



Shelly Group PLC (Allterco) (\$SLYG, previously \$A4L)

Executive Summary

Disclosure: Small-cap, small float, Bulgarian company (dual listed in Germany). This write-up is mostly suited for small funds and PAs.

We are long Shelly Group PLC (previously Allterco JSCo), a European company headquartered in Bulgaria that designs and distributes IoT products for smart-home and industrial buildings automation. The core of the company's product portfolio is focused on smart relays, which are designed for installation behind power outlets and facilitate smart control of lights and electrical appliances, as well as energy consumption monitoring. Shelly Group is listed on both the [Bulgarian Stock Exchange](#) and on the [Frankfurt Stock Exchange](#) under the ticker \$SLYG (previously \$A4L).

Shelly has grown revenues at an 85% CAGR (Q1-18 to Q1-23) and 49% YoY LTM Q3-23, future growth is estimated "only" for the current business lines to be between 40% and 50%. The company enjoys gross margins above 50% and net income margins around 20%, and most importantly the company has recently launched or is about to launch several initiatives that if successful could eclipse the current results, essentially the company is offering a lot of optionality for free given its enormous unrecognized earning potential. In addition to the new verticals and products, the company is expanding its geographic footprint where the US particularly can become a major region. The company is a dividend payer, has grown mostly via word of mouth and by its online communities and has a pristine balance sheet with a net cash position of EUR 16.7 million. The founders have a lot of skin in the game with 62% ownership, though this drags on liquidity. Despite these extraordinary fundamentals the company is trading at a forward 2024 EV/EBIT multiple of 15.4x or 2024 19.7x P/E. We believe given the jurisdiction and the low float Shelly is completely under the radar and at the current price offers an extremely compelling opportunity.

Company & Business Overview

The Company's Products

Shelly Group is a Bulgarian company that designs, manufactures, and distributes IoT (Internet of Things) products for smart-home and industrial buildings automation. The company's offering covers a wide range of products from smart lighting to appliances-control devices that are designed for transforming traditional homes/businesses into modern and automated smart homes, as well as to monitor energy consumption.

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The smart-home automation products are marketed under the Shelly brand (97.4% of revenue as of Q3 2023). The foundation of Shelly's product portfolio is its relays, which are designed for installation behind power outlets, like the ones shown below. These relays facilitate energy consumption monitoring, as well as smart control of lights, electrical appliances, and sensors via mobile/PC (through the Shelly App, available in iOS, Android, App Gallery (Huawei), and desktop versions), or smart assistants such as Amazon's Alexa. For instance, after installing the Shelly relay behind the power outlet -a process clients can undertake themselves using various online tutorials- they can synchronize the device with the Shelly App. This allows customers to control (on/off) the power outlet directly from their cell phone or home assistant.



Source: Company's [YouTube channel](#) and Shelly's products [website](#).

Please find Shelly's complete product offering [here](#) and to learn more about how their products work please watch this [video](#). To learn about DIY product installation and functionalities please check [this](#) playlist.

In addition to device control via mobile, PC, or voice commands, the Shelly App provides users with the ability to program specific events. This means that users can set up devices or lighting scenarios that are triggered by certain weather conditions or specific actions. For example, room lights can be programmed to turn on when a door is opened, or the heating system can be configured to activate when the temperature drops below a certain threshold. This is a functionality that further enhances Shelly's positioning, as users are less likely to switch to other brands once they have programmed events through the Shelly app (additionally, IoT enthusiasts can personalize further their devices via JavaScript code).

Overall, Shelly's products stand out from the competition due to their ease of installation, available resources for support and customer engagement (refer to The Business section of this writeup for a deeper look at Shelly's community), and affordability-quality mix. Additionally, other advantages include:

(i) Shelly products require no additional relay hubs or devices. They simply need to be connected to Wi-Fi/bluetooth and can function on a standalone basis,

(ii) Shelly users only need widely recognized programming languages like JavaScript for enhanced personalization. This contrasts with competitors like Schneider Electric's Zelio line, which requires

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programming languages like [FBD or Ladder](#); and FIBARO, which uses the [Lua scripting programming language](#).

(iii) The company's products use traditional transmission standards such as WLAN and Bluetooth (refer to the [sell side's](#) report for an overview on transmission standards), and

(iv) Perception as a European brand, in contrast to Chinese competitors such as [Sonoff](#).

Moreover, Shelly's products operate on an open-platform architecture, ensuring compatibility with most home automation protocols, platforms, and voice assistants. Additionally, according to our conversations with management (Wolfgang Kirsch), the company's partnerships are strong and act as enablers for further growth. Especially with Amazon, as both companies have dedicated significant efforts on product integrations, which has enhanced Amazon's perception of Shelly's capabilities.

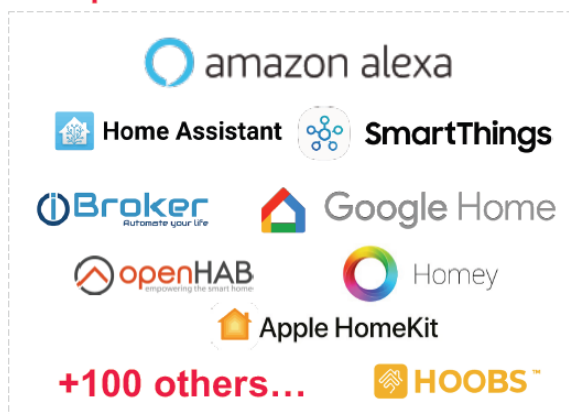
Open Platform & Partner Network



Industry Partners



Compatible with...



Source: Company's [Q4 2022 Earnings Call Presentation](#).

Beyond the Shelly brand, the company also offers smartwatches for children under the [MyKi brand](#), as well as smart trackers (for vehicles, pets, bags) and smart thermometers and oximeters that are also covered under the MyKi umbrella. As of Q3 2023, the MyKi brand accounted for 2.6% of the company's revenue ([Q3 2023 Earnings Call Presentation](#)). This business line will not be considered relevant for this write-up.

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Source: Company's [MyKi website](#).

Please find the whole MyKi product offering [here](#).

The Business

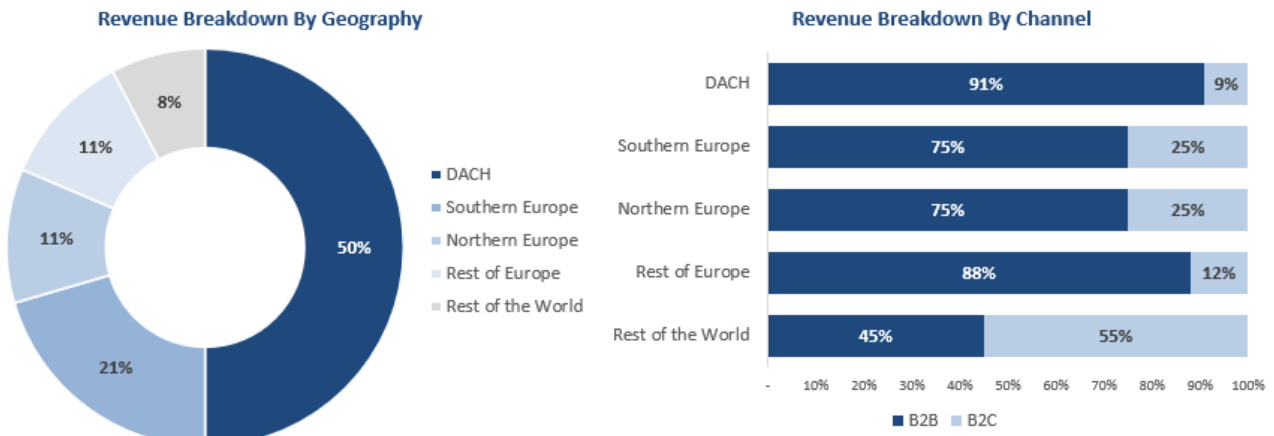
The company designs its devices in Bulgaria (where it has its headquarters and R&D department) and manufactures them in China through third parties, which are then -currently- shipped to Europe and to the US. Although Shelly Group currently relies on China for manufacturing, it has proactively initiated a program to open production facilities in Vietnam, which should be operational in 2024, starting with simpler devices and then expanding the product offering gradually. Additionally, the company further improves its supply-chain resilience by holding 5 months of inventory and having contingency plans (in addition to Vietnam) to start producing in Bulgaria, Italy or Poland (as per this interview with Co-CEO Wolfgang Kirsch in November 2023).

The company's products are primarily sold in Europe, with the DACH's region being the largest (50% of revenue as of Q3 2023). Shelly's sales strategy is divided into two channels: (i) B2C, in which the company sells directly to consumers through owned online stores (e.g., Shelly USA online store) and Amazon stores; and (ii) B2B, where the company sells to distributors. As of Q3 2023, most sales were made through the B2B channel (82% vs 18% B2C).

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See below a summary of sales by region and channel:



Source: Company ([Q3 Q1 2023 Earnings Call Presentation](#)).

From its inception until September 2023, Shelly has sold over 10 million units in over 100 countries worldwide. Most remarkably, the company has just announced an extraordinary achievement: it sold 1.1 million units on the last Black Friday alone! This is truly a milestone to celebrate, as the company managed to sell more than 10% of its total devices throughout its entire history in just one day. The company's revenue LTM Q3 23 reached EUR 44.1 million, growing 49.3% YoY (according to [Q3 2023 Earnings Call Presentation](#)). More impressively, this level of growth has been achieved with extremely low sales & marketing spending (only 4.2% of revenue during LTM Q3-23, for an average of 3.8% of revenue for FY2020-Q3-2023), and mainly driven by word-of-mouth and Shelly's community. **This also shows that if the company decided to marginally increase its sales & marketing, it could materially accelerate its growth.**

Shelly's community includes:

- (i) The company's social media channels on platforms such as [YouTube](#), [Facebook](#) (+79.4K members as of December 12th, 2023), [Instagram](#), [LinkedIn](#), and [Twitter](#), which collectively have a post-reach of over 2 million (according to [Q3 2023 Earnings Call Presentation](#)),
- (ii) Shelly support groups (such as [this one in Spanish](#)),
- (iii) And more than 2,000 user-generated ([Q1 2023 presentation](#)) videos/tutorials (such as [this one in English](#) and [this one in Spanish](#)) and reviews (such as [this IoT influencer](#)).

The company's community is not only important for customer service, but also works as a channel for Shelly to hear its customers' demand for new products, additions, and/or feedback.

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Leading Smart Home Platform



Source: Company's [Q3 2023 Earnings Call Presentation](#).

Growth avenues

Main avenues for growth

- Increase in clients' share of wallet (number of devices per household): According to the company ([Q3 2023 Earnings Call](#)), an average cloud user has 4.7 devices in their household and purchases c. 1.7 additional devices per year. The company estimates that this average per household will increase from 4.7 to 8.2 (a change of 3.5 devices per household) in 3 years. This means a potential revenue increase of EUR 80 million (3.5 devices * 1.5 million households that currently use Shelly products * EUR 15/device).
- Channel expansion into the professional market: The majority of Shelly's products (around 75%-80%) are currently sold to DIY users, with the remainder serving the professional market (professional installers), according to [Q1 2023's Earnings Call](#). Additionally, [sell side research](#) estimates that this 20%-25% share of the professional market is only 10% of this segment's potential. That estimate means the professional segment could be c. 2.5x the size of the current DIY one, which using the company's FY-23 revenue guidance of EUR 72 million and a professional market revenue share of 20%, would size the potential opportunity at c. EUR 140 M per year. This presents a substantial growth opportunity by expanding its client base to potential users that do not want to install the devices themselves, as well as by broadening Shelly's distribution reach by having professional installers re-selling its products. The company's strategies for this expansion include:

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- Partnerships with professional (electrician) schools to train their students in the installation and benefits of Shelly's products (+30 schools onboarded in Germany). This strategy would increase Shelly's share of mind, visibility, and reputation with professional installers. In turn, this enhances professionals as a distribution channel and increases word-of-mouth (according to [Q1 2023's Earnings Call](#)).
 - Offering training to professional installers (+3K already trained) and opening [Shelly Academy](#), an online program targeted to professionals and IoT enthusiasts to unlock Shelly's products potential and personalization via scripting (according to [Q3 2023's Earnings Call](#)).
 - Partnerships with regional wholesalers/distributors of electrical products such as [Sonepar](#), [Lemvigh-Müller](#), and [Rexel](#) (7 wholesalers already active in Germany, according to [Q1 2023's Earnings Call](#)).
 - Developing new products targeted to professionals. The company already has some products in this line ([Shelly Pro Series](#)) and will continue developing new ones through 2023 and early 2024, as per [Q1 2023's Earnings Call](#).
- [Shelly Cloud \(app\) potential and premium subscription](#): The company's app had 1.1 million users as of [Q3 2023](#), growing 62% vs FY-2022 and implying a Q3-2023 run-rate CAGR of 101% since FY-2019. This is even more impressive when noting that Shelly's products can be used without the Shelly App, in line with the company's open architecture philosophy (40% of products sold are registered in the app, according to [Q1 2023's Earnings Call](#)). Additionally, the company launched its [premium app subscription](#) in July 2023, offering premium benefits such as additional data visualization on energy consumption, programmable actions/scenes upon certain weather specifications or forecasts, forgotten lights reminders, among other features highlighted in [this product launch presentation](#). The premium subscription has a price of EUR 3.99/month and taps the company's potential for additional recurring revenue: With 1.1 million app users (and growing 62% vs FY-2022) and assuming penetration of 5%-10%, recurring revenue could reach EUR 2.6 – 5.3 million per year with c. 80% gross margins (according to our conversations with management and our estimates). This premium feature is indicative of the company's embedded optionality in most growth initiatives: While a successful rollout of the premium feature could significantly boost the company's revenue and profitability, a less favorable outcome would not undermine its current profitability or growth trajectory. Results on the premium feature and number of subscribers since launch are not yet meaningful since most users are still under free trial and the company has not yet announced any updates on this matter.
 - [Geographical expansion](#): According to management ([Q3 2023](#)), if the company achieves a similar market share in the rest of Europe as it has in Germany (its largest market), it could reach a total of EUR 200 million per year in additional revenue. Moreover, if the same happens in the US market, management estimates that revenue could increase to a total of EUR 400 million per year (considering both the US and Europe). According to the company's [Q3 2023 Earnings Call](#), the business in the US is growing positively, although management intends to accelerate growth by shifting the go-to-market strategy to a DIY focus instead of the current professional-market

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concentration. This is because large retailers in the US are slower to accept products if they do not already have meaningful demand. Additionally, the company expects to further enhance the US expansion with its Z-Wave products (Qubino line) due to the US being a significant market for this standard, as shown by big players that operate under the Z-Wave protocol (Alarm.com).

- The Shelly Chip (The Module Business): The company announced the launch of its Module Business during [Q2 2023 Earnings Call](#). In this new business segment, Shelly sells its modules/chips to OEMs of home appliances so that their devices become smart. This move would enable everyday house appliances, like microwaves and washing machines, to become smart. In addition to offering OEMs the opportunity to enter the smart-home market, it would also provide them with meaningful efficiencies by not needing significant investments in R&D and engineering, as well as giving them the confidence of partnering with a European brand. The chip will be made in partnership with [Espressif](#) (the developer and manufacturer), a leading provider of branded IoT devices (the [chip will be Shelly-branded](#)). This Shelly chip sold to household appliances manufacturers could potentially generate additional revenue of EUR 120 M per year. The company expects to release its first modules during EOY 2023 (according to the company's [Q2 2023 Earnings Call](#)) and could also help OEMs in detecting "malfunctions, offer pre-failure notifications, and predict events based on various characteristics", according to [Doug Roberson](#) (Shelly USA COO).

Additional avenues for growth

- New product launches: The company is continuously launching new products, as shown by its Q1-23 release of the [Shelly BLU Button1](#), [Z-Wave](#) products in Q2, and other products highlighted in [Shelly's Live Stream](#) for June 2023 led by Co-CEO Dimitar Dimitrov. In addition, the company expects to launch products dedicated to professional installers by EOY 2023 or early 2024, and Alexa special products for Q4 2023 (according to [Q1 2023 Earnings Call](#)).
- Cruise ships and Z-Wave wireless communication protocol: After Shelly's [acquisition of GOAP \(Qubino brand\)](#) in November 2022, the company will continue expanding its presence in the cruise-ship automation services (of which GOAP had 50% of the market at the time of acquisition) and extend its products transmission standards from WLAN/Bluetooth to cover the Z-Wave protocol, the standard under which Qubino operates (these products have already been launched under the [Shelly-Qubino brand](#)). This expansion of the Z-Wave product offering will also boost growth in the US, as discussed previously.
- Shelly Community: We believe Shelly's community, as highlighted before, will be a significant driver for growth as it enhances customer engagement, word-of-mouth, and grows day by day given user-generated content and tutorials.
- Partnership with Vodafone: During Q3 2023, Shelly entered a [partnership with Vodafone](#) to equip all of Vodafone sites in Africa with Shelly Pro Devices through its subsidiary, Vodacom, which is present in more than 20 countries and would serve as the first step for a potential global rollout. This

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partnership enables Vodacom to measure and monitor energy consumption at its sites and further validates Shelly's strategy to grow in the professional market through partnerships with large operators.

- Partnership with Zendure: On September the 1st 2023, Shelly announced a strategic partnership with Zendure, a fast-growing energy company based in Silicon Valley and with offices in China, Japan, and Germany. The company specializes in clean energy generation, as well as home energy storage and grid feed-in, specifically with a balcony power plant (SolarFlow) and an energy storage system (SuperBase V). This Shelly-Zendure partnership allows consumers to integrate Zendure's hardware with Shelly's software and connectivity for smart-home energy management. Additionally, according to a study by the Berlin University of Applied Sciences, the number of balcony power plants installed in Germany alone almost doubled to 190K between 2020 and 2021.
- Other partnerships: There is potential for collaborations with urban development firms, real estate developers, hotel chains, and other entities that could benefit from Shelly's products, primarily for energy consumption savings.

Company's History & Management

Brief Company History

Originally founded in 2003 by Dimitar Dimitrov as Teracomm Ltd, the company initially focused on telecommunications and mobile innovations such as payments and mobile marketing. Then, in 2013, the company established its IoT business unit by developing the first home automation system known as "She" (precursor to the current brand "Shelly"). In 2015 the division Allterco Robotics was established to focus on the Shelly and MyKi products.

The company made its debut on the Bulgarian Stock Exchange under the ticker symbol \$A4L in 2016. Later in 2019, Allterco divested its telecom subsidiaries to focus entirely on the Shelly and MyKi brands. In addition to the Bulgarian listing, the company started trading in the Frankfurt Stock Exchange in 2021. Finally, the company changed its name from Allterco JSCo to Shelly Group PLC in June 2023.

To see more about the company's history visit Shelly Group's About Us Page.

Management

- Dimitar Dimitrov (LinkedIn): Dimitar is the primary founder of the company and holds 32% of the business. He is an entrepreneur with +30 years of experience leading and founding companies, with a specific focus on product development (for a deeper understanding of his background and entrepreneurial achievements refer to this interview in Forbes made in June 2023). Dimitar is currently Co-CEO of the company, with a specific focus on research and development of new products and projects.

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- [Svetlin Todorov \(LinkedIn\)](#): Svetlin joined the company in 2004 and helped co-establishing the company by being responsible for the corporate and management strategies of the group. With over 25 years of entrepreneurial experience, Svetlin has previously founded two advertising-focused companies in Bulgaria. Currently, he holds a 30.39% stake in Shelly Group and leads the company's U.S. operations and relationships.
- [Wolfgang Kirsch \(LinkedIn\)](#): Wolfgang joined Shelly in 2021 first as an advisor and then as Co-CEO, where he is responsible for corporate matters and sales/expansion. Dimitar brought Wolfgang as Co-CEO given his extensive corporate and operating experience (+25 years) in consumer electronics retailers in Europe. Both Co-CEOs complement each other with Dimitar being focused on product development while Wolfgang focuses on corporate and expansion efforts. Prior to joining Shelly, Wolfgang held executive roles at [MediaMarktSaturn](#) as Chief Operating Officer and served as a Senior Advisor at McKinsey & Company.

Our assessment of the management team

- We have been notably impressed by Shelly's management team. Dimitar's dedication to product development, coupled with his strategic decision to appoint Wolfgang as Co-CEO, speaks volumes about his vision for the company's evolution and growth. It highlights Dimitar's passion for product innovation while recognizing the importance of Wolfgang's expertise in managing the business's expansion and corporate matters.
- With over 25 years of experience in the consumer electronics market in Germany & France, we believe Wolfgang brings the necessary expertise and capabilities to lead Shelly's expansion in Europe and internationally.
- Shelly has a non-promotional management team. We have even suggested the company gets more exposure to investors, as it is relatively unknown in the investor community. The company started having quarterly earnings calls in 2022 and has started attending investor/product events and conferences (9 events programmed for 2023, according to the company's calendar during [Q3 2023 Earnings Call Presentation](#)).
- We believe management treats the company's shares as gold and are disciplined capital allocators, which is something of utmost importance in our investment process. This is shown by the following examples:
 - Despite the company's aggressive growth (85.9% CAGR Q1-18 to Q1-23), management has incurred in minimal issuance of shares: EUR 4.6 million [2020's follow-on offering](#) used for the establishment of [regional logistics centers and increasing engineering staff](#), and its [2023's issuance](#) of shares to employees (less than 0.3% of subscribed shares).
 - During [Q1 2023 Earnings Call Q&A](#), management was asked about how to improve the shares liquidity, given its relatively low float, to which they answered:

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"Some people tell us: 'Just make a capital increase'. Capital increase is not good for existing investors, that's one point" – Wolfgang Kirsch

- During [Q1 2023 Earnings Call](#), management spoke about their openness to acquisitions:

"Not doing acquisitions just for the sake of making acquisitions. When they make sense, when they help us with technical development like the GOAP/Qubino acquisition or with regional expansion if we find a good player in one of the key markets that has a reasonable price and that it adds value to our company we would think about that" – Wolfgang Kirsch

- During [Q1 2023 Earnings Call Q&A](#), management was asked about their plans (if any) to increase marketing spending:

"We would increase that [(marketing spending)] but we would do it step by step but only if it pays back" – Wolfgang Kirsch

"We need time to digest the growth. If tomorrow we grow a 1,000% for example, maybe there is a chance to fail because the organization, because the people, because the manufacturing, technology, and everything... I think if we find that the growth is 50% -could be 60% now, first quarter- if it is fine for us and it is fine for the market then we do not need to spend additional money" – Dimitar Dimitrov

Ownership, Float, and Board of Directors

Shelly's founders, Dimitar and Svetlin, own about 62% of the company. This shows they have a high-level of skin in the game, which is extremely positive as it means their incentives are aligned with minority shareholders. On the flip side, this can raise some concerns about liquidity given the stock's low float level (38%). However, we do not see this as an issue if one has a long-term horizon and also given the fact that management is aware of this and working on possible solutions, including:

- The company is actively trying to be XETRA-listed: Shelly's management has been working on this for a couple of quarters and they recently ([Q3 2023 Earnings Call](#)) offered some visibility. According to Co-CEO Wolfgang Kirsch: "I can only say what I hear from Frankfurt Stock Exchange and from Sofia Stock Exchange. They say it will happen beginning of the year [2024]. So beginning of the year for Frankfurt Stock Exchange is most probably not the 1st of January. First quarter, something like that". We believe entering the XETRA framework will improve liquidity and visibility for the company.

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- **Increase in float:** Both founders entered into private placement agreements with institutional investors for the sale of approximately 2.4% of the company, hence broadening the free float from 35% to approximately 38%. Co-CEO and Co-Founder Dimitar Dimitrov sold a 0.4% of the company, while Co-Founder Svetlin Todorov sold about 2%. We believe that, while relatively small, these sales show the founders' willingness to improve shares' liquidity. As per Co-CEO Wolfgang Kirsch: "With the broadening of the free float and the associated increase in liquidity, Shelly shares are becoming more and more attractive for institutional investors. We consider the obvious interest in the placement in the current challenging market environment for small caps as a clear sign of confidence in our business model and our positioning in the market. In addition to broadening our shareholder base, we continue to strive for inclusion in Xetra trading."

The company's Board of Directors is composed by Dimitar, Wolfgang, and Svetlin, as well as:

- **Gregor Belier, Chairman ([LinkedIn](#)):** Gregor is a seasoned professional with +30 years of experience, starting his journey in 1991 by co-founding Waycom Informationssysteme, an ERP systems service provider. He is currently the CEO of [Apavari](#) and serves as Board Member and advisor to several companies, such as [Cobrainer](#), [ATOSS Software](#), and [Journee](#). Please note that, as of the time of writing, the company has proposed an Extraordinary General Meeting for December 18th 2023 to resolve on a change in the Board of Directors regarding Gregor Belier's resignation request and the appointment of [Cristoph Vilanek](#) in his place. According to Co-CEO Wolfgang Kirsch ([Q3 2023 Earnings Call](#)) this is because Gregor Belier has taken a full-time job again and requested a while back to step down. Additionally, Wolfgang also highlighted Cristoph Vilanek's extensive experience as CEO, Chairman, and his expertise in capital markets, which would definitely benefit Shelly with his knowledge and network.
- **Nikolay Martinov, Independent ([LinkedIn](#)):** Nikolay has +18 years of experience in capital markets and private companies financing, starting his career as a commodity broker in Bulgaria. In 2018, he co-founded [Impetus Capital](#), an investment firm focused on companies during early/growth stages. Impetus was one of Shelly's early backers when the company started developing its IoT products (find the investment announcement [here](#)). We have spoken with Impetus (they are the second-largest shareholders after the founders), which has increased our confidence in the company and its leadership.

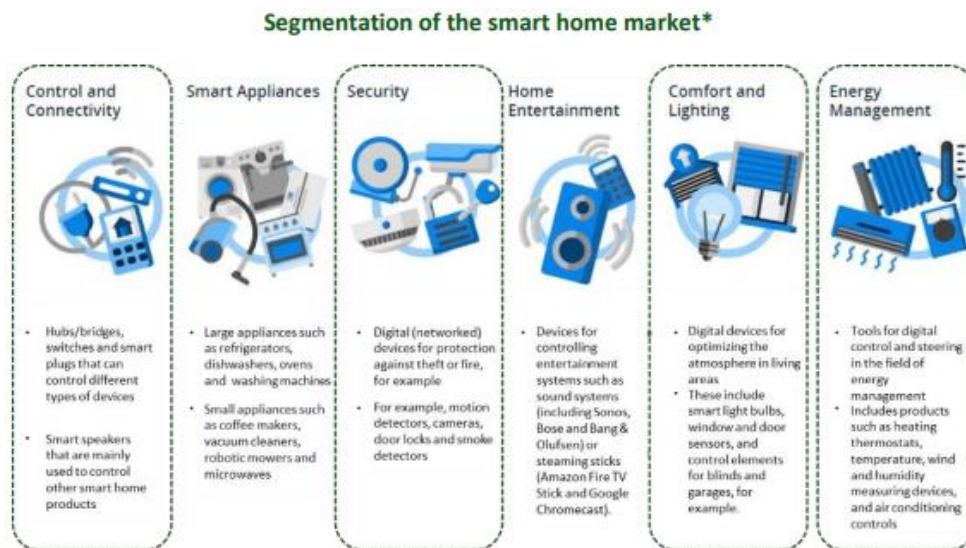
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Competitive Landscape

The Market

The smart-home/IoT market could be segmented in the following categories:



Source: Statista Digital Market Outlook 2020; *bordered segments = activities of Allterco

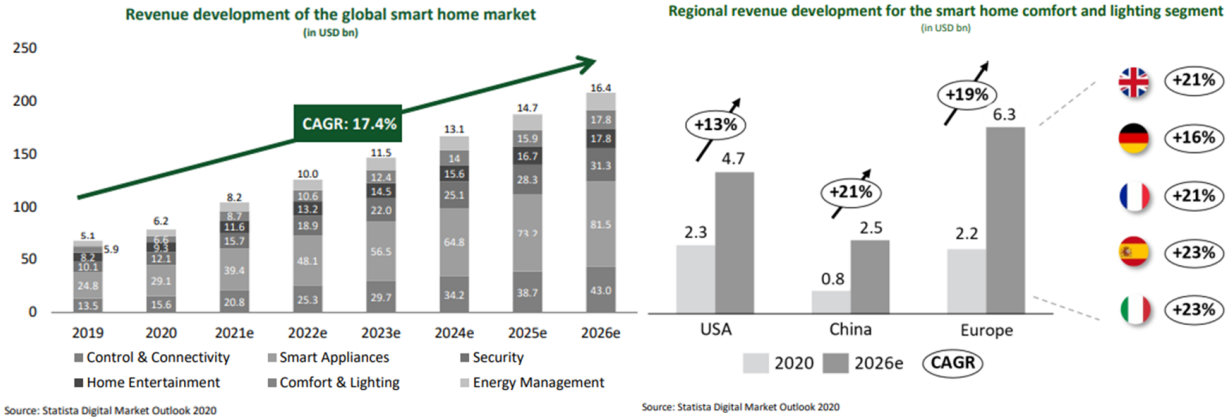
Source: Shelly Group's [sell side research report](#).

Shelly currently plays a significant role in the bordered segments of the picture above, but with significant expansion opportunities in the Smart Appliances and Home Entertainment segments with Shelly's chip, as highlighted in the section Growth Avenues of this writeup.

According to Statista's Digital Market Outlook 2020, the size of the smart-home market in 2020 was USD 6.2 Bn (EUR 5.65 Bn) and an estimated USD 11.5 Bn (EUR 10.5 Bn) in 2023. The most relevant regions in the smart-home market are the US (USD 2.3 Bn for 2020, or EUR 2.1 Bn) and Europe (USD 2.2 Bn for 2020, or EUR 2 Bn). The overall market is expected to grow at a CAGR of 17.4% from 2019 to 2026, with Europe growing at a +19% CAGR.

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Source: Shelly Group's [sell side research report](#).

According to the company, the number of households in Europe is 93 million and 4% of these are smart, meaning approximately 39 million households could be estimated as the company's current TAM. This TAM of 39 million households is expected to grow at a 20% CAGR until 2027 (as per the company, with input from Statista).



Source: Company's [Q3 2023 Earnings Call Presentation](#).

With this 2023 TAM estimate of 39 million households, and Shelly's estimate of approximately 2 million of these with Shelly products, the company currently has an approximate market share of 5% (according to [Q3 2023 Earnings Call](#)).

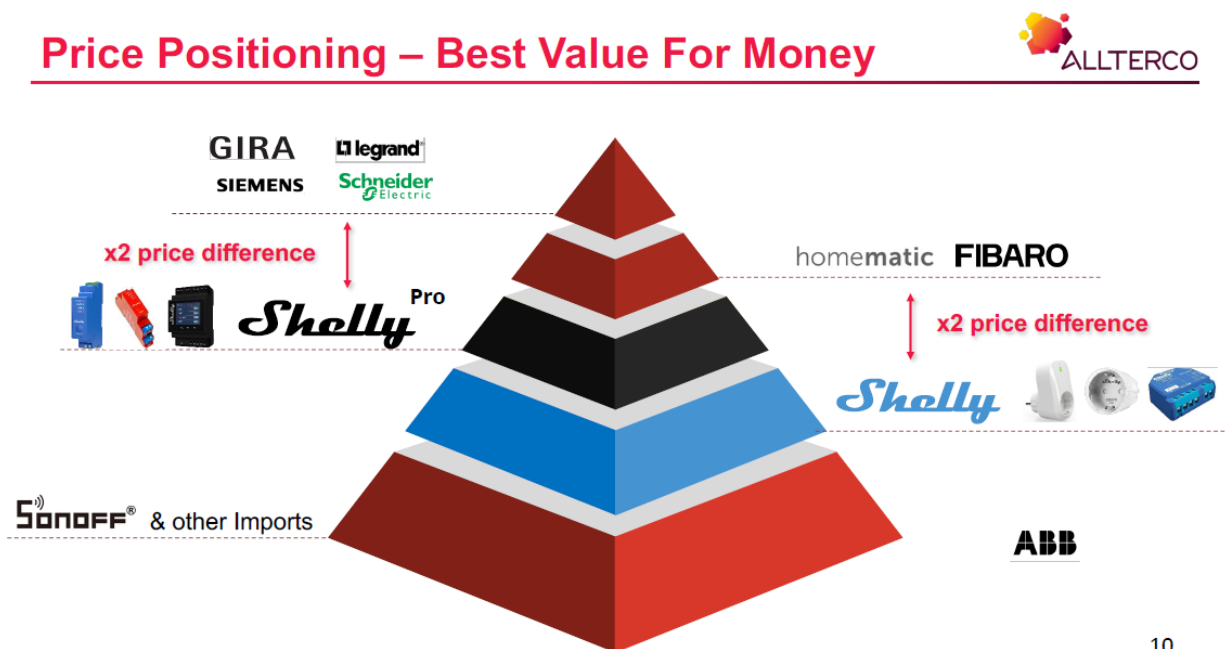
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Competition

The competitive landscape for home and industrial building automation is diverse and highly fragmented. It includes both specialized niche businesses and large, broader global players. Some of the company's competitors include GIRA, ABB (SWX: ABBN), Siemens (FWB: SIE), Legrand (ENXTPA: LR), Schneider Electric through its Zelio and ExoStructure lines (ENXTPA: SU), Homematic, FIBARO, Sonoff, Somfy, Alarm.com (NASDAQ: ALRM), Plejd AB (\$PLEJD, listed in Sweden), and Tuya (NYSE: TUYA). According to our conversations with management, Homematic and FIBARO are Shelly's closest competitors, as they are both dedicated to the residential market and directly compete geographically (Homematic in Germany and FIBARO in Poland).

Shelly's competitive and price positioning is illustrated below:



Source: Company's Q4 2022 Earnings Call Presentation.

Despite the market being highly competitive, we believe Shelly is creating a sustainable competitive advantage (moat) via:

- Hardware & software open architecture (as highlighted before). Additionally, we believe this is a significant advantage as large/global competitors are only interested in promoting their brands; contrary to Shelly, which is built on an open-architecture and interoperability philosophy.

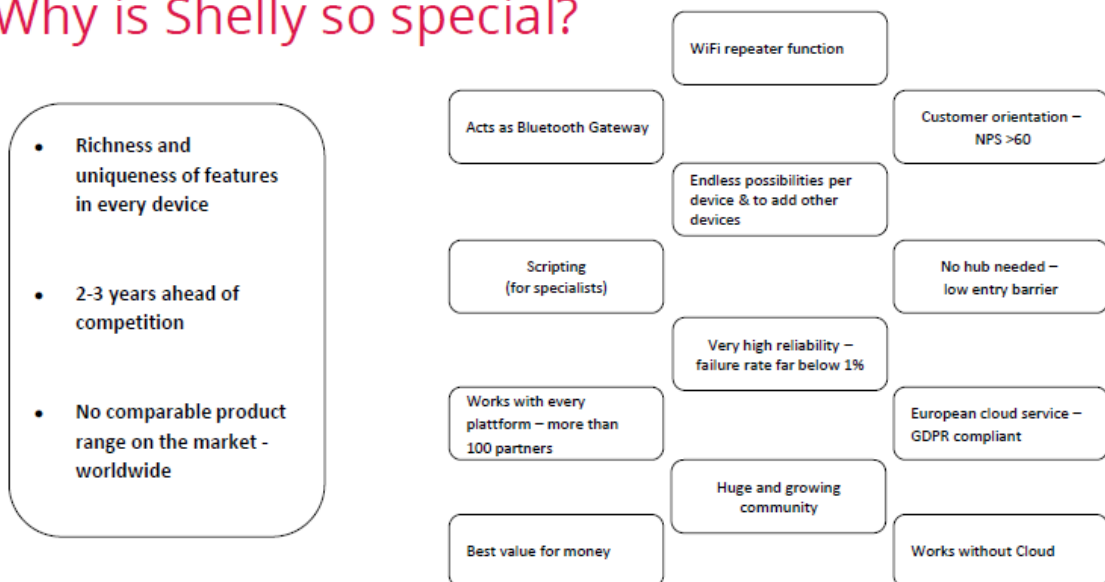
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- Affordability & quality mix seems to be adequate for customers, as shown by the company's faster growth and higher profitability than competitors (this will be discussed later).
- Shelly's community does not seem to have a rival in the smart-home ecosystem, as shown by Shelly's Facebook support group with +79.4K members while competitors have way smaller communities (Plejd's 14.9K members, Homematic's 19.3K members, and FIBARO's 2.3K members).
- The company is already profitable as a hardware business and is now expanding into software, which provides increased optionality, growth, and potential profitability. This differs from what other competitors are trying to do, which is to use their data and software to eventually become profitable. According to Shelly's management (Q1 2023 Earnings Call):
"... a lot of other smart-home companies that think that in the future by using data they might be profitable. We are already a profitable company now selling our hardware" – Wolfgang Kirsch.
- The product advantages highlighted in **The Company's Products section** of this write-up (no additional hubs/hardware needed, widely used programming languages for specialists' scripting and personalization, Shelly's traditional transmission standards such as WLAN and Bluetooth, and its perception as a reliable European brand).
- Tech/product velocity and being ahead of competition, as per the company:

Why is Shelly so special?



Source: Company's presentation in November 2022 in the German Equity Forum Conference (Deutsches Eigenkapitalforum).

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Furthermore, we believe Shelly is on track to widen its moat by capturing market share from its competitors. This is partially supported by the fact that listed competitor Plejd, has lagged in performance in both growth and profitability when compared to Shelly:

- Q1-23 performance: Plejd grew revenue 22% YoY to SEK 121 M (c. EUR 10.3 M) with an EBIT margin of 13.3% (according to its [Q1 report](#)). For the same period, Shelly grew revenues by 61% to EUR 14.1 M and an EBIT margin of 26.2% (according to Shelly's [Q1 2023 Earnings Call Presentation](#)).
- H1-23 performance: Plejd grew revenue 12% YoY to SEK 231 M (c. EUR 19.7 M) with an EBIT margin of 10.4% (according to its [Q2 report](#)). For the same period, Shelly grew revenue by 53.9% to EUR 28 M and an EBIT margin of 24.9% (according to Shelly's [Q2 Earnings Call Presentation](#)).
- LTM Q3-23 performance: Plejd grew revenue 12% YoY to SEK 351 M (c. EUR 30 M) with an EBIT margin of 8.6% (according to its [Q3 report](#)). For the same period, Shelly grew revenue by 49.3% to EUR 44.1 M and an EBIT margin of 26.9% (according to Shelly's [Q3 Earnings Call Presentation](#)).

However, there is a caveat. According to management, Plejd's lagging performance is partly due to their business model, which is centered on new home constructions.

Financials and Valuation

Financials

Balance sheet:

The company has a rock-solid balance sheet with a net cash position of approximately EUR 16.7 million ([Q3 2023 Consolidated Financials](#)), providing a significant margin of safety on the company's operations. In addition, the company's assets are mainly composed of 31% cash, 35% receivables, and 17% inventory (Q3-23).

P&L:

From Q1-18 to Q1-23, the company delivered a robust 85.9% CAGR in revenue, achieving EUR 14.1 million during 2023's first quarter ([Q1 2023 Presentation](#)) and EUR 44.1 M for LTM Q3 2023 (a 49% growth vs FY 2022). More impressively, this growth was achieved with gross margins exceeding 50% for FY2020 to Q3-2023. The company also delivered EBIT margins surpassing 22%, and net income margins consistently above 18% for the same period (specifically for LTM Q3-23, the company reported a net income margin of 23%).

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Additionally, the main avenues for growth of the company can be summarized as follows (**details under the 'Growth Avenues' section**):

- Increase in clients' share of wallet: Potential additional revenue of EUR 80 million per year.
- Channel expansion into the professional market: Potential additional revenue of EUR 140 million per year.
- Shelly Cloud premium app: Potential additional revenue of EUR 5 million per year (2023), assuming Q3-23's user base, which has been growing at 101% CAGR since FY-2019.
- Geographical expansion: Potential total additional revenue of EUR 400 million per year.
- The Shelly chip (Module Business): Potential additional revenue of EUR 120 million per year.

If we add all the potential revenues coming from these growth avenues, the potential revenues would be EUR 745 million, or 15 times 2022 full year revenues, and none of them are priced yet.

Capex - CF and Dividends:

The company produced a Cash Flow from Operations (CFO) of EUR 9.6 million, resulting in a CFO conversion rate of 196% vs EBIT (according to the company's consolidated financials and Q3 2023 Earnings Presentation). Note that the company's CFO conversion has been volatile as in 2022, due to proactive stockpiling to counteract potential supply chain disruptions from China, management decided to use cash to fund inventories. On the capex side, the company's Capex needs are minimal, averaging 2.8% of revenue from FY2021 to LTM Q3-2023 (EUR 1.5 M for LTM Q3 2023).

Finally, even with the company's aggressive growth (+85% revenue CAGR from FY-2019 to Q1-2023), the company has consistently paid a dividend: EUR 1.7 million in 2021 (22% payout ratio vs net income), EUR 800 K in 2022 (10% payout ratio), and EUR 2.3 million in 2023 (according to the company's consolidated financials and 2023's dividend announcement).

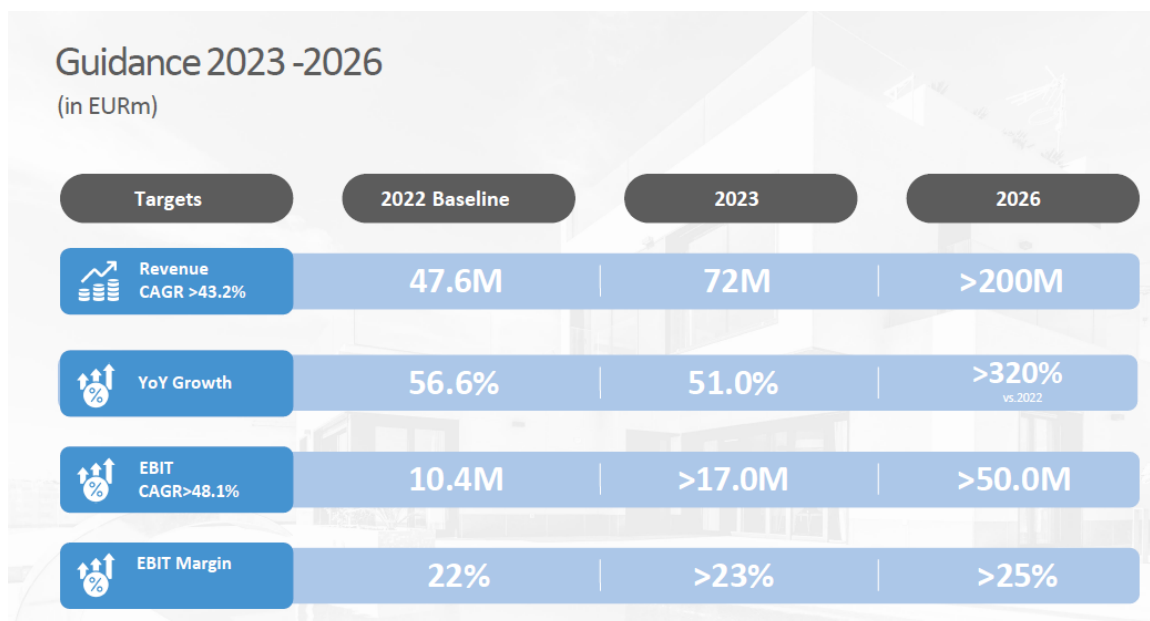
Valuation & Conclusion

At a price per share of EUR 22.5 and with ~18M outstanding shares (18,050,945 paid shares less 40,000 treasury shares, according to Q3 2023 Financial Statements), Shelly Group is trading at a market cap of EUR 405 million. With a net cash position of EUR 16.7 M for Q3-23, the company trades at an EV of EUR 389 million.

Now, according to management's Q3-2023 guidance (Q3 2023 Presentation):

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Source: Company's [Q3 2023 Earnings Call Presentation](#).

Also note that the company has reaffirmed its guidance after an outstanding performance during 2023's Black Friday, where the company's sales increased 115% YoY to EUR 14.5 million with more than 1.1 million devices sold. Shelly's management team expressed that "we are extremely confident that we will be able to achieve our annual targets more than comfortably" – Wolfgang Kirsch.

With this in mind, and while we consider management's guidance to be on the conservative side (**as illustrated in the 'Growth Avenues' section**), we have adopted their assumptions for our valuation case. Based on this analysis, the company trades at a 15.4x forward 2024 EV/EBIT multiple or 19.7x 2024 P/E. And we must emphasize, these multiples do not take into account the immense upside that the new verticals explained before can achieve.

Guidance & Valuation (EUR M)	2020	2021	2022	2023E	2024E	2025E	2026E
Revenue	20.0	30.1	47.6	72.0	103.1	147.6	211.4
Revenue growth YoY		50.5%	58.1%	51.3%	43.2%	43.2%	43.2%
EBIT	4.4	9.7	10.4	17.0	25.2	37.3	55.2
EBIT margin	34.0%	32.0%	22.0%	23.6%	24.4%	25.3%	26.1%
EBIT growth YoY		120.5%	7.2%	63.5%	48.1%	48.1%	48.1%
Net income	6.9	8.1	8.9	14.4	20.6	29.5	42.3
Net income margin	29.0%	26.7%	18.7%	20.0%	20.0%	20.0%	20.0%
Net income growth YoY		17.4%	9.9%	61.8%	43.2%	43.2%	43.2%
Multiples							
EV/revenue				5.4x	3.8x	2.6x	1.8x
EV/EBIT				22.9x	15.4x	10.4x	7.0x
P/E				28.1x	19.7x	13.7x	9.6x

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We believe Shelly Group's current price offers an extremely attractive opportunity to own a business that:

- Operates in the rapidly expanding smart-home automation market, which is expected to grow at a 20% CAGR until 2027.
- Grew revenue much faster than the industry at an 85.9% CAGR (Q1-18 to Q1-23) with even more impressive margins and its expected growth only of the core business should be above 40% for years to come, currently the company is showing in terms of margins: +50% gross, +22% EBIT, and net income margins consistently above 20%. More impressively, the company has delivered these outstanding levels of growth with minimal marketing spending (average 3.8% of revenue for FY-20 to Q3-23), driven mostly by its online community and word of mouth.
- Despite its accelerated growth, the company has consistently paid a dividend (2019-2023): 2023's dividend of EUR 2.3 million (26% of 2022's net income and a 0.5% dividend yield).
- Has a rock-solid balance sheet with a net cash position of EUR 16.7 million.
- Enjoys a high degree of optionality and growth opportunities. These expansion opportunities while hard to estimate and we do not take them into account for our valuation could potentially eclipse 2023's full revenues some years out, driven by geographical expansion in Europe and the US, growth in the professional installers' market, new products/verticals such as the Shelly Chip and Shelly's app premium version, an increase in clients' share of wallet, partnerships with wholesalers, and strengthening its online community. The company is currently firing on all cylinders.
- The founders have a high-level of skin in the game, owning 62% of the company and treating shares like gold (as detailed on 'Our Assessment of The Management Team' section).

To sum up the upside potential with conservative assumptions: If the company's current lines of business deliver what management has guided for 2026 (EUR 55 million for 2026 in EBIT) the company is trading at 7.0x EV/EBIT 2026. Now, if the company manages to pull off some of the new initiatives mentioned above, which at the current price is optionality for free, the actual revenues could be **multiples** of the current ones.

Risks

- **Liquidity:** As discussed before, the company's founders own 62%. This could raise concerns regarding the stock's low float (38%) in exchanges with low liquidity (Bulgaria and Frankfurt). We believe this should not be an issue if one has a long-term horizon, especially given the fact that

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management is aware of the situation and is working to improve liquidity (as highlighted before in the '**Ownership, Float, and Board of Directors**' section).

- **China-related risk:** The company manufactures its devices via third parties in China, which poses a significant risk if there are supply-chain disruptions and/or shortages. However, as mentioned previously, Shelly will start production in Vietnam in early 2024 to diminish dependency on China. Moreover, the company has contingency plans in place to increase resiliency (e.g., 5 months of inventory available, and production capabilities potentially available in Bulgaria, Italy, or Poland).
- **Competition & technology:** As discussed before, the competitive landscape is highly fragmented by both niche and large players, which introduces risks regarding technological innovation and potentially limiting expansion plans. For example, the new Matter standard that will ensure interoperability between smart-home products with voice assistants such as Alexa, Siri, Google's Assistant could pose a potential technological risk for the company in the case the company does not act proactively. However, this standard is still in early stages but Shelly's next-generation products will already be Matter-compatible (and old products will also be backwards compatible), as per [this interview](#) with Co-CEO Wolfgang Kirsch in November 2023.
- **Product malfunctions:** The company could be subject to reputational risks arising from potential product malfunctions in clients' homes.
- **Data privacy and cybersecurity:** The company's product could be subject to scrutiny regarding its data privacy policies and/or be subject to potential hacking attacks that could impact clients' devices.
- **Key-person risk:** We believe Dimitar Dimitrov is currently the person responsible for the company's accelerated product development and innovation.

Catalysts

- Increase in investors' attention through the company attending conferences (9 events programmed for 2023, according to [Q3 2023 Presentation](#)) and investors profiling the company in online forums.
- Traction in one of any of the new initiatives mentioned in the **Growth Avenues' section**.
- Company's continued growth and expansion into new geographies.
- Improved shares' liquidity especially due to the ongoing XETRA-listing process and the increase in free-float discussed previously.

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