

Lagercrantz

Sector: Serial Acquirer

Buyers Market

Redeye retains its positive take on Lagercrantz following a solid Q2. We believe Lagercrantz has handled a volatile market environment well and taken advantage of the lower prices for acquisitions. We think Lagercrantz will reach its SEK 1bn EBT target in the next twelve to eighteen months.

Solid figures

Sales and EBITA beat our forecasts by about 8% and 6%. Organic growth was 11% year over year. Considering the group level EBITA margin of 16.6%, Lagercrantz has managed to handle both cost increases and component shortages in a solid way, just like in Q1 2022/23. Once again, the decentralized and diversified model has proven itself effective.

Continued high acquisition activity

During the quarter, Lagercrantz made three acquisitions adding around SEK200m in sales, contributing to sales growth of about 3.5%. We believe Lagercrantz has headroom to continue acquire companies, albeit at a slower pace than in the first six months, and take advantage of a market that has become more attractive for acquirers during the last quarters.

New Base Case SEK119 per share

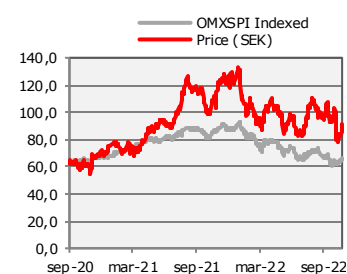
We raise our Base Case slightly from SEK113 to SEK119 per share following raised forecasts despite the uncertain macro environment ahead. Lagercrantz continue to show strong organic growth, which we believe yet again solidifies what a quality serial acquirer it is. The market seems to agree as the share rallied 8% from SEK85 to SEK91.85 per share, but still trade close to our Bear Case. We continue to believe the share is undervalued, offering a good entry point for the long-term investor.

Key Financials (SEKm)	2020/21	2021/22	2022/23e	2023/24e	2024/25e
Net sales	4091	5482	7007	7861	8609
Revenue growth	-2%	34%	28%	12%	10%
EBITDA	774	1094	1422	1658	1777
EBIT	530	781	1040	1165	1314
EBIT Margin (%)	13%	14%	15%	15%	15%
Net Income	388	572	743	803	908
EV/Revenue		5,3	3,1	2,8	2,5
EV/EBITDA		26,6	15,4	13,0	12,2
EV/EBIT		37,3	21,0	18,6	16,4

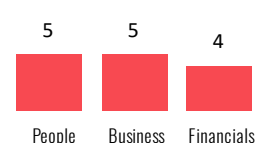
FAIR VALUE RANGE

BEAR	BASE	BULL
88	119	149

LAGR B VERSUS OMXSPI



REDEYE RATING



KEY STATS

Ticker	LAGR B
Market	Large Cap
Share Price (SEK)	91.85
Market Cap (SEKm)	18714
Net Debt (SEKm)	2 919
Free Float (%)	90
Avg. daily volume ('000)	16 120

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Buyers Market

Estimates vs. Actuals	Q2e 2022/2023	Q2a 2022/2023	Diff	Q2a 2021/2022	Q1a 2022/2023
Revenues	1 549,7	1 668,0	7,6%	1 201,0	1 597,0
YY Growth (%)	29,0%	38,9%		30,8%	22,8%
Electrify	363,8	385,0	5,8%	340,0	396,0
Growth y/y	7,0%	13,2%		20,1%	5,0%
EBITA	61,1	69,0	12,9%	56,0	65,0
EBITA margin	16,8%	17,9%		16,5%	16,4%
Niche Products	380,2	421,0	10,7%	299,0	432,0
Growth y/y	27,1%	27,1%		41,0%	30,5%
EBITA	76,0	84,0	10,5%	62,0	89,0
EBITA margin	20,0%	20,0%		20,7%	20,6%
TecSec	389,4	428,0	9,9%	197,0	330,0
Growth y/y	97,6%	117,3%		48,1%	52,1%
EBITA	68,1	74,0	8,6%	34,0	56,0
EBITA margin	17,5%	17,3%		17,3%	17,0%
International	251,1	271,0	7,9%	233,0	264,0
Growth y/y	7,8%	16,3%		36,3%	17,9%
EBITA	33,9	45,0	32,8%	31,0	38,0
EBITA margin	13,5%	16,6%		13,3%	14,4%
Control	165,3	163,0	(1,4%)	132,0	175,0
Growth y/y	25,2%	23,5%		10,9%	15,1%
EBITA	21,5	17,0	(20,9%)	17,0	26,0
EBITA margin	13,0%	10,4%		12,9%	14,9%
EBITA	260,7	277,0	6,3%	200,0	265,0
EBITA Margin (%)	16,8%	16,6%		16,7%	16,6%

Sales and EBITA beat our forecasts by about 8% and 6%. Organic growth was 11% year over year. Considering the group level margin of 16.6%, Lagercrantz has managed to handle both cost increases and component shortages in a solid way, just like in Q1 2022/23. Once again, the decentralized and diversified model has proven itself effective.

The order book was solid at the end of the quarter, which we believe implies continued organic growth for the upcoming quarter partly driven by price increases and currency effects. Lagercrantz's view on the demand is still positive. However, it also mentions that uncertainty is high due to inflation, rising interest rates, and geopolitics. The management mentions that it is prepared for a potentially challenging economic climate and that there are contingency plans in place for the business units, focused on costs and cash flows.

Ahead of the 2026/27 Target

In March last year, Lagercrantz announced a reorganization, going from four to five divisions, and an EBT target of SEK1b for 2025/26. Starting from SEK 502 in 2020/21, after only one year and one quarter, Lagercrantz has reached SEK851m in EBT on an R12m basis. Considering the rather positive outlook and the continued strong acquisition pace in the quarter, we believe Lagercrantz will reach SEK1bn in EBT already in the next twelve months.

So far, strong organic growth and a high M&A activity have helped Lagercrantz outpacing its target. While we assume a lower organic growth going forward and a slower M&A pace, the contribution from already made acquisitions will be significant over the next twelve months.

The Five Divisions

All Divisions except Control showed strong results and we discuss the highlights below.

Electrify

Business units Elpress, Elkapsling and Norwesco continued to perform well. Cue Dee, which has a lumpier business focused on mast, tower and support solutions for the telecom & wind industry, was a stand-out performer in the quarter. The division grew 11% organically with improved margins.

Niche Products

The Niche Products Division stood out with 16% organic growth and continued strong EBITA margins at 20%. Tormek, who has launched a new grinding machine towards consumers called T-1 that has been received very well according to consumer ratings, had its strongest quarter ever. Profsafe, Kondator, Asept, Westmatic and the new acquisition Waterproof stood out with good performances.

TecSec

TecSec also saw solid organic growth at 14% and continued strong margins at 17.3%. The management mentioned a few underperforming units, which have problems due to increased material prices. The largest company in the group, PCP was singled out as a strong performer with 15.6% EBITA margins, but management mentioned that this is partly due to seasonality effects.

International

The International Division was a stand-out performer in terms of margins. The division has had significantly lower margins compared to the other divisions which has historical reasons. The division holds the old electronics business, which has more standardized products and therefore lower margins. Lagercrantz has bought several high margin businesses and as they have been incorporated in the division the overall margins have improved. Management did not want to comment on if the EBITA margin of 16.6% is sustainable but our assumption is that margins will at least continue to be at a higher level than the quarters prior to this.

Control

The Control division struggled the most with supply chain issues and component shortages. The low margin is also explained by seasonality effects though. Q2 last year saw margins of 12.9% vs 20.3% in Q3, and we expect the division to get back to higher margins in the next quarter. The company mentioned that Radonova, Direktronik and Precimeter performed particularly well and that the new acquisitions Geonor and Stegborgs performed according to plan.

Acquisitions

Lagercrantz has made three acquisitions since our last update. On a rolling twelve-month basis, Lagercrantz has added about SEK 1123m in sales from acquisitions, corresponding to about 20% in sales growth contribution. Interestingly and contrary to what we have heard from other businesses Lagercrantz believes valuation multiples in the private markets have started to decline, which, of course, is positive for Lagercrantz. Part of the reason is that a few of the most aggressive acquisitive serial acquirers have had to decrease the acquisition pace during the last months.

Company	Segment	Consolidated	Sales (SEKm)	Growth Contribution (vs. R12m)
Waterproof Diving International	Niche Products	2022-09-01	90	1,6%
Tebul Oy	International	2022-09-01	55	1,0%
Door and Joinery	TecSec	2022-07-01	54	0,9%
Stegborgs El-evator	Control	2022-07-01	60	1,0%
PcP	TecSec	2022-06-01	596	10,3%
ARAS Security	TecSec	2022-01-01	56	1,1%
Westmatic	Niche Products	2022-01-01	175	3,5%
GM Scientific	Control	2021-11-01	n/a	
Geonor	Control	2021-11-01	34	0,7%
Total			922	16,7%

Source: Lagercrantz & Redeye

In the second quarter Lagercrantz announced three acquisitions of Door and Joinery, Tebul and Waterproof Diving International. We believe all of them are typical Lagercrantz acquisitions, both in terms of size and in terms of their competitive positions. We comment on all three below.

Door and Joinery

On July 25, Lagercrantz announced the acquisition of the UK company Door and Joinery Solutions Limited. The company was consolidated July 1st. Door and Joinery manufactures customized fire-resistant doors, screens, and frames. The end-customers are schools, care homes, hospitals, and public buildings. Door and Joinery is based in Burton-upon-Trent and Leicestershire in the Midlands, England and has sales of around GBP4.5m with good profitability. Lagercrantz describe that the acquisition fits well into the TecSec business area as fire safety is one of the focus areas for the division.

The overall door market in Europe is worth some EUR30bn per year. Meanwhile, Fire doors is estimated to be worth around EUR3bn per year. When reading this and comparing it to Door and Joinery's yearly sales of around GBP4.5m. It's easy to think that the market for the company is highly competitive and that it's a small fish in a large pond. However, Door and Joinery only operates in the commercial segment and sells its products through facility management companies and constructors. By erasing the middleman (wholesellers) the company can fetch higher margins. The doors are also highly customized and can be manufactured for desired size and classifications such as the minimum resistance level (meaning how many minutes the door can handle a fire).

This is the first acquisition in the UK after Lagercrantz hired Russell Stuart as the new CEO for Lagercrantz UK Limited. Lagercrantz has stated its ambitions to increase its acquisition activities in the UK.

We have tried to find financial figures for the company, but companies in the UK that do not have a turnover above GBP10.2m or gross assets above GBP5.1m are exempted from filing an income statement to the government and instead only provide the balance sheet and certain notes. We estimate that Door and Joinery has operating margins around 15%. As usual, no valuation multiple is disclosed for a smaller acquisition like this. However, we assume it is around 6x EBITA.

Waterproof Diving International

On September 8, Lagercrantz announced the acquisition of Waterproof Diving International. The company was consolidated into the Niche Division on September 1. Waterproof Diving International produce diving suits and accessories and has done so for the last 35 years. It's clear how passionate the owners and founders Björn Ehlme (CEO) and Göran Ehlme (Head of R&D) are for their business who they have worked with almost all their professional lives as Björn was 28 years old and Göran was 23 years old when they together founded the business. We believe they wanted to find a stable home for the company for it to continue to prosper in the long term. As the founders will continue to own 7% of the company, we expect both to continue in their roles in the years to come

"In order to survive the harsh Scandinavian climate, our ancestors learned the importance of paying attention to the smallest details. They learned that their equipment must be able to stand up to the reality of their climate. That is why we at Waterproof control our own R&D, have our own production facilities and do our own sourcing of materials. We test our products and ideas on our expeditions at Antarctica and the Arctic, as well as other challenging places around the world. And all of this under the most rigorous quality control, in order to meet the toughest standards and challenges posed by the real world. This is our heritage and we are proud of it. At Waterproof we simply call this Facing Reality!"

We have more than 35 years of experience as a producer and developer of high-end diving gear. The Waterproof story has grown during the years and now includes a dedicated development team and multiple awards for best diving suits. We have independent distributors in every country where diving matters and production facilities, service stations and retailers worldwide. We are represented on every continent and in every ocean!

Our purpose and our mission is to enable you to experience the amazing underwater world that covers more than seventy percent of our planet; our oceans. We want you to visit this mysterious and inspiring world. We want you to fall in love with it and respect it. Just like us."

In contrast to Door and Joinery, which is a niche player in a large market, Waterproof Diving International is a rather large actor in a small market. The total market size is around USD1.2 billion but that includes a lot of equipment that Waterproof Diving International do not focus on such as scuba tanks, diving masks, fins, snorkels, et cetera. The main products the company offer are dry suits, semidry-suits, wet suits, undergarments, and accessories. The company is renowned for its high-quality products and product development efforts.

We assume the valuation multiple is around 6x EBITA. We have fetched the following financial data about the company from allabolag.se. Sales were at SEK34m in 2013, and the company had a small positive result by then (3% operating margin). Since, the company has grown its top-line every year with increased profitability. Judged by the press release, sales have increased at a good clip from SEK70m in 2021 to SEK90m, which we believe is on a rolling twelve-month basis.

SEKm	2018	2019	2020	2021
Sales	55	66,2	66,6	70,4
EBIT	6,7	9,2	11,2	11,2
EBIT margin	12,2%	13,9%	16,8%	15,9%

Source: allabolag.se, Redeye Research

Tebul

On September 27, Lagercrantz announced the acquisition of 80% of Tebul Oy. The company was consolidated into the International Division on September 1. Tebul manufactures watertight electric sliding doors for ships. The main customers are European shipyards that build yachts, cruise ships and ferries. The company is based in Lieto in southwestern Finland and has sales of around EUR 5 million. Tebul was merged with the public company Wärtsilä in 1964 and became a stand-alone company again in 1998 following a reorganization.

Manager of the International Division of Lagercrantz, Lars-Ola Lundkvist mentioned in the PM that the company is a valuable addition to the growing cluster of marine product companies. One of these companies is Libra Plast AS in Norway that Lagercrantz acquired in 2021. We think this is a usual case for Lagercrantz where it starts by finding one interesting niche company in a sector and then automatically gets the network and expertise in the sector to continue to buy peer companies.

Some of the competitive advantages of Tebul is that their products are easy to install, and the company is efficient in customizing the product. From the PM we note that the former CEO will continue in his role:

"Together with my talented employees, I have been running Tebul since 2007. It is exciting to take the company to the next level, together with a stable main owner who takes a long-term view and brings extensive industrial and international experience. I look forward to working with Lagercrantz to take advantage of the great growth opportunities for the company's products on the market," says Jussi Uusitalo, CEO and owner of Tebul.

We have not been able to find historical financial figures for Tebul except for the figures in the PM which said around EUR5m in sales with good profitability, which we estimate at around 15%. We assume the valuation multiple is around 6x EBITA.

Quality Shareholders

Lagercrantz has an ownership base headed by the Börjesson family company Tisenhultgruppen with 28.8% of the votes. Anders Börjesson (founder and Chairman of Tisenhultgruppen) has a long history in the Bergman & Beving group (Bergman & Beving, Lagercrantz, Addtech). He became CEO of Bergman & Beving in 1990 and built up his ownership stake in the companies over the next 13 years. The philosophy of Tisenhultgruppen "Simplicity, Responsibility and Freedom" is the same at Lagercrantz.

The current CEO Jörgen Wigh, who has been at the helm since 2006, also owns a considerable stake in the company (2.74% of the voting rights). Along with them there are a long list of Swedish Institutional Owners. In the current market environment, we believe it's even more important than usual to track what is happening behind the scenes. A few notable events are that SEB fonder has consistently reduced its position in the company during 2022 and sold more than 555 000 shares in September. They started the year with a 14.4% position, which has been reduced to 13.8% so large in absolute terms but small in relative terms. Overall, we don't think there has been much to report in terms of ownership changes, which is credit to the quality shareholders Lagercrantz has been able to attract.

During October between the 5th and 13th, the share price of Lagercrantz fell from SEK 100 to SEK 75. On the 6th of October the share fell by almost 15% when two analysts downgraded the stock. We were puzzled by the event as it's rare that a quality company like Lagercrantz experience these swings. To our knowledge the selling pressure under high volumes didn't come from any large institutional owners. We note that the short capital is slightly higher at Lagercrantz compared to its sector colleagues Lifco and Addtech (2.4% vs around 0.5-1.5%), but still not especially high.

Financial Forecasts

We increase our organic sales and EBITA forecasts for the current year slightly for Divisions Electrify, TecSec and International while we reduce our estimates somewhat for the Control Division due to continued issues with supply chain and component shortages.

We forecast about 4% organic growth and a contribution from future M&A of around 5% from 2023/24 onwards and expect a stronger organic growth than that in the last two quarters of 2022/23 driven by price increases and currency effects. We continue to expect margins to increase slightly due to higher growth in product businesses and higher margins in (future) acquired companies. We note that the current economic climate is a risk on the downside and even if Lagercrantz is a much stronger group than it was during the last major financial crisis when sales fell 20% and the operating profit with 40% (from 2008/09-2009/10), it won't be

Lagercrantz: Estimate (MSEK)	2020/21	2020/21 Q1	2020/21 Q2	2020/21 Q3	2020/21 Q4	2021/22	2022/23Q1	2022/23Q2	2022/23Q3e	2022/23Q4e	2022/23e	2023/24e
Net sales (SEKm)	4091,0	1301,0	1201,0	1405,0	1575,0	5482,0	1597,0	1668,0	1818,4	1923,7	7007,1	7860,6
Gross Profit	1578,0	505,0	451,0	539,0	598,0	2093,0	602,0	627,0	733,5	781,3	2743,8	3164,6
EBITDA	774,0	260,0	239,0	273,0	322,0	1094,0	320,0	335,0	364,7	401,8	1421,5	1658,4
EBIT	530,0	185,0	164,0	198,0	234,0	781,0	234,0	240,0	265,6	300,7	1040,3	1165,1
EPS	1,9	0,7	0,6	0,7	0,8	2,8	0,9	0,8	1,0	1,1	3,8	4,2
Growth (%)	-2%	33%	31%	30%	41%	34%	23%	39%	29%	22%	28%	12%
Gross margin	39%	39%	38%	38%	38%	38%	38%	38%	40%	41%	39%	40%
EBITDA margin (%)	19%	20%	20%	19%	20%	20%	20%	20%	20%	21%	20%	21%
EBIT margin (%)	13%	14%	14%	14%	15%	14%	15%	14%	15%	16%	15%	15%
Net income margin (%)	9%	11%	10%	11%	11%	10%	11%	10%	11%	12%	11%	11%

Source: Redeye Research

unaffected in a recession. We believe we have taken this into account in our financial estimates through a lower growth rate from 2022/23 to 2023/24 and margins that stay at current levels. If the economy stays resilient, we believe there is upside to our estimates. A negative effect that has a clear effect on the company right now is financial expenses. As Lagercrantz only has short term debt the increased interest rate put pressure on the net income margin. The yearly financial expenses were SEK40m in 2021/2022 and we expect an increase to SEK90m in the current year (financial expenses were SEK26m in this quarter) and another increase to around SEK135m in 2023/2024.

Following strong organic growth and several acquisitions, we believe Lagercrantz will reach SEK 1bn in EBT in the next twelve to eighteen months, much earlier than 2025/2026, which is what Lagercrantz targets.

Our forecast per division follows:

Divisional Revenues	21/22	22/23 Q1	22/23 Q2e	22/23 Q3e	22/23 Q4e	22/23e	23/24e
Electrify	1 466	396	385	386	432	1 600	1 664
Y/Y Growth (%)	21%	5%	13%	12%	7%	6%	4%
EBITA (Electrify)	246	65	69	66	73	273	277
EBITA margin (Electrify)	17%	16%	18%	17%	17%	17%	17%
Niche Products	1 454	432	421	474	498	1 826	1 937
Y/Y Growth (%)	41%	31%	41%	28%	10%	23%	6%
EBITA (Niche Products)	289	89	84	95	100	368	379
EBITA margin (Niche Products)	20%	21%	20%	20%	20%	20%	20%
TecSec	906	330	428	437	445	1 640	1 822
Y/Y Growth (%)	61%	52%	117%	81%	77%	75%	11%
EBITA (TecSec)	161	56	74	74	82	287	309
EBITA margin (TecSec)	18%	17%	17%	17%	19%	17%	18%
Control	660	175	163	233	236	807	855
Y/Y Growth (%)	14%	15%	23%	25%	25%	18%	6%
EBITA (Control)	118	26	17	42	43	127	142
EBITA margin (Control)	18%	15%	10%	18%	18%	16%	17%
International	996	264	271	288	292	1 115	1 182
Y/Y Growth (%)	40%	18%	16%	10%	5%	11%	6%
EBITA (International)	134	38	45	46	47	176	159
EBITA margin (International)	0	0	0	0	0	0	0
Future M&A (Acc)	-	-	-	-	20	20	400
Y/Y Growth (%)	0%	0%	0%	0%	0%	0%	336%
EBITA (Future M&A (Acc))	-	-	-	-	4	4	72
Assumed EBITA margin (Future M&A (Acc))	0%	0%	0%	18%	18%	18%	18%

Source: Lagercrantz & Redeye Research

Investment Case

Case

Durable growth at high returns

Lagercrantz has a strong track record of allocating internally generated free cash flow at high returns buying private companies. In addition, Lagercrantz has been able to improve its companies and has achieved mid-single-digit organic growth. With Lagercrantz as the new owner, the companies have better opportunities to expand into new markets and grow their business. This twin engine of acquisitive plus organic growth is likely to continue to generate stellar shareholder returns for the long-term investor.

Proven acquisition model

The acquisition model is to buy companies with durable competitive advantages at low multiples, around EV/EBITA 6-8, leading to a yield of around 13-17% and then adding organic growth. The companies Lagercrantz buys typically have sales of around SEK 50-200 million and are well-managed and profitable with limited risk. Its aim is to continue to build up a large portfolio of successful companies, and Lagercrantz has undoubtedly succeeded in this in recent years. All the companies, as far as we can tell, have had stable profitability. Operating margins are around 15-20 percent.

Adding value to its group companies

It has been possible to buy these private companies cheaply due to their relatively small size and dependence on personnel. The operations are then valued at a higher multiple once they are part of Lagercrantz. However, these higher valuations once they are part of the Lagercrantz group are not just sleight of hand since the companies have a greater opportunity to develop with its new owner. This applies particularly to the smaller product companies, which have often lacked the knowledge, capital or, in some cases, the courage to expand into new markets. Lagercrantz supports the business with tools on how to manage its inventory, pricing, export etc., and benchmark the companies against each other to create healthy competition in the group.

Challenges

Big bad acquisitions

If Lagercrantz was to acquire a big company that runs into severe problems, it would cost money as well as management resources. The organization is rather streamlined and if there is a need for restructuring it may have consequences for the rest of the group, and obviously also the stock market's confidence. We think the risk of this is low as Lagercrantz has been disciplined over time.

Valuation for private companies

In 2021, a few aggressive acquirers entered the market in a big way and caused prices to rise. If the acquisition multiples would rise from today's 6-8x EBITA to 9-11x it would lead to less attractive return on capital for Lagercrantz, thereby hurting its long-term prospects.

Valuation

Almost always attractive

The Lagercrantz share has clearly outperformed the stock market index over the years. Lagercrantz has a well-proven ability to buy and develop companies and provides a good potential to generate high returns over time. We think the business can generate a 15%+ return on capital over decades by being able to reinvest the majority of its cash flows at high returns, leading us to conclude that the stock is almost always attractive to own. Most large industrial companies are not able to re-invest their cash flows at high returns, leading to a high dividend ratio instead of the snowball effect Lagercrantz can achieve by its supreme reinvestment ability. Even though the Lagercrantz share is often trading at a premium, we think investors underestimate the long-term effect, meaning the premium is often too low.

Valuation

We are raising our fair value range for Lagercrantz upon the strong Q2 report despite increasing the risk-free rate from 2% to 2.5%. Our previous fair value range was SEK83 to SEK131 per share, our new fair value range is SEK88 to SEK149 per share.

Bear Case 88 SEK

- In this case, we outline the effects of a sharp economic downturn in the next few years, similar to the one that occurred in 2009-10. Sales will then in all probability decrease significantly and profitability will deteriorate in the next few years.
- The expansion would then resume, but from a lower level. The sustainable EBIT margin is assumed to be 13%.

Base Case 119 SEK

- In our main scenario, we assume ~4% annual organic growth and gradually rising profitability as the product companies grow.
- In addition, we assume that the acquisitions can be made on similar terms and at the same pace as in recent years. On the other hand, the margin is expected to be higher as the acquisitions are expected to be product companies. As a sustainable EBIT margin, we have assumed ~15%.

Bull Case 149 SEK

- This scenario is based on a higher rate of expansion and further improved profitability. This would be possible if several of the product companies succeed in growing in their export markets.
- EBIT margins are assumed to rise to 17% due to good growth in the most profitable subsidiaries.

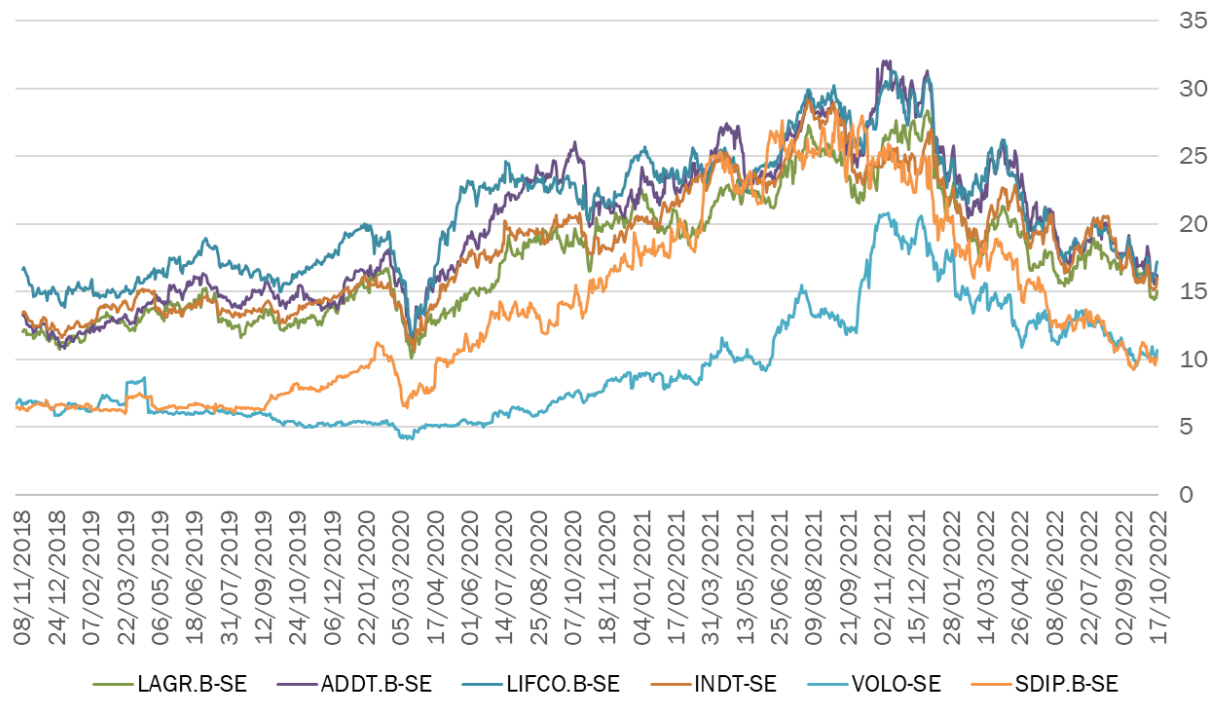
Peer Valuation

Niche acquirers Company	EV (SEKm)	Sales			EV/SALES			EV/EBITA (x)			Sales growth			EBITA margin		
		22E	23E	24E	22E	23E	24E	22E	23E	24E	22E	23E	24E	22E	23E	24E
Lagercrantz	21,429	6,718	3.2	2.9	2.8	20	18	17	23%	6%	4%	16%	16%	16%		
Addtech	42,213	16,964	2.5	2.3	2.1	19	18	17	21%	4%	5%	13%	13%	13%		
Lifco	80,355	20,749	3.9	3.7	3.4	19	18	17	19%	2%	4%	21%	20%	20%		
Indutrade	76,264	25,768	3.0	2.8	2.7	20	19	18	19%	3%	5%	15%	15%	15%		
Sdiptech	10,414	3,481	3.0	2.6	2.2	16	14	13	28%	15%	12%	18%	18%	18%		
Volati	9,863	7,864	1.3	1.1	1.1	13	11	11	25%	6%	6%	10%	10%	10%		
Average	40,090	13,591	2.8	2.6	2.4	18	17	15	22%	6%	6%	15%	15%	15%		
Median	31,821	12,414	3.0	2.7	2.5	19	18	17	22%	5%	5%	16%	15%	16%		

Source: Redeye, Company reports, FactSet

For this comparison, we use FactSet consensus estimates for Lagercrantz. As our own forecasts for Lagercrantz include future M&A, the comparison to peers with our forecasts is misleading. Currently, Lagercrantz is trading in line with the average of its peers in 2023E. On our forecasts, including future M&A, Lagercrantz is trading at 17x EBITA 2023/24E (roughly equal to 2023E in the table). All in all, we argue Lagercrantz is attractively priced relative to peers. Also, we believe the sector is more attractive than it has been for a while, considering the combination of declining multiples and solid operational performance.

NICHE ACQUIRERS - EV/EBITDA NTM



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: None

People: 5

Lagercrantz receives the highest rating for People for several reasons. First, its management has a solid track-record regarding M&A and capital allocation. Second, the management has also demonstrated the ability to restructure underperforming business units fast and successfully. Third, insiders, such as CEO Jörgen Wigh, owns a notable share of Lagercrantz. Fourth, we believe that management's communication is balanced and realistic.

Business: 5

Lagercrantz receives the highest rating for Business for several reasons. First, the group has shown resilience to economic downturns, especially the Corona Crisis. Second, most of its larger subsidiaries, such as R-Con and Elpress, are active in structural growth markets. Third, most of its subsidiaries are the leader in their respective market niches. Fourth, for many years, Lagercrantz has been able to grow efficiently by acquisitions.

Financials: 4

Lagercrantz receives a high rating for Financials for several reasons. First, the company has a long track record of being profitable. Second, Lagercrantz has a strong financial position. To achieve an even higher rating, Lagercrantz would need to increase its growth and margins further.

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

Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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Redeye Rating (2022-10-25)

Rating	People	Business	Financials
5	32	15	4
3-4	157	140	48
0-2	5	39	142
total	194	194	194

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Niklas Sävås owns shares in the company : Yes

Fredrik Nilsson owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.