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IT Services | Sweden | 11 November 2024

BTS Group

Turnaround in Europe during the quarter – Q3 Review

Weak EBITA in Q3

Revenues for Q3 came in at SEK657m, equivalent to growth of 5%. This was 3% lower revenue than we had estimated for the quarter. The deviation was primarily the result of a hesitant North American market, where currency-adjusted growth was 6% Y/Y. During the quarter, BTS Europe returned to 5% currency-adjusted growth. EBITA of SEK60m was SEK36m below our estimate. This can be explained purely by our underestimation of seasonal effects that assumed a lower cost base for the quarter. The company maintains its guidance for higher EBITA in 2024 than in 2023, which is in line with our full-year estimate. During Q3, BTS undertook a reversal of provisioning for earnouts of SEK166m, bolstering the results. This did not affect the cash flow. Overall, the quarter strengthens our case that BTS can achieve its guidance for the full year.

Maintained guidance prompts marginal estimate changes

As we had underestimated the seasonal effects in Q3, we lower our EBITA estimate for this year by 8.1%. We now believe the company will see its EBITA growing by 4.9%. Historically, guidance for improved EBITA has indicated growth of ~10% Y/Y, but we take into account the cautious North American market. We lower our EBITA estimates for 2025–2026 by an average of 3.7%. We expect the company to return to double-digit growth during 2025e based on the uncertainty in North America dissipating and Europe recovering further.

Fair value adjusted

We adjust our fair value to SEK320–370 (340–390). The key reason for this is our estimate amendments for the near term. During the quarter, BTS launched its AI tool, Verity – offering sales support – as well as a number of new training bots that automatise and facilitate ongoing education for companies. We believe these initiatives offer higher margins than other of BTS's tools, with the potential for margin expansion. Given how recent these launches have been, we remain conservative in our estimates for their performance.

Change in estimates				Forecasts (SEKm)				Value and risk				
	24e	25e	26e	2023	2024e	2025e	2026e	Fair value	SEK 320 - 370			
Total Revenues	-1,0%	-1,0%	-1,0%	2,683	2,856	3,226	3,531	Share price	SEK 283			
EBITDA, adj.	-0,9%	-0,9%	-0,9%	Revenue growth	6%	6%	13%	9%	Risk level	Medium		
EPS, adj.	-0,9%	-0,9%	-0,9%	EBITDA, adj.	422	434	498	534	Price Performance 12 months			
Upcoming events				EBIT, adj.	288	300	368	404				
Q4 - report	26 February 2025			EPS, adj.	11.1	9.7	12.7	13.9				
Q1 - report	16 May 2025			EPS growth, adj.	8%	-12%	30%	10%				
Company facts (SEKm)				Dividend per share	5.7	6.5	6.8	7.0				
Number of shares	19m			EBIT margin	10.7%	10.5%	11.4%	11.4%				
Market capitalisation	5,483			ROE, adj.	17.0%	13.1%	15.0%	15.3%				
Net debt	-128			ROCE, adj.	17.8%	24.6%	16.6%	17.2%				
EV	5,355			EV/Sales	2.1x	1.9x	1.7x	1.5x				
Free float	81%			EV/EBITDA	13.3x	12.3x	10.7x	10.0x				
Daily trading volume, average	17k			EV/EBIT	19.5x	17.9x	14.5x	13.3x				
Bloomberg Ticker	BTSB SS EQUITY			P/E, adj.	26.8x	29.1x	22.4x	20.3x	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%	1%	4%	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 model provides a valuation range of SEK320–370 (340-390). 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.

Brief overview of the quarter

BTS North America: Sales reached SEK321m, representing currency-adjusted growth of 6%. This was 7% lower than our estimate for the quarter. EBITA came in at SEK 29m, with the margin at 9.0%. The company states that the US market will adopt a wait-and-see attitude in the wake of the presidential election.

BTS Other markets: Revenues came in at SEK195m, suggesting currency-adjusted growth of 16%. This was 3.5% higher than we had expected. It acquired SEAC for SEK13m. EBITA was SEK20.7m, implying a margin of 10.6%. The margin is temporarily under pressure from the SEAC integration.

BTS Europe: Revenues for Q3 reached SEK107m, representing currency-adjusted growth of 5%. EBITA came in at SEK6.2m, which suggests a margin of 8.5%. The recovery in Europe was more robust than we have anticipated, with revenues beating our estimate by 8.3%.

Quarterly estimates for current year								
	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24e
Sales BTS North America	291	340	315	378	317	385	321	404
Sales BTS Europe	105	135	104	125	103	104	107	133
Sales BTS other markets	152	186	176	218	162	200	195	262
APG	31	42	39	47	37	40	33	53
Total Sales	579	703	633	768	619	730	657	852
Total Costs	-513	-580	-562	-606	-539	-605	-579	-698
depreciation PPE	-18	-17	-18	-23	-21	-14	-18	-18
Amortization	-11	-14	-16	-17	-15	-16	-18	-14
EBIT	36	92	38	122	43	95	43	121
Net financials	-3	-4	-6	-8	-7	-9	-8	-6
Reversed provision of earn-out	0	0	0	28	28	0	166	
Affiliated companies	0	0	0	0	0	0	0	
Profit Before Tax	33	88	31	143	64	87	200	115
Tax	-10	-27	-10	-33	-11	-26	-10	-35
Profit After Tax	23	61	21	110	53	60	190	81
Growth North America y/y	5%	8%	2%	7%	9%	13%	2%	7%
Growth Europe y/y	18%	4%	4%	-11%	-2%	-23%	3%	6%
Growth other Markets y/y	22%	8%	5%	12%	6%	8%	11%	20%
Growth APG y/y	-6%	-7%	-7%	31%	19%	-5%	-15%	12%
EBITA	47	106	53	139	59	110	60	135
EBITA-margin	8%	15%	8%	18%	9%	15%	9%	16%
EBIT-margin	6%	13%	6%	16%	7%	13%	6%	14%
EPS	1,2	3,2	1,1	5,7	2,8	3,1	9,8	4,2
EPS Growth y/y	-21%	-8%	-40%	63%	135%	-1%	790%	-26%

Source: BTS, Penser by Carnegie

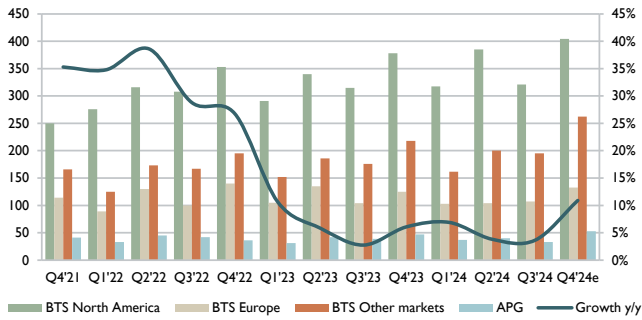
Estimate changes									
	New estimates			Estimates changes			Old estimates		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Net Sales	2 856	3 226	3 531				2 888	3 261	3 568
Operating Expenses	-2 422	-2 727	-2 997				-2 422	-2 742	-3 022
depreciation PPE	-71	-80	-80				-71	-80	-80
Amortization of intangible assets	-63	-50	-50				-59	-50	-50
EBIT	300	368	404				336	389	417
Net Financials	-29	-18	-18				-27	-18	-18
Profit Before Tax	271	350	386				309	371	399
Tax	-82	-105	-116				-93	-111	-120
Profit After Tax	188	245	270				216	260	279
EPS	19,7	12,7	13,9				12,6	13,4	14,4
EBITA	363	418	454				395	439	467
Changes in estimates %									
Revenue	-1,1%	-1,1%	-1,1%						
EBITA	-8,1%	-4,6%	-2,7%						
EPS	-2,8%	-5,5%	-3,2%						

Source: BTS, Penser by Carnegie

BTS in charts

Segments – current year

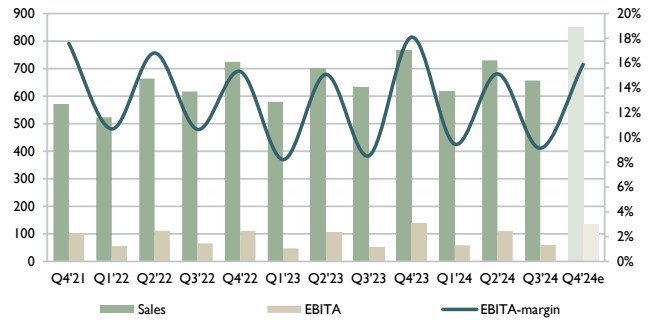
Segments SEKm



Source: Penser by Carnegie

Estimates for the current year

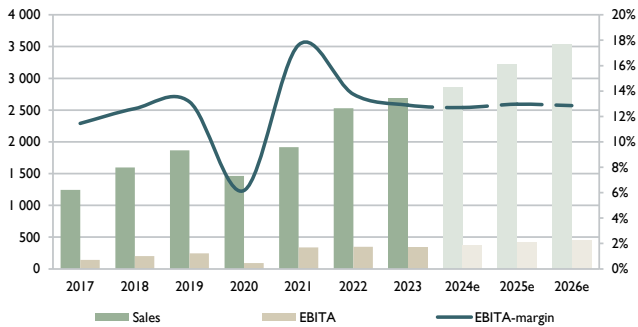
Sales and EBITA (SEKm)



Källa: Penser by Carnegie

Development during forecast period

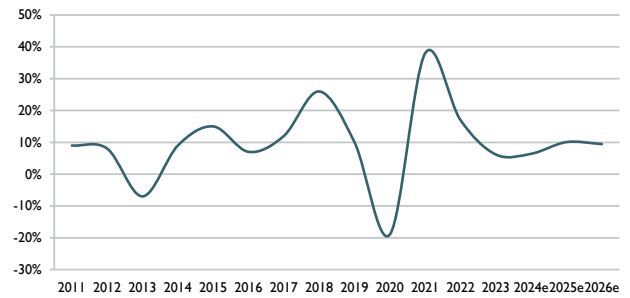
Sales and EBITA (SEKm)



Source: Penser by Carnegie

Growth during forecast period

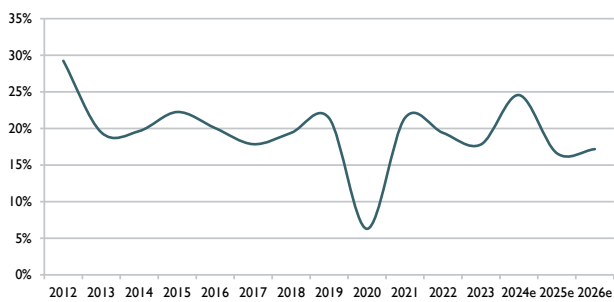
FX-adj. growth



Källa: Penser by Carnegie

High ROCE...

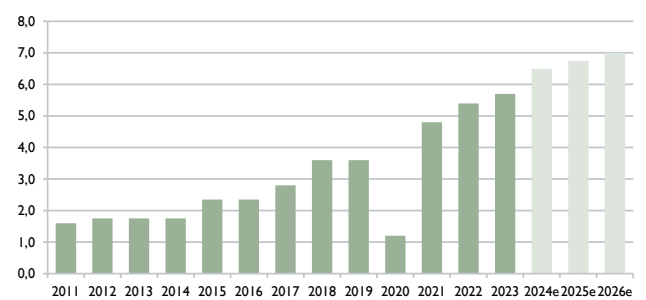
adj ROCE pre-tax



Källa: Penser by Carnegie

...has resulted in stable dividend growth

DPS (SEK)



Källa: Penser by Carnegie

Valuation

DCF						
Valuation output		WACC assumptions			Terminal value assumptions	
Sum of PV of FCF (explicit period)	2 627	Risk free nominal rate	2.5%	Long term growth rate	2.0%	
PV of terminal value (perpetuity formula)	4 324	Risk premium	5.0%	Long term EBIT margin	15.5%	
Enterprise value	6 952	Small cap premium	0.0%	Depreciation (% of sales)	5.0%	
Latest net debt	-128	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	7 080			Tax rate	22.0%	
No. of shares outstanding (millions)	19					
Equity value per share	365					

Source: Penser by Carnegie

Sensitivity table

Sensitivity analysis													
		Long-term growth rate						Long-term EBIT margin					
		1.0%	1.5%	2.0%	2.5%	3.0%		12%	13%	15%	15%	16%	
	8.0%	386	410	439	472	512	8.0%	371	393	439	439	461	
	8.5%	355	375	399	427	459	8.5%	339	359	399	399	419	
WACC	9.0%	328	346	365	388	415	WACC	9.0%	311	329	365	365	384
	9.5%	305	319	336	356	378	9.5%	287	304	336	336	353	
	10.0%	284	297	311	328	346	10.0%	266	281	311	311	326	

Source: Penser by Carnegie

Peer group														
Valuation	MCAP (sek)	EV (sek)	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
			LTM	2025	2026	LTM	2025	2026	LTM	2025	2026	LTM	2025	2026
Mind Gym	267	276	0.44x	-	-	-	-	-	-	-	-	nm	-	-
Korn Ferry	44 123	43 069	1.44x	1.40x	1.29x	9.73	8.17	7.47	12.2x	9.8x	8.8x	22.4x	14.6x	12.9x
Heidrick & Struggles Intl	10 493	7 393	0.61x	0.60x	0.57x	5.83	5.87	5.46	7.2x	8.3x	7.3x	25.9x	17.4x	14.0x
Accenture	2 402 950	2 402 852	3.42x	3.21x	3.02x	19.06	16.61	15.54	21.8x	20.5x	19.1x	31.1x	27.7x	25.4x
Cappgemini	325 313	364 638	1.41x	1.41x	1.35x	9.72	8.73	8.23	12.4x	10.4x	9.8x	16.4x	13.5x	12.4x
Nordic Peers														
Knowit AB	3 689	4 479	0.68x	0.69x	0.65x	7.69	6.69	5.97	18.6x	12.9x	10.4x	nm	15.3x	11.9x
NNIT AS	3 863	4 406	1.55x	1.38x	1.24x	17.94	11.43	8.64	22.3x	13.7x	9.8x	82.2x	16.2x	11.3x
Netcompany Group	26 648	29 249	2.92x	2.56x	2.33x	17.65	13.45	11.89	24.8x	17.1x	14.3x	40.0x	21.2x	16.6x
Sweco AB Class B	63 159	69 347	2.29x	2.13x	2.01x	16.76	16.00	15.38	25.5x	21.0x	19.0x	33.1x	26.1x	23.1x
Bouvet ASA	7 066	7 070	1.91x	1.66x	1.53x	12.62	11.13	10.54	15.7x	13.8x	12.9x	19.8x	17.5x	16.3x
AFRY AB Class B	18 607	24 497	0.90x	0.86x	0.82x	8.70	7.76	6.87	12.9x	11.1x	9.6x	15.6x	11.9x	10.1x
BTS Group AB Class B	5 489	5 414	1.97x	1.69x	1.55x	12.37	10.30	9.41	18.2x	13.8x	12.3x	22.4x	19.3x	17.3x
Mean			1.63x	1.60x	1.49x	12.55	10.56	9.58	17.4x	13.9x	12.1x	30.9x	18.3x	15.6x
Median			1.49x	1.41x	1.35x	12.37	10.30	8.64	18.2x	13.7x	10.4x	24.1x	17.4x	14.0x
VS BTS			32%	20%	15%	0%	0%	9%	0%	1%	19%	-7%	11%	23%

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	2,856	3,226	3,531
Other Operating Expenses	-1,384	-1,554	-1,309	-1,557	-2,110	-2,261	-2,422	-2,727	-2,997
EBITDA	214	311	155	359	419	422	434	498	534
EBITDA, adjusted	214	311	155	359	419	422	434	498	534
Depreciation	-12	-66	-65	-71	-72	-76	-71	-80	-80
EBITA, adjusted	202	245	90	288	348	346	363	418	454
Amortization	-18	-20	-26	-33	-45	-58	-63	-50	-50
EBIT	183	226	65	256	303	288	300	368	404
EBIT, adjusted	183	226	65	256	303	288	300	368	404
Net Financial Items	-4	-9	-14	-16	-14	6	165	-18	-18
Profit before tax	180	216	51	240	289	295	465	350	386
Profit before tax, adjusted	180	216	51	240	289	295	271	350	386
Taxes	-54	-66	-16	-75	-90	-80	-82	-105	-116
Net income	126	151	35	165	199	214	382	245	270
Net income, adjusted	126	151	35	165	199	214	188	245	270
Sales Growth	Neg.	17%	-22%	31%	32%	6%	6%	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%	10.5%	11.4%	11.4%
EPS, Adjusted	6.63	7.80	1.82	8.52	10.3	11.1	9.72	12.7	13.9
EPS Growth, Adjusted	N.m.	18%	-77%	367%	20%	8%	-12%	30%	10%

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	300	368	404
Other Cash flow Items	-23	5	40	12	48	41	22	7	-4
Changes in working capital	-2	-18	143	-5	-152	-164	-58	-60	-73
Cash flow from operating activities	158	212	247	263	199	165	264	315	327
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	-152	0	0
Cash flow from Investments	-37	-38	-149	-182	-76	-105	-232	-80	-80
Free cash flow	121	175	98	81	123	60	32	235	247
New share issue / repurchase	-	23	0	-	-	-	-	-	-
Change in liabilities	-23	-38	-	-79	-116	74	133	0	0
Dividends	-53	-69	-69	-23	-93	-105	-110	-126	-131
Other items	0	-48	-86	-59	0	-53	-39	0	0
Cash flow from financing	-76	-132	-155	-161	-209	-84	-17	-126	-131
Cash flow	44	42	-57	-80	-85	-24	15	109	116
Net debt	-160	-240	-187	-314	-356	-230	26	-83	-200

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	1,194	1,144	1,093
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	1,565	1,515	1,464
Accounts receivable	512	514	409	557	723	714	857	935	1,024
Other current assets	172	187	134	194	215	243	243	243	243
Cash and cash equivalents	262	316	591	594	577	532	414	523	641
Total current assets	947	1,018	1,134	1,345	1,515	1,490	1,514	1,702	1,908
TOTAL ASSETS	1,528	1,869	1,960	2,492	2,758	2,956	3,079	3,217	3,372
EQUITY AND LIABILITIES									
Equity	704	840	710	983	1,213	1,301	1,573	1,692	1,831
Total equity	704	840	710	983	1,213	1,301	1,573	1,692	1,831
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	698	716	732
Total current liabilities	540	665	820	966	1,036	1,064	915	934	949
TOTAL EQUITY AND LIABILITIES	1,528	1,869	1,960	2,492	2,758	2,956	3,080	3,218	3,372

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%	6%	13%	9%
EBITDA growth, adjusted	Neg.	45%	-50%	131%	17%	1%	3%	15%	7%
EBIT growth, adjusted	Neg.	23%	-71%	295%	18%	-5%	4%	23%	10%
EPS growth, adjusted	N.m.	18%	-77%	367%	20%	8%	-12%	30%	10%
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%	15.2%	15.4%	15.1%
EBITDA margin, adjusted	13.4%	16.7%	10.6%	18.8%	16.6%	15.7%	15.2%	15.4%	15.1%
EBIT margin	11.5%	12.1%	4.4%	13.3%	12.0%	10.7%	10.5%	11.4%	11.4%
EBIT margin, adjusted	11.5%	12.1%	4.4%	13.3%	12.0%	10.7%	10.5%	11.4%	11.4%
Profit margin, adjusted	7.9%	8.1%	2.4%	8.6%	7.9%	8.0%	6.6%	7.6%	7.7%

Source: BTS Group, Penser by Carnegie

Return									
	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	20%	5%	19%	18%	17%	13%	15%	15%
ROCE, adjusted	Neg.	21%	6%	21%	19%	18%	25%	17%	17%
ROIC, adjusted	Neg.	39%	12%	43%	40%	30%	22%	23%	25%

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%	38%	34%	32%
Working capital / total revenue	12%	4%	-7%	-3%	2%	5%	14%	14%	15%
Capital turnover rate	2.0x	2.0x	1.3x	1.5x	1.8x	1.7x	1.4x	1.5x	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	26	-83	-200
Equity ratio	46%	45%	36%	39%	44%	44%	51%	53%	54%
Net debt / EBITDA	-0.7x	-0.8x	-1.2x	-0.9x	-0.8x	-0.5x	0.1x	-0.2x	-0.4x

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	19.7	12.7	13.9
EPS, adjusted	6.63	7.80	1.82	8.52	10.3	11.1	9.72	12.7	13.9
FCF per share	6.36	9.04	5.07	4.19	6.37	3.08	1.65	12.1	12.7
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

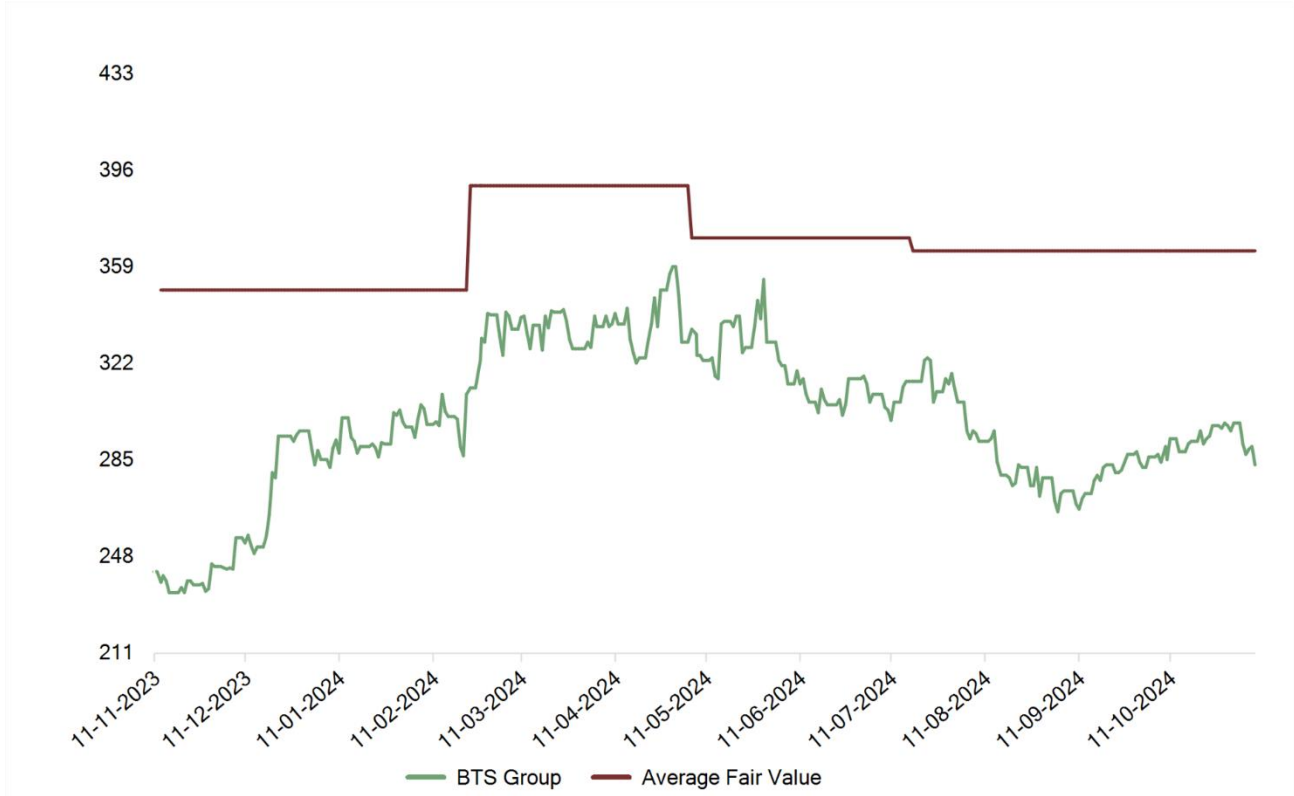
Valuation

	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	19.1x	30.5x	100x	47.3x	28.4x	26.8x	29.1x	22.4x	20.3x
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	100x	23.3x	22.2x
FCF-yield	5%	4%	2%	1%	2%	1%	1%	4%	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%	66.9%	53.3%	50.2%
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	12.3x	10.7x	10.0x
EV/EBIT, adjusted	8.8x	9.8x	68.3x	15.2x	24.6x	18.8x	17.9x	14.5x	13.3x
EV	1,618	2,213	4,411	3,891	7,452	5,408	5,355	5,355	5,355
Share price, year end	127	238	217	403	291	296	283	283	283

Source: BTS Group, Penser by Carnegie

Share Price and Average Fair Value Chart

BTS Group (BTSB SS EQUITY)



Source: Penser by Carnegie, IDC

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