Corporate Research

Alcadon Group

Company Update | Telecom Equipment | Sweden | 24 June 2020

5 for Growth

We initiate coverage of Alcadon Group with a mid-point DCF-based equity value of SEK 30 per share. Alcadon is a niche distributor in the premium segment of the Nordic network equipment market. We believe the pending rollout of 5G will be a significant driver of organic growth over our forecast period; this, combined with Alcadon increasing the share of higher-margin private label sales and cost leverage we estimate EPS CAGR of 19% in 2020-22.

Increasing network density to drive demand for equipment

We believe Alcadon offers a good exposure to the roll-out of 5G technology, the increasing use of edge computing (cloud) and industrial automation trends (Industry 4.0 or internet of things). To support the volume of connections, low latency and connection speeds, critical to 5G applications, a much denser network infrastructure is needed. Here, Alcadon has carved out a leading market position in the premium network equipment segment. M&A adds to the potential.

We forecast about 5% organic growth, PL sales and cost leverage drive EPS

We estimate organic growth rates of around 5% in 2020-22. From its strategy to increase private label sales (from 31% of revenue in 2019) and better bought-in margins from key suppliers, earnings growth will be supported by improving gross margins. Adding SG&A cost leverage, we expect EBIT margins to rebound from a historical low of 6.5% in 2019, to 8%-10% in 2020-22.

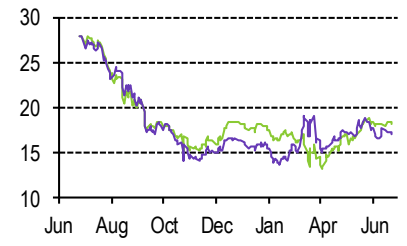
Our mid-point DCF-based equity valuation is SEK 30 per share

Including dividends, we see total return prospects of 69% from current equity valuation levels. Based on our earnings estimates, we believe Alcadon is today valued at below 8x next year's EV/EBIT, corresponding to an almost 50% discount to its peer group median valuation of 14x. At our mid-point equity value of SEK 30 per share, this would imply 11.5x 2021E EV/EBIT and in our opinion a more reasonable 20% discount to peers, as justified by its small capitalization.

Key Data (2020E)

Price (SEK)	18.25
Reuters	ALCA.ST
Bloomberg	ALCA:SS
Market cap (SEKm)	308
Market cap (USDm)	33
Market cap (EURm)	29
Net debt (SEKm)	100
Net gearing	43%
Net debt/EBITDA (x)	2.0
Shares fully dil. (m)	16.9
Avg daily turnover (m)	0.0
Free float	73%

Share Price (12M)



Absolute (green) / Relative to Sweden (purple).

Financials (SEK)

Year end: Dec	2018	2019	2020E	2021E	2022E
Revenues (m)	544	485	494	519	547
Adj. EBIT	58	33	41	49	55
Pre-tax profit (m)	47	25	35	44	51
EPS	2.15	1.13	1.63	2.03	2.33
Adj. EPS	2.20	1.21	1.64	2.04	2.33
DPS	0.50	0.00	0.50	0.60	0.70
Revenue growth (%)	(6.2)	(10.8)	1.8	5.0	5.4
Adj. EBIT growth (%)	(19.1)	(43.7)	26.2	19.2	11.6
Adj. EPS growth (%)	(25.9)	(44.9)	35.6	24.1	14.4
Adj. EBIT margin (%)	10.6	6.7	8.3	9.4	10.0
ROE (%)	21.4	9.5	12.5	13.8	14.3
ROCE (%)	18.3	9.5	11.6	13.4	14.4
PER (x)	13.7	15.1	11.1	9.0	7.8
Free cash flow yield (%)	10.2	11.5	8.6	11.6	12.5
Dividend yield (%)	1.7	0.0	2.7	3.3	3.8
P/BV (x)	2.60	1.49	1.31	1.18	1.06
EV/Sales (x)	1.15	0.90	0.83	0.73	0.64
EV/Adj. EBITDA (x)	10.4	9.9	8.0	6.5	5.5
EV/Adj. EBIT (x)	10.8	13.3	9.9	7.8	6.4
Operating cash flow/EV (%)	8.4	8.2	8.7	11.9	13.7
Net debt/Adj. EBITDA (x)	2.00	2.98	1.97	1.24	0.69

Source for all data on this page: SEB (estimates) and Millistream/Thomson Reuters (prices)

Contents

Page

Investment conclusion

Initiating coverage – DCF value of SEK 30

Mid-point DCF equity valuation conclusion

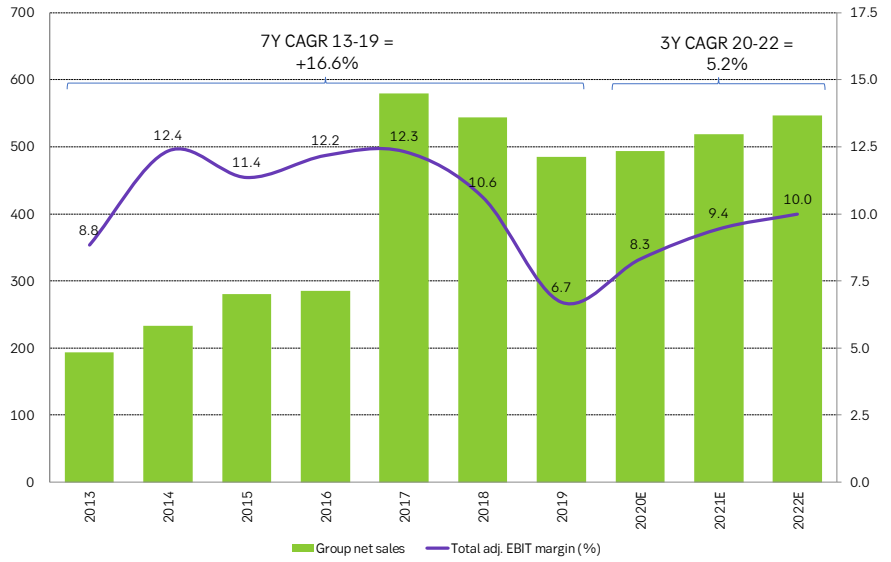
Mid-point DCF value (SEK)	30.00		
Share price (SEK)	18.00		
2021E EV/EBIT, adj. (x)	7.7		
2021E EV/EBIT, adj. & excl. IFRS16 debt (x)	7.3		
2021E adj. PER at current share price (x)	8.8		
2020E DPS (2021 payout)	0.50		
	Low	**High**	**Mid-point**
DCF valuation range (SEK)	26.00	34.00	30.00
Equity potential (%)	**44**	**89**	**67**
2021E adj. EV/EBIT at mid-point DCF value (x)	10.1	12.8	11.5
2020E DPS yield (%)	2.8	2.8	2.8
Total return potential	**47**	**92**	**69**

Source: SEB

Including our 2020 forecast dividend yield of 2.8%, we see total return prospects of 69% from current share price levels

We initiate coverage of Alcadon Group, a niche distributor and value-added provider of electrical and fibre products in the premium segment of the Nordic network equipment market, with a mid-point DCF based equity value of SEK 30 per share. Including our 2020 forecast dividend yield of 2.8%, we see total return prospects of 69% from current share price levels. Based on our earnings estimates, we believe Alcadon is today valued at below 8x next year's EV/EBIT estimates, which corresponds to almost 50% discount to its Nordic and international peer group median valuation of 14x. At our equity value of SEK 30 per share, this would imply 11.5x 2021E EV/EBIT and in our opinion a more reasonable 20% discount to peers (as justified by its small capitalization).

Sales growth and EBIT margin forecasts and track record (%)

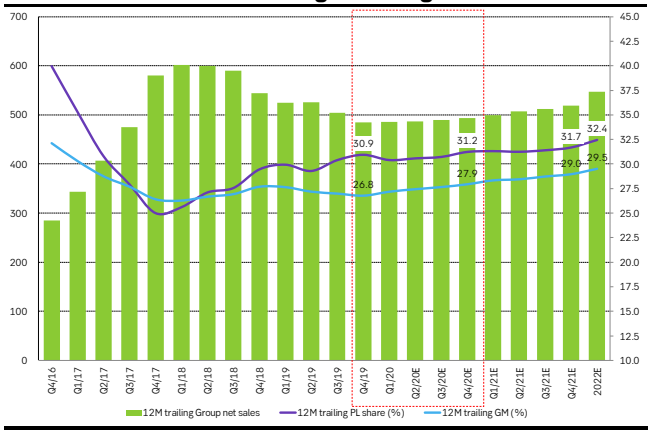


Source: SEB (2013-2015 sales and margins as reported as a division in DistIt Group)

In all, we forecast about 5% organic growth prospects over our forecast period and with margins improving from around 8% in this year, to 10% by 2022

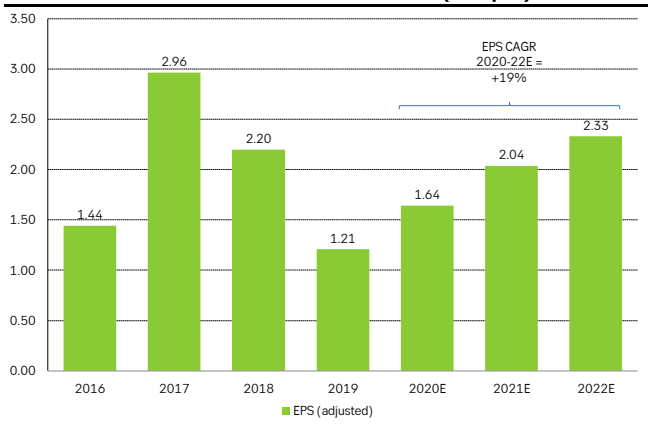
After two years of falling markets, following peak investments in primarily Swedish fibre-to-the-home (FFTH) rollouts in 2016-2017, we argue the company is set to return to organic growth and with a resulting rebound in operating margins from SG&A cost leverage and increasing share of higher-margin private label sales. In all, we forecast about 5% organic growth prospects over our forecast period and with margins improving from around 8% in this year, to 10% by 2022. This implies a CAGR in operating earnings of 15% over our forecast period and for EPS to grow from SEK 1.64 in this year to SEK 2.33 in 2022 (equal to a CAGR of 19%).

Private label sales share and gross margin forecasts



Source: SEB

EPS and EPS CAGR 2020-2022 forecasts (SEK/%)



Source: SEB

Demand driven by mega-trends

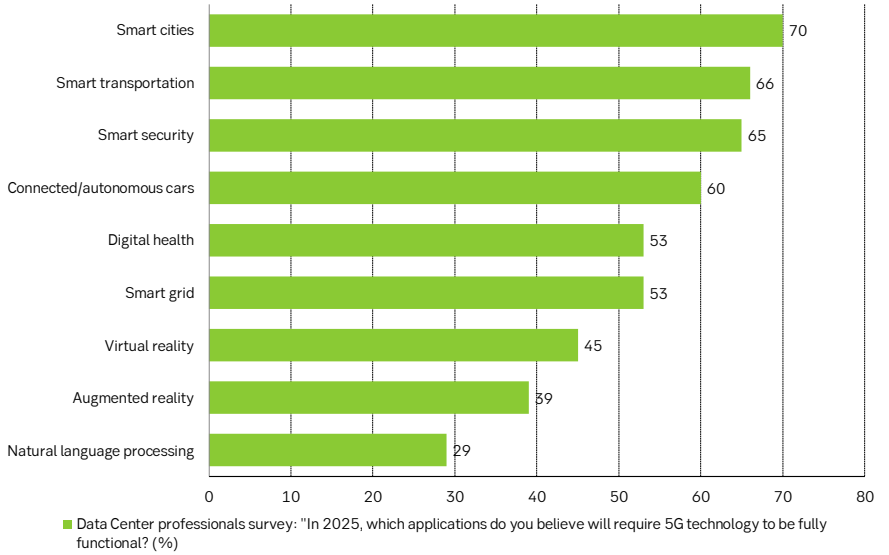
We believe Alcadon Group offers an interesting exposure to:

- The pending roll-out of 5G technology.
- The increasing use of data centre and edge computing (capacity closer to the location where it is being used).
- Industrial automation – i.e. Industry 4.0 or internet of things (IoT).

According to industry players, 5G technology could require 16x as many base stations per square kilometre, compared to a 4G network to cover the same area

All these trends are structural drivers for growth at Alcadon Group as they require a denser network infrastructure (a tighter mesh of radio antennas and a corresponding fibre backhaul) to fully operate, i.e. to support the volume of connections, low latency, and connection speeds critical in edge computing and industrial automation, for example. According to industry players, 5G technology could require 16x as many base stations per square kilometre, compared with a 4G network to cover the same area.

Applications enabled/requiring fully functional 5G technology



Source: SEB, Vertiv ("Data Center 2025 - closer to the edge")

Timing of 5G rollouts adds to triggers

About 78% of CTOs in European telecommunications operators expect 5G to be rolled out before 2022

According to a survey in the European Parliament report "5G deployment: state of play in Europe, USA and Asia", about 78% of chief technology officers in European telecommunications operators expect 5G to be rolled out before 2022. Looking out to 2024, Ericsson now forecasts 5G subscriptions to grow to 1.9bn, corresponding to 20% of all mobile subscriptions.

Expected timing on 5G roll-out, telco operator CTO survey (%)

Timeframe	EU	USA	Asia
Before 2020	11	56	40
Before 2022	78	44	40
2022-2025	11	0	20

Source: European Parliament (BLACKMAN, C., FORGE, S., 5G Deployment: State of Play in Europe, USA and Asia, Study for the Committee on Industry, Research and Energy, Policy Department for Economic, Scientific and Quality of Life Policies)

In Sweden, 5G frequency auctions which will now take place on 10 November

In Sweden, due to the ongoing Covid-19 pandemic, the Swedish Post and Telecom Authority, PTS (regulating the communications sector), has postponed its 5G, 3.5GHz and 2.3 GHz, frequency auctions which will now take place on 10 November this year. We believe these auctions should also mark the start of the 5G network capex cycle in the Swedish market.

In Norway, Telenor's plans for 2021 is to upgrade a total of 2,000 base stations; and to upgrade a total of 8,500 base stations during 2021-2025

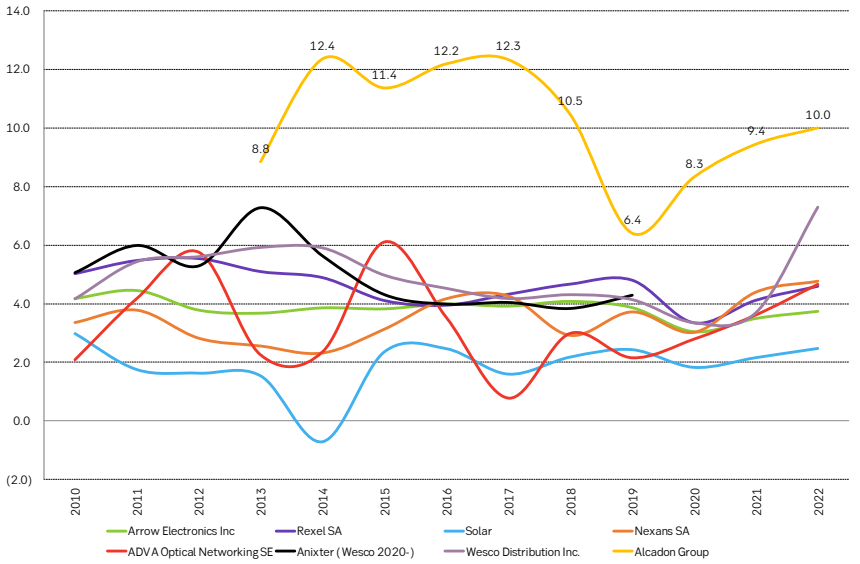
In Norway, the communications regulator Nasjonal Kommunikasjonsmyndighet, Nkom, held its first 5G auction in June 2019, with incumbents Telenor and Telia, as well as challenger mobile operator ICE (ICE.NO), being assigned 2x10MHz of spectrum each in the 700MHz band. After several pilots starting in 2018, Telenor opened its 5G network for consumers in Trondheim and eight other cities in March of this year and "plans to expand coverage significantly during 2020". Telenor's plan for 2021 is to upgrade a total of 2,000 base stations and to upgrade a total of 8,500 base stations in the period 2021-2025. Nkom will hold the next 5G frequency auctions in "first half of 2021", which we believe could act as a trigger for further 5G network investments in Norway.

Premium position, premium margins

In this market Alcadon has carved out a leading position in the premium network equipment segment, i.e. structured cable solutions based on optic fibre and copper cables and components. This enables higher pricing and the company has successfully developed and launched its own private label products (ECS and DC Line) too. Our analysis shows that these product categories carry almost twice as high margins compared to distributed brands.

Based on our assumption that Alcadon will aim to grow the share of private label sales over our forecast period (from 31% in last year), this should also bolster total gross margins in the group. As reflected in its higher EBIT margins, compared to its sector peers (see our margin analyses below), we argue Alcadon Group is not the average distributor. Rather the company adds value for its customers as a solutions provider and allowing them to charge a corresponding premium.

Network equipment and distribution peer group EBIT margins (%)



Source: SEB, Company data, ThomsonReuters

Putting numbers to the M&A potential

According to CEO Sonny Mirborn, his top priority is to generate organic growth. Here, we believe Q1 this year marked the inflection point showing a positive development in organic sales for the first quarter in two years. In addition, we believe Alcadon will continue to look for further M&A opportunities. While we have not included any acquisitions in our forecast, based on the average multiple paid in its past three acquisitions and considering its balance sheet capacity, we arrive at an additional equity value potential of SEK 4 per share from our M&A scenario analysis below.

Historical three acquisitions combined, 2017-2018 (SEKm)

Annual sales	278.2
EBIT	22.5
EBIT %	8.1
EV paid	**152.6**
EV/EBIT paid (x)	**6.8**

Source: SEB

Acquisitions could add another SEK 4 per share in equity value

What if: estimating acquisition value potential in Alcadon Group	**2021E**
Assumed EV/EBIT multiples on acquisitions (x)	7.0
Cash spent on acquisitions (SEKm)	70
Acquired EBIT (SEKm)	10
Acquired EBITDA (SEKm)	13
Financing cost @ 3.5% (SEKm)	(2)
Increased pre-tax profit (SEKm)	8
Increased net income @ 22% tax rate (SEKm)	6
No of shares (m)	16.9
Increased EPS (SEK)	0.35
Peer group 2021E PER, median (x)	15.0
PER post-20% discount to peer group median (x)	12.0
Value increase per share @ peer median PER post-20% discount (SEK)	**4.00**

Source: SEB

Implied net debt-to-EBITDA from scenario acquisition above	
ND/EBITDA acq. scenario analysis	**2020E**
Current ND (excl. IFRS-16) (SEKm)	83
Current EBITDA (SEKm)	51
Current ND/EBITDA (x)	**1.63**
ND (excl. IFRS-16), post-acq (SEKm)	153
EBITDA, post-acq. (SEKm)	64
ND (excl. IFRS-16)/EBITDA, post-acq (x)	**2.39**
SEB estimated covenant for Alcadon (x)	3.50

Source: SEB

Key risks and investment concerns

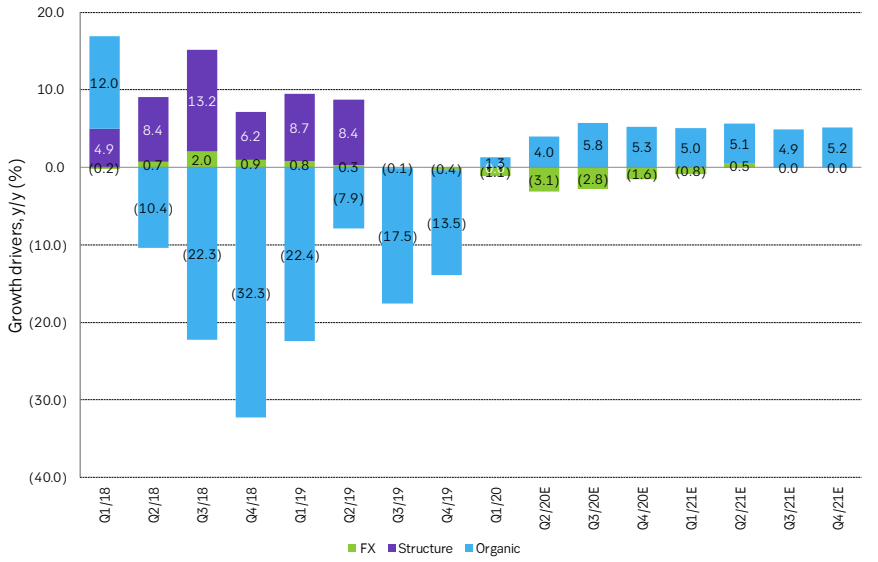
- The scale of necessary capex needed to launch and commercialize 5G broadband technology is a major growth opportunity for Alcadon, we argue. Still, price pressure is well-established across the network equipment industry. Alcadon has already ended and turned down low-margin projects at the expense of sales growth in the past years. As our margin expansion forecasts in 2020-2022 build from improving price/mix and an increasing share of its private label sales, price discipline and focus on premium (own PL) solutions will be important, while many competitors may undercut each other on price.
- We assume the mid-2018 acquisition of Norwegian CableCom AS will be an important driver of organic growth as part of Alcadon Group over our forecast period. We note CableCom's leading market position within satellite TV distribution network. In our opinion, this segment is probably in structural decline. While demand is continuing to hold up (surprisingly) well, achieving economies of scale and scope (geographical reach, cross selling) will be important to sustain positive organic sales growth in Alcadon Norway.
- Based on sector company commentaries, the Covid-19 pandemic has generally not had a major impact on the broadband and network sector. Alcadon has only reported limited issues in upstream sourcing, so far. While the network equipment sector fundamentals, often based on large and long-term capex decisions, should prevail (the need for secure and low latency broadband-based communication is probably more important today), we are concerned about the impact from fewer housing starts this year, which eventually could feed through to burden demand in Alcadon's Residential business segment in 2021 and in 2022.
- Alcadon Group's financial disclosure and historical track record as a listed company is limited. The company does not disclose important key financials, like earnings or capital employed, by business segment. Sales by geographical market and by business segment (disclosed since 2018) are reported. Given market volatility in recent years, burdening group organic sales and earnings growth, this suggests a higher equity risk premium is appropriate for Alcadon in the medium term. Any possible changes to reporting disclosure, we argue, could improve earnings visibility, forecast certainty and lower the valuation risk premium for equity investors

Financial forecasts

Premium position, above sector margins

We base our financial forecasts for Alcadon on a return to growth in 2020 and beyond. After two years of negative organic growth in 2018-2019, reflecting significant peak investments in FTTx networks in 2016-2017, we argue the company is well-positioned to benefit from a more normal market outlook, as well as from the start to the pending 5G network capex cycle over our forecast period to 2022 and beyond. Also, we believe the company has ample room to improve organic sales growth from cross-selling and geographical category expansion in the integration of previous acquisitions.

Q1 2020 marked the inflection point in organic growth



Source: SEB

Sales growth bridge

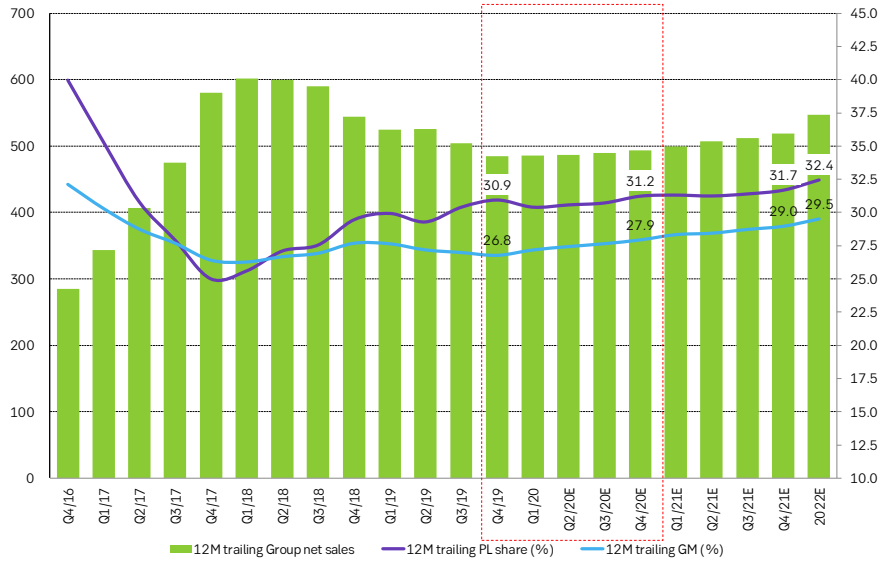
(SEKm)	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Total sales	233	281	285	580	544	485	494	519	547
Organic sales growth	40	48	4	81	(86)	(84)	19	25	28
Forex sales growth	0	0	0	0	4	1	(10)	(1)	0
Acquired sales growth	0	0	0	213	47	24	0	0	0
Organic sales	233	281	285	366	494	460	504	519	547
Organic sales growth (%)	**20.6**	**20.4**	**1.6**	**28.4**	**(14.8)**	**(15.5)**	**3.9**	**5.1**	**5.4**

Source: SEB

Alcadon is a niche player and positioned in the premium segment of the network equipment market, i.e. structured cable solutions based on optic fibre and copper cables and components. This enables higher pricing and the company has successfully developed and launched its own private label products (ECS and DC Line). Our analysis shows that these product categories carry much higher margins than distributed brands. Based on our assumption that Alcadon will aim to grow the share of private label sales over our forecast period (from 31% in last year), this should also bolster gross margins.

We forecast gross margins to improve from last year's levels of 26.8% to 27.9% this year and to 29.5% in 2022. While the Swedish krona and Norwegian krone have been weak versus their main transaction currencies (the US dollar and euro exposure is close to 55% of payments in cost of goods payments), these movements have historically been passed on in the value chain. More importantly, the company has secured better bought-in margins from key suppliers and which should also bolster gross profits in 2020 onwards.

Private label sales contribution and gross margin forecasts (%)



Source: SEB

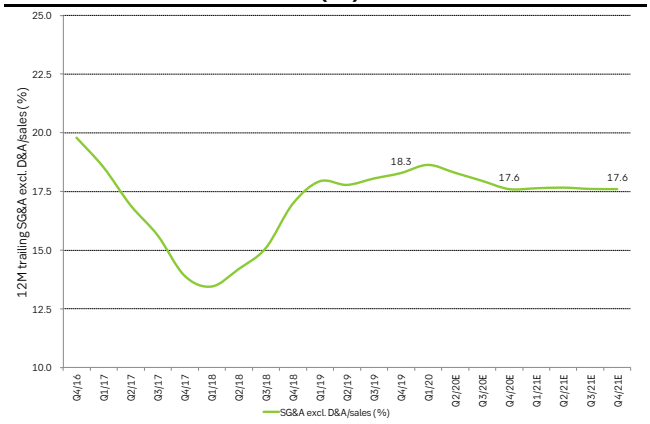
Gross margin bridge, y/y (pp)

Source: SEB

CEO Sonny Mirborn has announced and implemented a cost efficiency programme aimed at achieving gross savings of SEK 8m in 2020. This should bolster SG&A costs ahead, while we also expect the company to selectively employ key personnel in 2020. We expect the number of FTEs to be back to 2018 levels by the end of this year.

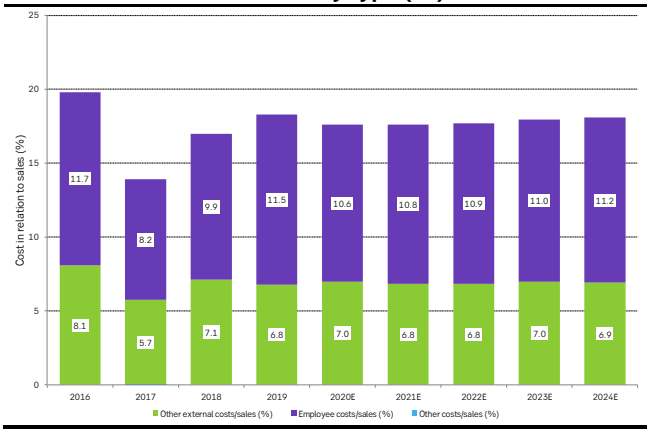
Given our assumptions for mid-single digit organic growth, we expect improving SG&A cost-to-sales levels from 18.3% last year, to 17.6% in 2020-2021. This operating leverage should also bring a good improvement in operating margins. Our estimates imply EBIT margins of 8.3% in this year and 9.4% in 2021 – up from a historical low last year of 6.8%.

SG&A cost-to-sales forecasts (%)



Source: SEB

SG&A cost-to-sales forecasts by type (%)



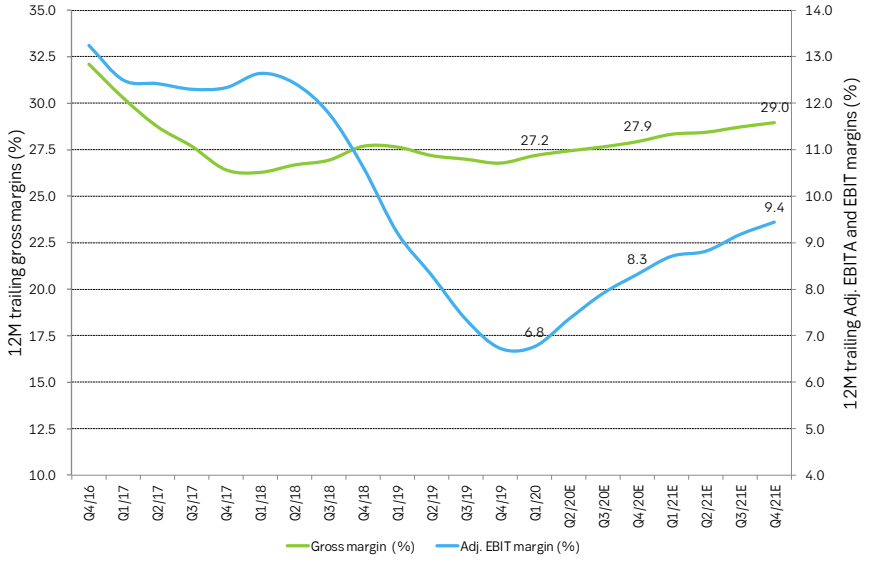
Source: SEB

Financial forecasts

Consolidated P&L (SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20E	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales	130	135	102	118	131	136	105	122	485	494	519	547
Cost of goods sold	(96)	(99)	(75)	(86)	(94)	(99)	(76)	(88)	(355)	(356)	(368)	(385)
Gross profit	**35**	**36**	**27**	**32**	**37**	**38**	**29**	**35**	**130**	**138**	**150**	**161**
SG&A total (excl. D&A)	(23)	(23)	(19)	(24)	(25)	(21)	(18)	(23)	(89)	(87)	(91)	(97)
EBITDA	**12**	**13**	**8**	**8**	**12**	**16**	**11**	**12**	**41**	**51**	**59**	**65**
Depr. of fixed assets	(0)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(1)	(1)	(2)	(2)
Depr. of ROU asset (IFRS16)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(9)	(8)	(8)	(8)
EBITA	**9**	**11**	**5**	**6**	**9**	**14**	**8**	**10**	**31**	**41**	**49**	**55**
Amortization	0	0	0	(0)	0	0	0	(0)	(0)	(0)	(0)	(0)
Impairments	0	0	0	0	0	0	0	0	0	0	0	0
Total D&A	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(2)	(10)	(10)	(10)	(10)
EBIT	**9**	**11**	**5**	**6**	**9**	**14**	**8**	**10**	**31**	**41**	**49**	**55**
o/w: total NRIs	0	0	0	(2)	0	0	0	0	(2)	0	0	0
Adj. EBIT	**9**	**11**	**5**	**7**	**9**	**14**	**8**	**10**	**33**	**41**	**49**	**55**
Associates									0	0	0	0
Net financials (incl. assoc. income)	(1)	(1)	(1)	(2)	(1)	(1)	(1)	(2)	(6)	(6)	(5)	(4)
Pre-tax profit	**8**	**9**	**4**	**4**	**8**	**12**	**7**	**8**	**25**	**35**	**44**	**51**
Minorities	0	0	0	0	0	0	0	0	0	0	0	0
Tax paid on pretax profit	(2)	(2)	(1)	(1)	(2)	(3)	(1)	(2)	(6)	(8)	(10)	(11)
Paid tax rate, %	23.1	23.5	18.7	21.9	22.9	23.3	19.3	23.2	22.4	22.4	22.4	22.4
Tax deferred	0	0	0	0	0	0	0	0	0	0	0	0
Full tax rate, %	23.1	23.5	18.7	21.9	22.9	23.3	19.3	23.2	22.4	22.4	22.4	22.4
Reported after tax profit	**6**	**7**	**3**	**3**	**6**	**9**	**6**	**6**	**19**	**28**	**34**	**39**
Total adjustments	0	0	0	2	0	0	0	0	2	0	0	0
Tax effect of adjustments (included in taxes)	0	0	0	(0)	0	0	0	(0)	(0)	(0)	(0)	(0)
Adjusted profit after tax	**6**	**7**	**3**	**4**	**6**	**9**	**6**	**6**	**20**	**28**	**34**	**39**
Adjustments												
Cash NRIs	0	0	0	(2)	0	0	0	0	(2)	0	0	0
Non-cash NRIs	0	0	0	0	0	0	0	0	0	0	0	0
Total NRIs	**0**	**0**	**0**	**(2)**	**0**	**0**	**0**	**0**	**(2)**	**0**	**0**	**0**
EPS, reported	0.36	0.42	0.19	0.17	0.38	0.56	0.33	0.36	1.13	1.63	2.03	2.33
EPS, adj.	0.36	0.42	0.19	0.24	0.38	0.56	0.33	0.37	1.21	1.64	2.04	2.33
Adj. EBITDA	**12**	**13**	**8**	**10**	**12**	**16**	**11**	**12**	**43**	**51**	**59**	**65**
Adj. EBITA	**9**	**11**	**5**	**7**	**9**	**14**	**8**	**10**	**33**	**41**	**49**	**55**
Adj. EBIT	**9**	**11**	**5**	**7**	**9**	**14**	**8**	**10**	**33**	**41**	**49**	**55**
No of shares, avg., f. dil, adj. (m)	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859	16.859

Source: SEB

Gross and EBIT margin estimates (%)



Source: SEB

Main forecast assumptions

(%)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20E	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales growth, y/y (%)												
FX	0.8	0.3	(0.1)	(0.4)	(1.1)	(3.1)	(2.8)	(1.6)	0.2	(2.1)	(0.1)	0.0
Structure	8.7	8.4	0.0	0.0	0.0	0.0	0.0	0.0	4.5	0.0	0.0	0.0
Organic	(22.4)	(7.9)	(17.5)	(13.5)	1.3	4.0	5.8	5.3	(15.5)	3.9	5.1	5.4
Total net sales	(12.9)	0.8	(17.6)	(13.9)	0.2	0.8	2.9	3.7	(10.8)	1.8	5.0	5.4
Private Labels	(7.1)	(7.2)	(2.3)	(8.0)	(6.0)	3.0	5.0	10.5	(4.7)	2.5	6.5	8.0
Brands	(15.4)	4.5	(23.2)	(16.3)	3.2	(0.0)	2.0	0.6	(13.3)	1.5	4.3	4.3
Total net sales	(12.9)	0.8	(17.6)	(13.9)	0.2	0.8	2.9	3.7	(10.8)	1.8	5.0	5.4
Gross margin bridge (pp)												
Price/mix	(1.4)	1.4	(5.0)	(2.1)	3.9	0.7	0.7	(0.9)	(2.4)	1.2	0.4	(0.3)
PL share	2.0	(2.5)	5.0	2.0	(2.0)	0.6	0.6	2.0	2.0	0.2	0.5	0.8
US dollar impact	(0.8)	(0.7)	(0.9)	(0.6)	(0.5)	(0.4)	(0.3)	(0.1)	(0.4)	(0.3)	0.1	0.1
Other	(0.0)	(0.1)	(0.0)	(0.0)	0.1	0.0	0.1	0.1	(0.0)	0.1	0.1	0.0
Gross margin, change, y/y (pp)	**(0.3)**	**(1.8)**	**(0.9)**	**(0.7)**	**1.5**	**0.9**	**1.0**	**1.2**	**(0.9)**	**1.2**	**1.0**	**0.5**
Gross margin (%)	**26.5**	**26.7**	**26.6**	**27.3**	**28.0**	**27.6**	**27.6**	**28.5**	**26.8**	**27.9**	**29.0**	**29.5**

Source: SEB

Alcadon Group – growth and margin forecasts

Growth & margins (%)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20E	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Revenue growth (%)	(12.9)	0.8	(17.6)	(13.9)	0.2	0.8	2.9	3.7	(10.8)	1.8	5.0	5.4
Adj. EBITA growth (%)	(50.8)	(30.3)	(55.5)	(37.0)	2.2	27.3	55.5	31.7	(43.5)	26.0	19.1	11.5
Adj. EBIT growth (%)	(50.8)	(30.3)	(55.5)	(37.6)	2.2	27.3	55.5	32.3	(43.7)	26.2	19.2	11.6
Pre-tax profit growth (%)	(53.2)	(24.6)	(46.2)	(65.9)	6.4	32.0	75.3	119.8	(47.5)	44.0	24.2	14.6
Net profit growth (%)	(53.6)	(24.7)	(42.7)	(65.8)	6.7	32.4	74.0	116.3	(47.2)	44.1	24.2	14.6
Adj. EPS growth (%)	(53.6)	(29.8)	(42.7)	(50.7)	6.7	32.4	74.0	51.1	(44.9)	35.6	24.1	14.4
Gross margin (%)	26.5	26.7	26.6	27.3	28.0	27.6	27.6	28.5	26.8	27.9	29.0	29.5
GM chg, y/y (pp)	(0.3)	(1.8)	(0.9)	(0.7)	1.5	0.9	1.0	1.2	(0.9)	1.2	1.0	0.5
EBITDA margin (%)	8.9	9.9	7.7	7.1	9.1	12.0	10.3	9.7	8.5	10.3	11.4	11.8
EBITA margin (%)	7.1	8.0	5.2	5.1	7.2	10.1	7.9	8.1	6.4	8.4	9.5	10.0
EBIT margin (%)	7.1	8.0	5.2	4.9	7.2	10.1	7.9	7.9	6.4	8.3	9.4	10.0
Pre-tax profit margin (%)	6.0	6.9	3.9	3.0	6.4	9.1	6.6	6.5	5.1	7.2	8.5	9.2
Net profit margin (%)	4.6	5.3	3.2	2.4	4.9	7.0	5.3	5.0	3.9	5.6	6.6	7.2
Adj. EBITA margin (%)	**7.1**	**8.0**	**5.2**	**6.3**	**7.2**	**10.1**	**7.9**	**8.1**	**6.7**	**8.4**	**9.5**	**10.0**
Adj. EBIT margin (%)	**7.1**	**8.0**	**5.2**	**6.2**	**7.2**	**10.1**	**7.9**	**7.9**	**6.7**	**8.3**	**9.4**	**10.0**

Source: SEB

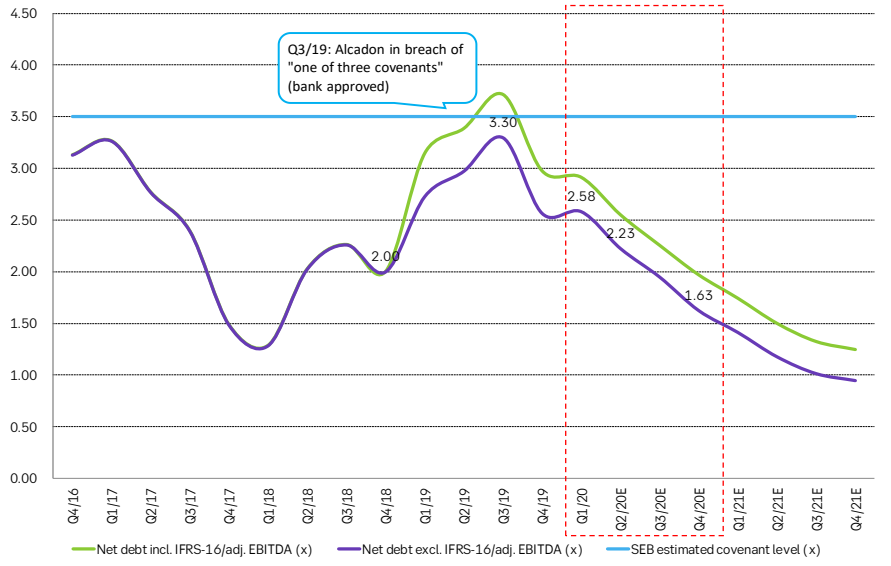
Segment and geographical sales breakdowns

Segment sales (SEKm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20E	Q3/20E	Q4/20E	2019	2020E	2021E	2022E
Net sales												
Commercial Properties	58	59	45	52	58	59	46	53	213	217	229	243
Fiber Networks/FTTx	42	49	33	41	41	50	33	43	165	167	172	179
Residential	24	22	20	21	28	22	21	22	87	93	99	105
Services & Training	6	5	4	4	4	5	4	5	19	18	19	19
Other	0	0	0	0	0	0	0	0	0	0	0	0
Group net sales	**130**	**135**	**102**	**118**	**131**	**136**	**105**	**122**	**485**	**494**	**519**	**547**
Sales growth (%)												
Commercial Properties	24.6	4.4	(10.5)	(26.0)	0.3	1.0	2.5	3.3	(4.3)	1.7	5.5	6.0
Fiber Networks/FTTx	(48.5)	(9.3)	(28.7)	34.9	(2.7)	2.0	2.0	2.8	(22.3)	1.0	3.4	4.0
Residential	61.8	28.0	(10.7)	(22.3)	13.6	0.5	5.0	4.0	7.0	6.0	6.4	7.0
Services & Training	(1.4)	(19.3)	(17.6)	(57.9)	(34.7)	(10.0)	5.0	15.8	(28.7)	(9.0)	6.0	3.6
Sales growth (%)	**(12.9)**	**0.8**	**(17.6)**	**(13.9)**	**0.2**	**0.8**	**2.9**	**3.7**	**(10.8)**	**1.8**	**5.0**	**5.4**
Sales contributions (%)												
Commercial Properties	44	44	45	44	44	44	44	44	44	44	44	44
Fiber Networks/FTTx	33	36	32	35	32	36	32	35	34	34	33	33
Residential	19	17	20	18	21	16	20	18	18	19	19	19
Services & Training	5	4	4	3	3	4	4	4	4	4	4	4
Other	0	0	0	0	0	0	0	0	0	0	0	0
Total sales contributions	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Geographical sales (SEKm)												
Sales by market												
Sweden	99	98	70	88	98	98	71	92	355	358	377	401
Norway	32	37	32	30	33	39	34	30	130	136	142	146
Group net sales	**130**	**135**	**102**	**118**	**131**	**136**	**105**	**122**	**485**	**494**	**519**	**547**
Sales growth by market (%)												
Sweden	(28.7)	(13.2)	(16.1)	(20.7)	(1.1)	(0.3)	1.0	4.3	(20.4)	0.9	5.4	6.2
Norway	178.1	75.6	(20.7)	15.5	4.4	4.0	7.1	1.8	32.5	4.4	4.0	3.3
Sales growth (%)	**(12.9)**	**0.8**	**(17.6)**	**(13.9)**	**0.2**	**0.8**	**2.9**	**3.7**	**(10.8)**	**1.8**	**5.0**	**5.4**
Sales contributions by market (%)												
Sweden	76	72	69	75	75	72	67	75	73	72	73	73
Norway	24	28	31	25	25	28	33	25	27	28	27	27
Sales contributions by market (%)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: SEB

Excluding SEK 14m in IFRS-16 lease accounting, Alcadon Group reported a net debt position of SEK 111m by the end of Q1 this year. This corresponds to a net debt-to-EBITDA of 2.58x. Our forecasts do not assume any additional acquisitions, but free cash flow should be used to decrease indebtedness and allow for restoring dividend payouts in next year.

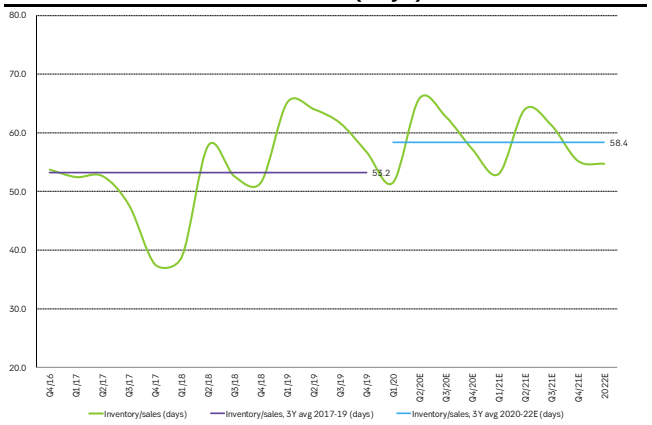
Net debt-to-EBITDA forecasts (x)



Source: SEB

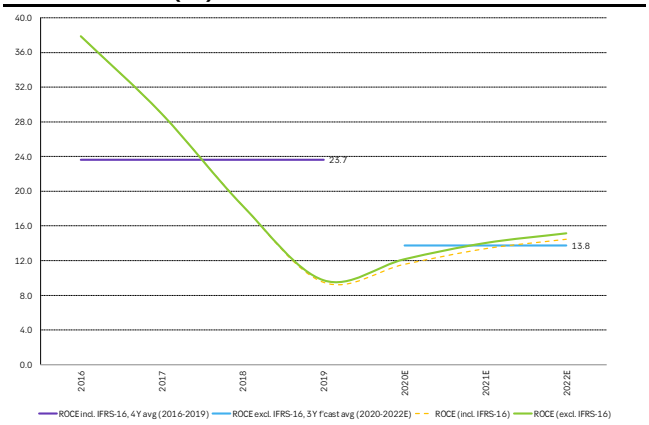
We expect a slight increase in capital employed, from higher stock-in-trade levels in this year. Alcadon is financed largely by a nominal SEK 140m loan at 3.35+STIBOR and with SEK 19m in annual amortisation until refinancing in July next year. In all, our estimates imply free cash flow generation of SEK 27m this year and SEK 36m in 2021. From this we expect to see a significant improvement in net debt-to-EBITDA levels this year and next.

Stock-in-trade to sales forecasts (days)



Source: SEB

ROCE forecasts (%)



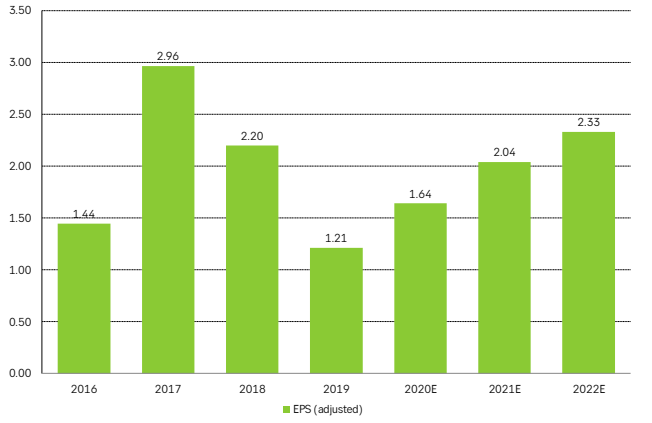
Source: SEB

Key financials and working capital management

Financial strength (x)	**Q1/19**	**Q2/19**	**Q3/19**	**Q4/19**	**Q1/20**	**Q2/20E**	**Q3/20E**	**Q4/20E**	**Q1/21E**	**Q2/21E**	**Q3/21E**	**Q4/21E**
Net debt, excl. IFRS-16 (SEKm)	141	147	149	109	111	102	95	83	75	64	58	56
IFRS-16 lease obligations (SEKm)	22	20	19	17	14	15	15	17	17	17	17	17
Net debt, reported (SEKm)	**163**	**167**	**167**	**127**	**125**	**117**	**110**	**100**	**93**	**82**	**75**	**73**
Net debt, change, q/q (SEKm)	45	4	(0)	(40)	(2)	(8)	(7)	(10)	(7)	(11)	(7)	(2)
Net debt incl. IFRS-16/EBITDA, reported (x)	3.20	3.39	3.71	3.08	3.02	2.64	2.32	1.97	1.74	1.50	1.32	1.24
Net debt incl. IFRS-16/adj. EBITDA (x)	3.15	3.39	3.71	2.97	2.91	2.55	2.25	1.97	1.74	1.50	1.32	1.24
Net debt excl. IFRS-16/adj. EBITDA (x)	2.73	2.97	3.30	2.57	2.58	2.23	1.95	1.63	1.41	1.18	1.02	0.95
WC management (%)												
12M trailing sales (SEKm)	525	526	504	485	486	487	490	494	500	507	512	519
12M trailing COGS (SEKm)	(380)	(383)	(368)	(355)	(354)	(353)	(354)	(356)	(358)	(363)	(365)	(368)
Inventory, EOP (SEKm)	94	92	85	75	69	88	84	77	73	89	86	78
Inventory/sales (%)	17.9	17.5	16.9	15.5	14.1	18.0	17.2	15.7	14.5	17.5	16.8	15.1
Inventory/sales, change y/y (pp)	7.2	1.7	2.5	1.4	(3.8)	0.5	0.3	0.1	0.4	(0.5)	(0.4)	(0.5)
Inventory/sales, 3Y rolling avg (%)	12.5	13.3	14.0	14.5	14.5	14.7	14.9	15.1	15.5	16.1	16.2	16.2
Inventory turnover, avg. (x)	4.81	4.09	4.33	4.67	4.36	3.92	4.18	4.66	5.08	4.10	4.29	4.73
COGS/Inventory, 1Y rolling avg (x)	6.00	5.25	4.97	4.73	4.45	4.27	4.29	4.36	4.44	4.39	4.46	4.57

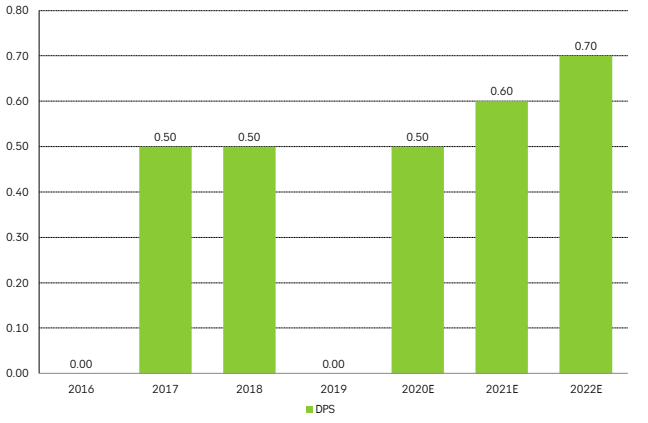
Source: SEB

EPS forecasts (SEK)



Source: SEB

DPS payout forecasts (SEK)



Source: SEB

Valuation conclusion

DCF-based equity valuation range – summary

Mid-point DCF value (SEK)	30.00		
Share price (SEK)	18.30		
2021E EV/EBIT, adj. (x)	7.8		
2021E EV/EBIT, adj. & excl. IFRS16 debt (x)	7.4		
2021E adj. PER at current share price (x)	9.0		
2020E DPS (2021 payout)	0.50		
	Low	**High**	**Mid-point**
DCF valuation range (SEK)	26.00	35.00	30.00
Equity potential (%)	**42**	**91**	**64**
2021E adj. EV/EBIT at mid-point DCF value (x)	10.1	13.2	11.5
2020E DPS yield (%)	2.7	2.7	2.7
Total return potential	**45**	**94**	**67**

Source: SEB

Mid-point DCF-value per share of SEK 30

We arrive at a mid-point DCF-based equity value of SEK 30 per share for Alcadon Group. This is based on 8% cost of equity and a weighted average cost of capital (WACC) of 7.5%. We are using a 10-year model, after which we assume a steady-state EBIT margin of about 8%. This is below the company's historical operating performance reflecting our assumptions for negative price developments. We base our valuation on a 2% long-term inflation rate and broadly unchanged working capital investments (between 6% and 7% of sales).

Fundamental DCF equity valuation – summary

DCF valuation (SEKm)		**Weighted average cost of capital (%)**	
NPV of FCF in explicit forecast period	291	Risk free interest rate	2.5
NPV of continuing value	315	Risk premium	5.5
Value of operation	**606**	**Cost of equity**	**8.0**
Net debt	100	**After tax cost of debt**	**5.0**
Share issue/buy-back in forecast period	-		
Value of associated companies	-	**WACC**	**7.5**
Value of minority shareholders' equity	-		
Value of marketable assets	-	**Assumptions**	
DCF value of equity	**506**	Number of forecast years	10
DCF value per share (SEK)	**30.00**	EBIT margin - steady state (%)	8.1
Current share price (SEK)	18.30	EBIT multiple - steady state (x)	10.5
DCF performance potential (%)	64	Continuing value (% of NPV)	52.0

Source: SEB

In the tables below, we outline various sensitivity analyses and the impact on our equity valuation ranges based on incremental changes to four key valuation drivers: cost of capital and capital weights, as well as sales growth and margins.

DCF sensitivities: equity weights and cost of capital

		Cost of equity (%)				
		7.0	7.5	**8.0**	8.5	9.0
Equity capital weight (%)	63	45.3	42.4	39.8	37.4	35.3
	73	39.3	36.7	34.3	32.2	30.3
	83	34.5	32.1	**30.0**	28.1	26.4
	93	30.7	28.5	26.5	24.8	23.2
	100	28.5	26.4	24.6	22.9	21.4

Source: SEB

DCF sensitivities II: sales growth and margins

		Relative change in EBITDA margin - all years				
		-20%	-10%	**0**	+10%	+20%
Rel. change in sales growth - all years	-20%	21.4	25.0	28.7	32.4	36.1
	-10%	21.8	25.6	29.4	33.1	36.9
	0	22.3	26.1	**30.0**	33.9	37.7
	+10%	22.8	26.7	30.6	34.6	38.5
	+20%	23.3	27.3	31.3	35.3	39.4

Source: SEB

Detailed DCF equity valuation assumptions

(SEKm)	2020E	2021E	2022E	2023E	2024E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	1.8	5.0	5.4	4.9	4.0	4.5	4.2	2.5
EBITDA margin (%)	10.3	11.4	11.8	11.9	12.0	12.5	12.3	10.5
EBIT margin (%)	8.3	9.4	10.0	10.1	10.2	10.7	10.4	8.6
Gross capital expenditures as % of sales	1.8	1.9	1.7	1.8	1.8	1.8	1.8	1.8
Working capital as % of sales	6.7	6.1	6.0	6.0	6.0	6.0	6.0	6.0
Sales	494	519	547	574	597	623	662	703
Depreciation	(10)	(10)	(10)	(10)	(11)	(11)	(12)	(13)
Intangibles amortisation	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
EBIT	41	49	55	58	61	67	69	61
Taxes on EBIT	(9)	(11)	(12)	(13)	(14)	(15)	(16)	(14)
Increase in deferred taxes	0	0	0	0	0	0	0	0
NOPLAT	**32**	**38**	**42**	**45**	**47**	**52**	**54**	**47**
Gross capital expenditure	(9)	(10)	(10)	(10)	(11)	(11)	(12)	(13)
Increase in working capital	(2)	1	(1)	(2)	(1)	(2)	(2)	(1)
Free cash flow	**31**	**39**	**42**	**43**	**46**	**50**	**52**	**46**
ROIC (%)	8.8	10.2	10.9	11.5	12.1	13.2	13.6	11.9
ROIC-WACC (%)	1.3	2.7	3.4	4.0	4.6	5.6	6.1	4.4
Share of total net present value (%)	0.0	6.0	5.9	5.7	5.7	5.7	10.7	8.2

Source: SEB

Peer group valuation

We believe the market will value Alcadon Group's equity based on pertinent peer group trading multiples. While Alcadon is a niche player, other traditional industry distributors listed in the Nordic markets, such as Danish Solar and Swedish Garo and Lagercrantz could serve as alternative investments for equity investors looking for similar small and midcap exposures. Looking at the production side of the optic fibre value chain, other local peers would be Swedish Hexatronic and Danish NKT. Also, we have included international fibre network distributors and equipment manufacturers in our peer group for Alcadon. For example, US Anixter Inc. (just recently acquired by Wesco International Inc.) also competes with Alcadon in the Nordic network equipment market. Finally, we believe the building and installation companies, like Bravida, JM and Instalco – important clients of Alcadon, contributing nearly 70% of revenue – could serve alternative investments and as peers for Alcadon.

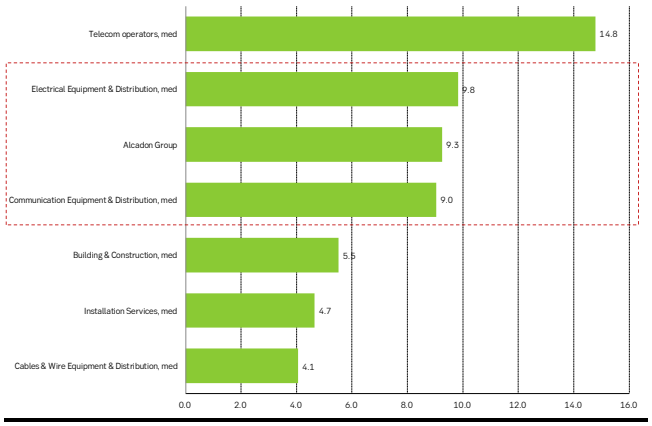
Industry value chain peer group financial forecasts: suppliers and buyers

Key financials - Industry buyers	Sales CAGR 20-22E (%)	EBIT CAGR 20-22E (%)	Avg EBIT 20-22E (%)	Avg ROCE 20-22E (%)
Installation Services, med	2.1	8.4	4.7	14.9
Building & Construction, med	(5.5)	4.6	5.5	8.2
Telecom operators, med	1.5	14.3	14.8	13.7
Alcadon industry buyers, med	**1.4**	**8.3**	**6.9**	**13.7**
Electrical Equipment & Distribution, med	5.4	16.0	9.6	10.3
Cables & Wire Equipment & Distribution, med	6.2	33.0	4.0	5.3
Communication Equipment & Distribution, med	5.4	19.3	9.0	9.0
Alcadon industry suppliers, med	**5.4**	**20.1**	**8.1**	**9.6**
Alcadon Group	**5.2**	**15.3**	**9.3**	**13.1**
Diff to industry customers, med (pp)	3.8	7.0	2.3	(0.6)
Diff to industry suppliers and peers, med (pp)	(0.2)	(4.8)	1.1	3.5

Source: SEB, ThomsonReuters

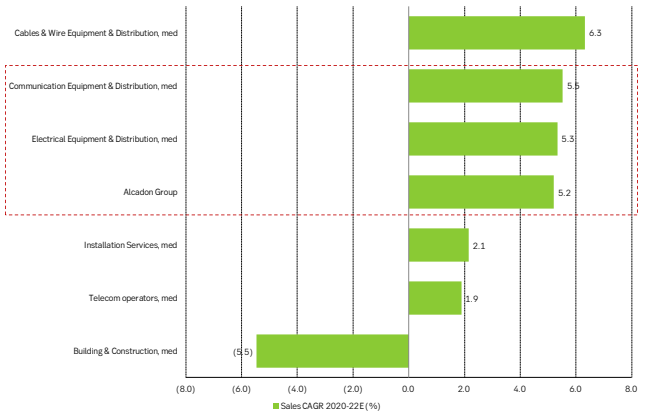
Looking at comparable peer groups from an industry value chain perspective, our financial forecasts for sales growth and EBIT margins in Alcadon are more like the corresponding estimates for electrical and fibre industry suppliers (electrical equipment, cable & wiring and communication equipment), compared with the buyer peer groups (installation services, building and construction and telecom operators).

Average EBIT margin forecasts 2020-22 (%)



Source: SEB, ThomsonReuters

Sales CAGR forecasts 2020-22 (%)



Source: SEB, ThomsonReuters

Network Equipment industry suppliers: peer group key financials – track record and forecasts

Key financials - Industry suppliers	Country	Sales CAGR 15-19 (%)	Sales CAGR 20-22E (%)	EBIT CAGR 15-19 (%)	EBIT CAGR 20-22E (%)	Avg EBIT 15-19 (%)	Avg EBIT 20-22E (%)	Avg ROCE 20-22E (%)
Arrow Electronics Inc	USA	5.6	3.4	5.9	14.7	3.0	3.5	3.7
Avnet Inc	USA	2.5	n.a.	(3.2)	n.a.	1.7	2.3	n.a.
Lagercrantz Group AB	Sweden	8.1	6.1	13.2	10.4	11.5	12.2	12.5
Legrand SA	France	8.3	5.3	8.7	10.1	18.3	19.6	20.0
Garo AB	Sweden	16.1	15.3	15.5	23.4	10.0	11.2	11.5
Rexel SA	France	0.4	4.9	4.4	22.9	3.3	4.1	4.6
Schneider Electric SE	France	0.5	5.3	5.2	15.5	12.5	14.3	15.0
Solar	Denmark	2.5	(0.3)	3.3	16.0	1.8	2.2	2.5
TE Connectivity Ltd	USA	2.4	9.4	4.5	23.1	13.4	15.9	17.0
TKH Group NV	Netherlands	2.1	5.6	(3.5)	28.1	7.1	8.7	10.4
Wesco International Inc	USA	2.7	5.2	(1.9)	55.2	3.4	3.7	7.3
Electrical Equip. & Distr., med		**2.5**	**5.3**	**4.8**	**16.0**	**8.6**	**10.0**	**11.5**
Hexatronic Group AB	Sweden	30.9	18.1	20.4	41.3	6.5	8.6	9.3
Leoni AG	Germany	1.9	6.3	n.a.	n.a.	(4.5)	1.4	2.3
Nexans SA	France	1.9	4.7	6.4	31.6	3.0	4.4	4.8
NKT A/S	Denmark	1.8	19.8	n.a.	n.a.	(3.5)	0.2	1.8
Optical Cable Corp	USA	(1.0)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Prysmian SpA	Italy	11.8	4.7	11.9	24.1	4.5	5.7	6.4
Cables & Wire Equip. & Distr., med		**1.9**	**6.3**	**11.9**	**31.6**	**3.0**	**4.4**	**4.8**
ADVA Optical Networking SE	Germany	6.0	7.0	(18.4)	38.3	2.8	3.6	4.7
Applied Optoelectronics Inc	USA	0.1	18.4	(0.7)	n.a.	(10.4)	(0.6)	4.8
Atea ASA	Norway	7.1	2.9	n.a.	39.4	1.7	2.6	3.1
Belden Inc	USA	(2.0)	5.6	9.3	19.3	11.2	13.9	14.3
CommScope Holding Company Inc	USA	21.7	2.9	13.9	5.5	11.7	13.9	12.3
Ericsson	Sweden	(2.1)	1.2	11.7	20.1	7.5	8.6	10.6
Furukawa Electric Co Ltd	Japan	1.1	5.5	(16.6)	n.a.	n.a.	n.a.	n.a.
HMS Networks AB	Sweden	21.3	n.a.	(3.4)	n.a.	15.5	18.2	n.a.
Huber+Suhner AG	Switzerland	4.2	6.0	29.9	16.3	8.0	9.4	9.7
Nokia	Finland	16.9	1.6	11.7	16.8	8.6	10.1	11.3
Communication Equip. & Distr., med		**5.1**	**5.5**	**9.3**	**19.3**	**8.0**	**9.4**	**10.1**
Alcadon industry suppliers, med		**2.5**	**5.5**	**6.1**	**20.1**	**6.8**	**8.6**	**9.5**
Alcadon Group	Sweden	14.7	5.2	(0.7)	15.3	8.3	9.4	10.0
Diff to industry suppliers and peers, med (pp)		12.2	(0.3)	(6.8)	(4.8)	1.5	0.9	0.5

Source: SEB, ThomsonReuters

Of our two geographical peer groups, the Nordic peers trade at a median 2021E EV/EBIT of 14.4x and our international peer group at 12.7x. For the peer group as a whole, the median 2021E EV/EBIT is 14x.

Reflecting a higher risk premium due to Alcadon's small capitalization compared with peers, we argue Alcadon is likely to continue to trade below its peer group valuation levels.

Based on current share price levels, we see a 64% equity valuation potential to our midpoint DCF based equity value of SEK 30 per share. At our midpoint DCF valuation, this would imply a prospective EV/EBIT of 11.5x our 2021 earnings forecasts and a corresponding discount of 20% to its peer group median valuation.

Peer group valuation, share price performance and earnings revisions

Telecom/Tech & Network Infrastructure	CCY price	Share price	Mkt cap (EURm)	EV/Sales (x) 2020E	2021E	2022E	EV/EBIT (x) 2020E	2021E	2022E	Abs. performance (%) -1M	-3M	-12M	2021E EPS rev. -1Y (%)
Nordic industry peers													
Atea ASA	NOK	99.90	1,010	0.32	0.32	0.31	18.9	12.2	10.0	8.9	37.2	(13.4)	(24.7)
Bravida	SEK	89.40	1,706	0.92	0.94	0.92	15.3	15.7	14.7	6.7	68.7	3.7	(0.8)
Caverion	EUR	5.68	771	0.41	0.38	0.34	18.0	10.8	9.0	4.6	28.1	(13.4)	(11.0)
Eltel AB	SEK	20.90	307	0.52	0.51	0.50	17.3	18.5	14.8	17.2	31.9	(3.2)	0.0
Enea	SEK	172.00	352	3.89	3.44	3.17	17.2	14.2	12.3	25.2	58.5	22.4	(1.9)
Ericsson	SEK	86.08	26,943	1.27	1.25	1.18	16.9	14.6	11.1	2.3	22.8	(6.3)	(11.5)
Garo AB	SEK	330.00	310	3.28	2.84	2.46	32.6	25.3	21.4	11.7	52.4	7.5	(14.2)
Hexatronic Group AB	SEK	55.20	194	1.31	1.10	0.94	20.1	12.9	10.1	13.8	53.5	2.2	(13.6)
HMS Networks AB	SEK	176.00	773	6.26	5.32	n.a.	40.4	29.2	n.a.	(1.7)	59.4	(7.0)	(33.5)
Instalco	SEK	146.40	685	1.15	1.08	0.94	14.4	14.2	11.7	5.5	74.3	66.4	37.8
JM	SEK	213.10	1,404	1.34	1.37	1.35	11.0	12.8	13.2	26.1	24.3	3.3	(11.1)
Lagercrantz Group AB	SEK	142.20	884	2.26	2.11	2.01	19.6	17.3	16.1	11.1	38.3	12.0	(9.7)
NKT A/S	DKK	138.10	593	0.72	0.58	0.50	n.a.	n.a.	28.1	7.1	15.7	36.7	(124.3)
Nokia	EUR	3.91	21,995	0.88	0.87	0.85	10.3	8.6	7.5	14.9	68.2	(12.1)	(25.9)
Solar	DKK	259.00	254	0.24	0.23	0.22	13.1	10.9	9.0	4.2	34.9	(17.4)	(34.0)
Nordic industry peers, avg				**1.65**	**1.49**	**1.12**	**18.9**	**15.5**	**13.5**	**10.5**	**44.6**	**5.4**	**(18.6)**
Nordic industry peers, med				**1.15**	**1.08**	**0.93**	**17.2**	**14.2**	**12.0**	**8.9**	**38.3**	**2.2**	**(11.5)**
International industry peers													
Applied Optoelectronics Inc	USD	9.94	180	1.25	1.06	0.90	n.a.	n.a.	18.5	15.4	47.5	7.0	(124.6)
Arrow Electronics Inc	USD	67.53	4,719	0.30	0.28	0.28	9.7	7.9	7.4	1.5	44.1	(3.2)	(23.6)
Avnet Inc	USD	27.87	2,445	0.24	0.23	n.a.	14.2	9.8	n.a.	1.8	20.9	(35.2)	(69.8)
Belden Inc	USD	33.70	1,333	1.41	1.31	1.26	12.5	9.4	8.8	8.6	12.8	(42.9)	(41.2)
CommScope Holding Company Inc	USD	9.71	1,689	1.43	1.39	1.31	12.2	10.0	10.7	5.7	33.9	(39.4)	(40.8)
Furukawa Electric Co Ltd	JPY	2,739.00	1,612	0.51	0.48	0.46	n.a.	n.a.	n.a.	11.5	54.8	(9.3)	(40.8)
Huber+Suhner AG	CHF	67.00	1,269	1.47	1.34	1.33	18.3	14.2	13.7	8.2	33.5	(18.7)	(6.4)
Legrand SA	EUR	65.10	17,250	3.38	3.15	3.05	18.5	16.1	15.2	10.3	27.1	1.1	(11.8)
Leoni AG	EUR	6.77	220	0.34	0.31	0.30	n.a.	22.0	13.1	(1.5)	(9.3)	(52.3)	(92.2)
Nexans SA	EUR	39.98	1,731	0.35	0.33	0.32	11.6	7.5	6.7	9.9	33.3	39.2	(2.1)
Optical Cable Corp	USD	2.68	18	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.9	14.6	(32.3)	n.a.
Prysmian SpA	EUR	20.46	5,446	0.79	0.74	0.72	17.4	12.9	11.3	8.8	35.5	12.5	(31.7)
Rexel SA	EUR	9.46	2,856	0.48	0.45	0.44	14.4	11.0	9.5	10.7	36.5	(10.3)	(30.7)
Schneider Electric SE	EUR	95.80	53,925	2.41	2.25	2.17	19.3	15.8	14.5	13.6	37.4	21.4	(10.1)
TE Connectivity Ltd	USD	80.95	23,718	2.62	2.40	2.19	19.5	15.1	12.9	6.2	45.7	(15.0)	(30.1)
TKH Group NV	EUR	36.40	1,547	1.46	1.36	1.31	20.6	15.5	12.6	21.3	39.9	(32.6)	(35.3)
Ubiquiti Inc	USD	171.59	9,707	8.58	8.75	n.a.	23.5	23.0	n.a.	(3.6)	33.4	33.6	12.8
Wesco International Inc	USD	38.75	1,441	0.37	0.36	0.34	11.1	9.6	4.6	39.9	119.7	(21.9)	(32.2)
International industry peers, avg				**1.61**	**1.54**	**1.09**	**15.9**	**13.3**	**11.4**	**9.6**	**36.7**	**(11.0)**	**(35.9)**
International industry peers, med				**1.25**	**1.06**	**0.90**	**15.9**	**12.9**	**11.9**	**8.7**	**34.7**	**(12.6)**	**(31.7)**
Installation & Network Infrastructure, avg				**1.67**	**1.55**	**1.13**	**17.7**	**14.5**	**12.7**	**9.1**	**37.8**	**(3.0)**	**(27.6)**
Installation & Network Infrastructure, med				**1.25**	**1.08**	**0.93**	**17.3**	**14.2**	**12.3**	**8.7**	**36.0**	**(4.8)**	**(23.6)**
Alcadon Group	SEK	18.30	29	0.83	0.74	0.65	9.9	7.8	6.5	4.0	35.6	(34.4)	0.0
Discount/(Premium) to peers, avg (%/pp)				50.5	52.6	43.0	43.7	46.4	49.3	5.1	2.3	31.4	(27.6)
Discount/(Premium) to peers, med (%/pp)				34.0	31.7	30.6	42.5	45.0	47.6	4.8	0.4	29.6	(23.6)

Source: SEB, ThomsonReuters

Alcadon capitalization forecasts

Capitalization (SEKm)	2017	2018	2019	2020E	2021E	2022E
Market cap	301	309	309	309	309	309
Net debt/(cash), as reported	108	118	127	100	73	45
EV, as reported	**408**	**427**	**435**	**409**	**382**	**353**
Net debt/(cash) excl. IFRS16 debt	108	118	109	83	56	27
EV excl. IFRS16 debt	**408**	**427**	**418**	**391**	**364**	**336**

Source: SEB

Alcadon valuation forecasts

Valuation (x)	2017	2018	2019	2020E	2021E	2022E
EV/Sales (excl. IFRS16)	0.70	0.78	0.86	0.79	0.70	0.61
EV/EBIT, adj. (excl. IFRS16)	5.7	7.4	12.8	9.5	7.4	6.1

Source: SEB

Company description

Overview

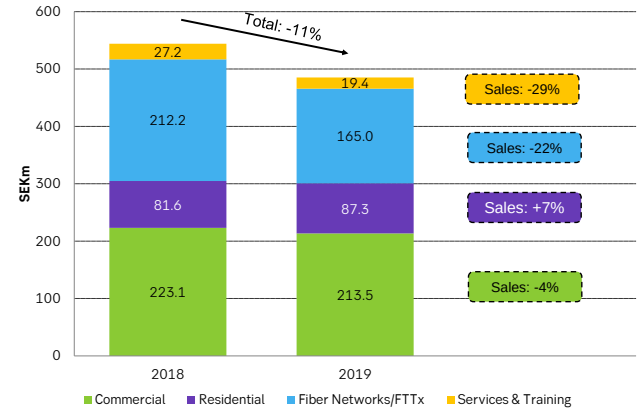
Important well-recognised suppliers include US Commscope and OFS (owned by Japanese Furukawa) and AFL (owned by Japanese Fujikura) and Fluke Networks (unlisted). A majority (some 70%) of sales are distribution of other brands and solutions, while some 30% is private label products

Alcadon was founded in 1988 and develops and provides solutions and systems within network infrastructure and IT communication. The product offering includes fibre and copper-based solutions being active as well as passive. Most of the sales are B2B where the customers range from installers, operators, construction companies, integrators, municipalities and data centres. Examples of customers are Telenor, Eltel, Instalco, IP Only, JM and Bahnhof. Alcadon strives to be the go-to competence centre, operating in the high-end segment, offering premium products assuring quality and support. Important well-recognised suppliers include primarily US CommScope and OFS (owned by Japanese Furukawa) and AFL (owned by Japanese Fujikura) and Fluke Networks (unlisted). While rather limited, Sweden's Hexatronic and French Schneider Electric are suppliers to Alcadon. The lion's share of sales (some 70%) are distribution of other brands and solutions, while the remaining 30% is private label product sales. Over the past five years, we estimate that the group has been growing its sales at a CAGR of 14.7% while EBIT has been closer to flat in the same period (EBIT nearly halved y/y in 2019). In the five years to 2018, we estimate an EBIT CAGR of 19% on corresponding sales CAGR of 24%.

The business is divided into four business segments (a structure that was set up in 2018) – Commercial Real Estate & Data Centres, Area Fibre (fibre-to-the-"x"), Residential and Services & Training:

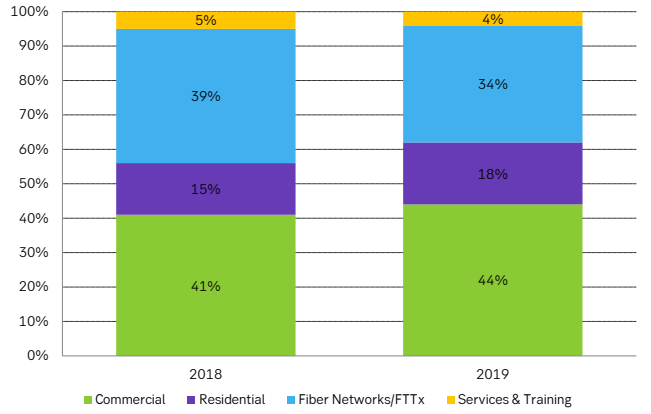
- **Commercial Properties (44% of sales)** is the largest business segment of Alcadon and within the segment, Alcadon offers its customers so called structured cable solutions to offices, industries and public municipality and hospital buildings. The products offered are copper based systems, fibre optic systems, installation components and active equipment. Its private label products within its own ECS (European Cabling Systems) brand is an important part of the segment and is being combined/bundled with international brands. In 2019, the business unit sales declined by 4% y/y.
- **Fiber Networks (FTTx) (34% of sales)** is the second largest business unit, focused on wide area networks/city networks for railways, energy companies, municipalities and cities. The products are sold within broadband networks for communities and associations, with some product examples being fibre optic cables, ducts, cabinets and installation material. Sales within the business unit were up 7% in 2019 versus 2018.
- **Residential (18% of sales)** is focused on new construction, renovation & reconstruction and offers complete system for data communication and electricity in residential properties. Within the segment, Alcadon's private label brand DC Line is an important part and the sales are primarily project-based concept sales where IT communication and solutions to smart and safe homes is being combined. The division's sales were down 22% in 2019 versus 2018.
- **Services & Training (5% of sales)** is the group's smallest business unit, focusing on training (i.e. ECS certification, network design and testing), network design, measurements and rental. While this is the smallest business unit, it is strategically important, supporting Alcadon's value-added sales within the other business units. More than 4,000 installers in Sweden and Norway have now passed Alcadon's certification programme within ECS. The business unit also rents out equipment and network design. The business unit sales were down 29% in 2019 versus 2018.

Sales performance by division in 2019



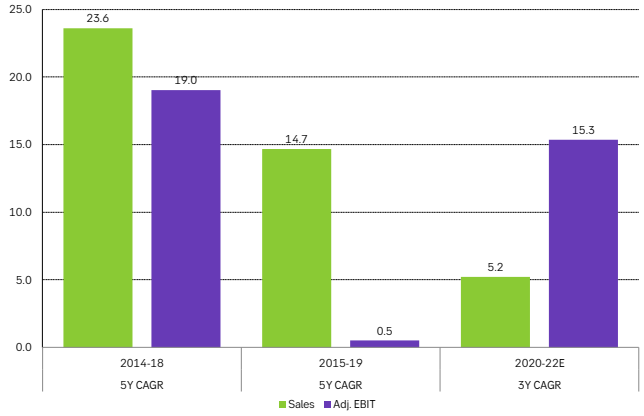
Source: SEB, Company data

Alcadon sales split, 2019 vs 2019



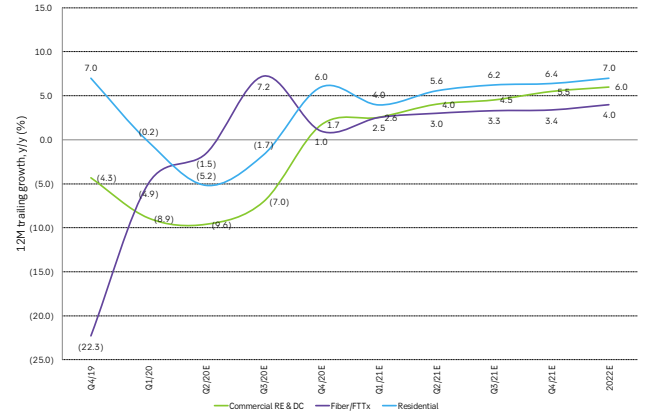
Source: SEB, Company data

Track record and forecast CAGR in sales and EBIT (%)



Source: SEB

12M trailing sales growth by area, y/y (%)

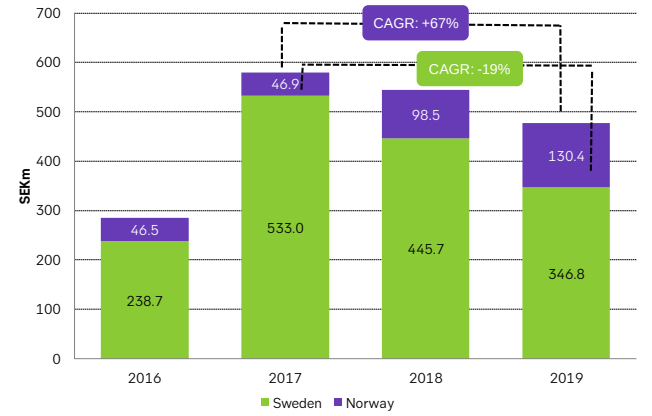


Source: SEB

Geographical market exposure

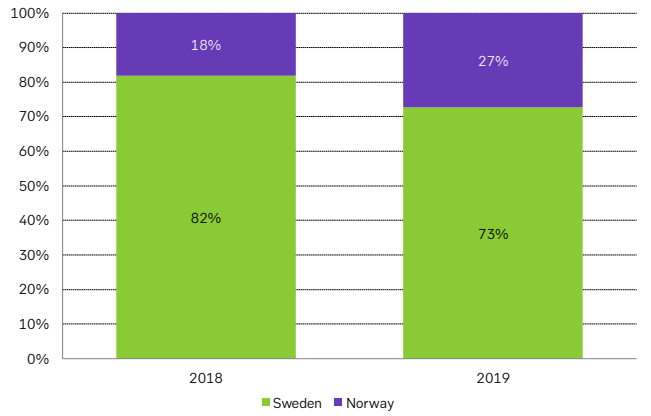
Alcadon operates in Sweden and Norway with offices in Stockholm, Malmö, Gothenburg, Örebro, Oslo and Sandefjord. Also, three sales offices are located in Hamar, Bergen and Mosjoen in Norway. Although the main focus is Sweden and Norway, Alcadon is also present in Finland (Helsinki) and Denmark (Copenhagen) through sales representatives.

Sales by market, 2016-2019



Source: SEB, Company data

Sales by market, 2019 vs 2018



Source: SEB, Company data

Norway has become a larger share of Alcadon Group during the years, mainly because of the acquisition of CableCom AS in 2018

Norway has become a larger share of Alcadon Group over the years, mainly because of the acquisition of CableCom AS in 2018 (with Norway as its main market), but also following more stable organic sales development in Norway, compared to in the Swedish market. Alcadon's share of revenue generated in Norway have moved from 8% of the group in 2017, to 27% in 2019.

Alcadon's sales offices, 2019

Source: Alcadon Annual Report 2019

Company history and timeline

Alcadon was founded in Stockholm in 1988 and expanded the business over the following two years by opening offices in to Gothenburg, Oslo and Malmö. Its first private label brand, ECS (European Cabling Systems), was launched in 1995 and today remains an important part of Alcadon's offering.

Alcadon was a business division in DistIt until September 2016, when it was distributed (as a Lex Asea dividend to shareholders) and listed as a separate company on the Nasdaq First North venue

In 1997, the US telecom equipment and services solutions company MRV Communications acquired shares in Alcadon and later in 2001 the company also acquired the remaining outstanding shares. MRV Communications owned the company until 2012, when the IT and consumer electronics distributor DistIt Group (Deltaco Group, at the time) acquired Alcadon for a total consideration of USD 6.5m. Alcadon was a business division in DistIt until in September 2016, when it was distributed (as a Lex Asea dividend to shareholders) and listed as a separate company on Nasdaq First North. Since the spin-off from DistIt Group, the company has made three notable acquisitions in 2017 and in 2018.

Alcadon Group timeline

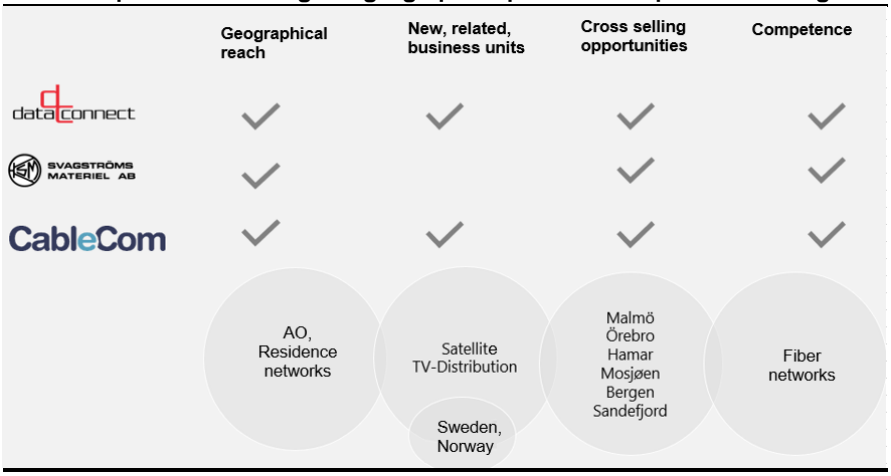
1988	Company established in Stockholm, Sweden
1995	Development/launch of its first private label brand system: ECS European Cabling System
1997	MRV Communication, Inc. (US), today part of ADVA Optical Networks (DE), acquires shares in Alcadon Group
2001	MRV Communication, Inc. acquires remaining shares in Alcadon Group
2012	DistIT Group (DIST.ST) acquires Alcadon Group from MRV Communication, Inc.
2016	Lex Asea distribution of Alcadon Group from DistIT Group and separate listing on 14 September (Nasdaq First North)
2017	January: acquisition of DataConnect AB for an EV (cash and shares) of SEK 70m (6x historical EV/EBIT)
2017	August: acquisition of Svagströmsmateriel AB for an EV (cash, shares and earn-out) of SEK 10m (4x historical EV/EBIT)
2018	May: acquisition of CableCom AS (NO) for an EV (cash, shares and initial earn-out) of SEK 73m (9x historical EV/EBIT)

Source: SEB

Acquisitions from 2016 to today

Alcadon's' focus when acquiring new businesses is either to strengthen the group's total offering and position, to expand its geographical presence or to complement the group's existing customer base. Acquired companies need to have a competent and entrepreneurial management, be profitable and a proven business model. CEO Sonny Mirborn says that his top priority is to generate organic growth in the group. The chart below outlines how its recent acquisitions contribute to Alcadon Group exposures and organic growth prospects ahead. While not included in our estimates, further acquisitions are also high on the agenda and would bolster total growth developments over our forecast period.

Recent acquisitions to strengthen geographical presence and product offering

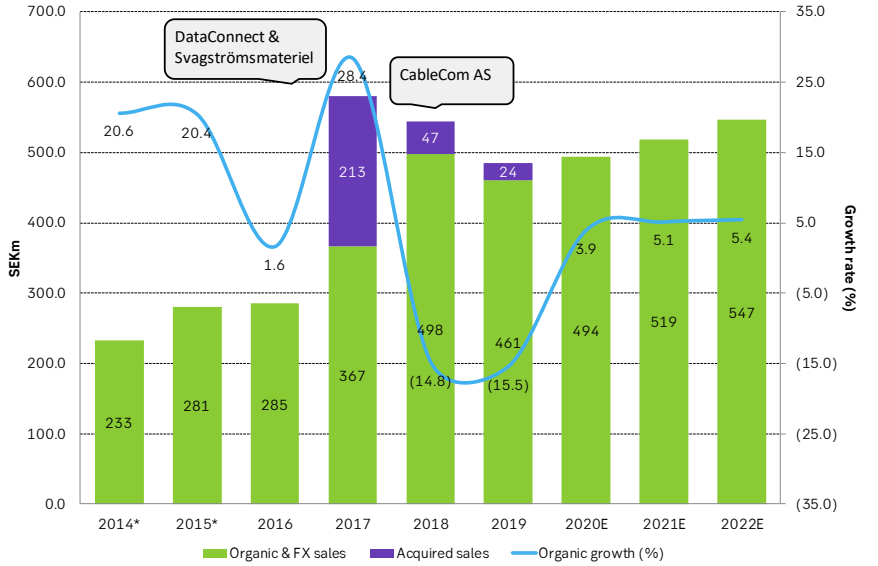


Source: SEB, Company presentation

- **DataConnect, 16 January 2017:** Alcadon paid a total of SEK 70m for DataConnect which had SEK over 140m in turnover and SEK 11m in EBIT in 2016. DataConnect is a value-adding distributor of installation materials for communication networks, primarily in FTTx, but also towards residential properties and the rationale behind the acquisition was to strengthen its product portfolio to become a complete supplier in the cable systems segment. DataConnect was mainly focused on the Swedish market at the time of the acquisition, with offices in Stockholm, Gothenburg and Malmö.
- **Svagströmsmateriel, 15 August 2017:** The same year, Alcadon acquired Svagströmsmateriel for a total price of SEK 9.8m, which had turnover of SEK 23m and EBIT of about SEK 2m in 2016. Svagströmsmateriel is a niche distributor in Sweden with focus on network materials for primarily commercial premises. The acquisition was made to strengthen its presence in the mid-region of Sweden and where Alcadon identified Svagströmsmateriel as a good complement to its existing product portfolio.

- **CableCom AS, 15 May 2018:** In 2018, Alcadon acquired CableCom AS, paying SEK 73m. In 2017 CableCom had turnover of SEK 93m and EBIT of about SEK 8m. The reason behind the acquisition was to strengthen its presence in Norway and to bring a complementary market reach and product portfolio. CableCom's main focus at the time of the acquisition was the Norwegian market, with a small proportion of sales in Sweden.

Organic and acquired sales analysis



Source: SEB (*Alcadon division as reported in DistIT Group)

In 2019, Sonny Mirborn joined as new CEO and an efficiency programme was launched targeting gross savings of SEK 8m in 2020

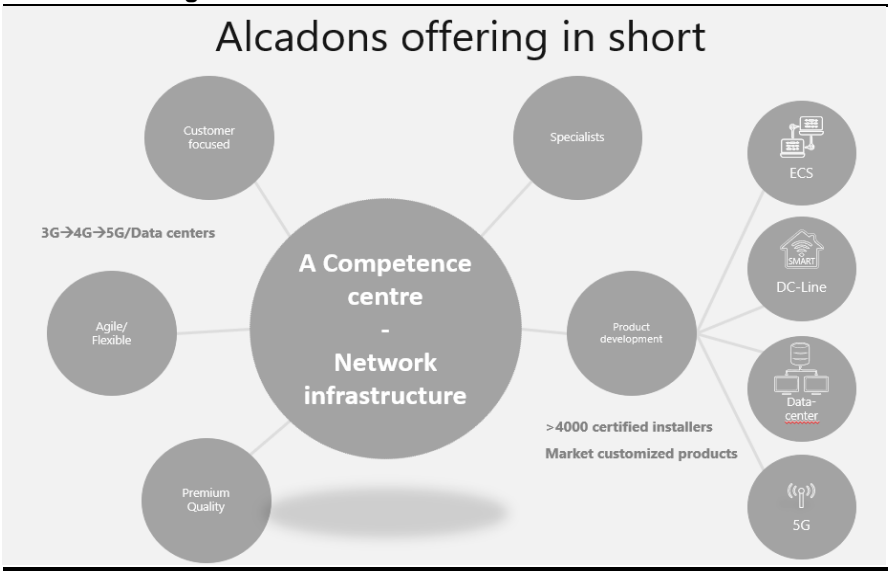
In addition to integration work on these acquisitions that focused on generating organic growth, Alcadon launched a new website and web shop in 2019. Also, in 2019, Sonny Mirborn joined as new CEO and an efficiency programme was launched targeting gross savings of SEK 8m in 2020.

Products and customers

Being a niche distributor, with a strong focus on professional and commercial solutions and services, sustains the argument for why Alcadon can charge higher prices than competitors and why the company is positioned in the premium segment of the market

Alcadon's product offering is focused towards data and telecommunication products and components from leading manufacturers, but also its own developed private label brands ECS and DC Line (in all contributing 31% to group sales in last year). Alcadon offers overall solutions, providing its customers with everything from the actual products and components to in-house competence/expertise and full solutions for network infrastructure. Being a niche distributor, with strong focus on professional and commercial solutions and services, sustains the argument for why Alcadon can charge higher prices compared to competitors and why the company is positioned in the premium segment of the market.

Alcadon's offering



Source: SEB, Company presentation

Alcadon offers several categories of products (both active and passive) within network infrastructure, such as fibre optics and copper systems and cables, electrical & installation, instruments/tools, ducts, cabinets/stands, transceivers and antenna/satellite/cable-TV. In the chart below we outline some of Alcadon's suppliers and partners including its own private label brands:

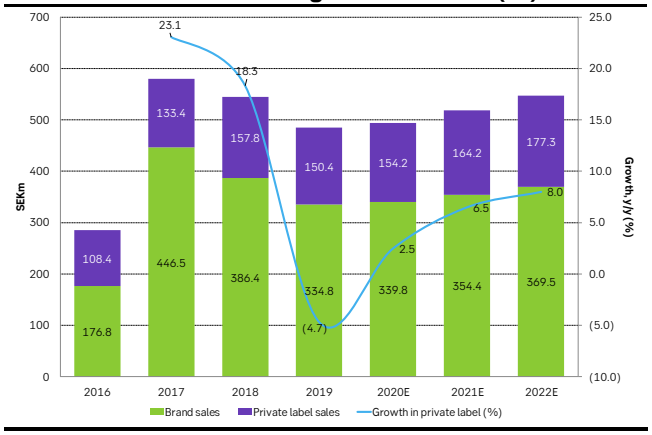
Selection of brands offered by Alcadon

Source: SEB, Company website

The private label goods come with higher gross margins, which we estimate at some 35%-45%

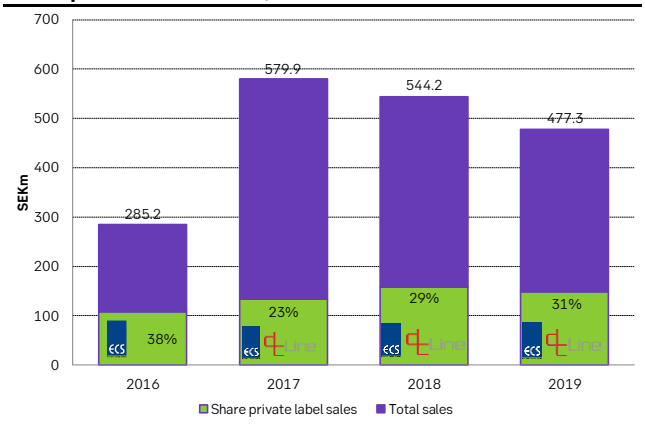
Private label offering: Already in 1995, Alcadon launched its first private label brand, ECS (European Cabling System) which today is focused towards commercial real estate networks. Later, the private label brand DC Line was launched in 2017 and is more focused on residential networks. In 2019, ECS and DC Line together generates 31% of Alcadon group sales, up from 29% in 2018. In general, the private label goods come with higher gross margins, which we estimate at some 35%-45%, closer to twice the level of 20%-25% we believe can be generated on purely distributed goods.

Private label sales and sales growth forecasts (%)



Source: SEB

Share private label sales, 2016-2019



Source: SEB, Company data

Private Label vs. branded goods margin scenario analyses, 2020E (SEKm)

Scenario PL GM assumption (%)	**35.0**	**40.0**	**45.0**
PL sales	154	154	154
PL GP	54	62	69
Brands sales	340	340	340
Brands GP	84	76	69
Brands GM (%)	24.7	22.5	20.2
Total net sales	494	494	494
Total GP	138	138	138
Total GM (%)	27.9	27.9	27.9
PL share of total sales (%)	**31**	**31**	**31**
PL share of total GP (%)	**39**	**45**	**50**

Source: SEB

About 75% of Alcadon's revenue comes from network installation services companies

Alcadon's customers, competitors and competitive advantage

More or less a 100% of Alcadons sales are B2B, with sales mainly being generated from installation services companies, system integrators and other actors operating- and/or owning data- and telecommunication networks. About 75% of Alcadon's revenue comes from network installation services companies, its most important customer category. Today Alcadon has over 2,800 active customers. About 30% of revenue are being generated from its ten largest customers and the top-30 customers contribute closer to 50% of group sales. Creating stickiness and recurring revenue, Alcadon's private label ECS products and systems are installed by more than 4,000 professionals – trained and certified by Alcadon.

For this reason, its customers are characterized by a high level of loyalty and have typically been returning customers to Alcadon for several years. The customers range from Telenor and Cygate (owned by Telia), to IP only, JM and Bravida (see some customer examples below).

A selection of Alcadon's customers

Source: SEB, Company presentation

The competitive advantage: one reason customers turn to niche distributors like Alcadon, in our view, is when they demand data- or telecommunication products and expertise and wants a fully-functional "solution", i.e. the actual products/components, the know-how and the after-market service and support.

The customers of Alcadon are offered premium products and where employee know-how is an important part in configuring the right products for a turn-key solution

Many competitors offer more of "install-it-yourself", low-end products and perhaps lack stipulated integration knowledge and support services. The customers of Alcadon are offered premium products and where employee know-how is an important part in configuring the right products for a turn-key solution. Also, Alcadon provides its customers with education in how its systems should be installed to benefit from optimal output.

Quality is an important priority to Alcadon that seeks to grow in the premium segment why they compete more with high product quality and service, rather than pricing. For this reason, Alcadon often passes on projects with low margins, since such sales risk overall project profitability if the components and systems do not deliver on the agreed quality level. Adding to the volatile markets after the unprecedented capex peak in Swedish broadband investments in 2016-2017, this is one reason for the lower organic growth recorded by Alcadon in the past year.

Traditional one-stop-shop distributors, like Ahlsell and Solar, mainly offers a broad range of product categories within the plumbing, heating, ventilation and air conditioning (HVAC) and electrical components and systems segments

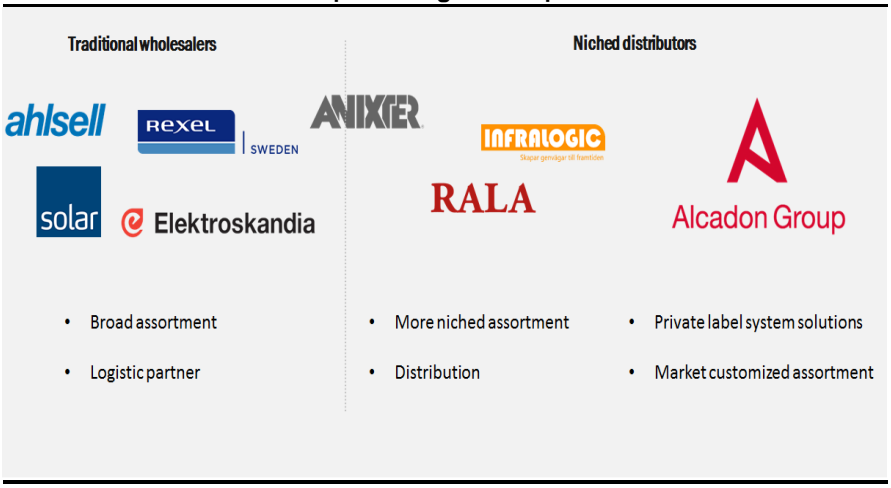
The charts below illustrate a selected number of competing sourcing and distribution companies in the Nordic market for fibre and electrical and construction-related segments, as well as a simplified value chain. Traditional one-stop-shop distributors, like Ahlsell and Solar, mainly offers a broad range of product categories within the plumbing, heating, ventilation and air conditioning (HVAC) and electrical components and systems segments. These companies are generally not specialized in niches such as fibre optics, but rather use economies of scale in sourcing to compete with price and availability, including offering logistics services for its clients.

US Anixter is a distributor of various product categories within the network segment of the market, where it competes with Alcadon. In addition, Anixter offers a broad range of auxiliary products in the security (audio/video, entrance control, etc) and hardware and supplies segments.

In the more niched segment of distribution, Swedish Rala and Infralogic (acting as distributor of Prysmian cables and systems – one of the world's largest manufacturers of optical fibre) also competes with Alcadon

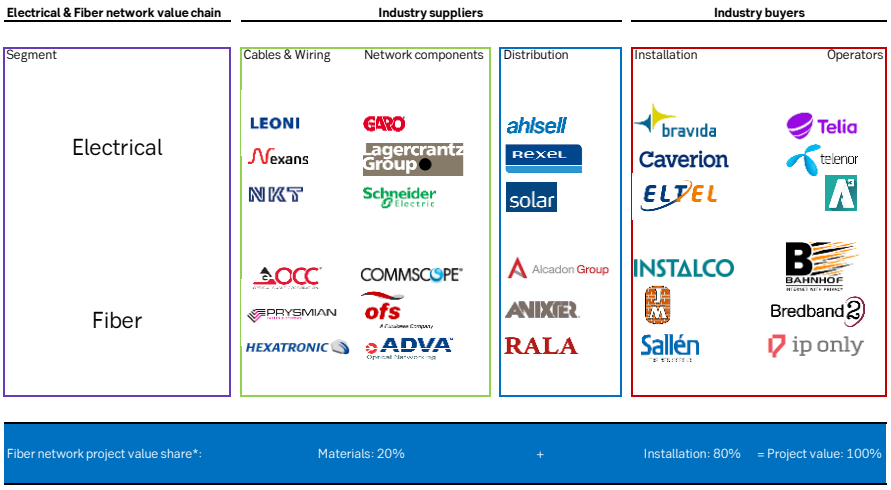
In the more niched segment of distribution, Swedish Rala and Infralogic (acting as distributor of Prysmian cables and systems – one of the world's largest manufacturers of optical fibre) also competes with Alcadon. Compared to Alcadon, Rala and Infralogic have more narrow product portfolios.

Nordic fibre market: Alcadon's positioning and competition



Source: Company presentation

Electric- and fibre network industry suppliers and buyers



*Hexatronic Group annual report 2019

Source: SEB, company data

Business model and Logistics

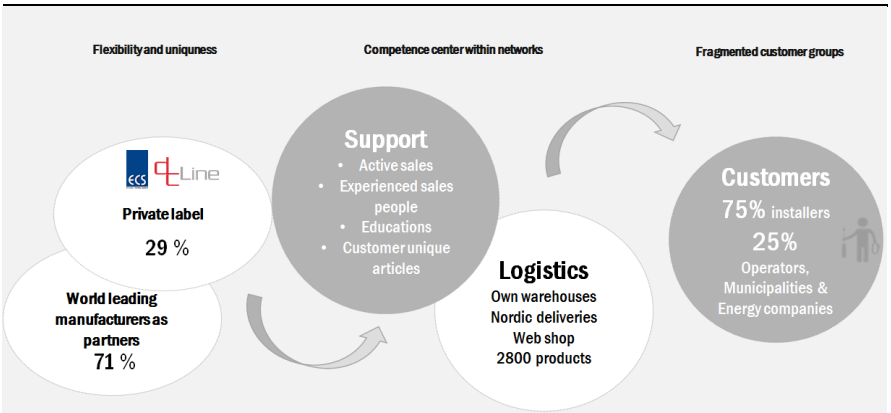
A Nordic data-and network product distributor

Alcadon is niched towards the Nordic market of data communication products and mainly network infrastructure. The business model is to develop systems and products (its private label brands) and operate as a distributor within data communication to installers, telecom operators, system integrators and larger end-users. The edge of Alcadon is that they have a clear customer focus, highly competent and experienced employees, efficient logistics handling, high quality products and high service level.

Alcadon aims to grow organically and by acquisitions. Acquired units should either strengthen Alcadon's total offering and premium position, expand its geographic presence or complement the group's customer categories

Alcadon aims to grow organically and by acquisitions. Acquired units should either strengthen Alcadon's total offering and premium position, expand its geographic presence or complement the group's customer categories.

Illustration of Alcadon's business model

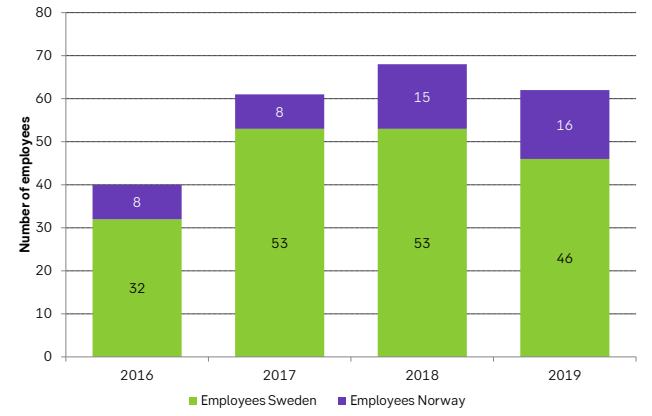


Source: SEB, Company presentation

Employees

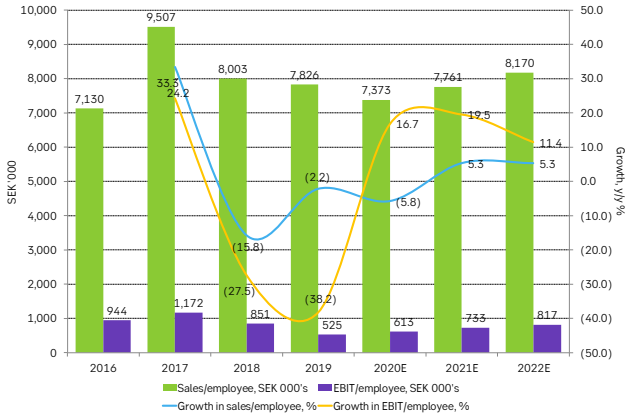
At the end of 2019, Alcadon had a total of 62 employees (46 in Sweden and 16 in Norway), of whom over 10% work within product handling and development. About 10% of employees are also shareholders in Alcadon Group. Following the weaker sales development over the past two years, sales and EBIT efficiencies decreased, respectively, by 2% and 38% y/y in 2019. We believe some of its SEK 8m efficiency programme gains will be used to re-staff more appropriately. Based on our organic sales projections, we also assume the number of FTEs in Alcadon to be back at 2018 levels by 2021.

Number of employees by country



Source: SEB, Company data

Sales and EBIT per employee (SEK'000)



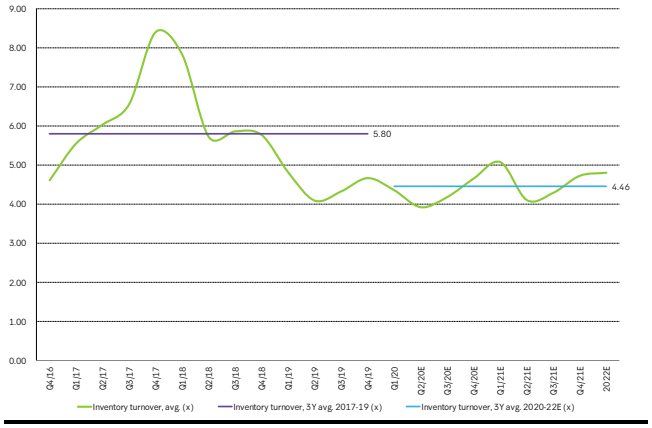
Source: SEB, Company data

Most of the warehousing and logistics of Alcadon is in-house, having about 2,800 products in-stock

Local and in-house warehousing

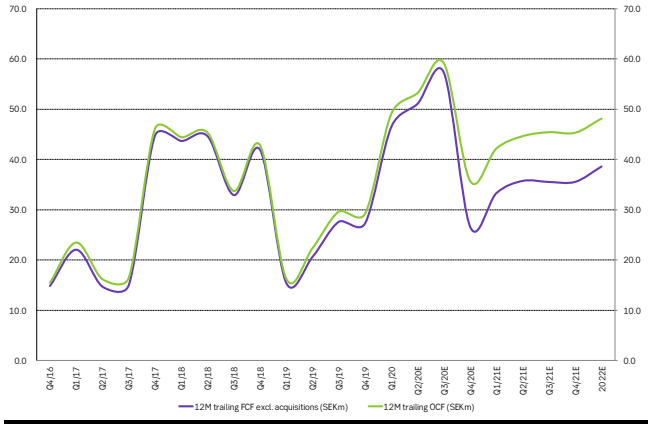
Most of the warehousing and logistics of Alcadon are in-house, having about 2,800 products in stock. Daily deliveries from its central warehouse in Stockholm are made to the local warehouses in Gothenburg, Malmö, Örebro and Oslo in order to secure high delivery readiness. Since the delivery time of many supplier products can be up to several months, the purchase and logistics planning is of high importance although the company considers the risk of obsolesce in its warehousing to be low. While inventory seasonality will change from this year, reflecting the group's decision to stock goods more evenly throughout the year (rather than mostly in Q1 every year), we expect slightly higher capital employed, mainly from lower inventory turns, over our forecast period (also excluding the impact from IFRS-16).

Capital management: inventory turns (x)



Source: SEB

12M trailing OCF and FCF (excl. M&A) forecasts (SEKm)

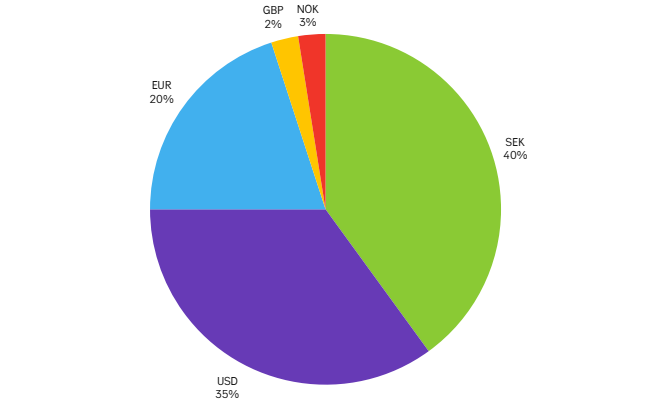


Source: SEB

Alcadon offers product from a total of about 200 suppliers in addition to its private label assortment

Alcadon offers products from a total of about 200 suppliers in addition to its private label assortment. In order to be at the forefront of the market, Alcadon has decided to focus on a small number of markets (Sweden and Norway) where the company has about 2,800 active customers. The development of its private label goods is being made in internally to specifically fit the domestic Nordic markets. Alcadon's own ECS private label brand is manufactured in plants in Taiwan, China, Great Britain and Israel.

Cost of goods sourcing by currency, 2019E



Source: SEB

GM y/y (pp) vs. USDSEK change -6M, y/y (%)

Source: SEB

Of COGS, 35% is in US dollars 20% in euros and 40% in kronor, reflecting purchasing from local importers

Of COGS, 35% is in US dollars 20% in euros and 40% in kronor, reflecting purchasing from local importers. While this implies a large theoretical gross margin impact from changes in mainly the dollar and the euro versus the Swedish krona, the actual gross margin performance in Alcadon reflects the industry's ability to pass on these currency movements in the value chain.

Alcadon's cost of goods is also indirectly exposed to price movements in several raw materials, including various types of plastics and coatings (oil derivatives), as well as metals including copper. As with currency transactions, risks in upstream sourcing and import buying of goods, copper prices have not impacted Alcadon's gross margins in any material way reflecting its ability to pass on input cost inflation in the form of price changes.

Brent-Oil price, Europe FOB, USD/BBI

Source: SEB, ThomsonReuters

LME-Copper price, cash, USD/metric tonne

Source: SEB, ThomsonReuters

Shareholder structure

Alcadon Group shareholders, free float and foreign ownership levels

Alcadon Group	Shares (m)	Shares (%)	Votes (%)	Domicile	Verified
Athanase Industrial Partners	2.784	16.51	16.51	Sweden	24/02/20
Anders Bladh	1.850	10.97	10.97	Sweden	31/03/20
Humle Fonder	1.096	6.50	6.50	Sweden	31/03/20
Investment AB Spiltan	1.042	6.18	6.18	Sweden	31/03/20
Nordic Cross Asset Management	0.840	4.99	4.99	Sweden	31/03/20
Avanza Pension	0.805	4.78	4.78	Sweden	31/03/20
Roy W. Furulund	0.416	2.47	2.47	Norway	31/12/19
Carl Rosvall	0.358	2.13	2.13	Sweden	31/03/20
Jonas Mårtensson	0.308	1.83	1.83	Sweden	31/03/20
Mikael Ljungman	0.260	1.54	1.54	Sweden	31/03/20
Top-10	**9.760**	**57.89**	**57.89**		
Others	7.099	42.11	42.11		
Total	**16.859**	**100.00**	**100.00**		
Free float (%)	73				
Foreign ownership (%)	6				

Source: SEB, Holdings

Management and board of directors

Executive management team

Sonny Mirborn owns 7,479 shares in Alcadon and has been the CEO of Alcadon Group since July 2019. Previous positions include Head of Business Unit for the Energy division at Addtech and CEO of CTM-Lyng and Rutab. Mr Mirborn holds an MSc in Business and Administration and Industrial and Financial Economics from University of Gothenburg.

Niklas Svensson owns 8,000 shares in Alcadon and has been the Chief Financial Officer of Alcadon Group since October 2019. Previous positions include CFO at NVBS Group and Finance Director at Sievert Group (which is included in the German company Rothenberger). Mr Svensson holds an MSc in Business and Administration from University of Lund.

Magnus Larsson is the Chief Sales Officer of Alcadon since June 2020. He has previous experience as Head of KAM and Customer Development at Siemens Smart Infrastructure in Sweden. Prior to this he worked in several leading sales positions at Siemens and has also experience from the construction and media industries, as well as from sales management consulting. Mr Larsson studied Business Administration at the University of Lund.

Roy W. Furulund owns 415,625 shares in Alcadon and is the Managing Director of Alcadon AS (Norway). Mr Furulund is the founder of CableCom which was acquired by Alcadon in May 2018 and has previously held leading positions within various sales organizations at Lambda AS and Caterpillar AS. Mr Furulund holds a Degree in Marketing from BI Norwegian Business School.

Paul Svensson owns 243,979 shares in Alcadon and is the Chief Information Officer of Alcadon Group. He has long track record within the Alcadon group and has previously been responsible for IT, Purchasing and Supply Chain as well as having held positions within business development, purchasing and supply chain at Hexatronic AB and Bristol-Myers Squibb AB.

Max Lundsten owns 58,899 shares in Alcadon and is the Chief Product Officer of Alcadon Group. He has been employed by Alcadon Group since 1999 and he has previously been responsible for product and business development for European Cabling Systems (ECS). Mr Lundsten holds a diploma as a Mechanical Engineer.

Peter Hjelmstad is the Chief Purchasing Officer of Alcadon Group. Previous positions include CPO and deputy CEO at Dataconnect. He has several years of experience within the data, telecom and security business at companies including Ahlsell AB. Mr Hjelmstad studied sales, purchasing and management at Företagsuniversitetet.

Board of directors

Pierre Fors owns 180,000 shares in Alcadon Group and has held the Chairman of the Board position since 2019. His previous experience includes serving as Alcadon Group's CEO from 2001 to 2019, before which he was Head of Sales for the group. Mr Fors holds a degree from Executive Program DME from the Executive Management Institute.

Jonas Mårtensson owns 308,092 shares in Alcadon Group and serve as a board member. He is currently employed by Alted AB where he also serves as co-owner and board member. He is furthermore CoB of Ownpower Projects Europe AB and OPP Owner AB and Board Member of DistIT AB, Slitevind AB, DO Intressenter AB and JNM Invest AB. His previous experience includes 17 years of working for various investment banks (SEB Enskilda, Maizels, Westerberg & Co and Nordea) as an adviser in M&A, as well as with capital raisings and IPOs. Mr Mårtensson holds an MSc from Stockholm School of Economics.

Marie Ygge owns 1,000 shares in Alcadon Group and serves as a board member. She is currently serving as board member also in SOS Alarm AB, TCO Utveckling AB and Teknik 200 AB. Ms Ygge has extensive experience from the IT industry, including with Microsoft (2005-2017) and IBM (1985-2005) and her most recent role was as Head of Business Development for Public Sector at Microsoft EMEA (2014-2017). Ms Ygge currently runs her own consulting business and she holds an MSc from KTH Royal Institute of Technology.

Stefan Charette owns 31,926 shares in Alcadon Group and serves as a board member. He is currently CoB of DistIT and serving as board members in Actic, Athanase Industrial Partners and Haldex (to be elected CoB at the AGM on 23 June 2020) and has previously served as CoB of NOTE AB and board member in Lindab International AB, Bilia AB, Transcom Worldwide AB, AB Custos, Investment AB Öresund and Creades AB. Mr Charette has furthermore been the CEO of Athanase Industrial Partner Ltd since 2004 and he holds a degree in Finance from Cass Business School and an MSc from KTH Royal Institute of Technology.

Lars Engström serves as a board member. He is currently CoB of Botnia Exploration Holding AB, Örebro Hockey Club and TerraRoc Group, as well as Board Member of Samhall AB and Normet Group Oy. Previous experience includes head of the business segments Mining and Rock Technology (2016–2019) and Mining (2015–2016) in Sandvik and President and CEO of BE Group and Munters AB. Mr Engström holds an MSc in Engineering from the University of Linköping.

Market overview

Demand drivers and mega trends

The increasing use of cloud infrastructure, industrial connectivity, i.e. internet of things (IoT) and demand for broadband and mobility are global mega trends that ultimately depend on optical fibre backhaul network capacity

The increasing use of cloud infrastructure, industrial connectivity ("Industry 4.0"), i.e. internet of things (IoT) and automation and robotics and demand for broadband and mobility are global mega trends that ultimately depend on optical fibre backhaul network capacity:

- Cloud (edge computing) solutions.
- Industrial automation (Industry 4.0 and internet of things).
- Over-the-top and 3D technology services.

We believe that enterprise multi-cloud solutions, IoT and corresponding edge computing solutions, as well as the increase in antenna density in next generation mobile networks (5G), are creating growth opportunities across the optical fibre network value chain, including for niche distributors like Alcadon Group, that will last for many years ahead.

Data centre and cloud opportunities

In a digitally networked world, enterprises depend on the integrity of data and the availability of digital resources. There is a growing need to develop more reliable and efficient IT infrastructures, that not only protect against data loss, but also ensure that processes run smoothly and at all locations. The loss of mission-critical information is a threat to enterprises. Due to the criticality of data and application availability, many large enterprises, institutions as well as health care providers are operating their own data centres connected via private fibre optic networks.

Such enterprise networks purely serve the business processes of an individual company or organization and offer a high degree of security and control. Network operation is either in the hands of the in-house IT department, or a specialized IT or communication service provider. The private IT infrastructure (private cloud) is often complemented by a partial outsourcing of less critical functions and data in external data centres, operated by a third party (public cloud). The combined use of private and public cloud solutions is called hybrid cloud and the simultaneous use of multiple clouds "multi-cloud." Cloud based solutions have been gaining much traction and should continue to spread rapidly in the corporate world.

Also, internet content providers (ICP), such as Amazon, Google, Microsoft, whose principal business is the creation and dissemination of digital content, operate very large data centres and are often referred to as a "hyper-scale" or "cloud-scale" operators. ICP data centres contain large server farms. The main asset of an ICP is its digital content and the associated services. A main objective of ICPs is optimizing costs and strengthening the performance of content portfolios. For wide-area connections between data centre sites, ICPs often resort to leased lines from carriers (CSP, communication service providers). There is also a trend towards ICPs renting dark fibre and equipping it with their own transmission technology.

Broadband for mobility, IoT

Carriers are building and operating large-scale networks used to offer communication services to end-users or other CSPs. Besides the demand from businesses and ICPs for data centre interconnect capacity, the increasing bandwidth demand of private households drives the need to expand network infrastructure capacity.

Gartner forecasts that the enterprise and automotive IoT market will grow to 5.8bn endpoints in 2020, a 21% increase from 2019

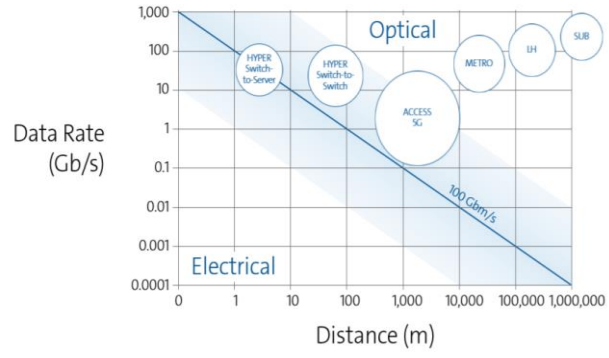
Drivers of bandwidth growth are mainly mobile devices, as well as the increasing number of networked devices through IoT. According to ADVA Optical Networking, industry analysis from Gartner forecasts that the enterprise and automotive IoT market will grow to 5.8bn endpoints in 2020, a 21% increase from 2019. This growth will drive a new set of requirements around network availability, latency and accessibility of computing resources. Carriers have a key task in building a suitable network infrastructure and digitizing ecosystems.

In addition to industrial use, it is the rapid growth of video-on-demand offerings from over-the-top (OTT) providers like Netflix and Amazon that is creating large traffic loads in carrier networks

In addition to industrial use, it is the rapid growth of video-on-demand offerings from over-the-top (OTT) providers like Netflix and Amazon that is creating large traffic loads in carrier networks. In order to guarantee good signal quality, carriers need to deliver several Mbit/s of bandwidth per household. Due to the adoption of higher resolution video standards and 3D technology, bandwidth demand will continue to grow for the foreseeable future. According to ADVA Optical Networks, there are expectations that the available bandwidth per household eventually will reach data rates of 1Gbit/s, which is more than 20x higher the bandwidth required for a broadband service today.

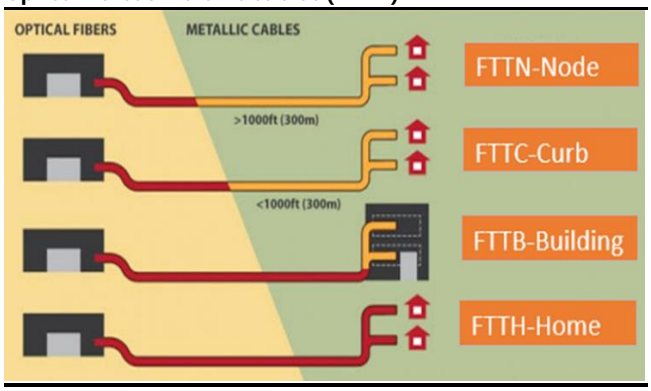
There are several ways for service providers to deliver broadband connectivity to their customers. Traditional telecommunications companies still leverage digital subscriber line (DSL) technology to increase the capacity of their access lines (i.e. twisted pairs of copper wires), which are typically available to every household. Coaxial cables are an alternative, typically owned by cable TV companies that are expanding their offerings to become multiple service operators (MSOs). New initiatives for fibre-to-the-home (FTTH) or fibre-to-the-building (FTTB) are also rolling out, bolstering bandwidth investments.

Optical versus Electrical capacities



Source: Corning, Investor Day June 2019

Optical versus metallic cables (FTTx)



Source: Fiber Optical Networking, SEB

Finally, there are several wireless technologies. In many developed countries, users have access to 4G mobile network technology, based on the "long term evolution" (LTE) standards. The roll-out of the 5G standard has begun and is being promoted across markets. These new access technologies deliver significantly higher bandwidth per end user than legacy technology.

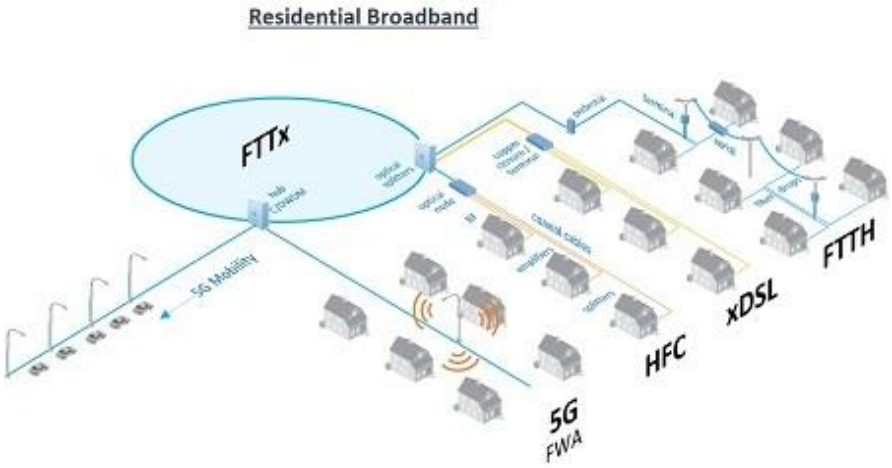
Pending 5G roll-outs: densification

According to Hexatronic and other suppliers to Alcadon, a 5G-ready wireless network, means between 2x to 6x more fibre has to be used compared to FTTH

FWA – wireless access is really fixed wireless access

Existing 3G and 4G networks, where a macro cell is placed on a tower or building rooftop, have typically been placed every few miles. Obstructions to the signal often create coverage gaps in the macro network, where additions, such as small cells, have been made to supplement or enhance coverage for users. 5G networks require a much tighter mesh of radio antennas to support the volume of connections, low latency, and connection speeds. As outlined below, 5G mobile network technology really requires fixed network infrastructure, which is referred to as fixed wireless access, or FWA. According Hexatronic, the Swedish manufacturer of fibre optic cables and equipment and other suppliers to Alcadon, a 5G-ready wireless network, means "between two to six times more fibre has to be used compared to FTTH".

FWA (5G) backhaul depends on optical fibre network



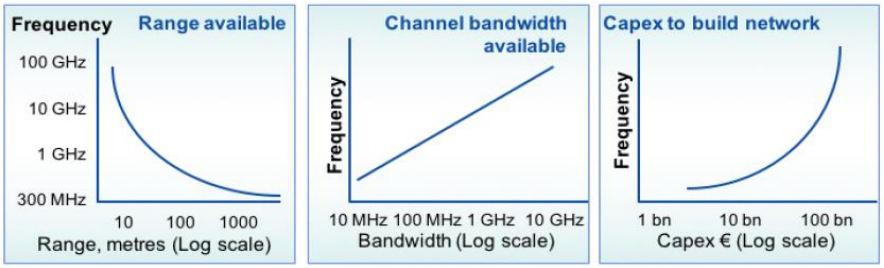
Source: CommScope

The commercial introduction of the 5G mobile network technology will have a significant impact on carrier infrastructure investments

The commercial introduction of the 5G mobile network technology will have a significant impact on carrier infrastructure investments. While the new mobile technologies allow the delivery of more bandwidth over the air interface to mobile devices, operators also need to solve the backhaul challenge from base stations to their core networks. Higher-speed backhaul today is generally implemented via fibre and optimized for data transmission supporting all the different applications.

The economics of 5G network technology is controlled by physics

The diagrams indicate trends in terms of order of magnitude only – not exact figures.

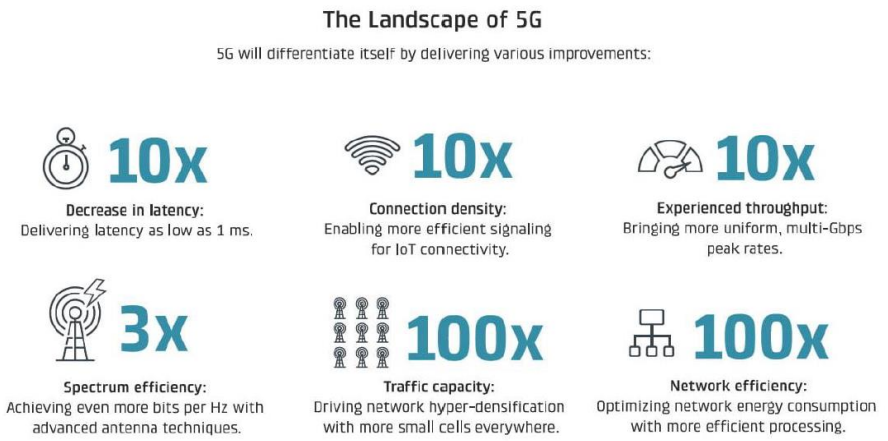


Signal propagation range decreases as the frequency increases, with the square of the frequency. So more base stations are needed to cover a given area as the cell size shrinks. Consequently capital expenditure for the network goes up as cell radius decreases. However, at the higher frequencies, more spectrum is unused today and this wider channel bandwidth can give higher data speeds and serve many more users, be they people or machines such as connected cars in traffic flows.

Source: European Parliament (BLACKMAN, C., FORGE, S., 5G Deployment: State of Play in Europe, USA and Asia, Study for the Committee on Industry, Research and Energy, Policy Department for Economic, Scientific and Quality of Life Policies)

According to a European Parliament report "5G deployment: state of play in Europe, USA and Asia", it is clear that 5G may cost more than three times as much as previous mobile technologies to deploy as it requires a denser coverage of base stations to provide the expected capacity. The European Commission has estimated that it will cost EUR 500bn to meet its 2025 connectivity targets, which includes 5G coverage in all urban areas.

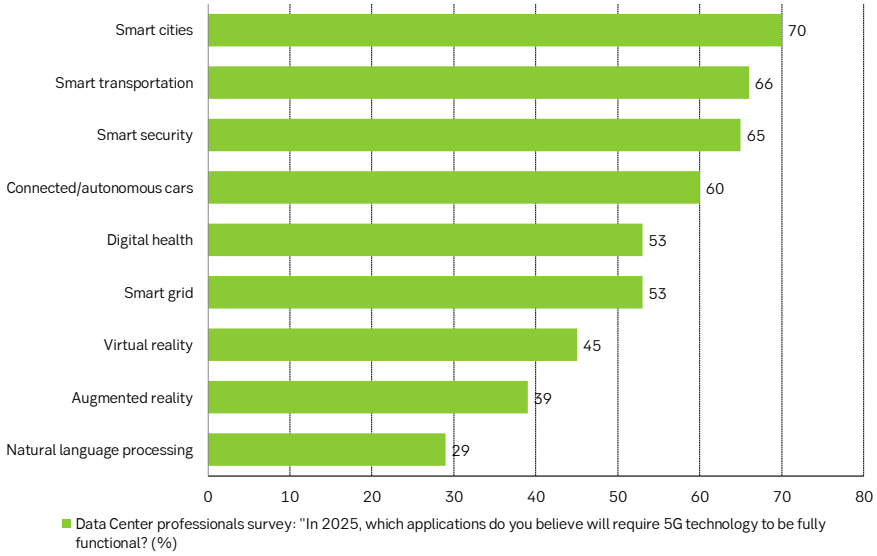
5G wireless network differentiators



Source: Hexatronic Group

As outlined in the chart above, there are several advantages, differentiating 5G network performance from other wireless broadband technologies, including improving key efficiency and capacity rates. According to a survey by Vertive of professionals in the Data Centre industry, 5G technology will be very important in order to fully make use of future applications in automation and various "smart" solutions.

Applications enabled/requiring fully functional 5G technology

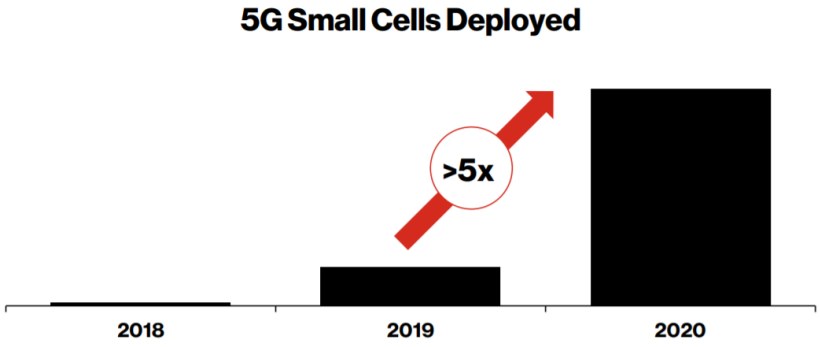


Source: SEB, Vertiv ("Data Center 2025 - closer to the edge")

In Verizon's 5G build-out plan, the group is now aiming at increasing 5G small cells deployment by a factor of 5x in this year compared to last year's deployments

The key to building a 5G-ready network is to bring the fibre as close to the end user as possible as more cells, covering smaller footprints equals a denser, faster and more connected network. US Corning Inc., a supplier of fibre optical cable and equipment and strategic partner to Verizon in its 5G roll-out plan (fibre worth a minimum of USD 1bn over three years) expects that in some cases, "5G small cells may be placed 500 feet apart or less". In Verizon's 5G build-out plan, the group is now aiming at increasing 5G small cells deployment by a factor of 5x in this year compared to last year's deployments.

Verizon 5G build-out plan 2018-2020



Source: Verizon Investor Day, 13 February 2020

About 78% of CTOs in European telecommunications operators expect 5G to be rolled out before 2022

Timing of 5G roll-out and upcoming milestones

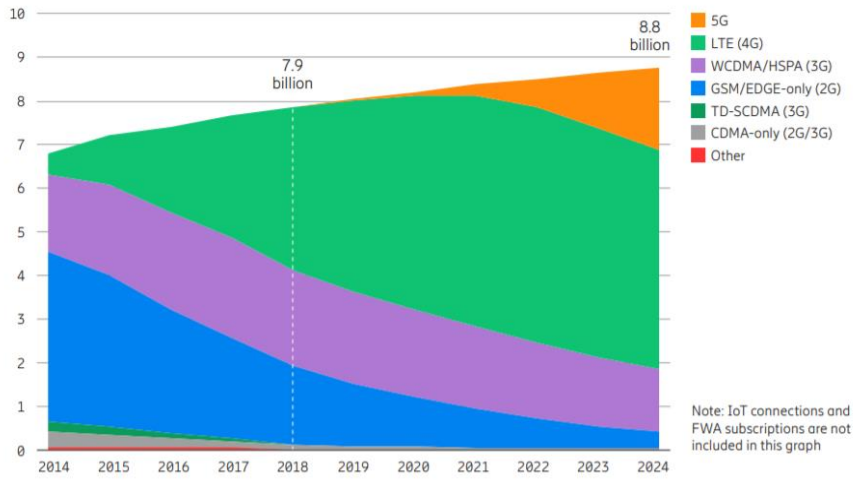
According to a survey in the European Parliament report "5G deployment: state of play in Europe, USA and Asia", about 78% of CTOs in European telecommunications operators expect 5G to be rolled out before 2022.

Expected timing on 5G roll-out, telco operator CTO survey (%)

Timeframe	EU	USA	Asia
Before 2020	11	56	40
Before 2022	78	44	40
2022-2025	11	0	20

Source: European Parliament (BLACKMAN, C., FORGE, S., 5G Deployment: State of Play in Europe, USA and Asia, Study for the Committee on Industry, Research and Energy, Policy Department for Economic, Scientific and Quality of Life Policies)

Worldwide mobile subscription forecasts by technology (bn)



[1] A 5G subscription is counted as such when associated with a device that supports New Radio (NR), as specified in 3GPP Release 15, and is connected to a 5G-enabled network

Source: Ericsson (Mobility Report, June 2019)

Looking out to 2024, Ericsson forecasts 5G subscriptions to grow to 1.9bn, corresponding to 20% of all mobile subscriptions

According to Ericsson, the number of worldwide 5G subscriptions at the end of last year was only about 10m. Looking out to 2024, the company forecasts 5G subscriptions to grow to 1.9bn, corresponding to 20% of all mobile subscriptions. In terms of timing, Ericsson forecasts 4G to peak in 2022, at about 5.3bn subscriptions and to have closer to 5bn subscriptions at the end of 2024.

In Sweden, due to the ongoing Covid-19 pandemic, PTS has postponed its 5G frequency auctions which will now take place on 10 November this year

In Sweden, due to the ongoing Covid-19 pandemic, the Swedish Post and Telecom Authority, PTS (regulating the communications sector), has postponed its 5G, 3.5GHz and 2.3 GHz, frequency auctions which will now take place on 10 November this year. We believe these auctions should also mark the start of the 5G network capex cycle in the Swedish market.

In Norway, Telenor's plans for 2021 is to upgrade a total of 2,000 base stations; and to upgrade a total of 8,500 base stations during 2021-2025

In Norway, the communications regulator Nasjonal Kommunikasjonsmyndighet, Nkom, held its first 5G auction in June of last year, with incumbents Telenor and Telia, as well as challenger mobile operator ICE (ICE.NO), being assigned 2x10MHz of spectrum each in the 700MHz band for NOK 180m, NOK 218m and NOK 337m respectively. It was announced in June this year that ICE Group's requested deferrals of these spectrum payments to 2025 have been approved by the EFTA Surveillance Authority, ESA and that ICE Group has committed to instead invest NOK 259m in telecommunications infrastructure in the years 2020-2022. We reckon this would support suppliers in the fibre network industry in these years.

Nkom will hold the next 5G frequency auctions in "first half of 2021", which we believe could act as a trigger for further 5G network investments in Norway

After several pilots starting in 2018, Telenor opened its 5G network for consumers in Trondheim and eight other cities in March of this year and "plans to expand coverage significantly during 2020". Telenor's plan for 2021 is to upgrade a total of 2,000 base stations and to upgrade a total of 8,500 base stations in the period 2021-2025. Nkom will hold the next 5G frequency auctions in "first half of 2021", which we believe could act as a trigger for further 5G network investments in Norway.

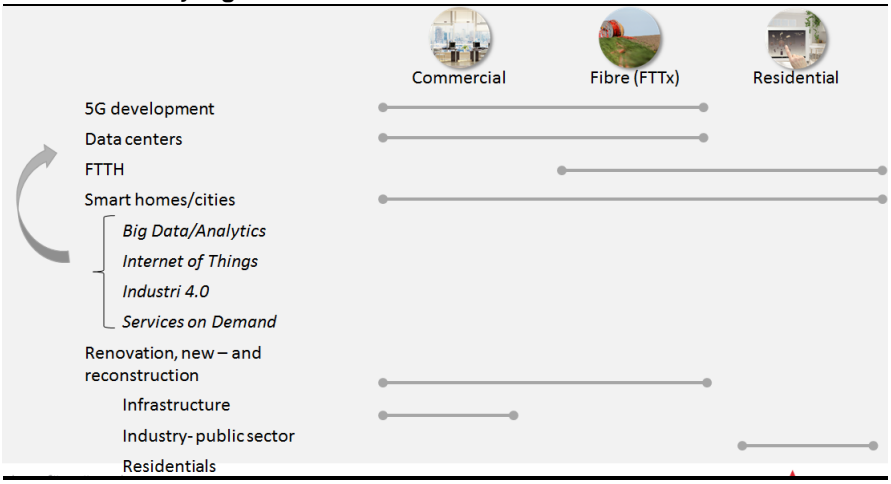
New structural shifts to leverage ahead

Alcadon's key drivers by market segment

The market in which Alcadon operates has experienced several shifts in network technologies and infrastructure, and the company has enjoyed the benefit of being a distributor that can shift offerings to meet changing demand. Reflecting costs and performance benefits, we have seen shifts from copper to fibre fixed networks (which is still ongoing), 3G to 4G and which is now about to be upgraded to 5G.

The exposure within Alcadon's niche is broad, with network infrastructure customers in real estate as well as infrastructure. The chart below illustrates the company's view on ongoing/coming mega trends and in what segments these factors will bolster growth for Alcadon. Smart homes are expected to benefit all segments, while 5G should drive developments in its Commercial Properties and Fiber Network (FTTx) business segments.

Market drivers by segment



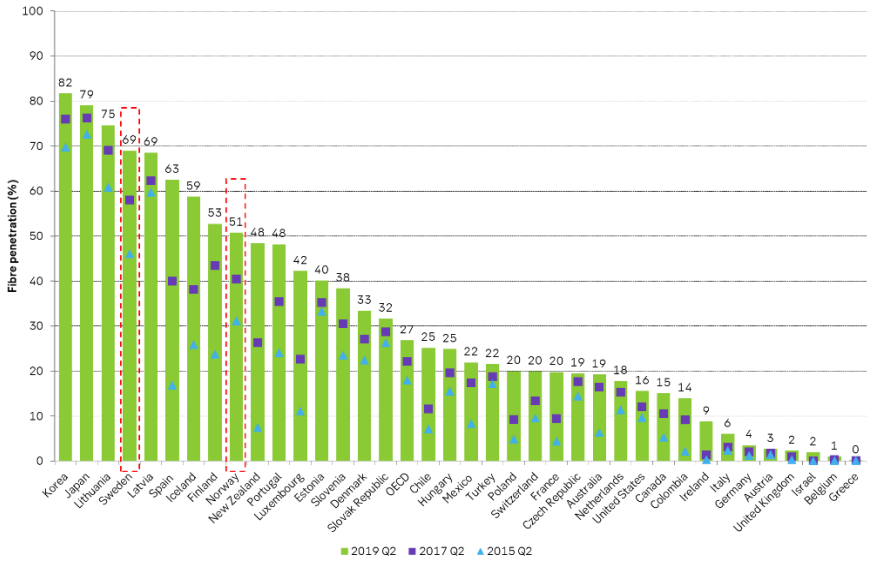
Source: Company presentation

The Nordic fibre network market

FTTH roll-out in the Nordics is far from finished

In mid-2019, Sweden and Norway were among the top countries in the world in fibre penetration according to the OECD, with 69% and 51% fibre penetration respectively. This number is defined as fixed internet connection by fibre (FTTH, fibre-to-the-home), where the Nordic countries have come a long way in an international perspective. We argue that this should not be considered a hindrance for growth for Alcadon, but more of an opportunity. With parts of the network infrastructure in place, focus will increasingly shift to the fibre roll-out for new 5G base stations.

Percentage of fibre connections in total fixed broadband, June 2019



Source: SEB, OECD

As outlined in the table below, Telia and other dominant actors in the market have been investing heavily in the network infrastructure for many years, with a peak in total market investments recorded in 2016. Since then, market developments have been supported by challenger brands, like IP only, while total investments have declined, particularly in 2018-2019. Also, the Swedish Local Fibre Alliance (Svenska Stadsnätsföreningen), the second largest fibre network operator in Sweden, having invested a total of SEK 28.5bn over the past twelve years, decreased investments in last year. Clearly, the negative ROI prospects associated with the remaining, largely rural, broadband expansion (which is needed to meet Swedish Government penetration targets in 2025), will weigh on capex budgets.

PTS calculations suggest that the investments needed to meet the 2025 targets are close to SEK 45bn, indicating a capex gap of SEK 22bn given market capex levels

In its report "Monitoring the Government's broadband strategy 2020" (4 June 2020), PTS expects network expansion to "likely decline further over the coming years". PTS calculations suggest that the investments needed to meet the 2025 targets are closer to SEK 45bn, indicating a capex gap of SEK 22bn given market capex levels. To achieve the targets, this gap may be financed with government subsidies.

Importantly for Alcadon and other fibre market players, over the past 12 years we note that fixed network capex growth has outpaced mobile investments growth in every year except in 2010.

In terms of homes passed and subscription take-up in Sweden (i.e. not krona capex) FTTH council Europe forecast a CAGR in Sweden of about 1% in homes passed by fibre in the period 2019-2025 and 9% in the number of fibre subscriptions.

Sweden fibre market forecasts: homes passed and subscriptions

Sweden - no of FTTH/B homes (m)	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	CAGR (%) 2019-25E
Homes passed	4.4	4.5	4.6	4.6	4.6	4.7	4.7	4.8	1.1
Subscribers	2.1	2.5	2.8	3.5	3.7	3.9	4.0	4.1	8.6
Homes passed, chg, y/y (%)	n.a.	2.3	2.2	0.9	0.1	0.8	1.3	1.3	
Subscribers, chg, y/y (%)	n.a.	19.0	12.6	22.5	7.2	5.4	2.6	2.5	
									Chg (pp)
Take-up penetration (%)	47.7	55.6	61.2	74.4	79.7	83.3	84.4	85.4	29.9
Take-up penetration, chg, y/y (pp)	n.a.	7.8	5.6	13.2	5.3	3.7	1.1	1.0	

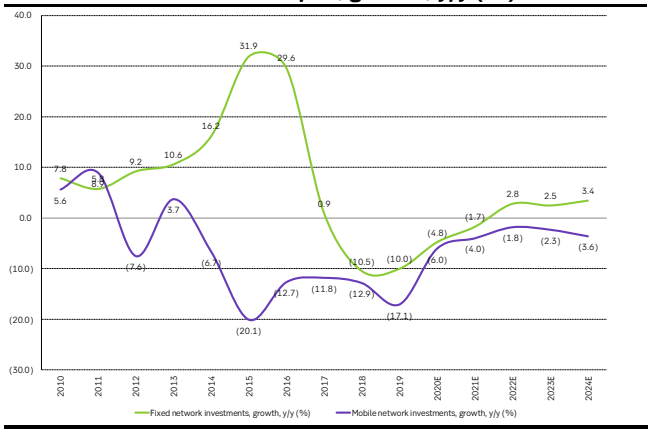
Source: SEB, FTTH Council Europe

Sweden mobile and fixed network investments, -10Ys (SEKm)

Sweden - Broadband investments by MNO	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Total network investments (SEKm)													
Telia	2,788	3,037	4,018	4,413	4,936	5,479	6,019	4,017	3,184	2,516	2,238	2,152	2,177
Telenor	1,258	1,083	1,091	1,508	1,640	1,023	1,266	1,390	813	727	729	699	693
Tele2	598	1,126	1,118	931	599	721	821	615	843	417	361	350	339
IP-Only	25	35	24	44	525	983	1,744	2,529	2,128	2,405	2,550	2,677	2,891
Com Hem	321	303	342	344	251	240	273	406	0	0	0	0	0
Stadsnät	1,227	1,405	1,317	1,406	1,727	2,581	3,327	4,447	4,559	4,104	3,776	3,587	3,605
Hi3G	1,683	1,478	862	755	540	565	563	541	878	821	780	749	734
TDC	134	187	125	145	78	90	0	0	0	0	0	0	0
Others	441	454	366	441	407	539	590	461	435	422	413	409	413
Total network investments (SEKm)	**8,474**	**9,108**	**9,263**	**9,987**	**10,704**	**12,222**	**14,603**	**14,405**	**12,839**	**11,412**	**10,847**	**10,623**	**10,852**
Growth, y/y (%)													
Telia	15.0	8.9	32.3	9.8	11.9	11.0	9.9	(33.3)	(20.7)	(21.0)	(11.0)	(3.9)	1.2
Telenor	24.3	(13.8)	0.7	38.2	8.8	(37.6)	23.8	9.8	(41.5)	(10.5)	0.2	(4.0)	(0.8)
Tele2	(3.3)	88.2	(0.7)	(16.7)	(35.7)	20.4	13.8	(25.1)	37.1	(50.5)	(13.5)	(3.1)	(3.2)
IP-Only	(58.3)	41.1	(30.0)	81.5	1,090.7	87.2	77.4	45.0	(15.9)	13.0	6.0	5.0	8.0
Com Hem	(1.8)	(5.6)	12.9	0.6	(27.0)	(4.4)	13.8	48.6	(100.0)				
Stadsnät	3.5	14.5	(6.3)	6.8	22.8	49.4	28.9	33.7	2.5	(10.0)	(8.0)	(5.0)	0.5
Hi3G	4.0	(12.2)	(41.7)	(12.4)	(28.5)	4.6	(0.3)	(4.0)	62.4	(6.4)	(5.0)	(4.0)	(2.0)
TDC	(18.4)	39.5	(33.3)	16.4	(45.9)	15.4	(100.0)						
Others	(19.8)	2.9	(19.3)	20.2	(7.7)	32.6	9.5	(22.0)	(5.6)	(3.1)	(2.0)	(1.0)	1.0
Total network investments, growth, y/y (%)	**6.5**	**7.5**	**1.7**	**7.8**	**7.2**	**14.2**	**19.5**	**(1.4)**	**(10.9)**	**(11.1)**	**(5.0)**	**(2.1)**	**2.2**

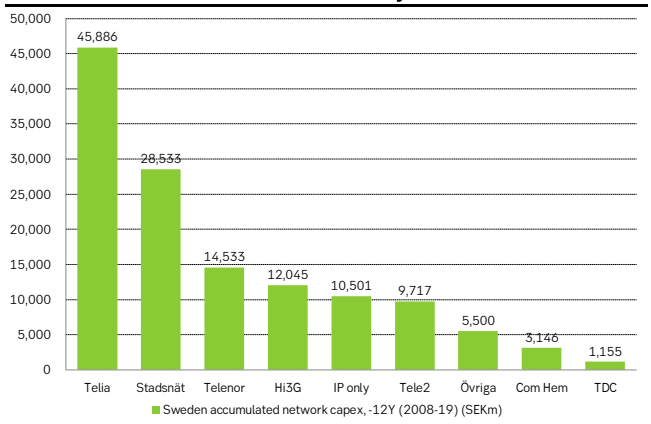
Source: SEB, PTS

Sweden: fixed vs. mobile capex, growth, y/y (%)



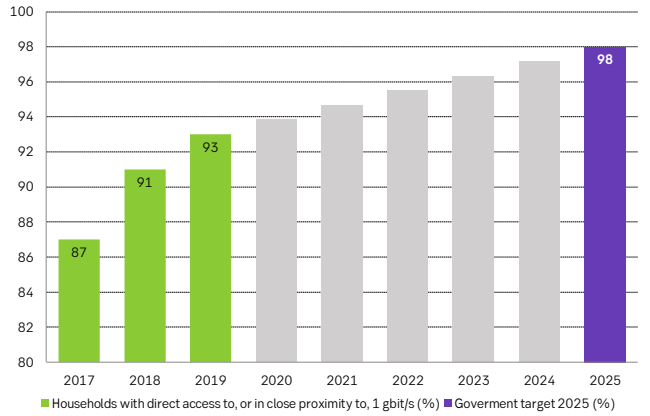
Source: SEB, PTS

Sweden: accumulated investments by MNO



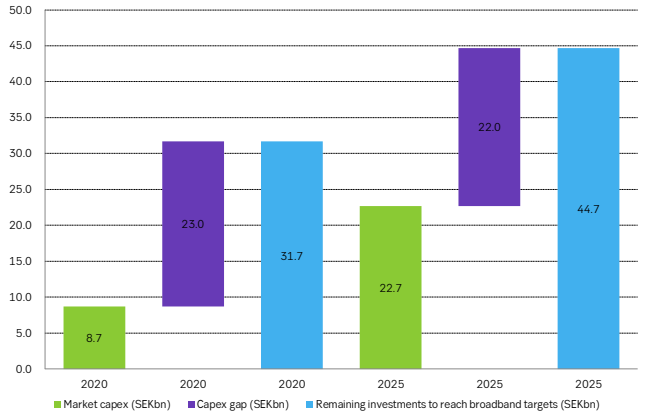
Source: SEB, PTS

Sweden: Government broadband target 2025



Source: SEB, PTS

Capex gap that needs funding to achieve 2025 targets



Source: SEB, PTS

From speaking to its suppliers, Alcadon understands that 5G could require 16x as many base stations per square kilometre, compared to a 4G network to cover the same area

We now expect the shift from 4G to 5G drive demand for fibre. From speaking to its suppliers, Alcadon understands that 5G could require 16x as many base stations per square kilometre, compared to a 4G network to cover the same area (this figure could be as high as 32x as many base stations/sq km, according to the European Parliament report "5G deployment: state of play in Europe, USA and Asia").

As outlined elsewhere in this research report (see "Timing of 5G roll-out and upcoming milestones"), we expect demand for fibre equipment and solutions to pick up in 2021 and beyond. This mirrors the ongoing and future decisions to roll out 5G technology in the Nordic markets. Rather than a gradual and steady trajectory in investments over our forecast period to 2022, this is likely to result in occasional and major growth shifts in the market as individual companies decide to implement 5G investment strategies.

The data centre market adds significant growth potential

According to the Nordic Council of Ministers, the official body for inter-governmental co-operation in the Nordics, the Nordic region attracts an increasing level of construction investments in new Data Centres, estimated at EUR 2.4bn in last year by COWI, a consultancy. The Nordic region scores comparatively higher on most important investment factors, such as "reliable power supply", "low energy prices", "political stability", "faster time-to-market" and "abundance of energy and other resources" compared to more traditional European data centre regions.

The data centre market can be split into four main categories:

Hyperscale: large data centres owned and operated by the company they serve, typically within social media, search engines and communication and entertainment

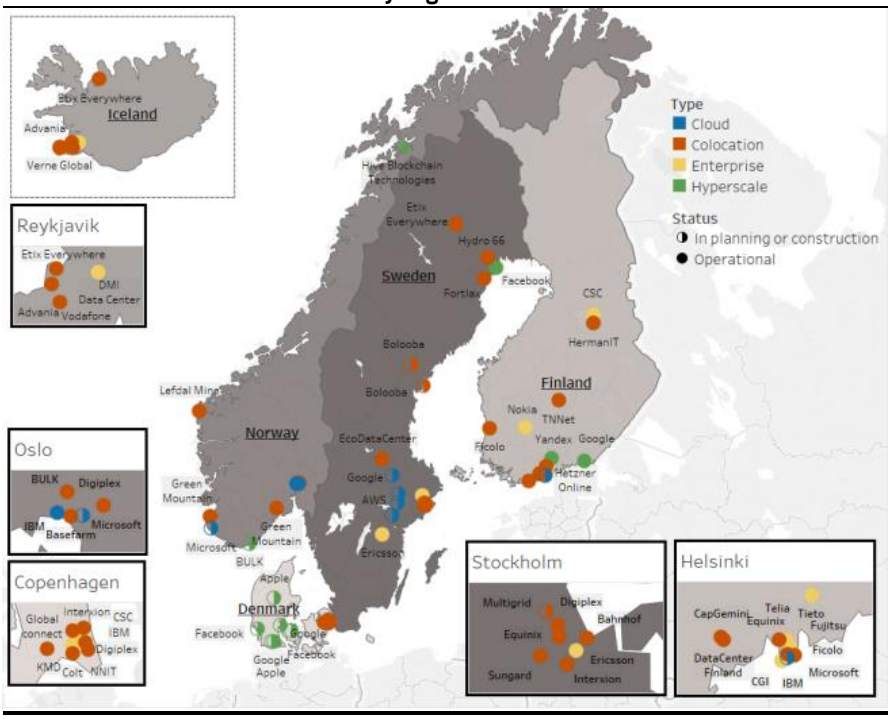
Cloud: facilities owned and operated by dedicated cloud companies, delivering various "XaaS" computing services

Colocation (retail & wholesale): data centre owners selling space, power and cooling to different cloud, enterprise and hyperscale customers in a specific location, and

Enterprise: a segment of a data centre facility, owned and operated by the company it supports. It is often built on-site, but it could also be an off-site location

The chart below outlines a map of the Nordic region's data centre locations by segment.

Nordic data centre constructions - by segment

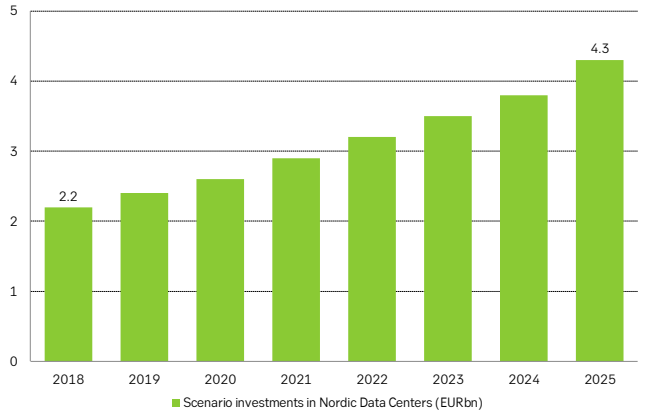


Source: SEB, Nordic Council of Ministers

According to COWI, the potential market for construction investments could be worth around EUR 4.3bn in 2025 – up from EUR 2.6bn in this year. Alcadon Group estimates that Sweden and Norway equal a market opportunity of about SEK 12bn a year, and that the colocation and enterprise segments that Alcadon could serve are worth a total of above SEK 4bn (a third of the market).

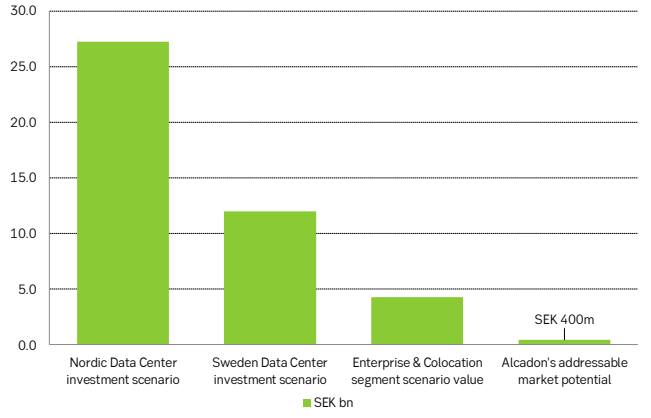
According to Alcadon the addressable potential, based on current product categories, can be estimated at about 10% of this market, or SEK 400m a year. Compared with our total group revenue forecast of closer to SEK 500m in this year, this represents a significant opportunity for Alcadon in the coming years.

Nordic scenario DC investment forecasts (EURbn)



Source: SEB, Nordic Council of Ministers, COWI

Alcadon's addressable market is estimated at SEK



Source: SEB, Nordic Council of Ministers, COWI, Alcadon Group

The Nordic construction market

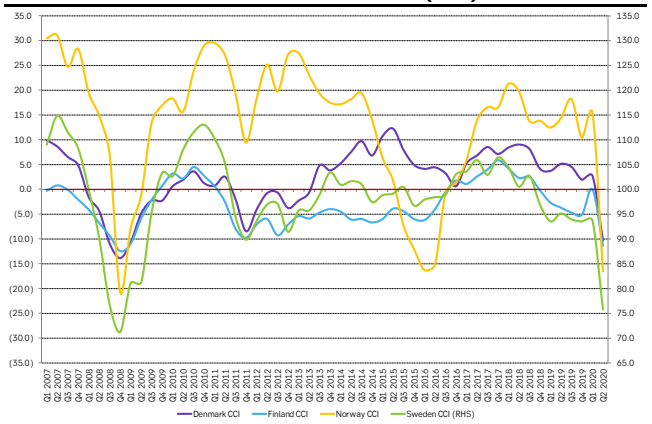
Falling housing starts and completions this year and in 2021

Alcadon's Residential business segment operates as supplier and distributor of electrical components and data communication solutions for dwellings in the renovation, new construction and re-construction segments of the Nordic building and construction markets.

Underlying market fundamentals are based on population growth and overall economic developments

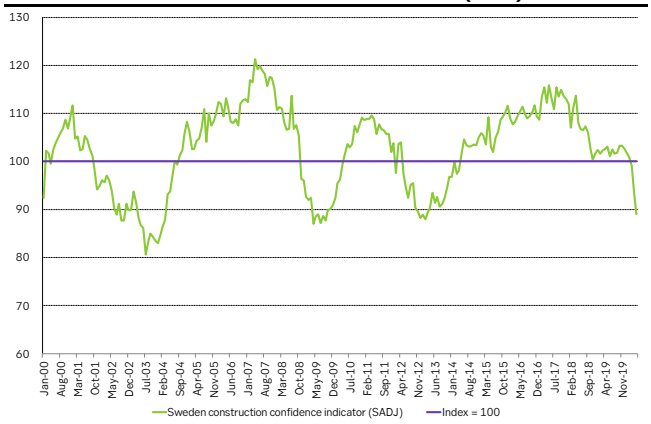
Over a cycle we argue the underlying market fundamentals are based on population growth (about 1% a year in Sweden and in Norway over the past 15 years) and overall economic developments, i.e. employment, interest rates and household real disposable income growth. The Covid-19 pandemic has negatively impacted several key economic growth measures and consumer and business economic leading indicators alike over the past months.

Nordic consumer confidence indicators (CCI)



Source: SEB, ThomsonReuters

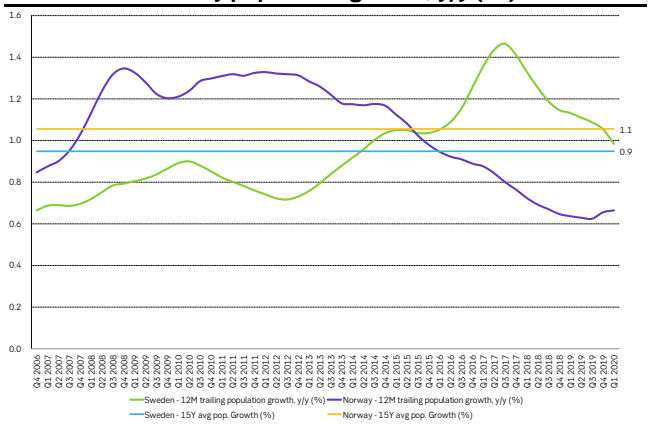
Sweden: construction confidence indicator (BTS)



Source: SEB, ThomsonReuters

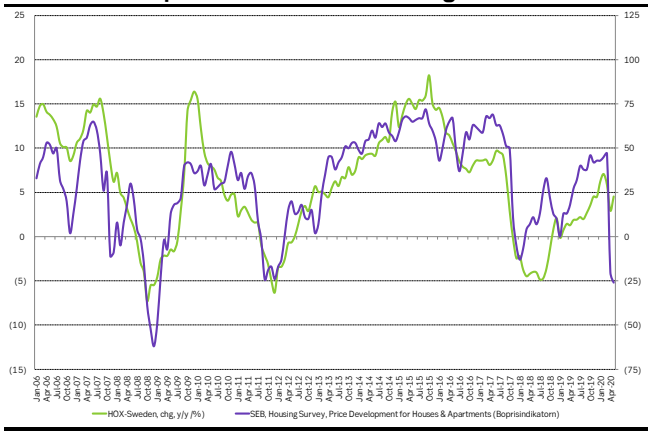
Our proprietary housing price survey (SEB Boprisindikatorn) indicates falling prices ahead and we forecast decreasing employment rates in 2020 and in 2021 mirroring an unprecedented peak in redundancies as many industries and corporations struggle to maintain operations.

Sweden and Norway population growth, y/y (%)



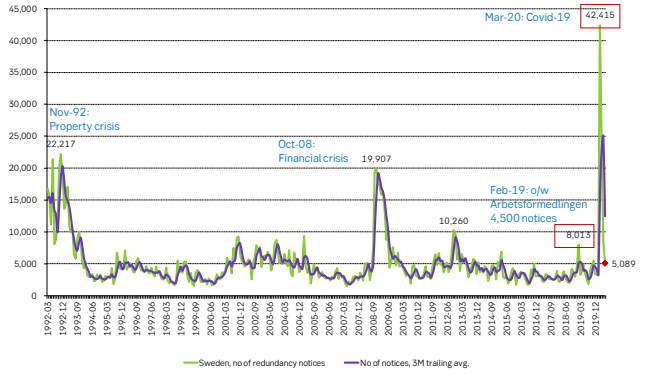
Source: SEB, ThomsonReuters

Sweden house price index and SEB leading indicator



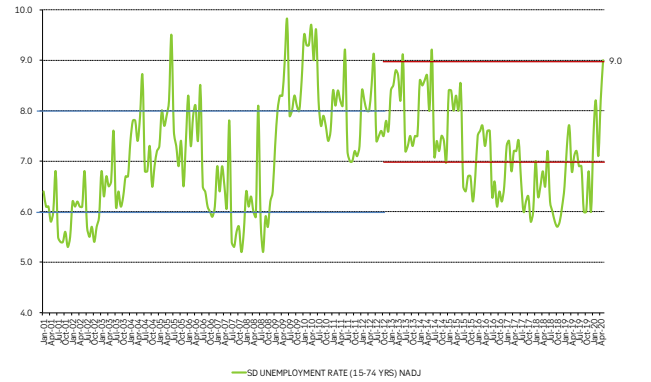
Source: SEB, Valueguard, ThomsonReuters

Sweden no. of redundancies



Source: SEB, Arbetsförmedlingen

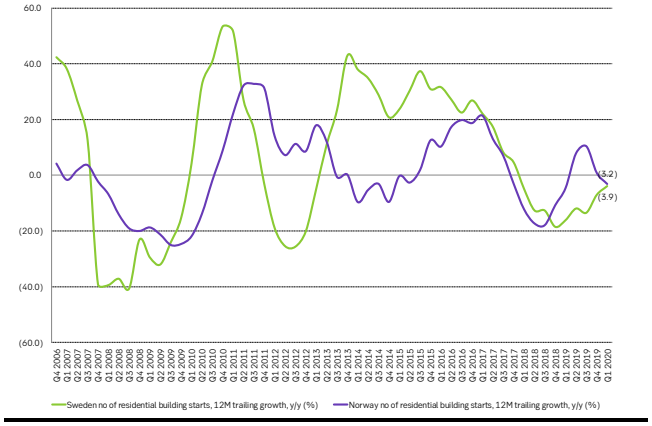
Sweden unemployment rates (%)



Source: SEB, ThomsonReuters

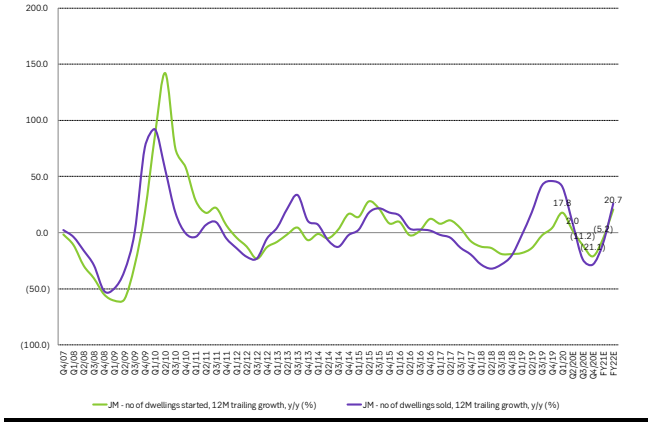
Looking at the overall dwellings construction market, we believe the negative trend in housing starts and completions will continue to weigh on overall sector prospects over the coming years. At the end of Q1 this year, 12-month trailing residential housing starts and completions, respectively, were down 3.9% and 10.5% y/y in Sweden. In the Norwegian market, the corresponding declines were 3.2% (starts) and 9.3% (completions).

Sweden and Norway: no of housing starts, y/y (%)



Source: SEB

JM: forecast housing starts and completions, y/y (%)



Source: SEB

An important example in the building segment is property company JM, which is an important customer of Alcadon. Here, we forecast a 21% decline in housing starts this year (following a 17% increase in 2019) and a further 5% decline next year. In 2022 our forecasts assume a 21% increase in housing starts. Installations are rather late building cycle projects, so we reckon demand for Alcadon's products and solutions should lag these indicators.

Structural drivers for growth add to cyclical prospects

On top of overall population growth, economic cycles and residential construction, we believe Alcadon's Residential business and other providers of broadband network equipment ARE exposed to more structural drivers. In particular, connecting homes with broadband capabilities is driven by increasing consumer expectations and demands for:

- OTT solutions
- 3D technology/augmented reality and
- Connected/smart homes

We believe these drivers will create ample room for Alcadon Group to outperform the general market development in terms of new construction builds in Sweden and in Norway. Also, to start Alcadon has a low share of the market for residential networks and should have potential to gain market share from broadening of its product assortment categories.

Peers: company snapshots

Electrical Equipment and Distribution peers

Anixter International, recently acquired by US Wesco, operates and competes with Alcadon in the Nordic markets

Anixter International Inc. (Wesco M&A: shares delisted on 22 June 2020)
Anixter is a global distributor of enterprise cabling and security solutions, electrical and electronic wire and cable products and utility power solutions. Anixter operates through three segments: Network & Security Solutions, Electrical & Electronic Solutions, and Utility Power Solutions. Anixter operates and competes with Alcadon in the Nordic distribution markets and reported 2019 sales of about USD 8.8bn. The company has been merged with US Wesco International Inc. and the Anixter shares were delisted on 22 June 2020.

Arrow Electronics Inc.
Arrow Electronics is a US-based provider of products, services and solutions to industrial and commercial users of electronic components and enterprise computing solutions. The company has a portfolio of product offerings of various electronic components and enterprise computing solutions suppliers, distributed through their three divisions; Intelligent Systems, Enterprise Computing Solutions and Sustainable Technology Solutions. In 2019 Arrow recorded sales of about USD 29bn.

Avnet Inc.
Avnet is a global technology solutions provider, active in the Americas, EMEA and Asia-Pacific. The company has two divisions: Electronic Components (USD 18bn) and Premier Farnell (USD 1.5bn), a company acquired by Avnet in 2016. The products distributed by Avnet are grouped into the following categories: Semiconductors (USD 14.9bn), Interconnect, Passive, Electromechanical (USD 3.6bn), Computer Products (USD 500m) and Other (USD 496m). 2019 sales amounted to about USD 19.5bn and the group has 15,400 employees worldwide.

Lagercrantz Group AB
Lagercrantz is a Swedish company engaged in the provision of products and solutions in the electronics and communications industry. The group consists of more than 50 companies, each with a niche focus on a specific sub-market and the operations are conducted in a decentralized manner, where each subsidiary is followed-up based on clear objectives. Lagercrantz is active in nine countries in Europe, India, China and the US and the Group has more than 1,500 employees with sales of SEK 4.2bn in 2019.

Legrand SA
Legrand is a France-based company that specializes in the design, manufacture and distribution of products and systems for electrical installations and information networks. The group is exposed to three end markets: Commercial, Residential and Industrials and is active in nearly 90 countries. Legrand has 39,000 employees and 2019 sales were close to EUR 6.6bn.

Garo AB
Garo is a Sweden-based company which develops, manufactures and supplies products and systems for the electrical installations industry under its own brand. The company has operations in Sweden, Norway, Finland, Ireland, the UK and Poland. The group has approximately 420 employees and a 2019 sales of SEK 1bn.

Rexel SA

Rexel is a major distributor in the Nordic markets and where it competes with Alcadon in certain product segments

Rexel is a France-based company that is engaged in the distribution of electrical parts and supplies to professionals. The company serves three markets: commercial (44%), industrial (30%) and residential (26%) and is active in 26 countries. 2019 sales amounted to EUR 13.7bn and the group employs over 26,000 people worldwide. Rexel is also a major distributor in the Nordic markets and where it competes with Alcadon in certain product segments.

Schneider Electric SE

Alcadon distributes electrical equipment segment products from Schneider in the Nordic market

Schneider Electric is a France-based company that provides energy-related solutions with focus on four end-markets: Buildings (35%), Data Centre (15%), Industry (30%) and Infrastructure. The group has 135,000 employees worldwide and 2019 sales amounted to EUR 27.2bn. In February 2020, Schneider Electric launched a public takeover offer for RIB Software, which was accepted (min. 50%) on 28 April this year. Alcadon distributes electrical equipment segment products from Schneider in the Nordic market.

Solar A/S

Solar competes with Alcadon in certain product segments in the Nordic distribution market

Solar A/S is a European sourcing and services company with headquarters in Denmark. Solar operates primarily within the electrical, heating and plumbing, and ventilation technology sectors. The group employs around 3,000 employees and revenue for the group totalled DKK 11.7bn in 2019. Solar competes with Alcadon in certain product segments in the Nordic distribution market.

TE Connectivity Ltd.

TE Connectivity designs and manufactures connectivity and sensor solutions. The group focuses on three end-market segments: transportation solutions (58%), industrial solutions (30%) and communications solutions (12%) and employs around 80,000 people. Headquartered in Switzerland, TE's 2019 sales amounted to USD 13.4bn.

TKH Group NV

TKH Group is a technology company based in the Netherlands. TKH specializes in the development and delivery of systems and networks within three business segments: Telecom, Building and Industrial Solutions. The group operates on a global scale with 6,533 employees and 2019 sales amounted to EUR 1.5bn.

Wesco International Inc. (incl. Anixter International Inc. from June 2020)

Wesco has acquired and integrated Anixter International as of June 2020 that competes with Alcadon in the Nordic market

Wesco is a leading provider of electrical, industrial and communications maintenance, repair and OEM products, construction materials and supply chain management and logistic services. Pro forma 2019 annual sales were approximately USD 17.2bn, including Anixter International which competes with Alcadon in the Nordic market. The company employs approximately 18,900 people, has more than 30,000 suppliers and serves more than 150,000 active customers worldwide. Customers include commercial and industrial businesses, contractors, government agencies, institutions, telecommunications providers and utilities.

Hexatronic is also a supplier of fibre equipment to Alcadon

Cables & wire equipment and distribution peers

Hexatronic Group AB
Hexatronic Group AB is a Swedish company headquartered in Gothenburg. The company is engaged in the production of electronic and technical solutions and specializes in fibre communications. Hexatronic develops and manufactures its own products and services, as well as selling and distributing solutions based on products from manufacturers worldwide. Hexatronic is also a supplier of fibre equipment to Alcadon. The group consists of 20 companies with a total of 597 employees and 2019 sales of SEK 1.8bn.

Leoni AG
Leoni is a Germany-based company that provides wires, optical fibres, cables and systems and related services to the automotive sector and other industries. Leoni's largest customer group comprises the global car, commercial vehicle and component supply industry. The group also supplies products and services to additional markets, including data communication and networks, healthcare, processing industry, transportation, energy and infrastructure, factory automation, machinery & sensors, as well as the marine segment. The group's 2019 sales totalled EUR 4.8bn and Leoni employs 95,000 people.

Nexans SA
Nexans is a France-based company engaged in the cable industry. It provides copper and fibre-optic cables and cabling systems to the energy infrastructure, telecom and data, building and local area network (LAN) markets. The company has four major divisions: High Voltage and Projects (16%), Telecom and Data (11%), Industry and Solutions (25%), Building and Territories (39%) and Other (9%). The group's 2019 sales amounted to EUR 6.7bn and it employed 26,000 people.

NKT A/S
NKT consists of two standalone companies: NKT, a provider of power cable solutions and NKT Photonics, a supplier of fibre lasers and photonic crystal fibres. Both companies are headquartered in Denmark and have operations across the world. NKT has three divisions: Solutions (47%), Applications (41%) and Services and Accessories (12%). NKT Photonics is split into three divisions: Medical & Life Science (15%), Industrial (70%) and Aerospace & Defence (15%). NKT Group 2019 sales amounted to EUR 1.3bn, split between NKT (EUR 1.25bn) and NKT Photonics (EUR 75m) and the group has close to 3,700 employees.

Optical Cable Corporation
OCC is a US manufacturer of fibre optic and copper data communication cabling and connectivity solutions primarily for the enterprise market, various harsh environment and specialty markets and the wireless carrier market. The company has around 360 employees and its 2019 revenues amounted to USD 71m.

Prysmian SpA
Italian Prysmian SpA is an industry-leading brand active in the development, design, production, supply and installation of cables. The company has three divisions: Projects (16%), Energy (70%) and Telecom (14%) and its largest market is EMEA (54%). During 2018, Prysmian group merged with the US company General Cable and its combined 2019 sales amounted to EUR 11.6bn. The group is active in over 50 countries worldwide and has about 29,000 employees.

Communication Equipment and Distribution peers

ADVA Optical Networking SE

ADVA owns MRV Communication which acquired Alcadon in 1997 and owned the company until it was acquired by DistIt (DIST.ST) in 2012

Based in Germany, ADVA is a provider of networking solutions, hardware, software and services for the telecommunications industry. ADVA focuses on growth markets in the telecom space which are driven by the digitization of society and its ecosystems. The company provides products and services for service providers, government institutions, education facilities, the Internet and cloud industry and enterprise networks. ADVA is active in three regions: EMEA (8%), Americas (38%) and Asia-Pacific (54%) and had 2019 sales of EUR 556m. ADVA has its headquarters in Munich and the group has around 1,900 employees across its three regions. ADVA is a supplier to Alcadon and the company also owns MRV Communication which acquired Alcadon in 1997 and owned the company until it was acquired by DistIt (DIST.ST) in 2012.

Applied Optoelectronics Inc.

AOI is a provider of fibre-optic networking products and is active in four end-market segments: data centres, cable television broadband, FTTH, and telecommunications. AOI designs and manufactures a range of optical communications products at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. The group's 2019 revenues totalled USD 191m, where the Data Centres segment was the largest in terms of earnings. The group has its headquarters in Houston, Texas and around 3,100 employees.

Atea ASA

Atea is a Norwegian company engaged in the provision of IT infrastructure products and services. The company primarily offers hardware (53%) and software (29%) products, as well as services (18%) including both consulting and services agreements within the IT infrastructure area. Atea has more than 7,500 employees located in 85 offices across Norway, Sweden, Denmark, Finland, Lithuania, Latvia and Estonia. The group's 2019 revenue totalled almost NOK 37bn.

Belden Inc.

Belden is a signal transmission solutions provider company. The company operates through two segments: Enterprise (51%), and Industrial (49%) with focus on four end markets: industrial automation, smart buildings, broadband and 5G and cybersecurity. The group has its headquarters in the US and has approximately 7,000 employees worldwide and 2019 sales of USD 2.1bn.

CommScope Holding Company Inc.

CommScope is a global provider of infrastructure solutions for wireless, business enterprise and residential broadband networks and Alcadon distributes its products in the Nordic markets

CommScope is a global provider of infrastructure solutions for wireless, business enterprise and residential broadband networks and Alcadon distributes its products in the Nordic markets. CommScope's solutions and services for wired and wireless networks enable high-bandwidth data, video and voice applications. The company has five divisions: Connectivity Solutions, Mobility Solutions, Customer Premises Equipment, Network and Cloud and Ruckus Networks, where Customer Premises Equipment accounts for the largest portion of the company's sales. In Q2 last year, CommScope acquired ARRIS International plc, for a total EV of USD 7.7bn. Combined, pro forma, revenue in 2019 were reported at about USD 9.8bn.

Furukawa owns OFS, a leading manufacturer of fibre optic solutions and an important supplier to Alcadon in the Nordic markets

Furukawa Electric Co Ltd.
Furukawa Electric is a technology company that offers products in the telecommunications, electronics, automobiles and construction segments of the market. The company operates in four segments: Infrastructure (29.4%), Electronics and Automotive Systems (53.3), Functional Products (12.1%) and Service and Development (5.3%). Furukawa Electric consist of 125 group companies in total and has 50,232 employees worldwide. The company is headquartered in Japan and generated sales of JPY 914bn in 2019. Furukawa owns OFS, a manufacturer of fibre optic solutions and is an important supplier to Alcadon in the Nordic markets.

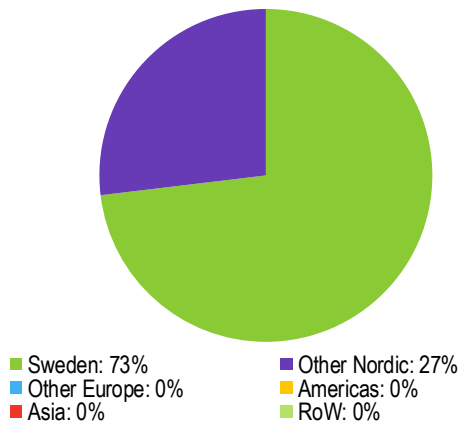
HMS Networks AB
HMS is Swedish company engaged in the provision of communication technology for industrial automation. HMS products make it possible for industrial machines and devices (hardware) to connect with control systems and the Internet (software). HMS focuses on industrial IoT implementation in the following segments: Transportation, Manufacturing, Buildings, Power/Energy and Water/Waste. The company has over 600 employees worldwide and its 2019 sales amounted to SEK 1.5bn.

Huber+Suhner AG
Huber+Suhner AG is a Swiss manufacturer of components and systems for electrical and optical connectivity for the communication, transportation and industrial markets. The company offer products in the following segments: Radio Frequency (33%), Fiber Optics (34%) and Low Frequency (33%) and are focused on three end markets: communications (38%), transportation (30%) and industrial (32%). Its largest market is EMEA, which accounts for 44% of the company's business. Huber+Suhner has approximately 8,400 employees worldwide and its 2019 sales totaled CHF 831m.

Overview

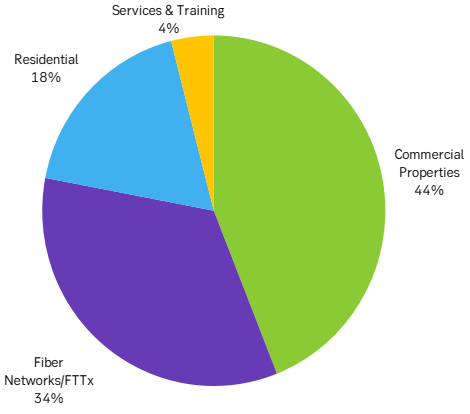
Investment considerations	We believe Alcadon offers a good exposure to the roll-out of 5G technology, the increasing use of edge computing (cloud) and industrial automation trends (Industry 4.0 or internet of things). To support the volume of connections, low latency and connection speeds, critical to 5G applications, this requires a much denser network infrastructure. Here, Alcadon has carved out a leading market position in the premium network equipment segment. Increasing private label sales and SG&A leverage add to EPS growth.
Company profile	From organic and M&A growth, since its start in 1988, Alcadon Group has achieved a market leading position in Sweden and in Norway as a developer and distributor of structured cabel systems (SCS) and solutions for commercial properties (44% of sales), fiber- (34%) and residential (18%) networks. Its assortment includes fiber and copper-based products and passive and active components. In 2012 DistIT Group acquired and owned Alcadon until in 2016 when the company was distributed, "Lex Asea", to shareholders and separately listed. Since then the acquisitions of DataConnect (2017) and Norwegian CableCom (2018) are the most important, adding geographical scope, new business lines and cross-selling opportunities. Almost one-third of sales are being derived from private label systems (ECS and DC-Line), carrying higher margins compared to branded goods. Here, Alcadon has trained and certified a base of 4,000 installers working with ECS and DC-Line and there are over 2m systems in operation in the Nordic region.
Valuation approach	Based on our earnings estimates, we believe Alcadon is valued at below 8x 2021 EV/EBIT, corresponding to an almost 50% discount to its peer group median valuation of 14x. At our mid-point equity value of SEK 30 per share, this would imply 11.5x 2021E EV/EBIT and in our opinion a more reasonable 20% discount to peers, as justified by its small capitalization.
Risks	5G will be a much more expensive technology to roll out implying timing decisions could impact Alcadon's earnings and our valuation significantly. Also, Alcadon's financial disclosure and historical track record as a listed company is limited which could mean a higher equity risk premium in the medium term.

Revenues by region



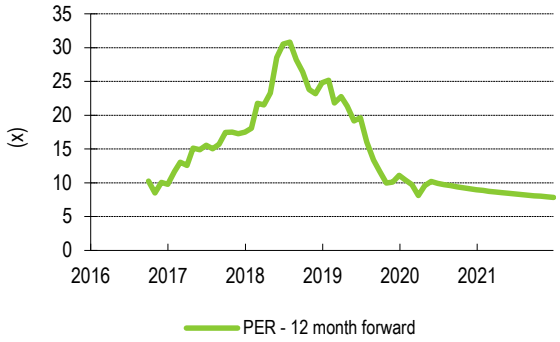
Source: SEB

Revenues by division



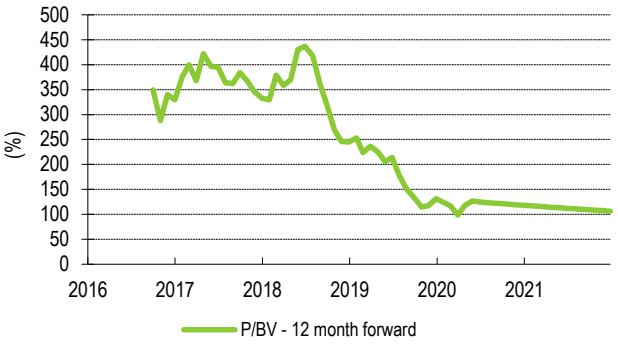
Source: SEB

PER - 12 month forward



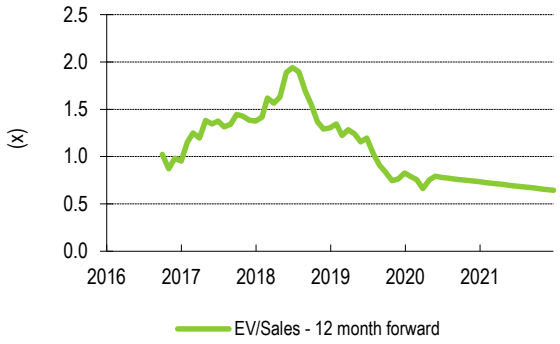
Source: SEB

P/BV - 12 month forward



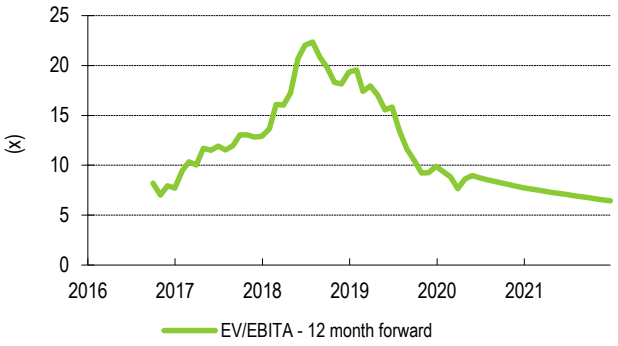
Source: SEB

EV/Sales - 12 month forward



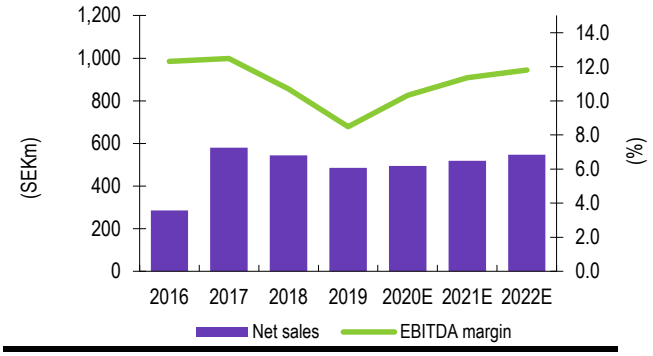
Source: SEB

EV/EBITA - 12 month forward



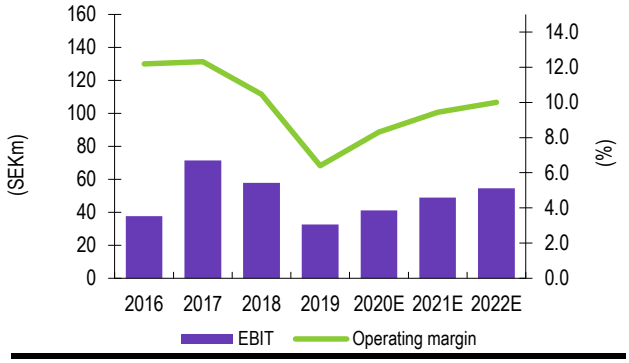
Source: SEB

Net sales & EBITDA margin



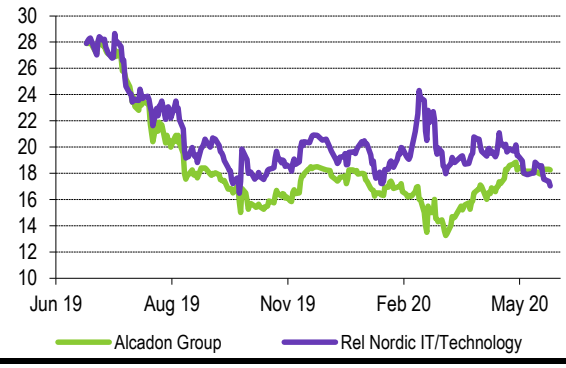
Source: SEB

EBIT & Operating margin



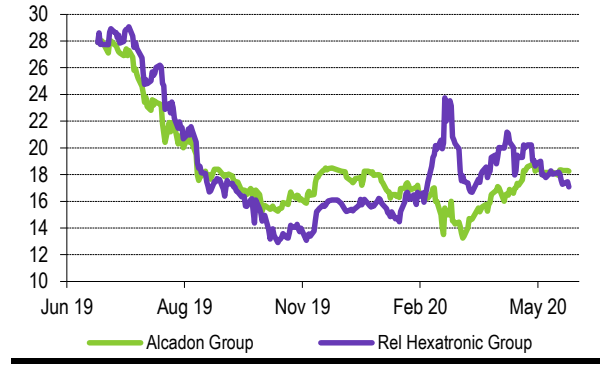
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Hexatronic Group - 1 year



Source: SIX

Profit & loss statement - Alcadon Group							
(SEKm)	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Net Sales	285	580	544	485	494	519	547
Other revenues	0	0	0	0	0	0	0
Total revenues	**285**	**580**	**544**	**485**	**494**	**519**	**547**
Total expenses	(250)	(508)	(486)	(444)	(443)	(460)	(482)
Profit before depreciation	**35**	**72**	**58**	**41**	**51**	**59**	**65**
Depreciation - Fixed assets	(0)	(1)	(1)	(10)	(10)	(10)	(10)
Depreciation - Other assets	0	0	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0	0	0
Amortisation - Other intangibles	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Operating profit	**35**	**71**	**57**	**31**	**41**	**49**	**55**
Net interest expenses	(6)	(9)	(10)	(6)	(5)	(5)	(4)
Foreign exchange items	(0)	0	(0)	0	0	0	0
Other financial items	0	0	0	(0)	(0)	(0)	(0)
Value changes - Fixed assets	0	0	0	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0
Value changes - Other assets	0	0	0	0	0	0	0
Reported pre-tax profit	**29**	**63**	**47**	**25**	**35**	**44**	**51**
Minority interests	(3)	0	0	0	0	0	0
Total taxes	(7)	(14)	(11)	(6)	(8)	(10)	(11)
Reported profit after tax	**20**	**49**	**36**	**19**	**28**	**34**	**39**
Discontinued operations	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0
Net Profit	**20**	**49**	**36**	**19**	**28**	**34**	**39**
Adjustments:							
Discontinued operations	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0
Value changes	0	0	0	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0
Other adjustments	3	0	1	2	0	0	0
Tax effect of adjustments	(1)	(0)	(0)	(0)	(0)	(0)	(0)
Adjusted profit after tax	**22**	**49**	**37**	**20**	**28**	**34**	**39**
Margins, tax & returns							
Operating margin	12.2	12.3	10.5	6.4	8.3	9.4	10.0
Pre-tax margin	10.1	10.8	8.6	5.1	7.2	8.5	9.2
Tax rate	22.6	22.7	22.8	22.4	22.4	22.4	22.4
ROE	66.0	47.5	21.4	9.5	12.5	13.8	14.3
ROCE	37.9	28.9	18.3	9.5	11.6	13.4	14.4
Growth rates y-o-y (%)							
Total revenues	n.a.	103.3	(6.2)	(10.8)	1.8	5.0	5.4
Operating profit	n.m.	105.6	(20.3)	(45.4)	32.2	19.2	11.6
Pre-tax profit	n.m.	117.0	(25.2)	(47.5)	44.0	24.2	14.6
EPS (adjusted)	0.0	105.2	(25.9)	(44.9)	35.6	24.1	14.4

Cash flow							
(SEKm)	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Net profit	20	49	36	19	28	34	39
Non-cash adjustments	(0)	14	9	9	10	10	10
Cash flow before work cap	**19**	**62**	**45**	**28**	**37**	**44**	**49**
Ch. in working capital / Other	(4)	(9)	7	8	(2)	1	(1)
Operating cash flow	**15**	**53**	**53**	**36**	**36**	**45**	**48**
Capital expenditures	(1)	(1)	(1)	(0)	(9)	(10)	(10)
Asset disposals	0	0	0	0	0	0	0
L/T financial investments	0	0	0	0	0	0	0
Acquisitions / adjustments	0	(32)	(45)	(2)	0	0	0
Free cash flow	**15**	**19**	**7**	**34**	**27**	**36**	**39**
Net loan proceeds	(20)	3	(15)	(36)	(15)	(15)	(15)
Dividend paid	0	0	(8)	(8)	0	(8)	(10)
Share issue	0	0	0	1	0	0	0
Other	26	0	0	(0)	(0)	0	0
Net change in cash	**21**	**23**	**(16)**	**(10)**	**12**	**12**	**13**
Adjustments							
C/flow bef chng in work cap	19	62	45	28	37	44	49
Adjustments	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	0
Cash earnings	19	62	45	28	37	44	49
Per share information							
Cash earnings	1.27	3.79	2.69	1.65	2.22	2.62	2.91
Operating cash flow	0.99	3.23	3.13	2.11	2.12	2.69	2.85
Free cash flow	0.95	1.18	0.39	2.01	1.58	2.11	2.29
Investment cover							
Capex/sales (%)	0.1	0.2	0.1	0.0	1.8	1.9	1.7
Capex/depreciation (%)	120	182	57	2	93	100	97

Source for all data on this page: SEB

Balance sheet - Alcadon Group							
(SEKm)	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Cash and liquid assets	21	43	28	18	29	41	55
Debtors	29	79	52	40	45	47	49
Inventories	42	60	77	75	77	78	82
Other	5	6	6	9	10	10	11
Current assets	**97**	**189**	**162**	**142**	**161**	**177**	**197**
Interest bearing fixed assets	0	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0	0
Capitalized development cost	1	1	1	1	1	1	1
Goodwill	154	225	289	289	289	289	289
Other intangibles	0	0	0	0	(0)	(0)	(0)
Fixed tangible assets	1	1	2	18	18	18	17
Other fixed assets	0	0	0	0	0	0	0
Fixed assets	**155**	**227**	**292**	**308**	**308**	**307**	**307**
Total assets	**252**	**416**	**454**	**451**	**469**	**485**	**504**
Creditors	23	72	55	53	54	56	59
Other trade financing	10	18	19	23	18	19	20
S/T interest bearing debt	0	3	21	30	28	28	28
Other	18	28	33	18	27	29	30
Current liabilities	**51**	**121**	**128**	**123**	**127**	**132**	**137**
L/T interest bearing debt	140	148	125	115	102	87	72
Other long-term liabilities	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0
Other provisions	0	2	7	5	5	5	5
Deferred tax	1	1	1	1	1	1	1
Long term liabilities	**141**	**150**	**132**	**121**	**108**	**93**	**78**
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	**60**	**145**	**195**	**207**	**234**	**260**	**289**
Total liabilities and equity	**252**	**416**	**454**	**451**	**469**	**485**	**504**
Net debt (m)	119	108	118	127	100	73	45
Working capital (m)	25	27	28	31	33	32	33
Capital employed (m)	200	295	340	351	364	375	389
Net debt/equity (%)	199	74	61	61	43	28	15
Net debt/EBITDA (x)	3.1	1.5	2.0	3.0	2.0	1.2	0.7
Equity/total assets (%)	24	35	43	46	50	54	57
Interest cover	5.9	8.1	5.7	4.9	7.5	10.1	12.9

Valuation							
(SEK)	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
No of shares, fully dil. (y/e)	15.4	16.4	16.9	16.9	16.9	16.9	16.9
No of shares, fully dil. avg.	15.4	16.4	16.9	16.9	16.9	16.9	16.9
Share price, y/e	29.0	38.4	30.0	18.3	18.3	18.3	18.3
Share price, high	32.0	43.7	55.0	33.0	18.9		
Share price, low	21.9	28.8	28.0	13.5	13.3		
Share price, avg	26.3	37.9	42.1	24.3	16.8		
EPS (reported)	1.29	2.96	2.15	1.13	1.63	2.03	2.33
EPS (adjusted)	1.44	2.96	2.20	1.21	1.64	2.04	2.33
Cash earnings/share	1.27	3.79	2.69	1.65	2.22	2.62	2.91
Dividend/share	0.00	0.50	0.50	0.00	0.50	0.60	0.70
Enterprise value/share	37	45	37	26	24	23	21
Book value/share	3.9	8.8	11.5	12.3	13.9	15.4	17.2
Adjusted equity/share	3.9	8.8	11.5	12.3	13.9	15.4	17.2
PER (adjusted)	20.1	13.0	13.7	15.1	11.1	9.0	7.8
CEM	22.9	10.1	11.2	11.1	8.2	7.0	6.3
Dividend yield	0.0	1.3	1.7	0.0	2.7	3.3	3.8
EV/EBITDA	14.8	10.2	10.6	10.2	8.0	6.5	5.5
EV/EBITA	14.9	10.3	10.8	13.3	9.9	7.8	6.4
EV/EBIT	15.0	10.3	10.8	13.3	9.9	7.8	6.4
EV/Sales (x)	1.98	1.27	1.15	0.90	0.83	0.73	0.64
Price/Book value	7.42	4.36	2.60	1.49	1.31	1.18	1.06
Price/adjusted equity	7.42	4.36	2.60	1.49	1.31	1.18	1.06
Free cash flow/Market cap (%)	3.3	8.2	10.2	11.5	8.6	11.6	12.5
Operating cash flow/EV (%)	2.7	7.2	8.4	8.2	8.7	11.9	13.7
EV/Capital employed (x)	2.8	2.5	1.8	1.2	1.1	1.0	0.9

Main shareholders			Management		Company information	
Name	**(%) Votes**	**Capital**	**Title**	**Name**	**Contact**	
Athanase Industrial Partners	16.5	16.5	COB	Pierre Fors	Internet	0.0
Anders Bladh	11.0	11.0	CEO	Sonny Mirborn	Phone number	0
Humle Fonder	6.5	6.5	CFO	Niklas Svensson		
Foreign owners (total)	6.0	6.0	IR			

Source for all data on this page: SEB

About this publication
This report is a marketing communication commissioned by Alcadon Group and prepared by Skandinaviska Enskilda Banken AB (publ). It does not constitute investment research; as such, it has not been prepared in accordance with the legal requirements to promote the independence of investment research, nor is it subject to any prohibition on dealing ahead of the dissemination of investment research.

This statement affects your rights
This report is confidential and may not be reproduced, redistributed or republished by any recipient for any purpose or to any person. Redistributing this report to third parties may invoke legal requirements on the person engaging in such activities.

Producers and Recipients
SEB Research is approved and issued by Skandinaviska Enskilda Banken AB (publ) ("SEB"), a bank organized under the laws of the Kingdom of Sweden, on behalf of itself and its affiliates for institutional investors. When SEB Research is issued by an SEB subsidiary, the subsidiary itself is subject to this disclaimer.

Use
This material has been prepared by SEB for information purposes only. It does not constitute investment advice and is being provided to you without regard to your investment objectives or circumstances. The document does not constitute an invitation or solicitation of an offer to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis for any contract or commitment whatsoever. Opinions contained in the report represent the authors' present opinion only and may be subject to change. In the event that the authors' opinion should change, we shall endeavour (but do not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within SEB, or other circumstances.

Good faith and limitations
All information, including statements of fact, contained in this research report have been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by SEB with respect to the completeness or accuracy of its contents, and it is not to be relied upon as authoritative and should not be taken in substitution for the exercise of reasoned, independent judgement by you. Recipients are urged to base their investment decisions upon such investigations as they deem necessary. To the extent permitted by applicable law, no liability whatsoever is accepted by SEB for any direct or consequential loss arising from the use of this document or its contents.

Distribution
This research report has been prepared by SEB or its affiliates and is being distributed by SEB offices in Stockholm, Copenhagen, Oslo, Helsinki, Frankfurt, London, Tallinn, Vilnius and Riga. Research reports are prepared and distributed in Lithuania by AB SEB bankas and in Estonia by AS SEB Pank in accordance with the requirements of the local laws and Financial Supervision Authority's conduct of business rules. This document may not be distributed in the United States, Canada, Japan or Australia or in any other jurisdiction where to do so would be unlawful. Addresses and Phone numbers for each office can be found at the end of the report.

The SEB Group: members, memberships and regulators
SEB is a member of, inter alia, Nasdaq OMX Nordic, Oslo Stock Exchange, the London Stock Exchange, NYSE Euronext, SIX Swiss Exchange, Frankfurt Stock Exchange, Tallinn Stock Exchange as well as certain European MTF's such as BATS-Chi-X, Turquoise and Burgundy. SEB is regulated by Finansinspektionen in Sweden and, for the conduct of investment services business, in (i) Denmark by Finanstilsynet, (ii) Norway by Finanstilsynet, (iii) Finland by Finanssivalvonta, (iv) Germany by Bundesanstalt für Finanzdienstleistungsaufsicht, (v) the UK by the Financial Conduct Authority and Prudential Regulation Authority (details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request), (vi) Estonia by the Estonian Financial Supervision Authority, (vii) Lithuania by the Bank of Lithuania, (viii) Latvia by the Financial and Capital Markets Commission and Futures Commission.

SEB's research reports are prepared in accordance with the industry standards and codes of conduct applicable to financial analysts in the countries where they are based. In Denmark, Finland, Norway and Sweden, analysts act in accordance with the rules of ethics of each country's Society of Financial Analysts. Analysts comply with the recommendations and industry standards of the Danish, Norwegian and the Swedish Securities Dealers Associations and with those of the Federation of Finnish Financial Services. Analysts certified by the CFA Institute also comply with the Code of Ethics of the CFA Institute.

Prevention and avoidance of conflicts of interest
The remuneration of staff within the Research department is determined exclusively by research management and senior management and may include discretionary awards based on the firm's total earnings, including investment banking and markets (sales and trading businesses) income; however, no such staff receive remuneration based upon specific investment banking or markets transactions. SEB's Compliance department monitors the production of research and the observance of the group's procedures designed to prevent any potential conflicts of interest from affecting the content of research; the latter are described in greater detail in the "Statement of Policies for dealing with potential conflicts of interest surrounding our Research activities" which is available on our SEB Research website.

Your attention is also drawn to the fact that:
The current market price of the securities shown in this report is the price prevailing at the close of the business day preceding the date of publication, save where such price was more than 5% different from the price prevailing as at the time of publication, in which case it is the latter.

Unless explicitly stated otherwise in this report, SEB expects (but does not undertake) to issue updates to this report following the publication of new figures or forecasts by the company covered, or upon the occurrence of other events which could potentially have a material effect on it.

The securities discussed in this research report may not be eligible for sale in all countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements.A copy of this report, not including the recommendation, has been provided to the issuer prior to its dissemination to check factual statements for accuracy; as a result, some amendments have been made.

A full list of disclosures for other companies mentioned herein (in which SEB has research coverage), can be found on our SEB Research website

Methodology
Final consideration as to any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties, and their inclusion in this report should not be regarded as a representation or warranty by or on behalf of the Group or any person or entity within the Group that they or their underlying assumptions and estimates will be met or realized. Different assumptions could result in materially different results. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities, such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Company specific disclosures and potential conflicts of interest
A member of, or an entity associated with, SEB or its affiliates, officers, directors, employees or shareholders of such members (a) is not, and has never been, represented on the board of directors or similar supervisory entity of Alcadon Group, (b) has from time to time bought or sold the securities issued by the company or options relating to the company, and (c) SEB does not hold any short / long position exceeding 0.5% of the total issued share capital of Alcadon Group as of 31 May 2020.

The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Alcadon Group and do(es) not have holdings in other instruments related to the company.

Copenhagen
Bernstorffsgade 50
P.O. Box 100
DK-1577 Copenhagen V

Telephone: (45) 3328 2828

Frankfurt
Stephanstrasse 14-16
D-60313 Frankfurt am Main

Telephone: (49) 69 9727 7740

Helsinki
Eteläesplanadi 18
P.O. Box 630
FIN-00101 Helsinki

Telephone: (358) 9 616 28700

London
One Carter Lane
London, EC4V 5AN

Telephone: (44) 20 7246 4000

Oslo
Filipstad Brygge 1,
P.O. Box 1363 Vika
NO-0113 Oslo

Telephone: (47) 2100 8500

Stockholm
Kungsträdgårdsgatan 8
S-106 40 Stockholm

Telephone: (46) 8 522 29500

Tallinn
Tornimäe 2
EE-Tallinn 15010

Telephone: (372) 665 7762