REDEYE

Equity Research

Update

25 February 2022

Artificial Solutions

Sector: Software/ Artificial Intelligence

Major catalysts ahead

Redeye lowers its fair value range as we soften near term sales expectations – we expect 16% growth this year. However, the transition to SaaS represents a major opportunity and a successful migration could turn the negative sentiment.

Sales miss

Sales missed expectations by c. 15% both on a reported and adjusted basis, largely thanks to 'other' sales. More importantly, however, license & support and usage sales were as expected. Adjusted recurring revenues amounted to SEK36.6m on a TTM basis, rising 8% YoY. Moreover, the gross margin (72%) came in slightly ahead.

Eight customers in the SaaS model

Artificial Solutions entered agreements with seven customers in the quarter – five of these in the SaaS model. The eight customers currently in the SaaS model generated 25% of adjusted recurring revenues in December 2021, compared to 14% in Q3. Half of these are live, while the other remains in development.

Big opportunity in the installed base

Migrating existing customers from legacy to SaaS represents a SEK80m opportunity in annual recurring usage revenues. This year, we consider a successful migration and traffic volume ramp-up as major catalysts. However, some regulatory issues could postpone matters in Switzerland and with banks.

Valuation: lowered fair value range

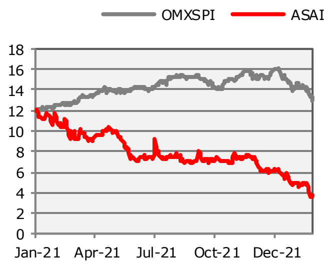
We lower our fair value range thanks to softer sales expectations. Our updated fair value range spans from SEK2-26 (2-36), and our Base Case is SEK7 (11). The share has been punished by the negative market sentiment, dropping c. 40% YTD. However, the board and management have net bought c. 400,000 shares since October 2021 – at much higher prices than today.

Key Financials (SEKm)	2019	2020	2021	2022E	2023E	2024E
Sales	49	54	39	45	61	82
Sales growth	9%	10%	-28%	16%	35%	34%
EBITDA	-135	-86	-58	-62	-55	-39
EBIT	-146	-98	-71	-76	-69	-56
EBIT Margin (%)	-298%	-182%	-183%	-168%	-112%	-68%
Net Income	-182	-154	-70	-102	-105	-94
EV/S	6.9	12.4	13.7	10.5	9.4	8.2
EV/EBITDA	neg	neg	neg	neg	neg	neg
EV/EBIT	neg	neg	neg	neg	neg	neg

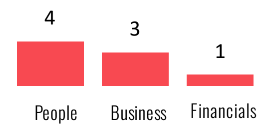
FAIR VALUE RANGE

BEAR	BASE	BULL
2	7	26

ASAI VERSUS OMXSPI



REDEYE RATING



KEY STATS

Ticker	ASAI
Market	First North
Share Price (SEK)	3.46
Market Cap (SEKm)	227
Net Debt 2021 (SEKm)	126
Free Float (%)	80

ANALYSTS

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Artificial Solutions Q4 2021

Sales miss

Sales missed expectations, both on a reported and adjusted basis, largely thanks to soft 'other' sales. These typically include professional services (PS), support, and hosting. In combination with the transition to SaaS, Artificial Solutions no longer expects to support a PS capability in-house – this has been outsourced to its partners and systems integrators. Thus, other sales will likely constitute a small share of the company's future offering. More importantly, license & support and usage sales developed in line with expectations.

In Q4 2020, Artificial Solutions communicated it had begun to transition to a SaaS business and delivery model. For this reason, usage revenues are recognized as consumed rather than invoiced. In the previous model, an up-front usage payment in a multi-year deal was recognized to 100% in a single quarter. Instead, in the current model, it is evenly spread out throughout its lifetime. Management discloses adjusted usage revenues to help investors understand the business's underlying performance during the transition.

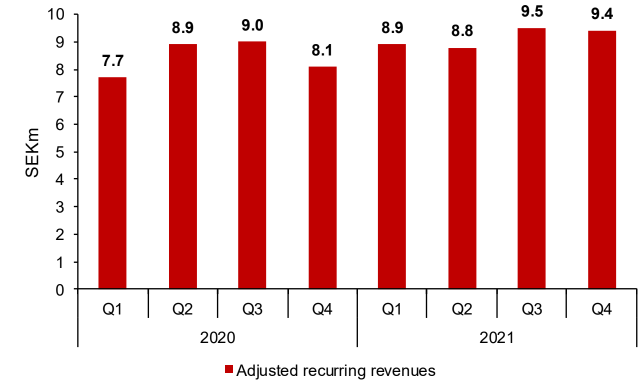
Sales forecast deviations Artificial Solutions Q4 2021

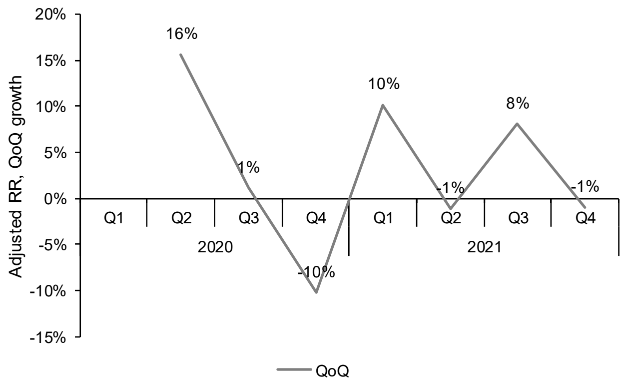
SEKm	Q4 2020	Actual Q4 2021	Estimated Q4 2021	Diff (%)	Diff (abs)
License & Support	*4.6*	*5.5*	*6.0*		
Usage	*3.0*	*3.3*	*3.0*		
Other	*2.1*	*1.0*	*2.5*		
Reported Net Sales	9.7	9.8	11.5	*-15%*	*-1.7*
YoY	*-12%*	*1%*	*19%*		
QoQ	*-27%*	*-11%*	*5%*		
Adjusted Usage	*3.5*	*4.0*	*4.2*		
Adjusted Net Sales	10.2	10.5	12.7	*-17%*	*-2.2*
YoY	*na*	*3%*	*25%*		
QoQ	*-11%*	*-12%*	*7%*		

Source: Redeye Research, company data

Underlying growth in the SaaS business model

Adjusted recurring revenues, i.e., combined license & support and adjusted usage, amounted to SEK9.4m in Q4, growing 17% YoY and flat QoQ. In 2021, adjusted recurring revenues amounted to SEK36.6m (33.9), rising 8% YoY. Thus, we see underlying growth in Artificial Solutions' updated business model. Moreover, SaaS customers generated 25% of these revenues in December 2021, compared to 14% in Q3. Revenues derived from SaaS customers will likely continue to accelerate thanks to 1) new customer engagements; 2) migrating existing customers to the SaaS model; and 3) ramping up usage volumes.





Source: Redeye Research, company data

Operating results – no large deviations

The gross margin came in at 72%, slightly ahead of expectations and improving seven ppts against the same period last year – likely thanks to less PS. However, if the transition to SaaS is successful, we expect, over time, a gross margin above 90%.

Adjusted EBITDA (excluding non-recurring items) in Q4 amounted to (-)SEK16.1m, trailing expectations slightly. On the other hand, EBIT improved substantially YoY and came in ahead of expectations – boosted by a non-recurring income of SEK5m concerning an R&D tax credit.

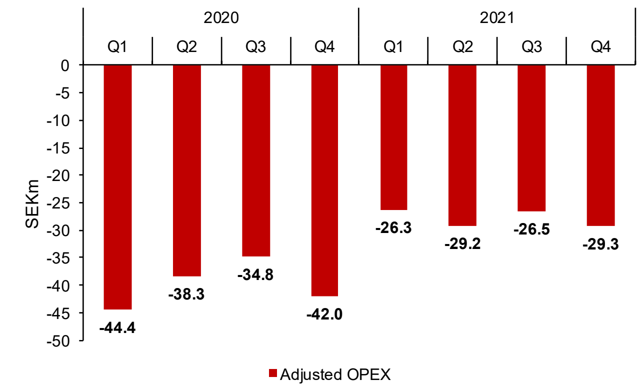
Forecast deviations Artificial Solutions Q4 2021

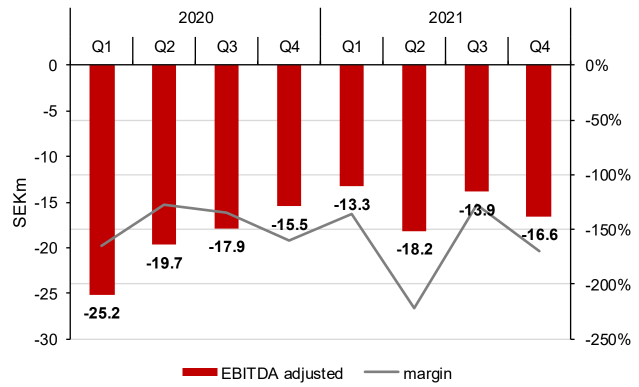
SEKm	Q4 2020	Actual Q4 2021	Estimated Q4 2021	Diff (%)	Diff (abs)
Reported net sales	9.7	9.8	11.5	*-15%*	*-1.7*
Gross profit	6.3	7.1	8.1	*-12%*	*-1.0*
margin	*65%*	*72%*	*70%*		
EBITDA adjusted	-15.5	-16.6	-15.5	*nm*	*-1.2*
margin	*-160%*	*-169%*	*-134%*		
EBIT	-25.5	-16.2	-18.6	*nm*	*2.4*
margin	*-263%*	*-165%*	*-161%*		

Source: Redeye Research, company data

Realigned cost base

Cost reduction measures taken by Artificial Solutions' management have taken effect throughout 2021. In Q4, operating expenses (excluding D&A and non-recurring items) amounted to SEK29.3m, dropping 30% YoY. This corresponds to an annual run rate of SEK117m. Our understanding is that the cost base will likely increase somewhat from current levels as Artificial Solutions builds out its sales team. Even so, we think the reduced cost suit aligns much better with the updated SaaS strategy.





Source: Redeye Research, company data

Financial position

In Q4, Artificial Solutions raised SEK250m gross through a five-year credit facility carrying a 9.5% interest rate and payment-in-kind (PIK) interest. The interest expenses will be capitalized and added to the underlying loan and, therefore, have a non-cash impact. As of year-end 2021, Artificial Solutions' cash position amounts to SEK118m on a pro forma basis, considering a SEK6m R&D cash credit refund received in January 2022. Our guess is that the existing cash position supports operations throughout 2022 but that a capital raise will come into play in H2 2023. Considering Artificial Solutions' track record of issuing debt, we forecast a SEK120m loan carrying 10% interest in 2023.

Operational highlights

Seven customer agreements in Q4 – five in the SaaS model

Artificial Solutions entered agreements with seven customers in the quarter. These include GrapeTree, SelectQuote, Skoda, Hellofresh, Scania, Widiba, and BPM. We understand that all agreements but the latter two (Italian banks) concern the SaaS model. Additionally, most SaaS agreements involve existing customers renewing contracts to migrate to the SaaS model. Our understanding is that customers appreciate not having to maintain servers, network, storage, and oversee security matters.

All of these, except for GrapeTree, are considered 'large' customers. We understand that smaller customers often lack some functionality, making it more challenging to use the platform. Artificial Solution has a defined strategy to gain traction from smaller customers and expects to introduce a feature in Q2 this year to make the platform more accessible.

Eight customers in the SaaS model as of year-end 2021 – generating 25% of revenues

The eight customers currently in the SaaS model generated 25% of adjusted recurring revenues in December 2021, compared to 14% in Q3. Management commentary explains that half of these are live, while the other remains in development. Moreover, it takes customers on average about 6-9 months to go live and then another nine months to ramp up from 0 to 100% of the desired traffic in a project. Over time, Artificial Solutions expects large customers to generate, on average, SEK4.4 in ARR, and small customers SEK1.2m.

Migrating the installed base represents an SEK80m opportunity – major catalyst

Our Q2 research update highlighted the SEK80m ARR opportunity within the installed base. Essentially, Teneo manages about 10 million 'sessions' on its platform each month, corresponding to about 80 million API Calls. Artificial Solutions expects to charge SEK0.08 per API Call, generating SEK6.5m each month and close to SEK80m each year.

Intent to migrate all customers this year – Switzerland and banks raise some challenges

The process of migrating from legacy to SaaS includes two steps. First, customers need to accept the new platform as a secure solution. We understand that so far, all but two have done this. After that, the actual migration takes place. This can incur challenges as customers that have not updated their on-prem solutions continuously will lack some functionality. In such a case, the migration becomes a planning project, taking some time. Even so, management commentary reiterates its intent to migrate all customers this year. Thanks to harsh data privacy regulations, if it doesn't manage to do so, it will most likely concern Swiss customers and banking customers.

Swisscom represents one of the company's largest customers. At this point, it generates about 10m API calls each month, accounting for >12% of current usage volumes. Delays in the migration process could see postponed usage revenues, negatively affecting Artificial Solutions' cash flow profile. The same reasoning goes for banks, which likely account for a substantial share of current usage.

Financial forecast

Softened near term sales expectations

Sales missed expectations by c. 15% thanks to soft 'other' sales, typically involving PS, support, and hosting. License & support and usage sales were largely as expected. We understand that Artificial Solutions no longer expects to support a PS capability in-house – this has been outsourced to third parties. In this research update, we soften expectations on other sales further, from moderately positive to declining growth, which weighs on overall sales. Consequently, we expect somewhat greater operating losses, but the outlook of reaching breakeven during 2025/6 remains unchanged.

Artificial Solutions Q4 2021 forecast adjustments

SEKm		2022E	2023E	2024E
Net sales	Old	57	80	110
	New	45	61	82
change (%)		*-21%*	*-24%*	*-26%*
EBITDA	Old	-53	-39	-19
	New	-62	-55	-39
change (%)		*nm*	*nm*	*nm*
EBIT	Old	-65	-52	-35
	New	-76	-69	-56
change (%)		*nm*	*nm*	*nm*

Source: Redeye Research, company data

True SaaS model scalability reflected in our Bull Case

We illustrate the SaaS model's potential scalability beneath applying basic assumptions. On average, management expects large customers to generate SEK1.2m in first-year sales and SEK4.4m after that. Moreover, we use an 8% churn rate – Artificial Solutions claims to have a >95% renewal rate in the last two years.

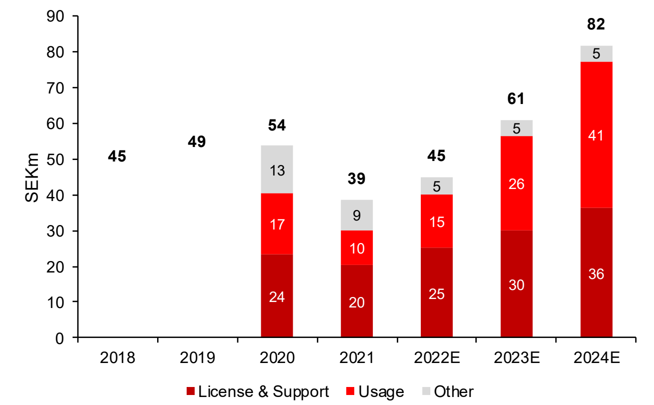
SEKm	2021	2022E	2023E	2024E
Large customers				
# of wins	6	9	12	15
First-year sales per customer	1.2	1.2	1.2	1.2
Sales	7.2	10.8	14.6	18.2
# of remaining customers, beginning of period, 8% churn		6		
Sales per customer		4.4		
Sales		24.3		
# of remaining customers, beginning of period, 8% churn			13	
Sales per customer			4.4	
Sales			58.8	
# of remaining customers, beginning of period, 8% churn				23
Sales per customer				4.4
Sales				103.3
Large customer sales	7.2	35.1	73.4	121.5

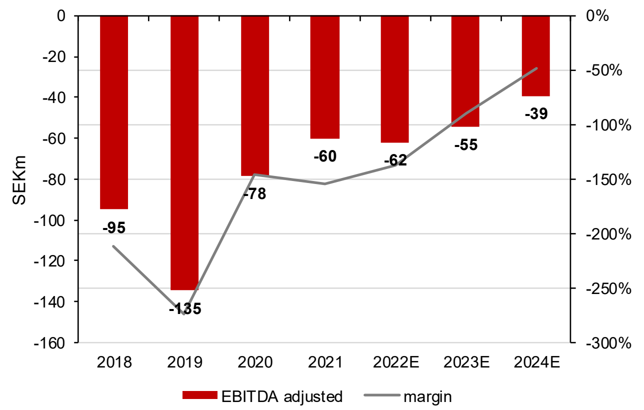
Source: Redeye Research, company data

Compared to our Base Case expectations, this sales forecast is more bullish from 2023 and beyond. Before reassessing our projections in Base Case, we would like to see more customers enter the SaaS model and ramp up traffic volumes, which should have a meaningful effect on usage revenues. Activities that could impact SaaS revenues materially, such as successfully migrating customers to the new model, should be considered significant catalysts.

Outlook 2022 and beyond

We think Artificial Solutions can grow its topline by c. 16% in 2022. Growth will most certainly be driven by license & support and usage, which are the core components in the updated SaaS model. Other sales will likely contract further in 2022, weighing on total sales. As SaaS derived sales account for a greater share of total sales, we expect the gross margin to expand further, to c. 80% this year. Operating expenses will most likely rise this year (we expect 13% YoY), although less than topline growth. Over time, we expect an improving EBITDA margin, eventually reaching breakeven during 2025/6. Interest expenses from 2022 will be capitalized and added to the underlying loan, and have a non-cash impact. Instead, these will be repaid in 2026, at the end of the five-year credit facility.





Source: Redeye Research, company data

Income statement (SEKm)	2020	2021	Q1E	Q2E	Q3E	Q4E	2022E	2023E	2024E
Net sales	53.7	38.8	10.3	10.6	11.6	12.7	45.1	61.1	81.9
YoY	*10%*	*-28%*	*5%*	*29%*	*6%*	*29%*	*16%*	*35%*	*34%*
Other income	*20.1*	*17.1*	*3.0*	*3.0*	*3.0*	*8.5*	*17.5*	*18.4*	*19.3*
Total income	73.8	55.9	13.3	13.6	14.6	21.2	62.6	79.5	101.2
CoGS	*-18.3*	*-11.6*	*-2.1*	*-2.1*	*-2.3*	*-2.5*	*-9.0*	*-9.2*	*-8.2*
OpEx	*-141.2*	*-102.4*	*-28.5*	*-29.6*	*-27.4*	*-30.2*	*-115.6*	*-124.9*	*-132.3*
D&A	*-12.0*	*-12.6*	*-3.4*	*-3.4*	*-3.4*	*-3.4*	*-13.7*	*-14.1*	*-16.4*
Total	-171.5	-126.6	-33.9	-35.1	-33.1	-36.1	-138.3	-148.1	-156.9
Gross profit	35.4	27.2	8.2	8.5	9.3	10.1	36.1	51.9	73.7
margin	*66%*	*70%*	*80%*	*80%*	*80%*	*80%*	*80%*	*85%*	*90%*
EBITDA adjusted	-78.3	-60.0	-17.2	-18.1	-15.2	-11.5	-62.0	-54.5	-39.3
margin	*-146%*	*-155%*	*-168%*	*-171%*	*-131%*	*-91%*	*-137%*	*-89%*	*-48%*
EBITDA	-85.7	-58.2	-17.2	-18.1	-15.2	-11.5	-62.0	-54.5	-39.3
margin	*-160%*	*-150%*	*-168%*	*-171%*	*-131%*	*-91%*	*-137%*	*-89%*	*-48%*
EBIT	-97.7	-70.8	-20.6	-21.5	-18.6	-15.0	-75.7	-68.6	-55.7
margin	*-182%*	*-183%*	*-201%*	*-203%*	*-160%*	*-118%*	*-168%*	*-112%*	*-68%*
Net finance	-56.5	1.2	-6.6	-6.6	-6.6	-6.6	-26.6	-36.1	-38.5
PTP	-154.2	-69.6	-27.3	-28.1	-25.2	-21.6	-102.2	-104.7	-94.2
Tax	-0.2	-	-	-	-	-	-	-	-
Net income	-154.4	-69.6	-27.3	-28.1	-25.2	-21.6	-102.2	-104.7	-94.2
margin	*-288%*	*-179%*	*-265%*	*-265%*	*-218%*	*-171%*	*-227%*	*-171%*	*-115%*
EPS	-3.62	-1.06	-0.42	-0.43	-0.38	-0.33	-1.56	-1.59	-1.43
EPS, diluted	-3.46	-1.06	-0.42	-0.43	-0.38	-0.33	-1.56	-1.59	-1.43

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 11% across all scenarios. We also supplement our DCF analysis with a peer group comparison.

Dropping our fair value range

In this research update, we lower our fair value range thanks to softer sales expectations, as this is the most dominant parameter in our DCF model. Moreover, we assume that Artificial Solutions will have to raise additional capital in H2 2023 and forecast a SEK120m loan carrying 10% interest. Our updated fair value range spans from SEK2-26 (2-36), and our Base Case is SEK7 (11). The fair value range continues to be very wide, owing to the unpredictable nature of Artificial Solutions' long-term growth and profitability.

Punished by harsh market sentiment but trading at a slight premium compared to SaaS peers

In relation to a group of Nordic SaaS companies (as seen on the next page), Artificial Solutions' share trades at a slight premium, at least on near term EV/S multiples – 7.8x and 5.8x in 2022 and 2023 (based on last reported net debt). However, we recognize that meaningful sales are a couple of years away. The share has been punished by the negative market sentiment, dropping c. 40% YTD. The modest topline growth and negative cash flow profile have likely contributed to this. Migrating customers to SaaS and ramping up traffic on the new platform will likely be major catalysts this year.

Insider transactions reveal value at current levels

The CEO and CFO have acquired c. 80,000 shares since releasing the year-end report on 17 February 2022, which indicates an undervalued share price and satisfaction with the operations outlook. Moreover, the board and management have net bought c. 400,000 shares since October 2021 – at much higher prices than today.

Bear Case: SEK2 (2)

Sales CAGR 2021-2025E: 20%
Sales CAGR 2025E-2030E: 18%
Avg. EBIT-m 2021-2025E: -83%
Avg. EBIT-m 2025E-2030E: 6%
Terminal growth: 2%
Terminal EBIT-m: 15%
WACC: 11%

Base Case: SEK7 (11)

Sales CAGR 2021-2025E: 30%
Sales CAGR 2025E-2030E: 29%
Avg. EBIT-m 2021-2025E: -113%
Avg. EBIT-m 2025E-2030E: 15%
Terminal growth: 2%
Terminal EBIT-m: 34%
WACC: 11%

Bull Case: SEK26 (36)

Sales CAGR 2021-2025E: 50%
Sales CAGR 2025E-2030E: 35%
Avg. EBIT-m 2021-2025E: -82%
Avg. EBIT-m 2025E-2030E: 23%
Terminal growth: 2%
Terminal EBIT-m: 38%
WACC: 11%

	EV	EV/S		EV/EBIT		Sales growth		EBIT margin	
Company name	**SEKm**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
Nordic SaaS									
Addnode Group AB Class B	12,462	2.8	2.6	32.1	28.9	9%	6%	9%	9%
Admicom Oyj	3,077	9.5	8.4	22.3	18.8	26%	14%	43%	45%
Bambuser AB	1,228	4.4	3.0	neg	neg	104%	44%	-58%	-34%
BIMobject AB	279	2.1	1.8	neg	neg	13%	16%	-46%	-33%
Briox AB	170	16.7	11.1	neg	neg	65%	50%	-170%	-103%
BuildData Group AB	192	2.1	1.7	neg	neg	108%	27%	-24%	-13%
Carasent ASA	948	4.5	3.7	22.4	16.7	44%	23%	20%	22%
Checkin.com Group AB	803	10.6	5.5	neg	>100	94%	94%	-24%	5%
Efecte Oyj	743	3.4	3.0	>100	29.2	15%	16%	1%	10%
FormPipe Software AB	1,842	3.7	3.3	29.2	21.2	7%	10%	13%	16%
Fortnox AB	23,227	18.5	14.3	53.8	37.8	35%	30%	34%	38%
Irisity AB	883	3.5	2.0	neg	17.3	228%	76%	-16%	11%
LeadDesk Oyj	1,025	3.1	2.6	36.1	20.3	23%	19%	8%	13%
Lime Technologies AB	3,504	7.3	6.3	36.1	28.9	19%	16%	20%	22%
Litium AB	187	2.5	1.9	neg	22.0	26%	31%	-9%	9%
Mercell Holding AS	3,869	4.1	3.6	72.2	25.2	27%	15%	6%	14%
Mintra Holding AS	521	2.0	1.9	12.0	11.0	3%	5%	17%	17%
PatientSky Group AS	590	2.4	2.0	neg	neg	15%	21%	-32%	-21%
Nordhealth AS	1,811	5.3	3.7	neg	na	60%	44%	-3%	0%
Pexip Holding ASA	2,908	2.7	2.0	neg	neg	28%	32%	-26%	-8%
Physitrack Limited	436	3.3	2.7	19.4	10.6	62%	25%	17%	25%
Safeture AB	238	na	na	na	na	na	na	na	na
SmartCraft ASA Class A	3,098	8.9	7.6	28.4	23.3	24%	16%	31%	33%
Upsales Technology AB	855	6.9	5.3	42.7	25.4	32%	30%	16%	21%
Vertiseit AB Class B	629	na	na	na	na	na	na	na	na
Vitec Software Group AB Class B	13,111	7.2	6.5	37.7	31.6	16%	11%	19%	20%
ZetaDisplay AB	na	na	na	na	na	na	na	na	na
CSAM Health Group AS	1,784	3.9	2.6	>100	75.5	33%	49%	3%	3%
Median	*948*	*3.9*	*3.0*	*32.1*	*23.3*	*27%*	*23%*	*6%*	*11%*
Average	*2,872*	*5.0*	*3.9*	*15.9*	*15.8*	*40%*	*26%*	*-5%*	*4%*
Artificial Solutions	353	7.8	5.8	neg	neg	16%	35%	-168%	-112%

Source: FactSet, Redeye Research; multiples are based on last reported net debt

Investment Case

Scalable SaaS Business Model

Artificial Solutions announced its transition to a SaaS business and delivery model in Q1 2021. In contrast to its previous model, the SaaS model is inherently scalable, owing to its usage-based revenues. Additionally, the company expects to transition most of its installed base from the legacy to the SaaS model in 2022, representing a SEK >75m ARR opportunity.

Major Partners to Drive Growth

Since Q3 2021, Artificial Solutions has an IP Co-Sell Incentivized Partnership with Microsoft. Essentially, it means that Microsoft's sales team is incentivized through commissions to promote Teneo to enterprise clients on Microsoft Azure. The agreement marks a vote of confidence in Teneo and could enable significant lead-generation among the 1,700+ organizations using Microsoft Azure and LUIS.

Artificial Solutions relies on systems integrators and channel partners such as Tech Mahindra, CGI, and Deloitte to drive sales and usage. These partners have a global profile and could reach many potential customers at a limited customer acquisition cost.

Attractive Exposure to the Conversational AI Market

The Conversational AI Market is a $50B industry, while its software segment represents a $14B opportunity growing at a 22% CAGR. As one of the leading companies in this space, and one of the only publicly listed peers, Artificial Solutions provides attractive exposure to this sought-after market.

Solid Financial Position

In Q3 2021, Artificial Solutions agreed to a long-term SEK 250m financing agreement with Capital Four, a leading credit asset management firm in the Nordics (€15 billion AUM). Essentially, the company will not need to make cash interest payments during the five-year tenure, in addition to interest expenses decreasing by 7ppts. Near- and mid-term financing issues are out of the picture, providing management ample room to execute on its SaaS model and sales ramp-up.

Counter-thesis

Increased Competition

It would weigh heavily on the conversational AI industry if the tech giants flex their muscles and exploit their dominant market positions in the cloud, data, and AI. Even if they do not, this area's significant potential makes it likely that competition will increase further in the future.

Failing to Commercialize the SaaS Model

Artificial Solutions failing to acquire new customers to its SaaS offering and/ or not transitioning its installed base to the SaaS model would jeopardize the growth story.

Catalysts

Lighthouse Customer Agreements

We see great potential in large corporations choosing to implement Teneo and Conversational AI for an increasing number of use-cases. Apart from yielding a significant ARR at high margins, it could indicate that its industry is truly ready to adopt the technology on a larger scale.

Early Signs of Significant Usage Revenue Potential

The SaaS model launched in 2021 could turn out to be highly scalable. However, it is still early days, and the model remains unproven. Early signs of scalability, such as steady sequential usage growth, should inspire confidence in its long-term potential.

Significant ARR and Top-Line Growth

Solid quarterly reports demonstrating significant topline growth, and thus a path to profitability should positively impact the share price.

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: none

People: 4

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 the ownership and long-term commitment of Scope (>20% of the capital/ votes), in addition to some founders having ownership stakes. Greater consistency in the capital allocation and increased management ownership could help improve the rating.

Business: 3

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

Financials: 1

Artificial Solutions has a negative cash flow track record and will likely remain unprofitable for some years to come – 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, compare to other SaaS companies (>90%). Also, we are encouraged by the SEK 250m financing agreement with Capital Four in Q3 2021, essentially derisking the case.

	2021	2022E	2023E	2024E
INCOME STATEMENT				
Sales	39	45	61	82
Cost of Sales	12	9	9	8
Gross Profit	27	36	52	74
Operating Expenses	102	116	125	132
EBITDA	-58	-62	-55	-39
Depreciation & Amortization	13	14	14	16
EBIT	-71	-76	-69	-56
Net Financial Items	1	-27	-36	-38
EBT	-70	-102	-105	-94
Income Tax Expenses	0	0	0	0
Non-Controlling Interest	0	0	0	0
Net Income	-70	-102	-105	-94
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	112	28	70	5
Inventories	0	0	0	0
Accounts Receivable	6	9	12	16
Other Current Assets	20	14	20	26
Total Current Assets	138	51	102	47
Non-current assets				
Property, Plant & Equipment, Net	1	1	1	1
Goodwill	0	0	0	0
Intangible Assets	28	28	29	32
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	30	31	34
Total Assets	168	82	134	81
Liabilities				
Current liabilities				
Short-Term Debt	0	0	120	120
Short-Term Lease Liabilities	0	0	0	0
Accounts Payable	19	14	18	25
Other Current Liabilities	0	0	0	0
Total Current Liabilities	50	43	175	190
Non-current liabilities				
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	-222	-326	-420
Total Liabilities & Equity	168	82	134	81
CASH FLOW				
NOPAT	-71	-76	-69	-56
Change in Working Capital	-16	-5	4	4
Operating Cash Flow	-119	-71	-62	-47
Capital Expenditures	-1	0	-1	-1
Investment in Intangible Assets	-14	-13	-15	-18
Investing Cash Flow	-15	-13	-15	-19
Financing Cash Flow	225	0	120	0
Free Cash Flow	-133	-84	-77	-66

DCF Valuation Metrics	**Sum FCF (SEKm)**
2023-26	-127
2027-34	410
2034-	409
Firm Value	692
Net Debt (2022E)	232
Equity Value	460
Fair Value per Share	7

	2021	2022E	2023E	2024E
CAPITAL STRUCTURE				
Equity Ratio	-0.7	-2.7	-2.4	-5.2
Debt to equity	-2.0	-1.2	-1.2	-1.0
Net Debt	126	232	334	427
Capital Employed	118	39	-41	-108
Working Capital Turnover	-1.6	-2.3	-2.6	-3.0
GROWTH				
Sales Growth	-28%	16%	35%	34%
Basic EPS Growth	-71%	47%	2%	-10%
Adjusted Basic EPS Growth	-71%	47%	2%	-10%
PROFITABILITY				
ROE	48%	60%	38%	25%
ROCE	-60%	-196%	166%	51%
ROIC	2775%	-1063%	-843%	-904%
EBITDA Margin (%)	-150%	-137%	-89%	-48%
EBIT Margin (%)	-183%	-168%	-112%	-68%
Net Income Margin (%)	-179%	-227%	-171%	-115%
VALUATION				
Basic EPS	-1.1	-1.6	-1.6	-1.4
Adjusted Basic EPS	-1.1	-1.6	-1.6	-1.4
P/E	neg	neg	neg	neg
EV/S	13.7	10.5	9.4	8.2
EV/EBITDA	neg	neg	neg	neg
EV/EBIT	neg	neg	neg	neg
P/B	neg	neg	neg	neg

SHAREHOLDER STRUCTURE	**CAPITAL %**	**VOTES %**
Scope	16.3%	16.3%
Nice & Green	7.5%	7.5%
AFA Försäkring	5.6%	5.6%
SEB-Stiftelsen	5.0%	5.0%
C WorldWide Asset Management	2.9%	2.9%

SHARE INFORMATION	
Reuters code	ASAI.ST
List	First North
Share price	3.69
Total shares, million	65.7

MANAGEMENT & BOARD	
CEO	Per Ottosson
CFO	Fredrik Törgren
Chairman	Åsa Hedin

ANALYSTS
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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 (2022-02-24)

Rating	People	Business	Financials
5p	33	15	4
3p - 4p	136	122	43
0p - 2p	5	37	127
Company N	174	174	174

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