

# Artificial Solutions

Sector: Software

## Guidance Cut and a Tough Rights Issue

While the recently announced [guidance cut](#) does not affect our view/valuation of the company, the dilution from the approved [rights issue](#) (SEK 120m, with an overallotment option of further SEK 30m) results in a lowered valuation. Our new base case is **SEK 18.0 (28.0) per share**, a substantial upside compared to the subscription price of SEK 6.5 per share (same subscription price in both the right issue and overallotment option) and current share price. Our updated fair value range amounts to **SEK 2.5 – 38.0 (4.0 – 59.0)**.

### Not the optimal timing

The funding should erase some concerns about Artificial Solutions (AS) financial position, but it will be tough for existing shareholders that do not participate in the issue, with a dilution of 42.9% if fully subscribed (48.4% with the overallotment option). We assess that the discount is in line with market conditions, but as the share price has had a tough journey lately, the timing of the issue is not optimal (better to raise money when you can, rather than when you must).

### SEK 77m covered by current owners

The rights issue is covered by subscription commitments or declarations of intent to subscribe of approximately SEK 77.0m (63.7% of the rights issue) by AS biggest and principal shareholders. This confirms AS's strong ownership base which takes great responsibility and shows confidence in the case.

### Guidance cut highlights the risk in the concentrated customer base

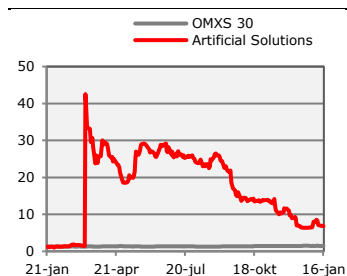
Last Friday, AS cut its guidance for order intake for the full-year (14% vs guidance of ~40%). According to the company, this is due to a delayed anticipated order from a big existing customer, revealing the high risk inherent in AS's customer concentration. We have earlier emphasized this risk and argued that the long-term future of any tech company must be predicated on winning new customers (one of the primary metrics to follow) – not merely leveraging them. The delay is seen as temporary, but the risk will not cease until AS reaches a greater revenue diversification.

| KEY FINANCIALS (SEKm) | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E |
|-----------------------|------|------|-------|-------|-------|-------|
| Net sales             | 48   | 45   | 49    | 70    | 102   | 149   |
| EBITDA                | -65  | -95  | -120  | -87   | -61   | -15   |
| EBIT                  | -91  | -119 | -154  | -100  | -74   | -30   |
| EPS (adj.)            | neg. | neg. | neg.  | neg.  | neg.  | neg.  |
| EV/Sales              | n/a  | n/a  | 8.4   | 7.0   | 5.5   | 4.0   |
| EV/EBITDA             | n/a  | n/a  | neg.  | neg.  | neg.  | neg.  |
| EV/EBIT               | n/a  | n/a  | neg.  | neg.  | neg.  | neg.  |
| P/E                   | n/a  | n/a  | neg.  | neg.  | neg.  | neg.  |

### FAIR VALUE RANGE

| BEAR | BASE | BULL |
|------|------|------|
| 2.5  | 18.0 | 38.0 |

### ASAI.st VERSUS OMXS30



### REDEYE RATING



### KEY STATS

|                     |             |
|---------------------|-------------|
| Ticker              | ASAI.st     |
| Market              | First North |
| Share Price (SEK)   | 7.0         |
| Market Cap (MSEK)   | 173         |
| Net Debt 20E (MSEK) | 201         |
| Free Float          | 56 %        |

### ANALYSTS

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## The rights issue

As the capital need has been evident, a rights issue had been taken into account in our valuation. However, as a result of the significant drop in the share price lately, the dilution becomes much more significant than expected.

### Preliminary timetable

- 21 January 2020: First date without entitlement to participate in the rights issue
- 22 January 2020: Record date. Shareholders that are registered in Euroclear Sweden AB's shareholder registry as of this date will receive subscription rights that allow the shareholder to participate in the rights issue
- 24 January – 7 February 2020: Trading of subscription rights
- 24 January – 11 February 2020: Subscription period
- On or about 14 February 2020: The outcome of the rights issue is announced
- On or about 27 February 2020: The rights issue is completed and registered

### Use of the proceeds

The proceeds will be used to fulfil AS existing strategic plan and provided that the issue is fully subscribed, be enough to reach positive cash flows from operations by the end of 2020 (as previously provided to the market). We still view this as an optimistic and aggressive target given AS current burn rate (cash flow from operating activities 9m'19: SEK -112.2m) and sales levels (9m'19: SEK 38.1m).

AS expects net proceeds of SEK 85.0m, after the conversion of SEK ~28m loans into shares and SEK ~7m in transaction costs. SEK 49m (~40% of the issue) is expected to be used for operational purposes (sales and marketing, product development, etc.) and working capital needs. SEK 36m will be used to repay short-term and bridging loans.

## The guidance cut

The delayed closing of one major contract in Q4 has led order intake growing by 14% to SEK 63.1m for FY'19, substantially lower than the guidance of around ~40%. The two other guidance metrics, a gross margin of 70% by the end of 2020 and turning cash-flow positive from operations in late 2020 both remain unchanged.

**Artificial Solutions: Order intake, 2018-2019**

| SEKm                             | 2019 | 2018 | Change, yy |
|----------------------------------|------|------|------------|
| Q1                               | 17   | 18   | -9%        |
| Q2                               | 23   | 8    | 200%       |
| Q3                               | 6    | 4    | 65%        |
| Q4 (pre-released numbers)        | 17   | 26   | -32%       |
| Full-year (pre-released numbers) | 63   | 55   | 14%        |

Source: Redeye Research, Artificial Solutions

More than anything, the guidance cut highlights the importance of a broader customer base and greater revenue diversification. As for now, AS is dependent on single orders; it would have achieved guidance had the order been signed, according to the company. The top customer stood for 18% of AS revenue/gross profit during 9m'19 and top ten customers for 74%.

AS also pre-released its FY'19 numbers for net sales and EBITDA (not guided for net sales and EBITDA though), which are expected to amount to SEK 49.1m (our unrevised estimates: 54.0) and SEK -120.4m (our unrevised estimates: -114.4) respectively. Full Q4'19 numbers will be released on 27 February where we will get more details. As for now, we see no reason to make any bigger changes to our forecasts beyond Q4'19.

## Insiders Buying

Worth noting is that Johan A. Gustavsson, board member and co-founder, has [purchased](#) 110 000 shares for a weighted average of SEK ~6.7 per share since December 2019 and that Chairman of the Board, Åsa Hedin, bought 28 570 shares for SEK 7.0 per share on 16 December (her first purchase according to our knowledge). As always, insiders buying is a positive sign.

## Financial projections

### Artificial Solutions: Profit and loss, at base case, '18-'22e

| SEKm                  | 2018          | Q1'19        | Q2'19        | Q3'19        | Q4'19e       | 2019e         | 2020e         | 2021e        | 2022e        |
|-----------------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|--------------|
| <b>Net sales</b>      | <b>44.9</b>   | <b>12.6</b>  | <b>12.6</b>  | <b>12.8</b>  | <b>11.1</b>  | <b>49.1</b>   | <b>69.6</b>   | <b>101.6</b> | <b>149.3</b> |
| Capitalised costs     | 12.2          | 2.3          | 2.6          | 2.6          | 2.6          | 10.1          | 12.0          | 13.0         | 16.0         |
| Other income          | 5.3           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 1.0           | 1.0          | 1.0          |
| <b>Total income</b>   | <b>62.4</b>   | <b>14.9</b>  | <b>15.2</b>  | <b>15.4</b>  | <b>13.7</b>  | <b>59.2</b>   | <b>82.6</b>   | <b>115.6</b> | <b>166.3</b> |
| Other external costs  | -51.5         | -17.7        | -16.7        | -13.4        | -16.0        | -63.8         | -49.0         | -51.5        | -54.0        |
| Personnel costs       | -105.9        | -29.0        | -28.5        | -29.0        | -29.0        | -115.5        | -121.0        | -124.6       | -127.1       |
| Other operating costs | -0.1          | 0.0          | 0.0          | -0.2         | 0.0          | -0.2          | -0.2          | -0.2         | -0.2         |
| <b>EBITDA</b>         | <b>-95.1</b>  | <b>-31.8</b> | <b>-30.0</b> | <b>-27.0</b> | <b>-31.3</b> | <b>-120.3</b> | <b>-87.4</b>  | <b>-60.5</b> | <b>-14.8</b> |
| D&A                   | -23.7         | -25.1        | -3.1         | -2.6         | -3.1         | -33.9         | -13.0         | -13.9        | -15.0        |
| <b>EBIT</b>           | <b>-118.8</b> | <b>-56.9</b> | <b>-33.1</b> | <b>-29.8</b> | <b>-34.4</b> | <b>-154.2</b> | <b>-100.4</b> | <b>-74.4</b> | <b>-29.9</b> |
| Net financials        | -27.3         | -2.4         | -10.2        | -12.2        | -7.5         | -32.3         | -16.0         | -12.0        | -10.0        |
| <b>EBT</b>            | <b>-146.1</b> | <b>-59.3</b> | <b>-43.3</b> | <b>-42.0</b> | <b>-41.9</b> | <b>-186.5</b> | <b>-116.4</b> | <b>-86.4</b> | <b>-39.9</b> |
| Tax                   | 0.0           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0          | 0.0          |
| <b>Net Income</b>     | <b>-146.1</b> | <b>-59.3</b> | <b>-43.3</b> | <b>-42.0</b> | <b>-41.9</b> | <b>-186.5</b> | <b>-116.4</b> | <b>-86.4</b> | <b>-39.9</b> |

Source: Redeye Research, Artificial Solutions

## Investment Case

- Offers an attractive exposure to the conversational AI market
- Validated by major customers
- Revenue scalability
- A pressured stock price

*As one of the leading vendors of conversational AI technology, Artificial Solutions is well-positioned for significant growth. Its underlying market is set to grow at around 40% a year over the next several years, while the company should harness the benefits of its 2013 transformation into a software-based provider, its revised go-to-market strategy and the scaling of its initial deployments in this period too.*

### Major customers/partners

AS's blue-chip customers such as AT&T, Shell and Vodafone and its partner network of leading system integrators (including Accenture, Deloitte and KPMG) validate its technology. But now it must meet the key challenge of acquiring further customers from its target group of large global enterprises, whose sales cycles are usually long and complicated. We view its crucial shift to a partner-led model as ensuring scalability and efficiency and note that partners' share of revenue has already increased from 9% in 2016 to 32% in 2018.

### Revenue Scalability

Two of AS's three revenue streams - licenses and usage fees - provide high gross margins (~90%) and recurring revenues. The company's high operating leverage should translate into significant profitability if it succeeds in growing with its market while controlling customer churn and acquisition costs.

### A pressured stock price

Since AS's reverse takeover in March 2019, and before the announcement of the rights issue and the adjusted guidance, the share had fallen for no fundamental reason by some 70%. The rights issue and guidance cut has put further pressure on the stock. For a long-term investor, we see today's share price as a good opportunity to buy into the company, given the significant market opportunities and its strengthened balance sheet.

## Valuation

The big update in our valuation applies to the number of shares, which now amounts 43.24 million shares (we have thus only included the dilution from the rights issue). We derive our fair value from a fundamental DCF analysis applied across three scenarios - base case (most likely), bear case (pessimistic) and bull case (optimistic).

### Bear Case 2.5 SEK

- CAGR sales '18-'22: 37%
- CAGR sales '22-'28: 20%
- Terminal growth rate: 2%
- Sales '28e: SEK 350m
- Avg. EBIT margin ('22-'28): 10%
- Terminal EBIT margin: 14%
- WACC: 12%

In our bear case scenario, we see our bear points materialize. It mainly boils down to competition and technology risks, where we assume that Teneo will not sustain its competitiveness over the medium and long-term.

As a result, the shift towards more profitable revenue types do not occur and the operating leverage is not realized.

These factors will contribute to AS lowering ambition and become a company with limited growth possibilities (i.e. a consultancy company with minor software sales). Lowered ambition will result in minor investments, employment, and marketing – leading to stable margins.

### Base Case 18.0 SEK

Key Assumptions ('22-'28):

- CAGR sales: 33%
- Terminal growth rate: 2%
- Sales '28e: SEK 808m
- Avg. EBIT margin: 21%
- Terminal EBIT margin: 34%
- WACC: 12%

As the market develops, AS is well positioned to benefit from its superior offering. As a result, our base case sees it growing with the market thanks to the competitive product and its revised go-to-market strategy.

The company's high operating leverage will translate into significant profitability as we assume a low customer churn and favorable customer acquisition costs.

In base case, we anticipate positive cash flow from 2023, a pessimistic view relative to AS own targets of positive cash flow from 2020.

### Bull Case 38.0 SEK

- CAGR sales '18-'22: 46%
- CAGR sales '22-'28: 43%
- Terminal growth rate: 2%
- Sales '28e: SEK 1 340m
- Avg. EBIT margin ('22-'28): 26%
- Terminal EBIT margin: 37%
- WACC: 12%

Our bull case factors in higher growth, driven by more customer wins and wider deployments at each customer (i.e. higher ACV).

Greater success will let AS to leverage its conversational data even further with a healthy rate of product innovation steaming from it – which ensures its competitiveness over a longer period.

It's operating leverage and lower churn assumptions (driven by greater stickiness from wider deployments) allows for greater margins, explaining our long-term profitability assumptions.

In bull case we anticipate positive cash flow from 2022, still a pessimistic view relative to AS own targets of positive cash flow from 2020.

## Catalysts

### Growth

Customer acquisition and accelerated growth will be the most important catalysts for the share over the next year.

## 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: 4

Artificial Solutions has a highly experienced senior management team and holds a strong position in terms of technological know-how and products. The challenges ahead relate to good execution and management (go-to-market approach, customer acquisition, partner strategy etc.). Our assessment is that the team is well-equipped to capitalize on these opportunities. In addition to the CEO's experience from companies undergoing expansion, the majority of the team has been at AS for eight years or more. We consider the management team and the developers to be fundamental to the company, which also represents a risk (dependency on key personnel). We would like the board and management team to have more skin in the game, to confirm their confidence in the company's future and to align their interests with other shareholders'. As of now, their combined holding amounts to ~4.9%.

#### Business: 3

AS is active in a market that is exhibiting particularly rapid growth. The overall global intelligent virtual assistants market is set to grow ~40% a year until 2023, according to Tractica, making it clearly a favorable market to be part of. Two of AS's three revenue streams - licenses and usage fees - provide high gross margins (~90%) and recurring revenues. The company's high operating leverage should translate into significant profitability if it succeeds in growing with its market while controlling customer churn and acquisition costs.

#### Financials: 1

Even though the announced rights issue of SEK 120m will erase some of the concerns around AS financial position the company is still cash flow negative (has never before been able to reach profitability) and has a strained balance sheet with negative equity and considerable debt. AS guidance to reach positive cash flows from operations by the end of 2020 is seen as an optimistic and aggressive target given AS current burn rate (cash flow from operating activities 9m'19: SEK -112.2m) and sales levels (9m'19: SEK 38.1m). We thus still see a rather high financial risk.

| INCOME STATEMENT      | 2017 | 2018 | 2019E | 2020E | 2021E |
|-----------------------|------|------|-------|-------|-------|
| Net sales             | 48   | 45   | 49    | 70    | 102   |
| Total operating costs | -113 | -140 | -169  | -157  | -162  |
| EBITDA                | -65  | -95  | -120  | -87   | -61   |
| Depreciation          | -1   | -1   | -1    | -1    | -1    |
| Amortization          | -24  | -23  | -33   | -13   | -13   |
| Impairment charges    | 0    | 0    | 0     | 0     | 0     |
| EBIT                  | -91  | -119 | -154  | -100  | -74   |
| Share in profits      | 0    | 0    | 0     | 0     | 0     |
| Net financial items   | -14  | -27  | -32   | -16   | -12   |
| Exchange rate dif.    | 0    | 0    | 0     | 0     | 0     |
| Pre-tax profit        | -105 | -146 | -187  | -116  | -86   |
| Tax                   | 0    | 0    | 0     | 0     | 0     |
| Net earnings          | -105 | -146 | -187  | -116  | -86   |

| BALANCE SHEET              | 2017 | 2018 | 2019E | 2020E | 2021E |
|----------------------------|------|------|-------|-------|-------|
| <b>Assets</b>              |      |      |       |       |       |
| <i>Current assets</i>      |      |      |       |       |       |
| Cash in banks              | 4    | 47   | 0     | 15    | 5     |
| Receivables                | 4    | 6    | 7     | 9     | 12    |
| Inventories                | 0    | 0    | 0     | 0     | 0     |
| Other current assets       | 10   | 17   | 17    | 17    | 17    |
| Current assets             | 18   | 70   | 24    | 42    | 35    |
| <i>Fixed assets</i>        |      |      |       |       |       |
| Tangible assets            | 2    | 2    | 2     | 2     | 2     |
| Associated comp.           | 0    | 0    | 0     | 0     | 0     |
| Investments                | 5    | 6    | 6     | 6     | 6     |
| Goodwill                   | 7    | 0    | 0     | 0     | 0     |
| Cap. exp. for dev.         | 0    | 0    | 0     | 0     | 0     |
| 0 intangible rights        | 30   | 29   | 28    | 28    | 27    |
| 0 non-current assets       | 0    | 0    | 0     | 0     | 0     |
| Total fixed assets         | 45   | 37   | 36    | 35    | 35    |
| Deferred tax assets        | 0    | 0    | 0     | 0     | 0     |
| Total (assets)             | 63   | 107  | 60    | 77    | 69    |
| <b>Liabilities</b>         |      |      |       |       |       |
| <i>Current liabilities</i> |      |      |       |       |       |
| Short-term debt            | 75   | 94   | 68    | 125   | 178   |
| Accounts payable           | 36   | 47   | 49    | 52    | 54    |
| 0 current liabilities      | 0    | 0    | 0     | 0     | 8     |
| Current liabilities        | 112  | 141  | 117   | 176   | 240   |
| Long-term debt             | 24   | 52   | 58    | 92    | 99    |
| 0 long-term liabilities    | 0    | 0    | 0     | 0     | 0     |
| Convertibles               | 0    | 0    | 0     | 0     | 0     |
| Total Liabilities          | 136  | 193  | 175   | 268   | 340   |
| Deferred tax liab          | 0    | 0    | 0     | 0     | 0     |
| Provisions                 | 0    | 0    | 0     | 0     | 0     |
| Shareholders' equity       | -73  | -86  | -115  | -192  | -270  |
| Minority interest (BS)     | 0    | 0    | 0     | 0     | 0     |
| Minority & equity          | -73  | -86  | -115  | -192  | -270  |
| Total liab & SE            | 63   | 107  | 60    | 77    | 69    |

| FREE CASH FLOW        | 2017 | 2018 | 2019E | 2020E | 2021E |
|-----------------------|------|------|-------|-------|-------|
| Net sales             | 48   | 45   | 49    | 70    | 102   |
| Total operating costs | -113 | -140 | -169  | -157  | -162  |
| Depreciations total   | -26  | -24  | -34   | -13   | -14   |
| EBIT                  | -91  | -119 | -154  | -100  | -74   |
| Taxes on EBIT         | 0    | 0    | 0     | 0     | 0     |
| NOPLAT                | -91  | -119 | -154  | -100  | -74   |
| Depreciation          | 26   | 24   | 34    | 13    | 14    |
| Gross cash flow       | -65  | -95  | -120  | -87   | -61   |
| Change in WC          | 23   | 1    | 2     | 1     | 8     |
| Gross CAPEX           | -70  | -16  | -33   | -13   | -14   |
| Free cash flow        | -113 | -109 | -151  | -99   | -66   |

| CAPITAL STRUCTURE     | 2017  | 2018  | 2019E | 2020E | 2021E |
|-----------------------|-------|-------|-------|-------|-------|
| Equity ratio          | -115% | -81%  | -192% | -250% | -390% |
| Debt/equity ratio     | -137% | -169% | -109% | -113% | -103% |
| Net debt              | 95    | 99    | 125   | 201   | 272   |
| Capital employed      | 22    | 13    | 11    | 10    | 2     |
| Capital turnover rate | 0.8   | 0.4   | 0.9   | 1.0   | 1.6   |

| GROWTH           | 2017 | 2018 | 2019E | 2020E | 2021E |
|------------------|------|------|-------|-------|-------|
| Sales growth     | 39%  | -6%  | 9%    | 42%   | 46%   |
| EPS growth (adj) | 0%   | -44% | -58%  | -38%  | -26%  |

| PROFITABILITY | 2017  | 2018  | 2019E  | 2020E | 2021E |
|---------------|-------|-------|--------|-------|-------|
| ROE           | 0%    | 0%    | 0%     | 0%    | 0%    |
| ROCE          | -679% | -275% | -515%  | -621% | -492% |
| ROIC          | 0%    | -532% | -1159% | -890% | -687% |
| EBITDA margin | -137% | -212% | -212%  | -107% | -48%  |
| EBIT margin   | -191% | -265% | -275%  | -124% | -61%  |
| Net margin    | -221% | -325% | -334%  | -145% | -72%  |

| DATA PER SHARE | 2017  | 2018  | 2019E | 2020E | 2021E |
|----------------|-------|-------|-------|-------|-------|
| EPS            | n/a   | n/a   | neg.  | neg.  | neg.  |
| EPS adj        | n/a   | n/a   | neg.  | neg.  | neg.  |
| Dividend       | 0.00  | 0.00  | 0.00  | 0.00  | 0.00  |
| Net debt       | 16.56 | 6.98  | 2.90  | 4.66  | 6.29  |
| Total shares   | 5.76  | 14.22 | 24.71 | 43.24 | 43.24 |

| VALUATION   | 2017 | 2018 | 2019E | 2020E | 2021E |
|-------------|------|------|-------|-------|-------|
| EV          | n/a  | n/a  | 454.1 | 530.0 | 600.6 |
| P/E         | n/a  | n/a  | neg.  | neg.  | neg.  |
| P/E diluted | n/a  | n/a  | neg.  | neg.  | neg.  |
| P/Sales     | n/a  | n/a  | 6.1   | 4.3   | 3.0   |
| EV/Sales    | n/a  | n/a  | 8.4   | 7.0   | 5.5   |
| EV/EBITDA   | n/a  | n/a  | neg.  | neg.  | neg.  |
| EV/EBIT     | n/a  | n/a  | neg.  | neg.  | neg.  |
| P/BV        | n/a  | n/a  | neg.  | neg.  | neg.  |

| SHARE PERFORMANCE       | GROWTH/YEAR |                      | 16/18E  |
|-------------------------|-------------|----------------------|---------|
| 1 month                 | 19.9 %      | Net sales            | 6.4 %   |
| 3 month                 | -43.7 %     | Operating profit adj | 27.7 %  |
| 12 month                | 484.6 %     | EPS, just            | -52.2 % |
| Since start of the year | 18.0 %      | Equity               | 25.5 %  |

| SHAREHOLDER STRUCTURE %        | CAPITAL | VOTES  |
|--------------------------------|---------|--------|
| Scope                          | 43.8 %  | 43.8 % |
| AFA Försäkring                 | 5.9 %   | 5.9 %  |
| SIX SIS AG                     | 4.9 %   | 4.9 %  |
| UBS Switzerland AG             | 4.8 %   | 4.8 %  |
| SEB-Stiftelsen                 | 4.2 %   | 4.2 %  |
| Lgt Bank LTD                   | 3.3 %   | 3.3 %  |
| JP Morgan Bank Luxembourg S.A. | 2.8 %   | 2.8 %  |
| C WorldWide Asset Management   | 2.8 %   | 2.8 %  |
| Peter Lindell                  | 2.7 %   | 2.7 %  |
| Andrew Walton-Green            | 2.7 %   | 2.7 %  |

| SHARE INFORMATION     |             |
|-----------------------|-------------|
| Reuters code          | ASAI.st     |
| List                  | First North |
| Share price           | 7.0         |
| Total shares, million | 24.7        |
| Market Cap, MSEK      | 173.5       |

| MANAGEMENT & BOARD |                |
|--------------------|----------------|
| CEO                | Lawrence Flynn |
| CFO                | Chris Bushnell |
| IR                 | Chris Bushnell |
| Chairman           | Åsa Hedin      |

| FINANCIAL INFORMATION |  |
|-----------------------|--|
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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 (2020-01-21)

| Rating    | People | Business | Financials |
|-----------|--------|----------|------------|
| 5p        | 11     | 12       | 3          |
| 3p - 4p   | 93     | 70       | 28         |
| 0p - 2p   | 9      | 31       | 82         |
| Company N | 113    | 113      | 113        |

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### CONFLICT OF INTERESTS

Havan Hanna owns shares in the company: No

Viktor Westman owns shares in the company: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.