

# New Nordic Healthbrands AB

Sweden | Consumer Goods | MCAP SEK 477,0 MSEK

**Buy**

**Target Price** SEK 102,0  
**Current Price** SEK 77,0  
**Up/downside** 32,5 %

## New products during 2020 are expected to contribute to high earnings growth

New Nordic Healthbrands ("New Nordic", "The Company") is a Swedish company that develops, distributes, and sells dietary supplements and naturopathic medication on the international market. New Nordic has successfully capitalized on an underlying market growth of close to 10 % annually, growing revenue from 228,0 MSEK in 2013 to 393,7 MSEK in 2018 (11,5 % CAGR), and increasing EPS from 0,93 SEK to 4,28 SEK during the same period.

New Nordic are expected to continue growing and taking market share internationally due to continual analysis of consumption trends, followed by adequate product development and an effective marketing strategy. Based on New Nordic continuing to grow their top-line, leading to economies of scale and implied margin expansion, an EPS of 6,80 is estimated for the year of 2021. With a target P/E ratio of 15,0x on 2021 year's earnings, a potential price per share of 102,0 SEK in approximately two years is deduced.

**New Nordic is an international brand with control over the value chain, reducing risk and enabling a gross margin exceeding 70 %**

New Nordic sells plant-based dietary supplements and naturopathic medication in 37 countries, with the regions *Nordics* and *other Europe* each accounting for approx. 40 % of the revenue, and with *North America* and *Asia* accounting for approx. 18 % and 2 % respectively. New Nordic develops their own product formulas and chooses all raw materials, to then outsource manufacturing, upon which distribution and marketing is managed by either The Company itself or a retailer, determined by the geographical market. Furthermore, New Nordic being a global brand reduces macro-risk, and The Company has multiple manufacturers to hedge against production issues that could arise.

**A fragmented market with expected growth of 9,7 % (CAGR) until 2024 strengthens estimates of sales growth of 10,8 % (CAGR) 2018-2021**

According to New Nordic, the total addressable market amounted to SEK 1 200 billion in 2018 and is expected to grow at 9,7% (CAGR) until 2024. However, the market remains fragmented, as the three largest *Multi-level-marketing companies* (see 1. *Multi-level-marketing*, in the appendix) together have approx. 10 % market share, while the three largest *direct selling companies* (see 2. *Direct selling*, in the appendix) only have a single-digit market share in total. The more prominent players are usually only dominant on a national or regional basis, making it possible for a global brand like New Nordic to continue taking international market share.

**Board and management with insider ownership exceeding 60 % have strong incentives to continue creating value for shareholders**

New Nordic was founded in 1990 by the two entrepreneurs Karl Kristian Bergman Jensen (CEO) and Marinus Blåbjerg Sørensen (CFO), who together own 62,8 % of The Company. According to the CEO, they will remain in their positions for the foreseeable future, allowing New Nordic to utilize their experience and know-how within the industry.

**Victor Östlund**  
 Equity Research Analyst

### Market Data

Listing Venue	First North
Price (SEK)	77,00
No. of outstanding shares (t)	6195,2
Market Cap (M)	477,0
Cash & Cash Equivalents (M)	9,7
Debt (M)	14,5
Net Debt (M)	4,8
Enterprise Value (M)	481,8

### Key Financials (SEK)

	18A	19E	20E	21E
Sales (M)	393,7	440,7	494,7	535,9
Sales Growth y/y	14,2	11,9	12,2	8,3
Gross Profit (M)	277,5	311,0	348,7	380,5
Gross Margin (%)	70,5	70,6	70,5	71,0
EBIT (M)	34,2	39,0	43,3	53,4
EBIT – Margin (%)	8,7	8,9	8,7	10,0
Net Income (M)	26,5	31,0	33,7	42,1
Profit Margin (%)	6,7	7,0	6,8	7,9

### Key Ratios (SEK)

	18A	19E	20E	21E
ND/EBITDA	0,1	0,3	0,2	0,2
P/E	18,0	15,4	14,1	11,3
EV/EBIT	14,1	12,3	11,1	9,0
EV/Sales	1,2	1,1	1,0	0,9



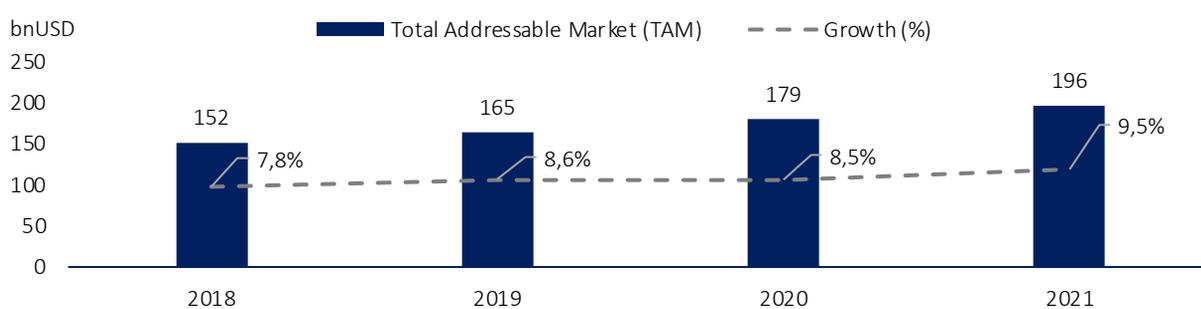
### Major shareholders

Vaccinium Holdings ApS	40,16 %
Marinus Blåbjerg Sørensen	37,43 %
Christian Kock	3,56 %
Nordnet Pensionsförsäkring	1,63 %
Lars Johansson	1,09 %
<b>Total</b>	<b>83,87 %</b>

## Investment thesis

### New Nordic's global market share is expected to slightly increase following successful capitalization of an underlying market growth of close to 10 % annually

According to New Nordic, the total addressable market amounted to SEK 1 200 billion in 2018 and is expected to grow at 9,7% (CAGR) until 2024, which is in line with the opinion of market analysts. The growth in the underlying market is a natural consequence of an ageing population and a growing middle-class around the world, making consumption trends shift in the direction of health and beauty. However, as previously mentioned, the market remains extremely fragmented, enabling sales growth in all geographical and product segments. Comparing the estimated sales increase from 393,7 MSEK in 2018 to 535,9 MSEK in 2021 with market data from Zion Market Research, implies that New Nordic would grow their global market share from 0,266 % in 2018 to 0,281 % in 2021, a measly increase of 0,015 % over the period.



Source: Zion Market Research (via Statista.com)

### Innovative product development and effective marketing are key components for growth — and New Nordic's know-how make them well-equipped to succeed with both

Inspiration for new products comes from two angles, discoveries on how certain herbs and biological constituents benefit man health, and by conducting consumer research and identifying new health and beauty needs. The market for dietary supplements is dynamic, and despite strong underlying growth, the growth is not homogenous between different types of products, as health and beauty needs are ever-changing. It is, therefore, necessary for New Nordic to continue launching the right products at the right time, to match supply with demand. Due to the extensive experience of the management and having one of the largest herbal databases in the world, New Nordic are well-equipped to continue doing so for the foreseeable future.

### 30th anniversary and product launches during year 2020 are expected to contribute to further revenue growth, and contracting margins that will bounce back in 2021

New Nordic are celebrating their 30th anniversary during 2020, and management are positive regarding new products that will be launched during the year, as they in Q3 report of 2019 communicated that they, due to these, expect further revenue growth for many years ahead. Based on The Company's historically successful product launches, this is expected to help New Nordic to continue capitalizing on the underlying market growth.

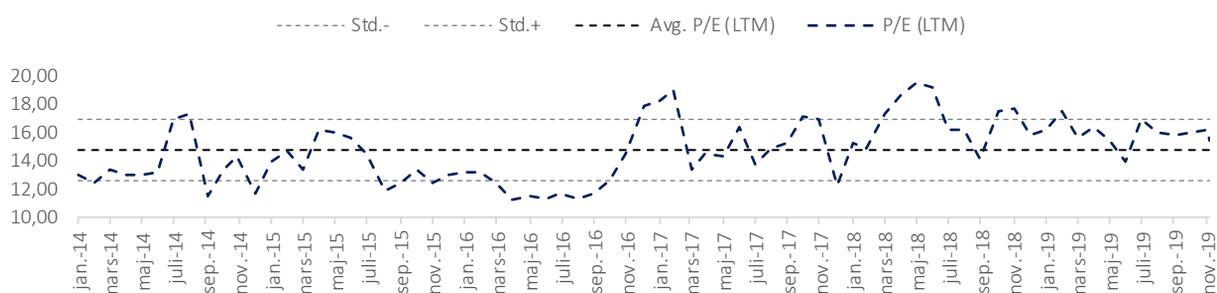
It is estimated that the product launches will lead to a slight contraction of the profit margin in 2020, attributable to a lack of economies of scale when purchasing raw materials for the new products, as well as increased marketing expenses related to the launches. The profit margin is expected to bounce back in 2021, once the success of the new products has been confirmed, as increased production leads to larger purchases of raw materials, and due to lower marketing expenses (relative to sales).

### Increased economies of scale and implied margin expansion yields upside of 32,5 %

As a result of New Nordic continuing to develop successful products and taking market share, revenue is expected to grow from 393,7 MSEK in 2018 to 535,9 MSEK in 2021. Furthermore, during the same period, increased economies of scale is expected to grow the gross margin from 70,5 % to 71,0 %, and the operating margin from 8,7 % to 10,0 %. With a target P/E ratio of 15,0x on 2021 year's estimated EPS of 6,80 SEK, a potential price per share of 102,0 SEK in approximately two years is deduced, implying an upside of 32,5 % and an Internal Rate of Return (IRR) of 15,1 % over two years.

## Valuation

The valuation is based on a target P/E multiple of 15,0x, which is justified based upon historical valuation and a relative valuation with their peer MedicaNatumin. New Nordic has had a stable P/E ratio of an average of 15,0x (LTM) since 2014, and of an average of 16,0x (LTM) since 2017. The New Nordic share trades at a P/E ratio of 15,5x (LTM) as of 2020-02-14.



### Historical valuation and merits justify a 25 % premium compared to their peer

The stability of the P/E ratio indicates that the stock price is, to a greater extent, determined by reported earnings rather than the multiple itself, and that the market has repeatedly underestimated New Nordic's earnings growth. The relationship is illustrated by 3. *Chart of historical stock price and trailing P/E ratio* in the appendix, showing the historical stock price and P/E ratio.

In addition, New Nordic has been compared with their peer, MedicaNatumin, which is one of few companies with the same business model as New Nordic. Both are listed companies that conduct direct selling of similar products on the international market.

Company name	Market data				Total revenue	
	Market cap (MSEK)	Net debt (MSEK)	Enterprise value (MSEK)	P/E (LTM) x	2018 (MSEK)	Q3-2019 (LTM) (MSEK)
New Nordic Healthbrands AB	477,0	4,76	481,8	15,5x	393,7	435,9
MedicaNatumin AB	177,8	15,06	192,9	12,5x	183,1	167,4

The higher P/E ratio, a premium of approximately 25 % on trailing earnings as of 2020-02-14, is deemed to be justified for the following reasons:

- **New Nordic has a management with a proven track record and strong incentives:** New Nordic was founded by the two entrepreneurs Karl Kristian (CEO) and Marinus (CFO), who together own 62,8 % of The Company, implying an insider ownership twice as high as MedicaNatumin's (29,3 %). According to the CEO (Karl Kristian), they will remain in their positions for the foreseeable future, which allows New Nordic to utilize their extensive experience and know-how within the industry.
- **Less volatility in sales:** On 2019-11-22, MedicaNatumin communicated that their Chinese distributor had a large inventory and that they, therefore, do not expect further orders from China for the foreseeable future. In addition, during the last twelve months, revenue falls short of full-year 2018 by -9,4 %.
- **Less volatility in earnings:** New Nordic has been profitable every year since 2013, while growing their margins, unlike MedicaNatumin, which had negative earnings during the years 2013, 2015 and 2017. However, MedicaNatumin's earnings exceeded New Nordic's by 3,4 % during full-year 2018 (27,4 MSEK & 26,5 MSEK).

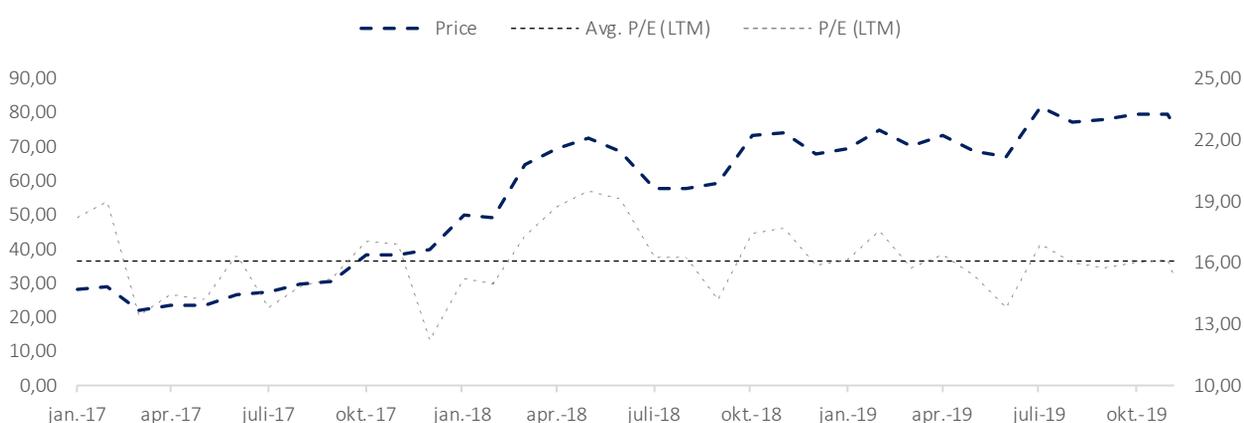
With historical valuation and relative valuation taken into consideration, a P/E ratio of 15,0x on 2021 year's earnings is considered justified. With an estimated EPS of 6,80 SEK during year 2021, a potential price of 102,0 SEK per share in two years time is deduced, implying an upside of 32,5 % from today, and an internal rate of return (IRR) of 15,1 % over two years. With the dividends of 2020 included, estimated to be 35 % of 2019's earnings, a Total Shareholder Return (TSR) of 34,7 % over two years is given.

## Appendix

**1. Multi-level-marketing:** Multi-level-marketing, sometimes referred to as *pyramid selling*, is a marketing strategy, in which revenues are derived from a non-salaried workforce buying inventory to then sell the company's products/services. Meanwhile, the earnings of participants are derived from generating commission from recruiting additional salespeople, which creates a pyramid-shaped organization, in which revenue growth is dependent on the organization growing its workforce.

**2. Direct selling:** Direct selling refers to regular distribution and marketing strategies; New Nordic is a direct selling company, and their products can be found in over 50 000 pharmacies around the world.

### 3. Chart of historical stock price and trailing P/E ratio



### 4. New Nordic financials, actuals and estimates

New Nordic Healthbrands (MSEK)	2018A	2019E	2020E	2021E
Net sales	393,7	440,7	494,7	535,9
<b>Total revenue</b>	<b>393,7</b>	<b>440,7</b>	<b>494,7</b>	<b>535,9</b>
COGS	-116,2	-129,8	-145,9	-155,4
<b>Gross profit</b>	<b>277,5</b>	<b>311,0</b>	<b>348,7</b>	<b>380,5</b>
Gross margin	70,5 %	70,6 %	70,5 %	71,0 %
Other external costs	-202,0	-226,9	-257,2	-276,0
Personnel costs	-40,6	-44,4	-47,3	-50,0
D&A	-0,7	-0,7	-1,0	-1,1
<b>EBIT</b>	<b>34,2</b>	<b>39,0</b>	<b>43,3</b>	<b>53,4</b>
EBIT margin	8,7 %	8,9 %	8,7 %	10,0 %
Net financial expenses	-0,1	-0,1	-0,3	-0,3
<b>EBT</b>	<b>34,1</b>	<b>38,9</b>	<b>42,9</b>	<b>53,1</b>
Tax	-7,6	-7,9	-9,2	-10,9
<b>Net Income</b>	<b>26,5</b>	<b>31,0</b>	<b>33,7</b>	<b>42,1</b>
Profit margin	6,7 %	7,0 %	6,8 %	7,9 %

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