2023-09-28

RTX A/S (RTX)

Wireless Solutions for the Future

RTX ("RTX" or "the Company") is a Danish provider of B2B turn-key wireless technology solutions, such as headphones and handsets, operational in three business segments: *enterprise communications, pro audio*, and *healthcare*. RTX is estimated to grow with a revenue CAGR of 13.9% between 21/22-24/25 by leveraging the Company's expertise in end-to-end wireless solutions to establish framework agreements with prominent market players such as CISCO and HP. By utilizing these attractive framework agreements, the Company will acquire ARR with low cost after the initial development phase, thus enabling operational margins through improved unit economics as contracts mature. Analyst Group also expects easing component prices and restored supply chains to streamline contract ramp-up and propel RTX's gross margins from 49% to 52% between 21/22-24/25. By applying a target multiple of 12x EV/EBIT based on a peer valuation, an implied potential price per share of DKK 129.1 is motivated in a Base scenario.

Framework Agreements Intensify Growth Prospects

Leveraging niched expertise to acquire framework agreements with key market players is RTX's primary growth driver. The Company currently operates eight extensive framework agreements, which account for over 60% of the Company's topline. Four of these framework agreements are in the ramp-up phase, where personnel costs are high and revenue low. These framework agreements are expected to enter the main phase within the next three years, increasing ARR by 50.9% to DKK 700.5M in 24/25. Analyst Group also expects RTX to enhance the Company's EBIT-margins from 6.7% to 13.4% between 21/22-24/25 by achieving further unit economics as contracts mature.

Macroeconomical Environment Recovering

RTX is set to capitalize on cheaper semiconductor prices and fewer supply chain complications, contributing to the aforementioned EBIT expansion, and a gross margin expansion from 49% to 52% between 21/22-24/25. Since RTX is exposed to a few large framework agreements, semiconductor-shortages effected the Company to a greater extent than competitors that do not have high exposure to delayed early-stage projects with high cost-burdens. Intuitively this means that if macroeconomic environment eases, RTX's framework agreements will mature quicker, and will thus benefit more than its competitors through scalability.

Underlying Market Growth

Market research[1] indicates that the *enterprise communications* market is expected to grow with a CAGR of 7.8% between 2021–2025. This growth is driven by a shift in American demand from Wi-Fi/VoWLAN handsets to DECT handsets in addition to high growth in the wireless headset market. Additionally, the *pro-audio* segment is rebounding from the pandemic due to accelerating demand for large wireless audio systems driven by large amounts of live concerts that were previously delayed due to the pandemic, which RTX is estimated to capitalize on.

[1] Frost & Sullivan

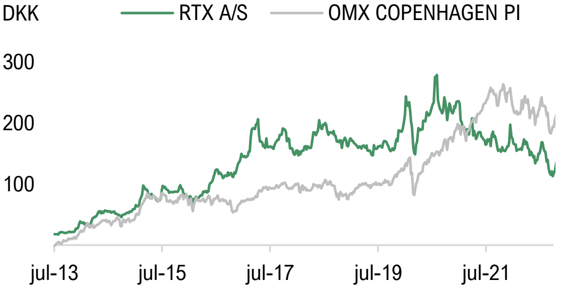
Valuation Range

Bear	Base	Bull
DKK 54.8	DKK 129.1	DKK 205.1

Key Information

Share Price (2023-09-27)	85.4
Shares Outstanding	8,467,838
Market Cap (DKKm)	716.4
Net cash(-)/debt(+) (DKKm)	118.5
Enterprise Value (DKKm)	834.9
List	XCSE Mid Cap
Annual Report 2023	2023-11-30

Share Price Development



Owners (Source: Bloomberg 2023 Q3)

Jens Hansen	8.0%
Fundamental Invest	7.5%
ATP	6.8%
Jens Toftgaard Petersen	5.3%
Danske Bank A/S	4.9%

Estimates (DKKm)	21/22A	22/23E	23/24E	24/25E
Revenue	679.0	780.5	849.4	942.2
COGS	-354.0	-388.8	-408.0	-446.0
Gross Profit	**325.0**	**391.6**	**441.4**	**496.1**
Gross Margin	49.0%	50.2%	52.0%	52.7%
Operating Costs	-239.6	-277.7	-304.1	-327.3
EBIT	**45.6**	**78.5**	**112.6**	**137.7**
EBIT-Margin	6.7%	9.4%	11.8%	13.4%
P/S	1.2x	1.0x	0.9x	0.9x
EV/S	1.4x	1.2x	1.0x	1.1x
EV/EBITDA	11.0x	7.7x	5.8x	6.5x
EV/EBIT	12.2x	12.0x	8.3x	6.8x

Introduction

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About the Company

RTX is a Denmark-based provider of B2B turn-key wireless technology solutions. The Company operates within three business segments: enterprise communications, pro audio, and healthcare. RTX's business model revolves around framework agreements where the Company partners with its customers to create, design, and manufacture OEM/ODM wireless solutions. RTX has recurring revenue through royalties on the sales of the partnered product, which means that in the development phase of a contract, costs are high and revenue low, and as the contracts mature RTX achieves further unit economics since development costs stagnate while sales increase. RTX is listed on the XCSE Mid Cap.

CEO and Chairman

CEO	Peter Røpke
Chairman	Peter Thostrup

Junior Analyst

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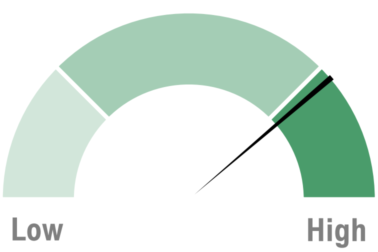
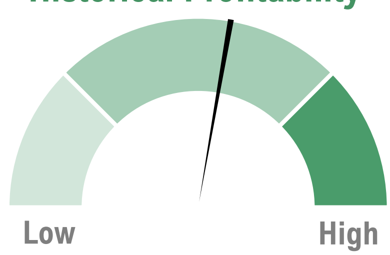
Value Drivers



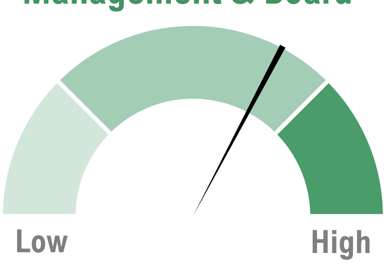
RTX has three enhancing value drivers: Four framework agreements in the ramp-up phase that are set to increase total ARR by 50.9% in the coming three years and continue to generate recurring revenue at the same level for five additional years. Secondly favourable macroeconomic conditions, including cheaper components, which is estimated to expand gross margins. Thirdly a fast-growing underlying market, specifically in the enterprise communications segment.

Historical Profitability



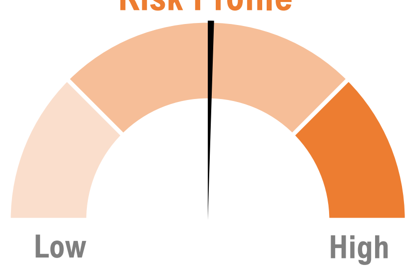
RTX has been profitable for over ten years, albeit with a volatile profit margin ranging from 0.6% to 19.2%. The past two years have been subpar for RTX, with an average profit margin of 2.9%, mainly due to higher component prices and supply chain issues. However, with easing component prices and a restored supply chain RTX is expected to expand margins going forward. This rating is based on historical results and is not forward-looking.

Management & Board



RTX has an experienced C-suite and board of directors. The CEO Peter Røpke, CFO Morten Petersen, and Chair Peter Thostrup have in-depth management experience and successful track records in other similarly high-technological companies. The Company employs a share-based incentive program through restricted share-units (RSU) that vest if financial targets are achieved. These RSU's accounts for 42.7% of total management & board compensation, thus aligning management and shareholder interests.

Risk Profile



Financially RTX is deemed to be low risk; the Company has an ND/EBITDA of 1.6x and a consistently high FCF margin. However, due to the Company's contract-based business model, RTX is prone to customer risk. RTX's top three customers account for 52.1% of total revenue. This poses a risk to the Company, and therefore Analyst Group deems that RTX is a medium-risk investment case, despite the otherwise sound risk profile.

Investment Thesis

7.8% MARKET CAGR 2021-2025

Robust Underlying Market Growth 2021 – 2025

According to market research conducted by Frost & Sullivan, the enterprise communications market is set to grow with a CAGR of 7.8% between 2022–2025. Due to RTX's unique OEM/ODM pureplay business model Analyst Group expects the Company to capitalize on market growth to a greater extent than peers who operate B2C. The motivation for this assumption is that the B2C market is far more competitive, with large MNEs such as Cisco and HP dominating the market. Since RTX operates B2B, supplying B2C products for large firms, the Company avoids competing in the end-consumer market, thus benefitting fully from market growth without incurring extensive pricing pressure.

DKK 700.5M ARR FROM FRAMEWORK AGREEMENTS WITH MARKET LEADERS

Framework Agreements Enables Revenue Growth

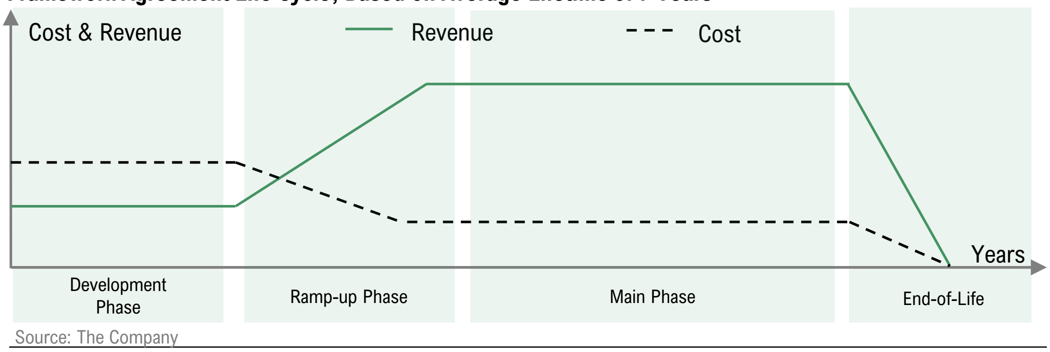
RTX's business model revolves around framework agreements where the Company partners with prominent market players such as Yamaha and Ericsson to create, design, and manufacture OEM/ODM wireless products. Once the products are launched RTX are ensured recurring revenue via a commission on each sale of said product, in a phase that the Company describes as the "main phase“. Currently, the Company operates eight large framework agreements, four of which are in the ramp-up phase. The agreements in the ramp-up phase, all of which were signed in during 2018, were hindered from progressing due to complications uprising from the pandemic. This aspect is essential as the delay and now rapid ramp-up of these projects is expected to act as a catalyst for RTX. Analyst Group expects the four agreements to enter the main phase within the next year, increasing ARR to DKK 700.5M in 24/25. With a higher ARR RTX will enhance cash-flow consistency, thus lowering risk and allowing for optimized use of leverage.

24/25E EBIT-MARGIN OF 13.4%

Framework Agreements Enable Margin Expansion

The nature of RTX's framework agreement business model constitutes high initial costs with little return followed by high revenues with diminishing costs. If the Company has acquired several new framework agreements, margins are low, and then once those agreements enter the main-phase; the margins increase exponentially. Since 2018 RTX's EBIT-margin has decreased from 15.2% to 6.7%. With the maturity of four framework agreements, Analyst Group expects this downwards trend to reverse, constituting an EBIT-margin expansion from 6.7% to 13.4% between 21/22-24/25. Finally, Analyst Group expects RTX to avoid lowering margins with new framework agreements until the Company has stabilised post-pandemic.

Framework Agreement Life Cycle, Based on Average Lifetime of 7 Years



Source: The Company

24/25E GROSS MARGIN OF 52%

Macroeconomic Recovery Enables Higher Margins

The semiconductor shortage during the pandemic was costly for RTX, since the Company relies on consistent component delivery to streamline R&D and execution of its agreements. Given that macroeconomic conditions ease during 2024, RTX is set to benefit at a higher rate than competitors due to improved inventories, contributing to an EBIT expansion via faster framework ramp-up. This is estimated to also expand gross margins from 49% to 52% between 21/22-24/25 due to lower cost materials.

Dependance on Large Customers Constitutes Material Risk

A downside of RTX's dependence on framework agreements is a non-diversified customer portfolio. In RTX’s 2022 annual report, 52.1% of the Company's revenue is attributable to only three customers. If RTX is not able to renew the customer's respective contracts when they reach the end-of-life phase, the Company will lose a large chunk of its revenue. However, this risk is reduced by the fact that the Company’s customers are large, capital heavy, and attributes significant switching costs if undoing the integration of RTX technology from their products. This risk is not estimated to be material in the short term as the average lifetime left on these agreements is three years.

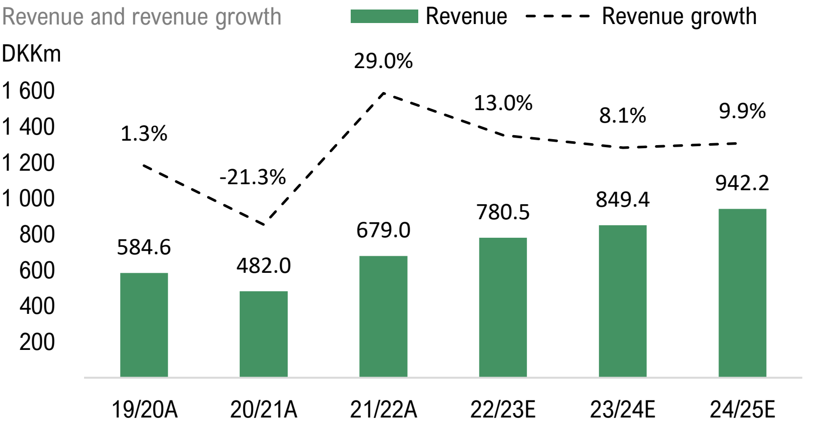
Financial Forecast

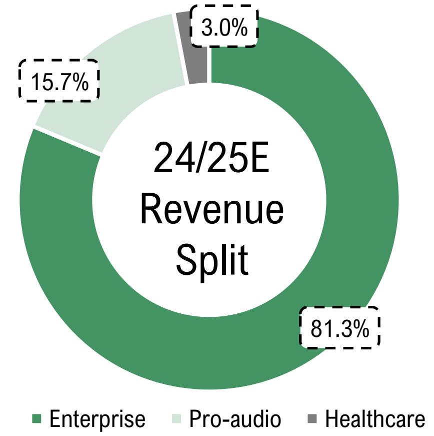
Revenue Forecast 21/22-24/25

REVENUE ESTIMATED TO GROW AT 13.9% CAGR 21/22A-24/25E

RTX operates in three business segments: *enterprise communications*, *pro-audio*, and *healthcare*. *Enterprise communications* account for 74.3% of total revenue, and three of the four ramp-up framework agreements are within *enterprise communications*. This segment contains RTX's most robust partnerships with reputable companies such as HP, Cisco, and Ericsson, partnering with these high-profile customers provide legitimacy in the market which is critical for acquiring further framework agreements. Analyst Group estimates in a Base scenario, that each ramp-up agreement within *enterprise communications* contributes DKK 28.8M annually for two years and then after maturity DKK 57.5M annually for five years. All three ramp-up agreements are estimated to mature by 23/24 and continue to grow in line with the market CAGR of 7.8%. The *pro-audio* segment represents 17.2% of total revenue and contains the last ramp-up framework agreement, which is expected to ramp up by 24/25 and contribute DKK 17.1 annually during ramp-up and DKK 31.1M annually after maturity. The *healthcare* segment's conservative nature makes it difficult for RTX to establish new framework agreements and therefore is expected to contribute DKK 72.3M in total revenue over the next three years. Overall, Analyst Group expects RTX to achieve a revenue CAGR of 13.9% between 21/22-24/25 reaching DKK 998.4M.

Robust Revenue Growth Overtime





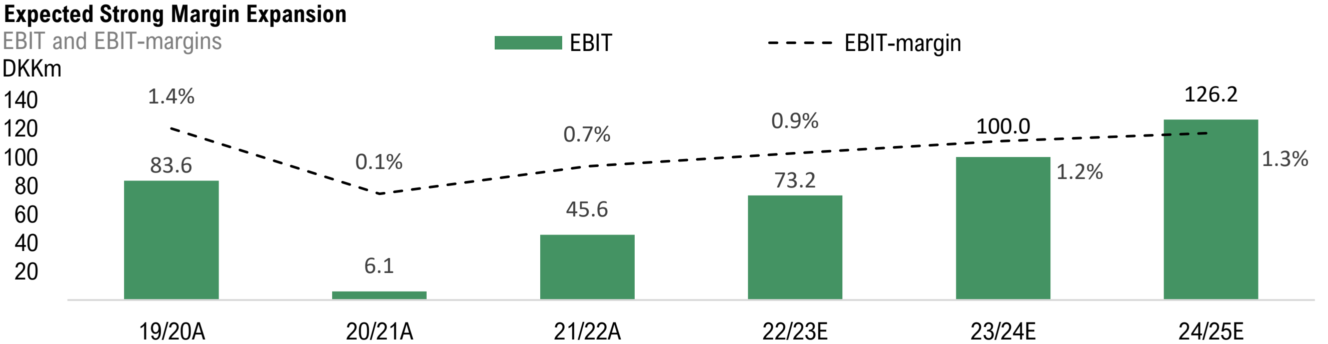
Source: The Company, Analyst Group's Forecasts

Ramp-up of Framework Agreements Are Expected to Improve EBIT-Margins

EBIT-MARGIN EXPECTED TO REACH 14.3% IN 24/25E

Ramp-up framework agreements, in tandem with lower component prices, are set to expand the EBIT-margin from 6.7% to 13.4% between 21/22-24/25, an increase of 6.7%. RTX's ability to obtain new framework agreements makes the business volatile regarding margins, currently, Analyst Group expects an uptick in margins due to previously mentioned maturing contracts. Analyst Group also estimates that easing component prices will expand gross margins from 49% to 52% between 21/22-24/25. Before the pandemic, the Company's gross margin was 60.8%, 8.7% points higher than the Analyst Group's expected 24/25 gross margin of 52%. This conservative estimate is motivated by a change of RTX's business model, where the Company now focuses more on manufacturing products for main-phase framework agreements to achieve recurring revenue than receiving one-time fees by developing OEM products.

Expected Strong Margin Expansion



Source: The Company, Analyst Group's Forecasts

Valuation

Comparable Companies

PEERS TRADING AT 12x MEDIAN EV/EBIT

A relative valuation has been performed to determine the value of RTX. While RTX operates B2B, the Company still serves an underlying market. Therefore, peers have been chosen primarily on the market they serve. All five companies serve the enterprise communications segment to some extent providing wireless handsets and headsets. The only exception to this is Silicon Laboratories which produces the robust Bluetooth chips required in the enterprise communications market.

RTX is undervalued compared to its peers

Peer Valuation (DKKm)	Market Data		Financials			Valuation	
	LTM		LTM			LTM	23/24E
Company Name	MCAP	EV	EBIT-Margin	YoY Rev Growth	ND/EBITDA	EV/EBIT	EV/EBIT
Silicon Laboratories	29,936	25,546	10.1%	30.2%	-3.5x	18.0x	17.9x
Yealink Network Technology	41,337	35,977	45.9%	23.4%	0.1x	18.2x	10.6x
Gigaset	435	515	1.1%	13.8%	0.4x	26.3x	17.3x
Novotek	344	345	9.2%	8.7%	-2.0x	10.4x	8.2x
Ascom	3,209	3,074	4.7%	2.0%	4.0x	30.0x	12.0x
Average	15,052	13,091	14.2%	15.6%	-0.2x	20.6x	13.2x
Median	3,209	3,074	9.2%	13.8%	0.1x	18.2x	12.0x
RTX	835	939	8.9%	31.1%	1.6x	11.9x	8.3x

Source: The Company, Bloomberg, Analyst Group forecasts

Valuation: Base Scenario

DKK 129.1 IN A BASE SCENARIO

Compared to its peers, RTX has higher growth and similar margins compared to the median average. The difference in market cap between RTX and its peers has been ignored because RTX operates B2B, thus, the Company does not compete against other companies and due to the business model, is not dependant on the economies of scale which usually comes with larger businesses. In a Base scenario, Analyst Group expects RTX to expand EBIT-margins with 5.1% points between 21/22-23/24 reaching 11.8%, primarily due to improved unit economics achieved through the rapid ramp-up of contracts, which are expected to serve as the main catalyst. This EBIT-margin expansion outpaces the peer average of 2.1% points between 21/22-23/24; the peers do not have the same margin cyclicality present in RTX due to the nature of the Company's business model, and therefore, are not estimated to achieve the same margin expansion in the next two years. The aforementioned factors motivates a target EV/EBIT multiple equal to the peer median of 12x, which, when applied to the 23/24 EBIT of DKK 112.6M, implies a potential enterprise value of DKK 1293M which when adjusted for net debt implies a potential share price of DKK 129.1.

DKK 205.1 IN A BULL SCENARIO

DKK 54.8 IN A BEAR SCENARIO

Bull Scenario

The following are potential value drivers in a Bull scenario:

- Component prices fall to cheaper prices than pre-pandemic levels, expanding gross margins to 53.1% in 23/24.
- All four framework agreements ramp up by 23/24, contributing with an extra DKK 65.7M to the top line.
- Enterprise main-phase contributes 14.2% more than in a base case to ARR, due to increased demand for partnered products.

By applying a target multiple of EV/EBIT 12.6x to the 23/24 EBIT of DKK 146.1M implies a potential value per share of DKK 205.1 in a Bull scenario.

Bear Scenario

The following are potential scenarios in a Bear scenario:

- Two framework agreements do not ramp up by 23/24, diminishing revenue by DKK 57.3m, all while continuing to be a cost burden for the company motivating a 23/24 EBIT-margin of 6.2%.
- Component prices stay high until 2024, eliminating gross margin expansion.
- Underlying market growth slows down, therefore holding back revenue growth.

By applying a target multiple of EV/EBIT 10.9x to the 23/24 EBIT of DKK 52.1M implies a potential value per share of DKK 54.8 in a Bear scenario.

Appendix: Base Scenario

Base scenario DKKm	20/21A	21/22A	22/23E	23/24E	24/25E
Net revenue	457.2	663.3	766.3	833.9	924.9
Work performed for own account	24.9	15.8	14.2	15.5	17.3
Total revenue	**482.0**	**679.0**	**780.5**	**849.4**	**942.2**
COGS	-218.1	-354.0	-388.8	-408.0	-446.0
Gross profit	**264.0**	**325.0**	**391.6**	**441.4**	**496.1**
Gross margin	57.7%	49.0%	50.2%	52.0%	52.7%
OPEX					
Other external costs	-55.3	-62.4	-71.8	-78.1	-86.7
Personnel costs	-171.3	-177.3	-203.7	-216.4	-231.4
EBITDA	**37.3**	**85.4**	**116.2**	**146.8**	**178.1**
EBITDA-margin	7.7%	12.6%	14.9%	17.3%	18.9%
Depreciation	-31.3	-39.7	-43.0	-46.8	-51.9
EBIT	**6.1**	**45.6**	**73.2**	**100.0**	**126.2**
EBIT-margin	1.3%	6.7%	9.4%	11.8%	13.4%
Financial income	1.6	13.5	8.1	8.8	9.7
Financial expense	-8.3	-16.8	-19.0	-20.7	-23.0
EBT	**-0.6**	**42.3**	**62.2**	**88.1**	**113.0**
EBT-margin	-0.1%	6.2%	8.0%	10.4%	12.0%
Tax expense	4.2	-8.4	-13.7	-19.4	-24.9
Net income	**3.6**	**33.9**	**48.5**	**68.7**	**88.1**
Net margin	0.8%	5.0%	6.2%	8.1%	9.4%

Appendix: Bull Scenario

Bull scenario DKKm	20/21A	21/22A	22/23E	23/24E	24/25E
Net revenue	457.2	663.3	845.2	910.7	1127.8
Work performed for own account	24.9	15.8	15.8	16.8	21.1
Total revenue	**482.0**	**679.0**	**861.0**	**927.5**	**1148.8**
COGS	-218.1	-354.0	-417.0	-434.7	-531.9
Gross profit	**264.0**	**325.0**	**444.0**	**492.8**	**617.0**
Gross margin	57.7%	49.0%	51.6%	53.1%	53.7%
OPEX					
Other external costs	-55.3	-62.4	-88.7	-95.5	-118.3
Personnel costs	-171.3	-177.3	-191.8	-200.1	-212.3
EBITDA	**37.3**	**85.4**	**163.5**	**197.2**	**286.3**
EBITDA-margin	7.7%	12.6%	19.0%	21.3%	24.9%
Depreciation	-31.3	-39.7	-47.4	-51.1	-63.3
EBIT	**6.1**	**45.6**	**116.1**	**146.1**	**223.0**
EBIT-margin	1.3%	6.7%	13.5%	15.8%	19.4%
Financial income	1.6	13.5	8.9	9.6	11.9
Financial expense	-8.3	-16.8	-21.0	-22.6	-28.0
EBT	**-0.6**	**42.3**	**104.0**	**133.0**	**206.9**
EBT-margin	-0.1%	6.2%	12.1%	14.3%	18.0%
Tax expense	4.2	-8.4	-22.9	-29.3	-45.5
Net income	**3.6**	**33.9**	**81.1**	**103.8**	**161.4**
Net margin	0.8%	5.0%	9.4%	11.2%	14.0%

Appendix: Bear Scenario

Bear scenario DKKm	20/21A	21/22A	22/23E	23/24E	24/25E
Net revenue	457.2	663.3	725.4	830.8	865.2
Work performed for own account	24.9	15.8	13.4	15.2	15.8
Total revenue	**482.0**	**679.0**	**738.7**	**846.0**	**881.1**
COGS	-218.1	-354.0	-378.0	-432.8	-448.1
Gross profit	**264.0**	**325.0**	**360.7**	**413.1**	**433.0**
Gross margin	57.7%	49.0%	48.8%	48.8%	49.1%
OPEX					
Other external costs	-55.3	-62.4	-78.4	-89.8	-93.5
Personnel costs	-171.3	-177.3	-205.4	-224.6	-240.2
EBITDA	**37.3**	**85.4**	**76.9**	**98.7**	**99.3**
EBITDA-margin	7.7%	12.6%	10.4%	11.7%	11.3%
Depreciation	-31.3	-39.7	-40.7	-46.6	-48.5
EBIT	**6.1**	**45.6**	**36.2**	**52.1**	**50.8**
EBIT-margin	1.3%	6.7%	4.9%	6.2%	5.8%
Financial income	1.6	13.5	7.6	8.7	9.1
Financial expense	-8.3	-16.8	-18.0	-20.6	-21.5
EBT	**-0.6**	**42.3**	**25.9**	**40.2**	**38.4**
EBT-margin	-0.1%	6.2%	3.5%	4.8%	4.4%
Tax expense	4.2	-8.4	-5.7	-8.8	-8.4
Net income	**3.6**	**33.9**	**20.2**	**31.4**	**29.9**
Net margin	0.8%	5.0%	2.7%	3.7%	3.4%

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Other

The Principal, **RTX A/S** (furthermore" the Company") has had no opportunity to influence the parts where Analyst Group has had opinions about the Company's future valuation or anything that could constitute an objective assessment.

The analyst does not own shares in the Company.