Equity Research

MIPS AB

Sweden|Consumer Goods|MCAP SEK 7,9bn

Hold

Target Price	**SEK 328,4**
Current Price	SEK 302,0
Upside	8,7%

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Pick and shovel play in the safety rush

MIPS AB is a Swedish company that sells patented solutions against rotational injuries that get integrated into helmet brands product lines. **Units sold and revenue have grown more than threefold the last four years, resulting in an earnings growth of 81,0% CAGR.** Revenue is estimated to grow 32,0% annually 2020-2023, partly through increasing sales among existing customers and sustained levels of recurring revenue, as well as through future customer acquisitions. The scalability of existing solutions and improved brand recognition is expected to result in an EBIT margin improvement of 10 percentage points, a net income CAGR of 39,0% and an EPS for 2021 of 5,97 SEK. **With stronger growth and margins than industry peers, a target P/E multiple of 55x is justified. Based on this, a target price of 328,4 SEK and an upside of 7,8% is motivated.**

A 3,8% market share leaves room for future growth and an estimated revenue CAGR of 32,0% until 2023.

MIPS currently only has a 3,8% market share and remains the most widely distributed solution against rotational injuries. As new customers are acquired, full integration can take up to two years, thus making previous customer acquisition growth a good proxy for near-term revenue growth. This paves the way for a revenue CAGR of 32,0% until 2023.

Greater safety awareness will boost brand awareness and make Mips a clear value-adding add-on to helmet producers.

Ski helmet usage has been increasing in the US every year and has been steadily higher among younger cohorts, indicating an increasing awareness of the safety benefits among consumers.[1] Only 29,0% of US adults and around 39,0% of Swedish adults report wearing a helmet, creating room for further improvement.[2] This is anticipated to raise demand for Mips among helmet manufacturers, as studies have found that their solutions give clear protective advantages compared to traditional helmets.[3]

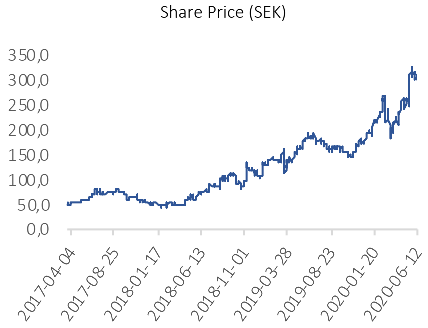
Future market entry risks reducing the revenue per unit, resulting in pressured margins and increased R&D spending.

The market for rotational protection remains unsaturated, with competitors remaining limited to specific brands. As the market for rotational protection grows, there is a risk that future market entry will occur within their established segments (sport) and newer segment (safety) before MIPS gains a foothold. Higher competition could potentially raise the bargaining power among their customers resulting in lower pricing power and a reduced revenue/unit sold. If this risk is realised, it could result in lower margins and require higher R&D spending to remain competitive.

Market Data	
Listing Venue	Stockholm
Price (SEK)	302,0
No. of outstanding shares (m)	26,2
Market Cap (m)	7 912,4
Cash & Cash Equivalents (m)	255,0
Debt (m)	0,0
Net Debt (m)	-255,0
Enterprise Value (m)	7 657,4

Key Financials (SEK)	19A	20E	21E	22E
Sales (m)	267,8	324,0	426,6	567,0
Sales Growth y/y	39,1%	21,0%	31,7%	32,9%
EBIT (m)	108,0	139,4	200,5	283,5
EBIT Margin (%)	40,3%	43,0%	47,0%	50,0%
Net Income (m)	84,8	108,7	156,4	221,1
Profit Margin (%)	31,7%	33,5%	36,7%	39,0%

Key Ratios (SEK)	19A	20E	21E	22E
EV/EBIT	70,9x	54,9x	38,2x	27,0x
P/E	92,0x	71,9x	50,3x	36,0x
EPS (Diluted)	3,3	4,2	6,0	8,4

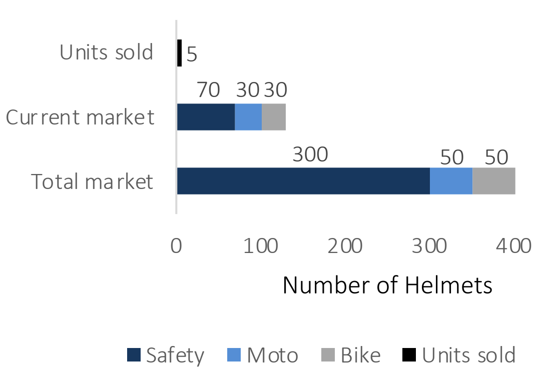


Major shareholders	
Tredje AP-fonden	7,3%
Swedbank Robur Fonder	7,1%
Capital Group	5,5%
C WorldWide Asset Management	4,5%
Eleva Capital LLP	3,2%
Total	27,5%

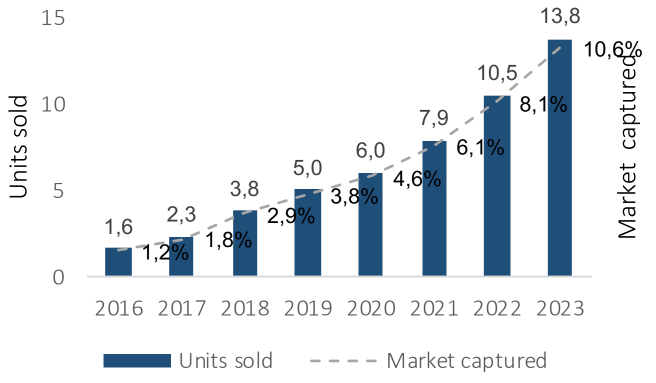
Investment thesis

Patent portfolio creating barriers to entry allows for future expansion and an expected future market share of 10,6%.
MIPS AB currently has a patent portfolio of 187 patents valid in all its major markets. Their patents are valid for 1-14 years, with new ones added each year. Previously, helmet brands have decided to abandon their own solutions, indicating that MIPS are superior to existing competitors.[4] Having this protection creates barriers to entry for competitors, allowing MIPS to capture roughly 3,8% of their target market in 2019, an increase from 2,9% in 2018. This has been achieved in part by growing their customer base (4-year average growth of 38,0%), but also thanks to greater exposure within established customers and growing units sold/customer by 12,5% on average. Their market penetration is expected to continue as the consumer awareness of the safety benefits increases, resulting in new customer acquisitions and an estimated market share of 10,6% in 2023.

Market Overview



Unit Sales and Market Share



Risks of future competition and high customer concentration are offset by new customer acquisitions resulting in an EPS of 6,0 SEK in 2021.
As the market grows, there is the risk of existing customers phasing out MIPS or new solutions entering the market, putting pressure on their revenue per unit. Customer concentration also remains high, with the five biggest customers representing 55,0% of total revenue, whereof the biggest one represents 21,0% (a decline from 45,7% in 2016). Thanks to a growing exposure in the moto segment after growing the customer base with 18,0% last year, coupled with the recent entry into the safety segment, this customer concentration is expected to decline further.

Inherently scalable business model lowers the relative OPEX resulting in faster bottom-line growth of 39,0% CAGR 2020-2023.
MIPS EBIT margin has improved from 21,1% to 40,3% 2015-2019. This achievement can be attributed to their scalable business model, proven by the fact that the number of MIPS integrated helmets has grown from 212 to 583 during the same period, despite having only 8 solutions. As their business model is expected to remain intact, the decreasing OPEX-to-sales trend is expected to continue. This means stable R&D expenses of 6,0% of revenue, and D&A and impairment costs <1,0% of revenue thanks to their tangible asset light model. Increasing safety awareness and brand recognition is expected to make selling expenses decline from 13,0% to 8,0% of revenue. Lower expenses will result in the EBIT margin increasing to 50,0%. With no interest-bearing debt, net income is expected to follow this profitable trend and grow with a CAGR of 39,0%.

Valuation

Peer valuation motivates a target price of 328,4 SEK, an upside of 7,8%.
Based on a comparable peer analysis and historic growth trends, a target P/E multiple of 55x is justified. With an estimated EPS for 2021 of 6,0 SEK, a target price of 328,4 SEK and an upside of 7,8% is motivated.

Recurring revenue of one million units sold annually and new unit sales growing 30,1% CAGR 2020-2023, results in revenue of 745 MSEK in 2023.
The replacement rate of helmets is expected to decline from four to five years to a rate of three years as safety awareness grows. Helmet replacement provides a stream of recurring revenue and is expected to add additional unit sales of 1,0 million annually or 54,0 MSEK, starting in 2020. By penetrating into lower price points and adding new customers in the safety segment in later years, growth in new unit sales is expected to be growing by a CAGR of 30,1% 2020-2023. Assuming revenue per unit sold to remain at historical levels of 54,0 SEK, revenues of 745,2 MSEK in 2023, and a CAGR of 32,0% until 2023 is estimated.

Higher growth and margins than industry peers motivate a higher valuation and a P/E between 50-60x.
A comparison with industry peers Thule, Fenix Outdoor, and Decker Brands shows that MIPS stands out in terms of revenue growth and net income growth, as well as overall profitability with higher margins. MIPS is in a less saturated market and has a greater competitive headstart. Their product scalability also allows for margin improvements during the growth phase. Due to this, their peers have significantly lower valuations. To determine MIPS premium, a second peer group consisting of Fortnox and Evolution Gaming is therefore used, due to their similar growth and margins. These companies have an average P/E of 73x. Since their return on equity is much higher, Mips deserves a lower P/E, in the 50-60x range.

	MIPS	Thule	Fenix Outdoor	Decker Brands	Fortnox	Evolution Gaming
Revenue Growth	39,1%	8,0%	5,0%	10,0%	42,0%	51,0%
Earnings Growth	50,4%	5,0%	-9,0%	17,0%	71,0%	81,0%
Gross Margin	74,1%	40,0%	59,0%	52,0%	85,0%	65,0%
EBIT Margin	40,3%	17,0%	13,0%	16,0%	30,0%	43,0%
Profit Margin	31,7%	12,5%	9,0%	13,0%	23,0%	40,0%
Return on equity	27,1%	18,9%	15,9%	25,0%	65,4%	67,3%
P/E	92,9x	23,3x	19,4x	15,3x	92,4x	54,2x

Combining the above with historic valuations gives a target P/E of 55x.
Historically the P/E of MIPS has seen wide fluctuations, moving between a range of 45x and 65x, averaging around 55x in the last year. Earnings growth is expected to stabilise for the upcoming four years, slightly below the level realised in 2019. Based on this, the P/E is expected to follow its historical trend, by using 2019 as a proxy for future valuations. This results in a target P/E of 55x.

An estimated EPS of 6,0 SEK in 2021 and a target P/E of 55x gives a target price of 328,4 SEK, corresponding to an upside of 7,8%.
An expected forward EPS for 2021 of 6,0 SEK is justified based on steadily growing unit sales to 7,9 million, and an improved EBIT and profit margin, reaching 47,0% and 37,0% respectively. Based on the expected EPS of 6,0 SEK for 2021 and a P/E of 55x, a target price of 328,4 SEK is motivated, corresponding to an upside of 7,8% justifying a hold recommendation.

Appendix

MIPS AB

MSEK	2016	2017	2018	2019	*2020*	*2021*	*2022*	*2023*
Revenue	**86,6**	**125,6**	**192,5**	**267,8**	***324,0***	***426,6***	***567,0***	***745,2***
Goods (components)	81,9	119,0	184,4	257,2	*311,0*	*409,5*	*544,3*	*715,4*
Services (implementation)	4,6	6,1	8,1	10,6	*13,0*	*17,1*	*22,7*	*29,8*
Other income	0,0	0,4	0,0	0,0	*0,0*	*0,0*	*0,0*	*0,0*
Cost of Goods Sold	-24,9	-32,3	-50,3	-69,4	*-84,2*	*-110,9*	*-147,4*	*-193,8*
Gross Profit	**61,7**	**93,2**	**142,1**	**198,4**	***239,8***	***315,7***	***419,6***	***551,4***
Selling expenses	-16,6	-22,0	-26,1	-35,0	*-38,9*	*-42,7*	*-45,4*	*-59,6*
Administrative expenses	-24,1	-40,8	-27,6	-30,5	*-32,4*	*-34,1*	*-39,7*	*-52,2*
R&A	-4,6	-9,6	-12,1	-15,0	*-19,4*	*-25,6*	*-34,0*	*-44,7*
Other op. income/expenses	2,0	-0,1	-3,3	-9,7	*-9,7*	*-12,8*	*-17,0*	*-22,4*
EBIT	**18,3**	**20,8**	**72,9**	**108,0**	***139,4***	***200,5***	***283,5***	***372,5***
Financial income/expenses	0,4	-0,4	-0,1	0,3	*0,0*	*0,0*	*0,0*	*0,0*
EBT	**18,7**	**20,4**	**72,8**	**108,3**	***139,4***	***200,5***	***283,5***	***372,5***
Taxes	-4,4	-4,5	-16,4	-23,5	*-30,7*	*-44,1*	*-62,4*	*-82,0*
Net income	**14,3**	**15,8**	**56,4**	**84,8**	***108,7***	***156,4***	***221,1***	***290,5***

1. National Ski Areas Association.
2. Trafikverket. (2017). Cykelhjälmsanvändning i Sverige 1988-2017.
3. Bliven, E., Rouhier, A., Tsai, S., Willinger, R., Bourdet, N., Deck, C., Madey, S. M., & Bottlang, M. (2019). Evaluation of a Novel Bicycle Helmet Concept in Oblique Impact Testing, Accident Analysis and Prevention, vol. 124, pp. 58-65
4. https://www.bikeworldnews.com/2019/10/18/poc-is-back-to-mips/