

# Lime Technologies

Sweden | Software | MCAP 2.4bn SEK

09 July 2020

Buy

Target Price  
Current Price  
Upside

SEK 205.3  
SEK 145.0  
41.6%

## Lime's niche makes them a strong competitor to global players

Lime technologies provides CRM solutions to small and medium sized enterprises and is currently market leading in Sweden, holding a market share of 18.0%. Lime offers two products: i) Lime go, an easier system for 3 to 20 users and ii) Lime CRM, “a tailored CRM solution” made for 20-500 users. The digitalization has been the key driver to Lime’s success. The Software as a Service (SaaS) CRM market is expected to grow with a CAGR of 21.0%<sup>1</sup> between 2017 and 2023E. Lime is an interesting investment opportunity because of their niche in the SME market and their direct sales. With estimated revenue growth of 18.4%, an expected EBITDA margin of 28.5% and a multiple of EV/EBITDA 28.6x in 2020E, an upside of 41.6% is indicated.

### A strong opportunity to grow on multiple markets

A majority of Lime’s revenue comes from Sweden (85.0%) where they have market share of 18.0%. In the other Nordic countries their market shares is a total of 2.0%, and due to low market penetration, we see ample opportunity for continued growth both in Sweden, but especially in the remaining Nordic countries. Lime’s market penetration strategy is to focus on the less competitive SME market where there they have greater opportunity to compete and win market shares.

### Competition from global players might threaten Limes niche

The biggest challenge for Lime is the increasing competition, especially from global competitors such as Salesforce who are starting to focus more on SMEs. However, CRM products have quite high switching costs, therefore, customers do not tend to change supplier, which mitigates some of the threats from the global competitors. With Salesforce having 17.0% market shares in the Nordic market, and 15.0% in Sweden, it could be a challenge for Lime to compete for these market shares. However, Lime has an advantage working with 100% direct sales. This allows the company to get closer to its customers, providing more intimate and superior customer relationships which many bigger companies can have trouble with.

### Increasing repetitive revenue and expanding margins

Lime has an expected CAGR of 17.9 % (2020E-2022E). Lime’s future revenue growth is driven by their repetitive revenues and economies of scale. Lime’s niche in SMEs together with their direct sales is estimated to gain them market shares. Thanks to the nature of the business and their repetitive revenues, Lime has a strong cash flow which allows them to continuously invest more to continue growing.

## Financial Analysts

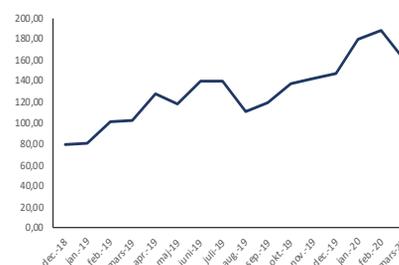
Filippa Lövgren  
Lykke Nyberg

Market Data	
Listing Venue	Small Cap Stockholm
Price (SEK)	145.0
No. Of outstanding shares (m)	13.2
Market Cap (m)	2393.7
Net Debt (m)	-72.2
Enterprise Value (m)	2569.5

Key Financials (Tkr)	18A	19A	20E	21E
Sales	244 307	289 696	342 977	401 973
Sales Growth y/y	19.8%	18.6%	18.4%	17.2%
EBITDA	50 692	83 659	97 912	115 500
EBITDA - Margin (%)	20.7%	28.8%	28.5%	28.7%
EBIT	31 827	52 053	63 614	75 303
EBIT - Margin (%)	13.0%	17.9%	18.5%	18.7%
Net Income	24 306	39 040	47 479	56 228
Profit Margin (%)	9.9%	13.4%	13.8%	14.0%

Key Ratios (SEK)	19A	20E	21E
EV/EBITDA	30.7	26.2	22.2
P/E	63.9	52.6	44.4

### Stock price (SEK)



Major Shareholders	Shares %
Monterro 1 AB	30.0%
Syringa Capital AB	10.8%
Swedbank Robur	9.2%
Aktiebolag Grenspectral...	7.5%
LMK Venture Partners AB	3.4%
Roosgruppen	3.4%
C World Wide	2.8%
SEB Life International	2.3%
Fidelity	2.2%
Strawberry Capital	2.0%
<b>Total insider</b>	<b>73.6%</b>

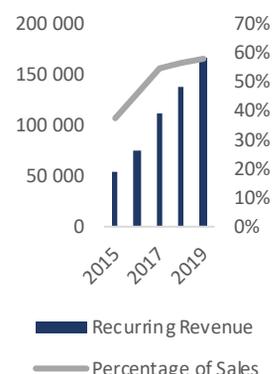
## Investment thesis

Digitalization is one of the main drivers behind the growing CRM market. Since the GDPR regulation got implemented the needs for CRM systems has further increased. SaaS CRM market is expected to grow to grow with a CAGR of 21.0% between 2017 and 2023. Given this underlying market growth, Lime has a great opportunity to keep growing going forward. During 2019 Lime grew its revenues with 18.6% and had an EBITDA margin We expect the revenue growth to be 18.4% in 2020 and 17.2% in 2021. Lime has an expected CAGR of 17.9% (2020-2022).

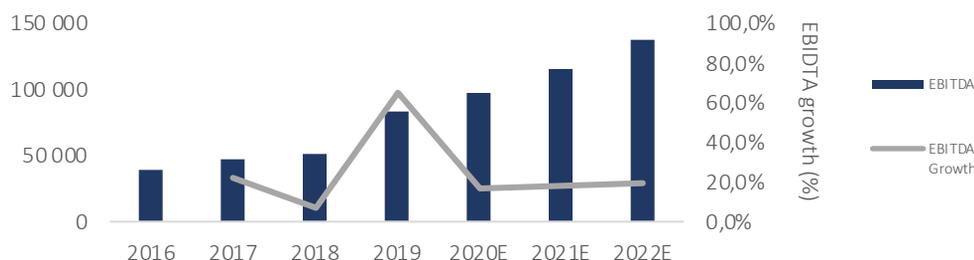
### A market with high entry barriers and high switching costs

The CRM market is a market with high entry barriers, which makes it hard for smaller CRM providers to succeed. In order to develop a new solution, it requires a fair amount of initial capital and competence. Furthermore, CRM providers are highly dependent on their costumers and their customer satisfaction because of the high competition. A new CRM supplier needs a large customer base and profitably have a niche, in order to be able to compete with the global players and establish a position in the market. Switching cost are high due to the amount of money and time that is required in order to implement the system internally. Furthermore, it is also fairly time consuming and expensive to migrate data to a new system. Due to these factors customer tend not to switch suppliers frequently, which contribute to the qualitative earnings that Lime possess.

Recurring Revenue (Tsek)



EBITDA (Tsek) & EBITDA Growth rate



### Lime's niche creates great possibilities to gain market shares

Lime's business focus on the SME markets, which means that Lime doesn't compete with the global players for the same customers and has greater possibilities to win market shares within this segment. To further distinguish themselves from competitors, they have chosen to focus on four business segments; real estate, utility, wholesales and consulting. In addition, Lime's customer satisfaction is very high (97.0-98.0%), which is one of lime's strategies. They try to improve relationships with their existing customers in order to drive up the average revenue per user (ARPU), which will drive margins going forward.

### Substantial share of recurring revenues sets Lime up for future growth

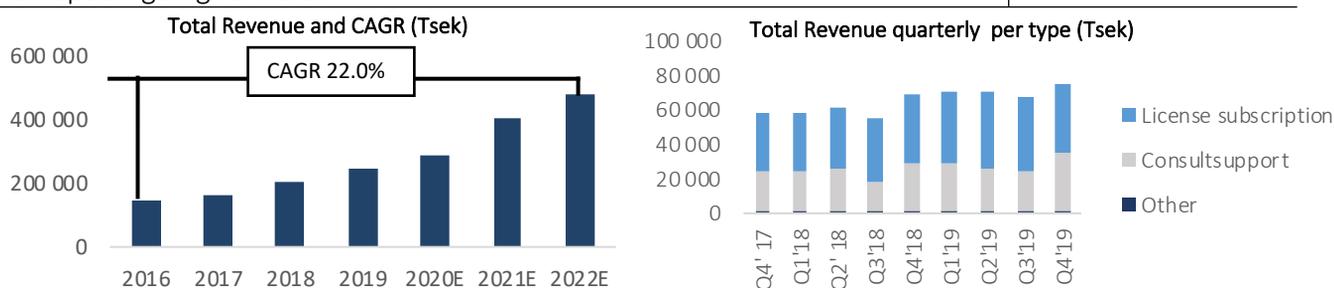
The company is growing for every year and has a strong position in the market, which is mostly due to their niche and customized products. The main drivers behind the growth has been the increased sales of subscriptions and the company's consulting services. Today the recurring revenue accounts for 60% of total revenue and increased with 20.7% in 2019. In addition, almost 86.0% of total revenue has a recurring characteristic, partly from their 12-month subscription and partly from consulting services from existing customers. This will enable the company to keep generating a stable and recurring stream of cash flows, which will be important in order to support future growth investments and especially lime's international expansion. The company mention in their annual report of 2019, that they will focus on increasing the recurring revenue and implement the consulting services, to existing and new customers.

### Delivering high-quality products throughout the whole value chain

Lime covers all the parts of the value chain which consists of developing and support of software. Lime's competence with the entire value chain together with the 100% direct sales gives the company a competitive advantage based on a stronger customer relationship (97.0-98.0% customer satisfaction). Direct sales make it possible to have a more personal relationship with their customers, which tends to make the customers more loyal to a company. This gives Lime an advantage to their main competitors such as Microsoft and Salesforce's, that uses both indirect and direct channels.

### Strengthening their position in the market by acquisitions

Lime did two acquisitions during 2019, More intenz AB and Janjoo AB. The intention behind the acquisitions was to sharpen and increase the use of their products, by developing their CRM solutions based on their customer's specific needs. Which is expected to generate new customers and strengthen their position in the market. Thanks to Lime's net debt-to-EBITDA ratio of 0.95 and their cash conversion of 75.3% it will be possible for Lime to continue to acquire companies that will complement and enhance their products, for both new and existing consumers. The strategy behind the acquisitions is to be able to deliver greater customer value. However, acquisitions are not included in the estimates and can be seen as an option going forward.



### Expanding international and penetrating the CRM market

For the company's future development and expansion, Lime recently has announced that they are expanding to the Netherlands. According to Lime, their verticals (real estate, utility, wholesales and consulting) have a strong presence in the Netherlands. Expanding to the Netherlands will be costly and time-consuming. However, given that Lime has successfully managed to penetrate the CRM market outside of Sweden in the last couple of years, and still managed to achieve remarkable growth in revenue, then it is rather likely they will succeed again. Since Lime expanded outside of Sweden, the revenue from the other Nordic countries has been growing with 32.0% (2017-2018) and 53.0% (2018-2019). This shows Lime's ability to succeed in new markets, and why this expansion will act as a key driver going forward. Which is why we we have estimated that Lime will grow its market share by 3.0% in Sweden and 1.7% in the rest of the Nordics.

### Risks

The main risk for Lime is the competition from the larger players in the market. Big players such as Microsoft and Salesforce holds a majority in market shares. If these companies where to change their strategy and focus on the SME market, then Lime's niche would be threatened. That's why it is important for Lime to continue to develop their solutions and focus on new customers but also on their current customers. Another possible risk would be if the customers outgrow limes products, for example due to expanding their businesses. Then Lime might not be able to provide their service and products to the company's customers.

## Valuation

The valuation is based on a target EV/EBITDA multiple of 28.6x by 2020E and is derived from an average from our peer group. We decided to use both direct competitors and companies from the ERP market since they exhibit similar business characteristics as the CRM providers. As Lime has a strong growth, we have chosen to compare them to other strong CRM/ERP providers such as Salesforce and Fortnox. In addition to a peer valuation, we also did a relative valuation with a Bull and Bear scenario. All our estimations are based on organic revenue.

Company name	MCAP SEKm	EV/EBITDA			Growth Revenue/Share		
		2019	2020E	2021E	2017	2018	2019
Upsales	417.4	48.4	22.3	16.7	-	51%	11%
Salesforce	1497772.0	77.4	33.7	27.5	20%	21%	19%
Fortnox	12256.0	47.7	43.1	34.0	45%	33%	42%
Vitec Software	7166.11	16.4	15.3	14.3	22%	18%	4%
<b>Average</b>	<b>503481.8</b>	<b>47.5</b>	<b>28.6</b>	<b>23.1</b>	<b>29%</b>	<b>31%</b>	<b>19%</b>
<b>Median</b>	<b>9711.0</b>	<b>48.1</b>	<b>28.0</b>	<b>22.1</b>	<b>22%</b>	<b>27%</b>	<b>15%</b>
<b>Lime</b>	<b>2393.7</b>	<b>32.6</b>	<b>27.9</b>	<b>23.6</b>	<b>27%</b>	<b>20%</b>	<b>12%</b>

### Base case: improved margins and increasing markets shares

Communicated by management, Lime's cost for employees in relation to sales are decreasing, which is expected to improve the margins. Therefore, we are expecting a decrease in relative cost for employers from 58.7% to 56.0% between 2019 and 2022. An increase in market shares from 18.0% to 19.2% in Sweden, and from 2.8% to 3.7% in the Nordic countries. The expected increase in market shares is estimated based on Lime's penetration in the CRM market both in Sweden and the other Nordic countries in the recent years. The increase in market shares have lead to a remarkable growth in revenue. This indicates an upside of 41.6% using a multiple EV/EBITDA 28.6x 2020.

### Bull case: Lime's has opportunity to gain new market shares

Due to the growth of the market and Lime's niche in SME, in a bull case, Lime's market shares in Sweden is expected to increase from 18.0% to 21.0% between 2019 and 2022. We have estimated 2.8% to 4.5% growth in the Nordic market shares in the same interval. According to the estimates, "cost for employees" will decrease from 58.7% of the revenue in 2019 to 50.0% in 2022, we base this on the same argument as in the base case, but simply with greater effect. The estimates for other expenses is a decrease from 18.9% to 16.0% between 2019 and 2022, this due to economies of scale. This indicates an upside of 77.0% using a multiple EV/EBITDA 22.2x 2020.

### Bear case: Decreasing market share indicates a more intense competition.

Due to Salesforce and its CRM solutions for SME, and increasing competition in general, we have estimated the Swedish market shares to decrease from 18.0% to 17.4% and the Nordic market shares to decrease from 2.8% to 2.2% between 2019 and 2022. In a bear case, Lime's expected relative cost for employees will increase from 58.7% to 64.0% between 2019 and 2022. The estimations for other expenses are increasing from 18.9% to 23.0% in the same interval. This due to the risk for ineffective expansions, example if the business in Netherlands costs a lot. A motivated multiple of EV/EBITDA 38.3x indicates a downside of -0.8%.

We assume that if acquisitions were included in the valuation, Lime would get a higher target price indicating a larger upside since all the estimations is based on organic revenue. Therefore, an upside of 41.6% and an industry with strong growth makes Lime an attractive investment.

PnL Base case

Tsek Fiscal year	Historicals							Estimates	
	2017	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	2020E	2021E
Net sales	203 900	244 307	69 899	70 030	67 982	81 786	289 696	342 977	401 973
Other operating income	600	492	74	67	123	313	576	576	576
<b>Revenue</b>	<b>204 500</b>	<b>244 799</b>	<b>69 973</b>	<b>70 097</b>	<b>68 105</b>	<b>82 099</b>	<b>290 272</b>	<b>343 553</b>	<b>402 549</b>
OPEX									
Personell costs	-123 700	-148 984	-42 994	-44 141	-36 277	-46 523	-169 935	-198 927	-229 124
Activated work for own account	13 300	17 334	4 633	4 575	4 681	4 562	18 451	18 451	18 451
Other external costs	-46 700	-62 457	-13 711	-12 906	-12 699	-15 566	-54 882	-65 166	-76 375
<b>EBITDA</b>	<b>47 400</b>	<b>50 692</b>	<b>17 901</b>	<b>17 625</b>	<b>23 810</b>	<b>24 572</b>	<b>83 906</b>	<b>97 911</b>	<b>115 501</b>
Other operating expenses									
Deprecation	-14 400	-18 865	-7 657	-8 074	-8 182	-31 606	-34 298	-34 298	-40 197
<b>EBIT</b>	<b>33 000</b>	<b>31 827</b>	<b>10 244</b>	<b>9 551</b>	<b>15 628</b>	<b>-7 034</b>	<b>49 608</b>	<b>63 613</b>	<b>75 304</b>
Interest income	-	-	-	-	-	-	10.0	7.4	7.9
Financial Expenses	-1 400	-1 758	-887	-637	-307	-357	-2 188	-2 744	-3 216
<b>EBT</b>	<b>31 600</b>	<b>30 069</b>	<b>9 357</b>	<b>8 914</b>	<b>15 321</b>	<b>-7 391</b>	<b>47 420</b>	<b>60 869</b>	<b>72 088</b>
Tax expenses	-7 900	-5 763	-1 875	-1 908	-3 227	-3 815	-10 825	-13 391	-15 859
<b>Net income</b>	<b>23 700</b>	<b>24 306</b>	<b>7 482</b>	<b>7 006</b>	<b>12 094</b>	<b>-11 206</b>	<b>36 595</b>	<b>47 478</b>	<b>56 229</b>
EPS	0.5	1.8	0.6	0.6	0.9	0.9	2.9	3.6	4.2
Growth rates % margins									
Revenue growth	27.1%	19.8%	16.3%	13.9%	22.7%	18.7%	18.6%	18.4%	17.2%
EBITDA margin	23.2%	20.7%	25.6%	25.1%	24.8%	29.8%	28.8%	28.5%	28.7%
EBIT margin	19.4	8.9%	11.4%	6.3%	-6.8%	-26.6%	2.8%	-2.4%	8.8%
Profit margin	11.6	9.9%	10.7%	10.6%	17.8%	14.7%	13.4%	13.8%	14.0%
Net income growth	3.0%	2.0%	44.0%	-1.0%	39.0%	0.0%	38.0%	18.0%	16.0%