REDEYE

Initiation Coverage

Equity Research

8 June 2022

CombinedX

Sector: IT Consulting

Combining IT Specialists

Redeye initiates coverage of CombinedX, a decentralized group of specialized IT consulting firms. Solid profitability, the ambition to grow by M&A, an experienced management team, and attractive valuation multiples makes the case interesting.

A Decentralized Group of Specialized IT consulting Firms

CombinedX is a group of nine decentralized specialist IT consulting companies, targeting a broad range of customers in mainly the Swedish market. The subsidiaries are specialized in two dimensions, typically regarding software platform and sector/function, and provide teams and solutions for the customers' business-critical software platforms. The group has an experienced management team, combining the solid sector know-how from several co-founders and stock market experience from DGC veteran Jörgen Qwist.

Profitable Emerging M&A Compounder in the IT consulting Space

Following the blueprint of many successful Swedish M&A compounders favoring a decentralized model with subsidiaries targeting market niches, we believe CombinedX is an emerging M&A compounder in the IT consulting space. We expect CombinedX to add further specialist companies, resulting in solid growth and improved diversification over the coming years. Considering the above 10% EBIT margins and solid customer list, CombinedX strategy with decentralized specialist companies is already paying off.

Base Case SEK 60 – 50% Upside Potential

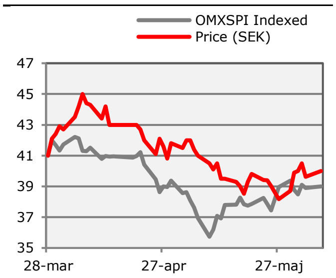
Our Base Case values CombinedX at SEK 60, equal to 8x EBITDA and 10x EBIT 2023E. Currently, we believe CombinedX is a high-quality attractively priced IT consultant firm. Given that it establishes a solid M&A track record, which we do not assume in our Base Case, we see potential for much higher valuation multiples going forward.

Key Financials (SEKm)	2020	2021	2022E	2023E	2024E
Net sales	533	560	642	696	724
Revenue growth	33%	5%	15%	8%	4%
EBITDA	52	70	93	102	105
EBIT	-13	43	67	76	79
EBIT Margin (%)	-2%	8%	10%	11%	11%
Net Income	-23	30	51	58	60
EV/Revenue			0.8	0.7	0.6
EV/EBITDA			5.8	4.7	4.1
EV/EBIT			8.1	6.3	5.4

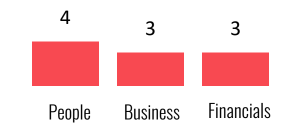
FAIR VALUE RANGE

BEAR	BASE	BULL
34	60	85

CX VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	CX
Market	First North
Share Price (SEK)	40
Market Cap (SEKm)	675
Net Debt (SEKm)	-134
Free Float (%)	49
Avg. daily volume ('000)	717

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Investment Case

Case

Emerging M&A compounder in the IT consulting space.

As a group of niched IT consulting companies providing specialized know-how in various segments, CombinedX attracts and deploys teams of experts operating at above-average rates. The decentralized group is set for M&A adding new niches, which increases the diversification and drives sales growth. M&A and solid quarterly reports will act as catalysts in the company, run by experienced management with skin in the game.

Evidence

Decentralized, specialized, and highly profitable.

Considering its solid customer list and EBIT margins above 10% CombinedX proves that its decentralized and specialized team-based strategy is competitive and profitable. With the most specialized businesses having even higher margins, we believe there is potential for more going forward. Regarding M&A, CombinedX follows the successful template of niched decentralized entities, which several listed businesses have showcased, providing diversification and solid margins.

Challenges I

The employees are almost the only asset.

While customer relationships are important, the employees are almost the only asset for any IT consulting company. Thus, attracting and retaining employees is key for the sector. We believe CombinedX, as a group of smaller specialized companies, has a sound approach to the challenge, as the impact of each employee is clear in that setting. Also, we believe the opportunity to work with a group of experts with deep know-how in a particular software platform strengthens the attractiveness further.

Challenges II

What is left for shareholders?

While customers are willing to pay high rates for specialists, the specialists typically want their fair share. In an environment with tough competition for talent, which has been the case in the IT consulting sector for years, shareholders might find there is not much left. However, considering CombinedX profitability, it has handled the challenge well so far, and we think the focus on teams and solutions rather than CV:s increases the company’s resilience.

Valuation

Base Case SEK 60

Our Base Case values CombinedX at SEK 60 a share. We expect organic growth of ~5% and minor margin increases for the coming years. While we believe M&A likely will be a major value driver in CombinedX going forward, we do not include future M&A in our Base Case at this point. We want to see the company building a solid track record of M&A as a listed company before adding future M&A. However, our Bull Case of SEK 85, assumes 10% acquired sales growth from M&A at 5x EBIT.

Counter Thesis

Squeezed margins as the hunt for talent accelerates
If the hunt for talent accelerates further, CombinedX margins could decrease following higher salaries. However, considering CombinedX focuses on specialized business-critical areas, we believe it can pass on cost increases in most cases.

The lack of underlying assets makes M&A difficult

As an IT consultant company basically consists of its employees, retaining key employees is crucial when acquiring one. No software or product is left if the personnel leaves, which we believe increases the risk. However, we believe CombinedX strategy (decentralized with its own brands) addresses that risk

Platform know-how becoming obsolete

As CombinedX focuses on one or a few software platforms in each vertical, its subsidiaries have significant exposure to single software platforms. If a used platform losses competitiveness, CombinedX could lose business. However, CombinedX is working with the leading platforms, and its nine subsidiaries are typically working with different ones.

Catalysts

Solid Quarterly Reports

As a newly listed company, we believe it is important for CombinedX to build a solid track record to convince investors' that it is a stable business. Every quarterly report showing solid operational performance will gradually build a track record for CombinedX, which we believe will reward the company with a higher multiple – at least in line with the IT consulting median.

M&A

Considering CombinedX well-defined M&A strategy, we believe acquisitions will act as a catalyst despite its short track record as a listed company. However, if CombinedX can establish a solid M&A track record, we believe acquisitions will be the most important catalyst in CombinedX going forward.

Contents

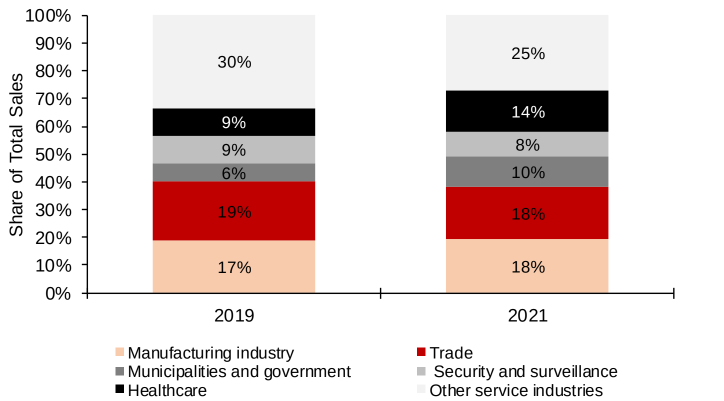
Company Profile

CombinedX is a Swedish IT consulting group with the vision to become the leading Nordic group of specialist companies. The group consists of "a family" of nine fully owned subsidiaries, mainly operating in Sweden, where each has specialist competence within its specific niche. CombinedX is headquartered in Karlstad, where it also was founded in 2013, with traces back to 1993. The company has been listed on Nasdaq First North Stockholm since March 2022 and had ~390 employees by the end of 2021.

CombinedX business strategy is based on decentralization, specialization, and multi-branding, meaning the group is split into fully owned, self-governing, specialist companies operating under their own brands. CombinedX believes it is easier to attract customers/employees and gain more extensive pricing power than a generic "on-brand" IT consultant with such a strategy.

Through its nine specialist companies, CombinedX provides a comprehensive offering in the following business areas: digital business development and transformation; service design and customer experience; business systems and processes; data analysis and decision support; automation and robotics; application development and lifecycle management; digital workplaces and identity management; managed infrastructure services; and security. Customers are mainly from manufacturing, trade, municipalities and government, security and surveillance, healthcare, and other service industries. The 2021 sales split in each customer segment is seen in the graph below.

CombinedX: Sales Per Segment



Source: Redeye Research

CombinedX has a wide range of large customers, and its largest customers consist of companies like Securitas, Saab, Epiroc, Skistar, Region Skåne, Region Stockholm, Lantmännen, Kavli, Coop, Synsam, Elon, and Transportstyrelsen. In 2021, its ten largest customers amounted to ~34% of the total sales, and the largest one accounted for ~7%.

In 2021, the group's sales amounted to SEK 560,1m (incl. the divested Dynamos' sales of SEK 12.2m) with an adjusted EBIT of SEK 15.8m, corresponding to a 10.4% margin. CombinedX subsidiaries amount to nine since the acquisition of Attentec in February 2022, which had net sales of SEK ~60m in 2021.

Financial Targets

- Organic growth must exceed growth in the IT consulting market, and including acquisitions, sales will amount to at least SEK 1b by 2025
- An EBIT margin of at least 10%
- Financial net debt should not exceed 2x EBITDA

CombinedX intends to complete acquisitions to reach its sales target of SEK 1b by 2025, either at the group level (expanding with additional specialist companies and brands) or at the subsidiary level (acquisitions integrated into existing brands). These acquisitions can add completely new offerings and expertise or add to existing expertise. This means that CombinedX has four different types of acquisitions: bolt-on, strategic, team, and volume acquisitions, and several criteria have been set to evaluate each target, such as offering, culture, underlying market, key people, price, and potential synergies.

In addition, CombinedX sees value in the purchase price being a combination of shares and cash, where the acquired entity's key staff continue as shareholders. Historically, CombinedX has averaged about one acquisition per year. However, according to management, this rate will increase slightly going forward.

The sales target corresponds to a CAGR of ~15.6% for 2021-2025, and even if it includes acquisitions, we argue the goal seems ambitious but achievable.

Furthermore, we favor the straightforward EBIT margin target of at least 10%, which can be seen as a relatively substantial margin for an IT consultancy. As CombinedX met this target for the first time in 2021, we argue it again seems achievable and a highly relevant profitability target. The financial net debt target also seems fair, allowing for some debt-financed M&A while keeping CombinedX finances solid.

In addition, CombinedX dividend policy is that 50% of annual net income should be distributed to shareholders. However, the company's capital needs must be considered to run and develop the business. We believe its dividend policy is reasonable for such a cash-generating business, but if management can identify attractive acquisition targets, we believe it should and will have priority over dividends.

Management, Board, and Owners

CEO Jörgen Qwist has vast experience running listed businesses in the IT sector. Qwist had a successful journey as the CEO of the data communication and IT operations provider DGC in 1999 until EQT acquired it in 2017. Qwist has been the CEO of CombinedX since April 2020.

We believe Qwist has an impressive track record and relevant experience and knowledge for the current position, thanks to his successful background in a listed company. The fact that DGC was acquired by the well-known private equity firm EQT adds further shine to his accomplishments. Furthermore, we appreciate that he communicates well with investors and analysts and has a balanced approach that suggests sincerity about opportunities and challenges.

COO and Vice President Oskar Godberg is one of the co-founders of CombinedX and the former CEO of both CombinedX and its subsidiary Netgain AB. In addition, both Björn Magnusson, head of administration, and Rikard Boström, head of sales, are co-founders of two subsidiaries, Netgain AB and Smartsmiling AB. We appreciate that the co-founders of CombinedX and its subsidiaries have chosen to stay within the group, which we think creates value, having a deep understanding of its operations.

Overall, the management team seems to have solid and relevant experience from various industries and companies, both internal within subsidiaries and external from other companies. We like that management has a broad mix of competencies and experience from large, listed companies and IT consulting companies.

CombinedX - Management

Name	Position	Joined	Note	# of Shares
Jörgen Qwist	CEO	2020	BSc in civil economics, Stockholm School of Economics. Former CEO of DGC One AB and venture capital owned (EQT) IP-Only Enterprise and Candidator DGC (Iver AB).	400 000
Anna Hedström	Chief Financial Officer	2022	BSc in civil economics, Luleå university of technology. Former CFO of Särnmark Support AB, Payzone Nordic AB, Resurs Bemanning CNC AB and chief of economics at AB Previa.	2 700
Oskar Godberg	Chief Operating Officer and	2013	COO & Vice President since 2020. Co-founder and former CEO of CombinedX and CEO of the subsidiary Netgain AB.	719 715
Björn Magnusso	Head of Administratio n	2013	Co-founder of the subsidiary Netgain AB.	405 698
Rikard Boström	Head of x-Sales	2016	Certified upper secondary school engineer. Co-founder and former CEO of the subsidiary Smartsourcing AB (Smartsmiling AB).	539 083
Mikael Grönholm	Head of Marketing and Branding	2021	Marketing Economics, IHM Business School and Certified Copywriter at Berghs School of communication. +30 years of experience in large, listed companies such as Axis, Cramo, Eriksson and Metso.	3 200
Håkan Cranning	Head of Group Accounting	2019	BSc in civil economics, Karlstad University and certified accountant at BDO Feinstein Revision AB. Former CFO of CombinedX, Ortivus AB, Duroc AB, and Consolidated chief accountant at Hanza AB and Ortivus AB.	7 000

Source: Redeye Research, CombinedX, Holdings

The board consists of six members, one of whom have been at CombinedX since founded in 2013, while three have joined more recently in 2021/2022. We thus see a good mix of refreshment and continuity on the board. The board has broad competencies and extensive knowledge in various areas, such as experience at international large well-known companies, finance, entrepreneurship, management, and IT — all highly relevant to drive CombinedX onward.

Furthermore, we like that the co-founder of CombinedX, Niklas Hellberg, is the current chairman and that the board, like the management team, brings experience from co-founding subsidiaries, which, as mentioned, we argue gives a deep understanding of the both the group's operations as well as the industry.

CombinedX - Board

Name	Position	Joined	Note	# of Shares
Niklas Hellberg	Chairman	2013	Co-founder of CombinedX and +35 years of entrepreneur experience and within the IT industry. Former research engineer at the Armed Forces Research Institute, CEO of Hellberg Consulting AB and Netgain AB.	808 004
Niklas Flyborg	Member	2022	Extensive experience from various CEO positions and boards, including CEO of Cybercom and Cision.	118 496
Petter Traaholt	Member	2019	Extensive experience from various listed and international companies. Currently the CFO of V.Group ltd. Previously roles in finance and Eltel Networks AB, Trelleborg AB, Boliden AB and Assa Abloy AB.	14 000
Jessica Petrini	Member	2018	20 years of experience in professional services and organizational development. HR Director nine years in listed Sweco AB.	0
Johan Gotting	Member	2021	Co-founder and former president/CEO of the subsidiary Elvenite AB. Experience in senior positions and operational roles within Ovako Steel and Intentia/Lawson.	382 800
Joakim Alkman	Member	2021	Entrepreneur and co-founder of several IT companies, including Nethouse and listed Precio Fishbone. Previous experience as a sales manager, management consultant and Group President and later Chairman of Nethouse.	799 838

Source: Redeye Research, CombinedX, Holdings

Among the top 15 shareholders, we find substantial insider ownership by management and board members, alongside institutional owners. The largest shareholder position is shared by the IPO cornerstone investors Edastra and Grenspecialisten, owning 6.5% of the capital and votes each. Other institutional capital and cornerstone investors among the top 15 are Unionen, Investment AB Spiltan, and Cliens Fonder. We consider it a stamp of quality that such well-known institutional investors want to be shareholders in CombinedX.

In addition, we like the significant ownership by the board of directors and management. First, the chairman Niklas Hellberg is the third-largest shareholder with 4.8% of the capital and votes, followed by board member Joakim Alkman in the fourth owning 4.7% of the capital and votes, respectively.

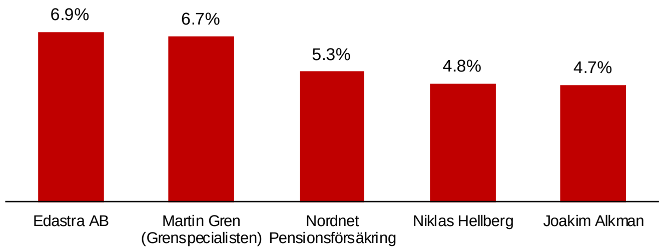
Among management, we find the COO and VP, Oskar Godberg, holding the seventh-largest shareholder position (3.9%) and the head of sales, Rikard Boström (through Bostrom Consulting AB), as the tenth-largest shareholder (3.2%). The CEO, Jörgen Qwist falls just outside the top 15 (17th place), owning 2.7% of the capital and votes. However, Qwist holds 700 000 options that are in the money. If exercised in 2024, given the current ownership structure, Qwist will become the largest shareholder. We favor the substantial shareholdings among management and board members, providing additional incentive to drive the CombinedX forward.

CombinedX - Ownership Structure

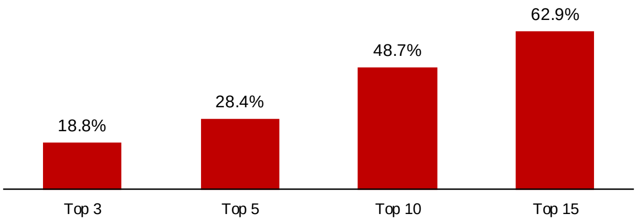
Rank	Shareholder	Shares	Capital	Rights
1	Edastra AB	1 159 723	6.9%	6.9%
2	Martin Gren (Grenspecialisten)	1 129 000	6.7%	6.7%
3	Nordnet Pensionsförsäkring	887 985	5.3%	5.3%
4	Niklas Hellberg	808 004	4.8%	4.8%
5	Joakim Alkman	799 838	4.7%	4.7%
6	Kvarnvik Holding AB	768 382	4.6%	4.6%
7	Björn Alpberg	719 715	4.3%	4.3%
8	Oskar Godberg	662 398	3.9%	3.9%
9	Investment AB Spiltan	642 636	3.8%	3.8%
10	Unionen	633 640	3.8%	3.8%
11	Bostrom Consulting AB	539 083	3.2%	3.2%
12	Mats Lindqvist	500 000	3.0%	3.0%
13	Cliens Fonder	476 190	2.8%	2.8%
14	Jonas Rozenich	475 000	2.8%	2.8%
15	Lars Hansson	412 150	2.4%	2.4%
	Total 15 Largest Shareholders	**10 613 744**	**62.9%**	**62.9%**
	Others	6 261 748	37.1%	37.1%
	Total Number of Shares	**16 875 492**	**100.0%**	**100.0%**

Source: Holdings

Top 5 Shareholders



Ownership Concentration



Source: Holdings

nethouse

Specialists in lifecycle management of critical applications

Nethouse, with more than 20 years of experience, specializes in business-critical infrastructure and applications and supports companies and organizations in digitalizing operations, from conception to ongoing development. Today, the company has ~130 employees at offices in Örebro, Borlänge and Linköping, and in 2021, Nethouse had SEK 158m in sales.

CEO	Founded/Part of CombinedX	Platform & technologies
Hans Dahlberg	1998/2020	SolarWinds Microsoft UiPath

Customer references

Specialist at

- Application development and lifecycle management
- Digital business development and transformation
- Automation and robotization
- Managed infrastructure services and security

Elvenite

Specialists in data-driven innovation for the food and retail industry

Elvenite supports several of Scandinavia's largest food and retail companies in creating data-driven insights through ERP and data analysis services. The company offers expertise in business process services and provides end-to-end responsibility for its customers' core business processes. Elvenite is located in Karlstad, Stockholm, Malmö, and Oslo with ~75 employees and had SEK 104m in sales in 2021.

CEO	Founded/Part of CombinedX	Platform & technologies
Mathias Dyberg	1998/2020	Infor Cloud Suite Microsoft Qlik

Customer references

Specialist at

- Business systems and business processes
- Data analysis and decision support

CloudPro

Specialists in infrastructure services and workplaces

CloudPro ensures that companies access business-critical infrastructure and digital workplaces, delivering services from public, private, or hybrid clouds. CloudPro started as a business area within Ninetech and was spun off in 2016 when it became part of CombinedX. CloudPro has its headquarters in Karlstad, ~30 employees, and had sales of SEX 80m in 2021.

CEO	Founded/Part of CombinedX	Platform & technologies
Anders Rådman	Spin-off from Ninetech in 2016	Microsoft

Customer references

Specialist at

- Managed infrastructure services and security
- The digital workspace and identity management

netgain

Specialists in automation and robotization

Netgain specializes in digitalizing and automating processes and services, creating and implementing solutions that help customers achieve higher satisfaction levels in user experience with subsequently improved effectiveness. In 2021, Netgain had sales of SEK 65m and ~40 employees.

CEO	Founded/Part of CombinedX	Platform & technologies
Mats Berthem	2008/2013	ServiceNow UiPath

Customer references

Specialist at

- Automation and robotization
- Service design and customer experience

Ninetech

Specialists in customer experience

Ninetech supports market-leading brands in strengthening their customer experience and sales through scalable and digital business platforms. Ninetech works with leading platforms helping, among other things, with content management systems (CMS) and product information management (PIM), specializing in application development in Azure. Ninetech is based in Karlstad, has ~40 employees, and had net sales of SEK 56m in 2021.

CEO	Founded/Part of CombinedX	Platform & technologies
Jonas Aronsson	1993/2013	EPiServer CMS InRiver PIM Microsoft

Customer references

KlarSynt. SkiStar OBOS WÜRTH
MORAKNIV VIKING LINE

Specialist at

- Service design and customer experience
- Digital business development and transformation
- Application development and lifecycle management

ViewBase

Specialists in data analytics and decision support

ViewBase has a deep understanding of business processes and solid technical expertise, delivering integrated BI solutions based on platforms from the market's top technology vendors. ViewBase helps companies become more data-driven in decisions, converting data from various sources into valuable information. The company, with about ~20 employees, has offices in Stockholm, Karlstad, Uppsala, and Umeå, with sales of SEX 31m in 2021.

CEO	Founded/Part of CombinedX	Platform & technologies
Magnus Rådbo	2005/2017	Qlik Microsoft

Customer references

RoyalDesign.se MOELVEN Suzuki Garphyttan LÖFBERGS
EL & STADSNÄT AVARN Security

Specialist at

- Data analysis and decision support

two

Specialists in ERP and business intelligence for the retail and manufacturing industry

Two helps companies in the retail and manufacturing industry implement efficient business processes to simplify complexities, automate manual processes, and create data-driven insights. Two is a specialist in the Dynamics 365 Business Central, Jeeves ERP business systems, and business intelligence on the Microsoft platform. Two has offices in Karlstad and Gothenburg, with a total of ~20 employees. In 2021, Two had SEK 31m in sales.

CEO	Founded/Part of CombinedX	Platform & technologies
Christofer Järlesjö	Spin-off from Ninetech in 2017	Jeeves ERP Dynamics 365 Business Central Microsoft

Customer references

Specialist at

- Business systems and business processes
- Data analysis and decision support

SMARTSMILING

Specialists in digital workplaces and identity management

Smartsmiling delivering services within identity and security, automation and self-service, support, and governance. Smartsmiling works in close collaboration with its customers, creating customized solutions and offering services from strategy and development to implementation. Its offices are located in Karlstad, Stockholm, and Gothenburg (HQ), and it had ~20 employees and sales of SEK 30m in 2021.

CEO	Founded/Part of CombinedX	Platform & technologies
Andreas Warg	2012/2016	One Identity

Customer references

Specialist at

- The digital workspace and identity management

Attentec

Specialists in Internet of Things

Attentec has expertise in developing and managing IoT solutions that make its customers' processes, products, and offerings more competitive. It has implemented more than 100 successful IoT projects in the Nordic region. Attentec became part of CombinedX in February 2022. It has offices in Linköping, Stockholm, and Oslo, with ~50 employees, and it had sales of SEK ~64m in 2021.

CEO	Founded/Part of CombinedX	Platform & technologies
Anders Englund	2005/2022	Amazon Web Services (AWS) Microsoft

Customer references

carbex
NORRLANDS VAGNAR
HEART RUNNER TECH. PEOPLE. HEARTS.
MICROPOWER
HYLTE JAKT & LANTMAN
ÖstgötaTrafiken

Specialist at

- Digital business development and transformation
- Application development and lifecycle management
- Internet of Things (IoT)

Business Overview

Strategic Positioning

CombinedX positioning is based on the company's analysis of the Swedish IT consulting market, where smaller specialized businesses have outgrown the larger ones with higher margins. Thus, rather than building a large centralized "have-it-all" IT consulting company, CombinedX wants to evolve and acquire leading specialized businesses.

Decentalization

CombinedX is divided into several 100% owned yet autonomous specialist subsidiaries. Management believes the high degree of self-governing positively affects the subsidiaries and its employees.

We agree with the statement for several reasons. First, the employees can more easily see how their efforts influence the business. Second, the decentralized model has proven successful in many listed M&A-focused businesses.

Specialization

Every business aims to provide its customers with leading expertise within its niche. However, aiming to be leading is typically the case for any business; the difference regards the niche focus. Management highlights two main benefits of being niched:

- Specialization attracts both customers and employees
  As the customers' in-house IT know-how increases, IT consulting businesses need to provide specialist knowledge to remain relevant in the market. Also, competent employees will likely prefer to work in a team with other specialists in the same filed, sharing their excitement for the niche.

- Specialist know-how can be sold outside of framework agreements
  Large framework agreements and consulting brokers tend to pressure prices on generic IT consultings. However, when offering specialist knowledge, customers are typically open to purchasing those services at better prices outside of the framework agreements.

We believe these statements make sense for several reasons. First, specialized companies are typically more profitable as competition is less significant. Second, getting IT projects done right from the beginning is crucial as the alternative often is both costly and time-consuming. However, as an IT consulting company, finding the right personnel to a reasonable cost is often the biggest hurdle. While culture and other "soft" characteristics ultimately are a matter of taste, we believe CombinedX strategy should be attractive to most IT professionals.

Multibrand

Every subsidiary approaches the market with its own brand to highlight its specialized focus. This is important both externally, towards customers, and internal, towards employees.

We believe the Multibrand strategy comes naturally following the decentralized and specialized focus. As touched upon earlier, the internal benefits of the strategy are likely as important as the external, as finding the right personnel is key.

The "Cookbook"

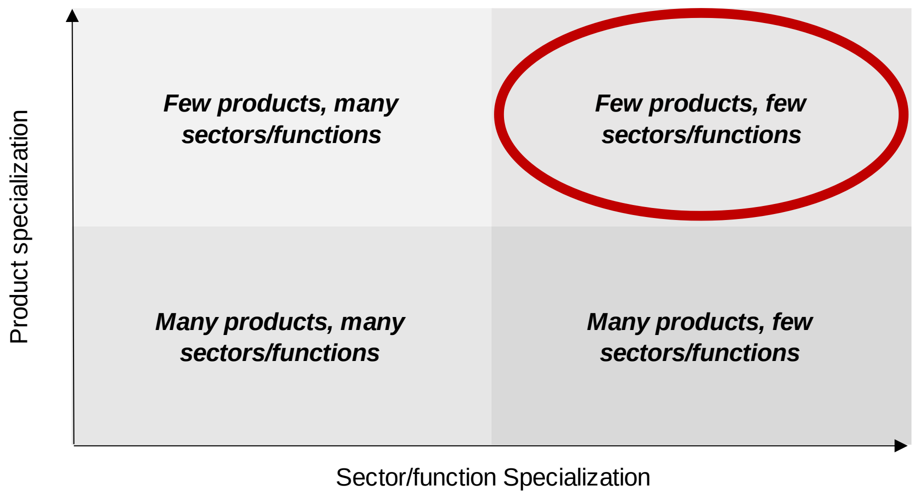
CombinedX strategy is based on a "Cookbook" which includes some characteristics that all entities should have in common. The three fundamental characteristics are all equally important:

- Specialization in Two Dimensions
- Teams and Solutions
- A Culture of Partnerships

Specialization in Two Dimensions

CombinedX subsidiaries are specialized in two dimensions. The first dimension regards software vertical, such as ERP, BI, ITSM/ESM or CRM, while the second is industry, such as manufacturing or food & beverage, or functions within the software, such as automation. Elvenite, for example, is specialized in ERP and BI for the food & beverage industry.

CombinedX - Subsidiaries' Positioning



Source: Redeye Research, CombinedX

We believe this strategy is favorable for several reasons. First, we believe customers generally favor niched specialists for the business-critical solutions CombinedX offers. Second, and most importantly, we believe this strategy is more attractive to employees. As we believe most employees favor working for a specialized business with a team of experts, where their efforts are of significant importance.

While retaining employees is important in any IT consulting company, we argue it is even more important for CombinedX considering its M&A ambitions. Keeping key employees is crucial for success when acquiring IT consulting companies, as employees are the main asset.

Also, we believe the group of smaller specialized subsidiaries is a solid way to diversify relative to the larger established listed IT consultings companies, usually offering everything under the same roof and brand.

While the degree of two-dimensional specialization differs from subsidiary to subsidiary, we believe management has a clear vision of making every business a good fit for the cookbook.

Prior to the IPO in Q1 2022, CombinedX divested some entities which did not have the potential to align with the cookbook.

Also, today, the subsidiaries with a clear specialization in two dimensions, with Elvenite probably being the best example, have stronger margins than the less specialized ones. We believe that the specialization is a strong indicator of a smart strategic move and increased focus on the "Cookbook" and specialization is likely to raise margins even further.

Teams and Solutions

All CombinedX subsidiaries offer solutions and teams to its customers, which it aims to establish a long-term relationships with, rather than single consultants like some of its peers. We believe this strategy improves employee retention, as we believe the employees feel a greater connection to their employer while working in teams. Also, we believe its customers' switching costs, and thus stickiness, are higher for teams and solutions than single consultants.

Also, the importance of the IT consulting business is probably higher when delivering teams and solutions rather than single consultants. We believe the team focus especially reduces competition from consultant brokers and freelancers.

While CombinedX focuses on offerings solutions rather than individual consultants, the company also has some consultants deployed one by one. However, that is typical for customers already using a team from CombinedX, meaning that the customer relation is already in place. Also, most of its sales come from teams and solutions.

We believe that the IT consulting market will favor brokers, focusing on a cost-efficient infrastructure for single consultants and companies focusing on solutions like CombinedX. We believe the middle area, basically, companies providing single or groups of general consultants in traditional consulting packaging has the least favorable competitive position.

A Culture of Partnership

While culture is important in any business, we believe it is even more important in the people-dependent IT consulting sector. All CombinedX entities look for personnel interested in delivering high-quality work in teams, in close cooperation with the customers and the software platform vendor.

One example is Netgain, specializing in automation in the ServiceNow platform, where talent competition is fierce. Thanks to initiatives to establish employee affinity, Netgain scored an eNPS of +73 in 2021.

Also, as touched upon earlier, we believe CombinedX strategy and the other ingredients of the "Cookbook" are important in establishing an attractive culture attracting talent.

M&A

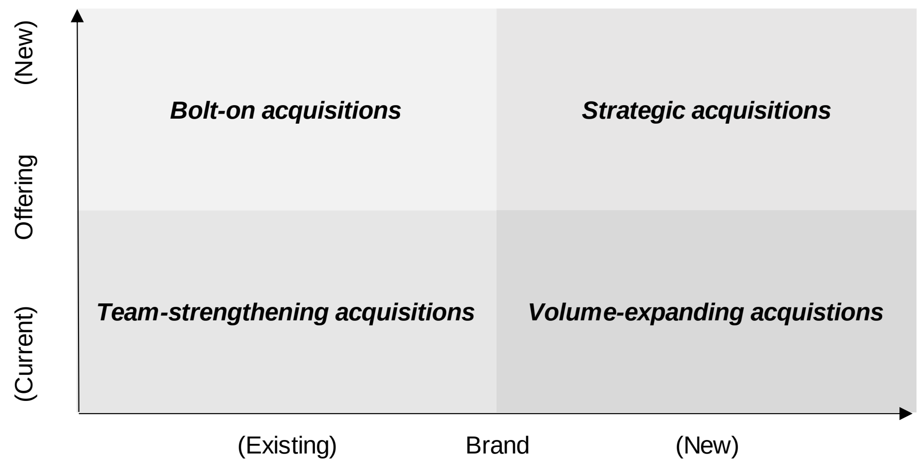
Since 2015, CombinedX has made one acquisition per annum, and it wants to increase the pace going forward. Our interpretation is that CombinedX aims for at least two acquisitions per year. Also, its 2025 target of sales of at least SEK 1bn implies an even higher acquisition pace, assuming organic growth and acquisition size in line with historical averages.

CombinedX is open for many kinds of acquisitions, strengthening current niches or adding new ones if they are compatible with the M&A criteria:

- Compatible with the "Cookbook"
- Cooperation and synergies
- Management with the right mindset
- Fair purchasing price

CombinedX divides its potential acquisitions into four different types, derived from whether they will remain as an own brand and if they add new offerings or competencies to the group.

CombinedX - Four types of acquistions



Source: Redeye Research, CombinedX

We would consider CombinedX most recent acquisition, Attentec, to be a strategic acquisition, as it added Internet of Things (IoT) expertise to the group.

Although most listed companies are involved in acquisitions, at least sporadically, our impression is that CombinedX has a well-defined and solid M&A strategy. While open for many different types of acquisitions, as seen in the table above, they all focus on making CombinedX a larger group of specialized niche IT consulting companies. We believe the strategy is similar to successful M&A compounders within technical products and related services, such as Lagercrantz and Sdiptech, groups of smaller, highly niched subsidiaries.

If successful, we argue CombinedX will become an IT consulting equivalent of Lagercrantz and Sdiptech. While we believe it is too early to incorporate future M&A prospects into the valuation, we consider it an interesting option, as successful M&A track records typically are significantly rewarded by the market.

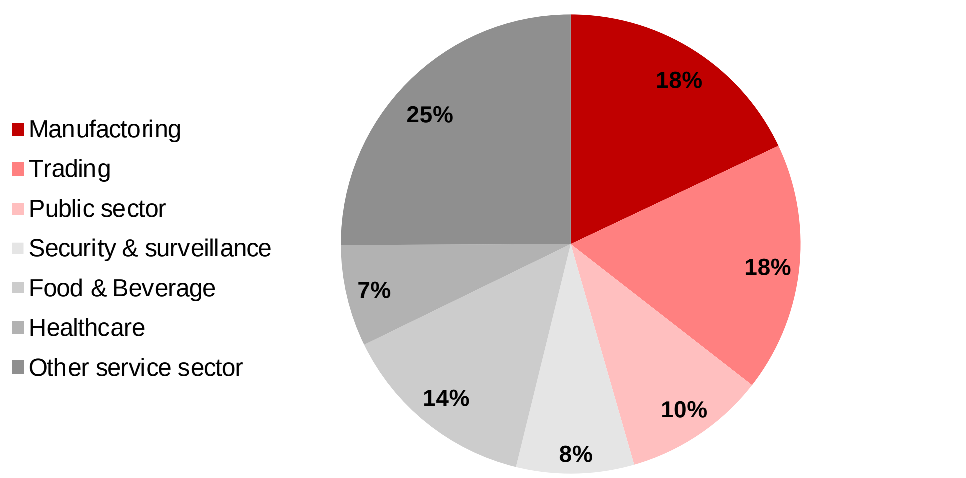
Although having a slightly different focus, Exsitec is a good example of a successful IT consulting M&A-compounder, which has seen its valuation multiple expand significantly following successful M&A. Given that CombinedX executes its M&A strategy well – and considering its well-defined strategy, we believe there is a good chance they will – we believe CombinedX could see a similar multiple expansion. While Addnode, unlike CombinedX, has a substantial share of proprietary software, it is another example of a successful M&A compounder in a related space.

Diversified Customer Base

Although most larger IT consulting businesses have a solid diversification, CombinedX niched subsidiaries are typically focused on a few sectors. While we see many advantages with the niched strategy, as described earlier, concentrated sector, customer and product risk is a weakness of the niched strategy.

However, considering CombinedX is a group of subsidiaries in different niches, it provides diversification in terms of customers and the underlying market. This effect is seen in many successful niche-focused serial acquirers such as Lagercrantz and Sdiptech, where a few weak subsidiaries have a limited impact on group numbers. As CombinedX has nine subsidiaries, profitability issues in a large business could be significant to the group. Still, as CombinedX grows by adding more specialized subsidiaries, the diversification will become even better.

CombinedX - Sales Split by Sector

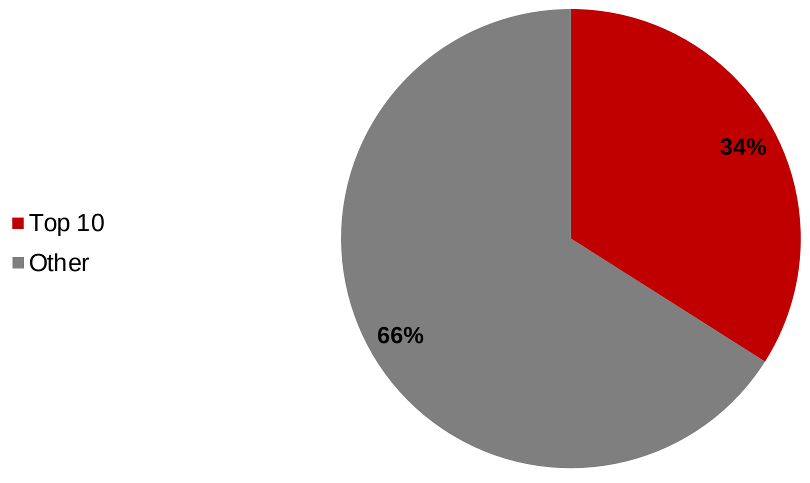


Source: Redeye Research, CombinedX

CombinedX has several well-known customers within its niches, such as Epiroc, Mölnlycke SAAB, COOP, Mowi and Lantmännen.

In 2021, of the group's 255 customers buying services for more than SEK 0.1m, 60 were buying services from more than one subsidiary. While these cross-selling opportunities are a positive effect of the group structure, it increases customer concentration.

CombinedX - Customer Concentration



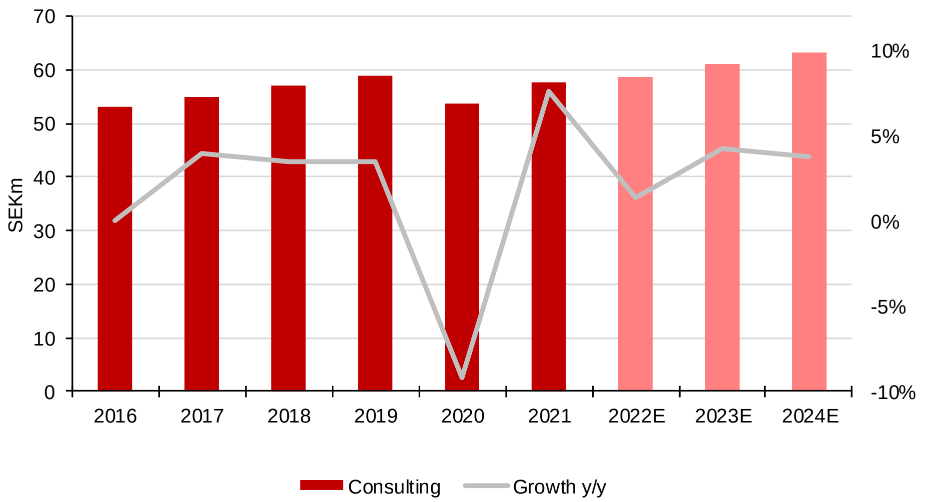
Source: Redeye Research, CombinedX

The top customers generate about 1/3 of CombinedX revenues, which we consider a rather large share. However, the pattern is typical for a small IT consulting company, and we expect the diversification to improve as CombinedX grows. Also, all in all, we believe the strong sector diversification combined with a decent diversification in terms of customer concentration results in a solid level overall.

Market Outlook

Although IT consulting companies benefit from increasing digitalization, the truth is that the market growth has barely outpaced GDP growth in recent years, with a growth rate of about 4%. Following a solid 2021 with 7.6% growth, basically just a catch-up from the Covid-related decline of 9.2% in 2020, Radar expects 1.4% growth in 2022. Inflation, increasing interest rates, and supply chain issues are expected to impact growth negatively. For 2023 and 2024, Radar expects growth rates of about 4%, in line with historical average.

IT Consulting Market Sweden



Source: Redeye Research, Radar Nordic Outlook Update 2022

While we expect the digitalization of society to continue, we do not expect any surge in market growth. Instead, we believe 4% market growth is reasonable following the 7.6% rebound in 2021. However, CombinedX M&A-driven growth strategy makes even more sense considering the rather soft market growth prospects.

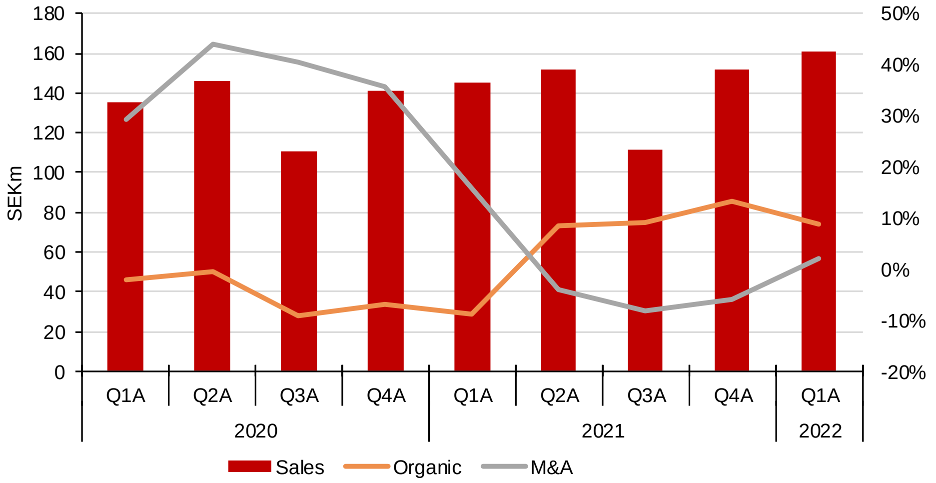
On the other hand, there are indications that supply rather than demand holds back the Swedish IT consulting market, implying a stronger underlying demand. However, we believe the supply-side will remain constrained. Thus, the situation does not change our assumption of market growth of about 4% from 2023E onwards.

For companies that can attract and retain personnel, we believe much higher organic growth rates are possible. We believe CombinedX strategy of being a group of specialized entities strengthens its attractiveness as an employer, leaving an opportunity for higher growth.

Financials and Estimates

After a 2020 with a strong contribution from M&A and negative organic growth, mainly due to the covid-19 pandemic, CombinedX organic growth has rebounded during the last 12 months, with an average organic growth of ~10% R12m.

Sales Growth Mix



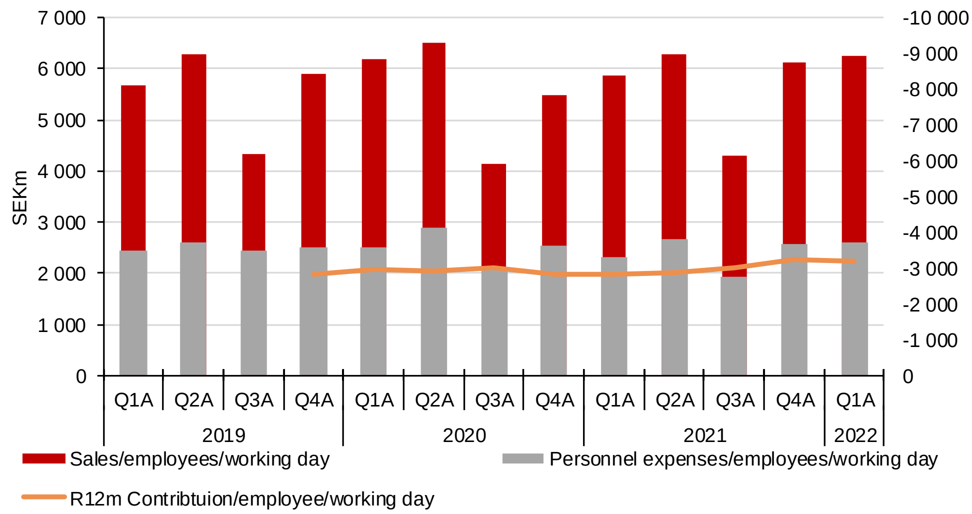
Source: Redeye Research, CombinedX

Considering the average market growth of 3-4% per annum, we do not expect CombinedX to achieve 10% organic growth in the coming years. However, we estimate CombinedX to achieve organic growth of about 4%, slightly above the expected market growth. As mentioned earlier, we believe the key to growth is attracting the right employees rather than securing the right deals, although both are important. We believe the CombinedX strategy of decentralized specialist companies gives it a slight edge in searching for talent.

While we do not add any M&A to our forecasts at this point, as we want to see a solid track record of acquisitions as a listed company before, we expected CombinedX to make at least two acquisitions per annum on average. Assuming an average size somewhat below Attentec (SEK 60m in sales), two acquisitions will make about 15% sales growth. Combined with ~4% organic growth, it will drive sales to about SEK 1bn in 2025, in line with CombinedX financial target.

Since 2019, CombinedX has had a stable and slightly upward-looking R12m contribution per employee and working day. We calculate the figure using the sales per employee and working day minus the personnel expenses per working day. While we are aware that not all employees are revenue-generating consultants, we believe this metric is a good benchmark for how well CombinedX manages to get paid for its know-how and to offset increasing salaries.

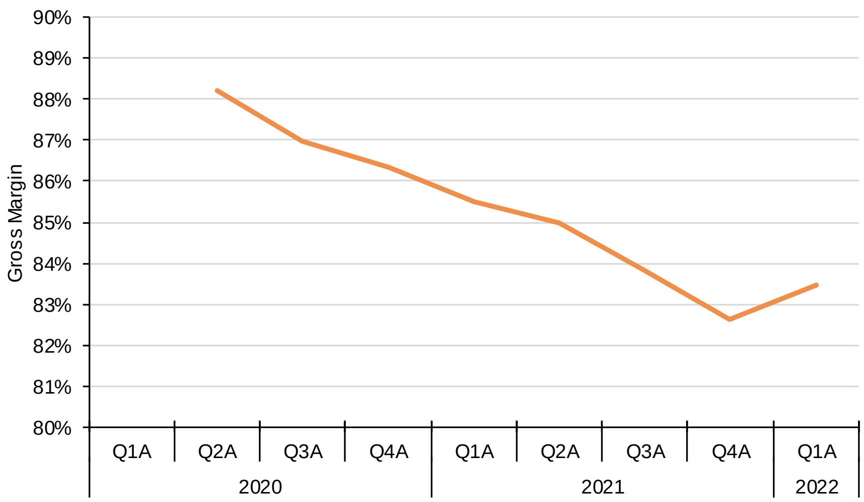
Sales and Personnel Expenses per Employee and Working Day



Source: Redeye Research, CombinedX

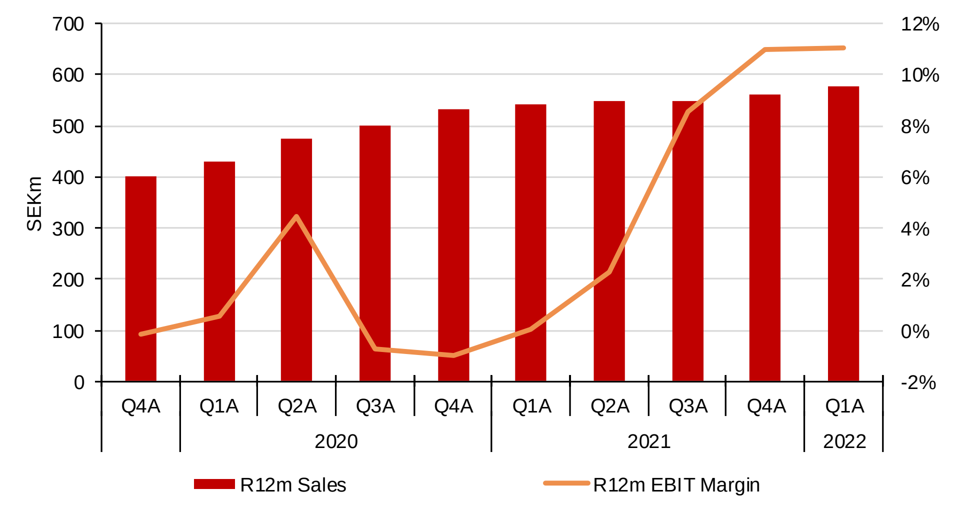
However, the usage of sub-consultants, which, while generating revenue, are not counted as employees, affects this number. The gross margin is generally a good benchmark to determine sub-consultants usage, and the slight reduction suggests a somewhat higher usage. On the other hand, direct costs also include costs related to licenses bought on behalf of the customers.

Gross Margins



Source: Redeye Research, CombinedX

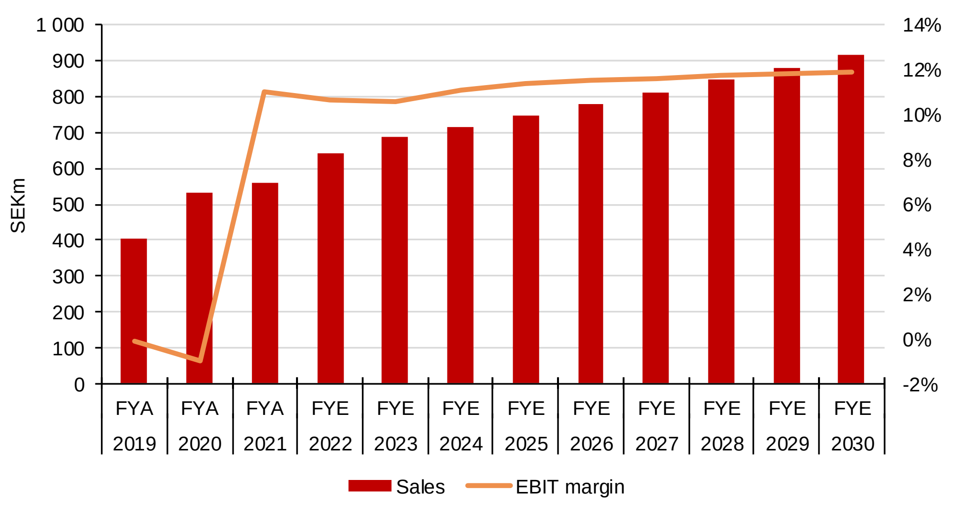
R12m Sales and EBIT Margin



Source: Redeye Research, CombinedX

Following a 2020 negatively affected by covid-19 and a large one-off in Q3, during 2021 and onwards, CombinedX EBIT margins reached an average north of 10%, making it among the best performers in its space. We expect EBIT margins to remain in a solid range of 10-11% for the coming years.

Sales and EBIT Margin - Forecasts



Source: Redeye Research, CombinedX

Our forecasts, as mentioned earlier, do not include future M&A, and as a result, they are quite simple. We expect organic growth of about 4% per annum and an EBIT margin of 10-11% for the next few years. However, we expect a slight increase in the EBIT margin as the D&A related to acquisitions will gradually fade (assuming no new acquisitions). It might seem defensive to assume hardly any margin expansion. However, 10-11% is a high level in the IT consultings space. It is also in line with CombinedX financial target of at least 10% EBIT margin.

Income Statement	2021	Q1 22	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024
Sales	**560.1**	**160.9**	**172.9**	**132.2**	**176.0**	**642.0**	**696.1**	**723.9**
Y/Y Growth (%)	5.0%	11.0%	13.9%	18.7%	15.8%	14.6%	8.4%	4.0%
COGS	(88.2)	(26.6)	(20.8)	(17.2)	(28.2)	(92.7)	(105.5)	(110.0)
Gross margin (%)	84.3%	83.5%	88.0%	87.0%	84.0%	85.6%	84.8%	84.8%
Personnel expenses	(335.1)	(96.2)	(113.1)	(85.3)	(108.1)	(402.7)	(434.1)	(452.9)
Y/Y Growth (%)	(3.3%)	16.7%	18.6%	25.4%	21.0%	20.2%	7.8%	4.3%
Other external costs	(66.7)	(15.3)	(13.8)	(10.6)	(14.1)	(53.8)	(54.3)	(56.5)
Y/Y Growth (%)	(20.1%)	(52.9%)	24.6%	16.2%	0.5%	(19.4%)	0.9%	4.0%
EBITDA	**88.9**	**23.0**	**25.2**	**19.1**	**25.7**	**92.8**	**102.2**	**104.5**
EBITDA Margin (%)	15.9%	14.3%	14.6%	14.5%	14.6%	14.5%	14.7%	14.4%
D&A	(27.4)	(6.8)	(6.5)	(6.5)	(6.5)	(26.3)	(26.0)	(25.8)
EBIT	**61.5**	**16.2**	**18.7**	**12.6**	**19.2**	**66.5**	**76.2**	**78.8**
EBIT Margin (%)	11.0%	10.1%	10.8%	9.6%	10.9%	10.4%	10.9%	10.9%
EPS	3.60	0.79	0.85	0.56	0.87	3.00	3.45	3.57

Source: CombinedX & RedeyeResearch

Valuation

Cases

We use a WACC of 10% across our Base, Bull, and Bear cases, which is derived from our Redeye rating.

Bear Case 34 SEK

- ~3% organic growth 2023-2030
- No future M&A
- 2% terminal growth
- ~9.5% average EBIT margin 2023-2030
- 9.5% terminal EBIT margin

In Our Bear Case, we assume the hunt for talent becomes even tougher and that the advantages we assume CombinedX has, turn out to be of low importance. We believe that will result in both lower growth and lower margins. This is as CombinedX will have a lower inflow of employees at higher cost levels.

Base Case 60 SEK

- ~5% organic growth 2023-2030
- No future M&A
- 2% terminal growth
- ~11.5% average EBIT margin 2023-2030
- 11% terminal EBIT margin

Bull Case 85 SEK

- ~8% organic growth 2023-2030
- 10% annual sales growth from M&A at 5x EBIT and group average margins until 2030
- 2% terminal growth
- ~14.5% average EBIT margin 2023-2030
- 12.5% terminal EBIT margin

In our Bull Case, we assume the positive effects of CombinedX strategy are significant, resulting in high employee and customer retention. That should allow CombinedX to grow faster and achieve even higher profitability.

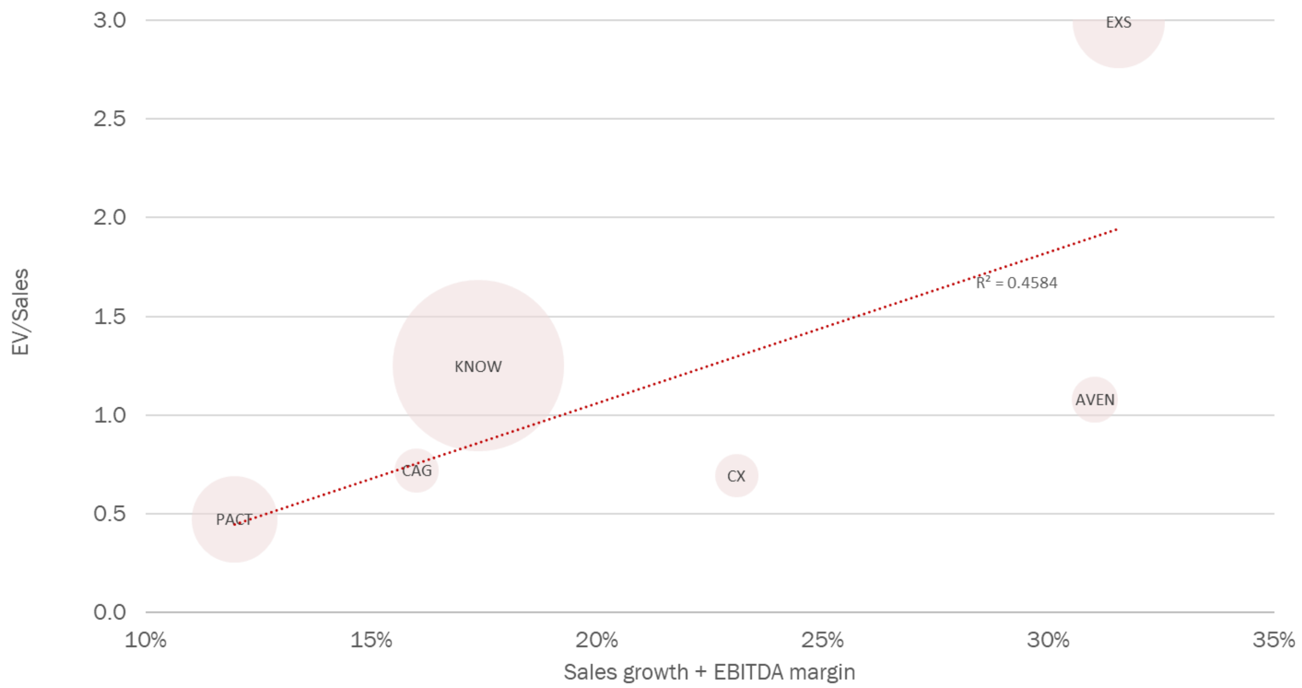
We assume CombinedX M&A strategy will be sccuessful, resulting in SEK 1bn in sales in 2024, one year ahead of the company's target.

Relative to Peers

Unfortunately, several of the smaller listed IT consultings companies, such as Prevas, B3 Group, Softronic, and Precio Fishbone, lack forecasts, making our peer comparison somewhat bleak. To get a meaningful sample size, we included IT consulting companies like Proact, Avensia and Exsitec, whose business models differ somewhat from CombinedX.

While we borrow this graph from our SaaS reports, we believe the approach makes sense also for IT consulting companies. Notably, compared to KnowIT and CAG, which are the most similar peers, CombinedX has a more attractive valuation relative to its expected growth and margins. However, other factors are important to valuations as well. We believe the discount on CombinedX is mainly due to the company's short track record as a listed company and given solid quarterly reports from now on. We believe the gap will gradually close.

EV/S vs Growth + EBITDA m. 2023E (June 2022)



We look at EBITDA for the IT consulting sector for several reasons. First, these companies typically do not capitalize any R&D. Second, amortization of M&A hurts EBIT in many companies. Third, EBITA would likely be the best metric, but the data available for EBITA is limited compared to EBITDA.

CombinedX is trading at a significant discount to the full peer group and the most relevant ones (KnowIT and CAG). As mentioned, we believe the main reason is CombinedX short track record as a listed company. If CombinedX upcoming report are in line with our forecasts, we believe the valuation gap will gradually narrow.

IT Consultants	EV	EV/SALES			EV/EBITDA (x)			Sales growth			EBITDA margin		
Company	(SEKm)	22E	23E	24E	22E	23E	24E	22E	23E	24E	22E	23E	24E
CAG	558	0.8	0.7	0.7	7.1	6.3	5.6	9%	5%	4%	11%	11%	12%
Exsitec	2 512	3.5	3.0	2.5	21.3	17.8	14.8	33%	15%	15%	17%	17%	17%
KnowIT	8 612	1.4	1.3	1.1	11.0	9.7	8.9	31%	5%	4%	12%	13%	13%
Avensia	614	1.3	1.1	0.9	11.9	9.2	7.5	19%	19%	17%	11%	12%	12%
Proact	2 170	0.5	0.5	0.5	5.2	4.5	4.4	19%	2%	3%	10%	10%	10%
CombinedX	**541**	**0.8**	**0.7**	**0.6**	**5.8**	**4.7**	**4.1**	**15%**	**8%**	**4%**	**14%**	**15%**	**14%**
Average	**2 501**	**1.4**	**1.2**	**1.0**	**10.4**	**8.7**	**7.6**	**21%**	**9%**	**8%**	**13%**	**13%**	**13%**
Median	**1 392**	**1.1**	**0.9**	**0.8**	**9.1**	**7.8**	**6.6**	**19%**	**6%**	**4%**	**12%**	**12%**	**12%**

Source: Redeye, Company reports, FactSet

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.

People: 4

CombinedX receives 4 of 5 in People rating for the following reasons. First, the experienced and balanced management has substantial shareholdings in the company. Second, the significant shareholdings among the board, which consists of several co-founders. Third, CombinedX has an original approach to IT consulting with its decentralized group of specialist-companies strategy.

Business: 3

CombinedX receives 3 of 5 in Business rating for the following reasons. First, it is an asset-light business model with strong cash flows. Second, CombinedX serves a genuine need as it helps its customer digitalize to remain competitive. Third, CombinedX subsidiaries operate in niches where competition often is less than for a generalist IT consulting provider. However, the business model's heavy dependence on its employees results in CombinedX not reaching a higher rating.

Financials: 3

CombinedX receives 3 of 5 in Financials rating for the following reasons. First, it is a profitable company with strong cash flow generation. Second, CombinedX has a solid financial position. To reach an even higher rating, CombinedX needs to extend its track record of profitable growth.

	2021	2022E	2023E	2024E
INCOME STATEMENT				
Net sales	560	642	696	724
Cost of Revenues	88	93	105	110
Gross Profit	472	549	591	614
Operating Expenses	402	456	488	509
EBITDA	70	93	102	105
Depreciation & Amortization	27	26	26	26
EBIT	43	67	76	79
Net Financial Items	0	0	0	0
EBT	40	64	73	76
Income Tax Expenses	9	13	15	16
Non-Controlling Interest	0	0	0	0
Net Income	30	51	58	60
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	108	165	223	278
Inventories	0	0	0	0
Accounts Receivable	105	116	125	130
Other Current Assets	21	26	28	29
Total Current Assets	234	306	376	437
Non-current assets				
Property, Plant & Equipment, Net	2	3	4	5
Goodwill	105	105	105	105
Intangible Assets	57	49	42	35
Right-of-Use Assets	25	7	-11	-29
Shares in Associates	2	2	2	2
Other Long-Term Assets	2	2	2	2
Total Non-Current Assets	194	169	145	120
Total Assets	427	476	520	558
Liabilities				
Current liabilities				
Short-Term Debt	13	13	13	13
Short-Term Lease Liabilities	14	14	14	14
Accounts Payable	31	29	31	33
Other Current Liabilities	99	113	123	127
Total Current Liabilities	157	169	181	187
Non-current liabilities				
Long-Term Debt	18	18	18	18
Long-Term Lease Liabilities	11	11	11	11
Other Long-Term Liabilities	15	15	15	15
Total Non-current Liabilities	44	44	44	44
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	227	262	295	327
Total Liabilities & Equity	427	475	520	557
CASH FLOW				
NOPAT	33	53	60	63
Change in Working Capital	-5	-4	0	0
Operating Cash Flow	58	73	84	86
Capital Expenditures	7	-1	-1	-1
Investment in Intangible Assets	0	0	0	0
Investing Cash Flow	7	-1	-1	-1
Financing Cash Flow	0	-15	-25	-29
Free Cash Flow	66	72	83	85

	2021	2022E	2023E	2024E
CAPITAL STRUCTURE				
Equity Ratio	0.5	0.6	0.6	0.6
Debt to equity	0.1	0.1	0.1	0.1
Net Debt	-78	-134	-192	-247
Capital Employed	271	307	340	371
Working Capital Turnover	-31.1	-45.1	-48.7	-50.5
GROWTH				
Revenue Growth	5%	15%	8%	4%
Basic EPS Growth	-220%	47%	15%	4%
Adjusted Basic EPS Growth	-220%	47%	15%	4%
PROFITABILITY				
ROE	16%	21%	21%	19%
ROCE	16%	22%	22%	21%
ROIC	22%	37%	43%	47%
EBITDA Margin (%)	13%	14%	15%	14%
EBIT Margin (%)	8%	10%	11%	11%
Net Income Margin (%)	5%	8%	8%	8%
VALUATION				
Basic EPS		3.0	3.5	3.6
Adjusted Basic EPS		3.0	3.5	3.6
P/E		13.3	11.6	11.2
EV/Revenue		0.8	0.7	0.6
EV/EBITDA		5.8	4.7	4.1
EV/EBIT		8.1	6.3	5.4
P/B		2.6	2.3	2.1

SHAREHOLDER STRUCTURE	CAPITAL %	VOTES %
Edastra AB	6.9%	6.9%
Martin Gren (Grenspecialisten)	6.7%	6.7%
Nordnet Pensionsförsäkring	5.3%	5.3%
Niklas Hellberg	4.8%	4.8%
Joakim Alkman	4.7%	4.7%

SHARE INFORMATION	
Ticker	CX
List	First North
Share price	40
Total shares, million	16.8755

MANAGEMENT & BOARD	
CEO	Jörgen Qwist
CFO	Anna Hedström
Chairman	Niklas Hellberg

ANALYSTS	Redeye AB
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Jacob Svensson	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.

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Disclaimer

Important information

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

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

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Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2022-06-08)

Rating	People	Business	Financials
5	32	15	4
3-4	156	138	48
0-2	5	40	141
total	193	193	193

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CONFLICT OF INTERESTS

Fredrik Nilsson owns shares in the company : No

Jacob Svensson owns shares in the company : No

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