

Freetrailer Group A/S (FREETR)

Denmark | Industry | MCAP 336.4mn

9 May 2022

Buy

Target price: DKK 49.9
 Current price: DKK 36.2
 Upside: 37.8%

Disrupting the trailer rental industry

Freetrailer Group A/S is disrupting the trailer rental industry, renting out trailers through partners using their in-house developed app and “Freelock.” The Company has historically been able to grow with existing partners and is expected to partner with the remaining 34 IKEA stores in Germany, which would work as a positive catalyst for the stock price. Freetrailer is estimated to grow rapidly organically by expanding contracts with existing partners, entering new countries and signing new partners. The EBIT-margin is estimated to further strengthen, from 11.4% 2020/21A to 19.5% in 2022/23E. A discounted cash flow model has been computed, indicating a target price of DKK 49.9, which yields an upside of 37.8%.

Key takeaways

- Price hikes and expanding contract with IKEA**
 Freetrailer expanded to Germany in late 2020/21A and has since then partnered with a total of 23 IKEA stores. Covid-19 has slowed down the roll-out to new IKEA stores. However, Freetrailer is expected to partner with the 34 stores in Germany, estimated to be worth around DKK 8-remaining 9 million in revenue. Furthermore, Freetrailer is estimated to have pricing-power since renting a “normal” trailer costs 4x Freetrailers average income per rental. A communicated price hike or signing a deal with IKEA of this magnitude is estimated to work as a positive catalyst for the stock price.
- Win-win solution generates 28.6% CAGR in trailers until 2024/25E**
 Customers can rent a trailer for free from partners. Partners deliver a great customer experience, gets free marketing and increase sales. Thanks to Freetrailer’s unique solution, expanding contracts with existing partners and entering new countries, the Company is estimated to continue to grow its revenue rapidly. Increasing outstanding trailers from 2 146 units in 2020/21A to 5 849 units in 2024/25E.
- ROIC of 34.5% indicates network effects and economies of scale**
 Freetrailer have a ROIC of 34.5%, which combined with an increasing market share, indicates a moat, with network effects of the app and economies of scale estimated to be the strongest ones. In combination with solid relationships with partners, it is estimated that the company operates in a winner-takes-it-all market, with Freetrailer currently being the only operating company with this business model and therefore possesses a first-mover advantage. Freetrailer is disrupting an industry with a TAM of DKK 1.6bn in Northern Europe, which is 35x Freetrailer’s 2020/21A revenue.
- Partner concentration risk with IKEA estimated to be 15-20% of revenue**
 Partners taking the Freetrailer solution in-house is the main risk, still, at the same time, nothing is indicating this as of now. On the contrary, partners are expanding their contracts over time with Freetrailer.

Analysts

Viking Svensson Equity Analyst

Market Data, DKK

Exchange	Spotlight Stock Market	
Shares (mn)	9.3	
MCAP (mn)	336.4	
EV (mn)	325.6	

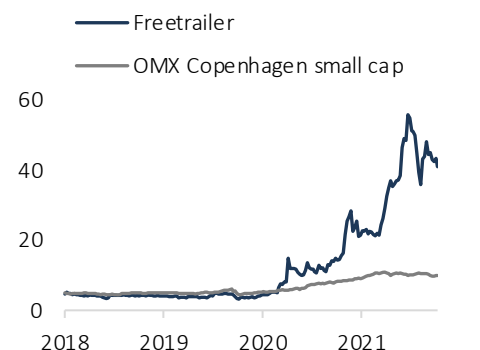
Metrics & Drivers	20/21A	21/22E	22/23E
EV/EBIT	54.9x	25.3x	18.8x
EV/EBITDA	44.2x	21.6x	16.2x
EV/S	6.3x	4.7x	3.7x
P/E	76.6x	34.8x	25.9x
ND/EBITDA	0.3x	0.1x	0.1x
Capex/D&A	46.1%	90.5%	90.5%
Capex/revenue	1.3%	5.1%	5.1%

Forecast, DKKmn	20/21A	21/22E	22/23E
Total revenue	51.9	68.6	88.5
Rev. growth y/y	27.3%	32.1%	29.0%
Gross Profit	35.0	45.8	59.1
Gross Margin	67.4%	66.7%	66.7%
EBITDA	7.4	12.9	20.1
EBITDA Margin	14.2%	18.8%	22.8%
EBIT	5.9	10.7	17.2
EBIT Margin	11.4%	15.6%	19.5%

Major Shareholders

Allan Darre	33.5%
Aksel Ambjorner	20.3%
Axxion SA	7.6%

Price Development, DKK



Investment thesis

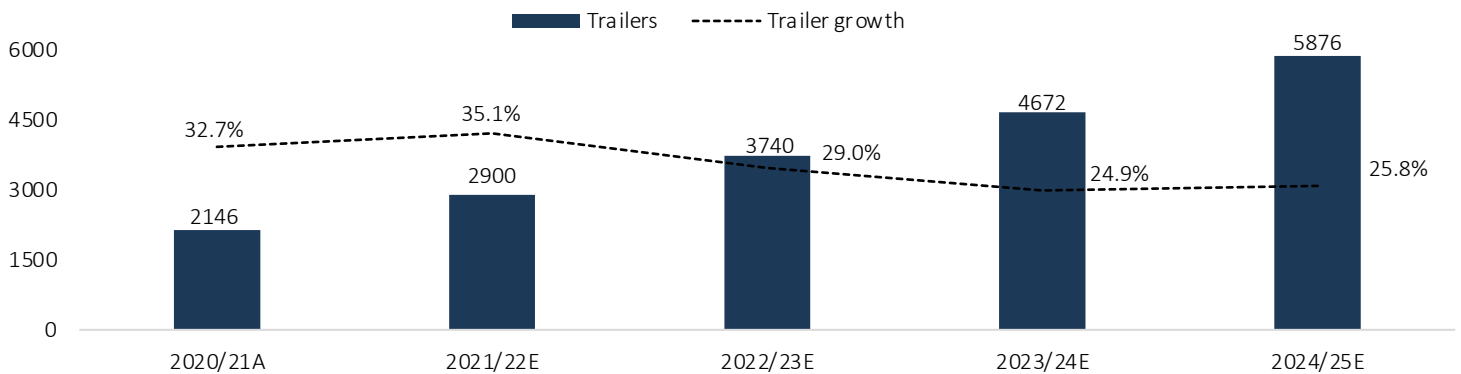
Disrupting the trailer rental industry using a unique win-win solution for everyone involved

Freetrailer's business model is a win-win because of four reasons: i) The customers can rent a trailer for free, which spreads fast through word of mouth. ii) The partners deliver a great customer experience. iii) Partners increase sales both through new customers that visit their stores thanks to Freetrailer and through already existing customers. It is estimated that 2 out of 3 customers renting a trailer also enter the store to make a purchase which clearly shows the increase in sales Freetrailer is creating for its partners. iv) Partners get free marketing through the trailers they lease from Freetrailer. All trailers are branded with the partner's own company name and logo, making it a great marketing solution for partners. We believe that the market underestimates the power of the win-win solution Freetrailer offers and thus the long-term growth potential of the company.

Strong ROIC of 34.5% indicates a moat

Freetrailer's ROIC of 34.5% indicates that the company possesses a moat, with network effects of the app and economies of scale being the strongest, estimated to improve over time. Freetrailer is estimated to have a 60% market share in Denmark, meaning that the Freetrailer app is on top of mind when consumers need to rent a trailer, making it hard for upcoming competitors to get traction. Therefore, it is expected that their moat will grow stronger over time. Thanks to Freetrailer's first-mover advantage in all their markets, it is estimated that they possess an excellent position to take a significant market share in what is expected to be a winner takes it all market.

Trailers estimated to grow in a rapid pace averaging a growth of 28.8% in the coming years



Source: Analyst estimates

Competitors entering the market is not a significant risk near term

Competitors entering the market are not viewed as a significant threat thanks to Freetrailer's first mover advantage, network effects and strong relationships with their partners. Partners leaving is considered to be the main risk. Freetrailer has a customer concentration risk. IKEA is estimated to stand for 15-20% of the company's total revenue, making them a critical partner for Freetrailer. If a partner such as IKEA were to withdraw their contracts with Freetrailer, this would have a big impact on revenue and thus margins. However, this is not viewed as likely as of now since IKEA is currently expanding its contracts with Freetrailer. Freetrailer's contracts with partners are usually 3-5 years. It seems unlikely that IKEA would take an over-head decision for all stores at once to not continue having Freetrailer as a partner. Still, how the partnership develops with big partners like IKEA is a critical data point to keep an eye on.

Overview of the company

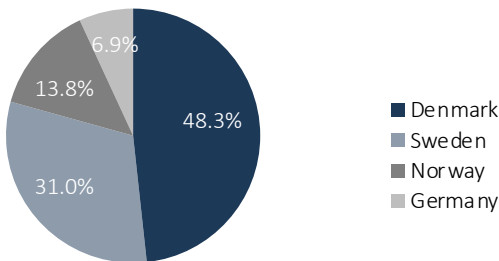
100% self-service solution with partners like IKEA, ICA and Bygghuset

Freetrailer was founded 2004 in Denmark and is renting out trailers through partners with their app. In 2015 they developed an automated electronic lock and an IT platform, which created a 100% self-service solution. The trailers are free of charge for customers, making more people visit the store and thus increasing sales for partners. In addition, the trailers are designed with specialized advertising for partners. Freetrailer has over 70 partners consisting of mostly big chain stores such as IKEA, ICA and Bygghuset, with 2 448 trailers. Freetrailer is well established in Denmark but is also operating in Sweden and Norway and have recently entered Germany. Freetrailer has been rewarded the gazelle price seven years in a row from daily Borsen, identifying Denmark's growth elite.

70% of revenue is created from customers add-ons and 30% through partners

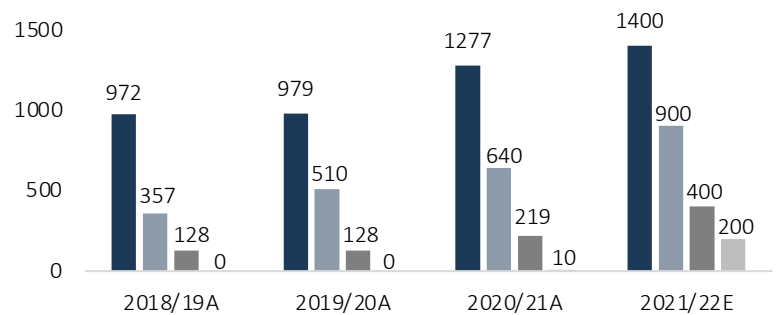
Revenue is created in two ways: 30% through their partners and 70% from the consumers. Growth in number of trailers is the primary growth driver in both segments. Recurring monthly revenue from their partners is based on 3-5 years contracts with an estimated yearly revenue of DKK 6tn per trailer. Consumers pay for add-on services when renting a trailer, such as pre-booking, insurance and extending the rental period, generating an average of DKK 67 per rental since 90% of customers choose to pay for add-on services.

Number of trailers per country 2020/21A



Source: Company, Analyst estimates

Number of trailers per country 2018/19A-2021/22E



Cost drivers are trailers which is estimated to grow in line with revenue

The main cost driver is the increase in trailers, which is expected to rise in line with revenue. Freetrailer leases trailers which ensure that the cost is covered with partner contracts. Marketing has this far been in correlation with the IPO but is expected to rise with revenue to realize their expansion, mainly through social media. Since their automatic service solution creates scalability, personnel costs are expected to decline in relation to revenue.

Focus on partners both in existing and new markets is key to increasing revenue

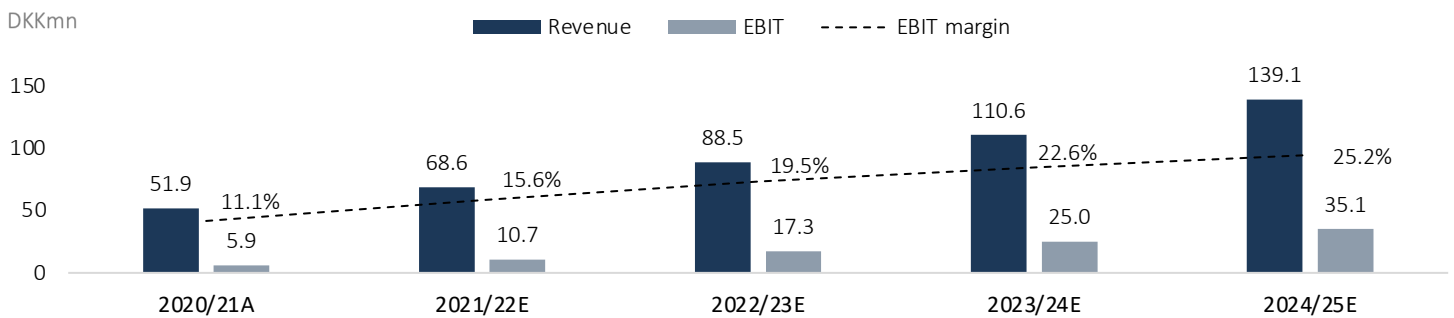
For continued high growth, Freetrailer needs to focus on expanding its current partner contracts as well as signing new partners. Through an increased number of available trailers, this will be the key revenue driver. The Nordics, Germany and the Benelux countries (Belgium, Netherlands and Luxemburg) are estimated to be worth around DKK 1.6bn which is 35x Freetrailers 2020/21A revenue. The trailer rental industry is fragmented, where mainly local stores and gas stations rent out trailers as a side business. Freetrailer has recently entered Germany, which is estimated to become their biggest market. Going forward, the company is planning to expand to the Benelux countries. However, since their product is both global and scalable Freetrailer have targeted the whole of Europe as their potential market in the coming years. They operate in the sharing economy market which is estimated to grow with a CAGR of 30% until 2025E according to PWC.

Financial forecast breakdown

Revenue to grow from DKK 51.9mn to DKK 139.1mn in 2024/25E due to high growth in trailers

Trailers are estimated to increase from 2 448 units in Q2 2021/22A to 5 876 units until 2024/25E, primarily driven by expanding contracts with existing partners and expanding to new countries. Free trailer has signed agreement with 23 IKEA stores in Germany and is expected to sign the remaining 34 stores during 2022/23E, which is estimated to support the growth of 266 trailers. The potential revenue growth from the 34 new IKEA stores in Germany is estimated to be DKK 8-9mn in revenue, translating to a growth of approximately 15.4% compared to Free trailer's 2020/21A revenue. Furthermore, the company is expected to enter the Benelux countries in 2023/24E, starting with 10 trailers, which is expected to grow to 200 units during 2024/25E, estimated to increase sales by DKK 5.0mn. Beyond this, Free trailer is expected to further strengthen their presence with big retail chains like ICA in Sweden, Europris and Silvan in Norway. The company is also estimated to sign new contracts with big chain stores in other countries and expand contracts with those in a similar way as previously seen with IKEA.

Estimated Revenue, EBIT and EBIT margin until 2024/25E

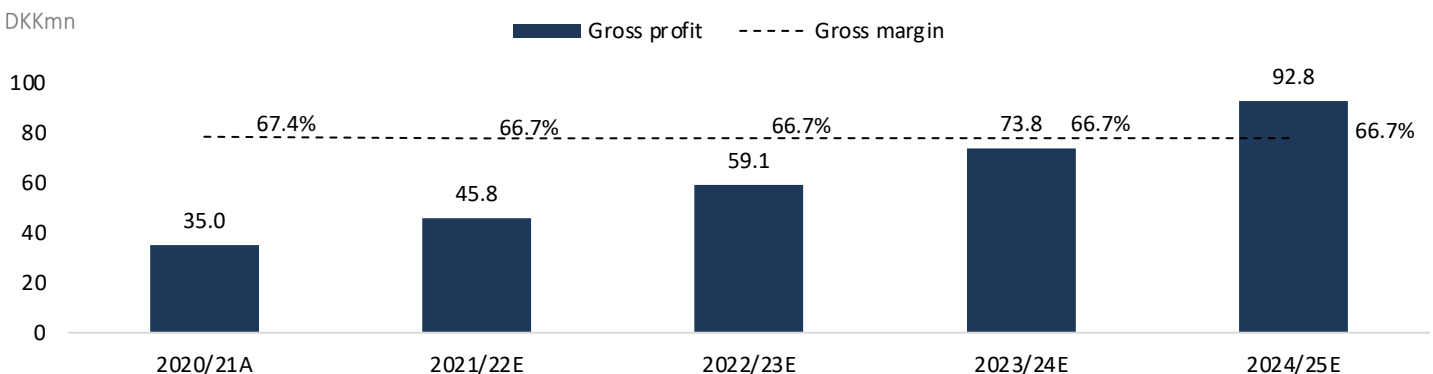


Source: Company, Analyst estimates

COGS is estimated to increase from DKK 16.9mn 2020/21A to DKK 46.3mn 2024/25E

Free trailer leases trailers from a third-party company and then leases them out to partners. After 4-5 years they usually buy the trailers out from the third-party company and resell them through their own website or in larger chunks to different companies with a profit. This makes Free trailer's business model very capital light with no upfront investments needed to be made. Free trailer has an estimated leasing cost per trailer of DKK 7 997.0 which makes their COGS increase in relation to their trailer growth. COGS is estimated to increase from DKK 16.9mn 2020/21A to DKK 46.3mn in 2024/25E, leading to a gross margin of 66.7% 2024/25E. However, since Free trailer is estimated to operate in a winner-takes-it all market they should be able to decrease the cost per of trailer in a longer perspective and thus improving their gross margin.

Estimated Revenue, EBIT and EBIT margin until 2024/25E



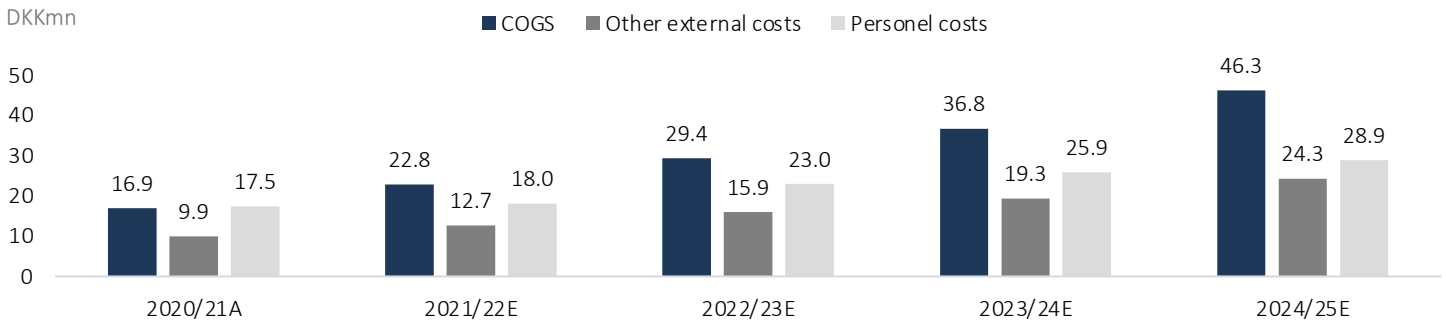
Source: Company, Analyst estimates

Financial forecast breakdown

Number of employees estimated to increase from 38 to 58 in 2024/25E

Freetrailer is expected to further expand their presence in Germany and to expand to the Benelux countries in the coming years. It is estimated that this will demand an increased headcount due to the need for local customer service and sales. Number of employees is estimated to grow from 38 to 58 in 2024/25E, driving personnel costs and thus operating expenses from DKK 27.6mn to DKK 53.2mn in 2024/25E. This implies an EBITDA of DKK 39.6mn in 2024/25E.

Estimated COGS, Other external costs and Personnel costs until 2024/25E

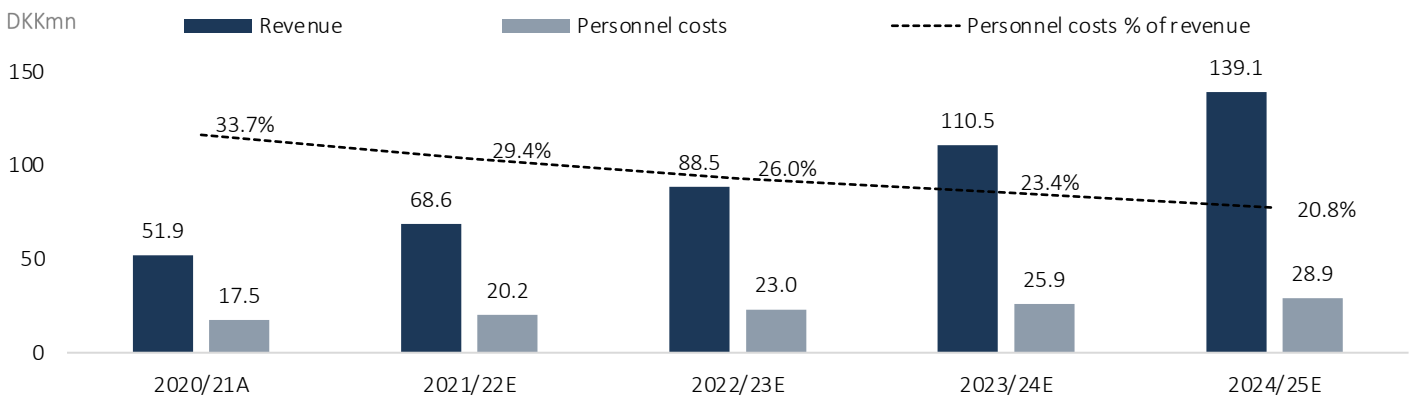


Source: Company, Analyst estimates

EBIT margin expected to increase from 11.1% in 2020/21A to 25.2% in 2024/25E

Freetrailer does not need to invest any money upfront since they lease their trailers from a third-party company, making their CapEx and thus their D&A low. It is estimated that Freetrailer's CapEx and D&A will grow approximately as a percentage of their revenue. Implying D&A increase DKK 1.2mn in 2020/21A to DKK 4.5mn in 2024/25E. This will mostly be due to overall CapEx, from such as investments in developing their app, new electrical vehicles and further developing their platform. Furthermore, this will lead to EBIT increasing from DKK 5.9mn in 2020/21A to DKK 26.6mn in 2024/25E. EBIT margin is expected to increase from 11.4% in 2020/21A to 25.2% in 2024/25E.

Estimated Revenue, personnel costs and personnel costs as a percentage of revenue until 2024/25E



Source: Company, Analyst estimates

Interest expense estimated to be steady the coming years

Interest expense is estimated to be approximately DKK 50k during the coming years. Debt is expected to be stable because of two reasons. Firstly, there is no reason for Freetrailer to pay off debt when rates are low, secondly, they do not need to take on further debt because they do not have any big upfront investments to make that their cash flow can not cover.

Valuation

DCF										
Key Cash flow items	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e	2026/27e	2027/28e	2028/29e	2029/30e	2030/31e
Net sales	68 619	88 495	110 553	139 046	166 855	195 220	224 503	253 689	279 058	287 429
EBIT	12 876	17 273	24 959	35 056	47 654	53 803	64 118	74 990	85 280	90 713
Taxes on EBIT	-3 092	-4 148	-5 994	-8 419	-11 445	-12 921	-15 399	-18 010	-20 481	-21 786
NOPAT	9 784	13 125	18 965	26 637	36 209	40 881	48 720	56 981	64 799	68 927
D&A	3 844	4 957	6 193	7 789	9 346	10 935	12 575	14 210	15 631	16 100
Capex	-3 480	-4 488	-5 606	-7 051	-8 461	-9 900	-11 385	-12 865	-14 151	-14 576
Change in NWC	-5 709	-11 411	-12 664	-16 359	-15 966	-16 285	-16 812	-16 756	-14 565	-4 806
FCFF	4 439	2 183	6 887	11 016	21 128	25 631	33 098	41 570	51 714	65 645

Source: Bloomberg, Analyst estimates

Discounted cash flow analysis

Most companies within the sharing economy market with a similar market cap to Freetrailer does not generate earnings. Consequently, valuing Freetrailer based on a peer valuation is difficult since it is argued that Freetrailer should be valued on an EV/EBIT multiple. Instead of a peer valuation, a discounted cash flow analysis has been assembled. Considering Freetrailer's debt of DKK 200.6tn and equity of DKK 336.4mn, a WACC of 9.9% has been computed. In combination with a terminal growth rate of 2.5% the discounted cash flow analysis derives in a fair market cap of DKK 464.1mn. Based on the 9.3mn outstanding shares today, it corresponds to a share price of DKK 49.9.

Peers	MCAP	Enterprise	Financials	Revenue CAGR 19-21	EV/S
	DKKmn	Value (DKKmn)	EBIT-margin	2019-2021A	2021A
GreenMobility	291.3	358.9	Neg.	33.0%	5.8
Donkey republic	114.7	125.7	Neg.	31.3%	3.4
Vertiseit	613.8	607.8	3.6%	25.4%	6.4
Relesys	291.3	235.3	Neg.	29.4%	6.8
Average	339.9	322.9	3.6%	29.8%	5.6
Median	291.3	235.3	Neg.	30.4%	6.1
Freetrailer	336.4	325.6	18.8%	29.7%	4.7

Source: Bloomberg, Analyst estimates

Peer valuation supporting the discounted cash flow analysis

Freetrailer does not have any direct comparable peers, instead a peer table of companies within the sharing economy market and companies selling a combination of software and hardware solution has been formed. Most companies within these segments, with a similar market cap to Freetrailer does not generate earnings, which makes comparing peers on anything else than EV/S difficult. It is argued that Freetrailer should be valued on an EV/EBIT multiple, however, comparing Freetrailer to the peer table on an EV/S multiple can give more colour to the discounted cash flow analysis. Freetrailer is priced with a discount to the peer table median, although we argue that Freetrailer should trade with a premium compared to peers for two reasons: 1) Freetrailer have EBIT-margins of 18.8% compared to the peer median EBIT-margin which is negative. 2) Freetrailer have a ROIC of 34.5% which is best in class. Considering this, it is reasonable to apply a premium of 10% compared to peers, implying a market cap of DKK 460.4mn, supporting the discounted cash flow analysis.

Management and board

Philip Filipsen, CEO & Member of the Board

Philip Filipsen joined Freetrailer for the first time in 2009 as Chief financial officer. He left 2011 and worked as CFO at In-Mix. He returned to Freetrailer 2014 working as CFO & COO. After the planned step down of CEO Allan Sonderskov Darre in 2019, Philip Filipsen assumed the position as group CEO at the end of the year. Philip Filipsen has previously held several leadership positions as CFO and CEO in different companies. He is also the co-founder of a company called Business Support TAK ApS, founded in 2016.

Ownership (private and through companies): 0 shares or 0.0% of the company.



Allan Sonderskov Darre, CO-Founder and Board Member

Allan Sonderskov Darre founded Freetrailer in 2004 together with Aksel Ambjorner and held the position as CEO until 2019 when he stepped down. During the years as CEO of Freetrailer Allan Sonderskov Darre also founded several companies. In 2021 he founded Propagator.co, in 2020 he founded EatMyBill, Salix Greentech, Globeland and in 2019 he founded Fastr. Allan has also worked as an angel investor and board member in different companies during this period.

Ownership (private and through companies): 3 095 551 or 33.5% of the company.



Aksel Ambjorner , CO-Founder

Aksel Ambjorner founded Freetrailer in 2004 together with Allan Sonderskov Darre. He worked as head of sales during the time period 2012-2015 but has since then no position within the company.

Ownership (private and through companies): 1 875 952 or 20.3% of the company.



Mikael Bartroff, Chairman of the Board and CFO

Mikael Bartroff has been a chairman of the Board since 2017. Previously he has been working at IKEA. From 1992 to 2005 he worked as a CFO for IKEA Netherlands and from 2005 to 2008 as CEO for IKEA Turkey. Mikael Bartroff founded Azure overseas in 2008.

Ownership (Private and through companies): 335 289 or 3.6% of the company.



Appendix: Income Statement

Income statement DKKtn	2017/18	2018/19	2019/20	2020/21	2021/22e	2022/23e	2023/24e	2024/25e
Revenue	30 194	34 702	40 780	51 933	68 619	88 495	110 553	139 046
COGS	-8 326	-11 000	-13 827	-16 933	-22 828	-29 438	-36 776	-46 254
Gross Profit	21 868	23 703	26 953	35 000	45 791	59 057	73 777	92 792
<i>Gross margin</i>	72.4%	68.3%	66.1%	67.4%	66.7%	66.7%	66.7%	66.7%
OPEX								
Other external costs	-8 490	-8 618	-8 729	-9 946	-12 695	-15 929	-19 347	-24 333
Personel costs	-15 085	-15 529	-14 864	-17 495	-18 000	-22 991	-25 894	-28 903
Other operating expenses	0	0	0	-187	0	0	0	0
EBITDA	-1 707	-444	3 360	7 372	15 097	20 136	28 537	39 555
<i>EBITDA-margin</i>	-5.7%	-1.3%	8.2%	14.2%	22.0%	22.8%	25.8%	28.4%
D&A	-2 307	-2 878	-1 509	-1 439	-2 220	-2 864	-3 577	-4 499
EBIT	-4 015	-3 322	1 851	5 934	12 876	17 273	24 959	35 056
<i>EBIT-margin</i>	-13.3%	-9.6%	4.5%	11.4%	18.8%	19.5%	22.6%	25.2%
Interest income	96	2	9	105	94	121	152	191
Interest expenses	-319	-128	-348	-47	-47	-47	-47	-47
EBT	-4 430	-3 452	1 493	5 781	12 736	17 105	24 761	34 819
<i>EBT-margin</i>	-14.7%	-9.9%	3.7%	11.1%	18.6%	19.3%	22.4%	25.0%
Tax expense	-731	-710	-360	-1 388	-3 057	-4 105	-5 943	-8 357
Net income	-5 161	-4 163	1 133	4 393	9 679	13 000	18 818	26 462
<i>Net margin</i>	-17.1%	-12.0%	2.8%	8.5%	14.1%	14.7%	17.0%	19.0%

Sensitivity analysis

	Share price 49.9	WACC						
		6.9%	7.9%	8.9%	9.9%	10.9%	11.9%	12.9%
Terminal	1.0%	77.0	62.2	51.3	43.1	36.6	31.4	27.2
Growth rate	1.5%	83.1	66.2	54.1	45.1	38.1	32.6	28.1
	2.0%	90.5	71.0	57.3	47.4	39.8	33.8	29.1
	2.5%	99.4	76.6	61.1	49.9	41.6	35.2	30.1
	3.0%	110.7	83.3	65.4	52.9	43.7	36.7	31.3
	3.5%	125.3	91.6	70.5	56.3	46.1	38.5	32.5
	4.0%	145.0	101.9	76.7	60.3	48.8	40.4	34.0

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