REDEYE

Initiation of coverage

Equity Research

27 June 2023

Eniro Group

Sector: IT Services

Inexpensive entry ticket for exciting journey

Redeye initiates coverage of marketing technology company Eniro Group, seeing a compelling transformational case yet to be reflected in its valuation. It has restructured its heavy debt burden, gained a new management and board, and resolved its share structure. Its underlying core Nordic customer base and the positive development in sales and profitability come at an overall price that we believe undershoots the extent of Eniro Group's change and its future potential by about 145%.

Implementing a modern, astute digital platform – real effects clearly emerging

For the past several years, Eniro Group has attempted to transform its offering from an old school, manual model to a modern marketing tech firm with a SaaS profile. While this has taken considerable time, we now see signs of growth and operating margins developing.

Large customer base its prime asset in favourable market conditions

While Eniro Group still commands an impressive customer base of 50,000 corporates, there is ample room for growth in the addressable Nordic SME market of about 1.2m. Indeed, we believe Eniro's new and improved offering and better packaged product should drive growth in the years ahead, with the subscription model aiding margins. The current outlook for trading conditions for Marketing Partner, Eniro's largest business, also appears solid.

Change takes time, convincing people takes even longer

Eniro Groups 's market reputation suffers from its past challenges. However, we firmly believe it has made considerable changes, laid the foundations for a wholly new business era, and is starting to see light at the end of the tunnel. Assuming Eniro and its new CEO and management team execute well on this (which we anticipate) and deliver the goods, we expect sentiment soon to start changing in earnest.

Valuation: a potential turnaround

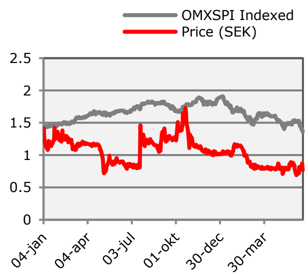
Eniro Group could be a potential turnaround case with high reward from these levels if top-line growth returns. Our base case assumes a 2023e–2026e sales CAGR of 4%, with a 16% EBITDA margin. Our valuation range is SEK1.0–1.60, with a base case of SEK1.40 per share, i.e. equity value SEK1,015m. Our SOTP valuation of SEK1,128m confirms our DCF valuation.

Key Financials (SEKm	2020	2021	2022	2023E	2024E
Net sales	882	828	930	1017	1046
Revenue growth	neg	-6%	12%	9%	3%
EBITDA	134	133	149	97	161
EBIT	-595	-97	66	11	67
EBIT Margin (%)	-67%	-12%	7%	1%	6%
Net Income	-66	-105	47	5	53
EV/Revenue	neg	0.7	0.4	0.2	0.0
EV/EBITDA	neg	4.2	2.6	1.6	0.2
EV/EBIT	0.3	neg	5.8	14.5	0.4

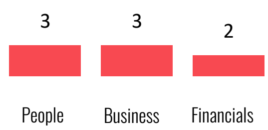
FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	**1.40**	1.60

ENIRO GOUP VERSUS OMXSPI



REDEYE RATING



Ticker	ENRO
Market	Small Cap
Share Price (SEK)	0.57
Market Cap (MSEK)	404
Net Cash 23E (MSEK)	165
Free Float (%)	9%
Avg. daily volume ('000)	449

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Investment case

Implementing a modern, astute digital platform – real effects emerging

Eniro Group's (Eniro) largest segment has, since 2017, been undergoing a transformation through digitalisation into a SaaS business in the Martech (marketing and technology) field. While the process has been somewhat slower than the company expected, there are signs it is beginning to generate growth and improve margins. We usually see a three-year lag when a company shifts from upfront payments to a subscription model before the SaaS model starts generating real growth. Adjusting for the pandemic years, this means 2023 could well be the year when positive numbers start coming through for Eniro. The whole European ad spending market is worth EUR 129bn, and digital recently overtook other media as the largest market; given a CAGR of 18% since 2006, it will support future growth.[1]

A large customer base is Eniro's prime asset; favourable market conditions

Despite the substantial strategic changes, Eniro still has a Nordic customer base of 50,000 corporate clients. The potential market exceeds 1.2 million SMEs in the region, leaving plenty of room to grow.

The new and improved offering – i.e., an easier to understand and better packaged product – should also generate better growth and margins thanks to the subscription model, in our view. The share of annual recurring revenues (ARR) in Marketing Partner is 70%.

Combination of two stable business arms

As of today, Marketing Partner accounts for 59% of revenues, with Dynava at 41%. There are no real synergies between the two segments, but their combination does create a more stable revenue stream for Eniro.

Capital structure in much better shape and the share structure is resolved

One of the most important factors for Eniro is its greatly improved capital structure. The heavy debt burden of the past is gone, and the company is arguably in a position to start looking ahead and fully concentrating on business. The complicated preference share structure has been resolved, and now only common shares exist. Moreover, Eniro has a net cash position of SEK206m and positive free cash flows.

[1] https://iabeurope.eu/knowledge-hub/iab-europe-adex-benchmark-2021-report/

Counter-thesis

Change takes time, convincing people even longer

Eniro has had a turbulent history. Even if much has changed both in its operations and concerning its capital structure, the burden of proof rests with the company. Its strategic changes should, however, be enough to return Eniro to decent growth levels and sustainable margins – a seemly and important start. Indeed, we expect Eniro's quarterly progression to demonstrate progress from here on.

Short-term uncertainty given high turnover of CEOs

After Magdalena Bonde departed as CEO in March 2021, Robert Puskaric took over that July, but by May 2022, Hosni Teque-Omeirat had been appointed the new CEO. For the organisation and the personnel, high CEO turnover creates instability in the business. Only the future will show if the new CEO can gather the company together and take it to the next level. For now, the burden of proof remains on Eniro.

Competition and changing technology

There is no lack of competitors across all the fields of Eniro's operations. For the Marketing Partner business area, the giants are present, of course, although Eniro co-operates with most of them. Its direct competition comes from smaller agencies, of which there are hundreds, although they may not prove an immediate threat. Still, these players might have an easier time adapting to an evolving marketing environment.

In the Dynava business segment, Eniro is concentrating on larger customers with more complex needs in the contact centre services and response services than can be covered by the new technical solutions provided in the market. In the longer perspective, changing technology may pose a threat, but the complexity of these larger customers prevents a more significant shift.

Looming lawsuit

Kapatens Partners AB, a dispute financing firm, accuses Eniro of market deception regarding its share structure amidst ongoing legal disputes over redeeming preference shares. Kapatens contends Eniro's common shareholders are not entitled to the announced dividend, which, it argues, should be given to the owners of the redeemed preference shares. The damages for Eniro, if unable to reverse the share structure, are estimated according to Dagens Industri at SEK259m, about half of its market value. However, the lawsuit sits at SEK40m, and Eniro has insurance covering up to SEK100m in claims. We will follow up the development of this lawsuit when new information is disclosed or decisions are made.

Catalysts

Quarterly reports

Given the company's history, we see quarterly reports as very important potential catalysts from here on. Everything rests with Eniro, of course, and we suspect the market will want to see real improvements before starting to trade the share on future expectations to a higher degree.

Showing improving and disclosing SaaS metrics

Generally, Swedish SaaS companies do not provide all the same useful SaaS metrics as their US peers, making comparisons difficult. Should Eniro start to present more and in-depth SaaS metrics, it could be a catalyst for a revaluation, provided, of course, the numbers show progress towards a fully fledged SaaS company. We would like to see Eniro publishing customer lifetime value (CLV), average revenue per account (ARPA), and customer acquisition cost (CAC) in the future.

New agreements in Dynava

Dynava needs to compensate for the structurally declining directory assistance business that sits within this unit. We believe Eniro will take market share in the customer care business, meaning new contracts with essential clients are also an important signal and can support the expected growth in Marketing Partner.

Divestment of Dynava

Divesting Dynava, either by selling it or spinning it off to shareholders, would make sense, rendering the investment case more transparent and making it more of a pure digital SaaS play.

Contents

An introduction to Eniro

Eniro is a Swedish company that started as a break-out of Telia in the 2000s. Early on, its focus was on publishing issues, with it issuing both white and yellow pages. The trend towards digitalisation has changed the market fundamentals for Eniro. The company's journey has been eventful, to say the least, with high debt levels and reconstruction in 2020, followed by the cleaning up of the shareholder structure in the first half of 2021, and finally, in 2023, the change in the share structure with the conversion of all preference shares into common shares.

The fundamental transformation towards today's Eniro started on two tracks in 2015 and 2017. The operational move from the former publishing and search company it was to becoming a player in the Nordic digital marketing services market started in 2015 with a new sales organisation and an increased co-operation with Google (already introduced in 2011 but better implemented from 2015 as part of the new organisation). The financial journey has been long, beginning with the recapitalisation plan in 2017; however, the slower and not-so-successful transformation of Eniro prompted the company's reconstruction in 2020.

The company operates in two distinct business areas, Marketing Partner and Dynava. In addition to this, Eniro started the Venture business, which took advantage of its in-house knowledge to enter new areas. The popular app Eniro "På sjön" was developed by the Venture team and then divested in 2022. However, the Venture business has now been merged into Marketing Partner and is no longer active.

Eniro's transformation into a SaaS company focusing on marketing technology (Martech) is well underway and promises a brighter future for the Marketing Partner business area. Dynava, which is primarily a customer care business, is growing and includes the structurally declining directory assistance business in combination with the outsourcing trend.

The COVID-19 pandemic delayed Eniro's move to the new business model and pushed the company into the financial issues experienced in 2020. Eniro failed to address its messy share capital structure, a key fundamental, at multiple AGMs, but did manage to solve this in late 2022 and early 2023. With the issue now solved, the company can leave this behind it and focus on the future.

From old school to a digital player

Since 2017, Eniro has undergone a transformation from being a publishing and search company to becoming a player in the Nordic market for digital marketing services. Below we summarise important events in Eniro's journey since its listing on the market in 2000. Eniro was active in a market that underwent a significant structural shift and had been trying to mitigate the effects of this since the mid-2000s.

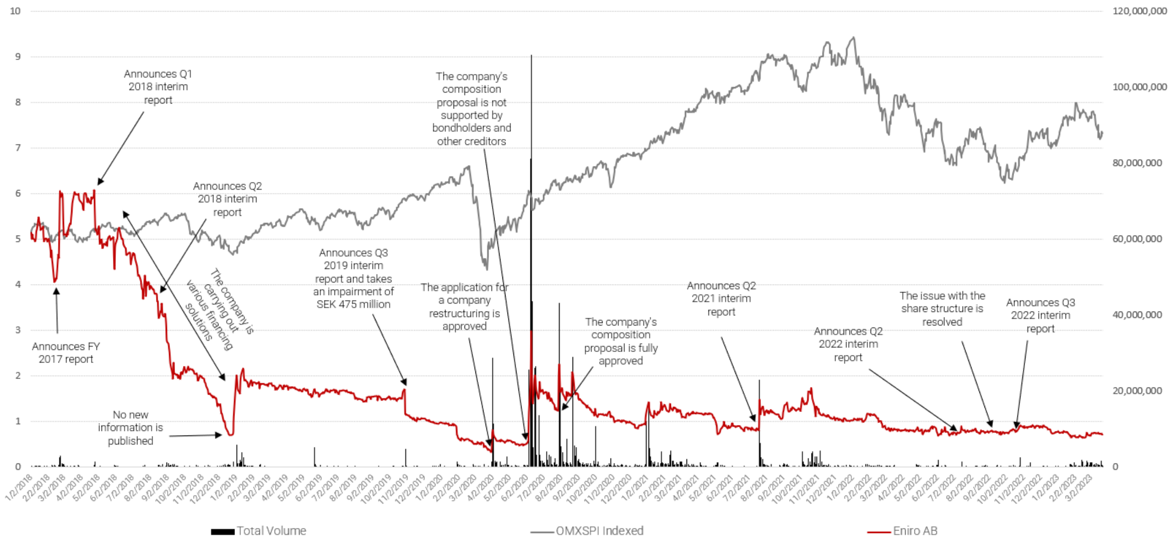
List of company events	
2000	Eniro is formed through a spin-off from Telia.
	Eniro becomes Sweden's largest player in internet advertising.
2003	Acquires Respons, which includes 118 118.
2005	Acquires Findexa.
	Divests Russian activities.
2007	Strengthens its market position through the acquisition of Krak, a Danish competitor.
2008	New strategy introduced: from print to online
2009	Rights issue - SEK 2.5 bn.
2010	Rights issue - SEK 2.5 bn.
	Johan Lindberg is appointed CEO.
	Shuts down Print and Online in Finland.
2011	Reaches a co-operation agreement with Google.
	Acquires De Gule Sider.
2012	Share issue - SEK400 m.
2013	Reaches a new plan for long-term financing with bank consortium.
2014	Johan Lindberg, the CEO, is charged with accounting fraud.
2015	The AGM votes against a discharged for the former CEO.
	Renegotiations with bank consortium.
2016	New board, new CEO, and new negotiations with debt holders.
	Advertisement agreement with Facebook.
2017	Introduces a recapitalisation plan.
	Launches the app På Sjön.
	The recapitalisation plan is finalised, with a write-down of debt and capital raise of SEK278m.
2018	New chairman and CFO.
	Issues a bond with maturity in December 2021, raising SEK325m.
	Eniro Poland is divested.
	Aquires Elisa
2019	Goodwill write-down of SEK565m.
	New CFO.
	Appoints Magdalena Bonde as CEO.
	Impairment of tax receivables and intangible assets amounting to SEK475m.
	Initiates an overview of the long-term capital structure.
2020	Initiates a recapitalisation plan. Bonds and convertible debentures are exchanged for preferential stock.
	The recapitalisation plan is disapproved, and the company applies for and is granted a corporate restructuring.
	A goodwill write-down of SEK 600 m consumes the parent company's equity.
	The company prepares a control balance sheet.
	Eniro's compositition proposal is fully approved in court as of 28th of July.
	The company carries out a set-off issue of preferred stock against part of its debt.
2021	The board of directors proposes a revision of the capital structure for the general meeting.
	Magdalena Bonde resigns as CEO.
	The proposal for a revised capital structure is voted down at the annual meeting.
	Robert Puskaric is appointed CEO.
	Dennis Legin is appointed interim CFO.
	Dynava wins 3-year contract with Finnish Taksi Helsinki AB worth EUR2m per year
2022	Write-down of goodwill amounting to SEK104 m.
	Hosni Teque-Omeirat is appointed interim CEO, a position that is later made permanent.
	Joakim Lindén is appointed Interim CFO.
	The largest owner, SpectrumOne, proposes a revision of the capital structure to the general meeting.
	Joel Odland is appointed CFO.
	The proposal for a revised capital structure is approved.
	Divestment of Eniro På Sjön
	Dynava aquires Samres AB
	Launches EniroBuddy together with BuddyCompany.
	Acquires NewGlue, a Swedish design platform.
2023	Series A and Series B preferred shares have been delisted. New share structure with only common shares.

As seen by its actions over the years, Eniro's combination of high debt generated by acquisitions and the decreasing demand for its products/services has created a toxic spiral that it finally resolved in 2020, with the elimination of most of the debt and its transformation to a truly digital company. The most important events related to the transformation, apart from the financial restructuring, are the co-operation with Google and Facebook. The plan for a changed Eniro was already put into effect in 2017, but it did not take off until 2020. We can identify two tracks here: the operational and the financial. The operational shift started back in 2015, while the financial shift coincided with Eniro exiting the print catalogue publishing business.

Share price development

Eniro has a long stock market history with considerable volatility associated with declining profits and high leverage, all of which led to its reconstruction at the end of 2020. Thanks to the clarification of the share structure and lower indebtedness, the share should prove much less volatile in the future. The share chart below shows the development of the common share.

Share price development and company events

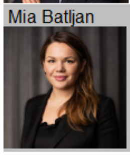
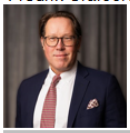
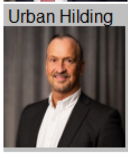


Source: Redeye research, OMX Nordic

People and owners

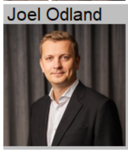
The transformation of Eniro took longer than was expected back in 2017 and led to the financial recapitalisation in 2020. The COVID-19 pandemic rendered the situation dire. The CEO and management team's work has led to improving financial results, with a positive EBITDA margin development and a better capital structure no longer burdened with its previous heavy indebtedness. Hosni Teque-Omeirat was appointed CEO in May 2022 and is now continuing to lead and transform of Eniro.

The board of directors underwent large changes during 2022, with Fredrik Forsman, Mia Batljan, Fredrik Crafoord, Mats Gabrielsson, and Mattias Magnusson as newly elected members. Mats Gabrielsson, Fredrik Crafoord, and Mia Batljan are shareholders.

Board of Directors	Position	Since	Ownership	Experience
Fredric Forsman 	Chairman	2022	-	Bechelors degree in law from Lund University. Other assignments includes Chairman of the board at SpectrumOne AB, Observit AB, Bellpal AB and Bellpal Holding AB. Board Member at VmsPlay Sweden AB, Fredric Forsman Consulting AB, Beckasol Invest AB, Korvkultur AB and Exformation Care AB. Previous assignments includes member of Sweden's Bar Association and Managing Partner at the law firm Glimstedt.
Mia Batljan 	Member	2021	342,458	Masters degree in Finance, Bechelors degree in Business Administration and IT. Other assignments include, Financial Analyst and Samhällsbyggnadbolaget, board member of Illja Batljan Invest AB, Hamply Balance Holding, HEXICON AB and DIB Travel Services AB. Previous assignments include wealth management and stock brokerage at Barclays Bank and Nordea.
Fredrik Crafoord 	Member	2022	28,000,000	Economics studies at Stockholm University. Other assignments include, Founder of Crafoord Capital Partners AB, Chairman of the board Crafoord Capital Partners AB, CR Ventures, Crafoord Asset Management AB, Crafoord Real Estate AB, Crafoord Real Estate I AB, Crafoord Real Estate II AB, Crafoord Real Estate III AB and Curira Group AB, Board member of Empir Group AB.
Urban Hilding 	Member	2019	-	Marketing communications, RMI-Bergh's IHM and Stockholm University. Chairman of the board and Stockholm Media Week AB, CEO and senior Partner at Hear AB, Board member at Eriks of Sweden AB and Club Eriks AB. Previous assignments include CEO at Inter public Groups, Ad director and CEO in DN Annonsförsäljning AB.
Mats Gabrielsson 	Member	2022	158,000,000	Bechelor in Economics from the Stockholm School Economics. Chairman of the board Gabrielsson Invest and Trention AB. Board Member Rapid Säkerhet AB and Bofast AB
Mattias Magnusson 	Member	2022	-	Marketing and Finance from IHM. Mattias has held various positions within Eniro

Source: Redeye Research

The management team has been totally renewed over the past 12 months, posing both a risk and a possibility for the company in the future. We view this as a possibility to push change even harder in the coming two years, which will be fundamental to Eniro's success.

Management team	Position	Since	Ownership	Experience
Hosni Teque-Omeirat 	CEO	2022	2,846,814	Masters degree from the School of Economics in Örebro. Other current assignments include board member of SpectrumOne AB, Obeservit AB, Ampilio AB, QBIM AB, BizWell Sweden AB, The Trigger Company AB, Skippo AB and Mysourcing AB. Previous assignments include CEO of SpectrumOne AB, Business development manager of E.ON Sweden and Schneider Electric Business, Group business controller of Sharp Electronics Group and Senior Auditor at Ernst & Young
Joel Odland 	CFO	2022	-	MSc in Industrial Economics from Lund University of Technology. Previous assignments include, Group CFO of J.Lindeberg, Finance Director North Europé of Safilo in London and Finance Manager in various positions at Procter & Gamble.
Mikael Lindström 	VP Business Area Marketing Partner	2022	-	Bechelor in Economics from Lund University. Previous assignments include Chief Marketing Officer of BDO Sweden, Market and Sales director at Eniro. Founder and Consultant within management, leadership, sales and marketing at Humagic Group AB, Market and Sales manager Previa AB, Country Manager at Segmentos AS, and founder at Accept Säljutveckling AB
Charlotte From 	Vice President People & Culture	2022	-	Business degree from Ishøj Handelsskole. Previous assignments includes HR Manager at Krak, Sales Manager at Krak, Head of Nordic Media Production at Eniro AB and Operation Manager at Eniro Denmark
Mattias Hjelm 	Vice President Technology	2022	28,406	BSc, Computer science from Lund University. Previous assignments include Development Manager at Eniro Sverige AB, Chief Transormation Officer at Eniro Initiatives AB, Director Operations at Eniro Initiatives AB, Director Product & Fulfullment at Eniro Initiatives AB, Head of Content Operations at Eniro Sverige AB, Manager Common Content AB at Eniro Sverige AB and Content Manager at Eniro AB

Source: Redeye Research

SpectrumOne AB, controlled by the CEO Hosni Teque-Omeirat, is the largest shareholder following its acquisition of 27% of Eniro shares in December 2020. Today, it holds 27% of the capital.

The new board member Mats Gabrielsson represents 21% of the capital and votes in Eniro. Fredrik Crafoord represents 4% of the capital and CEO Hosni Teque-Omeirat privately holds 0.38% or SEK1.9m worth of shares. This is a significant change, as the board had previously had a minimal stake in the business. We expect this will mean a more hands-on board pushing the owners' agenda.

Eniro: Shareholders

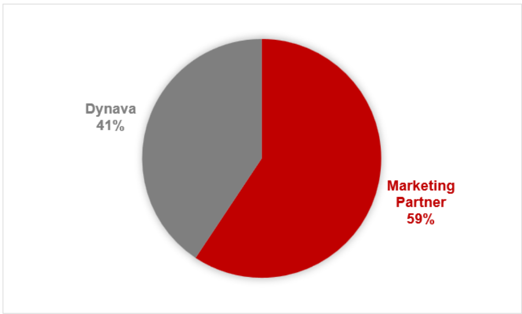
Owners	No. of shares	Capital (%)	Votes	Value (mSEK)
SpectrumOne AB	201,862,265	27%	27%	135,247,718
Mats Gabrielsson & Bolag	158,219,766	21%	21%	106,007,243
Avanza Pension	55,716,803	7%	7%	37,330,258
Theodor Jeansson Jr.	30,671,913	4%	4%	20,550,182
Fredrik Crafoord	28,389,927	4%	4%	19,021,251
Thomas Krishan	25,641,647	3%	3%	17,179,903
Nordnet Pensionsförsäkring	14,299,187	2%	2%	9,580,455
Johan Thorell	11,918,057	2%	2%	7,985,098
Vio Ljusfabrik Aktiebolag	11,627,000	2%	2%	7,790,090
Swedbank Försäkring	8,423,264	1%	1%	5,643,587
Ilija Batljan	6,257,107	1%	1%	4,192,262
Knivsta Holding AB	5,970,149	1%	1%	4,000,000
Göran Källebo	5,689,000	1%	1%	3,811,630
Mats Nilsson	4,750,000	1%	1%	3,182,500
Jonas Barkhagen	3,050,000	0%	0%	2,043,500
Others	173,696,386	23%	23%	116,434,323

Source: Redeye Research & Holdings (2023-03-31)

Offering and business strategy

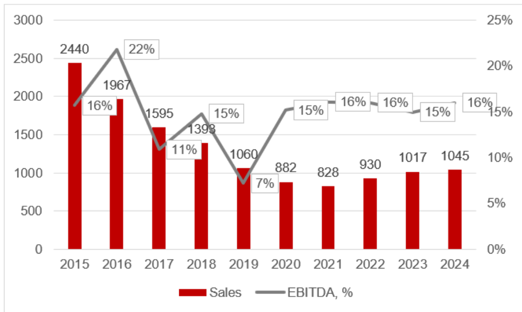
Eniro as a company has been transforming itself on account of the structural change in its market. The real difference started to be seen between 2015 and 2017, when it dropped its publishing business and started its digitalisation. The new setup, valid from 2021, consists of two clear business areas. The largest, representing 59% of revenues, is Marketing Partner, which is now only a distant relative to the catalogue business. The second is Dynava, which is very much a customer care business.

Revenues, Business Area Split (2023, %)



Source: Redeye Research

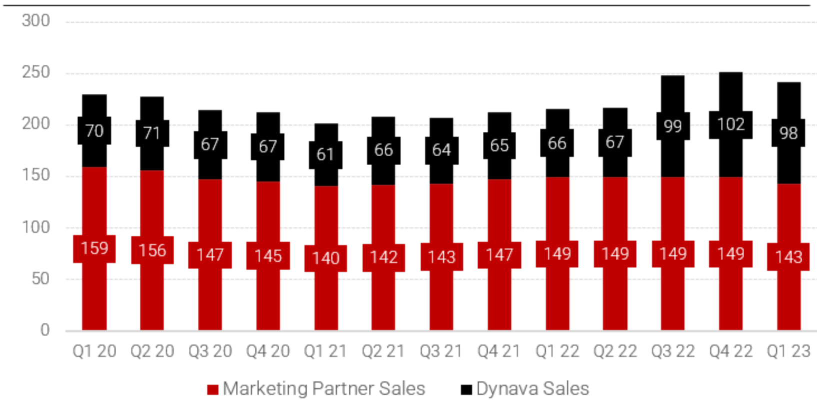
2015 - 2024



Source: Redeye Research

The total development in sales was negative until 2022, but some positive signs have emerged over the past year. The EBITDA margin has been stable at around 16% in recent years.

Sales per business segment (SEKm)



Source: Redeye research, company reports

Marketing Partner – the path to SaaS

Marketing Partner is the most significant part of Eniro, representing 59% of revenues in 2022. Eniro is active in the Nordic market for digital marketing, where Martech has grown considerably in recent years, opening up new possibilities for data-driven marketing. Eniro targets micro, small, and medium-sized companies in the Nordic countries. Marketing Partner has 50,000 clients and in excess of four million unique visitors use its search services.

The purpose behind Marketing Partner is to become the obvious partner for companies that lack their own specialist skills to exploit the ever-growing digital marketing landscape. Eniro aims to have an offering that will suit the needs of these different companies.

Five own search sites in the Nordics

Eniro.se
Gulesider.no
Krak.dk
Degulesider.dk
0100100.fi

Mitt Eniro

The Mitt Eniro portal is the business area hub, representing an estimated 70% turnover in Marketing Partner. The portal offers seven products to help clients manage their marketing activities on their own or with Eniro's expert assistance. Through this one-stop-shop, clients can take care of their marketing needs. A digital onboarding is also in the making and will, later on, require less hands-on work from Eniro. In addition to the Eniro search services, the clients also gain access to global players like Google, Facebook, Instagram, and YouTube. This co-operation strategy is essential for competing, as the international players have taken a significant market share.

The seven products are split into three segments.

1. **Keep my customer**

Internet visibility
Internet visibility is the largest and most profitability product in Marketing Partner, accounting for 30–40% of revenues and bringing the highest margin. It helps customers to generate correct information in major search engines and on Google, My Business, and Eniro. It also has a service that includes assistance from Eniro experts.

Homepage
This product helps customers to build a homepage for their business that is easy to update and provides statistics on visits.

2. **Find new customers**

Google ads
Helps clients to create targeted online ads that suit their company's products and services, including statistics and other metrics.

Higher up on Eniro
Helps clients to use and implement top-ranked keywords to push the company to a top placement in search lists. It also gives the client full visibility into searches in the local area where customers are located.

Higher up on Google
Helps clients to achieve higher search results and to generate traffic via selected keywords. Eniro assists throughout the process.

3. **Become number one in my market**

Facebook ads
Helps the customer to create Facebook and Instagram ads and to maximise the impact of these, depending on budget.

Local ads in digital media

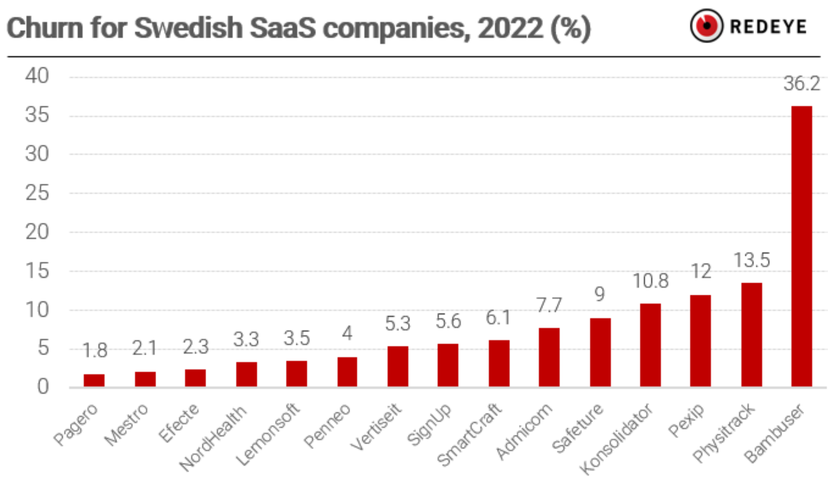
Creates and targets local media ads and reach. Includes follow-up with optimisation and adjustment of the campaign.

The former product portfolio was fragmented and hard both to sell and to buy. The client offering is now focused on promoting long-term contracts paid monthly, providing visible and recurring revenues. The subscription model has now been in operation for a couple of years with the whole customer base as a subscription model. The client acquisitions process has been digitalised from all manual procedures, and today its leads generate about 80%, which means lower client acquisition costs.

MRR and churn

The percentage of monthly recurring revenues (MRR) in Marketing Partner was SEK37m, or, 26% for Q1'23, translating to a yearly ARR of ~70%. The churn towards the end of 2022 was ~13%; there are signs this is an ongoing downward trend. To better understand the underlying metrics, Eniro will hopefully start to disclose SaaS metrics more fully in the future.

The churn development is essential, as it is more important to retain clients than to acquire new ones. The churn in different industries varies, as can be seen below. Excellent SaaS companies have a churn of 3–6%.

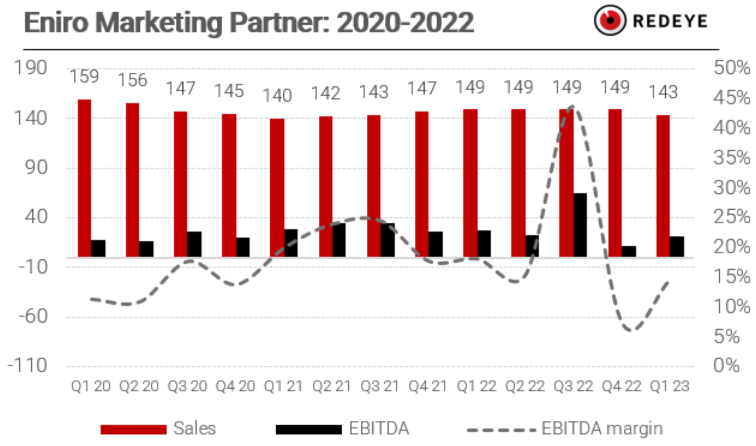


Source: Redeye research, company reports

According to the company, the average contract length during 2022 was 17 months. We believe the trend is towards more extended contracts, and the client offering is now more optimised for this. Churn for selected Swedish companies ranges from 1.8 to 36 months.

Sales and EBITDA margin in Marketing Partner

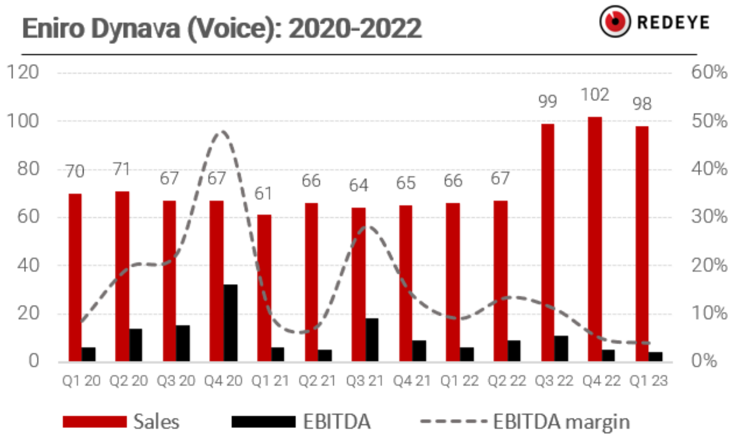
The changes made primarily since 2017 should have brought better results faster. The indications of a better development in early 2020 were reversed when the COVID-19 pandemic brought the market to a standstill. In Q3 2022, Eniro på Sjön was divested, adding SEK30m to EBITDA. As the following development chart shows, the margin still fluctuates heavily between quarters.



Source: Redeye research, company reports

Dynava

The Dynava business, 41% of revenues, includes customer care operations and directory inquiries via calls and text message. It is ranked no.1 in the Swedish market for directory inquiries. Since acquiring the outsourcing business from Elisa in 2018, Dynava has been the second-largest contact centre business in the Finnish market. In May 2022, Dynava acquired Swedish customer services company Samres AB for SEK59m.



Source: Redeye research, company reports

The trend towards outsourcing customer care service to an external player has intensified in recent years. In Swedish facility management company Coor, we can see another service provider that successfully applies the same tendency to take over internal processes that are not deemed core business. The factors driving this trend are, of course, cost and increased flexibility in a rapidly changing market.

Eniro has more than 500 clients in the Dynava segment, handling more than 10 million matters. It is especially strong in the energy, waste disposal, and logistics sectors, where customer service is critical.

In March 2021, Dynava won a deal worth SEK30m from Stockholm Gas AB and Gasnätet Stockholm AB. The contract will run for four years until 2025, with an option of an additional four years. In November 2021, Dynava won a three-year contract worth EUR2m per year from Taksi Helsinki AB for Folkpensionsanstalten (FPA) in Finland. The contract has an option for a further two years.

There are a few needs in the market that Eniro must fulfil. Customer experience (CX) is key for its clients, and they often look for a one-stop solution. Changing consumer behaviour among younger generations is a challenge, with 24/7 demands and new ways of communicating. The technical advances in digitalisation and AI pose both a challenge and an opportunity, as more straightforward tasks can be handled via automated systems like chatbots, but personal service is still preferred for more complicated tasks.

Market and competition

Eniro's Marketing Partner and Dynava business areas are active in different markets – Marketing Partner in the Nordic digital marketing arena and Dynava in the customer care and directory assistance markets in Sweden, Norway, and Finland.

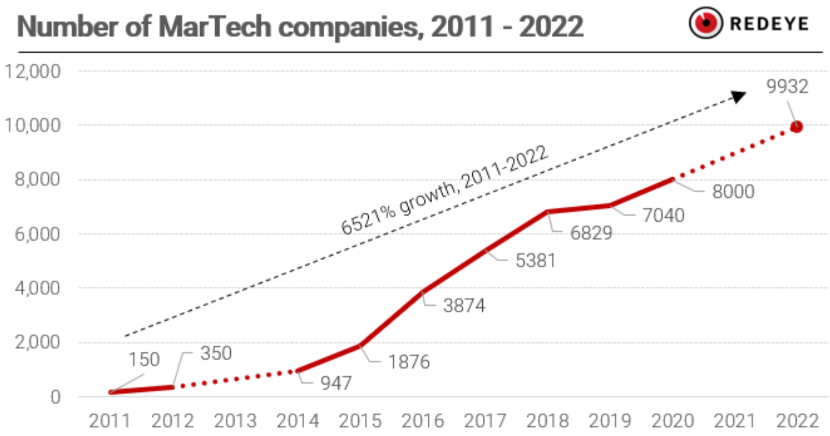
Marketing Partner has been undergoing a transformation since 2017 to become a digital player with a SaaS business model in digital marketing or Martech.

Marketing Partner – SaaS and Martech market fundamentals

Eniro currently addresses the Nordic digital marketing market, primarily small to medium-sized companies. Martech is the blend of marketing and technology and obviously includes digital marketing, as Martech is digital by nature. As Eniro becomes more technical/digital, it also evolves more into a Martech company with a SaaS business model.

Global market – digital marketing/Martech

The global digital marketing markets continue to grow at the expense of traditional channels, and the marketing arena is becoming increasingly technical. The number of companies entering this field and being classified as Martech has grown, as seen in the chart below, from just a few hundred in 2011 to more than 8,000 companies in 2020. This is astonishing growth of 6,500%-plus and highlights the appeal of entering this market.



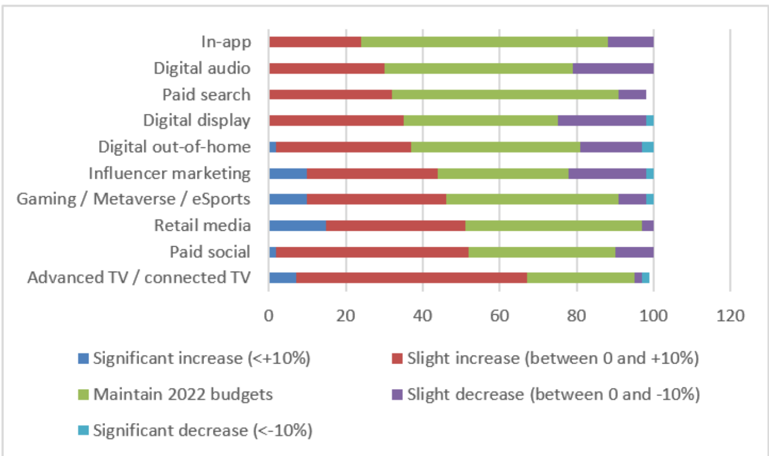
Source: Redeye research, Chiefmartec

The Martech landscape is vast, covering many subsegments, including various software and tools to help achieve marketing goals or objectives. The global Martech industry was valued at USD345bn by Statista in 2021.

The latest report by chiefmartech.com (2020) stated more than 8,000 Martech solutions, up from 7,385 in 2019. The following chart shows how each category had grown relative to 2019.

An important factor behind the growing global Martech market is the development of marketing technology budgets. According to Statista, the respondents viewed their spending for the next 12 months in a generally very positive light, suggesting continued growth for the Martech sector.

Expected change in digital media budgets worldwinde in 2023, by format

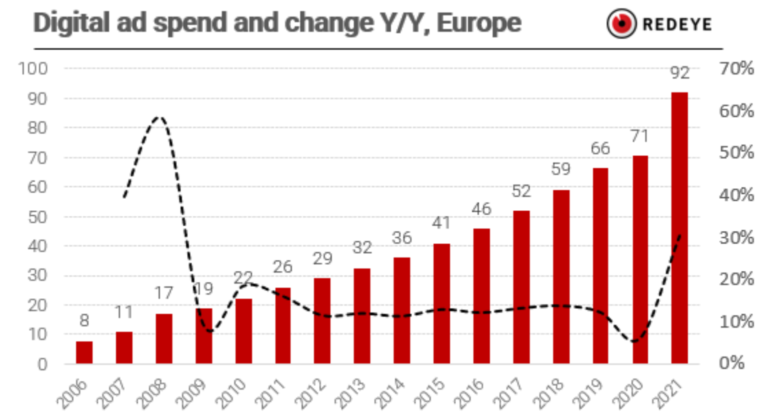


Source: Redeye Research, Statista

Digital spending in Europe

Actual ad spending in Europe continues to grow as digital ad spending takes a larger share of the total market. The whole European ad spending market was worth EUR129bn, with digital now just having overtaken other media as the largest market. [2]

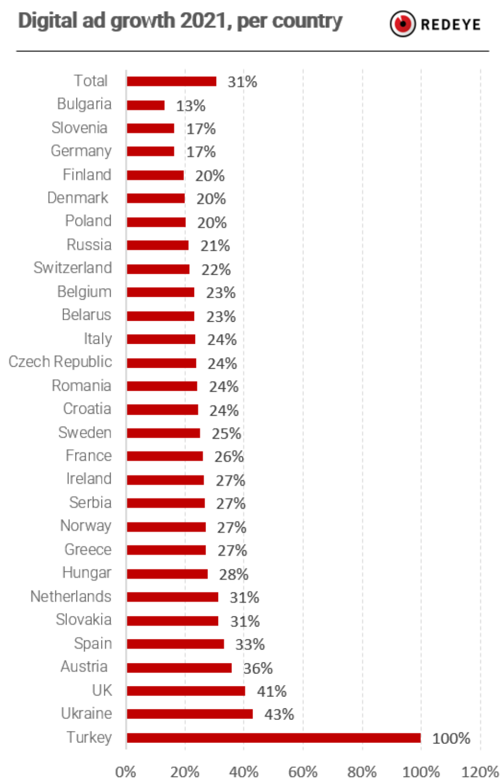
[2] https://iabeurope.eu/knowledge-hub/iab-europe-adex-benchmark-2021-report/



Source: Redeye research, Iabeurope

Growth rates took a massive hit in 2008/2009 and 2019/2020, but they have shown a CAGR of 18% since 2006.

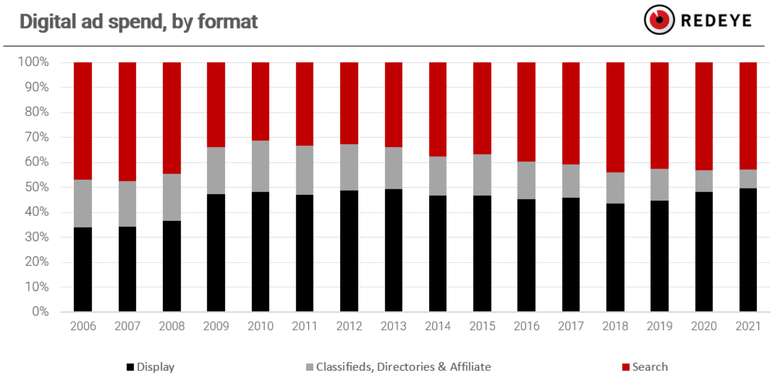
Among the European markets for ad growth, Turkey and the UK stand out. The size of the economy matters, but countries like Sweden, Switzerland, Denmark, and Norway also show solid numbers considering their much smaller populations. One explanation can be these countries' digital maturity compared to some of the larger countries shown below.



Source: Redeye research, Iabeurope

Digital ad spending by format

Breaking down digital spending by format, search is the clear winner, having taken market share since 2010 to reach more than 45% of total spending in 2021.



Source: Redeye research, Iabeurope

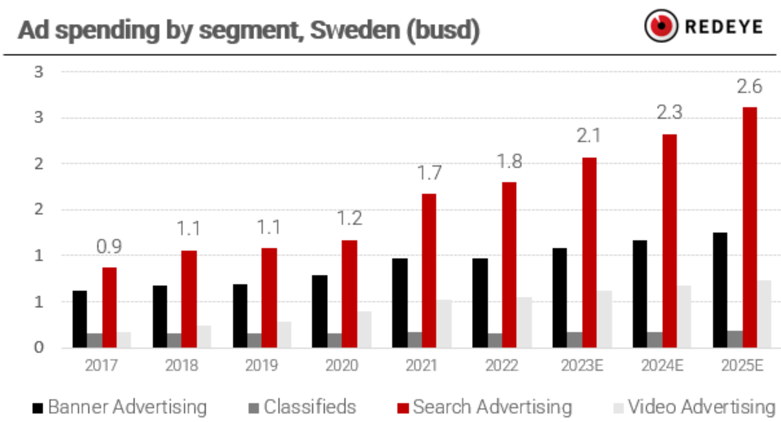
Scandinavian/Nordic – Digital advertising/Martech markets

The Scandinavian market does not differ from the trend worldwide of digital advertising gradually taking an ever-larger share of media spending. The high degree of digital maturity will most likely continue to drive digital advertising shares higher in the Nordics.

Eniro's target group in the Nordics comprises micro and small and medium-sized companies (SMEs). The total number of companies under this umbrella is quite a large in the region, with an addressable target group numbering 1.2m companies. Today, Eniro has about 50,000 clients.

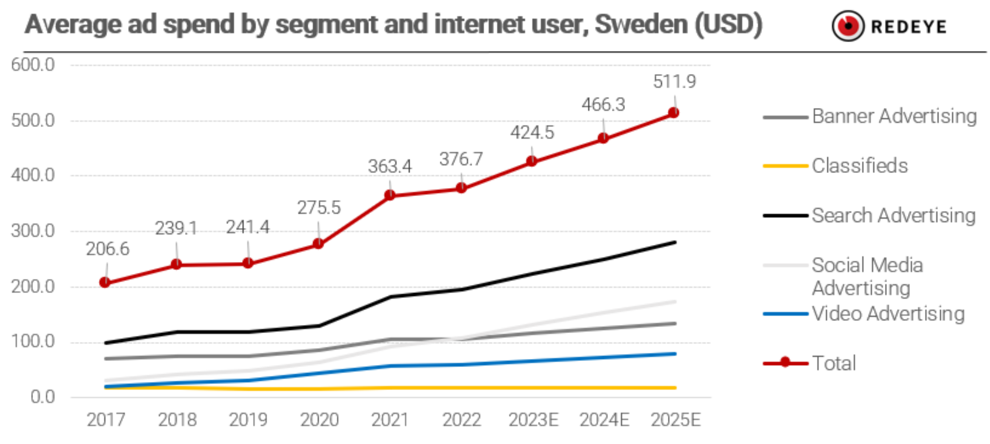
Sweden

The online advertising spending market in Sweden is worth just north of SEK6bn and is projected to grow by 9.6% until 2027 (Statista). The trend in Sweden is the same as elsewhere in Europe, with digital growing at the expense of other media.



Source: Redeye research, Statista

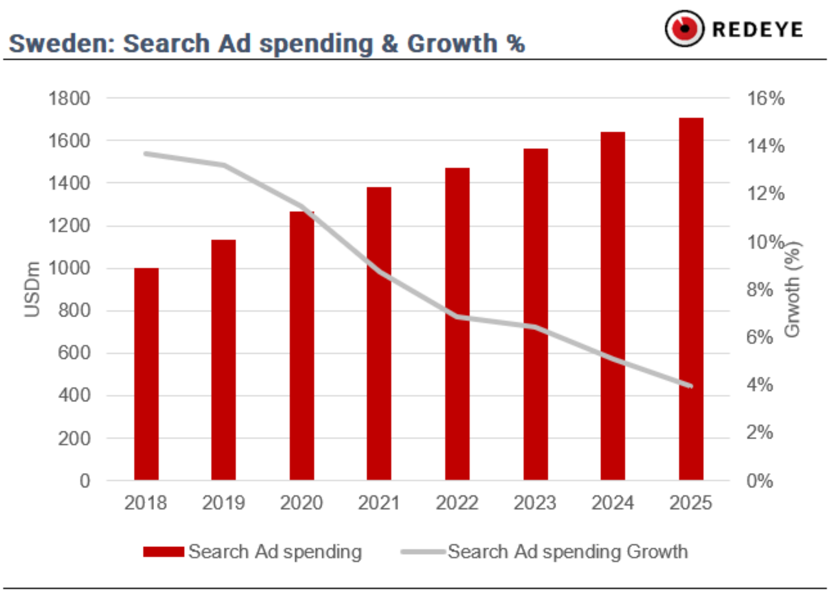
Investments in internet advertisement continued to increase in Sweden even during the pandemic in 2020, and the total internet advertisement market grew by a CAGR of 9% in 2021–2023.



Source: Redeye research, Statista

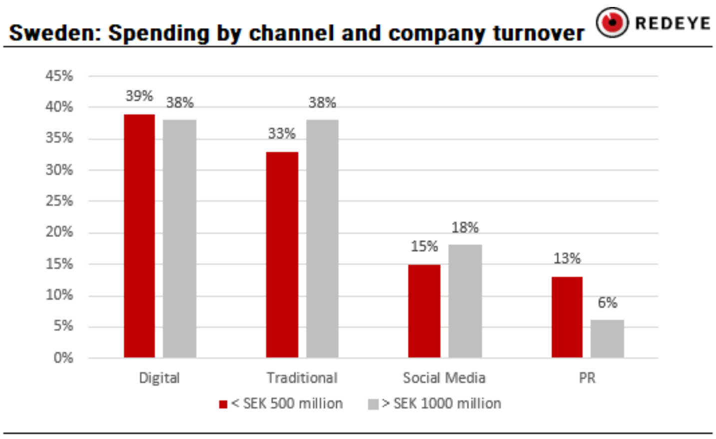
Search advertising continues to show solid growth, and this is likely to continue. Search clearly surpasses the others in terms of growth, and we expect this segment to grow by around 8–10% in the years to come.

Other sources, such as Statista, claim less strong growth for search ad spending, although they also expect growth to continue, even if they forecast it tapering off towards 2025 (Statista). We believe it is likely to grow at the higher end of the range (8%) at least until 2023. This is one of the prime areas for Eniro and will support its growth efforts as time goes on.



Source: Redeye Research, Statista

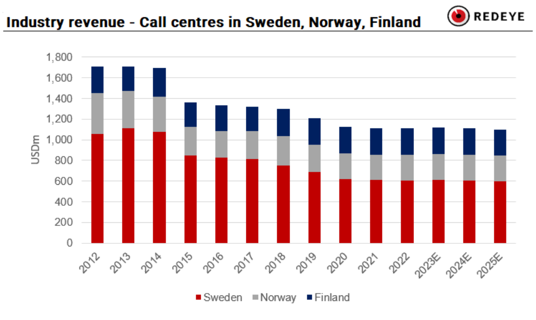
The digital share is more substantial among smaller companies, even if the difference is not that great. However, smaller companies tend to use less traditional channels and a more significant degree of PR channels. This is natural since they may need more hands-on support in PR-related activities.



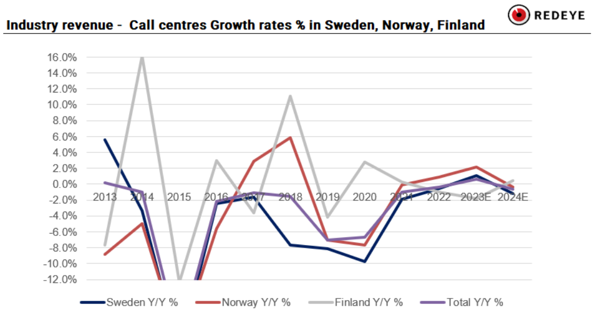
Source: Redeye Research, Statista

Contact centre market – a USD1.1bn Nordic market

The global customer care and contact centre market is not expected to grow in the coming years and its global CAGR has been flat since 2021. This market is part of the increasing outsourcing trend in the Nordics. Significantly larger companies want to focus on their core competences and outsource as much as possible. We expect this market to remain flat but for the more significant players, such as Eniro, to likely gain market share, and so we forecast growth of about 1–3%.



Source: Redeye Research, Statista



Source: Redeye Research, Statista

Competition

Eniro has been undergoing a transformation into a digital player or SaaS in the Martech field. Its different business segments face varying types of competition. Marketing Partner is up against the giants like Google and the smaller traditional media firms and different variants, such as SEO agencies that only provide parts of Eniro's total offering.

Eniro's transformation to the digital world has exposed it to new competition. Among its target clients in the SME space for Marketing Partner, we believe the most relevant competitors are small to medium-sized media agencies, of which there are a couple of hundred in Sweden. Giants like Google, Facebook, and Instagram are also competitors, but they are also a strong selling point for Eniro through its collaborations with them.

In Dynava, the directory assistance market is largely dominated by Eniro. There are other players, but none are of any significance. There is much more competition in the contact centre market, the obvious global competitors being Transcom and Sykes, along with many more small operators. Facility managers like Coor are also present in this space, but to a lesser degree.

SWOT

Strengths

Strong market position: With an operational shift initiated in 2015 and the financial shift coinciding with Eniro's exit from the print catalogue publishing business, Eniro has established itself as a significant player in the Nordic market for digital marketing services.

Unique value proposition: Through partnerships with major global digital players like Google, Facebook, Instagram, and YouTube, Eniro has developed a unique value proposition that appeals to small and medium-sized companies looking to tap into the power of digital marketing.

Effective SaaS model: By pivoting to a SaaS business model focused on Martech, Eniro has developed a scalable and recurring revenue stream that should be a significant growth driver for the company.

Weaknesses

Dependency on partners: Eniro's value proposition heavily relies on partnerships with major global players like Google and Facebook. This could be a potential weakness if those relationships are ever compromised.

Historical financial challenges: Eniro underwent financial restructuring and reconstruction in 2020 due to high debt levels and a slower transformation, indicating potential operational and financial weaknesses. Eniro needs to rebuild trust in the stock market in order to increase its valuation.

Opportunities

Growing digital marketing market: The digital marketing landscape continues to grow and evolve, presenting an opportunity for Eniro to expand its customer base and introduce new services.

Outsourcing trend: The growing trend of businesses outsourcing their customer service functions provides an opportunity for Eniro's Dynava business.

SaaS metrics disclosure: Eniro could take the opportunity to fully disclose SaaS metrics, giving potential investors greater insight into its financials and operations.

Threats

Intense competition: The digital marketing and customer service outsourcing industries are highly competitive, with many established players and new entrants.

Technological advances: Rapid changes in technology, such as the advent of AI and chatbots, could threaten Eniro's business model if not appropriately harnessed.

Pandemic and other global crises: The COVID-19 pandemic has had a significant impact on Eniro's transition to a new business model and financial health. Future global crises could have similar adverse effects.

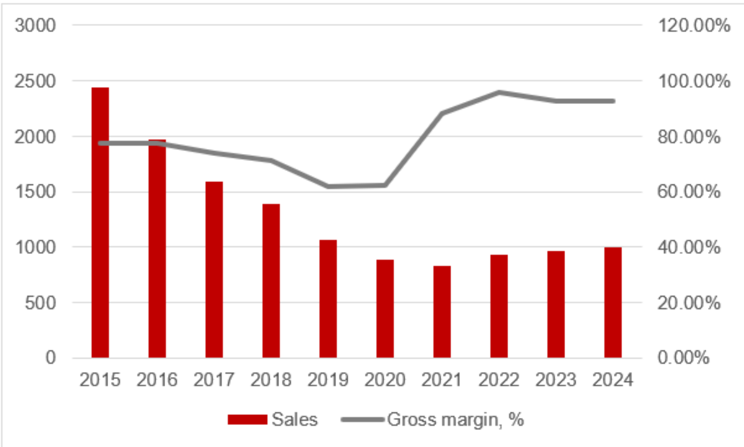
Financials

Eniro has, since 2017, been on a long transformational journey to become a truly digital company. Although the coronavirus pandemic and the company's reconstruction have delayed the progress, we see some promising trends, and the cleaned-up balance sheet will give Eniro a chance to prove the success of its transformation.

On a path towards growth

Eniro's business areas will continue to show modest growth. Marketing Partner has the potential to grow thanks to its large customer base in the Nordics, where its market penetration is only about 5%. The now all-digital lead generation will most likely drive growth. We take a cautious approach to sales development, even if we expect this growth to come. The digital marketing market will continue to grow at a rate of 4–8% (Statista), and thanks to its strong presence among SMEs, this is a clear opportunity for Eniro.

Sales & Gross margin % 2015 - 2024E



Source: Redeye Research

We believe the customer care and call centre software market will grow at a modest pace. Its offering here primarily targets larger customers, in contrast to the Marketing Partner area. We expect Eniro will gain market share in call centre software, especially in its key sectors like energy, waste and transportation. All in all, we expect Eniro to grow 1–4% in the coming five years, with an improved EBIT margin, up from 3.4% in 2023 to 7.6% in 2026e. The margin expansion will come into effect through a combination of the cost-cutting programme in place along with better and more efficient execution from the new management team and CEO.

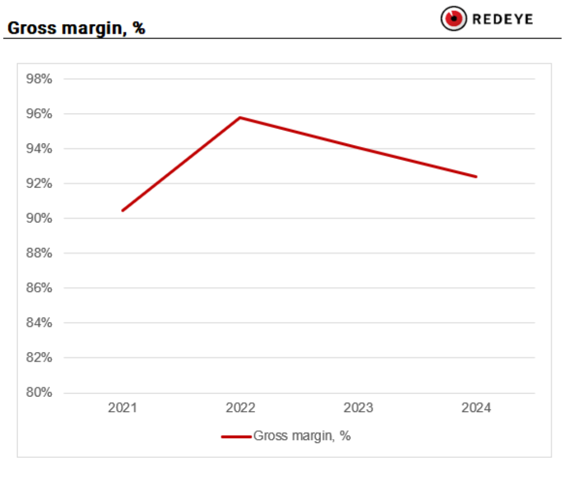
Eniro 2021-2023E			
(SEKm)	2021	2022	2023E
Sales	828	930	1017
COGS	-99	-99	-105
Gross Profit	749	891	935
Total opex	-616	-742	-839
EBITDA	133	149	97
EBIT	-97	66	11
EPS (SEK)	-0.1	0.1	0.0
Total Revenue Growth, %	-4%	17%	5%
Gross margin, %	90%	96%	92%
EBITDA-margin, %	16.1%	16.0%	9.5%
EBIT-margin, %	-11.7%	7.1%	1.1%

Source: Redeye Research

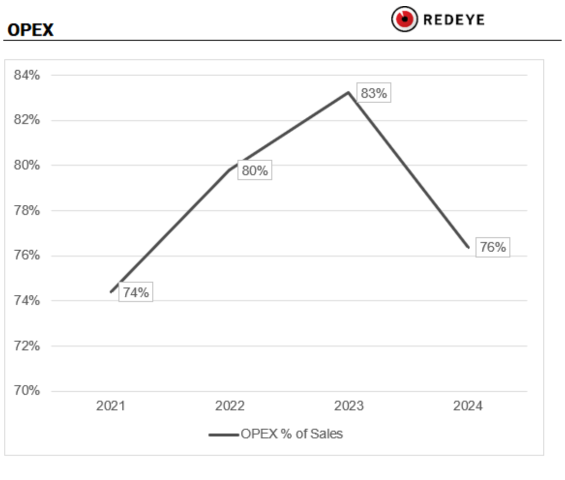
OPEX and gross margin

Eniro's gross margin is robust, as it should be in this type of business. However, we do not expect it to improve from current levels, and it is even likely to diminish slightly to 92% in 2023e.

In recent years, Eniro has worked hard to cut costs, which is natural given decreasing sales and its heavy debt burden. Moreover, through a new cost-cutting programme recently launched, Eniro aims to reduce costs by approximately SEK60–80m each year, with full implementation during 2024. We thus believe personnel costs will continue to trend downwards in relation to sales, arriving at just above 48% in 2025e thanks to implementation of more efficient software solutions, and down from 51% in 2022. Other external costs should also continue downwards in relation to sales.



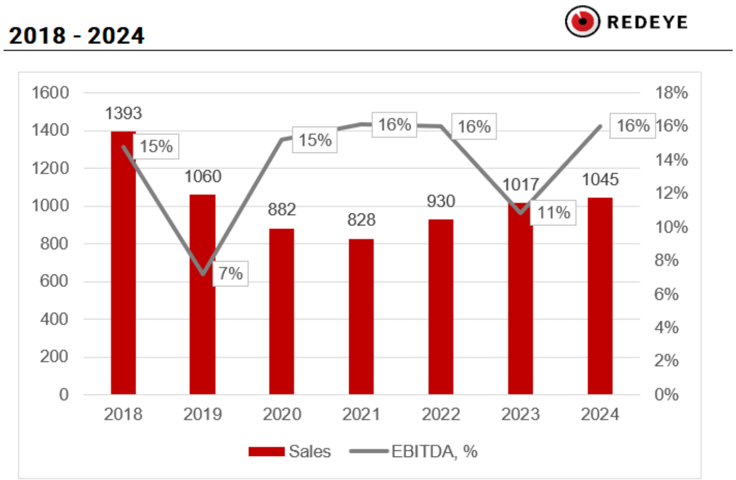
Source: Redeye Research



Source: Redeye Research

Operating profits

Our forecasts imply this year's profit margins will gradually improve, with lower OPEX on account of the cost-cutting programme and EBITDA, to reach and level out at around 16–17% coming years.



Source: Redeye Research

Our 2023e forecast implies improved EBITDA, as we expect the SaaS model to bring better results in the Marketing Partner segment. Breaking down our financial estimates on a quarterly basis shows us arriving at stable EBITDA margin of c.16–17%.

Financial estimates for 2023e–2026e

Our projections indicate total revenue growth of 4.4% from 2023 to 2026e, coupled with a modestly improved EBITDA margin. This is largely thanks to the adoption of more efficient software and digitisation processes designed to minimise human intervention between client ordering and product delivery. In terms of product development, Eniro aims to introduce a minimum of four new products annually, either by phasing out older versions or by launching superior alternatives.

Estimates										
(SEKm)	**2021**	**2022**	**Q1 23**	**Q2 23E**	**Q3 23E**	**Q4 23E**	**2023**	**2024**	**2025**	**2026**
Sales	828	930	241	258	258	259	1017	1046	1075	1106
COGS	-99	-99	-20	-28	-28	-29	-105	-107	-108	-112
Gross Profit	749	891	227	236	236	237	935	966	995	1018
Total opex	-616	-742	-207	-210	-210	-211	-839	-805	-817	-830
EBITDA	133	149	20	26	26	26	97	161	178	189
EBIT	-97	66	-1	4	4	4	11	67	81	84
EPS (SEK)	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Total Revenue Growth, %	-4%	17%	9%	19%	-7%	4%	5%	3%	3%	3%
Gross margin, %	90%	96%	94%	91%	91%	91%	92%	92%	93%	92%
EBITDA-margin, %	16.1%	16.0%	8.3%	9.9%	9.9%	9.9%	9.5%	15.4%	16.5%	17.1%
EBIT-margin, %	-11.7%	7.1%	-0.4%	1.5%	1.5%	1.5%	1.1%	6.4%	7.6%	7.6%

Source: Redeye Research

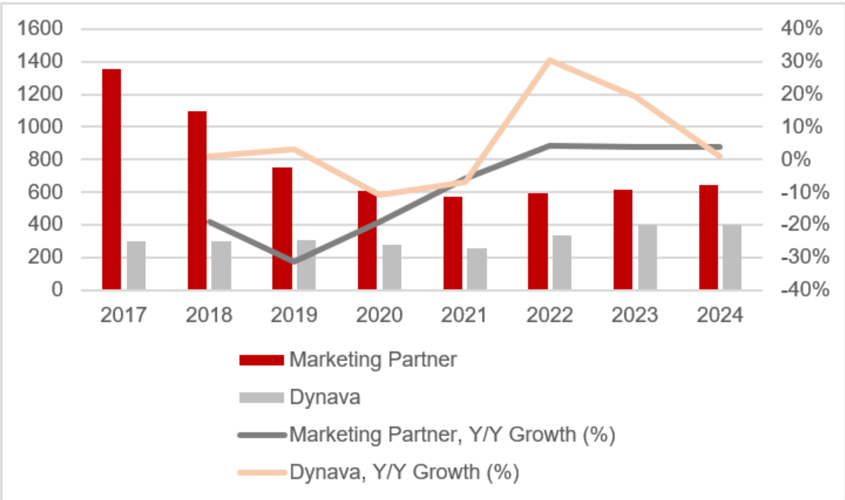
Business segments: Marketing Partner and Dynava

Below, we show the development of the different segments. Given its large customer base and different working method, Marketing Partner looks set to continue growing at around 4%, while we expect Dynava to grow by some 19% in 2023e thanks to acquisitions and by 1% after that.

Business Area Revenues	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Marketing Partner			1353	1094	752	607	572	596	618	643
Marketing Partner, Y/Y Growth (%)				**-19%**	**-31%**	**-19%**	**-6%**	**4%**	**4%**	**4%**
Dynava			296	299	308	275	256	334	398	402
Dynava, Y/Y Growth (%)				**1%**	**3%**	**-11%**	**-7%**	**30%**	**19%**	**1%**
Sales	**2440**	**1967**	**1595**	**1393**	**1060**	**882**	**828**	**930**	**1017**	**1045**
EBITDA, %	*16%*	*22%*	*11%*	*15%*	*7%*	*15%*	*16%*	*16%*	*15%*	*16%*

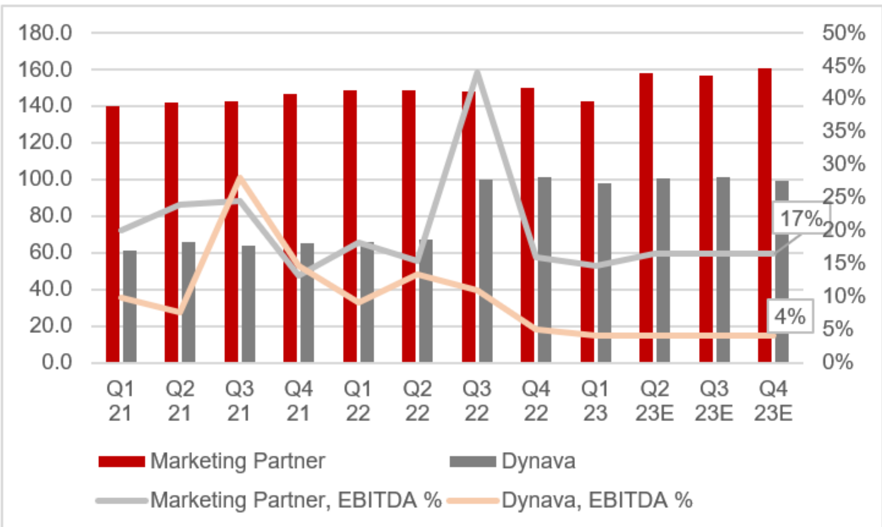
Source: Redeye Research & Company

Eniro: Revenues Business areas, Y-Y (%)



Source: Redeye Research

Eniro: Revenues Business areas, EBITDA (%)



Source: Redeye Research

Financial position

Eniro's history (see page 6) is of a strategy that went truly wrong, with acquisitions and high leverage, in a market that has, over the space of a few years, changed entirely because of digitalisation. Eniro's reconstruction in 2020, in the midst of the pandemic, has left the company with a cleaner balance sheet, and with the conversion of the A- and B-preference shares now done and dusted, Eniro is in a much better shape than it has been for many years.

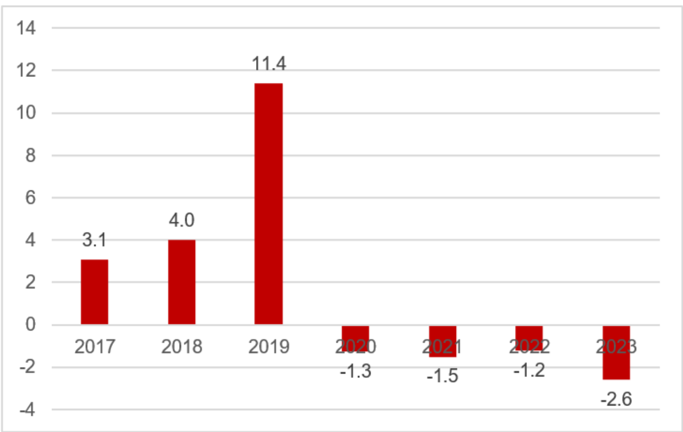
The debt on its balance sheet consists of a pension liability of SEK270m and leasing debt of SEK16m. Its cash balance at the end of the last quarter was SEK206m.

Eniro has written down its goodwill position over the years. Goodwill at the end of 2022 was SEK470m. The latest write-downs of goodwill largely related to Marketing Partner. Given the stabilisation of the business and the growth we expect to return, there is less additional risk of write-downs.

Net debt

As seen in the chart below, Eniro has radically transformed its financial situation, and its net cash position puts the balance sheet in particularly good shape. Plus, given the new share structure with no preference shares, the Eniro case will be much more transparent and easier to understand and value.

Net Debt / EBITDA



Source: Redeye Research

Our main assumptions are:

• Cash and equivalents at year-end 2023e: SEK340m

• Interest-bearing short-term debt (leasing) at year-end 2023e: SEK26m

Valuation

We use three different valuation approaches to value Eniro. Firstly, we have applied a discounted cash flow valuation (DCF) using an average weighted cost of capital (WACC) derived from the Redeye rating model. Our rating model suggests a WACC of 11.5% for Eniro. We also conduct a sum-of-the-parts valuation (SOTP) because Eniro has two distinct business arms. Lastly, compare how Eniro is valued versus peers.

DCF

Based on the Redeye Rating model, we derive at a WACC of 11.5% for all three scenarios: base, bull, and bear cases.

Base case: SEK1.4

With the new share structure in place, we can assign a value to the common share. It is important to remember where Eniro comes from: a very complicated preference structure that put a wet blanket over the stock for years. We see its history still weighing heavily on the current valuation. We assume a gradual improvement when the SaaS model starts to generate growth and improved margins and as the new management team starts to deliver. The SaaS metrics that are communicated are positive but limited in scope, and we look forward to more metrics to follow the progress more closely. In our base case, we assume Eniro will grow at a pace of c.2–3% boosted in the coming years by better margins thanks to the newly introduced cost-cutting programme and efficiency improvements.

Key assumptions for our base case

Revenues for 2023e: SEK1,017m

Revenue CAGR for 2023e–2027e: 4%

Terminal growth: 2%

Avg. EBIT margin for 2023e–2027e: 6%

Terminal EBIT margin: 6%

DCF assumption in Base

Assumptions:	2023E-2027E	2028E-2032E	DCF-Value	
Sales CAGR	4.0%	3.3%	WACC	11.6%
Avg. EBIT margin	6%	5.3%	NPV of FCF	713
			NPV of Terminal Value	138
Terminal				
Terminal growth	2.0%		Sum of NPV	850
Terminal EBIT margin	6.0%		Net Debt	(165)
			Equity value	1,015

Source: Redeye research

Bull case: SEK1.6

Eniro succeeds in working more efficiently internally and manages to push up sales towards 5% in the next five years. The demand for its products increases and new digital products and higher recurring revenues add to the success.

Revenues for 2023e: SEK1,032m

Revenue CAGR for 2023e–2027e: 5%

Terminal growth: 2%
Avg. EBIT margin for 2023e–2027e: 6.7%
Terminal EBIT margin: 7%

Bear case: SEK1

Due to higher competition and a tough market environment, with micro- and small cap companies cutting their marketing spending, Eniro only manages to keep its revenues flat to slightly higher by 2% in the coming years. Moreover, cost increases push down margins.

Revenues for 2023e: SEK995m
Revenue CAGR for 2023e—2027e: 2%
Terminal growth: 2%
Avg. EBIT margin for 2023e–2030e: 3.3%
Terminal EBIT margin: 3%

SOTP

To support our DCF valuation we also conduct an SOTP valuation of Eniro as it has two clearly defined business arms.

Dynava

Finding a publicly traded peer for Dynava is hard. There is a company called One to One contacts (OTO.BK) https://www.onetoonecontacts.com/ listed on the SET market in Thailand. It has a market cap of USD300m and currently trades at a price/sales of 17x. Its five-year average is 5.4x (Factset). However, we use the multiples when Dynava bought Samres in May 2022 because a Thai peer is not relevant.

On 23 May 2022, Dynava bought Samres AB for SEK59mn. Samres AB had sales of SEK160m with EBITDA of SEK12m, and a 7.5% margin. At that time, Samres had cash of SEK19m, suggesting an EV of SEK40m (SEK59m minus SEK19m). This translates into a price/sales of 0.37x (59/160) and an EV/EBITDA of 3.3x (40/12).

Dynava had 2022 sales of SEK256m, with an EBITDA of SEK38m (15% EBITDA margin). Adding the two businesses together, we arrive at a total estimated 2023e sales of SEK416m with an EBITDA of SEK50m (SEK38m + SEK12m).

Using the multiples where the acquisition was done, we derive at the following valuation for Dynava:

P/S valuation: 0.37*416= SEK154m
EV/EBITDA valuation: 3.3x50 = SEK165m

Marketing Partner

Marketing Partner had revenues of SEK596m in 2022 with an adjusted EBITDA of SEK34m. Peers' median EV/Sales for 2023e is 2.4x, while EV/EBITDA for 2023e is 14.8x.

EV/Sales: SEK596*2.4= SEK1,435m
EV/EBITDA: SEK34m*14.8 = SEK503m

SOTP summary

Using the average of the four different valuation multiples we derive Dynava's valuation is SEK 159m and Marketing Partner's at SEK969m, or SEK1,128m together, which is 11% higher than our DCF valuation of SEK1,015m.

Peers

We have chosen to compare Eniro to other SaaS companies, primarily in Sweden, as listed direct peers are limited. Its primary business segment, Marketing Partner, is on a journey to increase recurring revenues through a subscription model to become a true SaaS company in the Martech arena. Although Eniro is not there yet, to get a taste of what kind of valuation Eniro could be valued at in the future, we believe this has some relevance.

Today, Marketing Partner represents c.64% of Eniro, and so we look at SaaS peers as a reference. Note that although Eniro has come a long way, its expected growth rates are far from the sector averages shown below. Its average EBIT margins are getting closer, though, on our estimates. If Eniro can show more robust growth than expected, there is potential for a revaluation. Eniro's history still weighs heavily on the company. We suspect the market will need clear evidence of the turnaround and a solution to the share structure issue before considering SaaS valuations for Eniro.

Peer valuation

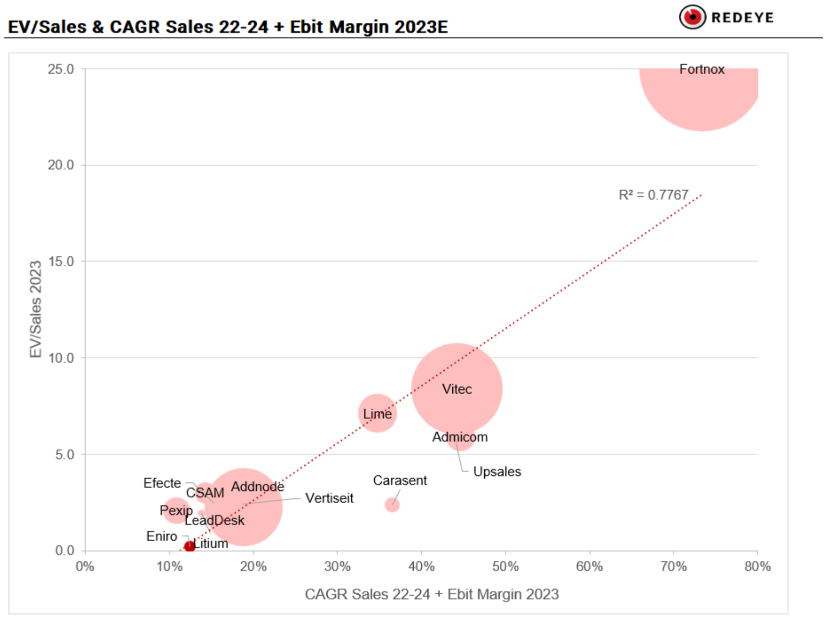
		EV/Sales			EV/EBITDA			EV/EBIT			Sales CAGR	EBIT margin		
Companies	**EV (MSEK)**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**	**22-24**	**2022**	**2023**	**2024**
Suppliers	EV													
Addnode	16,167	2.6	2.3	2.1	19.5	18.2	16.8	28.2	26.6	23.5	10%	9%	9%	9%
Admicom	2,313	6.6	5.9	5.4	14.6	15.4	14.1	15.3	17.4	15.8	11%	44%	34%	34%
Carasent	587	2.9	2.4	2.0	12.5	15.8	7.9	30.6	639.2	15.8	21%	10%	15%	13%
CSAM	1,203	3.2	3.0	2.7	39.7	15.7	9.5	Neg.	68.0	19.6	10%	-9%	4%	14%
Efecte	726	3.0	2.5	2.1	Neg.	Neg.	30.1	Neg.	Neg.	44.6	19%	-3%	-4%	5%
FormPipe	1,411	2.9	2.7	2.4	19.6	12.9	10.2	88.2	31.7	19.3	10%	3%	8%	13%
Fortnox	42,540	33.2	25.0	18.9	71.7	49.8	36.3	91.1	61.1	43.4	32%	36%	41%	44%
LeadDesk	557	1.8	1.6	1.4	15.1	10.9	8.1	Neg.	90.1	24.2	14%	-1%	2%	6%
Lime	4,072	8.3	7.1	6.3	26.5	22.7	20.4	44.7	36.0	30.6	15%	19%	20%	21%
Litium	144	2.2	1.9	1.5	Neg.	19.2	6.7	Neg.	Neg.	19.2	21%	-18%	-7%	8%
Pexip	1,963	2.2	2.1	1.9	Neg.	14.2	10.8	Neg.	60.2	26.5	7%	-34%	3%	7%
Upsales	914	7.1	6.1	4.8	25.4	21.3	16.0	32.6	26.9	20.3	21%	22%	23%	24%
Vertiseit	815	2.6	2.4	2.2	23.3	12.5	9.4	58.2	21.3	14.0	7%	4%	11%	16%
Vitec	22,122	11.2	8.4	7.3	30.5	22.7	19.1	59.9	41.1	29.4	24%	19%	20%	25%
Median		2.9	2.4	2.2	19.6	14.8	9.9	7.4	26.8	19.5	14%	7%	10%	13%
Average		6.1	4.8	4.0	4.0	Neg.	10.7	8.7	56.7	18.5	16%	7%	13%	17%
Eniro	360	0.4	0.2	0.1	2.6	1.9	0.6	5.8	6.8	1.5	6%	3%	6%	8%

Source: Factset & Redeye Research

As of now, Eniro trades at a 92% discount to peers on EV/Sales for 2023e and a 65% discount on median EV/EBIT for 2023e. At the current state, we argue a discount is valid, but the question is how large this discount should be.

The SaaS universe – interesting comparisons

Eniro is, to a large extent (~64% Marketing Partner), transitioning to a SaaS business model, as we have mentioned above. This offers it increased stability and predictability, higher margins, and decreased risk. We have plotted Eniro as we expect it to perform in 2023e, which suggests an EV/Sales of 0.2x and sales CAGR for 2022–2024E (6%) + EBIT margin (6%) arriving at a total of 12%. If the SaaS metrics continue to improve and are disclosed as reflecting the development, there is clear potential for an increased valuation.



Source: Redeye Research, Factset

As with most companies, there is typically a trade-off between sales growth and profitability for SaaS businesses. As a SaaS business sees its customer acquisition costs (CAC) upfront but recognises revenues over time, sales growth usually hurts margins even more than for another business.

The best way to assess the underlying profitability in growing SaaS businesses is to look at unit economics like customer churn, customer lifetime value (CLV), average revenue per account (ARPA), customer acquisition cost (CAC), and CAC payback period. However, like most listed Nordic SaaS businesses, Eniro does not disclose these. We thus use the "Rule of 40" as a proxy for the listed SaaS businesses' underlying unit economics. For a more detailed discussion about the SaaS universe, see our latest SaaS report by clicking HERE.

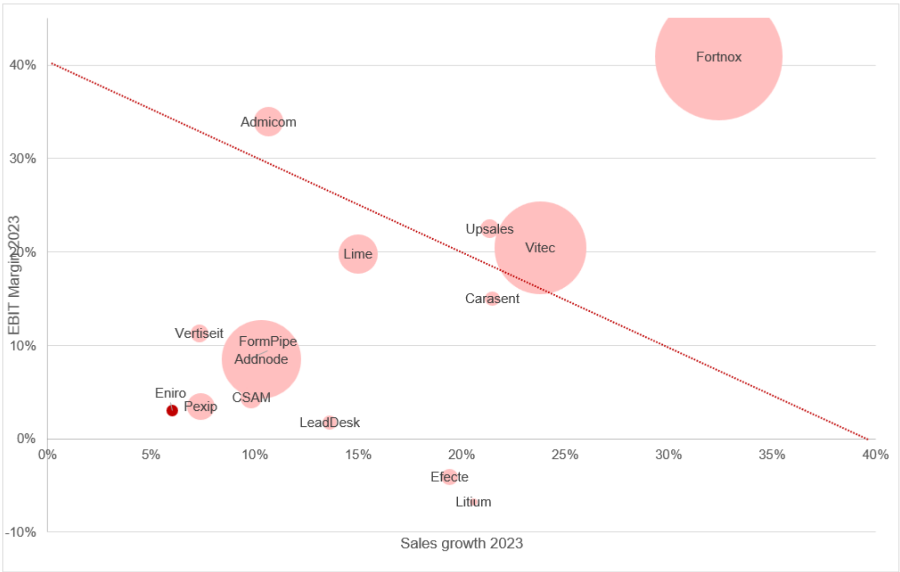
Rule of 40

The "Rule of 40" is a popular heuristic in the Software-as-a-Service (SaaS) industry used to measure the efficiency and health of a business. It suggests that a successful SaaS company's growth rate and profitability should total 40% or more.

Here is how it works: if you calculate a company's annual growth rate (as a percentage) and add it to the company's profit margin (also as a percentage), the result should be 40% or higher.

For example, if a company is growing at 20% annually, it should have a profit margin of at least 20%. If it is growing at 30%, it should have a profit margin of at least 10%. This rule is often used by investors to quickly assess a company's balance between growth and profitability, although it is not a hard-and-fast rule and may not be applicable or ideal for all companies or in all stages of growth.

Rule of 40



Source: Redeye Research, Factset

We have plotted Eniro in our SaaS universe even though it is not a fully recognised SaaS player. We expect its margins to improve and for growth to start appearing, but our expectations are still far from the stars in our company universe. The interesting thing is that growth is important, but to be considered a star, the margins also need to be there.

Summary Redeye Rating

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

Rating changes in the report

People: 3

With the introduction of the new management team, including a CEO and CFO we believe possess the most suitable background and experience, the company is now well-positioned to progress to the next stage of its development. The primary task ahead is to restore market confidence and regain shareholders' trust with the delivery of stable financial reports with better growth and increased margins. Moreover, refining Eniro's business strategy and product offerings is essential to secure a robust future for the company. Eniro currently holds a score of 2, largely attributed to an insufficient historical record to evaluate management effectively. Yet, with a trend of increasingly improved performance, it is expected that this score will enhance over time.

Business: 3

On the whole, Eniro operates with a steady, albeit slow, growth business model. The company faces competition from various players, including social media, Google, and new emerging platforms and companies. Furthermore, evolving customer behaviour necessitates that Eniro keep pace with new market entrants. This demands continuous development and innovation in its product offerings to maintain a competitive edge.

Financials: 2

Due to its historically weak financial performance, Eniro scores 2 in our rating. However, Eniro is now in its best position in a long time, as the new share structure is finally in place, making it much easier for shareholders and equity analysts to understand and value the company. Given improved financial data, the rating will also improve.

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 (2023-06-27)

Rating	People	Business	Financials
5p	7	6	2
3p - 4p	154	149	40
0p - 2p	25	31	144
Company N	186	186	186

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CONFLICT OF INTERESTS

Fredrik Reuterhäll. owns shares in the Company: No

Mats Hyttinge. 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.