

# Westpay

Sector: Fintech

## Setting up for the future

Redeye keeps the fair value of Westpay based on the company to be profitable earlier than expected with a lower cost basis after a period of good cost control. The fourth-quarter report showed that the important KPIs are going in the right direction. Unfortunately, we fear that COVID-19 will impact the net sales negatively in the first quarter, but net sales will start to recover from there. We keep the fair value on the back of this and continue to see a substantial upside in the Westpay share.

### KPIs going in the right direction

The two most important KPIs of Westpay, gross margin, and recurring revenue, are going in the right direction. Gross margin came in on the quarter on 70%, an increase Y/Y with seven percentage points. Recurring revenue grows from 6.1 MSEK to 5.3 MSEK with a growth of 16% and now stands for 34,5% of the total revenue. The gross margin shows that the scalability is transforming in Westpay as this can be done with lower revenue than last quarter and last year's fourth quarter. Together with more recurring revenue amounting to more of the total revenue, it creates stability in the revenue and cash flows.

### Cost control

Westpay has shown another quarter with good cost control, we expected Westpay to have an EBITDA margin of 0%, but they surprised us and delivered a positive EBITDA margin. Westpay has shown for the last eight quarters a negative EBITDA margin, now with another quarter of positive quarter show that the last quarter was not just a one-off quarter. Especially with a quarter that didn't grow compared to the previous quarter and previous year's Q4 results.

### Kept fair value

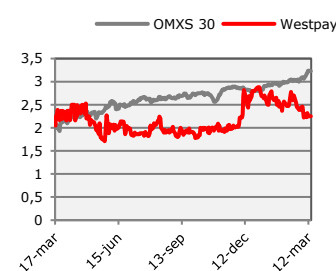
The fourth quarter was a step forward in the important KPIs, recurring revenue, and gross margin is increasing with our expectations. As the new restrictions due to the pandemic are hitting the already pressured sectors that Westpay serves, do we lower our revenue estimates in the short run, but pull forward when Westpay is profitable on an EBITDA level. We kept our base-case fair value of Westpay at 3.5 per share, corresponding to an upside of 53%

KEY FINANCIALS (SEKm)	2019	2020	2021E	2022E	2023E	2024E
Net sales	58	53	55	64	75	87
EBITDA	-20	-5	-5	3	7	13
EBIT	-27	-12	-11	-2	2	8
EPS (adj.)	-0.6	-0.4	-0.4	-0.1	0.0	0.2
EV/Sales	1.7	1.3	1.7	1.5	1.3	1.1
EV/EBITDA	-4.9	-14.3	-18.1	30.5	14.2	7.6
EV/EBIT	-3.7	-6.0	-8.3	-47.8	42.9	12.1
P/E	-4.9	-5.2	-6.4	-24.5	104.8	14.8

### FAIR VALUE RANGE

BEAR	BASE	BULL
1.5	3.5	6.0

### VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	WPAY
Market	NASDAQ
Share Price (SEK)	2,3
Market Cap (MSEK)	77
Net Debt 21E (MSEK)	9
Free Float	70 %

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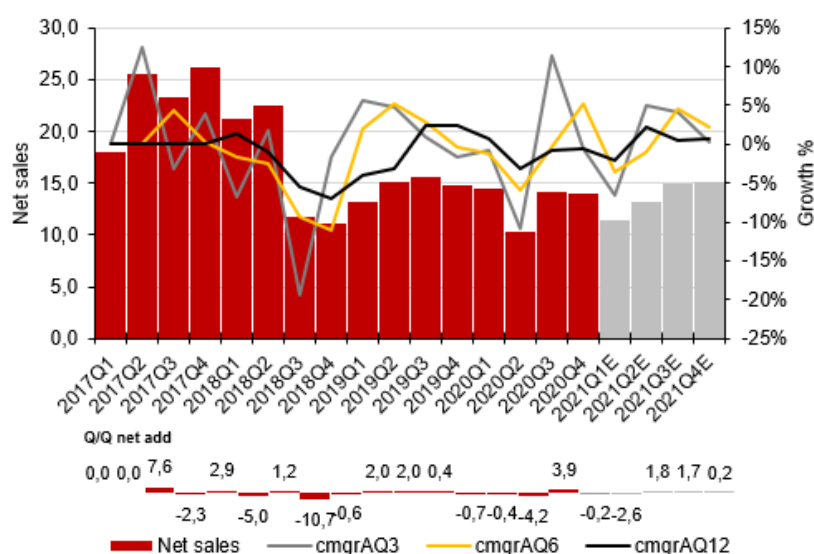
## Q4: Strong KPI momentum and cost control

Estimate vs outcome - Westpay				
MSEK	2019 Q4	2020 Q4A	2020 Q4E	Diff %
Net sales	14.8	13.9	14.0	-1%
of which recurring rev.	5.3	6.1	6.2	-2%
System sales	9.5	7.8	7.8	0%
Gross profit	9.4	9.7	9.2	6%
EBITDA	-9.4	0.3	0.0	737%
EBIT	-11.2	-1.5	-1.5	n.m.
Growth		-6%	-5%	
Rec. Rev. growth		15%	15%	
System growth		-18%	-17%	
Gross profit margin	63%	70%	65%	
EBITDA margin	-64%	2%	0%	
EBIT margin	-76%	-11%	-11%	

Source: Redeye Research

During the fourth quarter, net sales amount to 13.9 m SEK decreasing 6 % Y/Y, which was in line with our estimates. Recurring revenue grew 15 % Y/Y and reached 6.1 m SEK. Systems revenue fell 18 % Y/Y and amounted to 7.8 m SEK. Both revenue segments did essentially perform in line with our expectations. With a good cost control where the other external services were cut by 60 % from last year, EBITDA landed on 0.3 m SEK compared to our estimates on break even. Subsequent did EBIT came in on -1,5 m SEK, which also was in line with our estimates. It's impressive to increase the recurring revenues and improve the gross margin during a quarter with falling revenues compared to last year and last quarter.

### Westpay Growth table: Net sales

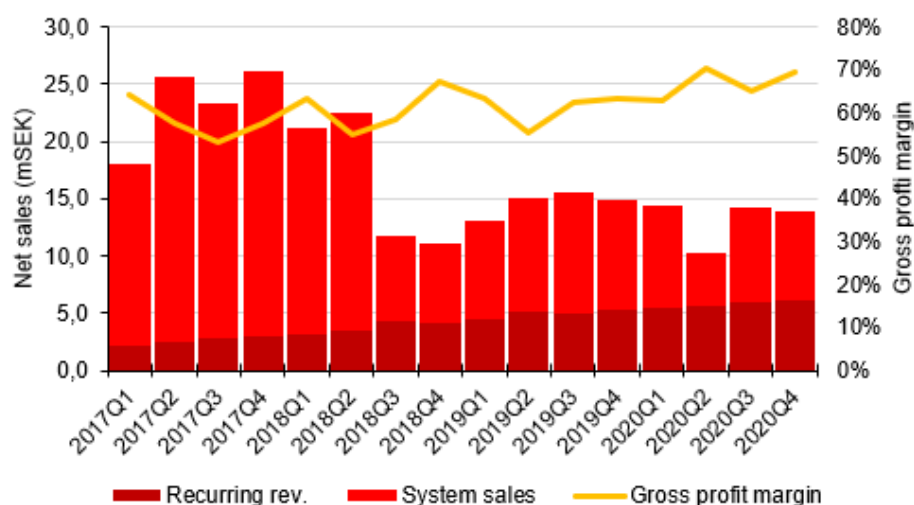


Source: Redeye Research

Net sales have had negative due to COVID-19 and mostly hit the systems net sales. We believe the new wave of the pandemic and seasonal effects hit the first three months will hit the Systems sales in a similar way Q2 2020 was hit. COVID-19 continues to be the biggest hinder to Westpay’s growth, as potential customers’ uncertainty decreases their willingness to invest. This is shown in their systems sales, but we don’t see a lack of demand; therefore, we expect the system’s deals as they grow back to previous levels.

Despite the pandemic, Westpay signed a new agreement with Panini, which has 29 shops in Stockholm. Still show the strength in Westpays offering to their customers during these challenging times, which is a testimony to the potential when the pandemic lifts.

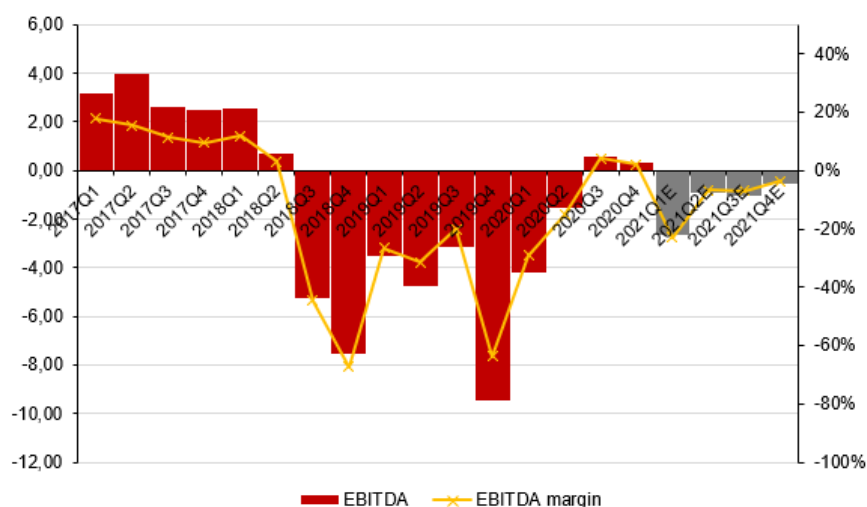
**Westpay:Revenue segments and gross profit margin**



Source: Redeye Research

The Q4 continued to show the important KPIs to go in the right direction, increasing recurring revenue that grew 15% Y/Y and improving gross margin that increased five percentage points from 65% to 70% Y/Y. With increasing recurring revenue and expanding gross margin, stability and scalability are created in Westpay’s cash flows, resulting in solid profitability performance forward when the pandemic lifts and the growth starts to come back.

**Westpay: EBITDA and EBITDA margin**



Source: Redeye Research

During the fourth quarter, Westpay was positive on an EBITDA level for the second quarter in a row and showed good cost control. Especially in the other external expenses, which was decreased 60% compared to the fourth quarter in 2019.

**The financial liquidity**

The cash-flow from operations during the fourth quarter amounted to 5,719m SEK, which substantially improved compared to SEK -5,955m in Q4'19. The development is a result of good cost control and maintained gross profits. At the end of Q4, Westpay had 1m SEK in available liquidity and an unused overdraft facility of 7m SEK. The cash position was negatively impacted by investing activities and in financing activities paying back 3,5m SEK. Nonetheless, the financial situation remains challenging, as it leaves little room for error. Therefore, we cannot roll out the need for a capital infusion within the year, but Westpay has shown that they can be fast in their cost-cutting in challenging times.

## Financial estimates

### Estimate changes

The fourth quarter showed the recurring revenue and gross margin going in the right direction and good cost control from management to show a positive EBITDA margin in these challenging times. As we have been afraid of before the third wave of COVID-19 and more burdensome restrictions for stores, malls, and restaurants, we lower net sales estimates.

Based on a lower cost basis, the POS-strategy, and recurring revenue increasing, we increase the EBITDA margins and move forward the estimated timeline for when Westpay reach their own financial goal of 10 % EBITDA margin.

Estimate changes			
MSEK	2021E	2022E	2023E
<b>Net sales</b>			
Old	70	90	105
New	55	65	76
% change	-22%	-28%	-27%
<b>EBITDA</b>			
Old	-10	-5	2
<i>marginal</i>	-14,3%	-5,6%	1,9%
New	-6	0	8
<i>marginal</i>	-11,7%	0,2%	9,9%
% change	n.m.	-102%	276%

Source: Redeye Research

## Next quarter estimates

Estimates vs outcome - Westpay			
MSEK	2020Q1	2020Q4	2021Q1E
NET SALES	14,4	13,9	11,4
Of which recurring	5,5	6,1	6,2
System	9,0	7,8	5,2
Gross Profit	9,1	9,7	8,2
EBITDA	-4,2	0,3	-2,6
EBIT	-6,2	-1,5	-4,0
Growth	10%	-6%	-21%
Rec. Rev. growth	22%	15%	13%
System growth	4%	-18%	-42%
Gross profit margin	63%	70%	72%
EBITDA margin	-29%	2%	-23%
EBIT margin	-43%	-11%	-35%

We expect the systems net sales to decrease significantly compared to the first quarter in 2020 due to hard comparables, as the pandemic had not impacted Westpay's systems sales in Q1 of 2019. Recurring revenue will continue to grow, and as a result, we will see higher gross margins. Due to lower net sales, will the EBITDA land on -23% and EBIT on -35%, despite the previously mentioned cost control, we don't see that they can cut their cost to any extent further. This will create pressure on the financial situation that is already under pressure, so we expect the company to address the financial situation during this quarter.

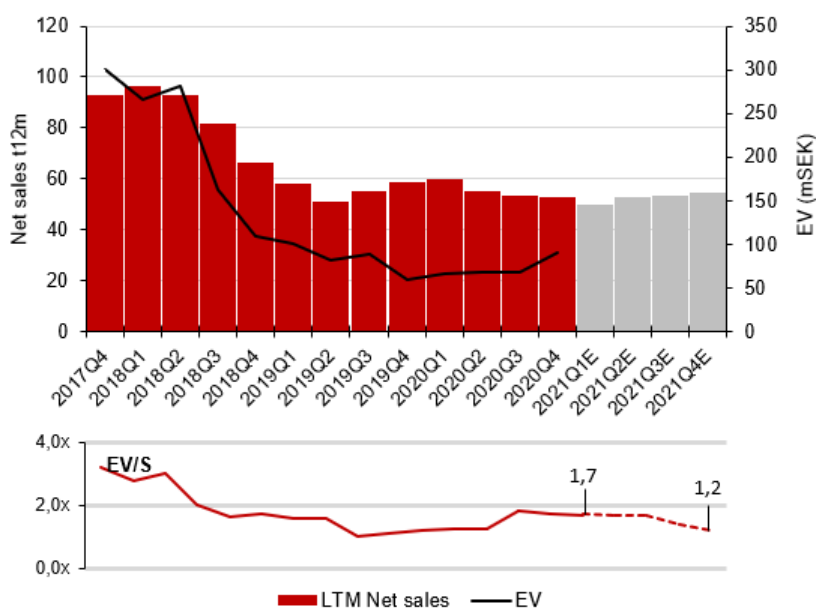
## Valuation

As we decrease our topline and increase our profitability, we also move the timeline for profitability forward. We have kept our Base-case valuation to **3.5 SEK** per share, indicating a **substantial upside** of around 53%.

The Systems sales have not recovered as quickly as we expected before, but we have seen the recurring revenue and good cost control, creating a lower cost basis for the future. With the momentum of signing new deals with merchants such as Axfood, Max, and lastly Panini, we see the first quarter of 2021 as the bottom in decreasing Systems sales. Westpay's flexibility, independence, and innovative drive should also ensure long-term solid **growth**, where new services like PaaS and Swipe2Pay will play an important role. However, despite the company's strong third quarter, the financial position leaves minimal room for error, and we see a clear risk for some capital infusion within a year.

Westpay shows the important KPIs, **gross margin**, and **recurring revenue**, going in the right direction. As Westpay comes out of the pandemic, it should be a pent-up demand to update a modern payment solution and invest willingness. However, the uncertainty currently is high because of the financial position. Current market valuation translates to an EV/S multiple on 2021 forecasts of 1.7x. Our Base-case implies a 1.4x multiple for 2022E and 1.2x multiple for 2023E, which we find fair in our view, given the positive momentum, revenue mix, and risk associated with the case.

Westpay: LTM net sales, EV & EV/S



Source: Redeye Research

### Sum-of-the-parts valuation (SOTP)

We also use a supportive SOTP to value Westpay, which is based on multiple sales on the recurring revenue and the system sales. We expect the recurring income to reach SEK 32m during 2022 and that the company will have system sales of SEK 32m. We argue that a 4.0x multiple (far below SaaS public valuation) compared to the previously used 3.0 multiple as the recurring revenue has a higher profitability impact on gross margins. At the same time, we added 1.0x on system sales. Our assumptions lead to a SOTP valuation of SEK 3.6 per share, close to the same level as for the DCF model.

SOTP valuation				
	2022E	EV/S multi.	EV	Disc. EV
Recurring revenue	32	4,0x	130	<b>104</b>
System sales	32	1,0x	32	<b>26</b>
Sum.	64	2,5x	<b>161</b>	<b>130</b>
EV	130			
Debt	8,6			
Cash	0,2			
Market cap	121			
Per share	3,6			

Source: Redeye Research

**Bear Case 1.5 SEK**

CAGR of 12% during the next ten years  
Average 1-5 year EBIT margin of 1%  
Average 6-10 year EBIT margin of 18%  
Terminal FCF growth of 2%  
Terminal EBIT margin of 16%

**Base Case 3.5 SEK**

CAGR of 13% during the next ten years  
Average 1-5 year EBIT margin of 1,6%  
Average 6-10 year EBIT margin of 20%  
Terminal FCF growth of 2%  
Terminal EBIT margin of 20%

**Bull Case 6.0 SEK**

CAGR of 20% during the next ten years  
Average 1-5 year EBIT margin of 2,6%  
Average 6-10 year EBIT margin of 24%  
Terminal FCF growth of 3,6%  
Terminal EBIT margin of 22%

## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report

#### People: 4

Westpay has during the past years transformed from first being a supplier of cash registry hardware to now being a global supplier of payment services. The ownership structure in Westpay is another of the company's main strengths. The high rating is mainly because both the board and the management of the company have significant ownership in the company. The Board and management together hold over 25 percent of the capital. We find this as positive as it contributes to a shareholder-friendly focus. Of course, we would like to see institutions as major owners, but we are aware that for a company of Westpay's size rarely gets that kind of owner.

#### Business: 3

We find opportunities for growth to be very strong for the company with its focus on payment solutions and increased SaaS share. The innovative drive that the company has proven is critical for the long-term growth within the rapidly changing payment solution sector. The company is number three in Sweden, but the market share is not directly large compared to Verifone and Ingenico. We have identified two different types of sustainable competitive advantages that protect the company — partly regulatory barriers that block new entrants from entering the market as well as lock-in effects of Westpay's customers due to development costs at PSPs and Cash System suppliers.

#### Financials: 1

Westpay has a diversified customer portfolio and is entering both new market regions and verticals within the payment space. The recurring revenue is steadily increasing, and the gross profit margins have been improving during the last years. However, the company incurred losses in 2019, and the financial liquidity leaves limited room for error.



INCOME STATEMENT	2019	2020	2021E	2022E	2023E
Net sales	58	53	55	64	75
Total operating costs	-78	-58	-60	-61	-68
EBITDA	-20	-5	-5	3	7
Depreciation	0	0	0	-1	-1
Amortization	-7	-6	-6	-4	-4
Impairment charges	0	0	0	0	0
EBIT	-27	-12	-11	-2	2
Share in profits	0	0	0	0	0
Net financial items	-1	-1	-1	-1	-1
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-28	-13	-12	-3	1
Tax	6	0	0	0	0
Net earnings	-22	-13	-12	-3	1

BALANCE SHEET	2019	2020	2021E	2022E	2023E
<b>Assets</b>					
<i>Current assets</i>					
Cash in banks	6	1	5	6	7
Receivables	11	12	12	15	18
Inventories	16	14	15	18	21
Other current assets	0	0	0	0	0
Current assets	34	27	33	39	46
<i>Fixed assets</i>					
Tangible assets	2	3	3	2	2
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	10	10	7	7	8
Non-current assets	0	0	0	0	0
Total fixed assets	12	13	10	10	10
Deferred tax assets	9	11	11	11	11
Total (assets)	55	51	54	60	68
<b>Liabilities</b>					
<i>Current liabilities</i>					
Short-term debt	0	5	20	26	29
Accounts payable	18	22	23	26	30
Other current liabilities	0	0	0	0	0
Current liabilities	18	27	43	52	59
Long-term debt	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0
Convertible	0	0	0	0	0
Total Liabilities	18	27	43	52	59
Deferred tax liab	0	0	0	0	0
Provisions	4	3	3	3	3
Shareholders' equity	33	21	9	6	6
Minority interest (BS)	0	0	0	0	0
Minority & equity	33	21	9	6	6
Total liab & SE	55	51	54	60	68

FREE CASH FLOW	2019	2020	2021E	2022E	2023E
Net sales	58	53	55	64	75
Total operating costs	-78	-58	-60	-61	-68
Depreciations total	-7	-7	-6	-5	-5
EBIT	-27	-12	-11	-2	2
Taxes on EBIT	0	0	0	0	0
NOPLAT	-27	-12	-11	-2	2
Depreciation	7	7	6	5	5
Gross cash flow	-20	-5	-5	3	7
Change in WC	3	5	-1	-2	-2
Gross CAPEX	-7	-7	-4	-4	-6
Free cash flow	-24	-7	-10	-3	-1

CAPITAL STRUCTURE	2019	2020	2021E	2022E	2023E
Equity ratio	60%	41%	16%	10%	10%
Debt/equity ratio	0%	24%	228%	445%	447%
Net debt	-6	4	15	19	21
Capital employed	27	25	24	25	28
Capital turnover rate	1.1	1.0	1.0	1.1	1.1

GROWTH	2019	2020	2021E	2022E	2023E
Sales growth	-13%	-9%	3%	18%	16%
EPS growth (adj)	7%	-42%	-4%	-74%	-123%

PROFITABILITY	2019	2020	2021E	2022E	2023E
ROE	-72%	-46%	-81%	-43%	12%
ROCE	-90%	-39%	-40%	-7%	7%
ROIC	-108%	-43%	-44%	-9%	9%
EBITDA margin	-35%	-9%	-9%	5%	9%
EBIT margin	-47%	-22%	-20%	-3%	3%
Net margin	-37%	-24%	-22%	-5%	1%

DATA PER SHARE	2019	2020	2021E	2022E	2023E
EPS	-0.64	-0.37	-0.36	-0.09	0.02
EPS adj	-0.64	-0.37	-0.36	-0.09	0.02
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.19	0.12	0.44	0.57	0.64
Total shares	33.75	33.75	33.75	33.75	33.75

VALUATION	2019	2020	2021E	2022E	2023E
EV	99.9	69.5	92.1	96.4	98.7
P/E	-4.9	-5.2	-6.4	-24.5	104.8
P/E diluted	-4.9	-5.2	-6.4	-24.5	104.8
P/Sales	1.8	1.2	1.4	1.2	1.0
EV/Sales	1.7	1.3	1.7	1.5	1.3
EV/EBITDA	-4.9	-14.3	-18.1	30.5	14.2
EV/EBIT	-3.7	-6.0	-8.3	-47.8	42.9
P/BV	3.2	3.1	8.7	13.5	12.0

SHARE PERFORMANCE	GROWTH/YEAR		18/20E
1 month	-11.9 %	Net sales	-3.2 %
3 month	-14.9 %	Operating profit adj	-36.4 %
12 month	11.7 %	EPS, just	-25.5 %
Since start of the year	-20.5 %	Equity	-48.5 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Nordnet Pensionsförsäkring	16.0 %	16.0 %
Jörgen Nordlund (med bolag)	7.5 %	7.5 %
Avanza Pension	7.0 %	7.0 %
Malte Roggentin	5.5 %	5.5 %
Without Bank Julius Baer & co LTD	5.3 %	5.3 %
Per-Anders Wärm	4.0 %	4.0 %
Ålandsbanken AB	4.0 %	4.0 %
Göran Sparrdal	3.2 %	3.2 %
Carl Ragnar Torbernt Hjelmvik	3.0 %	3.0 %
Sten Karlsson (med bolag)	2.7 %	2.7 %

SHARE INFORMATION	
Reuters code	
List	
Share price	2.3
Total shares, million	33.8
Market Cap, MSEK	77.3

MANAGEMENT & BOARD	
CEO	Sten Karlsson
CFO	Lars Levin
IR	Hans Edin
Chairman	Christina Detlefsen

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## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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### Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

### Redeye Rating (2021-03-17)

Rating	People	Business	Financials
5p	20	15	3
3p - 4p	108	88	39
0p - 2p	5	30	91
Company N	133	133	133

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### CONFLICT OF INTERESTS

Douglas Forsling owns shares in the company : No

Forbes Goldman owns shares in the company : Yes

Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.