



KING'S CAPITAL

SONOS – (NSQ:SONO)

Recommendation: Long

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13/02/2024

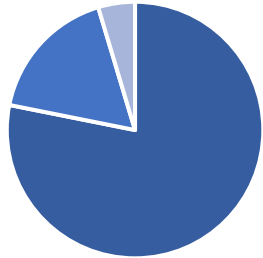
Company Overview



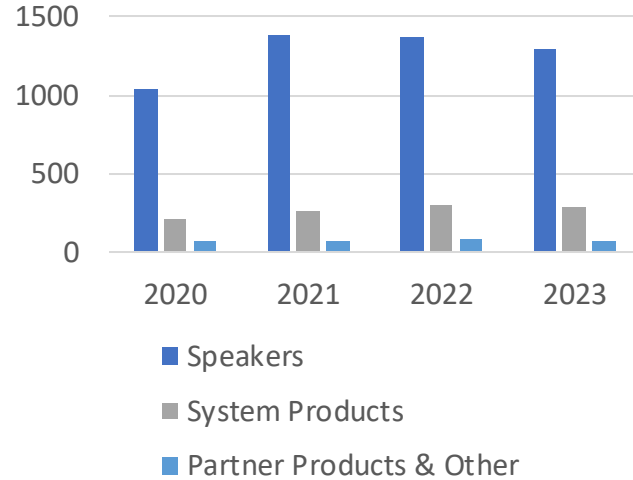
Sonos, Inc. designs, develops, manufactures and sells audio products and services. The Company has developed multi-room, wireless audio products. Its platform has a broad range of more than 130 streaming content providers

Product Overview

Revenue

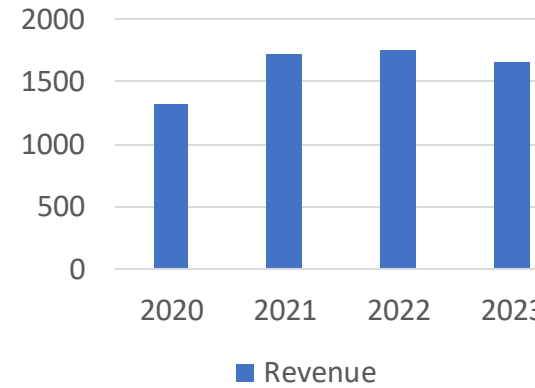


- Speakers
- System Products
- Partner Products

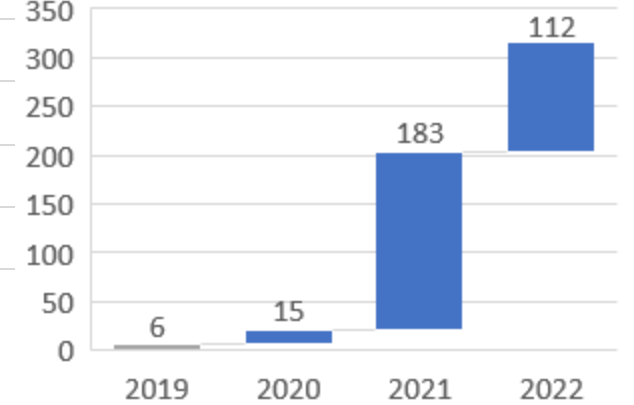


Financial Overview

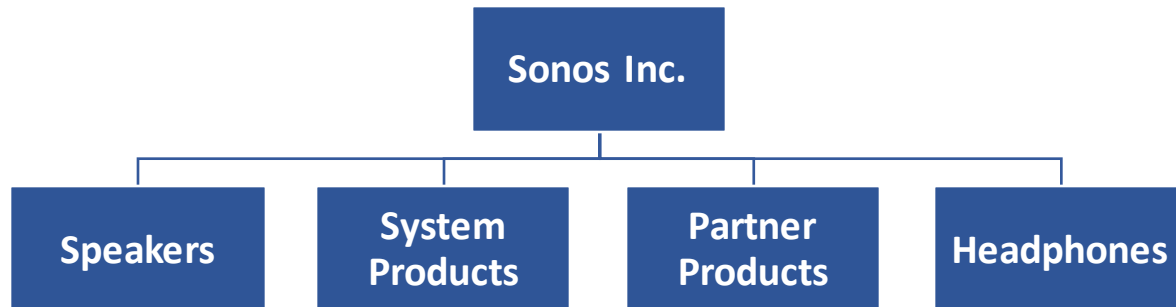
Revenue



EBIT



Business Units



Key Management



Patrick Spence

Patrick Spence is the Chief Executive Officer and serves on the Board of Directors for Sonos. Patrick joined Sonos as Chief Commercial Officer in 2012. He has played a central role in the development and launch of some of the company's most successful products. Patrick has also led the company's expansion into new territories.



Saori Casey

Saori Casey is the Chief Financial Officer overseeing all financial, accounting, planning, real estate, technology, and investor relations functions within the company. Prior to joining Sonos, Saori served as Vice President of Finance at Apple from 2011 to 2023.



Deirdre Findlay

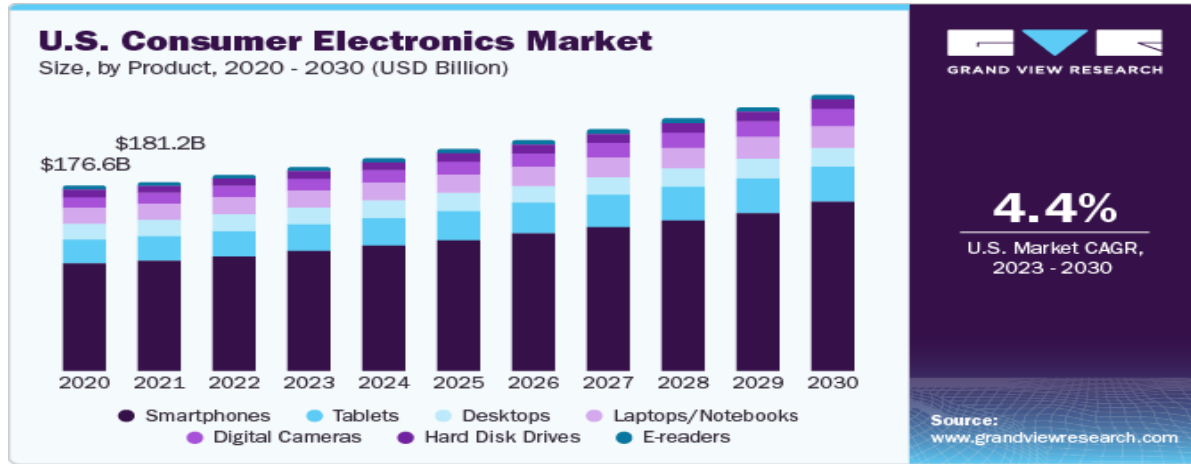
Deirdre Findlay is Sonos' Chief Commercial Officer and oversees all marketing, revenue and customer experience organizations at Sonos. She is responsible for integrated brand strategy, geographic expansion strategies and all go to market execution.

Industry Overview

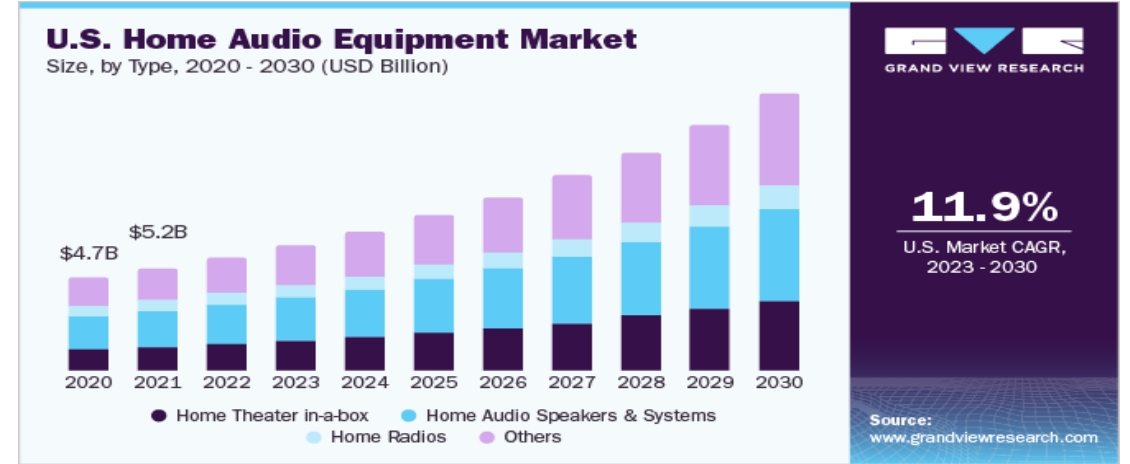


The Home Audio industry has been enhancing our lives for generations, captivating us with its innovations. From classic turntables to modern wireless speakers, it continues to redefine entertainment.

Consumer Electronics Market



Home Audio Equipment Market



Popular Products Overview



The Sonos Beam (Gen 2) is a compact Dolby Atmos-enabled soundbar designed for small spaces. It offers clear dialogue and can be integrated with other Sonos speakers for enhanced audio experiences.

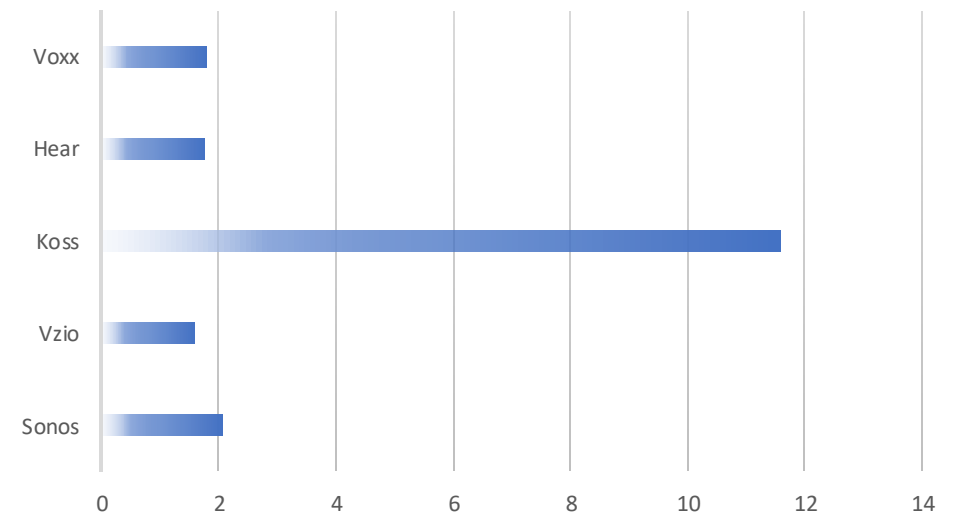


Sonos ERA 300 is a high-end speaker that supports Dolby Atmos and is capable of playing back spatial audio from streaming services wirelessly.



The Sonos Arc is a premium soundbar with Dolby Atmos, expansive sound, and seamless integration with Sonos' speaker lineup for a complete home theater experience.

CURRENT RATIO



Investment Thesis

Recommendation

Buy (12 months)

Target



**Push for reversing
downswing in demand with
waves of new devices**

- After a poor 2023, Sonos aims to bounce back by introduction a variety of innovative audio systems and penetrating multi-billion dollar industries, planning to generate \$100 million
- Sonos aims to enter the headphone space, selling mainly to luxury consumers and leveraging their excellent audio technology into this new space, headphone market to grow by 8% in 2024
- Plans to enter TV Streaming device industry as well in late 2024, with discussions already occurring with providers such as Netflix
- 2024 sees the introduction of upgraded Sonos speaker systems such as the 2nd Gen Sonos Roam, enhancing and improving battery life and other prior problems

**Streamlined financial
operations, improving on its
losses in 2023**

- Laid off 7% off workforce towards the end of 2023, improving cost savings and generating increased future cashflows for 2024.
- With margins of 45% projected to increase, Sonos will have increased cash earnings to reinvest back into R&D and create even better products compared to their competitors
- Sonos innovation also widely adopted which puts them at the forefront of the audio market, something undermined by Wallstreet

**Undermining of Sonos
capturing market growth**

- Market growth of audio content consumption due to evolution of remote work and how consumers live is being undervalued by investors.
- With only a 2% share of the \$100 billion audio market and projected to grow, Sonos is capturing this market share with its unique open platform system
- Sonos aims to combine the widespread adoption of object-based audio with its freedom of choice for consumers, positioning itself as the best audio product on the market

Valuation



	1	2	3	4	5
Revenue	1.675.322	1.759.088	1.847.043	1.939.395	2.036.365
Speaker	1.630	2.037	2.526	3.107	3.791
Sound System	359	460	598	789	1.057
Partner Products	86	98	114	134	161
Cost of Goods Sold	871.168	914.726	960.462	1.008.485	1.058.910
Operating Expenses	720.389	756.408	794.228	833.940	875.637
SG&A Expenses					
EBITDA	83.766	87.954	92.352	96.970	101.818
<u>Free Cash Flow:</u>					
Add: D&A	58.000	65.000	88.000	55.000	57.000
Less: Capital Expenditures	51.000	57.000	54.000	54.000	54.000
Less: Change in Working Capital (3)	16.908	14.954	15.286	15.625	15.972
Unlevered Free Cash Flow	56.267	62.530	91.672	61.981	67.465
Discount Factor	1	2	3	4	5
<u>Terminal Value</u>					
Present Value of FCF	49.997	49.371	64.315	38.639	37.371

Upside
31,85%

Stock Price
18,43 USD

Fair Price
24,30 USD

Weighted Average Cost of Capital (WACC)	
Equity (mm)	518.660
Debt (mm)	54.960
Cost of Debt	1,2%
Tax Rate	21,0%
D/(D+E)	9,6%
After Tax Cost of Debt	1,0%
Risk Free Rate	3,9%
Expected Market Return	9,0%
Market Risk Premium	5,1%
Levered Beta	2
E/(D+E)	90,4%
Cost of Equity	13,8%
WACC	12,5%



Catalysts

Upcoming Earnings Call

- Earnings have beaten estimates already so catalyst may have just passed.
- Exceeded expectations and generating free cash flow of \$269 million to bolster R&D

Successful Headphone Release

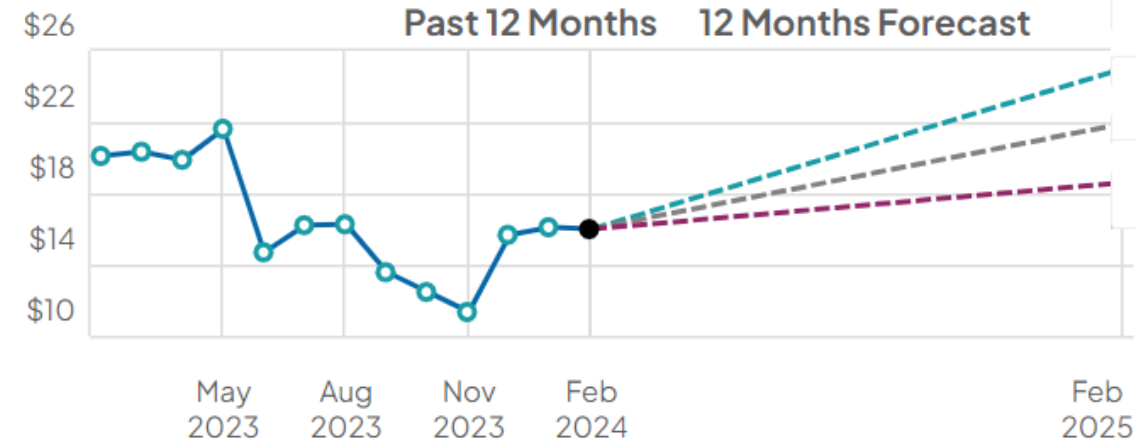
- With greater funds for development, SONO will be in a greater position to penetrate the Headphone market, and bolster revenue figures

Diversification into more audio products

- Further diversification will generate greater profits and allow reinvestment into their growing product base, allows for diversification and choice for consumers and protection from macroeconomic conditions with more luxury products, solidifying long term growth.



Based on 6 analysts offering 12-month price targets for SONO



Bear SP:
\$18.60

Base SP:
\$21.92

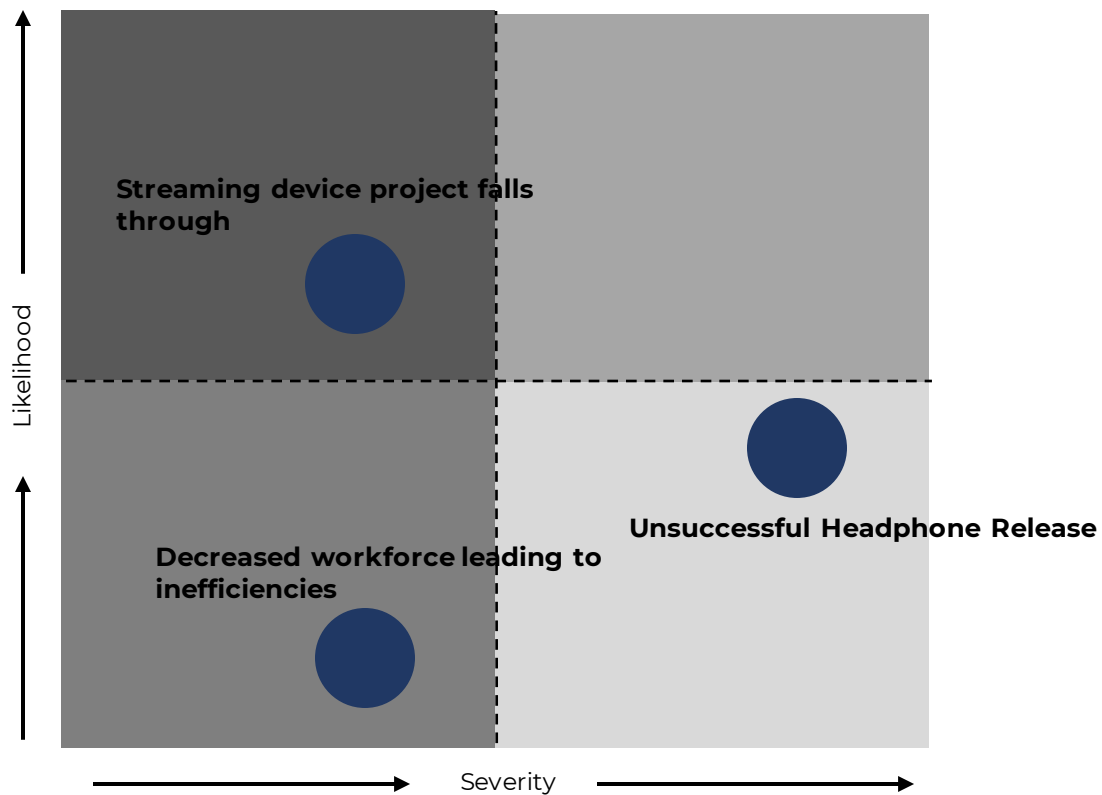
Bull SP:
\$25.00

Bear SP:
+0.92%

Base SP:
+18.94%

Bull SP:
+35.65%

Risk and Mitigations



Streaming device project falls through

Such a market is very foreign to SONO operations, who mainly operate within the audio sector. With luxury consumers in mind, SONO will have increased pressure to create the best product there is and as such there is a high likelihood this project is unsuccessful

Decreased workforce leading to inefficiencies

While layoffs have shown to help SONO financials in its recent quarterly report, they may lack the workforce needed to expand in a variety of different projects in its timeline and as such fail in its diversification plan

Unsuccessful Headphone Release

Currently at a size of \$18bn with a CAGR of 12.5%, the headphone market seems very impenetrable with big name players such as Apple influencing the market heavily. Even with its premium audio technology, there is the chance SONO is unable to break into the market and succeed