

NOTE AB
(NOTE)About NOTE

NOTE AB (“NOTE” or “the Company”) is a contract manufacturer in electronics, with a strong footprint in Europe. NOTE’s customers are primarily in the Industrial and Greentech sector. By managing the whole value chain for the customers, NOTE acts as a complete manufacturing partner. The Company was founded in 1999 and was listed on OMX Stockholm in 2004.

Overweight

Target Price	SEK 248.4
Current Price	SEK 215.4
Upside	15.3%

Market Data, SEK

Exchange	OMX Mid Cap
Shares (m)	29
MCAP (m)	6,243
EV (m)	6,721

Forecast, SEKm

	21A	22E	23E
Total revenue	2,643	3,649	4,142
Rev. growth	41.1%	38.0%	13.5%
Gross Profit	418	577	655
Gross Margin	15.8%	15.8%	15.8%
EBITDA	317	455	523
EBITDA Margin	12.0%	12.5%	12.6%
EBIT	251	377	429
EBIT Margin	9.5%	10.3%	10.4%

Key Metrics

	21A	22E	23E
EV/EBITDA	18.2x	14.8x	12.9x
EV/EBIT	22.9x	17.8x	15.7x
ND/EBITDA	0.8x	1.1x	0.9x
P/E	28.3x	21.7x	19.1x
P/S	2.1x	1.7x	1.5x
EPS	6.7	9.9	11.3

ANALYSTS CONTACT INFORMATION

Lukas Forsman, Financial Analyst
Sofia Nordfjell, Financial Analyst

NOTE – Closer to home

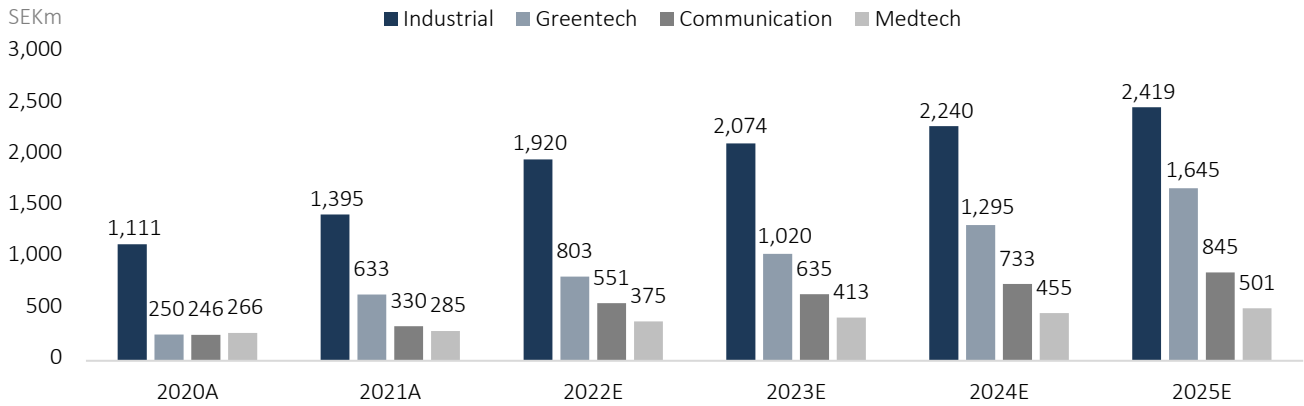
NOTE is a market leading contract manufacturer in the electronics sector with a strong footprint in Europe. The Company’s business model is to be a complete manufacturing partner. This includes managing NPI (New Product Introduction), serial production, and aftermarket services. The customers are primarily in the Industrial and Greentech sector accounting for 76.7% of the revenue, with Medtech and Communication as complementing segments. The Company mainly grows organically but also adds growth through acquisitions. With strong underlying market growth, NOTE is expected to grow at a CAGR of 19.6% between 2021A-2025E. A peer valuation justifies a target EV/EBIT multiple of 17.9x in 2023E. This results in a share price of SEK 248.4 and a potential upside of 15.3%.

Key takeaways

- **The Greentech market tailwind will drive revenue growth:** The Greentech market is estimated to grow at a CAGR of 27.0% between 2022E-2027E, from USD 17bn to USD 61bn. NOTE’s Greentech customer base is primarily directed towards the EV (Electric Vehicle) industry and consists of fast-growing companies. The Company will benefit from the underlying market growth of the Greentech sector as more Greentech companies outsource its production to NOTE. This results in the Greentech segment reaching 30.4% (SEK 1.6bn) of NOTE’s total revenue in 2025E and becoming the Company’s fastest growing segment.
- **Change in the outsourcing trend will benefit NOTE:** European companies have outsourced much of its production to low-cost regions in the last decades. However, that trend is changing, and the European companies are moving its production closer to its end market, thus eliminating its supply chain risks. NOTE has nine of its ten manufacturing sites located in Europe and the Company will increase its capacity. Therefore, NOTE is well positioned for the current shift to European outsourcing.
- **Attractive business model enables NOTE to grow with its customers:** The business model as a complete manufacturing partner, combined with market leading performance and reliability, allows NOTE to establish long lasting relationships with its customers, evidenced by a retention rate of 95.0%. By outsourcing all production to NOTE, the Company will acquire the growth of its customers products in its respective market. The increase in demand for the customer’s products therefore leads to increased sales for NOTE.
- **NOTE deserves to be valued at a premium to its peers:** NOTE is currently at a premium to the peer average 2023E EV/EBIT multiple. This is a result of NOTE showing higher operating margins, higher revenue growth, lower customer concentration and a stronger financial position compared to its peers. Based on NOTE’s performance and reduced risks compared to its peers, the Company is motivated to trade at a premium to the peer average. Therefore, a target EV/EBIT multiple of 17.9x in 2023E is justified, which is a premium of 20.0% to the peer average.

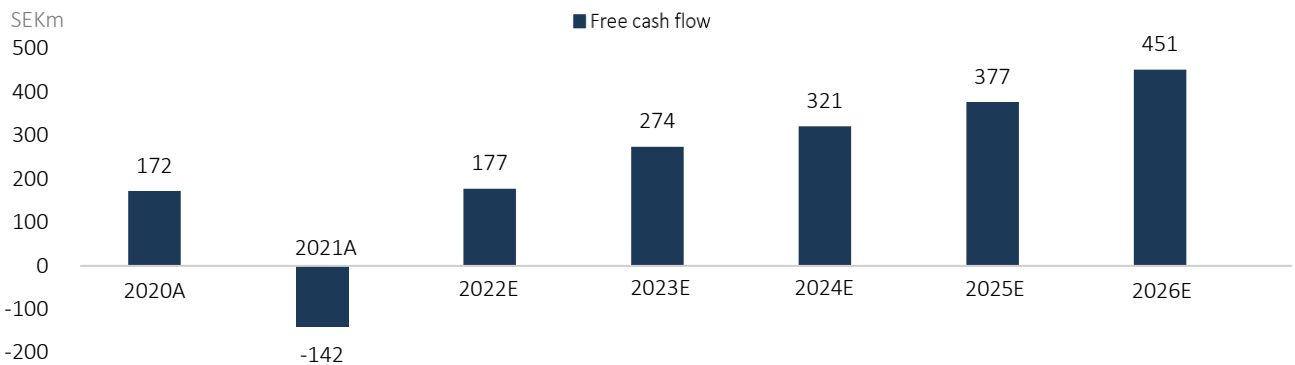
Investment thesis in charts

Revenue per segment between 2020A-2025E



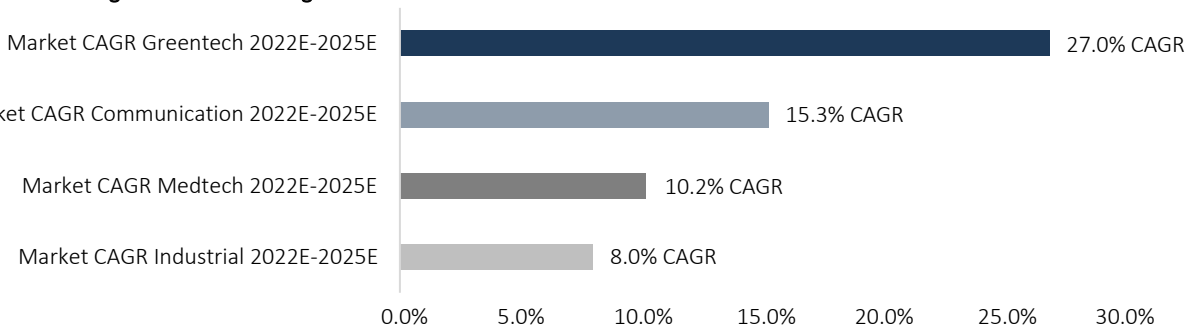
Sources: Analysts estimates and the Company

Free cash flow till increase due to less need for inventory build-up and strong revenue growth



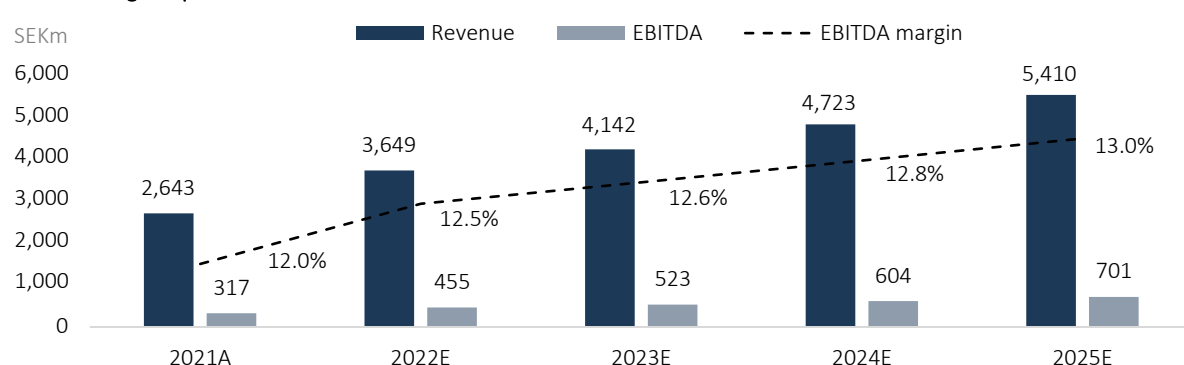
Sources: Analysts estimates and the Company

Estimated market growth of NOTE's segments between 2022E-2025E



Sources: Precedence Research, Fortune Business Insights, Marketsandmarkets, Grand View Research

EBITDA margin expansion as a result of increased automation



Sources: Analysts estimates and the Company

Investment thesis

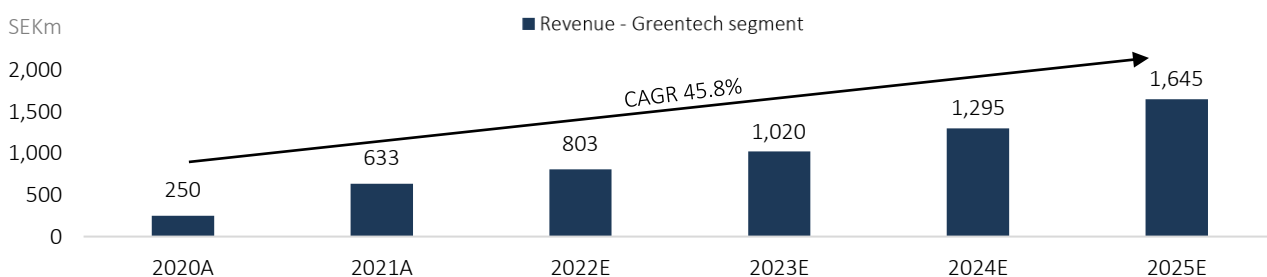
Change in the outsourcing trend will drive revenue growth at a CAGR of 19.6% until 2025E

In the last three decades, European companies have outsourced much of its production to Asia and other low-cost regions. However, that trend is changing, and companies are moving its production closer to its end-markets. This is driven by companies focusing on the shortening of supply chain and reducing supply chain risks by outsourcing production to manufacturers in the same geographical area and political zone. NOTE's industrial customers, such as ABB and Atlas Copco, can eliminate those risks by having NOTE as a Nordic based manufacturing partner. The European electronics manufacturing market has experienced significant growth as a result of the market shift. The European market is now estimated to grow at a CAGR of 7.1% until 2028E. NOTE has nine of its ten manufacturing sites located in Europe. In addition, the Company will increase its capacity. Therefore, NOTE is well positioned for this market shift. This, combined with a market leading delivery accuracy of 96.0% in 2019A-2021A (the most important metric for customers), places NOTE at the forefront of European contract manufacturers. The Company's position in this outsourcing market shift results in a revenue CAGR of 19.6% between 2021A-2025E.

NOTE benefits as the Greentech market grows at a 27.0% CAGR between 2022E-2027E

The Greentech market is estimated to grow at a CAGR of 27.0% between 2022E-2027E, increasing from USD 17bn to USD 61bn. NOTE's Greentech customers are fast-growing companies. The leading EV charging company Charge Amps is NOTE's largest customer, accounting for 7.0% of the revenue. Additionally, Plejd and Merus Power, companies active in the smart lighting and energy storage segment, have outsourced its production to NOTE. The demand for Greentech products increases, and the Company will benefit from the Greentech market growth as more Greentech companies outsource its production to NOTE. The Greentech market tailwind drives NOTE's revenue within its Greentech segment, which will reach SEK 1.6bn in 2025E.

Greentech segment revenue growth between 2020A-2025E



Sources: Analysts estimates and the Company

Well positioned for acquisitions with an ability to add SEK 121m EBIT and 30.4% additional upside

NOTE has a history of successful strategic acquisitions. By acquiring companies with similar characteristics but in new customer segments and geographies, NOTE can grow faster, add competencies and simultaneously meet increased capacity needs. The potential target companies for acquisitions are companies with a revenue between SEK 150m to 300m and a delivery accuracy in line with NOTE's of 96.0%. The three latest acquisitions between 2018-2022, were acquired at attractive EV/EBIT multiples between 3.5x and 5x. Furthermore, the acquired companies had operating margins of 10.0%, which is slightly higher than NOTE's. This highlights the Company's ability to successfully carry out solid acquisitions at attractive multiples. NOTE's strong financial position allows for continued acquisitions going forward. A ND/EBITDA of 1.1x 2022E gives NOTE room to gear up if opportunities would arise. Applying an industry conventional limit of 2.5x ND/EBITDA, NOTE can raise SEK 608m in debt. This enables NOTE to acquire SEK 121m of EBIT, calculated on the historical EV/EBIT multiple of 5x. Based on the same peer valuation, this would indicate an additional upside of 30.4%.

Company Overview

NOTE is a market leading company with a diversified customer base and strong organic growth

NOTE was founded in 1999 and is a leading Nordic contract manufacturer in electronics. Johannes Lind-Widestam is the Company's CEO since 2018. The Company offers serial production of PCBA's (Printed Circuit Board Assemblies), sub-assemblies, and box builds based on the customer's demand. Manufacturing accounts for 95.0% of NOTE's revenue, and 5.0% consists of advanced aftermarket services. The Company's customers can be divided into four customer segments: Industrial, Greentech, Medtech, and Communication. The largest segment is Industrial, which accounts for 52.8% of the revenue and consists of products such as thermal cameras and wireless control units. The Greentech segment accounts for 23.9% of NOTE's revenue. Typical products are charging stations for electric cars, house climate control and energy saving lighting. NOTE's Communication segment consists of products such as IoT devices, accounting for 12.5% of the revenue. The Company's Medtech segment includes products such as surgical instruments and respiratory devices, making up 10.8% of the revenue. NOTE mainly operates in Europe with manufacturing sites in Sweden, Finland, Estonia, and the UK. Each manufacturing site has a unique set of competence areas, focusing on its niche. NOTE primarily grows organically but complements the growth with strategic acquisitions. With the acquisitions, NOTE aim to add customers in new segments and expand geographically.

Business Model

A reliable manufacturing partner with a comprehensive offering

NOTE is a contract manufacturer and offers manufacturing services to companies that need to outsource its production of electronic products. NOTE offer services for its customers through the entire product lifecycle. From NPI, acting as an advisor, to the serial production and eventually advanced aftermarket services. By managing the whole value chain, the Company's business model enables NOTE to grow together with its customers. An increase in demand for the customer's products means an increased revenue for NOTE as the customer's complete manufacturing partner. As a contact manufacturer, NOTE's ability to deliver on time, meet the capacity, and offer a complete manufacturing service are key factors leading to customer satisfaction. This ensures that NOTE retain its customers over time, which explains NOTE's 95.0% retention rate. As a result of NOTE's attractive business model and the Company's reliable performance, the customers are motivated to outsource future products to NOTE and continuing the partnership.

Market Overview

Positive market outlook for electronic contract manufacturers in Europe

The market for European contract manufacturers in electronics is expected to grow at a 7.1% CAGR between 2022E-2028E, reaching a size of USD 69bn. The shift in the outsourcing trend has benefited European contract manufacturers and drives the market growth going forward. However, due to the recent global component shortages, all contract manufacturers are struggling with inventory management, component purchases and logistics. This means that companies that previously prioritized inventory build-up and mitigated its component risk now have the opportunity to stay competitive. The companies that avoided inventory build-up since the pandemic have to buy some of its components at the spot market for 20x the original price, thus drastically decreasing its profitability. Furthermore, because NOTE has the ability to grow with its customers, the Company will be affected indirectly by the markets in which its customers operate within.

Valuation

Peers	Market Data (SEKm)		Financials			Valuation	
	Company name	Market cap	EV	2021A-2023E Revenue CAGR	ROIC 2021A	EBIT margin 2023E	P/E 2023E
NCAB Group	12,527	13,166	19.7%	21.4%	12.9%	26.6x	22.1x
Kitron	5,241	6,977	37.7%	9.1%	7.3%	13.8x	12.9x
Scanfil	5,152	6,221	7.4%	12.1%	6.1%	12.3x	11.4x
HANZA	2,424	3,027	16.9%	9.3%	5.7%	16.2x	15.8x
Incap	5,826	5,961	31.9%	34.7%	15.1%	15.6x	12.2x
Median	5,241	6,221	19.7%	12.1%	7.3%	15.6x	12.9x
Mean	6,241	7,070	22.7%	17.3%	9.4%	16.9x	14.9x
NOTE	6,243	6,721	25.2%	19.5%	10.4%	19.1x	15.7x

Sources: Bloomberg and Analysts estimates

NOTE deserves to be valued at a premium to its peers

The selected comparable companies for the peer valuation all operate in the electronics market and offer, for example, PCBA's, PCB's (Printed Circuit Boards), sub-assemblies, and box builds. Except for NCAB, all companies are contract manufacturers. However, all peers have similar business models and target the same customers. Furthermore, all peers are based in northern Europe with a substantial part of sales in the European geographical area. NOTE currently trades at an LTM EV/EBIT multiple of 22.2x, which is a premium compared to peers. Historically, NOTE has been traded at a premium compared to peers due to a higher than average EBIT margin, lower customer concentration, and market-leading delivery accuracy of 96.0%. Delivery accuracy measures companies' ability to manufacture and deliver on time, the most important factor from the customers point of view. As the peer table shows, NOTE is currently traded at a premium to the peer average 2023E EV/EBIT multiple as a result of better financial performance. Moreover, NOTE is currently traded at a lower EV/EBIT multiple compared to its three year average. The peer analysis also shows that NOTE has a higher estimated revenue CAGR between 2021A-2023E and higher ROIC. Therefore, NOTE deserves to be traded at a premium compared to the peer average 2023E EV/EBIT multiple of 14.9x. Mentioned factors motivates a target EV/EBIT multiple of 17.9x in 2023E, implying a target price of SEK 248.4. This results in a potential upside of 15.3%.

Less risks and greater opportunities motivates a higher valuation

Compared to its peers, NOTE has a stronger financial position based on the ND/EBITDA multiple. The peer average and median ND/EBITDA is 1.7x, compared to NOTE's 1.1x. A higher ND/EBITDA ratio entails higher financial risk and less ability to raise debt for future acquisitions. Since acquisitions are important to contract manufacturers for further growth, comparing this ratio indicates which peer that has most room for additional gearing. This adds to the argument that NOTE should be trading at a premium EV/EBIT multiple compared to its peers. Furthermore, a lower customer concentration risk motivates a premium valuation. NOTE's largest customer only accounts for 7.0% of its revenue, whereas the competitor Scanfil's largest customer accounts for 18.0% of the revenue. Additionally, Incap struggle with high customer concentration, with its four largest customers together accounting for 69.1% of its revenue.

Appendix

Income statement, SEKm	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Net Sales	1,760	1,874	2,643	3,649	4,142	4,723	5,410
Total revenue	1,760	1,874	2,643	3,649	4,142	4,723	5,410
COGS	(1,511)	(1,601)	(2,225)	(3,072)	(3,487)	(3,975)	(4,554)
Gross Profit	249	272	418	577	655	747	856
Gross margin %	14.1%	14.5%	15.8%	15.8%	15.8%	15.8%	15.8%
Selling expenses	(49)	(50)	(58)	(76)	(81)	(87)	(93)
Administrative Expenses	(32)	(33)	(40)	(53)	(57)	(62)	(67)
Other operating income	24	47	25	32	32	32	32
Other operating expenses	(24)	(38)	(28)	(27)	(27)	(27)	(27)
EBITDA	169	198	317	455	522	604	701
EBITDA margin %	9.6%	10.6%	12.0%	12.5%	12.6%	12.8%	13.0%
D&A	(44)	(49)	(66)	(77)	(94)	(113)	(134)
EBIT	124	149	251	377	429	491	567
EBIT margin %	7.1%	8.0%	9.5%	10.3%	10.4%	10.4%	10.5%
Interest income	8	10	7	14	16	19	21
Interest expenses	(16)	(17)	(21)	(30)	(34)	(39)	(44)
EBT	116	143	237	362	411	471	544
EBT margin %	6.6%	7.6%	9.0%	9.9%	9.9%	10.0%	10.1%
Tax expense	(24)	(27)	(43)	(75)	(85)	(97)	(112)
Net income	92	116	194	287	327	374	432
Net margin %	5.2%	6.2%	7.3%	7.9%	7.9%	7.9%	8.0%

Disclaimer

Disclaimer

These analyses, documents and any other information originating from LINC Research & Analysis (Henceforth "LINC R&A") are created for information purposes only, for general dissipation and are not intended to be advisory. The information in the analysis is based on sources, data and persons which LINC R&A believes to be reliable. LINC R&A can never guarantee the accuracy of the information. The forward-looking information found in this analysis are based on assumptions about the future, and are therefore uncertain by nature and using information found in the analysis should therefore be done with care. Furthermore, LINC R&A can never guarantee that the projections and forward-looking statements will be fulfilled to any extent. This means that any investment decisions based on information from LINC R&A, any employee or person related to LINC R&A are to be regarded to be made independently by the investor. These analyses, documents and any other information derived from LINC R&A is intended to be one of several tools involved in investment decisions regarding all forms of investments regardless of the type of investment involved. Investors are urged to supplement with additional relevant data and information, as well as consulting a financial adviser prior to any investment decision. LINC R&A disclaims all liability for any loss or damage of any kind that may be based on the use of analyzes, documents and any other information derived from LINC R&A.

Conflicts of interest and impartiality

To ensure LINC R&A's independence, LINC R&A has established compliance rules for analysts. In addition, all analysts have signed an agreement in which they are required to report any and all conflicts of interest. These terms have been designed to ensure that *COMMISSION DELEGATED REGULATION (EU) 2016/958 of 9 March 2016, supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest.*

Other

This analysis is copyright protected by law © BÖRSGRUPPEN VID LUNDS UNIVERSITET (1991-2023). Sharing, dissemination or equivalent action to a third party is permitted provided that the analysis is shared unchanged.