



Swedencare

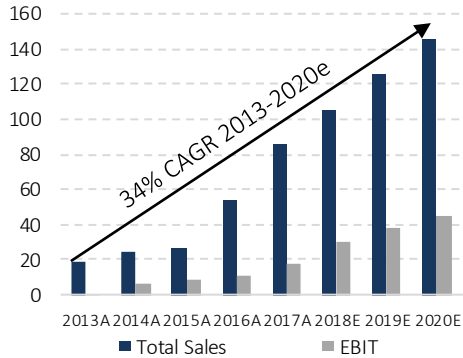
Buy, target price SEK 44

Who let the dogs out?

SWEDENCARE

Who let the dogs out?

High structural growth



Three strong trends driving the sector

Animal health care is a sector that enjoys structural growth thanks to three strong trends: (1) humanization of pets, (2) preventive care, (3) premium products.

More diversified portfolio

Swedencare has historically been very dependent on its smash hit ProDen PlaqueOff and we estimate continued high growth ahead. Furthermore, we see a more diversified product portfolio going forward.

Estimated revenue CAGR of 19% between 2017-2020e.

Source: Remium

Triggerbox

- Partnerships with food producers to implement "PlaqueOff Powder ingredient" – high gross margin
- Continued launch of new products and/or products on new markets
- Net cash position of SEK 31m, implying a great M&A-muscle
- China becoming a top 3 market in 2018 – tremendous growth ahead
- Focusing on other strong growth markets like Russia and Brazil
- IFRS from Q1 2018, thus no more depreciation of acquisitions → EBIT closing most of the gap to EBITDA

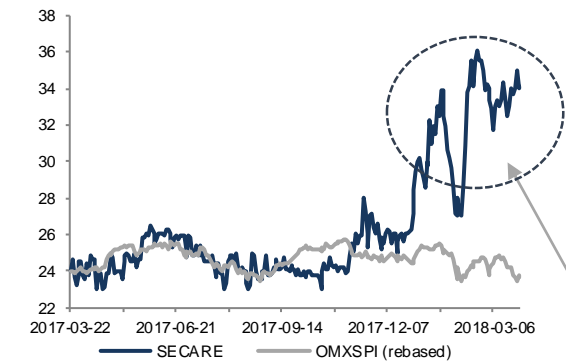
We rate Swedencare BUY with a target price of SEK 44. An additional SEK 20 is likely to crystallize if the company reach its financial targets and spend its M&A muscle.

	Multiples (x)			Yields (%)		Growth (%)			Margins (%)	
	P/E	EV/Sales	EV/EBIT	FCF	Div	Sales	EBIT	EPS	Gross	EBIT
2017A	35,1	4,8	23,4	2,8	0,0	59,1	54,1	20,9	74,6	20,4
2018E	23,1	4,7	16,2	4,5	0,0	22,7	74,6	92,3	74,0	29,0
2019E	18,3	3,8	12,6	4,5	0,0	20,2	24,6	26,1	74,3	30,1
2020E	15,6	3,1	10,2	5,9	0,0	15,6	17,1	17,4	74,4	30,5

Key data

Market Cap (SEKm)	516	1 m (%)	-3,8
Net Debt (SEKm)	-7	3 m (%)	10,8
Enterprise Value (SEKm)	509	12 m (%)	31,3
Equity Ratio (%)	73	YTD (%)	24,3
No. of shares basic (m)	16	52-W High	37,5
No. of shares diluted (m)	16	52-W Low	22,0
Free Float (%)	39	Ticker	SECARE
Avg. turnover/day (90 days) (SEKm)	0,3		

Share performance



Share performance comment: A strong Q4-report has led the stock to rally. Q1 might come in a bit soft but we're confident that FY 2018e will deliver an EPS-growth close of 100% y/y. Valuation looks attractive at EV/EBIT 10,2x 2020e.

BUY

Share price (2016-04-05), SEK	33,30
Target price	44,00
Net debt/ EBITDA (2018E)	-1,0
List	First North
Report date	2018-04-26

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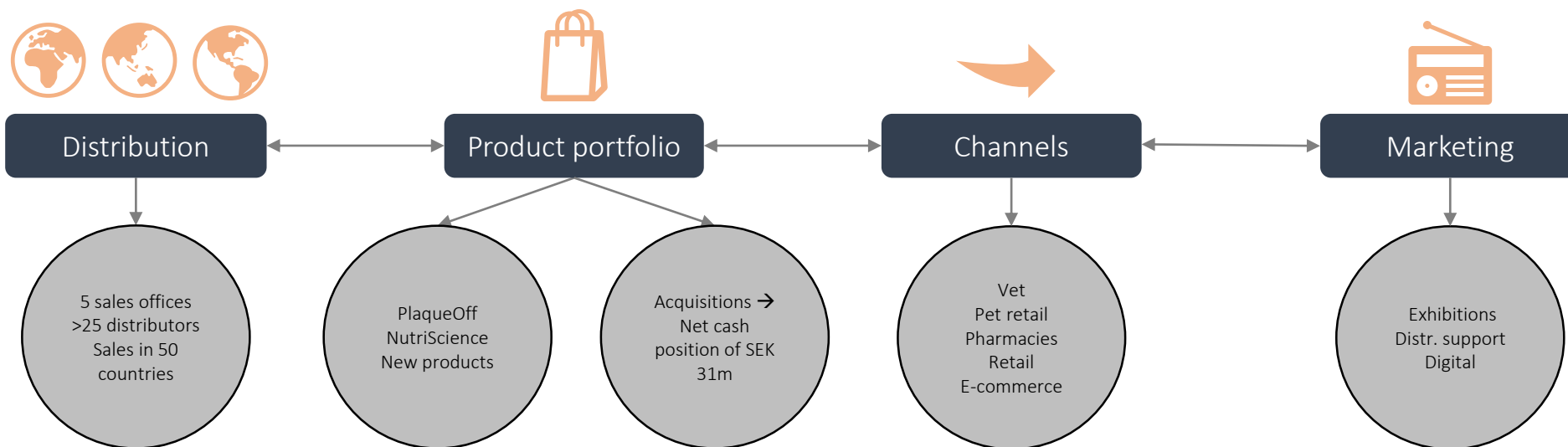
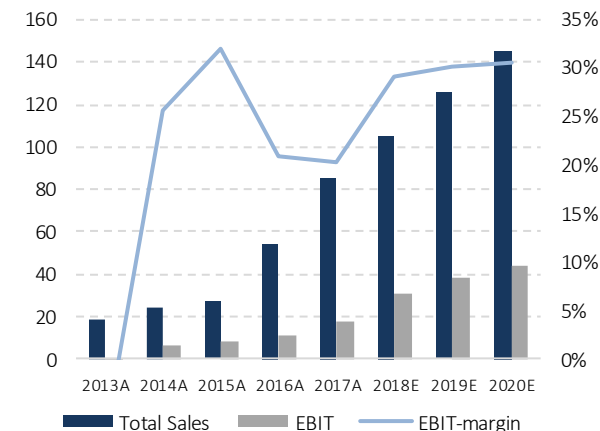
Fast growing animal health company

Swedencare is an animal health company that develops, promotes and sells OTC premium products. The company's premier product, ProDen PlaqueOff, is proprietary, patented and sold in more than 50 countries. It reduces the amount of plaque, tartar as well as problems with bad breath and the target group is cats and dogs – but there is also a product for humans.

• Huge transformation over the past years:

- Bought three of its biggest distributors in January 2016
 - Listing on First North in June 2016
 - One small acquisition (Biodistra) and one big (NutriScience)
 - Rebranding of products and launching new ones
- Around 85% of sales via direct sales and 15% from distributors
 - 47% sales CAGR since 2013 and estimated sales CAGR (2017-2020e) of 19,4%
 - **Financial target of SEK 200m in sales and an EBITDA-margin above 30% in 2020**

47% sales CAGR since 2013



Patented “recurring” revenue

The core of Swedencare's business is the PlaqueOff product family that includes: PlaqueOff Powder, Dental Bites, Dental Care Bones, Powder Ingredient and PlaqueOff Teeth and Gums. In 2006, patents for the active ingredient Ascophyllum Nodosum (an alga) were obtained in 34 countries, including the EU and the US, followed by patents for the Japanese market in 2010. The company's patent for ProDen PlaqueOff runs until September 2021. The algae is harvested along the north Norwegian Atlantic coast.

Since the products need to be used daily to get the best results, a large proportion of revenues can be seen as recurring. The proven systemic effect (effect occurs elsewhere than where applied) together with loyal consumers has led to high gross margins in the PlaqueOff product family.

The PlaqueOff family



PlaqueOff Powder for cats & dogs

- The premier product of Swedencare, accounted for 64% of revenue in 2017
- High gross margins, 80-85%, and solid growth ahead



Dental Bites for cats & dogs

- Accounted for 7% of revenue in 2017
- Conducted positive clinical studies
- High expected growth ahead and estimated gross margins of ~65%



Dental Bones

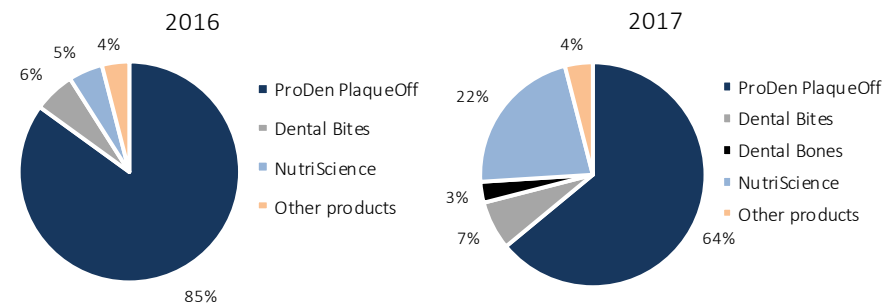
- Launched in the US in 2017 and more to come in other regions
- High expected growth



PlaqueOff Teeth and Gum (for humans)

- Launched in 1999 but is today one of the smaller contributors to sales
- Put more resources into the product during 2017 but overall development has not been satisfactory

Revenue per product 2016 vs 2017



Products from acquisitions & other



NutriScience for cats & dogs

- With the acquisition of Ecuphar Ltd came a group of products within joints and mobility, skin and coat, multivitamin supplement and calming supplement.
- Lower gross margin



NutriScience for horses

- Supplements to help with joint mobility, ulcers, digestive health, muscle repair, conditioning and calming.



Stomax and Glucosamin

- Swedencare got the products with the acquisition of Biodistra.
- Glucosamin is a product for joints and mobility while Stomax re-instate the balance and healthy bacteria flora in the pet stomach.



Easypill

- The product is a palatable mass to ease the administration of pills in pets. Its hidden inside to be spontaneously eaten like a treat by the pet.

Structural market trends favour Swedencare

Trends in the pet market are mainly driven by developments in the North American market, and the three strongest trends are:

- (1) humanization of pets
- (2) preventive care
- (3) premium products

Dental disease – the number one disease in cats and dogs

According to Packaged Facts data, the chews and treats market in the US made up around USD 6.4bn in 2017, with a 25% market share for dental chews and treats. Swedencare is mainly aiming for cats and dogs and dental disease is the number one disease in cats and dogs, affecting 68% of cats and 76% of dogs. Around 84% of all pet oral care products are dental chews and treats, thus implying a great opportunity for products that actually have efficiency – like PlaqueOff. While brushing the pets’ teeth is the best way, only 20% of dog owners and 11% of cat owners are doing it according to Packaged Facts.

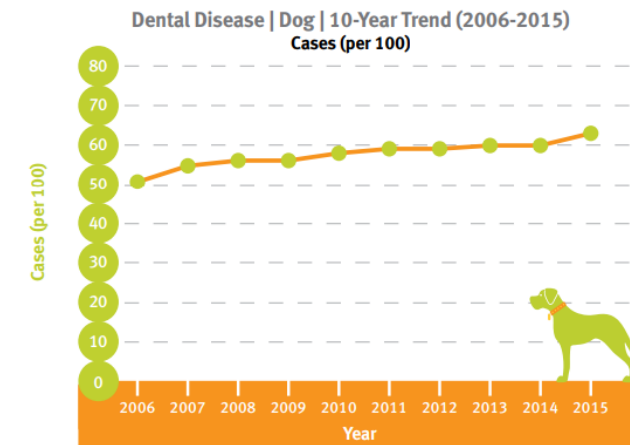
Several clinical studies give marketing strength

Over the years, Swedencare has completed several studies on PlaqueOff in its powder form. With the launch of its Dental Bites, new studies had to be made to give important marketing and veterinary support. In Q3 (17), Swedencare announced that they received the Veterinary Oral Health Council (VOHC) stamp. The clinical studies showed that the mean decrease of plaque index was 40% and the mean decrease of dental decay was 38% after use of the product with the active ingredient for one month in comparison with the placebo group. Several veterinaries in the US, but also in other parts of the world only recommend and offer oral health products labeled and accepted by the VOHC. Thus, a larger market opened up, and we believe that Dental Bites will have a strong performance going forward.

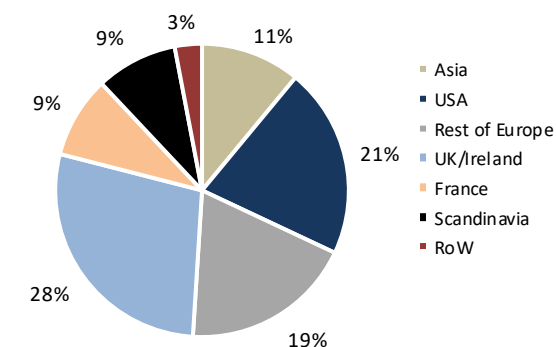
Solid US market and tremendous growth in emerging markets

The mature markets (North America, Western Europe) is set for a continued premiumization and the overall pet care market growth is expected to be a bit less than 3% CAGR through 2022. However, we believe niched products like PlaqueOff is going to stand for the bulk of the growth, implying a much higher CAGR. On the other hand, emerging markets are seeing tremendous growth for the very same reasons. Currently, the Asia-Pacific pet care market is outpacing every other regional pet care market for growth, according to Euromonitor, and that trend is expected to continue through at least 2022.

Positive outlook for PlaqueOff



Geographical sales, 2017 (%)



Pet food markets give guidance of what to come

The US is dominating the Pet industry with a 42% market share of global pet care sales in 2017. Since 2012 its market share has only fallen 2 percentage points, due to its size but also healthy growth rate.

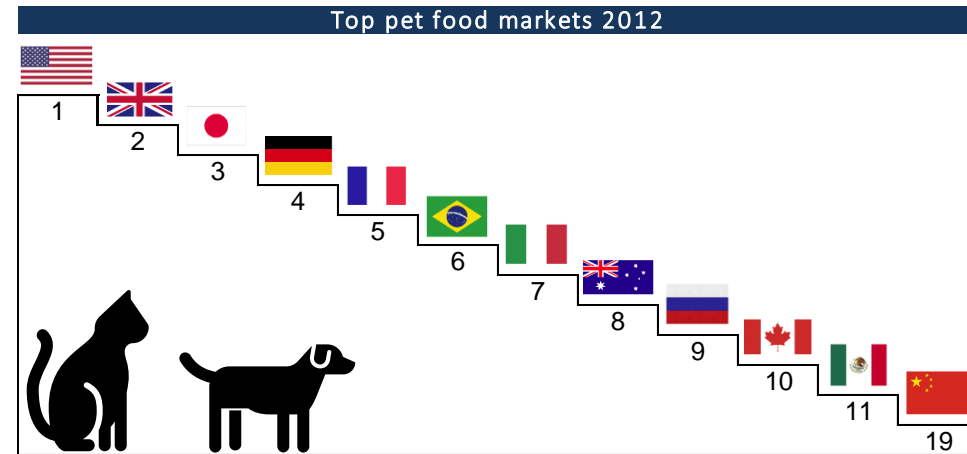
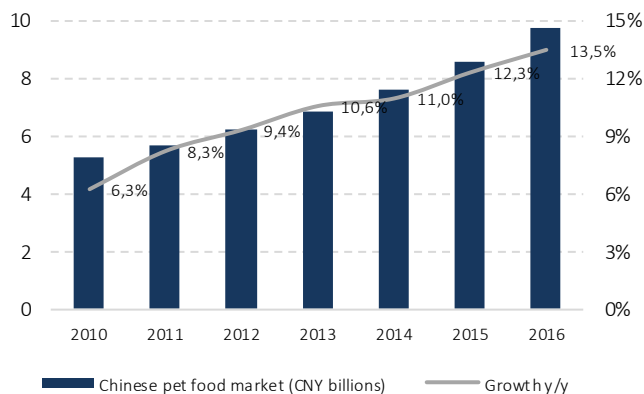
When looking at pet food, the rising stars are undoubtedly Brazil, Russia and China, which have climbed to claim spot number 2, 7 and 12 respectively.

Swedencares' most important market is the US, and that's where they historically have launched new products first (for example Dental bones).

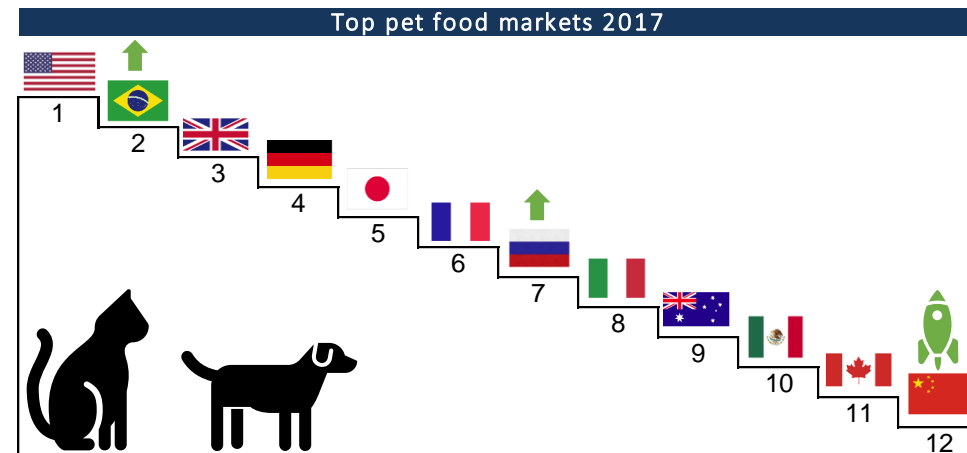
Other important markets for Swedencare include United Kingdom, France and last but not least – the Asia region. Japan, South Korea and China have quickly become key markets for further growth initiatives and management is also highlighting Australia, Brazil and Russia as possible markets for growth ahead.

- *We believe that China will be a top 3 market for Swedencare in 2018, implying a regional growth of over 80% y/y.*

Exponential growth in China



The fast rise of Brazil, Russia and China, provide one strong growth driver



SWEDENCARE – Peer valuation

Remium Equity Research

Company	FX	Stock price	EV	P/E (x)			EV/EBIT (x)			Sales Growth (%)			Gross-margin (%)			Adj EBIT-margin (%)			Net debt/EBITDA (x)
				2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	
Zoetis Inc.	USD	84	43596	27,7	24,7	22,3	21,0	17,7	16,4	7,4	5,4	5,2	67,9	68,7	69,1	36,3	37,7	38,8	1,4
Dechra Pharmaceuticals plc	GBP	28	2833	36,4	30,8	27,1	28,1	21,0	18,8	12,0	11,8	8,4	55,7	56,7	57,2	24,7	27,2	27,7	1,9
Phibro Animal Health Corporation	USD	41	1857	24,0	21,8	20,1	17,4	13,8	12,9	5,7	3,6	3,2	0,0	0,0	0,0	13,2	13,5	14,2	1,9
BioGaia AB	SEK	402	7083	35,0	31,2	28,4	27,6	24,0	20,7	10,6	9,7	9,5	74,6	74,3	74,1	37,3	37,7	37,8	-1,3
Chr. Hansen Holding A/S	DKK	515	74804	40,0	35,1	31,2	31,1	23,1	20,9	4,9	8,5	8,4	54,0	54,7	55,2	28,9	30,1	30,7	1,6
Swedencare	SEK	33	518	23,1	18,3	15,6	15,8	12,3	10,1	22,7	20,2	15,6	74,0	74,3	74,4	29,0	30,1	30,5	-1,0
<i>Mean</i>				31,0	27,0	24,1	23,5	18,7	16,6	10,6	9,9	8,4	54,4	54,8	55,0	28,2	29,4	29,9	0,8
<i>Median</i>				31,4	27,7	24,7	24,3	19,3	17,6	9,0	9,1	8,4	61,8	62,7	63,2	29,0	30,1	30,6	1,5
<i>Swedencare vs mean</i>				-26%	-32%	-35%	-33%	-34%	-39%	12,1	10,3	7,2	19,7	19,5	19,4	0,8	0,7	0,6	-1,7
<i>Swedencare vs median</i>				-26%	-34%	-37%	-35%	-36%	-43%	13,7	11,1	7,2	12,3	11,6	11,2	0,1	0,0	-0,1	-2,5

Almost 40% discount despite better characteristics

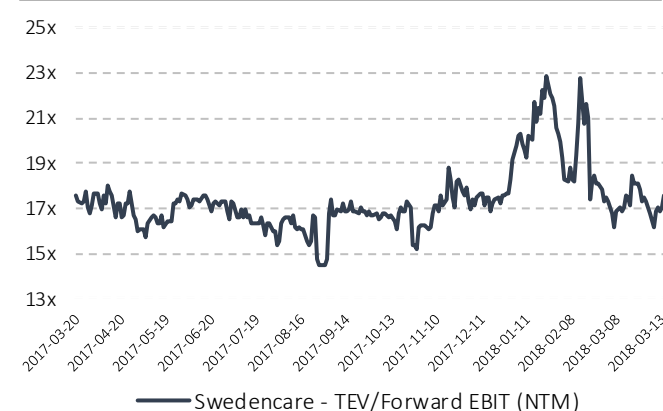
Swedencare is by far the smallest company in our peer valuation table, which obviously should lead to a discount. The chosen peers are either animal health care companies or have, as in the case of BioGaia and Christian Hansen, similar margin structure with products for consumers.

At current stock price, Swedencare is trading at EV/EBIT 10,1x 2020e, implying a discount of 39% compared to peers. We find the valuation attractive since Swedencare has the characteristics of a company that further down the road deserves much higher multiples. The highest expected sales growth among peers and gross margins above 70% to support high EBIT-margins are among its best features.

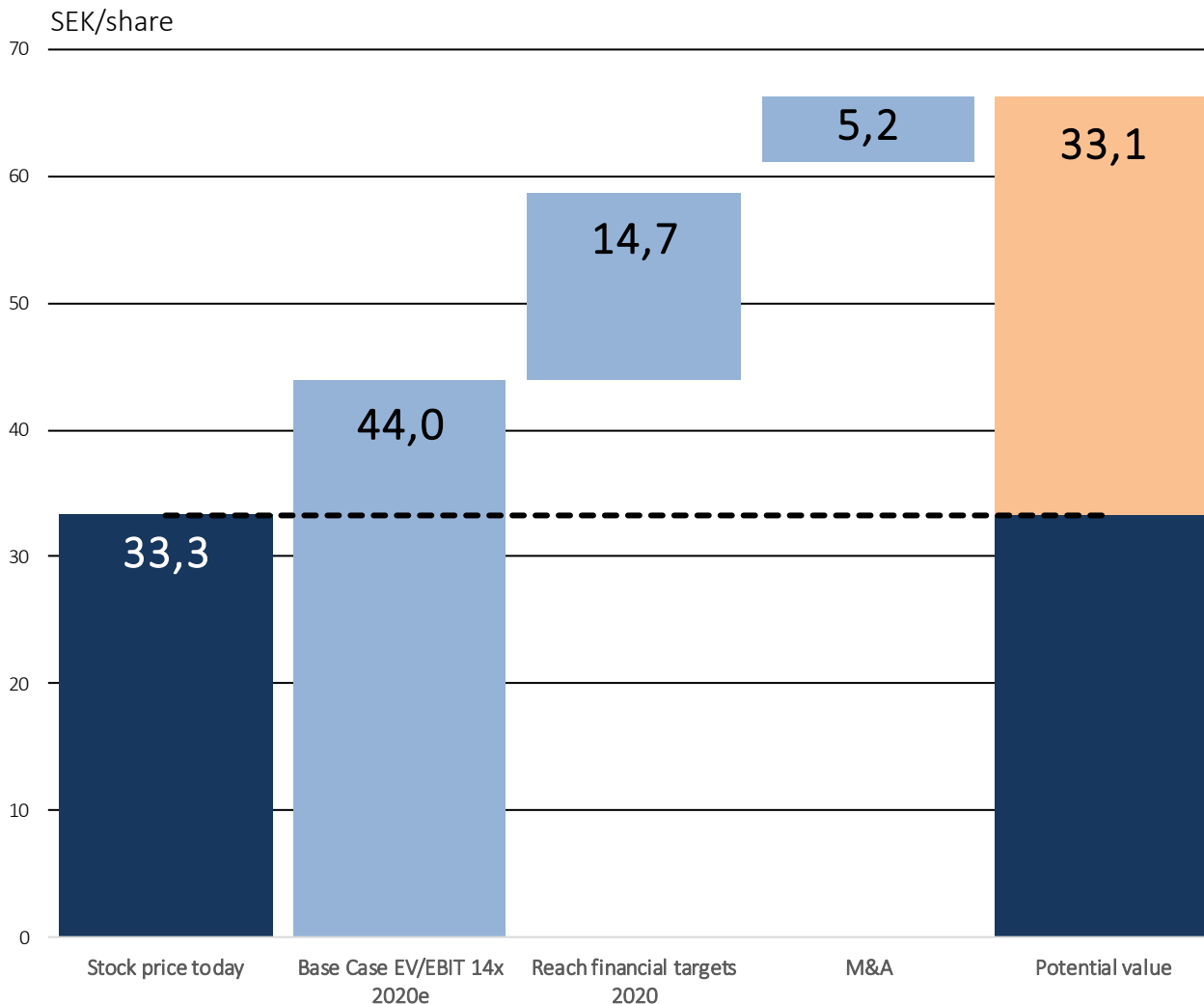
We estimate a 92% EPS increase during 2018e and we believe that the market has yet to acknowledge this. Around 30% of the EPS-gain comes from the switch to IFRS.

We see further gain even though the stock already has begun to move after a solid Q4. However, we fear that Q1 might come in a bit soft, thus creating a buying opportunity for the coming 12-24 months.

Trading in line with historical valuation



SWEDENCARE



Value gap indicates a substantial upside

Potential: 32%
Value Gap: 99%

Base Case:

Swedencare valued at 14x EV/EBIT 2020e, 16% discount to peers.

Reach financial targets:

The company reaches their financial targets of SEK 200m in sales and EBITDA margin above 30% by 2020 at base case valuation (14x).

M&A

M&A muscle of SEK 40m in sales and SEK 8m in EBITDA. Multiple of 10x EBITDA which is in line with the acquisition of NutriScience.

Major shareholders

#	Shareholder	%	SEKm	Country	Verified
1	Håkan Svanberg & Co Health care AB	32,2%	170	Sweden	2018-03-31
2	Mastan AB (CEO)	13,3%	70	Sweden	2018-03-31
3	JCC Group Invest Sweden	13,3%	70	Sweden	2018-03-31
4	Staffan Persson	5,1%	27	Sweden	2018-03-31
5	AMF Försäkring & Fonder	4,8%	25	Sweden	2018-03-31
6	Aktia Nordic Micro Cap Fund	3,3%	17	Finland	2018-03-31
7	Handelsbanken Fonder	3,2%	17	Sweden	2018-03-31
8	Avanza Pension	2,0%	11	Sweden	2018-03-31
9	Nordnet Pension	2,0%	11	Sweden	2018-03-31
10	Martin Shimko (CEO Swedencare USA)	1,9%	10	USA	2018-03-31

CEO bought shares lately

Insider	Position	#	Share price	Date
Håkan Lagerberg	CEO	3 010	26,2	2017-12-08
Håkan Svanberg & co Health Care AB	Board of Directors	-100 000	25,0	2017-07-07
Jcc Group Invest Sweden AB	Board of Directors	-100 000	25,0	2017-07-07
Mastan AB	CEO	-100 000	25,0	2017-07-07
Jcc Group Invest Sweden AB	Board of Directors	-100 000	25,0	2017-06-20
Jcc Group Invest Sweden AB	Board of Directors	-150 000	25,0	2017-06-19
Håkan Svanberg & co Health Care AB	Board of Directors	-225 000	25,0	2017-06-16
Jcc Group Invest Sweden AB	Board of Directors	-100 000	25,0	2017-06-16
Mastan AB	CEO	-350 000	25,0	2017-06-16

- **Håkan Svanberg** → Founder and owner of the IT-company K3 Nordic and currently owns a few other unlisted companies.
- **JCC Group Invest (Johan Bergdahl)** → Entrepreneur and owner of several companies in retail, IT and real estate.
- **Mastan AB** → CEO Håkan Lagerberg.
- **Staffan Persson** → Financial entrepreneur with large holdings in SyntheticMR, PledPharma and Oscar Properties to mention a few.
- **Institutions** → AMF in connection with the IPO. Aktia and Handelsbanken later on.

Large insider ownership

Management	Position	Shares	Options	Employee since
Håkan Lagerberg	CEO/Board of directors	2 105 362	-	2014
Jenny Graflind	CFO	0	40 000	2017
Martin Shimko	CEO USA	302 364	-	2016
Hans Persson	CEO France	199 750	-	2016
John Leonard	CEO UK/Ireland	68 190	40 000	2016

Board	Position	Shares	Options	MoB since
Per Malmström	Chairman	120 000	-	2014
Håkan Lagerberg	Member	2 105 362	-	2014
Johan Bergdahl	Member	2 102 352	-	2014
Thomas Eklund	Member	190 000	-	2016
Håkan Svanberg	Member	5 070 982	-	2014

PROFIT & LOSS

SEKm	1Q17A	2Q17A	3Q17A	4Q17A	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016A	2017A	2018E	2019E	2020E
Sales	22,9	18,3	21,6	22,8	22,1	25,0	28,2	29,7	27,2	54,2	85,7	105	126	146
COGS	-6,2	-4,8	-5,1	-5,9	-5,9	-6,8	-7,1	-7,5	-8,8	-11,6	-21,9	-27,2	-32,4	-37,4
Gross profit	16,7	13,6	16,5	17,0	16,2	18,2	21,1	22,2	18,4	42,5	63,7	77,7	93,7	108
Personel costs	-4,9	-5,5	-5,1	-6,2	-5,7	-5,7	-5,6	-6,3	-3,2	-13,9	-21,7	-23,2	-26,5	-30,3
Other external costs	-4,6	-4,7	-5,2	-4,0	-5,1	-5,4	-6,3	-6,4	-6,4	-14,6	-18,5	-23,2	-28,4	-32,8
EBITDA	7,2	3,4	6,2	6,8	5,4	7,2	9,1	9,5	8,8	13,7	23,5	31,3	38,8	45,3
Depreciations	-1,4	-1,5	-1,5	-1,7	-0,2	-0,2	-0,2	-0,2	-0,1	-2,4	-6,1	-0,8	-0,8	-0,8
EBIT	5,7	1,9	4,7	5,1	5,3	7,0	8,9	9,3	8,7	11,3	17,5	30,5	38,0	44,5
Net financial items	-0,3	-0,5	-0,5	0,1	-0,2	-0,2	-0,1	-0,1	0,0	0,5	-1,2	-0,6	-0,3	-0,2
EBT	5,5	1,4	4,2	5,1	5,1	6,8	8,8	9,2	8,7	11,9	16,2	29,9	37,7	44,3
Taxes	-1,6	-0,5	-1,0	-1,3	-1,2	-1,6	-2,1	-2,2	-1,9	-2,1	-4,4	-7,2	-9,1	-10,6
Net profit	3,9	0,8	3,2	3,8	3,9	5,2	6,7	7,0	6,7	9,8	11,8	22,7	28,7	33,7
EPS basic (SEK)	0,25	0,05	0,20	0,24	0,24	0,33	0,42	0,45	N/A	0,62	0,75	1,44	1,82	2,13
EPS diluted (SEK)	0,25	0,05	0,20	0,24	0,24	0,33	0,42	0,45	N/A	0,62	0,75	1,44	1,82	2,13
Revenue growth Q/Q	49%	-20%	18%	5%	-2%	13%	13%	6%	N/A	N/A	N/A	N/A	N/A	N/A
Revenue growth Y/Y	67%	65%	61%	47%	-3%	36%	30%	31%	11%	100%	59%	23%	20%	16%
EPS growth Y/Y	-10%	-55%	-3%	530%	-1%	509%	111%	83%	nmf	nmf	21%	92%	26%	17%
Gross margin	73,0%	74,1%	76,3%	74,9%	73,4%	72,9%	74,9%	74,7%	68,5%	79,1%	74,6%	74,0%	74,3%	74,4%
Adj EBITDA margin	31,4%	18,3%	28,7%	30,0%	24,7%	28,7%	32,4%	32,1%	32,8%	25,6%	27,5%	29,8%	30,8%	31,1%
Adj EBIT margin	25,1%	10,2%	21,8%	22,6%	23,8%	27,9%	31,7%	31,5%	32,4%	21,1%	20,4%	29,0%	30,1%	30,5%

- Good time to buy the share. During Q2 (18e) to Q4 (18e), EPS is expected to increase by 145% y/y.

- For 2018e, we expect EPS to grow by around 92% y/y.

BALANCE SHEET

SEKm	1Q17A	2Q17A	3Q17A	4Q17A	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016A	2017A	2018E	2019E	2020E
Intangible Assets	0,8	0,8	0,7	0,5	0,5	0,5	0,5	0,5	0,9	0,7	0,5	0,5	0,5	0,5
Goodwill	48,6	47,3	46,0	44,7	44,7	44,7	44,7	44,7	0,0	49,9	44,7	44,7	44,7	44,7
Tangible Assets	1,1	1,4	1,3	3,0	3,1	3,1	3,2	3,3	0,0	1,0	3,0	3,3	3,5	3,6
Financial Assets	0,0	0,8	0,7	0,6	0,6	0,6	0,6	0,6	0,8	0,7	0,6	0,6	0,6	0,6
Total Fixed Assets	50,5	50,2	48,7	48,9	48,9	48,9	49,0	49,1	1,8	52,3	48,9	49,1	49,3	49,4
Inventory	7,2	8,5	9,6	8,2	7,4	10,4	11,7	12,4	1,7	7,4	8,2	12,4	15,8	18,2
Non-Cash Current Assets	17,4	12,5	14,5	13,5	14,4	13,7	14,9	14,9	11,8	9,6	13,5	14,9	17,7	20,4
Cash & Cash Equivalents	19,4	21,1	22,0	24,1	27,9	31,2	32,7	39,9	3,3	20,5	24,1	39,9	55,7	78,7
Total Current Assets	43,9	42,1	46,1	45,8	49,6	55,3	59,4	67,1	16,9	37,5	45,8	67,1	89,2	117
<i>Total Assets</i>	<i>95,0</i>	<i>92,4</i>	<i>94,8</i>	<i>94,7</i>	<i>98,5</i>	<i>104</i>	<i>108</i>	<i>116</i>	<i>18,6</i>	<i>89,8</i>	<i>94,7</i>	<i>116</i>	<i>138</i>	<i>167</i>
Shareholders Equity	60,7	61,6	64,6	69,0	72,9	78,0	84,7	91,8	13,2	56,7	69,0	91,8	112	138
Interest Bearing Debt	23,2	21,2	21,0	17,0	15,0	13,0	11,0	9,0	0,0	25,0	17,0	9,0	9,0	9,0
Current Liabilities	11,1	9,5	9,2	8,6	10,6	13,2	12,7	15,4	5,5	8,1	8,6	15,4	17,0	19,7
Total Liabilities & Equity	95,0	92,4	94,8	94,7	98,5	104	108	116	18,6	89,8	94,7	116	138	167

CASH FLOW

SEKm	1Q17A	2Q17A	3Q17A	4Q17A	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016A	2017A	2018E	2019E	2020E
CF excl. change in W.Cap.	6,6	2,3	4,3	3,0	4,1	5,4	6,9	7,2	7,7	11,4	16,0	23,5	29,5	34,5
Change in W.Cap.	-7,4	2,0	-3,0	3,3	2,0	0,2	-3,1	2,2	-3,9	-9,5	-3,5	1,3	-4,6	-2,6
CF from Operations	-0,9	4,2	1,3	6,2	6,0	5,6	3,8	9,4	3,8	1,9	12,5	24,8	24,9	31,9
CF from Investment Activities	-0,3	-0,5	0,0	-0,2	-0,2	-0,2	-0,3	-0,3	-1,8	-36,2	-1,0	-1,0	-1,0	-1,0
Free Cash Flow	-1,2	3,8	1,3	6,0	5,8	5,4	3,5	9,1	2,0	-34,3	11,5	23,8	23,9	30,9
CF from Financing Activities	0,0	-2,0	-0,2	-4,0	-2,0	-2,0	-2,0	-2,0	-1,5	51,4	-8,0	-8,0	-8,0	-8,0
Net Cash Flow	-1,2	1,7	1,0	2,0	3,8	3,4	1,5	7,1	0,5	17,1	3,5	15,8	15,9	22,9

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