Actic Group AB (ATIC)

Sweden |Consumer (Fitness) | MCAP SEK 277.4 mn

1 June 2021

Buy

Target price:	SEK 39.4
Current price:	SEK 18.8
Upside:	109.4%

Actic – a turnaround from weak to strong

Actic Group AB ("Actic", the "Company") is one of the leading fitness clubs operating in the North European market with facilities in Sweden, Norway, Germany and Austria. The company inhabits excellent potential for a turnaround, where higher sales and a cost efficiency program estimated to save 10 MSEK annually is expected to result in increased profitability. Expected to begin this year and continue throughout the estimate period, the Company's EBIT margin is estimated to grow from 8% in 2020E to 26% in 2023A, an expansion which currently remains unrealized by the market. Based on a discounted cash-flow model and peer valuation, a target price of 39.4 and a potential upside of 109.4% is motivated.

Key takeaways

- **Better margins as a result of higher cost-efficiency:** Due to the pandemic, Actic has decreased the number of employees per facility radically, from an average of 5.7 PPF (person per facility) in 2019A to 3.7 in 2020A, without perceiving a lower customer satisfaction. Between the years 2019A and 2020A, the company reduced their workforce from 805 to 656 employees, with estimated savings of 10 MSEK annually. This implies that the same amount of work can be executed with less personnel, resulting in an expansion in the EBIT margin from 8.0% in 2020A to 26.0% in 2023E.
- **Stronger EBITDA margin and Cashflow compared to peers:** Actic has ameliorated its growing EBITDA margin annually since 2016. During 2020, the company's EBITDA margin increased to 34.6% compared to 27.0% in 2019A. The Company's margin was significantly better when compared to other companies in the industry, all of which posted either a negative or a deteriorating EBITDA margin in the year 2020. This is strong evidence that supports the effects of Actics increasing cost-control. The company also generated a positive free-cash-flow of 59.0 MSEK compared to -45.0 MSEK in 2019, an improvement of 104.0 MSEK despite the pandemic. Compared to peers, Actic is the only company that generated a positive cash flow in 2020. A large portion of it has also been used to pay down the company's debt to 344.0 MSEK from 425.0 MSEK, resulting in a stronger capital structure.
- **The market has yet not realized the potential for Actic to become a turnaround:** Actics earnings have been affected mainly by the amortization of and revaluation of goodwill, which isn't expected to occur in the upcoming future. The Company has also adapted its operative business and recovered their sales well during the pandemic. These changes have not been considered by the market when pricing the stock, which has been focusing mainly on historical earnings. This implies that the current market price hasn't considered the future margin improvement and turnaround potential resulting in the motivation for a high upside.

Analyst	
Simon Malmgren	Equity Analyst

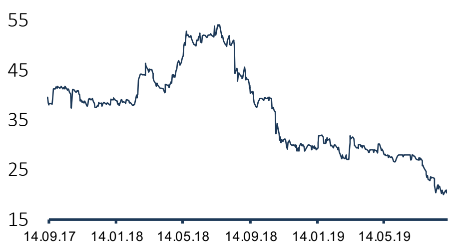
Market Data	
Exchange	Nasdaq Stockholm
MCAP (SEKmn)	277.4
EV (SEKmn)	1338.9
Shares (mn)	15.9

Financial Forecast	20A	21E	22E	23E
Revenue (MSEK)	777.9	802.4	914.6	978.9
Rev. growth y/y	-21.1%	3.1%	14.0%	7.0%
Gross Margin	99.0%	99.0%	99.0%	99.0%
EBITDA Margin	34.6%	32.6%	35.0%	34,4%
EBIT Margin	7.5%	23.9%	26.2%	25.7%
Net Margin	1.1%	15.4%	17.2%	19.5%

Metrics & Drivers	19A	20E	21E
EV/Sales	7.5x	10.4x	8.7x
EV/EBIT	7.5x	10.4x	8.7x
P/E	7.5x	10.4x	8.7x
ND/EBITDA	4.6x	4.0x	5.6x
ROIC	28.7%	20.1%	25.0%

Major Shareholders	
Athanase Industrial Partners	24.1%
Ushi Limited (Göran Carlson)	18.0%
Total Institutional	43,9%
Total Insider	42,1%
Other Investors	14,0%
Total	100.0%

Price Development, SEK



Investment thesis

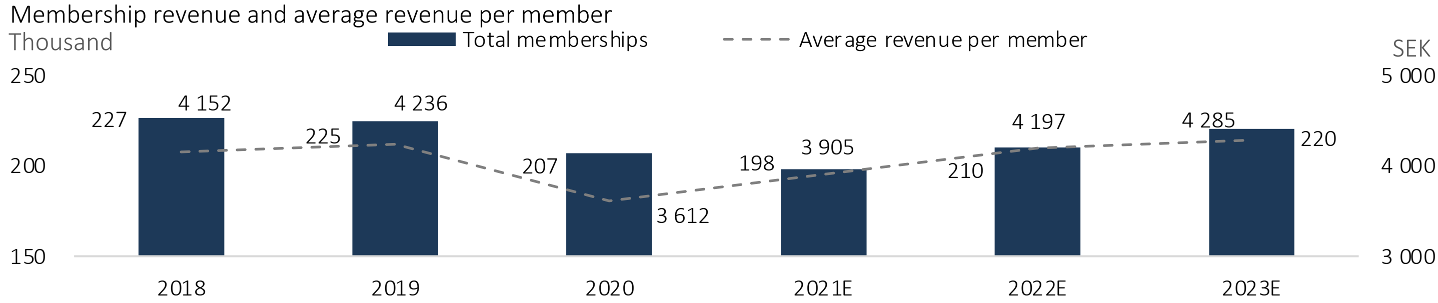
Recent changes positions the Company for a clear turnaraound

According to the CEO, 2019 was an important year characterized by necessary changes and adjustment for the future. Since then, the company has shown an impressive start of a turnaround. By creating a new management team, launching cost-efficiency programs for the operative personnel and strengthening the internal control, the company's margins have increased. Thanks to the recurring member-base, people are expected to start signing up for memberships after the pandemic as a part of the turnaround, leading to higher sales growth. As a result, sales are estimated to exceed pre-pandemic levels and reach 944.5 MSEK in 2023E, with estimated annual savings in the operating expenses of 10.0 MSEK.

Postponement of turnaround resulting in currently mispriced stock

When the CEO and the rest of the management team took over Actic, the Company lacked internal goals, control of the financials, and had a poorly driven operating business. However, during the period 2018-2019, the CEO started making necessary changes that resulted in renegotiated contracts, better control of liquidity and better cost-control. However, the restrictions put in place at the start of 2020 due to the Covid-19 pandemic, which resulted in 40 000 members discontinuing their memberships, postponed the developments initiated in 2019. With the discontinued memberships expected to return as restrictions are gradually eased, the turnaround that was interrupted by the pandemic is now expected to begin in 2021, resulting in the true value of the Company not yet being priced into the stock.

Membership revenue and average revenue per member



Actic is well positioned to meet demand from returning members

By the time that society will have wholly opened up from the pandemic, Actic will have positioned its operational business to handle a rapid increase in members. Having kept most of their gyms open, the resources and time it takes to re-open a gym that has been closed due to government restrictions will not have to be realized, resulting in a lower cost base than if more facilities would have closed down. When conditions ease, Actic will stand ready to recapture the lost members and handle the influx of new members, resulting in an estimated 223 000 members in 2023E.

Risk of members choosing competitors gyms instead of Actics after the pandemic

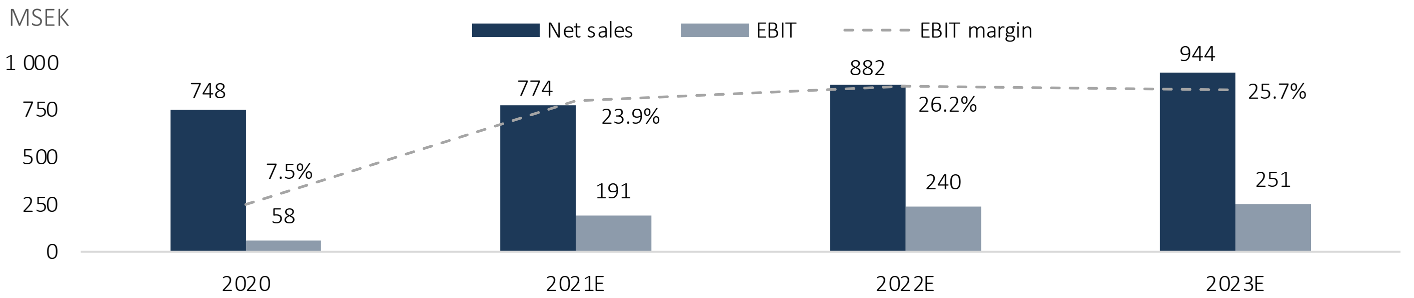
The gym industry has been negatively affected by the government restrictions due to the Covid-19 pandemic, with Actic's member base decreasing by roughly 40 000 members in 2020 compared to 2019. Since the option to freeze the membership only has been an alternative for persons above the age of 65 there is a chance that Actic might not be able to recouperate the lost members, resulting in lower sales for the Company. Since membership fees represent roughly 86.0% of the total net sales, Actic is highly dependent on its member base for future sales. Despite the increased cost-efficiency, net sales growth is still needed to realize the expected improvements in operating profits. Actic could prevent a member loss if they focus on welcoming members back with attractive facility locations and great prices.

Financial forecast breakdown

Membership fees is Actics main sales driver:

Actic's main source of revenue is membership fees, including monthly recurring payments as well as one-time fees for sign-up and membership renewals. Actics estimated average RPM in 2020 was 3 612.0 SEK. This is expected to increase to 4 285.0 SEK in 2023. As a result of Actic beginning to roll out marketing campaigns for their personal trainers, the company can sell additional services and thereby increase the RPM. Also, Actics memberbase will most likely consist of a majority of adults and fewer students/seniors, which will increase the price since there are no discounts for the adult-membership. Furthermore, as restrictions are eased, previous members are expected to return to Actic, with new members expected to join as Actic opens new gym premises. This will result in the total number of memberships amounting to 223 637 in 2023E. Thanks to the rise in average revenue per member and an larger member base, total sales in 2023E are expected to be 944.0 MSEK, which compared to 748.0 MSEK in 2020A implies a sales CAGR of 8.0% 2020-2023.

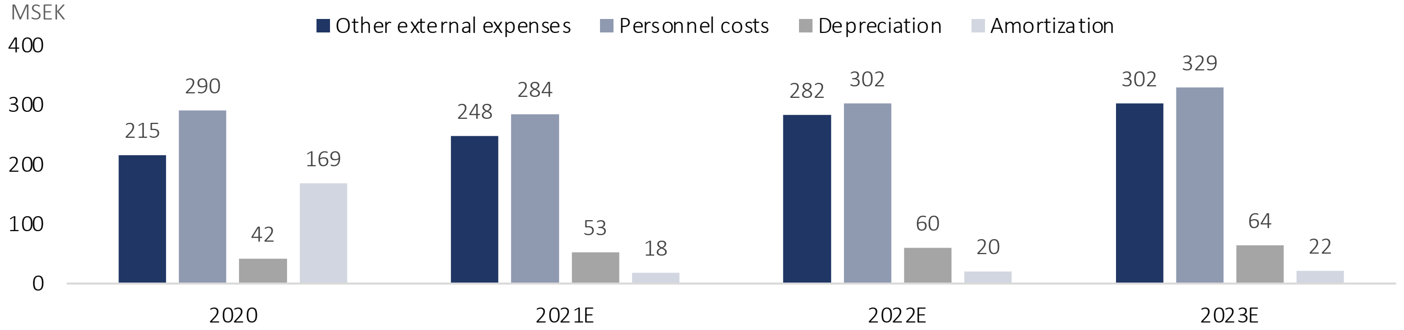
Cost-efficiency program estimated to result in EBIT-margin of 25.7% in 2023



A majortiy of Actics costs are personal and operating leasing costs:

Actic's largest cost is their personnel costs, driven mainly by the staff at their facilities. Another large cost are their other external costs which consists mainly by leasing of their facilities and equipment. Driven mainly by the reduced number of staff per facility, the total number of employees has been reduced from 805 employees in 2019 to 656 in 2020. This new level of employees per facility is expected to remain, resulting in personnel costs as a percentage of sales decreasing from 37.2% in 2020 to 33.6% in 2023, amounting to 328.0 MSEK in 2023. With a significant revaluation of goodwill made in 2019, the Company is not expected to do any larger revaualation or write-downs of their tangible assets during the estimate period. The reductions in costs relative to sales are therefore expected to result in an EBIT-margin of 25.7% in 2023 and an EBIT of 251.0 MSEK in the same year.

Costs & Expenses



Valuation

Peer valuation and a DCF model justifies an EV/EBIT multiple in 2023 of 7.1x:
The target price has been derived from a peer valuation and a Discounted Cash Flow model (DCF). A summary of key figures for the selected companies is shown in the table below. Gym Group PLC and Basic-Fits was selected because they are two of the biggest gym operators in Europe. Tivoli is a company with a similiar business model to Actic and makes for a fair comparison due to their asset-heavy balancesheets. Lastly, SATS is a bigger company but in this case the perfect peer, operating in the same region. The two companys have identical business models and is according to the CEO the main company that Actic compares themself to.

Peer	MCAP (MSEK)	SALES 2020 (MSEK)	Sales CAGR 18-20	EBIT-margin (2y avg.)	ROIC	EV/EBIT (24m)
SATS	4 191	3 534	5.5%	6.6%	-4.9%	489.4x
Gym Group PLC	4 741	947	-11.9%	-14.0%	-5.2%	4.0x
Basic Fits	22 025	3 818	0.7%	-10.5%	-6.9%	12.0x
Tivoli	6 358	649	-27.6%	-14.3%	-10.9%	8.9x
Mean	9 328	2 237	-8.3%	-8.0%	-6.9%	128.6x
Median	5 549	2 241	-5.6%	-12.2%	-6.0%	10.5x
Actic	277	748	-10.1%	-10.0%	0.7%	8.1x

An EV/EBIT multiple was chosen to better capture the potential future value of the company, and since it is expected to receive greater focus as the Company moves towards more stable and growing profitability. Comparing Actics EV/EBIT to peers could be misleading, since Actics EBIT has historically been highly volatile. An initial EV/EBIT multiple of 8.1x is derived based on the mean for the peer group. Due to the clear fluctuations in the Company's EBIT, a lower and more conservative multiple of 7.1x EV/EBIT is motivated. The chosen multiple is motivated based on the following reasons:

- **Smaller size and high net debt:** The lower multiple relative to the mean of the peer group is derived in part by the smaller size of Actic, both in terms of total sales and market capitalization. Even thought the Company’s Net-debt is high, when comparing Actics net debt to EBITDA, Actic presents a significantly lower multiple at 4.7x compared to a 9.2x mean among the peers. The lower the ratio, the higher the probability of the firm successfully paying off its debt.

- **More efficient operational performance than peers:** The Company’s Return on Invested Capital (ROIC) was 0.7% in 2020, outperforming the chosen peer group with a mean of -6,9%. Compared to peers, the company’s ROIC ratio shows that the company is better at generating returns with their externally raised capital compared to their peers.

- **Smaller company and lower sales makes for better future margins:** As shown in the table previously, Actic is the smallest gym-operator. However, with a relatively small and easy operated business, Actic can control and make changes much quicker than other larger gym chains. For example, the company adapted their whole workforce due to the pandemic and improved their margins by cutting unneccessary expenses. Thanks to this operating flexibility, Actic is better positioned to improve their margins and profitability in the future than their chosen peers.

Based on the above, an EV/EBIT multiple of 7,1x is motivated. Using a discount rate of 7.9% based on the mean among peers results in a present value of 39.4 SEK per share, an upside of 109.4 %.

Board and Management

Göran Carlsson, Chairman

Göran Carlsson was elected Chairman in 2018 and is also the current vice-chairman at Svenskt Tenn. He holds a MBA in Economics, from HEC Paris.

Ownership: 2 865 925 shares.

Stefan Charette, Board Member

Stefan Charette was elected Board Member in 2017 and is currently the CEO of Athanase Industrial Partners Ltd. He holds a MSc in Finance, from Cass Business School, London.

Ownership: 3 836 974 shares.

Fredrik Söderberg, Board Member

Fredrik Söderberg was elected Board Member in 2018 and has previously been the CEO of the pharmacy chain Medstop. He has studied independent courses in economy and marketing.

Ownership: 20 000 shares.

Therese Hillman, Board Member

Therese Hillman was elected Board Member in 2018 and is currently the CEO of Network of Design. She holds a BSc in Business and Economics, from Handels-högskolan, Stockholm.

Ownership: None.

Trine Marsdal, Board Member

Trine Marsdal was elected Board Member in 2019 and has previously been the CFO for Nordic Choice Hotels. She holds BSc in Business and Economics, from Handelhoyskolen BI, Oslo.

Ownership: None.

Viktor Linell, Board Member

Viktor Linell was elected Board Member in 2018 and is on of the co-founder to a media-firm named Splay. He holds a BSc in Business and Economics, from Uppsala Universitet.

Ownership: None.

Anders Carlbark, CEO

Anders Carlbark was elected as CEO in 2018 and has previously been the Global Head of Merchandising at H&M. He holds a MSc in Science Business, from Gothenburg School of Business.

Ownership: 10 000 shares.

Anna Eskhult, CFO

Anna Eskhult was elected as CFO in 2021 and has previously been the CFO at Trention and Saxlund. She holds a BSc in Business and Economics, from Yrkes-högskola Öst.

Ownership: None.

Appendix

	Actual	Estimates									
Key items SEKm	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	100,0	108,0	116,6	126,0	136,0	146,9	158,7	171,4	185,1	199,9	215,9
Growth (%)		8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%	8,0%
OPEX	85,0	91,8	99,1	107,1	115,6	124,9	134,9	145,7	157,3	169,9	183,5
EBITDA	15,0	16,2	17,5	18,9	20,4	22,0	23,8	25,7	27,8	30,0	32,4
Margin (%)	14.6%	27.0%	34.6%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%
D&A	2,0	2,2	2,3	2,5	2,7	2,9	3,2	3,4	3,7	4,0	4,3
EBIT	13,0	14,0	15,2	16,4	17,7	19,1	20,6	22,3	24,1	26,0	28,1
Margin (%)	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%	13,0%
Interest	0,0	2,1	2,1	2,0	1,9	1,8	0,8	0,0	0,0	0,0	0,0
Tax	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Income	13,0	11,9	13,1	14,4	15,7	17,3	19,8	22,3	24,0	26,0	28,0

Key Cash Flow items											
Net Income	13,0	11,9	13,1	14,4	15,7	17,3	19,8	22,3	24,0	26,0	28,0
Δ nwc	-2,0	-2,2	-2,3	-2,5	-2,7	-2,9	-3,2	-3,4	-3,7	-4,0	-4,3
capex	-2,0	-2,2	-2,3	-2,5	-2,7	-2,9	-3,2	-3,4	-3,7	-4,0	-4,3
D&A	2,0	2,2	2,3	2,5	2,7	2,9	3,2	3,4	3,7	4,0	4,3
Levered FCF	11,0	9,7	10,8	11,8	13,0	14,4	16,6	18,8	20,3	22,0	23,7

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Other