



# LINC

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EQUITY RESEARCH REPORT

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# **FIREFLY AB**

## **(FIRE)**

Firefly is on fire and it's looking good

# RATING

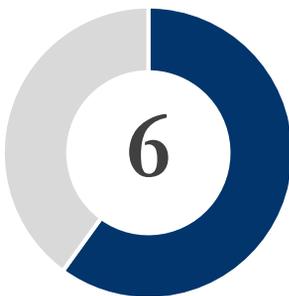
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## COMPANY DESCRIPTION

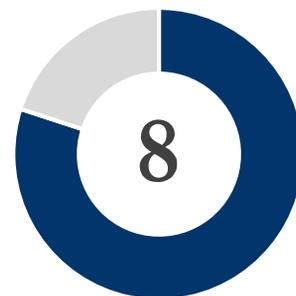
Firefly is a Swedish company developing, producing and selling high technological systems, which detect and minimize the risk for fires and dust explosions. Firefly operates in a global environment with customers in 70 different countries. Firefly sells their products both through distributors and directly to customers. Firefly has two business areas: (i) Industrial applications are custom made systems, which monitor industrial manufacturing in areas such as wood processing, tissue paper, food, biofuel, and recycling. (ii) Infra Systems are systems which monitor and prevent fire in infrastructure, such as metro, train-, road-, and cable tunnels.

## VALUE DRIVERS



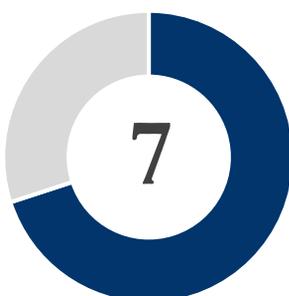
Stricter safety regulations, on a global scale, benefit Firefly as their products are in line with the regulatory requirements. Firefly has a diversified customer base and has observed a rising demand for their solutions from Latin America. Increased production raises the cost of production stops which incentives investments to prevent accidents, e.g. fires or dust explosions.

## FINANCIAL HISTORY



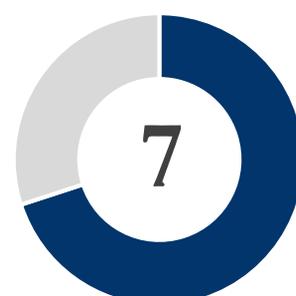
With an exception during 2016, topline YoY growth has been positive since 2013 with a 14 % CAGR 2013 – 2018. EBIT-margins 2013 – 2018 has been rather volatile between 3 – 14 %. And adjusted earnings has increased from 7,7 to 18,1 MSEK. Adjusted for leasing, debt/EBITDA has not exceeded 2,6. Today's debt/EBITDA is 1,3x.

## MANAGEMENT



Half of the management has been with the company for at least 30 years and they have long experience within the industry. Lennart Jansson, CEO, continues to focus on expansion and long-term growth. Erik Mitteregger, Chairman of the Board, owns 36,7 % of the votes. The rest of the insiders owns 2,7 %.

## RISK PROFILE



Firefly has customers in over 70 countries, which means significant exposure to currency and operational risk. Many customers are cyclical and their CAPEX are depending on energy and raw material prices. Additionally, history has shown that a small decrease in sales has a large effect on EBIT-margins.

# FIREFLY AB (FIRE)



Firefly operates in a market which is expected to grow 8,6 % CAGR until 2024. Due to Firefly's market leading position, further regulation and requirements for safety protection demanded by authorities, increased demand for their safety solutions, Firefly will continue to increase their revenues and profits. It is expected that Firefly's revenues will grow 8 % CAGR with an EBIT-margin of 8,7 % until 2023. Using a target multiple of 15x EV/EBIT 2023E: an implied share is 73 SEK, an upside of 44 %.

➤ **Regulation and requirements from global authorities benefit Firefly.** Authorities such as EU, ATEX, CSA, and SIL are all increasing the safety requirements companies has to follow. Firefly's systems are in line with those requirements. Thus, regulatory requirements for further safety protection is beneficial for Firefly.

➤ **Production on a larger scale increases the cost of production stops.** As producers increase the rate of production, incentives to prevent or minimize the cost of production stops follows. Hence, Firefly's fire protection systems can be a sufficient investment and a necessary need to reduce the risk of unwanted production stops, such as fire or dust explosions.

➤ **Firefly's customers are exposed to highly cyclical factors.** The customers cyclicity, via exposure to energy and raw material prices, affect their CAPEX, e.g. investments in safety systems. During 2016, low energy prices affected the bioenergy sector negatively, which led to less investments in Firefly's system, reducing Firefly's revenue by 5% for the year.

➤ **A decrease in top line growth decreases margins significantly.** History has shown that a decrease in top line growth will decrease Firefly's margins significantly. This is due to high fixed cost within the business. A decrease in sales by 5 % from 2015 – 2016 led to a decrease in EBIT-margins from 14 % to 3 %. Thus, it is important to keep a stable top line growth.

➤ **In a Base scenario, Firefly's implied price per share with a target multiple of 15x EV/EBIT is 73 SEK.** Firefly's revenue are expected to grow 8 % CAGR until 2023, with an EBIT-margin of 8,7 % and an earnings margin of 5 %. Using a target multiple of 15x EV/EBIT, the target share price by 2023 is 73 SEK.

## FIREFLY AB (FIRE)

Current Price (SEK)	51
52 v Low/High	39/61
Market Cap (kSEK)	306 071
Net Debt (kSEK)	8 935
Enterprise Value (kSEK)	414 391
Sector	Industrial goods & services
Exchange	Nasdaq First North
Next Report	2019-08-12

### 1 Year Chart

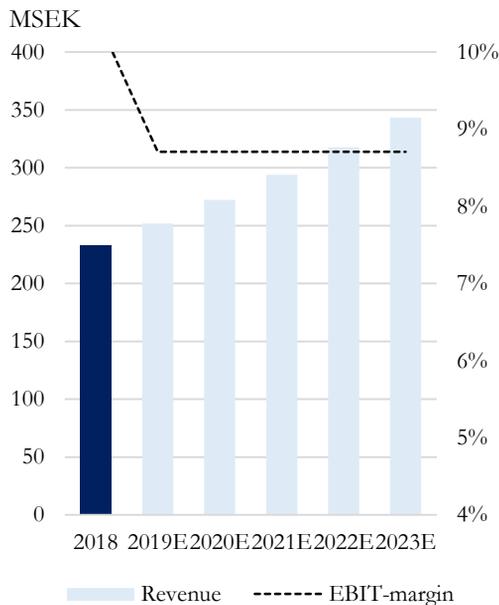


SEK	2018	2019E	2020E	2021E
Sales	233 245	251 973	272 215	294 094
Growth (%)	12,3%	8,0%	8,0%	8,0%
Gross Marg (%)	34,8%	34,8%	34,8%	34,8%
EBIT	24 438	21 937	23 700	25 604
EBIT Marg (%)	10,5%	8,7%	8,7%	8,7%
Earnings	14 744	12 420	14 003	14 701
Earnings Marg (%)	6,3%	4,9%	5,1%	5,0%
EV/S	1,8x	1,6x	1,5x	1,4x
EV/EBIT	17x	19x	17x	16x
P/E	21x	25x	22x	21x
ND/EBITDA	0,28	0,30	0,27	0,25

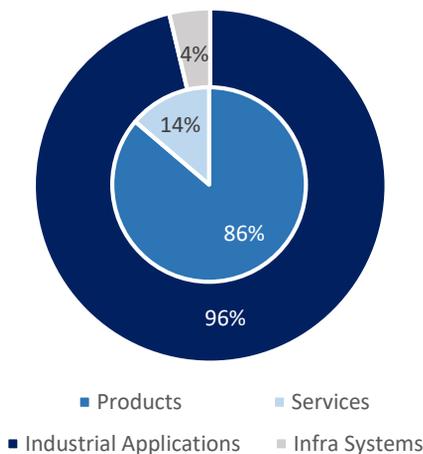
### Ownership

Erik Mitteregger	36,7%
Magnus Vahlquist	8%
Birgitta Svensson	5,9%
Avanza Pension	2,7%
Per-Erik Höglund	2,7%
Christian Kock	2,5%
Willmar Andersson	2,5%
Arding Language Services AB	2%

# INVESTMENT THESIS



Client CAPEX estimates (MSEK)	
2019E – 2022E	CAGR
SCA	-4,29%
Equinor	3,22%
Metso	2,65%
Nestle	1,05%
Stora Enso	0,88%
Procter & Gamble	-0,43%
Smurfit Kappa	-4,13%
<b>Average</b>	<b>-0,15%</b>



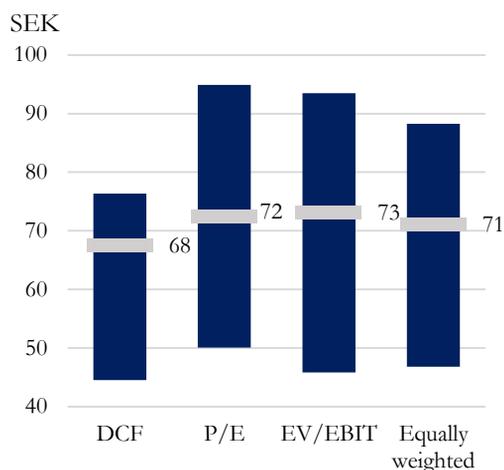
Firefly has a strong market position through exclusive patents and technologically advanced solutions, within a market that is expected to grow 8,6 % CAGR until 2024. The industrial safety market is expected to grow from USD 3,3 billion in 2019 to USD 5,4 billion by 2024 at a CAGR of 8,6% during the forecast period<sup>1</sup>. The growth is impelled through safety regulation, a rising demand for safety protection within the oil & gas industry and increased demand for reliable safety systems that prevents accidents and unwanted production outages. Firefly currently holds 13 patents and five certifications of accepted fire prevention systems in line with requirements from authorities such as EU, ATEX, CSA and SIL. Further regulation and requirement of fire protection systems benefits the company. Furthermore, increased production increases the cost and consequences of production stop for their customers operation. This results in further incentives for industrial companies to invest in fire protection and prevention systems that Firefly can offer.

Firefly operates in a consolidated market without any direct competitors in the Nordic, where their main competitors can be found in Germany and United Kingdom, thus giving the company a great market share of the dust, spark and fire protection sector. The company has recently strengthen their business within the hygiene and recycling industry which expands Firefly's exposure and market share within the industrial sector that now amounts to 98 % of total revenue. The demand for Firefly's solutions and services from Asia and South America has increased which opens up new markets to capitalize on. Currently, 84 % of total sales comes from export to 70 different countries globally. Firefly also provides after market sales through service, maintenance and upgrades of their systems generating roughly 53,4 MSEK in revenue 2017, which corresponds to 26 % of total revenue. Thus, Firefly has several future triggers that, if successfully exploited, can make the company a very alluring investment opportunity.

Firefly's main customers operates in a highly cyclical sector dependent on energy and raw material prices which can affect their future CAPEX-investments. Firefly's primary customers operates within the industrial sector that is dependent on energy- and raw material prices. Higher prices for raw materials & minerals as well as lower energy prices can be negative aspects for Firefly's customers that are reliant on either cheap materials such as Procter & Gamble and Nestle, or oil & gas companies such as Statoil. Conversely, Firefly has also sold their protection systems to SCA, Stora Enso and Metso that operates in the paper industry that could benefit from higher raw material prices. Aggregated, Firefly's main customers' CAPEX-investments are expected to decrease by -0,15 % CAGR until 2022, thus giving insight in their demand of fire protection systems for current- or new investments in factories, warehouses and likewise.

Decrease in topline growth has a significant effect on Firefly's margins and the infra-system solutions need to become more profitable to be worth investing in. From 2015 to 2016 Firefly's revenue decreased from roughly 179 MSEK to 169 MSEK, a negative growth of 5,5%. This lowered their EBIT-margin from 14 % to 3 %, as well as their earnings margin from 9 % to 2 %. The reason is partly due to high fixed costs. Thus, it is vital for Firefly to have stable sales growth. Additionally, Firefly's infra systems solutions with fire detection and protection systems to infrastructure such as road-, metro, and cable tunnels needs to become more profitable in order to further be worth investing in. Currently, this operation turns break-even and only amounts for 3 % of total revenue. A potential risk of stagnation in product development enables competitors to penetrate the market and gather a greater market share from Firefly.

<sup>1</sup> <https://www.marketsandmarkets.com/Market-Reports/safety-instrumented-system-market-19720540.html>



Peer table	P/E	EV/EBIT
Consilium	38,4	20,6
Momentum Group	12,8	10,9
Troxax	25,8	20,9
Nilörngruppen	12,2	11,1
Alimak Group	23,6	20,4
CBIT	13,4	11,3
Nederman	18,3	14,5
Firefly	15,7	11,5
Mean	20,0	15,1
ex. Firefly	20,6	15,6

DCF (kSEK)	2018	2019E	2020E
<b>Revenue</b>	<b>233 245</b>	<b>251 973</b>	<b>272 215</b>
Opex	208 807	230 036	248 515
<b>EBIT</b>	<b>24 438</b>	<b>21 937</b>	<b>23 700</b>
D&A and other adj.	11 136	13 187	14 244
Tax	-3 312	-4 624	-4 994
Capex	-6 039	-3 347	-3 545
Net change in WC	-4 623	-5 553	-4 090
<b>FCFF</b>	<b>21 600</b>	<b>21 600</b>	<b>25 315</b>

DCF input	
Terminal growth rate	2,00%
WACC	8,85%
DCF output (kSEK)	
Sum FCFF 19-24	104 563
Sum FCFF terminal	309 827
<b>NPV</b>	<b>414 391</b>
Net debt	8 935
<b>Equity alue</b>	<b>405 456</b>
Outstanding share	6 001 400
<b>Price/ share (SEK)</b>	<b>67,6</b>

The used valuation methods are DCF, historical multiples, and peer-valuation where the target price is based on a EV/EBIT-multiple. Firefly is valued using DCF-valuation as well as relative valuation with P/E and EV/EBIT compared to historical multiples and peers. The target multiple is based on a EV/EBIT valuation. Therefore, three different valuations for base, bull and bear scenarios will be presented.

**In a Base scenario, a target multiple of 15x EV/EBIT implies a share price of 73 SEK – an upside of 44 %.** In a Base scenario, Firefly's revenue is expected to grow 8 % CAGR until 2023 to 343,3 MSEK. This revenue growth is based on the assumptions that industrial application revenues will grow 8,1 % CAGR and the infra-system sector will grow 3,7 % CAGR to 2023E. Consequently, Firefly's EBIT for 2023 will amount to 29,9 MSEK corresponding to an EBIT-margin of 8,7 % in line with historical margins. Firefly will thus be able continue their growth of revenue and will not be that affected by declining CAPEX-investments (-0,15%) nor any negative effects of increasing raw materials prices (0,9 %). A DCF-valuation implies a share price of 68 SEK, an upside of 32 %. If a P/E-valuation is commenced, a target P/E-multiple of 20x in a Base scenario is derived from an average multiple of peers of 20,6x as well as Firefly's historical average P/E multiple of 22,3x. Hence, Firefly is currently trading below both peer average and historical multiples with its current P/E of 19,4x. This imply a share price of 72 SEK by 2023, an upside of 42 %. However, the target price for the valuation is based on a target EV/EBIT-multiple of 15x in a Base scenario, which is derived from an average multiple of peers of 15,7x and Firefly's historical EV/EBIT of 15,1x. This implies a share price of 73 SEK by 2023, an upside of 44 %.

**In a Bull scenario, a target multiple of 16x EV/EBIT implies a share price of 93 SEK – an upside of 83 %.** In a Bull scenario, we expect Firefly's revenue growth to increase by 11,9 % CAGR until 2023 to 409,1 MSEK. This can be explained by increase in energy- and raw material prices which is positive for Firefly's main customers. Hence, their incentives to increase CAPEX-investments will be greater which is positive for Firefly. Also, the infra-system sector will become more profitable due to new contracts and more investments in this sector. Also, further regulations and requirements for safety solutions will be demanded from authorities. According to a DCF-valuation, the Bull scenario implies a share price of 76 SEK, an increase of 50 %. If a P/E-valuation is commenced, a target P/E multiple of 22x is motivated due to Firefly being valued closer to the historical P/E of 22,3x. A more positive market outlook leads to an implied share price of 95 SEK by 2023, an upside of 86 %. However, the target price for the valuation is based on a target EV/EBIT-multiple of 16x through positive future triggers for Firefly. This is slightly above both historical and average peers, which can be motivated by Firefly having a satisfying growth in revenue. The implied share price is 93 SEK by 2023, an upside of 83 %.

**In a Bear scenario, a target multiple of 11x EV/EBIT implies a share price of 46 SEK – a downside of 10 %.** In a Bear scenario, we estimate Firefly's revenue growth to be 4,9 % CAGR until 2023 to 296,6 MSEK. This is based on a further decrease in energy and raw material prices which negatively affects CAPEX-investments for customers within these sectors. A potential risk is that Firefly's margins will decrease which occurred back in 2016. Though, we expect Firefly's EBIT-margin to be 8,7%. Moreover, the infra-system sector will be less profitable due to fewer contracts and less investments. In addition, we expect the WACC to increase from 8,9% in Base case to 11,3 % due to adjusting for more a pessimistic future which needs to be risk-compensated. Hence, the implied share price with a DCF-valuation could drop to 45 SEK, a decrease by 13 %. If a P/E valuation is commenced, a target P/E-multiple of 15x is set which is slightly lower than current P/E multiple of 15,7x. This can be motivated by a more pessimistic market outlook. This leads to a target price of 47 SEK by 2023, a downside of 8 %. However, the target price for the valuation is based on a target EV/EBIT-multiple of 11x which is slightly lower than current EV/EBIT of 11,5x. This is motivated by a more pessimistic market outlook. The implied share price is 46 SEK by 2023, an downside of 10 %.



**Erik Mitteregger (2 200 000 shares)**

Chairman

Mitteregger has been involved with Firefly since 2003 and has been the Chairman of the Board since 2013. He holds a BSc in Economics and Business Administration from Stockholm School of Economics. Erik Mitteregger is the biggest share holder in Firefly having 36,7 % of the votes.

**Lennart Jansson (68 000 shares)**

CEO

Jansson joined Firefly in 1980 and has been CEO and MD since 2000. He has been a member of the board since 2003. He has previously worked as a development engineer and technical manager at Firefly. Lennart Jansson has a long experience within the industry for fire protection and prevention systems.



**Agneta Thelander (0 shares)**

CFO

Thelander joined Firefly in 2010. She holds a BSc in Business Economics and graduated from Växjö University in 1995. Thelander previously had the role as CFO of the retail company Extenda and also has worked as an accountant. She does not own any Firefly shares.



**Anders Bergström (13 600 shares)**

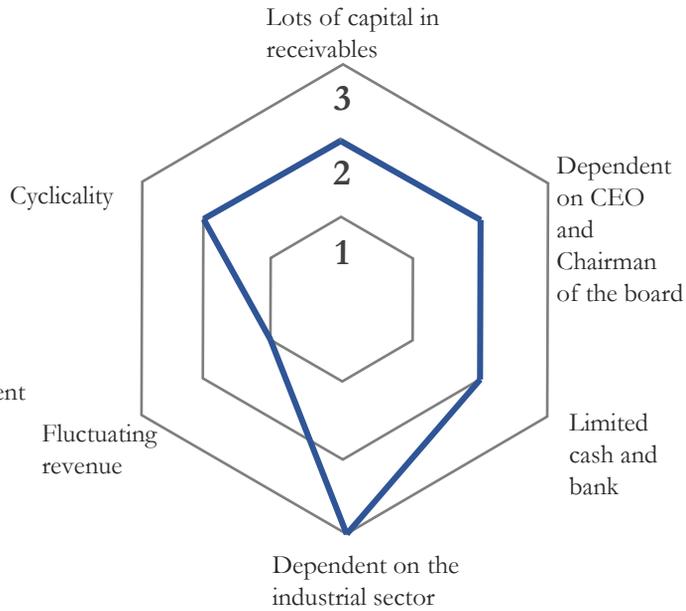
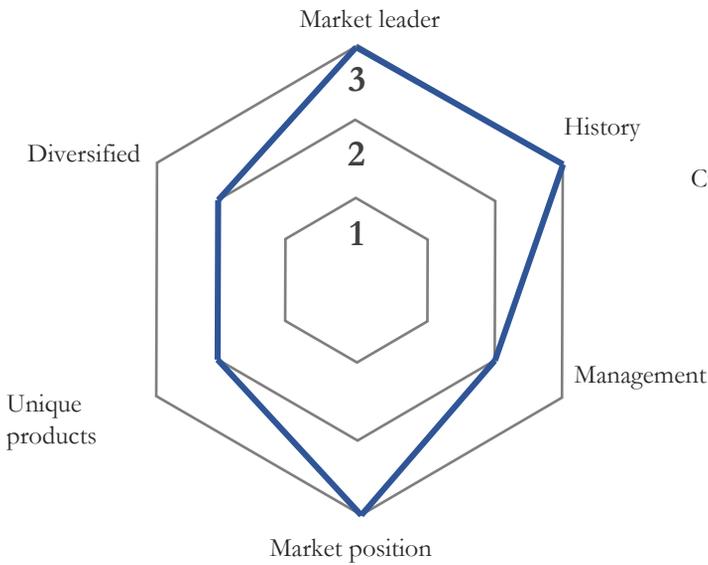
General Manager Industrial Applications

Bergström joined Firefly in 1990 and has been GM of Industrial Applications since 2018. Prior to the GM role within Firefly, Bergström worked as sales director, area sales manager and risk/project manager at Firefly.



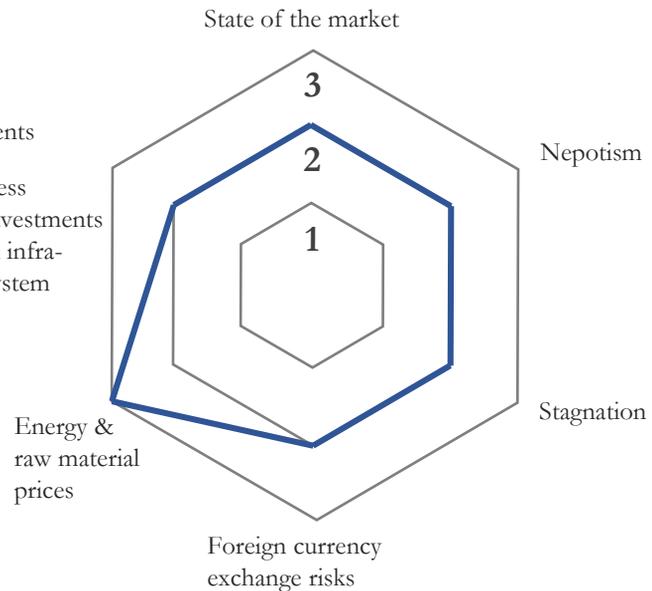
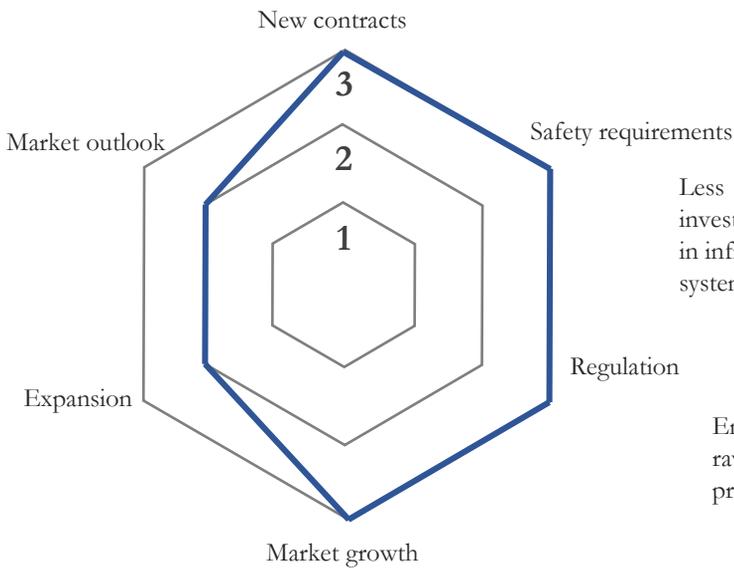
## STRENGTHS

## WEAKNESSES



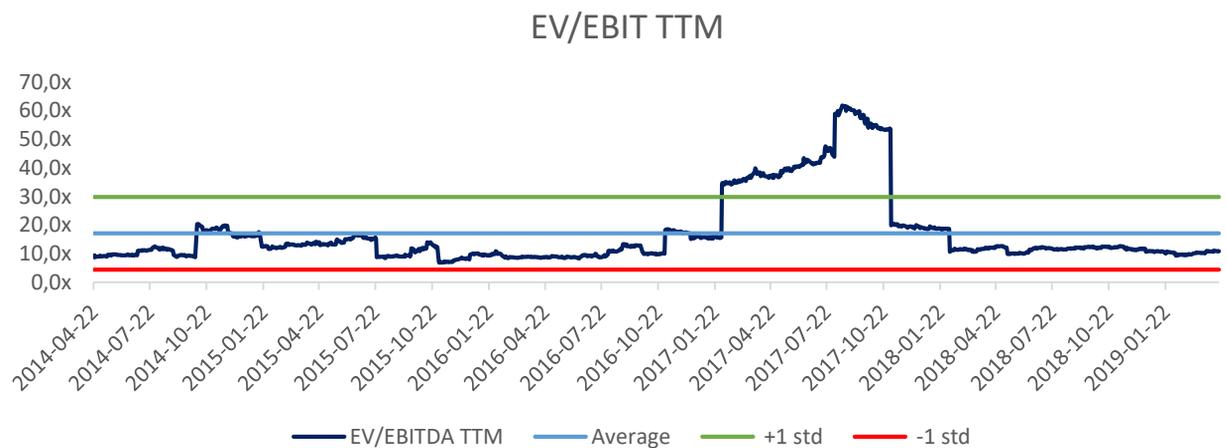
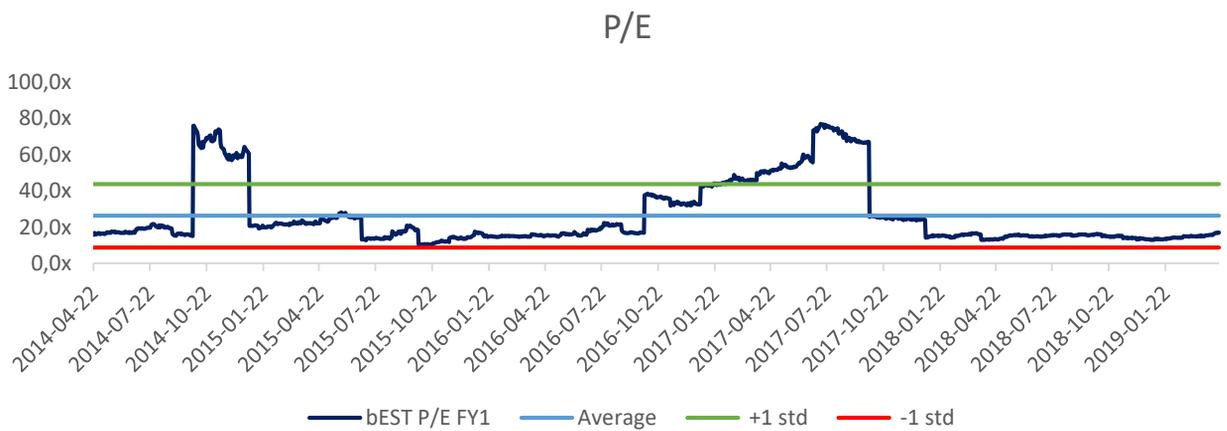
## OPPORTUNITIES

## THREATS



Client CAPEX estimates (MSEK)					
Year	2019E	2020E	2021E	2022E	CAGR
SCA	-1 338	-1 177	-1 225		-4,29%
Equinor	-103 714	-106 388	-107 823	-114 069	3,22%
Metso	-679	-690	-716		2,65%
Nestle	-39 130	-40 115	-40 689	-40 375	1,05%
Stora Enso	-1 581	-7 713	-1 466	-1 623	0,88%
Procter & Gamble	-8 197	-8 469	-9 338	-8 093	-0,43%
Smurfit Kappa	-7 101	-7 461	-6 201	-6 257	-4,13%
Average					-0,15%

Source: Bloomberg



## Ansvarsbegränsning

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Analysen avses inte att uppdateras.

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