

# Beijer Group

Sector: Technology

## Beijer Electronics Stealing the Show

Redeye updates its estimates following Beijer Group's Q2 2022 report, which beat our sales and EBIT estimates. Beijer Electronics surprised us on the upside with a breakout quarter, clearly showing the operating leverage's impact on profitability.

### Beijer Electronics' outstanding quarter

Q2 2022 sales increased by 37% y/y and ~21% q/q to SEK 533m. The currency-adjusted growth rate was 30% y/y. This was better than our estimate of SEK 464m and a beat of almost 15%. Meanwhile, the EBIT amounted to SEK 40.8m, corresponding to a margin of 7.7%, up from 2.5% a year ago. The incremental EBIT margin was 22%, clearly showing the group's operational leverage with higher volumes. Q2 2022 was the first quarter where the sales exceeded half a billion SEK. The star of the show was Beijer Electronics, which grew 71% y/y and 48.1% q/q, while it strengthened its EBIT margin from about zero to 14%. The quarter showed that the group has more than one leg to stand on, as it managed to close a record quarter with the other business unit, Westermo, having a quieter quarter due to production stoppages related to the global component shortage. Westermo has often been referred to as the "golden goose" of the group, and albeit it did not have a bad quarter from a sales or order intake perspective, it had trouble converting orders into sales growth and profits. We believe this will improve in H2 2022.

### Healthy order intake levels, but one must also remember the cyclical nature

Q2 2022 marked the sixth consecutive quarter with an order intake growth. The growth stayed at a healthy level of 30% y/y (23% currency-adjusted), and the order intake amounted to SEK 667m, which was a new record. Beijer Group's trailing order intake is now at about SEK 2.4bn, and its backlog is at SEK 1.4bn. Although the end-markets seem to have an unwavering appetite for Beijer Group's renewed- and market share-gaining products, for now, we want to remind you that many customers are rather cyclical, which makes Beijer Group cyclical as well. Our forecasts hinge then, in part, on a somewhat stable economic environment for continued demand at current levels.

### Closing in on its financial targets

We increase our base case to SEK 91 thanks to the recent performance. Beijer Electronics' excellent Q2 gives us further confidence that the group is on track to reach its financial goals.

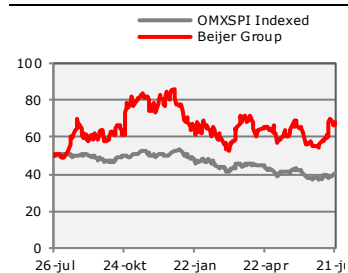
Beijer Group - near-term forecasts										Share price: 68
(SEKm)	2019	2020	2021	Q1'22A	Q2'22A	Q3'22E	Q4'22E	2022E	2023E	2024E
Net sales	1559	1438	1619	440	533	534	569	2076	2403	2661
Growth (%)	10,0%	-7,8%	13%	25,4%	36,8%	29,7%	21,9%	28,2%	15,8%	10,7%
EBITDA	227	164	218	66	80	92	102	340	525	608
EBITDA margin (%)	14,6%	11,4%	13%	15,1%	15,0%	17,1%	17,9%	16,4%	21,8%	22,9%
EBIT	103	16	68	28	41	53	63	185	348	412
EBIT margin (%)	6,6%	1,1%	4,2%	6,4%	7,7%	10,0%	11,0%	8,9%	14,5%	15,5%
EV/Sales								1,4	1,2	1,1
EV/EBITDA								8,4	5,4	4,7
EV/EBIT								15,3	8,1	6,9
P/E								15,0	7,3	6,1

Source: Beijer Group, Redeye Research

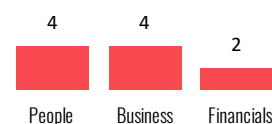
### FAIR VALUE RANGE

BEAR	BASE	BULL
45	91	125

### VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	BELE
Market	Mid Cap
Share Price (SEK)	68
Market Cap (MSEK)	1969
Net Debt (MSEK)	870
Free Float	54%
Avg. daily volume ('000)	7.2

### ANALYSTS

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## Q2 2022 Review

SEKm	Westermo			Beijer Electronics			Beijer Group		
	Q2'22	Q2'21	change	Q2'22	Q2'21	change	Q2'22	Q2'21	change
Order intake	315	277	14%	355	239	48%	667	514	30%
Sales	219	206	6%	317	185	71%	533	390	37%
EBIT-margin	3,4%	9,6%		14,0%	0,1%		7,7%	2,5%	

Sources: Redeye Research, Beijer Group

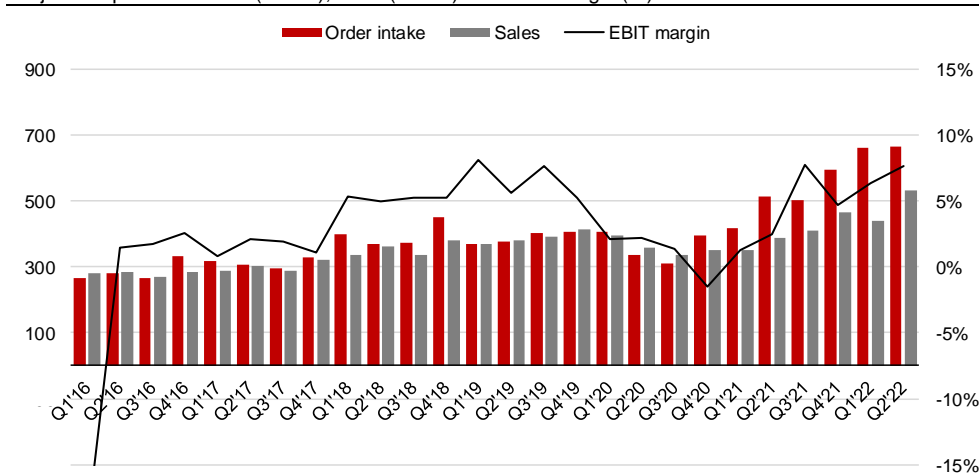
### General speaking

Q2 2022 sales increased by 37% y/y and ~21% q/q to SEK 533m. The currency-adjusted growth rate was 30% y/y. This was considerably better than our estimate of SEK 464m and a beat of almost 15%. The global component shortage has made sales estimates hard to pinpoint, as single quarters can be impacted quite sharply. Management wrote, for example, in the Q1 2022 report that “invoicing could have been some 50 MSEK higher in more normal circumstances,” meaning that substantial shipment volumes had been hindered due to the lack of certain key components. In Q1 2022, the difference was SEK 440m in reported sales to SEK 490m in more normal circumstances.

Worth noting is that in a scenario where Beijer Group would be able to convert its current order intake levels into sales at a 1:1 ratio, its run rate would be at approximately SEK 2.4bn to 2.7bn, depending on if one chooses to use the trailing twelve-month order intake or the Q2 2022 order intake of SEK 667m multiplied by 4x. That would translate into a growth rate of 50-65% compared to 2021's sales of SEK 1.6bn, which was, by the way, the strongest year since the company's turnaround in 2017-18. Moreover, the order backlog is currently at SEK ~1.4bn, equivalent to 2020's total sales. There are certainly some currency tailwinds at the moment, as the Swedish Krona is performing halfheartedly, but even accounting for that, Beijer Group is hitting all-time highs, and we have not yet seen it run on all cylinders, sales and EBIT-wise. Most of the focus has been on the excellent order intake for the past six quarters, and therefore, it was exciting to see Beijer Electronics finally break free from the sales and EBIT quagmire.

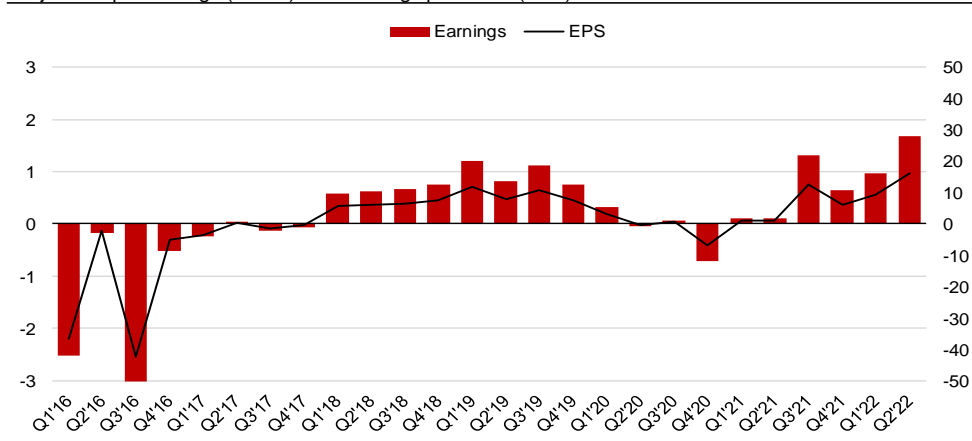
Beijer Group's improved EBIT margin of 7.7% was a welcomed relief, and although it is still insufficient, it is showing signs of momentum. The margin is now back to pre-pandemic 2019 levels, and should both business units perform well in a single quarter, we believe the group is set to reach 10% with current volumes of about SEK 530m. The group's subsidiaries are expected to be capable of achieving minimum yearly growth of 10%, with the potential to earn an EBIT margin of 15%. That would be the next medium-term goalpost.

Beijer Group's order intake (SEKm), sales (SEKm) and EBIT margin (%) since 2016



Source: Beijer Group, Redeye Research

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



Source: Beijer Group, Redeye Research

### Beijer Electronics

Beijer Group's reported sales of SEK 533m were a surprise on the upside, and most, if not all of it, can be attributed to Beijer Electronics' breakout quarter, with sales of SEK 317m (up by 71% y/y and 48.1% q/q). CEO Jenny Sjö Dahl wrote in the report that "to date, Beijer Electronics has been very successful in mitigating the effects of component shortages and lockdowns on a volatile and uncertain market, which is helping the business entity consolidate its market position by securing deals where competitors do not have the delivery capacity. Beijer Electronics is focusing on securing more large orders from OEM customers. The gains are broad-based, covering all markets and segments, not least China, where sales tripled year on year despite periodic lockdowns in the country." In Q1 2022, Beijer Electronics reported sales of SEK 214m, and frankly, we were somewhat caught off guard by this massive sales conversion reverse. The business unit's book-to-bill ratio decreased from about 1.7x to 1.1x, despite it having a good order intake (second best on record, following Q1 2022).

Also, and even more important, is that the sales appear to be somewhat sustainable. 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. Moreover, the customers come from different regions, and management highlighted both China and the US as two major ones. We wrote about the Chinese demand in an update dated August 23, 2021, named Do Not Miss the Forest for the Trees, with the forest being the order intake and the trees being the sorry sales conversion.

But perhaps the most important event was the EBIT margin improvement for Beijer Electronics. The business unit proved that it also, like Westermo, can earn acceptable margins once its volumes increase. Westermo has often been referred to as the group's "golden goose" since it has usually achieved EBIT margins in the 10%-range, while Beijer Electronics and Korenix have stumbled profit-wise. The 14% margin was, therefore, a statement, and we believe this was the main focal point for the strong market reaction. It was an essential piece of the profitability puzzle that had, up until this quarter, been questioned. It gives weight to management's long-term talk about volumes and operational excellence in order to achieve its financial targets.

## Westermo

Meanwhile, Westermo had a somewhat softer quarter with sales of SEK 219m, up by 6% y/y. When adjusted for currency effects, the growth landed on a meager 1% y/y. The culprit of this was the ongoing component shortage, which has plagued the whole industry for about a year. The shortage is more severe for Westermo than for Beijer Electronics, as it uses more specialized components. Even if a product has 99 out of 100 of its needed parts, the last one can hinder shipment and, consequently, the sales conversion. The shortage deteriorated the product mix, reduced outward shipments, and increased inventory build-up, thus affecting the sales and EBIT. The earnings impact was estimated to be SEK 13m, thanks to several production stoppages in the early part of the quarter. However, the stoppage situation has improved, and management writes in the report that: "Because the shortages that occurred in the period were of a temporary nature, the starting position for the second half-year 2022 is estimated to be better." Westermo has also implemented a new round of price increases effective 1 July in order to protect its margins.

Westermo has consolidated its order intake level at around SEK 300m a quarter with little help from larger orders, which it otherwise regularly secures. We argue this is a sign of strength, as it shows that the underlying demand for Westermo's products is strong and at all-time highs with only the help of small and mid-sized orders. Larger orders will come sooner or later and be the "cherry on top." For example, in early 2021, it received an order from Alstom valued at SEK 250m, and in August 2021, it won a contract from Stadler worth around SEK 50m. Westermo's book-to-bill ratio continues to stay at elevated levels of 1.44x. (the trailing twelve-month number is 1.39x). This means that even though the order intake is healthy, it has not been able to grow its sales like Beijer Electronics did in Q2 2022. The business unit has worked extensively with redesigning of some 20 products with new key components that are easier to source, and we believe that might give some relief in H2 2022. Nevertheless, the component availability is challenging, and management writes in the report that "we think the component shortage will remain challenging for at least the current year."

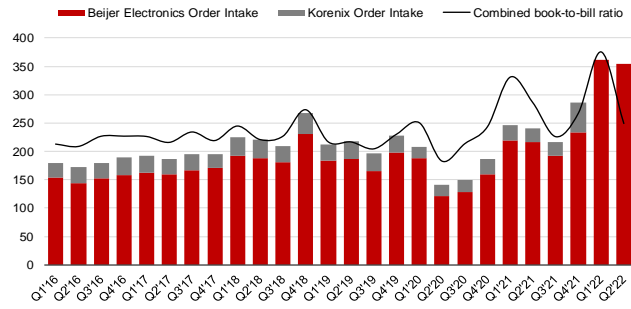
Still, should we get a quarter of relative relief in the component availability, we could see Beijer Group fire all on cylinders with both Beijer Electronics and Westermo simultaneously performing well. Westermo has achieved EBIT margins of 15% before and has reported >10% margins on way lower volumes than it is currently reporting. In Q1 2020, it earned an EBIT margin of 15.6% on a SEK 215m shipment volume (similar to levels it had in Q2 2022). Management writes in the report that "Westermo's stable business model and good earnings capacity are sustaining, and we think that our delivery capacity will be able to improve in the second half-year." Consequently, a gradual increase in delivery capacity is anticipated for the coming quarters.

### Beijer Group's strategy

		
<p><b>Decentralized decision-making close to the customer</b></p> <p>Each business entity has substantial independent responsibility for its business. The best business decisions are taken close to the customer by managers and staff familiar with the market's wants and needs. The foundation is a process where the goals, strategies and business plans of each business entity are decided, monitored and adapted in dialogue with Group Management.</p>	<p><b>Growth targets achieved through organic and acquisition-led growth</b></p> <p>Organic growth is generated by focusing on developing new products at the cutting edge of technology offering high growth potential, and effective sales processes that center on the customer. The parent company brings its experience through continuous management through financing and support on major investments, for example. The growth strategy includes acquisitions of technology enterprises that both complement current holdings, and create new business entities.</p>	<p><b>High repeat revenue share creates stability over time</b></p> <p>BEIJER GROUP's revenue model largely builds on close partnerships with customers on technology solutions. Finished products are part of customers' complete solutions, resulting in long lifecycles. This generates repeat, stable revenues for long periods, without significant extra sales efforts.</p>

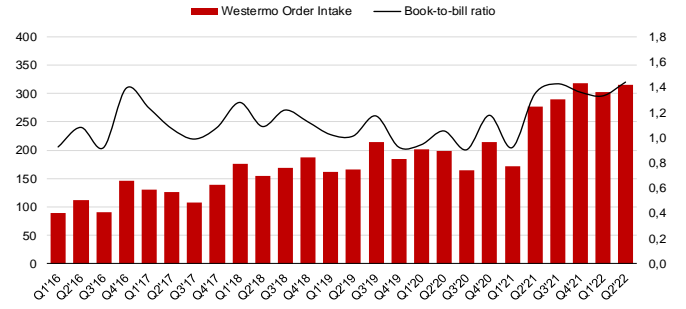
Source: Beijer Group

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



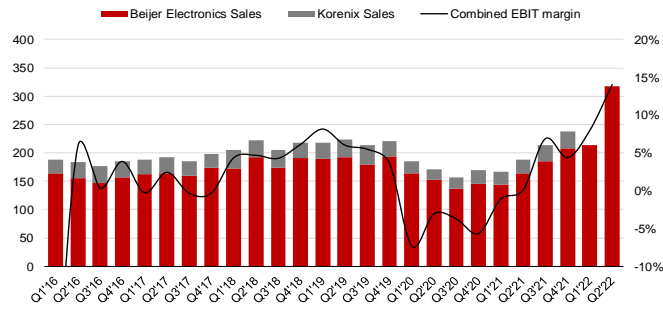
Source: Beijer Group, Redeye Research

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



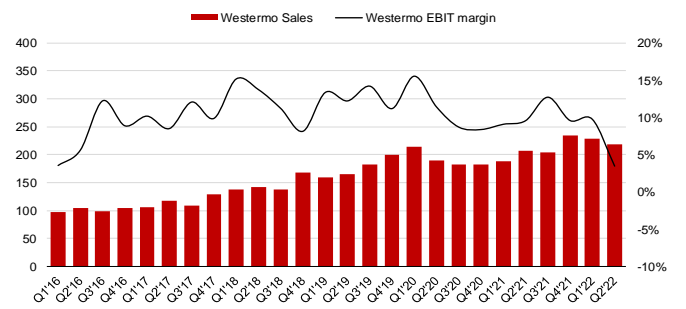
Source: Beijer Group, Redeye Research

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



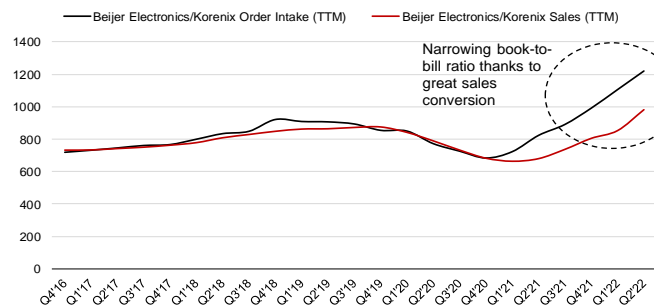
Source: Beijer Group, Redeye Research

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



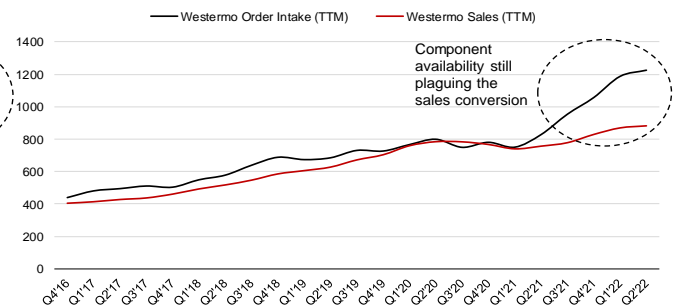
Source: Beijer Group, Redeye Research

Order intake and sales rolling-twelve (SEKm)



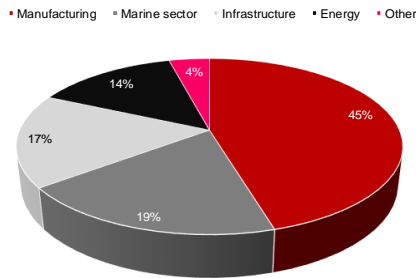
Source: Beijer Group, Redeye Research

Order intake and sales rolling-twelve (SEKm)



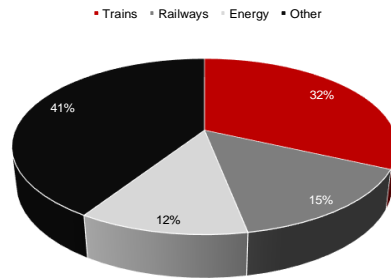
Source: Beijer Group, Redeye Research

Beijer Electronics' sales distribution FY 2021



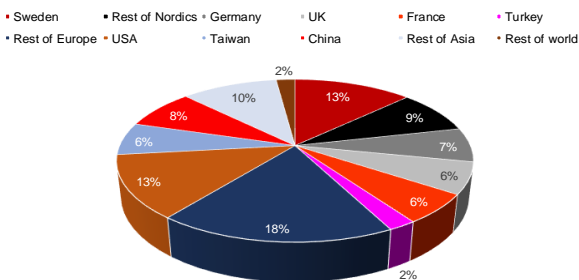
Source: Beijer Group, Redeye Research

Westermo's sales distribution FY 2021



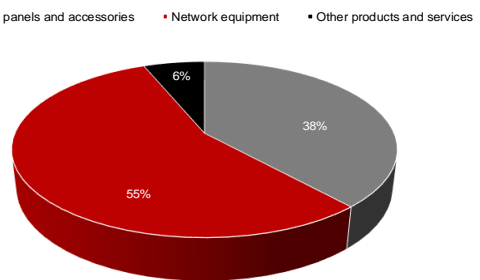
Source: Beijer Group, Redeye Research

Beijer Group's geographical distribution of sales FY 2021



Source: Beijer Group, Redeye Research

Beijer Group's product category distribution of sales FY 2021

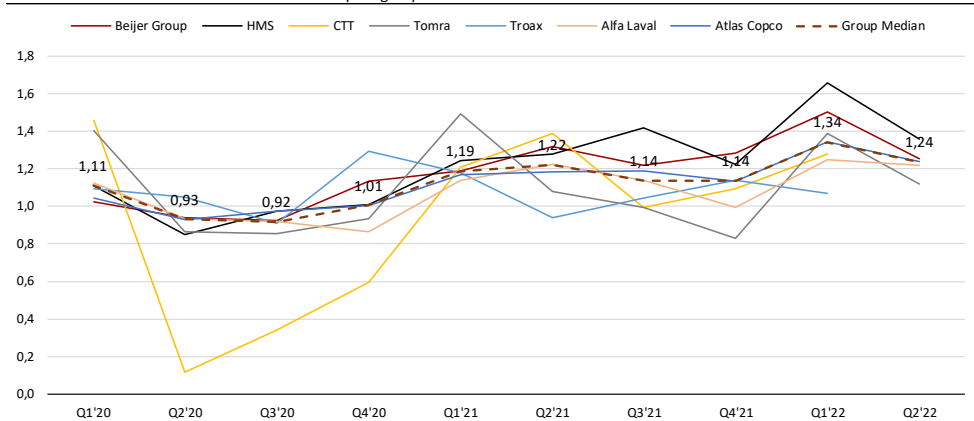


Source: Beijer Group, Redeye Research

**A short look at a couple of book-to-bill ratios**

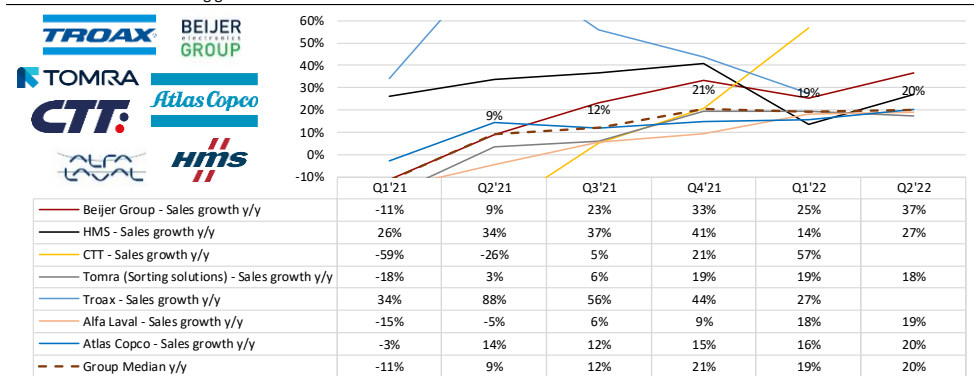
Beijer Group is not the only industrial company struggling with converting order intakes into sales. As one can see below, we have gathered a couple of Nordic industrial peers and their book-to-bill ratios, which show a trend upward following the initial Covid-trough. The order intakes thus outrun a strong growth rebound, and they do not precisely flash red recession warnings at the moment. Many of the industrial peers report all-time high order intakes (or close to it), and management discussions are overall rather optimistic. Moreover, HMS and Beijer Group, both in adjacent market segments, have struggled the most with converting excellent order intakes into sales, as their products have been hit especially hard by the component shortages. There has been a trend of customers wanting to secure their deliveries by ordering way in advance (compared to just in time), which has fueled the order intakes to a certain extent. We will track these ratios in the following updates as we believe they are useful indicators of the general health of the global economy (canaries in the coal mines). We saw an improvement in the book-to-bill ratio in Q2 2022, compared to Q1 2022 and an accelerated growth rate y/y and q/q.

Book-to-bill ratios at a selected Nordic industrial peer group



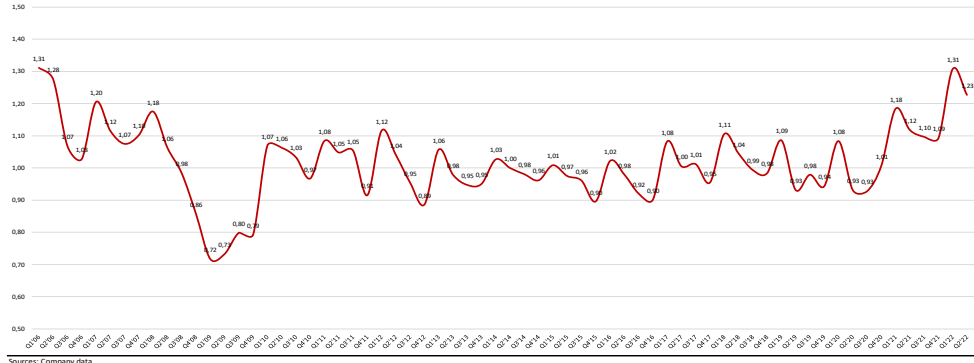
Sources: Company financial reports

Order intake outruns a strong growth rebound



Sources: Company financial reports

Median book-to-bill ratio of a group of Nordic industrial peers (including Beijer Group)



Sources: Company data

### New product launches

About 22% of Beijer Group's 800-some employees work in research and development (R&D). For Westermo, the number is even higher, about 30% of the workforce. Therefore, we expect a continued strong flow of product launches/updates, both in terms of hardware and software.

Moreover, we believe the product launches also give insights into where the organization (including management) sees the most value. In the Q2 2022 report, a new series of switches, the RedFox 7528 with 10-gigabit transmission speed, was highlighted. One can read in the report that: "This series is addressing the increased demand for high-bandwidth products for critical networks in rail and energy, which require the integration of video, voice and data streams." In an interview with Redeye, CEO Jenny Sjö Dahl highlighted RedFox 7528, saying that it was a product that the market had been waiting on and really needed. Westermo also launched a range of new versions of its network products certified for substation automation, further broadening the energy segment product portfolio. Both energy and rail infrastructure belong to the WeGrow growth initiative (together with trains), which are seen as core markets. In H2 2021, Westermo launched the Merlin range as well (via its Virtual Access subsidiary), a new product family which focuses on the power distribution segment. Power distribution/energy and onboard train/railway infrastructure solutions are expected to drive much of Westermo's new growth in the coming years. Moreover, some product families can be applied to several end markets, which leverages the R&D capital significantly. Several of the products act as cogs in the push to make society more sustainable, and we argue that Beijer Group could (and should) get some ESG credit for its offering.

To drive home the point of the growth opportunity, we would like to write about two use cases of recently launched products quickly. 1) As power generation is becoming smaller in scale, more spread out, and increasingly weather-dependent with renewable energy sources such as wind and solar power, there is a need for intelligent power networks that can balance supply and demand and also enable power to be stored. Previously, power primarily moved in one direction, from centralized power plants. This is no longer the case. With Beijer Group's smart meters and sensors, grid management becomes easier, as one can get in-depth consumption and production information in real-time, which improves planning. 2) Improved connectivity onboard trains can, for example, allow passengers to access faster and more reliable Internet (Wi-Fi), which in turn enhances the passenger experience, both for those who seek entertainment and for others that want to take the opportunity to finish some work-related tasks. Westermo has taken steps, both through bolt-on acquisitions and organic investments, to address the infotainment onboard and connectivity systems of trains.

#### A sample of newly launched products from Beijer Group

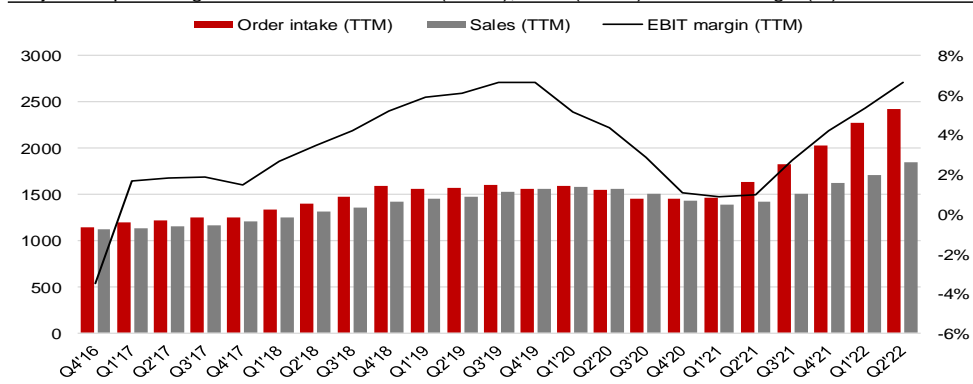


Source: Beijer Group

## New Estimates

In Q1 2022, management's outlook passage stated "Beijer group has good potential to achieve better financial results in 2022 than in 2021." Following the good sales and EBIT improvement in Q2, the outlook was changed to "we assess that Beijer Group will achieve significantly better financial performance in 2022 than 2021."

Beijer Group's trailing twelve-month order intake (SEKm), sales (SEKm) and EBIT margin (%) since Q4 2016



Source: Beijer Group, Redeye Research

We had already accounted for margin improvements in our estimates, and our forecast for Q2 2022 was an EBIT of SEK 37m (8% margin), which was close to the reported margin of 7.7% and SEK 40.8m. Beijer Electronics performed better than what we had anticipated, while Westermo fared slightly worse due to the production stoppages. Still, thanks to favorable market conditions, a record order intake, an order backlog of SEK 1.4bn, and "progress in the supply of critical components," according to management, we have increased our sales estimates somewhat. The weak Swedish Krona should also be noted in the equation, as it is the group's reporting currency. This while about 40% of sales are in Euro and 25% in US dollar. Only 10% of sales approximately stem from Swedish Krona.

We keep Beijer Electronics at the elevated sales level in Q3 and Q4 2022 due to the H1 2022 order intake being even higher and the turnover is quite fast (the unit's order intake in Q1 2022 was SEK 361m). Moreover, we forecast a gradual increase in Westermo's sales conversion in H2 2022, in part due to better component availability (especially in Q4 2022) but also due to the redesign processes. Lastly, we lower the estimated medium-term margins one notch to be a little bit more on the conservative side (this is purely on us). The margin improvement in our forecasts is still substantial and significantly higher than the historical average as we account for larger volumes and operational excellence along the way. Lastly, these forecasts hinge on the economic environment staying somewhat healthy, as Beijer Group is to be considered a cyclical company (albeit one can argue that its cyclicity has decreased a bit with the push into less cyclical markets, especially in the WeGrow areas).

Beijer Group: Estimates, '21-'24E								
(SEKm)	2021	Q1'22A	Q2'22A	Q3'22E	Q4'22E	2022E	2023E	2024E
<b>Sales (group adjusted)</b>	<b>1 619</b>	<b>440</b>	<b>533</b>	<b>534</b>	<b>569</b>	<b>2 076</b>	<b>2 403</b>	<b>2 661</b>
<i>growth y/y</i>	3,9%	25,4%	36,8%	29,7%	21,9%	28,2%	15,8%	10,7%
Beijer Electronics (incl. Korenix)	806	214	317	300	300	1131	1270	1334
Westermo	831	229	219	234	269	951	1148	1343
Total costs (excl. D&A)	1 401	373	453	443	467	1 736	1 878	2 053
<b>EBITDA</b>	<b>218</b>	<b>66</b>	<b>80</b>	<b>92</b>	<b>102</b>	<b>340</b>	<b>525</b>	<b>608</b>
(%)	13,5%	15,1%	15,0%	17,1%	17,9%	16,4%	21,8%	22,9%
D&A	150	38	39	38	39	155	176	196
<b>EBIT</b>	<b>68</b>	<b>28</b>	<b>41</b>	<b>53</b>	<b>63</b>	<b>185</b>	<b>348</b>	<b>412</b>
(%)	4,2%	6,4%	7,7%	10,0%	11,0%	8,9%	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	251	10,0	6,6	5,2	27	18	14	66%	47%	26%	37%	37%	36%
Hexagon	53 671	6,3	5,6	5,1	22	19	17	19%	9%	7%	29%	29%	30%
Tomra	11 839	2,6	2,3	2,1	19	15	14	9%	13%	7%	14%	15%	16%
Troax	3 014	4,5	3,7	3,1	23	18	15	14%	7%	7%	20%	21%	21%
HMS	2 326	8,5	7,5	7,0	36	31	28	18%	12%	5%	23%	24%	25%
Belden	2 492	1,3	1,3	1,2	9	8	8	3%	2%	1%	15%	15%	15%
Advantech	66 254	3,8	3,4	3,0	21	18	16	13%	12%	11%	18%	18%	18%
Spectris	1 324	2,3	2,1	2,0	14	12	12	0%	4%	3%	17%	17%	17%
Siemens	69 209	1,8	1,6	1,5	13	12	10	11%	4%	5%	14%	14%	15%
Rockwell	7 851	3,6	3,3	3,0	20	17	15	12%	8%	6%	17%	19%	20%
<b>Average</b>	<b>21 823</b>	<b>4,5</b>	<b>3,8</b>	<b>3,3</b>	<b>20</b>	<b>17</b>	<b>15</b>	<b>16%</b>	<b>12%</b>	<b>8%</b>	<b>20%</b>	<b>21%</b>	<b>21%</b>
<b>Median</b>	<b>5 433</b>	<b>3,7</b>	<b>3,3</b>	<b>3,0</b>	<b>21</b>	<b>17</b>	<b>15</b>	<b>13%</b>	<b>8%</b>	<b>7%</b>	<b>18%</b>	<b>19%</b>	<b>19%</b>

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 exceptional order intake is an early indicator of stable growth and improved margins with the added volume (which is also starting to show). 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 1.4x and EV/EBIT of 15.3x on 2022's estimated numbers are too low given Beijer Group's recent performance, in our opinion.

### Bear Case SEK 45

- 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 a slower pick up after the Covid-19 pandemic and prolonged effects from component shortages. 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 SEK 91

- CAGR sales ~10% next ten years
- Average EBIT margin of ~12% coming ten years
- Terminal growth rate of 2%
- Terminal EBIT margin of 8%

Beijer Group grows at >7% annually in our base case and improves its margins, thus beating its financial goals. EBIT peaks at 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.

### Bull Case SEK 125

- CAGR sales ~11% 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 re-rating.

## 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

### Important information

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 (2022-07-24)

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

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### CONFLICT OF INTERESTS

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.