

# Artificial Solutions

Sector: Software/ Artificial Intelligence

## New financial targets pave the way for growth and profitability

Redeye raises its estimates on the back of a strong Q3 2022 report, which beat expectations and provided some bullish financial targets. However, we lower our fair value range due to the uncertainty regarding Artificial Solutions' near-term capital constraints.

### Healthy SaaS metrics and Q3 2022 financials

SaaS ARR was SEK23.6m in Q3 2022, growing 18% QoQ. Moreover, SaaS API calls amounted to 11.4m in September 2022, growing 23% QoQ. Net sales amounted to SEK12.4m, growing 13% YoY and 22% QoQ, beating our expectations by 15%. Usage sales grew 36% QoQ, which we find encouraging. This constitutes the scalability component in Artificial Solutions' business model.

### New financial targets – well above our previous estimates

Artificial Solutions announced new financial targets regarding API call volumes, ARR, and profitability, among others. We understand that management arrived at these targets from a conservative standpoint. It has good visibility into its customers' projects and likely a sound judgement of what it can achieve. Moreover, these projections are based mainly on existing customers, which adds a dimension of reliability.

### Lowered fair value range

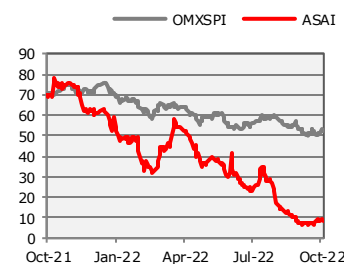
We have increased our WACC to 14.5% (12) to reflect the uncertainty regarding Artificial Solutions' near-term capital constraints and a higher interest rate environment. The company has mandated a financial advisor to evaluate financing options. Our updated fair value range spans from SEK1–200 (10–260), and our Base Case is SEK25 (40). Artificial Solutions' share has dropped >80% YTD. In the most recent ownership data, we note that AFA Försäkring has decreased its holding from 5% of the capital at Q2 2022 to c1.5% at Q3 2022.

Key Financials (SEKm)	2020	2021	2022E	2023E	2024E	2025E
Sales	54	39	46	60	113	161
Sales growth	10%	-28%	17%	32%	88%	42%
EBITDA	-86	-58	-76	-70	-29	9
EBIT	-98	-71	-88	-86	-48	-13
EBIT Margin (%)	-182%	-183%	-193%	-142%	-43%	-8%
Net Income	-154	-70	-87	-120	-85	-52
EV/S	12.4	13.7	6.5	6.9	4.3	3.3
EV/EBITDA	neg	neg	neg	neg	neg	57.1
EV/EBIT	neg	neg	neg	neg	neg	neg

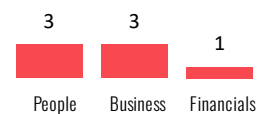
### FAIR VALUE RANGE

BEAR	BASE	BULL
1	25	200

### ASAI VERSUS OMXSPI



### REDEYE RATING



### KEY STATS

Ticker	ASAI
Market	First North
Share Price (SEK)	8.5
Market Cap (SEKm)	56
Net Debt 2022e (SEKm)	242
Free Float (%)	80

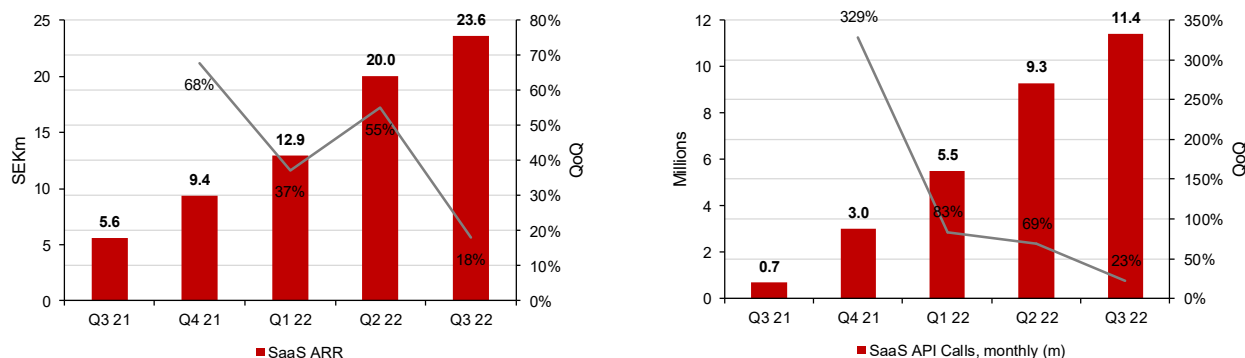
### ANALYSTS

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## Q3 2022: SaaS progression update

### Robust but decelerating growth – fluctuations between quarters to be expected

SaaS ARR (i.e., annual recurring revenue from SaaS customers in the last month of the quarter times twelve) was SEK23.6m in Q3 2022, growing 18% QoQ. Moreover, SaaS API Calls (usage of Teneo) amounted to 11.4m in September 2022, growing 23% QoQ. Even though both growth rates are decelerating on a QoQ basis, we think fluctuations should be expected in the quarters ahead. Artificial Solutions has 13 customers in the SaaS model, some of which are large multinational companies. To some extent, we expect its SaaS metrics to correlate with its largest customers' projects.



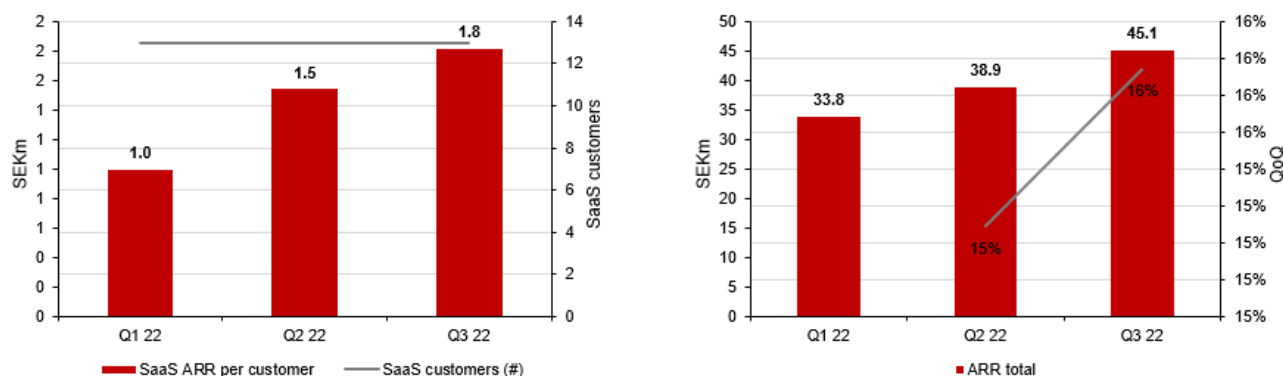
Source: Redeye, company data

### Good visibility into customer projects behind new financial targets

Artificial Solutions' customers typically start by introducing a Teneo-developed solution in one area, e.g., sales support through voice or chat in one market. Over time, customers move into other channels, markets, and languages. This creates a predictable growth runway. Management states that (1) customers are growing, on an aggregate basis, month-over-month, and (2) it has good visibility into its customers' projects and roadmaps. On the back of this, management has a positive outlook for API call volumes, reflected in its new financial targets (more on later). It aims to generate >1bn API calls at an annualized run rate during 2024 (vs c137m in September 2022 (11.4m times 12)). Artificial Solutions will need to grow existing volumes by >7x to reach this target, and it expects to do so mainly through existing customers.

### Prolonged negotiations – aiming to convert some additional customers to SaaS in Q4 2022

The total number of SaaS customers has stayed flat throughout 2022 at 13, meaning that ARR per SaaS customer has increased from SEK1m in Q1 2022 to SEK1.8m in Q3 2022. Management states that it might have underestimated the complexity of converting legacy customers to SaaS, but it hopes to complete 2–3 conversions in Q4 2022. Out of its ten legacy customers, it expects all but one to convert in the near to mid-term.



Source: Redeye, company data

**Scratching the surface regarding potential ARR...**

Management expects (1) large customers to generate an average ARR of SEK4.4m after about two years in the SaaS model and (2) its largest customers to generate an average ARR in the millions of USD over time. Thus, there is significant untapped potential.

**... Best reflected in a healthcare use case**

Artificial Solutions entered an agreement with one of the world’s largest national healthcare providers in Q1 2022, together with its systems integrator partner, CGI. CEO commentary explains that the healthcare provider processes some 500m patient contacts each year and that Teneo could manage c20% of that (based on similar implementations) over time. 100m patient contacts translate into c500m API calls, according to the commentary. Based on previous API call fee assumptions (SEK0.08 per unit), potential usage sales from this customer alone amounts to SEK40m annually. Moreover, assuming this healthcare provider would require 20–30 developer seats, potential recurring revenues grow closer to SEK50m. An early-stage use case with this customer would be to, e.g. automate patient rescheduling, and have that go through a virtual assistant instead of a nurse.

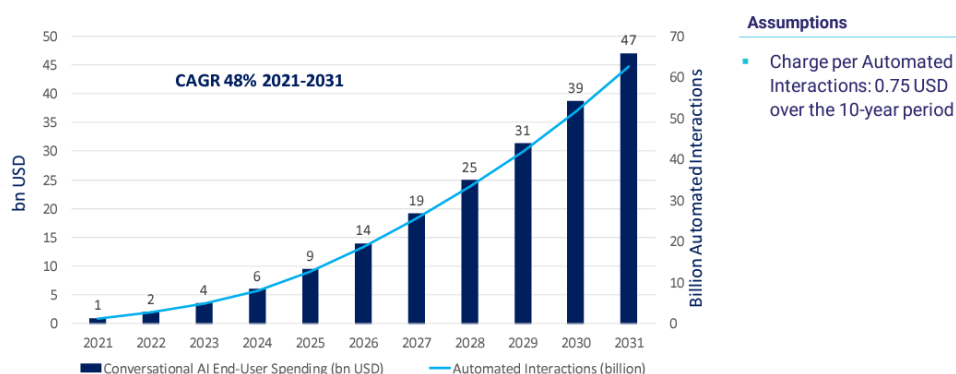
**Robust overall ARR growth**

Total ARR (including ARR from the ten customers in the legacy model – not yet transitioned to SaaS) amounted to SEK45.1m, growing 16% QoQ. This means ARR from SaaS customers accounted for >52% of total ARR in Q3 2022, up from 38% in Q1 2022. Over time, we expect almost all legacy customers to convert to SaaS. Since the SaaS model is better at capitalizing on usage, one API Call should be worth more after the transition, which merits a higher ARR. Also, we understand SaaS lowers the threshold for adding more implementations thanks to usage-based pricing. Most legacy customers are used to paying a fixed price for a set number of API Calls, which could limit growth. Finally, we assume it is expensive for Artificial Solutions to pursue both these environments simultaneously – moving all to SaaS should decrease costs.

**Market leadership reflected in a fresh market study**

The virtual assistant market has been sized by Gartner as a USD2bn market this year, with an expected 2021–2031 CAGR of 48%. Artificial Solutions appears to capture a 10–15% market share of the total number of interactions this year (2bn–3bn). It is currently at a c137m API call run rate with existing SaaS customers and likely generates as much (at least) with legacy customers. However, this leadership is not reflected in current revenues. We understand that the market projections include a substantial portion of professional services. This is outsourced to Artificial Solutions’ partners.

**GARTNER PREDICTS HIGH GROWTH IN CONVERSATIONAL AI**  
**| ARTIFICIAL SOLUTIONS KEY NICHE CONTACT CENTER - 48% CAGR TO 2031**



\* Gartner June 2022: Conversational AI End-User Spending from Contact Center Deployments Worldwide 2021-2031



Source: company data

## Q3 2022 financials: expectations beat

### Recurring revenues now account for c88% of net sales

Net sales amounted to SEK12.4m, growing 13% YoY and 22% QoQ, beating our expectations by 15%. Usage sales grew 36% QoQ, which we find encouraging. This constitutes the scalability component in Artificial Solutions' business model and should, over time, drive the company to profitability. Recurring revenues (i.e. license & support, and usage) amounted to SEK10.9m, growing 27% YoY and 20% QoQ, accounting for c88% of net sales.

Artificial Solutions: Forecast deviations								
SEKm	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Actual	Estimate	
						Q3 22	Q3 22e	Diff (%)
License & Support	5.0	5.3	5.5	5.6	5.5	6.0	5.8	4%
Usage	1.3	3.2	3.3	3.2	3.6	4.9	4.0	22%
Other	1.9	2.4	1.0	1.4	1.1	1.5	1.0	50%
<b>Net sales</b>	<b>8.2</b>	<b>11.0</b>	<b>9.8</b>	<b>10.1</b>	<b>10.2</b>	<b>12.4</b>	<b>10.8</b>	15%
Gross profit	5.5	7.6	7.1	7.5	6.8	7.2	8.1	-11%
Gross margin (%)	67%	69%	72%	74%	67%	58%	75%	-17pp
EBITDA adj	-18.2	-13.9	-16.6	-17.9	-22.4	-19.9	-21.3	-7%
EBITDA adj (%)	-222%	-127%	-169%	-177%	-220%	-160%	-197%	37pp
EBIT	-21.4	-15.7	-16.2	-22.1	-26.3	-22.9	-24.6	-7%
EBIT (%)	-261%	-143%	-165%	-218%	-258%	-185%	-227%	42pp
Net finance	6.5	-8.7	-2.2	-3.6	10.8	1.3	-6.5	
PTP	-14.9	-24.4	-18.4	-25.7	-15.5	-21.6	-31.1	
Net income	-14.9	-24.4	-18.4	-25.7	-15.5	-21.6	-31.1	-30%
<b>Recurring revenues</b>	<b>6.3</b>	<b>8.6</b>	<b>8.8</b>	<b>8.8</b>	<b>9.1</b>	<b>10.9</b>	<b>9.8</b>	11%

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

### Temporarily depressed gross margin

The gross margin was 58% in Q3 2022, backing 9%-points QoQ and missing our expectations by 17%-points. If Artificial Solutions is a SaaS company, why is the gross margin not closer to 90%? First, we understand that most current revenues stem from seat fees (more on later). There are usually large upfront costs associated with setting up an environment for new customers. Once a customer begins to generate meaningful API call volumes, we should expect the gross margin to exceed 90%. Second, we understand that Artificial Solutions has some commitments with long-time customers, not in the SaaS model. This means it has to provide professional services to these customers, decreasing the gross margin.

### OPEX to flatten out from Q3 2022 levels

The annual OPEX run rate (excluding D&A and non-recurring items) was SEK136m in September 2022, growing ever so slightly from SEK134m in June 2022, in line with previous guidance. The ARR and OPEX run rate gap remains wide but is closing, considering management expects OPEX to stay at these levels. EBITDA adj amounted to -SEK20m in Q3 2022, translating to a margin of -160%, somewhat better than expectations.

### Coming capital raise

At the end of Q3 2022, the cash position was cSEK40m. Cash flow before finance activities was -SEK25m in the quarter, and we expect Artificial Solutions to maintain a similar near-term cash burn. A capital raise will likely come into play in late 2022 or H1 2023, and the company stated in its Q3 2022 report that it had mandated a financial advisor to evaluate financing options. Management says that it has good relations with both its shareholders and lenders. Considering the recent debt issue, we forecast a SEK100m loan in 2023 (10% interest) in our modelling assumptions.

## Financial forecast

### New financial targets – well above our previous estimates

Artificial Solutions announced new financial targets in its Q3 2022 report. We understand that management arrived at these targets from a conservative standpoint. It has good visibility into its customers' projects and likely a sound judgement of what it can achieve. Moreover, these projections are based mainly on existing customers, which adds a dimension of reliability.

- Generate >1bn API calls at an annualized run rate during 2024
- Reach >SEK200m in ARR during 2025
- Generate positive cash flow from operations during 2024
- Achieve a long-term EBITA margin of >30% in a mature state

The financial targets are well above our previous estimates. E.g., we expected Artificial Solutions to reach SEK102m in ARR in 2025, with this growing to SEK144m in 2026. Thus, the company expects to generate positive cash flow from operations years before our previous expectations.

### Raising ARR assumptions

We have revised our estimates to reflect the new financial targets better. Regarding the ARR target, we raise both the number of customers and ARR per customer. By year-end 2025, we expect 34 customers in SaaS to generate an average ARR of SEK5.4m (previously, 32 customers generated an average ARR of SEK3.2m). Thus, we expect the ARR to reach SEK184m by year-end 2025 (previously SEK102m). While somewhat shy of Artificial Solutions' target, we think our estimates better reflect the company's growth prospects in the years ahead. An even more optimistic scenario is reflected in our Bull Case valuation.

Artificial Solutions: Key financials											
SEKm	2020	2021	Q1 22	Q2 22	Q3 22	Q4 22e	2022e	2023e	2024e	2025e	2026e
License & Support	23.5	20.4	5.6	5.5	6.0	6.3	23.4	27.8	54.7	63.1	76.2
Usage	16.9	9.7	3.2	3.6	4.9	5.5	17.2	28.0	54.7	94.7	141.5
Other	13.3	8.6	1.4	1.1	1.5	1.0	5.0	4.5	4.0	3.6	3.3
<b>Net sales</b>	<b>53.7</b>	<b>38.8</b>	<b>10.1</b>	<b>10.2</b>	<b>12.4</b>	<b>12.8</b>	<b>45.5</b>	<b>60.3</b>	<b>113.4</b>	<b>161.4</b>	<b>221.0</b>
Recurring revenues	40.4	30.2	8.8	9.1	10.9	11.8	40.6	55.8	109.4	157.8	217.8
ARR	na	na	33.8	38.9	45.1	46.6	46.6	87.4	131.5	184.1	251.4
SaaS ARR	na	9.4	12.9	20.0	23.6	29.0	29.0	75.4	126.5	184.1	251.4
SaaS customers (#)	na	8	13	13	13	16	16	25	30	34	38
SaaS ARR per customer	na	1.2	1.0	1.5	1.8	1.8	1.8	3.0	4.2	5.4	6.6

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

At Q3 2022, Artificial Solutions still had 10 customers in the legacy model, explaining the gap between ARR and SaaS ARR. However, the company expects to convert most of these to SaaS in the near term, which is reflected in our estimates.

Recurring revenues in 2026 equate to the average ARR in FY2025 and FY2026. Of this, we expect 35% to be recognized as license sales and 65% as usage sales.

### Profitability comments

We have taken a rather conservative stance regarding Artificial Solutions' profitability outlook, but have seen a need to revise these assumptions. Thanks to the accelerated ARR ramp up, we expect the company to become EBITDA profitable during 2025 (previously 2027). The OPEX adj run rate was SEK136m in September 2022, and we expect this to grow at an c8% CAGR in the

years ahead. Thus, we expect ARR to surpass the OPEX run rate during 2025, also resulting in positive cash flow from operations that same year.

### Estimate changes

Thanks to the sales beat (+15% deviation), and the new financial targets (well above our previous expectations), we have decided to revise our estimates and raise our sales and profitability breakeven forecasts significantly. Essentially, we raise our annual sales expectations from 2024 by >70% and expect EBITDA profitability to materialize two years earlier than previously thought.

Artificial Solutions: Forecast changes						
SEKm		2022e	2023e	2024e	2025e	2026e
Net sales	Old	43	54	66	91	126
	New	46	60	113	161	221
change (%)		7%	12%	72%	78%	75%
EBITDA	Old	-79	-78	-75	-56	-31
	New	-76	-70	-29	9	57
change (%)		-4%	-10%	-61%	-117%	-285%
EBIT	Old	-92	-92	-89	-73	-49
	New	-88	-86	-48	-13	31
change (%)		-5%	-7%	-46%	-82%	-163%

Source: Redeye (estimates)

Artificial Solutions: Financial forecast											
SEKm	2020	2021	Q1 22	Q2 22	Q3 22	Q4 22e	2022e	2023e	2024e	2025e	2026e
<b>Net sales</b>	<b>54</b>	<b>39</b>	<b>10</b>	<b>10</b>	<b>12</b>	<b>13</b>	<b>46</b>	<b>60</b>	<b>113</b>	<b>161</b>	<b>221</b>
Growth YoY (%)	10%	-28%	3%	24%	13%	30%	17%	32%	88%	42%	37%
Other income	20	17	3	3	3	9	17	18	19	20	21
Total income	74	56	13	13	15	21	63	79	133	181	242
COGS	-18	-12	-3	-3	-5	-5	-16	-17	-20	-23	-27
Gross profit	35	27	7	7	7	8	29	43	93	139	194
Gross margin (%)	66%	70%	74%	67%	58%	60%	64%	72%	82%	86%	88%
Personnel	-116	-71	-19	-22	-21	-21	-83	-90	-96	-102	-108
External	-25	-30	-10	-11	-9	-9	-39	-42	-45	-48	-50
<b>EBITDA adj</b>	<b>-78</b>	<b>-60</b>	<b>-18</b>	<b>-22</b>	<b>-20</b>	<b>-14</b>	<b>-74</b>	<b>-70</b>	<b>-29</b>	<b>9</b>	<b>57</b>
EBITDA adj (%)	-146%	-155%	-177%	-220%	-160%	-108%	-163%	-116%	-26%	6%	26%
Non-recurring	0	-4	-1	-1	0	0	-2	0	0	0	0
EBITDA	-86	-58	-18	-23	-20	-14	-76	-70	-29	9	57
EBITDA (%)	-160%	-150%	-182%	-226%	-163%	-108%	-166%	-116%	-26%	6%	26%
D&A	-12	-13	-4	-3	-3	-3	-12	-16	-19	-23	-27
<b>EBIT</b>	<b>-98</b>	<b>-71</b>	<b>-22</b>	<b>-26</b>	<b>-23</b>	<b>-17</b>	<b>-88</b>	<b>-86</b>	<b>-48</b>	<b>-13</b>	<b>31</b>
EBIT (%)	-182%	-183%	-218%	-258%	-185%	-129%	-193%	-142%	-43%	-8%	14%
Net finance	-57	1	-4	11	1	-8	1	-34	-37	-39	-42
PTP	-154	-70	-26	-16	-22	-25	-87	-120	-85	-52	-11
Net income	-154	-70	-26	-16	-22	-25	-87	-120	-85	-52	-11
EPS	-36.2	-10.6	-3.9	-2.4	-3.3	-3.7	-13.3	-18.3	-12.9	-8.0	-1.7
EPS, diluted	-34.6	-10.6	-3.6	-2.2	-3.1	-3.5	-12.4	-17.0	-12.0	-7.4	-1.6

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

## Valuation

We derive our fair value range from a fundamental DCF framework for three scenarios, Base Case (most likely), Bear Case (pessimistic), and Bull Case (optimistic), using a WACC of 14.5% across all scenarios. We also supplement our DCF analysis with a peer group comparison.

### Raised WACC

We have increased our WACC to 14.5% (12) to reflect the uncertainty regarding Artificial Solutions' near-term capital constraints (we anticipate a capital raise in late 2022 or H1 2023) and a higher interest rate environment. The company has mandated a financial advisor to evaluate financing options. There is a risk that Artificial Solutions (1) may need to undertake a large equity issue at unfavourable terms, leading to a significant dilution, and (2) does not reach its financial targets – this is reflected in our Bear Case.

### Estimate changes

Due to the sales beat in Q3 2022 and the new financial targets, we have decided to revise our estimates and raise our sales and profitability breakeven forecasts significantly. Essentially, we raise our annual sales expectations from 2024 by >70% and expect EBITDA profitability to materialize two years earlier than previously thought. However, Artificial Solutions' long-term profitability target is to reach an EBITA margin of >30% in a mature state. We have previously assumed a long-term EBITDA margin of >40%. This may still be attainable, but we factor in a 30% terminal EBITDA margin for now.

### Lowered fair value range

Our updated fair value range spans from SEK 1–200 (10–260), and our Base Case is SEK25 (40). The fair value range is extremely wide, owing to the unpredictable nature of Artificial Solutions' long-term growth and profitability and some near-term capital constraints. Once Artificial Solutions scales its SaaS offering, we should expect, over time, a gross margin of >90%. Incremental usage revenues require close-to-zero incremental costs. In turn, this should support high long-term operating margins. We forecast a terminal EBITDA margin of 30%. Also, we assume to revisit our fair value range once Artificial Solutions addresses its capital needs.

### Trading in line with peers on near-term EV/S

Artificial Solutions' share has dropped >80% YTD. In the most recent ownership data, we note that AFA Försäkring has decreased its holding from 5% of the capital at Q2 2022 to c1.5% at Q3 2022 – this has likely had a significant negative impact on the share price. The market capitalization currently stands at SEK56m. We expect its net debt to amount to SEK242m by year-end 2022. In relation to a group of Nordic SaaS companies (as seen on the next page), Artificial Solutions is trading at a slight premium on near-term EV/S multiples. The group trades at a median 2022 EV/S ratio of 2.8x, with this falling to 1.9x by 2024.

We assume that Artificial Solutions' significant operating losses and high leverage has contributed to this negative sentiment. Should the company report accelerated growth in future earnings reports, especially regarding its SaaS metrics, and manage its near-term capital constraints, we expect to revisit our valuation.

#### Bear Case: SEK1 (10)

Sales CAGR 2021-2025e: 20%  
 Sales CAGR 2025e-2030e: 10%  
 Avg. EBIT-m 2021-2025e: -100%  
 Avg. EBIT-m 2025e-2030e: -7%  
 Terminal growth: 2%  
 Terminal EBIT-m: 12%  
 WACC: 14.5%

#### Base Case: SEK25 (40)

Sales CAGR 2021-2025e: 43%  
 Sales CAGR 2025e-2030e: 30%  
 Avg. EBIT-m 2021-2025e: -97%  
 Avg. EBIT-m 2025e-2030e: 17%  
 Terminal growth: 2%  
 Terminal EBIT-m: 22%  
 WACC: 14.5%

#### Bull Case: SEK200 (260)

Sales CAGR 2021-2025e: 49%  
 Sales CAGR 2025e-2030e: 37%  
 Avg. EBIT-m 2021-2025e: -87%  
 Avg. EBIT-m 2025e-2030e: 27%  
 Terminal growth: 2%  
 Terminal EBIT-m: 32%  
 WACC: 14.5%

Company name	EV	EV/S			EV/EBITDA			Sales CAGR	Avg EBITDAm
	SEKm	2022	2023	2024	2022	2023	2024	2021-24	2022-24
<b>Nordic SaaS</b>									
<b>Artificial Solutions International AB Class B</b>	<b>274</b>	<b>6.0</b>	<b>4.5</b>	<b>2.4</b>	<b>neg</b>	<b>neg</b>	<b>neg</b>	<b>43%</b>	<b>-103%</b>
Addnode Group AB Class B	11,474	2.0	1.9	1.8	15.7	14.7	13.9	16%	13%
Admicom Oyj	2,399	6.9	6.1	5.6	15.2	13.5	12.0	20%	45%
Bambuser AB	361	1.7	1.3	1.0	neg	neg	neg	36%	-60%
BlMobject AB	99	0.7	0.6	0.5	neg	neg	neg	16%	-18%
BuildData Group AB	134	1.3	1.1	na	neg	neg	na	na	-9%
Carasent ASA	777	3.8	3.1	2.5	13.1	10.0	7.2	31%	32%
Checkin.com Group AB	697	9.3	4.6	2.6	>100	22.3	8.2	91%	18%
Efecte Oyj	540	2.3	2.0	1.7	>100	>100	26.5	21%	3%
FormPipe Software AB	1,333	2.7	2.4	2.2	16.8	11.4	8.8	9%	21%
Fortnox AB	26,302	20.5	15.4	11.9	44.4	32.1	24.4	33%	48%
Irisity AB	509	3.5	2.1	1.6	47.6	8.6	4.8	60%	22%
LeadDesk Oyj	343	1.1	1.0	0.9	10.4	8.3	6.1	16%	12%
Lemonssoft Oyj	2,114	8.5	7.0	6.0	26.9	20.7	17.1	27%	33%
Lime Technologies AB	2,943	6.1	5.4	4.7	19.3	17.1	15.2	16%	31%
Litium AB	164	2.4	1.9	1.5	neg	11.4	6.1	23%	14%
Mercell Holding AS	4,904	na	na	na	na	na	na	na	na
PatientSky Group AS	340	1.6	1.5	1.3	neg	8.1	4.7	7%	14%
Penneo AS	414	3.8	2.7	2.0	neg	neg	neg	40%	-14%
Pexip Holding ASA	490	0.5	0.4	0.4	neg	3.3	2.0	16%	8%
Physitrack Limited	348	2.5	2.0	1.7	8.3	6.0	4.4	38%	34%
Safeture AB	98	2.8	2.1	1.6	na	na	na	31%	na
SignUp Software AB	1,776	7.1	5.6	4.6	71.3	32.9	23.1	27%	16%
SmartCraft ASA Class A	2,748	7.8	6.7	5.9	20.0	16.1	13.7	20%	41%
Upsales Technology AB	1,051	8.1	6.0	4.8	35.0	21.9	17.5	33%	26%
Vertiseit AB Class B	669	2.2	1.8	1.7	23.1	10.4	8.6	na	15%
Vitec Software Group AB Class B	12,920	6.7	5.7	4.9	18.0	14.4	11.9	19%	39%
XMRReality AB	40	2.0	1.4	1.1	neg	neg	neg	19%	-104%
ZetaDisplay AB	na	na	na	na	na	na	na	na	na
<b>Average</b>	<b>2,630</b>	<b>4.3</b>	<b>3.3</b>	<b>2.7</b>	<b>13.3</b>	<b>9.8</b>	<b>8.1</b>	<b>24%</b>	<b>6%</b>
<b>Median</b>	<b>604</b>	<b>2.8</b>	<b>2.1</b>	<b>1.9</b>	<b>19.3</b>	<b>13.5</b>	<b>10.3</b>	<b>23%</b>	<b>15%</b>

Source: FactSet, Redeye



## 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 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report:

#### People: 3

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 USD14bn 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%.

	2021	2022e	2023e	2024e						
<b>INCOME STATEMENT</b>					<b>DCF Valuation Metrics</b>					<b>Sum FCF (SEKm)</b>
Revenues	39	46	60	113	2023-26				-97	
Cost of Revenues	12	16	17	20	2027-34				295	
Gross Profit	27	29	43	93	2034-				210	
Operating Expenses	102	122	132	141	Firm Value				408	
EBITDA	-58	-76	-70	-29	Net Debt				242	
Depreciation & Amortization	13	12	16	19	Equity Value				166	
EBIT	-71	-88	-86	-48	Fair Value per Share				25.3	
Net Financial Items	1	1	-34	-37						
EBT	-70	-87	-120	-85						
Income Tax Expenses	0	0	0	0						
Non-Controlling Interest	0	0	0	0						
Net Income	-70	-87	-120	-85						
<b>BALANCE SHEET</b>					<b>CAPITAL STRUCTURE</b>					
<b>Assets</b>										
<b>Current assets</b>										
Cash & Equivalents	112	19	26	-22	Equity Ratio	-0.7	-3.1	-3.9	-5.8	
Inventories	0	0	0	0	Debt to equity	-2.0	-1.1	-1.1	-0.9	
Accounts Receivable	6	9	12	23	Net Debt	126	242	358	434	
Other Current Assets	20	15	19	36	Capital Employed	118	31	-64	-122	
Total Current Assets	138	42	58	37	Working Capital Turnover	-1.6	-2.3	-2.6	-3.0	
<b>Non-current assets</b>										
Property, Plant & Equipment, Net	1	1	1	1						
Goodwill	0	0	0	0						
Intangible Assets	28	29	29	35						
Right-of-Use Assets	0	0	0	0						
Shares in Associates	0	0	0	0						
Other Long-Term Assets	1	1	1	1						
Total Non-Current Assets	31	32	32	38						
Total Assets	168	74	90	74						
<b>Liabilities</b>										
<b>Current liabilities</b>										
Short-Term Debt	0	0	100	100						
Short-Term Lease Liabilities	0	0	0	0						
Accounts Payable	19	14	18	34						
Other Current Liabilities	0	0	0	0						
Total Current Liabilities	50	43	154	196						
<b>Non-current liabilities</b>										
Long-Term Debt	238	260	285	312						
Long-Term Lease Liabilities	0	0	0	0						
Other Long-Term Liabilities	0	0	0	0						
Total Non-current Liabilities	238	260	285	312						
Non-Controlling Interest	0	0	0	0						
Shareholder's Equity	-119	-229	-349	-434						
Total Liabilities & Equity	168	74	90	74						
<b>CASH FLOW</b>					<b>SHAREHOLDER STRUCTURE</b>					
NOPAT	-71	-88	-86	-48	Scope		15.9%	15.9%		
Change in Working Capital	-16	-5	3	15	SEB-Stiftelsen		7.5%	7.5%		
Operating Cash Flow	-119	-80	-76	-24	Nice & Green		6.2%	6.2%		
Capital Expenditures	-1	-1	-1	-1	C WorldWide Asset Management		2.9%	2.9%		
Investment in Intangible Assets	-14	-13	-15	-24	Avanza Pension		2.6%	2.6%		
Investing Cash Flow	-15	-13	-16	-25						
Financing Cash Flow	225	0	100	0						
Free Cash Flow	-133	-94	-92	-49						
					<b>SHARE INFORMATION</b>					
					Reuters code				ASAI.ST	
					List				First North	
					Share price				8.5	
					Total shares, million				6.57	
					<b>MANAGEMENT &amp; BOARD</b>					
					CEO				Per Ottosson	
					CFO				Fredrik Törgren	
					Chairman				Åsa Hedin	
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## 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 (2022-10-20)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	157	139	48
0p - 2p	5	40	142
Company N	194	194	194

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