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Commissioned research: Ferronordic – Transformative US acquisition announced at an attractive multiple

Marketing material commissioned by Ferronordic

Ferronordic has entered into an agreement to purchase Rudd Equipment Company, Inc. ("Rudd"), one of the largest dealers of Volvo CE (~70% of Rudd's sales) in the United States with operations in nine states. The purchase price amounts to USD 105m (SEK 1.1bn) including two properties that are currently rented (worth USD 10m), corresponding to 6.4x EV/EBIT 2023E pro-forma (5.8x excluding the properties), based on Rudd's 2022 sales and earnings (5.4% EBIT margin). Note that this is pre any potential synergies or further expansion. In 2022, Rudd had sales of USD 308m with an EBIT of USD 16.5m and EBT of USD 16.4m (per IFRS). The acquisition adds 123% to Ferronordic's 2023E sales and 144% to EBT. It also lowers Ferronordic's P/E from 18x to 7x. We present more details and assumptions for our pro-forma analysis in the table below. **Conclusion:** at a first glance we are positive to the acquisition which is carried out at a multiple below Ferronordic's own and more than doubles its proforma earnings, while diversifying its sales base and also helps cover the previously too high central costs.

P&L EFFECT FROM THE ACQUISITION

	Ferronordic	Rudd	Adjustments	Pro-forma	Change
SEKm	2023E	2023E	2023E	2023E	
Sales	2,621	3,228	-	5,848	123.2%
EBIT	-42	173	-	131	nm
Projected synergies	-	-	0.0	-	-
EBIT incl. synergies	-	-	-	131	nm
Net financials	108	-	-	-	-
Financing cost of acquisition	-	-	-77.0	-	-
Net financials, pro-forma	-	-	-	30.9	-
Pretax profit	66	173	-	162	144.3%
Tax	-13	-36	16.2	-33	156.0%
Tax rate	19.4%	21.0%	-	20.4%	0.9pp
Minorities	0	-	-	0	-
Net profit	53	136	-	129	141.5%
EPS	3.68	-	-	8.89	141.5%
Shares (m)	14.5	-	0	14.5	0.0%
P/E	17.7	-	-	7.3	-10.4x
Share price	65.15	-	-	65.15	-

Deal details and assumptions

Total price offer (EV)	1,099				
- of which cash	1,099	100% of EV			
- of which shares	0	0% of EV			
Price tag, EV/EBIT 2023E	6.4x				
Price tag, EV/S 2023E	0.3x				
EBIT margin of Rudd	5.4%				
Projected synergies	0				
Synergies as % of added sales	0%				
Financing cost	7.0%				
Tax rate of Rudd	21.0%				

Source: Nordea Markets

Note that the calculations above assume full year impact. All numbers in SEK.

SUMMARY TABLE - KEY FIGURES

SEKm	2020	2021	2022	2023E	2024E	2025E
Total revenue	4,635	6,211	5,621	2,621	2,371	2,470
EBITDA (adj)	503	576	455	42	102	126
EBIT (adj)	330	510	372	-42	18	40
EBIT (adj) margin	7.1%	8.2%	6.6%	-1.6%	0.8%	1.6%
EPS (adj, SEK)	15.36	25.23	17.40	3.68	2.04	3.16
EPS (adj) growth	-13.4%	64.3%	-31.1%	-78.8%	-44.7%	55.3%
DPS (ord, SEK)	7.50	0.00	7.50	0.10	1.18	2.02
EV/Sales	0.5	0.8	0.0	0.1	0.1	0.1
EV/EBIT (adj)	6.9	10.0	0.4	n.m.	8.5	3.3
P/E (adj)	10.2	13.4	4.4	18.2	32.9	21.2
P/BV	2.8	4.4	0.6	0.5	0.5	0.5
Dividend yield (ord)	4.8%	0.0%	9.8%	0.1%	1.8%	3.0%
FCF Yield bef A&D, lease adj	28.1%	4.9%	-10.7%	-13.0%	11.3%	3.6%
Net debt	-20	199	-957	-713	-821	-839
Net debt/EBITDA	0.0	0.4	-1.2	-17.0	-8.0	-6.7
ROIC after tax	22.0%	36.4%	25.1%	-3.1%	1.3%	3.0%

Source: Company data and Nordea estimates

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Best regards,

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