

Clavister

Sector: IT/Cybersecurity

Operational Improvements

Redeye leaves valuation unchanged on the back of a stable Q1, the key take-away of which were cash-flow improvements, +85% gross margins and a lower than expected EBIT-loss. Our current-year forecasts (including growth of >20%) should lend support to the stock if they materialize.

Remote work drives the need for security

Clavister has not seen any impact in its ability to close business deals due to the corona crisis. On the contrary, demand for its solutions has increased during the current environment. We assess that a potential demand effect will materialize in Q2/Q3 as far as onboarding new business due to lengthened sales cycles and conservatism among IT departments to commit new spend. However, cybersecurity is not a discretionary purchase because the virus is not going to stop cyber adversaries. In the slightly longer-term (i.e. 2021-), we assess that the industry will benefit, mainly as remote work might be here to stay and drive the need for secure remote access (authentication solutions, endpoint security etc.).

Opex leverage should support further EBIT-improvements

Net sales came in short of expectations (SEK 29.3m versus SEK 33.0m) while the EBIT loss was lower than forecast of SEK -24m. This was driven by a wide gross-margin beat (increased by 5.8 p.p y/y to 85.1%, we forecast 80.0) as well as lower other opex. Clavister communicates that they have considerable upside still to gain over the investments in sales and marketing capacity made in 2019, implying strong leverage, which should support further EBIT-improvements.

Unchanged valuation at SEK 18 per share

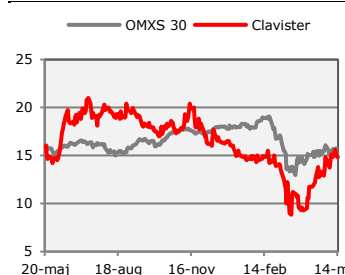
We believe Clavister is well positioned and poised to benefit from secular trends; our current-year forecasts should lend support to the stock if they materialize and close the gap to our base case of **SEK 18 per share**.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	112	123	150	236	288	337
EBITDA	-54	-39	-3	65	84	156
EBIT	-90	-81	-49	16	33	103
EPS (adj.)	Neg	Neg	Neg	Neg	0.2	2.5
EV/Sales	3.5	4.8	4.8	3.1	2.6	1.9
EV/EBITDA	Neg	Neg	Neg	11.4	8.8	4.1
EV/EBIT	Neg	Neg	Neg	45.0	22.2	6.3
P/E	Neg	Neg	Neg	Neg	71.2	6.0

FAIR VALUE RANGE

BEAR	BASE	BULL
8.0	18.0	46.0

CLAVISTER VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	CLAV.ST
Market	First North
Share Price (SEK)	15.3
Market Cap (MSEK)	392
Net Debt 20E (MSEK)	271
Free Float	89 %

ANALYSTS

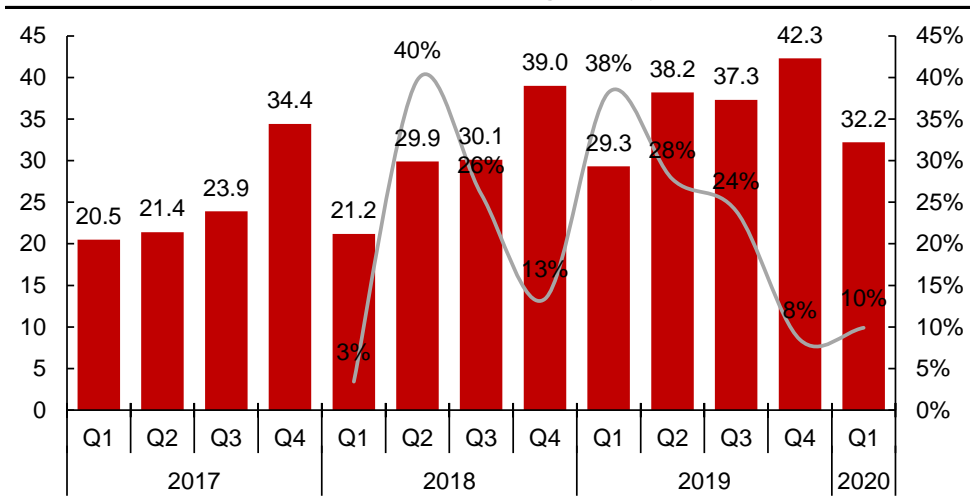
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Clavister: Q1'20

Order intake increased by 10.0% y/y and amounted to SEK 32.2 (29.2)m, adjusted for the divested China business the numbers corresponds to a growth of 13.0%.

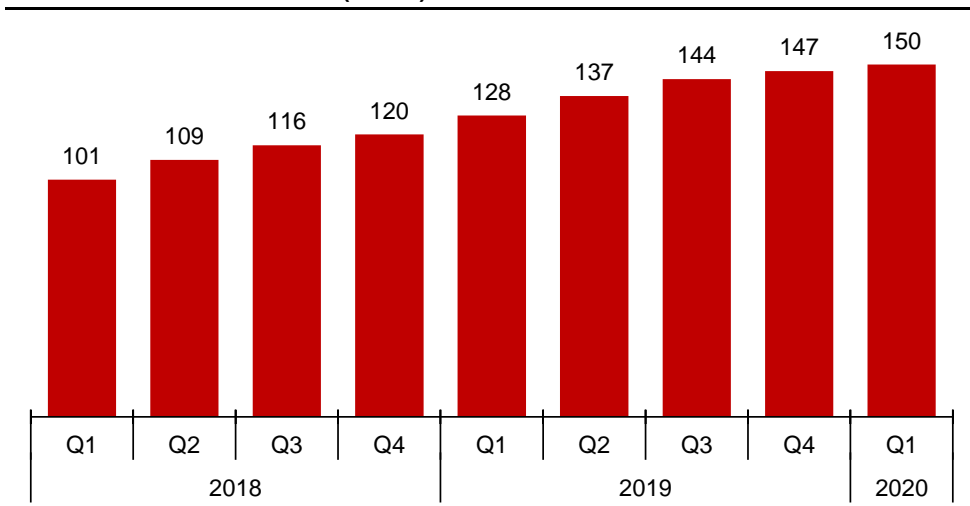
Clavister: Order intake per quarter (SEKm) and growth y/y (%)



Source: Redeye Research

Order intake on an R12m basis amounts to SEK 150.0 (128.3)m, corresponding to a growth rate of ~17.0% y/y.

Clavister: Order intake R12m (SEKm)



Source: Redeye Research

Worth highlighting is Clavisters introduction of a couple of key metrics, aiming at increasing transparency and understanding of the business. According to us, the contraction retention rate of 95.8% stands out as an impressive one (the high retention rate highlights the importance of upselling and new customer business to increase future growth rates). The 26% increase y/y in recurring revenue (from SEK 13.7m to SEK 17.4m) is also uplifting.

Importantly, cash flow execution was solid with free cash flow from operating activities of SEK 11.0m (-12.4), driven by working capital changes. Cash amounted to SEK 69.0m at the end of the quarter. Important to note is that increased deferred revenue does not “adversely” affect cash flow, like the P&L statement (cash has already been collected but not recognised on the P&L). More specifically, it shows up as a positive change in working capital (i.e. increased current liabilities).

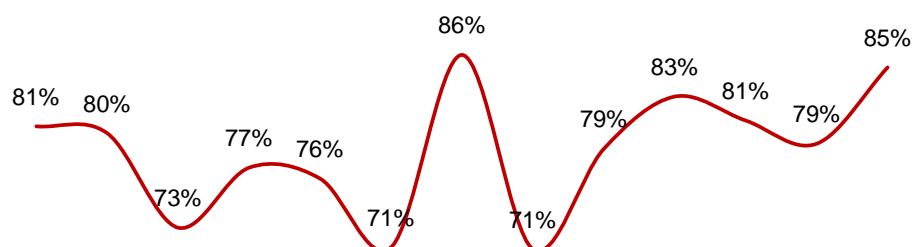
Clavister: Cash flow statement

(Thousand SEK)	Q1'20	Q1'19
Profit/Loss before Taxes	-39 523	-28 489
Reversal of Depreciation and Write-downs	11 521	10 188
Other Adjustments for Non-cash Items	13 903	2 743
Paid Taxes	-444	-403
Cash Flow from Operating Activities before Working Capital Changes	-14 543	-15 961
Changes in Inventories	1 030	-474
Changes in Operating Receivables	17 218	2 485
Changes in Operating Liabilities	7 262	1 580
Cash Flow from Operating Activities	10 967	-12 370
Acquisition of Property, Plant and Equipment	-10 976	
Investment of Capitalized Development Work	-9 328	-14 205
Cash Flow from Investing Activities	-20 304	-14 205
Free Cash Flow	-9 337	-26 575

Source: Redeye Research

The gross margin continues its positive trajectory, reaching 85.1% (79.9).

Clavister: Gross margin (%)



Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
2017				2018				2019				2020

Source: Redeye Research

Even as net sales fell short of expectations, all other metrics showed a wide beat. Worth highlighting is the cost control, where opex decreased y/y. The numbers verify Clavisters earlier communication of flat opex in 2020 (implying strong leverage).

Clavister: Q1'20 results versus expectations					
(SEKm)	Q1'20		Deviation		Q1'19
	Actual	Redeye	%	Abs.	Actual
Net sales	29	33	-11%	-4	27
COGS	-5	-6			-5
Gross profit	28	27	7%	2	21
Cap.Dev.Expenses	9	10			14
OPEX (staff and other external)	-43	-49	12%	6	-44
EBITDA	-6	-13	53%	7	-9
Depr. & Amort.	-12	-11			-10
EBIT	-17	-24	30%	7	-19
Revenue growth	9%	23%			18%
Gross margin	85%	80%			79%
EBITDA margin	neg	neg			neg
EBIT margin	neg	neg			neg

Source: Redeye Research

Financial Projections

Detailed balance sheet and cash flow estimates are presented on page 8.

Estimate changes

Clavister: Estimate changes, '20e-'21e								
(SEKm)	Old		New		Change (%)		Change (abs.)	
	2020e	2021e	2020e	2021e	2020e	2021e	2020e	2021e
Net sales	166	248	150	236	-9%	-5%	-16	-12
Gross profit	134	209	125	201	-7%	-4%	-9	-8
EBIT	-66	22	-53	16	20%	-25%	13	-5

Source: Redeye Research

Sales and earnings estimates

Clavister: Sales and earnings, quarterly estimates*								
(SEKm)	2018	2019	Q1	Q2e	Q3e	Q4e	2020e	2021e
Revenue	112	123	29	35	42	44	150	236
<i>growth</i>	11%	11%	9%	7%	32%	37%	22%	57%
COGS	-26	-24	-5	-6	-7	-7	-26	-35
Gross profit	85	99	28	29	35	37	125	201
<i>margin</i>	76%	80%	85%	83%	83%	83%	83%	85%
Cap. Dev. Expenses	40	47	9	10	10	10	38	45
OPEX (staff and other external)	-179	-186	-43	-44	-38	-45	-169	-181
EBITDA	-54	-40	-6	-5	7	1	-7	65
<i>margin</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	27%
Depr. & Amort.	-36	-42	-12	-12	-12	-12	-46	-48
EBIT	-90	-82	-17	-17	-5	-10	-53	16
<i>margin</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	<i>neg</i>	7%

Source: Redeye Research

*) EBIT & EBITDA includes Cap. Dev. Expenses

Valuation

We derive our fair value from a fundamental DCF framework for three scenarios, base case (most likely), bear case (pessimistic) and bull case (optimistic). **Our unchanged value range is SEK 8.0 – 46.0 with a base case of SEK 18.0 per share.** Redeye uses its own rating model (Redeye Rating) to estimate a WACC that reflects the company's quality and its risks. Based on this model, we estimate a WACC of 13.0% that is used in all scenarios.

Bear Case 8.0 SEK

Key assumptions (2020-2029)

- CAGR sales: 11%
- Avg. EBIT-margin: 12%
- Terminal growth rate: 2%
- Terminal EBIT-margin: 13%

In our bear case scenario, we see one or more of our bear points materialize. The greatest risk is coupled with slow virtual adoption or to risks related to partners. Partners could develop their own virtual solution or choose a competitors solution (we apply a higher margin of safety when it comes to the long-term technology risks and assumes the advantages in the product will be wiped out as a result of intense competition).

Base Case 18.0 SEK

Key assumptions (2020-2029)

- CAGR sales: 21%
- Avg. EBIT-margin: 16%
- Terminal growth rate: 2%
- Terminal EBIT-margin: 19%

In the medium-term (2020-2023), we predict that Clavister will be able to grow sales at a 29 percent CAGR, resulting in sales of SEK ~340m by 2023. In the medium term, growth within CSP will be driven by the mobile data traffic plus the anticipated investments in virtualized infrastructure.

We estimate sales to grow to over SEK 700m by 2029. When adoption reaches 80-90 percent, the growth of Clavisters solutions will mainly be a result of mobile data traffic. It is hard to find unanimous forecast growth of mobile data for the long-term (2021-). But it is clear that the majority of analysts expect mobile data growth to be in line with the forecasted 42 percent through 2022. The investment need (Cap. Dev. Expenses) amounts on average to 18 percent of sales during 2020-2029.

Bull Case 46.0 SEK

Key assumptions (2020-2029)

- CAGR sales: 31%
- Avg. EBIT-margin: 19%
- Terminal growth rate: 2%
- Terminal EBIT-margin: 21%

The big differentiator between our bull- and base case is the sales growth, driven by the CSP division. Higher virtual adoption, in combination with Clavisters partners obtaining a slightly higher market share, leads to more aggressive growth and entails higher margins.

Catalysts

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 consistent revenue growth, and thus showing the way to profitability, a revaluation will follow.

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: No changes

People: 4

The CEO is the co-founder of Clavister and management and board have been long in the organization or have extensive experience from adjacent industries. Overall it is an experienced team with proven operational success and in-depth cybersecurity knowledge. We also tribute management's strategic initiative to entry the telecom sector and we find the execution (so far) successful. In terms of ownership, we would like to see a major shareholder, the board and management with larger stakes. At the moment no one holds a corner in Clavister and management and the board's ownership amounts to ~6 percent.

Business: 3

Clavister has high gross margins, ~75-80%, has broadened its product portfolio within enterprise and are building an interesting position within the telecom sector. So there is no doubt that the sales and growth potential are present. But the business model and company's position in the ecosystem within telecom has yet to prove its sustainability (still too early to draw any safe conclusions). Also, points are lost since Clavister never before has been able to reach profitability.

Financials: 2

Having drawn the third and final EIB tranche, Clavister now has a cash position of SEK 70m. While possibly sufficing to take the company to cash flow break-even, any need for safety margins, maintaining strategic R&D spend or obtaining growth capital would call for further funding. Points are lost because of poor historical profitability.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	112	123	150	236	288
Total operating costs	-166	-163	-153	-171	-204
EBITDA	-54	-39	-3	65	84
Depreciation	-1	-2	-2	-2	-2
Amortization	-35	-40	-44	-46	-49
Impairment charges	0	0	0	0	0
EBIT	-90	-81	-49	16	33
Share in profits	0	0	0	0	0
Net financial items	-28	-32	-34	-25	-25
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-117	-113	-83	-9	8
Tax	-5	-28	0	0	-2
Net earnings	-122	-142	-83	-8	6

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	26	71	8	14	17
Receivables	16	57	29	42	49
Inventories	2	8	3	5	3
Other current assets	25	0	0	0	0
Current assets	69	136	39	61	69
<i>Fixed assets</i>					
Tangible assets	2	0	2	2	3
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	53	52	52	52	52
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	52	78	87	95	93
0 non-current assets	45	37	37	37	37
Total fixed assets	152	167	177	187	185
Deferred tax assets	82	48	48	48	46
Total (assets)	302	352	264	296	300
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	6	6	6	35
Accounts payable	34	104	105	118	115
0 current liabilities	0	7	7	7	7
Current liabilities	35	116	117	130	157
Long-term debt	56	277	273	299	270
0 long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	91	393	390	430	427
Deferred tax liab	2	1	1	1	1
Provisions	0	0	0	0	0
Shareholders' equity	67	-43	-126	-135	-128
Minority interest (BS)	0	0	0	0	0
Minority & equity	67	-43	-126	-135	-128
Total liab & SE	159	351	264	296	300

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	112	123	150	236	288
Total operating costs	-166	-163	-153	-171	-204
Depreciations total	-36	-42	-46	-48	-51
EBIT	-90	-81	-49	16	33
Taxes on EBIT	-3	-20	0	-1	-7
NOPLAT	-93	-102	-49	16	26
Depreciation	36	42	46	48	51
Gross cash flow	-58	-60	-3	64	76
Change in WC	15	22	35	-3	-7
Gross CAPEX	-40	-47	-56	-58	-48
Free cash flow	-83	-85	-24	3	20

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	42%	-12%	-48%	-45%	-43%
Debt/equity ratio	84%	-654%	-220%	-227%	-238%
Net debt	30	212	271	291	288
Capital employed	97	169	144	157	160
Capital turnover rate	0.4	0.4	0.6	0.8	1.0

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	11%	11%	22%	57%	22%
EPS growth (adj)	85%	7%	-50%	-90%	-176%

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	-92%	0%	0%	0%	0%
ROCE	-46%	-45%	-25%	10%	19%
ROIC	-39%	-105%	-29%	11%	16%
EBITDA margin	-49%	-32%	-2%	27%	29%
EBIT margin	-81%	-66%	-33%	7%	11%
Net margin	-109%	-115%	-55%	-3%	2%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-5.18	-5.52	-2.75	-0.27	0.21
EPS adj	-5.18	-5.52	-2.75	-0.27	0.21
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	1.27	8.25	8.95	9.63	9.54
Total shares	23.56	25.66	30.24	30.24	30.24

VALUATION	2018	2019	2020E	2021E	2022E
EV	390.0	587.7	716.8	737.3	734.5
P/E	-3.0	-2.7	-5.4	-54.4	71.2
P/E diluted	-3.0	-2.7	-5.4	-54.4	71.2
P/Sales	3.2	3.0	3.0	1.9	1.5
EV/Sales	3.5	4.8	4.8	3.1	2.6
EV/EBITDA	-7.2	-15.0	-250.5	11.4	8.8
EV/EBIT	-4.3	-7.2	-14.6	45.0	22.2
P/BV	5.4	-8.7	-3.5	-3.3	-3.5

SHARE PERFORMANCE	GROWTH/YEAR		18/20E
1 month	17.1 %	Net sales	16.1 %
3 month	-4.8 %	Operating profit adj	-26.2 %
12 month	-14.0 %	EPS, just	-27.1 %
Since start of the year	-10.6 %	Equity	

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
HSBC TRINKHAUS AND BURKHARDT AG, DUESSELDORF	10.9 %	10.8 %
AVANZA PENSION	8.9 %	8.9 %
GOLDMAN SACHS INTERNATIONAL LTD	7.3 %	7.3 %
FORSELL, TOMMY	4.8 %	4.8 %
RGG ADM-GRUPPEN AB	4.8 %	4.8 %
FUTUR PENSION	4.5 %	4.5 %
RBC INVESTOR SERVICES BANK S.A	4.3 %	4.3 %
FONDITA 2000+ INVESTMENT FUND	4.2 %	4.2 %
STENBERG, VIDAR	4.0 %	4.0 %
CLEARSTREAM BANKING S.A	2.9 %	2.9 %

SHARE INFORMATION	
Reuters code	CLAV:ST
List	First North
Share price	15.3
Total shares, million	25.7
Market Cap, MSEK	392.6

MANAGEMENT & BOARD	
CEO	John Vestberg
CFO	-
IR	John Vestberg
Chairman	Viktor Kovacs

FINANCIAL INFORMATION	

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Redeye Rating and Background Definitions

Company Quality

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

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

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

People

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

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

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

Business

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

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

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

Financials

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

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

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

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Redeye Rating (2020-05-20)

Rating	People	Business	Financials
5p	13	11	4
3p - 4p	106	80	30
0p - 2p	7	35	92
Company N	126	126	126

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Havan Hanna owns shares in the company : Yes/No

Viktor Westman. owns shares in the company : Yes/No

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