

# Motion Display AB

## Strong gross margin driving another profitable quarter

Johan Widmark | 2024-08-30 09:00

MODI reported Q2'24 sales largely in line with last year, at SEK 7.4m compared to SEK 7.6m in Q2'23. The gross margin increased by 6ppt due to a higher number of projects and fewer displays per project, resulting in a net profit of SEK 0.4m. Component build-up, however, turned cash flow negative for the quarter. The global retail index has sharply recovered, up 27% year-to-date, providing tailwinds for in-store marketing investments. The share has held up well following the +100% gain after the Q1'24 report. With continued support for a fair value of SEK 1.9-2.3, we believe the share has more potential, although investors should brace for some short-term softness in Q3'24.

### Tailwind for in-store marketing

Order intake in Q2 saw a slight pullback to SEK 2.8m, down from SEK 4.4m a year ago, with most orders arriving toward the end of the quarter. With an order backlog at SEK 2.2m (compared to SEK 4.2m), this suggests that investors should prepare for a slightly softer Q3. However, the global retail index has shown strong performance, up 27% year-to-date, indicating favorable conditions for in-store marketing investments. Collaborations with global procurement organizations, which serve as key gateway partners to the company's customers, should also help diversify revenues and drive growth going forward. Overall, we expect any softness in H2 to be short-lived.

### Further upside in the cards

Liquidity remains a concern for the company, as the build-up of components, coupled with long payment terms from customers and advance payments to suppliers, strains cash flow. With cash now at SEK 3.5m, a rights issue is not our primary expectation for the next 12 months. We maintain our forecast of SEK 33m in sales for 2024e and a 12% annual growth rate thereafter. With a long-term gross margin target of 50%, which might be somewhat conservative, and a discount rate (WACC) of 23%, our combined DCF and target multiple valuation (1x sales '24) support a fair value range of SEK 1.9-2.3 per share, suggesting the share still has upside potential.

MSEK	2022	2023	2024E	2025E	2026E
Revenue	15	27	33	37	42
EBITDA	-4	1	6	6	7
EBIT	-6	-1	4	5	7
EPS Adjusted	-0.37	-0.09	0.20	0.31	0.51
Sales Growth, %	-10%	79%	22%	12%	12%
EBITDA Margin, %	-23%	5%	18%	15%	17%
EBIT Margin, %	-42%	-5%	12%	13%	17%
EV/Sales	1.0	0.6	0.5	0.5	0.6
EV/EBITDA	-4.3	13.7	2.8	3.0	3.6
EV/EBIT	-2.4	-13.1	4.5	3.7	3.6
P/E	-1.9	-7.5	7.4	4.7	2.9

Source: Emergers

Nasdaq Global Retail Index (NQG4040)



### Motion Display

Fair Value, SEK	1.9 - 2.3
Current Price, SEK	1.45
Shares (M)	17.7
Market Capitalisation (MSEK)	25.6
Net Debt (MSEK)	-1.9
Enterprise Value (MSEK)	23.7
Market	Spotlight



## Over 20 years of electronic paper displays

Motion Display Scandinavia was founded 2005 by the founder of Pricer and former CEO of Pharmacia, Erik Danielsson, with the vision to offer moving marketing messages without expensive and time-consuming installation. Today the company can offer a unique product of blinking displays made from electronic paper, which can be tailor made to fit every customer’s demand. With battery powered electronics, the display can be installed on the edge of the shelf, just like a price tag.

## Well-documented effect on sales

Studies show that about 70% of all the purchasing decisions are made after the customer has stepped into the store, which shows the importance to offer an attractive environment with happenings to make customers notice specific offerings. A study by Retail Academics show that customers only distinguish a few percent of a stores assortment since a static background creates a noise which is hard to penetrate. The same study shows that a blinking display with a moving motif, triggers the reptile instinct in our brain, which makes the display noticed 8x faster than a normal/static display.

Through a case study with Walmart, Motion Display used their product to market a salad dressing in 1200 Walmart stores, while 1800 stores used normal displays. The difference was staggering where the stores who used Motion Displays product sold 66% more than their respective.

## Nasdaq Global Retail Index (NQG4040)



Source: TradingView

## Wider focus for quicker scale-up

Historically, the company had some success with big projects outside of Walmart, with one order at the end of 2017 amounting to 14 MSEK, and another one at the end of 2020 of 7.5 MSEK. With a scalable business model, where the majority of the costs is attributable to the model design of one display, high volume orders is highly profitable for Motion Display. So far, the company has only scratched the surface of the enormous US market, which houses over two million stores.

## Addressable market in the US

	Number of stores
Walmart	3 500
Pharmacies	67 000
Convenience stores	154 000
Restaurants & bars	1 000 000
<b>Total</b>	<b>2 000 000</b>

Source: Motion Display, Emergers

## Valuation

With an assumption about sales reaching SEK 33m in 2024, and a yearly growth of 12% from there, we estimate Motion Display to reach positive EBITDA again in 2024. Using a discount rate (WACC) of 23% to reflect a retail market in change and uncertainties about where it will end up, a residual multiple of 6x EBITDA, our DCF indicates a fair value of 2.3 SEK per share.

## DCF Key Assumptions

WACC	23%
Long-term EBITDA-margin	21%
Long-term CAPEX as share of sales	5%
Terminal Value EBITDA-multiple	6x
Total NPV adjusted for Cash, MSEK	40
NPV per share, SEK	2.3

Source: Emergers

## Risks

**Component disruptions:** Just as many other industries, Motion Display is not left unaffected by the delivery chain disruptions. The company has addressed this by purchasing an inventory of key components to be able to quickly respond to incoming orders.

**Pandemics:** The pandemic hit particularly hard against retail, which affected Motion Display since the number of customers in stores decreased rapidly, as the focus on in-store-marketing also fell.

## Governance

**CEO** Anna Engholm studied mathematics and computer science at Uppsala University. With a background as Product Manager at Pricer AB and Customer Project Manager at Pricer Inc. she has solid experience in project management in retail.

**Chairman** Erik Danielsson is the founder of Motion Display. With a background as the CEO of the pharmaceutical company Pharmacia AB, he also founded well known Pricer and Scandinavian Biogas, as well as co-founder of Trippus and ProTracer.

## Motion Display

### Income Statement

MSEK	2020	2021	2022	2023	2024E	2025E
Sales	31.7	16.8	15.1	27.0	33.0	37.1
Operating Costs	-30.0	-20.6	-18.6	-25.7	-26.9	-31.4
EBITDA	1.6	-3.8	-3.5	1.3	6.1	5.7
Depreciation	-3.0	-2.8	-2.8	-2.6	-2.2	-2.0
Amortisation of Goodwill	0.0	0.0	0.0	0.0	0.0	1.0
EBIT	-1.4	-6.7	-6.3	-1.3	3.9	4.7
Non-recurring Items	0.0	0.0	0.0	0.0	0.0	0.0
Associated Companies	0.0	0.0	0.0	0.0	0.0	0.0
Net Financial Items	-0.3	-0.2	-0.3	-0.4	-0.4	-0.3
Pre-tax Result	-1.6	-6.9	-6.6	-1.7	3.5	4.4
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	1.0
Net Result	-1.6	-6.9	-6.6	-1.7	3.5	5.4

### Capital Expenditure

	2020	2021	2022	2023	2024E	2025E
Capital Expenditure, Absolute	1.8	1.9	1.8	1.3	1.7	1.9
As a Pct of Sales	5.8	11.5	11.6	5.0	5.0	5.0
Depreciation Multiple	0.6	0.7	0.6	0.5	0.7	0.9

### Key Ratios

Share Price: SEK 1.45

	2020	2021	2022	2023	2024E	2025E
Share Price at 31 Dec	3.8	1.40	0.70	0.71	1.45	1.45
Number of Shares (Millions)	10.40	17.67	17.67	17.67	17.67	17.67
Market Cap	39.9	24.7	12.4	12.5	25.6	25.6
Enterprise Value	39.9	25.6	15.0	17.2	23.2	19.6
EPS (Reported)	-0.16	-0.39	-0.37	-0.09	0.20	0.31
EPS (Adjusted)	-0.16	-0.39	-0.37	-0.09	0.20	0.31
CEPS	-0.16	-0.39	-0.37	-0.09	0.20	0.31
P/CEPS	n.a.	n.a.	n.a.	n.a.	7.4	4.7
Book Value/Share	1.0	0.8	0.4	0.3	0.5	0.7
P/BV	3.8	1.7	1.6	2.0	2.7	2.0
Dividend	0.00	0.00	0.00	0.00	0.00	1.00
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	69.0
Dividend Payout Ratio (%)	0.0	0.0	0.0	0.0	0.0	326.6
EV/Sales	1.3	1.5	1.0	0.6	0.5	0.5
EV/EBITDA	15.5	-6.7	-4.3	13.7	2.8	3.0
EV/EBIT	-18.5	-3.9	-2.4	-13.1	4.5	3.7
P/E (Adjusted)	-24.3	-3.6	-1.9	-7.5	7.4	4.7
Sales Growth, Y/Y (%)	-	-46.9	-10.4	79.3	22.2	12.4
EBIT Growth, Y/Y (%)	-	379.9	-5.3	-79.3	-395.1	20.8
EPS Growth (Adjusted), Y/Y (%)	-	146.0	-4.5	-74.6	-308.8	55.8
EBITDA Margin (%)	5.2	-22.7	-23.4	4.6	18.5	15.3
EBIT Margin (%)	-4.4	-39.6	-41.9	-4.8	11.7	12.6
Return on Equity (%)	-14.5	-55.3	-59.2	-23.8	44.0	30.1
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0

### Financial Position

	2020	2021	2022	2023	2024E	2025E
Interest-Bearing Net Debt	0	1	3	5	-2	-6
Net Debt/Equity	0.0	0.1	0.3	0.8	-0.3	-0.5
Equity Ratio	0.4	0.6	0.3	0.3	0.4	0.5
Net Debt/EBITDA	0.0	-0.2	-0.8	3.7	-0.4	-1.1

Source: Emergers, Company reports

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