

Software, Sweden

Key data

Price (SEK)*	22.8
Country	Sweden
Bloomberg	ZUTEC.SS
Reuters	ZUTEC.ST
Free float	64.0%
Market cap (SEKm)	161
Net debt (current Y/E) (SEKm)	-30
No. of shares (m)	7.1
Next event	Q2: 21-Feb

* Price as at close on 22 November 2018

CEO	Brendan O'Riordan
CFO	Conor O'Brien

Company description

Zutec was founded in 1999 and is a software company that provides software for project and data management that targets the building and construction sector.

Ownership structure

Brian McGuire	19.0%
Athanasæ Industrial Partners	17.2%
Humble Fonder	9.5%
Thomas Boland	8.8%

Source: Company data (30 September 2018)

Analyst(s)

Carolina Elvind
Oscar Stjerngren

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Zutec

Small but interesting digital play in construction

Zutec has a scalable business model with long-term potential for high margins in an accelerating market. We believe it is well exposed to a major market shift towards digitalisation in the construction sector.

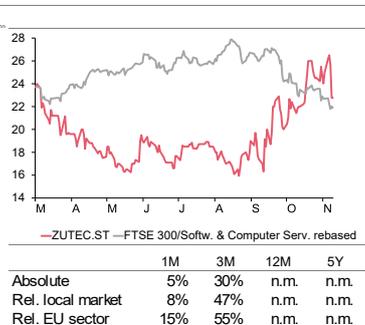
- **Zutec develops and sells software for project management** to companies in the construction sector, with clear value-adding qualities, such as efficiency, cost control and data collection. The construction sector is ranked the second worst in the Digitalisation Index. Given the traditionally manual nature of the sector, when new software is introduced to digitalise processes it can prove very disruptive initially. Larger players starting to consolidate and national guidelines regarding BIM (Building Information Modelling) indicate an acceleration in digitalisation, which is driving the market in the right direction for Zutec.
- **Focus on large projects, but the next large step is in volume sales to SMEs.** Zutec is traditionally focused on large construction projects, but recent investments have been in developing the software towards SMEs (small-to-medium enterprises) in order to enable volume sales. We believe this provides strong potential and that it forms the main aspect of the Zutec investment case. It could increase scalability, the share of recurring revenues, diversify risk exposure and enable Zutec to lift revenues.
- **Still early on.** The main risk is that Zutec is still early on in its journey. Key to its success will be if it can prove successful in building an organisation as well as increasing volumes over time. The majority of the business as it is today is dependent on large contracts that can add volatility to sales when they end.
- **Valuation.** Currently valued at 4.5x 2018E EV/sales compared to 6.0x EV/sales for the Nordic software sector, we believe the current valuation is attractive given long-term high growth and opportunities for high profit margins. We have a valuation range of SEK27-33/share, which is based on a 10-30% discount to peers on our 2019/20 sales estimates. The discount is warranted given the higher risk, in our view.

Key financials

Year-end Jun (SEK)	06/2017	06/2018	06/2019E	06/2020E	06/2021E
Revenues (m)	28	33	29	45	66
Revenues growth		18.9%	-11.0%	52.9%	46.7%
EBITDA (m)	10	6	-2	5	14
EBIT adj. (m)	7	2	-7	-1	7
EBIT growth		-67.6%	n.m.	86.2%	n.m.
Pre-tax profit (m)	7	2	-7	-1	7
EPS adj.			-0.96	-0.13	0.87
DPS			0.00	0.00	0.00
Dividend yield					
FCF yield (incl. recurr capex)			-11.0%	-4.2%	0.0%
EBIT margin (adj.)	26.1%	7.1%	-22.7%	-2.0%	10.7%
Net debt/EBITDA (x)	-0.7	-7.5	12.7	-4.6	-1.6
ROIC	217.9%	18.4%	-30.1%	-3.0%	17.0%
EV/sales (x)			4.5	3.1	2.1
EV/EBITDA (adj.) (x)			n.m.	28.1	9.8
EV/EBIT (x)			n.m.	n.m.	19.8
EV/EBIT (adj.) (x)			n.m.	n.m.	19.8
P/E (adj.) (x)			n.m.	n.m.	26.2

Source: Company data, Danske Bank Equity Research estimates

Price performance



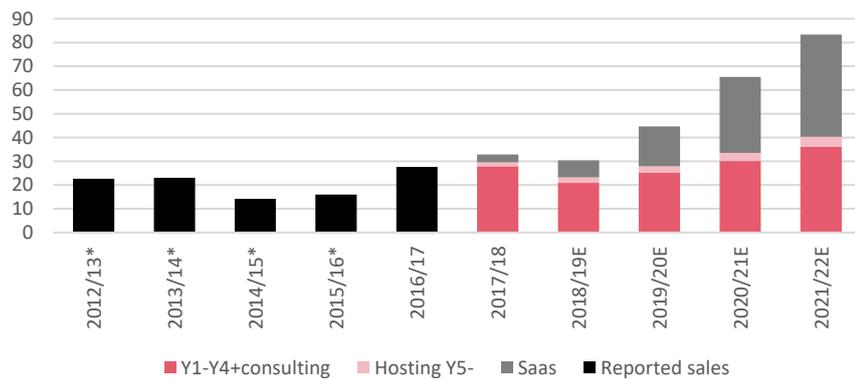
Source: FactSet

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Executive summary

Zutec develops and sells software for project management to companies in the construction sector. The main markets are currently the UK/Ireland, Australia and the Middle East. Software for digitalising the construction sector is disruptive and we see large potential for productivity increases and digitalisation within the construction sector as one of the least digitalised sectors in coming years, which should imply a very good market development for software such as Zutec's. We expect the recent focus and investment in volume of Software-as-a-Service (SaaS) sales towards SMEs to be the main sales driver in coming years.

Chart 1. Sales development and estimates by type (SEKm)

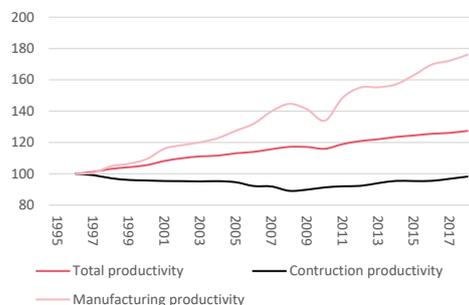


*Zutec Ireland, not group, has sales in Qatar, the UK, Abu-Dhabi, Ireland; Source: Company data

Low but accelerating digitalisation in construction sector

The construction sector has seen low relative productivity development over the past 20 years, where productivity has barely moved and R&D spend is the lowest. We believe the digitalisation of the construction sector is at an inflection point, where faster digitalisation is driven by, for example, state guidelines regarding BIM (Building Information Modelling). Estimates of the potential market for building collaboration software indicate a global market worth USD2-5bn with an expected CAGR of 15-20% per year (source: company data, Aconex).

Chart 2. Productivity in euro area – gross value added per hour worked in constant prices (Index 100=1995)



Source: OECD

Table 1. Digitalisation index: Construction ranks second worst

1	ICT
2	Media
3	Professional Services
4	Finance and Insurance
5	Wholesale trade
6	Advanced manufacturing
7	Oil and gas
8	Utilities
9	Chemicals and pharmaceuticals
10	Mining
11	Real estate
12	Transportation and warehousing
13	Education
14	Retail trade
15	Entertainment and recreation
16	Personal and local services
17	Government
18	Healthcare
19	Hospitality
20	Construction
21	Agriculture and hunting

Source: McKinsey 2015, Danske Bank Equity Research

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Value-adding software

Zutec was founded in 1999. Since then, it has provided software and services to larger construction projects with annual sales of some SEK30m. Value added by the software can be summarised as follows:

- **Material efficiency.** Zutec's product offering increases efficiency and control, helps to lower costs and make information easily accessible. For example, one particular project in London, the Shard worth GBP640m, using Zutec's software, was estimated to save some 50 million A4 pages (corresponding to c.550 trees) (company data).
- **Labour efficiency.** We estimate about a third of costs within construction are related to personnel. Increasing efficiency for employees saves costs and time. Sharing data enables all employees to have real-time access to the construction workflow. This enables workers to cross off tasks and keep colleagues informed of the workflow. This could also be linked to a company's budgeting tool, which could in real time illustrate how a task done or when delayed would affect the overall project budget.
- **Data collecting and accountability.** The software stores data on both parts of the building and check-ups signed by employees, which makes it easy to track when something goes wrong and which part can be held accountable.
- **Digitalised building.** The software stores data on all aspects of the building, which is also valuable in the hosting stage, after the building is finalised. The data is owned by the construction company, but is a selling point for them in the final stage, which clearly states the benefit for a construction company in using the software.

The next step: volume sales to SMEs

From the beginning, the software was tailored and developed together with construction companies on large projects, adding functionality gradually over time. In order to be able to scale, recent investments have been steered towards developing a version that targets SMEs.

In a project, there are many parties involved, from architects and engineers to small and large contractors. With Zutec's traditional structure, its software is sold to the main contractor on the project. There is significant potential in targeting the smaller parties involved in a project.

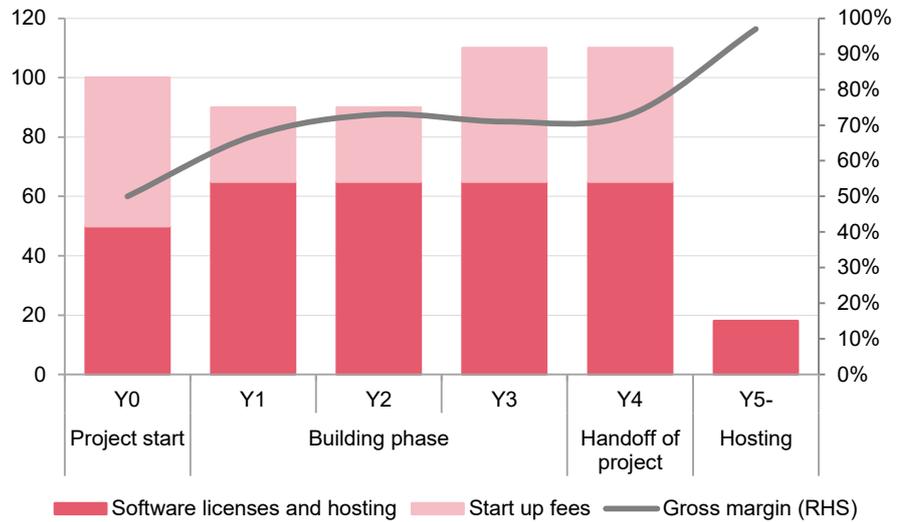
We believe this is the next major step for Zutec, in order to scale and target the product towards a larger market and we expect this to be a significant driver for its investment case. It will also generate stability in an increased share of recurring revenues and risk diversification in many smaller customers rather than a few large ones. We believe there should be plenty of leads in companies already involved in the same projects Zutec is working on today, which should make it possible for Zutec to scale its operations. However, the cost involved in building up a sales organisation and reaching all these customers in order to handle the growing business still constitutes a risk in the case.

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Business model

Zutec’s revenues are a mix of subscription, licence and start-up fees. With the volume sales described above, income from subscription fees will increase, as these will be a Software-as-a-service model. The graph below describes Zutec’s income during a typical project. Today, 15% of sales are recurring.

Chart 3. Revenues and gross margin in typical project (SEKm)



Source: Company data

Competition

There are a number of competitors that offer software with similar functions as Zutec. Globally, this is still a fairly young market with low penetration. Recent transactions in the industry including Trimble acquiring e-Builder and Oracle buying Aconex illustrate that the position as an aggregator is attractive for larger players in the industry, and it is a way for broader suppliers in the space to tie customers closer in order to drive sales of software in other parts of the value chain (modelling, BIM etc.). Recent public transactions have valued peers at 8-10x on the most recent year’s reported sales, illustrating the importance of gaining a strong foothold in the niche. In a comparison with Zutec, all acquired companies have been more than 10 times larger in terms of sales, but we argue that the technical platforms are not that dissimilar.

As digitalisation in the construction industry is low, it is not necessarily negative that other large players are expanding within Zutec’s niche. For a small supplier, it is hard to make a change and alter behaviour in the industry. Large suppliers, on the other hand, have the distribution power and customer reach to drive digitalisation. Consequently, it is better to have a smaller share of a rapidly expanding market than a large share of a small market.

Valuation

We believe that the long-term potential for Zutec is significant. In general, SaaS companies are rewarded with high valuations by the market because of the elements of scalability, recurring revenues and stickiness. However, as a small company, the risk is still higher in Zutec compared to most of its peers, which warrants a discount, especially considering the major part of the investment case, in our view, i.e. volume sales (SaaS) that have not started to materialise yet. We believe a discount of 10-30% to Nordic software peers on EV/sales is reasonable given the risks. We estimate 3.7-4.8x EV/sales next year, in 2019/20, which represents a valuation range of SEK27-33.

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Risks

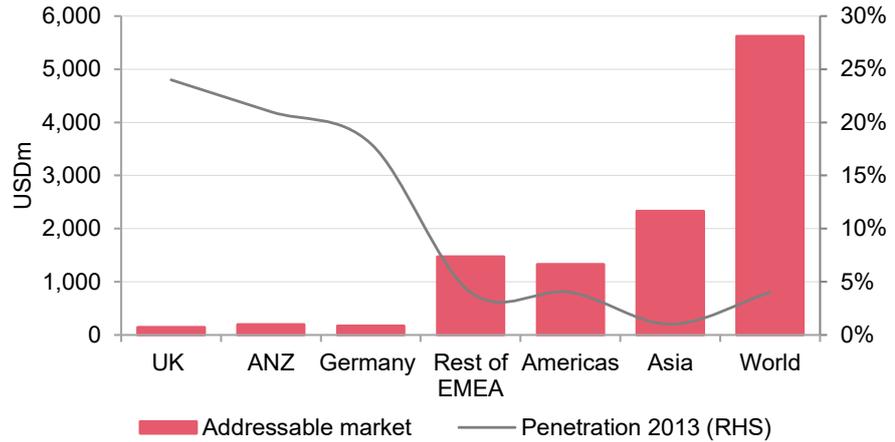
We believe the main driver of the investment case is the volume sales. As sales have not ramped up yet, there is still a large amount of risk attached. Zutec is still a small company and investing in new areas, sales processes and organisation can be costly relative to its size before volumes start to ramp up. We believe it is likely that it will need to raise more equity in the future, depending on how rapidly sales ramp up in order to cover the costs of building the organisation.

Zutec is currently dependent on large contracts, which adds volatility to sales, as evidenced in 2014/15 (see Chart 2). A large contract that ended in July 2018 represents almost half of this year's sales, with potential for extension. If not extended, however, we would expect the order backlog and new sales to mitigate some of the loss but not fully, as we expect a sales decline this year (11%).

Market Overview

The market for Zutec, i.e. BCCS, cooperative services that target the building sector, has an estimated value of USD2bn globally with an expected CAGR of 15-20%, according to company data. Market drivers include demand and digitalisation opportunities within infrastructure, construction and the building sector as well as increased investments. In 2014, the global addressable market for BCCS was estimated at USD5.6bn by Aconex (a construction management platform company), with a penetration at that time of below 10%.

Chart 4. Addressable market and penetration of construction collaboration solutions 2013

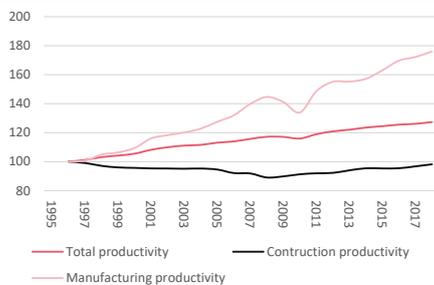


Source: Aconex

Low productivity in the construction sector

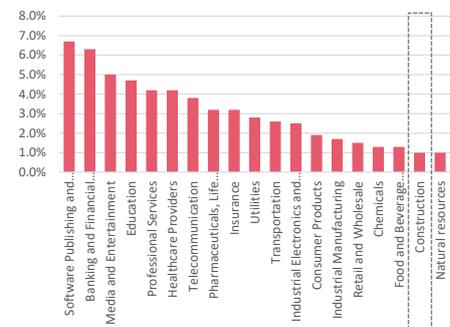
The construction sector has seen very low long-term productivity growth compared to the economy as a whole. According to OECD statistics, large economies with negative total construction productivity development in the period 1995-2017 include Canada, Spain, France and Italy. In addition, it estimates the US has low productivity and poor development. The R&D spend in the sector is low and there is a large amount of manual and non-digitalised work. Large projects are typically delayed 20% of time and 80% end up being over budget, according to McKinsey.

Chart 5. Productivity in euro area- gross value added per hour worked in constant prices (Index 100=1995)



Source: OECD

Chart 6. Global R&D spending as a percentage of sales



Source: IT key metrics data 2015, Nemetschek 2016

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Digital construction technology is massively disruptive

One specific reason for this is often mentioned to be the slow pace of digitalisation, where the construction sector is the second least digitised sector after agriculture, according to McKinsey. This could be related to the nature of the projects, i.e. it is easier to streamline a manufacturing line than a construction product. However, there is a lot of potential in digitally streamlining the construction sector. Although the introduction of digital construction technology is very disruptive initially, Boston Consulting Group estimates it could save USD1-1.7tn overall across the engineering, construction and operating phases.

Attitudes and digitalisation

According to a study by McKinsey, the construction sector ranks among the bottom sectors when it comes to digitalisation and is thus one of the more manual sectors.

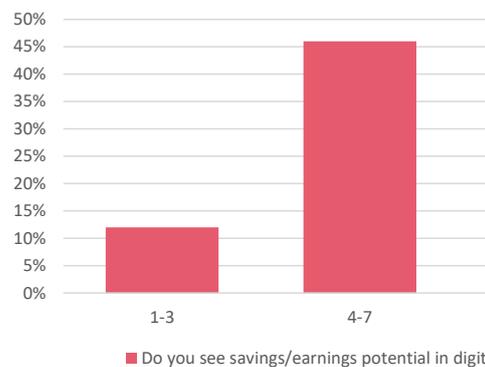
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19	Hospitality
20	Construction
21	Agriculture and hunting

Source: McKinsey 2015, Danske Bank Equity Research

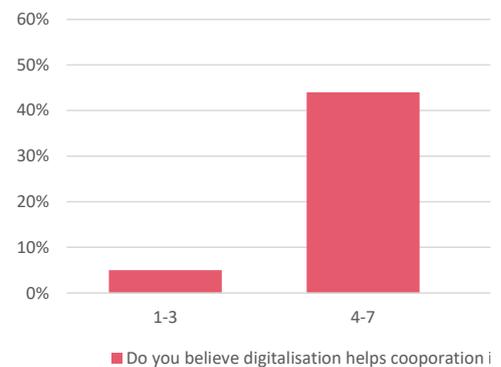
Using Sweden as a proxy, this is also apparent. In Sweden, digitalisation is low but accelerating, according to a study by Svensk Byggtjänst. The graphs below illustrate the overall attitude within the building sector towards digitalisation in Sweden, i.e. fairly positive and supportive of collaborative software.

Chart 7. Do you see savings/earnings potential in digitalisation? (1= very low, 10=very high)



Source: Svensk byggtjänst

Chart 8. Do you believe digitalisation helps cooperation in projects? (1= very low, 10=very high)



Source: Svensk byggtjänst

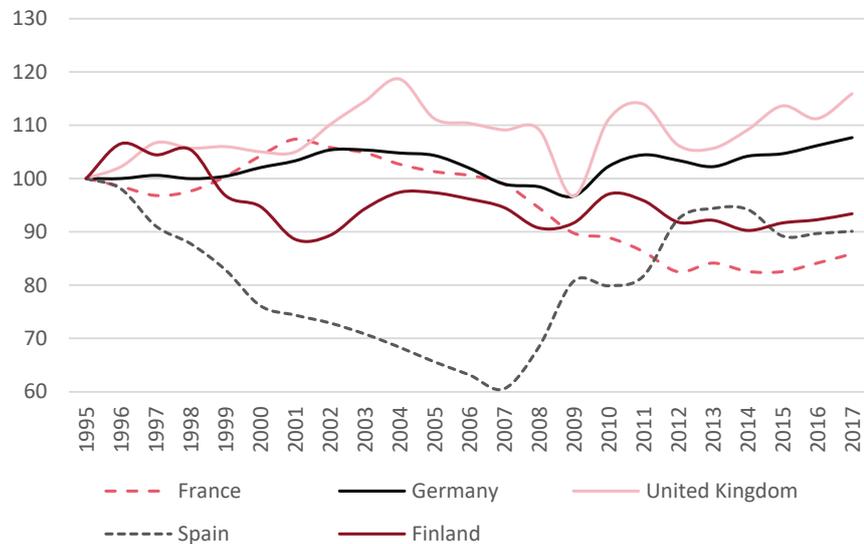
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BIM - mandatory for government projects

BIM (Building Information Modelling) is expected to play a large part in digitalising the construction business, as it enables all information relating to the project, building and materials to go digital. The migration towards BIM will enable the process and drive demand for other software such as Zutec's, in our view.

It has been mandatory for all government-related construction projects to use BIM in the UK since 2016 and it is one of the countries that has come the furthest in its implementation, together with Finland. Both France and Germany are promoting BIM and Germany's target is to implement BIM in all infrastructure projects by 2020. In Spain, it will become mandatory to use BIM in infrastructure projects by 2019. There are also various other markets where BIM is mandated by different authorities, such as the Nordics. These markets are particularly interesting for Zutec, as this will drive the market in the right direction for Zutec.

Chart 9. Productivity in construction sector- gross value added per hour worked, Index 1995=100



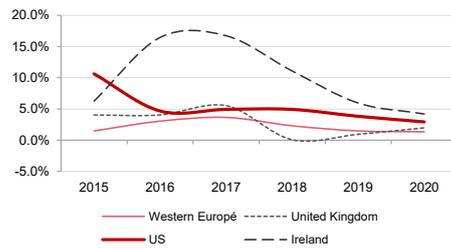
Source: OECD

Infrastructure and construction markets

One important driver for Zutec's market is investments within the infrastructure sector. The Pacific area and China together form the area where the majority of infrastructure investments are made, but also North America and Europe are large markets. Output in the construction sector is expected to see global expansion of 3.7% per year until 2022 globally, according to Construction Intelligence Centre, and 1.7% CAGR in construction output in Western Europe (Euroconstruct). Given the cyclicity of construction markets, there is a point in seeking diversified exposure in different markets.

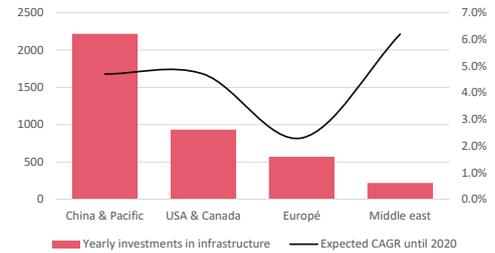
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Chart 10. Construction output growth y/y



Source: Euroconstruct, Statista (US)

Chart 11. Yearly investments in infrastructure 2016 (USDm) and expected CAGR until 2020



Source: Company data

Competitive landscape

The industry for construction-related project management systems is still in an expansion phase. M&A activity has been high in recent years as large players in the field, or more general software providers, are actively targeting slightly larger competitors to Zutec. International companies such as Trimble, Oracle and Nemetschek have all made significant acquisitions in recent years to expand their product offering. Acquisition multiples of 8-10x reported sales illustrate high expectations on industry growth. In addition to the larger players, as discussed below there are a few smaller names similar to Zutec. Although Zutec is small in size and hence cannot match the distribution power of large international competitors, the combination of a strong technical platform with several important reference projects are key features that could enable it to succeed. In light of the high M&A activity in the industry, we also see the company as a potential M&A target.

There are a number of companies that have developed software aimed at the building sector over the years. Earlier in the value chain, there are companies working with CAD and BIM software such as Autodesk and Nemetschek, while it is the end of the value chain where Zutec operates, which involves more administrative and collaborative software. Recent transactions in the industry, with Trimble acquiring e-Builder and Oracle buying Aconex, illustrate that Zutec's position as an aggregator is attractive for larger players in the industry, and it is a way for broader suppliers in the space to tie customers closer in order to drive sales of software in other parts of the value chain (modelling, BIM etc.).

As the digitalisation in the construction industry is low, it is not necessarily negative that other large players are expanding in Zutec's niche. For a small supplier it is hard to make changes and alter behaviours in the industry. Large suppliers, on the other hand, have the distribution power and customer reach to drive digitalisation. Consequently, it is better to have a smaller share of a rapidly expanding market than a large share of a small market.

There are a number of companies/software that also offer more administrative and collaborative software. Over the past three years, several competitors have been acquired by larger players in the market such as Trimble, Oracle and Nemetschek. For example, Bluebeam was acquired by Nemetschek in 2014, but is more focused on viewing and displaying PDF documents.

Aconex is more focused on project management and has a platform where external modules can be connected. Aconex acquired Conject in 2016 and thereby strengthened its European position, and Aconex itself was later acquired by software giant Oracle in early 2018.

Another larger company that has been consolidating the market is Trimble, which acquired Viewpoint and thereby also 4project, which was earlier acquired by Viewpoint. Around the same time that Oracle bought Aconex in 2018, Trimble acquired its North American equivalent e-builder.

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Table 3. Public peers – takeout multiples

	Textura	Aconex	e-Builder
Price paid (USDm)	663	1200	500
Sales last fiscal year (USDm)	86.7	124.0	53
EV/sales, last fiscal year (x)	7.6	9.7	9.4
EBITDA (USDm)	n.m.	15	13
EV/EBITDA (x)		80	38

Source: Company data, Danske Bank Equity Research

Recent public transactions have valued peers at 8-10x on the most recent year's reported sales, illustrating the importance of gaining a strong foothold in the niche area. In a comparison with Zutec, all acquired companies are over 10 times larger in terms of sales, but we would argue that the technical platforms are not that dissimilar.

Table 4. Competition overview

Competitor	Revenues USDm	Financing	Owners/selected investors	Main market
Viewpoint	160	Listed (Trimble)	Trimble	UK
4Project	15*	Listed (Trimble)	Trimble	UK
e-Builder	43*	Listed (Trimble)	Trimble	North America
Aconex	161	Listed (Oracle)	Oracle	ANZ/Global
Conject	13*	Listed (Oracle)	Oracle	Germany
Bluebeam	n.m.	Listed (Nemetschek)	Nemetschek	US/Global
Procure	56*	Venture capital**	ICONIQ Capital	Global
Asite	n.m.	Private	Private	UK
Admicom	9	Listed	Listed	Finland
IBM (Maximo)	n.m.	Listed (IBM)	IBM	n.m.

*2016, **Total raised capital USD299m, first/last financing round 2007/2017.

Source: FactSet, Crunchbase, Danske Bank Equity Research

US Trimble is consolidating the space...

e-Builder was acquired by Trimble in February 2018 and the company was founded in 1995. The company had revenues of USD53m in 2017 and has, according to the CEO, seen consistent growth in rates of some 25% over time. Exact profitability is not disclosed but the CEO states they have grown with profitability, above 25% EBITDA margins. Trimble paid 9.4x R12M trailing sales and 38x EBITDA (assuming a 25% margin). The company has focused on the US market, but will expand internationally with the help of Trimble.

e-Builder offers a comprehensive project management system for the construction industry with 12 integrated platforms. The platforms are similar to Zutec's, with an overlay system to summarise and control the workflows in large construction projects. Building blocks include the handling of documents, reporting and forms as well as BIM modelling and data keeping once the projects are finalised. In our view, the system offering is similar to that of Zutec's, but with the difference that Zutec offers real data, i.e. the level of detail is higher as the project managers can zoom in on the specifications for each and every component in the project.

As Trimble acquired e-Builder in early 2018, it is realistic to assume that the international expansion through Trimble's sales channels is in the early startup phase. Although e-Builder and Trimble united are likely to prove a tough competitor, our experience shows that it is often good to have a larger player helping to drive the digitalisation of an industry and to educate the customers. Increased competition may, therefore, help drive digitalisation more rapidly, thereby expanding the addressable market.

...and so is Oracle

Australian Aconex was acquired by Oracle in December 2017. The company had a turnover of USD124m (fiscal year 2017 ending 30 June 2017) and Oracle paid USD1.2bn, i.e. 9.7x sales. Aconex has a similar scope to e-Builder and Zutec, but is more of a document handling system

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while Zutech can provide the real data. The scope of the services provided is similar, however, and Aconex reported 30-40% top-line growth in the three years before the take-over. Oracle also acquired Textura in 2016 in order to complement the Oracle Primavera product offering. It is clear that Oracle has the ambition to become a full service provider for software, focusing on cost and project management for construction companies. Oracle paid USD663m for Textura in 2016, valuing the company at 7.6x 2015 sales, but with a high growth trajectory going into 2016 (28% sales growth in Q1 16). The company was loss making at the time.

Procore's expansion is backed by venture capital

Procore is a volume-driven US peer with construction project management software systems. The company was founded in 2003 and has grown rapidly, most recently supported by financial backing from Bessemer Venture Partners. Forbes estimates that revenues are approaching USD200m in 2018, up from USD55m in 2016 and USD5m in 2012, illustrating the rapid digitalisation currently being experienced. Forbes expects Procore to go public in 2019. In our view, Procore emerged as a document handling system, but has gained a strong foothold in the volume segment and is consistently broadening its product portfolio. The offering includes modules for quality & safety, construction financials and field productivity.

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Business overview

Zutec was founded in 1999 and has since provided software and services to larger construction projects with annual sales of some SEK30m. The software has been developed together with customers, with new functions added as time goes by. Zutec has around 65 customers in the construction sector and has worked on over 300 projects. However, the next step in the company's history will take place in coming years, when it takes the next step in a new business model to target SMEs in order to reach volume sales.

Value-adding software

The product offering increases efficiency, control, lowers costs and makes information easily accessible. For example, a large project in London, the Shard, worth GBP640m for which Zutec's software was used, was estimated to save some 50 million A4 pages (corresponding to c.550 trees).

Around a third of costs in a construction projects is related to people, according to our estimates. By making their work more efficient, cost efficiency can be achieved. Zutec's software streamlines processes and follow-ups, making data easier to keep track of. In the case of one customer, according to the company, the process of work inspection days decreased from 21 days to 2.2 days. Every step of a project and soon the communication through new software, means that everything is traceable, which is invaluable for accountability.

All data collected is owned by the construction company but stored in Zutec's software. The data, which can contain all information regarding every part of a building, is invaluable even after the project is over, when the company enters the hosting stage. Around 95% of all projects roll over to use the software in the hosting stage.

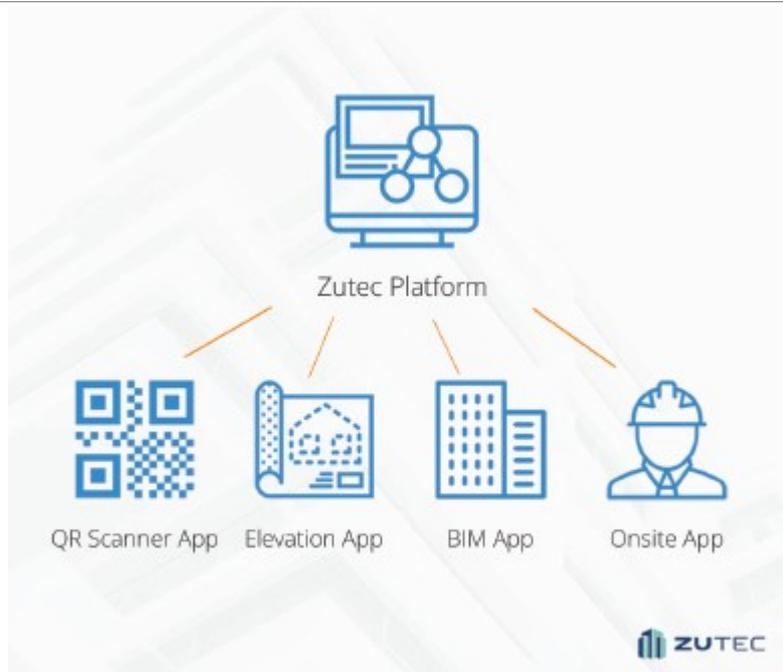
Product description

Zutec's software can be used in all parts of a buildings lifecycle, from planning to after the building is finished. The software is an overlay product. Compared with other construction softwares used in the market such as those provided by Nemetschek and Autodesk, these are heavy and advanced programmes that require a lot of computer processing power. The idea with Zutec's software is rather to create fast and easy software that connects and stores data; hence, enabling better communication between the different stakeholders in a construction project. As Zutec's system aggregates the actual underlying data provided by other contractors (architects etc.), there is no risk of version conflicts. The workers on site know that they are looking at the latest drawing as they access the architects' data and not an uploaded pdf file, which is the case for some competing systems. Also, the project managers get an improved overview of the project and can measure the estimated time until completion. The software is open source and works with open APIs (Application Programming Interface), enabling the users to integrate with external software.

The Zutec platform is Zutec's main product, which is where all data is stored and managed. The platform is web-based and the functionality of the platform can be expanded through extra modules. Functionalities of the platform include systems for managing project data, processes and documents. For example, in a construction project, construction workers work on a schedule, with a lot of check points to go through. All these are digital in Zutec's software, compared to the usual manual way. By checking off these points digitally, managers can follow closely if they are on track with the time plan and who is or isn't performing.

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Figure 1. Zutech's solutions



Source: Company data

Zutech's mobile app is called Zutech Onsite, which is connected to the Zutech platform so that the user can access data onsite. Zutech also has a module for 3D models (BIM) with which the user can access 3D modules via mobile access. As no data is stored via mobile access, but on the platform, the user can access advanced models easily with, for example, access to information on the objects and real time IoT data. The BIM models are not built in Zutech's software, only stored.

Newer products include a QR scanner, where a user can access all data and documentation on an object through scanning a QR code. Elevation, a new mobile product, helps users adjust and share construction drawings in real time.

Zutech is currently beta testing a new communication platform that will further improve onsite communication and, more important, traceability. Currently, there is no standardised mode of communication and construction workers/contractors use normal means such as emails, text messages, WhatsApp etc.

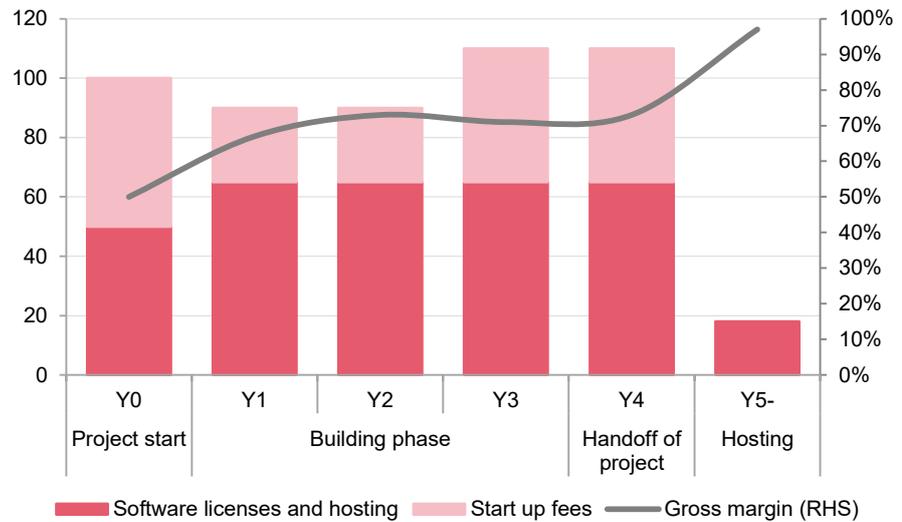
Business model

Zutech has an SaaS business model where invoicing occurs monthly or quarterly. SaaS business models are considered to generate stable predictable revenues, as you pay monthly subscription fees unlike traditional licence business model where you would pay a larger fee upfront.

For Zutech's software, invoicing is done on a monthly or quarterly basis and pricing is in general determined as a percentage of the total budget of the project, where 0.01% is the benchmark price. The price for hosting is determined based on how many users and in what category. Of customers, 95% choose to use the software for hosting once the building is finished and sold, i.e. see years five onwards in Graph 12 below. Of sales, 15% is recurring as it is now.

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Chart 12. Revenues and gross margin in typical project (indexed, Y0=100)



Source: Company data

Start-up fees are more consultant driven and hence are lower on the gross margin compared to hosting revenues. The gross margin is therefore close to 100% from year five. The dynamic is that for larger projects, Zutec makes special adjustments in order to meet the customer's specific needs, while for smaller projects it can be more standardised. Hence, margins are higher for smaller customers and projects, but lack the high revenue potential. Going forward, focus is likely to be on larger projects as this is what Zutec has done in the past (a typical construction project between SEK500m-100bn), but there is significant potential in the smaller projects segment as well.

Sales processes

Zutec sells its software both directly and through partners, which varies over geographies depending on the need for local knowledge. In order to sell the software, it reaches out to landlords, real estate companies, property managers and construction companies. The software can be used in all parts of a building's life cycle, but it gets easier the earlier the software is implemented, as the software can be used from the planning stage onwards. Sales processes for large projects are around 6-12 months long and are shorter for smaller projects. Customer recommendations are key for winning new large projects.

New approach to sales - scaling up volumes

The value chain in a project is large and consists of architects, engineers, fire safety consultants etc., where between 20-200 subcontractors are working for the main contractor. The approach Zutec has employed is to target the main contractor, meaning fewer larger customers and projects. By targeting smaller subcontractors, Zutec can scale up the number of users and on a given project, revenues would come from multiple companies instead of one main contractor. Zutec has signed multiple customers for this solution, with an annual value ranging between EUR9-17k annually.

Zutec has been working with smaller design and construction firms over the past year and will roll out a solution for this during the year. We see this as the major driver in the case and believe it is what will take sales to the next level. This will be a solution for the business as a whole and not one project, as before. This business model appears more attractive than the former, in our view, as exposure towards larger clients declines and is likely to result in a higher share of recurring revenues in the longer run as well as a more diversified customer base. This solution

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will be more standardised in order to sell higher volumes, which also implies higher gross margins. However, it will need to see volumes ramping up before these benefits show.

This is a different business model compared to what the 'old' Zutec has and means some execution risk as well. This means that it will go from working closely with a few large customers, perhaps winning projects on references, to volume sales. However, if successful, we believe the potential is very large. With regard to marketing and sales, a lot of focus will be on digital marketing going forward. Also, as it has indirect contact with its potential customers through their various projects, it should be fairly easy to find leads. Studying larger competitors or companies operating in the same space, the ones that have been truly successful at scaling up have done so through volume sales, for example Aconex and Procore (see the section [Competitive landscape](#) for more information).

The product will consist of different modules. Examples of such modules include defect management, drawings and asset management. A company would, for example, take pictures of different parts of the building and the software will collect and save it. Another example is drawings, where the software would include all drawings and have them available onsite for the company's employees. The defect management system is already up and running since a few months back, drawing management is to be released this year and asset management will be available as a standardised volume sales product next year.

Company background

The company was founded in 1999, but started to develop cloud-based solutions in 2004. In 2005, Zutec got funding from Enterprise Ireland and could at that point use the money to sell and market the product outside of Ireland. It was awarded its first large project by 2006, which was related to the handling of documents. During this time, Zutec was developing a number of additional products.

When a couple of large projects were cancelled in the UK and Ireland during the financial crisis, it decided to expand to the Middle East and during the following years, it won two large projects in both Australia and Abu Dhabi. Currently, Zutec has expanded within Ireland, the UK, Australia and the Middle East and its software is being used in more than 70 projects. Going forward, the company has planned an expansion to North America, initially through a customer that is expanding there.

Financial review and estimates

Financial position

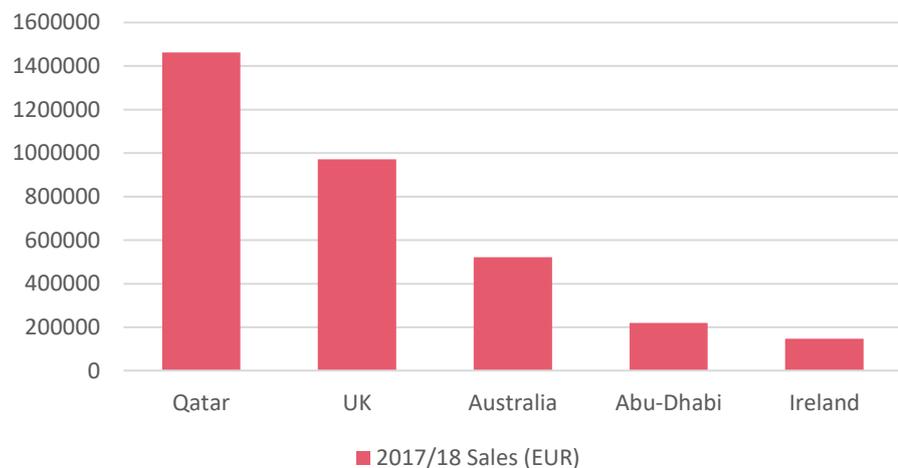
In the IPO in 2018, Zutech raised SEK50m, of which SEK15m is expected to go into capex and SEK35m to marketing costs. Zutech does not have any interest-bearing liabilities and its net cash position was SEK39m as at end-September 2018.

We believe the need for more cash in the future will be fairly high. All in all, this depends on how rapidly sales are ramping up following the build-up of the sales organisation etc., which drives opex.

Sales estimates

Zutech's current business model, comprising the majority of sales, is dependent on large contracts. This can cause volatility in sales when these large contracts end, which also is apparent when looking at historical sales. There is a large contract that ended in July 2018 representing almost half of sales 2017/18 (sales from Qatar), with potential for extension. If not extended, we would expect the order backlog and new sales to mitigate some of the loss but not fully, as we expect sales to decline this year (11%), including a 50% probability of gaining an extended contract in Qatar from Q3. The company states that it believes the probability of extension of the contract is high.

Chart 13. Sales by region 2017/18 (EUR)

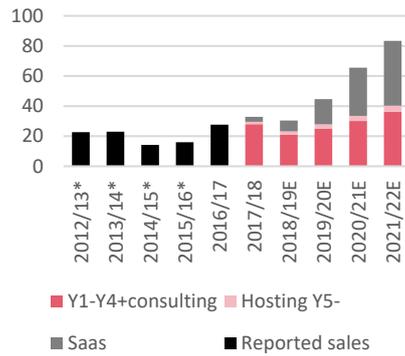


Source: Company data

We believe the current business Zutech has, i.e. the focus on larger projects, despite the propensity for volatility when these contracts end, is good and holds strong long-term potential. However, as it is dependent on large contracts, longer lead times and is more specialised towards specific customers, it can be a bit harder to scale compared to a standardised model. We believe the main growth driver is going to be the volume of sales to SMEs, as represented in Chart 16.

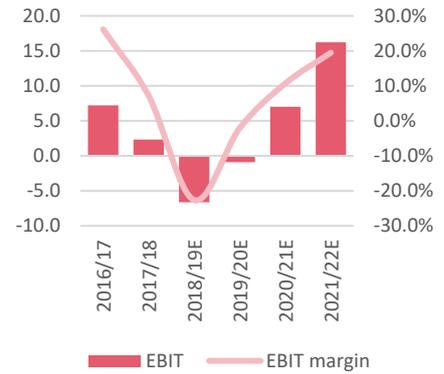
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Chart 14. Sales estimates by type (SEKm)



Source: Company data, Danske Bank Equity Research *Zutec Ireland

EBIT SEKm (LHS) & EBIT margin (RHS)

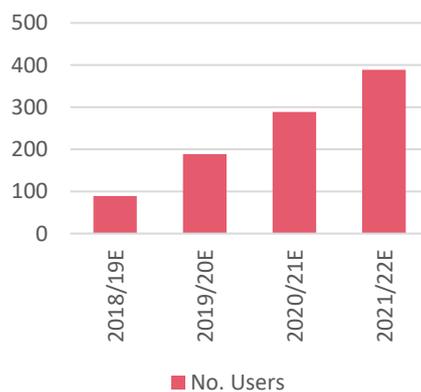


Source: Company data, Danske Bank Equity Research estimates

When estimating the volume sales, we estimate an ARPU per client (company level) per month of c.EUR900, based on an estimated price of EUR45 per module per month and a number of users per company. On our estimates, Zutec reaches a total number of users around 400 by 2021/22, which will be a function of the number of sales persons targeting these companies. According to our rough estimates of the addressable market among small and medium sized businesses 5-250 employees, this would represent some 1% of addressable users (defined as >5 employees) in Ireland, the UK, Australia and Sweden. We believe Zutec has the potential to grab a larger market share, but there is an aspect of timing and how fast the market is moving in this direction, as penetration of such services is likely very low at the moment.

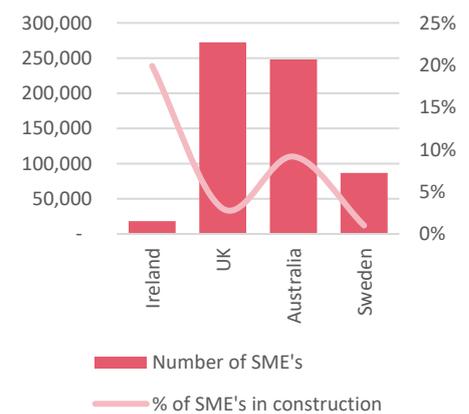
Initially, sales according to this model will target Ireland, the UK and the Nordics. The plan is to launch in Australia in 2019.

Chart 15. No. users (company level) SaaS model



Source: Danske Bank Equity Research estimates

Chart 16. Number of SME's >5 employees & % of (all) SME's present in construction sector

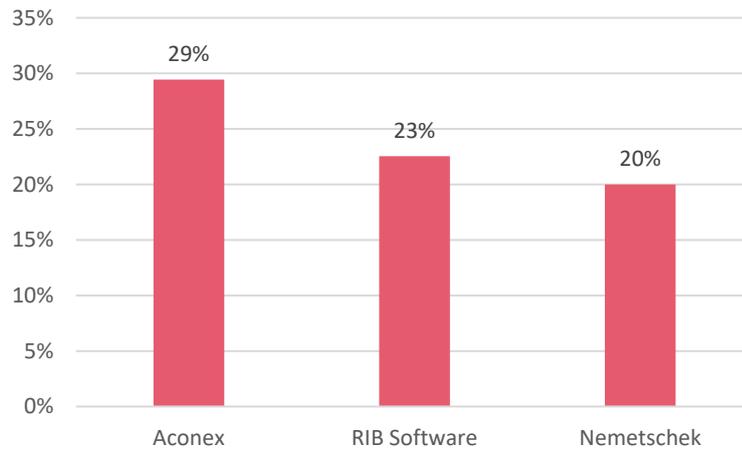


Source: Statista, UK office for national statistics, Australian government, CSO Ireland, European Commission

Looking at peers exposed to the same sector (digitalisation of construction), we see they have experienced significant growth over the past years. Common for Aconex and other similar software companies that has been able to scale up revenues significantly is that they have focused on volume sales. When selling a somewhat more standardised software to a larger customer group, there is potential for higher revenues compared to if focusing on large and customized projects such as Zutec. In order to reach higher revenues and scale the product it is therefore logical for Zutec to focus on volume sales.

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Chart 17. Five year sales CAGR

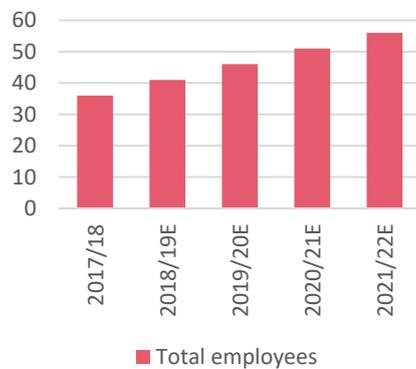


Source: FactSet, RIB software, Nemetschek

Opex estimates

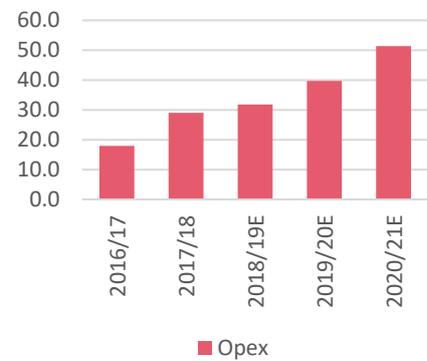
We estimate opex partly based on the number of employees and other external costs. We estimate that Zutech will hire five employees per year over the next three years. Zutech is at the beginning of building up the organisation and how fast sales ramp up will be the main factor that determines to what extent it will be able to cover these costs. It presents one major risk in the case.

Chart 18. Employees



Source: Company data, Danske Bank Equity Research

Chart 19. OPEX estimates (SEKm)



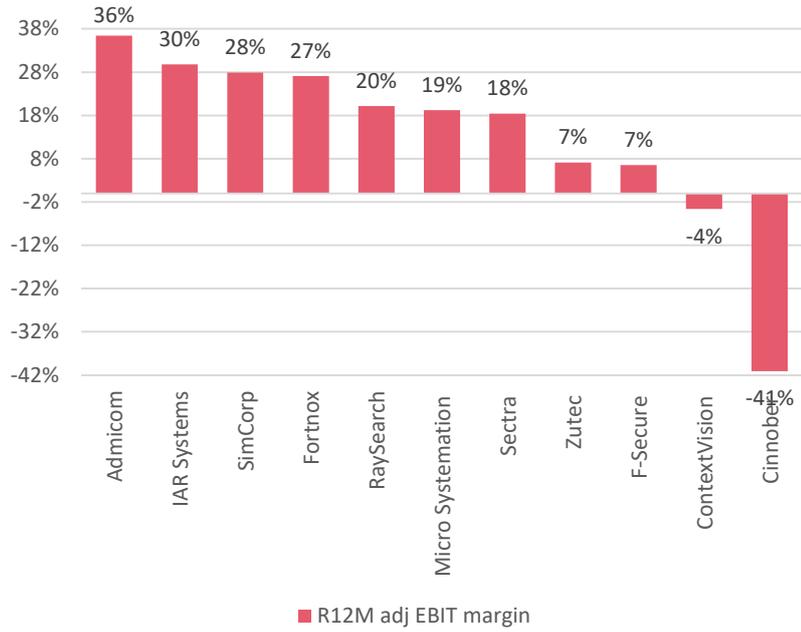
Source: Danske Bank Equity Research, Company data

Long-term margins

We believe there is potential for high margins in the long run, especially on volume sales. On the large projects that are tailored to the clients and contain some consultation, margins are likely to be lower, while the incremental margin on volume sales, which is more standardised, is higher. Looking at more mature SaaS companies such as Fortnox's and Admicom's R12M EBIT margins, they currently average 27-36%. Long term, when the sales organisation is in place and volumes are scaled, margins in these areas would be viable for Zutech as well.

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Chart 20. Nordic software peer margins



Source: Admicom, IAR, Simcorp, Fortnox, Raysearch, MSAE, Sectra, F-Secure, Contextvision, Cinnober, Company data, Danske Bank Equity Research

Table 5. Quarterly and yearly estimates (SEKm)

P&L	17/18	Q119	Q219E	Q319E	Q419E	18/19E	19/20E	20/21E	21/22E
Revenues	32.8	5.6	6.9	8.3	8.4	29.2	44.7	65.5	83.3
EBITDA	6.3	-1.7	-1.3	0.4	0.3	-2.3	4.9	14.1	24.6
D&A	-4.0	-1.0	-1.0	-1.1	-1.2	-4.3	-5.9	-7.1	-8.4
EBIT	2.3	-2.7	-2.3	-0.7	-0.9	-6.6	-0.9	7.0	16.2
EBIT margin	7%	-48%	-34%	-8%	-10%	-23%	-2%	11%	19%
Pre-tax profit	2.3	-2.7	-2.3	-0.7	-0.9	-6.6	-0.9	7.0	16.2
Net profit to equity holders	2.3	-2.5	-2.3	-0.7	-0.9	-6.4	-0.9	6.2	14.3

Source:

Valuation

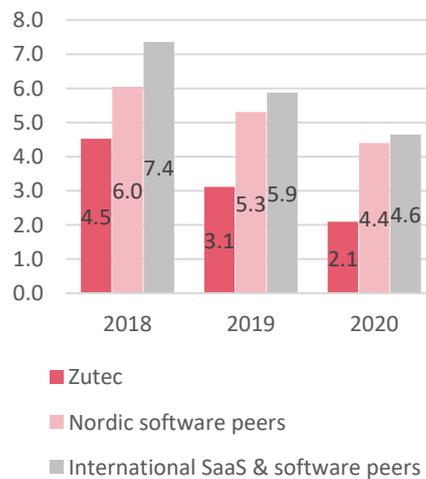
Peer valuation

SaaS companies in general are rewarded with high valuations because of their attractive business models with a high share of recurring revenues in combination with high growth and scalable and sticky business model. Also, the Nordic software peer group has a high valuation, as a result of high expected growth over time and high expectations on long-term margins. Examples of transactions with regard to software companies providing similar software to Zutec in the market include the 2018 Oracle acquisition of Aconex, which valued the company on 9.7x sales (on sales of USD124m) and the 2016 Oracle acquisition of Textura at 7.3x sales (on sales of USD87m).

However, all these companies and peers have established track records and are of a considerably larger size relative to Zutec. Therefore, we believe this calls for a valuation discount, as the risks are higher. However, if Zutec becomes a larger company and recurring revenues represent a higher share of sales, valuation could approach that of peers. As it stands currently, the risk is higher in Zutec given its size and the early stage it is at in the scaling process.

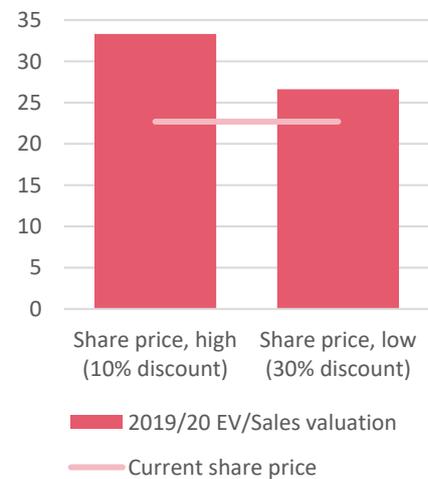
We base our valuation range on peer EV/sales valuations. We believe this discount is set to close over time and as scaling starts, which would de-risk the case. We look at the financial year for 2019/20E and apply Nordic software peer EV/sales multiples for 2019E, and set our valuation range at a 10-30% discount to these multiples. This implies a present value of SEK27-33 at EV/sales of 3.7x and 4.8x, respectively.

Chart 21. EV/Sales vs peers* (x)



Source: FactSet, Danske Bank Equity Research estimates *18/19E, 19/20E 20/21E respectively for Zutec.

Chart 22. Share price at high end and low end of valuation range (SEK)



Source: Danske Bank Equity research estimates

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Table 6. Peers

	BBG ticker	Mkt cap (local ccy)	Share price (local ccy)	Currency	EV/EBIT (x)			P/E (x)			EV/Sales		
					2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
International SaaS & Software peers													
Nemetschek SE	NEM GR	3,838	99.7	EUR	37.4	30.5	25.4	53.1	43.3	36.8	8.3	7.0	6.0
RIB Software SE	RIB GR	636	12.3	EUR	14.1	12.0	9.1	38.0	29.1	20.2	3.2	2.8	2.3
Box, Inc. Class A	BOX US	2,379	16.8	USD		167.6	39.8		237.1	60.7	3.9	3.0	2.4
Oracle Corporation	ORCL US	184,171	48.6	USD	10.6	10.4	9.7	14.4	13.4	12.7	4.6	4.6	4.3
Trimble Inc.	TRMB US	9,056	36.1	USD	17.0	14.2	12.0	18.8	17.0	15.1	3.4	3.0	2.6
Xero Limited	XRO AU	5,256	37.4	AUD	2827.5	102.9	48.9		158.1	66.7	10.0	7.6	6.0
AppFolio Inc Class A	APPF US	919	57.0	USD	71.6	43.5	31.9	90.5	58.5	50.0	10.3	7.9	6.3
Coupa Software, Inc.	COUP US	3,308	57.0	USD		n.m.	107.8		n.m.	156.8	12.6	10.0	7.6
Kinaxis, Inc.	KXSCF US	1,754	67.6	CAD	53.8	32.3	23.1	53.7	40.9	33.8	7.4	5.9	4.6
RealPage, Inc.	RP US	4,452	47.4	USD	22.6	17.7	15.4	31.9	26.9	23.4	5.3	4.4	3.8
ServiceNow, Inc.	NOW US	28,534	159.1	USD	52.4	35.6	24.8	67.3	50.8	37.8	10.6	8.0	6.0
Average					345.2	46.7	31.6	46.0	67.5	46.7	7.2	5.8	4.7
Median					37.4	31.4	24.8	45.5	42.1	36.8	7.4	5.9	4.6
Zutec Holding AB*	ZUTEC SS		22.8	SEK	-20.0	-152.5	19.6	-23.7	-177.0	20.4	4.5	3.1	2.1
<i>Premium (+)/Discount(-) to peer median</i>					<i>-153%</i>	<i>-586%</i>	<i>-21%</i>	<i>-152%</i>	<i>-521%</i>	<i>-44%</i>	<i>-39%</i>	<i>-47%</i>	<i>-55%</i>
Nordic SaaS & Software peers													
Admicom Oyj	ADMCM FH	99	20.5	EUR	21.0	15.7		28.6	22.3	16.7	7.9	5.6	
Fortnox AB	FNOXMTF SS	4,222	70.7	SEK	40.4	25.7	17.8	54.8	35.0	25.0	10.9	8.3	6.5
F-Secure Oyj	FSC1V FH	380	2.4	EUR	68.7	33.2	19.3	98.4	46.1	26.0	2.0	1.8	1.6
IAR Systems Group AB Class B	IARB SS	3,127	231.5	SEK	26.7	22.1	17.3	36.1	31.4	25.0	7.9	6.8	6.0
Cinnober Financial Technology AB Class B	CINN SS	1,727	77.0	SEK					51.9				
Sectra AB Class B	SECTB SS	9,003	253.6	SEK	35.6	31.3	28.8	47.8	43.3	40.1	6.6	6.2	5.7
SimCorp A/S	SIM DC	16,921	417.8	DKK	21.8	19.2	17.0	28.5	25.0	22.1	5.9	5.3	4.8
ContextVision AB	COV NO	453	58.6	NOK	41.6	44.4	20.4	45.3	49.9	25.5	5.0	4.7	4.0
RaySearch Laboratories AB Class B	RAYB SS	2,906	112.5	SEK	28.1	19.4	13.2	41.9	28.5	18.9	6.0	4.8	3.9
Micro Systemation AB Class B	MSABB SS	883	50.3	SEK	16.9	10.1	6.8	24.4	16.0	11.3	2.5	2.1	1.7
Average					33.4	24.6	17.6	45.1	34.9	23.4	6.1	5.1	4.3
Median					28.1	22.1	17.5	41.9	33.2	25.0	6.0	5.3	4.4
Zutec Holding AB*	ZUTEC SS		22.8	SEK	-20.0	-152.5	19.6	-23.7	-177.0	20.4	4.5	3.1	2.1
<i>Premium (+)/Discount(-) to peer median</i>					<i>-171%</i>	<i>-789%</i>	<i>12%</i>	<i>-157%</i>	<i>-633%</i>	<i>-18%</i>	<i>-25%</i>	<i>-41%</i>	<i>-52%</i>

Source: FactSet prices and peers from close on 22 November 2018, (17:45 CET for non-European peers) Danske Bank Equity Research estimates (Zutec), 18/19E, 19/20E, 20/21E respectively for Zutec.

Corporate Governance

Management

Brendan O’Riordan – CEO since 2016

Has been with Zutech since 2011 and CEO since 2016. Has prior experience from Building and Construction, and holds a BTech in Building Services and Engineering.



Conor O’Brien – CFO since 2011

Experience of 30 years including working at an accounting and auditing firm and as Director of Education office from one of the largest patrons in the Irish education system.



Mike White – CTO and co-founder

Has been with Zutech since 1999. Prior experience includes leading a joint venture with the National University of Ireland and University College Dublin.



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*Board of directors***Brian McGuire – Chairman of the board**

Chairman of the board since 2018. Experience from construction and engineering working on projects in the UK, the Middle-East and the Far-East.

Shareholding: 2.406k shares

Conor O'Brien – Board member and CFO

Board member since 2018 and CFO since 2011. Previous experience of 30 years from among others an accounting and auditing firm, and as Director of Education office from one of the largest patrons in the Irish education system.

Shareholding: 335k shares

Brendan O'Riordan – Board member and CEO

Board member since 2018. Has been with Zutec since 2011, and CEO since 2016. Has prior experience from Building and Construction, and holds a BTech in building services and engineering.

Shareholding: 287k shares

Hans Schedin – Board member

Board member since 2018. Experience from financial legislation, regulation and supervision. Served 10 years as Deputy Director General and General Counsel of the FSA.

Shareholding: none

Gerry Jones – Board member

Board member since 2018. 35 years of experience spans among others Digital/Information and communications technology (ICT) sector as entrepreneur, CEO, Director, Chairman and advisor.

Shareholding: 20.9k shares

Daniel Nyhrén – Board member

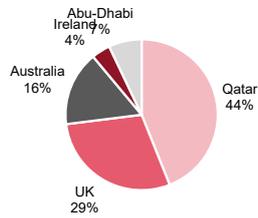
Board member from October 2018. Representative of the Swedish owner Athanase Industrial Partners. Daniel is a Board member of Hejstagran AB and has previously been a Board member of Röhnisch SE Holding AB, IABÖ Global Holding AB and NOTE AB (publ).

Shareholding (Athanese): 1,218k shares

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Company summary

Sales breakdown, geographical areas



Sales breakdown, divisions

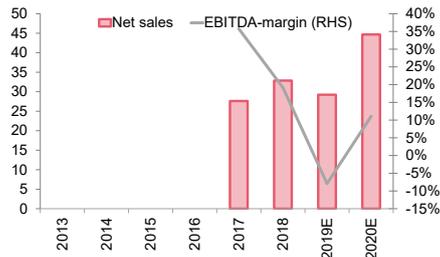
Company information

Zutec
62-63 Mounttown Road Lower, Dun Laoghaire
Ireland
www.zutec.com

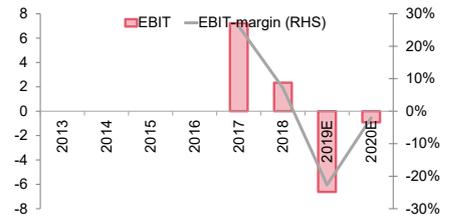
Main shareholders

Name	Votes (%)	Capital (%)
Brian McGuire	19.0%	19.0%
Athanase Industrial Partners	17.2%	17.2%
Humle Fonder	9.5%	9.5%
Thomas Boland	8.8%	8.8%

Net sales and EBITDA margin (SEKm)



EBIT and EBIT-margin (SEKm)



P/E NTM



EV/Sales NTM



Source: FactSet, Company data, Danske Bank Equity Research estimates

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Summary tables

INCOME STATEMENT										
Year end Jun, SEKm	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
Net sales						28	33	29	45	66
Cost of sales & operating costs						-18	-29	-32	-40	-51
EBITDA						10	6	-2	5	14
EBITDA, adj.						10	6	-2	5	14
Depreciation						-3	-4	-4	-6	-7
EBITA						7	2	-7	-1	7
EBIT incl. EO, bef. ass.						7	2	-7	-1	7
EBIT, adj.						7	2	-7	-1	7
Financial items, net	0	0	0	0	0	0	0	0	0	0
Pre-tax profit						7	2	-7	-1	7
Taxes						-0	-0	-0	-0	-1
Minorities						-0	-0	-0	-0	-0
Net profit, rep.						7	2	-7	-1	6
Net profit, adj.						7	2	-7	-1	6
CASH FLOW										
SEKm	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
EBITDA						10	6	-2	5	14
Change in working capital							-8	-8	-3	-2
Net interest paid							0	0		
Taxes paid							0			-1
Other operating cash items							-0	-1		
Cash flow from operations						0	-2	-11	2	11
Capex							-5	-7	-9	-11
Div to min										
Free cash flow						0	-7	-18	-7	0
Disposals/(acquisitions)							10			
Free cash flow to equity						0	3	-18	-7	0
Dividend paid										
Share buybacks										
New issue common stock							44			
Incr./(decr.) in debt										
Minorities & other financing CF							-0			
Cash flow from financing						0	44	0	0	0
Disc. ops & other										
Incr./(decr.) in cash						0	47	-18	-7	0
BALANCE SHEET										
SEKm	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
Cash & cash equivalents						7	47	30	23	23
Inventory										
Trade receivables						9	15	20	23	25
Other current assets						3	7	5	5	5
Goodwill										
Other intangible assets										
Fixed tangible assets						8	10	13	16	20
Associated companies										
Other non-current assets						0	0			
Total assets						26	78	67	66	73
Shareholders' equity						13	64	57	56	62
Of which minority interests						1	1	0	0	0
Current liabilities						13	14	10	10	10
Interest-bearing debt										
Pension liabilities										
Oth non-curr. liabilities										
Total liabilities						13	14	10	10	10
Total liabilities and equity						26	78	67	66	73
Net debt						-7	-47	-30	-23	-23

Source: Company data, Danske Bank Equity Research estimates

Summary tables

PER SHARE DATA	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
No. of shares, fully diluted (y. e.) (m)								7.1	7.1	7.1
No. of shares, fully diluted (avg.) (m)								7.1	7.1	7.1
EPS (SEK)								-0.96	-0.13	0.87
EPS adj. (SEK)								-0.96	-0.13	0.87
DPS (SEK)								0.00	0.00	0.00
CFFO/share (SEK)								-1.6	0.3	1.6
Book value/share (SEK)								7.95	7.82	8.69
MARGINS AND GROWTH	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
EBITDA margin						35.7%	19.1%	-7.9%	11.1%	21.6%
EBITA margin						26.1%	7.1%	-22.7%	-2.0%	10.7%
EBIT margin						26.1%	7.1%	-22.7%	-2.0%	10.7%
EBIT adj margin						26.1%	7.1%	-22.7%	-2.0%	10.7%
Sales growth							18.9%	-11.0%	52.9%	46.7%
EBITDA growth							-36.3%	n.m.	n.m.	n.m.
EBITA growth							-67.6%	n.m.	86.2%	n.m.
EPS adj growth									86.6%	n.m.
PROFITABILITY	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
ROIC (after tax, incl. GW, adj.)						217.9%	18.4%	-30.1%	-3.0%	17.0%
ROIC (after tax, excl. GW, adj.)						217.9%	18.4%	-30.1%	-3.0%	17.0%
ROE (adj.)						100.6%	5.1%	-11.3%	-1.6%	10.5%
ROIC (adj.) - WACC						210.3%	10.9%	-37.7%	-10.6%	9.5%
MARKET VALUE	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
Share price (SEK)							18.1	22.8	22.8	22.8
No. shares reduced by buybacks (m)								7.1	7.1	7.1
Mkt cap used in EV (m)								161	161	161
Net debt, year-end (m)						-7	-47	-30	-23	-23
MV of min/ass and oth (m)						1	1	0	0	0
Enterprise value (m)								132	139	139
VALUATION	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
EV/sales (x)								4.5	3.1	2.1
EV/EBITDA (x)								n.m.	28.1	9.8
EV/EBITA (x)								n.m.	n.m.	19.8
EV/EBIT (x)								n.m.	n.m.	19.8
P/E (reported) (x)								n.m.	n.m.	26.2
P/E (adj.) (x)								n.m.	n.m.	26.2
P/BV (x)								2.86	2.91	2.62
EV/invested capital (x)										
Dividend yield										
Total yield (incl. buybacks)										
FCFE-yield								-11.03%	-4.22%	0.00%
FINANCIAL RATIOS	06/2012	06/2013	06/2014	06/2015	06/2016	06/2017	06/2018	06/2019E	06/2020E	06/2021E
Net debt/EBITDA (x)						-0.7	-7.5	12.7	-4.6	-1.6
Net debt/equity (x), year-end						-0.5	-0.7	-0.5	-0.4	-0.4
Dividend payout ratio								0.0%	0.0%	0.0%
Interest coverage (x)										
Cash conversion (FCF/net profit)						0.0%	-357.8%	n.m.	n.m.	0.1%
Capex/sales								16.1%	22.4%	16.8%
NWC/sales						-3.8%	21.5%	50.2%	38.6%	29.8%
QUARTERLY P&L			Q1 18	Q2 18	Q3 18	Q4 18	Q1 19E	Q2 19E	Q3 19E	Q4 19E
Sales (m)			0	0	0	0	6	7	8	8
EBITDA (m)			0	0	0	0	-2	-1	0	0
EBIT before non-recurring items (m)			0	0	0	0	-3	-2	-1	-1
Net profit (adj.) (m)			0	0	0	0	-3	-2	-1	-1
EPS (adj.) (SEK)			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA margin			n.m.	n.m.	n.m.	n.m.	-30.6%	-19.5%	4.9%	3.9%
EBIT margin (adj.)			n.m.	n.m.	n.m.	n.m.	-47.6%	-34.3%	-8.5%	-10.5%

Source: Company data, Danske Bank Equity Research estimates

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