Case Yepzon

Repo Media company review

Yepzon: Summary

Pet and kid trackers
Yepzon provides wearable GPS tracking devices. Combined with a smart phone app, the devices allow users to keep track of, for example, pets, people and valuables.

Competitive advantage based on technology and service
Yepzon's competitive advantage is based on the data transfer technology of their tracking device and their cloud service for tracking data. Yepzon provides connectivity and tracking data in collaboration with their telecom operator partners.

Valuation
The company's pre-money valuation is 9.96 MEUR. The valuation of the company's equity offering is based on growth estimates and a growing customer base. The company has 15,000 active subscriptions by monthly paying customers. The company's customer base value is measured in millions. With the growing number of customers and monthly payments, the valuation is justified. A possible scenario is that the company is acquired by a larger company, which supports the equity offering valuation.

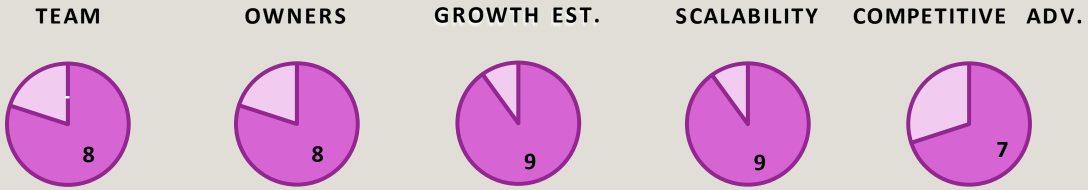
Summary
Field of business: Tracking technology
Investment range: €450,000–1,300,000
Equity offered: 4.32–11.55%
Price per share: 2.35 EUR
Number of existing shares: 4,236,271
Pre-money valuation: €9,955,236
Uses of funds: To grow existing pipelines and expand international sales

Personnel: 8

Pre-money valuation

Equity offering valuation	€9.96 M
Price per share	€2.35

Repo Media scoring (1-10) **Company total score = 8**



Yepzon

Reducing the number of missing children
Yepzon was founded by Otto Linna and a few other co-founders. They combined their expertise in the fields of information technology, children's clothing and retail to help find missing people.

Yepzon provides GPS technology based devices and data connection services.

The Yepzon tracking devices are small tags which can be placed on a pet's collar, in a child's jacket pocket or in a car's glove compartment.

Two different devices
Yepzon offers two different tracking devices, Yepzon Freedom and Yepzon One. Yepzon Freedom has a built-in alarm system. With the help of the device, a person in distress can be located using a smart phone. Yepzon also provides industrial devices for the logistics industry.

With the device, Yepzon offers a monthly payment-based service package which includes unlimited data transfer and device support.

The devices are sold for €75–150 depending on the model and point of sale. The monthly service package (unlimited data) costs €9.95 per month.

Channels in place
The devices are sold by several online retail stores, including Yepzon's own webstore. In Finland, the devices are available at Motonet and Verkkokauppa.com. Telecom operator Elisa sells Yepzon's device with its own data package. In the Nordic Countries, Yepzon uses distributors such as ALSO, Ingram and retail store Elkjöp (Gigantti). In North America, Amazon USA sells Yepzon devices. Yepzon has also licenced its product to PocketFinder in the USA. In the United Kingdom, the devices are available from Amazon UK.

Management / key staff	
Otto Linna	CEO
Heidi Rantala	CMO
Juha Ritala	CTO
Juha Kiesi	CEO, Yepzon USA
Antti Halonen	CFO
Jonne Haakana	CSO
Ashish Deswal	CEO, Yepzon India

Board of Directors	
Otto Linna	Chairman of the Board
Mervi Airaksinen	Board Member
Antti Halonen	Board Member
Lars-Michaël Paqvalén	Board Member
Jari-Jukka Pietarinen	Board Member
Jouni Vaarala	Board Member

Owners	
Otto Linna	23.2%
Sign Systems Finland Oy	4.2%
Jani Hätönen	4.2%
Mikko Nissinen	3.8%
Amor & Labor Oy	3.6%
Haloan Oy	3.3%
Antti Nieminen	3.2%
Magic Ace Oy	3.0%
Olli Gestranius	2.7%
Arto Jalonen	2.7%
Eficaz Capital Oy	2.6%

Yepzon business model

Business model
Yepzon uses a subcontractor to manufacture its tracking devices. The majority of the production costs are paid during delivery or after delivery. The fact that the company is able to sell the product before paying the subcontractor is good for the effective use of working capital.

Yepzon works with distributors in getting the devices to retail stores. With telecom operators, Yepzon concludes direct contracts. Yepzon has also licenced its product to PocketFinder in the USA, who is a major customer of Yepzon. The device is relatively widely available in web stores in the Nordic countries and in the USA, where Amazon sells the devices.

Yepzon has had steady sales growth from the beginning. The company is not yet profitable but it expects to be cash flow positive in the second half of 2018.

Yepzon has separate companies in the USA and in India which handle import and delivery. Yepzon has eight employees, seven of whom are involved in product sales.

Strategy
Yepzon has three main channels: retail, operators and industrial licencing. Industrial licencing and integrations into third party products are expected to open new channels. The biggest growth is expected in pet tracking and industrial solutions. Service sales support device sales and are also more profitable.

Repo media

Yepzon business environment

Business environment and competitor landscape

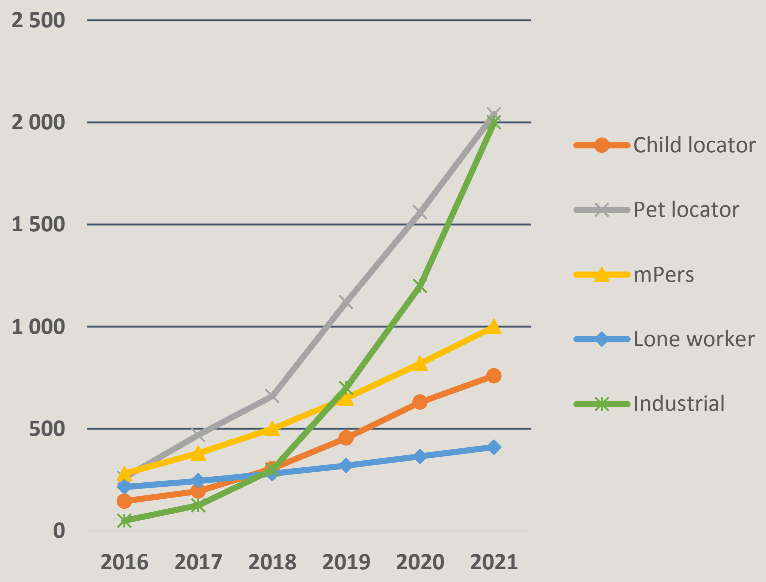
The main target market is the USA (50% of sales) and the Nordic countries (40% of sales). Yepzon is targeting the USA where demand is strong and consumers have good purchasing power. Additionally, Yepzon is going to expand its sales in the Nordics, the UK and India. So far, Yepzon has sold a total of 30,000 tracking devices.

Yepzon offers two different devices for consumers. Yepzon One is for child and pet tracking. Yepzon Freedom is for locating lone workers and elderly people. The third product, Yepzon Coco, is designed for industrial use for tracking cargo.

There are several competitors in the tracking device market. Global competitors include Trackimo, Pebbel and Trax. All of their devices are sold on Amazon for approximately the same price. Yepzon's idea to utilize WiFi as well as GPS, GSM and Bluetooth for locating differentiates Yepzon from its competitors. As far as we know, Yepzon is the only one using WiFi technology in tracking devices.

Yepzon benefits from its data and user support services. Yepzon uses operator networks for their devices. The company has partnered up with telecoms Telia, Elisa, Orange and Deutsche Telekom. Compared to Chinese device manufacturers, Yepzon is able to provide much more than just a device.

Tracking device manufacturers also have to pay Google for tracking data, which limits competition and the arrival of new entrants. Yepzon's monthly payment based services finance its payments to Google. Many of the competitors lack a monthly payment-based service and do not sell data packages, which makes their profit margins lower.



North America and Europe locator sales, thousand units annually.
Source: Bergh Insight & VALOR

Market potential (supply and demand)

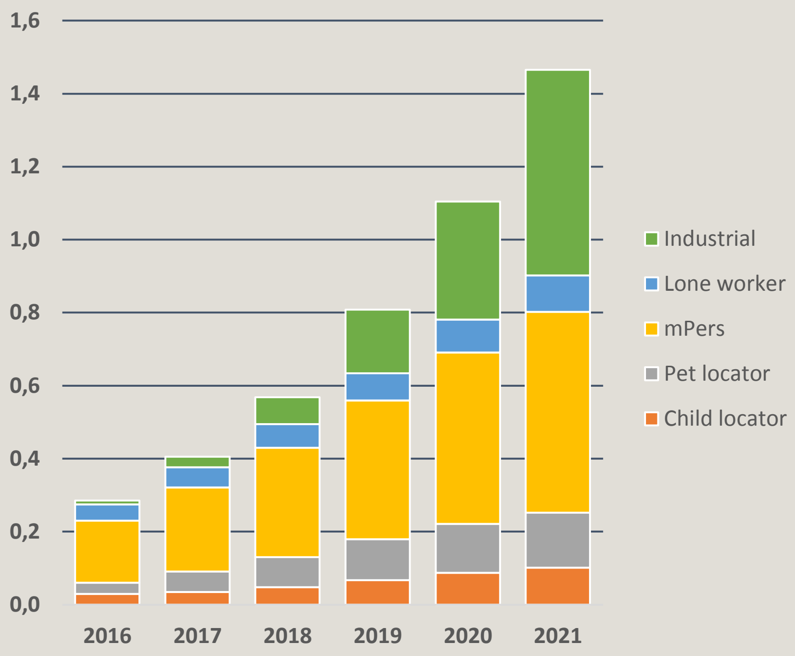
Tracking device market

Demand for tracking devices has grown as the technology has improved and the size of the devices has gotten smaller. Many small growth companies have emerged. Acquiring market share in a growing market is much easier than in a stable market. Entry barriers are low for tracking device manufacturers but getting the products to distributors and retail stores is harder. Moreover, tracking device sellers have to pay Google for tracking data. Yepzon has managed to get a head start compared to many of its competitors.

The tracking device market grew 35% in 2016. Markets are expected to have an average annual growth rate of over 40% between 2016 and 2021. As a result, market volume is expected to increase sixfold between 2016 and 2021. In terms of revenue growth, the industrial business revenues are expected to grow the most rapidly. The global GPS tracking device market is expected to reach $3.5 billion in the year 2019.

Yepzon has its strongest foothold in the child tracking category, which is expected to grow over 35% per annum between 2016 and 2021. Yepzon will also invest in pet and industrial tracking, which is expected to grow more than 50% per annum. Yepzon's target is to reach a 15–20% market share globally in the tracking device market by the year 2021.

The tracking device market for animal and human locators is decentralized for small and medium sized growth companies. At the moment, there are no major global companies in the market. New entrants are entering the market constantly, but most of them are device manufacturers without a service concept. However, the growing market may also become interesting to global giants such as Samsung. We may see consolidation in the industry when the global giants start entering the market.



North America and Europe, locator market revenue, billion euros.
Source: Bergh Insight & VALOR

Repo media

Yepzon investment case

Investment case built on strong growth estimates
Yepzon is a growth company pursuing rapid growth and expansion in international markets. Its investment case is built on strong growth estimates and positive future cashflows. At the moment, Yepzon's costs are larger than its revenues but this is typical for a growth company.

Strengths
The company's strengths include product design and good management. The management team is capable of finding the right sales channels and understands the retail business. The design of the product motivates customers to make a purchase decision.

Weaknesses
The company's weakness may lie in its lack of experience of the challenges involved in a rapid growth strategy. Will production be able to keep up with demand? How will financing be arranged to support rapid growth?

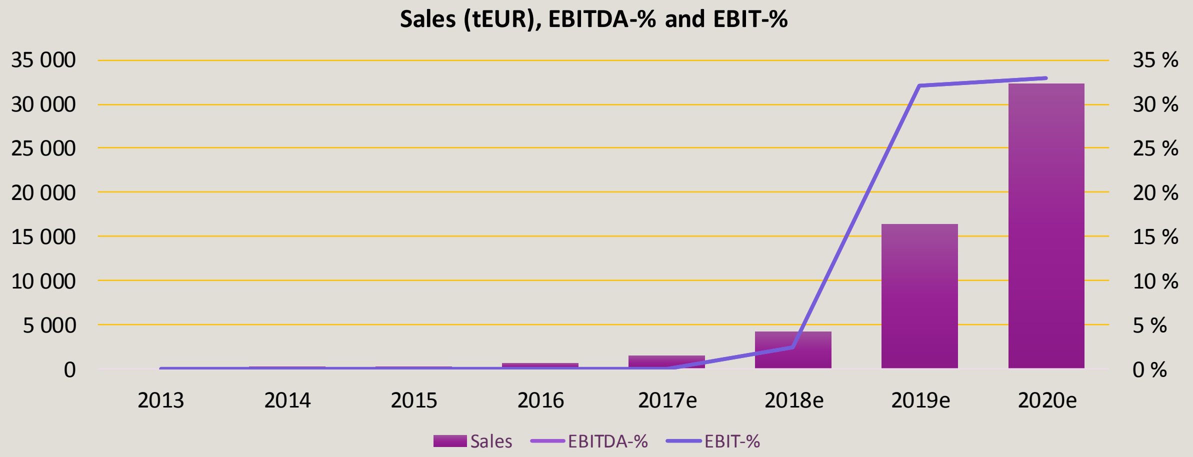
Opportunities
Yepzon has good business opportunities and is well-positioned in the market. Yepzon's service concept is a great opportunity to improve margins and get committed customers in a monthly payment-based user base. Good opportunities also lie is in the industrial licensing business and in the logistics industry.

Threats
Major threats are posed by global giants who may enter the market and acquire market share more rapidly than the company.

Valuation and drivers
Yepzon conducted an equity offering at the start of the year 2017 with the same valuation and price per share than in the current offering. The company collected €800,000 from the investors at €2.35 per share. Value drivers include rapidly growing revenues, a growing monthly payment-based customer base and the company's ability to turn cashflow positive.

Exit
According to our knowledge acquisitions valued up to 100 million has been made in the field of tracking devices. The acquisitions have been completed when the target has had over 100.000 subscribers. Yepzon has today approximately 15.000 paying subscribers.

Yepzon Key figures



	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Sales	**0**	**187**	**280**	**605**	**1 500**	**4 180**	**16 330**	**32 300**
Sales growth-%	*0 %*	*0 %*	*50 %*	*116 %*	*148 %*	*179 %*	*291 %*	*98 %*
EBITDA (adj.)	**-6**	**-59**	**-386**	**-686**	**-129**	**104**	**5 230**	**10 659**
EBITDA-%	*0 %*	*0 %*	*0 %*	*0 %*	*0 %*	*2 %*	*32 %*	*33 %*
EBIT (adj.)	**-6**	**-97**	**-647**	**-1 084**	**-129**	**104**	**5 230**	**10 659**
EBIT-%	*0 %*	*0 %*	*0 %*	*0 %*	*0 %*	*2 %*	*32 %*	*33 %*

Source: Yepzon Oy

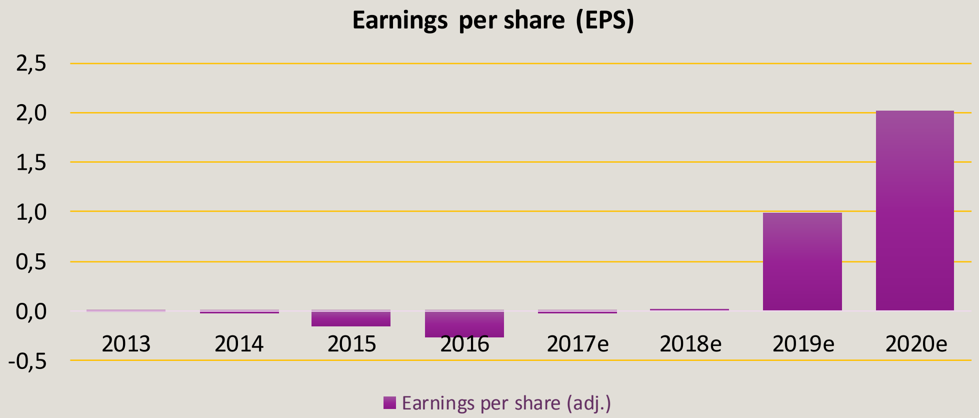
Value drivers

The value drivers include rapidly growing revenues, the growing monthly payment-based customer base and the company's ability to turn cashflow positive. The design of the product is considered as strength and will help to increase sales. Growing demand and the growing market will increase the likelihood of value creation. The service business is more profitable than the device business, which will add value to the company.

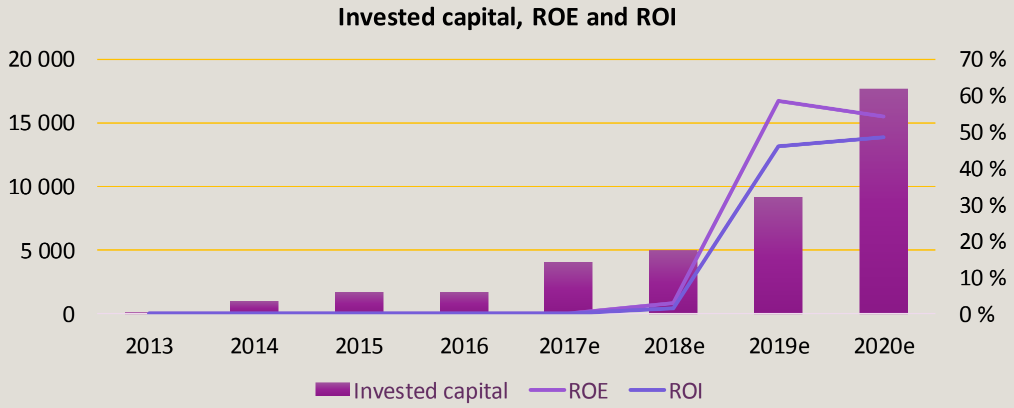
Risks

A major risk is a global tech giant like Samsung entering the market and acquiring more market share more rapidly than Yepzon. Political decisions and regulation concerning tracking data may pose certain risks for the company. Further risks involve future recruitment, loss of expertise and information leaks.

Yepzon performance measures (1/2)



	2013	2014	2015	2016	2017e	2018e	2019e	2020e
ROE	0 %	0 %	0 %	0 %	0 %	3 %	58 %	54 %
ROI	0 %	0 %	0 %	0 %	0 %	2 %	46 %	48 %
ROA	0 %	0 %	0 %	0 %	0 %	1 %	38 %	44 %
P/E	0,0	0,0	0,0	0,0	-	119,7	2,4	1,2
P/B	0,0	0,0	0,0	0,0	3,4	3,3	1,4	0,6
EV/Sales	0,0	0,0	0,0	0,0	6,5	2,5	0,6	0,3
EV/EBITDA	0,0	0,0	0,0	0,0	-	101,0	2,0	1,0
EV/EBIT	0,0	0,0	0,0	0,0	-	101,0	2,0	1,0
Earnings per share (adj.)	0,0	0,0	-0,2	-0,3	0,0	0,0	1,0	2,0

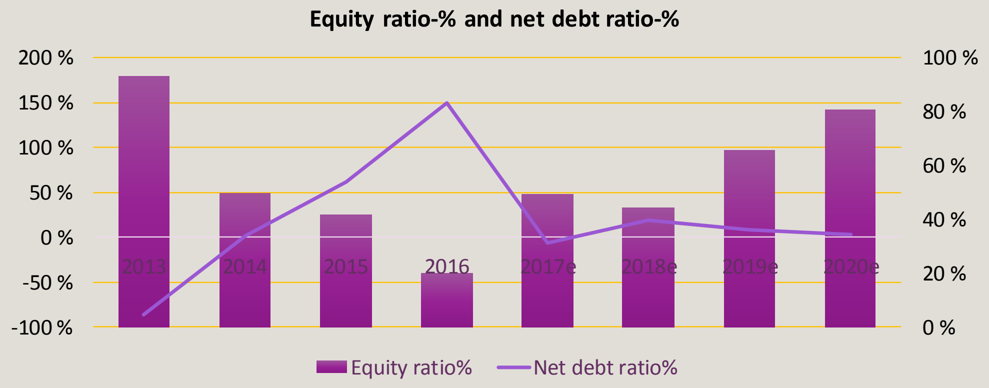


Performance and profitability

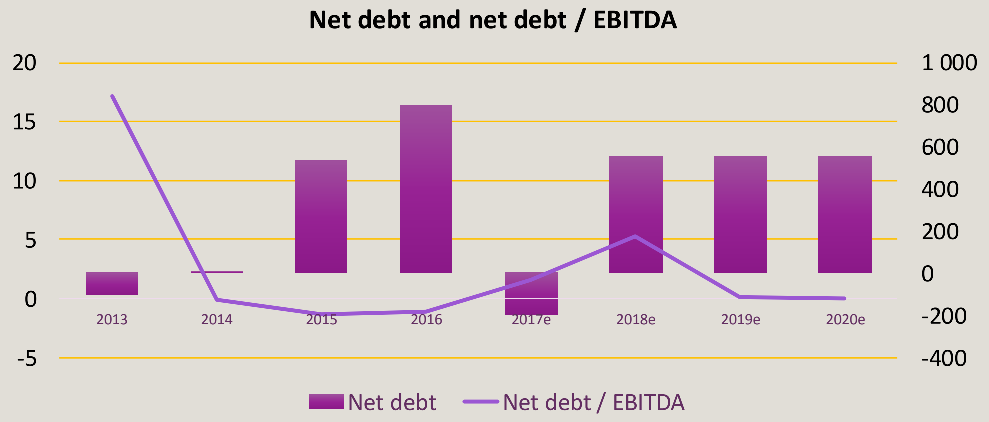
At the moment, Yepzon's costs are higher than its revenues but this is typical for a growth company. The company aims at positive cash flow by the end of 2018. The performance measures in the table are calculated based on the company's own forecasts and the value of the equity offering is used in the valuation.

Source: Yepzon Oy

Yepzon Balance sheet ratios (2/2)



	2013	2014	2015	2016	2017e	2018e	2019e	2020e
Equity ratio%	93 %	50 %	42 %	20 %	49 %	44 %	66 %	81 %
Debt ratio-%	0 %	42 %	97 %	224 %	41 %	65 %	27 %	12 %
Net debt ratio%	-87 %	1 %	62 %	149 %	-7 %	19 %	8 %	4 %
Net debt / EBITDA	17,2	-0,1	-1,4	-1,2	1,5	5,3	0,1	0,1
Total assets	128	1 399	2 074	2 688	5 915	6 748	10 932	19 459
Shareholders equity	119	696	868	535	2 897	2 980	7 164	15 691
Interest bearing debt	0	292	838	1 201	1 198	1 948	1 948	1 948
Cash and cash equivalents	103	285	303	403	1 396	1 396	1 396	1 396
Non-interest bearing debt	8	411	367	951	1 820	1 820	1 820	1 820
Invested capital	119	988	1 706	1 736	4 095	4 928	9 112	17 639
Net debt	-103	7	535	798	-198	552	552	552



Balance sheet ratios
After the equity offering, the company has the possibility to get funding from the Finnish Funding Agency for Innovation (Tekes) in the total amount of €750,000. If the equity offering is successful, it will enable the company to get Tekes funding and in total this would mean nearly 2 million euros in funding for the company. This has been taken into account in the balance sheet estimates.

Source: Yepzon Oy

Repo media

Yepzon Risk profile

Total risk = 5
(1 = very low risk, 2 = low risk, 3 = neutral risk, 4 = high risk, 5 = very high risk)

Sales
Cyclical sales = 4
Variation of sales = 5
Income diversification = 4

Risk measure = 4

Cost structure
Fixed costs = 5
Investments and profitability = 5

Risk measure = 5

Capital investments
Operating cash flow variation = 5
Capital intensity and financing = 5

Risk measure = 5

Sales risk
The tracking device market is quite young and there is not much history to measure against. For a growth company, variation in sales can be significant. Sales forecasts may also involve uncertainty. Income consists of device sales and service sales. Service sales compensate for total sales variation because of stable income from monthly charges. The sales risk measure is high.

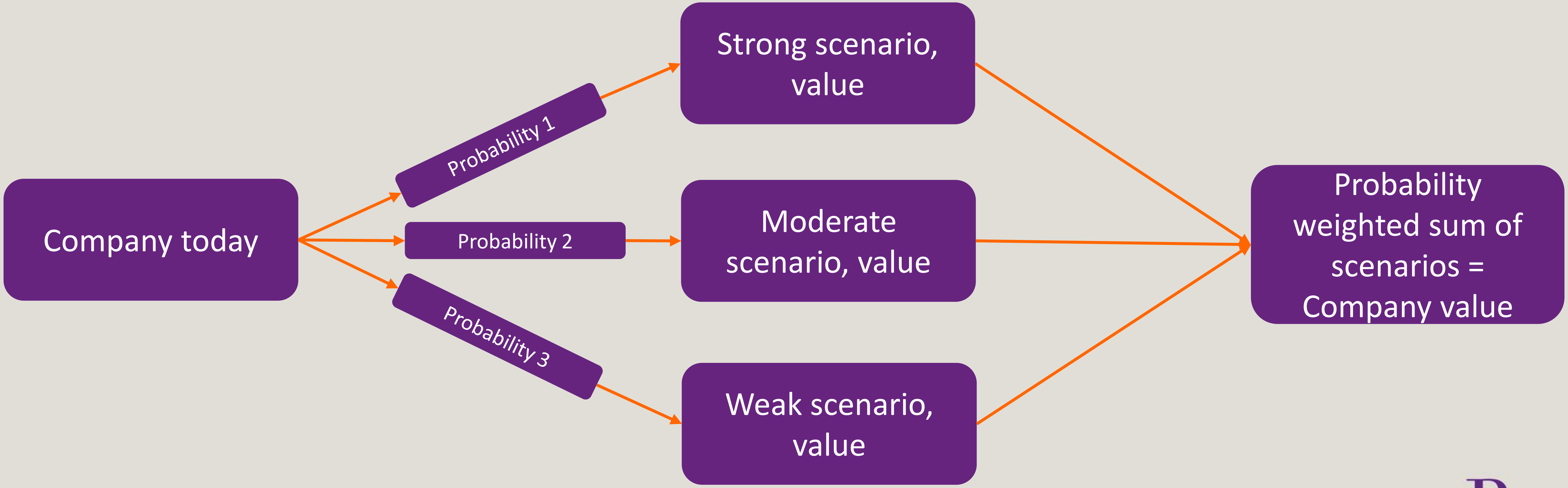
Cost structure risk
Production and sales related costs dominate the overall cost structure. Total costs are bigger than revenue at the moment. The investments in international expansion and sales are large in proportion to net sales. The cost structure risk is very high.

Capital investment risk
Operating cash flow variation can be significant for a growth company. The company's investments in sales and international expansion will have a major effect on cash flow. The company may need to arrange for additional financing to boost its growth plans. The capital investments risk is very high.

Repo Media valuation method

Company valuation

Repo Media's valuation method is based on the probabilities of different scenarios. Repo Media applies the First Chicago business valuation method, which was developed in the United States and is widely used by venture capitalists. In three different scenarios (strong, moderate and weak), forecasted future cash flows are discounted to a present value with the company specific weighted average cost of capital (WACC). The present values of all three scenarios are weighted with the probability of each scenario. The company value is calculated with the probability weighted sum of each scenario. The probability of each scenario is based on 1) estimated variance of EBITDA-% and 2) Repo Media scoring matrix and 3) company risk profile.



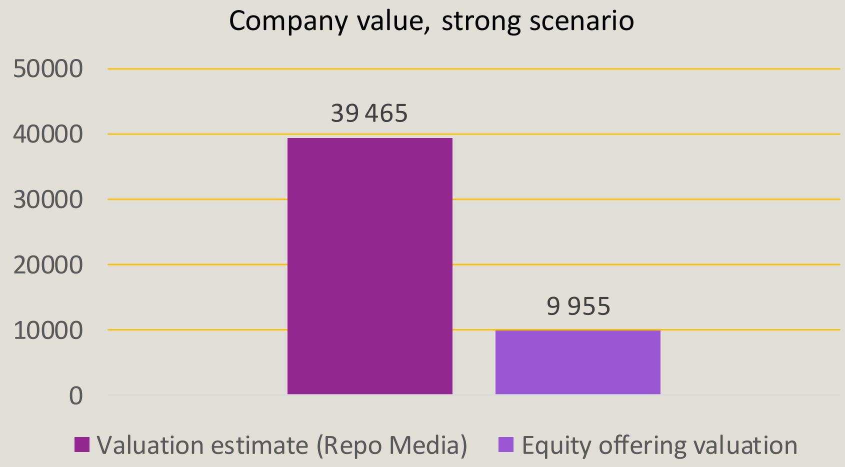
Yepzon, strong growth scenario

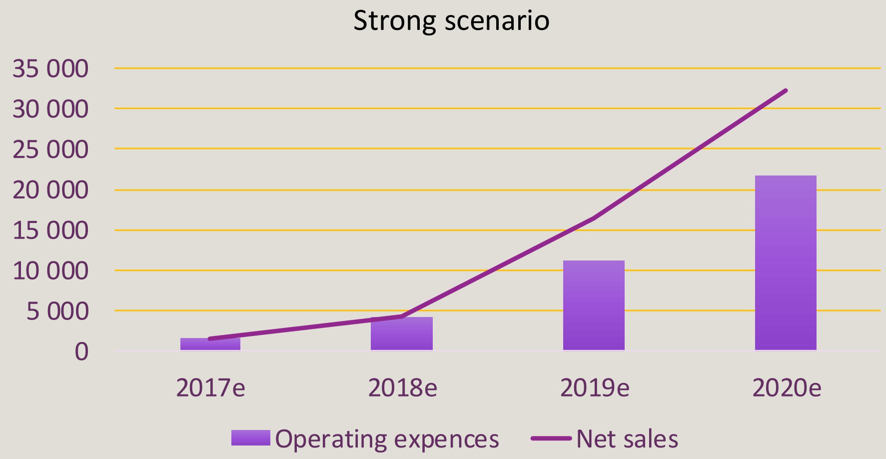
	tEUR
Valuation estimate (Repo Media)	39 465
Price per share (estimate)	9,32

Equity offering valuation	9 955
Price per share (offering price)	2,35

Comment, strong scenario
In the strong scenario, the company's net sales will reach 30 million in the year 2020. The discounted cash flow method gives a valuation estimate of 39.5 million for equity. The strong scenario is based on the company's own sales forecast and operating cost forecasts. Forecasted cash flows are discounted in their current value, using a company-specific discount rate (cost of capital). Terminal growth is adjusted at 4%. In the strong scenario, revenue growth is on average +178% (CAGR-%) per annum. The probability of the strong scenario is 18%.

Cost of capital (WACC)	
Tax %	20 %
Target level of debt (D/D+E)	30 %
Cost of debt	4 %
Beta	3,52
Market risk premium	5 %
Risk-free rate	3 %
Cost of equity	21 %
Weighted avg. cost of capital (WACC)	15 %





Repo media

Yepzon, moderate growth scenario

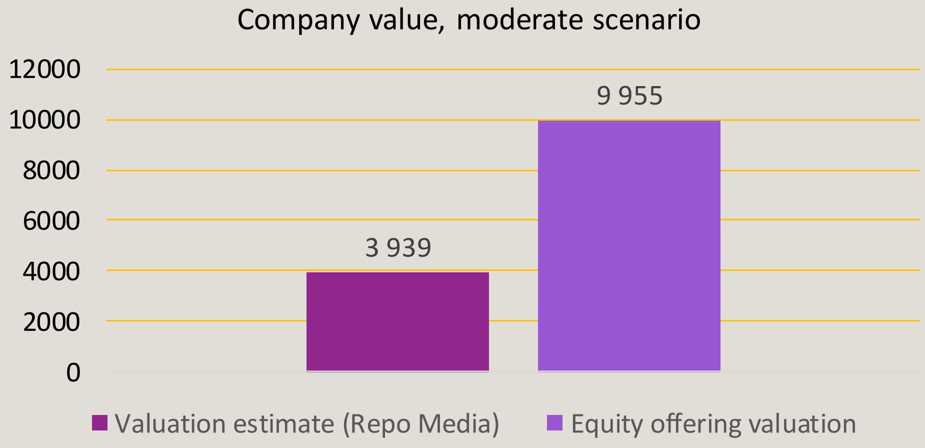
	tEUR
Valuation estimate (Repo Media)	3 939
Price per share (estimate)	0,9

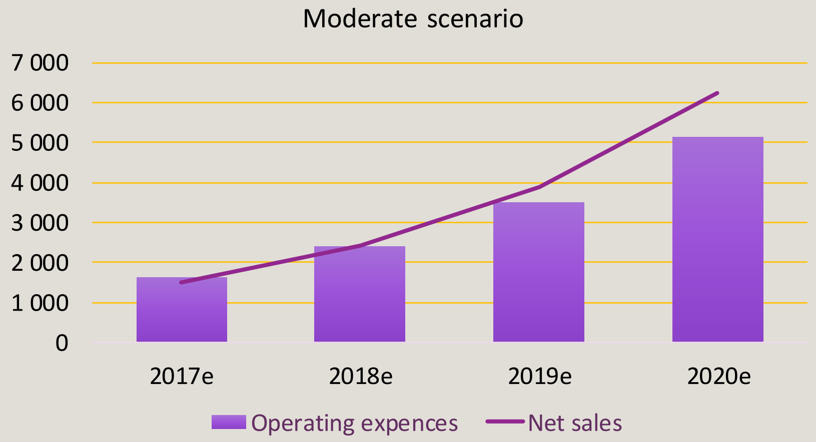
Equity offering valuation	9 955
Price per share (offering price)	2,35

Cost of capital (WACC)	
Tax %	20 %
Target level of debt (D/D+E)	30 %
Cost of debt	4 %
Beta	3,52
Market risk premium	5 %
Risk-free rate	3 %
Cost of equity	21 %
Weighted avg. cost of capital (WACC)	15 %

Comment, moderate growth scenario

In the moderate scenario, we have estimated the company net sales to reach 6.0 million in the year 2020. The discounted cash flow method gives a valuation estimate of 3.9 million for equity. The moderate scenario is based on the company's own sales forecast and operating cost forecasts from where the scenario estimates have been derived. The probability of the moderate scenario is 50%.





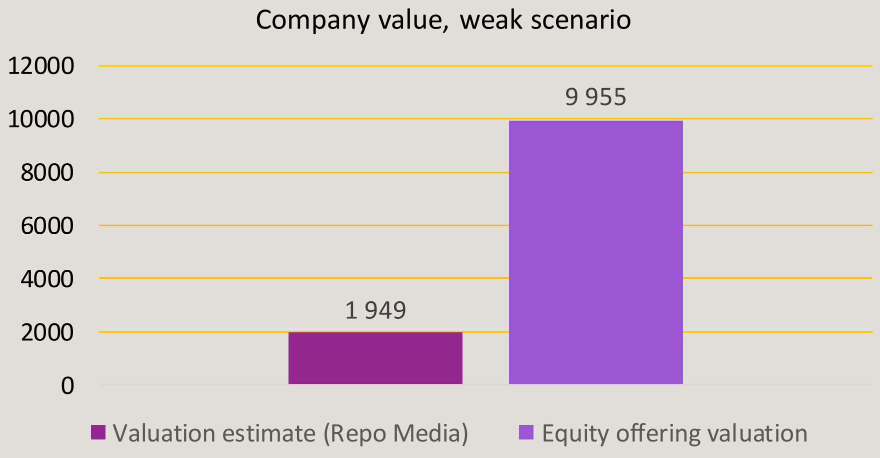
Yepzon, weak growth scenario

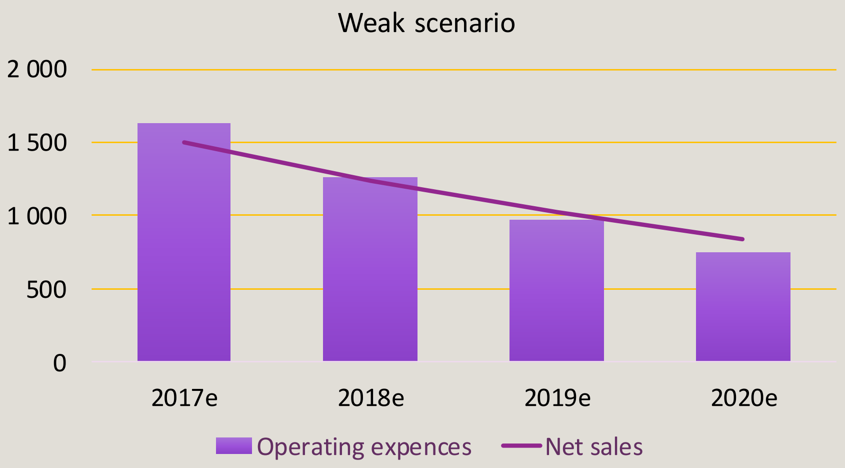
	tEUR
Valuation estimate (Repo Media)	1 949
Price per share (estimate)	0,5

Equity offering valuation	9 955
Price per share (offering price)	2,35

Cost of capital (WACC)	
Tax %	20 %
Target level of debt (D/D+E)	30 %
Cost of debt	4 %
Beta	3,52
Market risk premium	5 %
Risk-free rate	3 %
Cost of equity	21 %
Weighted avg. cost of capital (WACC)	15 %

Comment, weak scenario
The discounted cash flow method gives a valuation estimate of 1.9 million for equity. In the weak scenario, net sales will decrease on average -17% per annum. The weak scenario is a pessimistic estimate of the company's future development where most risks are realized. The probability of the weak scenario is 32%.





Repo media

Yepzon, probability of scenarios

Strong scenario
18%

Moderate scenario
50%

Weak scenario
32%

Company value

	Value t€	Probability
Strong scenario	39 465	18 %
Moderate scenario	3 939	50 %
Weak scenario	1 949	32 %
Probability weighted average	9 697	

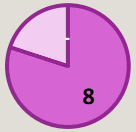
Probability weighted company value (pre-money) **9 697 000 euros**

Comment
Valuation is based on the First Chicago method. In the three different scenarios (strong, moderate and weak), the forecasted future cash flows are discounted to a present value using the company-specific weighted average costs of capital (WACC). The present values of all three scenarios are weighted with the probability of each scenario. The business value is calculated using the probability weighted sum of each scenario. The probability of each scenario is based on 1) the estimated variance of the EBITDA-% and 2) the Repo Media scoring matrix and 3) the company risk profile.

Repo media

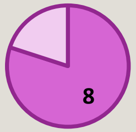
Repo Media scoring = 8 (scale 1-10)

TEAM



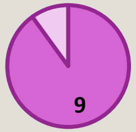
Team
Based on our evaluation, we recognize the management's expertise and ability to develop business and to create long term value for the company. The CEO has previous experience from a similar position, having worked as the CEO of a local radio channel. The CEO has a good track record of turning around business operations. The team has diverse experience from the consumer business and consumer marketing. The team members have also been granted options to buy company shares. The total score for the team is 8.

OWNERS



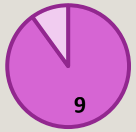
Owners
The major owner of the company is CEO Otto Linna with 23%. The company has more than 100 individual owners since the last financing round. We argue that the ownership structure and the owners' commitment are favourable for long-term value creation. The total score for the owners is 8.

GROWTH EST.



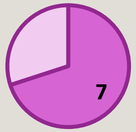
Growth estimate
The growth estimate is based on the underlying market growth and the company's growth estimates. There are many competitors in the market but the company has positioned itself well and already has channels and operator partners in place. The team has the ability to establish connections and channels and create long-term relationships. They have gotten a good head start compared to new entrants. The company is able to acquire market share in the fast-growing market. The total score for the growth estimate is 9.

SCALABILITY



Scalability
The company's business model is scalable and enables a fast growth strategy. Production has been diversified to Finland and India. The company has the required expertise and know-how in sales and marketing to consumers. Business growth depends on the success of establishing new sales channels and getting new customers around the world. Based on our evaluation, the total score for scalability is 9.

COMPETITIVE ADV.



Competitive advantage
The company's competitive advantage lies in its business model which combines device sales and a service concept. The company has registered trademarks for the company name and slogan. The design of the product is protected by patents in the EU and China. In the USA, patent is pending for the design. The company has no legal protection for the technology of the device. The competitive advantage is not sustainable in the long term but the company got a decent head start compared to its competitors. The total score for competitive advantage is 7.

Repo media

Repo Media scoring definition

The purpose of Repo Media scoring is to present a structured and holistic view of a company's quality and its ability to create value and achieve long term growth. Repo Media's scoring scheme contains five different categories. The categories are: Team, Owners, Growth, Scalability and Competitive advantage. Each category is evaluated on a scale of one to ten (1-10). The categories are evaluated from both a qualitative and a quantitative perspective and each variable is weighted with the importance assigned to each variable in the category. Each variable is evaluated on a scale of one to ten and the total score of each category is the average score, which forms the foundation of the overall score.

Team

The evaluation of the team examines the ability of the management, other key staff and the Board of Directors to lead the company and reach the targets set by the company owners. Great management can transform a mediocre business plan into a profitable business, while poor management can turn a great business plan into a malfunctioning business. The evaluation of the team addresses the following variables: key staff's experience in the industry, managing director's overall management and leadership experience and industry-specific experience, and their communication skills.

Owners

The evaluation of ownership and current shareholders examines the owners' long-term commitment and value creation for the company. The major owners' commitment and knowledge are key in long-term value creation, as are the orderly operations of the Board of Directors. In our experience, companies with a decentralized ownership structure are performing more moderately than companies with one major owner and clear will and power. The evaluation of owners involves the following variables: ownership structure, commitment, institutional owners, abuse of power, reputation and economical sustainability.

Growth estimate

The evaluation of growth estimates considers the maturity of the target market and the company's position on the market relative to its competitors. An industry with only a few or almost no competitors can give the company a great advantage. We also evaluate company business models and long-term growth estimates. The evaluation of a growth estimate involves the following variables: market capacity and maturity, degree of competition, market entry barriers, company position on the market.

Scalability

The evaluation of scalability involves the evaluation of a company's production and its products and services. The products and services are evaluated based on their ability to sell and create value for the customer and whether production allows rapid growth. The evaluation of scalability involves the following variables: productization, pricing, production, sales channels, marketing channels and sales costs.

Competitive advantage

The evaluation of competitive advantage involves the evaluation of a company's IPR and sources of competitive advantage. The evaluation of competitive advantage involves the following variables: IPRs, unique core competencies, key success factors, sustainability of competitive advantage.

Important information and disclaimer

Repo Media Oy (Repo Media) is a company analysis expert, with a special interest in unlisted Finnish companies. In addition to company analyses, Repo Media produces events and collects information for company analysis databases. Our aim is to provide investors with information which is simple, straightforward and easy to understand. Repo Media is an independent company.

This analysis was prepared for information purposes only. The information comes from a number of different public sources which Repo Media finds reliable. Repo Media does not guarantee the accuracy of the information provided. Any opinions, assessments or forecasts are those of Repo Media and involve uncertainties. Repo Media cannot guarantee that any forecasts will prove to be accurate. Repo Media encourages investors to base their investment decisions on information from several sources.

The information contained in the analyses and documents is as of the date indicated. The information may become outdated or change quickly. Repo Media assumes no obligation to update the reports, analyses or documents or to send updated information to users.

The analyses and documents produced by Repo Media shall not be copied or reproduced, edited, used in parts or disclosed to a third party without the written consent of Repo Media. The analyses and documents produced by Repo Media shall not be disclosed to a natural or legal person who is the citizen of a country where the distribution of such information is prohibited or restricted by applicable laws and regulations.

The analyses produced by Repo Media are case-based and they are not repeated regularly. The content of the analyses varies from analysis to analysis due to information availability reasons.

Repo Media or its employees shall not be liable for the financial consequences of any investment decisions made or for any damages (direct or indirect) caused by the use of the information. The client and the user of the information assume liability for all investment decisions made and the financial consequences thereof.

The valuation of a company is based on the probabilities of three different scenarios. Repo Media applies the First Chicago method, a business valuation method used by venture capital investors. In the three scenarios (strong, moderate, weak), the forecasted future free cash flows are discounted to a present value using the company's required return. The present values (business values) of the discounted cash flows under the three scenarios are weighted with the probability of each scenario. The final value of the investment is calculated using the weighted sum of each scenario. The probability of each scenario is calculated on the basis of the variance of the company's EBITDA-%, 2) the Repo Media scoring matrix and 3) the company-specific risk value.

Repo media

Notes

Repo Media Oy

www.repomedia.fi

Analyst Joni Nousiainen
tel. +358 45 155 88 85