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Company Update

IT/Technology

Sweden

14 June 2018

A bet on cybersecurity

Clavister, a developer of hardware and software cybersecurity solutions, holds a strong position to capitalise on the increasing need for IT security. Through a newly implemented go-to-market strategy, we believe there is scope for the company to deliver strong top-line growth with a gross margin above 77%. We estimate a fair DCF-derived valuation range of SEK 16-32 and a base case scenario of SEK 23 per share.

Key Data (2018E)

Price (SEK)	15.50
Reuters	CLAVI.ST
Bloomberg	CLAV.SS
Market cap (SEKm)	365
Market cap (USDm)	42
Market cap (EURm)	36
Net debt (SEKm)	150
Net gearing	155%
Net debt/EBITDA (x)	(2.4)
Shares fully dil. (m)	23.6
Avg daily turnover (m)	0.0
Free float	87%

From R&D to sales and marketing

Clavister is developing into an established cybersecurity software developer. Through a strategic revamp, the company has directed its focus towards sales to reap the benefits of the large historical investments in product development. This is demonstrated by the company's recent strategically important contractual wins (e.g. Nokia), as well as the recruitment of experienced IT sales personnel and a commercially oriented chairman of the board, Victor Kovacs.

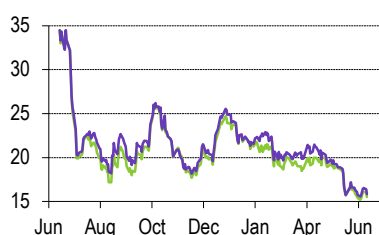
We estimate revenue CAGR of 30% and gross margins to slightly improve

We forecast 30% revenue CAGR for 2017-20 driven by a strong development in the Enterprise segment, primarily as a result of the increased sales efforts. We believe the Communication Service Provider segment will contribute as a result of our expectations of continuously increasing volumes, which are charged per throughput. We estimate the gross margin to increase from 77% in 2017 to 79% in 2020 as the share of services revenue increases.

Funding risk temporarily removed

Clavister has historically faced funding risk as a result of the large operational expenditure and development costs. Recently, two loan agreements were entered, which combined imply new loans of SEK 250m. We believe this is sufficient to remove the funding risk until late 2019 to mid-2020, but in our view the need for new funding will arise, and we believe the key enabler for this to occur is the company's ability to drive top-line growth until then.

Share Price (12M)



Absolute (green) / Relative to Sweden (purple).

Marketing communication commissioned by: Clavister

Financials (SEK)

Year end: Dec	2016	2017	2018E	2019E	2020E
Revenues (m)	78	100	119	158	219
Adj. EBIT	(73)	(77)	(88)	(75)	(59)
Pre-tax profit (m)	(72)	(84)	(113)	(101)	(86)
EPS	(2.38)	(2.85)	(4.78)	(4.28)	(3.65)
Adj. EPS	(2.38)	(2.85)	(4.12)	(3.74)	(3.11)
DPS	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	21.6	28.3	18.5	33.5	38.3
Adj. EBIT growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Adj. EPS growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Adj. EBIT margin (%)	(92.8)	(76.8)	(74.5)	(47.5)	(27.0)
ROE (%)	(34.8)	(30.3)	(70.1)	(186.7)	218.3
ROCE (%)	(44.0)	(31.1)	(31.1)	(27.1)	(28.3)
PER (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Free cash flow yield (%)	(6.5)	(16.4)	(39.4)	(32.8)	(30.5)
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	5.22	2.69	3.77	(93.51)	(4.06)
EV/Sales (x)	13.09	5.84	4.28	3.83	3.17
EV/Adj. EBITDA (x)	(17.7)	(10.9)	(8.2)	(13.0)	(26.0)
EV/Adj. EBIT (x)	(14.1)	(7.6)	(5.7)	(8.0)	(11.7)
Operating cash flow/EV (%)	(5.8)	(11.5)	(21.8)	(14.3)	(10.4)
Net debt/Adj. EBITDA (x)	0.94	(0.56)	(2.44)	(5.35)	(12.59)

Source for all data on this page: SEB (estimates) and SIX/Thomson Reuters (prices)

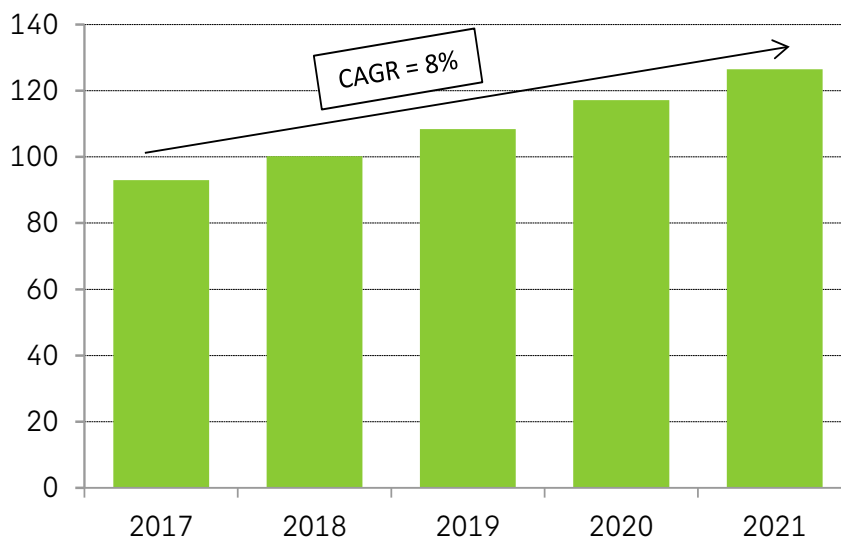
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Investment case

The cybersecurity market is experiencing strong growth as a result of trends such as the development of internet of things (IoT) solutions, industrial digitalisation and automation, and virtualisation in the telecom industry. We believe that as a result of this, the need for cybersecurity solutions is likely to be transformed from a “nice to have” to a “must have” for enterprises of all sizes.

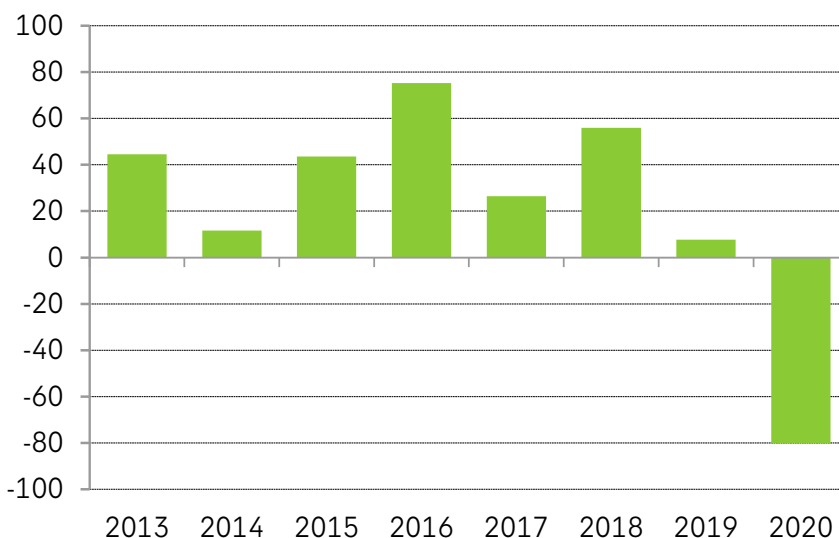
Cybersecurity market: expected to increase at a CAGR of 8% (USDbn)



Source: Cybersecurity Ventures, SEB

We believe Clavister is in a strong position to capitalise on this development. With a track record of 21 years of product development, and several positive contract wins, we believe Clavister is suited to take advantage of these trends. Historically, the company has been loss-making, and we expect this to continue until 2022. However, with secured funding until 2020, we believe the funding risk is temporarily removed. Despite this, we find that the cost structure of the company is considerably larger than a typical company of this size. This creates significant risk for the need to attract funds in 2020. We believe that securing additional funding is attainable if investors see a realisation of the growth ambitions set by management through the five year plan implemented in 2018. This includes a go-to-market strategy with a clear focus on the recruitment of new sales personnel.

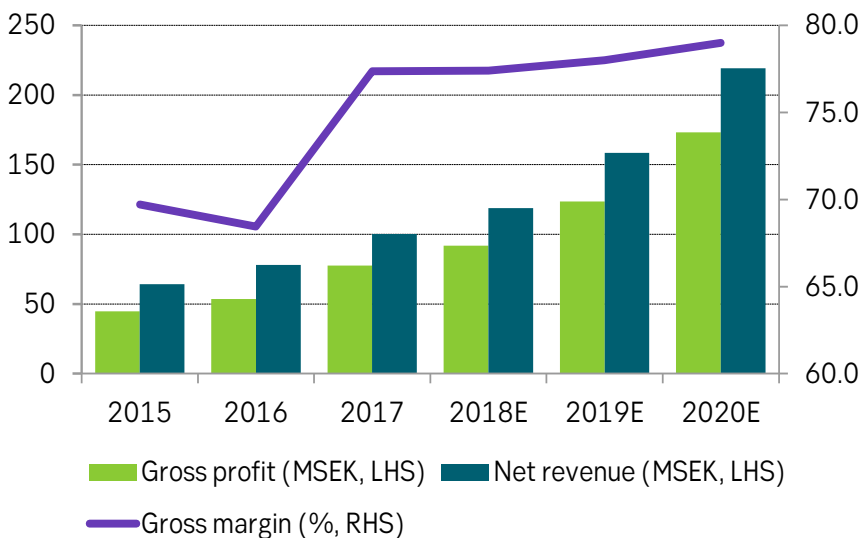
Clavister: we expect cash and liquid assets to run out in early 2020



Source: SEB

If we assume that the company will add four to 10 new employees in 2018, and increase this figure to reach 15 in 2022, and that each new salesperson is trained and working within nine to 12 months with a total of USD 0.8m added in sales, we believe there is possibility for significant revenue growth in the company. Coupling this with a positive product mix, from hardware to software, we believe this is margin accretive, demonstrating the scalability of the business model with recurring software sales following hardware delivery.

Clavister: revenue growth case with gross margin accretion



Source: SEB

This is Clavister

History

- Clavister was founded in 1997 as an IT consultancy by internet entrepreneurs, including John Vestberg who was CTO between 2003 and 2017, and is now CEO.
- In 2002-03, the company launched its first appliance in line with the new strategic niche of cyber security.
- In 2008 the company released its first virtual gateway after the commencement of the telecom initiative in 2007. The early entrance into the telecom market is regarded as the key enabler for Clavister to capitalise on recent developments.
- In 2014 the company listed on NASDAQ First North.
- In 2016 the company acquired PhenixID, a provider of solutions for identity and access management (IAM) based in the suburbs of Stockholm. PhenixID reported full year revenues of SEK 8.2m in 2015, SEK 1.5m in profits and had 14 employees at the time of being acquired by Clavister.

Clavister: 20 year track record in product development, now turning its focus to sales expansion



Source: Clavister

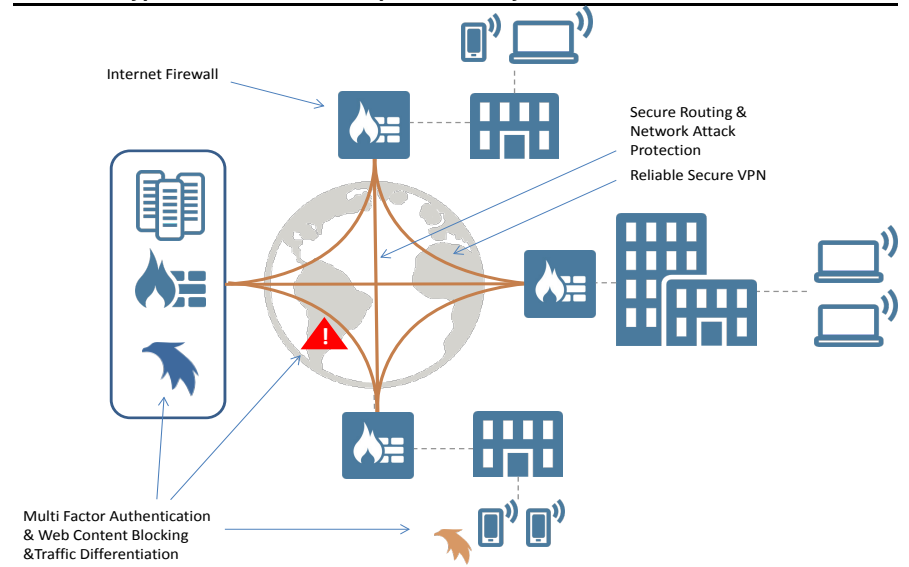
Main segments

Over the 20 years of operations, Clavister has developed into a network security vendor delivering a range of network security solutions for both physical and virtualised environments. The end customer is the international business-to-business (B2B) segment and predominantly small to medium businesses (SMBs), with some larger customers.

Enterprise – use cases and Clavister's offering

In relation to the recent strategic revamping of the operations, Clavister has decided to target five segments in the enterprise market – Education & Public Sector, Retail & Distributed offices, Critical Infrastructure, Industrial IoT & Transportation, and Service Providers. The two former segments can be seen as the securitisation of a widespread distributed ledger from centralised IT hardware, while the latter three are critical services with high safety standard requirements. Generally, IT is a facilitator, but not a core business for businesses, hence the outsourcing of IT infrastructure has been increasing and laid a foundation for the use of managed security service providers (MSSP).

Clavister: typical distributed enterprise security solution

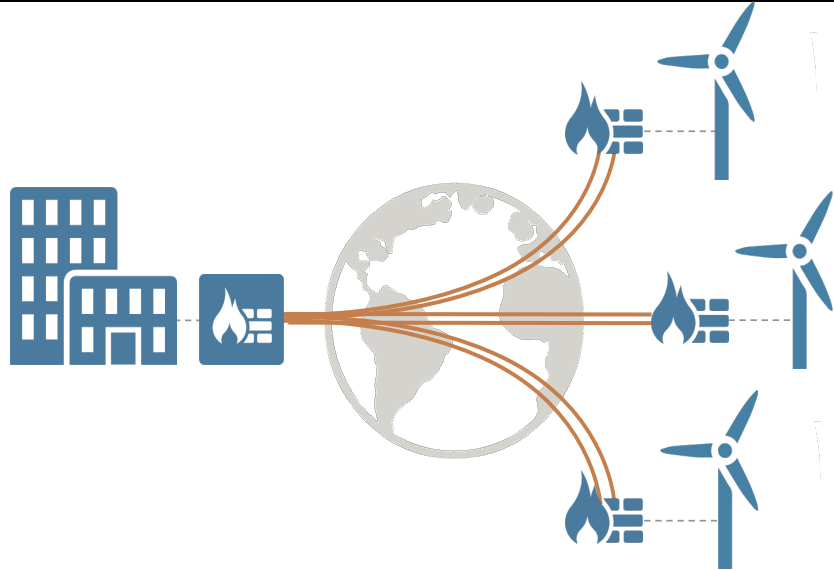


Source: SEB, Clavister

Below we describe respective use cases and the go-to-market model, as well as the market characteristics.

- Education & Public Sector** – it is important for companies in the education system and the public sector to abide by regulation and have strict content control in public networks. Furthermore, the typically widespread network in the segment creates the need for a centralised system with distributed ledgers. The distributed office infrastructure has created the need for a reliable secure virtual private network, secure routing for robust connectivity between the entities, a network/server attack protection, multi factor authentication to prevent trespassers from entering the network, web content blocking from unethical and illegal content, and traffic differentiation.
- Retail & Distributed offices** – similar to the requirements of companies in the education system and the public sector, there is a need for retail and distributed offices to have an integrated security solution for their network. The segment has several key drivers which could contribute to future growth, including but not limited to the growth of e-commerce and open office landscapes. For instance, through service provider CoreIT, Clavister's infrastructure has been implemented to provide and manage secure connectivity solutions to retail chains and enterprises with distributed branch offices. The challenge herein is to provide a reliable solution for a number of points of sale which requires real-time information and front-end protection. The outcome usually creates a holistic monitoring situation, in which a centralised entity is able to access and monitor information throughout the ledger system.
- Critical Infrastructure** – for producers of critical infrastructure who need a reliable security system. The services provided by companies in this segment are often integral for the functioning of societal processes. An example of this is a contract with E.ON, allowing the headquarters in Düsseldorf to monitor and control the power generation from wind and solar farms around the world. The challenge herein is the collection of real time data of the production status from the many different sites and the collected data used to set prices on futures markets. This requires highly reliable connectivity, while the information flowing through the public networks should be transferred securely.

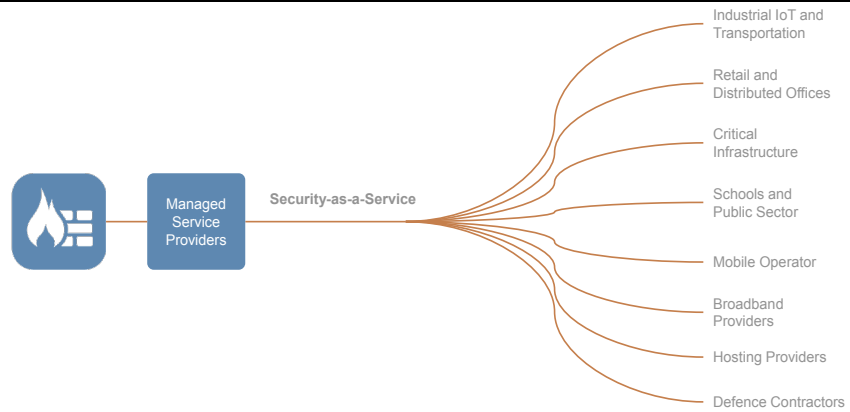
Clavister: case study of the E.ON solution



Source: Clavister

- **Industrial IoT & Transportation** – according to the Cisco 2017 Security Capabilities Benchmark Study, 35% of transportation security professionals claim they see thousands of daily threat alerts, of which only 44% are investigated. Furthermore, the increased use of mobile devices has created the need for IT safety on board aircraft and other means of transportation. Clavister has therefore targeted this segment coupled with the industrial internet of things (IIoT) which will require rigorous safety solutions to prevent malfunctioning.
- **Service Providers** – with the advent of security-as-a-service (SaaS) solutions, the need for service providers has dramatically increased in recent years. According to a Trustwave's 2014 Security Pressures report, 74% of the organisations manage IT security in-house, but 82% said that they would either partner with, or plan to partner with a MSSP. This demonstrates the increased propensity of firms to outsource their IT security and is further enabled by the continuing move of infrastructure to the cloud. Herein, a partner to Clavister integrates the solution into the offering before selling it to the end-customer. An example of this is the partnership with NTT-BP, which is one of the major Wi-Fi service providers in Japan. NTT-BP provides access to Wi-Fi in stadiums, train stations, retail chains, and malls, which requires protection from malicious intents and misbehaving devices, as well as content filtering and authentication of users. Under this umbrella term the communication service providers (CSPs) are included. However, since the nature of the business is somewhat different from that of pure enterprise service providers, we have decided to account for this separately.

Clavister: the service providers approach allows selling across wide segments

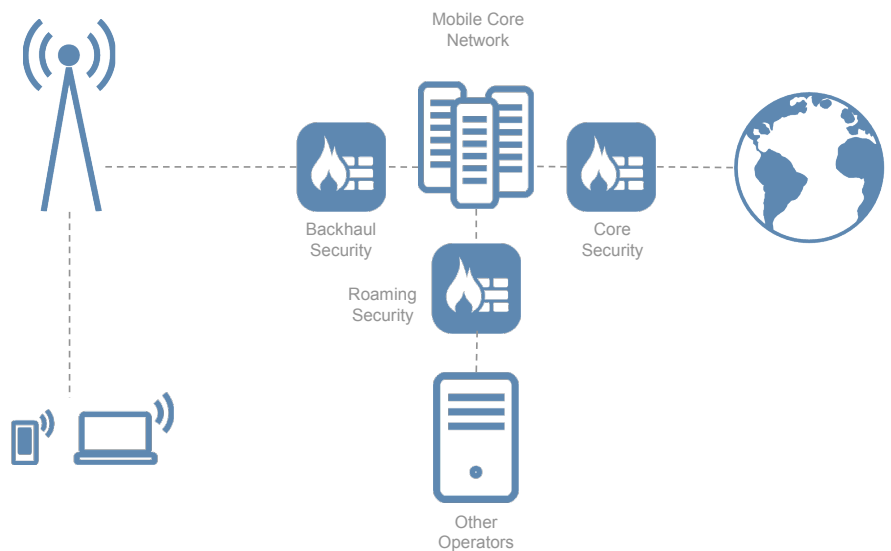


Source: Clavister

CSP – use cases and Clavister’s offering

Within the communication service provider segment, Clavister focuses on the provision of security solutions for communication service providers (CSPs) focused on the provisioning of security solutions for virtualised private networks (VPN). The end-customers within the segment include mobile operators, broadband providers, and hosting providers. The bulk of the orders in the segment are related to the Nokia Netguard offering. The partnership is a non-exclusivity agreement in which Nokia integrates the Clavister security solution into its offering. During Clavister’s capital markets day in March 2018, the company had 14 CSP customers. Based on press releases by the company, we believe this number has increased to 16 customers by May, with more than one client having placed a second order. We believe Clavister has been in a clear majority of the deals won by Nokia Netguard since the initiation of the partnership in March 2017.

Clavister: the many typical security challenges in the CSP segment



Source: Clavister

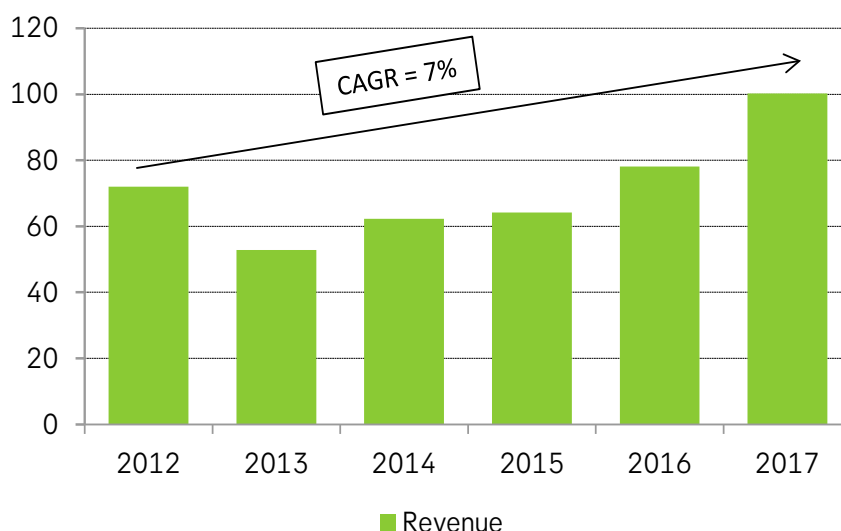
Go-to-market and business model

In our initiation of coverage of Dustin "[A proven and successful online story](#)" released on 26 March 2015, we wrote:

Our experience of covering Nordic IT companies is that the most successful are those that have found a fast growing niche – examples include Axis in online security systems, HMS in connectivity devices and Net Entertainment in gaming software development. Companies trying to do everything themselves have rarely been successful, for instance small IT service provider trying to be advisors or outsourcing partners taking over the management and maintenance of entire IT systems.

In our view, this still holds and is applicable to Clavister. Being in business for 20 years without significant success implies something has been historically wrong in the go-to-market strategy. In our view, the deals with NTTBP and Nokia, as well as MSSPs such as Atea, gives us confidence that the company's product is at least as strong as its peers. However, so far Clavister has experienced issues with scaling up its go-to-market and sales funnel, and has seen revenue CAGR of 7% between 2012 and 2017.

Clavister: revenue growth (SEKm)

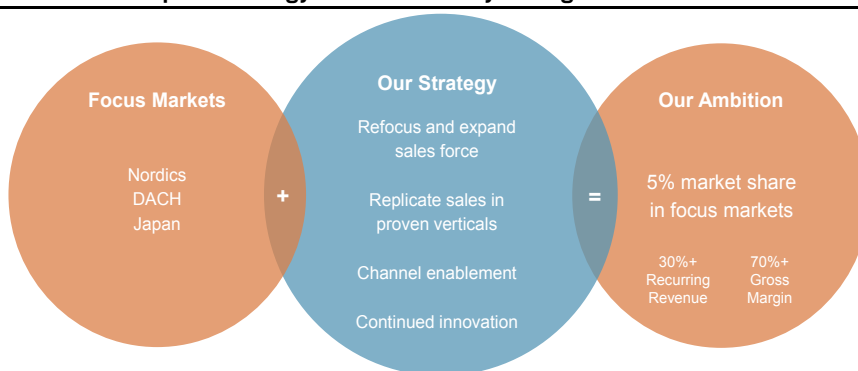


Source: SEB, Clavister

Clavister recruited Viktor Kovacs (previously director in the CEE Service Provider business area of Cisco Systems) as the new chairman of the board and an estimated five new sales representatives in early 2018, of which some are experienced international sales staff from Ericsson. Clavister is working to improve this area. The primary objective today, as opposed to previous strategies, is to develop sales strategies to drive new partnerships. Clavister's ability to attract new partnerships is of higher importance than the end-customer purchases, as the majority of the latter (especially in the Enterprise segment) have limited brand knowledge of providers of IT security solutions.

What Clavister is doing is trying to implement a similar go-to-market model as Axis. This means that Clavister is ramping up sales personnel which will sign and educate distributors, integrators, wholesalers, and other partners with the goal that these in turn will have an incentive and prefer to promote Clavister's different security solutions to its clients in five focus areas. In addition, and similar to Axis, Clavister will increase its staff to promote and market its products to end-customers and create leads to its partners. For the past nine months, Clavister has been forming a strategy where it will create a win-win 'push and pull' relationship between itself and partners. The key for Axis to get the system integrators on board and resell Axis products was that the products were easy to install and compatible with Axis's broad product portfolio. Axis managed to increase the number of partners from 5,000 in 2005 to above 40,000 in 2011, with the goal that 5% of partners represented 50% of revenues in all markets.

Clavister: enterprise strategy as formulated by management



Source: Clavister

Sales approach

As previously stated, we believe Clavister's product offering is at least as good as its competitors. This assumption is based on the validity provided by the signed agreements with the likes of Nokia, NTTBP (one of the world's largest Wi-Fi providers), Canon, and Enea. Therefore, the ability to successfully create selling points is of outmost importance for the future growth of the company. We believe certain areas are of interest:

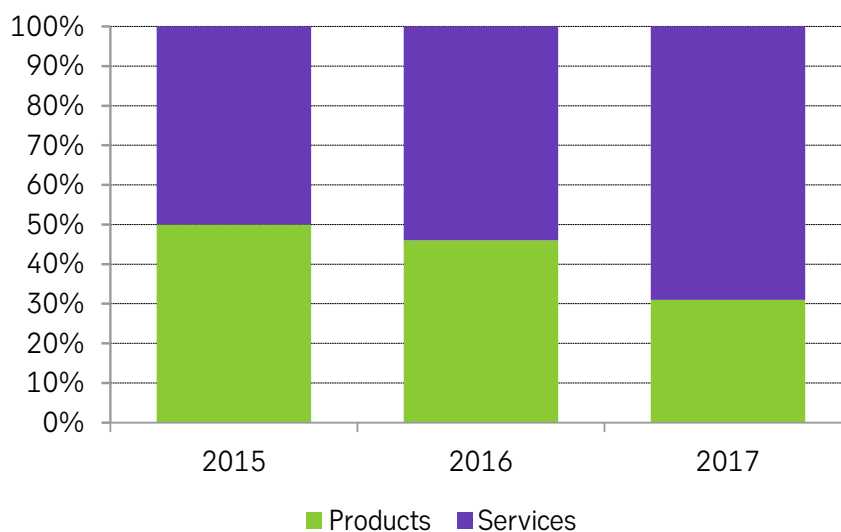
- "Big enough to deliver, small enough to care" is an approach commonly stated by Clavister. An example of a win stemming from this approach is the partnership with Canon ITS in Japan, one of the world's largest system integrators. By offering best-in-class servicing, Clavister has been able to win contracts in the region. Initially, these contracts were for some clients, but if and when the partner renews contracts with end-customers, Clavister is able to process larger "branches" of the tree. The customer satisfaction is key in this development.
- Compatibility between hardware and software as well as with the service providers' existing offering. This requires an advanced technical solution built for multi-tenancy and easy management. However, one key advantage of Clavister is the hardware independency. In our view, this is something Clavister is able to offer through its 20 years of continuous development and over SEK 500m invested in R&D to date. This holds especially true for the capitalisation on the virtualisation trend, in which agility is a key benefit. The verified compatibility with leading industry partners such as Nokia, Enea, OpenStack, and VMware is in our view creating validity for the integrative capabilities of Clavister's product.

- “Lighthouse” (internal phrase for targeted contracts) wins create credibility and validity for the Clavister product. To compete against incumbents such as the likes of Cisco and Fortinet, we believe that Clavister in the initial phase of the new go-to-market rollout will face difficulties, but with an improving environment as new contracts will create brand knowledge. Examples of such contracts are the ones with defence contractors and within critical infrastructure.

Both segments benefit from strong scalability

As the cycles within the industry are long, we do not expect the company to reap the benefits of increased sales in the initial stages. In the Enterprise segment, it is partially a question of the ability to upsell through increased contracting with any given client. This would require existing service providers to continue to integrate the Clavister solution as they increase their existing end-customers. As most contracts are non-exclusive, we believe the main driver for this is the customer satisfaction and the price-to-performance. As of today, Clavister offers firewall solutions and we believe that list prices range from a few thousands SEK to a couple of hundred thousand. On top of the primary solution, an extended offering is made whereby Clavister provides the customer with servicing. We estimate that more than 85% of customers proceed with the purchase of services after the purchase of hardware, of which the majority choose the expensive services package. We estimate the maintenance fee to correspond to 35% per year of the initial order value.

Clavister: the share of total revenues stemming from services has increased

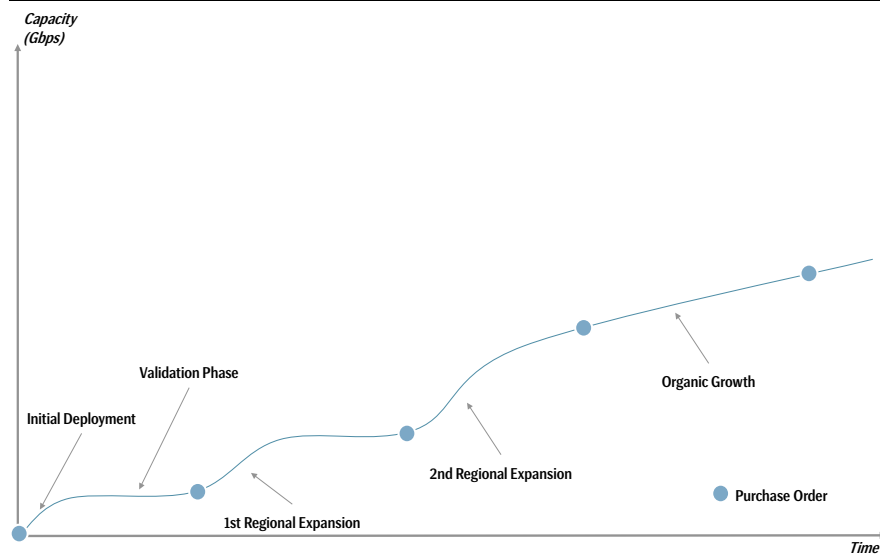


Source: SEB, Clavister

In the Communication Service Provider segment, Clavister’s go-to-market strategy is somewhat different from that employed in Enterprise. Through network equipment vendors, reseller system integrators, and technology partners, as well as through direct selling, Clavister aims to attract new communication service providers as partners. The business model is based on capacity usage and not the number of virtual instances, thereby creating scalability in line with the Enterprise segment. The company charges approximately EUR 4,000 per Gbps throughput in the Core Security solution offering. However, in this segment there are partner discounts linked to volume.

As shown below, we believe the sales cycle in the segment is long. Hence, we believe a clear majority of the current contracts are in the initial deployment phase, as well as in a validation phase. As a result of the capacity based income generation, this implies that our expectations of revenues in the segment will come with a significant lag versus order announcement.

Clavister: example of CSP sales cycle

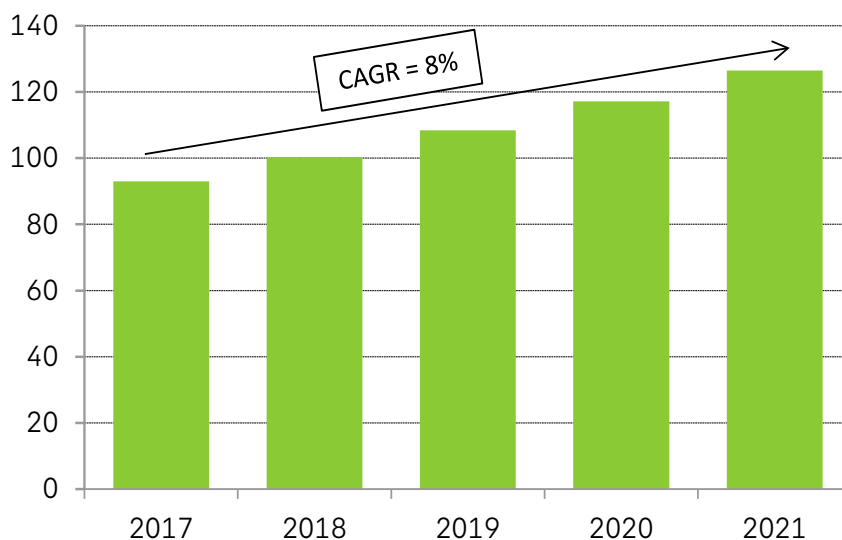


Source: Clavister

Clavister’s market

The global cybersecurity market is estimated to increase at a CAGR of 8% between 2017 and 2022 as the awareness of sophisticated cybercrime is increasing, according to Cybersecurity Ventures.

Cybersecurity market: expected to increase at a CAGR of 8% (USDbn)

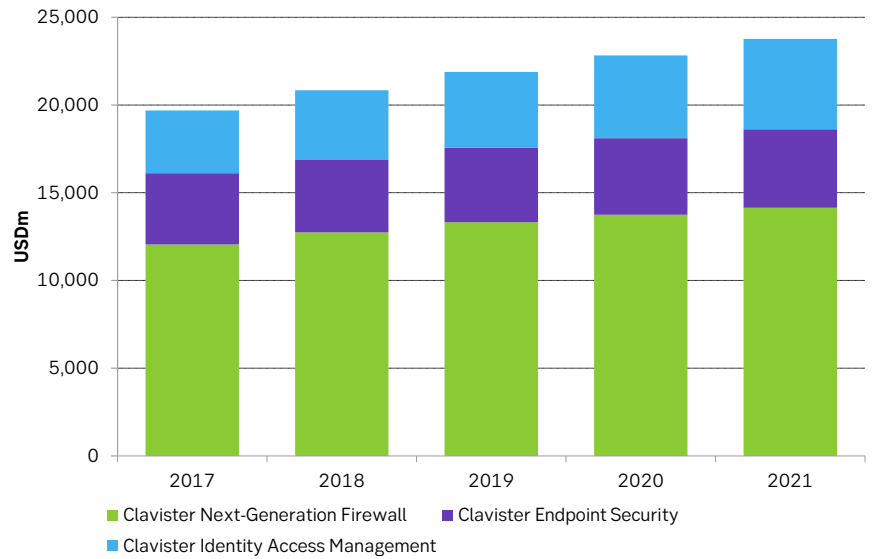


Source: Cybersecurity Ventures, SEB

Enterprise market characteristics

In the enterprise market, Clavister’s main focus is to offer firewalls to the enterprise sector and the overall key driver for continued market growth is increasing demand for security solutions.

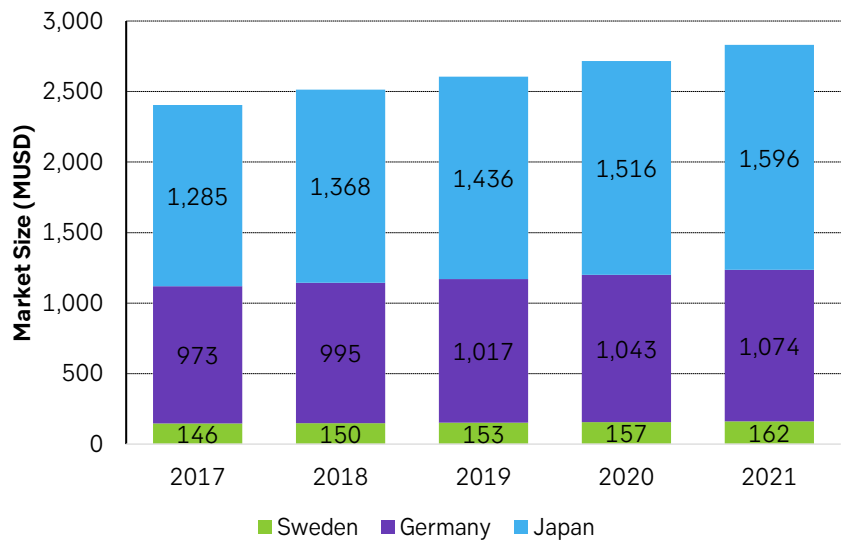
Enterprise: expectations of continued positive market growth by Gartner



Source: SEB, Clavister, Gartner

Clavister’s key markets are the Nordics (primarily comprised of the Swedish market), the DACH region (Germany, Austria, and Switzerland) and Japan (where three large clients – Canon, NTTBP and Mirait – have opened up an interesting market window in our view). These three markets, which are Clavister’s addressable market, represent 12% or USD 2.5bn of the above global enterprise market of USD 21bn.

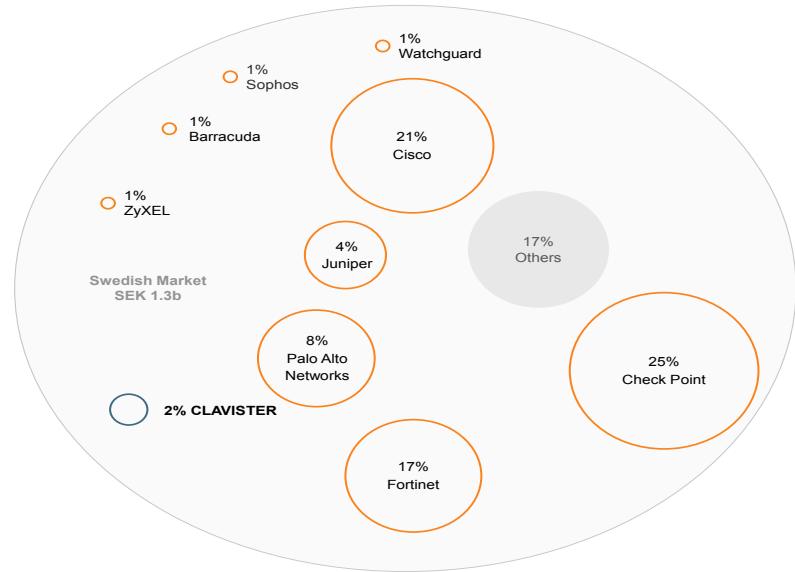
Enterprise: positive geographical market growth expected by Gartner



Source: SEB, Gartner

A typical IT security market is fragmented as brand knowledge is low among end-customers. Furthermore, to a large extent the IT security market is dominated by American and Israeli incumbents. As shown below, the Swedish enterprise market is worth SEK 1.3bn, with the largest incumbents (Check Point, Cisco, and Fortinet) holding 63%, but the remainder split among a large number of companies. As of 2017, Clavister holds 2% market share in the Swedish market.

Enterprise: fragmented Swedish IT security market is in total worth SEK 1.3bn

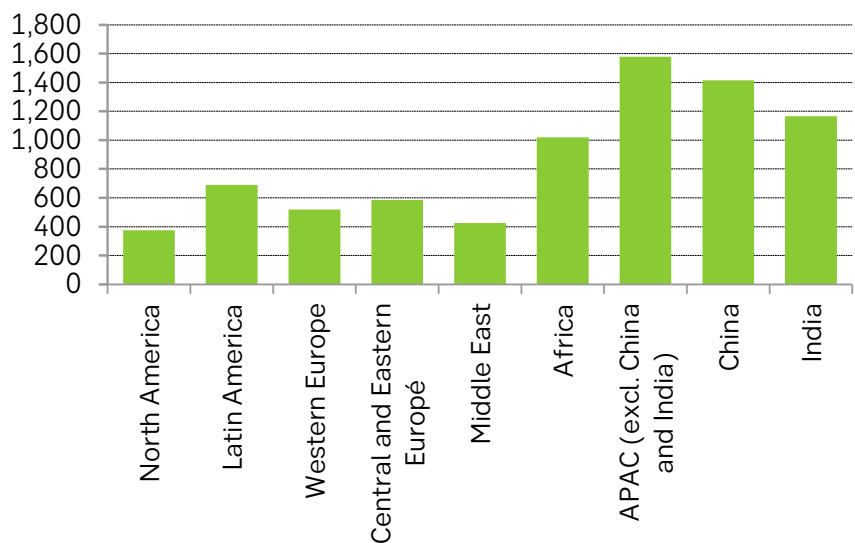


Source: Clavister

CSP market characteristics

The company’s market for communication service providers (CSPs) differs from that of its enterprise customers as its CSP customers are dependent on the performance of Clavister’s products versus peers. According to the company, the change towards a virtualised solution within the segment commenced early and as of today Clavister is in the forefront of the virtualisation offering. Through the Nokia Netguard offering, Clavister’s products for virtualisation caters for worldwide customers. In total, there are 800 carriers, of whom some 16 (in our estimates) have deployed Clavister’s product. According to the company, the majority of the wins are with tier-1 operators, and one contract with a global defence contractor to be used in public safety networks – creating credibility for the solution.

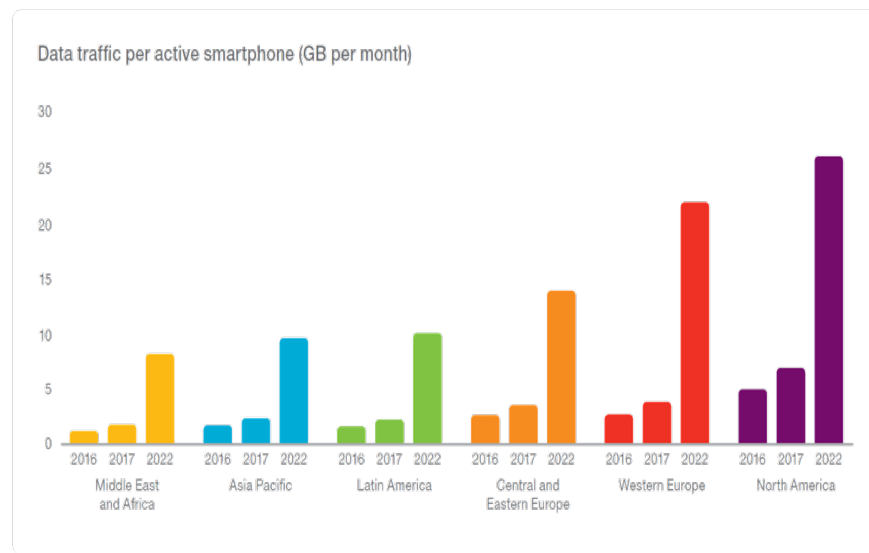
Telecom: in terms of subscriptions, the market is geographically diversified



Source: Ericsson Mobility Report, SEB

One key driver in the segment is the increasing pace of data usage per active smartphone. In Q4 2017 the number of mobile broadband subscriptions grew by 200 million while the mobile data traffic grew 55% y-o-y. According to the Ericsson Mobility Report, the total mobile data traffic is expected to increase at a CAGR of 42% until 2023.

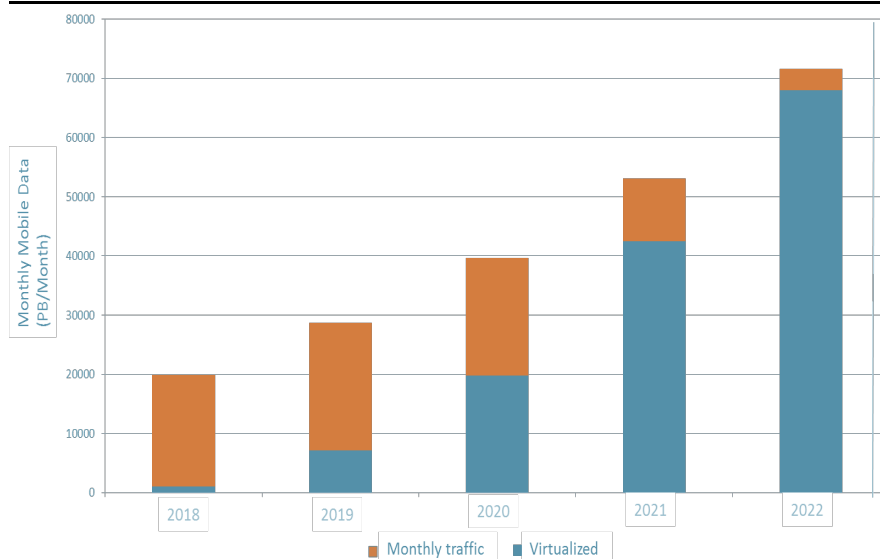
Telecom: data traffic per active smartphone until 2022 (GB per month)



Source: Ericsson Mobility Report

The aforementioned development has sparked pressure on data providers to securely and efficiently provide users with relevant infrastructure. Hence, the development of virtualised solutions which decouple the functioning of a network from its physical infrastructure has begun. For the operators, this will reduce capital expenses (lower costs of buying or upgrading servers, and facilities) and operational expenses (lower IT staff costs, rent, and power). According to a report prepared for VMware in 2009, 73% of the mid to large organisations which had implemented virtualised solutions could consolidate servers, 69% reduced hardware costs, and 34% reduced software costs. This has resulted in expectations of an exponential increase in the share of mobile data traffic through virtualised solutions in 2018-22, as shown below.

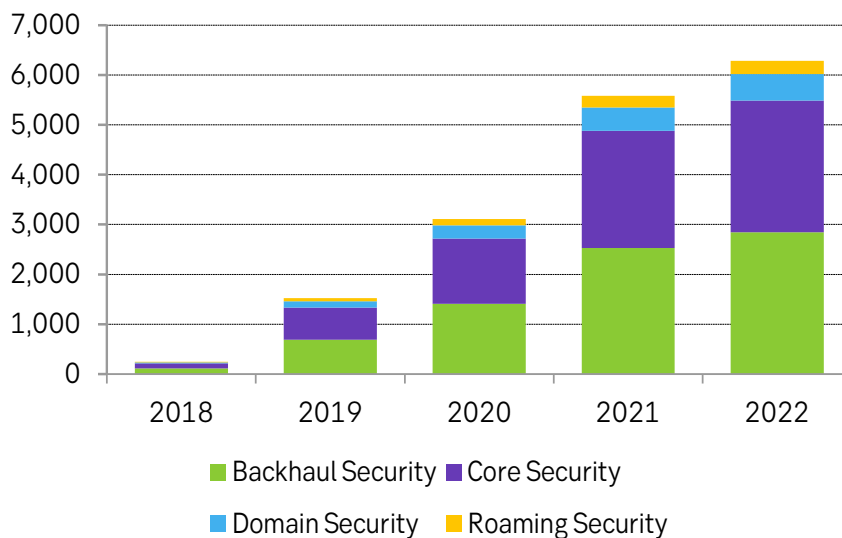
Telecom: virtualisation expected to increase its share of total monthly traffic



Source: Ericsson Mobility Report 2017

The solutions offered in the segment ranges from backhaul security, core security, domain security, and roaming security. The total addressable market is considerably smaller than for the enterprise market, but is expected by external third parties to grow as a result of the trends accounted for above.

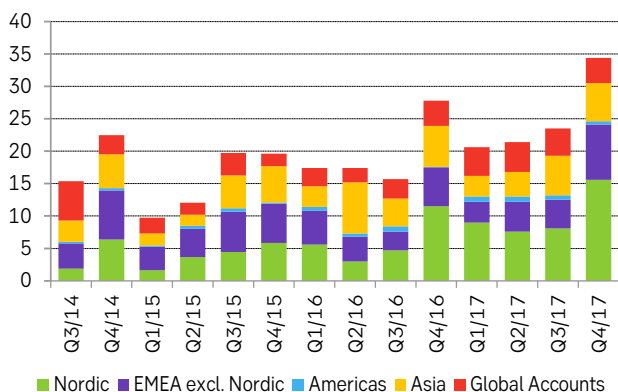
CSP: expectations of high market growth over the coming years (EURm)



Source: Clavister, Ericsson Mobility Report 2017, CelPlan, SNS Research

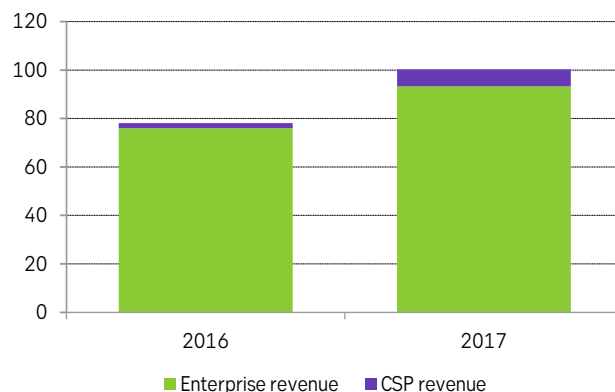
For the group as a whole, historical revenues have been evenly split in terms of geographies. The largest market is the Nordic region, followed by the EMEA (excluding Nordics) and Asia. The split between the segments as reported demonstrates the high share of enterprise revenues of the total, and the growth in the CSP market since Q1 2017.

Clavister: geographical revenue split (SEKm)



Source: SEB, Clavister

Clavister: segment revenue split (SEKm)



Source: SEB, Clavister

Financial estimates

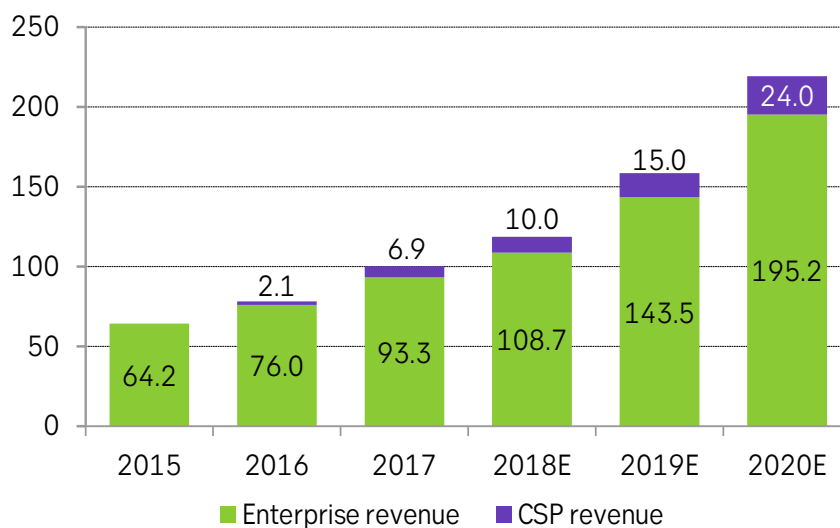
Revenues

The improvement of, and increased focus on, the go-to-market model should yield increase in sales growth ahead. A key metric for the realisation of the model is the number of FTE dedicated to sales efforts. We believe the company at year-end 2017 employed 10-12 sales personnel. In our view, it is difficult to say how much we could expect, but we assume that Clavister will employ four to 10 sales people per year in 2018 and 2019, and scale this up in 2020 and 2021 to around 15. We expect that after nine to 12 months these staff are fully trained and working, adding about USD 0.8m per year in sales. The increase in number of sales dedicated personnel coupled with the renewed go-to-market model creates the foundation for an attractive compounding effect on the top-line. There are both potential risks and upside to our estimates, e.g. the number of partners that a sales person manages to get on board, and the level of sales that this partner contributes to Clavister. However, as a rule of thumb, sales personnel in companies with a similar business model generate USD 1m per year in sales – which leaves upside potential to our estimates.

The above assumptions would result in sales CAGR of 28% in 2018-20 within Enterprise and an increasing market share from 0.5% to 1% on the Nordic, DACH, and Japan markets aggregated. For CSP, the sales CAGR between 2018 and 2020 would be 52%. In Q3 2017, the company received orders from two of the world's largest mobile operators and estimated SEK 20-40m of revenue over five years from each. Based on the assumption of the size of the orders within the CSP segment, we believe considerable upside could be in the segment. However, we have not included any such estimates into our model as there are significant uncertainties related to the throughput in each contract, as well as the size of the operators.

In the long-term, we model a 5y sales CAGR of 35% in our base case for the group and a terminal growth rate of 5%.

Clavister: we expect revenues to reach SEK 219m in 2020



Source: SEB

IFRS 15 implementation in 2018

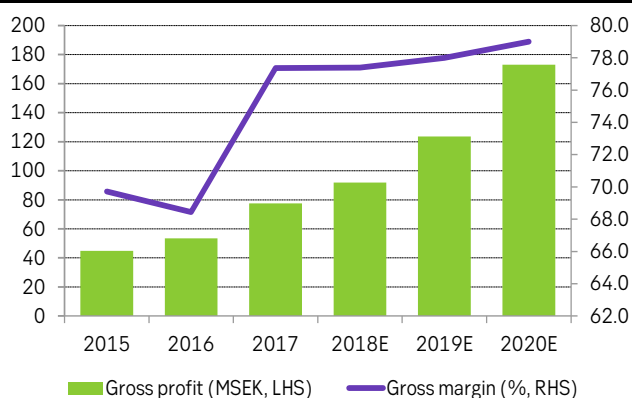
As previously written, the typical Clavister sales cycle includes an initial hardware solution with up-sell through added service solutions. Following the implementation of IFRS 15 in 2018, the revenue recognition of the latter will be changed. Previously, Clavister recognised the full service revenues expected over a contract (between one to five years, in our estimates on average three years) upon entry, while under the new guidelines the company will have to be allocated to and recognised in each year of the contractual period. The company has guided that the effect from this is around SEK 10m in lower revenues in 2018 versus 2017 – all else equal. This partially explains our expectations of the somewhat muted growth in 2018.

Gross margin

Clavister has reported a gross margin of 74% on average over the past four years. The current gross margin is somewhat higher at 77%, and despite scope to expect a higher gross margin due to increased software sales and decreased hardware sales out of the total, we assume that the current ratio of hardware and software will remain. We also assume that the level of discounts offered to partners will remain. In our base case, we assume a gross margin of between 77% and 79% in our forecast period. This assumption is based on the current improving trajectory, but with consideration to the sales structure, in which hardware is initially sold with subsequent recurring service revenues. Therefore, we believe the gross margin will increase to 80% in 2021 and 2022, with the potential of continued increases in the long-term. If the share of software increases more than we estimate, there is potential upside to our estimates, and vice versa.

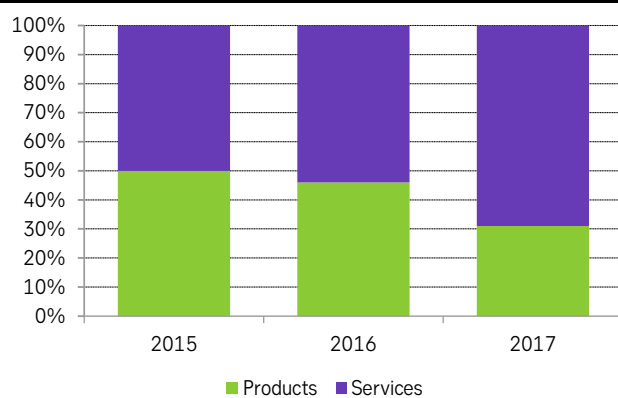
This results in expectations of a gross profit CAGR of 31% between 2018 and 2020.

Clavister: gross margin could reach 79% in 2020...



Source: SEB

...driven by an increasing share of services



Source: SEB

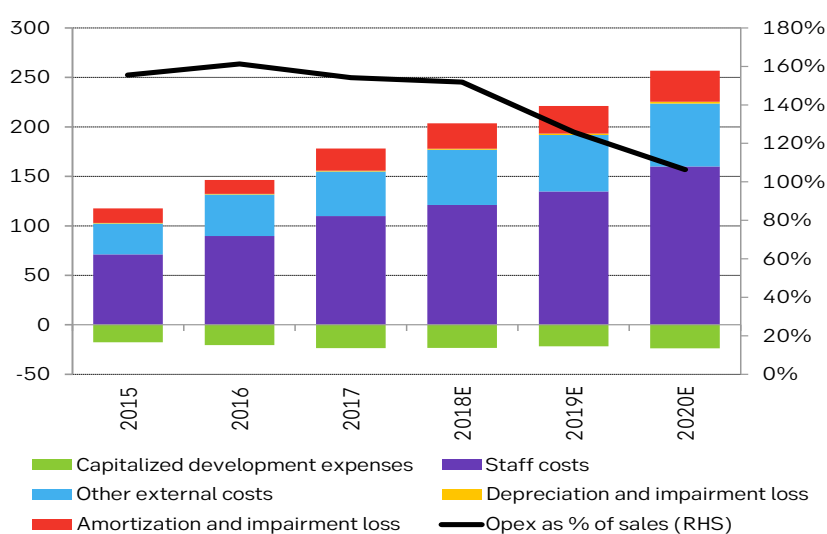
Operational expenditure

Clavister currently has opex per quarter of around SEK 45m, and we believe that the increase in sales force, as well as prioritisation of personnel between business areas, will result in opex of around SEK 72m by Q4 2020. These drivers of opex in our estimates correspond to a staff cost increase of SEK 110m in 2017 to SEK 160m in 2020, primarily related to the increase of personnel, as well as a result of the increased share of sales force relative to total staffing, and increased bonuses. This increase corresponds to a staff cost CAGR of 13% for the period.

We expect the capitalised development expenses to remain at around 60% of the total development costs, as seen in recent quarters. Based on our assumptions of capital expenditure, we expect this to total SEK 22-24m per year in 2018-20 – which will help boost the operational expenditure. In parallel, other external costs (primarily the cost of consultants, premises and other overhead) are expected to increase to SEK 64m in 2020 from SEK 45m in 2017, driven by an increased need for corporate services as the organisation grows larger.

We believe depreciation will remain at SEK 1-2m as the company to a large extent rents physical premises. However, we expect amortisation to increase in line with the capitalisation of development expenses and total SEK 25m in 2020. Naturally, this has no effect on cash flow.

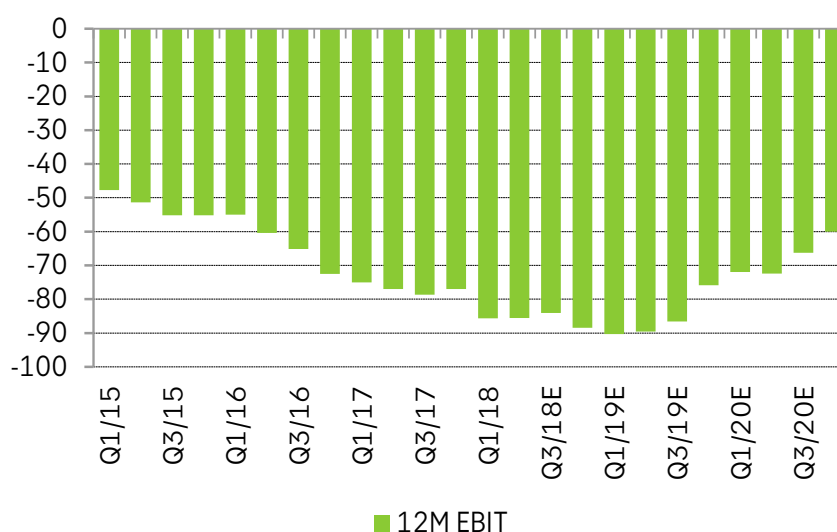
Clavister: opex (SEKm)



Source: SEB

EBIT

With the above estimates in mind, our view is that Clavister will not reach breakeven on EBIT during our forecast period. However, we expect breakeven to be reached in mid to late 2021 with a positive EBIT for the full year in 2022. We believe the company's current cost structure is somewhat large for a company of its size; however, this is to be expected as the implementation of the go-to-market strategy will require resources. Furthermore, we expect these investments to materialise but find considerable risk in this assumption.

Clavister: we expect the 12M EBIT to have bottomed in early 2019

Source: SEB

Tax

Between 2012 and 2017, Clavister made a pre-tax loss of SEK 360m, thereby creating a tax loss carry forward equating to SEK 82m at year end-2017. As of 2018, the company has decided to not increase the balance sheet exposure to the tax loss carry forward for prudence reasons, and any increases in the future will be made off balance sheet. We expect the off balance sheet item for tax loss carry forwards to reach SEK 66m between 2018 and 2021, before the company turns EBIT positive on a full year basis. This would imply a total tax loss carry forward both on and off balance sheet of SEK 148m in 2021. In our estimates, disregarding from the financial net, we estimate EBIT between 2022 and 2029 to total SEK 660m with zero tax effect as the tax loss carry forward will net this. This is based on the assumption of a corporate tax rate of 22%.

For clarification purposes, we believe the move to off balance sheet recognition of deferred taxes will imply a larger drop of operating loss as no positive tax effect will be added in the financial statements.

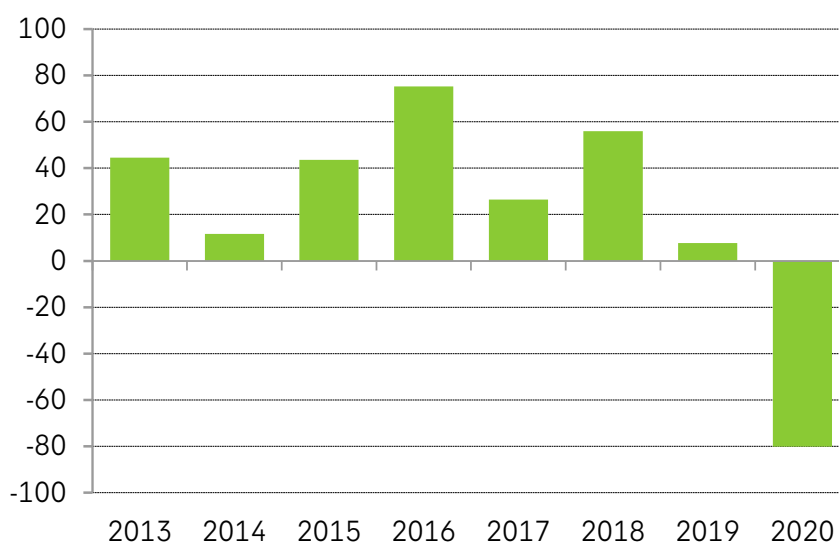
Capital expenditure

Clavister currently has capex of SEK 24m and the past five year average is SEK 18m on an annual basis. As the cybersecurity space is far from static and we do not expect today's solutions to be good enough five years from now, we believe there will be continued need for capex for Clavister, despite the strategic revamping towards a more sales focused organisation. In our estimates, we assume that capex will increase to around SEK 30m per year in the forecast period and reach SEK 44m by 2022. The majority of this capex is related to development costs, of which we expect around 40% to be recognised as costs in each year and the remainder to be capitalised. These are written off over three years.

Cash

With the above in mind, our estimates assume that Clavister will have negative free cash flow of SEK 450m until reaching breakeven in 2022. In contrast, the company reported SEK 94m in cash in Q1 2018. Clavister has signed a financing deal with EIB, from which it has around EUR 10m left to draw. Therefore, despite the EIB financing, Clavister will not have funding in place before reaching breakeven – implying the company has to find a way to finance around SEK 250m before 2022. In our view, as long as Clavister manages to show strong sales growth with solid gross margins, the financing with shares (or convertible debt) should be less of an issue. However, if sales do not start to increase as we expect, Clavister will quickly run out of cash and a share issue in such a scenario is a risk to the share price. According to our estimates, new funds will have to be found sometime around late 2019 to mid-2020.

Clavister: we expect cash and liquid assets to run out in early 2020



Source: SEB

The inclusion of experienced professionals into the board of directors, such as Jan Frykhammar and Staffan Dahlström, as well as chairman of the board Victor Kovacs experience in loan syndication, creates credibility for the Clavister case if and when the company has to attract new funds.

Takes from the Q1 report

In Q1 2018, the company reported revenues of SEK 23m with a positive one-off of SEK 1.5m. Underlying y-o-y growth was 4%. In our view, the low growth is a concern, and lower than we expected, even though we do not expect the strategic revamp to show significant positive results in 2018. On a positive note, the company experienced positive development in all key regions measured by positive intake. We find the orders from Caplog-X and e-Regio within Critical Infrastructure in Germany to be of interest, as this validates the offering in a high security segment, and the German operations are showing positive momentum following the establishment of a subsidiary in the quarter. Two new operators were added to the client portfolio, a West African mobile operator and a large global broadband operator. According to Clavister, the latter is investing heavily and is expected to eventually be one of the largest infrastructure projects in the world within the category.

Gross margin declined to 76% from 81% in Q1 2017. However, the gross margin can fluctuate due to increasing sales of hardware in any given quarter. In our view, this is not a trend that will last in full year 2018.

As we had expected, opex continued to increase and totalled SEK 44m in the quarter, inflated by one-offs of SEK 3.6m related to the establishment of a German subsidiary. Furthermore, the company claimed that SEK 2.8m was related to extraordinary consultancy costs. In our view, these should not be regarded as one-offs though. Personnel expenses increased 6% y-o-y. Amortisation increased to SEK 6.8m (from SEK 3.1m) as a result of previous capitalisation of development costs.

Financial net was negatively affected by FX effects stemming from the fact that loans from EIB are incurred in EUR. In addition to this, amortisation of the cost of warrants equal to SEK 3.2m was reported in the quarter. This should be seen in all quarters in the coming three years to the best of our knowledge, although not affect cash flows. Therefore, underlying financial net was a negative SEK 4.75m and should increase as a result of the new loans from EIB, which are expected to be drawn in 2018/2019.

Clavister: Financial statements

	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18E	Q3/18E	Q4/18E	2017	2018E	2019E	2020E
(SEKm)												
Enterprise revenue	20.084	18.773	21.762	32.700	22.102	21.589	25.027	40.000	93.320	108.717	143.507	195.169
CSP revenue	0.495	2.579	2.097	1.714	0.717	3.740	3.041	2.487	6.886	9.984	14.977	23.963
Net revenue (MSEK, LHS)	20.579	21.352	23.860	34.415	22.819	25.329	28.068	42.486	100.205	118.702	158.483	219.132
					21.319	1.036						2.187
Cost of goods sold	-4.004	-4.337	-6.533	-7.808	-5.372	-5.826	-6.315	-9.314	-22.682	-26.827	-34.866	-46.018
Gross profit (MSEK, LHS)	16.575	17.015	17.327	26.607	17.447	19.503	21.753	33.173	77.523	91.875	123.617	173.114
Capitalized development expenses	6.032	6.153	5.286	6.133	8.218	4.559	5.052	5.436	23.604	23.266	21.633	23.666
Staff costs	-27.021	-28.986	-23.113	-30.786	-28.704	-30.394	-25.261	-36.716	-109.906	-121.076	-134.711	-159.966
Other external costs	-10.635	-11.530	-9.902	-12.863	-16.926	-12.664	-11.508	-14.692	-44.930	-55.790	-57.054	-63.548
Depreciation and impairment loss	-0.144	-0.143	-0.138	-0.444	-0.252	-0.170	-0.162	-0.445	-0.869	-1.029	-1.374	-1.900
Amortization and impairment loss	-3.086	-6.095	-5.825	-7.360	-6.757	-4.306	-4.772	-9.840	-22.366	-25.675	-27.957	-31.403
Total operational expenditure	-34.854	-40.601	-33.692	-45.320	-44.421	-42.975	-36.651	-56.258	-154.467	-180.304	-199.463	-233.152
EBITDA	-15.049	-17.348	-10.402	-10.909	-19.965	-18.996	-9.964	-12.799	-53.709	-61.725	-46.515	-26.734
EBITA	-15.193	-17.491	-10.540	-11.353	-20.217	-19.166	-10.126	-13.245	-54.578	-62.754	-47.889	-28.634
Earnings before depreciation	-18.135	-23.443	-16.227	-18.269	-26.722	-23.302	-14.736	-22.640	-76.075	-87.400	-74.472	-58.137
EBIT	-18.279	-23.586	-16.365	-18.713	-26.974	-23.472	-14.898	-23.085	-76.944	-88.429	-75.846	-60.037
EBIT Enterprise	-11.516	-14.623	-10.146	-11.602	-16.184	-14.552	-9.237	-14.313	-47.887	-54.286	-49.300	-40.825
EBIT CSP	-6.763	-8.963	-6.219	-7.111	-10.790	-8.919	-5.661	-8.772	-29.056	-25.224	-26.546	-19.212
NRI's					6.000	1.500			0.000	7.500	0.000	0.000
Adjusted EBIT	-18.279	-23.586	-16.365	-18.713	-20.974	-21.972	-14.898	-23.085	-76.944	-80.929	-75.846	-60.037
Financial net	-1.123	-1.022	-2.208	-2.378	-9.280	-4.750	-4.750	-5.464	-6.731	-24.244	-25.529	-26.904
Reported pre-tax profit	-19.402	-24.608	-18.573	-21.091	-36.254	-28.222	-19.648	-28.549	-83.675	-112.673	-101.376	-86.942
Minority interests	0.000	0.000	0.000	0.000	0.000				0.000	0.000	0.000	0.000
Total taxes	4.199	5.385	4.037	4.175	0.000	0.000	0.000	0.000	17.796	0.000	0.000	0.000
Net profit	-15.203	-19.223	-14.536	-16.916	-36.254	-28.222	-19.648	-28.549	-65.879	-112.673	-101.376	-86.942
EPS, pre-dilution (SEK)	-0.67	-0.84	-0.63	-0.73	-1.54				-2.870	-4.78	-4.30	-3.69
EPS, post-dilution (SEK)	-0.62	-0.78	-0.59	-0.61	-1.18				-2.600	-4.78	-4.30	-3.69
Revenue growth (%)	14.6	22.6	52.1	27.2	10.9	18.6	17.6	23.5	28.3	18.5	33.5	38.3
Revenue growth Enterprise (%)	11.9	9.1	38.7	29.9	10.0	15.0	15.0	22.3	22.8	16.5	32.0	36.0
Revenue growth CSP (%)	n.a.	1,164.2	n.a.	-9.5	44.8	45.0	45.0	45.0	228.2	45.0	50.0	60.0
Gross margin (% , RHS)	80.5	79.7	72.6	77.3	76.5	77.0	77.5	78.1	77.4	77.4	78.0	79.0
% of sales									154.15	151.90	125.86	106.40
Capitalized development expenses (%)	-29	-29	-22	-18	-36	-18	-18	-13	-24	-20	-14	-11
Staff costs (%)	131	136	97	89	126	120	90	86	110	102	85	73
Other external costs (%)	52	54	42	37	74	50	41	35	45	47	36	29
Depreciation and impairment loss (%)	1	1	1	1	1	1	1	1	1	1	1	1
Amortization and impairment loss (%)	15	29	24	21	30	17	17	23	22	22	18	14
EBITDA margin (%)	-73.1	-81.2	-43.6	-31.7	-87.5	-75.0	-35.5	-30.1	-53.6	-52.0	-29.4	-12.2
Operating margin (%)	-88.8	-110.5	-68.6	-54.4	-118.2	-92.7	-53.1	-54.3	-76.8	-74.5	-47.9	-27.4
Operating margin ex NRI's (%)	-88.8	-110.5	-68.6	-54.4	-91.9	-86.7	-53.1	-54.3	-76.8	-68.2	-47.9	-27.4
Pre-tax margin (%)	-94.3	-115.2	-77.8	-61.3	-158.9	-111.4	-70.0	-67.2	-83.5	-94.9	-64.0	-39.7
Operating margin Enterprise (%)	-57.3	-77.9	-46.6	-35.5	-73.2	-67.4	-36.9	-35.8	-51.3			
Operating margin CSP (%)	-1,366.3	-347.5	-296.5	-414.8	-1,504.9		-186.2	-352.8	-422.0			
Operating profit growth (%)	16.1	9.1	11.1	-8.4	47.6	-0.5	-9.0	23.36	6.1	14.9	-14.2	-20.8
Operating profit growth Enterprise (%)	18.0	5.7	7.6	-11.2	40.5	-0.5	-9.0	23.36	3.9	13.4	-9.2	-17.2
Operating profit growth CSP (%)	13.1	15.2	17.3	-3.3	59.5		-9.0	23.36	10.0	-13.2	5.2	-27.6
Operating profit growth ex NRI's (%)	16.1	9.1	11.1	-8.4	14.7	-6.8	-9.0	23.36	6.1	5.2	-6.3	-20.8
Pre-tax profit growth (%)	13.2	7.4	85.5	-2.6	86.9	14.7	5.8	35.36	16.7	34.7	-10.0	-14.2

Source: SEB

Valuation

We value Clavister using a DCF approach. We have complemented this by looking at peer valuation.

DCF valuation

Our forecast is based on expectations of scalability in the business model allowing the company to reach peak EBITDA margin of 20% in 2023. Before that, we expect a gradual improvement as market conditions improve, while the internal go-to-market strategy pans out positively. After the peak, we expect a gradual weakening of margins to a steady state of 19%. In parallel, we estimate growth to peak in 2021 at 41% and a gradual decrease until reaching a steady state of 5% in 2031.

We expect depreciation and amortisation as a percentage of sales to gradually decrease and reach 8% in steady state. We expect capex as a percentage of sales to decrease from the current 28% to 8% in steady state as a result of the scalability in the business model, despite somewhat increasing capex. Furthermore, we expect the company to remain relatively in line with the current numbers (17-20%) for working capital as a percentage of sales. With a risk free rate of 2.5%, an added risk premium of 7% to account for the high risk in the case and an interest rate after tax of 5%, the WACC sums up to 8.4%.

The main risk is likely to be on the expected revenue growth path, in our view.

Clavister: DCF valuation (SEKm)

		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	294	Risk free interest rate	2.5
NPV of continuing value	400	Risk premium	7.0
Value of operation	694	Cost of equity	9.5
Net debt	150	After tax cost of debt	5.9
Share issue/buy-back in forecast period	-	WACC	8.4
Value of associated companies	-		
Value of minority shareholders' equity	-	Assumptions	
Value of marketable assets	-	Number of forecast years	20
DCF value of equity	544	EBIT margin - steady state (%)	11.0
DCF value per share (SEK)	23	EBIT multiple - steady state (x)	9.5
Current share price (SEK)	16.06	Continuing value (% of NPV)	57.7
DCF performance potential (%)	44		

Source: SEB

Clavister: DCF sensitivity analysis

		Cost of equity (%)				
		8.5	9.0	9.5	10.0	10.5
Equity capital weight (%)	50	49	45	42	39	36
	60	37	34	31	28	26
	70	29	26	23	21	18
	80	22	19	17	15	13
	90	17	14	12	10	9
		Absolute change in EBITDA margin - all years (%)				
		-2	-1	0	+1	+2
Abs. change in sales growth - all years (%)	-2	9	13	16	19	23
	-1	12	16	19	23	27
	0	15	19	23	27	32
	+1	18	23	27	32	37
	+2	22	27	32	37	42

Source: SEB

As we believe the top-line growth will be the key enabler for the case – based on the sensitivity analysis above, and keeping the EBITDA margin unchanged for all years – a 2pp change in sales growth for all years would indicate a fair valuation range of SEK 16-32, with the base case of SEK 23 per share.

Peer valuation

We have chosen two groups of peers to Clavister:

- International hardware and software cybersecurity vendors.
- Swedish IT companies which employ, or historically have employed, a similar model to that of Clavister within a niche segment.

Where the former group is more applicable as a direct peer, we believe the latter group is of relevance as Clavister is likely to be traded in line with other IT/technology companies in Sweden.

Clavister: international cybersecurity and related software peers

		Mkt cap. (Ccy) (SEKbn)	SP performance (%)			PER			EV/EBITDA			EV/EBIT			EV/Sales		
			1M	3M	12M	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
A10 Networks Inc	USD	3.9	2%	-1%	-26%	268.3	170.7	39.1	28.6	27.5	16.1	158.7	73.9	33.2	1.4	1.3	1.2
Absolute Software	CAD	1.9	2%	7%	-7%	208.7	66.0	30.7	21.5	16.4	11.7	59.3	39.3	26.6	2.0	1.8	1.7
BlackBerry	USD	55.4	14%	-5%	2%	201.6	72.1	42.2	39.9	28.7	17.3	213.0	53.4	20.7	5.4	4.9	4.3
Check Point Software	USD	135.3	1%	-7%	-13%	17.3	16.1	14.7	13.8	13.2	12.4	13.9	13.4	13.0	7.4	7.1	6.7
Cisco Systems Inc	USD	1782.9	-1%	-1%	42%	16.7	14.9	13.7	10.4	9.9	9.7	11.6	11.2	10.7	3.6	3.5	3.4
Cyberark Software	USD	19.0	13%	20%	23%	44.8	37.4	31.0	26.0	21.0	17.3	30.2	24.0	18.8	5.7	4.8	4.1
F-Secure	EUR	6.4	9%	11%	-3%	71.8	35.9	33.5	33.1	21.2	15.5	50.4	28.1	18.5	3.0	2.9	2.7
FireEye	USD	27.9	-9%	1%	11%	766.7	101.1	51.0	32.7	26.8	22.9	249.5	74.4	43.3	3.7	3.5	3.3
Fortinet	USD	88.9	10%	21%	53%	39.4	34.3	29.4	21.8	18.1	15.2	25.5	21.4	18.1	5.1	4.5	4.1
Imperva	USD	14.8	1%	1%	-4%	52.9	27.8	26.2	18.9	15.2	13.3	23.2	18.1	15.8	3.5	3.1	2.8
Juniper Networks	USD	83.3	12%	5%	-5%	14.9	12.9	11.9	8.3	7.6	7.3	10.2	9.1	8.4	1.8	1.8	1.7
KEYW Holding	USD	4.0	13%	16%	-1%	-39.9	103.9	41.7	15.5	13.9	12.0	47.0	27.7	22.3	1.4	1.4	1.3
Palo Alto Networks	USD	168.5	10%	26%	77%	53.8	43.0	35.4	33.2	26.2	21.3	38.8	30.0	24.0	8.2	6.8	5.9
Piteco SpA	EUR	0.9	0%	3%	1%	15.4	14.3	12.7	11.4	10.2	9.2	13.1	11.7	10.5	4.5	4.1	3.8
Qualys	USD	25.5	-3%	-1%	75%	51.0	43.6	35.9	24.8	21.0		33.4	27.7	21.6	9.3	7.9	6.7
Radware	USD	9.2	6%	12%	33%	66.2	45.2	36.4	33.7	25.9		64.9	39.2	23.1	3.7	3.4	3.2
Sophos Group	GBp	32.1	17%	17%	34%	65.8	49.3	35.7	46.5	33.6	27.9	71.2	45.0	31.9	5.2	4.4	3.9
Verisec	SEK	0.6	6%	28%	-1%	-20.8	-35.7	13.8			9.7			11.6	7.1	5.6	2.9
Verisign	USD	138.6	8%	9%	43%	28.1	25.0	22.6	18.3	17.7		19.8	18.8		13.1	12.6	
Median		25.5	6%	7%	2%	51.0	37.4	31.0	23.3	19.6	14.3	36.1	27.7	19.7	4.5	4.1	3.3
Average		136.8	6%	9%	18%	101.2	46.2	29.4	24.3	19.7	14.9	63.0	31.5	20.7	5.0	4.5	3.5

Source: SEB

Clavister: Swedish IT peers

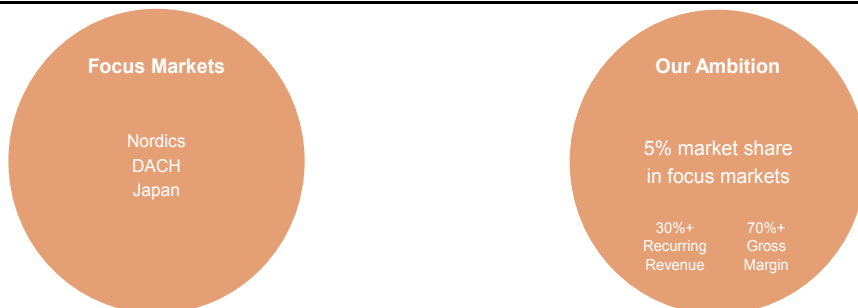
		Mkt cap. (Ccy) (SEKbn)	SP performance (%)			PER			EV/EBITDA			EV/EBIT			EV/Sales		
			1M	3M	12M	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
HMS Networks	SEK	7.1	4%	27%	46%	38.8	30.3	25.4	23.1	19.1	16.3	27.6	22.5	19.0	5.2	4.6	4.1
Mycronic	SEK	9.7	-1%	-3%	13%	12.0	17.5	16.0	7.9	11.3	10.4	8.3	12.2	11.2	2.6	2.8	2.7
Net Insight	SEK	1.7	3%	-12%	-33%	38.5	28.5	26.6	57.1	29.2	17.3	32.3	22.6	20.1	2.9	2.6	2.4
Sectra	SEK	7.2	7%	16%	15%	45.3	39.1	36.4	22.0	20.2		27.1	32.6		5.2	4.9	
Median		7.2	4%	6%	14%	38.7	29.4	26.0	22.5	19.7	16.3	27.4	22.5	19.0	4.0	3.7	2.7
Average		6.4	3%	7%	10%	33.7	28.9	26.1	27.5	20.0	14.6	23.8	22.5	16.7	4.0	3.7	3.0

Source: SEB

Blue sky and bear case

We believe management described a blue sky scenario during the capital markets day (CMD) held in March 2018, as seen below.

Clavister: Management's indicated opportunity within Enterprise



Source: Clavister, SEB

Assuming a 5% market share in the Nordics, DACH region, and Japan in 2025 and 3% market growth from 2022 onwards in Enterprise, coupled with 50 orders in CSP contributing SEK 7.5-30m per year each (and assuming 20 large orders, 15 medium orders, and 15 small orders), we estimate total group revenue in a blue sky scenario in 2025 of SEK 1421m. With a 20% EBITDA margin (as proposed in the DCF) and EV/EBITDA of 15x (justified by the high growth, over 30% recurring revenues and over 70% gross margin), we find a fair present enterprise value for the scenario of SEK 2.3bn based on a WACC of 8.4% for the coming 7.5 years. This would equal around 500% potential upside to our indicated valuation range.

However, as indicated in the "Cash" section, we believe the cost structure of the company is too high for a company of its size as of today, and we do not expect opex to subdue. Rather, we expect opex to increase as a result of the new strategic initiatives. As described, we believe Clavister will be forced to find new funds before year-end 2020, and if these are to be found prior to top-line momentum, we believe there is considerable downside risk in the case.

Overview

Investment case

Clavister represents a high risk but potentially high reward case, wherein a successful go-to-market implementation would yield strong revenue growth coupled with a profitable outlook as a result of the obvious scalability. Further, the cybersecurity market is arguably one on the rise, where enterprises are moving from regarding IT security as a "nice to have" to a "must have".

Company profile

Clavister offers a wide range of IT security hardware and software solutions to an international B2B market, predominantly in the Nordics, DACH region and Japan. During the 21 years in operations, Clavister's focus has been on the development of the product offering but there is an increasing focus on go-to-market strategy, illustrated by the sales and marketing organization under development. Through a partner structure, in which the partners range from being service providers to full system integrators, Clavister aims at claiming a portion of a tremendous growth market.

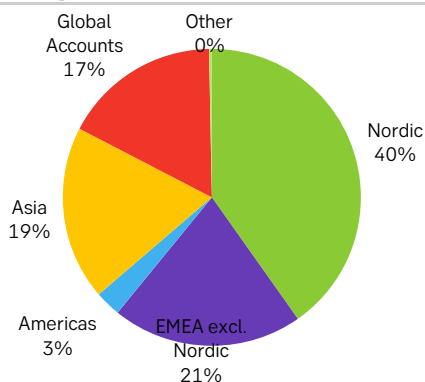
Valuation approach

We use a DCF valuation approach with terminal margins in line with Swedish IT peers with a similar business mix.

Target price risks

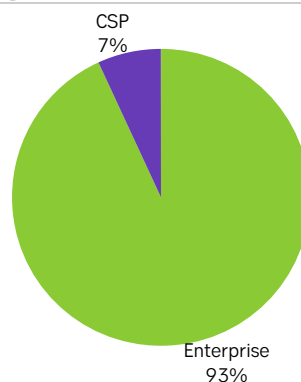
During the period of development, Clavister has made significant losses with the resulting outflow of cash. As of 2018, the need for temporary cash is low. However, on a longer basis - we believe there will be a need for the company to attract new funds. This is a result of the large investments made.

Revenues by region



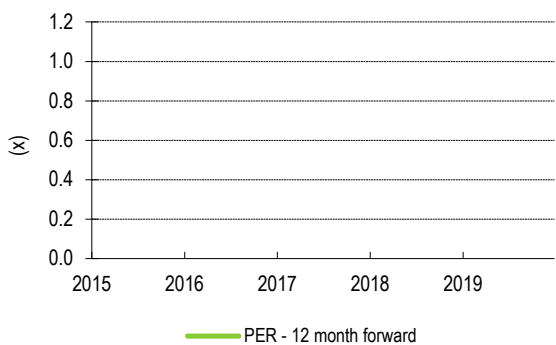
Source: SEB

Revenues by segment



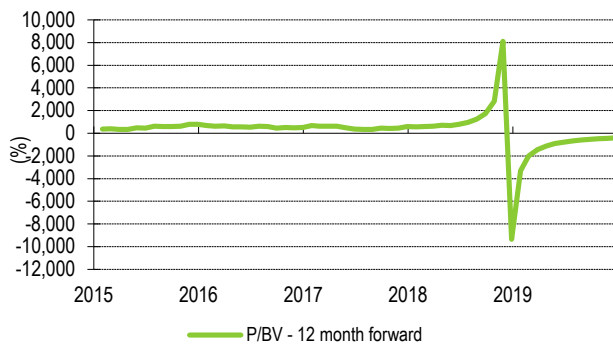
Source: SEB

PER - 12 month forward



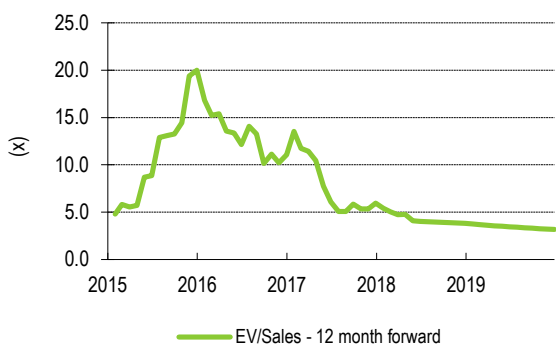
Source: SEB

P/BV - 12 month forward



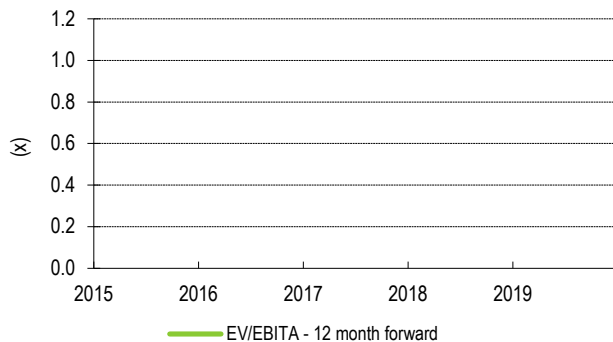
Source: SEB

EV/Sales - 12 month forward



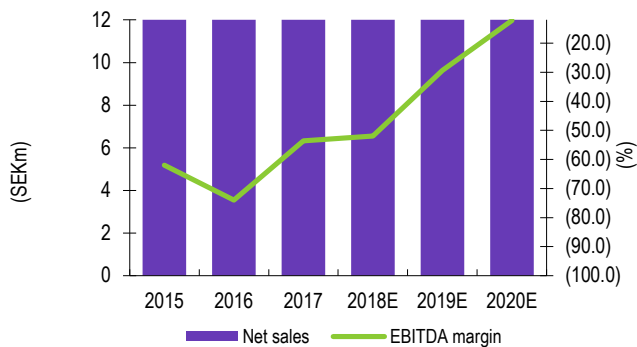
Source: SEB

EV/EBITA - 12 month forward



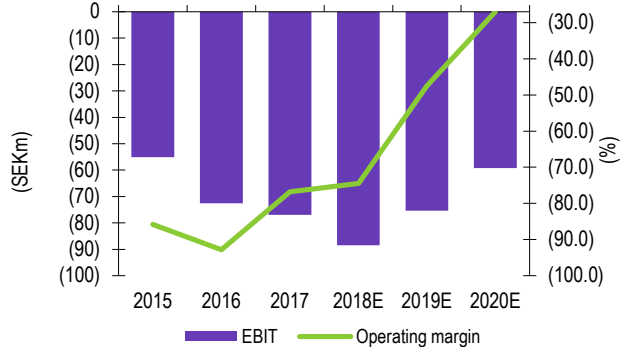
Source: SEB

Net sales & EBITDA margin



Source: SEB

EBIT & Operating margin



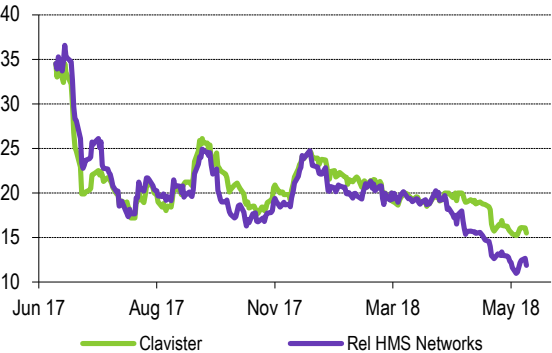
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with HMS Networks - 1 year



Source: SIX

Profit & loss statement - Clavister						
(SEKm)	2015	2016	2017	2018E	2019E	2020E
Net Sales	64	78	100	119	158	219
Other revenues	0	0	0	0	0	0
Total revenues	64	78	100	119	158	219
Total expenses	(104)	(136)	(154)	(180)	(205)	(246)
Profit before depreciation	(40)	(58)	(54)	(62)	(47)	(27)
Depreciation - Fixed assets	(1)	(1)	(1)	(1)	(1)	(2)
Depreciation - Other assets	(15)	(14)	(22)	(26)	(27)	(31)
Amortisation - Goodwill	0	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0	0
Operating profit	(55)	(73)	(77)	(88)	(75)	(59)
Net interest expenses	(4)	1	(7)	(9)	(13)	(14)
Foreign exchange items	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0
Value changes - Fixed assets	0	0	0	0	0	0
Value changes - Financial assets	0	0	0	(16)	(13)	(13)
Value changes - Other assets	0	0	0	0	0	0
Reported pre-tax profit	(59)	(72)	(84)	(113)	(101)	(86)
Minority interests	0	0	0	0	0	0
Total taxes	13	17	18	0	0	0
Reported profit after tax	(46)	(55)	(66)	(113)	(101)	(86)
Discontinued operations	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0
Net Profit	(46)	(55)	(66)	(113)	(101)	(86)
Adjustments:						
Discontinued operations	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0
Value changes	0	0	0	16	13	13
Goodwill/intangibles amortisations	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0
Other adjustments	0	0	0	0	0	0
Tax effect of adjustments	0	0	0	0	0	0
Adjusted profit after tax	(46)	(55)	(66)	(97)	(88)	(73)
Margins, tax & returns						
Operating margin	(85.8)	(92.8)	(76.8)	(74.5)	(47.5)	(27.0)
Pre-tax margin	(91.5)	(91.8)	(83.5)	(94.9)	(63.7)	(39.3)
Tax rate	22.0	23.0	21.3	0.0	0.0	0.0
ROE	(52.1)	(34.8)	(30.3)	(70.1)	n.m.	218.3
ROCE	(61.6)	(44.0)	(31.1)	(31.1)	(27.1)	(28.3)
Growth rates y-o-y (%)						
Total revenues	n.a.	21.6	28.3	18.5	33.5	38.3
Operating profit	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Pre-tax profit	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EPS (adjusted)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow						
(SEKm)	2015	2016	2017	2018E	2019E	2020E
Net profit	(46)	(55)	(66)	(113)	(101)	(86)
Non-cash adjustments	2	(4)	4	42	42	45
Cash flow before work cap	(44)	(59)	(62)	(70)	(59)	(41)
Ch. in working capital / Other	12	0	(6)	(40)	(27)	(31)
Operating cash flow	(32)	(59)	(67)	(111)	(87)	(72)
Capital expenditures	(17)	(10)	(24)	(33)	(33)	(39)
Asset disposals	0	0	0	0	0	0
L/T financial investments	0	0	0	0	0	0
Acquisitions / adjustments	0	0	0	0	0	0
Free cash flow	(49)	(69)	(91)	(144)	(120)	(111)
Net loan proceeds	0	0	0	150	50	0
Dividend paid	0	0	0	0	0	0
Share issue	66	92	4	0	0	0
Other	1	1	(2)	23	22	24
Net change in cash	17	24	(88)	29	(48)	(88)
Adjustments						
C/flow bef chng in work cap	(44)	(59)	(62)	(70)	(59)	(41)
Adjustments	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0
Cash earnings	(44)	(59)	(62)	(70)	(59)	(41)
Per share information						
Cash earnings	(1.91)	(2.55)	(2.66)	(2.98)	(2.51)	(1.73)
Operating cash flow	(1.38)	(2.55)	(2.91)	(4.69)	(3.68)	(3.06)
Free cash flow	(2.13)	(2.98)	(3.93)	(6.1)	(5.09)	(4.73)
Investment cover						
Capex/sales (%)	(1.0)	(13.5)	0.0	1.4	1.1	0.9
Capex/depreciation (%)	(91)	(1,680)	0	161	121	104

Source for all data on this page: SEB

Balance sheet - Clavister						
(SEKm)	2015	2016	2017	2018E	2019E	2020E
Cash and liquid assets	44	75	26	56	8	(80)
Debtors	6	17	18	33	41	54
Inventories	6	7	8	10	11	14
Other	0	3	16	0	0	0
Current assets	55	102	69	98	60	(12)
Interest bearing fixed assets	0	0	0	0	0	0
Other financial assets	49	66	123	108	95	82
Capitalized development cost	34	49	52	58	62	69
Goodwill	4	54	53	53	53	53
Other intangibles	0	5	4	4	4	4
Fixed tangible assets	2	1	2	2	3	3
Other fixed assets	0	0	0	0	0	0
Fixed assets	89	175	234	224	216	210
Total assets	145	277	302	322	276	198
Creditors	5	10	7	9	14	22
Other trade financing	2	18	20	0	0	0
S/T interest bearing debt	1	11	0	0	0	0
Other	27	9	8	8	8	8
Current liabilities	36	49	35	18	22	30
L/T interest bearing debt	0	0	49	199	249	249
Other long-term liabilities	9	8	0	0	0	0
Convertible debt	9	9	8	8	8	8
Pension provisions	0	0	0	0	0	0
Other provisions	0	0	0	0	0	0
Deferred tax	0	3	2	2	2	2
Long term liabilities	18	20	58	208	258	258
Minority interests	0	0	0	0	0	0
Shareholders' equity	91	208	210	97	(4)	(90)
Total liabilities and equity	145	277	302	322	276	198
Net debt (m)	(34)	(55)	30	150	249	337
Working capital (m)	(23)	(10)	8	25	31	38
Capital employed (m)	101	229	266	303	253	166
Net debt/equity (%)	(37)	(26)	14	155	(6,370)	(374)
Net debt/EBITDA (x)	0.8	0.9	(0.6)	(2.4)	(5.3)	(12.6)
Equity/total assets (%)	63	75	69	30	(1)	(45)
Interest cover	(15.3)	91.1	(11.4)	(10.3)	(5.9)	(4.2)

Valuation						
(SEK)	2015	2016	2017	2018E	2019E	2020E
No of shares, fully dil. (y/e)	23.6	23.6	23.6	23.6	23.6	23.6
No of shares, fully dil. avg.	23.2	23.2	23.2	23.6	23.6	23.6
Share price, y/e	69.0	46.1	23.9	15.5	15.5	15.5
Share price, high	71.5	69.0	59.0	23.9		
Share price, low	13.7	39.0	16.5	15.2		
Share price, avg	34.0	50.4	32.6	19.6		
EPS (reported)	(1.98)	(2.38)	(2.85)	(4.78)	(4.28)	(3.65)
EPS (adjusted)	(1.98)	(2.38)	(2.85)	(4.12)	(3.74)	(3.11)
Cash earnings/share	(1.91)	(2.55)	(2.66)	(2.98)	(2.51)	(1.73)
Dividend/share	0.00	0.00	0.00	0.00	0.00	0.00
Enterprise value/share	67	43	25	22	26	29
Book value/share	3.9	8.8	8.9	4.1	(0.2)	(3.8)
Adjusted equity/share	3.9	8.8	8.9	4.1	(0.2)	(3.8)
PER (adjusted)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
CEM	(36.1)	(18.1)	(9.0)	(5.2)	(6.2)	(8.9)
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	(39.8)	(17.7)	(10.9)	(8.2)	(13.0)	(26.0)
EV/EBITA	(28.7)	(14.1)	(7.6)	(5.7)	(8.0)	(11.7)
EV/EBIT	(28.7)	(14.1)	(7.6)	(5.7)	(8.0)	(11.7)
EV/Sales (x)	24.66	13.09	5.84	4.28	3.83	3.17
Price/Book value	17.90	5.22	2.69	3.77	(93.51)	(4.06)
Price/adjusted equity	17.90	5.22	2.69	3.77	(93.51)	(4.06)
Free cash flow/Market cap (%)	(3.1)	(6.5)	(16.4)	(39.4)	(32.8)	(30.5)
Operating cash flow/EV (%)	(2.0)	(5.8)	(11.5)	(21.8)	(14.3)	(10.4)
EV/Capital employed (x)	15.7	4.5	2.2	1.7	2.4	4.2

Main shareholders			Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact
Avanza Pension	13.0		13.0	COB	Viktor Kovács	Internet
Danica Pension	6.0		6.0	CEO	John Vestberg	Phone number
Ålandsbanken ABP	5.0		5.0	CFO	Håkan Mattisson	
				IR		

Source for all data on this page: SEB

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