Carasent

Sector: Software

Heading West

Redeye increases its estimates and fair value range for Carasent. We argue that the acquisition of Avans Soma was strategically and financially sound, and we expect an accelerated Norwegian expansion, with a Webdoc launch in the neighboring country by H2'21 or early 2022. Carasent merits a premium, as it has >90% recurring revenues in a non-cyclical and steadily growing market, coupled with net retention numbers of 115-120%.

Sticky ecosystem

An important assumption in our investment thesis is the increased utilization of the ecosystem's integrated services. The Webdoc to integrated services ratio has historically been around 1:0.8 but is on the rise. In 2020, integrated services grew by ~50% y/y, outpacing Webdoc revenues by a wide margin. It points towards a strong value proposition and an increased stickiness of Evimeria's business offering (i.e. higher switching costs and continued low churn). In Q4'20, the Webdoc to integrated services ratio was 1:1.01, and for the first quarter, the add-ons eclipsed the EMR system's sales. It is one of the main reasons why Evimeria can have net retention numbers of 115-120%.

Excellent acquisition pipeline

Carasent has around NOK 220m in cash on the balance sheet and on the Q4 conference call, chairman Johan Lindqvist informed that the company had a strong acquisition pipeline. He also iterated that Carasent seeks to acquire new companies with a mix of cash and shares, to keep the entrepreneurs in the organization. Avans Soma checked all three acquisition targets: i) new products/services; ii) new segments, and iii) geographical expansion.

Strong growth awaits in 2021 (and beyond)

We estimate that Carasent will grow by >70% in 2021 (30% organically), not accounting for additional acquisitions that probably will be announced later this year. Carasent trades at EV/Sales 18x on 2021E**, which might look pricey in the short-term. However, we argue that investors have a good chance of earning approximately the growth rate going forward, as the durability and duration of the profitable growth add cushion in the case of multiple contraction. We increase our base case to NOK 55 (40).

Carasent - near-term forecasts

(NOKm)	2018	2019	2020	Q1'21E	Q2'21E	Q3'21E	Q4'21E	2021E	2022E	2023E
Evimeria	24,0	47,9	70,6	20,3	22,1	23,0	26,3	91,7	116,8	146,0
Avans Soma	-	-	21,4	6,6	7,2	7,5	8,6	29,9	37,4	46,7
Total net sales	**24,0**	**47,9**	**92,0**	**26,9**	**29,3**	**30,5**	**34,9**	**121,6**	**154,2**	**192,7**
Gross margin (%)	79,0%	81,8%	82,2%	82,0%	82,0%	81,5%	81,5%	81,7%	80,5%	79,5%
EBITDA margin* (%)	Neg	24,8%	30,7%	38%	40%	41%	42%	40%	42%	44%
EBITDA*	Neg	11,9	28,2	10,2	11,7	12,4	14,5	48,8	64,0	83,8
EV/Sales								18,0	14,2	11,4
EV/EBITDA								44,9	34,3	26,2
EV/adj. EBIT*								62,1	43,6	31,4

Source: Carasent, Redeye Research

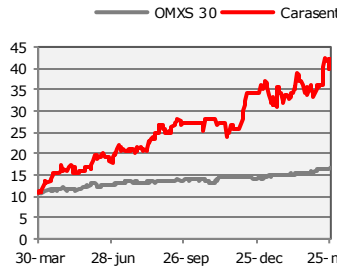
* Adjusted for acquisition related amortization and one-offs

** We use the diluted shares when counting the Enterprise Value (including the synthetic stock options)

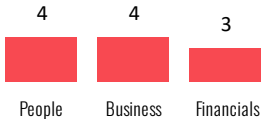
FAIR VALUE RANGE

BEAR	BASE	BULL
20	55	75

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	CARA
Market	Mid Cap
Share Price (NOK)	42
Market Cap (MNOK)	2311
Net Debt 21E (MNOK)	-203
Free Float	65 %
Avg. daily volume ('000)	144

ANALYSTS

Mark Siöstedt

mark.siostedt@redeye.se

Fredrik Nilsson

fredrik.nilsson@redeye.se

Important information: All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report

Avans Soma

With the acquisition of Avans Soma, Carasent receives three crucial benefits

- A stand-alone quality company
- An organization with the right technical expertise
- A market platform from which Evimeria can launch a Norwegian Webdoc version

Entering Norway

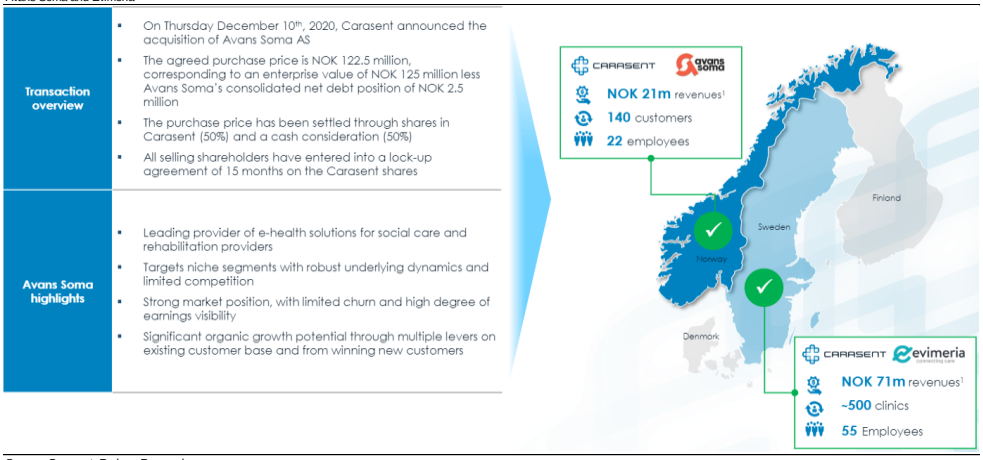
Carasent entered the Norwegian healthcare market with the acquisition of Avans Soma, a leading medical record systems developer and IT solutions company. The primary segments are rehabilitation and mental illness, and the 140 strong customer portfolio consists of organizations such as Frelsesarmeen (The Salvation Army) and Helt Med. Both private and public organizations use Avans Soma's services.

Customers to Avans Soma

Source: Avans Soma, Redeye Research

With the acquisition, Carasent gains access to a wide range of contacts and business networks that Avans Soma has developed over the past 15 years. It also secures an existing organization with 22 skilled employees, as well as a broadened product portfolio. We deem Avans Soma to be an excellent launching pad for the Norwegian version of Webdoc, as it can offer tangible guidance regarding sales, support, technical expertise, and consulting in the local market. It has already done many of the national integrations that Evimeria must do in order to launch the Norwegian Webdoc version, which saves both time and money.

Avans Soma and Evimeria



Source: Carasent, Redeye Research

Avans (work-related) and Soma (social care-related) operate in markets with relatively few competitors. Some customers purchase tailor-made systems, while others seek out standard systems (although niched toward a certain area). Depending on the market, Avans Soma competes against companies such as Visma (work-related), Extensor (social care), Tieto (social care), Vitec's HK Data (social care), and some smaller players.

Financials and synergies

Not a sleepy legacy business

We initially believed Carasent would seek out a sleepy legacy provider with an average or below-average product (to receive a lower price) and then leverage Webdoc sales from the organization while retiring the old system. But Avans Soma's products are nothing of the sort and are well-developed and liked by its many customers. It has steadily gained market share in the past six years (we cannot check the numbers further back), and the top-line growth has been above 30% (including the acquisition of Soma). The churn has been limited at the same time. In short, Carasent's management has found a small Norwegian quality company.

Carasent's proforma income statement 2020

	12 Months Ended Dec 31, 2020				
(Amounts in NOK 1,000)	Unaudited Evimeria	Unaudited Avans Soma Proforma	Unaudited Carasent Recurring	Unaudited Carasent Non-recurring (*	Unaudited PF Total Proforma
Total Operating Revenues	70 576	21 389	-	-	91 965
Total Cost of Sales	13 789	2 568	-	-	16 357
Gross Profit	56 786	18 822	-	-	75 608
Operating Expenses					
Employee Compensation and Benefits	20 629	7 547	1 267		29 443
Other Operational and Administrative Costs	8 332	6 353	3 241	7 262	25 188
Total Operating Expenses	28 961	13 900	4 508	7 262	54 631
EBITDA	27 825	4 921	(4 508)	(7 262)	20 977
Depreciation and Amortization	8 983	5 190	3 645		17 819
Operating Income (loss)	18 842	(269)	(8 153)	(7 262)	3 158
Total Other Expense	(687)	(161)	(12)	(36 960)	(37 819)
Income (loss) Before Income Taxes	18 155	(429)	(8 165)	(44 222)	(34 661)
Income Tax Expense	(3 298)	(99)	838		(2 559)
Net Income (loss) for the Period	14 857	(528)	(7 326)	(44 222)	(37 220)

*) Non-recurring costs are related to acquisition, share issuances and stock option program.

Source: Carasent, Redeye Research

Avans Soma's proforma income statement (unaudited) points at NOK 21m in revenues. However, on the Q4'20 conference call, Carasent's management said that the run-rate was closer to NOK 23m (Avans acquired Soma in March 2020). The gross margin of 88% is higher than Evimeria's, leaving plenty of room for margin expansion further down in the income statement as sales volumes increase. Although the EBITDA margin is at 23%, Carasent's management stated that ~40% should be achievable in the next year (which is in line with Evimeria's profitability). The recurring revenue is around 85-90% of the total revenues, implying an ARR of NOK 20m (which can be compared to Evimeria's ARR of NOK 72m at the current SEK/NOK exchange rate of 1:1). The revenues are also non-cyclical and less politically sensitive, adding extra stability.

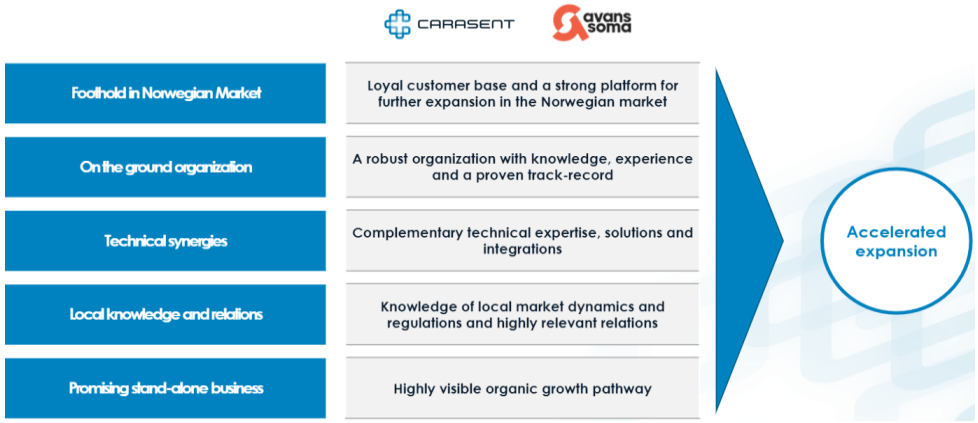
We believe a Norwegian Webdoc version can be launched in the second half of 2021 or early 2022. The Avans Soma organization will assist with the finishing touch (mostly related to integrations), which it also works extensively with, to our understanding. The cultural fit should allow the project to progress smoothly. In the first phase (6-18 months), synergies will primarily be on the technical side and not in the selling department. We do not see any clear

early cross-selling opportunities either between Evimeria and Avans Soma since their customer groups are different and have unique needs. Perhaps Vårdrummet could be sold as a stand-alone module, but that is it.

As time goes by, we believe the two organizations will start collaborating and coordinating on the marketing and selling side. Evimeria has several Swedish customers operating Norwegian private healthcare clinics that could serve as early adopters (such as Aleris, Capio, and a few medium-sized healthcare companies). When the Norwegian Webdoc's launch date is set, Avans Soma's sales organization will be critical.

A launch of Avans Soma's products in the Swedish market could also be on the table in a few years.

Accelerated Norwegian expansion



Source: Carasent, Redeye Research

Estimates

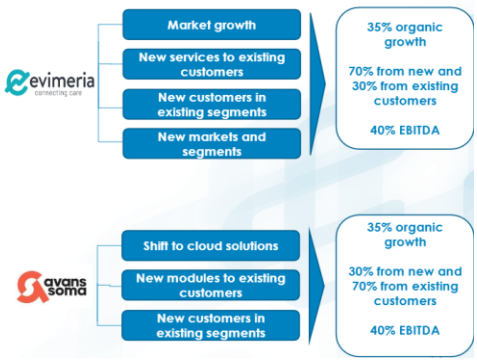
We estimate that Avans Soma will add NOK 30m to the topline in 2021 (30% organic growth y/y). 70% of the growth, around NOK ~4.8m, will come from the current customer base's shift to cloud-solutions and the selling of new modules. NOK 2.1m is expected to come from new customers. The ARPC (counting the ARR/number of clinics) is around NOK 150,000, which is slightly above Evimeria's ARPC (at around SEK 130,000), but then we also believe Avans Soma's ARPC will increase quite substantially when customers move from on-premise to SaaS solutions. We believe most of the customers are on on-premise solutions today.

Growth drivers in 2021

Illustrative pro forma financials[1] (NOKm)

	Avans Soma	Evimeria	Pro forma
NOKm	2020	2020	2020
Revenue	21,4	70,6	92,0
Gross profit	18,8	56,8	75,6
Operating expenses	-13,9	-29,0	-57
EBITDA	4,9	27,8	32,7
Margin	23 %	39 %	36 %

Growth drivers and targets 2021



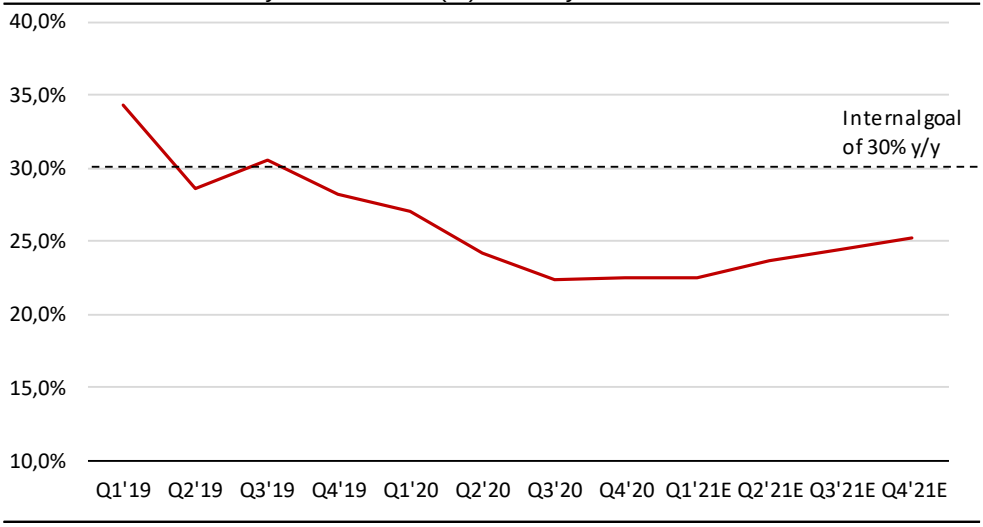
Source: Carasent, Redeye Research

Carasent writes that "Despite some continued uncertainty due to the pandemic, we still believe that the market and demand, in general, will continue to be strong for Evimeria and Avans Soma and that our customer base, measured in number of clinics, will grow in the 25-30% range during 2021." If Carasent were to accomplish that, which we believe will be hard on a consolidated level, Evimeria must act as a draught horse. We estimate Avans Soma's customer intake to be significantly lower, perhaps around ~10-15% (14-21 new clinics). Given that Evimeria's customer portfolio grew by 22.5% in 2020 (91 clinics), one must either believe there is:

- An extreme pent-up demand for Webdoc.
- 2020's order intake was strongly affected by the pandemic (in a 'normal 2020', way more than 91 new clinics would have been added), which means that 22.5% was in the lower range.
- That Evimeria can scale the customer intake in any other way (possibly via larger partners such as Aleris/Capio or through a Norwegian H2'21 Webdoc launch).

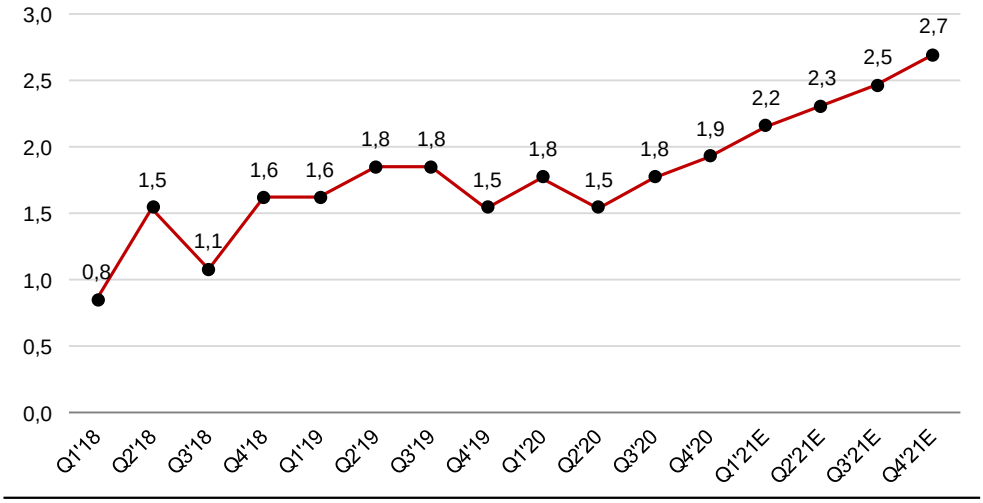
We could be overly conservative, but we would like to see the signs before putting them into our estimates. Should the total number of clinics grow by 25-30%, and Avans Soma's customer intake would be significantly lower (which we believe), then Evimeria's customer intake would have to exceed 30%. We argue that something like 620 active clinics (for Evimeria) could be possible at year-end, which would translate into a growth rate of 25% y/y, or 2.4 clinics per week (which would be substantially higher than in the previous years, where it has been around 1.5-1.8). On a consolidated level, that would mean an active clinic growth rate of approximately 20%. In our bull case, we use Carasent's own estimates.

Evimeria - Pace of newly added clinics (%) & Redeye's estimates



Source: Carasent, Redeye Research

Evimeria - Pace of newly added clinics per week (quarterly basis) & Redeye's estimates



Source: Carasent, Redeye Research

Purchase price and private market valuations

Avans Soma's price tag

The purchase price of NOK 126.7m was paid partly by NOK 61.3m in cash and by 2.2 million new shares (issued at a stock price of NOK 29.6). The EV/sales and EV/EBITDA multiples were around 5x and 20x, respectively, and 6x the recurring revenues. Although the price does not seem to be a 'steal', we recognize many qualities in Avans Soma that we like. Carasent has not bought a sleepy legacy business, but a company with actual moats, which has steadily won market share and earns returns on equity >100% (its capital-light nature helps). On top of that, Avans Soma has plenty of organic growth opportunities through the SaaS transformation (shift to cloud, selling new modules to existing customers) and by winning further market share via new customers.

We also believe the non-financial values are a significant part of the deal. Echoing CEO Dennis Höjer from a recent interview, the organization is vital for Evimeria's Norwegian Webdoc ambitions.

Lastly, Carasent has a tax-loss carryforward in Norway worth around NOK 40-45m in cash flow-numbers. The tax-loss carryforward is not shown on the balance sheet.

Cash on hand

We want to highlight that Carasent has NOK 220m in cash left on the balance sheet after the Avans Soma deal and ample room for more acquisitions. The new principal owner, Aeternum Capital, also has strong financial muscles if needed. Carasent clearly stated in the Q4'20 report that "In addition to a strong organic development, we also aim to add substantial growth through acquisitions that fit into our strategy." Given the fact that Avans Soma's contribution, coupled with the excellent organic growth, already sets Carasent up for a 2021 with a total growth rate of >70%, we believe there is a good chance of actually seeing the growth surpass 100% y/y with additional acquisitions. 'Only' NOK ~20m more in revenues would be needed. Through our talks with management (especially with chairman Lindqvist), we believe Carasent has a long pipeline of potential acquisition targets but is not overly trigger-happy because of sound hurdle-rate thinking.

PatientSky has been an active acquirer



Source: Redeye Research

PatientSky's consolidation efforts

PatientSky, a Norwegian PaaS/SaaS company building an ecosystem in the EMR/EHR industry, has quickly consolidated the local market with several acquisitions. Private market valuations are often not public, but some prices were mentioned in PatientSKy's admission document.

In November 2020 (after the IPO), PatientSky entered an agreement to buy one of its main competitors, Infodoc. According to the Norwegian financial newspaper Finansavisen, the price was NOK 280m. Infodoc's turnover was NOK 50m in 2019, giving it a ~5-6x trailing sales multiple. Worth noting is that Infodoc's growth has only been around 9% per annum in the last three years.

In 2017, PatientSky bought Programvareforlaget AS and Helse IT for NOK 71m, plus another NOK 27.5m in earn-outs if certain goals were met (which were unlikely to be achieved, according to PatientSky's prospectus in 2020.) The price, pre-earn-outs, was 1.5x sales, and the growth had been about 20% per annum in the past five years. (The growth turned negative after 2017).

PatientSky also purchased Hove Medical Systems in 2018 for NOK 130m pre-earn-outs and NOK 222m post-earn-outs if all considerations were met. Hove Medical Systems had sales of NOK 54m in 2018, giving it a 2.4x sales multiple before earn-outs (~4x post-earn-outs). The growth before the transaction was unclear, but it grew by 10% between 2018 and 2019.

Framework Agreement with Aleris

Ambition to roll out more

Aleris is Scandinavia's largest private healthcare provider, with around 140 clinics in Sweden, 22 in Norway, and 8 in Denmark. A handful of Aleris' clinics (specialists) have been using Webdoc for a while, and in March 2020, some branches of the healthcare company started to use the video-communication service Vårdrummet in response to the pandemic as well.

The initial Webdoc (and Evimeria) evaluation has been positive, and in February 2021, Evimeria wrote on its website that it had entered a new agreement with Aleris, where it will supply six additional specialist clinics with the Webdoc system. The added ARR of SEK 1.5m points toward quite large specialist clinics, as the ARPC is SEK 250,000, which is equivalent to the primary care segment. A medium-sized specialist clinic might add something around SEK 120,000-150,000. Both parties entered the agreement with the ambition of rolling out Evimeria's services at more clinics in the future. We do not estimate any further clinics in H1'21 but see potential in H2'21 or 2022.

Large digitization investments

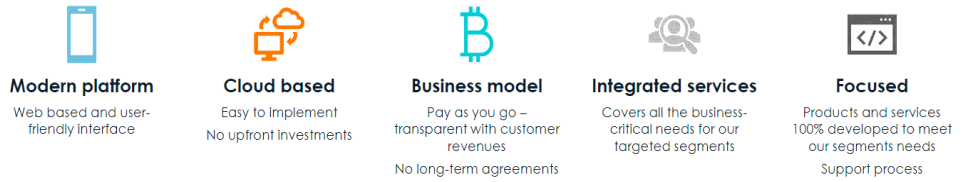
Aleris Triton

Source: Redeye Research

Triton's digitization focus

The investment firm Triton acquired Aleris in 2019 from Investor (for SEK 2.8bn) with a clear digitization (and efficiency) plan for the operations. Triton has a blueprint of similar investments in digital transformations from healthcare companies such as Finnish Mehiläinen, and we believe Evimeria is well-positioned to gain from the new focus/investments.

EVIMERIA'S ADVANTAGES



Source: Carasent, Redeye Research

We have talked to Aleris, and it has strengthened our conviction in Webdoc's value proposition and competitiveness. High-security standards, adaptability, the ecosystem of integrations, openness, and ease of use are some of the main benefits. Evimeria's narrow focus is also essential, as all products and services are 100% developed to meet the private customer segments' needs. The expanded cooperation with Aleris is a very strong signal.

Privacy protection issues

We urge interested readers to look up Integritetsskyddsmyndigheten's (Swedish Authority for Privacy Protection, or formerly Datainspektionen in Swedish) decision to fine Aleris SEK 12m in December 2020 for inadequate technical security measures (because of CGM's Take Care system). The reading is intriguing and highlights some of the differences between CGM and Evimeria, in our opinion. Basically, CGM has not been willing to alter serious technical security deficiencies, which has left Aleris (and the patients) in a difficult spot.

Snippet from Swedish Authority for Privacy Protections decision (page 4-5)

> Aleris har inte kunnat ställa några krav på CGM vid upphandlingen av journalsystemet. Bolaget har till exempel påpekat att det funnits problem med journalsystemet bestående i, såvitt avser behörighetstilldelningen, att systemet inte kan separera läs- och utskriftbehörigheter för en läsfunktion. CGM har inte varit intresserade av att ändra detta trots synpunkter från Aleris.
>
> Det är FSTC som kan beställa ändringar av funktionerna och det är sedan upp till CGM om de vill utföra ändringarna eller inte. Aleris har en representant i FSTC som kan framföra Aleris önskemål. Aleris har dock inte fått något gehör för bolagets synpunkter.

Source: Swedish Authority for Privacy Protection*, Redeye Research

* Tillsyn enligt dataskyddsförordningen och patientdatalagen- behovs- och riskanalys och frågor om åtkomst i journalsystem

Our conversations with customers suggest that CGM's focus is not primarily on Swedish private healthcare, as the total addressable market is too small in relation to CGM's revenues. The J4 EMR system is more or less a legacy program at this point. However, we know that CGM has a new EMR/EHR system, named CGM Clinical, that seems to be more up-to-date and competitive. We will keep our eyes on a possible Nordic launch.

Aeternum Capital – Carasent's New Principal Shareholder

The transaction

In February, Aeternum Capital acquired 8.25 million shares (15% of the votes and capital) and became Carasent's largest shareholder. The shares were bought from selling insiders, including CEO Dennis Höjer, chairman Johan Lindqvist, CFO Lars Forsberg, CTO/founder Niclas Hugosson, and board members Jesper Jannerberg and Terje Rogne. We believe a block trade was the only reasonable way for Aeternum Capital to acquire such a large stake. And only a few shareholders had the ability to sell a meaningful block.

	Number of shares sold (in million)	Percentage sold	Number of shares left (in million)		Ownership (after transaction)	Lock-up
CEO Dennis Höjer	-1,60	36%	2,80	+ 78,573 subscription rights	5,09%	24 months
Chairman Johan Lindqvist	-0,95	32%	2,04	+ 78,573 subscription rights	3,70%	24 months
CFO Lars Forsberg	-1,00	76%	0,31	+ 78,573 subscription rights	0,56%	24 months
CTO/Founder Niclas Hugosson	-1,60	36%	2,90	+ 78,573 subscription rights	5,27%	24 months
Board member Jesper Jannerberg	-2,60	52%	2,37	+ 78,573 subscription rights	4,31%	No
Board member Terje Rogne	-0,50	50%	0,50		0,91%	No
Total	**-8,25**	**47%**	**10,93**		**19,84%**	

	Number of shares bought (in million)	Ownership (after transaction)
Aeternum Capital	**8,25**	**15,00%**

Source: Carasent, Redeye Research

The stock market reacted positively to Aeternum Capital as the new principal owner. Our initial reaction was mixed, not because of Aeternum (on the contrary), but because the insiders were selling so much of their holdings, 47% on average, at a price of NOK 29-31 (in total, insiders sold for NOK 247,6m). Even so, insiders still have ~20% of the capital, and 16.62% of the shares have a 24-month lock-up.

We can understand that insiders wanted to take some cash off the table after a few strong years (both share price- and business-wise), as most of their wealth was tied to a single stock. We are fans of the 'pilot-school of investing,' where insiders' incentives are aligned with the shareholders through large stakes in the business. We believe that is still the case after the transaction (it goes without saying that 20% of the capital is a lot). Moreover, we have talked with Mr. Lindqvist and are reassured of the 'long-term Carasent project' (Aeternum Capital would not have invested otherwise either).

We want to flag for one oddball, though, as insiders participated in the directed rights issue in September 2020 at NOK 23.5, where the discount was set to 5%, and now sold the stakes less than 6 months after. The average selling price in the Aeternum Capital transaction was NOK 30.

Aeternum Capital

Aeternum Capital describes itself as "an alternative investment manager with a strategy to invest in public and private companies across the Nordic region. The main focus of the investment strategy is to apply an active ownership model to drive sustainable value creation in quality companies in the small and mid-cap segments. Through in-depth quantitative and qualitative analysis, Aeternum invests in public undervalued return expanders and overlooked industry leaders."

Aeternum Capital's value creation strategy



Source: Aeternum Capital, Redeye Research

Aeternum, a family office of John Fredriksen, is managed by Vegard Søraunet (formerly CIO at ODIN). According to Forbes, Mr. Fredriksen is worth around USD 10bn, mainly through oil tankers, LNG carriers, deep-water drilling rigs, and fish farming. Mr. Søraunet, in turn, is a reputable investor, and ODIN Sverige, which was the fund he managed the longest, was best-in-its-class (small to medium-sized Swedish companies) during his tenure.

We have talked to Mr. Søraunet, and we believe Aeternum and Carasent will be a good match. Aeternum is a stable long-term oriented owner, with plenty of capital available if an opportunity would arise and Carasent had to pounce fast. In addition, Aeternum is surrounded by a large network of valuable contacts. We also appreciate Søraunet's mindset of quality compounders and his overall investment acumen. He sees, like us, a long and profitable growth runway, a strong value proposition with competitive moats, and able management (with ownership). Carasent could not have found a better institutional owner.

On the other hand (to play the Devil's advocate), we are a bit worried Carasent is just a small investment in Aeternum's portfolio (total capital is not publicly known). Just to give some

examples, Aeternum has ~25% of the shares in ITAB (worth SEK 900m) and ~10% of the shares in AQ (worth SEK 570m). The investment in ITAB is around 160% bigger than the Carasent investment. Potentially (and probably), liquidity sets some boundaries, but we still want to draw some attention to the fact.

Cloud Act and GDPR

Dark clouds

A big challenge related to cloud-based platforms is ensuring information security. The Cloud Act from 2018 allows American federal law enforcement to compel US-based technology companies, via warrant or subpoena, to provide requested data stored on servers, regardless of whether the data is stored inside or outside the US.

Simultaneously, the European Union's GDPR act does not allow personal data to be transferred outside the EU and EEA areas. The two regulations are subsequently clashing with each other. The Court of Justice of the European Union ruled in the court case C-311/18, known as Schrems II, that it is illegal to use IT-based services that in any way to transfer and process personal data in the US. The judgment put an end to the Privacy Shield as an adequate safeguard when moving personal data outside the EU/EEA to the US.

The ruling could have major implications for Skåne and Västra Götaland, as the two regional councils procured the American EMR/EHR-system Millennium from Cerner. Patient data could be the most sensitive information there is. Nonetheless, Skåne's regional council has started to send patient data to Cerner's servers, which could be a breach of GDPR, and Swedish IT legal experts are criticizing the decision. Skåne, in turn, says that Cerner's subsidiary is subject to Swedish law and is therefore not allowed to transfer sensitive data to US federal law enforcement. Critics consider that to be a naïve stance. We believe the Cloud Act and GDPR controversy will slow down the Millennium rollout and potentially water down the strict 'one region, one EMR system' idea (at least in the short-term). As a result, we have estimated lower churn numbers in 2022/23. We will monitor the development closely.

The rollouts are already being delayed, and the system has received some negative feedback from beta users as well. Anesthesiology and intensive care units in Västra Götaland have said that they would rather use "pen and paper" than Millennium and Västra Götaland's Medical Association, representing 6,000 physicians, have also voiced its concern.

Lastly, Evimeria is using Swedish servers (City Network) and is thus following the GDPR regulation.

Financial Estimates

Carasent - Near-term estimate revisions

(NOKm)	2021E New	2021E Prev.	Change	2022E New	2022E Prev.	Change
Net Sales	121,6	95,6	27%	154,2	114,2	35%
Growth (%)	72%	35%		27%	19%	
Adj. EBIT	35,3	23,0	54%	50,3	31,3	61%
Margin (%)	29%	19%		33%	24%	

Source: Carasent, Redeye Research

Carasent merits a premium, as it has >90% recurring revenues in a non-cyclical and steadily growing market, coupled with net retention numbers of 115-120%. It basically grows even when 'standing still'.

The Avans Soma acquisition adds *new growth* and will help accelerate the Norwegian Webdoc launch. We also believe the churn we penciled in 2022-23 (because of Millennium) will be lower since the rollouts in Västra Götaland and Skåne seem to encounter more obstacles than we initially anticipated. We still account for some churn, but not as aggressive as before.

Carasent - Base Case near-term forecasts

(NOKm)	2020	Q1'21	Q2'21	Q3'21E	Q4'21E	2021E	2022E	2023E	2024E
Net sales	70,6	26,9	29,3	30,5	34,9	121,6	154,2	192,7	231,2
Growth YoY	47%	72%	72%	72%	72%	72%	27%	25%	20%
Organic		30%	30%	30%	30%	30%	27%	25%	20%
M&A		42%	42%	42%	42%	42%	-	-	-
Gross Profit	56,8	22,1	24,0	24,9	28,5	99,4	124,1	153,2	180,4
Margin (%)	80%	82%	82%	82%	82%	82%	81%	80%	78%
EBITDA	21,9	10,2	11,7	12,4	14,5	48,8	64,0	83,8	101,7
Margin (%)	31%	38%	40%	41%	42%	40%	42%	44%	44%
Adj. EBIT*	12,7	7,1	8,4	8,9	10,9	35,3	50,3	69,7	85,3
Margin (%)	18%	26%	29%	29%	31%	29%	33%	36%	37%

Source: Carasent, Redeye Research

*Adjusted for acquisition related amortization and one-offs

The addition of Avans Soma will boost the 2021 estimated growth substantially, and we believe it will surpass 70% y/y. We believe both Evimeria and Avans Soma can grow by 30% organically in 2021, followed by growth rates of around 27-20% in the next couple of years. These numbers are tightly coupled with Evimeria's customer intake (and churn) and the ongoing up-selling and cross-selling of ecosystem services (which has picked up the pace).

Carasent's management guidance of 40% EBITDA margins in 2021 shows that the company has entered a new plateau of profitability. We believed the growth would cost more, but it seems like the organizations are well-staffed. As the cloud-based Webdoc system and its integrations have very low incremental costs, much of the new revenue will find its way down to the bottom row. Evimeria rolls out new updates every third week, and cost-wise it does not matter much if it has an installed customer base of 500 clinics or 1000 clinics. And although integrated services have lower gross margins (~55%), they have no further costs below. Avans Soma, in turn, adds 88% gross margin revenues and has similar operating leverage. Management has both good cost and revenue visibility.

Lastly, Norway will be a litmus test for Webdoc's competitiveness. After our conversations with customers, we believe the value proposition is strong, and the system should gain market share rather quickly when launched. 2021 is set to be an exciting year for Carasent.

Valuation

We raise our fair value range, on the back of the Avans Soma acquisition (accelerated Norwegian Webdoc launch), Millennium delays and the framework agreement with Aleris. We also believe Aeternum Capital will be a valuable intuitional owner.

Carasent trades at EV/Sales 18x on 2021E (we count with the diluted shares), which might look pricey in the short-term. However, we argue that investors have a good chance of earning approximately the growth rate going forward, as the durability and duration of the profitable growth add cushion in the case of multiple contraction. There is extra optionality in Carasent, as management and the principal owner both have capital and excellent reputation, which will help them conduct value-adding M&A (something we have not accounted for in our DCF).

Bear Case NOK 20

Average sales growth of ~16% 2021-2035

Terminal growth of 2%

Average EBIT margin of ~26% 2021-2035

Terminal EBIT margin of ~20%

WACC goes from 10% to 8%, as the company matures and takes on more debt financing

No further M&A accounted for

In our bear case, the regional councils move towards 'one region, one EMR system' and thereby exclude Evimeria from many potential customers. The churn is significantly higher as well. Carasent has to move to adjacent segments/geographies in order to seek growth. The clinic intake does not scale well.

Base Case NOK 55

Average sales growth of ~23% 2021-2035

Terminal growth of 2%

Average EBIT margin of ~32% 2021-2035

Terminal EBIT margin of ~30%

WACC goes from 10% to 8%, as the company matures and takes on more debt financing

No further M&A accounted for

In our base case, Carasent continues to win new customers (i.e. business as usual). Stockholm tenders an open system, where Evimeria can operate. Furthermore, the Norwegian launch is successful, and Avans Soma's SaaS transformation progresses smoothly. We see robust order intake (both in Sweden and Norway), durable and high net retention numbers and further segmental and geographical investments. In our base case, Carasent grows to a medium to large-sized EMR/EHR company in the Nordic healthcare/social care market. Clinic intake scales reasonably well.

Bull Case NOK 75

Average sales growth of ~27% 2021-2035

Terminal growth of 2%

Average EBIT margin of ~35% 2021-2035

Terminal EBIT margin of ~30%

WACC goes from 10% to 8%, as the company matures and takes on more debt financing

No further M&A accounted for

Our bull case includes the base case assumptions, but at a faster pace, and with slightly higher profitability. We see Carasent entering adjacent segments, such as social care and dental care with new products/services, as well as new geographies, such as Denmark and Finland in the medium-term. Clinic intake scales well.

	2020	2021E	2022E	2023E	2024E
Income Statement					
Revenues	71	122	154	193	231
Cost of Revenues	14	22	30	40	51
Other COGS	-	-	-	-	-
Gross Profit	57	99	124	153	180
Employee Compensation and Benefits	22	35	40	46	51
Other Operational and Administrative Costs	13	16	20	23	28
R & D Expenses	-	-	-	-	-
Other Op. Expense / (Income)	-	-	-	-	-
Exchange Rate Differences	-	-	-	-	-
EBITDA	22	49	64	84	102
Depreciation	0	0	0	1	1
Amortization	5	13	13	14	16
Amortization of Right-to-Use Assets	7	7	6	6	6
EBIT	9	29	44	63	79
Associated Income / (loss)	-	-	-	-	-
Interest Income	-	2	2	3	3
Interest Expenses	1	0	-	-	-
Interest Expenses, Lease Liabilities	-	-	-	-	-
Other Financial Items	(38)	-	-	-	-
Non-recurring Income / (Expenses)	(6)	-	-	-	-
EBT	(36)	31	46	66	82
Income Tax Expenses	2	6	10	14	17
Non-Controlling Interests	-	-	-	-	-
Net Income	(38)	24	36	52	65

	2020	2021E	2022E	2023E	2024E
Balance Sheet					
Current Assets					
Cash & Equivalents	221	236	271	320	390
Prepaid Expenses	2	3	4	5	7
Accounts Receivable	15	18	23	29	35
Other Current Assets	1	1	2	2	2
Total Current Assets	240	258	299	356	434
Non-Current Assets					
Property, Plant & Equipment, Net	1	1	2	2	3
Goodwill	173	173	173	173	173
Other intangibles	78	90	100	111	113
Right-of-Use Assets	16	16	17	19	20
Total Non-Current Assets	269	281	292	305	309
Total Assets	509	539	592	661	742
Current Liabilities					
Short-Term Debt	1	-	-	-	-
Short-Term Lease Liabilities	5	5	5	5	5
Accounts Payable	9	5	7	9	11
Advances From Customers	7	12	15	19	23
Prepaid Income	15	18	23	29	35
Accrued Expenses	-	-	-	-	-
Other Current Liabilities	9	5	6	8	9
Total Current Liabilities	45	45	56	69	83
Non-Current Liabilities					
Long-term debt	-	-	-	-	-
Long-term Lease Liabilities	13	13	14	16	17
Deferred tax liability	9	15	18	21	23
Total Non-current Liabilities	61	67	73	77	80
Non-Controlling Interest	-	-	-	-	-
Shareholder's Equity	402	427	463	515	580
Total Liabilities & Equity	509	539	592	661	742

	2020	2021E	2022E	2023E	2024E
Cash Flow Statement					
Operating Activities					
Net Income			36	52	65
Non-Controlling Interests			-	-	-
Associated Income / (loss)			-	-	-
Dividends Received from Associates			-	-	-
Depreciation			0	1	1
Amortization			13	14	16
Net Working Capital Change, Decrease / (Increase)			5	6	6
Other Long-Term Liabilities, Increase / (Decrease)		6	4	3	2
Operating Cash Flow	**19**	**47**	**65**	**81**	**96**
Investing Activities					
Capital Expenditures	-	(1)	(1)	(1)	(1)
Investment in Intangible Assets	(76)	(24)	(23)	(25)	(18)
Other Long Term Assets	-	-	-	-	-
Acquisitions			-	-	-
Divestments			-	-	-
Goodwill			-	-	-
Investing Cash Flow	**(76)**	**(25)**	**(24)**	**(26)**	**(20)**
Financing Activites					
Short-Term Debt, Issuance / (Repayment)			-	-	-
Long-term debt, Issuance / (Repayment)			-	-	-
Share Issuance / (Repurchase)			-	-	-
Dividends Paid to Shareholders			-	-	-
Dividends Paid to Non-Controlling Interest			-	-	-
Repayment of Lease Liabilities			(6)	(6)	(6)
Other Financing Activites			-	-	-
Financing Cash Flow	**268**	**(8)**	**(6)**	**(6)**	**(6)**
Net Cash Flow	**211**	**14**	**35**	**49**	**70**
Cash Balance	**221**	**236**	**271**	**320**	**390**

Summary Redeye Rating

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

Rating changes in the report

People: 4

Carasent is an owner-operated company with entrepreneurial spirit. The management has a lot of experience both from the EMR industry and the cloud-business model in general. We assess the managers as long-term thinkers with grand plans and "can-do-attitudes." We also believe they possess great capital allocation skills (which Avans Soma partly proved).

Business: 4

Evimeria has a sticky business model, both through its mission critical EMR system Webdoc, but also through the many integrations. 90% of all features come from ideas generated by the customers and solve real needs. We believe the business is protected by several strong moats. Avans Soma is, likewise, a quality business, winning market share and earning returns on equity >100%.

Financials: 3

We believe Carasent can produce high growth numbers and invest to attractive incremental returns on capital for a long time. The EMR business is capital light and produce high returns on equity. With time and a longer track-record, we believe the score will rise significantly.

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

Håkan Östling
hakan.ostling@redeye.se

Technology Team

Jonas Amnesten
jonas.amnesten@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se

Viktor Westman
viktor.westman@redeye.se

Forbes Goldman
forbes.goldman@redeye.se

Mark Siöstedt
mark.siostedt@redeye.se

Danesh Zare
danesh.zare@redeye.se

Mattias Ehrenborg
mattias.ehrenborg@redeye.se

Editorial

Mark Siöstedt
mark.siostedt@redeye.se

Joel Karlsson
joel.karlsson@redeye.se

Life Science Team

Gergana Almquist
gergana.almquist@redeye.se

Oscar Bergman
oscar.bergman@redeye.se

Anders Hedlund
anders.hedlund@redeye.se

Ludvig Svensson
ludvig.svensson@redeye.se

Niklas Elmhammer
niklas.elmhammer@redeye.se

Mats Hyttinge
mats.hyttinge@redeye.se

Filip Einarsson
filip.einarsson@redeye.se

Fredrik Thor
fredrik.thor@redeye.se

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Redeye Rating (2021-03-30)

Rating	People	Business	Financials
5p	21	16	3
3p - 4p	107	89	38
0p - 2p	5	28	92
Company N	133	133	133

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Mark Siöstedt owns shares in the company: Yes

Fredrik Nilsson owns shares in the company: Yes

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