ÅAC Microtec

Sector: Technology

Sales dip in Q3, but is set to rebound

Net sales in Q3 was only SEK 10 m which is about half of the preceding quarters' level (SEK 22 m in Q2-18). A surprisingly big drop and as a consequence earnings were also way lower than we expected. But we understand that the fluctuations can be significant and that we probably shouldn't read too much into the quarterly numbers.

According to ÅAC guidance, Q4 will be on a completely different level. Several quite substantial deals that were announced earlier in 2018 are scheduled for delivery towards the end of this year. ÅAC has received a number of new orders and also signed an MOU with US company Ball Aerospace, which certainly could be a game changer if this new partnership turns out well.

2018 guidance unchanged

ÅACs' guidance for 2018 full year turnover of SEK 85 m and positive EBITDA in Q4 is unchanged. Given the nature of the business they can probably make a rather accurate assessment at this point in time. So obviously Q4 will be busy in terms of shipping (and invoicing).

IFRS and main market listing

IFRS accounting is applied as of Q3. The main reason is that ÅAC has initiated the process of transferring the listing of it's shares from First North to Nasdaq Stockholm's main market. This has virtually no impact on revenues and EBITDA, hence guidance is not affected. The main change is that amortization from the Clyde acquisition will be much lower since goodwill is not amortized.

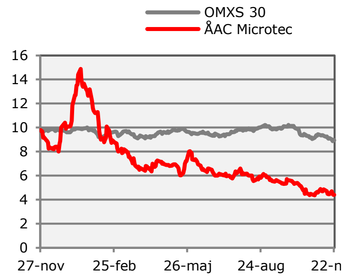
Minor changes in estimates and valuation

Our visibility into next year's orders and deliveries is quite limited but management seems confident and optimistic about business opportunities. We are now somewhat more cautious on next years' growth pace since we haven't yet seen a strong enough order book. Our base case fair value is now around SEK 7.4 per share. However the valuation range for our bear and bull case is quite wide, SEK 5-12.

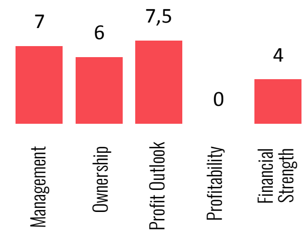
FAIR VALUE RANGE

BEAR	BASE	BULL
4.8	7.4	12.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	AAC.ST
Market	Nasdaq First
Share Price (SEK)	4.4
Market Cap (MSEK)	303
Net Cash 18E (MSEK)	23
Free Float	43 %
Avg. daily volume ('000)	200

KEY FINANCIALS (SEKm)	2016	2017	2018E	2019E	2020E	2021E
Net sales	23	13	86	120	178	265
EBITDA	-17	-21	-18	1	17	49
EBIT	-23	-27	-33	-9	6	38
EPS (adj.)	-0.8	-0.9	-0.5	-0.1	0.1	0.5
EV/Sales	8.9	24.6	3.3	2.4	1.7	1.1
EV/EBITDA	-12.1	-15.3	-15.8	281.6	17.4	5.8
EV/EBIT	-8.9	-12.1	-8.4	-33.7	49.0	7.5
P/E	-11.3	-13.5	-9.1	-38.8	55.9	8.8

ANALYSTS

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

Sales dip in Q3, but is set to rebound

Second quarter numbers were not even close to our estimates. Compared with Q2 (when Clyde was included for the full quarter) sales in Q3 were 50 percent lower. It's difficult to fully understand why, although seasonality has some impact. Summer holidays means lower activity in some of the larger projects were ÅAC receives revenues as certain milestones are completed.

The EBITDA loss of SEK 14 m is obviously mostly due to lower revenues. ÅAC also reports that they still have higher costs due to problems in the same project that was mentioned in the Q2-report. This project is however not of the magnitude that it will jeopardize positive EBITDA in Q4, according to management.

We were a little surprised to see that the number of employees is down to 90 from around 100 in the spring. According to ÅAC this is due to the company's transition from development to a commercial phase. They will probably hire more people as volumes are picking up. There is no doubt that ÅAC is planning for expansion.

ÅAC Microtec: Expected vs. Actual

(SEKm)	Q2'18	Q3' 18 Actual	Q3'18E	Diff
Net sales	22.1	10.5	20.0	-48%
Other income	3.1	1.4	1.0	
Total revenues	25.2	11.8	21.0	-44%
EBITDA	-5.6	-13.8	-5.0	n.a.
EBIT	-9.7	-17.9	-9.1	n.a.
Pre-tax profit	-9.8	-18.1	-9.1	n.a.
Revenue growth Q/Q	42%	-53%	-10%	
EBITDA margin	neg	neg	neg	
EBIT margin	neg	neg	neg	

Source: ÅAC Microtec, Redeye Research

Recent business high lights:

- ÅAC signed an MOU with Ball Aerospace. So far, all we know is that they will have "open-ended discussions to explore market opportunities" including both Clyde and ÅAC products. We are not too surprised since cooperations are very common in the satellite industry. Hopefully this can be a ticket in to some really big business in the US, but our guess is that it will take some time before anything substantial comes out.
- First order from Mauritius for a 1U-cubesat to be delivered in 2019. Order value approximately SEK 3.8 million.
- Order for Sirius avionics. Order value app. SEK 1 m and delivery in December 2018.
- A new Asian client placed an order for ÅAC power systems. Order value is appoximately SEK 5.2 million and deliveries are due in 2019.
- Follow-on order from Kepler Communication for a 6U platform to be delivered in Q3 2019. Order value SEK 3.5 million.
- Follow-on order from Japan for Sirius avionics subsystem. Deliveries in Q4 2018 and order value approximately SEK 1.4 million.

Financial forecasts & Valuation

Slower growth 2019E due to lack of orders annonuced

We are now making some adjustments in our near term growth projections. Regarding 2018 the only reason is the lower than expected Q3-sales. Our Q4 estimate is aligned with ÅAC's own full year forecast. Going into 2019 we still expect robust growth but haven't seen quite enough in terms of announced orders to support our previous estimates. Hopefully some larger orders will materialize soon, but for obvious reasons these normally have longer lead times.

CAGR 2019-21 ~50%

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 around 50% annual sales growth until year 2021. For the period 2022-29 we have assumed a CAGR of 20%.

ÅAC has clearly stated that they are looking for acquisitions, primarily in the US. We do not include this in our forecasts since it would most likely require financing partly by raising new equity and would only add to uncertainty.

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

Net cash SEK 21 million

Net cash position by end of Q3 was SEK 21 m. This should be sufficient to bring ÅAC to positive cash flow if they follow their growth plan. But there seems to be limited room for any major set-backs.

P&L, historical and forecast

SEK m	2016	2017	Q1-Q3 Proforma	2018E	2019E	2020E	2021E	2022-29E
Net sales	**23**	**13**	**50**	**79**	**115**	**173**	**260**	CAGR: 20%
Other income	4	4	9	7	5	5	5	
Total turnover	**27**	**18**	**59**	**86**	**120**	**178**	**265**	
Raw material & sourcing	-8	-5	-17	-26	-35	-52	-78	
Staff	-24	-21	-40	-55	-59	-69	-82	
Other external costs	-12	-13	-16	-23	-26	-40	-56	
Depriciation and amortization	-6	-6	-27	-16	-10	-11	-11	
EBITDA	**-17**	**-21**	**-15**	**-18**	**1**	**17**	**49**	
EBIT	**-23**	**-27**	**-42**	**-33**	**-9**	**6**	**38**	
Sales growth	neg	neg	n.a.	n.a.	40%	50%	50%	20%
EBITDA-margin	neg	neg	neg	neg	1%	10%	19%	Approx: 17%
EBIT-margin	neg	neg	neg	neg	neg	3%	15%	15%

Source: ÅAC Microtec, Redeye Research

Valuation

Fair value: ~SEK 7.4 per share

Our valuation is based on the financial forecasts on the previous page and assumptions for long term growth and profitability shown below. Our DCF model arrives at a fair value just over SEK 500 million or 7.4 SEK per share.

In our most recent research update, as of August 26 2018, the corresponding value was SEK 8.5 per share. The difference is mainly explained by a slightly slower growth trajectory 2018-19. Other assumptions regarding long term growth rates and profitability are unchanged. The sensitivity analysis and our different scenarios for a bull and bear case indicate quite a wide valuation range, SEK 5-12 per share, depending on future events. See next page.

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

- 20 percent annual growth. Sales reaching just under 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 23%.

Sensitivity analysis-Sales Growth & EBIT-margins

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

	DCF value per share, SEK				
	Sales CAGR: 2022-29				
EBIT-margin	10%	15%	20%	25%	30%
10%	3.1	3.8	4.6	5.7	7.1
12%	3.8	4.6	5.7	7.3	9.2
15%	4.7	6.0	**7.4**	9.5	12.1
18%	5.7	7.3	9.2	11.7	15.1
20%	6.2	8.1	10.3	13.3	17.2

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 7.4 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, approximately 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	265	Revenues year 2029	1,139	Totalt value	
EBITDA	49	CAGR	20%	68.7 million shares	506
EBITDA-margin	19%	EBIT-margin	15%	**Per share**	**7.4**
Bear Case					
SEKm	**Year 2021**	**Assumptions years 2022-29:**		**DCF-value**	
Revenues	188	Revenues year 2029	803	Totalt value	
EBITDA	32	CAGR	20%	68.7 million shares	330
EBITDA-margin	17%	EBIT-margin	15%	**Per share**	**4.8**

Source: Redeye Research

Investment Case

- New Space is creating vast opportunities and a dynamic business environment. The market for smaller satellites is booming.

- ÅAC-Clyde is in pole position to take a big chunk out of this juicy cake.
- Current valuation has to some extent already discounted a strong operating and financial performance.

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

New Space is creating vast opportunities

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

The market for small satellites is booming

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

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

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

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

1. Quality products and long list of references. Both ÅAC and Clyde have products with several years of flawless flight heritage. Clyde Space has delivered over 2000 subsystems and claims over 500 years of aggregated flight heritage. The combined list of quality clients and projects between ÅAC and Clyde is second to none in the Smallsat industry including: NASA, ESA, Airbus, US Air Force, Raytheon, NEC/Toshiba, UK Space Agency, SNSA (Rymdstyrelsen) and many more.
2. Growing customer base placing repeat orders. Clyde Space is primarily focused on CubeSats and have participated in 30-40% of all CubeSat missions to date. Around 70% of their business is repeat orders and some of their clients are planning to launch major constellations of satellites over the next few years. E.g. Kepler Communication, NSLComm, SRT Marine, Outernet, York Space Systems.
3. Scalable low cost production. The company's vision is to produce large quantities of reliable CubeSats at affordable prices. Hence their products are designed to allow for low-cost mass-production. Currently there is a shortage of manufacturing capacity to meet the anticipated pick-up in demand. Being able to offer reliable products with short lead times would certainly give a competitive edge.
4. Strong management. In the Nano/CubeSat segment many of the manufacturers are new small companies spun out of universities. Compared to ÅAC they do not appear to have the management, nor the ambition, to

take on an industrial approach to grow their business. After the last years' recruitments, including the merger with Clyde Space, the company has a strong management team capable of taking on a leading role in their industry. Being a listed company is also an advantage when expanding the business, particularly in case of an acquisition.

Counter thesis/Bear points:

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

Key Catalysts:

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

Summary Redeye Rating

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

Rating changes in the report

Management: 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 share holders.

Profit Outlook: 7.5

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

Profitability: 0.0

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

Financial Strength: 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	86	120	178
Total operating costs	-40	-35	-103	-119	-161
EBITDA	-17	-21	-18	1	17
Depreciation	-2	-2	-1	-1	-2
Amortization	-4	-4	-15	-9	-9
Impairment charges	0	0	0	0	0
EBIT	-23	-27	-33	-9	6
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	-33	-9	6
Tax	0	0	0	1	-1
Net earnings	-24	-27	-33	-8	5

BALANCE SHEET	2016	2017	2018E	2019E	2020E
Assets					
Current assets					
Cash in banks	78	37	23	10	9
Receivables	5	4	9	14	21
Inventories	1	2	8	11	18
Other current assets	3	3	3	3	3
Current assets	87	46	43	39	51
Fixed assets					
Tangible assets	1	0	5	11	17
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	357	357	357
Cap. exp. for dev.	0	0	16	11	6
O intangible rights	15	13	7	9	9
O non-current assets	0	0	0	0	0
Total fixed assets	15	14	386	387	389
Deferred tax assets	0	0	0	0	0
Total (assets)	102	60	429	426	441
Liabilities					
Current liabilities					
Short-term debt	2	0	0	0	1
Accounts payable	3	2	12	17	25
O current liabilities	24	14	14	14	14
Current liabilities	30	16	26	31	40
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	26	31	40
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	70	43	403	395	401
Minority interest (BS)	0	0	0	0	0
Minority & equity	70	43	403	395	401
Total liab & SE	102	60	429	426	441

FREE CASH FLOW	2016	2017	2018E	2019E	2020E
Net sales	23	13	86	120	178
Total operating costs	-40	-35	-103	-119	-161
Depreciations total	-6	-6	-16	-10	-11
EBIT	-23	-27	-33	-9	6
Taxes on EBIT	0	0	0	1	-1
NOPLAT	-23	-27	-33	-8	5
Depreciation	6	6	16	10	11
Gross cash flow	-17	-21	-18	2	16
Change in WC	6	-11	-2	-3	-6
Gross CAPEX	-4	-4	-12	-11	-13
Free cash flow	-14	-36	-32	-12	-2

CAPITAL STRUCTURE	2016	2017	2018E	2019E	2020E
Equity ratio	69%	73%	94%	93%	91%
Debt/equity ratio	6%	0%	0%	0%	0%
Net debt	-74	-37	-23	-10	-8
Capital employed	-3	6	380	385	393
Capital turnover rate	0.2	0.2	0.2	0.3	0.4

GROWTH	2016	2017	2018E	2019E	2020E
Sales growth	-8%	-42%	544%	41%	48%
EPS growth (adj)	-99%	11%	-43%	-77%	-170%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	12.5 %	NPV FCF (2018-2020)	-20
		NPV FCF (2021-2027)	104
		NPV FCF (2028-)	385
		Non-operating assets	37
		Interest-bearing debt	0
		Fair value estimate MSEK	506
Assumptions 2022-2029 (%)			
Average sales growth	20 %	Fair value e. per share, SEK	7.4
EBIT margin	15 %	Share price, SEK	4.4

PROFITABILITY	2016	2017	2018E	2019E	2020E
ROE	0%	-47%	-15%	-2%	1%
ROCE	-56%	-46%	-15%	-2%	2%
ROIC	-404%	871%	-539%	-2%	1%
EBITDA margin	-73%	-161%	-21%	1%	10%
EBIT margin	-99%	-203%	-39%	-7%	3%
Net margin	-106%	-203%	-39%	-6%	3%

DATA PER SHARE	2016	2017	2018E	2019E	2020E
EPS	-0.77	-0.85	-0.49	-0.11	0.08
EPS adj	-0.77	-0.85	-0.49	-0.11	0.08
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-2.32	-1.17	-0.33	-0.15	-0.12
Total shares	31.70	31.70	68.70	68.70	68.70

VALUATION	2016	2017	2018E	2019E	2020E
EV	202.3	327.4	280.2	292.5	295.0
P/E	-11.3	-13.5	-9.1	-38.8	55.9
P/E diluted	-11.3	-13.5	-9.1	-38.8	55.9
P/Sales	12.1	27.4	3.5	2.5	1.7
EV/Sales	8.9	24.6	3.3	2.4	1.7
EV/EBITDA	-12.1	-15.3	-15.8	281.6	17.4
EV/EBIT	-8.9	-12.1	-8.4	-33.7	49.0
P/BV	3.9	8.4	0.8	0.8	0.8

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	-0.7 %	Net sales	93.7 %
3 month	-24.4 %	Operating profit adj	21.6 %
12 month	-52.6 %	EPS, just	-20.3 %
Since start of the year	-56.3 %	Equity	139.3 %

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	3.9 %	3.9 %
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	4.4
Total shares, million	68.7
Market Cap, MSEK	303.0

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

FINANCIAL INFORMATION	
FY 2018 Results	February 21, 2019

ANALYSTS	Redeye AB
Henrik Alveskog	Mäster Samuelsgatan 42, 10tr
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 – Cyclicality, and 8 – Forthcoming binary events.

Redeye Equity Research team

Management

Björn Fahlén
bjorn.fahlen@redeye.se

Håkan Östling
hakan.ostling@redeye.se

Technology Team

Jonas Amnesten
jonas.amnesten@redeye.se

Henrik Alveskog
henrik.alveskog@redeye.se

Dennis Berggren
dennis.berggren@redeye.se

Havan Hanna
havan.hanna@redeye.se

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Fredrik Nilsson
fredrik.nilsson@redeye.se

Tomas Otterbeck
tomas.otterbeck@redeye.se

Eddie Palmgren
eddie.palmgren@redeye.se

Viktor Westman
viktor.westman@redeye.se

Editorial

Jim Andersson
jim.andersson@redeye.se

Eddie Palmgren
eddie.palmgren@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.se

Jakob Svensson (Trainee)
jakob.svensson@redeye.se

Disclaimer

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Redeye Rating (2018-11-26)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	44	47	19	10	21
3,5p - 7,0p	89	80	116	37	50
0,0p - 3,0p	13	19	11	99	75
Company N	146	146	146	146	146

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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.