

Priced to imperfection

Lammhults is a small Swedish company originating from the region of Småland with a market cap of MSEK 351 and revenue of approximately MSEK 800. It is conducting business within manufacturing and design of furniture and interior solutions. The company categorises its sales into two categories, office interiors and library interiors. Examples of products include sound proofing, sofa groups, shelves and glass walls.

During the period of 2012 through 2019 Lammhults grew their revenue by 8% CAGR. Meanwhile the average EBIT-margin was 4,3%. However towards the end of the period the margin rose to 7,4% due to a divestment of an unprofitable B2C business, focus on the more profitable B2B segment and cost minimization. During the pandemic Lammhults centralized its warehouse, and reduced redundant personnel with the objective of further strengthening the profitability.

During the second half of 2021 Lammhults has seen its order intake and order backlog rise significantly and we believe the market is too pessimistic about the future for this company. Shifts in trends of the office and library segments indicates the possibility for future growth for Lammhults. There is plenty of room for acquisitions with Lammhults having a solid balance sheet and an adjusted net debt/EBITDA of only 0,8. Profitability should be able to rise due to implemented cost minimization initiatives. Short term there is the risk of higher shipping and material cost but Lammhults seems ready to parry these, furthermore we see this as short term headwinds that should not affect the company in the long run.

Through a DCF model and peer valuation we arrive at an intrinsic value of SEK 63. Indicating an upside of 51%. We therefore see this as a good opportunity to pick up the stock

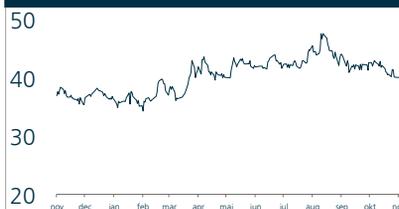
Fair Value Range

Bear	Base	Bull
41	63	81

Key Data

Sector	Industrial
Ticker	Lamm B
Market	Small Cap
Price	41.60 SEK
Market Cap	351 MSEK
Net Debt	68 MSEK
Shares fully dil.	8.4 M

Share Price - 12M



Financials (SEK)	2019	2020	2021E	2022E	2023E
Revenue	1022	818	831	873	916
EBIT	76	(8)	17	35	73
EBITDA	115	54	58	70	101
<i>EBIT margin %</i>	7.4	(0.9)	2	4	8
<i>Revenue growth %</i>	6	(20)	2	5	5
EPS	6.44	(1.31)	1.2	2.9	6.5
DPS	0	0	0.8	1.9	4.3

Investment Thesis

Lammhults has a solid growth history with rising profitability. During the period of 2012 through 2019 Lammhults grew their revenue by 8% CAGR. Meanwhile the average EBIT-margin was 4,3%. Towards the end of the period the margin rose to 7,4% due to a divestment of an unprofitable B2C business, focus on the more profitable B2B segment and cost minimization.

As one could imagine the COVID-19 pandemic had a significant negative effect on the earnings and revenue of Lammhults. The revenue shrunk by about 20% and the operating margin completely disappeared. This negative trend seems to have been broken and we are seeing signs of the growth and profitability returning as revenue is growing 5% organically year over year and the underlying profitability adjusted for one time costs suggests an operating margin of about 5%. Order intake in the office interior segment rose by about 30% and order backlog is up approximately 60% in the segment year over year. During the pandemic Lammhults centralized its warehouse, and reduced redundant personnel with the objective of further strengthening the profitability.

With the return to office trend we are seeing and the rising order backlog we are comfortable assuming growth is back on track and the measures to improve profitability should gain momentum shortly. In the short run Lammhults faces some headwinds such as higher shipping and material costs but the company says that they have raised their prices towards the customers. This price hike is more immediate for the office segment, which shows a stable profitability and has a slower effect on the library segment which has longer project cycles. We assume some hampered profitability in the short run on the aggregate for the company. Lammhults has a financial target of 8% operating margin and we assume that when the short term headwinds ceases that the profitability will improve from the current levels and converge towards the target of 8%.

Furthermore Lammhults has financial targets of 3% organic growth and 7% growth from acquisitions. It also has targets of a solidity of above 35. The current level is 58 and the net debt/ajd.EBITDA is approximately 0,8. This leaves plenty of opportunities for acquisitions which seems to be a clear target judging by the financial targets. A great optionality for the investment case since the last 3 significant acquisitions happened in 2016. Since then Lammhults have focused on improving the financial position of the company, strengthening the profitability and parrying the pandemic.

We see a low valuation indicating low expectations on the company's operating performance in combination with market demand returning as a great opportunity for the share to appreciate in value.

Financials (SEK)	2021E	2022E	2023E
Revenue	831	873	916
<i>Revenue growth %</i>	<i>2</i>	<i>5</i>	<i>5</i>
<i>EBIT margin %*</i>	<i>5</i>	<i>4</i>	<i>8</i>
EBIT*	40	35	73
EV/EBIT*	7	12	6
P/E*	10	14	6

**2021 numbers adjusted for extraordinary costs.*

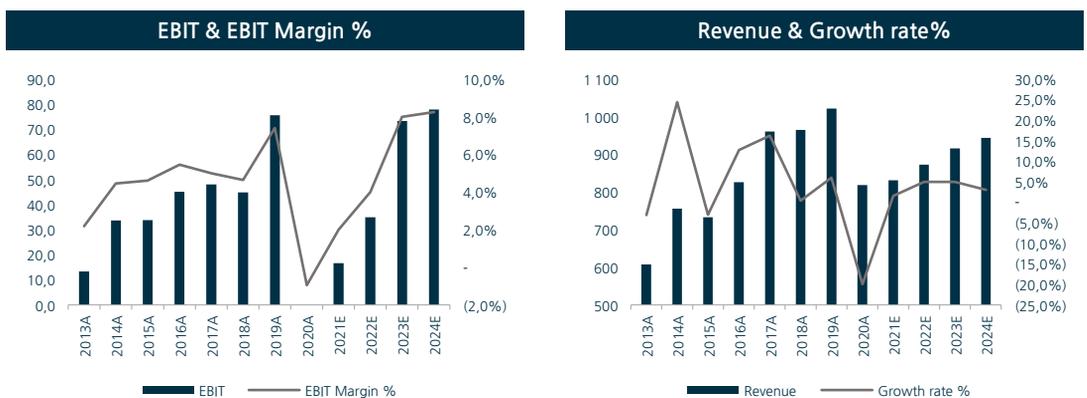
Strategy and Operations Analysis

Lammhults divides its business into two segments, office interiors and library solutions. Within each segment Lammhults has several brands that operates under a decentralized structure. Lammhults earlier had a B2C business but that was fully divested in 2018.

The office interior segment produces furniture and interior solutions primarily sold for offices and public spaces. The sales channels are through architects and wholesalers. The products are more suited for meeting rooms, office furniture and not for home offices making the recent pandemic one of the worst possible scenarios imaginable for this segment. However Lammhults emphasises that it will benefit from the need of modernizing the offices around the world to accommodate more digital meetings, sound proofing, and hybrid work spaces. The office interior segment accounts for approximately 60% of the revenue. Most of the revenues are from the Nordics and Sweden in particular and other European countries makes up the other significant markets.

The library interior segment is targeted towards two phases for libraries, total interior design and aftermarket. The total interior part of the segment is project driven and therefore characterized by fluctuations in order intake and therefore revenue. The aftermarket is a more stable business. Library interiors was also negatively affected by the pandemic due to a delay in public spending during the lock downs. However some of the revenue loss was mitigated by products sold online such as separators needed to hinder the spread of the COVID-19 virus. For this segment, Lammhults also emphasises the shift towards meeting spaces and differing environments. Libraries are shifting from just storage of books towards meeting spaces where seminars and lectures can be held. The revenue from this segment is more geographically diversified with the largest market being the French market. Sales are mainly attributable to the European market but Africa and the Middle East also makes up a significant part.

We believe Lammhults is well positioned to continue growing due to the shifts in trends that can be noticed both in the office and library segment. One interesting thing to notice is the increased shipping and material costs. It is mentioned by the company but only noticeable for the library segment whilst the office segment has rising profit margins. Lammhults have clearly been able to raise prices in the office segment but not in the library segment. This is most likely due to the longer project cycles for the library segment. We believe Lammhults has sufficient pricing power to mitigate the increased costs due to its focus on internally developed products and positioning in the premium segment.



Management & Ownership

Daniel Tell: CEO since 2021 and before that CFO since 2019. He previously has experience from CFO-positions at Resurs Holding, Hafa Bathroom and other rolls within Findus. Tell owns 1000 shares.



Peter Conradsson: Has had a board position since 2013 and is chairman of the board since 2020. Is representing the biggest shareholder Scapa Capital which is a financial company holding stocks in furniture companies. Outside Scapa Conradsson owns 18 000 shares.



Stefan Persson: Member of the board since 2020. Background from Inwido and A-lackering AB. Specialist in optimizing business. Bought 40 000 shares in August at 43,60 SEK and currently owns 50 000 shares.



Morten Falkenberg: Member of the board since 2021. Background as CEO of Nobia and different roles within Electrolux, TDC mobile and Coca-Cola. Currently owns 15 000 shares.



Ownership Structure

Owner	Shares %	Votes %
Scapa Capital AB	21.43	28.69
Canola AB	5.50	22.23
Input Interiör Sweden AB	12.54	5.76
Avanza Pension	6.64	3.05
Solvik Aktiebolag	0.83	3.80
Sjöberg, Marie Louise	1.09	2.71
Sjöberg, Gunnar	0.93	2.63
Brakander, Marie	0.75	2.61
TJ Gruppen AB	0.59	2.39
Total	50.31	73.87
Other	49.69	53.13

Peer valuation

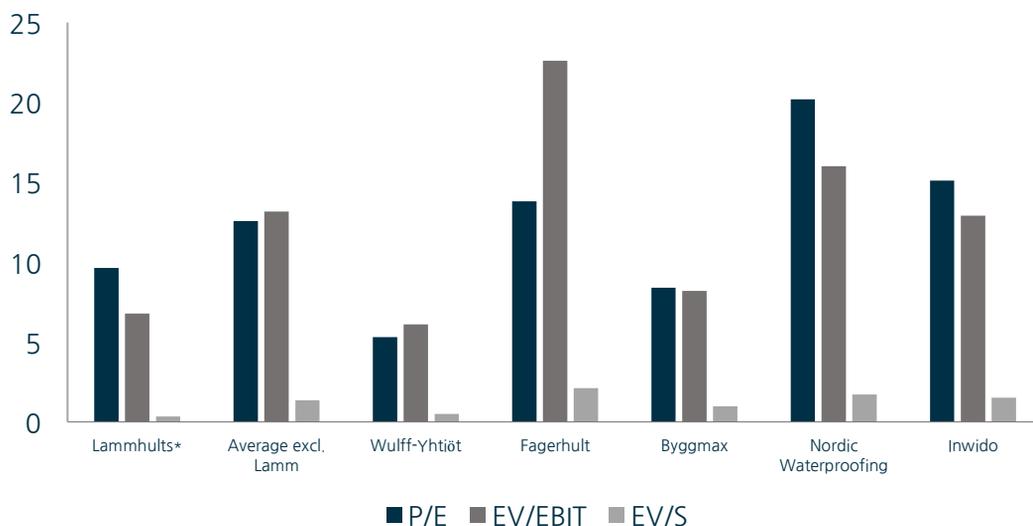
Lammhults has no obvious Nordic peers listed. Therefore one has to get creative and chose companies with similar characteristics as Lammhults. This makes the peer analysis limited and should not be used as a sole parameter for deriving the fair value of the company.

The most obvious candidate for a peer of Lammhults is the Finnish company Wulff-Yhtiöt. It sells office supplies and has therefore a direct exposure to the office market. In contrast to Lammhults, Wulff-Yhtiöt specializes in products suited for the home office and has therefore had a positive impact from the pandemic. Thus Wulff-Yhtiöt is trading at what we can assumed to be peak earnings while Lammhults trades far from their peak earnings. Lammhults has better historical growth and profitability than Wulff-Yhtiöt.

Fagerhults is a Swedish company selling lightning to stores, offices and public buildings. Therefore it has a common exposure to market trends as Lammhults. However Fagerhults has better historical growth and profitability and should trade at a premium.

Finally three companies in similar segments are Byggmax, Inwido and Nordic Waterproofing Group (NWG). Byggmax is a retailer of building materials and has been selected since it operates in an unpopular segment and the market questions its future growth and profitability, a situation similar to that of Lammhults. Inwido and NWG has been selected due to them both having financial targets of organic growth in line with inflation (the market) while having an ambitious acquisitive agenda. These three companies also have better historical numbers than Lammhults and a proven track record of acquisitions. Therefore it is not unreasonable to assume that Lammhults should trade at a discount to all “peers” except Wulff-Yhtiöt.

Peers Multiple Comparison



Valuation

We believe Lammhults is trading below its fair value and to visualise this we have created a football field based on the above peer valuation and two different DCF-models, see graph "valuation".

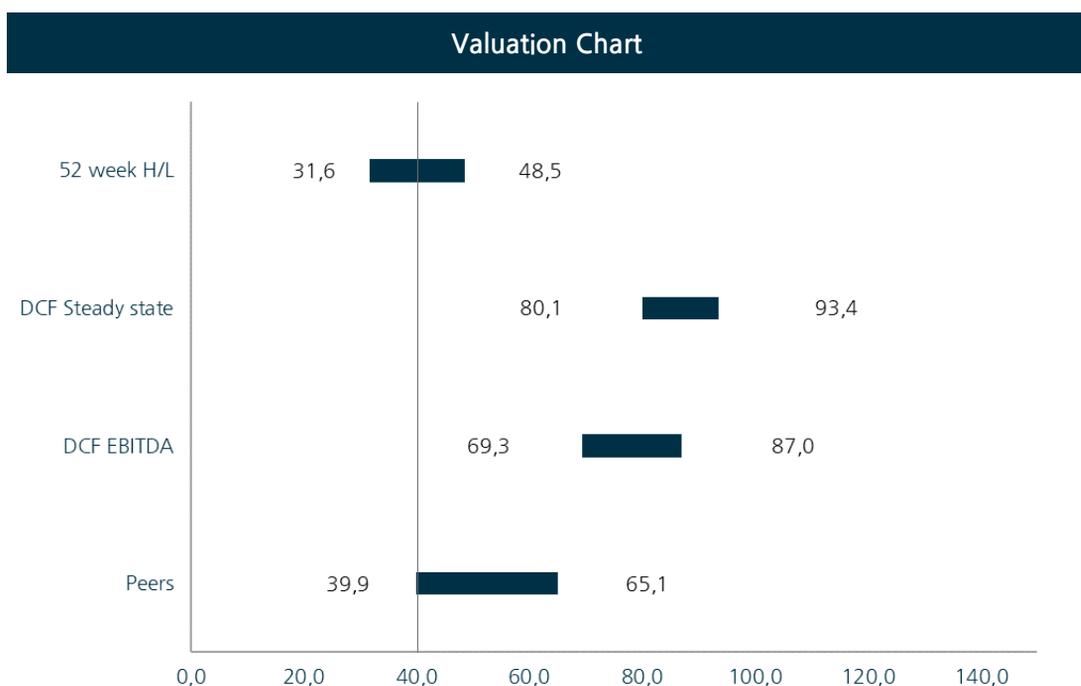
Our DCF-model is based on modest sales growth of 5% the coming 2 years, 3 years of 3% growth and after that reaching a steady state in 2026. This assumes no acquisitions being made due to the uncertainty for such a small company as Lammhults making them. This results in us assuming low capex and D&A in line with historical years where no acquisitions has been made.

Since Lammhults had a rising operating margin before the pandemic and have since implemented further cost optimizing measures, we assume that the operating margin will rise towards the financial target and reach 8% in 2023 once the short-term cost headwinds have been fully mitigated. We assume a 10% WACC in line with the company's chosen one when Lammhults performs their sensitivity analysis for the conservative end of the DCF and 8% for the optimistic upper end. Terminal value has been calculated using 2% terminal growth in line with desired inflation in Lammhults markets.

For the EBITDA exit multiple, we have chosen 8 for the lower end and 6 for the higher, both numbers are lower than the historical multiple of 9.

For the lower end of the peer bar in the valuation graph we have compared Lammhults with Wulff-Yhtiöt and for the upper end we have compared Lammhults with the peer group discussed earlier.

This leaves us with the conclusion that Lammhults trades below its intrinsic value both based on an absolute and a relative valuation.



Case Summary

To summarize Lammhults has recently survived almost the worst imaginable market conditions for a company of its kind with demand almost entirely disappearing. Before the pandemic the profitability was trending upwards and due to further cost optimization measures being undertaken we believe that the profitability will rise in the long run. In the short run it might get hampered by rising material and shipping costs but we believe this headwind to be of transitory character.

Lammhults has a good opportunity to grow with a misunderstood exposure to the office segments. A shift towards hybrid offices will not be entirely negative for Lammhults and there is ample room for growth in the future. A solid balance sheet also leaves plenty of room for acquisitions or dividends in the future.

Our peer analysis, although containing an odd mixture of “peer” indicates some potential for a higher valuation. However the DCFs created points to a far larger upside for the stock.

We believe Lammhults trades below its intrinsic value of SEK 63 and therefore has a potential of approximately 51%. We believe this is a good time to purchase the stock.

Appendix

MSEK	Average 2012-2020	2021E	2022E	2023E	2024E	2025E	Average Estimate period	Steady state
Revenue	887,5	831,2	872,7	916,4	943,9	972,2	904	
COGS	584	565,2	593,5	604,8	620,6	639,2	601,2	
Gross profit	303,5	266	279,3	311,6	323,3	333	302,8	
SG&A	232,9	207,8	209,5	210,8	217,1	223,6	216,9	
EBITDA	70,5	58,2	69,8	100,8	106,2	109,4	85,8	
EBIT	39,9	16,6	34,9	73,3	77,9	80,2	53,8	
D&A	30,6	41,6	34,9	27,5	28,3	29,2	32	
Capex	41,2	13	26,2	27,5	28,3	29,2	27,6	
Delta NWC	-10,1	0,8	2,6	2,7	1,7	1,8	-0,1	
Inputs %								
Revenue growth	2,06	1,58	5,00	5,00	3,00	3,00	3,27	
COGS	65,75	68,00	68,00	66,00	65,75	65,75	66,54	
Gross margin	34,25	32,00	32,00	34,00	34,25	34,25	33,46	
SG&A	26,43	25,00	24,00	23,00	23,00	23,00	24,07	
EBITDA-margin	7,82	7,00	8,00	11,00	11,25	11,25	9,39	
EBIT-margin	4,36	2,00	4,00	8,00	8,25	8,25	5,81	
Tax*	21,80	20,60	20,60	20,60	20,60	20,60	20,60	
D&A % of revenue	3,46	5,00	4,00	3,00	3,00	3,00	3,58	
Capex % of revenue	4,77	1,56	3,00	3,00	3,00	3,00	3,06	
FCF	30,7	40,9	33,8	55,5	60,1	61,9	50,5	789,3
PV		40,9	30,8	45,8	45,2	42,3	41,0	539,1

		WACC				
		8,00%	9,00%	10,00%	11,00%	12,00%
Growth rate in steady state	1,0%	95	82	72	65	58
	2,0%	109	92	80	71	63
	3,0%	128	106	90	78	69

DCF Assumptions Base Case		WACC	
NPV of FCF	205	Beta	1.000
NPV of TV	539	Equity risk premium	6,7
Enterprise value	744	Risk free rate	2
		Cost of equity	8,7
Net debt	(68)	Risk free rate	2
Other Adjustments	-	Cost of debt	4,45
		Tax rate	20,6
DCF Value of equity	677	After tax cost of debt	3,53
DCF value per share	80	WACC	6,6

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