

Motion Display AB

European sales growth offsetting inconsistent US market

Andreas Eriksson | 2023-11-17 10:30

Motion Display is sustaining its positive momentum with 193% YoY growth and improved cost control, resulting in a third consecutive quarter of positive EBITDA at SEK 0.5m. This success is primarily attributed to recent sales growth in Europe, while the US market remains shaky. Despite our optimism about the overall outlook, marked by a more stable order inflow, a higher-than-anticipated working capital has exerted pressure on the company's cash position, necessitating attention. We maintain our forecast and continue to find support for a fair value range of SEK 1.9-2.1 per share in 12-24 months.

Steady sales in historically weak Q3

While Q3 sales of SEK 6m came in slightly lower than our estimates (SEK 7m) and compared to Q2 (SEK 7.7m), we were positively surprised by both the gross margin of 61% (helped by changes in FX) and the tighter cost control, leading to a positive EBITDA, of SEK 0.5m, for the third straight quarter. The order book at SEK 4.5m at the end of the quarter, plus an additional order of SEK 3m after the end of Q3, suggests that the final quarter of the year will also follow the upward trend we've seen in the past year. The company's purchase of components to swiftly meet possible orders has increased working capital and depleted its cash reserves, which are now at critically low levels.

Success in Europe and rest of the world

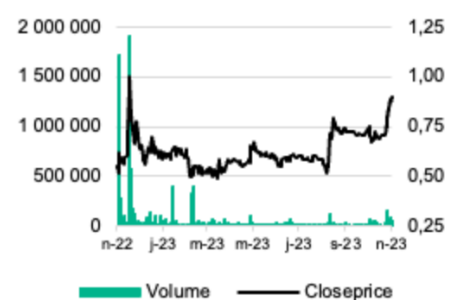
The most significant takeaway from the Q3 report is the fact that Motion Display has achieved sales of SEK 6m, with 75% attributed to Europe and the rest of the world (RoW). Historically, the US market has been more or less the only market, and the pandemic highlighted how sensitive (and costly) it can be when all your eggs are in one basket. The retail market is complex, with large purchasing organizations acting as gatekeepers to the brands, and companies like Motion Display often depend on these organizations. Without being an 'approved supplier' by one of them, the investment case in Motion Display has been quite binary, dependent on single sporadic orders. However, over the last 12 months, Motion Display has gained this approval and made strides towards becoming a standing feature of the in-store marketing mix.

Positive outlook despite dwindling cash position

Through three quarters, Motion Display has achieved sales of SEK 21.1m with an EBITDA of SEK 1.7m. Comparing this to the same period in 2022, where sales amounted to SEK 11.5m and an EBITDA of SEK -2.8m, the contrast is stark. Although the share price has recovered somewhat, we still see plenty of room for a continued revaluation as order inflow stabilize, making the investment case less binary. Hinging on continued growth in Europe and RoW, as well as high-value one-offs in the US, last-row profitability is within the company's reach next year, highly dependent on whether gross margins continue to be as strong as they have been during 2023. We maintain our forecast and fair value range of SEK 1.9-2.1 in 12-24 months. While we remain optimistic about the company's outlook, the cash position of SEK 0.1m is worrisome. Some measures will have to be taken soon, especially in light of the SEK 3m deferred tax debt to Skatteverket due in February 2024. We presume a likely scenario involves some sort of bridge financing, but we can't rule out a rights issue.

Motion Display

Fair Value, SEK (12-24 m)	2,1 - 1,9
Current Price, SEK	0,97
Shares (M)	17,7
Market Capitalisation (MSEK)	17
Net Debt (MSEK)	0,9
Enterprise Value (MSEK)	18
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 SEK 29m in 2023, and a yearly growth of 12% 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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