

Image Systems

Sector: Industrial Goods & Services

Progress Under the Hood

Redeye is still positive on the case as we believe the long-term potential offers good risk reward. The Q2 report was not a blockbuster but shows a stable performance in terms of sales and earnings. We understand that the reorganization within RemaSawco has some short-term impact on business activity. Hence, we are making minor adjustments to our near-term forecasts, but nothing that changes the big picture. Our valuation is unchanged with a Base case fair value around SEK 2.3 per share.

Sales and earnings flat in Q2

Q2 net sales of SEK 42m and EBITDA 4m is unchanged Y/Y. Gross margins improved, which was balanced by higher Opex. Order intake of SEK 40m is a bit lower Y/Y, but some large orders have been announced during Q3. We also note that Q2 saw strong operating cash flow of SEK 6m after investments.

RemaSawco's sales and earnings were basically flat Y/Y, while we expected a little more. The restructuring process and transformation is well underway but had some impact on business activity in the quarter as older product generations are currently being phased out. Also, Opex was somewhat higher due to organizational changes.

Motion Analysis showed solid growth and strong earnings. A contributing factor was the deliveries to China that were postponed in Q1. Motion Analysis' exposure to the global defense industry (around 50% of business) will most likely benefit from higher defense spending in the coming years.

Minor changes to estimates

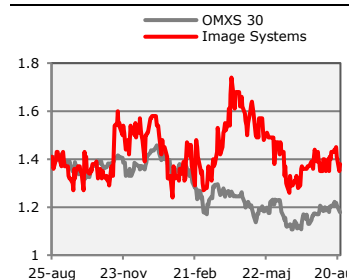
We lower our near-term forecasts due to RemaSawco's transformation and streamlining of its product portfolio. We are still confident that both business segments are on the right track and will return to profitable growth in the coming years. Our valuation is unchanged with a Base case fair value around SEK 2.3 per share.

KEY FINANCIALS (SEKm)	2020	2021	2022E	2023E	2024E	2025E
Net sales	163	159	171	185	208	218
EBITDA	5	19	17	25	32	33
EBIT	-13	1	-3	5	15	23
EPS (adj.)	-0.2	0.0	0.0	0.1	0.2	0.2
EV/Sales	0.8	0.9	0.7	0.6	0.4	0.3
EV/EBITDA	29.0	7.2	7.0	4.1	2.5	1.7
EV/EBIT	-10.3	174.8	-39.4	19.3	5.4	2.3
P/E	-6.9	1400.6	-31.2	25.2	9.0	5.7

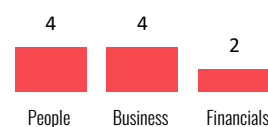
FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	2.3	3.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ISY.ST
Market	Nasdaq
Share Price (SEK)	1.4
Market Cap (MSEK)	123
Net cash 22E (MSEK)	4
Free Float	57%
Avg. daily volume ('000)	40

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Progress Under the Hood

Q2 numbers on group level were only slightly below our estimates, with Motion Analys better and RemaSawco lower than we anticipated. Gross margins (Bill-of-materials) at a solid 64% while Opex were a little higher Y/Y. Probably due to temporary costs related to the reorganization within RemaSawco. Operating cash flow of SEK 6m despite modest earnings.

Image Systems: Actual vs. expected				
(SEKm)	Q2'21	Q2' 22 Actual	Q2'22E	Diff
Net sales	42.6	42.4	44.0	-4%
Gross profit *	25.0	27.1	27.5	-1%
EBITDA	3.6	4.2	6.7	-37%
EBIT	-0.9	-0.5	1.8	n.m.
Sales growth Y/Y	0%	0%	3%	
Gross margin *	59%	64%	63%	
EBITDA margin	8%	10%	15%	
EBIT margin	-2%	-1%	4%	

* Excluding capitalized development costs

Source: Image Systems, Redeye Research

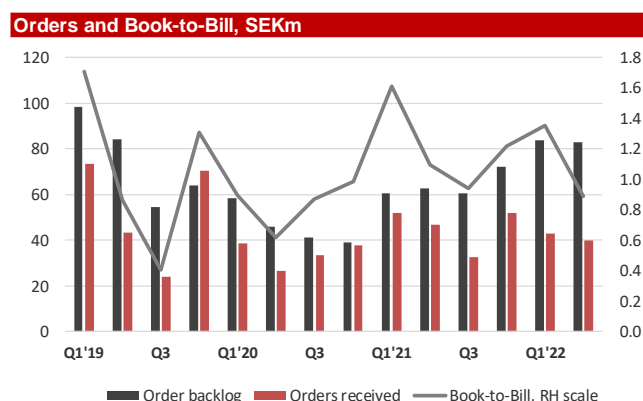
RemaSawco's revenues and earnings were a bit softer than we anticipated. As mentioned above, probably due to the current activity of streamlining products and offering and reorganizing the team. Order booking were a little lower but as far as we understand, the quality of the backlog is improving. Moelven Timber, one of RemaSawco's flagship clients, has signed a framework agreement that can generate orders up to SEK 27m.

Motion Analysis had its strongest quarter since early 2020, when the Corona pandemic first started to impede business conditions. According to the report, market conditions remain strong and sales activities will benefit from the possibility to travel and visit customers. Increased defense budgets and spending on various defense projects will most certainly trickle down to Motion Analysis considering its wide and global customer base. Admittedly, lead times are sometimes long, but on the other hand, this growth trend will probably also be long-term.

Image Systems: Actual vs. expected				
(SEKm)	Q2'21	Q2' 22 Actual	Q2'22E	Diff
RemaSawco				
Revenues	37.2	35.0	38.0	-8%
EBITDA	2.6	2.1	5.0	-58%
EBITDA margin	7%	6%	13%	
Motion Analysis				
Revenues	6.9	10	8.0	25%
EBITDA	1.8	3.5	2.5	40%
EBITDA margin	26%	35%	31%	
Group & parent company	-0.8	-1.4	-0.8	
Group EBITDA	3.6	4.2	6.7	-37%

Source: Image Systems, Redeye Research

Order bookings of SEK 40m in Q2 were lower Y/Y and below net sales. The order backlog is however basically unchanged at SEK 83m, probably due to positive currency effects.



Source: Image Systems, Redeye Research

Financial Forecasts

Following the Q2 report and other recent events, we lower our near-term forecasts somewhat due to RemaSawco's transformation and streamlining of its product portfolio. In our Base case scenario, we anticipate a gradual recovery to pre-covid business volumes in both segments by 2024. This should allow for significantly higher earnings.

RemaSawco's has already made major cost reductions and improved efficiency in its project organization. The next steps in the transformation are aiming at securing the longer-term strategy for profitable growth. The sawmill industry is currently very profitable and market conditions for sawn timber have stabilized somewhat at a healthy level. Hence, conditions for investments are good. We are quite certain that RemaSawco will return to positive growth in the coming years, but for obvious reasons, growth rates are very difficult to predict.

Motion Analysis' has suffered from the global pandemic as travel restrictions inhibit their sales process. Hopefully we have now turned the corner. Also, the new technology platform will enable new possibilities for product development that will drive sales in the coming years.

Sales & earnings estimates						
(SEKm)	2019	2020	2021	2022E	2023E	2024E
Total revenues	212	167	159	171	189	208
RemaSawco	176	133	130	139	153	169
Motion Analysis	36	35	28	32	36	39
Group growth	32%	-21%	-5%	8%	10%	10%
COGS	-88	-65	-49	-57	-63	-72
Gross profit	123	103	110	114	126	136
margin	57%	60%	68%	65%	65%	64%
OPEX	-111	-98	-90	-97	-100	-104
EBITDA	13	5	19	17	25	32
margin	6%	3%	12%	10%	13%	15%
<i>Whereof</i>						
RemaSawco	2	-2	14	11	18	24
margin	1%	-2%	11%	8%	12%	14%
Motion Analysis	16	13	8	10	12	14
margin	46%	37%	29%	32%	34%	35%
Amortization & Depreciation	-17	-18	-19	-20	-20	-17
EBIT	-4	-13	1	-3	5	15
margin	-2%	-8%	1%	-2%	3%	7%

Source: Image Systems, Redeye Research

Valuation

Fair value per share:
~SEK 2.3

Our valuation is based on the forecasts above and the assumptions outlined below. Our Base case fair value is unchanged at around **SEK 2.3 per share**.

Our long term projections and assumptions:

- Sales CAGR of approximately 6%.
- Average EBITDA margins of around 14% (2022-30).
- Terminal growth of 2% and a terminal EBITDA margin of 13%.
- WACC: 12%

Image Systems, assumptions and valuation

Assumptions	2022-30	DCF-value	
CAGR sales	6%	WACC	12%
EBITDA margin (avg.)	14%	PV of FCF	113
ROE (avg)	10%	PV of Terminal value	84
Terminal		EV	197
Growth of FCF	2%	Net cash	6
Net sales 2031E, SEKm	284		
EBITDA margin	13%	DCF value	203
EBIT margin	10%	Fair value per share	2.3
EV/S Exit multiple	0.9x	Current share price	1.4
EV/EBIT Exit multiple	8.7x	Potential	62%

Source: Redeye Research

Multiples still attractive

2021 was a year of turn-around on EBIT level, although EBITDA has been in positive territory all along. We argue that the most relevant earnings multiple is somewhere between EV/EBIT and EV/EBITDA. A large part of amortizations are related to intangible assets from the Limab acquisition and should be excluded. Total depreciations and amortizations are currently higher than the going run-rate for investments. In this context, and based on our forecasts, we think the share is trading at attractive multiples.

Valuation multiples

	2020	2021	2022E	2023E	2024E
P/S	0.8	0.9	0.7	0.7	0.6
P/E	neg	1400.6	neg	25.6	9.2
EV/EBIT	neg	174.8	neg	22.1	8.0
EV/EBITDA	29.0	7.2	7.0	4.7	3.7

Source: Redeye Research

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 points. The maximum score for a valuation key is 5 points.

Rating changes in the report: No changes

People: 4

Overall, Image Systems has an experienced team with in-depth market knowledge. The CEO (Johan Friberg) is an internal recruitment and had the position as Managing Director of Motion Analysis since 2012. The management's focus on profitable growth is clear, showing that they aim to create value for the company's customers. The company has a solid list of shareholders and the three largest own around 50%. To improve our ownership scoring, we would like to see higher shareholdings by management. On the positive side, we believe that the three largest shareholders have the financial strength to back up a potential future share issue.

Business: 4

Image Systems has a high gross margin in both business areas, particularly in Motions Analysis' software business. While RemaSawco has a solid market position in Scandinavia and Northern Europe, Motion Analysis is a dominant global player in its specific market niche. Image Systems has a huge distribution network in Motion Analysis, making it possible to develop or add products to the portfolio and distribute them very efficiently. Both target markets for Image Systems are expected to grow by more than 5 % annually in coming years.

Financials: 2

The poor financial score for Image Systems is related to the company's history. Operating cash flow and earnings have been negative historically, although clearly improving lately (21-22). The company is currently (summer 2022) net debt free. Hence, financial flexibility has improved. The business should be cash flow positive given normal market conditions, but still need higher volumes to reach decent profitability. The company has a large number of clients but obviously the majority are in the sawmill industry which is quite cyclical. If the company delivers according to our expectations, its Financial rating will gradually improve.

INCOME STATEMENT	2020	2021	2022E	2023E	2024E
Net sales	163	159	171	185	208
Total operating costs	-158	-139	-154	-160	-176
EBITDA	5	19	17	25	32
Depreciation	-4	-4	-4	-4	-3
Amortization	-13	-15	-16	-16	-14
Impairment charges	0	0	0	0	0
EBIT	-13	1	-3	5	15
Share in profits	0	0	0	0	0
Net financial items	-4	-1	-1	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-16	-1	-4	5	15
Tax	-2	1	0	-1	-2
Net earnings	-18	0	-4	5	14

BALANCE SHEET	2020	2021	2022E	2023E	2024E
Assets					
<i>Current assets</i>					
Cash in banks	4	7	9	19	43
Receivables	17	22	24	26	29
Inventories	12	12	14	17	19
Other current assets	15	16	16	17	18
Current assets	48	57	62	79	108
<i>Fixed assets</i>					
Tangible assets	26	23	22	21	19
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	36	36	36	36	36
Cap. exp. for dev.	38	30	22	15	8
Intangible rights	27	32	31	28	25
Non-current assets	0	0	0	0	0
Total fixed assets	126	121	112	99	88
Deferred tax assets	19	19	19	19	19
Total (assets)	193	196	193	197	215
Liabilities					
<i>Current liabilities</i>					
Short-term debt	11	5	3	0	0
Accounts payable	16	16	17	19	21
Current liabilities	29	40	42	44	46
Current liabilities	56	61	62	63	67
Long-term debt	0	2	1	0	0
Long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	56	63	64	63	67
Deferred tax liab	7	7	7	7	7
Provisions	16	13	13	13	13
Shareholders' equity	114	114	110	115	129
Minority interest (BS)	0	0	0	0	0
Minority & equity	114	114	110	115	129
Total liab & SE	193	196	193	197	215

FREE CASH FLOW	2020	2021	2022E	2023E	2024E
Net sales	163	159	171	185	208
Total operating costs	-158	-139	-154	-160	-176
Depreciations total	-18	-19	-20	-20	-17
EBIT	-13	1	-3	5	15
Taxes on EBIT	-1	0	0	-1	-1
NOPLAT	-14	1	-3	5	13
Depreciation	18	19	20	20	17
Gross cash flow	3	19	17	25	31
Change in WC	35	6	-1	-2	-1
Gross CAPEX	-9	-13	-11	-8	-5
Free cash flow	29	12	5	15	24

CAPITAL STRUCTURE	2020	2021	2022E	2023E	2024E
Equity ratio	59%	58%	57%	58%	60%
Debt/equity ratio	10%	6%	4%	0%	0%
Net debt	8	0	-4	-19	-43
Capital employed	122	114	106	96	86
Capital turnover rate	0.8	0.8	0.9	0.9	1.0

GROWTH	2020	2021	2022E	2023E	2024E
Sales growth	-21%	-2%	7%	8%	12%
EPS growth (adj)	161%	-101%	-	-224%	180%

DCF VALUATION	CASH FLOW, MSEK		
WACC (%)	12.0 %		
	NPV FCF (2022-2030)	113	
	NPV FCF (2031-)	84	
	Non-operating assets	10	
	Interest-bearing debt	-4	
	Fair value estimate MSEK	203	
Assumptions 2020-2026 (%)			
Average sales growth	6.8 %	Fair value e. per share, SEK	2.3
EBIT margin	7.9 %	Share price, SEK	1.4

PROFITABILITY	2020	2021	2022E	2023E	2024E
ROE	-15%	0%	-4%	4%	11%
ROCE	-9%	1%	-3%	5%	12%
ROIC	-9%	1%	-3%	5%	14%
EBITDA margin	3%	12%	10%	14%	15%
EBIT margin	-8%	1%	-2%	3%	7%
Net margin	-11%	0%	-2%	3%	7%

DATA PER SHARE	2020	2021	2022E	2023E	2024E
EPS	-0.21	0.00	-0.04	0.05	0.15
EPS adj	-0.21	0.00	-0.04	0.05	0.15
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	0.09	0.00	-0.05	-0.21	-0.48
Total shares	89.21	89.21	89.21	89.21	89.21

VALUATION	2020	2021	2022E	2023E	2024E
EV	133.4	139.9	118.9	104.2	80.4
P/E	-6.9	1,400.6	-31.2	25.2	9.0
P/E diluted	-6.9	1,400.6	-31.2	25.2	9.0
P/Sales	0.8	0.9	0.7	0.7	0.6
EV/Sales	0.8	0.9	0.7	0.6	0.4
EV/EBITDA	29.0	7.2	7.0	4.1	2.5
EV/EBIT	-10.3	174.8	-39.4	19.3	5.4
P/BV	1.1	1.2	1.1	1.1	1.0

SHARE PERFORMANCE	GROWTH/YEAR		18/20
1 month	-0.7 %	Net sales	2.4 %
3 month	-7.4 %	Operating profit adj	-51.6 %
12 month	-2.1 %	EPS, just	-53.6 %
Since start of the year	-12.7 %	Equity	-1.7 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Tibia Konsult AB	32.0 %	32.0 %
Thomas Wernhoff	15.6 %	15.6 %
Hans Malm	8.5 %	8.5 %
LMK-bolagen & Stiftelse	6.2 %	6.2 %
Avanza Pension	5.0 %	5.0 %
Dnb Luxembourg SA	2.0 %	2.0 %
Per Anders Thorsell	1.8 %	1.8 %
Gunvald Berger	1.8 %	1.8 %
Anders Fransson	1.7 %	1.7 %
Hans Olsson	1.3 %	1.3 %

SHARE INFORMATION	
Reuters code	ISY.ST
List	Small cap
Share price	1.4
Total shares, million	89.2
Market Cap, MSEK	123.1

MANAGEMENT & BOARD	
CEO	Johan Friberg
CFO	Johan Friberg
IR	Johan Friberg
Chairman	Thomas Wernhoff

FINANCIAL INFORMATION	
Q3 report	November 09, 2022

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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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Tomas Otterbeck owns shares in the company : No

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