



LINC

LUND UNIVERSITY FINANCE SOCIETY EST 1991

EQUITY RESEARCH REPORT

PRICER AB (PRIC-B)

”The emerging e-commerce space might benefit Pricer in the short-term”

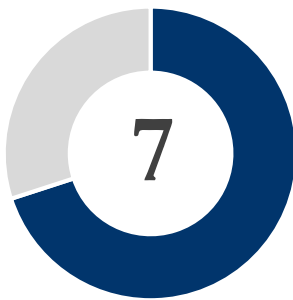
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COMPANY DESCRIPTION

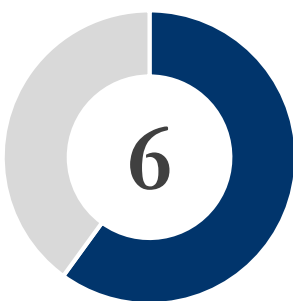
Pricer is an electronic shelf label (ESL) provider that offers retailers increased in-store efficiency by digitising price labels. The company develops the ESL technology in-house with external manufacturing in Asia. Pricer is a global market leader with approximately 22 % global market share in 2018. The company has thus far installed over 190 million labels throughout 16,500 facilities in more than 50 countries. In 2018, the most significant markets were EMEA (62 %) and North America (33,2 %). The demand for Pricer's products and services is mainly driven by retailers urgent need of increased in-store efficiency in order to compete with the rapidly evolving e-commerce market. Pricer is traded on NASDAQ OMX Stockholm, Nordic Small Cap.

VALUE DRIVERS



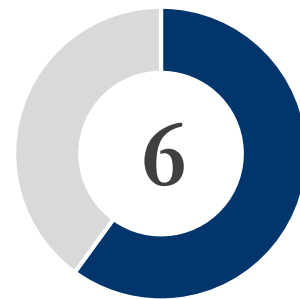
Pricer's major value driver is the digital solution "Pricer Cloud", a storage solution for customer information which can be managed and used to increase in-store efficiency. This in turn might create a lock-in effect for existing customers. In addition, Pricer's contract with Best Buy might serve as a reference customer for future engagement in the North American market.

MANAGEMENT & BOARD



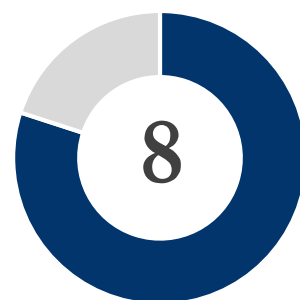
Management and Board have financial experience from companies such as Edgware AB, Post Nord and Husqvarna AB. Pricer has changed CEO three times since 2015. Insider ownership is approximately 3,5 %.

FINANCIAL HISTORY



Revenue CAGR between 2015-2018 was 15,4 % and historical EBIT-margin has fluctuated between -9 % in 2015 to 7 % in 2018. Pricer's largest expenditure is costs of goods sold, which in 2018 constituted 77,2 % of Pricer's total costs. Furthermore, COGS were almost exclusively dominated in USD. In 2015, the ND/EBITDA ratio was -0,48 and -0,15 in 2018.

RISK PROFILE



The retail space faces disruption from the emerging e-commerce market. This could potentially disrupt Pricer's business model as well. Furthermore, Pricer's management structure has been unstable in the past which may result in uncertainty and lack of clear leadership going forward.

PRICER AB (PRIC-B)



Pricer AB is a Swedish electronic shelf label provider. The company operates in over 50 countries and has thus far installed over 190 million labels across 16 500 installations. Pricer's two largest country segments are France (34,5 %) and the US (30 %). The global ESL market is estimated to grow by a CAGR of 19,2 % between 2019-2024E. During the same period Pricer's market share is estimated to drop from 22 % in 2018 to 15 % in 2024E due to increased competition. This will result in a revenue CAGR of 12,5 % between 2019-2024E. EBIT-margins are expected to decrease to 4,7 % due to increased competition. In a base case, a motivated share price of 14,1 SEK by 2024E is estimated with a target multiple of 14x EV/EBIT, a potential upside of 17,6 % from today's price of 12,04 SEK.

➤ **Pricer's revenue in the North American market is estimated to grow due to Best Buy orders.**

Revenue generated from the US increased by 260 % from 2017-2018 as a result of orders from the retail chain Best Buy. So far 240 installations have been made. Best Buy currently have 1008 stores in the US. Orders are expected to continue. Best Buy can also serve as a reference customer which may result in increased activity in the North American market.

➤ **Pressure from the emerging e-commerce market will benefit Pricer in the short-term.**

Retailers face negative comparable sales and declining operating income due to increased activity in the e-commerce space. Retailers are actively looking for solutions to combat these issues. As a result, Pricer will be able to utilise existing product offerings to help retailers increase in-store efficiency to combat the emerging e-commerce space.

➤ **Increased competition may lead to a decreased market share.**

The global ESL market is expected to grow by a CAGR of 19,2 % between 2019-2024E. Hence, new up-and-coming companies will emerge and compete for market share. As a result, Pricer's market share is estimated to decline to 15 % by 2024E.

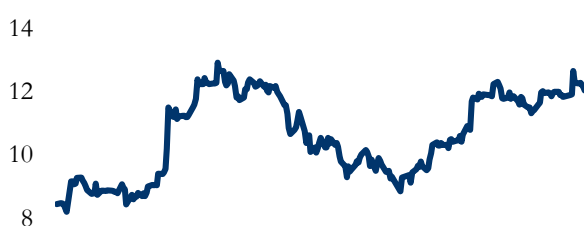
➤ **Pricer Cloud, a digital data storage platform, will serve as a primary moat going forward.**

Pricer Cloud is a digital platform where Pricer's customers can save information about customer activity. This information can in turn be used to optimise product offering. Since the information is only accessible on the Pricer Cloud platform, existing customers are incentivised to stay with Pricer instead of changing ESL provider. Pricer Cloud will therefore serve as a primary moat as it creates a lock-in effect for existing customers who use Pricer's ESL technology.

PRICER AB (PRIC-B)

Current Price (SEK)	12,04
52 v Low/High	8,18 / 13,10
Market Cap (MSEK)	1320
Net Debt (MSEK)	0
Enterprise Value (MSEK)	1106
Sector	IT
Exchange	NASDAQ OMX Stockholm
Next Report	2019-07-18

1 Year Chart

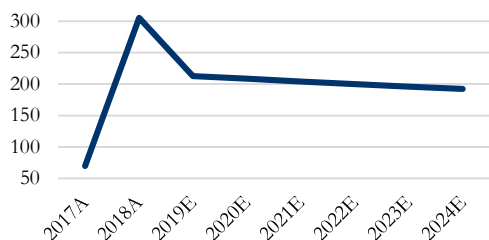


MSEK	2019E	2020E	2021E
Sales	1,2	1,3	1,5
Growth (%)	0,12	13,2	12,9
Gross Marg (%)	22,7	21,5	20,2
EBIT	0,7	0,8	0,9
EBIT Marg (%)	6,2	6,1	5,9
EV/S	0,96	0,85	0,75
EV/EBIT	13	13	14
P/E	16,2	16,2	16,8
ND/EBITDA	-0,15	-0,15	-0,05

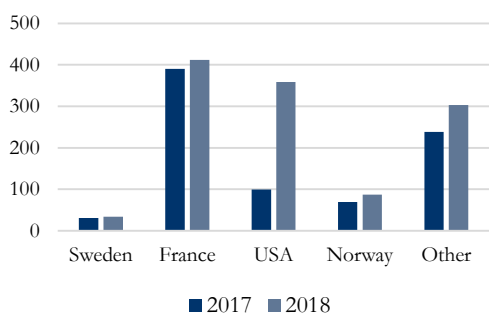
Ownership

Avanza Pension	11,1 %
Nordea Bank	10,2 %
Nordnet Pensionsförsäkring	6,2 %
Thomas Krishan	2,9 %

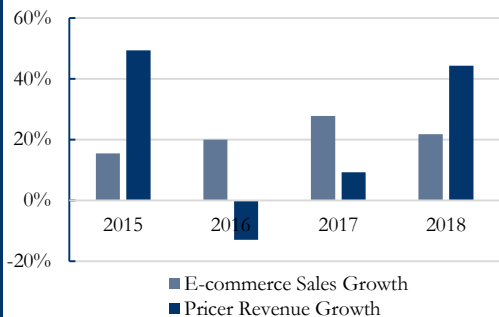
Revenue / Year from Estimated Best Buy Orders (MSEK)



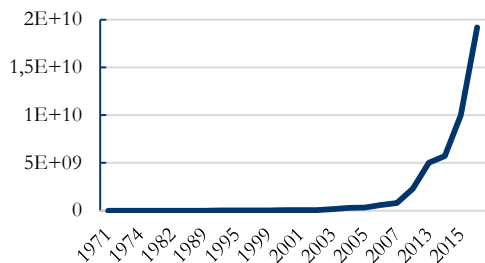
3. Net Sales by Country (MSEK)



4. E-commerce Global Sales Growth vs. Pricer Revenue Growth



5. Moore's Law: Number of Transistors Which Fit Into a Microprocessor

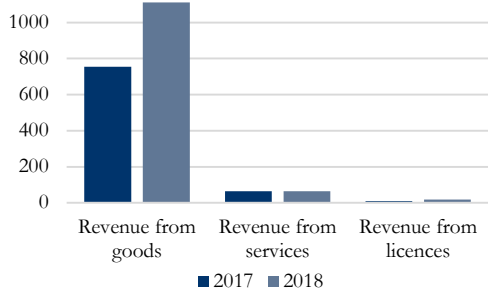


Estimated revenue increase in the US due to Best Buy contract. As of 2018, revenue generated (240 MSEK) from the Best Buy orders constituted 77 % of Pricer's market share in North America, which makes Best Buy a key customer as well as a good reference customer for future orders in the North American market. Finalised orders from Best Buy add up to 240 stores. Best Buy currently have 1008 stores in the US. This means that there are 768 stores left for potential installation. In November 2012 (Forbes), Best Buy initiated a transformation strategy called "Renew Blue". The strategy program was created due to two fundamental issues. Negative comparable sales and declining operating income. BestBuy is still actively looking to improve customer experience within and across stores in order to combat these issues. However, even if orders continue, revenue growth rates are likely to decline due to volume discounts. This being the case, greater interest from Best Buy motivates a decreased revenue CAGR between 2019-2024E of -6,39 % for future Best Buy orders.

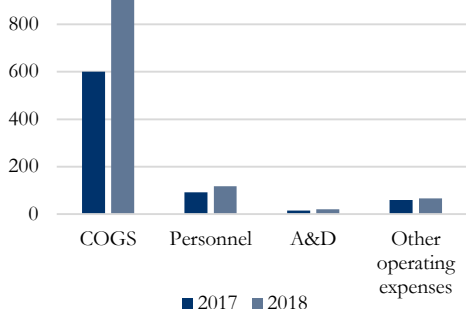
The rapidly evolving e-commerce market will benefit Pricer in the short-term but harm growth in the long-term. The e-commerce market has disrupted the traditional retail market. This has resulted in negative comparable sales and declining operating income for the majority of retail chains. One way for retail stores to combat these issues is to enhance the effectiveness of operations through digital solutions. Pricer's ESL technology is a clear option for retailers to increase in-store efficiency and gravitate towards digital solutions. Additionally, there seems to be a correlation between increased competition between the e-commerce and retail market, and the demand for Pricer's products. Therefore, in the short-term, demand for ESL products are estimated to grow. According to Nasdaq, around 95 % of all purchases are expected to be via e-commerce by 2040. This trend will therefore continue to disrupt the traditional retail space and ultimately disrupt Pricer's business model as well. If Pricer doesn't find a good solution to combat these issues, the company will fall behind.

Pricer face increased competition which may decrease market share. The typical characteristics of growth companies such as Pricer suggest that increased revenue and profits leads to greater market competition. Therefore, smaller up-and-coming competitors may be a threat in the future. This can to some degree be addressed through unique moats and differentiation strategies. Pricer's ESL technology is based on instant flash which makes it easier and cheaper to update labels instantly. Additionally, since Pricer is a market leader, the company has obtained cost advantages in production from previous investments. However, Moore's law, (Investopedia) which states that the number of transistors in a dense integrated circuit doubles every two years, suggests that ESL technology production will become faster, more power efficient and cheaper over time. Therefore, Pricer's current moat, namely efficient and cheap technology seem to be temporary. However, one emerging feature is "Pricer Cloud". In essence, customers who use Pricer's ESL technology can save and manage their customer information in order to increase in-store efficiency. Consequently, in order for Pricer to stay competitive, the only clear moat will be to acquire as many retail customers as possible and gather customer information on the cloud service. This will in turn create a lock-in effect for existing customers since the information only will be available on Pricer's own platform. Pricer's current market share in the worldwide ESL market is approximately 22 %. Due to increased competition this is expected to decrease to 15 % by 2024E.

Breakdown of Revenue (MSEK)



Operating Expenses Allocated by Cost Type (MSEK)



7. Peer Table

Peer Table (MSEK)	Mkt Cap	EV/EBIT	P/E
Ingenico Group	4630	21,0	21,6
Motion Display	75	10,1	8,9
E Ink Holding	12439	22,5	15,6
Avnet Inc	47518	31,5	15,0
Gunnebo	1934	12,5	16,1
Tomra	42369	37,4	52,1

”Market demand is strong, and the activity level remains high. Over the past few years we have noticed a progressive increase in market interest”

Helena Holmgren – CEO

In a base case, a relative valuation indicates a share price of 14,1 SEK by 2024E, a potential upside of 17,6 %. Since Pricer offers more than just the actual electronic shelf label, i.e Pricer Cloud, the peer table is based on close competitors in the ESL market as well as other actors who help retailers and similar companies increase efficiency with alternative digital solutions. The peers are displayed in figure 7. Based on the peer table, Pricer is valued at a discount. This can be partially explained by Pricer’s unclear management structure. Since 2015, Pricer has changed CEO three times. However, Pricer’s performance during the same period has increased considerably. Considering the valuation discount and Pricer’s current and future market position in the ESL space, a target multiple of EV/EBIT 14x has been applied.

The global ESL market is expected to meet a CAGR of 19,2 % between 2019-2024E (Absolute Reports). Pricer’s primary moat in the future will be managing customer information via their Pricer Cloud service. However, since this platform is in an early stage, there is still room for other competitors to seize market share. All things considered, this motivates a loss in market share from 22 % in 2019 to 15 % in 2024E. Taking the expected global CAGR of 19,2 % and Pricer’s loss in market share into consideration, a revenue CAGR of 12,5 % between 2019-2024E is estimated for Pricer.

In a base scenario, Pricer is estimated to provide Best Buy with ESL technology in the remaining 786 stores by 2024E. Pricer has invested a substantial amount to improve the conditions and scalability in the production and delivery chain, which in turn will benefit profit margins. However, since competition in the ESL market is expected to increase, Pricer will likely have to cut prices in order to stay competitive. Additionally, volume discounts from existing customers (i.e. Best Buy) will effect future profit margins. Increased sales will lead to increased COGS, and increased competition will lead to decreased prices. All things considered, a motivated EBIT-margin of 4,6 % is estimated for 2024E. This in turn results in a motivated share price of 14,1 SEK, an upside of 17,6 % from today’s price at 12,02 SEK.

A bear case indicates a target share price of 6,2 SEK, a downside of -48 %. This is based on: First, competition, particularly in the North American market seizing greater market share than expected which in turn will lead to 13 % market share 2024E for Pricer. Second, the requirement to cut prices more than expected due to increased competition. In this case, a revenue CAGR of 9,4 % is estimated 2019-2024E, an EBIT-margin of 2,8 % with a target multiple of 10x EV/EBIT has been applied for 2024E.

A bull case scenario suggests a potential share price of 29,6 SEK with an upside of 147,1 %, with a target multiple of 15x EV/EBIT. These estimates are based on the possibility of Best Buy acting as a reference customer for other department stores in the North American market which in turn will lead to greater market share. Additionally, in a bull scenario EBIT-margins are estimated to remain steady due to Pricer being able to differentiate their products through Pricer Cloud. A Revenue CAGR of 14 % between 2019-2024E has been estimated. Additionally, an EBIT-margin of 9 % and a target multiple of 15x EV/EBIT has been applied.



Helena Holmgren (80,000 shares)

CEO

MBA degree from University of Ottawa. Helena Holmgren has been with Pricer since 2015. During her years at Pricer she has acted as CFO, acting CEO and CEO since 2018. Previous experience include CFO at Edgware AB and Group Business Controller at Intrum Justitia.

Susanne Andersson

CFO

Bachelor of Business Administration from College of Charleston and a bachelor of Business Administration from European University, Munich and Toulouse. Susanne Andersson has several years of experience in various finance positions, including CFO at ChromoGenics and VP, Head of Investor Relations at PostNord. Susanne has been with Pricer since January 2019.



Bernt Ingman (105,000 shares)

Chairman of the Board

MBA from University of Uppsala. Bernt Ingman has served as chairman at various other companies before Pricer, including Handelsbanken Kista, Schnedlerföretagen AB and Beijer. Previous experience include Chief Financial Officer of Husqvarna AB, Chief Financial & Information Officer at Gunnebo AB and Chief Financial Officer at Munters AB.

Pierre Fors (3,214,741 shares)

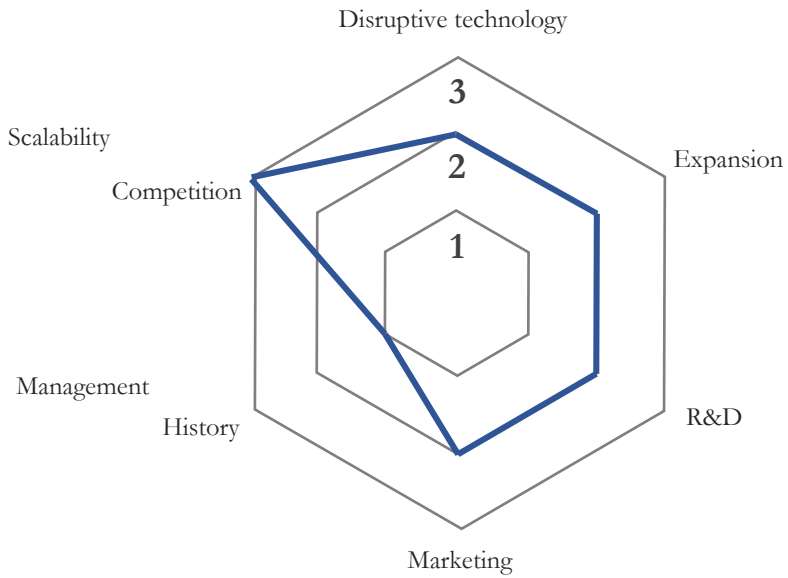
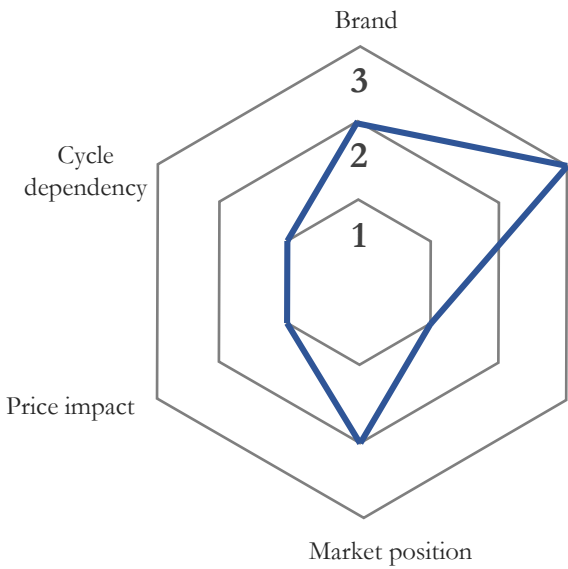
Member of the Board

Bachelor's degree in Economics from Uppsala University and studied banking, finance and securities law at Western Sydney University. Thomas Krishan is a private investor since 2003. Between 1995-2003 he acted as Head of Trading at Hagströmer & Qviberg. Thomas has been a member of the board since 2018.



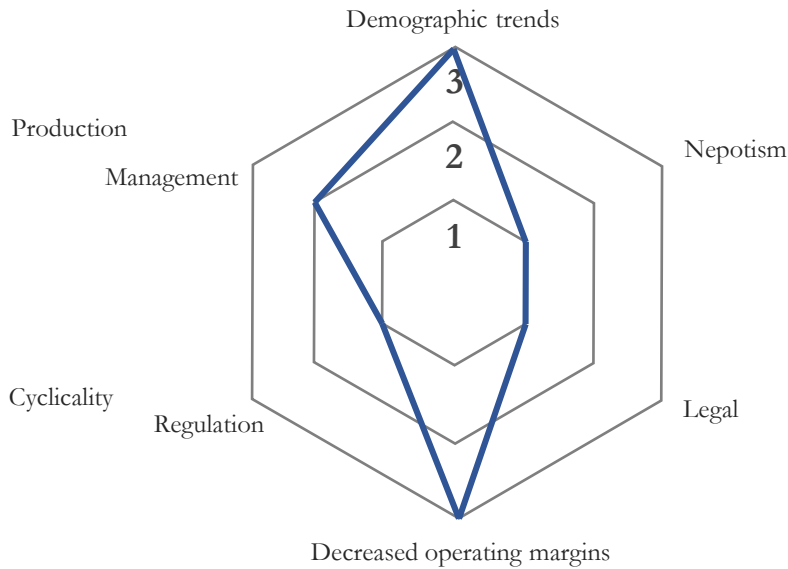
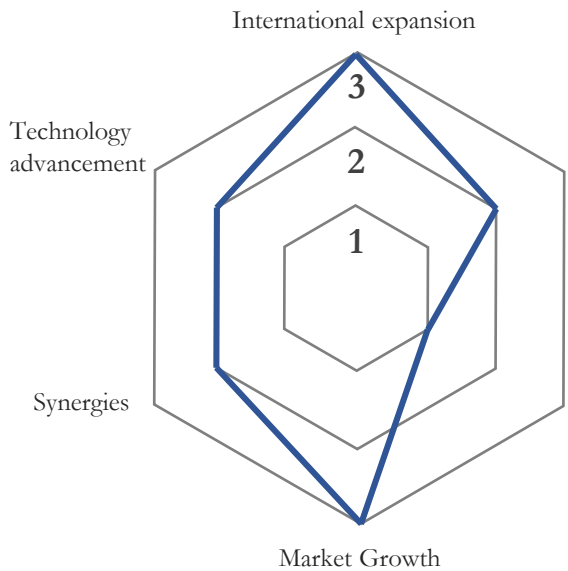
STRENGTHS

WEAKNESSES



OPPORTUNITIES

THREATS



APPENDIX I

Sources:

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