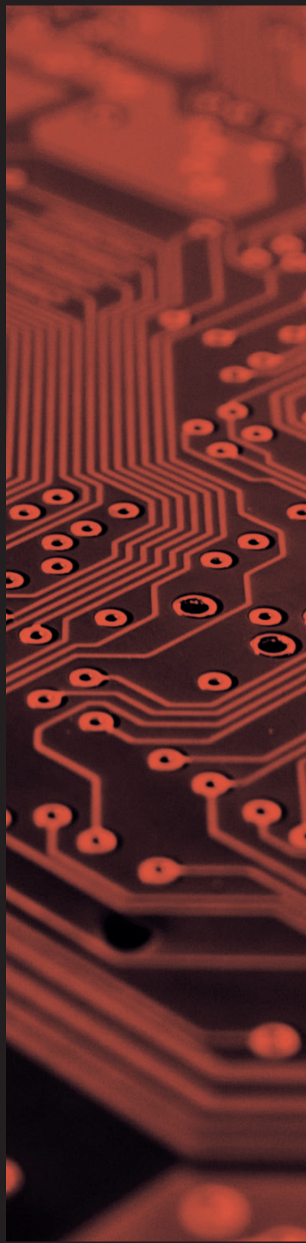
REDEYE

Nordic Technology Report 2019



A3
Acconeer
Addnode
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Clavister Holding
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Enlabs
Ericsson
Fingerprint Cards
Formpipe Software
Fortnox
G5 Entertainment
Gapwaves
Global Gaming 555
Heliospectra
Hexatronic
Image Systems
Imint Image Intelligence
Invisio Communications
Lagercrantz
MR Green & Co
Mycronic
Mytaste
Neonode
Net Insight
Nitro Games
Nokia
Opus Group
Paynova
Polygiene
Powercell
Remedy Entertainment
Sdiptech
Sensys Gatso Group
Sivers IMA
Smart Eye
Starbreeze
Stillfront Group
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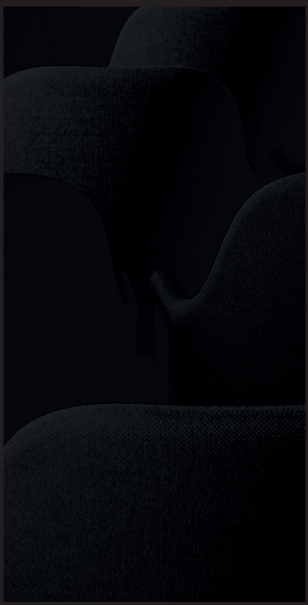
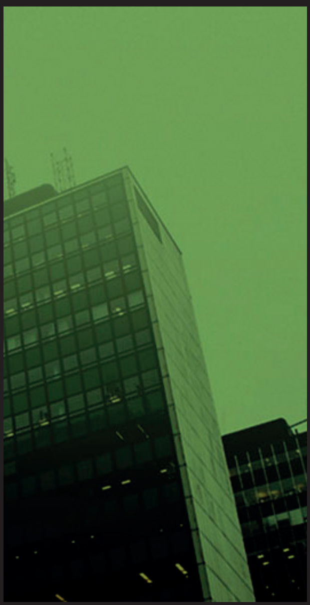
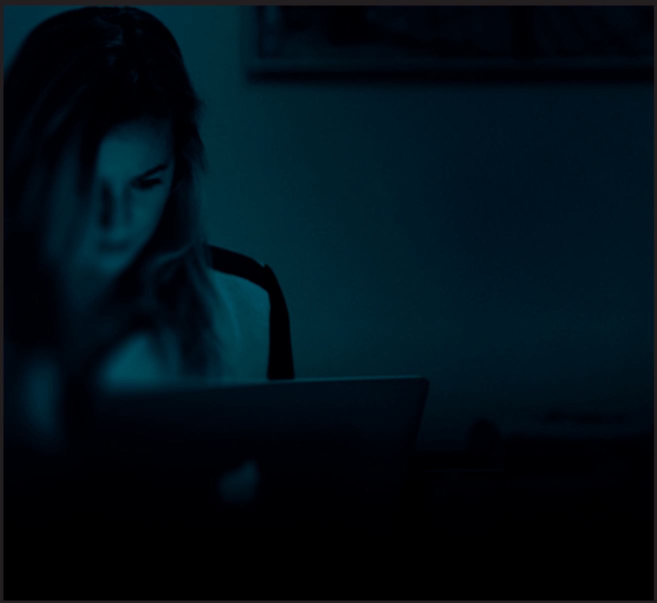
TalkPool
THQ Nordic
Verisec
Waystream Holding
Westpay
XMReality
ZetaDisplay
ÅAC Microtec







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Redeyes 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.

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.

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.

Kristoffer Lindström
Analytiker

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 with a prime focus on Gaming and iGaming.

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 (Telia and Ericsson) and USA (Metricom). He also spent 15+ years in investment banking (Nordea and Redeye). Furthermore, at Redeye Greger advise growth companies within the technology sector on financing, equity storytelling and getting the right shareholders/investors (Corporate Broking). Coder for two published C64-games. M.Sc.EE and M.Sc.Econ.

Erik Rolander
Client Manager

Erik has a Master's degree in finance from Linköpings Universitet. He has previously worked as a tech analyst and product manager for Introduce.se which is owned and operated by Remium. At Redeye, Erik works with Corporate Broking for the Technology team.

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 celebrated 10 years as an analyst.

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.

Eddie Palmgren
Analyst

Eddie Palmgren holds a BSc in Business and Economics, Finance, from Stockholm University and has also completed an additional year at Master's Level in Taiwan. Eddie joined Redeye in 2014 and is an equity analyst in the Technology team as well as editor for Redeye's Top Picks portfolio.

Dennis Berggren
Analyst

Dennis Berggren is an equity analyst within Redeye's technology team, holding a Master's degree in Economics of Innovation and Growth from KTH Royal Institute of Technology and a Bachelor's degree in Economics from Stockholm University.

Fredrik Nilsson
Analyst

Fredrik Nilsson is an equity analyst within Redeye's technology team. He has an MSc in Finance from University of Gothenburg and has previously worked as a tech-focused equity analyst at Remium.

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.

Jonas Amnesten
Analyst

Jonas Amnesten is an equity analyst within Redeye's technology team, with focus on the online gambling industry. He holds a Master's degree in Finance from Stockholm University, School of Business. He has more than 6 years' experience from the online gambling industry, working in both Sweden and Malta as Business Controller within the Cherry Group

Håkan Östling
Head of Research & Sales

Håkan holds a Master of Science in Economics and Financial Economics at the Stockholm School of Economics. He has previously worked with equites research, corporate finance and management at Goldman Sachs, Danske Bank and Alfred Berg. A tRedeye, Håkan works with management in both analysis and other corporate governance.

Executive Summary

Redeye tech team consists of 9 analysts, which probably makes it the biggest team in the Nordics fully dedicated to tech companies. The team covers around 60 of the most promising tech companies listed on the different exchanges in Stockholm.

In this Nordic Technology Report we summarize some of the main trends and themes we see in the market including Cybersecurity, Gaming, Autotech and Artificial Intelligence. We also look into the expectations and valuations and compare them to the global tech sector. Finally we do a screening of our universe and highlight 3 companies that we find particularly interesting going into 2019.

Technology market drivers and M&A

We highlight two areas that are relevant for a big number of Nordic companies: Cybersecurity and Gaming. These are both USD 100+ bn markets growing at a robust pace. The gaming industry is now the world's largest entertainment business. Autonomous cars and Artificial Intelligence are two other more wide ranging trends of great interest. Both are in early stages but are expected to have significant impact on society in the coming decade. The number of listed Nordic companies within these two spaces is still however relatively few.

M&A activity picked up

The M&A activity in the global tech and telecom sectors picked up in 2018 compared to the year before. In 2019, recent US tax reform could increase the M&A-activity even further. In 2020, global M&A activity is anticipated to decline, because of a cooling economy. Recent trade tensions are also causing a risk, particularly to cross-border deals.

Takeover bids for: Mr Green, Cherry and Cinnober

In 2018, several tech companies in Redeye's universe have shown a high M&A activity. Most notably THQ Nordic, Sdiptech, Addnode and Hexatronic. Also, three tech companies out of our coverage have received takover bids during 2018: Mr Green & Co; Cherry and Cinnober.

Tech IPO's

39 Nordic tech IPO's

Although the number of tech IPOs decreased somewhat in 2018, the inflow of new tech companies remains high with 39 IPOs during the year. Total capital raised (from share issues) in relation to the IPOs amounted to about SEK 2.8bn. The average company raised SEK 72m in the IPO, which is a bit higher compared to last year. However, the average is skewed by the largest transactions. The median firm, raised an amount of SEK 28.5m (SEK 24m in 2017).

On average poor performance after IPO

The most substantial difference to last year is the share performance after listing. Only one fourth of the companies closed the year with positive returns. The average excess return (vs Nordic Technology index) amounted to minus 17% while the median excess return was minus 34%.

Market expectations regarding tech companies

Multiple contraction

Overall, leading tech shares were driven by strong underlying earnings during 2018. The rolling 12 month growth for all regions exceeded last year's estimates but valuation multiples contracted in all regions. Nevertheless, Swedish and Nordic stocks gained 12 and 8% respectively and outperformed Global tech stocks who dropped -2% (still better than NASDAQ), driven by the US/Chinese trade war and a weaker semiconductor sector.

Global tech trading on par with Nordic peers

Even though global tech companies have a higher expected growth, and stronger rolling 12 month figures as well, the global stocks are trading at similar multiples as Nordic peers.

Good opportunities in the gaming sector

The general sentiment for gaming in Sweden has weakened considerably and has created good stock picking ground. Gaming and non-gaming companies are expected to grow at a similar pace but multiples in gaming are considerably lower. Nevertheless, non-gaming stocks (-5 % compared to -3% last year) continued to be outperformed. Gaming and iGaming, with average gains of 13% (+30% last year) was once again the general driving positive force behind the Swedish stocks performance.

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 output. The strategies are Growth At a Reasonable Price (GARP), Deep Value, Growth Junkies and Jockey Stocks.

Top tech picks 2019:
THQ Nordic
Hexatronic
Enea

Screening should not be seen as a portfolio suggestion, but instead as a smart way to narrow down the "research subjects". Qualitative factors and timing must also be taken into account. 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 an impact on the share price. 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. Our three top picks for 2019; THQ Nordic, Hexatronic and Enea all occurred in one or more of our screenings.

Redeye Top Picks portfolio

Top picks gained ~11% in 2018

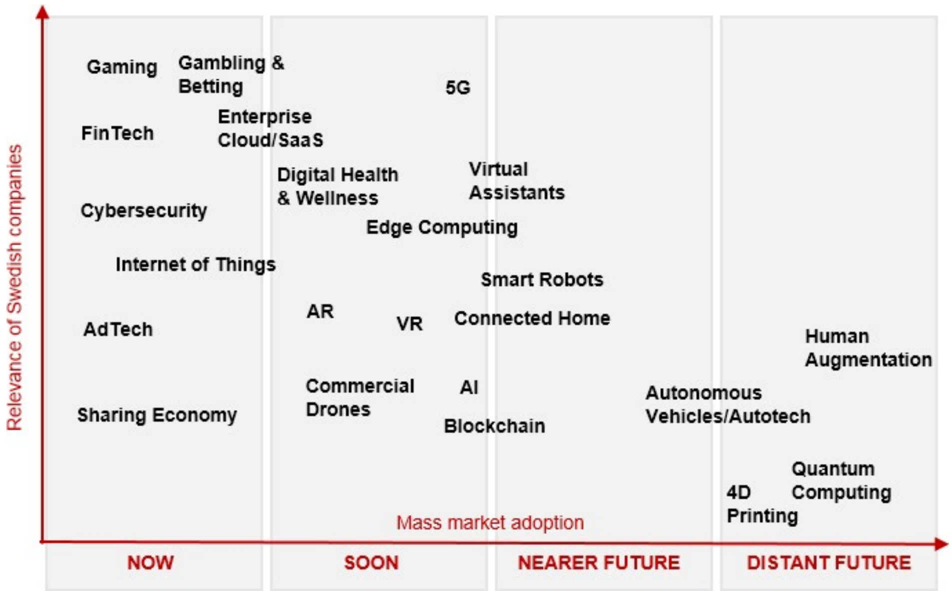
Redeye's Top Picks portfolio aims to provide a basis of investment ideas for long-term positive returns relative to risk. Management is active and the portfolio consists of a selection of companies from the Redeye Universe where we perceive current risk/reward to be most attractive. Redeye's Top Picks portfolio gained 10.6% during 2018, while the local comparative index OMXSPI declined by 7.7%. Our portfolio's return thereby outperformed the index by 18.3% points. Our top tech picks for 2018 averaged a return of 18%.

Since the end of 2017, Top Picks has adopted a cautious stance and raised the hurdle for portfolio inclusion. This means a focus on companies that can sustain growth and prosper also in harsher economic conditions. For 2019, our three top tech picks are: Enea, Hexatronic Group and THQ Nordic. Brief motivations are provided for these investment cases on page 30.

Technology drivers

- Swedish Tech is hot – we highlight two key areas that are relevant for a big number of Swedish companies; *Cybersecurity* and *Gaming* but also two more wide-ranging trends; *Autotech* and *AI*.

The chart below maps Redeye's assessment of prominent global drivers and themes in the Tech market. We assess them in two dimensions. Firstly the commercial, mass-market adoption status of products and businesses based on the individual driver (which is mainly based on market researchers' expectations). Secondly, the perceived relevance for Swedish companies (which is mainly based on the number of Swedish companies and their role in the area).



Cybersecurity

Companies to watch:
- Clavister
- Yubico
- Verisec
- Advenica
- Detectify
- Baffin Bay Networks
- F-Secure
- Cognosec
- Recorded Future
- Omada
- Unomaly
- BehavioSec

The shift to cloud computing, increased network connectivity, regulation and public spending initiatives, and the growing complexity of disruptive cyber-attacks are all drivers supporting a growing cybersecurity need.

USD 114 billion

Cybersecurity spending is estimated to grow at a rate of 7.5 percent a year through 2020, to reach USD 114bn – which is almost pale compared to the estimated USD 6 trillion cybercrime cost by 2021. Security products related to cloud, mobile, IoT, and specialised threats are some of the fastest growing areas within the space. Financial and insurance companies are the biggest customer segments. The human factor is still (and will continue to be) a huge issue, for example, 95 percent of all security incidents involve human error, and up to 600,000 laptop computers are lost annually in U.S. airports.

Focus on detection and response

Enterprises are transforming their security spending strategy, moving away from prevention-only approaches to focus more on detection and response. This is strongly coupled to the leveraged use of AI and big data-driven security solutions to identify security issues before they can be exploited. Another trend is the "platform approach" where one vendor ideally covers all security needs with one single solution (a very difficult endeavor though). Also, the cybersecurity industry is far from maturity, many new companies with new approaches and technologies are constantly emerging, leading to highly fragmented sectors (consolidation will accelerate across highly fragmented & competitive sectors including endpoint & authentication). Lastly, although different companies cover different solutions and have different end-markets, all segments are transitioning either to a cloud-based subscription model or attempting to secure the cloud better.

Gaming

Companies to watch:
- THQ Nordic
- G5 Entertainment
- Paradox Interactive
- Stillfront Group
- Starbreeze
- Rovio Entertainment
- Nitro Games
- Goodbye Kansas

The video game industry provides investors with the opportunity to benefit from an ongoing secular growth trend. Some of these factors are globally improved living standards, demographic shifts, digitalization and the smartphone era.

World's largest entertainment business

The Gaming industry is the world's largest entertainment business, trumping all others. The global Gaming market had a value of roughly USD 135bn during 2018 and is expected to grow annually by about 9% in the coming years. The key driver during 2018 was not mobile gaming as expected instead it was console gaming with an estimated growth of 15%. Globally there are about 2.6 billion gamers, i.e., plays at least one time a month.

Strong Swedish presence

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 some cross-border acquisitions. According to Dataspelsbranschen, there were 343 registered businesses in Sweden with a focus on game development 2017. These companies generated revenues of approximately SEK 15bn during the same year, compared to SEK 3.7bn 2012. Game development is a growth industry – a dozen companies has been around since the nineties, but well over half of all companies have registered in the past five years.

Secular trends

The main secular trends behind the growth of the video game industry will continue for many years, and we will see further growth in the mobile games segment and a broader breakthrough. VR and AR game concepts are two emerging trends. Pokémon Go brought AR to the mainstream for the first time, but so far VR is waiting for its breakthrough. Finally, eSports momentum and popularity will continue – eSports is the fastest growing sports industry in the world. During 2017 the estimated global revenue of the sector amounted to USD 655m and is expected to grow more than 30% annually over the coming years and reach USD 1650m 2021.

Autotech

Companies to watch:
- Smart Eye
- Veoneer
- Neonode
- Opus Group AB
- Diadrom

The automotive market is currently in a tech revolution that has barely started. Most notably, the cars of the future will be electrified, autonomous, connected, smart and shared.

Autonomous cars

All car OEMs are investing in autonomous car technologies. Some of them are moving directly to level 4 (high automation) where the car drives by itself almost all of the time. Others believe it is important to first develop semi-autonomous level 3 (conditional automation) cars where the driver is expected to intervene from time to time. Regardless which one of these approaches the car OEMs prefer, the whole car industry has agreed on the importance of moving towards autonomous cars. A large number of various sensors are needed in order for the car to see, i.e. detect what is going in its surroundings. Artificial Intelligence (AI) then helps the cars to understand this information and make adequate maneuvers.

Safety standards & Driver assistance

Standard organisations worldwide are continuously mandating various technologies in order to decrease the 1.2 million road fatalities and 50 million traffic injuries that occur every year. About 94 percent of these car crashes are related to human error. This drives the need for Advanced Driver-Assistance Systems (ADAS), i.e. technology that helps the driver in the driver process. Similar to self-driving cars ADAS also require an increasing amount of sensors and AI.

Smart connected cars

Cars are becoming connected "computers on wheels" as they get equipped with internet access/W-LAN, allowing cars to communicate and share information with each other. This also open up all of the endless opportunities in the IoT space, one example being controlling household electronics from the car like e.g. the fridge telling the car that it is out of milk. Also, according to several market pundits owning a car will be less common in the future. Instead cars will be shared and rented as a service.

Even though the trends above are structural trends that will play out over many years to come one should note that the lead times in the automotive industry are long and the entry barriers high, which is related to the platform strategies of the car OEM. Car OEMs manufacture are consistently trying to optimize costs by manufacturing more car models on fewer platforms. The different car models on a platform therefore share most of the technology. Thus, the companies that win the ongoing procurements have a good chance of delivering their technology to, not only one car model during its 5-7 year lifetime, but also to its sibling cars on the platform.

Last mile delivery gets automated

Although the promise of autonomous driving hasn't quite arrived (yet), last-mile delivery may be the first place where we see fully autonomous fleets deployed. Driving groceries across short distances without a driver is less of a risk (compared to humans) and has immediate use cases. The technology is also easier to develop than full-size passenger-based vehicles — it's smaller, slower, and lighter, and the stakes are lower without human cargo.

As consumers turn towards e-commerce for more of their shopping and retail needs, users expect fast delivery to come as standard. Some 56% of millennial shoppers expect to have same-day shipping be an option when they buy online and 53% of shipping costs is in the last mile. These figures highlight the massive competitive advantage of the front-runner and retailers are targeting innovation in last mile delivery to protect margins and accelerate delivery times. In 2019 autonomous vehicles in last-mile deliveries will gain considerable attention from retailers. As for the next era of deliveries automated fleets will be standard.

AI

Companies to watch:
- Softrobot
- Peltarion
- Sana Labs
- Univrses
- Imagimob
- Inovia
- Nepa
- Smart Eye
- IP Soft

A megatrend that continues to be at the forefront of tech discussions, conferences and development. Even if Swedish companies may not be prominent or leading in this field, AI will be an integral part of every company in the future. AI applications today focus on narrow tasks, but together these AI-driven tasks are reshaping businesses, markets, and industries.

Swedish companies (and others) will need to cope with this evolution; a failure to incorporate these technologies in organisations will come with setbacks. According to a report from Boston Consulting Group, Nordic companies are lagging behind in global competition when it comes to using artificial intelligence (China and the U.S are the clear "frontrunners").

General AI – still uncertain

Deloitte predicts that the usage of AI technologies by enterprises will double in 2019 and become fully mainstream over the long term. International Data Corporation (IDC) forecasts that spending on AI and machine learning (ML) will grow from USD 12bn in 2017 to USD 57.6bn by 2021. Meanwhile, the promise of general AI — or artificial intelligence that can quickly learn new tasks without supervision — remains uncertain. Although a handful of companies like Vicarious Systems and Kindred have raised money to develop general AI, there is little evidence of specifics or real traction.

ML adoption in early phases

Looking at ML, adoption is still in its early phases. Some of the factors holding back the adoption of ML are: qualified practitioners are in short supply, tools and frameworks are immature and the fact that it is time-consuming and costly to obtain the large data sets often needed. However, advancements in automating data science, reducing the need for data and accelerated training should make ML easier, cheaper and faster the coming years. We believe the market will take big steps in its quest to make AI technology usable and affordable to the many (and not just the "giants") in the coming years.

During the last years Redeye has focused on theme based events. Click on each theme below (or visit our website; www.redeye.se) to dig deeper and watch videos from the events.

- *Central Nervous System (CNS)*
- *Augmented Reality (AR)*
- *Autotech*
- *Online Gambling*
- *5G*
- *Gaming*
- *Cybersecurity*

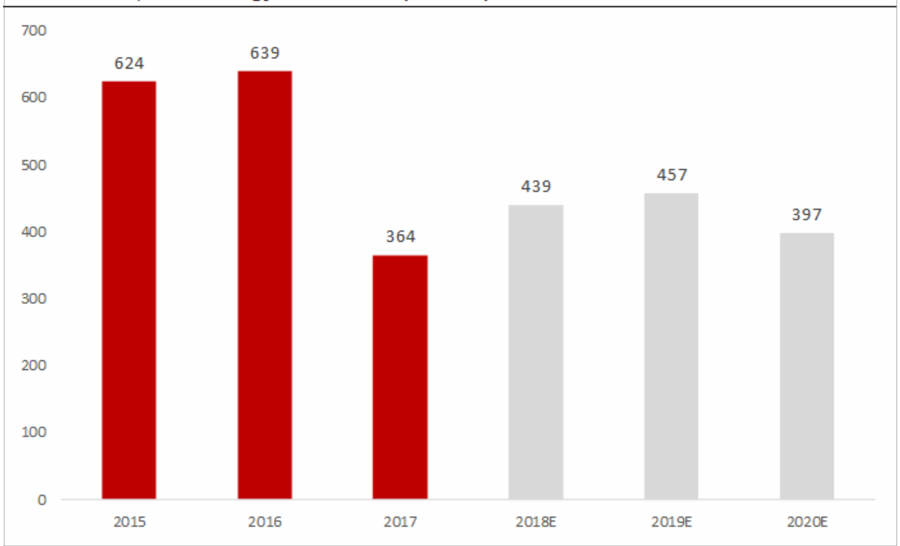
In 2019 new themes with associated events will be presented (so keep your eyes open).

M&A in the technology sector

- The global M&A activity in technology and telecom picked up in 2018 and is expected to grow further during 2019 – supported by the US tax reform. In 2020, however, a decline is expected due to a cooling global economy.
- As technology has become more expensive, acquirers favor product/service and customer base expanding acquisitions.
- Several tech companies in Redeye's universe have shown a high M&A activity in 2018. THQ Nordic completed most deals as well as the largest one – the acquisition of Koch Media.
- Two of Redeye's universe gambling companies have received takeover bids during the fourth quarter. Thus, right before the regulation of the Swedish market.

Global M&A

Global M&A, Technology & Telecom (USDbn)



Source: Baker McKenzie & Oxford Economics

The M&A activity in the global tech and telecom sectors picked up in 2018. During the first half of 2018, transaction value increased by 50%, compared to the corresponding period in 2017, to USD 278 billion. Approximately 90% of the major deals included US companies, such as Dell's acquisition of VMware and Broadcom's purchase of CA Technologies.[1] However, the increase in tech and telecom deal value has been lower than expected, mainly due to regulatory issues. For example, regulators have blocked major deals in the microchip industry.[2]

[1] Deloitte, 2019 Technology Industry Outlook, 2018, p. 4.
[2] Baker McKenzie, Global Transaction Forecast 2019, 2018, p. 12-14.
[3] Quartz, What will Big Tech do with all irs repatriated cash? Buy everything, 2018.
[4] Deloitte, The state of the deal M&A trends 2019, 2018 p 10.

In 2019, recent US tax reform could increase the M&A-activity even further. The healthcare and tech sectors hold most of the overseas cash and the latter prefers to spend excess cash on acquisitions.[3] Technology companies are also expected to continue to acquire smaller businesses. Besides the usual adding growth rationale, many large tech companies acquire smaller players and start-ups to eliminate competition.[1] For several years, M&A has been driven largely by the acquisition of technologies. It is still one major driver for M&A within tech, media, and telecom. However, according to a survey by Deloitte, companies favor acquisitions expanding their offerings or customer base, as the price on tech is on the rise.[4]

In 2020, global M&A activity within tech and telecom is anticipated to decline, because of a cooling economy. Recent trade tensions are also causing a risk, particularly to cross-border deals. [2]

M&A in Redeye's universe

M&A activity in Redeye's Tech universe

Acquirer	Target	Deal Size	Earnouts
Addnode Group	Landborgen	Unknown	Unknown
Addnode Group	Cadassist	Unknown	Unknown
Addnode Group	SSA & Simuleon	Unknown	Unknown
Allgon	Tele-Radio	SEK 350m	SEK 50m
Doro	Welbeing	SEK ~130m	Unknown
Enea	Openwave Mobility	USD 90m	-
Hexatronic Group	Opternus	EUR 10m	EUR 2.5m
Hexatronic Group	PQMS	GBP 2m	GBP 2.6m
Hexatronic Group	Blue Diamond Industries	USD 20.5m	USD 23m
Image Systems	Limab Oy	EUR 4m	EUR 2.1m
Lagercrantz Group	Alf Bjurenwall	Unknown	Unknown
Lagercrantz Group	Tormek AB	Unknown	Unknown
Mycronic	MRSI Systems	USD 40.7m	USD 20.2m
Opus Group	Gordon-Darby	USD 56m	-
Sdiptech	Centralmontage	SEK 20m	SEK 7.7m
Sdiptech	Aviolinx	SEK 38m	SEK 2m
Sdiptech	Optyma	GBP 6.3m	GBP 1.9m
Sdiptech	Multitech Site Services	GBP 11m	GBP 4.3m
Sdiptech	KSS	SEK 123.6m	SEK 32.1m
Sdiptech	Rogaland	Unknown	Unknown
Sdiptech	Vera Klippan	Unknown	Unknown
Sdiptech	Pure Water Scandinavia	Unknown	Unknown
THQ Nordic	Koch Media GmbH	EUR 121m	-
THQ Nordic	HandyGames	EUR 1m	EUR 1.5m
THQ Nordic	Timesplitters	Unknown	Unknown
THQ Nordic	Kingdom of Amalur	Unknown	Unknown
THQ Nordic	Alone in the Dark	Unknown	Unknown
THQ Nordic	Coffee Stain	SEK 317m (prel)	Unknown
THQ Nordic	Bugbear (90%)	Unknown	Unknown
THQ Nordic	Expeditions	Unknown	Unknown
THQ Nordic	Carmageddon	Unknown	Unknown
Talkpool	Virtual Connect (SA)	EUR ~0.2m	-
Stillfont Group	Imperia Online JSC	EUR 10m	-
Stillfont Group	Playa Games GmbH	EUR 20m	EUR 25m
ZetaDisplay	Webpro AS	NOK 10.5m	NOK 10.5m
ÅAC Microtech	Clyde Space	SEK 294m	-
EE Intressenter	Cherry	SEK 87 per share, SEK ~9.2bn	-
Nasdaq	Cinnober	SEK 87 per share, SEK ~2bn	-
William Hill PLC	Mr Green & Co AB	SEK 69 per share, SEK ~2.8bn	-

Source: Redeye Research

In 2018, several tech companies in Redeye's universe have shown a high M&A activity. THQ Nordic completed the largest deal and as well as most transactions. Also, Sdiptech, Addnode Group, and Hexatronic Group showed a high M&A activity during the year.

Also, three tech companies in our coverage have received takover bids during 2018. William Hill offered approximately SEK 2.8 billion for Mr Green & Co; EE Intressenter bid SEK ~9.2 billion for Cherry and Nasdaq offered SEK ~2 billion for Cinnober. Notably, both Mr Green and Cherry received offers in the fourth quarter and, thus, right before the regulation of the Swedish market.

Nordic Tech IPOs of 2018

IPOs covered
Admicom
Adverty
Agillic
Azelio
Better Collective
Beyond Frames
CAG Group
CGit
Comintelli
Enersense International
Fellow Finance
GoldBlue
Happy Helper
Hoodin
Hypefactors
Industriarmatur
Infracom
Jetty
JonDeTech Sensors
Lime Technologies
Midsummer
NCAB Group
Netcompany Group
Nordic ID
NPINVESTOR.com
Odico
OptiMobile
Orgo Tech
Ovzon
poLight
Raketech Group Holding
Ranplan Group
Raytelligence
Risk Intelligence
Scape Technologies
Seluxit
Smoltek
Zordix
Zutec Holding

- Although the number of tech IPOs decreased somewhat in 2018, the inflow of new tech companies remains high with 39 IPOs in the Nordic markets during the year. Total capital raised in these IPOs amounted to SEK 2.8bn.

- The most defining statistic for Nordic Tech IPOs in 2018 was share performance, where only one fourth of the companies closed the year with positive returns. The average excess return (compared to Nasdaq Nordic Technology index) amounted to -17% while the median excess return was-34%.

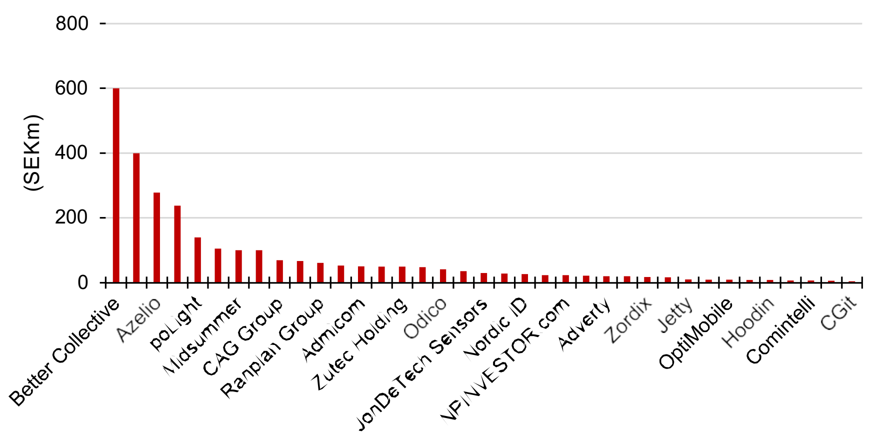
The number of Nordic IPOs amounted to about 39, of which 26 were listed on the Swedish exchanges Nasdaq main market, Nasdaq First North, Spotlight and NGM. The number of Swedish tech IPOs were thus fewer compared to 2017 (47 companies). Software remained the most common industry subgroup with an addition of 14 new companies during the year. Software was followed by technological services (6), commercial services (3), hardware (3) and renewable technology (3).

Regarding timing, the listings were rather evenly distributed between the first (21) and second (18) half of the year. June, November, and December were the busiest months, in which half of the listings took place.

Capital raised

Total capital raised (from share issues) in relation to the IPOs amounted to about SEK 2.8bn. The average company raised SEK 72m in the IPO, which is a bit higher compared to last year. However, the average is skewed by the largest transactions. The latter is illustrated by the median firm, which raised an amount of SEK 28.5m (SEK 24m in 2017).

Capital raised



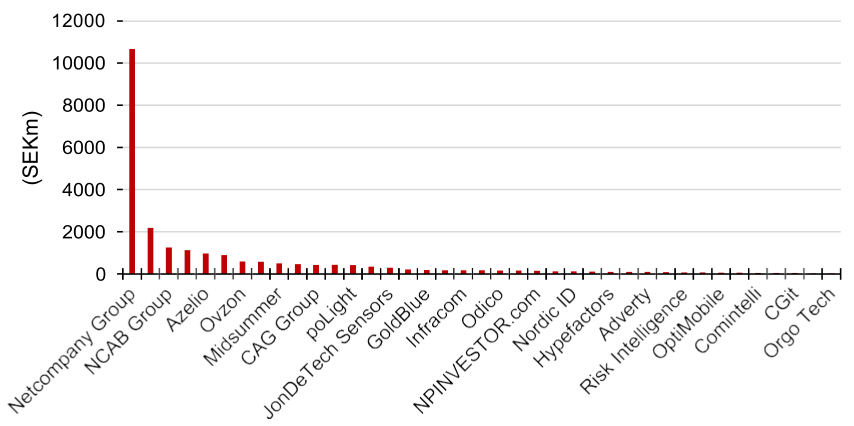
Source: Redeye Research

The largest issues were held by Better Collective (SEK 600m), Raketech (SEK 400m), Azelio (SEK 278m) and Ovzon (SEK 238m).

Valuations

There was a large variation in post-money valuations, ranging from SEK 30m to SEK 10.7bn. However, a clear majority of the tech companies were valued in the lower bound of the range. 23 (59%) of the firms were listed at a post-money valuation below SEK 200m while only four of the firms were listed at a post-money valuation exceeding SEK 1bn.

Post-money valuations



Source: Redeye Research

The largest company, in terms of post-money valuation, was the Danish IT-consultancy Netcompany listed at a valuation of SEK 10.7bn. It was followed by Better Collective (SEK 2,186m), NCAB Group (SEK 1,263m) and Raketech (SEK 1,137m).

Financials

Average net sales the year prior to the IPO amounted to SEK 147m, which is somewhat skewed by the largest firms Netcompany, NCAB, and Enersense International. This is illustrated by the median net sales amounting to SEK 15.4m.

Over half of the companies reported sales below SEK 20m the fiscal year before listing, indicating that many of the companies still are in a relatively early phase. Four of the companies had no revenues at all the year before the IPO. The median post-money valuation implied P/S'17 multiple amounted to 7.8x (excl. firms with no reported revenues), compared to 12.3x in 2017.

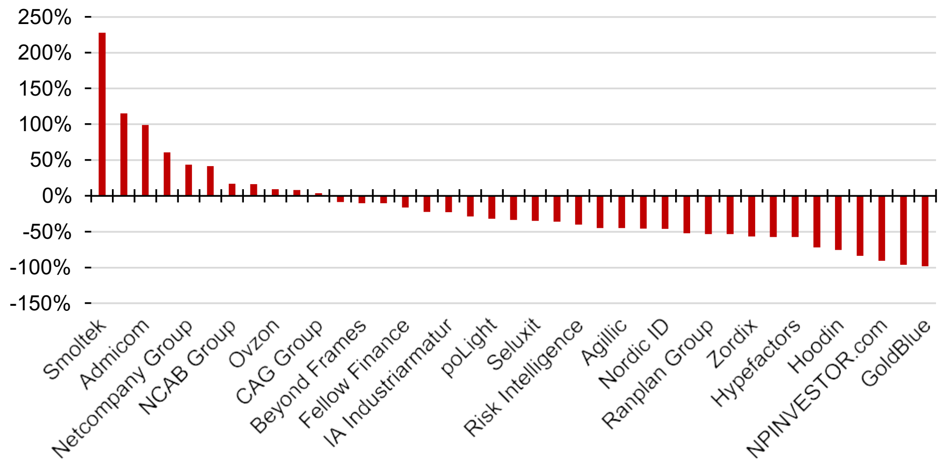
Average EBIT was SEK 14m while the median was 0, implying that half of the firms reported positive operating profits the year prior to the IPO. Regarding net earnings, 18 of the companies reported positive earnings in 2017. Among the firms with positive earnings, the median post-money implied P/E'17 multiple was 37x (65x in 2017).

Share performance

The most substantial difference to last year is the share performance after listing. 11 of the shares beat Nasdaq Nordic Technology PI during the year while only 10 (25.6%) shares delivered positive returns during the year, measured as the difference between closing price at year end (28th of December 2018) and the IPO offer price.

The average excess return (compared to Nasdaq Nordic Technology PI) was -17%, which further is skewed by significant returns of the best performing shares. This is illustrated by the median excess return of -34%. The latter implies that half of the IPO investments held until year-end would have resulted in losses exceeding 34%, a clear indication of a tough year for tech IPOs. Another interesting note is that only five of the companies were trading within a +/- 10% range from the IPO offer price per year-end.

Excess returns



Source: Redeye Research

The best performing shares were Smoltek (228%), Odico (115%), Admicom (99%) and Midsummer (61%). There is no general patterns explaining the outperformance of the above shares, as they differ in industry subgroup, revenue and earnings prior to the listing.

Sources: Bloomberg, Nasdaq, Spotlight, Nordic Growth Market and company documents (financial reports, IPO prospectus and memorandums).

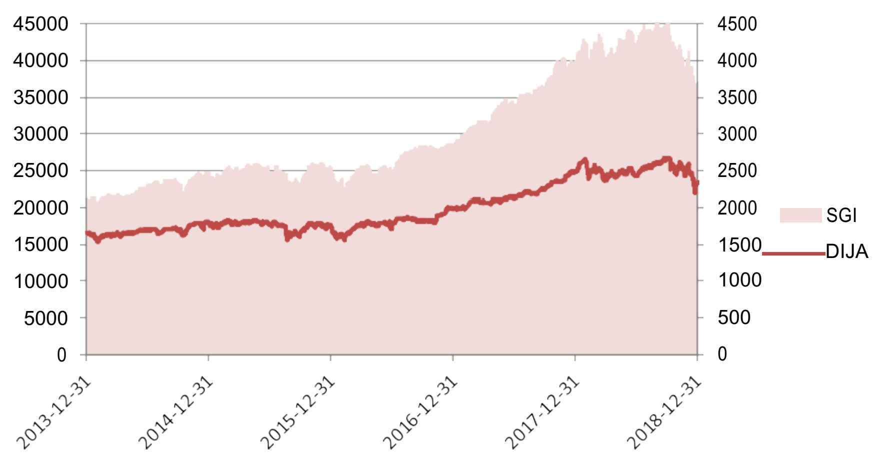
The market expectations regarding technology companies

- Overall, leading tech shares were driven by strong underlying earnings during 2018. The rolling 12 month growth for all regions exceeded last year's estimates but valuation multiples contracted in all regions. Nevertheless, Swedish and Nordic stocks gained 12 and 8% respectively and outperformed Global tech stocks who dropped -2% (still better than NASDAQ), driven by the US/Chinese trade war and a weaker semiconductor sector.
- Even though global tech companies have a higher expected growth, and stronger rolling 12 month figures as well, the global stocks are trading on the same multiples as Nordic peers.
- The general sentiment for gaming in Sweden has weakened considerably and has created good stock picking ground. Gaming and non-gaming companies are expected to grow at a similar pace but multiples in gaming are considerably lower. Nevertheless, non-gaming stocks (-5 % compared to -3% last year) continued to be outperformed. Gaming and iGaming, with average gains of 13% (+30% last year) was once again the general driving positive force behind the Swedish stocks performance.

In this section we have investigated the consensus estimates and valuations for the major listed technology companies globally as well as in the Nordic region and Sweden.

During the end of 2018, tech stocks tanked considerably, meaning the outperformance over Dow Jones from the previous five years diminished, as indicated by S&P's global tech index below.

S&P Global 1200 Information Technology Sector Index & DIJA



Source: Redeye Research, Bloomberg

The tech companies in our selection are separated into two groups; more mature companies with sales growth below 10% and fast growers with revenues expected to show double-digit growth. The selection includes the 25 leading, major companies (compared to 20 companies last year) in each region and is primarily based on market cap size.

Leading global technology companies

In the table on the next page we present our list of the top 25, leading, global tech companies listed by market cap size. All 20 players from last year remained on the list, joined by Adobe, Salesforce, PayPal, VMware and Tesla. As usual, telecom carriers such as AT&T, Verizon and China Mobile etc. are not on the list despite their size as we consider telecom carriers "not tech enough".

The scalable and fast-growing platform companies within social media and e-commerce remain higher valued than traditional hardware and software. Amazon, Tencent and Netflix still have the highest EBITDA multiples together with Tesla and Salesforce. These five companies are expected to grow faster than average but their estimated margins are considerably lower, excluding Tencent. In addition, shares of all these companies are up (also with the exception of Tencent) suggesting that the stock market is still keen on rewarding strong top line growth.

Leading Global Tech Companies: Consensus Estimates & Valuation

Company	Industry	Mkt cap	Share pr.	P/E		EV/EBITDA		EV/S		CAGR grow.	EBITDA	Growth R12M	
		USD bn	1 yr ch.	19E	20E	19E	20E	19E	20E	rev. 18-20E	avr. 18-20E	EBITDA	Sales
Group 1: Fast growers (10 % or more)													
MICROSOFT CORP	Applications Software	785	18%	20	17	12	10	5.4	4.8	11%	44%	8%	24%
AMAZON.COM INC	E-Commerce/Products	734	26%	41	31	18	14	2.7	2.2	20%	15%	10%	5%
ALPHABET INC-CL A	Web Portals/ISP	723	-3%	19	15	10	9	4.7	4.0	20%	46%	4%	3%
FACEBOOK INC-CLASS A	Internet Content-Entmnt	377	-28%	16	13	9	8	4.9	4.1	22%	55%	-1%	58%
TENCENT HOLDINGS LTD	Internet Applic Sftwr	373	-27%	27	21	19	15	6.4	5.1	28%	35%	28%	24%
ALIBABA GROUP HOLDING-	E-Commerce/Products	355	-25%	21	16	15	11	4.5	3.4	32%	31%	88%	37%
NETFLIX INC	Internet Content-Entmnt	117	33%	59	36	41	27	6.2	5.0	24%	15%	7%	3%
ADOBE INC	Electronic Forms	110	27%	23	20	19	16	8.5	7.5	16%	46%	0%	21%
SALESFORCE.COM INC	Applications Software	105	31%	50	40	27	22	6.6	5.6	19%	25%	110%	37%
PAYPAL HOLDINGS INC	Commercial Serv-Finance	99	14%	29	24	20	17	5.1	4.3	17%	26%	110%	37%
NVIDIA CORP	Electronic Compo-Semicon	81	-33%	18	15	16	13	5.9	4.9	12%	38%	146%	63%
QUALCOMM INC	Semicon Compo-Intg Circu	69	-13%	12	10	10	8	3.2	2.8	11%	33%	41%	42%
TESLA INC	Auto-Cars/Light Trucks	57	4%	50	30	16	13	2.3	1.9	28%	13%	40%	26%
VMWARE INC-CLASS A	Software Tools	56	30%	20	19	12	10	4.7	4.4	10%	41%	57%	38%
BAIDU INC - SPON ADR	Web Portals/ISP	55	-35%	15	12	13	9	2.9	2.5	16%	25%	6%	6%
Weigthed mean: group 1		**526**	**2%**	**26**	**20**	**15**	**12**	**4.8**	**4.0**	**20%**	**36%**	**25%**	**22%**
Mean: group 1		**273**	**1%**	**28**	**21**	**17**	**13**	**4.9**	**4.2**	**19%**	**33%**	**44%**	**28%**
Median: group 1		**110**	**4%**	**21**	**19**	**16**	**13**	**4.9**	**4.3**	**19%**	**33%**	**28%**	**26%**
Group 2: Maturing companies (less than 10 % growth)													
APPLE INC	Computers	749	-8%	11	10	7	7	2.2	2.1	4%	30%	29%	10%
INTEL CORP	Electronic Compo-Semicon	214	0%	10	10	7	6	3.0	2.9	3%	45%	-43%	2%
SAMSUNG ELECTRONICS C	Electronic Compo-Semicon	207	-24%	6	6	2	2	0.7	0.6	2%	34%	21%	16%
CISCO SYSTEMS INC	Networking Products	195	12%	13	12	9	9	3.3	3.2	3%	35%	14%	8%
TAIWAN SEMICONDUCTOR	Semicon Compo-Intg Circu	186	-6%	15	14	7	6	4.8	4.4	8%	66%	31%	24%
ORACLE CORP	Enterprise Software/Serv	162	-3%	12	12	9	9	4.2	4.1	2%	47%	38%	37%
SAP SE	Enterprise Software/Serv	122	-7%	18	16	12	11	4.1	3.8	8%	34%	31%	24%
BROADCOM INC	Electronic Compo-Semicon	104	-5%	10	10	8	8	4.5	4.2	6%	52%	6%	3%
INTL BUSINESS MACHINES	Computer Services	103	-26%	8	8	7	7	1.6	1.6	0%	24%	25%	12%
TEXAS INSTRUMENTS INC	Electronic Compo-Semicon	91	-10%	17	15	12	11	5.9	5.5	2%	48%	36%	7%
Weigthed mean: group 2		**372**	**-7%**	**12**	**11**	**8**	**7**	**2.9**	**2.8**	**4%**	**39%**	**20%**	**13%**
Mean: group 2		**213**	**-8%**	**12**	**11**	**8**	**8**	**3.4**	**3.3**	**4%**	**42%**	**19%**	**14%**
Median: group 2		**174**	**-6%**	**12**	**11**	**8**	**8**	**3.7**	**3.5**	**3%**	**40%**	**27%**	**11%**
Weighted mean (total)		**473**	**-1%**	**21**	**17**	**12**	**10**	**4.1**	**3.6**	**14%**	**37%**	**23%**	**19%**
Mean (total)		**249**	**-2%**	**22**	**17**	**13**	**11**	**4.3**	**3.8**	**13%**	**36%**	**34%**	**23%**
Median (total)		**174**	**-5%**	**18**	**15**	**12**	**10**	**4.5**	**4.0**	**11%**	**35%**	**27%**	**22%**

Source: Redeye Research, Bloomberg

Last year, the semiconductor manufacturers (NVIDIA, TSMC, Intel, Broadcom, Qualcomm & Texas Instrument) as a group had valuations similar to the software players (SAP, Microsoft & Oracle, WmWare, Adobe, Salesforce). We predicted a slight advantage for software in 2018, which has been the case. Following all semiconductor shares dropping in 2018, their average P/E and EBITDA multiples decreased by about 30% and 15%. By comparison, the software earnings multiples (both P/E & EBITDA) instead increased by over 20% for 2018 and 15% for 2019.

Leading Nordic technology companies

The Nordic top 25 tech companies are positioned within a variety of different subsectors such as telecom infrastructure and IT consulting but with an overweight particularly in betting and gaming.

The payment company Nets was acquired and therefore replaced by newly listed Netcompany – also from Denmark. Finnish Rovio did not make the cut this year but THQ and Paradox did, suggesting a shift in investor perception to computer and console games over mobile games (see also the Swedish section where G5 lost its placing on the list).

We especially notice that there are only four companies left from last year on the fast grower list (Nordic Semiconductor, F-Secure, Evolution Gaming & Kindred). Net Entertainment switched section from fast growth to mature companies (sub 10% growth) and was the only remaining company that managed to stay on the list.

Following the adjustments described above our list of major Nordic tech players looks like this:

Leading Nordic Tech Companies: Consensus Estimates & Valuation

Company	Industry	Mkt cap SEK bn	Share pr. 1 yr ch.	P/E 19E	P/E 20E	EV/EBITDA 19E	EV/EBITDA 20E	EV/S 19E	EV/S 20E	CAGR grow. rev. 18-20E	EBITDA avr. 18-20E	Growth R12M EBITDA	Growth R12M Sales
Group 1: Fast growers (10 % or more)													
KONGSBERG GRUPPEN ASA	Aerospace/Defense	22	-10%	20	13	13	9	1.0	0.9	31%	9%	20%	-5%
KINDRED GROUP PLC	Internet Gambling	18	-31%	12	12	9	9	1.7	1.6	11%	20%	46%	34%
EVOLUTION GAMING GROU	Gambling (Non-Hotel)	18	-10%	18	16	13	11	5.7	4.9	21%	44%	39%	39%
NETCOMPANY GROUP AS	Computer Services	15		24	18	17	14	4.8	4.0	23%	27%		
PARADOX INTERACTIVE A	Entertainment Software	14	42%	28	23	16	13	9.7	7.8	27%	59%		28%
THQ NORDIC AB	Entertainment Software	13	83%	19	15	7	6	2.2	2.0	12%	30%		
HMS NETWORKS AB	Networking Products	6	4%	28	23	18	15	4.0	3.5	17%	22%	5%	14%
NORDIC SEMICONDUCTOR	Electronic Compo-Semicon	5	-33%	30	13	12	6	1.6	1.2	25%	15%	35%	22%
CLX COMMUNICATIONS A	Communications Software	4	17%	19	15	11	9	1.1	0.9	15%	10%		
F-SECURE OYJ	Computer Data Security	4	-38%	39	24	18	12	1.6	1.5	13%	9%	-28%	8%
Weighted mean: group 1		**15**	**4%**	**21**	**16**	**13**	**10**	**3.7**	**3.1**	**21%**	**27%**	**27%**	**16%**
Mean: group 1		**12**	**3%**	**24**	**17**	**13**	**10**	**3.4**	**2.8**	**19%**	**25%**	**20%**	**20%**
Median: group 1		**14**	**-10%**	**22**	**15**	**13**	**10**	**2.0**	**1.8**	**21%**	**22%**	**28%**	**22%**
Group 2: Maturing companies (less than 10 % growth)													
NOKIA OYJ	Computer Data Security	286	27%	16	13	8	7	1.1	1.1	3%	14%	-17%	-3%
ERICSSON LM-B SHS	Networking Products	254	41%	20	16	10	8	1.2	1.2	1%	11%		-4%
HEXAGON AB-B SHS	Machinery-General Indust	147	-1%	18	16	13	12	4.2	4.0	7%	33%	18%	10%
SCHIBSTED ASA-CL A	Publishing-Newspapers	68	26%	34	27	17	15	3.6	3.3	7%	20%	-21%	7%
WILLIAM DEMANT HOLDIN	Medical Products	65	9%	20	18	15	14	3.5	3.3	7%	23%	15%	6%
GN STORE NORD A/S	Medical Products	50	25%	21	18	17	15	3.5	3.2	9%	21%	7%	7%
SAAB AB-B	Aerospace/Defense	41	-17%	17	14	12	10	1.3	1.3	7%	11%	-15%	5%
SIMCORP A/S	Transactional Software	25	29%	27	25	20	19	5.8	5.4	9%	28%		14%
MODERN TIMES GROUP-B	Cable/Satellite TV	20	-17%	17	15	11	10	1.2	1.1	5%	11%	9%	19%
SIMCORP A/S	Transactional Software	19	29%	27	25	20	19	5.8	5.4	9%	28%		14%
TIETO OYJ	Computer Services	18	-7%	13	12	9	9	1.2	1.2	3%	13%	11%	3%
ATEA ASA	E-Services/Consulting	12	0%	16	14	10	9	0.4	0.4	5%	4%	1%	10%
MYCRONIC AB	Lasers-Syst/Components	11	33%	15	18	11	13	2.8	3.0	2%	26%		18%
BETSSON AB	Gambling (Non-Hotel)	10	23%	11	11	8	8	1.9	1.7	8%	24%		14%
NETENT AB	Entertainment Software	9	-35%	14	13	9	8	4.4	4.1	7%	48%	9%	8%
Weighted mean: group 2		**177**	**21%**	**19**	**16**	**11**	**10**	**2.3**	**2.1**	**4%**	**18%**	**-2%**	**2%**
Mean: group 2		**69**	**11%**	**19**	**17**	**13**	**12**	**2.8**	**2.6**	**6%**	**21%**	**2%**	**9%**
Median: group 2		**25**	**23%**	**17**	**16**	**11**	**10**	**2.8**	**3.0**	**7%**	**21%**	**8%**	**9%**
Weigthed mean (total)		**160**	**19%**	**19**	**16**	**12**	**10**	**2.4**	**2.2**	**6%**	**19%**	**0%**	**4%**
Mean (total)		**46**	**8%**	**21**	**17**	**13**	**11**	**3.0**	**2.7**	**11%**	**22%**	**8%**	**12%**
Median (total)		**18**	**7%**	**19**	**16**	**13**	**10**	**2.8**	**2.6**	**9%**	**21%**	**9%**	**10%**

Source: Redeye Research, Bloomberg

Having lagged the US and global stocks during the past years, the shares of the Nordic tech companies outperformed their global peers, both with regards to fast growers and maturing companies. In total the average share price performance was +8% compared to -1% globally. The appreciation seems to be related to the underlying businesses and solid profit growth as the multiples have shrunk. We note that global and Nordic tech stocks now trade at the same EV/EBITDA multiples despite global companies having a higher expected sales and profit growth plus stronger rolling 12-month performance as well.

The average expected CAGR for the maturing Nordic group is in line with last year, looking at total as well as fast and slow growers respectively.

Leading Swedish technology companies

Storytel, Hexatronic and Fortnox were close to making the list last year and now join together with IAR, Stillfront, Enea and Addnode. G5 is removed after only one year on the list as shares have fallen rapidly due to worries regarding the company's bestseller Hidden City peaking without being replaced by a new blockbuster. Thus, last year's market expectations of EV/EBITDA 7x turned out to be a bit too optimistic but interestingly G5 still managed to soar about 80% during H1'18 before starting to tank.

With the aforementioned changes we end up with the following 25 major, listed, Swedish tech companies:

Leading Swedish Tech Companies: Consensus Estimates & Valuation

Company	Industry	Mkt cap SEK bn	Share pr. 1 yr ch.	P/E 19E	P/E 20E	EV/EBITDA 19E	EV/EBITDA 20E	EV/S 19E	EV/S 20E	CAGR grow. rev. 18-20E	EBITDA avr. 18-20E	Growth R12M EBITDA	Growth R12M Sales
Group 1: Fast growers (10 % or more)													
KINDRED GROUP PLC	Internet Gambling	18	-31%	12	12	9	9	1.7	1.6	11%	20%	46%	34%
EVOLUTION GAMING GROU	Gambling (Non-Hotel)	18	-10%	18	16	13	11	5.7	4.9	21%	44%	39%	39%
PARADOX INTERACTIVE A	Entertainment Software	14	42%	28	23	16	13	9.7	7.8	27%	59%		28%
THQ NORDIC AB	Entertainment Software	13	83%	19	15	7	6	2.2	2.0	12%	30%	353%	688%
CHERRY AB - B SHARES	Internet Gambling	9	69%	17	13	11	9	2.6	2.3	18%	25%	108%	36%
HMS NETWORKS AB	Networking Products	6	4%	28	23	18	15	4.0	3.5	17%	22%	5%	14%
KAMBI GROUP PLC	Internet Gambling	6	97%	40	23	18	12	5.5	4.3	27%	32%	89%	28%
STORYTEL AB	Publishing-Books	5	29%			-33	-54	2.2	1.7	90%	-12%		27%
FORTNOX AB	Applications Software	4	49%	35	26	22	17	8.0	6.5	25%	36%	42%	39%
LEOVEGAS AB	Internet Gambling	4	-53%	13	9	9	7	1.2	1.0	18%	14%	18%	62%
CLX COMMUNICATIONS A	Communications Software	4	17%	19	15	11	9	1.1	0.9	15%	10%		
STILLFRONT GROUP AB	Entertainment Software	3	-30%	13	11	6	6	2.2	2.0	15%	35%	127%	108%
TOBII AB	Computers-Peripher Equip	3	-24%			35	13	1.5	1.3	21%	4%	67%	13%
IAR SYSTEMS GROUP AB	Internet Infrastr Sftwr	3	29%	33	26	19	15	7.2	6.4	14%	38%	6%	8%
HEXATRONIC GROUP AB	Telecommunication Equip	2	-42%	14	11	9	8	1.0	0.9	21%	10%	86%	46%
Weighted mean: group 1		**12**	**19%**	**20**	**16**	**11**	**8**	**4.2**	**3.5**	**21%**	**30%**	**78%**	**111%**
Mean: group 1		**8**	**15%**	**22**	**17**	**11**	**6**	**3.7**	**3.1**	**23%**	**24%**	**82%**	**84%**
Median: group 1		**5**	**17%**	**19**	**15**	**11**	**9**	**2.2**	**2.0**	**18%**	**25%**	**57%**	**35%**
Group 2: Maturing companies (less than 10 % growth)													
ERICSSON LM-B SHS	Networking Products	254	41%	20	16	10	8	1.2	1.2	1%	11%		-4%
HEXAGON AB-B SHS	Machinery-General Indust	147	-1%	18	16	13	12	4.2	4.0	7%	33%	18%	10%
SAAB AB-B	Aerospace/Defense	41	-17%	17	14	12	10	1.3	1.3	7%	11%	-15%	5%
MODERN TIMES GROUP-B	Cable/Satellite TV	20	-17%	17	15	11	10	1.2	1.1	5%	11%	9%	19%
MYCRONIC AB	Lasers-Syst/Components	11	33%	15	18	11	13	2.8	3.0	2%	26%		18%
BETSSON AB	Gambling (Non-Hotel)	10	23%	11	11	8	8	1.9	1.7	8%	24%		14%
NETENT AB	Entertainment Software	9	-35%	14	13	9	8	4.4	4.1	7%	48%	9%	8%
ADDNODE GROUP AB	E-Marketing/Info	3	28%	17	16	9	9	1.0	1.0	4%	11%	64%	20%
FINGERPRINT CARDS AB-B	Identification Sys/Dev	3	-39%	95	53	22	18	2.0	1.9	-3%	-3%		-57%
ENEA AB	Communications Software	2	27%	15	12	11	10	2.6	2.5	9%	23%	31%	30%
Weigthed mean: group 2		**177**	**19%**	**19**	**16**	**11**	**10**	**2.2**	**2.1**	**4%**	**19%**	**5%**	**3%**
Mean: group 2		**50**	**4%**	**24**	**18**	**12**	**11**	**2.3**	**2.2**	**5%**	**19%**	**42%**	**24%**
Median: group 2		**11**	**11%**	**17**	**15**	**11**	**10**	**2.0**	**1.8**	**6%**	**17%**	**44%**	**19%**
Weighted mean (total)		**147**	**19%**	**19**	**16**	**11**	**9**	**2.6**	**2.4**	**7%**	**21%**	**18%**	**23%**
Mean (total)		**28**	**12%**	**22**	**17**	**11**	**8**	**3.1**	**2.7**	**15%**	**22%**	**59%**	**50%**
Median (total)		**9**	**17%**	**18**	**16**	**11**	**10**	**2.2**	**2.0**	**14%**	**23%**	**43%**	**26%**

Source: Redeye Research, Bloomberg

The highest valuations (aside of Fingerprint Cards who is just above break-even) is in software (IAR & Fortnox). On the bottom of the list of the multiples we find the betting and iGaming companies that are haunted by the re-regulation. On the 2018-2019 estimates Leo Vegas, Betsson and Kindred are valued at P/E 9-12x and EV/EBITDA 7-9x. The low valuations together with the strong cash flows generated by the iGaming companies explains why this sector is so attractive for M&A, in particular for industrial buyers. At the end of 2018, two public offers had been made for MRG and Cherry respectively.

Since Swedish tech is driven by betting/gaming (about 40% of all companies on the list and 50 % of the fast growers) we also look specifically at how the rest of the tech companies performed (excl. betting/gaming).

Despite a weak sentiment for gaming, on average the Swedish non-gaming/betting tech shares performed worse -5% (-3% last year) compared to 13% (30%) for the whole group. While most betting & gaming companies have had a rough year the positive total performance was related to a few positive outliers, e.g. Cherry after the bid and THQ following its acquisition of Koch Media. Thus, stock picking has been important (as always!). Non-gaming is expected to grow at the same rate (16%) as the total average but these shares have P/E and EBITDA multiples that are on average 16 and 39% higher than gaming companies. In other words, the sentiment for gaming overall clearly seems pessimistic, which we believe creates great stock picking ground.

Regional comparisons & concluding remarks

Comparing and summarizing the three tables above we first note that Nordic and Swedish tech companies for the first time in years outperformed their global peers with average gains of 8 and 12% compared to -2%. This is a clear difference if we compare NASDAQ (-6%) to OMXS 30 (-12%). As we discussed above, the outperformance is related to the businesses as the multiples have come down, particularly for Nordic stocks whose multiples fell more than the global peers, which we will show further below. Overall average earnings multiples are the same in the different regions - P/E 21-22x and 17x for 2019 and 2020 respectively. EV/EBITDA multiples reach 13x and 11x for 2019 and 2020 (Swedish numbers are positively skewed by the outlier Storytel).

Average Valuation Multiples & Share Performance Per Region

Region	Share pr. 1 yr ch.	P/E 19E	P/E 20E	EV/EBITDA 19E	EV/EBITDA 20E	EV/S 19E	EV/S 20E
Leading Global Tech Companies	**-2%**	**21.6**	**17.2**	**13.5**	**11.1**	**4.3**	**3.8**
Fast growers	1%	28.0	21.3	17.0	13.4	4.9	4.2
Maturing companies	-8%	12.1	11.1	8.1	7.7	3.4	3.3
Leading Nordic Tech Companies	**8%**	**21.0**	**17.1**	**13.0**	**11.2**	**3.0**	**2.7**
Fast growers	3%	23.8	17.3	13.4	10.5	3.4	2.8
Maturing companies	11%	19.1	17.0	12.7	11.7	2.8	2.6
Leading Swedish Tech Companies	**12%**	**22.3**	**17.4**	**11.4**	**8.2**	**3.1**	**2.7**
Fast growers	15%	22.2	17.1	11.3	6.4	3.7	3.1
Maturing companies	4%	23.9	18.5	11.7	10.6	2.3	2.2

In our last table we look at the changes from last year:

Changes From last year in Average Valuation Multiples

Region	P/E 19E (%)	P/E 20E (%)	EV/EBITDA 19E (%)	EV/EBITDA 20E (%)	EV/S 19E (%)	EV/S 20E (%)
Leading Global Tech Companies	**-6%**	**-16%**	**-15%**	**-15%**	**-19%**	**-17%**
Fast growers	-15%	-23%	-25%	-23%	-31%	-28%
Maturing companies	-23%	-25%	-19%	-16%	-12%	-12%
Leading Nordic Tech Companies	**-10%**	**-23%**	**-19%**	**-12%**	**1%**	**0%**
Fast growers	-13%	-13%	-11%	-13%	-16%	-17%
Maturing companies	-7%	-30%	-24%	-12%	7%	10%
Leading Swedish Tech Companies	**2%**	**-10%**	**-12%**	**-33%**	**-10%**	**-10%**
Fast growers	-9%	-22%	-21%	-54%	-17%	-20%
Maturing companies	27%	13%	6%	4%	14%	14%

Source: Redeye Research, Bloomberg

The highest valued region differs depending on what multiple and year that are used but overall investors across the globe seem more cautious. P/E multiples have decreased in all regions, for 2020 e.g. from 19-22x to 16-18x, i.e. minus 14-18%. The trend for EV/EBITDA is similar. However, expected sales growth is roughly the same as last year and estimated margins are only 2-3 percentage points lower. At the same time, rolling 12 month sales are on par or higher in all regions compared to last year. Thus, we can detect a slight difference between price and value. While shares are down companies have put up solid business performance. All rolling 12-month CAGR figures exceed the expected CAGR one year ago.

In the Nordics, fast growers are valued at about similar multiples as maturing companies while in the US the difference is much greater, despite both global and Nordic fast growing companies being expected to grow sales at a similar pace (6-7 percentage points faster than the average).

Redeye Screening

Key conclusions regarding 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 output. The strategies are Growth At a Reasonable Price (GARP), Deep Value, Growth Junkies and Jockey Stocks.

- Screening should not be seen as a portfolio suggestion, but instead as a smart way to narrow down the "research subjects". Qualitative factors and timing must also be taken into account. 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 an impact on the share price. 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.

- Our three top picks for 2019; THQ Nordic, Hexatronic and Enea all occurred in one or more of our screenings.

Review of last year's screen output

In this chapter, we include last year's screen output and the return of those stocks during 2018. In the table below, we include the top 10 companies in each strategy that we presented in last years tech-report. On average every strategy showed a negative return during the year. Best performance was, just like in 2017, seen in GARP that also outperformed the stock market as a whole. Jockey stocks came in on second with an average return close to the market, while both Growth junkies and Deep value underperformed.

Stock return of screen output during 2018

GARP	Return	Deep value	Return	Growth junkies	Return	Jockey Stocks	Return
Mycronic	37%	Lagercrantz	-3%	Cherry	45%	XMReality	-19%
Cherry	45%	Allgon	-40%	Allgon	-40%	Cherry	45%
Lagercrantz	-3%	Enea	21%	Polygine	-52%	Systemair	-19%
MRG	19%	Opus Group	-26%	Smart Eye	48%	Mycronic	37%
Polygine	-52%	Systemair	-19%	G5 Enertainment	-63%	G5 Entertainment	-63%
Enea	21%	ZetaDisplay	-27%	THQ Nordic	59%	Allgon	-40%
Allgon	-40%	Bambuser	-44%	Bambuser	-44%	Opus Group	-26%
Westpay	-64%	Nokia	25%	Global Gaing	6%	Bredband2	4%
Smart Eye	48%	Paynova	-50%	Neonode	-76%	Polygine	-52%
AllTele	-31%	Doro	-28%	Clavister	-33%	Enea	21%
Average return	**-2%**		**-19%**		**-15%**		**-11%**

Source: Redeye Research

Our universe of companies

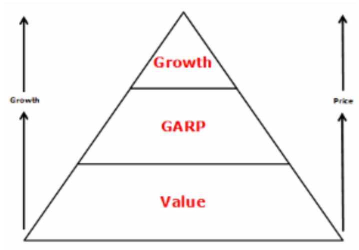
The screens are based on the 53 tech companies that currently exist in the Redeye Universe. Redeye has full research coverage of these companies where we present quarterly research updates, more extended research, ongoing comments, investment thesis, valuation range, company ratings and more.

Tech companies in Redeye Universe

		Valuation range			Redeye Rating				
Company	**Share price**	**Bear-case**	**Base-case**	**Bull-case**	**Management**	**Ownership**	**Profit outlook**	**Profitability**	**Fin. Str**
Acconeer	21,5	18	29	60	6,0	6,0	6,0	0,0	3,0
Addnode Group	105,0	51	88	117	9,0	8,0	5,0	7,0	6,0
AllTele	13,9	13	17	26	6,0	8,0	3,5	3,5	6,5
Allgon	5,4	4	7,8	10,5	8,0	8,0	6,5	3,0	3,0
Anoto Group AB	2,8	1,4	2,6	10,7	3,0	6,0	5,5	0,0	3,0
Avtech	3,0	2	3,8	11	5,0	8,0	6,5	0,0	5,0
Bredband2	1,3	0,6	1,2	2	8,0	7,0	5,5	6,0	7,5
Cherry	86,6	49	120	173	9,0	9,0	6,5	7,0	6,5
Clavister	15,5	10	32	71	6,0	5,0	6,5	0,0	4,0
Doro	36,9	38	56	84	6,0	6,0	6,5	4,5	7,5
Enea	110,0	70	137	178	8,0	3,0	7,0	9,0	7,5
Ericsson	76,8	64	78	88	5,0	7,0	5,5	5,0	6,0
Fingerprint Cards	10,5	3	8	18	3,0	3,0	4,0	3,0	4,0
Formpipe Software	19,8	10	17	24	7,0	6,0	6,5	6,0	6,0
Fortnox	74,0	24	60	94	8,0	5,0	8,0	9,5	6,5
G5 Entertainment	134,9	118	275	536	7,0	7,0	5,0	7,0	7,5
Gapwaves	19,4	6	18	44	5,0	8,0	4,0	0,0	3,0
Global Gaming	36,8	21	52	78	6,0	4,0	6,0	7,0	7,0
Heliospectra	6,8	2	7	13	7,0	7,0	6,5	0,0	2,0
Hexatronic	45,5	28	75	120	8,0	8,0	6,5	6,5	6,5
Image Systems	1,5	0,9	2,2	3,8	5,0	6,0	5,0	1,0	3,0
Imint	16,1	15	30	51	7,0	1,0	6,5	0,0	2,0
Invisio	58,5	34	68	127	9,0	7,0	8,5	8,0	6,0
Lagercrantz	84,4	70	98	130	8,0	8,0	5,0	9,0	8,0
Mr Green	49,1	38	77	95	7,0	8,0	6,0	5,0	7,0
Mycronic	116,0	52	119	145	8,0	7,0	7,0	8,0	8,0
Neonode	2,0	1	3	10	3,0	6,0	7,5	0,0	2,0
Net Insight	2,8	2,2	3,4	8,8	8,0	6,0	6,0	6,0	8,0
Nitro Games	39,5	33	59	170	6,0	10,0	5,0	0,0	2,0
Nokia	5,1	4	4,8	5,8	8,0	3,0	5,5	6,5	9,0
ENLABS	17,3	13	28	47	6,0	7,0	7,5	6,0	7,0
Opus Group	5,2	5,6	10,8	14,3	8,0	7,0	7,5	6,0	6,0
Paynova	0,3	0,4	0,6	1,3	6,0	6,0	5,0	0,0	1,0
Polygiene	5,8	5	13	19	9,0	6,0	6,5	6,0	5,0
Powercell	39,7	8	27	52	6,0	9,0	6,0	0,0	2,0
Railcare Group	13,9	11	15	21	8,0	6,0	6,0	3,5	4,5
Remedy	6,8	6	13,5	21	7,0	9,0	7,0	6,0	7,0
Sdiptech	42,9	26	48	108	7,0	10,0	5,0	5,0	7,0
Sensys Gatso Group	1,9	1	1,7	3,4	5,0	3,0	8,0	2,0	8,0
Sivers IMA	6,8	2	8	16	7,0	8,0	5,5	0,0	3,0
Smart Eye	71,8	37	83	148	7,0	9,0	8,0	0,0	2,0
Stillfront	135,0	103	230	353	8,0	9,0	6,5	7,0	7,5
Systemair	98,4	85	128	160	7,0	7,0	5,0	5,0	8,0
THQ Nordic	152,2	135	259	375	9,0	10,0	7,0	6,0	8,0
TalkPool	23,2	27	42	58	8,0	9,0	4,5	3,0	4,0
Verisec	99,0	50	126	354	8,0	9,0	6,5	3,0	2,0
Waystream	5,2	6	13	20	7,0	7,0	4,0	2,5	3,0
West International	5,0	3,6	8	18	8,0	7,0	6,0	2,0	3,0
XMReality	7,2	6	13	22	7,0	5,0	5,5	0,0	2,0
ZetaDisplay	17,5	10	22	32	8,0	8,0	6,5	4,0	3,5
aXichem	73,8	3	27	73	7,0	7,0	6,5	0,0	1,0
myTaste	9,6	2,5	7	15	7,0	10,0	5,5	0,0	4,0
ÅAC Microtec	4,1	4,8	7,4	12	7,0	6,0	7,5	0,0	4,0

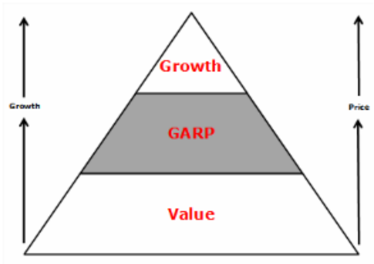
Source: Redeye Research

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 judgment of companies, an investor also needs 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 Stock's all of which are explained below.

GARP



The GARP strategy is a combination of both value and growth investing: it looks 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 modeled by our analyst. The valuation is based on the expected Free Cash Flow (FCF) for the next ten years, discounted at a WACC derived by our Redeye Rating, 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 10-35% 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 10-45% for the coming three years*. Ranking: *Weighted Redeye Ranking*

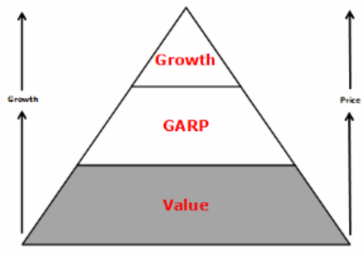
Screening output GARP

GARP screen output

	Criteria parameter		Ranking parameter	
Company	**3 year forward CAGR**	**Distance to Base**	**Redeye rating**	**Screen Rank**
Invisio	27%	16%	7,5	1
Cherry	24%	39%	7,4	2
Lagercrantz	11%	16%	7,2	3
Remedy	29%	99%	7,2	4
Hexatronic	21%	65%	7,0	5
Net Insight	10%	21%	6,8	6
ENLABS	25%	62%	6,8	7
Enea	12%	25%	6,7	8
MRG	15%	57%	6,7	9
G5 Entertainment	11%	104%	6,5	10

Source: Redeye Research

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 screens for companies that trade close to our Bear-case valuation, i.e., the fundamental implied expectations are low. Our first criteria are 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*

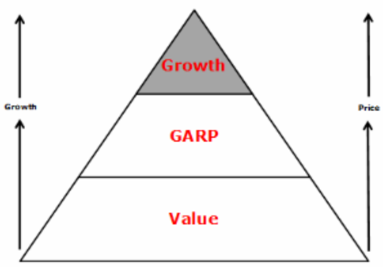
Screening output Deep value

Deep value screen output

	Criteria parameter	Ranking parameter	
Company	**Distance to Bear**	**Management rating**	**Screen Rank**
THQ Nordic	−11%	9	1
Polygiene	−14%	9	2
Net Insight	−21%	8	3
Nokia	−22%	8	4
Lagercrantz	−17%	8	5
Allgon	−26%	8	6
Opus Group	8%	8	7
Railcare Group	−21%	8	8
Stillfront	−24%	8	9
TalkPool	16%	8	10

Source: Redeye Research

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 over a CAGR of 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.

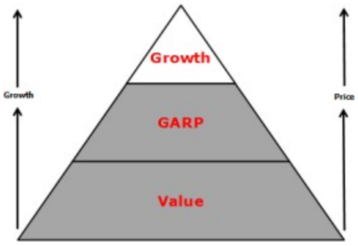
Criteria: Three-*year sales CAGR>25%* and *Profit outlook rating >5.* Ranking: *Average Redeye rating* and *distance to Base-case*, combined score.

Screening output Growth junkies

Growth junkies screen output	Criteria parameter		Ranking parameter		
Company	3 year forward CAGR	Profit outlook	Redeye rating	Distance to Base	Screen Rank
Remedy	29%	7,0	7,2	99%	1
Polygiene	29%	6,5	6,3	124%	2
Nordic Leisure	25%	7,5	6,8	62%	3
Invisio	27%	8,5	7,5	16%	4
Clavister	49%	6,5	4,8	106%	5
ÅAC Microtec	46%	7,5	5,4	80%	6
Allgon	26%	6,5	5,7	44%	7
Westpay	33%	6,0	5,3	60%	8
Paynova	40%	5,0	3,8	100%	9
Verisec	44%	6,5	5,6	27%	10

Source: Redeye Research

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

Jockey stocks screen output	Criteria parameter	Ranking parameter		
Company	Management rating	Distance to Base	Insider net buy (msek)	Screen Rank
TalkPool	8,0	81%	0,4	1
Westpay	8,0	60%	4,4	2
Cherry	9,0	39%	27,0	3
Hexatronic	8,0	65%	0,4	4
ZetaDisplay	8,0	26%	53,0	5
Allgon	8,0	44%	0,5	6
Lagercrantz	8,0	16%	10,0	7
Polygiene	9,0	124%	−0,3	8
Net Insight	8,0	21%	2,3	9
Enea	8,0	25%	1,0	10

Source: Redeye Research

Top picks portfolio

Summary

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

- Top Picks gained 10.6% during 2018, while the comparative index OMXSPI fell by 7.7% in the same period. Our portfolio's return thereby exceeded index with 18.3% points. Over three years, Top Picks rose 35% while OMXSPI index gained 5%. Thus, the portfolio outperformed by 30% points between the years 2016 to 2018.

- Despite the challenging market, our top tech picks for 2018 averaged a return of 18%. For 2019, we provide three investment ideas. Our hurdle for portfolio inclusions remains high, with a disciplined assessment of companies' qualitative factors and economic cycle dependency. We reiterate the cautious macro-economic outlook we held ahead of 2018 but believe our bottom-up approach can continue to achieve long-term positive returns.

- Our top tech picks for 2019 are: Enea, Hexatronic and THQ Nordic.

- Redeye Premium members receive updates and can continuously follow portfolio transactions and performance on our website.

Portfolio performance

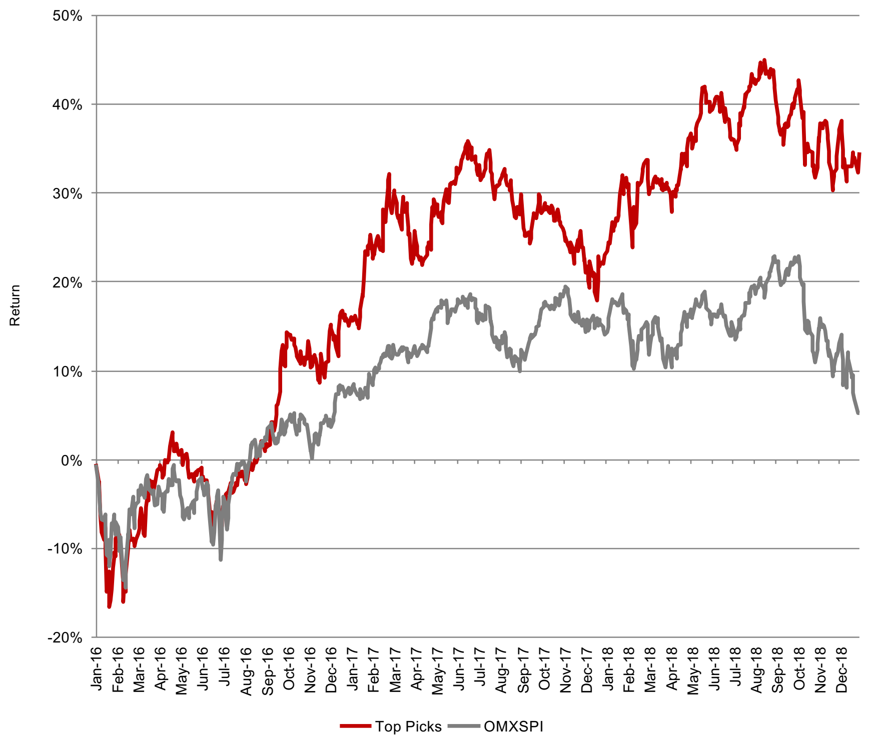
Redeye's Top Picks portfolio rose 10.6% during 2018, while the local comparative index OMXSPI declined by 7.7%. Our portfolio's return thereby exceeded the index by 18.3% points.

The outperformance was also significant in a global context. In Europe, the Stoxx 600 index fell by 13% in EUR and declined by 10% in SEK. The German DAX index deteriorated 15% in SEK and 18% in local currency.

In the USA, 2018 was the first year with negative stock market returns since 2008. Nasdaq Composite, Dow Jones and S&P 500 closed 4%-6% lower. For Swedish investors, a stronger USD generated a slightly positive yield in SEK for the major US indices.

Below, we show the performance of our Top Picks portfolio versus OMXSPI index over three years. A description of the investment criteria for our portfolio is presented at the end of this chapter. For additional information we refer to https://www.redeye.se/member/top-picks

Top Picks: Three Year Performance



Source: Redeye Research, Nasdaq Stockholm

Stock performance in 2018

Our top tech picks one year ago and the returns during 2018 are listed in the table below. The best performing tech stocks in our portfolio were THQ Nordic and Cherry. Starbreeze and Westpay did not meet our expectations and have contributed negatively to our annual return.

Redeye Top Tech Picks 2018

Company	Return 2018
Cherry	76%
Enea	25%
Opus Group	-26%
THQ Nordic	82%
Westpay	-66%
Average	**18%**
Median	**25%**

Source: Nasdaq Stockholm, Redeye Research

Despite a challenging climate for the online gambling sector, Cherry by far outperformed the general stock market. We expected ComeOn to soon get back on track and the company has indeed turned the business around. In late December, a consortium mainly consisting of major shareholders of Cherry Group and Bridgepoint, proposed a public offer. The bid has pushed up the stock price further.

Another winner of the year was the gaming company THQ Nordic, which we included in the portfolio at the end of 2017. Lars Wingefors and his team released new games and signed several value-adding acquisitions in 2018. THQ Nordic rose more than 80%, despite a decline of 30% during the fall.

A company that underperformed last year was Westpay (previously West International), which experienced a slowdown in its domestic market and delays in the global expansion. The company is building up long-term competitive advantages in a lucrative market. Therefore, we believe the high long-term potential remains. However, it may take time before the company is revalued by the market. We have divested our position but will follow the company closely, as risk/reward can become very interesting going forward.

Starbreeze's major potential catalyst, the launch of Overkill's The Walking Dead, did not become successful. Thus, the gaming company faced financial issues and eventually filed for reconstruction. As the special situation investment didn't play out as expected, Top Picks was disciplined and divested its position. The holding caused Top Picks a 30% loss, while the stock declined by 90% during the year.

Top Picks portfolio for 2019

After 10 years of economic recovery and expansion since the financial crisis, most leading economies in the world have now reached or are very close to full employment. Thus, only economic expansion in line with the long-term growth trend is possible without accelerating inflation. Economies, therefore, have difficulties to deliver on the high growth expectations of shareholders and society. We expect that the tug-of-war between different economic interest groups will intensify and lead to harder headwinds for the stock market. Central banks will be forced to curb inflation expectations by raising interest rates or accept the threat of recession.

Since the end of 2017, Top Picks has adopted a cautious stance and raised the hurdle for portfolio inclusion. This means a focus on companies that can sustain growth and prosper also in harsher economic conditions. The portfolio currently has about 15% in cash and 14% in a company under buyout. Hence, there is flexibility to act swiftly when our bottom-up approach provides strong conviction cases with attractive risk-reward.

Top tech picks for 2019

In this section, we provide three attractive tech cases for 2019. All Redeye Universe companies are briefly described in the appendix of this report.

Enea (Redeye base case SEK 137)
The company has transformed from an IT consultant to a SaaS business, representing the bulk of revenues. Management has a strong track record of value-adding acquisitions and we regard the current valuation as attractive. We expect recent acquisitions to fuel growth and profitability during 2019.

Hexatronic Group (Redeye base case SEK 75)
Following an exceptionally strong 2017, 2018 was an off year in the Swedish fiber market. Hexatronic's stock price declined by 40%. We expect that 20%+ organic growth in 2019 will improve the market's perception. The firm's international success continues in huge structural growth markets like Germany, UK and the USA. We argue that growth expectations are too low, and that the current valuation provides an attractive margin of safety.

THQ Nordic (Redeye base case SEK 259)
We view THQ Nordic as a quality company in a growth sector, led by a shareholder-friendly management with top-notch track-record. A company like this is rarely cheap, although we find the current share price level as attractive. The company showed significant growth during 2017, but a large part of the IP portfolio is still not generating any income. Development projects including a few AAA titles will be released in the years to come. We believe this will take revenues and profits to entirely new levels.

Investment strategy

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

The underlying strategy relies on high-conviction cases found through Redeye's fundamental research. Our focus is on value companies where we see opportunities for good returns with reduced 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 our Redeye Rating. The rating model evaluates important success factors such as experience and track record of the company management, the quality of ownership, profit outlook, profitability and financial strength. A holding in the Top Picks-portfolio is divested if:

- The investment conditions have changed, or
- The share has appreciated and realized its full value, or
- The holding can be replaced by stocks with better upside potential

The holdings in the Top Picks portfolio also follow some basic guidelines. 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 a negative return. The companies in the portfolio should have proven business models, high growth potential and preferably 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 a 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. In terms of trading, shares in small and medium-sized companies may also have lower liquidity and thereby higher risk than larger companies.

Redeye Premium members receive regular portfolio updates and can follow the development continuously on our website.

Appendix: Research & Ratings

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 looks 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

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

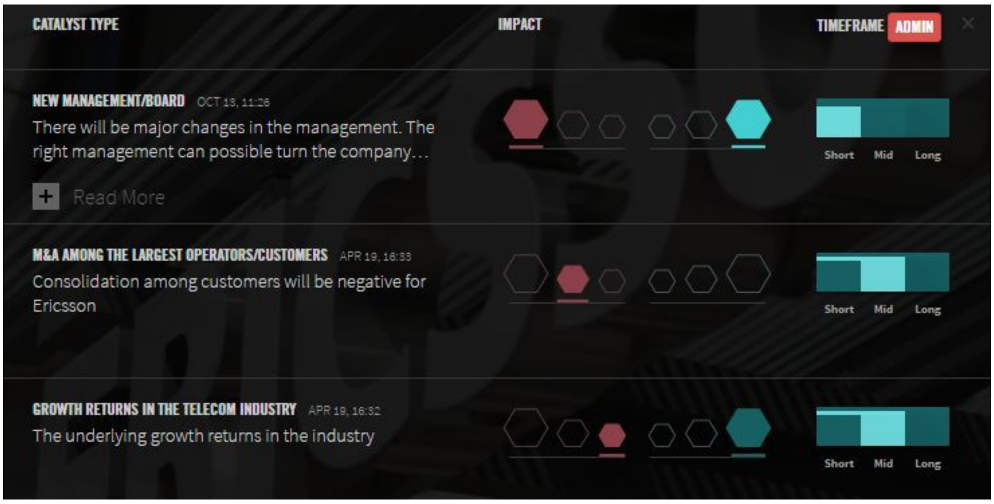
A common mistake investors make is to equate share price volatility with risk. Share price volatility is only a risk for those investors who lack confidence in a fair value or have patience to hold on at least until the markets are willing to recognise the true value. A much better definition of investing 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 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 sentimentand 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/orand 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 willoccur
1 - Unlikely	It is unlikely that the scenario will occur
0 - Extreme	The scenario is extremely unlikely to occur

Personal Notes

A3 ATRE

Company page

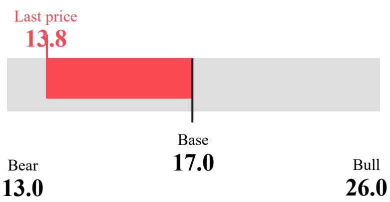
https://www.redeye.se/company/a3

Redeye Rating

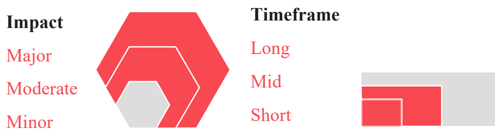
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

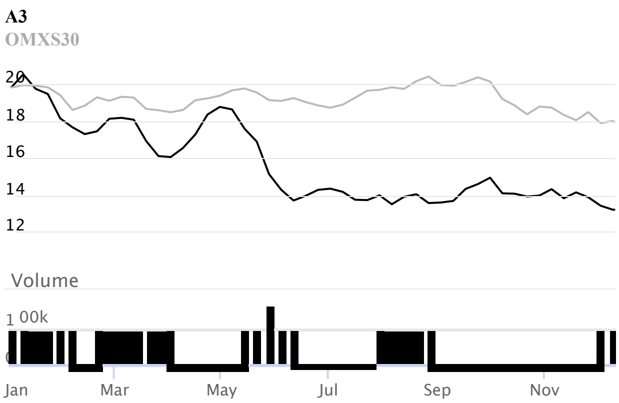


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Paul Moonga
Chairman	Thomas Nygren

Share information

Share price (SEK)	13.8
Number of shares (M)	32.9
Market cap (MSEK)	455
Net debt (MSEK)	-7

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna owns shares in A3: No

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	857	802	834	867
Growth	*23.5%*	*-6.5%*	*4.0%*	*4.0%*
EBITDA	73	55	82	93
EBITDA margin	*8.5%*	*6.9%*	*9.8%*	*10.7%*
EBIT	18	2	25	35
EBIT margin	*2.1%*	*0.3%*	*3.0%*	*4.0%*
Pre-tax earnings	15	1	23	33
Net earnings	14	70	18	26
Net margin	*1.6%*	*8.8%*	*2.2%*	*3.0%*
Dividend/Share	1.25	1.25	1.25	1.25
EPS adj.	0.42	2.14	0.55	0.79
P/E adj.	47.1	6.5	25.3	17.7
EV/S	0.8	0.5	0.5	0.5
EV/EBITDA	9.7	7.9	5.5	4.8

Last updated: 2018-09-11

Owner	Equity	Votes
Mark Hauschildt	46.7%	46.7%
On Top of IT AB (Johan Åsberg)	8.4%	8.4%
Wilderness Consulting AB (Mikael Holmlund)	8.4%	8.4%
Pemberton Holding Ltd	4.0%	4.0%
Ola Norberg	3.1%	3.1%
Tenor SA	2.8%	2.8%
E. Öhman J:or fonder	2.8%	2.8%
Hans Hellspong	2.8%	2.8%
Milos Tankosic	1.6%	1.6%
Thomas Nygren	1.6%	1.6%

Company description

Todays A3 (former AllTele) was born in 2017 and is a merger of the companies AllTele, T3, and the IT companies Delegate and IT-Total Västernorrland. A3 is a challenger on the Swedish telecommunications and broadband market, and the stock has been traded on Nasdaq OMX Stockholm, Small Cap since 15 June 2009. The company currently has one of the market's broadest product portfolios for retail customers and small and medium-sized companies, including fixed telephony, mobile telephony, broadband and IT services.

Investment case

- New strategy – an IT company
- Acquisition - the most attractive alternative
- Our DCF indicates a base case of SEK 17 per share and a fair value range of SEK 13-26 per share

New strategy – an IT company

The "new" A3 presented its strategy during the report for the first quarter of 2017. Products are divided into two product areas, Sunrise (growth areas) and Sunset (areas with negative growth, mainly copper-based services). Naturally, the focus is on Sunrise and especially on corporate and IT services. Above all, the strategy is unique to the company's two closest competitors, Bredband2 and Bahnhof. Competition in this category looks different, with actors like ATEA, Elgiganten, Dustin, etc. In terms of competition, A3 is unique as the company comes from the telecom side - whether it's an advantage is too early to recall but if the strategy plays out well, the potential is big.

Acquisition - the most attractive alternative

The last three reports make it very clear that full focus is on reducing opex, streamlining and completing synergy projects. Inevitably, these priorities affect growth opportunities. Since the company has previously been unusually clear about the consolidation trend in the industry (open for an exit), we see the opex actions as a confirmation signal. It is not unlikely that the management "cleanse the grain" to improve the company's negotiation space. From a shareholder perspective, the acquisition option may appear to be the most attractive one. A3 has been one of the losers in an attractive market climate when the trend now turns (the fibre market has most likely reached its peak), we have difficulty seeing a significantly better A3.

The main **risks** are linked to:

Continued integration problems: There is a considerable integration risk considering former AllTeles weak historical track record regarding the integration of acquisitions.

Price pressure: Telecom operators differ mainly with price, which is rarely good in the long run. Bigger players with more resources and higher margins are better qualified in terms of the price pressures than A3, which instead comes from several long-term restructuring programs. However, consolidation in the industry, not least in the form of the T3 acquisition, should lower the risk for price pressure.

Network fees: Network owners' fees also represent a potential risk that should be carefully taken into account. The network fees are monitored by Post och Telestyrelsen (PTS), but may still pressure the gross margin.

Catalyst types

Acquisition
A3 has been unusually clear about the consolidation trend in the industry (open to an exit) and we see the recent opex reductions as a confirmation signal. It is likely that these actions aim to improve the company's negotiation space for a possible exit.

Growth within sunrise
Growth within Sunrise has not accelerated yet - integration, strategy work and operational restructuring have probably taken place at the expense of growth. The result of this work should be shown in 2019 and have a positive impact on the stock.

Personal notes

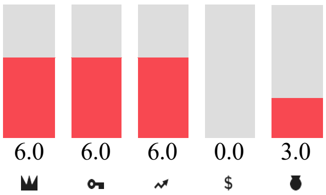
Acconeer ACCON

Company page
https://www.redeye.se/company/acconeer

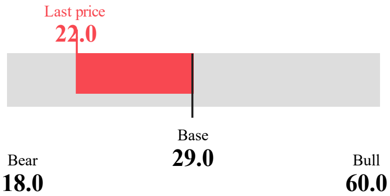
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

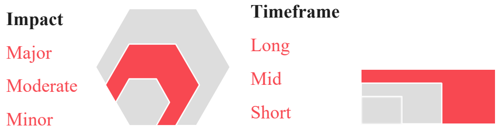
COMPANY QUALITY



FAIR VALUE RANGE

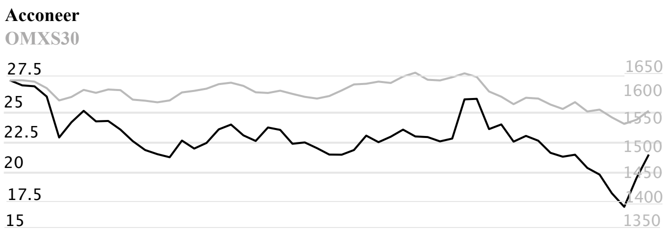


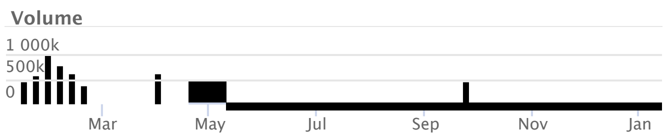
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot





Marketplace	First North Stockholm
CEO	Lars Lindell
Chairman	Bo Ekelund

Share information

Share price (SEK)	22.0
Number of shares (M)	19.1
Market cap (MSEK)	420
Net debt (MSEK)	-66

Analyst

Viktor Westman
viktor.westman@redeye.se

Conflict of interests

Viktor Westman owns shares in Acconeer: No

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	0	1	3	30
Growth	*>100%*	*>100%*	*>100%*	*>100%*
EBITDA	-21	-33	-34	-16
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-23	-35	-48	-30
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-23	-35	-48	-30
Net earnings	-23	-35	-37	-23
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-1.22	-1.84	-1.93	-1.20
P/E adj.	-24.2	-13.1	-12.5	-20.2
EV/S	11,220.3	382.3	121.9	14.3
EV/EBITDA	-17.6	-11.7	-11.5	-26.1

Last updated: 2018-10-25

Owner	Equity	Votes
Bengt Adolfsson	14.3%	14.3%
Winplantan AB	11.7%	11.7%
Avanza Pension	7.1%	7.1%
Dreamtech Co Ltd	3.2%	3.2%
Uniquest Corporation	3.2%	3.2%
Mikael Egard	3.0%	3.0%
Mats Ingvar Ärlelid	3.0%	3.0%
Lars-Erik Wernersson AB	2.9%	2.9%
Nordnet Pensionsförsäkring	2.9%	2.9%

Company description

Acconeer is a semiconductor company in Lund, Sweden, who went public in December 2017. It develops and sells radar sensors, with a fabless business model, to manufacturers of electronics. The manufacturing partners are some of the World's largst (Global Foundries & Amkor). Acconeer has developed a radar with a minimal footprint (5x5x1 mm) that is 10 times smaller and comes at a 10 times lower cost, compared to competing radars. Its real claim to fame though is that the power consumption is 50 times lower than competition. As for competitive disadvantages, radar technology is complex in general and requires a lot of education of the customer but at the same time Acconeer is company of minor size that competes with giants. Acconeer needs to start building revenue sources in order to be seen as a reliable supplier for larger companies. The growth strategy is based on a few important pillars such as selling on Digi-Key, World's largest online distributor (450 000 customers) and via Uniquest, South Korea's largest eletronics supplier. Acconeer has other, local, niche distributors across the World as well. The company's current focus areas is robotic lawn mowers/vaccum cleaners, parking sensors, level measurement (incl.waste management) and automotive.

Investment case

- Strong unique product offering & scalability from unmatched cost
- Large established market with solid structural growth
- Large design wins to drive the share price
- Main bear point

Strong unique product offering & scalability from unmatched cost

Acconeer’s radar of 5x5x1 mm is the tiniest radar on the market, which means unmatched cost. Other radars are more than three times larger, suggesting that they have at least three times higher cost. The real claim to fame though, and the truly disruptive element in Acconeer’s offering, is the power consumption, which is more than 10 times lower than competing radars. Combining these characteristics and its fabless business model with the largest manufacturing partners in the World (Amkor & Global Foundries), Acconeer is poised to scale rapidly with high gross margins (about 70 %) as soon as sales kick in. Adding the expanding distribution network and the partnership with Uniquest, South Korea’s largest electronics supplier, Acconeer is ready to ride the structural growth in large market segments within especially IoT (increased sensor penetration) and robotics respectively. The application areas with the best value proposition and largest volume potential in the company’s focus markets are, according to us, large volume markets such as robotic lawn mowers/vacuum cleaners and IoT applications like measuring levels in tanks and garbage bins.

Large established market with solid structural growth

According to our estimates, the contactless level sensor market already exceeds 90 million units. Costly radar is the go-to-technology and has thus controlled an increasing majority of the tank gauging segment during the past 15 years. In lawn mowers and vacuum cleaners we expect the robotic penetration to go from 2 to 12 % until 2026, meaning volumes growing from 9 to 41 million. Even better is that all of the markets mentioned are concentrated (non-fragmented). The five largest level measurement companies together hold the majority of the market. This creates solid conditions for new contenders to attack large, non-innovative incumbents with Acconeer’s disruptive technology. Still, we expect a few incumbents to join forces with Acconeer. Husqvarna e.g. has over 50 % of the robotic lawn mower market, making it Husqvarna’s most important top line growth driver. We do not know if Acconeer is working with Husqvarna but in the same way vacuum cleaners should require Acconeer’s technology to detect water, lawn mowers need to distinguish grass from humans and pets etc. Thus, the technology is a great fit for Husqvarna and we expect it to be a (future) customer. There could also be a potential in extending the offering for huge OEMs and grow with them. LG and Samsung (accessible through Uniquest) may only have 5 % of the robotic vacuum cleaner market but they are dominant in many other areas of consumer electronics, smartphones being only one good example. Since our base case is based on the focus areas it only includes a couple of million units from smartphones and wearables. While this implies a negligible market share, it is worth noting that currently these customers are not in the bag and at the moment there seem to be no smartphone use case with decent ASP.

Large design wins to drive the share price

We value Acconeer to SEK 29 per share in our base case while our bear and bull case amount to SEK 18 and 60 respectively. The key differences in our scenarios are related to lawn mowers, automotive and smartphones. Today's valuation discounts a bunch of deals for Acconeer but since the product was launched in April 2018 and lead times are at least 12 months we assume deals will not show earlier than Q2’19. While news of orders gradually will de-risk the case we assume certain deals are key catalysts. They are more worth than others and have the potential to substantially move the shares; especially larger deals with Husqvarna (50+% of the robotic lawn mower market), a large level measurement company or a big smartphone OEM.

Main bear point:

- Acconeer’s minor size is a disadvantage that likely explains why major players like Google want to go with Infineon. Acconeer needs to start building revenue sources in order to become reliable as a long-term supplier for large customers.

Catalyst types

Larger deals to drive the share price

Today's valuation has discounted a bunch of deals for Acconeer but since the product was launched in April 2018 and lead times are at least 12 months we assume the deals will not show earlier than Q2’19. While news of orders gradually will de-risk the case we assume certain deals are key catalysts. They are more worth than others and have the potential to substantially move the shares, such as especially larger deals with Husqvarna (50+% of the robotic lawn mower market), one larger level measurement company or a big smartphone OEM like LG.

Personal notes

Addnode Group ANOD B

Company page

https://www.redeye.se/company/addnode-group

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

Last price
108.0

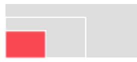
Base

Bear		Bull
51.0	88.0	117.0

CATALYST POTENTIAL

Impact
Major
Moderate
Minor

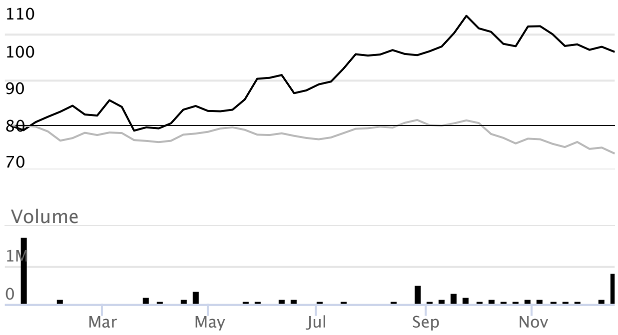
Timeframe
Long
Mid
Short



Turn page for catalyst specifics

Snapshot

Addnode Group
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Johan Andersson
Chairman	Staffan Hanstorp

Share information

Share price (SEK)	106.5
Number of shares (M)	33.4
Market cap (MSEK)	3,610
Net debt (MSEK)	134

Analyst

Fredrik Nilsson
fredrik.nilsson@redeye.se

Conflict of interests

Fredrik Nilsson 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	
	2017	**2018E**	**2019E**	**2020E**
Revenue, MSEK	2,520	2,986	3,165	3,269
Growth	*14.8%*	*18.5%*	*6.0%*	*3.3%*
EBITDA	228	320	338	364
EBITDA margin	*9.0%*	*10.7%*	*10.7%*	*11.1%*
EBIT	130	208	217	229
EBIT margin	*5.2%*	*7.0%*	*6.9%*	*7.0%*
Pre-tax earnings	119	193	199	210
Net earnings	90	147	153	162
Net margin	*3.6%*	*4.9%*	*4.8%*	*5.0%*
Dividend/Share	2.25	2.25	2.25	2.50
EPS adj.	2.94	4.39	4.57	4.85
P/E adj.	25.7	23.8	22.9	21.6
EV/S	1.1	1.3	1.1	1.1
EV/EBITDA	12.1	11.8	10.7	9.5

Last updated: 2018-10-30

Owner	Equity	Votes
Creades	10.2%	8.1%
Swedbank Robur Fonder	9.6%	7.6%
ODIN Fonder	9.4%	7.4%
Staffan Hanstorp & Jonas Gejer	6.8%	18.7%
Lannebo Fonder	5.8%	4.6%
Fjärde AP-fonden	4.9%	3.9%
Dick Hasselström	4.3%	11.1%
SEB Fonder	4.3%	3.4%
Nordea Fonder	3.8%	3.0%
Didner & Gerge Fonder	2.8%	2.2%

Company description

Addnode Group was established in 2003 and is listed on Nasdaq OMX Stockholm. In 2016 Addnode had a turnover of SEK 2.2 billion, with an EBITDA of SEK 113million. Addnode Group is divided into three business areas: Design Management, Product Lifecycle Management, Process Managemen. The business segments operate in different regions with about 25 different brands. Operating margin varies considerably between the various business areas where the most profitable can perform up to 20 percent. 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's own financial goals is to reach a growth of 10% per year (both organically and through acquisitions), an EBITA margin of 10% and at least 50% of profit after tax will be distributed to shareholders.

Investment case

- Has evolved into becoming a software company
- Interesting acquisition history
- Well-diversified in three different business areas

Investment case

Has evolved into becoming a software company. Today, only about 30% of Addnode's sales are related to services, and most of these services are related to the implementation of the company's software solutions. Moreover, the company has a strong focus on recurring revenues, and today more than 50% of sales are recurring revenues. These qualities make us believe the company should be valued at a premium compared to the IT-consultants. More precisely, we claim Addnode should be valued in line with comparable software companies.

Interesting acquisition history. Addnode has for a long been one of our favorites in its sector. The company has a successful acquisition history, which driven by its focus on fair price, good people, and management in place. As a result of the completed acquisitions, Addnode has increased its debt. However, we claim that the leverage is healthy and that the acquisitions have been value-creating. For example, in 2017, Addnode acquired more than ten companies with a combined turnover of approximately SEK 450m. The completed acquisitions have, in general, higher profitability than the group allowing for further margin improvements in the coming years. In addition, in Q1'18 did Addnode, through a directed share issue, receive gross proceeds of approximately SEK 258m, making it possible to conduct new acquisitions in the near term future.

Well-diversified in three different business areas. To sum up, Addnode is well diversified in three different business areas with interesting niches. Further, the company has taken a leading Nordic position in most of its niches, which also is the ambition for all of its business areas.

Counter-Thesis – Bear points

Dependent on the economy and the willingness to invest

In recent years, Addnode has had a favorable demand from manufacturing industries, as well as the construction and property sector. During the last quarters, some smaller and specialized companies in the real estate industry appear to have problems. However, Addnode's direct exposure to housing developers is low, and it should therefore not be concluded that Addnode will face lower demand in the coming quarters. Even so, we will follow the development of the Design Management business area as well as the underlying industry.

Acquisition-led growth always risky

Organic growth can be slow, international expansion is complex and acquisitions tend to be difficult. Despite Addnode's successful acquisition history, acquiring companies takes time and poses a risk. Nevertheless, we have confidence in the management team.

Catalyst types

M&a

The company has a successful acquisition history, which driven by its focus on fair price, good people, and management in place. In Q1'18 did Addnode, through a directed share issue, receive gross proceeds of approximately SEK 258m, making it possible to conduct new acquisitions in the near term future.

International expansion

Continued international expansion. Addnode acquired their first company in GB, in 2014 and Germany during 2015. The announcement of additional acquisitions in GB, Germany or other markets may potentially increase general market exposure and growth opportunities.

Personal notes

Allgon ALLG B

Company page

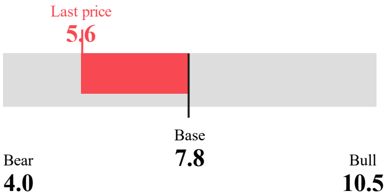
https://www.redeye.se/company/allgon

Redeye Rating

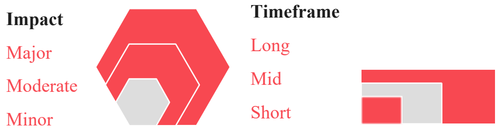
Leadership | Ownership | Profit outlook | Profitability | Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

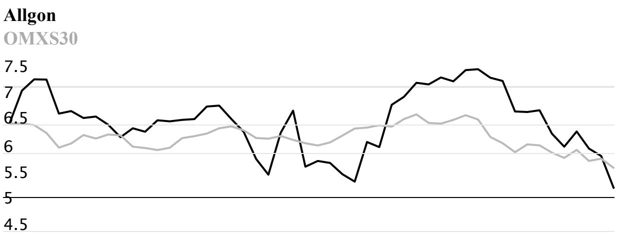


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Johan Hårdén
Chairman	Sven von Holst

Share information

Share price (SEK)	5.6
Number of shares (M)	56.2
Market cap (MSEK)	313
Net debt (MSEK)	244

Analyst

Dennis Berggren
dennis.berggren@redeye.se

Conflict of interests

Dennis Berggren owns shares in Allgon : No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	199	317	538	592
Growth	*42.2%*	*59.7%*	*69.6%*	*10.1%*
EBITDA	9	24	78	88
EBITDA margin	*4.6%*	*7.4%*	*14.5%*	*14.9%*
EBIT	2	11	65	75
EBIT margin	*1.2%*	*3.4%*	*12.0%*	*12.6%*
Pre-tax earnings	-1	0	45	55
Net earnings	-1	-2	39	48
Net margin	*Neg*	*Neg*	*7.2%*	*8.1%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.03	-0.04	0.68	0.85
P/E adj.	-270.4	-161.8	9.0	7.2
EV/S	1.1	1.9	1.1	0.9
EV/EBITDA	23.6	25.0	7.7	6.2

Last updated: 2018-11-29

Owner	Equity	Votes
Verdane Capital	32.7%	32.7%
Tibia Konsult AB	10.2%	10.2%
Arne Wennberg	7.6%	7.6%
Danica Pension	5.2%	5.2%
Bertil Görling	4.2%	4.2%
Nordnet Pensionsförsäkring	3.3%	3.3%
Jan Robert Pärsson	3.2%	3.2%
Avanza Pension	3.1%	3.1%
Bo Lengholt	2.8%	2.8%
Akei AB	2.5%	2.5%

Company description

The Allgon group is a Swedish company group consisting of Åkerströms, Smarteq, Tele Radio, Wireless System Integration, Satmission and Allgon Supply. The group's niche companies develop and sell industrial IoT-solutions, digital communication systems, cloud-based infrastructure and wireless solutions for demanding environments. The global customer base is found within the industrial, automotive, mobile- and telecom, transportation, construction and broadcasting sectors.

Investment case

- Strong position within industrial remote control: The acquisition of Tele Radio will establish Allgon as one of the leading companies within the market for industrial remote control and further give a substantial boost to the company's revenues and profitability.
- The market for wireless industrial solutions predicted to grow rapidly: All of Allgon's business segments are expected to grow with the large emerging opportunities.
- Room for additional upside: Our DCF-valuation suggests a fair value of SEK 7.8 per share, indicating that there is additional upside from the current share price.

Positioned as one of the leading actors within the market for industrial remote control. Through the acquisition of Tele Radio, Allgon has established itself as one of the leading actors within the industrial remote control market. Tele Radio has historically been the most attractive Swedish company within the segment in terms of growth and profitability. During the latest four years, Tele Radio has reported an average sales growth of 13% and an operating margin around 16%. Allgon's future revenues are now expected to exceed SEK 0.5bn while also showing a substantially increased profitability.

We have earlier pointed out that Allgon seems to have succeeded with its turnaround in Åkerströms. During the latest year, the company has shown its ability to increase both sales and profitability. The implemented measures taken during 2016 and 2017 has led to an EBITDA-margin around 12-14%. The acquisition of Tele Radio implies that the industrial remote control segment will account for a substantial part of Allgon's revenues going forward. We have a positive view of the acquisition of Tele Radio, which means that Allgon will have two strong industry brands with large customer bases and high repurchase frequencies. We expect the segment to continue showing strong growth (about 11%) during the coming three years while exhibiting an EBITDA-margin in the range of 18-19%.

The market for wireless industrial solutions predicted to grow rapidly. 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. We especially see growth opportunities within industrial IoT, where WSI and IIOX have strong offerings.

Room for additional upside. Although the share price has increased steadily since the acquisition of Tele Radio was completed, we see room for additional upside from the current levels. Our DCF-valuation results in a fair value of SEK 7.8 per share. We find this reasonable given Tele Radio's history of growth and profitability, the turnaround in Åkerströms and the groups continued growth opportunities.

Potential risks (bear-points)

- **Largest business segment affected by cyclicality.** Post-consolidation of Tele Radio, the industrial remote control segment is expected to account for about 80% of the group's future revenues. There is thus a risk that the company will be negatively affected in periods of economic downturn given its large industrial customer base.
- **Acquisitions do not always turn out as expected.** Acquisitions of new companies are not easy and things seldom turn out exactly as planned. Even if the companies are operated with high degrees of autonomy, they are to be included in the Allgon group. This is especially relevant for Tele Radio, a large company to be consolidated
- **Increase profitability in all segments.** Allgon recently returned to show positive earnings. Although Tele Radio will have a significant positive impact on the group's profitability, we find it important that Allgon succeeds to increase revenues and profitability in the other segments (connectivity and industrial IoT), which currently are affecting the group's profitability negatively.

Catalyst types

Tele radio showing impressive growth

We expect that Tele Radio will continue to show strong growth during the coming years thanks to its geographical expansion strategy. We believe there is great potential for a positive revaluation if Tele Radio shows that it can maintain the growth its shown during the start of 2018.

New large contract for smarteq

Allgon has announced that its large project deal in Norway is moving towards its end, implying that Smarteq's sales will decrease until new deals are signed. We, therefore, believe that a new large rollout deal would assure the market that Allgon also is able to grow outside the industrial remote control segment.

Additional acquisitions

Allgon intends to pursue a strategy involving both organic and acquired growth. 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.

Anoto ANOT

Company page

https://www.redeye.se/company/anoto

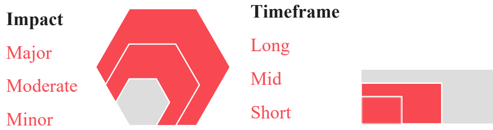
Redeye Rating

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
Chairman	Jörgen Durban

Share information

Share price (SEK)	2.7
Number of shares (M)	120.6
Market cap (MSEK)	328
Net debt (MSEK)	-83

Analyst

Viktor Westman
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Conflict of interests

Viktor Westman owns shares in Anoto: Yes

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	173	131	196	237
Growth	*-26.6%*	*-24.2%*	*49.5%*	*20.8%*
EBITDA	-21	-1	43	62
EBITDA margin	*Neg*	*Neg*	*22.0%*	*26.4%*
EBIT	-37	-14	22	37
EBIT margin	*Neg*	*Neg*	*11.3%*	*15.5%*
Pre-tax earnings	-56	-4	19	37
Net earnings	-53	-4	19	37
Net margin	*Neg*	*Neg*	*9.8%*	*15.5%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.52	-0.03	0.15	0.28
P/E adj.	-8.4	-77.0	17.3	9.0
EV/S	2.7	2.2	1.2	0.6
EV/EBITDA	-22.5	-321.8	5.2	2.3

Last updated: 2018-12-13

Owner	Equity	Votes
Nerthus Investments LTD	9.9%	9.9%
Avanza Pension	6.2%	6.2%
Nordnet Pensionsförsäkring	2.0%	2.0%
Swedbank Försäkring	1.4%	1.4%
Dimensional Fund Advisors	0.7%	0.7%
SEB Trygg Liv	0.6%	0.6%
Annika Lindh	0.5%	0.5%
Larssons Utvecklings AB	0.5%	0.5%
Stefan Linderholm	0.5%	0.5%
XACT Fonder	0.5%	0.5%

Company description

Anoto is a global, combined hardware and software company within digital writing and pattern technology. Anoto's old pen hardware business in education, note taking and forms remains important in order to reach a profitable revenue base. The R&D focus now, however, is on licensing the pattern technology for customers in various industries in the need for unique patterns. In addition to the uniqueness Anoto states that its pattern is fully invisible in comparison with competing technologies.

Investment case

- A totally different company with a software business model is born
- CEO's deal-making skills are yet unknown among Swedish investors
- Successful business model shift should move the share

A totally different company with a software business model is born

Mocked by many, Anoto has been a punching bag on the stock market all the way since inception in 1999. However, we argue that Q4'17 marked the end of Anoto as we know it. From the old Anoto with 180 employees there is nothing left but a lean software start-up of about 35 people where e.g. the CEO, Joonhee Won, long was the CFO as well as the sales "team". The old Lund office has been completely shut down, among many other things, and the company is now basically Korean. Shares have tanked following a business model transition where all customers instead of just hardware sales from now on are required to pay licenses for the pattern and the software as well. Even if many customers where to leave we believe the bottom line effect will be positive but in the short-term we expect a few more soft quarters.

CEO's deal-making skills are yet unknown among Swedish investors

Anoto is headed by a Korean dealmaker who is completely unknown to the public in Sweden. In South Korea however, Won is recognized for having built an education empire with sales in the billions and prior to that leading large transactions as a record young Managing Director of the investment bank Salomon Brothers. Swedish investors have thus far seen indications of Won's deal-making capabilities in the Cevahir deal of USDm 10, the Trata contract worth USDm 100 and another Indian deal of USDm 8 but more should follow. It is important to note that these contracts still only have translated into negligible sales. Nevertheless, the deals mentioned suggest that there are sound fundamentals in the business and strong value propositions that customers are willing to pay up for, big time. Won apparently has a knack for seeking out and zooming in on these kind of deals. When he enters the negotiations he is as decisive as he is ruthless when his employees do not deliver (all sales people have e.g. been fired). Won is also totally indifferent and relentless towards the risk of losing all existing customers as he firmly believes he can replace them, making him a good negotiator. In the end, we expect many of the customers to succumb as there are few, if any, suitable alternatives for them.

Successful business model shift should move the share

Anoto shares have a heavy legacy and clearly institutional investors won't at the moment touch the shares with a ten foot pole. It will take a long, long time for the perception of Anoto to change but the eventual effect should be rather large, especially as the share price is driven solely by retail investors. When it is proven that the business model shift works, say a couple of quarters from now, we expect to see sustainable increases in the share price (not ephemeral, speculation driven price gains like in e.g. September 2017). Our bear and bull case amount to SEK 1.4 and SEK 10.7 per share while our base case is SEK 2.6.

Catalyst types

Adna orders

Anoto DNA is the new business area and a scalable one with license margins of 100 percent. Orders verifying that this strategy is correct will move the share price.

Proven business model shift

If the business model shift to software proves to work without too many customers leavning the positive bottom line effect from the higher software revenue should affect the shares positively.

Personal notes

Aspire Global ASPIRE

Company page

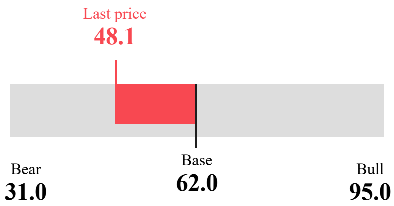
https://www.redeye.se/company/aspire-global

Redeye Rating

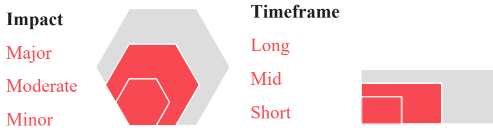
Leadership | Ownership | Profit outlook | Profitability | Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

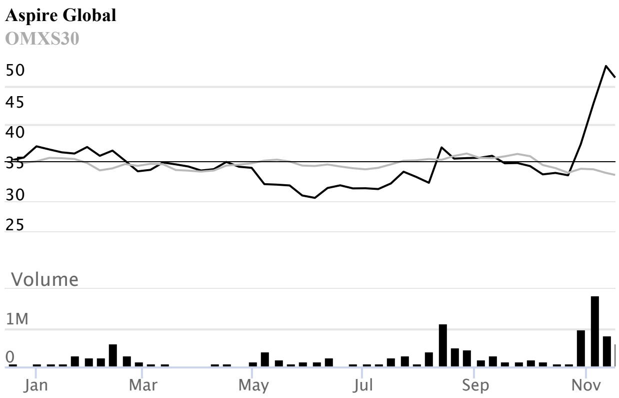


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Tsachi (Isaac) Maimon
Chairman	Carl Klingberg

Share information

Share price (SEK)	48.1
Number of shares (M)	44.6
Market cap (MSEK)	2,147
Net debt (MEUR)	-25

Analyst

Jonas Amnesten
jonas.amnesten@redeye.se

Conflict of interests

Jonas Amnesten owns shares in Aspire Global: No

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

Financials

	2016	2017	Redeye Estimates 2018E	2019E	2020E
Revenue, MEUR	61	72	102	129	148
Growth	*-5.7%*	*17.9%*	*42.1%*	*26.0%*	*15.0%*
EBITDA	11	14	21	25	29
EBITDA margin	*18.7%*	*19.8%*	*20.8%*	*19.5%*	*19.6%*
EBIT	11	13	19	23	26
EBIT margin	*17.3%*	*18.1%*	*18.9%*	*18.0%*	*17.8%*
Pre-tax earnings	10	13	17	21	24
Net earnings	12	10	16	18	21
Net margin	*19.3%*	*13.8%*	*16.0%*	*13.8%*	*13.9%*
Dividend/Share	0.00	0.09	0.10	0.10	0.11
EPS adj.	0.28	0.23	0.37	0.40	0.46
P/E adj.	13.0	15.5	12.1	11.1	9.7
EV/S	2.3	1.9	1.7	1.2	1.0
EV/EBITDA	12.2	9.6	8.1	6.4	5.1

Last updated: 2018-11-16

Owner	Equity	Votes
Barak Matalon	27.0%	27.0%
Pinhas Zahavi	16.8%	16.8%
Azur Elyahu	16.8%	16.8%
Aharon Aran	6.7%	6.7%
Swedbank Robur Ny Teknik BTI	3.8%	3.8%
Swedbank Nordic Microcap	3.7%	3.7%
BNY MELLON (ESOP)	3.7%	3.7%
Fondita Nordic Small CAP	3.0%	3.0%
BPSS LDN	2.3%	2.3%
Avanza Pension	1.4%	1.4%

Company description

Aspire Global is an online gambling company operating in the B2B and B2C segment. In the B2B segment, the company offers a platform solution targeting non-gambling companies as well as established gambling operators. In addition to the platform solution, the company has developed proprietary games, which are integrated into the platform, and can be offered to external operators. In the B2C segment, the company operates proprietary online casino brands, sportsbook brands and brands that offer both online casino and sportsbook.

Investment case

- Strong lock-in effects
- A wide range of growth possibilities
- Own platform and strong financial position
- New gambling segments

Strong lock-in effects: Aspire Global has over the years shown that its B2B customers stay loyal and that the company is able to attract brands from external platforms. This indicates that Aspire Global has an attractive platform that adds value to its customers and creates significant exit barriers through lock-in effects. We believe that key drivers behind this look-in effect are; the wide range of licenses, strong product, exclusive games, and beneficial business model.

A wide range of growth possibilities: With Aspire Global´s existing business model the company has a wide range of possibilities where the company can create growth. That range includes; improving existing product, adding on new partnerships, migrating brands from external platforms, marketing campaigns on the B2C brands, adding on new national gambling licenses, acquisitions, and commercialize the proprietary games.

Own platform and strong financial position: Aspire Global´s proprietary platform and strong financial position is the perfect combo for future growth. The scalable proprietary platform gives Aspire Global very strong incitements to grow, and the strong financial position gives the company the means to do it. With the own platform, the growth can be realized both organically and through acquisitions. Without an own platform, acquisitions would not be considered a good option. Within some potential markets, it will be better to acquire an existing operator to acquire a license and to gain knowledge about the market. Owning the platform also gives Aspire Global the freedom to enter into any potential market that has the right conditions.

New gambling segments: We believe Aspire Global has a good possibility to facilitate on its existing game portfolio of over 200 games. It is hard to estimate what these games might give in terms of revenue and profit. But based on Aspire Global´s information, several of the games are performing well, and the 200+ games generate about 20% of Aspire Global´s GGR. We believe that a strategic acquisition of a smaller game developer/studio could potentially boost this development and enable Aspire Global to faster facilitate on its existing game portfolio. Another potential segment is Affiliation; however, we believe that a strategic acquisition of an operator or a game developer will be prioritized.

Counter-Thesis – Bear Points

Low player retention: Comparing Aspire Global player data raises some questions. For sure the figures for customer intake, FTDs, are impressive as well as the strong Hold (Revenue/Deposit). However, Aspire Global´s retention levels are lower than for the competitors, which we believe can become a competitive disadvantage in the long-run.

Licenses: One of the main lock-in effects that Aspire Global has emphasized, is that the company hold licenses in many regulated markets. Which makes it harder for a customer to find an alternative platform with the same licenses, if the customer has players on several of these licensed markets. The issue with this is that we believe that in the long-run all the competing platforms will hold, more or less, the same licenses.

New markets and M&As: We expect Aspire Global to invest much in new markets and M&As the next few years to continue to drive growth at a high rate. However, it is important to choose markets and acquisitions wisely. What works in one market may not work in another due to culture or/and regulations differences. The market entries and acquisitions may require much more resources than initially estimated.

Uncertain regulations: Aspire Global is focusing in regulated markets as these markets offer better possibilities to find interesting B2B partners. The regulated markets are also seen as less risky than unregulated markets, which is true. However, we believe that the regulated markets also have some risk connected to them. We have seen this in the UK with restrictions of betting limits and increase of the gaming tax.

Catalyst types

Successfully executed m&a activities

Aspire Global has issued an EUR 27.5m secured bond under an EUR 80m framework, allowing for M&A activities. The company is mainly looking at three types of targets: operators, affiliates and game developers. We believe that successfully executed M&A activities at attractive multiples will, most likely, have a significant impact on the share price.

Proprietary games

A successful launch of Aspire Global´s proprietary games on a large external platform will have positive effects on the revenue and a very positive effect on the margins.

Large media house partnership

With Aspire Globals´s B2B strategy to enter regulated markets and find suitable partners. We believe that if Aspire Global are able to enter into a partnership with a major media house in any of these markets this will most likely become a strong growth driver.

Personal notes

Avtech Sweden AVT B

Company page

https://www.redeye.se/company/avtech-sweden

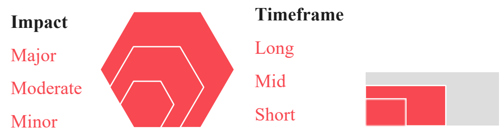
Redeye Rating

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

COMPANY QUALITY

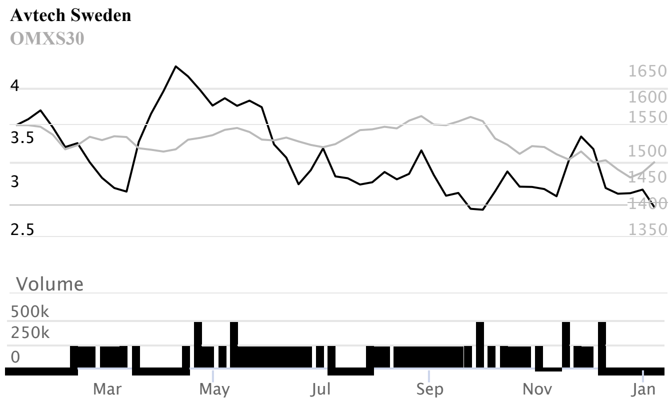
FAIR VALUE RANGE

CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Christer Fehrling
Chairman	Bo Redeborn

Share information

Share price (SEK)	3.0
Number of shares (M)	56.5
Market cap (MSEK)	162
Net debt (MSEK)	-16

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Avtech Sweden: Yes

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	14	13	17	32
Growth	*17.4%*	*-10.6%*	*34.6%*	*85.4%*
EBITDA	1	2	8	12
EBITDA margin	*6.1%*	*15.8%*	*48.2%*	*37.0%*
EBIT	-4	-3	-2	3
EBIT margin	*Neg*	*Neg*	*Neg*	*10.7%*
Pre-tax earnings	-4	-3	-2	3
Net earnings	-4	-3	-2	3
Net margin	*Neg*	*Neg*	*Neg*	*8.6%*
Dividend/Share	0.00	0.00	0.00	0.04
EPS adj.	-0.06	-0.05	-0.03	0.05
P/E adj.	-72.6	-66.2	-110.3	68.1
EV/S	17.8	13.4	9.9	5.3
EV/EBITDA	289.8	84.9	20.5	14.4

Last updated: 2018-10-24

Owner	Equity	Votes
Avanza Pension	16.0%	7.2%
Lars Lindberg	6.1%	21.6%
Christian Dahl	5.3%	2.4%
Christer Fehrling	5.1%	7.9%
Johnny Olsson	3.8%	9.6%
Mats Tonsjö	2.8%	2.0%
Lars Bäckvall	2.7%	3.1%
Peter Muth	2.3%	1.1%
Anders Gullander	1.8%	0.8%
Lars Wahlund	1.7%	0.7%

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

- 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.
- 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.
- The partnership with Met Office creates a long term value in AVTECH. The product Aventus Nowcast becomes more valuable on the market at the same time as cost is reduced for AVTECH. This collaboration will also create value in additional services to the Aventus Nowcast service.
- The company's largest single risk is that of full flight planning system providers searching for less competitive arenas and successfully developing equivalent products. Other significant risks include prolonged procurement processes dueto regulatory or organizational circumstances.

AVTECH is the current world-leader in software solutions for a full flight and time-based operations. After years of significant research and commercialization issues, the company has materialized a five-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.

In 2016 a partnership agreement with Met Office, United Kingdom's national weather service, was announced. The partnership creates a long-term value in AVTECH. The product Aventus Nowcast becomes more valuable on the market at the same time as the cost is reduced for AVTECH. This partnership will also create value in additional services to the Aventus Nowcast product creating data delivery with extreme weather condition information from turbulence, extreme winds, thunders and lightning. In 2017 a collaboration project between Met Office, EasyJet and the airport at Gatwick in London was announced. The purpose of the project is to improve the efficiency of arriving aircrafts to Gatwick using AVTECH's product Aventus as a timing tool in time-based operations. This deepens the relationship with Met Office and EasyJet. It will also prove AVTECH's as a solution in the eco system between aircrafts and airports which is one of the company's biggest visions.

The company's largest single risk is that of full flight planning system providers searching for less competitive arenas and successfully developing equivalent products, thereby bypassing the patent protection. This would significantly impair the projected intake of contracts and revenue estimates. Other significant risks include; prolonged procurement processes due to regulatory or organizational circumstances, risk of significant estimation deviation due to limited pricing transparency of current contracts, and the possibility of extended procurement processes due to priorities of cost-savings actions.

Catalyst types

Commercial agreement with lufthansa group subsidiary

As communicated in the press release were the commercial agreement between AVTECH and Lufthansa Cargo was annonced: "each airline in the group independently decides if they will join the signed agreement". This should mean that each subsidiary does not have to evaluate the product for 12 months like Lufthansa Cargo. It is more likely there will be no need at all to evaluate the product which means a commercialization with a subsidiary could be imminent. In this business this however means 3-12 months.

Ramp up with easyjet

The ramp up with easyJet started in June 2017. We think the contract will generate approximately SEK 4 million the first 12 months. A success with EasyJet contract is of important on two levels. The most obvious part is that it improves AVTECH's financial strength. In addition it also doubles the number of key customers, reducing the risk across the whole business while improving bargaining position in future collaborations.

Contract extension

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.

Axichem AXIC A

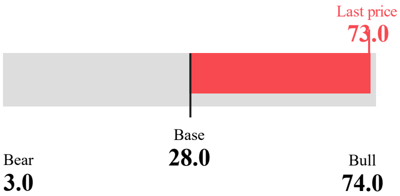
Company page
https://www.redeye.se/company/axichem

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



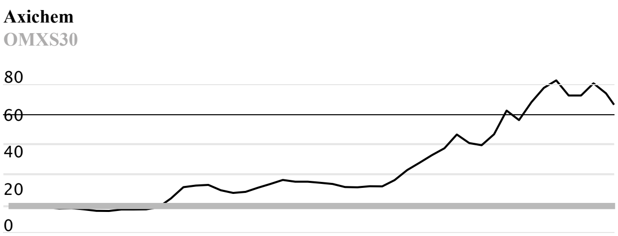
CATALYST POTENTIAL

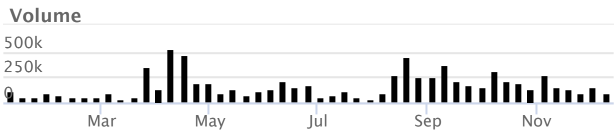
Impact
Major
Moderate
Minor

Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot





Marketplace	First North Stockholm
CEO	Torsten Helsing
Chairman	Jan Gustavsson

Share information

Share price (SEK)	73.0
Number of shares (M)	15.0
Market cap (MSEK)	1,095
Net debt (MSEK)	-29

Analyst

Eddie Palmgren
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Conflict of interests

Eddie Palmgren 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

			Redeye Estimates	
	2017	2018E	2019E	2020E
Revenue, MSEK	0	0	30	75
Growth	*25.0%*	*>100%*	*>100%*	*>100%*
EBITDA	-7	-8	6	16
EBITDA margin	*Neg*	*Neg*	*19.2%*	*21.8%*
EBIT	-7	-10	2	13
EBIT margin	*Neg*	*Neg*	*7.5%*	*17.2%*
Pre-tax earnings	-7	-10	2	13
Net earnings	-7	-10	2	10
Net margin	*Neg*	*Neg*	*5.5%*	*13.4%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.50	-0.65	0.11	0.64
P/E adj.	-36.7	-102.5	636.4	104.7
EV/S	53,790.9	2,293.6	32.5	13.0
EV/EBITDA	-37.5	-120.2	169.6	59.4

Last updated: 2019-01-07

Owner	Equity	Votes
Manakin Ltd	12.2%	12.2%
LMK-bolagen & Stiftelse	10.8%	10.8%
Avanza Pension	7.2%	7.2%
Danica Pension	5.4%	5.4%
Nordnet Pensionsförsäkring	3.8%	3.8%
Redotem AB	2.6%	2.6%
Per Vasilis	1.7%	1.7%
Hans Sköld	1.6%	1.6%
Rolf Kraft	1.4%	1.4%
Göran Högstedt	1.3%	1.3%

Company description

aXichem's business model is to develop, patent and market natural analogue industrial compounds. The company primarily works with Phenylcapsaicin, a synthetically produced and patented capsaicin. It has wide applications in a variety of areas, such as feed supplements, nutraceuticals, marine anti-fouling paint, and pharmaceuticals.

Investment case

- Product potential
- Beneficial market trends
- Promising study results
- Regulatory agreements in sight

Investment Case

Product potential. aXiphen® as an additive in animal feed has two main benefits. It inhibits salmonella and accelerates the growth of chickens. The fact that aXiphen® inhibits salmonella should mean that the product is particularly interesting for chicken breeders and pig farmers.

Beneficial market trends. The regulatory restrictions for antibiotics are becoming stricter, primarily in the EU. This increases the need for aXichem's products. The high demand means that the company has pricing power and with benefits of scale, it can reach high earnings margins.

Promising study results. In 2016, the company focused on producing data proving the effectiveness of its product as a component of chicken feed. A comprehensive field study was conducted and the final report exceeded previous studies in the preventive effect of aXiphen® against salmonella and the compound's properties as a growth promoter for chickens. In addition, during the first half of 2017 aXichem announced positive results from tests by the company together with feed manufacturers in Europe. In chicken breeding, tests showed positive results on both the growth of chickens and as a salmonella inhibitor. In pigs, aXiphen® was used as a salmonella inhibitor, which also had a good effect.

Regulatory agreements in sight. During 2018, the company has taken several important steps towards commercialization. Following GRAS Food approval, the USA market is now available for nutraceuticals. The Novel Food application in the EU has also moved forward and GRAS Feed is also pending. We estimate that the regulatory approvals will be in place in Q1 2019. The company is also registering its product in Brazil, which is another major feed market.

Counter Thesis

Despite the potential of the product and the interesting results from the studies, there are uncertainties and risks with an investment in the company. We have summarized the most obvious ones below in our counter thesis.

- **Further delays in regulatory approvals:** aXichem has been approved for GRAS Food (USA), but we view Novel Food (Europe) and GRAS Feed (USA) as the most important. We expect these to be decided within the next quarter. Governmental processes are, however, uncertain. Further delay in regulatory approvals would delay commercialization.
- **Problems in the scale-up phase:** aXichem has produced smaller quantities of its products. It has outsourced production to trustworthy partners, but we still view it as a potential risk that problems will arise in the scale-up phase.

Catalyst types

Results from mexico

The ongoing tests in Mexico are important as it's the first order through the partner Chr. Olesen. The evaluation has been delayed, but we expect results within the next six months. If the anticipated effect is reached, we find it likely with a follow-up order. A negative outcome would create uncertainty regarding the potential of the product.

Sales partner in the usa

aXichem needs a partner to sell aXivite within nutraceuticals in the USA. If the company receives GRAS Feed approval it's also likely that it will search for distributors of aXiphen®. We view this as an important step towards market launch.

Gras feed approval

The process has taken longer time than we expected, but regulatory decisions are challenging to predict. aXichem is hoping for approval around the turn of the year (2018/19). We are somewhat more conservative and estimate it to be in place by Q1'19.

Novel food approval

Novel Food authorization would mean that aXichem can sell aXiphen® as an additive in animal feed and dietary supplements in EU. To access this huge market is of significant value for the company. We expect the approval to be in place in Q1 2019.

Approval of axiphen-feed in brazil

In order to sell in Brazil, according to aXichem, it's more registration than a market approval process. aXichem has submitted documents and is waiting for answers. A successful registration would open a large market for the company, even though the high corruption creates uncertainty regarding the time of approval.

Progress with axiphen-bio

A favorable outcome in the evaluation of aXichem's product would likely mean that Brynsløkken uses its right to commercialize aXiphen-bio. To begin with, the market in Chile is interesting. In the long-term, other countries may also be relevant.

Commercial breakthrough

aXichem has delivered a first test order of aXiphen feed, and the awaited commercialization is approaching. When companies go from research phase to market and sales phase, large shareholder values can be created. At the same time, it's often hard to estimate the time it takes and the resources required. We have a positive view of the progress made by aXichem, the study data that exists and the customer problem that the company resolves. Demand is high and the product is unique in its kind. At the prevailing price levels, however, expectations are high for a successful launch. Should problems arise with the product, customer relationships, production, logistics or sales – a commercial breakthrough can be delayed or not materialize.

Bredband2 BRE2

Company page

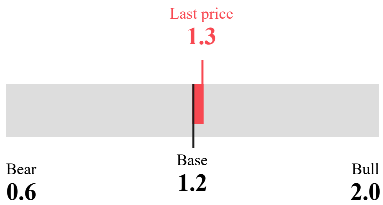
https://www.redeye.se/company/bredband2

Redeye Rating

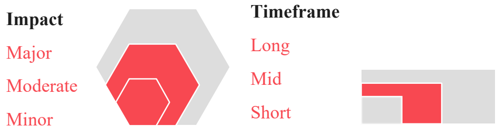
Leadership Ownership Profit outlook $ Profitability Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

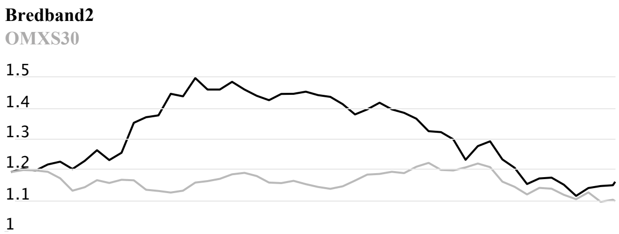


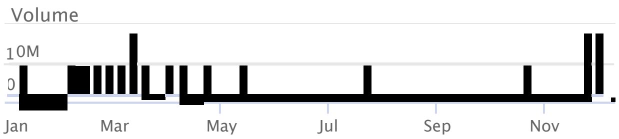
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot





Marketplace	First North Stockholm
CEO	Daniel Krook
Chairman	Anders Lövgren

Share information

Share price (SEK)	1.3
Number of shares (M)	701.0
Market cap (MSEK)	897
Net debt (MSEK)	-115

Analyst

Havan Hanna
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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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	527	600	678	755
Growth	*16.7%*	*13.9%*	*13.0%*	*11.4%*
EBITDA	65	64	80	96
EBITDA margin	*12.3%*	*10.6%*	*11.8%*	*12.7%*
EBIT	43	40	58	75
EBIT margin	*8.2%*	*6.7%*	*8.5%*	*10.0%*
Pre-tax earnings	44	41	58	75
Net earnings	33	32	45	59
Net margin	*6.3%*	*5.3%*	*6.6%*	*7.8%*
Dividend/Share	0.05	0.06	0.07	0.08
EPS adj.	0.05	0.05	0.06	0.08
P/E adj.	25.9	24.4	17.2	13.1
EV/S	1.5	1.1	1.0	0.9
EV/EBITDA	11.8	10.3	8.2	6.8

Last updated: 2018-07-31

Owner	Equity	Votes
Anders Lövgren	16.3%	16.3%
Örjan Berglund	13.9%	13.9%
Leif Danielsson	12.8%	12.8%
Ulf Östberg	4.7%	4.7%
State Street Bank & Trust, Boston	2.4%	2.4%
Veralda (SEB Life Intl Assurance)	2.4%	2.4%
Försäkrings AB Avanza Pension	2.3%	2.3%
Daniel Krook	2.0%	2.0%
Jan Gadd	1.7%	1.7%
JPM Chase NA	1.6%	1.6%

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 250,000 broadband customers. It's focused positioning in the fast-growing fibre market is a competitive advantage for the company. However, Bredband2 is still 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.

Investment case

- Surfing the fibre wave
- Margin expansion
- Competition has decreased due to industry consolidation

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. In its forecast, Post- och telestyrelsen (PTS) estimates that 87-90 percent of all households and businesses will have access to broadband (homes passed) by at least 100 Mbit/s by 2020, and around 85 percent 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, 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 9-10 percent market share means it has achieved the necessary scale for volume growth to render good margin expansion. However, pricing pressure from large competitors and increased network fees could put margins at risk and needs to be countered. 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.

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

Cherry CHER B

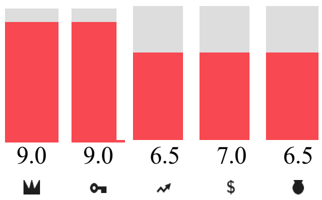
Company page

https://www.redeye.se/company/cherry

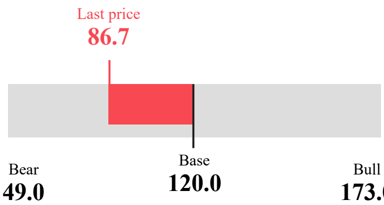
Redeye Rating

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

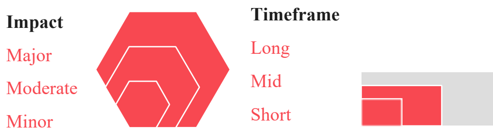
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Gunnar Lind
Chairman	Morten Klein

Share information

Share price (SEK)	86.7
Number of shares (M)	105.7
Market cap (MSEK)	9,161
Net debt (MSEK)	462

Analyst

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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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	2,252	3,288	4,272	5,301
Growth	*>100%*	*46.0%*	*29.9%*	*24.1%*
EBITDA	429	883	1,074	1,438
EBITDA margin	*19.1%*	*26.9%*	*25.1%*	*27.1%*
EBIT	295	777	921	1,259
EBIT margin	*13.1%*	*23.6%*	*21.6%*	*23.8%*
Pre-tax earnings	122	568	789	1,163
Net earnings	51	519	715	1,060
Net margin	*2.3%*	*15.8%*	*16.8%*	*20.0%*
Dividend/Share	0.00	0.00	0.00	5.07
EPS adj.	0.49	4.42	6.85	10.14
P/E adj.	119.9	17.2	11.1	7.5
EV/S	3.5	3.0	2.1	1.6
EV/EBITDA	18.5	11.1	8.5	5.7

Last updated: 2018-11-13

Owner	Equity	Votes
Prunus Avium Ltd	24.5%	17.2%
Morten Klein	14.1%	12.9%
Avanza Pension	5.3%	3.7%
Bjørn Grene	3.6%	2.5%
Arild Karlsen	2.8%	2.0%
Svenska Handelsbanken AB for PB	2.7%	3.6%
Lars Kling	2.5%	7.6%
Per Hamberg	2.2%	8.7%
Anders Holmgren	1.9%	1.3%
Svea Ekonomi AB	1.9%	1.3%

Company description

In late 2018 Cherry received a public offer from a consortium consisting of the major shareholders and Bridgepoint at 87 SEK per share.

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 five segments within online gambling. The five segments are Game Development, Performance-Based Marketing, Online casino operations, Platform development, and restaurant casinos.

Investment case

- By grabbing a larger part of the value chain, Cherry can generate better profitability, reduce risk and create value for their shareholders
- The diversified business units reduce the risk compared to most peers.
- A proven track-record in creating value through smart acquisitions should warrant a premium
- The transition from land-based gambling to online still, and will continue, create growth opportunities and an increasing market.

A diversified bet on iGaming

The Cherry Group has a strong focus on entrepreneurship with all subsidiaries within the Group run as separate and independent units, often by their founders. The company has a solid track record as an incubator of casino companies with Betsson and Netent being the most noteworthy. Furthermore Cherry has a deep focus on creating shareholder value through smart capital allocation. The sale of Automatgruppen and acquisition of Yggdrasil, Game Lounge, Almor, and ComeOn! are some examples where management has added value through M&A during the last couple of years.

- **Value chain expansion and risk reduction:** In 2012 Cherry took the strategic decision to expand within the iGaming value chain. Cherry is now active as a Game supplier, Affiliate supplier, Platform supplier and had expanded their B2C offering substantially. As the company now controls a larger part of the value chain the profitability and growth opportunities has grown considerably with reduces business risks. Despite the success for both Yggdrasil (Game Development) and Game Lounge (Online Marketing), the companies are still just at the beginning of their growth journey.
- **Entrepreneurial and innovative DNA:** Cherry has always had a thirst for innovation and doing things their own way. When the company initiated their new strategic decision of expanding in the value chain most said it was the wrong move to make. All segments within the Cherry family are run as separate companies with their own management teams, which are often the founders of the companies. This leads to a decentralized organization where innovation can thrive.
- **Capital Allocation:** Profound capital allocation skills should not be underestimated. Cherry continues to do value-adding acquisitions and focus their capital on strengthening their position in the industry further. The Chairman has substantial shareholdings; this leads to a focus on building long-term wealth and not the typical short-minded focus many public companies suffer from.
- **iGaming growth:** Cherry operates in an industry driven by substantial structural forces which will continue for many years to come.

We believe the market continues to underestimate the long-term prospects for Cherry. The highly successful Yggdrasil and Game Lounge are only at the begging of their growth story and their uptake in revenues will lead to increased margins for the Group. We also find it likely that the margins within the operator business ComeOn! will expand.

Ani-thesis and risk factors with Bear Points

- Most of Cherry's subsidiaries are led by their founders. If key staff should decide to leave and do something else this could harm the subsidiaries operations substantially.
- Cherry has been picky when it comes to acquisitions, still acquiring companies takes time and poses a risk that the money spent does not create value.
- Regulations pose a risk for an iGaming company. Many markets in Europe are still unregulated. New legalization which hurts the industry could dampen the business for Cherry.

Catalyst types

Fixing the bond

We thought we would see a revaluation of Cherry as the turn-around in ComeOn is now confirmed. That has now been the case. We believe that one of the main issues for is the current bond financing. The bond makes it harder for Cherry to spin-out companies. We believe bank financing in combination with a bond or the like would be preferable. The “fixing” of the bond will most likely be a significant catalyst for the share as the market will then again start to look at the value of the parts in Cherry.

Eps boost through game lounge now fully owned

As Cherry now owns all the shares in Game Lounge the minority interest for Cherry will dramatically decrease, compared to before, and thus enhance the reported EPS, which could lead to a higher valuation of the company.

Yggdrasil surpassing expectations and spun-off

Yggdrasil continues to exceed our expectations and gain market share from the well-established game developers. We estimate that Yggdrasil would be valued as a separate company in the range of SEK 2-3 bn. The company is maturing and now has established a Parent company in Stockholm, this could mean that Yggdrasil is preparing for a separate listing. Today we find that the market is missing our of the quality and value of the subsidiary if this continues we believe Cherry’s management would propose a spin-off.

Clavister Holding CLAV

Company page

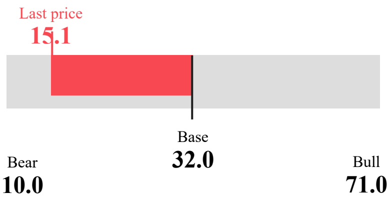
https://www.redeye.se/company/clavister-holding

Redeye Rating

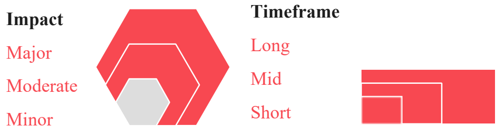
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

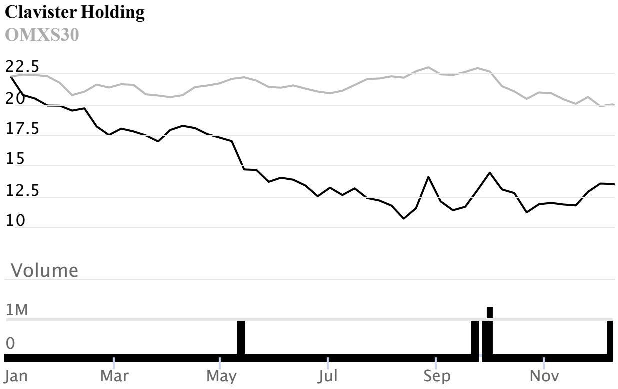


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	John Vestberg
Chairman	Viktor Kovacs

Share information

Share price (SEK)	15.1
Number of shares (M)	23.6
Market cap (MSEK)	365
Net debt (MSEK)	231

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna owns shares in Clavister Holding: No

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	100	115	185	286
Growth	*28.3%*	*15.1%*	*60.1%*	*55.2%*
EBITDA	-54	-60	-13	69
EBITDA margin	*Neg*	*Neg*	*Neg*	*24.0%*
EBIT	-77	-91	-47	33
EBIT margin	*Neg*	*Neg*	*Neg*	*11.4%*
Pre-tax earnings	-84	-117	-74	6
Net earnings	-66	-122	-74	6
Net margin	*Neg*	*Neg*	*Neg*	*2.0%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-2.80	-4.33	-2.65	0.20
P/E adj.	-8.5	-3.6	-5.8	76.6
EV/S	6.0	5.0	3.6	2.4
EV/EBITDA	-11.3	-9.6	-51.4	10.1

Last updated: 2018-09-02

Owner	Equity	Votes
Avanza Pension	13.1%	13.1%
Danica Pension	6.0%	6.0%
Ålandsbanken	5.3%	5.3%
Fondita Nordic Micro Cap SR	4.3%	4.3%
RGM Adm-Gruppen AB	4.1%	4.1%
Nordnet Pensionsförsäkring	3.4%	3.4%
Stiftelsen Norrlandsfonden	2.8%	2.8%
JP Morgan	2.4%	2.4%
Fondita 2000+	2.3%	2.3%
AMF Aktiefond Småbolag	2.3%	2.3%

Company description

Clavister develops, manufactures and sells network security solutions for mobile network operators and enterprises. It is within the new segment Communication Service Providers segment (CSP), which the potential for “game-changing” deals lies. Customers within the enterprise sector are municipalities, retailers, banks, service providers, etc. Within CSP, Clavister targets telcos (partnerships) with mobile operators as final customers. Clavister has ~180 employees, with head office in Örndksöldsvik.

In 2015 Clavister entered a partnership with Nokia Networks. More specifically Clavisters security virtual network function (VNF) is an integral part of the Nokia NetGuard Security portfolio that protects network infrastructure. Clavisters software is licensed primarily based on capacity, which means that revenues increase in parity with the data in the network. The business model is based on the required total throughput and capacity, with an unlimited number of deployed security VNF (instead of capacity per single VNF compared to other VNF business models).

Investment case

- Entering an industry with substantial growth opportunities
- Well positioned in the industry transformation (NFV)
- The market underestimates the long-term business value
- Our DCF indicates a base case of SEK 32 per share and a fair value range of SEK 10-71 per share

Even though Clavister has developed and provided security software with a focus on firewalls to the enterprise sector for twenty years, the investment case is strongly coupled to the new sector, Communication Service Provider (CSP).

Entering an industry with substantial growth opportunities. We still see potential in the enterprise sector, but it is within CSP, which the potential for “game-changing” deals lies. The market opportunity for network function virtualization (NFV) and the commitments made across the industry to the network transformation is well documented. However, security is one of the largest concerns impacting the broad adoption of NFV – representing a window of opportunity for Clavister.

The following factors indicate that Clavister will be one of the winners within this transformation;

- The partnership with Nokia (integral part of Nokia NetGuard Security since June 2015), which is non-exclusive though;
- Clavister's unique business model (based on the required total throughput and capacity instead of capacity per single VNF compared to competitors); and
- The leading product (purpose-built for virtualization and highest performance on the market).

We believe the market is underestimating the long-term business value of the 15 commercial orders at place within CSP (and future orders). This is due to the 'multidimensional' business model. Another contributing factor is that the “real value” of a business is 3-6 years away from the initial order, affecting the short-term negatively, but entailing high long-term growth. The market has not fully understood these dynamics and consequently undervaluing the company.

Our CAGR revenue forecast for the periods 2018-2021 and 2022-2027 results in sales of SEK 378m by 2021 respectively SEK 852m by 2027. Average EBIT margin during 2018-2027 amounts to 16 percent and terminal EBIT-margin reaches 20 percent. We use a WACC of 13.8% for all scenarios. It is hard to put estimates (and consequently price target) on a company so dependent on a structural change within an industry – NFV is a big part of the case. Virtual adoption is forecasted to reach 80 percent 2020 (according to 3rd part analysts).

The biggest risks are coupled to the NFV adoption, dependence on Nokia (and other partnerships) and the fact that the business model and Clavisters position in the ecosystem within CSP has yet to prove its sustainability (still too early to draw any safe conclusions). A failure would jeopardize the investment case.

Catalyst types

New orders for the virtual csp solution
Orders for the virtualized CSP solution will alter our valuation if they surprise us positively/negatively.

Continued growth
If Clavister maintains the consistent revenue growth, resulting in improved EBITDA, and thus showing the way to profitability, a revaluation will follow. Improved EBITDA should also reduce/eliminate the market's concern of a share issue.

Nfv adoption
Network function virtualization (NFV) adoption is the ‘enabler’for the whole case. Virtual adoption is forecasted to reach 80 percent 2020 (according to 3rd part analysts). Data confirming/contradict these forecasts should impact Clavister positively/ negatively.

Personal notes

Doro DORO

Company page

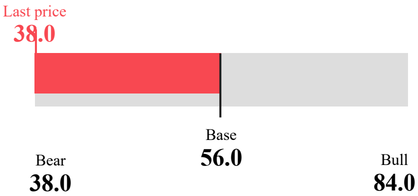
https://www.redeye.se/company/doro

Redeye Rating

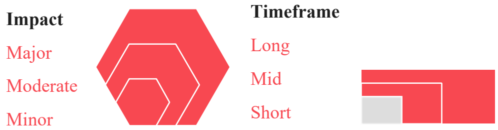
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	NASDAQ Stockholm
CEO	Robert Puskaric
Chairman	Johan Andsjö

Share information

Share price (SEK)	38.0
Number of shares (M)	24.2
Market cap (MSEK)	905
Net debt (MSEK)	34

Analyst

Viktor Westman
viktor.westman@redeye.se

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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	1,924	1,972	2,045	2,096
Growth	*-2.3%*	*2.5%*	*3.7%*	*2.5%*
EBITDA	156	198	228	227
EBITDA margin	*8.1%*	*10.0%*	*11.1%*	*10.8%*
EBIT	92	122	140	137
EBIT margin	*4.8%*	*6.2%*	*6.8%*	*6.5%*
Pre-tax earnings	92	124	132	130
Net earnings	66	93	100	99
Net margin	*3.5%*	*4.7%*	*4.9%*	*4.7%*
Dividend/Share	0.00	0.00	1.37	1.35
EPS adj.	2.82	3.86	4.15	4.09
P/E adj.	15.5	11.0	10.2	10.4
EV/S	0.6	0.6	0.5	0.5
EV/EBITDA	7.3	5.8	4.7	4.3

Last updated: 2018-10-20

Owner	Equity	Votes
Accendo Capital	15.5%	15.5%
Rite Ventures	10.3%	10.3%
Lazard Asset Management	5.7%	5.7%
Humle Fonder	3.7%	3.7%
Nordea Fonder	3.1%	3.1%
Dimensional Fund Advisors	2.7%	2.7%
Avanza Pension	2.5%	2.5%
Bengt Julander	2.5%	2.5%
Theodor Jeansson	2.2%	2.2%
Doro AB	1.8%	1.8%

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, typically traditional feature phones and smartphones, 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 niche market share of some 50 percent in Western Europe, but Doro is number one in several other markets as well. The major weakness in the business model is that Doro sells hardware with short life cycles and is dependent on constantly developing better products. However, Doro is increasingly focusing on growing the Care area, i.e. telecare and mobile health, meaning recurring service revenue.

Investment case

- Growth days within phones not entirely over
- The Doro Care option virtually free of charge
- Reported growth is required to move the share

Growth days within phones not entirely over

Doro has not grown its sales since Q4'15. A quick glance at the current valuation suggests that the stock market does not believe that Doro can come back to growth, at all. We agree that there are problems, especially regarding the smartphones but we believe Doro's service offering can solve those issues (see below) and find it likely that Doro can muster up at least a low, single digit percentage growth. Doro is the market leader of a small, still growing niche that is overlooked by every other phone manufacturer. We believe "niche" is the key word here. Many retailers and telecom carriers believe that seniors is a segment to be considered but usually it appears to only be room for one senior phone model. As Doro evidently e.g. holds the majority of the market of Germany, France and UK combined Doro is usually, for whatever reason, selected to supply that one phone model. Doro's DNA and know-how regarding e.g. handling, hearing and physical alarm buttons target the inevitable problems of aging that other phone OEMs do not care about when solely focusing on maximizing innovation.

The Doro Care option virtually free of charge

Our view is that the current valuation is justified by the traditional hardware (phones) business alone and that Doro Care can be seen as an interesting option free of charge with an uncertain but potentially large upside. Doro has finally started to leverage Doro Care's mobile health and telecare solutions within its traditional phones hardware business for a more complete offering, to own its customers to a greater extent.

Doro's new Smart Care box will function as a gateway to which all types of devices and sensors can be connected in order to detect unusual behaviour. Doro will pre-program the alarm button on the phone and offer various services for a monthly fee, including making it possible for families, friends and caregivers etc. to monitor the user via an app and receive alarms. Relatives or caregivers can receive notifications that everything is ok alternatively not ok and in a more serious situation an alarm to an alarm centre can automatically go off and caregivers can be dispatched. Doro will open up the platform for all kinds of third party solutions such as e.g. portable heart scanners or bed sensors that can sense if a person is not in bed. The system can also detect unordinary events, e.g. if the refrigerator has not been opened during the past 24 hours, if someone has been in the bathroom for an hour or perhaps in the bathroom 30 times in one day.

All this will create a moat, as copying Doro's extensive offering will not only require hardware but also software and services. The value proposition is obvious. Seniors can live home longer, free and independently. Relatives are sure that their loved ones are safe as everything can be monitored remotely: the current location, missed calls and battery life etc. Last, being able to determine that everything is ok from a distance is also very cost efficient for the municipalities and the care providers. Doro has several unique and important assets that will help it succeed in its quest:

- Major confidence in the Doro brand from the target customers, as opposed to competing start-ups
- A deep understanding of the users and their needs.
- Sales channels within about 50 countries and hardware logistics to handle 3+ million hardware units
- A physical alarm button on every phone and an installed base of almost 130 000 telecare alarm subscriptions as well as long-time experience from the whole alarm chain

Reported growth is required to move the share

In relation to our reasonably pessimistic scenario of SEK 38 per share and our base case of SEK 56, today's share price provides a favourable risk/reward. However, a narrower price/value gap requires earnings reports which clearly shows that Doro has come back to growth. The stock market's trust in Doro is low at the moment, meaning one good report alone may not be enough.

Catalyst types

New care services
The new Care offerings, SmartCare and Doro Response, are important for the company's transformation and how they grow in popularity following their launches is an important factor for the shares.

Return to growth
Following two years of zero growth for Doro we assume that the perception can only change when it is obvious for the stock market that Doro is back to growth, which would likely be in an earnings report.

Foreign expansion of doro care
The Care acquisitions are Doro's chance to build more sticky revenue and endurable competitive advantages. Doro's foreign care expansion will lead to margin and multiple expansion. In UK, Doro now has important M&A expertise from its Welbeing acquisition.

Personal notes

Enea ENEA

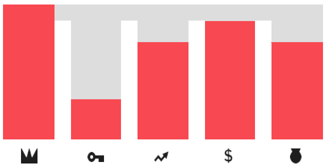
Company page

https://www.redeye.se/company/enea

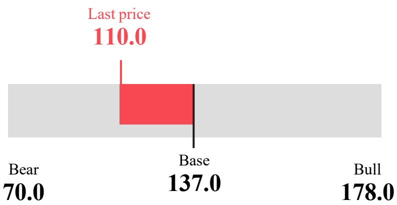
Redeye Rating

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

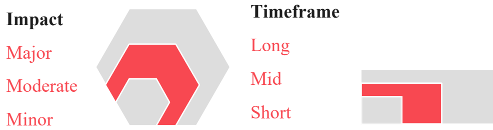
COMPANY QUALITY



FAIR VALUE RANGE



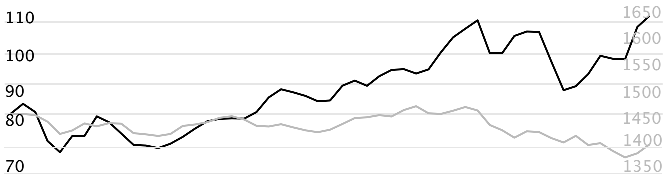
CATALYST POTENTIAL

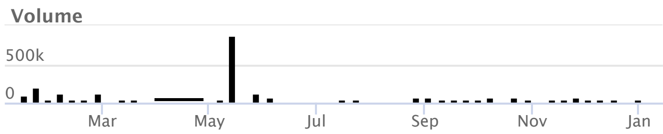


Turn page for catalyst specifics

Snapshot

Enea
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Anders Lidbeck
Chairman	Anders Skarin

Share information

Share price (SEK)	110.0
Number of shares (M)	19.7
Market cap (MSEK)	2,162
Net debt (MSEK)	497

Analyst

Viktor Westman
viktor.westman@redeye.se

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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	589	820	971	1,061
Growth	*17.6%*	*39.2%*	*18.4%*	*9.2%*
EBITDA	126	205	248	296
EBITDA margin	*21.5%*	*25.0%*	*25.5%*	*28.0%*
EBIT	104	171	204	253
EBIT margin	*17.6%*	*20.9%*	*21.0%*	*23.9%*
Pre-tax earnings	104	143	171	221
Net earnings	88	125	147	186
Net margin	*15.0%*	*15.3%*	*15.1%*	*17.5%*
Dividend/Share	0.00	0.00	0.00	3.17
EPS adj.	4.57	6.48	7.59	9.62
P/E adj.	17.8	15.4	13.2	10.4
EV/S	2.3	2.8	2.5	2.1
EV/EBITDA	10.9	11.2	9.8	7.6

Last updated: 2018-12-20

Owner	Equity	Votes
Per Lindberg	37.5%	37.5%
Avanza Pension	12.5%	12.5%
Swedbank Robur Fonder	8.9%	8.9%
DNB Fonder	5.3%	5.3%
C WorldWide Asset Management	4.1%	4.1%
Skandia Fonder	3.3%	3.3%
Fjärde AP-fonden	2.8%	2.8%
Canaccord Genuity Wealth Management	2.7%	2.7%
Enea AB	1.6%	1.6%
DNB Asset Management SA	1.5%	1.5%

Company description

Enea is a globally leading software company in real-time operating systems (RTOS) with approximately 10 percent of the global market. Enea's extensive experience in telecoms has resulted in five billion calls per day being dependent on the company's technology since it is installed in more than half of the world's 8 million base stations and in 75 percent of 4G base stations. The company's competitive disadvantage lies mainly in its dependence on large customers. Ericsson and Nokia account for about 25 percent of revenues after the USD 90m acquisition of Openwave Mobility and will be even lower following the Atos acquisition in December 2018.

Enea has transitioned its business model to software as a service, which has resulted in more stable recurring revenues. Customers pay a term-based licence fee per engineer when developing their products using Enea's technology. In some cases, the company also earns royalties on each unit sold that incorporates Enea technology. Its consultancy arm applies normal project payments or hourly rates. Enea invests over 20 percent of its revenues in R&D, especially in open source and NFV. The open source business model is based on sales of associated software, support and maintenance.

The company is listed in the Small Cap category.

Investment case

- New diversified customer base outgrowing decline of key accounts
- The stock market is underestimating the acquisitions
- High quality at good risk/reward

New diversified customer base outgrowing decline of **key accounts**

Enea's operating profit has increased by an average of around 16 percent annually since 2013, even though revenue from Ericsson and Nokia has decreased from 60 percent to 25 percent. This is thanks to good growth among smaller customers, particularly in the acquisitions. We argue that Qosmos, Openwave, Atos and the smaller customers will offset the decline in key accounts but that the stock market has not yet grasped this dynamic. According to our calculations, revenues from Qosmos are already in line with those from Ericsson, and we can also see indications that the Ericsson decline has slowed. One relevant counter argument is that the acquisitions were made to conceal a steeper decline in Ericsson revenues, but this does not take away from the fact that the acquired companies are of high quality. They represent new examples of the management's long and successful track record in building billion-kronor software companies through buy-ups. It is particularly worth noting that Enea's management ran Telelogic, which was bought by IBM for SEK 5.2 billion.

The stock market is underestimating the acquisitions

Common to the Qosmos and Openwave acquisitions is that they are market leaders in structurally growing niches. Openwave's technology helps telecom operators handle the explosive growth in mobile video. Qosmos conducts internet traffic flow analysis/ deep packet inspection (DPI), which is predicted to grow by around 20 percent annually. OEMs previously conducted DPI in house, but as the number of protocols and applications continuously expands 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 niche in embedded DPI aimed at OEM customers. Qosmos has maintained complete focus on this core competence and now has 75 percent of a rapidly growing niche, which is gradually biting from today's tiny total market penetration levels. The high market share and successful execution have given Qosmos a self-propelling lead; it has greater market experience than its competitors by having more customers to learn from. Like Qosmos, the other acquisition, Openwave, also has a very impressive track record but we need to conduct more research to understand its staying power. If nothing else, the barriers are relatively high since branch experts say that it would take seven years and over SEK 300 million to develop comparable mobile video solutions. The most recent acquisition, of Atos in December 2018, also looks interesting, not least because there was no reaction at all from the stock market.

High quality at good risk/reward

Our scenario analysis in relation to the share price shows good risk/reward given our base case of SEK 137 per share and our bear case of SEK 70 per share. We assume the share will be driven by more value-creating acquisitions and, above all, changed perception when it becomes obvious to the stock market in conjunction with the interim report that the acquisitions and the smaller customers are outgrowing the decline in key account sales.

Catalyst types

The stock market starts noticing the growth outside key accounts

As Qosmos, Openwave, Atos and the minor customers in the Worldwide Software Sales area continues to grow larger, there will at some point be obvious to the market that these new areas with many small customers can drive a strong total sales growth despite decreasing Key Account sales.

ENLABS NLAB

Company page

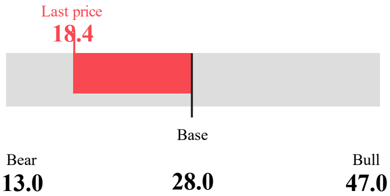
https://www.redeye.se/company/enlabs

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL

Impact

Major

Moderate

Minor

Timeframe

Long

Mid

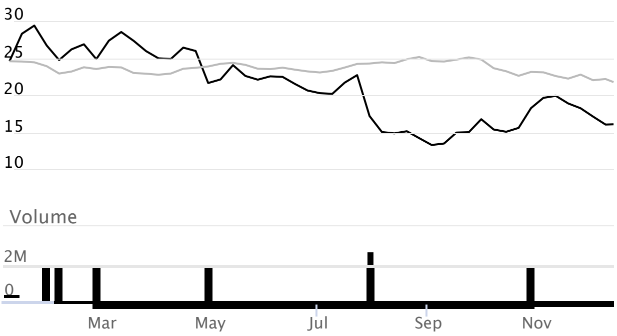
Short

Turn page for catalyst specifics

Snapshot

ENLABS

OMXS30



Marketplace	First North Stockholm
CEO	Robert Andersson
Chairman	Niklas Braathen

Share information

Share price (SEK)	18.4
Number of shares (M)	62.6
Market cap (MSEK)	1,156
Net debt (MEUR)	-19

Analyst

Jonas Amnesten

jonas.amnesten@redeye.se

Conflict of interests

Jonas Amnesten owns shares in ENLABS: No

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MEUR	24	30	38	48
Growth	*45.6%*	*28.6%*	*27.3%*	*25.8%*
EBITDA	7	9	14	16
EBITDA margin	*28.7%*	*30.1%*	*36.7%*	*33.1%*
EBIT	5	7	11	14
EBIT margin	*22.4%*	*22.3%*	*29.8%*	*28.3%*
Pre-tax earnings	5	7	11	14
Net earnings	4	7	11	13
Net margin	*19.1%*	*22.0%*	*29.5%*	*27.4%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.08	0.11	0.18	0.21
P/E adj.	33.2	15.2	8.9	7.6
EV/S	6.1	3.0	2.1	1.4
EV/EBITDA	21.1	10.0	5.8	4.4

Last updated: 2018-11-06

Owner	Equity	Votes
Erlinghundra AB (Niklas Braathen)	22.1%	22.1%
Catella Bank SA	19.6%	19.6%
Försäkringsbolaget Avanza Pension	6.4%	6.4%
Anders Tangen med bolag	4.4%	4.4%
Eric Leijonhufvud	4.3%	4.3%
Vision Invest AB	3.5%	3.5%
Setune Asset AB	2.9%	2.9%
Filip Andersson	2.1%	2.1%

Company description

ENLABS operates and invests in gambling and affiliate businesses. The company has a clear focus on regulated markets and the Baltics in particular. As a result, more than 90% of the gambling revenues are generated from regulated markets, meaning that the company is well positioned for the ongoing regulation of the industry.

Further, ENLABS's business is divided into three areas:

Gambling – including online gambling in addition to land-based betting. Media - primarily focusing on affiliation, but also sports results and related statistics. B2B Solutions - is today a small business area offering solutions to gambling companies.

Investment case

- A big bet on rapid growth in the Baltics
- Strong market position
- Already regulated
- Own platform and strong financial position

A big bet on rapid growth in the Baltics

With ENLABS's focus on the Baltics, it is essential that the underlying online gambling market continues to grow at a high rate. H2GC estimates, as previously mentioned, with a CAGR of 10% for the period 2017-2021. This is much lower than the actual growth rate so far in Latvia in 2018, which is not long-term sustainable but shows the growth potential of the Baltic market. Nordic Leisure will also expand its market in the Baltics by entering the Lithuanian market.

Strong market position

We believe ENLABS has a strong position in the Baltics. In Latvian, there are clear marketing limitations that make it difficult to spend much on marketing. The license holder in Latvia also need to hold at least MEUR 1.4 in share capital and pay a license fee of MEUR 0.4. In Lithuanian, operators need at least 20 licensed betting shops to obtain an online license. This makes it difficult for new competitors to enter the market and ENLABS has been present in the Baltic market for a long time. We believe ENLABS has deep knowledge about the market and well-established brands.

Already regulated

Over 90% of ENLABS's revenue comes from regulated markets. ENLABS will not be affected by the regulation in Sweden and increased tax expenses, i.e. Nordic Leisure should be valued at a higher EV/EBIT multiple than its peers. For sure, a regulated online gambling market always has the risk for re-regulations. But we believe that the downside of the re-regulations will most likely not be on the same "magnitude" as an initial online regulation with 18% gaming tax.

Own platform and strong financialposition

Having an own platform and a strong financial position is the perfect combo for future growth; you can´t get a more obvious sign. The proprietary platform gives ENLABS very strong incitements to grow, and the strong financial position gives them the means to do it. With the own platform, the growth can be realized both organically and through acquisitions. Without an own platform, brand-acquisitions would not be considered a good option.

Counter-Thesis – Bear Points

All-in on the Baltics

The Baltics is a rapidly growing market, but things can change fast. Changes in regulation, such as a more permitting view on gambling-marketing in Latvia or removing the requirement for land-based operations in Lithuania, might eradicate the strong market barriers. Leading to more competition about the customers and lower profit levels. Other local/regional negative events may also occur that affects the Baltic online gambling market negatively.

Neglected market

ENLABS today have a strong position on the Baltic market, and the competition is on low levels. However, if more operators enter the Baltic market by acquiring an existing operator to be able to launch its main brand, just as MRG has done. Then the competitions will increase, and the profit levels will decrease.

New markets and M&As

We expect ENLABS to invest much in new markets and M&As the next few years to continue to drive growth at a high rate. However, it is important to choose markets and acquisitions wisely. What works in one market may not work in another due to culture or/and regulations differences. The market entries and acquisitions may require much more resources than initially estimated.

Catalyst types

An acquisition target

In the light of the MRG bid from William Hill, ENLABS could be a potential target for the larger operators that want to obtain a strong position in the Baltic.

Entering new markets

Entering or obtaining a license in a new market with good marketing size and growth potential. This is one of the major long-term growth drivers and successfully entering new markets is a clear catalyst potential.

M&a

ENLABS has a successful history of M&A and divestments and, according to the company, they will continue to be active in the consolidation of the industry. Therefore, we consider the management's value-creating acquisition history should be valued as a potential option.

Successful online launch in lithuania

In Lithuania, licensees are required to hold land-based supply for providing online gambling, which creates barriers to entry. Therefore, a successful online launch would most likely lead to a solid, sustainable and profitable growth for the company.

Personal notes

Ericsson ERIC B

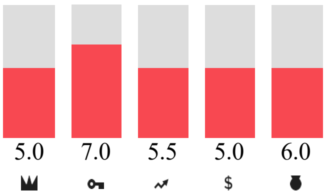
Company page

https://www.redeye.se/company/ericsson

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



FAIR VALUE RANGE

Last price
78.1

Bear **64.0** · Base **78.0** · Bull **88.0**

CATALYST POTENTIAL

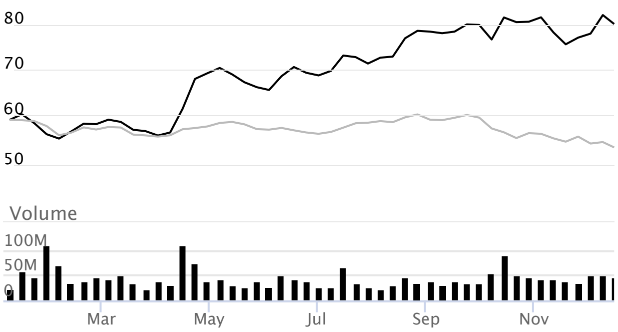
Impact
Major
Moderate
Minor

Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot

Ericsson
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Börje Ekholm
Chairman	Ronnie Leten

Share information

Share price (SEK)	78.1
Number of shares (M)	3,334.2
Market cap (MSEK)	271,600
Net debt (MSEK)	-27,465

Analyst

Greger Johansson
greger.johansson@redeye.se

Conflict of interests

Greger Johansson owns shares in Ericsson: No

Financials

	2017	2018E	Redeye Estimates 2019E	2020E	2021E
Revenue, MSEK	205,378	207,821	207,524	209,576	212,589
Growth	*-6.8%*	*1.2%*	*-0.1%*	*1.0%*	*1.4%*
EBITDA	-6,851	8,295	21,133	27,082	29,715
EBITDA margin	*Neg*	*4.0%*	*10.2%*	*12.9%*	*14.0%*
EBIT	-34,743	496	14,333	21,683	24,512
EBIT margin	*Neg*	*0.2%*	*6.9%*	*10.4%*	*11.5%*
Pre-tax earnings	-35,958	-1,594	14,035	21,386	24,234
Net earnings	-32,576	-1,997	10,046	15,412	17,490
Net margin	*Neg*	*Neg*	*4.8%*	*7.4%*	*8.2%*
Dividend/Share	1.00	1.10	1.25	1.50	2.00
EPS adj.	2.22	2.79	4.32	5.29	5.75
P/E adj.	24.5	29.4	19.1	15.5	14.3
EV/S	0.8	1.2	1.2	1.1	1.0
EV/EBITDA	-24.5	31.1	11.5	8.6	7.4

Last updated: 2018-10-18

Owner	Equity	Votes
Cevian Capital	9.1%	5.4%
Investor	7.2%	22.5%
PRIMECAP	3.4%	2.0%
Vanguard	3.2%	1.9%
Dodge & Cox	3.1%	1.8%
AMF Försäkring & Fonder	3.1%	3.1%
Industrivärden	2.6%	15.1%
Swedbank Robur Fonder	2.6%	1.5%
BlackRock	2.3%	1.4%
Hotchkis & Wiley Capital Management LLC	2.3%	1.3%

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), Digital Services, Managed Services and Other, with the first two areas responsible for the majority of revenues. Ericsson had a turnover in 2017 of roughly SEK 205 billion and an adjusted EBIT margin of around 2.5%.

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. However, these new areas have not performed well. However, in 2018 the market has started to turn around.

Ericsson is headquartered in Kista (Stockholm), Sweden, and has roughly 94499 employees. The company's share is listed on NASDAQ.

Investment case

- Ericsson has underdelivered during 2016/2017 and the market has been in decline during several years. However with the strong Q1, Q2 and Q3'18-reports, the expectations on the company has increased substansially
- Ericsson is still top 3 in the world (in telecommunication equipment) with a solid customer base
- We expect more effect from the cost cutting program announced and this will increase the margin going forward. On the other hand, the valuation of EV/S 1.2x indicates that the valuation is getting high
- Our DCF-model generates an limited upside (only in bull case) and our fair value of SEK 78 is below the share price

A somewhat recovering company in 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, Media etc.) and was very late in adjusting its organization. We are now seeing (from Q2'18) that the company is starting to achieve a reasonable cost base. This should take the company back to a more realistic EBIT margin of 9–10% in a next years.

Ericsson has also a fairly new CEO, Börje Ekholm, and a new major shareholder, Christer Gardell, who we hope will take a new grip on the company and start to execute the newly announced strategy. However, the CEO 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%. 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, SDN/NFV and Cloud. This means that players like IBM, Intel, Juniper, Cisco and HP may now have a shot at this huge potential. Ericsson has a 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 an offer in Services (recurring and rather stable revenues but slightly lower operating margin and one offs), should be enough to deliver a much better margin going forward.

…and higher expectations but some growth lights
After a rough 2016 and 2017, the share has tumbled and confidence in both the management team and the Ericsson share have been low. However, after the strong Q1, Q2 and Q3'18-report, the valuation (P/S multiple around 1.2x) indicates that the confidence in the company is slowly coming back. If we examine estimates for a few years forward, we believe the market now is expecting fairly much. Although we do not expect any significant growth going forward, we still estimate that Ericsson can return to a 10% operating margin (in 2020) and a decent dividend. In addition, Ericsson most imortant segment, Networks, showed growth in Q2 and Q3'18 which was very positive.

Bear Points:

There are naturally some major risks in this investerment scenario, such as:

- continued weak/low revenue growth
- cost cutting taking too long or even more cost cutting has to be made
- intense competition (Huawei, Nokia, Samsung, ZTE)

Catalyst types

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

Large contracts/business deals
Deals in billion USD for 4G, 5G, services etc.

Cutting cost/improved operational efficiencies
Ericsson cost cutting program proceed better than expected and/or they announce further cost cutting

Growth returns in the telecom industry
The underlying growth returns in the industry. We expect it to be earliest in 2019.

Cisco buy ericsson
This would be a good match between the two companies

Fingerprint Cards FING B

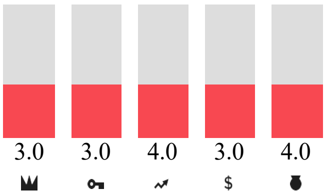
Company page

https://www.redeye.se/company/fingerprint-cards

Redeye Rating

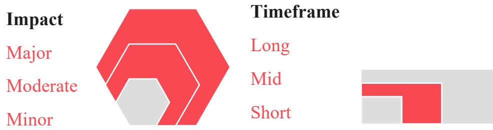
Leadership Ownership Profit outlook Profitability Capital strength

COMPANY QUALITY



FAIR VALUE RANGE

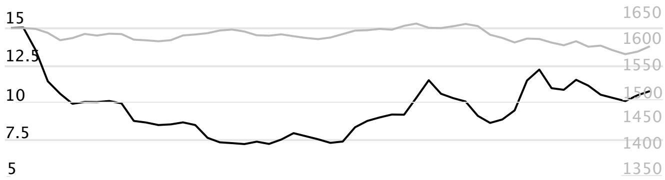
CATALYST POTENTIAL

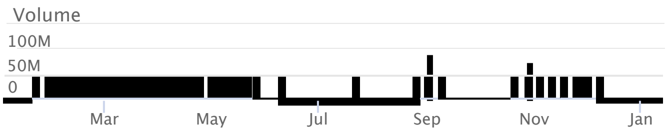


Turn page for catalyst specifics

Snapshot

Fingerprint Cards
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Christian Fredrikson
Chairman	Johan Carlström

Share information

Share price (SEK)	11.3
Number of shares (M)	314.0
Market cap (MSEK)	3,381
Net debt (MSEK)	-683

Analyst

Viktor Westman
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Conflict of interests

Viktor Westman owns shares in Fingerprint Cards: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	2,966	1,478	1,350	1,558
Growth	*-55.3%*	*-50.2%*	*-8.7%*	*15.4%*
EBITDA	224	-627	74	113
EBITDA margin	*7.6%*	*Neg*	*5.5%*	*7.3%*
EBIT	155	-746	-2	25
EBIT margin	*5.2%*	*Neg*	*Neg*	*1.6%*
Pre-tax earnings	142	-775	-2	32
Net earnings	120	-614	-1	25
Net margin	*4.1%*	*Neg*	*Neg*	*1.6%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.38	-1.96	0.00	0.08
P/E adj.	41.3	-5.0	-2,396.9	125.1
EV/S	1.4	1.6	1.8	1.6
EV/EBITDA	19.0	-3.8	32.6	21.6

Last updated: 2018-10-29

Owner	Equity	Votes
Johan Carlström med bolag	6.4%	20.1%
Avanza Pension	5.0%	4.3%
Nordnet Pensionsförsäkring	1.7%	1.4%
Danica Pension	1.1%	0.9%
Svenska Handelsbanken AB for PB	0.9%	0.8%
Swedbank Försäkring	0.7%	0.6%
XACT Fonder	0.7%	0.6%
DNB Asset Management SA	0.7%	0.6%
Erik Svenonius	0.6%	0.5%
Handelsbanken Liv Försäkring AB	0.6%	0.5%

Company description

Fingerprint Cards (FPC) develops and sells biometric solutions as it is transitioning from selling just components like fingerprint sensors to being more of a provider of biometric systems. It has a global reach and multiple geographical locations as the world's number one fingerprint sensor supplier. The fingerprint sensors are at the moment sold to distributors or module manufacturers that sells the fingerprint modules to primarily smartphone OEMs but growth from coming verticals will include e.g. PCs, tablets, automotive, smart cards and IoT. Besides selling the hardware FPC also provides various software solutions across the value chain. FPC attributes its competitive advantages to proven volume capacity (shipping 1 million sensors a day at the end of 2016), low power consumption and cost effieient production costs.

Investment case

- A deep, general stock market distrust…
- …that makes investors forsake new verticals like smart cards
- Trust needs to be restored by beating consensus
- Many bear points

A deep, general stock market distrust…

With a share price decline of about 90 % FPC could potentially be a deep value case. The negative trend is understandable in relation to all the negative news like e.g. multiple profit warnings. All these factors add up to a major distrust towards FPC and explains FPC's current market valuation and share price drop. However, we expect that it will take a long time before this distrust will pass.

…that makes investors forsake new verticals like smart cards

The general mistrust make investors neglect FPC's solid first mover position in the new fast growing verticals, most notably smart cards. Cards as well as other new segments might be delayed but it does not mean that FPC does not have a strong positioning, an appropriate product offering (the T-shape module) and the partnerships necessary etc. to put up a solid growth. We assume initial volumes will be low, but nevertheless, the next quarters might show who will be the winner of the smart card market. Our belief is that FPC is poised to capture a large portion of the smart card market via Idemia and Gemalto who together control the majority of the card market.

Trust needs to be restored by beating consensus

Our base case is SEK 8 per share while our bear and bull case respectively amounts to SEK 3 and SEK 18. However, all trust has vanished, to put it bluntly. Figures above consensus expectations is probably the only thing that could break the downward spiral for the share price. A stock price recovery requires that FPC repeatedly beats the earnings consensus.

Many bear points

We see a lot of uncertainty factors and risks at the moment, including e.g.

- The smartphone OEMs crave in-display technology but it is uncertain if and when FPC will have such a solution ready. FPC could be too late to the party, especially if the competing solutions out there would be good enough.
- If in-display hot spots are considered good enough while Apple at the same time makes a rapid transition from LCD to OLED and others follow, FPC's unique selling points for its disruptive ultrasonic in-display solution fall
- If the market moves rapidly towards in-display, FPC's technology leadership might be lost as it started out late in the end of 2016 while e.g. the CTO of IDEX and his team has been working with in-display since 2009
- The announced, massive cost cutting program suggests that the problems are not primarily temporary events that will pass quickly but rather structural and long-term
- FPC substantially reduces OPEX and R&D in the worst possible time when it needs to invest to innovate (or die). In addition, the work that three people previously were not able to handle (judging from the gross margins) one employee should now be able to do
- Cutting the R&D budget within capacitive smartphone solutions to half of the total R&D budget could hamper innovation of smaller or more efficient sensors, eventually leading to a negative effect on ASP and gross margins
- Apple has decided to scrap Touch ID in most of its latest models. If the other smartphone manufacturers to a large extent follow suit FPC needs to somehow find a way to provide face recognition (regardless if the iris technology from the acquisition of Delta ID is a lot better than face recognition)
- The smart card ASP remains too high for a massive roll-out, opening the doors for other payment solutions
- In Q1'18 FPC reported a gross margin that was more than half of the competitors, raising many questions with regards to FPC's technology leadership

Catalyst types

Customers adopt face recognition

If Apple's Face ID becomes a success it could make FPC's customers prone to quickly also move over to face recognition and thus scrap their fingerprint sensors.

Commercial success/considerable volumes from smartcards

If the market sees that the smart card segment is taking off, for example due to a major deal with IDEAMIA or Gemalto 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 and see volumes pick up in 2019.

Formpipe Software FPIP

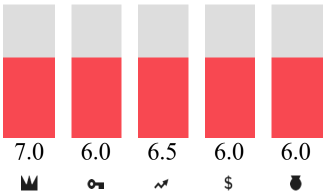
Company page

https://www.redeye.se/company/formpipe-software

Redeye Rating

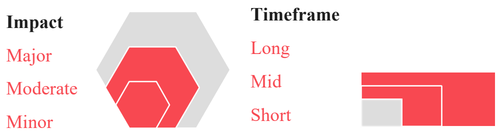
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



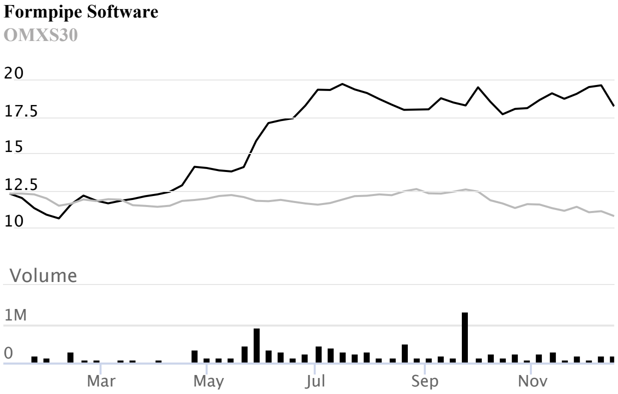
FAIR VALUE RANGE

CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Christian Sundin
Chairman	Bo Nordlander

Share information

Share price (SEK)	19.2
Number of shares (M)	52.9
Market cap (MSEK)	1,015
Net debt (MSEK)	-42

Analyst

Fredrik Nilsson
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Conflict of interests

Fredrik Nilsson 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

	2017	2018E	2019E	2020E	2021E
			Redeye Estimates		
Revenue, MSEK	390	407	425	445	464
Growth	*3.0%*	*4.3%*	*4.5%*	*4.7%*	*4.3%*
EBITDA	85	101	104	113	120
EBITDA margin	*21.8%*	*24.7%*	*24.5%*	*25.3%*	*25.9%*
EBIT	38	54	65	73	81
EBIT margin	*9.7%*	*13.3%*	*15.3%*	*16.5%*	*17.5%*
Pre-tax earnings	34	51	62	71	79
Net earnings	25	39	48	55	62
Net margin	*6.4%*	*9.7%*	*11.4%*	*12.4%*	*13.3%*
Dividend/Share	0.50	0.50	0.50	0.50	0.52
EPS adj.	0.48	0.75	0.91	1.03	1.15
P/E adj.	29.6	26.2	21.6	19.0	17.0
EV/S	1.9	2.5	2.3	2.2	2.0
EV/EBITDA	8.8	10.1	9.5	8.5	7.7

Last updated: 2019-01-08

Owner	Equity	Votes
Martin Gren (Grenspecialisten)	10.2%	10.2%
Swedbank Robur Fonder	5.8%	5.8%
Martin Bjäringer	5.8%	5.8%
Humle Fonder	5.8%	5.8%
Thomas Wernhoff	5.0%	5.0%
Avanza Pension	4.5%	4.5%
Andra AP-fonden	4.4%	4.4%
Handelsbanken Fonder	3.9%	3.9%
Carnegie Fonder	3.8%	3.8%
SEB Fonder	2.6%	2.6%

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

- Stable customer base and a high proportion of recurring revenues
- Software-as-a-Service (SaaS) sales are increasing rapidly
- Diversified product portfolio
- High scalability in the business makes us optimistic about the future

Investment Case

Stable customer base and a high proportion of recurring revenues. 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 creating stability in the business. Growth opportunities exist both in existing as well as new markets, such as the Life Science sector.

Software-as-a-Service sales are increasing rapidly. For example, today around 50% of the Lasernet orders are sold as SaaS, and Formpipe believes that this trend will continue in the coming years. A SaaS order is accrued over the contract period, meaning that sales and profitability will be more stable compared to if the product is sold as a traditional license. However, during the migration phase from traditional license to SaaS, both profitability and sales are affected negatively in the short term. On the positive side, this indicates that Formpipe’s underlying profitability is better than what it may look like at first glance. Looking beyond the migration phase and into 2019/2020, we believe Formpipe has the potential to increase its profitability substantially.

Diversified product portfolio. The company has a history of both developing own software products, as well as acquiring products, market expertise, and client relationships. While the biggest focus is on public services clients, the different products offered to different public, and private sector customer groups mean that the company has a diversified product and market portfolio, and is not a "one-trick pony".

High scalability in the business makes us optimistic about the future. In summary, we consider Formpipe as a stable company due to its steady growth in recurring revenues. As a result of the high scalability, we believe the company to increase its margin on a mid-term basis. Also, Formpipe’s solid market position of many of its products, long contracts and the increasing trend towards cloud-based software usage, makes us even more optimistic about Formpipe’s future.

Counter-Thesis - Bear Points

Increased competition: Formpipe may face increased competition from both local players as well as international firms, and players from consulting and product backgrounds joining forces, like Tieto.

Lower investment interest: The public sector might face reduced budgets over time and therefore might have the less economic freedom to invest in systems such as Formpipe’s.

Lack of profitability improvement: According to the sensitivity analysis, the market expects a profitability improvement on a mid-term basis. Therefore, it is important that Formpipe continue to improve its EBIT margin.

Catalyst types

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

Increase in saas orders
The shift towards more SaaS orders may affect sales and earnings negatively in the short run. However, we believe that the shift will have a positive impact on profitability in the long term.

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.

Fortnox FNOX MTF

Company page

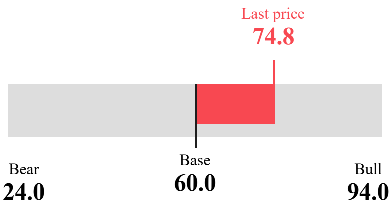
https://www.redeye.se/company/fortnox

Redeye Rating

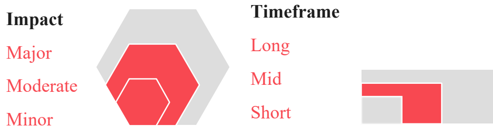
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

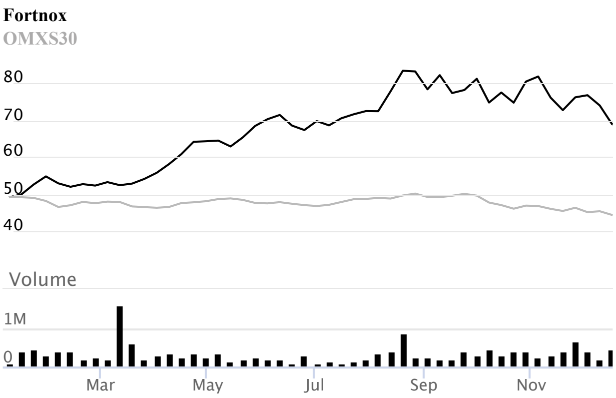


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	Nordic MTF
CEO	Nils Carlsson
Chairman	Andreas Kemi

Share information

Share price (SEK)	74.8
Number of shares (M)	59.7
Market cap (MSEK)	4,467
Net debt (MSEK)	-247

Analyst

Fredrik Nilsson
fredrik.nilsson@redeye.se

Conflict of interests

Fredrik Nilsson owns shares in Fortnox: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	272	370	473	578
Growth	*43.8%*	*35.8%*	*28.0%*	*22.2%*
EBITDA	81	123	160	202
EBITDA margin	*29.8%*	*33.2%*	*33.9%*	*35.0%*
EBIT	63	99	135	174
EBIT margin	*23.0%*	*26.7%*	*28.5%*	*30.0%*
Pre-tax earnings	63	99	135	174
Net earnings	49	76	105	135
Net margin	*17.9%*	*20.5%*	*22.3%*	*23.4%*
Dividend/Share	0.25	0.44	0.62	0.79
EPS adj.	0.82	1.27	1.77	2.27
P/E adj.	52.7	58.1	41.9	32.6
EV/S	9.1	11.5	8.8	7.0
EV/EBITDA	30.6	34.7	26.0	20.1

Last updated: 2018-12-17

Owner	Equity	Votes
Olof Hallrup	21.0%	21.0%
Swedbank Robur Fonder	7.0%	7.0%
Spiltan Fonder	3.9%	3.9%
Peder Klas-Åke Bengtsson	3.0%	3.0%
Norges Bank	2.8%	2.8%
Avanza Pension	2.8%	2.8%
Keel Capital	2.5%	2.5%
Wasatch Advisors Inc.	2.3%	2.3%
SEB Fonder	2.2%	2.2%
Nordnet Pensionsförsäkring	1.8%	1.8%

Company description

Fortnox is a Växjö-based provider of software as a service (SaaS) enterprise resource planning (ERP) systems for micro and small-sized enterprises, including accounting, invoicing, customer relationship management (CRM) and quotation & order. The company was founded in 2001 by Jan Älmeby, who also founded Scandinavia PC Systems or Visma SPCS as it was renamed after being acquired by Visma. In addition to its software offering, Fortnox also offers financial services through its subsidiaries Fortnox Finance and insurances through the newly started Fortnox Insurance. With over 240 000 customers, Fortnox can count almost 1/4 of all Swedish micro and small-sized businesses as its clients, making it the market leader in Sweden.

Investment case

- Riding the SaaS-migration a few more years: We believe there is still a possibility to gain a substantial number of new customers due to the migration to SaaS, which is expected to reach a penetration rate of 90% in 2022.
- Exploit the data: Currently, Fortnox Finance has just scratch the surface, with a penetration rate of ~2% of Fortnox's customer. Looking forward, we believe that Fortnox will strengthen its competitive edge through the data it can access.
- Significant barriers to enter: As the market leader regarding SaaS in Sweden Fortnox has advantages as; ~1/4 of all Swedish micro and small-sized businesses are customers, ~15 000 accountants are using the software regularly, and central deals are in place with all major accounting offices

Investment case

Riding the SaaS-migration a few more years

The migration towards SaaS acts as a trigger for micro and small-sized businesses to reevaluate their accounting software. It has been going on for many years and has served Fortnox well – the number of customers has grown to 244 000 since the company was founded in 2001. However, we believe there are still several years to come before the migration is finished. The share of Swedish micro- and small-sized businesses which are using SaaS is unknown. Based on the input we have got from Fortnox and others, combined with the reported number of customers for several competitors, we assume that 55% will be using SaaS at the end of 2018. Thus, there is still possible to gain a substantial number of new customers due to the migration to SaaS, which is expected to reach a penetration rate of 90% in 2022. Given our assumptions, Fortnox has a SaaS market share of 59% and if it were to persist – which we find reasonable – the number of customers would increase to 425 000 in 2022.

Exploiting data

Thanks to its software offering, Fortnox has access to its customers' accounting data. Thus, with ~1/4 of all Swedish micro- and small-sized businesses as customers and growing, we believe there is a vast potential waiting to be utilized going forward. Currently, Fortnox Finance has just scratch the surface, with a penetration rate of ~2% of Fortnox' customer base and an ARPC of SEK ~950. Consequently, the ARPC contribution is merely SEK ~19. However, just a slight increase in penetration would cause a substantial rise in ARPC contribution. Looking forward, we believe that Fortnox will strengthen its competitive edge through the data it can access. Several financial services – such as loans and factoring – can be price more efficiently by using not only the customers' data but also the customers' customers' data. Additionally, marketing can be targeted towards businesses base on their accounting data. The newly started Fortnox Insurance can similarly benefit from the accounting data. The data will tell if a business has insurance or not and detect any actions that could require insurance, such as a purchase of machinery.

Significant barriers to enter

As the market leader regarding SaaS in Sweden, we believe that Fortnox has significant advantages that are hard to break; business schools are teaching it, ~1/4 of all Swedish micro and small-sized businesses are customers, ~15 000 accountants are using the software regularly, and central deals are in place with all major accounting offices, whereof some – including Aspia – have based their solution on Fortnox' software. Although it is easy to transfer data from one accounting software to another, many accounting offices, accountants and business owners have invested significant time in learning and integrating Fortnox' software. Thus, a monthly fee of SEK ~100 is likely insignificant compared to the cost of spending several hours learning a new system.

Counter-thesis – Bear Points

Underestimating the current SaaS-penetration

As mentioned, the actual SaaS-penetration is unknown. If significantly more than 55% of all Swedish micro- and small-sized businesses were to use SaaS at the end of 2018, our estimates regarding future net customer intake are likely too optimistic.

The death of the accounting offices

Most of the new entrants either want to eliminate the accounting offices or take over their role, while Fortnox, on the other hand, cooperates with them. Thus, if the accounting offices would become marginalized, Fortnox will lose one of its most important competitive edges.

A major accounting office leaving Fortnox

Some major accounting offices – Aspia for example – currently have solutions based on Fortnox' software. These deals are significant regarding customers, but the ARPC is low. The main risk, according to us, however, is that other offices might question Fortnox, as a major player is leaving.

Absence of significant ARPC increases

Our estimates of continuously increasing ARPC might be too optimistic. Fewer companies than expected may need additional modules, financial services, and insurance, for several reasons. For example, most businesses are tiny and have zero employees and may, thus, only need accounting and invoicing software.

Catalyst types

New subsidiaries

Fortnox' management has recently said that they aim to add further services to its customer base. Given the customer base's size, a significant ARPC contribution is possible even if only a small share of total customers is expected to use the new subsidiary's services.

Personal notes

G5 Entertainment G5EN

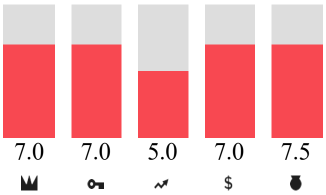
Company page

https://www.redeye.se/company/g5-entertainment

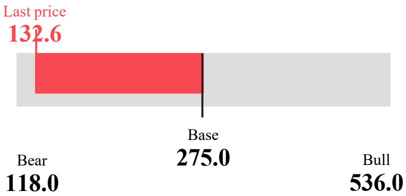
Redeye Rating

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

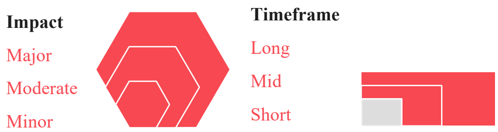
COMPANY QUALITY



FAIR VALUE RANGE

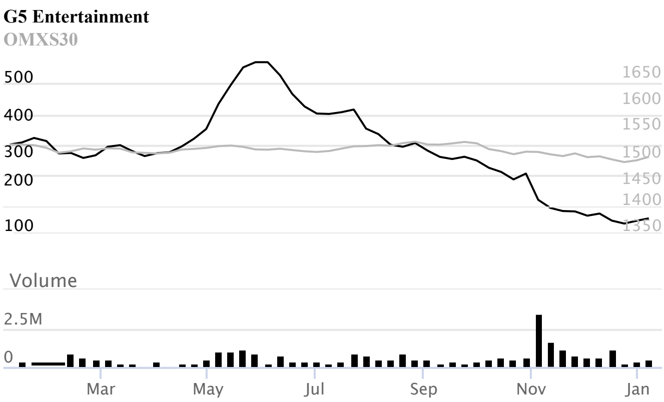


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Vladislav Suglobov
Chairman	Petter Nylander

Share information

Share price (SEK)	132.0
Number of shares (M)	9.0
Market cap (MSEK)	1,195
Net debt (MSEK)	-230

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in G5 Entertainment: Yes

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

Financials

	2017	2018E	2019E	2020E	2021E
			Redeye Estimates		
Revenue, MSEK	1,135	1,449	1,623	1,752	1,998
Growth	*>100%*	*27.6%*	*12.0%*	*8.0%*	*14.0%*
EBITDA	157	242	279	299	339
EBITDA margin	*13.9%*	*16.7%*	*17.2%*	*17.1%*	*17.0%*
EBIT	102	141	164	178	220
EBIT margin	*9.0%*	*9.7%*	*10.1%*	*10.2%*	*11.0%*
Pre-tax earnings	102	141	164	178	220
Net earnings	86	118	137	148	184
Net margin	*7.6%*	*8.1%*	*8.5%*	*8.5%*	*9.2%*
Dividend/Share	2.50	3.75	6.50	7.80	9.00
EPS adj.	9.80	13.36	15.58	16.86	20.89
P/E adj.	30.6	10.1	8.7	8.0	6.5
EV/S	2.2	0.7	0.6	0.5	0.4
EV/EBITDA	16.2	4.0	3.4	2.9	2.3

Last updated: 2019-01-11

Owner	Equity	Votes
Swedbank Robur Fonder	9.5%	9.5%
Wide Development Ltd	6.7%	6.7%
Avanza Pension	6.3%	6.3%
Purple Wolf Ltd	5.7%	5.7%
Proxima Ltd	5.5%	5.5%
Tommy Svensk	4.5%	4.5%
Rite Ventures	3.2%	3.2%
Aktia Asset Management	2.9%	2.9%
Nordnet Pensionsförsäkring	2.4%	2.4%
Swedbank Försäkring	1.7%	1.7%

Company description

G5 Entertainment was founded in 2001 and is a developer and publisher of casual free-to-play games for smartphones and tablets with loyal players all over the world. The company has its headquarter in Stockholm, Sweden, with development offices in Moscow and Kharkov, Ukraine. There is also a procurement and licensing office in Malta and a small sales and marketing office in San Francisco, USA. In total, G5 has 520 employees.G5 has developed a business model that is both successful and scalable, which is reflected in the company's history. Together with the underlying driving forces and current trends in the mobile games industry the company will likely continue to develop its strong position with mobile casual free-to-play games.

Investment case

- We expect G5 to maintain revenue growth of 11 percent CAGR in 2019-2022. The mobile games industry as a whole is expected to grow with a CAGR of 10-20 percent during the same period according to Newzoo.
- G5 earns a majority of total revenues in Hidden Object games. G5 has found its niche within the target group of women aged 35 years and older. According to research, this target group is loyal, affluent and women usually make more in-app purchases than men.
- Around 50% of total revenue comes from North America and nearly 30% comes from Japan. Japan is a country where the Average Revenue per User (ARPU) is the highest in the world. We believe a higher market share in Asia is one of G5's biggest growth driver the coming years.

EBIT margin increases

The company has began to focus on self-developed games. In the last months three G5 has aquied three games in its porfolio that was earlier licenced games. With 8 million monthly active users, the company has a golden opportunity to cross-promote similar proprietary games. One of the benefits with fully owned games is that the company does not have to pay any royalties to the developer, which means that the profitability will increase when the proportion of revenue from fully owned gaming increases. Today the only licenced game in the portfolio is Hidden City, its highest grossing game.

Increased market share

In the past the majority of the revenue from G5's games has come from the iPad (Thinkgaming). In order to grow in the segment of the mobile phone, the company has increased their efforts in the past years and optimized their content better for a smaller screen. The company's efforts have paid off when the mobile phones share of revenue has increased. Part of the success for "Hidden City" can, therefore, be explained by the company´s adjustments of content to be better suited for the mobile phone. As self-developed games to a certain degree will take over the coming years, they have also been enhanced for playing on the mobile phone. For this reason, we believe that the share of revenues from the mobile phone will increase the coming years, which likely will be a major part of the company's overall growth.

Investment risks

Due to the low diversification in the games portfolio, the potential impact of the highly successful Hidden City's decline would affect total revenues dramatically.

Mobile games have limited life cycles. It is therefore important to a gaming developer/ publisher to deliver new attractive content when old titles reach maturity. The high growth in the industry could also attract competitors to make similar games to G5's.

Catalyst types

Big in japan

Further increased market share in Asia, especially Japan, China and Korea.

Low diversification in games portfolio

Due to the low diversification in the games portfolio, the impact of the highly successful Hidden City's decline will affect total revenues dramatically.

Ebit-margin gradually goes up

EBIT-expansion driven by investments in in-house developed games with lower royalty cost.

Increased market shares from smartphones

Revenues from the mobile phone segment is expected to increase, which is a potential growth driver.

Personal notes

Gapwaves GAPW B

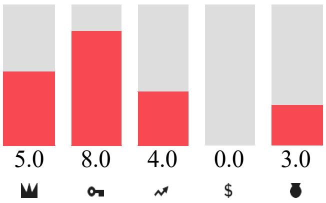
Company page

https://www.redeye.se/company/gapwaves

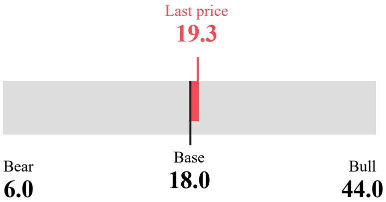
Redeye Rating

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

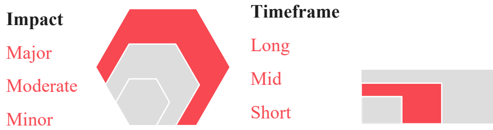
COMPANY QUALITY



FAIR VALUE RANGE

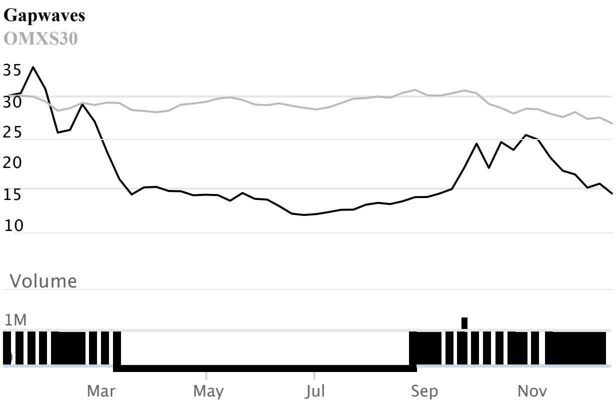


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Lars-Inge Sjöqvist
Chairman	Lars Granbom

Share information

Share price (SEK)	19.3
Number of shares (M)	24.4
Market cap (MSEK)	473
Net debt (MSEK)	-15

Analyst

Dennis Berggren
dennis.berggren@redeye.se

Conflict of interests

Dennis Berggren owns shares in Gapwaves: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	1	2	9	21
Growth	*-43.4%*	*>100%*	*>100%*	*>100%*
EBITDA	-24	-34	-39	-29
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-27	-39	-42	-35
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-27	-39	-43	-36
Net earnings	-27	-39	-43	-36
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-1.53	-1.61	-1.75	-1.47
P/E adj.	-26.3	-15.1	-13.8	-16.5
EV/S	805.9	218.8	65.1	29.6
EV/EBITDA	-29.5	-15.5	-14.7	-21.0

Last updated: 2018-11-08

Owner	Equity	Votes
Cécile Schilliger	31.6%	60.1%
Lars-Inge Sjöqvist	5.0%	9.1%
Avanza Pension	4.6%	1.1%
Nordnet Pensionsförsäkring	3.3%	0.8%
Leif Hagne	3.0%	0.7%
Jian Yang	2.5%	6.1%
BNP Paribas Asset Management	1.9%	0.5%
Bright Peter Leo Ebenezer	1.9%	0.5%
Chalmers Tekniska Högskola	1.2%	0.3%
Atlant Fonder AB	1.2%	0.3%

Company description

Gapwaves offers wireless communication solutions based on the GAP waveguide technology, which stems from the research of the late founder Per-Simon Kildal. The company's great potential is found in the millimeter wave antennas that can be applied in expansions of current radio link networks, automotive radars and eventually 5G deployments.

Investment case

- Technology improving power efficiency: Gapwaves potential is found in its Gap waveguide technology that opens up for antennas that are 4-10 times as power efficient as alternative technology.
- 5G brings significant opportunities: The greatest financial potential arises with upcoming 5G deployments, which will require millions of efficient antennas.
- Yet, an uncertain value proposition: Technology moves rapidly and the company has to illustrate that there truly is a commercial interest for its solution and show that the company's active antenna solution will solve genuine needs that alternative technologies does not solve.

Technology improving power efficiency. Gapwaves has a first mover advantage in its antennas that are 4-10x more power efficient in an active setting than other existing technology (depending on configuration and setup). The antenna is expected to incur substantial advantages in communication and automotive radar applications by improving power efficiency and the possibility for production at a lower cost. It is, however, of significant importance to show that there is a commercial interest in the company's antennas. We, therefore, regard potential non-recurring engineering (NRE) agreements with a telco or an automotive radar supplier to be the most likely important catalyst that could drive the stock within the coming year, as it would indicate that clients truly are willing to pay to access the technology.

Supportive analysis: The efficiency of the company's solution is shown in a case study where Gapwaves antenna is compared to current State-of-the-art technology. Simulations show that Gapwaves solution incurs higher output power of the transmitter, due to better cooling, and higher antenna directivity (the concentrated radiation in a single direction) while reducing power losses. The factors finally result in a higher equivalent isotropic radiated power (EIRP), a measure undertaken to compare the concentrated signal output power, than the state-of-the-art solution. The theoretical implication of this is that the alternative solution must increase the power consumption by a factor 10 in order to achieve the same EIRP. The antenna has further characteristics that makes it possible to produce at lower cost, which is another critical factor as 5G solutions must be commercially viable.

5G brings significant opportunities. The company is targeting sizeable markets with a technology shown to be more efficient than alternative solutions. The greatest potential arises with the upcoming 5G roll-out, expected to bring substantial network investments. Although several vendors and operators already have initiated 5G trials, the greatest infrastructure investments are expected to take off beyond 2021. There will be a need of antennas in upcoming macro base stations, small cells and radio remote heads (RRH). SNS research estimates more than 4.3m RRHs, macro and small cells to be shipped in 2025, which implies an addressable antenna market worth up towards USD 1bn during the same year. The communications market is further highly concentrated, implying that an agreement with one key vendor would generate significant revenues for Gapwaves. Therefore, we believe that it is of the highest importance to exploit the company's current first mover advantage by becoming the antenna provider in a telco's 5G deployments. Gapwaves could thereby become part of the client's system, supporting the company's ability to achieve long-run growth.

Yet, an uncertain value proposition. It is possible that Gapwaves, with complex products and strong technological expertise, will be able to fend off competition for a longer period of time. But technology improves rapidly and we are not convinced that Gapwaves offering will face a long-term demand. It is currently difficult to assess whether the technology will be indispensable to the customers, as we yet cannot see a demand from the customers. If the company would succeed in delivering an active antenna solution solving genuine needs, we would be convinced that it implies a solid market opportunity - reflected by our bull case. This especially holds as there, as of today, is no commercially viable technology with the same promising characteristics. Until we see a deal with a key vendor, it is difficult to assess whether the product really should be regarded as a 5G enabler. If Gapwaves offering truly is crucial to the customers by improving the customer's ability to rapidly gain market share, we also believe that this might as well constitute an acquisition case. If the product, however, regards a nice to have feature, we believe that Gapwaves should be considered an actor with weak bargain and pricing power, which is captured in our bear case.

Risks

Targeting markets that are tough to penetrate. The company targets markets that offer enormous opportunities, implying that there will be more than one actor trying to reap from the arising opportunities. Another tough challenge for the company is that potential customers within telecom develop alternative solutions in-house. These actors have established research organizations and the capital needed to pursue R&D activity and could thereby reduce their dependency on external component suppliers.

Uncertainties regarding next-gen networks. There are yet uncertainties regarding specifications of next-gen networks and what equipment that will be used. This may impose that clients are more reluctant to invest in new technology and equipment. The uncertainties are, on the other hand, nothing that hinders clients from testing new equipment.

Catalyst types

Nre agreement

An NRE-agreement (where clients' bear one-time costs related to R&D project) signed with either a telco or automotive radar supplier would indicate that there truly is a commercial interest for Gapwaves technology. We would especially like to see an agreement with a telco given the financial opportunities arising with the introduction of 5G. It is furthermore important that such an agreement is signed within the coming year to utilize the first-mover advantage and integrating the antenna components with clients' systems – which potentially could protect the company from being substituted in the long run.

Personal notes

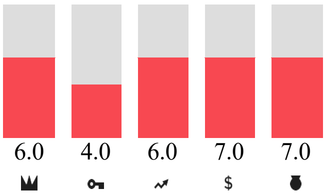
Global Gaming 555 GLOBAL

Company page
https://www.redeye.se/company/global-gaming-555

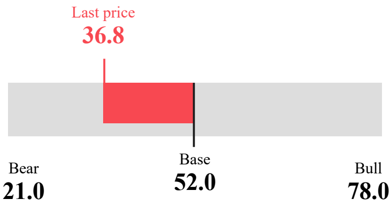
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

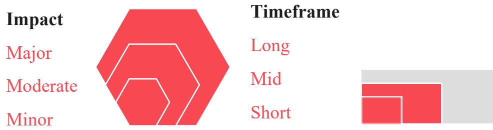
COMPANY QUALITY



FAIR VALUE RANGE

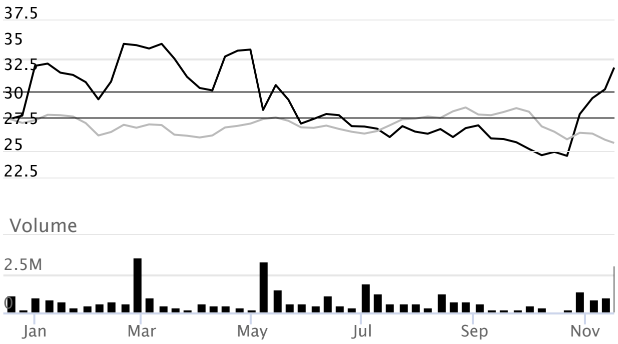


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Joacim Möller
Chairman	Peter Eidensjö

Share information

Share price (SEK)	36.8
Number of shares (M)	40.9
Market cap (MSEK)	1,504
Net debt (MSEK)	-229

Analyst

Jonas Amnesten
jonas.amnesten@redeye.se

Conflict of interests

Jonas Amnesten owns shares in Global Gaming 555: Yes

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

Financials

	2016	2017	2018E	2019E	2020E
			Redeye Estimates		
Revenue, MSEK	97	458	955	1,157	1,308
Growth	*78.7%*	*>100%*	*>100%*	*21.1%*	*13.0%*
EBITDA	12	122	189	167	236
EBITDA margin	*12.1%*	*26.7%*	*19.8%*	*14.5%*	*18.0%*
EBIT	12	122	188	164	231
EBIT margin	*12.1%*	*26.6%*	*19.7%*	*14.2%*	*17.7%*
Pre-tax earnings	12	122	188	164	231
Net earnings	10	108	161	150	214
Net margin	*10.6%*	*23.7%*	*16.8%*	*12.9%*	*16.3%*
Dividend/Share	0.15	1.40	1.40	1.40	1.40
EPS adj.	0.27	2.73	3.93	3.66	5.20
P/E adj.	82.6	11.4	9.3	10.0	7.0
EV/S	8.6	2.3	1.3	1.0	0.8
EV/EBITDA	71.5	8.8	6.3	6.7	4.2

Last updated: 2018-12-05

Owner	Equity	Votes
CLEARSTREAM BANKING S.A., W8IMY	14.0%	14.0%
TIAINEN, AHTI	11.9%	11.9%
CBLDN-POHJOLA BANK PLC CLIENT A/C	9.1%	9.1%
LIND VALUE II APS	5.9%	5.9%
FÖRSÄKRINGSAKTIEBOLAGET, AVANZA PENSION	5.6%	5.6%
NORDNET PENSIONSFÖRSÄKRING AB	4.6%	4.6%
SPORTMARKET LTD	2.6%	2.6%
BANQUE INTERNATIONALE A LUX	2.4%	2.4%
HÖGLUND, OLA	2.0%	2.0%
HAMBERG FÖRVALTNING AKTIEBOLAG	2.0%	2.0%

Company description

Global Gaming is an online gambling operator with several brands and the company mainly focus on the casino vertical. Global Gaming revolutionized the online gaming industry with its Pay'n'Play solution on its proprietary platform, offering players a safe and seamless gaming experience. Global Gaming launched the Pay'n'Play focused flagship brand Ninja Casino in 2016, and the brand has since then grown to become one of the largest brands in Sweden. Global Gaming´s sales are generated mainly from Sweden as well as some from Finland, and the group launched Ninja Casino on the Estonian market in November 2018.

Investment case

- Strong flagship brand
- Pay'n'Play focus
- Own platform and strong financial position
- New gambling verticals

Strong flagship brand

Global Gaming´s flagship brand Ninja Casino has since the launch at the end of 2016 grown to become one of the largest brands on the Swedish online gambling market. The extreme growth is mainly related to the first mover advantage with the disruptive Pay'n'Play concept. The competition within Pay'n'Play has increased rapidly the last year and the possibility for the Ninja Casino brand to continue to grow are limited. Nevertheless, we believe that the Ninja Casino brand is well established on the Swedish market and the history of the brand indicate that it is attractive for the players. Therefore, we believe that the brand also should work well on other markets.

Pay'n'Play focus

The Pay'n'Play concept has been a huge success since the launch in Sweden two years ago and the concept has spread to more market since then. However, the Pay'n'Play concept has only been introduced to a very small part of the total online gambling market. If the concept could work on larger gambling markets such as the UK, Italy, Japan or the US the Pay'n'Play market can become many times larger. If the development goes this direction, Global Gaming has a very strong position.

Own platform and strong financial position

Global Gaming´s proprietary platform and strong financial position is the perfect combo for future growth. The scalable proprietary platform gives Global Gaming very strong incitements to grow, and the strong financial position gives the company the means to do it. With the own platform, the growth can be realized both organically and through acquisitions. Without an own platform, acquisitions would not be considered a good option. Within some potential markets, it will be better to acquire an existing operator to acquire a license and to gain knowledge about the market. Owning the platform also gives Global Gaming the freedom to enter into any potential market that has the right conditions.

New gambling verticals

Today Global Gaming only focus on the Casino vertical. However, Global Gaming will soon launch sportsbook on its platform, and there are other potential gambling verticals that the company can add to improve the offer. New gambling verticals will mainly increase ARPU and the retention level, but also attract new players.

Counter-Thesis - Bear Points

One brand and one market

In Q3 2018, over 90% of Global Gaming´s sales were generated by the Ninja Casino brand, and we estimate the about 80% of the sales were generated from the Swedish market. The concentration to one brand and one market is a large risk as any negative events connected to the Ninja Casino brand, or the Swedish market will have large negative effects on Global Gaming. For example, if the Swedish license require changes of the Pay'n'Play solution, that could have a major negative effect on Global Gaming´s sales.

Low transparency

Global Gaming does not report player KPIs such as active players and FTDs. These are for us very important KPIs to understand and monitor the underlying performance of the business. The reason for not reporting these KPIs, according to Global Gaming, is that the company do not want to give the competitors too much insight into Global Gaming´s business. We worry that the numbers would show low retention and too high ARPU which indicates "problem" players and/or a large number of high rollers that creates high volatility/ris. Until Global Gaming reports these player KPIs the worry and uncertainty will remain.

The fast-changing environment for Pay'n'Play

The Pay'n'Play has changed the gambling industry, and we expect that new ideas will continue to change the environment. These changes might make Global Gaming´s solution redundant. Moreover, the view and acceptance of gambling, as well as different solutions connected to gambling, can also change very fast. If the public or authorities view and acceptance of the Pay'n'Play changes to the worse, this could have a major negative effect on Global Gaming.

Catalyst types

Acquisition target
In the light of the MRG bid from William Hill, Global Gaming could be a potential target for larger operators that want to obtain a strong position in Sweden.

Sportsbook
Successful launch of the sportsbook with strong customer intake of sportsbook players.

M&a
Successful and value-adding acquisition of a small operator with license and connections in a new market.

Expands geographically
Entering into a new market with good conditions for the Pay'n'Play concept as well as reasonable size on the online gambling market.

Personal notes

Heliospectra HELIO

Company page

https://www.redeye.se/company/heliospectra

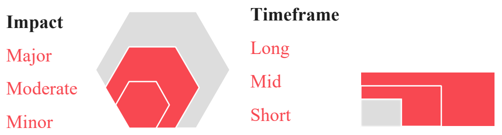
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

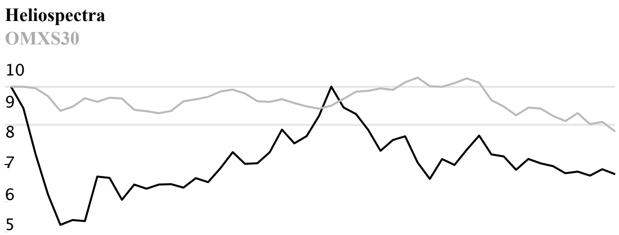
FAIR VALUE RANGE

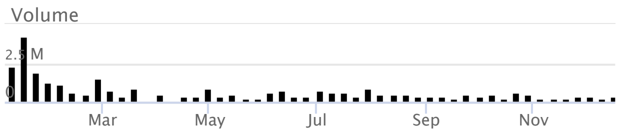
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot





Marketplace	First North Stockholm
CEO	Ali Ahmadian
Chairman	Andreas Gunnarsson

Share information

Share price (SEK)	6.8
Number of shares (M)	35.1
Market cap (MSEK)	239
Net debt (MSEK)	12

Analyst

Dennis Berggren
dennis.berggren@redeye.se

Conflict of interests

Dennis Berggren owns shares in Heliospectra: No

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	36	46	75	107
Growth	*56.3%*	*28.5%*	*62.0%*	*42.0%*
EBITDA	-29	-26	-16	-4
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-33	-29	-20	-8
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-33	-29	-20	-8
Net earnings	-33	-29	-20	-8
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.94	-0.83	-0.57	-0.23
P/E adj.	-4.4	-9.0	-13.2	-32.0
EV/S	3.0	5.4	3.7	2.7
EV/EBITDA	-3.8	-9.6	-17.0	-65.2

Last updated: 2018-11-06

Owner	Equity	Votes
Gösta Welandson med bolag	34.4%	34.4%
Mohammed Al Amoudi	10.1%	10.1%
Avanza Pension	5.7%	5.7%
Andreas Arnewid	1.1%	1.1%
Piba AB	1.1%	1.1%
Nordnet Pensionsförsäkring	1.0%	1.0%
Magowny Invest AB	1.0%	1.0%
Rolf Johansson	0.7%	0.7%
Chrilotte AB	0.7%	0.7%
Kent Gustafson	0.7%	0.7%

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.

Investment case

- Average order size expected to increase: Heliospectra has intensified its focus in attracting large commercial growers. We believe that there is potential for substantially larger orders from the commercial greenhouse and medical marijuana segments.
- Possibility to gain market shares: The market for LED grow light is projected to grow rapidly. Heliospectra is well positioned to harvest from this booming market.
- Strong technological offering: Heliospectra possess a strong offering which add significant value to customers' cultivations. The strength of the company's offering is proven by the recently introduced control system HelioCORE.

Approaching an inflection point as sales start taking off. Heliospectra has transitioned from being a research company with little focus on sales to become a leading global player in the growing market for intelligent lighting solutions. With its strong research background and several important contracts and partnerships, Heliospectra is on the verge of its big market breakthrough. The company has managed to grow its order intake substantially during the previous 18 months and has recently shown its ability to secure orders exceeding SEK 10m. We expect the average order size to continue to increase following an inflow of substantially larger orders from large commercial growers of food and cannabis.

Rapid market growth driven by global trends. The use of LED grow lights address global issues of environmental impact from agriculture and fresh food supply for the urban population. There is a growing interest in control and automation for agriculture to raise productivity and a need for improvements in how we grow everything from vegetables to tobacco. LED grow lights are more energy efficient than traditional HID/ HPS lamps traditionally used in greenhouses and growers increasingly replace traditional lighting solutions in commercial greenhouse operations. Heliospectra's intelligent grow light systems also provide growers benefits of increased automation, higher crop quality and shortened grow cycles, thus strengthening the incentives to switch from HID/HPS.

Heliospectra has also established itself as a well-renowned player in the legal marijuana segment and will benefit from the ongoing worldwide legalization movement. The market is still in its infancy and rapid growth is expected as the legalization continues. LED grow lights provide short payback times on investment for growers who can increase productivity and quality of its plants while also reducing operational costs.

Proprietary technology strengthens the case. Heliospectra has a strong product portfolio, which positions the company as a leading supplier of intelligent LED grow light solutions. The company's strong offering is further illustrated by the recent launch of the control system HelioCORE, allowing customers to forecast the yield of the crops. Heliospectra has strong intellectual property rights in the complete biofeedback system allowing for full autonomous plant growth. It is, however, yet unsure when we will see an introduction of the complete biofeedback system.

Bear points (counter-thesis)

- **Risk of needing additional funding**

Heliospectra currently has about SEK 18m in cash while its quarterly cash flow averages to around SEK -7.5m. Thus, there is a risk that the company will need to raise additional capital before reaching break-even. However, the company has major shareholders which previously has shown a willingness to support Heliospectra financially.

- **Failure to scale up operations and improve margins**

One of Heliospectra's greatest challenges is to improve its gross margin as it requires significant sales to reach break-even. The company is currently undertaking efforts in increasing its operational efficiency but there is a risk of delayed break-even if the company fails in scaling up its operations.

- **Failure to grow sales in a competitive market**

Although Heliospectra is regarded as one of the leading companies in the market for LED grow lighting solutions, it must continue improving its offering to remain competitive. The company also has to succeed in convincing growers that its solutions truly add greater value than alternative solutions. There is also a risk that larger competitors could try to bleed out smaller actors by dropping prices.

Catalyst types

Successful introduction of heliocore
A successful introduction of the recently launched control system HelioCORE has potential to generate sales growth by attracting new clients and increasing revenues from existing clients. Our interpretation is that the introduction of Cortex should be seen as a first step towards commercialization of the biofeedback system.

Major order of sek 10 million+
We believe additional follow up orders from existing customers could be several times the size of the initial orders. We see good potential for further follow-up orders from the undisclosed AgTech players and from the marijuana growers who have previously placed large orders, for example The Grove. We also see a great potential of large orders from the commercial greenhouse segment, where an order of SEK 10 million+ would make us, as well as the market, more confident in Heliospectra's ability to generate high long-term sales growth.

Commercialisation of biofeedback system
A successful commercialization with a break-through order on the much anticipated biofeedback system incorporating sensors, software and LED grow lights would highlight the uniqueness of Heliospectra's solutions and help the market assign a value to the company's IP.

Personal notes

Hexatronic Group HTRO

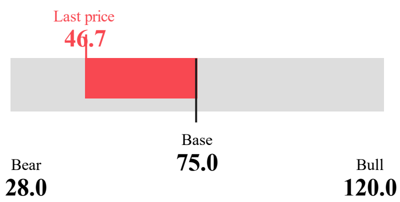
Company page
https://www.redeye.se/company/hexatronic-group

Redeye Rating

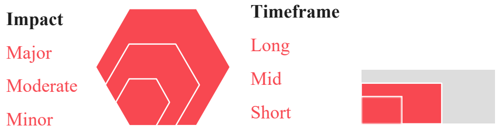
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



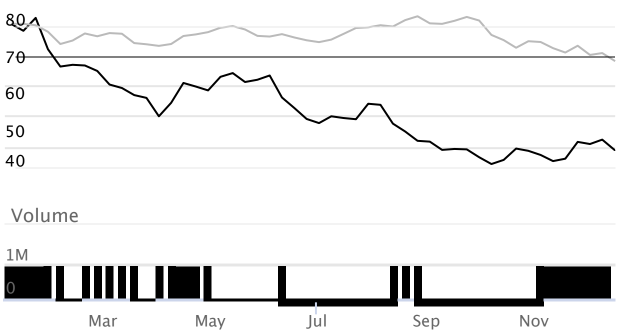
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Hexatronic Group
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Henrik Larsson Lyon
Chairman	Anders Persson

Share information

Share price (SEK)	46.7
Number of shares (M)	36.5
Market cap (MSEK)	1,690
Net debt (MSEK)	346

Analyst

Kristoffer Lindström
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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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	1,299	1,571	2,028	2,398
Growth	*25.9%*	*20.9%*	*29.1%*	*18.2%*
EBITDA	151	145	221	268
EBITDA margin	*11.6%*	*9.2%*	*10.9%*	*11.2%*
EBIT	122	101	163	220
EBIT margin	*9.4%*	*6.4%*	*8.0%*	*9.2%*
Pre-tax earnings	116	89	143	199
Net earnings	90	70	114	155
Net margin	*7.0%*	*4.5%*	*5.6%*	*6.5%*
Dividend/Share	0.29	0.22	0.37	0.50
EPS adj.	2.41	1.87	3.06	4.17
P/E adj.	31.9	23.2	14.2	10.4
EV/S	2.1	1.2	0.9	0.8
EV/EBITDA	18.3	13.1	8.7	7.0

Last updated: 2018-11-19

Owner	Equity	Votes
Accendo Capital	12.8%	12.8%
Jonas Nordlund	8.2%	8.2%
Handelsbanken Fonder	7.9%	7.9%
Chirp AB	4.9%	4.9%
Fondita Fonder	4.9%	4.9%
Swedbank Robur Fonder	3.7%	3.7%
Avanza Pension	3.3%	3.3%
Göran Nordlund	3.0%	3.0%
Nordea Fonder	3.0%	3.0%
Henrik Larsson Lyon	2.2%	2.2%

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 is listed on Nasdaq Stockholm since 2016 before that it was listed on NGM, Aktietorget and Nasdaq First North. 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

- Hexatronic is establishing themselves outside of the Nordics in new growth regions
- Structural forces of increased data consumption is driving the long-term the growth of Hexatronic
- Focus on system selling will increase profitability in new market regions compared to the Nordic's
- The possibility of a true break-through in the US have increased after the BDI acquisition

Structural forces of increased data consumption drive growth

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 are needed. A focus in the coming years will be the establishment of new market regions. As the fiber infrastructure market matures, new growth regions will become increasingly important. The investors mainly focus on the current main market, which will mature by about 2022. Excellent opportunity's lies in the UK, USA, Germany, and New Zealand as investments in fiber infrastructure in some of these countries will continue for a decade and more. In these new market regions, Hexatronic will focus on selling their system of Fiber products called Matrix with higher margins. The system selling approach will lead to increased profitability when the international sales take off. By the end of 2017, Hexatronic acquired Blue Diamond Industries (BDI), we believe this raises the possibilities of a real break-through in the important US market. The company's market presence increases and now can produce domestic plastic duct, which would not be feasible to ship from Sweden or New Zealand for larger orders. We see clear signs that the UK market is really taking off and there is a vast need for investments in fiber infrastructure on the island economy.

An important part of our Investment Thesis is the fact that structural forces drive the growth of Hexatronic. These significant and ongoing Thematic trends are the increased digital consumption, i.e., enhanced usage of data. Overall we find that the company is a profitable growth business but not valued as one, mainly because they are overlooked by investors. We believe the valuation will increase as most investors underestimate long-term structural growth.

Bear-points (counter-arguments to our Thesis):

- A dampened economy could lead to less investments in the fiber infrastructure
- Low price Chinese supplier still have a focus on their domestic market; this could shift over the coming years as the large Asian marketmatures
- New technologies like high-speed alternatives (less likely) to fiber or breakthroughs in data compression (possible) could lead to a smaller need of investments in the infrastructure of fiber

Catalyst types

Follow-up order in the uk
The order of SEK 70m in the UK during 2018 was just the start, and we view this as a test of Hexatronic's products. We believe the company is in negotiation with a significantly larger multiyear order frame-work, we believe the order value could be SEK 300-500m over the coming years.

Breakthrough deal in the usa
Hexatronic is increasing their presence in the USA with the acquisition of BDI and that their MATRIX system is now approved by a major US telecom operator. We see the possibility of a larger breakthrough order or deal with the "unnamed" US telecom operator as both likely and value adding.

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.

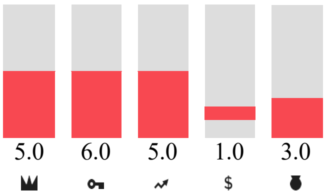
Image Systems IS

Company page
https://www.redeye.se/company/image-systems

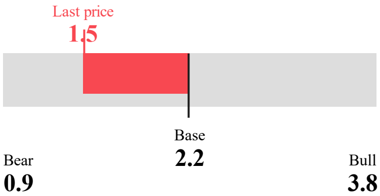
Redeye Rating

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

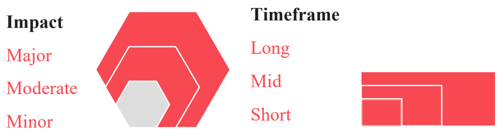
COMPANY QUALITY



FAIR VALUE RANGE

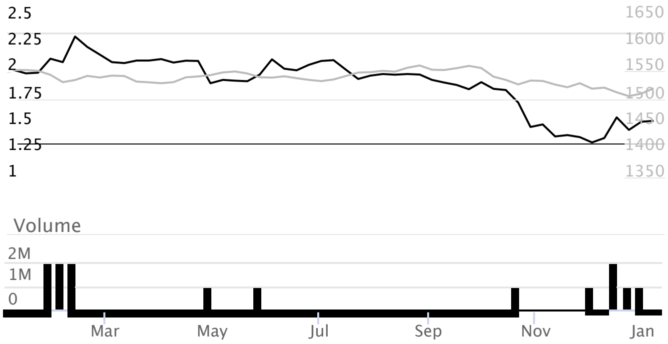


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Johan Friberg
Chairman	Thomas Wernhoff

Share information

Share price (SEK)	1.5
Number of shares (M)	89.2
Market cap (MSEK)	132
Net debt (MSEK)	-13

Analyst

Henrik Alveskog
henrik.alveskog@redeye.se

Conflict of interests

Henrik Alveskog owns shares in Image Systems: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	134	162	198	220
Growth	*7.8%*	*21.0%*	*22.7%*	*10.9%*
EBITDA	9	10	21	27
EBITDA margin	*6.4%*	*6.5%*	*10.3%*	*12.1%*
EBIT	1	0	6	12
EBIT margin	*0.8%*	*Neg*	*3.2%*	*5.6%*
Pre-tax earnings	0	-2	1	7
Net earnings	12	-4	-1	5
Net margin	*8.8%*	*Neg*	*Neg*	*2.4%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.31	-0.05	-0.01	0.06
P/E adj.	7.0	-34.0	-284.9	28.2
EV/S	0.7	0.8	0.7	0.6
EV/EBITDA	10.6	12.8	6.5	5.0

Last updated: 2018-10-29

Owner	Equity	Votes
Tibia Konsult AB	32.0%	32.0%
LMK-bolagen & Stiftelse	11.5%	11.5%
Thomas Wernhoff	9.8%	9.8%
Avanza Pension	5.0%	5.0%
Jens Miöen	2.3%	2.3%
Jan Lundström	1.5%	1.5%
Swedbank Försäkring	1.1%	1.1%
Claes Hägglöf	0.9%	0.9%
Johan Lindh	0.9%	0.9%
Orbit One Aktiebolag	0.8%	0.8%

Company description

Image Systems was founded 1954 by Carl Petterson under the name Rema Control. In 1964, the company developed a measuring tool that without contact could measure the diameter of a log, which was of great importance to the development of Image Systems. Image Systems develops and sells modern automation systems to sawmills (RemaSawco) and contactless measurement software to the aerospace, defence, paper and car industries (Motion Analysis). In 1999, Image Systems went public under the name Digital Vision and has since acquired three companies, with Image Systems acquired in 2011. Digital Vision were in 2014 sold for SEK 6m because of weak profitability. The sawmill industry has historically been the core business for Image Systems, but lately Motion Analysis has shown stable growth and an impressive gross margin. Image Systems has a history of losses, and in 2012 decided to scale down unprofitable businesses and focus on core areas in which it could deliver shareholder value.

Investment case

- Smart sawmills – structural growth with high gross margin
- On the verge of expansion in North America and Russia
- Turnkey provider in Motion Analysis to increase sales

Investment case

Smart sawmills – structural growth with high gross margin. The sawmill industry is highly competitive. Therefore, the sawmills have an ongoing need to invest in new technology to maintain their position. RemaSawco's product portfolio fits perfectly into this category as it both increases output per log while decreasing OPEX for the sawmills. Also, their product portfolio is unique as its systems allow board tracing from delivery to the finished product, which other systems cannot match. RemaSawco has a strong market presence in Sweden, making it tough for competitors to take market share. Moreover, in Q2'18 Image System acquired the Finnish company Limab (now RemaSawco Oy), which has shown solid margins in the last years. Going forward, we expect the acquisition to strengthen RemaSawco's product portfolio as well as the company's market presence in Finland.

On the verge of expansion in North America and Russia. Image Systems recently entered a partnership with Raptor Integration as part of its establishment in the North American market. We expect that RemaSawco will be able to sell further systems in North America, especially now since it has established a reference customer (Trinity). Also, we believe that RemaSawco is focusing on the Russian market as it has already sold a major system (BoardScanner) to a Russian company. Establishment in Russia would mean that RemaSawco has entered the fastest growing sawn wood market in the world. Russia and America produce around 36 % of the world's sawn wood, indicating an interesting growth potential

Turnkey provider in Motion Analysis to increase sales. Motion Analysis has in the past relied on partners to sell its software alone. This is about to change as Motion Analysis will sell both hardware and software through partners, thereby, becoming a turnkey provider. It will be easier for the partners to sell full systems with a standardized training program, which is essential as lack of experienced operators has been a major hurdle in the industry.

Bear points (counter-thesis)

Sales growth or another share issue

Image Systems is currently struggling to become profitable and needs to increase sales in both RemaSawco and Motion Analysis, making successful global expansion very important. The current net debt implies that Image Systems does not have room for bad results.

New markets tough to penetrate

Selling to sawmills is often down to business contacts, making it very difficult for suppliers to enter new markets without the regional contacts. The industry dynamics mean that once a system has been sold to a sawmill, it will likely continue to buy from the same supplier. This behavior is seen throughout the industry and acts as a hurdle for companies looking abroad, which is why we emphasize the importance of Raptor's (RemaSawco's partner in North America) senior sales team, who we believe hold the right contacts. If RemaSawco establishes itself in Russia without an experienced sales team with the right business contacts, we believe it will be difficult to succeed.

Heavily reliant on one partner in North America

Image Systems is very exposed to a single partner in North America, Raptor Integration. If Raptor decides to sell other systems instead of RemaSawco's BoardScannerFX 85, this will delay Image Systems' expansion in North America.

Changing business model is difficult

Motion Analysis is in a state where they are changing their business model. This could be both time consuming and difficult.

Catalyst types

Entering russia (0-12 months)
Establishment in Russia would indicate that Image Systems will be a part of the most rapidly growing sawn wood market.

Breakthrough order from usa (12-24 months)
US sawmills are major players that have the potential to implement several BoardScanner systems in a large order. The potential value of one of these contracts could be approximately SEK 40-60m.

Large agreement in motion analysis (0-24 months)
Motion Analysis has the potential to enter large development agreements worth around SEK 2-3m annually.

IMINT Image Intellig...

IMINT

Company page

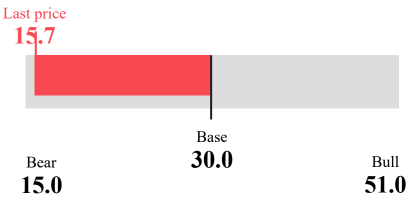
https://www.redeye.se/company/imint-image-intelligence

Redeye Rating

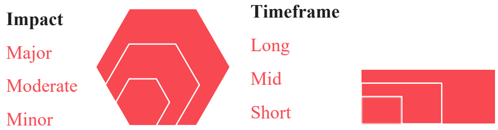
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

IMINT Image Intelligence
OMXS30

Marketplace	Spotlight Stock Market
CEO	Andreas Lifvendahl
Chairman	Katarina Bonde

Share information

Share price (SEK)	15.7
Number of shares (M)	8.9
Market cap (MSEK)	141
Net debt (MSEK)	-28

Analyst

Dennis Berggren
dennis.berggren@redeye.se

Conflict of interests

Dennis Berggren owns shares in IMINT Image Intelligence: No

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	19	32	44	70
Growth	*>100%*	*71.0%*	*38.7%*	*58.0%*
EBITDA	-1	6	9	27
EBITDA margin	*Neg*	*19.0%*	*20.9%*	*38.9%*
EBIT	-7	-5	-2	15
EBIT margin	*Neg*	*Neg*	*Neg*	*21.9%*
Pre-tax earnings	-7	-4	-2	15
Net earnings	-7	-4	-2	15
Net margin	*Neg*	*Neg*	*Neg*	*20.8%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.83	-0.45	-0.18	1.64
P/E adj.	-25.0	-41.2	-104.3	11.2
EV/S	7.8	4.2	3.1	1.8
EV/EBITDA	-141.8	21.9	14.7	4.6

Last updated: 2018-11-21

Owner	Equity	Votes
Avanza Pension	11.9%	11.9%
Nordnet Pensionsförsäkring	3.5%	3.5%
Hans Thomsen	3.3%	3.3%
Öjvind Norberg	2.8%	2.8%
Andreas Lifvendahl	1.8%	1.8%
Peter Ekerling	1.8%	1.8%
ALMI	1.6%	1.6%
Swedbank Försäkring	1.5%	1.5%
Uppsala Universitet Holding AB	1.1%	1.1%
Jan Pettersson	1.1%	1.1%

Company description

Imint Image Intelligence is a software company based in Uppsala Sweden. The company provides software for analyzing, optimizing and enhancing video in real-time. The company is primarily targeting mobile device OEMs in Asia and has license agreements with a number of customers.

Investment case

- Efforts are starting to pay off: Imint currently have agreements with several giant smartphone manufacturers such as Huawei, Xiaomi and Vivo, which proves the strengths of the Vidhance platform.
- Video enhancement software is expected to experience strong growth. Imint is well positioned to benefit from this by offering the Vidhance platform to smartphone OEMs.
- Offering that opens up for great margins: We believe that Imint has potential to exhibit very high margins given that the company faces no marginal cost of additional sold phones with Vidhance.

Refocusing from niche segments to mass-market. Imint started out as a research company with a focus on niche innovations in the field of real-time enhancement of aerial surveillance video. Due to a growing interest in its technology from a number of smartphone OEMs, Imint decided to pursue opportunities within the mobile device segment. Since then, Imint has intensified its commercial efforts and grown its organization to target the global market for analyzing, optimizing and enhancing video in real-time. Imint has established a strong position as a leading supplier of video stabilization software, which is confirmed by recent external evaluations (DxOmark).

Operating in a rapidly growing segment. We expect the market for video enhancement software to experience strong growth. Increased bandwidth and more powerful hardware in smartphones are key drivers. Media consumption and content creation is changing with live video and user-created content being two key trends. Smartphone OEMs, not least emerging Asian players, wish to differentiate their offerings and enhancing their video capabilities is a focus area. Imint's Vidhance solution is well positioned to benefit from the developments in the market as its software enhances the video capabilities of the devices as well as enhances the customer experience.

The efforts are starting to pay off. With several signed license agreements with smartphone producers of substantial sizes such as Huawei, Xiaomi and Vivo, Imint has shown that there is great interest in its Vidhance software. It, however, appears like the royalties received per sold phone is not reflecting the market's initial expectations. Imint's challenge is, therefore, to show that it can monetize on its agreements by getting existing clients to also include live auto zoom and, eventually, also auto curate features in upcoming product launches. This is vital to increase the royalty received per sold unit. Imint has recently demonstrated that there also is commercial interest for features outside the stabilization offering, which is reflected by the agreements with Wiko, Fujitsu and Sharp. We thus believe that the company has good potential to secure additional extended agreements.

Another important strategic challenge is to also advance towards the low- and midrange segments of the smartphone market to address a substantially larger market. Although the average royalty most likely will be lower, the volumes will be significantly higher. Imint has already signed agreements with several of the largest OEMs for integration in their flagship models. We expect that Imint will succeed in also penetrating the market for less-pricey phones and thereby gain larger market share, opening up for large revenues and high margins.

Risks

- **Imint's features rapidly become commoditized**

We believe that there is a risk that Imint's features become commoditized, implying a rapid price pressure on offered features which will lead to lower royalty revenues for Imint.

- **Failure to close agreements with Vidhance included in new phones**

Imint's does not only have to convince clients to integrate Vidhance in additional product launches, but also to include additional Vidhance features in order to increase the average royalty received per sold unit.

- **Failing in broadening its market.**

To achieve high growth, Imint must not only sell more features but also integrate its software in phones that sell in greater volumes. The company, therefore, has to succeed in standardizing the Vidhance platform, making it easier to integrate in new phones. It also has to find a balance in pricing between its offering of features towards the low- and midrange segment (lower prices) and its offering of more advanced features for high-end phones.

Catalyst types

Additional deals with leading smartphone oems
We believe that additional deals with leading smartphone OEMs will have positive impacts on the share price. We find an agreement also covering use of live auto zoom to be of particular importance as it would strengthen the case for long term growth.

Launch of products in new business segments
Imint is continuously examining new business opportunities, illustrated by the increased efforts in standardizing the Vidhance offering. Examples of areas of application outside smartphones are found in the announced agreement with Kontigo Care, its business with SAAB and the earlier Samsung development project.

Imints features become commoditised
Imints features become commoditised and this leads to falling royalty prices and sinking volumes

Invisio Communicatio... IVSO

Company page

https://www.redeye.se/company/invisio-communications

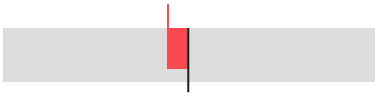
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

Last price
63.8



Bear	Base	Bull
34.0	68.0	127.0

CATALYST POTENTIAL

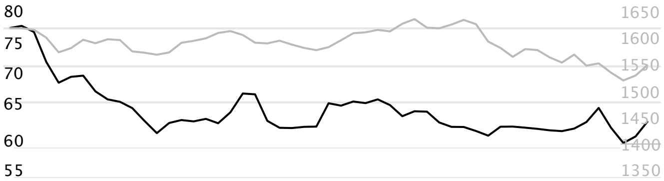
Impact
Major
Moderate
Minor

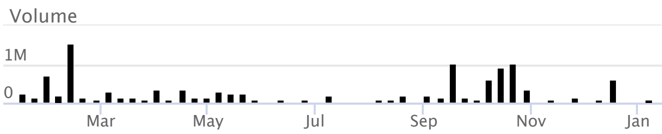
Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot

Invisio Communications
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Lars Højgård Hansen
Chairman	Lars Röckert

Share information

Share price (SEK)	63.8
Number of shares (M)	44.1
Market cap (MSEK)	2,712
Net debt (MSEK)	-160

Analyst

Viktor Westman
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Conflict of interests

Viktor Westman owns shares in Invisio Communications: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	366	352	451	573
Growth	*10.8%*	*-3.9%*	*28.2%*	*27.2%*
EBITDA	83	62	118	178
EBITDA margin	*22.7%*	*17.8%*	*26.2%*	*31.0%*
EBIT	79	58	109	166
EBIT margin	*21.5%*	*16.6%*	*24.2%*	*28.9%*
Pre-tax earnings	74	58	109	166
Net earnings	62	44	85	129
Net margin	*17.0%*	*12.6%*	*18.8%*	*22.5%*
Dividend/Share	0.60	0.90	0.96	1.46
EPS adj.	1.42	1.01	1.93	2.93
P/E adj.	55.8	60.1	31.4	20.7
EV/S	9.2	7.3	5.6	4.2
EV/EBITDA	40.8	41.1	21.2	13.7

Last updated: 2018-11-05

Owner	Equity	Votes
Patinex AG	17.3%	17.3%
Lage Jonason	14.0%	14.0%
Handelsbanken Fonder	8.3%	8.3%
Swedbank Robur Fonder	6.2%	6.2%
Erik Åfors	4.8%	4.8%
Fjärde AP-fonden	4.1%	4.1%
C WorldWide Asset Management	4.1%	4.1%
Allianz Global Investors	2.1%	2.1%
Avanza Pension	2.1%	2.1%
SEB Fonder	1.7%	1.7%

Company description

Since 2007, Invisio has developed and sold communication equipment for professional users, mainly the military. Its strategic realignment away from the consumer market has resulted in strong growth. Invisio's scalable business model is based on the company selling hardware and adaptations to local military conditions through its distribution partners. However, its manufacturing is outsourced. Invisio's customers are special forces and regular armies. Orders from special forces take place on an ongoing basis while regular armies order through procurement processes. Invisio's existing customers are around ten Western nations, usually in NATO. The company intends to win procurements in the approximately 50 military modernisation programmes ongoing worldwide. A competitive advantage 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 Invisio has no patent protection that would prevent competitors from developing equivalent offerings, but the barriers are high since both procurements and contracts stretch over many years.

Investment case

- From leading special forces and US Army to rollout in major NATO armies
- Invisio controls a niche market with high barriers
- Major procurements can be settled overnight

From leading special forces and US Army to rollout in major NATO armies

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 programme). 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 totalling 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 modernisation programmes 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 its contracts with the regular armies of Britain, Canada and Australia, the company is already well underway.

Invisio controls a niche market with high barriers

Confidentiality is extensive, but we are not aware of Invisio having lost any procurement since 2007. The numerous and major transactions that the company is regularly winning therefore indicate that Invisio has an attractive and comprehensive range of hearing protection and communication that no one can today match. The procurement processes generally last several years, but happily so do the contracts once they are won. The protracted and tough procurements also mean it is difficult to be subsequently 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 question mark. But Invisio is not standing still, and has for a decade been an established speaking partner to the world's leading military units given its relatively unique combined expertise in audiology and military communications.

Major procurements can be settled overnight

Of the approximately 50 procurements that Invisio is involved in, we estimate that a number are worth in excess of SEK 100m, and that several of these could be settled more or less overnight, which, according to our interpretation, could drive the share price towards our base case of SEK 68 per share. Invisio has repeatedly put us on the back foot by delivering one major order after another, and we see a not-insignificant risk of this continuing.

Catalyst types

Order for the new intercom solution

Invisio launched a new product category in Septembre 2017 following tight development together with customers. We expect volume orders in the end of 2018.

Order related to the 50 modernization program

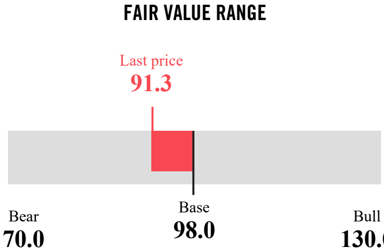
Since several years back, Invisio is participating in procurement processes in about 50 military modernization programs in various sizes across the World. Our belief is that a few of these contracts are at a stage where they could be settled over night.

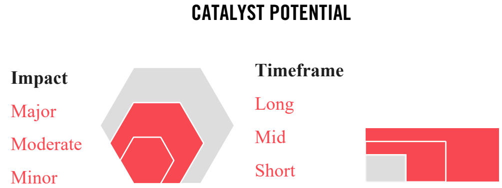
Lagercrantz Group LAGR B

Company page
https://www.redeye.se/company/lagercrantz-group

Redeye Rating

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

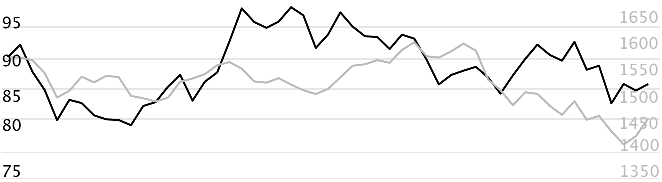


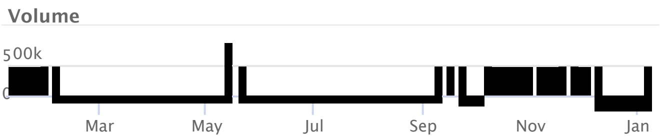


Turn page for catalyst specifics

Snapshot

Lagercrantz Group
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Jörgen Wigh
Chairman	Anders Börjesson

Share information

Share price (SEK)	91.3
Number of shares (M)	69.5
Market cap (MSEK)	6,104
Net debt (MSEK)	957

Analyst

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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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	3,410	3,946	4,407	4,874
Growth	*10.1%*	*15.7%*	*11.7%*	*10.6%*
EBITDA	486	567	639	701
EBITDA margin	*14.3%*	*14.4%*	*14.5%*	*14.4%*
EBIT	378	444	521	580
EBIT margin	*11.1%*	*11.3%*	*11.8%*	*11.9%*
Pre-tax earnings	358	423	497	548
Net earnings	286	330	387	422
Net margin	*8.4%*	*8.4%*	*8.8%*	*8.7%*
Dividend/Share	2.00	2.20	2.40	2.60
EPS adj.	4.20	4.85	5.69	6.20
P/E adj.	20.2	17.7	15.1	13.9
EV/S	2.0	1.7	1.5	1.4
EV/EBITDA	14.2	12.0	10.7	9.6

Last updated: 2018-10-24

Owner	Equity	Votes
SEB Fonder	12.0%	8.4%
Didner & Gerge Fonder	9.4%	6.6%
Swedbank Robur Fonder	8.9%	6.3%
Lannebo Fonder	8.0%	5.6%
Anders Börjesson & Tisenhult-Gruppen	5.5%	28.2%
Fidelity	5.1%	3.6%
ODIN Fonder	4.5%	3.1%
Handelsbanken Fonder	3.8%	2.7%
Lagercrantz Group AB	2.6%	1.9%
Per Säve	2.0%	1.9%

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 (July 2018) the group has some 50 subsidiaries, 1 400 employees and a turnover just under SEK 4 bn with an EBIT-margin of around 10 percent.

Investment case

- Long and strong track record in acquiring small companies and gradually improving profitability. With Lagercrantz as the new owner the companies have better opportunities to expand into new markets and grow their business.
- The companies are normally purchased at around 5x EBIT and since Lagercrantz is trading substantially higher each acquisition triggers a revaluation of the the share.
- At the moment we do not foresee any major revaluation. However the share offers a good exposure to successful nordic small caps and is an interesting alternative to savings in mutual funds.

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 25 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 around 15-20 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.

Bear points:

- Organic growth has been weak during the last couple of years, which management has adressed. If we do not se an improvement during 2018 it is probably a sign of structural problems within the group.
- Big bad acquisitions. If Lagercrantz were to acquire a big company that runs into severe problems it would cost money as well as management resources. The organization is rather streamlined and if there is a need for restructuring it may have consequenses for the rest of the group. And obviously also the stock markets confidence.
- In the trading business there is always a risk for loosing a supplier, even if your relationssship has been excellent. Suppliers can for example find new market channels through acquisitions.

Catalyst types

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.

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.

MRG MRG

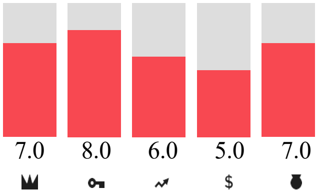
Company page

https://www.redeye.se/company/mrg

Redeye Rating

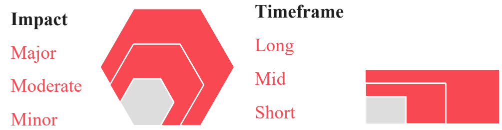
Leadership | Ownership | Profit outlook | Profitability | Capital strength

COMPANY QUALITY



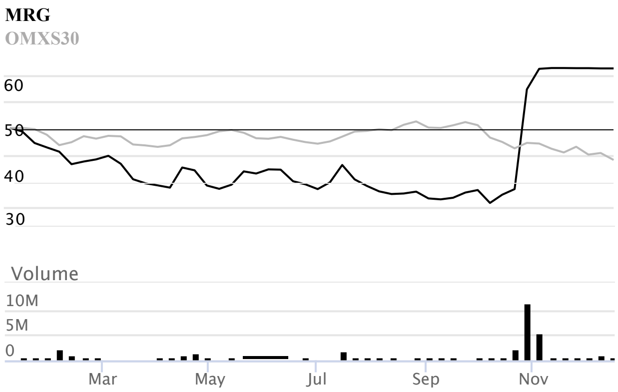
FAIR VALUE RANGE

CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Per Norman
Chairman	Kent Sander

Share information

Share price (SEK)	69.1
Number of shares (M)	40.8
Market cap (MSEK)	2,823
Net debt (MSEK)	-950

Analyst

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Conflict of interests

Kristoffer Lindström owns shares in MRG: Yes

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	1,192	1,698	2,059	2,327
Growth	*28.9%*	*42.4%*	*21.3%*	*13.0%*
EBITDA	186	252	309	348
EBITDA margin	*15.6%*	*14.8%*	*15.0%*	*15.0%*
EBIT	116	132	207	233
EBIT margin	*9.7%*	*7.8%*	*10.1%*	*10.0%*
Pre-tax earnings	116	132	207	233
Net earnings	109	122	190	214
Net margin	*9.2%*	*7.2%*	*9.3%*	*9.2%*
Dividend/Share	1.30	1.50	2.50	3.00
EPS adj.	2.68	2.99	4.66	5.24
P/E adj.	20.3	16.4	10.5	9.4
EV/S	1.4	0.7	0.5	0.4
EV/EBITDA	8.7	5.0	3.4	2.4

Last updated: 2018-10-29

Owner	Equity	Votes
Avanza Pension	14.9%	14.9%
Hans Fajerson	13.9%	13.9%
Henrik Bergquist	13.5%	13.5%
Svenska Handelsbanken AB for PB	10.1%	10.1%
Tredje AP-fonden	4.1%	4.1%
Lars Christensen	2.2%	2.2%
Humle Fonder	2.2%	2.2%
Prioritet Finans	2.1%	2.1%
Handelsbanken Liv Försäkring AB	2.1%	2.1%
Norron Fonder	1.5%	1.5%

Company description

In late 2018 MRG received a public offer from William Hill at 69 SEK per share.

MRG is a company operating online casinos. The main holdings are Mr Green, Redbet, Dansk Underholding and 11.lv.Turnover in 2017 amounted to SEK 1 192m with an EBITDA of SEK 186m. MRG is since the end of 2016 listed on Nasdaq Stockholm. The company was founded in 2007 by Fredrick Sidfalk, Henrik Berquist and Mikael Pawlo. MRG's competitive advantage lies within its unique and well-established brands. Management and owners behind the company also have an impressive track record in the industry.

Investment case

- Currently, the market implies a low future growth of the company, in-line with the past year's downward trend. However, we see the increased marketing activity, enhanced product offering, continued mobile growth and acquisition potential as main drivers which the market underestimates.
- The market focus on the past and not the future. The company is not the same as it was a couple of years back. Both the management team and the board is almost entirely new and has been acting in the best of interest of shareholders.
- Historically the profit levels have been distorted by non-recurring effects such as impairments and accruals for the tax dispute in Austria. Underlying profitability is higher than the historical figures imply.

MRG has underperformed the rest of the gambling operators when it comes to shareholder return the last few years. We believe the market is too focused on the past and not looking at where the company is headed. In our view, the discount to peers and our fair value estimate comes from the markets wrongful view on; The growth rates and key drivers and upcoming tax re-regulations. We here present our view on these areas:

Growth will be driven by

- **Improved marketing efficiency.** MRG has since 2016 had a clear focus on improving their digital marketing and the marketing efficiency has increased handsomely. As the marketing campaigns yield more impact the profitability should improve while still growing at high
- **Enhanced product offering.** MRG continues to improve their product offering with branded live casino, improved sportsbook and more. The continued focus on the customer experience creates a competitive offering
- **Entrance into new markets**. MRG 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. In 2017 the company acquired Dansk Underholdning and entered the Danish market. And during 2018 the company acquired Latvian 11.lv and by that entered the Baltic's. We also see the possibility to enter new markets such as Brazil and other countries in Latin America.
- **Continued growth of the online gambling market, driven by digitalization**. The share of gambling through online channels is still low compared to the whole gambling during 2016; online gambling amounted to roughly 18% of the entire market for gambling in Europe. The online gambling share will, without a doubt, continue to increase for many years to come.
- **Consolidation of the market, acquisition opportunities**. The consolidation of the European gambling industry continues. We expect MRG to take part in this consolidation. The company acquired Dansk Underholdning during 2017, Evoke Gaming and 11.lv in 2018.

Upcoming re-regulation

- **MRG is already well prepared for re-regulation.** It is a fact that the landscape of the online gambling market will change in the coming years. Some investors might argue that the upcoming regulations will evaporate MRG's profits. However, we find that this will not be the case as the company is already ahead of the curve and is currently taxed at a high level because of the orthodox tax regime in Austria. Gaming taxes will also be shared throughout the value chain.

We continue to regard the valuation as attractive given the current share price levels, and that the current share price implies a far too negative future fundamental performance of Mr Green despite strong prospects.

Bear-Points

- MRG has stepped up the acquisition phase the last years. Acquisitions can bring value to shareholders, but they also pose a risk that the money spent does not create value.
- Regulations pose a risk for an iGaming company. Many markets in Europe are still unregulated. New legalization which hurts the industry could dampen the business for MRG.

Catalyst types

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.

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.

Mycronic MYCR

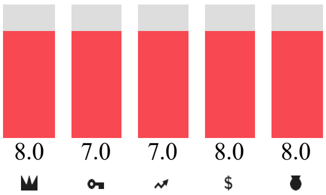
Company page

https://www.redeye.se/company/mycronic

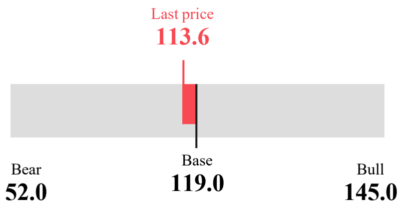
Redeye Rating

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

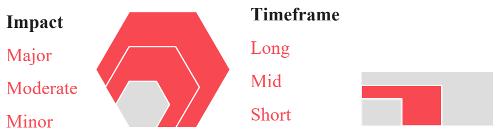
COMPANY QUALITY



FAIR VALUE RANGE

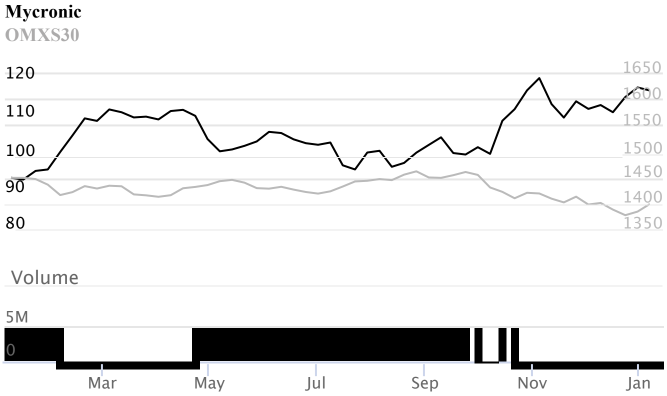


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Lena Olving
Chairman	Patrik Tigerschiöld

Share information

Share price (SEK)	113.6
Number of shares (M)	97.9
Market cap (MSEK)	11,162
Net debt (MSEK)	-1,166

Analyst

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Conflict of interests

Viktor Westman owns shares in Mycronic: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	3,001	3,586	3,979	3,635
Growth	*29.4%*	*19.5%*	*11.0%*	*-8.6%*
EBITDA	882	1,038	1,093	771
EBITDA margin	*29.4%*	*29.0%*	*27.5%*	*21.2%*
EBIT	848	1,016	1,014	686
EBIT margin	*28.3%*	*28.3%*	*25.5%*	*18.9%*
Pre-tax earnings	839	1,007	1,015	687
Net earnings	626	771	761	516
Net margin	*20.9%*	*21.5%*	*19.1%*	*14.2%*
Dividend/Share	2.20	2.50	2.60	2.11
EPS adj.	6.40	7.87	7.78	5.27
P/E adj.	13.8	13.5	13.6	20.1
EV/S	2.6	2.7	2.3	2.4
EV/EBITDA	8.9	9.3	8.4	11.5

Last updated: 2018-10-24

Owner	Equity	Votes
Bure Equity	29.9%	29.9%
Fjärde AP-fonden	9.6%	9.6%
Swedbank Robur Fonder	7.9%	7.9%
SEB Fonder	3.9%	3.9%
Handelsbanken Fonder	3.0%	3.0%
Catella Fonder	2.3%	2.3%
Andra AP-fonden	2.2%	2.2%
Norron Fonder	1.9%	1.9%
Vanguard	1.8%	1.8%
Avanza Pension	1.8%	1.8%

Company description

The Mid Cap company Mycronic develop systems for electronics manufacturing and sells these systems either directly or through distribtuion partners to hundreds of customers worldwide. Mycronic has been around for about 30 years but its modern history started when the pattern generator manufacturer Micronic acquired Mydata that manufactured systems for surface mounting. Ever since the Mydata acquisition Mycronic is divided into two business areas: Pattern Generators (PG) and Assembly Solutions (AS) where the recent acquisitions all are included in the AS segment. R&D is primarily located at the headquarter in Stockholm, Sweden. Mycronic's primary strength is its market share of 100 percent of mask writers for display applications. Consequently, every smartphone and tablet etc. has been manufactured by the help of Mycronic's technology. Our belief is that this is a niche segment that is not big enough to attract another supplier. In the AS business area Mycronic only has a share of 1-2 percent of the total surface mount technology market but within the company's niche (high mix) its market share is over 20 percent. Investments for several billion SEK have been made resulting in a large number of patents, which also in a way points to Mycronic's weakness. The technology risk forces the company to maintain its high investments to stay relevant.

Investment case

- The stock market misunderstands the Assembly Solutions investments
- The stock market believes that Pattern Generators is at its peak
- Prexision orders of USD 12-45 million apiece will drive the share price

The stock market misunderstands the Assembly Solutions investments

One factor holding back the Mycronic share price is the insecurity around how the acquisitions of AEi and Axxon will contribute but perhaps primarily the unprofitability in general in business area Assembly Solutions (AS). Gross margins have consistently been stable and the reason behind the reported losses is instead higher R&D costs. During 2015-2016 Mycronic in total invested SEK 500 million in R&D only in surface mount technology and we believe that a major part of this is related to the Jet Printer and the Jet Dispenser respectively. The price performance that these two offer compared to traditional technology implies an opportunity to penetrate several brand new segments in an addressable market of USD 500 million. The Axxon acquisition is an important part of this equation. Furthermore, Mycronic has a strong secular tailwind from the trend towards increasingly smaller and more and more advanced electronics. This trend favours Mycronic’s strong niche position in the production of the most advanced PCBs requiring high flexibility and reasonably fast changeovers. Bottom line, we are not particularly worried regarding if the R&D costs in AS will result in profits. The other counter argument is rather tougher.

The stock market believes that Pattern Generators is at its peak

The other share price pressure factor we have identified is the volatile sales of advanced display photomask writers in the Pattern Generators (PG) segment. Evident from history the PG sales and operating profits are very volatile given the single digit volumes of sold PG systems per annum and the prices of USD 12-45 million per unit with extremely strong gross margins of up to 90 percent, according to our estimates.

The counter argument is therefore that as PG has peaked at delivery of 5 systems in 2016 and another expected 6 systems for 2017 substantially deteriorated earnings and even larger share price reactions await. It is an undisputed fact that years with lower PG demand sooner or later will affect Mycronic. However, one can oppose the argument that such a downturn will be equal to the long dry out of orders during 2006-2013 given continuing display R&D and therefore increasingly longer photo mask writing times leading to higher PG demand. Besides more, larger and increasingly advanced display models the photomask writing times are also affected by the utilization ratio. About two thirds of the ordered mask writers for display applications since year 2000 was delivered by more than 10 years ago. Despite Mycronic’s strong order intake during 2015-2017 about half of the installed base of approximately 75 systems is still over 10 years old. Basically all of these systems are covered by service contracts with best effort commitments as the customers are well aware of the end of life issues regarding the components. Even though there is a risk for setbacks and negative earnings growth in relation to the strong 2016-2018 our conclusion from the reasoning above is that the future of PG is stable.

Prexision orders of USD 12-45 million apiece will drive the share price

Prexision orders (e.g. P-800, P-80, P-10, P8 or P8R) alternatively a long-term absence of such orders will drive the share price up or down respectively as one Prexision, depending on which model, can have a price of anything between USD 12-45 million.

Catalyst types

P-800 order

Mycronic launched the P-800 system in spring 2016 and received its first order one year later. We assume that a few of Photronics competitors will feel a need to join the P-800 bandwagon.

P-10 order

The demand for larger displays gros, meaning an increased need for the P-10 of Mycronic. About 30 display fabs are under construction/planned. Due to problems in transporting the large G10 photomasks and the high Chinese tariffs och China we assume that a local photomask industry in China will be built, which would require P-10 systems.

Mytaste Group TASTE

Company page

https://www.redeye.se/company/mytaste-group

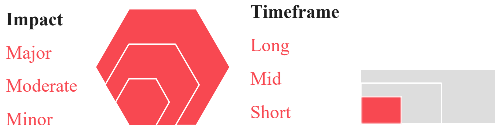
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

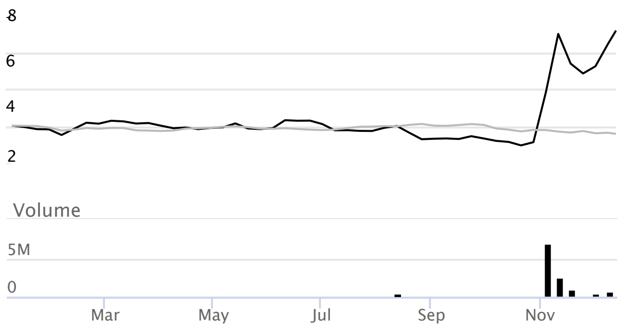
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Mytaste Group
OMXS30



Marketplace	First North Stockholm
CEO	Andereas Friis
Chairman	Fredrik Burvall

Share information

Share price (SEK)	8.7
Number of shares (M)	28.9
Market cap (MSEK)	251
Net debt (MSEK)	-4

Analyst

Eddie Palmgren
eddie.palmgren@redeye.se

Conflict of interests

Eddie Palmgren owns shares in Mytaste Group: Yes

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

Financials

	2017	2018E	2019E (Redeye Estimates)	2020E (Redeye Estimates)
Revenue, MSEK	37	54	74	97
Growth	*-16.2%*	*47.0%*	*36.6%*	*30.0%*
EBITDA	0	6	21	32
EBITDA margin	*0.3%*	*11.0%*	*28.6%*	*33.3%*
EBIT	-9	-6	12	21
EBIT margin	*Neg*	*Neg*	*15.7%*	*22.0%*
Pre-tax earnings	-11	-7	10	20
Net earnings	-10	-6	9	17
Net margin	*Neg*	*Neg*	*11.8%*	*17.8%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.47	-0.21	0.30	0.59
P/E adj.	-6.1	-31.4	21.6	11.1
EV/S	1.7	3.5	2.5	1.9
EV/EBITDA	633.9	31.8	8.8	5.6

Last updated: 2018-11-19

Owner	Equity	Votes
Optimizer Invest Ltd	23.8%	23.8%
Jonas Söderqvist	14.6%	14.6%
Henrik Kvick	13.9%	13.9%
Andreas Friis	13.1%	13.1%
Avanza Pension	2.9%	2.9%
Nordnet Pensionsförsäkring	1.9%	1.9%
Hamberg Förvaltning AB	1.7%	1.7%
Per Hamberg	1.7%	1.7%
Dividend Sweden AB	0.7%	0.7%
Fredrik Burvall	0.6%	0.6%

Company description

Mytaste Group is a digital media house 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. Mytaste Group was founded in 2003, and the share is traded on Nasdaq Stockholm First North. Mytaste Group has two divisions; Mytaste Shopping and Mytaste Food and Beverage. The Group has a focus on performance-based marketing and lead generation.

Mytaste Shopping segment has a focus on performance-based marketing within e-commerce with the prime assets of Kampanjjakt, AlltidRea and Outlet Sverige. The business unit also operates an e-commerce platform, Shopello, which promotes other web shops products and receives revenue through the mediation of traffic.

Mytaste Food and Beverage segment consists of the Group's food-related sites; myTaste, Matklubben and Vinklubben. The most notable competitive advantages of myTaste are the networking effect; through the food blog network, adding scalability and user-generated social content.

Investment case

- Opportunity in the e-commerce affiliate market, a vast and fragmented market. Optimizer Invest is injecting capital and additional acquisition expertise.
- Small lead marketing companies have development and significant risk exposure to Google; these factors most often result in relatively low acquisition prices for highly profitable companies
- Mytaste Group wants to create a portfolio of these businesses; thus reducing the direct Google risk and leverage their technical know-how
- The key factor behind the investment case of the myTaste platform is the continued growth of the app user base and subsequently the evolution of a true social network for online recipes

We find that the investment case in Mytaste Group rests on two pillars: Opportunity in the e-commerce affiliate market within the Shopping segment and the evolution of Food and Beverage into a social network for online cooking and recipes. We view the myTaste network as a more long-term opportunity, and will focus our case summary on Shopping and performance-based marketing within e-commerce.

A market up for grabs - Mytaste Shopping

The company has identified a vast and fragmented market of e-commerce affiliates. Most of the smaller lead marketing companies today have limited resources when it comes to technical development and has a significant risk exposure to Google; these factors lead most often to a relatively low acquisition price for highly profitable companies. Mytaste Group wants to create a portfolio of these businesses and thus reducing the direct google risk and leverage their technical know-how. The development capacity within the Group is large as the company has put significant resources behind the evolution of the myTaste platform.

In short, the opportunity for Shopping is:

- A market driven by the structural forces that today is only starting out, in Sweden the e-commerce stand for roughly 8% of the total retail market
- Identify acquisition targets through Shopello's affiliate network; the company has already identified over 50 in Sweden
- Reduced Google risk through a portfolio leading to a higher valuation of the whole than separately (the casino affiliate market is a prime example)
- Synergies in the Shopello network, i.e., better rates when it can offer e-merchants larger volumes
- Shopello is a Google Comparison Shopping Services (CSS) Partner and is expanding the offering in Europe
- Cross marketing and merging email databases, both existing email lists on Shopello but also the myTaste platform
- Cost cutting from implementing the Shopello affiliate network when acquiring new sites
- Geographical expansion, the business model is extremely scalable, and new sites in other countries are relatively easy to set up
- Leverage technical knowhow to develop apps, browser plugins and the like to improve the customer experience
- Data gathering where e-commerce vendors has a high willingness to pay

Bear points (Counterarguments to our thesis)

- The app market is highly competitive, and the need for more than one recipe app per user is low. The rise of competitive apps could leave myTaste behind. The company's focus on social functions is what differentiates them from their peers.
- Acquisitions, in general, often need a healthy financial market. A downturn in the economic climate could lead to fewer possibilities to acquire more exciting companies within the Shopping segment.

Catalyst types

Improved fundamental performance changing the market perception
The acquisitions within Mytaste Shopping should lead to gradually enhanced growth and profitability. Mytaste Group has turned to positive EBITDA results and can the company demonstrate further profitability, we believe the market perception and valuation will appreciate.

Value-adding acquisitions
The company is open with its high acquisition ambitions and thus, it should not come as a surprise for the stock market. We still believe new M&A deals could be positive catalysts as it would validate the strategy. We also have confidence in Optimizer Invest's ability to negotiate attractive terms and thereby, create shareholder value.

Neonode Inc

Company page

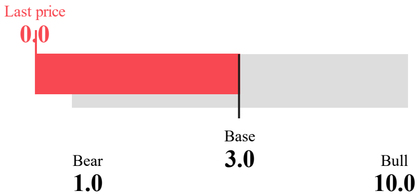
https://www.redeye.se/company/neonode-inc

Redeye Rating

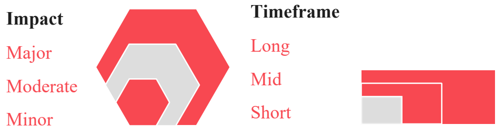
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



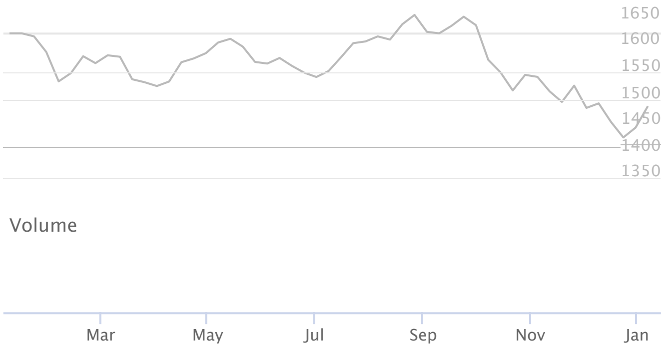
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Neonode Inc
OMXS30



Marketplace	N/A
CEO	Håkan Persson
Chairman	Ulf Rosberg

Share information

Share price ()	0.0
Number of shares (M)	0.0
Market cap (M)	0
Net debt (MSEK)	-4

Analyst

Viktor Westman
viktor.westman@redeye.se

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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	10	8	9	11
Growth	*0.3%*	*-19.6%*	*12.6%*	*20.9%*
EBITDA	-5	-2	-3	-3
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-5	-4	-4	-4
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-5	-4	-4	-4
Net earnings	-6	-4	-4	-4
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.10	-0.45	-0.40	-0.41
P/E adj.	-11.5	-4.2	-4.6	-4.5
EV/S	4.9	1.3	1.4	1.2
EV/EBITDA	-11.1	-5.9	-4.5	-4.2

Last updated: 2018-12-21

Owner	Equity	Votes
Ulf Rosberg	18.2%	18.2%
Peter Lindell	17.5%	17.5%
Per Bystedt	3.6%	3.6%
Thomas Eriksson	2.5%	2.5%
Vanguard Group	1.6%	1.6%
Andreas Bunge	1.2%	1.2%
Blackrock Inc	1.1%	1.1%
Håkan Persson	0.4%	0.4%
FMR LLC	0.2%	0.2%
Lars Lindqvist	0.1%	0.1%

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: Listed on NASDAQ since 2007Locations: Headquarter in Stockholm, Sweden but global sales reach

Investment case

- Turnaround case turned credible with new main owners
- Limited downside from underlying values that could be unlocked
- Big autotech option free of charge
- Break-even and large module deals to drive the stock price

Turnaround case turned credible with new main owners

The stock market's confidence in Neonode has completely vanished, for very good reasons in our view, most notably the communication. As fundamentals are basically unchanged, the low valuation is simply a punishment for old sins. However, this means that there are very clear reasons for why the shares are undervalued. Neonode has evolved into a turnaround case with a very promising set of new people. Besides a new CEO, the new owners and board members are very engaged and involved in the company. The COB comes from a long career in private equity where the COB works tight with Management. The new owners also have excellent track records in business and investing. The new board immediately took two important steps. First, it decided to focus and closed several far-fetched, non-core projects initiated by the previous CEO. Second, the failed new business model was reversed. The company had told the customers they could only buy modules and not licenses going forward. This decision was reversed one year back and customers are now free to choose. However, lead times are 18 months so it is still 6 months too early to see the results of the actions. Despite all of Neonode's failures in the past, the company has only lost a few customers, which is remarkable and implies a strong value proposition for the customers. Our conclusion is that the technology and customer benefits are fantastic while execution and communication have been lousy and it is our view that most owners agree. All in all, there are evidence suggesting that Neonode could indeed finally turn.

Limited downside from underlying values that could be unlocked

Neonode's market valuation is close to a bankruptcy valuation, especially in relation to the recurring license revenue base of about USD 10m per year. The burn rate is now USD 0.8m per quarter, meaning there should be a plan B in unlocking large values tomorrow by cutting costs in half and earn good license revenue with 100 % margin. This opportunity is not new in itself, but we think that the new main owners will not tolerate more years of disappointment, meaning these values will eventually be unlocked if the business does not turn.

Big autotech option free of charge

Smart Eye has the exact same market and drivers etc. as Neonode but the valuation differs by over 6x. In addition, Neonode has higher ASP and even better barriers to entry (hardware vs software) compared to Smart Eye. Thus, we have reason to believe that the perception change could be quite substantial should Neonode be perceived as a hot autotech company. Smart Eye has an expected order value of SEK 850m for its total future license revenue on 29 car models for 5 customers. Neonode has not publically quantified its order values but they should reasonably be several times larger than today's market cap. If Neonode would only manage to close one single automotive contract it could be worth more than today's market cap. We still believe that the steering wheel partnership with Autoliv could alone be worth USD 100m, although this lies a couple of years down the road. Euro NCAP is now mandating driver monitoring technology but it still does not have any activities within hands on the steering wheel. According to our industry sources though, it is likely that such activities will start going forward.

Break-even and large module deals to drive the stock price

Our base case of USD 3 per share in relation to our reasonably pessimistic scenario of USD 1 and our bull case of USD 10 indicate an ok risk/reward. We argue that financial reports with black figures are needed in order to change the perception of investors and move the stock. In addition, large module contracts similar to the USD 11 million deal in the fall of 2016 are important catalysts for the Neonode shares.

Catalyst types

Major module deals

In the fall of 2016 Neonode received a module deal of in total USD 11 million related to door handle modules for one car model. Similar deals would have a major impact on the share price. We especially believe that a design win for the steering wheel together with Autoliv/Veoneer is close due to the long qualification period.

Break-even

We expect the reaching of break-even in the end of 2022 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

Net Insight NETI B

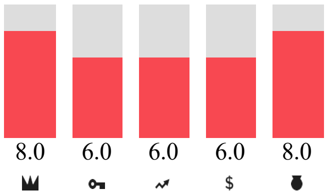
Company page

https://www.redeye.se/company/net-insight

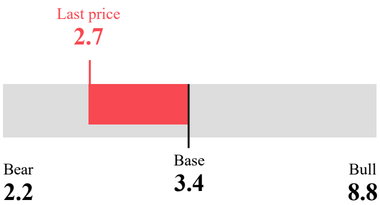
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

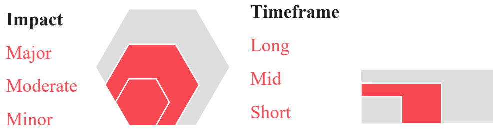
COMPANY QUALITY



FAIR VALUE RANGE

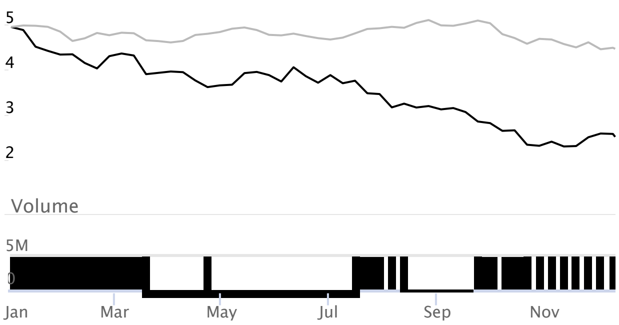


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Henrik Sund
Chairman	Gunilla Fransson

Share information

Share price (SEK)	2.7
Number of shares (M)	389.9
Market cap (MSEK)	1,072
Net debt (MSEK)	-94

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna owns shares in Net Insight: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	427	472	530	579
Growth	*-15.2%*	*10.6%*	*12.3%*	*9.2%*
EBITDA	-25	48	82	114
EBITDA margin	*Neg*	*10.3%*	*15.5%*	*19.7%*
EBIT	-7	-13	12	41
EBIT margin	*Neg*	*Neg*	*2.3%*	*7.0%*
Pre-tax earnings	8	-11	13	42
Net earnings	7	-8	11	32
Net margin	*1.5%*	*Neg*	*2.1%*	*5.6%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.02	-0.02	0.03	0.08
P/E adj.	395.8	-130.3	94.7	32.3
EV/S	5.7	2.0	1.8	1.6
EV/EBITDA	-94.7	19.9	11.6	8.1

Last updated: 2018-11-10

Owner	Equity	Votes
Jan Barchan	12.3%	12.1%
Lannebo Fonder	9.4%	9.2%
Alecta Pensionsförsäkring	6.2%	6.0%
Handelsbanken Fonder	5.4%	5.3%
Avanza Pension	4.9%	4.8%
Nordnet Pensionsförsäkring	3.2%	3.1%
AMF Försäkring & Fonder	2.2%	2.2%
Net Insight AB	1.7%	1.6%
Dimensional Fund Advisors	1.1%	1.1%
Maria Barsum	1.1%	1.0%

Company description

Net Insight is in the midst of the undergoing transformation of the media and TV industry. The company covers the TV production chain from camera to content owner to customer. The product offering comprises three product lines: Nimbra (a platform for transport of professional media content over media networks), ScheduAll (a resource planning software for production and distribution of content) and Sye (software for live and synchronized TV content distributed over the internet – Live OTT). Net Insight has 500 customers around the world which consists of telecom operators, cable operators, service provider, TV/production companies, broadcasters etc. ~30 percent of total revenue in 2017 were from partners. The company has 249 employees and consultants. Sales amounted to SEK 427m during 2017 (hardware: 38%, software licenses: 25% and support & services: 37%).

Investment case

- A cautious stance
- A company with two faces
- Uncertain near-term performance

We currently take a cautious stance on Net Insight as, in our view, increased growth rates essentially rests on Sye, a software that enables synchronized multiple screen delivery with minimal delay for the OTT market. While there clearly are opportunities in this space, Sye is in an early phase where challenges are considering clear prospects.

A company with two faces. Net Insight is a company with two faces; a mature, profitable core business and a new business, Sye (launched in 2016), with high expectations. Sye does not generate significant revenues but has accumulated some successes, among others: the partnerships with Tata Communications and Ericsson. The business model for Sye is primarily based on capacity and live sports content is the core market segment (Live OTT).

Sye's main value adding feature is related to increased ad revenues as ads could be placed on screen two or three. Our evaluation indicates that challenges are considering clear opportunities. Looking at low delay we see a risk that the target audience, sports fans, which pay for TV packages today will become cord-cutters and content with streaming with a service like Sye since it is cheaper – thus a risk for lower average revenue per customer (ARPC) for the TV-companies (mismatched incentives). Therefore low delay needs to become an industry standard if Sye should reach the masses. In terms of synchronization, sport content owners are the target group. Our industry evaluation suggests that sports rights are going to remain hugely valuable as they are the one thing guaranteed to drive people to your platform. Thus content owners are well positioned to thrive in virtually all scenarios in the ongoing disruption as they have serious leverage thanks to the unique value of their content (content is still king). With this in mind, we ask ourselves what the economic incentives are to include a service like Sye.

Uncertain near-term performance. Taking into account the challenges presented, the disruption of OTT across the value chain and the fact that Sye is dependent on new business models that have to emerge we do not believe Sye will remain an industry priority in the near-term. And until then Net Insights first mover advantage may have eroded and new competition reached the surface. Today Sye is unique in terms of synchronization but low delay initiatives exist from several players, among others from Anevia, Concurrent, Broadpeak, IBM and most notably Akamai (liveOrigin). In conclusion, even though we see the potential for a service like Sye in the long run, the timing and future competition are big uncertainties.

Catalyst types

New partnerships (mainly with cdn providers)
Will verify a bigger breakthrough for Live OTT and for Sye specifically.

Sye outperforms estimates
If the short-term numbers (12 months) for Sye exceeds estimates our conclusion may be proven wrong. This will alter our valuation positively.

Value adding acquisitions
Not included in our valuation, cash position of SEK <100m today (Q3'18).

Personal notes

Nitro Games NITRO

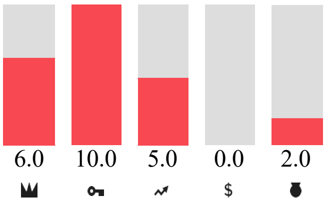
Company page

https://www.redeye.se/company/nitro-games

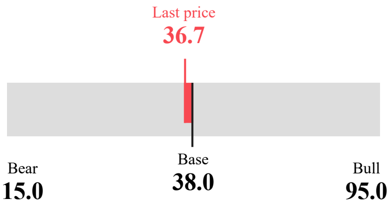
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

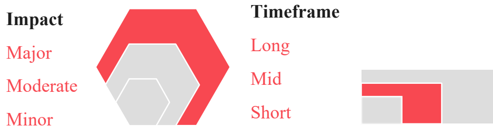
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Jussi Tähtinen
Chairman	Antti Villanen

Share information

Share price (SEK)	36.7
Number of shares (M)	3.6
Market cap (MSEK)	132
Net debt (MSEK)	6

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Nitro Games: Yes

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

Financials

	2017	2018E	2019E	2020E	2021E
			Redeye Estimates		
Revenue, MSEK	2	3	4	6	8
Growth	*>100%*	*52.0%*	*54.0%*	*45.0%*	*42.0%*
EBITDA	-2	-4	-3	-2	1
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*10.2%*
EBIT	-3	-5	-3	-2	1
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*9.5%*
Pre-tax earnings	-3	-5	-3	-2	1
Net earnings	-3	-5	-2	-2	1
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*7.4%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.41	-1.36	-0.62	-0.44	0.17
P/E adj.	-3.6	-2.6	-5.7	-8.1	20.9
EV/S	6.7	6.3	4.7	3.6	2.5
EV/EBITDA	-6.2	-3.9	-6.7	-10.6	24.6

Last updated: 2019-01-11

Owner	Equity	Votes
Jacob Ehrnrooth	15.4%	15.4%
Savox Investments S.A.	12.0%	12.0%
Swedbank Robur Fonder	9.6%	9.6%
Aktia Asset Management	5.3%	5.3%
Feat Invest AB	5.2%	5.2%
Ludvig Strigéus	4.7%	4.7%
Pasi Tolmunen	3.7%	3.7%
Antti Villanen	3.6%	3.6%
Luxus Micro Cap S.A	3.5%	3.5%
Sillankaari Kiinteistö Oy	3.5%	3.5%

Company description

Nitro Games is a mobile game developer and as of recent a publisher with a decade of experience in developing games for the mid-core user segment. Nitro Games has a long history of stable cash flows from developing contracts from bigger publishers which minimise risk in the business model. Currently a majority of Nitro Games 30 employees are working with a mobile game that will be published by Wargaming.net, the creators behind "World of Tanks" the seventh highest grossing game on PC in 2016.

Nitro Games second business area is developing and publishing mobile games. Nitro Games has adapted its business model closely after market conditions. The company utilizes its own NG Platform -technology that allows it to develop and publish high-end mobile games with impressive graphics and modular design under a short period of time. This is, as well as the company's MVP-process, are according to Nitro Games, unique strengths as they allow a cost-effective development of the games portfolio.

Investment case

- If the game "Runegate Heroes" becomes successful the partnership agreement with Wargaming could generate stable income (royalty) for Nitro Games the coming years. This deal could have an significant impact on future earnings.
- Netmarble is interested in similar publishing agreements for Nitro Games self-developed games in Asia, which is the biggest and fastest growing market amongst mobile games. At this point a deepened partnership of this kind is likely and have a potential initial revenue of EUR 0.8-1.2 million.
- One of the biggest values in Nitro Games is the self-developed NG Platform. The platform has been in development for over 4 years. With the NG Platform combined with a proven creative process Nitro Games can launch a mobile game in 5-10 months, typically this takes 6-18 months for most mobile games.

Nitro Games has a long history of stable cash flows from developing contracts from bigger publishers which minimise risk in the business model. Currently a majority of Nitro Games 55-60 employees are working with a mobile game that will be published by Wargaming.net, the creators of "World of Tanks" the seventh highest grossing game on PC in 2016. The game has been one of the most successful free to play PC-games for several years.

The third-party game development services described above is expected to grow steadily the next coming years, this alone creates a high underlying value in the company which justifies about half the existing market cap.

Nitro Games second business area is developing and publishing mobile games. Nitro Games has adapted its business model closely after market conditions. One of the biggest values in Nitro Games is the self-developed NG Platform. The platform has been in development for over 4 years. With the NG Platform combined with a proven creative process Nitro Games can launch a mobile game in 5-10 months, typically this takes 6-18 months for most other mobile game companies. Therefore Nitro Games can minimise the amount of time and money spent in every single project minimising risk.

The NG Platform combined with Nitro Games creative-process, and the overall experienced personnel is the company's biggest competitive advantage. Nitro Games two last games have both been selected by Apple as an editor's pick which is unusual and a proof of quality in the products developed by the company.

Nitro Games and Netmarble EMEA have signed a Game Distribution and Servicing Agreement recently. Netmarble is the highest grossing mobile games publisher in Korea. In China and Japan, the publisher's games are top 5 amongst the highest grossing games.

Investment risks

According to a research made by Deloitte approximately 2.5 percent of the mobile game companies made over EUR 1 million in 2016. Most mobile game developers struggle with bad monetisation in their games.

The probability that it will take 2 years before Nitro Games will release a top grossing game is relatively high. We estimate the probability of this scenario is about 40-50 percent. We believe the stock will be volatile on investor's hopes increasing risk in the stock.

It is also possible that the company never will succeed in the self-publishing mobile games industry. However, Nitro Games third-party development services are reducing the potential downside in the stock. This is our Bear-case scenario with a probability of 25 percent.

Catalyst types

More cash from wargaming

April 5 2018 Nitro Games announced a new publishing agreement with Wargaming as a natural step after the earlier game development agreement between the two parties. The most important value in this deal is that the game will be released, which is a proof that Nitro Games can make world-class mobile games. The estimated value of the development deal until the commercial launch is EUR 1.35 million which will secure a larger part of the cash flow in 2018. The profit share in the Wargaming-game will be an important revenue driver in 2019.

The gateway to asia

Netmarble and Nitro Games have signed two publishing agreements for both Medals of War and Heroes of Warland in the Middle-East and Africa . The first publishing deal generated an initial revenue of EUR 0.2 million and the second one generated EUR 0.5 million for Nitro Games. Netmarble is also interested in similar publishing agreements for the games in Asia, including China, Japan and Korea which is the biggest and fastest growing markets amongst mobile games. So a big potential catalyst for the stock is of course if new publishing deals for those countries would be signed. At this point a deepened partnership of this kind is likely and have a potential initial revenue of EUR 0.8-1.2 million. We believe a deal of this kind is possible, which in this case means a probability of 30 percent.

Nokia Oyj NOKIA

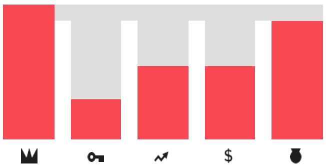
Company page

https://www.redeye.se/company/nokia-oyj

Redeye Rating

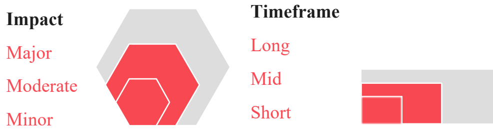
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



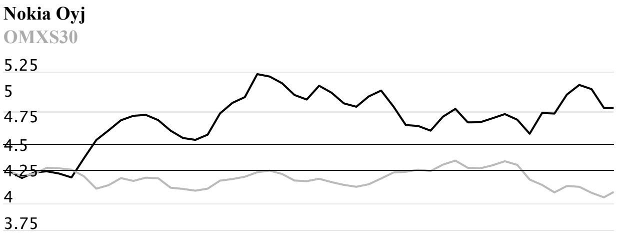
FAIR VALUE RANGE

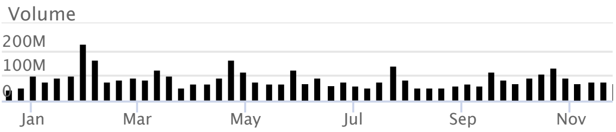
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot





Marketplace	NASDAQ Helsinki
CEO	Rajeev Suri
Chairman	Risto Siilasmaa

Share information

Share price (EUR)	5.1
Number of shares (M)	5,635.9
Market cap (MEUR)	28,890
Net debt (MEUR)	-4,015

Analyst

Greger Johansson
greger.johansson@redeye.se

Conflict of interests

Greger Johansson owns shares in Nokia Oyj: No

Financials

	2016	2017	Redeye Estimates 2018E	2019E	2020E
Revenue, MEUR	23,615	23,148	22,215	22,760	23,246
Growth	*88.9%*	*-2.0%*	*-4.0%*	*2.5%*	*2.1%*
EBITDA	440	1,607	1,480	2,645	3,172
EBITDA margin	*1.9%*	*6.9%*	*6.7%*	*11.6%*	*13.7%*
EBIT	-1,100	16	54	1,310	1,931
EBIT margin	*Neg*	*0.1%*	*0.2%*	*5.8%*	*8.3%*
Pre-tax earnings	-1,370	-510	-273	1,020	1,666
Net earnings	-766	-1,495	-287	735	1,239
Net margin	*Neg*	*Neg*	*Neg*	*3.2%*	*5.3%*
Dividend/Share	0.17	0.19	0.21	0.23	0.25
EPS adj.	0.27	0.33	0.31	0.36	0.42
P/E adj.	16.7	11.8	15.0	13.0	11.0
EV/S	0.9	0.8	1.0	1.0	0.9
EV/EBITDA	50.6	11.4	14.9	8.4	6.9

Last updated: 2018-10-25

Owner	Equity	Votes
BlackRock	6.0%	6.0%
Government of Finland	3.3%	3.3%
Vanguard	2.9%	2.9%
Norges Bank	1.8%	1.8%
Oppenheimer	1.5%	1.5%
Varma Mutual Pension Insurance Company	1.5%	1.5%
Franklin Templeton	0.9%	0.9%
Schroders	0.9%	0.9%
Invesco	0.8%	0.8%
Government of Japan Pension Investment Fund	0.8%	0.8%

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 billion, comprises Mobile Networks, Fixed Networks, Global Servixes, IP/Optical Networks and Applications & Analytics. The other business area, Nokia Technologies, which includes patents and licensing agreements, has revenues of some EUR 1.4-1.5 billion but very high operating margins of 70–78%. Nokia's total turnover in 2017 was EUR 23.1 billion, with an adjusted operating margin of around 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

- We think the merger with Alcatel will create an a strong end-to-end offer
- Nokia has a strong leadership team that has done several large mergers
- 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
- Our DCF shows a limited upside but EV/S-valuation is lower than 1x

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 ok, 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 6% 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 limited guidance) is as well balanced and as good as it could be.

Decent expectations
Since the market for mobile networks has been rather grim for some time, and is expected to remain so in 2018. The valuation (P/S multiple just below 1x) indicates a fairly decent level of confidence in the company. If we examine the financial estimates for a few years forward, we believe the market has increased its estimates and expectations. Although we do not expect any growth going forward, we still estimate that Nokia can return to a 11–12% operating margin and a decent dividend.

Bear Points:

There are naturally some major risks in this investerment scenario, such as:

- continued negative revenue growth
- cost cutting taking too long
- additional problems with the integration

Catalyst types

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

Share buybacks
Nokia increase the buyback program

Cutting cost/improved operational efficiencies
Nokia announce further cost cutting

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

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

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

Opus Group OPUS

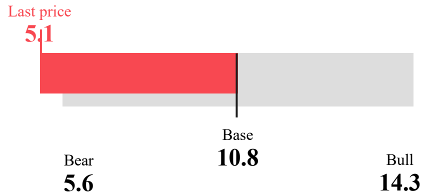
Company page
https://www.redeye.se/company/opus-group

Redeye Rating

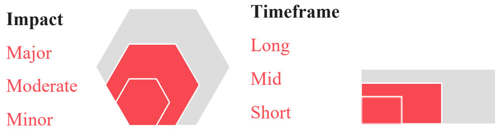
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



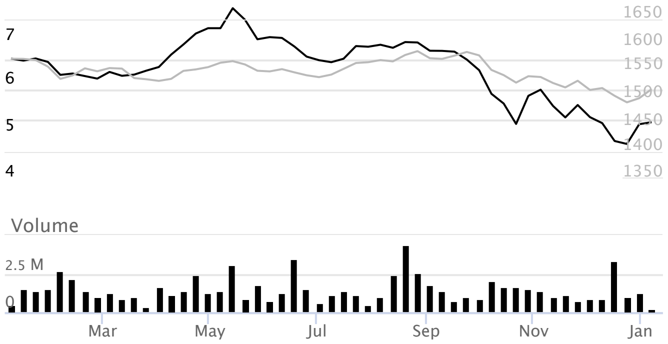
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Opus Group
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Lothar Geilen
Chairman	Katarina Bonde

Share information

Share price (SEK)	5.1
Number of shares (M)	290.3
Market cap (MSEK)	1,481
Net debt (MSEK)	1,405

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

			Redeye Estimates	
	2017	**2018E**	**2019E**	**2020E**
Revenue, MSEK	1,860	2,514	2,722	2,874
Growth	*9.5%*	*35.2%*	*8.3%*	*5.6%*
EBITDA	308	495	557	594
EBITDA margin	*16.6%*	*19.7%*	*20.5%*	*20.7%*
EBIT	107	198	252	313
EBIT margin	*5.7%*	*7.9%*	*9.3%*	*10.9%*
Pre-tax earnings	3	28	161	230
Net earnings	81	-1	109	156
Net margin	*4.4%*	*Neg*	*4.0%*	*5.4%*
Dividend/Share	0.05	0.08	0.10	0.13
EPS adj.	0.28	0.00	0.38	0.54
P/E adj.	23.9	-2,611.3	14.6	10.2
EV/S	1.5	1.2	1.1	0.9
EV/EBITDA	9.3	6.3	5.3	4.6

Last updated: 2018-11-18

Owner	Equity	Votes
RWC Fonder	19.6%	19.6%
Magnus Greko	14.0%	14.0%
Lothar Geilen	6.8%	6.8%
Andra AP-fonden	6.4%	6.4%
Avanza Pension	5.9%	5.9%
Henrik Wagner Jørgensen	3.6%	3.6%
Dimensional Fund Advisors	3.1%	3.1%
Schroders	1.2%	1.2%
Nordnet Pensionsförsäkring	1.2%	1.2%
Per Hamberg	1.0%	1.0%

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 emission testing as the catalytic converters were introduced in the market. Step by step Opus extended its offering and costumer base and grew internationally. The big change, from an equipment supplier to a service provider, came in 2008 when Opus aquired Systech, a US based vehicle testing company.

Since then revenues from vehicle inspection programs has grown substantially, more than 25 percent annually during 2008-16, excluding the acquisitions of Envirotest and the Swedish operations. These programs make upp for approximately 90 percent of revenues whereas the remaining 10 percent comes from equipment sales. Starting in 2018 Opus will report two divisions: Vehicle Inspection and Intelligent Vehicle Suport. The latter is a newly formed division assisting vehicle technicians with model-specific vehicle systems data.

Opus currently operates a number of vehicle inspection 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 the other markets 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 percent. The company has around 2 000 employees at their facilites in North- and South America, Sweden, UK and Pakistan. The shares are listed on Nasdaq Stockholms Main market.

Investment case

- A number of new businesses are at this point running with low or negative profits, but will gradually improve as volumes pick up. These are primarily EaaS, the testing programs in Pakistan and South America and the division Intelligent Vehicle Support.
- The risk for Opus loosing some of its current programs in the US should not be ignored. The bigger contracts are not due for renewal in several years but these procurements are sometimes difficult to predict.
- Opus seems to have a number of new deals in their pipeline for 2019. Both new markets and new clients in current markets. If they take further substantial steps towards their five year growth plan we will most likely see a revaluation of the company.

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 company's own growht target is to double its revenues between 2016 and 2021. 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. This is maybe the primary reason why they raised their margin target and aim for 25 percent EBITDA-margin by year 2021.

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 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. Another growth factor was illustrated by the VW scandal. Realistically, authorities will increasingly turn to independent third parties to carry out relevant measurements, rather than relying on laboratory testing by automobile manufacturers. In the US, Environmental Protection Agency (EPA) tightened the standards for ground-level ozone not very long ago. 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. Since then the Trump administration has forced EPA to take a different course, which has caused uncertainty and confusion. Fortunately most states seem a lot more interested in doing something about the air quality than the federal government.

Bear points:

- Some of the new countries that Opus has entered, e.g. Pakistan, are unstable in several aspects. The amount of business coming from these markets is not extensive so far, which limits the effect of any potential damage, if things go sour.
- Opus could loose some of its current contracts in the US. If that happens it might be interpreted as if they haven't delivered according to the clients expectations. Or that prices are under preassure. Even if the size of the contract is modest these signals could be clearly negative.

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) Drew Tech's RAP and Fastlign gaining traction.

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

Paynova PAY

Company page

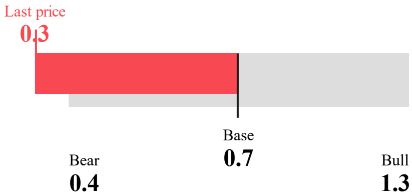
https://www.redeye.se/company/paynova

Redeye Rating

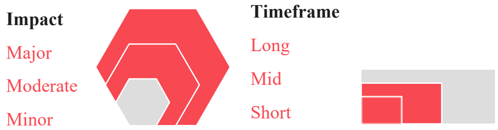
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

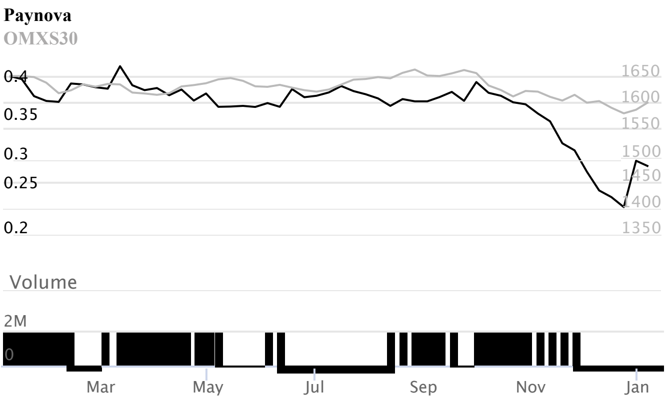


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	Nordic Growth Market
CEO	Daniel Ekberger
Chairman	Anders Persson

Share information

Share price (SEK)	0.3
Number of shares (M)	373.7
Market cap (MSEK)	105
Net debt (MSEK)	45

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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	33	42	70	101
Growth	*8.9%*	*29.3%*	*64.0%*	*45.0%*
EBITDA	-14	-16	7	25
EBITDA margin	*Neg*	*Neg*	*9.9%*	*24.8%*
EBIT	-22	-24	-3	8
EBIT margin	*Neg*	*Neg*	*Neg*	*8.0%*
Pre-tax earnings	-24	-25	-5	7
Net earnings	-24	-25	-5	7
Net margin	*Neg*	*Neg*	*Neg*	*6.8%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.07	-0.07	-0.01	0.02
P/E adj.	-5.6	-5.8	-29.5	21.4
EV/S	5.2	4.9	2.7	1.6
EV/EBITDA	-11.8	-13.1	27.8	6.4

Last updated: 2018-09-18

Owner	Equity	Votes
Marcus Nordvall	9.1%	9.1%
Origo Capital	8.3%	8.3%
Avanza Pension	7.0%	7.0%
Nordnet Pensionsförsäkring	5.7%	5.7%
Daniel Ekberger	4.1%	4.1%
Theodor Jeansson	4.0%	4.0%
Kjell-Ake Sundqvist	3.8%	3.8%
Chirp AB	2.4%	2.4%
Robert Norling	2.4%	2.4%
Bjarne Ahlenius	2.0%	2.0%

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

- Paynovas new focus on "Invoice as a service" has much higher revenue potential. Industry participants are talking about a rough estimate of SEK 20 on average for invoice and SEK 200 in total for instalments in comparison to processing direct payments were the revenue per transaction is about SEK 1.
- There is a value in both the existing processing platform and the newly developed consumer credit platform. Acquiring a proven payment platform would be interesting for many banks. Using the valuation on DIBS gives a value of approximately SEK 100 million for the existing platform for processing.
- Competitive business model: 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.

A rapidly growing market
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, ease of use and increased security. E-commerce in Sweden has grown by ten times since 2013 and this structural growth shows no signs of abating.

Competitive business model
To be successful on-line, the handling of payments is an important factor for e-retailers. To address 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.

Higher profitability
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. The new Consumer Credit offering, “Invoice as a service”, was launched and marketed towards existing and new clients in the beginning of 2015. The reason for launching Invoice as a service is the much higher revenue potential compared to processing direct payments. Industry participants are talking about a rough estimate of SEK 20 on average for invoice and SEK 200 in total for instalments in comparison to processing direct payments were the revenue per transaction is about SEK 1.

Proven platform
There is a value in both the existing processing platform and the newly developed consumer credit platform. Acquiring a functioning payment platform would be interesting for both local and international companies that want to expand in the Nordics. Using the valuation on DIBS gives a value of approximately SEK 100 million for the existing platform for processing. As the potential value of the consumer credit platform is much higher, it is fair to argue that the downside is limited

Investment risk
Paynova is still in many ways a start-up, since the company was rebuild in 2013. Since a majority of the cash flow is coming from a minority of its client the financial situation is not optimal. The ability to obtain new clients is therefore of highest importance. Until the company reaches a positive cash flow there is additional risk for more targeted rights issues which will create a dilution for existing owners.

Catalyst types

New share issue likely imminent
Cash and cash equivalents were SEK 1.9 million on September 30. In addition, the company has a check credit of SEK 3 million. In other words, Paynova is in need of additional capital to strengthen the financial position.

Payzmart gives revenue boost
PayZmart has now signed approximately 40 agreements with dental clinics. The partnership with PayZmart should have an significant revenue impact during 2019-2020 for Paynova.

Potential platform company agreement
Paynova is in discussions with several platforms that want to establish new and improved offerings in the market. These platforms are for example banks and credit market companies. The discussed potential cooperation with these type of customers is likely something similar to the partnership with Payzmart.

Large physical market
The leading POS supplier Paynova has spoken about earlier is now official. Panova's solution is integrated into the core systems at Visma/Extenda. In addition to pure system integration, cooperation also involves further work to process the very large physical market jointly.

Personal notes

Polygiene POLYG

Company page

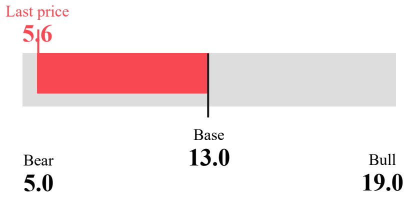
https://www.redeye.se/company/polygiene

Redeye Rating

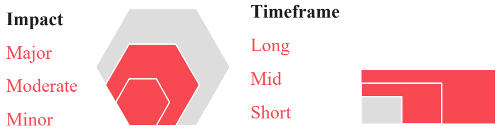
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



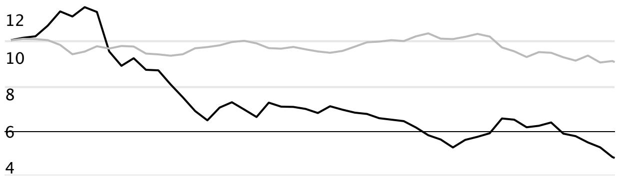
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Polygiene
OMXS30



Marketplace	First North Stockholm
CEO	Ulrika Björk
Chairman	Jonas Wollin

Share information

Share price (SEK)	5.8
Number of shares (M)	20.5
Market cap (MSEK)	118
Net debt (MSEK)	-16

Analyst

Havan Hanna
havan.hanna@redeye.se

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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	76	72	90	118
Growth	*23.1%*	*-4.3%*	*25.0%*	*30.0%*
EBITDA	-6	-1	6	14
EBITDA margin	*Neg*	*Neg*	*7.0%*	*11.7%*
EBIT	-6	-1	6	13
EBIT margin	*Neg*	*Neg*	*7.0%*	*11.3%*
Pre-tax earnings	-6	-1	6	13
Net earnings	-5	-2	5	10
Net margin	*Neg*	*Neg*	*5.5%*	*8.8%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.26	-0.08	0.24	0.51
P/E adj.	-46.3	-80.0	27.6	13.1
EV/S	3.1	1.7	1.3	1.0
EV/EBITDA	-40.4	-184.0	18.9	8.3

Last updated: 2018-11-15

Owner	Equity	Votes
Erik A i Malmö AB	6.6%	6.6%
Clearstream Banking S.A. Lux.	5.9%	5.9%
JP Morgan Bank Lux.	5.7%	5.7%
Richard Tooby	5.0%	5.0%
JPM Chase NA	4.6%	4.6%
Jonas Wollin	4.2%	4.2%
Aktia Fund Management	4.1%	4.1%
Lennart Holm	4.0%	4.0%
Mats Georgson	3.4%	3.4%
Peter Sjösten	2.9%	2.9%

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 (2017).

The company employs ~20 people and is headquartered in Malmo. In addition, the company has agents and distributors in over 20 locations worldwide and an advisory board. In 2017 sales were SEK 76 million and EBIT SEK -6 million. Polygiene has been traded on First North Stockholm since March 2016.

Investment case

- Polygiene – an Ingredient Brand
- The winner takes it all
- Question marks about profitability
- Our DCF indicates a base case of SEK 13 per share and a fair value range of SEK 5-19 per share

Ingredient Brand

Polygiene builds an Ingredient Brand (like Gore-Tex) based on the functionality of permanent odor control technology (Polygiene Odor Control Technology). So far, no competitor has succeeded in building a similar comprehensive solution or an equally strong brand. We consider this to be the company's competitive advantage.

The winner takes it all

An established fact for ingredient brand strategies involves the leading brand gaining large market dominance. 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 could be a small company listed on First North.

Question marks about profitability

Today, the market has questions about profitability. In our forecasts, loss in 2017 and low profitability during 2018 are incorporated as a result of increased market investments and recruitment. By 2019, a higher profitability level (12% in EBIT margin) is expected, as the scalability of fixed costs makes a mark. For a long-term owner, we therefore see today's price levels as attractive.

Valuation

At base case, we see average sales growth of 17 percent per year during the forecast period 2018-2027. We then expect the company to reach a maturation phase and grow by 2 percent. In the same period, we expect an average EBIT margin of 13 percent, the long-term EBIT margin amounts to 11 percent. The WACC is 10.8 percent.

The biggest risks are related to 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 odor control market is a relatively new market that still has to prove its existence. Today it is too early to determine if odor control is here to "stay".

Catalyst types

New partnerships with world-leading brands

We expect new partnerships in the future, but brands with the same status as Adidas should increase the value.

Margin expansion

Improvements would confirm the scalability of fixed costs.

Higher sales growth than estimates

In comparison with Polygiene's financial goals, our estimates appear conservative and leave potential for positive surprises.

Personal notes

PowerCell Sweden PCELL

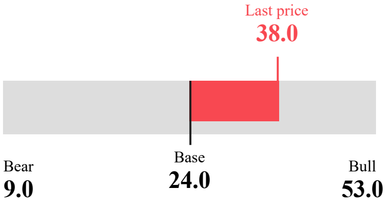
Company page
https://www.redeye.se/company/powercell-sweden

Redeye Rating

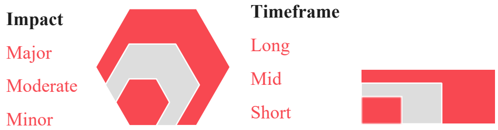
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



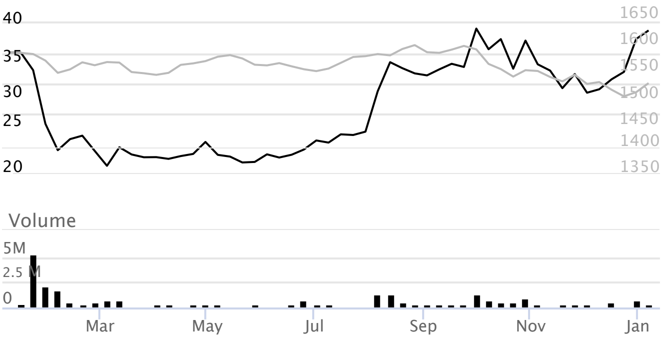
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

PowerCell Sweden
OMXS30



Marketplace	First North Stockholm
CEO	Per Wassén
Chairman	Magnus Jonsson

Share information

Share price (SEK)	38.0
Number of shares (M)	51.9
Market cap (MSEK)	2,014
Net debt (MSEK)	-65

Analyst

Henrik Alveskog
henrik.alveskog@redeye.se

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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	37	54	120	220
Growth	*>100%*	*47.1%*	*>100%*	*83.3%*
EBITDA	-61	-53	-49	-3
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-67	-59	-53	-8
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-67	-58	-52	-8
Net earnings	-67	-58	-52	-8
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-1.29	-1.11	-1.00	-0.15
P/E adj.	-30.3	-33.3	-37.1	-254.6
EV/S	49.2	33.0	15.4	8.6
EV/EBITDA	-29.8	-33.4	-37.6	-655.2

Last updated: 2018-11-05

Owner	Equity	Votes
Mohammed Al Amoudi	14.8%	14.8%
Fouriertransform AB	14.8%	14.8%
Finindus	10.5%	10.5%
Avanza Pension	7.4%	7.4%
Nordnet Pensionsförsäkring	2.0%	2.0%
Länsförsäkringar	1.0%	1.0%
BNP Paribas Asset Management	0.7%	0.7%
Palcmills Oy	0.6%	0.6%
Skandia Fonder	0.6%	0.6%
Swedbank Försäkring	0.5%	0.5%

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.

Since year 2016 Powercell has started launching its products in the market. Up until mid 2017 revenues have been somewhat sporadic and comes mainly from sales of prototypes. Deliveries of larger volumes started in Q3 2017 which means more stable revenues going forward. The last couple of years the company has shown a loss of some SEK 60 million due to costs related to product developement. Powercell made a directed rights issue in the spring 2017 and expect current funding to be enough to take them to break-even. Powercell has some 50 employees, primarily within development, construction and design, which is conducted in facilities adjacent to the head office in Gothenburg.

Investment case

- More orders for serial deliveries of stacks (S1 or S2). New business from renowned clients would confirm that Powercell has competitive products and would also be important steps towards stable earnings.
- New deals with vehicle manufacturers for the S3-stack (apart from Nikola). The S3-stack is primarily developed for the automobiles and small commercial vehicles. Additional deals with vehicle manufacturers would be clearly positive as it removes at least some of the uncertainty we have today.
- The market for fuel cells is expected to show robust growth over the next decade.

The market for fuel cells has grown substantially over the last few years and the products are now used in a wide range of applications. The industry is still at an early commercial stage and demand is to a great extent supported by government subsidies. Hence it is hard to estimate the potential size and growth rates of this market. It is also still difficult to assess Powercells USP's. There is apparently a great interest for their products and they have delivered a big number of prototypes that have been tested by many different types of customers.

The most important confirmation of Powercells competitive edge is the large order from Chinese company Wuhan Tiger. However we still don't know how profitable it will be. The fact that Nikola Motor is chosing Powercell as preferred supplier to the Nikola II is also encouraging and a testimonial to its quality. Since there are a number of other companies out there who also offer fuel cell stacks its important to identify Powercells competitive edge. So far we don't really have a clear picture here.

Earlier Powercell focused on developing a diesel reformer and the PowerPac system. This project has so far not been able to bring the products to the market and now appears to be put on hold. Otherwise the PowerPac would have given Powercell a clear USP and opened up a large potential market for replacing diesel generators with fuel cells.

Share price reflects rather high expectations
Since there is significant uncertainty regarding the fuel cell market on a global scale as well as Powercells competitive advantage, our valuation range is also very wide. There is no doubt potential, but that has already been factored in by the stock market. Powercell and other sector collegues in the fuel cell segment have valuations that reflect rather high expectations. With the large order from Wuhan Tiger, sales is expected to pick up substantially during 2018-19. We expect to see more business similar to this one in China during next year and believe that Powercell will reach break-even in 2020. Thus the share can grow into its current valuation. Primary value drivers for the near future are commercial successes in terms of major orders or close cooperations with companies within the vehicle industry.

Bear points:

- If it turns out that Powercell cannot offer competitive prices at high volume production.
- If several other manufacturers kan offer similar products which means Powercell has to compete with low prices.
- If their Chinese business partners terminate the cooperation with Powercell.
- If Powercell doesn't present any more substantial orders during 2018 or early 2019.

Catalyst types

Volume orders for fuel cell stacks
Additional volume orders for both S1 and S2 from industrial clients will confirm that Powercell has a competitive offering.

Contract with oem for s3-stack
Powercell is developing the S3-stack primarily for the vehicle industry. An additional agreement with an OEM (apart from Nikola) or a global subsupplier would be clearly positive.

Personal notes

Remedy Entertainment

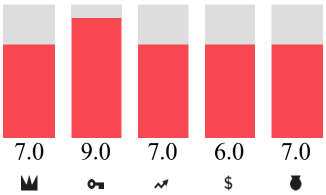
Company page

https://www.redeye.se/company/remedy-entertainment

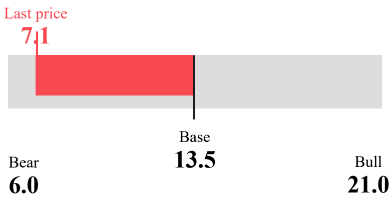
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

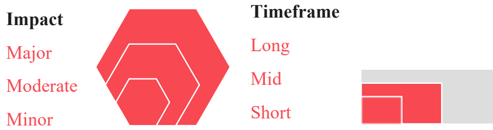
COMPANY QUALITY



FAIR VALUE RANGE

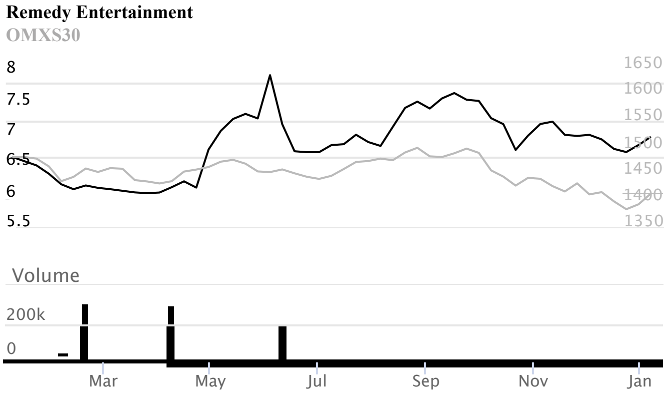


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Finland
CEO	Tero Virtala
Chairman	Markus Mäki

Share information

Share price (EUR)	7.1
Number of shares (M)	12.1
Market cap (MEUR)	86
Net debt (MEUR)	-27

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Remedy Entertainment: Yes

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MEUR	17	20	35	44
Growth	*4.6%*	*14.6%*	*79.8%*	*24.2%*
EBITDA	2	-1	10	12
EBITDA margin	*12.9%*	*Neg*	*27.8%*	*28.1%*
EBIT	2	-1	10	12
EBIT margin	*11.7%*	*Neg*	*27.8%*	*27.1%*
Pre-tax earnings	2	-1	9	12
Net earnings	2	-1	8	10
Net margin	*10.7%*	*Neg*	*22.7%*	*21.7%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.15	-0.12	0.67	0.79
P/E adj.	0.0	-61.6	10.8	9.1
EV/S	-1.2	3.4	1.7	1.1
EV/EBITDA	-9.4	-66.2	6.1	4.1

Last updated: 2018-11-19

Owner	Equity	Votes
Markus Heimo Tapio Mäki	28.6%	28.6%
Accendo Capital	17.6%	17.6%
Sami Antero Järvi	5.1%	5.1%
Virtala Tero Tapani	3.1%	3.1%
Saku Hermanni Lehtinen	2.4%	2.4%
Reini Mika Olavi	2.2%	2.2%
Taaleritehtaan Rahastoyhtiö Oy	2.2%	2.2%
Tero Sakari Anttoni Tolsa	1.8%	1.8%
Anssi Kalervo Hyytiäinen	1.5%	1.5%
Henri Erik Blåfield	1.1%	1.1%

Company description

Shortly after the release of the game Quantum Break, Remedy began a new chapter in its life when Markus Mäki, co-founder and the largest shareholder, ceded the role of CEO to Tero Virtala. Remedy's most important strategic decisions in this process were:

Remedy will in future be a PC & console-independent game developer after having developed games for Microsoft for 12 years.

The company also transitioned to a multi-project model, in which workers develop 3-4 projects simultaneously, while each project has a dedicated team.

Remedy will over time build an IP portfolio and part-finance its game development.

In addition Remedy selectively does work for hire type project where risks are lower but which also have an upside potential based on the success of the game.

The company chose to start developing games with focused feature-set and scope with uniqueness, based on its core values of storytelling and innovative action.

Investment case

- Remedy has gone from working with single projects to working with 2-4 projects simultaneously, and as the amount of projects grows, will release games more regularly. The key will be to maintain its quality reputation among gamers.
- Remedy's business model is in transition. The company is moving from a pure "work for hire" model to multi-project model in which the company also partly finances those game developments in which it retains IP ownership.
- Unlike many sector peers, Remedy does not capitalize its development costs. A lack of awareness of this among investors may be partly why Remedy is traded at a discount to similar companies on the stock market.

Remedy Entertainment is at the ratings forefront globally for its games. Its biggest commercial success to date is the cult classic Max Payne, released in the early 2000s. In the history Remedy is also known for spending a very long time developing its games, which in this industry means in excess of four years.

Since the new CEO Tero Virtala took office in August 2016 the company has been somewhat redirected. **Remedy has gone from working with single projects to working with 2-4 projects simultaneously**, and as the amount of projects grows, will release games more regularly. The key will be to maintain its quality reputation among gamers.

Remedy's business model is also in transition. The company is moving from a pure "work for hire" model to multi-project model in which the company also partly finances those game developments in which it retains IP ownership. The new business model suggests more risk for each project, but considerably raises leverage if the game becomes a commercial success. Profitability could improve greatly in the coming years if Remedy continues to develop high quality games. The best example of a similar journey on the Swedish stock market is Starbreeze after the acquisition of Overkill, which went from having financial difficulties to being highly profitable with the release of Payday 2 in 2013.

Unlike many sector peers, Remedy does not capitalize its development costs. A lack of awareness of this among investors may be partly why Remedy is traded at a discount to similar companies on the stock market. Another important reason for the low valuation is that the market has missed the change in Remedy's business model. Realistically, this misunderstanding will likely persist until Remedy's next game, Control, is released and the level of its operating margin becomes clearer. The company does not need to take care of deprecion when a game has been released like most of its peers which could have a dramatic positive effect on the EBIT margin.

Catalyst types

Crossfire story mode

The Story Mode for Crossfire 2 is expected to be released in the first half of 2019. We believe there is a variable aspect to this deal, with potential royalties.

The release of control

We expect Remedy's next game, Control, to be released in H2 2019. Control is expected to launch simultaneously on PlayStation, Xbox and PC. We expect it to sell 1.15 million copies in the second half of 2019. The publisher, 505 Games, will take 55 percent of gross revenue.

Personal notes

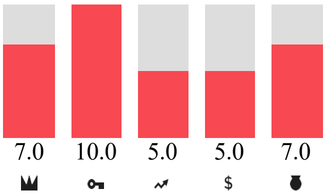
Sdiptech SDIP B

Company page
https://www.redeye.se/company/sdiptech

Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY



FAIR VALUE RANGE

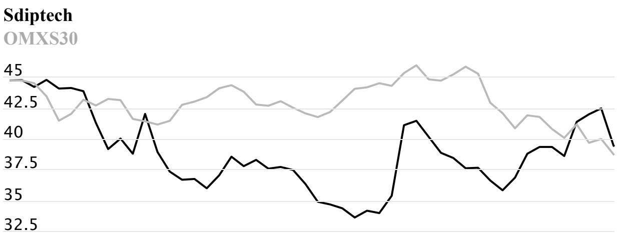
CATALYST POTENTIAL

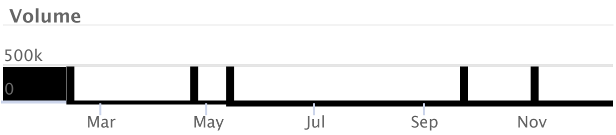
Impact
Major
Moderate
Minor

Timeframe
Long
Mid
Short

Turn page for catalyst specifics

Snapshot





Marketplace	First North Stockholm
CEO	Jakob Holm
Chairman	Jan Samuelson

Share information

Share price (SEK)	43.0
Number of shares (M)	30.3
Market cap (MSEK)	1,302
Net debt (MSEK)	536

Analyst

Fredrik Nilsson
fredrik.nilsson@redeye.se

Conflict of interests

Fredrik Nilsson owns shares in Sdiptech: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	1,071	1,530	1,681	1,752
Growth	*38.1%*	*42.9%*	*9.9%*	*4.2%*
EBITDA	172	199	228	243
EBITDA margin	*16.1%*	*13.0%*	*13.6%*	*13.9%*
EBIT	156	160	202	216
EBIT margin	*14.6%*	*10.4%*	*12.0%*	*12.3%*
Pre-tax earnings	120	145	184	203
Net earnings	88	96	125	141
Net margin	*8.2%*	*6.3%*	*7.5%*	*8.0%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	1.29	3.16	4.13	4.64
P/E adj.	36.1	14.2	10.9	9.7
EV/S	1.6	1.3	1.2	1.0
EV/EBITDA	9.9	10.2	8.5	7.5

Last updated: 2018-12-14

Owner	Equity	Votes
Serendipity Group	45.5%	65.1%
Elementa Management	6.6%	4.2%
Swedbank Robur Fonder	6.4%	4.1%
Handelsbanken Fonder	4.2%	2.7%
Catella Fonder	2.4%	1.5%
Aktia Asset Management	2.1%	1.3%
Avanza Pension	2.0%	1.3%
Fredrik Holmström	1.8%	1.2%
AB Axel Granlund	1.3%	0.8%
Nordnet Pensionsförsäkring	1.1%	0.7%

Company description

Sdiptech is a Swedish technology group, focused on infrastructure. The over 25 subsidiaries, which offer specialized services and products in over 15 niches, are constructing and renovating growing metropolitan areas. The majority of Sdiptechs revenues originate from Sweden, particularly the greater Stockholm Area. In 2017, the company expanded to Vienna and London. Metropolitan areas with many similarities to Stockholm. Founded in 2004, by Ashkan Pouya and Saeid Esmaeilzadeh, the group was originally named Serendipity Innovations. The current business areas, Tailored Installations and Niched Products & Services, were formed in 2013.

Sdiptechs growth strategy relies heavily on acquisitions. Since 2016, acquired businesses have added over SEK 150m in annual EBITA. The group is using a decentralized model, where the overtaken entities keep most of their operational freedom.

Investment case

- • Infrastructure niches supporting organic growth
- • Time to shrug off the first impression
- • Further value-adding acquisitions to be made

Infrastructure niches supporting organic growth

Among the listed serial acquirers, steady organic growth is rare. Sdiptech has an organic growth target of 5-10%, which according to us, is not reflected in the current stock price at all. From 2013 to 2017, the subsidiaries Sdiptech held at the end of 2017, had a sales-CAGR of 10%. Undoubtedly impressive. However, it may be due to Sdiptech acquiring businesses with a track record of robust growth as well as a solid Swedish economy during the period. Since the IPO, Sdiptech's actual performance has been weak, mainly due to the elevator niche. Although, several of Sditpech's product-based offerings – in niches such as Climate and Electricity – have had a solid development. Most of Sdiptech's product-based offerings is supported by structural drivers as sustainability, security, and convenience, leaving an opportunity for growth rates in line with Sdiptech's target. The company's ambition is to increase the share of product-based offerings. If successful, while also reaching its growth target, Sdiptech would deserve a substantial revaluation. That is in our view, the most interesting long-term case in Sdiptech.

Time to shrug off the first impression

Starting with a profit warning a few months after the IPO of its common share in May 2017, due to problems in the then dominating elevator business, Sdiptech's performance so far has been far from impressive. So far during 2018, the elevator business has shown promising signs of improvement, which combined with a more diversified business reduces the risk for further setbacks. We believe that the operational bottom is behind us. However, it seems as though the market does not agree, as no revaluation has occurred and as the discount compared to peers remains significant.

The peers are businesses that in most cases have shown strong performance in the stock market for over ten years, mainly due to successful acquisition strategies. Sdiptech has so far demonstrated its capability to execute several acquisitions during a short time-frame and has recruited several key persons from its successful peers. We believe Sdiptech will need to show strong operational performance to narrow the valuation gap to peers. However, the promising signs seen so far in 2018 seem to have been ignored by the market so far, creating an exciting opportunity, in our view.

Further value-adding acquisitions to be made

Acquisitions are an important part of Sdiptech's business model. Since the IPO of the preferred share in 2015, the company has made 24 acquisitions. Usually, Sdiptech pays around 6x EBITA for the acquired businesses. As Sdiptech itself is trading at higher multiples, the acquisitions should be value-adding regardless of synergies. Sdiptech is cautious about synergy realization from acquired companies, due to its decentralized strategy. However, Sdiptech promotes so-called "non-invasive synergies." For example, cross-selling and coordinated purchasing of supplies. We argue that future acquisitions, although expected, will create additional value for Sdiptech shareholders, as the current valuation, in our view, does not discount a future flow of value-adding acquisitions. In addition, further acquisitions will make the group more diversified, thus, reducing risk.

Counter-Thesis – Bear Points

Profitability issues spreading to new areas

If a situation like the problems in the elevator business was to occur again, we believe the share would take another hit due to deteriorating investor confidence. On the other hand, as Sdiptech becomes more and more diversified the likelihood of such scenario decreases.

Competition making acquisitions more expensive

Sdipech's value creation is dependent on the ability to acquire businesses cheaper than its valuation. A higher difference in valuation creates more value and vice versa. Thus, if acquisition multiples were to increase, it would be harder for Sdiptech to create value for its shareholders through its M&A strategy.

A weak construction market hitting harder than expected

The direct exposure to the Swedish construction market is about 10-15% of sales, while several subsidiaries are exposed to infrastructure investments. These, at least to some extent, are driven by construction of new buildings and structures, which could be adversely affected by a weak construction market.

Catalyst types

Gaining a solid track record

Sdiptech is trading at a substantial discount compared to other listed serial acquirers. We believe the discount to mainly be a result of Sdiptech's short and volatile history. If Sdiptech can prove to be as stable as most of its peers, we see the potential for a revaluation.

Sensys Gatso Group SENS

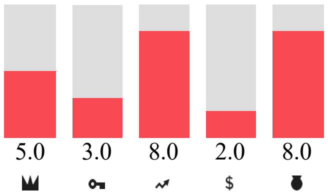
Company page

https://www.redeye.se/company/sensys-gatso-group

Redeye Rating

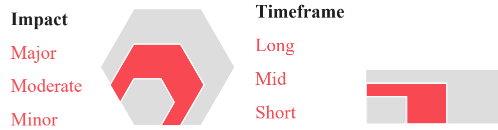
Leadership Ownership Profit outlook Profitability Capital strength

COMPANY QUALITY



FAIR VALUE RANGE

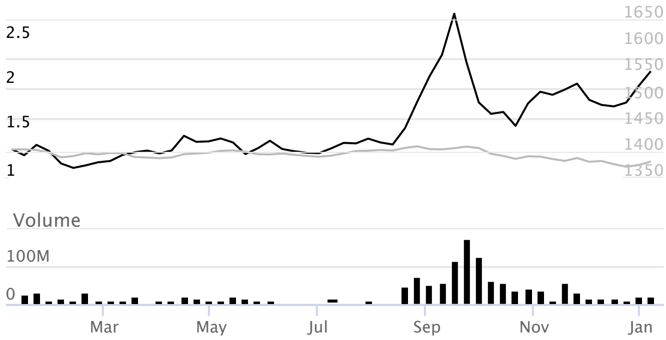
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Sensys Gatso Group
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Ivo Mönnink
Chairman	Claes Ödman

Share information

Share price (SEK)	2.1
Number of shares (M)	860.0
Market cap (MSEK)	1,802
Net debt (MSEK)	-33

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 andreceives/have received compensation from the Company in connection with this.

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	293	426	550	614
Growth	*-32.9%*	*45.3%*	*29.2%*	*11.6%*
EBITDA	-16	51	106	137
EBITDA margin	*Neg*	*12.0%*	*19.2%*	*22.2%*
EBIT	-55	14	67	100
EBIT margin	*Neg*	*3.3%*	*12.2%*	*16.3%*
Pre-tax earnings	-59	10	64	99
Net earnings	-55	7	61	79
Net margin	*Neg*	*1.7%*	*11.1%*	*12.9%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.07	0.01	0.07	0.09
P/E adj.	-23.5	232.1	27.2	21.1
EV/S	4.5	4.0	3.0	2.5
EV/EBITDA	-83.0	33.0	15.4	11.2

Last updated: 2018-11-28

Owner	Equity	Votes
Gatso Special Products B.V.	19.0%	19.0%
Avanza Pension	4.2%	4.2%
Per Wall	2.7%	2.7%
Inger Bergstrand	2.4%	2.4%
Nordnet Pensionsförsäkring	1.8%	1.8%
AXA	1.4%	1.4%
Swedbank Försäkring	0.9%	0.9%
Per Hamberg	0.9%	0.9%
Dimensional Fund Advisors	0.9%	0.9%
Livförsäkringsbolaget Skandia	0.8%	0.8%

Company description

Traffic safety company Sensys Gatso was formed when Sensys Traffic acquired its Dutch competitor Gatso in summer 2015. The new company is the market leader with approximately a quarter of the market sales for traffic safety systems, particularly speed cameras and traffic light monitoring cameras. However, much of Sensys Gatso's focus when it comes to growth will be placed on its other business area, Managed Services, where the company operates its own traffic safety systems and issues and administers fines. The company's size and its new position as the market number-one are important factors in achieving greater credibility with its customers. There are entry barriers through the type approval procedures, which often differ from country to country.

Locations: Sensys Gatso Group has subsidiaries in Australia, Germany, the Netherlands, Sweden and the United States, as well as in the United Arab Emirates

Investment case

- Growing recurring revenue from Managed Services
- Large potential in growing with existing customers
- Share price normally driven by big deals

Growing recurring revenue from Managed Services

The US Managed Services business with its high margins, long contracts and repeat revenue, is a critical factor in securing a sustainable growth and will therefore determine the long-term performance of the shares. The Gatso part of Sensys Gatso has during the past decade committed a lot of hard work and investments in building a strong foothold in the US. The Company has so far never lost a Managed Services contract but it has taken over a few contracts from competitors. We have previously been a bit hesitant towards the US market following the Trump election but the market has not deteriorated during the first 20 months of the Trump administration.

Large potential in growing with existing customers

During the fall of 2017, Sensys Gatso won an important ANPR contract for uninsured vehicle enforcement in Oklahoma - a brand new area for the company as well as the very first program of its kind. Sensys Gatso takes full responsibility for administration of tickets and therefore the initial terms reward Sensys Gatso by as much as USD 80 for every citation. When we do the math and glance at statements from Gatso USA we note that the numbers could easily get huge, which is due to the fact that about 25 percent of all vehicles in Oklahoma lack insurance. In Florida, one of Sensys Gatso's other eight states, the proportions of uninsured vehicles are essentially the same as in Oklahoma. Thus, there is a major upside if Sensys Gatso can get others of its customers on board for programs similar to Oklahoma. Using ANPR for uninsured vehicles is a good example of leveraging the company's expertise and competitive advantages in securing a so called unbroken chain of evidence. Besides the evidence integrity issues there are two other important barriers to entry for smaller, local players: The size and stability requirements of customers in order for them to assure reliable long-term delivery and the unique type approval procedures in each country.

Share price driven by big deals

The shares have always been driven by announcements of major deals, such as the movement from SEK 1.3 to over SEK 5.5 in the fall of 2015, which was largely related to the gigantic North African order worth SEK 165 million. The business will remain volatile and larger System Sales orders should continue to be important catalysts, although the most significant event would be a new contract similar to Oklahoma.

Catalyst types

New orders similar to oklahoma

The uninsured vehicles enforcement program in Oklahoma is a new business area for Sensys, which looks very promising Sensys receives as much as 80 USD per citation in Oklahoma. About 11-25 percent of the cars in Oklahoma are uninsured and in other states these figures seems even higher, meaning great potential for Sensys.

Large system orders

The share price is largely driven by the announcement of major orders. For the next quarters we see larger orders from several geographies, especially related to the competitive offering within in-vehicle solutions

Personal notes

Sivers IMA SIVE

Company page

https://www.redeye.se/company/sivers-ima

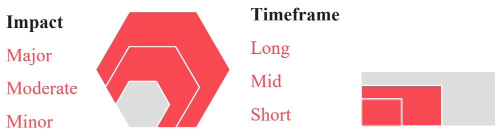
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

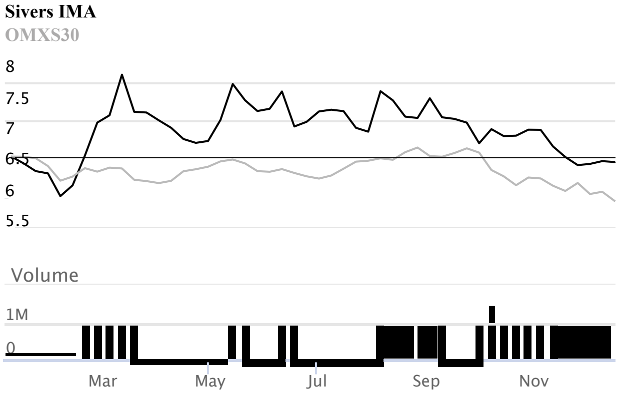
FAIR VALUE RANGE

CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Anders Storm
Chairman	Tomas Duffy

Share information

Share price (SEK)	6.5
Number of shares (M)	118.4
Market cap (MSEK)	777
Net debt (MSEK)	13

Analyst

Dennis Berggren
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Conflict of interests

Dennis Berggren owns shares in Sivers IMA: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	65	87	190	312
Growth	*>100%*	*32.8%*	*>100%*	*64.5%*
EBITDA	-20	-42	8	64
EBITDA margin	*Neg*	*Neg*	*4.4%*	*20.5%*
EBIT	-51	-86	-30	50
EBIT margin	*Neg*	*Neg*	*Neg*	*16.0%*
Pre-tax earnings	-52	-91	-32	48
Net earnings	-46	-90	-32	44
Net margin	*Neg*	*Neg*	*Neg*	*14.1%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.49	-0.76	-0.27	0.37
P/E adj.	-12.0	-8.7	-24.5	18.1
EV/S	7.9	8.8	4.2	2.5
EV/EBITDA	-26.6	-18.2	94.9	12.1

Last updated: 2018-11-20

Owner	Equity	Votes
Rothesay Ltd	9.2%	9.2%
Keith Halsey	9.1%	9.1%
Nutwell Investments S.A.	7.6%	7.6%
Avanza Pension	7.3%	7.3%
Swedbank Robur Fonder	3.6%	3.6%
Rosemount LTD	3.3%	3.3%
Neil Martin	1.9%	1.9%
Andrew McKee	1.7%	1.7%
Nordnet Pensionsförsäkring	1.6%	1.6%
Thomas Duffy	1.4%	1.4%

Company description

Sivers IMA has extensive experience from developing micro- and millimeter wave products. Since the 80's, the company has focused on developing new radio frequency products, which also has been complemented by acquisitions. Today, Sivers IMA is focused on development and sales of radio frequency components and modules for data- and communication systems. The greatest areas of application are WiGig/5G, expected to bring significant opportunities. In 2017, Sivers IMA acquired the Scottish foundry business CST Global, which produces optical semiconductors. Its most promising segments are FTTx and data centers. Common for both business units is that they grow with the demand for solutions improving the data and communication systems.

Investment case

- Unique technology based on extensive background in microwave development.
- Case strengthened by partnerships with established providers.
- Expected to take part of huge emerging markets.

Unique technology based on extensive background in microwave development. Sivers IMA has produced a unique chip by combining its technical expertise and long background in microwave development to innovate products for new applications. Sivers IMA's chip has a high level of integration and high amplitude modulation (64 QAM versus ~16 QAM from general competitors) and more channels, which means the chip covers a broader spectrum (57-71 GHz vs 57-64 GHz). The chip is also designed for infrastructure, while the solutions from many competitors were initially developed for consumer electronics. In summary, this combination makes Sivers IMA's chip unique.

The company has thus gained a technological edge, giving Sivers IMA significant opportunities in the forthcoming rollouts of WiGig/5G systems. We expect the company's WiGig-chip to sell in large volumes (0.3 million units) over the next 18 months, which means we believe Sivers IMA will exhibit very high sales growth during 2019/2020. At the same time, the company's 5G chip production opens the potential for valuable contracts that could generate even bigger revenues over the next few years.

Case strengthened by partnerships with established providers. Over the past two years the company has entered into partnerships with prominent companies such as Ampleon, Fujikura and IDT. All these businesses offer leading-edge technology and have strong positions in the telecom industry. We are especially upbeat about the collaboration with Ampleon, holding a market share of around 35% in RF power and has invested in Sivers IMA through a convertible bond. This partnership gives the company an entry with all major system vendors, offering significantly improved sales and development opportunities while lending credibility to Sivers IMA's technology.

Expected to take part in huge emerging markets. Our estimates reflect expectations that Sivers IMA will grow rapidly as the 5G/WiGig markets emerge. But since these markets are expected to get really big after 2022, the majority of Sivers IMA's valuation is based on assumptions about future market shares and market size years from now.

We believe that Sivers IMA is strongly positioned to win a number of contracts with small system vendors, thus covering 20% of the estimated addressable WiGig market. At the same time, we expect the company to successfully market its 5G chip to a number of customers, thus taking up to 5% of the 5G-based market for FWA applications. We also expect the fiber unit to develop very well, further fueling growth. This results in forecasts for the company to achieve sales of around SEK 450 million in 2022 and exceeding SEK 1.1 billion at the end of our forecast period (2028). In our base case, we calculate operating margins to peak at around 30% in the period 2023-2025. However, it is important to point out that there are still uncertainties about when the major rollouts will begin and how big the markets will actually be.

Although we believe that the current valuation reflects realistic expectations of the company's future, there is potential for even higher growth in a scenario where the company attracts a tier-1 system vendor, which would give it a significantly higher market share in view of the high market concentration, caputred by our bull case.

Counter-thesis

Tough 5G-competition. Sivers IMA is not unique in wanting to benefit from the huge 5G market. There are a number of providers with new solutions for next-generation networks, while the largest potential customers among the system vendors are developing their own solutions in-house. Although Sivers IMA's current offering is strong, it is likely that providers with new solutions will emerge.

Challenging global semiconductor giants. Competition is also tough in the fiber segment. The company intends to take larger parts of the value chain by differentiating and packaging its chips, thus taking up competition with global semiconductor giants such as Mitsubishi Electric and Broadcom. It is, therefore, important that it is done strategically by focusing on components and solutions where it fills a gap since the major competitors have better cost advantages in the production of standard components.

Uncertainty regarding future specifications. There are still some uncertainties regarding the next-generation network 5G. The development of new cellular infrastructure leads to enormous technical and financial challenges, which requires that all stakeholders in the value chain see great value in investing in new technologies. This may cause potential customers to wait before investing in new technology, which could delay the breakthrough.

Catalyst types

Agreements covering integration of 5g chip
During H2'18, the company is also expected to complete its 5G chip. This will imply opportunities to sign valuable deals with system vendors, proving a commercial interest in its 5G chip and significantly improved opportunities to take part in forthcoming 5G rollouts.

Follow-up order from "fortune 100"-customer
CST Global received an order worth SEK 21.5m regarding pre-commercial devices from a customer of "Fortune 100"-size in October. We believe that there is a good chance that the customer places a follow-up order, which should be significantly larger, potentially exceeding SEK 100m.

Large orders of wigig-chip
Sivers IMA has now announced that its WiGiG-chip is for volume production. It is thus important to show that the chip not only is technically advantageous but also enough commercially appealing to result in significant orders. This will be vital for the company to achieve substantial growth during the coming three years.

Smart Eye SEYE

Company page

https://www.redeye.se/company/smart-eye

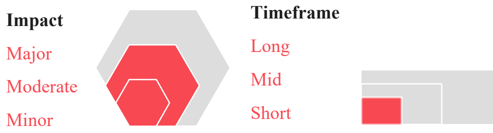
Redeye Rating

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	Martin Krantz
Chairman	Anders Jöfelt

Share information

Share price (SEK)	76.2
Number of shares (M)	13.1
Market cap (MSEK)	1,002
Net debt (MSEK)	-20

Analyst

Viktor Westman
viktor.westman@redeye.se

Conflict of interests

Viktor Westman owns shares in Smart Eye: Yes

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	43	52	86	202
Growth	*6.0%*	*21.3%*	*63.7%*	*>100%*
EBITDA	-31	-40	-25	53
EBITDA margin	*Neg*	*Neg*	*Neg*	*26.1%*
EBIT	-42	-53	-45	30
EBIT margin	*Neg*	*Neg*	*Neg*	*15.0%*
Pre-tax earnings	-42	-53	-45	30
Net earnings	-42	-53	-45	30
Net margin	*Neg*	*Neg*	*Neg*	*15.0%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-4.24	-4.51	-3.45	2.31
P/E adj.	-11.7	-15.3	-19.9	29.8
EV/S	11.3	15.7	10.3	4.4
EV/EBITDA	-16.0	-20.7	-34.7	16.8

Last updated: 2018-10-30

Owner	Equity	Votes
Fouriertransform AB	14.5%	14.5%
Mats Krantz inklusive närstående	10.6%	10.6%
Martin Krantz	8.0%	8.0%
Anders Jöfelt	7.9%	7.9%
Linda Jöfelt	7.9%	7.9%
Handelsbanken Fonder	5.0%	5.0%
Danica Pension	3.6%	3.6%
Stavern Helse Og Forvaltning AS	3.2%	3.2%
Nordnet Pensionsförsäkring	2.5%	2.5%
Aktia	2.4%	2.4%

Company description

Smart Eye provides eye tracking software for especially automotive applications but addresses customers in defence, aircraft and academic research as well. In the Research Instruments segment, where Smart Eye has a market share of 4-5 percent, it provides systems consisting of hardware, software and accessories. Our investment case, however, is fully based on the Automotive Solutions segment, which is an OEM business where Smart Eye provides tier 1 automotive suppliers with algorithms and software for embedding eye tracking in products that are later sold to the car OEM manufacturers. When a car model with Smart Eye's technology is launched Smart Eye will receive a royalty based license fee per car. Within Automotive Solutions Smart Eye has won designs from about half of the customers that has procured eye tracking thus far. The automotive market has high barriers to entry as it is costly and time consuming to develop products that meet the customers' high standards and switching costs are high, meaning important competitive advantages for Smart Eye.Listing: Stockholm Stock Exchange (First North) since year 2016.Locations: HQ in Sweden. Offices in Detroit, China and Japan.

Investment case

- In pole position within eye tracking for mandated driver monitoring
- Impatient & short term focused stock market
- Design wins to move the share price

In pole position within eye tracking for mandated driver monitoring

Not only due to the (semi) autonomous cars but more actually because of increased traffic safety focus and Euro NCAP's decision to mandate driver monitoring, the market for driver monitoring systems (DMS) is about to explode with an expected CAGR volume growth of about 200 percent during 2017-2025. This expected growthis a known fact for the stock market but we believe many do not understand Smart Eye’s strong positioning. Smart Eye has devoted 18 years of 100 percent focus to and investments in this very niche (whereof 16 years of actual sales). As for barriers to entry, the technology needs to cope with e.g. changing light conditions, tunnels, sunshine, darkness, vibrations etc. and at the same time never fail. Competition is therefore basically limited to one other player and the customers’ ownsolutions. However, we believe it is unlikely that the customers in the long run are willing to put up with all investments and maintain the focus necessary for in house sourcing. Smart Eye states that, being platform independent and hardware agnostic, it has a competitive edge as its technology can be locked late in the development process.

Impatient & short term focused stock market

Smart Eye’s first design wins with new customers are in general worth a lot more than meets the eye as they in general are platform based. The platforms should usually (although not automatically) yield additional new car models for every year over the platforms’ lives of about 10 years. For Smart Eye this creates a very foreseeable and stable revenue stream for many years to come as the large switching costs provide solid barriers to entry. The stock market however, as always, only sees the coming few quarters, meaning significant potential for patient, long term investors.

Design wins to move the share price

We expect a steady news flow going forward with design wins from already won procurements as well as RFQ’s worth SEK 10 billion in progress for 2018-2019, which should drive the share price.

Catalyst types

Design wins

The key catalyst is won contracts from the RFQ’s worth SEK 10 billion, which should drive the share price.

Personal notes

Starbreeze STAR B

Company page

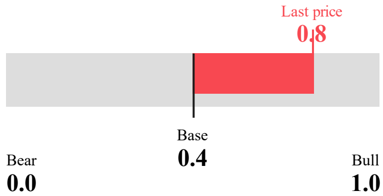
https://www.redeye.se/company/starbreeze

Redeye Rating

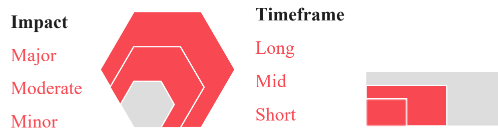
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

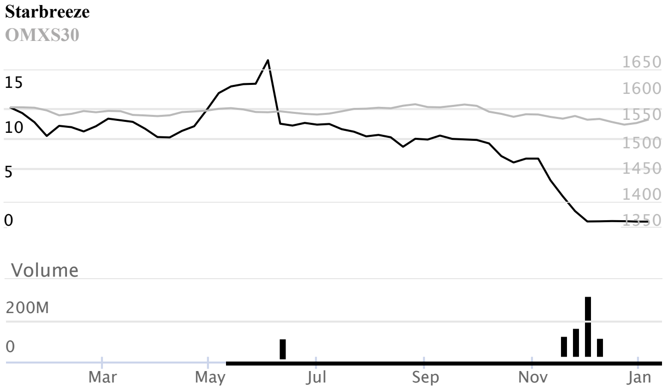


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Mikael Nermark
Chairman	Michael Hjort

Share information

Share price (SEK)	0.8
Number of shares (M)	325.3
Market cap (MSEK)	263
Net debt (MSEK)	244

Analyst

Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Starbreeze: Yes

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

Financials

			Redeye Estimates		
	2017	2018E	2019E	2020E	2021E
Revenue, MSEK	362	353	318	645	787
Growth	*4.8%*	*-2.5%*	*-9.9%*	*>100%*	*22.0%*
EBITDA	-54	-28	-174	-146	303
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*38.5%*
EBIT	-153	-192	-414	-436	142
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*18.0%*
Pre-tax earnings	-155	-201	-416	-440	139
Net earnings	-137	-191	-325	-343	108
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*13.7%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.49	-0.59	-1.00	-1.05	0.33
P/E adj.	-18.5	-1.3	-0.8	-0.7	2.3
EV/S	4.6	-0.2	0.6	0.4	0.1
EV/EBITDA	-30.7	2.1	-1.1	-1.9	0.3

Last updated: 2019-01-11

Owner	Equity	Votes
Swedbank Robur Fonder	14.8%	6.5%
Första AP-fonden	10.9%	4.4%
Bo Andersson Klint	6.3%	23.7%
Avanza Pension	5.6%	3.8%
Smilegate Holdings Inc.	3.0%	5.2%
Nordnet Pensionsförsäkring	1.7%	1.1%
Invesco	1.7%	0.7%
Michael Hjorth	0.8%	2.1%
Swedbank Försäkring	0.6%	0.7%
Biotech-Igg Equity AB (Publ)	0.6%	0.2%

Company description

Starbreeze currently has three business areas: Starbreeze Games, Publishing and VR Tech & Operations (Virtual Reality). In December 2018 the company filed for reconstruction. The uncertainty about the company's future is significant.

Investment case

- Our current valuation may be seen as an interval based on probabilities.
- We put the bankruptcy probability (risk) at about 25%.
- In the base case the company is saved by a share issue at a large market discount.
- The bull case assumes that the VR business is sold off and the core-business continues to develop well

A special situation

At present, it is no idea to value Starbreeze with a so-called DCF valuation, as the company's existence is in danger. Our valuation may be seen as an interval based on probabilities. We also want to add that investors should not go dreaming of a sugar bid for the company at the moment as current debts and loans are large in comparisons to the market value. A classic scenario in such a situation is that the buyer takes over the company's debts while existing shareholders are overlooked.

Our Bear case (25 percent probability) is that the company goes bankrupt and the shares are worth 0 SEK.

Our Base case (50 percent probability) assumes that Starbreeze carry out a major new issue to all owners on a at a relatively significant market discount. In such a situation we value the shares between SEK 100-160m. We use in the middle of that interval, which means SEK 0.4 per share.

Our Bull case (25 percent probability) assumes that the assets within VR manage to be sold at a relatively favorably price and while Starbreeze also manages to keep the key personnel. A joker is, of course, that a person with solid experience takes control of the company. OVERKILL's The Walking Dead (OTWD) is revitalized when the game is launched on console, new content is launched, the technical issues are disappearing, and the price is further reduced. If the game is released to the console, it would be positive if, for example, the game is entered into Xbox Gamespass which secures revenue while the OTWD gets a second chance to create a player base. However, in order to highlight the risk in the share at the moment, our bull-case value lands at SEK 1 per share.

Catalyst types

Major new share issue

Starbreeze carry out a major new issue to all owners on a at a relatively significant market discount. In such a situation we value the shares between SEK 100-160 million. We take a valuation in the middle of that interval, which means SEK 0.4 per share.

A new beginning

The assets within VR manage to be sold at a relatively favorably price and Starbreeze also manages to keep the key personnel. A joker is, of course, that a person with solid experience takes control of the company. A strategic and financial partnership with another company is also a possibility.

Bankruptcy

Starbreeze goes bankrupt and the shares are worth SEK 0.

Potential in "publishing"

Psychonauts 2 is coming in 2019 and System Shock 3 is expected at the first half of 2020. Both game series were critically acclaimed and beloved when the predecessors were released 12-18 years ago. The game creators behind both titles are involved this time as well, which is reassuring.

Personal notes

Stillfront Group SF

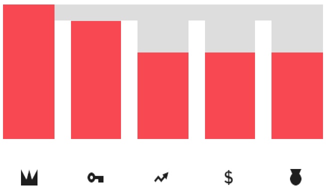
Company page

https://www.redeye.se/company/stillfront-group

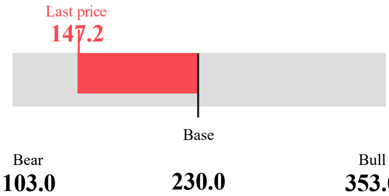
Redeye Rating

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

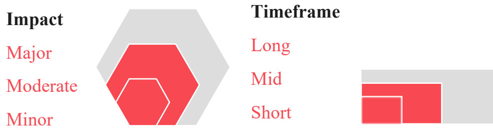
COMPANY QUALITY



FAIR VALUE RANGE

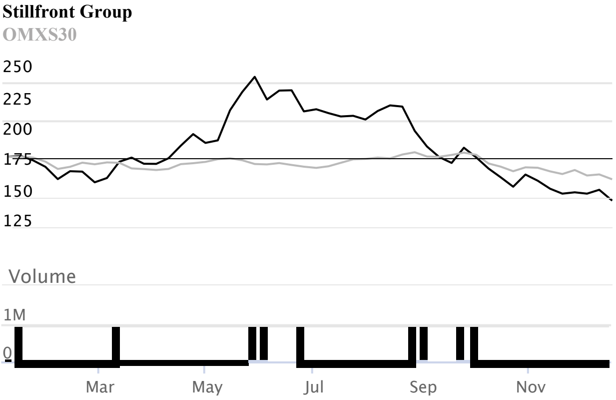


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Jörgen Larsson
Chairman	Jan Samuelson

Share information

Share price (SEK)	147.2
Number of shares (M)	24.0
Market cap (MSEK)	3,602
Net debt (MSEK)	-29

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 andreceives/have received compensation from the Company in connection with this.

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	166	1,310	1,503	1,632
Growth	*75.0%*	*>100%*	*14.7%*	*8.6%*
EBITDA	52	464	564	620
EBITDA margin	*31.5%*	*35.4%*	*37.5%*	*38.0%*
EBIT	26	336	404	472
EBIT margin	*15.6%*	*25.6%*	*26.9%*	*29.0%*
Pre-tax earnings	10	284	318	395
Net earnings	6	193	209	262
Net margin	*3.7%*	*14.8%*	*13.9%*	*16.0%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.26	8.21	8.87	11.11
P/E adj.	692.4	16.7	15.5	12.3
EV/S	28.7	2.7	2.2	1.8
EV/EBITDA	91.1	7.6	5.8	4.8

Last updated: 2018-11-27

Owner	Equity	Votes
Christian och Kai Wawrzinek	26.6%	26.6%
Handelsbanken Fonder	9.4%	9.4%
Första AP-fonden	8.9%	8.9%
Swedbank Robur Fonder	8.6%	8.6%
Carnegie Fonder	3.0%	3.0%
Global Founders Capital GmbH & Co	2.7%	2.7%
SEB Fonder	2.5%	2.5%
Avanza Pension	2.3%	2.3%
Livförsäkringsbolaget Skandia	1.9%	1.9%
Prioritet Finans	1.8%	1.8%

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. The comapny listed their shares on Nasdaq Stockholm First North during 2016.

Investment case

Catalyst types

Global launch of strike of nations

Nida Harb III is now set for a global launch in co-op with Goodgame Studios. The title, which is named Strike of Nations, entered the soft launch in September. We see no apparent reasons why Strike of Nations (Nida Harb III) wouldn't work outside the MENA region.

Call of war now cross-platform

In late October of 2017 Call of War by Bytro Labs was released on Steam. The number of users is increasing steadily, and according to Steamspy, the game had over 120k registered users by the start of 2018. The company also launched a native Android app on Google Play by the end of November. Call of War is now true cross-platform title. Players can use a desktop (Steam), mobile app, mobile browser and desktop browser to engage in the gameplay, which should lead to an increased engagement ratio of players and likely increased monetization.

Goodgame synergies

The acquisition of Goodgames takes the company to a whole new level, We believe Stillfront's other core assets will benefit greatly from Goodgames marketing expertise and vast network of active players, likely boost the overall performance of the Group

Personal notes

Systemair SYSR

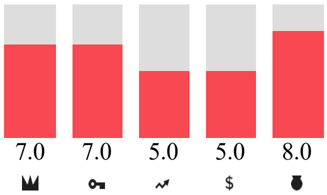
Company page

https://www.redeye.se/company/systemair

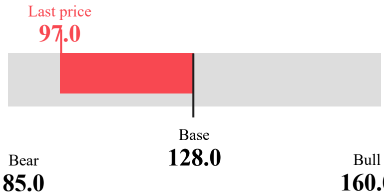
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

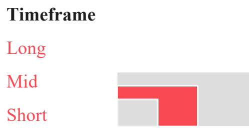
COMPANY QUALITY



FAIR VALUE RANGE

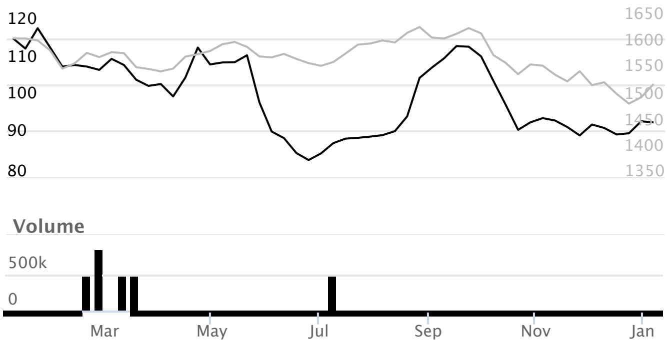


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	NASDAQ Stockholm
CEO	Roland Kasper
Chairman	Gerald Engström

Share information

Share price (SEK)	97.0
Number of shares (M)	52.0
Market cap (MSEK)	5,049
Net debt (MSEK)	1,537

Analyst

Henrik Alveskog
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

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	7,301	8,238	8,854	9,396
Growth	*6.4%*	*12.8%*	*7.5%*	*6.1%*
EBITDA	555	770	914	1,086
EBITDA margin	*7.6%*	*9.4%*	*10.3%*	*11.6%*
EBIT	350	537	664	836
EBIT margin	*4.8%*	*6.5%*	*7.5%*	*8.9%*
Pre-tax earnings	333	475	627	792
Net earnings	230	342	452	570
Net margin	*3.2%*	*4.2%*	*5.1%*	*6.1%*
Dividend/Share	2.00	2.00	2.20	2.40
EPS adj.	4.43	6.57	8.69	10.96
P/E adj.	28.2	15.4	11.7	9.2
EV/S	1.1	0.9	0.8	0.7
EV/EBITDA	15.0	9.3	7.5	5.8

Last updated: 2018-12-06

Owner	Equity	Votes
Gerald Engström	42.6%	42.6%
ebm-papst AB	21.3%	21.3%
Swedbank Robur Fonder	7.5%	7.5%
Alecta Pensionsförsäkring	5.6%	5.6%
Nordea Fonder	3.6%	3.6%
Fidelity	3.2%	3.2%
AFA Försäkring	2.8%	2.8%
Lannebo Fonder	2.4%	2.4%
C WorldWide Asset Management	1.5%	1.5%
Tredje AP-fonden	0.8%	0.8%

Company description

Systemair was founded in 1974 by Gerald Engstöm 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 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. More than 5 000 employees and subsidiaries in more than 40 countries on all continents. In fiscal year 2016/17 turnover amounted to SEK 6.9 billion and pre-tax profits SEK 410 million. Head office is Skinnskatteberg, Sweden. The shares are listed on Nasdaq Stockholm main market since year 2007.

Investment case

- For the moment we consider the valuation to be fairly reasonable.
- Systemair's own target of 12 percent annual growth and 10 percent EBIT-margin is not at all impossible to reach although our assumtions are more conservative. If they reach their targets there is substantial potential for revaluation.
- Good growth opportunities for the foreseeable future and a history of stable profitability make Systemair an interesting long term investment. However, it doesn't appear to be clearly undervalued and we do see any short term major catalysts.

This company is, and always has been, truly growth oriented. Since the early 1990's 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 organic growth has also 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 is 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 assumtions of sustained profitability, the share is attractive thanks to the company's good groth prospects. The need for energy efficient ventilation is increasing in several 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 (Eastern Europe, the Middle East and parts of Latin America), Systemair has already established strong positions. The stock has something of a premium valuation, which is also well deserved thanks partly to historical strong growth and stable profits, but also because ot the good long-term growth prospects for the ventilation industry and Systemair's strong market position.

Bear points:

- Regarding some of the their largest acquisitions, the Airwell companies in Italy and France and Menerega, Systemair under estimated the challenges of restoring profitability. Regarding these companies there is still a risk for setbacks.
- The company's is focused on reaching the 10 percent EBIT-margin target. If we do not see ant progress this ambition will certainly be questioned.

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

Talkpool TALK

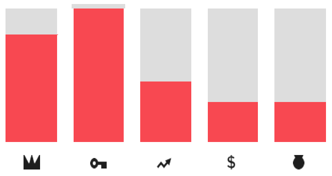
Company page

https://www.redeye.se/company/talkpool

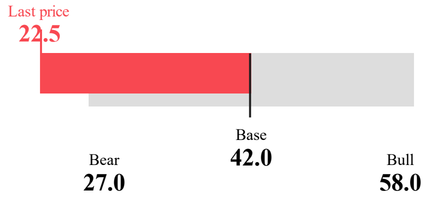
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

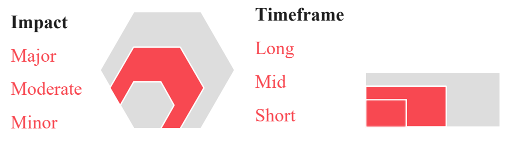
COMPANY QUALITY



FAIR VALUE RANGE

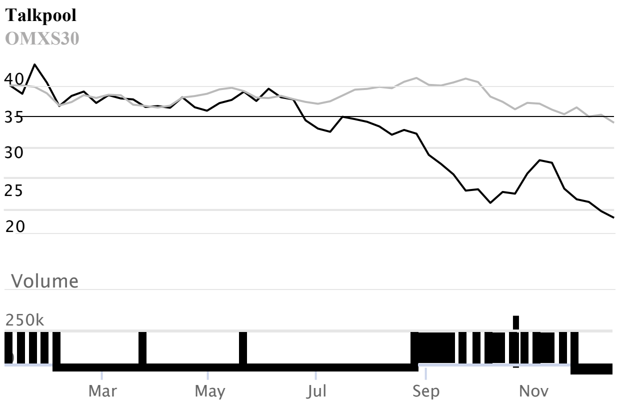


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Erik Strömstedt
Chairman	Magnus Sparrholm

Share information

Share price (SEK)	22.5
Number of shares (M)	4.9
Market cap (MSEK)	116
Net debt (MEUR)	3

Analyst

Dennis Berggren
dennis.berggren@redeye.se

Conflict of interests

Dennis Berggren owns shares in Talkpool: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MEUR	16	24	28	34
Growth	*41.6%*	*44.1%*	*19.7%*	*18.8%*
EBITDA	1	1	2	3
EBITDA margin	*3.2%*	*4.4%*	*8.0%*	*8.9%*
EBIT	0	1	2	3
EBIT margin	*2.2%*	*2.9%*	*6.6%*	*7.9%*
Pre-tax earnings	0	0	1	2
Net earnings	0	0	1	1
Net margin	*Neg*	*Neg*	*3.8%*	*4.5%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.06	-0.05	0.22	0.30
P/E adj.	-72.1	-47.8	11.3	8.1
EV/S	1.4	0.7	0.6	0.5
EV/EBITDA	44.3	15.6	6.9	5.5

Last updated: 2018-12-02

Owner	Equity	Votes
Magnus Sparrholm	30.9%	30.9%
Ludwig Fresenius	10.4%	10.4%
Avanza Pension	7.4%	7.4%
Erik Strömstedt	5.4%	5.4%
Nordnet Pensionsförsäkring	3.5%	3.5%
Stig Sparrholm	2.4%	2.4%
Stefan Lindgren	2.1%	2.1%
Carl Rietz	1.6%	1.6%
Comperte AB	1.5%	1.5%
Handelsbanken Liv Försäkring AB	1.3%	1.3%

Company description

Talkpool was founded in the early 2000's by Magnus Sparrholm and is now publicly listed on Nasdaq First North since 24 May 2016. The Company's head office is in Chur, Switzerland, and the total number of employees is approximately 1,250, including the acquisition of LCC.

From the outset, Talkpool has been an independent specialist that builds, maintains and improves telecom network services (TNS) worldwide. The Company is currently operating in various markets including Europe, Africa, the Caribbean, the Middle East and Latin America. Talkpool's strategy is to have a global presence supported by local hubs that provide local knowledge and expertise. Through cherry-picked acquisitions, a Global Partnership Platform and continued development of IoT-solutions, Talkpool will be able to reach niche areas and thus generate higher margins than the general TNS-market.

Investment case

- Profitable core business paving the way: TNS has historically provided very stable sales, with recurring revenue of 40-50%. Going forward, we believe that TNS will grow by 5% annually to 2025.
- IoT offers great growth opportunities: The Swedish market should be ready for a nationwide IoT implementation and we believe that Talkpool will benefit from this growing market.
- Value creation through M&A: Talkpool has a good track record of M&A activity. We believe that Talkpool will continue to acquire companies in areas where price pressure is not as intense as in TNS.

Profitable core business paving the way. Talkpool has been active in Telecom Network Services (TNS) since early 2000 and has now an established global presence. This business area has historically provided stable income, with a recurring revenue at 40-50% of sales from Operation and Maintenance. Talkpool has an impressive client portfolio, consisting of the most prominent operators and vendors, like Huawei and Telenor. Lately, the company has shown a strong growth potential in TNS with the award of two major turnkey contracts with Digicel (USD 7m annually), and Deutsche Telecom (potential of reaching EUR 5m annually). In addition, we believe that the global framework agreement with Digicel will increase Talkpool's sales substantially. The stable income from TNS enables Talkpool to finance its next big business area, Internet of Things (IoT).

Strong position to grow with the emerging IoT-market. According to Ericsson, the entire IoT-market is expected to grow by a CAGR of 30% until 2023. We believe that Talkpool is well positioned to grow with the IoT-market. Our interpretation is that the Swedish market is getting closer to a nationwide implementation as several telecommunication companies currently are increasing their efforts in building IoT-networks. We also believe that Talkpool will use its product portfolio to launch its IoT-products in the Middle East while using LCC's IoT-solutions in areas like Haiti. We further expect its IoT-sales to contribute with gross margins in excess of 45% and thereby bolstering the company's profitability.

Value creation through M&A. Talkpool acquired Camouflage in 2016 and Technetix in early 2017. Ever since Talkpool acquired the companies, they have shown impressive revenue and profit growth. In Q2 2017, Camouflage increased its profit more than six-fold, as well as they doubled their income, while Technetix doubled their profit. The latest acquisition of LCC Pakistan will double the revenue and improve the overall margins, as LCC had revenues of EUR 9.9m and an EBITDA margin of 15% (EUR 1.5m) in 2016. We assume that Talkpool will continue to acquire companies in niche areas where price pressure is not as intense as in TNS, leading to improved margins. However, we have not included any additional M&A activity in our valuation.

Bear points

- **Price pressure from operators.** Talkpool's current client portfolio consists of two customers that account for 50% of revenue. If one of them decided to choose another TNS-provider, there would be a huge negative impact on Talkpool's business. Talkpool has felt price pressure, which we believe to average 2-4% annually. We argue that it is highly possible that price pressure will continue and that it will make it a challenge for Talkpool to achieve its financial target of an EBIT margin of 8% in the TNS-segment.

- **Slow ramp-up in IoT.** The development of the IoT-market has taken longer than the market initially thought. Currently, most IoT solutions are highly customized which is a threshold for rapid growth. We believe that the IoT-market growth during the period of 2019-2020 will suffer if the market does not adopt a technology standard.

- **Impairments are part of the business.** We believe that 60% of Talkpool's revenues come from implementations of a market segment notorious for impairment losses. If the company does not comply with the requirements set out in contractual terms and conditions higher costs related to the project could result in impairments. This could result in heavy losses and also impact its development.

Catalyst types

Further acquisitions

We believe that Talkpool, with background of their successful M&A activity, will continue to acquire companies in areas where price pressure is not as intense as in TNS.

New big turnkey agreements

Talkpool's business is heavily dependent on its ability to secure large frame agreements. During the years, the company has signed deals with large actors such as Digicel. We believe that there is a possibility to reach new markets which are going to increase sales and margins within the TNS-segment.

Large internet of things project

Talkpool is well positioned to take part in the ongoing Smart City transformation and we believe that the market especially would value the announcement of a large IoT-project. The company has recently stated that its customers' shows readiness to adopt IoT-technology, and now should have reached a phase where larger orders are expected. Furthermore, we expect to see high growth and improved margins following a greater inflow of IoT-orders once a nationwide IoT-network has been established.

Personal notes

THQ Nordic THQN B

Company page

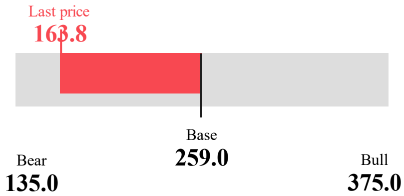
https://www.redeye.se/company/thq-nordic

Redeye Rating

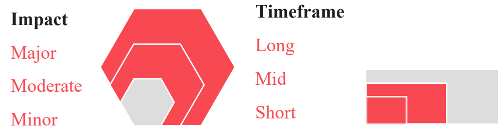
Leadership | Ownership | Profit outlook | Profitability | Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

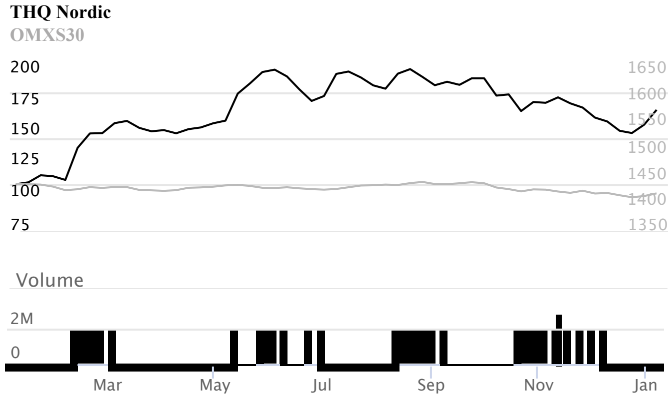


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Lars Wingefors
Chairman	Kicki Wallje-Lund

Share information

Share price (SEK)	163.8
Number of shares (M)	91.4
Market cap (MSEK)	15,201
Net debt (MSEK)	-1,925

Analyst

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

Kristoffer Lindström owns shares in THQ Nordic: Yes

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

Financials

			Redeye Estimates	
	2017	**2018E**	**2019E**	**2020E**
Revenue, MSEK	508	5,400	5,203	5,888
Growth	*68.1%*	*>100%*	*-3.6%*	*13.2%*
EBITDA	273	1,422	1,647	2,048
EBITDA margin	*53.7%*	*26.3%*	*31.7%*	*34.8%*
EBIT	188	627	817	1,184
EBIT margin	*37.1%*	*11.6%*	*15.7%*	*20.1%*
Pre-tax earnings	182	627	817	1,184
Net earnings	139	486	633	917
Net margin	*27.4%*	*9.0%*	*12.2%*	*15.6%*
Dividend/Share	0.00	0.00	0.00	3.01
EPS adj.	1.75	5.32	6.94	10.05
P/E adj.	77.0	31.6	24.2	16.7
EV/S	19.9	2.5	2.6	2.2
EV/EBITDA	37.0	9.6	8.1	6.2

Last updated: 2018-11-21

Owner	Equity	Votes
Lars Wingefors	40.9%	55.9%
Swedbank Robur Fonder	9.5%	5.0%
Erik Stenberg	8.9%	12.1%
Handelsbanken Fonder	7.0%	3.6%
CMB Holding AB	3.0%	4.2%
Didner & Gerge Fonder	2.6%	1.4%
Familjen Olsson med stiftelse	2.3%	1.2%
Livförsäkringsbolaget Skandia	1.7%	0.9%
Avanza Pension	1.4%	0.7%
Klemens Kreuzer	1.3%	1.7%

Company description

THQ Nordic has since Lars Wingefors founded the company in 2011, established a strong platform and product portfolio under high growth and profitability. The company has approximately 100 employees and 270 full-time developers. The most important events in the company's history are the acquisition of Austrian listed company JoWooD in 2011 and the US listed company THQ in 2013. Both of these businesses had incurred financial insolvency, which in this case means that the firm made these acquisitions out of their bankruptcy estate. This is also the simplest core of Lars Wingefors's entrepreneurial business, when he sees an opportunity in buying something cheaper than he can sell it, he most certainly is interested.

Since the company actively focus on growing their IP portfolio. Today the collection is comprised of 80+ different game franchises, which in the gaming industry is called intellectual property (IP). The game portfolio generates the lion share of the company's revenue; in 2016 71 percent of income and 81 percent of gross profits came from their own IPs. The remaining part of sales and profit comes from global physical distribution.

Investment case

- The company showed significant growth during 2017 but a large part of the IP portfolio is still not generating any income, this will change in the coming years
- THQ Nordics IP portfolio grew significantly following acquiring Koch Media, the asset care possibilities and thus value enhancement is vast
- Owner operator with a highly skilled management team with the right focus on long-term value creation
- The core strategy is to acquire IPs at depressed prices and then enhancing their value, Koch Media acquisition as a prime example

The acquisition of Koch Media is a prime example of THQ Nordic's acquisition strategy and why we continue to be positive to the case. We believe that the market is still to fully grasp the underlying value and cash flow generating capabilities of THQ Nordic's growing IP portfolio, which was enhanced to a significant degree following the purchase of the European publisher.

A large part of the asset value is still untapped

The company showed significant growth during 2017, but a large part of the IP portfolio is still not generating any income. Development projects including a few AAA will be released in the years to come. This will take revenues and the profits to entirely new levels.

THQ Nordics IP portfolio grew significantly following acquiring Koch Media. We believe that the company will use its asset care expertise and unlock a lot of value from the long tail part o0f the game asset in the coming years. Some key franchises included in the IP portfolio are Darksiders, MX vs. ATV, Red Faction, Delta Force, Titan Quest, SpellForce, Saints Row, Dead Island, Metro and 100+ more.

Focus on long-term value and buying cheap

THQ Nordic is what we like to call an owner-operator company where the management team owns 50%+ of capital, has extensive experience from the industry and is highly committed to building "something big." We believe there should be a premium on the valuation because of the strong shareholder focus

THQ Nordic's core strategy is to acquire IPs at depressed prices and then enhancing their value. We view the Koch Media acquisition as a prime example of this approach. This focus will continue to keep risks at low levels and create significant investment returns for shareholders going onwards

Many public companies suffer from a short-term quarterly focus; this could not be further from the case when it comes to THQ Nordic. We find the long-term thinking as a distinct advantage; we also believe this way of business will further increase following the Koch acquisition as the company will be less dependent on single releases for cash flow.

Our forecast, and therefore also our DCF valuation, does not factor in possible future value-adding acquisitions of IPs or companies, but it is a fact that THQ Nordic will continue to acquire, and will do so with bravura.

Counterarguments (Bear-points)

It is always sensible to develop some counterarguments to an investment thesis. Below, we present some bear-points that an investor should consider and have in mind if the future development is not favorable.

- **Title risks of larger releases** – Despite THQ Nordic's extensive portfolio there is always some title risk when releasing larger Disappointing releases and/or reviews could dampen investors' enthusiasm and hurt the company's financials.
- **Rising competition in bidding for acquisitions –** As THQ Nordic is entering a new level as a company, so will the future acquisitions in terms of size and target reputation. Going from an unknown player to a more established company might make it harder to find cheap deals.
- **Management is paramount –** Just as much we love a strong and committed management team, it is also a fact that relying on a few key individuals also poses a risk.

Catalyst types

Metro release

Metro Exodus will be released on the 15th of February. The game went gold (finished) in mid-December so the title will be extremely polished at release. The social media attention for the title has been very high and trailers confirm a very strong AAA title with industry-leading quality.

More value adding acquisitions

THQ Nordic has a strong focus on acquiring IPs, franchises, and companies at low prices. They can do this by utilizing one of the best characteristics of a great investor; patience. Larger acquisitions of well-known IPs could and should enhance the valuation of the company.

Aaa titles from deep silver and secret project announced

Deep Silver was a part of the Koch Media acquisition. Two studios within Deep Silver is currently developing two AAA titles, the announcement of these games would enhance the visibility of the IP portfolio and likely increase the valuation. One of the large development projects from the "original" THQ Nordic remains undisclosed. This title has the same type of budget as Darksiders 3 have, which should imply a similar sales potential.

Verisec VERI

Company page

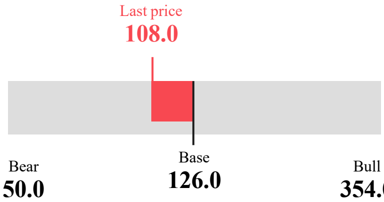
https://www.redeye.se/company/verisec

Redeye Rating

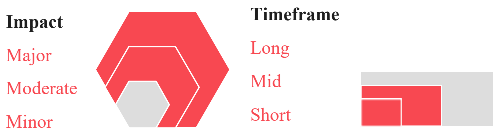
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

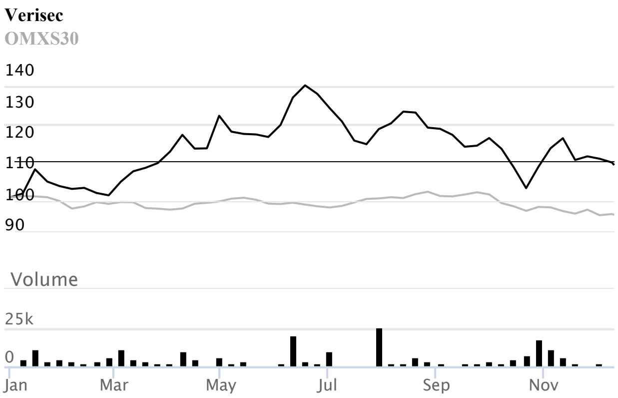


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Johan Henrikson
Chairman	Christian Rajter

Share information

Share price (SEK)	108.0
Number of shares (M)	4.8
Market cap (MSEK)	517
Net debt (MSEK)	-9

Analyst

Havan Hanna
havan.hanna@redeye.se

Conflict of interests

Havan Hanna 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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	64	76	92	173
Growth	*2.7%*	*19.1%*	*21.5%*	*88.0%*
EBITDA	-14	-24	-12	47
EBITDA margin	*Neg*	*Neg*	*Neg*	*27.4%*
EBIT	-22	-31	-24	38
EBIT margin	*Neg*	*Neg*	*Neg*	*21.9%*
Pre-tax earnings	-21	-31	-24	38
Net earnings	-21	-31	-22	32
Net margin	*Neg*	*Neg*	*Neg*	*18.5%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-4.80	-6.50	-4.57	6.69
P/E adj.	-26.3	-18.2	-25.8	17.6
EV/S	8.5	7.1	6.0	2.9
EV/EBITDA	-39.4	-22.4	-46.5	10.5

Last updated: 2018-11-25

Owner	Equity	Votes
Marquay Invest AB	56.5%	56.5%
Swedbank Robur Fonder	9.6%	9.6%
Svolder	5.2%	5.2%
Handelsbanken Fonder	5.0%	5.0%
Merlinum AB	3.8%	3.8%
AMF Försäkring & Fonder	3.6%	3.6%
Kristofer von Beetzen	2.5%	2.5%
Arpeggio AB	1.5%	1.5%
Avanza Pension	1.0%	1.0%
Nordnet Pensionsförsäkring AB	0.6%	0.6%

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. 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

- Freja eID - the key growth driver
- We expect Freja eID to become a standard in the public sector
- A variety of other potential customer segments

The key growth driver in future years will be Verisec's Authentication as a Service (AaaS), called Freja eID, and its associated cloud services. A new legislation proposal "Reboot – omstart för den digitala förvaltningen" suggests that it from 2020 will be mandatory for all public sector entities to offer citizens to identify themselves to public services using the eID of their own choice, as long as this eID is officially approved. This opens up a user base for Freja eID that includes most Swedish citizens.

We expect Freja eID to become a standard in the public sector. The four most important factors that support Verisec's solution in this segment is; the technical platform in cooperation with Tieto, the infrastructure established in the cooperation with ATG, the certification from Sweden's E-identification Board and the cost control obtained from the pricing model. Freja eID will eventually build a portfolio of relevant services that can drive traffic and revenues for Verisec.

In addition to the public sector, Verisec has a variety of other potential customer segments. We believe that retail chains and e-commerce could regard better cost control as a good reason for joining Verisec's service. The simplicity offered by the proximity of ATG agents to stores and postal agents makes cooperation within this segment more logical. A number of niche banks and gambling companies could also offer Freja eID as a complement to BankID. If Freja eID succeeds in reaching a critical mass, we believe that gambling companies and various payment solutions providers will follow suit. eIDAS and other national and international regulations will be key future drivers for Freja eID.

Catalyst types

A major niche bank
Resurs Bank is already a service provider and we believe a number of other niche banks will highly likely offer Freja eID.

Framework agreement
Framework agreement with a large cluster of municipalities

Big member organization
We see the public sector and member organisations as the most likely customers in 2019. Many potential service providers have millions of users.

Personal notes

Waystream Holding WAYS

Company page

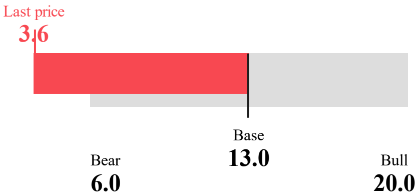
https://www.redeye.se/company/waystream-holding

Redeye Rating

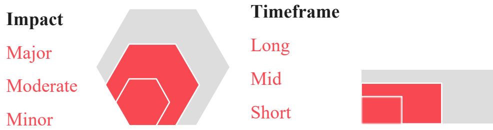
Leadership · Ownership · Profit outlook · $ Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

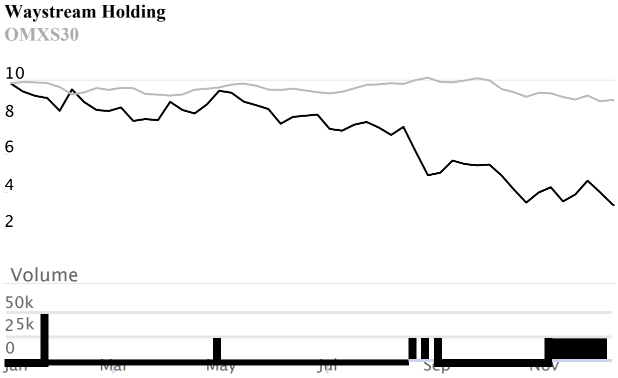


CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot



Marketplace	First North Stockholm
CEO	Mats Öberg
Chairman	Peter Kopelman

Share information

Share price (SEK)	3.6
Number of shares (M)	6.8
Market cap (MSEK)	35
Net debt (MSEK)	3

Analyst

Havan Hanna
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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

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	80	76	91	109
Growth	*33.8%*	*-5.4%*	*20.0%*	*20.0%*
EBITDA	7	3	10	12
EBITDA margin	*8.5%*	*3.5%*	*10.9%*	*11.3%*
EBIT	-10	-7	0	2
EBIT margin	*Neg*	*Neg*	*Neg*	*2.0%*
Pre-tax earnings	-10	-7	-1	2
Net earnings	-8	-6	-1	1
Net margin	*Neg*	*Neg*	*Neg*	*1.3%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-1.12	-0.90	-0.08	0.22
P/E adj.	-10.9	-5.1	-54.3	21.3
EV/S	1.1	0.5	0.4	0.3
EV/EBITDA	13.1	12.9	3.4	2.8

Last updated: 2018-09-05

Owner	Equity	Votes
Fiber Access NP Management Intressenter AB	21.1%	21.1%
Severin Invest AB	13.2%	13.2%
Nordnet Pensionsförsäkring	11.0%	11.0%
Robert Idegren Holding AB	10.3%	10.3%
Dahltec AB	8.3%	8.3%
Avanza Pension	6.6%	6.6%
Stefan Tegenfalk	3.9%	3.9%
Mh Köhler Invest AB	3.7%	3.7%
Ulf Tidholm	2.7%	2.7%
Rustan Panday	2.3%	2.3%

Company description

Waystream is a Swedish company that sells software-based routers and switches for fibre broadband networks. The company's CEO is Mats Öberg and its chairman is Peter Kopelman. The company has 28 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.

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 2017 amounted to SEK 80 million and EBIT was SEK -9,5 million. Waystream has been listed on First North Stockholm since November 2015.

Investment case

- International expansion will provide long-term growth.
- Share under pressure due to misjudgments
- Base case amounts to SEK 13 per share and fair value range to SEK 6-20.

The investment case rests mainly on a successful upgrade of the product portfolio and the international expansion. New products will reach the market during 2019 and the company has several ongoing projects internationally.

Other factors expected to contribute to growth are a 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 factor:

- Future growth depends on the product launch and international expansion, which still lie in the company's future – our forecasts anticipate breakthrough orders during 2019.

This means we see opportunities for Waystream that may not have been recognised by the market. 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 future outlook, we view the current risk-reward as good.

The biggest risk is 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 mindset toward sales – a challenge that should not be underestimated.
- Delay or failure to achieve success with new products and the international expansion: 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 the nordics
Two customers (Fibra in Sweden and Fibia in Denmark) account for about 30 percent of total sales, while the company's eight largest customers account for 80 percent. Waystream needs greater customer growth than has been the case historically, partly to diversify the risk but also to increase growth.

Establishment in europe
Breakthroughs in new geographic markets, preferably in Europe, should increase the valuation of Waystream. We expect the international venture to contribute to higher volumes in 12-24 months - until then, it is important that the company succeeds in landing smaller deals (exploration phase).

Personal notes

Westpay WPAY

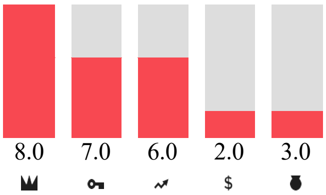
Company page

https://www.redeye.se/company/westpay

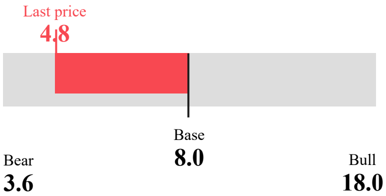
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

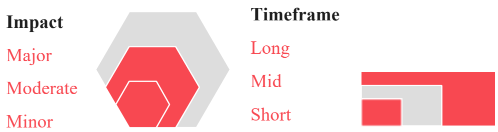
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Sten Karlsson
Chairman	Christina Detlefsen

Share information

Share price (SEK)	4.8
Number of shares (M)	22.5
Market cap (MSEK)	113
Net debt (MSEK)	11

Analyst

Kristoffer Lindström
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Conflict of interests

Kristoffer Lindström owns shares in Westpay: Yes

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

Financials

	2017	2018E	2019E	2020E
			Redeye Estimates	
Revenue, MSEK	93	69	83	129
Growth	*21.0%*	*-26.4%*	*21.8%*	*55.0%*
EBITDA	11	-6	6	18
EBITDA margin	*11.4%*	*Neg*	*6.6%*	*13.6%*
EBIT	6	-10	-1	10
EBIT margin	*6.8%*	*Neg*	*Neg*	*7.6%*
Pre-tax earnings	6	-10	-2	9
Net earnings	4	-9	-1	7
Net margin	*4.7%*	*Neg*	*Neg*	*5.3%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.20	-0.38	-0.06	0.31
P/E adj.	61.1	-14.7	-92.3	18.2
EV/S	2.8	1.9	1.6	1.1
EV/EBITDA	24.3	-23.7	24.7	8.2

Last updated: 2018-12-02

Owner	Equity	Votes
Nordnet Pensionsförsäkring	17.1%	17.1%
Avanza Pension	11.1%	11.1%
Malte Roggentin	8.3%	8.3%
Per Jörgen Roland Nordlund (med bolag)	5.9%	5.9%
Göran Sparrdal	4.7%	4.7%
Ejderholmen AB	4.0%	4.0%
Sten Karlsson (med bolag)	3.1%	3.1%
Bengt Roger Andersson	2.5%	2.5%
Thomas Wernhoff	1.6%	1.6%
Päivö Eerola (med bolag)	1.0%	1.0%

Company description

Westpay supplies transaction and payment solutions to merchants, end customers of the company's products include ÖoB, Polarn and Pyret and JC. The company's various products help to streamline shopping and payment in physical environments. The company has been listed on Nasdaq Stockholm First North since 2007.

Westpay is active in the POS (Point-Of-Sales) industry. POS means all components required for merchants to handle transactions and payments by customers. This includes everything from card terminals, self-checking, cash register software, receipt fees to cash registers in the cash registers. West operates within the subcategories to the POS industry; Card terminals, Self-service, and Cash-handling equipment and are now moving into online payments. The Westpay terminals can be found at, among other things, Malmö Arena, ÖoB, Polarn and Pyret, JC to name a few. The company is now conducting investments to step up the value chain as well as an international expansion to attractive emerging markets

Investment case

- Global expansion not yet discounted: Today's valuation indicates that the market has not yet understood the opportunities with the expansion abroad and the sales growth and profitability that it will lead to.
- Moving up the value chain leads to improved profitability: The company invests in its technical platform, which means that West will soon be able to make money on transaction volumes, which will lead to increased profitability and the possibility of more rapid international expansion.
- High entry barriers: Westpay operates in a market where there are major obstacles for new companies to establish themselves. Primary competitive advantages are heavy technology investments, long start-up times in new markets and lock-in effects

Moving up the value chain

Westpay is a company that has changed sharply in recent years. Thanks to investments in the Card Terminal segment, the company has significantly improved its profitability in terms of gross margin expansion. The company has managed to achieve significant traction with their competitive offering and is now one of the largest PoS suppliers in Sweden. Westpay's Card Terminals are at the forefront of technology, security, and function and are competitively priced. We believe that the company has excellent opportunities to continue to gain market share in Sweden and we see a strong expansion abroad in the coming years. The international development and the launched payment gateway will lead to increased profitability as the company takes a step in the value chain.

High barriers to entry

In Sweden, in addition to Westpay, there are only 3-4 other players in the Card Terminal market. The most prominent player is Verifone and Ingenico is number two. These two players strongly dominate the world market. One of the main reasons why there are only a few players in such a big market is that existing players, such as Westpay, are protected by high barriers to entry. The regulatory requirements on Card Terminals are very high. The terminals must be approved according to the card companies regulations and a number of regional and international safety standards. This creates real barriers to entry. There is also a strong lock-in effect with customers, which creates high switching costs. Customers to West are PSPs. A PSP has developed software in the form of a gateway that needs to be integrated with the software in the card terminal provided by Westpay; then they must be certified together according to different security standards. After a PSP, which sells the terminal to merchants, has begun to sell a terminal from a supplier, they would prefer to avoid changing it. This leads to a lock-in effect on West's customers as they do not like to change a supplier of terminals.

Expansion abroad drives growth

West has a clear goal and strategy with international expansion. The company has already established itself in a number of geographic markets where sales potential is high and entered strategic partnerships. We believe the expansion in new markets regions will be the most significant driver of growth in the coming years.

We believe that the stock market has not yet revealed how much sales potential is actually at Westpay. The company is still relatively undiscovered, in particular, it has gone a long way since one of Sweden's largest card terminals supplier is a small company listed on First North.

Counter-arguments (Bear points)

- Risk of relying on a partner: Westpay's expansion abroad is clearly dependent on their partners succeeding as the company has no own sales in the new markets. The company cannot control the amount of effort the partner makes.
- New regulations can affect and change: The banking industry as a whole undergoes a number of changes. New laws and regulations may lead to complications in the establishment of new markets or possibly simplification for competitors.
- Subdued technology investments: Continued investment in payment infrastructure is important to Westpay. Should the economic decline, there is a risk that planned expenditures by West end customers will be postponed in the future.

Catalyst types

Revenue ramp-up abroad

Besides Sweden the company now have partnerships and EFTPOS’s soon or already operational in; Denmark, Finland, Germany, Poland, Norway, South Africa, Southeast Asia, and Australia. These markets will start generating substantial revenue during 2019.

Recurring revenue on the rise

During 2017 roughly 11% of revenue was on a recurring basis, this income type is on the rise thanks to an expanding base of operating EFTPOS. Contracts sign with partners outside of Sweden has a much higher recurring income stream; this will enhance both the stability and profitability going onward

Margin improvement through value chain expansion

The company invests in their technical platform and now have launched a payment gateway, which means that West will be able to make money on transaction volumes, leading to long-term enhanced profitability

XMReality XMR

Company page

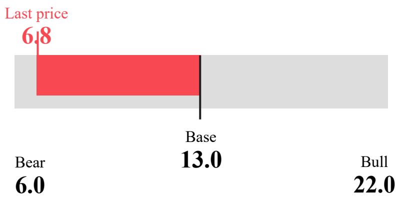
https://www.redeye.se/company/xmreality

Redeye Rating

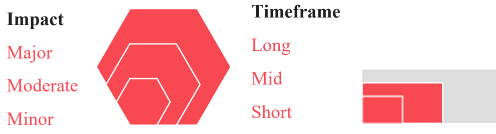
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Johan Castevall
Chairman	Claes Nylander

Share information

Share price (SEK)	6.8
Number of shares (M)	17.1
Market cap (MSEK)	116
Net debt (MSEK)	-10

Analyst

Dennis Berggren
dennis.berggren@redeye.se

Conflict of interests

Dennis Berggren owns shares in XMReality: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	7	10	24	47
Growth	*29.7%*	*52.7%*	*>100%*	*100.0%*
EBITDA	-21	-24	-21	-9
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-23	-28	-25	-13
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-23	-28	-25	-13
Net earnings	-23	-28	-25	-13
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-1.56	-1.66	-1.46	-0.73
P/E adj.	-6.7	-5.6	-6.4	-12.7
EV/S	16.2	12.3	6.3	3.3
EV/EBITDA	-5.2	-5.1	-7.2	-18.0

Last updated: 2018-10-29

Owner	Equity	Votes
Investment AB Spiltan	13.9%	13.9%
Handelsbanken Fonder	9.1%	9.1%
AMF Försäkring & Fonder	7.5%	7.5%
Lars Svensson	5.7%	5.7%
Avanza Pension	4.0%	4.0%
Claes Nylander	3.8%	3.8%
C WorldWide Asset Management	3.3%	3.3%
Torbjörn Gustafsson	2.6%	2.6%
Handelsbanken Liv Försäkring AB	2.5%	2.5%
Per Carleberg	2.4%	2.4%

Company description

XMReality has developed and offered augmented reality solutions since 2007. The company is offering software and hardware for remote guidance towards field service companies where clients either implement the solution throughout their internal service organization or in their service offering towards clients.

Investment case

- AR market expected to grow rapidly: Large global enterprises are currently evaluating or using AR based solutions in their service organizations. Estimates suggest that the total total AR/VR market is expected to grow at a CAGR of 198% between 2015 and 2020.
- Scalable business model: XMReality's solution is offered towards customers that incorporate XMReality's solution in their own offering. The company further faces fractional marginal costs of adding additional users to the platform.
- Good potential for large roll-outs: We believe that the market disregards the great potential for large-scale implementations within existing customers organizations during the coming years.

AR market expected to grow rapidly. From being a technology regarded as science fiction, AR solutions are now being adopted by enterprises. AR brings great opportunities for improved service processes in aftermarket and field service organizations, improving the speed of service and fix rates, resulting in cost savings. Reports indicate that the industry now is ready to adopt AR-technologies on a larger scale, where industrial maintenance is expected to spur some of the most substantial AR investments, related to the trend of digitalizing industry processes (Industry 4.0). The interest from large global industrials is proven by XMReality's impressive list of customers including actors such as ABB, Atlas Copco Rock Drills, Bosch Rexroth and Siemens Industry Turbomachinery.

Technological advantage with strong industrial focus. There are numerous competitors targeting field service companies with different AR-based solutions for knowledge sharing. XMReality, however, has a short-term competitive advantage in its offering of a software solution that incorporates hands overlay, is deployable in areas of weak network capacity and is supported on smartphones, tablets, and smart glasses. Remote guidance adds value to customers by increasing the mobility of the clients' support organization and rationalizing their operational efficiency by improving first-time fix rates. It further provides opportunities for significant costs savings, illustrated by the client Bombardier which reported savings of SEK 20k in a single service session. The solution also provides a solid resource for internal training which is an essential factor for companies dealing with an aging workforce.

Scalable offering. XMReality's business model is highly scalable where the company faces a negligible marginal cost of adding additional licensed users to the platform. The scalability is further illustrated by the offering towards industrial companies that will incorporate XMReality's solution in their service offering. This also constitutes for potential lock-in effects given that clients incorporate XMReality's solution in their large-scale service operations. Several large clients are currently running evaluations and tests of XMReality's Remote Guidance solution, and we believe that there is potential for multiple large-scale software roll-outs within existing client organizations during the coming years, where a single large roll-out could imply annual recurring revenues up towards SEK 10m.

Counter-thesis (bear points)

- **Delayed ramp-up**

We believe that the greatest risk with an investment in an early stage is that XMReality's great prospects never come to materialize or is delayed due to inflexibility among large clients' organizations that increase the duration of large-scale implementations. A delayed ramp-up would increase the risk of needing to raise additional capital before reaching break-even.

- **New competitor(s) with superior solution**

There is a risk of potential superior solutions introduced by competitors. The AR/VR market has traditionally been affected by high M&A volumes, and there is further a possibility that XMReality's competitive situation will be affected by this.

- **Price pressure**

XMReality applies a premium price strategy that could be difficult to retain if new competitors can offer solutions with a similar value proposition as XMReality. It becomes even more relevant in the long-run if the technology becomes a standardized solution within industrial service operations. It is therefore essential that XMReality retain its technological advantage through continued successful development of its software.

Catalyst types

Large scale software roll-out
We see great potential in a large roll-out of XMReality's Remote Guidance solution throughout a large client's service organization after running tests for a long period. Apart from yielding recurring revenues and high margins, it would indicate that the industry truly is ready to adopt the solution and run it on a larger scale.

New channel partner(s)
There is further potential for a new channel partner(s) that incorporate XMReality's solution in their offering toward clients. We, however, believe this to be more relevant as the company has shown larger volumes of software sales.

New technology partner(s)
We believe that new technological partners in hardware developers such as Microsoft or RealWear would strengthen XMReality's case. Such a partnership would increase the potential user base and further strengthen XMReality's positioning as a leading provider of industrial AR-solutions.

ZetaDisplay ZETA

Company page

https://www.redeye.se/company/zetadisplay

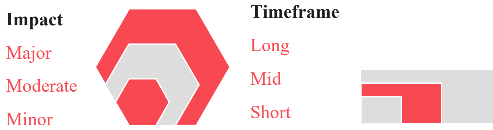
Redeye Rating

Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE

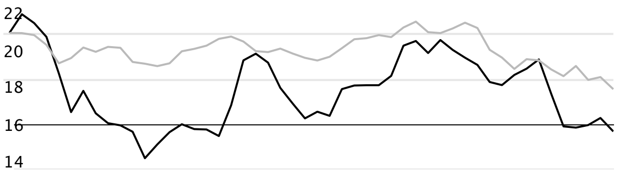
CATALYST POTENTIAL

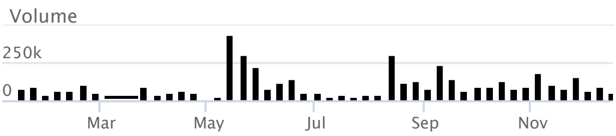


Turn page for catalyst specifics

Snapshot

ZetaDisplay
OMXS30





Marketplace	NASDAQ Stockholm
CEO	Leif Liljebrunn
Chairman	Mats Johansson

Share information

Share price (SEK)	18.1
Number of shares (M)	24.1
Market cap (MSEK)	436
Net debt (MSEK)	69

Analyst

Fredrik Nilsson
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Conflict of interests

Fredrik Nilsson owns shares in ZetaDisplay: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	199	383	359	399
Growth	*39.5%*	*92.6%*	*-6.1%*	*11.2%*
EBITDA	17	44	55	67
EBITDA margin	*8.6%*	*11.5%*	*15.3%*	*16.9%*
EBIT	6	26	39	50
EBIT margin	*3.0%*	*6.7%*	*10.8%*	*12.6%*
Pre-tax earnings	2	16	31	43
Net earnings	-2	4	19	28
Net margin	*Neg*	*1.2%*	*5.2%*	*7.1%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.10	0.19	0.77	1.17
P/E adj.	-186.5	104.3	25.3	16.5
EV/S	2.6	1.6	1.7	1.6
EV/EBITDA	29.9	13.7	10.9	9.5

Last updated: 2018-11-14

Owner	Equity	Votes
Mats Johansson	12.7%	13.1%
Anders Pettersson	10.1%	10.1%
Virala Oy Ab	6.6%	6.7%
Anders Moberg	5.9%	5.5%
Magari Venture AS	5.6%	5.7%
Mats Leander	5.0%	5.1%
Prioritet Finans	4.9%	5.0%
Svenska Handelsbanken AB for PB	4.8%	4.4%
Nordea Fonder	4.7%	4.8%
AMF Försäkring & Fonder	4.5%	4.4%

Company description

ZetaDisplay is a Swedish digital signage company offering communication at the point of purchase. The business model is based on delivering a complete media platform to customers primarily in retail and services. The complete offering includes software, licenses, associated services and digital systems, and is delivered through the Last Meter Marketing concept and trademark. The company is currently active in Sweden, Finland, Norway, Denmark, Benelux and the Baltics.

Investment case

- Higher share of recurring revenues: The continued development of recurring revenues will be interesting to follow as we consider it to be the most important value driver in the company.
- Competent management and board: The company's management and board have both technical knowledge from the industry and extensive sales experience, which we consider to be important conditions for growing and continuing to gain market share.
- Our valuation range indicates a DCF value of SEK 8-29 per share, with a Base Case of SEK 19.

Investment case

Profitable growth in focus

ZetaDisplay is a complete supplier of digital signage. The company's offering consists primarily of a media platform intended to create value for the customer by increasing sales revenues and helping the customer to strengthen its profile and brand by building customer loyalty and customer satisfaction at the point of sale. Expectations for the digital signage market have historically been too high, but the digitalization wave in retail means that there is now increasing interest in digital signage. Given this, ZetaDisplay aims to participate in the growing willingness to invest in digital signage solutions. Through carefully selected and executed acquisitions, the company has accelerated its growth and shown profitability since 2015. The company has reduced both personnel costs and other costs as a share of sales, which shows that it has a scalable business model and can grow without increasing costs at the corresponding rate.

Market with potential

The willingness to invest in digital signage solutions is expanding and becoming increasingly clear as retail and services invest a larger proportion of their budgets in digital communications. The global digital signage market was valued at USD 17 billion in 2015 and is expected to have an average growth rate of 7 percent per year over the period 2015-2020, with slightly higher growth in Europe (MarketsandMarkets). Hardware prices have fallen in recent years, which in combination with improved technology is expected to drive growth in the area. Furthermore, digital communication is expected to become an increasingly natural part of new store concepts being developed, and as a result of the fact that few shops have invested in the technology there are opportunities for ZetaDisplay to expand. The business model is based on three different revenue types: services, software and licenses, and digital systems. The focus is on increasing recurring revenues, and the company has succeeded. This increasingly gives ZetaDisplay the character of a software company. The continued development of recurring revenues will be interesting for investors to follow as we consider it to be the most important value driver in the company.

Interesting future ahead

In 2017, ZetaDisplay completed three acquisitions and therefore continues to deliver on its stated acquisition strategy. During the second quarter ZetaDisplay acquired Finnish Seasam, during the third quarter an agreement was reached to acquire Norwegian company LiveQube, and after the third quarter Dutch company QYN was acquired. The Seasam, LiveQube and QYN acquisitions had total sales in 2016 in excess of SEK 97 million with total EBITDA of over SEK 16 million. Furthermore, ZetaDisplay continuously looks at different types of digital signage related companies. The digital signage market is fragmented and many of the companies are currently only locally established, which makes the market suitable for consolidation.

Counter-thesis

Financing cost of acquisitions (completed and future): The company has, through its acquisition strategy, issued preference shares and raised loans. Should it prove that the profitability of completed acquisitions differs from expectations, this may be problematic for the company.

Acquisition risk: The company has a stated acquisition strategy, which means potential acquisition risk. These risks include integration problems, an acquired company failing to meet expectations, and the difficulty in finding acquisitions that meet set requirements.

Lower growth than expected: Today's stock price assumes continued strong growth. Therefore, it is important for the company to win new business while retaining and establishing long-term relationships with existing customers.

Catalyst types

Failed profitability improvement

The company's financial objective is to reach an EBIT margin of 15 percent by 2020. Our sensitivity analysis indicates that profitability improvement has been factored into today's share price. Should there be any delays in profitability improvments this may adversely affect the share price.

Additional acquisitions at attractive valuation

The company has a stated acquisitions strategy and another profitable acquisitions at an attractive valuation would justify a higher value of the share

Communicates greater share of recurring revenues

The business model is based on three diferent revenue types: services, software and licenses, and digital systems. The focus is on increasing recurring revenues, and the company has succeeded. This increasingly gives ZetaDisplay the character of a software company. The continued development of recurring revenues will be interesting for investors to follow as we consdier it to be the most important value driver in the company.

ÅAC Microtec AAC

Company page

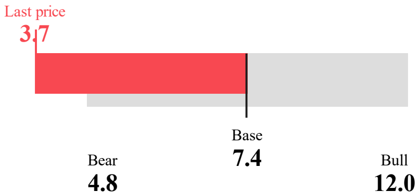
https://www.redeye.se/company/aac-microtec

Redeye Rating

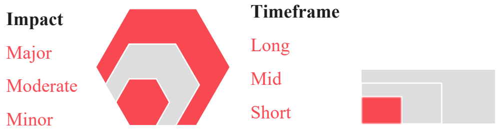
Leadership · Ownership · Profit outlook · Profitability · Capital strength

COMPANY QUALITY

FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Marketplace	First North Stockholm
CEO	Alfonso Barreiro
Chairman	Rolf Hallencreutz

Share information

Share price (SEK)	3.7
Number of shares (M)	68.7
Market cap (MSEK)	249
Net debt (MSEK)	-10

Analyst

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Conflict of interests

Henrik Alveskog owns shares in ÅAC Microtec: No

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

Financials

	2017	2018E	Redeye Estimates 2019E	2020E
Revenue, MSEK	13	86	120	178
Growth	*-41.7%*	*>100%*	*40.6%*	*47.9%*
EBITDA	-21	-18	1	17
EBITDA margin	*Neg*	*Neg*	*0.9%*	*9.5%*
EBIT	-27	-33	-9	6
EBIT margin	*Neg*	*Neg*	*Neg*	*3.4%*
Pre-tax earnings	-27	-33	-9	6
Net earnings	-27	-33	-8	5
Net margin	*Neg*	*Neg*	*Neg*	*3.0%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.85	-0.49	-0.11	0.08
P/E adj.	-13.5	-9.1	-38.8	55.9
EV/S	24.6	3.3	2.4	1.7
EV/EBITDA	-15.3	-15.8	281.6	17.4

Last updated: 2018-11-26

Owner	Equity	Votes
Fouriertransform AB	14.4%	14.4%
Craig Clark	13.9%	13.9%
Nevis Capital LLP	12.5%	12.5%
Corallin LLP	12.4%	12.4%
RP Ventures AB	3.9%	3.9%
Avanza Pension	3.3%	3.3%
BNY MELLON SA/NV	2.8%	2.8%
Nordnet Pensionsförsäkring	2.7%	2.7%

Company description

ÅAC Microtec was founded in 2005 as a spinout from Ångströms-laboratoriet at the University of Uppsala. In December 2016 the company made its IPO and listed the shares at Nasdaq Stockholm First North.

ÅAC has successfully developed subsystems for satellites over the last ten years. First launch with ÅAC components was in 2009 and since then several projects have been completed with customers including NASA, ESA, Airbus and York Space Systems. No doubt the company is renowned for its advanced and reliable products and know how. Certainly they also have an ongoing business with repeat orders. But they are currently in a transition period focusing on commercial business as opposed to previously when they had steady income streams from development projects. Consequently revenues dropped significantly in 2017 compared to 2015-16 levels.

Merger with Clyde Space, one giant leap for ÅAC
The merger with Scottish company Clyde Space completely transformed the company. Clyde Space is mainly focused on the CubeSat market and has delivered a large number of satellites to customers around the world in the last few years. They design and build the entire system and has a manufacturing capacity of approximately of up to 40 satellites per year in their facilities in Glasgow. The new AAC-Clyde has a significant footprint in the CubeSat industry, a position that AAC probably never would have achieved without an acquisition.

Investment case

- New Space is creating vast opportunities and a dynamic business environment. The market for smaller satellites is booming.
- ÅAC-Clyde is in pole position to take a big chunk out of this juicy cake.
- Current valuation does not discount the kind of strong operating and financial performance that we anticipate.

The concept of "New Space" has attracted a lot of attention in the last few years. And for good reasons. Old space was totally dominated by governments and a few multinational companies. The projects were in the hundred million dollar range and the commercial opportunities rather few. The New Space era is quite the opposite. Technological advances have lowered the barriers of entry and created a multitude of innovative companies providing various new services to people around the world.

New Space is creating vast opportunities

Demand for services provided by satellites is constantly growing, e.g: telecommunication, navigation and positioning, tracking vehicles, surveillance for environmental, military or public safety reasons etc. The scope and variety of services that could be provided with information from different satellites is endless. A large number of new companies with innovative ideas and services have emerged in the last few years. But we have probably only just seen the very tip of the iceberg yet.

The market for small satellites is booming

Smaller satellites can replace most of the large and expensive satellites that are in operation. Many of the components are today standardized off the shelf products and much smaller than before. Hence in most cases a 10 kg satellite today can perform the same tasks as a 20 year old 500 kg satellite. Today the cost of building and launching is only a fraction of what it used to be. Operators who previously sent up one big satellite every few years can launch dozens of small satellites, getting better coverage, lower risk and at a lower cost. The market for small satellites (up to ~50 kg) is expected to grow rapidly in the coming decade. Market predictions indicate an annual growth rate in the region of 25-30 percent over the next decade.

The new ÅAC/Clyde is very well positioned to gain a significant share of the growing Smallsat market:

- **Quality products and long list of references**. Both ÅAC and Clyde have products with several years of flawless flight heritage. Clyde Space has delivered over 2000 subsystems and claims over 500 years of aggregated flight heritage. The combined list of quality clients and projects between ÅAC and Clyde is second to none in the Smallsat industry including: NASA, ESA, Airbus, US Air Force, Raytheon, NEC/Toshiba, UK Space Agency, SNSA (Rymdstyrelsen) and many more.
- **Growing customer base placing repeat orders**. Clyde Space is primarily focused on CubeSats and have participated in 30-40% of all CubeSat missions to date. Around 70% of their business is repeat orders and some of their clients are planning to launch major constellations of satellites over the next few years. E.g. Kepler Communication, NSLComm, SRT Marine, Outernet, York Space Systems.
- **Scalable low cost production**. The company's vision is to produce large quantities of reliable CubeSats at affordable prices. Hence their products are designed to allow for low-cost mass-production. Currently there is a shortage of manufacturing capacity to meet the anticipated pick-up in demand. Being able to offer reliable products with short lead times would certainly give a competitive edge.
- **Strong management.** In the Nano/CubeSat segment many of the manufacturers are new small companies spun out of universities. Compared to ÅAC they do not appear to have the management, nor the ambition, to take on an industrial approach to grow their business. After the last years' recruitments, including the merger with Clyde Space, the company has a strong management team capable of taking on a leading role in their industry. Being a listed company is also an advantage when expanding the business, particularly in case of an acquisition.

Bear Points:

- Some of ÅACs new clients are small enterprises that rely on venture funding. They will need further financing in order to maintain their expansion and deploy larger constellations.
- Last mover disadvantage in M&A. ÅAC's ambition is to make at least one additional acquisition. Primarily to gain a better foothold in the US market. If competitors are moving faster, ÅACs relative market position may weaken. This is not one of our major concerns, since the US market is quite fragmented.

Catalyst types

Orders from constellation operators
More business with credible and potentially big operators. Our forecasts are based on a growing number of clients. However, if the company is really successful they may beat our expectations and forecasts.

Another successful acquisition
ÅAC is looking for: presence in the US, complimentary technology and production capacity. If they can find all three in one single candidate, at a reasonable price, it would be a home-run.

Personal notes

LightAir NOVEMBER 2018 Rights Issue SEK 25m	SIVERS IMA OCTOBER 2018 Directed Issue SEK 43m	xmreality OCTOBER 2018 Directed Issue SEK 21m	crunchfish OCTORBER 2018 Rights Issue SEK 39m
GOODBYE KANSAS STUDIOS JUNE 2018 Private Placement SEK 108m	ALLGON JUNE 2018 Rights Issue Join Lead Manager SEK 127m	captario JUNE 2018 Private Placement SEK 50m	JONDETECH MAY 2018 IPO SEK 30m
FSPORT APRIL 2018 Private Placement SEK 20m	Teqnion FEBRUARY 2018 Private Placement SEK 20m	SCOUT gaming group NOVEMBER 2018 IPO SEK 60m	acconeer NOVEMBER 2018 IPO SEK 180m
gambling.com group NOVEMBER 2017 Private Placement EUR 9m	GLOBAL GAMING OCTOBER 2017 IPO SEK 22m	xmreality APRIL 2017 IPO SEK 60m	Crowdsoft MARCH 2017 Rights Issue SEK 26m
KAX MEDIA FEBRUARY 2017 Private Placement EUR 7m	heliospectra DECEMBER 2016 Rights Issue SEK 107m	aXichem DECEMBER 2016 Rights Issue SEK 24m	IMINT OCTOBER 2016 Rights Issue SEK 49m

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Redeye Rating (2019-01-14)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	47	47	20	11	21
3,5p - 7,0p	89	84	118	39	52
0,0p - 3,0p	14	19	12	100	77
Company N	150	150	150	150	150

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