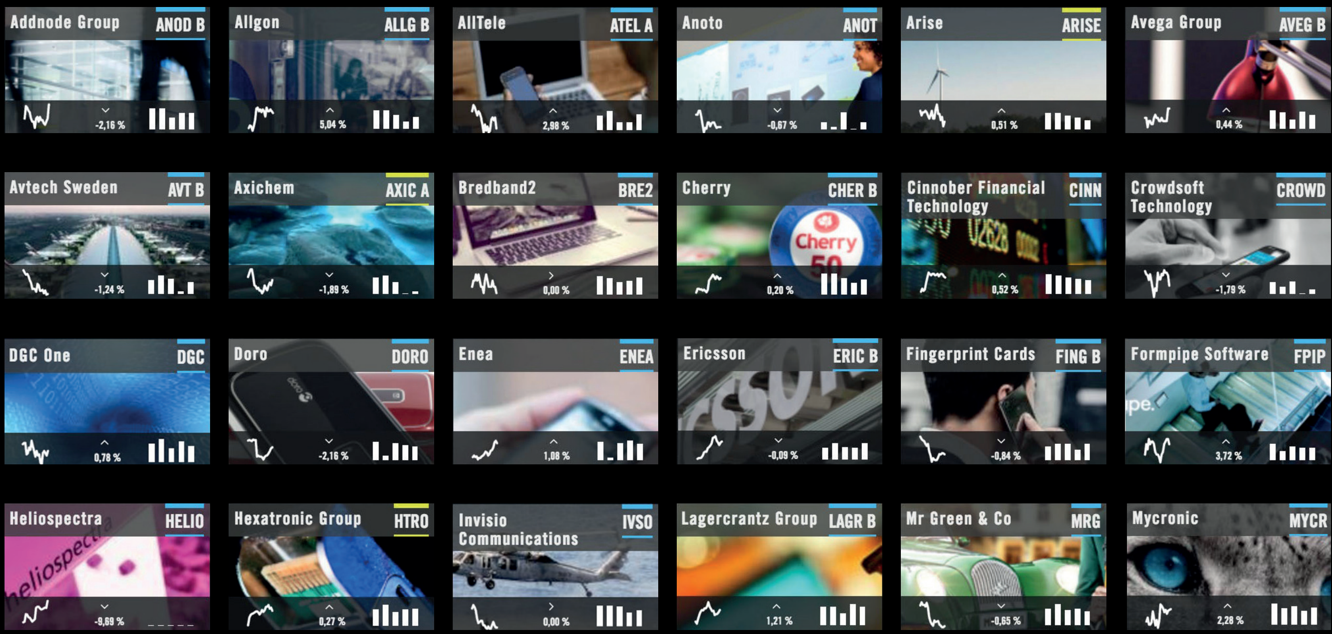


Swedish Technology Report 2017

REDEYE

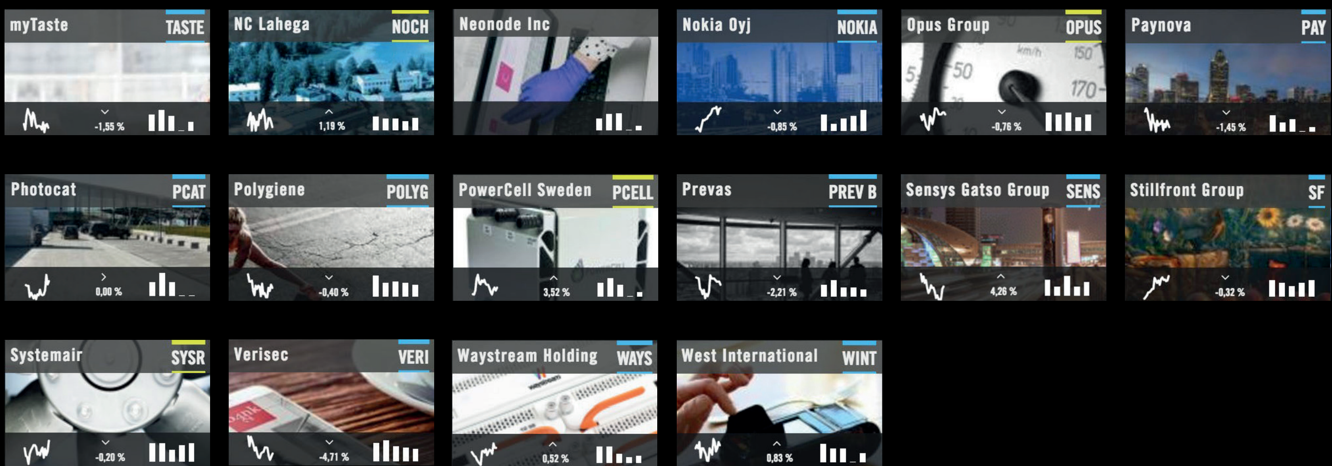


Table of contents

Executive Summary

Redeye's technology team consists of 7 analysts, which probably makes it the biggest team in the Nordics fully dedicated to tech companies. The team covers over 40 of the most promising tech companies listed on the different exchanges in Stockholm. In this redesigned Swedish technology report, we have tried to summarize the main drivers and trends we see in the market. We also look into the expectations and valuations that keep rising and compare it to the global tech sector. Finally, we do a scanning of our universe where we find three companies that we find particularly interesting going into 2017.

Technology Market Drivers and IPOs

Swedish Tech is hot – we highlight key areas that are especially strong, promising and interesting: Gaming, FinTech, Cybersecurity and Internet of Things are trends that are driven by and important for a big number of Swedish companies.

2016 was a year with high IPO activity for Swedish Tech – we digged into the details. 38 companies listed on the Swedish exchanges during the year, raising a total of 1.5 bn SEK (average 46 mSEK, 5 non-raisers) at an average IPO valuation of 442 mSEK. This meant an average 135% CAGR for investors who had participated in the respective companies' previous private funding round, an average of 9 months before the listing.

Average listing multiples were EV/Sales 15.8 (16 companies had revenues below 10 mSEK) and EV/EBITDA 25.6. On average, the 38 IPOs outperformed the OMXS30 index by 51% so far, with 11 of them performing worse than index.

The Market expectations regarding tech companies

The leading global technology companies' average share prices have risen 38 percent during the last 12 months, in comparison to 2 and 15 percent for Nordic and Swedish peers. The appreciation is more of an upward correction of a previous, relative undervaluation than a positive earnings growth trend. One hypothetic reason for the better sentiment could be the strengthened US economy together with the uncertain global macro environment, meaning a safe haven movement to US companies' favor.

Still, Nordic and Swedish technology companies are valued at a premium to their global peers of about 13-28 percent on cash flow (EBITDA) multiples. In this sense, the global technology companies appear to be relatively undervalued despite 16 respectively 11 percentage point better EBITDA margins compared to the Swedish and Nordic peers. Looking at rolling 12 month sales growth, however, the Swedish tech companies have a rapid average growth of 43 percent (33 % excl. the outlier Fingerprint Cards), which suggests no relative overvaluation in relation to the corresponding global tech companies growth of 7 percent.

The main reason for the 23 percentage points share underperformance of the leading Swedish technology companies relative to their global peers are Fingerprint Cards and Ericsson (both around - 30%) and the five largest betting companies (-20 %).

Redeye screening

In our screening we present four different strategies that combine our Redeye Rating, valuation range and financial projections in a variety of ways to generate unique outputs. The strategies are Growth At a Reasonable Price (GARP), Deep Value, Growth Junkies and Jockey Stock's.

Screening should not be seen as a portfolio suggestion, but instead as a smart way to narrow down the "research subjects." An investor most also take into account qualitative factors, that are not possible to quantify into raw numbers, and timing. Redeye focuses on key catalysts for timing and risk limitation. Catalysts are defined as triggers that are likely to materialize in the near-future with a valuation impact. Our screens do not "capture" these possible catalytical events and must be evaluated case by case, which we do in our portfolio of top picks.

Some companies are found in the output of multiple screens. Most notable are Allgon, Invisio, Paynova, and West International that occur on three screens or more. Our picks for 2017 are all tilted more towards growth rather than value and are essentially GARP investments.

Redeye Top Picks Portfolio

Redeyes Top Picks-portfolio aims to provide investment ideas for long-term positive returns relative to risk. Management is active and the portfolio consists of up to 10 companies found in Redeye Universe where we perceive current risk/reward to be most attractive. Our Top Picks-portfolio appreciated 19.6% in 2016. Our comparative index OMXSPI rose by 5.8% for the same period and our Top Picks-portfolio thereby outperformed the index by as much as 13.8%.

We have made adjustments to our holdings and present the new structure for the 2017 Top Picks portfolio. We have included two new companies, excluded two and adjusted the size of the holdings depending on perceived risk/reward and near-term catalysts. Finally, we draw special attention to three companies (**Neonode, Paynova and Stillfront**) with high potential upside and catalysts in the near term future. Brief motivations are provided for our Top 3 holdings for 2017 on pages 28-29.

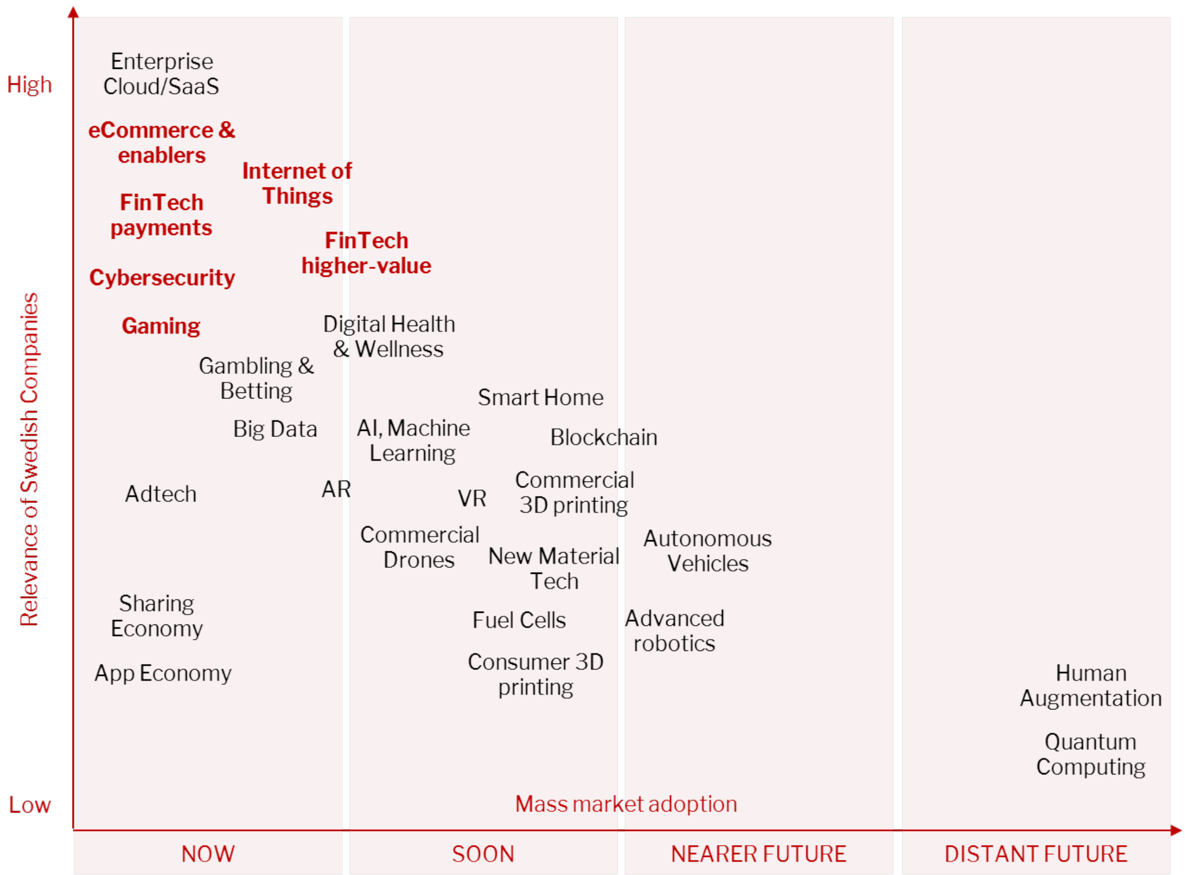
Technology Market Drivers

Summary

- Swedish Tech is hot – we highlight key areas that are especially strong, promising and interesting: Gaming, FinTech, Cybersecurity and Internet of Things are trends that are driven by and important for a big number of Swedish companies.

The chart below maps Redeye's assessment of prominent global drivers and themes in the Tech market. We assess them along two dimensions. Firstly the commercial, mass market adoption status of products and businesses based on the individual driver. This is mainly based on media outlets as well as market researchers' expectations. And secondly, the perceived relevance for Swedish companies - which is mainly based on the number of Swedish companies and raised funding in the different areas.

The market drivers and themes marked in red are some of the ones that we currently see as most relevant to the Swedish Tech landscape and describe in more detail in the following section.



Sources: IDC, GP Bullhound, Gartner, EQT, The Nordic Web, Funderbeam, Redeye Research

Gaming

SELECTED COMPANIES

LISTED

Starbreeze
Paradox Interactive
Stillfront
THQ Nordic
G5 Entertainment

UNLISTED

Fatshark
MAG Interactive
Coffee Stain Studios
Arrowhead
Goodbye Kansas
Feo Media
Resolution Games
Gumbler
DreamHack
fragbite
Challengermode

NOTABLE PAST EXITS

Dice
Mojang
KING / Midasplayer
Bitsquid
Massive
13th Lab

Sources used:
New Zoo, Statista, Dataspelsbranschen, Redeye Research

A global 92 bnUSD market forecasted to grow 7% yearly, the Gaming industry is a huge industry that entertains over 1.5 bn people worldwide (New Zoo, Statista). Market growth and reach has been driven in the last years to a great extent by the rise of mobile and casual games, greater penetration in China (Asia amounts to 47% of the gaming market by now) and increasing monetization on mobile. One big enabler growing both revenues and diversity was also the establishment of digital distribution channels like Steam and various App Stores, allowing an increasing number of indie studios and publishers to reach global audiences more efficiently. A final growth driver, symbolized by video platforms like Twitch or gaming-related content on YouTube, is growing viewership and fandom around gaming and a professionalization of eSports.

Historically, Gaming has been one of the sectors where Nordic and Swedish companies have performed strongly, and been able to play a driving role in the global market, proven by a number of cross-border acquisitions. In 2015, over 200 Swedish gaming companies employed 3700 people and generated almost 1.5 bnUSD in revenues. While Stockholm is the clear center of gravity, there are a number of important satellites in Southern Sweden, including Malmö, Gothenburg and Skövde.

The coming years will see further growth in the mobile games segment and a broader breakthrough of VR and AR game concepts, which are much discussed but have so far seen limited mainstream adoption. Pokémon Go brought AR to the mainstream for the first time, but so far VR is waiting for its breakthrough, despite ambitious expectations around PS VR. We also expect to see continued international investment and M&A interest, which will hopefully continue the creation of a "reiterating cycle" of investments and successes. A final interesting trend to watch might also be the "betification" of gaming – products that allow gamers to bet on their own or others' gaming performance.

Stillfront, G5 Entertainment, Fatshark, Goodbye Kansas and Arrowhead presented at Redeye's Gaming Seminar in October 2016
(For video visit website: http://beta.redeye.se/events#/event/500434)

SELECTED COMPANIES

LISTED

- Paynova
- Collector
- Cinnober
- West International
- Qliro

UNLISTED

- Klarna
- Trustly
- iZettle
- Bambora
- Dreams
- Tink
- Qapital
- Billhop
- Betalo
- BehavioSec
- FundedByMe
- Safello
- Swish

NOTABLE PAST EXITS

- DIBS
- OMX
- TriOptima
- Neonet
- Shareville
- MPS
- Payson
- Lendo

Sources used: Redeye Research, Stockholm School of Economics, The Nordic Web, P2P-banking.com

FinTech

FinTech is currently one of the biggest buzzwords especially in private market Tech investment. Driven by huge growth in e-Commerce (>10% yearly in Europe, even faster on mobile), fast growth and new methods in card payments (e.g. NFC) and smartphones creating new mobile transaction models, a big number of new payment methods and providers have emerged, in a first and big FinTech wave. Card payment adoption in physical stores around the world has grown heavily.

At the same time, the FinTech (r)evolution has not stopped at payments, but continued quickly into more "high-value" parts of the food chain. This is symbolized well by the cases of Klarna or Paynova, that both combine (transactional) payment with (more complex, value-adding) consumer credit offerings.

Many new concepts, products and companies have shown up in many other areas including savings, private P2P loans (>10 bn global origination volume 2016) and SME business loans, investment management, personal financial management, blockchain & cryptocurriences, crowdfunding and insurance. With over 70 companies employing over 4000 people and having raised over 700 mUSD in around 50 rounds since 2010, FinTech plays a crucial role in the Swedish Tech market, and makes it the #2 FinTech hub in Europe (after London). The key company list on the left includes a number of companies like Klarna, iZettle, Qapital, Safello or Cinnober that are market and/or innovation leaders in their segment and are expanding successfully in a number of European and global markets. The continued growth and importance of the FinTech sector in Sweden has so far not been significantly impacted by the failures of prominent P2P lending platform Trustbuddy and bitcoin miner KNCMiner.

Cybersecurity

SELECTED COMPANIES

LISTED

- Verisec
- Clavister
- Advenica
- Fingerprint Cards
- Precise Biometrics
- Cognosec

UNLISTED

- Detectify
- Unomaly
- Versasec
- Outpost24

NOTABLE PAST EXITS

- Nexus

Sources used: Markets and Markets, Cybersecurity Ventures, Redeye Research

The growth of computers, mobile devices and Internet of Things hardware connected to the Internet and a plethora of cloud solutions is uninterrupted. Along with it, the number of potential security issues and the damage they can cause are growing just as fast. IT Security and digital identity & access management is therefore a well-needed, evolving and interesting segment that needs to come up with new security solutions constantly. A 100 bnUSD market 2016, the market is expected to double by 2021 – which is almost pale compared to an estimated 3 trillion USD cybercrime cost caused already in 2015.

Certain sectors including finance, information and public services are more prone to cyberattacks than others, reflected in higher numbers of detected attacks, but also higher awareness, symbolized by JPMorgan's 500 mUSD cybersecurity budget.

Many breaches are still caused by poor password choices and policies, so one major trend is an increase in two-factor authentication solutions (incl. physical and digital smartcards), and convenient alternative solutions in the consumer segment such as fingerprint-based authentication and mobile IDs. With the Fintech-driven increase in new payment and transaction methods, one focus is also on improved app & payment security.

With the Internet of Things becoming mainstream, the rapid increase of devices connected to the Internet and various cloud solutions opens up broader and often less secured and controllable attack surface. One potential solution to this problem could be AI- and Big Data driven security solutions, another growing phenomenon. Increased computing firepower and advances in AI allow to simulate an increased number of attack scenarios on a more complex and growing base of different systems, and identify security issues before they can be exploited.

SELECTED COMPANIES

LISTED

- Ericsson
- Axis
- Enea
- Fingerprint Cards
- Crunchfish
- HMS Networks
- IAR Systems
- Allgon
- Raybased
- Crowdsoft
- Greater Than
- Plejd

UNLISTED

- Automile
- Telliq
- Acconeer
- Ngenic
- Shopjoy
- Wittra
- Springworks
- Evothings
- Infracontrol
- H&D Wireless
- Connode
- Parakey
- Modcam

NOTABLE PAST EXITS

- Wireless Maingate

Sources used: IEEE Spectrum, Cisco, CBinsights, Tech.eu, Redeye Research

Internet of Things

Most people in the IT world know Ericsson's and Cisco's predictions about 50 bn connected devices the world will have by 2020. Since then, that number has been exceeded (up to 1 trillion!) and undercut by huge multiples. The exact number does not matter, but with advances in mobile data coverage, speed and pricing, improving sensor performance, energy efficiency and costs it is clear that the number is big and ever growing. And so are the number of different sensors, devices, protocols, services, use cases, pricing and monetization models.

The definitions of what connected devices and services are part of "the" Internet of Things is almost as wide – ranging from the good old connected fridge through connected cars, drones, thermostats and wearables up to industrial robots, as well as all necessary sensor and network hardware enabling the connectedness. A number of pure software-driven solution segments including IoT cloud platforms, data analytics & machine learning and security services complete the huge variety that IoT is.

Cisco estimates that more than half of the benefits from IoT applications center around four industries – manufacturing (e.g. through sensor-driven, even more automated smart factories), retail trade (e.g. through improved marketing and advertising), information services and financial services.

IoT is a hot topic for both big industry players as well as an army of startups, funded with around 2 bnUSD in the US and 0.5 bnEUR in Europe in 2015 alone. This funding is to an increasingly significant extent provided by the VC arms of some of the mature players including Intel, GE, Cisco and Samsung.

Also in Sweden, a big number and range of companies are active around the Internet of Things – be it in sensors (Acconeer) and other hardware (Plejd), embedded systems (Enea, IAR), smart buildings and energy management (Ngenic, Connode, Wireless Maingate), location tracking (Wittra), fleet management (Telliq, Automile), retail solutions (Shopjoy), drones (CybAero, Intuitive Aerial, Smartplanes), network and connectivity (Allgon, Enea,) or platform solutions (Springworks).

Swedish Tech IPOs 2016: a review

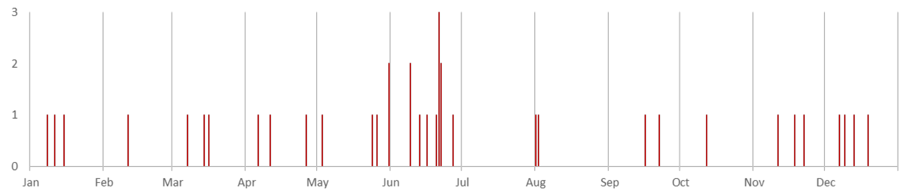
Summary

- 2016 was a year with high IPO activity for Swedish Tech – we digged into the details. 38 companies listed on the Swedish exchanges during the year, raising a total of 1.5 bn SEK (average 46 mSEK, 5 non-raisers) at an average IPO valuation of 442 mSEK. This meant an average 135% CAGR for investors who had participated in the respective companies' previous private funding round, an average of 9 months before the listing.

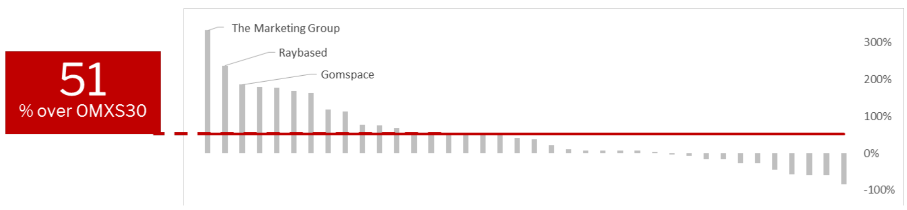
- Average listing multiples were EV/Sales 15.8 (16 companies had revenues below 10 mSEK) and EV/EBITDA 25.6. On average, the 38 IPOs outperformed the OMXS30 index by 51% so far, with 11 of them performing worse than index.

Busy year for IPO's

2016 was an intensive year for Tech IPOs (or listings) on the Swedish lists – compared to both historical levels, but also the currently less active US and Asian markets that saw a number of big IPOs but not the same relative width. Below we summarize our view of the year's transactions.



Performance over/under OMXS30 from IPO to Jan 5, 2017



Summer 2016 saw most IPOs floating on the stock exchanges. Since their IPO day, most Tech stocks have outperformed OMXS30 index – on average (non-weighted) by 51%. In the case of clear leader The Marketing Group, their outperformance is closely linked to a number of share-based acquisitions.

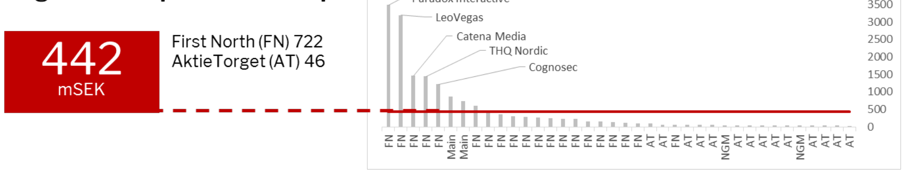
38 TECH IPOs* 2016

Absolicon
Alelion Energy Systems
B3IT
Catena Media
Clean Motion / Zbee
Cleantech Invest
Cognosec
Crowdsoft
Crunchfish
Dignita
Edgeware
Appspotr
Fastout Int
Frisq
Gapwaves
Garo
Gomspace / GS Sweden
Lauritz
Leo Vegas
Litium
Nepa
Paradox Interactive
Pen Concept
PiezoMotor Uppsala
Plejd
Polygiene
Provide IT
Raybased
Shortcut Media
Sleepo
Talkpool
The Marketing Group
THQ Nordic
Three Gates
Transiro
Vadsbo SwitchTech
Videoburst

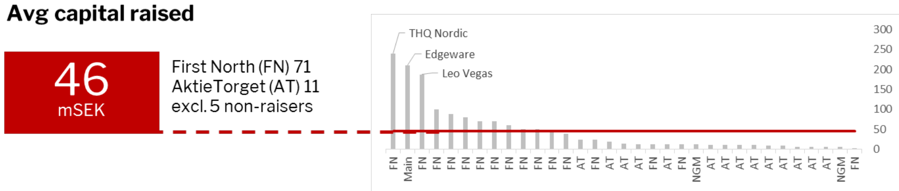
Sources used: NASDAQ, Aktietorget, Bloomberg, Avanza, Company Reports, Bolagsverket, Holdings.se, Redeye Research

** not all are included in each graph, based on data availability*

Avg market cap based on IPO price*



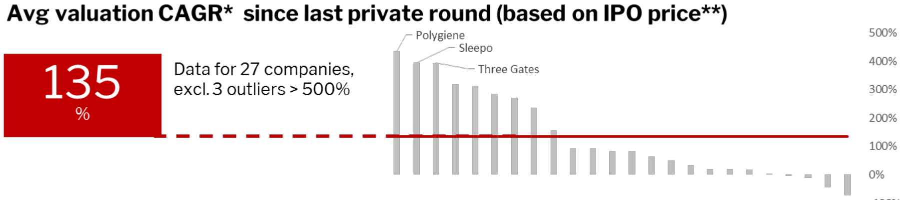
Avg capital raised



* Where no new equity was issued, average trading price day 1 was used

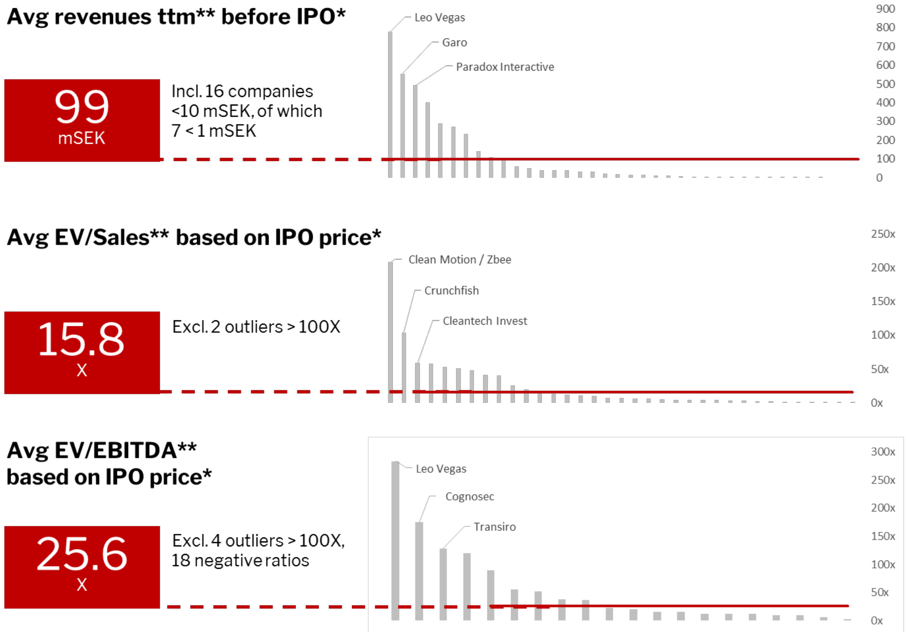
Only 5 IPOs – Catena Media, Leo Vegas, Paradox Interactive, THQ Nordic and Cognosec - were “kronicorns” (krona unicorns, i.e. priced at over 1 bnSEK), with average IPO valuation at 442 mSEK. In combination with not too many companies seeing relatively high EV/Sales and EV/EBITDA multiples and the generally positive public and tech market climates during 2015, this is surely one big factor explaining the rather big outperformance of Tech IPOs over the OMXS30. The average capital raise was at around 10% compared to IPO price implied market cap.

Avg valuation CAGR* since last private round (based on IPO price)**



* Compound Annual Growth rate ~ annual return; where no exact data for new share issues was available, estimates were used
** Where no new equity was issued, average trading price day 1 was used

The difference between IPO pricing and the last preceding private round gave an average 135% yearly value gain (CAGR) for investors that had invested in the company before the IPO. Timeframes since the last private investment round ranged from several weeks up to a few years in some cases. The average timeframe, excluding one outlier (> 5 years), was an IPO 9 months after the last private round.



* Where no new equity was issued, average trading price day 1 was used

** Financial data is ttm where available – in rare cases data is from previous Q ttm or previous FY, as provided in company material

Apart from a few outliers, many IPOs saw relatively reasonable multiples, at least compared to the overall (public) tech market climate. Most companies had shown significant revenues in the year before their IPO, although 16 had revenues below 10 mSEK and 18 had negative EBITDA.

2016's Tech IPO saw a big interest from retail investors. In over half of the companies with data available, more than 2/3 of their shareholders held their shares via Avanza. Cognosec, Paradox Interactive, Plejd and Fastout are the leaders of the pack in this regard, with close to or over 90% of their shareholders via Avanza.

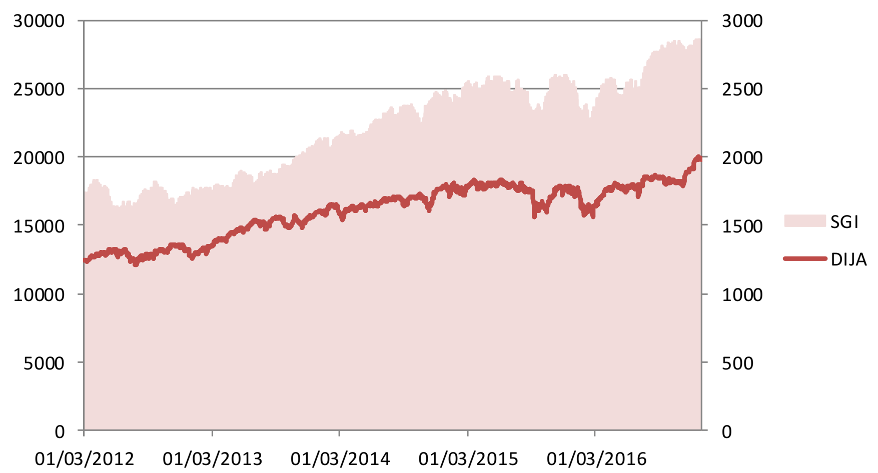
Market expectations

Summary

- The leading global technology companies' average share prices have risen 38 percent during the last 12 months, in comparison to 2 and 15 percent for Nordic and Swedish peers. The appreciation is more of an upward correction of a previous, relative undervaluation than a positive earnings growth trend. One hypothetic reason for the better sentiment could be the strengthened US economy together with the uncertain global macro environment, meaning a safe haven movement to US companies' favor.
- Still, Nordic and Swedish technology companies are valued at a premium to their global peers of about 13-28 percent on cash flow (EBITDA) multiples. In this sense, the global technology companies appear to be relatively undervalued despite 16 respectively 11 percentage point better EBITDA margins compared to the Swedish and Nordic peers. Looking at rolling 12 month sales growth, however, the Swedish tech companies have a rapid average growth of 43 percent (33 % excl. the outlier Fingerprint Cards), which suggests no relative overvaluation in relation to the corresponding global tech companies growth of 7 percent.
- The main reason for the 23 percentage points share underperformance of the leading Swedish technology companies relative to their global peers are Fingerprint Cards and Ericsson (both around - 30%) and the five largest betting companies (-20 %).

In this section we have investigated the Bloomberg consensus estimates and valuations for the major listed technology (hereafter "tech") companies globally as well as in the Nordics and in Sweden. In general, tech has been a good sector pick for investors during the past five years, as indicated by S&P's global tech index below.

S&P Global 1200 Information Technology Sector Index & DIJA



Source: Redeye Research, Bloomberg

Single- vs double digit growth

The tech companies in our selection are separated into two groups; companies with sales growth below 10 percent and fast growers with revenues expected to show double digit growth. The selection includes 20 leading, major companies in each region and is primarily based on market cap size but also to some extent the sales and earnings of the companies. In cases where a company suffers from a negative growth we have interpreted that as a (somewhat simplified) sign that the particular company has lost some of its leadership. One example of this trade-off between market cap and growth is IBM. We believe IBM despite a continuing zero percent sales growth should still be considered a leading tech company due to its size. On the other hand, Tesla is in the flyweight market cap class compared to e.g. PayPal but is expected to grow sales considerably faster, by over 50 percent, meaning Tesla joins our list and PayPal does not.

Leading global technology companies

In the table on the next page we present a list of our top 20, leading, global tech companies listed by market cap size. In addition to PayPal some other notable players not quite making our global list are for instance Panasonic, Foxconn/Hon Hai, HP, eBay, Yahoo, AMD, Electronic Arts, Activision Blizzard, Salesforce and Vivendi.

Platform vs hardware

Platform companies seem to be hotter than traditional hardware and software. Alphabet (formerly Google), Facebook, AliBaba and Amazon have the highest valuation multiples with P/E of +20x, implying that the market expects them to put up a strong growth for the next years to come. They are also, not so surprisingly, expected to grow sales the fastest, all four with double digit growth.

Leading Global Tech Companies: Consensus Estimates & Valuation

Company	Industry	Mkt cap	Share pr.	P/E		EV/EBITDA		EV/S		CAGR rev.	EBITDA	Growth R12M	
		USD bn	1 yr ch.	17E	18E	17E	18E	17E	18E	growth 15-18E	avr. 15-18E	EBITDA	Sales
Group 1: Fast growers (10 % or more)													
ALPHABET INC-CL A	Web Portals/ISP	562	13%	20.0	17.1	11.4	9.8	5.6	4.8	17%	49%	-18%	-4%
AMAZON.COM INC	E-Commerce/Products	378	31%	56.7	39.3	19.0	14.9	2.3	1.9	22%	12%	6%	-1%
FACEBOOK INC-A	Internet Content-Entmnt	357	27%	23.6	18.9	14.4	11.2	9.0	7.1	30%	64%	51%	46%
TENCENT HOLDINGS LTD	Internet Applic Sftwr	239	37%	28.7	22.4	20.3	16.4	8.2	6.4	30%	41%	-5%	-1%
ALIBABA GROUP HOLDINC	E-Commerce/Products	234	33%	23.6	18.2	18.7	14.9	8.1	6.4	29%	44%	52%	27%
NVIDIA CORP	Electronic Compo-Semicon	56	248%	33.6	26.9	20.5	16.1	6.7	5.9	14%	34%	4%	5%
TESLA MOTORS INC	Auto-Cars/Light Trucks	37	9%	n/a	116.4	30.8	17.1	3.6	2.3	52%	11%	51%	-3%
Mean: group 1			**57%**	**31.0**	**37.0**	**19.3**	**14.4**	**6.2**	**5.0**	**28%**	**36%**	**20%**	**10%**
Median: group 1			**31%**	**26.1**	**22.4**	**19.0**	**14.9**	**6.7**	**5.9**	**29%**	**41%**	**6%**	**-1%**
Group 2: Others (less than 10 %)													
APPLE INC	Computers	620	22%	11.8	11.7	6.2	6.0	1.9	1.9	3%	32%	3%	0%
MICROSOFT CORP	Applications Software	489	20%	19.3	17.0	11.0	9.8	4.3	3.9	7%	39%	22%	19%
SAMSUNG ELECTRONICS	Electronic Compo-Semicon	217	59%	8.7	10.2	3.0	3.9	0.8	0.8	3%	26%	10%	-6%
INTEL CORP	Electronic Compo-Semicon	173	16%	13.0	12.4	7.2	6.9	2.9	2.8	3%	39%	13%	-7%
ORACLE CORP	Enterprise Software/Serv	158	11%	13.7	12.3	8.8	8.3	4.0	3.8	4%	45%	0%	1%
INTL BUSINESS MACHINE	Computer Services	161	29%	12.2	11.7	9.7	9.4	2.4	2.4	0%	25%	-10%	5%
CISCO SYSTEMS INC	Networking Products	152	22%	12.2	11.6	6.7	6.4	2.3	2.3	3%	35%	4%	0%
SAP SE	Enterprise Software/Serv	108	19%	19.7	17.9	13.4	12.7	4.6	4.3	7%	34%	-72%	21%
QUALCOMM INC	Semicon Compo-Intg Circu	97	43%	13.1	12.4	7.3	6.7	3.1	2.9	4%	42%	92%	55%
TEXAS INSTRUMENTS IN	Electronic Compo-Semicon	74	47%	20.9	19.5	12.4	11.9	5.4	5.2	4%	43%	-6%	-6%
SONY CORP	Audio/Video Products	36	17%	17.3	14.5	5.0	4.6	0.6	0.6	3%	11%	-9%	-6%
Mean: group 2			**28%**	**14.7**	**13.8**	**8.2**	**7.9**	**2.9**	**2.8**	**4%**	**34%**	**4%**	**7%**
Median: group 2			**22%**	**13.1**	**12.4**	**7.3**	**6.9**	**2.9**	**2.8**	**3%**	**35%**	**3%**	**0%**
Mean (total)			**38%**	**20.6**	**22.6**	**12.7**	**10.5**	**4.3**	**3.7**	**14%**	**35%**	**10%**	**7%**
Median (total)			**27%**	**19.3**	**17.1**	**11.2**	**9.8**	**3.8**	**3.4**	**5%**	**36%**	**4%**	**0%**

Source: Redeye Research, Bloomberg

In the bottom, there are no major differences in the risk appetite for shares of more traditional hardware and service-related companies like e.g. Apple, IBM or Intel. Investors are willing to pay a low double digit multiple for each of these three companies' low single digit sales growth. Apple, with a share performance of +22 percent, still has the world's highest market cap valuation. Investors in general seem to believe that Apple cannot grow that much further, often pointing to lack of innovation during the last years.

Leading Nordic technology companies

The Nordic, top 20 companies are positioned within a variety of different sectors, namely betting, security, telecom infrastructure and IT consulting. The table below includes, in our view, the major Nordic tech players.

As much as 80 percent of the major Nordic players have single digit sales growth rates but excluding the fastest growers group and only looking at group 2 we see that the Nordic tech companies grow at an average of 5 percent, in line with the global tech companies.

Some other key Nordic players, not on the list, include Thin Film and Vaisala. Norwegian biometrics players NEXT and IDEX both have massive valuations looking at market cap but have yet to reach a breakthrough in sales, implying overall high expectations within the biometrics sector.

Leading Nordic Tech Companies: Consensus Estimates & Valuation

Company	Industry	Mkt cap	Share pr.	P/E		EV/EBITDA		EV/S		CAGR rev.	EBITDA	Growth R12M	
		SEK billio	1 yr ch.	17E	18E	17E	18E	17E	18E	growth 15-18E	avr. 15-18E	EBITDA	Sales
Group 1: Fast growers (10 % or more)													
FINGERPRINT CARDS A	Identification Sys/Dev	21	-30%	8,8	7,8	6,7	6,7	2,4	2,1	17%	36%	549%	285%
KINDRED GROUP PLC	Internet Gambling	19	-19%	16,2	17,0	12,1	12,6	2,7	2,4	15%	21%	48%	57%
NETENT AB	Entertainment Software	17	-8%	29,3	24,9	20,3	17,1	9,4	8,0	20%	46%	29%	31%
NORDIC SEMICONDUCT	Electronic Compo-Semicor	6,0	-3%	30,5	18,9	15,7	10,7	2,7	2,2	22%	17%	-22%	0%
Mean: group 1			**-15%**	**21,2**	**17,2**	**13,7**	**11,8**	**4,3**	**3,7**	**18%**	**30%**	**151%**	**93%**
Median: group 1			**-13%**	**22,8**	**18,0**	**13,9**	**11,7**	**2,7**	**2,3**	**18%**	**30%**	**38%**	**44%**
Group 2: Others (less than 10 %)													
NOKIA OYJ	Wireless Equipment	256	-31%	17,9	14,1	8,4	6,4	0,9	0,9	0%	12%	-68%	66%
ERICSSON LM-B SHS	Networking Products	177	-32%	19,1	14,9	7,5	6,4	0,8	0,8	-1%	10%	-3%	-4%
HEXAGON AB-B SHS	Machinery-General Indust	124	19%	20,8	18,9	14,0	12,9	4,4	4,1	6%	31%	15%	5%
SCHIBSTED ASA-CL A	Publishing-Newspapers	46	-25%	39,0	26,1	17,2	13,8	2,7	2,6	5%	16%	-39%	5%
SAAB AB-B	Aerospace/Defense	37	37%	20,6	17,6	11,2	10,0	1,2	1,1	7%	11%	44%	21%
NETS A/S	Commercial Serv-Finance	31	n/a	15,6	13,8	10,8	9,8	3,9	3,7	5%	36%	n/a	n/a
GN STORE NORD A/S	Wireless Equipment	29	14%	17,1	15,0	12,7	11,5	2,7	2,5	8%	21%	17%	13%
AXIS COMMUNICATION	Industr Audio&Video Prod	25	2%	n/a	n/a	n/a	n/a	n/a	2,7	n/a	n/a	4%	11%
TIETO OYJ	Computer Services	19	12%	15,7	14,8	9,9	9,6	1,3	1,3	3%	13%	-7%	0%
MODERN TIMES GROUP	Cable/Satellite TV	19	28%	17,0	15,3	11,4	10,3	1,1	1,1	7%	10%	71%	5%
SIMCORP A/S	Transactional Software	19	-5%	34,1	29,1	25,7	22,1	6,2	5,7	7%	25%	n/a	6%
ATEA ASA	E-Services/Consulting	8,8	17%	15,4	13,8	8,7	8,2	0,3	0,3	2%	4%	5%	14%
NNIT A/S	Computer Services	7,0	15%	21,2	20,4	11,2	10,4	1,8	1,7	6%	16%	6%	8%
OPERA SOFTWARE AS	Applications Software	6,0	14%	23,6	16,3	10,6	9,2	1,4	1,2	9%	12%	29%	22%
F-SECURE OYJ	Computer Data Security	5,2	42%	31,3	22,9	15,1	12,1	2,7	2,5	7%	18%	n/a	8%
BASWARE OYJ	Internet Applic Sftwr	4,8	0%	n/a	101,7	104,5	29,8	3,1	2,8	9%	4%	-79%	6%
Mean: group 2			**7%**	**22,1**	**23,7**	**18,6**	**12,2**	**2,3**	**2,2**	**5%**	**16%**	**0%**	**12%**
Median: group 2			**10%**	**19,6**	**16,8**	**11,2**	**10,0**	**1,7**	**2,1**	**6%**	**13%**	**5%**	**8%**
Mean (total)			**2%**	**21,8**	**21,7**	**17,0**	**12,0**	**2,7**	**2,5**	**9%**	**19%**	**38%**	**31%**
Median (total)			**7%**	**20,6**	**17,2**	**12,1**	**10,7**	**2,7**	**2,3**	**7%**	**16%**	**6%**	**11%**

Source: Redeye Research, Bloomberg

Leading Swedish technology companies

In Sweden we end up with the following 20 major, listed, tech companies:

Leading Swedish Tech Companies: Consensus Estimates & Valuation

Company	Industry	Mkt cap SEK billio	Share pr. 1 yr ch.	P/E 17E	P/E 18E	EV/EBITDA 17E	EV/EBITDA 18E	EV/S 17E	EV/S 18E	CAGR rev. growth 15-18E	EBITDA avr. 15-18E	Growth R12M EBITDA	Growth R12M Sales
Group 1: Fast growers (10 % or more)													
FINGERPRINT CARDS AB-	Identification Sys/Dev	21	-30%	9.4	8.4	7.1	7.1	2.6	2.2	18%	36%	549%	285%
KINDRED GROUP PLC	Internet Gambling	19	-19%	16.5	17.3	12.3	12.8	2.7	2.4	15%	21%	48%	57%
NETENT AB	Entertainment Software	17	-8%	28.8	24.4	19.9	16.8	9.2	7.9	20%	46%	29%	31%
BETSSON AB	Internet Gambling	13	-36%	13.4	14.2	11.0	11.3	3.0	2.7	10%	26%	n/a	16%
EVOLUTION GAMING GRC	Gambling (Non-Hotel)	10.1	5%	26.3	21.7	18.2	14.9	7.1	5.9	25%	39%	52%	54%
MYCRONIC AB	Lasers-Syst/Components	9.7	34%	16.3	14.4	11.0	9.7	3.6	3.4	12%	33%	n/a	4%
TOBII AB	Computers-Other	6.6	14%	n/a	98.6	56.4	24.7	5.1	3.9	24%	10%	747%	56%
HMS NETWORKS AB	Networking Products	3.7	33%	28.2	24.1	18.1	15.8	3.9	3.5	13%	21%	16%	26%
CHERRY AB	Gambling (Non-Hotel)	3.6	136%	18.8	14.1	8.9	7.2	2.0	1.7	53%	21%	673%	66%
KAMBI GROUP PLC	Internet Gambling	3.6	1%	22.8	19.7	12.6	11.0	4.6	3.8	25%	34%	56%	31%
Mean: group 1			**13%**	**20.0**	**25.7**	**17.5**	**13.1**	**4.4**	**3.7**	**21%**	**29%**	**271%**	**63%**
Median: group 1			**3%**	**18.8**	**18.5**	**12.5**	**12.1**	**3.7**	**3.5**	**19%**	**30%**	**54%**	**43%**
Group 2: Others (less than 10 %)													
ERICSSON LM-B SHS	Networking Products	177	-32%	19.1	14.9	7.5	6.4	0.8	0.8	-1%	10%	-3%	-4%
HEXAGON AB-B SHS	Machinery-General Indust	124	19%	20.8	18.9	14.0	12.9	4.4	4.1	6%	31%	15%	5%
SAAB AB-B	Aerospace/Defense	37	37%	20.6	17.6	11.2	10.0	1.2	1.1	7%	11%	44%	21%
AXIS COMMUNICATIONS	Industr Audio&Video Prod	25	2%	n/a	n/a	n/a	n/a	n/a	2.7	n/a	n/a	n/a	11%
MODERN TIMES GROUP-E	Cable/Satellite TV	19	28%	17.0	15.3	11.4	10.3	1.1	1.1	7%	10%	n/a	5%
PARADOX INTERACTIVE /	Entertainment Software	5.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
STARBREEZE AB	Applications Software	5.5	32%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-27%	80%
CLX COMMUNICATIONS /	Communications Software	4.9	34%	22.2	n/a	15.1	n/a	1.6	n/a	n/a	n/a	n/a	n/a
HIQ INTERNATIONAL AB	Computer Services	3.3	32%	18.3	17.1	13.1	12.2	1.8	1.7	7%	14%	n/a	8%
NET INSIGHT AB-B	Networking Products	3.2	5%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	22%	35%
Mean: group 2			**17%**	**19.7**	**16.8**	**12.0**	**10.3**	**1.8**	**1.9**	**5%**	**15%**	**54%**	**27%**
Median: group 2			**28%**	**19.8**	**17.1**	**12.2**	**10.3**	**1.4**	**1.4**	**7%**	**11%**	**33%**	**21%**
Mean (total)			**15%**	**19.8**	**22.0**	**15.1**	**12.0**	**3.3**	**3.0**	**15%**	**24%**	**155%**	**43%**
Median (total)			**14%**	**19.7**	**17.3**	**12.4**	**11.3**	**2.9**	**2.7**	**13%**	**21%**	**48%**	**29%**

Source: Redeye Research, Bloomberg

As Sweden is often considered the tech capital of the Nordics it is not so surprising that close to a majority of the major Nordic companies are from Sweden. Thus, most of the sectors on the Swedish top list are similar to the Nordic ones with the most obvious difference being the Swedish sector of gaming and betting. 8 out of the 20 Swedish major tech companies are active within these two areas and 60 percent of the fastest growing companies are betting companies.

Besides gaming and betting, eye-tracking (Tobii) appears to be the hottest theme among investors (also note the Smart Eye IPO in 2016) judging from all multiples while the market valuations do not discount any growth prospects for Ericsson or Fingerprint Cards as their EV/EBITDA both are around 7x.

IAR and Invisio are two notable honourable mentions for companies not quite making the list. There is also a Swedish IT consulting cluster with e.g. Acando, Addnode and KnowIT; all three close to a SEK 2 billion of market cap.

Concluding remarks

Comparing the three tables above we first note a major difference in share performance where global tech stocks have performed much stronger than both corresponding Nordic and Swedish groups. This is highlighted in the red section in the summarizing tables below of the average as well as the median multiples and stock price movements respectively. Similarly, NASDAQ is around all time high levels of 5 500 (equal to a 19 percent increase in 2016), compared to e.g. the Swedish OMXS30, which was only up 12 percent during 2016, still down from the top in spring 2015. The difference is even larger taking into account the USD/SEK movement. We have not in the recent earnings trends of the global companies found any clear fundamental reasons behind the increased investor optimism compared to the peers so we mainly see it as an upward correction. One hypothesis is that the stronger American economy together with the uncertain global macro environment has strengthened the sentiment for global tech as 80 percent of these companies in our selection are US companies. Such safe haven movements would clearly favour US companies in relation to Swedish and Nordic peers.

Average Valuation Multiples & Share Performance Per Region

Region	Share pr. 1 yr ch.	P/E 17E	P/E 18E	EV/EBITDA 17E	EV/EBITDA 18E	EV/S 17E	EV/S 18E	CAGR rev. growth 15-18E	EBITDA avr. 15-18E	Growth R12M EBITDA	Growth R12M Sales
Leading Global Tech Companies	**38%**	**20.6**	**22.5**	**12.7**	**10.5**	**4.3**	**3.7**	**14%**	**35%**	**10%**	**7%**
Fast growers	57%	31.0	37.0	19.3	14.4	6.2	5.0	28%	36%	20%	10%
Others	28%	14.7	13.8	8.3	7.9	2.9	2.8	4%	34%	4%	7%
Leading Nordic Tech Companies	**2%**	**21.8**	**22.2**	**17.6**	**12.1**	**2.7**	**2.5**	**9%**	**19%**	**35%**	**30%**
Fast growers	-12%	21.0	34.1	31.9	15.4	4.0	3.5	17%	25%	105%	76%
Others	8%	22.1	18.1	12.5	10.9	2.2	2.1	5%	17%	6%	13%
Leading Swedish Tech Companies	**15%**	**19.8**	**22.1**	**15.2**	**12.1**	**3.3**	**3.0**	**15%**	**24%**	**146%**	**43%**
Fast growers	13%	20.0	25.8	17.6	13.2	4.4	3.8	21%	29%	271%	63%
Others	18%	19.7	16.8	12.1	10.4	1.8	1.9	5%	15%	45%	27%

Source: Redeye Research, Bloomberg

Despite the diverse stock movements in the different groups all average P/E multiples are around 20-22x. Looking at cash flow instead (in the simplified EBITDA way) the average EBITDA margins of the global tech companies are 16 respectively 11 percentage points higher than the Nordic and Swedish peers. However, Nordic and Swedish technology companies are valued at a premium to their global peers of about 13-28 percent on cash flow (EBITDA) multiples.

Median Valuation Multiples & Share Performance Per Region

Region	Share pr. 1 yr ch.	P/E 17E	P/E 18E	EV/EBITDA 17E	EV/EBITDA 18E	EV/S 17E	EV/S 18E	CAGR rev. growth 15-18E	EBITDA avr. 15-18E	Growth R12M EBITDA	Growth R12M Sales
Leading Global Tech Companies	**27%**	**19.3**	**17.1**	**11.2**	**9.8**	**3.8**	**3.4**	**5%**	**36%**	**4%**	**0%**
Fast growers	31%	26.1	22.4	19.0	14.9	6.7	5.9	29%	41%	6%	29%
Others	22%	13.1	12.4	7.3	6.9	2.9	2.8	3%	35%	3%	3%
Leading Nordic Tech Companies	**2%**	**20.7**	**17.3**	**12.3**	**10.4**	**2.6**	**2.3**	**7%**	**16%**	**6%**	**11%**
Fast growers	-14%	22.6	17.7	13.7	11.5	2.6	2.3	19%	30%	38%	44%
Others	14%	19.8	16.3	11.2	10.3	1.8	2.1	6%	13%	5%	8%
Leading Swedish Tech Companies	**14%**	**19.7**	**17.3**	**12.4**	**11.3**	**2.9**	**2.7**	**13%**	**21%**	**48%**	**29%**
Fast growers	3%	18.8	18.5	12.5	12.1	3.7	3.5	19%	30%	54%	43%
Others	28%	19.8	17.1	12.2	10.3	1.4	1.4	7%	11%	33%	21%

Source: Redeye Research, Bloomberg

Stronger growth in Swedish tech

Looking at growth the global tech companies are almost in line with the Swedish peers. Worth noting is that several of the Swedish companies in the table have no analyst coverage and hence there are no estimates. However, on a rolling 12 month basis these uncovered companies have a double digit sales CAGR growth. Adjusting for (and extrapolating) this growth the Swedish growth would be significantly higher. Starbreeze, Net Insight and Axis grew 80, 36 and 11 percent respectively. Paradox and CLX were recently listed and both companies have previously managed to have double digit sales growth as well. Looking at rolling 12 month growth instead of future growth estimates the Swedish tech companies have grown on average 43 percent (33 % adjusted for the outlier Fingerpring Cards) compared to 7 percent for the global tech companies. The median growth looks similar; 29 percent for the Swedish tech companies and zero percent for the global peers.

The contributors to the Swedish share price decline are solely Ericsson, Fingerprint and the betting companies. Adjusted for these sinkers our Swedish tech companies would have had average share price increases of on average 25 percent, more in line with the global peers, but still considerably lower.

While Ericsson and Fingerprint Cards appear to suffer from company specific problems the betting industry seems to be hit by an actual (or at least perceived) structural downturn from tax risks and the market being too crowded due to its many new entrants. It is e.g. worth noting that the founder of Kindred (formerly Unibet), Anders Ström, in the fall 2016 sold Kindred shares worth of SEK 114 million, equal to 13 percent of his holdings, on one year low share price levels.

Redeye Screening

Summary

- In our screening we present four different strategies that combine our Redeye Rating, valuation range and financial projections in a variety of ways to generate unique outputs. The strategies are Growth At a Reasonable Price (GARP), Deep Value, Growth Junkies and Jockey Stock's.

- Screening should not be seen as a portfolio suggestion, but instead as a smart way to narrow down the "research subjects." An investor must also take into account qualitative factors that are not possible to quantify into raw numbers, and timing. Redeye focuses on key catalysts for timing and risk limitation. Catalysts are defined as triggers that are likely to materialize in the near-future with a valuation impact. Our screens do not "capture" these possible catalytically events and must be evaluated case by case, which we do in our portfolio of top picks.

- Some companies are found in the output of multiple screens. Most notable are Allgon, Invisio, Paynova, and West International that occur on three screens or more. Our picks for 2017 are all tilted more towards growth rather than value and are essentially GARP investments.

Our universe of companies

The screens are based on the 40 companies that currently exist in the Redeye Universe. Redeye has a full research coverage of these companies where we present quarterly research updates, more extensive research reports, brief comments, investment thesis, valuation range, Redeye Rating and more.

Companies in Redeye Universe

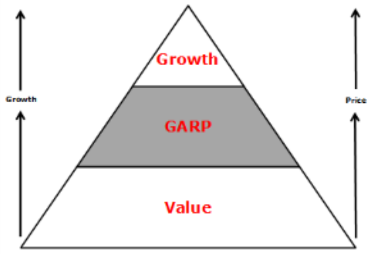
Company	Share price	Valuation range			Redeye Rating				
		Bear-case	Base-case	Bull-case	Management rating	Ownership rating	Profit outlook rating	Profitability rating	Fin. strenght rating
Addnode Group	59,5	24	60	75	9,0	9,0	5,0	7,0	7,0
Allgon	13,2	11	22	28,5	8,0	8,0	6,0	3,0	5,0
AllTele	17,7	15	21	33	6,0	8,0	3,5	3,5	6,5
Anoto Group AB	0,17	0,07	0,13	0,55	3,0	1,0	7,5	0,0	3,0
Arise	19,8	12	26,8	44	7,0	7,0	6,0	5,0	4,0
Avega Group	23	16	24	31	8,0	7,0	4,0	7,5	6,0
Avtech	3,6	4,5	7	15	6,0	8,0	6,5	1,0	5,0
aXichem	6,3	3,5	6,8	13,6	7,0	8,0	5,0	0,0	1,0
Bredband2	1	0,5	1	1,8	8,0	7,0	5,5	6,0	7,5
Cherry	264	110	250	357	9,0	9,0	7,0	5,0	6,5
Cinnober	203	80	190	300	8,5	8,0	7,0	6,5	6,0
Crowdsoft	0,3	0,3	0,5	0,9	5,0	3,0	5,5	0,0	2,0
DGC One	129	90	117	145	8,0	10,0	6,0	9,0	7,0
Doro	52,5	29	73	108	8,0	2,0	7,5	6,5	6,0
Enea	96	61	119	225	8,0	1,0	7,5	8,5	7,0
Ericsson	53,4	48	58	78	5,0	7,0	5,5	5,0	7,0
Fingerprint Cards	66,2	47	176	276	6,0	7,0	7,0	4,5	7,0
Formpipe Software	9,6	5,3	9,9	16,3	7,0	4,0	6,0	5,5	5,5
Heliospectra	7,7	2	11	27	7,0	7,0	7,0	0,0	1,0
Hexatronic	36,7	18	40	57	7,0	9,0	6,0	7,0	7,5
Invisio	67,3	28	72	90	9,0	9,0	8,5	6,0	7,0
Lagercrantz	82	54,8	80,8	96,9	8,0	8,0	5,0	9,0	8,0
Mr Green	34,7	38	63	105	7,0	9,0	6,5	7,0	6,0
Mycronic	99,8	75	128	153	9,0	7,0	8,0	6,0	7,5
myTaste	9,4	5	23	48	7,0	9,0	6,5	0,0	4,0
Neonode	1,8	1,2	3,7	6,2	5,0	7,0	7,5	0,0	2,0
Nokia	4,6	4	4,9	6,4	7,0	3,0	5,5	6,5	9,0
NC Lahega	2,7	1,5	3	3,7	6,0	5,0	5,0	4,0	5,5
Opus Group	6,6	6,1	10,3	14	8,0	7,0	8,0	6,0	7,0
Paynova	0,7	0,9	1,9	3,1	7,0	5,0	5,5	0,0	2,0
Photocat	16,2	13,9	41,2	81,3	6,0	10,0	6,0	0,0	0,0
Polygiene	12,4	6,4	16,6	22,3	9,0	6,0	6,5	6,0	5,0
Powercell	28,9	5	15,5	45,1	6,0	8,0	5,0	0,0	2,0
Prevas	14,2	8	15	33	5,0	7,0	4,0	4,0	3,0
Sensys Gatso Group	1,4	1,3	2,7	4,6	7,0	4,0	8,5	4,0	6,0
Stillfront	76	32	105	210	7,0	6,0	4,5	6,0	7,0
Systemair	124	85	130,7	160	8,0	8,0	5,0	7,0	8,0
Verisec	85,3	50	75	140	8,0	9,0	6,5	6,0	5,5
Waystream	9,4	7	14	20	7,0	7,0	4,0	2,5	3,0
West International	6,3	3,2	7	11,8	8,0	6,0	6,0	0,0	4,0

Source: Redeye Research

The screening

Screening is one of the most valuable tools for investors to generate possible investment ideas. At Redeye we believe investors have to look further than just reported numbers and classic valuation multiples. We put significant emphasis on quality factors like; management skill, ownership by insiders, competitive position, growth opportunities and more. All these quality factors can be understood throughout our proprietary Redeye Rating (see Appendix: Research & Rating). Besides the quality assessment of companies, investors also need to know what the current valuation levels imply about the prospects of the business in question. Our screening combines our proprietary Redeye Rating, financial forecasts, and Valuation Range. We here present four different strategies that combine these three elements in a variety of ways to generate unique outputs. The strategies are Growth At a Reasonable Price (GARP), Deep Value, Growth Junkies and Jockey Stocks all of which are explained below.

GARP



The GARP strategy is a combination of both value and growth investing: it is valid for companies that are somewhat undervalued and have solid sustainable growth potential. At Redeye we believe a reasonable price is a price that is below our Base-case valuation. The Base-case value is determined by a relatively likely scenario. The valuation is based on the expected future Free Cash Flow (FCF) discounted by a WACC. The WACC is derived by our Redeye Rating and is usually between 9-15%. In this strategy we also want the growth to be high, but not too high, for the next few years, looking at companies that are expected to grow at a CAGR of 10-50% for the next three years. After the first criteria, of a low price and projected high growth, we will rank the output and choose the top companies based on their average Redeye Rating.

Criteria: *Price < Base-case* and *sales CAGR of 10-50% for the coming three years*. **Ranking**: *Weighted Redeye Ranking*

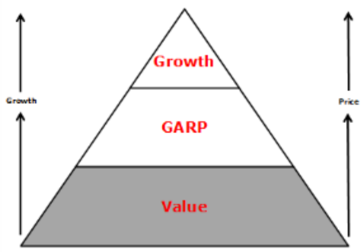
Screening output GARP

Redeye GARP Screen

Company	Criteria parameter 3 year forward CAGR	Distance to Base case	Ranking parameter Redeye rating avg.	Screen Rank
Invisio	30%	7%	8	1
Hexatronic	28%	9%	7	2
Allgon	31%	67%	6	3
Stillfront	49%	38%	6	4
West International	33%	12%	5	5
NC Lahega	42%	13%	5	6
Paynova	37%	168%	4	7

Source: Redeye Research, Bloomberg

Deep Value



Value investing is about buying a stock for substantially less than what the company is worth (i.e. its intrinsic value). Deep value investing seeks to purchase stocks at an even greater discount to their intrinsic value.

Value investors assert that "Mr. Market" often inefficiently prices stocks in the short-term for various reasons (e.g. forced stock sales, bad publicity, lack of analyst coverage, etc.). Once disciplined value investors have performed the required fundamental analysis of the business, given to you by our analysts, they will arrive at an estimate of the "intrinsic value" of the stock. This intrinsic value is then compared to the current price of the shares and if there is enough of a discount, value investors will strongly considering purchasing the stock.

Some deep value stocks might be value traps, i.e. stocks that always look cheap on paper. One good way to address this issue is by looking at management's ownership and overall quality of the team. Our Deep Value strategy looks for companies that trade close to our Bear-case valuation, i.e. the fundamental implied expectations are low. Our first criteria is that the share will sell no more than 30% above the Bear-case. After this, we will rate the output based on our management rating in a way to decrease the risk of a value trap.

Criteria: *Price 30% > Bear-case or lower*. **Ranking:** *Highest ranked based on management rating*

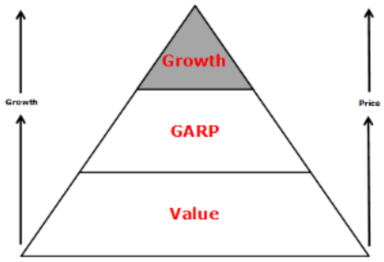
Screening output Deep value

Redeye Deep value Screen

Company	Criteria parameter Distance to Bear case	Ranking parameter Management rating	Screen Rank
Mycronic	-25%	9	1
Allgon	-16%	8	2
Avega Group	-30%	8	3
DGC One	-30%	8	4
Opus Group	-7%	8	5
Systemair	-31%	8	6
Nokia	-13%	7	7
Mr Green	10%	7	8
Paynova	27%	7	9
Sensys Gatso Group	-7%	7	10
Waystream	-26%	7	11
Fingerprint Cards	-29%	6	12
AllTele	-15%	6	13
Photocat	-14%	6	14
Avtech	26%	6	15

Source: Redeye Research, Bloomberg

Growth junkies



Growth investing is the pursuit of increasing one's wealth through long- or short-term capital appreciation. Growth investing is typically considered to be the "offensive" portion of an investment portfolio. When it comes to stocks, "growth" means that the company has substantial potential for capital appreciation. Our Growth junkie screen will look for businesses that are forecasted to grow with a CAGR of more than 25% for the next three years and with a high-profit outlook rating. We will then rank the output based on the average Redeye rating and distance to Base-case. Even though we want hyper growth, we still want a relatively fair price.

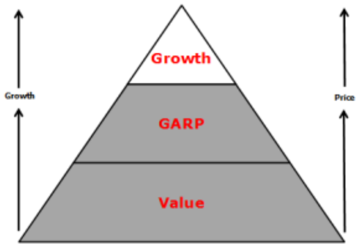
Criteria: Three-*year sales CAGR>25%* and *Profit outlook rating >5.*
Ranking: *Average Redeye rating* and *distance to Base-case*, combined score.

Screening output Growth junkies

Redeye Growth Screen

Company	Criteria parameter		Ranking parameter		Screen Rank
	3 year forward CAGR	Profit outlook	Redeye rating	Distance to Base	
Fingerprint Cards	59%	7	7	166%	1
Invisio	30%	9	8	7%	2
Allgon	31%	6	6	67%	3
Avtech	63%	7	6	97%	4
Neonode	89%	8	5	106%	5
Stillfront	49%	5	6	38%	6
Photocat	123%	6	5	155%	7
Cherry	32%	7	7	-5%	8
Paynova	37%	6	4	168%	9
West International	33%	6	5	12%	10
NC Lahega	42%	5	5	13%	11

Source: Redeye Research, Bloomberg



Jockey stocks

Jockey investing is attempting to find a smart allocator of shareholder capital that can create exceptional returns for investors, ideally early in the game. We will here look at the companies that have the highest management rating in our universe. Our ranking will be based on net insider buying during the last 12 months and their relative distance to the Base-case valuation. We believe this strategy to be a combination of GARP and value as most insider buying happen at relatively low levels when the underlying fundamentals are under-appreciated by the market.

Criteria: *Management rating >8.* **Ranking:** *Twelve-month net insiders' buy and distance to Base-case, combined score top 5.*

Screening output Jockey stocks

Redeye Jockey stock Screen

Company	Criteria parameter	Ranking parameter		Screen Rank
	Management rating	Distance to Base case	Insider net buy 12m (msek)	
Opus Group	8,0	57%	5	1
Polygiene	9,0	34%	3	2
Mycronic	9,0	28%	2	3
West International	8,0	12%	0	4
Cherry	9,0	-5%	3	5
Allgon	8,0	67%	0	6
Doro	8,0	39%	-13	7
Enea	8,0	24%	0	8
Systemair	8,0	5%	0	9
Avega Group	8,0	4%	0	10
Invisio	9,0	7%	-105	11
Bredband2	8,0	-6%	0	12
Lagercrantz	8,0	-1%	-6	13
Addnode Group	9,0	1%	-22	14
Verisec	8,0	-12%	0	15
DGC One	8,0	-9%	-5	16
Cinnober	8,5	0	-50	17

Source: Redeye Research, Bloomberg, Holdings

Top Picks-portfolio

Summary

- Redeyes Top Picks-portfolio is actively managed and consists of up to 10 companies from Redeyes Universe of Tech and Life Science companies. The underlying strategy relies on high-conviction cases found through Redeyes fundamental analysis. The inclusion and portfolio size of each respective company holding depends on the attractiveness in the risk/reward ratio and near-term catalysts. Redeyes Top Picks-portfolio aims to provide a basis for investment ideas for long-term positive returns relative to risk.

- Our Top Picks-portfolio appreciated 19.6% in 2016. Our comparative index OMXSPI rose by 5.8% for the same period and our Top Picks-portfolio thereby outperformed the index by as much as 13.8% in 2016. On a three year basis the Top Picks-portfolio appreciated 184.5% and the corresponding index OMXSPI rose by 26.2%. Our Top Picks-portfolio thereby outperformed the comparative index with 158.3% on a three year basis.

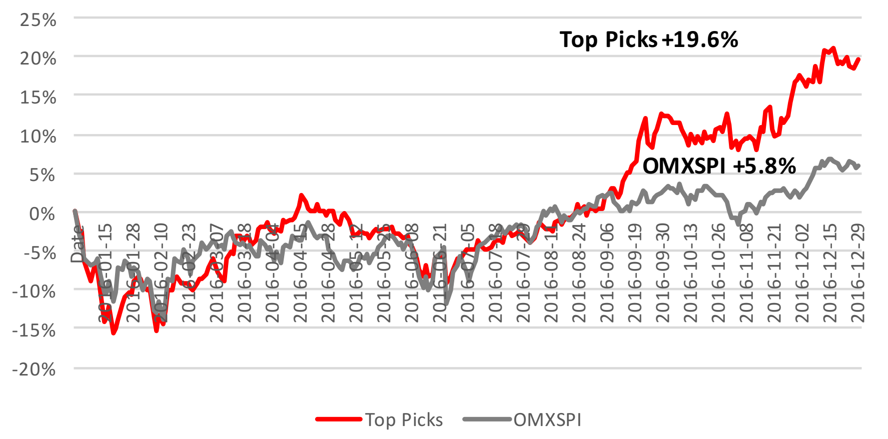
- Going into 2017, we have made adjustments to our holdings and we present the new structure for the 2017 Top Picks portfolio. We have included two new companies, excluded two and adjusted the size of the holdings depending on the attractiveness of the risk/reward ratio and near-term catalysts. Finally, we draw special attention to three companies with high potential upside and catalysts in the near term. Brief motivations are provided for our Top 3 holdings for 2017; Neonode, Stillfront and Paynova.

Portfolio performance in 2016

Our Top Picks-portfolio appreciated 19.6% in 2016. The comparative index OMXSPI rose by 5.8% for the same period and our portfolio thereby outperformed the index with 13.8%. During the fall of 2016, we temporarily increased our holding in cash to around 30%. The reason was a perceived risk of increased volatility and higher market risk premium associated with Brexit and the US election. We closed our defensive cash position after the US election and have since been fully invested.

Below, we show the development of our Top Picks-portfolio vs the corresponding OMXSPI index on a one-year and three-year basis. A description of the investment criteria for our Top Picks-portfolio is presented at the end of this chapter. A comprehensive presentation of portfolio structure, real-time performance, size of holdings, analysis and updates can be found here; http://beta.redeye.se/member/top-picks

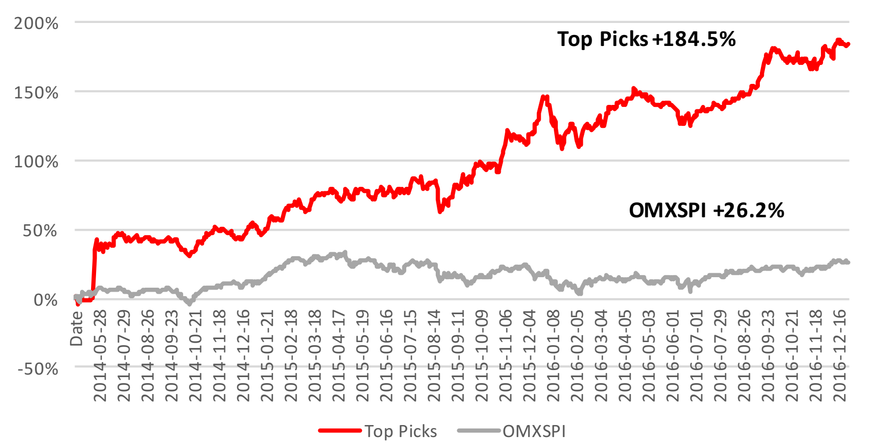
Top Picks One Year performance (%)*



Source; Redeye, Nasdaq OMX

** Contribution from Neonode is included*

Top Picks Three Year performance (%)



Source; Redeye, Nasdaq OMX

Top performers in 2016

The best performing stock in our portfolio in 2016 was Hexatronic with an increase of 124%. We believe that investors discovered the fundamental values in this profitable growth company during the year. This was primarily triggered by the impressive growth coming from both organic expansion and acquisitions but also as a result of the company's first dividend. The second best performer was Cherry with an increase of 88%. Cherry had a very active year with the acquisition of ComeOn and continued strong performance from its game developer Yggdrasil.

West International and Neonode also made positive contributions, since inclusion during the year, of 63% and 51% respectively. During 2016, we had a smaller proportion of Life Science companies and the positions in Elos and Orexo depreciated by -19% and -45%. However, the effect on the portfolio was low since the size of these holdings were relatively small.

		Performance (%)	
Company	Included in 2016	Since inclusion	2016
Hexatronic Group		199%	124%
Cherry		567%	88%
West International	2016-04-15	63%	28%
MyTaste	2016-11-03	-20%	16%
Opus Group		-8%	5%
Elos Medtech		-11%	-19%
Neonode	2016-11-10	51%	-30%
Paynova		-10%	-30%
Mr Green & Co	2016-06-29	-1%	-35%
Orexo		-58%	-45%

Source; Redeye

Top Picks-portfolio for 2017

Below, we present the new structure of the Top Picks-portfolio. For 2017, we have added two new companies. The first company, Stillfront, will be one of our top 3 companies in the portfolio and a further motivation is given below. In short, we see attractive risk/reward in the combination of a strong portfolio of game titles, new releases and acquisitions conducted by a management team with a strong track-record. The other new holding is SyntheticMR where we see substantial upside in our Base Case scenario and we believe near-term catalysts will reveal this value in 2017.

This combination of fundamental value, unrealized upside and near-term catalysts is also valid for our other holdings in the portfolio. We have therefore increased the size of our holdings in Paynova by 5%, in MyTaste by 5% and Elos by 5% since we expect catalysts in 2017 to close the valuation gap to our Base case valuation.

In order to make room for our new and increased holdings we have to close some positions. One of these positions is our 15% holding in Cherry. The share has appreciated a phenomenal 567% since first inclusion in the portfolio. We still consider Cherry an attractive investment due to high expected growth, both in the underlying market and the company itself, but also because of a very competent management that has consistently exceeded expectations. However, Cherry has now reached our fair value estimate in the base case scenario (250 SEK).

We also divest our 16% holding in Hexatronic after an appreciation of 124% in 2016 and 199% since inclusion. As in the case with Cherry, we still consider Hexatronic an attractive investment but the share price has closed the gap to our fair value in the base case scenario (40 SEK).

In the table below, we present our updated structure for the Top Picks portfolio of 2017. The size of each position depends on the relative risk/reward and near-term catalysts.

Top Picks Portfolio 2017

Company	Share (%)	Price*	Base Case	Upside (%)	Bull Case	Bear Case
Neonode	15%	1,6	3,7	126%	6,2	1,2
Paynova	15%	0,7	1,3	86%	2,8	0,9
Stillfront	15%	80,0	105	31%	210	32
Mytaste	10%	10,0	23	130%	48	5
Opus	10%	6,5	10	58%	14	6
Elos Medtech	10%	98,3	160	63%	192	125
Synthetic MR	10%	128,0	185	45%	264	89
West International	10%	6,3	7,0	11%	12	3
Orexo	5%	38,2	72	88%	110	30
Total	**100%**					

*Shareprice as of 10 january 2017

Source; Redeye

Our Top 3 for 2017

All companies in our portfolio are briefly described in the appendix of this report. However, we would like to draw special attention to three companies with high, potential upside and catalysts in the near term.

Neonode

Neonode is making a fundamental strategic change in its business model as it will gradually shift from selling licenses to selling hardware modules. This new strategy will enlarge the addressable market for Neonode's products fivefold but also dramatically increase the revenue and profit per sold unit. We believe this is not fully understood by investors but coming quarters will show results of the new strategy.

It is important to note that Neonode is not a high risk, high expectations play. It already has customers, traction and the ramp-up in existing and coming products to support substantial growth. E.g, around 1/3 of the 30 car models where Neonode's technology is installed are currently shipping. In addition, Neonode's clients in the printer industry currently have a total market share of over 80 percent, whereof HP holds around 50 percent. When Neonode's other clients, Samsung, Lexmark and the two Japanese OEMs roll out their next generation printers, we expect them to include Neonode's technology.

We also see a trigger in the newly launched consumer product Airbar. Neonode's AirBar can touch-enable any non-touch PC or laptop by plugging in the AirBar in the USB port. There are more than 500 million notebook PCs in use globally of which more than 95 percent do not have touch. In addition, around 140 million new PCs are shipped each year, of which only 15 percent include touch. Finally, we see a catalyst in the expected break-even figures in Q4'16 which can move the share closer to our fair value.

Stillfront

Stillfront has a clear focus on delivering good results with limited risk and this idea permeates the entire organization and their working methodology. Company management has developed a strategy, PLEX. The strategy aims to reduce title and technology risks through diversification, generate stable revenues with low user acquisition costs, focus on proven game engines and cross platforms in order to create scalability and decrease risk. Stillfront's management invests vast amounts of time to source, screen, perform due diligence and meet company teams to ensure that the potential acquisition target meets their criteria. To date, Stillfront has scanned over 1 000 companies and this resulted in five acquisitions after their thorough due diligence. We believe that this modus operandi distinguishes Stillfront from industry peers and makes the company an attractive bet on the Gaming industry.

We expect Stillfront to continue to deliver significant growth as the company focuses on bringing low-risk titles to the market. We also believe the market has overlooked some major value enhancing triggers that will materialize in the near-term. One potential catalyst is Simutronics upcoming title ”*Siege: Titan Wars*” which has blockbuster potential according to us. Other catalysts lie in the revenue boost for Bytro’s titles when they are mobile compatible, the launch of the in-house title at Coldwood and when Stillfront makes additional acquisitions. Finally, we believe a potential catalyst is when Stillfront change reporting to IFRS which will reveal the underlying profitability and show the discount to peers more clearly.

Paynova

The new management team has restructured the company, integrated an acquired consumer credit platform and defined a new service offering, *Invoice as a Service*. Paynova has thereby transformed from a traditional PSP (Payment Service Provider) into a Fintech company which is focused on consumer credit solutions. The reason for the strategic change is that proceeds from payments by invoices and installments are several times higher than for direct payments (eg credit cards and direct bank payments). Paynova will thereby earn more for each transaction they handle for their already existing client base.

Paynova has recently implemented the consumer credit service for their largest client SJ, the national railway operator in Sweden. The launch and the processing of payments has been a success without any technical glitches and we believe SJ, with large transaction volumes, will act as a good reference for new clients. This was exemplified by the newly signed "Letter of Agreement" with Amadeus. The company is a provider of advanced technology solutions for the global travel and tourism industry and they reported revenues of 3.9 bn EUR and EBITDA of 1.5 bn EUR in 2015.

Paynova has successfully completed the transition to the new business model and now has capacity and operational experience to add new clients without increasing costs significantly. Paynova is in discussions with large, well-established companies and we believe the chances of adding new clients during the spring is rather high.

Investment strategy

Redeyes Top Picks-portfolio aims to provide a basis for investment ideas for long-term positive returns relative to risk. Management is active and the portfolio consists of up to 10 companies from the Redeye Universe where we perceive current risk/reward to be most attractive.

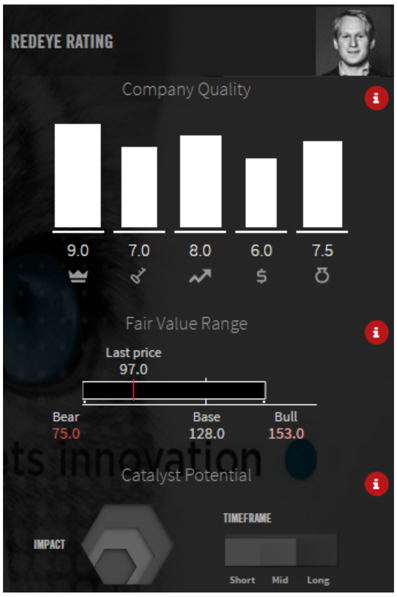
The underlying strategy relies on high-conviction cases which are found through Redeyes fundamental research. The focus is on value companies where we see opportunities for good returns with low risk over a period of at least two years. The investment approach is bottom up, rather than top-down. The underlying, and unrealized, value and catalysts should therefore emanate from within the company rather than from macro factors. The selection process does not only rely on potential upside in the share price but also on Redeyes Rating. The rating model evaluates important success factors such as experience and track-record of company management, the quality of ownership, profit outlook, profitability and financial strength of the company.

A company holding in the Top Picks-portfolio is divested if the investment conditions have changed, if the share has appreciated and realized its full value or if the holding can be replaced by other companies with higher upside potential.

The holdings in the Top Picks-portfolio also follow some basic rules. A position may not exceed 30% of the portfolio's total value and not more than 20% of the portfolio's total value at initial purchase. A holding should also not be less than 5% of the portfolio value at initial purchase but can be lower if it has decreased due to negative return. The companies in the portfolio should have proven business models, high growth potential and be close to, or already deliver, profitability.

The portfolio is primarily suitable for investors with an investment horizon of at least two years. The portfolio invests primarily in small and medium-sized companies listed on stock markets characterized by high risk but also potential for high return. As the portfolio's investments are concentrated in a limited number of markets, it has a higher risk than an alternative that distributes holdings across several different markets. Shares in small and medium-sized companies may also have lower liquidity and thereby higher risk than larger companies in terms of trading.

Appendix: Research & Rating



Making educated investment decisions

How we cut the deck when it comes to investing

Our proprietary rating system is developed to encourage investors to look deeper into the business characteristics and valuation dynamics before investing in it. There are three key pillars behind our investment philosophy; **business quality**, **margin of safety** and **catalysts**. We have developed unique tools to give investors an accurate picture on each of these three characteristics. These tools will guide the decision making process while taking emotion out of the equation. We briefly introduce the tools below.

Focus on Business Quality

To search for companies with better chances of surviving and potential for achieving long-term stable profit growth, Redeye look at a set of clearly defined fundamental criteria that rate companies based on their quality characteristics. Company Qualities is our tool to illustrate and rate business quality. The rating is based on soft and hard criteria that are grouped into five categories, each represented by a bar in the graphic down to the left.

The company qualities rating

Each category is assessed based on a number of quantitative and qualitative questions structured into different sub-categories or key factors. Each key factor is allocated a number of points and weighted differently according to how important they are deemed to be. The total number of points for these key factors make up the rating for each category respectively, based on a scale that ranges from 0 to 10. The overall rating for each category is indicated by the size of the bar shown in the chart.

Management/Leadership

Our Leadership rating represents an assessment of the ability of the board and management to lead the company in the best interests of the shareholders. Companies need highly qualified management to execute a plan to generate shareholder value. A good board and management can make a mediocre business concept profitable, while a poor one can even lead a strong company into crisis. The factors used to assess a company's management are:

- Execution, Capital Allocation, Communication, Experience, Compensation

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market in general over time. The factors used to assess Ownership are for example:

- Ownership structure, Owner commitment, Institutional ownership, Abuse of power, Reputation

Profit Outlook

Our Profit Growth Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth or resiliency. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are:

- Business model, Sales potential, Market growth, Market position, Durable competitive advantages

Profitability History

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years:

- Return on total assets, Return on equity, Net profit margin, Free cash flow, and Operating profit margin

Financial Stability/Strength

Our Financial Stability rating represents an assessment of a company's operational risks and ability to pay in the short and long term. The core of a company's financial stability is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial stability is based on a number of key ratios and criteria:

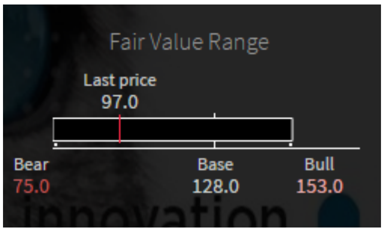
- Times-interest-coverage ratio, Debt-to-equity ratio, Quick ratio, Current ratio, Product and customer concentration, Size, Dependence on capital markets, Cyclicality of operations, and Other company-risk factors

The fair Valuation Range approach/Margin of Safety

The fair Valuation Range approach/Margin of Safety

Account for the unforeseen

Never count on making a good sale at a high price. Instead, purchase the stock at a lower attractive price so that even a mediocre sale gives good results. The entrance strategy is actually more important than the exit strategy. At Redeye it all comes down to our Valuation Range, where we argue that a reasonable margin of safety is achieved when a stock is purchased at price below or on par with our bear-case.



In order to better assess the risk/reward we use a valuation range, which ranges from a bull-case (upside) to a bear-case (downside) scenario. It is critical to ensure that the scenarios are within the realm of reasonableness, and not once-in-a-century events. Looking more closely at the bear-case scenario will help you to have a more balanced view than just focusing on the potential upside in the bull-case scenario, i.e. a sobering reminder that the bull-case always faces a headwind.

When to buy

A vital element to achieving outstanding returns in the long run is having the discipline to avoid investing in companies until their shares are available at a price that provides a good margin of safety. Fortunately, the bipolar nature of the stock market ensures the reliable delivery of these opportunities to the patient investor. At Redeye, margin of safety is heavily conscious of what can go wrong, not what the discount is to fair value. We argue that a reasonable margin of safety is achieved when a stock is purchased at a price below or on par with our bear-case. When you pay significantly less than what the company is worth, you have less potential to fall prey to the market noise and hype. A discount to fair value will not only cushion mistakes, but also provide an enhancement to returns as the margin of safety gap closes.

When to sell

The bull-case serves your sell discipline in order to identify a potential exit. The key here is to really think long-term in the bull-case and be patient. Patient enough to hold good investments at least until the market is willing to recognise its full potential. Once you have taken a position, the bull-case will help you to avoid premature selling. A position in a company should be sold entirely when the share price reflects the bull-case or when cash is needed to take advantage of a superior opportunity elsewhere.

A word about risk

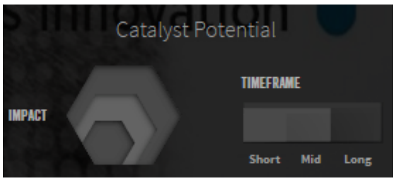
A common mistake investors make is to equate share price volatility with risk. Share price volatility is only a risk for those investors who lack confidence in a fair value or have patience to hold on at least until the markets are willing to recognise the true value. A much better definition of investing risk is the permanent loss of capital. Investors can reduce the incidence of permanent losses of capital by estimating what a company is worth and then paying a lot less. Investors should always be more concerned with the return of their money, rather than the return on their money.

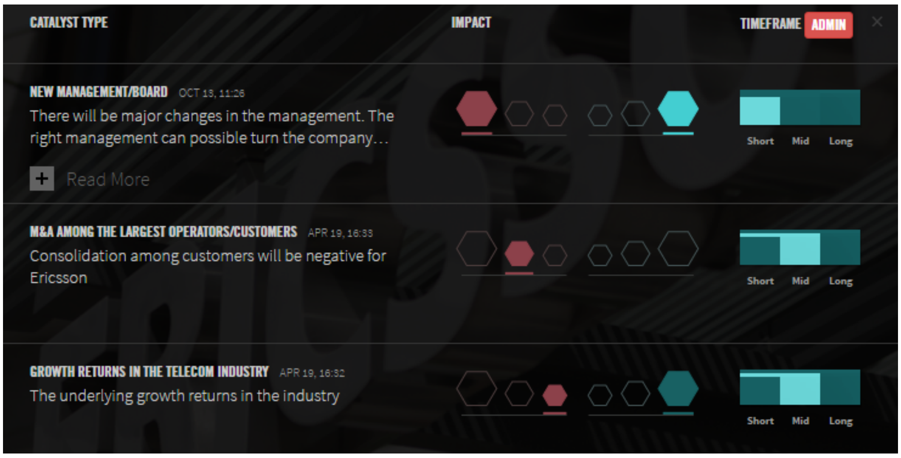
Share price volatility works both ways and to investors who have a margin of safety built into what they are buying and holding, price fluctuations will become opportunities to buy cheap and sell dear. Fundamentals generally don't change from day to day, so market moves are often driven by emotions. Remember that sharp market pullbacks are the best hunting seasons for bargain stocks and that some stocks are cheap for good reasons. If few or no attractive investment opportunities are available, you should protect your capital by moving a significant proportion of it into the safety of cash.

The Key Catalysts approach

Look for catalysts

It is important to look beyond the numbers and seek a likely catalyst, which would unlock value, and estimate how long it will take for the catalyst to play out. These events, or Key Catalysts, reduce risk by narrowing the gap between price and value in a more predictable way. This is particularly important when investing in a low-quality business where time is like a ticking bomb stacked against the company.





At Redeye we define Key Catalysts as an event or a series of events that are expected to bring about change within a timeframe of 3 years. A difference that ultimately will unlock shareholder value or take a serious turn for the worse. This is very important since it will give you a heads up on what signs to watch for, which will help you make better decisions when positive or negative news comes down the road.

How to use key catalyst

The Key Catalysts table is divided into five different elements that are described below:

Expected catalyst

Description of potential events, which could be catalysts to cause the stock to perform significantly different than its peers or the broader market. It explains how the catalysts are expected to affect our model assumptions, the change to the financial forecast (i.e. firm cash flow, growth, profitability or risk) or investor sentiment.

Expected data range

Estimate of when the event is about to happen, could be short or long term in duration.

Potency

Estimate the potency of the event to move the share price up or down rated on a scale of 0 to 3 as shown in the figure below.

Scale	Definition
3 - Major	Major impact on the share price by affecting the sentiment and valuation in both short and long term
2 - Moderate	Moderate impact on the share price by affecting the sentiment and/or valuation in both short and long term
1 - Minor	Minor impact on share price by affecting the sentiment and/or and valuation in short term
0 - Negligible	Negligible impact on share price

Likelihood (up & down)

Estimate the likelihood for respectively up- and downside scenario to occur rated on a scale of 0 to 3 as shown in the figure below.

Rating	Definition
3 - Highly Likely	It is highly likely that the scenario will occur
2 - Possible	There is a possible/even chance that the scenario will occur
1 - Unlikely	It is unlikely that the scenario will occur
0 - Extreme	The scenario is extremely unlikely to occur

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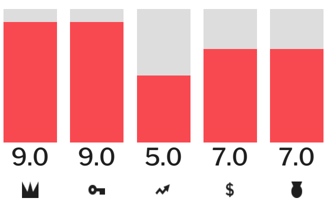
Addnode Group ANOD B

Company page
http://beta.redeye.se/company/addnode-group

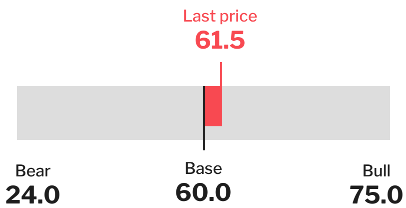
Redeye Rating

Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY



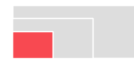
FAIR VALUE RANGE



CATALYST POTENTIAL

Impact
Major
Moderate
Minor

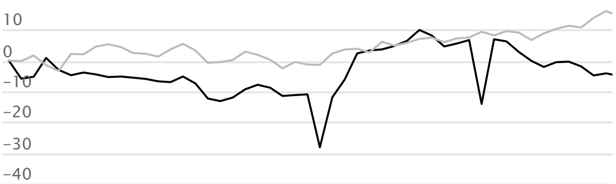
Timeframe
Long
Mid
Short

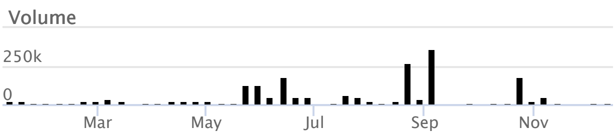


Turn page for catalyst specifics

Snapshot

Addnode Group
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Staffan Hanstorp
Chairman	Sigrun Hjelmquist

Share information

Share price (SEK)	61.5
Number of shares (M)	30.4
Market cap (MSEK)	1,826
Net debt (MSEK)	-58

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests
Kristoffer Lindström owns shares in Addnode Group: No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	1,901	2,128	2,180	2,331	2,457
Growth	*18.9%*	*11.9%*	*2.4%*	*7.0%*	*5.4%*
EBITDA	182	182	221	282	304
EBITDA margin	*9.6%*	*8.5%*	*10.1%*	*12.1%*	*12.4%*
EBIT	126	112	141	185	204
EBIT margin	*6.6%*	*5.3%*	*6.5%*	*8.0%*	*8.3%*
Pre-tax earnings	125	108	141	185	204
Net earnings	96	86	110	145	159
Net margin	*5.0%*	*4.1%*	*5.1%*	*6.2%*	*6.5%*
Dividend/Share	2.25	2.25	2.35	3.00	3.50
EPS adj.	3.14	2.83	3.62	4.75	5.23
P/E adj.	19.6	21.7	17.0	12.9	11.8
EV/S	0.9	0.8	0.8	0.8	0.7
EV/EBITDA	9.7	9.7	8.2	6.4	5.8

Last updated: 2016-12-20

Owner	**Equity**	**Votes**
Vidinova AB	25.0%	27.2%
Aretro Capital	12.9%	24.0%
Lannebo Fonder	7.6%	5.8%
Swedbank Robur Fonder	7.0%	5.4%
SHB Fonder	4.7%	3.5%
Avanza Pension Försäkring	3.9%	3.0%
Diener & Gerge fonder	3.3%	2.5%
Fjarde AP-fonden	2.7%	2.1%
E. Ohman J:or Fonder	2.2%	1.7%
Multiple Choice Foretagsservice	0.3%	1.7%

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Company description

Addnode Group was established in 2003 and is listed on Nasdaq OMX Stockholm. In 2015 Addnode had a turnover of SEK 1.9 billion, with an EBITDA of SEK 168 million. The company had at the end of 2015, approximately 1200 employees. Addnode Group is divided into four business areas: Design Management, Product Lifecycle Management, Process Management and Content Management. The four business segments operate in different regions with about 20 different brands. Operating margin varies considerably between the various business areas where the most profitable can perform up to 20 percent while the company's smallest business area recorded the loss in individual quarters. Addnode Group uses a very decentralized management model where the individual subsidiaries are run by management teams to maintain an entrepreneurial spirit. A key growth strategy in Addnode Group is to grow through acquisitions, which they managed to do successfully in recent years. The company had at the end of 2015 a net debt of -30 million. The company's own financial goals is to reach a growth of 10 percent per year (both organically and through acquisitions), an EBITA margin of 10 percent and at least 50 percent of profit after tax will be distributed to shareholders.

Investment case

Addnode Group differs fairly substantially from the traditional IT consulting companies in that it often builds its business around both proprietary software and third-party software. This means that the company has a higher proportion of recurring revenues than other consulting firms on the stock exchange. It is precisely these qualities that make us believe the company should be valued at a higher premium compared to its industry peers, and that it should be valued more in line with software companies. A repositioning of Addnode Group from a consultancy to being more comparable with a software company should be able to drive the valuation of the company going forward.

Addnode Group has long been one of our favorites in the IT consulting sector. The company is one of the few IT consultants that has successfully managed to grow through acquisitions, which is an important feature since most IT consulting firms have found it difficult to grow organically in recent years. With its four different business areas, the company has managed to identify interesting niches. It has taken a leading Nordic position in most of these niche markets, and this is the company's ambition for all of its business areas. This strategy has now been expanded and is called "Nordic plus", where the plus at the moment stands for the UK and now, also, Germany. The four different business areas also contribute to a good spread of risk at Addnode. We believe the company will have good opportunities for growth in the coming years. Addnode Group has also been on a growth track in both the UK and Germany for some time, which means there is very exciting potential for the long-term growth of the company.

Catalyst types

International expansion
Further acquisitions to continue the international expansion. Addnode has acquired their first company in GB, in 2014 and Germany during 2015. The announcement of further acquisitions in GB, Germany or other markets could potentially increase the general market exposure and growth opportunities.

Personal notes

Turn page >

Publication date
January 10 2017

Allgon ALLG B

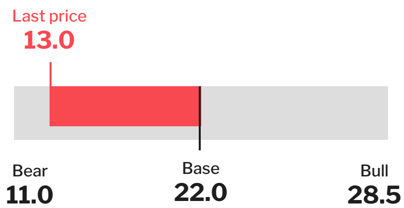
Company page
http://beta.redeye.se/company/allgon

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

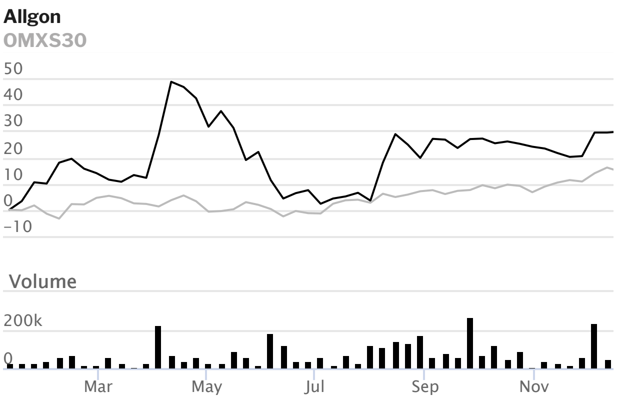
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Johan Hårdén
Chairman	Sven von Holst

Share information

Share price (SEK)	13.0
Number of shares (M)	18.3
Market cap (MSEK)	240
Net debt (MSEK)	17

Analyst

Joel Westerström
joel.westerstrom@redeye.se

Conflict of interests

Joel Westerström owns shares in Allgon : Yes

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	115	141	217	258	294
Growth	*33.8%*	*22.0%*	*54.4%*	*18.9%*	*14.0%*
EBITDA	21	-6	17	32	48
EBITDA margin	*18.6%*	*Neg*	*7.6%*	*12.5%*	*16.3%*
EBIT	9	-12	10	27	42
EBIT margin	*8.0%*	*Neg*	*4.6%*	*10.4%*	*14.4%*
Pre-tax earnings	9	-13	9	26	42
Net earnings	9	-13	9	26	42
Net margin	*7.8%*	*Neg*	*4.3%*	*10.0%*	*14.4%*
Dividend/Share	0.00	0.00	0.00	0.28	0.81
EPS adj.	0.49	-0.71	0.50	1.41	2.30
P/E adj.	26.6	-18.4	25.9	9.2	5.6
EV/S	1.8	1.9	1.2	0.9	0.7
EV/EBITDA	9.9	-43.8	15.4	7.2	4.1

Last updated: 2017-01-09

Owner	Equity	Votes
Verdane Capital VI	30.2%	30.9%
Tibia Konsult AB	14.2%	14.6%
Verdane Capital VI B	10.1%	10.3%
Svenska Handelsbanken AB (for PB)	10.0%	10.2%
Jan Robert Pärsson	2.9%	2.9%
Bo Lengholt	2.2%	2.2%
Kmh Viken AB	2.0%	2.0%
Erik Yngve Andersson	1.9%	1.9%
Ulf Jacobsson	1.8%	1.8%
Maida Vale Capital AB	1.7%	1.7%

Company description

The Allgon group is a Swedish group of companies offering wireless products and systems adapted for harsh and demanding environments. Allgon is focusing on global niche markets where customers place high demands on robust solutions. Allgon today has three operating segments, antennas (Smarteq Wireless), industrial radio remote control (Åkerströms) and industrial IoT (WSI). In addition, Allgon Asia/Allgon Supply supports the other group companies in operational excellence and strategic sourcing.

Investment case

Allgon was a favorite stock for many retail investors in the late nineties. After numerous parts of the business were sold, what remained of Allgon on the Swedish stock exchange conducted relatively inconspicuous activities under the Smarteq brand. Success with its major customer Volvo AB turned to disappointment when Volvo chose to walk away from Smarteq's antennas. The Allgon name is back, but now as a group of companies offering a broader portfolio of wireless communication solutions for industry and with a plan to grow aggressively. We argue that the market's expectations on Allgon are too low and we further argue that the market fails to see where Allgon is heading. We believe the market's perception will change as the group starts to deliver on its objectives and intensifies its focus on market communications. The market for wireless industrial solutions is predicted to grow strongly, and Allgon is well positioned to benefit from this expansion. Interesting areas include smart metering, infrastructure for electric cars, and the ongoing digitalization of industry, with more and more machines and processes being connected.

There are also good opportunities for Allgon to strengthen its international presence. Chinese industry, in particular, is increasingly starting to move toward greater automation and more intense consideration of health and safety, where the Allgon group's solutions are well positioned. In May 2015 Allgon acquired the aftermarket business of antenna manufacturer Kathrein, which, in addition to a number of products, gave Allgon access to a strong distribution network with great potential to also sell products other than those included in the acquisition of the aftermarket business.

Allgon's aim is to grow both organically and through acquisitions, and we see good opportunities for value-creating acquisitions as well as organic growth. Allgon is at an early stage of its growth journey, this gives investors an opportunity to take a position with a high potential upside, although associated with rather high risk. Of course there are plenty of challenges, and it takes hard work to successfully integrate acquisitions and to realize synergies. Allgon currently wants to acquire primarily companies with sales in the order of SEK 30-50 million. Minor acquisitions can often demand as much time and resources Allgon as larger ones, and given Allgon's small organization it will have to be careful in choosing what acquisitions to make. Despite the challenges we see great opportunities for Allgon going forward. The company has a healthy outlook on how to work with acquisitions. The idea is to acquire companies that can benefit from the shared resources of the Allgon group in supply chain excellence as well as and in marketing, sales and distribution, while allowing them to retain a high degree of autonomy.

We also see great opportunities for the existing companies to grow and improve their profitability. Not least, we believe the ongoing efforts to scale up international sales for both the antenna business, WSI and Åkerströms will lead to strong revenue growth. We believe Allgon's intensified focus on marketing, and the measures being implemented to enhance profitability, will improve both earnings and sales from 2017 and forward. The share is currently overlooked by the bulk of investors. We believe the market will discover Allgon in future, leading to a revaluation, and there are plenty of short-term and medium-term catalysts that could trigger this revaluation.

Catalyst types

Åkerströms surprises
The market's expectations on Åkerströms - Allgon's industrial radio remote control segment - are low and we believe the operating segment stand to deliver a positive surprise in the first half of 2017. If Allgon can show the market that it has managed to make Åkerströms profitable, it would contribute to changing the market's perception of Allgon. We expect this could happen already in conjunction to Allgon's Q1 report.

Additional acquisitions
Allgon intends to pursue a strategy involving both organic and inorganic growth. CEO Hårdén has signaled that there will be another acquisition as early as in the first half of 2017. Provided that acquisitions follow an industrial and strategic logic and that financing is obtained in a shareholder friendly way, we believe the market's reaction will be positive.

Listing on omx small cap
If Allgon's share was listed on OMX Small Cap rather than First North, it would be positive as it would make it would allow more institutional investors to invest in the share.

Personal notes

Publication date

January 11 2017

AllTele ATEL A

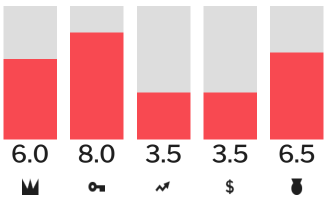
Company page

http://beta.redeye.se/company/alltele

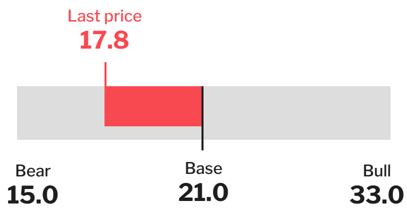
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Johan Hellström (tilltr. 1 jan 2017)
Chairman	Thomas Nygren

Share information

Share price (SEK)	17.8
Number of shares (M)	32.9
Market cap (MSEK)	582
Net debt (MSEK)	84

Analyst

Viktor Westman
viktor.westman@redeye.se

Conflict of interests

Viktor Westman owns shares in AllTele: No

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	783	693	861	899	954
Growth	*-11.6%*	*-11.4%*	*24.2%*	*4.3%*	*6.1%*
EBITDA	56	78	102	103	106
EBITDA margin	*7.1%*	*11.2%*	*11.8%*	*11.4%*	*11.2%*
EBIT	-46	33	50	53	53
EBIT margin	*Neg*	*4.8%*	*5.9%*	*5.9%*	*5.6%*
Pre-tax earnings	-49	29	46	49	50
Net earnings	-49	29	44	44	39
Net margin	*Neg*	*4.3%*	*5.1%*	*4.9%*	*4.1%*
Dividend/Share	0.75	0.30	0.60	0.80	0.83
EPS adj.	-1.83	1.10	1.33	1.34	1.19
P/E adj.	-9.8	16.1	13.4	13.3	15.0
EV/S	0.7	0.7	0.8	0.7	0.7
EV/EBITDA	9.7	6.6	6.6	6.2	5.8

Last updated: 2017-01-11

Owner	Equity	Votes
Mark Hauschildt	58.8%	58.8%
Sfö Holding Söder AB	6.2%	6.2%
Öhman Fonder	3.8%	3.8%
Ola Norberg	3.7%	3.7%
Hans Hellspong	2.9%	2.9%
Avanza Pension	2.1%	2.1%
Thomas Nygren	1.9%	1.9%
Peter Bellgran	1.3%	1.3%
Oskar Samuelsson	1.0%	1.0%
Jerry Bengtsson	0.9%	0.9%

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Company description

Telecom operator AllTele, in its new form, is a result of a reverse takeover of competitor Universal Telecom in spring 2013, after which owner Mark Hauschildt took control of the majority of votes. Hauschildt then changed the company's management in order to tidy up after the numerous acquisitions (see investment case). AllTele was founded in 2002 and Universal Telecom in 1999. AllTele is listed on the Small Cap list, now has around 70-80 employees and operates throughout Sweden. The company leases into the passive network infrastructure of other operators, allowing it to deliver fixed and mobile telephony, broadband, internet services, TV and switching solutions. AllTele has around one percent of the total market. In 2015 the company had sales of SEK 783 million and EBITDA of SEK 56 million, while EBIT was SEK -46 million after impairment.

The company's focus is now beginning to shift to growth after a long period of multiple restructurings. AllTele also now wants to take an active role in market consolidation. The company intends to continue to grow organically, through new services and business areas. The idea is to find a niche in being small enough to quickly adapt to changing circumstances and new technology, yet large enough to have a more comprehensive offering than smaller players. Its biggest competitive disadvantage is the difficulty to differentiate itself from providers of similar size. This means that pricing, according to the company, is a common and important means of competition.

Investment case

Following AllTele's acquisition of T3 we expect a significant gradual improvement in the market's perception. In short, T3 contributes a fast-growing fibre business that will be able to counteract AllTele's negative growth.

New tech customer base mitigates negative growth
T3 has experienced strong growth, averaging 25 percent per annum in the past 5 years, and is expected to achieve EBITDA of close to 11 percent on SEK 170 million in sales during 2016. The acquisition therefore gives AllTele a fast-growing private-sector metropolitan network fibre customer base, which will mitigate the negative organic growth in AllTele's older access types. Over the past 13 quarters, since Q2 2013, AllTele has lost an average of 2 percent of its customer base in every quarter, including acquisitions. Market churn in old tech has clearly been a tough struggle for some considerable time, and this is now alleviated (in overall terms) with the acquisition of rapidly-growing T3.

The combination of T3's rapid growth and AllTele's stagnant/slightly declining sales means that AllTele will return to long-awaited moderate growth in total revenues. This means that continued strong growth for T3 is a key factor in this investment case. We believe that T3's track record, focus and corporate culture suggest that it should at least be able to match the market growth for fibre.

Synergies and cross-selling opportunities

Identified synergies are mainly on the network side. AllTele states that the SEK 10 million in its press release is conservatively calculated. One good example of synergy is that T3 is able to operate a large proportion of the servers currently operated externally.
There are also clear cross-selling opportunities. AllTele's corporate offering is expanded to include the capability of cloud, hosting and colo, one of the few things that AllTele has neither offered nor attempted to offer. T3's data centre venture is profitable despite its newness. AllTele can in turn offer mobile services, mobile broadband and switching solutions to T3 customers, which could particularly (but not exclusively) help T3 in its corporate venture.

Catalyst types

The t3 acqusition mitigates negative organic growth
AllTele is acquiring T3, a fast growing competitor. In total, AllTele will return to a moderare, single digit growth due to T3, given that AllTele's negative growth does not pick up the pace and T3 continues on the same growth track as before.

Price pressure from competition
Telecom operators primarily compete by price, which is seen in the campaigns on the market were new customers receives e.g. a 50 percent discount for 3-6 months. Major competitors are predisposed to cope with the price pressure due to scale, resources and higher margins whereas AllTele is coming straight out of several, long restructuring programs.

Personal notes

REDEYE

Publication date
January 10 2017

Anoto ANOT

Company page
http://beta.redeye.se/company/anoto

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

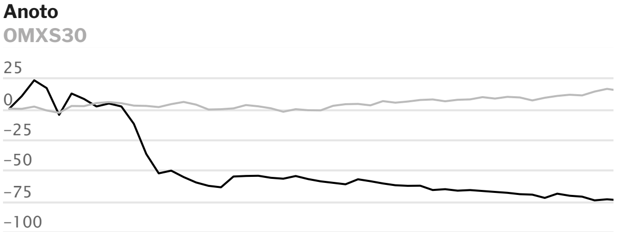
COMPANY QUALITY

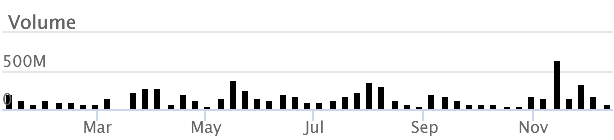
FAIR VALUE RANGE

CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot





Marketplace	NASDAQ Stockholm
CEO	Joonhee Won (interim CEO)
Chairman	Jörgen Durban

Share information

Share price (SEK)	0.2
Number of shares (M)	2,340.8
Market cap (MSEK)	375
Net debt (MSEK)	209

Analyst

Viktor Westman
viktor.westman@redeye.se

Conflict of interests

Viktor Westman owns shares in Anoto: No

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	193	274	459	720	869
Growth	*36.6%*	*42.2%*	*67.5%*	*56.7%*	*20.8%*
EBITDA	-99	-177	-112	-9	66
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*7.6%*
EBIT	-106	-238	-106	-7	45
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*5.2%*
Pre-tax earnings	-106	-243	-111	-10	42
Net earnings	-105	-241	-111	-10	42
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*4.8%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.12	-0.13	-0.05	-0.00	0.02
P/E adj.	-1.3	-1.2	-3.4	-39.7	9.0
EV/S	0.8	1.3	1.3	0.9	0.7
EV/EBITDA	-1.5	-2.1	-5.3	-73.0	8.8

Last updated: 2016-12-19

Owner	Equity	Votes
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	7.0%	7.0%
SOLID EDU INC.	4.1%	4.1%
HSBC-FUND SERVICES CLIENTS ACC 006	3.6%	3.6%
SIX SIS AG, W8IMY	2.8%	2.8%
NORDNET PENSIONSFÖRSÄKRING AB	1.8%	1.8%
PINE AS	1.6%	1.6%
MHL CORP.	1.0%	1.0%
ROBUR Försäkring	1.0%	1.0%
Solid Technologies Inc.	1.0%	1.0%
VON MALMBORG, AXEL	0.9%	0.9%

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Company description

Anoto is a digital writing pioneer, in a transition phase. The company's strategic change can, in short, best be described as moving from providing forms digitizing solutions, mostly for governments, to the industrial design industry where Anoto's technology is more advantageous. This is done by extending the offer to editable screens and interactive walls. Anoto's business is divided in two main areas: Enterprise Solutions and Technology Licensing. Enterprise Solutions focuses on delivering solutions in digitizing forms and capturing data using digital pens. The business model is indirect, meaning that marketing is done through partners, such as system integrators, software developers and IT consulting firms. Enterprise Solutions is a stable part of the business, and on average it generates a smaller profit. However, Enterprise Solutions is not where the revenue growth is pursued or expected, to the same extent as in Technology Licensing. The future of Anoto instead is Technology Licensing. Anoto's new sales strategy is to develop and sell pens, and pen- and software components by partnering up with OEM-companies. In the licensing part of this business, partners, such as Panasonic, develops and produces products such as active pens based on Anoto's technology and assistance. Anoto's competitive advantages is the higher precision, interoperability making it possible to use a pen on several screens and a unique paper-to-screen solutions.

The sales of 2014 were SEK 141 million, with an EBIT loss of SEK 56 million. The total number of employees in Anoto is today about 100. Anoto was founded in 1996 by Christer Fåhraeus and has been listed on Small Cap, Nasdaq OMX, since year 2000.

Investment case

The launch of the Apple Pencil in September 2015 may be the, up until now, most important thing that has happened to the digital pen market. We get flashbacks to Apple's acquisition of Authentec in 2012 and its effect on the Swedish biometric sector. Now when the market suddenly becomes ripe for digital pens Anoto, a long-time punching bag on the stock market, may finally have its revenge, as the Company's technology has an unrivaled price/performance and a great fit for viable niches in the design industry. Anoto's target is to overthrow its competitor Wacom that holds over 90 percent of the total market by disrupting Wacom at the most, influential, trendsetting, high end users, e.g. Disney and Dreamworks, meaning the rest will eventually follow suit.

With the help from its partner HP that holds a majority of the workstations market Anoto has the best possible platform in pursuing its vision of the Anoto dot pattern becoming a standard. Following Apple Pencil, Anoto has initiated discussions with other major OEMs as well. What attracts the OEMs are Anoto's unmatched precision, cost-efficiency in production and full interoperability with any device. It is therefore also of great importance to understand Anoto's major strategic shift away from solely digitizing of forms to high precision pen input for writing on any kind of surface imaginable, in all possible sizes: displays, walls, paper e.g.

We do believe Anoto's technology blows the competitors' out of the water when it comes to the most demanding users and that the digital pen trend will move the Anoto share even if the relevant market for Anoto would only be a small niche. However, the transition will take time and quite possibly also additional capital, meaning dilutive effects on the share. It took e.g. close to three years for the biometric hype to hit the Swedish biometric stocks. In addition, moving from manufacturing thousands to millions of pens will be a major risk for Anoto who previously never ever has been able to reach sustainable break-even sales levels. We see a high "upside risk" in Anoto with a possible, sudden hockey stick in order intake and earnings that will abruptly alter the perception of the company among investors to the better.

Catalyst types

Need to raise further capital
Delays in Anoto's large deals will force Anoto to raise further capital as the Company currently burns cash.

Large volume orders from hp and tstusy
Anoto expects large volume orders from TStudy and HP, something we find is likely to move the share when it plays out

Apple pencil
Market momentum from Apple Pencil forcing Other OEMs to search for digital pen suppliers.

Personal notes

Publication date

January 10 2017

Arise ARISE

Company page

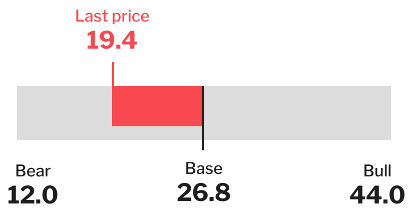
http://beta.redeye.se/company/arise

Redeye Rating

Leadership | Ownership | Profit outlook | Profitability | Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Daniel Johansson
Chairman	Joachim Gahm

Share information

Share price (SEK)	19.4
Number of shares (M)	33.4
Market cap (MSEK)	632
Net debt (MSEK)	988

Analyst

Henrik Alveskog
henrik.alveskog@redeye.se

Conflict of interests

Henrik Alveskog owns shares in Arise : No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	508	580	505	576	220
Growth	*76.4%*	*14.1%*	*-12.9%*	*14.1%*	*-61.8%*
EBITDA	193	127	114	164	150
EBITDA margin	*37.9%*	*21.9%*	*22.6%*	*28.5%*	*68.3%*
EBIT	-58	27	36	90	79
EBIT margin	*Neg*	*4.6%*	*7.2%*	*15.6%*	*36.1%*
Pre-tax earnings	-164	-55	-38	20	22
Net earnings	-156	-43	-38	20	17
Net margin	*Neg*	*Neg*	*Neg*	*3.6%*	*7.7%*
Dividend/Share	0.00	0.00	0.00	0.30	0.00
EPS adj.	-4.68	-1.29	-1.14	0.61	0.51
P/E adj.	-4.1	-15.0	-17.0	31.8	38.4
EV/S	3.8	2.9	3.2	2.7	6.7
EV/EBITDA	10.0	13.2	14.3	9.4	9.8

Last updated: 2016-12-13

Owner	Equity	Votes
Johan Claesson med bolag	12.4%	12.4%
Tredje AP Fonden	10.0%	10.0%
Statkraft AS	7.5%	7.5%
Ernström Finans AB	4.5%	4.5%
Catella fonder	4.5%	4.5%
Peter Gyllenhammar	4.5%	4.5%
Peter Nygren fam o bolag	4.2%	4.2%
Leif Jansson m bolag	3.8%	3.8%
Nordea fonder	3.7%	3.7%
AB Traction	3.3%	3.4%

Company description

Operations started in 2006 and the share was listed on Nasdaq Stockholms main market in 2010. Head office is in Halmstad and Arise employs a little over 30 people. In 2015 turnover amounted to SEK 508 million and profit before tax was minus SEK 164 million (including asset write downs of SEK 151 million.

Arise is an electric utility producing and selling renewable energy from its own wind farms. Since electricity is a standardized product, they have limited possibilities to niche their offering. The business is all about cost effective construction and operation and to some extent successful price hedging. Arise seems to have done well in these respects. Certainly when it comes to price hedging.

In addition to this, Arise also offers services for management and maintenance as well as building new wind farm projects for other owners. Hence they get better leverage on their organization and access to financially strong partners for certain large projects that otherwise would have been difficult to finance.

Investment case

Arise is one of Sweden's largest wind power companies, with an efficient organisation for building and operating wind farms. To date, around SEK 4 billion has been invested, giving an annual output of around 0.7 TWh (equivalent to 0.5 percent of Sweden's total electricity consumption). This is quite sufficient to provide critical mass and a solid return in earnings.

Prices of electricity and electricity certificates have been so depressed since 2013 that previous investments are not currently providing a good return. However, revenues are sufficient to cover operating expenses, including interest payments, plus a small surplus. The company's high level of debt entails some risk, but this is still very manageable. However, higher prices will be necessary for shareholders to obtain a good return on their investment. An investment should therefore be made in this stock either by investors who anticipate higher electricity prices, or as a hedge against rising prices.

Since 2014 the company has placed new investments on hold in anticipation of higher prices. Once revenue from electricity and electricity certificates totals around SEK 550-600/MWh its investment calculations will again become attractive. Over the past five years, spot prices (for electricity and electricity certificates together) have fluctuated in the range SEK 400-800/MWh with a declining trend. Any substantial revaluation of this stock would, in all probability, require prices of electricity and/or electricity certificates to recover significantly. The financial leverage of the company makes its gearing very high, and if a price level of around SEK 700/MWh is reached a doubling of the share price would easily be justified. We are much more cautious than this in our assumptions, but we at least believe price levels are currently fairly close to their floor. We have assumed gradually rising prices for both electricity and certificates, and an average revenue of around SEK 550/MWh in 2018. This would mean prices better harmonised with northern Continental Europe, which should be a realistic long-term development.

Catalyst types

Rising certificate prices
Prices for green certificates are trading at very depressed levels. The quota system has been adjusted and the oversupply situation is gradually changing for the better. Unless the price level improves new adjustment to the system will be imposed, or else investments in renewable energy in Sweden will hardly meet Government targets.

New projects
At current price levels Arise is not making further investments in own wind farms. But they continue to build, sell and operate new farms for other owners, such as BlackRock and Fortum. New major projects like these are potentially very profitable for Arise.

Divestments
Arise has sold a couple of wind farms at prices around book value and may sell further wind assets. Since the share is trading at a major discount to book value, this should help closing the gap. We do not rule out a bid for the entire company.

Personal notes

Avega Group AVEG B

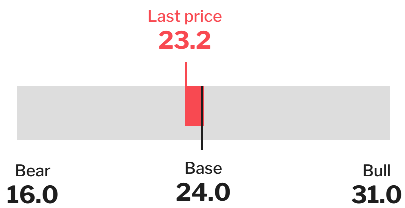
Company page
http://beta.redeye.se/company/avega-group

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



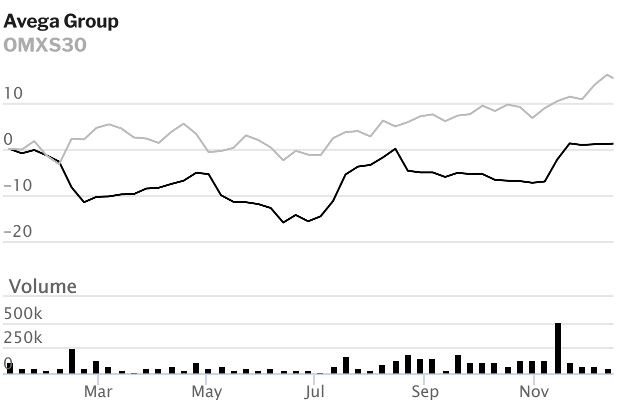
CATALYST POTENTIAL

Impact
Major
Moderate
Minor

Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Per Adolfsson
Chairman	Anna Söderblom

Share information

Share price (SEK)	23.2
Number of shares (M)	11.3
Market cap (MSEK)	263
Net debt (MSEK)	-50

Analyst

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Conflict of interests

Kristoffer Lindström owns shares in Avega Group: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	423	422	428	442	464
Growth	*3.0%*	*-0.1%*	*1.4%*	*3.2%*	*5.0%*
EBITDA	34	40	39	41	40
EBITDA margin	*8.0%*	*9.4%*	*9.2%*	*9.3%*	*8.6%*
EBIT	33	39	39	40	39
EBIT margin	*7.8%*	*9.3%*	*9.0%*	*9.1%*	*8.5%*
Pre-tax earnings	33	40	39	41	40
Net earnings	18	28	24	28	28
Net margin	*4.4%*	*6.7%*	*5.7%*	*6.4%*	*6.0%*
Dividend/Share	1.10	1.30	1.50	1.62	1.58
EPS adj.	1.62	2.48	2.14	2.49	2.44
P/E adj.	14.3	9.3	10.8	9.3	9.5
EV/S	0.6	0.5	0.5	0.4	0.4
EV/EBITDA	7.3	5.8	5.4	4.8	4.7

Last updated: 2016-12-21

Owner	Equity	Votes
Rosenholm Invest AB	14.4%	29.0%
Österby Invest AB	14.4%	29.0%
PSG Small Cap	10.9%	4.4%
Avanza Pension	8.6%	3.5%
Mats Schultze	5.1%	15.4%
Norden Placeringsfond Småbolagsfond	4.2%	1.7%
Eddaconsult AB	2.8%	1.1%
Nordnet Pensionsförsäkring AB	1.9%	0.8%
Ulf Sundelin	1.9%	0.8%
Fredric Broström	1.8%	0.7%

Company description

Avega is a consultancy firm with around twenty subsidiaries, specialising in IT and business development. Its main focus is on the regions of Stockholm, Öresund and Gothenburg. Sales in 2015 amounted to SEK 423 million and the company had around 350 employees. From financial year 2002/2003 and until 2011, Avega showed average annual organic growth (CAGR) of 32 percent, with an operating margin averaging over 10 percent. Since 2012 the company has been in something of a slump and has failed to meet its financial targets. Avega intends to continue to grow organically, and its financial growth target is 15 percent annually over the business cycle with an operating margin of at least 10 percent.

Investment case

In previous years Avega has carried out a review of its various subsidiaries to reduce overheads and streamline sales activities, which should positively affect margins going forward.

Avega is one of the consultancies that has vigorously niched itself by offering specialists with extensive experience, which means the company normally sees relatively good demand for its consultants. Banking and finance was previously the company's largest business area, but in recent years this proportion has decreased. However, this is unlikely to be sustainable in the long term and, if investments in banking and finance increase, this would be positive for Avega. The company is also debt-free and, given its strong cash flows, we expect to see scope for the company to show a generous dividend policy in the next few years.

Avega gets much of its business through framework agreements, particularly with major customers, leading to a good inflow of new assignments. One key issue for the company is whether price hikes and an improved billing rate can compensate for future wage increases. The company's employees have an opportunity to choose a higher proportion of variable pay. When the market shows strong demand for consulting services, more of Avega's employees ought to choose a larger proportion of variable pay, which we believe prevents full leverage from an improved billing rate.

Catalyst types

Acquisition
Avega is the most successful listed management consultant and is fairly small. Avega could be a potential target to acquire for some larger player that would benefit from management consultants.

Personal notes

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Publication date

January 10 2017

Avtech Sweden AVT B

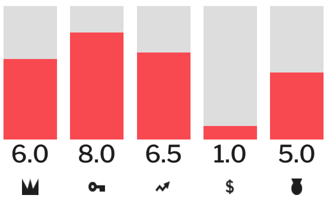
Company page

http://beta.redeye.se/company/avtech-sweden

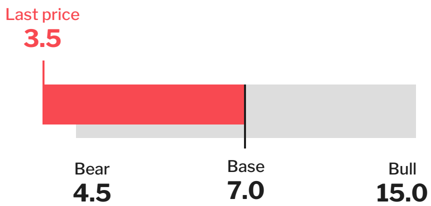
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



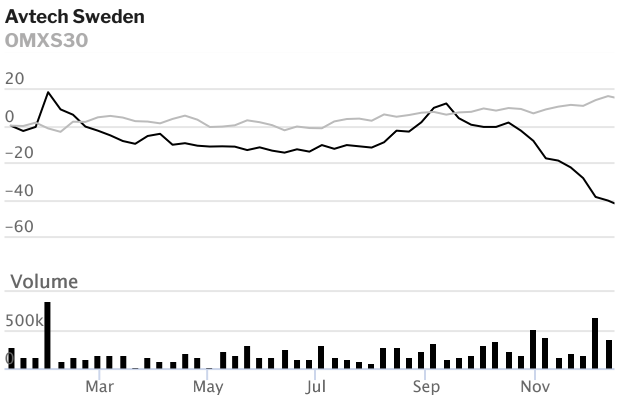
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Christer Fehrling (tf)
Chairman	Bo Redeborn

Share information

Share price (SEK)	3.6
Number of shares (M)	56.5
Market cap (MSEK)	198
Net debt (MSEK)	-24

Analyst

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Conflict of interests

Tomas Otterbeck owns shares in Avtech Sweden: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	15	12	26	65	75
Growth	*2.7%*	*-16.8%*	*>100%*	*>100%*	*15.0%*
EBITDA	-9	-5	5	26	36
EBITDA margin	*Neg*	*Neg*	*20.4%*	*39.8%*	*48.1%*
EBIT	-13	-9	-1	20	30
EBIT margin	*Neg*	*Neg*	*Neg*	*30.8%*	*40.1%*
Pre-tax earnings	-13	-9	-1	20	30
Net earnings	-13	-9	-1	16	24
Net margin	*Neg*	*Neg*	*Neg*	*24.6%*	*32.1%*
Dividend/Share	0.00	0.00	0.00	0.23	0.34
EPS adj.	-0.23	-0.16	-0.01	0.28	0.42
P/E adj.	-15.6	-22.7	-370.1	12.7	8.5
EV/S	11.6	14.3	6.9	2.6	2.1
EV/EBITDA	-19.8	-33.2	33.8	6.4	4.4

Last updated: 2016-12-13

Owner	Equity	Votes
Avanza Pension	17.3%	17.3%
Lars Lindberg	8.6%	8.6%
Christer Fehrling	4.6%	4.6%
Peter Muth	3.0%	3.0%
Mats Tonsjö	2.5%	2.5%
Lars Bäckvall	2.4%	2.4%
Christer Staaf	1.8%	1.8%
Johnny Olsson	1.8%	1.8%
Lars Wahlund	1.7%	1.7%
Nordnet Pensionsförsäkring	1.6%	1.6%

Company description

AVTECH is the current world-leader in software solutions for full flight and time-based operations. After years of significant research and commercialization issues, the company has materialized a 5 year contract for the Aventus NowCast product with Southwest Airlines (SWA), proving its commercial viability with one of the largest commercial airlines in the world. The contract with Southwest is and will be paramount to enhance its cash flow in the coming years. The contract is also important in order to extend the product portfolio into new segments and to successfully attain several other related customers in its procurement processes within the segments of low-cost airlines, legacy carriers and cargo airlines.

Investment case

10 contracts of various sizes are estimated to be attained in the next 12-24 months according to our analysis. The actual materialization of the contracts will be highly dependent on the type of client. It is estimated that the majority of contracts will be derived from low-cost carriers whom actively seeks to enhance their cost-position among its peers.

The announced product shift in 2016 to Aventus Full Flight is a significant driver of value as the fuel savings can be between 7-30 times larger than Aventus Descent. This scenario is likely due to AVTECH's existing relation to SWA and the almost non-existent competition from other flight planning providers. We believe that SWA would most likely prefer to utilize the same system for the best utility and simplification purposes. Aventus Full Flight for SWA would significantly improve its chances to enable time based operations and fuel savings.

Thus the total EBIT from a key contract such as Southwest alone from all flight segments, can be between SEK 10 – 30 million in a yearly basis, in the lower interval symbolizing conservative assumptions and more optimistic in the higher intervals.

By far the most important factor for this company and the stock is essentially its speed in securing new contracts to ensure a strong position in the market for full flight systems which would lead to fulfillment of expectations. Furthermore, AVTECH has been able to develop a competitive edge, although temporary, by focusing its efforts on the specialization in small undeveloped niche segments.

The company will now expand to the more competitive and broad arena of full flight execution, where flight planning providers are the dominant force, which will likely become more intense over time due to its large revenue potential. This strategy ensures that the company will be a first mover, enjoying large market share in new areas, often unexplored, which are usually overlooked by the competition.

Catalyst types

Ramp up with easyjet
New standard-setting for low-cost carriers and legacy airlines to implement and utilize Aventus NowCast Descent and Cruise solutions due to both its implementation among majors and increased regulatory pressure. This argument is especially accurate for the low cost carriers as they are significantly more eager to utilize efficiency measures to gain cost-advantages than legacy carriers whom will but generally tends to be slower to adapt. In terms of revenues there is still significant uncertainty particularly the benefit level and actual savings paid for going forward which could significantly impair or confirm the long-term estimates as well as volatility in currency/fuel prices.

Competitive leap
Southwest extends its Aventus NowCast Descent agreement in to Aventus Full Flight. There are two major reasons for this; Southwest does have a clear intention of an flight phase efficiency system and that Airlines generally want to standardize its systems. A contract with SWA for Aventus Full Flight would come to a substantial benefit in future procurement processes with other airlines.

Contract extension
Southwest extends its Aventus NowCast Descent agreement in to Aventus Cruise. There are two major reasons for this; Southwest does have a clear intention of an flight phase efficiency system and that Airlines generally want to standardize its systems. The viability of this argument, in the context of conquering other prospective customers is more uncertain due to potential existing relationships with flight planning providers. However, a contract with SWA for Aventus Cruise would come to a substantial benefit in future Cruise procurement processes with other airlines.

Personal notes

REDEYE

Publication date

January 10 2017

Axichem AXIC A

Company page

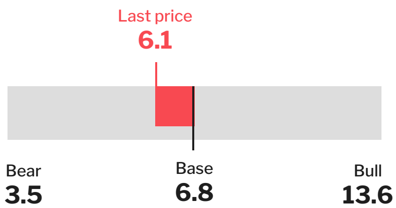
http://beta.redeye.se/company/axichem

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Torsten Helsing
Chairman	Niels Melbye Frederiksen

Share information

Share price (SEK)	6.1
Number of shares (M)	14.8
Market cap (MSEK)	87
Net debt (MSEK)	-8

Analyst

Kristoffer Lindström

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Conflict of interests

Kristoffer Lindström owns shares in Axichem: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	0	0	7	23	46
Growth	*-98.9%*	*>100%*	*>100%*	*>100%*	*100.0%*
EBITDA	-7	-10	1	8	7
EBITDA margin	*Neg*	*Neg*	*11.6%*	*33.7%*	*14.1%*
EBIT	-7	-10	0	0	0
EBIT margin	*Neg*	*Neg*	*0.0%*	*0.0%*	*0.0%*
Pre-tax earnings	-7	-10	0	0	0
Net earnings	-7	-10	0	0	0
Net margin	*Neg*	*Neg*	*0.0%*	*0.0%*	*0.0%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.80	-0.70	0.00	0.00	0.00
P/E adj.	-7.6	-8.7	N/A	N/A	N/A
EV/S	15,503.9	1,570.7	11.8	3.6	1.9
EV/EBITDA	-8.5	-7.5	101.7	10.6	13.4

Last updated: 2016-12-22

Owner	Equity	Votes
LMK VENTURES & STIFTELSEN	16.1%	16.1%
MANAKIN LTD	12.4%	12.4%
AVANZA PENSION	6.2%	6.2%
DANICA PENSION	5.5%	5.5%
BENGT JALLER	4.0%	4.0%
KOACHIM KUYLENSTIERNA	3.9%	3.9%
REDOTEM	2.8%	2.8%
GÖRAN HÖGSTEDT	2.1%	2.1%

Company description

Axichem was founded in 2007 as a spinoff of Norwegian-Swedish company Aximed, with operations in health foods. The company's shares were admitted to trading on Aktietorget in 2007, and have been traded since 2013 on First North. Axichem currently has zero sales. The chairman, acting CEO and founder of Axichem is Torsten Helsing, who is also the figure behind Aximed. Torsten came up with the idea to use capsaicin as an antifouling biocide, or bio-repellent, but natural capsaicin proved to be far too expensive to compete with existing substances. Torsten Helsing and Einar Bakstad jointly developed a synthetic capsaicin, aXiphen, which Axichem wants to commercialise to target markets such as antifouling paint, poultry feed and cabling. The poultry feed market has recently become the most interesting field for the company to concentrate on.

Investment case

Provided that all the pending permits are approved, Axichem sees an opportunity to start sales in 2015. However, successful commercialisation will require more than just permits; it will also require solid marketing to launch the product on the market. Axichem is currently traded at a discount to our fair value since there is a risk of the commercialisation of aXiphen failing. For this discount to decrease, and for the market value to increase, it will require further steps in the right direction like the letter of intent signed with Chr. Olsen Group. The key in the shorter term is that the risk of failed commercialisation is reduced through new collaborations and regulatory approval of aXiphen. Once there is a successful market establishment, the critical factors will be mainly what kind of sales channels the company can establish, resistance in the market for existing synthetics, and marketing efforts.

The markets Axichem wants to target for the launch of Phenylcapsaicin are very large, which means that even a small market share could mean big sales for the company. Looking only at the market for antifouling paints, a market share of about 5% would lead to annual sales of around SEK 250 million. The poultry feed market is also huge, with an end-market worth around USD 115 bn per annum. This means there are enormous opportunities for Axichem, but there are also challenges since it will need various permits and major marketing efforts to succeed in winning the market from existing and competing products.

Catalyst types

Commercially breakthrough
Axichem have already delivered their first test orders of aXiphen-feed. We believe a larger commercial breakthrough is approaching and we find this as a significant potential catalyst for the company.

Approval biocide regulation
Approval under the Biocide regulation standard would mean that the company can sell aXiphen as a biocide additive in antifouling paints.

Novel food approval
An authorization under novel foods would mean Axichem get permission to sell aXiphen as an additive in animal feed and dietary supplements in Europe.

Personal notes

REDEYE

Publication date

January 10 2017

Bredband2 BRE2

Company page

http://beta.redeye.se/company/bredband2

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

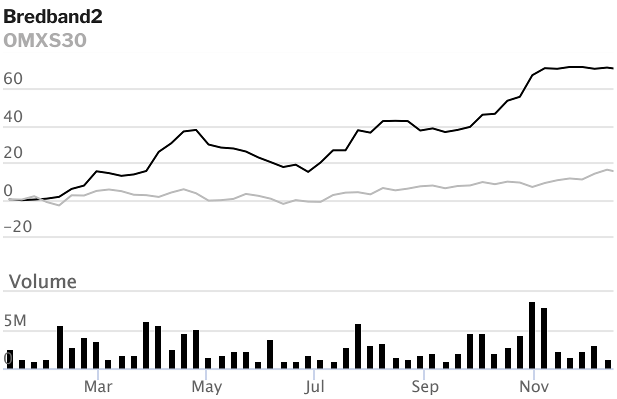
COMPANY QUALITY

FAIR VALUE RANGE

CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Daniel Krook
Chairman	Anders Lövgren

Share information

Share price (SEK)	1.0
Number of shares (M)	701.0
Market cap (MSEK)	715
Net debt (MSEK)	-89

Analyst

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Conflict of interests

Havan Hanna owns shares in Bredband2: No

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	364	448	533	627	712
Growth	*21.7%*	*23.0%*	*19.0%*	*17.6%*	*13.7%*
EBITDA	38	55	68	89	111
EBITDA margin	*10.5%*	*12.2%*	*12.8%*	*14.3%*	*15.6%*
EBIT	20	34	45	63	78
EBIT margin	*5.6%*	*7.7%*	*8.5%*	*10.0%*	*11.0%*
Pre-tax earnings	20	34	46	63	78
Net earnings	16	27	36	50	61
Net margin	*4.4%*	*6.0%*	*6.8%*	*8.0%*	*8.6%*
Dividend/Share	0.00	0.02	0.03	0.04	0.04
EPS adj.	0.02	0.04	0.05	0.07	0.09
P/E adj.	44.7	26.2	19.5	14.1	11.6
EV/S	1.9	1.4	1.2	0.9	0.8
EV/EBITDA	17.9	11.7	9.1	6.7	5.2

Last updated: 2016-12-19

Owner	Equity	Votes
Anders Lövgren	14.3%	14.3%
Vildmarksstugor i Norrland AB	13.0%	13.0%
Leif Danielsson	10.9%	10.9%
DCAP i Sverige AB	7.1%	7.1%
GWD Group	5.1%	5.1%
Avanza Pension	4.0%	4.0%
Ulf Östberg	3.8%	3.8%
SEB Life International Assurance	2.6%	2.6%
Gustavus Capital	2.5%	2.5%
Marand Group AB	1.9%	1.9%

Turn page >

Company description

Bredband2 supplies communication services to consumers and corporate customers throughout Sweden, and offers internet, voice, data centres and mobile broadband. The company is Sweden's third-largest provider of internet access using fibre technology, with around 145,000 broadband customers. Its focused positioning in the fast-growing fibre market is a competitive advantage for the company. However, compared with its two larger competitors, TeliaSonera and Telenor (including Bredbandsbolaget), Bredband2 is a small player with the usual drawbacks arising from this, such as in terms of financial muscle. On the other hand, the company's business model is based on leasing into the networks of other providers, which means Bredband2 avoids upfront investments in so-called passive infrastructure. Bredband2 has instead built up active infrastructure in more than 80 percent of the Swedish metropolitan networks that are open to the market. It is from this infrastructure in the consumer market that the company has targeted growth in the corporate market for the past year or so.

Bredband2 was founded in 1989 and is traded on First North. In 2015 the company, with its approximately 90 employees, had sales of SEK 364 million and EBIT of SEK 21 million. For 2016 sales are expected to be SEK 448 million and its EBIT SEK 34 million.

Investment case

Telecom operator Bredband2 is surfing the fibre wave in a telecoms market where outdated broadband technology (generally coax and ADSL) is being rapidly replaced with fibre broadband. The government's target is for fibre penetration of 80-90 percent by 2020, and about half of this has been achieved to date. As the only operator with entirely fibre technology, Bredband2 is positioned to take great advantage of this change. Continuing to grow on the corporate side, where fibre penetration is still significantly lower than in the consumer market (slightly over 20 percent), will be critical to the success of Bredband2.

Bredband2's main competitive advantage is linked to the company being an agile, smaller provider with the right technical positioning in relation to its competitors. At the same time the company's 9 percent market share means it has achieved the necessary scale for volume growth to render good margin expansion. However, any pricing pressure from large, or small, competitors could put margins at risk so needs to be countered, something that the company has so far managed admirably. Pricing trends are a key assumption in our various valuation scenarios.

Competition has recently decreased because of industry consolidation, and has also led to rising average revenue (ARPU). The big providers are not yet particularly feeling the impact of the smaller players in the broadband market because of the rapid market growth, but if they start to be affected there will be an increased danger of a price war. Increased competition could also lead to higher costs in areas such as marketing to recruit new customers. We believe Bredband2 has the right positioning and focus, and we therefore believe the company has a good chance to continue to grow at a double-digit pace for the next few years, which is not priced in by the market.

Catalyst types

Sector rotation (flight to defensive stocks)
Bredband2's non-cyclical recurring revenue is an attractive choice in a shaky stock market.

Industry consolidation
The industry is consolidating. Bredband2's strong position in fibre could make the company an attractive takeover candidate.

Margin expansion
The company already has high revenue growth, and this is now beginning to gradually filter down to the bottom line, which we believe will lead to an upward revaluation.

Personal notes

REDEYE

Publication date
January 10 2017

Cherry CHER B

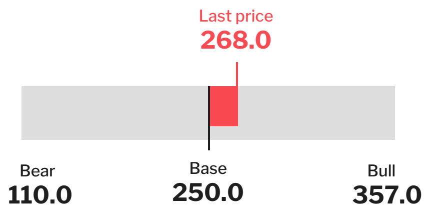
Company page
http://beta.redeye.se/company/cherry

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

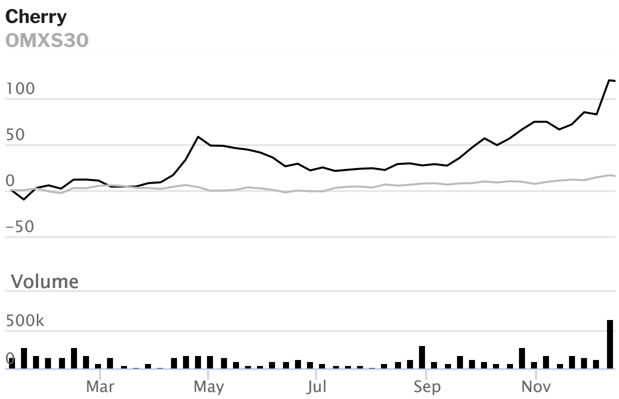
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	Aktietorget
CEO	Fredrik Burvall
Chairman	Rolf Akerlind

Share information

Share price (SEK)	268.0
Number of shares (M)	17.3
Market cap (MSEK)	4,557
Net debt (MSEK)	143

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

Kristoffer Lindström owns shares in Cherry: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	527	812	1,040	1,205	1,365
Growth	*55.1%*	*54.1%*	*28.1%*	*15.8%*	*13.3%*
EBITDA	36	107	200	252	295
EBITDA margin	*6.8%*	*13.2%*	*19.2%*	*20.9%*	*21.6%*
EBIT	13	73	164	211	252
EBIT margin	*2.5%*	*9.0%*	*15.7%*	*17.5%*	*18.5%*
Pre-tax earnings	7	99	228	289	340
Net earnings	2	108	208	258	303
Net margin	*0.3%*	*13.2%*	*20.0%*	*21.4%*	*22.2%*
Dividend/Share	0.00	0.00	0.00	7.48	8.77
EPS adj.	0.12	6.23	12.05	14.96	17.55
P/E adj.	2,242.7	43.0	22.2	17.9	15.3
EV/S	7.1	6.1	4.6	3.8	3.2
EV/EBITDA	103.9	46.5	23.9	18.0	14.7

Last updated: 2016-12-21

Owner	Equity	Votes
Morten Klein	20.2%	16.3%
KGI AS	5.5%	3.4%
Familjen Hamberg	5.4%	14.7%
Familjen Kling	4.7%	14.3%
Forsakringsaktiebolaget Avanza	4.1%	2.5%
Hotspur Holding AS	3.4%	2.1%
Cail	3.2%	4.1%
Banque Carnegie Luxembourg SA	3.1%	4.1%
Familjen Lundstrom med bolag	2.6%	5.6%
Familjen Lindwall	2.0%	4.7%

Company description

Cherry has been around since 1963. It has evolved into a powerhouse incubator of innovation within the casino industry where both Betsson and Cherry can be mentioned. The company is now active in three segments with gambling in its DNA. The three segments are: Yggdrasil - the online casino game developer, Online casino operations and restaurant casinos. The online casino segment, the primary revenue contributes and esteems in its majority from the Nordics at the moment. With the large potential in other non-nordic markets it is safe to assume that this reliance will be decreased over time.

Investment case

Cherry is in an exciting phase of the development of its online casino as well as the game supplier segment. Cherry has a solid track record as an incubator of casino companies with Betsson and Netent being the most noteworthy. Furthermore its M&A track record is solid with the latest being the sale of Automatgruppen to Betsson for 286 million kronor during 2013. The company is in a pivotal phase to become profitable, which will accelerate the warranted interpretation of Cherry as a fast-growing and profitable online casino operator. Fundamentally, it will also give further room for the company to invest resources in its innovation activities across its segments. One example of this is Yggdrasil which is a games developer for gambling operators and has in a relatively time-frame shown its feat among tier-1 operators like Betsson and Unibet. The company makes its own headway through the inefficienes, and its opportunities this provides, through platform interaction and creativity to deliver efficient and unique content to gambling operators. As Yggdrasil games keeps improving and the number of games are slowly making ground on operators platform the revenues are following. Yggdrasil has the rare trait of having an management team that has a underlying passion and experience of this sector ? which creates the necessary prerequisities to develop this project. As for the online casino Cherry uses an active strategy as a gambling operator to retain its customers through CRM systems and own systems that can be used to analyze and trigger habits of players in order to enhance their life-time value. These include but are not limited to customized bonuses during gameplay, and recommendations for a certain type of player. The competition is intense in European markets and efficient marketing through scale is important to enable high operating margins. Unique games can also be a differentiator. Many top-ranked casinos has a specialized brand that focuses especially on one or more parts of the following features: brand, niches, games and user convenience/platform. The combination with scale makes the selected few a natural choice for any casino player and thus immensely difficult to conquer. Many upstarts fail to realize the long-development phase until its maturity phase and thus needs to request additional capital or will declare bankruptcy. Nevertheless, making it through as a small player can be very lucrative for shareholders and as Cherry only has merely a few percentage points of the Nordic market and a growing market per se it does seem like a fair value proposition over the longer-term. The survivors that offers something unique are not seldom acquired by larger counterparts and optimized by terminating any other redundant costs such as personnel and platform costs. The industry is clearly heading to consolidation but it is not enough to be big to sustain your business in the long-term - being highly agile to the broad term of user convenience will be key to stand out in the herd. In fact many operators today believe in extracting the value out of acquired company and then let it slide with its other numerous brand with continuous updates. Losing core competence and owners ideas that have created something specific can be a major long-term problem. If one adjusts the online casinos expenses for declining long-term marketing expenses driven by continuity and volumes, COGS, personel costs, and finally offset by regulatory taxes and increased competition the EBIT margin of 20 percent can be achieved ? in that case the online casino will solely motivate todays price for Cherry. The market does not fully grasp the potential in its ongoing adventure to becoming a tier-1 online casino operator. This is also clearly reflected in the wide margin of safety between the current price and value. Indeed, the market to some extent price the online casino operation but fully ignores the potential of Yggdrasil which is already derisked to some extent and is rapidly moving from its start-up phase. Listing on Nasdaq OMX Small Cap, achieving profitability on an entity level, Yggdrasil continued ramp up, new business segments and M&A will constitute the parts to converge the gap between value and price

Catalyst types

Yggdrasil surpassing market expectations
Yggdrasil exceeds our expectations and takes market share from the well-established game developers. Climbs the game lists with top tier operators' online casinos through innovative as well as positive gaming experiences which we believe the company is positioned for. Operators open up to free-spins in their games. After that the company has achieved a turnover of 100 million, Yggdrasil will then be able to be valued by an operating margin of 30 percent as an going concern; a multiple of 20-30 implies that Yggdrasil can be valued between 600-1000 million kronor in the maturity stage and in time likely more than that.

Market position in re-regulation
If the company succeeds in avoiding margin contractions, it will result in a strong position in the case of a re-regulated market. It is possible that the company can achieve a multiple expansion as the company then succeeds in sustaining a large market share in Scandinavia, which would then even be perceived as a lower risk generally, but even in relation to the smaller companies.

Online casino expansion
The company decides to acquire and/or gain market share in Europe – which leads to higher growth rates as well as higher investment costs (initially). This can be achieved organically or by building upon local operations. It is likely that this will lead to multiple expansion as the legal risk is reduced.

Turn page >

REDEYE

Publication date

January 10 2017

Cinnober Financial T... CINN

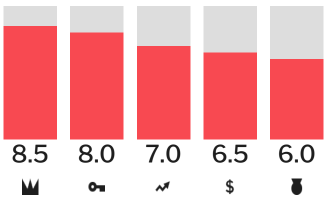
Company page

http://beta.redeye.se/company/cinnober-financial-technology

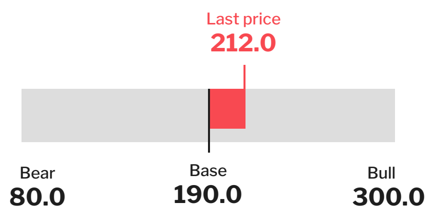
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



FAIR VALUE RANGE



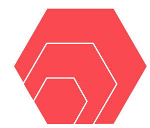
CATALYST POTENTIAL

Impact

Major

Moderate

Minor



Timeframe

Long

Mid

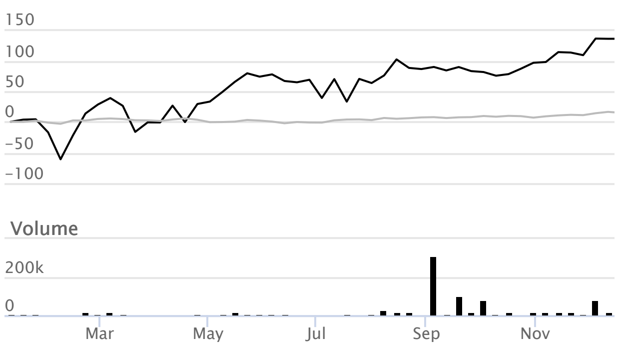
Short

Turn page for catalyst specifics

Snapshot

Cinnober Financial Technology

OMXS30



Marketplace	First North Stockholm
CEO	Veronica Augustsson
Chairman	Nils Robert Persson

Share information

Share price (SEK)	212.0
Number of shares (M)	6.5
Market cap (MSEK)	1,379
Net debt (MSEK)	-71

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Cinnober Financial Technology: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	321	358	444	523	586
Growth	*15.6%*	*11.4%*	*24.0%*	*18.0%*	*12.0%*
EBITDA	20	10	47	66	86
EBITDA margin	*6.3%*	*2.9%*	*10.6%*	*12.6%*	*14.6%*
EBIT	18	8	44	63	82
EBIT margin	*5.5%*	*2.3%*	*10.0%*	*12.0%*	*14.0%*
Pre-tax earnings	15	9	45	64	83
Net earnings	9	6	35	50	65
Net margin	*2.7%*	*1.7%*	*7.9%*	*9.5%*	*11.0%*
Dividend/Share	1.00	2.00	2.00	2.00	2.00
EPS adj.	1.34	0.93	5.36	7.59	9.87
P/E adj.	157.7	227.8	39.5	27.9	21.5
EV/S	4.1	3.7	3.0	2.4	2.3
EV/EBITDA	66.2	127.4	28.1	19.4	15.7

Last updated: 2016-12-13

Owner	Equity	Votes
Nils-Robert Persson (inkl familj och bolag)	18.6%	18.6%
Gunnar Lindell (inkl bolag)	8.9%	8.9%
Nortal Capital AB	7.3%	7.3%
Peter Lenti (inkl familj)	5.0%	5.0%
Peter Snellman (inkl familj)	4.9%	4.9%
Swedbank Robur Ny Teknik	4.7%	4.7%
Unionen	4.0%	4.0%
Humle Fonder	3.3%	3.3%
Patrik Enblad	2.8%	2.8%
Magnus Grafström	2.6%	2.6%

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Company description

Cinnober is fundamentally a software company with about 65 percent recurring revenues. The company supplies mainly clearing and trading systems, with some of the world's largest exchanges among its customers. Right now Cinnober is advantageously positioned for the regulatory consequences of the Markets in Financial Instruments Directive (MiFID) in Europe, the new MiFID II regulatory framework, which is expected to enter into force in 2018, and the Dodd-Frank regulations in the United States. These regulations are giving rise to additional requirements for transparency, security and risk management that are driving demand for Cinnober's innovative solutions.

Clearing systems are increasingly required by the European Market Infrastructure Regulation (EMIR), and the company has therefore shifted its focus to real-time clearing solutions. Cinnober is a market leader in this segment and is a competitive supplier to exchanges and clearing houses. Cinnober will in future stand on four legs, with two of these being clearing systems and trading systems. The two new legs are reporting services and client clearing. The reporting services are provided by its subsidiary Boat, and find their raison d'être in the new regulations brought about by MiFID II.

Investment case

In coming years, Cinnober is expected to increasingly transform into a more purely software company with a significantly better operating margin than at present. The reasons for this transformation are the two new business areas: reporting services and client clearing. The reporting services are provided by its subsidiary Boat, and find their raison d'être in the new regulations brought about by MIFID II. We expect a flying start for the reporting services in 2017, with the MiFID II regulations that come into force in January 2018 as the driving catalyst. The client clearing business area is expected to become much bigger, and address a many times larger market than the company focuses on today. For this reason, Cinnober has now decided to set up a subsidiary that conducts only operations for client clearing. However, international commercial banks, which are the primary customers, are sluggish when it comes to new and innovative technological solutions, but given the cost savings made possible by these systems we nonetheless anticipate stable growth in the coming years, starting in around 2018.
Both newly established business areas are expected to lead strong margin expansion for Cinnober in coming years, as the company increasingly becomes a pure software provider.

The future looks tougher for trading systems, as regulation, lower trading volumes, saturated technology and consolidation result in a more competitive environment and also lower demand for trading systems. Tighter regulation means lower trading volumes and therefore less investment in trading systems until regulatory changes and relaxations are introduced. Given this level of regulation, it will be important for Cinnober to optimise its systems to comply with regulatory demands that are often unique to individual markets, in order to attract customers.

The big risk for Cinnober is that of customers such as marketplaces, exchanges and banks using their own internal systems rather than customised systems. If this were the case it would have an impact on revenue from software development and would have major consequences in terms of sales. In addition, there have been buy-ups in the past during which the company's customers have switched systems. This represents a risk even though it is reduced now that the company's largest customers in terms of sales often have a long history of national ownership.

Catalyst types

Mifid ii will provide explosive revenue growth in 2017 and 2018
We expect explosive growth and improved profitability for subsidiary Boat's reporting services and its TRADEcho product by 2017, when banks and brokerages will be forced to find a solution to adapt to MiFID II. Since Cinnober already has proven technology for this, it can deliver a solution without any major investment. MiFID II therefore gives Cinnober a golden opportunity to profit from the platform the company has built up.

Progress for newly formed client clearing company
Advances for the new client clearing business area will be important fuel for the Cinnober stock in coming years. A strong partner and a solid team will be critical building blocks, while customer intake will be the rocket fuel. This business has the potential to become Cinnober's largest if it gets enough wind in its sails.

New business areas will lead to improved operating margin
Cinnober's profitability should improve as early as in 2017. As revenues in the new business areas start to form a greater proportion of total revenues, the operating margin should improve.

Personal notes

Publication date

January 10 2017

Crowdsoft Technology CROWD

Company page

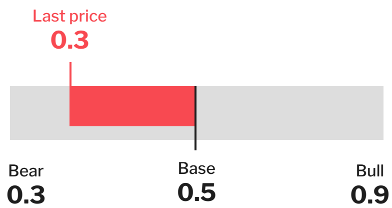
http://beta.redeye.se/company/crowdsoft-technology

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Impact

Major

Moderate

Minor

Timeframe

Long

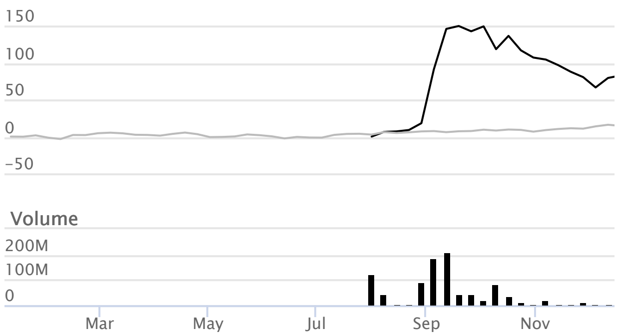
Mid

Short

Turn page for catalyst specifics

Snapshot

Crowdsoft Technology
OMXS30



Marketplace	Aktietorget
CEO	Alf Eriksson
Chairman	Henrik Tjernberg

Share information

Share price (SEK)	0.3
Number of shares (M)	215.5
Market cap (MSEK)	68
Net debt (MSEK)	10

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna owns shares in Crowdsoft Technology: No

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	0	0	2	15	30
Growth	*0.0%*	*>100%*	*>100%*	*>100%*	*100.0%*
EBITDA	-6	-7	-6	-0	8
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*25.9%*
EBIT	-6	-7	-6	-1	7
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*22.7%*
Pre-tax earnings	-6	-8	-8	-2	6
Net earnings	-6	-8	-8	-2	5
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*16.7%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.00	-0.04	-0.04	-0.01	0.02
P/E adj.	N/A	-8.6	-9.0	-35.9	13.6
EV/S	N/A	1,202.6	35.6	5.4	2.3
EV/EBITDA	N/A	-9.9	-12.7	-5,214.5	9.0

Last updated: 2016-12-29

Owner	Equity	Votes
City Capital Partners AB	6.0%	6.0%
Avanza Pension	4.9%	4.9%
Alf Eriksson	4.8%	4.8%
För Fulla Segel Sverige AB	3.7%	3.7%
Nordnet Pensionsförsäkring	3.7%	3.7%
Fredric Forsman	2.6%	2.6%
Anders Forssberg	2.3%	2.3%
Banque International A Lux	2.0%	2.0%
Catella Bank S A (Luxemburg)	1.8%	1.8%
Per-Arne Pettersson	1.7%	1.7%

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Company description

Crowdsoft is active in the situational awareness systems market, and was founded in 2014. The company sells a communication and security system (mobile app, server and web client), called C-One, to companies and organisations. The company's CEO is Alf Eriksson and its chairman is Henrik Tjernberg (also chairman of Micro Systemation). The company's first commercial contract has been signed with the Karolinska University Hospital, and a partnership was initiated with Ascom for a smartphone specially developed for the hospital sector.
Crowdsoft has been listed on AktieTorget since August 2016, where the company raised SEK 16.5 million. Crowdsoft has 5 employees plus 10-15 consultants, and is headquartered in Stockholm.

Investment case

During the current year and in 2017 the company is placing its priority on the Swedish market and specifically the verticals of hospitals and shopping centres. The product has a broad target market, with verticals like hospitals, shopping centres, airports, infrastructure, security organisations and industries. Entry into other verticals and international expansion are expected in 2018 – when sales will take off in earnest.

Networking effects are potentially a sustainable competitive advantage – customers most likely choose the platform in which the majority of other organisations are present in order to maximise the benefits (cross communication). As the first mover in the Swedish market, this is a good opportunity for Crowdsoft. The same timing benefits do not exist internationally – instead the critical factor will be innovative/unique functionality.

The company's business model is based on a monthly subscription charge and is very scalable. We envisage sustainable gross margins of around 80-90 percent since costs for new customers are low. But because Crowdsoft is in the early growth phase this will initially mean high costs for new customers relative to the monthly charge (the growth phase drives costs such as marketing, building partnerships and international establishment). Subsequently the customer provides a high ongoing contribution and high profitability per user licence sold. This is expected once customer volumes have achieved the level necessary for breakeven – in our forecasts 2019 (EBIT amounting to SEK 6.8 million, corresponding to a margin of 21 percent). Additional sales in the form of add-on services (functional upgrades),and volume upgrades (more users with existing customers) will add further scalability.

In our base case, sales in 2017 will be SEK 2.2 million and sales in 2018 will be SEK 15.0 million. For the same periods EBIT will be SEK -6.3 million and SEK -0.6 million, respectively. We make the following assumptions for the period 2018-2025: i) average sales growth of 35 percent per year. Subsequently, the company reaches a maturity phase and grows by 3.5 percent. Sales in 2025 amount to SEK 121.0 million; ii) average gross margin of 85 percent. The long-term gross margin amounts to 84 percent; iii) average EBIT margin of 18 percent. The long-term operating margin amounts to 14 percent; iiii) WACC amounts to 17.8 percent (in all scenarios).

Overall, this results in a DCF value of SEK 0.46 per share. The valuation in our bear case is SEK 0.25 per share, and the valuation in our base case is SEK 0.90 per share. Our base-case assumptions indicate EV/sales 19E of 3.3 and EV/sales 20E of 2.0. EV/EBIT 19E amounts to 15.0 and EV/EBIT 20E amounts to 8.0. At the end of the third quarter the company had cash reserves of approximately SEK 3.5 million, and Crowdsoft will require some form of capital acquisition in 2017 before profitability is achieved.

The biggest risks are associated with:
– The company's early phase: Despite a finished commercial product and the discussed collaborations there is a risk of the product being unsuccessful. We envisage this could be either because of the relatively new market (the company may have misjudged customer need for SAS) or as a result of a lack of competitiveness.
– Low entry barriers in the software industry: The industry is characterised by large numbers of providers and rapid shifts in both competition and demand. New trends and providers can also rapidly transform the market environment.
– Recruitment of skilled staff: It is always a challenge for a small company to recruit skilled staff.
– Funding risk (fund raising).

Catalyst types

Profitability achieved earlier than in our forecasts
I.e. in 2018.

New commercial contracts
There is currently one commercial contract in place (Karolinska University Hospital). New contracts should increase the valuation of Crowdsoft.

Karolinska university hospital expands collaboration
The contract with Karolinska University Hospital is Crowdsoft's first commercial contract and currently covers 500 user licences. There is large potential since the hospital has 16,000 employees.

Insider purchases
The management and board together own 12.8 percent of capital. We believe there is scope for an increase.

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REDEYE

Publication date

January 10 2017

DGC One DGC

Company page

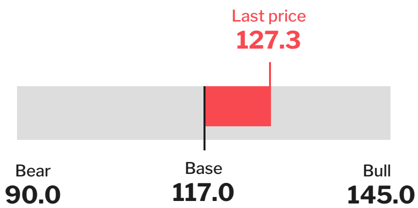
http://beta.redeye.se/company/dgc-one

Redeye Rating

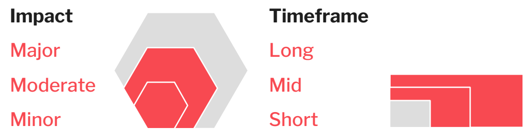
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Jörgen Qwist
Chairman	Johan Unger

Share information

Share price (SEK)	127.3
Number of shares (M)	9.0
Market cap (MSEK)	1,167
Net debt (MSEK)	114

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna owns shares in DGC One: No

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	617	707	826	880	933
Growth	*13.1%*	*14.7%*	*16.8%*	*6.5%*	*6.0%*
EBITDA	142	169	218	240	260
EBITDA margin	*23.1%*	*23.9%*	*26.4%*	*27.3%*	*27.9%*
EBIT	62	73	91	101	112
EBIT margin	*10.0%*	*10.3%*	*11.0%*	*11.5%*	*12.0%*
Pre-tax earnings	60	68	86	97	108
Net earnings	46	53	67	76	84
Net margin	*7.5%*	*7.5%*	*8.2%*	*8.6%*	*9.1%*
Dividend/Share	5.00	4.46	5.65	6.36	7.09
EPS adj.	5.25	5.94	7.54	8.47	9.45
P/E adj.	24.2	21.4	16.9	15.0	13.5
EV/S	1.8	1.8	1.5	1.4	1.3
EV/EBITDA	7.7	7.5	5.7	5.1	4.7

Last updated: 2016-12-19

Owner	Equity	Votes
David Giertz	54.7%	54.7%
Lannebo fonder	8.6%	8.6%
Jörgen Qwist	4.5%	4.5%
Lindell Peter	3.0%	3.0%
AMF Försäkring & fonder	2.1%	2.1%
Sebastian Af Jochnick	2.0%	2.0%
Mattias Wiklund	1.7%	1.7%
Avanza Pension	1.6%	1.6%
Björn Giertz	1.4%	1.4%
Johan Fallenius	1.3%	1.3%

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Company description

DGC One has been listed on Nasdaq OMX Small Cap since 2008. The company was founded by David Giertz and Jörgen Qwist in the early 1990s, and has been active as a telecom operator in the Swedish market since 2000. The company's customers include both private-sector and public-sector businesses, with a common denominator of having operations in multiple locations nationally, such as retail chains. Its offering currently consists of data communications, IT operations and telephony solutions. DGC One has been profitable for 22 of the 23 years it has operated, and had sales in 2015 of SEK 616 million with an operating profit of SEK 62 million. Its competitors in data communications are primarily TeliaSonera, Telenor and Tele2, which recently also acquired TDC Sverige.

Investment case

DGC's growth has been largely organic. The prospects for organic growth continue to look promising and we would not be surprised if the company also supplemented this with more individual acquisitions, like the Donator buy-up. In early 2015 the company presented a new business plan, setting its sights on achieving SEK 1 billion in sales. The company was, unfortunately, no more specific but it is clear that growth will remain a high priority.

DGC's data communications arm has won several of the largest contracts that have been up for tender in recent years, including with ICA, Sweden's ATMs and Svenska Spel. The company's strategy has long been to grow with its major customers, and it has delivered above expectations. DGC has now won several of the largest customers in the Swedish market, which to some extent limits its growth potential. On the other hand it has only just started to cultivate customers in the public sector, where we believe the company has excellent growth opportunities ahead. This is also the area that may bring the most upside surprises in the short term, and we are already seeing clear evidence of this. Deals like the one with Västra Götalandsregionen, a region in western Sweden, show that DGC has the potential to show high growth in this business area for a long time to come.

Further growth areas are found in the other two business arms. The telephony business is now growing strongly from low levels, although the profit potential is still somewhat uncertain, and the IT operations area now looks much more exciting after having made two acquisitions in 2016, of Delta and Internet Boarder. At the same time, the public sector is also becoming increasingly interesting for IT operations, not least with greater growth potential through the two new framework agreements with the Legal, Financial and Administrative Services Agency for IT operating services. Cross-selling opportunities between the business areas are also a key strategy of the company, which should be able to further strengthen its relationships with its customers. A major advantage of DGC's business model is that 90 percent of its revenues are recurring, and its customer contracts normally run for three years, which greatly limits the risk in DGC.

In addition to these fairly transparent sources of growth, which are now largely priced into the company's valuation, there are some sources of growth that are not so obvious. DGC has active equipment in Helsinki, Copenhagen and Oslo. It is conceivable that the company will start building its network outside Sweden, and most likely in Norway. This would be a new growth vertical for the company, although it would be associated with some investment. This investment, however, would be largely customer-financed in the same way as when DGC expanded its Swedish network. The latest contract with Skanova limits the risk of DGC being unable to offer fibre on competitive terms.

Catalyst types

Geographical expansion
DGC already has a strong position in the Swedish market. An expansion into any of the Nordic markets would be an interesting opportunity for the company.

Continued consolidation of it operations market
DGC has largely grown in the IT operations market through acquisitions. Successful integration of acquisitions and additional buy-ups would be a potential trigger for the stock.

Consolidation in the industry
The industry is consolidating. DGC's strong position in the Swedish market could make the company an attractive takeover candidate.

Personal notes

REDEYE

Publication date

January 10 2017

Doro DORO

Company page

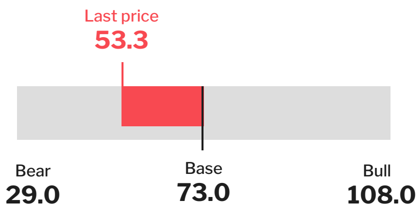
http://beta.redeye.se/company/doro

Redeye Rating

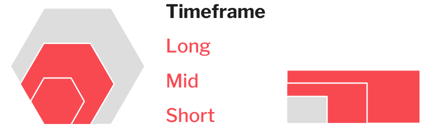
Leadership Ownership Profit outlook Profitability Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Robert Puskaric
Chairman	Johan Andsjö (acting COB)

Share information

Share price (SEK)	52.8
Number of shares (M)	23.2
Market cap (MSEK)	1,226
Net debt (MSEK)	146

Analyst

Viktor Westman
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Conflict of interests

Viktor Westman owns shares in Doro: Yes

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

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	1,838	2,006	2,403	2,813	3,155
Growth	*43.9%*	*9.2%*	*19.8%*	*17.0%*	*12.2%*
EBITDA	149	146	198	265	322
EBITDA margin	*8.1%*	*7.3%*	*8.3%*	*9.4%*	*10.2%*
EBIT	95	78	130	194	251
EBIT margin	*5.2%*	*3.9%*	*5.4%*	*6.9%*	*7.9%*
Pre-tax earnings	84	71	122	186	244
Net earnings	64	54	91	140	183
Net margin	*3.5%*	*2.7%*	*3.8%*	*5.0%*	*5.8%*
Dividend/Share	0.00	0.00	0.79	1.50	2.60
EPS adj.	2.75	2.33	3.94	6.01	7.88
P/E adj.	19.2	22.6	13.4	8.8	6.7
EV/S	0.7	0.7	0.6	0.5	0.4
EV/EBITDA	9.1	9.5	6.9	5.1	3.9

Last updated: 2016-12-19

Owner	Equity	Votes
Accendo Capital	7.4%	7.4%
Handelsbanken Fonder	6.9%	6.9%
Nordea Fonder	5.0%	5.0%
Swedbank Robur Fonder	5.0%	5.0%
Avanza Pension	4.1%	4.1%
Catella Fonder	3.1%	3.1%
Theodor Jeansson	2.8%	2.8%
Dimensional Fund Advisors	2.3%	2.3%
Nordnet Pensionsförsäkring	2.3%	2.3%
Origo Fonder	2.2%	2.2%

Turn page >

Company description

Doro is a more than 40 years old Small Cap company, developing and manufacturing telecommunication products for seniors (people with the age of 65 or older) since year 2007. The products are sold in more than 30 countries. Doro's leading position is based on a wide and global distribution network and a strong brand that the target group can trust. This has resulted in a market share of some 50 percent in Western Europe, but Doro is number one in several other markets as well. The major weakness is the ownership structure with no large, industrial owner. Doro employs about 500 people. Sales and operating earnings amounted to SEK 1 838 and 95 million respectively during 2015.

Investment case

With over 20 percent organic CAGR sales growth since several years back Doro is a market leader in a narrow niche market that is overlooked by pretty much everyone. If Doro would only continue to grow in half of that pace the Company would still inarguably be a great investment. However, it is far from easy or intuitive to understand the key to Doro's success in the market of technology adapted for seniors. Many have therefore been waiting a long time, in vain, for larger Asian players to enter the market to wipe out Doro with better scale of economics etcetera. Our best guess is that Doro's strongest competitive advantage is the focus on a viable niche market. Virtually all major telecom carriers (Doro's customers) believe that seniors is a segment to be considered although usually there appear to be room for senior phones from one phone player and then, for whatever reason, Doro is typically considered better than its competitors.

Following several years of selling more senior phones in Japan than Doro in total, Fujitsu made a decisive, yet failed, attempt to enter the European market partnering up with telecom carrier giant Orange. Fujitsu's failure, albeit stars aligned, indicates that replacing Doro would be far from a walk in the park. Nonetheless the technology risk and the lack of long-term barriers to entry must of course be taken into account in the valuation scenarios since only a few unsuccessful phone models could mean that Doro would be in serious trouble. Therefore, according to us, Doro's acquisition of Caretech of December 2014 is an absolutely critical piece of the puzzle in the building of long-term competitive advantages and sustainable, long-term earnings.

Caretech is a provider of digital social alarms (telecare) poised to benefit from the transition from analogue to digital safety alarms; a transition that so far only is taking place in Sweden and Norway. However, the rest of Europe will eventually follow suit, as the EU is working on developing a standard, meaning there is a huge market potential. Caretech is the only full chain vendor of digital safety alarms (telecare) in the Nordics as the main rival, Tunstall that holds a majority of the European market was excluded from the SKL framework agreement for not being able to meet the digital standards despite several reprimands.

Doro is a growth company, yet not valued as one as the market continues to misunderstand Doro. We expect Doro to leverage the Caretech acquisition within mobile health to form a more complete offering and own its customers to a greater extent. The increased portion of telecare and mobile health in Doro's revenue will lead to a margin and multiple expansion.

Catalyst types

Margin expansion
Doro's fast growth has not been enough for the investors who wants to see increasing margins, which we believe is likely due to opex scalability.

Foreign expansion of doro care (caretech)
The Caretech acquisition is Doro's chance to build more sticky revenue and endurable competitive advantages. Doro's foreign care expansion will lead to margin and multiple expansion.

Personal notes

REDEYE

Publication date
January 10 2017

Enea ENEA

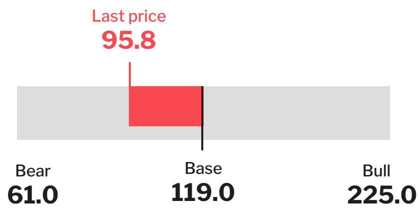
Company page
http://beta.redeye.se/company/enea

Redeye Rating

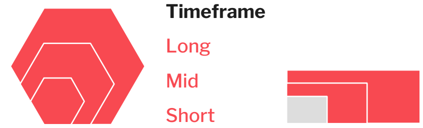
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Anders Lidbeck
Chairman	Anders Skarin

Share information

Share price (SEK)	95.8
Number of shares (M)	16.2
Market cap (MSEK)	1,543
Net debt (MSEK)	-93

Analyst

Viktor Westman
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Conflict of interests

Viktor Westman owns shares in Enea: Yes

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	482	499	654	711	790
Growth	*12.1%*	*3.6%*	*31.2%*	*8.6%*	*11.1%*
EBITDA	128	128	132	156	194
EBITDA margin	*26.6%*	*25.7%*	*20.2%*	*21.9%*	*24.6%*
EBIT	110	110	113	132	170
EBIT margin	*22.8%*	*22.0%*	*17.3%*	*18.6%*	*21.5%*
Pre-tax earnings	112	112	107	126	166
Net earnings	88	88	93	107	438
Net margin	*18.3%*	*17.7%*	*14.2%*	*15.1%*	*55.5%*
Dividend/Share	4.20	4.40	4.80	5.20	22.33
EPS adj.	5.52	5.54	5.89	6.82	27.82
P/E adj.	17.3	17.3	16.3	14.0	3.4
EV/S	2.9	2.9	2.2	2.1	1.5
EV/EBITDA	10.8	11.3	10.7	9.5	6.0

Last updated: 2016-12-19

Owner	Equity	Votes
Valorlife AG	23.7%	23.7%
Avanza Pension	15.2%	15.2%
DNB Fonder	6.9%	6.9%
Per Lindberg	5.7%	5.7%
Carnegie Asset Management (Lux)	3.4%	3.4%
Swedbank Robur Fonder	2.8%	2.8%
Enea AB (publ)	2.1%	2.1%
Origo Fonder	1.9%	1.9%
DNB Asset Management SA	1.4%	1.4%
Skandia Fonder	1.3%	1.3%

Company description

Enea is a global software company dating back to 1968. Back then the company was a leader in real-time operating systems (RTOS), where the company today has around 10 percent of the global market. The company is listed on the Small Cap list, and in 2015 had sales of SEK 482 million and an operating profit of SEK 10 million. The company's approximately 400 employees work at ten offices in Europe, the United States and Asia. Forty percent of staff work in research and development, which gives an indication of the company's technological edge. Enea's almost 50 years of experience in telecommunications have resulted in five billion calls per day relying on the company's technology. Its technology is installed in more than half of the world's 8 million base stations and 75 percent of 4G base stations. This means it currently has a strong position, to say the least. The company's competitive disadvantage lies in its dependence on large customers. Ericsson and Nokia account for 50-60 percent of revenues, but are also important partners. Another important partner is chip manufacturer ARM, within the framework of its Linaro project.

Enea is transitioning its business model to software as a service, which has resulted in more stable recurring revenues. Customers pay a term-based licence fee per development engineer when developing their own products using Enea's products. However, there are still often one-off payments on delivery. In some cases, the company also earns royalties on each unit sold that incorporates Enea technology. Its consultancy arm, which focuses only on Enea's own software, applies normal project payments or hourly payments. Its growth strategy, primarily in Linux, involves investment of over 20 percent of sales. The business model for Linux is based on sales combined with associated software, support, or customised Enea-based solutions.

Investment case

Enea has made a large (SEK 53 million) acquisition of French DPI-dominant Qosmos, and has also initiated arbitration against a major customer (presumably Ericsson). The acquisition and the arbitration have led to significant changes for the better in our Enea case, while the share price has essentially not reacted to the news.

Qosmos acquisition could compensate for loss of Ericsson
Enea's revenues from Ericsson and Nokia have fallen since 2013, from 58 percent to around 46 percent of the total. These two key customers and, particularly, the negative performance of Ericsson have therefore long been a major risk. This is now alleviated by Qosmos, which we calculate will provide revenues of almost a similar proportion to Ericsson by 2017. It is of course possible that the acquisition has been made to conceal an even steeper decline in Ericsson revenues, but we believe this does not detract from Qosmos being a good company (see below).

Successful acquisition track record
Enea's management has an unusually successful track record in building a billion-class software company with the support of acquisitions (including in France). Telelogic was bought up by IBM for SEK 5.2 billion. We believe the success of previous acquisitions is based on the following:

1. Patience and price awareness/thrift
Enea has been clear for a number of years that it has evaluated companies but found the targets have not been good enough or cheap enough.
2. Good knowledge of acquisition targets
Just as with the Centered Logic acquisition, Enea is very familiar with Qosmos after many years of partnership, and should therefore have a good knowledge of the company's position, competitive advantages, etc.
3. Laissez-faire approach to integration
Enea does not intend to interfere with Qosmos. Its approach to the acquisition is that one plus one makes two (not three), which reduces the risk. Qosmos is thus regarded as a good standalone business.

75 percent market share of a fast-growing niche
DPI (deep packet inspection) is a structurally growing market that is forecast to grow by around 20 percent annually. OEM players previously kept DPI in-house, but as the number of protocols and applications is continuously growing it is becoming increasingly difficult to keep pace with developments. Qosmos was early to identify this trend, and was a pioneer in carving out its own little niche in embedded DPI directed to OEM customers. The company has focused on staying within its core competencies. Qosmos has 75 percent of this fast-growing niche which, from today's levels of just minute penetration of the total market, it is gradually eating into.
Its successful execution and high market share have given Qosmos a self-sustaining lead. Qosmos has more customers to learn from and therefore more extensive market experience than its competitors.

Possible one-time payment of SEK 900 million plus 100 percent royalty increase
Enea's arbitration against (presumably) Ericsson means an option of SEK 900 million in a single payment along with a 100 percent increase in royalties, equivalent to around SEK 100 million annually. Both positive and negative outcomes to the arbitration involve a risk of the customer cutting back volumes. However, this is nothing new and this kind of cutback is both included in our estimates and factored into the market valuation.

Catalyst types

Acquisition outgrows ericsson drop
Enea's Qosmos acquisition of SEK 53 million gives the company a radidly growing new segment that alredady in 2017 will be about the same size as Enea's Ericsson sales. Our thesis is that Qosmos will outgrow the Ericsson drop.

Arbitration process outome
Enea is in an arbitration process with a major customer. A negative outcome means status quo whereas a positive outcome implies a onetime payment of SEK 900 million plus an over 100 percent higher royalty.

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REDEYE

Publication date

January 12 2017

Ericsson ERIC B

Company page

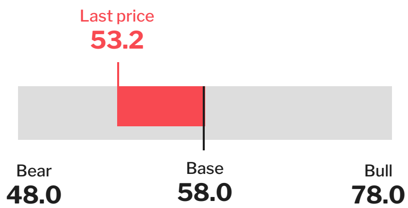
http://beta.redeye.se/company/ericsson

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

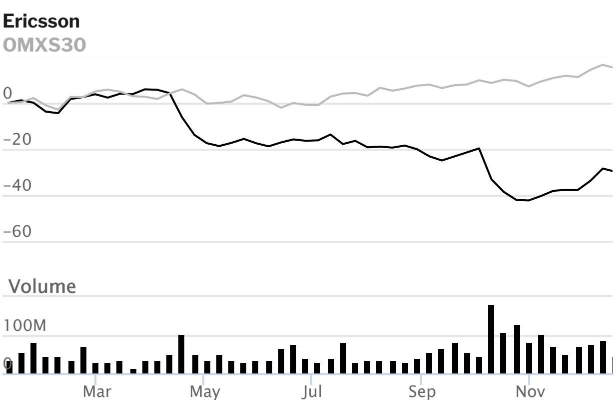
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	tf. Jan Frykhammar
Chairman	Leif Johansson

Share information

Share price (SEK)	53.2
Number of shares (M)	3,331.2
Market cap (MSEK)	179,383
Net debt (MSEK)	-37,806

Analyst

Greger Johansson
greger.johansson@redeye.se

Conflict of interests

Greger Johansson owns shares in Ericsson: No

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	246,920	216,218	211,542	214,953	217,102
Growth	*8.3%*	*-12.4%*	*-2.2%*	*1.6%*	*1.0%*
EBITDA	32,011	10,486	22,472	27,197	27,868
EBITDA margin	*13.0%*	*4.9%*	*10.6%*	*12.7%*	*12.8%*
EBIT	21,805	8,286	13,886	18,900	19,539
EBIT margin	*8.8%*	*3.8%*	*6.6%*	*8.8%*	*9.0%*
Pre-tax earnings	19,872	7,986	13,186	18,600	19,239
Net earnings	18,589	13,132	11,180	14,170	13,267
Net margin	*5.5%*	*3.5%*	*4.3%*	*6.0%*	*6.1%*
Dividend/Share	3.70	2.50	2.75	3.50	3.85
EPS adj.	5.72	4.03	3.43	4.34	4.07
P/E adj.	9.3	13.6	15.4	12.2	13.1
EV/S	0.5	0.7	0.6	0.6	0.5
EV/EBITDA	4.1	12.1	6.1	4.8	4.3

Last updated: 2017-01-11

Owner	Equity	Votes
Investor	5.3%	21.4%
Dodge & Cox	3.4%	2.0%
Swedbank Robur Fonder	3.3%	1.9%
AMF Försäkring & Fonder	2.6%	1.5%
Industrivärden	2.6%	15.1%
Vanguard	2.0%	1.2%
Telefon AB LM Ericsson	2.0%	1.2%
Blackrock	1.9%	1.1%
Norge Bank	1.7%	1.0%
MFS Investment Management	1.5%	0.9%

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Company description

Ericsson, with a history of over 140 years and operations in 180 countries, is one of three large global players in the mobile networks market. Ericsson's main business areas are Networks (mainly mobile), Global Services and Support Solutions, with the first two areas responsible for the majority of revenues. Ericsson will have a turnover in 2016e of roughly SEK 215 billion and an adjusted EBIT margin of around 4–5%.

Ericsson has faced a tough market in recent years, with negative growth triggering major cost cutting, divestment of Sony Mobile and EMP/ modems, and changes in senior management. This has also activated investments in new growth areas such as Cloud Services, IP Networks, TV/ Media, OSS/BSS and Industry/Society.

Ericsson is headquartered in Kista (Stockholm), Sweden, and has over 110,000 employees. The company's share is listed on NASDAQ.

Investment case

Depressed company and a very tough market...
Ericsson has faced a very tough market in the past couple of years, with its key customers (operators) holding back their investment due to slow growth and sliding margins. The markets for mobile communication and mobile networks have contracted in recent years, while Ericsson still believed there would be a lot of growth. The company started several new initiatives (Cloud Services, TV/Media etc.) and was very late in adjusting its organization. We still believe it has several quarters, maybe even years, to go before it achieves a reasonable cost base (which we think is lower than Ericsson's goal of SEK 53 billion). This should take the company back to a more realistic EBIT margin of 8–10% in a few years' time.

Ericsson has also announced a new CEO, Börje Ekholm, who we hope will take a new grip on the company and come up with a fresh strategy. However, he has limited experience of leading a large global company in crisis and has also sat on Ericsson's board in recent years while it has failed to turn the company around.

...but still top 3 in the world...
Ericsson is still one of the world's three largest mobile network players, with a market share of around 30–35%. In addition, the other two players, Chinese Huawei and Finnish/French Nokia Alcatel each have market shares of around 30-35% but have their own problems. Huawei is still facing difficulties getting into America, Japan and some other markets, while Nokia Alcatel is in the midst of a very large merger.
The market going forward will open up the tightly closed traditional telecom sector with new technologies, such as 5G and SDN/NFV. This means that players like IBM, Intel, Juniper, Cisco and HP may now have a shot at this huge potential. Ericsson has an enormous challenge to hinder these new competitors while still investing wisely and utilizing its core expertise. Ericsson's edge is in the radio interface and systems which, together with a solid offer in Global Services (recurring and rather stable revenues but slightly lower operating margin), should be enough to deliver a much better margin going forward.

...and fairly low expectations
After a rough end to 2015 and an even rougher 2016 the share has tumbled and confidence in both the management team and the Ericsson share are low. The valuation (P/S multiple well below 1x) indicates a lack of confidence in the company. If we examine estimates for a few years forward, we believe the market is too low in its assessment. Although we do not expect any growth going forward, we still estimate that Ericsson can return to a 9–10% operating margin and a decent dividend. In addition, this is still lower than it delivered in 2015. There are naturally some major risks in this scenario, such as continued double-digit negative revenue growth, cost cutting taking too long, the potential for the new strategy to falter, and the company to conducting a share issue.

Catalyst types

New management/board
There will be major changes in the management. The right management can possible turn the company around.

M&a among the largest operators/customers
Consolidation among customers will be negative for Ericsson

Growth returns in the telecom industry
The underlying growth returns in the industry

Large contracts/business deals
Deals in bn USD for 4G, 5G, services

Cisco-partnership proceeds well
The partnership generating great revenues of several bnUSD

Dividend cuts
Ericsson announce lower than the 2015 dividend.

Cutting cost/improved operational efficiencies
Ericsson announce further cost cutting

Personal notes

Publication date
January 10 2017

Fingerprint Cards FING B

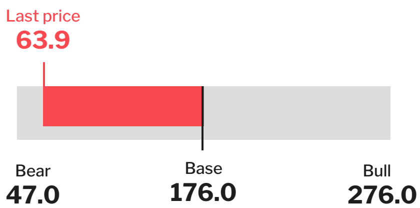
Company page
http://beta.redeye.se/company/fingerprint-cards

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

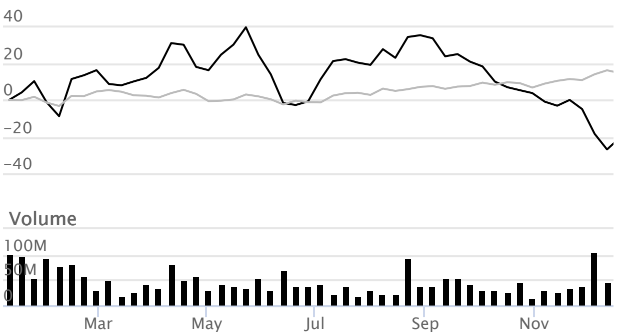


CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Fingerprint Cards
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Christian Fredrikson
Chairman	Jan Wäreby

Share information

Share price (SEK)	63.9
Number of shares (M)	324.4
Market cap (MSEK)	21,604
Net debt (MSEK)	-3,357

Analyst

Joel Westerström
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Conflict of interests

Joel Westerström owns shares in Fingerprint Cards: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	2,901	6,709	8,656	11,718	15,437
Growth	*>100%*	*>100%*	*29.0%*	*35.4%*	*31.7%*
EBITDA	954	2,733	3,131	4,104	5,317
EBITDA margin	*32.9%*	*40.7%*	*36.2%*	*35.0%*	*34.4%*
EBIT	910	2,688	3,089	4,029	5,192
EBIT margin	*31.4%*	*40.1%*	*35.7%*	*34.4%*	*33.6%*
Pre-tax earnings	910	2,688	3,089	4,029	5,192
Net earnings	798	2,097	2,410	3,143	4,050
Net margin	*27.5%*	*31.3%*	*27.8%*	*26.8%*	*26.2%*
Dividend/Share	0.00	0.00	2.30	4.99	6.43
EPS adj.	2.54	6.66	7.66	9.98	12.87
P/E adj.	25.2	9.6	8.3	6.4	5.0
EV/S	6.6	2.8	1.9	1.3	0.8
EV/EBITDA	20.0	7.0	5.4	3.6	2.4

Last updated: 2017-01-08

Owner	Equity	Votes
Avanza Pension	9.8%	8.2%
Nordnet Pensionsförsäkring	2.2%	1.9%
Sunfloro	1.9%	15.9%
Vanguard	1.8%	1.5%
AMF Försäkring & Fonder	1.5%	1.2%
Magnus Unger	1.4%	1.1%
Oppenheimer	1.3%	1.1%
Danica Pension	1.2%	1.0%
Swedbank Försäkring	1.2%	1.0%
Andra AP-Fonden	1.2%	1.0%

Turn page >

Company description

Fingerprint Cards (FPC) develops and sells biometric solutions. It is the world's number one fingerprint sensor supplier and one of Europe's largest fabless semiconductor companies. The market for biometrics is growing rapidly and will continue to do so driven by increased adoption in existing as well as new verticals as additional use cases emerge and more players joins the biometric ecosystem. FPC stands well positioned with a strong product offering, partnerships with key industry players and operational capabilities that are hard to match for new entrants and incumbents alike.

Investment case

As new use cases emerge, fingerprint sensors are no longer only about convenience but increasingly an enabler of new business models for the smartphone OEMs. Increased fingerprint adoption in mid-range and low-end smartphones will lead to continued rapid growth for fingerprint sensors in mobile devices. New verticals are emerging and will lead to a high growth for biometric solution. The next big vertical is smart cards where biometrics will enable secure payments, financial inclusion and increased efficiency in the health care sector for billions of people. There are also major opportunities in what is referred to as IoT, where Ericsson and Huawei expect 50 to 100 billion connected devices in 2020. Intel, betting big on IoT, expects 200 billion connected devices in 2020 and is launching products to make it happen.

The commercial success of FPC is dependent on the ability to cater to the needs of the customers with a leading product portfolio. Key enablers for FPC's product leadership are the patent portfolio covering both sensors, packaging and algorithms and the ability to integrate hardware, software and packaging in one system. The patent portfolio also gives FPC the right to play and keeps competitors out as OEMs do not want to risk having their products banned due to patent infringements of their suppliers. FPC is active in further developing its technologies to sustain its leading position and has recently launched sensors capable of sitting under 400 micrometer glass, a proprietary algorithm for the mobile device segment capable of liveliness detection and sensors developed specifically for smart cards.

Reliability of supply is key in the mobile device segment with its short product life cycles. FPC's supply chain and system integration capabilities provide barriers to entry. Incumbents as well as entrants aspiring to steal market shares lack FPC's economies of scale and will have a hard time competing against FPC. The company has built a strong position in the ecosystem and continue to enter into important partnership agreements. During 2016, partnerships with leading companies in the smart card industry, automotive industry as well as IoT have been announced. Partners include global leaders such as Gemalto and STMicroelectronics. FPC has a strong balance sheet and can leverage its financial strength and access to key customers to make accretive acquisitions of smaller technology companies whose products and technology are complementary to FPC's offering.

FPC has no intention to surrender to the competition, but instead plans to extend its offering with new solutions and in new verticals. Whereas we believe FPC will manage to do so, we see potential risks in the longer term. The major risk is shared by virtually all high-tech companies, namely that of new, disruptive technologies. Even though active capacitive fingerprint sensors have become more or less a de-facto standard in the mobile device segment, eco-system players wishing to enter the biometrics market are looking at various ways to capture a piece of the pie. There are proponents of other fingerprint recognition technologies as well as other biometric modalities. Major players like Qualcomm push for their own solutions and competitors with complementary offerings, Synaptics being one of them, are trying to leverage its capabilities in adjacent technological areas to overtake FPC's lead.

In the mobile device segment, FPC has secured a leading position and players proposing solutions based on other technologies will have to not only secure the functionality of their solutions, but also industrialise their proposed solutions – a tough job even for behemoths like Qualcomm and Samsung. In other verticals the jury is still out even though FPC's prospects currently look promising as it has already secured numerous partnerships with key players in the new verticals it will target. Incremental technological developments, both in the fingerprint sensing technologies and in production technologies, as well as competitors always pose a threat. Competitors are on their toes to come up with better products and technology - FPC cannot allow itself to relax but must adapt to changes in the market and leverage its current position to be competitive over time. Internal R&D or M&A will be needed to ensure technology and innovation leadership. A strategic repositioning in the value chain to combat commoditization is another strategy we believe FPC will pursue more aggressively.

The market is not discounting the opportunities FPC has to extend and broaden its offering. An extended biometric scope with solutions for multi factor authentication and new business models generating revenue streams from both hardware and software will position FPC as a key player in emerging ecosystems. We do not agree with the notion that FPC is a one-trick-pony, rather we see opportunities for continued growth in both revenues and profits for several years to come.

Catalyst types

Samsung mobile sources fps from fpc
FPC counts Samsung as a customer, but has as of yet not been included in a mobile device from the company. If FPC manages to secure a deal for FPS to Samsung, it could add substantial volumes. It would also help lessen FPC's dependency on Chinese OEMs. The market is not discounting a deal with Samsung mobile in H1 2017.

Commercial success/considerable volumes from smartcards
If the market sees that the smart card segment is taking off, for example from a major deal with Oberthur, Gemalto or Zwipe/MasterCard, it would have a major impact on the share. Not only would it contribute financially, but also make FPC less dependent on the mobile device segment. We expect to hear about further progress in 2017 and see volumes pick up in 2018.

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REDEYE

Publication date

January 10 2017

Formpipe Software FPIP

Company page

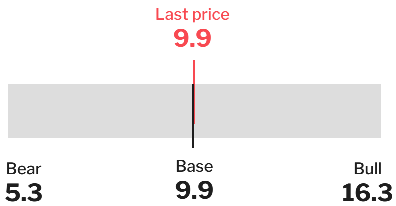
http://beta.redeye.se/company/formpipe-software

Redeye Rating

Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Impact

Major

Moderate

Minor

Timeframe

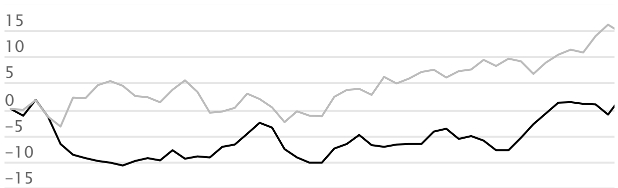
Long

Mid

Short

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Christian Sundin
Chairman	Bo Nordlander

Share information

Share price (SEK)	9.9
Number of shares (M)	51.3
Market cap (MSEK)	502
Net debt (MSEK)	51

Analyst

Alexander Sattelmaier
alexander.sattelmaier@redeye.se

Conflict of interests

Alexander Sattelmaier owns shares in Formpipe Software: No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	349	381	417	450	484
Growth	*13.6%*	*9.0%*	*9.5%*	*8.0%*	*7.5%*
EBITDA	74	83	93	106	119
EBITDA margin	*21.1%*	*21.7%*	*22.3%*	*23.5%*	*24.5%*
EBIT	20	28	35	43	51
EBIT margin	*5.7%*	*7.3%*	*8.5%*	*9.5%*	*10.5%*
Pre-tax earnings	14	25	29	38	47
Net earnings	19	17	23	29	37
Net margin	*5.0%*	*5.3%*	*5.5%*	*6.5%*	*7.6%*
Dividend/Share	0.10	0.07	0.08	0.10	0.12
EPS adj.	0.39	0.33	0.45	0.57	0.71
P/E adj.	25.4	29.7	22.0	17.1	13.8
EV/S	1.7	1.5	1.3	1.2	1.1
EV/EBITDA	7.9	6.9	6.0	5.1	4.3

Last updated: 2017-01-09

Owner	Equity	Votes
Martin Gren / Grenspecialisten	10.3%	10.3%
Handelsbanken Fonder	7.0%	7.0%
Avanza Pension	6.7%	6.7%
Swedbank Robur Fonder (Ny teknik)	6.0%	6.0%
Humle Fonder (Småbolagsfond)	4.7%	4.7%
Andra AP-Fonden	4.6%	4.6%
Thomas Wernhoff	3.9%	3.9%
UBS AG Clients Account	3.8%	3.8%
SEB Life International	3.0%	3.0%
Marcus Wallinder	2.9%	2.9%

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Company description

Formpipe Software provides ECM (Enterprise Content Management) solutions to public sector clients in Sweden and Denmark as well as the global Life Science industry.
The company is since 2010 listed on the OMX Small Cap stock exchange. As of early 2016, Formpipe has around 240 employees and is headquartered in Stockholm, but also has a big part of its workforce in Denmark. The company has a turnover of over 350 MSEK with an EBIT-margin of around 6-8% the last years, which is well below historical averages and productivity software peers.

The ECM market comprises systems that capture, process, store, archive and deliver information in a systematic way. This allows companies, organizations and public authorities to manage the continuously increasing flow of information in a connected, digital world. Through using ECM solutions, they can therefore increase their productivity, efficiency and even reduce risks in their business.
Formpipe's key market segments, the Swedish and Danish public sector, are regarded as relatively advanced in their use of ECM solutions. They are ahead of the private sector, mostly due to regulatory pressure.
Formpipe's key competitors in the Nordics are Software Innovation (NO, part of Tieto Group), Ida Infront (SE, part of Addnode Group), KMD (DK), SBYS (DK) and Essvision. We see Formpipe however in a leading position in their key customer and product segments.

Investment case

Formpipe’s solutions help its clients to manage an ever increasing flow of information, which is a strong underlying driver for the business. The firm has a stable customer base which primarily consists of public sector actors in Sweden and Denmark, with a strong base of recurring revenues which creates stability in the business. Growth opportunities exist both in existing as well as new markets, such as the Life Science sector.

Formpipe has several organic and acquisition-based growth opportunities. Cross-selling can be realized by bringing solutions from the Swedish to the Danish market and vice versa, which is a result of the Traen acquisition in 2012. We expect such cross-selling to contribute slowly, but positively to growth and profitability going forward.
In addition, Formpipe has created an offer targeted at the Life Science sector (Platina QMS), which can be a future growth driver for the firm. The Life Science industry shares many parallels with the public sector as it is highly regulated by rules and regulations, not least from the US FDA (Food and Drug Administration). Life Science is however a highly globalized market, which could be of importance for Formpipe since current public sector solutions are rather customized to individual geographic markets. We see Formpipe's acquisition of UK-based GXPi, a provider of compliance management solutions to the Life Science sector, as a confirmation for this, since the UK is one of the hubs for Life Science within Europe and globally. At the same time, it became obvious that the new Life SCience team will take longer to contribute positively to EBITDA than previously expected - both because it takes longer to close first bigger sales and because setting up base in the US required additional investments.

Another product-based opportunity is Formpipe's solution for long-term archiving, where Formpipe has started to see promising market traction. The product had been developed for several years before, and the market - despite clear incentives to adopt such solutions - has been rather slow, but since mid-2015 Formpipe has won a number of smaller and bigger contracts in the segment.

The current stock valuation has not priced in a full successful commercialization of both key growth opportunities described. After a slowing market 2013, Formpipe exceeded our revenue expectations for most of 2014 and delivered well even during 2015. At the same time, profitability has not seen the expected turnaround on EBIT level yet. This was mainly due to continued investments in new products and markets, but also delays in the commercial success of new products compared to initial plans, and challenges in the efficiency of the Danish operations. Formpipe is however still the market leader in the stable Nordic market for ECM solutions for public service clients. If the traction of the long-term archiving product continues throughout 2016 and the first bigger Life Science orders get signed, a strong revaluation of the stock might be possible. Another potential trigger for this would be significant margin improvements - which we however rather see on a mid-term horizon.

Key risks in the stock are mainly related to increased competition both from local players as well as international firms, and players from consulting and product backgrounds joining forces, like Tieto and Norwegian Software Innovation. Another risk is that the public sector might face reduced budgets over time and therefore might have less economic freedom to invest in systems such as Formpipe’s.

Catalyst types

New acquisitions for geographic and/or product expansion
FPIP historically used M&A to grow. Net debt is at levels again allowing for new M&A, which can boost geo and/or product based growth.

Cross-selling denmark and sweden
(Positively) Priced into the stock and our value assessment.

Broader market traction of the long-term archive product
Faster and broader success fir long-term archive product. Neither priced in the stock nor our base case.

Buildup of swedish delivery organization
Currently ongoing, downside potential mainly related to margin pressure if not executed successfully.

Positive ebitda contribution from new life science team
Currently not priced in the stock and partly in our value assessment.

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Publication date

January 10 2017

Heliospectra HELIO

Company page

http://beta.redeye.se/company/heliospectra

Redeye Rating There is currently no analytical data on this company

Snapshot

Marketplace	First North Stockholm
CEO	Staffan Hillberg
Chairman	Andreas Gunnarsson

Share information

Share price (SEK)	8.1
Number of shares (M)	35.1
Market cap (MSEK)	269
Net debt (MSEK)	61

Analyst

Joel Westerström
joel.westerstrom@redeye.se

Conflict of interests

Joel Westerström owns shares in Heliospectra: Yes

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

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	14	35	56	82	116
Growth	*>100%*	*>100%*	*60.0%*	*46.4%*	*42.0%*
EBITDA	-28	-28	-21	-13	1
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*0.7%*
EBIT	-32	-32	-25	-17	-3
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-34	-34	-28	-21	-8
Net earnings	-34	-34	-28	-21	-8
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.82	-1.83	-1.49	-1.13	-0.44
P/E adj.	-4.4	-4.4	-5.4	-7.1	-18.6
EV/S	11.2	5.2	3.8	2.9	2.1
EV/EBITDA	-5.4	-6.5	-9.9	-17.8	312.6

Last updated: 2016-11-10

Owner	**Equity**	**Votes**
G?sta Welandson	37.0%	37.0%
Stiftelsen Industrifonden	10.9%	10.9%
Mohammed Al Amoudi	10.9%	10.9%
Avanza Pension	4.4%	4.4%
Nordnet Pensionsf?rs?kring	2.2%	2.2%
Magowny Invest AB	1.8%	1.8%
Piba AB	1.7%	1.7%
Chrilotte AB	1.4%	1.4%
Kent Gustafson	1.4%	1.4%
Rolf Johansson	1.4%	1.4%

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Company description

Heliospectra specializes in intelligent lighting systems for plant research, greenhouse cultivation and controlled environment agriculture. The company is a global leader in LED grow lights for advanced research applications and has patented technology.

Personal notes

REDEYE

Publication date
January 13 2017

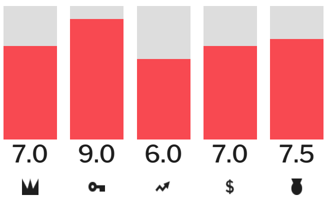
Hexatronic Group HTRO

Company page
http://beta.redeye.se/company/hexatronic-group

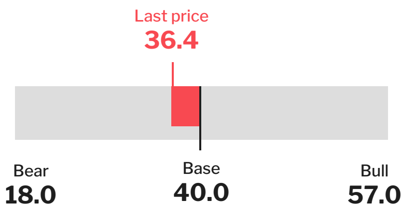
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Henrik Larsson-Lyon
Chairman	Goran Nordlund

Share information

Share price (SEK)	36.4
Number of shares (M)	36.1
Market cap (MSEK)	1,283
Net debt (MSEK)	-27

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

Kristoffer Lindström owns shares in Hexatronic Group: Yes

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

Financials

			Redeye Estimates		
	2015	**2016**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	627	891	1,097	1,330	1,569
Growth	*26.2%*	*42.0%*	*23.2%*	*21.2%*	*18.0%*
EBITDA	64	81	117	153	181
EBITDA margin	*10.2%*	*9.1%*	*10.6%*	*11.5%*	*11.5%*
EBIT	50	63	95	118	143
EBIT margin	*8.0%*	*7.1%*	*8.7%*	*8.8%*	*9.1%*
Pre-tax earnings	49	55	83	104	136
Net earnings	37	42	65	81	106
Net margin	*6.0%*	*4.7%*	*5.9%*	*6.1%*	*6.8%*
Dividend/Share	0.00	0.00	0.28	0.00	0.00
EPS adj.	1.14	1.25	1.77	2.23	2.91
P/E adj.	31.8	29.2	20.6	16.3	12.5
EV/S	1.9	1.4	1.2	1.0	0.8
EV/EBITDA	18.4	15.1	11.2	8.5	7.0

Last updated: 2016-11-07

Owner	Equity	Votes
Gert Nordin	12.8%	13.6%
Goran Nordlund	9.6%	10.2%
Jonas Nordlund	9.1%	9.6%
Chirp AB	4.9%	5.2%
Erik Fischbeck Holding AB	4.8%	5.1%
AIF Clients	4.4%	4.7%
Jovitech Invest AB	3.4%	3.7%
Robert Lidström Holding AB	2.4%	2.6%
Henrik Larsson Lyon	2.3%	2.4%

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Company description

Hexatronic is present in the industry of communication solutions for fiber optic communications. The main market that the company operates in is the so called FTTH (Fiber-To-The-Home). The company is a supplier of products through the whole infrastructure of fiber optics. The main customers are the largest network suppliers, telecom companies and installers. The company operates mainly in the Northern European markets, but also delivers significant volumes to the rest of the world.

Hexatronic have about 300 employees and is listed on Nasdaq OMX First North since 2014-04 before that it was listed on NGM and Aktietorget. In 2014 Hexatronic bought Ericssons cable factory in Hudiksvall, Sweden, to broaden its offer of fiber cable products. The company competes in two sub-markets within the Fibre cable industry; Land solutions and Submarine solutions. Most companies in the optical fibre business is only present in one or two parts of the infrastructure and not throughout the whole as Hexatronic, this is the compan's main advantage as they want to develop system deliveries instead of in single product deliveries. Hexatronic want to grow their business by gaining market share by delivering systems and by acquiring companies with an international presence.

Investment case

For Hexatronic to be able to live up to their financial goals of a yearly growth rate of 20% and an EBITDA margin of 10-12%, the company need to utilize and nurture its existing customer base that the company gained through the acquisition of Ericsson's optical fiber cable business and make smart acquisitions. In our view the recent acquisitions of TD Fiber and Proxiomion have strenghted the company substantially.

Hexatronic is present in a growing industry, but to be able to live up to a growth rate of 20% it is likely that future acquisitions is needed. We believe that the company wants to expand on an international basis by acquiring companies with large customer bases. Making these acquisitions at attractive price tags will be crucial for value creation in the next few years.

The company today is quite small. This is an advantage as Hexatronic might be overlooked by the investment community. It is reasonable to believe that the company will grow at a healthy rate and with a good profitability, when the size of the company increases, due to larger sales and profits, the value of the company will also do so. We believe that more and more analyst will take up coverage of Hexatronic in the future and the company likely will get more attention in the media. Hexatronic also have stated that they will list the company's share on Nasdaq Stockholm Small cap, which should attract more investors. Hexatronic is a profitable growth company that is not valued as one, mainly because the company is overlooked by investors.

Catalyst types

Investor awareness
Hexatronic, in its present shape, is a relatively new company. We find it likely that a future continued performance of the company will increase the investor awareness and thus enhance the valuation of the company.

Continued growth of fiber infrastructure investments
The growth of infrastructure investment in fiber will be substantial over the coming years. Due to the large need of higher internet capacity with the reason of changed consumer behavior. The overall market growth will increase the revenue levels of Hexatronic.

Gained market share
Hexatronics system based offering could lead to a higher market share as the company competes with a better service than their competitors. This could result in a high revenue growth.

Personal notes

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REDEYE

Publication date

January 10 2017

Invisio Communicatio... IVSO

Company page

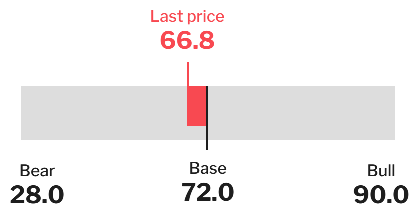
http://beta.redeye.se/company/invisio-communications

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

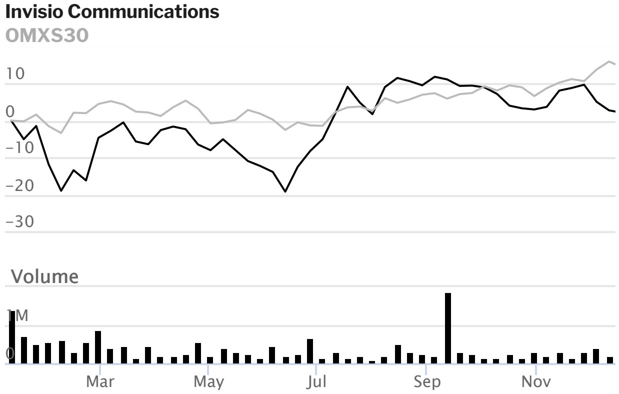
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Lars Højgård Hansen
Chairman	Lars Röckert

Share information

Share price (SEK)	66.8
Number of shares (M)	43.4
Market cap (MSEK)	2,889
Net debt (MSEK)	-259

Analyst

Viktor Westman
viktor.westman@redeye.se

Conflict of interests

Viktor Westman owns shares in Invisio Communications: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	230	328	401	505	587
Growth	*14.0%*	*42.6%*	*22.4%*	*25.9%*	*16.1%*
EBITDA	53	98	123	169	197
EBITDA margin	*23.0%*	*29.9%*	*30.6%*	*33.4%*	*33.7%*
EBIT	47	93	116	159	188
EBIT margin	*20.6%*	*28.3%*	*29.0%*	*31.5%*	*32.0%*
Pre-tax earnings	47	93	116	159	188
Net earnings	57	103	114	132	146
Net margin	*24.8%*	*31.4%*	*28.5%*	*26.2%*	*25.0%*
Dividend/Share	0.00	0.00	0.00	0.97	1.64
EPS adj.	1.35	2.37	2.59	2.95	3.27
P/E adj.	49.4	28.2	25.7	22.6	20.4
EV/S	12.1	8.4	6.7	5.1	4.2
EV/EBITDA	52.7	28.2	21.9	15.4	12.5

Last updated: 2016-12-19

Owner	Equity	Votes
Lage Jonason	17.9%	17.9%
Patinex AG	17.3%	17.3%
Handelsbanken Fonder	7.3%	7.3%
Swedbank Robur Fonder	6.0%	6.0%
Erik Åfors	4.7%	4.7%
Karin Lindahl	3.2%	3.2%
Svenska Handelsbanken AB for PB	1.9%	1.9%
Fjärde AP-Fonden	1.7%	1.7%
Avanza Pension	1.6%	1.6%

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Company description

Invisio, which previously went under the name Nextlink, develops and sells voice communication equipment for professional users, mainly military. Its current focus has existed since 2007, but the company was founded in 1999 before an initial failed venture into the consumer market. Its strategic transition has resulted in strong growth, and in 2015 Invisio had sales of SEK 230 million and an operating profit of SEK 47 million. Invisio has a scalable business model, partly because the company has only some 40 employees. Its model is based on the company, either itself or through distribution partners, selling advanced hardware and adaptations to local military conditions. However, its manufacturing is outsourced. Invisio's customers are both special forces and regular armies. Orders from special forces are typically in the range SEK 2-10 million and take place on an ongoing basis. Orders from regular armies take place in connection with major procurement processes and are initially in the range SEK 10-40 million, often with subsequent follow-up orders. Invisio's existing customers are around ten Western states, usually connected to NATO. However, the company intends to win contracts in the approximately 40 military modernisation programmes ongoing worldwide. A competitive advantage that could help Invisio in this process is its understanding of military needs along with its proximity to the world-leading Danish hearing aid industry, which means good knowledge of how the equipment should fit for the user to want to have it on for long periods. Invisio's reference customers are also an important parameter. Since autumn 2013 the company has been selling to the US Army, but for a long time prior to that it has sold to special forces like Delta Force and the Navy Seals. One disadvantage is that the patent on which Invisio's bone conduction microphone is based expired in 2014.

Investment case

Invisio has gone from sales of small batches of equipment for leading special forces to delivering on a broad front to the entire armies of seven countries. The breakthrough came in late 2013 with the US Army (known as the TCAPS program). Strongly driven by a desire to prevent hearing damage costs amounting to several billion US dollars, the US Army has in several phases placed orders totaling over SEK 300m. The demanding US Army is naturally the best possible reference customer. With TCAPS as a reference, Invisio now aims to win the other 40-50 procurement processes within military modernization programs that the company is participating in. Following extensive and rigorous TCAPS testing, Invisio has become NATO certified, and we therefore believe that Invisio's products will gradually become the standard in other NATO countries. Given new contracts with the regular armies of Britain, Canada and Australia in 2015, the company is already well underway.

The confidentiality surrounding its deals is more or less total, but we are not aware of Invisio having lost any procurement since 2007. The numerous and major transactions that the company is winning therefore indicate that Invisio has a comprehensive range of hearing protection and communication that no one can today match. The procurement processes generally last several years, but so do the contracts once they are won. The fact that the process of winning contracts is protracted and tough also means that it is difficult to be rejected provided things are done correctly. Since it is not possible to join the 40-50 procurements retrospectively, we believe that Invisio will dominate the military market over the next few years, and will do everything to strengthen this position. Any company then wanting to threaten Invisio would of course be able to produce an equivalent offer, but would have to be very long-term and focused, and have large resources, while the annual size of this niche market represents a huge question mark. But it is still questionable whether this would be enough given that Invisio, with its combined expertise in audiology and military communications over the past decade, is an established speaking partner to the world's leading military units.

During 2015, the equity market has started to understand the scalability of Invisio's business model and that this market niche is more than able to feed a player of Invisio's size. We believe, however, that the stock market underestimates the strength of its competitive advantages. The market is therefore failing to recognize how quickly the company can grow in the medium and long term, but this will be corrected as the company wins more and more business.

Catalyst types

Orders from tcaps
Many future orders from the US Army (TCAPS) are priced into the stock. However larger or faster orders than expected could move the stock up faster, and vice versa.

Orders from the 50 modernization programs
Invisio are participating in procurements in 50 military modernization programs, of various sizes, around the world.

Personal notes

Publication date

January 10 2017

Lagercrantz Group LAGR B

Company page

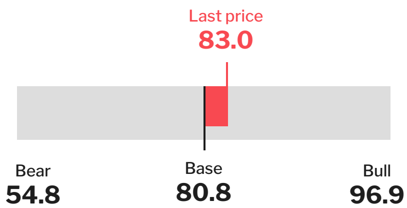
http://beta.redeye.se/company/lagercrantz-group

Redeye Rating

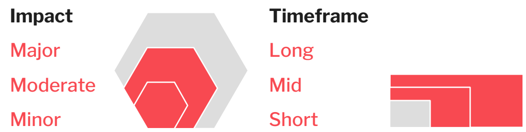
Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

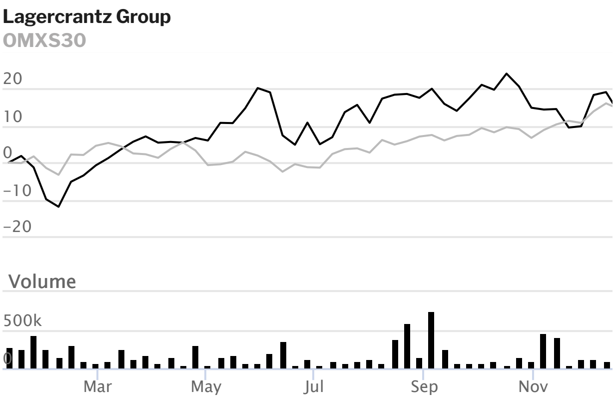


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Jörgen Wigh
Chairman	Anders Börjesson

Share information

Share price (SEK)	83.0
Number of shares (M)	69.5
Market cap (MSEK)	5,770
Net debt (MSEK)	655

Analyst

Henrik Alveskog
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Conflict of interests

Henrik Alveskog owns shares in Lagercrantz Group: No

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

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	3,057	3,176	3,525	3,947	4,263
Growth	*7.4%*	*3.9%*	*11.0%*	*12.0%*	*8.0%*
EBITDA	392	443	496	575	634
EBITDA margin	*12.8%*	*13.9%*	*14.1%*	*14.6%*	*14.9%*
EBIT	315	356	410	486	533
EBIT margin	*10.3%*	*11.2%*	*11.7%*	*12.3%*	*12.5%*
Pre-tax earnings	307	345	384	460	508
Net earnings	241	262	299	359	396
Net margin	*7.9%*	*8.3%*	*8.5%*	*9.1%*	*9.3%*
Dividend/Share	1.75	1.71	1.82	2.08	2.30
EPS adj.	3.50	3.80	4.34	5.20	5.75
P/E adj.	23.7	21.8	19.1	16.0	14.4
EV/S	2.1	2.0	1.8	1.6	1.4
EV/EBITDA	16.1	14.4	12.9	11.0	9.6

Last updated: 2016-12-13

Owner	Equity	Votes
Lannebo fonder	13.9%	9.7%
Swedbank Robur fonder	8.1%	5.7%
Handelsbanken fonder	7.8%	5.5%
SEB Investment Management	7.0%	4.9%
Didner & Gerge fonder	6.2%	4.3%
SEB Asset Management	4.3%	3.0%
Odin fonder	4.2%	3.0%
Anders Börjesson o familj	3.9%	16.4%
Tom Hedelius	2.1%	14.7%
Familjen Säve	2.0%	2.0%

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Company description

Lagercrantz has a long history together with two other listed companies: B&B Tools (previously Bergman & Beving) and Addtech. Lagercrantz started in 1938 and was acquired by Bergman & Beving in 1967. Lagercrantz and Addtech were spun off in 2001 and have since been listed on Nasdaq Stockholms main market. Lagercrantz got the businesses within electronics, IT and Communication.

The strategic focus during the last decade is characterized by the changes that took place in the wake of the IT- and telecom crisis, during the first years of the new millennium. The product life cycles of electronic components became shorter and production was moving east. Lagercrantz new strategy is oriented towards higher value added products and an expansion into new market niches. Acquisitions have always been a natural part of the groups' evolution and focus is primarily on proprietary products rather than trading companies. Today the group has some 40 subsidiaries, just over 1000 employees and a turnover of approximately SEK 3 bn with an EBIT-margin of around 10 percent.

Investment case

Lagercrantz is able to showcase an impressively long track record of improving profitability and continuous growth. Its growth is certainly driven mainly by acquisitions, but with good cash flows and stable revenues all its acquisitions have been self-financed and its balance sheet gives further room for expansion. The company's financial target is to achieve average annual profit growth of 15 percent, which it has managed to deliver over the past ten years.

Its acquisition strategy is based on buying smaller companies with a strong position in their specific niches. These typically have sales of around SEK 50-100 million, and are well managed and profitable with limited risk. Its aim is to continue to build up a large portfolio of successful companies, and Lagercrantz has undoubtedly succeeded in this in recent years. Since 2012, Lagercrantz has bought about 15 companies and the pace has been particularly high since 2015. All the companies, as far as we can tell, have had stable and really good profitability. Operating margins are on average about 20 percent. The acquisitions have also been made at clearly reasonable prices, equivalent to approximately five times operating profit.

It has been possible to buy these companies cheaply due to their relatively small size and dependence on personnel. The operations are then valued at a higher mutiple once they are part of Lagercrantz. However, these higher valuations once they are part of the Lagercrantz group are not just sleight of hand since the companies have greater opportunity to develop with their new owners. This applies particularly to the smaller product companies, which have often lacked the knowledge, capital or, in some cases, the courage to expand into new markets.

This stock offers good exposure to successful Nordic small caps. To some extent, it can therefore be regarded as a very interesting alternative to mutual funds, and the share has clearly outperformed the stock market index in recent years. Lagercrantz has a good proven ability to buy and develop companies, and provides good potential to generate high returns over time, particularly given that its dividends are also generous and have risen in line with profits over a prolonged period. The share has traded up to new peak levels, and deservedly so. In the short term, the share could possibly make further gains if the company announces any major acquisitions. In the longer term, we also envisage that improved profitability and organic growth could drive the valuation.

Catalyst types

Organic growth will drive margins
Several subsidiaries with proprietary products have a good potential to expand into new markets. Lagercrantz organic growth and margins should benefit from this since these companies are more profitable than group average.

More of the same (acquisitions)
Focus on buying relatively small companies with proprietary products and good profitability at fairly low multiples has been successful. More acquisitions like this are likely and will continue to drive value.

Personal notes

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Publication date

January 11 2017

Mr Green & Co MRG

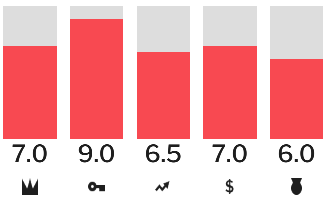
Company page

http://beta.redeye.se/company/mr-green-co

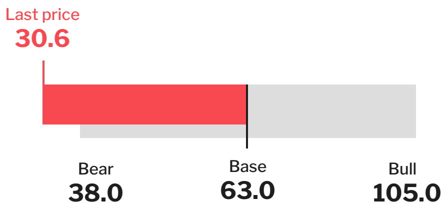
Redeye Rating

Leadership   Ownership   Profit outlook $ Profitability   Capital strength

COMPANY QUALITY



FAIR VALUE RANGE



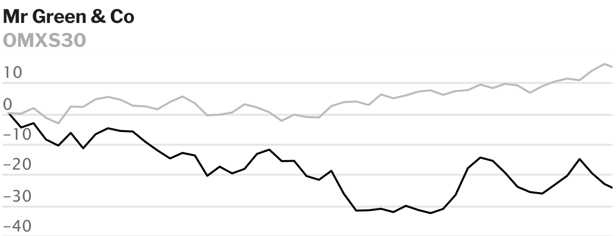
CATALYST POTENTIAL

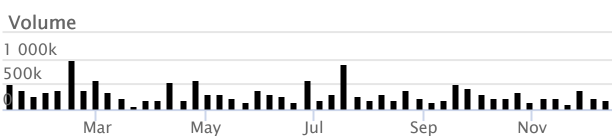
Impact
Major
Moderate
Minor

Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot





Marketplace	NASDAQ Stockholm
CEO	Per Norman
Chairman	Kent Sander

Share information

Share price (SEK)	30.6
Number of shares (M)	35.8
Market cap (MSEK)	1,093
Net debt (MSEK)	-430

Analyst

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Conflict of interests

Kristoffer Lindström owns shares in Mr Green & Co: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	793	897	1,050	1,212	1,369
Growth	*20.3%*	*13.2%*	*17.1%*	*15.4%*	*13.0%*
EBITDA	28	77	145	206	246
EBITDA margin	*3.6%*	*8.6%*	*13.8%*	*17.0%*	*18.0%*
EBIT	-36	18	84	143	177
EBIT margin	*Neg*	*2.0%*	*8.0%*	*11.8%*	*12.9%*
Pre-tax earnings	-36	18	84	143	177
Net earnings	74	23	77	132	163
Net margin	*Neg*	*2.6%*	*7.3%*	*10.9%*	*11.9%*
Dividend/Share	0.00	1.00	1.50	2.00	2.50
EPS adj.	2.07	0.64	2.15	3.67	4.53
P/E adj.	14.8	48.0	14.2	8.3	6.7
EV/S	1.1	0.9	0.6	0.4	0.6
EV/EBITDA	32.2	10.8	4.6	2.3	3.2

Last updated: 2017-01-10

Owner	Equity	Votes
Nils-Henrik Investment	13.4%	13.4%
Handelsbanken PB	11.7%	11.7%
Revolutionary Investment Group	10.4%	10.4%
Avanza Pension	7.2%	7.2%
Henrik Bergquist	5.4%	5.4%
Hans Fajerson	5.1%	5.1%
Mikael Pawlo	3.7%	3.7%
Handelsbanken Liv	2.7%	2.7%
Swedbank Försäkring	2.5%	2.5%
Guntis Brands	2.2%	2.2%

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Company description

Mr Green & Co is an investment company operating online casinos. The main holdings are registered in Malta; Mr Green is an online casino with some 200 games in seven different languages. Turnover in 2014 amounted to 659 million kronor with an EBIT of 80 million kronor. Mr Green & Co is since the 28th of June 2013 listed on the Aktietorget. The company was founded in 2007 by Fredrick Sidfalk, Genrik Berquist and Mikael Pawlo, who remain as significant shareholders today. Mr Green´s competitive advantage lies within its unique and well established brand. Management and owners behind the company also have an impressive track record as the founder of Betsson. Mr Green is one of the largest players in Sweden and Scandinavia (excluding Denmark) together with Unibet and Betsson. The company now operates in larger parts of Europe.

Investment case

Mr Green and Co is in a growth phase, and is growing quicker than the competition. This has resulted in higher than normal costs, as the company is investing considerable resources in marketing to attract customers, especially in emerging markets. Adjusted for high marketing expenses which are incurred due to less established market requiring greater marketing efforts, and taking into account the growth in the mobile segment and in the industry overall, Mr Green's stock appears to have an attractive value proposition. The company is already profitable, and revenue is growing at a greater pace than expenses. It is important that the regulatory climate is beneficial and its innovation DNA is maintained, if the company is to retain its' growth potential. The company is likely to increase its' international sales in the coming years, which could lead to further legal issues, but a decreased total risk in relation to the turnover. A possible change in gaming allowance or a sentiment in one of the markets could be a significant factor in the company's expansion and the coming year's results. The implementation of national licenses can, in the short term, negatively affect the company due to lower margins, this would however be compensated by greater turnover. When the company enters the maturity phase, we assume a lower operating margin than that of the competition, of about 20 percent, to account for the effects of the changed regulatory environment and increased levels of competition, which appears attractive today due to the high potential yield in relation to its' competitors. It is likely that the company will achieve EBIT margins of 25-30 percent when it enters the maturity phase, which is not expected by the market.
It is important that 30-40 percent growth is achieved in the coming years, if the share value is to be reflected accordingly. We believe that the company has significant possibilities to expand in already establish as well as new markets, as Mr Green still has a smaller share in all the markets. Markets which are more restrictive in relation to the operation of online casinos, such as USA, Spain and Asia, could counteract growth in the maturity stage.

The high growth in the online casino market, combined with high margins makes the online casino industry an attractive one, which leads to greater levels of competition and possibly lower margins. Mr Green's future growth is likely to be dependent upon the company's continued brand establishment, which differs to the competition, as well as its' investment in the mobile segment. The company is therefore heavily invested in the mobile market, to be able to capitalize on its' growth. Mr Green's investment case still lies in a continued good growth as well as dividend payout potential in the maturity phase, in relation to the competition, which should lead to multiple expansion. Even a possible listing on Nasdaq OMX main lists should drive the share price towards the intrinsic value, as more funds would be able to buy.

Catalyst types

An acquisition target
Mr Green is when viewed in comparison to peers and our valuation range, priced at low levels. Still, the company holds one of the best now gambling brands in Europe and is a top-tier operator. A larger player wanting to expand their presence could offer possible view Mr Green as an attractive acquisition target.

Entrance into new markets
Mr Green strategy is to increase their presence in re-regulated markets. In July 2015, the company acquired a local gambling license in the UK which is one of the largest sports betting markets in the world. We also see the possibility to enter new markets such as Brazil and other countries in Latin America. Market entrances could be viewed positively by the market and increase the valuation levels of Mr Green.

Positive growth trend shift
The trend in revenue growth have been on a downward slope for a long time; the negative trend was broken in Q3'16, and we believe the transition to be sustainable. During H2 2015 and H1 2016 the marketing has been on hold due to the platform change. This will change in the coming quarters, and we see higher marketing activity going forward, leading to an increased revenue growth. With the introduction of the sportsbook, launched in H1 2016, Mr Green will tap into a previously unprocessed customer group creating new income streams. We deem it likely that an upwards valuation should occur if Mr Green continue to report an uptake in revenue growth.

Personal notes

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Publication date

January 10 2017

Mycronic MYCR

Company page

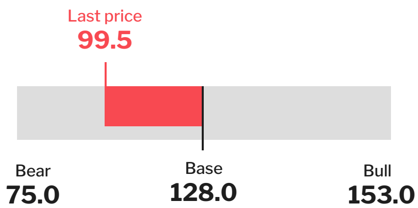
http://beta.redeye.se/company/mycronic

Redeye Rating

Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Impact

Major

Moderate

Minor

Timeframe

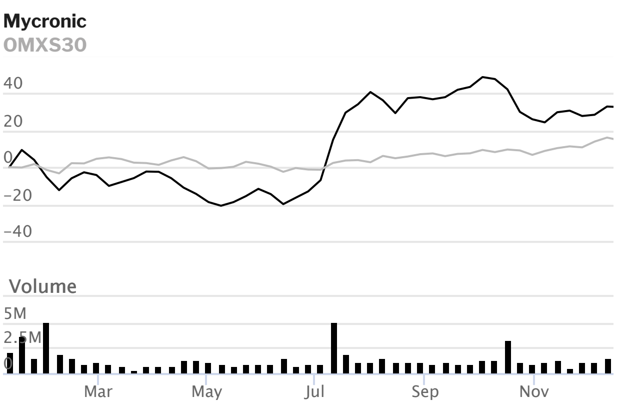
Long

Mid

Short

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Lena Olving
Chairman	Patrik Tigerschiöld

Share information

Share price (SEK)	99.5
Number of shares (M)	97.9
Market cap (MSEK)	9,743
Net debt (MSEK)	-1,063

Analyst

Viktor Westman
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Conflict of interests

Viktor Westman owns shares in Mycronic: Yes

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

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	1,815	1,892	2,667	2,811	2,891
Growth	*23.0%*	*4.3%*	*41.0%*	*5.4%*	*2.8%*
EBITDA	545	490	1,013	968	911
EBITDA margin	*30.0%*	*25.9%*	*38.0%*	*34.4%*	*31.5%*
EBIT	540	484	1,007	958	895
EBIT margin	*29.8%*	*25.6%*	*37.8%*	*34.1%*	*31.0%*
Pre-tax earnings	540	483	1,010	961	898
Net earnings	443	369	757	721	674
Net margin	*24.4%*	*19.5%*	*28.4%*	*25.6%*	*23.3%*
Dividend/Share	4.00	5.00	5.50	4.86	4.54
EPS adj.	4.52	3.77	7.73	7.36	6.88
P/E adj.	22.0	26.4	12.9	13.5	14.5
EV/S	4.9	4.7	3.3	3.0	2.8
EV/EBITDA	16.3	18.0	8.6	8.7	9.0

Last updated: 2016-12-19

Owner	Equity	Votes
Bure Equity	29.9%	29.9%
Fjärde AP-Fonden	5.9%	5.9%
Swedbank Robur Fonder	4.5%	4.5%
Handelsbanken Fonder	3.9%	3.9%
Catella Fonder	3.2%	3.2%
Dimensional Fund Advisors	1.9%	1.9%
Avanza Pension	1.9%	1.9%
Andra AP-Fonden	1.3%	1.3%
SEB Fonder	1.1%	1.1%
Oberweis Fonder	1.0%	1.0%

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Company description

Mid-cap company Mycronic develops systems for electronics manufacturing, and sells these directly and via distribution partners to hundreds of customers worldwide. Mycronic has been around for 30 years, but in its present form since 2009 when pattern generator manufacturer Micronic acquired Mydata, with operations in surface mount technology. The company's operations are divided into two business areas, Pattern Generators (PG) and Surface Mount Technology (SMT), but following the AEI acquisition there are also now Camera Module Assembly and Test systems (CMAT). R&D is conducted at the company's headquarters in Täby and occupies 25 percent of the approximately 500 employees. Mycronic's main strength is that the company has a market share of 100 percent in terms of pattern generators for monitors, which means that every single smartphone and tablet has been made using the company's equipment. We believe this is a niche market that is not large enough to support another provider. In its SMT business unit Mycronic has a share of 1-2 percent of the total market, but within the company's niche the proportion is over 20 percent. The company has made development investment costing billions of SEK, and over 150 patents have been granted, which in some ways is the company's weakness; technology risk is forcing it to invest in order to remain relevant. Mycronic's target is to achieve SEK 2 billion in sales by 2019, which will mostly take place through organic growth and the new strategy to replace old systems, but acquisitions have now also been made. The company had EBIT of SEK 540 million on sales of SEK 1,815 million in 2015.

Investment case

Mycronic is a global market leader in the company's two niches, with a new strategy and new products that represent significant growth potential in the coming years. In its Pattern Generators (PG) business area the company has a market share of 100 percent for the display segment. This is a small niche market that in recent years has been worth almost SEK 1 billion annually. However, the market's small size and the level of the technology make it unattractive to potential new entrants. Mycronic's new sales are therefore far from being just about the generally increasing resolution and performance requirements for displays, but are also replacements of the company's existing systems, with capacity utilisation continuing to set new records.

The latter task has historically been challenging because customers have found it difficult to come up with the USD 35-45 million needed to buy a new system, while the lifetime of the systems has exceeded expectations. In the years 2006-2013 Mycronic received orders for 1-2 advanced systems per year, compared with 35 in the golden years 2003-2005. By 2017 at the latest, the warranty periods for more or less all of these 35 systems will expire, and will be replaced with significantly less stringent best-effort undertakings. In its new replacement strategy, Mycronic has therefore made it possible for customers to finance capacity expansion using downscaled replacement systems at a much lower cost of USD 12-16 million. These replacement systems can be subsequently upgraded as required, which we see as a very attractive offer. In summary we therefore anticipate a release of pent-up demand in order bookings around 2017 for the PG business unit, which is outside the boundary of the short-term stock market's patience.

In Mycronic's other business area, Surface Mount Technology (SMT), the company has a strong and clear niche position in the manufacture of the most advanced circuit boards that require high flexibility and rapid production changeover. The trend toward more advanced electronic products therefore plays into the hands of Mycronic and its positioning, and allows Mycronic to grow faster than the market expansion of 3-4 percent per year. What the stock market is mainly failing to understand with regard to SMT are Mycronic's Jet Printer (MY600) and Jet Dispenser (MY600JD). We believe the price/performance offered by these products compared to traditional technology brings the opportunity to penetrate several new segments that are entirely new markets for Mycronic and that, according to our calculations, could each be worth up to SEK 1 billion.

We believe the greatest risk for this quality company is buying the stock at too high a level during an economic boom, but the thick order book and already huge cash reserves represent a cushion and also permit Mycronic to pay extraordinary dividends, just as in the past two years.

Catalyst types

P-800 order
Mycronic launched the P-800 in spring 2016. Given the demand for the new generation of aligners we see an imminent P-800 order

P-10 order
The demand for large displays is increasing, which is positive for the demand for Mycronics P-10. The construction of generation 10 display fabs has been planned since long, especially in China. Due to Chinese customs fees on photomasks we expect Mycronic's customers to build up a photomask industry within China.

Personal notes

REDEYE

Publication date

January 10 2017

myTaste TASTE

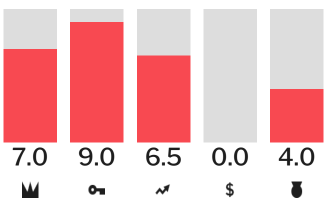
Company page

http://beta.redeye.se/company/mytaste

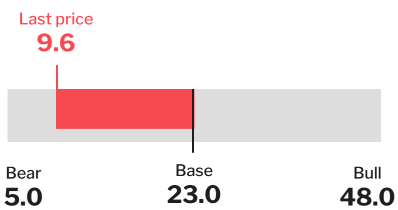
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Jonas Soderqvist
Chairman	Henrik Kvick

Share information

Share price (SEK)	9.6
Number of shares (M)	17.6
Market cap (MSEK)	166
Net debt (MSEK)	14

Analyst

Kristoffer Lindström
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Conflict of interests

Kristoffer Lindström owns shares in myTaste: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	51	43	54	77	90
Growth	*0.8%*	*-15.0%*	*24.7%*	*43.7%*	*16.9%*
EBITDA	1	-2	13	34	42
EBITDA margin	*2.6%*	*Neg*	*24.6%*	*43.8%*	*46.2%*
EBIT	-7	-8	8	28	34
EBIT margin	*Neg*	*Neg*	*14.5%*	*36.4%*	*38.2%*
Pre-tax earnings	-9	-10	6	26	33
Net earnings	-9	-10	6	26	32
Net margin	*Neg*	*Neg*	*11.4%*	*33.9%*	*35.9%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.51	-0.55	0.35	1.48	1.84
P/E adj.	-18.6	-17.4	27.5	6.4	5.2
EV/S	3.4	4.4	3.4	2.1	1.5
EV/EBITDA	130.9	-77.8	13.9	4.8	3.2

Last updated: 2016-12-22

Owner	**Equity**	**Votes**
Jonas Soderqvist	25.4%	25.8%
Henrik Kvick	24.1%	24.3%
Andereas Friis	22.7%	23.0%
Netfonds ASA	4.5%	4.6%
SEB Life	3.4%	2.9%
Avanza Pension	1.9%	2.0%
Hegel AB	1.3%	1.4%

Company description

myTaste Group (name change from 203 Web Group during 2016) is a digital media house with 35 employees headquartered in Stockholm, Sweden. The company excels in constructing scalable and auto-generated web products. The concepts behind the products are language independent, which means they can be applied on a multinational level and are today represented in 48 markets spread out all over the world. myTaste were founded in 2003, and their share are traded on Nasdaq Stockholm First North. For the year 2015, the Group reported net sales of SEK 55.8m with a negative EBIT of SEK -6.9m. Corporate restructuring during 2015 will positively affect the profitability levels during 2016 and onwards. 203 Web Group have two divisions; myTaste and Shopello. The primary focus is on myTaste with the transition of website visitors to app users to fuel future growth and value creation.

myTaste; myTaste is one of the world's largest food sites with social functionality. The primary source of income is advertising. The segment consists of the Group's food-related sites; myTaste, Matklubben, Vinklubben, and Bodegashop.com. The most notable competitive advantages of myTaste are the networking effect; through the food blog network, adding scalability and user generated social content.

Shopello; Shopello is an e-commerce platform which promotes other web shops products and receives revenue through the mediation of traffic. The segment includes, besides Shopello, Allannonser.se and M?bler.se which are two of the Group's wholly owned partner sites.

Investment case

The key factor behind the investment case of myTaste Group is the continued growth of the app user base and subsequently the evolution to a true social network for online recipes. The app has one of the best ranking stats compared to other competitive recipe apps, and the download rate continues at a high pace. The evolution of myTaste into a social network are enabled by the fact that the company is adding more and more social functions to their platforms, such as; rankings, user cookbook, user generated recipes follow, like recipes and more. The newly developed social features is a key to enhancing the powerful networking effect further and thus, create shareholder value and digging their competitive edge deeper.

The app users are more valuable than website visitors because the company can gather useful information about their behavior, create options for push notices, deliver high-quality viewers to food advertisers and receive payments for premium content. myTaste, with their 15 million monthly visitors, is one of the largest recipe sites in the world, and the company has just begun the transition of website visitors to the lucrative app. The common strategy for social network companies is to build a large, loyal and active user base before the monetization starts. We expect myTaste to initiate the monetization process by the end of 2017. When the monetization begins the revenue growth will be substantial, and the margin expansion will be significant.

We believe that myTaste are undervalued given the promising development of the recipe network and compared to recent transactions in the industry. Acquisitions multiples, based on the number of users, have ranged between 2-11 dollar per users. Today's valuation level of myTaste, with the bonus of Shopello, implies low confidence from the market in the prospects of the company, which is wrong in our view.

Catalyst types

Slowdown in app downloads
The conversion of website users to the app is of utmost importance for the development of The conversion of website users to the app is of utmost importance for the development of myTaste to a true social network for recipes. Since the launch of the apps, the download rate has been high with average downloads per day exceeding 10 000. A change, either up or down, in the download rate could impact the valuation significantly.

Improved fundamental performance
The result has been weak during the last few years, due to an unsuccessful venture in Spain. During 2015, 203 conducted major corporate restructurings, and this will affect the profitability positively during 2016 and onwards. We believe the improved fundamental development will lead to higher valuations levels.

App user monetization
The common strategy for social network companies is to build a large, loyal and active user base before the monetization starts. We expect 203 Web Group to initiate the monetization process by the end of 2017. When the monetization starts the revenue growth will be substantial, and the margin expansion will be significant.

Takeover target
Compared to recent transactions in the industry 203 is trading at almost depressed levels. One of myTaste biggest competitors, allRecepies, was acquired for 7 dollars per MUV (Monthly Average User) in 2013 and 11 dollars per MUV in 2006. Another example is Cookpad, the large Japanese online cookbook company, which has made a number of acquisitions during the last few years at valuations between 1.8-7.5 dollar per MV. Applying these multiples from recent acquisitions we arrive at valuations that range between 42-96 SEK per share for myTaste alone. In our view, we find an acquisition offer for myTaste as more likely than not.

Personal notes

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REDEYE

Publication date

January 10 2017

NC Lahega NOCH

Company page

http://beta.redeye.se/company/nc-lahega

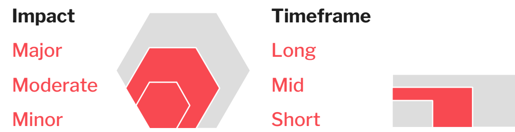
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

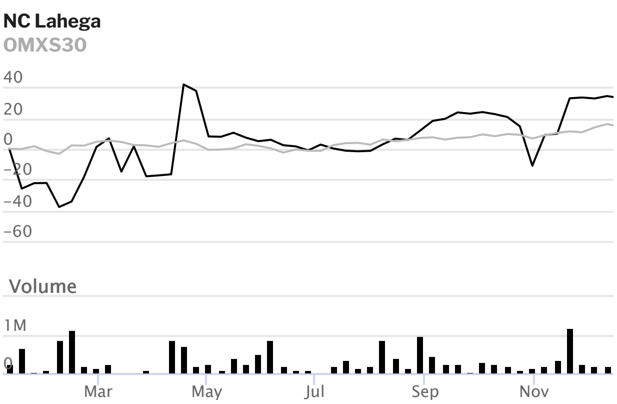
FAIR VALUE RANGE

CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Erik Hantoft
Chairman	Torbjörn Lindgren

Share information

Share price (SEK)	2.6
Number of shares (M)	43.5
Market cap (MSEK)	114
Net debt (MSEK)	81

Analyst

Henrik Alveskog
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Conflict of interests

Henrik Alveskog owns shares in NC Lahega: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	128	229	351	368	387
Growth	*-3.0%*	*79.3%*	*53.1%*	*5.0%*	*5.0%*
EBITDA	-9	-9	36	46	48
EBITDA margin	*Neg*	*Neg*	*10.3%*	*12.4%*	*12.3%*
EBIT	-14	-23	22	32	34
EBIT margin	*Neg*	*Neg*	*6.3%*	*8.6%*	*8.8%*
Pre-tax earnings	-16	-27	16	27	31
Net earnings	-13	-24	14	21	24
Net margin	*Neg*	*Neg*	*3.9%*	*5.8%*	*6.3%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.08	-0.48	0.27	0.42	0.47
P/E adj.	-2.4	-5.5	9.8	6.3	5.5
EV/S	0.6	1.1	0.6	0.5	0.4
EV/EBITDA	-7.8	-28.6	6.0	4.1	3.2

Last updated: 2016-12-13

Owner	Equity	Votes
Staffan Persson med bolag	26.7%	26.7%
Peter Ragnarsson med bolag	21.8%	21.8%
Hasselgården Holding AB	8.9%	8.9%
Avanza Pension	3.7%	3.7%
Michael Karlsson	2.9%	2.9%
Ingo Invest AB	2.5%	2.5%
Fredrik Grevelius	2.1%	2.1%
Mikael Hägg	1.7%	1.7%
Roland Schylit	1.7%	1.7%

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Company description

NC Lahega develops and produces sanitation and chemical maintenance products in their own facilities in Helsingborg and Rörvik. The subsidiaries have a long history but North Chemical was founded in 2009 when Stig Norberg, former CEO and main owner, acquired Aktiv Kemi. In 2012 they bought another couple of subsidiaries and the most recent acquisition, Lahega Kemi, was made in 2016. Since many years back the subsidiaries have a distinct environmental touch and most of their products are labelled Svanen or Bra Miljöval. NC Lahega is one of the leading companies within their industry in the Nordic region, which is a fragmentet market with a handful of international players and several local producers. The share has been listed on First North since December 2013. Group turnover 2015 was approximately SEK 360 million (proforma) and the number of employees is just over 100.

Investment case

In spring 2016, North Chemical bought Lahega Kemi and adopted the new name NC Lahega. Since its listing on First North in autumn 2013, the share has led a languishing life, mainly influenced by business setbacks and poor results. It is therefore likely that any first step toward a revaluation could only be taken by the company demonstrating it is on the right track with profitability. The new group has an opportunity to create significant economies of scale in production and can hopefully also obtain synergies on the revenue side. In 2017 we should be able to evaluate how well it succeeds in this respect.

The company is still unknown to the stock market. Once NC Lahega is able to demonstrate stable and decent profitability, it should be able to attract new investors and broaden its shareholder base, which has been entirely dominated by a small number of large owners.

There is without doubt additional potential if consolidation of the industry accelerates. Authorities and customers are setting ever tougher environmental requirements on both products and manufacturing processes, meaning that producers must set aside resources to develop and document new products. This will be a greater challenge for small local producers that will have a tougher time bearing the costs. With its own critical mass and access to capital markets, NC Lahega is well placed to strengthen its positions. A number of the smaller producers will probably disappear or be bought up. We can obviously not predict either the timing or the outcome of future acquisitions, but the potential will be there for the foreseeable future.

Catalyst types

New business deals
New contracts with major distribution networks such as Gulf gas stations, KG Knutsson etc, or clients within private label such as ICA, COOP etc. These relationships are usually long lasting which gives stability in earnings and of course better growth opportunities.

Rationalizations feeding through
In 2015 one production facility was shut down and in 2016 production was further relocated within the group. During the course of the next 12-18 months additional rationalizations will feed through, following the merger with Lahega. We expect to see evidence of this from Q4-16 and onwards.

Personal notes

Publication date
January 10 2017

Neonode Inc

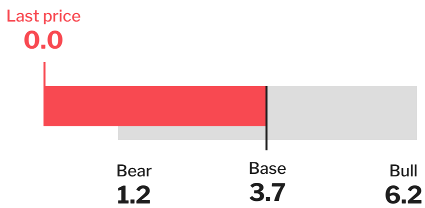
Company page
http://beta.redeye.se/company/neonode-inc

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	N/A
CEO	Thomas Eriksson
Chairman	Per Bystedt

Share information

Share price	N/A
Number of shares	N/A
Market cap	N/A

Analyst

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Conflict of interests

Viktor Westman owns shares in Neonode Inc: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MUSD	11	11	34	75	121
Growth	*>100%*	*-2.3%*	*>100%*	*>100%*	*62.0%*
EBITDA	-7	-6	5	22	43
EBITDA margin	*Neg*	*Neg*	*14.3%*	*29.5%*	*35.5%*
EBIT	-8	-6	5	22	42
EBIT margin	*Neg*	*Neg*	*13.6%*	*28.9%*	*34.5%*
Pre-tax earnings	-8	-6	5	22	42
Net earnings	-8	-6	5	22	42
Net margin	*Neg*	*Neg*	*13.6%*	*28.9%*	*34.5%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.19	-0.12	0.08	0.38	0.73
P/E adj.	N/A	N/A	N/A	N/A	N/A
EV/S	N/A	N/A	N/A	N/A	N/A
EV/EBITDA	N/A	N/A	N/A	N/A	N/A

Last updated: 2016-11-28

Owner	Equity	Votes
AWM INVESTMENT COMPANY INC	9.2%	9.2%
BYSTEDT PER	7.2%	7.2%
ERIKSSON THOMAS	4.8%	4.8%
ROYCE AND ASSOCIATES LLC	4.8%	4.8%
FIDELITY MANAGEMENT & RESEARCH	4.7%	4.7%
VANGUARD GROUP	3.3%	3.3%
DAHLIN MATS	2.7%	2.7%
GOLDMAN SACHS GROUP INC	2.6%	2.6%
BLACKROCK	2.6%	2.6%
ROYCE & ASSOCIATES INC	1.9%	1.9%

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Company description

First and foremost, Neonode, in a broader perspective, not only works with technology for touch displays but with human interaction in numerous ways. It is therefore important not to pigeonhole Neonode into solely touch display applications. Neonode pursues a multimodal approach and will integrate different types of sensors on its platform and use its own production technology and distribution network to be the front end. In addition, Neonode is surface independent, meaning it does not even need displays or glass. The new business model for Neonode's touch technology will be manufacturing and selling of hardware modules instead of just licenses. The modules together with the ramp-up of new car and printer models on the won platforms is the key parts of the growth strategy. Besides its many technology competitive advantages Neonode has wide barriers to entry in its automotive focus (see further the investment case section.

Listing: Founded in 2002 and listed on NASDAQ since 2007
Locations: Headquarter in Stockholm, Sweden but global sales reach
N.o. employees: Around 60
2015 figures: Sales and EBIT of USD 11 million and USD -8 million, respectively

Investment case

New business model multiplies addressable market
Neonode is a human interaction technology company with over 15 years of focused R&D in advanced optics. It is known for licensing its optical touch solutions operating in the infrared spectrum. However, the business model is now being pivoted from licenses to hardware modules, which will increase the addressable market more than fivefold. Neonode is ready to capture a major part of this growing market and the associated change in investor perception will have major effects on the share, as outlined below.

A disruptive technology leader
Neonode's patented technology has key competitive advantages against today's dominating technologies (projected capacitive & resistive) when it comes to performance features as low cost, power consumption, best image quality and extreme adaptability. It works on all surfaces and in all temperatures and environments. These features indicate that Neonode is a perfect match for automotive - its key growth area. In automotive, there are substantial barriers to entry as car manufacturers don't accept even a 3 ppm defective rate. A supplier therefore has to pass up to 5 years of demanding tests to qualify as a part of a platform. Neonode has passed these tests for customers deploying new automotive platforms and thus its modules will be installed in every new model for the next decade. The stock market, however, does not fully grasp the implications of Neonode's success in achieving qualified vendor status to the global automotive OEMs, the new technology acceptance or the ramp-up process of Neonode's customers.

Hitting the point of inflection
It is important to note that Neonode is not a high risk, high expectations play as it already has the customers, the traction and the ramp-up in existing and coming models to support a substantial growth. Approximately one third of the 30 car models where Neonode's technology is installed are currently shipping. This will increase significantly in the coming years as new customer car models incorporate Neonode's technology and the existing customers' Neonode based touch platform expands across their entire model line-ups. In addition, Neonode's clients in the printer industry currently have a total market share of over 80 percent, whereof HP holds around 50 percent. When Neonode's other clients, Samsung, Lexmark, Canon and Epson, roll out their next generation printers, we expect them to include Neonode's technology, as HP in 38 of its printer models. All in all, Neonode, with its new hardware module-based business model as a critical factor, is positioned to hit the point of inflection, i.e. a noticeable, positive turning point in the investment case and the stock market's appreciation.

Catalyst types

Short squeeze
Out of the outstanding shares over 11 percent of the free float are currently shorted. If short sellers accounted for 100 percent of the daily volumes it would take them over 14 days to cover, meaning a short squeeze should move the share considerably.

Break-even
We expect the reaching of break-even in the beginning of 2017 which would be an important milestone for the stock market to grasp that Neonode has left the losses behind and hit the point of inflection.

Personal notes

REDEYE

Publication date

January 10 2017

Nokia Oyj NOKIA

Company page

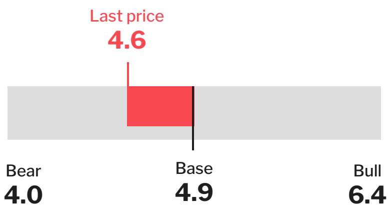
http://beta.redeye.se/company/nokia-oyj

Redeye Rating

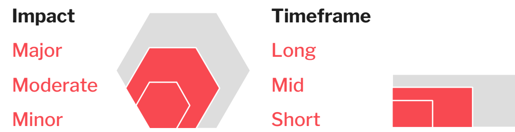
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

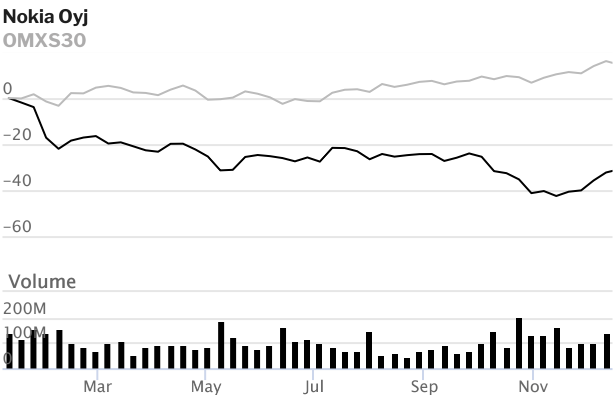


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Helsinki
CEO	Rajeev Suri
Chairman	Risto Siilasmaa

Share information

Share price (EUR)	4.6
Number of shares (M)	5,836.1
Market cap (MEUR)	26,706
Net debt (MEUR)	2,608

Analyst

Greger Johansson
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Conflict of interests

Greger Johansson owns shares in Nokia Oyj: No

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MEUR	12,499	23,708	23,322	23,408	23,526
Growth	*-1.8%*	*89.7%*	*-1.6%*	*0.4%*	*0.5%*
EBITDA	1,986	503	2,093	2,368	3,542
EBITDA margin	*15.9%*	*2.1%*	*9.0%*	*10.1%*	*15.1%*
EBIT	1,688	-955	764	1,652	2,353
EBIT margin	*13.5%*	*Neg*	*3.3%*	*7.1%*	*10.0%*
Pre-tax earnings	1,544	-1,241	474	1,412	2,113
Net earnings	1,432	1,038	283	494	1,445
Net margin	*19.5%*	*Neg*	*1.3%*	*4.1%*	*6.1%*
Dividend/Share	0.26	0.17	0.20	0.25	0.28
EPS adj.	0.39	0.18	0.05	0.08	0.25
P/E adj.	11.7	25.3	94.5	54.0	18.5
EV/S	0.8	1.2	1.3	1.3	1.2
EV/EBITDA	4.9	56.9	14.0	12.4	8.3

Last updated: 2016-12-21

Owner	Equity	Votes
KESKINÄINEN TYÖELÄKE. VARMA	2.3%	2.3%
KESKINÄINEN ELÄKEVA. ILMARINEN	1.5%	1.5%
NOKIA OYJ	0.8%	0.8%
VALTION ELÄKERAHASTO	0.7%	0.7%
SCHWEIZERISCHE NATIONALBANK	0.6%	0.6%
KESKINÄINEN TYÖELÄK. ELO	0.5%	0.5%
SVENSKA LITTERATUSS. I FINLAND	0.4%	0.4%
KEVA	0.4%	0.4%
FOLKETRYGDFONDET	0.3%	0.3%
SIJOITUSRAHASTO NORDEA FENNIA	0.3%	0.3%

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Company description

Nokia, with 150 years of history, has dramatically changed in the past couple of years. Its Devices & Services business was sold to Microsoft (2014), its HERE map services (2015) were divested, and its huge acquisition of Alcatel/Lucent (2015/2016) has really changed the company to its core. Nokia's goal once the integration of Alcatel is completed is for it to be able to offer the market a true end-to-end solution for communications.

The company currently has two major business areas, Nokia Networks and Nokia Technologies.
Nokia Networks, with revenues of some EUR 22–23 billion, comprises Mobile Networks, Fixed Networks, IP/Optical Networks and Applications & Analytics.
The other business area, Nokia Technologies, which includes patents and licensing agreements, has revenues of some EUR 1 billion but very high operating margins of 55–60%. Nokia's total turnover in 2016e will therefore be roughly EUR 23–24 billion, with an adjusted operating margin of around 10-11%.

Nokia is headquartered in Espoo (Helsinki), Finland, and has approximately 100,000 employees. The company's share is listed at the Nasdaq Helsinki Stock Exchange and at the New York Stock Exchange.

Investment case

Major integration with Alcatel creating an end-to-end offer
Nokia gained control of Alcatel in early 2016, resulting in a full-service communication supplier of fixed networks, mobile networks, services, analytics, patents/licensing, etc. Nokia will therefore become a more complete end-to-end company than, for example, Ericsson. Nokia is one of the three largest mobile network players in the word, with a market share of around 30–35%. With Alcatel, Nokia will also be one of the major players in fixed line/routing. However, it will be a huge task to complete the integration without losing time and people.
Nokia has previous experience from large-scale mergers and acquisitions, and although it had some issues with Siemens Networks, we believe it has gained valuable knowledge and skills for how to integrate a large networking player like Alcatel. Nokia has already started a major integration and has initiated a huge cost-cutting program. The cost-cutting program is expected to generate approximately EUR 1.2 billion in annual cost savings, to be achieved in full by 2018. After a few quarters of control, it is apparent that these processes (integration and cost cutting) seem to be proceeding well, and we believe they could be achieved more quickly than the market expects.

Strong management but weak owners
When embarking on major turnarounds, mergers and acquisitions, and cost cutting, it is usually very important to have owners/board/leadership that can quickly take all the necessary decisions. Unfortunately, there are no leading shareholders in Nokia (the largest shareholders owns 1.2% of the company), but fortunately we think the leadership team is great.
An important success factor for leading this complicated integration process, and at the same navigating in a declining market, is the leadership team. We believe that Nokia in general, and CEO Rajeev Suri specifically, have a very clear picture of what they want to do. And at the same time, Nokia has always been very good in its communication with the stock market. Mr. Suri has been at Nokia for several years and has gained the trust of the investment community. In addition, we consider the guidance that Nokia gives (vs. Ericsson's non-existent guidance) is as well balanced and as good as it could be. Regrettably, Nokia's CFO recently announced that he will leave the company but, as expected, Nokia already has the new CFO working at the company, which will smooth the transition.

Somewhat modest expectations
Since the market for mobile networks has been rather grim for some time, and is expected to remain so in 2017, the Nokia share has dropped somewhat. The valuation (P/S multiple well below 1x) indicates a fairly low level of confidence in the company. If we examine the financial estimates for a few years forward, we believe the market is too low in its assessment. Although we do not expect any growth going forward, we still estimate that Nokia can return to a 12–13% operating margin and a decent dividend. There are naturally some major risks in this scenario, such as continued double-digit negative revenue growth, problems with the integration of Alcatel, cost-cutting taking too long, and the new strategy faltering.

Catalyst types

M&a among the largest operators
Consolidation among customers will be negative for Nokia

Growth returns in the telecom industry
The underlying growth returns in the industry

Large contracts/business deals (bn usd) in 4g, 5g, services
Large deals in bn USD for 4G, 5G, services

Share buybacks
Nokia announce large buyback programs

Cutting cost/improved operational efficiencies
Nokia announce further cost cutting

Integration of alcatel/lucent
The integration process proceeds better than expected

REDEYE

Publication date
January 10 2017

Opus Group OPUS

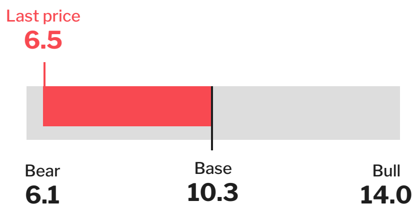
Company page
http://beta.redeye.se/company/opus-group

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

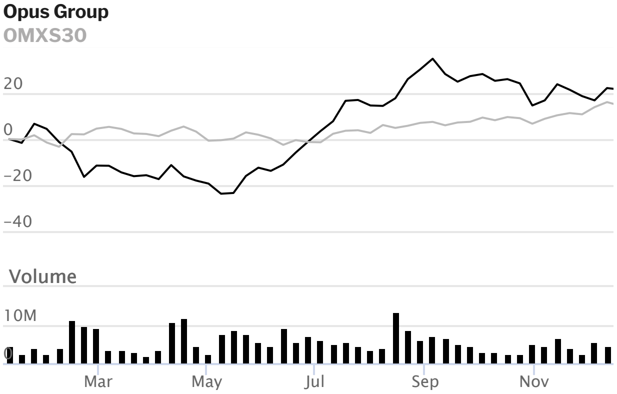
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Magnus Greko
Chairman	Katarina Bonde

Share information

Share price (SEK)	6.5
Number of shares (M)	288.7
Market cap (MSEK)	1,862
Net debt (MSEK)	499

Analyst

Henrik Alveskog
henrik.alveskog@redeye.se

Conflict of interests

Henrik Alveskog owns shares in Opus Group: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	1,652	1,735	1,903	2,004	2,125
Growth	*12.6%*	*5.1%*	*9.7%*	*5.3%*	*6.0%*
EBITDA	275	360	386	407	477
EBITDA margin	*16.6%*	*20.7%*	*20.3%*	*20.3%*	*22.5%*
EBIT	109	181	191	214	297
EBIT margin	*6.6%*	*10.4%*	*10.0%*	*10.7%*	*14.0%*
Pre-tax earnings	80	150	146	178	273
Net earnings	66	97	102	125	191
Net margin	*4.0%*	*5.6%*	*5.4%*	*6.2%*	*9.0%*
Dividend/Share	0.10	0.11	0.13	0.16	0.20
EPS adj.	0.23	0.34	0.35	0.43	0.66
P/E adj.	28.1	19.1	18.2	15.0	9.7
EV/S	1.6	1.4	1.2	1.1	0.9
EV/EBITDA	9.3	6.9	6.1	5.5	4.2

Last updated: 2016-12-13

Owner	Equity	Votes
AB Kommandoran	14.5%	14.5%
Lothar Geilen	6.8%	6.8%
Andra AP-fonden	6.4%	6.4%
Morgan Stanley LLC, W9	6.0%	6.0%
Avanza	5.2%	5.2%
Henrik Wagner Jörgensen	3.6%	3.6%
BNY Mellon SA/NV	3.6%	3.6%
Grandeur Peak Global	1.4%	1.4%
Aberdeen Investment Funds	1.3%	1.3%
Per Hamberg	0.9%	0.9%

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Company description

Opus was founded in the early 90's in Gothenburg where their head office is still situated. During the first years the strategy was to provide AB Svensk Bilprovning with equipment for emissions testing as the catalytic converters were introduced in the market. Step by step Opus extended its offering and customer base and grew internationally. The big change, from an equipment supplier to a service provider, came in 2008 when Opus acquired Systech, a US based vehicle testing company. Since then revenues from vehicle testing programs has grown substantially, more than 30 per cent annually during 2008-15, excluding the acquisitions of Envirotest and the Swedish operations. Equipment is today a minor part of their business.

Opus currently operates a number of testing programs in North and South America, Sweden and Pakistan. Sweden is an open market, but in reality it is an oligopoly since the barriers of entry are rather high. In North America the authorities give exclusive rights to run testing programs usually for a period of 8-10 years. In both cases revenues are stable and EBITDA-margins around 20 per cent. In 2015 Opus had 1 700 employees, revenues of SEK 1.7 bn and pre tax profit SEK 80 million. The shares are listed on Nasdaq Stockholms Main market.

Investment case

Over the past four years, Opus has nearly quadrupled its revenue while considerably boosting its margins. The growth comes both from a couple of major acquisitions and several new contracts gained in the US market. The next few years are unlikely to be as dramatic, but there are still plenty of growth opportunities. The fact that Opus has won several contracts suggests it has a competitive offering and is well regarded by its customers. References are extremely important in the vehicle inspection business. Of course there is also a risk of losing existing contracts from time to time, but with its track record there is a greater probability of it instead managing to win new business. This means that, over time, Opus should be able to continue to grow and capitalise on its market-leading position.

The stock market has certainly become aware of the company, but has probably not dared to factor in the journey being able to continue for a good while yet. Vehicle inspection is a typically Western phenomenon, but the problem of substandard vehicles is far greater in developing countries. In the long term there is huge potential for further growth in these countries, and Opus has the products, experience and ambition to participate. The risks in a country like Pakistan, where Opus recently started up, are obviously higher than in the US. But with more new establishments the risk becomes diversified while growth prospects improve.

In the US and Western Europe, the overall market has been relatively unchanged in size in recent years, but now there are some factors that point to growth in the coming decade. One of these is that the US Environmental Protection Agency (EPA) has tightened the standards for ground-level ozone. This means that a number of areas in the United States must improve their air quality. Many states and counties have no vehicle inspection at all, which would appear to be the obvious first step, but of course not the only one. A second factor is a new EU directive covering more stringent controls on electronic safety systems. Safety features in modern vehicles are based on multiple systems and sensors that interact to give the desired outcome. This means that tests are becoming more sophisticated and require a higher level of technology at inspection stations. This perfectly suits Opus since it is a technology-oriented company with its own development. A third growth factor, illustrated by the VW scandal, is more difficult to predict with regard to what the future holds. Realistically, authorities will increasingly turn to independent third parties to carry out relevant measurements, rather than relying on laboratory testing by automobile manufacturers. It remains to be seen whether the cheating of emissions measurements was mainly limited to VW, but it is clear that the prospects for the vehicle inspection industry have been improved by this issue floating to the surface.

Catalyst types

Full impact from current business
Throughout the group there are currently a number of activities paving the way for better profits in the coming years: 1) The rental business in California, Georgia and other upcoming states will gradually feed through. 2) Testing programs in Pakistan and Chile are now stepping up 3) Operations in Sweden has been volatile but now showing clear signs of improvement.

Loosing existing contracts
Some of Opus existing contracts, Ohio, Missouri and Nashville, expire within the next year. This is a down side trigger, if the contracts are not extended.

Winning new contracts
Opus has a proven track record, particularly in the US market, giving them good chances of winning new contracts. Each year some contracts are usually renegotiated and new programs are implemented in some states or counties.

Personal notes

REDEYE

Publication date

January 10 2017

Paynova PAY

Company page

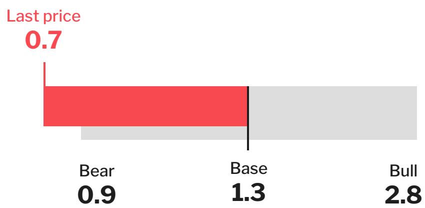
http://beta.redeye.se/company/paynova

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	Nordic Growth Market
CEO	Daniel Ekberger
Chairman	Anders Persson

Share information

Share price (SEK)	0.7
Number of shares (M)	253.1
Market cap (MSEK)	176
Net debt (MSEK)	8

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Paynova: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	27	30	47	68	85
Growth	*1.2%*	*13.7%*	*54.9%*	*44.8%*	*24.0%*
EBITDA	-9	-10	0	11	21
EBITDA margin	*Neg*	*Neg*	*1.0%*	*16.0%*	*25.3%*
EBIT	-10	-16	-1	9	21
EBIT margin	*Neg*	*Neg*	*Neg*	*13.8%*	*25.0%*
Pre-tax earnings	-12	-18	-2	8	21
Net earnings	-12	-18	-2	8	21
Net margin	*Neg*	*Neg*	*Neg*	*12.0%*	*24.6%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.06	-0.07	-0.01	0.03	0.08
P/E adj.	-12.7	-10.1	-80.1	21.9	8.6
EV/S	5.7	6.2	4.0	2.2	1.5
EV/EBITDA	-17.8	-18.0	409.7	13.5	5.7

Last updated: 2017-01-10

Owner	Equity	Votes
Origo Fonder	9.0%	9.0%
Avanza Pension	7.7%	7.7%
Nordnet Pensionsförsäkring	5.5%	5.5%
Kjell-Åke Sundqvist	4.2%	4.2%
Theodor Jeansson	4.0%	4.0%
Daniel Ekberger	3.9%	3.9%
Bjarne Ahlenius	3.7%	3.7%
Robert Norling	3.5%	3.5%
Christina Ivstam	2.5%	2.5%
Gevriye Oygun	1.9%	1.9%

Turn page >

Company description

When Paynova was founded in January 2000, the company was offering an electronic payment solution marketed under the brand name, the Paynova Wallet. Paynova was listed on the Nordic Growth Market in February 2004.

In February 2013, with the hiring of Daniel Ekberger as new acting CEO, Paynova entered a new phase. Mr Ekberger initiated a comprehensive analysis of Paynovas business model and the on-line payment universe. Toghether with newly hired Robert Norling as Head of Sales and Marketing, a new value proposition and long term strategy was developed. To emphasize the new focus on consumer credits, Paynovas new service offering is marketed under the brand name, Invoice as a Service. By adding the handling of invoices and installments, Paynova can now offer e-retailers a complete "full-service payments solution". The full service payments solution includes everything the e-retailer needs in order to manage the entire payment operation in terms of payment processing, customer support, fraud detection, etc.

An important feature to Paynovas offering is that it is independent and that Paynovas clients keep the ownership of the consumer relation throughout the whole payment process. Another crucial difference is that Paynova and their clients enter a partnership in which the proceeds are shared. Instead of just being an outsourced service the client is paying for, Paynovas offering will increase the profit for their client.

Investment case

Paynova is operating in a market with high structural growth. Purchasing of goods and services on the Internet is growing rapidly due to increasing penetration of connected devices, easy of use and increased security. E-commerce in Sweden has grown by ten times since 2003 and this structural growth shows no signs of abating. However, this evolving market is also exposed to changing consumer patterns driven by technological advancements. E-retailers are exposed to fierce competition on the Internet due to comparison sites, lack of physical distance ("just a click away") and international competitors entering the domestic markets.

To be successful on-line, the handling of payments is an important factor for e-retailers. To adress this, Paynova has developed a consumer credit service which enables the e-retailers to grow sales and increase profit margins substantially. In short, Paynovas service is enabling e-retailers to receive a share of the proceeds from consumer credit and to keep the ownership of the customer. The latter is important since the payment process can be used as a sales tool and increase repeat sales.

Since Daniel Ekberger took the helm in February 2013 Paynova has transformed from a PSP into a Fin Tech company fully focused on consumer credit solutions. Mr Ekberger formed a new management team and a new strategy was developed. The first part of the business plan was to restructure the company, integrate the acquired consumer credit platform and finalise the new service offering. This was completed in 2014 and the new Consumer Credit offering, Invoice as a service, was launched and marketed towards existing and new clients from the beginning of 2015.

Paynova is currently implementing the consumer credit service for their largest client SJ, the national railway operator in Sweden. SJs clients will be able to pay by invoice or installments, through Paynovas platform, by the beginning of 2016. This will have considerable impact on revenues since the proceeds from invoices and installments is several times higher than for direct payments. Paynova is also conducting a number of pilot tests for other clients which could lead to additional revenue growth in 2016.

Catalyst types

Agreement with major health care company
In November 2015, Paynova announced that they had signed an agreement to deliver consumer credit services for a dominant player in the health care sector in the Nordic region. The implementation of the platform has been initiated during Q2 2016. The client is the dominant player within its segment and has a 75% reach in a market that has an annual turnover of as much as 15 bn SEK. The clients business is well suited for consumer credit. CEO Daniel Ekberger is therefore expecting this client to be a potentially larger revenue contributor than Paynovas largest client, SJ. The agreements however takes longer time than expected and should start in the end 0f 2017 or in the beginning of 2018.

Sj consumer credit increase
SJ is by far the largest client among Paynovas 200 clients. The agreement with SJ to offer consumer credit will therefore have a large impact on short term revenues. 80% of clients will pay using direct processing (credit card, direct bank transfer), 15% will pay using invoice and 5% will pay using installments. Consumer credit revenues will increase gradually from launch in 2016 until full maturity in 2017.

Personal notes

REDEYE

Publication date
January 10 2017

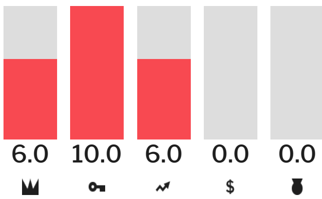
Photocat PCAT

Company page
http://beta.redeye.se/company/photocat

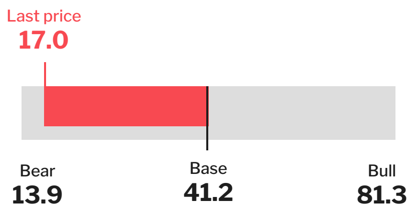
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

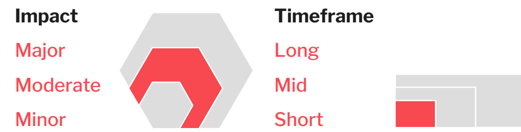
COMPANY QUALITY



FAIR VALUE RANGE



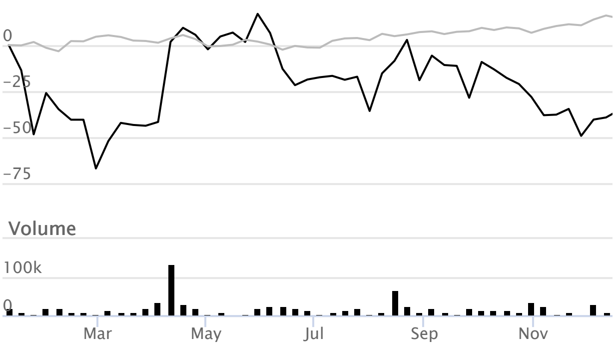
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Photocat
OMXS30



Marketplace	First North Stockholm
CEO	Michael Humle
Chairman	Mette Therkildsen

Share information

Share price (SEK)	17.0
Number of shares (M)	2.4
Market cap (MSEK)	39
Net debt (MSEK)	-1

Analyst

Henrik Alveskog
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Conflict of interests
Henrik Alveskog owns shares in Photocat: No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	3	8	17	32	49
Growth	*-30.6%*	*>100%*	*>100%*	*85.3%*	*54.0%*
EBITDA	-3	-5	-2	5	12
EBITDA margin	*Neg*	*Neg*	*Neg*	*14.8%*	*25.7%*
EBIT	-5	-8	-3	3	11
EBIT margin	*Neg*	*Neg*	*Neg*	*9.5%*	*22.1%*
Pre-tax earnings	-6	-8	-3	3	11
Net earnings	-6	-8	-3	2	8
Net margin	*Neg*	*Neg*	*Neg*	*7.0%*	*16.3%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-2.85	-2.91	-1.22	0.77	2.77
P/E adj.	-6.0	-5.8	-14.0	22.0	6.1
EV/S	11.4	5.6	2.8	1.5	0.9
EV/EBITDA	-10.5	-7.6	-28.2	10.5	3.5

Last updated: 2016-12-13

Owner	Equity	Votes
PhotoC Holding ApS	40.7%	40.7%
CAPNOVA Invest Zealand	13.0%	13.0%
LMK Forward	12.0%	12.0%
Michael Humle	6.0%	6.0%
Michael Lönn	3.1%	3.1%
Steen Ornslund	1.7%	1.7%
242 Holdings AB	0.8%	0.8%
Mette Terkildsen	0.8%	0.8%

Company description

Photocat is a Danish company based in Roskilde close to Copenhagen. Operations started in 2005 when SCF Technologies A/S started developing photo catalytic material. Photocat was founded in 2009 and shortly thereafter acquired the R&D part of the materials division of SCF Technologies. The three founders of Photocat: Henrik Jensen, Theis Renberg and Michael Humle worked at SCF Technologies prior to 2009. All three are still partners and holding key positions in Photocat. The company has approximately 12 employees, sales of DKK 2 million and a loss of DKK 6 million in 2015. The shares were listed on First North in November 2015.

The company has developed a wide range of recipes for different applications and customer needs. The material, a transparent solution of titanium dioxide, is sold primarily to industrial clients who integrate it into their products that are marketed to the end customer. In some of their first projects Photocat was also involved in the installation process. But the idea is not to deal with the last part of the distribution chain which would require a much larger organisation.

Investment case

Photocat has developed and patented a number of formulations of titanium dioxide (TiO_2) adapted for different materials and environments. These have proven to provide much greater effect than products previously available in the market. Tests and comparisons have been performed by both customers and competitors. In the European market there has been some interest in TiO_2 and its potential to improve air quality for about 10 years, after the first products were launched. Until now, however, only fairly limited results have been achieved in terms of efficiency in reducing NO_x for any noticeable difference to be made. Photocat's products, however, are several times more efficient than those that have been available to date, which means there is now an opportunity to cost-effectively improve the air in all urban environments.

The company has in recent years developed products that are now on the brink of a major market launch. Photocat looks set to get a flying start, having won a number of contracts during the autumn and winter of 2015/16. Most of these are also of a recurring nature since Photocat's customers have launched their own products and brands that are marketed to end-customers.

Photocat has very good gross margins, estimated at about 70 percent. Its organisation is also small and trim. Some recruitment will be made in marketing, but no investment will be necessary to multiply volumes several times over from current levels. The company should therefore be well placed to obtain substantial gearing in profits as volumes rise. The share is almost entirely unknown in the market, and investors have certainly not become aware of the potential that we see, both on a one-year horizon and in the longer term.

For Photocat to be a real jackpot winner there will probably need to be action by authorities to create demand from the public sector. These things can take time, and political decisions are almost always difficult to predict. Nonetheless, everything suggests that Photocat should still have a sufficiently large and attractive market among private-sector customers; sufficient in the sense that it can grow for a long time and generate good profitability. Even though it has more or less only just left the starting blocks, it has already won a number of large and important customers and has several legs to stand on. Business has been won with manufacturers of products including concrete paving blocks, bitumen roofing felt and laminate flooring. These customers are in Germany, Scandinavia, Canada and Spain. The spread across multiple customer groups and countries naturally reduces the market vulnerability.

A company such as Photocat is nonetheless vulnerable because of its dependence on individual employees and its size. Several of its industry peers are global companies with significant resources. If demand in Photocat's market segment takes off, competition will certainly increase, but given the starting point this should, if anything, be seen as a pleasant problem. The size of the potential market means, without a doubt, that there will be room for a number of providers.

Catalyst types

Support from public authorities
Strong commitments from the public arena that give tangible support for photo catalytic building material in urban areas. Europe and North America are the markets most relevant to Photocat and it could be implemented through legislation, directives or subsidies.

Rights issue
Given its low cash position Photocat will probably raise more capital in the near future. Depending on how this will be communicated and executed it will appear as either positive (expansion and growth oriented) or negative (cost covering and restoring balance sheet).

New business
Orders from additional large customers or a breakthrough in a new country. We expect this kind of progress step by step in the coming years.

Personal notes

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Publication date

January 10 2017

Polygiene POLYG

Company page

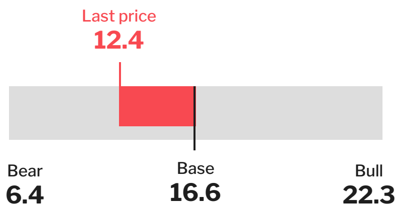
http://beta.redeye.se/company/polygiene

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Christian von Uthmann
Chairman	Lennart Holm

Share information

Share price (SEK)	12.4
Number of shares (M)	20.5
Market cap (MSEK)	254
Net debt (MSEK)	-32

Analyst

Havan Hanna
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Conflict of interests

Havan Hanna owns shares in Polygiene: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	52	59	72	93	121
Growth	*47.6%*	*14.3%*	*22.0%*	*30.0%*	*30.0%*
EBITDA	6	-2	4	14	25
EBITDA margin	*10.9%*	*Neg*	*6.1%*	*14.6%*	*20.2%*
EBIT	6	-2	4	14	25
EBIT margin	*10.9%*	*Neg*	*6.1%*	*14.6%*	*20.2%*
Pre-tax earnings	6	-2	4	14	25
Net earnings	9	-2	3	11	19
Net margin	*17.7%*	*Neg*	*4.8%*	*11.4%*	*15.8%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.47	-0.09	0.17	0.52	0.93
P/E adj.	26.3	-130.9	74.6	23.9	13.3
EV/S	4.1	3.7	3.1	2.3	1.6
EV/EBITDA	37.8	-117.4	50.8	15.6	7.9

Last updated: 2016-12-19

Owner	Equity	Votes
JP Morgan Bank Luxembourg	14.8%	14.2%
Richard Tooby	10.5%	10.1%
Nomura Securities Co Ltd Japan	7.7%	7.3%
Erik A i Malmö AB	6.9%	6.6%
Clearstream Banking S.A.	5.0%	4.8%
Christian von Uthmann	4.4%	4.3%
Jonas Wollin	4.2%	4.0%
Lennart Holm	4.1%	3.9%
Mats Georgson	3.6%	3.4%
Roosgruppen Ab	3.5%	3.4%

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Company description

Polygiene's brand is based on its Polygiene Odor Control Technology, with a strategy built on ingredient branding similar to that of Gore-Tex or Windstopper. The company is currently the leading ingredient brand in the sport and outdoor segment, and focuses on premium brands for all kinds of clothing (sports, leisure, fashion, work), footwear and home textiles. Its customers (often called partners by the company) include Adidas, Patagonia, Athleta and Hugo Boss. The list of partners has increased from around 25 (2009) to more than 100 (2016).
The additive itself is based on silver salt (silver chloride) made from recycled silver, and is currently used for textiles, foam, plastic or paint. In addition to its additive and ingredient branding, the company uses a comprehensive solution in order to work with the entire value chain and strengthen its competitiveness. These activities include application training for customers' textile factories, brand training for customers' employees, consumer surveys, responsibility for customer support and complaints related to the Polygiene brand, and labels.
The company employs 14 people (including 4 consultants) and is headquartered in Malmo. Polygiene's CEO is Christian von Uthmann and its chairman is Lennart Holm. In addition, the company has agents and distributors in over 20 locations worldwide and an advisory board. Since Polygiene was founded in 2006, its growth rate has been 60 percent. In 2015 its sales were SEK 52 million and its EBIT was SEK 5.6 million. For 2016 its sales are expected to be SEK 59 million and it's EBIT SEK -1.9 million. Polygiene has been traded on First North Stockholm since March 2016.

Investment case

An established fact for ingredient brand strategies involves the leading brand gaining large market dominance. Polygiene is today the market-leading ingredient brand in the sport and outdoor segment. If the company manages to retain its leading position in sport and outdoor, and to conquer the same position in the more recently addressed segments of lifestyle, footwear and home textiles, there is a good chance that the next Swedish export success and major brand could be a small company listed on First North.
So far there is no competitor that has managed to build up a similar comprehensive solution or a similarly strong brand. We see this as the company's competitive advantage. Furthermore, we believe its list of partners strengthens the company's market position and will shorten its sales process going forward.
Several factors contribute to the future growth potential. The most important include the following:
• A consumer survey conducted by Cotton Incorporated showed that 68 percent of consumers would be willing to pay more for anti-odour treated garments.
• According to Textileworld, demand for textiles increased by 55.7 million tonnes in the period 1980-2014, with 73 percent attributable to polyester, and there are no signs that the future will be any different. But polyester has a big downside – it is an excellent base for the growth of odour-causing bacteria.
• A total of 15 million metres of Polygiene-treated fabric were sold in 2015. For an understanding of the growth potential this represents, according to Redeye's own analysis this is 4 percent of all fabric consumed by Adidas for its garments in 2015. If we consider the fabric that all Polygiene partners may have consumed in 2015, the proportion of Polygiene-treated fabric is currently very low.
We expect margin expansion (from 2018) attributable to reduced costs for training partners and textile factories:
• Increased penetration among existing partners is one of the main growth engines for the future – and it costs just as much to train partners whether they buy 100,000 metres of treated fabric or 1,000,000 metres. This means there is leverage in sales.
• The leading premium brands make extensive use of the same consolidated group of textile factories, which gives Polygiene cost advantages – Polygiene does not need to re-train factories when new partners are added.
After a decline in sales in Q3 (YoY) the stock has fallen sharply from its year high (SEK 17.4). Aside from growth, we believe the market also has doubts about the lower profitability in the current year. However, our forecasts anticipate lower profitability in 2016 and 2017 due to recruitment and increased marketing efforts in order to secure long-term growth.
We regard new partnerships with globally leading brands as natural triggers for the share. If Polygiene again demonstrates sales growth in Q4 (as our forecasts assume) we believe that any doubt about sales growth will subside, which could boost the stock. Improvements to margins would also act as catalysts, particularly the operating margin since the scalability of fixed costs would be confirmed.
The biggest risks lie in the debate about chemicals in textiles, the rapid growth (it is always a challenge to grow at a fast pace while maintaining both quality and profitability) and the fact that 10 customers account for about 60 percent of sales.

Catalyst types

Margin expansion
Improved margins would confirm the scalability of fixed costs.

Adidas introduces odour control for its footwear using polygiene
In 2015 Adidas sold 301 million pairs of shoes (treating a pair of shoes with Polygiene costs around USD 0.25-0.50).

New partnerships with world-leading brands
We expect new partnerships across all segments going forward, but partnerships with new brands with the same status as Adidas would raise the valuation.

Sales growth in q4 2016
If Polygiene again demonstrates sales growth in Q4 (as our forecasts assume) we believe that any doubt about sales growth will subside, which could boost the stock.

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PowerCell Sweden PCELL

Company page

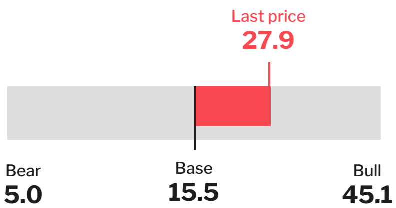
http://beta.redeye.se/company/powercell-sweden

Redeye Rating

Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY

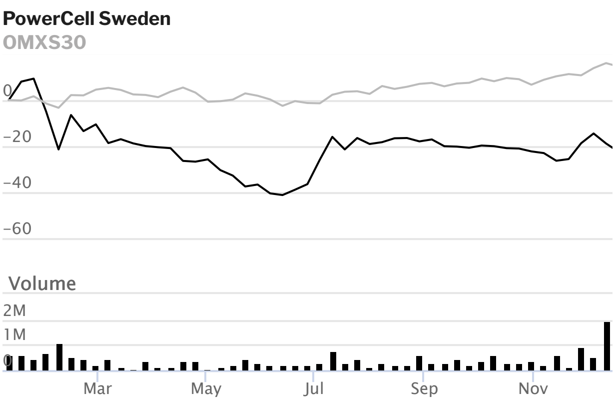
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Per Wassén
Chairman	Magnus Jonsson

Share information

Share price (SEK)	27.9
Number of shares (M)	44.8
Market cap (MSEK)	1,272
Net debt (MSEK)	102

Analyst

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Conflict of interests

Henrik Alveskog owns shares in PowerCell Sweden: No

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	5	11	33	90	200
Growth	*>100%*	*>100%*	*>100%*	*>100%*	*>100%*
EBITDA	-59	-64	-52	-23	5
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*2.5%*
EBIT	-65	-64	-52	-23	5
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*2.5%*
Pre-tax earnings	-65	-63	-52	-23	5
Net earnings	-65	-63	-52	-23	5
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*2.5%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.83	-1.41	-1.16	-0.50	0.11
P/E adj.	-15.3	-19.8	-24.0	-55.5	250.0
EV/S	187.2	116.5	41.0	15.4	7.0
EV/EBITDA	-16.3	-20.0	-26.0	-61.7	280.1

Last updated: 2016-12-27

Owner	Equity	Votes
Fouriertransform	20.5%	20.5%
Midroc New Technology	20.5%	20.5%
Finindus	14.5%	14.5%
Volvo Group Venture Capital	8.0%	8.0%
Avanza Pension	5.3%	5.3%
Dan Sanberg	0.6%	0.6%
Nordnet Pension	0.5%	0.5%
Per Sjöberg	0.4%	0.4%
Johan Paulsson	0.2%	0.2%
Hans Österberg	0.2%	0.2%

Turn page >

Company description

Operations started as an R&D project within the Volvo Group in 1993. Powercell as a company was founded in 2008. The year after the ownership base was broadened with a rights issue to Midroc New Technologies, Fouriertransform and Finindus of Belgium. In December 2014 Powercell made an IPO and listed its shares on Nasdaq First North.

Powercell is about to launch its products during 2016-17. Up until 2014 revenues have been somewhat sporadic and reported losses around SEK 40 million in the last couple of years. The company assess that its cash position (including SEK 28 million from exercise of warrants) is sufficient to finance activities until reaching positive cash flow in 2017/18. Powercell has some 30 employees, primarily within development, construction and design, which is conducted in facilities adjacent to the head office in Gothenburg.

Investment case

Powercell manufactures complete fuel cell systems, a market that has experienced a significant upturn in recent years. Fuel cells are certainly on the map, with a number of applications in which the technology has obvious advantages compared with current alternatives. However, the market has been largely supported by government subsidies in all significant countries, making it difficult to predict future growth.

Fortunately, Powercell has products that can manage without subsidies and that already have a large potential market. The strength of its technology is the ability to operate fuel cells using diesel. Small off-grid power plants around the world are normally powered by a diesel generator. Powercell's diesel reformer combines with a fuel cell to both save fuel and reduce environmental impact. Fuel cells are significantly more efficient than an internal combustion engine, and are also free from emissions and noise.

Powercell is now facing a market launch of its products in 2016-17. The plan is to achieve sustainable profitability in 2017/18, and this will require annual revenues of an estimated SEK 200 million. This is clearly a challenge given the current starting point, but there is potential for success since the company has a unique product, a well-defined target market and strong partners that can help with marketing. However, if it meets setbacks and its diesel reformer does not deliver what it promises, Powercell will have to succeed particularly well with the other arm of its operations, fuel cell stacks.

Powercell is aiming primarily at the market for powering telecom stations, and with its pilot customer Vodacom in South Africa and energy companies Mitochondria and Powertech as partners, it is well placed to gain a foothold in the country. This would also be a good springboard for reaching other countries with similar needs, both in Africa and on other continents. TeliaSonera in Sweden, for example, has tested the system with good results. The company estimates there is a potential market in this segment of around 40,000 systems per year. Powercell should be able to achieve profitability at an annual rate of around 1,000 PowerPacs, which corresponds to a market share of only a few percent.

Catalyst types

Launching the powerpac
The Powerpac, including the diesel reformer, is Powercells major USP and competitive edge. During 2017 the system is supposed to be ready for its commercial launch. Vodacom in South Africa is then expected to place orders.

Volume orders for fuel cell stacks
The fuel cell stack S2 was introduced during 2015 and a number of test orders have been shipped since. Volume orders for both S1 and S2 from industrial clients will confirm that Powercell has a competitive offering.

Personal notes

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REDEYE

Publication date

January 10 2017

Prevas PREV B

Company page

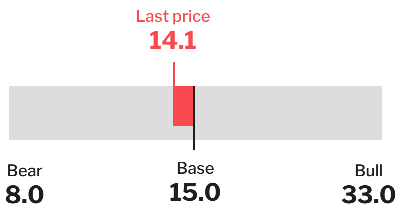
http://beta.redeye.se/company/prevas

Redeye Rating

Leadership Ownership Profit outlook Profitability Capital strength

COMPANY QUALITY

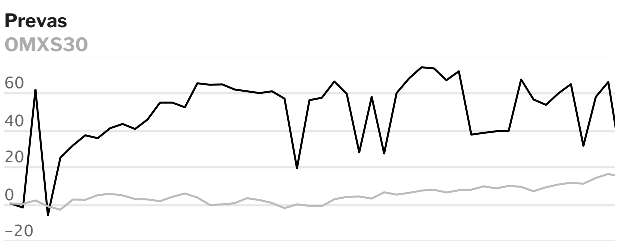
FAIR VALUE RANGE

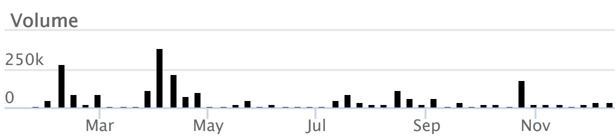


CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot





Marketplace	NASDAQ Stockholm
CEO	Karl-Gustav Ramström
Chairman	Göran Lundin

Share information

Share price (SEK)	14.1
Number of shares (M)	10.1
Market cap (MSEK)	143
Net debt (MSEK)	66

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

Kristoffer Lindström owns shares in Prevas: No

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

Financials

			Redeye Estimates		
	2015	**2016E**	**2017E**	**2018E**	**2019E**
Revenue, MSEK	701	697	686	713	742
Growth	*-3.4%*	*-0.7%*	*-1.5%*	*4.0%*	*4.0%*
EBITDA	7	10	8	37	42
EBITDA margin	*1.0%*	*1.5%*	*1.2%*	*5.1%*	*5.6%*
EBIT	-18	-1	-4	25	30
EBIT margin	*Neg*	*Neg*	*Neg*	*3.5%*	*4.0%*
Pre-tax earnings	-13	-0	-6	22	26
Net earnings	-8	-2	-5	17	21
Net margin	*Neg*	*Neg*	*Neg*	*2.4%*	*2.8%*
Dividend/Share	0.00	0.00	0.00	0.85	1.02
EPS adj.	-0.77	-0.24	-0.46	1.70	2.05
P/E adj.	-18.4	-58.4	-30.5	8.3	6.9
EV/S	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	28.3	20.4	25.9	5.3	4.5

Last updated: 2017-01-09

Owner	Equity	Votes
Länsförsäkringar Bergslagen	12.8%	21.0%
Göran Lundin	11.9%	15.0%
Helena Lundin	5.4%	3.2%
Ann Stillström	5.0%	3.0%
Magnus Lundin	4.4%	2.6%
Avanza Pension	4.0%	2.4%

Company description

Prevas is an IT consulting company founded in 1985 in Västerås, Sweden, and has since it started helped its customers to develop innovative products and to automate and streamline their operations. The company's sales in 2015 were around SEK 700 million and it made a loss after tax of SEK 8 million. At the end of 2015 Prevas has around 600 employees and is listed on Nasdaq OMX Small Cap.

Investment case

Prevas has a financial target to grow by 15 percent, supported by acquisitions, and to have an operating margin of 8 percent. In recent years the company has experienced varied sales growth as, since the financial crisis, it has experienced periods when it has reduced its operations and periods when it has both net recruited and acquired companies. However, its operating margin has been on target only once, in 2008. The problem for Prevas has mainly been that its product development business unit, which accounts for around two-thirds of sales, has had issues with both utilisation and project writedowns.

The new management at Prevas is working with a focus on improving profitability, and is implementing a restructuring programme. We believe that an operating margin of 7-8 percent over a business cycle should be perfectly possible for the company to achieve, and that it should be able to return to organic growth, which is not reflected in the current valuation. However, we see little chance for the company to achieve its growth target, which would require a large proportion of acquisitions that we see no scope for given its somewhat strained balance sheet. In addition, the current valuation does not factor in any expectation that the company will come close to the 15 percent growth its target suggests. If an investor believes the company will succeed in its restructuring and improve its results, there is good upside from current levels.

Catalyst types

Office reductions

Prevas holds 22 offices in Sweden, in our view to many for Sweden. Such an amount of offices implies more than necessary overhead and difficulties to manage the sales actions. If Prevas were to announce a significant reduction of office locations would it most likely have a positive impact on costs.

Personal notes

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REDEYE

Publication date

January 10 2017

Sensys Gatso Group SENS

Company page

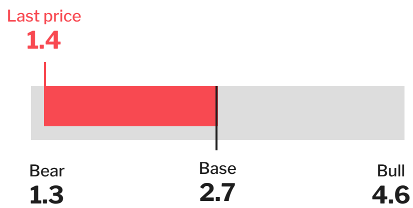
http://beta.redeye.se/company/sensys-gatso-group

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

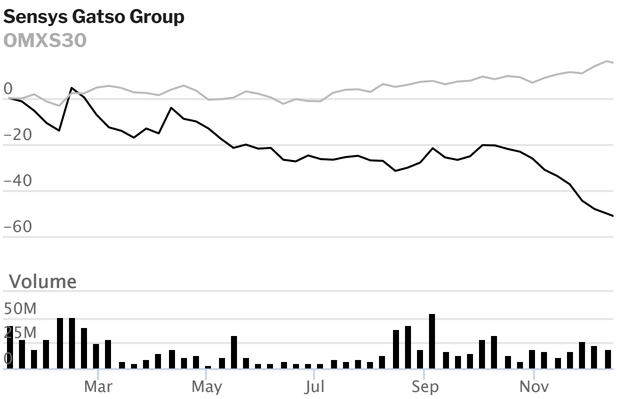
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Torbjörn Sandberg
Chairman	Claes Ödman

Share information

Share price (SEK)	1.4
Number of shares (M)	657.2
Market cap (MSEK)	887
Net debt (MSEK)	112

Analyst

Viktor Westman
viktor.westman@redeye.se

Conflict of interests

Viktor Westman owns shares in Sensys Gatso Group: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	398	424	377	499	636
Growth	*>100%*	*6.5%*	*-11.0%*	*32.4%*	*27.4%*
EBITDA	76	28	25	125	187
EBITDA margin	*19.0%*	*6.6%*	*6.6%*	*25.0%*	*29.4%*
EBIT	49	-22	-11	85	147
EBIT margin	*12.2%*	*Neg*	*Neg*	*17.0%*	*23.0%*
Pre-tax earnings	48	-30	-14	85	148
Net earnings	42	-29	-14	64	113
Net margin	*10.4%*	*Neg*	*Neg*	*12.9%*	*17.7%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.07	-0.04	-0.02	0.10	0.17
P/E adj.	19.7	-31.0	-63.8	14.2	8.1
EV/S	2.4	2.4	2.7	1.9	1.2
EV/EBITDA	12.6	37.4	41.2	7.5	4.2

Last updated: 2017-01-10

Owner	Equity	Votes
Gatso Special Products Bv	17.6%	17.6%
Avanza Pension	5.4%	5.3%
Nordnet Pensionsförsäkring	3.4%	3.9%
Inger Bergstrand	3.4%	3.4%
AMF Försäkring & Fonder	1.6%	2.4%
Swedbank Försäkring	0.9%	1.6%
Livförsäkringsbolaget Skandia	0.9%	1.1%
Clarence Bergman	0.8%	1.0%
Benny Holger Ivarsson	0.6%	0.9%
Arding Language Services AB	0.6%	0.8%

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Company description

Traffic safety company Sensys Gatso was formed when Sensys Traffic acquired its Dutch rival Gatso in summer 2015. The new company is the market leader, with a 25 percent market share in sales of traffic safety systems, particularly for speeding and traffic-light monitoring. A large part of Sensys Gatso's growth focus will, however, be on continued development of the operating business, which means operating the actual traffic safety systems as well as issuing and administering fines. The company's size and new position as the market's number one are important factors in achieving higher credibility among customers. There are many potential synergies in technology, product portfolios and geographic markets, giving the company an advantage over its competitors. One disadvantage, of course, is that the large acquisition and the synergies may take time to realise.

Founded: Gatso 1958, Sensys Traffic 1982
Locations: Offices in Sweden, the Netherlands, Germany, Singapore and the United Arab Emirates, addressing 75 countries
Listing: Small Cap
Employees: Approximately 160
Pro forma sales 2014: SEK 436 million
Pro forma EBITDA 2014: SEK 65 million

Investment case

Traffic safety company Sensys Gatso was formed when Sensys Traffic acquired its competitor Gatso in summer 2015, making it the global market leader in systems.

With the formation of the new company, it went from addressing 30 countries to 75. Sensys Gatso wants to use its new-found status to further consolidate its position in existing markets for system sales and to enter new international volume markets. The products in the 75 different countries require type approval, which in turn requires expertise. This is something the new company now clearly has in large measure, and which is a major barrier to entry. The main competitive advantages of the Gatso acquisition, however, are size and stability, which are regularly demanded in customer contracts in order to ensure reliable delivery over prolonged periods. We believe that Japan in particular, where the company recently announced a partnership with major telecoms company OKI after several years of preparation, could become a potentially very large market, at least as large as the Swedish Transport Administration. The number of Japanese primary schools alone, at 22,000, is greater than the company's total system base in 2014 of 18,000. Sensys Gatso is currently the only provider authorised to deliver to Japan, which in 2014 was the world's third-largest car market, at 64 percent larger than number-four Germany.

In addition to selling traffic safety systems, Gatso's investments over 10 years make the company a challenger to be reckoned with in the operation markets (i.e. markets where private operators are permitted to run the systems and issue and administer fines). If successful, the operator venture will raise the company's gross margin since Gatso can achieve almost an estimated doubling of gross margins in operator contracts compared with systems. Along with the increased share of recurring revenues in operating contracts, this should lead to a higher multiple for the stock. The big risk here is of the negative political climate in the US operator market increasing, thus also preventing the spread of the operator model.

The Sensys Traffic arm of the company currently has much higher margins than Gatso, for various reasons. A third crucial factor is therefore how well and how quickly the company can realise synergies and improve the efficiency of the Gatso arm. Although there are many good reasons for the acquisition, such as complementary technologies and product portfolios, it is currently unclear how large the synergies could be, which creates some uncertainty. However, we believe it is clear that Sensys combined with Gatso will become a force to be reckoned with in the traffic safety market going forward.

Catalyst types

Trump statements
Folloging Donald Trump's victory the statements from Trump regarding the Middle East will be major catalysts in either direction.

Order from japan
The share is driven by the announcement of large orders. We especially believe Japan has a large potential due to the Olympic Games in 2020 and since Sensys Gatso at the moment is the single supplier.

Personal notes

REDEYE

Publication date

January 10 2017

Stillfront Group SF

Company page

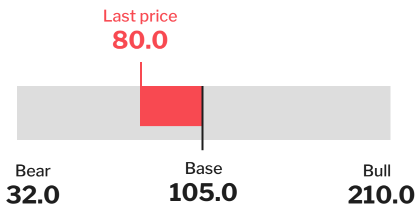
http://beta.redeye.se/company/stillfront-group

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

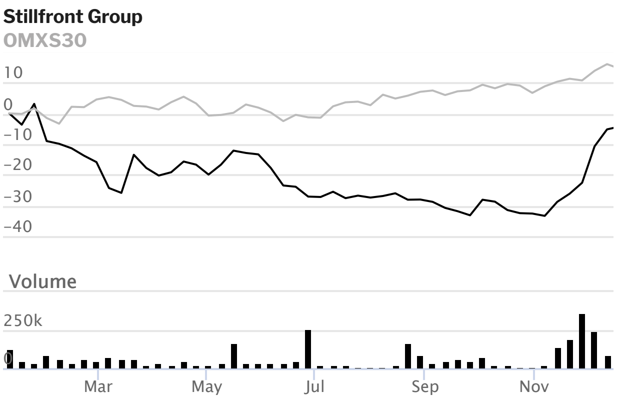
FAIR VALUE RANGE



CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Jörgen Larsson
Chairman	Per Skyttvall

Share information

Share price (SEK)	80.0
Number of shares (M)	5.6
Market cap (MSEK)	450
Net debt (MSEK)	-82

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

Kristoffer Lindström owns shares in Stillfront Group: Yes

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

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	57	92	122	190	212
Growth	*96.1%*	*61.3%*	*32.7%*	*55.3%*	*12.0%*
EBITDA	4	6	17	61	68
EBITDA margin	*7.1%*	*6.4%*	*13.6%*	*32.1%*	*31.9%*
EBIT	-4	-2	17	57	62
EBIT margin	*Neg*	*Neg*	*13.6%*	*30.2%*	*29.2%*
Pre-tax earnings	-4	-4	17	57	62
Net earnings	-8	-8	11	42	46
Net margin	*Neg*	*Neg*	*8.8%*	*22.4%*	*21.6%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.50	-1.50	1.93	7.59	8.23
P/E adj.	-53.4	-53.4	41.5	10.5	9.7
EV/S	5.9	4.0	3.0	1.7	1.3
EV/EBITDA	82.9	62.9	22.0	5.3	4.1

Last updated: 2016-12-21

Owner	Equity	Votes
FKL Holding Gmbh (Bytro management)	17.2%	17.2%
Acacia Asset Management	10.8%	10.8%
Swedbank Robur Ny Teknik	8.1%	8.1%
Fyrmax Limited	4.4%	4.4%
Nordea Liv & Pension	3.4%	3.4%
Christoffer Lundström	3.1%	3.1%
Nordnet Pensionsförsäkring	3.0%	3.0%
Niclas Eriksson	2.4%	2.4%
Avanza Pension	2.1%	2.1%
Strömberg Förvaltning AB	1.8%	1.8%

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Company description

Stillfront Group consists of five studios in five different countries with around 100 highly skilled and experienced game professionals. The company combines the indie studios' agility with a professional public structure in order to attain synergies and efficiency. Stillfront has global reach with more than 300 000 monthly active users from over 100 countries.

Investment case

We believe Stillfront will continue to deliver significant growth as the company focus on bringing low-risk titles to the market. We also expect underlying growth in the gaming market and an increase in revenues from mobile.We believe a potential trigger is when Stillfront change reporting to IFRS. This will reveal the underlying profitability and show the discount to peers more clearly. Another major trigger would be if Siege: Titan Wars becomes a success. We will have more visibility on this in H1 2017. Other potential triggers lies in the launch of Bytro's mobile titles and launch of the in-house title at Coldwood. Finally, a potential trigger is when Stillfront makes additional acquisitions. The risks lies in the success of new launches. Stillfront has stable underlying revenue generation from existing titles but in order for the share price to appreciate significantly they have to deliver on at least some of these title launches.
In conclusion, we find Stillfront conservatively valued and consider the company as an attractive risk-reward from an investment perspective.

Catalyst types

Ifrs accounting to reveal profitability
Today Stillfront expenses their investments for new games titles directly in the income statement. Other gaming companies follow IFRS or GAAP capitalize these "costs" as investments in the cash flow statement. The accounting practice Stillfront follows depresses their reported results compared to their peers, despite that the company have the same or even higher underlying profitability. Stillfront have stated that the aim to change their accounting practice to IFRS by Q4'16, this will reveal the underlying profitability and show the discount to peers more clearly.

Siege: titan wars fully launched
Siege: Titan Wars is a mobile game developed by Simutronics. The game is currently in soft-launch, and only a modest amount of money is spent on marketing the title. Nevertheless, in December the title hit over 100k Facebook account links. According to our data sources, apptopia.com, the DAU in December (based on 30 days average) are just north of 140k with an ARPU of about 0.23 USD. The DAU are likely inflated to some degree, as a lot of people try the game at least one time after the download. However, the amount of Facebook accounts linked to Siege suggests that the player bases are already relatively large. The final launch will be in late Q1'17 or early Q2'17. We find the release will give a first indication of a success or not, this will be a major trigger for Stillfront. Today's valuation indicates that the market is not "pricing" a success, or has totally forgotten about the release. This creates an interesting risk/reward situation with a limited negative reaction if the game is not approved by the consumers.

Personal notes

Publication date
January 10 2017

Systemair SYSR

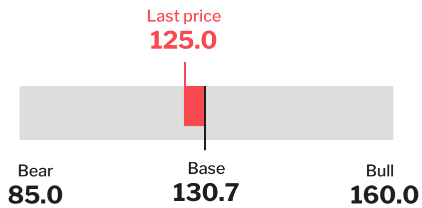
Company page
http://beta.redeye.se/company/systemair

Redeye Rating

Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

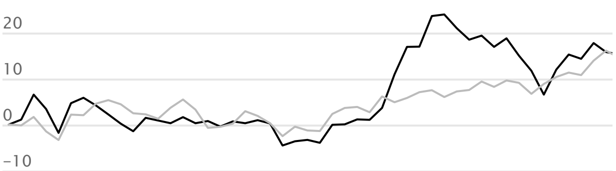
Impact
Major
Moderate
Minor

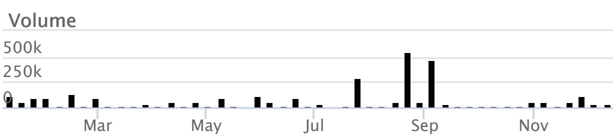
Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot

Systemair
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Roland Kasper
Chairman	Gerald Engström

Share information

Share price (SEK)	125.0
Number of shares (M)	52.0
Market cap (MSEK)	6,513
Net debt (MSEK)	1,047

Analyst

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henrik.alveskog@redeye.se

Conflict of interests

Henrik Alveskog owns shares in Systemair: No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2015	2016E	Redeye Estimates 2017E	2018E	2019E
Revenue, MSEK	6,113	6,645	7,155	7,576	8,106
Growth	*3.9%*	*8.7%*	*7.7%*	*5.9%*	*7.0%*
EBITDA	522	600	777	925	974
EBITDA margin	*8.5%*	*9.0%*	*10.9%*	*12.2%*	*12.0%*
EBIT	344	415	584	742	811
EBIT margin	*5.6%*	*6.3%*	*8.2%*	*9.8%*	*10.0%*
Pre-tax earnings	307	395	551	713	790
Net earnings	207	292	408	527	585
Net margin	*3.4%*	*4.4%*	*5.7%*	*7.0%*	*7.2%*
Dividend/Share	2.00	2.08	2.20	2.84	3.15
EPS adj.	3.99	5.62	7.84	10.14	11.25
P/E adj.	31.4	22.2	15.9	12.3	11.1
EV/S	1.3	1.2	1.1	0.9	0.8
EV/EBITDA	15.1	13.0	9.7	7.7	6.7

Last updated: 2016-12-13

Owner	Equity	Votes
Gerald Engström	42.3%	42.3%
ebm Beteiligungs GmbH	21.3%	21.3%
Nordea fonder	5.8%	5.8%
Alecta	4.8%	4.8%
Robur fonder	3.1%	3.1%
Lannebo fonder	2.7%	2.7%
Didner & Gerge fonder	2.5%	2.5%
Fidelity fonder	2.3%	2.3%
Handelsbanken fonder	2.2%	2.2%
Fondita fonder	1.5%	1.5%

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Company description

Systemair was founded in 1974 by Gerald Engström, who is still main owner and since 2015 chairman of the board. The original product and business idea was a round duct fan that improved the air flow in ventilation systems. Since then, step by step, the company has added to their product range and today Systemair probably has the most extensive offering in the European market. Availability and reliable deliveries are important key values. That means a broad range of standard products should always be ready for delivery. The products must be robust and easy to install and operate. Systemair is also a quality brand but they are not into tailor made solutions.

The group has some 20 production facilities in Europe, Asia and North America. A little over 4 000 employees and subsidiaries in more than 40 countries on all continents. Fiscal year 2015/16 turover amounted to SEK 6.1 billion and profit before tax SEK 307 million. Head office is in Skinnskatteberg, Sweden. The shares are listed on Nasdaq main market since 2007.

Investment case

This company is, and always has been, truly growth oriented. Since the early 1990s its sales have increased in every year except 2009, when the banking and financial crisis hit. Its growth has certainly come partly from acquisitions, but its organic growth has also always been really good, on average around 6-7 percent over the past 10 years. Despite its expansion, which has sometimes involved the acquisition of unprofitable companies and entering into new markets, Systemair has never shown a full-year loss. Its profitability has naturally varied, but not as much as other manufacturing industries.

For a couple of years its operating margin has slipped down to around 6 percent, mainly because some of its new units have yet to show adequate profitability. During the company's historical profitability peaks in 2006-08, its margins were around 12-13 percent and Systemair is well-placed to get there again. In its current corporate structure, the level of technology and the product mix are better than ever. If these margin gains are fully achieved, it would represent an improvement in profits exceeding 50 percent. The market has factored in hardly any of this.

Even with more conservative assumptions of sustained profitability, the share is attractive thanks to the company's good growth prospects. The need for energy-efficient ventilation is increasing in all parts of the world, even in northern Europe, which is a mature market. The EU directive on energy savings in buildings plus requirements on the working environment are spurring a growing market for Systemair, which was an early investor in energy-efficient solutions. In the longer term, however, the major growth will certainly come from regions outside Europe. In several of these (Southeast Asia, the Middle East and parts of South America), Systemair has already established strong positions. The stock has something of a premium valuation, which is also well deserved thanks partly to its historical strong growth and stable profitability, but also because of the good long-term growth prospects for the ventilation industry and Systemair's strong market position.

Catalyst types

Turn around in the under performers
A few units within the group are loss making or at least performing poorly. These are primarily the Airwell companies in France and Italy and the subsidiary Menerga. All of these should be able to reach double digit margins which would drive group EBIT margins towards their own target of 10 per cent.

Major acquisitions
Systemair acquires a number of smaller companies as a natural part of their expansion strategy. If they were to buy something more substantial (annual sales > SEK 300 m) it would call for some attention. Most likely they are able to buy these companies at lower multiples than their own.

Personal notes

Publication date
January 10 2017

Waystream Holding WAYS

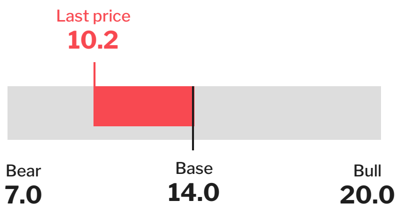
Company page
http://beta.redeye.se/company/waystream-holding

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

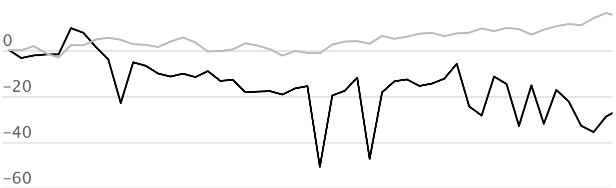


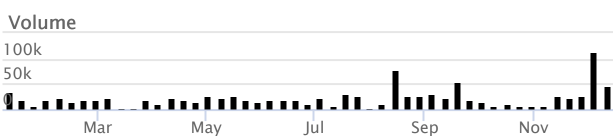
CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

Waystream Holding
OMXS30





Marketplace	First North Stockholm
CEO	Johnny Hedlund
Chairman	Peter Kopelman

Share information

Share price (SEK)	10.2
Number of shares (M)	6.8
Market cap (MSEK)	69
Net debt (MSEK)	-0

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna owns shares in Waystream Holding: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	56	59	75	98	127
Growth	*5.6%*	*5.2%*	*27.0%*	*30.0%*	*30.0%*
EBITDA	6	7	10	12	26
EBITDA margin	*11.0%*	*12.2%*	*12.6%*	*12.6%*	*20.5%*
EBIT	3	2	3	5	18
EBIT margin	*5.6%*	*3.2%*	*3.5%*	*5.1%*	*13.9%*
Pre-tax earnings	3	2	3	5	18
Net earnings	3	1	2	4	14
Net margin	*4.6%*	*2.0%*	*2.7%*	*4.0%*	*10.8%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.38	0.18	0.30	0.58	2.03
P/E adj.	26.9	57.5	33.4	17.6	5.0
EV/S	1.1	1.3	0.9	0.7	0.4
EV/EBITDA	9.9	10.3	7.3	5.4	2.2

Last updated: 2016-12-29

Owner	Equity	Votes
Fiber Access NP Management Intressenter AB	21.2%	21.2%
Severin Invest AB	13.5%	13.5%
Dahltec AB	10.1%	10.1%
Robert Idegren Holding AB	9.0%	9.0%
Spartoi Invest AB	8.8%	8.8%
Goldcup 12886 AB	7.1%	7.1%
Försäkringsbolaget Avanza pension	6.7%	6.7%
Tamt AB	2.8%	2.8%
MH Köhler invest AB	2.0%	2.0%
Robur Försäkring	1.1%	1.1%

Turn page >

Company description

Waystream is a Swedish company that sells software-based routers and switches for fibre broadband networks. The company's CEO is Johnny Hedlund and its chairman is Peter Kopelman. The company has 26 employees and is headquartered in Kista. Its customers are operators and others that deploy fibre networks to users such as metropolitan networks, utilities and service providers. Two of its activities will play a significant role looking forward – the launch of its new MPC480 platform and international expansion. MPC480 allows Waystream to create a complete offering and expand its customer base to include major players (Tier 2).
Waystream distinguishes itself as a flexible and customer-oriented supplier. Its flexible business model is based on the option of separate software licenses (using the company's own operating system, iBOS) that add functionality to meet customer needs. We see this flexibility as one of the company's main competitive advantages. Sales in 2015 amounted to SEK 56 million and EBIT was SEK 3 million. For 2016, sales are expected to be SEK 59 million and EBIT SEK 2.6 million. Waystream has been listed on First North Stockholm since November 2015.

Investment case

The investment case rests mainly on a successful launch of MPC480 and international expansion. MPC480 is already being actively marketed, and the company has several ongoing projects internationally. We believe there are a number of potential opportunities for future business, and we expect breakthrough orders during H1 2017.

Other factors (in addition to MPC480 and international expansion) expected to contribute to growth are strong structural expansion for fibre deployment in Europe, the company's flexible business model and a shift from product development to sales.

Since Waystream's IPO in November 2015 the share price has been under intense pressure. There was great interest in the stock, and there was a sense of high expectations among investors. Following the listing and subsequent interim reports, which did not meet the market's high (in our opinion) expectations, the share price has more than halved. We believe the market has misjudged the company given the following factors:
– Future growth depends on the product launch and foreign expansion, which still lie in the company's future – our forecasts anticipate breakthrough orders in H1 2017.
– As a result of the IPO and product development, Waystream has been unable to focus on sales during 2015-2016. We estimate that the company will not be able to seriously switch to an operational sales focus until 2017 (but efforts have been ongoing in 2016).

This means we see opportunities for Waystream that may not have been recognised by the market, largely due to the short-term misjudgements listed above. The company is run by experienced and skilled management that faces a journey of growth opportunities. With the backdrop of its share price decline and outlook for 2017, we believe the risk-reward in the company is currently good.

The biggest risk are associated with:
– Company size: In competition with giants like Cisco, Huawei, HP, Alcatel Lucent/Nokia and Juniper it is a challenge to convince a potential customer to buy from Waystream (despite competitive products).
– Shifting from product development to sales within the organisation: In recent years Waystream has given priority to intensive product development, and to date the company remains strongly development-oriented in terms of the number of employees in each area. The company also needs a transformation of its mind-set toward sales – a challenge that should not be underestimated.
– Delay or failure to achieve success with MPC480 and international expansion: MPC480 has yet to prove its competitiveness and we believe successful international expansion is, in turn, dependent on the success of MPC480. In our opinion, any delay or failure in this success is not exclusively dependent on the product but, as discussed above, marketing could be a bigger challenge than the company estimates.

Catalyst types

New customers in existing markets (mainly sweden)
Two customers (Fibra in Sweden and Fibia in Denmark) each account for around 30 percent of total sales, while the company's eight largest customers account for 80 percent. Waystream needs greater customer growth than it has historically demonstrated, partly to diversify risk but also to increase sales growth.

Establishment in new geographic markets
Establishment in new geographic markets, particularly in Europe.

Sales to major customers
The launch of the new MPC480 product platform enables the company to address larger customers (Tier 2) than before. A breakthrough deal with any of these customers, which have bigger networks and higher investment costs, will be important for both future sales growth and the validation of MPC480.

Personal notes

REDEYE

Publication date
January 10 2017

Verisec VERI

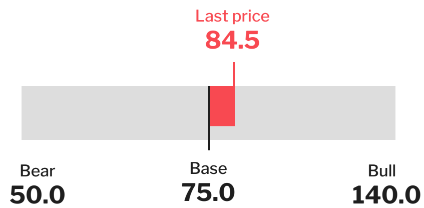
Company page
http://beta.redeye.se/company/verisec

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

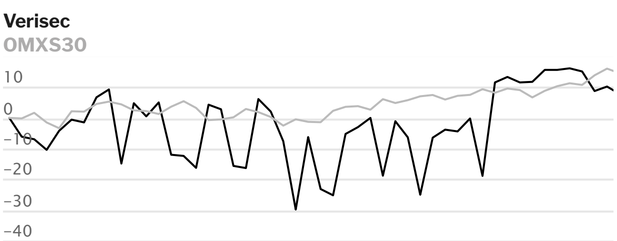
FAIR VALUE RANGE

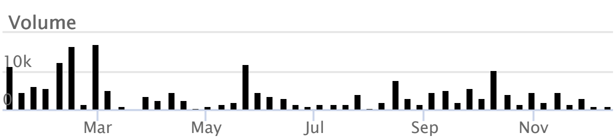


CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot





Marketplace	First North Stockholm
CEO	Johan Henrikson
Chairman	Dragoljub Nesic

Share information

Share price (SEK)	84.5
Number of shares (M)	4.4
Market cap (MSEK)	375
Net debt (MSEK)	-7

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Verisec: No

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	66	62	85	110	150
Growth	*19.9%*	*-7.2%*	*38.2%*	*29.4%*	*36.4%*
EBITDA	-7	-15	-7	6	21
EBITDA margin	*Neg*	*Neg*	*Neg*	*5.6%*	*14.0%*
EBIT	-10	-18	-15	5	20
EBIT margin	*Neg*	*Neg*	*Neg*	*4.6%*	*13.3%*
Pre-tax earnings	-10	-17	-14	5	20
Net earnings	-8	-17	-12	4	17
Net margin	*Neg*	*Neg*	*Neg*	*3.9%*	*11.3%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-2.03	-3.88	-2.68	0.96	3.83
P/E adj.	-41.6	-21.8	-31.5	88.2	22.1
EV/S	4.6	5.9	4.3	3.3	2.3
EV/EBITDA	-43.6	-24.5	-51.7	58.9	16.5

Last updated: 2016-12-13

Owner	Equity	Votes
Marquay Invest AB	61.0%	61.0%
Swedbank Robur Fonder Ny Teknik	9.1%	9.1%
Svolder	5.2%	5.2%
AMF Forsakring & Fonder	4.0%	4.0%
Merlinum AB	3.8%	3.8%
Kristofer von Beetzen	2.7%	2.7%
Arpeggio AB	1.6%	1.6%
Avanza Pension	1.4%	1.4%
Goran Collert	0.9%	0.9%
Denny Sjogren	0.8%	0.8%

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Company description

Verisec is a software security company providing digital identity solutions, including mobile ID, and information security solutions such as encryption and decryption. Since it was founded, Verisec's skilled management team has been quick to adapt to the market environment, enabling the company to outgrow the security market as a whole. Verisec's management originates from the successful Protect Data business, and they retain significant ownership in Verisec of approximately 60 percent. Verisec's compound annual growth rate has been substantial, at around 30 percent, and its EBIT margins have remained relatively stable at around 15 percent over the past 12 years. The company's target is to achieve revenues of SEK 200 million in year 2020 with an EBIT margin of 15-20 percent.

Investment case

Redeye's investment case rests on strong annual revenue growth of 20-30 percent over the coming years, along with subsequent margin expansion at the maturity phase. The maturity phase is the likely future scenario where its investment decreases, enjoying decent sales momentum on its existing solution portfolio. Verisec has the potential to expand its margin significantly once it achieves maturity, with its EBIT margin eventually reaching around 15-20 percent. We expect that Authentication as a Service (AaaS), and its associated cloud services, will grow significantly in both the banking and the non-banking verticals.

Verisec holds a significant position in the information security segment, as a preferred supplier to Thales within the EMEA region, providing data encryption. This business is likely to continue to grow in absolute terms but will probably remain static as a proportion of total revenues in the longer term. Verisec's reseller network for Thales also plays an important role in gaining, widening and intensifying its sales of proprietary solutions for Freja ID.

Representing 80 percent of sales for the digital identity segment, online banking is a core focus for Verisec and is likely to remain so in the future. Online banking customer penetration is relatively low in Europe, at approximately 38 percent, and the growth rate of online banking users is expected to be 48 percent in the US and Europe over the next four years.

Online banking penetration is one important factor for Verisec's continued growth but, more importantly, capturing the next frontier solution requires rapid adaptation to user convenience. With smartphones expected to be available to 2.5 billion people in 2017, a non-standalone device that covers the majority of people will be required in the future. Mobile IDs or software tokens are expected to experience CAGR of 50 percent by 2016, and TechNavio estimates that in 2019 the software token market will represent approximately 20 percent of the total security token market. The hardware token market (proprietary physical log-in devices) is expected to grow only by around 8 percent. This is explained by the changing climate in the industry: Hardware tokens are not cost-efficient per user over software solutions.

Furthermore, revenue growth will be enhanced by Verisec establishing itself in the public and enterprise sectors. The company has already established strong market shares in some niches, with around 20-30 percent of all UK local council users utilising Verisec solutions. This confidence of UK local councils will likely help its market share to expand to approximately 50 percent by 2019.

A probable risk is an increase in alliances or bank consortiums, making all or parts of Verisec's solutions portfolio a standard across a sector. This could be a consequence of meeting regulatory security requirements or for organisations to control their own security solutions. Another alternative to buying Verisec's solutions would be to create a consortium of participants to share development costs, rather like the Swedish consortium for mobile bank ID solutions supplying the major banks. Organisations reproducing this strategy and type of technology within EMEA should not be disregarded.

Catalyst types

Hardware to software token transition
Successful mobile ID implementation by banks will mean significant expectations for increased profitability and revenues, and reinforcing this trend with several consecutive orders could drive the stock into the upper spectrum of the optimistic scenario

Rapidly deteriorating competitive standing
For this catalyst to materialize the company would need to fail to address its current growth during the transition phase. The reason for this would primarily be a struggle to keep its solutions competitive as Verisec tries to adapt to the environment, in terms of both sophistication and price efficiency in both banking and non-banking verticals. Its competitive standing would also gradually decrease in future, aligned with the high growth expected for this industry, which could make its expected above-average sales efforts less effective.

Margin expansion in the maturity phase
This catalyst assumes that the company succeeds in expanding its business internationally with banks, local councils and the public sector. Essentially at some future point it will retain a more normal market growth rate. Margin expansion would contribute to an EBIT margin increase from 0-1o percent to 15-20 percent, caused by subsequent increase of revenues per employee when the sales force reaches maturity, a shift from partnerships to direct sales, and a higher degree of recurring revenues. Driving recurring revenues could be a gradual transition to subscription models.

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REDEYE

Publication date

January 10 2017

West International WINT

Company page

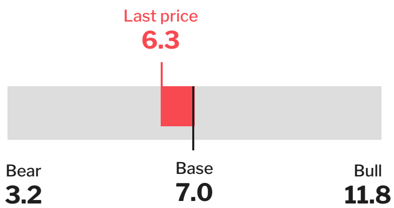
http://beta.redeye.se/company/west-international

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

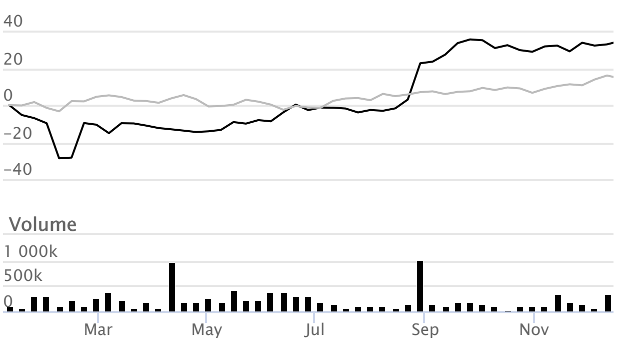


CATALYST POTENTIAL

Turn page for catalyst specifics

Snapshot

West International
OMXS30



Marketplace	First North Stockholm
CEO	Sten Karlsson
Chairman	Christina Detlefsen

Share information

Share price (SEK)	6.3
Number of shares (M)	22.5
Market cap (MSEK)	142
Net debt (MSEK)	-13

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

Kristoffer Lindström owns shares in West International: Yes

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

Financials

	2015	2016E	2017E	2018E	2019E
			Redeye Estimates		
Revenue, MSEK	75	85	131	177	231
Growth	*11.2%*	*13.3%*	*53.7%*	*35.0%*	*30.0%*
EBITDA	5	7	18	27	37
EBITDA margin	*6.8%*	*8.7%*	*13.7%*	*15.0%*	*16.0%*
EBIT	1	4	13	19	28
EBIT margin	*1.1%*	*4.9%*	*9.8%*	*10.9%*	*12.2%*
Pre-tax earnings	1	4	13	19	28
Net earnings	0	4	13	17	22
Net margin	*0.6%*	*4.5%*	*9.9%*	*9.9%*	*9.5%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.02	0.17	0.57	0.77	0.97
P/E adj.	254.0	37.1	11.0	8.2	6.5
EV/S	1.6	1.6	1.0	0.7	0.5
EV/EBITDA	23.3	17.8	7.3	4.8	3.3

Last updated: 2016-12-16

Owner	Equity	Votes
NORDNET PENSIONSFÖRSÄKRING AB	15.8%	16.0%
AVANZA PENSION	9.7%	9.9%
FAMILJEN ROGGENTIN MED BOLAG	8.2%	8.3%
ELEMENTA	6.1%	6.2%
JÖRGEN NORDLUND (PRIVAT OCH MED BOLAG)	5.8%	5.9%
GÖRAN SPARRDAL	4.7%	4.7%
STEN KARLSSON (PRIVAT, FAMILJ. BOLAG)	2.9%	3.0%
ROGER ANDERSSON	2.5%	2.5%

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Company description

West International was founded in 1988 and has been listed on Nasdaq Stockholm First North since 2007. It is headquartered in Upplands Väsby, where it has around 20 employees. West supplies transaction and payment solutions for merchants, and end users of the company's products include ÖoB, Polarn och Pyret and JC. The company's range of products helps to rationalise trade in physical environments.

West International has developed from being a pure hardware company and distributor, to being more of a software company through smart transaction and payment solutions. This is seen clearly in the company's gross margin, which has increased from 28 percent in 2010 to about 42 percent in 2014. West International is active in the point of sales (POS) industry. POS means all the components necessary for merchants to be able to take payment from customers at the point of sale. This includes everything from card terminals, self-service checkouts, software in checkout systems and receipt rolls to the conveyor belt at the checkout. West operates in three subcategories of the POS industry: Card Terminals; Self-Service; and Cash Register Systems. West's terminals are used in the Malmö Arena, ÖoB, Polarn och Pyret and JC, to name a just a few.

Investment case

West is a company that has transformed dramatically in recent years. Thanks to its investment in the card terminals segment, the company has significantly improved its profitability in the form of gross margin expansion. The company has in three years managed to achieve a market share of about 15 percent of new sales for card terminals in Sweden. We estimate that the total market in Sweden is worth almost SEK 320 million annually. West's card terminals are at the forefront in terms of technology, security and functionality, and are competitively priced. We believe the company is well placed to continue to take market share in Sweden. West intends to launch its terminals in additional geographic markets, and we regard Finland and Norway as the likely candidates. Once the SEPA regulations come into force, further opportunities for expansion will open up in Europe. Card terminals today account for around 50 percent of the company's sales. We anticipate margin expansion as card terminals come to account for a growing share of revenues, and we believe it likely that this proportion will be 75 percent within 3 years.

Acquisitions are relatively common in the payment sector, with mainly Ingencio and VeriFone consolidating the industry. However, payment-service providers (PSPs) like Nets have acquired terminal vendors. These buy-ups have historically been made at higher multiples than West is currently traded at.

There are only 3-4 other providers in the Swedish card terminal market aside from West. The largest is Verifone, and Ingenico is number two, and the global market is heavily dominated by these two players. One of the main reasons why there are only a few providers in such a large market is that existing providers like West are protected by high barriers to entry. The regulatory requirements for card terminals are very stringent, and terminals must be approved under the regulations of the card companies, and under a number of regional and international security standards, which creates substantial barriers to entry. A further barrier to entry that we have identified is a lock-in effect for customers. West's customers are PSPs. These PSPs have developed software in the form of a payment switch that has to be integrated with the software in the card terminal provided by West, after which these need to be certified together in accordance with various security standards. The PSP then sells the card terminals to merchants, so once it has started to market a terminal from one supplier it would therefore prefer to avoid change. This leads to a lock-in effect for West's customers as they are reluctant to switch their supplier of terminals. This lock-in effect creates both opportunities for growth and profitability potential for West.

The company has a stated goal of international expansion, which will cost money for investment in development. We estimate that it will need about SEK 3 million in investment per country, and there is obviously a risk of the international expansion not being successful. Additional capital will most likely be needed for this expansion, either through debt financing or by raising outside capital. This also depends, of course, on how aggressively the company chooses to establish itself in new markets. West's sales are to some extent affected by the state of the economy. Cash register equipment is more sensitive to economic fluctuations than the other two segments, and if there is a recession this would also have a negative impact on West's sales.

We believe the stock market has not yet become aware of the actual size of the sales potential for West. The company is still relatively undiscovered and, in particular, many investors have missed the fact that one of Sweden's largest suppliers of card terminals is a small company listed on First North. We believe the potential in the stock is greater than the downside risk.

Catalyst types

Investor awareness
The profitable and fast growing business of Card terminals is today embedded within two less profitable segments; we do find it likely that investor is not aware of this fact and that through a more active communication with the investment community the value will be enhanced

International expansion
Further international expansion för their card terminals to more countries is the largest value catalysts for West. The expansion will lead to higher turnover levels for the Card Terminals segment, which will create higher margins and increase the future cash flow.

Divestment of non profitable business
Cash materials and Selfservice both have low margins and quite high competition, a divestment could enhance the valuation of West.

Acquisition
The payment business is overfloaded with M&A. Mostly larger PSPs such as Cidron Superpay and Nets are acquiring smaller players. It is reasonable to believe that West might be acquired by a larger player such as Nets that recently bought PayZone which is a close partner to West.

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Appendix: Redeye Technology Team

ERIK KRAMMING

CLIENT MANAGER & HEAD OF TECHNOLOGY. Erik has a Master of Science in finance from Stockholm University. His previous work has included a position at Handelsbanken Capital Markets. At Redeye, Erik works with Corporate Broking for the Technology team.

GREGER JOHANSSON

CLIENT MANAGER & CO-HEAD TECHNOLOGY. Greger has a background from the telecom industry, both from large companies as well as from entrepreneurial companies in Sweden and USA. He also spent 15+ years in investment banking. Furthermore, at Redeye Greger advise growth companies within the technology sector on financing, equity storytelling and getting the right shareholders/investors (Corporate Broking).

JOHAN EKSTRÖM

CLIENT MANAGER. Johan has a Master of Science in finance from the Stockholm School of Economics, and has studied e-commerce and marketing at the MBA Haas School of Business, University of California, Berkeley. Johan has worked as an equity portfolio manager at Alfa Bank and Gazprombank in Moscow, as a hedge fund manager at EME Partners, and as an analyst and portfolio manager at Swedbank Robur. At Redeye, Johan works in the Corporate Broking team with fundamental analysis and advisory in the tech sector.

ALEX SATTELMAIER

ANALYST, BUSINESS DEVELOPMENT. Alex has a Master of Science in finance and accounting from the Stockholm School of Economics, and a CEMS Master in international management. He has worked at KPMG Germany and with emerging companies in adtech and medtech. At Redeye, Alex works with fundamental analysis in the software and internet sector, and with unlisted tech companies.

HAVAN HANNA

ANALYST. With a university background in both economics and computer technology, Havan has a an edge in the work as an analyst in Redeye´s technology team. What especially intrigues Havan every day is coming up with new investment ideas that will help him generate above market returns in the long run.

REDEYE

HENRIK ALVESKOG

ANALYST. Henrik has an MBA from Stockholm University. He started his career in the industry in the mid-1990s. After working for a couple of investment banks he came to Redeye, where he has celebrate 10 years as an analyst.

JOEL WESTERSTRÖM

ANALYST. Joel has a Master of Science in management and economics of innovation from the industrial programme at the Chalmers University of Technology. Joel has previously worked in private equity and as a strategy consultant with companies including A. T. Kearney and the Kinnevik group. Today Joel works with equity research at Redeye and monitors companies in IT, telecoms and technology.

KRISTOFFER LINDSTRÖM

ANALYST. Kristoffer Lindström has both a BSc and an MSc in Finance. He has previously worked as a financial advisor, stockbroker and equity analyst at Swedbank. Kristoffer started to work for Redeye in early 2014, and today works as an equity analyst covering companies in the tech sector.

TOMAS OTTERBECK

ANALYST. Tomas Otterbeck gained a Master's degree in Business and Economics at Stockholm University. He also studied Computing and Systems Science at the KTH Royal Institute of Technology. Tomas was previously responsible for Redeye's website for six years, during which time he developed its blog and community and was editor of its digital stock exchange journal, Trends. Tomas also worked as a Business Intelligence consultant for over two years. Today, Tomas works as an analyst at Redeye and covers software companies.

VIKTOR WESTMAN

ANALYST. Viktor read a Master's degree in Business and Economics, Finance, at Stockholm University, where he also sat his Master of Laws. Viktor previously worked at the Swedish Financial Supervisory Authority and as a writer at Redeye. He today works with equity research at Redeye and covers companies in IT, telecoms and technology.

JOHAN SVANTESSON

ANALYST. Johan has a degree from Uppsala University and University of Melbourn. He today works with equity research at Redeye and covers companies in IT and technology. Before university, Johan was a professional soccer player in Gefle.

Appendix: Disclaimer

Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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Redeye Rating (2017-01-10)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	41	43	20	8	18
3,5p - 7,0p	71	61	92	34	45
0,0p - 3,0p	6	14	6	76	55
Company N	118	118	118	118	118

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REDEYE NEXT GENERATION INVESTMENT BANKING