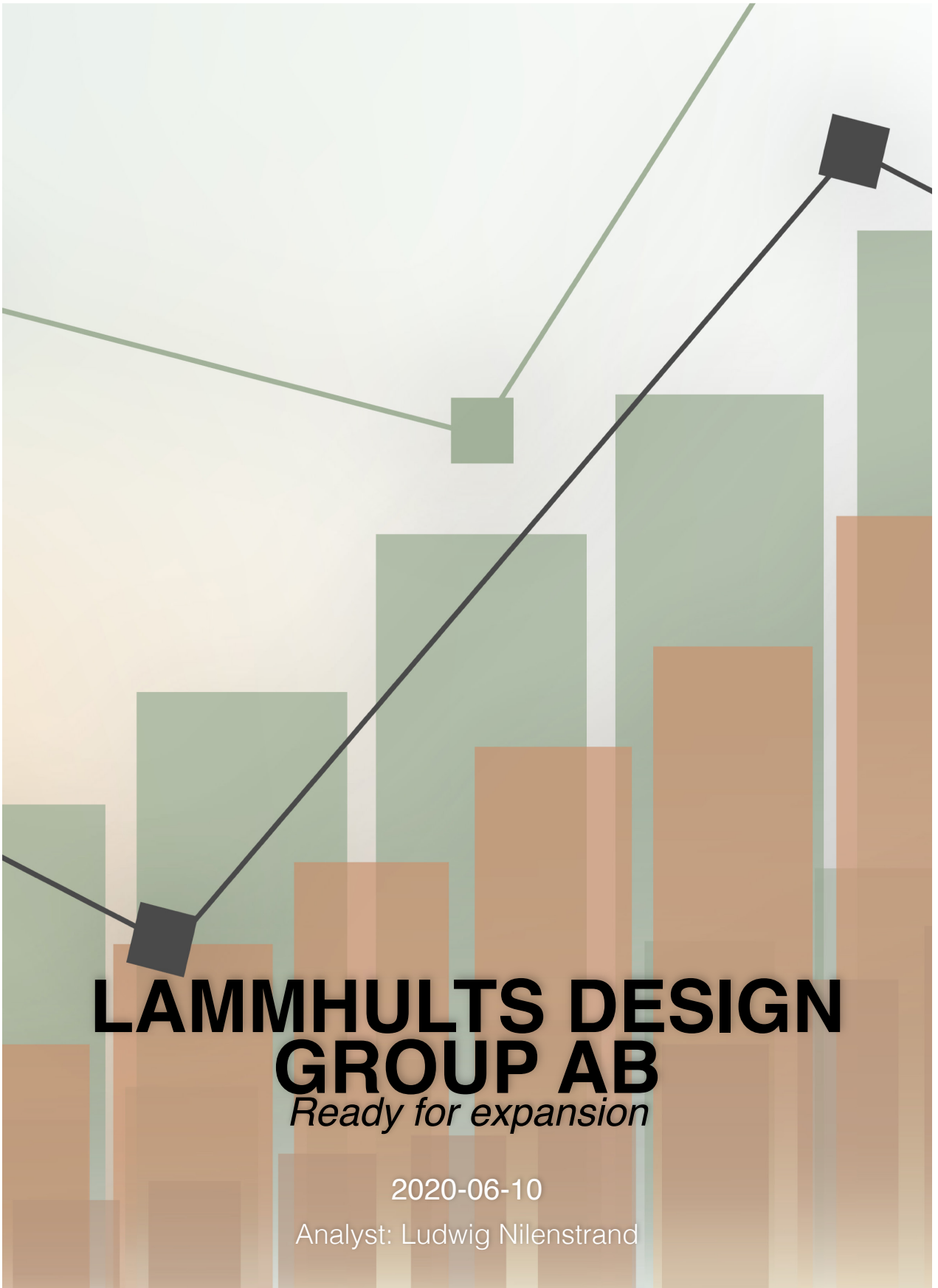


# EQUITY RESEARCH REPORT



CURRENT PRICE | SEK 41.8

## VALUATION RANGE (FY-2023)

<b>BEAR</b> SEK 39.6	<b>BASE</b> SEK 52.7	<b>BULL</b> SEK 62.2
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## LAMMHULTS DESIGN GROUP AB

CEO	Sofia Svensson
Chairman	Anders Pålsson
Share Price (SEK)	41.8
Shares Outstanding (M)	8.4
Market Cap (SEK M)	353.1
Net Debt (SEK M)	179.3
Enterprise Value (SEK M)	532.4
Exchange	OMXS Small-Cap

## SHARE PRICE DEVELOPMENT

1 month	17.3%
3 months	-19.0%
1 year	-12.1%
YTD	-35.7%

## OWNERS (SOURCE: HOLDINGS.SE)

Scapa Capital	21.4%
Input Interiör Sweden AB	12.5%
Avanza Pension	6.6%
Canola AB	5.5%
Thomas Krishan	4.4%

## FINANCIAL CALENDAR

Q2-2020	14 July
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## ESTIMATES (BASE), SEK M

	2019A	2020E	2021E	2022E
Total revenue	1 022.1	929.3	969.6	1 012.0
<b>Gross profit</b>	<b>515.3</b>	<b>464.6</b>	<b>492.1</b>	<b>521.2</b>
Gross margin	50.4 %	50.0 %	50.8 %	51.5 %
<b>EBITDA</b>	<b>118.8</b>	<b>79.9</b>	<b>89.7</b>	<b>102.2</b>
EBITDA margin	11.6 %	8.6 %	9.3 %	10.1 %
<b>EBIT</b>	<b>79.0</b>	<b>54.3</b>	<b>62.7</b>	<b>73.6</b>
EBIT margin	7.7 %	5.8 %	6.5 %	7.3 %
P/E	7.3	8.5	7.3	6.2
Current EV/EBIT	7.7	9.8	8.5	7.2

**About Lammhults Design Group AB:** Lammhults Design Group AB ("Lammhult" or "the Company") is a Swedish furniture manufacturer and supplier. The Company offers development, marketing, and sale of furniture and interiors through their two product segments: Office Interiors and Library Interiors. The segments consist of a portfolio of decentralised brands that sell their products through architects, designers, and chosen retailers. The Company has a strong presence in the Nordic region and serves the B2B market, with governments constituting a significant part of its sales.

Lammhult is a furniture company with a strong presence in the Nordic region. After years of focusing on its key markets, the Company is expected to win market shares in other markets by focusing on diversification of its offering. Leveraging their acknowledged brand in the Nordic region, in addition to cost-cutting, the Company is expected to create an attractive opportunity for potential growth in its earnings. Based on a successful market expansion as well as a margin expansion through cost-cutting and scalability, Analyst Group estimates a sales of 1 053.1 MSEK in the year 2023. With a target multiple of EV/S 0.5x, an implied share price of 52.7 SEK is motivated.

### ▪ Possibility of acquisitions creates a framework for an attractive future

Lammhult's portfolio of companies currently consists of 8 companies, with every company having their own niched products. Historically, Lammhult has utilized bolt-on acquisitions to realise synergies between its portfolio companies. Even though every company operates on a decentralised basis, the acquisitions have enabled cross-selling and elimination of duplicate costs, which in turn have enabled Lammhult to achieve cost and revenue synergies. With an ND / EBITDA of 1.6x on an LTM basis, the Company has leeway to acquire another portfolio company and build upon its product offering and stimulate sales growth going forward.

### ▪ Expansion to new markets enables future growth

Currently, the Norwegian and Swedish markets are identified as Lammhult's key markets. Their share is expected to decrease as the Company is looking to leverage its recognized brands in the Nordics to effectively expand its presence into new markets, creating an attractive opportunity for future sales growth.

### ▪ Increase focus lead to effectiveness and margin expansions

Since Lammhult's appointment of their new CEO in 2018, Lammhult has focused on increasing its profitability. This has led to the divestment of unprofitable business areas as well as a reduction of their fixed cost base and streamlining their business to expand their margins and profitability. This led to Lammhult achieving its highest EBIT in over seven years in 2019 with an adjusted EBIT margin of 7.7 %.

### ▪ Base scenario motivates a share price of 52.7 SEK

In a Base scenario, sales are forecasted to 1053.1 MSEK during the year 2023. The estimated EBIT margin is 8.1 %, resulting in an implied EBIT of 85.6 MSEK. Through the utilization of a relative valuation using a select group of comparable companies, an EV/Sales multiple of 0.5x is motivated. Using forecasted sales for the year 2023, an implied share price of 52.7 SEK is motivated.

# INVESTMENT THESIS

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Lammhult is a furniture company with a strong presence in the Nordic region. After years of focusing on its key markets, the Company is expected to win market shares in other markets by focusing on diversification of its offering. Leveraging their acknowledged brand in the Nordic region, in addition to cost-cutting, the Company is expected to create an attractive opportunity for potential growth in its earnings. Based on a successful market expansion as well as a margin expansion through cost-cutting and scalability, Analyst Group estimates a sales of 1 053.1 MSEK in the year 2023. With a target multiple of EV/S 0.5x, an implied share price of 52.7 SEK is motivated.

## Room for acquisition creates frame for an attractive future

Lammhult's portfolio of companies currently consists of 8 companies, with every company having their own niched products. Historically, Lammhult has utilized bolt-on acquisitions to realise synergies between its portfolio companies. Even though every company operates on a decentralised basis, the acquisitions have enabled cross-selling and elimination of duplicate costs, which in turn have enabled Lammhult to achieve cost and revenue synergies. With an ND / EBITDA of 1.6x on an LTM basis, the Company has leeway to acquire another portfolio company and build upon its product offering and stimulate sales growth going forward.

## Expertise paving the way for the future

The Company has over 70 years of history within the furniture manufacturing business and is actively working closely with designers and architects to develop the furniture of the future. A large part of Lammhult's customers are companies in the public sector, backed by its respective government. As their spending can be seen as non-cyclical, Lammhult is well geared for the COVID-19 pandemic.

## Expansion to new markets enabling future growth

Currently, the Norwegian and Swedish markets are identified as Lammhult's key markets as they constituted 54.2 % of the Company's sales on an LTM basis. This share is expected to decrease as the Company is looking to leverage its recognized brands in the Nordics to effectively expand its presence into untapped new markets, thus creating an attractive opportunity for future sales growth.

## Increased focus leads to effectiveness and margin expansions

Since Lammhult's appointment of their new CEO in 2018, Lammhult has focused on increasing its profitability. This has led to the divestment of unprofitable business areas as well as a reduction of their fixed cost base and streamlining their business in an effort to expand their margins and profitability. This has led to Lammhult achieving its highest EBIT in over seven years in 2019 with an adjusted EBIT margin of 7.7 %.

## Forecast and valuation

In a Base scenario, sales are forecasted to 1053.1 MSEK during the year 2023. The estimated EBIT margin is 8.1 %, resulting in an implied EBIT of 85.6 MSEK. Through the utilization of a relative valuation using a select group of comparable companies, an EV/Sales multiple of 0.5x is motivated. Using forecasted sales for the year 2023, an implied share price of 52.7 SEK is motivated.

## Risk of failed expansion

Companies in the premium furniture market space compete primarily on quality, rather than price. As the brand is a large part of the perceived quality of furniture, penetrating new markets relies heavily on marketing one's products and working with the right distribution channels. As a result, there is an underlying risk in Lammhult's expansion plans, meaning that their investments might become unsuccessful as its brand has yet to reach the brand acknowledgement that is prevalent in its key markets.

# FORECAST

## Geographical expansion expected to drive future growth

Lammhult operates on a broad and niched market through its two segments, and has shown a sales growth equaling a CAGR of 7.3 % since 2016. During this period, the Company has divested its unprofitable consumer business to allow for a more focused and streamlined product portfolio. The Company has an established annual sales target of 10.0 %, which it is targeting to achieve until 2025 through both acquisitional and organic growth.

As a result of an increased focus on international markets, Lammhult is investing heavily in the diversification of its offering from its more mature domestic market, in which the majority of its revenue originates from. The Company has communicated a constant amount of new annual contracts within its library segment, but increased revenue from each contract, verifying Lammhult's position as an acknowledged and acclaimed brand in its field. Lammhult is, however, likely to be impacted by COVID-19 as governments and companies are unlikely to start new projects during the remainder of the pandemic. Despite this, Lammhult's sales are expected to grow with a CAGR of 4.3 % between the period 2020-2023.

The Company has communicated a long-term strategy focusing on optimization of sourcing, indirect costs, and streamlining the business while concentrating on its core businesses. Part of this will be achieved through the realisation of primarily cost synergies between Lammhult's portfolio companies and the elimination of duplicate costs. In addition to this, through the segment Office Interiors, an increased production volume will translate into efficiencies of scale, which is expected to expand the gross margin going forward.

As a result of COVID-19 and above stated forecasts, the Company's EBIT margin is estimated to decrease to 5.8 % in the year 2020, but expand to 6.3 % during the year 2021, 7.1 % in the year 2022, 8.0 % in the year 2023 in a Base scenario.

Income Statement (Base Scenario), SEK M	2018A	2019A	2020E	2021E
Sales	964.5	1 022.1	929.3	969.6
COGS	-447.0	-506.8	-464.6	-477.5
<b>Gross Profit</b>	<b>517.5</b>	<b>515.3</b>	<b>464.6</b>	<b>492.1</b>
<i>Gross Margin</i>	<i>53.7%</i>	<i>50.4%</i>	<i>50.0%</i>	<i>50.8%</i>
Other Operating Income	4.1	6.5	4.9	5.1
Personnel Costs	-278.8	-275.1	-274.3	-287.1
Other Operating Expenses	-159.6	-129.6	-116.2	-121.2
Part in joint venture results	0.0	1.7	0.9	0.9
<b>EBITDA</b>	<b>83.2</b>	<b>118.8</b>	<b>79.9</b>	<b>89.7</b>
<i>EBITDA Margin</i>	<i>8.6%</i>	<i>11.6%</i>	<i>8.6%</i>	<i>9.3%</i>
D&A	-29.3	-39.8	-25.6	-27.1
<b>EBIT</b>	<b>53.9</b>	<b>79.0</b>	<b>54.3</b>	<b>62.7</b>
<i>EBIT Margin</i>	<i>5.6%</i>	<i>7.7%</i>	<i>5.8%</i>	<i>6.5%</i>
Net Interest Expense	-9.4	-4.0	-1.8	-1.8
<b>EBT</b>	<b>44.5</b>	<b>75.0</b>	<b>52.5</b>	<b>60.9</b>
<i>EBT Margin</i>	<i>4.6%</i>	<i>7.3%</i>	<i>5.7%</i>	<i>6.3%</i>
Tax Expense	-12.7	-16.6	-11.2	-12.5
<b>Net Income</b>	<b>31.8</b>	<b>58.5</b>	<b>41.3</b>	<b>48.4</b>
<i>Net Income Margin</i>	<i>3.3%</i>	<i>5.7%</i>	<i>4.4%</i>	<i>5.0%</i>

# VALUATION

## Peer valuation

Analyst Group uses a relative valuation methodology to gain an understanding of Lammhult's implied value. The companies Svedbergs, Balco, and Nilörngruppen has been used as comparable peers. Despite their difference, there are similarities between the companies and Lammhult regarding their business model, addressable market, and customer offerings.

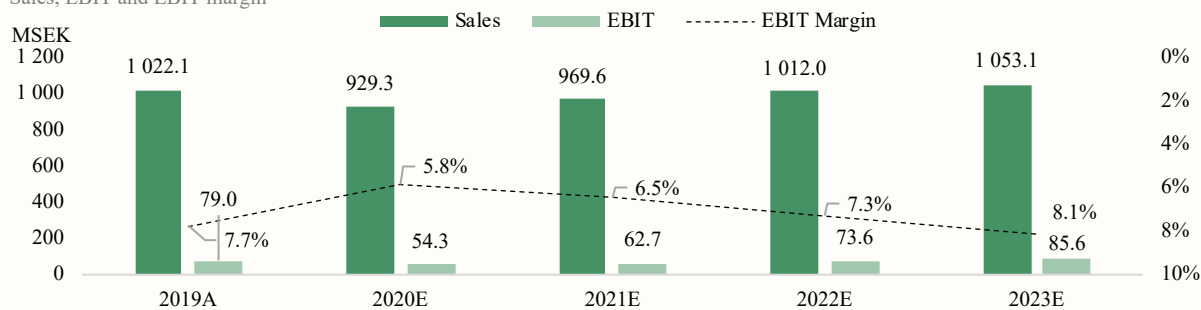
LTM (MSEK)	Sales	Market Capitalisation	ND/EBITDA	EBIT Margin (adj.)	Sales Growth	EV/EBIT	EV/Sales
Svedbergs	428.2	482.2	2.5x	9.2%	0.4%	11.2x	1.0x
Balco	1 271.9	2 001.4	0.9x	11.6%	17.2%	14.7x	1.7x
Nilörngruppen	692.7	329.5	1.0x	8.7%	-26.2%	7.0x	0.6x
<b>Lammhult</b>	<b>1 015.9</b>	<b>353.1</b>	<b>1.6x</b>	<b>7.7%</b>	<b>5.2%</b>	<b>6.3x</b>	<b>0.5x</b>

Source: Bloomberg

In the table above, different multiples and KPIs are compared between Lammhult and its peers on an LTM basis. Analyst Group believes that Lammhult should be valued in line with Nilörngruppen, both companies are currently effected by COVID-19, which has impacted its Sales Growth numbers. Even though Lammhult's margins are expected to expand, they are not expected to surpass Nilörngruppens, they do, however, have a better growth profile going forward. An EV/S multiple is justified, as Lammhult's margins are expected to expand going forward. Given a target multiple of 0.5x EV/S on 2023's forecasted sales, Analyst Group believes a reasonable potential valuation range for Lammhult is illustrated in the diagram below, based on assumptions and forecasts an increase in valuation for the years 2020-2023.

### The Company's EBIT is expected to increase as a result of estimated profitability.

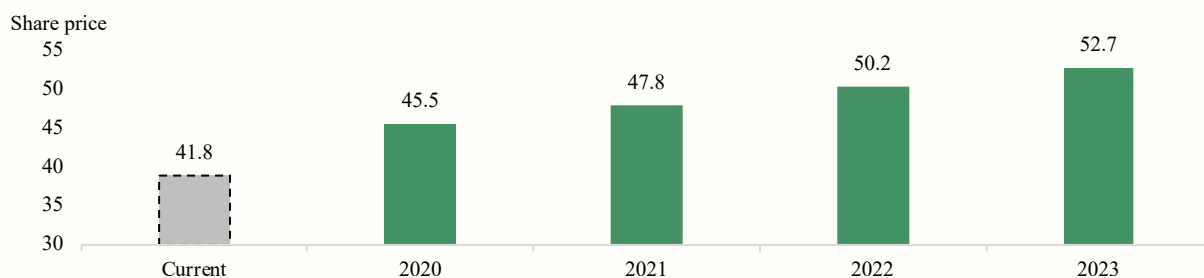
Sales, EBIT and EBIT margin



Analyst Groups' estimates

### Illustration of potential valuation coming 4 years in a Base scenario.

Scenario illustration of valuation with EV/S multiple



Analyst Groups' estimates

# BULL & BEAR

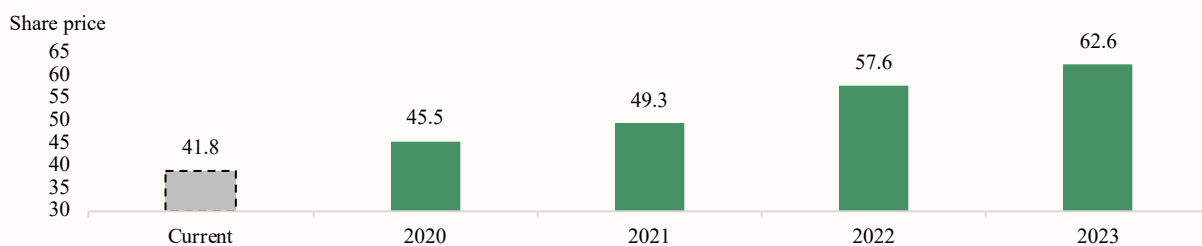
## Bull and Bear scenario

In a Bull scenario, Lammhult is expected to successfully expand its presence into new markets. In addition to this, the Company is expected to integrate a significant acquisition into its portfolio of companies. The Company has a communicated target company profile consisting of a profitable company with an acknowledged brand within the premium segment in the Northern European region. This acquisition is forecasted to increase Lammhult's sales growth further. As a result, Lammhult's sales is estimated to 929.3 MSEK for the year 2020, 994.3 MSEK for the year 2021, 1 133.6 MSEK for the year 2022 and 1 212.9 MSEK for the year 2023.

The Company's EBIT is expected to expand as a result of successful efforts in streamlining the Company's fixed cost base as well as efficiencies of scale as a result of the nature of the furniture manufacturing business. Through its forecasted acquisition, the Company is expected to be able to realise cost synergies through the elimination of duplicate costs. As a result of this, the EBIT margin is forecasted to 5.8 % for the year 2020, 6.7 % for the year 2021, 7.5 % for the year 2022 and 8.3 % for the year 2023.

### Illustration of potential valuation the coming 4 years in a Bull scenario.

Scenario illustration of valuation with EV/S multiple



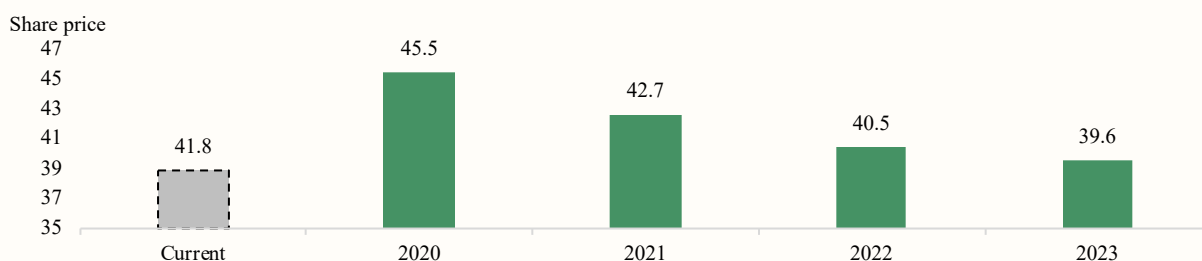
Analyst Groups' estimates

As Lammhult operates in the premium segment of a market, it means that they largely compete on the quality, rather than the price. This means that there always is an underlying risk that its products fall out of favor with what the market is demanding, and a competitor takes Lammhult's market shares. This trend might be accelerated by the fact that the furniture manufacturing industry originates a lot of sales through the utilization of relationship management with top architects and interior designers within its niche, as they play a large part in the actual furniture used in its projects.

As such, in a Bear scenario, the Company expansion into new markets is estimated to be unsuccessful while losing market shares to new competitors. As a result, Lammhult is therefore faced with competing on price to try to retrieve its lost market shares, leading to a reduction of their EBIT margins. As a result of this, Lammhult's sales are forecasted to 929.3 MSEK in 2020, 882.8 MSEK in 2021, 847.5 MSEK in 2022, 830.6 MSEK in 2023, with an EBIT margin of 5.8 % in 2020, 5.3 % in 2021, 5.0 % in 2022, 4.8 % in 2023.

### Illustration of potential valuation the coming 4 years in a Bear scenario.

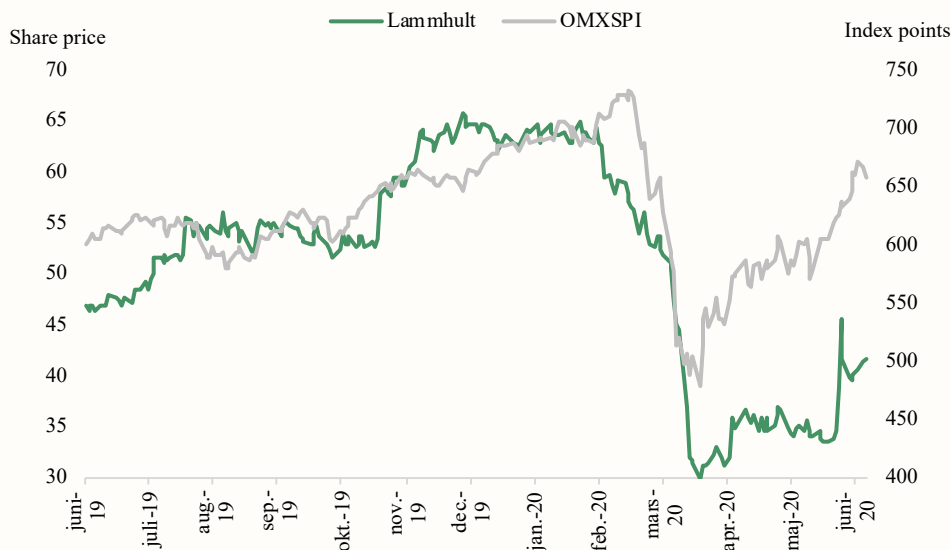
Scenario illustration of valuation with EV/S multiple



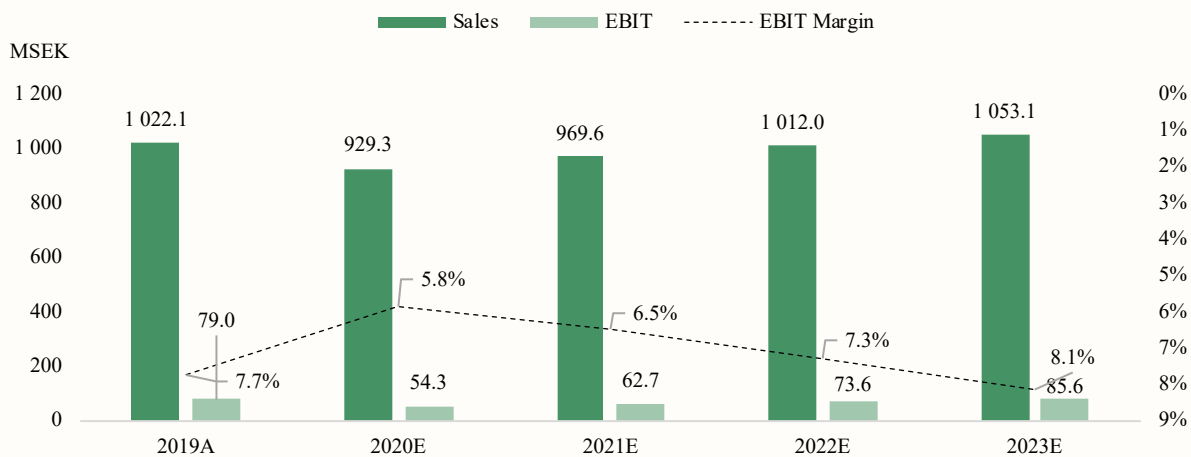
Analyst Groups' estimates

# APPENDIX

## Stock performance LTM



## Forecasted financial performance



# DISCLAIMER

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## Bull and bear

The recommendations in the form of bull alternatively bear aim to provide a comprehensive picture of Analyst Group's opinion. The recommendations are developed through rigorous processes consisting of qualitative research and the weighing and discussion with other qualified analysts.

### Definition Bull

Bull is a metaphor for an optimistic view of the future. It indicates a belief in improvement.

### Definition Bear

Bear is a metaphor for a pessimistic view set on the future. It indicates a belief in deterioration.

## Other

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