

Equity Research | MOTION DISPLAY: European sales growth offsetting inconsistent US market

Motion Display is sustaining its positive momentum with 193% YoY growth and improved cost control, resulting in a third consecutive quarter of positive EBITDA at SEK 0.5m. This success is primarily attributed to recent sales growth in Europe, while the US market remains shaky. Despite our optimism about the overall outlook, marked by a more stable order inflow, a higher-than-anticipated working capital has exerted pressure on the company's cash position, necessitating attention. We maintain our forecast and continue to find support for a fair value range of SEK 1.9-2.1 per share in 12-24 months.

Steady sales in historically weak Q3

While Q3 sales of SEK 6m came in slightly lower than our estimates (SEK 7m) and compared to Q2 (SEK 7.7m), we were positively surprised by both the gross margin of 61% (helped by changes in FX) and the tighter cost control, leading to a positive EBITDA, of SEK 0.5m, for the third straight quarter. The order book at SEK 4.5m at the end of the quarter, plus an additional order of SEK 3m after the end of Q3, suggests that the final quarter of the year will also follow the upward trend we've seen in the past year. The company's purchase of components to swiftly meet possible orders has increased working capital and depleted its cash reserves, which are now at critically low levels.

Success in Europe and rest of the world

The most significant takeaway from the Q3 report is the fact that Motion Display has achieved sales of SEK 6m, with 75% attributed to Europe and the rest of the world (RoW). Historically, the US market has been more or less the only market, and the pandemic highlighted how sensitive (and costly) it can be when all your eggs are in one basket. The retail market is complex, with large purchasing organizations acting as gatekeepers to the brands, and companies like Motion Display often depend on these organizations. Without being an 'approved supplier' by one of them, the investment case in Motion Display has been quite binary, dependent on single sporadic orders. However, over the last 12 months, Motion Display has gained this approval and made strides towards becoming a standing feature of the in-store marketing mix.

Positive outlook despite dwindling cash position

Through three quarters, Motion Display has achieved sales of SEK 21.1m with an EBITDA of SEK 1.7 m. Comparing this to the same period in 2022, where sales amounted to SEK 11.5m and an EBITDA of SEK -2.8m, the contrast is stark. Although the share price has recovered somewhat, we still see plenty of room for a continued revaluation as order inflow stabilize, making the investment case less binary. Hinging on continued growth in Europe and RoW, as well as high-value one-offs in the US, last-row profitability is within the company's reach next year, highly dependent on whether gross margins continue to be as strong as they have been during 2023. We maintain our forecast and fair value range of SEK 1.9-2.1 in 12-24 months. While we remain optimistic about the



company's outlook, the cash position of SEK 0.1m is worrisome. Some measures will have to be taken soon, especially in light of the SEK 3m deferred tax debt to Skatteverket due in February 2024. We presume a likely scenario involves some sort of bridge financing, but we can't rule out a rights issue.

Read the full report here https://www.emergers.se/motion_i/

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