Artificial Solutions

Sector: Conversational Artificial Intelligence

Still the only solution in town with live large-scale references

Redeye updates its estimates on Artificial Solutions, which continues to grow strongly, underpinned by exceptional upsell on existing customers. During Q1 2024, the company also closed a rights issue, giving some legroom for sales and marketing and to increase the pace for new logo hunting.

ARR and sales

Artificial Solutions' total ARR grew by 25% y/y and c6% q/q and amounted to SEK66.9m (53.7m). The SaaS ARR came in at SEK37.2m and was thus up by 32% y/y and a strong 20% q/q (due to volumes coming back). With that, Artificial Solutions were back to new all-time highs. Monthly SaaS API call volumes in active customers averaged 23.8 million in Q1 2024, up by 40% y/y and 31% q/q. Moreover, Artificial Solutions reported net sales of SEK17.1m, where of 99%, or SEK17m were recurring. Net sales grew by 26% y/y and the recurring revenues by 27%. Thus, sales were slightly stronger than our SEK16.4m estimate (4% difference).

Margins and cash balance

Artificial Solutions reported a gross margin of 79% in Q1 2024, significantly higher than last year's 56%. OPEX + capitalisation amounted to SEK-39m, compared to our estimate of SEK-36m. However, when adjusting for one-offs, they were well-aligned, and the adj. EBITDA-CAPEX was cSEK-14m on both. The difference was mere 3% or SEK0.4m, i.e., negligible. Furthermore, in the quarter, Artificial Solutions closed a rights issue with a 166% subscription rate providing the company with SEK26m as well. The cash flow from financing activities landed on SEK22.9m. At quarter-end Q1 2024, Artificial Solutions had a cash balance of SEK24.6m and current receivables of SEK12.9m.

Fair value range unchanged – estimating a clear ramp-up

Artificial Solutions' Q1 2024 was fairly in line with our estimates, and we only make smaller changes. The company continues to top the net revenue retention charts with 141% in Q1 2024, but the intake of larger customers has been a bit slower than anticipated. On the other hand, there have been signings during H1 2024, with MedHelp Care and HEALTHFLEXX. We would like to see Artificial Solutions close some larger deals during the year, to give us strong confidence in our estimates, which point toward a clear ramp-up and strong scalability (deployed customers can carry 95% gross margins). We argue that Artificial Solutions, with its live large-scale references, ought to be able to attract a couple of sizeable new customers in need of a best-in-class containment rate, happier customers and subsequent cost-savings. Our fair value range remains SEK0.3-3.2, with a base case of SEK0.8 per share.

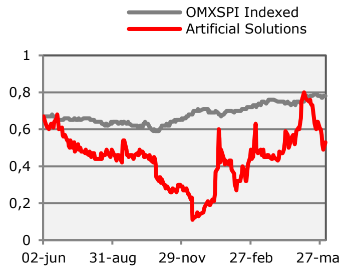
SEKm	2022a	Q1 23a	Q2 23a	Q3 23a	Q4 23a	2023a	Q1 24e	Q2 24e	Q3 24e	Q4 24e	2024e	2025e	2026e
Net sales	**46**	**13,6**	**14,8**	**16,4**	**15,8**	**61**	**17,1**	**18,3**	**21,0**	**24,4**	**81**	**128**	**180**
Growth YoY (%)	18%	35%	45%	32%	22%	33%	26%	24%	28%	54%	33%	59%	40%
Opex + Capitalisation	**-134**	**-36**	**-34**	**-34**	**-37**	**-140**	**-36**	**-38**	**-38**	**-39**	**-150**	**-152**	**-158**
EBIT	-78	-22	-18	-16	-9	-72	-14	-11	-10	-9	-45	-13	25
Margin (%)	-170%	-160%	-119%	-98%	-58%	-119%	-81%	-61%	-50%	-38%	-55%	-10%	14%
Adj EBITDA-Capex	-79	-22	-18	-17	-15	-72	-14	-15	-14	-12	-56	-16	24
Margin (%)	-172%	-162%	-120%	-103%	-94%	-118%	-82%	-82%	-65%	-48%	-69%	-12%	13%
Total ARR											107	154	211
-(SaaS becoming a larger share)													
EV/S											4,8	3,1	2,1
EV/EBIT											neg	neg	15,2
EV/EBITDA-Capex											neg	neg	15,4

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

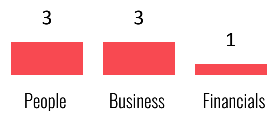
FAIR VALUE RANGE

BEAR	BASE	BULL
0.3	**0.8**	3.2

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ASAI
Market	First North
Share Price (SEK)	0.55
Market Cap (MSEK)	C150
Net Debt (MSEK)	c200m
Free Float	71%
Avg. daily volume ('000)	c500

ANALYSTS

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Q1 2024 Recap

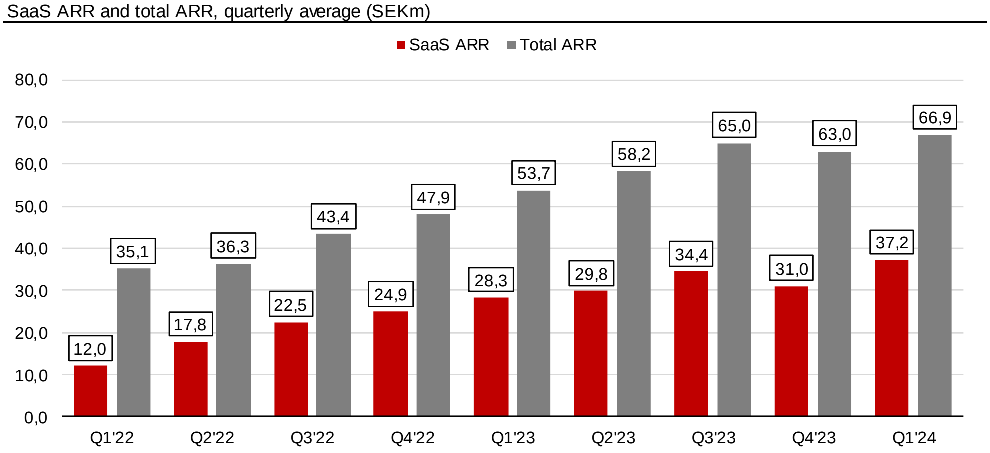
Artificial Solutions: Financial forecast										
SEKm	**2022a**	**Q1 23a**	**Q2 23a**	**Q3 23a**	**Q4 23a**	**2023a**	**Q1 24e**	**Q1 24a**	**Diff (abs)**	**Diff (%)**
Net sales	**46**	**13,6**	**14,8**	**16,4**	**15,8**	**61**	16,4	**17,1**	0,7	4%
Growth YoY (%)	18%	35%	45%	32%	22%	33%	21%	26%		
COGS	-21	-6	-4	-6	-4	-20	-3	-4		
Gross profit	**25**	**8**	**11**	**10**	**12**	**41**	13	14	0,4	3%
Gross margin (%)	55%	57%	72%	63%	77%	67%	80%	79%		
Capitalised dev	13	4	4	4	9	21	8	6		
Personnel	-85	-25	-22	-24	-18	-88	-18	-21		
External expenses	-35	-7	-8	-6	-9	-30	-9	-13		
Opex + Capitalisation	**-134**	**-36**	**-34**	**-34**	**-37**	**-140**	**-36**	**-39**	-3,6	-9%
EBITDA	**-76**	**-21**	**-15**	**-16**	**-6**	**-58**	-6,4	-9,9		
EBITDA (%)	-167%	-152%	-102%	-99%	-38%	-96%	-39%	-58%		
Non-recurring	11	3	1	3	0	8	0			
EBITDA adj	-65	-18	-14	-13	-6	-51	-6,4	-8,5	-2,1	-24%
EBITDA adj (%)	-143%	-133%	-93%	-79%	-36%	-83%	-39%	-50%		
D&A	-13	-4	-4	-3	-4	-14	-3	-4		
EBIT	**-89**	**-24**	**-19**	**-20**	**-10**	**-72**	**-10**	**-14**		
EBIT adj	-78	-22	-18	-16	-9	-72	-10			
Net finance	4	30	2	-8	-10	15	-3	4		
PTP	-85	5	-17	-27	-19	-58	-12	-10		
Net income	-85	5	-17	-27	-19	-58	-12	-10	2,5	25%
EPS										
Adj EBITDA-Capex	-79	-22	-18	-17	-15	-72	-14	-14	0,4	3%

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

ARR

Artificial Solutions' total ARR grew by 25% y/y and c6% q/q and amounted to SEK66.9m (53.7m). The SaaS ARR came in at SEK37.2m and was thus up by 32% y/y and an impressive 20% q/q (due to volumes coming back). Artificial Solutions changed how it reports its ARR metrics in Q4 2023, opting for the average monthly recurring revenues over the quarter multiplied by 12 (months), instead of end-of-month x12, in order to avoid monthly spikes, such as the one that occurred in August 2023. We argue the change is sound and that the new ARR numbers thus show a smoother development. With these Q1's numbers, Artificial Solutions printed new all-time highs and we were really impressed with how well and quickly the SaaS ARR has recouped and moved forward.

SaaS ARR and total ARR, quarterly average (SEKm)



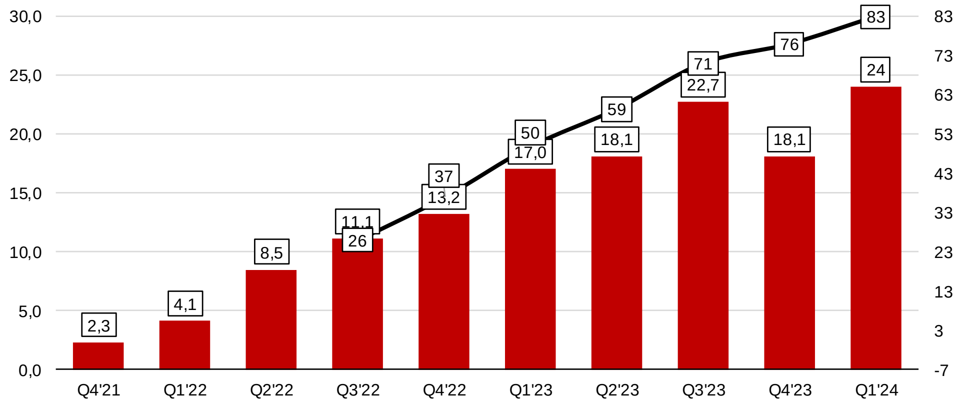
Source: Redeye Research, Artificial Solutions

API volumes

Monthly SaaS API call volumes in active customers averaged 23.8 million in Q1 2024, up by 40% y/y and 31% q/q. But maybe more importantly, the SaaS API call volumes have now surpassed the old record in Q3 2023, when volumes increased significantly in July and August due to high WhatsApp usage for two of Artificial Solutions' US customers, where parts of the calls were of fraudulent nature. Now in Q1 2024, the SaaS API call volumes were nearly 5% higher than in Q3 2023.

CFO Fredrik Törgren said on the conf call: "API call volumes, particularly on the SaaS side is a key indication of how our business is developing and growing. And it's basically an indicator of how our customer application and the usage of them are growing with our revenue models where we have a significant part of the revenues coming from the variable piece which is linked to the volume. This is a key KPI for us. So, you can simplify, say that the more application solutions, covered regions, languages, et cetera, the higher API call volumes." Mr Törgren also added: "So we had an average of 24 million calls per month in the quarter. So, it clearly shows that we are back on the growth trajectory, and we also look forward for continuing growing even better than the market also in the rest of 2024."

SaaS API calls quarterly average (in million) and rolling-twelve-month average (in million)



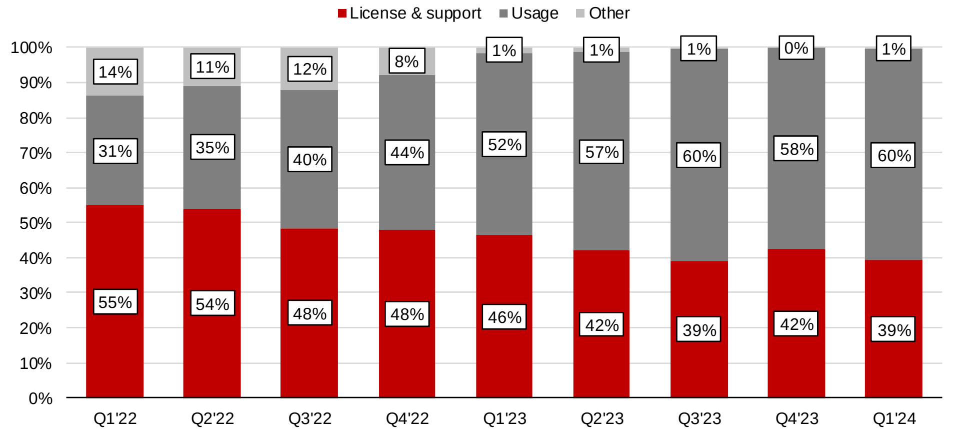
Source: Redeye Research, Artificial Solutions

Meanwhile, non-SaaS quarterly average API calls declined by 9% y/y. Some of the non-SaaS customer agreements include pricing based on volume thresholds. Once these thresholds are reached, customers are charged based on their volume consumption. Artificial Solutions stated in the report that: "This, together with the growth driven by Non-SaaS customers solutions based on a pay per consumption model, makes that, even if the API call volumes were lower in the first quarter 2024 versus the first quarter 2023, revenues on usage on Non-SaaS customers have grown 34% in the first quarter 2024 versus the first quarter 2023." Since the usage revenues and volumes are not directly linked, Artificial Solutions refrains from reporting the actual numbers. In this case, the improved commercial terms in the non-SaaS customer agreements drove the growth in recurring revenues and total ARR.

Sales (focus on recurring streams)

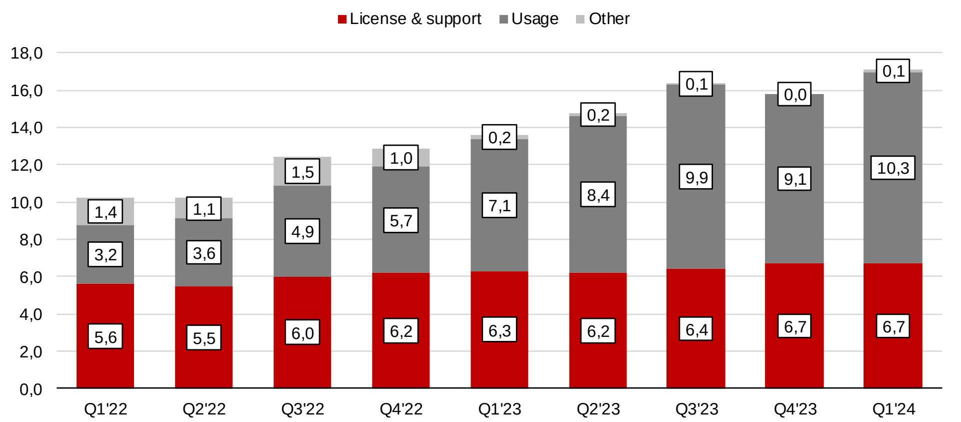
Artificial Solutions reported net sales of SEK17.1m, where of 99%, or SEK17m were recurring (i.e., license & support and usage). Net sales grew by 26% y/y and the recurring revenues by 27% (this is the more important metric, as professional services are not a focus area anymore, and partners instead provide the services to customers). Artificial Solutions' numbers were close to our estimate, beating it by about 4%. The software-as-a-service (SaaS) business model offers stability and predictability, and the number of SaaS customers remained at 11 at the quarter end (more on new customers soon).

Artificial Solutions' revenue streams (%)



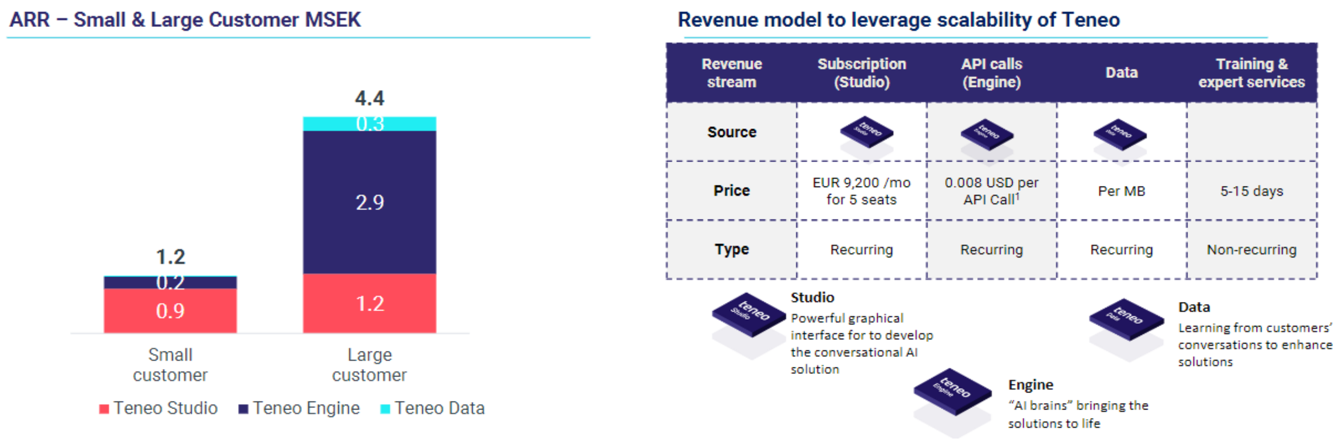
Source: Redeye Research, Artificial Solutions

Artificial Solutions' revenue streams (SEKm)



Source: Redeye Research, Artificial Solutions

The SaaS model and pricing - please mind that the numbers stem from Q1 2023, and thus the prices might have changed



Source: Artificial Solutions (Q1 2023 presentation)

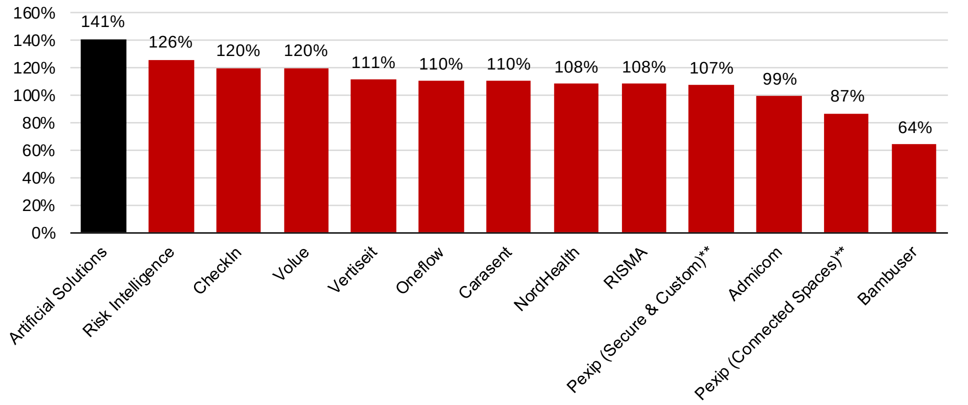
It is worth noting that recurring sales can grow by 1) adding more customers to the SaaS model, 2) ramping up existing customers in terms of API call volumes, 3) converting existing customers to the SaaS model. Expert/professional services, which made up around 10% of sales in 2022, are no longer a focus (evidently by the high share of recurring revenue).

In the quarter, Artificial Solutions renewed a SaaS agreement with Medtronic, one of the largest medical device companies in the world and it also renewed a license agreement with Swisscom, the leading Swiss telecom operator. Names like these are incredibly important, as they are large customers with large quantities of incoming calls made every day, and thus they both serve as good revenue generators but also as credible large-scale references. Artificial Solutions also expanded its solution in Japan with its “Global American Tech company customer,” i.e., Microsoft.

Although the number of SaaS customers remained at 11 at the quarter end, Artificial Solutions announced a few interesting news soon after. It signed 1) MedHelp Care and partnered with 2) HEALTHFLEXX. In MedHelp’s case, Artificial Solutions will integrate Teneo's voice chatbot into its telephone service, thereby reducing waiting times, increase the level of service, and free up nurses' time for more complex advice. MedHelp, one of Sweden's most widely used health platforms for employers, serves around 500 customers with approximately 200,000 employees. These customers will now have the opportunity to use AI-based absence reporting via telephone through a voice chatbot powered by the AI platform Teneo. Meanwhile, HEALTHFLEXX, a premier health management organisation, picked Teneo to transform its triage process, referring to the method used to determine the priority of patients' treatments based on the severity of their condition. This process ensures that those who need urgent care receive it first, especially in situations where resources are limited. In the press release, Artificial Solutions states: “This partnership will impact millions of users, empowering them to make informed decisions and ultimately save on healthcare costs.”

In the report, CEO Per Ottoson wrote: “During the fourth quarter 2023 we reorganized to focus on new sales as well as developing existing customers. We have built an impressive Pipeline with companies with very large contact centers and I was expecting us to be able to close a few of these in the first quarter 2024. However, I misjudged the sales cycle length in these companies. As it became apparent that getting to signature in these really large enterprises would take longer we decided to quickly focus on creating a SaaS delivery at a lower price point.” Thus, even though a customer like MedHelp is not a “big elephant” it was the first customer added through the new SaaS delivery model and it still adds a good ARR and serves as a good reference. On the conf call, management said: “So these smaller customers are going to be a lot less revenue than the Microsoft, Swisscom, Telefonica type customers. Since it's all driven by the amount of calls. So, our hope is that this is going to have a lot of impact on a customer like NHS and a customer like Medtronic, which are the really large ones in our portfolio. So, it's very much that -- I mean Medhelp is a very strong tech company in the health care space. So, if they can build solutions which are -- which we can then promote as references across larger entities that's very, very powerful for us. And of course, it contributes to our development. We're getting feedback on product features and so forth. But I think these SMB customers are going to land in the EUR 15,000 space per month. So ARRs in 180 type -- EUR180,000 type ARRs.” Mr Ottoson added on the conf call that his focus would be on signing larger enterprise customers, and that although it had not signed any, Artificial Solutions had also not “lost anything.” In short, Artificial Solutions just need to get these customers to close. He added “So there's a few tweaks we're going to do on the marketing side, messaging side and try to get around this constant waiting for the contact center project to be ready, which is the big stopping block in the organization.” In the report, he also wrote: “As I mentioned the sales cycle related to the large customers has proven to be longer than we have hoped. There are several reasons for this, but the main one is the pressure in the market from startups building purely on the LLM technology. All our prospects have built Chatbots based on LLMs in the last few months which has taken focus away from the Voice channel. We and most of the market now know that an LLM based chatbot in itself will never be predictable and always correct." Thus, customer will likely look for voice-services once again, and since c62% of all enterprises in the US, for example, use traditional IVRs (interactive voice response) where customers often need to use the keypads, there should be good opportunities to sell. Artificial Solutions has important references in the form of Microsoft, Swisscom, Telefonica, and thus holds a significant advantage.

Net revenue retention among public Nordic SaaS - Artificial Solutions the clear leader



Source: Redeye Research, Company Data

On the other hand, Artificial Solutions continued to show exceptional net revenue retention (NRR) numbers of 141% (best-in-class) and strong evidence that signed customers scale over time and like the product. Artificial Solutions tops the chart for all public Nordic SaaS businesses, and by a wide margin.

All in all, Artificial Solutions will likely continue to grow strongly with its existing customer base and add new customers on top of it over time. Mr Ottoson said on the conf call that: "the focus this year is new logo hunting and getting to cash flow positive on an EBITDA level." In Q4 2023, management said that it expected 1-2 new customers per quarter, corresponding to 4-8 for the full year. We then asked management about this on the conf call and Mr Ottosson answered: "So we have said 4 to 8 here, but and we are aiming for at least 6 during this year. So that is the way we would judge the pipeline right now, to bring in customers." Also: "So, one of the things is that that is going to primarily happen through partnerships, Tech Mahindra being quite important in that pipeline, meaning that we have to have a partner with us." Although the sales cycles have been a bit slower on enterprise customers in early 2024, Mr Ottoson said on the Q1 2024 conf call that: "I was hoping to close out 2 of the large ones last quarter. We're still working on those. We haven't lost any deals." In addition, he commented on the customer intake for the full year with: "We're still thinking -- so we have the same pipeline. We were just hoping to kill them off quarter-by-quarter. But maybe now it's going to be a bit more that they come in during Q2, Q3, Q4 than in Q1, but we're still expecting the same amount of new customers. So the pipeline is still there. We just need to close these out."

Margins and cash flow

Artificial Solutions reported a gross margin of 79% in Q1 2024, significantly higher than last year's 56%. The average gross margin in 2023 was 67%, but one should keep in mind that it can fluctuate a bit, depending on sales commissions, which are linked to SaaS ARR growth. Management said on the Q4 2023 conf call that: "We also have the same commission plan for the coming year, 2024, as we have had in 2023 for existing accounts. And that basically means that in order to -- for a salesperson to get a commission, you have to have a growth of roughly 10% per quarter." I.e., >40% a year. We had estimated a gross margin of 80% in Q1 2023, so it was well-aligned with the actual result. The gross profit differed by a mere SEK0.4m. A fully deployed customer with solid API call volumes can fetch a gross margin of 95%.

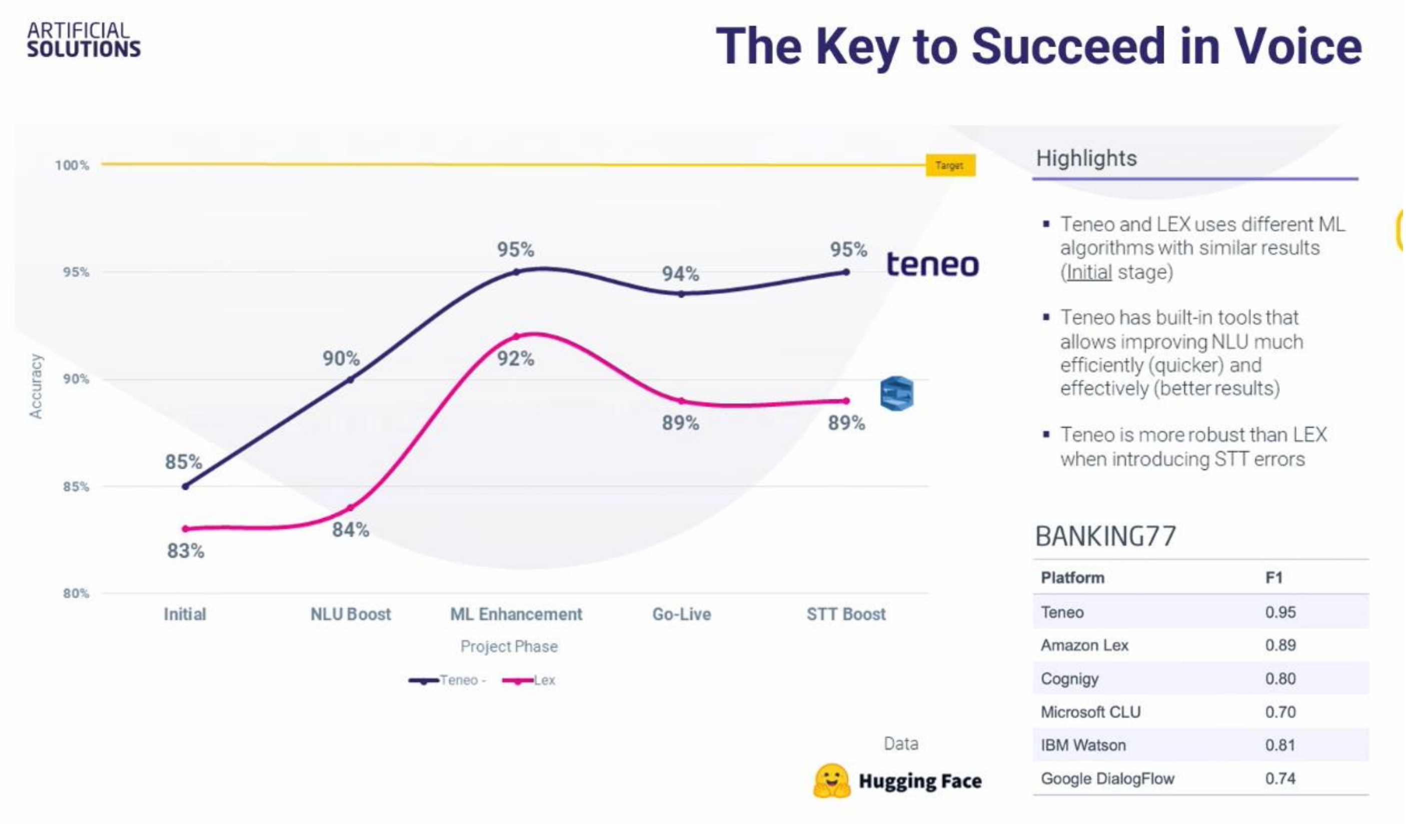
OPEX + capitalisation amounted to SEK-39m, compared to our estimate of SEK-36m. However, when adjusting for one-offs, they were well-aligned, and the adj. EBITDA-CAPEX was SEK-14m on both. Mr Törgren added that the adjusted: "EBITDA improved to minus SEK 8.5 million, and that is obviously a consequence of higher sales volumes and low -- I mean also the fact that we also increased our API core revenues, which is the really high-margin revenues for us. And also the fact that we also have reduced our OpEx versus Q1 2023."

Cash flow from operating activities amounted to SEK-7.9m (whereof changes in working capital were SEK-3.9m). Cash flow from investing activities was SEK-5.6m, closely in line with the capitalisations. During the quarter, Artificial Solutions closed a rights issue with a 166% subscription rate providing the company with SEK26m as well. The cash flow from financing activities landed on SEK22.9m. At quarter-end Q1 2024, Artificial Solutions had a cash balance of SEK24.6m and current receivables of SEK12.9m.

Strong value proposition ought to attract attention

We would like to highlight an assessment made with the dataset BANKING77, which is freely available on Hugging Face. The dataset includes banking conversations, i.e., bank employees talking to customers, and Artificial Solutions tested Teneo on this dataset. The outcome showed that Teneo was able to score an accuracy rate of 95%, way better compared to other market leaders, which scored everything from 89% to 74%.

Mr Ottosson described the test on the Q4 2023 conf call, saying: “We used a testing tool called Cyara, which is the primary testing tool for anything natural language and used by everybody now developing LLMs and so forth. That is how you sort of track hallucinations. You cannot fix the hallucinations with it, but you can flag the hallucinations with Cyara. Great product. And what we did then is we tested that with different -- so others have tested, for example, Google Dialogflow, they have tested it themselves on BANKING77. We tested Amazon Lex and Teneo with Cyara.” He also added that: “a human would be in the 0.92 range, if that human is in the same country as the person. So, if you are both in Bulgaria, you both speak Bulgarian.” Moreover: “If it is outsourced, it would be somewhere right below Amazon Lex, 0.88. But 0.95 in the initial data set test is just tremendously better. And that is why this solution actually works, because you do not get the errors that you get with other solutions out there.”

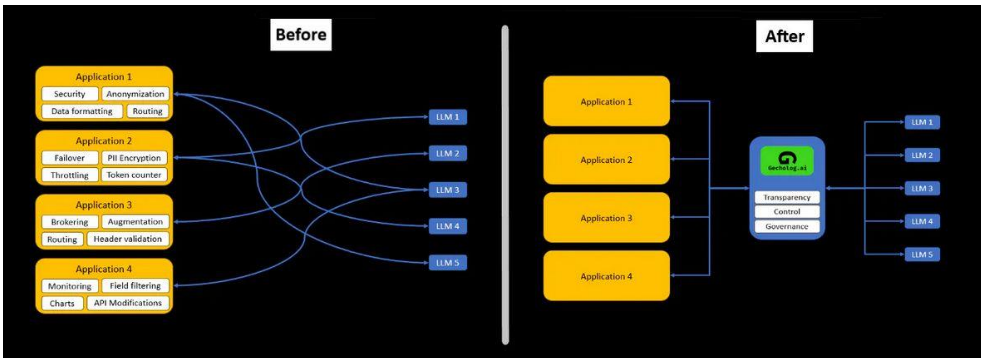


We believe tests like this one support management’s confidence in a clear sales ramp-up in the coming years. For example, one of the market leaders, Cognigy, scored 0.80 on the test. As first call resolution (FCR) is a critical component for evaluating a contact centre’s efficiency, an accurate AI system will be crucial. Studies have shown a direct link between FCR improvements and higher customer satisfaction, with a 1% FCR increase equating to a 1% increase in customer satisfaction score.

Artificial Solutions has the largest live implementations today. In Q1, it reached a containment level of 40% at two customers, meaning that 40% of all calls coming into these companies are understood and resolved by the AI, and can be closed without involving any human. This support strong cost savings, and in the press release with HEALTHFLEXX a cost-savings of 50% was mentioned. Thus, an efficient AI system lowers average handling time and can thus optimize both operating efficiency and boost customer satisfaction. Accuracy is, therefore, a key element and Teneo's score ought to be good for marketing to new customers.

Source: Remend

Another interesting news was that Remend, "an independent advisory firm specializing in executive guidance for enterprise and mid-market organizations to help minimize technology spending" awarded Teneo with the best AI telecom solution. Remend's report "contains 70 service provider profiles built from product demonstrations, requests for information responses and interviews with senior management." Artificial Solutions commented: "Our innovative approach to enhancing customer engagement and Teneo.ai's capabilities were acknowledged as 'Best AI Telecom Solution' in Remend's 2023 AI Self-Service Automation Report and Buyer's Guide, amplifying market awareness of our offerings." Teneo received good marks in five critical categories: Flexibility: A Product: A+ Security: A- Company: A- Go-to-Market: A. Evidently, the value proposition seems solid and its received recognition by independent industry sources.



Short comment on Gecholog

In Q1, Artificial Solutions introduced a new and separate product: Gecholog. The product is described as "innovative LLM traffic processing gateway designed to empower businesses in efficiently managing and delivering language data to data stores and analytics services." In the report, Mr Ottoson wrote: “As the functionality was clear we decided that this could not be a SaaS solution but needed to be a separate code base that could be deployed in the customers own environment. That recoding is now done and Gecholog.ai has been formed as a separate division within our company under the leadership of Daniel Eriksson. Gecholog.ai is an LLM Data Governance product which includes a free offering that will increase our footprint in the LLM space.” On the conf call, Mr Ottoson also added: “we're now looking at how we're going to be taking this to market. But really, another stellar product, we needed it ourselves. And now we're able to productize it in just a few months in something that's totally unrelated to Teneo and can be sold in a totally different sales motion.” As we receive more information about the new Gecholog product, we will comment further.

Estimates

Since Artificial Solutions came in very close to our sales and EBITDA-Capex estimates, we make no big changes to estimates. Moreover, management said on the conf call that it was on budget. We thus still see the company winning 6 new customers in 2024 and continues to ramp existing customers on the API call volumes. SaaS ARR becomes a larger share of total ARR over time (c90% by 2026e). We estimate a clear ramp-up in API calls, and usage becomes the dominant revenue stream (although licence & support also grows steadily). Customer intake is 8x in 2025 and 2026e. Mr Ottoson stressed that "We're still the only solution in town with live large-scale references" and this should benefit them in the sales work.

Artificial Solutions: Financial forecast

SEKm	2022a	Q1 23a	Q2 23a	Q3 23a	Q4 23a	2023a	Q1 24a	Q2 24e	Q3 24e	Q4 24e	2024e	2025e	2026e
Net sales	**46**	**13,6**	**14,8**	**16,4**	**15,8**	**61**	**17,1**	18,3	21,0	24,4	**81**	**128**	**180**
Growth YoY (%)	18%	35%	45%	32%	22%	33%	26%	24%	28%	54%	33%	59%	40%
COGS	-21	-6	-4	-6	-4	-20	-4	-4	-4	-5	-17	-22	-27
Gross profit	**25**	**8**	**11**	**10**	**12**	**41**	**14**	14	17	19	**64**	**107**	**153**
Gross margin (%)	55%	57%	72%	63%	77%	67%	79%	79%	79%	79%	79%	83%	85%
Capitalised dev	13	4	4	4	9	21	6	8	8	8	30	30	30
Personnel	-85	-25	-22	-24	-18	-88	-21	-19	-19	-20	-78	-80	-85
External expenses	-35	-7	-8	-6	-9	-30	-9	-11	-11	-11	-42	-42	-44
Opex + Capitalisation	**-134**	**-36**	**-34**	**-34**	**-37**	**-140**	**-36**	**-38**	**-38**	**-39**	**-150**	**-152**	**-158**
EBITDA	**-76**	**-21**	**-15**	**-16**	**-6**	**-58**	**-9,8**	-7,0	-5,7	-3,7	**-26**	**14**	**54**
EBITDA (%)	-167%	-152%	-102%	-99%	-38%	-96%	-57%	-38%	-27%	-15%	-32%	11%	30%
Non-recurring	11	3	1	3	0	8	1,4	0	0	0	0	0	0
EBITDA adj	-65	-18	-14	-13	-6	-51	-8,5	-7,0	-5,7	-3,7	-26	14	54
EBITDA adj (%)	-143%	-133%	-93%	-79%	-36%	-83%	-49%	-38%	-27%	-15%	-32%	11%	30%
D&A	-13	-4	-4	-3	-4	-14	-4	-4	-5	-6	-19	-27	-29
EBIT	**-89**	**-24**	**-19**	**-20**	**-10**	**-72**	**-14**	**-11**	**-10**	**-9**	**-45**	**-13**	**25**
EBIT adj	-78	-22	-18	-16	-9	-72	-14	-11	-10	-9	-45	-13	25
Net finance	4	30	2	-8	-10	15	4	-3	-3	-3	-4	-11	-11
PTP	-85	5	-17	-27	-19	-58	-10	-14	-13	-12	-49	-24	13
Net income	-85	5	-17	-27	-19	-58	-10	-14	-13	-12	-49	-24	11
EPS													
Adj EBITDA-Capex	-79	-22	-18	-17	-15	-72	-14	-15	-14	-12	-56	-16	24

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

We continue to see strong gross margins, with fully onboarded customers approaching 95%. However, there is a quarterly 'tug-of-war' between commissions and ramping customers affecting gross margins. Despite possible quarterly fluctuations, the gross margin should strengthen over time due to Artificial Solutions' exceptional scalability. We have changed the operational expenses slightly, as management said on the conf call that: "We foresee going forward, a slight increase in OpEx, not anything dramatic, but run rate wise, it could be SEK 1 million, SEK 2 million, SEK 3 million in the quarters, and that's primarily linked to the fact that we are increasing our investments in marketing and sales activities due to also the fact that we see a very strong pipeline, and that's something we want to capitalize on going forward." This is thus tied to the sales growth we envision in our estimates.

Nevertheless, we estimate Artificial Solutions quickly moving towards a positive EBITDA-CAPEX margin should it succeed in onboarding new customers, keep the churn low, and ramp up according to plan. The NRR of 141% is a powerful sign that the team knows how it should execute on the ramp ups. But it is important to not lose customers over the time period and we believe the division on the go-to-market team which was introduced in Q4 2023 is a good strategy in order to not make any customer feel "unheard." Clear lines of responsibility are usually the right thing to do. Incremental margins in our estimates are steep, as sales volumes in combination with flattish costs mean a lot of it goes straight down to the bottom row. As Artificial Solutions capitalises a bit more now, we believe EBITDA-CAPEX is the better metric to look at. Our depreciation and amortisation estimate lag behind a bit. We estimate that Artificial Solutions becomes profitable in H2 2025 (i.e., cash flow positive). Please mind that the changes look more dramatic percentage wise than what they really are. We have added a few million in OPEX per year to be a little bit more conservative, and we will readjust as we see the reported numbers come.

	New Estimates			Old Estimates			Diff (abs)			Diff (%)		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Net sales	**81**	**128**	**180**	**80**	**129**	**180**	**1**	**-1**	**0**	**1%**	**0%**	**0%**
Gross profit	**64**	**107**	**153**	**64**	**107**	**153**	**0**	**0**	**0**	**0%**	**0%**	**0%**
Gross margin %	79%	83%	85%	80%	84%	85%						
Opex + Capitalisation	**-150**	**-152**	**-158**	**-146**	**-151**	**-159**	**-4**	**-1**	**1**	**3%**	**1%**	**0%**
Adj EBITDA	**-26**	**14**	**54**	**-18**	**20**	**58**	**-8**	**-6**	**-4**	**-31%**	**-31%**	**-8%**
Net Income	-49	-24	11	-45	-18	14	-4	-6	-3	**-7%**	**-25%**	**-24%**
Adj EBITDA - Capex	-56	-16	24	-50	-12	26	-6	-4	-2	**-10%**	**-24%**	**-7%**
ARR	**63**	**103**	**153**	**63**	**104**	**153**	**0**	**-1**	**0**	**1%**	**0%**	**0%**
Recurring revenues	62	88	132	62	89	132	0	-1	0	0%	-1%	0%

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

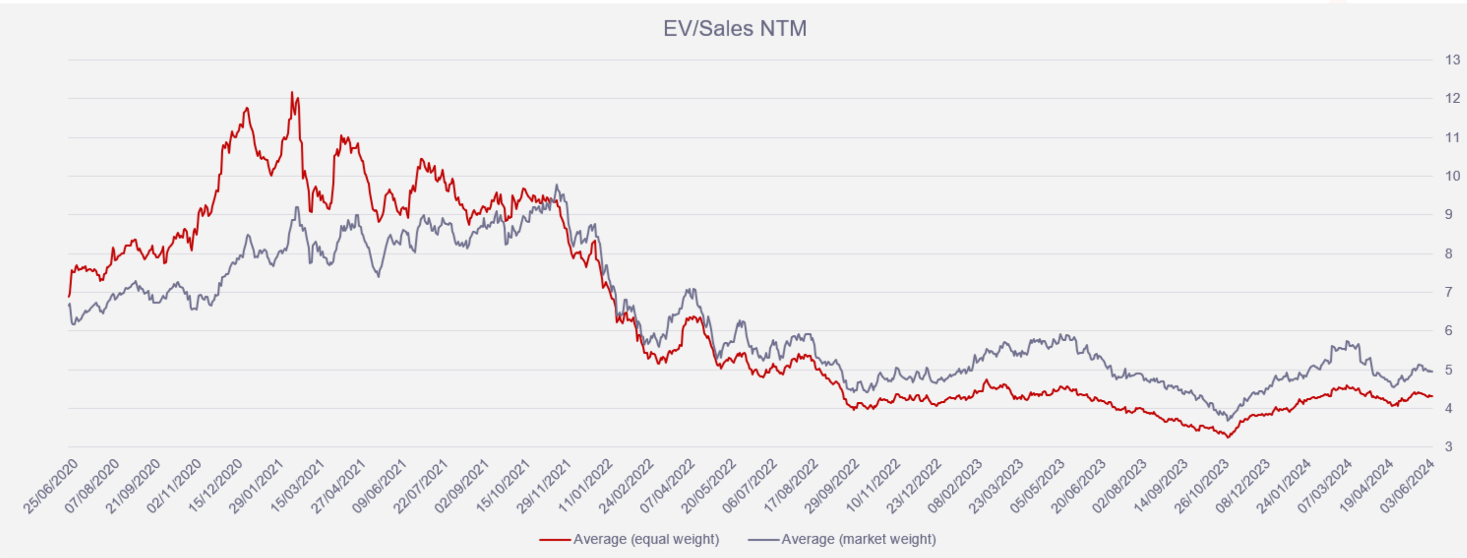
Please note that the company's own goals are: 1) >1 billion API calls during 2024, 2) >SEK200m in ARR during 2025, 3) cash flow positive from operations during 2024, 4) a long-term EBITA margin exceeding 30% in a mature state. We are slightly more conservative in the base case.

SaaS valuations

M&A deals						
Company	**Date**	**Bidder**	**Market cap**	**Premium**	**EV/sales multiple (TTM)**	**EV/EBIT multiple (TTM)**
Basware	April, 2022	Accel-KKR, Long Path Partners, Briarwood Chase	EUR580m	95%	3,1	59
Ørn Software	June, 2022	EG A/S	NOK590m	41%	3,5	12 (EBITDA)
Momentum Software	July, 2022	Aareon AG	SEK1800m	71%	17,1	79,8
Meltwater	January, 2023	Altor, Marlin Equity	SEK6000m	39%	1,4	neg
Patientsky	March, 2023	EG A/S	NOK900m	110%	4,6	neg
SignUp Software	April, 2023	Insight Partners	SEK2360m	39%	8,5	97
Precio Fishbone (Omnia)	December, 2023	Monterro	SEK210m	-	2,6	16,3 (EBITDA)
Pagero	January, 2024	Thomson Reuters	SEK8000m	138%	11,0	neg
Byggfakta	January, 2024	Macquarie, SSCP, TA	SEK3200m	31%	2,4	21
Efecte	January, 2024	Matrix42	SEK1100m	91%	3,9	n.m.
Mestro	February, 2024	EG A/S	SEK204m	104%	5,4	neg
Carasent (contemplated bid)	April, 2024	EG A/S	NOK1445m	40%	4,5	neg
Karnov (pending)	May, 2024	Greenoaks and Long Path	SEK9100m	28%	3,7	18,6 (EBITA)

Source: Redeye, Company reports, FactSet

During 2023 and thus far in 2024, several Nordic listed SaaS companies have been targets of acquisitions, many with good premiums. The typical target company has a product offering that is scalable (often globally) and is running its operations at negative margins or, at least, substantially below potential profitability. As the stock market has favoured profitability over growth in recent years, valuations on some more growth-focused companies have apparently become attractive, according to the acquirers. Many of the acquired companies have been bought by industry players who likely understand the underlying product and market better and can see the inherent value on normalised earnings a few years down the road. We would not be surprised to see a continued stream of acquisition news in H2 2024 as the median EV/sales NTM multiples are on a similar level today as throughout most parts of 2023 and H1 2024. Given the strategic review by Board of Directors, we find this very interesting.



*NTM – next twelve-month sales numbers (based on analyst estimates).

SaaS	EV	EV/SALES			EV/EBIT			Sales growth			EBIT margin		
Company	(SEKm)	24e	25e	26e	24e	25e	26e	24e	25e	26e	24e	25e	26e
4C Group	752	1,9	1,5	1,3	26	15	11	22%	19%	13%	7%	10%	12%
Addnode	16 828	2,0	2,1	2,0	25	22	20	11%	-6%	6%	8%	10%	10%
Admicom	2 705	6,6	5,9	5,1	23	19	15	4%	9%	12%	29%	31%	34%
AVTECH	305	8,0	6,2	5,3	20	13	11	19%	21%	9%	39%	48%	50%
Bambuser	17	0,1	0,5	0,6	neg	neg	neg	-36%	40%	44%	-98%	-58%	-32%
Byggfakta	13 790	4,8	4,2	3,5	31	21	15	12%	9%	10%	16%	20%	24%
Carasent	943	3,5	2,9	2,4	neg	57	19	10%	16%	15%	-3%	5%	13%
CheckIn	865	7,2	5,1	4,2	78	27	21	24%	37%	15%	9%	19%	20%
Efecte	1 104	3,5	3,0	2,6	156	46	26	10%	14%	14%	2%	7%	10%
Formpipe	1 380	2,6	2,2	1,8	25	14	9	2%	11%	10%	10%	16%	19%
Fortnox	38 220	18,7	14,8	11,8	45	33	25	25%	24%	23%	42%	45%	48%
Hoylu	76	1,2	1,0	0,8	neg	neg	neg	12%	26%	24%	-41%	-16%	-4%
LeadDesk	554	1,5	1,3	n/a	130	29	n/a	7%	11%	7%	1%	4%	8%
Lemonsoft	1 397	4,2	3,8	3,5	17	15	13	11%	6%	6%	24%	25%	26%
Lime	4 891	7,0	6,0	5,1	36	29	23	21%	14%	13%	20%	21%	22%
Litium	172	2,3	2,0	1,7	1617	73	29	7%	12%	16%	0%	3%	6%
Modelon	92	0,9	0,8	0,5	neg	neg	6	26%	30%	24%	-41%	-12%	9%
Nepa	158	0,6	0,4	0,4	15	6	5	-3%	11%	7%	4%	7%	8%
NordHealth	2 316	4,5	3,9	3,1	neg	neg	61	24%	13%	19%	-19%	-6%	5%
Opter	488	5,4	4,5	3,7	20	16	12	15%	14%	13%	27%	28%	30%
Penneo	414	2,5	2,0	1,6	neg	273	22	23%	25%	22%	-10%	1%	7%
Pexip	2 490	2,3	2,0	1,8	19	13	9	11%	10%	11%	12%	16%	19%
Physitrack	270	1,4	1,1	0,8	15	7	4	16%	23%	23%	9%	16%	17%
Safeture	298	4,7	3,4	2,5	149	23	12	30%	28%	25%	3%	15%	21%
SmartCraft	4 574	8,9	7,3	6,2	28	22	18	28%	18%	13%	32%	33%	35%
Speqta	102	1,2	1,2	1,0	neg	neg	neg	46%	31%	30%	-54%	-27%	-12%
Upsales	634	4,2	3,7	3,1	25	21	16	3%	16%	19%	17%	18%	19%
Vertiseit	1 051	3,0	2,7	2,4	18	15	12	1%	7%	9%	16%	18%	20%
Vitec	22 855	7,2	6,5	5,9	33	29	26	14%	10%	10%	22%	22%	23%
Volue	4 718	2,8	2,4	2,0	24	16	12	16%	14%	13%	12%	15%	16%
XMReality	24	1,1	0,5	-0,1	neg	8	0	5%	67%	57%	-52%	6%	27%
Average	**4 016**	**4,1**	**3,4**	**2,9**	**112**	**33**	**17**	**13%**	**19%**	**17%**	**1%**	**11%**	**16%**
Median	**865**	**3,0**	**2,7**	**2,4**	**25**	**21**	**15**	**12%**	**14%**	**13%**	**9%**	**15%**	**19%**
Artificial Solutions	*355*	*4,8*	*3,1*	*2,1*	*neg*	*neg*	*15,2*	*33%*	*59%*	*40%*	*-55%*	*-10%*	*14%*

Source: Redeye, Company reports, FactSet

Valuation

We derive our valuation from a discounted cash flow (DCF) analysis, using an initial WACC of 13% across our base, bull, and bear scenarios. Our fair value range is unchanged.

Bear Case SEK0.25

Our bear case is a more conservative scenario of Artificial Solutions' base case, where the new customer intake is much slower and churn a bit higher. We still envision Artificial Solutions being profitable and growing.

We have included a smaller rights issue (SEK20m) to bridge the time between losses and profitability. Once reaching profitability, we believe Artificial Solutions can refinance itself, given the current balance sheet.

Growth CAGR

2024-2028e – 25%

2029-2038e – 6% (later years impact the growth negatively)

Terminal – 2%

EBIT margin

2024-2028e - -5%

2029-2038e – 16%

Peak: 21%

Terminal – 15%

Base Case SEK0.8

Our base case includes a steady pickup in pace, with both a good intake of new SaaS customers (6 in 2024e) and good upsell/ramp-up on existing customers. Artificial Solutions' value prop attracts a good number of new customers.

We have included a smaller rights issue (SEK20m) to bridge the time between losses and durable profitability. Once reaching profitability, we believe Artificial Solutions can refinance itself, given the current balance sheet.

Growth CAGR

2024-2028e – 30%

2029-2038e – 7% (continuous slowdown, with later years having a larger impact)

Terminal – 2%

EBIT margin

2024-2028e - -1% (early years weigh down a lot)

2029-2038e – 18% (stable profitability)

Peak: 26%

Terminal – 15%

Bull Case SEK3.2

Our bull case is a more optimistic version of the base case, where Artificial Solutions grows and scales faster and keeps its margins higher for longer. In the bull case, Artificial Solutions establishes itself as a very qualitative SaaS company that has a long growth runway.

We have included a smaller rights issue (SEK20m). However, in this case, we believe the company does not need it to act defensively but rather offensively to meet the market demand. Once reaching profitability, we also believe Artificial Solutions can refinance itself, given the current balance sheet.

Growth CAGR

2024-2028e – 41%

2029-2038e – 12% (continuous slowdown, with later years having a larger impact)

Terminal – 2%

EBIT margin

2024-2028e - 3% (early years weigh down but Artificial Solutions quickly scales)

2029-2038e – 29% (high profitability)

Peak: 35%

Terminal – 25%

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 point. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3 (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. Greater consistency in capital allocation and increased management ownership could help improve the rating. The ownership picture has become stronger in the last two rights issues.

Business: 3

Since transitioning to a SaaS business model in 2021, the company has operated an asset-light 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 multi billion dollar market with strong underlying growth. However, Artificial Solutions is not immune to competition and innovations in the space and has, to some degree, high customer concentration, although this should decrease over time, as new logos are added.

Financials: 1

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

Redeye Rating and Background 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 long-term 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.

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Disclaimer

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Redeye Rating (2024-06-05)

Rating	People	Business	Financials
5p	23	18	3
3p - 4p	106	87	40
0p - 2p	5	29	91
Company N	134	134	134

Duplication and distribution

CONFLICT OF INTERESTS

Mark Siöstedt owns shares in the company: No
Redeye performs services for the Company and receives compensation from the Company in connection with this.