LUND UNIVERSITY FINANCE SOCIETY EST 1991

Synsam Group AB (SYNSAM)

Sweden | Optical Retail | MCAP SEK 6,225m

28 December 2024

Buy

Target price:	SEK 63.8
Current price:	SEK 43.4
	47.0%

Redefining Vision with Subscription Innovation

Synsam Group AB ("the Company" or "Synsam") is a Swedish company founded in 1968 and the leading provider of optical retail in the Nordic Region. In 2020A, the Company initiated a business model transformation by launching the subscription-based service, Synsam Lifestyle. This offering provides monthly plans for glasses, eye exams, and lens replacements, resulting in a 25.7% CAGR in subscription growth over the past three years. However, skepticism surrounds the market's outlook for the 2024E subscription growth, primarily due to an increase in the churn rate from 2.0% in Q3 2023A to 2.6% in Q3 2024E. This perspective seems to overlook the strength of Synsam's value proposition, projecting subscription growth to increase by 9.5% annually to 2030E. Despite the market conditions in Sweden, the Company reported organic growth of 9.7% compared to Q3 2023A, strongly benefitting from operational improvements in Finland, where net sales grew by 16.4%. Striving in a challenging industry, Synsam's growth and strategic flexibility are valued using an equally weighted DCF and peer valuation. The target EV/EBIT 2026E multiple of 11.9x implies a forecasted share price of SEK 63.8, providing an upside of 47.0%.

Key takeaways

- **Top-line growth driven by the expansion of the subscription-based offering**: Mainly driven by a strong value proposition to both consumers and the Company, Synsam's subscription-based offering continues to grow, with subscriptions projected to increase by 9.5% annually until 2030E. This expansion is anticipated to deliver an 8.2% CAGR in top-line growth, leading to Synsam taking market share by exceeding growth in the optical market, which is expected to achieve a 4.7% CAGR through 2030E. Since the launch, the program has achieved a trailing 3-year CAGR of 25.8%, reflecting compounding subscription growth.
- **Rural market expansion driving store-level profitability and margins:** Synsam's store expansion is focused on opening 90+ stores in rural areas until 2026E, capitalizing on 12.9% lower rental expense per store. Cost efficiency measures will improve EBITDA margins by 2.7% until 2030E. Expanding into underserved markets (15.9% of the total addressable market), Synsam captures on high demand for premium eyewear with limited competition. With 96.1% of eyewear purchases made in-store, Synsam's robust network of 569 stores creates significant entry barriers for competitors.
- **From a traditional retailer to a subscription-focused business model:** Synsam's subscription model transforms the Company from a traditional retailer to a subscription-driven business. Currently contributing to 50.9% of Synsam's total revenue, the subscription program is projected to grow to 61.2% of total revenue by 2029E. The subscription model boosts recurring revenue by 28.7% and improves cash flow margins from 15.8% in 2023A to 22.7% in 2030E.

Analysts	
William Samuelsson	Equity Analyst
Tjard Marx	Equity Analyst

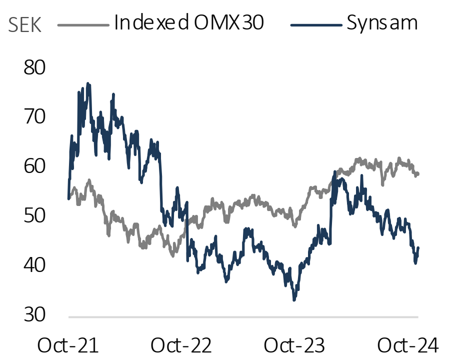
Market Data, SEK	
Exchange	OMXS30 Small Cap
Shares (m)	147.4
MCAP (m)	6,225
EV (m)	9,067

Metrics & Drivers	23A	24E	30E
EV/EBIT	13.0x	13.2x	6.2x
EV/EBITDA	6.3x	6.0x	3.2x
EV/S	1.5x	1.4x	0.8x
P/E	20.1x	23.9x	13.1x
ND/EBITDA	1.9x	1.8x	1.5x

Forecast, SEKm	23A	24E	30E
Total revenue	5,934	6,527	11,005
Rev. growth y/y	11.9%	9.1%	7.4%
Gross Profit	4,537	4,964	8,369
Gross Margin	76.1%	76.1%	76.1%
EBITDA	1,440	1,509	2,844
EBITDA Margin	24.1%	23.1%	25.8%
EBIT	696	687	1,457
EBIT Margin	11.6%	10.5%	13.2%

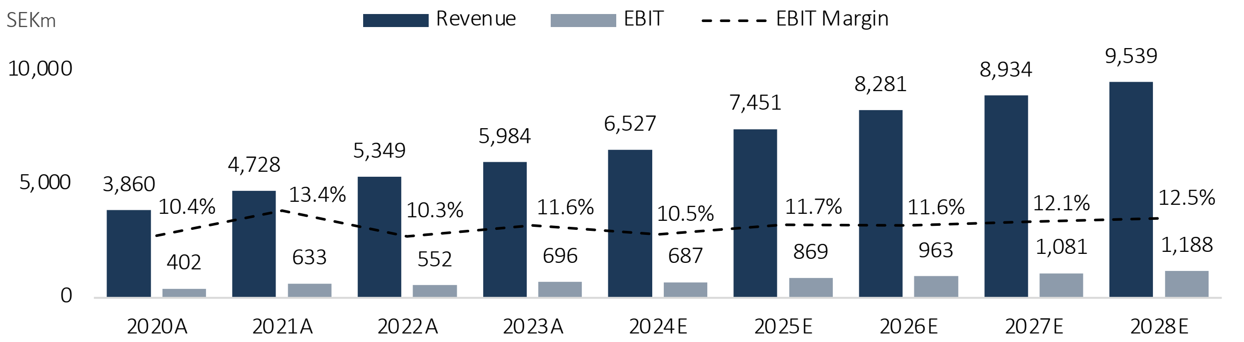
Major Shareholders	
CVC	42.0%
Essiolorluxottica SA	6.6%
Mawer Investment	6.2%
Carnegie Funds	5.5%

Price Development, SEK



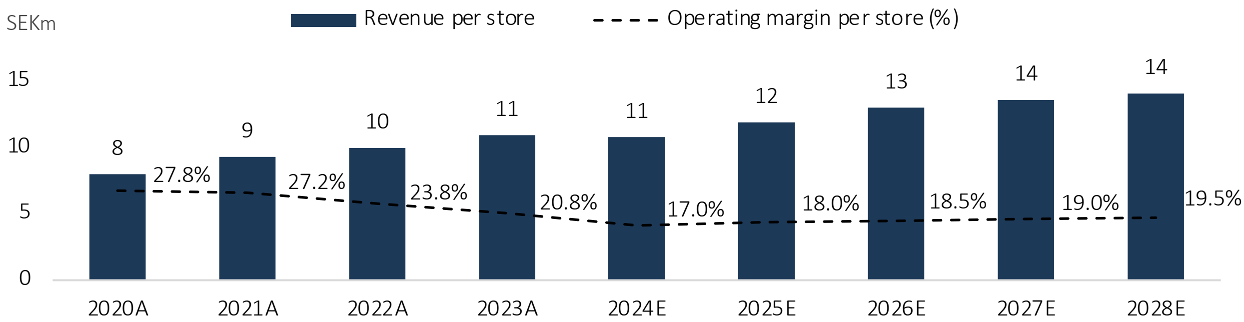
Investment Thesis in Charts

Synsam anticipates strong top-line growth and stable margins from recurring subscription revenue



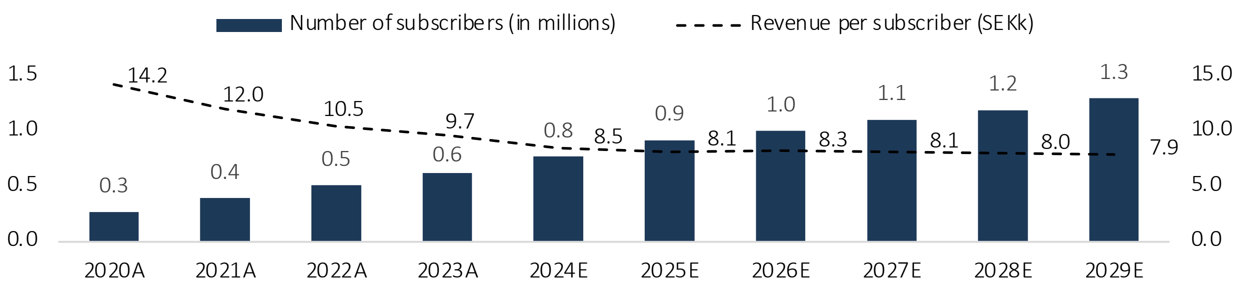
Source: The Company, Analyst Estimates

Store expansion and improved unit economics enable Synsam to further consolidate the market



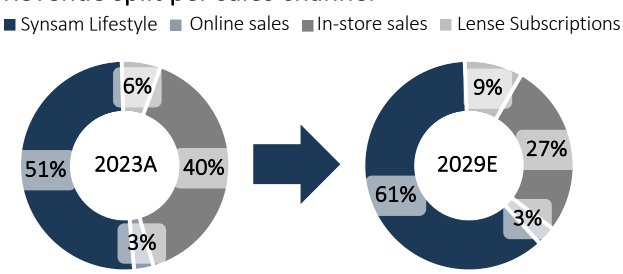
Source: The Company, Analyst Estimates

17.1 % CAGR in subscription growth exceeding market expectations



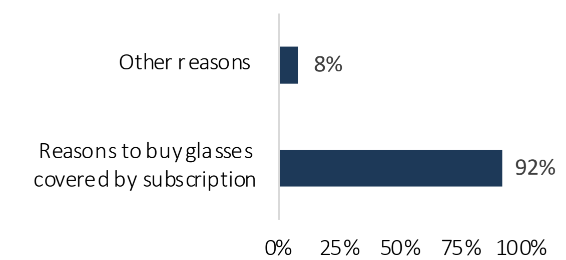
Source: The Company, Analyst Estimates

Revenue split per sales channel



Source: The Company, Analyst Estimates

Synsam Lifestyle is tailored to customer needs



Investment Thesis

Continued top-line growth supported by increasing subscription base

Synsam Lifestyle, the Company's subscription-based service, continues to drive growth by meeting the rising demand for accessible and affordable eyewear. Since the program launched in 2020A, it has achieved a 25.7% CAGR in subscriptions. Despite customer concerns regarding lack of transparency in the contracts, management has committed to clarifying terms to rebuild trust, which is expected to help subscriptions reach a projected 1.1 million by the end of 2027E, surpassing management's estimate of 1 million. The anticipated growth highlights the Company's strong value proposition, supported by key replacement drivers for customers: 53.9% purchase new glasses due to vision changes, 22.7% replace lost or damaged pairs, and 15.4% seek a new design, all of which are addressed by the subscription offer. The optical products market is projected to grow at a 4.7% CAGR through 2030E, driven by an aging population, increased screen exposure, and reduced natural light. This market demand, combined with Synsam's ability to address recurring customer needs through the subscription offer, is expected to drive a 2.4% annual increase in revenue per customer. As a result, Synsam is well-positioned to achieve an 8.4% CAGR in top-line growth until 2030E to SEKm 11,005.

Rural expansion in underserved markets allows for customer base extension

Synsam plans to open over 90 new stores in rural areas by 2026, targeting underserved markets with strong eyewear demand and limited competition. Revenue per store is expected to grow by 4.7% annually through 2030E, with larger franchise stores driving an 8.1% CAGR until 2030E. This expansion is set to improve EBITDA margins by 2 percentage points by 2030E as OPEX per store decreases through lower rental expenses. While operating margins per store are below the 19.0% industry benchmark in 2024E due to over 40 new openings, profitability typically improves within 6-12 months. Fewer openings from 2025E onward (about 30 per year) will lower investments and stabilize free cash flow, rising from SEKm 699 in 2025E to SEKm 964 in 2028E. In 2023A Synsam reached a free cash flow yield of 15.7%, reflecting efficient cash generation.

From a retailer to a subscription-driven operation with a 10% increase in cash flow margin

Since its launch in 2020A, Synsam Lifestyle has grown to play a central role in Synsam's business model. Currently accounting for 50.9% of the company's revenue and projected to grow to 61.2% of total revenue by 2030E, driven by a 2.4% annual increase in revenue per customer. The increased reliance on Synsam Lifestyle drives a fundamental shift in the Company's business model, transforming it from a traditional optical retailer to a subscription-driven operation with a forecasted 29.7% increase in recurring revenue growth until 2028E. This new business model is set to improve cash flow margins by 10.3% annually due to a 2.1% increase in retention rates to 2026E. The subscription is also set to boost Customer Lifetime Value by 60.0% through yearly automatic extensions, allowing for a 2–3% reduction in Customer Acquisition Costs. The transformation positions Synsam to outgrow industry competitors with an assumed CAGR of 8.2% until 2030E, while the market grows at 4.7% during the same period.

Managing churn risk through improved customer retention

A key risk for Synsam is the rising churn rate of Synsam Lifestyle subscriptions, which could negatively impact future revenue growth if the trend continues. To mitigate this risk, the Company focuses on improved transparency regarding contracts, specifically by addressing contract terms. Additionally, The company implements proactive retention strategies, including tailored customer care. These efforts aim to improve service quality and ensure that customer needs are consistently met. By closely monitoring churn rates and addressing service gaps, Synsam aims to maintain the subscription base and ensure sustainable growth.

Company Overview

Premium eyewear and high-quality service portfolio

Synsam Group is the leading provider of Optical products in the Nordic, and has been a dominant player in the market since being founded in 1968. The Company is renowned for high-quality products and subscription services, offering a wide range of eyewear and optical solutions including prescription glasses, sunglasses and contact lenses. With a strong presence across the Nordic market, Synsam leads the Swedish optical industry with a 33.7% market share, while holding second place in both Norway and Denmark. The Company's tailored solutions address both daily vision correction and fashion-forward eyewear preferences. Synsam operates an extensive retail network of 569 stores spread across Sweden, Finland, Norway, and Denmark. By staying committed to the core values of quality, innovation, and customer care, the Company continues to expand its presence across the Nordics, strengthening its reputation as a trusted provider of vision and lifestyle solution.

House brand portfolio

OSCAR EIDE
Circular Collection
D.ARNESEN

External brands

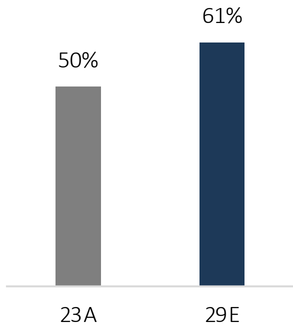
MONT BLANC
GUCCI
D&G
Ray-Ban
OAKLEY

Business Model

Innovating optical retail through subscription-driven revenue model

Synsam Group operates a B2C network through its physical stores and digital channels, offering a range of eyewear products, including both in-house brands and well-known external labels. In historic years house brands steadily accounted for roughly 50% of sold frame volumes. The company also provides eye care services and style consultations in stores, supported by an omnichannel strategy that integrates physical and digital operations. Synsam's subscription model allows customers to pay a fixed monthly fee for glasses or contact lenses, which includes regular replacements, adjustments, and eye exams. The basic subscription is priced at SEK 99, including only limited services. Customers enrolled in the subscription on average spend SEK 500 per month. Customers can manage their subscriptions and book appointments through Synsam's digital platform, ensuring convenience and accessibility. The subscription model generates SEK 3bn annually, making up 50.9% of the Company's total revenue, while the combination of physical stores and e-commerce strengthens Synsam's market position.

Synsam Lifestyle Revenue Forecast Split

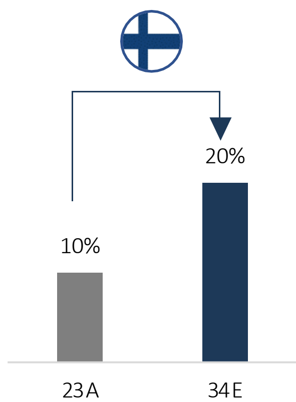


Market Overview

Mix of consolidated and fragmented optical retail market structures

Historically, the Nordic optical retail market has undergone significant consolidation with the emergence of major retail chains such as Synsam, Specsavers and GrandVision expanding their store presence and acquiring smaller, independent optical retailers to streamline operations. To consolidate the market further, Synsam introduced the subscription service model, which increased the market share in Sweden by 19.6% over three years and improved customer retention rates from roughly 70% to 85%. However, in rural areas, the market remains fragmented with local stores benefiting from customer loyalty and strong brand heritage. Synsam aims to expand into underserved areas of the fragmented Nordic optics market, addressing gaps in accessibility and affordability. Following the greenfield expansion strategy, Synsam tries to consolidate the fragmented market structures in rural areas. The SEK 20bn optical retail market remains attractive due to its structural resilience to economic fluctuations, driven by its essential health-related nature and limited e-commerce substitution, with 96.1% of glasses still purchased in-store. The market is projected to grow at an annual rate of 4.7% between 2024A and 2029E. However, 2024A was difficult for major retail chains, as cautious consumer spending and aggressive promotional competition put pressure on profit margins. Despite this, Synsam achieved strong organic growth in Finland during Q3 2024A, with net sales increasing by 16.4%, highlighting the strategic soundness of focusing on expansion in this region. With an expected 20.2% share of total stores in Finland, Synsam is forecasted to further capitalize on this favourable market development.

Market Expansion in Finland



Valuation

Undervalued compared to peers despite promising financial outlooks

The steady increase in Synsam's subscription base and forecasted y-o-y revenue growth of 9.1% in 2024E has led to positive projections for the Company's future performance. As a leader in the Nordic optical retail market with a growing subscription-based model, Synsam deserves to trade in line with its peers. Key to the Company's strategy is the high growth in recurring subscription revenue, driving stable cash flows and supporting further market expansion. Despite stable financial performance and a promising growth outlook, Synsam's current valuation reflects a discount compared to peers. The strong subscription model generating predictable revenue and future growth potential is the reason behind a target multiple of 11.9x 2026E EV/EBIT, derived from the peer average, reflecting a 34.6% upside and an equity value of SEKm 8,609.

SEKm	Market Data		Financial Data			Valuation
Company name	MCAP	EV	ND/EBITDA	5 year revenue Growth	EBIT Margin (2026E)	EV/EBIT (2026E)
Matas A/S	7,264	12,553	3.1x	13.6%	7.8%	11.5x
Musti Group	7,831	9,541	3.0x	12.2%	7.6%	20.0x
JINS Holdings	10,863	10,415	(0.6x)	6.0%	10.3%	14.8x
Boozt AB	7,225	7,510	(0.9x)	17.3%	5.9%	15.3x
Inspecs Group	710	1,084	2.6x	(18.2%)	3.4%	10.4x
Fielmann AG	38,554	44,529	1.4x	6.6%	14.0%	10.7x
Average	12,075	14,272	1.4x	7.2%	8.3%	13.2x
Median	7,548	9,978	2.0x	9.4%	7.7%	11.7x
Synsam	**6,225**	**9,067**	**1.9x**	**11.8%**	**11.6%**	**9.4x**

Sources: Bloomberg, Synsam Group AB, Capital IQ

DCF and peer valuation implies a target price of 69.2 SEK

The DCF valuation is based on a ten-year forecast of unlevered free cash flow, with the terminal value calculated using a terminal growth rate of 2.0%. The Company maintains a debt-to-equity ratio of 81%, a cost of debt (CoD) of 8.0%, and a cost of equity (CoE) of 10.9%, resulting in a weighted average cost of capital (WACC) of 9.54%. Under these assumptions, the DCF valuation yields a target share price of SEK 69.2. Complementarily, a peer valuation suggests a target price of SEK 58.4. By equally weighting the DCF and peer valuation approaches, an implied target price of SEK 63.8 is derived, representing a potential upside of 47.0%.

DCF Valuation 2034E SEKm	
Sum of forecasted value	6,583
PV of Terminal Value	8,552
Enterprise value	**15,135**
(+) Cash	582
(-) Debt	(5,521)
Equity Value	**10,196**
NOSH (in million)	147.4
Current Share Price	43.4
Implied Share Price	**69.2**
Implied upside	59.4%

WACC \ TGR	1.0%	1.5%	2%	2.5%	3.0%
8.5%	77	82	88	94	102
9.0%	69	73	78	83	89
9.5%	62	65	69.2	74	79
10.0%	56	58	62	65	70
10.5%	50	52	55	58	62

Appendix: Income Statement

Income Statement, SEKm	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Synsam Lifestyle	1,555	2,136	2,614	3,008	3,404	4 173	4,844	5,329	5,758	6,278
Other Revenue	2,251	2,533	2,663	2,897	3,042	3,194	3,354	3,521	3,697	3,882
Other Operating Income	54	59	72	79	81	88	92	94	97	98
Total Revenue	**3,860**	**4,728**	**5,349**	**5,984**	**6,527**	**7,451**	**8,281**	**8,934**	**9,539**	**10,244**
Cost of Goods Sold	(953)	(1,088)	(1,279)	(1,447)	(1,563)	(1,784)	(1,983)	(2,140)	(2,284)	(2,453)
Gross Profit	**2,907**	**3,640**	**4,070**	**4,537**	**4,964**	**5,667**	**6,298**	**6,795**	**7,254**	**7,791**
Gross margin	*75%*	*77%*	*76%*	*76%*	*76%*	*76%*	*76%*	*76%*	*76%*	*76%*
Other External Expenses	(468)	(629)	(667)	(682)	(713)	(729)	(731)	(747)	(763)	(778)
Personell Costs	(1,505)	(1,823)	(2,186)	(2,578)	(2,741)	(3,129)	(3,561)	(3,842)	(4,102)	(4,405)
EBITDA	**934**	**1,188**	**1,217**	**1,440**	**1,509**	**1,808**	**2,007**	**2,206**	**2,390**	**2,607**
EBITDA margin	*24%*	*25%*	*23%*	*24%*	*23%*	*24%*	*25%*	*25%*	*25%*	*25%*
D&A	(532)	(555)	(665)	(744)	(822)	(939)	(1,043)	(1,125)	(1,202)	(1,290)
EBIT	**402**	**633**	**552**	**696**	**687**	**869**	**963**	**1,081**	**1,188**	**1,317**
EBIT margin	*10%*	*14%*	*10%*	*12%*	*11%*	*12%*	*12%*	*12%*	*12%*	*13%*
Financial Income	99	147	184	273	223	255	283	305	326	350
Financial Expenses	(636)	(618)	(322)	(554)	(582)	(835)	(928)	(1,001)	(1,069)	(1,148)
Pretax Profit	**(135)**	**162**	**414**	**415**	**328**	**289**	**319**	**385**	**446**	**519**
Pretax margin	*(4%)*	*3%*	*8%*	*7%*	*5%*	*4%*	*4%*	*4%*	*5%*	*5%*
Taxes	(60)	(112)	(87)	(105)	(68)	(60)	(66)	(79)	(92)	(107)
Net income	**(195)**	**50**	**327**	**310**	**261**	**230**	**253**	**306**	**354**	**412**
Net margin	*(5%)*	*1%*	*6%*	*5%*	*4%*	*3%*	*3%*	*3%*	*4%*	*4%*

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