Artificial Solutions: Solid start in Q3 2023

Artificial Solutions   **Research Update**   2023-08-29 ⏱ 13:13

Redeye updates its view on Artificial Solutions on the back its Q2 2023 report, where ARR and recurring revenues continue to grow, although slightly below estimates. Management sees a robust pipeline of new customers while existing ones are scaling up its offering. Furthermore, ARR in July was up 4% versus June and 52% y/y, confirming the solid outlook. We reiterate our valuation.

Viktor Lindström

Q2 report – 57% y/y ARR growth and lower losses

Artificial Solutions delivered a solid Q2 2023 report. ARR grew 57% y/y and reached SEK61m (39), while net sales came in at SEK14.8m. Almost aligned with estimates. Positively, the gross margin reached 72% and bounced back from the lower levels in Q1 2023. The stronger gross margin and a lower cost base led to lower EBITDA losses than anticipated.

Solid start to Q3 2023e

Artificial also announced that the ARR in July reached SEK63.7m, up 4% versus June 2023, while the number of SaaS API calls reached 22.4m in July, up 11% versus June levels. One of its major customers, Hello Fresh, went live with a new case at the start of Q3, and we expect higher API calls from this customer once it is fully up and running.

Reiterate our base case of SEK3.8

On the back of the Q2 2023 report, we lower our near-term ARR and sales forecast based on a somewhat softer ARR number in Q2 2023 and the lack of new signed customers. Management expects 1-2 customers to be signed and sealed by the end of FY 2023e, but given the recent development we take a more cautious view. We reiterate our valuation range of SEK2.8-11, with a base case of SEK3.8. Our base case of SEK3.8 corresponds to 12.5x EV/EBITDA (26e).

Key financials

Key financials

SEKm	2021	2022	2023E	2024E	2025E
Revenues	39	46	62	101	156
Revenue Growth	(27.8%)	17.8%	35.0%	64.7%	53.9%
EBITDA	(58)	(76)	(59)	(27)	18
EBIT	(71)	(89)	(74)	(42)	1
EV/Revenue	6.9	7.2	5.4	3.7	2.4
EV/EBITDA	(4.6)	(4.3)	(5.7)	(14.0)	21.1
EV/EBIT	(3.8)	(3.7)	(4.5)	(9.0)	709.4

REDEYE

REDEYE QUALITY RATING

0	0	0
People	Business	Financials

FAIR VALUE RANGE

Bear 0.00   Bull 0.00
Base 0.00

TIMELINESS

KEY STATS

Market Cap	N/A
Entrps. Value (EV)	--
Net Debt	--
30 Day Avg Vol	N/A
Shares Outstanding	N/A
Price / Earnings	N/A
PEG	N/A
Dividend Yield	N/A

Data from 2023-08-29 ⏱ 13:13

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye, Mäster Samuelsgatan 42, 10tr, Box 7141, 103 87 Stockholm. Tel. +46 8-545 013 30
E-post: info@redeye.se

Q2 2023 review

ARR grew 57% y/y and 7% q/q and came in at SEK61.1m (38.9), SEK-6m below our estimates of SEK67.3m. The SaaS ARR came in at SEK32.1m and grew impressively at 61% y/y and 6% q/q. The ARR continues to grow and reach SEK63.7m in July 2023, up 4% versus June 2023, confirming the positive outlook for H2 2023e.

Net sales followed the same trend and came in at SEK14.8m (10.2), whereas recurring revenues came in at SEK14.6m (9.1), accounting for 99% of revenues, which is positive from a long-term profitability view. All in all, net sales were more or less aligned with estimates. We note that sales from licensing were below estimates and are mostly due to the lack of signing new customers and existing ones, not yet scaling up the number of seats. The sales from usage were the strongest revenue contributor and grew impressively 133% y/y, while the number of SaaS API calls reached 20.2m in the quarter.

Deviation table:

Artificial Solutions
Deviation vs Outcome

SEKm	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23a	Q2 23e	Diff (abs)	Diff (%)
License & Support	5.6	5.5	6.0	6.2	6.3	6.2	6.6	0	
Usage	3.2	3.6	4.9	5.7	7.1	8.4	8.5	0	
Other	1.4	1.1	1.5	1.0	0.2	0.2	0.3	0	
Net sales	**10.1**	**10.2**	**12.4**	**12.9**	**13.6**	**14.8**	**15.3**	**-1**	**-3%**
COGS	-3	-3	-5	-5	-6	-4	-4.3	0	
Gross Profit	7	7	7	8	8	11	11.0	0	
Opex	**-26.0**	**-29.9**	**-27.4**	**-28.5**	**-28.4**	**-25.8**	**-25.6**	**0**	**1%**
Adj EBITDA	**-18**	**-22**	**-20**	**-19**	**-18**	**-14**	**-14.6**	**1**	**-5%**
D&A	-3.7	-3.2	-2.7	-3.0	-3.7	-3.8	-3.7	0	
EBIT	-22	-26	-23	-18	-24	-19	-18.3	-1	
Net finance	**-3.6**	**10.8**	**1.3**	**-4.8**	**29.8**	**2.3**	**-3.2**	**6**	
Net income	-25.8	-15.5	-21.6	-22.5	5.4	-16.7	-21.5	5	
EBITDA - Capex	-21.2	-25.5	-23.2	-24.0	-22.2	-17.8	-19.1	1	-7%
Recurring revenues	**8.8**	**9.1**	**10.9**	**11.9**	**13.4**	**14.6**	**15.1**	**0**	**-3%**
ARR	**33.8**	**38.9**	**45.1**	**49.5**	**57.3**	**61.1**	**67.3**	**-6**	**-9%**

Source: Redeye (forecasts), company data (historicals)

The gross margin was 72% in the quarter (67). Aligned with our estimates. It is Positive that the gross margin bounced back from the lower level in Q1 2023. There is still room for gross margin improvement from higher incremental usage, especially once existing customers scale their offerings. Management mentioned that some customers are now up at a gross margin level of c90%, illustrating the potential.

Total Net Opex came in at SEK-25.8m (-29.9). Aligned with our estimates of SEK-25.6m. Some IAC was taken in the quarter. Thus, underlying opex levels are below our estimates.

A stronger gross margin and a lower cost base drove the lower EBITDA losses than expected. It is positive that the EBITDA moves in the right direction towards profitability, but we still expect positive EBITDA levels from 2025e and onwards. In total, Adj EBITDA came in at SEK-13.9m (-22.4).

Recurring revenues and growth q/q


SaaS API Calls, monthly (m)
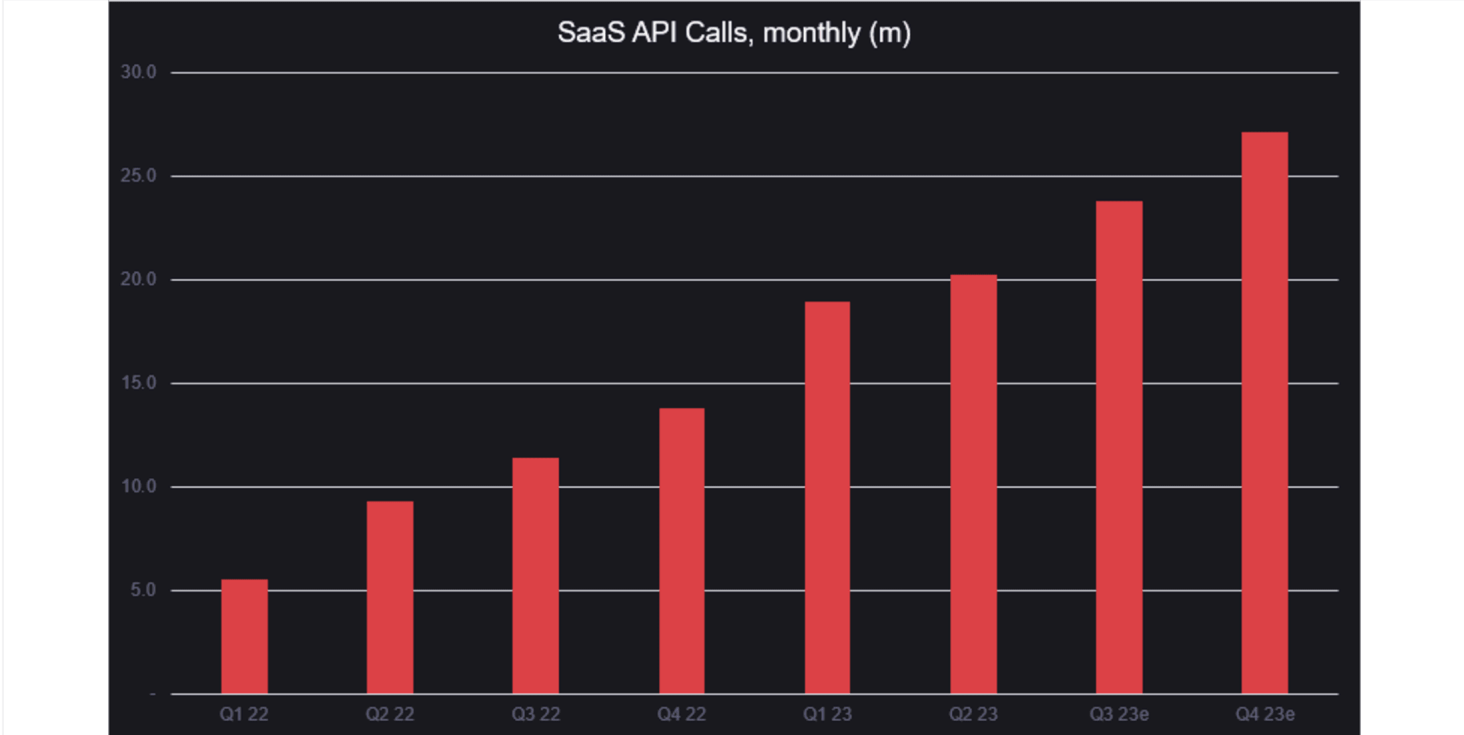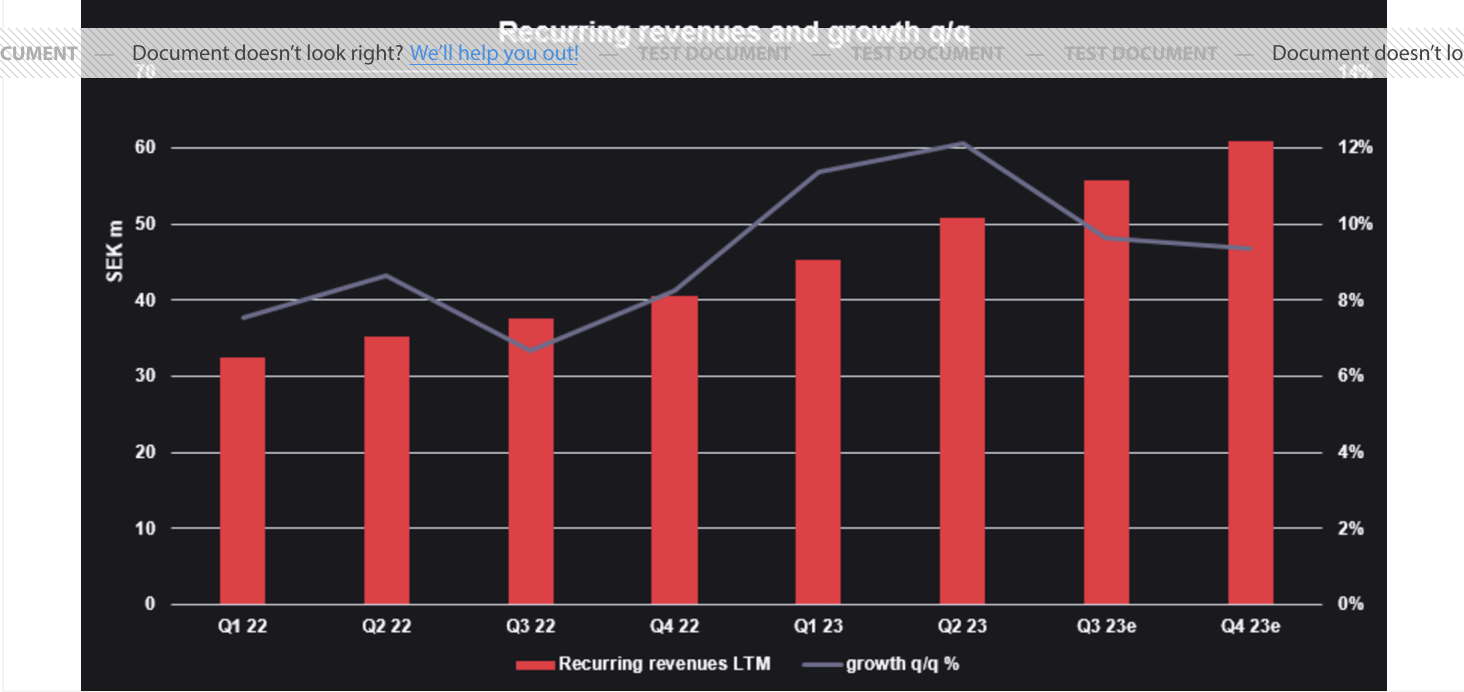
Outlook

The ARR in the Q2 2023 was a bit below expectations. We note that the number of customers on the SaaS platform has shrunk to 11 from 12, driven by the discontinuation of the partnership with AVH. The partnership was canceled due to higher risks (legal) than initially thought. The lack of new customers and that some upselling on existing customers will now be made in Q3 2023e instead were some of the reasons for the lower ARR levels than we estimated.

Going forward, the company has a robust pipeline of new large customers and expects to sign 1-2 new ones by the end of FY 2023. In addition, some existing customers are now scaling their offering, such as Hello Fresh, which went live with a new case by the start of Q3 2023e. Positively, Q3 is off to a solid start, and the number of SaaS API calls was up 11% in July versus June, while the ARR in July was up 4% versus June. Given the lack of new customer signings, we expect usage to be the clear driver ahead and to represent 58% of sales in 2023e, up from 38% in 2022. From a profitability point of view, higher sales from usage indicate higher sales from existing customers, which comes with high margins as the incremental costs are almost zero. This is evident from the fact that Artificial Solutions now earns a gross margin of c90% of some customers. Something we view as positive as it will be quicker to reach profitability.

The company states that it has reached a solid employee base and does not see the need to hire new ones. However, the number of employees was reduced by eight people from Q1 2023, yielding cost savings going forward.

Redeye Equity Research   Artificial Solutions   August 29, 2023
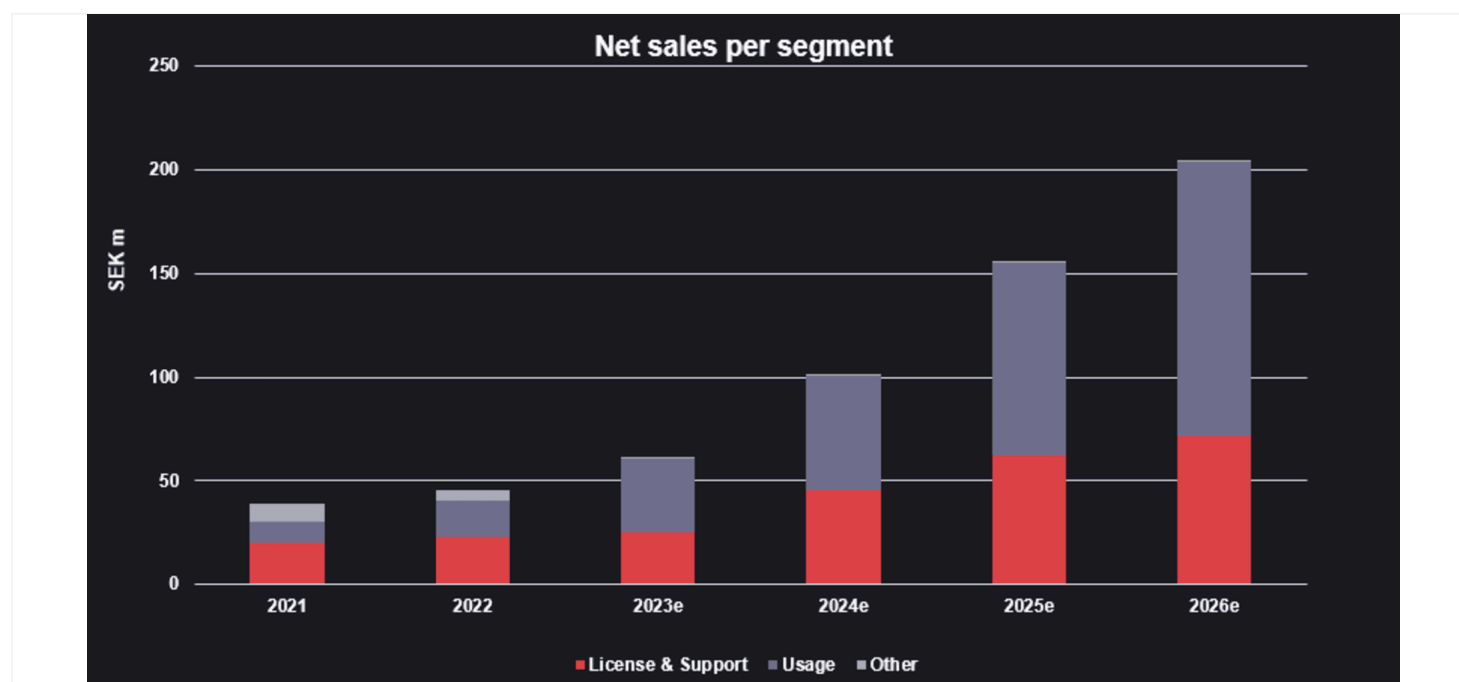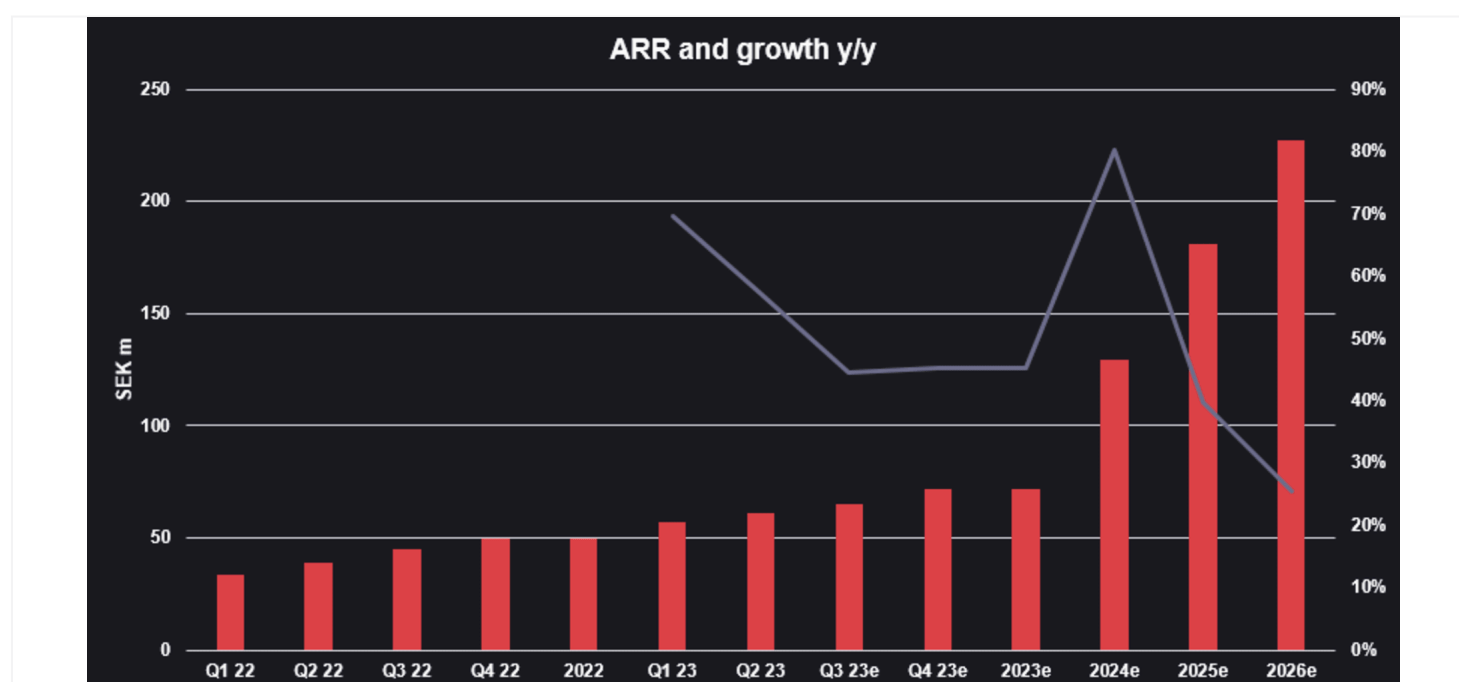
Estimate changes

Following the Q2 2023 report, we take a more conservative view on signing new customers and that the conversion and upscaling for existing ones also take a bit longer than expected. Given the business model, which accounts for a high degree of operating leverage, it naturally affects EBITDA levels. We now forecast an ARR of SEK72m in 2023e, SEK130m in 2024e, and SEK181m in 2025e. Below Artificial Solutions internal target of SEK200m in 2025e.

We expect the EBITDA losses to gradually reduce as the sales volume steadily increases.

Estimate Changes												
	New Estimates			Old Estimates			Diff (abs)			Diff (%)		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
Net sales	**62**	**101**	**156**	**66**	**121**	**165**	**-3.9**	**-19.3**	**-8.9**	**-6%**	**-16%**	**-5%**
Gross profit	**44**	**81**	**131**	**47**	**97**	**139**	**-3.0**	**-15.4**	**-7.5**	**-6%**	**-16%**	**-5%**
Gross margin %	71%	80%	84%	71%	80%	84%						
Net Opex	**-103**	**-109**	**-114**	**-103**	**-111**	**-118**	**-0.6**	**1.8**	**3.2**	**1%**	**-2%**	**-3%**
Adj EBITDA	**-56**	**-27**	**18**	**-56**	**-13**	**22**	**0.2**	**-13.6**	**-4.3**	**0%**	**102%**	**-20%**
Net Income	-57	-54	-11	-59	-40	-6	1.1	-13.1	-5.0	-2%	32%	79%
Adj EBITDA - Capex	-71	-44	1	-73	-35	0	2.0	-9.7	0.8	-3%	28%	-308%
ARR	**72**	**130**	**181**	**89**	**137**	**191**	**-17.2**	**-7.4**	**-10.0**	**-19%**	**-5%**	**-5%**
Recurring revenues	61	101	155	65	113	164	-3.7	-12.3	-8.7	-6%	-11%	-5%

Source: Redeye (forecasts), company data (historicals)

Financial estimates

Artificial Solutions: Key financials														
SEKm	2021	Q1 22	Q2 22	Q3 22	Q4 22	2022	Q1 23	Q2 23	Q3 23e	Q4 23e	2023e	2024e	2025e	2026e
License & Support	20	6	6	6	6	23	6	6	6	7	25	45	62	71
Usage	10	3	4	5	6	17	7	8	9	11	35	55	93	133
Other	9	1	1	2	1	5	0	0	0	0	1	1	1	1
Net sales	**39**	**10**	**10**	**12**	**13**	**46**	**14**	**15**	**16**	**17**	**62**	**101**	**156**	**205**
Recurring revenues	30	9	9	11	12	41	13	15	16	17	61	101	155	204
Recurring revenues LTM	30	32	35	38	41		45	51	56	61				
growth q/q %		0	0	0	0		0	0	0	0				
ARR	**20**	**34**	**39**	**45**	**50**	**50**	**57**	**61**	**65**	**72**	**72**	**130**	**181**	**227**
SaaS ARR	**9**	**13**	**20**	**24**	**25**	**25**	**30**	**32**	**38**	**52**	**52**	**119**	**181**	**227**
ARR q/q %		0	0	0			0	0	0	0				
ARR y/y %							1	1	0	0	0	1	0	0
SaaS customers (#)	8	13	13	13	13	13	12	11	11	13	13	18	22	24
SaaS ARR per customer	1	1	2	2	2	2	3	3	3	4	4	7	8	9
# Customers	18	23	23	23	22	22	20	19	17	17	17	20	22	24

Source: Redeye (forecasts), company data (historicals)

Artificial Solutions: Financial forecast														
SEKm	2021	Q1 22	Q2 22	Q3 22	Q4 22	2022	Q1 23	Q2 23	Q3 23e	Q4 23e	2023e	2024e	2025e	2026e
Net sales	**39**	**10**	**10**	**12**	**13**	**46**	**14**	**15**	**16**	**17**	**62**	**101**	**156**	**205**
Growth YoY (%)	-28%	3%	24%	13%	32%	18%	34%	45%	29%	34%	35%	65%	54%	31%
COGS	-12	-3	-3	-5	-5	-16	-6	-4	-4	-4	-18	-20	-25	-31
Gross profit	**27**	**7**	**7**	**7**	**8**	**30**	**8**	**11**	**12**	**13**	**44**	**81**	**131**	**174**
Gross margin (%)	70%	74%	67%	58%	64%	65%	57%	72%	76%	78%	71%	80%	84%	85%
Capitalised dev	12	3	3	3	4	13	4	4	4	4	16	17	19	16
Personnel	-71	-19	-22	-21	-23	-85	-25	-22	-21	-22	-90	-95	-100	-108
External expenses	-30	-10	-11	-9	-10	-40	-7	-8	-7	-7	-29	-32	-33	-36
Other costs	-2	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Net Opex	**-91**	**-26**	**-30**	**-27**	**-29**	**-112**	**-28**	**-26**	**-24**	**-25**	**-103**	**-109**	**-114**	**-127**
EBITDA adj	**-59**	**-18**	**-22**	**-20**	**-19**	**-78**	**-18**	**-14**	**-12**	**-12**	**-56**	**-27**	**18**	**48**
EBITDA adj (%)	-151%	-177%	-220%	-160%	-147%	-171%	-134%	-93%	-74%	-68%	-90%	-27%	11%	24%
Non-recurring	-4	-1	-1	0	-1	-3	-3	-1	0	0	-4	0	0	0
EBITDA	-58	-18	-23	-20	-15	-76	-21	-15	-12	-12	-59	-27	18	48
EBITDA (%)	-150%	-182%	-226%	-163%	-112%	-167%	-152%	-102%	-74%	-68%	-96%	-27%	11%	24%
D&A	-13	-4	-3	-3	-3	-13	-4	-4	-4	-4	-15	-15	-17	-16
EBIT	**-71**	**-22.2**	**-26.3**	**-22.9**	**-17.5**	**-88.9**	**-24.4**	**-18.9**	**-15.7**	**-15.5**	**-74**	**-42**	**1**	**32**
Net finance	1	-4	11	1	-5	4	30	2	-4	-4	17	-11	-12	-12
PTP	-69	-26	-16	-22	-22	-85	5	-17	-19	-19	-57	-54	-11	20
Net income	-69	-26	-16	-22	-23	-85	5	-17	-19	-19	-57	-54	-11	16
EPS	-10.6	-3.9	-2.4	-3.3	-3.4	-13.0	0.1	-0.2	-0.2	-0.2	-0.6	-0.5	-0.1	0.2
Adj EBITDA-Capex	-73.0	-21.2	-25.5	-23.2	-24.0	-92.6	-22.2	-17.7	-15.9	-15.7	-71.4	-44.2	0.5	32.0

Source: Redeye (forecasts), company data (historicals)

Peer valuation

Company name	EV SEK m	EV/S 2023	2024	2025	EV/EBITDA 2023	2024	2025	Sales CAGR 2022-25e
Artificial Solutions	336	5.4	4.1	2.6	neg	neg	39.0	48%
Nordic SaaS								
Admicom Oyj	2,056	5.1	4.8	4.3	13.6	12.4	10.9	13%
Bambuser AB	19	0.1	0.1	0.1	neg	neg	neg	7%
Carasent ASA	628	2.4	2.0	1.7	15.5	8.3	5.8	21%
Checkin.com Group AB	941	9.0	4.8	2.6	33.6	15.4	8.0	72%
Efecte Oyj	642	2.2	1.9	1.6	>100	26.3	13.9	20%
Fortnox AB	35,758	21.4	16.2	12.8	42.8	31.2	24.0	30%
Irisity AB	266	2.0	1.5	1.2	>100	10.2	7.2	35%
Pexip Holding ASA	1,765	1.7	1.6	1.5	13.5	8.9	6.9	10%
Physitrack Limited	296	1.6	1.3	1.0	6.3	3.9	2.8	28%
SmartCraft ASA Class A	2,941	7.2	6.3	5.5	17.4	14.8	12.6	15%
Upsales Technology AB	612	4.2	3.7	3.0	16.5	14.9	13.0	16%
Average - Nordics	**3,559**	**4.8**	**3.7**	**2.9**	**11.8**	**10.4**	**11.1**	**24%**
Median - Nordics	**635**	**3.3**	**2.8**	**2.2**	**15.5**	**12.4**	**10.9**	**21%**
Global peers								
C3.ai, Inc. Class A	30,140	8.9	7.4	5.7	neg	neg	70.0	24%
Jamf Holding Corp	23,857	3.9	3.4	3.0	45.1	32.5	27.1	17%
RingCentral, Inc. Class A	46,350	1.9	1.7	1.6	8.8	7.4	6.1	14%
Intapp, Inc.	23,978	6.2	5.4	4.7	neg	neg	>100	na
nCino Inc	35,755	6.8	5.8	4.9	56.4	40.2	28.2	21%
ACI Worldwide, Inc.	37,757	2.4	2.2	2.1	8.9	8.2	7.3	8%
Average - Global	**32,973**	**5.0**	**4.3**	**3.7**	**19.9**	**14.7**	**23.1**	**14%**
Median - Global	**32,948**	**5.1**	**4.4**	**3.9**	**27.0**	**20.4**	**27.1**	**17%**
ASAI (-) / (+) premium versus Nordics peers		63%	44%	20%	-139%	-193%	258%	
ASAI (-) / (+) Discount / premium versus Global peers		6%	-7%	-33%	-122%	-156%	44%	

Source: FactSet, Redeye

Artificial Solutions trades at a premium versus our Nordic-selected peers on EV/S multiples but at a discount versus global peers. However, Artificial Solutions is expected to show a stronger sales CAGR than selected peers. We also note that the valuation gap versus private AI peers is even larger.

DCF Valuation

We derive our fair value range from a fundamental DCF framework and earnings multiple approach. We apply a WACC of 13% across all DCF model scenarios. We reiterate our valuation range and base case of SEK3.8. Our base case of SEK3.8 corresponds to 12.5x EV/EBITDA (26e), while our bull case scenario corresponds to 25x EV/EBITDA(26e)

Valuation scenarios			
SEK	Bear case	Base case	Bull case
Valuation per share	**2.4**	**3.8**	**11.0**
Revenue CAGR 2023-2028	36%	46%	51%
Revenue CAGR 2029-2038	9%	15%	19%
Avg EBITDA-margin 2023-2038	4%	14%	24%
Terminal growth	2%	2%	2%
Terminal EBITDA %	25%	35%	45%

Source: Redeye research

Investment thesis

⊞ Case

One of the market leaders in the fast-growing conversational AI market

Artificial Solution offers attractive exposure to the fast-growing conversational AI market, which is expected to grow by a CAGR of 48% until 2031e. Supported by enhanced efficiencies, cost reductions, and stronger NPS (net promoter scores) from customers, yielding stronger customer satisfaction and reduced churn. Artificial Solutions held a market share of 10-15% of the world's total number of automated call center interactions in 2022. In December 2022, the implied annual SaaS API calls reached 166m, while the volume in January 2023e was up 14% versus December 2022. Suggesting implied annual SaaS API calls of 189m. According to our understanding, no other competitor has reached the same volumes. In addition, The Teneo platform support applications in 86 different languages, which makes the platform easy to implement across geographies.

🔍 Evidence

Recruiting an all-star team

All management positions (but the CTO) have been reassigned since 2020. Per Ottosson, CEO since late 2020, spent about ten years at Amelia (fka IPsoft), a much larger conversational AI vendor, most recently as Chief Revenue Officer for its EMEA division. Since becoming CEO, Ottosson has recruited several former colleagues to Artificial Solutions' management. Other appointees have backgrounds from fast-growing SaaS companies in common. We think the team's successful track record and excellent industry understanding support our long-term outlook.

Supportive Analysis

The company has been around since 2001 and is at the technological forefront of the conversational AI market. Artificial Solutions holds some of the industry's foundational patents, which other stakeholders commonly cite. According to Artificial Solutions, it has significantly more forward citations than its average software peer (305 vs 33). Forward citations indicate that newer patents acknowledge the importance of a foundational patent. We understand that tech giants like Apple and Amazon have cited Artificial Solutions' patents when building conversational AI solutions (Siri and Alexa).

⊘ Challenge

High leverage and negative cash flows

We don't expect Artificial Solution to post positive EBITDA until 2025e. Artificial Solutions has debt terms at 4% - which will be accumulated to principal at maturity in December 2026e. Given the net debt position of SEK242m, versus its market cap of cSEK105m, the leverage ratio is high and will take time before it can repay its debt position. However, the refinancing is due in 2026e and there are changes of more favourable capital markets in the coming years, especially if the company delivers on its growth agenda.

⊘ Challenge

Large and time-consuming projects

Management commentary (Q3 2021 earnings call) states that, on average, large-scale conversational AI implementations with Teneo require 10–15 developers and take 6–9 months to go live. Moreover, it takes another nine months to ramp up from 0–100% of the desired traffic in a project. However, once a solution goes live, it only requires one or two developers to maintain it.

◈ Valuation

Wide fair value range

Considering the company's leading position in the fast-growing market, the scalable business model, and its high net debt. We apply a rather wide valuation range to illustrate the different scenarios if the company succeeds in reaching its targets. Our base case corresponds to 12.5x EV/EBITDA(26e) and 3x EV/S(26e), rather modest multiples for a SaaS company with >90% gross margins at scale. Thus, should the company deliver on its financial targets, there is further potential on the upside.

Quality Rating

People: 2

Artificial Solutions appointed Per Ottosson as CEO in November 2020. Ottosson brings extensive C-suite experience from highly successful companies within software and AI – most recently as CRO at IPSoft. Additionally, Ottosson has attracted many high-profile senior recruitments to Artificial Solutions. So far, management has delivered on its goals, i.e., transition to a SaaS model, expand partnerships, and decrease the cost base. Also, we value Scope's ownership and long-term commitment (c.16% of the capital/votes) and some founders having meaningful stakes. Greater consistency in the capital allocation and increased management ownership could help improve the rating.

Business: 3

Since transitioning to a SaaS business model in 2021, the company has operated an asset-light (Kubernetes cloud infrastructure) and highly scalable venture, owing to its usage-based revenues – creating product stickiness. Additionally, it relies on global partners such as Microsoft, Deloitte, and CGI to drive sales – which on the flip side, makes some dependencies. The Software Conversational AI market is a $14B industry, growing at a 22% CAGR – the prospect of achieving long-term organic growth is highly feasible. However, Artificial Solutions is not immune to competition and innovations in the space and has, to some degree, high customer concentration, although this is steadily decreasing.

Financials: 1

Artificial Solutions has a negative FCF profile and will likely remain unprofitable for some years, investing significant resources in sales growth. The rating's retrospective nature limits the company from achieving a higher score. However, we positively regard the increasing gross profit margin and expect it to, over time, increase to >90%.

Financials

Income statement

SEKm	2022	2023E	2024E	2025E
Revenues	46	62	101	156
Cost of Revenue	16	18	20	25
Operating Expenses	112	103	109	114
EBITDA	(76)	(59)	(27)	18
Depreciation	0.3	-	-	-
Amortizations	12	15	15	17
EBIT	(89)	(74)	(42)	1
Shares in Associates	-	-	-	-
Interest Expenses	28	15	11	12
Net Financial Items	4	17	(11)	(12)
EBT	(85)	(57)	(54)	(11)
Income Tax Expenses	0.2	-	-	-
Net Income	(85)	(57)	(54)	(11)

Balance sheet

Assets

Non-current assets

SEKm	2022	2023E	2024E	2025E
Property, Plant and Equipment (Net)	1	1	1	1
Goodwill	-	-	-	-
Intangible Assets	32	33	35	35
Right-of-Use Assets	-	-	-	-
Other Non-Current Assets	2	2	2	2
Total Non-Current Assets	35	35	37	37

Current assets

SEKm	2022	2023E	2024E	2025E
Inventories	-	-	-	-
Accounts Receivable	36	31	51	78
Other Current Assets	-	7	7	7
Cash Equivalents	18	46	14	31
Total Current Assets	54	84	72	116
Total Assets	89	120	110	153

Equity and Liabilities

Equity

SEKm	2022	2023E	2024E	2025E
Non Controlling Interest	-	-	-	-
Shareholder's Equity	(234)	(217)	(271)	(282)

Non-current liabilities

SEKm	2022	2023E	2024E	2025E
Long Term Debt	264	274	285	297
Long Term Lease Liabilities	-	-	-	-
Other Non-Current Lease Liabilities	-	-	-	-
Total Non-Current Liabilities	264	274	285	297

Current liabilities

SEKm	2022	2023E	2024E	2025E
Short Term Debt	-	-	-	-
Short Term Lease Liabilities	-	-	-	-
Accounts Payable	17	21	34	53
Other Current Liabilities	-	-	-	-
Total Current Liabilities	59	63	95	139
Total Liabilities and Equity	89	120	110	153

Cash flow

SEKm	2022	2023E	2024E	2025E
Operating Cash Flow	(78)	(30)	(15)	33
Investing Cash Flow	(15)	(16)	(17)	(17)
Financing Cash Flow	(2)	74	-	-

Rating definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

The team

MANAGEMENT

Björn Fahlén
bjorn.fahlen@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

EDITORIAL

Joel Karlsson
joel.karlsson@redeye.se

TECHNOLOGY TEAM

Alexander Flening
alexander.flening@redeye.se

Anton Hoof
anton.hoof@redeye.se

Fredrik Reuterhäll
fredrik.reuterhall@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se

Jacob Svensson
jacob.svensson@redeye.se

Jesper Von Koch
jesper.vonkoch@redeye.se

Jessica Grunewald
jessica.grunewald@redeye.se

Mark Siöstedt
mark.siostedt@redeye.se

Mattias Ehrenborg
mattias.ehrenborg@redeye.se

Niklas Sävås
niklas.savas@redeye.se

Rasmus Jacobsson
rasmus.jacobsson@redeye.se

Viktor Lindström
viktor.lindstrom@redeye.se

LIFE SCIENCE TEAM

Christian Binder
christian.binder@redeye.se

Ethel Luvall
ethel.luvall@redeye.se

Filip Einarsson
filip.einarsson@redeye.se

Fredrik Thor
fredrik.thor@redeye.se

Gustaf Meyer
gustaf.meyer@redeye.se

Johan Unnerus
johan.unnerus@redeye.se

Kevin Sule
kevin.sule@redeye.se

Martin Wahlström
martin.wahlstrom@redeye.se

Mats Hyttinge
mats.hyttinge@redeye.se

Oscar Bergman
oscar.bergman@redeye.se

Richard Ramanius
richard.ramanius@redeye.se

Sebastian Andersson
sebastian.andersson@redeye.se

Disclaimer

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