free Float	54%
Avg. daily volume ('000)	7,2

ANALYSTS

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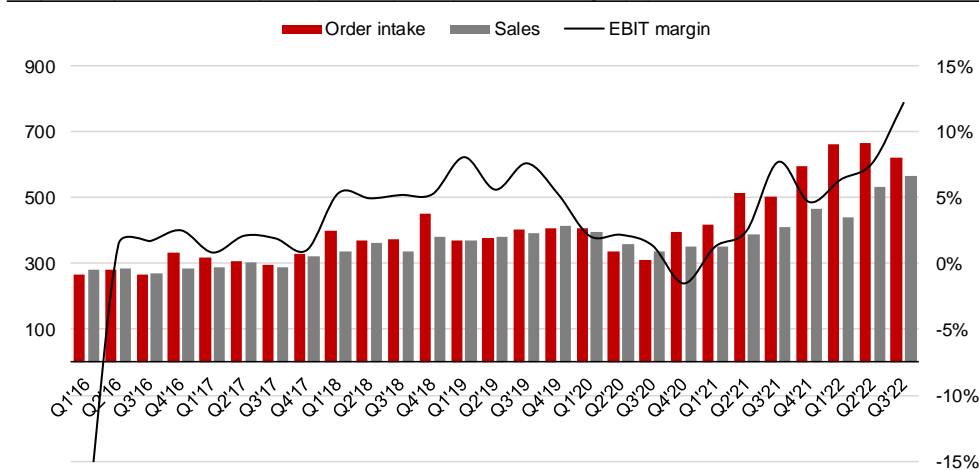
Q3 2022 Review

SEKm	Westermo			Beijer Electronics			Beijer Group		
	Q3'22	Q3'21	change	Q3'22	Q3'21	change	Q3'22	Q3'21	change
Order intake	315	290	8%	308	214	44%	621	502	24%
Sales	263	204	29%	306	210	45%	567	412	38%
EBIT-margin	14,5%	12,7%		14,2%	6,9%		12,2%	7,8%	

Sources: Redeye Research, Beijer Group

Beijer Group's order intake and sales were SEK621m and SEK567m in Q3'22, respectively, and thus a continuation of the company's excellent 2022 so far. The order intake increased by 24% y/y but was down by ~7% q/q. However, Q2'22 was the best quarter on record, and Q3'22 marked the third consecutive quarter where the order intake was above SEK600m. Given that Beijer Group's average quarterly order intake in the five years prior to 2022 was around SEK400m, we find this recent increase impressive. Moreover, like in Q2'22, the order intake was broad-based across geographies and business segments. In the report, management writes: "our strong position in fast-growing areas such as electricity distribution, electrification and infrastructure pave the way for new profitable business." We want to highlight that even though order intake and sales have risen substantially in 2022, the building blocks for this success have been laid long before the current year. This has been done through a combination of an extensive R&D program (usually >10% of sales per year), an organizational/cultural restructuring, and value accretive bolt-on acquisitions.

Beijer Group's order intake (SEKm), sales (SEKm) and EBIT margin (%)

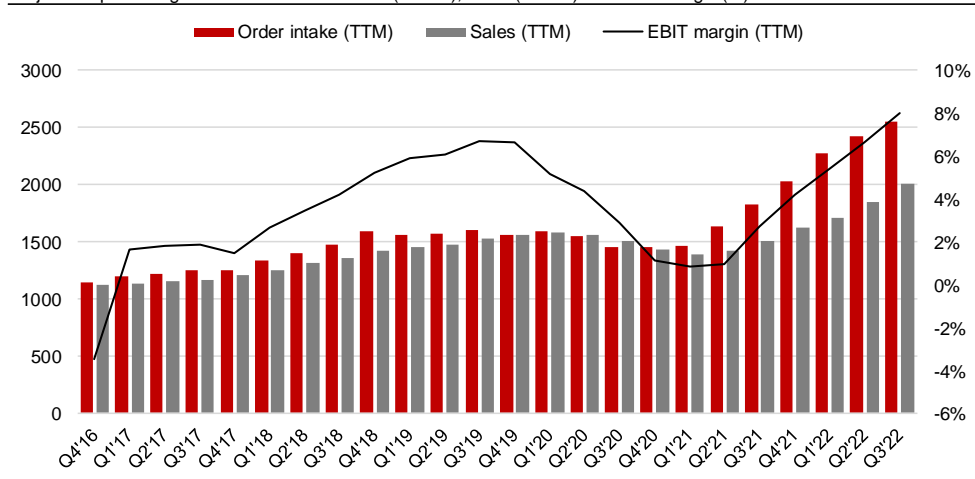


Source: Beijer Group, Redeye Research

Net sales were up by 38% y/y and 6% q/q, and thus the book-to-bill ratio was 1.1x (a lot better compared to a few quarters ago). Moreover, Beijer Group decreased its book-to-bill ratio while keeping a good order intake inflow. Component shortages are still plaguing worldwide supply chains, and Beijer Group, and more specifically Westermo, have been greatly affected. Nevertheless, Q3'22 indicated a clear improvement, which we hope the group can sustain. Redeye's sales estimate was SEK534m (translating into a growth rate of 29.7% y/y), and consequently, Beijer Group beat that by around 6% with its reported sales of SEK567m. Additionally, both business segments were responsible for the strong growth rate, as Westermo was able to handle the difficult supply situation better than in Q2'22. Management also writes that: "Even taking currency effects and price adjustments into account, the group managed to deliver an organic growth of approximately 20 percent." 20% organic growth is a clear indication that Beijer Group is gaining market share with its rejuvenated product portfolio. The target markets grow by about 7-15% a year, supported by many global trends, including increased digitalization, cybersecurity threats, sustainability push, industry 4.0, smart cities,

and electrification. Worth pointing out is that Beijer Group's trailing twelve months sales number now exceeds SEK2bn for the first time (the order intake's trailing twelve months number surpassed SEK2.5bn).

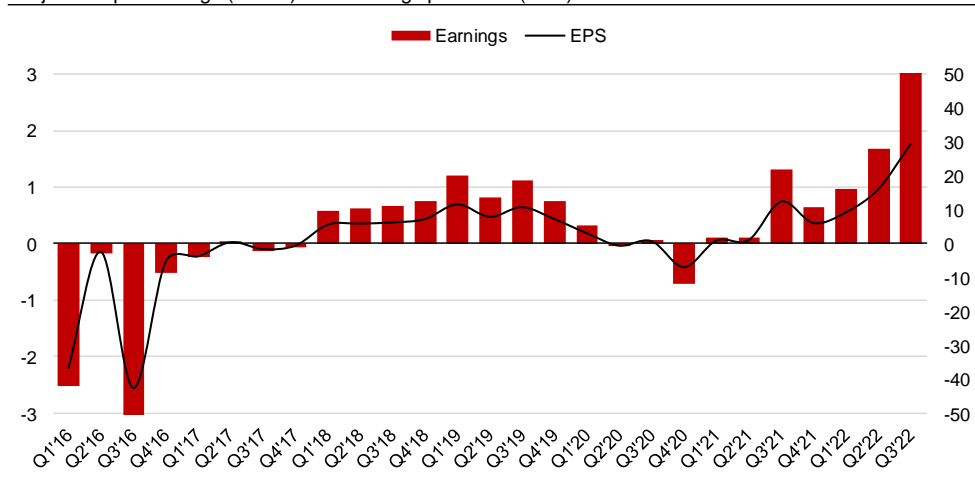
Beijer Group's trailing twelve-month order intake (SEKm), sales (SEKm) and EBIT margin (%)



Source: Beijer Group, Redeye Research

The most impressive metric in the whole report, besides the order intake and an improving sales conversion, was the margin. A lot of the additional sales volumes go directly down to the EBIT as few costs are added below the gross margin, which is about 50% (Beijer Group does not disclose the gross margin on a quarterly basis). Thus, the incremental EBIT margin in Q3'22 was 32% (and the incremental net income margin was 19%). In absolute terms, Beijer Group's EBIT increased to SEK69.4m, and earnings were SEK51.3m. Redeye's estimate was SEK53m in EBIT (translating into a margin of 10%). Instead, Beijer Group achieved an EBIT margin of 12.2%. We have previously talked about the twin-engine effect on the group's profitability if both business segments could ship more freely, and Q3'22 clearly showed Beijer Group's underlying earnings potential when all cylinders start firing. Needless to say, but two performing units are better than one (or one and a half). Earnings per share were SEK1.77 in Q3'22 and the trailing twelve months number is around SEK3.7.

Beijer Group's earnings (SEKm) and Earnings per share (SEK)

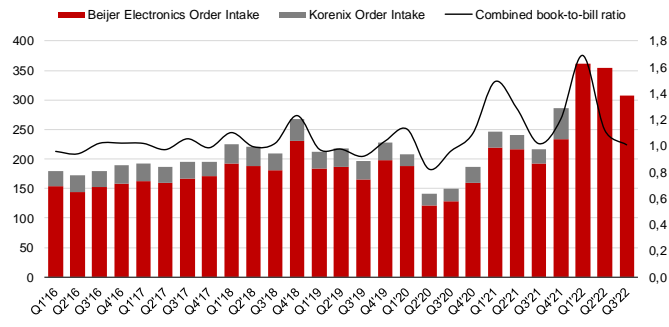


Source: Beijer Group, Redeye Research

Cash flows are still somewhat impacted by the inventory buildup, due to the strained supply chains. This should improve over time, and management wrote in the report that: "for the first time since the component crisis began, more positive tones from our suppliers of electronic

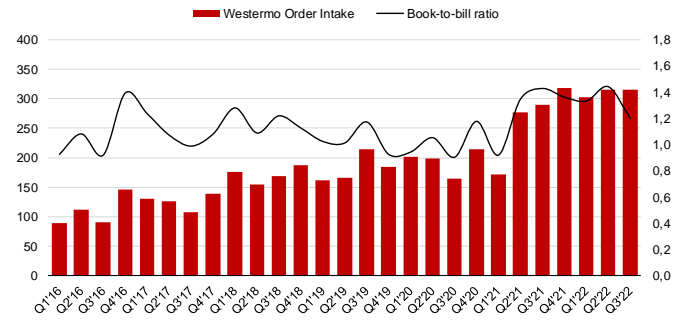
components. Demand for especially consumer electronics is now falling, which in combination with the commissioning of new production facilities for semiconductors in the next few quarters should lead to a better balance between supply and demand in 2023."

New operating segment - Beijer Electronics and Korenix, quarterly development since 2016 (SEKm)



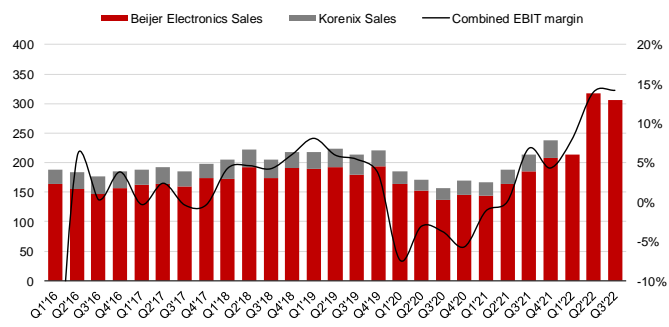
Source: Beijer Group, Redeye Research

Westermo's order intake (SEKm) and book-to-bill ratio, quarterly development since 2016



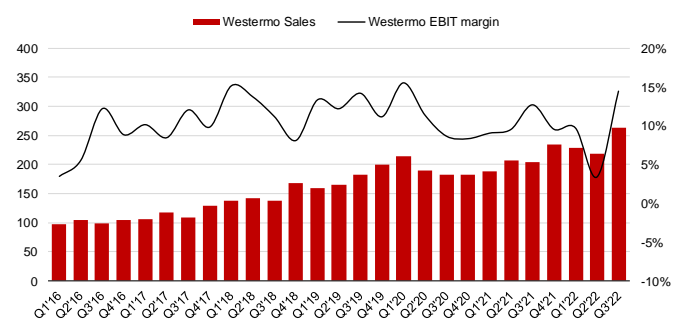
Source: Beijer Group, Redeye Research

New operating segment - Beijer Electronics and Korenix, quarterly development since 2016 (SEKm)



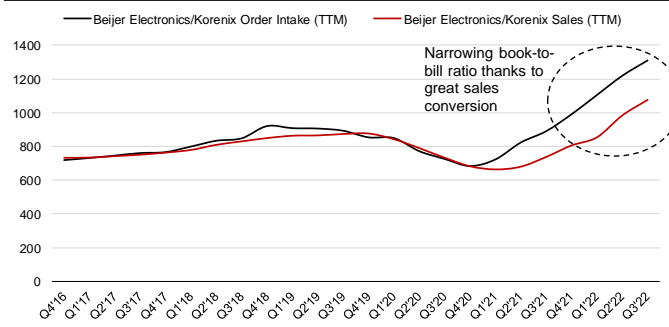
Source: Beijer Group, Redeye Research

Westermo's sales (SEKm) and EBIT margin (%), quarterly development since 2016



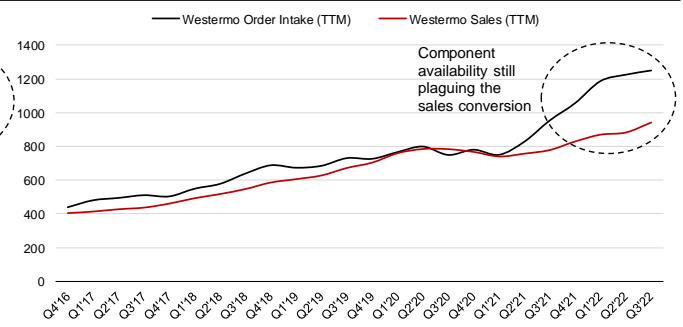
Source: Beijer Group, Redeye Research

Order intake and sales rolling-twelve (SEKm)



Source: Beijer Group, Redeye Research

Order intake and sales rolling-twelve (SEKm)



Source: Beijer Group, Redeye Research

Business segment level

Westermo

Westermo delivered an order intake and sales of SEK315m and SEK263m, translating into y/y growth rates of 8% and 29%, respectively. Compared to Q2'22, the order intake was flat, but the sales expanded substantially, by 20% q/q, thanks to an improvement in the component supply. Q2'22 was plagued by acute problems in the supply chain, leading to several production stoppages which hurt both sales and margins. Even though the situation improved in Q3'22, management writes that the supply situation "continues to make great demands on the organization in terms of planning, foresight, and efforts to counter shortage situations." The book-to-bill ratio of 1.2x does not signal a normalization just yet, but it is a clear improvement compared to Q2'22's book-to-bill ratio of 1.4x. The order backlog was at SEK931m, compared to SEK567m a year ago.

In the report, management writes: "Westermo faced continued strong demand for the business entity's products. Demand is broad but driven primarily by orders relating to infrastructure for the focus segments train and energy, which confirms Westermo's strategic orientation." We believe that Westermo might gain from being a European player when it comes to critical infrastructure, which both trains and energy are. Given the heightened stakes in the geopolitical landscape, including the Russian invasion of Ukraine, China's unification plans with Taiwan, and a possible return of American trade disputes, we believe European countries might be starting to take measures. For example, one of Westermo's main competitors is Moxa. This company could face headwinds simply because it is Taiwanese, as there could be dangers associated with installing its products in critical infrastructure due to the "Chinese risk element." China could impose trade embargos on the island, posing a severe cybersecurity threat, or even launch a military attack. We do not have any deeper insights into how end customers think about the geopolitical risks, but we have heard some concerns being raised. Although Westermo is dependent on components from a global and heavily Asia-reliant supply chain, it should be viewed as less risky than some of its counterparts from a Eurocentric perspective, as it is a Swedish provider first and foremost.

Westermo earned an EBIT margin of 14.5% in Q3'22, and in absolute numbers, an EBIT of SEK38.1m. The business unit's incremental EBIT margin was almost 21%, an indication of great operating leverage and room for further improvement with larger volumes and smoother supply chains. In 2020, Westermo opened an extension of its Stora Sundby facility and increased its manufacturing capacity.

Two new products targeting Industrial Vehicle and Rail Applications



Ibox-1310
Industrial Outdoor Wi-Fi 6 Access Point
2x2 MU-MIMO 5 GHz and 2.4 GHz
2 x N-type connector for Wi-Fi 6
2 x 2.5Gbps port, M12 connectors
IP66 and -40° - +70°C operating range
Power feed: 12 to 48 VDC or PoE/PoE+

[VIEW PRODUCT →](#)



Ibox-1510
EN50155 Wi-Fi 6 Dual Radio Access Point
2x2 MU-MIMO 5 GHz and 2.4 GHz
2 x QMA compatible antenna connectors with built-in combiner
2 x 2.5Gbps port, M12 connectors
IP66 and -40° - +70°C operating range
Power feed: 24 to 110 VDC or PoE/PoE+

[VIEW PRODUCT →](#)

Source: Westermo

We usually highlight a couple of new product launches in the research updates, as we believe they are good telltale signs of where the company is heading and where it sees growth opportunities. On Westermo's newsroom, one can read about two new products in Q4'22, offering Wi-Fi 6 access points for industrial vehicle, train/rail, and stationary applications. The products are Ibox-1310 (industrial vehicles) and Ibox-1510 (onboard trains and trackside). Sami Anttila, business development manager at Westermo, is quoted saying: "Wi-Fi 6 is the next-generation wireless standard, that provides improved performance in areas containing lots of connected Wi-Fi enabled devices, faster data transfer speeds, and functionality to enable lower power usage from connected devices." As always with Westermo, the unique selling point is maximized service life and reduced operational and life cycle costs (i.e., quality and robustness): "The devices are designed to withstand the tough environment onboard vehicles, including the exposure to constant vibration, extreme temperatures, humidity and demanding electromagnetic environments. An extremely compact and power efficient design enables easy integration in space-restricted installations."

We believe that the acquisition of Eltec has made Westermo a leading player within onboard Wi-Fi and railway applications. In May 2022, Westermo launched (through Eltec) another product, CyBox AP-A, together with the Swiss company HUBER+SUHNER, which was summarized as: "an access point with integrated antenna, developed in cooperation with HUBER+SUHNER, which revolutionizes Wi-Fi installation in rail carriages due to its compactness and enables railway operators to provide significantly higher data throughput per

passenger for a better on-board Wi-Fi experience.” The CyBox family has been designed to meet the requirements of rolling stock applications and given the new launches of the Ibex products, we assume that Westermo has come across a sizeable market need.

Industrial PoE+ Gigabit Switch



Source: Westermo

In the Q3'22 report, Beijer Group also highlighted the Power over Ethernet (PoE) switch Lynx 3510, which constitutes the first product in a completely new product portfolio. “It is designed to support the ever-growing need for data communication for security cameras, wireless access points and monitors. The Lynx 3510 is ideal for communication that requires high bandwidth in mission-critical applications in, for example, transport, manufacturing, energy, and smart cities.”

Westermo’s overall product portfolio is thus expanding, and Ibex-1310, Ibex-1510, and Lynx 3510 are examples of additional products that solve many of the current customers’ needs. We, therefore, believe there are synergies in both the R&D program and sales efforts and that these new outgrowths have good product-market-fits from the get-go.

Beijer Electronics

Beijer Electronics delivered an order intake and sales of SEK308m and SEK306m, translating into y/y growth rates of 44% and 45%, respectively. In the quarter, the HMI family X2, which the business entity has centered around, surpassed SEK2bn in sales since inception. Besides, Q3'22 marked the third consecutive quarter where Beijer Electronics’ order intake was above SEK300m and given the previous two quarters’ strength, the business unit’s total order intake for the year-to-date passed the SEK1bn mark. The backlog was SEK551m in Q3'22, compared to SEK283m a year ago. Beijer Electronics has fared better than Westermo and its peers regarding the unruly supply chain. The business entity’s book-to-bill ratio was 1x in Q3'22, compared to 1.12x in Q2'22 (which was, given the situation, at a very good level).

Beijer Electronics’ up-and-running supply chain has gained the business a lot of new customers in 2022, as many competitors have been unable to ship products. Instead, customers have reached out to Beijer Electronics, which has been able to supply them with HMI/panels and other adjacent products. In our update following the Q2'22 report, we wrote that: “Basically, all competitors have capacity problems and lead times are about 12 months (sometimes even longer), while Beijer Electronics has managed to steer clear of similar issues, thereby making it the go-to supplier of HMIs/panels. There is quite some work to change a supplier, and customers must make configurations and applications for the new panels, thus creating switching costs that should make them come back to buy more from Beijer Electronics in the future, even when the capacity problems have been solved at the competitors’ supply chains. The engineering work with the configurations and applications is often a significant part of the cost. We, therefore, believe the market share gains are quite robust should Beijer Electronics serve the new customers well.” In the third quarter, it seemed like some of the competitors had resolved parts of the capacity problems and are starting to return to more normal levels. Still,

Beijer Electronics has added new logos from the supply chain debacle and will most likely see some recurring revenues from them over time.

Management writes in the report that even though the demand remains strong, individual customers appear to be a bit more cautious. The US is at all-time highs and Asia is also showing strength. Meanwhile, the growth in Europe is slower, although developing positively. The demand is broad-based, which should make it more durable. Moreover, the megatrends digitalization and sustainability drive new investments in the manufacturing industry. Management also writes that it has a “positive outlook, even if current growth rates are expected to moderate slightly in the coming quarters.” Given Beijer Electronics explosive growth in the past twelve months, we argue this was highly expected. It will be interesting to see what “moderate slightly” will mean in the end, but we have interpreted it to something more closely to low double-digits/high single digits in the near-term. Perhaps we are too conservative, but in that case, we will adjust successively as we are proven wrong (there is also some worry about a slowdown in the economy, which should have an impact on Beijer Electronics’ end-customers)

The larger volumes, combined with price increases and a favorable product mix, resulted in an EBIT margin of 14.2%, or SEK43.5m. This was significantly better than in Q3’21, where the EBIT margin was 6.9% and in absolute terms SEK14.6m. It was the second quarter in a row where Beijer Electronics reported EBIT margins >14%.

Yangtze Three Gorges 1, the world's largest pure electric cruise ship



Source: Beijer Electronics

We find the customer cases on Beijer Electronics website illustrative of how the business is being done and where the unique selling points lie. One recent case exemplifies some of the Chinese demand and the relationships being created. Beijer Electronics has supplied SES-Tech with X2 pro 10 HMI panels and iX software. SES-Tech is a core supplier of electric ship propulsion systems in China, and the company was looking for a “partner who could supply a versatile HMI and communication solution able to alleviate previous pain points of insufficient development tools and interfacing with third-party controllers.” In stepped Beijer Electronics, which had the needed certifications and an organization with a high level of expertise in marine applications and the technical support available. Liu Yang, electric manager at SES-Tech, is quoted saying: “The technical support from Beijer is excellent. We’ve been optimizing the HMI application together with Beijer’s technical team for more than two years, and they’ve been great to work with.” The case shows how important application knowledge, certifications, and local support functions are. Moreover, it also underlines the switching costs once a customer chooses Beijer Electronics’ products, with two years of optimizing the HMI applications.

New Financing Agreement

On October 25, Beijer Group signed a new financing agreement with Danske Bank and Svensk Exportkredit, giving the company access to SEK1bn in bank loans, with the option to borrow an additional SEK200m. The agreement runs for three years with the possibility of further extension for up to two years.

CFO Joakim Laurén stated in the press release that: "We continuously evaluate complementary acquisition objects." Beijer Group has made a couple of bolt-on acquisitions in the past few years, including the Swiss company Neratec in July 2019 (CHF 5m), the Irish company Virtual Access Limited in October 2019 (EUR 18m), and the German company Eltec in March 2021 (EUR 10.5m). All three of them were connected to the Westermo business segment.

With the financial muscles in place, we expect to see new acquisitions within the next 6-12 months. Also, we would not be surprised to see acquisitions on the Beijer Electronics side, either. Moreover, although Beijer Group has talked about a third business segment (together with Westermo and Beijer Electronics), we believe the odds are more favorably tilted toward bolt-on acquisitions, rather than one "transformative acquisition." We believe the risks are lower when it comes to smaller or medium-sized bolt-on acquisitions. However, Westermo was acquired in 2008 as a transformative acquisition, so the possibility of a completely new third business segment should not be completely ruled out.

Estimates

CEO and President, Jenny Sjö Dahl, writes in the Q3'22 report that: "Despite a turbulent world around us, we continue to see strong demand and there is great potential for our business entities. Westermo shows strength in trains and energy. Beijer Electronics also expects growth, albeit at a lower rate compared to the last twelve-month period. A record order book – which was built on further during the third quarter – and good demand contribute to optimism in the shorter perspective. Accordingly, we assess that Beijer Group will achieve significantly better financial performance in 2022 than 2021."

Beijer Group has significantly outperformed in 2022, compared to any other year since the turnaround and the profitability is finally on a more satisfactory level, although there should be room for improvement from here as well. We agree with Mrs. Sjö Dahl and include growth and strengthening margins in the near-term and add a bit to the medium-term as well. However, we want to add that this hinges on a somewhat stable economic development, which is hard to predict.

Nevertheless, we argue that Beijer Group is clearly gaining market share, and its product portfolio seems well-received in many segments and geographies, which should earn the recent order intake a quality stamp. We would also argue that Beijer Group's recent performance should prove that the group has been transformed and is a new and more qualitative business compared to a few years ago when the turnaround was still ongoing and a bit uncertain. The new rejuvenated product portfolio and reorganization seem successful, and that should be credited to the management team (and owners) that have relentlessly persuaded a long-term view instead of focusing on short-term profits. For example, during the most uncertain quarters at the beginning of the Covid-19 pandemic, Beijer Group did not decrease its R&D program, and thus it has been able to launch several innovative products to a market that seems to have (almost) unlimited appetite for it at the moment.

We have kept our sales numbers more or less flat for Q4'22, although with improved profitability, in line with Q3'22. These numbers are somewhat uncertain, as component availability decides how much that can be shipped and to what margins. We do believe that we are in the right ballpark at least. We have also increased 2023's net sales by around SEK100m, thanks to the order intake of SEK>600m three quarters in a row and to the backlog of almost SEK1.5bn. Moreover, new price increases are expected.

In the medium-term, we see Beijer Group achieving an EBIT margin north of 15%, in line with the capacity of each business unit. We still have some growth in the forecasts, due to the many megatrends like electrification, Industry 4.0, digitalization, etc., in Beijer Group's end-markets. We do, however, let the growth rate drop a bit compared to today's exceptionally high levels. Over a business cycle, Beijer Group expects a growth rate of about 10% a year.

Beijer Group: Estimates, '21-'24e								
(SEKm)	2021	Q1'22a	Q2'22a	Q3'22a	Q4'22e	2022e	2023e	2024e
Sales (group adjusted)	1 619	440	533	567	569	2 108	2 503	2 775
<i>growth y/y</i>	3,9%	25,4%	36,8%	37,7%	21,9%	30,2%	18,7%	10,8%
Beijer Electronics (incl. Korenix)	806	214	317	306	300	1136	1284	1348
Westermo	831	229	219	263	269	979	1235	1442
Total costs (excl. D&A)	1 401	373	453	458	459	1 744	1 972	2 151
EBITDA	218	66	80	109	110	365	531	624
(%)	13,5%	15,1%	15,0%	19,1%	19,3%	17,3%	21,2%	22,5%
D&A	150	38	39	39	39	155	168	194
EBIT	68	28	41	69	71	210	363	430
(%)	4,2%	6,4%	7,7%	12,2%	12,5%	9,9%	14,5%	15,5%

Source: Beijer Group, Redeye Research

Valuation

Company	Sales			EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
	22e	22e	23e	24e	22e	23e	24e	22e	23e	24e	22e	23e	24e		
CTT	244	11,6	8,4	5,9	29	21	17	61%	35%	41%	41%	39%	36%		
Hexagon	55 402	6,7	6,3	5,8	24	23	20	23%	4%	7%	28%	28%	29%		
Tomra	12 026	4,7	4,1	3,8	38	29	25	10%	14%	8%	12%	14%	15%		
Troax	3 031	4,0	4,4	4,1	22	24	21	15%	-12%	7%	18%	18%	20%		
HMS	2 404	6,8	6,1	5,7	27	25	24	22%	8%	5%	25%	24%	24%		
Belden	2 584	1,4	1,4	1,3	10	9	8	7%	-1%	6%	15%	15%	16%		
Advantech	69 525	3,4	3,1	2,8	18	17	15	19%	6%	10%	19%	18%	18%		
Spectris	1 265	2,5	2,3	2,2	15	14	13	-5%	6%	3%	17%	17%	17%		
Siemens	70 285	1,9	1,8	1,7	17	14	12	13%	4%	5%	11%	13%	14%		
Rockwell	7 760	4,5	4,1	3,8	26	22	20	11%	9%	5%	17%	19%	19%		
Beijer Group	3193	1,5	1,3	1,2	15,2	8,8	7,4	30%	19%	11%	10%	15%	16%		
Average	22 453	4,8	4,2	3,7	23	20	17	18%	7%	10%	20%	21%	21%		
Median	5 396	4,2	4,1	3,8	23	22	18	14%	6%	6%	18%	18%	19%		

Source: Redeye, Company reports, FactSet

Beijer Group is still priced below the average industry peer, which we believe has more to do with the company's history than with its future prospects. The order intake, coupled with improved sales conversion and margins with the added volumes paints another, more optimistic picture. Today, it seems that the market has a 'wait and see' stance, which we believe will change gradually as the group hits its financial targets and, from there, start looking forward to the business model's inherent long-term potential. EV/Sales of 1.5x and EV/EBIT of 15.2x on 2022's estimated numbers are too low given Beijer Group's recent performance, in our opinion.

Bear Case SEK47

- CAGR sales ~6.5% next ten years
- Average EBIT margin of ~10% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 7%

In our bear case, we assume an economic slowdown where the order intake takes a near-to-medium-term dive. Moreover, the WeGrow strategy does not lead to much greater growth and margins as competition increases in the segments. Beijer Group continues to have below average margins and profitability on invested capital (ROIC).

Base Case SEK98

- CAGR sales ~10% next ten years
- Average EBIT margin of ~12.5% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 8%

Beijer Group grows at >8% annually in our base case and improves its margins, thus beating its financial goals. EBIT peaks at slightly less than 16% and then goes down as competition increases in its segments to around ~10% a few years down the road (gradually). Beijer Group has, nonetheless, substantially higher 'lower levels' in this scenario and the growth runway (durability) is also a bit longer in this scenario. Not all business entities accomplish their capacity goals, but they are fairly close to it.

Bull Case SEK130

- CAGR sales ~11.5% next ten years
- Average EBIT margin of ~15% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 10%

Beijer Group meets the capacity targets of 10% in annual growth and EBIT margins of around 15% in our bull case. Westermo's WeGrow strategy is successful, and it creates market-leading roles in trackside and power distribution. Beijer Electronics and Korenix also improve their profitability with fewer product platform families and more cooperation. Beijer Group's profitability is in line with other well-managed industrial companies. We also expect a multiple rerating.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 point. The maximum score for a valuation key is 5 points.

Rating changes in the report

Rating changes in the report

People: 4

The People rating is based on quantitative scores in seven sub-categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board. In our rating assessment, Beijer Group gains the highest points from its open communication, qualified and experienced board, and compensation. Relevant industry experience characterizes BELE's management and board of directors. Management shows a good understanding for the targeted markets and has a clear long-term focus. BELE has shown solid progress with current management, which we judge to have completed the company's turnaround.

Business: 4

The Business rating is based on quantitative scores in five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks. Beijer Group receives the highest scores in Value Proposition and Operational Risk. The company operates in large, fragmented growth markets, primarily related to the digitalization trend. Long customer relationships characterize its business, where products are designed into customers' systems -laying the ground for potentially durable competitive advantages (switching costs).

Financials: 2

The Financials rating is based on quantitative scores in five sub-categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality. Although currently showing solid progress, BELE's financial rating is burdened by a couple of years of negative results and free cash flow. As additional profitability improvements are expected, we see room for an increased rating going forward. The company has a solid capital structure, the business is diversified, and we see no risk of needing to raise external capital going forward. On the negative side, the business is cyclical, implying that there is a risk of negative growth in a period of economic downturn.

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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Redeye Rating (2022-11-15)

Rating	People	Business	Financials
5	32	15	4
3-4	149	133	44
0-2	5	38	138
total	186	186	186

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Mark Siöstedt owns shares in the company: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.