

Image Systems

Sector: Industrial Goods & Services

Ready to execute on a sizeable order backlog

Redeye is again making some upward revisions to our forecasts, on the back of solid Q1 numbers and a strong order backlog. Both business segments are currently showing good momentum which should make a mark in earnings near-term. RemaSawco's customers are now investing again, but market conditions in the sawmill industry are still challenging causing some uncertainty for the coming years. We raise our 2024-26 forecasts, and our Base case fair value is now ~SEK2.2 per share (previously: SEK2.0).

Q1 - earnings up on flat sales

Net sales in Q1 were flat Y/Y while EBITDA improved from SEK2m to SEK4m. Good growth in Motion Analysis gave a stronger sales mix and higher margins. Group EBITDA margins of 12%, not far from the 15% target. Opex were basically unchanged Y/Y. Cash flow after investments were again positive: SEK3m, improving the financial position further. By end of Q1, cash and undrawn credit facilities amounted to SEK23m.

Order backlog close to record levels

Order bookings in Q1 continued to improve. SEK56m is 80% higher Y/Y. Both business segments reported higher order intake, but RemaSawco makes up for the big swing. Not too surprising, since we have seen a continuous flow of orders being announced. The order backlog amounted to SEK92m, by end of Q1, and the bulk relates to RemaSawco. This is close to previous record levels and reassuring for the near-term future. Market conditions in the sawmill industry are however volatile and should be monitored closely. Motion Analysis continues to experience high demand, particularly from customers in the defense industry. Sales have grown consistently in the past two years and an increasing share of revenues are now subscription based, making them more recurring and sticky.

Nudging up our forecasts and valuation

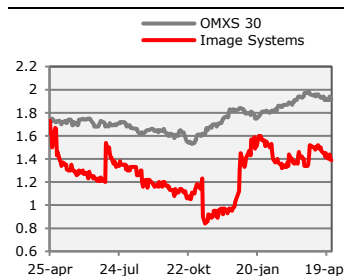
We raise our forecasts somewhat for both business segments, due to a sizeable order backlog for RemaSawco and good business momentum for Motion Analysis. Our Base case fair value is now ~SEK2.2 per share (previously SEK2.0), offering a 50% potential to current share price levels.

Key Financials (SEKm)	2022	2023	2024e	2025e	2026e
Net sales	171	161	184	201	217
Sales growth	14%	-6%	14%	10%	8%
EBITDA	28	16	28	33	36
EBIT	9	-5	10	15	20
EBIT Margin (%)	5%	-3%	6%	8%	9%
Net Income	9	-7	10	15	18
EV/Sales	0.8	0.8	0.6	0.5	0.4
EV/EBITDA	4.8	8.3	4.3	3.4	2.8
EV/EBIT	15.0	neg	11.8	7.2	5.1

FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	2.2	3.5

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ISY.ST
Market	Nasdaq
Share Price (SEK)	1.5
Market Cap (MSEK)	132
Net cash 24E (MSEK)	9
Free Float	44%
Avg. daily volume ('000)	100

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Earnings just above our estimates

The Q1 report held no big drama as both business segments performed largely as expected, with earnings just above our forecasts. Gross margins remained solid with a BOM margin (sales less raw materials and consumables) of 70%. Opex is well contained and basically flat Y/Y. The Group generated a positive cash flow after investments of SEK3m, so the financial position improved further in Q1. The cash position amounted to SEK10m and SEK23m including undrawn credit facilities.

Image Systems: Actual vs. Expected

(SEKm)	Q1 2023	Q1 2024		Diff
		Actual	Q1 2024e	
RemaSawco				
Net sales	30.0	27.0	28.0	-4%
EBITDA	1.7	1.6	0.5	220%
EBITDA margin	6%	6%	2%	
Motion Analysis				
Net sales	8.3	11.2	10.0	12%
EBITDA	1.6	4.1	3.5	17%
EBITDA margin	19%	37%	35%	
Group net sales	38.3	38.2	38.5	-1%
Group EBITDA	2.3	4.4	2.7	63%
EBITDA margin	6%	12%	7%	
Group EBIT	-4.6	0.1	-1.5	n.m.

Source: Image Systems, Redeye Research

Order bookings were strong in both business segments and the major difference is RemaSawco which saw a 100% increase Y/Y. On Group level bookings amounted to SEK56m and the order backlog stood at SEK92m by the end of Q1. As shown in the graph below, this is very close to previous record levels.

Orders and Book-to-Bill, SEKm

Order backlog close to previous highs

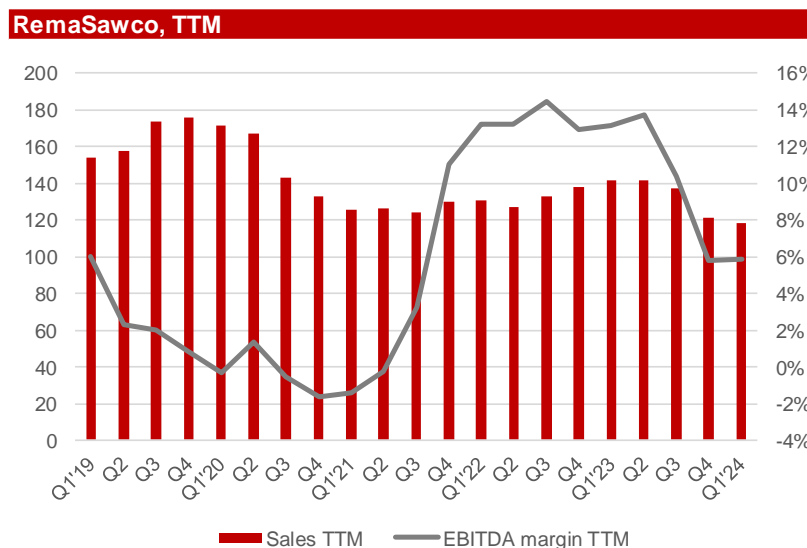


Source: Image Systems, Redeye Research

RemaSawco – brighter outlook

RemaSawco has experienced a very volatile market over the past few years. 2023 was tough as many customers in the sawmill industry had a “wait and see” approach to investments. By the end of last year, sentiment improved significantly, which was evident in Remasawco’s business announcements and reported order intake. 2024 has started in a similar fashion and we now expect to see a solid recovery over last year’s level.

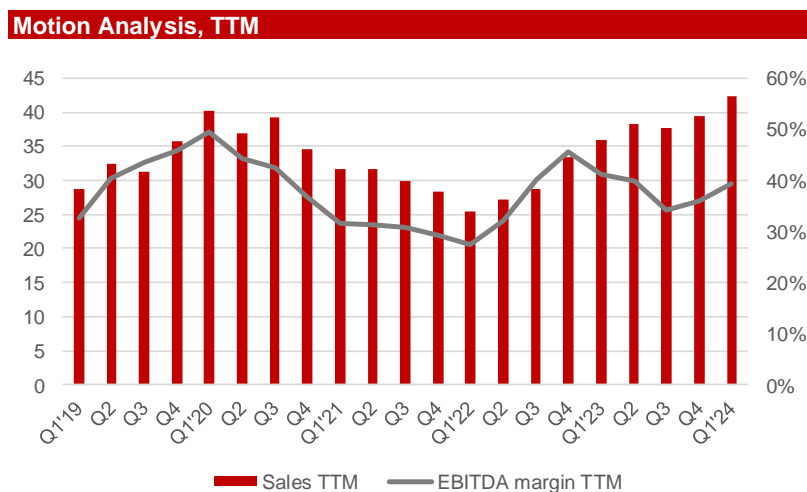
The charts below show revenues and EBITDA margins, four quarters trailing. As illustrated, RemaSawco reached healthy margins in 2021-22 despite lower volumes than in the preceding years, due to major changes to the organization and customer offering.



Source: Image Systems, Redeye Research.

Motion Analysis – solid growth and good leverage

Motion Analysis has been on a solid growth path in the last two years. Revenues are now past the pre-Corona highs of 2019-20. The defense industry (around 50% of revenues) remains a major driver with several significant orders lately. The launch of the new product platform is still planned for Q4' 24. This will provide new and better functionalities which will expand the offering. Also, the new platform will better support the company’s SaaS business model, which is still probably quite small, but growing.



Source: Image Systems, Redeye Research.

Financial Forecasts

We are again raising our forecasts somewhat, on the back of current order backlog and a healthy business momentum. Our changes are quite small, but relate to both business segments.

Image Systems: Estimate changes			
(SEKm)	2024e	2025e	2026e
Group net sales			
Old	177	192	206
New	184	201	217
% change	4%	5%	5%
EBITDA			
Old	23	30	32
New	28	33	36
margin	16%	16%	17%
EBIT			
Old	7	13	17
New	10	15	20
margin	6%	8%	9%

Source: Redeye Research

RemaSawco's order backlog offers some transparency and predictability for 2024. Beyond that, it's obviously more uncertain. We assume a rather stable business environment, but we are still a bit cautious in our projections. During the forecast period 2024-26e we don't expect RemaSawco to reach its previous record level sales from 2019. Still, the company's transformation in recent years, should enable higher margins and more stability in earnings. This is due to several factors such as a more streamlined and scalable product portfolio, a more stringent tender process and also a growing service- and aftermarket business.

Motion Analysis' market outlook is more stable, and the customer base is much wider. Investments in product development will remain high as the company has a clear growth ambition. And the new software platform, planned for release by the end of 2024, will better support new product releases in the coming years. We believe the company can maintain a double-digit growth rate in the underlying business. However, the SaaS business model means that revenues will be distributed over time. So, if successful, this will put temporary pressure on sales growth and margins.

Image Systems estimates						
(SEKm)	2021	2022	2023	2024e	2025e	2026e
Total net sales	152	171	161	184	201	217
RemaSawco	130	138	121	138	152	167
Motion Analysis	28	33	40	46	49	50
Group growth	-6%	12%	-6%	14%	10%	8%
COGS	-49	-56	-48	-55	-60	-65
Gross profit	110	115	113	129	141	152
margin	68%	67%	70%	70%	70%	70%
OPEX	-90	-86	-97	-100	-108	-116
EBITDA	19	28	16	28	33	36
margin	12%	17%	10%	16%	16%	17%
<u>Whereof</u>						
RemaSawco	14	18	7	17	20	24
margin	11%	13%	6%	12%	14%	15%
Motion Analysis	8	15	14	17	18	18
margin	29%	46%	36%	37%	36%	36%
Amortization & Depreciation	-19	-19	-21	-18	-17	-16
EBIT	1	9	-5	10	15	20
margin	1%	5%	-3%	6%	8%	9%

Source: Image Systems, Redeye Research

Valuation

Fair value per share:
~SEK 2.2

Our DCF valuation is based on the forecasts above and the assumptions outlined below. Our Base case fair value is now around **SEK2.2 per share**, vs SEK2.0 before. The difference is related to higher near-term estimates leading to a slightly higher growth trajectory. Our long-term projections and assumptions are unchanged:

- CAGR 2027-32: 5%.
- Average EBIT margins ~12%.
- WACC: 12%

Image Systems, assumptions and valuation			
Assumptions	2027-32	DCF-value	
CAGR sales	5%	WACC	12.0%
EBIT margin (avg.)	12%	PV of FCF (2024-32)	91
		PV of Terminal value	102
Terminal		EV	193
Net sales 2033E, SEKm	307	Net cash	4
Growth FCF	2%		
EBIT margin	12%	DCF value	197
		Fair value per share	2.2
EV/S Exit multiple	1.0	Current share price	1.5
EV/EBIT Exit multiple	8.1	Potential	49%

Source: Redeye Research

Multiples still attractive

The most relevant earnings multiple is in our view EV/EBIT. A large part of amortizations are related to intangible assets from acquisitions and should be excluded. But with a fair amount of capitalized development costs, EBIT is probably a better proxy for operating earnings than EBITDA. Based on our forecasts, the share is trading around 7-9x EV/EBIT on 2025-26, which we find clearly attractive.

Valuation multiples						
Share price, SEK: 1.5	2021	2022	2023	2024e	2025e	2026e
P/S	0.9	0.9	0.8	0.7	0.7	0.6
P/E	>100	17.6	neg	13.0	8.5	8.3
EV/EBIT	>100	14.8	neg	12.2	8.2	6.5
EV/EBITDA	7.2	4.7	8.2	4.5	3.9	3.5

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

Rating changes in the report: No changes.

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 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 niches. 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 low financial score for Image Systems is related to the company's history. Operating cash flow and earnings have been negative historically, although 2021-22 saw an improvement. The company now has a positive net cash position. Hence, financial flexibility has improved. The business should be cash flow positive given normal market conditions, but profitability is quite sensitive to volumes. The company has a large number of clients but obviously the majority of sales is related to the cyclical sawmill industry. If the company delivers according to our expectations, its financial rating will gradually improve.

	2023	2024E	2025E	2026E
INCOME STATEMENT				
Net sales	161	184	201	217
Cost of Revenues	58	69	74	79
Gross Profit	113	129	141	152
Operating Expenses	97	100	108	116
EBITDA	16	28	33	36
Depreciation & Amortization	21	18	17	16
EBIT	-5	10	15	20
Net Financial Items	-2	0	0	0
EBT	-7	10	15	20
Income Tax Expenses	-1	0	0	2
Non-Controlling Interest	0	0	0	0
Net Income	-7	10	15	18
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	7	14	20	32
Inventories	13	15	18	22
Accounts Receivable	33	33	32	33
Other Current Assets	6	9	10	11
Total Current Assets	59	71	81	97
Non-current assets				
Property, Plant & Equipment, Net	1	2	2	4
Goodwill	36	36	36	36
Intangible Assets	58	58	59	61
Right-of-Use Assets	10	10	10	10
Shares in Associates	0	0	0	0
Other Long-Term Assets	19	19	19	19
Total Non-Current Assets	124	125	127	130
Total Assets	183	196	207	227
Liabilities				
Current liabilities				
Short-Term Debt	5	5	0	0
Short-Term Lease Liabilities	5	5	5	5
Accounts Payable	12	13	14	15
Other Current Liabilities	35	37	36	37
Total Current Liabilities	57	60	56	58
Non-current liabilities				
Long-Term Debt	0	0	0	0
Long-Term Lease Liabilities	4	4	4	4
Other Long-Term Liabilities	6	6	6	6
Total Non-current Liabilities	10	10	10	10
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	116	126	142	160
Total Liabilities & Equity	183	196	207	227
CASH FLOW				
NOPAT	-5	11	15	18
Change in Working Capital	-11	-3	-4	-4
Operating Cash Flow	2	26	30	31
Capital Expenditures	-4	-1	-2	-2
Investment in Intangible Assets	-11	-17	-17	-17
Investing Cash Flow	-15	-19	-19	-20
Financing Cash Flow	-3	0	-5	0
Free Cash Flow	-13	8	11	12

	2023	2024E	2025E	2026E
DCF Valuation Metrics				
Initial Period (2024–2026)				20
Momentum period (2026-31)				71
Stable period (2032-)				102
Firm Value				193
Net Debt (last quarter)				-4
Equity Value				197
Fair Value per Share				2.2
	2023	2024E	2025E	2026E
CAPITAL STRUCTURE				
Equity Ratio	0.6	0.6	0.7	0.7
Debt to equity	0.0	0.0	0.0	0.0
Net Debt	-1	-9	-20	-31
Capital Employed	126	136	151	169
Working Capital Turnover	12.9	12.1	10.5	9.3
GROWTH				
Revenue Growth	-5%	15%	9%	8%
Basic EPS Growth	>100%	-250%	52%	15%
Adjusted Basic EPS Growth	>100%	-250%	52%	15%
PROFITABILITY				
ROE	-6%	8%	12%	12%
ROCE	-4%	8%	10%	12%
ROIC	-5%	10%	14%	15%
EBITDA Margin (%)	10%	16%	16%	17%
EBIT Margin (%)	-3%	6%	8%	9%
Net Income Margin (%)	-4%	6%	8%	8%
VALUATION				
Basic EPS	-0.1	0.1	0.2	0.2
Adjusted Basic EPS	-0.1	0.1	0.2	0.2
P/E	neg	12.9	8.5	7.4
EV/Revenue	0.8	0.6	0.5	0.4
EV/EBITDA	8.3	4.3	3.4	2.8
EV/EBIT	neg	11.8	7.2	5.1
P/B	1.1	1.0	0.9	0.8
SHAREHOLDER STRUCTURE				
	CAPITAL %	VOTES %		
Tibia konsult AB	32.0%	32.0%		
Thomas Wernhoff	16.4%	16.4%		
Hans Malm	8.5%	8.5%		
LMK Forward	6.2%	6.2%		
Avanza Pension	5.9%	5.9%		
SHARE INFORMATION				
Reuters code				ISY.ST
List				Nasdaq
Share price				1.48
Total shares, million				89.2
MANAGEMENT & BOARD				
CEO				Johan Friberg
Finance Manager				Lotta Öfverström
Chairman				Anders Fransson
ANALYSTS				
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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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Disclaimer

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Henrik Alveskog owns shares in the company : No

Anton Hoof owns shares in the company : No

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