A brief look at the proposed merger between SoftwareOne and Crayon

1) Operational comparison between SoftwareOne and Crayon

Market share development

Since its IPO, SoftwareOne has not disclosed organic growth rates, despite engaging in extensive M&A activity. As a result, investors are forced to assume low organic growth. In contrast, Crayon, which completed one major M&A transaction in 2021, has since then consistently reported its organic growth rates.

SoftwareOne, gross profit	2019	2020	2021	2022	2023*	24 Q1-Q3*
Growth rate, reported	-	-1,7%	17,2%	9,9%	4,2%	7,6%
Growth rate, ccy	4,3%	4,4%	17,6%	13,8%	9,4%	10,1%
Growth rate, organic	-	-	14,3%	-	-	-

** SoftwareOne reports on contribution margin instead of gross profit*

Crayon, gross profit	2019	2020	2021	2022	2023	24 Q1-Q3
Growth rate, reported	21,7%	29,6%	35,0%	42,1%	26,0%	14,7%
Growth rate, ccy	-	-	-	-	-	-
Growth rate, organic	-	-	26,0%	22,8%	18,4%	13,4%

All gross profit

- Crayon has consistently won market shares from SoftwareOne based on total reported growth and organic growth.

Profitability and capital intensity

Given Crayon's consistent gain of market share the following two question arises:

1) Has Crayon won market share from SoftwareOne at the expense of margins?
2) Has Crayon invested more in capital expenditures (CAPEX) relative to gross profit to achieve this outperformance?

Margins: The adjusted EBITDA margin and reported EBITDA margin indicate that Crayon's outperformance has not come at the expense of profitability. Crayon's margin has increased slightly albeit from a much lower level in the period while SoftwareOne's has decreased significantly.

SoftwareOne	2019	2020	2021	2022	2023*	24 Q1-Q3*
EBITDA-margin, adjusted	30,3%	30,6%	25,7%	25,6%	*24,3%*	*21,0%*
EBITDA-margin, reported	23,1%	25,8%	18,7%	14,6%	*16,0%*	*12,3%*

** SoftwareOne reports on contribution margin instead of gross profit, so margin is based on revenue*

Crayon	2019	2020	2021	2022	2023	24 Q1-Q3
EBITDA-margin, adjusted	16,2%	17,6%	20,3%	18,7%	16,2%	18,3%
EBITDA-margin, reported	13,8%	16,3%	18,3%	16,7%	13,2%	17,3%

EBITDA/Gross Profit

One-Off Costs: SoftwareOne incurs significantly higher "one-off costs" compared to Crayon. The persistently high level of "one-off costs" raises questions to what degree they are truly one-offs versus more normal operational expenses likely to recur in the future.

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CAPEX-to-Gross Profit Ratio: Crayon's Capex-to-Gross profit ratio is lower than SoftwareOne's, suggesting Crayon achieves better returns on invested capital.

SoftwareOne	2019	2020	2021	2022	2023*	24 Q1-Q3
CAPEX/Gross profit	2,8%	3,0%	3,9%	5,0%	5,7%	-

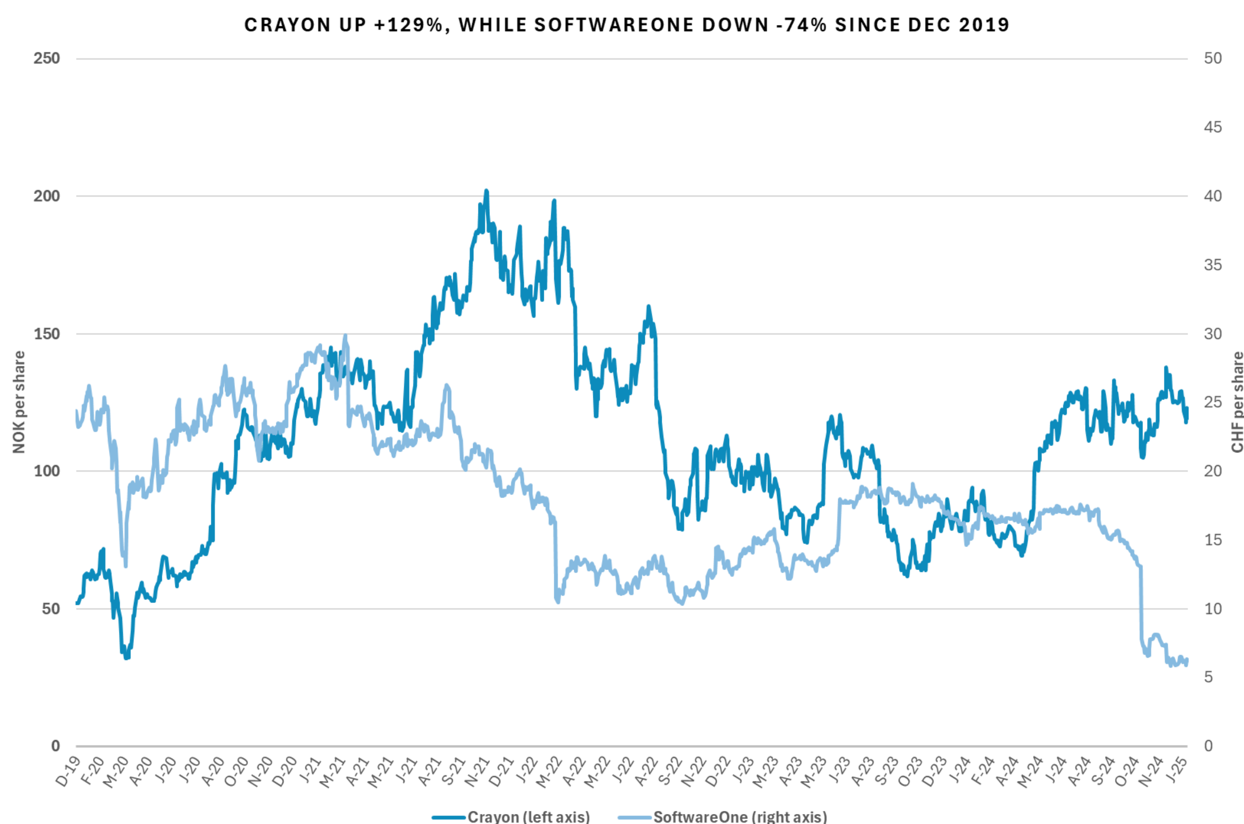
** SoftwareOne reports on contribution margin instead of gross profit, so ratio is based on revenue*

Crayon	2019	2020	2021	2022	2023	24 Q1-Q3
CAPEX/Gross profit	4,2%	3,5%	2,6%	3,2%	2,7%	2,2%

Capex/Gross profit

- The conclusion is that Crayon has significantly outperformed SoftwareOne since SoftwareOne's IPO in 2019, growing faster with lower Capex-to-Gross profit and better margin development.

A development clearly reflected in the share price development since 2019: Crayon's share price has risen by +129%, while SoftwareOne's has declined by -74%.



2) Transparency and credibility

SoftwareOne has since its IPO in 2019 downgraded guidance both for the current financial year and its mid-term goals several times. In contrast, Crayon has generally met their guidance with some upgrades and downgrades along the way.

Since 2021, when SoftwareOne's profitability began to decline, their capitalized development costs have increased significantly. This is problematic, as it hides the company's true underlying profitability

and creates an unfair comparison with Crayon, which has not significantly changed their practices regarding capitalized development costs in the period.

The simultaneous decline in profitability and rise in capitalized development costs is concerning, as it could suggest an attempt to mask the profitability decline. For context:

- Capitalized development costs are not real earnings but rather an estimate of future value generated by R&D. These estimates are uncertain and are based on forecasts for the future. Accounting principles specify when development costs should be capitalized, but management has significant discretion because it is based on an estimate of future earnings.
- In a steady state, amortizations of previously capitalized development costs mostly offset the positive earnings effect of newly capitalized costs. However, when there are significant increases in capitalized development costs it takes some years before the positive earnings effect are balanced with amortizations from previous years capitalized development costs, leading to a period where the reported earnings are artificially high. We believe this has been the case for SoftwareOne since 2021, when their margins began to come under pressure.
- This practice widens the gap between free cash flow and reported profitability. Consequently, we do not consider disproportional large, capitalized development costs net of amortizations as genuine profitability and believe they should be excluded when looking at true earnings. Capitalized development costs growing at roughly the same pace as revenue are not problematic. The problem is when the capitalized development costs relative to revenue suddenly increase significantly and the problem is exacerbated when this coincides with general margin pressure in the company.

SoftwareOne (mCHF)	2019	2020	2021	2022	2023	24 Q1-Q3*
Development costs	9,2	9,1	19,9	34,3	47,7	-
Amortizations on dev. costs	-8,3	-9,7	-11,3	-14,8	-23,3	-
Development costs, net	0,9	-0,6	8,6	19,4	24,5	-
Development costs/GP**	1,2%	1,3%	2,3%	3,6%	4,7%	-
EBITDA, reported	170,3	188,0	160,2	136,9	161,7	94,6
EBITDA excl. Dev. Costs, net	169,4	188,6	151,6	117,5	137,2	-
Difference	**0,5%**	**-0,3%**	**5,7%**	**16,5%**	**17,8%**	**-**

** Only provided in annual report under Notes for intangibles assets*

*** SoftwareOne reports on contribution margin instead of gross profit in 2023/24, so ratio is based on revenue*

Crayon (mNOK)	2019	2020	2021	2022	2023	24 Q1-Q3
Development costs	54,2	54,6	58,0	90,8	100,0	*70,0*
Amortizations on dev. costs	-45,4	-52,3	-59,7	-71,4	-74,0	*-63,0*
Development costs, net	8,8	2,3	-1,7	19,3	26,0	7,0
Development costs/GP	3,0%	2,3%	1,8%	2,0%	1,8%	1,5%
EBITDA, reported	250,0	381,7	579,7	751,5	744,7	802,4
EBITDA excl. Dev. Costs, net	241,2	379,4	581,5	732,1	718,7	795,4
Difference	**3,6%**	**0,6%**	**-0,3%**	**2,6%**	**3,6%**	**0,9%**

3) What needs to happen going forward?

SoftwareOne's Turnaround Strategy - Standalone or merged with Crayon:

- Conduct a comprehensive and large-scale turnaround, focusing on the following:
  - **Rebuild credibility**: Start by disclosing organic growth.
  - **Organic growth:** Restore focus on growing the business organically and disclose progress with full transparency to rebuild credibility.
  - **Profitability:** Significantly improve profitability without relying on one-off adjustments or large capitalization of development costs net of amortizations.
  - **M&A Discipline:** M&A should be a low priority until the core business is operationally enhanced. Only pursue acquisitions when:
    - The target is a perfect fit.
    - The target is already profitable.
    - A clear integration plan exists.
    - Valuation is reasonable, most transactions tend to favor the seller.

Proposed merger with Crayon:

- Integrate the most valuable intellectual property (IP) and strengths of each entity:
  - Preserve Crayon's successful organic growth approach—focus on integration rather than absorption, ensuring Crayon's strengths are not diluted.
  - Leverage Crayon's strength in the channel business and servicing of small- and medium-sized customers, while leveraging SoftwareOne's expertise in servicing large, multinational companies.
  - Preserve Crayon's transparent and credible communication with stakeholders.
- Achieve significant cost synergies and cross-selling opportunities through the merger.

Pricing in the proposed merger

- Crayon shareholders will receive 69 NOK per share and 0,8233 new shares in SoftwareOne.
- SoftwareOne's share price of 6,36 CHF per share equals 134,4 NOK per share for Crayon shareholders vs Crayon's current share price of 123 NOK per share.

Valuation metrics	EV/EBITDA Reported	EV/EBITDA Adjusted	EV/EBIT Normalized*
SoftwareOne	8,8	5,1	12,7
Crayon	14,5	12,4	17,4

Based on the valuation SoftwareOne is bidding for Crayon equaling a share price of 134,4 NOK per share

** Our estimate of real profitability adjusted for Amortizations from M&A, One-offs, Development costs net, etc*

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Prospects for shareholders in our opinion

- **SoftwareOne:** If the company stabilizes its operational performance, achieves organic growth matching the market, and increases profitability, it is currently undervalued (based on our valuation). The stock market's loss of confidence in the company is evident, and a successful turnaround would unlock significant valuation upside. Change of management was a necessary first step. Secondly the operational performance must be improved, and credibility rebuilt – starting with disclosing organic growth.
- **Crayon:** Crayon is undervalued, especially if the company can eventually achieve adjusted EBITDA margins of 25% compared to its current margin of 17,5%.
- **Potential Returns:** A successful turnaround and merger could offer shareholders a return of well over +100%. If the combined entity can outgrow the market organically and sustain profitable growth, the investment case becomes even more appealing.
- **Large risks for Crayon Shareholders:** If SoftwareOne fails to identify what has gone wrong and fails to execute a turnaround, the merger will likely result in poor outcomes for Crayon shareholders. In such a scenario, Crayon would be far better off continuing its historical outperformance independently.

MediumInvest scenario	CAGR 2025-30	EBITDA/ Revenue	Capex/ Revenue	Share price	Fair value	**Expected return**
SoftwareOne, no turnaround	3,0%	13,8%	6,2%	6,4	6,8	**7%**
Crayon (short-term guidance)	15,0%	13,4%	2,2%	123,0	170,6	**39%**
Combined (bad outcome)	5,0%	13,7%	4,8%	6,4	6,4	**1%**
Combined (good outcome)	10,0%	19,5%	4,0%	6,4	19,1	**201%**
Crayon (long-term guidance)	15,0%	22,5%	2,2%	123,0	313,6	**155%**

MediumInvest back of the envelope DCF for different scenarios

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Current assessment

- We think a successful merger can unlock the highest potential value for shareholders. From an operational point of view, we think the merger appears sensible with realistic opportunities to realize significant cost and revenue synergies.
- We have actively decided not to invest in SoftwareOne due to its poor operational performance and lack of transparency. We think Raphael Erb could be the right man to solve SoftwareONE's problems.
- We will not support the proposed merger if we are uneasy about the credibility and transparency of SoftwareOne. To grossly oversimplify: we are not comfortable owning a growth company that makes lots and lots of mergers and acquisitions and does not disclose organic growth.
- For now, we think the risks of failure outweigh the potential benefits, given the very substantial turnaround required at SoftwareOne after years of underperformance. However, new information could change our minds.

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