



Analysis by assignment 2014-II-21, update

# ANALYSGUIDEN

QBNK



QBank

# QBNK holds potential

QBNK is Sweden's leading service provider for managing images, videos and presentations. QBNK has performed in accordance with expectations and holds potential over its current valuation.

QBNK offers companies and organisations an IT tool, or media bank, for managing and storing images, videos and presentations. Images are stored in the cloud, and the media bank can be integrated with publication and editing software. With QBNK's media bank, customers can improve the efficiency of their operations.

Since its stock market listing in early June QBNK has announced several new customers, both in Sweden and abroad. The company has presented two strong quarterly reports and has recently begun the roll-out of upgrades for existing customers. In its third-quarter report QBNK announced that subscription customers account for nearly 80 % of total sales, which makes the company less cyclical. QBNK has already announced a handful of customers who have chosen to upgrade their Qbnk solution. The upgrades will be

done already in the fourth quarter. The market QBNK works in is fragmented, with many international and national competitors. QBNK's main motive for the listing is to be active in the market's consolidation, and according to the company they are engaged in a number of acquisition talks.

Despite QBNK's strong earnings reports, its stock has not won praise in the market. The principal owners have recently increased their holding through the new subscription of shares, raising SEK 6.25 million for the company, which will be a strength for QBNK as it looks at company acquisitions. We have adjusted the growth forecast downward slightly, but have been positively surprised by its profitability, and have raised our forecasts for it. On the whole, we have lowered our target price from SEK 4.10 to SEK 3.80, which still means that there is upside potential over its current valuation. ■

## KEY FIGURES

SEK thousand	F 2014	F 2015	F 2016
Annual sales	15 845	23 767	35 651
Operating profit	3 249	4 728	7 767
Profit for the year	2 300	3 337	5 567
Earnings per share, SEK	0,08	0,12	0,20
Cash flow from operating activities	8 855	13 197	16 511

Target price **3,80 SEK**

Analytiker: Åse Lindskog

## FACTS IN BRIEF

CEO: Carl Petruson  
 Chairman of the Board: Sverker Littorin  
 Largest owner: Tre Liljor Sverige AB (53,1%)  
 Market cap, SEK m: 43,8  
 List: Aktietorget  
 Current share price: 1,75  
 P/E ratio 2014: 22

## MARKET TEMPERATURE

### Management



The CEO is the entrepreneur who founded and built up the company. The CFO is new in his role. No member of management has experience in leading a listed company.

### Owners



The main owners are the CEO and persons who have been with the company a long time. The CEO has run the company since 2003 and has been involved in several acquisitions. Relevant competence is in the board.

### Financial position



The company has a strong financial position and good cash flow. The listing took place without a new issue.

### Potential



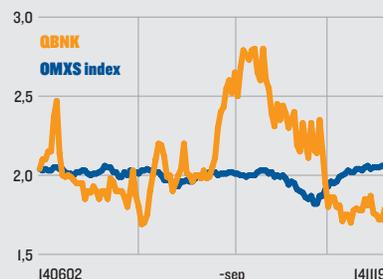
The product is established on the market, and there are several large, highly respected customers in the portfolio. The company has a tried-and-tested business model and works in a growth market.

### Risk



QBNK has intentions to make acquisitions, which may raise its risk.

## STOCK PRICE



## General company criteria

### Management (1-10)

Management is graded on a scale of one to ten, where 1 is low and 10 is high. Factors behind the grade include management's experience, industry experience, leadership competence, confidence from the stock market and previous performance.

### Owners (1-10)

The owners are graded on a scale of one to ten, where 1 is low and 10 is high. Factors behind the grade include the owners' previous involvement in the company in question, their financial strength, their representation on the board, and previous results of investments in similar companies or industries. Long-term focus and responsibility vis-à-vis small shareholders are also important criteria.

### Financial position (1-10)

The financial position is graded on a scale of one to ten, where 1 is low and 10 is high. This rating criterion takes into account the company's profitability, its financial situation, future investment obligations and other financial obligations, any surplus or deficit values on the balance sheet, and other factors that affect the company's financial position.

### Potential (1-10)

The company's potential is graded on a scale of one to ten, where 1 is low and 10 is high. A critical factor for this grade is the level of the company's potential in the form of higher profits in relation to the valuation of the company's share price today. Other critical factors include the market in which the company works and the company's future outlook in this market and its profitability. A company can receive a high score even if its growth outlook is low, provided that its stock valuation is currently even lower than the outlook. In the same way, a highly valued stock can be considered to have high potential, provided that the company's growth prospects are not fully reflected in the share price.

### Risk (1-10)

Risk is graded on a scale of one to ten, where 1 is low and 10 is high. Risk is an aggregate assessment of all the risks a company can be subject to and that could affect the share price. The score is based on an aggregate assessment of the company's general risk profile, the stock's valuation, the company's competitive situation, and an assessment of future events in the external operating environment that could affect the company.



## Strong product offering

QBNK was listed on Aktietorget on 2 June this year. The company's history dates back to the start of the 2000s at the telecom giant Ericsson, where QBNK's CEO, Carl Petruson, worked as a consultant in the marketing department. Petruson started out by designing a tool for Ericsson to effectively manage its growing bank of images and videos. He continued developing the product in his company Tre Liljor Sverige, and in 2006 the company had a commercial product ready, which it called QBank.

**The company's business concept** is to offer government agencies and companies cloud-based products and services in digital asset management, i.e., management of digital images and videos. QBNK's tool files the images in a safe place and ensures that they can be quickly found when they are to be used. The media bank can also be integrated with various publication tools, which is a compelling sales argument.

Prior to the stock market listing this summer, QBNK announced that it had signed agreements with five new Swedish retailers. At a "small business day" in June, CEO Carl Petruson said that the goal was to partner with at least five new retailers by the end of the year. Following this, the company announced two new retailers: the Finnish company Connecting Talents and the Malmö-based company Pixelant. Together these companies have 400 customers which could potentially also be customers of QBNK. The agreement with the Finnish company Connecting Talents was the first with a non-Swedish-based retailer, and QBNK does not see it as unlikely that the company will forge ties with retailers also in other countries.

**The retailers are responsible** for customer knowledge and integration in customers' IT systems. They are also to have resources in place to be able to handle customer support. QBNK's revenues come from subscriptions or licensing fees charged to clients. QBNK's business model is therefore scalable, which means that sales can grow significantly faster than personnel costs. What the company needs most to invest in is increased support for retailers.

The Q in QBNK stands for quality, question and quick, and the Latin quid (what). Bank – or BNK – signifies a safe place to store data assets.

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New retailers signed up.

The founders have also been inspired by the city of Burbank northeast of Hollywood, where media companies like Walt Disney, Warner Bros. and Nickelodeon have their head offices.

## Strongly growing market

Images are today business-critical for many companies, government agencies and organisations. With the emergence of new social media, the internet, and not least e-commerce and people's changing buying behaviours, pictures and images have become increasingly central to companies' market communication. Today consumers search for information online prior to making a purchase and want to see the product from many angles before going to a physical store to buy it or placing an order online. According to QBNK, 70% of all purchasing decisions today are made online.

It is not uncommon for a company to have several hundred pictures of the same product stored, and it is crucial that the right product image is referred to in e.g. social media, tenders, etc. QBNK's tool indexes images so that it is easy to find them. QBNK has calculated that customers can save up to an hour a day and user by using their solution.

**One of QBNK's strengths is** that their media bank can be integrated with various applications. Using QBNK's tool, users can gain access to Power-Point, for example, as well as a range of editing software and web publication tools. This integration is central for user-friendliness and for enabling customers to obtain the major efficiency-improvement gains. At the same time, this integration makes it unlikely that customers would try to take it upon themselves to develop solutions for managing images and videos. Special competence is required in areas like image handling, digital media, online publication, etc., in order to create useful tools. In view of how closely QBNK is integrated with other applications, it would also seem difficult for existing customers to switch systems.

According to the American research firm Osterman Research, the global market for file synchronisation and sharing is expected to double to USD 80 billion by 2017. Companies are expected to account for 80%–90% of this market.

## New customers announced

Since its stock market introduction QBNK has announced several new customers, both in Sweden and abroad. Among new customers are Ovako, Norma Group and Svenska PostkodLotteriet. QBNK measures its sales success in terms of how many large cap companies on the Stockholm Stock Exchange it manages to get in its orderbook. At the time of the listing, the company had 15% of the large cap companies as customers, or nine companies. Among these are Ericsson, Axfood, Electrolux and Swedish Match. QBNK's goal is to reach 75%, or 48 companies on Nasdaq Stockholm's large cap list.

**Apart from this,** the total number of customers is perhaps a more relevant measure since QBNK has chosen to focus on large listed or unlisted companies, government agencies and organisations. QBNK today has some 100 customers. The company does not rule out the possibility in the future that it may develop a model for small companies.

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Significant efficiency gains.

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Some 100 customers.



QBNK currently has more than 300,000 users around the world. The company's largest customers account for sales of approximately SEK 1.5 million per year, while the smallest do not account for more than SEK 20,000 in annual revenue. However, the smaller customers tend to be less support-intensive than the larger ones.

It is hard for existing customers to switch systems.

## Competitors

The market that QBNK works in is highly fragmented, with a large number of competitors around the world. Most players appear to have a strategy to grow with their customers, and a few of the American competitors today do business in the major European countries. At the same time, European players are trying to get a foothold in the US market. Several competitors have the same background as QBNK – software-savvy people in the photo/image world who have developed solutions for managing digital archives and search engines. Some of them are considerably larger than QBNK, such as the US company NorthPlains, which has a million users.

QBNK has an express strategy to grow through acquisitions, and the CEO has personal experience from several previous acquisitions and mergers. Since its listing in June, the company has initiated talks with several acquisition candidates.

## Capital requirement

QBNK has good cash flow and a strong balance sheet; nor did it raise any capital in connection with its listing. The motive for the listing on Aktietorget was to enable acquisitions and be more visible. However, in its listing memorandum last spring the company noted that it does not rule out the possibility that it may need to raise capital on the stock market some time in the future. Such a need could arise, for example, if it were to buy a company that requires cash payment or if it grows faster than planned.

**On 9 September QBNK announced** that it signed a financing agreement with GEM Global Yield Fund, under which GEM may invest up to SEK 30 million in QBNK during the next 36 months. The agreement grants QBNK a right to require GEM to subscribe for shares in QBNK through directed

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Growth through acquisitions.

new share issues. GEM has been granted a call option to buy shares in QBNK from the majority shareholder Tre Liljor Sverige AB. If exercised in full, GEM would acquire 3 million shares. According to QBNK's CEO, Carl Petruson, the capital will be used to expand the existing business through acquisitions and investments to increase organic growth.

## SWOT analysis

### Strengths

- Stable base of subscription customers
- Established product
- Strong growth, good profitability, good cash flow

### Weaknesses

- Short history
- Small geographic spread

### Opportunities

- QBNK makes acquisitions and succeeds in integrating the acquired companies
- Listing on Aktietorget makes the name more well-known and the retailer base grows more than forecast

### Threats

- QBNK makes acquisitions but fails to integrate successfully
- Competitors or new players come up with more compelling solutions
- Competitors consolidate before QBNK

## Management

### CEO

The company's CEO, **Carl Petruson**, studied at Chalmers and founded QBNK. Since the product's commercialisation, growth has been 30%-50% yearly, with good profitability. Petruson has also been involved in previous acquisitions and mergers. Carl Petruson serves as a director on the boards of several companies in which he is a part-owner together with his other partners in Tre Liljor AB, which is QBNK's principal owner. Carl Petruson owns stock in QBNK via Tre Liljor Sverige AB.

### CFO

**Antony Schere** started at QBNK this year and was recruited ahead of the company's listing on Aktietorget. He has previously served as financial controller at NASDAQ OMX Stockholm and IK Investment Partners. Antony Schere owns stock in QBNK Holding.

#### Shareholders as per 1 June 2014

	Holding, %
<b>Tre Liljor Sverige AB</b>	51
<b>New Equity Venture International AB (publ)</b>	10
<b>Other shareholders</b>	39
<b>Total</b>	100

## Board of Directors

The Chairman of the Board, **Sverker Littorin**, has a long record of experience in operations as well as board work for listed companies. Among other things, he has served as a director for PartnerTech and Sectra, which are listed on NASDAQ OMX. He is currently CEO of Pharmera, a company that exports pharmaceuticals and medical equipment to aid organisations, governments and humanitarian projects. He is Chairman of Capensor Capital, which trades in securities, among other things, the cleaning company Effekt Svenska, and Add Cleantech, which specialises in voltage optimisation and regulation. He is also Chairman of Business in Africa, which works with agencies and contracting operations in Africa, and of his own investment company, Momentor.

**Johan Glimskog** brings his knowledge to the board about business development in digital media. Among other accomplishments, he has developed companies in the Cybercom Group and is a partner in the digital media agency Timecut and in Jobexecute, which is a digital production agency focusing on open source technologies.

**Mats Persson** is Chairman of Venue Retail Group, which is listed on NASDAQ OMX. He is also Chairman of Candor, a supplier of special chemicals, Newfour Communications, which supplies telecommunications solutions to companies and private persons, and the biotech company Prolight Diagnostics.

## Valuation

Tre Liljor Sverige AB is the founders' ownership company, i.e., CEO Carl Petruson and two colleagues who have been involved since the start. Tre Liljor Sverige may not sell more than 10% of its holding during the first 12 months after the first day of trading. Tre Liljor Sverige has requested early redemption of the option agreement issued by QBNK Holding, which gave Tre Liljor Sverige the right to buy 2.5 million issued shares for SEK 2.50 per share.

**New Equity Venture International** (Nevi) is listed on First North and announced its investment in QBNK Holding in January this year. During the spring Nevi distributed 15% of its original ownership in QBNK to its more than 600 shareholders and issued a disclosure notice in October that its holding now amounts to approximately 2.2%.

## Forecast assumptions 2014–2016

QBNK's customers today are primarily in Sweden, and its international expansion will mainly take place alongside its customers. However, the company may need to partner with more non-Swedish-based retailers, which could result in a revision of the company's international growth strategy.

During the first nine months of the year, QBNK increased its sales by 44% and delivered an operating margin of 34% (28%). During the third quarter, which includes the vacation period, sales rose 31% and the operating margin was 37% (28%).

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Early redemption of option.

Our estimates are based on the assumption that growth will only come from new customers. QBNK has a seasonal variation entailing that the year's second and fourth quarters are normally the strongest. We therefore continue to expect a strong finish to the year, but have adjusted full-year growth downward from 60% to 50%.

We remain convinced that QBNK has a proven, attractive product and an effective business model. We expect to see sales growth of 50% also in 2015, but have lowered our expectation for 2016 to 40%.

**The company has previously communicated** that it can triple sales without having to recruit additional personnel or make any investments. While we have previously chosen to be more cautious in our assumptions, we now dare to adjust the forecast EBITDA margin upwards to 39% this year, compared with 35%, and expect the margin to be around 35% in the years ahead.

EBIT in our assumptions amounts to SEK 3.3 million this year, which is negatively affected by goodwill amortisation in connection with the stock market listing. We expect goodwill amortisation to be SEK 2.4 million in 2014. However, it will be higher in the years ahead since total goodwill is valued at slightly more than SEK 29 million and is to be amortised over ten years. Goodwill amortisation will thus be SEK 2.84 million per year as from 2015.

**EBITDA is assumed to be** SEK 8.6 million in 2015 and nearly SEK 12.0 million in 2016. EBIT is affected by the higher goodwill amortisation – starting in 2015 we thus assume full goodwill amortisation – and capitalised development costs of just under SEK 1 million. The EBIT margin will therefore fall slightly in 2015 and thereafter increase in 2016 to 23%.

Earnings per share will fall slightly in 2014 as a result of higher amortisation and tax costs. Both sales and EBITDA will increase in 2015, with a positive effect on growth in earnings per share.

## Cash flow valuation and comparative valuation

QBNK can invoice in advance for the subscription fees it charges to customers, which has a positive effect on cash flow. A valuation based on future cash flows gives a motivated value of SEK 3.80 per share. In our forecast, the discount rate is assumed to be 14.6% (previously 16% due to a slightly higher required rate of market return). The beta is unchanged at 1.8, which we think is justified in view of QBNK's short history, risk profile and the liquidity of its stock.

Longer term we expect that the company's good profitability and high growth will lead to greater competition and pressure on margins. Growth for 2017 is assumed to remain in the double digits, thereafter slowing gradually to long-term growth of 3% per year. The EBIT margin will likely remain over 20% also after 2017.

**QBNK has a strong financial position** and, moreover, has confirmed that it is currently engaged in acquisition talks with several companies. A further positive factor is that the company should be able to begin paying a dividend starting in 2016 due to its strong cash flow. However, it is not impossible that QBNK will continue to grow through acquisitions and use its cash to buy additional companies.

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EBITDA margin adjusted upwards.

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Strong financial position.

**DCF VALUATION**

<b>Discount rate</b>	14,6%
<b>Risk-free interest rate (SE10)</b>	2%
<b>Market return</b>	7%
<b>Beta</b>	1,8
<b>Long-term growth</b>	3%
<b>Tax</b>	22%

SEK thousand	F 2014	F 2015	F 2016	F 2017	F 2018
<b>Sales</b>	15 844,8	23 767,2	33 274,1	36 601,5	38 431,6
<b>Operating profit (EBIT)</b>	3 249,1	4 727,6	7 767,3	8 544,0	9 316,0
<b>Margin</b>	21%	20%	23%	23%	24%
<b>Tax</b>	-648,8	-941,1	-1 570,2	-1 727,2	-1 889,4
<b>Operating profit after tax</b>	2 600,3	3 786,6	6 197,1	6 816,8	7 426,6
<b>Adjustments in cash flow</b>					
<b>Tied-up working capital</b>	3 324,0	5 582,2	6 102,1	4 254,8	5 110,0
<b>Capital expenditures</b>	0	0	0	0	0
<b>Depreciation/amortisation</b>	2 930,4	3 828,6	4 211,4	4 632,6	5 095,8
<b>Free cash flow</b>	8 854,7	13 197,3	16 510,6	15 704,1	17 632,4
<b>Final value</b>					111 316,0
<b>Present value free cash flow</b>	7 726,6	10 048,8	10 970,0	9 104,9	65 236,8
<b>Enterprise value</b>	103 087,2				
<b>Net debt</b>	1 560,0				
<b>Value of equity</b>	104 647,2				
<b>Number of shares (millions)</b>	27 500,0				
<b>Motivated share price (SEK)</b>	<b>3,81</b>				

SEK thousand	F 2014	F 2015	F 2016	F 2017	F 2018
<b>Present value free cash flow</b>	7727	10 049	10 970	9 105	65 237
<b>Enterprise value</b>	103 087	-	-	-	-
<b>Net debt</b>	1 560	-	-	-	-
<b>Value of equity</b>	104 647	-	-	-	-
<b>Number of shares (millions)</b>	27 500	-	-	-	-
<b>Motivated share price (SEK)</b>	<b>3,8</b>	-	-	-	-

## Relative valuation

The French company Wedia has been listed on NYSE Alternex Paris since 2010 and is a competitor to QBNK. Wedia has a market cap of EUR 11.1 million, or slightly more than SEK 100 million. In 2013 Wedia had sales of slightly more than EUR 6.6 million, or SEK 60 million, but reported a negative result after tax. The company's EBITD was 23 % last year. In view of QBNK's strong growth and good profitability, QBNK stands out as a much more interesting alternative than Wedia.

## Enterprise value and share price

Our cash flow valuation gives a motivated enterprise value of slightly more than SEK 103 million and a share price of SEK 3.80.

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Enterprise value of  
103 MSEK.

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