

## Veteranpoolen (VPAB)

Sweden | Staffing | MCAP 853.7

27 June 2022

### Buy

Target price:	SEK 69.5
Current price:	SEK 46.8
Upside:	48.5%

## Veteranpoolen – With age comes wisdom

Veteranpoolen AB (“Veteranpoolen” or “the Company”) is a Swedish staffing company consisting of seniors looking to work part-time. The Company offers services such as landscaping and other RUT- & ROT-services. Being structured as a franchise, strong incentives for growing sales is created due to skin in the game which compensates the businessowners when performing well. The Company is expected to grow 56.2% faster and to have a 80.3% higher net margin than peers while being market leader within their niche. A target multiple of 17.5x EV/EBIT is applied. Based on a relative valuation, which indicates a target price of SEK 69.5, representing an upside of 48.5% until 2023E.

### Key takeaways

- Investing in digital solutions lead to scalability and improved margins

The Company is experiencing high customer demand and has to decline work inquiries due to shortage of seniors and have earlier had issues with systems not being effective enough. The ongoing investments in digital solutions is expected to decrease COGS and lead to operating leverage due to reduced costs which is expected to result in continued growth and margin expansion. Streamlined administrative processes and a further developed matching system for work inquiries expects to drive sales and result in revenue growing from SEK 338.7mn in 2021A to SEK 568.9mn in 2023E, representing a revenue CAGR of 21.0% until 2023E. Furthermore, the EBIT-margin is estimated to increase from 8.9% in 2017A to 12.0% until 2023E due to lower marginal cost per service produced because of digitalization.

- A decentralized business model with skin in the game

The Company is driven with a franchise model where entrepreneurs having strong local connections run the day-to-day business. The franchisees having skin in the game and being dependent on their own local office economic development, creates strong incentives for the entrepreneur to strive for the best possible outcome. Furthermore, benefits are created by a decentralized model because the local presence is crucial in order to grow sales as well as recruiting new seniors.

- Strong track record and expected to continue taking market shares under high profitability

Veteranpoolen has grown with a high CAGR of 21.1% since 2016A and is estimated to continue growing under strong profitability with a CAGR of 21.0% until 2023E due to digitalization and underlying market trends in demography. In 2017A, the Company had an EBIT-margin of 8.9% which is expected to increase to 12.0% in 2023E. The Company is outgrowing the market, leading to an expected increase in its penetration rate, on the highly fragmented staffing market, from 0.5% 2021A to 0.7% until 2023E. Peers is estimated to grow sales by 12.5% annually until 2023E with an EBIT-margin of 5.4%. Because of an 80.3% higher EBIT-margin and 56.2% higher growth pace, an EV/EBIT multiple of 17.5x is justified, resulting in an upside of 48.5% and a target price of SEK 69.5.

### Analysts

Adam André	Equity Analyst
August Winzell	Equity Analyst

### Market Data, SEK

Exchange	Spotlight Stock Market
Shares (mn)	18.2
MCAP (mn)	822.1
EV (mn)	776.3

### Metrics & Drivers

	21A	22E	23E
EV/EBIT	16.1x	14.1x	11.4x
EV/EBITDA	16.1x	13.9x	11.3x
EV/S	1.8x	1.6x	1.4x
P/E	26.3x	23.3x	22.0x
ND/EBITDA	-1.7	-1.5	-1.3

### Forecast, SEKmn

	21A	22E	23E
Total revenue	388.7	495.2	568.9
Rev. growth y/y	29.5%	27.4%	14.9%
Gross Profit	247.6	328.7	381.8
Gross Margin	63.7%	66.4%	67.1%
EBITDA	43.4	55.8	68.8
EBITDA Margin	11.2%	11.3%	12.1%
EBIT	42.5	55.1	68.3
EBIT Margin	10.9%	11.1%	12.0%

### Major Shareholders

Håkan Blomdahl	18.7%
Avanza Pension	12.7%
Nordnet Pensionsförsäkring	7.5%
Fredrik Grevelius	3.3%

### Price Development, SEK



## Investment thesis

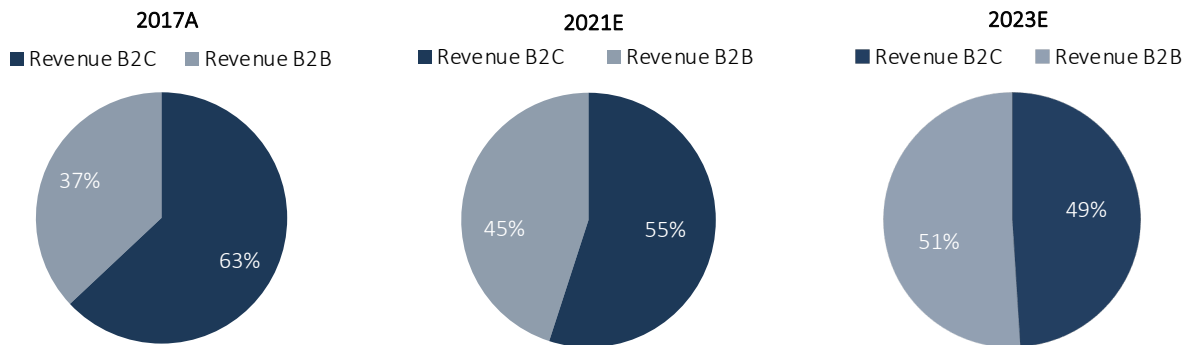
### Integrating a new internal matching system

Because of high customer demand the Company must decline some work inquiries. To solve this problem, the Company needs a larger workforce, a higher average employee working hours per month and a more effective internal system which will help Veteranpoolen match their current seniors with their work inquiries. Veteranpoolen is currently developing and testing an application for smartphones made for the employees which will be the intermediary between the employer and employee. This will facilitate a more streamlined administrative process. The expected outcome from a streamlined administrative process is decreasing COGS, resulting in a gross margin expansion from 63.7% in 2021A to 67.1% until 2023E.

### Diversified revenue streams from different market segments

In 2015, the Company's customer base consisted of 77.0% of B2C and 23.0% of B2B. Due to the clear trend of more revenue coming from B2B and brand recognition from being market leader in their niche, it is estimated that the number is 45.0% as of now. Furthermore, it is expected that the market segment will maintain a continued high growth pace leading to 51.0% of the Company's sales in 2023E. The profit margins in each segment are equal, meaning that the diversified customer base significantly de-risks the case. The diverse customer segment between B2C and B2B decreases the risk of lower revenue when discretionary spending decreases due to corporations in general having stronger purchase power. Furthermore, the revenue stream from B2B is often long-standing contracts with inflation clauses leading to a potential hedge against inflation.

#### B2B estimated to become larger than B2C in 2023E



Source: Analyst estimates

### The franchise-model creates a cluster of local entrepreneurs

The Company's business model enables an entrepreneur driven operative business and allows for a cost-effective geographic expansion. Newly opened local offices reach critical mass of production hours, generally being 1000 hours a month, in a short period of time, largely because of the network the local entrepreneur brings. The existing network, in combination with the strong brand, makes it easier building a customer base as well as a network of seniors. Veteranpoolen provides the franchisee with central resources leading to economies of scale due to streamlined processes since the franchisee does not have to consume time for administrative tasks like product development and marketing. Furthermore, the franchisee's paycheck being dependent on revenue creates strong incentives to focus on growing sales. Operating as a franchise, the decentralized strategy that follows leads to potential for continuing growing margins and being fast-footed by adapting to local preferences.

### Rising inflation and higher commodity prices

Veteranpoolen is positioned to operate as an intermediary regarding raw materials. Nonetheless, with rising prices overall and on wood and fuel in particular the risk of declining demand could result in a top-line hit and higher COGS. The Company proved their business model as an intermediary where cost of goods sold rose in absolute number but lowered as a percentage of sales in the report of the first quarter 2022A.

## Overview of the Company

Veteranpoolen AB was founded in 2007A and is the leading company on the Swedish market within their niche. In 2012A, they were acquired by HomeMaid and on January 30th, 2018, they spun off and got listed on Spotlight Stock Market. Veteranpoolen is a staffing company exclusively operative on the Swedish market. The Company's offer extends to the private as well as the corporate market. The services provided to B2C mostly consists of ROT and RUT services while the services offered to B2B often require higher competence within IT, economics and administration. Traditionally, the private market accounted for the vast majority of the Company's revenue. In 2015A, 77.0% of sales came from B2C but due to a clear trend in more revenue stream coming from the B2B segment we estimate the same number being 65.0% as of now. In the long run, we expect the Company's revenue to be equally divided between the market segments.

## Overview of the Market

### Market predicted to grow from SEK 75.5bn 2021 to 79.7bn SEK 2023E

The private market, which is highly fragmented with its approximately 70 000 performers, has grown with a CAGR of 5.2% since 2016A and was valued at SEK 31.4bn in 2021A. The corporate market is valued at SEK 44.1bn in 2021A and is expected to grow in line with the economy leading to a 5.8% increase until 2023E. Out of the 850 active corporations, 67.0% market share is accounted for by 34 actors. Veteranpoolen has grown with a CAGR of 21.1% since 2016, at the same time the TAM has grown around 6.0% a year. The Company has a penetration rate of 0.5% which is expected to grow to 0.7% by 2023E. This clearly states that the company takes a larger market share as it grows at a higher pace than the market. The total addressable market adds up to 75.5bn and is estimated to grow to 79.9bn by 2023E.

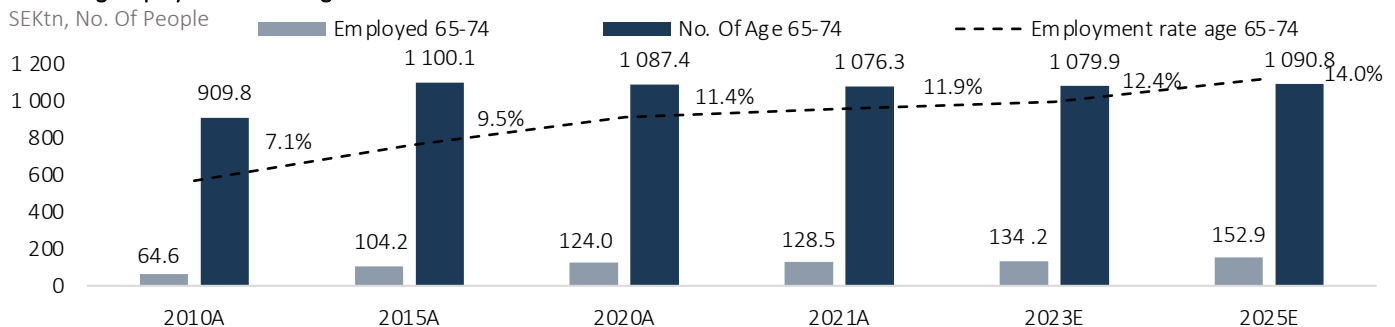
### Niche market has grown from SEK 5.2bn in 2010A to SEK 8.9bn in 2021A

The market for hiring seniors has grown by 63.6% between 2010A and 2021A. With 1.7 million seniors in 2010A, and an average number of working hours per week of approximately 18.0 hours and average revenue of SEK 335.0mn, result in a niche TAM of SEK 5.2bn. With a CAGR of 5.0% since 2010A the estimated TAM 2021A is valued at SEK 8.9bn.

### An ageing population

The market for pensioners is growing at a much higher pace than the industry. Number of employed citizens between 65-74 in Sweden has grown with a CAGR of 5.3% since 2013. During the same period the employment rate for the ages of 15-64 has grown 1.4% a year. The Company is dependent on and has repeatedly communicated that shortage of seniors is a problem. To resolve the shortage, a combination of recruiting new seniors and getting employed seniors to work more hours is key. On average they work 12 hours a month, leaving room for an increase. With the Company's strong brand creating awareness and the digital solutions expects to attract new seniors as well as increasing the average working hours in the existing workforce. Besides from foregoing, economic incitement is created from lower taxes when working as a pensioner. With a salary of SEK 14.0tn, pensioners only pay 49.7% as much tax as people younger than 65 years does.

### Increasing employment rate in ages 65-74



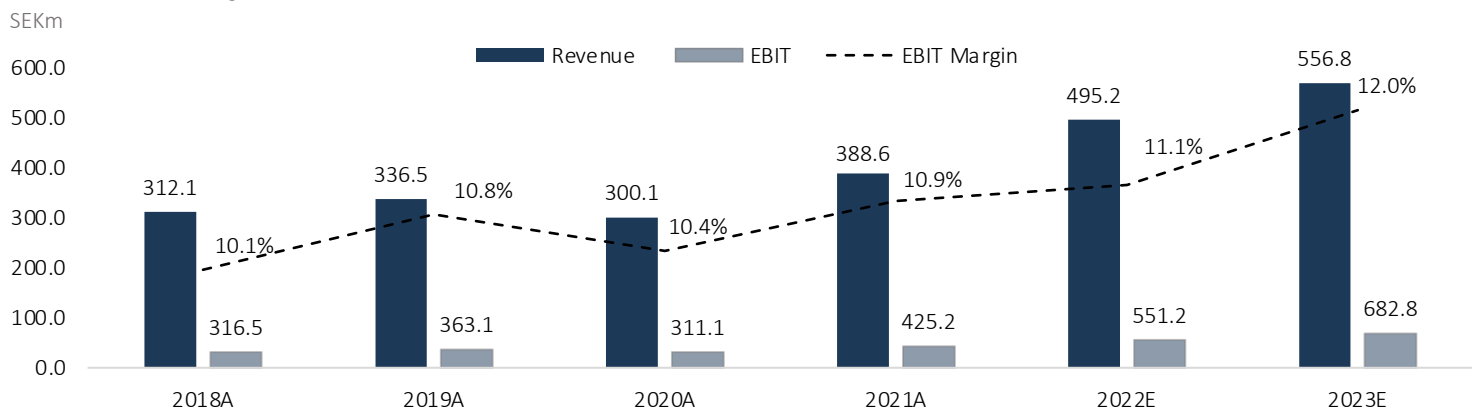
Source: Analyst estimates

## Financial forecast breakdown

### Revenue expected to grow from SEK 388.7mn 2021A to SEK 568.9mn 2023E

In 2015A, Veteranpoolen's customer base was made up by 77.0% of B2C and 23.0% by B2B. It is expected that B2B will account for 45.0% of sales in 2022E due to the uprise in demand from corporations and the trend of more sales coming from the corporate side. This is a positive trend which leads to a more solid customer base with higher purchasing power. Since 2017A, the Company has had a revenue CAGR of 23.6% and is estimated to continue growing with a CAGR of 21.0% until 2023E. There are 51 local offices nationwide and the Company has communicated more offices to come which is estimated to drive growth going forward. Average number of full-time employees is estimated to grow from 478 2021A to 678 2023E and the revenue per employee is estimated to grow from SEK 813.1tn 2021A to SEK 838.8tn 2023E. Foregoing is expected to result in a revenue CAGR of 21.0% and an increase in sales from SEK 388.7mn 2021A to SEK 568.9mn in 2023E.

### Revenue and EBIT margin

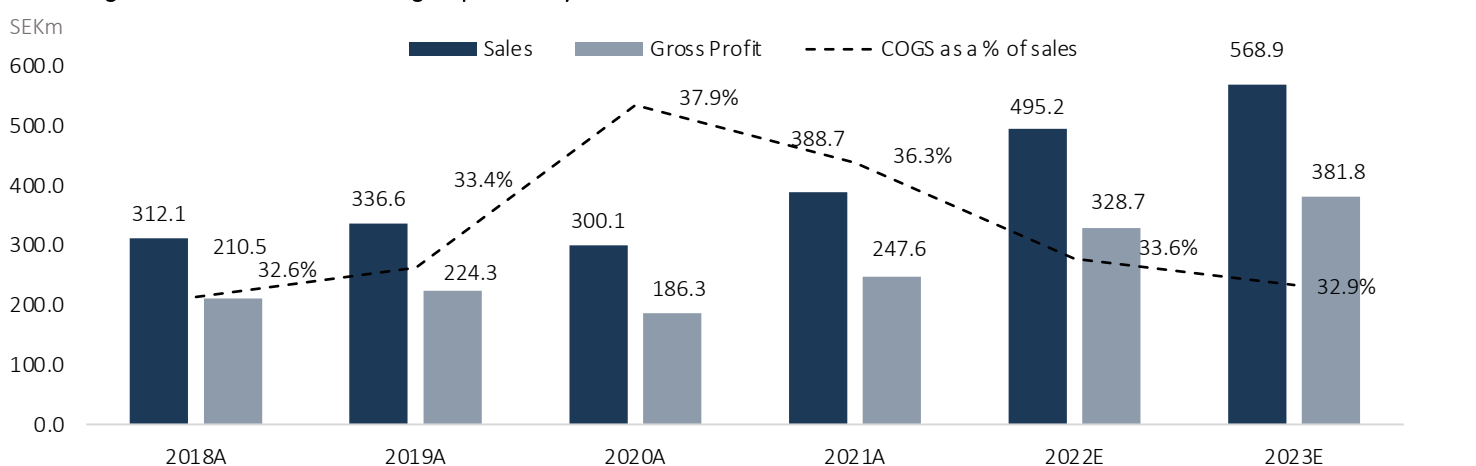


Source: Analyst estimates

### COGS decreasing due to digitalization will lead to a gross margin of 67.1% 2023E

The Company is expected to decrease COGS as a percentage of sales due to the ongoing development work in digital systems. The cost of goods sold that the Company can affect is administrative why there is a high focus on streamlining the process with software. A positive trend was shown in Q1 2022A where COGS as a percentage of sales decreased from 38.9% Q1 2021A to 37.5%. This indicates that the investments lead to a streamlined processes and is expected to result in gross margin increasing from 63.7% 2021A to 67.1% 2023E.

### Decreasing COGS estimated to result in higher profitability



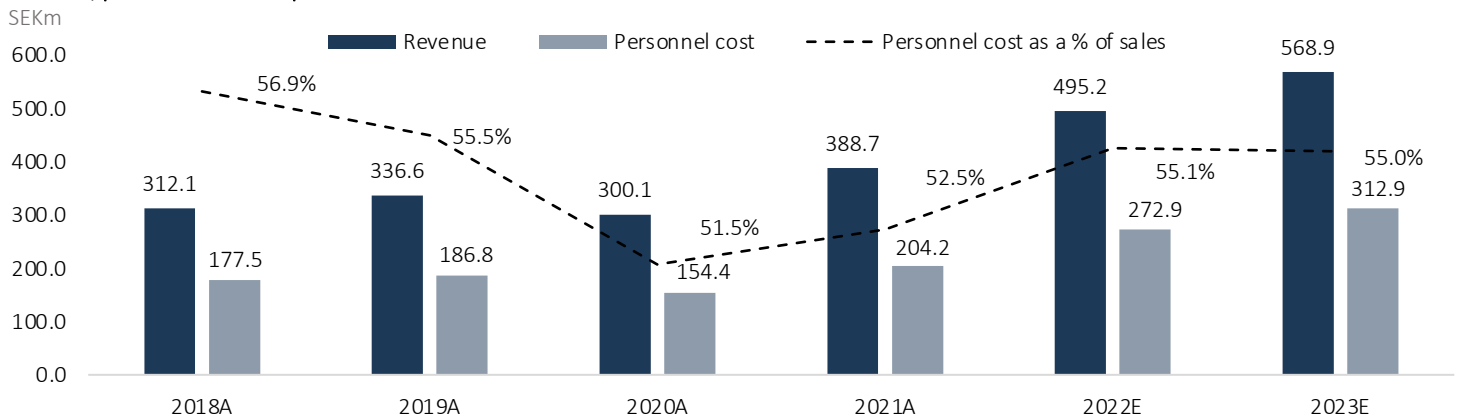
Source: Analyst estimates

## Financial forecast breakdown

### EBIT margin expansion despite higher projected OPEX

The Company's largest expense is personnel cost's which has grown in line with increasing sales until the breakout of Covid-19 when the Company received economic aid from the state. This resulted in operating expenses as a percentage of sales decreasing from 55.5% in 2019A to 52.5% in 2021A. Going forward, it is estimated that OPEX in relation to sales will return to previous year's levels, which has already been seen with the figures in the Q1 report 2022A. Therefore, the operating expenses are estimated to be 55.1% 2022E in comparison to 52.5% 2021A. Veteranpoolen has approximately 9 000 seniors available for work and increasing the number of employees is crucial because it is directly attributable to increasing revenue. Employees work 12.0 hours a month on average, resulting in an average number of full-time employees of 478 2021A and is estimated to increase to 675 2023E, representing an increase of 41.2%. Number of employees is expected to increase due to brand recognition and higher number of local offices which leads to awareness of the possibilities of working as a senior. Furthermore, the underlying trend in employment rate has grown with a CAGR of 5.3% within the age group of 65-74 since 2013A, indicating a higher number of potential hires going forward. With a revenue per production hours CAGR of 4.4% since 2016A, the Company has increased margins and lower operating expenses in relation to sales. EBIT margin is estimated to increase from 8.7% 2016A to 12.0% in 2023E.

### Revenue, personnel cost and personnel cost as a % of sales until 2023E

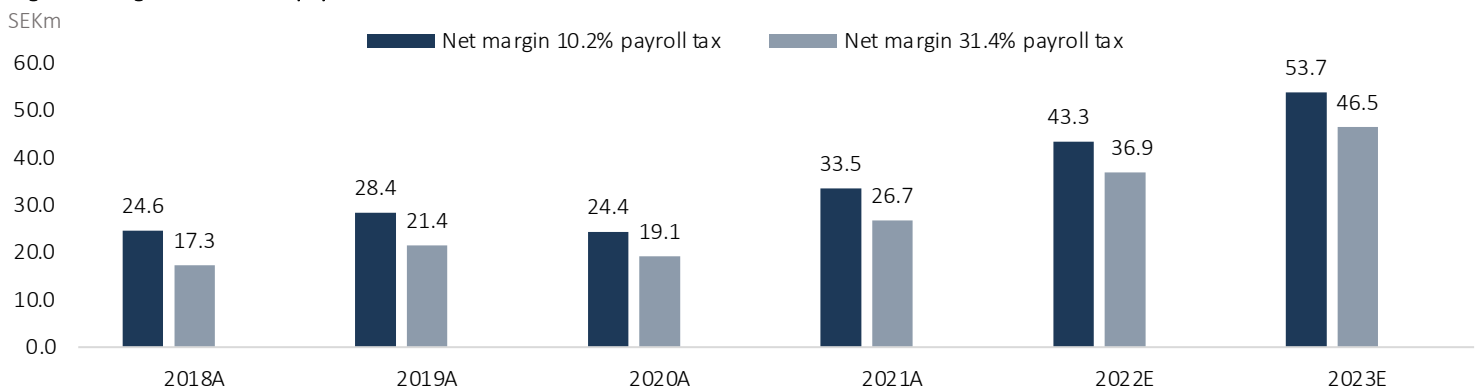


Source: Analyst estimates

### High net margin due to low payroll tax

Due to political initiatives, the payroll tax for hiring seniors of age 65 and older is 10.2% instead of 31.2%. The Company's workforce is being tax-subsidized due to a cluster of 68 year old's, resulting in net income being SEK 17.4mn higher between 2022E and 2023E and leading to net margin increasing from 8.2% to 9.4% in 2023E. Furthermore, the employees labor tax, for 65-year-olds and up, is decreased to 8.0% resulting in strong incentives for pensioners working part time.

### High net margin due to lower payroll tax



Source: Analyst estimates

## Valuation

Peers	Market Data		Financials 2021-2023E		Valuation 2023E
	Market Cap	Enterprise Value	Revenue CAGR	EBIT margin	EV/EBIT
Company name	(MSEK)	(MSEK)	%	%	x
Green Landscaping	3 858.1	5 016.1	18.7%	6.3%	18.3x
Coor Service Management	8 541.6	10 099.6	13.5%	4.1%	19.2x
Bravida	18 090.9	17 887.9	7.9%	6.6%	10.7x
Poolia	705.1	611.9	9.9%	4.4%	6.1x
<b>Median</b>	<b>6 199.9</b>	<b>7 557.9</b>	<b>11.7%</b>	<b>5.4%</b>	<b>14.5x</b>
<b>Average</b>	<b>7 798.9</b>	<b>8 403.9</b>	<b>12.5%</b>	<b>5.4%</b>	<b>13.6x</b>
Veteranpoolen	853.7	748.3	21.0%	12.0%	11.4x

Source: Analyst estimates, Bloomberg

### Undervalued to peers despite higher margins and higher expected revenue CAGR

The Company has grown with a CAGR of 21.0% and with an average EBIT margin of 10.2% since 2016A. At the same time, peers have grown with a CAGR of 12.5% and show less profitability than Veteranpoolen with an EBIT-margin of 5.4% on average compared to Veteranpoolen's EBIT-margin of 12.0%. However, a size discount is applied due to the Company's smaller size compared to peers. This is because some contracts and procurements in the business segment benefit from the size of the company. The reason that the enterprise value is weighted to 25.0% is because the Company operates in a fragmented market leading to larger contracts only being a small proportion of Veteranpoolen's assignments. The Company is growing organically and debt free leading to the importance of the EBIT-margin due to growth being financed by cash generated from the operative business. Furthermore, revenue growth is weighted due to the importance of brand recognition which is a prerequisite for continued growth.

	Premium/Discount	Weight
EBIT margin	123.5%	45.0%
Revenue CAGR	67.5%	30.0%
Enterprise Value	-91.1%	25.0%
Premium/Discount	53.0%	

Source: Analyst estimates, Bloomberg

### Well positioned and an implemented growth strategy suggests a 21.0% revenue CAGR 2021A-2023E

By looking at the Company's incredible track record, it is evident that the Company is undervalued relative to peers. The Company's strategy of continuing opening new local offices nationwide will strengthen their brand leading to a target valuation of EV/EBIT 17.5x 2023E and motivating a target price of SEK 69.5 2023E. Headquarters has indicated a prosperous future with an aggressive growth plan regarding hiring new seniors which will lead to even further higher revenue growth.

### A weighted peer valuation generates a target multiple of 17.5x EV/EBIT for 2023E

Veteranpoolen is currently trading at 11.4x EV/EBIT multiple for 2023E while its peers are trading at an average 13.6x and median 14.5x EV/EBIT multiple. This indicates a discount of 19.3% and 27.2% respectively for the Company. Further, their EBIT margin is 9.4% while the Company's peers has an average of 5.4%. This shows a 44.4% higher net margin than its peers. With a target EV/EBIT multiple at 17.5x, the potential upside is 48.5% at a target price of SEK 69.5 2023E.

## Management and board

### Mats Claessen, CEO

CEO of Veteranpoolen since 2013. Mats holds a Masters Degree in Mechanical Engineering from Chalmers Tekniska Högskola. Mats is currently chairman of the board for HomeMaid AB (2009-present) and previously a member for the board at Human Care AB (2010-2015).

*Ownership: 497 344 shares (2.5% of capital)*



### Patrik Torkelsson, Chairman of the board

Chairman of the board since 2013. Patrik has a Masters Degree in Industrial Engineering & Management from Chalmers Tekniska Högskola as well as a Masters Degree in Finance & Accounting from Göteborgs Universitet. Patrik is also a board member for HomeMaid AB (2009-present)

*Ownership: 40 000 (0.02% of capital)*



### Richard Lindström, Chief Financial Officer

Richard is the CFO of Veteranpoolen since 2016. Richard holds a Masters Degree in Business from Umeå Universitet. Past experience includes Scandic Hotels.

*Ownership: None*



### Annica Eijlander, Marketing Director

Annica has a Bachelors Degree in Art History from Göteborgs Universitet together with various different courses such as Digital Marketing Program from IHM Business School. Annica is MD at Veteranpoolen since spring 2022.

*Ownership: None*



### Fredrik Grevelius, Board Member

Fredric has a Bachelor's Degree in Economics and Business from Uppsala Universitet. Fredric is also a board member at HomeMaid AB as well as Svevik Industri AB and was CEO of the investment firm Öresund AB from 2012 to 2014. Fredric has been a board member at Veteranpoolen since 2016 and is one of the largest private investors.

*Ownership: 1 492 281 stocks (3.3% of capital)*



## Appendix

Income Statement, SEKmn	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Net revenue	149.2	220.7	311.7	334.1	297.1	385.3	491.5	564.7	637.1	712.2
Work performed for own account	0.0	0.0	0.0	0.5	1.1	1.2	1.2	1.4	1.6	1.8
Other operating income	0.4	0.4	0.4	2.0	2.0	2.2	2.5	2.8	3.2	3.5
<b>Revenue</b>	<b>149.5</b>	<b>221.1</b>	<b>312.1</b>	<b>336.6</b>	<b>300.1</b>	<b>388.7</b>	<b>495.3</b>	<b>568.9</b>	<b>641.9</b>	<b>717.4</b>
Revenue growth	15.6%	47.9%	41.1%	7.8%	-10.8%	29.5%	27.4%	14.9%	12.8%	11.8%
COGS	51.9	74.9	101.6	112.3	113.8	141.1	166.5	187.2	209.9	229.6
<b>Gross profit</b>	<b>97.6</b>	<b>146.3</b>	<b>210.5</b>	<b>224.3</b>	<b>186.2</b>	<b>247.6</b>	<b>328.7</b>	<b>381.8</b>	<b>432.0</b>	<b>487.9</b>
Gross margin	65.3%	66.1%	67.4%	66.6%	62.1%	63.7%	66.4%	67.1%	67.3%	68.0%
Personel costs	84.3	126.2	177.4	186.8	154.2	204.1	272.9	312.9	354.3	397.5
Other operating expenses	0.0	0.0	0.1	0.0	0.3	0.1	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>13.3</b>	<b>20.1</b>	<b>33.0</b>	<b>37.5</b>	<b>31.9</b>	<b>43.4</b>	<b>55.8</b>	<b>68.8</b>	<b>77.7</b>	<b>90.4</b>
EBITDA margin	8.9%	9.1%	10.6%	11.1%	10.6%	11.2%	11.3%	12.1%	12.1%	12.6%
Depreciation	0.0	0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2
<b>EBITA</b>	<b>13.2</b>	<b>19.9</b>	<b>32.9</b>	<b>37.3</b>	<b>31.7</b>	<b>43.0</b>	<b>55.6</b>	<b>68.7</b>	<b>77.5</b>	<b>90.2</b>
EBITA margin	8.8%	9.0%	10.5%	11.1%	10.6%	11.1%	11.2%	12.1%	12.1%	12.6%
Amortization	0.3	0.2	1.2	1.0	0.6	0.5	0.5	0.4	0.4	0.4
<b>EBIT</b>	<b>12.9</b>	<b>19.7</b>	<b>31.6</b>	<b>36.3</b>	<b>31.1</b>	<b>42.5</b>	<b>55.1</b>	<b>68.3</b>	<b>77.1</b>	<b>89.8</b>
EBIT margin	8.7%	8.9%	10.1%	10.8%	10.4%	10.9%	11.1%	12.0%	12.0%	12.5%
Interest income	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBT</b>	<b>13.0</b>	<b>19.7</b>	<b>31.7</b>	<b>36.5</b>	<b>31.1</b>	<b>42.5</b>	<b>55.1</b>	<b>68.3</b>	<b>77.1</b>	<b>89.9</b>
EBT margin	8.7%	8.9%	10.2%	10.8%	10.4%	10.9%	11.1%	12.0%	12.0%	12.5%
Tax expense	4.6	4.5	7.1	8.0	6.8	9.1	11.8	14.6	16.5	19.3
<b>Net income</b>	<b>8.4</b>	<b>15.3</b>	<b>24.6</b>	<b>28.4</b>	<b>24.4</b>	<b>33.5</b>	<b>43.3</b>	<b>53.7</b>	<b>60.6</b>	<b>70.6</b>
Net margin	5.6%	6.9%	7.9%	8.4%	8.1%	8.6%	8.8%	9.4%	9.4%	9.8%



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