

# Qbank

Sweden | Software | MCAP SEK 102,8m

Buy

Target Price  
Current Price  
Up/downside

SEK 18.6  
SEK 15.0  
24.0%

## An overlooked SaaS company well positioned for profitable growth

Qbank (“the Company”) is a Swedish SaaS company offering a top-ranked DAM solution<sup>1</sup> currently utilized by reputable brands such as Electrolux, JM and the Stena sphere. Because institutional investors are overlooking this profitable and fast-growing SaaS company, due to its small market cap of 102,8 MSEK and lack of coverage, Qbank is currently trading at a significant discount of 49,6% to comparable companies. Assuming that Qbank grows its annual recurring revenue (ARR) with 22,1% CAGR, and increases its EBIT margin due to the scalability inherent to its SaaS business model, Qbank is estimated to generate revenue amounting to 39,7 MSEK and reach an EBIT margin of 17,4% in 2021. With a target EV/EBIT multiple of 17,0x in 2021, a potential price per share of 18,6 SEK and an Internal Rate of Return (IRR) of 11,4% over two years is motivated.

Qbank creates customer value by automating, streamlining and analyzing the customer’s digital assets.

Qbank offers customers such as corporations, authorities and organizations a Digital Asset Management software through a SaaS business model. The product named “Qbank” ranked 15th in the world by Gartner Inc, brings value to the customer by integrating with the customer’s already existing IT solutions and by simplifying, automating and streamlining the way they manage digital assets. Qbank also helps with analyzing the asset’s performance and calculating the return on investment (ROI). Qbank offers customer implementation to ensure maximized effectiveness of the product, which accounts for 30% of the revenue, with subscriptions accounting for the rest.

Niched product offering on a market with an underlying growth of 21,2% will contribute to a substantial growth in ARR of 22,1% (CAGR) between 2019 and 2021.

Market researchers expect the market for digital asset management to grow at 21,2% CAGR over the next five years<sup>2</sup>. A major driver for the adoption of DAM solutions is the increased use of digital assets for marketing within larger organizations. Hence, by terminating an older product named Exigus, Qbank is a more narrow and specialized organization, niched towards larger customers in need of a more advanced and, therefore, higher-priced DAM solution. The shifted focus makes the Company well equipped to grow its core DAM solution, Qbank, to capitalize on the underlying market growth. Based on the above, Qbank is expected to increase ARR from 20,6 MSEK to 30,7 MSEK between 2019 and 2021, a substantial growth of 22,1% annually.

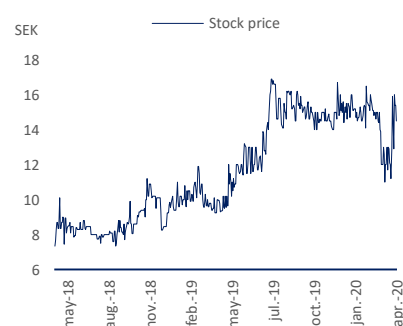
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### Market Data

Listing Venue	Spotlight Stock Market
Price (SEK)	15,0
No. of outstanding shares (m)	6 8
Market Cap (m)	102,8
Cash & Cash Equivalents (m)	9,9
Debt (m)	0,0
Net Debt (m)	-9,9
Enterprise Value (m)	92,9

Key Financials (SEK)	18A	19A	20E	21E
Sales (m)	25,7	28,5	34,3	39,7
Sales Growth y/y	12,6%	10,7%	20,5%	15,8%
ARR (m)	17,7	20,6	25,6	30,7
ARR Growth (%)	9,5%	16,5%	24,2%	20,0%
EBIT (m) (adj)	3,4	4,4	5,5	6,9
EBIT Margin	2,2%	8,4%	16,0%	17,4%
EBIT Margin (adj)	13,1%	15,4%	16,0%	17,4%
Net Income	0,7	1,8	4,3	5,4
Profit Margin (%)	2,8%	6,3%	12,5%	13,6%

Key Ratios (SEK)	18A	19A	20E	21E
EV/EBITDA	18,2	16,3	16,5	13,2
EV/EBIT (adj)	19,4	20,5	16,9	13,4
P/E	88,3	45,9	24,0	19,1
EPS	0,1	0,3	0,6	0,8
FCF yield	4,1%	10,2%	4,7%	5,9%
P/S	2,7	2,9	3,0	2,6
EV/S	2,6	2,5	2,7	2,3



### Major shareholders

Fredrik Grevelius	16.7%
Ludvig Thureson	6.3%
Jonas Bergh	5.5%
Patrik Brummer	5.0%
Sven Grevelius	4.6%
<b>Total</b>	<b>38.1%</b>

<sup>1</sup> DAM solution = Digital Asset Management solution

<sup>2</sup> Mordor Intelligence, “Digital Asset Management Market – Growth trends and forecast (2020-2025)”, 2019

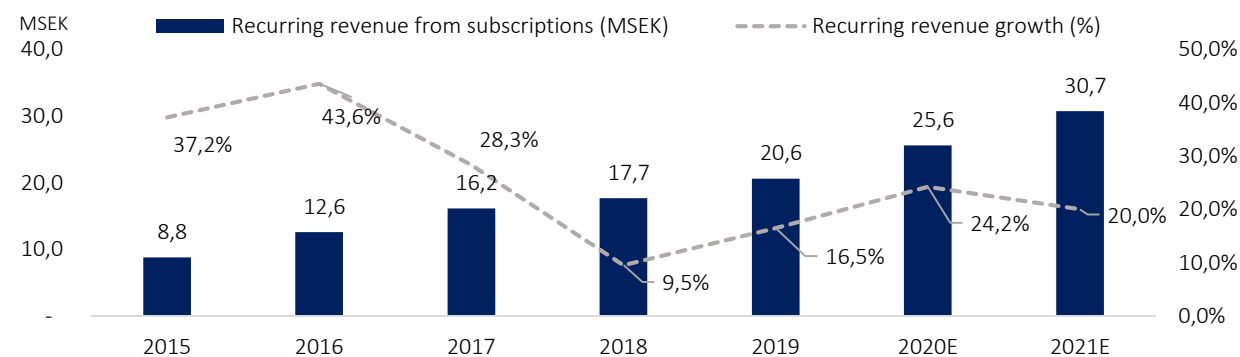
## Investment thesis

**A large increase in monthly recurring revenue from subscriptions at the end of 2019 has already made a 12,1% growth contribution to the year of 2020.**

Qbank showed a significant growth in monthly recurring revenue (MRR) of 31,4% during 2019, resulting in an increase in MRR from 1,5 MSEK to 1,9 MSEK during the year. This growth of 31,4% was mainly attributable to a strong sales performance in Q3 & Q4. Therefore, even if not accounting for new subscribers, total ARR will grow by 12,1% in 2020, to amount to 23,1 (20,6) MSEK, assuming no customer churn.

**The underlying market growth of 21,2% annually, alongside a competitive DAM solution, is estimated to boost ARR to above 30,7 MSEK in 2021.**

The global DAM market is estimated to grow at 21,2% (CAGR) between 2019 and 2025. As for the Swedish market, Qbank has a small but meaningful 15,0% of large-cap companies on the Stockholm Stock Exchange (Sweden), including JM, Dometic Group and Electrolux, as customers. The 15,0% share of large-cap companies indicates that there is still room to grow as larger companies starts shifting from traditional and time-consuming methods of managing digital assets to more effective and advanced DAM solutions like Qbank. Having reputable brands as customers along with Qbank being included in Gartner's "Top 19 Enterprise DAM Solutions" indicates that Qbank's product is competitive and a preferred choice among larger organizations. Based on Qbank's competitive product offering and the underlying market growth, it is expected that the Company will grow recurring revenue from subscriptions with 22,1% (CAGR) between 2019 and 2021, reaching 30,7 MSEK in ARR.



**A scalable business model and a more niched product offering bode for a robust EBIT margin of 17,4% in 2021.**

Qbank's SaaS business model is scalable as the cost to add additional customers to the platform is insignificant. This is evidenced by a 135,0% increase in recurring revenue with an increase in the EBIT margin (adjusted for amortization of assets no longer existing on the balance sheet) from -8,5% to 15,4% between 2015 and 2019. In order to improve the EBIT margin further, Qbank began shifting focus within the organization in early 2019, segmenting its market towards larger organizations, offering only one customizable product at a higher price as it carries more functionalities. The risk associated with targeting larger organizations is that competitors with stronger financials, such as Adobe or Bynder, could potentially enter the market with a competitive pricing and product offering. However, based on Qbank historically being able to attract large reputable brands to its platform, it is fair to believe that Qbank's product is competitive enough to keep attracting larger customers. Nonetheless, the more niched, focused, and higher-priced product offering, in combination with the scalability in the business model, is expected to contribute to an EBIT margin expansion from 15,4% (adj) in 2019 to 17,4% in 2021.

<sup>2</sup> Mordor Intelligence, "Digital Asset Management Market – Growth trends and forecast (2020-2025)", 2019

## Valuation

With zero institutional investors and no analyst firm covering Qbank, it is fair to believe that this profitable and fast-growing SaaS company is being overlooked, due to its small market cap of 102,8 MSEK. As a consequence, Qbank is trading at a significant discount to comparable companies, yielding a potential upside of 24,0% based on a target EV/EBIT multiple of 17,0x. The target multiple is justified based on a relative valuation with the three peers Lime Technologies, Formpipe Software and Admicom Oyj. These companies are considered reasonable peers as they are all offering software via a SaaS business model, such as a CRM system, ERP system or in the case of Qbank, a Digital Asset Management software.

**With a valuation discount of 20% compared to the bottom range peer, based on Qbank being dependent on a few major customers as a consequence of being a smaller company, a target multiple of 17,0x is motivated.**

Formpipe has the lowest estimated recurring revenue growth and EBIT margin among the peers, with Formpipe's EV/EBIT multiple being the lowest at 21,3x as a consequence. Despite having the smallest market cap of the chosen peer group at 1 142 MSEK, Formpipe is still more than ten times the size of Qbank. Since Qbank is a smaller company, with many large customers, revenues are especially sensitive against customer churn. Therefore, it is considered justified to apply a discount of 20% on the EV/EBIT multiple for Qbank, giving a target multiple of EV/EBIT 17,0x in 2021.

Company name	Market data			Financial data		
	Market cap (MSEK)	Enterprise value (MSEK)	EV/EBIT 2021E (x)	ARR CAGR 2019-2021E (%)	ROIC (%)	ROCE (%)
Lime Technologies	2 470	2 551	29,4x	19,4%	40,0%	42,0%
Admicom OYJ	3 849	3 670	29,1x	37,0%	250,0%	32,0%
Formpipe Software	1 142	1 170	21,3x	3,4%	9,0%	11,0%
<b>Qbank</b>	102,8	92,9	13,4x	22,1%	109,0%	52,0%

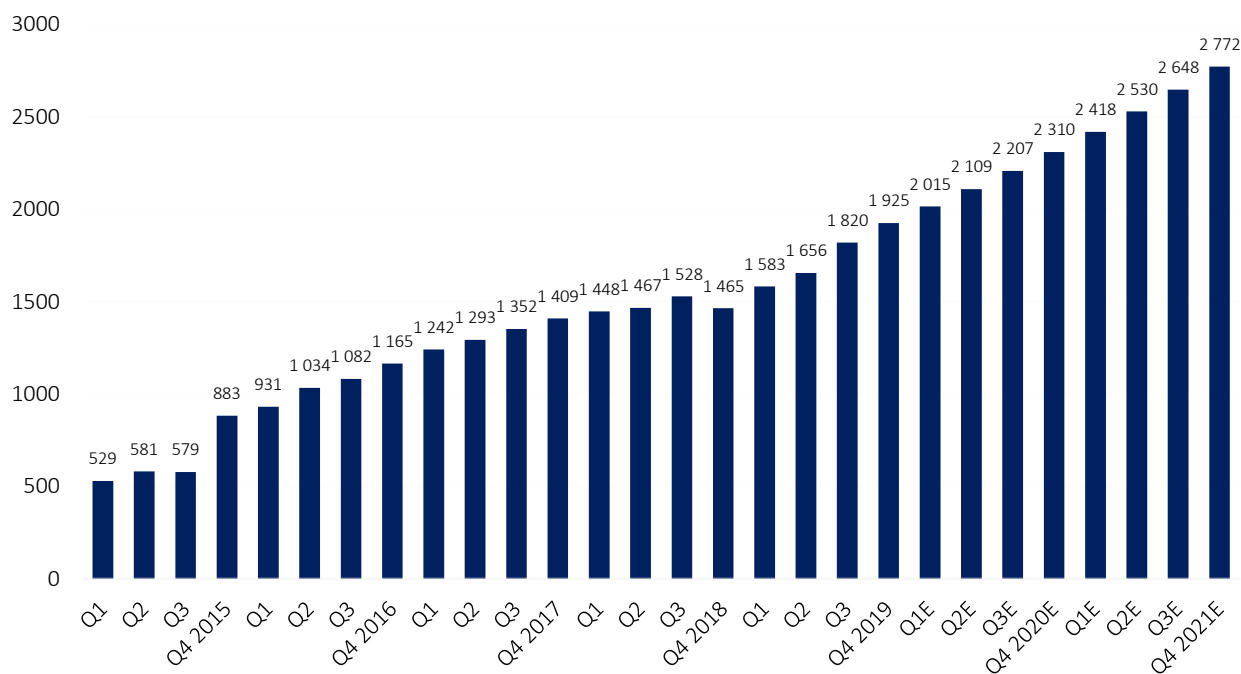
Qbank is considered a riskier investment than the comparable companies, due to being a smaller organization. Therefore, an even lower target multiple could be eligible. However, two significant factors are justifying the target multiple of 17,0x:

- **Qbank is estimated to grow recurring revenue faster than the peer group:** Qbank is estimated to grow recurring revenue with a CAGR of 22,1% between 2019 and 2021, faster than both Lime Technologies and Formpipe Software, that are expected to grow recurring revenue with a CAGR of 19,4% and 3,4% respectively between 2019 and 2021.
- **ROIC and ROCE are substantially higher than a majority of comparables:** Qbank's Return On Invested Capital (ROIC) reached 109,0% in 2019, mainly attributable to the Company having lower development expenditures than Lime Technologies and Formpipe Software with returns of 40,0% and 9,0% respectively. Comparing Return On Capital Employed (ROCE) instead, Qbank beats all comparable companies with a ROCE of 52,0%, further supporting the target multiple.

The fast growth of 22,1% CAGR in ARR along with the high ROIC of 109,0% justifies the target EV/EBIT multiple of 17,0x in 2021. With given multiple, a target price per share of 18,6 is deduced, corresponding to an upside of 24,0% and an Internal Rate of Return (IRR) of 11,4% over two years.

Key Financials (TSEK)	2015	2016	2017	2018	2019	2020E	2021E
Recurring revenue	8 773	12 594	16 155	17 694	20 615	25 603	30 723
Consulting	5 152	4 892	6 282	7 950	7 533	8 357	8 609
Other operating income	385	457	417	81	320	334	374
<b>Total revenue</b>	<b>14 310</b>	<b>17 948</b>	<b>22 854</b>	<b>25 725</b>	<b>28 468</b>	<b>34 294</b>	<b>39 706</b>
Consultants & Licensing fees	-2 092	-1 777	-3 052	-4 105	-2 923	-2 173	-1 464
Personnel costs	-5 769	-9 508	-11 618	-10 776	-15 246	-19 627	-23 240
Other external expenses	-7 575	-7 578	-9 811	-7 413	-5 762	-6 859	-7 941
<b>EBITDA</b>	<b>-1 126</b>	<b>-915</b>	<b>-1 627</b>	<b>3 431</b>	<b>4 537</b>	<b>5 635</b>	<b>7 061</b>
EBITDA margin	-7,90%	-5,10%	-7,10%	13,30%	15,90%	16,40%	17,80%
Depreciation	-11	-66	-272	-15	-51	-51	-51
Amortization	-36 335	-2 000	-2 000	-2 802	-2 000	0	0
Other operating expenses	-83	0	-172	-53	-107	-100	-100
<b>EBIT</b>	<b>-37 555</b>	<b>-2 981</b>	<b>-4 071</b>	<b>561</b>	<b>2 379</b>	<b>5 484</b>	<b>6 910</b>
EBIT margin	-262,40%	-16,60%	-17,80%	2,20%	8,40%	16,00%	17,40%
Interest expense	-616	44	-417	-441	0	0	0
Interest income	4	-275	-36	12	10	0	0
<b>EBT</b>	<b>-38 167</b>	<b>-3 212</b>	<b>-4 524</b>	<b>132</b>	<b>2 389</b>	<b>5 484</b>	<b>6 910</b>
EBT margin	-266,70%	-17,90%	-19,80%	0,50%	8,40%	16,00%	17,40%
Tax	336	1 393	45	594	-598	-1 206	-1 520
Tax rate	-0,90%	-43,40%	-1,00%	-450,00%	25,00%	22,00%	22,00%
<b>Net Income</b>	<b>-37 831</b>	<b>-1 819</b>	<b>-4 479</b>	<b>726</b>	<b>1 791</b>	<b>4 278</b>	<b>5 390</b>
Profit margin	-264,40%	-10,10%	-19,60%	2,80%	6,30%	12,50%	13,60%

### Monthly recurring revenue from subscriptions (TSEK)



Sources

<sup>2</sup> Mordor Intelligence, "Digital Asset Management Market – Growth trends and forecast (2020-2025)", 2019