LeadDesk

Company report

18/02/2019

Initiation of coverage: Strong SaaS growth story

We initiate the coverage of LeadDesk with an accumulate recommendation and target price of EUR 8.5. LeadDesk offers a cloud service for high-volume sales and customer service needs. The company has a strong track record of rapid and profitable growth in Finland and internationally, as well as a competitive and scalable SaaS business model. LeadDesk has a large target market that is experiencing strong growth with the cloud transformation which, combined with the fragmented field of competition, provides the company with opportunities for both strong organic growth and mergers and acquisitions. By listing, the company pursued more financial resources and a stronger corporate image to support the strategy of profitable growth.

Leading Nordic provider of SaaS-based contact centre software

LeadDesk is the leading Nordic company in its area of specialisation. The company has offices in 6 countries, and the software is used by more than 700 customer companies. The company's net sales amounted to EUR 11 million in 2018, and it had 73 employees at the end of the year, of whom 22 were outside Finland. The competitive advantages of the company's solution include rapid and very cost-efficient deployment, high level of scalability, reliability, ease of integration and configuration, as well as a competitive pricing model. LeadDesk is highly competitive against the SaaS competitors in its own core target group and in particular against conventional software companies. The company has already commercialised its cloud service and proven its competitiveness in Finland and expanded its business operations into a profitable scale in 5 countries (with the international market accounting for almost 40% of net sales), which proves that the company's internationalisation strategy works.

Excellent growth outlook for the industry, consolidation has begun in the segment

The global cloud contact centre software market is valued at approximately USD 6.7 billion, with an annual growth rate of some 24%. The market growth is supported by the strong transition of the sector to cloud solutions, as approximately two-thirds of the industry's workstations still use conventional software solutions. The popularity of cloud solutions is driven by their flexibility, better user experience, efficiency and lower threshold and costs of deployment. Moreover, conventional software is about to remain in a maintenance state for many software vendors, with investments and R&D in the sector focusing on cloud services. The market for contact centre software typically requires strong local expertise and presence, and technologically speaking, the threshold of market entry has been low, which has led to the fragmentation of the industry. The growing popularity and significant benefits of scale of the SaaS model have, however, triggered consolidation in the market, and LeadDesk aims to be an active player in this development.

We find LeadDesk's valuation moderate, considering the strong and profitable growth

LeadDesk rapidly became profitable after the company decided to move from the investment phase to a phase of profitable growth in 2017. We estimate LeadDesk's net sales to grow by approximately 20% on average and EBITDA by approximately 25% per year. Based on different valuation methods, we set the target price of LeadDesk's share at EUR 8.5, which corresponds with an EV/S ratio of approximately 2.7x and EV/EBITDA of 15x for 2019. Based on the valuation on the first day of trading (EUR 7.75), LeadDesk's 2019e EV/S ratios are 2.4x and the corresponding EV/EBITDA ratio is 13.5x. With the business model based on strategic development phase that has proceeded to profitable growth and recurring income (approx. 90%), the company's risk level is moderate, but the company's small size, changes in the competitive position and continuation of profitable growth involve risks.

Analysts

Petri Aho
+358 50 340 2986
petri.aho@inderes.fi

Mikael Rautanen
+358 50 3460 321
mikael.rautanen@inderes.fi

Recommendation and target price

Accumulate
(-)

EUR 8.50
(previously No target price)

Key figures

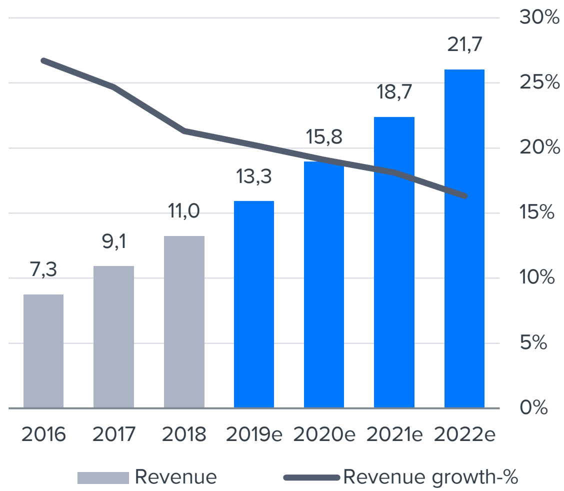
	2018	2019e	2020e	2021e
Net sales	11.0	13.3	15.8	18.7
growth %	21%	20%	19%	18%
EBITDA adj.	1.8	2.3	2.9	3.6
- EBITDA % adj.	16.6%	17.6%	18.1%	19.2%
Net income	0.3	0.4	1.7	2.4
EPS (adj.)	0.10	0.21	0.36	0.50
P/E (adj.)	76.0	37.2	21.4	15.4
P/B	50.8	5.4	4.3	3.4
Dividend yield, %	0.0%	0.0%	0.0%	0.0%
EV/EBIT (adj.)	45.5	23.9	16.0	10.7
EV/EBITDA	20.7	13.5	10.4	7.5
EV/Revenue	3.4	2.4	1.9	1.4

Source: Inderes

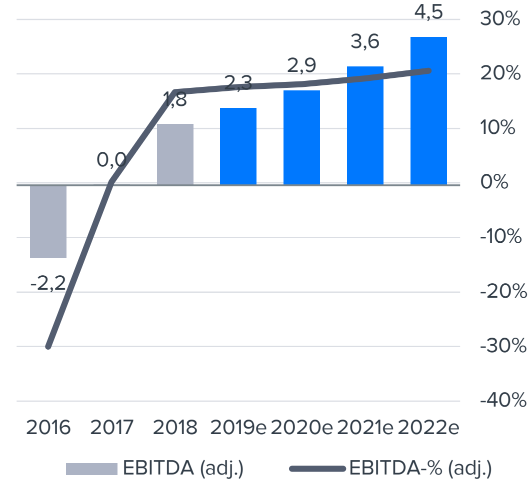
Summary of valuation methods

Method/valuation multiple		Multiple 2019e	Estimate 2019e	Value
SaaS companies	EV/S	3.9x	13.3	52
Nordic software companies	EV/S	2.8x	13.3	37
Nordic IT service companies	EV/EBITDA	8.1x	2.3	18
Industry peers & M&A	EV/S	2.7x	13.3	36
Cash flow statement (DCF)	NPV			38
Average	MEUR			**36**
Net cash 2018 (after issue)	MEUR			4.0
Market capitalisation (Inderes)	**MEUR**			**40**
Market capitalisation/share (Inderes)	**EUR**			**8.5**
Share price 15 February 2019	**EUR**			**7.75**
Potential % cf. Inderes' target price				**+10%**

Revenue and growth %



EBITDA and EBITDA %



MCAP
37
MEUR

EV
32
MEUR

EV/S
2.4x
2019e

EV/EBITDA
13.5x
2019e

Value drivers

- Strongly growing target markets and significant market potential
- Strong competitiveness compared to smallest and local operators in the target markets
- Scalable business model and cost structure
- Expansion of customer accounts into new solutions and added value services
- New market areas
- Mergers and acquisitions

Risk factors

- Limited visibility to success in sales to new customers
- Changes in the competitive situation
- Technology, information security and regulatory risks
- Mergers and acquisitions and new markets
- Weak liquidity of the share

Valuation

- Net sales-based valuation is attractive, but also earnings-based valuation provides support for value creation
- Moderate pricing compared with peers supports the valuation
- Strong growth in net sales and earnings
- Turnover of the share may be weak, which increases the return requirement

Source: Inderes

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Company description

Background and history of LeadDesk

LeadDesk offers a cloud-based contact centre software product for high-volume sales and customer service needs. The company was established in 2009 and its actual operations began in 2010. The founders, Lauri Pukkinen and Olli Sirkiä, are former management consultants who identified a growth opportunity arising in the market with the transition of contact centre software to the cloud. The start was aptly timed, as technology has begun to mature adequately in LeadDesk's industry towards the end of the previous decade to allow the start of software transitioning to the cloud era.

Following rapid growth after the establishment of the company, the entrepreneurs decided to hire an operational CEO for LeadDesk in 2013, at which time the company's current CEO Olli Nokso-Koivisto took up his post. Rapid internationalisation of the company commenced in 2013, once the competitiveness of the product had been proven in the Finnish market. The remote sales model attempted initially did not, however, work in international expansion, and therefore the strategy of international growth was revised towards local presence and sales model. In 2013–2014, the company established subsidiaries in Sweden, Norway and Germany.

The new markets got off to the pursued growth, and once an adequate track record of success in internationalisation was achieved, the company raised EUR 5.5 million of financing from Dawn Capital, a venture fund focusing on SaaS companies, and Tesi (Finnish Industry Investment Ltd) in 2015. After raising the funds, LeadDesk began to aggressively accelerate its international growth, and the company made a clear loss with the growth investments pursuant to the strategy (EBITDA for 2015–2016 -20–30%). In 2015–2016, the company established offices in the Netherlands and Denmark and invested in the background infrastructure of the software to enhance the scalability of the solution.

Starting in 2017, LeadDesk commenced the strategic transition from a loss-making start-up into a growth company and began to develop the efficiency of its business operations. The company cut down its most aggressive growth investments and extraordinary functions, which slowed down the growth rate to around 20%, while profitability quickly turned clearly to the black (2018 EBITDA % 17%). According to our estimate, all of the countries of the international markets have now risen to a volume level at which they are cash flow-positive. Therefore, the company can be considered to already have a good track record of successful internationalisation in terms of both growth and profitability.

LeadDesk today

LeadDesk now reports that it is the leading provider of large-volume cloud sales and customer service software. The company has offices in six countries and more than 700 customer companies. The company's net sales amounted to EUR 11 million in 2018, and it had 73 employees at the end of the year, of whom 22 were outside Finland.

LeadDesk operates based on a distributed organisation method. The company's product development activities and head office are located in Helsinki and Lappeenranta, Finland. The sales and customer service personnel work close to the customers in country companies that are relatively independent.

LeadDesk's biggest shareholders are its founders, Olli Sirkiä (30%) and Lauri Pukkinen (30%). Other shareholders include Dawn Capital (23%), Tesi (Finnish Industry Investment Ltd) (9%) as well as the company's chief executive officer Olli Nokso-Koivisto (8%). Following the IPO, the shareholding of the founders and venture capital funds would decrease to under 50%, and even smaller after any acquisitions.

First North listing

According to our estimate, LeadDesk has been prepared for listing with determination since 2017. The listing is not an exit for the owners, but a tool for the company to implement the next phase of its strategy.

LeadDesk successfully carried out a listing on the First North marketplace in February 2019. The listing provided the company with capital for implementing the growth strategy and the ability to use its share as a means of payment in mergers and acquisitions, which plays a key role in the company's new strategy phase. Moreover, the listing aims to strengthen the awareness and credibility of the company among customers.

The company raised net funds of approximately EUR 5.2 million with the IPO. The anchor investors in the listing were Aktia Asset Management Ltd, certain funds managed by OP Fund Management Company Ltd, Tesi and G2Invest Oy (Petri Niemi, chair of the Board).

Company description and business model 2/5

Business model

Product and customers

With LeadDesk's browser-based software, delivered using the Software as a Service (SaaS) model, sales and customer service personnel can work efficiently with regard to contacting customers and receiving customer contacts. With the solution, the customer can increase the efficiency of contact centre processes by connecting the right person, channel and solution at the right time. The cloud-based approach provides the customer with flexibility, scalability and cost-savings. The software includes several basic functionalities required by contact centre operations, in addition to which the company develops diverse LeadApp added value applications to complement its offering.

The company's software is particularly designed for the needs of outbound sales, but it has also been expanded to cover the needs of inbound sales and customer service. The software can be deployed quickly and does not normally require any customisation or integration, which makes the sales and deployment cycle of LeadDesk considerably faster compared to many other enterprise software products. LeadDesk's product can also be integrated with the most common CRM systems through readymade interfaces, if necessary.

The core target group of the solution includes small and medium-sized contact centre companies and organisations' in-house sales and customer teams, typically comprising less than 50 people, that process large volumes of sales and customer service contacts. Contact centre companies often operate with thin margins and under tough competition, and therefore the efficiency of processes, reliability of service and flexibility offered by the software is vital to their business. Other customer industries include the media, security services, the energy industry, telecom, financial services and market research. The customers typically operate locally, which requires LeadDesk to have a local presence close to the customers.

As part of the solution, LeadDesk's customer receive the required telecom services via the software. In practice, LeadDesk therefore operates as a virtual operator for its customers, and the company is an EU-regulated and registered telecom operator. The service depends on a server network built by the company in ten different locations across Europe. The company purchases wholesale data transfer capacity from operators and resells it as part of the LeadDesk solution to customers. We estimate that the telecom services provide the company with high-margin recurring sales and account for approximately 23% of the company's net sales.

Sales and customer lifecycle

LeadDesk operates purely via its own sales organisation. Unlike the large corporate customer segment, no integrator is required between the software vendor and customer in LeadDesk's target market, thanks to the lightweight solution. The company obtains customers through its own outbound sales and online sales. The customer's purchase decision is typically made by a supervisor in the user organisation (contact centre) and the customer's IT department is rarely involved in the procurement process, which makes the sales and deployment cycle significantly shorter.

In a customer organisation involved in outbound sales, the software is deployed within a few months at the fastest, and earnings-driven sales organisations (outbound) are very often quick to make decisions. The customer can primarily deploy the product themselves, and specialist services provided by LeadDesk only play a small-scale role. When the customer's inbound sales and customer service procures the solution, the deployment is more complicated and the sales process takes longer. Therefore, LeadDesk primarily proceeds in its sales via the customer organisation's outbound sales department.

Once the customer has deployed the software, monthly charged use fees based on access points begin. The agreements are typically valid for approximately one year at a time. The customer is supported by customer service and the customer success team tasked with helping the customer succeed in their business. According to the company's website, the basic "Instant" licence costs EUR 85 per access point per month, but the price can be assumed to be lower for customers with a high user volume, some EUR 70–75 per month. According to our calculations, a typical customer of the company pays slightly over EUR 1,000 per month. It is an obvious strength of the product that it is capable of scaling up from a contact centre with a few people to the needs of large corporations.

Company description and business model 3/5

LeadDesk's growth in existing customers is primarily generated from expansion in the customers' use, i.e. growth in the number of users. The LeadApp added value services aim to increase the value of the customer accounts in the long run, but they currently account for a small share of the company's net sales.

The company's customer retention is secured by the fact that the solution is a critical part of the customer's business processes. The reliability and efficiency of the service are emphasised as competitive advantages in this case. Moreover, being cloud-based is a key competitive advantage for the company, as customers are primarily transitioning from conventional solutions to cloud software, where LeadDesk has a good competitive position. The downside of the LeadDesk solution being quick to sell is the rather high turnover of the customer base, as contact centres engaging in outbound sales in particular are often small and have a high natural attrition. In addition, turnover is often higher during the first six months of the customer relationship, when the customers are typically still surveying the suitability of the solution.

Subcontractor network management functionality adds network effects to business

SaaS enterprise software rarely brings network effects typical of platform companies, but in the case of LeadDesk, the business model provides certain network effects, strengthening as the company's market position enhances. This is based on the benefit received by the principal owning the sold product or customer (such as a telecom operator) increasing with the increasing number of its call centre subcontractors using the same software. This way, the principal can monitor and guide outbound sales activities and tender subcontractors easily with LeadDesk. This also provides principals with a strong incentive for activating the subcontractors in their ecosystem to transitioning to using the LeadDesk software. According to our view, this ecosystem arising around LeadDesk is already an obvious competitive advantage for the company in the Finnish market, adding an important moat around the business model.

Product development

LeadDesk has 14 employees engaged in product development. Product development expenses represented approximately 10% of the company's net sales (2018).

The company's product is mature, competitive and easily replicable to new markets, so we do not estimate the company to have significant product development expenses ahead, which is positive from an investor's point of view. Product development is comprised of normal operational minor development, strategic product development to strengthen the competitiveness of the software and tactical product development aiming for new sales in a specific segment, for example.

LeadCloud business

LeadDesk's subsidiary Leadventure Oy provides consumer and decision-maker contact details for direct marketing purposes as a LeadCloud service. The service enhances the results of direct marketing by providing customers with higher-quality sales contacts that are easier to use.

The LeadCloud business provides LeadDesk with natural synergy benefits thanks to the companies' uniform customer base, but according to our estimate, the growth of LeadCloud is increasingly based on customer accounts outside the group.

LeadCloud does not control the data file itself, so its business is based on the added value from refining data held by the owners of customer and corporate databases. The added value is based on e.g. utilising machine learning in classifying and sorting sales contacts. LeadCloud's customer therefore pays LeadCloud for both the controller's data and using the service. Approximately two-thirds of LeadCloud's net sales is generated by continuous agreements, while invoicing based on the number of contacts accounts for approximately one-third of net sales.

With regard to LeadCloud, it should be noted that due to the overall reform of data protection at the EU level, the business involves uncertainties regarding data protection which might have a negative impact on LeadCloud's business. LeadCloud's net sales amounted to approximately EUR 1.9 million last year, and it is primarily provided in Finland. LeadCloud has 10 employees, and according to our estimate, the business is very profitable and growing strongly, which is why LeadCloud's operations weakening might also have negative impacts on LeadDesk.

Company description and business model 4/5

Scalability

LeadDesk's SaaS/cloud-based business model is very scalable, as is typical of the software business. This means that when net sales and customer volumes increase to a certain level, the unit costs of almost all cost items begin to decrease in proportion to net sales and accelerate the growth in earnings to outgrow net sales.

Early in the lifecycle of SaaS companies, and especially in the phase of rapid growth, however, the scalability is not yet typically fully reflected in the relative costs and profit development of SaaS companies, which can be attributed to 1) SaaS revenue and cash flow accumulating steadily over time, 2) strong frontloading of investments in growth and service development and maintenance, as well as 3) old customer accounts typically growing and expanding slowly over time.

As per cost items, the biggest scaling potential of SaaS companies typically relates to sales and marketing expenses and R&D expenditure, but there is also significant potential in the scaling-up of variable operating expenses and administrative expenses. LeadDesk is not significantly different from a typical SaaS company on the whole in terms of scalability.

LeadDesk's materials and services costs have represented approximately 20–30% of the company's net sales in recent years, meaning that the company's EBITDA has been approximately 70–80%. According to our estimate, the EBITDA for the company's SaaS software revenue has been over 90%, but with regard to Telecom services and LeadCloud, which depend on outsources services, EBITDA has been in the range of 50–60%.

According to our estimate, LeadDesk's EBITDA might still have slight scaling potential, with the unit costs of cloud server capacity, telecom services and data files decreasing with increasing volumes.

LeadDesk's R&D expenditure has represented approximately 10–20% of the company's net sales in recent years. LeadDesk currently has a relatively mature product with a commercial track record that can be replicated and expanded internationally. Also, costs relating to product updates scale up strongly with growth in the customer volume, as the SaaS model allows distributing the costs in a predictable manner among all customers. We estimate that R&D expenditure can be kept at approximately 10–20% of net sales in the next couple of years as well. In the long term, we expect that the company will be able to scale these expenses to approximately 5–10% of net sales.

In the phase of rapid growth, a limiting factor of the scalability of LeadDesk's business has been and will remain in the medium term the coverage of the sales channel and customer acquisition resources; building them will continue to require significant, partly frontloaded investments in personnel, sales and marketing, among other things. We estimate that LeadDesk's sales and marketing expenditure has represented approximately 35–45% of the company's net sales in recent years and expect it to remain at a similar level in the next couple of years as well. In the long term, sales and marketing expenses should also experience significant benefits of scale, with the efficiency of sales increasing, customer support-related services being replicated and the expansion of old customer accounts requiring less sales investments compared to securing new customers. We estimate that in the scale-up phase (2023–), LeadDesk's sales investments could decrease to 25–30% of net sales.

Visibility and continuity of earnings

The accrual of continuous software services (SaaS) and cloud revenue typically follows growth in sales investments with a slight delay, but due to the visibility of continuous agreements lasting typically for around a year (approx. 70% of net sales), we consider the recovery of sales investments to only involve minor risks in the case of LeadDesk.

LeadDesk's solutions concern customers' business critical operations, which raises the threshold of discontinuing the use of the service or switching service providers.

In LeadDesk's business model, continuity is partly also provided by the increase in the number of principals using several call centres, which increases the network benefits received by the principals, and growth in the benefits of industry-specific added value services increasing with the increase in the number of customers.

Company description and business model 5/5

SaaS model

LeadDesk is a pure SaaS company

The transition to the cloud era has caused a new deal in several areas of the software industry, and LeadDesk's segment is no exception. In LeadDesk's market, the telecom infrastructure and technology evolved sufficiently to allow the beginning of the sector's transformation into the cloud towards the end of the last decade.

LeadDesk is a "cloud-native" company that does not suffer from the burden of on-site technology, which is an important asset. The transition to the SaaS model is painful to a software company due to requiring changes in the culture, customer, and software provider processes, technology and revenue recognition, among other things.

The SaaS model differs significantly from the conventional single license model in software sales through the 1) business model (e.g. recurring vs. one-off revenue), 2) software delivery and hosting model (cloud vs. local infrastructure), and 3) the company's operational model (e.g. scalability). SaaS companies thereby differ from conventional software companies in terms of their profit, cash flow, and risk profile.

Due to the growth prospects and other benefits of the SaaS model, SaaS companies are typically priced, depending on the development phase, using very different valuation factors compared to conventional software vendors whose business is commonly in a "maintenance mode" generating a strong cash flow.

Popularity of the SaaS model is growing strongly

The share of SaaS-based software solutions has grown strongly in all software segments in recent years. Gartner, for example, estimates that the SaaS software market will grow globally by an average of 18% per year by 2020 and exceed the market growth of conventional single license software solutions, which is estimated to be only a few percent. The growth of the SaaS market is driven by the easier deployment of cloud services, increase in the supply and the benefits offered by the SaaS model to the customer and software provider. In LeadDesk's market, the development of the efficiency of the communication infrastructure has been a key facilitating factor for cloud transformation, as high operational reliability and ability to scale up to high volumes are required of the software.

Benefits of the SaaS model from the customer's point of view

- Compared to conventional software solutions, typically lower threshold and cost of deployment, as the software can be deployed using a browser without major start-up investments and integration projects.
- More stable, foreseeable costs of using the software, flexible based on business volume.
- Continuous development and maintenance: SaaS software is maintained and updated centrally by the software provider, which decreases the customer's costs relating to system maintenance and support. The software is always up to date and updated.

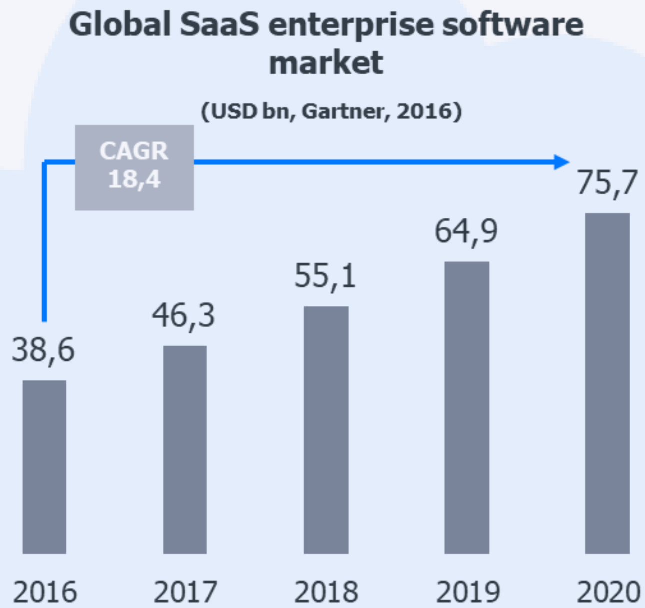
Benefits of the SaaS model to the software provider

- The higher share of the value chain of the software solution and auxiliary services typically increases the life cycle value of the customer account higher than with a conventional software solution.
- Monthly fees provide continuity and predictability to revenue and cash flow.
- The cost structure is scaled with the increase in the value of customer accounts and number of customers.
- Possibility to sell new functionalities to the existing customer base cost-efficiently.
- Product development cycles and software production are accelerated, decreasing the risk of customer attrition, as a change in the software generation does not result in a point of discontinuity in the customer account.

SaaS model from the investor's point of view

- High growth potential arising from the transformation of the software market to the SaaS model and expansion of customer accounts.
- The profitability potential of SaaS companies is high in the long term due to their scalability.
- High profit continuity and good predictability lower the risk profile of cash flows.
- Front-loaded costs compared to revenue accumulated steadily over time impair the profitability and cash flow of SaaS companies in the phase of strong growth. Compared to the single licence model, the SaaS model therefore requires a longer horizon and management of different efficiency and valuation indicators from the investor.

Drivers of the popularity of the SaaS model



Customer

- Rapid and more cost-efficient deployment
- Steady and foreseeable expenses
- The solution is scalable as needed
- No separate system maintenance and updating expenses
- Continuously updated and upgraded software

➢ **Low total cost of ownership (TCO)**

Investor

- High growth potential as software transitions to the cloud
- Steady and foreseeable cash flows
- Scalability allows high profitability
- In the growth phase, profitability and cash flow are weak in proportion to revenue due to the frontloaded expenses

➢ **Higher valuation levels**

Software vendor

- Recurring and foreseeable revenue and cash flow
- Low threshold to buy and faster sales cycles
- Deeper, longer and more valuable customer relationships
- More cost-efficient operational model
- Scalable cost structure
- Cost-efficient and rapid product development and update cycle

➢ **High lifecycle value of the customer account and scalability**

Source: Inderes, Gartner

Strategy 1/2

Phase of growth strategy

LeadDesk is in an interesting development phase, as the company has reached a mature phase with regard to the product and technology and has a track record of successful sales investments in the product. With the capital investment made in 2015, the company has opened up several new markets with aggressive investments and made a profit in 2018. The seeds of internationalisation have been sown, and they have been proven to develop, and therefore new investors need not carry as high a risk of the success of uncertain international investments. Moreover, the company's product has already been partly acid-tested in the international market.

In spite of the interesting strategic phase, with regard to the company's strategic development we draw attention to the fact that after aggressive growth investments (2015–2016), the company has obviously reined in its growth investments in 2017–2018 based on the cost structure. This has been reflected in decelerating growth of the company, and the rapid changes implemented in the company may have caused discontinuity in the organisation. From the investor's point of view, the risk would be that the company has optimised profitability and cost structure excessively at the threshold of the listing from the point of view of strategy.

On the upside, the transition of the strategic focal point from growth to also profitability and cash flow has introduced a strong culture and mindset of efficiency to the company. The turn in profitability has been fast, proving the scalability of the company's business model. In addition, the rise to positive profitability provides the company with credibility among large customers that take a critical approach in their software vendor choices. Based on the company's most recent continuous invoicing figures (ARR 31 December 2018), the growth in sales has not dramatically slowed down in spite of reining in the growth investments.

According to our estimate, LeadDesk is entering a phase of profitable growth in its strategy with the listing. We estimate that the company will enter new countries in the next couple of years and continue strong growth in the five international markets it has already entered, which are still in a relatively small size category. According to our estimate, the company's international operations generate approximately EUR 1 million of net sales in each country, while net sales in Finland amount to around EUR 5 million (excluding LeadCloud). The growth will probably be accelerated in the next couple of years through mergers and acquisitions, for which the listing provides a tool.

We estimate that the company will maintain moderate and increasing profitability in the next couple of years, but due to the phase of the strategy, we do not assume the company to prioritise profitability; value creation is the result of the right balance between profitability and growth. LeadDesk's long-term goal is to be the biggest SaaS software company in Europe focusing on high-volume sales and customer service needs in terms of net sales. Reaching the objective naturally requires the company to grow to a considerably larger size.

Internationalisation

LeadDesk's customers are primarily small local operators that appreciate proximity with the software vendor. Therefore, internationalisation requires local presence close to the customers. The software must always be adapted to the local legislation, language and local practices. In practice, however, the core product scales well across national boundaries, and the software does not require significant country-specific localisation.

LeadDesk already has solid experience from opening five new markets, which has provided the company with experience with an eye to the future. The company aims to open up a new market starting from smaller and less complex customers (typically contact centres engaging in outbound sales), as the sales cycles are shorter among them due to the earnings-oriented decision-makers. After this, the company pursues more demanding larger customers and the inbound side of things, where the complexity is higher. The chosen sales strategy makes it faster to open up a new market, and the success of the company's growth is not as dependent on customers' long decision-making cycles and software deployment projects.

According to our estimate, entering a new country costs LeadDesk EUR 0.5–1 million in expenses, depending on the aggressiveness of the chosen strategy. Our view is that the company has become profitable in a new market within two years at the fastest.

Strategy 2/2

In a new market, the company faces strong competition mainly from small local operators representing an old software generation which, however, find it increasingly difficult to compete against modern cloud-based solutions.

Mergers and acquisitions

Mergers and acquisitions are an essential part of LeadDesk's growth strategy. The pursued acquisitions can be divided between obtaining customers and obtaining technology. The company surveys potential targets for acquisitions both in and outside Finland. The fragmented market comprised of small local operators provides the company with good opportunities for promoting market consolidation, using its own shares as a means of payment in acquisitions.

If the acquisition concerns a competitor using old software, LeadDesk primarily seeks faster customer acquisition with the acquisition, replacing the technology of the acquired company with LeadDesk. In such cases, the valuations of the acquisitions should be very moderate. When merely acquiring customers, the risks of acquisitions are also increased, as replacing the acquisition's technology can be challenging and lead to losses of customers and specialists. Focusing on small-scale acquisitions mitigates these risks.

LeadDesk also surveys potential acquisitions through which the company could supplement its portfolio with new features or software. In this case, acquisitions partly substitute for in-house product development.

Product development

LeadDesk's core software is competitive and mature, and according to our view, its features do not have material shortcomings that would result in a significant pressure on increasing the company's product development expenditure in the next couple of years. However, maintaining the competitiveness of the product naturally requires continuous investments in product development. In addition, by developing new features (such as gamification), the company aims to achieve additional sales to the existing customer base.

What to follow with regard to the strategy

According to our estimate, the essential things to follow with regard to LeadDesk's strategy from an investor's point of view in the next couple of years include:

- **Balance between growth and profitability.** This is the key indicator with regard to the progress of the company's strategy and creation of shareholder value. As a rule, the growth rate % and EBITDA % being approximately 40% are at an excellent level.

- **Success in acquisitions.** The company aims to accelerate its growth through acquisitions, but the company has a limited track record of the functioning of this expansion strategy. The fragmented market does, however, probably offer good opportunities for value creation.

- **Opening up new markets and international growth.** LeadDesk's growth has begun to slow down in Finland, and continuing strong growth requires international successes. We expect the company to aim to both grow the current market by increasing its growth investments and to open up new countries in the next couple of years, which we expect to dilute the scalability of the company's profitability.

Markets

Contact centre software market

The global market for cloud-based contact centre software is estimated to be valued at approximately USD 6.7 billion, growing annually by 24% in 2017–2022 (DMG Consulting). LeadDesk operates in the European contact centre software market, focusing primarily on small and medium-sized organisation customers, which considerably limits the company's market.

LeadDesk's markets within Europe are typically very local and country-specific, which makes it more difficult to define LeadDesk's target market in detail. Outbound call centre employees are estimated to number about a million in Europe (source: ECCB). This way, LeadDesk's potential target market in outbound sales (assuming a 100% cloud penetration) can be estimated to be roughly EUR 900 million per year (assuming an average price of EUR 75 per user per month). Compared to inbound and customer service solutions, the market potential is manifold. According to a survey by Altitude Software, the European contact centre industry had a total of 3.7 million employees (2013), and the number is estimated to increase by 4.4% annually.

The market is transitioning to cloud-based solutions

It could be said that the transition of contact centre software to the cloud era began at the time of LeadDesk's establishment at the beginning of the 2010s. Following the start of the transformation, the growth in on-premise solutions (5%) has been clearly slower than that in cloud solutions (28%) in 2010–2016 (DMG Consulting). The global penetration of cloud-based solutions has increased from 3% in 2010 to over 18% last year. It has been estimated that by 2022, only 31% of all workstations have transitioned to cloud-based solutions (DMG Consulting). Therefore, in the big picture, the transition of the industry to cloud solutions is still in its infancy. In outbound sales contact centres, the cloud penetration is probably considerably higher than the average on account of market dynamics.

As cloud solutions develop further, they can be estimated to continue to conquer the market as the competitiveness of conventional on-premise solutions weakens. The popularity of cloud solutions is driven by their flexibility, better user experience and lower threshold and costs of deployment. Moreover, on-premise solutions are about to remain in a maintenance state among software vendors, with the industry's investments focusing on the cloud. Going forward, contact centre operators will increasingly pursue competitiveness by using these solutions with e.g. applications utilising analytics and artificial intelligence, which is facilitated by the cloud transition.

The deployment of cloud-based contact centre software increases the fastest in small organisations for which a cloud-based system is often the best solution possible due to the low costs and simplicity of deployment. This way, the sales cycles in LeadDesk's primary target group are quite fast and the company positions in the fastest-growing segment in the market.

Market cyclicity

LeadDesk's business model, based on continuous agreements, provides the company with an important buffer against cyclicity. Moreover, the progress of the cloud transformation of the market will function as a significant market-driving counterforce against the weakening of the economy. A recession would, however, probably be reflected in the company's acquisition of new customers slowing down and higher customer attrition, with small contact centre operators probably leaving the market.

Outlook of the contact centre market

The outlook of the contact centre industry is relatively stable as a whole according to various estimates, but with new, more efficient cloud-based software solutions and technologies that party substitute for human contact (self-service portals, chatbots, automation), the total number of workstations in the industry is turning to a slight decline.

The telesales segment has a relatively poor reputation due to the poor customer experience, among other things. Contact centre software aims to enhance the customer experience and efficiency of sales, so software products contribute to solving this problem. One of the long-term risks of the industry (in outbound sales) is tightening legislation concerning telesales.

According to our estimate, automation and artificial intelligence do not threaten the human contact offered by contact centre services, at least in the near future, but they play an important role in enhancing the efficiency of contact centre operations and developing the customer experience.

Competition

Competition

Competitors

LeadDesk divides its competition into four main groups: 1) large companies, 2) companies dependent on the ecosystem, 3) local companies and 4) international SMEs.

LeadDesk's current main competitors are primarily locally operating SMEs, such as Loxysoft in Sweden, 4com in Germany and CCL in the Netherlands. In addition, there are a number of other small local software companies in small customer accounts competing indirectly with LeadDesk, such as the Finnish company Provad.

With regard to large companies, the competitors are mainly large US companies, such as Genesys Avaya, 8x8 and Cisco, which typically operate, however, in a different market than LeadDesk (large organisations and complicated custom solutions) and in a clearly higher price category.

Also, several "ecosystem-dependent" companies have emerged in the industry in recent years, offering software services highly integrated with a specific service (such as Salesforce, ServiceNow). Ecosystem-dependent companies, such as NewVoiceMedia (Vonage), TalkDesk and Five9, are strong competitors at the global level according to LeadDesk, and they compete in a similar market with LeadDesk, but often in different geographical market areas.

LeadDesk's closest competitor is the French company Vocalcom, which is, similarly to LeadDesk, a software competitor serving SME customers multi-nationally and often LeadDesk's strongest competitor in Central and Eastern Europe. Vocalcom has more than 20 years of history in the industry, and therefore has gained a strong market position in many markets in Western Europe. According to our view, the company has also succeeded in transforming into a provider of cloud services.

LeadCloud's main competitors are Finnish companies maintaining company and customer registers, such as Asiakastieto and Bisnode. However, LeadDesk operates with a different operating model and narrower focus than them.

Market position

In terms of net sales, LeadDesk is globally a small player in the CCaaS (call centre software as a service) market. In its home market, Finland, the company is nevertheless the market leader and mainly competes with Elisa's services, large global companies and small local companies for the market. According to our estimate, LeadDesk's awareness is reasonably good in Sweden, Norway and Denmark as well, but the company's market share is still clearly lower than in Finland. In Germany and the Netherlands, the company still has quite little net sales compared to the size of the market, even though the company has been operating in these markets for several years.

LeadDesk's reference customer accounts include the debt collection company Intrum Justitia, temporary staffing agency Manpower, energy company Fjodkraft and fundraising consultant 4DMC.

LeadDesk competition

Source: LeadDesk

Competition

Competitive factors

According to LeadDesk, its key competitive advantages include:

1) coverage and user experience of the solution,

2) efficient deployment and use,

3) local infrastructure and support and customer services,

4) scalability of the solution to diverse needs and customer sizes,

5) quality and operational reliability, and

6) strong specialisation in high-volume customer solutions.

Due to the SaaS transformation of the industry, customers are now more willing to replace their software and make their purchasing decisions more strongly at the level of business units (previously often the IT function), which has provided a competitive advantage to agile companies that purely offer SaaS solutions, such as LeadDesk. According to LeadDesk, this is visible in that the suppliers of earlier-generation products cannot necessarily offer upgrading old on-premises solutions to cloud-based solutions at competitive prices due to the heavy and complicated projects.

According to LeadDesk, the total costs of the company's software solutions are clearly lower than those of bigger competitors, as the company's product involves very low deployment and configuration expenses and its deployment only takes very little time. However, according to LeadDesk, its software is very extensive in terms of features and coverage, can be scaled to customer accounts of different sizes and to different industries, and its licence fees are at a medium level.

Small size of the company is a competitive disadvantage

We consider LeadDesk's key competitive disadvantage to be its relatively poor international awareness, smaller resources and competitiveness in the biggest customer accounts in particular, caused by the small size and market position of the company. Due to the company's size, LeadDesk's products are not classified in analyses of the industry's products, for example. Compared to the international market, however, LeadDesk has a stronger position in Finland due to its numerous reference customer accounts.

Because of the smaller volume of operations, LeadDesk also cannot invest in product development, sales and marketing in the same way as the biggest competitors, and therefore LeadDesk is not necessarily the most competitive in the biggest and most complicated customer accounts.

According to our view, the company aims to minimise the competitive disadvantage by focusing on customer segments that are not in the focus of the biggest competitors, with the ease of use and configurability of the product, as well as with extensive added value services.

LeadDesk's competitive factors

+ Pure SaaS solution scalable to meet diverse customer needs
+ More extensive and user-friendly solution than those of local software vendors
+ Quality and operational reliability at a high level compared to local companies
+ Clearly lower TCO and faster to deploy than large software vendors
− Clearly smaller R&D and sales resources than bigger competitors
− Poor awareness in the biggest market areas
− Cannot provide service packages required by the most complicated large customer accounts

Historical development and financial position

Development of growth and profitability

LeadDesk's net sales have grown strongly during the past 7 years, as the competitiveness of the company's product has strengthened and the company has successfully expanded into new market areas. LeadDesk's net sales increased from EUR 1.2 million in 2012 to EUR 11.0 million in 2018. On average, the company's net sales increased by 45% in 2012–2018, levelling off to slightly over 20% towards the end of the period (2018: 21%). Relatively speaking, the growth has been the strongest in international markets (2014–2018 annual growth 46%), but in euros, net sales in Finland have continued to grow the strongest in recent years (2014–2018 annual growth 15%). In Finland, the growth has been supported particularly by strong growth in the LeadCloud business. LeadDesk's growth has been almost fully organic in practice, as the company only carried out one minor acquisition during the period.

The company's profit and profitability performance were negative during the fiercest phase of internationalisation (2015–2016, with EBITDA amounting to -20–30%). Profitability turned to a clear increase and the company began to make a profit with the efficiency and reorganisation measures carried out in 2017, which in particular decreased the share of personnel expenses of net sales and reduced the expenses of external services. In addition, the company's EBITDA margin increased significantly due to benefits of scale and pricing adjustments. In 2018, the company's EBITDA margin was approximately +17% (2017: 0%) and EBIT margin was +8%. (2017: -9%). The operating profit is decreased by the depreciation of capitalised product development expenses.

The company financed its growth in 2012–2018 mainly through share issues and debt financing. An equity financing round of EUR 5.5 million was carried out in 2015, when the English venture capital company Dawn Capital, which focuses on fintech and software companies, and the venture capital company Tesi owned by the Finnish state became significant shareholders in the company. The biggest debt financing is a EUR 3 million loan agreement with Kreo Capital; its last instalment is due in 2020.

Cost structure

LeadDesk sells and provides its services, apart from telecom services and corporate and consumer target group register data, primarily using in-house resources, so the company's materials and services cost item is relatively low at approximately 20% of net sales and comprises slightly over 20% of the company's total expenses. Material and service expenses amounted to EUR 2.3 million in 2018.

As is typical of a software and service company, LeadDesk's total costs are primarily comprised of personnel expenses (2018: approximately 44% of total expenses). Personnel expenses amounted to EUR 4.5 million in 2018, representing approximately 41% of net sales. The company's euro-denominated personnel expenses have remained steady in recent years with the efficiency measures, which has significantly decreased their share relative to net sales (2016: 63%, 2017: 51% and 2018: 41%).

Other operating expenses are LeadDesk's second-biggest cost item. Other operating expenses have moved steadily between EUR 2.3–2.6 million, but relative to net sales, their share has decreased from approximately 36% to 23%. Other operating expenses are comprised of rents of premises, marketing expenses, costs of administration and accounting, so they are quite fixed by nature and typically grow slower than net sales.

Balance sheet and financial position

LeadDesk's balance sheet structure is very simple and lightweight. At the end of 2018, the balance sheet total was approximately EUR 5.3 million. The assets on the balance sheet were mainly comprised of receivables (EUR 1.3 million), cash and cash equivalents (EUR 0.9 million) and intangible assets (EUR 2.8 million), as well as EUR 0.1 million of goodwill.

With regard to liabilities, the company's shareholders' equity is primarily comprised of retained losses, the invested unrestricted equity fund and subordinated loan. As their sum, the company's shareholders' equity was EUR 0.7 million. The subordinated loan will be converted into share capital in conjunction with the listing. At the end of 2018, the company had a total of EUR 2.1 million of interest-bearing liabilities, primarily comprised of loans of EUR 0.9 million from Finnvera and EUR 0.95 million from Kreo Capital. The company's non-interest-bearing liabilities stood at approximately EUR 2.4 million due to prepayments and trade and other payables. Therefore, the company's net working capital is clearly negative (EUR -1.1 million) and funds the company's growth.

The company's equity ratio was 14% at the end of 2018 and net gearing was 168%. The additional financing of approximately EUR 5.2 million net raised in the IPO will therefore considerably increase LeadDesk's financial room for manoeuvre, equity ratio and risk-taking ability.

Estimates 1/3

Estimates

Starting points of the forecast model

We estimate the development of LeadDesk's net sales primarily based on two core net sale items:

- LeadDesk cloud services
- LeadCloud

In our forecast model, we assume that the development of the net sales of LeadDesk cloud services is primarily driven by the development of the net sales of SaaS software revenue, as the growth in other net sales items included in the LeadDesk cloud services (telecom services and expert work) is largely tied to the development of SaaS software revenue, according to our estimate. The LeadCloud business has been separated from the rest of the group and is currently managed independently, so we foresee the growth in this net sale item separately in our model.

We primarily foresee the development of the net sales of the above-mentioned core functions:

1. Based on our estimate of growth in the group's number of personnel, which predicts the development of new sales and revenue.
2. Our estimate of average sales per employee, which specifies the efficiency with which growth investments are converted into revenue.
3. Estimated net growth in existing agreement base (expansions, price increases, customer attrition).

Visibility to LeadDesk's net sales is good in the short term on the whole, as the company's net sales are mainly comprised of highly foreseeable recurring revenue. Foreseeing the growth rate of net sales is, on the other hand, more challenging to model, as it is very dependent on the growth investments made by the company and the development of the efficiency of sales. According to our view, the strong growth in demand in the industry, the company's solid track record of growth and advanced international expansion lay down a good foundation for continued strong growth in the next couple of years. In addition, our forecast model assumes that growth in sales and marketing investments (personnel) will be reflected quite quickly in the development of LeadDesk cloud services due to the short sales cycles (with a delay of approximately 1–2 quarters).

In practice, our model assumes that the relative growth in LeadDesk cloud services will focus strongly on international operations going forward, with the relative growth in Finland slowing down. In practice, our model incorporates a very conservative assumption, as all of LeadDesk's current five international markets will only grow to approximately the same size in terms of the net sales of LeadDesk cloud services towards the end of the estimated period (in 2027) as the net sales of LeadDesk cloud services is currently in Finland (approximately EUR 5 million).

In practice, LeadDesk's profitability and profit growth are defined by the development of EBITDA margin and fixed expenses (personnel and other expenses) relative to net sales in our model. In our model, we estimate that going forward, LeadDesk will be able to maintain its EBITDA margin at the level of approximately 80% realised in 2018. According to our estimate, LeadDesk's EBITDA margin is largely defined by the development of the EBITDA margin and share of telecom services and LeadCloud, which use external services a lot, of total net sales. We estimate the EBITDA margin of SaaS software revenue to be high (over 90%) and increase slightly over time while the infrastructure expenses scale up.

In our model, we estimate that LeadDesk will continue to invest strongly in growth and the further development of its services in the medium term, and therefore we estimate that the ratio of personnel expenses to net sales will remain relatively stable in the next couple of years (approximately 40% of net sales), while the improvement of profitability will be mainly based on the ratio of other operating expenses and depreciation decreasing gradually. Both EBITDA margin and EBIT margin will therefore remain clearly positive and grow slightly over time in our forecast model.

Estimates 2/3

The year 2019

LeadDesk has not issued a guidance on net sales or profit for 2019. However, the company has announced that its financial objective is to maintain strong growth and continue to operate profitably.

We expect that LeadDesk's net sales for 2019 will increase by 20% to EUR 13.3 million (2018: EUR 11.0 million). In our forecast, the growth in net sales is driven particularly by growth in sales of LeadDesk cloud services to new customers in the international market and continuing strong growth in LeadCloud.

We expect that the adjusted EBITDA for 2019 will increase by approximately 28% to EUR 2.3 million (2018: EUR 1.9 million) and adjusted EBIT by approximately 63% to EUR 1.3 million (2018: EUR 0.9 million). In our estimate, the adjusted EBITDA margin is 17.2% (2018: 16.6%) and EBIT margin 10.0% (2018: 7.6%). We adjust the BIT for the non-recurring remuneration of EUR 0.15 million relating to the IPO and depreciation of goodwill in the amount of EUR 0.05 million. We estimate that reported EBIT will remain almost stable at EUR 1.0 million (2018: EUR 0.9 million).

We expect that net financial expenses will increase in 2019 to EUR -0.65 million (EUR -0.34 million) with the non-recurring listing expenses of approximately EUR 0.35 million and repayment of warrants associated with the Kreo Capital loan (EUR 0.25 million). We estimate that the company's effective tax rate will remain at approximately 4% due to non-recurring expenses and confirmed losses for previous years. We expect the net income to amount to EUR 0.4 million, or 3.3% of net sales (2018: EUR 0.3 million).

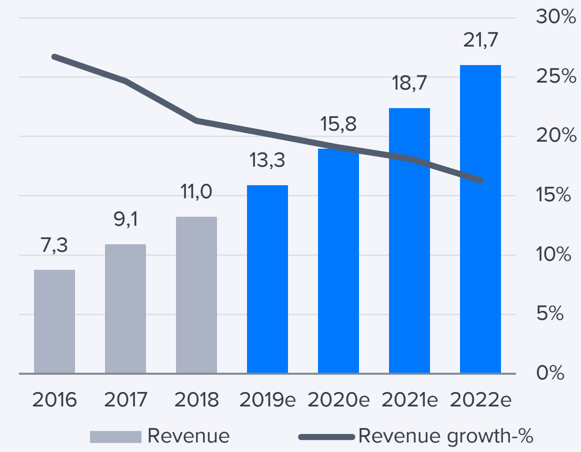
The years 2020–2022

In 2020–2022, we expect the growth in the net sales of LeadDesk cloud services to continue to be strong, especially with regard to international markets (>20%). In Finland, we expect the growth in LeadDesk cloud services to remain under 10% on average, but overall growth in Finland will be supported by growth for LeadCloud of approximately 14% on average, we forecast. According to our forecast, the share of Finnish operations of LeadDesk's overall net sales would decrease to approximately 50% in 2022 (2018: 56%).

We expect that LeadDesk's net sales will increase by 18% on average to EUR 21.7 million in 2020–2022. We estimate the growth in net sales to be +19% in 2020, +18% in 2021 and +16% in 2022.

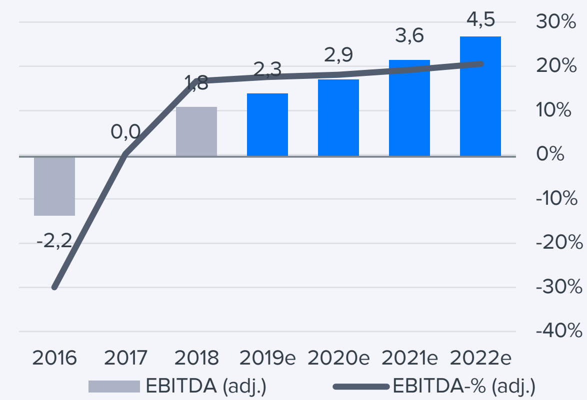
Due to growth investments and possible entry into new markets, we expect the scaling-up of LeadDesk's profitability to still be moderate in 2020–2022 and EBITDA margin to increase from approximately 17% in 2019 to around 20% in 2022 and EBIT margin to increase from 10% to 16%. According to our forecast, EBITDA and EBIT will increase to EUR 4.4 million and EUR 3.4 million in 2022, respectively, which translates into a growth of 25% in EBITDA and 39% in EBIT on average. EBIT will grow faster than EBITDA due to the decrease in the relative share of depreciation of capitalised R&D expenses and end of depreciation of goodwill. With the low effective tax rate and decreasing financial expenses, net income will clearly outgrow EBIT in 2020–2022, annually by 47% on average.

Revenue and growth %



Source: Inderes

Operational performance and profitability



Source: Inderes

Estimates 3/3

Long-term profit estimates

In our forecast model, growth in net sales will slow down gradually after 2022 to approximately 10% on average in 2023–20227, with perpetual growth amounting to 2.5% starting from 2028. In our estimate, the growth slows down due to the slowing down of growth in sales to new customers in existing market areas, tightening competition and presumably increasing customer turnover.

According to our estimate, EBIT margin will settle at approximately 20% starting from 2026. In our estimate, profitability increases due to the scaling-up of fixed expenses, decreasing growth investments and decreasing proportional share of depreciation and amortisation. We expect the EBITDA margin to remain steady at 80% in the long term.

Balance sheet and cash flow estimates

LeadDesk raised gross assets of approximately EUR 6 million in the IPO. The expenses of the IPO totalled approximately EUR 0.8 million, and company gained assets of approximately EUR 5.2 million net in the IPO.

Immediately following the IPO, the company's net cash increases from EUR -1.2 million to approximately EUR +4.0 million, and the IPO thereby provides the company with significant room for manoeuvre financially to carry out acquisitions, for example.

We estimate that with the improved profitability and negative net working capital, the company's post-investment cash flow from operations will be clearly positive (approximately EUR 1.3–2.7 million, 9–14% of net sales) in the next couple of years (2019e–2021e).

Dividend estimates

LeadDesk's official goal is to create value for its shareholders in the medium term by using the company's assets for reaching the growth objectives, but the company sees dividend distribution as an added value-generating option in the medium term.

We interpret the guidance so that the company will not pay out dividend in the next couple of years, and in our model, we assume the first dividend payouts to take place in 2023. In all, the significance of dividend is minor in the company's investment profile, as according to our estimate, the company maximises shareholder value the best through growth in net sales.

Number of shares following the IPO

Immediately before the UPO, LeadDesk has 3,740,969 shares. Moreover, the company has offered share options to its key personnel, numbering a total of 204,575 shares, each entitling the holder to subscribe for one share at a price of EUR 0.004–0.04. In our forecast model, we have taken the full dilutive effect of share options into consideration in the numbers of shares.

Following the IPO, the number of shares in LeadDesk increased to 4.54 million shares.

Investment profile

Investment profile

The company carried out a successful IPO

LeadDesk successfully carried out a listing on Nasdaq OMX Helsinki's First North marketplace in February 2019. With the IPO, the company sought to raise funds for carrying out the next phase of its strategy and mergers and acquisitions.

We estimate that LeadDesk is capable of growing at a two-digit rate in the next couple of years also with its earnings and existing cash, but the additional financing raised in the IPO considerably increases LeadDesk's room for manoeuvre and risk-taking ability in mergers and acquisitions and entering any new market areas. Successful expansion into new market areas and expanding the solution would, to our minds, significantly increase the company's strategic value, as the company's growth prospects in the Finnish market are quite limited and the product has proven to be internationally competitive. Moreover, the IPO facilitates more flexible remuneration of key persons by way of share incentive schemes and using the share as a means of payment in acquisitions.

Strong and profitable growth

From the point of view of an investor, LeadDesk is a growth company with a moderate risk profile, combining strong growth potential, good profitability and scalability, as well as the good continuity and predictability of the business model.

According to our estimate, the company still has significant growth potential through the strongly growing overall market, growth in market share, new market segments and areas and product expansions. With the IPO, the company is also better positioned to exploit growth opportunities from acquisitions.

In its target markets, the company's size and resources are still, in spite of its leading position, small compared to the most significant industry players, track record of acquisitions is limited, and the pricing of the share may be weakened by its liquidity probably remaining low, at least initially. Furthermore, we estimate that LeadDesk's valuation will remain very sensitive to changes in net sales growth forecasts and presumed long-term levels of profitability in the next couple of years, which increases the risks of the share.

The risk profile of the share is lowered by 1) the company's product being competitive and in a mature phase in terms of the technological development, 2) the company having already passed the growth and internationalisation phase burdening profitability and cash flow the most, and being profitable, as well as 3) the company's net sales being mainly based on recurring revenue and distributed across a broad customer base.

To our minds, LeadDesk is a potential target of acquisition for larger industry players or companies that want to expand into the market of contact centre software in their value chain in the long term.

Potential:

According to our view, the key positive value drivers of LeadDesk are:

- Strongly growing target markets and significant market potential
- Strong competitiveness compared to smallest and local operators in the target markets
- Scalable business model and cost structure
- Expansion of customer accounts into new solutions and added value services
- New market areas
- Mergers and acquisitions

Risks:

According to our view, the risks affecting LeadDesk's value creation are as follows:

- Poor visibility to success in sales to new customers
- Changes in the competitive situation
- Technology and information security risks
- Mergers and acquisitions and new markets
- Weak liquidity of the share

Investment profile

1. **Strong organic growth potential through market growth and expansion**
2. **Scalable and continuous business model**
3. **Moderate risk level: Advanced internationalisation, product in a mature development phase and competitive**
4. **Listing increases room for manoeuvre with regard to acquisitions and organic growth**
5. **The liquidity of the share may remain low, no track record of acquisitions, and the valuation is sensitive to changes in growth expectations**

Potential

- Strongly growing target markets and significant market potential
- Strong competitiveness compared to smallest and local operators in the target markets
- Scalable business model and cost structure
- Expansion of customer accounts into new solutions and added value services
- New market areas
- Mergers and acquisitions

Risks

- Poor visibility to success in sales
- Changes in the competitive situation
- Technology, information security and regulatory risks
- Mergers and acquisitions and new markets
- Weak liquidity of the share

Source: Inderes

Valuation 1/4

Summary of valuation

We have reviewed the value creation of LeadDesk from several perspectives using several valuation methods.

According to our view, the most significant value driver of LeadDesk in the medium term is the growth rate of net sales, as we expect the company's relative profitability to scale quite moderately during the growth phase of the next couple of years. LeadDesk has been able to grow strongly throughout its history, and the company has a track record of successful internationalisation and expansion into new markets, so we expect the company to be able to maintain growth of approximately 20% in the next couple of years. The company has also proven that it is able to optimise profitability with growth in the scale of operations, so our assumption is that the growth in net sales will also be reflected in strong growth in earnings (annual average EBITDA growth rate of 25% in 2019–2022e). The SaaS model offers significant benefits of scale, and the bigger the company grows in the medium term, the higher the long-term profit potential becomes.

We consider the company's risk profile to be quite moderate on the whole, and according to our view, the biggest risks are associated with the small size of the company, unforeseen changes in the industry, competition or regulation, and technological risks. Even though the company has proven its ability to grow strongly and internationalise, expansion into new markets, and acquisitions in particular, always involve risk-increasing element, which may have a significant effect on the company's value.

Calculated using diverse evaluation methods, the company's value range (EV) is EUR 18–52 million.

The value range is extensive, and to our minds, exhaustively reflects the different scenarios of the development of the value of the company.

In valuation, we place an equal weight on valuations indicated by different methods, so our view of the fair value of LeadDesk is in the middle of the value range. Therefore, we estimate LeadDesk's current fair enterprise value to be approximately EUR 36 million and market capitalisation to be approximately EUR 40 million, or EUR 8.5 per share.

On the following pages, we review the different valuation methods in more detail, namely:

1) EV/S-based valuation proportioned to the combination of growth of global SaaS companies and operational profitability (with a 40% discount applied due to the small size). This reflects a scenario in which the stock market takes a very optimistic outlook on the company's growth potential in pricing LeadDesk, and the primary reference of valuation would be global SaaS benchmarks.
2) Valuation proportioned to the net sales-based (EV/S) valuation of Nordic software companies.
3) Valuation relative to the profit multiples of Nordic IT service companies (EV/EBITDA). This reflects a scenario in which the market takes a very pessimistic outlook on the company's growth potential in pricing, and the primary reference of valuation would be service companies.
4) Valuation relative to listed industry peers and most recent mergers and acquisitions.
5) Cash flow statement-based (DCF) valuation.

Using the average of LeadDesk's valuation methods (EUR 8.5/share)

MCAP
40
MEUR

EV
36
MEUR

EV/S
2.7
2019e

EV/EBITDA
15x
2019e

Valuation methods

Method/valuation multiple		Multiple 2019e	Estimate 2019e	Value
SaaS companies	EV/S	3.9x	13.3	52
Nordic software companies	EV/S	2.8x	13.3	37
Nordic IT service companies	EV/EBITDA	8.1x	2.3	18
Industry & mergers and acquisitions	EV/S	2.7x	13.3	36
Cash flow statement (DCF)	NPV			38
Average	MEUR			**36**
Net debt 2018	MEUR			-4.0
Market capitalisation	**MEUR**			**40**
Market capitalisation/share	**EUR**			**8.5**

Valuation 2/4

Valuation multiples at Inderes' target price

To our minds, due to the growth profile and development phase of LeadDesk, the company should still be primarily priced using revenue-based valuation multiples in the next couple of years, but when assessing the valuation of the share at the current level of profitability, it is possible to also depend on profit multiples.

In practice, the magnitude of valuation factors in the future will be defined by 1) the actual and estimated growth rate of LeadDesk's net sales, 2) operational level of profitability, 3) confidence of the stock market in the company and 4) general risk appetite of the stock market with regard to growth-oriented technology companies.

With our forecasts and the market capitalisation indicated by our valuation (EUR 8.5/share), the company's EV/S multiple for 2019 is 2.7x and for 2020 it is 2.1x; the corresponding adjusted EV/EBITDA multiples are 15x and 12x and P/E multiples 34x and 21x, respectively.

Valuation multiples at the current share price

With the valuation of EUR 30 million pursuant to the listing price, LeadDesk's valuation multiples are at an attractive level compared to the valuation level indicated by our valuation methods.

Based on our forecasts, the adjusted P/E multiple for the current year is 37x and next year 21x, and the EV/EBITDA multiple 13.5x and 10x, respectively. The earnings-based multiples are absolutely high, but considering the strong expected earnings growth (average annual EBITDA growth of 25% in 2019–2021) and predictable business model that offers recurring revenue, the multiples are reasonable.

The EV/revenue multiples for 2019–2020 are 2.4x and 1.9x, clearly below the level of extensively listed SaaS benchmarks and in line with the valuation of Nordic software companies. Considering that LeadDesk's growth rate being stronger than that of several benchmarks, higher profitability and strong growth outlook, the company is, according to our view, attractively priced at the listing price compared to the revenue-based multiples.

Valuation at Inderes' target price

Valuation level	2018	2019e	2020e
Share price	8.50	8.50	8.50
Number of shares, million	4.75	4.75	4.75
Market capitalisation	40	40	40
EV	42	35	33
P/E (adj.)	83.3	40.8	23.5
P/E	>100	91.4	24.3
P/Cash flow	22.1	5.9	20.5
P/B	55.7	5.9	4.8
P/S	3.7	3.0	2.6
EV/Revenue	3.8	2.7	2.1
EV/EBITDA (adj.)	22.7	15.1	11.6
EV/EBIT (adj.)	49.8	26.6	18.0
Dividend/earnings (%)	0.0%	0.0%	0.0%
Dividend yield, %	0.0%	0.0%	0.0%

Source: Inderes

Valuation based on the closing price on 15.2.2019

Valuation level	2018	2019e	2020e
Share price	7.75	7.75	7.75
Number of shares, million	4.75	4.75	4.75
Market capitalisation	37	37	37
EV	38	32	30
P/E (adj.)	76.0	37.2	21.4
P/E	>100	83.3	22.1
P/Cash flow	20.2	5.3	18.6
P/B	50.8	5.4	4.3
P/S	3.3	2.8	2.3
EV/Revenue	3.4	2.4	1.9
EV/EBITDA (adj.)	20.7	13.5	10.4
EV/EBIT (adj.)	45.5	23.9	16.0
Dividend/earnings (%)	0.0%	0.0%	0.0%
Dividend yield, %	0.0%	0.0%	0.0%

Source: Inderes

Valuation 3/4

Benchmark analysis global SaaS companies (net sales-based)

To our minds, the valuation levels of the extensive benchmark group of global SaaS companies provide a good benchmark for a positive valuation scenario in which LeadDesk's valuation is based on strong growth and profitability increasing to a high level through scaling.

However, we emphasise that we consider that LeadDesk's valuation cannot be directly compared to the valuations of global SaaS companies, as 1) the scale and benefits of scale of LeadDesk's business are considerably smaller than those of the benchmarks, 2) on average, SaaS licence revenue generates a higher share of the net sales of the benchmark companies on average than LeadDesk, and 3) the risk level of LeadDesk's share (e.g. liquidity) is considerably higher. In order to take the difference in scale and risks into consideration, we apply a 40% discount to the average valuation factors of LeadDesk's SaaS benchmarks in the valuation.

In the SaaS benchmark analysis, we consider the key valuation factor to be revenue-based EV/S multiple, as most listed SaaS companies are still in a phase of strong growth, and their profitability has not yet scaled up to its potential level, or they are loss-making.

In the valuation, we use a valuation based on the correlation of the combination of predicted growth and operational profitability of the benchmark group (2019e revenue growth % + 2019e EBITDA margin) and forward-looking EV/S ratio. In the valuation of the SaaS benchmark group, we emphasise a valuation method combining growth and profitability, as we consider it to take the differences in the scalability and efficiency of the companies into account better than a purely revenue growth-based comparison.

In the calculation, we have assumed LeadDesk's growth parameter to be the estimated revenue growth rate in 2019 (2019e +20%) and the company's adjusted EBIT margin (2019e: +10%). With regard to LeadDesk, we conservatively use adjusted EBIT margin instead of EBITDA margin in the calculation, as we think that it better reflects the company's operational profitability.

Based on the average valuation of the SaaS benchmarks, an EV/S multiple of approximately 6.4x could be accepted for LeadDesk with our estimates, which, calculated with a discount of 40%, results in an acceptable EV/S multiple of 3.9x for LeadDesk, enterprise value (EV) of approximately EUR 52 million and market capitalisation of approximately EUR 11.7 per share.

Benchmark analysis Nordic software companies (revenue-based)

We also compare LeadDesk's valuation proportioned to total net sales with the valuation multiples of Nordic listed companies offering enterprise software, as they well reflect the growth expectations for Nordic software companies, and these companies are clearly closer to LeadDesk in terms of scale and share risk profile than international SaaS benchmarks. These companies include Admicom, Basware, Efecte, Heeros, F-Secure and Talenom.

The average EV/Revenue multiple of this group of benchmarks in 2019 is approximately 2.8x, which indicates the enterprise value (EV) of LeadDesk's business to be approximately EUR 37 million and market capitalisation to be EUR 8.7 per share.

Benchmark analysis Nordic IT service companies (earnings-based)

In our analysis based on earnings-based multiples, we mainly use the valuation multiples of our group of benchmarks comprised of Nordic small and medium-sized IT service companies. The expected earnings growth rate of this group in the next couple of years is reasonably close to LeadDesk's estimated earnings growth on average, and they are close to LeadDesk in terms of scale and share risk profile. According to our view, the valuation multiples of IT service companies provide a kind of a lower limit for valuation of LeadDesk, as LeadDesk's revenue is recurring, the company is estimated to grow at a clearly higher rate in the long term, and the profitability of the company has significant potential of benefits of scale compared to service companies.

The average EV/EBIRDA multiple of listed IT service company benchmarks (table on page 38) for 2019 is 9.1x, which indicates the enterprise value (EV) of LeadDesk's business to be approximately EUR 18 million and market capitalisation to be EUR 4.7 per share.

Valuation 4/4

Industry benchmarks and significant mergers and acquisitions

LeadDesk's broadly defined competitors include a few listed US benchmark companies (Vonace, RingCentral, 8x8, Five9 and partially Twilio and Zendesk). During recent years, also many of the benchmarks relevant to the company's business has been the target of an acquisition, and valuation multiples are available for four of these acquisitions (see page 38).

The listed industry benchmarks and targets of acquisitions are significantly larger than LeadDesk in terms of scale, so we also apply a discount of 30% to the valuation multiples of this group of benchmarks in our valuation.

Based on the average valuation of the industry benchmarks, an EV/S multiple of approximately 4.5x could be accepted for LeadDesk, which, calculated with our net sales forecast for 2019 and a discount of 40%, results in an acceptable EV/S multiple of 3.2x for LeadDesk, enterprise value (EV) of approximately EUR 36 million and market capitalisation of approximately EUR 8.4 per share.

Cash flow statement (DCF)

Based on our current forecasts, LeadDesk's enterprise value in our cash flow statement-based calculation is approximately EUR 38 million and market capitalisation approximately EUR 43 million, or EUR 9.0 per share.

We have reviewed the forecasts in more detail in the chapter on estimates, but we will review our key assumptions below again. We estimate that the growth in net sales will be an average of 18% in the medium term (2019–2022), subsequently slowing down to approximately 10% on average around the middle of the forecast period (2023–2027) and use a conservative level of 2.5% as the terminal growth. With regard to profitability, we expect the EBIT margin to increase gradually to approximately +20% at the end of the forecast period with scaling (2019e: 10%). We assume that net working capital will remain at its current level relative to net sales throughout the forecast period (-10%) and that investments, mainly comprised of R&D capitalisations, will remain roughly on a par with 2018 and grow by approximately 2% annually (it is assumed that R&D capitalisations will be kept on a par with depreciation and amortisation and R&D investments will be mainly recognised as expenses going forward).

In our DCF model, the requirement for return on equity is 12%. The weighted average cost of capital (WACC) that takes the leverage into account is also 12%, as we expect the company to be debt-free following the growth period. The level of the return requirement is in line with the levels we have used in the valuation of other small Finnish SaaS benchmarks (Admicom 10.8%, Heeros 12.8%, Efecte 12.7%). A key factor increasing the return requirements of these companies is the small size of the companies, their phase of development and the low liquidity of their shares.

The value emphasising on different time periods is noteworthy in our DCF calculation. Because LeadDesk is already clearly profitable in its current phase of development and its cash flows are positive, approximately one-half of its value is created already before the terminal phase (2019–2027). In our calculation, the terminal phase accounts for 50% of the total value of the company, which is quite a moderate level for a company of strong growth such as LeadDesk.

The biggest uncertainties in our DCF model concern the long-term growth expectation and the company's profitability towards the end of the forecast period. To our minds, however, our assumptions are conservative with regard to both growth and profitability, considering the strong growth outlook of the company's target markets, development phase of the company, current level of profitability and the recurring nature of revenues.

The more detailed cash flow statement is presented on page 39.

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Reduce	-5 - 5 %
Sell	< -5 %

Potential regarding to 12 month target price

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
18.2.2019	Accumulate	8,90 €	7,70 €

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Inderes Oy

Itämerentori 2
00180 Helsinki
+358 10 219 4690

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