

Bioservo

Sector: Lifescience

Inflection point delayed

Redeye reduces our short-to mid-term estimates due to a lower estimated number of systems to be sold during 2023E and, to an extent, into 2024E. The estimate changes and new issues alter our Base Case to SEK 8 per share. We still see a compelling long-term case; however, the commercialization of Ironhand has taken longer than we expected.

Q2 sales number roughly as expected

The Q2 report was slightly below our expectations on net sales, and the EBIT was also lower due to the higher total Opex. The commercialization process is well underway even though somewhat further delayed in our view.

New financing aims to bring the company to positive cash flow

Bioservo has today communicated that they intend to raise capital through two issues of SEK 30m each, with the first at the end of 2022E and the second towards the end of 2023E. We did expect some money to be raised at the beginning of 2023E; however, the company now takes the opportunity to raise the capital earlier. The total SEK 60m before costs is expected to last until cash flow is positive during 2025E.

Lowering our expectations and salesmix for 2022E – 2023E

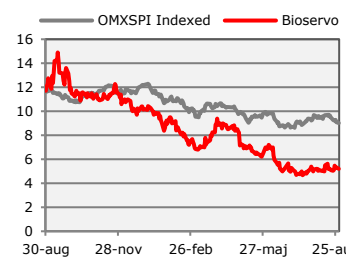
Redeye has adjusted our sales estimates due to a slower uptake from Ironhand than expected. We have decreased our expectation on numbers sold of Ironhand while also increasing the Carbonhand estimate. The new financial target for sales is above our estimate for 2025E. The numbers of both Ironhand and Carbonhand are still small in relation to the identified potential. With the new financing that has a substantial dilution effect and the adjustments to our sales estimate, the new fair value range is SEK 4 (8) to SEK 15 (26) with a Base Case of 8 (16). The central part of the fair value adjustment refers to the issue, with SEK 6 per share, while the estimate changes represent SEK 2. The final fair value range could be further adjusted, depending on the issue's outcome in October.

Key Financials (SEK)	2020	2021	2022E	2023E	2024E
Revenues	12	7	17	36	61
Revenue growth	26%	-39%	139%	111%	70%
EBITDA	-22	-31	-39	-22	-13
EBIT	-26	-35	-43	-27	-18
EBIT Margin (%)	-225%	-488%	-253%	-74%	-30%
Net Income	-26	-35	-43	-27	-14
EV/Revenue	14,9	42,5	34,4	16,2	10,0
EV/EBITDA	neg	neg	neg	neg	neg
EV/EBIT	neg	neg	neg	neg	neg

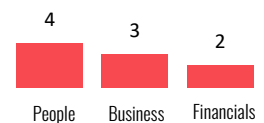
FAIR VALUE RANGE

BEAR	BASE	BULL
4	8	15

BIOS VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BIOS
Market	First North
Share Price (SEK)	3.6
Market Cap (SEKm)	98
Net Debt (SEKm)	54
Free Float (%)	73
Avg. daily volume ('000)	19

Q2 2022 review

The Q2 report released after closing yesterday did not deviate materially on the sales level. The actual sales are still small, considering the potential. It is clear that the sales progression is there but not really taking off yet. The company has been in the commercialization phase for some time now; the pandemic has put them back roughly two years, which is obviously hard to catch up. On the positive side, the products have evolved into much more stable and sellable products, which accounts for both Ironhand 2.0 and the new to-be-launched Carbonhand 2.0. We have high hopes for future sales, seeing positive reviews from tests and users. It has so far been hard to have a real breakthrough in volume.

The push in commercialization that has started has also increased the cost levels higher than we expected in the quarter. The increased activity and hiring of new experts are costly in the near term.

The trials at GM and Toyota have not paid off at this point; however, the test results are positive, and the positive development in the foundry industry is encouraging, which we believe is a positive side effect of the positive news flow from the GM tests. The order from Waupaca for 30 Ironhand systems for a six-month tryout is positive and could be the breakthrough Bioservo needs in the industry segment.

New capital raise

We were anticipating some kind of capital raise but did not expect it to happen until the beginning of 2023. The reason for the timing is that there is substantial interest among investors, and the company wants to get the capital in before the winter starts, which could become more challenging. We adjust our number of shares to 33.1m for the two issues assuming that both issues will be completed, even if the second one in 2023E is far away in time, and what the actual price at that time is uncertain, but there is a range set with a floor set at 3.2 for the 2023E issue.

Three focus areas from now on

Bioservo has decided to focus on three markets, thus adding one to the previous two. The new consumer market glove has high potential, with more than 50 million seniors in the US market that could benefit from this product which also adds another product line based on the platform. The new consumer market product will be called Powerglove and is part of the X-over platform.

Bioservo: Three markets in focus



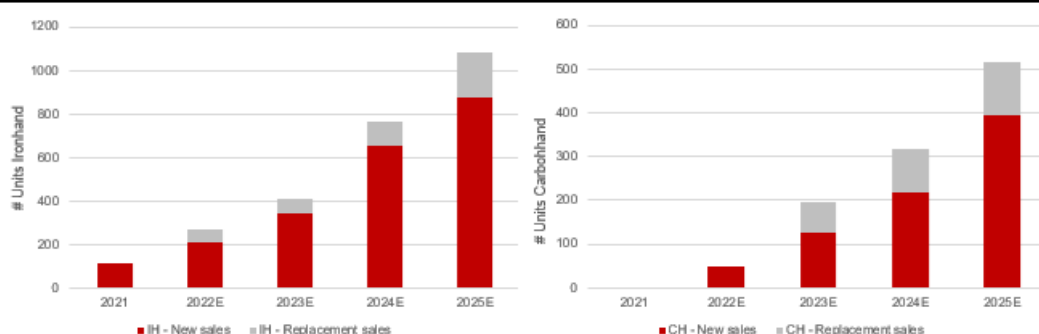
Source: Bioservo, Redeye Research

Financial forecasts 2022-2025E

We have lowered our expectations for the current year, for 2023E, and to a certain degree in 2024E/2025E. We now see that the Ironhand commercialization is taking longer than we expect; however, we are more upbeat on the potential for Carbonhand going forward. The new financial target regarding sales in 2025E of SEK 100m is above our previous and current sales estimate.

We have lowered our expectations for the number of Ironhand sold while increasing the expected number of Carbonhand. We expect the total number of Ironhand sold in 2023E to be around 400. The Carbonhand is expected to sell about 200 pieces. These numbers are still minimal compared to the potential market. If all goes well with the clinical trials and certifications, the expected number sold in 2023E could be vastly understated.

Estimated number of Ironhand - Carbonhand sold



Source: Redeye Research

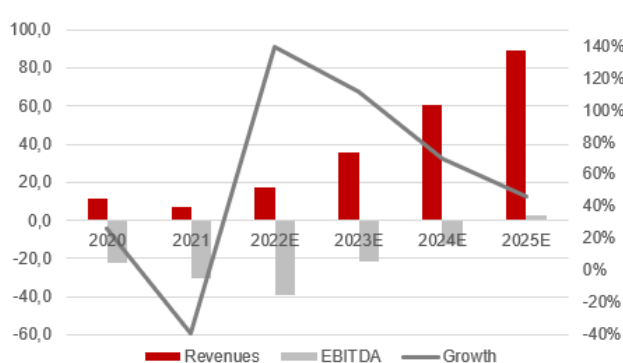
Lowering our expectations on the number of systems sold and the consumables due to a lower base that generate repeat sales, we reduce our sales estimates for 2022E-2025E. The effect is most pronounced in 2023/2024E, while the sales in 2025E are expected to reach SEK 89m vs. SEK 92m. This is slightly lower than the new financial target by the company to get sales of SEK 100m by 2025E.

Bioservo: Estimate change (MSEK)

MSEK	2022E	2023E	2024E
Net sales			
Old	21	44	67
New	17	36	61
% change	-19%	-18%	-9%
EBITDA			
Old	-28	-20	-11
margin	-133%	-45%	-16%
New	-39	-22	-13
margin	-186%	-50%	-19%
% change	40%	10%	16%
EBIT			
Old	-32	-25	-16
margin	-152%	-57%	-24%
New	-43	-27	-18
margin	-205%	-61%	-27%
% change	34%	8%	14%

Source: Redeye Research

Bioservo: Revenues - Growth (RS) & EBITDA



Source: Redeye Research

The slower development in sales shows the inherent problem of judging the timing for a breakthrough for a MedTech company. We are still convinced that Ironhand and Carbonhand are viable products. It just takes time to get sales going. For example, the 200 expected Carbonhand sold in 2023E is a meager number. In an area like Stockholm, there is a greater demand than that per year, in our opinion.

Bioservo: Estimate (MSEK)												
(SEKm)	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023
Revenues	11,7	1,5	1,0	2,3	2,3	7	2,9	3,6	4,7	5,8	17	36
Gross Profit	5,1	0,4	0,6	0,1	0,8	2	2,6	2,7	3,7	4,2	13	19
EBITDA	-22,3	-8,0	-9,8	-5,2	-7,5	-31	-11,0	-11,2	-8,0	-8,9	-39	-22
EBIT	-26,3	50,0	50,0	50,0	50,0	-35	-12,1	-11,8	-9,1	-10,0	-43	-27
EPS	-1,7	-0,6	-0,7	-0,3	-0,4	-2	-0,6	-0,6	-0,2	-0,3	-1	-1
Growth (%)	26%	-50%	-80%	30%	13%	-39%	96%	272%	101%	152%	139%	111%
Gross margin	44%	28%	62%	4%	37%	27%	87%	76%	79%	72%	77%	53%
EBITDA margin (%)	-191%	-529%	-1030%	-222%	-328%	-430%	-374%	-313%	-171%	-153%	-230%	-61%
EBIT margin (%)	-225%	3327%	5230%	2137%	2173%	-488%	-412%	-332%	-193%	-172%	-253%	-74%
Net income margin (%)	-225%	-598%	-1139%	-269%	-369%	-488%	-412%	-332%	-193%	-172%	-253%	-74%

Source: Redeye Research

Valuation

The new issues of 60m before costs at SEK 3.2 per share substantially increase the number of shares to a total of 33.2 million from 18.9 million, i.e., a dilution effect of almost 43%. The issue's impact on our Base case fair value is about SEK 6 of the total SEK 8 change from SEK 16 to SEK 8 in our new Base Case. The number of shares in the issue in 2023E is a bit uncertain, but we have used the 3.2 floor indicated.

The changes to our estimates primarily affect the average EBIT margin during 2022-2026 with the increasing costs during 2022E and 2023E. The central part of the value is in the terminal value.

DCF assumptions in Base				
Assumptions:	2022E-2026E	2026E-2035E		DCF-value
CAGR Revenue	64%	15%	WACC	11%
Average EBIT-margin	-70%	18%	NPV of FCF	73
			NPV of Terminal Value	153
Terminal				
Sales growth	2,0%		Sum of NPV	226
EBIT-margin	18%		Net Debt	-54
			DCF-value	280
			Fair value per share	8
			Current share price	4

Source: Redeye Research

Sensitivity analysis

		WACC				
		9,0%	10,0%	11,0%	12,0%	13,0%
EBIT margin	16,0%	11,0	9,1	7,6	6,5	5,6
	17,0%	11,6	9,6	8,0	6,8	5,9
	18,0%	12,2	10,1	8,4	7,1	6,1
	19,0%	12,8	10,6	8,8	7,5	6,4
	20,0%	13,4	11,0	9,2	7,8	6,7
Growth	1,0%	11,0	9,2	7,8	6,7	5,7
	1,5%	11,5	9,6	8,1	6,9	5,9
	2,0%	12,2	10,1	8,4	7,1	6,1
	2,5%	13,0	10,6	8,8	7,4	6,3
	3,0%	13,9	11,2	9,2	7,7	6,6

Market outlook – why we believe in the long-term case

Bioservo develops and produces innovative products based on SEM™ technology. The company primarily focuses on two market segments, professional and life science. The technology was created with a focus on the healthcare sector; however, after increasing interest, the focus has been on the professional segment during the last few years. Healthcare has once again regained momentum in the company. The finalizing of the iHand study will push the commercialization again. The iHand interim results show a significant improvement in grip strength. The study will close at the end of September. The Carbonhand 2.0 will launch during the H2 of 2022E and in the US during 2023E

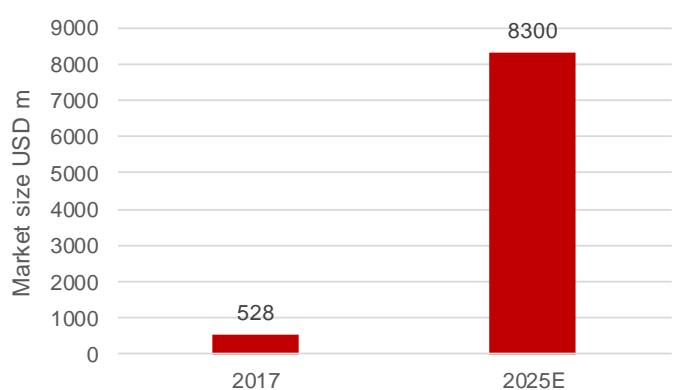
The global market for exoskeleton and power-enhancing mobile robotics-based technology is set to grow strongly in the coming years. The global exoskeleton market is primarily segmented by product type (soft & rigid), power type (powered & passive), body type (complete body, upper extremities & lower extremities), end-use industry (industrial, military, healthcare & others), by mobility (stationary & mobile), and geography.

The rigid exoskeleton segment represents the largest share of the exoskeleton market. This is due to high demand from the military and industrial sectors. Based on end-users, the healthcare sector represents the largest share of the overall exoskeleton market. This is due to the rapid growth of the geriatric population globally. While the healthcare sector has the largest market share, the industrial segment is expected to show the fastest growth in the coming years. According to Research and Markets, the global exoskeleton market will exhibit a CAGR of almost 50% until 2027. ABI Research expects the market to grow from USD 392 million in 2020 to over USD 6.8 billion in global revenue. The independent reports claim different market sizes and growth, but they all agree that there will be high double-digit growth numbers in the next few years.

Market Size & Growth – Industrial sector

There are many different views on the market size and growth in the exoskeleton market. The differences in the market view are mainly based on the scope of the research. There is much room for interpretation since there are different product types, i.e., soft or rigid, power type, body type, mobility, and end-use. We can deduce from all the various reports published that all of them have a favorable view of the growth prospects both in the short- and long-term.

Global exoskeleton market size - 2017-2025E

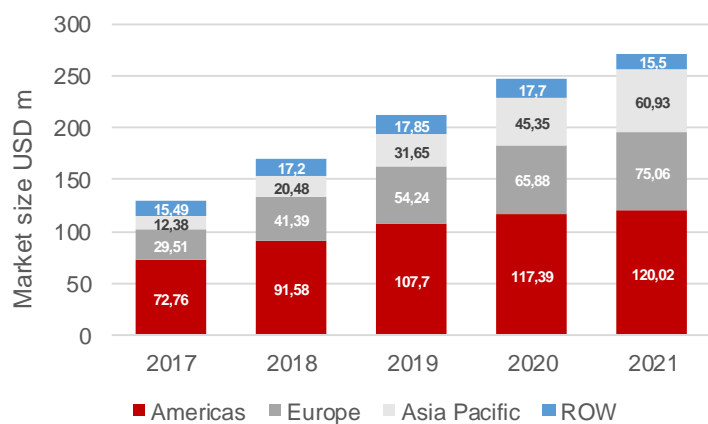


Source: Statista, Research and Markets, Redeye Research

In the graph above, based on data from Statista and Research and Markets, the global exoskeleton market is expected to show strong growth and reach a market size worth over USD 8.3 billion in 2025E.

Another interesting example from Statista is the sales value of the powered human exoskeleton market by region. This part of the exoskeleton market has grown substantially and is also expected to grow in 2021E. Europe and the Americas are the regions with the most value, typical with high industrialization.

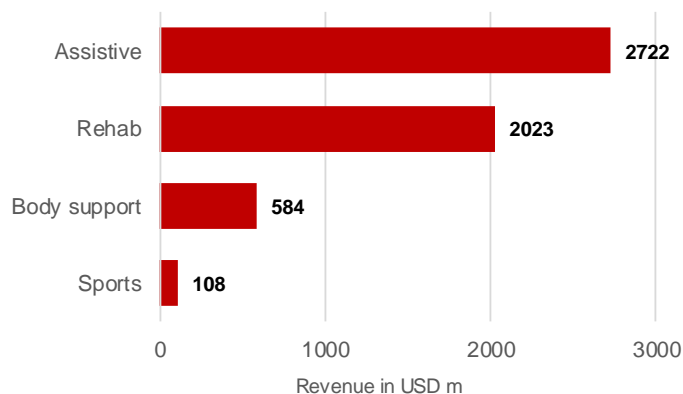
Sales value powered human exoskeleton - by region 2017-2021



Source: Statista, Redeye Research

The two areas that are dominant in terms of market size are the Assistive and Rehab exoskeletons. According to Statista and BIS Research, the wearable robotic exoskeleton market will represent a market above UDS 5 billion in 2028E.

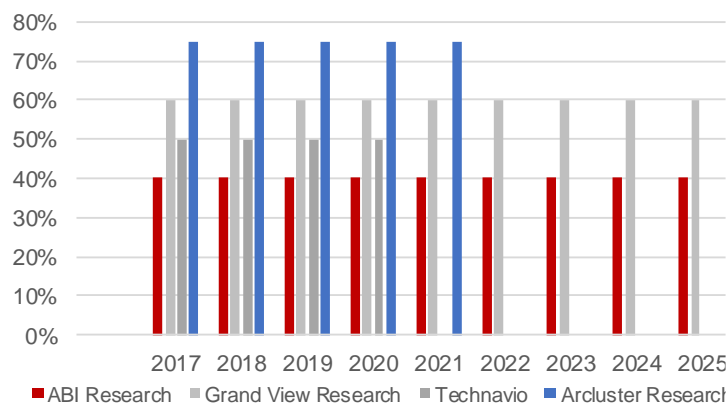
Global wearable robotic exoskeleton market size 2028E



Source: Statista, BIS Research, Redeye Research

As seen in the graph below, we acknowledge the many views on market size and growth rates among different institutes; however, the consensus is that growth will be vital during the next 5-10 years. The primary factors behind the positive growth expectations are a growing geriatric population, increasing MSDs, the advent of robotic technologies, growing patients’ purchasing power, and increased investment in the sector based on higher industrial demand. The growing rehabilitation market is also a strong point for growth in many research reports.

Exoskeleton global growth expectations



Source: Bioservo Technologies, Redeye Research

Industrial segment

In the industrial segment, exoskeleton and force-enhancing technology are mainly used by healthy people to prevent occupational injuries. Many repetitive and grip-intensive tasks in different industries (not limited to Bioservos focus areas) must be handled manually, even with increasing industrial robots.

Stress injuries can occur during prolonged work or repetitive work. In this segment, it is primarily the company that decides and pays for the use of the products.

A driving factor for the increased interest in products that can be used for preventive purposes in occupational injuries is increasing Musculoskeletal Disorders (MSD) or strain injuries.

MSDs are a real problem in the EU and the US. Some of the most common work-related MSD are Carpal tunnel syndrome, Sprains, Strains, Hernia, and Inflammation.

Market outlook – Life Science could turn out to be more important

Life Science sector – sizeable addressable market

In the Life Science/Healthcare sector, the exoskeleton refers to the rehabilitation or as an aid or support in the event of illness, disability, or injury. There are quite a few conditions where the technology can be applied. Some cases in the industrial section apply here if the situations occur with a WMSD. The significant groups identified by Bioservo are:

- Musculoskeletal injuries (Carpal Tunnel Syndrome, Epicondylitis)
- Traumatic injuries (Central Nervous System)
- Reduced hand function due to aging
- Stroke
- Arthritis
- Cerebral Palsy
- Multiple Sclerosis
- Tetraplegic Spinal Cord Injury

These significant groups have very high numbers worldwide, especially four. Given the high prevalence of musculoskeletal injuries, Traumatic injuries, Stroke, and reduced hand function due to aging.

This market is generally regulated, and decisions are often made through purchasing through various authorities or insurance companies. Less so when it comes to rehabilitation, where hospitals and clinics sometimes have

autonomous decision-making powers. General for the market is that the products must be approved as medical devices, i.e., a certification by the Swedish Medicines Agency, FDA, or similar. This often requires extensive and well-founded clinical studies.

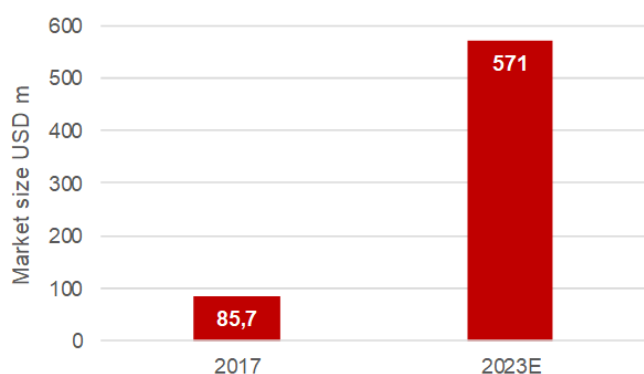
The driving forces in this segment are the same forces that are the same for all healthcare around the world.

The aging population is a strong force, especially in the western world, where the aging population leads to many different disabilities of varying degrees of severity. Reduced hand function is one of the most prominent problems, with a prevalence of 5%. The increasing MSDs in both US and Europe also have a high prevalence, these MSDs, as discussed in the Ironhand section, lead to increased costs in both the working population and the aging one. The WMSDs can also show up after a couple of years when the age factor also contributes.

Of course, there are other damages such as Stroke, arthritis, traumatic injuries, and the less frequent but still many multiple sclerosis and spinal cord injuries. These conditions will need rehabilitation to a certain degree which will drive growth for equipment in this field.

As seen by the graph below, the market for medical exoskeletons is expected to grow substantially, the actual levels are hard to judge, but there is a clear growth pattern.

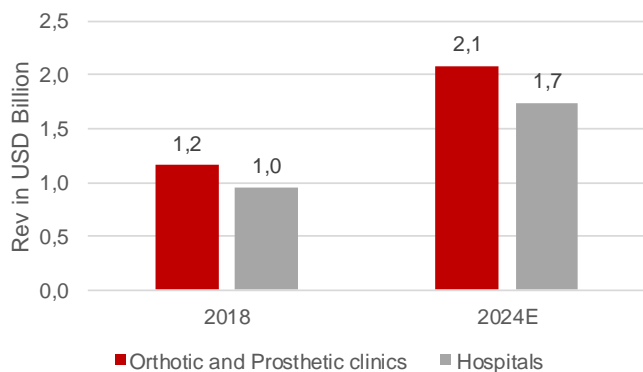
Medical exoskeleton market size worldwide - 2017 - 2023E



Source: Statista, Markets and Markets, Redeye Research

The graph below also shows the growth trend; the clinics are significant growth drivers. As they are often independent decision-makers regarding equipment, it is an exciting market to penetrate.

Global market - prosthetics and exoskeletons 2018-2024 (End user)



Source: Statista, BIS Research, Redeye Research

Indicative TAM (Lifescience) – a vast market

When we look at the total available market for Carbonhand, it is clear that this is a very high number calculation. The numbers of patients in the different markets we have included here are very high. The prevalence of some of the clinical indications is between 5-8%, which gives high numbers when looking at the large populations of Europe, the US, and Japan. We have looked into possible penetration rates for the Carbonhand glove for both the Assistive and Rehab markets. We have been prudent and used lower penetration rates than may be the case.

The TAM numbers for the Assistive and Rehab market for Carbonhand are very high at EUR 9.5 bn and EUR 5.5 bn, respectively. Of course, these numbers are pretty uncertain but show the potential in the market and not the actual sales.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report – No changes

We have gone through our proprietary rating system and made changes primarily in the People and Business section where the rating has changed from a 4 to a 5 for People and from a 3 to a 4 in the Business section.

People: 4

Business: 3

Financials: 2

	2021	2022E	2023E	2024E						
INCOME STATEMENT					DCF Valuation Metrics					Sum FCF (SEKm)
Revenues	7	17	36	61	Initial Period (2022–2026)					-79,7
Cost of Revenues	5	4	17	27	Momentum Period (2027–2031)					85
Gross Profit	2	13	19	33	Stable Period (2032–)					221
Operating Expenses	32	52	41	46	Firm Value					226
EBITDA	-31	-39	-22	-13	Net Debt (last quarter)					-53,5
Depreciation & Amortization	4	4	5	6	Equity Value					280
EBIT	-35	-43	-27	-18	Fair Value per Share					8,4
Net Financial Items	0	0	0	0						
EBT	-35	-43	-27	-18						
Income Tax Expenses	0	0	0	0						
Non-Controlling Interest	0	0	0	0						
Net Income	-35	-43	-27	-14						
BALANCE SHEET										
Assets										
Current assets										
Cash & Equivalents	52	34	36	12						
Inventories	6	5	7	18						
Accounts Receivable	1	2	4	6						
Other Current Assets	7	3	5	9						
Total Current Assets	65	45	52	45						
Non-current assets										
Property, Plant & Equipment,	0	0	0	1						
Goodwill	0	0	0	0						
Intangible Assets	8	8	5	3						
Right-of-Use Assets	0	0	0	0						
Shares in Associates	0	0	0	0						
Other Long-Term Assets	0	0	0	0						
Total Non-Current Assets	8	7	6	5						
Total Assets	74	52	57	50						
Liabilities										
Current liabilities										
Short-Term Debt	0	0	0	0						
Short-Term Lease Liabilities	0	0	0	0						
Accounts Payable	6	3	5	9						
Other Current Liabilities	5	5	9	12						
Total Current Liabilities	11	8	14	21						
Non-current liabilities										
Long-Term Debt	0	0	0	0						
Long-Term Lease Liabilities	0	0	0	0						
Other Long-Term Liabilities	0	0	0	0						
Total Non-current Liabilities	0	0	0	0						
Non-Controlling Interest	0	0	0	0						
Shareholder's Equity	63	20	-7	-21						
Total Liabilities & Equity	74	27	7	0						
CASH FLOW										
NOPAT	-35	-43	-27	-18						
Change in Working Capital	-4	0	1	-10						
Operating Cash Flow	-34	-39	-21	-19						
Capital Expenditures	0	0	-1	-2						
Investment in Intangible Asse	-2	-3	-2	-3						
Investing Cash Flow	-2	-3	-3	-5						
Financing Cash Flow	35	25	25	0						
Free Cash Flow	-36	-42	-24	-24						
					CAPITAL STRUCTURE					
					2021	2022E	2023E	2024E		
					Equity Ratio	0,9	0,4	-0,1	-0,4	
					Debt to equity	0,0	0,0	0,0	0,0	
					Net Debt	-52	-34	-36	-12	
					Capital Employed	63	45	43	29	
					Working Capital Turnover	2,2	5,9	20,0	5,0	
					GROWTH					
					Revenue Growth	-39%	139%	111%	70%	
					Basic EPS Growth	10%	-29%	-38%	-46%	
					Adjusted Basic EPS Growth	10%	-29%	-38%	-31%	
					PROFITABILITY					
					ROE	-55%	-104%	-414%	102%	
					ROCE	-55%	-96%	-62%	-64%	
					ROIC	-330%	-398%	-302%	-151%	
					EBITDA Margin (%)	-430%	-230%	-61%	-21%	
					EBIT Margin (%)	-488%	-253%	-74%	-30%	
					Net Income Margin (%)	-488%	-253%	-74%	-24%	
					VALUATION					
					Basic EPS	na	-1,3	-0,8	-0,4	
					Adjusted Basic EPS	na	-1,3	-0,8	-0,6	
					P/E	na	neg	neg	neg	
					EV/Revenue	na	7,7	3,6	2,5	
					EV/EBITDA	na	neg	neg	neg	
					EV/EBIT	na	neg	neg	neg	
					P/B	na	8,4	neg	neg	
					SHAREHOLDER STRUCTURE					
					CAPITAL VOTES %					
					Tellacq AB	17,3%	17,3%			
					Anders Lundmark	8,2%	8,2%			
					Adrigo Asset Management	5,8%	5,8%			
					Tomas Ward	3,5%	3,5%			
					Magnus Lundberg	2,4%	2,4%			
					SHARE INFORMATION					
					Reuters code					BIOS
					List					First North
					Share price					3,5
					Total shares, million					33,2
					MANAGEMENT & BOARD					
					CEO					Petter Bäckgren
					CFO					Madeleine Börjesson
					Chairman					Anders Lundmark
					ANALYSTS					
										Redeye AB
					Mats Hyttinge					Mäster Samuelsgatan 42, 10tr
										111 57 Stockholm

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

Important information

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

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Redeye Rating (2022-08-31)

Rating	People	Business	Financials
5p	32	32	32
3p - 4p	32	32	32
0p - 2p	32	32	32
Company N	32	32	32

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CONFLICT OF INTERESTS

Mats Hyttinge, 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.