REDEYE

Equity Research

Update

19 March 2024

Artificial Solutions

Sector: Conversational Artificial Intelligence

Volumes are coming back

Redeye updates its estimates following Artificial Solutions' Q4 2023 report. We keep our fair value range unchanged. We continue to see a clear ramp-up in sales volumes ahead.

ARR and sales

Artificial Solutions' total ARR grew by 31% y/y but was slightly down q/q and came in at SEK63m (47.9m), c10% below our too optimistic estimate of SEK69.9m. The SaaS ARR came in at SEK31m and grew by 24% y/y. Monthly SaaS API call volumes in active customers averaged 18.1 million in Q4 2023, up by 37% y/y but down compared to Q3, where it was 22.7 million (i.e., a 20% decrease q/q). However, management stated in the report, and reiterated on the conf call that volumes are coming back. Artificial Solutions reported net sales of SEK15.8m, whereof SEK15.7m was recurring (i.e., license & support and usage). Net sales grew by 22% y/y and the recurring sales by 31% (this is the more important metric, as professional services are not a focus area anymore, and partners instead provide the services to customers). Thus, 2023 closed a year where most sales were recurring, in accordance with the software-as-a-service (SaaS) business model, offering stability and predictability. Our net sales estimate was SEK17.8m, and thus there was a 10% difference. While license and support sales were in line (and growing q/q), the usage part differed a bit (and decreased q/q), due to the API call volumes.

Margins and cash balance

Artificial Solutions reported a gross margin of 77% in Q4 2023, higher than last year's 55%. 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. Net OPEX amounted to SEK-21.8m, lower compared to our estimate of SEK-23.2m. However, Artificial Solutions capitalised more in the quarter and thus, the EBITDA-CAPEX was SEK-15m, compared to our estimate of SEK-13.8m.

Fair value range unchanged – estimating a clear ramp-up

We keep our fair value range intact and continue to see a clear ramp-up in the coming years. 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 existing customers according to plan. We are, however, a bit more conservative than the company's own financial goals, and instead, we will adjust over time when more quarterly reports can guide the pace. Our fair value range is SEK0.25-SEK3.2, with a base case of SEK0.8 per share.

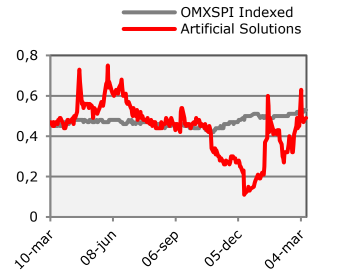
SEKm	2022a	Q1 23a	Q2 23a	Q3 23a	Q4 23a	2023a	Q1 24e	Q2 24e	Q3 24e	Q4 24e	2024e	2025e	2026e
Net sales	**46**	**13,6**	**14,8**	**16,4**	**15,8**	**61**	**16,4**	**18,4**	**21,1**	**24,4**	**80**	**129**	**180**
Growth YoY (%)	18%	35%	45%	32%	22%	33%	21%	25%	29%	54%	33%	60%	40%
Opex + Capitalisation	**-134**	**-36**	**-34**	**-34**	**-37**	**-140**	**-36**	**-36**	**-37**	**-38**	**-146**	**-151**	**-159**
EBIT	-78	-22	-18	-16	-9	-72	-10	-9	-8	-7	-35	-7	29
Margin (%)	-170%	-160%	-119%	-98%	-58%	-119%	-60%	-51%	-40%	-29%	-43%	-6%	16%
Adj EBITDA-Capex	-79	-22	-18	-17	-15	-72	-14	-13	-12	-10	-50	-12	26
Margin (%)	-172%	-162%	-120%	-103%	-94%	-118%	-88%	-73%	-57%	-41%	-62%	-10%	14%
Total ARR											107	154	211
-(SaaS becoming a larger share)													
EV/S											4,6	3,0	2,0
EV/EBIT											neg	neg	12,1
EV/EBITDA-Capex											neg	neg	13,6

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

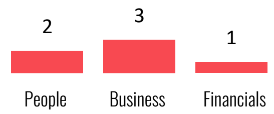
FAIR VALUE RANGE

BEAR	BASE	BULL
0.3	**0.8**	3.2

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ASAI
Market	First North
Share Price (SEK)	0.446
Market Cap (MSEK)	122
Net Debt (MSEK)	c200m (est)
Free Float	71%
Avg. daily volume ('000)	911

ANALYSTS

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Q4 2023 review

Artificial Solutions
Deviation vs Outcome

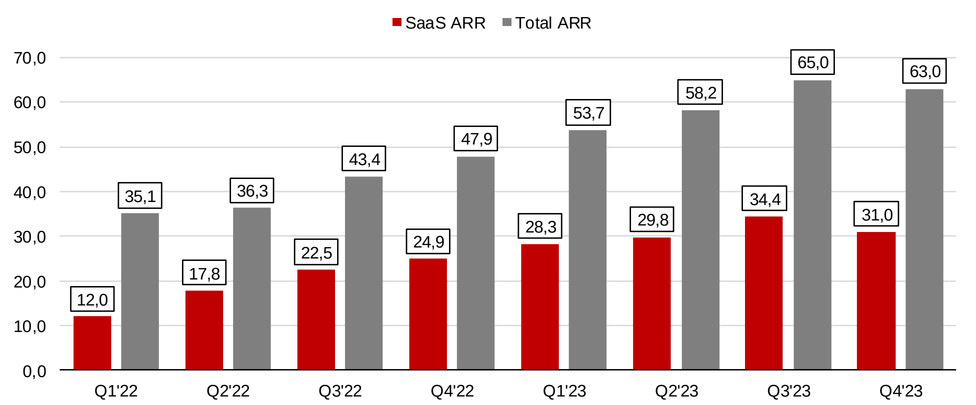
SEKm	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	Q3 23a	Q4 23a	Q4 23e	Diff (abs)	Diff (%)
License & Support	5,6	5,5	6,0	6,2	6,3	6,2	6,4	6,7	6,6	0	
Usage	3,2	3,6	4,9	5,7	7,1	8,4	9,9	9,1	11,1	-2	
Other	1,4	1,1	1,5	1,0	0,2	0,2	0,1	0,0	0,1	0	
Net sales	**10,1**	**10,2**	**12,4**	**12,9**	**13,6**	**14,8**	**16,4**	**15,8**	**17,8**	**-2**	**-11%**
COGS	-3	-3	-5	-5	-6	-4	-6	-4	-4	1	
Gross Profit	7	7	7	8	8	11	10	12,1	13	-1	
Opex	**-26,0**	**-29,9**	**-27,4**	**-28,5**	**-28,4**	**-25,8**	**-26,6**	**-21,8**	**-23,2**	**1**	**-6%**
Adj EBITDA	**-18**	**-22**	**-20**	**-19**	**-18**	**-14**	**-13**	**-6**	**-10**	**4**	**-41%**
D&A	-3,7	-3,2	-2,7	-3,0	-3,7	-3,8	-3,2	-3,5	-3,2	0	
EBIT	-22	-26	-23	-18	-24	-19	-20	-10	-13,0	3	
Net income	-25,8	-15,5	-21,6	-22,5	5,4	-16,5	0,0	-19,5	-16,5	-3	
EBITDA - Capex	-21,2	-25,5	-23,2	-24,0	-22,2	-17,7	-17,0	-15,0	-13,8	-1	9%
Recurring revenues	**8,8**	**9,1**	**10,9**	**11,9**	**13,4**	**14,6**	**16,3**	**15,7**	**17,7**	**-2**	**-11%**
ARR	**35,1**	**36,3**	**43,4**	**47,9**	**53,7**	**58,2**	**65,0**	**63,0**	**69,9**	**-7**	**-10%**

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

ARR

Artificial Solutions' total ARR grew by 31% y/y but was slightly down q/q and came in at SEK63m (47.9m), c10% below our too optimistic estimate of SEK69.9m. The SaaS ARR came in at SEK31m and grew by 24% y/y. Artificial Solutions recently changed how it reports its ARR metrics, 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.

SaaS ARR and total ARR, quarterly average (SEKm)



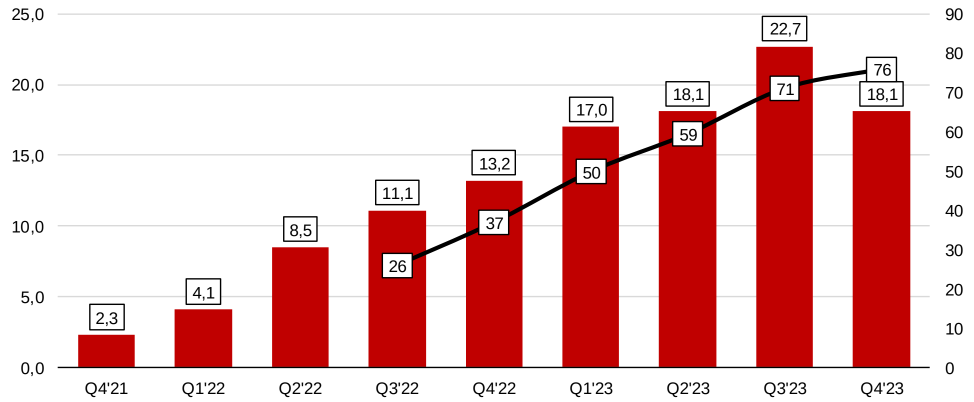
Source: Redeye Research, Artificial Solutions

API volumes

Monthly SaaS API call volumes in active customers averaged 18.1 million in Q4 2023, up by 37% y/y but down compared to Q3, where it was 22.7 million (i.e., a 20% decrease q/q). In the report, the company states: "The API call volumes increased significantly in July and August 2023 due to high WhatsApp usage for two of our US customers – part of the calls being of fraudulent nature. In the fourth quarter 2023, two of our US customers had the WhatsApp channel closed and that combined with seasonality (Christmas period) resulted in average monthly API call volumes in line with our September 2023 number." Management also added that: "Two of our US customers have restarted their WhatsApp channels albeit with many limitations for security reasons and the beginning of this 2024, we see these volumes pick up again."

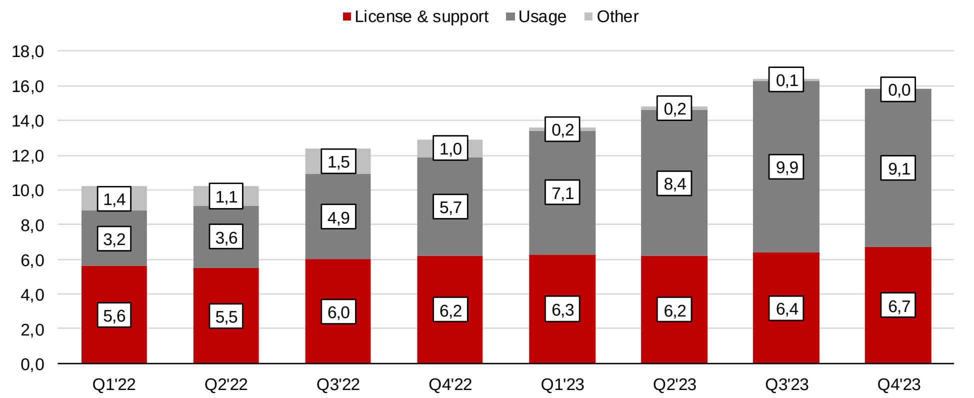
Thus, although the q/q numbers were challenging (and partly boosted), it seems that Artificial Solutions is back on track and ought to continue its growth journey, both y/y and q/q from here. The volumes are coming back, but from more normal levels.

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



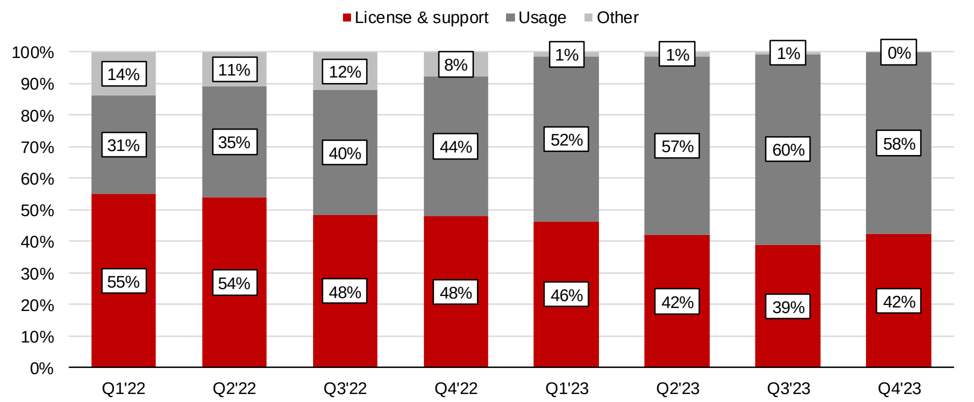
Source: Redeye Research, Artificial Solutions

Artificial Solutions's revenue streams (SEKm)



Source: Redeye Research, Artificial Solutions

Artificial Solutions's revenue streams (%)

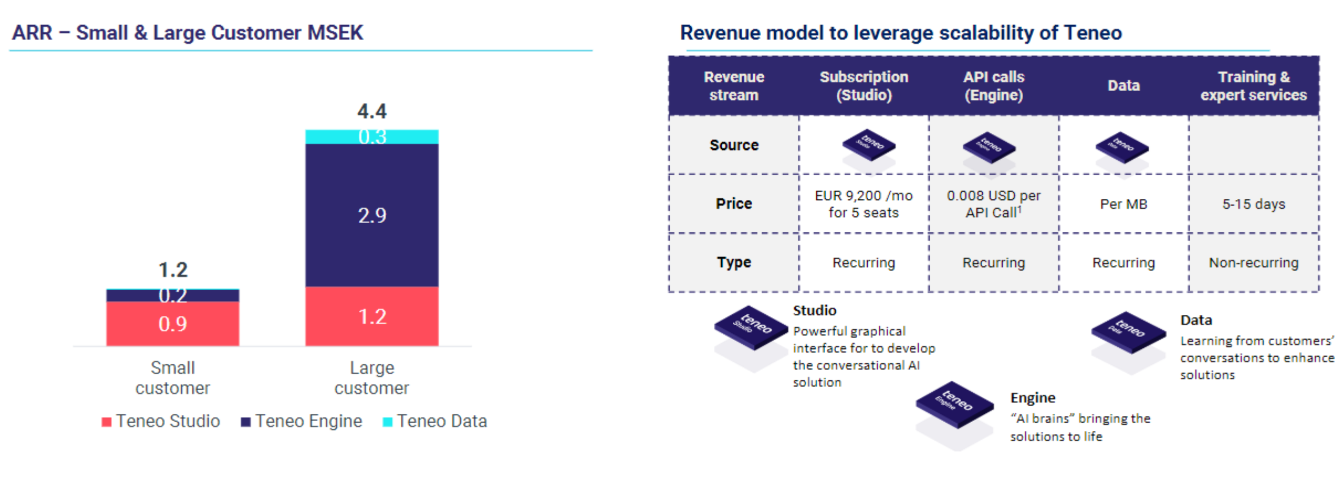


Source: Redeye Research, Artificial Solutions

Sales (focus on recurring streams)

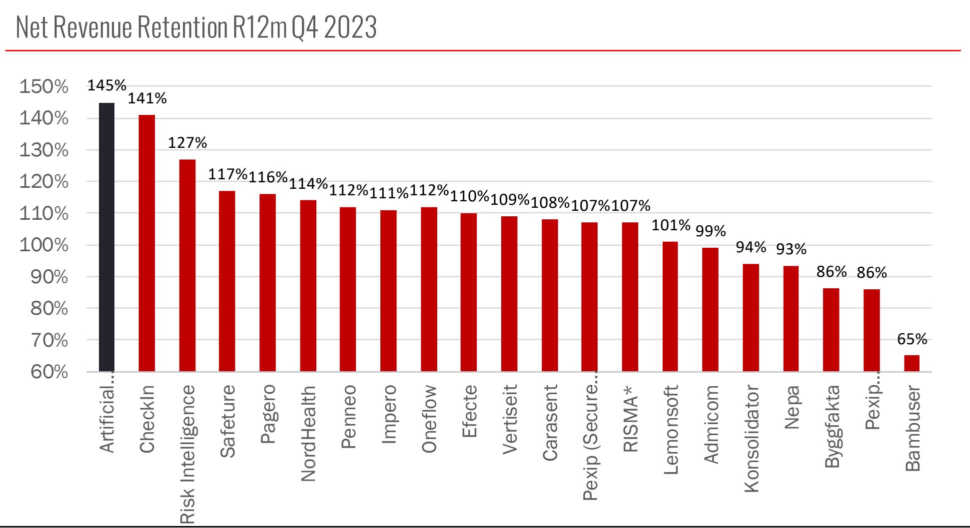
Artificial Solutions reported net sales of SEK15.8m, whereof SEK15.7m was recurring (i.e., license & support and usage). Net sales grew by 22% y/y and the recurring sales by 31% (this is the more important metric, as professional services are not a focus area anymore, and partners instead provide the services to customers). Thus, 2023 closed a year where most sales were recurring, in accordance with the software-as-a-service (SaaS) business model, offering stability and predictability. Our net sales estimate was SEK17.8m, and thus there was a 10% difference. While license and support sales were in line (and growing q/q), the usage part differed a bit (and decreased q/q), due to the API call volumes. The rolling twelve-month number on recurring revenues was SEK60m, up from SEK40.7m in Q4 2022 (i.e., 47% growth).

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, will not be a driver going forward, as the focus is on the recurring sales. In 2023, those revenue streams have been insignificant.



Source: Redeye, Company reports

While the ramp-up on existing customers appears to have gone well, evidently by an outstanding NRR of 145% (best-in-class), the new SaaS customer intake has been slower. However, in the quarter, management said that it has initiated a reorganisation for 2024, where the go-to-market organisation has been divided into two segments: one tasked with handling all new sales, and the other responsible for existing accounts. These teams oversee customers and prospects across Artificial Solutions' key markets, i.e. the US, UK, Germany, Switzerland, and Northern Europe. Now, half of the go-to-market organisation will focus on upsell and making sure the existing customer base is satisfied and stays for a long time, while the other part is fully focusing on customer acquisition. Management expects 1-2 new customers per quarter, corresponding to 4-8 for the full year. We asked management about this on the conf call and CEO Per 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.”

Artificial Solutions also signed a new partnership agreement in February 2024, with EPAM. EPAM is a system integrator and AWS Connect partner, and the company has “global coverage of the AI market with 280 of the world's largest customers and 58,000 employees.” We asked about EPAM on the conf call, and management answered: “Another partner is EPAM, which has a lot of interesting customers in our space. They are CX-focused, U.S. based, but also European operation company that recently took over a large PS contingent that we happen to know from before. So, they have been in our market before, actually worked together also at IPSoft/Amelia. So EPAM now is putting a lot of effort into this space coming from having customers in the CX space or having relationships already with the right people at the customers.” Thus, it seems that the EPAM partnership could bring good business opportunities going forward.

Another thing that was highlighted in the report was several renewals. First, there was a SaaS subscription agreement with A1 Bulgaria, a multinational telecom operator, that was renewed. Moreover, two Italian banks renewed license agreements: Widiba and BPM. TIAA, a US bank, also renewed its license agreement in the quarter. Lastly, after the Q4 had ended, there was a renewal of the SaaS customer Medtronic, which is one of the largest medical device companies in the world.

Margins and cash flow

Artificial Solutions reported a gross margin of 77% in Q4 2023, higher than last year’s 55%. 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 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 profit of SEK13m in the quarter, while Artificial Solutions reported SEK12m. The difference stemmed from the net sales miss, mainly the API call/usage.

Net OPEX amounted to SEK-21.8m, lower compared to our estimate of SEK-23.2m. However, Artificial Solutions capitalised more in the quarter and thus, the EBITDA-CAPEX was SEK-15m, compared to our estimate of SEK-13.8m. Total capitalisation was SEK9.2m, compared to the average of SEK5.2m for 2023 (with Q4 pushing the number upward). There will likely be a small shift of some costs from OPEX to CAPEX (capitalisations on the balance sheet), as more focus will be on the SaaS product. However, we believe the current run rate of costs will be a good base line.

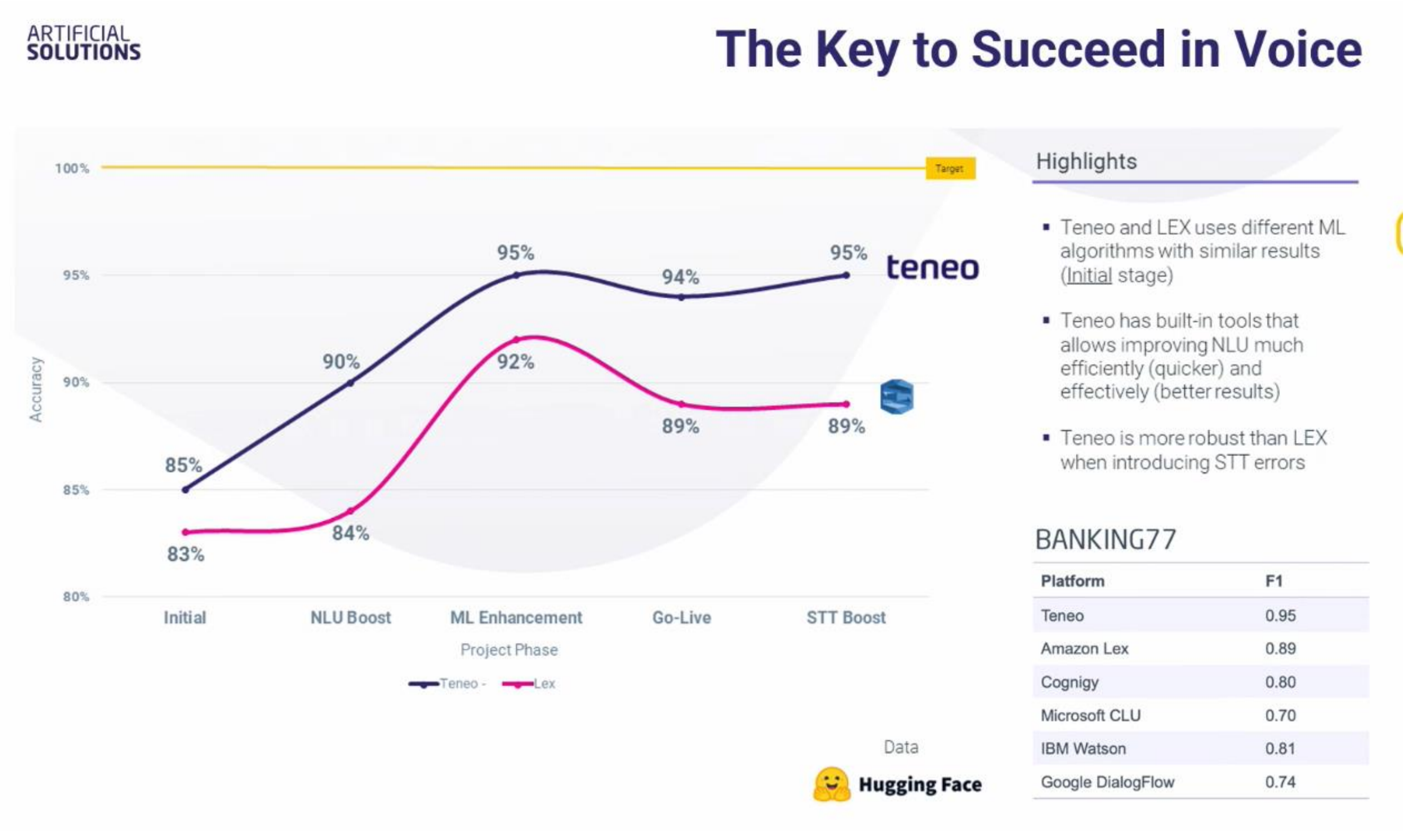
Cash flow from operating activities amounted to SEK-12.7m (whereof changes in working capital were SEK-4.1m). Cash flow from investing activities was SEK-9.4m, closely in line with the capitalisations. Although cash flow from financing activities was zero in Q4 2023, Artificial Solutions concluded a successful rights issue in Q1 2023, netting it about SEK25m in cash. At quarter-end Q4 2023, Artificial Solutions had a cash balance of SEK15.2m and current receivables of SEK22.9m. But given the rights issue, the current cash position is slightly better.

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 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 below. 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. An efficient AI system also 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.



Platform	F1
Teneo	0.95
Amazon Lex	0.89
Cognigy	0.80
Microsoft CLU	0.70
IBM Watson	0.81
Google DialogFlow	0.74

Estimates

We make a few changes to our estimates following the Q4 2023 report. First, we lower 2024e sales slightly (by about 10% and in line with the top line miss in Q4 2023). However, we include a gradual improvement throughout the year and accelerating growth into 2025e, as we forecast new customer wins (6, or in the middle of management's estimate) that ramp-up over time. We have lowered our 2025e and 2026e sales by about 3%. The medium-term estimates are unchanged. 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.

Artificial Solutions: Financial forecast

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**	16,4	18,4	21,1	24,4	**80**	**129**	**180**
Growth YoY (%)	18%	35%	45%	32%	22%	33%	21%	25%	29%	54%	33%	60%	40%
COGS	-21	-6	-4	-6	-4	-20	-3	-4	-4	-5	-16	-22	-27
Gross profit	**25**	**8**	**11**	**10**	**12**	**41**	13	15	17	20	**64**	**107**	**153**
Gross margin (%)	55%	57%	72%	63%	77%	67%	80%	80%	80%	80%	80%	83%	85%
Capitalised dev	13	4	4	4	9	21	8	8	8	8	32	32	32
Personnel	-85	-25	-22	-24	-18	-88	-18	-19	-19	-20	-76	-80	-85
External expenses	-35	-7	-8	-6	-9	-30	-9	-10	-10	-10	-38	-39	-42
Opex + Capitalisation	**-134**	**-36**	**-34**	**-34**	**-37**	**-140**	**-36**	**-36**	**-37**	**-38**	**-146**	**-151**	**-159**
EBITDA	**-76**	**-21**	**-15**	**-16**	**-6**	**-58**	-6,4	-5,5	-4,0	-2,0	**-18**	**20**	**58**
EBITDA (%)	-167%	-152%	-102%	-99%	-38%	-96%	-39%	-30%	-19%	-8%	-22%	15%	32%
Non-recurring	11	3	1	3	0	8	0	0	0	0	0	0	0
EBITDA adj	-65	-18	-14	-13	-6	-51	-6,4	-5,5	-4,0	-2,0	-18	20	58
EBITDA adj (%)	-143%	-133%	-93%	-79%	-36%	-83%	-39%	-30%	-19%	-8%	-22%	15%	32%
D&A	-13	-4	-4	-3	-4	-14	-3	-4	-4	-5	-17	-27	-29
EBIT	**-89**	**-24**	**-19**	**-20**	**-10**	**-72**	**-10**	**-9**	**-8**	**-7**	**-35**	**-7**	**29**
EBIT adj	-78	-22	-18	-16	-9	-72	-10	-9	-8	-7	-35	-7	29
Net finance	4	30	2	-8	-10	15	-3	-3	-3	-3	-10	-11	-11
PTP	-85	5	-17	-27	-19	-58	-12	-12	-11	-10	-45	-18	18
Net income	-85	5	-17	-27	-19	-58	-12	-12	-11	-10	-45	-18	14
EPS													
Adj EBITDA-Capex	-79	-22	-18	-17	-15	-72	-14	-13	-12	-10	-50	-12	26

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

We have also remodelled the cost base a bit and increased the capitalisation rate to about SEK8m a quarter, smoothed out over the year (there will likely be some seasonality). We also increase the gross margin to 80%, as customers keep ramping up and usage sales increase (gross margins on fully onboarded customers can approach 95%). Thus, there is a "tug-of-war" between commissions and ramping customers on the gross margin side. Although we believe the gross margin will fluctuate a bit as well, it ought to strengthen over time due to Artificial Solutions' exceptional scalability once customers are fully onboarded. We keep OPEX quite steady over the next three years, with some cost inflation and incremental hirings. 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 145% 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 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 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	November, 2018	Tradeshift	EUR690m	41%	4,7	neg
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

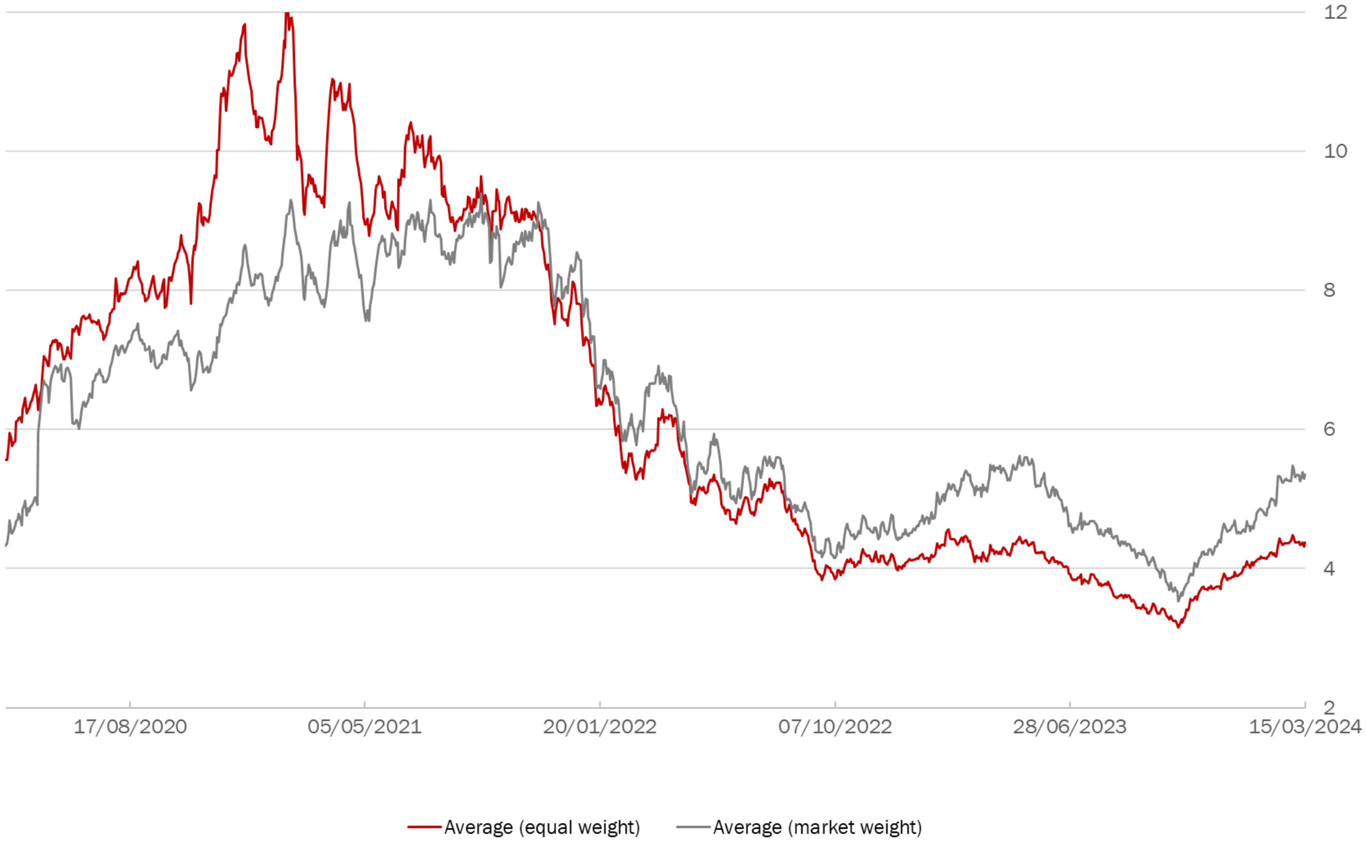
Source: Redeye, Company reports, FactSet

During 2023 and so far in 2024, several Nordic listed SaaS companies were targets of acquisitions, with an average premium of ~80%. The typical target company has a product offering that is scalable 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. Given that valuations on globally scalable companies running at negative-to-low profitability remain low, we believe this segment is where we will most likely see takeovers in 2024 as well.

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	668	1,7	1,4	1,1	21	12	8	22%	19%	15%	8%	12%	15%
Addnode	15 212	1,8	1,6	1,5	24	20	18	15%	12%	10%	7%	8%	8%
Admicom	2 502	5,9	5,3	4,5	20	17	13	4%	9%	11%	30%	31%	34%
AVTECH	175	4,6	3,4	2,8	12	7	6	19%	21%	9%	39%	48%	50%
Bambuser	24	0,2	0,5	0,6	neg	neg	neg	-34%	38%	43%	-82%	-53%	-31%
Byggfakta	12 722	4,5	4,0	3,2	26	20	13	10%	8%	12%	17%	20%	24%
Carasent	496	1,8	1,4	1,1	neg	28	9	10%	16%	15%	-3%	5%	13%
CheckIn	1 040	6,8	4,0	2,4	34	13	7	57%	63%	51%	20%	30%	34%
Efecte	1 119	3,5	3,0	2,5	154	46	26	10%	14%	14%	2%	7%	10%
Formpipe	1 484	2,7	2,3	1,9	19	12	9	4%	11%	8%	14%	19%	22%
Fortnox	46 638	22,6	17,8	14,4	49	36	28	26%	25%	21%	47%	50%	51%
Hoylu	86	1,3	1,1	0,9	neg	neg	neg	12%	26%	24%	-41%	-16%	-4%
Irisity	197	1,0	0,9	n/a	neg	neg	neg	n/a	14%	9%	-51%	-40%	-31%
Pagero	Out	n/a	n/a	n/a	neg	n/a	n/a	33%	33%	n/a	-14%	4%	n/a
LeadDesk	519	1,4	1,2	n/a	72	24	n/a	8%	12%	7%	2%	5%	8%
Lemonsoft	1 360	3,9	3,6	3,3	15	14	12	11%	6%	6%	26%	27%	27%
Lime	4 895	6,9	5,9	5,1	34	28	23	22%	14%	13%	20%	21%	22%
Litium	134	1,8	1,5	1,3	neg	44	21	6%	16%	16%	0%	4%	6%
Modelon	94	0,9	0,8	0,5	neg	neg	6	26%	30%	24%	-41%	-12%	9%
Nepa	149	0,5	0,4	0,3	4	4	3	n/a	7%	7%	11%	10%	12%
NordHealth	1 988	3,7	3,1	2,4	neg	neg	43	22%	18%	21%	-20%	-5%	5%
Opter	505	5,7	4,7	3,9	22	17	13	14%	14%	13%	25%	28%	30%
Penneo	432	2,5	2,0	1,6	neg	138	17	24%	25%	22%	-8%	1%	10%
Pexip	2 264	2,0	1,8	1,5	22	13	9	9%	10%	10%	9%	13%	16%
Physitrack	244	1,2	1,0	0,7	14	6	4	16%	23%	23%	9%	16%	17%
Safeture	278	4,4	3,2	2,3	139	22	11	30%	28%	25%	3%	15%	21%
Sikri	1 376	1,2	1,0	n/a	13	8	n/a	n/a	10%	n/a	9%	12%	n/a
SmartCraft	4 317	8,9	7,4	6,3	25	20	17	n/a	16%	13%	36%	37%	38%
Speqta	128	1,4	1,3	1,1	neg	neg	neg	60%	27%	27%	-42%	-22%	-9%
Upsales	684	4,4	3,7	3,2	22	20	16	8%	18%	17%	20%	18%	20%
Vertiseit	693	2,1	1,8	1,6	14	10	8	-6%	11%	10%	15%	18%	20%
Vitec	22 614	7,0	6,3	5,6	31	27	23	16%	12%	12%	23%	24%	24%
Volue	4 323	2,5	2,1	1,7	26	16	12	15%	13%	12%	9%	13%	14%
XMReality	39	1,7	0,7	-0,1	neg	4	0	15%	70%	56%	-43%	15%	34%
Average	**3 921**	**3,7**	**3,0**	**2,6**	**35**	**23**	**14**	**16%**	**20%**	**18%**	**2%**	**11%**	**16%**
Median	**684**	**2,5**	**2,0**	**1,8**	**22**	**17**	**12**	**15%**	**16%**	**14%**	**9%**	**13%**	**17%**
Artificial S	*323*	*4,6*	*3,0*	*2,0*	*-10,7*	*-52,1*	*12,1*	*33%*	*60%*	*40%*	*-43%*	*-6%*	*16%*

Source: Redeye, Company reports, FactSet

EV/Sales NTM



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

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 (SEK15m) 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 – 26%

2029-2038e – 7% (later years impact the growth negatively)

Terminal – 2%

EBIT margin

2024-2028e - -1%

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 (SEK15m) 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 – 8% (continuous slowdown, with later years having a larger impact)

Terminal – 2%

EBIT margin

2024-2028e - 3% (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 (SEK15m). 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 – 42%

2029-2038e – 13% (continuous slowdown, with later years having a larger impact)

Terminal – 2%

EBIT margin

2024-2028e - 7% (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: 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. This rating could potentially become a 3 soon, as 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 (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 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 (2024-03-19)

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

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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.