Penneo

Sector: Software

Future Growth (e)IDentified

Redeye initiates coverage on Penneo, A Danish auditor-focused digital signing solution growing rapidly. While unprofitable in its current growth-focused phase, striking SaaS metrics suggests solid profitability as Penneo matures.

Digitalizing the Signing

Penneo is a Danish Software-as-a-Service (SaaS) company founded in 2014, specializing in managing and automating the digital signing process for auditors and businesses. Penneo dominates its Danish home market (66% of all Danish annual reports are signed with Penneo), which is one of the most digitalized in Europe.

Focus on Regulation-Heavy Sectors

Penneo offers a comprehensive solution for auditors, including signing process automation, KYC, and integrations to auditor ERPs. We believe its offering raises the barriers to entry for competitors and increases the switching costs for its customers. While it limits the total addressable market, we believe the niche focus is a good way to limit competition from global players and local champions.

Striking SaaS Metrics

Thanks to strong growth both from existing and new customers, Penneo has one of the most attractive growth profiles in the listed Nordic SaaS space. With an annual net growth of 20-30% (NRR of 120-130%) among current customers and a payback on its customer acquisition costs of ~16 months that recently has improved, we believe Penneo is set to become profitable as it matures.

Guidance Up, Stock Flat

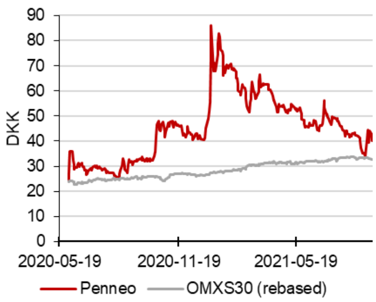
Despite an arguably solid Q2 report, showing improving churn, uplift, customer intake, and raised 2021 ARR guidance, the Penneo share has been unchanged since the Q2 was released. We believe the mismatch creates an attractive entry point in a possible compounder. While Penneo currently is cash flow negative, the very solid SaaS metrics indicate the company will be highly profitable as it matures. Our Base case is DKK 53, corresponding to a ~30% upside potential.

DKKm	2019	2020	2021E	2022E	2023E	2024E
Net sales	**28**	**36**	**56**	**82**	**114**	**151**
Growth y/y		29%	58%	46%	39%	33%
EBIT	**-2.2**	**-16.2**	**-23.5**	**-24.1**	**-13.2**	**-0.1**
EBIT margin	-8%	-46%	-42%	-29%	-12%	0%
EV/S			**16.4**	**11.6**	**8.6**	**6.6**
EV/EBIT			**neg**	**neg**	**neg**	**neg**

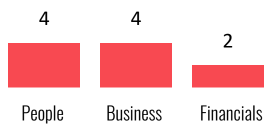
FAIR VALUE RANGE

BEAR	BASE	BULL
17	**53**	117

PENNEO VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	PENNEO
Market	First N. CPH
Share Price DKK	40
Market Cap	1005
Net Debt 21E	-98
Free Float	52%
Avg. daily volume ('000)	380

ANALYSTS

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Investment Case

Fast Growth Fueled by Digitalization and Regulations

Since its listing in mid-2020, Penneo has raised its annual recurring revenue (ARR) guidance four times. Thanks to strong growth both from existing and new customers, the ARR CAGR 2019-H1 2021 was >50%. We expect management to continue its focus on growth by entering new markets and new verticals, similar to auditors, as well as keeping the net revenue retention high.

We have identified several structural trends, such as increased digitalization, political ambitions to adopt digital legislation, and the striving for a sustainable business, driving the underlying market. Furthermore, the low penetration of eIDs outside the Nordics will result in structural growth for a long time.

Cohort Analysis and NRR Suggests Customers are Satisfied

Penneo focuses on large auditors, typically starting out using Penneo in a fraction of the firm, and the net revenue retention (NRR) of 120-130% means the average customer is rapidly increasing its usage – clearly indicating satisfied customers. For example, the 2017 Cohort generated DKK 4m in ARR in H1 2018, which in H1 2021 had grown to DKK 7m.

Solid and Improving SaaS Metrics Indicates Potential for High Profitability

Considering Penneo continues to increase the customer intake, partly driven by international expansion, combined with its solid NRR, we believe Penneo is set for many years of high ARR growth. While currently unprofitable, the high NRR and the improving payback of customer acquisition costs suggest Penneo will become highly profitable as it matures.

Dominating Denmark – Heading for Europe

In Denmark, where 17 of the 20 largest auditors are Penneo customers, 66% of all annual reports are signed using Penneo. In Sweden and Norway, several of the top ten auditors are current customers, and considering Penneo's NRR track record; we believe the likelihood of them increasing their usage is high. Penneo also has a footprint on the Finnish and Belgian markets.

As Denmark is one of the most digitalized markets in Europe, we believe a product dominating the Danish market has a high likelihood of being competitive in all of Europe. As Europe matures and the adoption of eIDs (as BankID in Sweden) increases, we expect Penneo to enter new markets gradually.

Niche Focus on Compliance-Heavy Sectors

While having customers in many sectors, Penneo focuses on the auditor vertical characterized by high regulatory requirements. Penneo is more than just a signing tool for auditors, as it automates the signing process and includes KYC functionalities. We believe the more comprehensive solution and Penneo's integrations to the major auditor ERPs raise the barriers to entry for competitors and increase its customers' switching costs. Also, as every sizable business is in contact with an auditor, the use of Penneo spreads through viral effects as the auditors' customers are encouraged to sign using Penneo.

Going forward, Penneo aims to broaden its solution to other heavily regulated verticals like the finance sector. While it limits the total addressable market, we believe the niche focus is a good way to limit competition from global players and local champions.

Counter-Thesis

Expensive Expansion in Europe

Management has signaled the potential and the willingness to expand into Europe. However, the expansion will increase costs, taking Penneo further away from positive cash flow, at least in the short term. Still, we believe the reward and the probability of success are worth the risk of a geographical expansion.

International Players Taking Over

Penneo might lose revenues as the market for digital signing consolidates, where global players want to squeeze out local players to get market share. However, Penneo has a strong presence locally within its niche, thus increasing the switching costs for customers and the barriers to entry for international players.

Catalysts

Continued Growth in ARR

Penneo has historically shown strong organic growth in ARR, with an increase of 48% in 2020, and the recently improved ARR guidance for 2021 indicates solid growth prospects. If Penneo can continue to grow its ARR – which we find is likely – the following reliable performance will attract investors' attention.

Additional Key Customers Outside of Denmark

We believe new partnerships with major auditors will have a long-term positive impact. New key customers outside of Denmark are especially positive, as it validates the competitiveness of the solution outside of its home country. Non-Nordic major auditors would be even more positive as Penneo has a limited footprint in those markets currently.

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Company Profile

Penneo is a Danish Software-as-a-Service (SaaS) company founded in 2014 and specializes in managing and automating the digital signing process for auditors. Penneo offers RegTech solutions, including digital signing, onboarding of clients (KYC), automation of workflows, compliance, security, and storage for over 2000 B2B customers. In 2020, when the share was listed on Nasdaq First North, the company had a total ARR of DKK 37m, and the aim is to become the software standard for auditors across Europe. The company is planning to migrate onto the Nasdaq Copenhagen main market in H1 2022.

Penneo has a strong presence within auditor firms and is positioned as the Nordic market leader, with several Big 10 audit customers across Denmark, Sweden and Norway. The company has a substantial existence in Denmark, where ~66% of the annual reports were signed with Penneo's platform. In 2021, the company expects to continue its internationalization through new market entries across the Nordic and Europe.

As a strategic choice, the company has its headquarters located in Copenhagen, with various nationalities among the population. Penneo has employees from 22 different nationalities, making it possible to avoid setting up local offices initially when expanding. Therefore, the headquarters' location will cause lower barriers for a cost-efficient geographical expansion into Europe.

In recent years, the company's pricing model has changed to a purely subscription-based model, from a combination of subscriptions and signature vouchers earlier, striving for stable and recurring revenues. In 2020, Penneo generated three different revenue streams: subscriptions, signature packages, and one-time fees, of which the subscriptions were ~70% of the revenues. The focus is to continue the growth, and between 2018-2020, Penneo had a CAGR in ARR of >43%, mainly organically.

Penneo improved its ARR guidance for 2021 to DKK 56-60m, indicating solid growth prospects. So far, the company has prioritized growth over margins, which we find reasonable given the vast opportunities, the scalable business model, and its solid SaaS metrics. We expect the growth to continue due to the improved guidance, the announcement of raising capital (up to DKK 100m), and that management has recently recruited additional sales personnel to drive organic growth.

Management, Board, and Owners

In August, Christian Stendevad as planned replaced Nicolaj Højer Nielsen as the CEO of Penneo. Stendevad's background includes managing Consultant in PwC and COO of Omada, a B2B SaaS company. Stendevad has a successful track record of growing and co-heading Omada over the past 17 years. We believe he has the right experience as CEO of Penneo with deep knowledge of growing and scaling digital companies.

In conjunction with the Q2 2021 report, Penneo released additional SaaS metrics and customer growth figures. We like the extended reporting, which now includes detailed ARR figures, including new sales, uplift, and churn, as well as CAC and ARPA, making it possible for us to calculate CAC/Payback and LTV/CAC. Penneo now has one of the most extensive SaaS-metrics reporting among listed Nordic SaaS businesses. We like that management is transparent about its metrics, which we believe reduces the risk for investors, especially considering that Penneo is cash flow negative. Needless to say, this strengthens our view on the management.

Højer Nielsen is the second-largest shareholder of Penneo, holding 11.5% of the capital and votes, and is a serial entrepreneur and business angel who has co-founded and invested in several startups within IT and Biotech since 1999.

Penneo - Management

Name	Position	Joined	Note	# of shares
Christian Stendevad	CEO	2021	Successful track record of growing and co-heading Omada over the past 17 years	0
Jan Flora	CTO	2014	Experience within tech companies before co-founding Penneo	2 327 427
Casper Nielsen Christiansen	CFO	2018	Previous experience as CFO of SpotOn Marketing	0
André Clement	CCO	2014	Co-founder of Penneo	1 851 382

Source: Redeye Research, Penneo, Holdings

Both the CTO Jan Flora and the CCO André Clement are co-founders of Penneo and have been a significant part of driving the company forward. We think it is positive that the founders remain in the company, owning 9% respectively 7% of the capital and votes. Casper Nielsen Christiansen has been the CFO since 2018 and has relevant experience from a similar position.

The board will consist of four members, as Steffen Heegaard is recommended to be elected as a new member at the next ordinary shareholders' meeting. Christian Sagild and Rikke Stampe Skov joined in 2021 and Morten Kenneth Elk before the listing in 2018. We believe the board has a favorable mix of competencies, including entrepreneurial skills and experience within public listed companies and SaaS companies. All the board members hold shares in Penneo except the expected elected Heegaard.

Penneo - Board of Directors

Name	Position	Joined	Note	# of shares
Christian Sagild	Chairman	2021	CEO of Topdanmark between 2009-2017 and board positions in large listed companies	200 000
Rikke Stampe Skov	Member	2021	Background as a partner in PwC and current CEO of Imprero	1 615
Morten Kenneth Elk	Member	2018	Serial entrepreneur and business angel, CEO and co-founder of SimpleSite	18 083
Steffen Heegaard	Member*	2021	+20 years of experience within IR and ESG, primarily from Topdanmark	0

Source: Redeye Research, Penneo, Holdings

**Note that Steffen Heegaard is recommended to be elected as a new member of the board of directors at the next ordinary shareholders' meeting and not a board member today, as Michael Moesgaard Andersen decided to step down from his position in July.*

Michael Moesgaard Andersen is Penneo's largest owner, followed by Nicolaj Højer Nielsen and Jan Flora, holding 33% of the votes and capital together. We appreciate management's substantial shareholdings, which we believe align the interests of management with the shareholders. However, the significant insider shareholdings result in low liquidity and free float in the share.

In addition to the shareholdings mentioned above, there is widespread ownership of warrants among management and employees in Penneo, which we like. We believe widespread holdings align the interestest of the personnel with the investors.

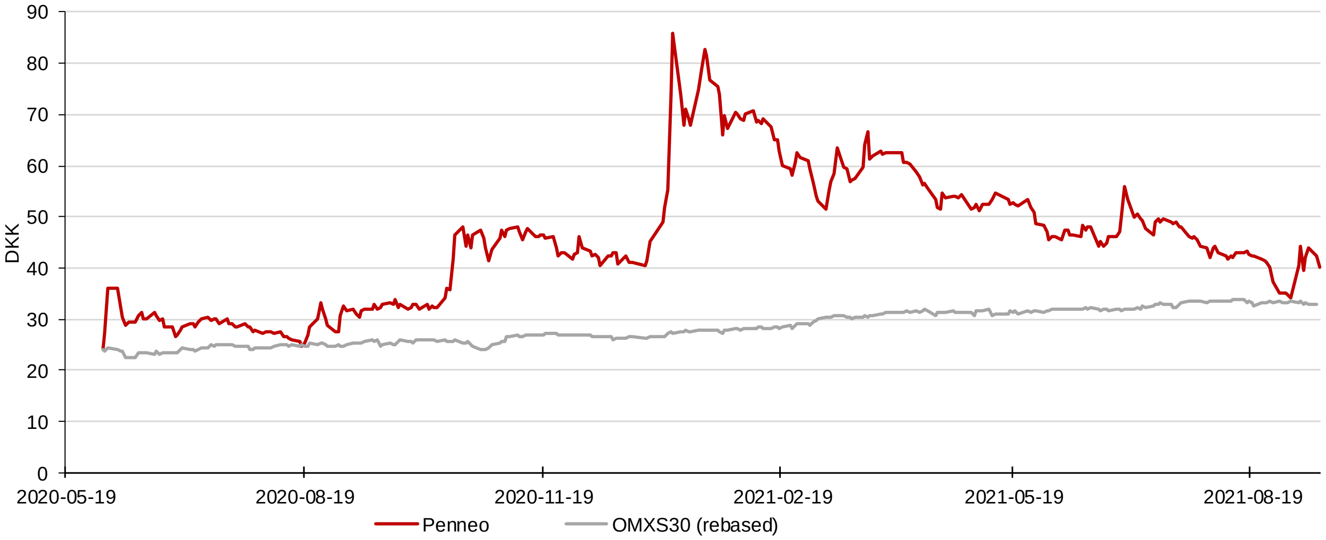
Penneo - Ownership structure			
Name	**Capital %**	**Votes %**	**Verified**
Michael Moesgaard Andersen	12.6%	12.6%	2020-12-31
Nicolaj Højer Nielsen	11.5%	11.5%	2020-12-31
Jan Flora	9.3%	9.3%	2020-12-31
Mikkel Clausen	8.1%	8.1%	2020-12-31
André Clement	7.4%	7.4%	2020-12-31
Anders Eskholm	7.0%	7.0%	2020-12-31
Jakob Neua Nørgaard	7.0%	7.0%	2020-12-31
Niels Henrik Rasmussen	5.4%	5.4%	2020-05-26
Janek Borgmann	4.9%	4.9%	2020-05-26
Penneo A/S	2.4%	2.4%	2020-05-26

Source: Holdings

Penneo lacks institutional investors among the top 10, which we would have liked to see, and we think the low liquidity is one reason. However, if Penneo can continue growing, increasing the market cap, and executing the planned migration to Nasdaq's main market. In that case, we believe it will increase liquidity and attract institutional investors. The company is growing, scalable, with recurring revenues – which institutional investors tend to favor.

The Share

Penneo - Share price



Source: Redeye Research, FactSet

Since the listing in June 2020, the Penneo share has experienced both upturns and downturns. On the first day of trading, the Penneo share rallied, more than doubling to a price of DKK 23.70 from an introductory price of DKK 11.06. The share continued to rise, trading in the range of DKK 25-36 until the middle of October 2020, and then spiked after the first customer in Belgium was signed. At the beginning of 2021, it doubled under significant turnover to as much as DKK 86. Since then, the share price has gradually dropped. We believe that the news flow was not substantial enough to double the valuation, and the rally was mainly due to Penneo's low free float combined with a higher turnover than usual.

Following a solid Q2 report, showing improving churn, uplift, customer intake, and raised 2021 ARR guidance, the Penneo share first declined by ~15% but has since then recovered. The share is now back at pre-Q2 levels, which seems defensive considering the solid report and raised guidance. Thus, despite the recent uptick, we believe current levels are an interesting entry point.

Considering the low free float and the relatively low turnover – with significant holdings among likely long-term holders such as management – we expect the volatility in the share to remain high. We also believe that continued solid quarters with growing ARR, the signing of additional key customers, and geographical expansion will be the most likely catalysts going forward.

Business Overview

Through process automation and digitalization Penneo's products optimize processes and convert heavy manual tasks to be automated. Even though Penneo focuses on the audit and accounting industry, the customer base also includes finance, real estate, and law firms, etc. Penneo's product portfolio is an end-to-end platform with several applications within digital signatures, workflow automation, KYC process automation, and data security.

Digital Signing and Workflow Automatization

Penneo provides a digital identity application that supports organizations to digitalize workflow procedures. The customers can achieve safe validation of the signers, sign several documents, assure compliance, and all documents are stored in a personal archive, making it easily accessible. Penneo's dashboard gives real-time reporting, letting customers follow the entire signing process, setting up deadline trackers and reminders, authentication processes, reviewing historical signings, and monitoring participants. Each document in the platform is unique but can be reused for similar situations.

The digital signing process is fully automated, and according to Penneo, the auditors save 1 hour per annual report. The automation of these processes reduces the costs, the probabilities of human errors and ensures effective delegation of information. Penneo offers unique APIs to software partners in different sectors such as Silverfin, Workpoint, Wolters Kluwer, TimePlan, Caseware, and HR Manager to provide a complete end-to-end solution. We believe that these integrations with other platforms increase customers' switching costs and the barriers to entry for competitors.

Customization and Collaboration

Penneo collaborates with its customers to specialize the platform for their specific needs. That increases customer satisfaction and customer relationship, leading to increased switching costs. At the same time, the customized solutions are costly and time-consuming, decreasing the business' scalability. However, we believe that those offerings are a small part of Penneo's otherwise scalable offering, making the advantages outweigh the disadvantages of such a solution.

Data Security and Compliance

Penneo protects the business data to support security requirements, both operational and Penneo's internal security. The platform has an integrated role-based function, of which access to services and documents is based on the specific role in the company. It is also third-based audited, controlling that Penneo has the highest industry standard.

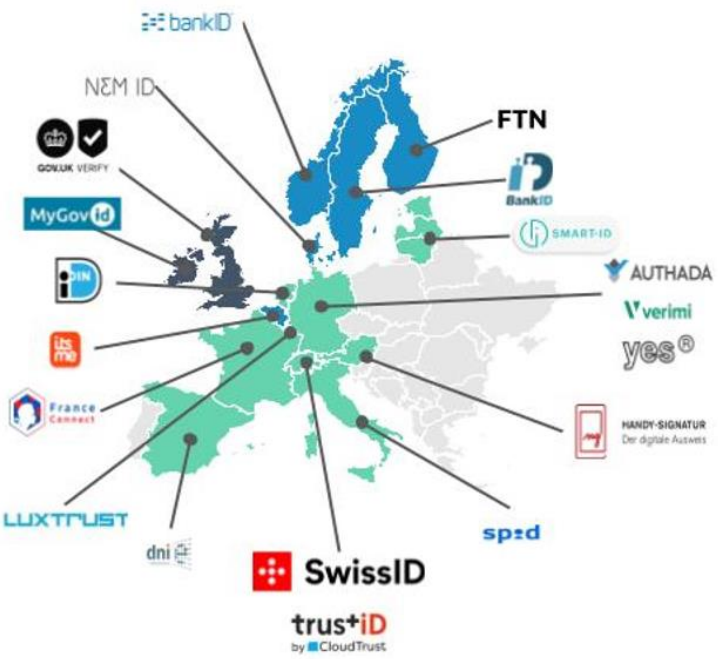
Penneo ensures eIDAS-compliant digital signatures, which stands for electronic identification, authentication, and trust services. eIDAS creates a European standard for e-signatures with identical legal standards as traditional signatures. When using eID as a sign-in solution, the data and documents are guaranteed to be end-to-end encrypted. With Penneo, companies are ensured to follow AML-compliance and the GDPR, decreasing the possibility of fines and mishandling critical data information. The platform deletes data automatically per GDPR request and meets all global standards related to data privacy, KYC, and e-signatures.

Future End-to-end BPA Platform

Penneo's long-term goal is to reach an end-to-end business process automation (BPA) platform, which requires that the platform does all tasks without human interaction. The onboarding module launched in 2020 represents the first BPA innovation. According to the company, ambition product development is set for the coming years to reach the goal. The company has also communicated BI analytic tools and tech development of new services and integrations. We believe that the platform development will increase the future cross-selling opportunities, which we will discuss later.

Riding on the Growth of eID Schemes

Penneo is riding on the structural growth of national electronic ID (eID) schemes. Scandinavian has been a frontrunner in implementing eIDs, and the schemes are currently being implemented across the EU. As of today, Penneo has eIDs in Denmark (NemID), Norway (BankID), Sweden (BankID), and since 2020 also in Finland (FTN) and Belgium (itsme). Penneo seeks to expand across Europe as part of the internalization. When additional eIDs are integrated into the platform, the establishment cost for competitors will increase. We believe this expansion will continue, and the figure below shows current and potential new eID-markets.



Huge Value Creation

The accounting industry consists of heavy document workflows, and by automating and digitizing those workflows, Penneo creates a lot of value. As customers get rid of manual processes, it is possible to focus on more value-adding tasks, increasing efficiency. The signing process is reduced from weeks or days into a few hours, and the solutions are better for the environment. Additional value creation for the customers is that all documents are secured to fulfill all regulatory requirements.

Software-as-a-Service (SaaS) Business Model

Penneo is using a Software-as-a-service (SaaS) solution running on a cloud infrastructure. This means that the customers do not need to allocate any internal IT resources, and the platform is always accessible. New features and updates integrate quickly, and customers can be onboarded without high costs. Our opinion is that a SaaS business model increases scalability and improves the clarity of future revenue streams.

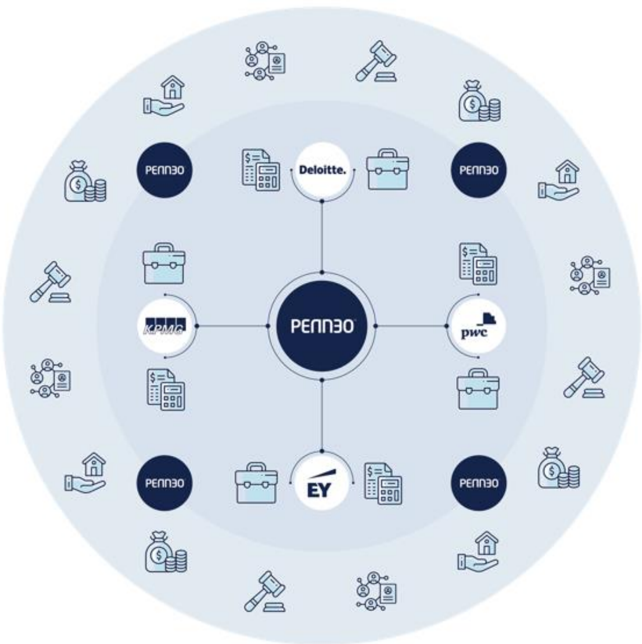
Since 2019, Penneo's pricing model has switched from a combination of signature vouchers and subscriptions to purely subscription-based. The offering consists of three different packages: Basic, Advanced, and Premium. The Basic is a standardized offering within digital signing, and the Advanced is customized for the customers' specific needs, either within signing and data collection or AML and KYC compliance. The Premium package is a combination of these packages bundled into one subscription. Subscriptions are 1- or 3-year commitments paid upfront, based on the customer preferences and the industry. We believe switching costs will occur once the platform is integrated and the costs are even higher with the customized package.

In 2020, ~70% of the revenues were pure subscriptions, with a churn of 4%. According to management, this churn was from small customers. Historically, Penneo has shown solid growth in ARR, and we believe that it can continue. With the immature market and Penneo's scalable business, the focus on growing the ARR with additional customer intake is appropriate, which we think is optimal for long-term profitability.

Viral Effects

The large customer base will give rise to viral effects, meaning existing customers will get Penneo additional customers and decrease customer acquisition costs. For Penneo, most new customers will reach out with Penneo's platform to their clients, providing potential for additional customers.

Our opinion is that the relationship with audit firms makes the potential for viral effects even more robust. For example, as a spill-over effect, Penneo can capitalize within the same audit organization but in different locations. We also believe there are viral effects between auditors and clients. As C-level management signs annual reports etc. with Penneo, we find it likely that they will consider Penneo for its in-house signing.



Two-folded Go-to-Market (GtM) Strategy

Penneo has a two-folded go-to-market (GtM) strategy. The strategy is to capitalize on the first-mover advantage within the Big 10 accounting firms in each new market. A developed national eID and digital reporting of annual reports is a must, followed by a high degree of digitalization.

The first step in the GtM strategy is to take advantage of the strong relationship with Big 10 firms in the Nordic countries, attracting Big 10 customers in a new market. The intention is to use those customers to reach out to its clients and sister firms in other markets. The Big 10 is an essential and unique key customer segment in the international expansion.

After securing agreements with the first Big 10 in the new market, the second step is to target SME auditors and large enterprises with heavy document workflow within other industries, hopefully, exposed to Penneo as a client to a Big 10 firm. After this, the sales force continues to target the remaining Big 10 firms and new markets.

Ready for Continued Growth – Raising Capital

In June, Penneo announced the willingness to migrate to Nasdaq's main market and the plan to raise capital of approximately DKK 100m to accelerate growth. The capital will be used to expand the business in three ways:

- Roll out the KYC product to existing 700+ audit customers in the Nordics
- Penetrate the financial Institutions vertical with Penneo's KYC/AML and core products in Denmark
- Secure audit vertical ownership in current countries, such as the new markets Finland and Belgium

We believe it is the right approach for further expansion and market share in the long run, and these points are the drivers for future growth.

Strategic Focus – the Audit Industry

Penneo's largest vertical are audit firms, and therefore, the future growth and internationalization are primarily affected by Penneo's customer relationship with the Big 10 accounting firms. These customers have considerable upselling potential, and none of the Big 10 customers have ever churned, underlining the value creation of Penneo's platform. The solid fit makes it hard for competitors to target this specific vertical as the entry barriers will increase. We believe that Penneo has a strong market position with 10 of the Big 10 accounting firms in Denmark, 6 in Norway, and 4 in Sweden.

The strategic focus of accounting firms gives a unique competitive advantage, and the niche market is chosen for several reasons. For example, there are high switching costs due to the "winner takes it all" characteristic. The industry can be digitalized and automated to a large extent with heavy document workflow, and the firms can get substantial operational cost savings and increase compliance using Penneo's solutions.

Our impression is that the digital penetration in the accounting industry is still low, and the total addressable market in Europe consists of approximately more than 32 000 registered firms. Denmark has the most substantial penetration, of which Penneo has successfully attracted 17 out of 20 of the biggest accounting firms, including all Big 10 firms. A similar presence in a new market could result in significant revenue streams.

Geographical Expansion – Europe

Penneo has a strong presence in the Nordic market as the criteria such as digitalization, a developed national eID, and digital reporting of annual reports are fulfilled to a larger extent. The company expects to continue its internationalization in 2021 through existing and new markets, rolling out the KYC/AML software acquired from CLA Reply. In 2020, Penneo integrated the Finnish eID FTN-standard and the Belgian eID itsme. The same year, the first Finnish audit firm was signed, Accado, and VGD, a Big 10 audit company in Belgium. Management expects increasing traction in Finland and Belgium and sees significant potential in the European market.

Potential geographical expansions in addition to Finland and Belgium are England, Ireland, Italy, and Netherland. These countries are likely new markets for Penneo, meeting all the requirements for entry. For example, England and Ireland together have over 9000 audit firms.

New Verticals – Primarily the Financial Sector

Even if Penneo has a strategic focus on the audit industry, we believe it can expand to other verticals. According to the company, a vast opportunity is to enter new verticals with lots of KYC/AML, such as the financial sector. We think it is the right sector expanding to, with its similarities to the audit industry regarding document workflow and compliance. We also see that Penneo can increase its existence within this vertical in Denmark, where it already has a significant penetration of the audit vertical.

Cross- and Upsell Opportunities

As Penneo increases its ARR, more resources can be allocated to develop its platform, and additional solutions can be integrated, hopefully leading to cross-selling opportunities. Upselling is also likely as Penneo's audit customers are using the platform to a greater extent. Historically, this customer segment has stood for a big part of the upsells, which we think will continue.

The AML/KYC software acquired in October 2020 from CLA Reply uses compliance automation and digital business optimization in the onboarding process of customers, including creating, onboarding, streamline, and collecting data. The acquisition contributes to Penneo by strengthening its current platform. We believe that the acquisition is a great fit, broadening the offering and increasing the upsell potential.

Further acquisitions are not prioritized as Penneo grows mainly organically, but potential targets are still being evaluated continuously. According to management, Penneo is looking for three types of acquisitions targets to be relevant; Additional ARR on existing markets, a Penneo alike in new markets to get a more substantial ground for internationalization, or technologies that fit into the current platform. We believe in the potential to broaden the product offer, both by M&A activities and internal product development. So far, the KYC acquisition seems successful, having a positive impact mainly on uplift.

Industry Outlook

Digitalization

Several underlying global market trends drive the market for Digital Identity (DI), Digital Transaction Management (DTM), and Business Process Automation (BPA) and one of those is digitalization. Industries are currently going through an enormous digital transformation, moving applications and information online, and consequently, the demand for those applications increases. Digitalization is essential for companies to remain competitive as operating efficiency increases with time and cost reductions. According to McKinsey, the audit industry expects to allocate additional resources to technology, and 86% of the current tasks and workflows can be digitalized. This highlights the underlying growth in the market, especially in the digitalized Europe, where Penneo's focus is.

ESG

Increased digitalization contributes to a sustainable business, which is another global market trend. Environmental, Social, and Governance are on top of the agenda in almost all companies and organizations, and the focus on corporate responsibility helps maintain a sustainable competitive advantage. The digital platform solution removes the need for physical documents, increasing companies' resource efficiency, reducing waste, and making the business sustainable. Penneo's platform is entirely paper-free, which reduces deforestation. According to Penneo, enterprises spend 1% to 2% of revenues on paper, printing, filing, storing, and maintaining information files.

Legislation

The political ambitions also drive the underlying market. According to the eIDAS regulation, a digital signature has equal legal status as a handwritten signature. The eIDAS creates demand for digital encrypted signature solutions per EU initiatives, such as AML-compliance and GDPR. These regulations increase the focus on compliance and personal data security in applications. Consequently, eIDs, AML and KYC solutions are becoming increasingly important across industries.

The Penetration of the Nordic Market

The digitalization in the Nordics makes it the most mature market, and approximately 90% of the population uses eIDs frequently. We believe that digital signing penetration in the Danish audit vertical is about ~70- 80% and approximately 50% in Sweden and Norway. Penneo has a considerable potential to continue penetrating the Nordic market, both existing and new markets, such as the Finnish joined in 2020. There are further opportunities in the Nordics regarding other verticals such as the financial sector, which is the next step mainly in Denmark, with Penneo's great audit dominance. We believe it is possible to penetrate the Nordic countries further. Penneo has outgrown the market historically, and our opinion is that it is achievable also in the following years. The national eIDs penetration in Europe is still low, which also Penneo's market share outside the Nordic is, indicating potential future growth both for Penneo and the market as a whole.

Competitors

The market for digital identity is fragmented, and because of this, the competitors can be divided into two categories: local and international players.

Local Players – GetAccept, Connective, and Scrive

GetAccept is a B2B Swedish-based local player established in 2015 with 150 employees. GetAccept focuses on selling and making business, where sellers can integrate with buyers to sign deals. GetAccept's product is eIDAS compliant and a competitor to Penneo in the DI market. Its goal is to assist customers sign deals fast and easily by integrating the platform into CRM systems. Similarities to Penneo are that GetAccept has large companies as customers and is eIDAS compliant. The product can also integrate with other platforms, such as Salesforce, Google Drive, and Microsoft Dynamics 365. A difference to Penneo is that GetAccept has a clear "selling" focus and its core purpose is to support the customers to complete deals.

Connective is another local player in the EU based in Belgium with over 1000 customers. The company holds a software platform within DTM, offering identity services and digital signatures to integrate with Microsoft Dynamics, Salesforce, and Talentsoft. Like Penneo, Connective has a partnership with Silverfin and Big 10 accounting firms as customers. Connective's solution supports local eIDs such as NemID, BankID, itsme, and iDIN and covers several industries, including Penneo's auditor vertical. However, Connective has no focus on the auditor vertical with specialized solutions and has no direct sale to Big 10 accounting firms as Penneo.

Scrive was established in 2010 in Sweden and is also a local player, mainly in the Nordics, with offices in Stockholm, Norway, Denmark, and the Netherlands. The company offers signing solutions with national eIDs and has integrated onboarding of clients and KYC control in the platform with over 4000 customers. Scrive has several similarities with Penneo, for example, the focus on the DI market and the geographical focus. However, one difference is that Scrive cannot sign multiple documents as Penneo, which is necessary for the financial reporting process for accounting firms.

The International Player – DocuSign

DocuSign is a listed American-based company with a market capitalization of USD ~60bn, thus a global player significantly larger than Penneo. The company offers various signing solutions and document management platforms that can be integrated with, for example, SAP, Workday, and Salesforce. In 2020, the company had sales of USD 970m and 1m paying users worldwide. DocuSign operates globally within the DI, DTM, and BPA. The company is investing heavily in sales and marketing and has a "conquer all" strategy. Further differences are that DocuSign has no clear strategic auditor focus as Penneo and lacks important compliance features in the financial reporting signing process.

Market Forecasts

Penneo operates within three overlapping markets, which are the digital identity market (DI), the digital transaction management market (DTM), and the business process automation market (BPA).

DI

Digital identity solutions authenticate electronic documents equivalently as handwritten signatures verify printed documents. Both governments and enterprises accelerate the investments in electronic signatures, driving the growth. Key market drivers are the increased need for security, multifactor authentication, and the demand for improved efficiency and transparency across organizations. The increased digital business processes boost the adoption of digital identity technologies. Globally, Europe is the fastest-growing market within digital identity due to investments by enterprises and governments. In particular, the banking and financial industry drives the growth in the market, which includes accounting firms.

According to ResearchAndMarkets, the DI market is expected to have a CAGR of 18% between 2020-2026.

DTM

DTM is a cloud service designed to streamline business processes by making paper-based transactions and documents digital. This increases workflow efficiency, reducing operational costs, increases customer satisfaction, and ensures compliance. Like the DI market, the European DTM market is expected to see the strongest growth, even if the American market is the biggest one. According to Mordorintelligence, the DTM market is estimated to grow with a CAGR of 25% between 2021-2026.

BPA

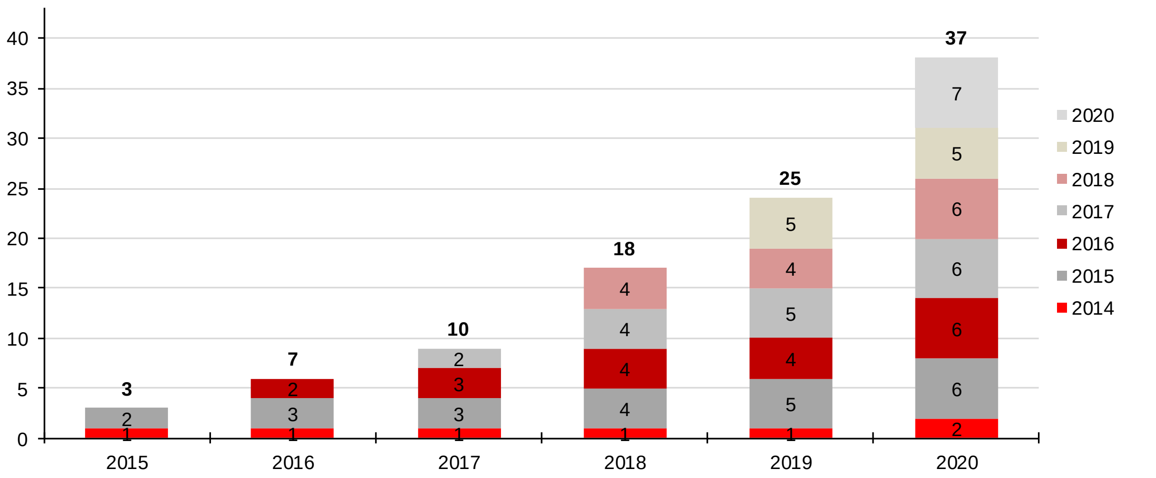
The BPA automates repeatable day-to-day tasks or workflows and goes further than the document-centric DTM market. The BPA aims to improve efficiency and make the workflow cost-efficient and streamlined by setting user-defined rules. The BPA is a continuation of the DTM and DI market, as it integrates software applications to be automated. As auditors have a lot of documentation, those companies are active adopters of digitalization and automation, driving the BPA market. According to ResearchAndMarkets, the BPA market is expected to grow with a CAGR of 12% between 2020-2026.

Financials

The ARR Journey so far

Penneo has steadily grown the business, and the ARR-CAGR has been an impressive ~65% between 2015-2020, even though it started from low levels. The yearly cohorts illustrate a substantial increase in revenue from existing customers, thus implying customer satisfaction and considerable lifetime value for Penneo. Theoretically, this huge upselling indicates that Penneo can grow the future ARR even with a customer intake of zero.

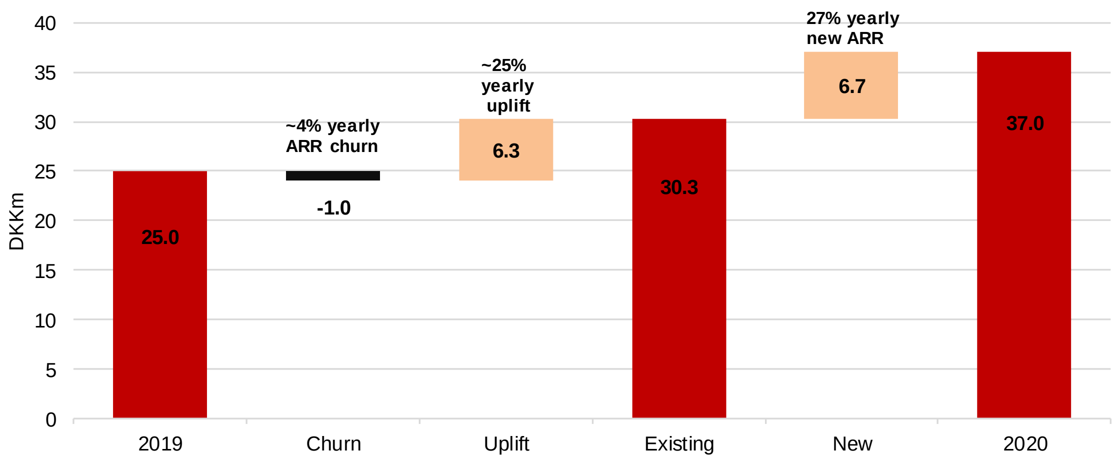
ARR Development 2015-2020 - Yearly Cohorts



Source: Redeye Research, Penneo

The ARR grew by 48% 2019-2020, following a ~27% growth from new customers and NRR of 121% -- ~25% uplift and ~4% churn. While few listed Nordic SaaS businesses disclose their NRRs, >120% is most likely among the top 10%. We find the combination of NRR >120% and 27% growth from new customers impressive, and we believe it lays the foundation for several years of solid growth from now on.

ARR Development 2019-2020 - Churn, Uplift, New

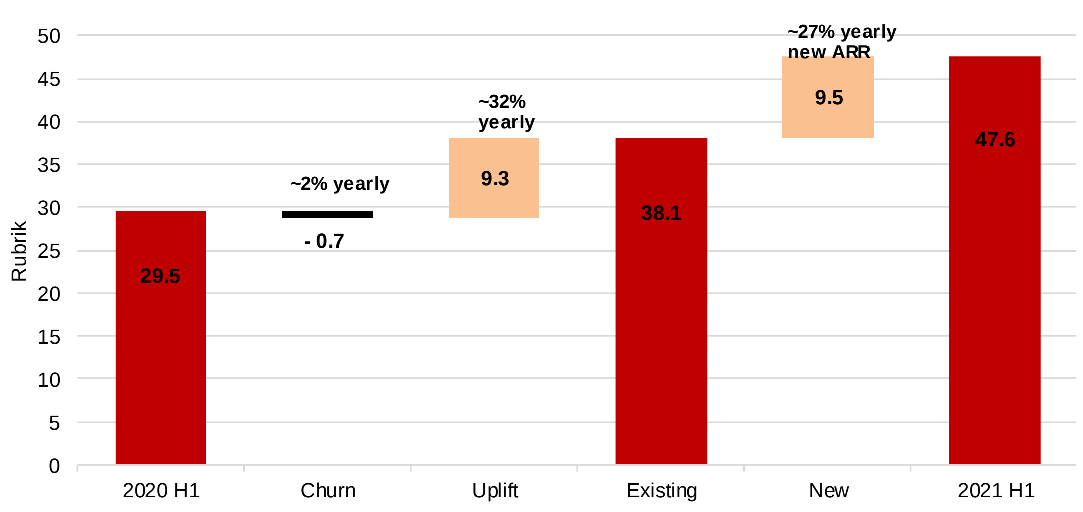


Source: Redeye Research, Penneo

The solid NRR is a sign of strength and a vital profitability metric in SaaS companies. Acquiring a new customer is known to be costlier than retaining an existing one. By keeping and expanding the existing customer base, Penneo can increase the customer's lifetime value, leading to increased profitability.

Notably, as seen in the figure below, during H1 2021, the ARR growth accelerated even further thanks to a churn of only 2% and an uplift of 32%.

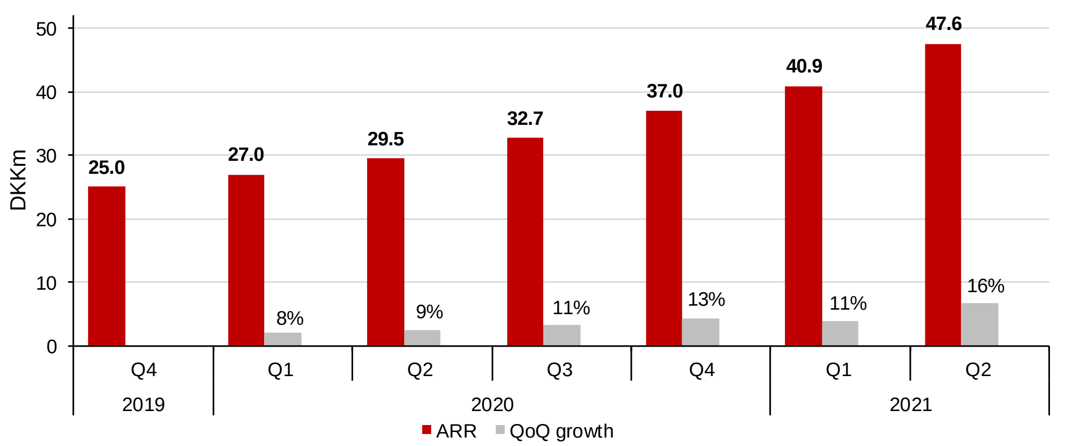
ARR Development 2020 H1-2021 H1 - Churn, Uplift, New



Source: Redeye Research, Penneo

By looking at the quarterly figures, the stability of the SaaS business model becomes clear. With the nature of an ARR-driven business, we think it is relevant to highlight the sequential growth. Penneo has steadily increased the ARR since Q4'19 and has never seen a quarterly sequential decline, with an average QoQ growth of ~11% since Q1'20. In the latest quarter, Q2'21, the ARR increased 16% QoQ – ~66% on an annualized basis.

Quarterly ARR

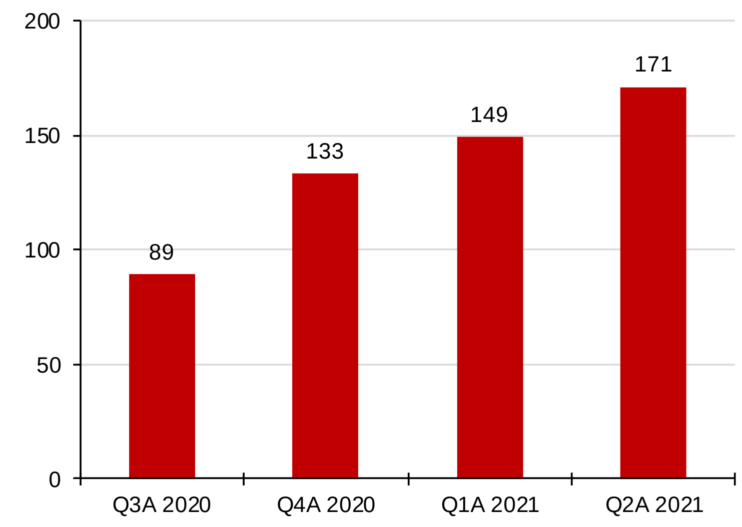


Source: Redeye Research, Penneo

Customer intake, ARPA and CAC

While achieving an impressive NRR as mentioned before, Penneo has increased the number of new customers in absolute terms significantly over the last year. On a quarterly basis, the customer intake has almost doubled since Q3 2020. Thus, there is a growing interest in Penneo's offering also from current non-customers.

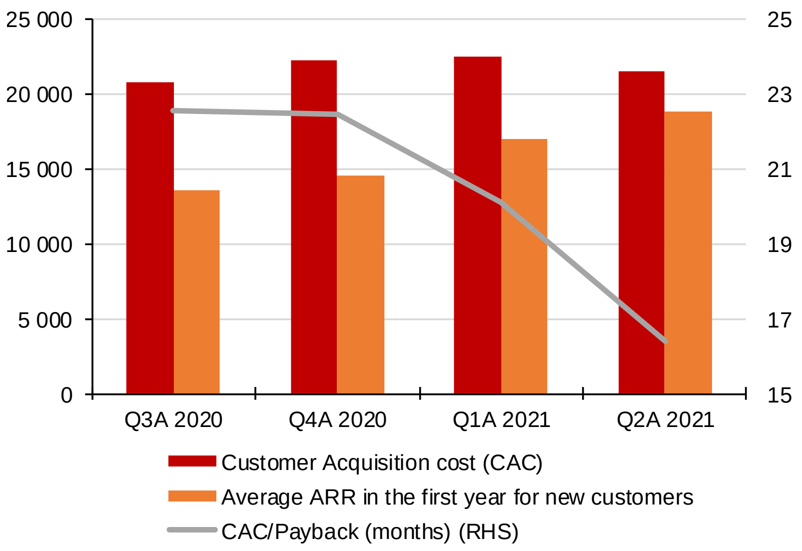
New customers



Source: Redeye Research, Penneo

Penneo's CAC/Payback has improved significantly over the last year. While the CAC has remained largely unchanged, a higher average ARR for new customers has improved the CAC/Payback from ~22 months to ~16. The ~16 months is somewhat higher than the typical ~12 benchmark. However, considering Penneo's impressive NRR of 120-130%, the average customer will be very profitable a few years down the road. Thus, combining a decent CAC/Payback with a high NRR results in a healthy SaaS company over time.

CAC/Payback



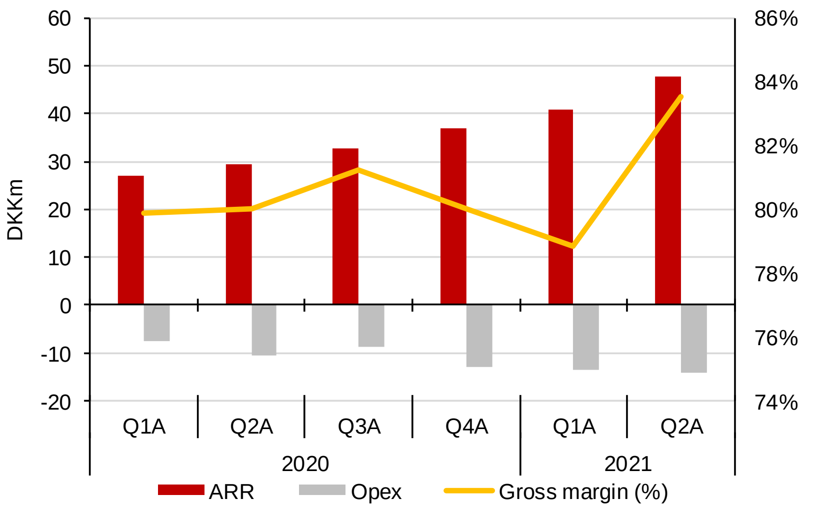
Source: Redeye Research, Penneo | CAC/(ARR year 1 X gross margin)

While we argue that LTV/CAC is a weak metric for young businesses with enterprise customers, as the churn typically is very low initially, during H1 2021, Penneo had LTV/CAC of impressive 47. That is probably not sustainable over time but still provides us with an indication of the long-term implications of Penneo's SaaS metrics.

Historically OPEX and Gross Margins

The solid growth has occurred at the expense of an increased investment rate, which is visible when looking at the OPEX (personnel expenses, other external costs, and other operating expenses). The upturn is mainly due to the workforce, as it increased in each quarter last year and the net add was exceptionally high in Q4'20, with its 24 employed. However, the OPEX has historically been relatively stable as a percentage of the ARR.

Quarterly ARR, Opex and Gross margin



Source: Redeye Research, Penneo

We believe that Penneo will continue to invest and grow the ARR, even if it results in a cost increase in the short term. Penneo has historically had gross margins of ~80%, and we believe that the solid gross margins will give rise to improved long-term marginals and profitability.

Estimates

ARR – New Sales, Uplift, and Churn

We estimate new sales, uplift, and churn, resulting in an ARR forecast, generating the sales forecast. As mentioned above, Penneo has a track record of substantial ARR growth with a healthy mix of new sales and NRR (uplift-churn). While growth from existing customers generally comes cheaper than growth from new customers, we believe solid growth from new customers is essential for a relatively immature SaaS business like Penneo, which aims for many years of high growth as we advance.

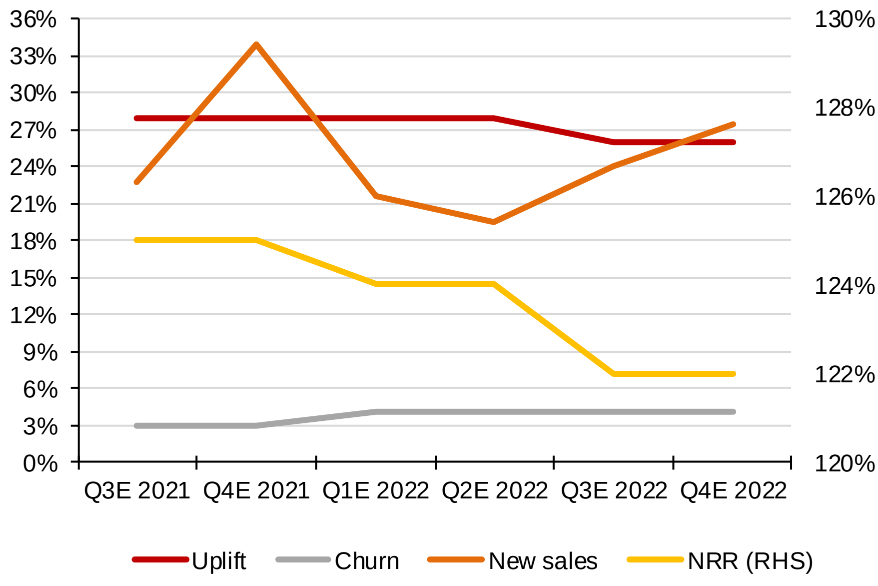
Short Term Forecasts

We expect new sales to increase in absolute terms for the coming quarters, following a ramp-up of the organization. However, as we forecast a total ARR growth of 50-60%, we assume the contribution from new sales to decline in relative terms from 2022 and onwards.

While expecting a slight decline in uplift relative to the very high 32% in H1 2021, we believe Penneo will continue to grow rapidly among its current customers – driven by two main factors. First, as Penneo focuses on large customers, typically starting out using Penneo only in a small fraction of the firm, Penneo has a natural uplift in its business model. Second, the acquired KYC functionalities are likely demanded by large parts of Penneo's current customer base, paving the way for additional uplift – there are already examples of significant deals.

We expect the churn to increase somewhat from the very low 2% level during H1 2021. We assume the churn will converge to the historical average of about 4% over the coming quarters. However, 4% is still an excellent level, matched by only a few listed Nordic SaaS companies.

New sales, Uplift and Churn - Short Term Forecasts



Source: Redeye Research, Penneo

The figures above shows annualized q/q numbers, resulting in somewhat volatile new sales due to seasonality.

Consequently, we forecast a Net Revenue Retention (NRR) of 120-125%, which, despite a slight decline from the 130% level in H1 2021, is a very solid number and among the best in the listed Nordic SaaS space.

See Valuation and Base case segment for forecast tables including ARR, New Sales, Uplift, and churn.

Long Term Assumptions

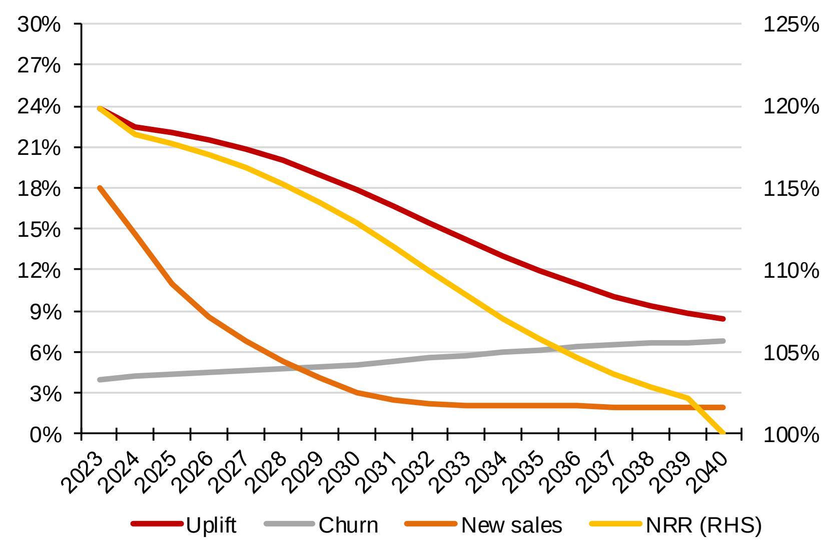
While estimating the coming quarter usually is an easy task in a SaaS company, the long-term forecasts in a fast-growing business with most of its free cash flows being generated several years ahead are challenging and vital to the valuation.

We believe Penneo will focus on the auditor and other highly regulated industries, such as finance, in Europe – gradually expanding to new countries as Penneo has the resources and eID penetration increases. While we lack any forecasts of the relevant European markets' size, when considering Penneo's significant footprint in Denmark (~1% of EU+UK+NO population) and moderate footprint in the remaining Nordics (total of ~5% of EU+UK+NO population), the total addressable market is substantial.

However, to reach our forecasts, Penneo has to gain a substantial market share in its current market among its focus sectors. We believe there is a high chance Penneo will. The cohort analysis and the low churn and high uplift suggest customers are happy with the solution and increasing their usage substantially.

Also, following increased digitalization and stricter regulations, we assume the relevant market will grow over the coming years – our Industry Outlook segment forecasts support this.

New sales, Uplift and Churn - Long Term Assumptions



Source: Redeye Research, Penneo

We assume new sales will reach a plateau in absolute terms in 2024, resulting in a gradually lower growth from new sales. Since Penneo targets mainly larger customers starting with limited usage, we believe most of the growth will come from uplift over time.

While we assume the uplift will gradually decrease to about 5-10% in 2040, we forecast an average uplift of about 15% from 2023-2040. Combined with an average expected churn of 5%, gradually increasing during the forecasting period, we forecast an average NRR of ~110%. While a 10% average annual increase in sales from the current customer base might not seem significant, it compounds rapidly over time.

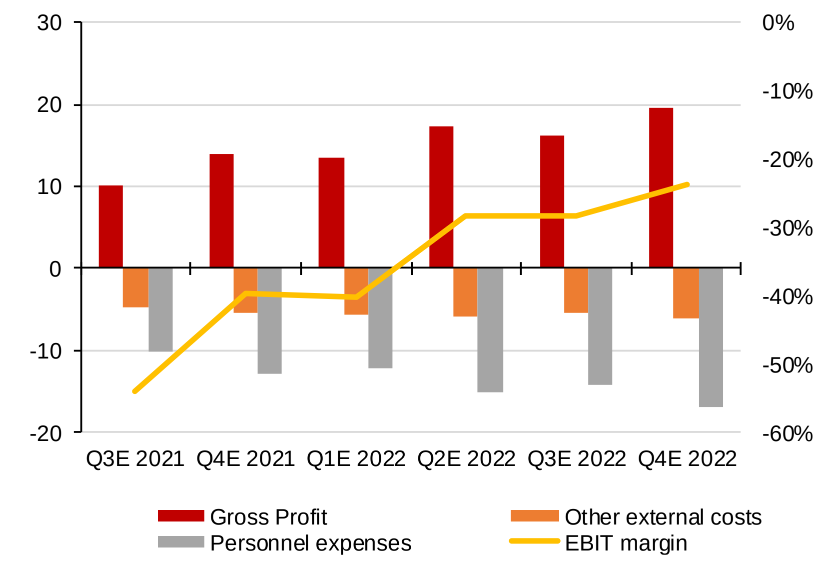
In 2040, where we assume Penneo to reach a mature state, we forecast an NRR of 100%, i.e., no net growth from current customers and new sales in line with inflation.

All in all, we forecast a sales CAGR of 24% 2023-2030 and a sales CAGR of 8% 2030-2040.

Costs and EBIT

We believe Penneo will continue to focus on sales growth over profitability, which we find reasonable considering its strong SaaS metrics. During H2 2021, Penneo plans to obtain capital of up to approximately DKK 100m, and we expect the funds will be used to grow sales. Thus, despite the forecasted high growth rate over the next 18 months, we believe Penneo's EBIT will remain in negative territory for the period.

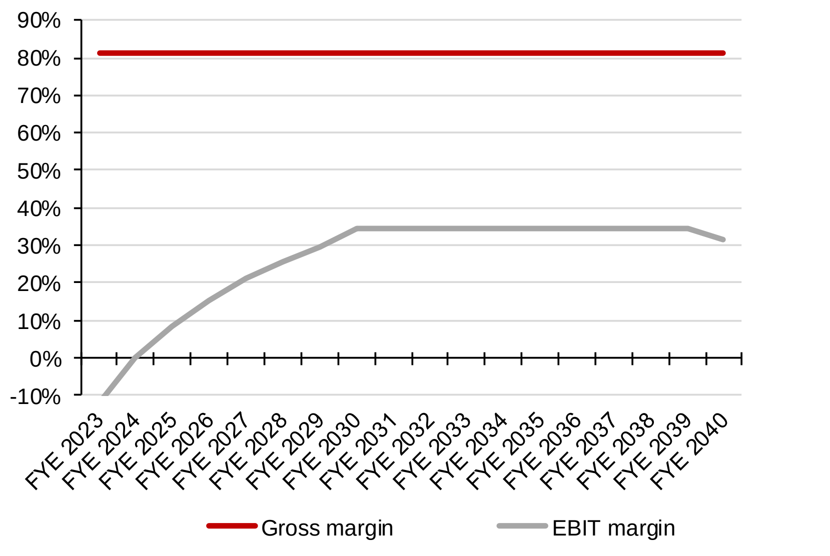
Costs and EBIT - Short Term



Source: Redeye Research, Penneo

We expect Penneo to become profitable on the EBIT level by 2025, followed by several years of gradually improved margins. Thanks to its scalable business model and attractive SaaS metrics, especially the high NRR being important over the long run, we believe EBIT margins of about 35% are reasonable as Penneo becomes more mature.

Costs and EBIT - Long Term



Source: Redeye Research, Penneo

For forecast tables including costs, EBITDA, EBIT, and EPS, see Valuation and Base case segment.

Valuation – Relative to Nordic SaaS

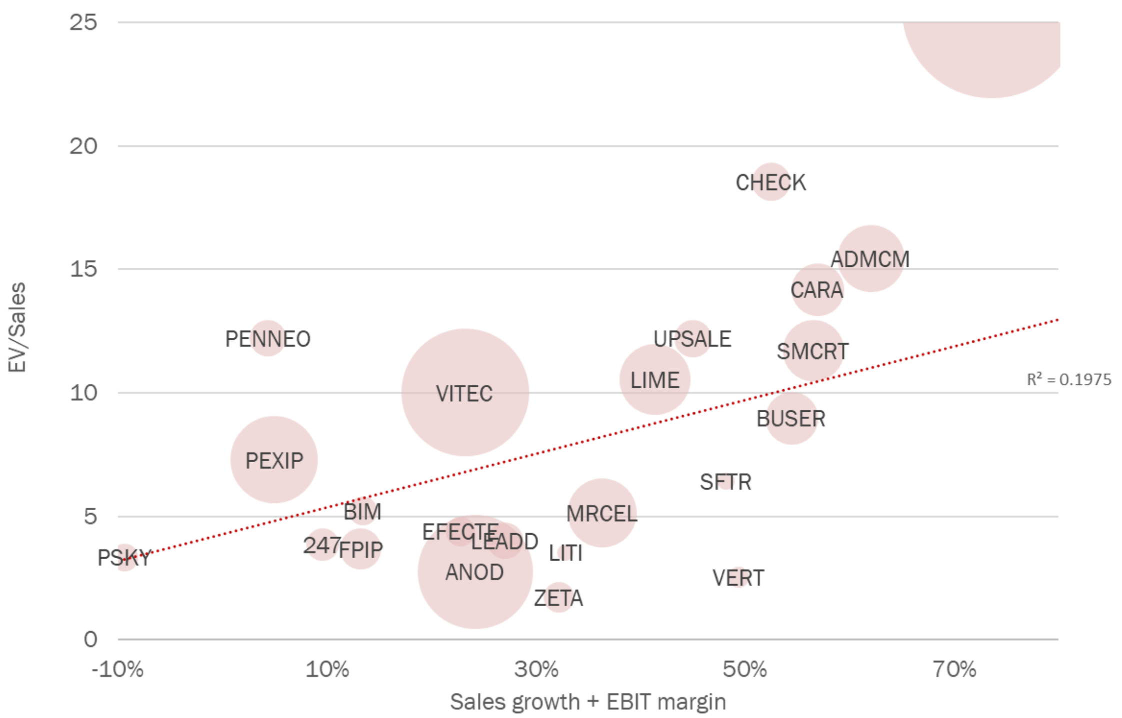
Like for most companies, there is typically a tradeoff between sales growth and profitability for SaaS businesses as well. As a SaaS business has its customer acquisition costs (CAC) upfront, while the revenues are recognized over time, sales growth usually hurts margins even more for a SaaS business. The best way to assess the underlying profitability in growing SaaS businesses is to look at unit economics such as CAC and CAC-payback period and net revenue retention. However, most listed Nordic SaaS businesses do not disclose these figures. Thus, the "Rule of 40" is used as a proxy for the listed SaaS businesses' underlying unit economics.

Companies that can combine high growth with decent margins or vice versa are unsurprisingly valued at high multiples. High growth and margins combined indicate that the company can grow its sales efficiently. Companies with a combined sales growth and EBIT margin of 40% or above are generally considered to be successful SaaS companies – i.e., the "Rule of 40". However, several other essential factors determine valuation — for example, company size, competitive advantages, recurring revenue share, and total addressable market.

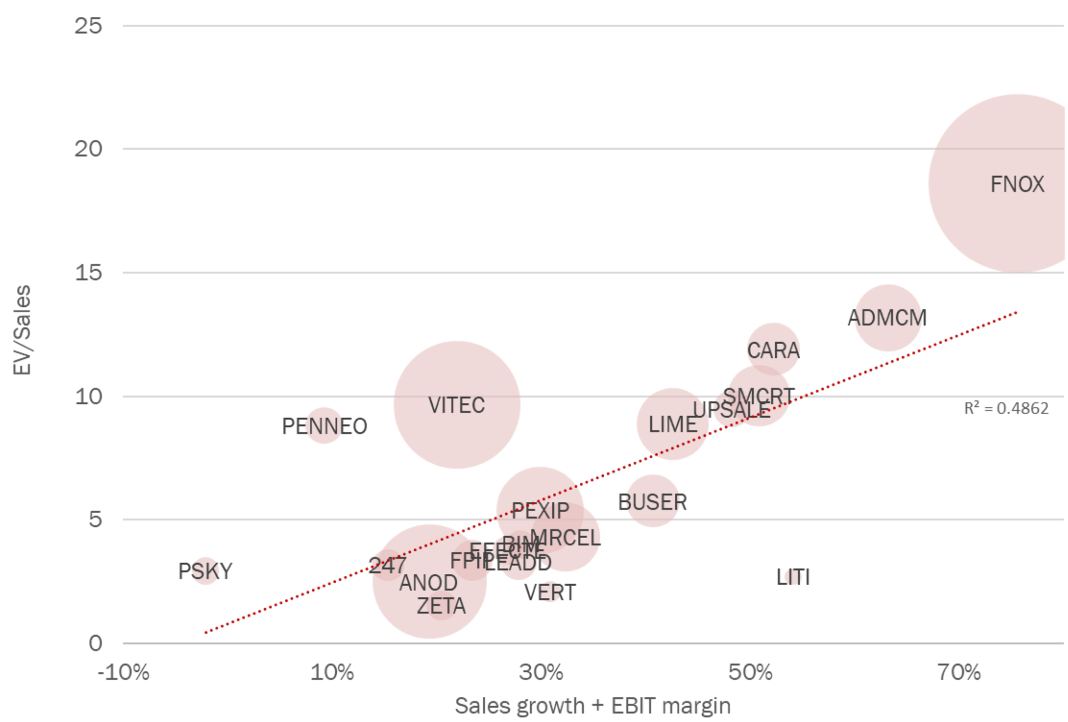
As seen in the figure for 2022E and 2023E, Penneo is valued higher than the average company relative to its combined sales growth and EBIT margin. However, we argue that Penneo's solid SaaS metrics and its strategy of approaching large customers that typically grow over time (at least they have done so so far, considering Penneo's NRR of 120-130%) makes the seemingly high valuation reasonable.

As we expect Penneo to invest significantly in new sales over the following years, margins will remain low. As Penneo's new customers typically start small, the short-term growth impact will be limited. However, with its 120-130% NRR, new customers will contribute substantially to sales growth for many years. Thus, the investments made in 2022 and 2023 will be even more back-loaded than the average SaaS business. While few listed Nordic SaaS businesses disclose their NRRs, Penneo's 120-130% is the best we have seen, followed by Carasent's 115-120%. Most have NRRs of 100-110%.

EV/S vs Growth + EBIT m. 2022E (September 2021)



EV/S vs Growth + EBIT m. 2023E (September 2021)



SaaS	EV	Sales	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
Company	(SEKm)	21E	21E	22E	23E	21E	22E	23E	21E	22E	23E	21E	22E	23E
24SevenOffice	1 104	228	4.9	3.9	3.2	neg	neg	neg	35%	27%	19%	-22%	-18%	-4%
Addnode	13 596	4 202	3.2	2.8	2.5	44	34	29	10%	16%	11%	7%	8%	9%
Admicom	4 603	252	18.3	15.2	13.0	42	35	28	13%	18%	17%	44%	44%	46%
BIMobject	853	128	6.7	5.2	4.0	neg	neg	neg	-6%	30%	29%	-52%	-17%	-1%
Carasent	2 892	149	19.5	14.2	11.9	100	66	36	109%	35%	19%	19%	21%	33%
CSAM	1 965	360	5.5	4.1	3.3	224	58	32	56%	45%	31%	2%	7%	10%
Efecte	905	174	5.2	4.4	3.8	223	68	37	16%	16%	17%	2%	7%	10%
Formpipe	1 728	462	3.7	3.7	3.4	60	32	23	15%	2%	9%	6%	11%	15%
Fortnox	32 751	932	35.1	25.3	18.5	109	69	45	34%	37%	35%	32%	37%	41%
Irisity	1 795	80	22.4	5.5	2.4	neg	17	6	118%	283%	95%	-3%	32%	41%
LeadDesk	1 330	265	5.0	3.9	3.2	373	166	45	90%	25%	21%	1%	2%	7%
Lime	5 166	409	12.6	10.4	8.8	60	47	34	21%	19%	17%	21%	22%	26%
Litium	284	62	4.6	3.5	2.7	neg	95	12	28%	29%	31%	-19%	4%	23%
Mercell	4 892	746	6.6	5.2	4.4	290	55	26	137%	27%	16%	2%	9%	17%
NordHealth	2 767	203	13.6	9.0	7.4	neg	neg	314	48%	66%	30%	-7%	-3%	2%
PatientSky	730	208	3.5	3.2	2.8	neg	neg	neg	47%	15%	14%	-32%	-24%	-17%
Pexip	7 993	833	9.6	7.4	5.4	neg	neg	neg	22%	37%	38%	-37%	-32%	-8%
Safeture	317	30	10.8	6.6	n/a	neg	neg	n/a	37%	63%	n/a	-75%	-15%	n/a
SmartCraft	3 966	272	14.6	11.7	10.0	50	36	30	nmf	24%	17%	29%	32%	34%
Upsales	1 366	93	14.7	11.7	9.1	104	55	41	24%	24%	26%	14%	21%	22%
Vertiseit	452	127	3.6	2.5	2.1	34	17	12	66%	35%	14%	10%	15%	17%
Vitec	16 890	1 592	10.6	10.1	9.8	54	53	50	21%	4%	2%	20%	19%	20%
ZetaDisplay	961	471	2.0	1.7	1.5	26	15	12	26%	21%	8%	8%	11%	12%
Zutec	318	45	7.1	3.5	n/a	neg	neg	n/a	68%	104%	n/a	-33%	-11%	n/a
Average	**4 337**	**480**	**11.6**	**8.0**	**6.5**	**119**	**54**	**45**	**59%**	**45%**	**26%**	**-20%**	**-2%**	**9%**
Median	**1 762**	**218**	**8.4**	**5.4**	**4.2**	**60**	**53**	**31**	**35%**	**28%**	**19%**	**2%**	**8%**	**14%**
Penneo	**1 377**	**56**	**17.9**	**12.2**	**8.8**	**neg**	**neg**	**neg**	**58%**	**46%**	**39%**	**-46%**	**-42%**	**-29%**

Source: Redeye, Company reports, FactSet

Also, in this comparison, Penneo's valuation seems relatively high. However, as mentioned, considering its strategy of targeting large customers and its solid NRR track record, we believe Penneo's strengths will play out over time. It also has a high share of SaaS revenue, unlike some of its peers.

While we believe Penneo does not has as sustainable competitive advantages as Fortnox or Carasent (thanks to their ecosystems), we argue Penneo could gain sustainable competitive advantages, mainly through switching costs for several reasons. First, Penneo has a dominant position in Denmark, one of Europe's most digitalized countries. Thus, Penneo has a proven product, which, based on the high NRR, customers seem to like, and Penneo has already successfully expanded to nearby less mature markets. Second, Penneo focuses on auditors and other heavily regulated sectors to establish a comprehensive solution for those sectors. The recent KYC-related acquisition is one example. Third, Penneo's audit customers have their customers using Penneo for signing. Thus, if the auditor change to another solution, its customers have to change as well.

Our channel checks suggest Penneo's offering is competitive compared to its competitors, especially regarding its functionalities for annual reports, which is essential for auditors. However, our checks indicate the switching costs, at least at this point, are in line with other softwares' – suggesting that the second and third points from the above might not be significant at the moment.

Valuation - Cases

Based on the Redeye Rating, we use a WACC of 9% across our Base, Bull, and Bear cases. Given that Penneo will perform in line with our forecasts, the company would achieve a higher rating, especially in the Financials segment, resulting in a lower WACC, and thus, higher valuation all else equal, going forward.

Base Case – DKK 53

Key Assumptions

- ARR CAGR of 55% 2020-2022
- ARR CAGR of 25% 2020-2030
- ARR CAGR of 7% 2030-2040
- Terminal ARR growth of 2%
- EBIT positive in 2025, Cash Flow positive in 2026
- Average EBIT margin of -39% 2020-2022
- Average EBIT margin of 15% 2023-2030
- Average EBIT margin of 33% 2031-2040
- Terminal EBIT margin of 30%

ARR Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
ARR	**37**	**41**	**48**	**53**	**60**	**60**	**89**	**123**	**163**
Growth q/q (annualized) / y/y	48.0%	49.3%	83.5%	51.1%	64.2%	61.5%	49.1%	37.8%	32.9%
New sales				3	4	12	15	16	18
Growth q/q (annualized) / y/y				22.7%	33.9%	32.2%	25.1%	18.0%	14.7%
Uplift				3	3		17	21	28
in % of ARR				28.0%	28.0%		27.0%	23.9%	22.5%
Churn				(0)	(0)		(3)	(4)	(5)
in % of ARR				3.0%	3.0%		4.0%	4.0%	4.2%

Source: Penneo & Redeye Research

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Revenues	**36**	**11**	**16**	**13**	**17**	**56**	**82**	**114**	**151**
Y/Y Growth (%)	28.8%	61.0%	72.5%	62.2%	43.7%	58.5%	46.1%	38.5%	32.5%
Cost of Revenues	(7)	(2)	(3)	(2)	(3)	(11)	(16)	(22)	(29)
Gross Profit	**29**	**9**	**13**	**10**	**14**	**46**	**67**	**92**	**122**
Gross Profit Margin (%)	80.3%	78.9%	83.5%	81.0%	81.0%	81.3%	81.0%	81.0%	81.0%
Other external costs	(9)	(4)	(3)	(5)	(6)	(18)	(23)	(27)	(31)
Personnel expenses	(29)	(9)	(11)	(10)	(13)	(43)	(59)	(68)	(79)
Other operation income	-	0	0	-	-	0	-	-	-
EBITDA	**(13)**	**(6)**	**(2)**	**(5)**	**(5)**	**(15)**	**(15)**	**(3)**	**12**
EBITDA Margin (%)	(37.8%)	(54.1%)	(12.2%)	(37.2%)	(26.9%)	(26.0%)	(18.5%)	(2.5%)	7.9%
Depreciation	(2)	(1)	(1)	(1)	(1)	(4)	(4)	(5)	(5)
Amortization	(3)	(1)	(1)	(1)	(1)	(4)	(5)	(6)	(7)
EBIT	**(16)**	**(7)**	**(3)**	**(7)**	**(7)**	**(24)**	**(24)**	**(13)**	**(0)**
EBIT Margin (%)	(45.7%)	(64.0%)	(19.0%)	(54.0%)	(39.7%)	(41.8%)	(29.3%)	(11.6%)	(0.1%)
Interest Expenses	(1)	(0)	(0)	-	-	(1)	-	-	-
EBT	**(17)**	**(7)**	**(3)**	**(7)**	**(7)**	**(24)**	**(24)**	**(13)**	**(0)**
Income Tax Expenses	4	1	1	-	-	2	-	-	-
Effective Tax Rate (%)	26.0%	14.3%	35.8%	0.0%	0.0%	9.1%	0.0%	0.0%	0.0%
Net Income	**(13)**	**(6)**	**(2)**	**(7)**	**(7)**	**(22)**	**(24)**	**(13)**	**(0)**
Net Income Margin (%)	(36.0%)	(57.9%)	(13.2%)	(54.0%)	(39.7%)	(38.9%)	(29.3%)	(11.6%)	(0.1%)

Balance Sheet	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Property, Plant & Equipment, Net	1	1	1	1	1	1	1	1	1
Intangible Assets	35	38	40	42	44	44	56	69	82
Right-of-Use Assets	15	15	14	14	14	14	14	14	14
Other Long-Term Assets	1	1	1	1	1	1	1	1	1
Total Non-Current Assets	**53**	**54**	**56**	**58**	**60**	**60**	**72**	**85**	**98**
Cash & Equivalents	32	17	16	12	103	103	68	44	32
Accounts Receivable	9	11	12	13	14	14	21	28	38
Other Current Assets	3	4	5	4	5	5	7	9	12
Total Current Assets	**43**	**32**	**33**	**29**	**122**	**122**	**95**	**82**	**82**
Total Assets	**96**	**86**	**89**	**87**	**182**	**182**	**168**	**166**	**180**
Long-Term Debt	5	4	4	4	4	4	4	4	4
Long-Term Lease Liabilities	14	13	12	12	12	12	12	12	12
Other Long-Term Liabilities	3	3	3	3	3	3	3	3	3
Total Non-current Liabilities	**21**	**20**	**19**	**19**	**19**	**19**	**19**	**19**	**19**
Short-Term Debt	0	1	1	1	1	1	1	1	1
Short-Term Lease Liabilities	2	2	2	2	2	2	2	2	2
Accounts Payable	10	7	11	13	14	14	21	28	38
Other Current Liabilities	4	4	4	7	7	7	11	15	20
Total Current Liabilities	**17**	**14**	**18**	**23**	**25**	**25**	**35**	**47**	**61**
Shareholder's Equity	58	52	52	45	138	138	114	101	101
Total Liabilities & Equity	**96**	**86**	**89**	**87**	**182**	**182**	**168**	**166**	**180**

Source: Penneo & Redeye Research

Cash Flow	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Change in Net Working Capital	(2)	(7)	1	5	0	(0)	1	2	2
Operating Cash Flow	**(9)**	**(11)**	**3**	**0**	**(4)**	**(14)**	**(14)**	**(1)**	**14**
Investing Cash Flow	**(13)**	**(4)**	**(3)**	**(4)**	**(4)**	**(14)**	**(17)**	**(19)**	**(21)**
Financing Cash Flow	**46**	**(1)**	**(1)**	**(1)**	**99**	**97**	**(4)**	**(4)**	**(5)**
Cash Flow	**24**	**(15)**	**(1)**	**(4)**	**91**	**69**	**(35)**	**(24)**	**(12)**

Source: Penneo & Redeye Research

Bear Case – DKK 17

Key Assumptions

- ARR CAGR of 49% 2020-2022
- ARR CAGR of 21% 2020-2030
- ARR CAGR of 4% 2030-2040
- Terminal ARR growth of 2%
- EBIT positive in 2026, Cash Flow positive in 2027
- Average EBIT margin of -41% 2020-2022
- Average EBIT margin of 6% 2023-2030
- Average EBIT margin of 23% 2031-2040
- Terminal EBITA margin of 21%

ARR Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
ARR	**37**	**41**	**48**	**52**	**58**	**58**	**82**	**110**	**142**
Growth q/q (annualized) / y/y	48.0%	49.3%	83.5%	41.3%	54.9%	56.5%	42.3%	33.2%	29.1%
New sales				2	4	11	13	14	16
Growth q/q (annualized) / y/y				22.7%	34.6%	29.5%	25.9%	19.4%	16.4%
Uplift				3	3		15	17	21
in % of ARR				25.0%	25.0%		24.0%	20.9%	19.5%
Churn				(0)	(0)		(3)	(4)	(5)
in % of ARR				3.7%	3.7%		4.7%	4.7%	4.9%

Source: Penneo & Redeye Research

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Revenues	**36**	**11**	**16**	**12**	**17**	**56**	**78**	**104**	**134**
Y/Y Growth (%)	28.8%	61.0%	72.5%	60.8%	40.8%	57.2%	39.8%	33.2%	28.5%
Cost of Revenues	(7)	(2)	(3)	(2)	(3)	(10)	(15)	(20)	(25)
Gross Profit	**29**	**9**	**13**	**10**	**14**	**45**	**63**	**84**	**108**
Gross Profit Margin (%)	80.3%	78.9%	83.5%	81.0%	81.0%	81.3%	81.0%	81.0%	81.0%
Other external costs	(9)	(4)	(3)	(5)	(6)	(18)	(23)	(27)	(30)
Personnel expenses	(29)	(9)	(11)	(10)	(13)	(43)	(59)	(67)	(77)
Other operation income	-	0	0	-	-	0	-	-	-
EBITDA	**(13)**	**(6)**	**(2)**	**(5)**	**(5)**	**(15)**	**(19)**	**(10)**	**1**
EBITDA Margin (%)	(37.8%)	(54.1%)	(12.2%)	(38.3%)	(29.0%)	(26.8%)	(23.8%)	(9.2%)	0.8%
Depreciation	(2)	(1)	(1)	(1)	(1)	(4)	(4)	(5)	(5)
Amortization	(3)	(1)	(1)	(1)	(1)	(4)	(5)	(6)	(6)
EBIT	**(16)**	**(7)**	**(3)**	**(7)**	**(7)**	**(24)**	**(27)**	**(20)**	**(11)**
EBIT Margin (%)	(45.7%)	(64.0%)	(19.0%)	(55.2%)	(42.2%)	(42.8%)	(35.2%)	(19.0%)	(8.0%)
Interest Expenses	(1)	(0)	(0)	-	-	(1)	-	-	-
EBT	**(17)**	**(7)**	**(3)**	**(7)**	**(7)**	**(25)**	**(27)**	**(20)**	**(11)**
Income Tax Expenses	4	1	1	-	-	2	-	-	-
Effective Tax Rate (%)	26.0%	14.3%	35.8%	0.0%	0.0%	9.0%	0.0%	0.0%	0.0%
Net Income	**(13)**	**(6)**	**(2)**	**(7)**	**(7)**	**(22)**	**(27)**	**(20)**	**(11)**
Net Income Margin (%)	(36.0%)	(57.9%)	(13.2%)	(55.2%)	(42.2%)	(39.9%)	(35.2%)	(19.0%)	(8.0%)

Source: Penneo & Redeye Research

Bull Case – DKK 117

Key Assumptions

- ARR CAGR of 61% 2020-2022
- ARR CAGR of 28% 2020-2030
- ARR CAGR of 11% 2030-2040
- Terminal ARR growth of 2%
- EBIT positive in 2024, Cash Flow positive in 2024
- Average EBIT margin of -37% 2020-2022
- Average EBIT margin of 22% 2023-2030
- Average EBIT margin of 41% 2031-2040
- Terminal EBITA margin of 38%

ARR Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
ARR	**37**	**41**	**48**	**54**	**62**	**62**	**96**	**137**	**187**
Growth q/q (annualized) / y/y	48.0%	49.3%	83.5%	61.4%	73.7%	66.5%	55.8%	42.3%	36.6%
New sales				3	5	13	17	18	20
Growth q/q (annualized) / y/y				22.7%	33.3%	34.9%	24.4%	16.7%	13.2%
Uplift				3	4		20	26	35
in % of ARR				31.0%	31.0%		30.0%	26.9%	25.5%
Churn				(0)	(0)		(2)	(3)	(5)
in % of ARR				2.3%	2.3%		3.3%	3.3%	3.5%

Source: Penneo & Redeye Research

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Revenues	**36**	**11**	**16**	**13**	**17**	**57**	**86**	**124**	**170**
Y/Y Growth (%)	28.8%	61.0%	72.5%	63.7%	46.6%	59.7%	52.4%	43.7%	36.4%
Cost of Revenues	(7)	(2)	(3)	(2)	(3)	(11)	(16)	(24)	(32)
Gross Profit	**29**	**9**	**13**	**10**	**14**	**46**	**70**	**101**	**137**
Gross Profit Margin (%)	80.3%	78.9%	83.5%	81.0%	81.0%	81.3%	81.0%	81.0%	81.0%
Other external costs	(9)	(4)	(3)	(5)	(6)	(18)	(23)	(28)	(32)
Personnel expenses	(29)	(9)	(11)	(10)	(13)	(43)	(59)	(69)	(81)
Other operation income	-	0	0	-	-	0	-	-	-
EBITDA	**(13)**	**(6)**	**(2)**	**(5)**	**(4)**	**(14)**	**(12)**	**4**	**24**
EBITDA Margin (%)	(37.8%)	(54.1%)	(12.2%)	(36.2%)	(24.7%)	(25.1%)	(13.6%)	3.4%	14.1%
Depreciation	(2)	(1)	(1)	(1)	(1)	(4)	(4)	(5)	(6)
Amortization	(3)	(1)	(1)	(1)	(1)	(4)	(5)	(6)	(7)
EBIT	**(16)**	**(7)**	**(3)**	**(7)**	**(7)**	**(23)**	**(21)**	**(6)**	**12**
EBIT Margin (%)	(45.7%)	(64.0%)	(19.0%)	(52.8%)	(37.4%)	(40.8%)	(23.9%)	(5.0%)	6.8%
Interest Expenses	(1)	(0)	(0)	-	-	(1)	-	-	-
EBT	**(17)**	**(7)**	**(3)**	**(7)**	**(7)**	**(24)**	**(21)**	**(6)**	**12**
Income Tax Expenses	4	1	1	-	-	2	-	-	(3)
Effective Tax Rate (%)	26.0%	14.3%	35.8%	0.0%	0.0%	9.3%	0.0%	0.0%	22.0%
Net Income	**(13)**	**(6)**	**(2)**	**(7)**	**(7)**	**(22)**	**(21)**	**(6)**	**9**
Net Income Margin (%)	(36.0%)	(57.9%)	(13.2%)	(52.8%)	(37.4%)	(38.0%)	(23.9%)	(5.0%)	5.3%

Source: Penneo & Redeye Research

Summary Redeye Rating

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

People: 4

Penneo receives a high rating for People, as management, board members, and owners have favorable characteristics. We get the impression that the CEO, Christian Stendevad, has the right experience for the position with his deep knowledge of growing and scaling digital companies. The board has relevant and complementary competencies, including entrepreneurial skills, experience within public listed companies and SaaS companies, which we like. Furthermore, we find the ownership structure positive with substantial shareholdings among management, resulting in a high score within this category.

Business: 4

Penneo obtains a relatively high rating in Business for several reasons. First, the SaaS business model is scalable with non-cyclical recurring revenue streams, resulting in predictability and low risk. Second, Penneo's strategic focus on accounting firms results in a unique competitive advantage, and the product has a huge value creation for the customers, which the solid growth suggests. And third, several structural trends drive the underlying market, such as increased digitalization, political ambitions to adopt digital legislation, and the striving for a sustainable business.

Financials: 2

Regarding Financials, Penneo gets a lower rating compared to the other categories. The main reason is that Penneo still is unprofitable, as management has prioritized growth over margins. Due to the company's scalable business, we assume margins will increase gradually, heading for a higher rating in the future.

Redeye Rating and Background Definitions

Company Quality

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

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

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

People

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

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

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

Business

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

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

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

Financials

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

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

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

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Redeye Rating (2021-09-15)

Rating	People	Business	Financials
5p	19	14	3
3p - 4p	96	77	36
0p - 2p	6	30	82
Company N	121	121	121

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CONFLICT OF INTERESTS

Jacob Svensson owns shares in the Company: No
Fredrik Nilsson owns shares in the Company: No
Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.