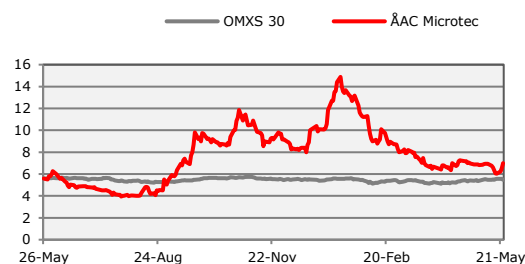


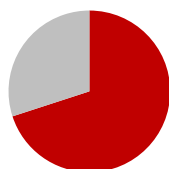
Summary
ÅAC Microtec (AAC.ST)
Positive EBITDA in Q4

- The Q1-numbers did not include any big surprises, but there have been some encouraging news lately. New orders from clients who are aiming for big constellations and ÅACs' recent announcement that they expect positive EBITDA in Q4 this year.
- ÅAC Microtec recently merged with Clyde Space creating a much stronger company on all accounts. The market for small satellites is booming and the new company is very well positioned to leverage on this.
- We have made some minor adjustments in our forecasts. Somewhat higher sales and lower costs. The fair value in our base case scenario increases to SEK 8.3, vs SEK 8.0 before. The valuation range in unchanged (SEK 5-12).

List: Nasdaq First North
 Market Cap: 495 MSEK
 Industry: Technology
 CEO: Alfonso Barreiro
 Chairman: Rolf Hallencreutz

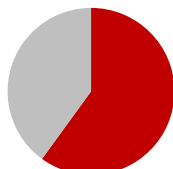

Redeye Rating (0 – 10 points)

Management



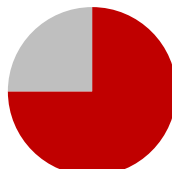
7.0 points

Ownership



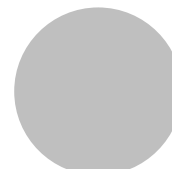
6.0 points

Profit outlook



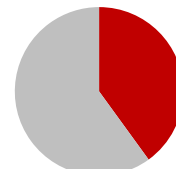
7.5 points

Profitability



0.0 points

Financial strength



4.0 points

Key Financials

| | 2016 | 2017 | 2018E | 2019E | 2020E |
|------------------|-------|-------|-------|-------|-------|
| Revenue, MSEK | 23 | 13 | 93 | 142 | 209 |
| Growth | -8% | -42% | 598% | 53% | 48% |
| EBITDA | -17 | -21 | -13 | 9 | 32 |
| EBITDA margin | -73% | -161% | -14% | 6% | 15% |
| EBIT | -23 | -27 | -60 | -36 | -13 |
| EBIT margin | -99% | -203% | -64% | -25% | -6% |
| Pre-tax earnings | -24 | -27 | -60 | -36 | -13 |
| Net earnings | -24 | -27 | -60 | -27 | -10 |
| Net margin | -106% | -203% | -64% | -19% | -5% |
| Dividend/Share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EPS adj. | -0.77 | -0.85 | -0.87 | -0.39 | -0.14 |
| P/E adj. | 0.0 | 0.0 | -8.3 | -18.3 | -49.7 |
| EV/S | -3.2 | -2.8 | 5.0 | 3.3 | 2.2 |
| EV/EBITDA | 4.4 | 1.7 | -35.1 | 54.1 | 14.2 |

Share information

| | |
|-----------------------|------|
| Share price (SEK) | 7.2 |
| Number of shares (m) | 68.7 |
| Market Cap (MSEK) | 495 |
| Net cash (MSEK) | 52 |
| Free float (%) | 43 % |
| Daily turnover ('000) | 350 |

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Important information: All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye Rating: Background and 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 – Cyclicity, and 8 – Forthcoming binary events.

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Q1-highlights and recent news

This is an updated version of our initial research report published on May 7. The first quarter report did not really contain any major surprises or news. These were all published in the last couple of days before the report. The numbers in the P&L and balance sheet are pretty much in line with our expectations. The fact that this was the first interim report after the merger between the two companies, added some uncertainty. However, revenues and EBITDA were slightly better than our “guesstimate”. We are pleased to see that costs appear to be well under control.

| Actual vs Expected | | | | |
|--------------------|-------|--------|--------|------|
| SEK m | Q1'17 | Q1'18E | Actual | Diff |
| Net sales | 3.8 | 13.0 | 16.4 | 26% |
| Other income | 1.4 | 2.0 | 1.3 | -35% |
| Total revenues | 5.2 | 15.0 | 17.7 | 18% |
| EBITDA | -4.1 | -8.0 | -3.7 | n.m. |
| EBIT | -5.4 | -15.9 | -12.8 | n.m. |
| Net earnings | -5.5 | -15.9 | -12.6 | n.m. |

Source: ÅAC Microtec, Redeye Research

ÅAC expects positive EBITDA in Q4

Just prior to the release of the Q1-report the company announced that they expect positive EBITDA in Q4 (in addition to revenues: SEK 85 m in 2018). We didn't quite expect that. Costs seem to be a little lower than our initial forecasts and we think there is a good chance that revenues will be slightly higher than SEK 85 million. Hence we raise our forecasts somewhat.

We raise our forecasts somewhat

ÅACs order book is improving but in order to reach our projected sales, this year and certainly next year, they will need additional orders. The company has announced three encouraging new deals in the last three weeks.

- A SEK 5.6 m initial order for subsystems to Aistech. Since Aistech is planning a constellation of 100 satellites, this is a very interesting order.
- A SEK 2.5 m follow-on order from Japan for Sirius avionics.
- A SEK 7 m follow-on order for batteries and power systems to a South American company. The client is planning to build a constellation of more than 50 satellites in the next 24 months. ÅAC expects to receive additional orders in early 2019.

From the AGM, one point worth noting, is the mandate for raising new capital. The board was given the mandate to issue up to 20 percent new shares or convertibles, in directed share issues. There is no secret that they are looking at further acquisitions, which will require additional funding. Also, following the AGM, one of the long time board members Johan Bäcké resigned. The rest of the board is unchanged.

Mandate to issue 20% new shares

Investment case

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 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 indicates some potential but a strong business performance has to some extent already been discounted.

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 and security 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 expectancy in orbit. 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, Outernet, Satellogic, York Space Systems and most recently Aistech.

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 Small/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.

Valuation conclusion

Our valuation range spans from SEK 5-12 per share, while our base case scenario indicates a fair value around SEK 8. There is significant potential in our bull case (fair value SEK 12) which may occur if the company makes another attractive acquisition which could accelerate its growth even further. The bear case scenario also illustrates the significance of the growth component. With only 30% CAGR 2019-21, and all else being equal, our fair value would be just over SEK 5 per share.

*Valuation range:
SEK 5-12 per share*

Potential Pitfalls/threats:

- 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.

ÅAC-Clyde ready for launch

ÅAC Microtec was founded in 2005 as a spinout from Ångströms-laboratoriet at the University of Uppsala. In December 2016 the company made its IPO and listed the shares at Nasdaq Stockholm First North.

ÅAC has successfully developed subsystems for satellites over the last ten years. First launch with ÅAC components was in 2009 and since then several projects have been completed with customers including NASA, ESA, Airbus and York Space Systems. No doubt the company is renowned for its advanced and reliable products and know how. Certainly they also have an ongoing business with repeat orders. But they are currently in a transition period focusing on commercial business as opposed to previously when they had steady income streams from development projects. Consequently revenues dropped significantly in 2017 compared to 2015-16 levels.

Merger with Clyde Space, one giant leap for ÅAC

However, the recent merger with Scottish company Clyde Space has completely transformed the company. Clyde Space is mainly focused on the CubeSat market and has delivered a large number of satellites to customers around the world in the last few years. They design and build the entire system and has a manufacturing capacity of approximately up to 40 satellites per year in their facilities in Glasgow. The new AAC-Clyde has a significant footprint in the SmallSat industry, a position that AAC probably never would have achieved without an acquisition.

Strong commercial footprint in the CubeSat market

The deal structure is basically a merger where the previous owners of Clyde Space received 49 percent of the total number of shares plus GBP 2 million. From AAC's point of view a very lucrative price, considering that Clyde Space has a much stronger commercial presence in the market selling CubeSats and entire missions to end customers.

| P&L, historic and proforma | | | | | | |
|----------------------------|-----------|------|---------|---------|-----------------------|--------------|
| ÅAC Microtec | | | | | Proforma after merger | |
| SEK million | 2014 | 2015 | 2016 | 2017 | 2016 | Jan-Sep 2017 |
| Net sales | 15 | 24 | 23 | 13 | 82 | 50 |
| Total revenues | 24 | 25 | 27 | 18 | 91 | 59 |
| EBITDA | -16 | -17 | -27 | -17 | -22 | -14 |
| Number of employees | 27 | 31 | 28 | 30 | 105 | 108 |
| Clyde Space | Full year | | Jan-Sep | Jan-sep | | |
| GBP million | 2015 | 2016 | 2016 | 2017 | | |
| Net sales | 4.1 | 5.4 | 4.1 | 3.5 | | |
| Total revenues | 4.7 | 5.9 | 4.5 | 4.1 | | |
| EBITDA | 0.5 | 0.4 | 0.4 | 0.0 | | |
| EBITDA-margin | 12% | 8% | 10% | -1% | | |
| Number of employees | 52 | 77 | 75 | 78 | | |

Source: ÅAC Microtec. SEK 11.0 vs GBP for proforma.

More acquisitions to come

AAC has made no secret of its ambition to grow substantially through acquisitions. The main objective for the merger with Clyde Space is to create a credible and reliable supplier of total solutions for Nano satellite constellations and SmallSat subsystems. The ambition is to dominate these market segments with large volumes and low cost manufacturing. This merger is a major step in that direction. But there is probably more to come. Management, in Sweden as well as Scotland, are certainly aiming for more M&As. Most likely in the US. A stronger presence in the US would benefit some of their business, particularly related to defence and government. And of course a majority of the satellite companies are based in the US, so there is a greater selection of potential targets.

Next M&A in the US?

A good fit

The two companies are similar with respect to their reputation as providers of reliable, high quality products for small satellites up to around 50 kg. Clyde Space state that they have more than 500 years of flight heritage without any reported failures. And both have an impressive list of clients from previous and current projects. Clyde is more commercially oriented with substantial sales volumes over the last few years. ÅAC on the other hand has been in a transition between revenues from development projects and commercial orders in the last couple of years. Between the two companies they will have a wider offering of products and services and stronger R&D, both in terms of human resources and financially.

| Facts and figures | | |
|---------------------|---|---|
| | ÅAC Microtec | Clyde Space |
| Founded year | 2005 in Uppsala, Swe | 2005 in Glasgow, Scotland |
| Number of employees | ~30 | ~80 |
| Subsidiaries | USA, UK | USA (not active) |
| Distributors | Japan, South Korea | |
| Products | Onboard computers Data handling Power systems InnoSat platform | Complete CubeSat platforms, incl: Onboard computers Attitude Determination and Control Power systems Solar panels De-orbit devices Structures |
| Services | Customized development projects | Mission planning Integration of payload testing etc Launch brokerage Satellite operation |
| Main market segment | Small satellites up to 50 kg | CubeSats 1U-12U (1-20 kg) |

Source: ÅAC Microtec, Clyde Space

Strong management team

In January 2017, just after the IPO, Mikael Andersson resigned as CEO and CFO Mats Thideman stepped in as acting CEO. At that point ÅAC was not quite staffed to take on the challenges of the global satellite market. Fortunately the situation is completely different today. No less than six very senior managers have joined the company during 2017 and early 2018:

- Iraklis Hatzithanasiou joined as new head of sales and business development in January. He was a global sales director at Honeywell Aerospace
- In August 2017 Alfonso Barreiro was appointed new CEO. Alfonso Barreiro has 30 years of experience from the space industry. The first few years with the European Space Agency and since then in the private sector. Most recently in UrtheCast and prior to that Deimos, a company he co-founded in 2001 and was in part acquired by UrtheCast.
- In September 2017 Brent Abbott was appointed new CEO of US subsidiary, AAC Microtec North America. Brent Abbott was a director of Business Development for Surrey Satellite Systems US before joining AAC.
- The merger with Clyde Space in January 2018 strengthened the management team further. The single most important member is Craig Clark, founder of Clyde Space. Entrepreneur and major shareholder with 20+ years in the space industry. Started Clyde Space in 2005 after having worked seven years at UK based Surrey Satellite Technologies.
- Andrew Strain, Chief Technology Officer from Clyde Space with over a decade of small satellite design and delivery experience.
- William Whitehorn, Chairman of Clyde Space, is a new board member at ÅAC since 2018. He was previously CEO of Virgin Galactic and currently on the board of three companies listed on the London Stock Exchange.

Quite a bit of skin in the game

In the tables on the next page we have listed management and board members' share holdings and warrants. Craig Clarke obviously has the most skin in the game, followed by Will Whitehorn and Andrew Strain. All three previous owners of Clyde Space. Rolf Hallencreutz, Chairman of the Board, also has a fair amount. CEO Alfonso Barreiro bought his first shares just a months ago. Since he joined the company very recently, we totally understand why his position still is quite modest.

| Management and Board | | | |
|-----------------------------|-----------------|---------------|----------------------------------|
| | Position | Shares | Warrants |
| Alfonso Barreiro | CEO | 23,224 | 0 |
| Mats Thideman | CFO & Dep. CEO | 28,650 | TO 2015/20: 1 430 TO1: 18 000 |
| Craig Clark | CSO | 9,542,053 | 0 |
| Iraklis Hatzithanasiou | VP Bus. Dev. | 16,176 | TO1: 16 176 |
| Andrew Strain | CTO | 285,682 | |
| Board members | | | |
| Rolf Hallencreutz | Chairman | 97,046 | TO 2015/20: 2 860 TO1: 55 846 |
| Per Aniansson | Board member | 0 * | TO 2015/20: 1 430 |
| Per Danielsson | Board member | 20,600 | 0 |
| Will Whitehorn | Board member | 333,456 | 0 |

* Per Aniansson is representing Fouriertransform.

Source: ÅAC Microtec annual report and homepage.

The two principal shareholders after the merger are Fouriertransform AB (owned by the Swedish government) and Craig Clarke. Nevis Capital and Corallin are Scottish venture capital investors and previous owners of Clyde Space. Whether these four owners are committed and have the resources to invest further in the company, if needed, we don't really know.

| Major shareholders | | |
|--------------------------------|-------------------------|----------|
| | Number of shares | % |
| Fouriertransform AB | 9,888,788 | 14.4% |
| Craig Clark | 9,542,053 | 13.9% |
| Nevis Capital LLP | 8,585,411 | 12.5% |
| Corallin LLP | 8,548,851 | 12.4% |
| RP Ventures AB | 2,724,350 | 4.0% |
| Avanza Pension | 2,259,901 | 3.3% |
| BNY MELLON SA/NV | 1,905,762 | 2.8% |
| Nordnet Pensionsförsäkring AB | 1,838,289 | 2.7% |
| RBC Investor Services Trust | 1,668,387 | 2.4% |
| Uppsala Universitet Holding AB | 757,650 | 1.1% |
| John Kock | 640,367 | 0.9% |
| Others | 19,414,300 | 28.3% |
| Total: | 68,719,124 | |

Source: ÅAC annual report, Holdings Modular Finance.

Products and services

The current portfolio of products and services mainly consist of:

- **Subsystems and components.** Both ÅAC and Clyde have power systems and on-board computers that are considered state of the art. Clyde also develops solar panels, Attitude Determination and Control Systems, Structures and de-orbit devices.
- **Complete satellite platforms 1-50 kg.** Main focus on CubeSats where Clyde Space has a strong foothold. CubeSats are standardized cubes 10 by 10 cm and usually come in units of 1, 3, 6 or 12, with a weight of 1-20 kg.
- **Mission planning and launch brokerage.** Assisting the customer in planning for the entire mission including booking the launch. This is mainly a service offered for the convenience of the client to facilitate the entire mission end-to-end.
- **On orbit operation.** Clyde has a ground station in Glasgow that operate some of their clients' satellites. It is still a small part of their business but the ambition is to grow. Possibly with more ground stations in other regions.

Satellite as a Service

The concept of Satellite as a Service is something the company is considering for the future. It is appealing in the sense that it would invite many new potential clients to the business. Another aspect is that constellations could be used more efficiently. However we think a true SaaS setup will take some years. Currently the customers own the satellite even if ÅAC Microtec can provide many of the services to get it in orbit and to operate it, such as the mission with NSLComm. In order to offer SaaS the question of ownership needs to be addressed and we don't think that the company has prepared a plan for that yet.

Cash expected to last until turn-around

By the end of 2017 ÅAC Microtec had SEK 37 million in cash. The acquisition of Clyde included a cash payment of SEK 23 million. The directed share issue in January raised SEK 47 million net of transaction costs. These transactions add up to SEK 61 million in net cash. By the end of Q1, net cash position was SEK 52 million. Warrants (TO1) could raise another SEK 36 million by the end of May 2018.

*Net cash end of Q1: SEK
52 million*

Operations have been running at loss of around SEK 7-8 million per quarter lately. According to management, their current cash position is sufficient to cover the deficit and finance capex and working capital until positive cash flow is expected. Planned capex in production facilities in 2018 is only a few hundred thousand GBP, or a few SEK million. All major testing equipment and facilities are already in place.

At some point, probably not too far ahead, the plan is to build a CubeSat factory. Where and when is yet to be decided. And they will most likely wait until they have secured larger volume orders from some of their clients. This is however an important part of their core business idea: to drive down costs from efficient manufacturing and economies of scale.

The company would benefit from a stronger balance sheet since they are already looking at the next acquisition. That might very well require a new rights issue, but a war chest is at least a good start. Consequently we hope the TO1 will be exercised bringing in another SEK 36 million.

Brief history/timeline

The most important milestones for ÅAC and Clyde Space respectively:

ÅAC Microtec

2005: ÅAC was founded as a spinout from Ångströmlaboratoriet at the University of Uppsala.

2007: Received their first order in the US market from the company Operationally Responsive Space (ORS).

2009: First launch with ÅAC components, Japanese satellite RISING-1. Later the same year German/Luxemburg satellite Rubin-9.2 is launched also with ÅAC components.

2009: Development contract from ESA for a motion controller unit for the ExoMars rover.

2011: US subsidiary ÅAC Microtech North America

2012: NASA launches TechEdSat-1 with ÅAC components.

2014: Three satellites with electronics from ÅAC are launched. Japanese RISING-2, Russian DX-1 and US RACE.

2015: Cooperation with OHB Sweden to develop the InnoSat platform.

2016: License agreement with York Space Systems for Sirius avionics subsystems.

2017: Starts cooperation with Bright Ascension for Sirius avionics integration.

2017: Order from York Space Systems and Airbus for power systems.

2017: Order from costumers in Japan and UK for Sirius avionics.

2018: Merger with Clyde Space.

2018: York Space Systems places order for batteries for their S-Class satellite platform.

Clyde Space

Clyde Space history includes many more business events than ÅACs and many more than we have found in the public archives, since it has been a privately owned company. Some activities have been announced or communicated via business media, company presentations etc.

2005: Craig Clark founded Clyde Space.

2009: Nevis Capital and Corallin take an equity stake providing funding.

2010: Start building the first CubeSat, UKube-1, for the U.K. Space Agency.

2014: Launched UKube-1, the first Scottish satellite in orbit.

2015: Initial order for 4 CubeSats from Satellite Applications Catapult and Innovative UK.

2016: Building and starting up ground station operations in Glasgow.

2016: Initial CubeSat orders from Kepler Communication, Outernet, ESA (Picasso) and The Gordon and Betty Moore Foundation (Seahawk).

2017: Partnerships with Teledyne e2v and Audacy.

2018: First launch contract. A follow-on order from NSLComm, marking a milestone for first end-to-end mission delivery.

2018: Operations contract from LCF Enterprises, a follow-on order from previous CubeSat purchase.

Some major projects and clients

York Space Systems is sourcing power systems, batteries and Sirius avionics (license agreement) from ÅAC. York stated in an article with Spacenews in February 2018 that they have “90 letters of intent or formal agreements with commercial and government customers who intend to purchase its S-class satellites”. They also said they plan to build 200 satellites per year once the facility is operating at full capacity.

Kepler Communication launched the first CubeSat from Clyde Space in Q1-18 and the next is scheduled for Q4. Kepler has announced that they intend to build a constellation of 140 satellites for telecommunication.

NSLComm recently placed a follow-on order for an end-to-end mission including launch in Q4-18. Order value SEK 16.7 m. The long-term vision for NSLComm is to provide worldwide communications through an orbiting cluster of 60-100 6U CubeSats.

The Gordon and Betty Moore Foundations first two CubeSats, SeaHawk, will be launched in 2018-19. The goal is to deploy a constellation of SeaHawks to provide a global measurement of ocean color data.

Outernet, a US broadcaster, has ordered four CubeSats from Clyde Space. This is the first phase of Outernet’s plan to deliver free internet content globally from a constellation of hundreds of CubeSat’s.

Satellite Applications Catapult, as mentioned above, placed an order for four CubeSats in 2015 to be deployed in Q4-18 through 2020.

Aistech, placed an order for subsystems for 10 satellites with a total order value of SEK 5.6 million.

The satellite market

In this section we have i) a very brief overview of the different sectors related to the satellite industry. Just to put the segments that are relevant to ÅAC into perspective for the uninitiated reader, ii) number of satellites and forecast, iii) competitive landscape.

Facts, figures and forecasts that are presented here are mainly gathered from Bryce Space and Technology and BIS Research Analysis. However the overall picture and trends in the market are supported by all other research reports that we have come across.

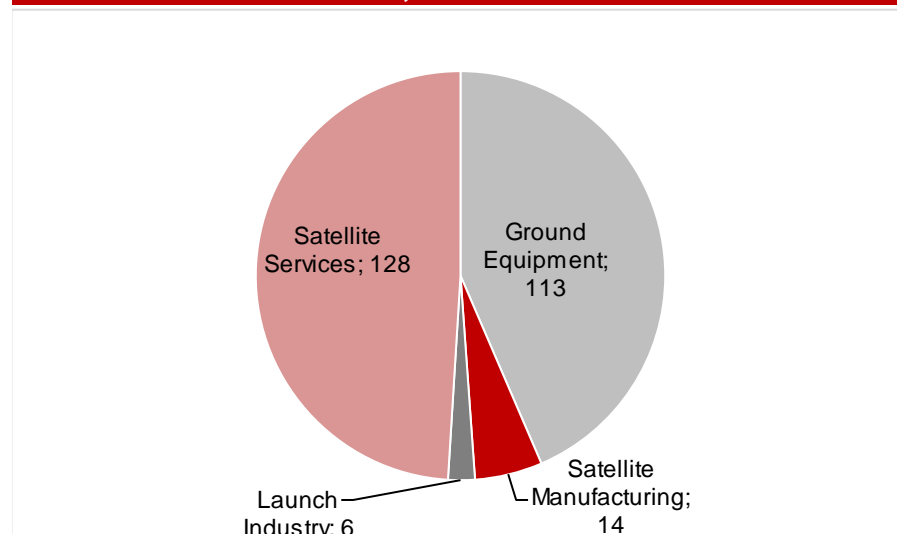
Brief market overview

The market for satellites and related services can roughly be divided into 4 different main segments:

- Design and construction.
- Launch into orbit.
- Operation of satellite (Maintaining position in orbit, power supply and in some cases deorbit).
- Operation of the satellite payload, such as extraction and processing of data.

The total value of the global satellite market is estimated at around USD 260 billion annually. As can be seen in the graph below, satellite manufacturing is only a minor part of this. Approximately USD 14 billion in 2016. These numbers are a rather rough aggregate since activities in countries like Russia and China is not very transparent in economic terms.

Global satellite market 2016, USD 260 Billion

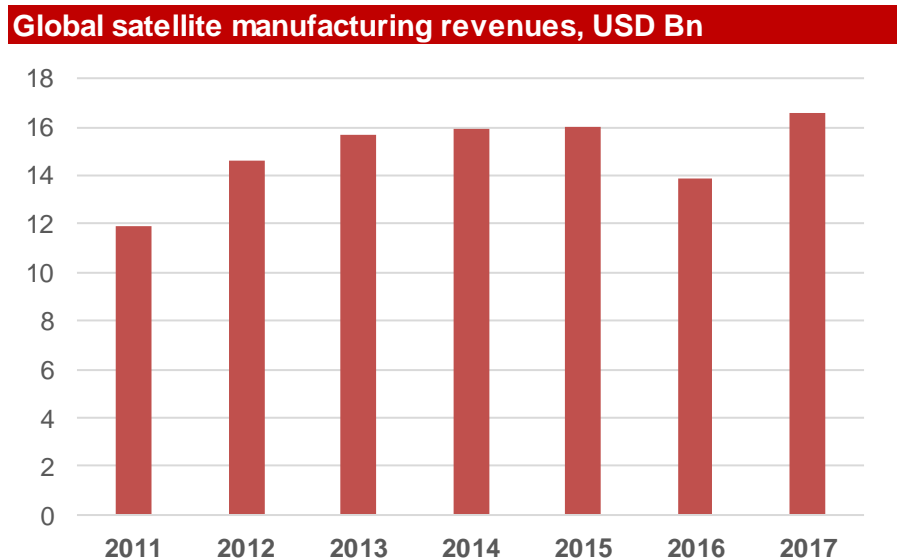


Source: Satellite Industry Association (SIA), Bryce Space and Technology

AAC-Clyde is primarily a manufacturer

In this market overview we will focus on satellite manufacturing since this is AACs main and core business. Operation is also to some extent, but this is still a very small business for them. The company's vision is to offer satellite as a service and we will look closer at this as it evolves. However for now we leave it aside.

The general trend is that total revenues for manufacturers have been rather flat the last few years, see graph below. And the reason, as pointed out earlier, is that smaller cheaper satellites are replacing the older ones that are larger and much more expensive. 23 CubeSats were launched in 2012 and year 2017 saw a record of 290. These however only represented around 1 percent of total value for the manufacturers. The dip in the curve 2016 is explained by fewer launches in that year, which was corrected in 2017.



Source: Satellite Industry Association (SIA), Bryce Space and Technology

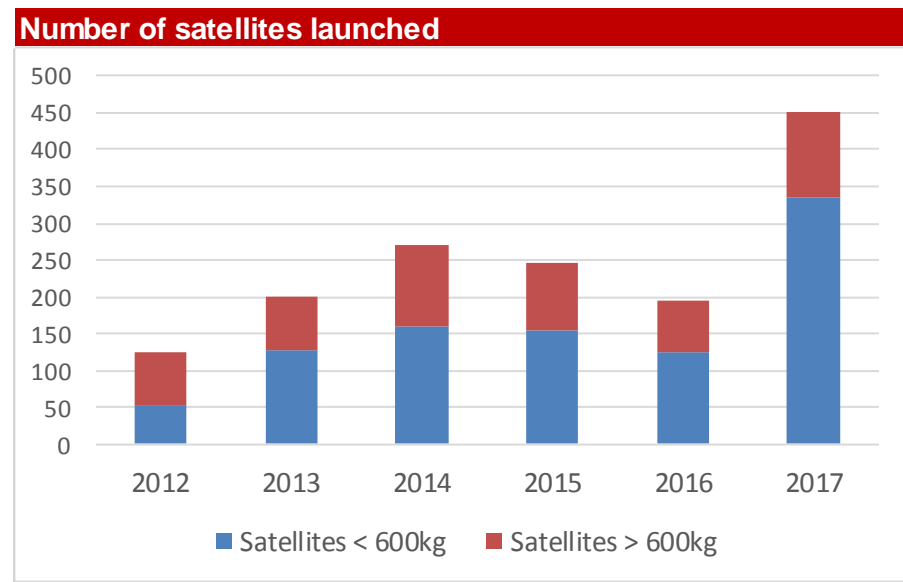
Key takeaways

- The Cube/NanoSat market was only around 1 percent of total revenues for the satellite manufacturers in 2017. Hence the NanoSat segment can show robust growth for many years to come, even if the size of the overall market is stagnating or declining.
- Big traditional manufacturers of large satellites like Boeing, Lockheed Martin, Airbus etc. may not be inclined to pursue a small segment that only accounts for a fraction of the market. At least not yet.

Growing number of small satellites

The graph below shows the number of satellites launched per year. As mentioned earlier, some delays in 2016 caused a dip in the curve. The growth over the last few years is primarily related to small satellites. And to be more precise NanoSats (1-10kg) which is Clyde Space sweet spot.

Worth noting however is that Planet's 88 CubeSats in 2017 represent almost one third of the total number of smallsats deployed during that year. The graph shows all satellites launched including a few failures. Hence the data will differ from other statistics that only include satellites put in orbit. There is usually one or two launch failures per year, which equals 5-10% of all launches. In 2017 approximately 430 satellites were considered successfully launched.



Source: Bryce Space and Technology

As of today a little over 4 000 satellites have been launched since 1959. Less than half of those are still in service. Some of the remaining satellites have crashed but most are still in orbit. The total number of NanoSats launched is just over 900 and some 600 are still in orbit (source: www.nanosats.eu). The majority of these are CubeSats. The number will increase rapidly over the next decade. This is raising concern about congestion and space orbital debris, but there are ways of dealing with it. Many of the new NanoSats are deployed in low orbit and will decay at the end of their lives, burning up as they enter the atmosphere.

NanoSat market expected to skyrocket

The growing demand for services that satellites can provide and the possibilities that cheaper and more reliable small satellites offer will certainly boost the market over the next decade. All evidence and forecasts are pointing in that direction. The scope and variety of services that could be provided with information from different satellites is endless. And we have probably just seen the tip of the iceberg yet.

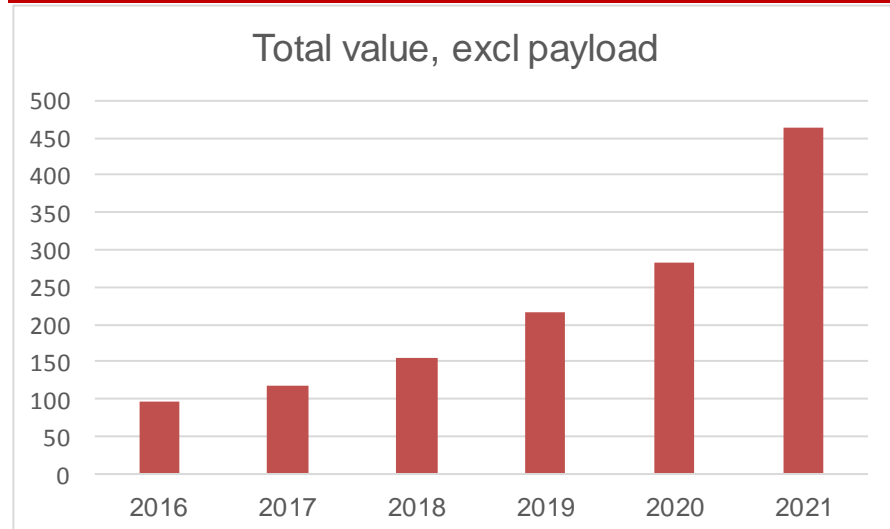
The different application areas are listed in the table below. The approximate share of the NanoSat market for each application in 2016 and expected growth rates until year 2021, according to BIS Research. Communication and Navigation are the two areas that are expected to see the highest growth rates. And for the aggregated NanoSat market a robust 38 percent CAGR.

| NanoSat market by application | | |
|---|------------------------------|--------------------------|
| | Market share 2016 | CAGR 2017-21E |
| Communication | 11% | 47% |
| Intelligence, surveillance & reconnaissance | 15% | 35% |
| Earth observation & remote sensing | 26% | 38% |
| Academic research & space exploration | 42% | 34% |
| Navigation | 2% | 63% |
| Technology demonstration | 6% | 39% |
| Total | 100% | 38% |

Source: BIS Research, Global Nano Satellite Market Analysis and Forecast 2017-2021.

Improved launching capacity

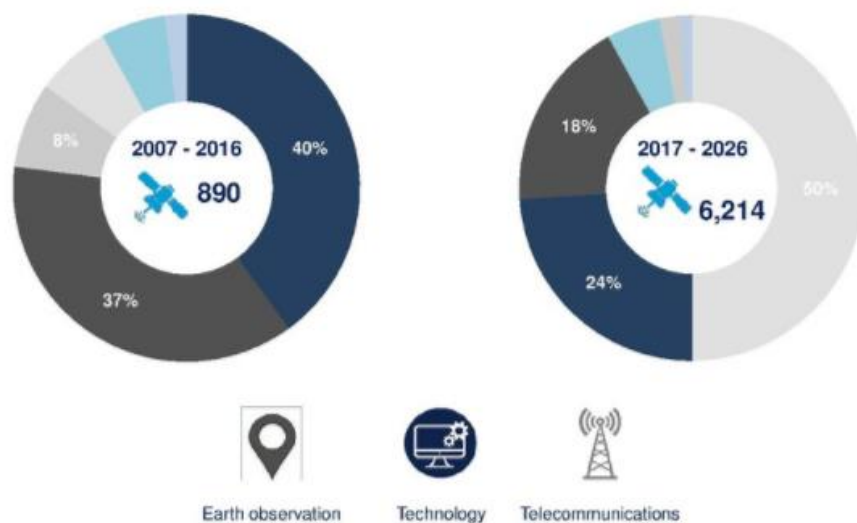
Further reasons for optimism is that the previous bottleneck of launching capacity is about to be resolved. There has been a shortage of launching rockets for Nano satellites. In 2016 missions were delayed due to technical issues and grounding of a couple of rockets. Some launching companies have now adopted their vehicles for smaller satellites, such as Rocket Lab, Vector Space Systems, Virgin Orbit, PSLV of India (deployed a record of 104 satellites in one mission in 2017). Also, for this reason the prices for launching may come down, making the entire mission more affordable.

Global NanoSat market, USD million


Source: BIS Research

The value of the total market for manufacturers of Nano satellites (1-10 kg) is expected to grow substantially in the coming years. The graph above shows BIS Research Analysis predictions of the total value, excluding payload since that is more relevant to ÅAC Microtec. This suggests an annual growth rate of approximately 40 percent 2017-2021.

The number of Nano satellites required to provide all the new services is expected to increase dramatically. As depicted below some 900 small satellites (< 500kg) were deployed in the last decade. Over 6 000 are expected to be launched in 2017-26. So on average 600 satellites per year and the vast majority of these will most likely be Nano/CubeSats.

Number of small satellites, historic and forecast


Source: Euroconsult,,Prospects for the Small Satellite Market 3rd edition 2017.

Massive constellations in pipeline

The projections depicted in graphs above are to some extent based on announcements from various operators regarding their plans to launch satellite constellations. The really big ones are listed in the table below. We might have missed a couple and then there is a long array of companies that have announced constellations of smaller in size. Certainly they will not all be able to follow their plans. Some of them are not yet funded and launching capacity will probably be a constraint. But the list gives an idea of the magnitude of the business plans that some of these players have.

Some still need funding

Some vertical integration but most are potential customers

A few of the operators build their own satellites in-house. Probably because there has been a lack of manufacturing capacity in the market. In terms of numbers, Planet is by far the biggest manufacturer of CubeSats to date, over 300 have been built and put in orbit. Spire is probably number two with around 70-80. SpaceX is on the same path with a large production facility in Seattle. The main arguments that we have heard, for in-house manufacturing, is cutting lead-times for production and testing.

We believe this will change as more dedicated manufacturers are scaling up. These operators all have business ideas related to providing different services, not producing spacecraft (except for SpaceX of course). Once their constellations are in place they only need a minor part of the production capacity in order to replace satellites that are taken out of service. Ideally ÅAC were to buy either Planets or Spires manufacturing facility. In the case of Spire it is actually situated in the same building in Glasgow. Hence probably a fairly easy low risk deal. Planets facility is in the US which might fit into ÅACs strategy to build a stronger presence in this market.

Major satellite constellations (announced)

| | Launch year | Satellites Planned size | Services provided |
|-----------------------|-------------|----------------------------|----------------------|
| IridiumNext | 2015-17 | 66+ | Communication |
| OneWeb | 2018-19 | 640-2400 | Communication |
| Spire | 2015-- | 81+150 | Weather/AIS |
| Planet | 2014-- | 324+150 | Imagery |
| SpaceX | 2018-20 | 4000+ | Communication etc |
| Sky and Space Global | 2017-- | 200 | Communication |
| Telesat Canada | 2018-- | 117 | Communication |
| Kepler Communications | 2018-- | 140 | Data Backhaul |
| Fleet Space | 2018-- | 100 | IoT |
| Aistech | 2018-22 | 100 | IoT, IR Imaging |
| NSLComm | 2018-- | 60-100 | Internet |
| BlackSky | 2018-- | 60 | Imagery, Data |

Source: Bryce Space and Technology, Spacenew s.com, company websites,

Clyde clients: Kepler, NSLComm, Aistech

GOMSpace clients: Sky and Space, Aistech

Clyde Space has Kepler Communication, NSLComm and since very recently also Aistech, among their clients. Clyde has received their first orders and is anticipating follow-on orders going forward. Hence a great potential if all goes to plan.

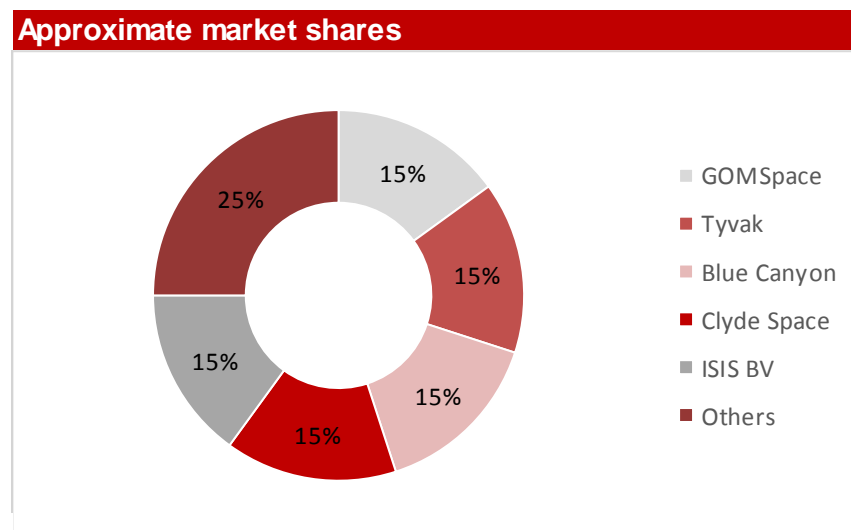
Operators Sky and Space Global and Aistech have mainly sourced their satellites from GOMSpace so far. The order from Sky and Space was the largest ever in terms of number of satellites, 200. But Sky and Space has yet to raise the bulk of the money in order to finance the project.

Competitors

The competitive landscape includes a large number of companies from all over the world. The majority of the established companies as well as new ventures are based in the US or Europe. Since AACs offering spans from subsystems to entire CubeSat missions and operation they also face different competitors. In some cases a partner or client could be a competitor for another deal. The space industry is rather flexible and pragmatic in this sense.

In the CubeSat segment, which is AAC's sweet spot since the Clyde acquisition, the number of players is somewhat more manageable. The graph below is taken from GOMSpace IPO prospectus. These numbers are probably a reasonable indication of market shares, excluding those produced in-house by Planet and Spire. In the CubeSat segment around 800 satellites have been manufactured and launched so far. Planet and Spire account for about half of those. Clyde Space has made 35 complete CubeSats, and in addition to that a large number of subsystems.

Up until 2017, the total number of CubeSats launched per year was only around 100, which suggests that market shares might have been volatile from year to year. ÅAC has also mentioned U.S. companies Pumkin and Adcole Maryland, see next page.



Source: GOMSpace IPO prospectus 2016

GOMSpace

GOMSpace is probably the most head to head peer. They are clearly growth oriented and just like ÅAC Microtec, their ambition is to build large volumes of standardized CubeSats. Founded in 2007 in Denmark with 176 employees by end of 2017. IPO in 2016 at Nasdaq Stockholm First North.

www.gomspace.com

Tyvak

Tyvak is a subsidiary of Terran Orbital Corporation, which in turn is partly owned by Lockheed Martin since mid 2017. Main focus is defence and other government services with tailor made sophisticated products rather than standardized satellites for the commercial market.

www.tyvak.com

Blue Canyon

Founded in 2008 and based in Colorado, USA. Building small satellites from CubeSats up to 200 kg. Blue Canyon had a staff of just over 50 people in 2017. Has built several satellites primarily for academic and government missions. Most recently a small constellation for NASA scheduled to be deployed end of 2018 and early 2019.

www.bluecanyontech.com

ISIS BV

Innovative Solutions in Space BV was founded in 2006. The company is based in the Netherlands and has about 90 employees. ISIS is primarily focused on satellites in the range of 1-30 kg and has a rather broad portfolio of products and services including subsystems, satellites, launch services and ground station monitoring.

www.isispace.nl

Adcole Maryland

US companies Adcole and Maryland Aerospace merged in 2017 but the company's history goes back to the early space days. They offer a number of different subsystems for small satellites as well as CubeSat platforms.

www.adcolemai.com

Pumpkin Space Systems

Founded 1995 and based in San Francisco. Primarily focused on CubeSats and has participated in over 30 missions with customers world-wide.

www.pumkinspace.com

Financial forecasts

The company's ambition is to dominate the market for small satellites (up to 50 kg) by providing reliable products and low cost manufacturing. As far as we can see this is where they have a competitive edge and excellent market opportunities for several years to come. They also offer services related to the supply of satellites such as launching brokerage, operating the satellites and later on maybe offering Satellite as a Service. All these services make sense to the business but are difficult for us to assess at this point. Also we think their contribution to earnings and cash flow will be minor in the foreseeable future. Hence our forecasts are focused on product sales. We do not include any further acquisition in our forecasts since that would only add to uncertainty. We are convinced that they will make more acquisition, but can only speculate in what and when.

Acquisitions are very likely but not yet included

We expect sales to grow rapidly over the next few years. The company has a large number of clients and certainly also several prospects. In a recent statement they said a total turnover of around SEK 85 million is expected in 2018. The global NanoSat market (AACs core market) is expected to grow vigorously in 2018-21 (CAGR 40%, see page 18). We believe AAC will grow even somewhat faster since they are targeting high volumes and are committed to scale up. Our forecasts assume 50% annual sales growth until year 2021. For the period 2022-29 we have assumed a CAGR of 20%.

AAC expects turnover of SEK 85 million in 2018

Solid growth expected in the next few years

We believe AAC will be able to reach positive EBITDA in Q4 this year (as they have guided). From 2019 and on we expect to see a gradual improvement to around 20% in a few years' time. For the long term we are more cautious assuming 15% EBIT-margin (~17% EBITDA-margin) see further comments next page.

| P&L, historical and forecast | | | | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| | 2016 | 2017 | Q1-Q3 | 2018E | 2019E | 2020E | 2021E | 2022-29E |
| SEK m | Proforma | | | | | | | |
| Net sales | 23 | 13 | 50 | 87 | 136 | 203 | 305 | CAGR: 20% |
| Other income | 4 | 4 | 9 | 6 | 6 | 6 | 6 | |
| Total turnover | 27 | 18 | 59 | 93 | 142 | 209 | 311 | |
| Raw material & sourcing | -8 | -5 | -17 | -26 | -41 | -61 | -91 | |
| Staff | -24 | -21 | -40 | -59 | -64 | -76 | -92 | |
| Other external costs | -12 | -13 | -16 | -21 | -28 | -40 | -56 | |
| Depreciation and amortization | -6 | -6 | -27 | -47 | -44 | -45 | -41 | |
| EBITDA | -17 | -21 | -15 | -13 | 9 | 32 | 72 | |
| EBIT | -23 | -27 | -42 | -60 | -36 | -13 | 30 | |
| Sales growth | neg | neg | n.a. | n.a. | 50% | 50% | 50% | 20% |
| EBITDA-margin | neg | neg | neg | neg | 6% | 16% | 24% | Approx: 17% |
| EBIT-margin | neg | neg | neg | neg | neg | neg | 10% | 15% |

Source: AAC Microtec, Redeye Research

Further Comments to the forecasts

*15-20% market share
quite feasible*

Our forecasts, where sales in year 2021 is expected to reach SEK 300 million is obviously a rough estimate based on a trend rather than any specific orders. Hence a reality check is in place. SEK 300 million could correspond to some 80-100 CubeSats. That is quite realistic given a total market of ~500 CubeSats per year, which is indicated by several market reports. A market share of 15-20% is not unrealistic. However revenues will also come from services and subsystems, e.g. Sirius avionics etc.

Profitability

*15% EBIT-margin long
term*

Both ÅAC and Clyde say they are aiming for a gross margin of around 50 percent. They haven't really reached that yet, but we think they might as volumes pick up. As for EBIT-margins, we assume around 15 percent as a long term average (given no amortization of intangible assets, see comments further down). Future margins will depend on a number of unknown variables. If for instance the licensing business is very successful it will lift margins considerably since revenues virtually end up at the bottom line. Our assumption is based on a sales mix dominated by their own high-end products, a strong market position, general market dynamics and the competitive situation. 15 percent EBIT-margin can certainly be exceeded in good times, but 2022-29 is a long period that probably will include both ups and downs.

If IFRS accounting is introduced we will be able to track gross margins, but at the moment we are not. Instead we are assuming Raw materials & sourcing to be 30 percent of sales.

Investments

Limited CAPEX

Currently the company has stated they can build up to 40 satellites per year. And capacity can be expanded with rather limited investments. Planned capex for 2018 is only SEK 3 m at this stage Clyde need a bit more space, including clean rooms and staff. Fortunately Glasgow is a good place to source engineers, since it has become a hub for the Scottish space industry. 50 percent annual growth, as our forecast suggests, will require additional investments. We have assumed around SEK 10 m per year 2019-21. Also continued investments in R&D is necessary, partly reflected on the balance sheet and partly in the P&L.

Depreciation and amortization

*Goodwill amortization
will weigh on earnings*

The acquisition of Clyde Space resulted in SEK 380-390 million of goodwill. With ÅACs current accounting principles this will be amortized over 10 years. Consequently depreciation & amortization will be very high in the coming years. The company is planning on switching to IFRS during 2018. If so, some of the goodwill may be assign to other intangible assets. However, total amortization will then probably be much lower. We will adjust our P&L forecasts accordingly. But since this has no cash-flow impact, it will not have any bearing on our valuation.

Valuation

Fair value: SEK 8.3 per share

Our valuation is based on the financial forecasts on page 22 and assumptions for long term growth and profitability shown below. Our DCF model arrives at a fair value around **SEK 570 or 8.3 SEK per share**.

However our sensitivity analysis and our different scenarios for a bull and bear case show that there is quite a wide valuation range, SEK 5-12, depending on future events. See page 27.

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

- 20 percent annual growth. Sales reaching just over SEK 1 billion in year 2028.
- 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 24%.

Our valuation is based on the current number of shares, 68.7 million. The TO1 warrants, with exercise date in the end of May, could add another 4.4 million shares and around SEK 36 million in cash. Strike price is 8.8 SEK and consequently no negative impact in terms of dilution since our fair value is lower. The new cash will add to company value and balance the dilutive effect from a higher number of shares.

WACC

WACC: 12.5%

We are using a discount rate (WACC) of 12.5%. The WACC we use is calculated by applying a number of parameters that, combined, make up the Redeye rating model. The underlying factors are aimed at picking up company-specific risk and involve everything from management and owners to market position and balance sheet. On page 28 we have summarized our conclusions.

These criteria, however, do not include share liquidity and volatility, which sets our WACC calculation apart from most others. We add the risk-free rate to this company-specific risk premium.

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 red 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% | 3.7 | 4.3 | 5.3 | 6.4 | 7.9 |
| 12% | 4.5 | 5.3 | 6.5 | 8.0 | 10.0 |
| 15% | 5.5 | 6.7 | 8.3 | 10.4 | 13.2 |
| 18% | 6.5 | 8.0 | 10.1 | 12.9 | 16.3 |
| 20% | 7.2 | 8.9 | 11.4 | 14.4 | 18.4 |

Source: Redeye Rating

Sensitivity analysis-Sales Growth & WACC

The discount rate (WACC) will naturally also have some impact on valuation. The WACC we are using is generated from Redeye Rating. If the company is performing in line with our forecasts the rating will most certainly improve, which means a lower WACC. Within two years, the WACC may drop to 11-12 percent. This alone would increase fair value by some 20 percent. The rating parameters that we expect to improve within the next year are Profitability and Financial strength, as the company reaches break-even and/or starts showing positive cash flow.

| DCF value per share, SEK | | | | | |
|---------------------------------|-----|-----|------------|------|------|
| Sales CAGR: 2022-29 | | | | | |
| WACC | 10% | 15% | 20% | 25% | 30% |
| 10.5% | 7.1 | 8.9 | 11.4 | 14.7 | 18.9 |
| 11.5% | 6.2 | 7.7 | 9.8 | 12.5 | 16.1 |
| 12.5% | 5.5 | 6.7 | 8.3 | 10.4 | 13.2 |
| 13.5% | 4.9 | 5.9 | 7.3 | 9.1 | 11.5 |
| 14.5% | 4.3 | 5.2 | 6.3 | 7.8 | 9.8 |

Source: Redeye Rating

Peer valuation

There are a number of listed multi-billion companies in the space industry including: Airbus, Boeing and Lockheed Martin. But the only company that we consider to be relevant in terms of valuation is GOMSpace. However, both companies have up until today posted negative results which makes it more difficult to compare the market valuation to a relevant parameter.

In the table below we have listed some facts and figures for the two companies. GOMSpace is a little bigger in terms of revenues and number of employees. But ÅAC is closer to break-even, or at least their deficit was lower in 2017. Both are rather focused on CubeSats and related services. And both have clients around the world.

GOMSpace market cap of almost SEK 2 billion is most likely driven by a couple of large orders and to some extent by the JV Aerial & Maritime. Sky and Space Global placed an order of 200 NanoSats and Aistech signed a framework agreement for 100 satellites. But whether these costumers will be able to finance the purchases remains to be seen. The Aerial & Maritime joint venture is a satellite constellation operator. They also need further funding and our guess is that GOMSpace share of ownership will be diluted gradually. But meanwhile they will be able to sell their satellites to the JV.

GOMSpace market cap is 4x higher which appears unjustified

We haven't dug very deep into GOMSpace and for that reason no clear view of its valuation. A market cap of almost 4x that of ÅAC appears to be quite unjustified. On the other hand it is obvious that large orders are a trigger for the share price. This suggests that the ÅAC share has great potential since they have multiple clients that may place big orders in the future.

| ÅAC Microtec vs GOMSpace | | |
|-------------------------------|---|--|
| SEKm | ÅAC | GOMSpace |
| Market Cap | 481 | 1811 |
| Net cash | 61 | 174 |
| Revenues | 79 * | 96 |
| EBITDA | -19 * | -59 |
| Number of employees | 110 | 176 |
| Products | Subsystems for small satellites, InnoSat and CubeSat platforms | Subsystems and platforms for CubeSats Payloads: Aircraft/ship tracking, camera, radio |
| Other | | JV Aerial & Maritime (39%), satellite constellation operator. |
| Clients/orders (among others) | NSLComm Kepler Communications York Space Outernet Aistech | Sky and Space Global. Order for 200 satellites, value: EUR 48-70 million. Aistech. Framework agreement for 100 satellites, value: up to EUR 12.5 million. SpaceQuest |
| Order book | SEK 85 million (year end) | ~SEK 600-850 million (+) |

* Proforma jan-sep 2017 annualized

Source: ÅAC Microtec, GOMSpace

Scenarios

Our main scenario, under the Base Case heading below, is the starting point for our valuation and provides a fair value **just over SEK 8 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 12 per share**.

Bear

In this scenario we assume a much lower growth rate in 2019-21. Only 30% 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, **just over SEK 5 per share**.

| Bull Case | | | | |
|------------------|-----------|----------------------------|-------|---------------------------------|
| SEKm | Year 2021 | Assumptions years 2022-29: | | DCF-value |
| Revenues | 432 | Revenues year 2029 | 2,572 | Totalt value |
| EBITDA | 98 | CAGR | 25% | 108.7 million shares 1,303 |
| EBITDA-margin | 23% | EBIT-margin | 15% | Per share 12.0 |
| Base Case | | | | |
| SEKm | Year 2021 | Assumptions years 2022-29: | | DCF-value |
| Revenues | 311 | Revenues year 2029 | 1,337 | Totalt value |
| EBITDA | 72 | CAGR | 20% | 68.7 million shares 570 |
| EBITDA-margin | 23% | EBIT-margin | 15% | Per aktie 8.3 |
| Bear Case | | | | |
| SEKm | Year 2021 | Assumptions years 2022-29: | | DCF-value |
| Revenues | 202 | Revenues year 2029 | 867 | Totalt value |
| EBITDA | 34 | CAGR | 20% | 68.7 million shares 357 |
| EBITDA-margin | 17% | EBIT-margin | 15% | Per aktie 5.2 |

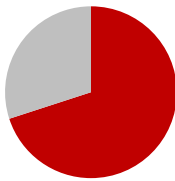
Source: Redeye Research

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.

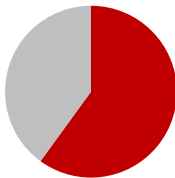
Rating changes in the report: No changes.

Management 7.0p



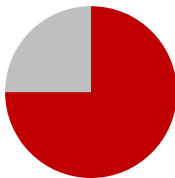
ÅAC now has a strong management team with several very senior members and decades of experience from the international space industry. Since its history as a listed company is short we still cannot fully evaluate parameters like execution and communication. We do think that the corporate culture (of both ÅAC and Clyde) is very result oriented, lean and cost conscious.

Ownership 6.0p



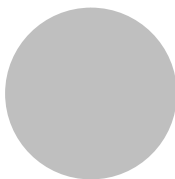
The two principal owners, Craig Clarke and Fouriertransform, represent the entrepreneur and the institution. The chairman of the board also has a significant stake and so do two other board members. The CEO recently bought some shares which means all five members of the management team are share holders.

Profit outlook 7.5p



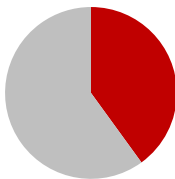
The number of customers is growing and most of the business is repeat orders. The market for small satellites is expected to boom in the coming decade. Sales could very well grow by 50% per annum in the next few years. The company offers reliable, high quality products at a low cost thanks to standardization.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

Profitability 0.0p



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 4.0p



The net cash position is expected to last until operations break-even which we think will occur during 2019. 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 | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------------|------------|------------|------------|------------|------------|
| Net sales | 23 | 13 | 93 | 142 | 209 |
| Total operating costs | -40 | -35 | -106 | -133 | -177 |
| EBITDA | -17 | -21 | -13 | 9 | 32 |
| Depreciation | -2 | -2 | -2 | 0 | -1 |
| Amortization | -4 | -4 | -45 | -44 | -44 |
| Impairment charges | 0 | 0 | 0 | 0 | 0 |
| EBIT | -23 | -27 | -60 | -36 | -13 |
| Share in profits | 0 | 0 | 0 | 0 | 0 |
| Net financial items | -2 | 0 | 0 | 0 | 0 |
| Exchange rate dif. | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | -24 | -27 | -60 | -36 | -13 |
| Tax | 0 | 0 | 0 | 9 | 3 |
| Net earnings | -24 | -27 | -60 | -27 | -10 |

| Balance | 2016 | 2017 | 2018E | 2019E | 2020E |
|---------------------------|------------|-----------|------------|------------|------------|
| Assets | | | | | |
| <i>Current assets</i> | | | | | |
| Cash in banks | 78 | 37 | 27 | 27 | 42 |
| Receivables | 5 | 4 | 10 | 17 | 25 |
| Inventories | 1 | 2 | 8 | 13 | 21 |
| Other current assets | 3 | 3 | 3 | 3 | 3 |
| Current assets | 87 | 46 | 49 | 60 | 91 |
| <i>Fixed assets</i> | | | | | |
| Tangible assets | 1 | 0 | 4 | 12 | 19 |
| Associated comp. | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Intangibles from acq. | 0 | 0 | 339 | 300 | 261 |
| O intangible rights | 15 | 13 | 12 | 12 | 12 |
| O non-current assets | 0 | 0 | 0 | 0 | 0 |
| Total fixed assets | 15 | 14 | 355 | 324 | 292 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 |
| Total (assets) | 102 | 60 | 404 | 384 | 383 |

| | | | | | |
|------------------------------|------------|-----------|------------|------------|------------|
| Liabilities | | | | | |
| <i>Current liabilities</i> | | | | | |
| Short-term debt | 2 | 0 | 0 | 0 | 0 |
| Accounts payable | 3 | 2 | 13 | 20 | 29 |
| O current liabilities | 24 | 14 | 14 | 14 | 14 |
| Current liabilities | 30 | 16 | 27 | 34 | 44 |
| Long-term debt | 2 | 0 | 0 | 0 | 0 |
| O long-term liabilities | 0 | 0 | 0 | 0 | 0 |
| Convertibles | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 32 | 16 | 27 | 34 | 44 |
| Deferred tax liab | 0 | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 70 | 43 | 377 | 350 | 340 |
| Minority interest (BS) | 0 | 0 | 0 | 0 | 0 |
| Minority & equity | 70 | 43 | 377 | 350 | 340 |
| Total liab & SE | 102 | 60 | 404 | 384 | 383 |

| Free cash flow | 2016 | 2017 | 2018E | 2019E | 2020E |
|------------------------|------------|------------|------------|------------|------------|
| Net sales | 23 | 13 | 93 | 142 | 209 |
| Total operating costs | -40 | -35 | -106 | -133 | -177 |
| Depreciations total | -6 | -6 | -47 | -44 | -45 |
| EBIT | -23 | -27 | -60 | -36 | -13 |
| Taxes on EBIT | 0 | 0 | 0 | 9 | 3 |
| NOPLAT | -23 | -27 | -60 | -27 | -10 |
| Depreciation | 6 | 6 | 47 | 44 | 45 |
| Gross cash flow | -17 | -21 | -13 | 17 | 35 |
| Change in WC | 6 | -11 | -2 | -4 | -7 |
| Gross CAPEX | -4 | -4 | -10 | -13 | -13 |
| Free cash flow | -14 | -36 | -25 | 0 | 15 |

| Capital structure | 2016 | 2017 | 2018E | 2019E | 2020E |
|-----------------------|------|------|-------|-------|-------|
| Equity ratio | 69% | 73% | 93% | 91% | 89% |
| Debt/equity ratio | 6% | 0% | 0% | 0% | 0% |
| Net debt | -74 | -37 | -27 | -27 | -42 |
| Capital employed | -3 | 6 | 350 | 323 | 298 |
| Capital turnover rate | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 |

| Growth | 2016 | 2017 | 2018E | 2019E | 2020E |
|------------------|------|------|-------|-------|-------|
| Sales growth | -8% | -42% | 598% | 53% | 48% |
| EPS growth (adj) | -99% | 11% | 2% | -55% | -63% |

| DCF valuation | | Cash flow, MSEK | |
|---------------------------|--------|-------------------------------------|------------|
| WACC (%) | 12.5 % | NPV FCF (2018-2020) | 8 |
| | | NPV FCF (2021-2027) | 117 |
| | | NPV FCF (2028-) | 408 |
| | | Non-operating assets | 37 |
| | | Interest-bearing debt | 0 |
| | | Fair value estimate MSEK | 570 |
| Assumptions 2022-2029 (%) | | | |
| Average sales growth | 20% | Fair value e. per share, SEK | 8.3 |
| EBIT margin | 15% | Share price, SEK | 7.2 |

| Profitability | 2016 | 2017 | 2018E | 2019E | 2020E |
|---------------|-------|-------|-------|-------|-------|
| ROE | 0% | -47% | -28% | -7% | -3% |
| ROCE | -56% | -46% | -28% | -10% | -4% |
| ROIC | -404% | 871% | -965% | -8% | -3% |
| EBITDA margin | -73% | -161% | -14% | 6% | 15% |
| EBIT margin | -99% | -203% | -64% | -25% | -6% |
| Net margin | -106% | -203% | -64% | -19% | -5% |

| Data per share | 2016 | 2017 | 2018E | 2019E | 2020E |
|----------------|-------|-------|-------|-------|-------|
| EPS | -0.77 | -0.85 | -0.87 | -0.39 | -0.14 |
| EPS adj | -0.77 | -0.85 | -0.87 | -0.39 | -0.14 |
| Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net debt | -2.32 | -1.17 | -0.39 | -0.39 | -0.61 |
| Total shares | 31.70 | 31.70 | 68.70 | 68.70 | 68.70 |

| Valuation | 2016 | 2017 | 2018E | 2019E | 2020E |
|-------------|-------|-------|-------|-------|-------|
| EV | -73.5 | -37.2 | 467.8 | 468.0 | 452.7 |
| P/E | 0.0 | 0.0 | -8.3 | -18.3 | -49.7 |
| P/E diluted | 0.0 | 0.0 | -8.3 | -18.3 | -49.7 |
| P/Sales | 0.0 | 0.0 | 5.3 | 3.5 | 2.4 |
| EV/Sales | -3.2 | -2.8 | 5.0 | 3.3 | 2.2 |
| EV/EBITDA | 4.4 | 1.7 | -35.1 | 54.1 | 14.2 |
| EV/EBIT | 3.3 | 1.4 | -7.8 | -13.2 | -34.6 |
| P/BV | 0.0 | 0.0 | 1.3 | 1.4 | 1.5 |

| Share performance | | Growth/year | 15/17 |
|-------------------------|---------|----------------------|---------|
| 1 month | 2.9 % | Net sales | 101.6 % |
| 3 month | -19.6 % | Operating profit adj | 62.7 % |
| 12 month | 33.3 % | EPS, just | 6.6 % |
| Since start of the year | -28.7 % | Equity | 131.3 % |

| Shareholder structure % | Capital | Votes |
|----------------------------|---------|--------|
| Fouriertransform AB | 14.4 % | 14.4 % |
| Craig Clark | 13.9 % | 13.9 % |
| Nevis Capital LLP | 12.5 % | 12.5 % |
| Corallin LLP | 12.4 % | 12.4 % |
| RP Ventures AB | 4.0 % | 4.0 % |
| Avanza Pension | 3.3 % | 3.3 % |
| BNY MELLON SA/NV | 2.8 % | 2.8 % |
| Nordnet Pensionsförsäkring | 2.7 % | 2.7 % |

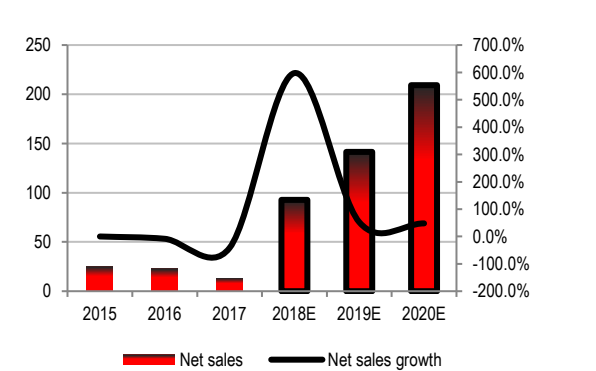
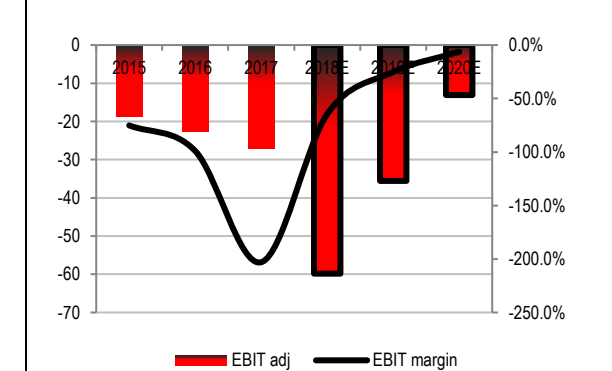
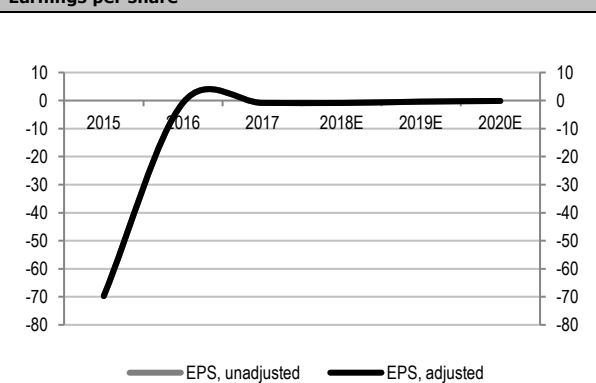
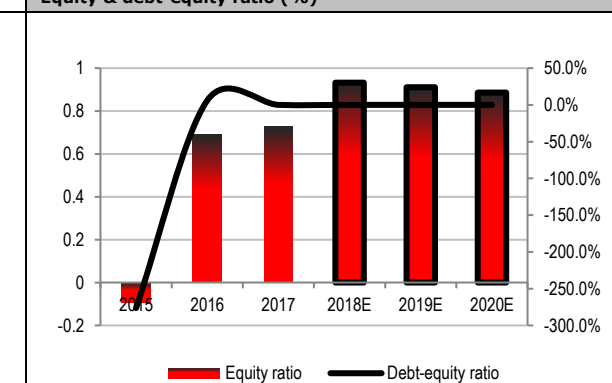
| Share information | |
|-----------------------|--------------------|
| Reuters code | AAC.ST |
| List | Nasdaq First North |
| Share price | 7.2 |
| Total shares, million | 68.7 |
| Market Cap, MSEK | 494.6 |

| Management & board | |
|--------------------|-------------------|
| CEO | Alfonso Barreiro |
| CFO | Mats Thideman |
| IR | Barreiro/Thideman |
| Chairman | Rolf Hallencreutz |

| Financial information | |
|-----------------------|-------------------|
| Q2 report | August 23, 2018 |
| Q3 report | November 22, 2018 |

| Analysts | Redeye AB |
|---------------------------|------------------------------|
| Henrik Alveskog | Mäster Samuelsgatan 42, 10tr |
| henrik.alveskog@redeye.se | 111 57 Stockholm |

Dennis Berggren
dennis.berggren@redeye.se

| Revenue & Growth (%) | EBIT (adjusted) & Margin (%) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|------------------------------|-----------------------|----------------------|------|-----|------|------|-----|-----|------|-----|-------|-------|-----|-------|-------|------|------|-------|------|------|---|------|------------------|-----------------------|------|-------|--------|------|------|--------|------|------|--------|-------|------|-------|-------|------|-----|-------|------|-----|
|  <p>Net sales (red bars) and Net sales growth (black line) from 2015 to 2020E. Net sales are shown in million SEK on the left axis (0-250), and Net sales growth is shown in percentage on the right axis (-200.0% to 700.0%).</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Net sales (M SEK)</th> <th>Net sales growth (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~25</td> <td>~5%</td> </tr> <tr> <td>2016</td> <td>~25</td> <td>~5%</td> </tr> <tr> <td>2017</td> <td>~15</td> <td>~-10%</td> </tr> <tr> <td>2018E</td> <td>~95</td> <td>~550%</td> </tr> <tr> <td>2019E</td> <td>~145</td> <td>~50%</td> </tr> <tr> <td>2020E</td> <td>~210</td> <td>~50%</td> </tr> </tbody> </table> | Year | Net sales (M SEK) | Net sales growth (%) | 2015 | ~25 | ~5% | 2016 | ~25 | ~5% | 2017 | ~15 | ~-10% | 2018E | ~95 | ~550% | 2019E | ~145 | ~50% | 2020E | ~210 | ~50% |  <p>EBIT adj (red bars) and EBIT margin (black line) from 2015 to 2020E. EBIT adj is shown in million SEK on the left axis (-70 to 0), and EBIT margin is shown in percentage on the right axis (-250.0% to 0.0%).</p> <table border="1"> <thead> <tr> <th>Year</th> <th>EBIT adj (M SEK)</th> <th>EBIT margin (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~-15</td> <td>~-20%</td> </tr> <tr> <td>2016</td> <td>~-25</td> <td>~-100%</td> </tr> <tr> <td>2017</td> <td>~-35</td> <td>~-200%</td> </tr> <tr> <td>2018E</td> <td>~-60</td> <td>~-10%</td> </tr> <tr> <td>2019E</td> <td>~-35</td> <td>~0%</td> </tr> <tr> <td>2020E</td> <td>~-15</td> <td>~0%</td> </tr> </tbody> </table> | Year | EBIT adj (M SEK) | EBIT margin (%) | 2015 | ~-15 | ~-20% | 2016 | ~-25 | ~-100% | 2017 | ~-35 | ~-200% | 2018E | ~-60 | ~-10% | 2019E | ~-35 | ~0% | 2020E | ~-15 | ~0% |
| Year | Net sales (M SEK) | Net sales growth (%) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | ~25 | ~5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | ~25 | ~5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | ~15 | ~-10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018E | ~95 | ~550% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019E | ~145 | ~50% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020E | ~210 | ~50% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | EBIT adj (M SEK) | EBIT margin (%) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | ~-15 | ~-20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | ~-25 | ~-100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | ~-35 | ~-200% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018E | ~-60 | ~-10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019E | ~-35 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020E | ~-15 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>EPS, unadjusted (grey line) and EPS, adjusted (black line) from 2015 to 2020E. Both are shown in SEK on the left axis (-80 to 10).</p> <table border="1"> <thead> <tr> <th>Year</th> <th>EPS, unadjusted (SEK)</th> <th>EPS, adjusted (SEK)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~0</td> <td>~-75</td> </tr> <tr> <td>2016</td> <td>~0</td> <td>~5</td> </tr> <tr> <td>2017</td> <td>~0</td> <td>~0</td> </tr> <tr> <td>2018E</td> <td>~0</td> <td>~0</td> </tr> <tr> <td>2019E</td> <td>~0</td> <td>~0</td> </tr> <tr> <td>2020E</td> <td>~0</td> <td>~0</td> </tr> </tbody> </table> | Year | EPS, unadjusted (SEK) | EPS, adjusted (SEK) | 2015 | ~0 | ~-75 | 2016 | ~0 | ~5 | 2017 | ~0 | ~0 | 2018E | ~0 | ~0 | 2019E | ~0 | ~0 | 2020E | ~0 | ~0 |  <p>Equity ratio (red bars) and Debt-equity ratio (black line) from 2015 to 2020E. Equity ratio is shown on the left axis (-0.2 to 1), and Debt-equity ratio is shown on the right axis (-300.0% to 50.0%).</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Equity ratio</th> <th>Debt-equity ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~-0.1</td> <td>~-250%</td> </tr> <tr> <td>2016</td> <td>~0.7</td> <td>~0%</td> </tr> <tr> <td>2017</td> <td>~0.7</td> <td>~0%</td> </tr> <tr> <td>2018E</td> <td>~0.9</td> <td>~0%</td> </tr> <tr> <td>2019E</td> <td>~0.9</td> <td>~0%</td> </tr> <tr> <td>2020E</td> <td>~0.9</td> <td>~0%</td> </tr> </tbody> </table> | Year | Equity ratio | Debt-equity ratio (%) | 2015 | ~-0.1 | ~-250% | 2016 | ~0.7 | ~0% | 2017 | ~0.7 | ~0% | 2018E | ~0.9 | ~0% | 2019E | ~0.9 | ~0% | 2020E | ~0.9 | ~0% |
| Year | EPS, unadjusted (SEK) | EPS, adjusted (SEK) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | ~0 | ~-75 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | ~0 | ~5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | ~0 | ~0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018E | ~0 | ~0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019E | ~0 | ~0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020E | ~0 | ~0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year | Equity ratio | Debt-equity ratio (%) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2015 | ~-0.1 | ~-250% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2016 | ~0.7 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2017 | ~0.7 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2018E | ~0.9 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019E | ~0.9 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020E | ~0.9 | ~0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sales division | Geographical areas | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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. | Company description | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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Redeye Rating (2018-05-28)

| Rating | Management | Ownership | Profit outlook | Profitability | Financial Strength |
|--------------|------------|-----------|----------------|---------------|--------------------|
| 7,5p - 10,0p | 46 | 45 | 17 | 10 | 20 |
| 3,5p - 7,0p | 76 | 68 | 106 | 34 | 47 |
| 0,0p - 3,0p | 14 | 23 | 13 | 92 | 69 |
| Company N | 136 | 136 | 136 | 136 | 136 |

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