Equity Research

ScandBook Holding AB

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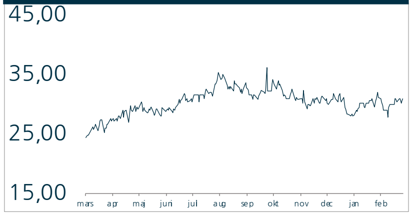
Asset Management

Fair Value Range		
Bear	**Base**	Bull
35,04	**68,20**	88,06

Key Data	
Sector	Consumer Details
Ticker	SBOK
Market	First North Stockholm
Share Price	31,0 SEK
Market Cap	140,7 MSEK
EV	196,7 MSEK
P/E Ratio	5,1
Shares fully diluted	4,6 M

Share Price - 12M



Overview and History

Scandbook AB is a leading Scandinavian book producer with two production facilities. One is located in Falun and one is located in Lithuania and specializes in pocket books. The facility in Lithuania was acquired in 2015 when ScandBook merged with the Danish based company Print It, making Auris AS the main shareholder. Every step in manufacturing the books is fully integrated in the facilities meaning that the books get directly distributed to customers. Current customers are over 300 book publishers based in Scandinavia, Denmark, Finland, Lithuania, Poland, Great Britain, Ireland, Netherlands and Germany.

In 2020, Scandbook printed and delivered a total of 37,4 million books. Even with the limitations of the pandemic, this result was better than expected and 2021 was also a record year. There does not seem to be a decline in the physical book market. The company's long term survival (and possible growth) strategy is to acquire a long term EBIT-margin exceeding 8%, becoming the most cost effective producer, growing faster than the general book production market and making room for possible acquisitions.

Current valuation

The current share price is believed to be reflected by a pessimistic view of the general book manufacturing market by investors. The upside in the base case is 119,4% with rather conservative expectations and a margin of safety of 50% below the base case intrinsic value. The interval from bear and bull case, with 50% margin of safety, is SEK 35 to SEK 88 which is still above the current price. Additionally, there should be an even higher upside with disregard to margin of safety.

Financials (MSEK)	2019	2020	2021	2022E	2023E
Revenue	282	303	335	350	360
Adj. EBIT	10,3	19,4	28,9	28,0	28,8
Revenue growth %	*7,4*	*7,4*	*5,6*	*4,5*	*2,9*
EBIT Margin	*3,7*	*6,4*	*8,2*	*8*	*8*
EPS (SEK)	1,3	3,1	5,7	6,0	6,5
DPS (SEK)	0,0	0,8	0,8	1,4	1,8
Equity/Assets	65,3%	68,5%	72,7%	70%	70%

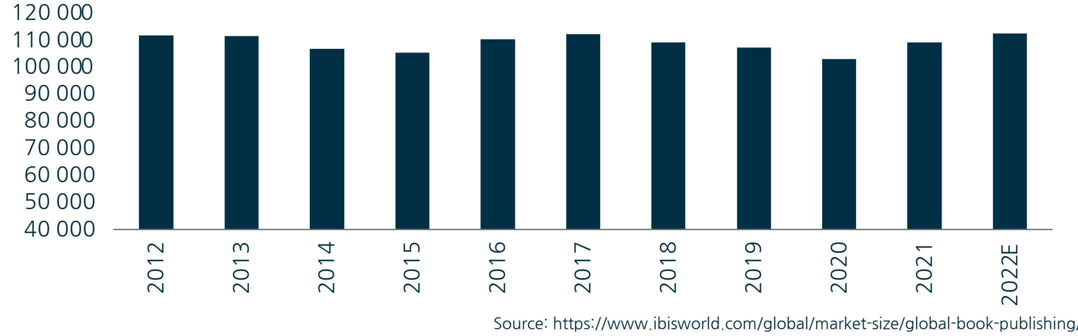
Investment Thesis

The greatest supposed reason behind the stock's low valuation is a view of pessimism by the stock market towards the general book publishing and printing market. Though, as presented in graph 1.1 below, there does not seem to be a diminishing trend in the latter. E-books and audiobooks/podcasts may be gaining immense traction, but the physical book is not disappearing any time soon. There would need to occur a heavy shift in consumer behaviour for the book market to decrease in size which does not seem probable. Alternative book markets have existed for a while but have rather become a market on their own (see graph 1.2), or a complementary market. One could argue that the markets should have already shifted.

Scandbook may be an attractive buy from a noticeable mispricing and seemingly established downside protection. The buyer is currently paying SEK 31,0 per share for a net working capital of 13,5 SEK/share, free cash flow of 5,0 SEK/share and for a book value of 45,7 SEK/share. On top of that, with a dividend policy of half the earnings with current earnings would mean a pay out of 2,15 SEK/share (if preferred shares are not bought back), a yield of 6,9% at current price. If management can maintain current revenue and also achieve their goal EBIT margin of 8,0% while operating as usual, the valuation begins to look like the base case in the DCF. Notice, also, that this is with a 50% margin of safety. Although there would be nice to see some insiders buying, signalling even greater belief in the company, there is still reason to suppose the stock is mispriced.

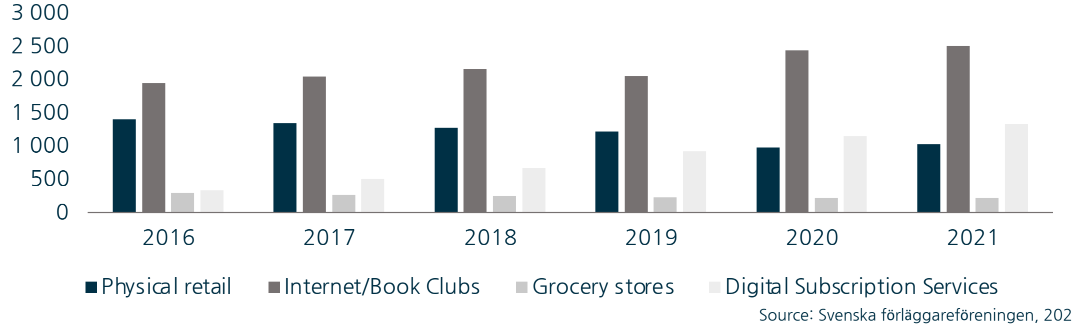
The stock has already tripled since spring of 2020 where it was extremely undervalued but the belief is that there is still more value to the stock. The recent price catalyst could partly be explained by an increased inflow of cash to the markets during the pandemic as well as value recognition. As the inflow effects of the pandemic has subsided, the remaining growth catalyst would be the evolution of the case where satisfactory reports and a restored view of the book publishing markets are important. ScandBook needs to prove that earnings power and operational growth will remain.

1.1 Global Book Publishing Market ($Millions)



Source: https://www.ibisworld.com/global/market-size/global-book-publishing/

Graph 1.2 Revenue per sales channel in Sweden (MSEK)

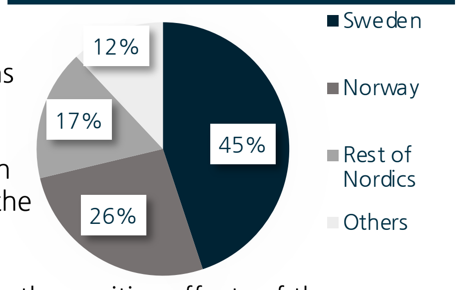


Source: Svenska förläggareföreningen, 2021

Strategy and Operations Analysis

ScandBook's revenue stability comes from a wide portfolio of both small and large publishing firms and organizations needing prints in larger masses, Bonnier and Nordstedts for example. The total sales are split between the facilities with 26% of revenue contributable to production in Sweden and 74% to production in Lithuania (2021). The total sales are distributed as shown in graph 1.2.
An important growth strategy for Scandbook is increasing sales in markets outside the Nordics. With an attractively placed facility in Lithuania, ScandBook is well equipped to satiate further demand.

1.2 Geographic sales



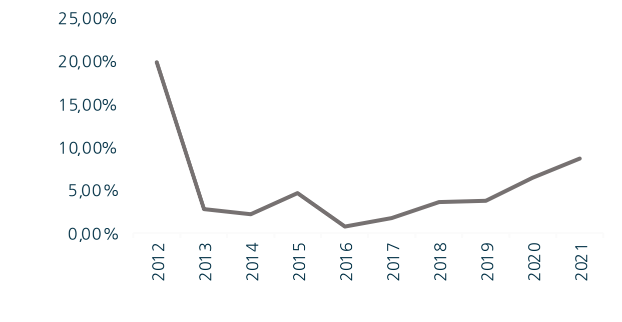
The book production industry features high fixed costs which means barriers to entry. Book production manufacturers go out of business if they can not produce enough volume. ScandBook's already established customer base could be viewed as a prescription against such an occurrence. Management's operational goal is for the EBIT margin to exceed 8% in the medium term. This goal was established in 2013 where a cost-reduction program was initiated. Since then, the EBIT margin has been rising rather steadily, showing the positive effects of the program. These factors in synchronization; high fixed costs, stable customers and a historical increase in profitability, indicates strong operational quality with high probability of quality in the future.

With increasing EBIT-margin and stronger cash flows, ScandBook is also well suited for further acquisitions and market expansion. This is where the majority of future growth lies. If ScandBook can acquire further market share abroad, the valuation of the share starts to fall in line with the bull case DCF.

One caveat where some insecurity lies is with the preferred shares that is held by the largest owner of the company, Auris AS. In addition to their common share holding, they hold 2 148 741 preferred shares with a redemption price of SEK 13,03 and a preferred dividend of SEK 1,00 (COE = 7,67%). These preferred issues could be either redeemed or converted into standard issues, diluting investors with 46%. However, redemption date has been postponed multiple times and ScandBook is financially capable of buying the shares back comfortably over a 3-4 year period. Also, Auris AS is a part of the company ScandBook merged with back in 2014 through issuance of new share (common and preferred). Conversion of preferred shares seems unlikely however; it would not be rewarding for anyone as both Auris and other shareholders would be diluted and thus, no value is created. If preferred shares are converted however, dilution effects will cause the fair value, in every case, to drop to SEK 47 (base), SEK 60 (bull) and SEK 24 (bear). Note however, that these share prices are, still, with 50% margin of safety.

Regarding free cash flow as opposed to EBIT, the need for capital expenditure is of great importance. Since ScandBook's restructure in 2013 the company has invested in most machines necessary for cost effective production. The main investments happened in 2017 where machines were bought for a value of SEK 38,6M, most of which was tied to the facility in Lithuania.
Since then, the EBIT margin has been rising steadily and the need for CapEx has decreased. This suggests a positive outlook for future operations to yield fruit for a time onwards. Scandbook has also, from the investments made, been able to reduce employees needed for operations which further has increased margins.

EBIT-margin



Management & Ownership

Paulius Juska - CEO
Former CEO of Scandbook UAB since 2015. BSc in Finance and MSc in international Business Management, Vilnius University

Ann-Kristin Sunnanhagen - CFO
CFO since 2012, MSc in Business administration

Håvard Grjotheim - Board member
Former CEO, stepped down due to health reasons. Managed company well during expansions abroad. Still works with Company strategy. Cand Philol / Master of Art, Scandinavian languages, literatures, linguistics, history,law and computer science.

Odd Rune Austgulen - Largest shareholder
Owner of Auris AS, BSc in Law and MSc in Business administration.

Ownership Structure

Owner	Common Shares %	Preferred Shares %	Votes %
Auris AS	25,6	100	28,9
Peter Gyllenhammar AB	31,2		29,8
SIP 203, TOUPLUS ASSURANCE	10,4		10,0
Avanza Pension	8,1		7,7
Pär Nilsson	5,7		5,5
SwedBank försäkring	1,9		1,6
Nordnet Pensionsförsäkrings AB	1,7		1,6
Anders Ola Kuntsson	1,5		1,4
Olle Jakobsson	1,5		1,4
Thorell Johan	1,3		1,6
Others	11,0		10,5

Note: Peter Gyllenhammar AB with majority votes is a private equity fund with a value oriented investment approach. The fund manager Peter Gyllenhammar is a rather successful investor with a long track record and seemingly high integrity. His holding in the company could be viewed as a quality mark.

Valuation

Below is a rough DCF made with the assumption that goal EBIT margin of *8,0%* is achieved and revenue increases with about *2,5 %* per year perpetually (base case). Room has also been made for further unexpected CapEx. WACC (*7%*) is also roughly estimated. ScandBook does not have a lot of debt and cost of debt is about 2%. Cost of equity has been assumed to be that of the preferred shares. COE calculated with CAPM would have been roughly 0,5% since the beta of the stock is very low. It is therefore safer to assume a higher WACC as this leaves a good safety margin. The bear case assumes higher WACC (*8,0*%) and negative perpetual growth. Price per share is therefore SEK 35 with 50% safety margin. The bull case only assumes higher perpetual growth (*3,0%*) and motivates a price per share of SEK 88 with 50% margin. (Both bull and bear cases are found in the appendix).

The stock is also valued at an all time low regarding P/E. 10 year average P/E is 14,3 while current multiple is 5,1. This seems rather mispriced with much better financial and operational condition than previous years and greater future prospects. It is still trading at a marginally higher P/B ratio (0,67) than the 10 year average (0,5). However, since a lot of inventory has been around for a period of time, the value could be higher than presented in the balance sheet. Also, at current run rate, P/FCF is ~6 which is a lot lower than that of more established companies with similar run rate margins. Without an expansion in multiples, buying the whole business at current value would thus mean getting a lot more than paid for. Is it therefore reasonable for the valuation to stay static? If results turn out as in the base case DCF assumptions, ROI would be achieved in roughly 7 years.

Base case	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	307 000 000	335 000 000	350 000 000	360 000 000	370 000 000	380 000 000	390 000 000	400 000 000
EBIT	19 341 000	27 470 000	28 000 000	28 800 000	29 600 000	30 400 000	31 200 000	32 000 000
Non Cash Adjustments	19 034 000	17 755 000	17 500 000	18 000 000	18 500 000	19 000 000	19 500 000	20 000 000
Change net working Capital	19 034 000	(1 675 000)	17 500 000	7 200 000	3 700 000	3 800 000	3 900 000	4 000 000
CapEx	3 070 000	17 755 000	7 000 000	7 200 000	7 400 000	15 200 000	7 800 000	8 000 000
Tax	3 984 246	5 658 820	5 768 000	5 932 800	6 097 600	6 262 400	6 427 200	6 592 000
Free cash Flow	12 286 754	23 486 180	15 232 000	26 467 200	30 902 400	24 137 600	32 572 800	33 408 000
DCF			**14 235 514**	**23 117 478**	**25 225 564**	**18 414 459**	**23 223 956**	**22 261 161**
Revenue growth %		*9,12*	*4,48*	*2,86*	*2,78*	*2,70*	*2,63*	*2,56*
EBIT margin %	*6,30*	*8,20*	*8,00*	*8,00*	*8,00*	*8,00*	*8,00*	*8,00*
Non-cash adjustments % of revenue	*6,20*	*5,30*	*5,00*	*5,00*	*5,00*	*5,00*	*5,00*	*5,00*
Change net working capital % revenue	*6,20*	*(0,50)*	*5,00*	*2,00*	*1,00*	*1,00*	*1,00*	*1,00*
CapEx % revenue	*1,00*	*5,30*	*2,00*	*2,00*	*2,00*	*4,00*	*2,00*	*2,00*
Tax % EBIT	20,6	20,6	20,6	20,6	20,6	20,6	20,6	20,6

DCF summary	
NPV of FCF	162 720 000
NPV of TV	507 059 779
Enterprise value	**669 779 779**
TV growth rate %	2,5
Net debt	(8 690 000)
Other Adjustments	-
WACC %	**7,0**
Safety margin %	**50,0**
DCF value per share	**68,20**

Risks

A feature that characterizes the book market is the correlation with economic cycles exposing it to a minor risk to the present increasing interest rates. This conclusion could also be drawn from looking at the above graph where visible natural market swings occur. This risk is however included in the bear case where forecasts has been made for a stagnant revenue, negative terminal growth and an increased WACC. Note that the 50% margin of safety from present value still applies.

Another minor risk is that there is limited growth for the industry as a whole. However, the thesis for purchasing does not consider above-average industry growth. It is rather assumed that growth stays equal to the general economy.

The greatest risk of the case is the assumption that consumer behaviour will not change. If behaviour shifts, the outcome may start to look like the bear case DCF. Remember: 50% margin of safety included. An investment in ScandBook is a bet in faith for the physical book.

Case Summary

ScandBook has started to get their operations in order and the future prospects of the company and book market does not seem as poor as the stock market may think. The physical book market seems intact and ScandBook is suited for acquiring further market share. The current low valuation could be a great entry point for investment, and the company's underlying financials is of great health which also disregards the investment as a potential value trap.

Risks includes: unsatisfying development of the physical book market, general macroeconomic risk and poor future business management.

The fair value range according to DCF assumptions is between SEK 35-88 per share which means a potential upside of 12-184% at current price. The valuation in regards to financial ratios is at historical lows and downside protection is also rather established with a stable customer base and great financials; healthy debt, net working capital and a valuation supposedly below liquidation value.

Appendix

Bull case	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	307 000 000	335 000 000	360 000 000	375 000 000	390 000 000	405 000 000	420 000 000	435 000 000
EBIT	19 341 000	27 470 000	28 800 000	30 000 000	31 200 000	34 425 000	35 700 000	39 150 000
Non Cash Adjustments	19 034 000	17 755 000	18 000 000	18 750 000	19 500 000	20 250 000	21 000 000	21 750 000
Change net working Capital	19 034 000	(1 675 000)	18 000 000	7 500 000	3 900 000	4 050 000	4 200 000	4 350 000
CapEx	3 070 000	17 755 000	7 200 000	7 500 000	7 800 000	16 200 000	8 400 000	8 700 000
Tax	3 984 246	5 658 820	5 932 800	6 180 000	6 427 200	7 091 550	7 354 200	8 064 900
Free cash Flow	**12 286 754**	**23 486 180**	**15 667 200**	**27 570 000**	**32 572 800**	**27 333 450**	**36 745 800**	**39 785 100**
DCF			**14 642 243**	**24 080 706**	**26 589 107**	**20 852 558**	**26 199 248**	**26 510 492**
Revenue growth %		*9,12*	*7,46*	*4,17*	*4,00*	*3,85*	*3,70*	*3,57*
EBIT margin %	*6,30*	*8,20*	*8,00*	*8,00*	*8,00*	*8,50*	*8,50*	*9,00*
Non-cash adjustments % of revenue	6,20	5,30	5,00	5,00	5,00	5,00	5,00	5,00
Change net working capital % revenue	6,20	(0,50)	5,00	2,00	1,00	1,00	1,00	1,00
CapEx % revenue	*1,00*	*5,30*	*2,00*	*2,00*	*2,00*	*4,00*	*2,00*	*2,00*
Tax % EBIT	20,60	20,60	20,60	20,60	20,60	20,60	20,60	20,60

Bear case	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Revenue	307 000 000	335 000 000	335 000 000	335 000 000	335 000 000	335 000 000	335 000 000	335 000 000
EBIT	19 341 000	27 470 000	26 800 000	26 800 000	26 800 000	26 800 000	26 800 000	26 800 000
Non Cash Adjustments	19 034 000	17 755 000	16 750 000	16 750 000	16 750 000	16 750 000	16 750 000	16 750 000
Change net working Capital	19 034 000	(1 675 000)	16 750 000	6 700 000	3 350 000	3 350 000	3 350 000	3 350 000
CapEx	3 070 000	17 755 000	6 700 000	6 700 000	6 700 000	13 400 000	6 700 000	6 700 000
Tax	3 984 246	5 658 820	5 520 800	5 520 800	5 520 800	5 520 800	5 520 800	5 520 800
Free cash Flow	**12 286 754**	**23 486 180**	**14 579 200**	**24 629 200**	**27 979 200**	**21 279 200**	**27 979 200**	**27 979 200**
DCF			**13 499 259**	**21 115 569**	**22 210 791**	**15 640 847**	**19 042 173**	**17 631 642**
Revenue growth %		9,12	-	-	-	-	-	-
EBIT margin %	6,30	8,20	8,00	8,00	8,00	8,00	8,00	8,00
Non-cash adjustments % of revenue	6,20	5,30	5,00	5,00	5,00	5,00	5,00	5,00
Change net working capital % revenue	6,20	(0,50)	5,00	2,00	1,00	1,00	1,00	1,00
CapEx % revenue	1,00	5,30	2,00	2,00	2,00	4,00	2,00	2,00
Tax % EBIT	20,60	20,60	20,60	20,60	20,60	20,60	20,60	20,60

Bull Case	
DCF summary	
NPV of FCF	179 674 350
NPV of TV	682 645 169
Enterprise value	**862 319 519**
TV growth rate %	3,0
Net debt	(8 690 000)
Other Adjustments	-
WACC %	**7,0**
Safety margin %	**50,0**
DCF value per share	**88,06**

Bear Case	
DCF summary	
NPV of FCF	144 425 200
NPV of TV	206 393 927
Enterprise value	**350 819 127**
TV growth rate %	(0,5)
Net debt	(8 690 000)
Other Adjustments	-
WACC %	**8,0**
Safety margin %	**50,0**
DCF value per share	**35,04**

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