

Opter AB (Opter)

Sweden | Software | MCAP SEK 308m

27 January 2023

Buy

Target price: SEK 72.7
Current price: SEK 51.4
Upside: 41.5%

Logistics software driving up margins

Opter AB ("the Company" or "Opter") is a First North listed SaaS Company with a self-developed route optimization and transportation planning software. The customers are logistics and transportation companies. Opter's platform is business-critical as all regular business activities are managed through the software. With >50% market share in Sweden and Norway the Company is the market leader in the Nordics. Opter has grown revenues with a CAGR of 22.0% in the last 10 years and is estimated to grow with a CAGR of 16.4% until 2025E. A DCF and peer valuation imply a target price of SEK 72.7 and a 41.5% upside.

Key takeaways

- **Clear market leader with high barriers of entry:** Transportation management software is a highly critical part of the day-to-day business. Already established transportation companies will only make changes if their current software does not meet current regulations or demands. Opter is the market leader in Sweden and Norway with established companies like Postnord and Best as customers. With high dependence on the platform and its importance for business, with few competitors, Opter has a strong market position where smaller competitors will have difficulties competing. Opter currently has a market share of 35.4% 2022 and are estimated to reach 50.4% 2025E in the Nordics.
- **A scalable business model enables margin expansion:** Opter's business is highly scalable as the software is standardized and has low fixed costs. Opter's margins will expand as they acquire new customers and grow revenue. The Company will acquire new customers by network effects and establishing a larger presence in Denmark and Finland. This is estimated to lead to a revenue CAGR of 16.4% 2021-2025E. Since revenues grows faster than personnel cost the employee labor percentage will decrease from 59.1% 2021 to 44.7% 2025E. With fixed costs being low this will result in a 2025E EBIT margin of 30.6% compared to 2021 15.6%.
- **Increased Annual Recurring Revenue per customer:** Customers pay for each active truck using Opter's software monthly. This allows them to grow passively with its customer's fleets. All contracts are adjusted for inflation, leading to an increased annual recurring revenue per customer ("ARR") and hedge against inflation. Higher prices for new customers and moving towards cloud hosting will allow Opter to grow its revenues. We estimate the ARR per customer will grow from SEK 126.7k 2022 Q3 to SEK 155.9k 2025E.

Analysts

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Sebastian Fjellström Equity Analyst

Market Data, SEK

Exchange	First North Growth Market
Shares (m)	6.0
MCAP (m)	308.4
EV (m)	288.3

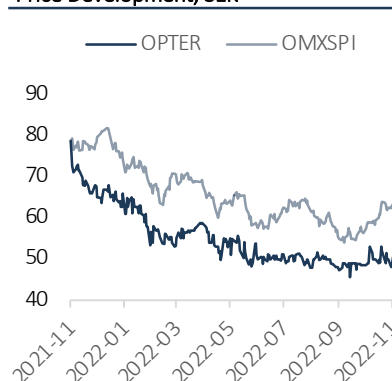
Metrics	21A	22E	23E
EV/EBIT	32.8x	24.2x	16.9x
EV/S	5.1x	4.3x	3.7x
P/E	44.8x	32.8x	22.8x
ND/EBITDA	Neg.	Neg.	Neg.

Forecast, SEKm	21A	22E	23E
Total revenue	56.4	66.7	78.3
Rev. growth y/y	18.7%	18.1%	17.4%
EBITDA	8.9	12.0	17.2
EBITDA Margin	15.8%	18.1%	21.9%
Net Profit	6.9	9.4	13.5
Net Margin	12.2%	14.1%	17.3%
EPS	1.15	1.57	2.26

Major Shareholders

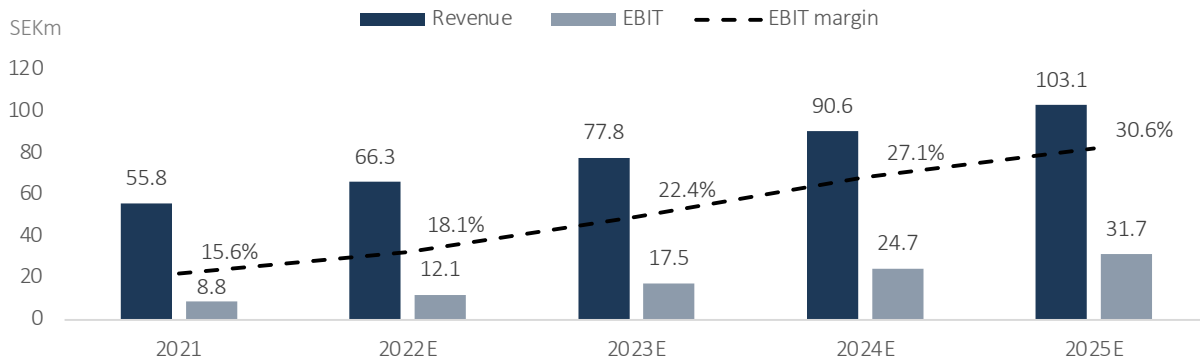
Joktor AB	16.4%
Bas Invest	15.2%
Ole Kjørrefjord	12.4%
Johan Frisk	6.4%
Viktor Edlund	6.4%

Price Development, SEK



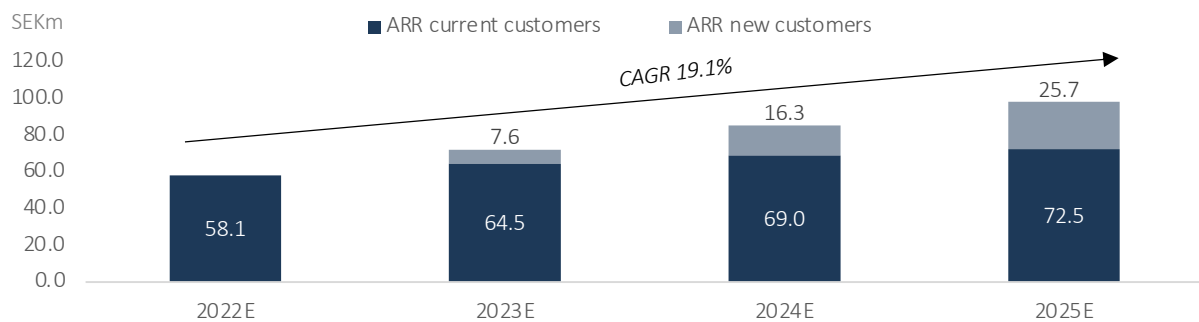
Investment thesis in charts

Steady increase in revenues and profitability 2021A-2025E



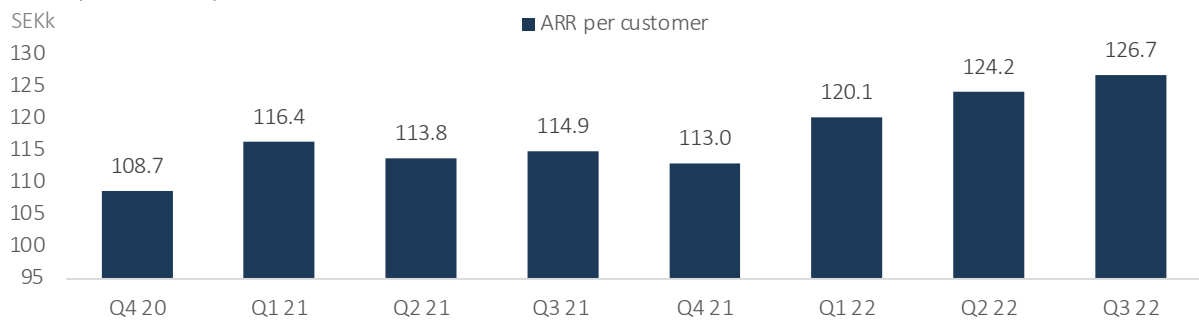
Source: Analyst estimates, the Company

ARR split between new and current customers in growth-mix



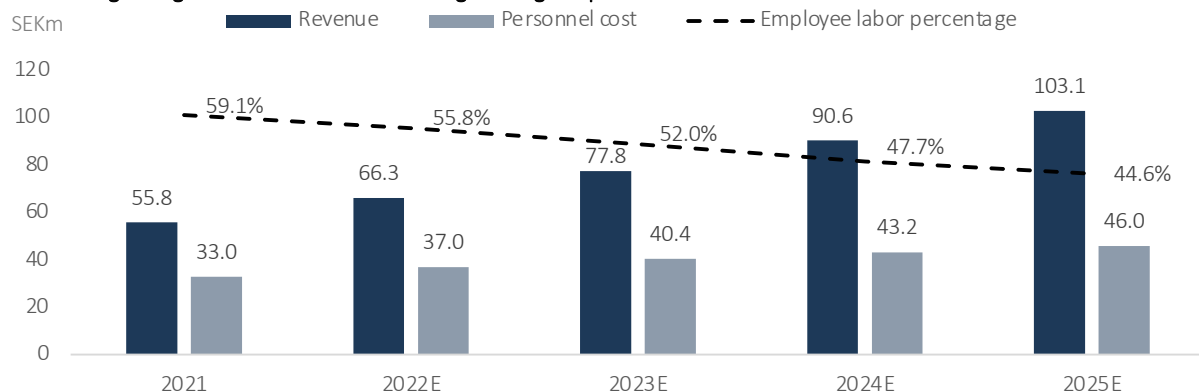
Source: Analyst estimates

Development of ARR per customer



Source: the Company

Revenues growing faster than fixed costs leading to margin expansion



Source: Analyst estimates, the Company

Investment thesis

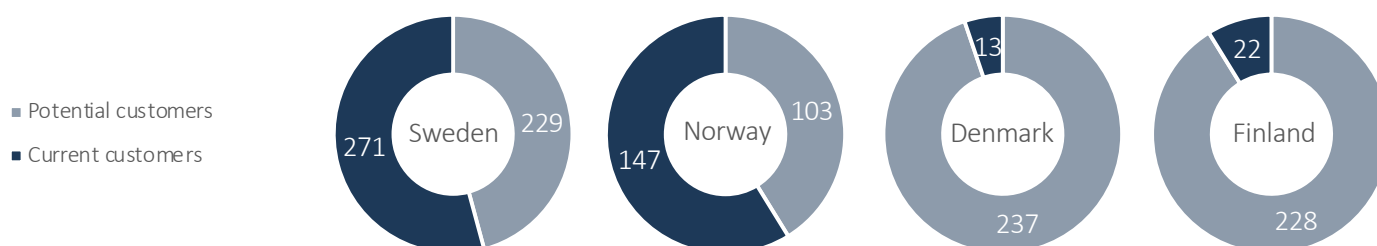
Revenue boost driven by a growing ARR

Recurring revenue and customers facilitate long time stability as customers pay from a subscription model. The subscriptions are paid monthly and are based on how many trucks the customer operates, and the cost per truck is indexed. This means the ARR per customer has grown steadily and is estimated to continue going forward, estimating 8.4% per year 2021-2025E. Since inception, the churn has been around 5.0%, of which 80.0% are from customers being acquired or bankrupt, and only 20.0% left for another software. Opter's newly launched cloud-based integration of the software means that the customers don't need to facilitate its own servers and will make Over the air (OTA) updates to the software simpler. This will help Opter keep existing customers from switching to a competitor, make it easier to acquire new customers, and increasing ARR per customer. The customer base is very stable and with an increased ARR per customer to SEK 155.9k 2025E from SEK 126.7k Q3 2022, the Company has a great starting point for revenue growth.

Improved margins as revenue grows

Opter takes a consultant fee for getting customers started with the software, this leads to them having an income under the implementation process. Because of low fixed costs for already onboarded customers, there is a moderate correlation between income and total costs. This combination will both help cash flow and increase margins over time. Updates and new functions can be used by all customers, meaning other than implementation (which is fully billed) the programming is scalable. This gives Opter the opportunity to create a better platform for all users and with better profitability.

Customers and potential customers



Source: the Company

Growth potential in new markets with a proven expansion history

The total addressable market is worth SEK 200-300m in the Nordics. Opter has primarily focused on the Swedish and Norwegian markets where they currently have a market share of 54.2% and 58.8% respectively. Since 2018 Opter has expanded its presence to Denmark with a local subsidiary and in 2020 Opter expanded into Finland. With a market share of around 5.0% in Denmark and around 5.0-10.0% in Finland, there is a lot of room to expand and grow. The Danish and Finnish markets have a similar TAM to Norway which means that Opter can add somewhere between 150-250 new customers in both Denmark and Finland each according to the Company. Together with the opportunity to grow with about 200 more customers in Sweden and 100 in Norway, Opter has the opportunity to continue to acquire more customers.

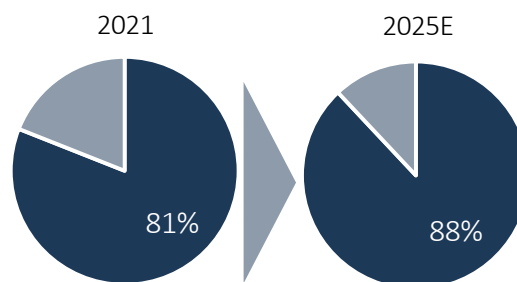
Company overview

Opter offers route optimization and transportation software, meaning the software is used for booking transportation, keeping transportation documents, and calculating the optimal route for a truck. The truck driver can use a scaled-down application on phone or tablet with the main office having the complete software. Customers have a use for transportation management software as it automates large parts of the workflow that otherwise would be done manually. Opter has the leading transportation management system (TMS) which is under continuous improvements and updates. With 443 customers Q3 2022, Opter is the market leader in Sweden and Norway. The Company expanded into Denmark and Finland in 2018 and 2020 respectively and is growing its market presence in these new regions. By having a local presence and knowledge of the market Opter aims to maintain long-lasting customer relations. The average Opter customer has around 20 trucks and does 200-400 orders per day. Postnord, Best, and Ryska posten are 3 of the larger customers. To keep and acquire new customers Opter has launched a cloud solution, meaning the software is hosted on Opters servers instead of the customers. By the end of 2022 about 33.0% of Opter's customers have adopted the cloud solution.

Business model

Opter bills its customers for each active truck monthly with a SaaS business model. This creates flexible usage and fair pricing for its customers, and Opter gets a consistent and predictable cash flow. On average the customer pays SEK 127k per year. This accounted for 81.0% of total revenue in 2021. Opter's contracts are adjusted for inflation and hence fore prices will be raised automatically every year. The rest is revenue from implementation costs for customers to get started with the software. This is a great strength for Opter, where customers pay for implementation and then a fee every month. This is beneficial for profitability and cash flow. With recurring revenue growth with existing customers, the share of the revenue from software will grow to 88.0% in 2025E.

Share of revenue from software 2021A to 2025E

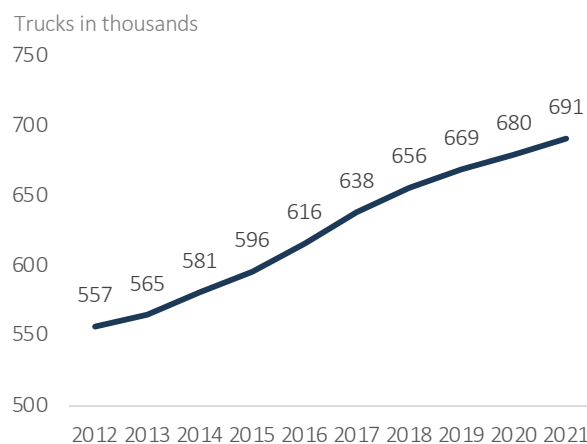


Source: Analyst estimates

Market overview

The digitalization among transportation companies in the Nordics is assessed to be high. In a market with low margins, the need for automated processes is high. Buyers of transportation services have high expectations of transparency and modern computer systems from their suppliers. This has led to more companies adopting the software for transportation planning. The Swedish and Norwegian transportation software markets are consolidated with a few large companies controlling most of the market. With Opter and Hogia being the largest players. Denmark and Finland have around 10-15 larger actors controlling the market. The number of trucks on the road in Sweden has grown by 14,932 trucks per year from 2012 to 2021 which is an increase of 2.1% per year. The Nordic market has in total of about 1,200 companies in need of TMS with Opter's potential customers being 750. The total addressable market in the Nordics is valued at SEK 250-300m.

Trucks on the road in Sweden from 2012 to 2021



Source: Transport Analysis

Valuation

Opter is trading at an unjustified discount

When valuing Opter, an equally weighted average price from a peer valuation and a DCF is used. We believe this is more fair than any of them by themselves since Opter and its peers have high valuations, generally low operational risk, and stable business models, leading to the peer valuation indicating a high value and a more traditional DCF indicating a lower value. This gives us a target price of SEK 72.7 and a 41.5% upside.

DCF analysis showing value above trading price

The DCF is based on estimated free cash flow until 2032E, with a declining growth rate closer to the terminal period. Revenue CAGR 2022E–2032E is 8.7% and thereafter a terminal growth rate of 2.0%. Margins will stay constant at 2025E levels, in line with the Company's long-term goals. Cashflows are discounted with a 9.4% WACC. The DCF gives Opter a target value of SEK 65.2 per share.

DCF valuation breakdown		Peer valuation breakdown EV/EBIT 2024E	
WACC	9.4%	Peer median multiple	25.0x
Terminal growth rate	2.0%	Discount to peers	24.0%
Forecast value (SEKm)	156.4	Target multiple	19.0x
Terminal value (SEKm)	215.0	EV (SEKm)	461.3
Net debt (SEKm)	-20.1	Net debt (SEKm)	-20.1
Market cap (SEKm)	391.5	Market cap (SEKm)	481.4
No. shares (m)	6.0	No. shares (m)	6.0
Value per share (SEK)	65.2	Value per share (SEK)	80.2

Source: Analyst estimates, Bloomberg

High valuations of peers in attractive market

Opter does not have any publicly listed direct competitors, yet they have a business system that is critical for customers' operations like other ERP or CRM software. Therefore, we compared Opter to other SaaS companies with a B2B product. Few companies in that market are still as small as Opter, and some of the companies have a different strategy, like Vitec Software which acquires many software companies. Peers have higher-than-market valuations, and their business models and expected growth are similar. Opter's shorter history and smaller market cap motivates a discount of 24.0% compared to the peer's median of EV/EBIT 25.0x. This gives Opter a target EV/EBIT of 19.0x for 2024E, or a share price of SEK 80.2.

Peers	MCAP SEKm	Financials		Valuation	
		EBIT-margin 2021	2021-2024E CAGR	EV/EBIT 2021	EV/EBIT 2024E
Lime	2,421	19.1%	16.0%	63.3	21.0
Fortnox	29,472	34.5%	32.3%	113.7	32.6
Admicom	4,505	46.2%	16.6%	38.4	13.1
Vitec Software	19,251	19.1%	17.9%	71.5	29.1
Average	13,912	29.7%	20.7%	71.7	23.9
Median	11,878	26.8%	17.2%	67.4	25.0
Opter	308	15.6%	17.5%	31.9	11.5

Source: Analyst estimates, Bloomberg

Appendix: Income statement & Revenue breakdown

SEKk	2021	2022E	2023E	2024E	2025E
Net revenue	55,826	66,260	77,755	90,551	103,058
Other operating income	605	400	500	500	500
Revenue	56,431	66,660	78,255	91,051	103,558
Other external costs	-14,519	-17,625	-20,294	-23,181	-25,868
Personel costs	-33,020	-37,000	-40,793	-43,590	-46,482
Other operating expenses	0	0	0	0	0
EBITDA	8,892	12,035	17,168	24,280	31,208
<i>EBITDA-margin</i>	<i>15.8%</i>	<i>18.1%</i>	<i>21.9%</i>	<i>26.7%</i>	<i>30.1%</i>
Depreciation	-75	-75	-63	0	0
EBITA	8,817	11,960	17,105	24,280	31,208
<i>EBITA-margin</i>	<i>15.6%</i>	<i>17.9%</i>	<i>21.9%</i>	<i>26.7%</i>	<i>30.1%</i>
Amortization	-34	-34	-3	0	0
EBIT	8,783	11,926	17,102	24,280	31,208
<i>EBIT-margin</i>	<i>15.6%</i>	<i>17.9%</i>	<i>21.9%</i>	<i>26.7%</i>	<i>30.1%</i>
Interest income	2	10	100	80	80
Interest expenses	-54	-25	-12	-12	-12
EBT	8,731	11,911	17,190	24,348	31,276
<i>EBT-margin</i>	<i>15.5%</i>	<i>17.9%</i>	<i>22.0%</i>	<i>26.7%</i>	<i>30.2%</i>
Tax expense	-1,845	-2,501	-3,644	-5,210	-6,756
Net income	6,886	9,410	13,546	19,137	24,521
<i>Net margin</i>	<i>12.2%</i>	<i>14.1%</i>	<i>17.3%</i>	<i>21.0%</i>	<i>23.7%</i>

Source: Analyst estimates

	2022E	2023E	2024E	2025E
Total customers (st)	465	520	575	630
ARR per customers (SEKk)	125	139	148	156
Consulting (SEKk)	11,800	12,154	12,519	12,894
Recurring (SEKk)	54,460	65,601	78,032	90,164
Revenue (SEKk)	66,260	77,755	90,551	103,058

Source: Analyst estimates

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Other

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