

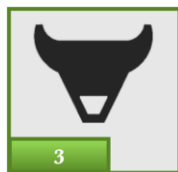


Cinnober Financial Technology AB

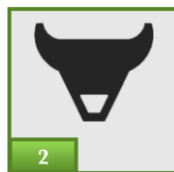
Value Drivers



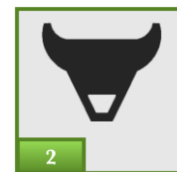
Quality of Earnings



Risk Profile



Quality of Management

**Proven more than 15 years of successful operations.**

Cinnober provided high quality solutions for well-known exchange marketplaces and clearing houses worldwide e.g. ASX, DGCX. No negative earnings recorded during history.

An equity security for long term dividend seeking investors:

with an average dividend yield of more than 2 % during the last 10 years, Cinnober continuously distributed growing dividends. However, Future pay-out ability faces challenge by limited expected growth and high fixed costs.

Minimized default risk investment opportunity:

Cinnober is a debt free company with limited trading liabilities perfectly covered by high quality current assets.

Stable mature industry:

Revenue growth is at its minimum level associated with slow estimated aggregate demand increase. Profit margins are minimized. Abnormal returns are unexpected. Price wars are moderate. No significant threat of new entrants.

Operating leverage, stock alternative and execution costs do exist:

The most important investment associated risks which are the result of the high fixed cost nature of the business, and the low market liquidity and depth.

Analyst

Shant Sanossian
shant.sanossian@analystgroup.se

Share price	61.50 SEK
52wk high / low	70/47.6
Shares outstanding	6,549,120
Market cap (MSEK)	403
Net debt (MSEK)	-36
EV (MSEK)	367
Sector	Technology
List / Ticker	CINN
Next report	2015-12-31

Performance

1 month	-1.99 %
3 month	+11.31 %
1 year	N/A
YTD	+6.49 %

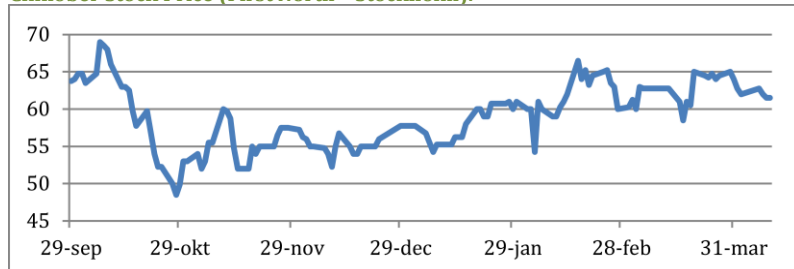
Major owners**Ownership (%)**

Nils-Robert Persson	18.2
Nortal Investments AB	15.1
Gunnar Lindell	13.0
Gunnar Mjöberg	6.2
Peter Lenti	5.6
Peter Snellman	5.1

Management

Veronica Augustsson	CEO
Per-Anders Häll-Bedman	Deputy CEO
Anna Märta Göransson	CFO
Fredrik Backlund	Head of Marketing

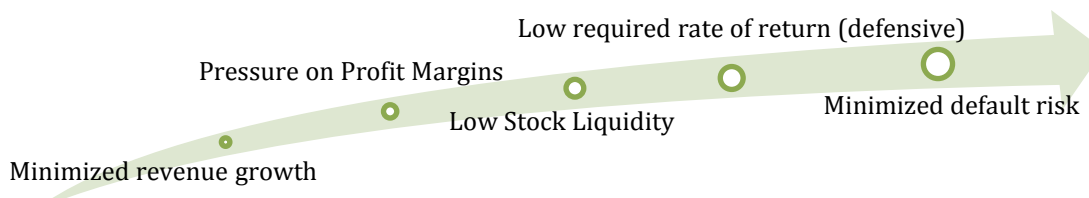
Cinnober Stock Price (First North – Stockholm):

**Insider Transactions**

Date	Insider	Shares	Total value
2015-04-01	Peter Lenti	-2,000 Shares	127K SEK
2015-03-31	Hans Öberg	-2,000 Options	N/A
2015-03-30	Peter Lenti	-22,161 Shares	1,444K SEK
2015-03-27	Peter Lenti	-2,539 Shares	161K SEK
2015-03-24	Hans Öberg	-9,023 Options	N/A
2015-03-24	Peter Lenti	-2,000 Shares	128K SEK
2015-03-23	Peter Lenti	-2,277 Shares	147K SEK
2015-03-20	Peter Lenti	-9,023 Shares	569K SEK

Note: Total Value is calculated by daily average stock price

Value Drivers



Investment Thesis

Low Entrants Threat:

Even though the industry does not have huge capital requirements but the high operating leverage nature could prevent the already mature industry from new entrants and eliminates such risk.

Long term licensing, hardware constraints and databases make customers switching cost relatively high and thus lower bargaining power. Distribution channels access difficulty through high level old networking decrease entrants' interest.

Profit Margins' Pressure:

Lower than average product differentiation opportunities squeeze industry's profit margins. This factor could be strengthening by non-diversified customer bases and high price sensitivity.

A moderate market competition level diminishes extra ordinary profit opportunities. However, lower exit costs make the price wars less probable.

Mature Demand:

Demand's mainly correlated with exchange volume, which according to worldwide statistics is stable to slightly decreasing during the last few years.

Regulations changes (e.g. Basel III) were historically one of the most important drivers of aggregate demand on industry's products, by requiring financial institutions for more transparency and disclosure, and thus, more functions asked by the platforms (e.g. Market surveillance).

M&A Effects:

Potential M&A's between customers (e.g. exchanges, banks, and brokers) may decrease the aggregate demand on industry because of the easy accessibility of platform through the merged institutions.

Eliminating competition through M&A's could be considered a good strategy because the enhanced profit margins through such transaction could not

easily attract new competition because of the factors mentioned above.

Diminished Future Growth:

Business volume growth trend of +20.3 % was observed during the last 10 years with a standard deviation of 41% reflecting high uncertainty. No generic growth was noticed during the last 5 years.

Minimized sales growth is expected by weak industry growth but supported by low new competition.

Average cash pay-out ratio of 61% was observed during the last 10 years, 100% during last 5 years. Pay-out policy may reflect lack of future investment opportunities which otherwise may be directed to R&D activities which was minimized or M&A transactions to enhance competitive position.

High Operating Leverage Does Exist:

50 % of company's revenues are certain in the 3-5 years term through long term licenses which cover around 60 % of the annual fixed costs.

The zero variable cost structure company proved inability to reduce fixed costs or increase pricing power. Margins trend is down. Current revenues cover only 101% of fixed costs. If the last revenues growth and margins trends continue during the coming period, the company may face losses for the first time in history. Losses probability is not low.

Low Default Risk:

Bankruptcy risk is minimized by banking liabilities of less than 5M SEK (End of June 2014) and flexible trade payables of 12M SEK which are fully covered by 132M SEK of high quality liquid assets.

Stock Liquidity and Required Return:

Low stocks liquidity, undiversified shareholders base, and lack of market depth would require relatively high liquidity (return) premium which may weaken stock appreciation opportunities.

Company Description

Cinnober is a Stockholm based mission-critical system solutions developer established in 1998. It provides platforms for exchange market places, clearing houses, banks and brokers. Products include solutions for trading, risk management, clearing, index calculation, market surveillance, etc.



Valuation

Investment Characteristics:

The company is historically a dividend paying firm with an annual average dividend per share of 1,3 SEK during the last 10 years and around 2 SEK during the last 5 years.

The Stocks are strongly held by few undiversified major shareholders with relatively blocked portion of around 70% of stocks. Shareholders base is limited in around 250 investors. The market depth and liquidity increase both execution and opportunity cost. Low liquidity could limit price appreciation (capital gain) in case of undervaluation.

The stock by its mature and moderate risk nature would be suitable for long term cash dividend tending investors (e.g. pensioners). Not suitable for active traders and capital gains tending investors (e.g. active portfolio managers). Not suitable for control tending investors.

Valuation Notes:

Non-controlling (minority interest) discount model is appropriate for the subject company (e.g. DDM).

The current dividend yield is around 3,6% (around 2% by 10-year average dividend yield, and 3,2% by last 5-year average dividend yield)

The Required Rate of Return based on the industries alternative cost (All Software and Computer services corporations listed in Sweden) is around 4,4% annually, higher than the current dividend yield of 3,6%. This may lead to a total capitalization of around 337M SEK. This is equivalent to around 51,5 SEK per stock lower than the current stock price of around 17%.

Minority Interest Valuation (Dividends Discount):

	Average Dividends Calculation Method			
	10 Years	5 Years	Adjusted	Last Year
Dividends / share	1,17 SEK	1,59 SEK	1,45 SEK	2,29 SEK
Dividend Yield	1,91%	2,59%	2,36%	3,72%
Stock Price	38,2 SEK	58,1 SEK	51,5 SEK	66,9 SEK
Discount	39,93%	5,50%	16,31%	-8,83%

Notes regarding the table above:

- The Adjusted average gives 2/3 weight to the last 5 years and 1/3 weight to the first 5 years (total 10 years)
- Last year's dividends are unsustainable because it is higher than the earnings thus it is unrealistic to be used for valuation.
- The 10 Years average is unrealistic, because the organic business volume increased after 2008 and an important portion of this increase is continuous.

Comparative Position:

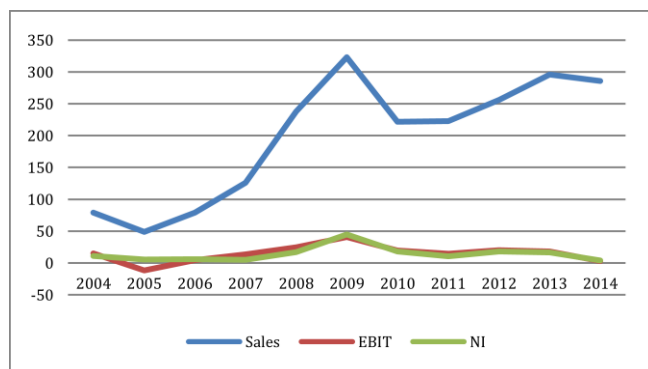
	EV/Sales	EV/EBITDA	P/E	Div. Yield
Cinnober	1.1	12.8	17.0	2.7%
Peers Average	1.3	10.7	24.0	0.0%
Discount	16.9%	-19.8%	29.1%	N/A

Source: Thomson Reuters Eikon (Historical Averaged Prices)

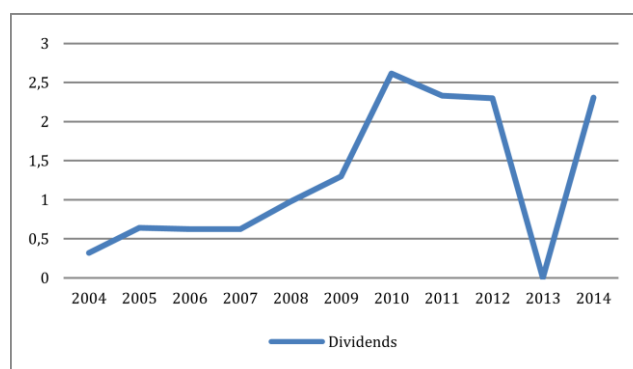
Summary and Conclusion:

The stock is defensive which proved good performance during 2008-2009. It could be a good investment opportunity for dividend desiring long term risk averse investors. Capital gains could be limited to the estimated annual dividends only which is expected to decline because of the decreasing profit margins. Comparative valuation indicates to a slight stock undervaluation while DDM indicates to a stock overvaluation. Value drivers indicate to difficult value creation in the near futures.

Sales & Profits (MSEK)



Dividends per Share (SEK)



Disclosure:

Shant Sanossian – Does not own stocks in Cinnober Financial Technology AB
Cameron Andrews – Does not own stocks in Cinnober Financial Technology AB

Interview

We interviewed the CEO, Veronica Augustsson:

What is the rationale behind the extensive dividend policy? What future payout ratios can we expect?

We do not have an official dividend policy, but historically we paid one third of earnings as dividend, one third to personnel and one third for product development. We do not have policy going forward.

Why don't you reinvest more in Cinnober instead of distributing one third of earnings as dividends?

We have a very good portfolio for segment with a very good market position. No urgent requirements for large development investments, instead, we are looking for leveraging our existing technology through new segments such as banks and brokers.

We noticed that the company did very well in securing new customers such as the Australian Securities Exchange. Do you have new big potential projects we could expect to see in the near horizons?

Actually we don't share our future agreements, but we can say that the industry is expected to invest more in new technology specifically in regulatory compliant area. We can say that the industry started picking up again after 2008 by investing more in innovation and business development.

What planes do you have in terms of controlling fixed costs and potentially lowering your current exposure to operation leverage?

Our costs are concentrated in salaries and rent. Actually we are dealing with an external consultant regarding this matter. In general the more projects we have more human resources are allocated for customer service, less projects periods we allocate for product development. This is how we balance the workload. Our main interest is to increase revenues using the same level of operating cost by getting more projects and delivering more efficiently.


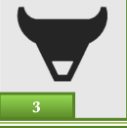
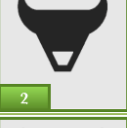

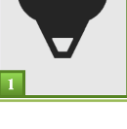
What is the rationale behind recently listing the company in the First North market? Are you looking for stock liquidity? Access for more capital?

This was the desire of the owners. No one of main shareholders is currently planning to exit but this could be a good way for any potential exit in future. Access for new capital is also an advantage.

Any planes in the horizon to be engage in any sort of Mergers and Acquisitions?

Our plan is to grow organically. We do not have ready strategy to acquire any company but we are ready to look for potentials on case by case basis.

Bull or Bear

	Value Drivers	Estimated growth is limited by low industry aggregate demand increase potentials. High payout policy limits R&D and M&A activities. Profit margins are minimized. Liquidity premium is required on holding stock.
	Quality of Earnings	Historical growing business volume. Short credit policy and excellent reputation of buying customers. More than 50% of revenues are highly certain and supported by long term service contracts.
	Risk Profile	Low financial leverage minimizes default risk. Defensive business during financial crisis. Products protected by patents. Long good relation history with non-well-diversified customer base.
	Quality of Management & Ownership	Reputable CEO with awards in Sweden. Low turnover ratio for management. Many founders still present in the BoD. Employees are mainly headhunted. Company is awarded as one of top employers in Sweden.
	Overall View	The company was a successful company delivered high quality services to its customers during the last decade. Risk profile is summarized in low financial, high operating leverage. Growth and profit margins are minimized

Analyst Group



Disclaimer

These analyses, documents and any other information originating from Analyst Group are created for information purposes only, for general dissipation and are not intended to be advisory. The information in the analysis is based on sources, data and persons which Analyst Group believes to be reliable. Analyst Group can never guarantee the accuracy of the information. The forward-looking information found in this analysis are based on assumptions about the future, and are therefore uncertain by nature and using information found in the analysis should therefore be done with care. Furthermore Analyst Group can never guarantee that the projections and forward-looking statements will be fulfilled to any extent. This means that any investment decisions based on information from Analyst Group, any employee or person related to Analyst Group are to be regarded to be made independently by the investor. These analyses, documents and any other information derived from Analyst Group is intended to be one of several tools involved in investment decisions regarding all forms of investments regardless of the type of investment involved. Investors are urged to supplement with additional relevant data and information, as well as consulting a financial adviser prior to any investment decision. Analyst Group disclaims all liability for any loss or damage of any kind that may be based on the use of analyzes, documents and any other information derived from Analyst Group.

The recommendations in the form of Bull alternatively Bear aims to provide a comprehensive picture of Analyst Group's opinion. The recommendations are developed through rigorous processes consisting of qualitative research and the weighing and discussion with other qualified analysts.

Definition Bull

Bull is a metaphor for an optimistic view of the future. It indicates a belief in improvement.

Definition Bear

Bear is a metaphor for a pessimistic view set on the future. It indicates a belief deterioration.

This analysis is copyright protected by law © AG Equity Research AB (2014-2015). Sharing, dissemination or equivalent action to a third party is permitted provided that the analysis is shared unchanged.

Analyst Group has not received payment or other compensation to make the analysis.