

Motion Display AB

Sales strength signals promising future

Andreas Eriksson | 2023-08-29 08:00

The strong start to 2023 has now made its mark in the books, with the revenues to date already surpassing sales in the full year 2022. With breakthrough orders in several new markets and sales returning to pre-pandemic levels, 2023 appears to be a redemptive year for Motion Display. With a less binary investment case we've made changes to our WACC and sales estimates, and now find support of a new fair value range of SEK 1.9 – 2.1 (1.6 – 1.9) per share in 12-24 months.

Better, stronger, less risky

The figures of H1'23 speaks pretty much for themselves. Sales amounted to SEK 15.2m, resulting in positive EBITDA and cash flow for the first time since 2020. Along with a better geographical spread, Motion Display is on its way back to a new normal, in better shape with tighter cost base and stronger margins. The Q2'23 gross margin reached a record 57%. However, we anticipate a decrease in the margin with even higher volumes. This is because the company's sales strategy involves partnering with large purchasing organizations, which typically results in lower margins compared to direct customer sales. Even though the recent upswing is due to a recovery in the US, the company has seen traction in other key markets like Europe, Australia and South America. This development is slowly lowering the risks of relying heavily on a single market.

Increasing sales with good cost control

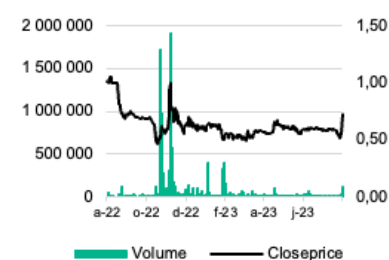
The cost efficiency measures implemented in 2022 continue to have a positive impact. Combined with strong gross margins, they set the stage for healthy profitability as sales gradually return to normal. With an annual cost base of approximately SEK 15m and current gross margin of 57%, Motion Display requires sales of around SEK 27m to break even at the EBITDA level. This indicates that the company is on track to achieve profitability (once again) already this year. The last time sales reached SEK 30m (in 2020), Motion Display was valued at SEK 35-40m, or SEK 2.00-2,30 per share. Therefore, the current price of SEK 0.72 represents a significant discount in an historical perspective, especially considering the lower cost base and the higher gross margins.

Sales H1'23 > current Market Cap

The reported sales of SEK 15.2m and the backlog of SEK 4.4m for the first six months are good numbers by themselves, but we think what's behind the figures might be of even bigger importance. Historically, Motion Display was heavily reliant on the US market. However, they struggled to gain consistent traction and often depended on sporadic orders, which made the investment proposition quite unpredictable and binary. We now see the entry into other geographical markets, and better traction in Europe. This diversification reduces investment risk by leading to more consistent orders. We now believe Motion Display finally has a chance to break through the glass ceiling that has been annual sales of SEK 30m on a steady basis. As a result, we've made some changes in our estimates and assumptions where a new WACC of 21% (30%), sales of SEK 29m (SEK 23m) in 2023E, a growth rate of 10% (22%) from 2024 and onwards now support a fair value range of SEK 1.9 – 2.1 per share in 12-24 months.

Motion Display

Fair Value, SEK (12-24 m)	1,9 - 2,1
Current Price, SEK	0,72
Shares (M)	17,7
Market Capitalisation (MSEK)	13
Net Debt (MSEK)	-2,9
Enterprise Value (MSEK)	10
Market	Spotlight



Financial Summary

MSEK	2021	2022	2023E	2024E	2025E
Revenue	17	15	29	33	37
EBITDA	-4	-4	2	3	4
EBIT	-7	-6	-1	0	2
EPS Adjusted	-0,39	-0,37	-0,05	0,00	0,16
Sales Growth, %	-47%	-10%	94%	12%	12%
EBITDA Margin, %	-23%	-23%	8%	10%	11%
EBIT Margin, %	-40%	-42%	-2%	1%	6%
EV/Sales	1,5	1,0	0,5	0,4	0,4
EV/EBITDA	-6,7	-4,3	6,2	4,4	3,4
EV/EBIT	-3,9	-2,4	-20,1	56,2	6,7
P/E	-3,6	-1,9	-12,7	3578,1	4,2

Source: Emergers

Over 20 years of electronic paper displays

Motion Display Scandinavia was founded 2005 by the founder of Pricer and former CEO of Pharmacia, Erik Danielsson, with the vision to offer moving marketing messages without expensive and time-consuming installation. Today the company can offer a unique product of blinking displays made from electronic paper, which can be tailor made to fit every customer's demand. With battery powered electronics, the display can be installed on the edge of the shelf, just like a price tag.

Well-documented effect on sales

Studies show that about 70% of all the purchasing decisions are made after the customer has stepped into the store, which shows the importance to offer an attractive environment with happenings to make customers notice specific offerings. A study by Retail Academics show that customers only distinguish a few percent of a stores assortment since a static background creates a noise which is hard to penetrate. The same study shows that a blinking display with a moving motif, triggers the reptile instinct in our brain, which makes the display noticed 8x faster than a normal/static display.

Through a case study with Walmart, Motion Display used their product to market a salad dressing in 1200 Walmart stores, while 1800 stores used normal displays. The difference was staggering where the stores who used Motion Displays product sold 66% more than their respective.

Wider focus for quicker scale-up

Historically, the company had some success with big projects outside of Walmart, with one order at the end of 2017 amounting to 14 MSEK, and another one at the end of 2020 of 7.5 MSEK. With a scalable business model, where the majority of the costs is attributable to the model design of one display, high volume orders is highly profitable for Motion Display. So far, the company has only scratched the surface of the enormous US market, which houses over two million stores.

Addressable market in the US

	Number of stores
Walmart	3 500
Pharmacies	67 000
Convenience stores	154 000
Restaurants & bars	1 000 000
Total	2 000 000

Source: Motion Display, Emergers

Valuation

With an assumption about sales reaching about SEK 29m in 2023, and a yearly growth of 10% from there, we estimate Motion Display to reach positive EBITDA again by 2024. Using a discount rate (WACC) of 21% to reflect a retail market in change and uncertainties about where it will end up, a residual multiple of 10x EBITDA, our DCF indicates a fair value of 2.1 SEK per share.

DCF Key Assumptions

WACC	21%
Long-term EBITDA-margin	18%
Long-term CAPEX as share of sales	5%
Terminal Value EBITDA-multiple	10x
Total NPV, MSEK	38
NPV per share, SEK	2,1

Source: Emergers

Risks

Component disruptions: Just as many other industries, Motion Display is not left unaffected by the delivery chain disruptions. The company has addressed this by purchasing an inventory of key components to be able to quickly respond to incoming orders.

Pandemics: The pandemic hit particularly hard against retail, which affected Motion Display since the number of customers in stores decreased rapidly, as the focus on in-store-marketing also fell.

Governance

CEO Anna Engholm studied mathematics and computer science at Uppsala University. With a background as Product Manager at Pricer AB and Customer Project Manager at Pricer Inc. she has solid experience in project management in retail.

Chairman Erik Danielsson is the founder of Motion Display. With a background as the CEO of the pharmaceutical company Pharmacia AB, he also founded well known Pricer and Scandinavian Biogas, as well as co-founder of Trippus and ProTracer.

Motion Display

Income Statement

MSEK	2020	2021	2022	2023E	2024E	2024E
Sales	31,7	16,8	15,1	29,2	32,8	36,8
Operating Costs	-30,0	-20,6	-18,6	-26,9	-29,5	-32,6
EBITDA	1,6	-3,8	-3,5	2,3	3,3	4,1
Depreciation	-3,0	-2,8	-2,8	-3,0	-3,0	-3,0
Amortisation of Goodwill	0,0	0,0	0,0	0,0	0,0	1,0
EBIT	-1,4	-6,7	-6,3	-0,7	0,3	2,1
Non-recurring Items	0,0	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-0,3	-0,2	-0,3	-0,3	-0,3	-0,3
Pre-tax Result	-1,6	-6,9	-6,6	-1,0	0,0	1,9
Tax	0,0	0,0	0,0	0,0	0,0	0,0
Minority Interest	0,0	0,0	0,0	0,0	0,0	1,0
Net Result	-1,6	-6,9	-6,6	-1,0	0,0	2,9

Capital Expenditure

	2020	2021	2022	2023E	2024E	2024E
Capital Expenditure, Absolute	1,8	1,9	1,8	1,5	1,6	1,8
As a Pct of Sales	5,8	11,5	11,6	5,0	5,0	5,0
Depreciation Multiple	0,6	0,7	0,6	0,5	0,5	0,6

Key Ratios

Share Price: SEK 0,69

	2020	2021	2022	2023E	2024E	2024E
Share Price at 31 Dec	3,8	1,40	0,70	0,69	0,69	0,69
Number of Shares (Millions)	10,40	17,67	17,67	17,67	17,67	17,67
Market Cap	39,9	24,7	12,4	12,2	12,2	12,2
Enterprise Value	39,9	25,6	15,0	14,2	12,9	10,8
EPS (Reported)	-0,16	-0,39	-0,37	-0,05	0,00	0,16
EPS (Adjusted)	-0,16	-0,39	-0,37	-0,05	0,00	0,16
CEPS	-0,16	-0,39	-0,37	-0,05	0,00	0,16
P/CEPS	n.a.	n.a.	n.a.	n.a.	3578,1	4,2
Book Value/Share	1,0	0,8	0,4	0,4	0,4	0,4
P/BV	3,8	1,7	1,6	1,8	1,8	1,6
Dividend	0,00	0,00	0,00	0,00	0,00	1,00
Dividend Yield (%)	0,0	0,0	0,0	0,0	0,0	145,3
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0	612,0
EV/Sales	1,3	1,5	1,0	0,5	0,4	0,4
EV/EBITDA	15,5	-6,7	-4,3	6,2	4,4	3,4
EV/EBIT	-18,5	-3,9	-2,4	-20,1	56,2	6,7
P/E (Adjusted)	-24,3	-3,6	-1,9	-12,7	3578,1	4,2
Sales Growth, Y/Y (%)	-	-46,9	-10,4	93,9	12,3	12,2
EBIT Growth, Y/Y (%)	-	379,9	-5,3	-88,8	-135,8	743,6
EPS Growth (Adjusted), Y/Y (%)	-	146,0	-4,5	-85,4	-100,4	84883,4
EBITDA Margin (%)	5,2	-22,7	-23,4	7,9	9,9	11,3
EBIT Margin (%)	-4,4	-39,6	-41,9	-2,4	0,8	5,8
Return on Equity (%)	-14,5	-55,3	-59,2	-13,1	0,0	12,1
Tax Rate (%)	0,0	0,0	0,0	0,0	0,0	0,0

Financial Position

	2020	2021	2022	2023E	2024E	2024E
Interest-Bearing Net Debt	0	1	3	2	1	-1
Net Debt/Equity	0,0	0,1	0,3	0,3	0,1	-0,2
Equity Ratio	0,4	0,6	0,3	0,3	0,2	0,2
Net Debt/EBITDA	0,0	-0,2	-0,8	0,9	0,2	-0,3

Source: Emergers, Company reports

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Johan Widmark | Tel: +46739196641 | Mail: johan@emergers.se
Andreas Eriksson | Tel: +46737307335 | Mail: andreas@emergers.se

Emergers
Incirrata AB
Enbacken 16
187 44 Täby
Sweden

Phone: 0739 – 19 66 41
Email: johan@emergers.se
Corp reg no: 556815-7837