Artificial Solutions

Sector: Software/ Artificial Intelligence

Positive outlook despite near-term challenges

Redeye sees some near-term challenges: growing operating losses and a looming capital raise. However, the latest SaaS data was encouraging, and operations are progressing accordingly.

Accelerated SaaS growth and encouraging July data

SaaS ARR was SEK20m in Q2 2022, growing 55% QoQ (51% currency adjusted). Moreover, SaaS API Calls amounted to 9.3m in June 2022, growing 69% QoQ. The report states that Q3 started on a positive note – SaaS ARR and SaaS API Calls rose to SEK21.2m (+6% MoM) and 10.3m (+11% MoM), respectively, in July 2022. Management commentary explains that the growth in July is driven mainly by one customer, which doubled its API Calls from June to July.

Growing in the installed base but only scratching the surface

The SaaS growth rates are excellent on their own but even more remarkable considering the total number of SaaS customers has stayed flat throughout 2022 at 13. This means ARR per SaaS customer has increased from about SEK1m to SEK1.5m QoQ. However, management expects (1) large customers to generate an average ARR of SEK4.4m after about two years in the SaaS model and (2) its largest customers to generate an average ARR in the millions of USD over time. Artificial Solutions is only scratching the surface as to what it can achieve regarding average ARR per SaaS customer, we think.

Lowered fair value range

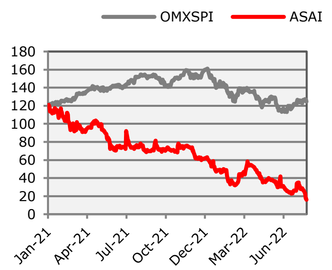
We have increased our WACC to 12% (11) due to Artificial Solutions' near-term capital constraints and a higher interest rate environment in general. Moreover, we discount a somewhat higher OpEx run rate in the years ahead. We expect the company to reach EBITDA breakeven during 2026. Our updated fair value range spans from SEK10–260 (20–260), and our Base Case is SEK40 (70).

Key Financials (SEKm)	2019	2020	2021	2022e	2023e	2024e
Sales	49	54	39	43	54	66
Sales growth	9%	10%	-28%	10%	26%	23%
EBITDA	-135	-86	-58	-79	-78	-75
EBIT	-146	-98	-71	-92	-92	-89
EBIT Margin (%)	-298%	-182%	-183%	-216%	-171%	-135%
Net Income	-182	-154	-70	-98	-126	-126
EV/S	6.9	12.4	13.7	7.8	8.5	8.8
EV/EBITDA	neg	neg	neg	neg	neg	neg
EV/EBIT	neg	neg	neg	neg	neg	neg

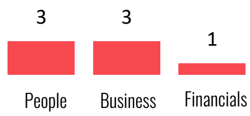
FAIR VALUE RANGE

BEAR	BASE	BULL
10	40	260

ASAI VERSUS OMXSPI



REDEYE RATING



KEY STATS

Ticker	ASAI
Market	First North
Share Price (SEK)	16
Market Cap (SEKm)	105
Net Debt 2022e (SEKm)	230
Free Float (%)	80

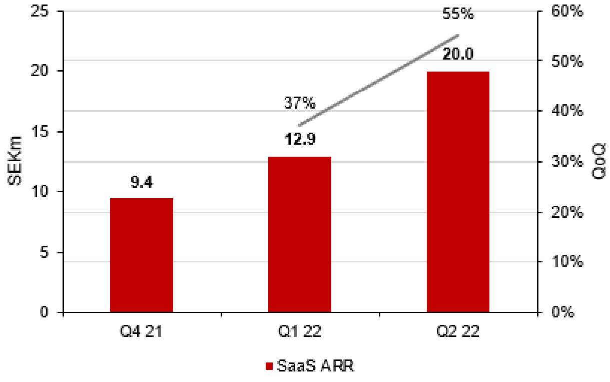
ANALYSTS

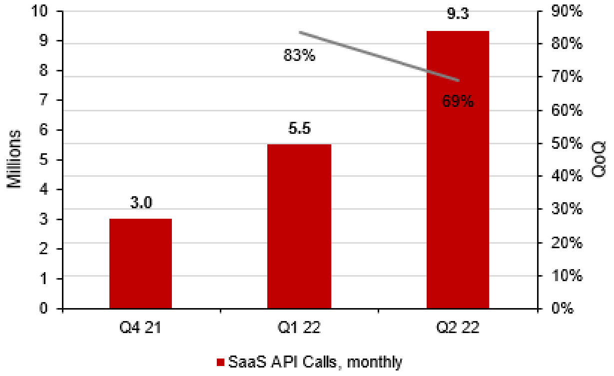
Forbes Goldman
forbes.goldman@redeye.se

SaaS transition in focus

Accelerated SaaS growth and encouraging July data

SaaS ARR (i.e., annual recurring revenue from SaaS customers in the last month of the quarter times twelve) was SEK20m in Q2 2022, growing 55% QoQ (51% currency adjusted). Moreover, SaaS API Calls (usage of Teneo) amounted to 9.3m in June 2022, growing 69% QoQ. The report states that Q3 started on a positive note – SaaS ARR and SaaS API Calls rose to SEK21.2m (+6% MoM) and 10.3m (+11% MoM), respectively, in July 2022. Management commentary explains that the growth in July is driven mainly by one customer, which doubled its API Calls from June to July. This customer is implementing Teneo-developed solutions across a growing number of channels (e.g., chatbot, phone and TV), which drives more API Calls.



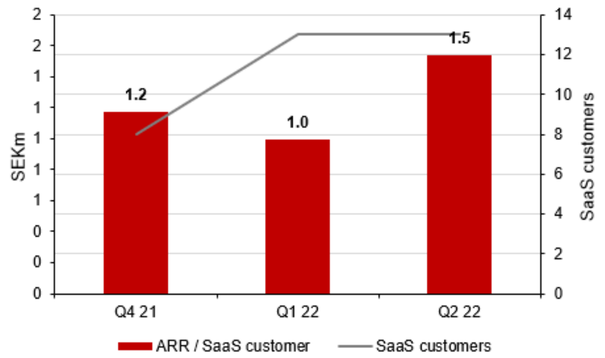


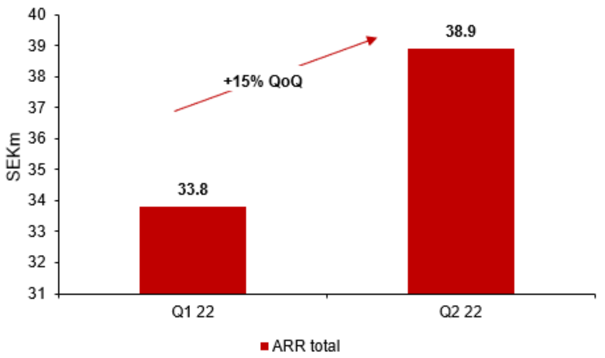
Source: Redeye, company data

Growing in the installed base but only scratching the surface

The SaaS growth rates are excellent on their own but even more remarkable considering the total number of SaaS customers has stayed flat throughout 2022 at 13 (more on later). This means ARR per SaaS customer has increased from about SEK1m to SEK1.5m QoQ. However, management expects (1) large customers to generate an average ARR of SEK4.4m after about two years in the SaaS model and (2) its largest customers to generate an average ARR in the millions of USD over time. Artificial Solutions is only scratching the surface as to what it can achieve regarding average ARR per SaaS customer, we think.

For instance, Artificial Solutions entered an agreement with one of the world's largest national healthcare providers in Q1 2022 (which processes 500m patient contacts annually), together with its systems integrator partner CGI. Based on similar implementations, management thinks usage revenues from this customer alone could exceed SEK40m annually by 2025/26. The healthcare provider's first solution is going live in the coming months, according to the report.





Source: Redeye, company data

SaaS ARR now accounts for >50% of total ARR

Total ARR (including ARR from the ten customers in the legacy model – not yet transitioned to SaaS) amounted to SEK38.9m in Q2 2022. This means ARR from SaaS customers accounted for 51% of total ARR in the quarter – up from 38% in Q1 2022. We think it is important to highlight that SaaS ARR growth is not happening at the expense of total ARR, which grew by 15% QoQ. The report states that non-SaaS API Calls rose by 10% YoY in H1 2022.

No additional SaaS customers in Q2 2022

The total number of SaaS customers has stayed flat throughout 2022 at 13. Management states that its strategy to win large enterprise customers can result in long sales processes. It expects to engage in talks with the ~200 largest Microsoft LUIS clients (out of the 1,700+ in total) in the near to medium term. Another reason for the flat SaaS customer growth is that Artificial Solutions is focusing on expanding implementations in the installed base. As previously stated, many existing customers have only deployed conversational AI solutions across a small number of channels and/or markets. Thus, we see untapped potential in the installed base, which is faster and cheaper to address from a go-to-market perspective.

Management reiterates its aim to transition the remaining ten legacy customers in 2022…

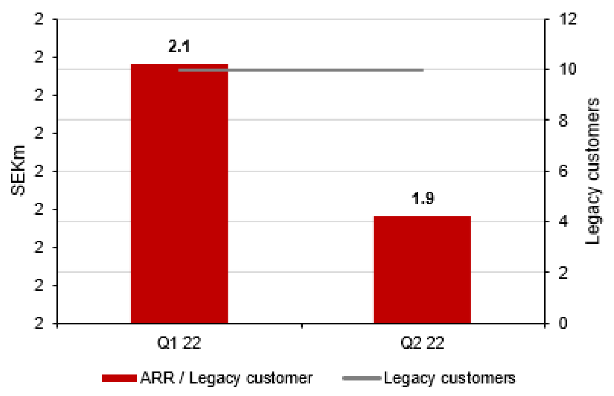
Artificial Solutions is working on moving the remaining ten legacy customers to SaaS this year. For instance, Teneo 7 (the latest version of the development platform) will not be available on-prem, which creates incentives for the last legacy customers to make the leap. We think the company will succeed in moving most of these before year-end.

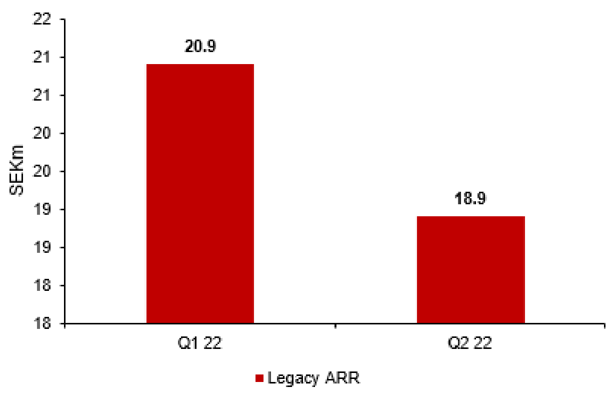
…But Swiss customers could be at risk

Due to harsh data privacy regulations, customers in Switzerland could be at risk of not completing this transition in time. This could pose a slight setback since Swisscom is Artificial Solutions' largest customer. Management has stated in previous earnings calls that Swisscom generates about 10m API Calls a month – about as much as all SaaS customers together. On the other hand, we understand that Swisscom represents one of the most mature Teneo-use-cases, having implemented conversational solutions across many channels.

Legacy-to-SaaS and its impact on ARR and costs

Artificial Solutions has had ten customers in the legacy model throughout 2022, generating an average ARR of ~SEK2m. We assume that some have carried out large implementations (e.g., Swisscom), generating many API Calls. Since the SaaS model is better at capitalizing on usage, one API Call should be worth more after the transition, which merits a higher ARR. Also, we understand SaaS lowers the threshold for adding more implementations thanks to the usage-based pricing. Most legacy customers are used to paying a fixed price for a set number of API Calls, which could limit growth. Finally, we assume it is expensive for Artificial Solutions to pursue both these environments simultaneously – moving all to SaaS should decrease costs.





Source: Redeye, company data

Q2 2022 financials – in line with expectations

Net sales and recurring revenues are progressing accordingly

Net sales amounted to SEK10.2m, growing 24% YoY and 1% QoQ, in line with our expectations. Its quality and predictability continue to increase as licenses and usage account for a greater share of the total while others diminish. Other sales include professional services (PS), support, and hosting. With the transition to SaaS, Artificial Solutions no longer expects to support a PS capability in-house – this is outsourced to its partners and systems integrators. Recurring revenues, i.e., licenses plus usage, amounted to SEK9.1m, growing 44% YoY and 4% QoQ.

Artificial Solutions: forecast deviations

SEKm	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Actual Q2 22	Estimate Q2 22	Diff (%)
License & Support	*4.6*	*5.0*	*5.3*	*5.5*	*5.6*	*5.5*	*5.8*	-6%
Usage	*1.9*	*1.3*	*3.2*	*3.3*	*3.2*	*3.6*	*3.3*	9%
Other	*3.3*	*1.9*	*2.4*	*1.0*	*1.4*	*1.1*	*1.3*	-12%
Net sales	**9.8**	**8.2**	**11.0**	**9.8**	**10.1**	**10.2**	**10.4**	-2%
Opex	-26.3	-29.2	-26.5	-32.0	-31.6	-36.5	-32.2	
Gross profit	7.1	5.5	7.6	7.1	7.5	6.8	8.1	-16%
margin	*72%*	*67%*	*69%*	*72%*	*74%*	*67%*	*78%*	*-11pp*
EBITDA	-14.3	-18.2	-12.6	-13.1	-18.4	-23.1	-18.8	23%
margin	*-146%*	*-222%*	*-115%*	*-134%*	*-182%*	*-226%*	*-182%*	*-44pp*
D&A	-3.2	-3.2	-3.1	-3.1	-3.7	-3.2	-3.2	
EBIT	-17.5	-21.4	-15.7	-16.2	-22.1	-26.3	-22.0	19%
margin	*-179%*	*-261%*	*-143%*	*-165%*	*-218%*	*-258%*	*-213%*	*-45pp*
Net finance	5.6	6.5	-8.7	-2.2	-3.6	10.8	-6.6	
PTP	-11.9	-14.9	-24.4	-18.4	-25.7	-15.5	-28.7	
Net income	-11.9	-14.9	-24.4	-18.4	-25.7	-15.5	-28.7	-46%
Recurring revenues	**6.5**	**6.3**	**8.6**	**8.8**	**8.8**	**9.1**	**9.1**	0%

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

Bullish gross margin outlook despite a weaker outcome in the quarter

The gross margin was 67%, missing our expectations by 11%-points. After three consecutive quarters with a growing margin, it decreased somewhat in the quarter. Management explains that this is due to upfront costs that arise when setting up an environment for new customers. Once a customer begins to generate meaningful API Call volumes, we should expect a gross margin >90%. Incremental usage revenues require close-to-zero incremental costs.

Guiding for a slightly higher OpEx

The annual OpEx runt rate (excluding D&A and non-recurring items) was SEK134m in H1 2022, growing by SEK10m versus Q1 2022. Management guides for a slightly increased OpEx base in coming quarters due to front-end investments in sales and marketing. As seen above, OpEx was somewhat higher than expected, and we expect to increase our forecasts slightly.

Greater operating loss than expected

The operating result (EBIT) was -SEK26.3, corresponding to an operating margin of -258%. Artificial Solutions has invested significant resources in its US operations and salespeople, resulting in an immediate cost base increment. Thus, the operating margin decreased QoQ. We think this is normal for a SaaS company investing in future growth opportunities.

Looming capital raise

Ending Q2 2022, the cash position was SEK63.6m. We understand that a couple of customers paid advances at the beginning of July instead of June, which had a positive cash impact of SEK5.5m. The adjusted cash position is thus SEK69m, according to management. Cash flow before finance activities was -SEK21m in the quarter. We assume the company will maintain a similar cash burn in the near term and thus assess that its cash position supports operations throughout 2022 at least.

A capital raise will likely come into play in H1 2023. Artificial Solutions' strong owner structure (including Scope, SEB-Stiftelsen and C Worldwide AM) facilitates an equity issue. At the same time, it raised SEK250m by year-end 2021 through a five-year credit facility with Capital Four, a leading credit AM firm in the Nordics (EUR15bn AUM). Management states that it has good relations with both its shareholders and lenders. Considering the recent debt issue, we forecast a SEK100m loan in 2023e (10% interest) in our modelling assumptions.

Financial forecast

Raising OpEx forecasts for the years ahead

Sales were in line with expectations (-2% deviation), but the EBIT margin came in much lower than anticipated (-45%-points deviation). Artificial Solutions continues to invest heavily in its US expansion, marketing and technology to capitalize on the opportunities ahead. This results in an immediate cost base increment. Thus, we only make smaller topline adjustments but raise our OpEx assumptions for the years ahead. We expect Artificial Solutions to reach EBITDA breakeven during 2026 (quarterly).

Artificial Solutions: forecast adjustments

SEKm		2022e	2023e	2024e	2025e	2026e
Net sales	Old	44	61	82	109	146
	New	43	54	66	91	126
change (%)		*-4%*	*-11%*	*-19%*	*-17%*	*-14%*
EBITDA	Old	-65	-58	-43	-24	14
	New	-79	-78	-75	-56	-31
change (%)		*21%*	*34%*	*73%*	*138%*	*-320%*
EBIT	Old	-79	-72	-59	-42	-6
	New	-92	-92	-89	-73	-49
change (%)		*17%*	*27%*	*52%*	*74%*	*656%*

Short-term sales outlook (until 2023)

First, we model usage sales of SEK15m by 2022, growing 57% YoY and 12% QoQ in each of the remaining quarters this year. By 2023, we expect usage sales of SEK23m, growing 51% YoY and 10% QoQ on average.

Second, we model license sales of SEK23m by 2022, growing 12% YoY and 5% QoQ in each of the remaining quarters this year. By 2023, we expect license sales of SEK27m, growing 17% YoY and 4% QoQ on average.

Last, we expect other sales to decline about 10% annually in the years ahead. This includes sales from professional services (PS), support, and hosting. With the transition to SaaS, Artificial Solutions no longer expects to support a PS capability in-house – this has been outsourced to its partners and systems integrators.

Long-term outlook

At Q2 2022, Artificial Solutions reported having 13 customers in the SaaS model and a SaaS ARR of SEK20m. This means SaaS customers, on average, generate an ARR of SEK1.5m. Management has stated an ambition to transition all of its remaining legacy customers (10) to SaaS this year. We think it will succeed in moving most of these and anticipate 20 customers in SaaS by year-end. Moreover, we expect these to generate an average ARR of SEK1.5m, equating to an ARR of SEK30m.

In the years ahead, we expect Artificial Solutions to win about four large customers annually and simultaneously improve its average ARR per customer – management expects large customers to generate an average ARR of SEK4.4m. Thus, by 2026, we expect 36 customers in SaaS and an average ARR of SEK4m – we understand that most existing customers are considered large. This equates to an ARR of SEK144m. However, we also understand that a handful of customers, particularly the healthcare provider and tech giant, could generate an ARR in the millions of USD over time. Against this backdrop, we recognize further upside optionality to our ARR assumptions.

Artificial Solutions: Income statement

SEKm	2020	2021	Q1 22	Q2 22	Q3 22e	Q4 22e	2022e	2023e	2024e	2025e	2026e
License & Support	*23.5*	*20.4*	*5.6*	*5.5*	*5.8*	*6.1*	*22.9*	*26.8*	*31.2*	*35.0*	*43.1*
Usage	*16.9*	*9.7*	*3.2*	*3.6*	*4.0*	*4.5*	*15.3*	*23.1*	*31.2*	*52.6*	*80.1*
Other	*13.3*	*8.6*	*1.4*	*1.1*	*1.0*	*1.0*	*4.5*	*4.0*	*3.6*	*3.3*	*2.9*
Net sales	**53.7**	**38.8**	**10.1**	**10.2**	**10.8**	**11.6**	**42.7**	**53.8**	**66.0**	**90.9**	**126.1**
Other income	*20.1*	*17.1*	*3.0*	*3.2*	*3.0*	*8.5*	*17.7*	*18.6*	*19.6*	*20.5*	*21.6*
Total income	*73.8*	*55.9*	*13.2*	*13.4*	*13.8*	*20.1*	*60.5*	*72.5*	*85.6*	*111.4*	*147.7*
Opex	*-159.5*	*-114.0*	*-31.6*	*-36.5*	*-35.1*	*-36.2*	*-139.5*	*-150.4*	*-160.5*	*-167.9*	*-178.5*
Gross profit	*35.4*	*27.2*	*7.5*	*6.8*	*8.1*	*8.7*	*31.1*	*41.5*	*53.3*	*79.6*	*112.0*
margin	*66%*	*70%*	*74%*	*67%*	*75%*	*75%*	*73%*	*77%*	*81%*	*88%*	*89%*
EBITDA	*-85.7*	*-58.2*	*-18.4*	*-23.1*	*-21.3*	*-16.1*	*-79.0*	*-78.0*	*-74.9*	*-56.5*	*-30.9*
margin	*-160%*	*-150%*	*-182%*	*-226%*	*-197%*	*-139%*	*-185%*	*-145%*	*-113%*	*-62%*	*-24%*
D&A	*-12.0*	*-12.6*	*-3.7*	*-3.2*	*-3.2*	*-3.2*	*-13.3*	*-14.0*	*-14.5*	*-16.4*	*-17.7*
EBIT	*-97.7*	*-70.8*	*-22.1*	*-26.3*	*-24.6*	*-19.3*	*-92.3*	*-92.0*	*-89.4*	*-72.8*	*-48.5*
margin	*-182%*	*-183%*	*-218%*	*-258%*	*-227%*	*-167%*	*-216%*	*-171%*	*-135%*	*-80%*	*-38%*
Net finance	*-56.5*	*1.2*	*-3.6*	*10.8*	*-6.5*	*-6.5*	*-5.8*	*-34.2*	*-36.6*	*-39.1*	*-42.0*
PTP	*-154.2*	*-69.6*	*-25.7*	*-15.5*	*-31.1*	*-25.8*	*-98.1*	*-126.2*	*-126.0*	*-112.0*	*-90.5*
Net income	*-154.4*	*-69.6*	*-25.7*	*-15.5*	*-31.1*	*-25.8*	*-98.1*	*-126.2*	*-126.0*	*-112.0*	*-90.5*

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

Artificial Solutions: Alternative KPIs

SEKm	2020	2021	Q1 22	Q2 22	Q3 22e	Q4 22e	2022e	2023e	2024e	2025e	2026e
Recurring revenues	40.4	30.2	8.8	9.1	9.8	10.6	38.3	49.8	62.4	87.6	123.2
SaaS customers			13	13	16	20	20	24	28	32	36
ARR / SaaS customer			1.0	1.5	1.6	1.5	1.5	2.0	2.6	3.2	4.0
SaaS ARR			**12.9**	**20.0**	**25.6**	**30.0**	**30.0**	**48.0**	**72.8**	**102.4**	**144.0**

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

**Recurring revenues (licenses plus usage) in 2026 equate to the average ARR in FY2025 and FY2026. Of this, we expect 35% to be recognized as license sales and 65% as usage sales.*

OpEx comment

The annual OpEx runt rate was SEK134m in H1 2022, and we expect this to increase to >SEK140m throughout H2 2022. In the years ahead, we think it is fair to assume an annual increment in the 5–10% region. Artificial Solutions will likely continue to invest heavily in (1) sales and marketing and (2) technology. A scenario where OpEx should decrease from current levels is not that likely, in our opinion.

Valuation

We derive our fair value range from a fundamental DCF framework for three scenarios, base case (most likely), bear case (pessimistic), and bull case (optimistic), using a WACC of 12% across all scenarios. We also supplement our DCF analysis with a peer group comparison.

Lowered fair value range

We have increased our WACC to 12% (11) due to Artificial Solutions' near-term capital constraints (we anticipate a capital raise in H1 2023) and a higher interest rate environment in general. Moreover, we discount a somewhat higher OpEx run rate in the years ahead – Artificial Solutions is undertaking significant investments in its US operations, marketing and technology. We expect the company to reach EBITDA breakeven during 2026.

Our updated fair value range spans from SEK10–260 (20–260), and our Base Case is SEK40 (70). The fair value range is very wide, owing to the unpredictable nature of Artificial Solutions' long-term growth and profitability. Once Artificial Solutions scales its SaaS offering, we should expect, over time, a gross margin >90%. Incremental usage revenues require close-to-zero incremental costs. In turn, this should support high long-term operating margins. We forecast a terminal EBIT margin of 35%.

Trading in line with peers on near-term EV/S

Artificial Solutions' share has fallen >70% YTD. At current trading, the market capitalization stands at SEK105m. We expect its net debt to amount to about SEK230m by year-end 2022. In relation to a group of Nordic SaaS companies (as seen on the next page), Artificial Solutions trades more or less in line on near-term EV/S multiples. The group trades at a median 2022 EV/S ratio of 4x, with this falling to 3x by 2023.

We assume that Artificial Solutions' significant operating losses and high leverage has contributed to this negative sentiment. Should the company report accelerated growth in future earnings reports, especially regarding its SaaS metrics, and manage its near-term capital constraints, we expect to revisit our valuation.

Bear Case: SEK10 (20)

Sales CAGR 2021-2025e: 14%
Sales CAGR 2025e-2030e: 24%
Avg. EBIT-m 2021-2025e: -160%
Avg. EBIT-m 2025e-2030e: -5%
Terminal growth: 2%
Terminal EBIT-m: 25%
WACC: 12%

Base Case: SEK40 (70)

Sales CAGR 2021-2025e: 24%
Sales CAGR 2025e-2030e: 34%
Avg. EBIT-m 2021-2025e: -150%
Avg. EBIT-m 2025e-2030e: 5%
Terminal growth: 2%
Terminal EBIT-m: 35%
WACC: 12%

By 2026, we expect the company to have 36 customers in its SaaS model, generating an average ARR of SEK4m, equating to a total ARR of SEK144m. We assume Artificial Solutions wins about four large customer contracts annually from 2022 to 2026.

Bull Case: SEK260 (260)

Sales CAGR 2021-2025e: 32%
Sales CAGR 2025e-2030e: 42%
Avg. EBIT-m 2021-2025e: -140%
Avg. EBIT-m 2025e-2030e: 15%
Terminal growth: 2%
Terminal EBIT-m: 45%
WACC: 12%

Company name	EV SEKm	EV/S 2022	EV/S 2023	EV/EBIT 2022	EV/EBIT 2023	Sales growth 2022	Sales growth 2023	EBIT margin 2022	EBIT margin 2023
Nordic SaaS									
Artificial Solutions International AB Class B	**220**	**5.2**	**4.1**	**neg**	**neg**	**10%**	**26%**	**-216%**	**-171%**
Addnode Group AB Class B	13,902	2.5	2.3	27.2	24.9	39%	8%	9%	9%
Admicom Oyj	3,326	9.9	8.6	25.0	21.6	34%	15%	40%	40%
Bambuser AB	535	2.5	1.9	neg	neg	56%	31%	-106%	-89%
BIMobject AB	227	1.7	1.5	neg	neg	12%	16%	-41%	-22%
BuildData Group AB	222	2.5	2.0	neg	neg	0%	23%	-22%	-16%
Carasent ASA	1,195	5.7	4.7	42.7	33.2	53%	23%	13%	14%
Checkin.com Group AB	746	9.7	4.9	neg	51.8	98%	96%	-16%	10%
Efecte Oyj	677	3.0	2.5	neg	neg	24%	19%	-1%	0%
FormPipe Software AB	1,552	3.1	2.8	69.0	25.9	4%	12%	5%	11%
Fortnox AB	34,653	27.3	20.5	74.8	51.6	36%	33%	37%	40%
Irisity AB	594	4.0	2.5	neg	neg	90%	65%	-62%	-13%
LeadDesk Oyj	590	1.9	1.6	neg	68.7	24%	18%	-4%	2%
Lemonsoft Oyj	2,687	11.1	9.1	36.7	28.6	38%	22%	30%	32%
Lime Technologies AB	4,206	8.7	7.5	46.8	36.7	20%	16%	19%	20%
Litium AB	203	2.9	2.3	neg	>100	19%	27%	-17%	1%
Mercell Holding AS	4,995	5.3	4.6	>100	45.6	33%	15%	2%	10%
PatientSky Group AS	532	2.4	2.2	neg	neg	6%	8%	-35%	-25%
Penneo A/S	453	4.2	3.0	neg	neg	45%	40%	-41%	-27%
Pexip Holding ASA	789	0.8	0.7	neg	19.4	26%	15%	-21%	4%
Physitrack Limited	537	3.9	3.2	22.1	13.6	74%	23%	18%	23%
Safeture AB	111	na	na	na	na	na	na	na	na
SignUp Software AB	1,853	7.3	5.8	>100	45.1	35%	26%	4%	13%
SmartCraft ASA Class A	3,240	8.9	7.6	28.4	22.6	34%	17%	31%	34%
Upsales Technology AB	1,155	8.9	6.6	50.2	30.4	40%	34%	18%	22%
Vertiseit AB Class B	796	2.6	2.1	79.6	18.9	na	24%	3%	11%
Vitec Software Group AB Class B	15,691	8.2	7.2	44.5	35.8	22%	15%	18%	20%
XMReality AB	29	1.5	1.0	neg	neg	-9%	40%	-180%	-118%
ZetaDisplay AB	na	na	na	na	na	na	na	na	na
Average	*3,301*	*5.4*	*4.2*	*18.9*	*19.8*	*30%*	*24%*	*-18%*	*-6%*
Median	*767*	*4.0*	*3.0*	*43.6*	*30.4*	*33%*	*23%*	*2%*	*10%*

Source: FactSet, Redeye

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report:

We have changed the rating in this report on the back of an updated model for the rating system. The new ratings are People 3 (4), Business 3 (3) and Financials 1 (1).

People: 3

Artificial Solutions appointed Per Ottosson as CEO in November 2020. Ottosson brings extensive C-suite experience from highly successful companies within software and AI – most recently as CRO at IPSoft. Additionally, Ottosson has attracted many high-profile senior recruitments to Artificial Solutions. So far, management has delivered on its goals, i.e., transition to a SaaS model, expand partnerships, and decrease the cost base. Also, we value Scope's ownership and long-term commitment (c.16% of the capital/votes) and some founders having meaningful stakes. Greater consistency in the capital allocation and increased management ownership could help improve the rating.

Business: 3

Since transitioning to a SaaS business model in 2021, the company has operated an asset-light (Kubernetes cloud infrastructure) and highly scalable venture, owing to its usage-based revenues – creating product stickiness. Additionally, it relies on global partners such as Microsoft, Deloitte, and CGI to drive sales – which on the flip side, makes some dependencies. The Software Conversational AI market is a USD14bn industry, growing at a 22% CAGR – the prospect of achieving long-term organic growth is highly feasible. However, Artificial Solutions is not immune to competition and innovations in the space and has, to some degree, high customer concentration, although this is steadily decreasing.

Financials: 1

Artificial Solutions has a negative FCF profile and will likely remain unprofitable for some years, investing significant resources in sales growth. The rating's retrospective nature limits the company from achieving a higher score. However, we positively regard the increasing gross profit margin and expect it to, over time, increase to >90%.

	2021	2022e	2023e	2024e
INCOME STATEMENT				
Revenues	39	43	54	66
Cost of Revenues	12	12	12	13
Gross Profit	27	31	42	53
Operating Expenses	102	128	138	148
EBITDA	-58	-79	-78	-75
Depreciation & Amortization	13	13	14	15
EBIT	-71	-92	-92	-89
Net Financial Items	1	-6	-34	-37
EBT	-70	-98	-126	-126
Income Tax Expenses	0	0	0	0
Non-Controlling Interest	0	0	0	0
Net Income	-70	-98	-126	-126
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	112	31	31	-66
Inventories	0	0	0	0
Accounts Receivable	6	9	11	13
Other Current Assets	20	14	17	21
Total Current Assets	138	53	59	-32
Non-current assets				
Property, Plant & Equipment, Net	1	1	1	1
Goodwill	0	0	0	0
Intangible Assets	28	28	28	28
Right-of-Use Assets	0	0	0	0
Shares in Associates	0	0	0	0
Other Long-Term Assets	1	1	1	1
Total Non-Current Assets	31	31	31	31
Total Assets	168	83	90	-2
Liabilities				
Current liabilities				
Short-Term Debt	0	0	100	100
Short-Term Lease Liabilities	0	0	0	0
Accounts Payable	19	13	16	20
Other Current Liabilities	0	0	0	0
Total Current Liabilities	50	41	148	156
Non-current liabilities				
Long-Term Debt	238	260	285	312
Long-Term Lease Liabilities	0	0	0	0
Other Long-Term Liabilities	0	0	0	0
Total Non-current Liabilities	238	260	285	312
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	-119	-217	-344	-470
Total Liabilities & Equity	168	83	90	-2
CASH FLOW				
NOPAT	-71	-92	-92	-89
Change in Working Capital	-16	-6	2	1
Operating Cash Flow	-119	-68	-85	-83
Capital Expenditures	-1	-1	-1	-1
Investment in Intangible Assets	-14	-13	-13	-14
Investing Cash Flow	-15	-13	-14	-15
Financing Cash Flow	225	0	100	0
Free Cash Flow	-133	-82	-99	-98

DCF Valuation Metrics	Sum FCF (SEKm)
2023-26	-240
2027-34	318
2034-	401
Firm Value	479
Net Debt	230
Equity Value	249
Fair Value per Share	40.0

	2021	2022e	2023e	2024e
CAPITAL STRUCTURE				
Equity Ratio	-0.7	-2.6	-3.8	305.9
Debt to equity	-2.0	-1.2	-1.1	-0.9
Net Debt	126	230	354	478
Capital Employed	118	43	-59	-158
Working Capital Turnover	-1.6	-2.3	-2.6	-3.0
GROWTH				
Revenue Growth	-28%	10%	26%	23%
Basic EPS Growth	-71%	41%	29%	0%
Adjusted Basic EPS Growth	-71%	41%	29%	0%
PROFITABILITY				
ROE	48%	58%	45%	31%
ROCE	-60%	-216%	157%	57%
ROIC	2775%	-1183%	-942%	-1110%
EBITDA Margin (%)	-150%	-185%	-145%	-113%
EBIT Margin (%)	-183%	-216%	-171%	-135%
Net Income Margin (%)	-179%	-230%	-234%	-191%
VALUATION				
Basic EPS	-10.6	-14.9	-19.2	-19.2
Adjusted Basic EPS	-10.6	-14.9	-19.2	-19.2
P/E	neg	neg	neg	neg
EV/Revenue	13.7	7.8	8.5	8.8
EV/EBITDA	neg	neg	neg	neg
EV/EBIT	neg	neg	neg	neg
P/B	neg	neg	neg	neg

SHAREHOLDER STRUCTURE	CAPITAL %	VOTES %
Scope	16.1%	16.1%
SEB-Stiftelsen	7.5%	7.5%
Nice & Green	6.2%	6.2%
AFA Försäkring	5.0%	5.0%
C WorldWide Asset Management	2.9%	2.9%

SHARE INFORMATION	
Reuters code	ASAI.ST
List	First North
Share price	15.98
Total shares, million	6.57

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

ANALYSTS

Forbes Goldman

Redeye AB
Mäster Samuelsgatan 42, 10tr
111 57 Stockholm

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

Redeye Equity Research team

Management

Björn Fahlén
bjorn.fahlen@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

Technology Team

Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Alexander Flening
alexander.flening@redeye.se

Douglas Forsling
douglas.forsling@redeye.se

Forbes Goldman
forbes.goldman@redeye.se

Jessica Grünewald
jessica.grunewald@redeye.se

Jesper von Koch
jesper.vonkoch@redeye.se

Anton Hoof
anton.hoof@redeye.se

Rasmus Jacobsson
rasmus.jacobsson@redeye.se

Viktor Lindström
viktor.lindstrom@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Fredrik Reuterhäll
fredrik.reuterhall@redeye.se

Mark Siöstedt
mark.siostedt@redeye.se

Jacob Svensson
jacob.svensson@redeye.se

Niklas Sävås
niklas.savas@redeye.se

Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se

Danesh Zare
danesh.zare@redeye.se

Life Science Team

Oscar Bergman
oscar.bergman@redeye.se

Christian Binder
christian.binder@redeye.se

Filip Einarsson
filip.einarsson@redeye.se

Mats Hyttinge
mats.hyttinge@redeye.se

Ethel Luvall
ethel.luvall@redeye.se

Gustaf Meyer
gustaf.meyer@redeye.se

Richard Ramanius
richard.ramanius@redeye.se

Kevin Sule
kevin.sule@redeye.se

Fredrik Thor
fredrik.thor@redeye.se

Johan Unnerus
johan.unnerus@redeye.se

Disclaimer

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Redeye Rating (2022-08-22)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	157	139	48
0p - 2p	5	40	142
Company N	194	194	194

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