



## ERIK PENSER BANK

Penser Access | Internet Software/Services | Sweden | 17 March 2022

# eEducation Albert

## A European market leader

### 32% market growth

The digitalisation of education has not come far. Nevertheless, growing demand has sparked higher global investments. Meanwhile, declining educational outcomes show that there are problems with the current school system. As a result of the pandemic, digital education solutions – the EdTech market - is expected to grow by 32% in the next few years. eEducation Albert (Albert) is one of the leading EdTech firms in Europe.

### Strong market position

The European EdTech market is fragmented. In stark contrast to the situation in the US and Asia, there are only 15 companies valued at around USD 100m. Albert is one of these larger European providers and has an express agenda to take a leading position by means including M&A. The company has built a strong position in the Nordic and Polish markets and established itself in the UK via an acquisition in Q1 2022.

### Valued at a 75% discount relative to other SaaS companies

At present, Albert is valued at a discount of about 70% relative to other SaaS companies traded on Nasdaq Stockholm. In our assessment, part of this discount is due to that the company provides a B2C product rather than a B2B product. In the light of its strong growth, however, we believe Albert will be traded at a lower discount of about 40% in 2025, resulting in a fair value of SEK 60-63.

Calendar Events		Estimates (kr)				Risk and Potential		
Q1	2022-03-30	21e	22e	23e	24e	Motivated value	60.0 - 63.0	
<b>Key Figures (mkr)</b>		Sales, mkr	63	118	166	238	Current price	SEK22.7
Number of shares	17m	Growth	162%	89%	40%	44%	Risk level	Medium
Market cap	386	EBITDA, mkr	(52.4)	(57.7)	(39.8)	(17.0)	<b>One Year Performance Chart</b>	
Net debt	(251)	EBIT, mkr	(57)	(68)	(51)	(28)		
EV	134	EPS, adjusted	(3.4)	(4.0)	(3.0)	(1.6)		
Free float	24%	EPS growth	(45)%	191%	24%	-%		
Average number of daily traded shares	669(k)	Equity/share	15.7	11.7	8.7	7.1		
Reuters/Bloomberg	ALBERT:SS	Dividend/share	0.0	0.0	0.0	0.0		
		EBIT margin	(91.4)%	(57.6)%	(31.0)%	(11.7)%		
		ROE	(34.0)%	(29.2)%	(29.7)%	(20.7)%		
		ROCE	(16.9)%	(17.9)%	(17.4)%	(11.2)%		
		EV/Sales	2.1x	1.1x	0.8x	0.6x		
		EV/EBITDA	(2.6)x	(2.3)x	(3.4)x	(7.9)x		
		EV/EBIT	(2.3)x	(2.0)x	(2.6)x	(4.8)x		
		P/E, adjusted	(6.7)x	(5.7)x	(7.5)x	(13.9)x	<b>Analysts</b>	
		P/Equity	1.4x	1.9x	2.6x	3.2x	rikard.engberg@penser.se	
		Dividend yield	0.0%	0.0%	0.0%	0.0%		
		FCF yield	(13.1)%	(13.2)%	(9.7)%	(5.5)%		
		Net debt/EBITDA	4.8g	2.0g	1.7g	2.1g		



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# Overview

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## A European market leader

### Investment Case

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Albert has a leading position in the European EdTech market, which is expected to grow by an average of 32% during the period of 2020-2022. This is partly due to the Covid pandemic, but is also based on the difficulties current school systems are having in performing their tasks using only analog platforms. Unlike the American and Asian markets, the European market is highly fragmented and we believe that, with its leading position, Albert is equipped to take an active role in the consolidation of this market.

### Company Profile

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Albert has developed the leading platform for mathematics and several other subjects in the Swedish market and has begun expanding into more European countries. The platform is module-based and anchored in national curricula, which equips Albert to rapidly build presence in new markets and increase the range of subjects.

Albert sells its products as a SaaS solution to parents of primary/lower secondary schoolchildren. At present, the company has Annual Recurring Revenue (ARR) of SEK 81m. Selling its services as a subscription reduces revenue volatility while facilitating stable long-term growth. One of the company's financial targets is net sales of SEK 500m by 2025. If it succeeds, we see strong potential in the share.

At present, there are only 15 EdTech companies in Europe valued above SEK 100m. Albert is slightly below that mark. We thus believe that chances are good that the company will be one of the firms that consolidates the European market.

### Valuation approach

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We opted to use a multiple valuation on our 2025 estimate to value Albert. This valuation was then discounted to present value using a discount rate of 18% as a proxy for IRR. As Albert has a relatively high churn rate, we believe the company should be valued at a discount of about 40% relative to the Nordic software companies in our peer set. Overall, this results in a fair value of SEK 60-63. The discount is currently about 70%. If we do not see multiple expansion in Albert, the current share price indicates IRR of 14% during the period of 2022-2025 if our estimate is reached.

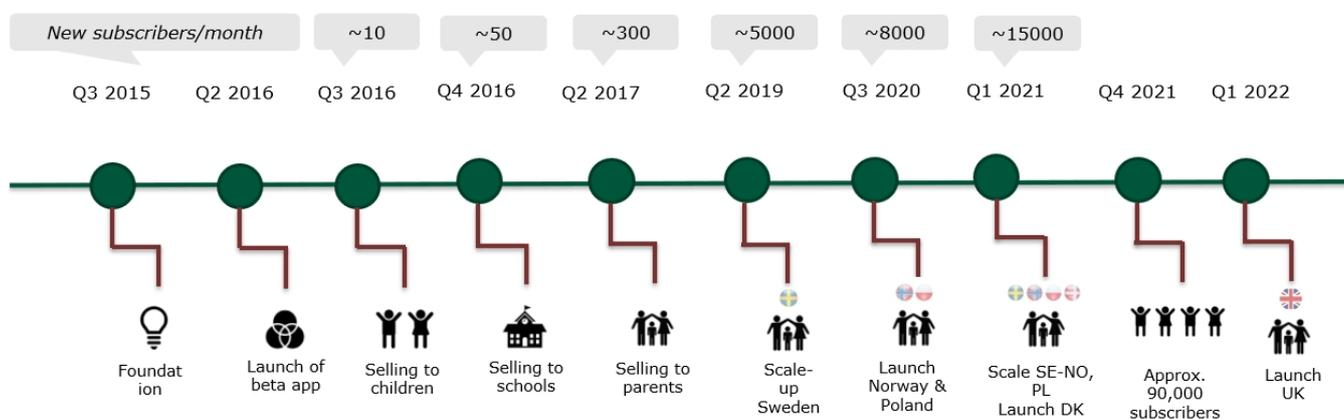
## History

Albert was founded in 2015 by CEO Arta Mandegari and Deputy CEO Salman Eskandari. The company launched its first beta app in Q3 2016. In 2016, the company mainly sold its products to schools as a B2B solution and has subsequently shifted towards selling directly to consumers, in this case parents.

The company has an acquisition agenda and has bought Edimia Education, a supplier of learning materials, which allowed Albert to lay the foundation for a new product. Part of the capital raised in the IPO on 1 October 2021 will be used to finance new acquisitions. Since the IPO, Albert has acquired the Swedish company Jaramba and the British company Sumdog.

The two other main components for company growth involve widening the range with more subjects in order to increase Annual Revenue Per User (ARPU) and growing in additional European countries. The company launched its services in Norway and Poland in 2020, followed by Denmark and the UK in 2021.

## Timeline

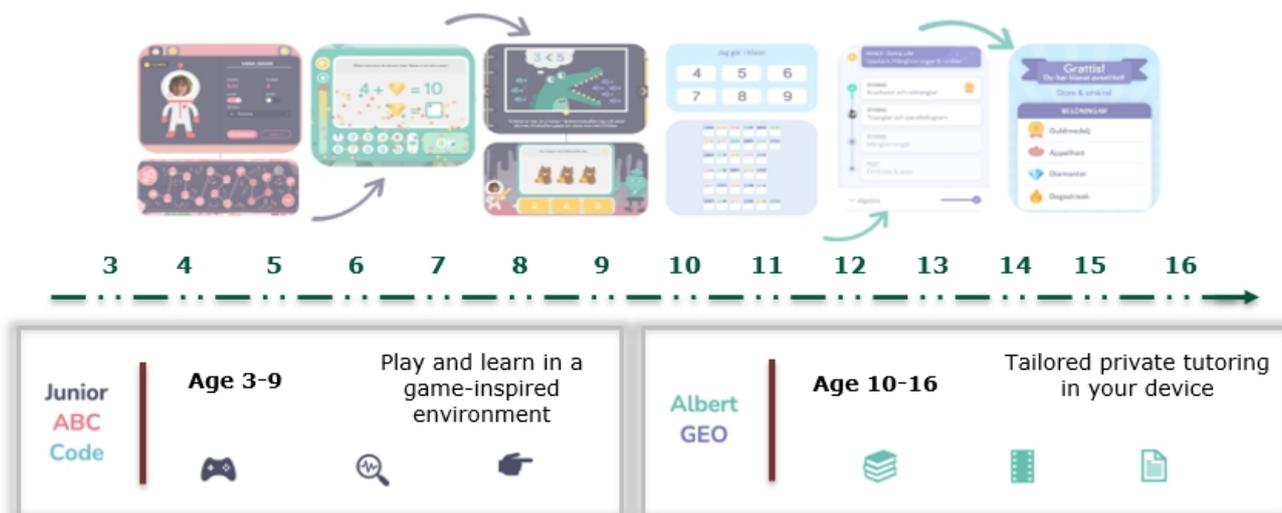


Source: Albert IPO prospectus

## Product

Albert is an EdTech company that sells its products via a subscription service (SaaS). The company works with educational publishers to sync the product with existing textbooks. At present, the company has nine different products.

### Overview of the product



Source: Albert IPO prospectus

**Albert:** The product is a mathematics app for children in the age bracket of 10-16. The products are designed and adapted to various curricula, school years and markets. The app is modular, which allows it to be adapted to new markets and curricula at relatively low cost. The app is aimed at mathematics because teaching in the subject is relatively similar in the European markets. The differences that do exist are more closely linked to the school years in which various areas of mathematics are introduced, which can differ among the European markets.

**Junior:** A mathematics app designed for children in the age bracket of 3-9. The product is adapted to the curricula in all markets where the company is active.

**ABC:** A reading comprehension app for children in the age bracket of 3-9 in the Swedish market.

**GEO:** A geography app for children in the age bracket of 10-16 that focuses on the Swedish and Norwegian markets. The app was developed jointly with the Spanish company Sierra Chica Software. At present, the product is in a test period with Albert using the Spanish company's source code under the Albert trademark.

**Code:** A programming app for children in the age bracket of 3-9.

**Jaramba:** The product was acquired at the turn of the year 21/22 and is focused on children in the age bracket of 3-5. The product is linked to several IP rights including Hello Kitty, Pino and Timmy Lamb. The product is also sold to about 3,000 preschools as a B2B solution.

**Albert Teen:** The company's product for the British market. The service is aimed at parents of children aged 10-16 in the British market. The product is based on the acquisition of Stairway Learning and covers several subjects. The service was launched in Q1 22.

**Albert English:** A service for teaching English as a second language. Launched in Q1 22 in the company's markets where English is not a first language.

**Sumdog:** A company acquired in Q1 22. The company provides a B2B solution for primary school teachers in the UK focused on mathematics and English. The product is sold as a B2B solution.

The company's end customers are the parents of children using the app. The company's initial strategy was to sell the apps to schools, but selling to parents instead results in higher willingness to pay per pupil. Parents are given access to an app in which they can follow their child's activity and progress. Marketing is also aimed at parents. These products are sold at three different price points:

**Albert Basic:** Costs SEK 99-119 per month depending on the market in which the customer is located. The service includes one of the products above for one user. The service provides parents with a monthly report of the child's activities.

**Albert Plus:** Costs SEK 169-189 per month depending on the market. The service covers four users and all products offered by Albert plus a tool parents can use to track their children's activities and progress. The service is aimed at parents of more than one child.

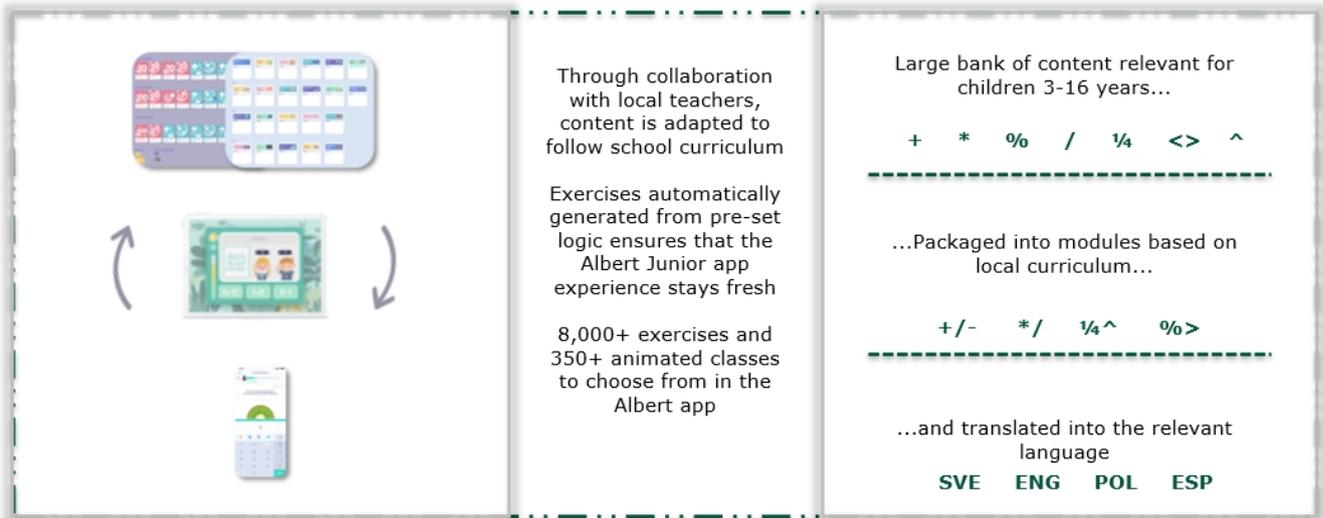
**Albert Standard:** Launched in 2021, the service costs SEK 139 per month. The service covers one user, the complete product range and the tracking tool.

Albert has begun to shift its marketing from offering multiple, individual apps to offering a total solution to parents in which the various subjects are included in the same service and portal. The service is a competitive offering compared to traditional private teacher services.

## Strategy

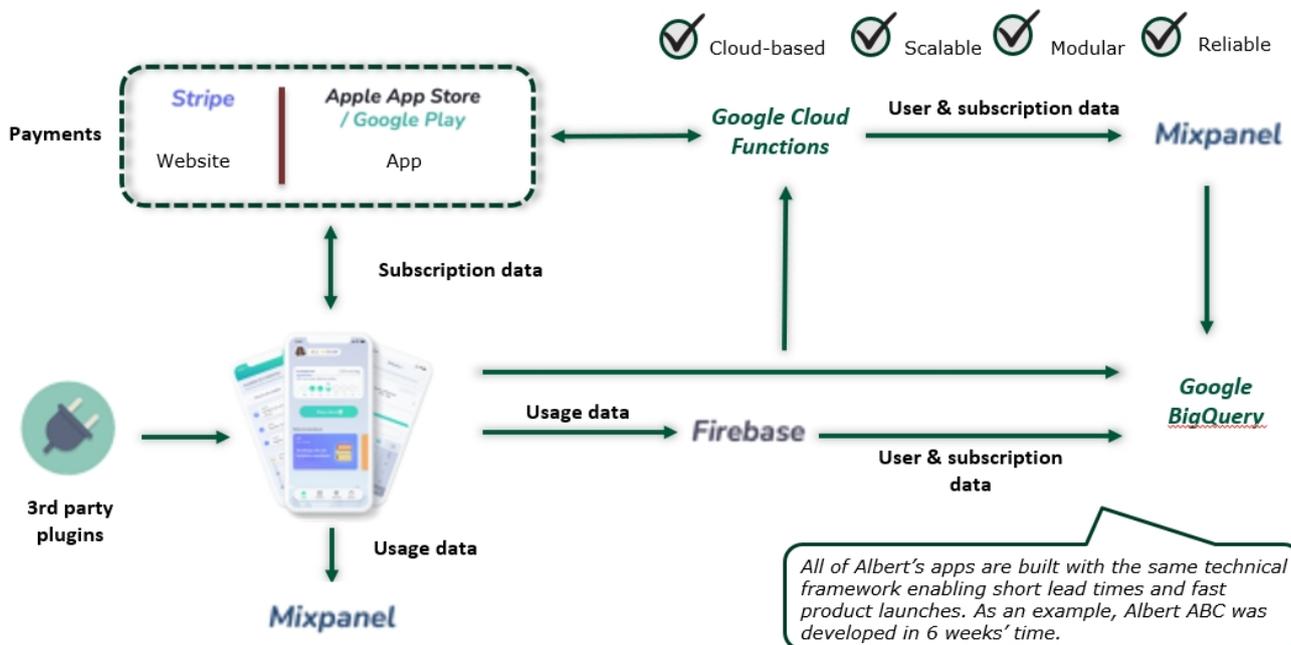
Albert has an express strategy of modularity in building its service and products, which makes it possible for them to quickly adapt to new markets and products. Several modules that can be adapted to local curricula are included in the company's service portfolio.

### Structure I/II



Source: Albert IPO prospectus

### Structure II/II



Source: Albert IPO prospectus

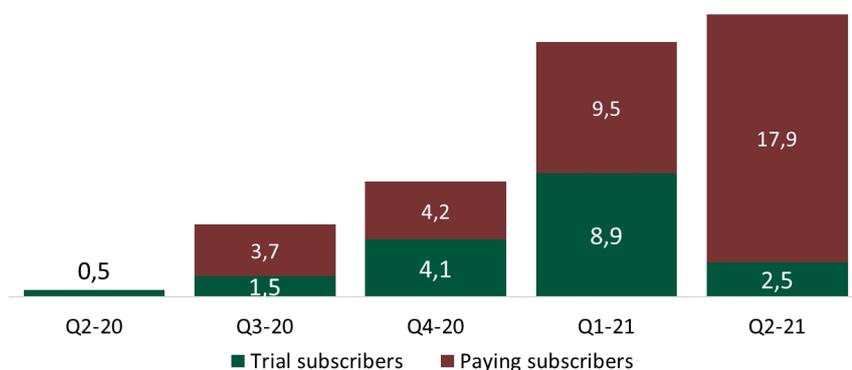
One example of this scalability is that the company developed its ABC app in-house in six weeks using various modules that were ready to go. The establishment in new geographies, such as Poland, also went relatively quickly because the company could use the base of existing exercises and adapt them to the Polish curriculum. In our

assessment, the ability to rapidly establish itself in a new market is the reason Albert chose mathematics as one of the main subjects, as it is relatively universal and requires less adaptation from one market to the next.

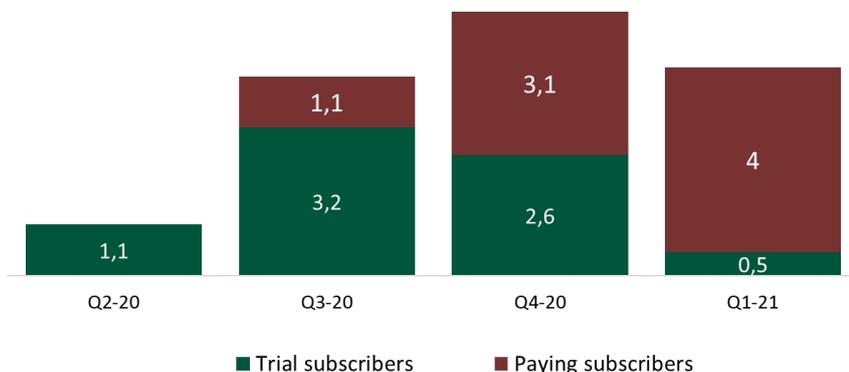
We thus believe that the company has the strong platform for reaching new markets and subjects necessary for the company to reach its sales targets. Entering a new market demands relatively few employees and the company's recruitments are in sales and customer support.

The Polish (Q3 20) and Norwegian (Q2 20) market entries are examples of successful international launches. We assess the launches in these markets as successful, as the company saw high conversion from free trial subscribers to paying subscribers in Q4. Between Q1 and Q2, 97% of all free trial subscribers were converted to paying subscribers in these markets.

**Norwegian market (thousands)**



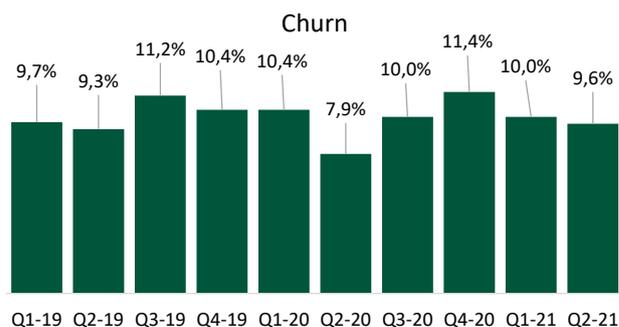
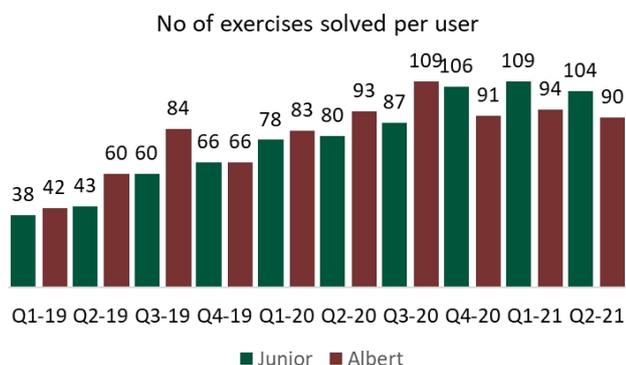
**Polish market (thousands)**



We believe is capable of continued growth in the Polish, Norwegian and Swedish markets based on their size. In 2020, there were about three million children of primary/lower secondary school age in Poland and about six hundred thousand in Norway. In the Swedish market, there were about a million children in compulsory school (primary/lower secondary) that year. Assuming that each household has two children, this implies an addressable market of about SEK 4Bn.

Albert has successfully increased the loyalty of its customer base by developing additional apps and services. The correlation is reflected in the fact that the number of exercises solved per user has risen over time, while churn (customer losses) has fallen in recent quarters. In our assessment, the number of exercises solved is a very strong indication of customer satisfaction. As this grew steadily in 2021, we assess customer satisfaction as high. We consider the churn we have seen to be high, but observe a clear downwards trend.

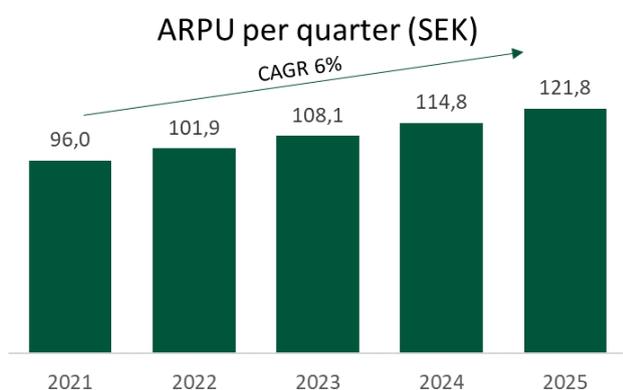
Average Revenue Per User (ARPU) has risen by 19% in the last two years. We believe Albert can continue to increase ARPU by including specific modules aimed at e.g., national tests.



Source: Albert IPO prospectus

Source: Albert IPO prospectus

Source: Albert IPO prospectus



## Marketing strategy

Streamlining the marketing strategy is a central aspect of the company's business. Marketing is based on first building awareness of the product and then converting leads – free trial subscribers – into paying customers. Historically, the company has accomplished this successfully. The marketing strategy is mixed and contains various types of channels, both those intended to build brand awareness and channels for converting users. A brief analysis of the various channels and the functions they serve follows.

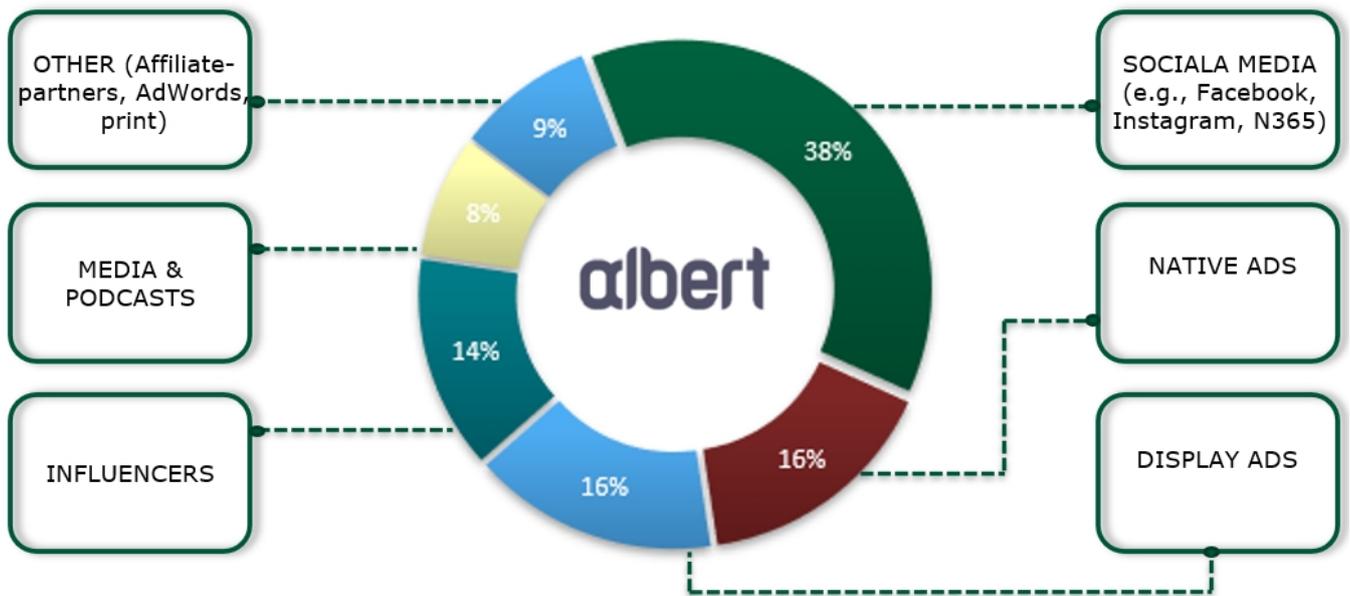
**Social Media:** In our assessment, this channel primarily builds brand awareness in the existing target group. Conversion can be achieved, however, through platforms like Facebook and Instagram. This channel is highly effective at reaching the company's target group because marketing can be tailored for specific groups, such as parents in a specific area.

**Native, Display and Media:** This channel primarily helps Albert build brand awareness, which then leads to organic conversion. The company has successfully built strong brand awareness in the Swedish market, which suggests that the company has achieved top of mind status in EdTech.

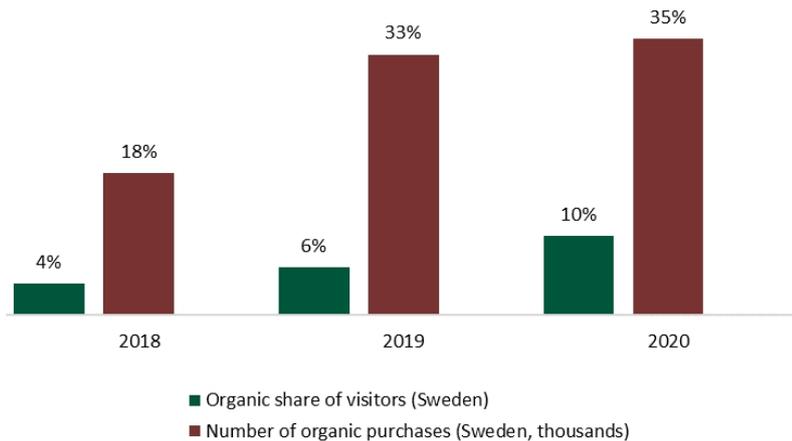
**Influencers:** The company can build brand awareness and achieve a high conversion rate by partnering with well-known influencers. We have noted that Albert collaborates with several famous influencers in the area.

### Types of marketing

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### Overview of Swedish marketing



Source: Albert IPO prospectus

We estimate that the company’s Customer Acquisition Cost (CAC) is going down in markets where Albert has achieved a strong word-of-mouth effect through various media channels. Sweden is one example, where the share of organic purchases has increased by a factor of 10 since 2018. If a similar effect is achieved in other markets, we see a rising margin or growth as a natural consequence.

Albert’s marketing can also be divided into four separate processes:

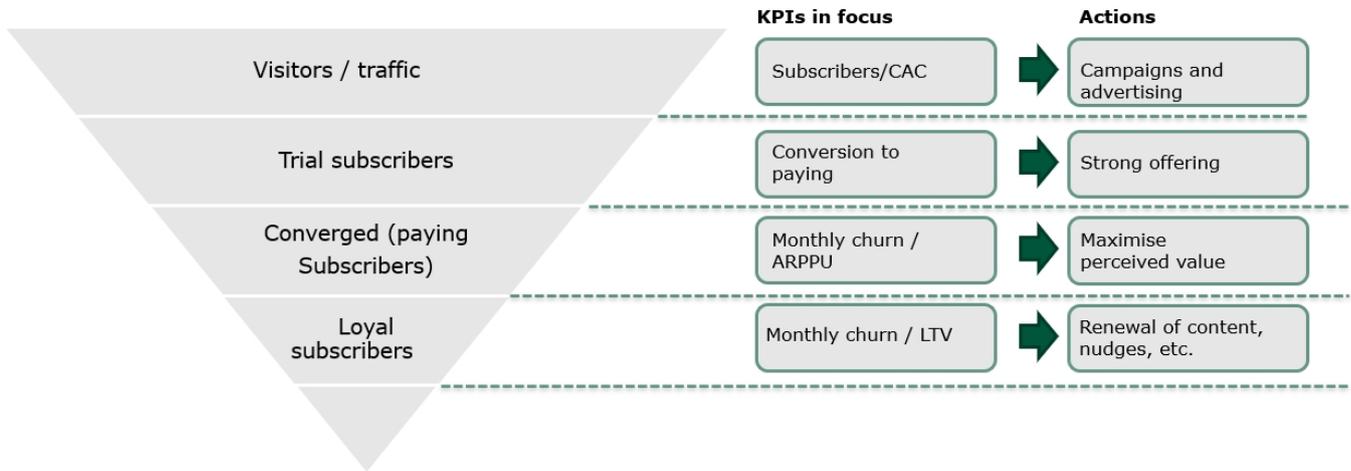
**Generate traffic:** The various channels above play into this process. CAC is reduced by building strong organic traffic. Considering the high percentage of organic sales, Albert has in our estimation lowered CAC in the Swedish market. We believe other markets may see a similar trend in the near term.

**Let customers try the product** During the period of Q1 20 to Q2 21, we see that Albert successfully persuaded about 123,000 customers to try the product by means of the traffic generation described above. That corresponds to about 3% of relevant households in Sweden, Norway and Poland. We believe this figure will continue rising during our forecast period.

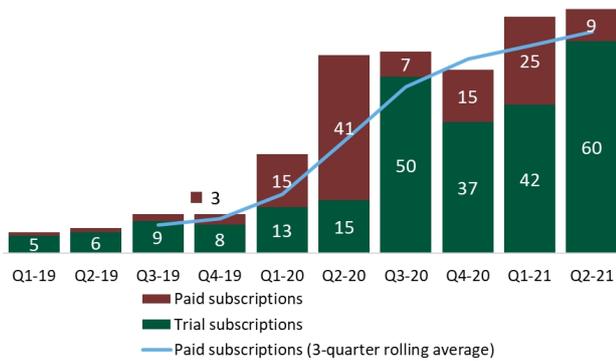
**Convert trial users:** Looking at Albert as a whole, the conversion rate is impressive. Adjusted for churn, the conversion rate has topped 80% in recent quarters. We believe it is reasonable to assume that the company will remain at these levels over the next few years.

**Retain customers:** As we see it, this is the area where Albert has the best potential to improve and respond to any problems. Albert has relatively high churn at about 10% per month. We believe this can partly be explained by the tendency of customers to cancel the product in the first 2-3 months. Churn is, however, in a downward trend, which we consider positive. We believe churn can continue going down, considering the rising number of exercises solved.

## Marketing strategy

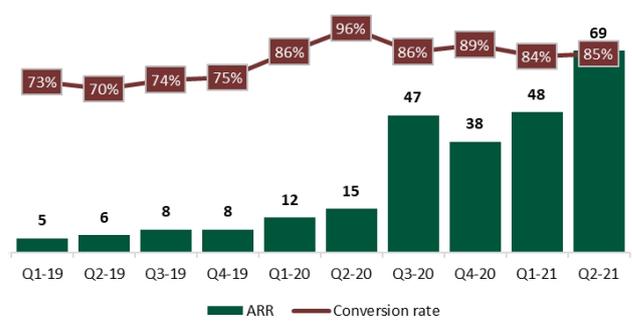


Overview of subscribers (thousands)



Source: Albert IPO prospectus

Overview ARR (SEKm)



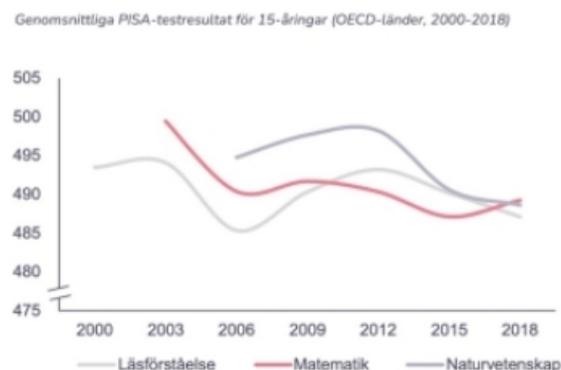
Source: Albert IPO prospectus

The company's marketing has historically been successful in terms of a retained ratio of 2.8x between added customer Life Time Value (LTV) and marketing investments. In our estimation, this ratio will be in the same neighbourhood over the next few years. This is supported by the high conversion rate and increased share of organic traffic.

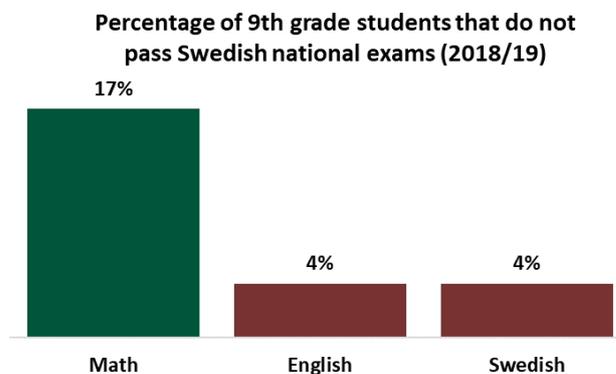
## Addressable market

Albert is active in the global education market, which is expected to grow by about 6% in the next few years from USD 5,400Bn to USD 7,300Bn by 2025. In our assessment, the global market is driven primarily by the increasing percentage of people with post-secondary education. The percentage rose from 41% in 2015 to 45% in 2019 in OECD countries. The education systems in these countries generally, and specifically in Sweden, are struggling with declining test scores, which are also driving investments in education.

### PISA test scores

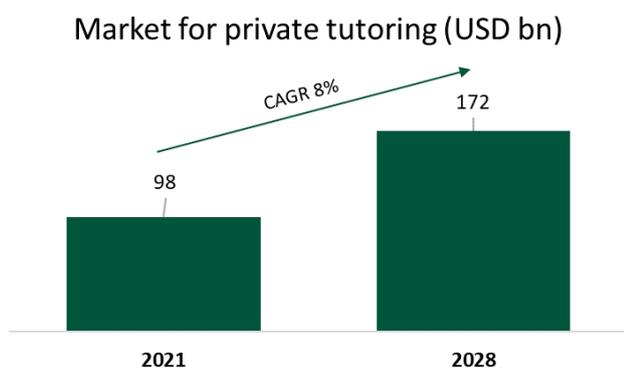


Source: Albert IPO prospectus

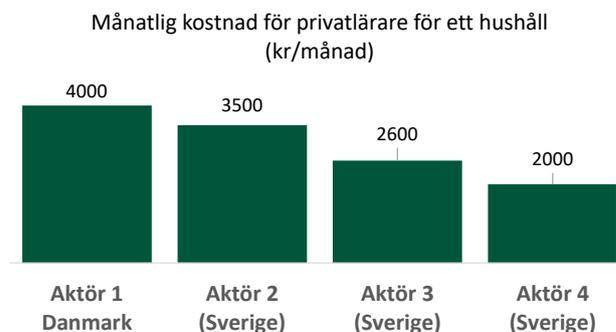


Source: Albert IPO prospectus

One consequence of poorer educational outcomes in Sweden and Europe is that the market for private tutoring is expected to grow by a CAGR of 8% during the period of 2021 to 2028. We have surveyed the leading providers in the Nordic market and have determined that their services are aimed only at households with considerably higher incomes than the median Swedish household. The Swedish median corresponds to an income of about SEK 550,000 per year. For a family with two children, tutoring would entail a cost of about 6% of disposable income. The cost is significantly higher for single parents. In our assessment, the households with the greatest need for private tutoring have disposable incomes that are significantly below the median.



Source: Albert IPO prospectus

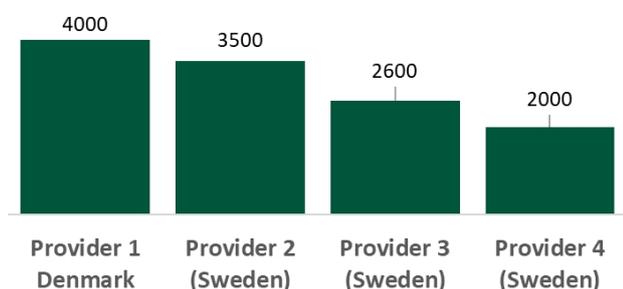


Source: Albert IPO prospectus

## Digital education

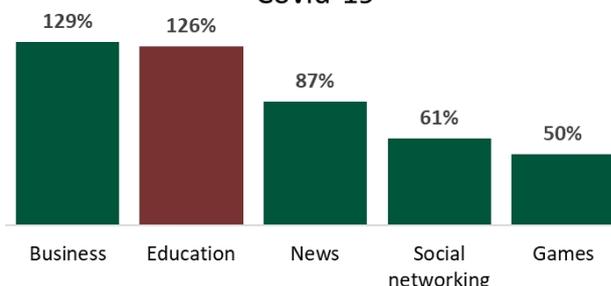
Digital app-based teaching is one of the fastest growing segments in education. We believe this is a direct result of the cost of private tutoring, which is far too high for many families. Digital app-based teaching involves pupils getting help from apps on phones or tablets to augment traditional classroom education. In our estimation, the Covid-19 pandemic has accelerated this growth because primary and secondary schools all over the world have been forced to transition to remote learning. The number of downloads of educational apps rose by about 126% early in the pandemic. This can be compared to apps in other categories, which also saw steep increases in download activity.

**Monthly cost for a private teacher for one household (SEK/month)**



Source: Albert IPO prospectus

**Growth in app categories during Covid-19**



Source: Albert IPO prospectus

## The EdTech market

Albert is active in the European EdTech market, which is relatively underdeveloped compared to the rest of the world. This can be illustrated by the number of companies in the segment valued above USD 100m, where we can see that Europe is clearly trailing. We believe the main reason for this is that the education market in Europe is more fragmented than in the US or large countries in Asia, which makes it more difficult to grow. The other side of the coin is that companies like Albert with a service that can be easily adapted to various national curricula have a competitive edge. In our assessment, Albert is one of the top 15 companies in Europe in this sector and we believe the company has the potential to consolidate this market through their active acquisition agenda. The European companies include Kahoot, a platform for user-generated quizzes, as well as other companies that focus on digital teacher-led instruction.

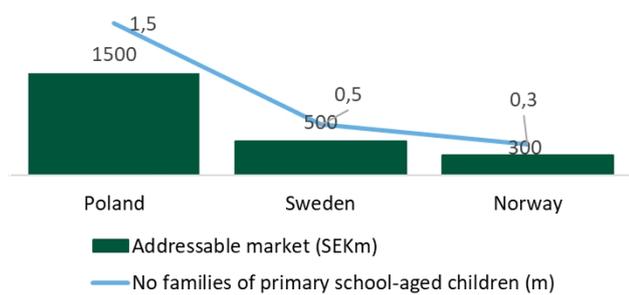
**Number of EdTech companies valued > USD 100m**



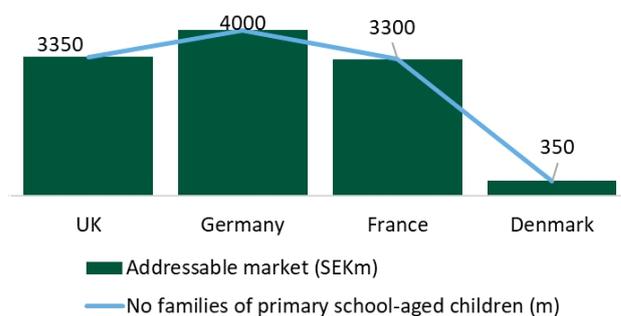
Source: Albert IPO prospectus

För att få en ännu bättre bild av Alberts adresserbara marknad har vi kartlagt hur många barnfamiljer med barn i grundskoleålder det finns på bolagets tre huvudmarknader. Vi har sedan applicerat Alberts ARPU om ca 100 kronor i månaden för att bedöma storleken på marknaden. Vi har även tittat på ett antal av de marknader som Albert utvärderat. Sammanfattas dessa marknader når vi en totalmarknad om ca 23 mdkr.

### Current addressable market



### Potential markets



Source: Statista, SCB, Norwegian Ministry of Education and Research

Germany, Statista

## M&A

M&A is a critical component if Albert is to reach its net sales target of SEK 500m. The company has already closed two acquisitions: Edimia Education and Jaramba.

**Edimia:** Edimia was acquired in 2018. The acquisition expanded Albert's development team and Edimia's mathematics product, Mera Matte, was further developed into Albert Junior. The acquisition also added subscribers to Albert's base, which enabled continued growth.

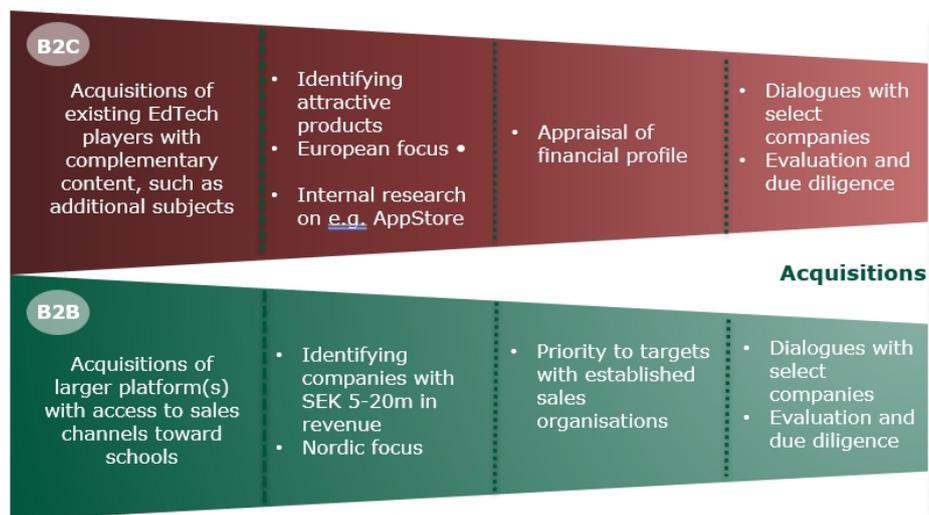
**Stairway Learning:** Albert acquired IP rights from the British company Stairway Learning in November 2021. Stairway has developed a service within the subjects of mathematics, physics and biology. The company's service is designed for pupils seeking qualifications to pass their GCSE exams (General Certificate of Secondary Education), which corresponds to lower secondary education (the last three years of Swedish compulsory school).

**Jaramba:** Acquired in 2021 for SEK 10m. The company currently has about 100,000 customers, including 42,000 paying users. The company focuses on a younger category of children (aged 2-5) than the target group for Albert's products. The company works with famous IP including Paddington Bear and Hello Kitty. In addition to B2C sales, the company sells the Jaramba Förskola product to about 3,000 preschools in Sweden. We believe this can help Albert increase its B2B sales, where the churn rate is lower. The acquisition added about SEK 5-10m in ARR and is turning a profit.

**Sumdog:** Acquired in Q1 22. The acquisition added ARR of about SEK 33m. Sumdog delivers its B2B solution primarily to British primary schools, which will reduce Albert's churn.

At present, Albert is involved in about 20 pre-acquisition discussions. These acquisitions are assessed according to the criteria below.

### M&A Strategy



Source: Albert IPO prospectus

We see acquisitions as a possible route into one of the large European markets, such as Germany or France. B2B acquisitions are interesting, in that we believe schools or preschools as customers have a lower churn rate than consumers, which can open the door to an interesting sales channel. One example would be if a preschool group were to choose to implement one of Albert's platforms in parts of its pupil base.

We estimate that Albert's dry powder for acquisitions amounts to SEK 70-80m, based on the portion of cash reserves that will be needed in operations over the next few years.

## Competition

In our assessment, there are four main competitive factors in the market:

- **Type of service:** There are two main types of suppliers of EdTech services: Administration providers and service providers. Albert delivers educational services and exercises rather than administrative tools.
- **Content:** We see two main types of education service providers. The first are companies focused on entertainment with some educational content, such as Duolingo, a language learning tool, and Quizkampen, for general knowledge. The second type are companies like Albert that are linked to curricula and complement traditional teaching.
- **Geographical presence:** Services in the education market can be aimed at one or more geographical markets.
- **Business model:** The company sees two types of business models in EdTech: B2B and B2C. B2B services are aimed primarily at education providers. These may be either privately or publicly funded. At present, Albert addresses only consumers (the end customers), in this case parents of school-age children.

We have identified several service providers active in the same markets as Albert or in markets that Albert is assessing.

### Sweden

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**NOMP:** A Swedish company with focus on mathematics. The company sells its services B2B to teachers and B2C to parents. In 2020, NOMP had two employees and sales of about SEK 5.6m. The company's service contains about 1,300 different math problems for pupils in years 1-9. Based on the company's limited scale, we consider NOMP a minor niche competitor to Albert.

**Zcooly:** A Swedish company that provides math learning games for children in school years 1-6. The company has more than 300 math exercises, but they are not compatible with the Swedish curriculum. We thus do not consider them a major competitor to Albert in the Swedish market. The company had sales of SEK 5.2m in 2020.

**Dragonbox (Kahoot):** Kahoot is a Norwegian multinational provider of learning games. Dragonbox is not linked to curricula, which puts them into the same category as Zcooly. Kahoot has ARR of USD 124m, which can make them a competitor for acquisition targets if they were to approach companies linked to national curricula.

**MatematikFessor:** A Swedish company with focus on mathematics. The company is integrated with the Danish national mathematics curriculum. The company is owned by Alinea, an educational publisher active in the Danish and Norwegian markets. Alinea is owned by the major Danish media corporation Egmont. Based on the strong owner, we consider MatematikFessor, or other apps from Alinea, as potential competitors to Albert in Denmark and Norway. The company also has the financial strength required to compete for acquisition targets.

**Squla:** A Dutch company focused on the Dutch and Polish markets. The company's price structure is similar to Albert's. The Dutch service contains more subjects than Albert and includes English, history and geography. The company has more than 70,000 exercises. The company also does business in the Belgian market. Squla is owned by the Dutch company Futurewhiz, which has 81 employees, making it a larger player than Albert. Futurewhiz also owns WRTS, an online language and vocabulary learning platform. Futurewhiz is owned by the Dutch investment firm NPM Capital, which potentially gives them the strength to consolidate the European market.

## Overview of education market

		albert	NOMP	Zcooly	Dragonbox (Kahoot)	Matematikfessor	Squla
Sweden	Curriculum item by country	✓	✓	(✓)	-		
	Arithmetics	✓	(✓)	-	✓		
	Algebra	✓	✓	-	✓		
	Geometry	✓	✓	-	-		
	Probability theory & statistics	✓	✓	-	-		
Norway	Proportionality	✓	✓	(✓)	-		
	Arithmetics	(✓)			(✓)		
	Algebra	✓			-		
	Geometry	✓			-		
Denmark	Problem solving	✓			-		
	Arithmetics	(✓)			(✓)	(✓)	
	Algebra	✓			-	✓	
	Geometry	✓			-	✓	
Poland	Probability theory & statistics	(✓)			-	✓	
	Arithmetics and use of numbers	✓			✓		✓
	Understanding of mathematical texts	✓			-		(✓)
	Geometry and spatial relationships	(✓)			-		(✓)
	Math in everyday life	✓			(✓)		(✓)
Reach (number of markets)		Multiple	one	one	Multiple	one	Multiple
Content type		Deep	Deep	Light/game	Light/game	Deep	Deep

In addition to its active markets, Albert is currently evaluating the French and German markets. In these markets, we consider Kartable and Bettermarks the main competitors.

**Kartable:** The French company Kartable focuses on facilitating remote learning. The company offers support for all years of primary/lower secondary school and the French equivalent to Swedish upper secondary school. The company differs from Albert in that it primarily sells B2B and focuses on digital delivery of teacher-led instruction. The app offers support in a wide range of subjects. The company has seen the pass rate of the BAC exam (equivalent to French secondary school) rise from 80.6% to 93.5% among pupils who use the service. Thus far, the service has been used by two million pupils. We estimate Kartable's ARR at EUR 1-3m.

There are several companies operating in the German market, including Bettermarks.

**Bettermarks:** The company focuses on mathematics for German primary school and has more than 100 digital textbooks. The company is similar to Albert in terms of workforce size, but differs in that it has a considerably larger proportion of B2B sales.

In our assessment, the markets in other European countries are in a similar stage as the German, French and Swedish markets, which means that Albert has the long-term potential to consolidate the European EdTech market.

We see several competitors in the British market:

**Komodomath:** A company oriented towards mathematics for children aged 5-11. The company's pricing is similar to Albert's. The company has taken in total of GBP 0.6m since it was founded in 2013. The latest financing round amounted to GBP 0.4m. As far as we can determine from our assessment, the company has no connection to the British school system and thus slots into the category of more play-oriented learning games.

**Lingumi:** A company specialised in English language learning for children aged 2-6. The company has raised about SEK 5.6m in venture capital.

The British EdTech scene is among the most fully developed in Europe and accounted for about 41% of all European venture capital investments in EdTech in 2019. However, much of these investments were made in companies aimed at schools, in B2B companies rather than B2C, which is the segment in which Albert operates.

## Strategy for reaching new markets

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Albert has historically been successful at pre-launch testing of products in the market. When Albert tests a new geographical market, they launch apps under other names and then study marketing efficiency. They used this method to evaluate the Polish, Danish and Norwegian markets. As discussed earlier in the report, the results were very strong. Brazil is one of the markets where the company saw strong potential, but since Albert has chosen to focus on Europe, they did not take the venture any further. The most recently tested markets were the UK, France and Germany. Here, Albert chose to execute the acquisitions of Stairway Learning and Sumdog because the British market showed better KPIs.

## Financial targets

Albert has two financial targets: a growth target and a profitability target.

**The growth target is for the company to reach net sales of SEK 500m by 2025.**

The target will be reached through a combination of organic growth and acquisitions. Based on current sales figures, this equates to a CAGR of 50%, a level that the company has achieved in recent quarters.

**The profitability target is an EBITA margin of 40% over the long term.**

The profitability target is in parity with a mature software company. We believe Albert will focus on growth during the forecast period and that the target will consequently not be reached.

Overall, we consider the sales target relatively realistic and that it would imply Albert reaching about 10% of the addressable market in the countries where it does business. Further M&A or establishment in additional markets are thus not a prerequisite for the company to achieve the targets.

## Estimate

A brief description of the key metrics for SaaS companies and what they entail follows.

In the software segment, we focus primarily on five metrics that all begin with the letter C:

- **CARR (Contracted Annual Recurring Revenue):** Understanding the dynamics behind ARR is the key to understanding, measuring and estimating revenues in a SaaS company. CARR is the value of contracted and recurring revenues at a specific point in time. It is driven primarily by the following three metrics (Churn Rate, CLTV and CAC).
- **Churn Rate:** The proportion of customers or revenues that are lost through cancellations. At present, Albert has a churn rate of 10% per month. In our assessment, reducing churn is the main challenge for the company on the way towards its financial targets. We see that the company has taken several actions to reduce churn. The first was to launch more subjects and the second was to introduce family accounts.
- **CLTV (Customer Lifetime Value):** The lifetime value of a customer. This figure is determined primarily by revenue per user and churn rate. In Albert's case, this is SEK 850. Provided that the churn rate falls, we believe CLTV can grow.
- **CAC (Customer Acquisition Cost):** The cost to acquire a new customer. This cost is compared to CLTV to calculate time to payback. We assess Albert's metrics as strong on this front, in spite of a high churn rate.
- **Cash Flow:** In Bessemer's estimation, the best-in-class software companies achieved positive cash flows by offering discounts for paying upfront or by optimising their price structures. In our view, Albert has room for improvement here.

We believe the key to understanding Albert's business model lies in the correlation between two metrics, LTV and CAC, and their structure.

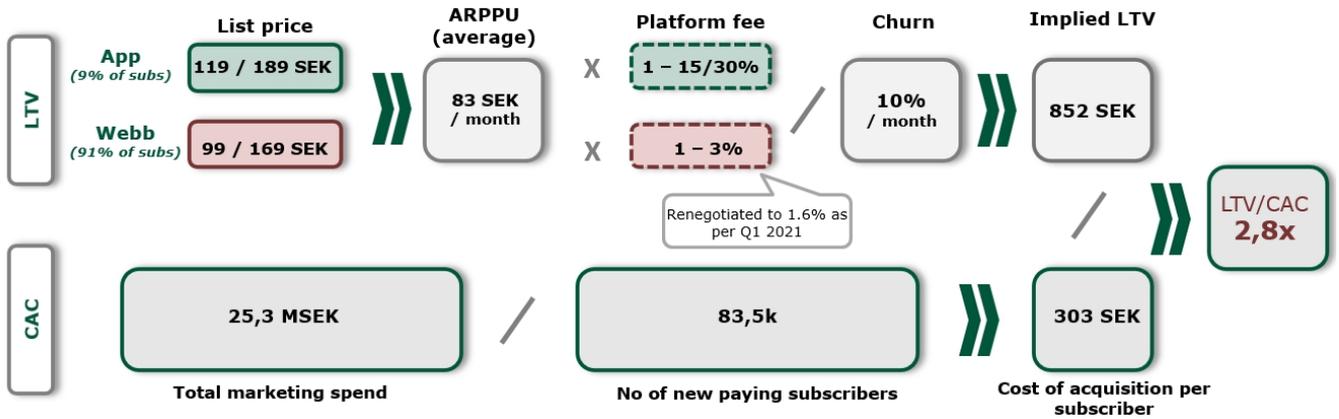
**LTV:** LTV for an Albert customer is based on the monthly price paid. At present, this is an average of SEK 90 per month (ARPU). This is then adjusted for a platform fee paid to use the provider: Square when the purchase is web-based and Apple or Google when the purchase is made by phone. The value is then adjusted for the company's churn, which has been 10% a month on average. LTV can be increased by reducing churn or adding more services. In our estimation, lower churn is the most important aspect for Albert to deal with right now.

**CAC (Customer Acquisition Cost):** If marketing spend is divided by the number of new customers, the quotient is the CAC. This figure was SEK 549 in H1 21 and SEK 303 in 2020. The reason for the high figure in H1 was that the company made large investments in brand awareness in H1 21. In our assessment, the figure going forward will be more in parity with 2020 during our forecast period. If this is compared to LTV, the result is a ratio that shows how profitable marketing has been during a specific period. Albert has managed to maintain a relatively strong quotient

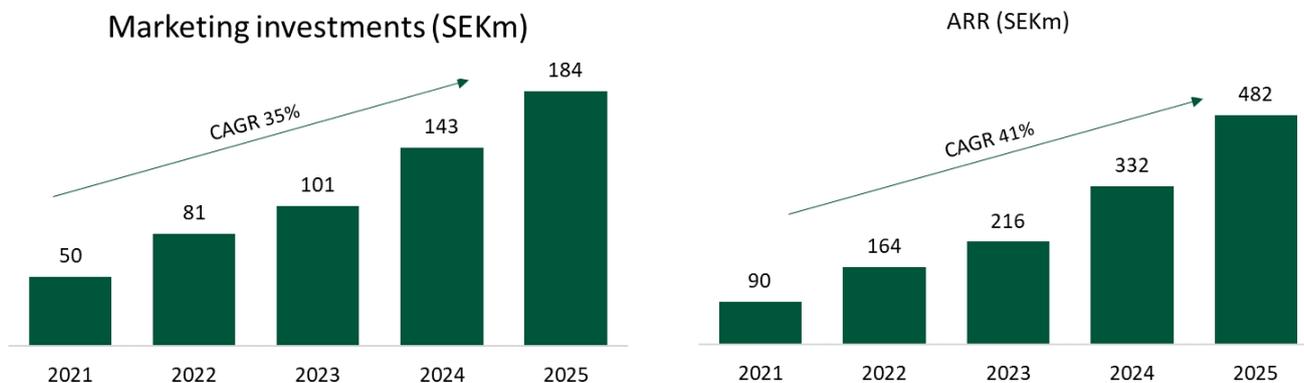
between the two, which indicates successful marketing. We believe this will continue, based on the high conversion rate from trial users to paying users that we have seen in the last two years.

The chart below is based on historical data showing how the various metrics are related and how they work together.

**Overview of earnings model based on historical data**



**Marketing:** We estimate that Albert is going to spend about 70% of starting ARR on marketing in the next few years. This is in line with historical levels. We believe the company will remain at these levels and possibly accelerate if the company sees persistent good returns on its investments. Investments in marketing have historically generated about 2.8x in added LTV. In our estimate, we lower the factor to 2X because we believe the ratio falls once a company reaches a certain level of maturity in a market.



We assess Albert’s marketing as cost-effective. The results of the CAC/LTV ratio for several companies that have reached ARR of USD 100m over the long term. Albert is top-ranked here. We assess the payback rate at about 12 months.

### Översikt payback



Source: Bessemer Venture Partners

### Overview of ARR

$$\text{ARR (ending)} - \text{ARR (starting)} \times (1 - \text{Churn}) + ((\text{LTV}/\text{CAC})) * \text{Marketing during the period}$$

$$\text{ARR} - \text{No of customers} * \text{ARPU}$$

We have chosen to base our forecasts for ARR and sales on forecasting the “entire” ARR bucket. In order to better understand the components of ARR, this can be divided and analysed in three separate components:

**No of paying users:** As Albert provides a consumer product, this is the most important driver of sales and growth. At year-end 2021, Albert had about 100,000 paying users. Based on the strong return the company is seeing on its marketing investments, we estimate that the figure will be about 275,000 by the end of 2025. That

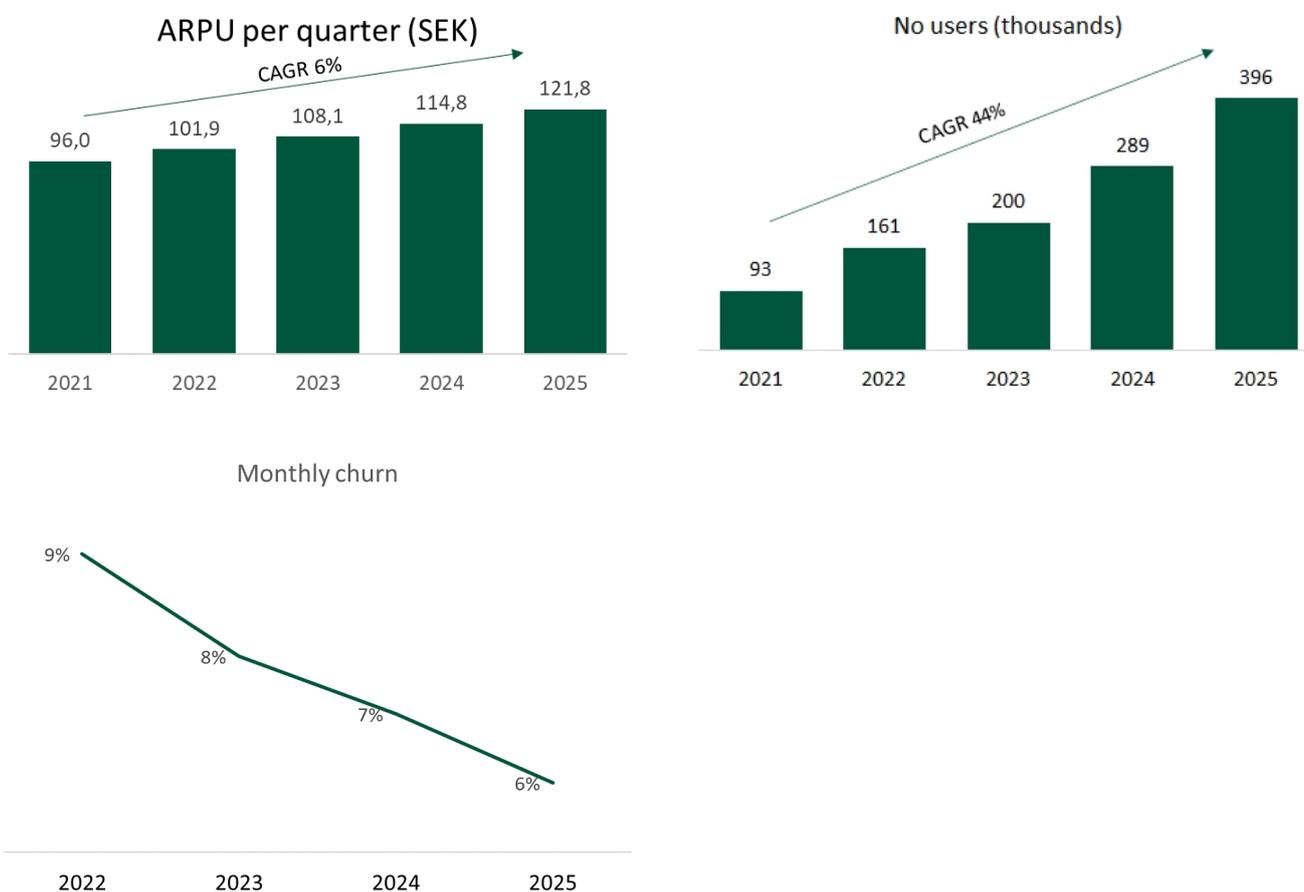
would equate to about 10% of the markets in which the company is now active. If the UK is added, that figure would be around 5%.

**ARPU:** In our estimation, Average Revenue Per User (ARPU) will remain at current levels for two reasons:

- The acquisition of Sumdog will lower ARPU because the company sells its solution B2B.
- Established payment model: In our view, it may be difficult for Albert to raise its prices for existing products. We do, however, believe ARPU could rise if the company adds extra modules ahead of national tests, for example.

**Churn:** We have assumed a declining churn for Albert during the forecast period. We believe this is reasonable for two reasons.

- Sumdog sells its service B2B. Consequently, the company has lower churn because its end customers are school heads/schools, rather than parents.
- In our assessment, the company is going to work actively to reduce churn in upcoming quarters. As we see strong growth in the number of exercises solved in the network, we believe churn is going to fall. The more active Albert’s users are, the less risk there is that they will cancel their subscriptions.

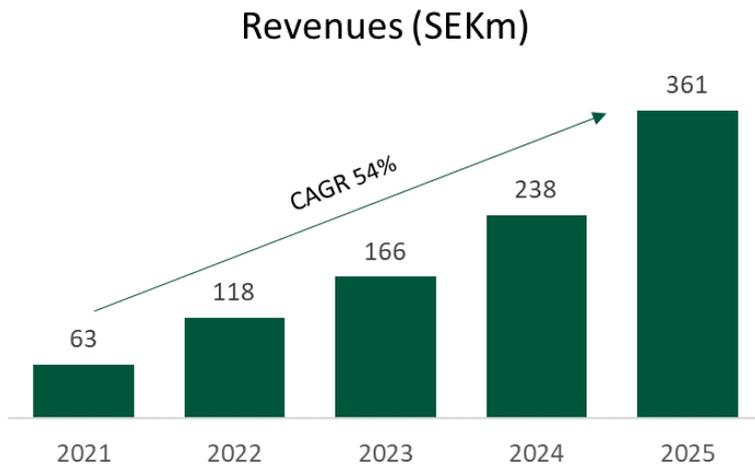


In summary, we see an average ARR growth of 41% based on the results for 2021. The figure equates to organic growth of 31% during the period of 2022-2025.

## Revenue vs ARR

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To calculate revenues for each quarter, we began with starting ARR and adjusted that for churn at about 10% of starting ARR. This yielded the following revenue trend over our forecast period. CAGR as presented below includes acquisitions made in 2021 and 2022. Organic growth 2023-2025 amounts to about 30%.



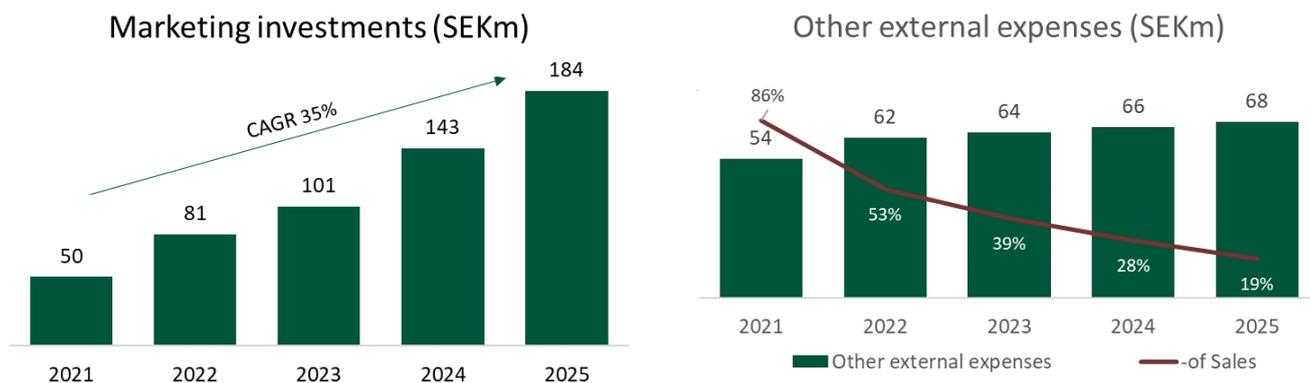
## Cost base

**Gross margin:** We estimate that Albert will have a gross margin around 90%, which is higher than that of many mobile game companies. The reason is that the bulk of Albert's revenues come from web-based purchases rather than app purchases. Apple and Google take 15-30% of the gross revenue for app purchases. By encouraging users to complete their purchases in a browser-based environment, the company not only achieves a higher gross margin, but also better customer ownership. The gross margin will rise somewhat during our forecast period because the company has agreements to pay royalties on acquired IP, which expire in 2023.

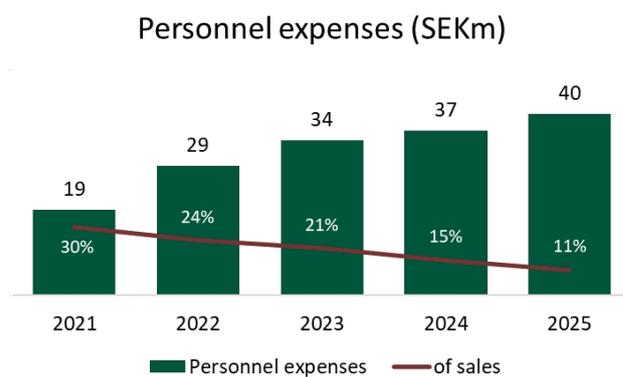
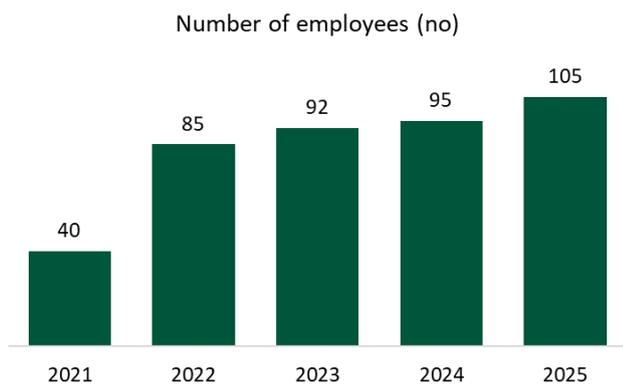
We estimate that the company's gross margin will remain around the current 90% for the entire forecast period. The company began including COGS in other external expenses as of the Q4 report.

**Marketing:** Marketing is the key driver of the company's growth. We expect the company to spend about 14% of starting ARR per quarter on marketing. This figure may change depending on the company's view of the customer acquisition market or if CAC begins to rise. We estimate that the company will continue to invest heavily as long as it has an LTV/CAC around 2x. We believe this ratio will persist during the forecast period based on the company's historically strong conversion figures.

**Other external expenses, e.g., marketing and COGS:** We estimate that these costs will rise somewhat in upcoming years. However, we see that much of the company organisation is now in place and therefore predict only modest increases.



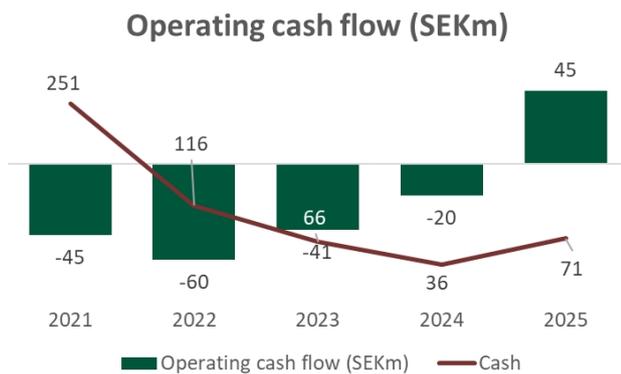
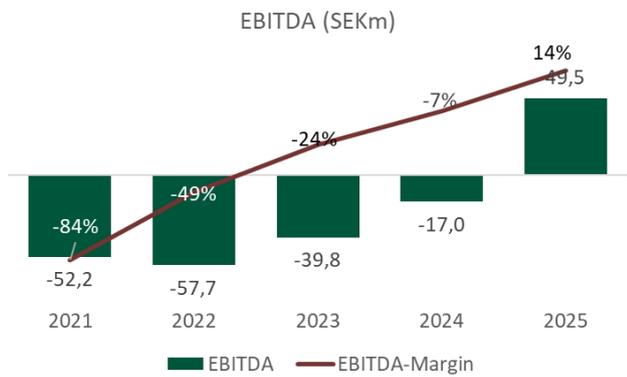
**Personnel expenses** The acquisition of Sumdog brought about 40 new employees to Albert. In our assessment, the workforce will continue to increase somewhat during the forecast period but will grow considerably slower than revenues. We estimate that a large part of the organisation and most developers are already in place at the company.



**Amortisation/capitalisation** Considering the two most recent acquisitions and the company's capitalisations, amortisation is going to rise somewhat in the future. They will however remain at a low level of sales.

## Comments on liquidity and profitability

In summary, our assessment is that the company will not reach breakeven during our forecast period. The main reason is their growth initiative, which entails heavy investments in marketing. We believe the company will continue with these investments as long as the good returns last. We estimate that the liquidity from the IPO could act as a bridge until the company is cash flow positive with a good margin.

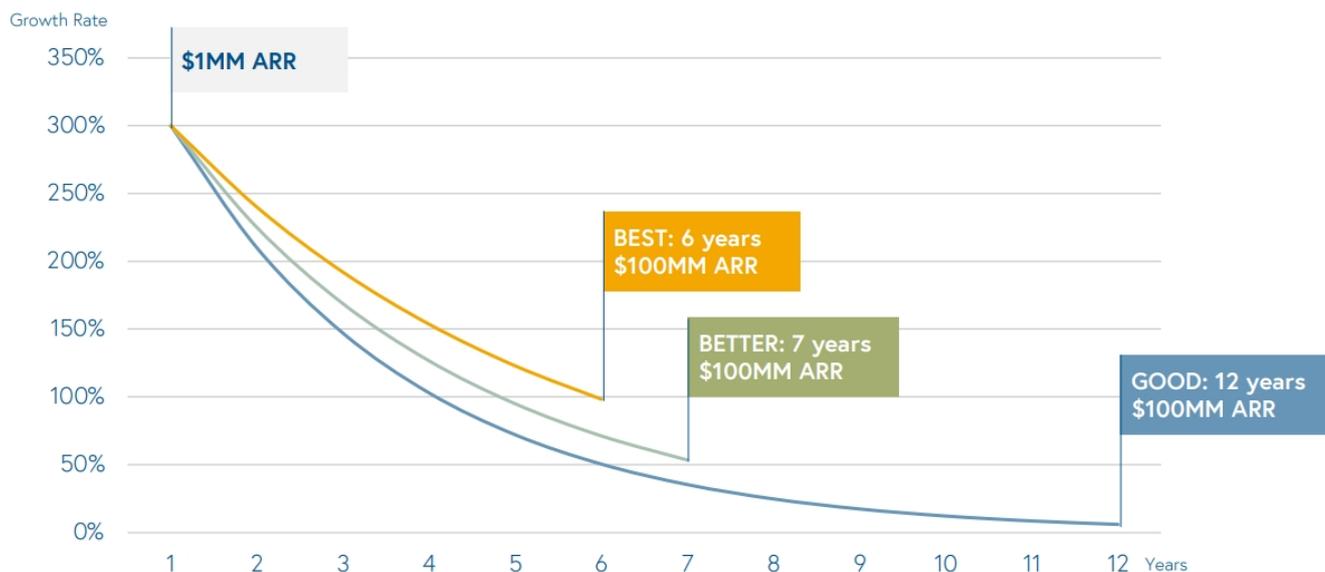


## Analytical framework

We have based our estimates for the next few years on Albert's targets. In order to assess whether the company has the potential to achieve these targets, we have used a framework developed by American VC investor Bessemer Venture Partners. To put the company's target into perspective, we have looked at several American SaaS companies and how long it took them to achieve Annual Recurring Revenue (ARR) of USD 100m, or about double Albert's target.

## The Good, Better, and Best of Growth Endurance

Implications for growth deceleration



Källa: Bessemer Venture Partners

**Aim for leadership in a specific niche:** For specialised software like Albert's, the market leader usually has a market share of about 50%, while the next three companies share about 40% of sales. Market leadership makes it possible to maintain better pricing power and attract the right talents. This leads to positive momentum for the company so that growth can accelerate. In our assessment, Albert has achieved a market leading position in most of its markets, considering the strong growth and addressable market shares in specific countries. In Sweden, Albert has taken about 10% of the addressable market. We also estimate that Albert is one of the few companies in European EdTech valued at around USD 100m.

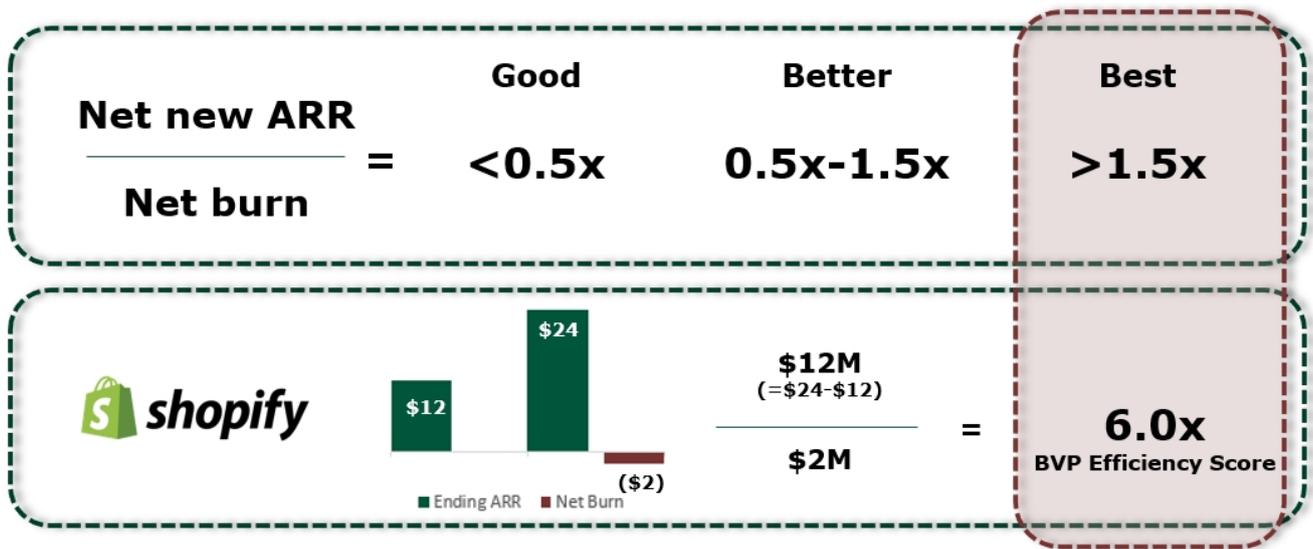
**Pricing power:** According to numerous studies of software companies that have achieved ARR of USD 100m, relatively aggressive pricing is a key factor. Initial discounts and low prices can lead to short-term growth, but low prices also limit capacity to invest in marketing and consequently inhibit growth. In our assessment, Albert has succeeded relatively well with its pricing, as indicated by the high percentage of conversion from free trial users to paying users.

**Growth at optimal cost:** Growth always comes at a price. This cost is a combination of pricing and sales efforts. We have chosen to look at the efficiency score metric to evaluate Albert. This is a ratio between net burn and net new ARR. The example below shows how the company Shopify has performed (ending ARR - starting ARR)/net burn during the period. Albert averages 2.7x during our forecast period.

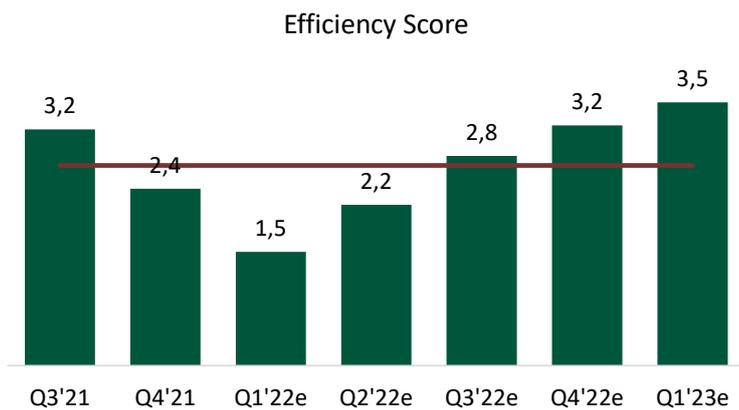
This indicates that the company has good control over its marketing investments and that these are generating efficient growth.

**Market strategy:** A working strategy for reaching the market is a prerequisite for high growth. This, combined with pricing, can be summarised in an efficiency score. Albert's efficiency scores for upcoming quarters follow. Based on the high conversion rate, we estimate that Albert has succeeded at finding efficient marketing channels.

BVP Efficiency score (<USD 30m ARR)

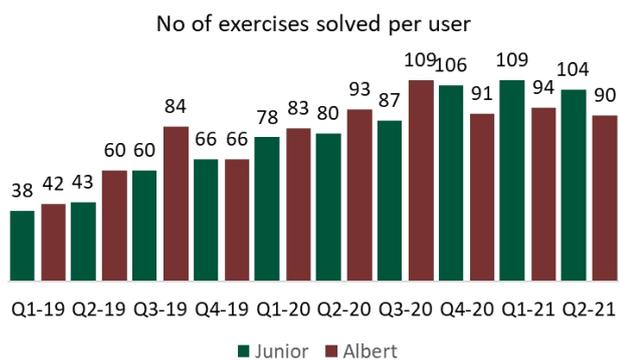


Efficiency score Q3'21–Q4'22



**Focus on the product:** One thing that is clear about companies that achieve an ARR of USD 100m is that they are product companies with a high return on investment (ROI) for end users. This can be difficult to measure for Albert, so we have chosen to look at customer satisfaction. The current rating in the App Store is an average of 4.4 based on more than 3,300 reviews. We see this as a sign that the app delivers high ROI to end users.

The number of exercises solved per user is another aspect that shows that end customers like the product. From Q1 19 to Q2 21, the number of exercises solved in Albert Junior rose by 174% and the number of exercises solved in the Albert product rose by 113% per user during the same period. The figure means that Albert is used daily, on average, by the company's customers. We judge the probability of cancelling a subscription that is used daily to be low.



Source: Albert IPO prospectus

The other criteria that Bessemer discusses are connected to softer values, such as that the company culture is set by its leaders and imbues the entire company, as well as the importance of planning in advance for capital injections. In our assessment, Albert meets these criteria. The company's cash reserves are one example. We estimate that the liquidity raised in connection with the company's IPO will suffice for both acquisitions and ongoing operations.

## Valuation

We have chosen to combine aspects of a cash flow statement and a relative valuation for 2025 to value Albert. We believe this is the right method for two reasons:

- **Discounted cash flow assigns too much weight to terminal value:** We believe that when strong growth is expected in a company, like Albert, the sensitivity is too high in a DCF.
- **Comparability:** To arrive at a fair valuation of Albert, we believe the company must reach a more mature stage. We believe this could occur around 2025.

Once we valued the company for 2025, we discounted that value to the present. We find that the discount rate should be ~18% to reflect that the company is in an acceleration phase. A discount rate above 18% indicates a more binary risk.

Software companies are usually divided into two types: horizontal and vertical.

- **Horizontal:** Horizontal software companies provide software that can be used by most industries. HR systems and accounting systems are examples of these. These companies generally have higher growth than others and have historically been valued at a premium on the stock exchange.
- **Vertical:** Verticals provide software used in a specific industry. Software used in the financial industry is the foremost example. Vertical software is characterised by higher profitability but lower growth because the addressable market is often smaller. Albert fits this category because it has put itself in the niche of EdTech software.

## Peers

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A brief outline of the Nordic listed SaaS companies we have chosen to use in our peer set follows. Albert is currently traded at a discount of about 70% on EV/Sales compared to these companies. In our peer set, we see that the market clearly rewards companies with high growth over companies with high margins. In our assessment, the key component for achieving a high valuation is high, sustained growth, which we believe Albert could have in our estimate.

**Kahoot:** A Norwegian EdTech company. The company develops games and quizzes in various forms to facilitate learning. Its customers are schools, organisations and companies all over the world. The company gained a strong upturn in connection with Covid-19 and the wave of remote learning that followed.

**SimCorp:** A Danish company that develops portfolio management software. Its customers are large financial institutions or banks. The company is a typical vertical SaaS in that the software can only be used in one industry.

**Vitec:** Vitec's strategy is to acquire and run niched software companies in the Nordics.

**Sinch:** A Swedish company that provides cloud communications services via mobile phones.

**Lime:** Provides SaaS-based CRM systems in the Nordics and the Netherlands. The company focuses on three verticals. Unlike many of the large American software companies, Lime implements all integration and adaptation in-house and as a result has a relatively high share of consultancy-based revenues.

**Upsales:** Develops SaaS-based CRM software. The company focuses on Sweden but has begun to grow abroad. Upsales is active in different industries than Lime and has a higher share of SaaS revenues.

**Admicom:** A Finnish company whose business includes providing accounting services and ERP software (enterprise resource planning) for companies in the construction, civil engineering and manufacturing industries.

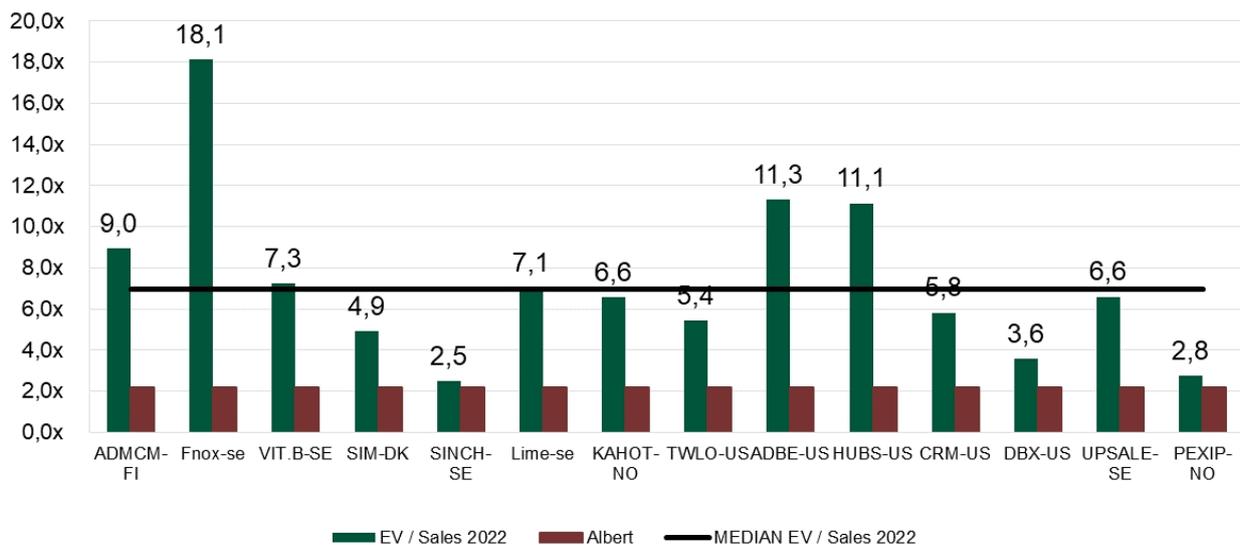
**Fortnox:** The leading accounting software in Sweden. Over the years, the company has successfully expanded its product offering and ARPU has risen as a result. This is an archetypal example of a company that has met the criteria described above.

## Valuation method

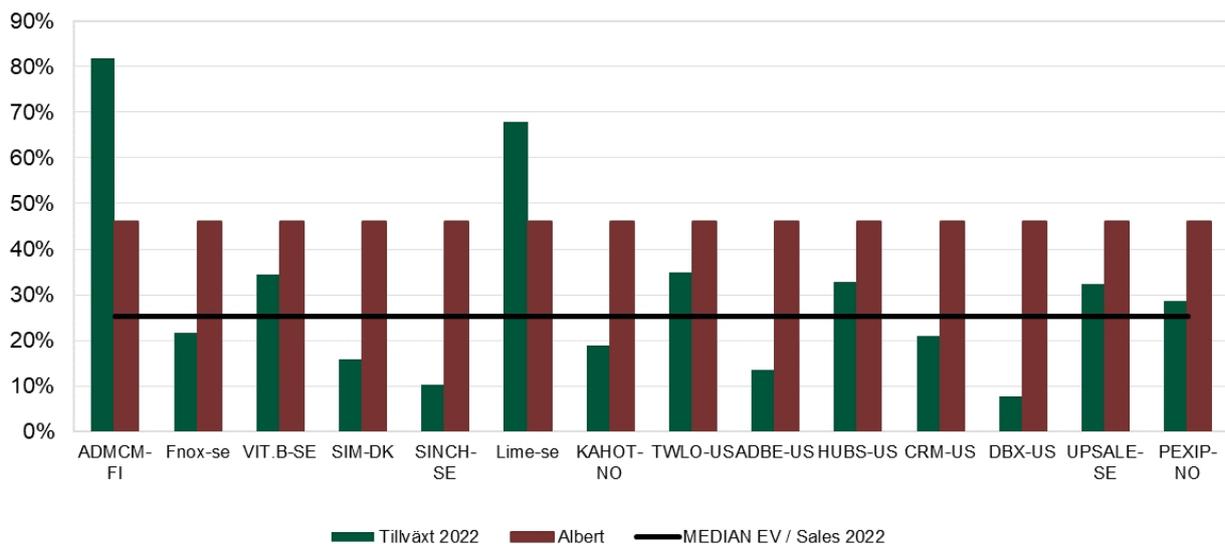
The multiple we have chosen to value Albert is EV/Sales. The reason for this is that growth is rewarded in this type of company and that Albert will not achieve profitability during our forecast period. We also chose to look at our estimate for 2025 to value the company because Albert will then be more like the companies in our peer set in terms of maturity. To compensate for maturity, we use a required return of 18% when we discount the present value.

Based on sales in 2022, Albert is currently being traded at a discount of about 70% compared to its peers. Based on Albert's strong growth, we consider this discount too high. There will still be a discount against more mature software companies because Albert sells B2C and has a considerably higher churn rate than the companies below.

### Valuation



### Growth 2022



## Peers

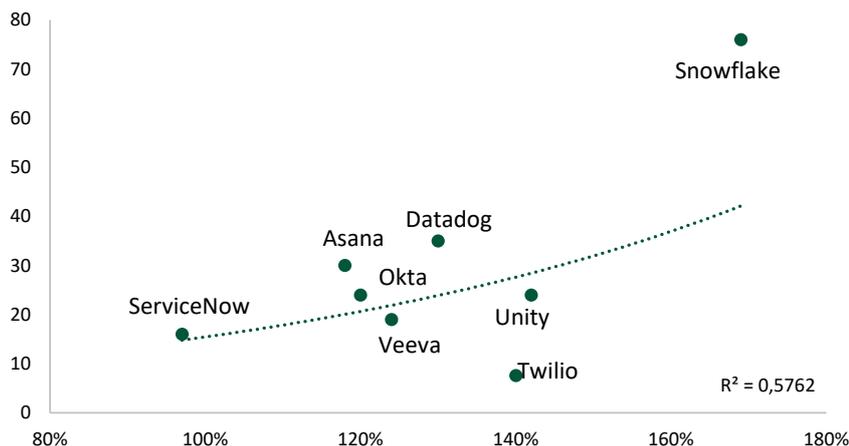
Valuation	MCAP (sek)	EV (sek)	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
			LTM	2022	2023	LTM	2022	2023	LTM	2022	2023	LTM	2022	2023
Admicom	3 136	2 949	10,91x	9,0x	7,82x	23,3x	19,4x	16,4x	26,3x	20,7x	18,1x	35,5x	26,7x	23,6x
Fortnox	22 561	22 677	24,33x	18,1x	13,86x	58,2x	41,5x	30,4x	74,5x	52,6x	36,4x	93,4x	68,5x	48,1x
Vitec Software Group	13 479	13 206	8,40x	7,3x	6,51x	22,7x	19,4x	16,7x	44,3x	38,0x	31,8x	64,2x	39,7x	34,2x
SimCorp A/S	30 090	29 222	5,44x	4,9x	4,59x	18,3x	18,0x	16,2x	20,5x	19,7x	17,6x	24,7x	25,8x	22,9x
Sinch	57 260	67 922	4,20x	2,5x	2,17x	64,4x	19,6x	15,4x	174,6x	34,6x	25,5x	59,0x	42,1x	28,6x
Lime Technologies	3 185	3 384	8,38x	7,1x	6,09x	28,2x	22,2x	18,9x	44,5x	35,8x	28,5x	56,4x	35,6x	28,7x
Kahoot	12 811	11 033	33,60x	6,6x	4,85x	-	23,9x	13,6x	-	30,8x	16,7x	-	56,4x	26,3x
Twilio	248 050	211 179	7,33x	5,4x	4,20x	-	91,1x	51,3x	-	(371,7x)	287,7x	(25,2x)	-	653,1x
Adobe	2 027 945	2 017 736	12,81x	11,3x	9,81x	30,2x	23,0x	20,1x	34,7x	25,3x	21,7x	43,1x	31,5x	26,7x
HubSpot	196 540	192 149	14,79x	11,1x	8,75x	-	88,7x	63,9x	-	123,2x	87,5x	(249,5x)	174,2x	123,4x
salesforce.com	1 884 940	1 859 678	7,05x	5,8x	4,93x	47,7x	19,1x	16,3x	334,8x	29,2x	23,3x	128,0x	41,4x	33,4x
Dropbox	76 727	82 618	3,87x	3,6x	3,33x	16,7x	10,1x	9,2x	24,9x	12,4x	11,1x	24,7x	12,7x	11,2x
Upsales Technology	881	815	8,75x	6,6x	5,10x	41,1x	30,2x	18,6x	64,7x	40,7x	24,2x	90,7x	57,0x	33,8x
Pexip Holding	3 969	3 254	3,57x	2,8x	2,10x	-	(17,1x)	214,2x	-	(10,2x)	(29,5x)	(22,6x)	-	-
Albert	509	255	4,10x	2,2x	1,50x	nm	nm	nm	nm	nm	nm	nm	nm	nm
<b>Mean</b>			<b>12,47x</b>	<b>7,24x</b>	<b>5,93x</b>	<b>35,10x</b>	<b>28,86x</b>	<b>35,65x</b>	<b>84,38x</b>	<b>7,46x</b>	<b>41,15x</b>	<b>24,8x</b>	<b>51,4x</b>	<b>80,0x</b>
<b>Median</b>			<b>10,96x</b>	<b>6,95x</b>	<b>5,71x</b>	<b>35,10x</b>	<b>29,22x</b>	<b>37,22x</b>	<b>84,38x</b>	<b>5,79x</b>	<b>42,90x</b>	<b>24,8x</b>	<b>51,0x</b>	<b>84,1x</b>
<b>Albert vs Peers</b>			-63%	-68%	-74%	nm	nm							

Margins	Gross Income			EBITDA			EBIT			Net Income		
	LTM	2022	2023									
Kahoot	-	91,7%	90,7%	-	27,6%	35,6%	-	21,4%	29,0%	-	13,8%	21,2%
Admicom	52,2%	95,0%	95,2%	47,7%	46,2%	47,6%	41,7%	43,2%	43,2%	32,4%	32,3%	33,4%
Fortnox	32,7%	91,6%	91,9%	41,8%	43,7%	45,6%	32,7%	34,5%	38,0%	25,9%	26,5%	28,8%
Vitec Software Group	18,7%	94,9%	88,4%	36,9%	37,4%	39,0%	18,7%	19,1%	20,5%	13,2%	13,6%	15,0%
SimCorp A/S	60,3%	59,6%	60,8%	29,6%	27,5%	28,4%	26,5%	25,1%	26,1%	22,2%	19,0%	19,8%
Sinch	3,4%	32,9%	32,6%	7,5%	12,8%	14,1%	3,4%	7,2%	8,5%	5,4%	4,2%	5,6%
Lime Technologies	22,0%	-	-	30,0%	31,8%	32,2%	18,9%	19,7%	21,4%	14,0%	14,5%	16,2%
Twilio	45,4%	52,8%	53,6%	-21,0%	6,0%	8,2%	-31,8%	-1,5%	1,5%	-33,4%	-2,3%	0,8%
Adobe	87,1%	89,4%	89,1%	41,9%	49,2%	48,8%	36,8%	44,7%	45,2%	30,5%	36,6%	37,1%
HubSpot	80,1%	81,5%	82,1%	-0,7%	12,6%	13,7%	-4,2%	9,0%	10,0%	-6,0%	7,1%	8,0%
salesforce.com	67,0%	78,3%	78,5%	18,3%	30,5%	30,3%	2,1%	20,0%	21,1%	5,5%	14,9%	16,1%
Dropbox	79,4%	81,0%	81,1%	21,2%	35,5%	36,3%	14,2%	29,0%	29,9%	15,6%	25,8%	26,1%
Upsales Technology	13,5%	-	-	21,3%	21,9%	27,3%	13,5%	16,2%	21,1%	10,4%	12,8%	16,7%
Pexip Holding	-24,6%	90,8%	88,6%	-15,4%	-16,3%	1,0%	-24,6%	-27,3%	-7,1%	-19,5%	-20,5%	-7,3%
<b>Mean</b>	<b>41,3%</b>	<b>78,3%</b>	<b>77,7%</b>	<b>19,9%</b>	<b>26,2%</b>	<b>29,1%</b>	<b>11,4%</b>	<b>18,6%</b>	<b>22,0%</b>	<b>8,9%</b>	<b>14,2%</b>	<b>17,0%</b>
<b>Median</b>	<b>45,4%</b>	<b>85,4%</b>	<b>85,3%</b>	<b>21,3%</b>	<b>29,1%</b>	<b>31,2%</b>	<b>14,2%</b>	<b>19,9%</b>	<b>21,3%</b>	<b>13,2%</b>	<b>14,1%</b>	<b>16,4%</b>

Growth	Sales			EBITDA			EBIT			Net Income		
	LTM	2022	2023	LTM	2022	2023	LTM	2022	2023	LTM	2022	2023
Kahoot	-	81,8%	36,0%	0,0%	200,0%	75,4%	0,0%	3529,5%	84,2%	0,0%	579,1%	108,8%
Admicom	13,4%	21,7%	14,5%	19,0%	17,6%	17,9%	19,8%	13,9%	14,5%	20,2%	21,0%	18,4%
Fortnox	34,3%	34,3%	30,7%	38,6%	36,6%	36,6%	19,7%	35,7%	44,2%	17,4%	37,7%	41,7%
Vitec Software Group	19,3%	15,9%	11,4%	48,3%	18,4%	16,3%	31,8%	16,8%	19,6%	28,8%	19,6%	22,9%
SimCorp A/S	8,6%	10,2%	7,3%	5,2%	1,6%	11,2%	6,4%	3,5%	11,8%	24,3%	-5,3%	11,5%
Sinch	101,6%	67,8%	15,4%	14,4%	171,3%	27,3%	-41,0%	202,6%	35,7%	97,8%	28,3%	55,6%
Lime Technologies	19,2%	18,8%	15,8%	0,3%	14,6%	17,5%	-6,5%	27,0%	25,7%	-6,4%	23,4%	29,0%
Twilio	61,3%	35,0%	29,3%	109,6%	-12,4%	77,8%	91,2%	nm	nm	93,5%	nm	nm
Adobe	22,8%	13,4%	15,3%	20,7%	9,5%	14,3%	22,0%	10,2%	16,6%	-13,4%	9,0%	17,1%
HubSpot	47,3%	32,7%	27,4%	-62,1%	33,4%	38,8%	3,5%	32,8%	40,9%	-8,5%	33,4%	43,0%
salesforce.com	24,7%	21,0%	18,1%	-11,8%	18,5%	17,3%	20,4%	29,5%	24,9%	-64,5%	2,2%	27,9%
Dropbox	12,7%	7,8%	7,8%	63,4%	3,5%	10,0%	153,2%	4,3%	11,0%	-231,0%	-1,4%	8,9%
Upsales Technology	23,8%	32,4%	29,6%	7,9%	36,4%	61,9%	35,5%	58,7%	68,5%	46,4%	62,9%	69,0%
Pexip Holding	18,7%	28,7%	32,1%	-220,4%	nm	nm	-454,1%	nm	nm	76,8%	nm	nm
Albert	162,0%	89,0%	40,0%	nm	nm	nm	nm	nm	nm	nm	nm	nm
<b>Mean</b>	<b>40,7%</b>	<b>34,0%</b>	<b>22,1%</b>	<b>2,4%</b>	<b>42,2%</b>	<b>32,5%</b>	<b>-7,0%</b>	<b>330,4%</b>	<b>33,1%</b>	<b>5,8%</b>	<b>67,5%</b>	<b>37,8%</b>
<b>Median</b>	<b>22,8%</b>	<b>25,2%</b>	<b>17,0%</b>	<b>11,2%</b>	<b>18,4%</b>	<b>17,9%</b>	<b>19,7%</b>	<b>28,2%</b>	<b>25,3%</b>	<b>18,8%</b>	<b>22,2%</b>	<b>28,4%</b>

In our assessment, the main reason that Albert should be valued at a discount relative to a traditional SaaS company is Albert's high churn rate. To see how churn rate affects valuation, we have chosen to study several American SaaS companies that report this metric clearly. Our studies show that churn rate is a much stronger explanatory factor than growth and margins. This is illustrated in the chart below. We share our conclusions with the Anglo-Swedish investment bank GP Bullhound, which provides a quarterly review of the explanatory factors behind valuation. The companies we have selected to illustrate this connection are presented below the chart.

X-axel retention rate, Y-axel EV/Sales 2022



De internationella mjukvarubolagen vi valt att studera är:

The foreign software companies we have chosen to study are:

**Snowflake:** A company that provides cloud storage solutions. The company is a typical horizontal software company with customers in a wide range of industries. In our view, the company's high retention rate is due to their high share of upselling to existing customers and successful continued expansion of the addressable market. Yet another aspect that supports the high ARPU growth is that the company is paid based on the quantity of data stored.

**Unity:** A company that has developed a platform solution for game development. We find that their high retention rate is due to developers having substantial need for new features.

**Twilio:** Twilio is a competitor to the Swedish Sinch. As the company is paid per message in the system, revenue per user increases when the network grows.

**DataDog:** Delivers a solution for server and cloud monitoring. The product makes it possible to maintain an overview of multiple suppliers, as it has numerous APIs. The software also helps IT departments visualise their systems.

**Veeva:** A software company that specialises in software with applications within Life Science. The company's customers include some of the world's leading pharma companies.

**Okta:** A software company that provides solutions for online identification and security. The company has more than 10,000 customers worldwide.

**Asana:** A company that runs tools to facilitate various types of teamwork and to plan activities. Activities include sales targets and visualisation of milestones.

**Servicenow:** A company that provides ERP software.

## Conclusion

In summary, our observation is that Albert demonstrates many qualities shared with foreign companies and highly valued Swedish companies, primarily in terms of growth. However, we believe the company should be valued at a discount against the Swedish software companies because the churn rate is considerably higher than for many others on the market. In our assessment, this discount should be about 40%, which corresponds to 4.8x EV/Sales, rather than the 70% based on the current share price. At a discount rate of 18%, this results in a fair value range of SEK 60-63.

### Share price based on 2025 estimate

	X-axel WACC, Y-axel EV/ARR 2025				
	14%	16%	18%	20%	22%
<b>4,25</b>	60,9	57,8	54,9	52,2	49,7
<b>4,5</b>	64,5	61,2	58,2	55,3	52,6
<b>4,75</b>	68,1	64,6	61,4	58,4	55,6
<b>5</b>	71,7	68,0	64,6	61,5	58,5
<b>5,25</b>	75,3	71,4	67,9	64,5	61,4
<b>5,5</b>	78,8	74,8	71,1	67,6	64,3
<b>5,75</b>	82,4	78,2	74,3	70,7	67,3

### Sales 2025 and EV/Sales multiple (WACC 12%)

	X-axel (ARR, Y-axel EV/ARR 2025) WACC 12%				
	320	340	360	380	400
<b>4,25</b>	48,7	51,7	54,8	57,8	60,9
<b>4,5</b>	51,6	54,8	58,0	61,2	64,4
<b>4,75</b>	54,4	57,8	61,2	64,6	68,0
<b>5</b>	57,3	60,9	64,4	68,0	71,6
<b>5,25</b>	60,1	63,9	67,7	71,4	75,2
<b>5,5</b>	63,0	66,9	70,9	74,8	78,8
<b>5,75</b>	65,9	70,0	74,1	78,2	82,3

We also assess risk-reward in the Albert share as good at these levels. If the company sees no multiple expansion 2022-2025 and our estimates are reached, the implied IRR in the company is 14%. This means that the share should return about 14% per year to maintain the current valuation.

## Risk profile

We believe that there are two main risks to be considered in companies in the same commercial stage as Albert, financial and operational:

### Financial risks

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In our assessment, there is a risk related to financing and valuation for companies in Albert's situation. We believe we have taken the valuation risk in the company into account because we apply a discount in our peer valuation. We also believe the discount rate used in the peer valuation reflects the fact that Albert is in a commercialisation phase, unlike the more mature companies in our peer set.

### Covid situation

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In our estimation, Albert has gained an upturn from the Covid pandemic because home schooling has become more common due to social restrictions. We expect, however, that many parents will continue to use the product because it has yielded high return and because the private tutoring alternative is considerably more expensive.

### Marketing risks

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Albert har visat ett exceptionellt starkt track record i sin marknadsföring. Vi har räknat med en något lägre konverteringsgrad i våra estimat för att ta hänsyn till detta.

### Churn rate:

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The company's relatively high churn rate is the biggest uncertainty factor in our estimate. We have assumed that this will come down during our forecast period, but if it should begin to rise, both our estimate and our valuation will be exposed to a risk.

In summary, we see operational risks in Albert. We have compensated for this in two ways: by applying a discount in our valuation and through a high return requirement. To deal with the operational risks, we have not assumed that the company will achieve its long-term financial target of net sales of SEK 500m by 2025.

## ESG

Albert is working with Corporate Social Responsibility (CSR). By means of CSR-related projects, the company ensures compliance with laws and any relevant global standards from the economic, environmental and social perspectives.

### Environment

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Albert is based on a digital learning platform. By means of digital presence and access from users' households, Albert enables individualisation to meet needs and demand in the market. Digital education at home provides an alternative to printed educational materials, which cause some negative environmental impact. The continuous updating of editions requires high resource turnover and an inevitable environmental footprint, which digital platforms like Albert avoid. The curriculum-adapted solution that Albert offers augments traditional classroom instruction and requires no additional resources beyond actual access to the digital content. This can thus have positive environmental and economic impact.

### Social

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Albert constitutes a social enterprise aimed at creating public benefit. Members, partners and employees are engaged through CSR-related projects. One of the goals of the business is to facilitate accessible learning for more young people during their schooling. With the lack of individualisation and a shortage of teachers prevailing in many areas, high demand for complementary education is the result. Private teaching is a possible solution for this perceived problem, but it often entails substantial cost and is thus not viable for everyone who needs it. This makes digital education services – EdTech – an advantageous alternative.

### Governance

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By getting involved in various projects, the company has assumed an additional dimension of social responsibility. For example, Albert initiated a partnership with ICA in 2018 based on the “get one, give one” concept, where the aim was to help more young people in need of additional support in mathematics. The company also initiated a partnership in 2019 with the *Göteborgsvarvet* children's race to bring attention to the mathematics service and make it more accessible to young people through their participation in the race. This initiative has been spread to other children's races in Sweden, such as the Stockholm Marathon, Lidingöloppet, Tjejmilen, Tjurruset and Urban Trail. These projects are inspired by the positive correlation between physical activity and learning shown in numerous studies.

## Ägarbild, styrelse och ledande befattningshavare

The largest shareholder in eEducation Albert is Futur Pension, a digitalised Swedish insurance company, which controls 15.46% of equity and votes. We find that a large portion of these shares belong to Strand Kapitalförvaltning, which was a cornerstone investor in the IPO. The second-largest shareholder is Norwegian media group Schibsted ASA, with 14.97%. The third largest is securities firm Consensus Asset Management with a 9.35% stake. These are followed by Mats K. Andersson with 8.13% and Muirfield Invest Aktiebolag, which controls 7.92% of equity and votes.

### Board of directors

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The current board of directors of Albert is composed of 1+5 regular directors, who are presented below.

Jacob Møller, Chair:

Board chair since 2021. Other positions include chair of Ploot Invest AS, EljachInvest AS, Konciv AS, Drangedalsveien 102 AS, Dione Eiendom AS, Dione AS, Porter AS, Borgestad ASA and Höganäs Borgestad Holding AB. Møller is also a director of Dokkvegen Utvikling AS, Dokkvegen 20 AS, Borgestads Dokkvegen Utvikling AS, Dokkvegen 20 AS, Borgestads Dokkvegen Utvikling AS, Dokkvegen 20 AS, Borgestads Undersstøttelsesfond and Lendo, part of Schibsted AS.

Richard Sandenskog, Director:

Director since 2019. Other positions include board chair of eEducation Albert Invest AB. Sandenskog is a director of Lets deal AB, Rocker Buddy AB, Hygglo AS and Rocker AB (publ) and an alternate director of Addhealth Media AB and MindAps AB.

Paul Meyer, Director:

Director since 2019. Other positions include director of Alvero Consulting AB and alterate director of Aktiebolaget Fyrinvest and Lantella Ledarskap AB.

Helene Broms, Director:

Director since 2019. Other positions include director of RoosGruppen AB and FemL AB and alternate director of Arbetarskyddsmaterial Aktiebolag, Gatt IT AB and Singtrix AB.

Eva Nilsagård, Director:

Director since 2021. Other positions include CEO of Nilsagård Consulting AB and board chair of SPERMOSSENS AB and Diagonal Bio AB. Nilsagård is also a director of Aktiebolaget Svensk Exportkredit (SEK) AB, Bufab AB (publ), Hansa Biopharma AB, Xbrane Biopharma AB, Nanexa AB, IRRAS AB, Nimbus Group AB (publ), AddLife AB and Nilsagård Consulting AB.

Peter Grytterhielm, Director:

Director since 2019. Other positions include board chair of Mötesplatsen i Norden AB, Lets Deal AB, Vinomondo AB, IQ Marketplaces AB and Advized Sweden AB. Grytterhielm is also a director of Kundkraft Sverige AB, Addhealth Media AB, Prisjakt Sverige, Finansportalen AB, Prisjakt Norge AB, Hygglo AB and Woila AB, alternate director of Mindler AB, and CEO of Schibsted Tillväxtmedier Annosförsäljning AB.

### Management

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The Albert management team is composed as follows:

Arta Mandegari:

Co-founder of the company and CEO since 2021. Other positions include director of ANM Holding AB and eEducation Albert Invest AB.

Salman Eskandari:

Co-founder of the company and deputy CEO since 2021. Other positions include director of eEducation Albert Invest AB and TSE Holding AB.

Martin Dahlgren:

CFO since 2021. Other positions include director of HHGS Handels Capital Management AB.

Sebastian Christ:

Head of Product since 2019, no other current directorships or positions.

Ehsan Yazdani:

Head of Technology since 2021, no other current directorships or positions.

## Case Scorecard

### Triggers

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- M&A
- New markets
- New subjects

### Support

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- Market leader in most markets
- Low valuation relative to peers

### Risks

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- Churn rate
- Potential political risk related to profits from welfare services
- Currency risk, sales in PLN, GBP, NOK, DKK

### Agenda

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- Q1 2022-05-02
- Q2 2022-07-18

## Income statement

	2020	2021	2022E	2023E	2024E	2025E
<b>Net sales</b>	<b>23,9</b>	<b>62,6</b>	<b>118,1</b>	<b>165,7</b>	<b>237,9</b>	<b>361,0</b>
Capitalised work for own account	5,5	7,7	7,5	8,0	10,0	10,0
Other income	0,2	0,0	0,0	0,0	0,0	0,0
<b>Total income</b>	<b>29,6</b>	<b>70,3</b>	<b>125,6</b>	<b>173,7</b>	<b>247,9</b>	<b>371,0</b>
Other external expenses	-38,8	-103,7	-154,6	-179,1	-228,3	-281,2
Personnel expenses	-11,7	-18,9	-28,7	-34,4	-36,6	-40,3
<b>EBITDA</b>	<b>-20,9</b>	<b>-52,4</b>	<b>-57,7</b>	<b>-39,8</b>	<b>-17,0</b>	<b>49,5</b>
Depreciation/amortisation	-5,4	-4,8	-10,4	-11,6	-10,8	-10,5
<b>EBIT</b>	<b>-26,2</b>	<b>-57,2</b>	<b>-68,0</b>	<b>-51,4</b>	<b>-27,7</b>	<b>38,9</b>
Net financial income/expense	-0,2	-0,2	0,0	0,0	0,0	0,0
<b>Profit or loss before tax</b>	<b>-26,4</b>	<b>-57,3</b>	<b>-68,0</b>	<b>-51,4</b>	<b>-27,7</b>	<b>38,9</b>
Tax	0,0	0,0	0,0	0,0	0,0	0,0
Minority interests	0,0	0,0	0,0	0,0	0,0	0,0
<b>Net profit or loss (reported)</b>	<b>-26,4</b>	<b>-57,3</b>	<b>-68,0</b>	<b>-51,4</b>	<b>-27,7</b>	<b>38,9</b>
<b>Net profit or loss (adjusted)</b>	<b>-26,4</b>	<b>-57,3</b>	<b>-68,0</b>	<b>-51,4</b>	<b>-27,7</b>	<b>38,9</b>

## Income statement

	2020	2021	2022E	2023E	2024E	2025E
<b>ASSETS</b>						
Capitalised development costs and similar work	4,9	8,7	5,9	2,3	1,5	0,9
Concessions, patents, licenses, brands and similar rights	0,2	12,5	81,0	81,0	81,0	81,0
Other non-current assets	0,5	0,4	0,4	0,4	0,4	0,4
<b>Total non-current assets</b>	<b>5,5</b>	<b>21,6</b>	<b>87,3</b>	<b>83,7</b>	<b>82,9</b>	<b>82,4</b>
Accounts receivable	0,0	5,4	12,2	16,0	24,3	36,1
Other receivables	2,4	0,9	2,8	3,7	5,6	8,3
Prepaid costs and accrued income	0,4	0,4	0,4	0,4	0,4	0,4
Cash and cash equivalents	68,5	251,5	115,5	66,3	36,3	71,4
<b>Total current assets</b>	<b>71,3</b>	<b>258,2</b>	<b>130,9</b>	<b>86,3</b>	<b>66,5</b>	<b>116,1</b>
<b>TOTAL ASSETS</b>	<b>76,8</b>	<b>279,8</b>	<b>218,2</b>	<b>170,0</b>	<b>149,4</b>	<b>198,5</b>
<b>EQUITY AND LIABILITIES</b>						
Equity	70,1	267,2	199,1	147,7	119,9	158,9
Minority interests	0,0	0,0	0,0	0,0	0,0	0,0
<b>Total equity</b>	<b>70,1</b>	<b>267,2</b>	<b>199,1</b>	<b>147,7</b>	<b>119,9</b>	<b>158,9</b>
Non-current financial liabilities	0,8	0,0	0,0	0,0	0,0	0,0
<b>Total non-current liabilities</b>	<b>0,8</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
Accounts payable	0,4	2,2	7,0	9,1	13,9	20,6
Current tax liability	0,1	2,7	2,7	2,7	2,7	2,7
Other liabilities	2,8	1,8	3,5	4,6	6,9	10,3
Accrued costs	2,5	5,9	5,9	5,9	5,9	5,9
<b>Total current liabilities</b>	<b>5,8</b>	<b>12,7</b>	<b>19,1</b>	<b>22,3</b>	<b>29,4</b>	<b>39,6</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>76,8</b>	<b>279,8</b>	<b>218,2</b>	<b>170,0</b>	<b>149,4</b>	<b>198,5</b>

## Cash flow statement

	2020	2021	2022E	2023E	2024E	2025E
Net profit or loss (reported)	-26,4	-57,3	-68,0	-51,4	-27,7	38,9
Non-cash flow items	5,5	14,0	8,2	10,2	7,7	6,1
Changes in working capital	9,0	8,2	-2,2	-1,4	-3,1	-4,4
<b>Cash flow from operating activities</b>	<b>-11,9</b>	<b>-51,5</b>	<b>-57,7</b>	<b>-39,8</b>	<b>-17,0</b>	<b>49,5</b>
Investments	-5,7	-13,2	-7,5	-8,0	-10,0	-10,0
Disposals	0,0	0,0	0,0	0,0	0,0	0,0
<b>Free cash flow</b>	<b>-17,6</b>	<b>-64,7</b>	<b>-65,2</b>	<b>-47,8</b>	<b>-27,0</b>	<b>39,5</b>
Financing activities	65,4	247,7	-70,8	-1,4	-3,1	-4,4
<b>Cash flow</b>	<b>47,8</b>	<b>191,1</b>	<b>-136,0</b>	<b>-49,2</b>	<b>-30,0</b>	<b>35,1</b>
<b>Net debt</b>	<b>-67,7</b>	<b>-251,5</b>	<b>-115,5</b>	<b>-66,3</b>	<b>-36,3</b>	<b>-71,4</b>

## Key figures

	2020	2021E	2022E	2023E	2024E	2025E
P/E, adjusted	-27,36	-12,60	-10,62	-14,05	-26,05	18,55
P/E	10,30	2,70	3,63	4,89	6,02	4,55
P/FCF	604,83	-11,16	-11,09	-15,11	-26,80	18,29
Dividend yield	0,00	0,00	0,00	0,00	0,00	0,00
Dividend percentage, adjusted	-0,90	-0,02	-0,04	-0,07	-0,18	0,00
EV/Sales	27,39	7,53	5,14	3,96	2,88	1,80
EV/EBITDA	-31,3	-9,0	-10,5	-16,5	-40,5	13,2
EV/EBIT	-25,0	-8,2	-8,9	-12,8	-24,7	16,7
EV, year-end	654,8	471,0	607,0	656,2	686,2	651,1
	2020	2021E	2022E	2023E	2024E	2025E
Sales growth		162%	89%	40%	44%	52%
EBIT, growth		118%	19%	-24%	-46%	-240%
EPS adjusted, growth		117%	19%	-24%	-46%	-240%
EBITDA margin	-87%	-84%	-49%	-24%	-7%	14%
EBIT margin	-110%	-91%	-58%	-31%	-12%	11%
	2020	2021E	2022E	2023E	2023E	2023E
ROE		-34%	-29%	-30%	-21%	28%
ROCE		-17%	-18%	-17%	-11%	13%

## Quarterly data

	Q120	Q220	Q320	Q420	Q121	Q221	Q321	Q421
Net sales	0,0	2,8	9,5	8,5	11,1	15,4	17,5	18,5
Capitalisation	0,0	1,4	1,4	0,0	0,0	1,8	1,2	3,0
Other operating income	0,0	0,1	0,1	0,0	0,0	0,1	0,0	0,0
Direct costs	0,0	-0,6	-0,4	0,0	0,0	-2,0	-1,4	0,0
<b>Gross profit</b>	<b>0,0</b>	<b>3,7</b>	<b>10,6</b>	<b>8,5</b>	<b>11,1</b>	<b>15,2</b>	<b>17,3</b>	<b>21,6</b>
Other external expenses	0,0	-10,9	-8,9	0,0	0,0	-22,8	-30,1	-30,6
Personnel expenses	0,0	-3,1	-3,4	0,0	0,0	-6,3	-3,9	-6,0
<b>EBITDA</b>	<b>0,0</b>	<b>-10,4</b>	<b>-1,8</b>	<b>8,5</b>	<b>11,1</b>	<b>-13,9</b>	<b>-16,7</b>	<b>-15,0</b>
Depreciation/amortisation	0,0	-1,3	-1,8	0,0	0,0	-1,1	-1,2	-1,5
Goodwill impairments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>Profit or loss (EBIT)</b>	<b>0,0</b>	<b>-11,7</b>	<b>-3,5</b>	<b>8,5</b>	<b>11,1</b>	<b>-15,0</b>	<b>-17,9</b>	<b>-16,5</b>
Financial income	0,0	0,0	0,0	0,0	0,0	-0,1	-0,9	-0,1
Financial expenses	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
<b>Profit or loss before tax</b>	<b>0,0</b>	<b>-11,7</b>	<b>-3,6</b>	<b>8,5</b>	<b>11,1</b>	<b>-15,1</b>	<b>-18,8</b>	<b>-16,6</b>
Tax	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Minority interests	0	0	0	0	0	0	0	0
<b>Net profit or loss, reported</b>	<b>0,0</b>	<b>-11,7</b>	<b>-3,6</b>	<b>8,5</b>	<b>11,1</b>	<b>-15,1</b>	<b>-18,8</b>	<b>-16,6</b>

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