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BTS Group

Easy comparables for Q3 – BTS preview

Markets in Europe remain challenging...

We forecast Q3(24) turnover of SEK677m, representing growth of 6.8% Y/Y. The key driver is BTS North America, which we believe has seen growth of 10.0% Y/Y. We expect the markets in Europe will remain challenging and estimate a decrease from these of 5.0% Y/Y. Together this suggests a recovery from Q2(24), when turnover from Europe was down 23.0% Y/Y. We forecast EBITA of SEK 97m, suggesting a margin of 14.1%, which would be somewhat lower than in Q2(24) but 5.6 percentage points higher than in Q3(23).

...prompting slight estimate changes...

Based on the ongoing hurdles in European markets, we trim our sales estimates by an average of 0.4% for our forecast period. Given the lower turnover, we take down EBITDA estimates by an average of 0.8% for the forecast period.

...but the share is in an interesting position

Despite these minimal estimate changes, we see the share in an interesting position, as Q3(23) was weak, making comparables easier. Moreover, we believe it likely that the company will use this quarterly report to reiterate its guidance for a better 2024 than 2023. The share currently trades at an EV/EBITDA of 10.5x (NTM), which is an 8.3% discount to its average valuation over the past seven years. Given the company's initiatives to improve profitability through various AI applications and as one of its most recent completed acquisitions has the potential to provide considerably higher margins versus the rest of the group, we see potential for margins to expand. We thus leave our fair value unchanged at SEK340–390.

Change in estimates				Forecasts (SEKm)				Value and risk			
	24e	25e	26e	2023	2024e	2025e	2026e	Fair value	SEK340 - 390		
Total Revenues	-0.4%	-0.4%	-0.4%	2,683	2,883	3,256	3,562	Share price	SEK284		
EBITDA, adj.	-0.4%	-0.7%	-0.9%	Revenue growth	6%	7%	13%	9%	Risk level	Medium	
EPS, adj.	-0.7%	-0.9%	-1.2%	EBITDA, adj.	422	465	523	551	Price performance 12 months		
Upcoming events				EBIT, adj.	288	335	393	421			
Q3 - report	08 November 2024			EPS, adj.	11.1	11.1	13.6	14.5			
Q4 - report	26 February 2025			EPS growth, adj.	8%	0%	22%	7%			
Company facts (SEKm)				Dividend per share	5.7	6.5	6.8	7.0			
Number of shares	19m			EBIT margin	10.7%	11.6%	12.1%	11.8%			
Market capitalisation	5,502			ROE, adj.	17.0%	15.7%	17.5%	17.1%			
Net debt	-76			ROCE, adj.	17.7%	18.5%	18.7%	18.7%			
EV	5,426			EV/Sales	2.1x	1.9x	1.7x	1.5x			
Free float	81%			EV/EBITDA	13.4x	11.7x	10.4x	9.9x			
Daily trading volume, average	8k			EV/EBIT	19.6x	16.2x	13.8x	12.9x			
Bloomberg Ticker	BTSB SS EQUITY			P/E, adj.	26.8x	25.6x	20.9x	19.5x	Conflicts of interest		
Analyst				P/BV	Neg.	Neg.	Neg.	Neg.		Yes	No
Rikard Engberg				Dividend yield	1.9%	2.3%	2.4%	2.5%	Liquidity provider		✓
rikard.engberg@carnegie.se				FCF yield	1%	4%	5%	5%	Certified adviser		✓
									Transactions 12m		✓

Investment case

BTS is the market leader in simulation and implementation of business strategies. Since its listing in 2001, the company has increased its turnover by some 12% a year, adjusted for currency, and its EBITA by 15% annually. This outstrips the management consulting industry as a whole at 6–8% over the same period. We believe this is explained by three factors:

- 1) BTS has built an impressively loyal client base over the years, with some 80% of revenues now stemming from previous customers. This has led the company to successful and maintained growth in profitability even in turbulent times, distinguishing BTS from other listed consulting firms.
- 2) It has succeeded when complementing its business with acquisitions.
- 3) Historically, it has shown especially high employee satisfaction – thanks to an entrepreneurial, results-oriented, and robust culture that brings engagement. This is an essential element in sustaining high growth.

Company profile

BTS, a consultancy firm within strategy implementation, has, since its IPO in 2001, shown an impressive performance in both turnover and profits. The company's principal product is training programmes (64% of 2023 turnover). These programmes simulate strategies and decision-making for much of an organisation. One example is a project for a software industry client that was rolled out in Q4(22), allowing 30,000 salespeople to participate in a simulation programme. During the pandemic, BTS was able to reorganise its deliveries from a focus on physical products to virtual and digital services, confirming the company's strong culture and its ability to adapt. Beyond its high organic growth, BTS has also proven its ability to implement change.

Over the past ten years, BTS has reported ROE of 17% on average – among the highest of the consultancy firms we have looked at listed on the Stockholm stock exchange. In addition to having one of the highest ROEs among the companies we cover, it also boasts the lowest volatility in ROE, which we believe justifies a premium over other Swedish consulting companies. We believe its low ROE volatility can be attributed to its services being sought after in most economic climates and as it relies on repeat customers that, in times of crisis, invest in simulations and implementation of new strategies.

BTS is a global company with around 1,100 employees. Its key market is North America, accounting for around 50% of turnover in 2023. Europe accounted for 18% of turnover and Other Markets for 27%. This global presence is a consequence of the smaller acquisitions BTS carried out in the years before its IPO. We believe its geographical coverage also contributes to the low volatility in its turnover and profits.

Valuation

Given the stable cash flows in BTS, we have chosen to value the share using a DCF model. Our DCF gives a valuation of SEK340–390. We believe the key share price catalysts, beyond the continued increase in margins, will be new, smaller acquisitions that bolster organic growth and the initiated action programmes that are now having an effect on the margin.

Estimates and estimate changes

Quarterly estimates for current year

	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24e	Q4'24e
Sales BTS North America	291	340	315	378	317	385	347	416
Sales BTS Europe	105	135	104	125	103	104	99	128
Sales BTS other markets	152	186	176	218	162	200	188	262
APG	31	42	39	47	37	40	44	53
Total Sales	579	703	634	768	619	729	677	858
Total Costs	-513	-580	-562	-606	-539	-605	-564	-710
depreciation PPE	-18	-17	-18	-23	-21	-14	-18	-18
Amortization	-11	-14	-16	-17	-15	-16	-14	-14
EBIT	37	92	38	122	43	94	81	116
Net Financials	-4	-5	-8	-7	21	-6	-6	0
Affiliated companies	0	0	28	28	0	0	0	0
Profit Before Tax	33	88	59	144	64	88	75	116
Tax	-10	-27	-10	-33	-11	-26	-23	-33
Profit After Tax	22	61	49	110	53	62	53	83
Growth North America y/y	5%	8%	2%	7%	9%	13%	10%	10%
Growth Europe y/y	18%	4%	4%	-11%	-2%	-23%	-5%	2%
Growth other Markets y/y	22%	8%	5%	12%	6%	8%	7%	20%
Growth APG y/y	-6%	-7%	-7%	31%	19%	-5%	12%	12%
EBITA	48	106	54	139	59	110	95	130
EBITA-margin	8%	15%	9%	18%	9%	15%	14%	15%
EBIT-margin	6%	13%	6%	16%	7%	13%	12%	14%
EPS	1.1	3.1	2.5	5.7	2.8	3.2	2.7	4.3
EPS Growth y/y	-23%	-8%	37%	64%	140%	2%	8%	-25%

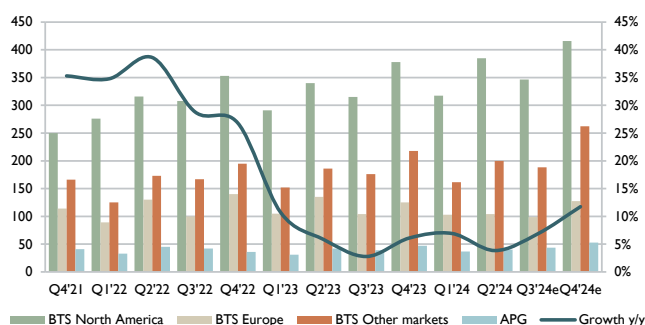
Estimate changes

Estimates changes

	New estimates			Old estimates		
	2024e	2025e	2026e	2024e	2025e	2026e
Net Sales	2 883	3 256	3 562	2 895	3 269	3 577
Operating Expenses	-2 418	-2 732	-3 012	-2 428	-2 742	-3 022
depreciation PPE	-71	-80	-80	-71	-80	-80
Amortization of intangible assets	-59	-50	-50	-59	-50	-50
EBIT	335	393	421	337	397	426
Net Financials	-27	-18	-18	-27	-18	-18
Profit Before Tax	308	375	403	310	379	408
Tax	-93	-113	-121	-94	-114	-122
Profit After Tax	215	263	282	216	265	285
EPS	12.6	13.6	14.5	12.6	13.7	14.7
EBITA	394	443	471	396	447	476
Changes in estimates %						
Revenue	-0.4%	-0.4%	-0.4%			
EBITA	-0.5%	-0.8%	-1.0%			
EPS	-2.8%	-0.9%	-1.2%			

Quarterly performance

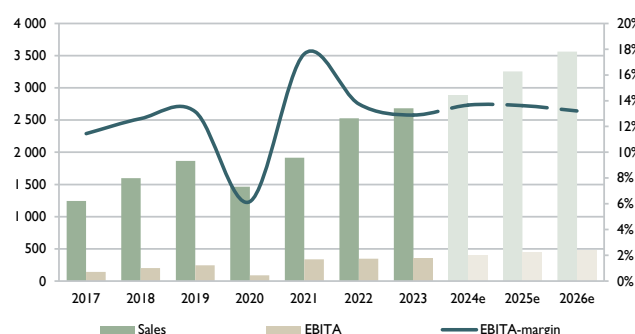
Segments SEKm



Source: Penser by Carnegie

Estimates Y/Y

Sales and EBITA (SEKm)



Source: Penser by Carnegie

Valuation

DCF

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	2 737	Risk free nominal rate	2.5%	Long term growth rate	2.0%
PV of terminal value (perpetuity formula)	4 355	Risk premium	5.0%	Long term EBIT margin	15.5%
Enterprise value	6 676	Small cap premium	0.0%	Depreciation (% of sales)	5.0%
Latest net debt	-76	Extra risk premium	1.5%	Capex (% of sales)	4.0%
Minority interests & other	0	Cost of equity	9.0%	Working cap. (% of sales)	5.0%
Equity value	7 168			Tax rate	22.0%
No. of shares outstanding (millions)	19			Terminal value % of EV	65.2%
Equity value per share	370				

Source: Penser by Carnegie

Sensitivity table

Sensitivity analysis													
WACC	Long-term growth rate					WACC	Long-term EBIT margin						
	1.0%	1.5%	2.0%	2.5%	3.0%		12%	13%	15%	15%	16%		
8.0%	391	415	444	478	518	8.0%	376	398	444	444	467		
8.5%	360	380	404	432	465	8.5%	343	363	404	404	424		
9.0%	332	350	370	393	420	9.0%	315	333	370	370	388		
9.5%	309	324	341	360	383	9.5%	291	308	341	341	357		
10.0%	287	300	315	332	351	10.0%	270	285	315	315	330		

Source: Penser by Carnegie

Peer group

Valuation	MCAP	EV	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
	(sek)	(sek)	LTM	2025	2026	LTM	2025	2026	LTM	2025	2026	LTM	2025	2026
Mind Gym	286	295	0.48x	-	-	-	-	-	-	-	-	nm	-	-
Korn Ferry	39 075	38 022	1.33x	1.29x	1.19x	8.94	7.57	6.89	11.2x	9.1x	8.1x	20.7x	13.5x	11.9x
Heidrick & Struggles Intl	7 808	5 682	0.51x	0.50x	-	4.61	5.31	-	5.7x	6.9x	-	19.9x	13.6x	-
Accenture	2 315 677	2 314 156	3.44x	3.23x	3.04x	18.05	16.69	15.62	21.9x	20.6x	19.2x	31.2x	27.8x	25.5x
Capgemini	360 879	399 932	1.58x	1.53x	1.43x	10.87	9.30	8.77	13.8x	11.1x	10.2x	18.6x	14.5x	13.2x
Nordic Peers														
Knowit AB	4 018	4 937	0.72x	0.72x	0.68x	8.23	6.89	6.10	19.3x	11.9x	10.1x	nm	13.8x	11.2x
NNIT A/S	4 682	5 220	1.98x	1.59x	1.45x	23.78	11.60	9.73	29.5x	13.5x	11.1x	-	15.9x	12.9x
Netcompany Group	22 845	25 807	2.69x	2.30x	2.08x	17.28	12.28	10.85	25.3x	15.6x	13.5x	41.2x	18.9x	15.1x
Sweco AB Class B	63 106	68 798	2.30x	2.12x	2.02x	17.19	16.65	15.71	26.7x	21.2x	19.0x	35.0x	26.7x	23.3x
Bouvet ASA	6 794	6 800	1.85x	1.61x	1.48x	12.26	10.81	10.46	15.3x	13.4x	12.6x	19.4x	17.3x	16.1x
AFRY AB Class B	20 623	26 533	0.97x	0.92x	0.87x	9.62	8.25	7.45	14.2x	11.4x	10.0x	17.3x	12.1x	10.5x
BTS Group AB Class B	5 567	5 491	2.00x	1.71x	1.57x	12.55	10.37	9.48	18.4x	13.9x	12.3x	22.7x	20.9x	18.5x
Mean			1.66x	1.59x	1.58x	13.03	10.52	10.11	18.3x	13.5x	12.6x	25.1x	17.7x	15.8x
Median			1.72x	1.59x	1.47x	12.26	10.37	9.60	18.4x	13.4x	11.7x	20.7x	15.9x	14.2x

Source: Factset

Income statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	1,598	1,865	1,464	1,917	2,529	2,683	2,883	3,256	3,562
Other Operating Expenses	-1,384	-1,554	-1,309	-1,557	-2,110	-2,261	-2,418	-2,732	-3,012
EBITDA	214	311	155	359	419	422	465	523	551
EBITDA, adjusted	214	311	155	359	419	422	465	523	551
Depreciation	-12	-66	-65	-71	-72	-76	-71	-80	-80
EBITA, adjusted	202	245	90	288	348	346	394	443	471
Amortization	-18	-20	-26	-33	-45	-58	-59	-50	-50
EBIT	183	226	65	256	303	288	335	393	421
EBIT, adjusted	183	226	65	256	303	288	335	393	421
Net Financial Items	-4	-9	-14	-16	-14	6	1	-18	-18
Profit before tax	180	216	51	240	289	295	336	375	403
Profit before tax, adjusted	180	216	51	240	289	295	308	375	403
Taxes	-54	-66	-16	-75	-90	-80	-93	-113	-121
Net income	126	151	35	165	199	214	243	263	282
Net income, adjusted	126	151	35	165	199	214	215	263	282
Sales Growth	Neg.	17%	-22%	31%	32%	6%	7%	13%	9%
Gross Margin	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
EBIT Margin, Adjusted	11.5%	12.1%	4.4%	13.3%	12.0%	10.7%	11.6%	12.1%	11.8%
EPS, Adjusted	6.63	7.80	1.82	8.52	10.3	11.1	11.1	13.6	14.5
EPS Growth, Adjusted	N.m.	18%	-77%	367%	20%	8%	0%	22%	7%

Source: BTS Group, Penser by Carnegie

Cash flow statement									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	183	226	65	256	303	288	335	393	421
Other Cash flow Items	-23	5	40	12	48	41	11	-1	-9
Changes in working capital	-2	-18	143	-5	-152	-164	-65	-61	-74
Cash flow from operating activities	158	212	247	263	199	165	280	332	338
Investments in Fixed Assets	-19	-16	-	-12	-61	-40	-80	-80	-80
Investments in intangible fixed assets	0	-10	-	-7	0	0	0	0	0
Other Cash flow from investments	-18	-12	-149	-163	-15	-65	0	0	0
Cash flow from Investments	-37	-38	-149	-182	-76	-105	-80	-80	-80
Free cash flow	121	175	98	81	123	60	200	252	258
New share issue / repurchase	-	23	0	-	-	-	-	-	-
Change in liabilities	-23	-38	-	-79	-116	74	0	0	0
Dividends	-53	-69	-69	-23	-93	-105	-110	-126	-131
Other items	0	-48	-86	-59	0	-53	0	0	0
Cash flow from financing	-76	-132	-155	-161	-209	-84	-110	-126	-131
Cash flow	44	42	-57	-80	-85	-24	90	126	128
Net debt	-160	-240	-187	-314	-356	-230	-182	-308	-437

Source: BTS Group, Penser by Carnegie

Balance sheet									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS									
Goodwill	455	536	549	830	909	1,104	1,045	995	944
Other intangible assets	72	82	75	115	121	154	154	154	154
Tangible fixed assets	39	220	185	180	186	180	189	189	189
Financial assets	15	13	17	22	28	28	28	28	28
Total fixed assets	581	851	826	1,147	1,244	1,466	1,416	1,366	1,315
Accounts receivable	512	514	409	557	723	714	865	944	1,033
Other current assets	172	187	134	194	215	243	243	243	243
Cash and cash equivalents	262	316	591	594	577	532	622	748	877
Total current assets	947	1,018	1,134	1,345	1,515	1,490	1,731	1,936	2,153
TOTAL ASSETS	1,528	1,869	1,960	2,492	2,758	2,956	3,147	3,302	3,468
EQUITY AND LIABILITIES									
Equity	704	840	710	983	1,213	1,301	1,433	1,570	1,721
Total equity	704	840	710	983	1,213	1,301	1,433	1,570	1,721
Long-term interest-bearing liabilities	60	40	235	125	78	58	223	223	223
Other long-term liabilities	224	324	196	418	430	534	369	369	369
Total long-term liabilities	284	364	431	543	508	592	592	592	592
Short-term interest-bearing liabilities	43	36	169	156	143	245	218	218	218
Other current liabilities	497	629	651	810	893	819	904	923	938
Total current liabilities	540	665	820	966	1,036	1,064	1,122	1,141	1,156
TOTAL EQUITY AND LIABILITIES	1,528	1,869	1,960	2,492	2,758	2,957	3,147	3,303	3,469

Source: BTS Group, Penser by Carnegie

Growth and margins									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	17%	-22%	31%	32%	6%	7%	13%	9%
EBITDA growth, adjusted	Neg.	45%	-50%	131%	17%	1%	10%	13%	5%
EBIT growth, adjusted	Neg.	23%	-71%	295%	18%	-5%	16%	17%	7%
EPS growth, adjusted	N.m.	18%	-77%	367%	20%	8%	0%	22%	7%
Gross margin	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
EBITDA margin	13.4%	16.7%	10.6%	18.8%	16.6%	15.7%	16.1%	16.1%	15.5%
EBITDA margin, adjusted	13.4%	16.7%	10.6%	18.8%	16.6%	15.7%	16.1%	16.1%	15.5%
EBIT margin	11.5%	12.1%	4.4%	13.3%	12.0%	10.7%	11.6%	12.1%	11.8%
EBIT margin, adjusted	11.5%	12.1%	4.4%	13.3%	12.0%	10.7%	11.6%	12.1%	11.8%
Profit margin, adjusted	7.9%	8.1%	2.4%	8.6%	7.9%	8.0%	7.5%	8.1%	7.9%

Source: BTS Group, Penser by Carnegie

Return									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	20%	5%	19%	18%	17%	16%	17%	17%
ROCE, adjusted	Neg.	21%	6%	21%	19%	18%	19%	19%	19%
ROIC, adjusted	Neg.	39%	12%	43%	40%	30%	29%	31%	33%

Source: BTS Group, Penser by Carnegie

Capital efficiency

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Accounts receivable / total revenue	32%	28%	28%	29%	29%	27%	30%	29%	29%
Total short-term liabilities / total cost	39%	43%	63%	62%	49%	47%	46%	42%	38%
Working capital / total revenue	12%	4%	-7%	-3%	2%	5%	7%	8%	9%
Capital turnover rate	2.0x	2.0x	1.3x	1.5x	1.8x	1.7x	1.5x	1.6x	1.6x

Source: BTS Group, Penser by Carnegie

Financial position

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	-160	-240	-187	-314	-356	-230	-182	-308	-437
Equity ratio	46%	45%	36%	39%	44%	44%	46%	48%	50%
Net debt / EBITDA	-0.7x	-0.8x	-1.2x	-0.9x	-0.8x	-0.5x	-0.4x	-0.6x	-0.8x

Source: BTS Group, Penser by Carnegie

Per share data

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	6.63	7.80	1.82	8.52	10.3	11.1	12.6	13.6	14.5
EPS, adjusted	6.63	7.80	1.82	8.52	10.3	11.1	11.1	13.6	14.5
FCF per share	6.36	9.04	5.07	4.19	6.37	3.08	10.3	13.0	13.3
Dividend per share	3.60	3.60	1.20	4.80	5.40	5.70	6.50	6.75	7.00
Number of shares after dilution, average	19.0	19.3	19.3	19.4	19.4	19.4	19.4	19.4	19.4

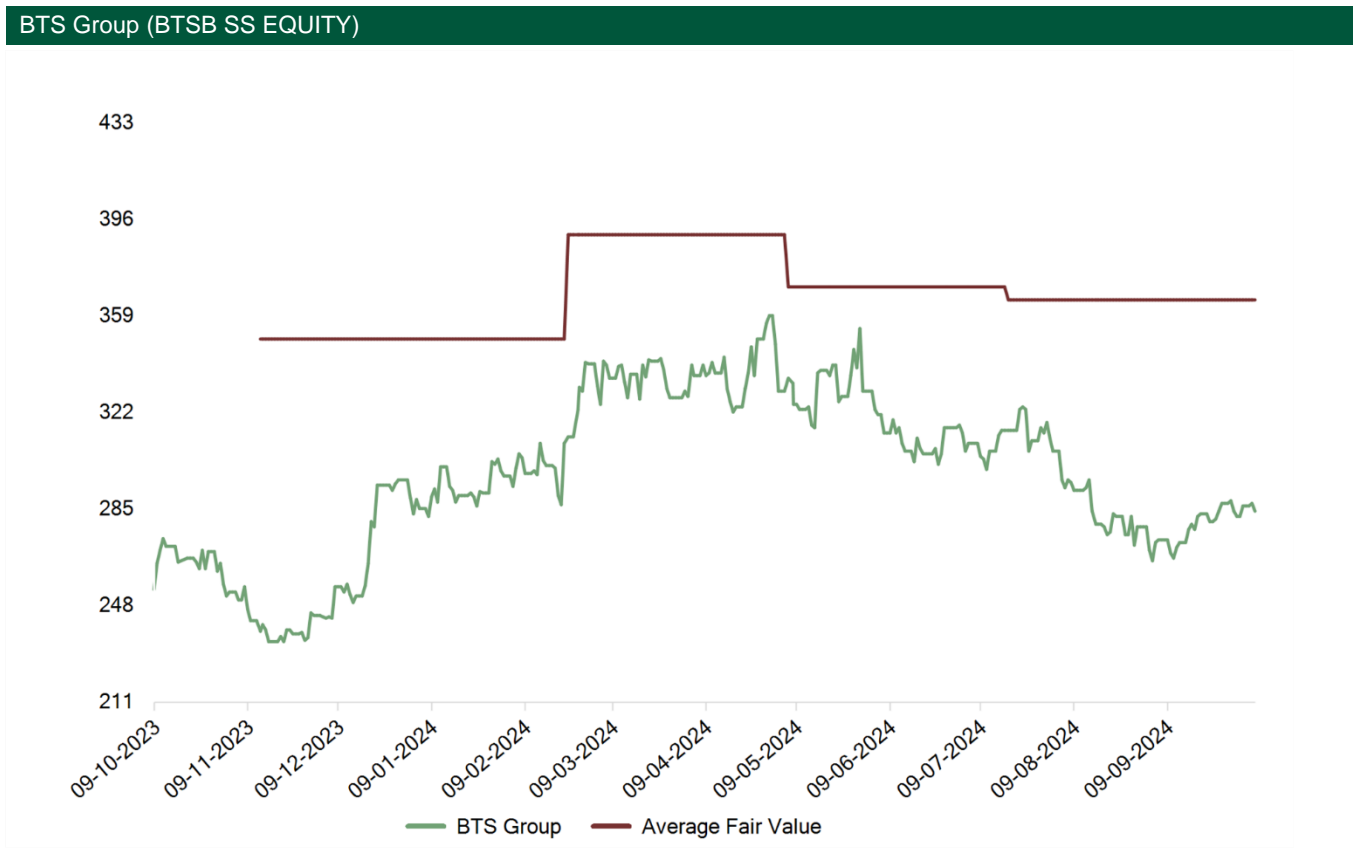
Source: BTS Group, Penser by Carnegie

Valuation

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	19.1x	30.5x	100x	47.3x	28.4x	26.8x	25.6x	20.9x	19.5x
P/BV	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
P/FCF	20.0x	26.3x	42.8x	96.2x	45.7x	96.2x	27.5x	21.8x	21.3x
FCF-yield	5%	4%	2%	1%	2%	1%	4%	5%	5%
Dividend yield	2.8%	1.5%	0.6%	1.2%	1.9%	1.9%	2.3%	2.4%	2.5%
Payout ratio, adjusted	54.3%	46.2%	65.8%	56.4%	52.6%	51.6%	58.6%	49.8%	48.1%
EV/Sales	1.0x	1.2x	3.0x	2.0x	2.9x	2.0x	1.9x	1.7x	1.5x
EV/EBITDA, adjusted	7.6x	7.1x	28.4x	10.8x	17.8x	12.8x	11.7x	10.4x	9.9x
EV/EBIT, adjusted	8.8x	9.8x	68.3x	15.2x	24.6x	18.8x	16.2x	13.8x	12.9x
EV	1,618	2,213	4,411	3,891	7,452	5,408	5,426	5,426	5,426
Share price, year end	127	238	217	403	291	296	284	284	284

Source: BTS Group, Penser by Carnegie

Share price and average fair value chart



Source: Penser by Carnegie, IDC

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