REDEYE

Equity Research

Research Update

June 19 2023

Energy Save

Sector: Clean tech

Partnership with Aira validates its offering

Redeye updates its view on Energy Save (ES) post the Q4 2022/23 report. While the report came in lower than our expectations, the announced partnership with Aira was the highlight on the reporting day as it validates its offering. However, given the weaker report and a somewhat more cautious outlook in the near term, we revise our estimates and valuation accordingly.

Lower market activity in Q4 2022/23

Both net sales and EBIT came in below our expectations in Q4 2022/23, and management stated that its saw somewhat lower market activity at the end of the quarter as the market is preparing for the peak season starting from Q2, suggesting that Q1 2023/24e will also be on the softer side.

Partnership with Aira validates its offering

The reporting day's highlight was ES announcing a partnership with Aira (Backed by Vargas AB, Harald Mix), where ES will be a technical partner. Initially, the partnership will generate SEK20m in FY 2023/24e for R&D costs and equipment. Aira will enter Germany and The UK in 2023e, while its production facility will first be up and running in H2 2024e. It will start to purchase volume from external partners. We believe ES could be one of those partners (OEM/ODM scope), but the volume and uncertainty if that occurs are still uncertain.

New base case at SEK190 (240)

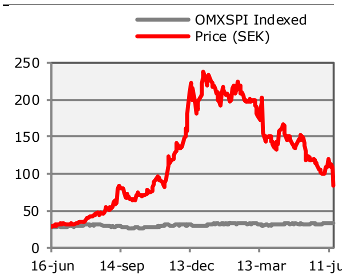
On the back of the Q4 2022/23 report, we trim our sales EBIT estimate for 2023/24e-2024/25e, largely due to weaker market activity in the near term from weaker macroeconomics. ES ended FY 2022/23 with a net cash position of SEK123m, versus its market cap of SEK543m and trades at c7-3x EV/EBIT (23/24e-25/26e), c60% below our broader selected Nordic peer group, while expected to deliver a 2022/23-2025/26e EBIT CAGR of 37%. Our new base stands at SEK190 (240), which we derive from a DCF and earnings multiple approach. At our base case, ES would trade at 18x EV/EBIT (23/24e), which aligns with our broader Nordic-selected peer group.

Key Financials (SEKm)	2022/23	2023/24E	2024/25E	2025/26E
Net sales	298	431	562	700
Sales growth	176%	45%	30%	25%
EBITDA	47	74	104	130
EBIT	43	62	85	109
EBIT Margin (%)	14%	14%	15%	16%
Net Income	33	47	67	86
EV/S	2.0	1.0	0.7	0.5
EV/EBIT	13.8	7.2	4.7	3.1
P/E	22.7	11.4	8.1	6.3

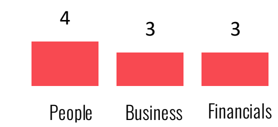
FAIR VALUE RANGE

BEAR	BASE	BULL
125(140)	**190(240)**	310(335)

ESGR VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ESGR B
Market	Spotlight
Share Price (SEK)	83
Market Cap (SEKm)	543
Net Debt 2022/23	-123
Free Float (%)	17%
Avg. daily volume ('000)	1,000

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Q4 '2022/23 - Review

The Q4 2022/23 report showed continuous growth, yet at lower levels than previous quarters. In total, net sales reached SEK49m (35) and grew 39% y/y. Although below our estimate of SEK58m. Sales from residential accounted for 78% of sales and came in at SEK38m (26), while commercial generated SEK10m (9) in sales. The negative deviation particularly stems from lower sales volume from the commercial segment. Regionally, Europe accounted for 53% of sales and Nordics 47%. For FY 2022/23, sales reached SEK298m (108), growing 176% y/y. Germany and the UK yielded sales of cSEK5.6m in the quarter, still low levels, but it's positive to see it is up and running.

The gross margin of 29% (27) was lower than our expectations of 31.5%, mostly due to less favorable mix effects.

Total Opex came in at SEK-14.6m, slightly higher than our estimates of SEK-12.8m. The deviation stems from higher external expenses, mostly to higher consultancy fees related to its initial development phase for Aira and other similar OEM/ODM partnerships.

EBIT came in at SEK0m (2) and reached an EBIT margin of 0% (6). This was below our estimates of SEK4.2m. The weaker earnings than expected are particularly due to lower sales volume, a lower gross margin, and higher Opex levels.

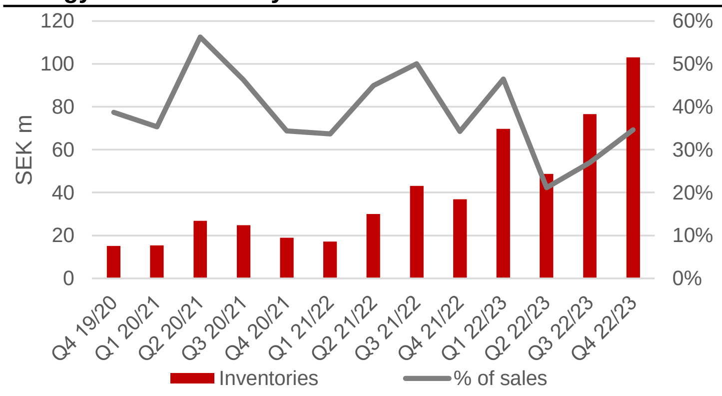
Deviation table:

Energy Save deviation table SEKm	Q4 21/22	Q1 22/23	Q2 22/23	Q3 22/23	Q4 22/23	Q4 22/23e	Diff absolute	Diff (%)
Net Sales	**35.1**	**51.4**	**109.9**	**87.4**	**48.9**	**57.7**	**-8.8**	**-15%**
Residential	25.9	34.9	84.1	68.9	38.0	38.8	-0.8	
Commercial	8.9	16.1	25.1	17.7	10.4	18.2	-7.7	
Other	0.3	0.4	0.7	0.8	0.4	0.8	-0.3	
Other income	1.5	0.3	-2.4	-0.2	1.5	0.0	1.5	
Total Revenue	**36.6**	**51.7**	**107.5**	**87.2**	**50.4**	***57.7***	-7.3	
COGS	-25.7	-35.5	-75.2	-59.9	-34.6	-39.5	4.9	**-12%**
Gross Profit	10.9	16.2	32.3	27.3	15.8	18.2	-2.4	**-13%**
Own capitalization	1.1	0.8	1.3	1.2	1.6	1.2	0.5	
Other external expenses	-4.7	-4.5	-6.6	-7.0	-9.1	-7.2	-1.9	
Personnel expenses	-4.2	-4.3	-4.7	-6.0	-7.1	-6.7	-0.4	
Other expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Opex	**-7.7**	**-8.0**	**-9.9**	**-11.8**	**-14.6**	**-12.8**	**-1.8**	**14%**
EBITDA	**3.1**	**8.2**	**22.4**	**15.5**	**1.2**	**5.4**	**-4.2**	**-78%**
D&A	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	0.0	
EBIT	**2.0**	**7.0**	**21.3**	**14.3**	**0.0**	**4.2**	**-4.2**	**-101%**
Net Financial items	-0.2	-0.3	-0.3	-0.2	-0.2	-0.2	0.1	
EBT	**1.8**	**6.8**	**21.0**	**14.1**	**-0.2**	**4.0**	**-4.2**	
Income Tax Expenses	0.0	0.0	-5.4	-3.1	0.0	-0.9	0.9	
Net Income	**1.8**	**6.8**	**15.6**	**11.0**	**-0.2**	**3.1**	**-3.3**	**-106%**
KPI's								
Net sales Y/Y %	*159%*	*472%*	*272%*	*157%*	*39%*	65%		
Net sales Q/Q %		*46%*	*114%*	*-20%*	*-44%*	-34%		
Gross margin %	*26.7%*	*30.8%*	*31.6%*	*31.5%*	*29.1%*	31.5%		
EBITDA margin %	*8.9%*	*16.0%*	*20.4%*	*17.8%*	*2.4%*	9.4%		
EBIT margin %	*5.8%*	*13.7%*	*19.3%*	*16.4%*	*-0.1%*	*7.3%*		

Source: Redeye research

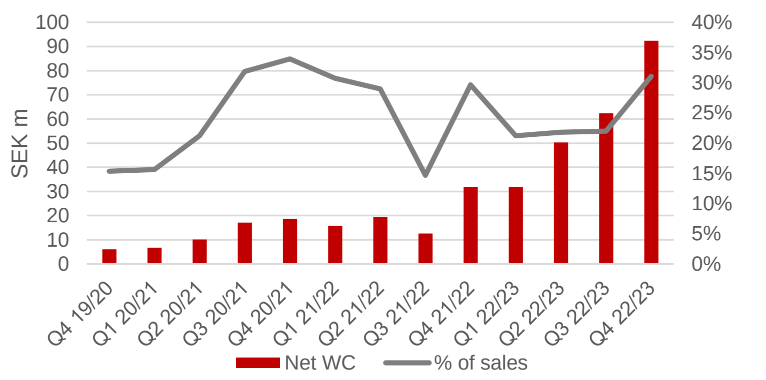
Cash flow was soft in the quarter. Operating cash flow came in at SEK-30.8m, negatively affected by inventory build-ups for being able to deliver ahead of the seasonally strong quarters (Q2e-Q3e) and an increase in account payables. Free cash flow was SEK-131m. However, excluding the SEK97.6m item related to accounting effects for transferring liquidity into interest-bearing accounts, underlying free cash flow was at SEK-34m. Even though we had hoped for a stronger cash flow in the quarter, ES now has inventory goods of SEK103m, which reduces lead times ahead of the seasonally strong season.

Energy Save: Inventory and as of sale %



Source: ES (Historical data) Redeye research (Forecast)

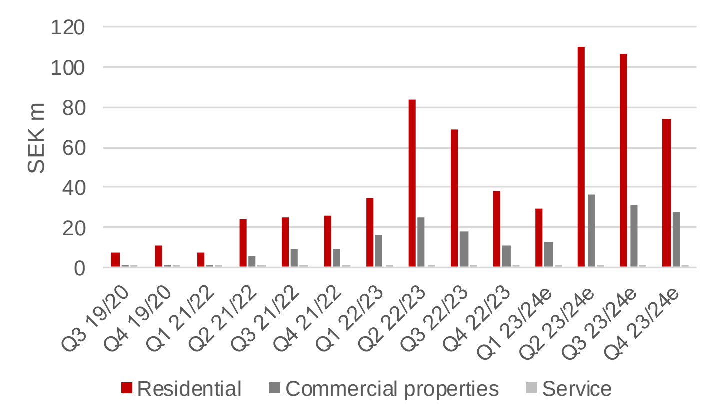
Energy Save: NWC and as of sale %



Source: ES (Historical data) Redeye research (Forecast)

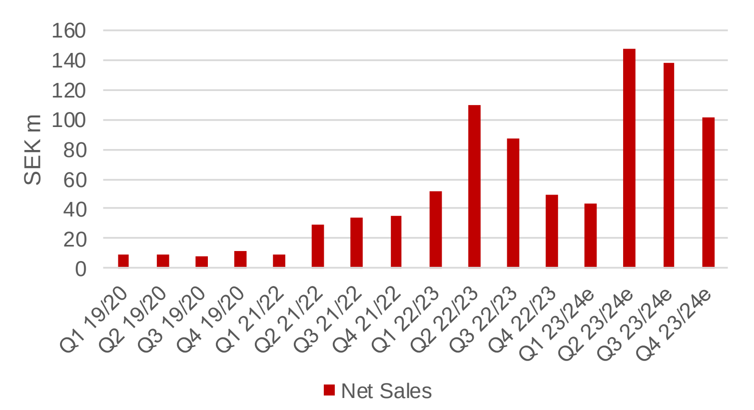
Management clarified that SEK96.7m in financial assets are liquid funds placed in interest-bearing notes to yield some kind of positive interest income during the coming quarters. Thus, ES net cash position is SEKc123m, versus "reported" net cash of SEK26m. Its strong balance sheet enables ES to invest in different verticals, such as securing its supply chain operations, scaling up in strategic markets such as Germany and the UK, new R&D facilities, and potential M&A activities.

Energy Save: Net Sales per segment



Source: ES (Historical data) Redeye research (Forecast)

Energy Save: Net Sales quarterly



Source: ES (Historical data) Redeye research (Forecast)

Partnership with Aira

The most interesting aspect of the reporting day was its launched partnership with the newly started clean-tech company, Aira. Aira was founded by Vargas (backed by Harald Mix and Carl-Erik Lagercrantz) back in 2022 and will be its fourth startup focusing on decarbonization after Northvolt, H2 Green Steel, and Polarium. Aira aims to be a significant player in the heat pump sector in the coming years and will offer its products at a monthly fee instead of being purchased upfront, reducing one of the highest barriers to investing in heat pumps.

ES will be acting as a technology partner for Aira, both regarding software and design. Management stated that it would collect cSEK20m in contribution for R&D costs and equipment during FY 2023/24e. However, given that Aira is currently piloting in Italy and will launch in the UK and Germany in 2023e, and its production facility in Poland will first be fully up and running in the second half of 2024e, Aira needs to purchase volumes from external partners in 2023e and also to some extent in 2024e. Thus, we believe it is possible that Aira will purchase and scale up volumes from ES in FY 2023/24e and FY 2024/25e, contributing a higher amount than the initial SEK20m that it received from R&D costs and equipment. However, the volumes are still uncertain.

Furthermore, Aira has already acquired its first installation company, and with its ambitious growth plans, it aims to be present in 20 countries by 2030, operate more than 10,000 technicians and serve c5m European households. Given these ambitions, we believe additional production capacity will be needed, where ES could potentially fill the gap.

In addition, ES product offering is well suited based to Aira's needs as its air/water technique, prefabrication of units, and digital/hybrid offering fulfills Airas requirement of going from quote to installation within four weeks and integrating with several energy sources. In addition, according to an interview with NewScientist, Martin Lewerth (CEO of Aira) stated that its products are / will use R290 (propane) as a refrigerator, something ES product offering also integrates.

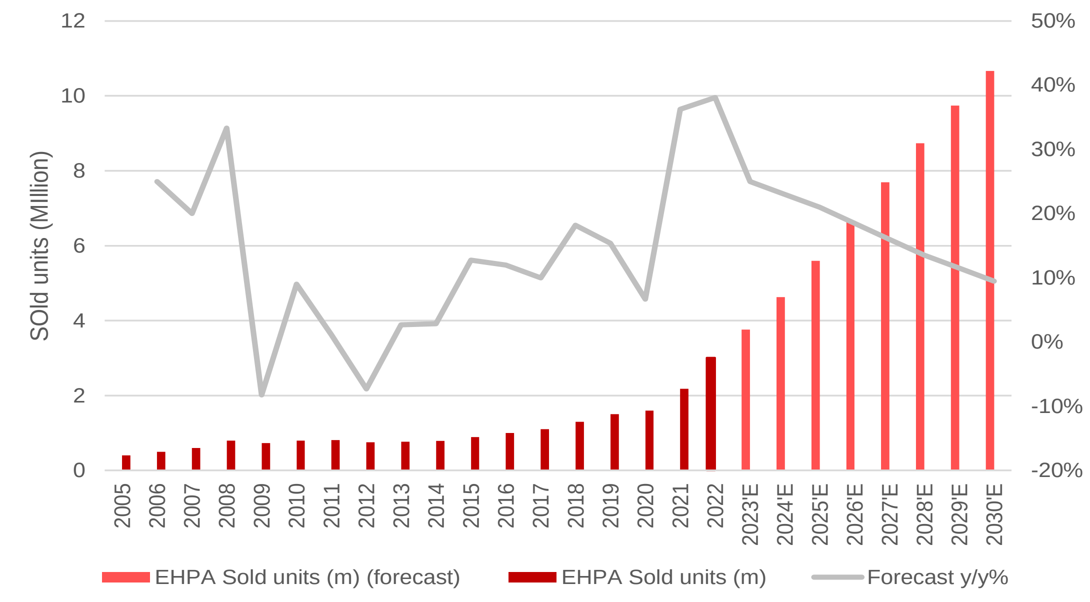
All in all, we believe this validates ES technique and offering, and we also believe the interest from other new potential OEM/ODM partners has increased on the back of this partnership. Something that could yield incremental sales volume from H2' 2023/24e. However, we do not incorporate this into our estimates.

Market tailwinds

2022 saw steep increases in gas prices, reducing the alternative costs for investing in heat pumps as the payback time was shortened. With more normalized gas price levels, subsidies will play an even more important role in keeping the incentive for investing in heat pumps. European green deal and RePowerEU are two initiatives supporting the acceleration of green energy and several subsidies across Europe. Something that will act as structural tailwinds for many years to come. Supporting a 2022-2030e CAGR of c15%% according to EHPA (European heat pump association). The air/water technology is expected to outgrow the underlying market and is expected to grow by a CAGR of 18% due to technology improvements, lower installation costs, and being a preferred choice in countries with a high proportion of gas boilers, as water is already installed in properties, according to EHPA.

Given EUs RePowerEU initiatives, EHPA now estimates that the installed number of heat pumps will increase from today's levels of c19.5m to c60m in 2030. Supported by policy legislation and a rather low renovation rate for commercial properties, among other things. According to the EU's climate objectives and energy efficiency, 65% of commercial properties should be based on green electricity by 2030. Supporting the long-term need for heat pumps.

EHPA: Sold units in EU per year and growth %



Source: EHPA, Redeye research

Targets per country

Several countries have introduced some kind of subsidies to accelerate the adoption of heat pumps. Some implement tax credits and other grants. For instance, the UK government offers grants of c£5,000 for households to cover the costs and installation of heat pumps. While in Germany, the government could cover up to 35% of the upfront investments. However, it is now implementing a ban on heaters that are not able to run on 65% renewable energy sources, such as traditional oil and gas boilers. As the graph below illustrates, many large countries have implemented targets to increase the installments of heat pumps in the coming years.

Selected policy targets		
Country	Year	Target
European Union	2030	30m additonal heatpumps installed compared to 2022
Belgium	2030	Final energy consumption by heat pumps to increase fivefold over 2018
France	2023	Reach c2.9m heat pumps installed
Germany	2024 & 2030	Install 500k heat pumps per year until 2025 and reach a heat pump stock of c6m by 2030
Hungary	2030	Final energy consumption by heat pumps to increase sixfold over 2020 levels
Italy	2030	Final energy consumption by heat pumps to increase twofold over 2017 levels
Poland	2030	Final energy consumption by heat pumps to increase threefold over 2020 levels
Spain	2030	Final energy consumption by heat pumps to increase sixfold over 2020 levels
United Kingdom	2028	c600k annual heat pump installations

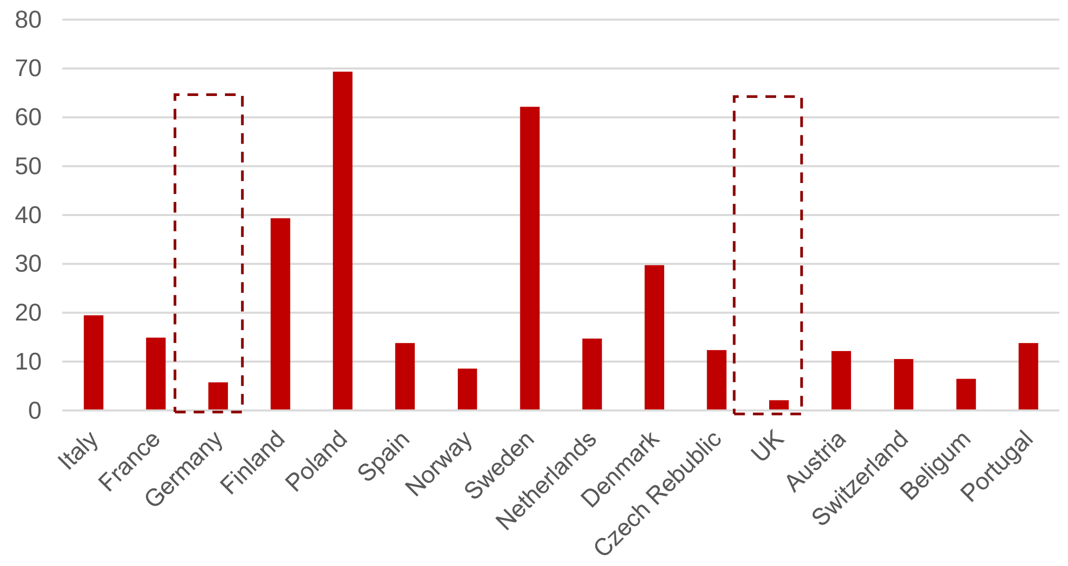
Source: IEA, Redeye research

Strategic markets

Germany and the United Kingdom are two large countries where heat pump penetration is still very low. These two countries could be important strategic markets for Energy Save, and the company is planning to increase its local footprint in these markets to grasp market share. Furthermore, the air/water technique is likely to be preferred in those countries since buildings already have water installed from previous gas boilers.

The graph below illustrates the number of sold heat pumps per 1,000 households across European countries, which could be a proxy for the penetration of heat pumps in each country. The graph below shows that the Nordic countries have the highest penetration while Germany and the UK have the lowest penetration across Europe. Indicating vast opportunities in those markets.

European market: Heat pump sold per 1,000 household



Source: EHPA , Redeye research

Germany

The market grew 53% in Germany in 2022, and c236k heat pumps were sold. Interesting to see is that 205k was based on the air/water technique. Germany targets to install 500k heat pumps annually from 2024 onwards, suggesting further potential. In addition, The German government has approved a bill that will ban new oil and gas heating systems from 2024, requiring any heating system installed in new or old buildings after January 1, 2024, to be 65% based on renewable energy. The legislation aims to speed up the shift to heat pumps, solar panels, and hydrogen boilers powered by renewables in German buildings and reduce the country's dependence on imports of natural gas. The government has proposed huge subsidies to help people make the transition, with the government covering c30% of the cost of installing new heating systems. A 10% bonus could be received if the switch occurs before the deadline,

According to the German government, heating buildings account for a third of Germany's total energy consumption, and 80% is derived from fossil fuels. Furthermore, c30m household applies to gas and oil as heating, illustrating vast potential.

Energy Save recently entered the German market through its strategic partnership with EC Powers A/S, a leading manufacturer of small-scale cogeneration units for the European market. EC Power is the market leader in its niche regarding small-scale cogeneration units ranging from 3-80kW. Since 1996, EC Power has sold +14,000 units across Europe.

The partnership will combine Energy Save's heat pump solutions and EC Powers cogeneration technique and integrate those into one common product. Yielding substantial CO2 savings for end customers. Initially, the partnership covers the entire German market, but some geographic expansion is expected. Positively, the partnership leverages EC Powers' existing network of installers and distributors, which could accelerate the sales process. Furthermore, from 2024 it will be mandatory for cogeneration to incorporate heat pump systems in order to be able to sell the solution. Something that further will drive the acceleration of heat pumps in Germany.

According to BAFA (Economic Affairs and Export Control) is an official list of approved OEMs where government grants and subsidies will be received by purchasing approved heat pumps. So far, EC Power and Swegon are approved on the list and, thus, yielding attractive exposure for Energy Save when the market activity seems to accelerate even further from 2023e.

UK Market

Energy Save recently partnered with the UK distributor/installer Modutherm Ltd. At first glance, it seems to be within the commercial segment primarily. There are vast opportunities in the UK, but given its old infrastructure, there could be some risks that the adoption rate is lagging. It seems that the first deliveries started in February, which should support revenues from Q4'2022/2023e and onwards.

The UK is the market with the lowest adoption rate of heat pumps across Europe. To address this issue, the UK government has the ambition to install 600,000 heat pumps annually by 2028 versus 60,000 installed heat pumps in 2022. According to Nesta, a British foundation that supports innovation in the UK, where a sustainable future is one core topic found that 15,768 people applied for a subsidy scheme in the UK in 2022, below the target of 30,000 households. Thus, some argue that further subsidies, smoother application processes for accessing grants, and additional encouragement regarding renewable energy are required to address this low adoption rate.

Capex boom paves the way for growth

Given the solid outlook for heat pumps, all heat pump manufacturers need to scale up their production facilities to be able to deliver on the high demand in the coming years. The chart below illustrates ten major heat pump manufacturers' capex programs in the coming years. EUR4,083m is expected to be deployed across Europe, primarily for heat pumps. We have the impression that the new production facilities will primarily be used for the air/water technique, as this technique is currently produced in Asia. The majority of the new facilities are expected to be up and running from 2025e. ES believes it could grasp its higher market share gains until 2025e as they are able to deliver air/water heat pumps without any particular constraints, especially when its new production facility is up and running from September / October 2023e.

Capex expansion across EU

Company	Region / Country	Investment allocation	Investment EUR m	Date of completion
Valiant	EU	Heat pumps and energy efficiency	130	2022-2023e
Hoval	Liechtenstein, Slovakia	Heat pumps	60	2023-2024e
Clivet (Midea Group)	Italy	Heat pumps	60	2024e
Mitshubishi	Turkey, UK	Heat pumps and air conditioning	128	2024e
Bosch	Europé	Heat pumps	300	2025e
Daikin Europé	EU	Heat pumps and R&D	1,200	2025e
Stiebel Eltron	Germany	Heat pumps	600	2025e
Nibe	Sweden	Heat pumps	460	2025e
Viessmann	Poland	Heat pumps	1,000	2025e
Panasonic	Czech Rebublic	Heat pumps	145	2026e

Source: IEA, Redeye research

ES Competitive advantages

The competition across the European heat pump market is fierce. However, we argue ES offers several competitive advantages that will be able to further outgrow the market.

- ES products and systems are based on the air/water technique, the fastest-growing segment. The air/water segment is expected to capture market share due to improved technology and lower initial investments (no drilling required) while also being integrated with water. It is expected to be the preferred technique in larger markets (Germany and UK) as most buildings already have water installed from previous gas boilers.

- ES prefabricated systems reduce the installation time while also lowering the investment threshold. Thereby solving one of the industry's largest bottlenecks, the lack of installers and consultancy know-how. In addition, the mobile system creates flexibility and opens up new segments, especially for the construction industry and for temporary needs.

- ES digital offering (configurator) manages system dimensions, specification of components, energy calculations, costs, and offers. Thus, the configuration cuts lead times, reducing the need for entering new markets while ensuring optimal energy efficiency and cost savings. Furthermore, Energy Save is focusing on fully exploiting the potential of energy price optimization, increased flexibility, and peak-shaving by combining different energy sources and utilizing new control intelligence to optimize operations. This could diversify future revenues and yield stronger gross margins.

- ES products and systems are based on clean Scandinavian design. Today, many heat pump developers incorporate similar components and offer similar efficiency. Thus, a clean design is something that differentiates ES products from many competitors while still being attractive to end customers.

- It's partnership with Amitime ensures shorter lead times and sourcing for components. In addition, it offers higher flexibility for end customers during the product development phase while offering lower price points than major competitors while still delivering A++ or A+++ (high energy efficiency) certificated products and solutions. Furthermore, the product and systems apply R32, R410a, or R290 (propane) as refrigeration, making them environmentally friendly and ready as the market will be phasing out products and systems based on f-gas.

Estimate changes

On the back of the Q4 2022/23 report, we cut our sales and EBIT estimates for 2023/24e-2025/26e. Given the weakness in the construction market, we take a more cautious view of the commercial segment and assume a softer consumer purchasing power among consumers could hold back volumes in residential. Moreover, we take a more prudent path of new potential OEM/ODM partnerships (as with Aira) as the visibility in 2023/24e-2025-26e remains rather low.

We reduce sales from SEK550m to SEK431m in 2023/24e and from SEK723m to SEK562m in 2024/25e. For EBIT, we cut it from SEK89m to SEK62m in 2023/24e and from SEK121m to SEK85m in 2024/25e.

SEK m	New estimates		Old estimates		Diff %	
Year	2023/24'e	2024/25'e	2023/24'e	2024/25'e	2023/24'e	2024/25'e
Net Sales	**431**	**562**	**550**	**723**	**-22%**	**-22%**
COGS	-295	-382	-376	-492	-22%	-22%
Gross profit	136	180	174	230	-22%	-22%
Gross margin, %	32%	32%	32%	32%		
Capitalised development	7	7	7	8	7%	-9%
Other external expenses	-38	-46	-39	-50	0%	-8%
Personnel expenses	-31	-37	-34	-43	-9%	-16%
Other expenditures	0	0	0	0	n.a	n.a
Total opex	**-62**	**-75**	**-66**	**-85**	**-5%**	**-11%**
EBITDA	**74**	**104**	**109**	**145**	**-32%**	**-28%**
EBITDA-margin	17%	19%	20%	20%		
D&A	-13	-20	-19	-24	-35%	-17%
EBIT	**62**	**85**	**89**	**121**	**-31%**	**-30%**
EBIT-margin	14%	15%	16%	17%		
Net finance	-1	0	-1	-1	30%	-78%
PTP	**61**	**85**	**89**	**121**	**-31%**	**-30%**
tax	-13	-18	-19	-25	-29%	-30%
Net Income	**47**	**67**	**70**	**95**	**-32%**	**-30%**
EPS	**7.3**	**10.2**	**10.7**	**14.6**	**-32%**	**-30%**

Source: ES (Historical data) Redeye research (Forecast)

Outlook

Energy Save targets to outgrow the market with healthy profitability levels and clarified in its Q4 2022/23 report that it intends to grow sales by a CAGR of 20% until 2030e. We argue Energy Save is well placed to continue to outgrow the market due to its air/water exposure, prefabrication, and digital offering, which reduces lead time and lowers the investment threshold.

We expect the seasonal pattern to continue in 2023/24e and expect Q1 2023/24e to be more muted before the market accelerates into peak season from Q2e. In addition, gaining access to a new production facility by September / October 2023e, which could double its production capacity, should support further sales volume. In addition, in case of Aira and other new potential OEM/ODM partnerships materialize, we expect this to start contributing in H2' 2023/24e.

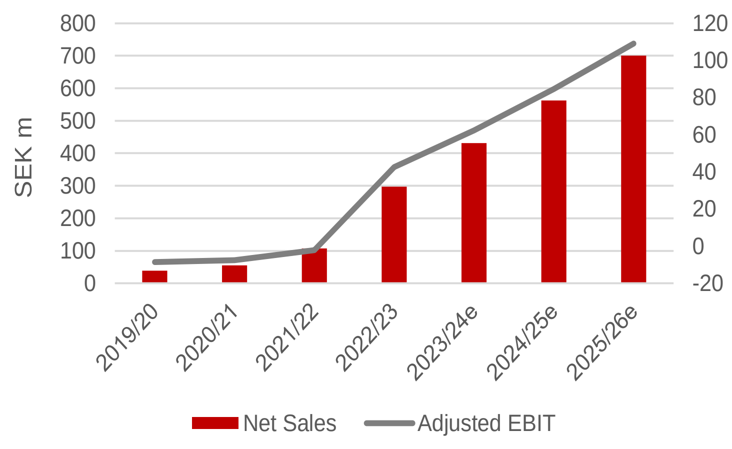
In total, we forecast sales of SEK431m in 2023/24e, followed by SEK562m in 2025/26e and SEK700m in 2025/26e. Delivering a 2022/23-2025/26e sales CAGR of 33%.

We forecast a stable gross margin development (c32% in 2023/24e-2025/26e) but argue there are upsides to estimates from scale advantages across its commercial segment. Furthermore, the commercial segment is the one with less competition, especially within temporary objects, and we expect its flexible solutions to be a competitive advantage, as the recent order with EL-Björn proves. Given that its largest exposure for commercial systems is existing buildings, energy renovations, and the retrofit market, there are vast opportunities as 65% of commercial properties across EU should be based on green electricity by 2030e, according to EHPA.

ES has scaled up its organization, the number of FTE's increased from 18 in FY 2021/22 to 32 in FY 2022/23, for instance, while integrating external consultants for different needs. However, management now states that it has a solid baseline to lean on and be able to take on new potential OEM/ODM projects and grow its original ES brand.

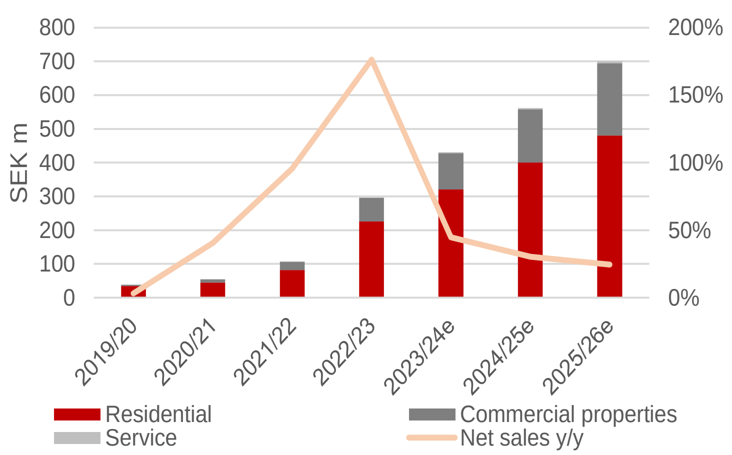
We expect the EBIT margins to hover around its financial target of 15% and forecast EBIT to reach SEK109m in 2025/26e, up from SEK43m in 2022/23, delivering a CAGR of 37% in the period.

Energy Save: Net sales and Adj EBIT



Source: ES (Historical data) Redeye research (Forecast)

Energy Save: Net sales per segment



Source: ES (Historical data) Redeye research (Forecast)

P&L Table and KPI's

SEK m	2022/23				2023/24								
Year	Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	2021/22	2022/23	2023/24'e	2024/25'e	2025/26'e
Net Sales	**51.4**	**109.9**	**87.4**	**48.9**	**43.1**	**147.3**	**138.6**	**102.0**	**108**	**298**	**431**	**562**	**700**
COGS	-35.5	-75.2	-59.9	-34.6	-29.8	-100.2	-94.2	-70.4	-81	-205	-295	-382	-476
Gross profit	16.2	32.3	27.3	15.8	13.4	47.1	44.3	31.6	26	92	136	180	224
Gross margin, %	30.8%	31.6%	31.5%	29.1%	31.0%	32.0%	32.0%	31.0%	25%	31%	32%	32%	32%
Capitalised development	0.8	1.3	1.2	1.6	1.7	1.8	1.7	1.9	4	5	7	7	7
Other external expenses	-4.5	-6.6	-7.0	-9.1	-9.1	-9.4	-9.7	-10.2	-15	-27	-38	-46	-56
Personnel expenses	-4.3	-4.7	-6.0	-7.1	-7.3	-7.5	-7.9	-8.3	-15	-22	-31	-37	-45
Other expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	0	0
Total opex	**-8.0**	**-9.9**	**-11.8**	**-14.6**	**-14.7**	**-15.2**	**-15.9**	**-16.5**	**-26**	**-44**	**-62**	**-75**	**-94**
EBITDA	**8.2**	**22.4**	**15.5**	**1.2**	**-1.3**	**31.9**	**28.4**	**15.1**	**1**	**47**	**74**	**104**	**130**
EBITDA-margin	16.0%	20.4%	17.8%	2.4%	-3.1%	21.7%	20.5%	14.8%	1%	16%	17%	19%	19%
D&A	-1.2	-1.2	-1.2	-1.2	-1.1	-2.2	-4.2	-5.1	-3	-5	-13	-20	-21
EBIT	**7.0**	**21.3**	**14.3**	**0.0**	**-2.4**	**29.7**	**24.3**	**10.0**	**-2**	**43**	**62**	**85**	**109**
EBIT-margin	13.7%	19.3%	16.4%	-0.1%	-5.6%	20.2%	17.5%	9.8%	-2%	14%	14%	15%	16%
Net finance	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1	-1	-1	0	0
PTP	**6.8**	**21.0**	**14.1**	**-0.2**	**-2.6**	**29.5**	**24.1**	**9.8**	**-3**	**42**	**61**	**85**	**109**
tax	0.0	-5.4	-3.1	0.0	0.0	-6.2	-5.1	-2.1	0	-9	-13	-18	-23
Net Income	**6.8**	**15.6**	**11.0**	**-0.2**	**-2.6**	**23.3**	**19.0**	**7.7**	**-3**	**33**	**47**	**67**	**86**
EPS	**1.17**	**2.68**	**1.90**	**-0.03**	**-0.40**	**3.57**	**2.91**	**1.18**	**-0.49**	**5.08**	**7.3**	**10.2**	**13.2**
Growth %													
Net Sales y/y	472%	272%	157%	39%	-16%	34%	59%	109%	95%	176%	45%	30%	25%
Net Sales q/q	46%	114%	-20%	-44%	-12%	242%	-6%	-26%					
EBITDA y/y	-336%	725%	994%	-63%	-116%	42%	83%	1189%	-116%	4785%	57%	41%	25%
EBIT y/y	-284%	897%	3997%	-102%	-134%	40%	70%	-21809%	-72%	-2101%	45%	38%	29%
Net Income y/y	-272%	706%	6709%	-111%	-138%	50%	73%	-4005%	-66%	-1267%	43%	41%	29%
EPS y/y									n.a	n.a	43%	41%	29%
Other external expenses	81%	89%	79%	92%	100%	44%	38%	12%	16%	86%	41%	20%	22%
Personnel expenses y/y	24%	62%	45%	71%	70%	62%	31%	16%	23%	51%	40%	18%	24%
Total opex y/y	**52%**	**73%**	**73%**	**88%**	**84%**	**54%**	**35%**	**13%**	**23%**	**73%**	**41%**	**21%**	**25%**
Margins													
Gross margin %	30.8%	31.6%	31.5%	29.1%	31.0%	32.0%	32.0%	31.0%	24.6%	31.0%	31.7%	32.0%	32.0%
EBITDA margin %	15.9%	20.9%	17.8%	2.3%	-3.1%	21.7%	20.5%	14.8%	0.9%	15.9%	17.2%	18.6%	18.6%
EBIT margin %	13.6%	19.8%	16.4%	-0.1%	-5.6%	20.2%	17.5%	9.8%	-2.0%	14.3%	14.3%	15.1%	15.6%
Net margin %	13.1%	14.5%	12.6%	-0.4%	-6.0%	15.8%	13.7%	7.6%	-2.6%	11.2%	11.0%	11.9%	12.3%

Source: ES (Historical data) Redeye research (Forecast)

Valuation

Peer Valuation

Given ES's current geographic presence, we argue the Nordic peer group is the most relevant one. Nibe and Beijer Ref are the most relevant peers given the same end-exposure. However, the size and track history differ from ES. We apply a broader key peer group consisting of Nibe, Beijer Ref, Systemair, Nederman, Lindab, Absolent, and Munters. All are operating within the sustainability field but with different end-exposures,

Despite a stronger growth outlook and similar margin profile, ES trades c60% below our broader selected Nordic peer group and c70% below its closest peers, Nibe and Beijer Ref.

Nibe recently acquired the Dutch firm, Climate For Life (CFL) for an EV/EBITDA multiple of 13.6x. In addition, in April, Carrier (One of the leading climate solutions firms in the US) announced an acquisition of Viessmanns climate solution for a total value of EUR12bn (12x EBITDA 23e). Even though both these takeover targets are larger players, it signals a high market activity and consolidation. Based on ES's suitable product offering and current valuation multiples, we believe it could be a takeover candidate.

	EV	EV/S			EV/EBIT			Sales growth			EBIT margin		
Company name	**SEKm**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**	**2023**	**2024**	**2025**
Nordic													
Nibe	221,057	4.5x	4.0x	3.6x	28.6x	25.2x	22.6x	23%	13%	11%	16%	16%	16%
Lindab	15,438	1.2x	1.2x	1.1x	13.2x	11.7x	10.1x	3%	1%	4%	9%	10%	11%
Qlean Air	554	1.1x	1.0x	0.9x	6.8x	5.6x	5.1x	11%	10%	9%	16%	18%	18%
Nederman	8,953	1.6x	1.6x	1.5x	15.8x	15.2x	12.7x	11%	0%	6%	10%	10%	12%
Systemair	19,231	1.5x	1.5x	1.4x	16.3x	14.9x	13.8x	3%	5%	3%	9%	10%	10%
Beijer Ref	74,627	2.3x	2.1x	1.9x	22.0x	19.7x	18.0x	46%	9%	8%	10%	11%	11%
Garo	3,498	2.3x	2.1x	1.7x	22.5x	14.5x	10.9x	7%	14%	23%	10%	14%	15%
Munters	26,493	2.0x	1.7x	1.7x	17.7x	13.5x	13.3x	26%	17%	-1%	11%	13%	13%
Absolent	4,952	3.4x	2.9x	2.7x	20.4x	15.7x	14.2x	8%	19%	6%	17%	18%	19%
Tomra	56,201	3.9x	3.7x	3.2x	31.7x	26.6x	22.1x	17%	7%	13%	12%	14%	15%
Orsted	532,676	3.3x	3.2x	3.3x	27.9x	20.8x	17.4x	-21%	3%	-3%	12%	16%	19%
Median		**2.3x**	**2.1x**	**1.7x**	**20.4x**	**15.2x**	**13.8x**	**11%**	**9%**	**6%**	**11%**	**14%**	**15%**
International													
Thermon Group	10,033	2.0x	1.9x	na	11.8x	9.8x	na	5%	5%	na	17%	19%	na
HNI Corporation	14,945	0.6x	0.6x	0.6x	13.5x	11.3x	10.6x	-6%	11%	1%	5%	5%	5%
Arbonia AG	11,358	0.7x	0.7x	0.7x	18.2x	14.6x	11.1x	14%	5%	8%	4%	5%	6%
De'Longhi	35,897	1.0x	1.0x	0.9x	10.2x	9.6x	9.3x	-1%	4%	3%	10%	10%	10%
Hitachi	773,278	1.1x	1.1x	1.1x	14.1x	12.6x	11.5x	-16%	-1%	2%	8%	9%	10%
A.O Smith	112,831	2.8x	2.7x	2.6x	15.1x	14.4x	14.1x	2%	4%	2%	19%	19%	19%
Daikin	676,645	2.1x	2.0x	1.9x	21.1x	19.3x	17.6x	4%	5%	6%	10%	11%	11%
Lennox	135,990	2.7x	2.6x	2.5x	17.3x	16.2x	15.0x	2%	3%	3%	16%	16%	17%
Median		**1.6x**	**1.5x**	**1.1x**	**14.6x**	**13.5x**	**11.5x**	**2%**	**4%**	**3%**	**10%**	**10%**	**10%**
Median	*26,493*	***1.9x***	***1.9x***	***1.7x***	***17.5x***	***14.6x***	***13.5x***	***7%***	***5%***	***5%***	***11%***	***13%***	***12%***
Average	*143,929*	***2.1x***	***2.0x***	***1.9x***	***18.1x***	***15.3x***	***13.9x***	***7%***	***7%***	***6%***	***12%***	***13%***	***13%***
Energy Save	420	1.0x	0.7x	0.5x	6.7x	4.7x	3.1x	45%	30%	25%	14%	15%	16%
Key Peers		2.0x	1.7x	1.7x	17.7x	15.2x	13.8x	11%	9%	6%	10%	11%	12%
Nibe, Systemair, BeijerRef, Nederman, Lindab, Munters, Absolent													
Heat Pump exposure		3.4x	3.0x	2.8x	25.3x	22.5x	20.3x	34%	11%	9%	13%	13%	13%
vs Key Peers		(51%)	(59%)	(71%)	(62%)	(69%)	(78%)	34.2	20.9	19.2	3.7	4.5	4.4
vs Heat pump exposure		(70%)	(77%)	(82%)	(74%)	(79%)	(85%)	10.7	18.9	15.7	1.0	1.9	2.7

Source: Factset

DCF Valuation

On the back of the weaker-than-expected Q4 2022/23 report, we reduce our valuation due to lower estimates in 2023/24e-2025/26e. In the long run, we take a conservative margin approach as we believe the fierce competition in the market could pressure margins over time. Our new valuation range is SEK125-SEK310 (140-335) with a base case of SEK190(240), based on a DCF and earnings multiple approach. We provide our key assumptions below. At our base case, Energy Save would trade at 18x EV/EBIT (2023/24e), in line with our broader selected peer group, but at a c30% discount versus Nibe and Beijer Ref.

Bear Case SEK125(140)

Sales CAGR 23-28'e: 17%
Sales CAGR 28-35'e: 5%
Terminal growth rate: 2%
Avg EBIT margin 23-37'e: 12%
Terminal EBITDA margin: 15%
WACC: 10.5%

Base Case SEK190(240)

Sales CAGR 23-28'e: 22%
Sales CAGR 28-35'e: 7%
Terminal growth rate: 2%
Avg EBIT margin 23-37'e: 14%
Terminal EBITDA margin: 16%
WACC: 10.5%

Bull Case SEK310(335)

Sales CAGR 23-28'e: 26%
Sales CAGR 28-35'e: 8%
Terminal growth rate: 2%
Avg EBIT margin 23-37'e: 15%
Terminal EBITDA margin: 17%
WACC: 10.5%

DCF assumptions	2022/23-2027/28e	2027/28e-2034/35e		DCF value
Net sales CAGR	22%	7%	**Wacc**	**10.5%**
Average EBITDA margi	18%	17%	**NPV of FCF**	676
			NPV of terminal	444
Terminal				
Sales growth %	2.0%		**Sum of NPV**	**1,121**
EBITDA margin %	16%		**Net debt (cash) 23/24e**	-123
			Equity value	**1,244**
			Nosh	6.54
			Value / share	**190**

Source: Redeye research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

People: 4

Energy Save is entrepreneur-led. The co-founders own ~50 percent of the outstanding capital. Strong insider ownership mitigates the risk of long-term value damage.

Business: 3

Energy Save operates in a market characterized by fierce competition. Its products fulfill the demand and certification required to accelerate the green energy transition. Heat pumps have a lifecycle of approximately 20 years, with limited maintenance. Enables long-tail customer cycles, which makes it tougher for customers to change manufacturers.

Financials: 3

Energy Save is a company in the early stages that invest properly to capture future growth opportunities. Thus, profitability ratios are somewhat harmed by growth investments.

	2022	2023E	2024E	2025E
INCOME STATEMENT				
Net sales	298	431	562	700
Cost of Revenues	206	294	382	476
Gross Profit	92	136	180	224
Operating Expenses	44	62	76	94
EBITDA	47	75	104	130
Depreciation & Amortization	5	12	20	21
EBIT	43	62	85	109
Net Financial Items	-1	-1	0	0
EBT	42	61	84	109
Income Tax Expenses	9	13	18	23
Non-Controlling Interest	0	0	0	0
Net Income	33	48	67	86
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	29	104	147	206
Inventories	103	149	195	242
Accounts Receivable	24	52	67	84
Other Current Assets	6	4	6	7
Total Current Assets	162	309	415	540
Non-current assets				
Property, Plant & Equipment, Net	3	62	60	58
Goodwill	0	0	0	0
Intangible Assets	24	29	26	23
Right-of-Use Assets	0	0	0	0
Shares in Associates	0	0	0	0
Other Long-Term Assets	100	3	3	3
Total Non-Current Assets	127	94	88	84
Total Assets	288	404	503	624
Liabilities				
Current liabilities				
Short-Term Debt	1	1	1	1
Short-Term Lease Liabilities	4	4	4	4
Accounts Payable	36	73	96	119
Other Current Liabilities	15	45	56	67
Total Current Liabilities	57	124	157	191
Non-current liabilities				
Long-Term Debt	1	1	1	1
Long-Term Lease Liabilities	0	0	0	0
Other Long-Term Liabilities	2	2	2	2
Total Non-current Liabilities	3	3	3	3
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	228	276	343	429
Total Liabilities & Equity	288	404	503	624
CASH FLOW				
NOPAT	34	49	67	86
Change in Working Capital	-54	-5	-30	-31
Operating Cash Flow	-18	56	57	76
Capital Expenditures	-2	-70	-6	-7
Investment in Intangible Assets	-6	-7	-8	-10
Investing Cash Flow	-105	-77	-13	-17
Financing Cash Flow	130	0	0	0
Free Cash Flow	-25	-21	43	59

DCF Valuation Metrics	Sum FCF (SEKm)
2022-2025	111
2026-2036	565
Terminal	444
Firm Value	1121
Net Debt 23e	-123
Equity Value	1244
Fair Value per Share	190

	2022	2023E	2024E	2025E
CAPITAL STRUCTURE				
Equity Ratio	0.8	0.7	0.7	0.7
Debt to equity	0.0	0.0	0.0	0.0
Net Debt	-102	-102	-145	-204
Capital Employed	232	280	347	433
Working Capital Turnover	3.8	5.2	5.0	4.9
GROWTH				
Revenue Growth	176%	45%	30%	25%
Basic EPS Growth	-1139%	46%	38%	29%
Adjusted Basic EPS Growth	-1136%	46%	38%	29%
PROFITABILITY				
ROE	24%	19%	22%	22%
ROCE	18%	22%	24%	25%
ROIC	44%	35%	36%	41%
EBITDA Margin (%)	16%	17%	19%	19%
EBIT Margin (%)	14%	14%	15%	16%
Net Income Margin (%)	11%	11%	12%	12%
VALUATION				
Basic EPS	5.1	7.4	10.2	13.2
Adjusted Basic EPS	5.1	7.4	10.2	13.2
P/E	22.7	11.2	8.1	6.3
EV/Revenue	2.0	1.0	0.7	0.5
EV/EBITDA	12.8	5.9	3.8	2.6
EV/EBIT	14.3	7.1	4.7	3.1
P/B	3.1	2.0	1.6	1.3

SHAREHOLDER STRUCTURE	CAPITAL %	VOTES %
Christian Gulbrandsen	14%	37.3%
Project Air (Fredrik Sävenstrand)	14%	37.3%
Nordea Fonder	6%	2.0%
Avanza Pension	5%	1.8%
Handelbanken Fonder	5%	1.7%

SHARE INFORMATION	
Reuters code	ESGR
List	Spotlight
Share price	83
Total shares, million	6.54

MANAGEMENT & BOARD	
CEO	Fredrik Sävenstrand
CFO	Helena Wachtmeister
Chairman	Per Wassen

ANALYSTS
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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2023-06-18)

Rating	People	Business	Financials
5p	7	6	2
3p - 4p	145	145	38
0p - 2p	24	27	138
Total	178	178	178

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CONFLICT OF INTERESTS

Viktor Lindström owns shares in the company :No

Henrik Alveskog owns shares in the company : No

Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.