

ZetaDisplay Q1'21 Review: Prepared for recovery in H2 2021

Redeye Research Note

2021-04-28

Redeye retains its positive view on ZetaDisplay following its Q1 report, where management sticks to its positive outlook for the second half of 2021. While the ARR came in somewhat short of our forecasts, solid cost control resulted in an EBITDA beat. We make minor revisions to our forecasts and leave our Base case intact.

- 2021E and 2022E EBITDA cut by ~3%
- Base case unchanged at SEK 26
- Trading at 14x EBIT 2022E

ZetaDisplay continued to show solid cost control, and earnings exceeded our forecasts substantially. While the pandemic, unsurprisingly, still is a major hurdle for the digital signage industry, management and we expect a rebound in H2 2021. Adjusted for M&A, ARR declined QoQ, and while there is a mitigating explanation, ARR growth is still arguably the most important metric in ZetaDisplay, according to us. However, with demand likely picking up within a few quarters, our outlook remains positive.

Q1 2021

Actuals vs Forecasts- 1Q21

(SEKm)	1Q20	1Q21	1Q21E	Diff
Sales	105.6	87.8	97.3	-10%
<i>Growth YoY</i>	13.1%	-16.9%	-7.8%	
Hardware & Other	66.1	47.6	54.7	-13%
<i>Growth YoY</i>	7.0%	-27.9%	-17.2%	
SaaS	39.5	40.1	42.6	-6%
<i>Growth YoY</i>	25.2%	1.6%	7.9%	
ARR	158.8	173.5	180.5	-4%
Gross profit	57.1	57.2	55.9	2%
<i>Gross margin</i>	54.1%	65.2%	57.4%	
EBITDA	-6.2	11.4	9.5	20%
<i>EBITDA margin</i>	-5.9%	13.0%	9.8%	
EBIT	-15.5	3.1	1.3	129%
<i>EBIT margin</i>	-14.7%	3.5%	1.4%	

Source: Redeye Research, ZetaDisplay

Despite sales coming in below our forecast, the gross profit and EBITDA beat our forecasts thanks to a favorable sales mix and solid cost control. It was mainly the typically volatile Hardware and Other that missed our forecast and considering the tough market conditions; we see no reason to be worried.

ARR increased to SEK 173.5m from SEK 160.3m in Q4 2020. As Nordland contributed with SEK 16.0m, the organic QoQ ARR growth was negative. However, that was due to a single customer moving from a subscription-based support agreement to ad hoc-support, resulting in a reclassification of SaaS revenue to Hardware and Other. According to management, this is an exception to an otherwise strong trend towards subscription and SaaS, which considering current market trends seems reasonable.

Besides the solid sales mix with a large share of SaaS resulting in a high gross margin, management states that last year's reorganization has increased the internal efficiency supporting the improved EBITDA. Even though last year's EBITDA was negatively affected by restructuring costs, the underlying EBITDA is in line with last year despite much tougher market conditions, which we find robust.

ZetaDisplay has achieved net profits close to zero throughout the pandemic, which considering the harsh market conditions, and the company's leverage is impressive. Thus, ZetaDisplay has managed to navigate through the Corona pandemic without basically losing any money.

Management expects a gradual improvement in demand and believes that new sales will recover during the second half of 2021. ZetaDisplay currently has several active dialogs regarding international deals, that if won, should contribute to sales growth in 2022. The assumed rebound during H2 2021, management expects to be driven by increased activity among the current customer base.

Financial forecasts

Estimat revisions Q1 2021						
(SEKm)	2021			2022		
	New	Prev.	Change	New	Prev.	Change
Sales	471	486	-3.1%	570	579	-1.5%
<i>Growth YoY</i>	26.2%	30.3%		20.9%	19.0%	
Hardware & Other	298	305	-2.3%	375	376	-0.4%
<i>Growth YoY</i>	36.7%	39.9%		25.8%	23.3%	
SaaS	173	181	-4.4%	195	202	-3.7%
<i>Growth YoY</i>	11.6%	16.7%		12.6%	11.7%	
Capitalized R&D	13.9	12.0	15.5%	16.0	12.0	33.3%
Gross profit	257	261	-1.4%	295	303	-2.4%
<i>Gross margin</i>	54.6%	53.6%		51.8%	52.3%	
OPEX	-202	-201	0.4%	-212	-212	0.0%
Other external costs	-61	-59	2.8%	-62	-61	0.9%
Personnel expenses	-141	-142	-0.7%	-150	-151	-0.3%
EBITDA	69	72	-3.4%	99	102	-3.1%
<i>EBITDA margin</i>	14.7%	14.7%	-0.3%	17.4%	17.7%	-1.6%
EBIT	35	38	-6.8%	68	71	-4.5%
<i>EBIT margin</i>	7.5%	7.8%		11.9%	12.3%	

Source: Redeye Research, ZetaDisplay

We keep our forecasts largely intact, but the lower ARR outcome relative to our estimate results in slightly lowered SaaS and EBITDA forecasts. In line with our

previous forecasts and management's statements, we expect a rebound in demand in H2 2021 and 2022.

We believe ZetaDisplay is staffed to handle larger volumes as demand picks up, resulting in increasing margins. According to management, the reorganized ZetaDisplay can handle implementations more efficiently, supporting our assumptions of margin increases coming along with a rebound in sales.

Financial forecast Base-case							
(SEKm)	2020	1Q21	2Q21E	3Q21E	4Q21E	2021E	2022E
Sales	373	88	108	124	151	471	570
<i>Growth YoY</i>	-14.4%	-16.9%	38.5%	42.8%	47.2%	26.2%	20.9%
Hardware & Other	218	48	64	80	106	298	375
<i>Growth YoY</i>	-27.1%	-27.9%	62.0%	65.0%	66.3%	36.7%	25.8%
SaaS	155	40	44	44	45	173	195
<i>Growth YoY</i>	13.2%	1.6%	14.1%	14.9%	15.8%	11.6%	12.6%
Capitalized R&D	16	5	3	3	3	14	16
Gross profit	216	57	60	65	75	257	295
<i>Gross margin</i>	57.8%	65.2%	55.5%	52.6%	49.3%	54.6%	51.8%
OPEX	-194	-51	-52	-45	-54	-202	-212
Other external costs	-63	-16	-15	-13	-17	-61	-62
Personnel expenses	-131	-35	-37	-32	-37	-141	-150
EBITDA	38	11	11	23	23	69	99
<i>EBITDA margin</i>	10.3%	13.0%	10.2%	18.8%	15.5%	14.7%	17.4%
EBIT	4	3	3	15	15	35	68
<i>EBIT margin</i>	1.0%	3.5%	2.5%	12.0%	9.8%	7.5%	11.9%

Source: Redeye Research, ZetaDisplay

Relative to ZetaDisplay's targets for 2022, our forecasts are both defensive and optimistic. Regarding SaaS revenue, our forecast of SEK 207m is somewhat above the target of SEK 200m. However, our EBIT forecast of SEK 68m is significantly lower than the target of SEK 100m. On the other hand, ZetaDisplay's targets include acquisitions, while our forecasts do not.

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