Teneo AI: Strong preliminary figures, SaaS ARR growth shows rapid acceleration

Teneo AI **Research Update** 2025-01-15 09:23 **Updated** 2025-01-15 09:36

Redeye strengthens its positive view of Teneo AI following preliminary Q4 figures showing a substantial increase in SaaS ARR growth. In addition to raising our forecasts and Base Case, the solid numbers also increase the likelihood of Teneo AI reaching our long-term Base Case assumptions or better.

Fredrik Nilsson

Key financials

SEKm	2023	2024e	2025e	2026e	2027e
Total Revenue	59.4	85.6	146.0	215.1	287.1
Revenue Growth	15.3%	44.1%	70.5%	47.4%	33.5%
EBITDA	-58.1	-35.1	12.3	44.9	76.5
EBIT	-72.3	-54.9	-3.5	28.8	59.1
EBIT Margin	-119%	-65.8%	-2.4%	13.4%	20.6%
Net Income	-57.8	-65.9	-18.6	10.5	33.9
EV/Sales	4.2	5.9	3.3	2.1	1.4
EV/EBIT	-3.5	-9.0	-137	15.7	6.9

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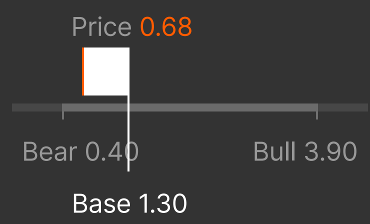
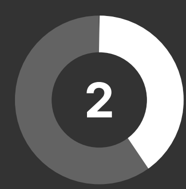
FAIR VALUE RANGE



MOMENTUM



KEY STATS

Market Cap	251.8 MSEK
Entprs. Value (EV)	505.1 MSEK
Net Debt (2025e)	253.3 MSEK
30 Day Avg Vol	214 K
Shares Outstanding	373.1M
Price / Earnings	N/A
PEG	0.1x
Dividend Yield	N/A

Data from 2025-01-15 09:36

IMPORTANT INFORMATION

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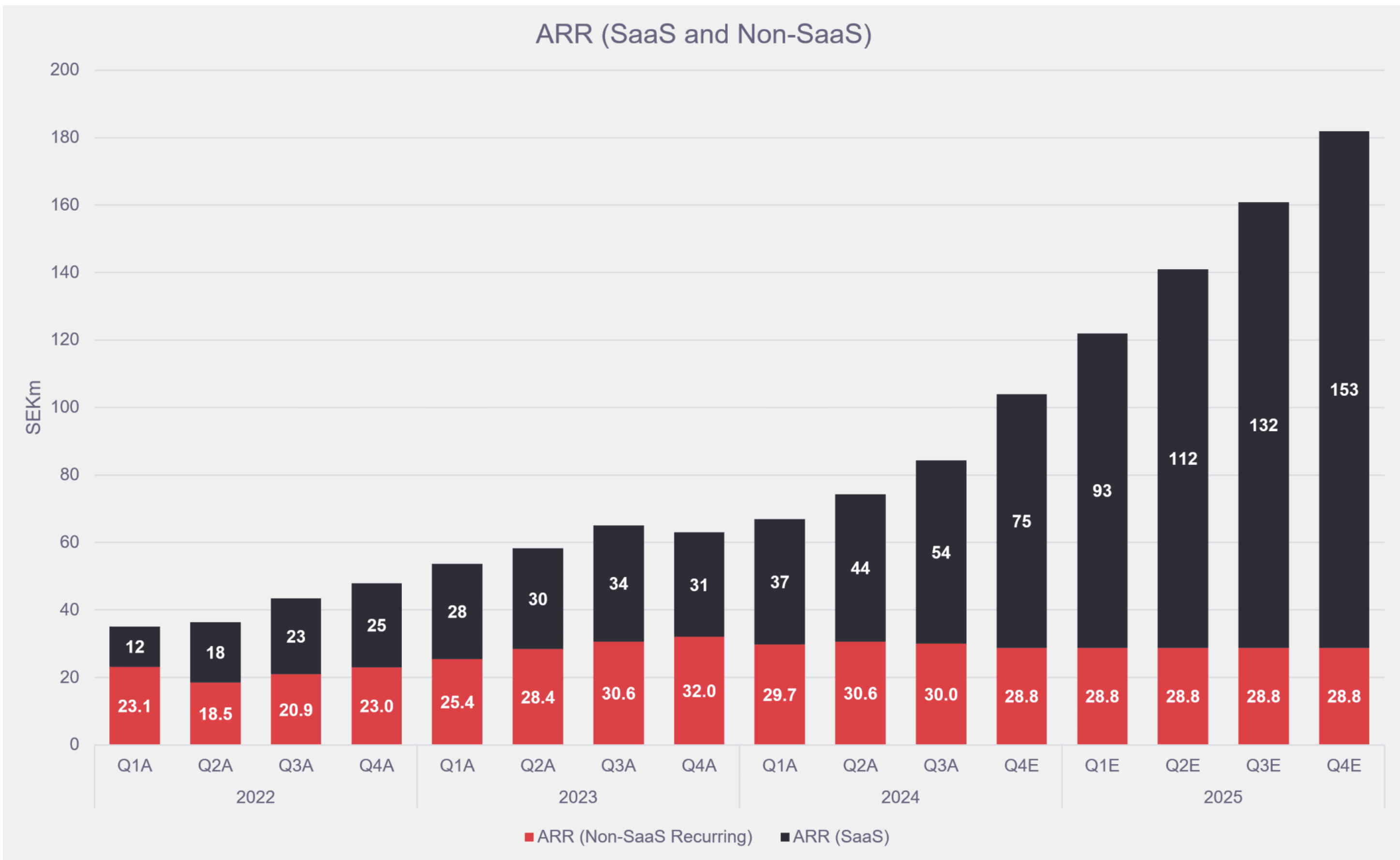
Yesterday evening, Teneo AI announced preliminary figures for Q4 2024, showing accelerating SaaS ARR growth and solid cost control. Teneo AI also announced the successful fulfilment of two long-term financial targets during the fourth quarter of 2024, reaching annualized API call volumes of 1bn and one month of positive cash flow from operations during 2024.

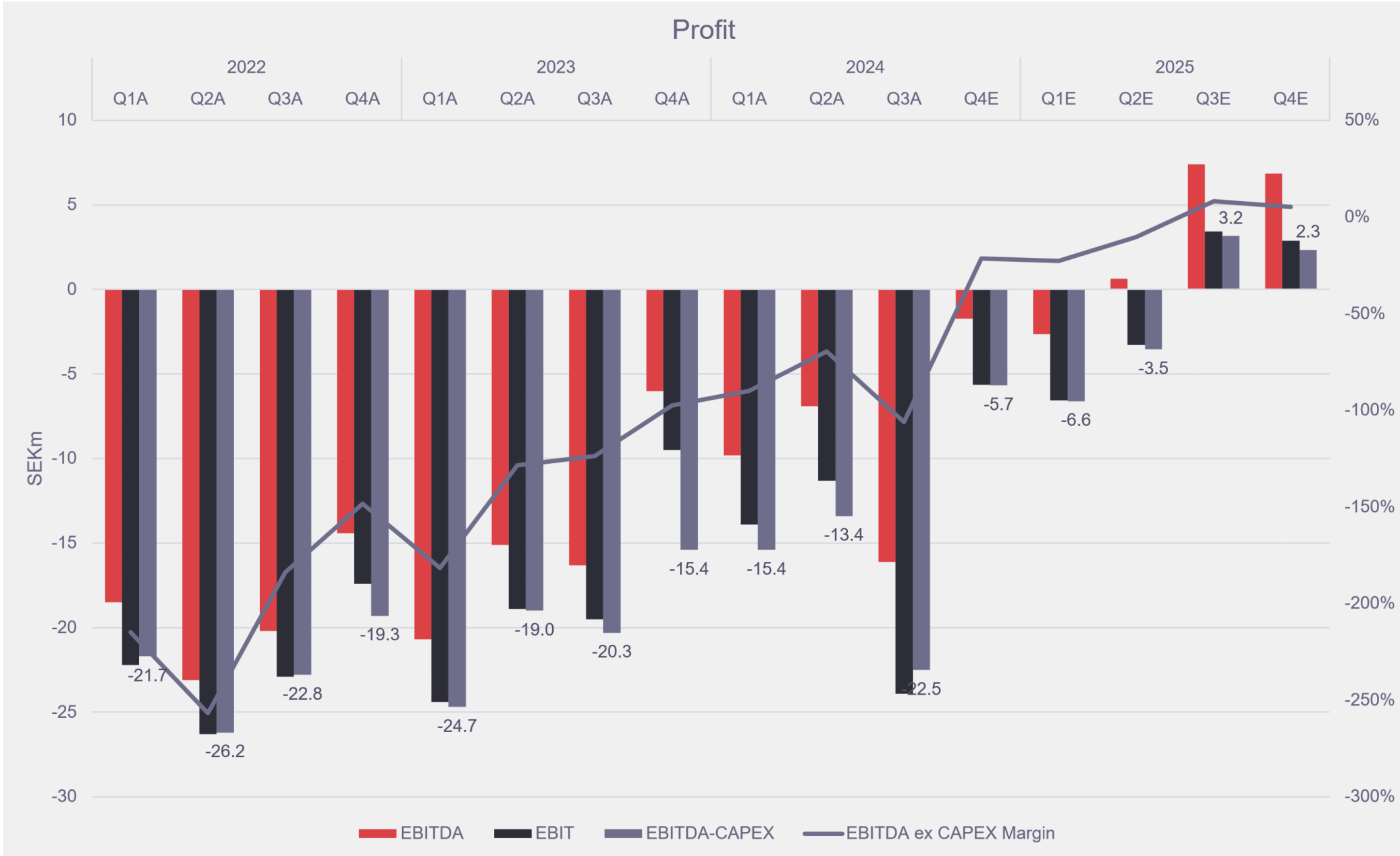
The q/q SaaS ARR growth was SEK20.8m, compared to SEK10.6m in Q3 and around SEK6.5m in Q1 and Q2. Thus, an impressive acceleration, fueled by a large amount of SaaS API calls, is almost in line with what is needed to reach the ambitious SEK200m ARR target for the end of 2025, which now seems within reach. However, our forecasts remain somewhat more conservative. Following the strong development in Q4, we raise our assumptions for 2025, as we now expect a higher absolute ARR growth. The solid momentum suggests additional customers are starting to scale the Teneo AI's solutions, indicating SaaS ARR growth will remain at a high pace. According to management, the solid growth was mainly due to current customers scaling Teneo AI. However, there was some contribution from new customers as well. Also, the pipeline remains solid, and we get the impression that management is optimistic about the outlook for 2025. Our revised forecast is SEK183m in ARR at the end of 2025, up from SEK161m.



**2024 Q4e regards the preliminary figures.*

While the one-month positive cash flow from operations target does not tell very much, as net working capital changes could elevate the monthly figure, the adjusted EBITDA figure implies solid cost control.

Overall, the accelerating SaaS ARR growth and solid cost control are just what we wanted to see in Teneo AI to strengthen our view of the case. The combination of substantially accelerating SaaS ARR growth along with cost control sets Teneo AI for profitability earlier than previously expected. We expect positive EBITDA-CAPEX from H2 2025 in our revised forecasts. However, further growth investments might delay positive EBITDA-CAPEX further. Considering Teneo AI's momentum in a huge global market, it make sense to increase investments as long as there is reasonably cheap financing avalible - which there should be assuming more quarters of SEK~20m in absolut SaaS ARR growth.



2024 Q4e regards the preliminary (adjusted) figures and estimates for non-disclosed figures.

We will adjust our estimates further with the full Q4 2024 report published on 20 February.

Forecasts

Sales	**FYA 2023**	**Q1A 2024**	**Q2A 2024**	**Q3A 2024**	**Q4E 2024**	**FYE 2024**	**FYE 2025**	**FYE 2026**	**FYE 2027**
Net Sales	60.6	17.1	19.3	21.2	26.5	83.5	146.0	215.1	287.1
Y/Y Growth (%)	33%	26%	30%	29%	68%	38%	75%	47%	33%
SaaS	31.0	9.3	11.4	13.5	19.2	53.4	116.9	185.9	257.9
Growth y/y	61%	31%	52%	57%	146%	72%	119%	59%	39%
ARR (SaaS)	31.0	37.2	43.7	54.3	75.1	75.1	153.1	225.1	297.1
Non-SaaS Recurring	29.1	7.7	7.6	7.5	7.4	30.2	29.1	29.2	29.2
Growth y/y	37%	20%	7%	-1%	-8%	4%	-3%	0%	0%
ARR (Non-SaaS Recurring)	33.3	29.7	30.6	30.0	28.8	28.8	28.8	28.8	28.8
OPEX									
Cost of revenues	-19.8	-3.6	-4.1	-4.5	-5.3	-17.5	-27.5	-40.9	-54.5
% of sales	-33%	-21%	-21%	-21%	-20%	-21%	-19%	-19%	-19%
Other external costs	-30.3	-9.1	-9.2	-11.1	-9.7	-39.1	-42.8	-55.3	-66.8
Y/Y Growth (%)	-14%	30%	15%	88%	3%	29%	9%	29%	21%
Personnel expenses	-88.4	-21.0	-20.2	-28.0	-19.7	-88.9	-84.5	-98.7	-119.0
Y/Y Growth (%)	4%	-17%	-6%	19%	10%	1%	-5%	17%	21%
Earnings									
EBITDA-CAPEX	-79.4	-15.4	-13.4	-22.5	-5.7	-57.6	-4.6	25.2	52.7
EBITDA-CAPEX margin (%)	-131.0%	-90.1%	-69.4%	-106.1%	-21.3%	-68.9%	-3.2%	11.7%	18.4%
EBIT	-72.3	-13.9	-11.3	-23.9	-5.6	-54.9	-3.5	28.8	59.1
EBIT Margin (%)	-119.3%	-81.3%	-58.5%	-112.7%	-21.2%	-65.8%	-2.4%	13.4%	20.6%
Diluted EPS	-0.56	-0.04	-0.05	-0.08	-0.02	-0.18	-0.05	0.03	0.09

For now, we have raised our forecasts for SaaS ARR by 17% for 2025 and increased our Base Case to SEK1.3 (1.0). Also, we believe the likelihood of Teneo AI reaching our long-term Base Case assumptions or better has increased following the solid preliminary numbers.

Fair Value Range - Assumptions

	Bear Case	**Base Case**	**Bull Case**
Value per share, SEK	**0.4**	**1.3**	**3.9**
Sales CAGR			
2024 - 2031	26%	32%	39%
2031 - 2041	2%	6%	11%

Avg EBIT margin			
2024 - 2031	5%	9%	14%
2031 - 2041	25%	31%	35%
Terminal EBIT Margin	13%	25%	30%
Terminal growth	2%	2%	2%
WACC	16%	16%	16%

Source: Redeye Research

Investment thesis

Case

One of the market leaders in the fast-growing conversational AI market

Teneo AI offers attractive exposure to the fast-growing conversational AI market, which is expected to grow by a CAGR of 48% until 2031e. Supported by enhanced efficiencies, cost reductions, and stronger NPS (net promoter scores) from customers, yielding stronger customer satisfaction and reduced churn. Teneo AI held a market share of 10-15% of the world's total number of automated call center interactions in 2022. In addition, The Teneo platform support applications in 86 different languages, which makes the platform easy to implement across geographies.

Evidence

Recruiting an all-star team

All management positions (but the CTO) have been reassigned since 2020. Per Ottosson, CEO since late 2020, spent about ten years at Amelia (fka IPsoft), a much larger conversational AI vendor, most recently as Chief Revenue Officer for its EMEA division. Since becoming CEO, Ottosson has recruited several former colleagues to Teneo AIs' management. Other appointees have backgrounds from fast-growing SaaS companies in common. We think the team's successful track record and excellent industry understanding support our long-term outlook.

Supportive Analysis

The company has been around since 2001 and is at the technological forefront of the conversational AI market. Artificial Solutions holds some of the industry's foundational patents, which other stakeholders commonly cite. According to Artificial Solutions, it has significantly more forward citations than its average software peer (305 vs 33). Forward citations indicate that newer patents acknowledge the importance of a foundational patent. We understand that tech giants like Apple and Amazon have cited Teneo AIs' patents when building conversational AI solutions (Siri and Alexa).

Challenge

High leverage and negative cash flows

We don't expect Teneo AI to post positive EBITDA until 2025e. Teneo AI has debt terms at 4% - which will be accumulated to principal at maturity in December 2026e. Given the net debt position of SEK242m, versus its market cap of cSEK105m, the leverage ratio is high and will take time before it can repay its debt position. However, the refinancing is due in 2026e and there are changes of more favourable capital markets in the coming years, especially if the company delivers on its growth agenda.

Challenge

Large and time-consuming projects

Management commentary states that, on average, large-scale conversational AI implementations with Teneo require 10–15 developers and take 6–9 months to go live. Moreover, it takes another nine months to ramp up from 0–100% of the desired traffic in a project. However, once a solution goes live, it only requires one or two developers to maintain it.

Valuation

Uncertainty remains

Considering the company's leading position in the fast-growing market, the scalable business model, and its high net debt. We apply a rather wide valuation range to illustrate the different scenarios if the company succeeds in reaching its targets. However, the recent uptick in SaaS ARR growth is very encouraging, increasing the likelihood of Teneo AI performing in line with our

Base Case or better.

Quality Rating

People: 3

- ⊕ Strong founder mentality with CEO Per Ottosson demonstrating deep industry knowledge, commitment to innovation, and a clear long-term vision for Teneo AI.
- ⊕ Lean organization promoting self-direction and accountability, with a well-defined strategic plan targeting large enterprises with massive contact centers.
- ⊕ Transparent and consistent investor communication, focusing on long-term business value and providing timely updates with relevant SaaS metrics.
- ⊕ Board of directors with diverse expertise in software, finance, sales, and internationalization, aligning well with Teneo AI's global market ambitions.
- ⊕ Commitment to sustainability reporting and fair treatment of minority shareholders, indicating strong corporate governance practices.
- ⊖ Limited value creation for shareholders due to high cash burns and large net debt, despite impressive offering and customer list.
- ⊖ Challenges in meeting current financial targets, though recent improvements in SaaS ARR growth and reduced cash burn are noted.
- ⊖ Low insider ownership, with management and insiders collectively owning less than 5% of shares, potentially misaligning interests with shareholders.
- ⊖ Lack of substantial holdings by most board members, which may weaken their commitment to long-term shareholder interests.

Business: 3

- ⊕ Strong recurring revenue model with over 95% of sales recurring, indicating high business stability and predictability.
- ⊕ Highly scalable business with +75% SaaS gross margin and negative net working capital, requiring limited investments for growth.
- ⊕ Benefits from secular tailwinds related to digitalization and automation of contact centers, positioning for long-term growth.
- ⊕ Operates independently of commodity prices and with minimal regulatory interference, reducing external risks to the business.
- ⊖ Currently unprofitable, generating no profits and negative cash flow, which may require additional funding and potentially dilute shareholder value.
- ⊖ Dependent on capital markets for financing, which could pose challenges during economic downturns or tight credit conditions.
- ⊖ Operating in the AI sector, which is currently surrounded by hype and aggressive investment, potentially leading to overvaluation or increased competition.

Financials: 1

- ⊕ Strong gross profit margin exceeding 40%, indicating profitable product mix and pricing power.
- ⊖ Weak operating margin below 20% and lack of consistent growth in this metric over the past three years.
- ⊖ Concerning financial health indicators, such as high net debt relative to operating and free cash flow.
- ⊖ Low cash reserves relative to expected cash burn, increasing the likelihood of raising capital within 12 months.

Financials

Rating definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.
The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.
The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.
The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Fredrik Nilsson owns shares in the company : No.
Redeye performs/has performed services for Teneo AI and receives/has received compensation from these Companies in connection with this.