

Initiation of coverage

(updated)

OBSERVIT AB

Observit develops and sells a software solution for camera surveillance to public transportation operators as the primary customer group. Today, about 38,000 cameras are connected to the company's solution. The intention is to expand to significantly larger European markets such as France and the UK.

CEO: Björn Callenfors

CoB: Fredric Forsman

www.observit.com

List: Nasdaq First North

Last: - SEK

Market cap: - SEKm

Enterprise value: - SEKm

Bloomberg: -

Refinitiv Eikon: -

SHARE DEVELOPMENT

	12M	YTD	6M	1M
Development (%)	NA	NA	NA	NA

Source: S&P Capital IQ

VALUATION INTERVAL

	BEAR	BAS	BULL
Fair value (SEK)	0.17	0.28	0.48
Up-/downside (%)	NA	NA	NA

Source: S&P Capital IQ and Carlsquare estimates

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Profitable software company gearing up

The software company Observit has developed a management system for large networks of surveillance cameras with a focus on public transportation. The company is market-leading in Sweden, with clients such as Nobina. With a strengthened team, expansion, upsales and a new customer segment are expected to drive growth. We calculate a fair value per share of SEK 0.28.

A modern and intelligent solution that streamlines work and processes

The company's management system/VMS has been designed to effectively manage extensive networks of surveillance cameras installed in or on vehicles, such as buses. The system has also been developed to optimise the processes for accessing and transferring video footage. Leveraging the functionalities of the software, bus operators can reduce the expenses for on-board camera surveillance by up to 55% compared to competing solutions.

Since 2016, Observit has grown the number of licences from about 10,800 to more than 36,400 in 2022. That corresponds to an annual growth rate of 22.4%. Sweden (and, to some extent, other Nordic countries) has historically been the key focal market. In Sweden, we estimate the company's market share in public transport by bus to 35-45%. The customers include prominent players such as Nobina, Arriva and Koelis, demonstrating the strength of the offering and the customer benefit. In parallel, with solid revenue growth, the company has been profitable since the financial year 2014/15.

Accelerated growth with expansion and an added customer segment

We believe that the main growth driver over time will be the geographical expansion with bus operators as sales partners. That is because the market potential increases by 18x. At the same time, sales cycles are lengthy. The procurement procedures for traffic contracts typically span 1-4 years, starting from the tender process to contract award and commencement of service. Therefore, the geographical expansion is expected to begin bearing fruit in 2024-2025 and beyond. In the short term, we believe that the main growth drivers will be (i) the upsales of additional services to existing operator customers and (ii) the new customer segment in commercial transport. Growth in the short term will be achieved with an extended portfolio of value-added services at higher pricing, significantly shorter sales cycles, and a tripled sales force.

In our base case, we expect recurring software revenue (ARR) of SEK 17.1m at the end of 2023, corresponding to a growth of 18.8%. In 2023, we expect net sales (incl. hardware) of SEK 45.2m, growing on average by 39.2% until 2027 and 26.4% until the last forecast year, 2032. In parallel, the EBITDA margin is expected to increase from 11.9% in 2022 to 14.8% in 2027 and 24.5% in 2032. At that point, 35.5% of net revenue is software revenue, and ARR amounts to approximately SEK 148m.

Valuation

A fair value per share of SEK 0.28 is calculated by combining a DCF model with a multiple valuation. Our valuation corresponds to an EV/Sales in 2023 of 3.4x and an EV/EBITDA in 2024 of 23.4x. A reference group of software companies is currently valued at 7.4x sales in 2023 in the median. Initial sell pressure in the share on the first day of trading is a risk (and opportunity)

Key figures (SEKm)

	2022	2023E	2024E	2025E	2026E	2027E
Software revenue	14.0	15.3	18.6	23.6	31.3	42.8
ARR	14.4	17.1	21.1	27.1	36.7	50.2
Net sales	36.7	45.2	60.2	87.0	134.2	191.6
Gross profit	23.0	25.5	31.2	40.2	54.6	73.8
EBITDA	5.0	2.2	6.6	11.0	18.6	29.0
EBIT	2.3	1.1	5.0	9.0	16.2	26.2
EBT	2.2	1.1	5.0	9.0	16.2	26.2
EPS (SEK)	0.00	0.00	0.01	0.01	0.02	0.04
Growth, revenue	49%	23%	33%	45%	54%	43%
Gross margin	54.9%	51.2%	48.1%	43.9%	39.3%	37.6%
EBITDA margin	11.9%	4.5%	10.1%	12.0%	13.4%	14.8%
EBIT-margin	5.4%	2.1%	7.7%	9.8%	11.7%	13.4%

Source: Company information and Carlsquare estimates

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Investment case

With a market-leading position in Sweden, Observit has demonstrated its ability and the strength of its offering. The settings are thus favourable for a successful expansion to the major markets in Europe, which we believe will drive growth over time. In the shorter perspective, we expect upsales and the new customer segment, commercial transportation, to drive growth. The anticipated growth entails an increased share of recurring software revenues, which, together with scalability, creates good prospects for high margins over time. We estimate a fair value of SEK 0.28 per share for the coming 6-12 months. Initial selling pressure in the share is a risk.

Profitable software company expands

- **Strong offering with proven value.** Since the launch of the solution for public transport in 2016, Observit has multiplied the number of software licences for public transportation operators with buses. The company has well-established customers such as Nobina, Arriva and Koelis. The history thus demonstrates the strength of the company's offer to operators in public transportation by bus. Growth has been enjoyed in parallel with positive and growing earnings, displaying the company's capabilities, strategy, and model.
- **The expansion increases market potential by 18x.** With its offering, the company will approach new and significantly larger European markets, such as France, the UK and Germany. The expansion increases the market potential by 18.1x. Strong reference cases increase the likelihood of a successful expansion which we expect to drive the company's growth in the long run. However, the major bottleneck is the long sales cycle with traffic procurements. Therefore, we expect the international expansion to start bearing fruit and be visible in the income statement first in 2024-2025.
- **Upsales and the new customer segment with higher pricing.** The company has improved its offer with value-creating additional services. That enables Observit to do upsales to existing customers. Several customers are already connected, while pilots with new potential customers are ongoing/underway. Through acquisitions, the company has established an offering for commercial transportation that significantly expands the market potential. With customised functionality, the pricing is also more attractive, almost double the pricing of the solution for public transportation. We believe that upsales and the new customer segment can drive growth in the short-term.
- **High-margin recurring software revenues.** Initially, as the growth rate picks up, the share of hardware revenue will grow. A low gross margin on hardware will hold back the overall margin development. However, the margin can rise rapidly as the share of recurring software revenue increases over time.
- **Valuation.** In a base case, we expect an average annual growth rate of 39.2% over the next five years. By 2032, we expect the gross margin to reach 49.7% and the EBITDA margin to reach 24.5%. We calculate a fair value per share of SEK 0.28. That corresponds to an EV/Sales 2023 of 3.4x and an EV/EBITDA 2024 of 23.4x.

Today, the bus operator Nobina is the company's largest customer.

The company's net sales consist of hardware revenue, recurring software revenue and a limited amount of recurring service revenue.

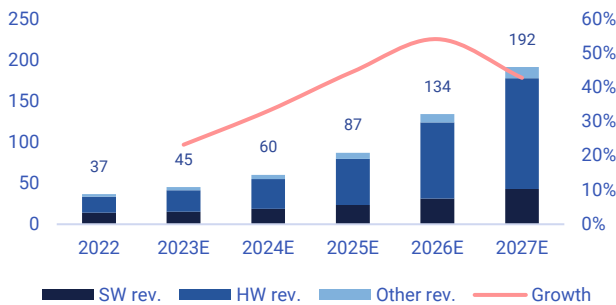
The latest private transaction was in June 2022 at a company value of SEK 81 million.

Assumptions and estimates

Geographical expansion, the key driver of growth

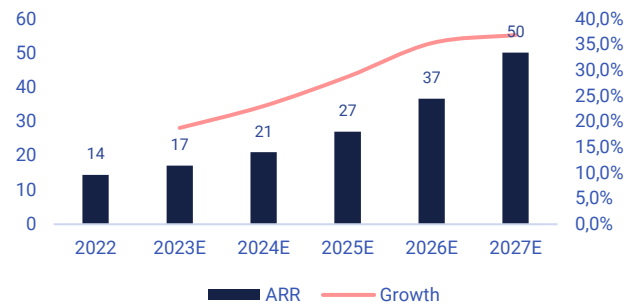
In 2023, we expect net sales of approximately SEK 45m, corresponding to a growth rate of 23.3%. That assumption assumes successful upsales, pilots, and launch to the commercial transportation segment in the Nordics. With long processes for traffic procurement, we expect the geographical expansion to bear fruit during 2024-2025 and onwards. Over the next five years, 2023-2027, we expect an average growth rate of 39.2%. By 2027, we expect annualised recurring software revenue (ARR) to amount to approximately SEK 50m. ARR increases to around SEK 148m by the end of the last forecast year, 2032. At the same time, the company has an estimated market share in public transportation by bus of 12.5% in its initial main markets (Nordic region plus FR, UK and DE).

Net sales (SEKm) and growth (%)



Source: Company information and Carlsquare estimates

ARR (SEKm) and growth (%)

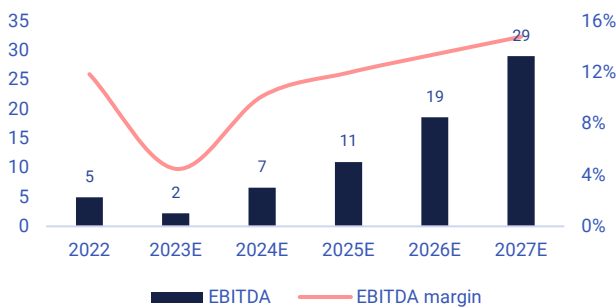


Gross profit = total revenue less raw materials and supplies and revenue sharing. Source: Company information and Carlsquare estimates

Improved profitability and positive cash flow

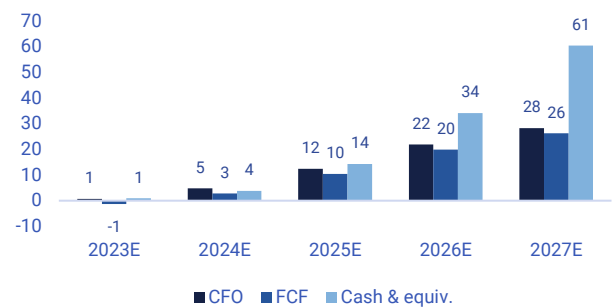
We expect a nearly unchanged EBITDA result in 2023 of SEK 2.2m, corresponding to a margin of 4.5%. With a scalable geographical expansion strategy, we expect the EBITDA margin to increase to 14.8% by the end of 2027 and 24.5% by 2032.

EBITDA (SEKm) and margin (%)



Source: Bolagsinformation and Carlsquare estimates

Cash flow (SEKm)



Source: Company information and Carlsquare estimates

Furthermore, we expect a slightly negative free cash flow 2023 of about SEK minus 1m, which increases with improved earnings over time. In our scenario, we do not model for additional capital injections. However, The company's financial situation is very limited, and capital injection to strengthen working capital is far from ruled out.

Valuation

Upside given growth potential and profitability

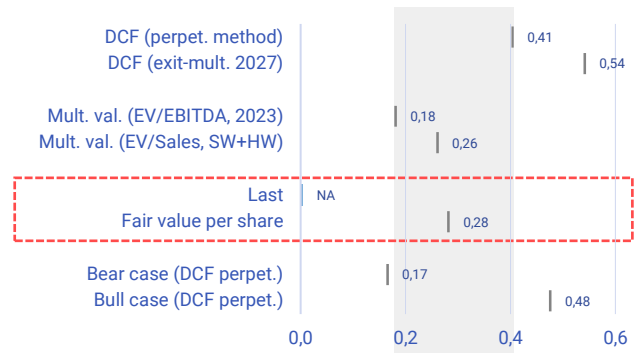
Combining a DCF valuation with a multiple valuation, we calculate a fair value of per share SEK 0.28. The valuation is based on estimates requiring solid growth in the coming years and margin expansion. Geographical expansion is the primary growth driver over time.

Fair value, base case scenario

Currency, SEK		1,0
EV/Sales, 2023 HW+SW	SEK	0,26
EV/EBITDA, 2023	SEK	0,18
DCF valuation	SEK	0,41
Fair value per share	SEK	0,28
Potential up-/downside		NA
Shares outstanding, fully financed, and diluted	M	549
Equity value	SEKm	156
Cash (last rep. Q)	SEKm	2,3
Debt (last rep. Q)	SEKm	0,0
PV cash from equity financing	SEKm	0
EV	SEKm	154

Source: Carlsquare estimates

Fair value within a range (SEK/share)



Source: Carlsquare estimates

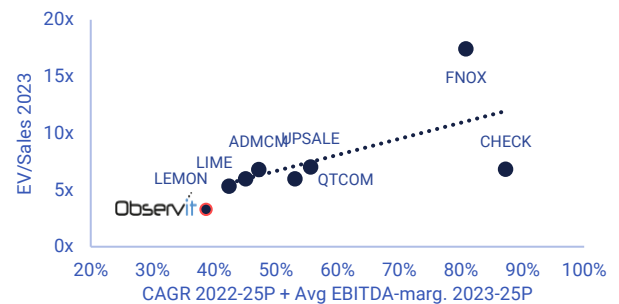
Our valuation corresponds to an EV/Sales multiple 2023 of 3.4x and 10.1x software revenue in 2023. The reference group of SaaS companies is currently trading at an EV/Sales in 2023 of 7.4x. Our valuation corresponds to an EV/EBITDA in 2023 of 68.8x and 23.4x in 2024. SaaS companies are trading at an EV/EBITDA multiple in 2023 of 19.8x.

Implied valuation multiples, base case

	2022	2023E	2024E	2025E
EV/Sales	4,2x	3,4x	2,6x	1,8x
EV/SW revenue	11,0x	10,1x	8,3x	6,5x
EV/EBITDA	30,9x	68,8x	23,4x	14,0x
EV/EBIT	67,5x	146,3x	30,8x	17,1x
P/E	145,7x	187,0x	39,4x	21,9x

Source: Carlsquare estimates

Implied EV/Sales compared to SaaS reference group



Source: S&P Capital IQ and Carlsquare estimates

In a more optimistic bull case, we model a CAGR of 2022-2032 of 27.7% (baseline 26.4%) and an adjusted EBITDA margin 2032 of 24.8% (baseline 23.6%). In the Bull scenario, a value per share is calculated with our DCF model at SEK 0.48. In a more defensive bear case, we model a CAGR of 2022-2032 of 21.3% and an EBITDA margin of 16.0% in 2032. In the Bear scenario, a value per share is calculated with our DCF model at SEK 0.17.

Risks and challenges

Like all companies, Observit is exposed to risks and challenges. As we see it, the most significant risk is linked to the uncertainty around the success of the company's growth initiatives. Furthermore, the company currently depends on a large contract, Stockholm city centre, that will be renegotiated in 2024.

Long processes and large customer contracts

Procurement long processes

Based on our assessment, the company's greatest sales opportunity lies in partnering with bus operators during the procurement process for traffic contracts. These procurements are often prolonged, spanning 1-4 years from the tender to the commencement of service. Consequently, we assume that the company at this moment already is active with tenders on new markets, which may or may not be the case. The uncertainty surrounding expansion plans will diminish as the company secures its first substantial deal outside the Nordic region.

Lacking a history of sales to the new customer segment in the Nordic region

In the short term, we expect the new customer segment of commercial transport to be an essential growth driver. The company is currently mainly active in the UK with this solution. Thus, uncertainty is associated with taking this service to the Nordic region and the rest of Europe. The time to process the market and close deals may be longer than we currently anticipate. If so, growth in the short term will not reach the expected levels. This risk will come down when the company can show positive development.

Churn and key contracts, including Stockholm city centre

The company's contract with a customer typically runs for three years. However, a traffic contract typically runs for 10+2 years. We assess the risk of customer loss during an ongoing traffic contract as low. The risk of customer loss is most significant when the traffic contract expires and must be tendered again.

The traffic contract for public transport by bus in parts of Stockholm city centre is currently operated by Nobina (and Koelis). The contract is to be re-tendered in 2024. If Nobina were to lose this contract, there is a risk that Observit would also lose a large proportion of its existing contract value with Nobina. However, it should be noted that three companies are typically included in tenders for Stockholm City centre: Nobina, Koelis and VR (formerly Arriva), which are all current clients. That means that the probability can be assessed as low that Observit would lose this particular traffic contract.

An important advantage

The company's system structure is difficult to patent and can thus be replicated. Therefore, it is crucial that the company utilises its "first mover advantage" and continues to take market shares when competing solutions are lagging. In parallel, the company must continue to focus on customer benefit and develop its offering with functionality in line with demand.

Limited finances

At the end of March 2023, Observit had a cash balance of SEK 2.5m. The company does not need additional capitalisation to finance the growth plans in our scenario. Negative deviations from our assumptions could change the situation. However, the company has been EBITDA-positive for a long time, which may open up the possibility for loans.

Free cash flow in 2022 amounted to SEK 4.0m. During Q1 2023, free cash flow amounted to SEK 0.1m.

Developments

Demand for intelligent functionality based on machine learning/AI is increasing. For this, the company's solution is limited as it stands today. That is because the camera hardware limits calculation capacity. Thus, the company must continuously continue technical development to stay attractive. We expect development work of about SEK 2m annually to be recognised as investments.

At the same time, it should be noted that the company's solution for commercial transport includes smart functionality based on AI that automatically anonymises sensitive information. Also, Observit has developed software for people counters. These solution places higher demands on the hardware and is thus not part of the immediate solution.

A possible overhang of investors who want out

Observit was spun off from SpectrumOne and distributed to its shareholders at the end of June 2022. That means there may be investors who do not wish to keep their shares and thus sell off when the opportunity arises. The potential overhang of selling interest may cause the share price to deviate significantly from its fundamental value. However, such a scenario creates opportunities for new investors with long-term interests to take a position in the share.

Introduction to the company

The software company Observit has developed a management system for mobile camera surveillance in public transportation by bus. The market demands modernisation and improved efficiency - this is where Observit comes in. Observit is the market-leader in Sweden in public transport by bus, demonstrating the value of the offering. In the future, increasing growth and improved results are expected to be driven by geographical expansion, upsales to bus operators and the new customer segment, commercial transport.

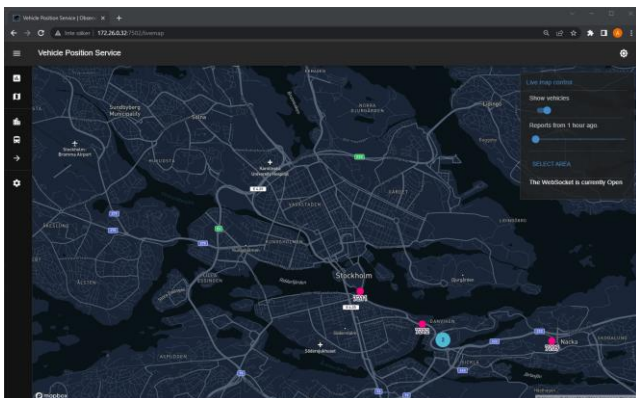
At the forefront of mobile video surveillance

The software company Observit was founded in 1996 and has focused on mobile video surveillance in public transport with buses since 2010. Its cloud-based software, built on an edge computing IT solution, is a centralised management system, or VMS (Video Management System), for system monitoring and administration. It is also a working tool for managing, transmitting and playing video material from large networks of surveillance cameras. The software has been developed to streamline workflows and processes using modern technology and intelligent solutions. The customer base includes large and well-known bus operators such as Nobina, Koelis and Arriva and other transport-heavy customers such as Elis.

The company's customers are operators such as Nobina, whose clients in turn are the transport authorities such as SL.

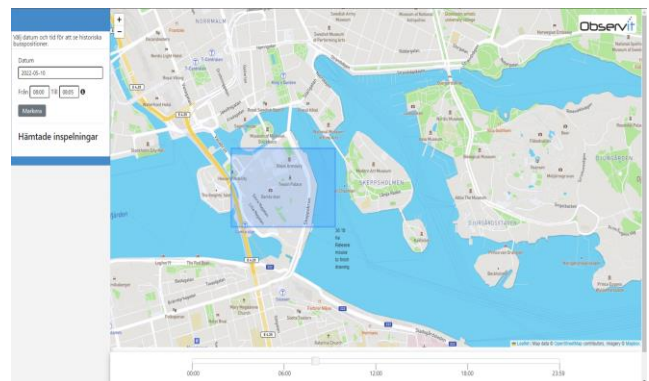
- System monitoring refers, for example, to ensure that all (among thousands of) cameras are operational. The system provides information about which cameras are not working, on which buses and where the buses are located.
- Administration includes, for example, system-wide firmware and configuration updates for part or all of the camera network.
- Video management tools include positioning and direct access to video on security cameras or in the cloud and live streaming. It also refers to the transfer of video material between different authorised entities. For example, the company's solution can be connected directly to the operator, traffic authority or alarm centre. The solution is a centralised system, but user permissions can be adapted to the situation.

Live positioning



Source: Company information

Functionality for historical positioning search



Source: Company information

The software platform built for public transport with buses as the backbone can expand the market through particular adaptations for related verticals, such as trams and trains. At present, trams are the next mode of public transport that the

company intends to approach. It is also a natural step as many major European bus operators run tram and metro services.

Machine learning/AI on camera

Observit is one of the few players in its niche, focusing on software. It is more common for hardware companies to develop software as a secondary business. That means that the company's platform should be more intelligent and well-built, and Observit can be agile and effectively develop user-friendly customisations and additional complementary services. It also makes it more difficult to find perfect objects to which Observit can be compared for valuation purposes.

The market has increasingly begun to demand smart functionality built with AI (machine learning or artificial neural networks - self-learning algorithms that together can draw conclusions). In public transportation, automatic and anonymised passenger counters are a relatively common example of intelligent functionality used today. Common areas where smart functionality is used in public transport are:

- Real-time operations management
- Customer analysis
- Preventive maintenance
- Planning and design of routes

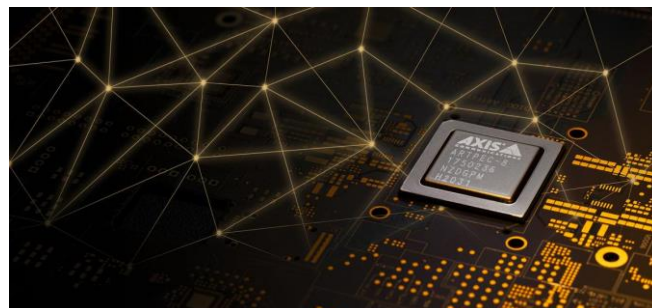
As mentioned, the company's solution is developed on an edge computing structure. In this context, edge computing means data is processed locally on each camera instead of on a separate computer. Edge computing has clear advantages that have significantly contributed to the historical success of Observit. However, this structure has historically reduced the company's ability to develop services with intelligent functionality that require more significant processing power. That is because the processing power of cameras has not been sufficient for this. However, new and modern hardware enables smart functionality even with the company's edge structure. The company has also used this for positioning functionality and anonymised personal counters, among other things.

AXIS P3265-LVE



Source: Axis Communications

ARTPEC-8 system on chip



Source: Axis Communications

Interpretations of laws and regulations limit the practical implementation of certain smart functionality. However, with the help of anonymisation technology, the limits of intelligent functionality in public transport have been expanded. That is demonstrated, for example, by pilots with functionality that documents traffic events in Sweden and France.

We believe that the company's development of intelligent functionality based on AI is essential to remain relevant over time. We expect the company's investment in developing existing and new services and products will amount to approximately SEK 2m annually. At the same time, we expect that partners can partly finance development.

Expanded with additional services and an improved offer to bus operators

With intelligent functionality based on AI, Observit has developed a couple of additional services for bus operators: (i) Positioning of parked vehicles in depots and (ii) control of vehicles at depots. These features allow upsales with significantly shorter sales cycles than the bus surveillance camera solution.

Positioning

Finding the position of a specific vehicle in a park of hundreds of nearly identical vehicles is a challenge, especially in underground areas or similar where GPS or other technology than video/image information is not feasible.

The company's positioning solution equips buses with a forward-looking camera that captures each bus's surrounding characteristics. The captured images are then used to position buses. Each bus typically requires the addition of 1-2 cameras/licenses to enable this service. The primary value derived from this system is optimising and streamlining work processes.

Vehicle control

The company can offer vehicle damage checks when buses enter depots using smart functionality. Again, the value created is in the streamlining of work processes. We believe the revenue potential of this service is limited. Instead, this service contributes to a more comprehensive offer and strengthens the company's relationships with customers and suppliers.

Broadening with functionality for commercial transport

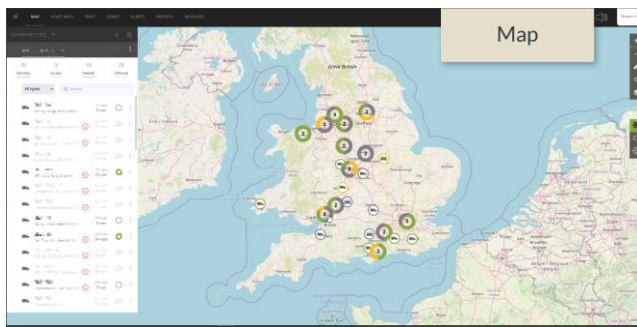
The market can also be expanded by adapting to other mobile sectors. In 2022, two acquisitions were made, ICanProve.IT and SITOC Ltd. Both acquisitions expand the company's focus towards commercial transport.

With the solution adapted for commercial transport, the driver's driving can be monitored in terms of speed, gas and brake, fuel consumption, etcetera. A further primary value of this solution comes from adequate documentation of traffic events for, for example, insurance cases such as claims settlement. That is because 2-4 cameras are mounted on the vehicle, filming and recording events on the roads.

Customer benefit also for bus operators

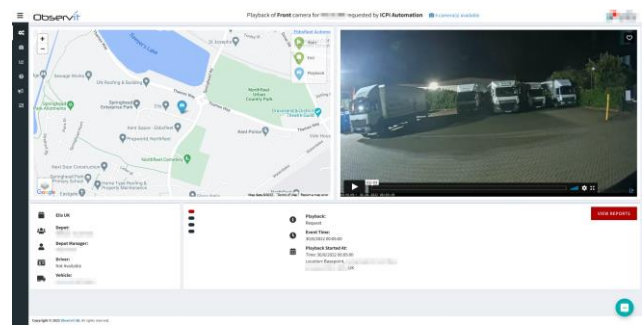
Bus operators have expressed keen interest in utilising the company's solution to document traffic events. This interest stems from the company's recent development of advanced functionality that effectively filters out sensitive information and anonymises image data.

Live positioning



Source: Company information

Functionality for historical positioning search



Source: Company information

Customers, revenue model and long-term contracts

In public transport, customers are operators hired by transport authorities such as SL or Skånetrafiken. In commercial transportation, the company's solution is value-creating for companies that offer various logistics solutions and other logistics-heavy operations, such as the existing customer Elis.

Observit's revenue model includes three types of revenue streams:

- Recurring software revenue
- Recurring support revenue
- Hardware revenue

Regardless of customer segment, when a new customer is connected, the company provides them with hardware and software. Since the initial revenue from hardware is significantly higher than the annual software revenue, hardware will constitute the largest share of the company's revenue during the growth phase.

The valuable software revenue varies with the number of licences. In turn, licences vary with the number of cameras connected to the company's solution. The average price for public transportation operators ranges between EUR 35-55 per licence per year. The corresponding compensation is EUR 80-120 per licence per year for the solution for anonymous documentation of events in traffic. The price difference is motivated by further developed functionality, including anonymisation.

Predictability in the revenue flow

The company's license agreements with its customers typically run for three years in both customer segments. However, a won deal typically lasts longer in practice, especially within the public transport sector. That is due to bus operators' traffic contracts with transport authorities, which usually run for ten years, with an optional two-year extension. Although buses in public transportation can generally be in operation for 10+2 years, they typically require an upgrade after 7-8 years (Busland). Considering the substantial investment involved in implementing a new video surveillance system, it is highly likely that a license agreement (valid for three years) will be renewed during the bus's 10+2-year traffic contract. These extended contracts provide revenue predictability, reducing risk. Nonetheless, they also impose demands on the company's technological development to remain relevant for future route procurements.

However, losing licences is always a risk. It is highest when traffic contracts expire for new procurement. Furthermore, procurement of transport contracts usually specifies requirements for the maximum age of the buses in service, usually between 10-16 years. Thus, is also the replacement of the bus fleet associated with an increased risk for churn.

Swedish champions ready for new markets

At the end of 2022, the company had software revenue from about 38,000 licences (one licence per surveillance camera), of which just over 36,000 licenses were held by companies operating in the public or commercial transportation sector. That corresponds to annual recurring software revenue (ARR) of just over SEK 14m. In 2022, the EBITDA result amounted to approximately SEK 5m. Well worth noting is that Observit has reported a positive result since the financial year 2014/2015 (July to June).

During the first quarter of 2023, Observit reported net sales of SEK 11.2m, corresponding to a growth of 44.4%. The EBITDA result amounted to SEK 1.1m, corresponding to a margin of 9.5%. The figures include the acquisition of ICanProve.IT and SITOC Ltd.

With a good track record and together with its partners Nobina and Axis Communications, Observit has taken a strong position in Sweden with an estimated 25,000 software licences. That corresponds to a market share of approximately 35-40%. The company's position in Sweden demonstrates the strength of its offering to bus operators.

The company now faces the central task of strengthening its position among bus operators in the Nordic region and taking on major European markets, such as the UK, France and Germany. Over time, this could bring the company's growth rate and profits to new levels.

The second task is to make upsales to existing operator customers and launch the solution in the new customer segment, commercial transport. These tasks will be successfully accomplished with a tripled sales force and effective partnerships.

Surveillance cameras in public transport

With high flexibility and cost-effectiveness, buses are the most widely used mode of public transport in the EU (ACEA - European Automobile Manufacturers' Association). Passenger and staff safety and security is a natural focus for bus operators and transport authorities such as SL and Västtrafik. Therefore, security cameras (or surveillance cameras) are installed at stations and on board buses, metro carts, trams and commuter trains. Surveillance cameras are used in public transport for the following purposes:

- Support the daily operation and management of transport systems.
- Facilitate evacuation and rescue operations.
- Detect and secure evidence in case of vandalism.
- Assist the police with imagery in criminal investigations.
- Provide imagery for safety and accident investigations.

Huge peripheral costs with the outdated solutions

Tens of thousands of cameras pose challenges

Each bus with camera surveillance typically has 4-6 security cameras installed on board. By the end of February 2023, Nobina had 5,000 buses and specialised vehicles in its fleet. Given this reference point, a bus operator can have around 20,000-30,000 security cameras on board its bus fleet. In addition, many buses have cameras installed for operational purposes, increasing the number.

The outdated solution for CCTV in public transport is based on fixed surveillance technology. The outdated solutions are built with wired, analogue or IP cameras and data storage on an in-bus DVR or NVR (Digital Video Recorder or Network Video Recorder). This structure results in inefficient management processes, workflows, video data transmission, and access. The inefficiencies increase the associated costs to around SEK 14-16 million per year, given a fleet of 1,000 buses and a 10-year traffic contract (company information and Carlsquare).

Incident management, as well as service and maintenance of storage units, add to the high peripheral costs

An outdated video surveillance solution installed on 1,000 buses with a 10-year traffic contract can cost around SEK 200-250 million, including operations, hardware and installation investments, etc. That can be compared with Observit's solution, which costs SEK 70-80 million over the same period.

For outdated solutions, ongoing maintenance and service account for about 25% of the total cost. About 40% is attributable to incident management. Incident management costs escalate when personnel are required to access the bus to retrieve the relevant video footage physically. Once collected from the bus, the video data must be transported to an authorised person for review on a computer. This procedure involves costs in terms of staff and transport.

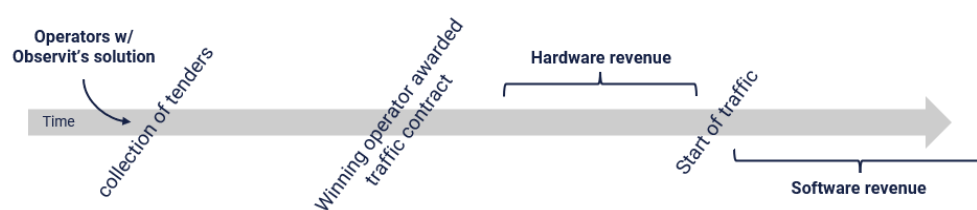
Outdated solutions are being phased out

Transport procurement, an opportunity to modernise

It becomes relevant for an operator to review its solutions for camera surveillance on board buses when tenders are to be submitted for a traffic contract. As of April 2023, 27 upcoming and known tenders for bus traffic contracts will occur in Sweden between 2023 and 2024. That means that the significant operators continuously review camera surveillance systems solutions.

Traffic procurements are associated with long process. For example, in January 2024, the regional public transport authority for the Stockholm region will procure a new traffic contract for the city centre. The agreement concerns 350 buses. Tender documents will be collected in January 2024. In June 2025, the awarded operator will be announced, and traffic will start in August 2026.

Tendering process and revenue streams



Source: Carlsquare

At the same time, it can also be faster than that, down to 1.5 years between the collection of tender documents and the start of traffic. But these are also minor contracts with fewer buses.

Video material is still saved locally on the bus

Presently, there are providers in the market who offer an upgraded version of the traditional solution. These advancements primarily revolve around transferring video footage from buses to centralised storage units and providing remote access within designated WiFi zones. This approach eliminates the need for personnel to physically go out to the bus to retrieve video materials, resulting in cost reductions compared to outdated solutions. It is essential to acknowledge that these enhancements have brought notable improvements to the traditional system, particularly in terms of convenience and cost-effectiveness. The ability to transfer video footage wirelessly and access it remotely within specific WiFi zones streamlines the retrieval process and reduces operational expenses.

However, these modern alternatives still rely on the conventional structure of incorporating a storage unit installed on board each vehicle, typically an NVR (Network Video Recorder). The continued reliance on physical NVR installations on each vehicle poses costs associated with purchasing, installing, and maintaining these servers can be significant, especially when considering the expenses multiplied across an entire fleet. Additionally, the reliance on a centralised storage device introduces a single point of failure, potentially compromising the integrity of the recorded video in case of technical issues or system failures.

The reason for the NVR is that uninterrupted video recording is challenging to achieve with direct cloud storage. That since video footage cannot be stored when the vehicle is offline (e.g., in tunnels), resulting in data loss.

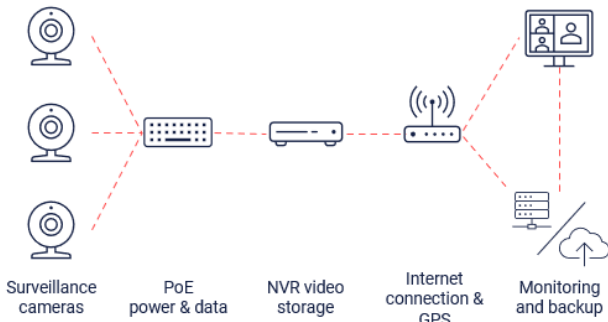
Video footage should be stored for a limited period that varies between regions and countries. For example, operators contracted by Skånetrafiken save video footage for up to 14 days. Operators hired by SL (Storstockholms Lokaltrafik) store footage between 18 hours and six days and vary by vehicle type. Transport for London's buses in London stores the footage for ten days. In Paris public transportation, the footage is stored for a few hours up to seven days.

Observit makes it smarter

A solution without a physical storage device

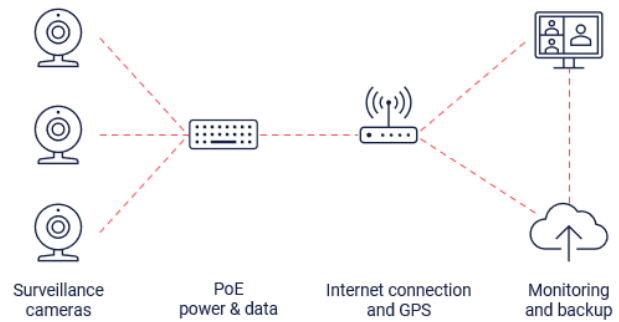
Part of Observit's edge, or competitive advantage, lies in using edge computing. In this context, edge computing means that video data is processed and stored locally on each camera instead of on NVRs. Thus, by utilising existing processing power and storage possibilities in the cameras, the company's solution can reduce costs and save space and weight.

Structure, competing modern solutions



Source: Company information and Carlsquare

Structure, Observit



Source: Company information and Carlsquare

Saving time on footage and higher demands on cameras

Below are the two camera series that Nobina uses in cooperation with Observit. Today, the company's solution is only viable with cameras from Axis. However, the intention is to add camera models from two other suppliers; VIVOTEK and Hanwha Vision. That should be possible during the current year. With more camera options, we believe the chances of successful expansion increase.

AXIS M31



Source: Axis Communications

AXIS P39



Source: Axis Communications

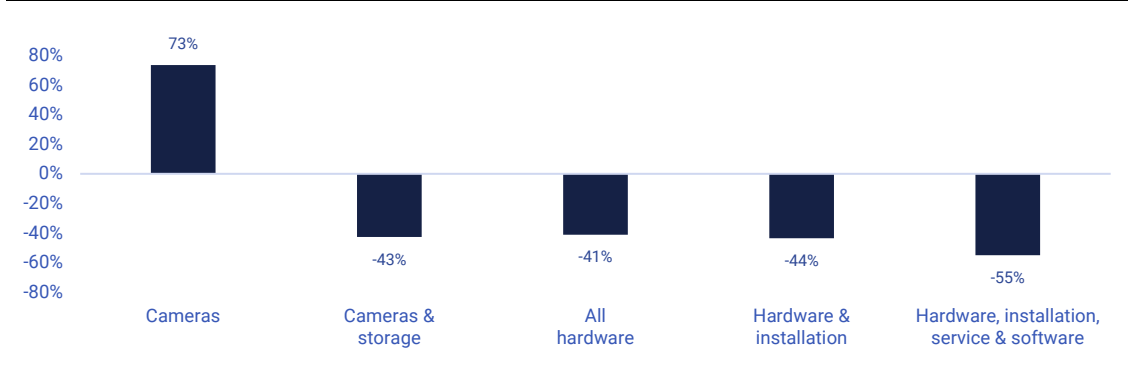
The company's solution increase demands on the camera's operating system, processing power, internal memory and storage space. Storing six days of video footage requires at least 64 GB of memory. That means that the operator needs to expand the memory space for the cameras. Memory in cameras typically comes in the form of SD or flash memory. A camera with a 256 GB SD card costs between EUR 400 and EUR 500. That compares to the camera for modern but traditional solutions, whose cameras cost around EUR 100.

The calculation still works out

The margins for bus operators are relatively small. During the financial years 2019/21 to 2021/22, Nobina had an average profit margin of 4.1%. Traffic contracts typically generate a fixed revenue, and the operator's business is thus based on streamlining operations for each route. Normally, it also takes years before a traffic contract becomes profitable. Costs are therefore in focus.

Observit's solution entails a higher initial investment in surveillance cameras, approximately 73%, compared to modern but traditional systems (source: company information and Carlsquare). However, when considering all hardware components, including storage units, service and maintenance costs, and the company's software fee, the overall price of Observit's solution over a ten-year period is approximately 55% lower. This cost analysis is visually represented in the graph below.

A cost-effective solution, a clear advantage



Source: Company information and Carlsquare

According to Observit, the company's solution is 65% cheaper over ten years compared to outdated solutions.

Business development and growth

Upsales to existing customers to public transportation

As mentioned, there are long sales cycles for bus operators. Therefore, we expect the geographic expansion to start showing up in the income statement only in 2024-2025 and onwards. To sustain and expedite growth in the short term, the strategy is to introduce services with shorter sales cycles and to do upsales to existing clients by offering additional services.

The additional service we see holding the most significant value-driving potential is the functionality enabling operators to document a course of events in traffic used for insurance cases. That is because this additional service adds more licences and thus provides more software revenue to Observit. It is also worth noting that the company has already come a long way in this regard – that in the form of a pilot with a significant French operator.

Launching the solution for commercial transport outside the UK

In 2022, Observit acquired two businesses in the UK, ICanProve.IT and SITOC Ltd. Both acquisitions strengthened the company's commercial transport offering. The acquired companies mainly have their customers in the UK. The sales team in Sweden has been increased to three people to launch the solution for the commercial transport customer segment outside the UK.

Geographical expansion with bus operators

To be able to accelerate growth and profitability, the company intends to establish itself in new markets in Europe, initially the largest markets: Germany, France and Great Britain. The company's strategy for successful geographical expansion is based on partnerships with two different types of operators:

- Public transport operators
- Installers and suppliers of camera equipment and other hardware

Operators as sales partners

Nobina is the company's customer but also a partner. The latter as the company grows with its clients. E.g. the company has grown with Nobina in Sweden to other Nordic countries such as Norway, Finland and Denmark. The intention is to replicate this in new European markets with other operators.

Bus operators are also partners to the companies as they include the service offering from Observit in its tenders for traffic contracts. The deal is only closed if the operator wins the procurement. Note that Observit is often included in competing tenders for the same traffic contract.

As mentioned, the company's strategy is to grow into new geographies via existing and new operator partners. That is a natural strategy as a limited number of operators control large parts of the market. It is also a cost-effective strategy as the sales force focusing on public transport does not need to grow significantly. That is because the essential operators in Europe are limited in number:

- Veolia is a global player active in 26 countries, including Sweden, Finland, Germany and the UK. However, the primary market is France.
- Transdev is a global player active in 19 countries, such as Sweden, Germany and the UK. Again, France is the primary market.
- Arriva is an operator active in 11 European countries, including Sweden, Denmark and the UK.
- Koelis is a global operator active in 9 countries, including Germany, France and the UK.
- First is active in 4 different countries, including the UK and Ireland.
- RATP is active in 4 different countries, including the UK and France.
- Go-Ahead is active in 3 different countries, including the UK and Ireland.

The strategy is already put to work with Arriva and Koelis, including a pilot project in France. A flagship deal in a new country, together with one of the players mentioned above, is a value driver, partially as it reduces uncertainty about the company's geographical expansion.

Although the sales team does not initially need to be significantly increased with this strategy, we assess that growth will bring greater demands elsewhere. These include support for new licences and users as well as administration.

Installers and suppliers

The second type of partner is installers and distributors of hardware to bus operators. We believe this type of partner can get the company collaboration with smaller operators (mainly in commercial transport). We believe that the big deals will instead come from operator partners.

Trains and trams, other verticals in public transport

According to the Finnish Transport Agency, public transport is defined as passenger transport of general economic interest offered to the public on a continuous and non-discriminatory basis. Thus, trains and trams are also two relevant verticals in the market for coal public transport.

The company's main focus today is on mobile surveillance on buses. However, the solution is viable for several other vehicles where trains and trams are close at hand. That is because the major operators running bus services also run tram and metro services. These modes of transportation have historically not been given more attention due to their market size – there are not as many trains or trams as there are buses. Although trains and trams are longer than buses, the market in terms of the number of cameras is smaller. The need to save space is also not as great in these market verticals. With a less competitive edge, the company's offering is less competitive.

Acquisitions can accelerate growth and strengthen the market position

Acquisitions remain a component of the company's growth strategy. Possible acquisition candidates are existing supply chain partners who, with a local presence, can open new doors in existing or new markets. However, we are not modelling with acquisitions.

Management, owners and share development

The management team for the next level

Observit's team currently consists of 23 people. Four people work with sales, while the remaining 19 work with development, maintenance and service. Since 2022, Observit is led by CEO Björn Callenfors.

Management



Björn Callenfors has been the company's external CEO since December 2022. Björn joined Observit in March 2022 as Managing Director in Sweden and Global Sales Director. Björn has a background in sales with previous experience from Axis Communications, which develops and sells network-based cameras. At Axis, Björn spent 12 years in various roles, most recently responsible for software partners.



Lennart Rasmusson is the CTO and one of the founders of the company. Lennart has a background in Ericsson Radio Messaging, Telelogic and Norsk Data.



Tobias Ekberg is Chief Sales Officer. Tobias has a background in sales and comes most recently from the company Gravitee as Sales Manager for the Nordic region and Central Europe. Before that, Tobias spent five years as Sales Manager - Sweden at Axis Communications.

Source: Company information

The board of directors



Fredric Forsman has been Chairman of the Board since January 2022 and has a solid legal background, including as Managing Partner at Advokatfirma Glimstedt in the Baltics.



Johan Lembre has been a board member since May 2023. Johan is CTO at the lighting company Fagerhult. Johan has a background as a global sales manager for Axis Communications. Prior to that, Johan was CEO of Sydney, Australia-based security company Pacom Systems.



Lars Olof Larsson Flodén has been a board member since December 2022 and former CEO of Observit.



Thomas Jönsson has been a board member since May 2023. Thomas Jönsson is EVP, Communications and Investor Relations at Veoneer, which works with active and passive safety in the automotive industry. Thomas has over 25 years of experience working with communication and IR in listed companies, having previously worked in senior communication positions at Intel, Nokia, Teli-aSonera and Autoliv.

Source: Company information

Shares and outstanding warrants

Today, there are approximately 549.3 million outstanding shares in Observit. The company has a subscribed incentive programme:

- Incentive programme: Subscription price SEK 0.30, maturing in July 2023. Upon full subscription, 45 million shares will be added

The ten largest owners

Observit currently has more than 7,500 owners, of which the largest owner, after SpectrumOne, Crafoord Capital Partners AB is the largest owner with about 9.7% of the capital and votes.

The ten largest owners

Owner	% of capital	% of votes
SpectrumOne AB	16.7%	16.7%
Crafoord Capital Partners AB	9.7%	9.7%
Vildmarksstugor i Norrland AB	9.4%	9.4%
Försäkringsaktiebolaget Avanza Pension	7.4%	7.4%
Gavin Urtel	4.8%	4.8%
AB Hellms	2.7%	2.7%
Hosni Teque-Omeirat	2.5%	2.5%
Örjan Berglund	0.8%	0.8%
Fredric Forsman privat och bolag	0.8%	0.8%
Hanna Barsum	0.6%	0.6%

Source: Company information

Share- and valuation development

Markets and sector colleagues

We estimate the company's market potential in public transport by bus in Europe in terms of software revenue to be approximately SEK 19.0bn, given 10-year traffic contracts. The geographical expansion outside the Nordic region increases the market potential by 18.1x. The number of traffic contracts sets a ceiling on the company's theoretical growth rate. The market potential for software revenues for the company's solution for commercial transport in Europe is estimated at SEK 156.3bn, given a contract length of 3 years.

Two markets

The company is active in the market for mobile surveillance in two transport verticals specialising in the public transportation segment. The market can be divided into hardware and software, service and maintenance. Below is an estimate of the market potential.

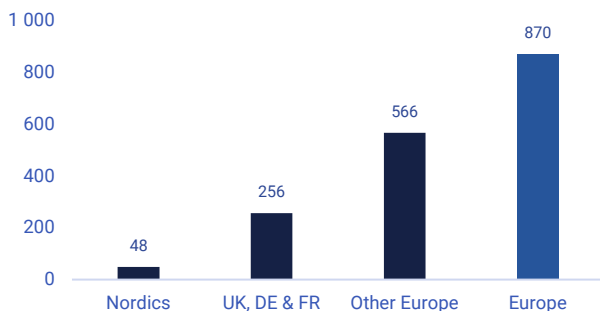
An estimate of the market potential for camera surveillance in buses

Based on assumptions about the number of buses, the number of cameras per bus and pricing, it is possible to estimate the company's theoretical market potential divided into hardware and software. Below is a summary of the assumptions:

- All buses in traffic are relevant for evaluating the market potential.
- Each bus has five connected surveillance cameras.
- Hardware revenue per camera = approximately SEK 5,500 (including extended memory and one camera's share of the total hardware revenue per bus, including PoE switch and router with GPS)
- Software revenue per camera = approximately SEK 435 per year and SEK 4,350 over ten years, the typical of a traffic contract.

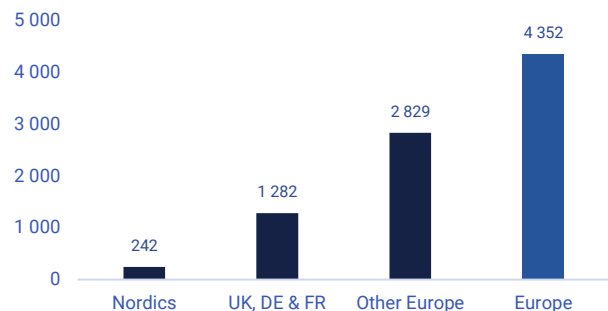
As shown in the left graph below, according to ACEA, there are approximately 48,000 buses in service in the Nordic region. The corresponding figure for the company's other initial target markets, Germany, France and the UK, is approximately 256,000 buses. In total, there are about 870,000 buses in traffic in Europe. Thus, the geographical expansion outside the Nordic region multiplies the company's market potential by 18.1x.

Number of buses (000)



Referring to the number of buses in 2021. Source: ACEA and Carlsquare

Number of cameras (000)



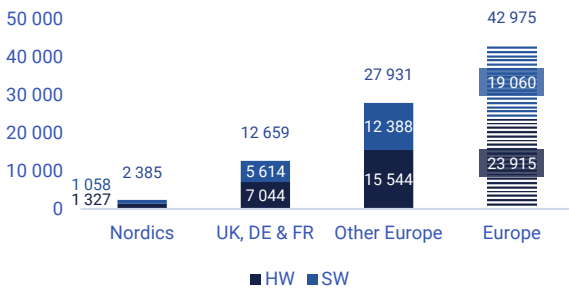
Referring to the number of buses in 2021 and 5 cameras per bus. Source: ACEA, company information and Carlsquare

Given the assumption that the average number of cameras per bus is 5, the market potential for cameras in the Nordic region is estimated to be around 242,000 (5 x ~42,000). In Europe as a whole, the corresponding figure is about 4.4 million cameras (5 x 870,000).

To calculate the market potential in terms of hardware, we assume an average price per camera of approximately SEK 5,500 (including extended memory and a single camera's share of the revenue for PoE switch and router with GPS for each bus). The hardware market's value in the Nordic region is then estimated at around SEK 1.3bn (5,500 x ~242,000). The corresponding figure for the company's other initial target markets is approximately SEK 7bn. Note that we have ignored the life-time of the hardware.

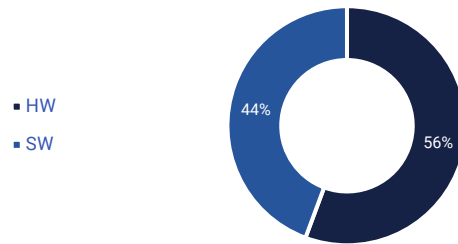
Regarding software revenue, we have assumed an average revenue per licence/camera over ten years is approximately SEK 4,350. Thus, the market potential in the Nordic region for software revenues over ten years is estimated at approximately SEK 1bn (4,350 x ~242,000). The annual value is thus about SEK 100m. The corresponding figures for the company's other initial target markets are approximately SEK 5.6bn and SEK 560m, respectively. See the graph below to the left.

Market value HW + SW (SEKm)



Referring to the number of buses in 2021 and 5 cameras per bus. Source: ACEA, company information and Carlsquare

Distribution, hardware and software



Source: ACEA, company information and Carlsquare

Transport procurement opens up for growth

We believe that the company's foremost opportunity for growth comes with traffic procurements - i.e. when a new traffic contract is to be procured, or an existing traffic contract is to be renewed via procurement. Thus, the value of the procured volume sets a theoretical ceiling for the company's growth rate.

To estimate the annual growth potential, we have assumed that the number of traffic procurements in Sweden is 14 during a typical year. According to the Swedish Public Transport Association, this figure corresponds to the average number of known procurements per year during the period 2020-2024. In markets outside Sweden, the number of procurements per year is scaled by a multiplier based on the number of buses in each market in relation to the number of buses in Sweden.

Furthermore, 86 buses is the average number of buses procured per procurement during 2020-2024, according to Svensk Kollektivtrafik. We have assumed that this figure also applies to the other markets.

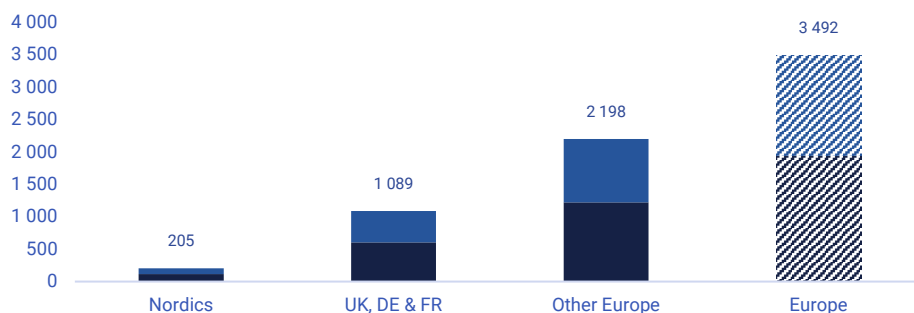
Finally, we assume that all procured buses must be equipped with a video surveillance solution. Given the previously mentioned pricing levels, the Nordic region's annual value of procured hardware can be estimated at approximately SEK 114m. The annual value of software revenues over ten years is SEK 91m. The corresponding figures for Europe are SEK 1.9bn and SEK 1.5bn, respectively. See the table below.

Estimation, value of annual traffic procurement in the company's target markets

Market	Tot. buses in traffic (000)	Procurement no. of buses/yr (000)	Tot. no. cameras/yr (000)	Value HW (SEKm)	Value SW (SEKm), 10 yrs
SE	13.6	1.2	5.8	32.0	25.5
DK	8.7	0.7	3.7	20.4	16.3
FI	10.5	0.9	4.5	24.6	19.6
NO	15.6	1.3	6.7	36.6	29.2
The Nordics	48.3	4.2	21	114	91
UK	81.7	7.0	35.1	192	153
DE	80.2	6.9	34.5	189	150
FR	94.5	8.1	40.7	222	177
UK+DE+FR	256.4	22.1	110	603	481
Sum, target markets	304.7	26.2	131	717	571
Sum, Europe	822.2	70.7	354	1,934	1,541

Source: Svensk Kollektivtrafik, ACEA, company information and Carlsquare

Assumptions on the value (HW+SW) of annual traffic procurements in the company's target markets (SEKm)



Source: Svensk Kollektivtrafik, ACEA, company information and Carlsquare

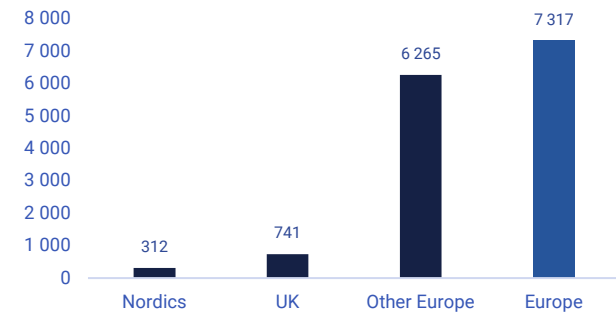
An estimate of the market potential for the company's solution in commercial freight transport

We assess that the market potential increases significantly given the company's expanded offer in commercial freight transport. To estimate the company's theoretical market potential divided into hardware and software in commercial freight transport, we have studied the number of trucks weighing over 3.5 tonnes and made assumptions about the number of cameras per truck and pricing. Below is a summary of the assumptions

- All trucks with a weight over 3.5 tonnes in traffic are relevant for estimating the ground truth potential.
- Each lorry has three connected surveillance cameras.
- Hardware revenue per camera = approximately SEK 4,500 (including extended memory).
- Software revenue per camera = approximately SEK 865 per year and SEK 2,595 over three years, the typical contract length.

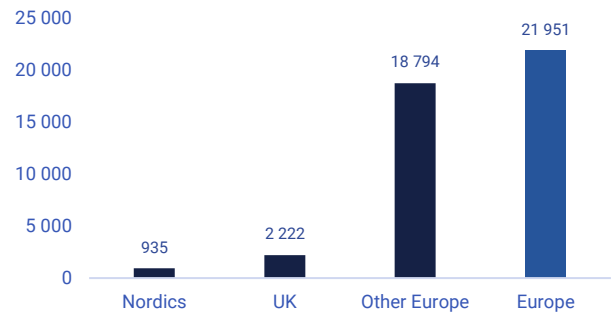
As shown in the left graph below, according to ACEA, there are about 312,000 trucks weighing above 3.5 tonnes in traffic in the Nordic region. The corresponding figure for the company's market in the UK is approximately 741,000. In Europe, there are about 7.3 million heavy trucks in traffic. Given the assumption that the average number of cameras per bus is three, the market potential for cameras in the Nordic region is estimated at around 935,000. In the UK and all of Europe, the corresponding figures are about 2.2 million cameras and 22.0 million cameras, respectively.

Number of trucks weighing over 3.5 tons (000)



Referring to the number of buses in 2021. Source: ACEA and Carlsquare

Nuber of cameras (000)

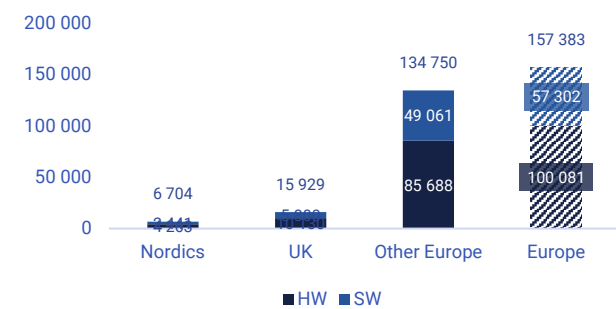


Referring to the number of buses in 2021 and 5 cameras per bus. Source: ACEA and Carlsquare

To calculate the market potential in terms of hardware, we have assumed an average pricing per camera of approximately SEK 4,500 (including extended memory). The hardware market value in the Nordic region is then estimated at approximately SEK 4.2bn. The corresponding figures for the UK and Europe are around SEK 10.1bn and SEK 85.2bn, respectively. Note that we have again ignored the lifetime of the hardware.

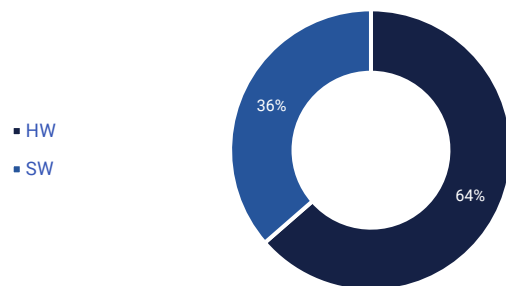
Regarding software revenues, we have assumed an average revenue per licence/camera over three years is approximately SEK 2,590. Thus, the market potential in the Nordic region for software revenues over three years is estimated at approximately SEK 2.4bn. The annual value is, therefore, about SEK 807m. The corresponding figures for the UK are approximately SEK 5.7bn and SEK 1.9bn, respectively. See the graph below to the left.

Market HW + MW (SEKm)



Referring to the number of buses in 2021 and 5 cameras per bus. Source: ACEA and Carlsquare

Distribution hardware and software



Source: ACEA, company information and Carlsquare

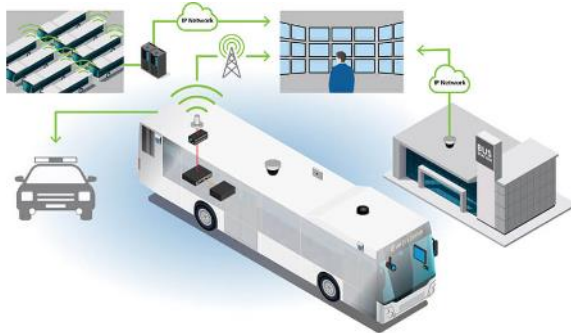
Sector colleagues

Unlisted sectoral colleagues in transport monitoring

March Networks and Genetec

Canadian March Networks Inc. and Genetec Inc. both supply hardware and software for IP video surveillance systems for the transport sector, including public transport. Below is a sketch of March Networks' solution for public transport by bus. This system is a modern alternative but built on the traditional structure of video storage on a separate storage unit in the bus.

Sketch, March Networks solution, including an NVR



Source: March Networks

R2P, GmbH

R2P is a developer and manufacturer of intelligent transport systems (ITS) for public transport comprising communication, security and monitoring applications. The company offers an integrated portfolio of hardware and software products for passenger and fleet flow management, including CCTV, passenger information (PIS), passenger announcements (PA) and fleet management systems with real-time data transmission and analysis, enabling safe, sustainable and efficient public transport (source: Pitch-Book).

Luminator Technology Group, LP

Luminator manufactures display, video surveillance and lighting technology for municipal transport systems, OEMs, and suppliers. The company offers interior signage and lighting, seat control systems, illuminated switches, destination signs, next-stop signs, infotainment and passenger information systems, which allow to enlighten, inform and enhance the experience of bus, train and airline passengers.

HIK Vision

HK Vision is a manufacturer and supplier of video surveillance products for mobile transport, including buses, and other industries. The company specialises in network cameras, analogue and thermal cameras, encoders, decoders, network video recorders, door phones, video management software and other surveillance solutions.

Listed sector colleagues in transport monitoring

Journeo PLC

Journeo is a UK-based company that acts as a specialist provider of tailored solutions for the transportation community, solving complex operational requirements both on and off the vehicle. The company operates in two business segments: Fleet Systems and Passenger Systems. The Fleet Systems segment includes video surveillance to improve passenger and driver safety, vehicle and driver performance monitoring, and automatic passenger counting, while the Passenger Systems segment includes hardware and software for electronic passenger information systems, off-board smart ticketing, and wayfinding. The majority of the company's revenue comes from the UK.

In 2022 Journeo reported revenues of GBP 21.1m, corresponding to a growth of 35%. The EBITDA result was GBP 1.2m, corresponding to a margin of 5,8%. The current enterprise value is GBP 30.8m. (Source: S&P Capital IQ).

Mobotix AG

Mobotix manufactures video management systems and IP cameras. Its products are mx management centres, outdoor cameras, indoor cameras, thermographic cameras, optics and software, home automation and accessories. The company also develops technologies such as light sensitivity, thermal, motion analysis, object statistics, behavioural analysis and heat map.

During the last twelve months, Mobotix reported revenues of EUR 65.4m. The EBITDA result was EUR 0.9m, corresponding to a margin of 1.4%. The current enterprise value is EUR 76.1m. (Source: S&P Capital IQ).

Financial history and Carlsquare estimates

We expect net sales in 2023 to be around SEK 45m, corresponding to a growth of 23.3%. In our scenario, the international expansion starts to bear fruit in 2024-2025. Over the forecast period 2023-2032, we expect a CAGR of 26.4%. ARR is expected to increase by an average of 26.2% annually over the same period. With business scalability, the EBITDA margin rises to 24.5% in 2032, up from an estimated 4.5% in 2023.

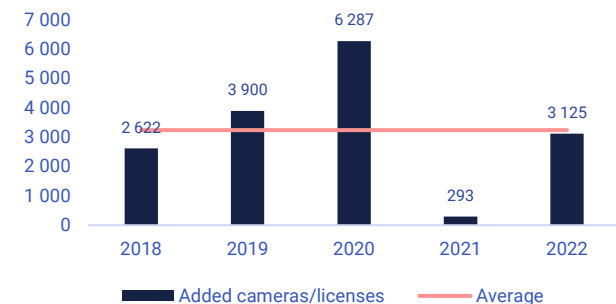
Financial history and estimates

Expansion outside the Nordic region, the main growth driver

Over the years 2017-2021, Observit has added, on average, about 3,250 licences per year for vehicles (public transport plus commercial transport). That is within the range of about 300-6,300 licences per year. The average figure should be able to increase given the company's strategy for growth and increased sales force. At the same time, there are long procurement processes for bus operators, even in these countries. Therefore, we expect the geographical expansion's effects to be realised first in a year or so. In the shorter term, it is, instead, upsales and commercial transport that drives growth.

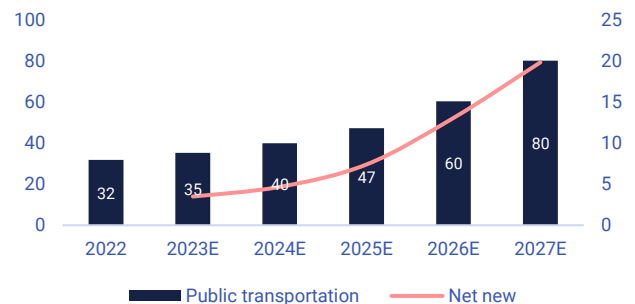
Below to the right is the assumed development for added cameras/licences and net added cameras per year in public transport. In the current year, we expect a total net addition of around 3,500 licences in public transport. By 2027, we expect net new cameras to increase to around 19,800 licences. Regarding traffic procurements, this corresponds to around 7 and 42 won procurements, respectively (given earlier assumptions regarding cameras per bus and buses per procurement). The steep increase is an effect of successful expansion into new, more extensive markets.

Added cameras/licenses (000), 2017-2021



Source: Company information and Carlsquare

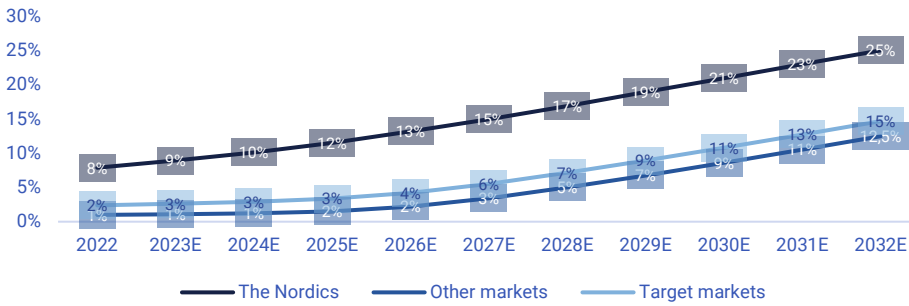
Public transport: Licenses and net new (000)



The figure for 2022 is an estimate provided by Carlsquare. Source: Company information and Carlsquare estimates

By the last year of the forecast period, 2032, we have assumed that the total number of licences in public transport will increase to just over 220,000. The company will then have a market share of around 25% in the Nordic region and 12.5% in the other markets. In the initial target markets, the company then has a market share of about 15%.

Assumed market share development, 2017-2021

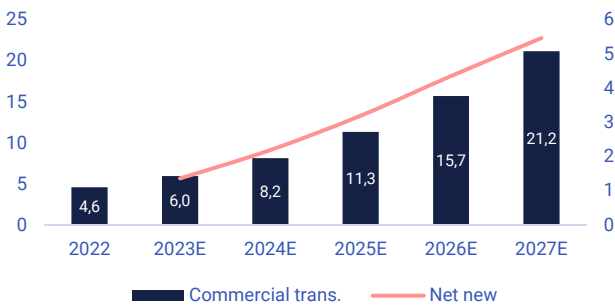


Source: Company information and Carlsquare

Solution for documentation of events and commercial transport

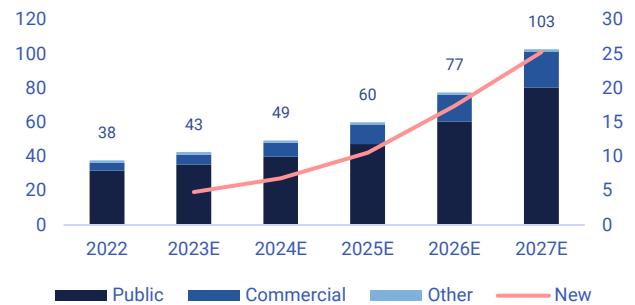
In commercial transport (including the solution for documenting events in traffic for operators), we expect the company to add a net of about 1,360 licences in 2023. Here we expect a churn of about 3%. Net new cameras will increase in our scenario to about 5,470 licences by 2027, resulting in about 21,200 licences in this vertical. See the graph below to the left.

Commercial transport: Licenses and net new (000)



The figure for 2022 is an estimate provided by Carlsquare. Source: Company information and Carlsquare estimates

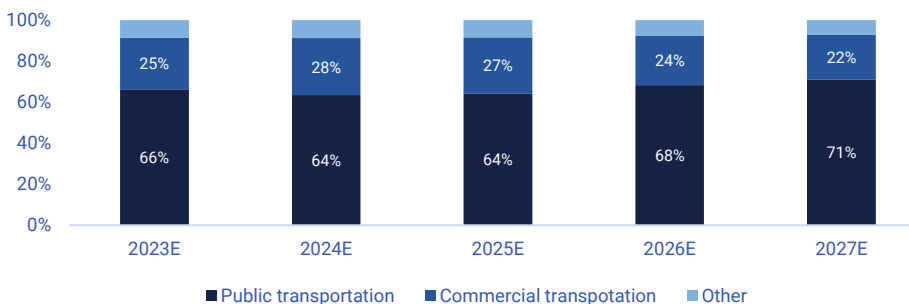
Total licenses and net new (000)



The distribution in 2022 is an estimate provided by Carlsquare. Source: Company information and Carlsquare estimates

By the end of 2032, we have assumed that the number of cameras in commercial transport has increased to just over 61,800. This development is motivated by the value of the company's offering in this vertical being further established in the market.

Assumed revenue distribution



Source: Carlsquare estimates

The above shows the distribution of licences between the company's focus areas, public transport and commercial transport. The company has also previously had licence revenues from fixed surveillance in areas such as elderly care. These are included in "Other" with an assumed churn of 3%.

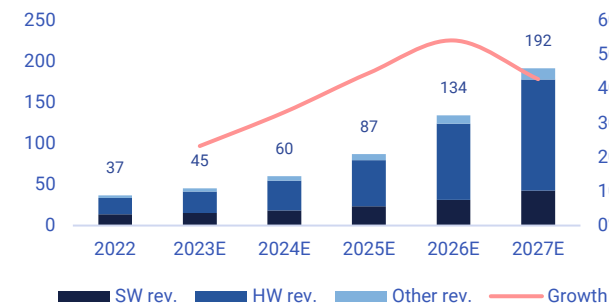
New cameras and licences translated into net sales

As previously mentioned, the company's revenue consists of software revenue and hardware revenue. What we call "Other net sales" includes contracted service revenues from the acquired businesses.

As shown in the graph below, we expect the company to report net sales in 2023 of SEK 45.2m. That corresponds to a growth rate of 33.2%. This assumes successful upsales and launches to the commercial traffic customer segment outside the UK.

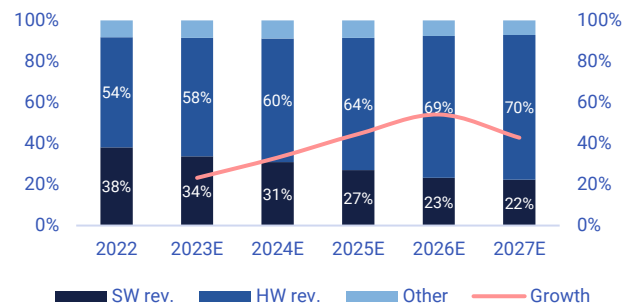
By 2027, we expect net sales to increase to SEK 192m. This corresponds to a CAGR 2022-2025 of 39.2% and a CAGR 2025-2027 of 48.4%. The accelerating growth is explained by long processes for traffic procurements that will not be visible in the income statement until 2024-2025. At the same time, we want to point out that it can go faster if the company wins many large procurements at an early stage via operator partners.

Net sales (SEKm) and growth (%)



The distribution in 2022 is an estimate by Carlsquare. Source: Company information and Carlsquare estimates

Distribution net sales and growth



The distribution in 2022 is an estimate by Carlsquare. Source: Company information and Carlsquare estimates

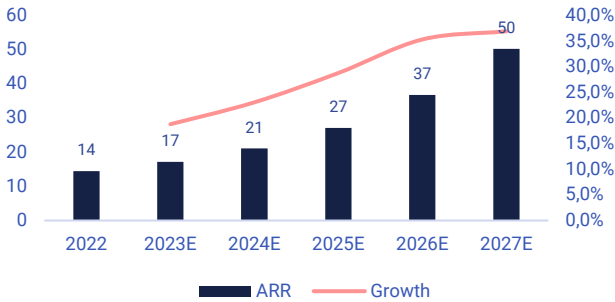
Throughout the forecast period, 2023-2032, we anticipate an average growth rate of 26.4%. By 2027 and 2032, we have assumed that software revenues will account for 22.3% and 35.5% of the total revenues, respectively.

As mentioned, international expansion in the public transportation vertical is driving growth. With accelerating growth, hardware revenues will increase as a proportion of the total net sales. Refer to the graph on the top right. However, as the growth rate slows down, the proportion of software revenues will increase.

ARR and average revenue per license

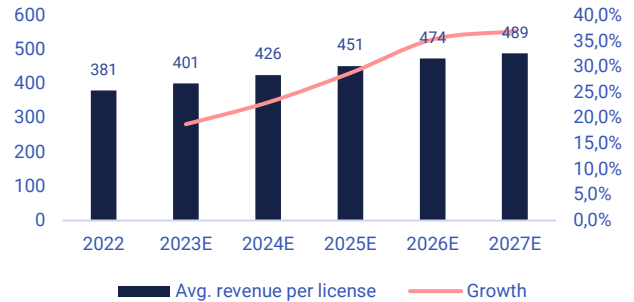
The graphs below depict assumptions for recurring software revenues, ARR, and the average revenue per license/camera. As indicated, we have assumed that recurring software revenues will amount to approximately SEK 17m at the end of 2023. This figure is expected to rise to around SEK 50m by the end of 2027 and about SEK 148m by the end of 2032.

ARR (SEKm) and growth (%)



ARR 2022 is an estimate by Carlsquare. Source: Company information and Carlsquare estimates

Avg. revenue per license (SEK) and growth (%)



The average revenue per license in 2022 is an estimate by Carlsquare. Source: Company information and Carlsquare estimates

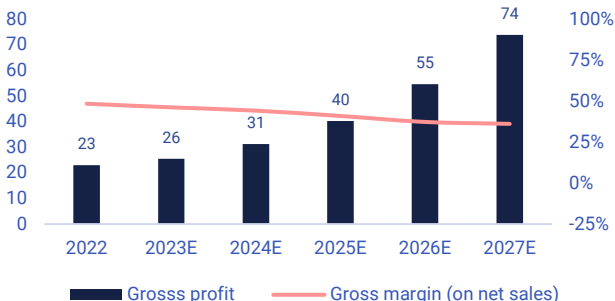
The average revenue per license is assumed to be just above SEK 400 at the end of 2023. Furthermore, we have assumed that this figure will increase to SEK 489 by the end of 2027 and SEK 522 by the end of 2032. The increase is justified by selling to new customers at a higher price, averaging SEK 438 per license for public transportation and just over SEK 870 for commercial transport.

Initial decline in gross margin with increasing growth

Direct costs include expenses for operating the software platform and costs for sold hardware. We have assumed a gross margin of around 90% on software revenues and 12.5% on hardware revenues. That means that a growing proportion of hardware revenues will pressure the company's gross margin. Similarly, as the proportion of software revenues increases, the gross margin will also increase.

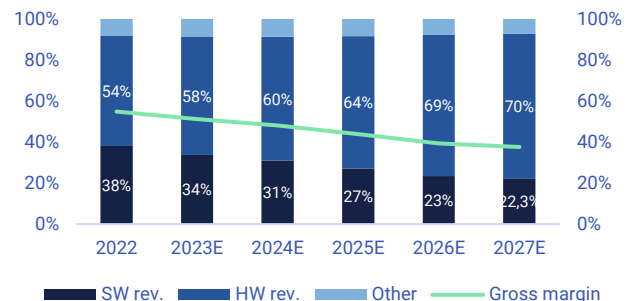
On the left below, gross profit and gross margin are displayed. We expect a gross profit of SEK 25.5m in 2023, corresponding to a gross margin of 51.2% (calculated on total revenues). By 2027, the gross profit will increase to SEK 73.8m, with a lower gross margin of 37.6%. In our scenario, the gross margin will increase again in 2028 and reaches 49.7% by 2032.

Gross profit (SEKm) and margin (%)



Source: Company information and Carlsquare estimates

Distribution net sales and gross margin

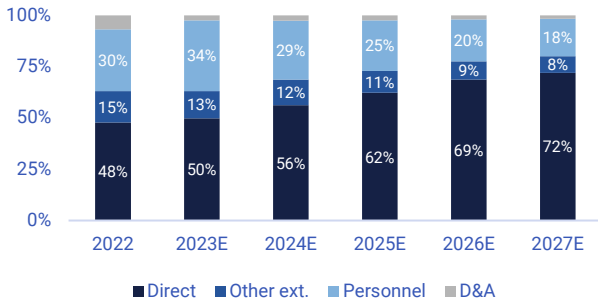


The distribution in 2022 is an estimate by Carlsquare. Source: Company information and Carlsquare estimates

Continued positive results on the bottom line

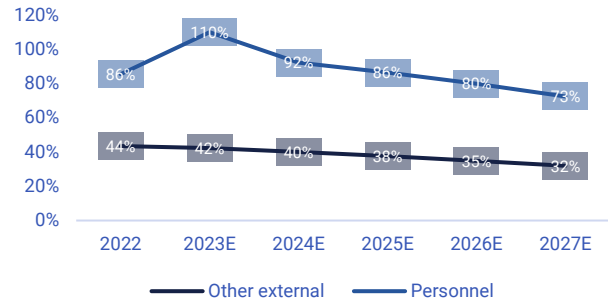
On the left below, the cost distribution is shown. As can be seen, costs increase with increasing growth, with a larger proportion of direct costs and, thus, hardware revenues.

Distribution costs



Carlsquare. Source: Company information and Carlsquare estimates

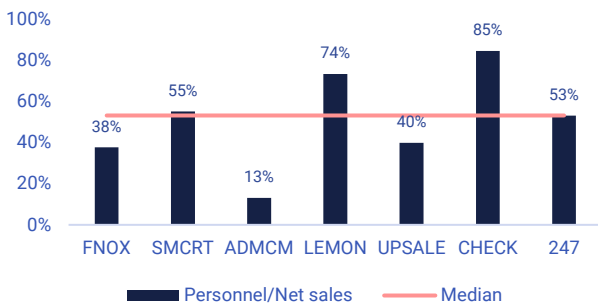
Costs as share of software revenue



Source: Company information and Carlsquare estimates

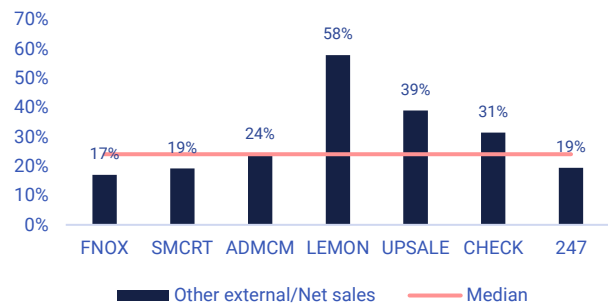
As a proportion of software revenues, personnel costs accounted for approximately 86% in 2022. Refer to the graph on the top right. We expect this proportion to decrease to around 73% by 2027 and about 49% by 2032. That aligns with the average for Swedish SaaS companies in the reference group. Other external costs, as a percentage of net sales, are projected to decrease to approximately 32% of software revenues by 2027 and around 23% by 2032. That also aligns with the median among Swedish SaaS companies in the reference group.

Personnel expenses as a share of software revenue



Refers to 2022. Source: S&P Capital IQ and Carlsquare

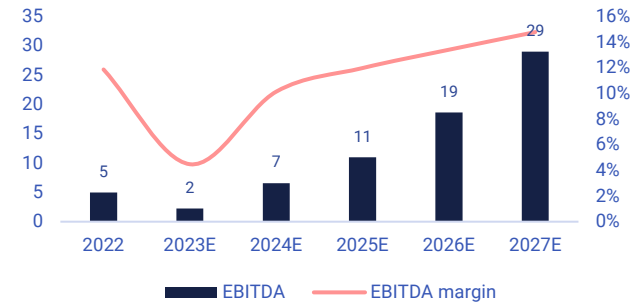
Other ext. expenses as a share of software revenue



Refers to 2022. Source: S&P Capital IQ and Carlsquare

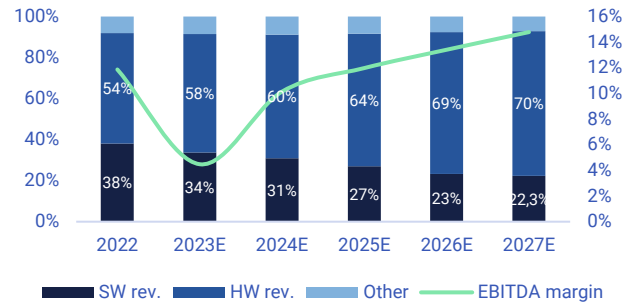
In 2022, the EBITDA margin landed at 11.9%. With growth, albeit a slightly lower gross margin and a higher cost base, we expect the EBITDA margin to decrease marginally to 4.5% in 2023. With scalability in the model, we anticipate the EBITDA margin to increase to around 14.8% by 2027 and reach 24.5% by 2032. Hardware revenues hold back the margin but contribute to the absolute EBITDA result. The median value for EBITDA margin in the reference group of SaaS companies for 2023 is around 30%.

EBITDA result (SEKm) and margin (%)



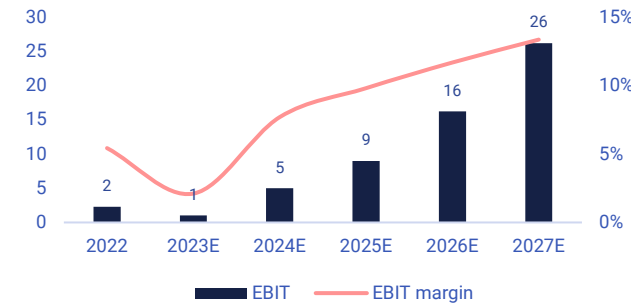
Carlsquare. Source: Company information and Carlsquare estimates

Distribution net sales and EBITDA margin



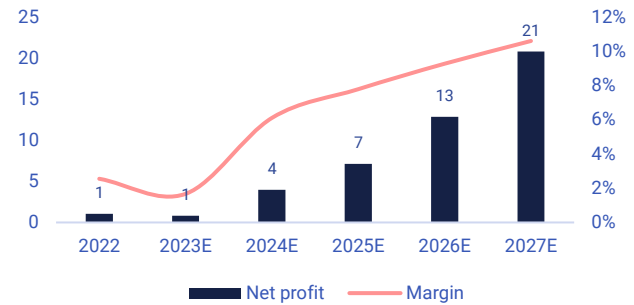
The distribution in 2022 is an estimate by Carlsquare. Source: Company information and Carlsquare estimates

EBIT (SEKm) and EBIT margin (%)



Source: Carlsquare estimates

Net profit (SEKm) and margin (%)

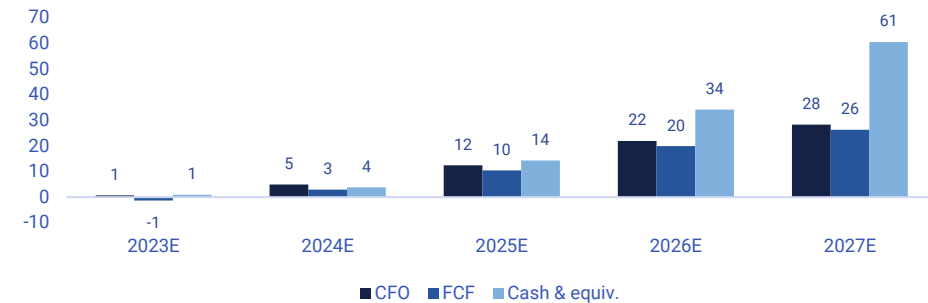


Source: Carlsquare estimates

Cash flow

The cash balance at the end of March 2023 amounted to SEK 2.5m. Accounts receivable stood at SEK 12.8m, while accounts payable amounted to SEK 9.8m. Based on our scenario, the company will be able to grow without the need for additional external capital – with very little margin. Thus, additional capital injections to support working capital is not yet to be ruled out.

Cash flow (SEKm)



Source: Carlsquare estimates

Valuation

Combining a DCF valuation with a multiple valuation and averaging the results, a fair value per share is 0.28 SEK per share. Our valuation corresponds to an EV/Sales multiple of 3.4x, a 10.1x multiple of software revenues for 2023, and an EV/EBITDA multiple of 23.4x for 2024. In comparison, the software industry reference group is valued at an EV/Sales multiple of 7.4x for 2023 and an EV/EBITDA multiple of 19.8x for 2023.

The fair value within a range

SEK 0.28 per share in a base case

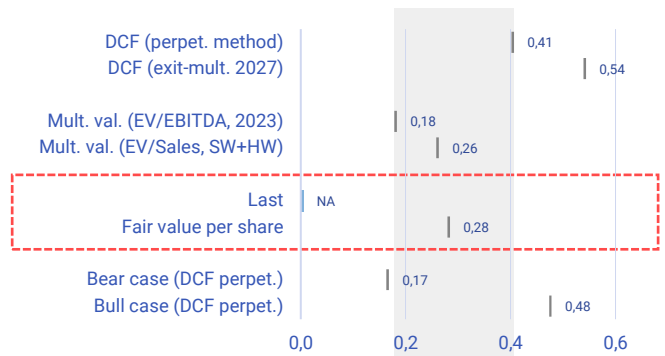
Combining a DCF valuation with a multiple valuation, we calculate a fair value of per share SEK 0.28. The valuation is based on estimates requiring solid growth in the coming years and margin expansion. Geographical expansion is the primary growth driver over time.

Fair value, base case scenario

Currency, SEK		1.0
EV/Sales, 2023 HW+SW	SEK	0.26
EV/EBITDA, 2023	SEK	0.18
DCF valuation	SEK	0.41
Fair value per share	SEK	0.28
Potential up-/downside		NA
Shares outstanding, fully financed, and diluted	M	549
Equity value	SEKm	156
Cash (last rep. Q)	SEKm	2.3
Debt (last rep. Q)	SEKm	0.0
PV cash from equity financing	SEKm	0
EV	SEKm	154

Source: Carlsquare estimates

Fair value within a range (SEK/share)



Source: Carlsquare estimates

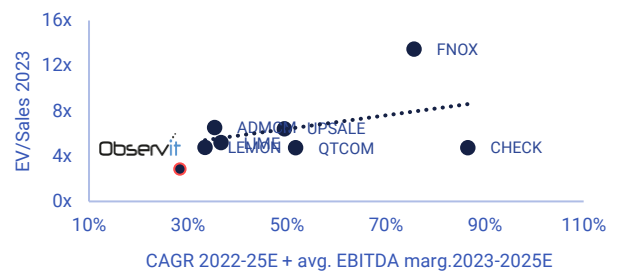
Our valuation corresponds to an EV/Sales multiple of 3.4x and 10.1x for software revenues in 2023. The reference group of SaaS companies is currently trading at an EV/Sales multiple of 7.4x for 2023. Our valuation also corresponds to an EV/EBITDA multiple 2024 of 23.4x, while SaaS companies are trading at an EV/EBITDA multiple of 19.8x 2023.

Implied valuation multiples, base case

	2022	2023E	2024E	2025E
EV/Sales	4.2x	3.4x	2.6x	1.8x
EV/SW-revenue	11.0x	10.1x	8.3x	6.5x
EV/EBITDA	30.9x	68.8x	23.4x	14.0x
EV/EBIT	67.5x	146.3x	30.8x	17.1x
P/E	145.7x	187.0x	39.4x	21.9x

Source: Carlsquare estimates

Implied EV/Sales a comparison to SaaS-ref. group



Observit EV/Sales multiple refers to software revenue. Source: S&P Capital IQ and Carlsquare estimates

Multiple valuation

Below is the multiple valuation for Observit as a listed company. For the valuation using the EV/Sales multiple, we have applied different multiples for software and hardware revenues.

Multiple valuation median value EV/Sales 2023, bas case

Software multiple		7.3x
Software revenue, 2023E	SEKm	15.2
EV	SEKm	112
Hardware+service multiple		1.0x
Hardware+service revenue, 2023E	SEKm	30
EV	SEKm	30
Total EV	SEKm	142
Net cash	SEKm	2.3
Equity value	SEKm	144
Outstanding shares	M	549
Value per share	SEK	0.26

Source: S&P Capital IQ and Carlsquare estimates

Multiple valuation median value EV/EBITDA 2023, base case

EV/EBITDA multiple		19.7x
EBITDA, 2023E	SEKm	5.0
EV	SEKm	98
Net cash	SEKm	2.3
Equity value	SEKm	100
Outstanding shares	M	549
Value per share	SEK	0.18

Source: S&P Capital IQ and Carlsquare estimates

Valuation multiples, SaaS companies

	HQ	Mcap (EURm)	EV (EURm)	EV/Sales		EV/EBITDA		EV/EBIT		P/E (adj.)	
				NTM	2023	NTM	2023	NTM	2023	NTM	2023
Fortnox AB	SE	2,588	2,588	16.5x	17.9x	30.8x	36.0x	39.1x	44.9x	67.2x	78.4x
Qt Group	FI	1,127	1,151	5.6x	5.9x	18.8x	20.2x	22.1x	24.1x	52.3x	57.3x
Lime Technologies	SE	274	295	5.8x	6.0x	18.5x	19.3x	29.1x	30.6x	38.5x	39.0x
SmartCraft	NO	282	265	7.8x	7.8x	19.0x	19.0x	24.5x	24.5x	34.7x	34.7x
Admicom	FI	232	238	6.9x	7.0x	18.3x	18.6x	23.9x	24.4x	21.8x	22.2x
Lemonsoft	FI	146	138	5.0x	5.1x	16.7x	17.3x	NM	20.3x	27.2x	27.9x
Upsales	SE	109	104	8.1x	8.1x	28.5x	28.5x	36.0x	36.0x	33.9x	33.9x
Checkin.Com	SE	92	90	8.1x	8.1x	39.2x	39.2x	NM	132.4x	167.9x	167.9x
24SevenOffice	SE	32	34	NA	NA	NM	NM	NM	NM	NM	NM
Median		232	238	7.3x	7.4x	18.9x	19.8x	26.8x	27.6x	36.6x	36.9x
Average		543	545	8.0x	8.2x	23.7x	24.8x	29.1x	42.2x	55.4x	57.7x

Source: S&P Capital IQ and Carlsquare estimates

DCF valuation

The international expansion is mainly reflected in the DCF valuation. As there is uncertainty about the success of the international expansion, we have added a company-specific premium to the discount rate.

DCF valuation, base case

DCF valuation						
PV(UFCF)	SEKm	97	Disc. rate			
PV(TV)	SEKm	124	Risk free rate	2.3%	Tax adj. int. on debt	0.0%
Enterprise value	SEKm	221	Market risk premium	6.7%	Leverage	0.0%
Net cash(+). last Q	SEKm	2.3	Size premium	4.2%	WACC	15.4%
Value. associated comps.	SEKm	0.0	Beta	1.2x	Comp. spec. premium	1.5%
Value. minority interest	SEKm	0.0	Req. return on equity	15.4%	Discount rate	16.9%
Shareholder value	SEKm	223	Assumptions			
PV(equity financing proceeds)	SEKm	0	CAGR. 2022-2032	26.4%		
Shareholder value. after financing	SEKm	223	EBITDA-margin. 2032	23.6%		
Current shares outstanding	M	549	EBIT-margin. 2032	22.4%		
New shares	M	0.0	Tax rate	20.6%		
Shares outstanding after financing and dilution	M	549	Implied multiples			
Value per share (before financing and dilution)	SEK	0.41	EV/Sales. NTM	NA	EV/EBITDA. NTM	NA
Value per share (after financing and dilution)	SEK	0.41	EV/Sales. 2023E	4.9x	EV/EBITDA. 2023E	44.4x
Currency	SEK/SEK	1.0	P/S. NTM	NA	EV/EBIT. NTM	NA
Value per share (before financing and dilution)	SEK	0.4	P/S. 2023E	4.9x	EV/EBIT. 2023E	96.9x
Value per share (after financing and dilution)	SEK	0.41	EV/Gross prof.. NTM	NA	P/E. NTM	NA
Potential up-/downside		NA	EV/Gross prof.. 2023E	10.6x	P/E. 2023E	267.3x

Source: Carlsquare estimates

Valuation interval

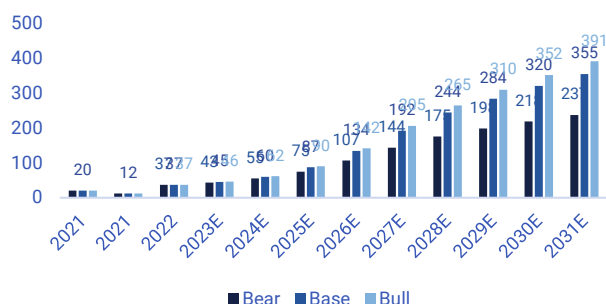
In the bull and bear case, we have used our DCF model but developed alternative curves for growth and profitability.

In a more optimistic bull case, we model adjusted CAGR, 2022-2032, of 27.7% (base 26.4%) and an adjusted EBITDA margin (calculated on net sales) in 2032 of 24.8% (base 23.6%). In the Bull scenario, a value per share with our DCF model is calculated at SEK 0.48.

In a more defensive bear case, we model a CAGR of 2022-2032, of 21.3% and an EBITDA margin 2032 of 16.0%. In the bear case, a value per share is calculated with our DCF model at SEK 0.17.

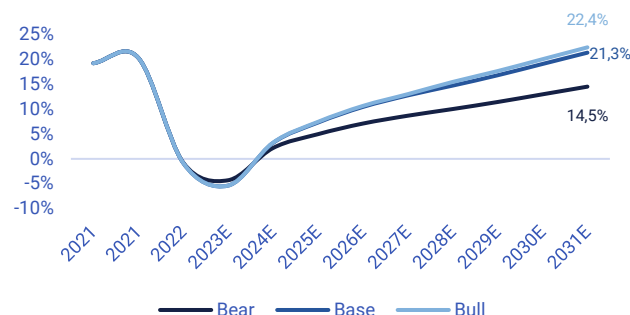
The assumed net sales and EBITDA margin development in the three scenarios are shown below.

Net sales (SEKm), three scenarios



Source: Company information and Carlsquare estimates

Adj. EBITDA margin (%), three scenarios



Adj. EBITDA margin is calculated on net sales. Source: Company information and Carlsquare estimates

Key figures and accounts

Key figures(SEK)

	2022	2023E	2024E	2025E	2026E	2027E
SEK/SEK	1.0	1.0	1.0	1.0	1.0	1.0
Share price	NA	NA	NA	NA	NA	NA
Market cap	NA	NA	NA	NA	NA	NA
EV	NA	NA	NA	NA	NA	NA
P/S	NA	NA	NA	NA	NA	NA
P/E	NA	NA	NA	NA	NA	NA
P/CF operations	NA	NA	NA	NA	NA	NA
EV/Sales	NA	NA	NA	NA	NA	NA
EV/Gross profit	NA	NA	NA	NA	NA	NA
EV/EBITDA	NA	NA	NA	NA	NA	NA
EV/EBIT	NA	NA	NA	NA	NA	NA
CSQ fair value per share	0.28	0.28	0.28	0.28	0.28	0.28
CSQ market cap	156	156	156	156	156	156
CSQ EV	154	155	152	142	122	96
P/S, CSQ implied	4.3x	3.5x	2.6x	1.8x	1.2x	0.8x
P/E, CSQ implied	145.7x	187.0x	39.4x	21.9x	12.1x	7.5x
P/CF operations, CSQ implied	NA	239.7x	32.0x	12.5x	7.1x	5.5x
EV/Sales, CSQ implied	4.2x	3.4x	2.5x	1.6x	0.9x	0.5x
EV/Gross profit, CSQ implied	4.9x	3.9x	2.8x	1.9x	1.3x	0.8x
EV/EBITDA, CSQ implied	30.9x	69.4x	23.2x	12.9x	6.6x	3.3x
EV/EBIT, CSQ implied	67.5x	147.5x	30.5x	15.8x	7.5x	3.6x
Shares outstanding (EoP)	549.3	549.3	549.3	549.3	549.3	549.3
Shares outstanding, fully dil. (Avg)	NA	549.3	549.3	549.3	549.3	549.3
EPS (SEK)	0.00	0.00	0.01	0.01	0.02	0.04
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00
BV per share (SEK)	0.0	0.0	0.0	0.1	0.1	0.1
tBV per share (SEK)	0.0	0.0	0.0	0.0	0.0	0.0
EV per share (SEK)	NA	NA	NA	NA	NA	NA
Equity per share	NA	NA	NA	NA	NA	NA
Dividend yield	NA	NA	NA	NA	NA	NA
FCF yield	NA	NA	NA	NA	NA	NA
FCF yield (unlevered)	NA	NA	NA	NA	NA	NA

EoP = End of period. Source: Company information and Carlsquare estimates

Income statement (SEKm), yearly

	2022	2023E	2024E	2025E	2026E	2027E
Net sales	37	45	60	87	134	192
Total operating income	42	50	65	92	139	196
COGS	-19	-24	-34	-51	-84	-122
Gross profit	23	26	31	40	55	74
Other operating expenses, less COGS and D&A	-18	-23	-25	-29	-36	-45
EBITDA	5	2	7	11	19	29
Adj. EBITDA	5	2	7	11	19	29
Dep. and amort.	-3	-1	-2	-2	-2	-3
EBIT	2	1	5	9	16	26
Adj. EBIT	2	1	5	9	16	26
Net finances	0	0	0	0	0	0
EBT	2	1	5	9	16	26
Adj. EBT	2	1	5	9	16	26
Tax	-1	0	-1	-2	-3	-5
Net profit/loss	1	1	4	7	13	21
Adj. net profit/loss	1	1	4	7	13	21
Basic EPS adj.	0.00	0.00	0.01	0.01	0.02	0.04
Fully diluted EPS adj.						
Shares, EoP	549	549	549	549	549	549
Shares, avg.	NA	549	549	549	549	549
Growth	2022	2023E	2024E	2025E	2026E	2027E
Net sales	NA	23%	33%	45%	54%	43%
Tot. revenue	NA	19%	30%	41%	51%	41%
Gross profit	NA	11%	22%	29%	36%	35%
EBITDA	NA	-55%	194%	67%	69%	56%
Adj. EBITDA	NA	-55%	194%	67%	69%	56%
EBIT	NA	-54%	375%	80%	80%	62%
Adj. EBIT	NA	-54%	375%	80%	80%	62%
EBT	NA	-53%	375%	80%	80%	62%
Adj. EBT	NA	-53%	375%	80%	80%	62%
Net profit/loss	NA	-22%	375%	80%	80%	62%
Adj. net profit	NA	-22%	375%	80%	80%	62%
Basic EPS adj.	NA	-22%	375%	80%	80%	62%
Margins	2022	2023E	2024E	2025E	2026E	2027E
Gross profit	55%	51%	48%	44%	39%	38%
EBITDA margin	12%	4%	10%	12%	13%	15%
Adj. EBITDA margin	12%	4%	10%	12%	13%	15%
EBIT margin	5%	2%	8%	10%	12%	13%
Adj. EBIT margin	5%	2%	8%	10%	12%	13%
EBT margin	5%	2%	8%	10%	12%	13%
Adj. EBT margin	5%	2%	8%	10%	12%	13%
Profit margin	3%	2%	6%	8%	9%	11%
Adj. profit margin	3%	2%	6%	8%	9%	11%

EoP = End of period. Source: Company information and Carlsquare estimates

Balance sheet (SEKm)

	2022	2023E	2024E	2025E	2026E	2027E
Tot. intangible assets	22	23	23	23	23	22
Tot. tangible assets	0	0	0	0	0	0
Tot. other fixed assets	0	0	0	0	0	0
Total fixed assets	22	23	23	24	23	22
Inventories	2	2	3	4	5	8
Accounts Receivables	16	17	20	26	35	50
Other current assets	4	3	4	5	8	11
Cash	2	1	4	14	34	61
Total current assets	24	23	30	49	82	128
Total assets	47	46	54	72	105	151
Total equity	19	20	24	31	44	65
Debt to creditors	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0
Tot. long-term liabilities	0	0	0	0	0	0
Short-term debt to creditors	0	0	0	0	0	0
Accounts payable	11	11	11	15	23	33
Other short-term liabilities	16	15	18	25	38	53
Tot. short-term debt	27	25	29	41	61	86
Total debt	28	26	30	41	61	86
Tot. equity and debt	47	46	54	72	105	151
Liquidity	2 022	2023E	2024E	2025E	2026E	2027E
Current ratio	0,9	0,9	1,0	1,2	1,3	1,5
Cash ratio	0,1	0,0	0,1	0,4	0,6	0,7
Leverage	2 022	2023E	2024E	2025E	2026E	2027E
Net debt(+)/Net cash(-)	-2	-1	-4	-14	-34	-61
Net debt/EBITDA	NM	NM	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM	NM	NM
Equity/Total Assets	0	0	0	43%	42%	43%
Efficiency	2 022	2023E	2024E	2025E	2026E	2027E
ROA	6%	2%	8%	11%	15%	16%
ROE	15%	4%	18%	26%	34%	38%
ROIC	40%	7%	2%	8%	13%	20%

Source: Company information and Carlsquare estimates

Cash flow (SEKm)

	2022	2023E	2024E	2025E	2026E	2027E
CF, operations b4 delta WC	NA	2	6	9	15	24
Delta operating capital	NA	-1	-1	3	7	5
CF operations	NA	1	5	12	22	28
CF investing	NA	-2	-2	-2	-2	-2
Free cash flow	NA	-1	3	10	20	26
CF financing	NA	0	0	0	0	0
Cash flow	NA	-1	3	10	20	26
Cash, BoP	NA	2	1	4	14	34
Cash, EoP	NA	1	4	14	34	61
Key ratios	2022	2023E	2024E	2025E	2026E	2027E
CF operations/Total operating income	NA	1%	8%	14%	16%	14%
CF operations/EBITDA	NA	29%	74%	113%	117%	98%

Source: Company information and Carlsquare estimates

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