



INDUSTRY 4.0

ANALYSGUIDEN, COMMISSIONED RESEARCH
23 July, 2019

H&D Wireless
ADVANCING THE POSITIONS

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Advancing the positions

Although revenues might be low near term, H&D Wireless has made steady progress with some of its key clients, especially in the engineering sector, where the company recently sent its largest offer so far. In construction there is a rotation from security to tool-surveillance. The acquisition of MVV was approved on 19 July, which means that synergies now can be realized.



The term Industry 4.0 was introduced a few years ago in Germany and refers to the fourth industrial revolution. By connecting machines, parts and systems, industrial companies can create intelligent networks along the entire value chain, which automatically interacts and optimizes flows and processes.

Central to Industry 4.0 is internet connection (IoT) and digitalization, for example through positioning (RTLS) of machines, goods and raw materials. Together, they form the core of what is called industrial IoT (IIoT).

H&D Wireless, which has worked with IoT for a decade, has advanced with a positioning system and cloud-based software. Together, these can be adapted to support and optimize manufacturing and operational processes with large production savings (GEPS). H&D Wireless has an in-depth dialogue and pilot installations with several potential customers such as Scania and Skanska and has received an additional order from Keolis. During the second quarter 2019, H&D Wireless made its largest offer ever to a large Swedish engineering company.

H&D Wireless also did a new share issue of SEK 26 million during Q2 2019. On July 19, the acquisition was completed by the majority of MVV Holding. In our cash flow valuation, we arrive at a benchmark price of SEK 6.5 per share in our Base case scenario, versus previously SEK 6.1. This DCF value varies from SEK 1.8 per share (previously SEK 2.2) in the Bear scenario to SEK 9.4 (previously SEK 8.7) in our Bull scenario. The improvement is since we forecast somewhat less negative operating income in 2019 and 2020 and a slightly lower need for capital injections.

Key Figures

	2017	2018	2019E	2020E	2021E	2022E
Net Income	4.0	18.5	33.2	74.3	129.3	187.7
EBIT	-16.5	-29.5	-24.1	-8.4	14.5	40.0
Profit for the year	-16.5	-30.2	-25.4	-10.4	9.9	30.8
EPS, SEK	neg.	neg.	neg.	neg.	0.20	0.61
P/E-ratio	n.m.	n.m.	n.m.	n.m.	14.1	4.5
Net cash*	26.7	6.2	5.9	9.8	8.0	23.4
EquityI*	44.5	40.3	53.4	68.0	77.9	108.7

* Including assumed new issues. Sources: The company's financial reports (historical results), Carlsquare (forecasts).

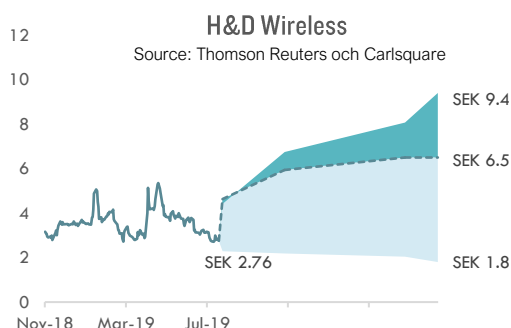
Date: 23 July, 2019
Analyst: Bertil Nilsson, Carlsquare
(previously Jarl Securities)

Company: H&D Wireless
List: NASDAQ FIRST NORTH
CEO: Pär Bergsten
Chairman: Peter Dahlander
Market Cap: SEK 91 million
Current share price: SEK 2,76
H&D Wireless in brief: Since its inception, H&D Wireless has sold standardized modules for wireless connection to the Internet. The company has also developed its own IoT platform GEPS, the "Griffin Enterprise Positioning Service", which enables wireless monitoring, analysis and control of flows of information. This tool provides the opportunity to help primarily industrial customers to digitize their operations. The company has about 30 employees with offices in Kista, northwest Stockholm and another 30 with the recently acquired company MVV.

Opportunities and strengths: The company is mastered by its CEO, founder and principal owner as well as many in the team around him, radio technology and system solutions with over 30 years of experience in telecom. The company has since 2009 sold products aimed at wireless applications, which means that the contacts in the sector are well established. With its cloud solution, an attractive solution can be offered for industrial customers to increase control over material flows and save significant costs. The company has several well-established reference customers, not least after the acquisition of MVV.

Risks and weaknesses: The sales processes to industrial customers are in progress several steps and years before commercial deliveries are made. The company is currently operating at a loss and needs to maintain a high level of research and development activity as well as conduct extensive sales operations. Several new issues have been made and further issues may become relevant later on. The company addresses a large market, where competition is increasing.

Valuation: Bear SEK 1.8 Base SEK 6.5 Bull SEK 9.4



Temperature

Management



The company's management team consists of nine people, almost all of whom have at least 20 years of experience in their fields, such as telecom or technology companies, product development, sales and financial management. Members of the Board also have a heavy telecom background, where almost all of them are civil engineers.

Management is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the management's experience, industry knowledge, business management skills, stock market confidence and previous accomplishments.

Owners



CEO Pär Bergsten owns, through holding companies, 17 percent of the capital and 51 percent of the votes in H&D Wireless. The management team also includes Carl Elgh (VP Marketing) and Åke Jernberger (VP Engineering) among the ten largest shareholders with between one and two percent of the share capital each.

The owners are evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading are the owner's historical company procedures, financial strength, their representation on the board and from previous investments in similar companies or industries. Long-term preference and responsibility towards minor shareholders are also essential criteria.

Financial position



At the end of April 2019, the company took in a rights issue of SEK 26 million. The negative cash flow rate is approximately SEK 10 million per quarter. The Group needs to increase its sales significantly in 2019 so that the cash register will not push back towards the end of the year. An alternative is to get industrial partners, which is ongoing with discussions and interest. As a result of the rights issue completed, we raise the grade from 2 to 4.

The financial position is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. This decision criteria considers the company's profitability, financial situation, future investment commitments and other financial obligations, potential over- and under values in the financial statement and balance sheet.

Potential



Using its IoT service to potentially save hundreds of millions of SEK to larger multinational industrial customers should be able to render orders of at least tens of millions of SEK on individual accounts, but probably only towards the end of 2019 or the beginning of 2020. Given the current breadth with 25 customers, most of whom are in the early phase, will expect the big revenue boost to come in 2021 or 2022.

The company's potential is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the size of the company's potential in terms of increased profit in relation to the company's trading share price today. In which market, the company operates and the prospects for that market are also decisive factors. A company can achieve a high grading even though the growth projections are modest, provided that the share price today is below the growth projections and vice versa.

Risk



H&D Wireless operates with a technology that is relatively new and has not yet been tested on a larger scale. At the same time, because of its potential size, it is of interest to other players, which means that competition is increasing. In addition, the company is dependent on senior executives with long-established knowledge in radio technology remaining on their posts. However, the purchase of MVV should be able to reduce the risk through diversification.

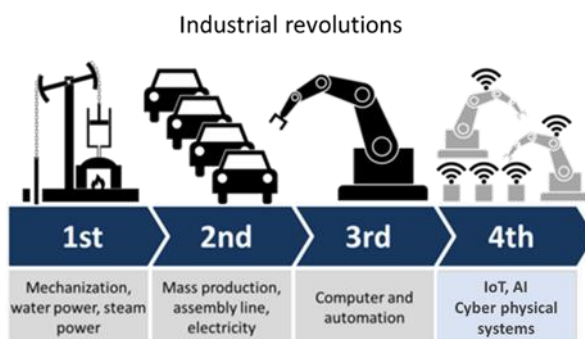
The risk is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. The risk is a combined assessment of all potential risks the company can be exposed to and that affect the share price. The grading is based on a combined assessment of the company's general risk level, stock valuation, the company's competitive situation and estimations of future environmental events that can come to affect the company.

IoT is stepping into the industry

In the first industrial revolution, about 200 years ago, the human muscle power was replaced by the power of steam engines and water wheels. Productivity increased dramatically as a result. Subsequently, the industry has undergone several paradigm shifts, each of which has drastically improved productivity and led to a higher degree of automation. In today's connected society, the next step in the development is for machines to be able to communicate with each other in the factory in smart networks. Industry 4.0. This is a strong trend that started in Germany a few years ago, a country that has also been a leader in the robotization of its industry in a European perspective. By connecting machines, parts and systems, industrial companies can create intelligent networks along the entire value chain that automatically collaborate and optimize processes and flows. Central to Industry 4.0 is the Internet connection (IoT), digitization of processes and positioning (RTLS) of machines, goods and raw materials. Together, they form the core of what is called industrial IoT (IIoT). Information about where materials, tools and people are found in the factory is valuable for the manufacturing workshop companies. The main thing is the handling of material flows, where a lower capital tied-up can save a great deal of money for the customer. The proportion of materials varies but not infrequently it constitutes at least 50 percent and sometimes more of those invoiced to the customer by industrial companies.

Since its inception in 2009, H&D Wireless has delivered more than 1.1 million standardized radio modules that can be attached to all types of equipment and goods for connection to the Internet. With a very strong background in the development of RF systems, a couple of years ago the management decided to further develop the business by developing an industry-adapted solution for IoT together with services that in various ways support industrial processes and operations. These enable quality improvements and cost savings. Today, H&D Wireless has a ready-made AaaS (Application as a Service) product portfolio that they are positioning towards primarily Swedish industrial companies. Within a few years, the goal is to be a leading player in Nordic IIoT.

Illustration of the four different stages of the industrial revolution

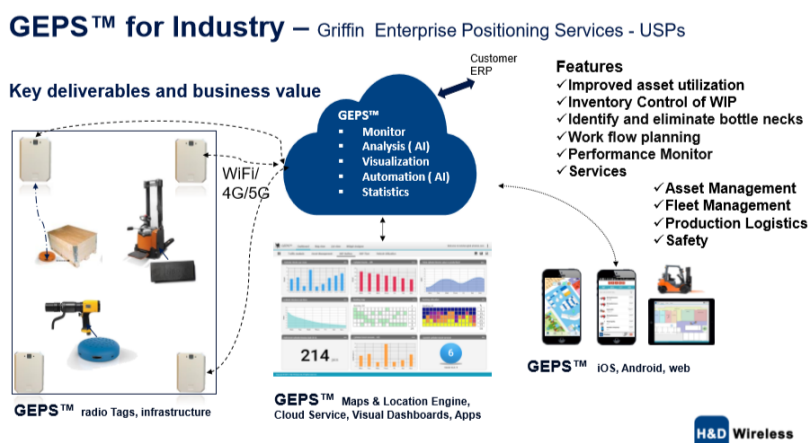


Source: The company's financial reports.

Products and services

The core of H&D Wireless solutions is an industry-adapted real-time positioning system called Griffin Enterprise Positioning Services (GEPS). GEPS contains radio modules for internet connection as well as fast and accurate positioning. Various radio technologies can be used depending on application requirements. A cloud-based software is responsible for collecting, analyzing and processing data. Graphical interfaces present the processed data to the user. The cloud software can be connected to MES, ERP, CRM and other business support systems.

Illustration GEPS solution for industrial companies- with positioning of tools, machines and people and storage of information via cloud solution (Griffin)



Source: Company presentation material.

The company currently has three revenue generating product areas:

- Connectivity and IoT: Develops and sells standard modules and associated software that enables wireless connection to the Internet. This product area works with hardware and software for wireless modules as well as on the connectivity side with drivers and software models.
- Labs (R&D): Develops and sells entire projects and customized solutions that enable wireless connection to the Internet. This unit is also responsible for all technical development within the Group. Labs works in all three areas: from hardware tailored to a specific product, through connectivity (software customization and drivers) to value-added services (connectivity to Internet-customized services).
- GEPS Develops and sells GEPS systems for positioning and monitoring equipment, fixtures, tools and people in real time. Enterprise only works in the area of value-added services. Revenue consists of license fees for AaaS.

MVV adds three additional product areas: Consultants, MES software as a cloud service ("Casat") and Collaborative Robot Stations, see description of the acquisition later.

Pictures of the four applications areas for GEPS industry, construction, bus (parking) and entertainment center

Applications – where real time data adds value



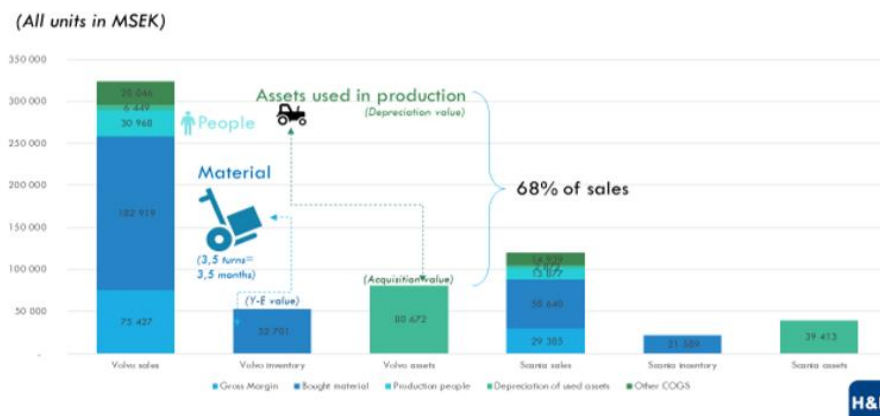
Source: Company presentation material.

Product optimization brings great savings

Production logistics, safety procedures and efficient use of equipment and transport vehicles correspond to very large values for manufacturing and construction companies. For manufacturing companies such as Volvo and Scania, the value in assets, materials and personnel corresponds to 2/3 of the companies' turnover. As an example, the Volvo Group had sales of around SEK 390 billion and the reported cost of these goods sold at approximately SEK 300 billion for the full year 2018. An optimization of processes and management can create major cost savings and the opportunity for quality improvements.

Illustration of distribution and size of the value of machines, tools and vehicles of an industry company

GEPS IMPACT ASSETS, PEOPLE AND MATERIAL EQUIVALENT TO 68% OF SALES



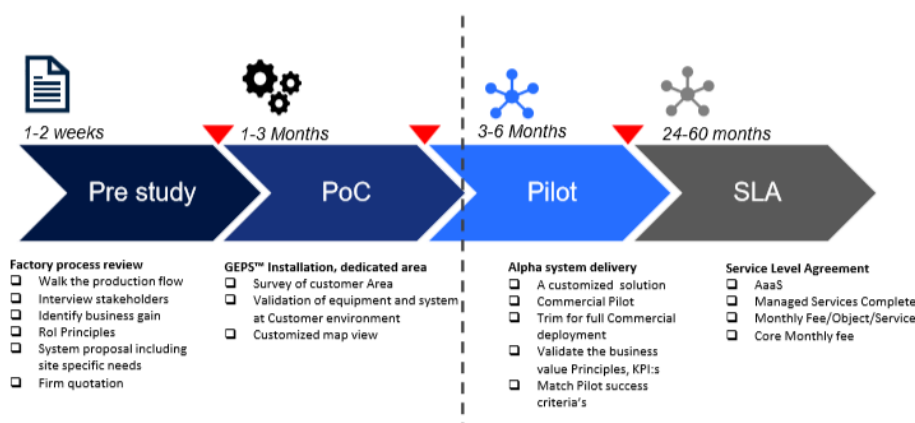
Source: Company presentation material.

Sales and existing customer base

H&D Wireless's potential customer base consists mainly of the large Scandinavian manufacturing and construction companies such as Scania and Skanska. Industrial RTLS and IIoT are relatively new markets. One of the major challenges for the company is that the service offerings must be customized and validated, leading to a complex sales process with long sales cycles.

Illustration of the four different sales steps towards a customer for an industrial IoT-installation

GEPS™ Griffin Enterprise Positioning Services Customer Engagement process



Source: Company presentation material.

Once a solution is validated and accepted by a customer, the same solution can be implemented on multiple sites. This means that in the long term, every customer relationship can generate large total revenue. Today, H&D Wireless has test and pilot installations with leading manufacturing, construction and rental companies such as Scania, Skanska and Cramo, as well as breakthrough orders from the transport company Keolis and the entertainment center Exploria. H&D Wireless is also involved in the smart factory testing facility that Scania built in Södertälje. This represents a fantastic market window and platform for sales even to other industrial customers who visit the facility.



H&D Wireless is involved and represented in Scania's concept factory for Smart Factory in Södertälje. There are several ongoing test and evaluation projects as well as GEPS communicating over Ericsson's 5G network installed here.



The company conducts a feasibility study, including a demonstrator, together with Skanska, which addresses the safety of construction sites. Through real-time positioning of personnel and safety-critical operations, accidents can be prevented.

C R A M O H&D Wireless has carried out a pilot project together with Cramo where tools were real-time positioned and monitored to improve the traceability of the company's assets. Here there is a potential to involve other major construction companies in the sector.

Keolis The company has signed an agreement with Keolis regarding a solution and value-creating service where buses are positioned at the company's depots in Stockholm.

EXPLORIA H&D Wireless has delivered a solution and ongoing cloud service to Exploria, Europe's largest indoor entertainment center, since October 2017. This includes real-time positioning of playing children and cashless payment.

In addition to these five official customers, H&D Wireless's largest partner is currently another large Swedish engineering company that has become increasingly interested in mapping its own material flow in a production environment with a low degree of automation.

Furthermore, H&D Wireless has recently made a quotation that is the largest in the company's history and aimed at another Nordic large company in the engineering sector. This offer can, if turned into an order, be extended to include several parts of the customer's production chain.

On April 15, 2019, a draft declaration of intent was announced between H&D Wireless and a Chinese company. The Chinese company has an international presence and is active in fiber and telecom. The value of the agreement (if it is realized, which is not certain and is expected to happen in Q3 / 2019) is estimated at SEK 80 million in investment distributed between H&D Wireless in Sweden and a joint venture in China plus license revenue over the next three years. H&D Wireless would then own 10 to 49 percent in such a joint venture, while the Chinese partner would then become the majority owner of the new company. Tentatively, H&D Wireless would add intellectual property rights, knowledge and certain support functions to the company, while the Chinese partner will provide SEK 30 to 50 million in capital.

In addition to another potential partner in China who may be a distributor of the company's products, H&D Wireless could also choose to set up its own office in China and then reach more potential customers on its own. Our observation here is that the company's financial resources currently do not allow such investment, so a collaboration with a financial or strategic industrial partner is appropriate.

The purchase of MVV Holding can create synergies

In March 2019, H&D Wireless made a public offer for all shares in MVV Holding AB. This company sells products and services in the automotive industry and reported revenue of SEK 35 million in 2018. We estimate that MVV Holding's revenues in the first half of 2019 will be approximately SEK 18 million. Its majority shareholder KUREN AB Swedish corporate registration number 556464-6510, which owns 52.85 percent of the voting rights in MVV Holding AB, has undertaken to accept the Public Offer. The process was delayed where the public bid was first approved by FI on July 19, 2019. Now the acceptance deadline for MVV Holding's former shareholders runs until

August 22, 2019. We have included MVV Holding in the H&D Wireless Group's accounts from Q3 2019, which is three months later than our previous assessment.

MVV was founded in 1990 and since its inception has provided qualified products and services within efficient industrialization processes, primarily aimed at customers' assembly lines. The company is a niche supplier with a focus on global customers, primarily operating in the automotive industry. The company's customers include Volvo AB, Volvo Car Corporation AB, Parker Hannifin AB, Borg Warner AB and Nevs AB. The company has a couple of central establishments at Volvo's factories in Vara and Skövde in Sweden.

There is a clear possibility of a joint product plan for the manufacturing industry for both businesses. They have great potential to meet many of the issues that Swedish and European industry have ahead of them, where they now invest considerable resources to digitize and streamline, i.e. what is commonly referred to as Industry 4.0 and Smart Factory.

MVV's customers have a rapidly increasing need for IoT solutions for machine and process monitoring, which is expected to increase sales of IoT units as early as 2019. MVV and HDW have the same customer base and the products complement each other well. MVV has a software product, Casat™, for the assembly line and HDW has a positioning system GEPS™ for handling the material flow to the assembly line. Casat version 3 has been in operation with five large workshop customers since 2014 and has generated revenue of a total of SEK 21 million over the past twelve years. The new group's two different systems can benefit from real-time information among themselves, which will also be available to some customers as a package. Casat™ 4.0, to be released in 2019 and expected to add a significant increase in sales from 2020.

Illustration that H&D Wireless and its acquisition MVV Holding have synergies (1+1 > 3)



Source; Company presentation material.

Market

The IoT market can be described as a value chain in three different parts,

First, a communication hardware for connecting sensors to the Internet. These are mainly modules that can communicate via a different technology (e.g. WiFi, UWB or Bluetooth) to a server, smartphone or tablet.

In the next step, software is needed to collect data from the sensors.

In the final step, the value-adding services are added, where data from the sensors are stored, processed and then analyzed by someone who can use the information to, for example, fix bottlenecks and/or ensure that materials are transported from point a to point b. Alternatively, avoid ordering new material when it is already there.

In general, the analysts are fairly in agreement that the hardware is expected in terms of value and the connections make up about 20 percent or less of the total IoT market value. At the same time, value-adding services are estimated to equal 80 percent or more in 2025, according to McKinsey. Growth is expected to be relatively greatest in value-added services in the coming years.

The global and total IIoT and smart factory market is currently estimated to be worth approximately USD 160 billion to grow at an average annual rate of about 10 percent over the next few years.

Illustration of the industrial IoT market as a process flow and its size (USD 225 billion)



Source: Company presentation material.

Competitors

H&D Wireless product areas are linked to each other and together provide solutions and services for industrial IoT. The market for industrial IoT is new and is still being defined. The company meets different competitors for each business area.

Today, within the GEPS product unit, we find a number of actors working with real-time positioning (RTLS) solutions. It is a market with just over a decade on its neck. There we find the British company Ubisense, which has a strong position in automation and digitalisation of the automotive industry and which recently refined its RTLS business. There are also American companies such as Zebra and Airista, both of which have RTLS solutions as part of broader positioning offers. But HP as well, which mostly invests in hospitals in the United States. Like Siemens Industrial, which recently bought a German RTSL company focusing on the automotive sector. Another player in the Enterprise segment is Sony (formerly Sony Ericsson), which invests in RTSL in hospitals.

Within Labs (the company's research and development and sales of projects and customized solutions), H&D Wireless faces competition from technology-oriented consulting companies such as Tieto, ÅF and Sigma Connectivity. But also from telecom operators like DT and Telenor who want to climb the value chain.

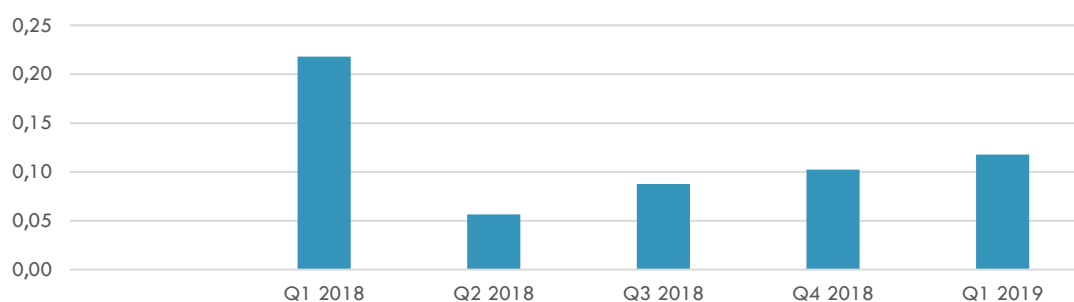
Within Connectivity, which develops standard modules and associated software for wireless connection to the Internet, we find competitors in module sales such as Redpine Signals Inc, Telit, u-blox, Panasonic US / EU, Alphs EU and Murata US / EU. Within the more advanced modules are Intel, Laird and Azurewave.

However, overall, we do not consider that competition is the biggest threat to the company in the short term. It will become more relevant as the market grows and matures. Longer term consolidation of the sector is expected, as is the case with most new and growing areas. This could lead to the acquisition of H&D Wireless, something that the current CEO and principal owner have experience with today, as his previous companies have been bought for hundreds of millions of SEK each.

Forecasts and valuations

H&D Wireless needs to increase its revenue quickly in order to reach break-even and reduce the need for additional new issues after the one that is now being implemented. The company only had revenue of about SEK 1 million per quarter during 2018, while costs amounted to about SEK 30 million for the full year. In terms of accounting, the company capitalized costs of almost SEK 13 million during the full year 2018. This meant that the profit after net financial items remained at minus SEK 29.5 million for the full year 2018. Based on the cost level during Q1 / 2019, annual revenues of around SEK 45 million are needed before the Group can report a zero result without having to activate any discontinued work at the same time. Notwithstanding investment needs and changes in working capital, this is the same as cash flow, which leads to the company's estimated future liquidity.

Long left for break-even, H&D Wireless Revenue to cost-numbers Q1 2018-Q1 2019



Source: The company's financial reports.

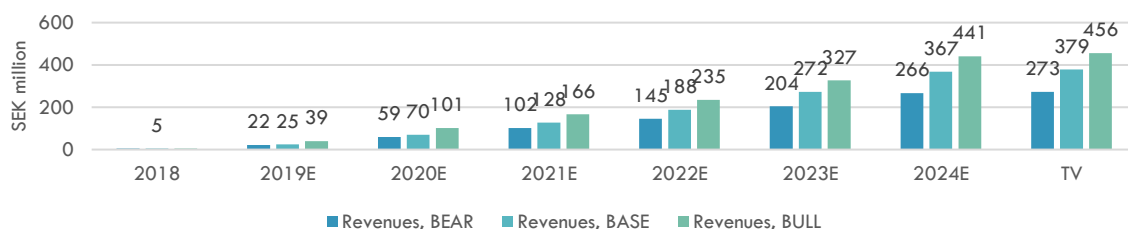
The acquisition of MVV Holding is expected to be completed around mid-year 2019, and then the picture changes for the better. Through a non-cash issue of new H&D Wireless shares, H&D Wireless will buy an annual turnover of between SEK 35 and 40 million for a little more than SEK 8 million in market capitalization, which will only dilute the existing stock by about 7 percent. This means that the Group pro forma including MVV Holding has a turnover of approximately SEK 50 million. According to our assessment, MVV Holding is currently at a minor loss of a few million SEK annually. This can be improved, among other things, if the sale of this company's software Casat would get started.

In two graphs on the next page, we illustrate our revenue and operating profit forecasts for the H&D Wireless Group for the period 2019-2024 including MVV Holding. 2019 will be a year of continued pilot studies and qualification for pilot studies of the GEPS system with industrial customers. Most of the company's 25 customers are in the first or second phase of a total of four before it becomes a commercial contract. We believe in increased revenues from the second half of 2019. As of the first quarter of 2020, we estimate that sales of the industrial segment should gain momentum. Profitability is entirely dependent on the sales mix, when the profit contribution should be significantly higher if the company sells solutions to i.e. Scania and Volvo compared to Keolis. The value to the industry of the positioning services is higher since it is great values to streamline material flows and reduce capital tied up.

Smart parking services (Keolis) are significantly lower priced, which we have seen several examples of. H&D Wireless's own goal is for around 70 percent of the Group's revenue (before the MVV acquisition) to come from the product GEPS in 2023, mainly value-added services with the highest operating margins.

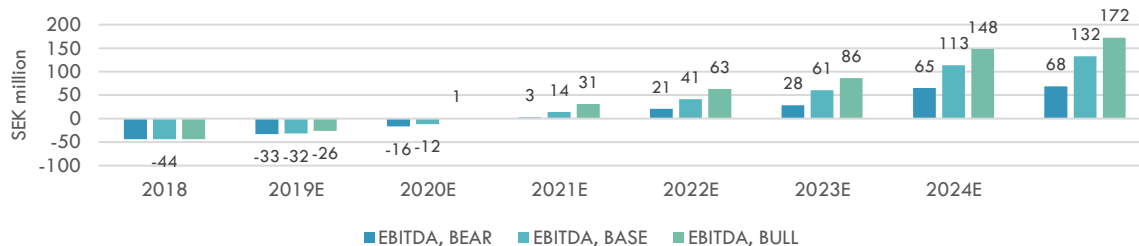
We have based our forecasts on a quarterly basis in the Base case scenario and then adopted higher and lower revenue and also of the operating profit outcome in our Bull and Bear scenarios. An additional krona of sales has been assumed to increase or decrease the Group's operating profit initially by 35 per cent in order to increase to a profit effect of just over 50 per cent towards the end of the forecast period. This is because we assume that a growing proportion of the Group's revenues will consist of value-added services with higher margins compared to sales of hardware and basic connection services that will initially dominate. The cost of tailor-made customer customization of service solutions with the GEPS system will also decrease over time, as more customer cases can be partially reused to new customers.

Forecasts, Revenue (SEK million)



Source: Carlsquare.

Forecasts, EBITDA (SEK million)



Source: Carlsquare

DCF valuation

We have calculated the present value of estimated future cash flows with a discount rate of 16.2 percent. This is derived as a risk-free interest rate on a ten-year Swedish government bond of zero percent (which actually was minus 0.12 percent) and added a small company premium of 4.2 percent. Furthermore, we have adopted a beta number of 1.2 times. Finally, we have added a company-specific risk premium of 3 percent to reach our calculated interest rate level. To calculate the residual value, we have assumed that the Group can reach an annual revenue growth of 3 percent beyond the forecast period in the Base scenario, a parameter that varies from 2.5 percent perpetual growth in the Bear scenario to 3.5 percent in the Bull scenario.

An important part of our cash flow valuation has also been studying how much and when in time the company's cash needs to be replenished. It is assumed to be through new issues at a 7.5 percent discount relative to the current share price. Despite high revenues and profits towards the end of the forecast period (2023 - 2024) in all three scenarios, we also believe that at the beginning of the period (2019 - 2020) the company needs to raise new capital and that the number of shares will thus increase. Adopted new issue amounts are given for each of our three scenarios in the table below.

We arrive at a motivated value for the H&D Wireless share of SEK 6.5 (6.1) in the Base case scenario. This is because we have assumed a slightly better operating result 2019-2020 (less loss) as well as a somewhat smaller capital requirement compared to our basic analysis dated 2 April 2019. The DCF value varies from as low as SEK 1.8 per share (previously SEK 2.2) in the Bear scenario to SEK 9.4 per share (previously SEK 8.7) in our Bull scenario.

DCF valuation

	Bear	Base	Bull
Wacc	16.2%	16.2%	16.2%
CAGR, 2019 – 2024E	61%	72%	78%
Growth, residual value	2.5%	3.0%	3.5%
EBITDA-margin year 2024	24%	31%	34%
Working capital/annual revenues	7.0%	8.0%	9.0%
Enterprise value (SEK million)	76.3	263.0	393.1
Net Cash, SEK million	29.7	29.7	29.7
New share issue 2019-2022, SEK million	60.0	40.0	35.0
Present value warrants, SEK million	-	32.9	32.9
Share value, SEK million	106.0	325.6	455.8
Number of shares after dilution, million	58.3	50.5	48.5
Value per share, SEK	1.8	6.5	9.4
Implicit EV/Sales, 2022E	0.5x	1.4x	1.7x
Implicit EV/EBITDA, 2022E	3.6x	6.4x	6.2x

Net cash as of March 31, 2019 plus new share issue (net) of SEK 23.5 million in March/April 2019. Source: Carlsquare.

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