ÅAC Microtec

Sector: Technology

Solid Q4, but future less certain

The full year report was well in line with previous guidance from ÅAC. And even slightly better than we expected. Full year turnover was SEK 89 m (company guidance SEK 85 m) and positive EBITDA of SEK 3 m in the last quarter. Q4 performance was excellent, showing good gross margins and other cost items well under control.

However the report states that Q4 included several deliveries to commercial clients that cannot yet be expected every quarter. Hence, Q4 was probably better than we should expect as a going rate the next couple of quarters.

Potential new rights issue

The report also states that the ongoing business and further development of subsystems require stronger finances. The board is considering different alternatives. Our assessment is that a rights issue is the most likely alternative. Not entirely surprising since cash position has gone from SEK 39 m to SEK 12 m between Q2 and Q4 of last year.

CEO leaving

We were quite surprised to hear that CEO Alfonso Barreiro is leaving. He joined ÅAC in August 2017 and our impression was that he was in it for the marathon. According to the press release ÅAC now needs a new leadership that can gear up the business to fully step into the commercial space market. The process of recruiting a new CEO has started.

Revised estimates and valuation

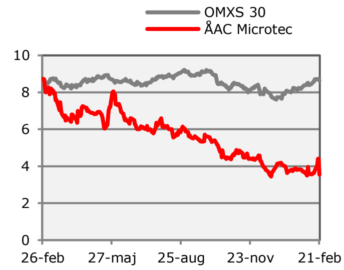
During 2018 we saw a strong news flow of orders during the spring. The second half has been slower. The replacement of the CEO also sends us a signal that the company has lost some momentum in the market. Although we still think ÅAC has great potential in the medium and long term, we are now more cautious for the short term. Also our valuation now includes a presumed rights issue. Our new Base case fair value is around SEK 5.5 per share (previously SEK 7.4). The valuation range remains wide for our bear and bull case: SEK 3.4-8.2.

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	13	89	103	153	226	272
EBITDA	-21	-29	-3	17	45	54
EBIT	-27	-43	-16	4	31	41
EPS (adj.)	-0.9	-0.6	-0.2	0.0	0.3	0.4
EV/Sales	24.6	3.1	2.4	1.7	1.1	0.8
EV/EBITDA	-15.3	-9.6	-87.4	14.5	5.4	3.9
EV/EBIT	-12.1	-6.3	-15.3	59.1	7.7	5.1
P/E	-13.5	-6.7	-20.2	78.0	10.7	8.2

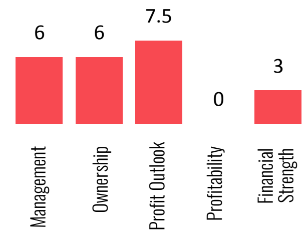
FAIR VALUE RANGE

BEAR	BASE	BULL
3.4	5.5	8.2

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	AAC.ST
Market	First North
Share Price (SEK)	3.6
Market Cap (MSEK)	247
Net Cash 19E (MSEK)	48
Free Float	43 %
Avg. daily volume ('000)	250

ANALYSTS

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Solid Q4, but future less certain

The fourth quarter saw a significant pick-up in sales and earnings. Even EBIT was in the blacks, which we had not expected. However the company had several large shippings in Q4 and additional income of more non-recurring nature, giving an extra boost.

ÅAC Microtec: Expected vs. Actual

(SEKm)	Q4' 18 Actual	Q4' 18E	Diff
Net sales	29.0	30.0	-3%
Other income	5.4	1.0	
Total revenues	34.4	31.0	11%
EBITDA	3.5	1.0	245%
EBIT	0.3	-3.1	
Pre-tax profit	0.2	-3.1	
Revenue growth Q/Q	*179%*	*188%*	
EBITDA margin	*11.9%*	*3.3%*	
EBIT margin	*1.0%*	*neg*	

Source: ÅAC Microtec, Redeye Research

Since the Q3-18 report, the sales split between different product categories are provided in the notes. This transparency is helpful in tracking and understanding their business. In Q4 sales from ÅAC was on par with Clyde Space, which is not normally the case. Also you can see that Platform sales was low in Q3-Q4, compared to the first half of 2018. As we know this product category is expected to be one of the main growth drivers in the coming years.

Licenses (royalties) provided income of SEK 4 m in Q4 and SEK 6.5 m for the full year. Since this is a close to 100 percent gross margin business it will have significant impact on profits. ÅAC's cooperation with York Space Systems is progressing and may be a major contributor to royalties in the future. York is planning to manufacture ÅAC's sub systems for power and avionics and pay a royalty fee.

Sales per segment

SEKm	Q1	Q2	Q3	Q4	2018 Full year
Clyde Space					
Platforms	n.a.	n.a.	2.8	1.9	17.4
Subsystems	n.a.	n.a.	5.5	12.9	29.7
Clyde total:	10.1	13.9	8.3	14.7	47.1
ÅAC Microtec					
Subsystems	n.a.	n.a.	2.1	10.1	24.3
Licenses	n.a.	n.a.	0	4.1	6.5
ÅAC sales	6.4	8.0	2.1	14.2	30.7
Group net sales:	**16.4**	**22.1**	**10.4**	**29.0**	**77.9**
Group turnover:	17.7	25.2	11.8	34.4	89.1
EBITDA	**-12.5**	**-5.6**	**-13.8**	**3.5**	**-28.5**

Source: ÅAC Microtec Q3-Q4 reports

Financial forecasts & Valuation

Lower growth expected in 2019 due to fewer orders announced

We are now making some adjustments in our near term growth projections. Although the full year report was well in line with expectations we believe that ÅAC is going into 2019 with a weaker order back log. During the fall and winter we haven't seen enough in terms of announced orders to support our previous estimates. Hopefully we will see a pick-up in business activity during the spring. Both ÅAC and Clyde Space have a long list of clients that we expect to place new orders but obviously the timing is hard to predict. Some of these orders could be of quite substantial size, easily SEK 10-15 m. And even if lead-times in general are long, orders for sub systems are sometimes delivered within 6-7 months.

Still robust growth expected in coming years

We still expect sales to grow Y/Y in 2019 and then picking up over the next few years. The company has a large number of clients and certainly also several prospects. The global NanoSat market (ÅACs core market) is expected to grow vigorously in the coming years, some 40% annually 2019-21. We believe ÅAC will grow even somewhat faster since they are targeting high volumes and are committed to scale up. Our forecasts assume around 50% annual sales growth in 2020-21. For the period 2022-29 we have assumed a CAGR of 20%.

Gross margins around 50% and EBIT margins 15-20%

Judging from last year's reports, costs are well under control. So even though our sales estimates are lower, we still believe ÅAC can achieve profitability on a similar level as we did before. There are certainly a few unknown variables here. The full year report states that a new generation of sub systems and modular satellite platforms will be developed. This may obviously come with higher costs, but we have no further insights into these projects.

We expect to see margins improving to around 20% in a few years' time mainly driven by volumes and economies of scale. For the long term we are a little more cautious assuming 15% EBIT-margin, corresponding to ~17% EBITDA-margin. Both ÅAC and Clyde have stated that they are aiming for gross margins of around 50 percent. With economies of scale, 15-20 percent EBIT-margins should then be within reach.

P&L, historical and forecast

SEK m	2016	2017	Q1-Q3 Proforma	2018	2019E	2020E	2021E	2022-29E
Net sales	**23**	**13**	**50**	**78**	**98**	**148**	**221**	CAGR: 20%
Other income	4	4	9	11	5	5	5	
Total turnover	**27**	**17**	**59**	**89**	**103**	**153**	**226**	
Raw material & sourcing	-8	-5	-17	-31	-30	-44	-66	
Staff	-24	-21	-40	-53	-53	-59	-70	
Other external costs	-12	-13	-16	-23	-24	-32	-45	
Depriciation and amortization	-6	-6	-27	-15	-14	-13	-13	
EBITDA	**-17**	**-21**	**-15**	**-28**	**-3**	**17**	**45**	
EBIT	**-23**	**-27**	**-42**	**-43**	**-16**	**4**	**31**	
Sales growth	neg	neg	n.a.	n.a.	20%	50%	50%	20%
EBITDA-margin	neg	neg	neg	neg	neg	12%	20%	Approx: 17%
EBIT-margin	neg	neg	neg	neg	neg	3%	14%	15%

Source: ÅAC Microtec, Redeye Research

Valuation

Fair value:
~SEK 5.5 per share

Our valuation is based on the financial forecasts on the previous page and assumptions for long term growth and profitability shown below. Our DCF model arrives at a fair value around SEK 460 million or 5.5 SEK per share (assuming a rights issue of 15 m shares at current price). In our most recent research update, as of November 23 2018, the corresponding value was SEK 7.4 per share.

The difference is explained by:

- Revised sales and earnings estimates based on a slower growth trajectory in 2019.
- Higher discount rate (WACC) now 13.5% (previously 12.5%). The WACC we use is derived from our rating. The need to raise capital (not being self-financed) and changing the CEO are both negative factors in our rating.
- We have included a rights issue of 15 million shares, raising app SEK 50 m. This amount is certainly just a guesstimate on our part. But since the company has raised the issue of further financing we also need to account for it in our valuation. And since our fair value is higher than current share price it will have a diluting effect.

Assumptions for long term growth and profitability during 2022-29:

- 20 percent annual growth. Sales reaching just under SEK 1 billion in year 2029.
- 15 percent average EBIT-margin. Amortization of intangible assets from the Clyde acquisition is not accounted for, since it has no cash-flow impact.
- Corporate tax rate of 23%.

Sensitivity analysis-Sales Growth & EBIT-margins

The value of the company is primarily depending on its long term prospects for sales growth and profitability. In a dynamic industry like New Space, these parameters are very difficult to predict. The sensitivity analysis below illustrates the impact on fair value with respect to variations in CAGR and EBIT-margins for the period 2022-29, all else being equal. The coloured area marks what we consider likely assumptions and the bold number is our base case scenario.

DCF value per share, SEK

	Sales CAGR: 2022-29				
EBIT-margin	10%	15%	20%	25%	30%
10%	2.6	3.1	3.7	4.4	5.4
12%	3.1	3.6	4.4	5.4	6.7
15%	3.7	4.5	**5.5**	6.9	8.6
18%	4.3	5.3	6.6	8.3	10.5
20%	4.8	5.9	7.4	9.3	11.8

Source: Redeye Rating

Scenarios

Our main scenario, under the Base Case heading below, is the starting point for our valuation and provides a fair value of about SEK 5.5 per share. We have also outlined two other possible outcomes. These scenarios are both entirely possible, albeit clearly positive or negative.

Bull

ÅAC-Clyde appears to be aiming much higher than our base case. Also they intend to make another acquisition in order to accelerate their growth. This may certainly happen but M&A is something that we can only pencil into our Bull case scenario. We include one rather big acquisition that will add to sales and improve market position. Hence 25% CAGR 2022-29 (instead of 20%). This acquisition is financed by a rights issue of 40 million shares. Fair value in this scenario would be around SEK 8 per share.

Bear

In this scenario we assume a much lower growth rate in 2020-21. Only 20% annually (compared to 50% in our base case). This could be the case if for example, some of the competitors were to pursue the CubeSat market aggressively or if ÅAC would run into difficulties regarding vital matters like management or quality issues. In this scenario our fair value would be much lower, approximately SEK 3.4 per share.

Bull Case					
SEKm	**Year 2022**	**Assumptions years 2022-29:**		**DCF-value**	
Revenues	445	Revenues year 2029	2,122	Totalt value	
EBITDA	99	CAGR	25%	123.7 million shares	1,020
EBITDA-margin	22%	EBIT-margin	15%	**Per share**	**8.2**
Base Case					
SEKm	**Year 2022**	**Assumptions years 2022-29:**		**DCF-value**	
Revenues	272	Revenues year 2029	974	Totalt value	
EBITDA	54	CAGR	20%	83.7 million shares	462
EBITDA-margin	20%	EBIT-margin	15%	**Per share**	**5.5**
Bear Case					
SEKm	**Year 2022**	**Assumptions years 2022-29:**		**DCF-value**	
Revenues	176	Revenues year 2029	631	Totalt value	
EBITDA	30	CAGR	20%	83.7 million shares	285
EBITDA-margin	17%	EBIT-margin	15%	**Per share**	**3.4**

Source: Redeye Research

Investment Case

- New Space is creating vast opportunities and a dynamic business environment. The market for smaller satellites is booming.
- ÅAC-Clyde is in pole position to take a big chunk out of this juicy cake.
- Current valuation has to some extent already discounted a strong operating and financial performance.

The concept of "New Space" has attracted a lot of attention in the last few years. And for good reasons. Old space was totally dominated by governments and a few multinational companies. The projects were in the hundred million dollar range and the commercial opportunities rather few. The New Space era is quite the opposite. Technological advances have lowered the barriers of entry and created a multitude of innovative companies providing various new services to people around the world.

New Space is creating vast opportunities

Demand for services provided by satellites is constantly growing, e.g: telecommunication, navigation and positioning, tracking vehicles, surveillance for environmental, military or public safety reasons etc. The scope and variety of services that could be provided with information from different satellites is endless. A large number of new companies with innovative ideas and services have emerged in the last few years. But we have probably only just seen the very tip of the iceberg yet.

The market for small satellites is booming

Smaller satellites can replace most of the large and expensive satellites that were launched previously. Many of the components are today standardized off the shelf products and much smaller than before. Hence in most cases a 10 kg satellite today can perform the same tasks as a 20 year old 500 kg satellite. Today the cost of building and launching is only a fraction of what it used to be. Operators who previously sent up one big satellite every few years can launch dozens of small satellites, getting better coverage, lower risk and at a lower cost. The market for small satellites (up to ~50 kg) is expected to grow rapidly in the coming decade. Market predictions indicate an annual growth rate in the region of 25-30 percent over the next decade.

In the Old Space era operators were stuck with their satellites for 15-20 years with very limited possibility for upgrades or maintenance. This is obviously not ideal since advancements in space technology is rapid and we don't even really know what kind of services will be requested 5-10 years from now. The modern Nano/CubeSats typically have a five year life warranty. With big constellations of small cheap and up to date satellites the operator can cut lead times and better control the risks.

ÅAC is in pole position to take a big chunk out of this juicy cake

After the merger with Clyde Space every prerequisite to gain a significant share of the growing Smallsat market is in place:

1. Quality products and long list of references. Both ÅAC and Clyde have products with several years of flawless flight heritage. Clyde Space has delivered over 2000 subsystems and claims over 500 years of aggregated flight heritage. The combined list of quality clients and projects between ÅAC and Clyde is second to none in the Smallsat industry including: NASA, ESA, Airbus, US Air Force, Raytheon, NEC/Toshiba, UK Space Agency, SNSA (Rymdstyrelsen) and many more.
2. Growing customer base placing repeat orders. Clyde Space is primarily focused on CubeSats and have participated in 30-40% of all CubeSat missions to date. Around 70% of their business is repeat orders and some of their clients are planning to launch major constellations of satellites over the next few years. E.g. Kepler Communication, NSLComm, SRT Marine, Outernet, York Space Systems.
3. Scalable low cost production. The company's vision is to produce large quantities of reliable CubeSats at affordable prices. Hence their products are designed to allow for low-cost mass-production. Currently there is a

shortage of manufacturing capacity to meet the anticipated pick-up in demand. Being able to offer reliable products with short lead times would certainly give a competitive edge.

4. Strong management. In the Nano/CubeSat segment many of the manufacturers are new small companies spun out of universities. Compared to ÅAC they do not appear to have the management, nor the ambition, to take on an industrial approach to grow their business. After the last years' recruitments, including the merger with Clyde Space, the company has a strong management team capable of taking on a leading role in their industry. Being a listed company is also an advantage when expanding the business, particularly in case of an acquisition.

Counter thesis/Bear points:

- Some of ÅACs new clients are small enterprises that rely on venture funding. They will need further financing in order to maintain their expansion and deploy larger constellations.
- Launching capacity bottleneck not resolved. Initiatives by launch providers such as Rocket Labs, Virgin Galactic and Indian ISRO are expected to solve the shortage of launching capacity that has been a constraint lately. However, lash backs are possible and a risk factor for the entire industry.
- Last mover disadvantage in M&A. ÅAC's ambition is to make at least one additional acquisition. Primarily to gain a better foothold in the US market. If competitors are moving faster, ÅACs relative market position may weaken. This is not one of our major concerns, since the US market is quite fragmented. There are probably several companies that would make a good fit. But until the company has announced an acquisition, this will be an unknown parameter.

Key Catalysts:

- More business with credible and potentially big operators. Our forecasts are based on a growing number of clients. However, if the company is really successful they may beat our expectations and forecasts.
- Money pouring into space. New Space is attracting a lot of new investments and many new ventures still need funding, e.g. to launch their constellations of satellites. More money to the space industry may also benefit ÅAC if they need to finance another acquisition through a rights issue.
- Reversed vertical integration. Operators like Planet, Spire and OneWeb starting to source from outside. And preferably from Clyde Space.
- Another successful acquisition. ÅAC is looking for: presence in the US, complimentary technology and production capacity. If they can find all three in one single candidate, at a reasonable price, it would be a home-run.

Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report: Management goes from 7p to 6p as CEO is leaving. Financial Strength from 4p to 3p as further financing is needed.

Management: 6.0

The announced departure of CEO Alfonso Barreiro came as a surprise to us. Before a new CEO is appointed it's difficult to evaluate management properly. Several other executives have decades of experience from the international space industry. Since ÅAC's history as a listed company is short we still cannot fully evaluate parameters like execution and communication. We do think that the corporate culture (of both ÅAC and Clyde) is very result oriented, lean and cost conscious.

Ownership: 6.0

The two principal owners, Craig Clarke and Fouriertransform, represent the entrepreneur and the institution. The chairman of the board also has a significant stake and so do two other board members. The CEO recently bought some shares which means all five members of the management team are share holders.

Profit Outlook: 7.5

The number of customers is growing and most of the business is repeat orders. The market for small satellites is expected to boom in the coming decade. Sales could very well grow by 50% per annum in the next few years. The company offers reliable, high quality products at a low cost thanks to standardization. This should give them a competitive edge for many years to come.

Profitability: 0.0

ÅAC has only posted red numbers so far, hence zero points. Clyde Space did show a small profit in 2015-16. But proforma for the group, numbers are still in the reds, both in terms of profit and cash flow.

Financial Strength: 3.0

In the 2018 full year report ÅAC stated that the board is evaluating alternatives for raising capital. To us it sounds like a rights issue is very likely. On the positive side, the customer base is quite diversified, no single client is making up for more than 20 percent of total revenues. Most of the business is repeat orders and the number of customers is gradually growing.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	13	89	103	153	226
Total operating costs	-35	-118	-106	-135	-182
EBITDA	-21	-29	-3	17	45
Depreciation	-2	-1	-1	-1	-2
Amortization	-4	-14	-13	-12	-12
Impairment charges	0	0	0	0	0
EBIT	-27	-43	-16	4	31
Share in profits	0	0	0	0	0
Net financial items	0	0	0	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-27	-44	-16	4	31
Tax	0	1	2	0	-3
Net earnings	-27	-43	-15	4	28

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
Current assets					
Cash in banks	37	12	48	48	60
Receivables	4	10	11	17	25
Inventories	2	7	8	13	19
Other current assets	3	18	18	18	18
Current assets	46	46	84	95	122
Fixed assets					
Tangible assets	0	4	10	17	34
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	355	355	355	355
Cap. exp. for dev.	0	22	17	12	7
O intangible rights	13	16	13	11	9
O non-current assets	0	0	0	0	0
Total fixed assets	14	397	394	394	405
Deferred tax assets	0	0	0	0	0
Total (assets)	60	443	478	489	526
Liabilities					
Current liabilities					
Short-term debt	0	0	0	0	0
Accounts payable	2	11	13	20	29
O current liabilities	14	15	15	15	15
Current liabilities	16	26	28	35	44
Long-term debt	0	1	0	0	0
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	16	27	28	35	44
Deferred tax liab	0	4	4	4	4
Provisions	0	0	0	0	0
Shareholders' equity	43	412	446	450	478
Minority interest (BS)	0	0	0	0	0
Minority & equity	43	412	446	450	478
Total liab & SE	60	443	478	489	526

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	13	89	103	153	226
Total operating costs	-35	-118	-106	-135	-182
Depreciations total	-6	-15	-14	-13	-14
EBIT	-27	-43	-16	4	31
Taxes on EBIT	0	1	2	0	-3
NOPLAT	-27	-42	-15	4	28
Depreciation	6	15	14	13	14
Gross cash flow	-21	-28	-1	17	42
Change in WC	-11	-16	0	-4	-5
Gross CAPEX	-4	-29	-11	-13	-24
Free cash flow	-36	-73	-12	0	13

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	73%	93%	93%	92%	91%
Debt/equity ratio	0%	0%	0%	0%	0%
Net debt	-37	-11	-48	-48	-60
Capital employed	6	401	398	402	418
Capital turnover rate	0.2	0.2	0.2	0.3	0.4

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	-42%	570%	16%	48%	48%
EPS growth (adj)	11%	-27%	-72%	-126%	627%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	13.5 %	NPV FCF (2018-2020)	42
		NPV FCF (2021-2027)	104
		NPV FCF (2028-)	305
		Non-operating assets	12
		Interest-bearing debt	-1
		Fair value estimate MSEK	462
Assumptions 2022-2029 (%)			
Average sales growth	20 %	Fair value e. per share, SEK	5.5
EBIT margin	15 %	Share price, SEK	3.6

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-47%	-19%	-3%	1%	6%
ROCE	-46%	-19%	-4%	1%	7%
ROIC	871%	-684%	-4%	1%	7%
EBITDA margin	-161%	-32%	-3%	11%	20%
EBIT margin	-203%	-49%	-16%	3%	14%
Net margin	-203%	-48%	-14%	3%	12%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.85	-0.62	-0.18	0.05	0.33
EPS adj	-0.85	-0.62	-0.18	0.05	0.33
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-1.17	-0.16	-0.57	-0.57	-0.72
Total shares	31.70	68.70	83.70	83.70	83.70

VALUATION	2017	2018	2019E	2020E	2021E
EV	327.4	274.1	252.8	252.9	240.1
P/E	-13.5	-6.7	-20.2	78.0	10.7
P/E diluted	-13.5	-6.7	-20.2	78.0	10.7
P/Sales	27.4	3.2	2.9	2.0	1.3
EV/Sales	24.6	3.1	2.4	1.7	1.1
EV/EBITDA	-15.3	-9.6	-87.4	14.5	5.4
EV/EBIT	-12.1	-6.3	-15.3	59.1	7.7
P/BV	8.4	0.7	0.7	0.7	0.6

SHARE PERFORMANCE		GROWTH/YEAR	16/18
1 month	-6.3 %	Net sales	178.9 %
3 month	-18.6 %	Operating profit adj	-21.9 %
12 month	-59.9 %	EPS, just	-54.4 %
Since start of the year	-13.1 %	Equity	220.6 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Fouriertransform AB	14.4 %	14.4 %
Craig Clark	13.0 %	13.0 %
Nevis Capital LLP	12.5 %	12.5 %
Corallin LLP	12.4 %	12.4 %
RP Ventures AB	3.9 %	3.9 %
Avanza Pension	3.3 %	3.3 %
BNY MELLON SA/NV	2.9 %	2.9 %
Nordnet Pensionsförsäkring	2.7 %	2.7 %

SHARE INFORMATION	
Reuters code	AAC.ST
List	Nasdaq First North
Share price	3.6
Total shares, million	83.7
Market Cap, MSEK	247.5

MANAGEMENT & BOARD	
CEO	Mats Thideman (acting)
CFO	Mats Thideman
IR	Mats Thideman
Chairman	Rolf Hallencreutz

FINANCIAL INFORMATION	
Q1 report	May 23, 2019
Q2 report	August 22, 2019

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Redeye Rating and Background Definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

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Disclaimer

Important information
Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.
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Recommendation structure
Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2019-02-24)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	48	46	19	11	20
3,5p - 7,0p	88	85	118	41	54
0,0p - 3,0p	13	18	12	97	75
Company N	149	149	149	149	149

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CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No
Dennis Berggren owns shares in the company : No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.