ESG insight

REMARKABLE INVEST AS

The paper tablet pioneer

reMarkable pioneered the 'paper tablet' category when it launched its first tablet in 2017. The second-generation tablet was launched in 2020 and has since sold 1.7m units and transformed the company from a local startup into a well-established brand with a global presence. Its highly scalable partner-driven business model has enabled the issuer to achieve good profitability (LTM Q2 2023 EBITDA of NOK298m (9% EBITDA margin) and fund its growth from cash generated. The company is now setting up for a rapid retail expansion, through third-party retailers, and preparing for new and more frequent product launches. Proceeds from the bond would be used to enable it to accelerate its growth initiatives. Our primary credit concerns are heightened competition, risks associated with future product launches, and the inherent challenges of balancing growth with profitability.

Issuer in brief. Founded in 2013, reMarkable is a Norwegian developer of digital paper tablets. The company's aim was to develop a tablet for notetaking and sketching that offered a paper-like feel, for knowledge workers. The issuer launched its first 'paper tablet' in 2017, and it has since sold more than 1.7m units across 48 countries.

Credit strengths. We find the key credit strengths to be: 1) first mover in the category with a well-established brand; 2) well positioned for growth driven by retail expansion; 3) proven ability to balance growth and profitability; and 4) comfortable LTV.

Credit weaknesses. We find the key risks to be: 1) increased competition; 2) risk related to new product launches; 3) supplier dependency; 4) exposure to consumer spending; and 5) large investment requirements in organisation and product development.

Proposed transaction. reMarkable Invest AS is contemplating issuing a 4-year NOK750m senior secured bond. The proceeds would be used to repay its outstanding credit facility and bolster its cash position to fund the ongoing retail expansion and product development.

Key financial figures - Remarkable Invest AS (Consolidated figures EOY, in NOKm)

	2020	2021	2022	2023e	2024e	2025e	2026e
Total revenues	1,215	2,676	2,712	3,256	4,156	4,853	5,225
EBITDA	105	279	114	328	365	464	561
TIBD	0	0	0	750	750	750	750
Cash & cash equivalents	275	602	370	812	387	227	315
Total assets	516	1,184	1,125	1,875	2,349	2,616	3,006
EBITDA margin (adj.) (%)	8.7	10.4	4.2	10.1	8.8	9.6	10.7
TIBD/EBITDA (adj.) (x)	0.0	0.0	0.0	2.3	2.1	1.6	1.3
TIBD/capital (adj.) (%)	0.0	0.0	0.0	55.0	48.3	41.3	34.6

Source: Company (historical figures), DNB Markets (estimates)

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ISSUER RATING

Moody's	Not rated
S&P	Not rated
Fitch	Not rated

BLOOMBERG IDENTIFIERS

Equity ticker	
Bond ticker	0.0

CAPITAL STRUCTURE

Market cap. (NOKm)	
NIBD (NOKm)	
Enterprise value (NOKm)	
Bond debt outstanding (NOKm)	750

MANAGEMENT

CEO	Vegard Veiteberg (interim)
CFO	Mikkel Ektvedt
CoB	Magnus Wanberg

RISK ASSESSMENT 1-6	Risk
Country	Very low 1
Industry	Mod. high 4
Country & Industry	Mod. high 4
Competitive position	Fair 4
Business risk	Weak 5
Financial	Significant 4

Source: DNB Markets (assessment)

Note: Unless otherwise stated, the security prices in this note are the last closing price.

This report has been commissioned and paid for by the company in conjunction with the issue and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II.

DNB Markets is acting as Joint Lead Manager in connection with a potential new senior secured bond issued by Remarkable Invest AS

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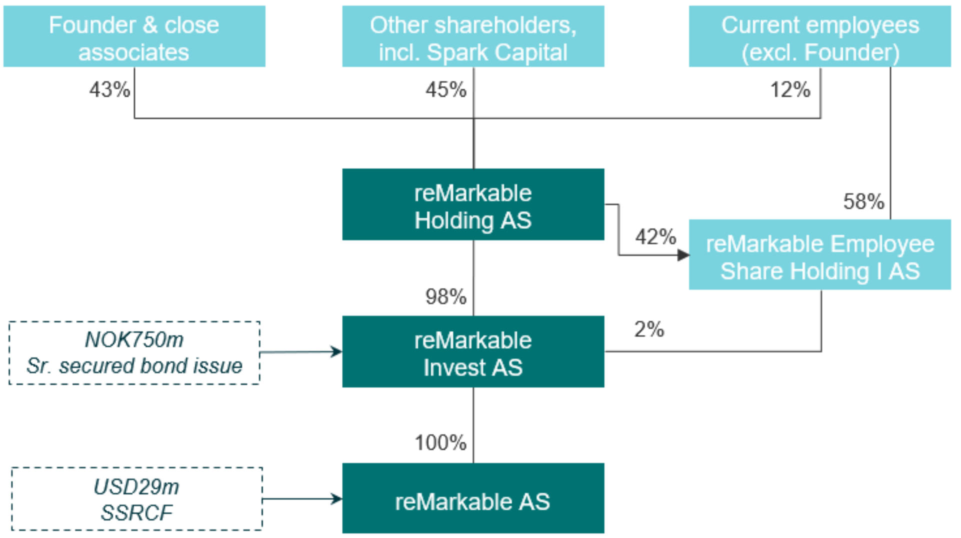
Transaction summary

reMarkable Invest AS is contemplating issuing a 4-year NOK750m senior secured bond, as indicated in the transaction structure below. The proposed bond will be issued by reMarkable Invest AS, which owns 100% of the shares in reMarkable AS (the operating company). The structure will include a USD29m SSRCF in reMarkable AS (i.e., the Bond is structurally subordinated to the SSRCF).

reMarkable Invest AS is contemplating issuing a 4-year NOK750m senior secured bond

Figure 1: Structural overview



Source: Investor presentation, DNB Markets

Use of proceeds – sources and uses

The proceeds raised would be used to repay existing credit facilities and secure funding of the company's growth strategy, particularly funding of R&D investments and a working capital build-up related to expansion of the retail channel. The proposed transaction would result in pro-forma cash holdings of NOK890m, putting the issuer in a NOK140m net cash position post issuance.

Pro-forma post-transaction cash of NOK890m, putting the issuer in a net cash position

Figure 2: Sources and uses

Sources	NOKm	Uses	NOKm
Senior secured bond	750	Repayment of credit facility	251
Cash (june 2023)	406	Transaction costs	15
		Pro-forma post-transaction cash	890
Total sources	**1156**	**Total uses**	**1156**

Source: Investor presentation

Key terms

Below we summarise the key terms of the proposed bond. We highlight the following items from the proposed term sheet:

- **Maintenance covenant.** The proposed term includes a NOK100m minimum liquidity covenant, but no maintenance covenants related to earnings or leverage levels.
- **Incurrence test.** For tap issues, the NIBD/EBITDA less than 3x. No distributions are (except for a minor figure (NOK2m) for administrative expenses in parent and up to NOK5m to repurchase shares in parent related to incentive programmes) are permitted prior to an IPO. Post a potential IPO, distributions will be subject to a an NIBD/EBITDA <2x incurrence test.
- **Permitted debt.** Permitted debt will, in addition to the proposed bond include a SSRCF that is not to exceed USD30m, a carve out for potential factoring agreements and a general basket

limited to NOK35m. Maximum issue amount for the bond is set to NOK1.5bn, subject to the incurrence test set out above.

Summary of terms

Below, we summarise the key terms of the proposed bond.

Figure 3: Summary of proposed terms

Issuer	reMarkable Invest AS
Group	The Issuer and all its subsidiaries from time to time (each a "Group Company")
Status	Senior secured
Guarantors	The Parent, the Operating Company and any other Material Group Company (each other Group Company possessing EBITDA or total assets exceeding 10% of the Group's consolidated EBITDA or total assets, and when combined, constituting a minimum of 85% of the Group's overall EBITDA and total assets)
Security	(i) Guarantees from each guarantor, (ii) first priority pledge over the shares in the Operating Company, (iii) first priority assignment of any subordinated loan, (iv) first priority assignment of any intercompany loan made by the Issuer, the Operating Company or any Material Group Company, (v) first priority pledge over the Issuer's and each guarantor's bank accounts located in Norway, and (vi) floating charges over the operating assets, inventory and trade receivables of the Issuer and each guarantor incorporated in Norway
Initial Issue Amount	NOK 750 million
Maximum issue amount	NOK 1,500 million
Tenor	4 years
Coupon	3m NIBOR + [●]% per annum, quarterly interest payments (NIBOR floor at 0.0%)
Amortisation	No fixed amortisation, 100% repayment at final maturity
Use of proceeds	Repayment of existing bank loans under the supply chain financing and general corporate purposes (including working capital, capital expenditure and payment of transaction costs)
Call option (American)	Make whole first 2 years, callable thereafter (in whole or parts) at par plus 50% / 37.5% / 25% / 12.5% of the margin after 2.0 / 2.5 / 3.0 / 3.5 years respectively
Equity Clawback	In connection with an IPO Event, the Issuer may redeem up to 35% of the outstanding bonds at a price equal to the first call price
Financial covenant	Minimum liquidity (including unutilised amounts under the SSRCF) above NOK 100 million
Incurrence Test	Bond tap issues: NIBD / EBITDA ≤ 3.0x
Distributions	No distributions, except administration costs in the Parent up to NOK 2 million p.a. and up to NOK 5 million p.a. to repurchase shares in the Parent related to incentive programmes for the employees or following an IPO Event maximum 50% of the consolidated net profit for the previous financial year, subject to NIBD / EBITDA ≤ 2.0x
General undertakings	General undertakings to include restrictions on additional debt, granting of loans and credits, granting of security (negative pledge), granting of guarantees and indemnities and shareholder distributions as well as certain other general undertakings customary in the Nordic high yield bond market
Permitted debt	Inter alia (i) super senior revolving credit facilities, leasing facility, guarantee or letter of credit facility or supply chain financing facilities for capital expenditures, acquisitions or working capital purposes, the principal amount of which shall in aggregate not exceed the higher of (a) USD 30,000,000 and (b) 1.0x EBITDA in aggregate for the Group with annual clean down provisions to apply (the "SSRCF"), (ii) hedging agreements for non-speculative purposes in the ordinary course of business or in respect of payments under the Bonds or the SSRCF, and (iii) general basket for other debt not exceeding NOK 35,000,000
Change of Control	Bondholders' put option at 101% of par value if someone other than Magnus Haug Wanberg and his family obtains decisive influence over the Issuer
Bond Listing	Oslo Stock Exchange within 12 months from settlement, otherwise coupon step-up of 1.0% per annum
Governing law	Norwegian law / Nordic Trustee

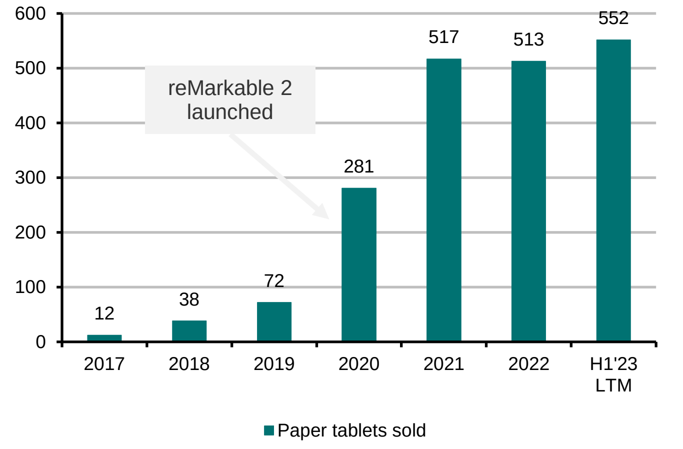
Source: Investor presentation

Credit considerations

Credit story summarised

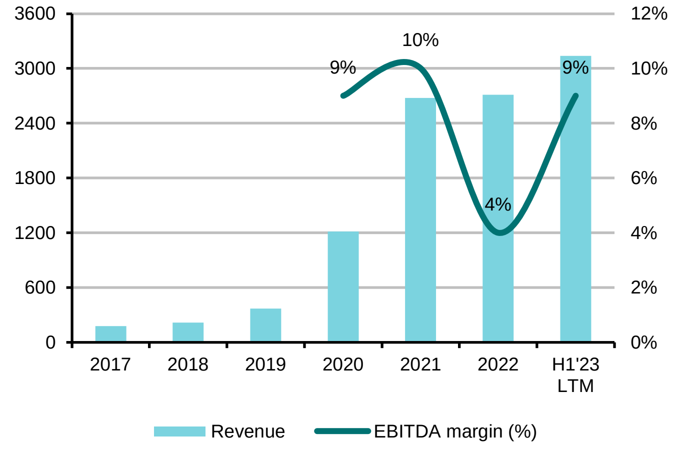
The company pioneered the 'paper tablet' category when it launched its first e-ink based tablet tailormade for note-taking and sketching in 2017. The second generation, the reMarkable 2 has since its launch in 2020 sold more than 1.5m units and transformed reMarkable from a local startup to a well-established company with global reach, achieving LTM Q2 2023 revenues of NOK3.1bn and EBITDA of NOK298m.

Figure 4: Number of paper tablets sold (thousands)



Source: Investor presentation

Figure 5: Revenue (NOKm) and EBITDA margin (%)



Source: Investor presentation

This growth has mainly been achieved by direct to customer (D2C) sales from the company's own web shop. This, combined with all manufacturing outsourced to partners, has resulted in an asset-light and highly scalable business model that has been able to fund the growth from cash generated, resulting in limited external funding needs. The company is now in the process of increasing its retail footprint by entering new partnerships with third-party retailers. This expansion of the retail channel will require more working capital than previously when close to all sales were made D2C.

We also have the launch of the yet-to-be-announced third-generation paper tablet on the horizon. The reMarkable 2 (i.e., the current main product) was launched in 2020, and the issuer has since expanded its organisation, with the aim of lowering the time between future product launches. The proposed bond will bolster the issuers cash holdings, putting the company in a good position to accelerate its retail expansion as well as securing sufficient funding for the product development pipeline.

The long-term effect of increased competition and the success related to new product launches considering the planned expansion of the organisation remain the key risks, in our view.

Credit strengths

First mover with well-established brand

As a pioneer in the paper tablet category, with more than 1.7m units sold, reMarkable has successfully established a strong brand position among its target customers.

Proven ability to balance growth and profitability

The issuer has since the release of the second-generation tablet in 2020, delivering an EBITDA margin in the range 8-10%, except for 2022, which was affected by large marketing spending related to the relaunch of the 'Connect' offering.

Comfortable LTV

reMarkable has due to its partner-driven, asset-light business model needed limited external capital. In May 2022, a secondary share sale was carried out at an implied EV of NOK10.5m, implying a comfortable LTV given an issue size of NOK750m and limited other debt in the company. We note that interest rates since the transaction in May has increased, and trading multiples on comparable companies has come down. However, we still see good valuation support, also when applying a substantial haircut to the above-mentioned valuation.

A secondary share sale in May 2022, implies an EV north of NOK10bn, providing comfortable valuation support also after applying a substantial haircut to this valuation

Low risk growth opportunities through retail

reMarkable has up until now relied on D2C distribution originating from its own web shop, but is now in the process of rapidly expanding its retail footprint by entering partnerships with third-party retailers. This channel expansion is planned to be done stepwise and, other than increased working capital, does not require any large capital commitments from reMarkable, lowering the overall risk involved.

High cash conversion due to partnership model

With all manufacturing outsourced to partners, reMarkable's business model offers high scalability in terms of volumes. This has historically resulted in strong cash-flow generation from operations, enabling the issuer to fund its growth from own cash flow.

Geographical diversification

reMarkable sells its products in 48 markets, resulting in good geographical diversification. The company is considering expanding into new markets, strengthening the diversification further.

Growing share of recurring subscription revenue

As of June 2023, the company had around 274k paying subscribers, corresponding to NOK113m in ARR. New customers get a 12-month free trial subscription when they buy a product, there currently being around 323k subscribers in their trial period. A large share of these will run out in Q4 2023, providing good room for growth in the subscriber base. Successful conversion of free-trial users into paying subscribers should result in strong growth in connect subscribers, potentially resulting in NOK200m–300m of high-margin revenues. The 'connect' offering increases the lifetime value of units sold and drives customer loyalty.

Improved access to equity capital

Since the launch of the reMarkable 2, the company has experienced significant growth, making it more mature. This transformation should make it more attractive to a diverse range of investors, extending beyond traditional venture capital funds. reMarkable is well-positioned to explore avenues for raising additional equity, be it through a private placement or an initial public offering (IPO).

Credit weaknesses

Risk related to new product launches

Development in revenues and earnings for a producer of consumer electronics will in the long run be driven by the appeal of new products. 'Paper tablets' is a new product category, and failure to keep up with the technological development or increased competition may result in weaker sales.

Long-term prospects linked to the appeal and sales figures of new products

Supplier dependency

All manufacturing is outsourced to third-party contract manufacturers, all of which are in China. The partners are, per reMarkable, top-tier producers both operationally and financially, that serve large global brands. reMarkable has not at this stage set up dual sourcing for key suppliers, resulting in some key supplier dependency. We note that reMarkable in collaboration with their partners have successfully navigated supply-chain disruptions caused by covid and the global chip shortage, and that it is working on setting up operations in Vietnam for some of its new products to further strengthen resilience.

Large investments in R&D and headcount increase expected

reMarkable has over the past couple of year expanded its organisation. This trend is expected to continue as it is rigged for shorter development cycles and B2B/retail expansion. This increase in FTEs will increase the cost base and the operational leverage, and potentially affect short-term profitability. We note that a large share of planned capex relates to R&D projects which can be changed in both scope and timing, giving management good flexibility to adjust spending.

Limited tangible assets

The flip side of reMarkable's highly scalable partner driven business model is it's in limited tangible assets as most of the value is linked to the current product and the success of future product launches.

Exposure to fluctuations in consumer spending

As a producer of consumer electronics, reMarkable is inherently exposed to fluctuations in consumer spending. We note that the typical reMarkable customer falls in the high-income bracket, who typically have a more resilient spending pattern.

Like any producer of consumer electronics, reMarkable is exposed to fluctuations in consumer spending

Increased competition

reMarkable pioneered the paper tablet category when it in launched its reMarkable 1 paper tablet in 2016. However, since then several competitors have introduced paper tablets to the market. Amazon launched its Kindle Scribe in November 2022, a paper tablet with a similarly sized screen that can be used for reading and writing. Onyx, Kobo and Lenovo have all introduced various paper tablets in recent years, resulting in increased competitive pressure in the paper tablet category.

Several competitors have launched comparable products in 2022 and 2023, intensifying competition in the paper tablet category

Exposure to currency fluctuations

reMarkable bills its customers in their respective countries' currencies, resulting in some foreign exchange exposure. A large share of this exposure is naturally hedged as it has a large share of its COGS and operating expenses in USD and EUR, the exception is personnel expenses which is in NOK. As such, reMarkable has benefited from the last year's weakening of the NOK, a potential reversal of FX rates could affect the company negatively. The ongoing retail expansion is set to increase lead time as well as FX exposure, and the company is in the process of evaluating its risk management policy and may consider introducing some FX hedging. We note that the issuer is considering changing its reporting currency to USD.

Financial forecasts

Key base case assumptions

As a producer of consumer electronics, reMarkable's future financials and growth prospects are to a large extent dependent on the number of units sold, which again is a function of the success of future yet-to-be-announced products, making forecasting difficult. Below we present the assumptions used in our base case, and more sensitivity analysis can be found in a subsequent section:

- **In our base case, we have assumed 527k units sold in 2023,** as continued retail expansion offsets potential weakness in consumer spending in H2. In 2024, we expect a new generation of the tablet to be introduced, which together with continued growth in retail distribution should provide a good foundation for growth in the number of units sold.
- **reMarkable currently has around 293k paying Connect subscribers,** generating around NOK113m ARR. A 12-month free trial offering was introduced in September 2022, suggesting a potential for growth in the number of paying subscribers when free trial users are converted to paying subscribers. We have assumed in our base case that around 70% of customers will sign up for the free trial offering, and 65% of users convert to a paying subscription after the end of the free trial. On the paying subscriber base, we have assumed monthly churn rate of 3%.
- **The gross margin has since 2020 been in the range 40–44%.** Going forward, we expect the gross margin to decline due to growing volumes through the retail channel, which has a lower margin (typically 30% versus 40% in the D2C channel). We have also allowed for some margin weakening in the period surrounding the launch of a new generation.
- **Personnel expenses.** reMarkable currently has an organisation comprising 402 FTEs. We expect, in line with the communication from the company, to see a continued increase in FTEs, especially within technology and the supply chain, driving a material increase in personnel expenses in the forecasting period. We have assumed that reMarkable will continue to capitalise around 15% of personnel expenses.
- **Marketing spend has over the last couple of quarters been around NOK80m,** which is what we have assumed as our base line quarterly spending. We have increased this in quarters surrounding an expected product launch, in our estimates affecting 2024. Over the long term, we expect marketing spend to stabilise at around 10% of sales.
- **Other operating expenses** comprise of external services, leasing, gateway fees and other expenses, and are expected to remain at 8–9%, broadly in line with what we have observed historically. We note the use of external consultants can be adjusted quickly to strengthen profitability, the larger organisation should also lower the need for external consultants.
- **Working capital.** Historically, due to its D2C business model, reMarkable has had a favourable working capital profile, however retail expansion will result in a structural increase in working capital as the growth in sales to retail chains will increase accounts receivable and inventory requirements. New product launches will also increase inventory requirements. We have thus modelled with a material working capital buildup in our forecast period.
- **Capital expenditure.** Management has indicated a planned capex spend towards NOK1bn by year-end 2025. Around half the planned investment relates to investments in R&D projects, while the remaining half relates to investments in fixed assets, IT systems and capitalisation of personnel expenses.

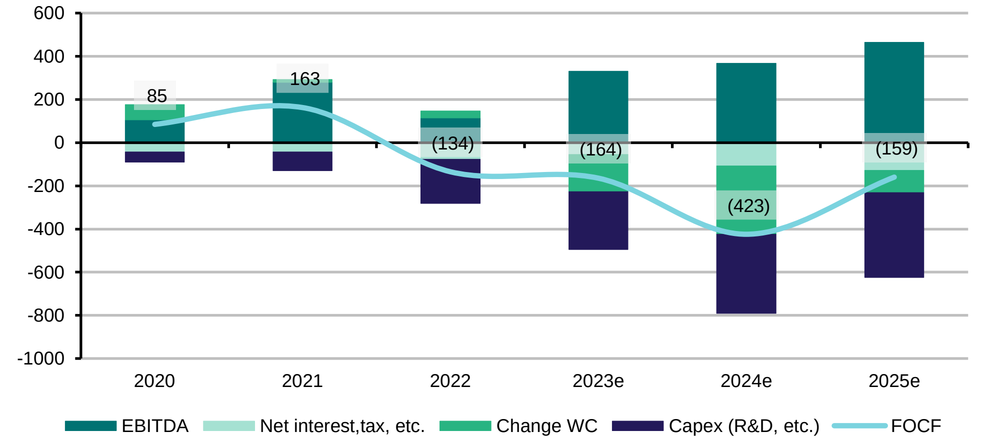
Figure 6: Cash flow table (credit-adjusted)

NOKm	2020	2021	2022	2023e	2024e	2025e
Units sold (in thousands)	281	565	514	527	720	850
Avg. revenue per basket (NOK)	4322	4713	4995	5937	5513	5440
Revenue from unit sales	**1215**	**2664**	**2566**	**3126**	**3969**	**4624**
Paying Connect users (avg. in period)	n.a.	n.a.	251	301	393	472
Connect revenues	0	**12**	**146**	**133**	**189**	**230**
Revenues	**1215**	**2676**	**2712**	**3259**	**4158**	**4854**
COGS	-786	-1504	-1530	-1921	-2487	-2957
Gross profit	**429**	**1172**	**1182**	**1338**	**1671**	**1897**
Personnel expenses	-94	-190	-313	-378	-476	-572
Marketing	-163	-515	-467	-323	-430	-440
Other operating expenses	-66	-187	-288	-306	-398	-420
EBITDA	**105**	**279**	**114**	**331**	**367**	**465**
Net financials	-42	-38	-34	-33	-75	-82
Cash tax	0	-6	-43	-21	-33	-47
FFO	**63**	**236**	**37**	**277**	**259**	**336**
Change working capital	70	14	32	-173	-316	-103
Operating cash flow	**133**	**249**	**70**	**104**	**-57**	**234**
Capex	-6	-16	-22	-27	-42	-32
Capitalised R&D and other CFI	-42	-71	-182	-241	-324	-361
FOCF	**85**	**163**	**-134**	**-164**	**-423**	**-159**
Change in debt	27	162	-67	609	0	0
New equity/dividends	2	2	19	0	0	0
Other CFF items	-4	0	-50	0	0	0
Net cash flow for the year	**110**	**327**	**-232**	**445**	**-423**	**-159**
KPIs and credit metrics						
Revenue growth (%)	n.a.	120%	1%	20%	28%	17%
Gross margin (%)	35%	44%	44%	41%	40%	39%
EBITDA margin %)	8.7%	10.4%	4.2%	10.2%	8.8%	9.6%
Cash	275	602	370	815	392	233
Liquidity (Cash + SSRCF)	n.a.	n.a.	n.a.	1120	696	537
NIBD	-228	-394	-229	-65	359	518
NIBD/EBITDA (x)	-2.2x	-1.4x	-2.0x	-0.2x	1.0x	1.1x
NIBD/EBITDA (incl. Capitalised opex)	n.a.	-1.5x	-3.8x	-0.2x	1.3x	1.4x

Source: Company reports, DNB Markets (forecasts)

Based on the issuer’s ongoing channel expansion and prospects of yet-to-be announced product introductions, we expect continued growth in units sold, driving revenue growth and gross profit generation in our forecasting period. The issuer has in recent years increased the number of FTEs, which together with marketing and other operating expenses makes up the cost base. Still, we expect EBITDA to grow, especially towards the end of the forecasting period when the growth driven by new products kick in.

Figure 7: Cash flow profile 2020–2025e (NOKm)



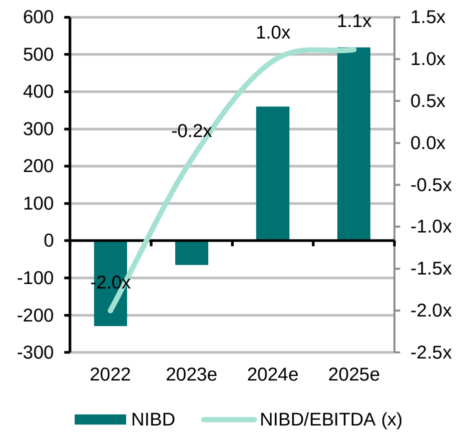
Source: Company reports, DNB Markets (forecasts)

The main drain on the issuers' operating cash flow is the increase in working capital, expected in relation to the ongoing retail expansion and future product launches, and capex driven by R&D.

Post the bond issue, the company will have a pro-forma cash position of NOK890m, and an undrawn USD29m SSRCF, bringing total liquidity north of NOK1.1bn. On our numbers, this should put the issuer in a good position to fund its current business plan. In our base case, we arrive at a NOK522m liquidity position (both cash and undrawn SSRCF) of NOK533m at end-2025. This figure is based on our estimated personnel expenses, consultant spend and R&D investments, all of which are highly flexible in nature and can be adjusted to preserve cash flow and margins. We discuss this in more detail below.

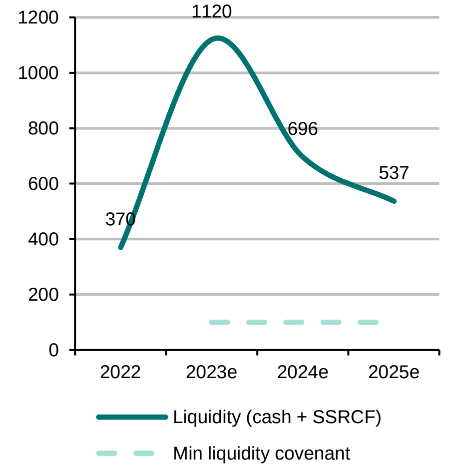
On our numbers, comfortable funding headroom on the current business plan, scope and timing of R&D spend is highly flexible in nature, providing management with flexibility, should cash-flow generation weaken

Figure 8: IBD and NIBD/EBITDA (NOKm, x)



Source: Source. Company reports, DNB Markets (forecasts)

Figure 9: Liquidity (NOKm)



Source: Source. Company reports, DNB Markets (forecasts)

Scenarios and sensitivity analysis

Revenue and gross profit per basket sold

Below we present a simplified calculation, with the aim of identifying the gross profit generated per basket (i.e., tablet) sold. We broadly base our calculation in current product prices and attachment rates; by doing so we assume implicitly that the yet-to-be announced third-generation tablet will have a similar price point and margin to the current generation. On our assumptions, we get to an average revenue per basket of USD496 per basket sold, which is slightly lower than the USD530m average observed in recent months, fuelled by the introduction of the new 'type folio', which has a higher retail price.

We estimate a gross profit per basket sold of NOK2,000

Furthermore, we apply a blended 38% gross margin for the basket, resulting in a gross profit per basket of USD188. This is a bit lower than the historical level to allow for retail growth, which would dilute margins, and a weaker margin early in a new product cycle. Translated to NOK, we get a gross profit per basket close to NOK2,000.

Customer acquisition cost (CAC) (i.e., marketing spend divided by units sold) has in recent quarters been around NOK550 per units sold, resulting in a gross profit including marketing spend of around NOK1,450 per unit sold.

Figure 10: Revenue and gross profit per basket sold

	Denom.	Avg. unit price	Attachment rate (%)	Avg. basket
reMarkable (tablet)	USD	299	100%	299
Marker	USD	125	95%	119
Folio	USD	120	65%	78
Average revenue per basket	**USD**			**496**
Blended gross margin	USD			38%
COGS	USD			-307
Gross profit per basket	**USD**			**188**
USDNOK				*10.6*
Revenue per basket (NOK)	NOK			*5,255*
Gross profit per basket (NOK)	**NOK**			***1,997***
CAC (i.e., marketing spend/units sold)	NOK			550
Gross profit (incl. marketing spend)	**NOK**			**1,447**

Source: DNB Markets

How many baskets does reMarkable need to sell to cover its investment ambitions?

The table below is based on our base-case forecast, as presented in the section above. We have focused on the Q2 2023 to 2025 period, as this is the period where we have the most visibility on planned investments.

On our forecasts, reMarkable will have operational costs of NOK2.5bn in the period; we have excluded marketing from this figure as it will be addressed in the gross profit calculation. Investments related to working capital, and capex related to R&D, amounts to NOK1.4bn, bringing the total to NOK3.8bn.

Of this amount, we expect NOK488m to be covered with (high-margin) subscription revenues from Connect. reMarkable would have a pro forma cash position post-transaction of NOK890m, a USD29m undrawn SSRCF, we consider NOK250m an appropriate liquidity level for this kind of company, resulting in a surplus liquidity that can be used to fund growth of NOK945m. This leaves us with NOK2.4bn in cash that needs to be generated through the sale of units, which given an assumed gross profit (incl. marketing) of cNOK1,450 (calculated above) results in a needed sale of close to 1,637 baskets in the coming 2.5 years. This corresponds to an annual sale of 655 baskets, which given the ongoing B2B and retail expansion, and our expectation of new product launches in the period, appears highly feasible in our view.

Figure 11: Cash needs and unit sale

	Denom.	H2 2023e	2024e	2025e	Total (H2 2023–2025e)
Personnel expenses	NOKm	-193	-476	-572	-1241
Other opex	NOKm	-140	-398	-420	-958
Interest and cash tax	NOKm	-51	-108	-129	-288
Operational costs	**NOKm**	**-384**	**-982**	**-1120**	**-2487**
Working capital	NOKm	11	-316	-103	-408
Capex (R&D, etc.)	NOKm	-154	-366	-393	-913
Investments	**NOKm**	**-144**	**-682**	**-495**	**-1321**
Operational costs and investments	**NOKm**				**-3808**
Subscription revenues (Connect)	NOKm				494
Surplus liquidity post issuance (NOK890m+SSRCF–NOK250m)	NOKm				945
Cash needed from gross profit (i.e., unit sale)	**NOKm**				**-2369**
Gross profit (incl. marketing spend) per basket	NOK				1,447
Unit sale needed to cover cash needs	Baskets in thousands				1,637

Source: DNB Markets (estimates)

Large flexibility in cost base and investments as the scope and timing of R&D projects can be adjusted

As shown in the table above, a large share of the expected spending relates to personnel expenses and other operating expenses (driven by use of external consultants). The figures in the table above represent our base case, with estimated resources needed for the company to deliver on its current business plan. The phase of recruitment and use of external consultant, can to a large extent be adjusted in line with the development in sales, giving management several effective levers that can be used to protect profitability and cash flow. The same is the case in terms of capex (e.g. R&D projects), where the scope and timing can be adjusted, giving management further flexibility.

In the table above (and our base-case), we have assumed capex of NOK913m in the period up to 2025. We note that management has planned with NOK500m and the remaining being descretionary subject to cash flows generated in the period. As an illustration, a hypotetical reduction in capex from our asumed NOK913m to the NOK500m planned, will lower the number of baskets "needed" sold by 285k in the period, according to the logic set out above.

Debt portfolio

Figure 12: Debt portfolio

Facility	Lender/issuer	FX	Size (m)	Outstanding (NOKm)	Terms	Maturity
Sr. Secured Bond	reMarkable Invest AS	NOK	750	750	NIBOR + x%	2027
SSCF	reMarkable AS	USD	29	0	SOFR + 3.5%	n.a.

Source: Company reports

Operational leases

reMarkable AS has entered into several operational lease agreements related to the leasing of office space, furniture, and IT equipment. The lease agreement for the current office premises expires in August 2024. reMarkable has signed a new leasing agreement related to new office premises, resulting in annual lease payments of around NOK54m, contributing to an increase in leasing payments of up towards NOK80m per year from 2024.

Note that historically reMarkable has reported according to the NGAAP accounting standard and not IFRS. Under IFRS16), the operational leasing liabilities would have been recognised as a liability on the balance sheet, resulting an in increase in leasing liabilities on the balance sheet and a rise in EBITDA, as the leasing costs currently reported as operating expenses will be reported as depreciation (and interest costs). The change in accounting treatments has no impact on the actual cash flows.

Off-balance sheet liabilities

Some of reMarkable's key suppliers are authorised to place orders for selected components on its behalf (i.e., material authorisations). This obligation that suppliers put in on reMarkable's behalf is handled off-balance sheet.

reMarkable also offers various product warranties as an ordinary course of business.

Covenants

- The proposed bond will include a minimum liquidity covenant of NOK100m.
- Incurrence test: NIBD/EBITDA <3x for a potential tap issue, and NIBD/EBITDA <2x for distributions.

Loan-to-value considerations

Due to its highly scalable business model, reMarkable has been able to fund most of its growth from its own cash flow, resulting in few external funding rounds.

In 2019, reMarkable holding AS raised USD15m in capital from Spark Capital through the sale of 13% during a Series A funding round. Spark Capital is a US-based venture capital firm investing in consumer, software and FinTech companies. Spark Capital is or has previously been involved in companies such as Twitter, eToro, Discord, Coinbase. The transaction valued reMarkable at around NOK1bn back in 2019.

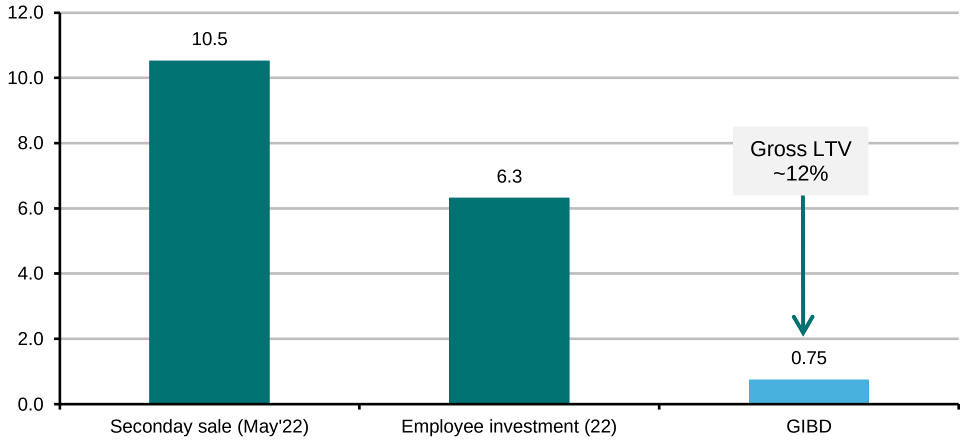
In May 2022, a secondary share sale – size and part not disclosed – valued the company at around USD1bn, corresponding to an EV valuation of NOK10.5bn. Employees have been offered the opportunity to invest in reMarkable at a 40% discount from this transaction (i.e., an EV valuation of NOK6.3bn. Note that shares purchased by employees are subject to various vesting and lock-up arrangements, partly explaining the discount).

A secondary share sale took place in May 2022, at an implied EV valuation of NOK10.5bn

Gross interest-bearing debt (i.e., the proposed bond) would amount to NOK750m, as part of the proceeds raised would be used to repay the current supply-chain credit facility. Cash and proceeds raised would put the issuer comfortably into net cash territory.

Implied gross LTV post-transaction would be 7% based on the NOK10.5bn valuation in the secondary sale in May 2022, and 12% based on a 40% employee investment discount.

Figure 13: Gross LTV considerations



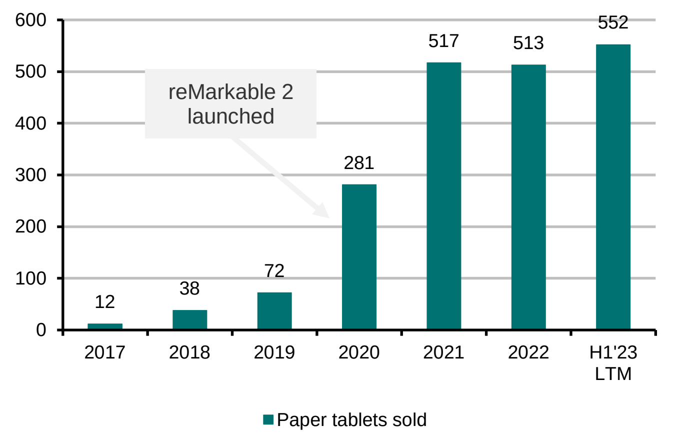
Source: Investor presentation, DNB Markets (further calculations)

Company description

reMarkable was founded in 2013, with the aim of developing products for users who prefer the paper experience over digital devices such as PCs or tablets. The company pioneered the 'paper tablet' category when it launched its first e-ink-based tablet tailormade for note-taking and sketching in 2016. It launched the second-generation 'paper tablet' called the reMarkable 2 in 2020. As of Q2 2023, reMarkable 2 has sold 1.5m units. In addition to the paper tablets and a marker, it offers a range of folios. In 2021, the company introduced the "connect" a software-as-a-service solution for reMarkable users, offering users unlimited storage of notes and improved integration with mobile and desktop. The connect solution now has around 293k paying subscribers, generating run-rate revenues of ~NOK113m. This number is expected to increase in the coming quarters, as many of the users currently on a free trial are converted into paying subscribers.

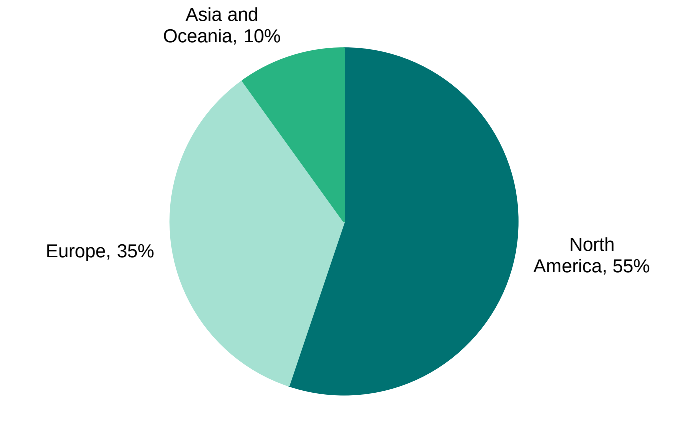
reMarkable pioneered the 'paper tablet' category when it launched its first e-ink based tablet tailor made for note-taking in 2019

Figure 14: Number of paper tablets sold



Source: Investor presentation

Figure 15: Revenue by region (LTM Q2 2023)



Source: Company reports

The company distributes its products in 48 countries, with North America and Europe being the largest regions. On a country level, the US is the largest market (51% of LTM Q2 2023 revenues) followed by the UK (9.2%), Germany (4.1%), France (3.8%), and the Netherlands (3.8%), Australia (3.8%). The company is looking into expanding into other regions, prioritising countries that have a high general proficiency of English.

The US is the largest market, contributing 51% of LTM Q2 2023 revenue

Product portfolio

reMarkable pioneered the paper tablet category when it launched its first paper tablet, the reMarkable 1, in late 2016. The current iteration, the reMarkable 2, was launched in late 2020. reMarkable 2 offers improved battery life, improved performance (i.e., writing latency) and a thinner design. reMarkable has not revealed any details on the next-generation paper tablet. However, we find it likely (and have based our estimates on) that a new generation of the paper tablet will be launched and ready for shipment before the 2024 holiday season.

Figure 16: Current product portfolio

Source: reMarkable.com

reMarkable has in recent years expanded its organisation, and its design and technology team count to 172 FTEs. By scaling up the organisation, reMarkable should be able to deliver more frequent product launches. In addition to the next-generation paper tablet, we find it likely that over time reMarkable will expand its product portfolio with additional alterations of products, for example a downsized version or a version tailored for specific user groups (i.e., students).

reMarkable offers a range of different folios made from basic polymer to more premium leather. In 2023, the company launched a "type folio" with an integrated keyboard. A reMarkable is typically sold as a bundle comprising the paper tablet itself, a marker, and a folio. The company reports that around 70% of customers add a folio to their purchase.

Sales channels and strategy

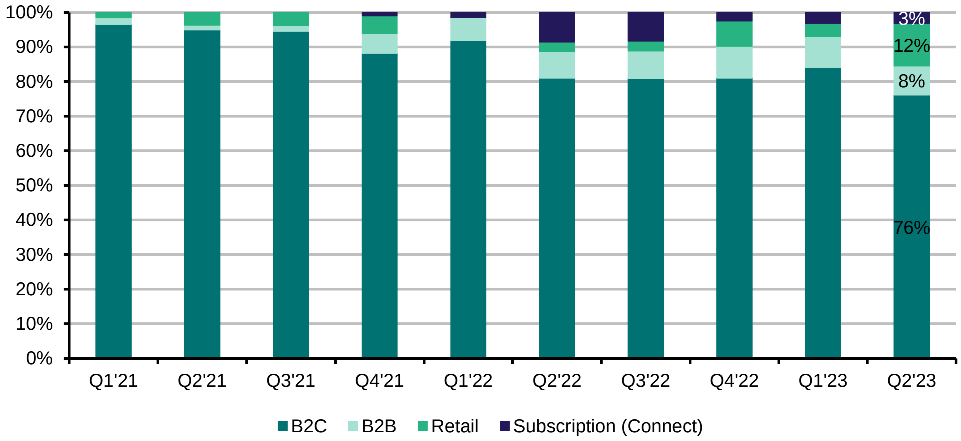
Retail channel expected to grow substantially in coming quarters as more third-party stores are added

Most of the company's sales originate through the company's own web shop (i.e., D2C); retail sales were introduced in 2020 through a partnership with Elkjøp/Elgiganten. reMarkable grew its retail footprint further in 2023 through a partnership with Best Buy (US) and Currys (UK). Further retail expansion is a core pillar of its growth strategy in the coming years, and the company has identified a pipeline of online and brick & mortar retail stores that could be added in the near-term. The retail channel accounted for 18% of sales in June 2023. Management expects third-party retail to account for 20% of volumes by year-end, we expect the share of retail sales to grow further in the coming years as more stores are added.

Solving technical blockers currently in place should support continued B2B growth

Further expansion of the B2B channel is another potential growth source for the company. Business customers typically have higher safety needs with regard to the handling of documents, and want the ability to manage the business fleet of reMarkable. Removing these technical blockers should put reMarkable in a good position to grow B2B sales, especially taking into consideration that 70% of reMarkable users say that they use it during their working day.

Figure 17: Revenues by channel

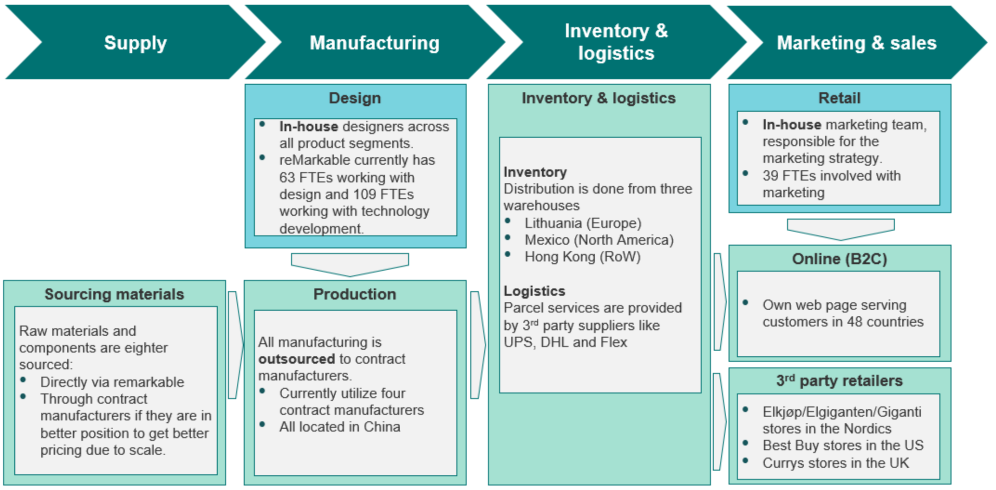


Source: Company reports, DNB Markets (further calculations)

Value chain

Below is a simplified illustration of the value chain.

Figure 18: Value chain



Source: DNB Markets, Company reports

Sourcing, production, and logistics

All manufacturing outsourced to partners

reMarkable has since the beginning utilised a partner-driven operating model, where all manufacturing operations are outsourced to partners, most of which reMarkable has had long relationship with. The company currently utilises four contract manufacturers, all of which are in China, to produce its current product range. reMarkable utilises traditional variable volume contracts, where reMarkable sends in purchase orders (POs) and pays COGS based on volumes ordered. There is in general a 3–4-month lead time from a PO being placed to products being delivered, but through close collaboration with its manufacturers reMarkable has successfully been able to adjust volumes at shorter intervals when necessary.

Like most producers of consumer electronics, reMarkable has an inherent dependency on some key suppliers located in China

The contract manufacturers are, according to reMarkable, top-tier contract manufacturers both financial and operational, that serve large global brands. We note that reMarkable has a certain dependency on some key suppliers as it has chosen not to set up dual sourcing for tier 1 suppliers so far. The company is actively working on strengthening the robustness of the value chain and is in the process of setting up operations in Vietnam for some new products, utilising new partners, potentially contributing to improved resilience. We note that reMarkable, in collaboration with its long-term partners, successfully navigated supply-chain disruptions caused by covid and the global chip shortage.

Raw materials and components are either sourced from suppliers via reMarkable or directly by the specific contract manufacturers if they can get better prices due to their scale.

Development of new products is typically done in collaboration with manufacturing partners; reMarkable has over time increased the scope of the development process

The way reMarkable has worked with its partners has evolved over the last couple of years. The company has continued to run product development in collaboration with partners, however the scope of what it has insourced has increased over time. Today the reMarkable handles industrial, mechanical, and electric design, the operating system, and software itself.

Finished goods are mainly delivered to reMarkable's warehouse in Hong Kong for further distribution. The company operates three warehouses: one in Lithuania (serving Europe), one in Mexico (North America) and the one in Hong Kong (the rest of the world). reMarkable is considering establishing a fourth warehouse in the Netherlands to better serve customers in Europe. All logistics and transportation are outsourced to third-party partners like UPS, DHL, and Flex.

Marketing and sales

reMarkable has historically employed a D2C business model where close to all sales have originated through the company's own web shop. In 2020, reMarkable introduced sales through third-party retailers in the Nordics. In 2023, Best Buy (USD) and Currys (UK) was added. Further expansion of retail is planned in 2023 and 2024.

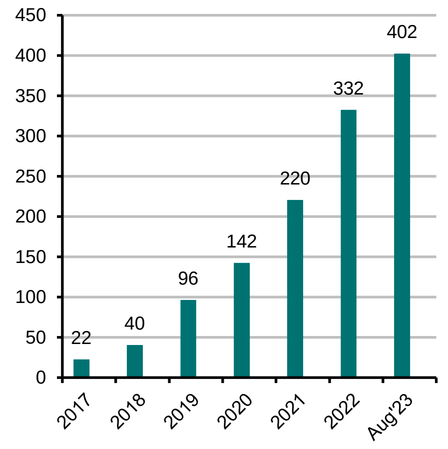
reMarkable has an in-house marketing team that develops and monitors its marketing strategy, and currently comprises 39 FTEs. The marketing team actively monitors engagement and the effect of various marketing initiatives.

Organisation

Currently has 402 FTEs, which is expected to continue to grow as the organisation is rigged for a shorter time between product launches and retail expansion

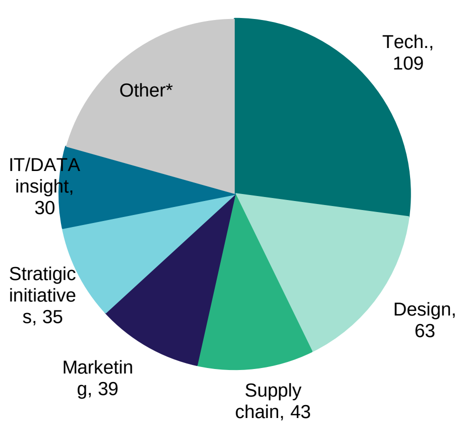
reMarkable employed 402 FTEs as of August 2023, all located in Norway, except for one employee situated in the UK. It is expected to continue to grow the organisation by adding resources, particularly into supply-chain and technology to deal with the retail expansion and lower the time between product launches. The company indicates a headcount (i.e., FTEs) of 450 by end-2023. This figure is expected to continue to increase in the coming years as it continues to rig its organisation for a shorter time between product launches and the retail expansion.

Figure 19: FTEs



Source: Investor presentation

Figure 20: FTEs by function



Source: Investor presentation *Finance, HR, Strategy, other

Competitive landscape

Several competitors entered the paper tablet category in 2022 and 2023

reMarkable was a pioneer in the paper tablet category when it introduced its first one back in 2017, however the product category has become more crowded in recent years, with several competitors launching paper tablets with similar functionality to reMarkable's. Amazon's 'Kindle Scribe' arguably represents the most formidable competitor due to its strong distribution, well-known brand and content library (i.e., the Amazon ebookstore). Kindle Scribe was introduced by Amazon in November 2022. In addition, reMarkable faces intensified competition from China-based competitors like Lenovo, Onyx, Kobo and Huawei. Many of these devices run on an Android OS (same as many mobile phones), giving them access to a wider range of apps, differentiating them from the reMarkable which is developed for exclusively for distraction-free note-taking.

Reviews broadly put reMarkable, kindle Scribe on the same level, where preference depends on intended use

Online reviews put the reMarkable 2, Kindle Scribe and some of the high-end Onyx models broadly on the same level. A recurring theme in the reviews is that reMarkable 2 offers the most seamless sharing of notes and integration with other platforms (i.e., Dropbox, Google Drive, etc.). For customers who consider reading and access to Amazon's ebook library important, the Kindle Scribe has the strongest offering; more recent reviews also point out that the Kindle Scribe's note-taking and sharing of notes functions have improved in recent software updates. For customers who want more than just note-taking (i.e., music, web browser, etc.), some of the Onyx models may be a better fit. We also note that some competitors are praised for their back-lit displays, a feature that the reMarkable 2 lacks.

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	■ We consider reMarkable's current business model to be in line with current ESG trends. ■ reMarkable aims to produce high-quality consumer electronics, intended to have a long useful life. ■ Sustainability has from the start been an integral part of the business, resulting in several initiatives: ▪ Increase the circularity of the business model through efficient recycling and refurbishment of old and returned products. ▪ Measuring GHG emissions in the value chain. reMarkable is in the process of developing short and long-term emissions reduction targets.	■ Production and distribution of consumer electronics, like other manufacturing industries, results in GHG emissions. ■ A large share of production is carried out in China, arguably lowering transparency. ■ reMarkable utilises a global value chain where most of the upstream production and logistics are outsourced to third-party suppliers, arguably making it more difficult to monitor and influence the ESG impact of the value chain. We note that reMarkable mitigates this through ESG due diligence of potential suppliers and the use of a supplier code of conduct agreements.
Actions being taken by company	■ Maximise the useful life of products by refurbishing and repairing returned units, with the aim of increasing the circularity of the business model. The company refurbished 7,583 reMarkable 2 units in 2022, corresponding to a 59% refurbished rate of returned products. ■ Reduce waste and GHG emissions through proper recycling routines of old products. Collaboration with recycling partners to ensure proper recycling of old products. ■ All packaging is 100%-recyclable.	■ Mapping and measuring GHG emissions (scope 1, 2 and 3) for the organisation and devices produced. ■ Sustainability is an integrated part of the annual report. ■ All Tier 1 suppliers have signed a supplier code of conduct. ■ reMarkable is actively cooperating with suppliers to improve ESG factors in the value chain.
Key ESG drivers	■ Continued focus on GHG emissions in the value chain and announcing specific reduction targets should further strengthen the issuer's ESG profile.	■ Consumer expectations regarding environmental and social performance continue to grow.

Source: DNB Markets

Summary of financial accounts - Remarkable Invest AS (Consolidated figures EOY, in NOKm)

Profit & Loss	2020	2021	2022	2023e	2024e	2025e	2026e
Total operating revenues	1,215	2,676	2,712	3,256	4,156	4,853	5,225
Total operating costs	-1,109	-2,396	-2,598	-2,927	-3,791	-4,389	-4,664
EBITDA	**105**	**279**	**114**	**328**	**365**	**464**	**561**
Depreciation & amortisation	-15	-37	-50	-69	-70	-70	-70
EBIT	**91**	**242**	**64**	**259**	**295**	**394**	**491**
Income from associates							
Sale of assets							
One-offs, write-downs, impairments							
Net interest	-42	-38	-34	-33	-75	-82	-81
Net other financials							
Pre-tax profit	**48**	**204**	**30**	**226**	**220**	**312**	**410**
Tax	-10	-46	-6	-14	-33	-47	-61
Net profit	**39**	**158**	**24**	**212**	**187**	**265**	**348**

Balance sheet	2020	2021	2022	2023e	2024e	2025e	2026e
Tangible fixed assets	5	19	33	53	95	127	147
Investments in associates							
Intangible assets	90	125	267	445	699	990	1,192
Other non-current assets	4	4	54	54	54	54	54
Cash & cash equivalents	275	602	370	812	387	227	315
Other current assets	142	434	401	511	1,113	1,218	1,298
Total assets	**516**	**1,184**	**1,125**	**1,875**	**2,349**	**2,616**	**3,006**
Interest-bearing long-term debt	0	0	0	750	750	750	750
Other non-current liabilities	0						
Interest-bearing short-term debt							
Other current liabilities	319	815	723	511	797	800	841
Total liabilities	**319**	**815**	**723**	**1,261**	**1,547**	**1,550**	**1,591**
Equity	197	368	402	614	801	1,066	1,415
Total equity and liabilities	**516**	**1,184**	**1,125**	**1,875**	**2,349**	**2,616**	**3,006**
Net interest-bearing debt	-275	-602	-370	-62	363	523	435
Total interest-bearing debt	0	0	0	750	750	750	750

Cash flow	2020	2021	2022	2023e	2024e	2025e	2026e
EBITDA	105	279	114	328	365	464	561
Dividends from associates	0	0	0	0	0	0	0
Net cash tax	0	-6	-43	-21	-33	-47	-61
Net cash interest	-42	-38	-34	-33	-75	-82	-81
Funds from operations (FFO)	**63**	**236**	**37**	**274**	**257**	**335**	**419**
Changes in working capital	70	14	32	-173	-316	-103	-39
Other cash flow from operations	0	0	0	0	0	0	0
Cash flow from operations (CFO)	**133**	**249**	**70**	**101**	**-59**	**233**	**379**
Investments	-6	-16	-22	-27	-42	-32	-20
Divestments	0	0	0	0	0	0	0
Other cash flow investments	-42	-71	-182	-241	-324	-361	-272
Free operating cash flow (FOCF)	**85**	**163**	**-134**	**-167**	**-425**	**-160**	**88**
Debt instalments	0	0	0	-251	0	0	0
Debt principal	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0
Funding surplus	**85**	**163**	**-134**	**-418**	**-425**	**-160**	**88**
New debt	27	162	-67	860	0	0	0
New equity	2	2	19	0	0	0	0
Other cash from financing	-4	0	-50	0	0	0	0
Net cash flow	**110**	**327**	**-232**	**442**	**-425**	**-160**	**88**
Other adjustments							
Change in cash	**110**	**327**	**-232**	**442**	**-425**	**-160**	**88**

Source: Company (historical figures), DNB Markets (estimates)

Key credit metrics (adjusted) - Remarkable Invest AS (EOY)

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
FFO/TIBD (%)							36.6	34.3	44.7	55.8
TIBD/EBITDA (x)				0.0	0.0	0.0	2.3	2.1	1.6	1.3
NIBD/EBITDA (x)				-2.6	-2.2	-3.2	-0.2	1.0	1.1	0.8
EBITDA/interest (x)				2.5	7.4	3.4	9.9	4.9	5.7	6.9
CFO/TIBD (%)							13.5	-7.9	31.0	50.6
FOCF/TIBD (%)							-22.2	-56.7	-21.4	11.7
DCF/TIBD (%)							-22.2	-56.7	-21.4	11.7
TIBD/capital (adj.) (%)	nm	nm	nm	0.0	0.0	0.0	55.0	48.3	41.3	34.6

Source: Company (historical figures), DNB Markets (estimates)

Profitability (adjusted) - Remarkable Invest AS (EOY)

	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
EBITDA margin (%)				8.7	10.4	4.2	10.1	8.8	9.6	10.7
EBIT margin (%)				7.5	9.0	2.4	8.0	7.1	8.1	9.4
Profit margin (%)				3.2	5.9	0.9	6.5	4.5	5.5	6.7
EBIT/assets (%)				17.5	20.4	5.7	13.8	12.6	15.0	16.3

Source: Company (historical figures), DNB Markets (estimates)

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