

# ÅAC Microtec

Sector: Technology

## Growth plan on track

### Q2-numbers essentially in line

Net sales in Q2 was SEK 22 m and total turnover SEK 25 m, which is somewhat higher than we anticipated. EBITDA of minus SEK 6 m is however slightly below our forecast. ÅAC states in the report that the reason is some "challenges in one of the larger projects", which they expect to have resolved shortly. Cost items raw material & sourcing was higher while costs for staff and depreciation & amortization was in line with our estimates.

### Company guidance for 2018 unchanged

Overall we believe ÅAC is on track with their growth plan. Both short term (2018 full year turnover SEK 85 m and positive EBITDA in Q4 is reiterated), and continued expansion in the coming years. In Q2 they announced a number of orders at a total value of SEK 26 m. The pace is encouraging but also a requirement for continued growth, even if all orders are not announced.

The news flow has been a bit slower so far in Q3. One order for Sirius avionics (order value SEK 1.4 m) and one from Kepler Communication (order value SEK 3.5 m) have been announced so far. But we certainly expect a number of new business announcements during the fall. Orders from companies that are planning to build larger constellations of satellites are of course the most interesting.

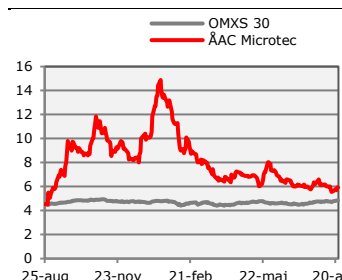
### Estimates and valuation basically unchanged

The second quarter report and recent business events do not cause us to make any significant changes in our financial estimates or valuation. We initiated our coverage of ÅAC Microtec in May 2018 and so far the company seems to develop according to plan. Consequently our valuation has not changed and our base case scenario indicates a fair value around SEK 8.5 per share. However the valuation range for our bear and bull case is quite wide, SEK 5-12.

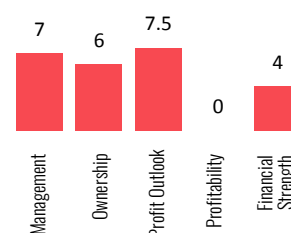
### FAIR VALUE RANGE

BEAR	BASE	BULL
5.2	8.5	12.0

### VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	AAC.ST
Market	First North
Share Price (SEK)	5.8
Market Cap (MSEK)	401
Net Cash 18E (MSEK)	26
Free Float	43 %
Avg. daily volume ('000)	200

### ANALYSTS

Henrik Alveskog  
henrik.alveskog@redeye.se  
Dennis Berggren  
dennis.berggren@redeye.se

KEY FINANCIALS (MSEK)	2016	2017	2018E	2019E	2020E	2021E
Net sales	23	13	95	142	209	311
EBIT	-23	-27	-62	-35	-13	28
EBITDA	-17	-21	-14	10	32	72
EPS (adj.)(SEK)	-0.8	-0.9	-0.9	-0.4	-0.1	0.3
EV/Sales	-3.2	-2.8	4.0	2.6	1.7	1.1
EV/EBIT	3.3	1.4	-6.1	-10.7	-26.9	12.0
EV/EBITDA	4.4	1.7	-26.0	39.0	11.2	4.7
P/E	0.0	0.0	-6.5	-15.1	-39.4	18.7

Source: Redeye Research

## Growth plan on track

Second quarter sales include SEK 14 m from Clyde Space while ÅAC's parent company contributed with SEK 8 m adding up to net sales of SEK 22 m. Other income is mainly the P&L recognition of a UK tax repayment. This is a tax relief supporting companies that work with projects making advances in science and technology. The total amount is GBP 570 000 which the company expects to receive in Q3 2018. As mentioned costs were a little higher than we anticipated in the quarter due to some problems in one specific project. Other than that, the Q2-numbers were in line with our expectations.

Actual vs Expected				
SEK m	Q2'17	Q2'18E	Actual	Diff
Net sales	5.0	21.0	22.1	5%
Other income	1.2	1.5	3.1	>100%
Total revenues	6.2	22.5	25.2	12%
EBITDA	-4.8	-4.1	-5.6	n.m.
EBIT	-6.1	-16.6	-18.4	n.m.
Net earnings	-6.1	-16.6	-18.7	n.m.

Source: ÅAC Microtec, Redeye Research

A large number of big constellations have been announced over the last few years. They will probably not all be deployed according to plan, since many of them still need funding. But in addition to the ones we have listed below there will most certainly be others that we don't know about today. Actually, ÅAC mentioned in the Q2-report that they received orders from Japan, South America and Spain from clients who are planning to build constellations. The Spanish company is Aistech but the identity of the Japanese and the South American companies are still unknown to us.

The three companies and projects that we have highlighted in the table below are customers to ÅAC/Clyde. They are the preferred supplier to NSLComm and Kepler. Aistech is a relatively new client who recently ordered subsystems for 10 satellites.

Major satellite constellations (announced)			
Owner/operator	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
NSLComm	2018--	60-100	Internet
Kepler Communications	2018--	140	Data Backhaul
Aistech	2018-22	100	IoT, IR Imaging
Telesat Canada	2018--	117	Communication
Fleet Space	2018--	100	IoT
BlackSky	2018--	60	Imagery, Data

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

## Financial forecasts & Valuation

We are only making minor adjustments to our estimates since the Q2-report was basically in line with our expectations and market conditions in general haven't changed. Also, the company reiterates its guidance for 2018. Considering the rather long lead times in the satellite industry, most of the deliveries that are due in H2 this year are probably already scheduled, giving management good transparency into their business pipe-line.

### 50% CAGR in 2019-21

We expect sales to grow rapidly over the next few years. The company has a large number of clients and certainly also several prospects. The global NanoSat market (ÅACs core market) is expected to grow vigorously in the coming years (CAGR 40% 2018-21). We believe ÅAC 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%.

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

We believe ÅAC 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, corresponding to ~17% EBITDA-margin. Both ÅAC and Clyde have stated that they are aiming for gross margins of around 50 percent. For a fast growing industry such as this, with a limited number of players and high barriers of entry, this appears to be realistic. With economies of scale, 15-20 percent EBIT-margins should then be within reach.

We do not include any further acquisitions in our forecasts since that would only add to uncertainty. We are however convinced that they will make more acquisition, but can only speculate in what and when.

P&L, historical and forecast								
	2016	2017	Q1-Q3	2018E	2019E	2020E	2021E	2022-29E
SEK m	Proforma							
<b>Net sales</b>	<b>23</b>	<b>13</b>	<b>50</b>	<b>88</b>	<b>136</b>	<b>203</b>	<b>305</b>	CAGR: 20%
Other income	4	4	9	7	6	6	6	
<b>Total turnover</b>	<b>27</b>	<b>18</b>	<b>59</b>	<b>95</b>	<b>142</b>	<b>209</b>	<b>311</b>	
Raw material & sourcing	-8	-5	-17	-29	-41	-61	-91	
Staff	-24	-21	-40	-58	-63	-76	-92	
Other external costs	-12	-13	-16	-22	-28	-40	-56	
Depreciation and amortization	-6	-6	-27	-48	-45	-45	-41	
<b>EBITDA</b>	<b>-17</b>	<b>-21</b>	<b>-15</b>	<b>-14</b>	<b>10</b>	<b>32</b>	<b>72</b>	
<b>EBIT</b>	<b>-23</b>	<b>-27</b>	<b>-42</b>	<b>-62</b>	<b>-35</b>	<b>-13</b>	<b>31</b>	
Sales growth	neg	neg	n.a.	n.a.	50%	50%	50%	20%
EBITDA-margin	neg	neg	neg	neg	7%	16%	24%	Approx: 17%
EBIT-margin	neg	neg	neg	neg	neg	neg	10%	15%

Source: ÅAC Microtec, Redeye Research

## Valuation

Our valuation is based on the financial forecasts on the previous page and assumptions for long term growth and profitability shown below. Our DCF model arrives at a fair value around **SEK 585 or 8.5 SEK per share**.

This is on par with our previous valuation since our estimates are virtually unchanged and other assumptions for our valuation remain the same. 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 next page.

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%.

### 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%	3.8	4.4	5.4	6.5	8.1
12%	4.6	5.4	6.6	8.2	10.3
15%	5.6	6.9	<b>8.5</b>	10.7	13.6
18%	6.7	8.2	10.4	13.3	16.9
20%	7.4	9.1	11.7	14.8	19.0

Source: Redeye Rating

### 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 8 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.

## Scenarios

Our main scenario, under the Base Case heading below, is the starting point for our valuation and provides a fair value of about **SEK 8.5 per share**. We have also outlined two other possible outcomes. These scenarios are both entirely possible, albeit clearly positive or negative.

### Bull

ÅAC-Clyde appears to be aiming much higher than our base case. Also they intend to make another acquisition in order to accelerate their growth. This may certainly happen but M&A is something that we can only pencil into our Bull case scenario. We include one rather big acquisition that will add to sales and improve market position. Hence 25% CAGR 2022-29 (instead of 20%). This acquisition is financed by a rights issue of 40 million shares. Fair value in this scenario would be around **SEK 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%	<b>Per share 12.0</b>
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 585
EBITDA-margin	23%	EBIT-margin	15%	<b>Per share 8.5</b>
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%	<b>Per share 5.2</b>

Source: Redeye Research

## Investment Case

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

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

### **New Space is creating vast opportunities**

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

### **The market for small satellites is booming**

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

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

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

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

1. Quality products and long list of references. Both ÅAC and Clyde have products with several years of flawless flight heritage. Clyde Space has delivered over 2000 subsystems and claims over 500 years of aggregated flight heritage. The combined list of quality clients and projects between ÅAC and Clyde is second to none in the Smallsat industry including: NASA, ESA, Airbus, US Air Force, Raytheon, NEC/Toshiba, UK Space Agency, SNSA (Rymdstyrelsen) and many more.
2. Growing customer base placing repeat orders. Clyde Space is primarily focused on CubeSats and have participated in 30-40% of all CubeSat missions to date. Around 70% of their business is repeat orders and some

of their clients are planning to launch major constellations of satellites over the next few years. E.g. Kepler Communication, NSLComm, SRT Marine, Outernet, York Space Systems.

3. Scalable low cost production. The company's vision is to produce large quantities of reliable CubeSats at affordable prices. Hence their products are designed to allow for low-cost mass-production. Currently there is a shortage of manufacturing capacity to meet the anticipated pick-up in demand. Being able to offer reliable products with short lead times would certainly give a competitive edge.
4. Strong management. In the Nano/CubeSat segment many of the manufacturers are new small companies spun out of universities. Compared to ÅAC they do not appear to have the management, nor the ambition, to take on an industrial approach to grow their business. After the last years' recruitments, including the merger with Clyde Space, the company has a strong management team capable of taking on a leading role in their industry. Being a listed company is also an advantage when expanding the business, particularly in case of an acquisition.

## Counter thesis/Bear points:

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

## Key Catalysts:

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

## Summary Redeye Rating

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

### Rating changes in the report: No changes

#### **Management: 7.0**

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: 6.0**

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

#### **Profit Outlook: 7.5**

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

#### **Profitability: 0.0**

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

#### **Financial Strength: 4.0**

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	95	142	209
Total operating costs	-40	-35	-109	-132	-177
EBITDA	-17	-21	-14	10	32
Depreciation	-2	-2	-3	0	-1
Amortization	-4	-4	-44	-44	-44
Impairment charges	0	0	0	0	0
EBIT	-23	-27	-62	-35	-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	-62	-35	-13
Tax	0	0	0	8	3
Net earnings	-24	-27	-62	-27	-10

BALANCE SHEET	2016	2017	2018E	2019E	2020E
Assets					
<i>Current assets</i>					
Cash in banks	78	37	26	26	42
Receivables	5	4	10	17	25
Inventories	1	2	9	13	21
Other current assets	3	3	3	3	3
Current assets	87	46	48	59	91
<i>Fixed assets</i>					
Tangible assets	1	0	3	11	18
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	341	302	263
Intangible rights	15	13	10	10	10
Non-current assets	0	0	0	0	0
Total fixed assets	15	14	354	323	291
Deferred tax assets	0	0	0	0	0
Total (assets)	102	60	402	382	382
Liabilities					
<i>Current liabilities</i>					
Short-term debt	2	0	0	0	0
Accounts payable	3	2	13	20	29
Other current liabilities	24	14	14	14	14
Current liabilities	30	16	28	34	44
Long-term debt	2	0	0	0	0
Other long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	32	16	28	34	44
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	70	43	375	348	338
Minority interest (BS)	0	0	0	0	0
Minority & equity	70	43	375	348	338
Total liab & SE	102	60	402	382	382

FREE CASH FLOW	2016	2017	2018E	2019E	2020E
Net sales	23	13	95	142	209
Total operating costs	-40	-35	-109	-132	-177
Depreciations total	-6	-6	-47	-45	-45
EBIT	-23	-27	-62	-35	-13
Taxes on EBIT	0	0	0	8	3
NOPLAT	-23	-27	-62	-27	-10
Depreciation	6	6	47	45	45
Gross cash flow	-17	-21	-14	18	35
Change in WC	6	-11	-2	-4	-7
Gross CAPEX	-4	-4	-12	-13	-13
Free cash flow	-14	-36	-29	1	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	-26	-26	-42
Capital employed	-3	6	349	322	296
Capital turnover rate	0.2	0.2	0.2	0.4	0.5

GROWTH	2016	2017	2018E	2019E	2020E
Sales growth	-8%	-42%	613%	49%	48%
EPS growth (adj)	-99%	11%	6%	-57%	-62%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	12.5 %	NPV FCF (2018-2020)	8
		NPV FCF (2021-2027)	120
		NPV FCF (2028-)	420
		Non-operating assets	37
		Interest-bearing debt	0
		Fair value estimate MSEK	585

Assumptions 2022-2029 (%)			
Average sales growth	20 %	Fair value e. per share, SEK	8.5
EBIT margin	15 %	Share price, SEK	5.8

PROFITABILITY	2016	2017	2018E	2019E	2020E
ROE	0%	-47%	-30%	-7%	-3%
ROCE	-56%	-46%	-30%	-10%	-4%
ROIC	-404%	871%	-997%	-8%	-3%
EBITDA margin	-73%	-161%	-15%	7%	15%
EBIT margin	-99%	-203%	-65%	-25%	-6%
Net margin	-106%	-203%	-65%	-19%	-5%

DATA PER SHARE	2016	2017	2018E	2019E	2020E
EPS	-0.77	-0.85	-0.90	-0.39	-0.15
EPS adj	-0.77	-0.85	-0.90	-0.39	-0.15
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-2.32	-1.17	-0.37	-0.38	-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	374.9	374.1	358.8
P/E	0.0	0.0	-6.5	-15.1	-39.4
P/E diluted	0.0	0.0	-6.5	-15.1	-39.4
P/Sales	0.0	0.0	4.2	2.8	1.9
EV/Sales	-3.2	-2.8	4.0	2.6	1.7
EV/EBITDA	4.4	1.7	-26.0	39.0	11.2
EV/EBIT	3.3	1.4	-6.1	-10.7	-26.9
P/BV	0.0	0.0	1.1	1.2	1.2

SHARE PERFORMANCE		GROWTH/YEAR	15/17
1 month	-6.0 %	Net sales	103.9 %
3 month	-19.0 %	Operating profit adj	65.4 %
12 month	28.4 %	EPS, just	8.3 %
Since start of the year	-42.3 %	Equity	130.7 %

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	3.9 %	3.9 %
Avanza Pension	3.3 %	3.3 %
BNY MELLON SA/NV	2.8 %	2.8 %
Nordnet Pensionsförsäkring	2.7 %	2.7 %

2018-03-30

SHARE INFORMATION	
Reuters code	AAC:ST
List	Nasdaq First North
Share price	5.8
Total shares, million	68.7
Market Cap, MSEK	400.5

MANAGEMENT & BOARD	
CEO	Alfonso Barreiro
CFO	Mats Thideman
IR	Barreiro/Thideman
Chairman	Rolf Hallencreutz

FINANCIAL INFORMATION	
Q3 report	November 22, 2018
FY 2018 Results	February 21, 2019

ANALYSTS	
Henrik Alveskog	Mäster Samuelsgatan 42, 101r
henrik.alveskog@redeye.se	111 57 Stockholm

Dennis Berggren	
dennis.berggren@redeye.se	

## Redeye Rating and Background Definitions

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

### Company Qualities

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

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

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

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

### Management

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

### Ownership

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

### Profit Outlook

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

### Profitability

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

### Financial Strength

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

## Redeye Equity Research team

### Management

**Björn Fahlén**

bjorn.fahlen@redeye.se

**Håkan Östling**

hakan.ostling@redeye.se

### Technology Team

**Henrik Alveskog**

henrik.alveskog@redeye.se

**Dennis Berggren**

dennis.berggren@redeye.se

**Havan Hanna**

havan.hanna@redeye.se

**Kristoffer Lindström**

kristoffer.lindstrom@redeye.se

**Eddie Palmgren**

eddie.palmgren@redeye.se

**Tomas Otterbeck**

tomas.otterbeck@redeye.se

**Johan Svantesson**

johan.svantesson@redeye.se

**Viktor Westman**

viktor.westman@redeye.se

### Editorial

**Eddie Palmgren**

eddie.palmgren@redeye.se

**Jim Andersson**

jim.andersson@redeye.se

**Ludvig Svensson**

ludvig.svensson@redeye.se

### Life Science Team

**Anders Hedlund**

anders.hedlund@redeye.se

**Arvid Necander**

arvid.necander@redeye.se

**Klas Palin**

klas.palin@redeye.se

**Mathias Spinnars**

mathias.spinnars@redeye.se

**Erik Nordström (Trainee)**

erik.nordstrom@redeye

## Disclaimer

### Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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### Redeye Rating (2018-08-26)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	43	45	18	10	19
3,5p - 7,0p	79	71	106	33	46
0,0p - 3,0p	15	21	13	94	72
Company N	137	137	137	137	137

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### CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Dennis Berggren owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.