

On Your Mark, Get Set... Don't Go? - A Case Study on X Shore's Series B Financing Round

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Abstract

This thesis investigates how X Shore, an electric boating company, managed raising funds during times of high market volatility following the Russian invasion of Ukraine. The study contributes to existing literature by providing a case study on how crisis and high market uncertainty affects a company seeking funding in their capital intensive, early expansion phase of a growing, contemporary industry. This case study shows how X Shore manages to raise expansion capital during times of high market volatility by opting their planned IPO for a private placement, at the cost of a lower valuation and a smaller deal size, while gaining valuable time to focus on the development of its business. X Shore managed to maintain investor interest by offering shares of an “IPO-ready” firm at discount to the IPO price, supported by a strong business case and a purpose driven business model, promoting the electrification of the boating industry. Additionally, we find the importance of a dual-track process, as well as the combination of an agile approach and a highly determined management team.

Key words: IPO, private placement, crisis, electric vehicles

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1 Introduction

Imagine finding yourself less than two weeks away from executing your IPO (initial public offering) when Russia decides to invade Ukraine and crisis breaks out. Starting our thesis, we were excited for the chance to follow along the journey of, Sweden's 100% electric boat maker, X Shore (publ.) (**X Shore**) in its biggest financing round yet, anticipating its initial public offering. Little did we know that, in an economy still recovering from the effects of the COVID-19 pandemic and trying to navigate soaring inflation, a Russian invasion of Ukraine would disturb the democratic order as we know it. The turn of events had us switch the course of our study, just as X Shore had to abruptly navigate the change in market conditions. As the object of our study remains the same, the empirical setting changed from one of record high VC-valuations in the midst of the COVID-19 recovery, into another period of high degrees of uncertainty (Pitchbook Data, 2022a).

For our master thesis, we have had the rare opportunity to witness X Shore, an ambitious EV (electric vehicle) start-up in the peak of their early-stage expansion phase, having to postpone and rethink the IPO-plans. X Shore started the year of 2022 planning for a potential IPO, however, in the beginning of April 2022, it was announced that X Shore had raised over SEK 500 million in its biggest private financing round yet. The financing round was not only successful by its size, but also by its speed and the participation of highly regarded investment professionals. Order books were closed within 24 hours with an oversubscription.

At this point, trade-offs between raising equity capital through the private and the public markets have been researched (Chemmanur & Fulgheiri 1999; Boot et al., 2006), so has capital raising activities during crises (Block & Sandner, 2009; Dicle & Levendis, 2017). However, research on the impact which crisis has on IPO-plans and how EV companies in their early expansion phase manage raising capital during uncertain times is scarce. The empirical setting also stands out in the sense that X Shore operates in a rapidly changing industry, where it aspires to drive the dirty boating industry into becoming electrified.

Therefore, our thesis aims to answer the following research questions to gain an in-depth understanding of the research field:

- (1) How did X Shore manage to raise expansion capital during times of market uncertainty in spring of 2022?*
- (2) Why did X Shore postpone their IPO to do another pre-IPO round and how did they maintain investor interest?*

Firstly, we find that X Shore managed to raise capital during times of high market volatility by opting for a private placement, at the cost of a lower valuation and a smaller deal size, to postpone the IPO until the market has stabilized. However, postponing the IPO and remaining a private company a while longer would impact X Shore positively in some respects, for example by allowing the management to re-focus on the core operations as well as growing the business.

Secondly, we find that X Shore managed to maintain investor interest by offering a “good deal,” implying the company had fulfilled all the requirements to become a listed company but traded at a discount to the intended IPO price. X Shore also managed to maintain investor interest with little additional effort, due to its strong business case and purpose driven business model, supporting the goal to transition the dirty boating industry to become electrified.

Lastly, we find that in order to successfully manage raising capital during crisis, a dual-track process, as well as an agile approach and a highly determined management team is helpful.

1.1 Purpose

This thesis was conducted to serve two separate purposes.

Firstly, the thesis is expected to contribute to the understanding of venture financing within an empirical environment characterized by uncertainty through the single case study method on a contemporary company in a growing industry.

Secondly, this case study will contribute with material for teaching purposes at the Department of Finance at Stockholm School of Economics.

1.2 Contribution

The thesis aims to contribute insights about an EV company, in its early expansion phase, raising capital in a volatile market. Previous literature falls short in portraying high-tech companies, within industries such as EV, seeking extensive expansion capital under uncertain economic conditions. This thesis aims to fill this research gap by exploring the current situation of a first mover in a rapidly changing industry, i.e., the electric boat industry. This case study contributes insights by its unique empirical environment, documented in a real-time setting. Interviews with management, board members, investors, as well as advisors from the investment banks provide a broader range of perspectives and allows us to acquire deeper

understanding of the underlying motivations to opt for a private placement, than a quantitative analysis would allow.

1.3 Outline

This paper is laid out as follows.

Section 2 reviews the regulatory framework of the Nasdaq First North Premier Growth Market listing requirements and listing process. The section also describes literature related to raising capital during crisis, high-tech firms raising capital and the trade-offs that companies tend to consider between raising capital in the private and the public markets; **Section 3** reports the case study methodology, including data collection and assessment of research quality; **Section 4** introduces the case background, beginning with a review of the industry, followed by our documentation of X Shore going from an idea to early expansion phase, to then present the rising inflation concerns following a year of high equity valuations; **Section 5** presents the case as our empirical analysis, where X Shore raises SEK 500 million in under 24 hours as an alternative to their IPO due to high market volatility; **Section 6** discusses the outcome of the financing round in relation to the literature; **Section 7** concludes the thesis and provides further research recommendations.

2 Theoretical Framework

In this section, we examine regulatory framework and literature relevant to our case study. The regulatory framework presents the requirements and the process needed to go public on the Nasdaq First North Premier Growth Market. The literature includes previous research of firms raising capital during crisis, as well as motives for going public in an initial public offering (IPOs) and for raising capital in the private market, and how companies go about any trade-offs related to the choice between the two.

2.1 Regulatory framework

2.1.1 Nasdaq First North Premier Growth Market's requirements and listing process

Nasdaq First North Premier Growth Market is a marketplace for companies in the senior growth segment who are looking to expand their business and prepares them for a potential listing on the Nasdaq Main Market. Many of the key listing requirements are similar across all Nasdaq markets, however, requirements to go public on the Premier market specifically include a free float of at least 25%, a market value above EUR 10 million, financial reporting according to IFRS and twelve months working capital. Furthermore, to list on the Nasdaq First North Premier Growth Market, it is as important as it is a requirement to prepare a strong investment case. It is also a chance for management to address areas of improvement upon listing. The company should also prepare to operate as a public company, and in conjunction establish clear roles, consider corporate- and shareholder structure and assess the suitability of the company's board of directors and the CEO (Nasdaq, 2019).

The listing process consists of a preparation phase and a following formal listing process of about 2-3 months. All steps in the listing process can be viewed in **Appendix 9.1**. The preparation phase involves meeting with Nasdaq to gain knowledge on listing opportunities, making the executive decision to list, choosing a certified advisor, performing a due diligence and conducting a draft of a prospectus. The formal listing process is then initiated with a start-up meeting before the company formally applies for listing. The final prospectus is then filed to the FSA, in Sweden the Swedish Financial Supervisory Authority (Finansinspektionen). Once prospectus and admission to trading is approved, other internal preparations such as an investor relations website, release distribution, pre-marketing, analyst meetings and a roadshow are set in motion. Lastly, once investor interest has been secured, comes the listing day when the share trading starts (Nasdaq, 2019).

2.2 Literature review

2.2.1 *Raising capital during crisis*

There is a vast amount of evidence suggesting that uncertainty has serious effects for the most inventive and informationally opaque start-ups as well as small- and medium-sized enterprises (SMEs). Most recently, studies have examined the COVID-19 pandemic, which has had a significant effect on small businesses (Brown & Rocha, 2020). Consistent with previous literature, it shows that small businesses have been financially fragile and many anticipated problems with accessing aid during times of uncertainty.

Previous research implies that exogenous shocks are associated with a decrease in funds raised per funding round. In a study by Block and Sandner (2009), having the Great Financial Crisis in 2008 as their empirical setting, they find that this relationship was especially present amongst later stage funding rounds. They argue that firms going through later stage funding rounds need the additional capital to survive and cannot avoid the deduction in funds raised, as they seem to be in a “weak negotiation position”. Firms seeking initial funding, however, can postpone funding and expansion until the crisis has settled. Additionally, Block and Sandner (2009) find that later-stage ventures are more likely to be negatively impacted by the weak IPO climate than early-stage ventures. Since VC investors generally aim to sell their stake after a certain time, seeking to earn significant returns, they conclude that they are more sensitive to IPO market uncertainty.

Generally, companies who plan for an IPO tend to postpone going public in an uncertain market characterized by high volatility. Hence, IPO activity is more concentrated when the market is less volatile, supporting the existence of IPO cyclicalities and the interpretation that IPO activity is dependent on market volatility (Nguyen Thanh, 2020). Dicle and Levendis (2017) find evidence that, rather than the realized volatility, it is “the implied (expected) volatility, that leads to lower IPO activity”. While many firms might be ready to go public, they may just be waiting for a better opportunity, which may or may not be a period of high pricing but with low volatility.

Cumming et al. (2005) find that venture capital investors seek to invest in later-stage ventures when markets are liquid. That said, they imply that in times of expected illiquidity in exit markets, venture capitalists tend to invest in high-tech early-stage projects, due to the postponing of exit requirements.

2.2.2 *High-tech firms raising expansion capital*

Adverse selection and moral hazard are commonly mentioned in the theory of high-risk investments, such as venture capital. As described by Carpenter and Petersen (2002), it is connected to the lack of collateral and asymmetric information between the venture and the investor.

For high-tech firms in particular, the high level of human capital of the founding team is positively associated with the decision to seek external equity (Quas & D'Adda, 2018; Colombo & Grilli 2005). The founders' years of education, especially within economic and managerial subjects, have a favorable impact on company growth. Additionally, prior work experience within the relevant industry contributes to the attractiveness of the investment, as well as the entrepreneurial expertise of the founders.

In a study by Maksimovic and Pichler (2001) they analyze the timing of financing and the choice between listed and unlisted equity used in industries undergoing technological change. They find that the timing of an IPO depends on the following key parameters: “the public perception that the industry is viable, the prior probability that a superior technology will appear, and the initial cost of research and development that must be paid by new entrant” (Maksimovic & Pichler, 2001).

2.2.3 *The choice between the private and the public capital markets*

Initial public offering

Researchers agree on the fact that the ability to raise new capital and the enhanced company image and publicity are the amongst the most important factors of going public (Bancel & Mittoo, 2009; Röell, 1996). Additionally, evidence shows that smaller, younger firms value the inflow of new financing more, whereas larger firms consider the publicity and external monitoring more. Other benefits include improved motivation of management and employees, the opportunity for early investors to exit their investment, the exploitation of mispricing, and other indirect benefits such as the development of a well-defined business strategy for future growth, and an improved management, organizational and financial structure (Röell, 1996).

Röell (1996) divides the disadvantages of going public into two categories: *costs* and *danger of loss of control*. Some costs are direct costs as a result of the transaction, while other costs appear indirectly, such as the phenomenon of underpricing and the cost of information disclosure. Out of these disadvantages, underpricing is one that has been highly researched, and

it refers to an event where equity that is sold in an IPO is being underpriced, resulting in a price jump on its first day of trading (Ljungqvist, 2004). Theories behind this phenomenon have been discussed in relation to asymmetric information, institutional issues, control related issues as well as investor behavior. Most supporting evidence has been found regarding information friction. i.e., agency conflicts.

Research focused on the Swedish IPO market is rather limited. However, Rydqvist and Högholm (1995) find evidence that is contradictory to the ones of previous researchers' what supports funding of growth as the primary reason to go public. On the contrary, they find that owners are primarily motivated to take their firm public to liquidate their investment, to allow for financial consumption or portfolio diversification, explained by the number of the shares sold by existing shareholders. This is contradictory to previous literature which argues that the main motivation for an IPO is related to the funding of growth. Additionally, they find that the IPO activity in Sweden is not determined by the current state of the business cycles.

Brau and Fawcett (2006) further researched the question why firms are choosing not to go public. Generally, they conclude that companies tend to remain private to preserve decision-making control and ownership. Although, they find CFOs who had decided to go public but had withdrawn their application, were more concerned about the broad economic and industry conditions. CFOs who had a successful IPO considered both the loss of control and market or industry conditions but at a smaller scale compared to the group of CFOs who had their application withdrawn.

Venture financing through private placements

A commonly used alternative for startups to finance their businesses is to do a private placement, also simply referred to as venture capital (VC). As one of the main benefits for young, high-technological firms especially, private placements seem to be critical for rapid growth (Carpenter and Petersen, 2002).

This theory is supported by the research conducted by Bertoni and Grilli (2011), as they conclude that VC investments have a positive impact on firm growth, highlighted among high growth new technology-based firms. Traditionally, a VC investor takes an active role monitoring their portfolio companies and it is arguably one of the main benefits of having a VC investor over another alternative source of funding (Metrick & Yasuda, 2011). By taking an active role and thus contributing to company growth and added value, VC investors use their

skills within the industry and in startups as well as using their network (Florida & Kenney, 1988).

One of the main considerations for a company when they are deciding if they should do a private placement is that the current shareholders need to reduce their ownership stake (Wruck, 1989). Hence, the company value at the announcement of a private sale is strongly correlated with the change of ownership concentration. As a way of gaining control, VC investors often use contractual provisions, which may include board seats and veto rights, allowing for the influence of managerial activates throughout the extent of their holding period (Metrick & Yasuda, 2011).

Gompers et al. (2016), venture capitalists highlight *deal selection* as one the most important value-adding factor of VC investment process. When selecting investments, venture capitalists find the management team to be significantly more important than what the business model or what the company does or offers. They also relate the outcome of the investment to the management team rather than the business itself.

The trade-offs between an IPO and a private placement

The decision of going public or to raise capital in a private setting is a strategically important decision for a firm to make. Naturally, several trade-offs have been researched in relation to this decision. Over time, an increase in supply of private entrepreneurial capital has strengthened startups' ability to finance later-stage growth while remaining private. Evidence shows that founders and managers are choosing to remain private, motivated by remaining or increased control, and is not related to the failure in the IPO-process (Ewens & Farre-Mensa, 2017).

From a managerial perspective, the decision on whether to raise capital in the private market or going public is driven by the costs and benefits which the manager and owners of the firm perceive. One commonly mentioned tradeoff is the decision-making autonomy and for a higher cost of capital (Boot et al., 2006). The research of Chemmanur and Fulgheiri (1999) examines the question of what stage of a firm is best suited for raising additional capital through an IPO, compared to the alternative of doing a round of unlisted equity. They find that in equilibrium, the timing is determined by the trade-off between duplication in information production by outsiders and avoiding the venture capital risk premium.

Evidence shows that the decision to raise capital though an IPO is correlated with firm size (Pagano et al., 1998; Rydqvist & Högholm, 1995). However, average size tends to vary

across countries. Research on the Swedish IPO market suggest that the average firm goes public at a high firm age and that expansion of firm sizes after going public is moderate.

Research suggests that firms should go public, rather than staying private, in times when multiple valuations are high and the inflation-adjusted level of the market is high (Loughran et al., 1994; Ritter & Welch, 2002; Pagano et al., 1998). Valuation multiples within the same industry are especially important. Further, research shows that the relationship reflects exploitation of mispricing, rather than higher investment needs within the specific sector (Pagano et al., 1998).

Sometimes, companies perform a dual-track process meaning they file for an IPO while also searching for potential acquirers in the private market. The strategy is commonly used during market volatility and is often used by high-tech firms (Brau et al., 2010). A dual-track process enables the company seeking to exit to achieve the best prospectus, usually at a higher valuation than if the different alternatives had been examined isolated (Orrick, 2018). Studies show that a company performing a dual-track process, to then end up staying private, earns a premium compared to the firms ending up doing an IPO. Thus, preparing for an IPO while at the same time trying to attract private investors can increase the value for entrepreneurs and previous investors (Brau et al., 2010). It also enabled the company to choose what alternative to go for at a later stage in the process, and as board members and managers may have different views on the preferable outcome a dual-track process can be a way to evaluate both different scenarios (Orrick, 2018). Moreover, the dual-track process will be time-consuming and more complex than performing a single-track process and hence also more expensive. Performing a dual-track process has shown to be especially important when risk appetite has fallen back.

3 Methodology

In this section the chosen methodology to answer the research question is presented as well as the process used when collecting data and an evaluation of the research quality.

3.1 The case study methodology

To investigate X Shore's planned fund raising in spring 2022, in times of market uncertainty, we have chosen to perform a single case study as to gain insights into a complex and dynamic real-world event (Eisenhardt, 1989). Eisenhardt further implies that a case study is favorable for theory-building research since it is independent from the results of prior research but at the same time is highly connected to empirical evidence. Hence, a case study can give a fresh perspective of old theories or can be a suitable method to use when investigating new research areas. In accordance with Eisenhardt, Siggelkow (2007) implies that case studies can help to find gaps in existing research and as inspiration for innovative ideas. In addition, Miller (1977) means that due to the complexity of a real-world event a case study would be preferable to get a more accurate picture of how the real-world really looks.

Dubois and Gadde (2002) agree with Eisenhardt about case studies being suitable when gaining in-depth insights about an empirical event. Although, they highlight some problems regarding the credibility of case studies. One of the major problems that is pointed out is the difficulties with statistical generalization when investigating a specific event since a case study is built on analytical inference. Yin (2013) concurs that little generalization can be made from a case study but emphasizes that a case study method is suitable when a study focuses on a contemporary event, does not require control of behavioral events, and have a research question that is formed as a *how* or *why* question. Since this is applicable to our research question, a case study method seems reasonable.

3.2 Data collection

The main source of data in this study will consist of interviews, where both dependent and independent interviews will be conducted to increase the reliability of the data collection. In this case we deemed the stakeholder who was not directly involved in the decision to be independent interviewees, although they still had a major part in the fund raising.

Prior to the interviews, the questions were sent to the interviewees so that they could prepare their answers and hence improve the quality of the interview. We encourage that the interviews should follow a semi structured approach, which means that the interviewees did not

need to strictly follow the prepared questions (Merriam, 1994). In this way, the interviewees got more space to share additional reflections. As Brinkmann and Kvale (2015) suggests, the interviews were based on brief and simple questions and an introductory question was asked to yield a spontaneous description of what they have experienced. After that, we constructed the interviews with open-ended questions, followed by following-up questions. In addition, Dubois and Gadde (2002) describe the difference between active and passive data, where passive data is the data that the researcher has set out to find. Active data is instead data that is connected to discovery. Thus, open questions and a semi-structured approach enable us to be a less predetermined researcher and hence collect active data as well.

The interviews took place from March until May 2022 and had an average length of 40 minutes. The interviews were mainly conducted remotely due to the preferences of the interviewees. Since it was a heterogeneous group with different perspectives and roles in the funding round, the questions varied depending on who we were interviewing. The interviews were recorded, which enabled us to be more present during the meeting and the interviews were transcribed immediately afterwards.

Additionally, primary data such as press releases, annual reports and industry reports were used as complements to the interviews. Hence multiple sources of data were applied in the case study, something Yin (2013) advocates as it improves a study's validity and reliability. In accordance with Yin, Eisenhardt (1989) also believes that multiple sources of data are preferable when performing a case study since it strengthens the substantiations of constructs.

The data collection had some limitations.

Firstly, since X Shore needed to switch their course from an IPO to pursue a private placement as the Russian invasion of Ukraine broke out during the time of us writing this thesis, our time frame to collect the data was limited. Furthermore, with a greater time frame, we may have been able to conduct more interviews and thus gotten a wider perspective.

Secondly, the decision-making process that X Shore was forced to enter resulted in issues related to information disclosure over a prolonged period. Some interviewees were unable to answer all questions in the questionnaire due to confidentiality. Lastly, since all interviewees represented X Shore, in one way or another, they may be biased.

Despite the limitations in the data collection, the interviews still contributed high-quality primary data to a comprehensive analysis. **Table 1** presents the interviewees, their role in the case study and if they are dependent or independent interviewees.

Table 1

Summary of interviews

Interviewee	Role & company	Role in financing round	Dependence
Andreas Larsson	Chief Financial Officer, X Shore	Management team	Dependent
Carl Kinell	Chief Executive Officer, Muirfield Invest	Investor	Independent
Elias Wästberg	Head of X Shore Industries 1, X Shore	Management team	Dependent
Helena Fagraeus	Chief Sustainability & Strategy Officer, X Shore	Management team	Dependent
Jenny Keisu	Chief Executive Officer, X Shore	Management team	Dependent
Kenneth Toll Johansson	Equity Research Analyst, Carnegie	Bookrunner	Independent
Peter Dahlberg	Board member and investor, X Shore	Board & investor	Dependent
Susanna Campbell	Chairperson, X Shore	Board	Dependent
Anonymous 1		Corporate Finance Advisory	Dependent
Anonymous 2		Corporate Finance Advisory	Dependent

3.3 Research quality

To judge the quality of a chosen methodology Yin (2013) presents four commonly used logical tests: construct validity, internal validity, external validity, and reliability. The four tests are frequently used in all social science methods and are also appropriate for a case study design.

Construct Validity is the first logical test and is a considerable challenge for case studies (Yin, 2013). This is because case study researchers may use subjective judgements when collecting data and hence fail to measure what is intended to be measured. By using multiple sources of data when collecting the data, one could increase construct validity. Another way to improve the construct validity when performing a case study is to put up a chain of evidence when collecting the data and to let key informants review a draft of the case study as a last step. In this study we include multiple sources of data as recommended. Moreover, we sent the final draft of the study to all participants so that they could review the information as an ultimate step.

Internal Validity is the second test according to Yin (2013). This test is especially a concern for explanatory case studies, when a researcher incorrectly assumes that an event is caused by one factor but fails to notice other factors that might have an impact on the event. Another concern over internal validity is the problem with inferences when an event cannot be directly observed. To improve internal validity Yin (2013) suggests that analytical tactics such as pattern matching could be applied, since it is one of the most desirable techniques to use when performing a case study analysis. Pattern matching means that one compares the relationship between the findings from your own study with the predicted one made before the data collection started. To improve internal validity we have, in addition to using multiple

sources of data, conducted pattern matching to make sure that causal relationships are matched with several sources.

External Validity involves the problems with generalizing the findings of a case study and is the third test (Yin, 2013). The problem with generalization when performing a case study has been widely discussed and was for example one of the main concerns that was brought up by Dubois and Gadde (2002). Yin (2013) means that external validity could be improved by forming a research question in a way that reduces the likelihood of seeking generalizations. As to do so, Yin favors including a “why” or a “how” in the research question of a case study. To improve the external validity of this study we have formed our research question by including a “how” and hence reduced the likelihood of seeking generalization.

Reliability is the fourth and final test formulated by Yin (2013). Reliability in this case implies that if a later researcher would like to replicate an earlier performed case study, they would end up with the same results and conclusions as the prior researcher. This is only true if they are studying the exact same case and not if they are replicating the procedures but are investigating another case. Taking reliability into account as a fourth test will hopefully reduce the biases and errors in the case study and by documenting all the procedures carefully reliability could be improved. We have documented and filed all the interview questions as well as the transcribed ones so that the interview questions could be replicated in future studies. In this way we improve the reliability of the study.

To conclude, by taking these four logical tests presented above into consideration we assess the research quality to be sufficiently high. Hence, we believe that we can draw conclusions that are valid and reliable and apply them to other events like the fund raising in spring 2022 performed by X Shore.

4 Case Background

This section presents relevant background information about industry including the electrical vehicle market and the recreational boating market, as well as information about X Shore and the state of the economy during the beginning of 2022.

4.1 Industry background

4.1.1 The rise of Electric Vehicles

The growing concern for environmental issues has become one of the key driving forces of the EV market. An increasing number of studies show the negative effect that greenhouse gas emission has on the climate and conclude that a rapid fundamental transformation in the way we source and consume energy is vital. This has increased concern and several initiatives have been taken to encourage countries to set goals and to take action (Geffen et al., 2003). In 2015, 196 countries agreed upon a legally binding international treaty regarding climate change, the Paris Agreement. It intends to limit global warming by keeping the increases in temperature to below 2 degrees Celsius, preferably below 1.5 degrees. The agreement is a result of the increasing knowledge and concerns of global warming and hence brings nations together towards a common goal. It requires a steep ramp-up by all parties involved to be able to achieve the goal (United Nations, 2022).

An enormous part of greenhouse gas emission comes from transportation. The main transportation type in developed economies is motor vehicles, with about 90% of all passenger miles occurring in Europe, U.S., and Canada (Geffen et al., 2003). Due to growth in population, as well as increased wealth, the production of motor vehicles is expected to grow, not only in developed countries, which in turn indicates the need for a transformation of the industry that will help reduce the amount of greenhouse gas emission.

In recent years, the production of EVs has grown significantly, and regulations formed to encourage EVs have made them even more attractive. Promoted by the increase in EV investments, technology and innovation is expected to improve rapidly according to research conducted by Deloitte (2019). Some therefore believe that EVs will be a viable option for every new vehicle buyer within a few years and there is already a shift in sales from plug-in hybrid vehicles to fully battery driven EVs.

Even though technology has been improved and knowledge within the EV industry has increased, there are still limitations and challenges within the area. Environmental and Energy Study Institute (2020) discusses some of the challenges, where it mentions both the spread in

charging times and the challenges related to charging infrastructure which may induce “range anxiety” among electric car drivers. Another challenge with EVs is the higher upfront vehicle cost, even though the operating cost is lower than for an ordinary motor vehicle. The higher upfront vehicle costs limit the group of customers who will be able to purchase an EV. Moreover, another challenge within the EV industry is the future demand for batteries as the current key materials used are limited. There is also a demand for more sustainable batteries and the ability to recycle them (Xu et al., 2020).

An article by Indulal (2021) shows that fund raising in EV-related companies has spiked significantly because of the increasing demand and with increased expectations of traction for alternative fuels. In previous years, startups operating in the EV sector had found it hard to raise funding, but lower battery costs and rising fossil fuel costs have increased interest from an investor’s perspective. A major increase in EV-investments between 2019 and 2021 was accomplished even though the COVID-19 pandemic had a negative effect on the global economy in general.

While the electric car industry has seen significant growth in the last couple of years, the electric boat industry is still rather unexplored. Due to the increasing demand for EVs, the increase in disposable income and increasing demand for recreational boats in general, the electric boat industry is expected to grow tremendously (Fortune Business Insights, 2021b). Like the car industry, the boating industry might face regulations going forward to become more sustainable. In Norway, the Norwegian Parliament has formed a goal to make the fjords free from fossil fuel by 2026, and thus be by the first seas with zero-emission zones (UNESCO World Heritage Centre, 2018).

4.1.2 The recreational boating industry

The boating industry is a key contributor to tourism and offers trade perspective (Fratila et al., 2021). As the sector mostly consists of SMEs, the European boating industry directly employs over 280,000 employees through around 32,000 individual companies across the EU. Additionally, European waters currently holds 6 million boats (European Boating Industry, 2020).

Furthermore, the global demand for recreational boats increased significantly in 2020, as the boat market experienced a growth of 4.1%. The increased growth in 2020 was driven by several factors, one of them being first-time small boat buyers following the lockdowns during COVID-19. Other driving factors include new industry developments and boat manufacturers

of varied sizes making significant investments in first-class technology (Fortune Business Insights, 2021a).

A survey conducted by the Swedish Transport Administration in 2021, covering privately owned recreational boats, shows that Swedes value the experience of freedom and nature the most in their boating life. As of 2020, about 16% of Swedish households own at least one boat for leisure purposes, which is an increase of 2% from their last report conducted five years prior. The study shows that, partly because of limited ability to travel abroad for holiday due to the COVID-19 pandemic, people have shown more interest in recreational boating (Transportstyrelsen, 2021).

In 2019, the CO₂ emissions from recreational boats were approximately 177 000 tons in Sweden (Point!, 2021). The recreational boating industry in Sweden emits more than 30% of Swedish domestic flights combined and approximately 20% of the Swedish coast is presumed to be negatively affected by recreational boats (Havsmiljöinstitutet, 2019). Hence, the recreational boating industry has a considerable negative impact on the environment.

4.2 Company background

4.2.1 *X Shore 1996-2019*

Konrad Bergström, the founder of X Shore, was a boat enthusiast from a young age. However, Bergström believed boats were not only expensive, but also loud and harmful “like a lethal weapon towards our oceans and animal life”, as he says in an interview with Wingman (Pavitt, 2020). Bergström continues “I knew that I wanted to create something that enabled people to feel closer to the benefits of being out on the water but without harming surrounding nature and the environment”.

In 1996, serial entrepreneur Konrad Bergström had the idea of a 100% electric marine craft. The brand, X Shore, was immediately trademarked, but the launch of the company was postponed as other projects, including the founding of Zound Industries in 2008, came in the way. Zound grew rapidly and was the fastest-growing Swedish firm for three years in a row. Meanwhile, X Shore was left aside as neither the technology nor the demand was around at the time (Pavitt, 2020).

In 2012, Bergström observed how Tesla evidently disrupted the automotive industry, and the idea of an electric boat appeared more achievable. In an interview with Red Herring (2020), Bergström said “I knew that by combining traditional craftsmanship with innovative technology, and riding on the early stages of the EV wave, I could create a boat that would be

more cost-efficient to run, all the while combating climate change and protecting the future of our oceans”. Although initial investments are high, being the first mover in the electric boating industry was essential in becoming market leaders and being able to push down prices (Red Herring, 2020).

In March 2018, X Shore launched a prototype called X Shore eElectric 8000 Smögen Edition together with the design firms Seamaster and Norra Norr (X Shore AB, 2020e). The prototype measured 8 meters and the propulsion was managed by two propellers on straight shafts, placed in two propeller tunnels. In line with Bergström’s original vision, the marine craft was silently, while still efficiently, passing through water without compromising nature compared to boats with fossil fuel engines (X Shore AB, 2020b).

When Bergström’s time at Zound Industries came to an end, Bergström was able to focus on developing and leading X Shore, driven by the chance to “redefine the marine industry through innovation and sustainability” (Pavitt, 2020). “I believe that in the near future energy will be almost infinite as we learn to get it from the sun, from the wind and the movement of the earth. This will provide more opportunities for people willing to take calculated risks” said Konrad Bergström in the interview with Pavitt (2020) for Wingman. At this point in time, Bergström also appointed Andreas Larsson as CFO making him the third employee of the company, while much of the work was still outsourced (Larsson, 2022-05-06).

4.2.2 A new CEO was appointed

In October 2019 Jenny Keisu was appointed the new CEO of X Shore due to her determination to transform a dirty industry into becoming more sustainable and her previous experience in doing so with other industries. Ever since Keisu was a child, she understood the importance of social responsibility. She strived to be in a position where she could make a difference and hence when she was 15 years old, she went to Brussels, Belgium, for an internship at the EU Parliament. After that, she decided that she was going to study law (Keisu, 2022-04-29).

Keisu began her law studies at Uppsala University and was then employed at Mannheimer Swartling where she stayed for four years. Besides her work, she enjoyed engaging in sustainability issues and traveled to Rwanda to volunteer as a university teacher. At this point, however, she was yet to become aware that it would be possible to combine sustainability with work (Keisu, 2022-04-29).

In 2012, Keisu was recruited by Nordic Capital and hence switched focus towards the private equity (PE) industry, and in 2013 she made the effort to understand the concept of ESG. At Nordic Capital she developed an ESG framework that was illustrated as a house, consisting of three floors.

The first floor of the house constitutes a check that the target company has the right compliance in place and follows all applicable laws, as license to operate.

The second floor is the “newspaper test”. As an investor, you conduct a test to avoid investing in a company that risks being on the front page of a newspaper due to the discovery that the business is harmful or unsustainable in some way.

The third, top floor is value creation, and that is a check of whether a company is purpose driven and value oriented or not. Keisu (2022-04-29) argues that if the team understands the purpose of sustainability within the business, the remaining floors will come together, and the firm can hence create value with a positive ESG impact.

At Nordic Capital, the focus was mainly set at the two lower floors of the house, as Keisu believed that the focus was mainly set on protecting the value which had already been created through traditional strategies (Keisu, 2022-04-29).

Keisu could not stop thinking that it should be possible to both earn money and do the right thing at the same time. Therefore, in 2015, Keisu left Nordic Capital to be part of founding a new PE firm called Summa Equity (**Summa**), one of the pioneers in investing solely in sustainable investments. Summa was created with the belief that it was possible to create additional value through ESG based investment strategies and purpose driven business models. Keisu was appointed CEO at Summa and implemented the house-framework which she had previously developed. The framework came to be called *the Summa house*, which is still being used at Summa till this day. After 5 years of serving as CEO and raising Summa’s first two funds, Keisu felt that her incremental impact had diminished. She had just been part of transforming the Swedish PE market towards higher ESG standards. Since the PE industry constitutes a major part of the Swedish GDP, the transition probably had a major impact. Keisu (2022-04-29) emphasizes that “change goes where money flows”.

At this point, Keisu was seeking a new industry to transform. The plan was to get involved as a chairperson in 3-4 companies, all active in dirty industries, for her work to have the highest impact. Although, in 2019, Konrad Bergström approached Keisu in the hope of bringing her on as X Shore’s new CEO in succession of himself. He would stay involved in the business as president of the board, focusing on design, brand building and marketing efforts. At that point,

X Shore was at a very early stage of their business, without a working product, but forthcoming operations in a dirty industry that had the potential of being transformed. As Keisu enjoys challenges and saw that she could make a considerable difference, she accepted the offer in October 2019 and could bring investors early on from her previous network (Keisu, 2022-04-29).

4.2.3 *A purpose driven business model*

Konrad Bergström founded X Shore in the attempt to save the seas, but Keisu saw that the company had potential to make a much greater positive impact. The boating industry is a dirty industry in many aspects, and it is in the building process that the biggest climate footprints are made. As the construction process usually emits excessive amounts carcinogenic substances, a lot of improvements could be made for the health of the employees and the nearby society (Keisu, 2022-04-29). Keisu implies that if the dirty boating industry was successfully transformed, it would have a major positive environmental impact.

X Shores business model has been compared to the one of Tesla Inc. (Tesla) whose purpose is to electrify the car industry. Hence the boat is commonly referred to as *the Tesla of the sea* (Palmer, 2021; X Shore AB, 2020c). To transition the boating industry and create a purpose driven business model X Shore aims to construct a production and a product offering that does not emit either oil, CO₂, diesel, or noise. The boats are built in a clean environment, with sustainable materials, enabling the boats to last longer and help sustain a higher resale value. Furthermore, X Shore have put a lot of effort into developing the software which enables people to easily share the boat (Keisu, 2022-04-29). The boats are always connected, which enables easy software updates. Creating a boat as digital as possible also makes the boat easier to drive, making it more accessible, which is considered favorable in their attempt to transform the boating industry (Fagraeus, 2022-03-23). Furthermore, the boats have a modular construction, where the various parts can easily be replaced to prolong the life of the boats (Keisu, 2022-04-29).

Through their ambition to offer a product that has superior performance and driving experience compared to the less sustainable, traditional motorboats, X Shore would be able to shift customer demand, as a means to transform the boating industry. As Keisu explains it “to really transform an industry to be sustainable you need a product that is at least as good as the less sustainable choice” (Keisu, 2022-04-29).

4.2.4 Scalability to transform an old-fashioned industry

An increasing demand for electric boats requires an increase in supply to allow for industrialization. Traditionally, the construction process of recreational boats is inefficient, where the boat is fully built by constructors in boatyards, rather than factories. Moreover, customers typically prefer their recreational boats customized, requiring a lot of manual craftsmanship (Fagraeus, 2022-03-23). X Shore aims to increase efficiency in the industry and improve its ability to scale up production. This would provide X Shore with a competitive advantage and enable them to grow fast in the segment of electric recreational boats that currently holds little competition. In order to scale, X Shore has taken inspiration from the automotive industry and has recruited many of their employees from other industries, rather than the boating industry, to collect groups of various mindsets and expertise (Wästberg, 2022-03-28).

X Shore has entered the market with a premium model, the Eelex 8000, with a price tag of about SEK 2.5 million. By scaling up production X Shore will be able to widen their assortment and the company is also exploring different partnerships and diverse types of boat sharing and financing solutions. X Shore believes that it is important to attract a bigger part of the population to be able to transform the market. Hence, that will require a scalable business model (Fagraeus, 2022-03-23).

4.2.5 Eelex 8000

At the time of writing this thesis, X Shore has a limited offering to one model, the Eelex 8000 (**Appendix 9.2**). The Eelex 8000 is an 8 meters fully electric recreational boat. Still being one of the few electric boats to reach a cruising speed of 25 knots, the boat performs an outstanding range of 100Nm on a single charge at a slower speed. X Shore stands out through its combination of exceptional acceleration and milage and hence, X Shore arguably has a first mover advantage. The outstanding range is made possible due to exceptional software, developed by skilled engineers with various backgrounds. The hardware of the boat is quite simply constructed, and X Shore aims to offer a boat that can be driven by people, with or without any prior boating experience. Keisu says in an interview “if you can drive a car, you can drive this boat” (Rejlers Play, 2021, 1:49s). The boats are constructed by modules, where the customer can choose between several modules and thus design a boat that suits their personal preferences. See **Appendix 9.3** for specs.

To unlock the boat remotely the owner can use X Shore's smartwatch (as can be seen in **Appendix 9.4**) or use a mobile app that all X Shore boat owners get access to. If needed, X Shore (the company) can also unlock the boat as it is constantly connected (Forbes, 2021). When onboarding the boat, the passenger will meet a steering wheel, a throttle control, and a 24-inch waterproof touchscreen where one can regulate the lights and the music in the boat, as well as an integrated stereo system (see **Appendix 9.5**). Overall, the formation of the boat is simple and minimalistic. X Shore put a lot of effort into working on the design of the boat and it is inspired by the robust head and streamlined design of a South American electric eel, and its electric abilities (Forbes, 2021).

X Shore aims not only to use material that contributes to the design, but also that is as sustainable as possible. Helena Fagraeus (2022-03-23), Head of Sustainability and Strategy at X Shore, states that "the goal is to construct a boat that will leave the factory with a net zero carbon footprint in 2030 and is as circular as possible". On the deck of the Eelex 8000, Bergström had the innovative idea to use cork instead of teak (Feminvest, 2020). The cork is less slippery than the teak, adjusts to temperature and, if sourced correctly, can positively affect the lifetime of the tree. As of spring 2022, Eelex 8000 is constructed using fiberglass and carbon fiber, which do not have any good recycling solutions yet (Fagraeus, 2022-03-23). To reach the goal of primarily using recyclable materials, X Shore has experimented with several types of material, especially flax fiber. Flax fiber is a type of natural fiber that can be used as a more sustainable alternative to fiberglass. However, the issue with flax fiber is that it is a heavy material which negatively impacts the range of the boat. Moreover, since it is a natural fiber, it bears the risk of absorbing too much water which would make the boat even heavier. Furthermore, X Shore is trying to improve their methods of working with fiberglass and carbon fiber to minimize the material used in production of the boats (Fagraeus, 2022-03-23).

Inside the Eelex 8000 there is an engine with a straight shaft out to a big five-blade propeller, which is uncommon for traditional boat construction and contributes to making the boat quieter (Rejlers Play, 2021). The engine is driven by two big lithium-ion batteries, that are placed in the back of the boat. In total, they are 126 kilowatt-hour batteries (Rejlers Play, 2021) and hence the batteries are approximately 20% larger than those of the currently biggest Tesla car (Feminvest, 2020). Thanks to the design and the powerful batteries of the Eelex 8000, the boat can accelerate from 0 to 20 knots in only 4.2 seconds (Forbes, 2021). The boat also has a built-in cooling system to cool the batteries but also to heat the batteries up when the water is

close to 0 degrees Celsius, to keep them at sufficient temperature (Feminvest, 2020). The boat has similar construction and engineering to contemporary electric cars.

X Shore has put a lot of effort into developing the software for the boat. It is constantly connected over-the-air and downloads 150 datapoints every second, providing real-time analytics for battery and engine performance, as well as temperature, humidity, pressure, location, and system status. The add-on feature called Sea Lab, also allows for pH and oxygen level reports. On the operational end, X Shore will access valuable usage data as basis for software updates (Sail-World Powerboat, 2021a). The boat also comes with an alarm system, and the X Shore smartwatch has a person overboard function that will make the boat stop when the captain falls overboard and the watch gets under water, or when the watch is too far away from the boat. As of spring 2022, X Shore is also in the process of developing auto-dock (autonomous docking) for their boats to make it even easier for the captain to drive the boat (Finwire.tv, 2021).

In addition to selling and manufacturing electric boats, X Shore provides Software as a Service (SaaS) which is provided to fleet operators (B2B clients) and governments (B2G clients). This mainly includes Sea Labs and Boat Control Towers, where Sea Labs have shown themselves to be especially important for customers in sensitive water areas such as close to coral reef. Hence, the function widens X Shore's customer base to the Middle East. X Shore aims to provide SaaS to individual customers as well going forward (Finwire.tv, 2021).

Going forward, X Shore's R&D team is working hard to develop new boat models to extend their offerings (Fagraeus, 2022-03-23).

4.2.6 X Shore's going into expansion

On October 9th in 2019, X Shore completed its first round of raising external capital through crowdfunding platform FundedByMe. The funding round, in which the founder and current CEO Konrad Bergström also invested, resulted in 431 new equity holders and a capital injection of around SEK 15 million, at a pre-money valuation of approximately SEK 500 million (Cision, 2019; X Shore AB, 2020c; X Shore AB, 2020d). Raising capital through crowdfunding, and hence having a diverse group of many small, committed investors was a crucial part of building an inclusive community of investors that share their environmental beliefs (Loritz, 2019). Before this round, founder and CEO, Konrad Bergström, had fully funded the operations.

With Jenny Keisu as CEO, X Shore completed a friends and family round and raised another SEK 50 million during 2020. The investors were found through Keisu's network and included local entrepreneurs from Stockholm, private equity professionals as well as investors with a background from other electrification cases such as the Swedish electric scooter company Voi (Larsson, 2022-05-06). The round was led by angel investor Peter Dahlberg, former CEO of veterinary firm AniCura. Dahlberg had worked with Keisu prior. For Keisu to take on the role as CEO of X Shore, she made it clear that she wished for Dahlberg to come along as an investor. As he valued supporting female entrepreneurs and to be part of the electrification of an industry with clear environmental issues, he decided to invest (Dahlberg, 04.27.2022). Through his success with AniCura, Dahlberg has proven his valuable skills of economies of scale and M&A (mergers and acquisitions) related business strategy. At this point, Dahlberg is the second largest shareholder after Bergström (Boating Communications Ltd, 2020). The friends and family round resulted in a stable register of shareholders who were willing to invest in future rounds as well (Larsson, 2022-05-06). "This was important since we are a company in expansion phase and will need to raise capital again soon" Larsson remarked.

In 2020, the COVID-19 pandemic had its breakout, which resulted in many companies being negatively affected. Although, the pandemic did not have a substantial impact on X Shore's sales with little disruption to the supply chain, having most of the manufacturing and the R&D team in Sweden (Agazzi, 2022b).

In April 2021, X Shore was ready to scale up production of the Eelex 8000 and aimed to raise at least SEK 100 million. The company managed to raise around SEK 160 million in a Series A funding round (Larsson, 2022-05-06). One of the investors that took part in the funding round was Muirfield Invest, a family office led by Carl Kinell who, just like Dahlberg, knew Keisu from before (Kinell, 2022-05-02). Kinell invested in the company due to his belief in the electrification of the seas, the trust in Keisu's ability to transform an industry as well as her ability to build a culture and unite a team. He meant that "one of the most important factors to evaluate is the people behind the company, especially in a company in such an early stage". ABG Sundal Collier acted as bookrunners in the deal. "What is happening now in the boating market is what has already started in the car industry," Keisu said in an interview with Bloomberg (Rolander, 2021). "We have more demand than we can supply and that's why we are raising capital". During 2020, the company had sold eight boats, but none of them had been delivered yet due to the lack of a factory (Larsson, 2022-05-06). In addition, X Shore needed capital for R&D and to extend the team. In April 2020, it was declared that X Shore was valued

at over SEK 950 million post-money, and the funding round was closed within only nine days (DLA Piper, 2021). Additionally, X Shore approached SEB for a SEK 40 million debt financing deal and thus rose around SEK 200 million in total (Larsson, 2022-05-06).

Only one month before the Series A funding round X Shores flagship model, the Eelex 8000, was officially launched in the United States. CEO Keisu explained that the opportunity was spotted to reinvent an industry that needed a transformation and had seen minor change in the past years (Dorbian, 2021). Since the U.S. market is the biggest one, expansion in the U.S. was necessary to make the transformation happen. The expansion started off with only a small local team. As X Shore entered the U.S. market in 2021 during the COVID-19 pandemic, traveling was restricted, and X Shore needed to launch the boats more or less remotely and the local team was trained digitally over Microsoft Teams. Although, they could see an interest in the X Shore boat and in January 2022, X Shore sold more boats in the U.S. than in Europe. It had then covered sales in all customer categories in the U.S. such as individuals, companies and cities and have during spring 2022 employed a General Manager, who comes from the Swedish headquarter as to make sure that the X Shore culture is well implemented in the U.S. workforce (Keisu, 2022-04-29).

In February 2022, it was announced that X Shore entered into a contract with the global battery leader Kreisel Electric. The contract was a 5-year deal valued at approximately SEK 500 million. The Kreisel Battery Pack (KBP 63) with total battery capacity of 126 kWh would power the 225kW motor of the Eelex 8000 (Kreisel Electric, 2022). From a strategic standpoint, in a world where industries are transitioning into electrification, the five-year contract is critical in allowing X Shore to secure significant volumes. In addition, Kreisel Electric uses almost only renewable energy to supply their factory. During the last couple of years, battery suppliers have been focusing on developments in the automotive industry, which do not have the same requirements and needs in terms of being waterproof. In the search for batteries of the caliber and quality that X Shore needs, Kreisel Electric stood out as one of the few suppliers who could deliver powerful batteries that were safe to use in marine settings. Kreisel Electric and X Shore are both dedicated to working toward net zero production, as strategic partnership further entails common sustainability-linked goals (Fagraeus, 2022-03-23).

Furthermore, in March 2022, it was announced that X Shore also had formed a strategic alliance with global marine fast charging network operator Aqua superPower. The collaboration will cover areas within Europe and North America, to provide the ecosystem needed to serve marinas, boat manufacturers and consumers in the electrification of marine crafts. Although,

infrastructure for boat charging is in place to certain extent, the focus of the collaboration would be on expanding DC charging (also known as super charging), which feed power directly to the boat's battery, unlike AC charging which put more resistance on the current of electricity. Further, as a part of the strategic partnership, Aqua superPower will have their superchargers hooked onto X Shore boats on marine fairs and events, and in return, X Shore will have their boats brought to locations sites where Aqua superPower have installations to help promote the expanding and evolving infrastructure surrounding electric boats. (Sail-World, 2022a).

4.2.7 Ramping up production in new factory

In 2021, X Shore was struggling to meet ballooning orders in the small single site in Frihamnen, Stockholm. The proceeds from the recent VC rounds had partly been spent on a new factory in Nyköping and to further improve the current models with new technology and materials. The new factory was named *X Shore Industry 1* and Elias Wästberg was recruited Head of X Shore Industries 1. It was a crucial step in entering the early expansion phase. It would allow for a complete in-house production and assembly line with a mixture of manual labor, automation and robotization, rather than purchasing all the boat's composite parts from subcontractors to then assemble manually as in the company did in Frihamnen. The new factory measures 9,000 sqm but should as of April 2023, measure approximately 15,000 sqm. The factory is designed for an initial capacity of building 400 boats per year, with production starting in 2022 (Wästberg, 2022-03-28). The plan is further to recruit around 100 new employees to the factory (Sail-World Powerboat, 2021b; Palmer, 2021).

When establishing X Shore Industries 1 in 2021, X Shore sourced help from consultants at Rejlers AB, a company with previous experience of building factories for Scania, a world leading provider of transportation solutions, and hence has the competence of constructing automotive-typical factories (Rejlers Play, 2021). Thus, the factory was not set up as a traditional boatyard, but rather with an assembly line technique that is typically used in the automotive industry. In the factory, the boats will move from one working station to another through the assembly line. At every station, X Shore has a fitter with expertise within that specific part of the process. The fitter responsible for the working station makes sure that the tools needed are in place close by the station to optimize the process (Wästberg, 2022-03-28). Ultimately, instead of having the factory employees work around a still standing boat, the boat is the one to move between each employee at their fixed stations.

The scalability of the X Shore factory in Nyköping is not comparable with a factory in the automotive industry, but it is however much more scalable than a traditional boatyard.

Furthermore, X Shore has designed its boats to easily be produced at a high scale, avoiding small demanding shapes that create notches. It has also constructed the boat with a modular design that is not only sustainable, but also easy to scale up through the assembly line process and the choice of material favors scalable production (Fagraeus, 2022-03-23). In March 2022, X Shore rolled out their first boat built on the new assembly line in X Shore Industries 1 (Sail-World, 2022b).

4.3 Rising inflation concerns

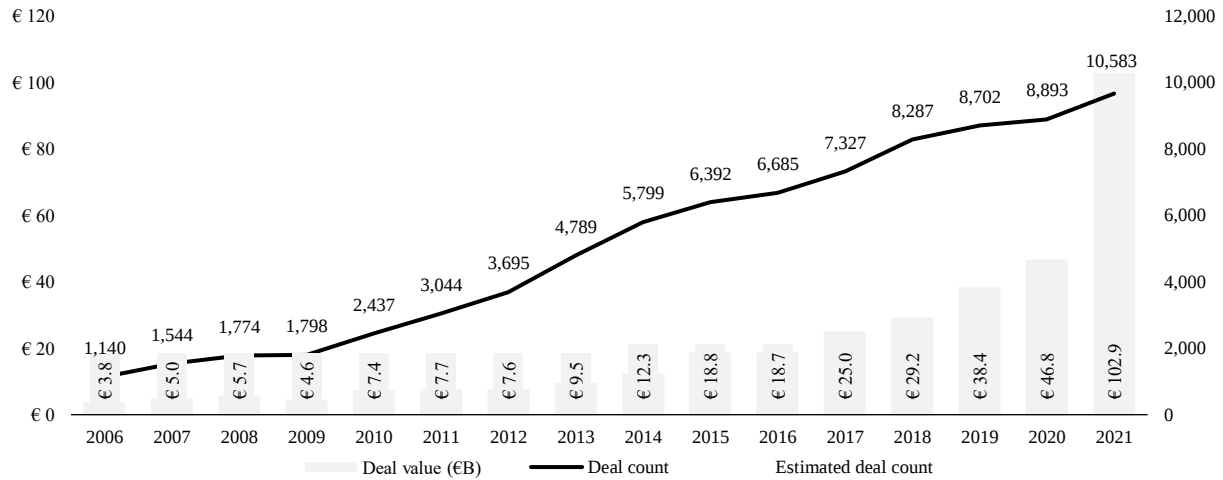
During March 2020, the COVID-19 pandemic had its global breakout. The pandemic had a direct negative impact on the stock market, which however recovered faster than most people expected. Although, the United Nations (2021) stated that the global economy faced the worst recession since the great depression. The COVID-19 crisis has contributed to supply chain disruption resulting in an economic environment of scarce supply and an increased demand, especially for certain goods and services. The pent-up demand has in turn affected inflation globally (Patton, 2022). As the new COVID-19 version, Omikron, began to spread in late 2021 the global economy faced rising energy costs which affected inflation further (World Economic Outlook Update, 2022). Rising energy costs had a global impact but was most remarkable in the U.S. and in emerging markets.

In 2021, European VC pre-money valuations did set record highs across all financing stages. Tech companies were especially positively influenced by the pandemic, causing investors to intensely participate in outsized rounds that drove up valuations (Pitchbook Data, 2022a).

As can be seen in **Figure 1**, European VC deal activity has seen a continuous increase over the last 15 years. In 2021, deal value reached EUR 102.9 billion, which is an increase of 120% compared to 2020. Deal count experienced a steady increase during the same period, where estimated deal counts increased 19% from 2020 to 2021 to an amount of 10,583 deals.

Figure 1

The figure shows the European venture capital deal activity between 2006 and 2021, in terms of deal value (in € billion), deal count and estimated deal count.

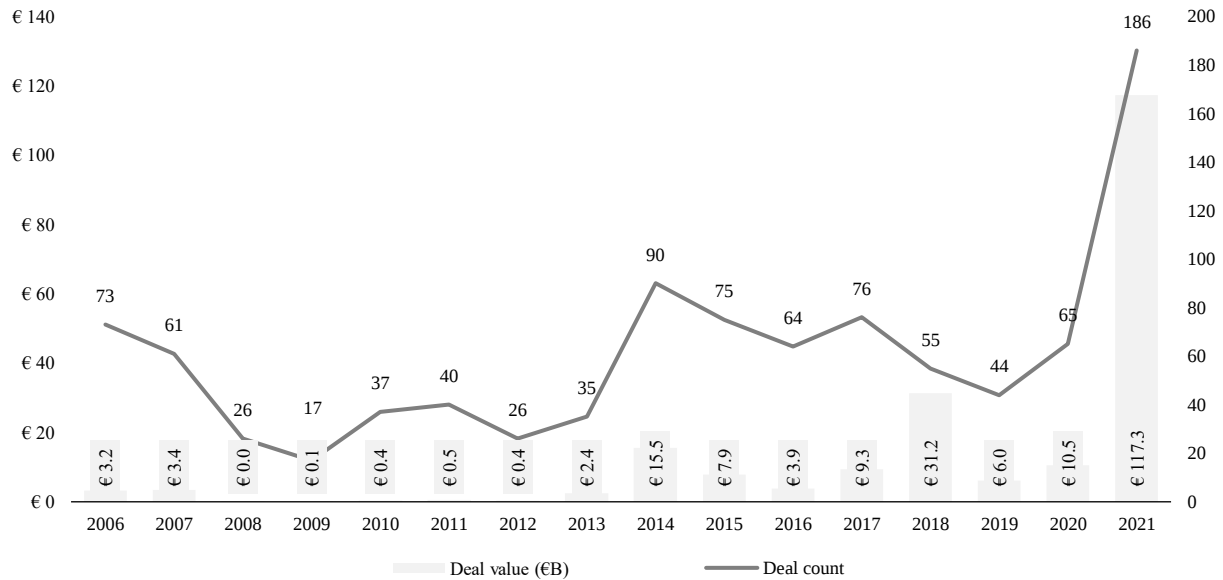


Source: (Pitchbook Data, 2022c)

Simultaneously, VC-backed public listings also experienced a surge in 2021. **Figure 2** showcases how 1,017% aggregate from EUR 10.5 billion in 2020 to EUR 117.3 billion in 2021. Deal count increased from 65 to 186 deals during the same period.

Figure 2

The figure shows the European VC-backed private placement exits between 2006 and 2021 in terms of deal value (in € billion) and deal count.



Source: (Pitchbook Data, 2022c)

Going into 2022, analysts anticipated that the European VC exit market would cool down. In 2021, excess liquidity and dry powder was evident in the market, which may result in VC-investors being set on redeploying their capital into early-stage ventures rather than later-stage expansion. Additionally, recent monetary policy fighting inflation and the market uncertainty may result in cautiousness among investors to make risky exits (Pitchbook Data, 2022c).

5 X Shore's 2022 Funding Round

This section describes X Shore's preparation for an IPO, the decision to postpone the IPO due to market conditions and the decision to opt for a private placement instead. The section also presents the outcome of the private placement and how the company is planning on staying IPO-ready for when the market stabilizes.

5.1 In need to raise capital

X Shore is growing at a fast pace as it is in the process of ramping up production in the new factory in Nyköping and expands within the U.S., the biggest market for boats. As Larsson (2022-05-06) states, “we are in our most capital-intense year now in 2022”. The company needs to invest in machines and tools for the factory to build the automatized assembly line but also in R&D investments to enable the development of new boat models and investing in improvements and extension of their salesforce (Dahlberg, 2022-04-27). The sales are increasing every month as the demand for electric driven boats is higher than the supply. To meet the increased sales, X Shore needs to make sure that it has the capacity needed and hence make sure that it places orders well in advance given the disrupted supply chain after the COVID-19 pandemic. Some orders need to be placed almost 24 months in advance and require a down payment, to secure the supply given X Shore's rapid growth (Keisu, 2022-04-29). At this point in time, the company also has approximately 140 skilled employees that need to get paid (Larsson, 2022-05-06). To keep up with the growth, X Shore needed to make sure that it was fully financed and hence needed to raise additional capital. As (Keisu, 2022-04-29) states, “given how the case is built, it is not possible not to raise capital at this point”.

5.2 Preparing for an IPO

5.2.1 Investigating different funding alternatives

As X Shore knew it needed to raise more capital in order to afford their expansion plans, different funding alternatives were considered. The preparations began almost a year in advance, in 2021, knowing that they needed capital for the new factory (Campbell, 2022-04-27). In the discussions about what way to go, a Series B financing round, teaming up with a VC firm or go public through a SPAC or an IPO was all examined (Keisu, 2022-04-29). It was important for the company to make sure that it was prepared to raise capital regardless of in what form to secure long-term financing (Campbell, 2022-04-27). This was in accordance with

a dual-track process. The discussions with the management team and with the board led to the conclusion that X Shore's main focus would be to go for an IPO on Nasdaq Stockholm's First North Premier Growth Market, even though the company faced a lot of interest from VC firms, other different types of industries, and from SPACs (Keisu, 2022-04-29). Keisu stated that "due to a senior and experienced management team we are not in need for a SPAC to enter the public market". Moreover, as many institutional investors only invest in companies that are listed or are going to be listed within a certain time frame, X Shore would lose some institutional investors if they chose not to go public (Larsson, 2022-05-06). Furthermore, because of the positive IPO climate in 2021, with a lot of tech companies entering the market with record high valuations, an IPO seemed attractive for a company like X Shore. The company had communicated in connection to their Series A financing round that it aimed to perform an IPO within 12 months.

5.2.2 Ready to enter the public market

X Shore sensed that it was ready to enter the public market. Since the company already has a global customer base, selling boats to three different continents, with the biggest market in the U.S., being listed on Nasdaq Stockholm would contribute to the company's credibility (Keisu, 2022-04-29). Being credible is especially important for X Shore as their customer base consists of not only individuals but also states, cities and large corporations. In addition, pursuing an IPO would lead to increased publicity and hence be good from a marketing point of view (Keisu, 2022-04-29) and since a company on the public market has higher requirements it is also a quality assurance, showing that the company has everything in order (Campbell, 2022-04-27). As for example the requirements include structuring up internal processes, ensuring that there is a stable board and management team in place and being able to communicate with the shareholders in an orderly manner.

Keisu (2022-04-29) also points out that the product is easy to explain and easy to understand for the market, which can be an advantage for a listed company. There are already many "fans" supporting the transition of the boating industry into becoming more sustainable and X Shore would like to democratize their investor base by letting as many as possible being an investor and a part of their journey (Keisu, 2022-04-29). Pursuing an IPO would therefore be a new channel to reach out to customers and create a stronger relationship with both new and existing customers (Campbell, 2022-04-27). Since the interest was high, X Shore would probably be able to raise capital through an IPO at a great valuation (Dahlberg, 2022-04-27).

An IPO would make it much easier for prior investors to liquidate their shares since the public market is much more liquid (Campbell, 2022-04-27). X Shore would also benefit from an IPO due to the possibility to secure long-term funding (Keisu, 2022-04-29). By being publicly traded, a company can easily issue more shares when it needs additional capital. Hence, pursuing an IPO and securing long-term financing would indicate that X Shore plans to grow. By implementing all requirements for an IPO, such as report accordingly to IFRS is much easier done by a company in an early stage and thus an IPO may be preferable to do before the company gets too big (Larsson, 2022-05-06).

The major risks X Shore could see by raising capital through an IPO would be that the stock market sometimes can be volatile and hence have a negative impact on investors and the valuation. Volatility on the stock market can also be difficult to cope with after an IPO is executed and the company is publicly traded. Also, as the IPO process is a demanding process with a lot of requirements, it can distract the board and the management from the core business and therefore be a risk for the company (Campbell, 2022-04-27).

In the end of September 2021, X Shore's board decided, in a period with positive stock market climate, that the company should aim to enter the public market raising SEK 850-900 million (Larsson, 2022-05-06).

5.2.3 The preparations

In order to prepare for an IPO, X Shore strengthened the board, making sure that the board was suitable to manage the company's operations and commitments to the stock exchange as one of the requirements from Nasdaq in the listing process. Therefore, in succession of Bergström, Susanna Campbell, former CEO of Ratos accepted the role as X Shore's Chairperson of the Board, in January 2022. At the time, Campbell was already a board member of Northvolt, H2 Green Steel and Kinnevik and hence had the right experience for the task. Together with Christina Stenbeck, Campbell also runs an investment company called Camsten. In entering the X Shore's board of directors, she is joined by Helen Willberg. Both Campbell and Willberg are contributing with expertise in both expansions and considerable engagement in climate change (Agazzi, 2022). As for preparation, X Shore also recruited Maia Lidbeck as Head of Investor Relations (Keisu, 2022-04-29).

X Shore was already registered as a public company at Bolagsverket, since it is required to publicly advertise or draw attention to the possibility of buying or subscribing for shares in the company in some way. In addition, by following the formal process, X Shore submitted a

prospectus to the Swedish Financial Supervisory Authority and an application to Nasdaq Stockholm (Keisu, 2022-04-29). They also made sure that it had fulfilled Nasdaq's listing requirements for financial reporting according to IFRS and that it had internal processes in place regarding decision making procedures and communication with previous owners (Campbell, 2022-04-27). Additionally, the company went through a legal review and a tax review. Nasdaq Stockholm had approved the application and X Shore got a Nasdaq Green Designation. Two investment banks, Carnegie Investment Bank (**Carnegie**) and ABG Sundal Collier (**ABG**), were appointed to arrange the IPO and together with the company, they helped with the definition of a business plan and a financial plan (Larsson, 2022-05-06).

Towards the end of November 2021 X Shore met a number of interested anchor investors through Carnegie and ABG in early-look meetings. The meetings were led by Keisu and Larsson from X Shore and they primarily met large institutional investors that were supposed to be anchor investors. After a successful round of early-look meetings, X Shore finalized its analyst presentation and met up with the banks so that the banks' analysts could make a first valuation of the company. This was done through an eight-hour long meeting with the equity analysts during which X Shore's entire management team presented the company and the business case. The investors from the early-look meetings that were further interested in anchoring in X Shore were approached in pilot fishing meetings to get a more comprehensive picture of the valuation and the proposed plan of when to float the share and the first day of trading. Next, X Shore had some final rounds of meetings with investors and met approximately 40 investors in total (Larsson, 2022-05-06). "Everything looked very promising", Larsson explained. X Shore received positive feedback from the meetings and investors showed great interest in the company.

5.3 Pushing the IPO

5.3.1 *Russia invades Ukraine*

X Shore was at the final rounds of meetings with anchor investors and was prepared to announce their intention to float when Russian forces decided to invade Ukraine, on February 24, 2022. Market volatility had already increased, together with a bearish trend in stock market indices, going into the new year as inflation scares had started to occur. As both Russia and Ukraine are big players in the export of raw material such as energy, e.g., oil and natural gas, and grains, e.g., wheat, corn and oats, global inflation levels were affected additionally by the war (Peterson, 2022). Together, Russia and Ukraine counted for about 25% of the global supply

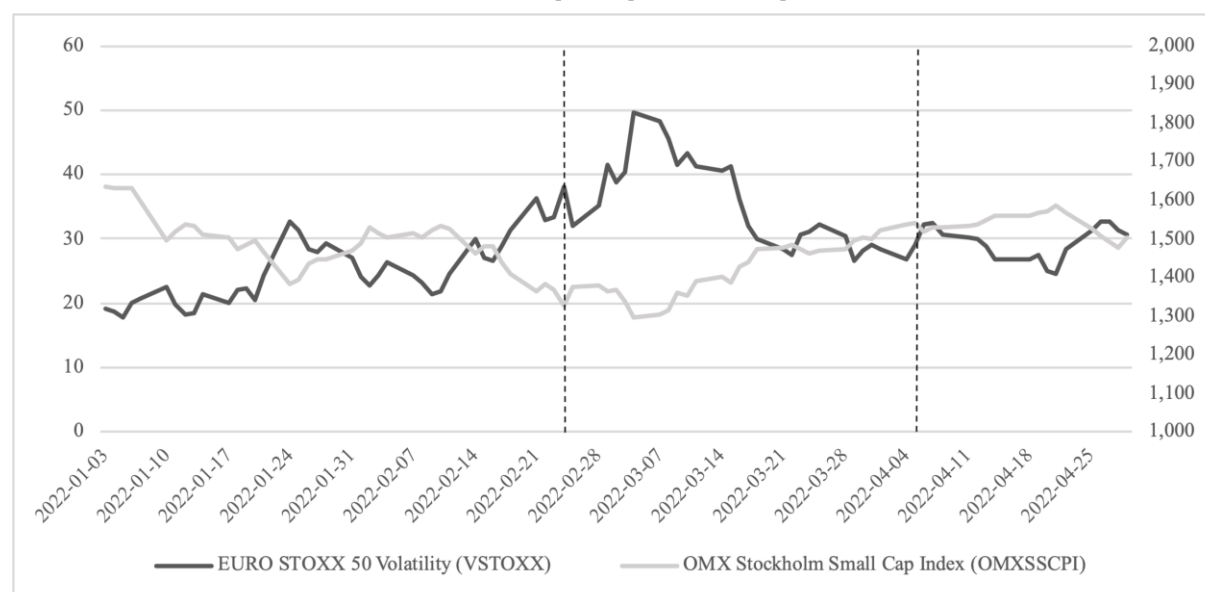
of grains (Patton, 2022). Moreover, Russia was facing a considerable number of sanctions which limited the country's export. This raise concerns that the war might result in further supply chain interruptions, decreasing growth rates, unemployment, and higher prices (Peterson 2022). Hence, the risk for a recession has increased in both Europe and in the U.S. and investors shifted their investments into alternatives considered safer such as gold, government bonds and safer currencies (Elliott & Kollewe, 2022).

The war in Ukraine resulted in companies postponing or canceling planned IPOs as well as other equity capital market transactions. As nervous markets tend to raise the cost of capital, raising capital soon after Russia's invasion of Ukraine in an economy of high volatility, could be costly for any company (Trentmann, 2022). Compared with the first three months in 2021, which was a good year for IPOs, the number of raised IPOs in 2022 was down 70% (Fioretti & Gopinath, 2022). Thus, the 2022 first quarter listing proceeds the lowest in two years.

Figure 3 shows the Euro Stoxx 50 Volatility Index, which measures the square root of the implied variance volatility across all Euro Stoxx 50 real-time options prices and are designed to reflect the market expectations of near-term volatility (Qontigo, 2022). When markets are turbulent, as during Russia's invasion of Ukraine, implied volatility tends to increase. Furthermore, as previous research suggests (Dicle & Levendis, 2017), IPO activity and implied volatility are negatively correlated.

Figure 3

The figure shows Euro Stoxx 50 Volatility EUR Price Index (VSTOXX) and OMX Stockholm Small Cap Index (OMXSSCPI) during the four-month period between January 3, 2022, and April 29, 2022. The dotted line to the left indicates the date where Russia invades Ukraine, on February 24, 2022, and the dotted line to the right indicates the date where X Shore carries out their private placement on April 5, 2022.



As can be seen, implied volatility increased significantly following the invasion, as the OMX Stockholm Small Cap Index simultaneously declines. In volatile markets, investors and underwriters lack guidance to pricing new issues, usually resulting in lower valuations, which generally makes firms more reluctant to pursue any transactions. A volatile market is not a new phenomenon, but the combination of causes in this situation, with both inflation scare and an invasion, was unique, making the market risk averse (Dahlberg, 2022-04-27). As can be seen in the figure, the volatile and uncertain stock market starts already in the beginning of year 2022 but increases significantly in February.

5.3.2 *The decision to postpone the IPO*

Going forward with the IPO was no longer the obvious alternative financing route for X Shore. Nor was it for other firms going in the thoughts of an IPO. The cold IPO market not only affected the firms' ability to raise capital, but also interfered with investors' expected liquidity (Dahlberg, 2022-04-27). Larsson (2022-05-06) stated that "both X Shore and the banks faced a situation no one has seen in the past 30 years".

At this point, about 3-4 companies, including X Shore, were prepared to enter Nasdaq Stockholm and in meetings with the banks they were advised to shift to raising capital through private placements instead. In March 2022, X Shore met with the banks to discuss the current situation. At that time, no single company in Europe had gone public.

Thus far, X Shore has carried out a dual-track process. However, at a certain point of the IPO side of the process, the investment banks are ready to distribute the extensive research report of the company to a large number of institutional investors. To avoid wasting their time spent considering whether to participate in the IPO or not, a decision had to be made (Anonymous 1, 2022-05-10). As a company in expansion phase as X Shore, with expected positive cash flows first in the year 2024-2025 and with a lot of assumptions in the business plan the banks recommended X Shore not to do an IPO at this stage (Larsson, 2022-05-06).

Even though an IPO would be technically possible, the board argued that it would be better to do in an environment with greater stability and where predictability is higher, to diminish the risk of facing a low valuation (Dahlberg, 2022-04-27). "Last year's high valuations have created a long queue to enter the public market and there has been a major cut in especially tech valuations that have not been realistic in 2021", Kinell points. He means that entering the public market at this point, with the cut in tech valuations, would have been challenging even for a

company like X Shore (Kinell, 2022-05-02). Not going through with an IPO was hence a strategic decision (Campbell, 2022-04-27). Due to having positions in Russian assets, many managers of larger portfolios were occupied in “damage control”, trying to sell them off, which lead to a lower interest in finding new prospects (Keisu, 2022-04-29). Some institutional investors that had been in dialogue with the firm were still showing interest, but X Shore was however no longer interested in opening their books in an IPO (Keisu, 2022-04-29). Even though X Shore had gone far in the process and was just ready to announce their intention to float when the invasion happened and volatility spiked, postponing the IPO was not considered a risk since they were comfortable with X Shore being a strong long-term case (Keisu, 2022-04-29). “We were only about one and a half weeks away from going through with the IPO” Larsson (2022-05-06) explained.

5.4 Shifting to a private placement

A few weeks after the invasion had taken place, due to process requirements as well as earnings season approaching, X Shore had to decide either to push the IPO or to consider an alternative source of funding (Anonymous 1, 2022-05-10). As the expansion was already set in motion, they could not wait for the IPO market to stabilize. X Shore changed their course towards a series B round, as it had already been discussed with a few investors (Keisu, 2022-04-29). One of the benefits of collaborating with investment banks was also the access to their network of private banking clients (Toll Johansson, 2022-05-06).

As an alternative to the IPO, a private placement would serve as bridge financing that would cover operations for around 12 months, until the public market would stabilize (Dahlberg, 2022-04-27). Initially, the deal size was set to SEK 300 million to cover X Shore’s urgent liquidity needs, with the possibility of an increase in case of high interest. However, X Shore’s ambitious expansion plans required funds much greater, as funds of only SEK 300 million would potentially force X Shore to postpone planned expansion-related activities, e.g., purchasing of machines and setting up in-house composite manufacturing another 1-2 years (Larsson, 2022-05-06). Carnegie and ABG, the banks initially chosen to help with pursuing an IPO remained joint bookrunners. The banks were left guessing about market appetite as the market for new issues in unlisted equity had been closed for a few weeks following the invasion, just like the public market (Dahlberg, 2022-04-27).

When shifting to a private placement, approximately 70% of the anchor investors X Shore had met during the IPO preparations were not interested in investing in a private placement as

the shift resulted in a changed ticker. Hence, X Shore needed to find new investors, which it did through Carnegie's and ABG's private banking network. Also, "when pursuing a private placement, it can be favorable to include some of the prior owners in the round", Larsson (2022-05-06) explained.

Dahlberg along with a few other investors took the role as lead investors, with the reasoning that "new investors take comfort from existing investors demonstrating their belief and commitment" especially in times of uncertainty (Dahlberg, 2022-04-27). Around 1/3 of the order book was covered by existing investors and their immediate network, amounting to more than SEK 100 million (Dahlberg, 2022-04-27). The advising investment banks believed that the participation from previous investors played a major role in the execution of the deal (Anonymous 2, 2022-05-10). Furthermore, the board utilized their network to source new investors (Campbell, 2022-04-27).

As the company was still in early expansion phase in need to raise capital, the board resonated that staying private would allow the management to focus on operations and continued growth, as it could also benefit from expertise and network from new investors (Campbell, 2022-04-27). Additionally, the private placement process would be an even easier task, as the company had already been investigated for the IPO (Keisu, 2022-04-29).

5.4.1 Executing the private placement

On April 5, 2022, it was announced that X Shore had raised SEK 500 million in a Series B financing round at record speed. The financing round was heavily oversubscribed, resulting in an increase in deal size from the initial SEK 300 million. The books were planned to be open for two weeks, but due to high investor interest, the books were closed within 24 hours (Larsson, 2022-05-06). It was highlighted that investors included some highly regarded actors in the tech industry who took part in this round. Investors included Peter Dahlberg, invested in the company since 2019, Helene Barnekow, formerly CEO at Microsoft Sweden and Peter Carlsson, CEO of Northolt, and former Tesla employee (Agazzi, 2022b).

The media referred to the transaction as a great success and as proof of X Shore's strength as a business case. The amount of financing sufficient to bridge the postponed IPO was raised to a higher valuation compared to their last round pre-IPO round. Considering the market conditions, X Shore was especially proud of the speed and the size of the deal (Dahlberg, 2022-04-27). Keisu expresses her belief that only the strongest business cases could raise money during this crisis and says "we [X Shore] are the strongest business case there is right now" (Keisu, 2022-04-29).

5.4.2 *The valuation*

As X Shore had already proven itself to be a good IPO candidate, negotiations were primarily related to the valuation. Regardless of the shape of the transaction, valuating a company in the middle of expansion can be a difficult task. Especially one whose business model is scalable and based on a long-term industry transformation (Keisu, 2022-04-29). Banks' attempts to a valuation of X Shore could differ up to 30-40%. As historical financial data is scarce, the valuation relies heavily on the CEO's ability to sell the business and its equity story (Larsson, 2022-05-06).

The new plan for proceeding with a private placement required adjustments to the valuation. Highly professional, institutional investors usually value the company themselves, while private banking clients usually rely on the reports of the investment bank in relation to the business model and their perception of the management team. Carnegie approached the valuation through a multiple analysis using enterprise value to sales of peers, comparing them to sales estimates of X Shore's sales development over the next 5 years. As the electric boating industry is narrow, the peer group used in the valuation comprises other EV-firms, firms involved in EV-charging infrastructure as well as a firm group that they chose to call "Nordic planet savers" which have a strong environmental and growth profile and that are expected to increase significantly in value over the next 20 years. Investments in growth firms entail high risk, leading to the use of high discount rates. In the case of X Shore, taking the prevailing volatility in the market into account, Carnegie used a discount rate of 25%, about 3-4 times higher than those of mature firms. In addition, they also consider the valuation of X Shore's last financing round and how the company has developed since then (Toll Johansson, 2022-05-06).

Due to its lack of liquidity, compared to a listed stock that carries a liquidity premium, a private placement was anticipated to execute on a lower valuation, compared to an IPO. ABG and Carnegie initially suggested that the Series B round should be priced in line with the valuation of the previous financing round (Dahlberg, 2022-04-27), as it would make it easier to raise funds (Kinell, 2022-05-02). Kinell thought this was inappropriate, seeing as to how far X Shore had come between the first pre-IPO round in April 2021, and the second pre-IPO round in April 2022, including the number of boats sold, the development of the new factory and employment of key personnel. He also thought that it would have been wrong, considering the continuous 'equity story'. When X Shore eventually goes public, investors want to see a

continuous increase in the valuation between issues. He argued that issuing the shares on same valuation as the last round would not showcase that, despite all that the company had delivered.

Due to their fiduciary duty, the board tends to be more interested in high valuations and preventing dilution, while the management team is more concerned about the funding size that goes towards the operations. As the company had gone through a great expansion since the last round, the board was hesitant about the suggested valuation. Neither could X Shore be too picky about the valuation as they needed to raise capital to finance the new factory that was about 80% done, even if it would cost them a dilution of shares (Larsson, 2022-05-06). However, it was still crucial that the initial offer was low enough for investors to consider it a “good deal”. Furthermore, Kinell (2022-05-02) points out the importance of X Shore’s board and management to maintain skin-in-the-game and therefore take part as investors in this transaction as well.

The board believed an increase of at least 50% since the last round would be fair, but settled at a 25% increase (Dahlberg, 2022-04-27). Despite the board not being fully satisfied with the valuation, they emphasized the importance of the deal offering good value and potentially “feeling cheap” for new investors, avoiding the risk of facing challenges with raising the additional funding (Dahlberg, 2022-04-27). Thus, the investors bought the shares at a discount compared to what they would have bought the shares for in the public market (Keisu, 2022-04-29). Moreover, X Shore did not want to open the books at a valuation that was considered too high by investors, as market conditions most likely would not allow a later change to a lower valuation (Dahlberg, 2022-04-27).

At the bottom line, the transaction opened at SEK 300 million, was more than 100% oversubscribed, leading to a deal size set at SEK 500 million and a slightly higher valuation than anticipated from the private placement (Larsson, 2022-05-06). No exact valuation was disclosed in relation to the transaction. However, it was confirmed that X Shore experienced an up round (Dahlberg, 2022-04-27).

5.4.3 Success factors

Keisu primarily relates the success to a few key characteristics: 1) an agile and purpose driven organization, 2) a strong management team who stayed focused despite the ongoing crisis, 3) a strong business case that can stand the test of a crisis, 4) investors appreciating the opportunity to invest in an IPO-ready company at a discount compared to an IPO valuation.

Keisu mentions that the energy crisis arising in Europe, boosted by Russia's invasion in Ukraine, may even speed up the transition towards electrification in the boating industry long-term, and be considered a positive macroeconomic side effect for X Shore (Keisu, 2022-04-29). Keisu further appreciated the thought of X Shore gaining a democratized investor base. Due to high demand, together with the right mindset and strong network, they could hand pick new investors and allocate smaller shares to each of many individual investors, rather than a larger share towards only a few. "Anyone should be able to drive our boat, anyone should be able to invest, and anyone should be able to take part in the transition" (Keisu, 2022-04-29). Moreover, they found a balance between dilution and available capital in the company to use for expansion (Larsson, 2022-05-06).

As pointed out by Dahlberg "a volatile market environment is not uncommon, hence it is important to explore alternative financing solutions ahead of time. Essentially, the choice of financing all comes down to the valuation" (Dahlberg, 2022-04-27). Even though the market was embossed by uncertainty, there still was some underestimated risk appetite for a great case with a good product (Kinell, 2022-05-02).

5.5 Epilogue

One of the main learnings from this case as stated by Keisu (2022-04-29) was that there will always be "unknown unknowns" and you must always be a few steps ahead to be able to turn around when things do not go as planned.

Going forward, X Shore needs to shift its focus back into its operations, as well as to be prepared to raise capital since it is a business in expansion (Campbell, 2022-04-27). Its Series B funding round is expected to last approximately 12 months. Following the private placement completed on April 5, 2022, the company will need to raise capital again in around a year and depending on market conditions perhaps next time there will be an IPO (Dahlberg, 2022-04-27). As X Shore had planned for an IPO already, it had fulfilled Nasdaq Stockholm's IPO requirements and has implemented the required routines for decision making processes and for financial reporting (Campbell, 2022-04-27). To stay IPO-ready, the company now just needs to keep going with these routines and processes that are already implemented and hence does not need to start from the beginning when the market is ready (Dahlberg, 2022-04-27).

When the time is right, X Shore will need to submit a new prospectus to the Swedish Financial Supervisory Authority (Keisu, 29.04.2022). The application for Nasdaq is valid for 6 months, and thereafter it will need to submit a new application to pursue an IPO (Larsson, 2022-

05-06). Additionally, X Shore needs to set up new meetings with anchor investors and be prepared for new negotiations. Kinell (2022-05-02) believes that the IPO case will be even stronger when the factory in Nyköping is up and running and that they, by postponing the IPO-plans, “have bought themselves some valuable time”. He also mentions that if the company is more mature and well known at the time of an IPO, the share has potential to become a “household share”. X Shore’s CFO Larsson (2022-05-06) has continuous meetings regarding future fund raising.

X Shore is further in the development of new boat models, has a growing B2B and governmental customer base and X Shore Industries 1 will ramp up production of the Eelex 8000 and thus we will be able to see more X Shore boats in the water going forward. The transition that X Shore is in the forefront of creates great investment opportunities (Dahlberg, 2022-04-27) and as the company is focusing on expanding in the U.S. new capital will be needed in the future (Keisu, 2022-04-29).

Even though the company has great conditions, the company still faces numerous challenges. It will need to continue developing a best-in-class product and build a stable organization, which can be challenging for a company that is growing at such a high rate (Dahlberg, 2022-04-27). When recruiting at a high pace, it is important that the new employees are trained in the culture of X Shore, although the company finds it easy to find skilled employees for the team due to the high interest for the company (Keisu, 2022-04-29). Another challenge that Keisu (2022-04-29) notes is that, like in every company, X Shore needs to secure supply to keep going with their expansion plans as the EV industry is developing so fast. Moreover, how the economic situation will evolve is still unknown. Increasing inflation and recession concerns will affect individuals' disposable income and might impact the company's sales. At the same time, the operating costs for an electric boat will diminish and the long-term case will still be attractive (Kinell, 2022-05-02).

6 Discussion

In the following section, we discuss the implications of opting the planned IPO for a private placement. Learnings from X Shore's choice of remaining private, the factors contributing to the success of the transactions, as well as the potential application on a broader set of companies are further discussed.

6.1 The choice of financing during crisis

This thesis aims to investigate how X Shore, an EV company in an early expansion phase, manages essential fund-raising during times of crisis and high volatility in the equity markets. Despite having already initiated the formal IPO process, X Shore decided to opt for a private placement, at the cost of a substantially lower deal valuation. However, the board, the management team and investors were equally happy with the result. The round was successful in the sense that, during times of high uncertainty in both private and public markets, the order book was oversubscribed and closed within only 24 hours rather than the two weeks that was planned.

The initial plan was to complete an IPO as it provides publicity and democratization of the investor base, which is an essential part in transforming the boating industry (Keisu, 2022-04-29). An IPO was also considered the most favorable alternative as previous years indicated the possibility of a high valuation and large size of the funding. Hence, it could facilitate a long-term financing solution while simultaneously allow for the rapid, large-scale expansion and promote the chance of becoming profitable more quickly (Toll Johansson, 2022-05-06). In contrast with the findings of Rydqvist & Högholm (1995), the board also reasoned that going public at an early stage would be an advantage as the adjustments to Nasdaq's formal requirements would not be as extensive, compared to the adjustments of a mature company (Campbell, 2022-04-27).

Based on X Shore's position in the electric boat industry, the decision to pursue an IPO was in line with the findings of Brau and Fawcett (2006).

Firstly, X Shore came to life after observing other players' prosperity within the EV industry, hence the public perception of the industry was considered viable.

Secondly, as first-movers within the electric boat industry, X Shore saw little threat of superior technology among competitors.

Lastly, evident by the number of highly skilled engineers within X Shore's workforce, and the complexity of the construction and software of the boat, R&D costs for new entrants are expected to be high.

6.1.1 Market conditions

After the COVID-19 pandemic, resulting in record high valuations and deal counts in 2021, the market was rather saturated and 2022 started off in inflation scares and concern of increased interest rates. On February 24, 2022, Russia invaded Ukraine, leading market volatility to spike. The IPO market went cold as deals were difficult to price, increasing the risk for underpricing. After close discussions between the board, the management team and the advising investment banks, X Shore decided not to execute their IPO plans.

However, as the expansion was already in motion, with the new factory in Nyköping, a high pace of employment of new staff and signed agreements to secure supply, X Shore could not wait another 12 months for additional funding. Another key motivation to raise capital despite the market conditions was X Shore's willingness to carry on the electrification of the boating industry. In line with the findings presented by Dicle & Levendis (2017), to cancel IPO plans when the expected future volatility is high is not uncommon, and as Dahlberg (2022-04-27) states, "this time was not an exception". Instead, the board together with the management team agreed that the best decision was to pursue a private placement instead.

As X Shore was highly capital intensive at this stage of their business, it was becoming short on cash (Larsson, 2022-05-06). The placement process is not of the same length as an IPO process, which allowed X Shore to raise capital quickly without having to wait for the public capital markets to stabilize. It was stated as one of the main motivations for opting for a private placement. The round was referred to as their second pre-IPO round, serving as bridge financing until an IPO is feasible. If X Shore had waited for the market to stabilize, it would not have been able to scale up production, which was one of the keystones in transforming the industry. Neither would it have enough capital for developing and producing new boat models. Furthermore, it would only be able to offer a premium model only available to the limited customer segment who could afford it.

6.1.2 Implications of the private placement

An IPO process tends to steal some valuable time, especially from the CEO and the CFO of the firm. Shifting towards a private placement allowed the management team to reset their

focus towards the core operations of the business. The board agreed that, because the firm is still in its early stages of development, it made sense to keep it private for the time being. It allows bypassing the formal procedures and reporting that comes with being a publicly traded company.

Due to liquidity issues, the private placement resulted in a lower valuation compared to an IPO valuation and the deal size was decreased to avoid dilution. The lower valuation and deal size were two of the main disadvantages that were brought up by key stakeholders. It should also be considered how information asymmetry related to a private deal may have amplified the decrease in valuation, judged by the highly technological nature of the industry. Based on the dialogues described between the issuing firm and the investment banks, the valuation may have been negatively affected by agency conflicts.

The valuation was not only lower compared to an IPO valuation, but it was also lower compared to expected valuations of an equivalent private placement in normal times. This is in line with research of Block and Sandner (2009), who argues that later stage ventures find themselves in a weaker negotiation point as they are typically in urgent need of financing. The scarce number of deals executed in the private setting complicated the valuation even further.

At times of uncertainties, X Shore was happy to receive support from previous investors in leading the deal. They also gained many new investors through the private banking networks of respective investment banks. However, in preparations for the IPO, X Shore and their investment banks had been in dialogue with, and gained interest from, a few institutional investors, who had to refrain investing in the private placement due to the requirement of only investing in listed shares. Additionally, from an unlisted equity investor's perspective, when planned IPOs of their portfolio companies are postponed due to market uncertainty, the investor's intended liquidity is affected, normally implying a decrease in appetite for investments in additional illiquid assets such as unlisted equity (Dahlberg, 2022-04-27). Hence, the negative effect on deal size was further amplified.

Another disadvantage with opting for a private placement, instead of an IPO, was the postponing of entering a long-term financing solution. Once the company goes public, the process of raising additional capital in the future will be simpler in the sense that the shares are traded and efficiently priced by market participants, which eliminates issues related to valuation. The postponing of the greater attention, brand recognition and prestige that comes with an IPO was also mentioned as a disadvantage related to the ambition to transform the boating industry.

6.2 Evaluation of X Shore's private placement

6.2.1 A dual-track process

Before initiating the IPO-process, X Shore explored different alternatives including a Series B financing round, teaming up with a VC firm, go public through a SPAC or an IPO. As Campbell points out, "it is important to be capital raising-ready, because which track you choose you often don't know until the last second" (Campbell, 2022-04-27), implying the importance of a dual-track process. An IPO was chosen as the main financing alternative for X Shore's ambitious expansion plans, since it would allow democratization of the investor base, increase publicity, allow for a high valuation and a chance for previous investors to liquidate their shares. The preparations started about a year prior to the planned IPO execution date. Even though performing a dual-track process might be time consuming and costly, X Shore probably achieved a higher valuation by doing a private placement than if it had entered the public market at this time. Moreover, this is in line with what Orrick (2018) finds in their study. It was also a way for X Shore's board and management team to evaluate the different financing alternatives since their preferences may have been different. Additionally, as 2021 was distinguished by high valuations and many tech-companies being listed, there was some uncertainty in if the risk appetite was about to ebb in agreement with the study by (Brau et al., 2010).

6.2.2 A strong business case

The deal was considered successful, closing within 24 hours with an oversubscribed order book, primarily due to X Shore's strong business case, striving towards industrializing the electric boating industry. The company's strong case is built upon their purpose driven and resilient business model, with the goal to transform the dirty boating industry to become electrified. Keisu (2022-04-29) describes the transition as inevitable considering where the world is going. To transition the market, X Shore strives to take control of both supply and demand by scaling up production and shifting the demand towards a better and more sustainable boat.

X Shore's strong management team, with Keisu in the lead who has previous experience in transforming the Swedish PE industry towards one where sustainability can be a source of value creation, gives the case further credibility. Further, Keisu (2022-04-29) means that the team is solution-oriented and hard-working thanks to the fact that they all strive for the same purpose. As Keisu said "no one in the team is here for prestige or money, they know why they are here

and that made them keep calm during the uncertainties we have faced this spring”. The investors’ emphasis on the management team as one of their key investment rationales, agrees with the studies by Colombo & Grilli (2005), implying that the background of the founder has an impact on the investor's investment decision. It also supports the research of Gompers et al. (2016), who argue that venture capitalists find the management team to be the most important factor in deal selection, as well as the most contributing factor in the success of a company.

Additionally, X Shore has earlier investors that have experience from similar cases and that have taken an active role in the company, something that Metrick & Yasuda (2011) pointed out as one of the main advantages of venture financing. An experienced shareholder register makes the case even stronger.

Furthermore, X Shore has well-developed accepted technology in place and is well in advance of its peers when it comes to range and has therefore created high barriers to entry. Thanks to X Shore’s strong case, it could raise a major amount of capital even though the market was volatile indicating that X Shore’s purpose driven, and resilient business model is not very cyclical.

Looking ahead, the crisis that interrupted X Shore’s attempt to enter the public market might end up having positive macroeconomic effects on the electrification of the boating industry. This is due to the increased oil and diesel prices that is one of the outcomes of the Russian invasion in Ukraine and the inflation concerns. Hence, the demand for electric boats might increase and X Shore, as a frontrunner in the industry, will probably see an increase in sales. An increasing demand as an outcome of the crisis will put pressure on X Shore to scale up in order to keep up with the supply. Therefore, the invasion in Ukraine made it even more important for X Shore to raise expansion capital. As Keisu (2022-04-29) expressed “in the long-run, the invasion in Ukraine will play into our hands”.

6.2.3 *The transaction was considered “a good deal”*

As the company was IPO-ready at the time of the private placement and the shares were offered at a discount to the initial IPO valuation, investors considered the financing round a “good deal”.

X Shore utilized its broad network and managed to attract new well-reputed investors with the right expertise. During times when market volatility is high, the lead investor takes an especially important role. This was something that X Shore managed to navigate well since a

prior investor, Dahlberg, entered as lead investor in the round. Since investors tend to follow each other, Dahlberg was a good example for others to invest.

At the same time, X Shore was pleased with the valuation as it was valued at a significantly higher value than in the previous round. As they wished to finish the factory in Nyköping and keep expanding, X Shore needed to complete the transaction. In negotiations with Carnegie and ABG who were joint bookrunners in the deal, X Shore was determined that they did not want a valuation that was too high and wanted the investors to feel that the deal was cheap. Due to the difficulties in valuing a company at such an early stage, a higher valuation might be hard to exceed in the next funding round and the company hence risks a lower valuation ahead. Further, neither the banks nor X Shore wanted to propose a valuation that was considered too high by the investors in a market with increasing risk aversion.

Moreover, X Shore made sure that the volume asked for in the private placement was enough to cover the most critical expenses, at SEK 300 million, and then be able to size up the volume if investors showed interest as they did not want to risk the book to be undersubscribed. The round was closed within 24 hours at a volume SEK 500 million and X Shore faced positive reactions in media because of the large volume being raised when risk aversion was high.

X Shore was not only a strong business case but had also fulfilled the requirements for being a listed company with the ambition to execute an IPO within the near future. In line with what Röell (1996) showed in a study, X Shore improved its operational and financial structure when preparing to become listed. As an investor, this was considered an attractive opportunity since the company is already IPO-ready and since the shares will become liquid when the company enters the public market. In addition, an IPO requires more preparations than a private placement and an investor can therefore be confident that the company is well organized.

6.2.4 The importance of being agile

To conclude, Keisu (2022-04-29) expresses the importance of being agile in situations of uncertainty. As previously mentioned, there are always “unknown unknowns” no matter how much you prepare. Since X Shore considered different funding alternatives, performing a dual-track strategy, the company did not close any doors even though their primary focus was to execute an IPO. In order to be able to switch focus within a short period of time, as X Shore had to do in this case, it is important that the company is well prepared for all different alternatives and has well developed decision-making processes in place and according to Campbell, X Shore did (Campbell, 2022-04-27). Keisu means that the whole team of X Shore

was agile in the fund-raising process, with a clear goal and purpose that they all strive to achieve and hence were able to contribute to the success of the deal.

Being agile in this situation and executing a private placement instead of an IPO ended up being a positive incident for X Shore. The company has a reason not to rush into the public market, has time to scale up the production in Nyköping and expand further as a step towards transitioning the boating industry to then be listed at a higher valuation when the market has stabilized.

7 Conclusion

7.1 Concluding remarks

Through the single case study method, our thesis examines X Shore, an expansion-phase firm within the growing contemporary electric boating industry, deciding on whether to raise money through private equity or by going public during times of crisis. Prior to the Russian invasion of Ukraine, X Shore was determined to execute an IPO during spring of 2022. Only one and a half weeks away from the planned IPO, the invasion broke out and the market, which was already impacted by inflation concerns, spiked in volatility. Our goal in conducting this case study was to contribute to the understanding of venture financing in times of crisis, by answering our research questions: *How did X Shore manage to raise expansion capital during times of market uncertainty in spring of 2022? Why did X Shore postpone their IPO to do another pre-IPO round and how did they maintain investor interest?*

Firstly, we find that X Shore managed to raise capital during times of high market volatility by opting for a private placement, at the cost of a lower valuation and a smaller deal size, to postpone the IPO until the market has stabilized. However, postponing the IPO and remaining a private company a while longer would impact X Shore positively in some respects, for example by allowing the management to re-focus on the core operations as well as growing the business.

Secondly, we find that X Shore managed to maintain investor interest by the offering of “a good deal”, implying the company had fulfilled all the requirements to become a listed company but traded at a discount to the IPO price. Moreover, X Shore also managed to maintain investor interest with little additional effort, due to their strong case and purpose driven business model, supporting the goal to transition the dirty boating industry to become electrified.

Lastly, we find the importance of a dual-track process during times of high market volatility, as well as the combination of an agile approach and a highly determined management team. The extensive preparatory work was a crucial factor in the successfulness of the deal, and the team’s ability to adjust to the rapid change of the market environment.

Through this case study, and our documentation of X Shore’s ability to navigate raising funds during times of uncertainty, we wish to provide helpful guidance for other firms in similar situations, as well as useful teaching material.

7.2 Suggestions for future research

Writing this thesis at the time of its occurrence limited the number of independent interviewees that we managed to interview. We acknowledge the affect that it may have on the result of the case study, seeing how bias plays its parts in most of the interviews held, and we further encourage future researchers who wish to conduct a similar case study to incorporate more independent interviewees.

Furthermore, we encourage tracking of X Shore's ambitions to drive electrification within the boating industry, and their potential future IPO. We believe that an additional case study post-IPO would provide valuable insight to examine how the double pre-IPO rounds may have affected the outcome of the IPO.

Referring to the limitation of a single case study, we suggest further research be done on a larger sample to gain further insight on how firms in early expansion phase manage raising funds during times of market uncertainty. This case study is also limited to the EV sector, a tech-heavy sector which has experienced especially high interest among investors. Therefore, we suggest applying the research questions of our thesis to firms operating in different sectors.

8 References

8.1 Interviews

	Date of interview	Interviewee	Interview format
1	March 23, 2022	Helena Fagraeus	Remote
2	March 28, 2022	Elias Wästberg	Remote
3	April 27, 2022	Susanna Campbell	Remote
4	April 27, 2022	Peter Dahlberg	Remote
5	April 29, 2022	Jenny Keisu	Remote
6	May 2, 2022	Carl Kinell	In-person
7	May 6, 2022	Andreas Larsson	Remote
8	May 6, 2022	Kenneth Toll Johansson	Remote
9	May 10, 2022	Corporate Finance Advisory 1	Remote
10	May 10, 2022	Corporate Finance Advisory 2	Remote

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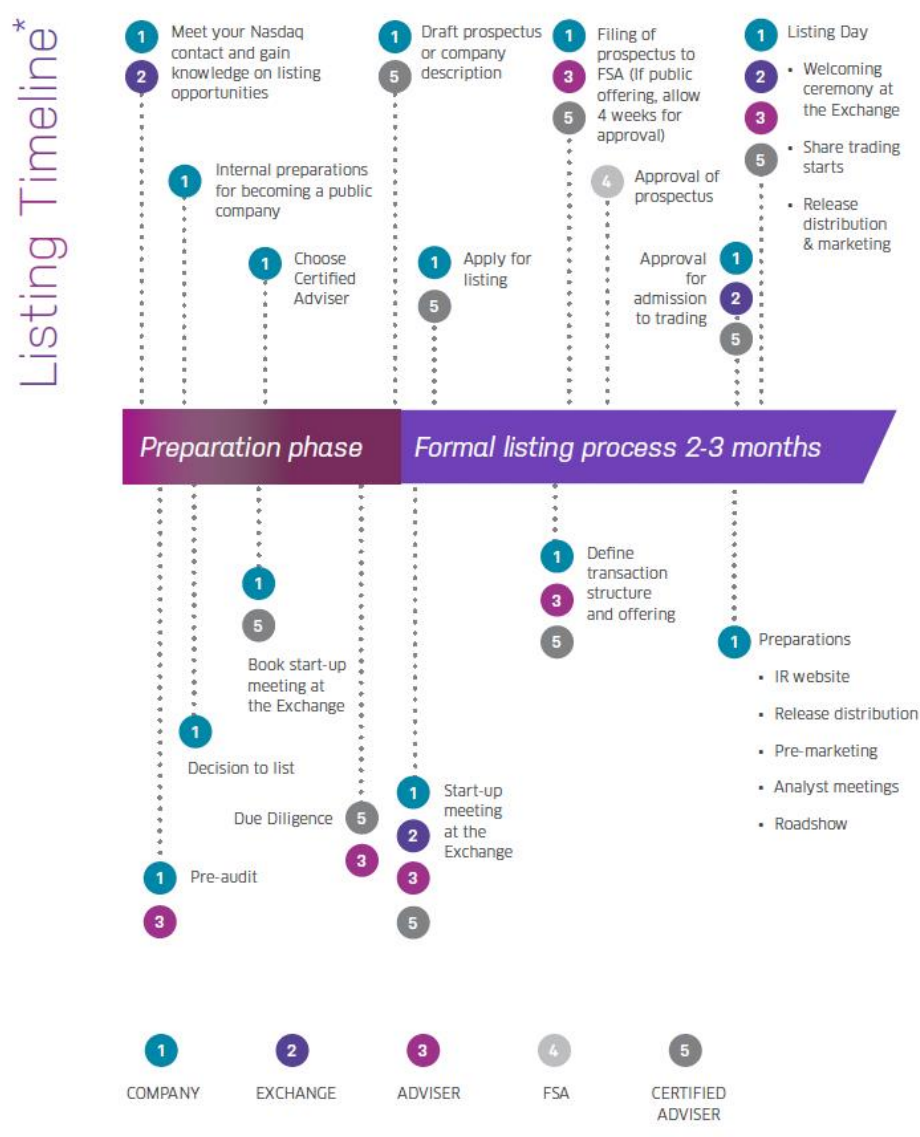
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9 Appendix

9.1 Nasdaq First North Growth Premier Market listing timeline



*For illustrative purposes only. Local market variation may exist.

The Nasdaq First North Growth Market Rulebook applies from the time of application.

Source: Nasdaq, 2019

9.2 Eelex 8000 design



Source: X Shore AB, 2022

9.3 Eelex 8000 specs

Eelex 8000 Specs	
	
Length 8m / 26.2 ft	Top Speed 30+ Knots
Width 2.6 m / 8.5 ft	Cruising speed 20 Knots
Depth 0.8 m / 2.6 ft	Battery Capacity 126 kWh
Weight 2,600 kg / 5,730 lbs	Range 100 NM at lower speeds
Acceleration 0-20 knots in 4.2 Seconds	Charging 6 hours on 32A
Electrical Motor 225kW	Display 24 inch touchscreen

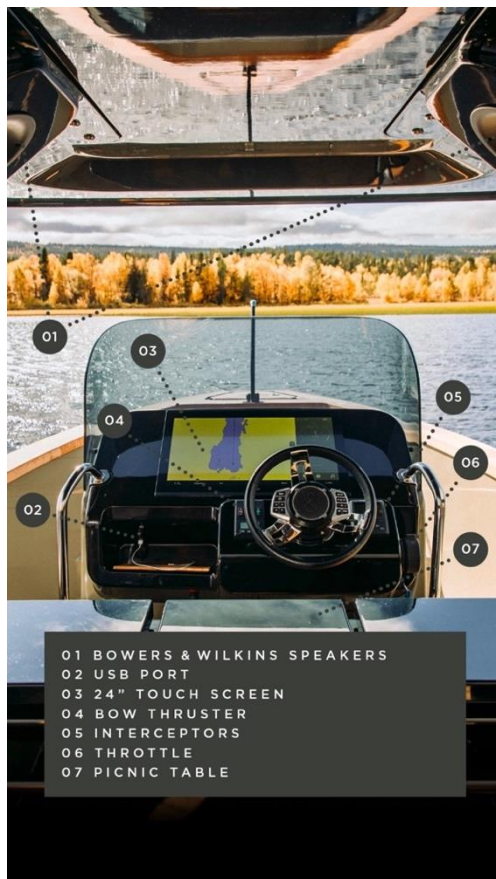
Source: X Shore AB, 2022

9.4 X Shores smartwatch



Source: X Shore AB, 2022

9.5 Eelex 8000 control panel



Source: X Shore AB, 2022