

11th September 2018

## MiHome sales going through the roof

Whilst many investors were obviously tucking into their ice-creams over the school holidays, Jeff Wilke (CEO Worldwide Consumer) revealed that Amazon sold >1m smart home devices on 17<sup>th</sup> July alone (ED Est 4m-5m for all Q2'18) thanks to its annual 'Prime Day' promotion. The biggest 24 hours in its history.

The good news is that **this is having a hugely beneficial effect on Sandal's leading MiHome division**, where we reckon the e-commerce giant contributes c.50% of revenues. CEO Alan Tadd adding today: **"We are very encouraged by the growing demand for Smart Home, as demonstrated by some significant growth via Amazon this summer. Indeed between June to August, Amazon increased its sales of MiHome systems and devices by 330% and 442% respectively vs LY."**

## Demand via Amazon more than triples

Reinforcing once again that **the company has not only got its channel strategy absolutely right**, but also **its leading solutions are best-in-class**. Plus underpinning our financial projections and indicating **consumers love its home automation products** (see below). What's more, by 2023 Marc Allera (CEO of BT's Consumer Division) even thinks that ultimately **"the average UK house could own 50 connected devices"** - compared to 4.4x for MiHome today.

### Buoyant demand for MiHome's smart home solutions



Source: Internet

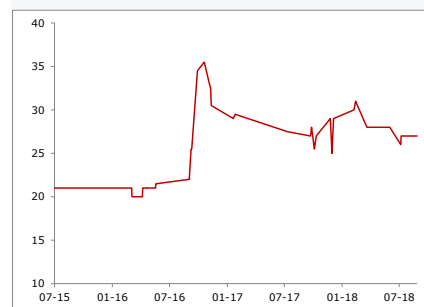
## Launch of new high growth 'Do It For Me' service

But that's not all. MiHome has also **just launched a new professional installer service** in partnership with Icon Heating Solutions who have assembled a network of suitably qualified electricians, plumbers and heating engineers. The package will initially cover the M5, M40 and M4 areas, where adoption is greatest. Albeit after being showcased at 6 trade-events over the coming months, the intention is to further roll it out nationally.

### Company Data

EPIC	NEX: SAND
Price	27p
52 week Hi/Lo	31p/25p
Market cap	£4.2m
ED SOTP valuation	65p/share

### Share Price, p



Source: ADVFN

### Description

Sandal (c.20 employees) is a specialist developer & supplier of electronic products/solutions for smart home, IoT, energy saving and other applications. It joined NEX in March '15 and operates 3 divisions:

- 1) MiHome – Smart Home devices and associated software solutions to remotely control heating, lighting, power and other internet enabled appliances at the touch of a button and/or by voice command. Partners include Amazon, Google, Howz, EDF.
- 2) PowerConnections sells a range of patented electricity/converter plugs, line-cords, extension leads, cordsets and adaptors in the UK, US, Europe, Switzerland, South Africa & Australia. Customers include major brands like Sony, Black & Decker and Bosch.
- 3) Energenie is a leading supplier of energy saving products (eg LEDs, sockets, etc) with retail listings at Homebase, Tool station and Amazon.

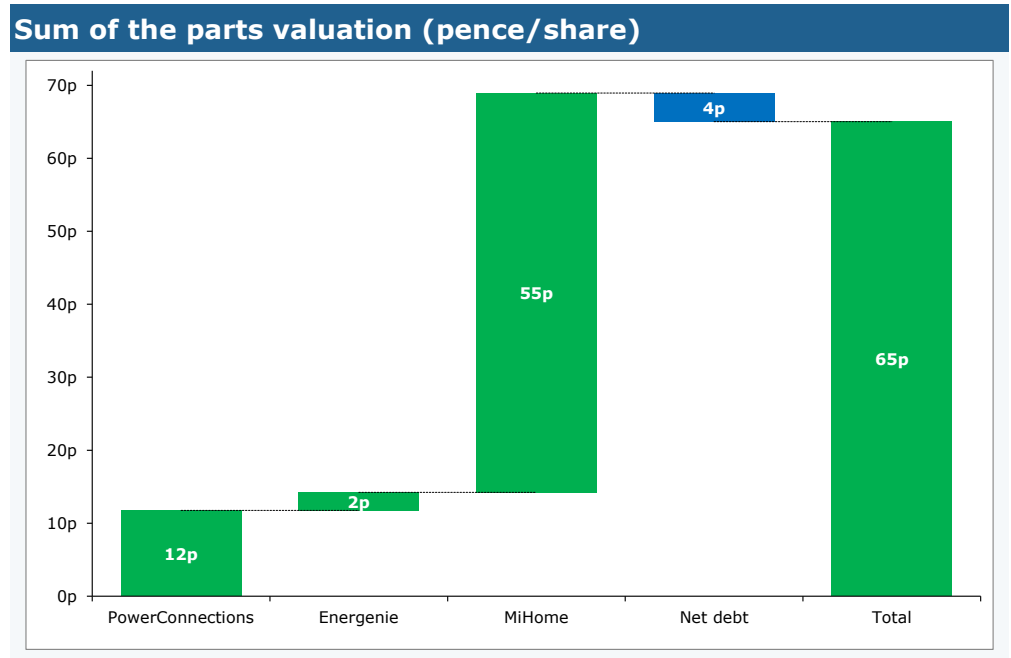
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This makes strategic sense, since the success of Centrica’s rival Hive system has already demonstrated the upside offered from the ‘done for me’ sector - where homeowners prefer a qualified field technician to install, connect and support their home networks. **Here, like MiHome, Hive are aiming to almost double turnover every year between 2017-2022.**

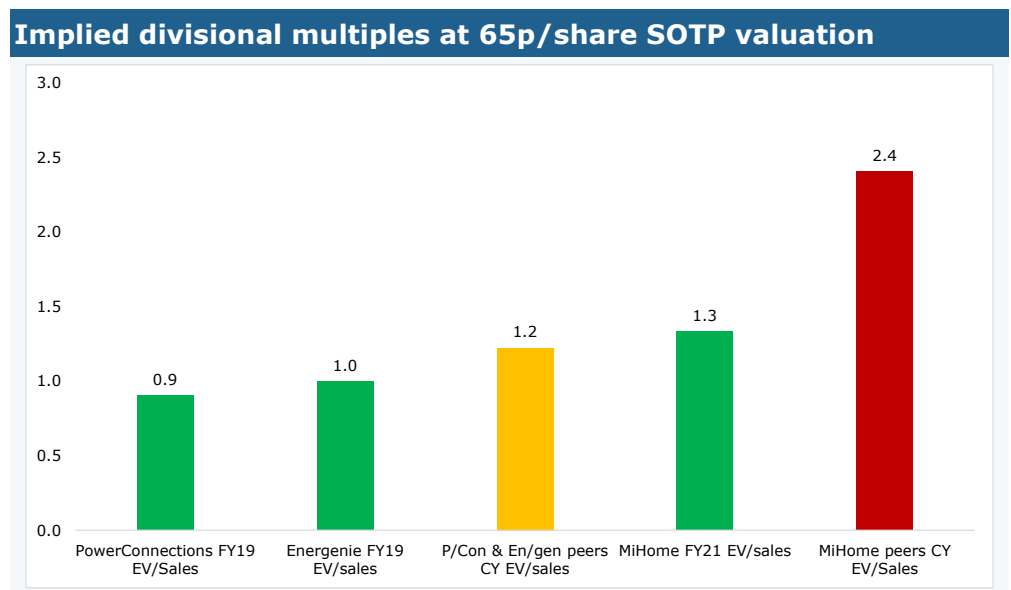
### Ok, so what is Sandal worth?

Well, based our **sum of the parts analysis, we value the stock at 65p/share**: split 12p PowerConnections, 55p MiHome, 2p Energenie and -4p net debt (see below).



Source: Equity Development

However, if the firm can deliver anywhere near its true potential, then even at 65p the stock will appear cheap vs peer group multiples (see below):



Source: Equity Development

Lastly **Sandal has continued to grow its user base at an increasing rate** and there are currently 13,935 gateway systems installed with 61,453 devices connected. The **company intends to launch a monthly subscription service over the next 12 months** which is expected to generate a recurring revenue stream from consumers for the first time.

### Summary financial projections (£'000s)

Sandal plc (May yearend)	2015 Act £000s	2016 Act £000s	2017 Act £000s	2018 Est £000s	2019 Est £000s	2020 Est £000s	2021 Est £000s	2022 Est £000s	2023 Est £000s	2024 Est £000s	2025 Est £000s
PowerConnections	2,680	2,527	2,754	2,250	2,318	2,387	2,459	2,532	2,608	2,687	2,767
ENERGENIE	649	556	450	400	440	484	532	586	644	709	779
MiHome	10	213	542	1,050	2,065	3,956	7,306	12,728	19,255	28,112	40,243
<b>Turnover</b>	<b>3,339</b>	<b>3,296</b>	<b>3,746</b>	<b>3,700</b>	<b>4,822</b>	<b>6,827</b>	<b>10,297</b>	<b>15,846</b>	<b>22,507</b>	<b>31,507</b>	<b>43,790</b>
PowerConnections		-5.7%	9.0%	-18.3%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
ENERGENIE		-14.4%	-19.1%	-11.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
MiHome		2110.4%	154.0%	93.9%	96.7%	91.6%	84.7%	74.2%	51.3%	46.0%	43.2%
% growth		-1.3%	13.7%	-1.2%	30.3%	41.6%	50.8%	53.9%	42.0%	40.0%	39.0%
PowerConnections				855	950	955	959	962	965	967	996
ENERGENIE				56	154	169	186	205	225	248	273
MiHome				494	950	1,780	3,215	5,473	8,087	11,596	16,399
<b>Gross Profit</b>	<b>1,343</b>	<b>1,141</b>	<b>1,385</b>	<b>1,405</b>	<b>2,054</b>	<b>2,905</b>	<b>4,360</b>	<b>6,640</b>	<b>9,278</b>	<b>12,811</b>	<b>17,668</b>
PowerConnections				38.0%	41.0%	40.0%	39.0%	38.0%	37.0%	36.0%	36.0%
ENERGENIE				14.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
MiHome				47.0%	46.0%	45.0%	44.0%	43.0%	42.0%	41.3%	40.8%
<b>% margin</b>	<b>40.2%</b>	<b>34.6%</b>	<b>37.0%</b>	<b>38.0%</b>	<b>42.6%</b>	<b>42.5%</b>	<b>42.3%</b>	<b>41.9%</b>	<b>41.2%</b>	<b>40.7%</b>	<b>40.3%</b>
<b>EBITDA</b>	<b>-234</b>	<b>-114</b>	<b>-17</b>	<b>-112</b>	<b>316</b>	<b>624</b>	<b>1,212</b>	<b>2,192</b>	<b>3,399</b>	<b>5,106</b>	<b>7,521</b>
% margin	-7.0%	-3.5%	-0.4%	-3.0%	6.5%	9.1%	11.8%	13.8%	15.1%	16.2%	17.2%
PowerConnections	350	245	350	180	232	233	234	234	235	235	235
ENERGENIE & MiHome	-667	-470	-459	-426	-78	186	669	1,482	2,489	3,926	5,972
<b>Adj. EBIT</b>	<b>-317</b>	<b>-225</b>	<b>-109</b>	<b>-246</b>	<b>154</b>	<b>419</b>	<b>903</b>	<b>1,716</b>	<b>2,724</b>	<b>4,161</b>	<b>6,207</b>
PowerConnections	13.1%	9.7%	12.7%	8.0%	10.0%	9.8%	9.5%	9.3%	9.0%	8.8%	8.5%
ENERGENIE & MiHome	-101.3%	-61.1%	-46.3%	-29.3%	-3.1%	4.2%	8.5%	11.1%	12.5%	13.6%	14.6%
<b>% EBIT margin</b>	<b>-9.5%</b>	<b>-6.8%</b>	<b>-2.9%</b>	<b>-6.6%</b>	<b>3.2%</b>	<b>6.1%</b>	<b>8.8%</b>	<b>10.8%</b>	<b>12.1%</b>	<b>13.2%</b>	<b>14.2%</b>
<b>Adj. Profit before Tax</b>	<b>-327</b>	<b>-268</b>	<b>-135</b>	<b>-289</b>	<b>104</b>	<b>364</b>	<b>868</b>	<b>1,706</b>	<b>2,724</b>	<b>4,161</b>	<b>6,207</b>
<b>Adjusted EPS (p)</b>	<b>-177.0</b>	<b>-0.5</b>	<b>0.0</b>	<b>-1.8</b>	<b>0.5</b>	<b>1.9</b>	<b>4.4</b>	<b>8.7</b>	<b>13.8</b>	<b>20.9</b>	<b>31.1</b>
EPS growth rate		-99.7%	-109.5%	-3952.1%	-129.2%	249.1%	137.1%	95.7%	58.8%	52.0%	48.4%
<b>Dividend (p)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.8</b>	<b>4.2</b>	<b>6.2</b>
Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.2%	15.5%	23.0%
<b>Valuation benchmarks</b>											
P/E ratio					50.5	14.5	6.1	3.1	2.0	1.3	0.9
EV/Sales	1.5	1.5	1.3	1.3	1.0	0.7	0.5	0.3	0.2	0.2	0.1
EV/EBITDA				-43.8	15.6	7.9	4.1	2.2	1.4	1.0	0.7
EV/EBITA	-15.5	-21.9	-45.3	-20.0	32.0	11.7	5.5	2.9	1.8	1.2	0.8
Adjusted tax rate	-6.9%	-69.4%	-105.8%	0.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%	-19.0%
EBITDA drop through rates			21.7%	209.1%	38.1%	15.4%	16.9%	17.7%	18.1%	19.0%	19.7%
PEG ratio		0.00	0.00	0.00	-0.39	0.06	0.04	0.03	0.03	0.02	0.02
<b>Net cash/(debt)</b>	<b>-175</b>	<b>-406</b>	<b>-625</b>	<b>-700</b>	<b>-754</b>	<b>-692</b>	<b>-372</b>	<b>448</b>	<b>1,413</b>	<b>3,030</b>	<b>5,578</b>
Net debt : EBITDA				-6.2	2.4	1.1	0.3				
Sharecount (Ks)	172	16,314	16,499	15,800	15,715	15,794	15,873	15,952	16,032	16,112	16,192
Shareprice (p)	<b>27.0</b>										

Source: Equity Development forecasts, Company historic data. NB Estimated FY18 gross profit includes a non-recurring £72k stock write-off at Energenie.

## Key risks

- Slowdown in global GDP and/or distributor de/restocking could impact Sandal's end-markets.
- Forward visibility tends to be only a couple of months – albeit like most, these are generic risks across the whole industry.
- Anticipated growth/profitability may take longer than envisaged, cost more and/or not be fully realised.
- In the event Sandal wishes to raise more capital, then there is no certainty that this would be achieved at desirable rates.
- Foreign exchange. Although this is primarily a translation risk with c.30% of Sandal's FY18 turnover being generated outside the UK.
- Regulatory and tax changes. For instance, if the government decided to review the possible inappropriate use of the data, sounds, motions and pictures (eg snooping) collected within households by smart appliance manufacturers.
- Competition may intensify as a function of new/existing players.
- Being relatively small, Sandal could get squeezed by larger rivals, partners and customers.
- Retention/recruitment of key staff, etc.
- Protection of intellectual property, especially from trademark infringements.
- In theory (albeit highly unlikely in our opinion), Amazon/Google could disable their integrations with MiHome (&/or vice versa) or begin charging an access fee to their voice-recognition systems.
- As with many smallcap NEX stocks, trading volumes can be low, particularly during seasonally quieter periods and/or between newsflow.



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