

Image Systems: Expecting upward business momentum

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Redeye returns with an update following the Q1 report. We expect some negative impact on 2023 earnings due to higher costs. Our long-term view remains intact however, as we see good prospects for profitable growth within both business segments. Our Base case fair value is virtually unchanged at SEK2.7 suggesting an appealing potential from current share price levels.



Henrik Alveskog



Anton Hoof

No drama in Q1

The Q1 report presented no big surprises. Sales were a little higher Y/Y while EBITDA was unchanged. RemaSawco had a rather slow quarter, as expected. Both due to seasonality but also weak and uncertain market conditions for the sawmill industry. Motion Analysis is speeding up its product development which has incurred higher costs, weighing on margins. On Group level, a couple of one-off items relating to write-downs also had a negative impact on reported earnings.

Optimistic outlook despite current uncertainty

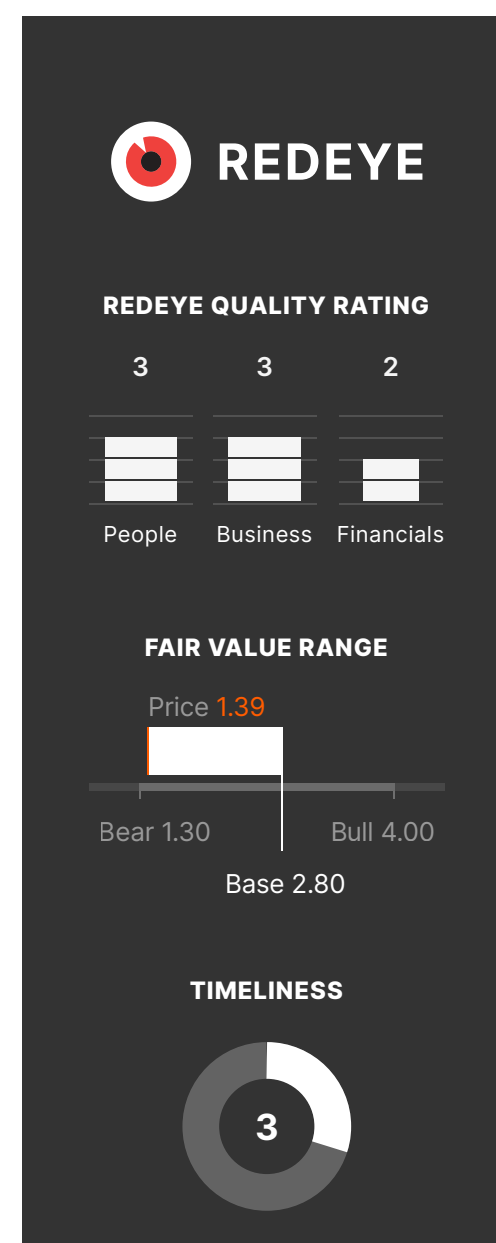
The sawmill industry has been going through some turbulent times holding back investment decisions. This is clearly reflected in RemaSawco's order intake dropping to SEK21m in Q1 vs SEK 34m in Q1'22. The company is still rather optimistic and expects demand to recover gradually over the next few quarters. Motion Analysis on the other hand, is experiencing a solid market climate and improved its order bookings by around 20% Y/Y.

Some changes to near-term forecasts

We are lowering our 2023 earnings forecast while leaving 2024-25 basically unchanged. The 2023 revision relates to higher costs within Motion Analysis and the write-downs mentioned above. The impact on our valuation is minimal. Following the recent share price decline, we now see a significant upside potential to our Base case fair value around SEK2.7 per share. The share is trading at attractive EV/EBIT multiples around 5-6x on our 2024-25 estimates.

Key financials

SEKm	2020	2021	2022	2023E	2024E	2025E
Revenues	163	152	171	185	206	222
Revenue Growth	(21.3%)	(6.5%)	12.4%	8.2%	11.1%	8.1%
EBITDA	5	19	28	26	37	40
EBITDA Margin	2.8%	12.7%	16.6%	13.9%	18.0%	17.9%
EBIT	(13)	1	9	8	21	23
Net Income	(19)	0	9	6	19	20
EV/Revenue	0.8	0.9	0.8	0.9	0.7	0.5
EV/EBIT	(10.1)	201.1	15.0	21.6	6.7	5.3



KEY STATS

Market Cap	123.9 MSEK
Entprs. Value (EV)	88.6 MSEK
Net Debt (2023e)	-35.3 MSEK
30 Day Avg Vol	151 K
Shares Outstanding	89.2 M
Price / Earnings	14.4
PEG	N/A
Dividend Yield	N/A

Data from 2023-05-09 07:06

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

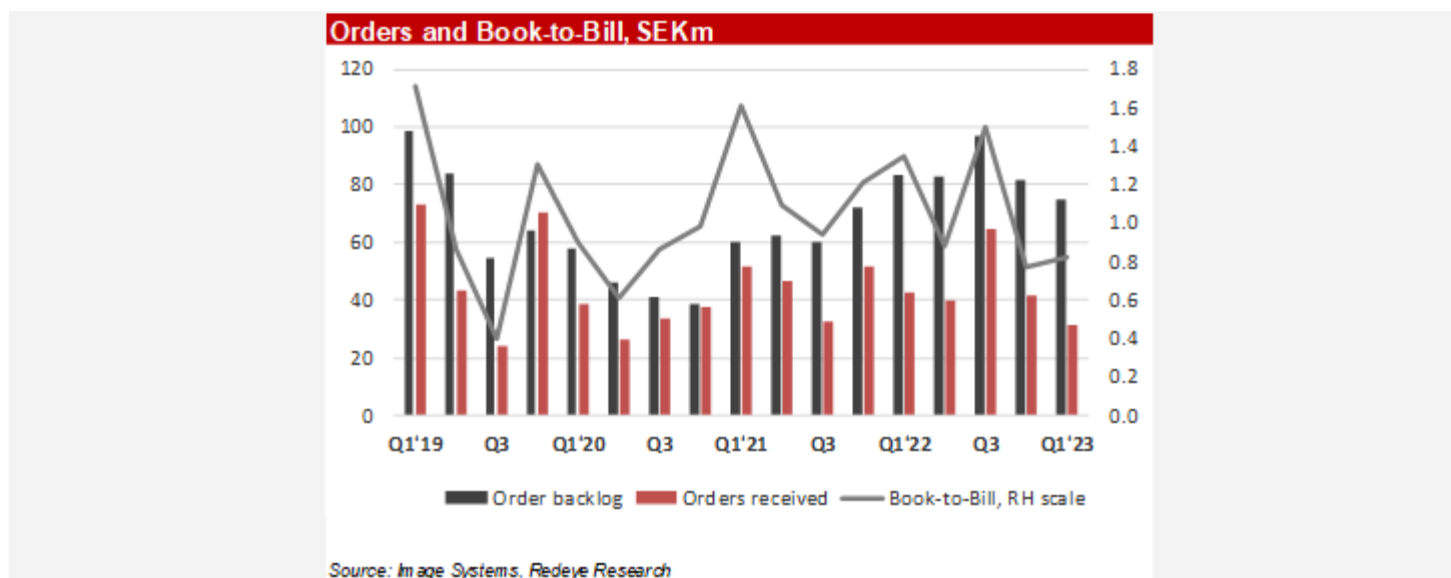
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Q1 highlights

Image Systems: Actual vs. expected				
(SEKm)	Q1 2022	Q1 2023 Actual	Q1 2023e	Diff
Rema Sawco				
Net sales	25.9	30.0	28.0	7%
EBITDA	0.9	1.7	2.3	-26%
EBITDA margin	3%	6%	8%	
Motion Analysis				
Net sales	5.7	8.3	9.0	-8%
EBITDA	2.0	1.6	3.2	-50%
EBITDA margin	35%	19%	36%	
Group net sales	31.6	38.3	37.0	4%
Group EBITDA	2.2	2.3	4.4	-48%
Group EBIT	-3.1	-4.6	0.6	n.m.

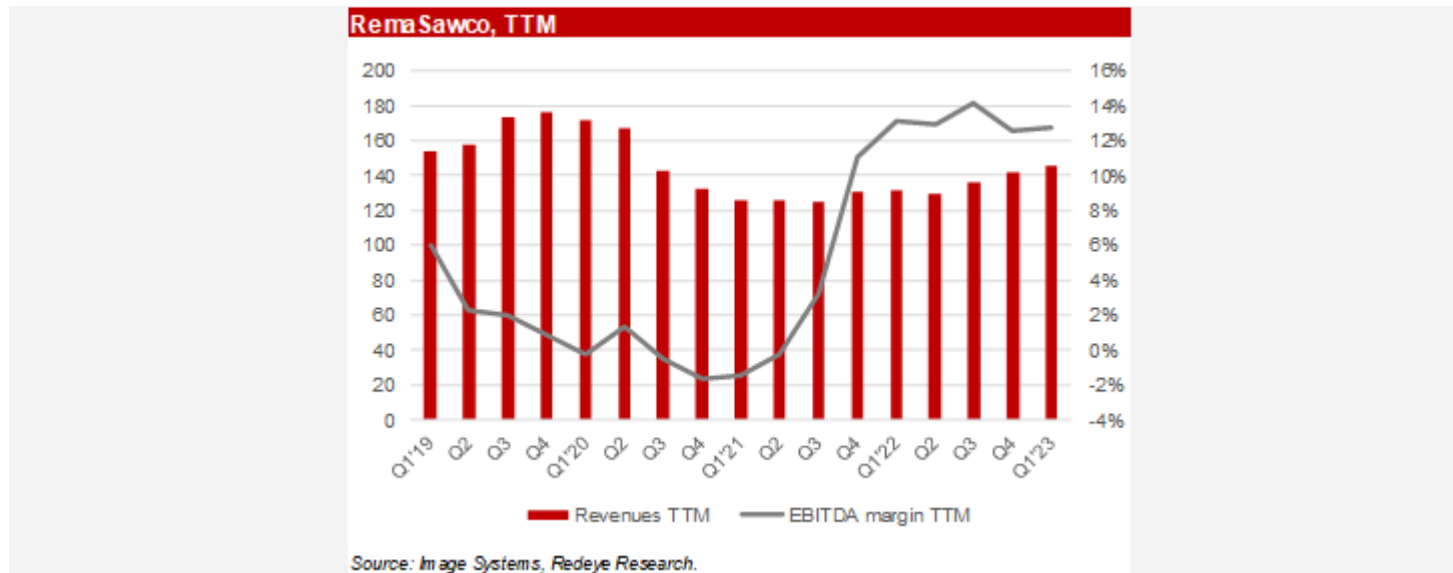
Source: Image Systems, Redeye Research

- Group net sales of SEK38m were higher Y/Y and in line with our estimates.
- EBITDA of SEK2.3 is unchanged Y/Y and a little lower than we expected.
- Higher depreciation weighed on EBIT. SEK2.3m (out of total D&A of SEK6.9m) was however a one-off write down relating to the termination of a rental contract for premises in Finland. Also, net financial items were impacted by a one-off write down of a receivable relating to the divestment of Digital Vision back in 2014. Hence a reported net loss of SEK6m for the quarter.
- Order bookings amounted to SEK31m vs. SEK43m in Q1'22. This is no big surprise given the current situation in the sawmill industry. RemaSawco saw declining order booking (SEK21 vs SEK34m in Q1'22) while Motion Analysis had continued solid growth in order intake (SEK10.5m vs SEK8.3m in Q1'22).
- As shown in the graph below, order bookings have declined in the last two quarters. Order backlog end of Q1 was still robust at SEK75m.



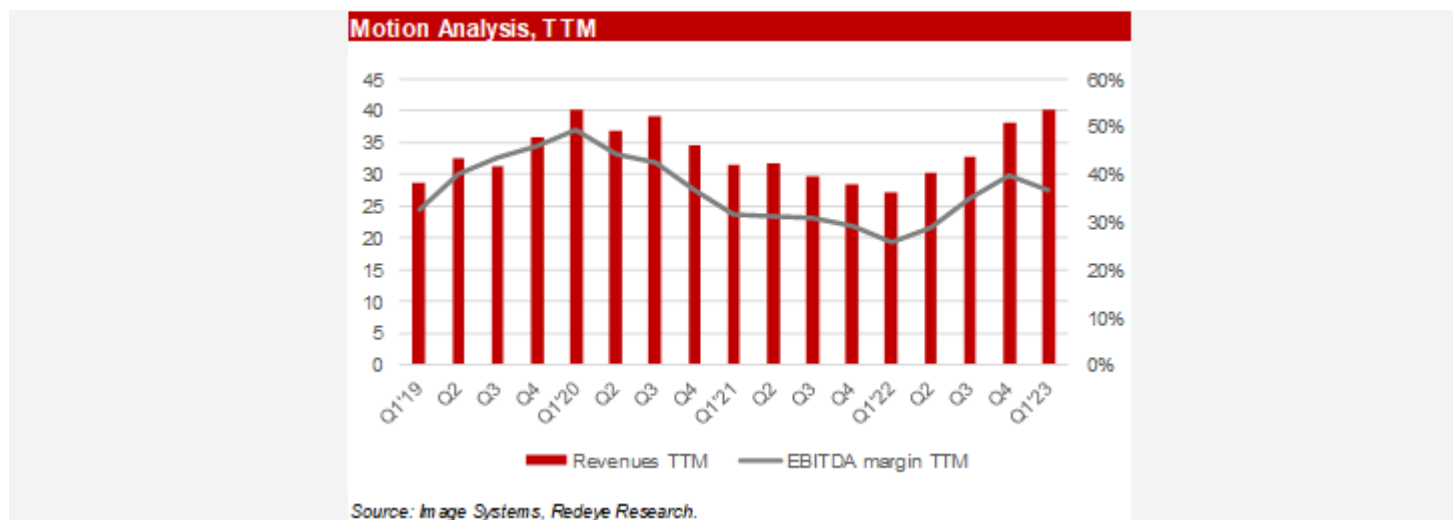
RemaSawco

The charts below show revenues and EBITDA margins, four quarters trailing. The restructuring and transformation of RemaSawco is quite evident from the improving margins, currently around 13%. Demand for sawn timber is still low and many customers are postponing investment decision as there is a high degree of uncertainty in the market. However, the company does not seem too worried and expects a gradual recovery in the coming quarters.



Motion Analysis

Motion Analysis has seen higher business volumes (both sales and order intake) in the past year, recovering from negative impact caused by the Covid pandemic. Some of this growth is certainly related to positive currency effects, since sales are global. As most costs are fixed and gross margins from software sales are naturally high, EBITDA margins have been railing revenues. In the last quarter the company has incurred more costs related to product development, which is reflected in the margins turning down somewhat. From what we understand these higher costs will remain through 2023.



Financial forecasts

We are making some changes in our 2023 forecasts while 2024-25 remain virtually unchanged. We expect Motion Analysis to have higher costs through 2023 for product development relating to the new software platform. Moreover, the one-off write-down in Q1 means higher depreciation with a negative impact on 2023 EBIT.

Image Systems: Estimate changes			
MSEK	2023e	2024e	2025e
Total revenues			
Old	191	213	229
New	192	214	230
% change	0%	0%	1%
EBITDA			
Old	31	37	40
margin	16%	17%	17%
New	26	37	40
margin	13%	17%	17%
EBIT			
Old	16	22	21
margin	8%	10%	9%
New	8	21	23
margin	4%	10%	10%

Source: Redeye Research

Our overall view and mid-term forecasts are intact:

RemaSawco's transformation during the last couple of years will likely enable more stability in earnings while also providing better long-term growth opportunities. Given the current uncertainty in the sawmill industry, we are a bit cautious on the near-term outlook. But sawmills are today well financed, and we expect good market conditions with increasing investments in the coming years. The expansion needs support from more skilled staff being hired, mitigating some of the margin improvement.

Motion Analysis is back to pre-covid levels, and we expect to see continued rather stable growth rates going forward. The new software platform will better enable product development and new releases that will drive sales in the coming years. The SaaS business model comes with lower near-term sales growth, but obviously more recurring revenues.

Image Systems estimates						
(SEKm)	2020	2021	2022	2023e	2024e	2025e
Total revenues	167	159	180	192	214	230
RemaSawco	133	130	142	149	167	180
Motion Analysis	35	28	38	43	47	50
Group growth	-21%	-5%	14%	6%	11%	8%
COGS	-65	-49	-56	-60	-73	-81
Gross profit	103	110	115	125	133	142
margin	60%	68%	67%	68%	65%	64%
OPEX	-98	-90	-86	-100	-96	-102
EBITDA	5	19	28	26	37	40
margin	3%	12%	16%	13%	17%	17%
<u>Whereof</u>						
RemaSawco	-2	14	18	18	25	27
margin	-2%	11%	13%	12%	15%	15%
Motion Analysis	13	8	15	12	17	18
margin	37%	29%	40%	27%	36%	36%
Amortization & Depreciation	-18	-19	-19	-18	-16	-17
EBIT	-13	1	9	8	21	23
margin	-8%	1%	5%	4%	10%	10%

Source: Image Systems, Redeye Research

Valuation

Our valuation is based on the forecasts above and the assumptions outlined below. Our Base case fair value is around **SEK2.7 per share**, virtually unchanged. Our long-term projections and assumptions:

- CAGR 2026-31: 7%.
- Average EBIT margins ~12%.
- WACC: 11.5%

Image Systems, assumptions and valuation			
Assumptions	2026-31	DCF-value	
CAGR sales	7%	WACC	11.5%
EBIT margin (avg.)	12%	PV of FCF	124
		PV of Terminal value	108
		EV	232
		Net cash	10
Terminal			
Net sales 2032E, SEKm	340		
Growth FCF	2%		
EBIT margin	12%	DCF value	242
		Fair value per share	2.7
E/V/S Exit multiple	0.8	Current share price	1.4
E/V/EBIT Exit multiple	6.9	Potential	94%

Source: Redeye Research

The share has been trading south lately and we see an appealing potential of almost 100% to our Base case fair value. Our view that the share is undervalued is supported by very attractive earnings multiples. Based on our estimates, EV/EBIT multiples 2024-25 are currently around 5-6x.

Valuation multiples						
Share price: 1.4	2020	2021	2022	2023e	2024e	2025e
P/S	0.8	0.9	0.8	0.6	0.6	0.5
P/E	neg	>100	17.6	21.5	6.6	6.1
E/V/EBIT	neg	>100	14.8	15.3	5.5	5.1
E/V/EBITDA	29.0	7.2	4.7	4.4	3.1	2.9

Source: Redeye Research

Investment thesis

Case

Well positioned to enter growth phase

The Covid pandemic has taken its toll on Image Systems, with lower volumes in both business segments (RemaSawco and Motion Analysis). With more stable market conditions, we believe the company is well positioned to grow with improving profitability. The dominating segment, RemaSawco, offers measurement systems for the highly competitive sawmill industry, with the ambition to improve productivity while decreasing Opex. As far as we know RemaSawco is way ahead of their competitors in terms of offering a viable solution for the digital sawmill.

Evidence

Improved productivity

Net sales were down around 25% in 2021 vs. 2019, in the wake of the Corona pandemic. Despite the drop, earnings improved, thanks to significant restructuring measures. And the positive trend continued in 2022. Both segments have sound core businesses with healthy gross margins. Motion Analysis being mainly a software company obviously has very high gross margins. Order bookings are improving and the overall market climate now appears more stable. We believe there is a fair amount of pent-up demand for investments in the sawmill industry, as capex has been rather low in recent years.

Challenge

Proof is still in the pudding

RemaSawco has historically been struggling with low profitability. Currently, the company is certainly in much better shape, following several initiatives to enhance efficiency. But we still don't know how well the company will be able to handle higher volumes and generate profitable growth over time.

🚩 Challenge

Motion Analysis facing challenges for sustainable growth

Motion Analysis is already a global market leader with high velocity video analysis for the defense and crash testing industries. Gaining further market shares in these segments is challenging. Progress in new application areas, like the DIC for material testing, are important for sustainable growth.

💎 Valuation

We see considerable potential

Our valuation range spans from ~SEK1.3-4 per share, with a Base case fair value around SEK2.8. Our Base case scenario includes a CAGR of 6% 2022-30 and sustainable EBIT margins around 10%. We are applying a WACC of 11.5%.

Quality Rating

People: 3

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: 3

Image Systems has high gross margins 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.

Financials

Income statement

SEKm	2020	2021	2022	2023E	2024E	2025E
Revenues	163	152	171	185	206	222
Cost of Revenue	65	49	56	60	73	81
Operating Expenses	94	84	86	100	96	102
EBITDA	5	19	28	26	37	40
Depreciation	4	4	4	4	1	1
Amortizations	14	15	16	15	15	16
EBIT	(13)	1	9	8	21	23
Shares in Associates	-	-	-	-	-	-
Interest Expenses	4	1	1	0.4	-	-
Net Financial Items	(4)	(1)	(1)	(2)	-	-
EBT	(17)	(1)	8	6	21	23
Income Tax Expenses	2	(1)	(1)	(0)	2	2
Net Income	(19)	0	9	6	19	20

Balance sheet

Assets

Non-current assets

SEKm	2020	2021	2022	2023E	2024E	2025E
Property, Plant and Equipment (Net)	26	23	4	2	3	4
Goodwill	36	36	36	36	36	36
Intangible Assets	65	61	59	52	46	38
Right-of-Use Assets	-	-	14	14	14	14
Other Non-Current Assets	19	19	19	19	19	19
Total Non-Current Assets	146	140	132	123	118	112

Current assets

SEKm	2020	2021	2022	2023E	2024E	2025E
Inventories	12	12	14	17	21	22
Accounts Receivable	17	22	20	22	25	27
Other Current Assets	15	16	7	7	10	11
Cash Equivalents	4	7	23	34	55	77
Total Current Assets	48	57	63	80	110	137
Total Assets	193	196	195	203	228	248

Equity and Liabilities**Equity**

SEKm	2020	2021	2022	2023E	2024E	2025E
Non Controlling Interest	-	-	-	-	-	-
Shareholder's Equity	114	114	123	129	148	168

Non-current liabilities

SEKm	2020	2021	2022	2023E	2024E	2025E
Long Term Debt	-	2	0.4	0.4	0.4	0.4
Long Term Lease Liabilities	16	13	9	9	9	9
Other Non-Current Lease Liabilities	7	7	6	6	6	6
Total Non-Current Liabilities	23	22	15	15	15	15

Current liabilities

SEKm	2020	2021	2022	2023E	2024E	2025E
Short Term Debt	11	5	5	5	5	5
Short Term Lease Liabilities	4	5	5	5	5	5
Accounts Payable	16	16	13	13	14	16
Other Current Liabilities	25	35	34	37	41	40
Total Current Liabilities	56	61	57	60	65	65
Total Liabilities and Equity	193	196	195	203	228	248

Cash flow

SEKm	2020	2021	2022	2023E	2024E	2025E
Operating Cash Flow	26	16	27	21	31	33
Investing Cash Flow	(18)	(8)	(10)	(10)	(10)	(11)
Financing Cash Flow	(8)	(4)	(2)	-	-	-

Rating 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 longterm 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.

The team

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