

Free2Move Holding AB

Navigating challenges in Q3 for a promising 2024

Andreas Eriksson | 2023-12-01 08:00

The growth for Free2Move continues, with sales in Q3 and the first nine months representing 21% and 66% YoY growth, respectively. However, due to lower gross margins, the quarter resulted in an operating loss of SEK -6.7m, despite OPEX improvements. We maintain our longer-term view on the outlook for the company, as Free2Move showcases the ability to drastically improve property energy efficiency. But for now, we have revised our full-year sales estimates for 2023 and 2024 to SEK 60m (from 70) and SEK 80m (from 90). We now find support for a new fair value range of SEK 0.19-0.24 (0.24-0.29) per share in 12-24 months.

Growth in Q3 not as strong as we anticipated

Q3 sales came in at SEK 13.5m, totaling the first nine months' sales of SEK 43.2m, representing a YoY growth of 27% and 73%, respectively. The growth is promising, but the increased operational loss is a bit worrying. EBIT went from SEK -4.2m in Q2 '23 to SEK -6.7m, marking the largest loss over the past 24 months. The most noteworthy difference in Q3 was the significantly lower gross margin, at 18%, compared to 39% in Q2 '23 and 44% in Q1 '23. According to the company, this is due to a negative FX impact of about SEK 2.6m and a historically weaker third quarter as business usually slow down during vacation season. The weak SEK is a significant factor since a large portion of Free2Move's procurements are in foreign currency, and a large order backlog makes these FX-related risks higher. Free2Move has managed to reduce the backlog to SEK 27.2m in Q3'23 from SEK 42.1m in Q2'23, which is a step in the right direction. The company is also looking in ways to share these risks with its customers to enable more predictable margins going forward. Which will be key until the company gains the financial muscles to purchase components in larger batches.

Optimizing the organization

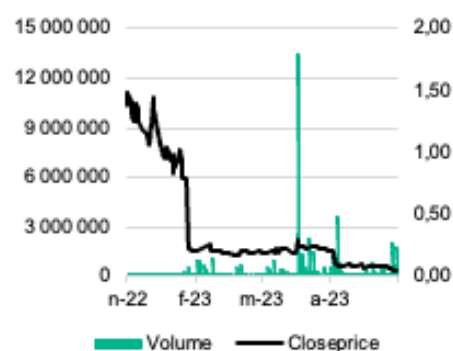
Another take-away from the Q3 report is the fact that OPEX decreased to SEK 8.3m from 9.5m in Q2'23, a decrease of 13%. This could be an indication that the consolidation and optimization with the two strategic acquisitions, Solortus and Sydvent (consolidated from 2021-09-30 and 2022-07-01), are beginning to show. The overall macro case remains, as the focus on the green transition in general, and energy efficiency measures in particular, continues to grow in importance. And with a solid organization now in place, partnerships generating more and more business, the 2Connect platform now installed in over 750 properties, solid order inflow and a trimmed organization, we believe the company will maintain its growth trajectory and reach neutral cash flow during 2024.

Cash injection sets the stage for a profitable 2024

The SEK 15.2m rights issue carried out in October was subscribed by 31%, leaving some 44% to guarantors. This resulted in a raise of SEK 11.5m to Free2Move before costs. The company chose to compensate the guarantors with shares, which probably is the reason to why we have seen such downwards pressure on the share price lately. While we remain optimistic about the longer term outlook, we've made some revisions to our forecast, now looking for SEK 60m in FY2023, implying sales of SEK 16m in Q4'23. We also lower our sales estimate for 2024 to SEK 80m (SEK 90m). All in all, we now find support for a fair value range of SEK 0.19 – 0.24 per share in 12-24 months.

Free2Move

| | |
|------------------------|--------------------|
| Fair Value, SEK | 0,19 - 0,24 |
| Current Price, SEK | 0,04 |
| Shares, millions | 243,5 |
| Mkt Cap, SEKm | 9,7 |
| Net Debt, SEKm | 7,7 |
| EV, SEKm | 17 |
| Market | Nordic SME |



Financial Summary

| SEKm | 2021 | 2022 | 2023E | 2024E | 2025E |
|------------------|-------|-------|-------|-------|-------|
| Revenue | 7 | 39 | 60 | 80 | 110 |
| EBITDA | -11 | -11 | -16 | 0 | 11 |
| EBIT | -12 | -14 | -19 | -4 | 7 |
| EPS Adjusted | -0,23 | -0,29 | -0,09 | -0,02 | 0,03 |
| Sales Growth, % | - | 434% | 55% | 34% | 38% |
| EBITDA Margin, % | -150% | -27% | -27% | 0% | 10% |
| EBIT Margin, % | -160% | -36% | -33% | -5% | 7% |
| EV/Sales | 1,4 | 0,1 | 0,0 | 0,0 | 0,0 |
| EV/EBITDA | -0,9 | -0,2 | -0,2 | -12,6 | 0,2 |
| EV/EBIT | -0,9 | -0,2 | -0,1 | -0,7 | 0,3 |
| P/E | -16,7 | -0,7 | -0,6 | -3,3 | 1,7 |

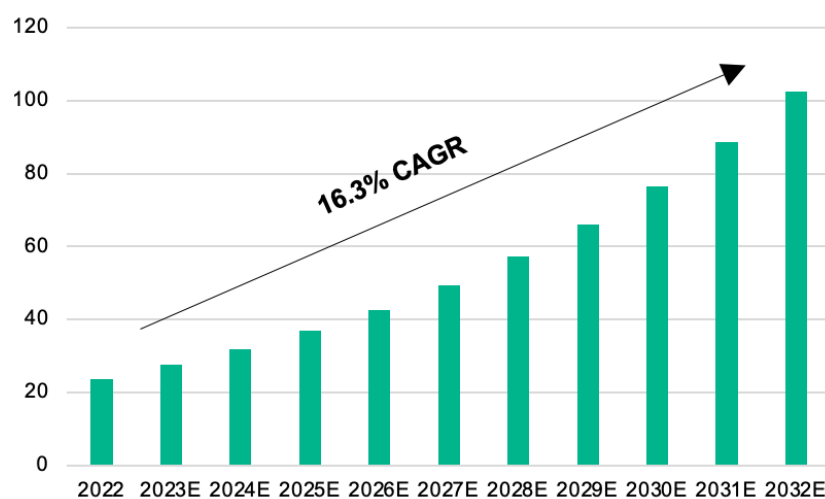
Source: Emergers

Free2Move in brief

Free2Move operates at the intersection of PropTech (Property Technology), solar power, and ventilation, offering a comprehensive range of services through its four distinct subsidiaries, each serving different niches that synergize effectively.

Free2Move AB provides the software based platform 2Connect, enhancing property energy management by optimizing energy usage. **Solortus** specializes in renewable energy, offering solutions such as solar power, energy storage, charging stations, and control technology. **Sydvent** delivers ventilation services to commercial property owners, industries, construction firms, and individuals. All the subsidiaries can seamlessly integrate with the 2Connect platform. The group's overarching vision is to promote long-term sustainable property management through digitization, operational efficiency improvements, and the adoption of renewable energy sources.

Global Proptech Market (USDbn)



Source: Globenewswire.com, Emergers.

The overall global proptech market is experiencing high growth. Valued at USD 24bn in 2022, it is expected to reach USD 102bn in 2032E, corresponding to a compounded annual growth rate (CAGR) of 16.3%.

Comprehensive offering through subsidiaries

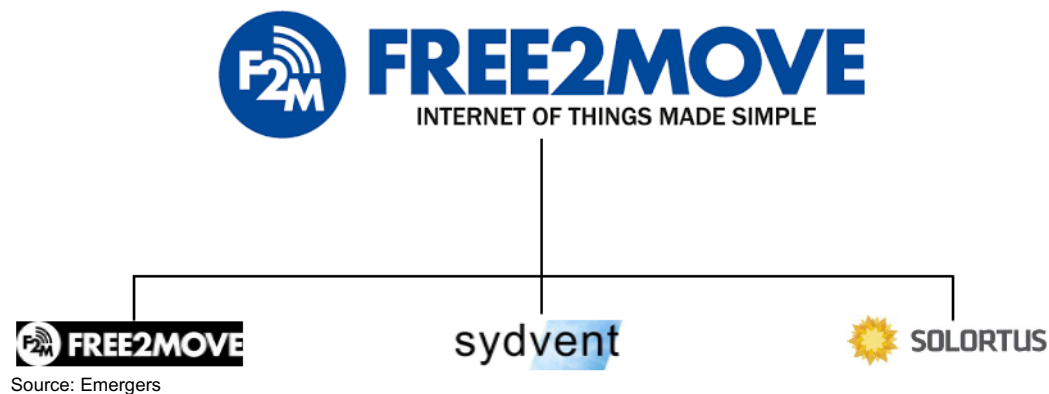
Solortus AB: Solortus was founded in 2012 and has 10 employees. In 2022, sales amounted to SEK 27.5m and a last row profit of SEK 0.8m. The company specializes in renewable energy through solar power, as well as charging stations and control technology for property owners.



Sydvent AB: Based in Malmö, the company provides ventilations services to commercial property owners, industries, construction companies and individuals through the Öresund region. Founded in 2012 the company generated SEK 7.2m in revenues last fiscal year, which resulted in a net profit of SEK -2.2m. The company however made profit in 2021 of SEK 0.4m.



Organizational Chart Free2Move Group



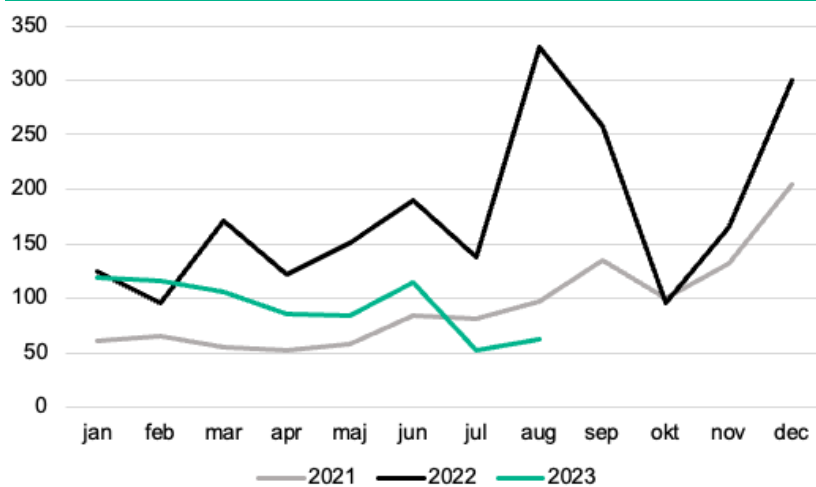
Source: Emergers

Strong macro case for continued growth

Last years' soaring energy prices, as a consequence to the Russian invasion of Ukraine, brought European energy politics on top of the agenda. Measures have been taken, and we are better prepared as winter is coming this year compared to one year ago. However, this does not mean the question about a sustainable energy system is solved. We still face challenges in terms on how fluctuating energy production from wind and solar power are to provide a solid base, as the energy demand only will increase in the future. Not to mention issue with the grid, and how energy is transferred throughout the country. If there are cheap options that deliver results, that can reduce the energy footprint, it should be done. By optimizing energy usage within properties, Free2Move can achieve a 50% reduction in energy input, effectively lowering overall energy demand.

According to the Swedish Energimyndigheten, installed solar power facilities increased by 46% between 2020 and 2021, with a total installed capacity of 1,587 MW. A figure now estimated to have reach about 2,400 MW, and the strong growth is expected to continue. During 2022, some SEK 5.3bn was invested in solar cells from Swedish households alone.

Energy Prices, Energy Area 4 (öre/kWh)



Source: Vattenfall, Emergers

Recurring revenues + upfront payments

By leveraging project-based income from solar panel installations and ventilation services provided by Solortus and Sydvent, in addition to the recurring revenue generated by the 2Connect platform, the company aims to secure consistent cash flows from its current operations. Simultaneously, it explores opportunities to acquire companies that can expand or enhance the Free2Move portfolio. If executed effectively, we anticipate the possibility of realizing synergistic growth alongside the existing businesses. It's worth noting that we haven't factored in potential future acquisitions in this research report.

Free2Move targets a profitable growth, to use synergistical benefits between its subsidiaries leading to both organic growth as well as reduced costs as some business functions can be consolidated. With the company's existing purchasing power affecting margins negatively, reaching profitability will have a multiplying effect on the business as it will enable bigger purchase of good, naturally lowering the price and increasing the company's margins.

The sales in the first nine months of 2023 amounted to SEK 44.5m with a backlog of SEK 27.2m

DCF-valuation indicates fair value of SEK 0.19 per share

Firstly, we want to clarify that a big portion of Free2Moves continued growth strategy is to acquire smaller businesses who either complements the offering, or that enhances it. Even though we believe this is the right way to go, future acquisitions can't be accounted for in our valuation model, why the existing Free2Move Group is base for our fair value.

DCF Key Assumptions

| | |
|-----------------------------------|------|
| WACC | 23% |
| Long-term EBITDA-margin | 16% |
| Long-term CAPEX as share of sales | 5% |
| Terminal Value EBITDA-multiple | 8x |
| Total NPV, SEKm | 55 |
| Net Debt | 7,7 |
| Price per share, SEK | 0,19 |

Source: Emergers

We have chosen a WACC of 23%, which might seem high considering the company already generates revenue and is expected to reach black figures next year. But due to the historical difficulties the company has had in terms of profit, we want to see more proof of this before altering our discount rate. Forecasting sales of SEK 60m, 80m and 110m for 2023E, 2024E, 2025E respectively and an annual organic growth of 14% after that, our DCF indicates a fair value of SEK 0.19 per share.

Target multiples support a fair value of SEK 0.24 per share

Operating in both the project-based businesses while also enjoying recurring revenues from the 2Connect platform, Free2Move occupies an interesting position being able to offer a comprehensive deal to property owners. Looking at industry colleagues, in various sizes and stages, operating in different areas of the PropTech/Renewable energy space, the majority are valued at attractive EV-multiples. Even if applying the median EV/Sales-multiple of the ten smallest companies, it shows significant upside potential for Free2Move, where 0.9x Sales'24 implies a fair value of SEK 0.24 per share.

Fair value range of SEK 0.19 – 0.24 per share

All in all, this sums up to an overall fair value range of SEK 0.19 – 0.24 per share in 12-24 months. In case the company can sustain growth while approaching profitability throughout the remainder of 2023 and achieve positive EBITDA in 2024, we see favorable prospects for reducing risk in our model, which would result in a significantly higher fair value, not factoring in any future potential acquisitions. Which if successful would add even more value on top.

Free2Move

Income Statement

| MSEK | 2021 | 2022 | 2023E | 2024E | 2025E |
|------------------------------|--------------|--------------|--------------|-------------|------------|
| Sales | 7,2 | 38,7 | 60,4 | 80,0 | 110,0 |
| Operating Costs (incl. COGS) | -18,1 | -49,4 | -75,1 | -80,2 | -99,1 |
| EBITDA | -10,8 | -10,6 | -14,7 | -0,2 | 10,9 |
| Depreciation | -0,8 | -0,7 | -3,3 | -3,5 | -3,6 |
| Amortisation of Goodwill | 0,0 | 0,0 | 0,0 | 0,0 | 1,0 |
| EBIT | -11,6 | -11,4 | -18,0 | -3,7 | 8,3 |
| Non-recurring Items | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Associated Companies | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Net Financial Items | 0,1 | 0,0 | -2,4 | 0,0 | 0,0 |
| Pre-tax Result | -11,5 | -11,4 | -20,4 | -3,7 | 8,3 |
| Tax | 0,0 | 0,0 | 0,0 | 0,0 | -1,5 |
| Minority Interest | 0,0 | 0,0 | 0,0 | 0,0 | 1,0 |
| Net Result | -11,5 | -11,4 | -20,4 | -3,7 | 7,8 |

Capital Expenditure

| | 2021 | 2022 | 2023E | 2024E | 2025E |
|-------------------------------|------|------|-------|-------|-------|
| Capital Expenditure, Absolute | - | - | -3,0 | -4,0 | -5,5 |
| As a Pct of Sales | - | - | -5,0 | -5,0 | -5,0 |
| Depreciation Multiple | - | - | -0,9 | -1,2 | -1,5 |

Key Ratios

Share Price: SEK 0,04

| | 2021 | 2022 | 2023E | 2024E | 2025E |
|--------------------------------|--------|-------|--------|--------|--------|
| Share Price at 31 Dec | 3,90 | 0,21 | 0,04 | 0,04 | 0,04 |
| Number of Shares (Millions) | 49,37 | 50,81 | 105,95 | 105,95 | 105,95 |
| Market Cap | 192,6 | 10,4 | 4,2 | 4,2 | 4,2 |
| Enterprise Value | 193,8 | 15,3 | 11,4 | 11,4 | 11,4 |
| EPS (Reported) | -0,23 | -0,22 | -0,19 | -0,03 | 0,07 |
| EPS (Adjusted) | -0,23 | -0,22 | -0,19 | -0,03 | 0,07 |
| CEPS | -0,23 | -0,22 | -0,19 | -0,03 | 0,07 |
| P/CEPS | n.a. | n.a. | n.a. | n.a. | 0,5 |
| Dividend | 0,00 | 0,00 | 0,00 | 0,00 | 1,00 |
| Dividend Yield (%) | 0,0 | 0,0 | 0,0 | 0,0 | 2500,0 |
| Dividend Payout Ratio (%) | 0,0 | 0,0 | 0,0 | 0,0 | 1357,2 |
| EV/Sales | 26,7 | 0,4 | 0,2 | 0,1 | 0,1 |
| EV/EBITDA | -17,9 | -1,4 | -0,8 | -56,5 | 1,0 |
| EV/EBIT | -16,7 | -1,3 | -0,6 | -3,1 | 1,4 |
| P/E (Adjusted) | -16,7 | -0,9 | -0,2 | -1,2 | 0,5 |
| Sales Growth, Y/Y (%) | - | 434,3 | 56,0 | 32,4 | 37,5 |
| EBIT Growth, Y/Y (%) | - | -2,0 | 58,4 | -79,6 | -325,5 |
| EPS Growth (Adjusted), Y/Y (%) | - | -4,3 | -13,7 | -82,1 | -313,1 |
| EBITDA Margin (%) | -149,7 | -27,5 | -24,3 | -0,3 | 9,9 |
| EBIT Margin (%) | -160,1 | -29,3 | -29,8 | -4,6 | 7,5 |
| Return on Capital Employed (%) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Tax Rate (%) | 0,0 | 0,0 | 0,0 | 0,0 | -0,2 |

Financial Position

| | 2021 | 2022 | 2023E | 2024E | 2025E |
|---------------------------|------|------|-------|-------|-------|
| Interest-Bearing Net Debt | 1 | 5 | 7 | 7 | 7 |
| Net Debt/Equity | - | - | 1,2 | 1,2 | 1,2 |
| Equity Ratio | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Net Debt/EBITDA | -0,1 | -0,5 | -0,5 | -35,5 | 0,7 |

Source: Emergers, Company reports

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