

Bioservo

Sector: Lifescience

Prepped for commercialization going into 2023

Redeye saw no breakthrough in sales in Q4, and costs were higher than expected. During Q4, there has been some positive development. The financial situation has improved with the share issue, Carbonhand has been MDR approved, and the iHand study was very positive. Cost reductions have been implemented that will come into effect during 2023e. We both lower and increase our estimates and change the number of shares. The forecast changes and some balance sheet maintenance alter our Base Case to SEK 5 (6) per share. We still see a compelling long-term case, and the Carbonhand commercialization has the potential to surprise.

Q4 sales number lower than expected

The Q4 report was below our expectations on sales, and the EBIT was also lower due to the higher total Opex. The commercialization process has been slow, and we believe that much effort has been put into the iHand study and the MDR, which probably has taken the short-term focus off sales of Ironhand. The published orders in Q1 regarding both Ironhand and Carbonhand are encouraging.

Lowering our expectations and altering sales mix slightly for 2023e – 2024E

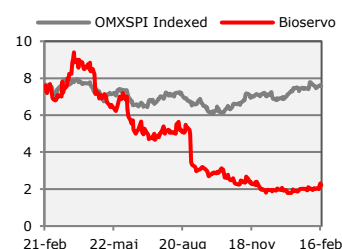
Redeye has adjusted our sales estimates due to a slower uptake from Ironhand than expected. We have decreased our expectations on the numbers sold of Ironhand and, to a smaller extent, for Carbonhand. Bioservo's financial target for 2025e sales is above our estimate for the same year. The numbers of Ironhand and Carbonhand sold and estimated by us are still small compared to the identified potential. With the adjustments to our sales estimate and a new number of shares, the new fair value range is SEK 2 (2.6) to SEK 10 (11) with a Base Case of 5 (6).

Key Financials (SEI)	2021	2022	2023E	2024E	2025E
Revenues	7	10	28	47	77
Revenue growth	-39%	36%	192%	66%	64%
EBITDA	-31	-48	-25	-7	6
EBIT	-35	-51	-29	-11	1
EBIT Margin (%)	-488%	-525%	-102%	-25%	1%
Net Income	-35	-51	-29	-7	8
EV/Revenue	18,5	3,1	1,5	1,2	0,7
EV/EBITDA	neg	neg	neg	neg	8,7
EV/EBIT	neg	neg	neg	neg	69,7

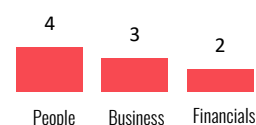
FAIR VALUE RANGE

BEAR	BASE	BULL
2	5	10

BIOS VERSUS OMXSPI



REDEYE RATING



KEY STATS

Ticker	BIOS
Market	First North
Share Price (SEK)	1.9
Market Cap (SEKm)	72
Net Debt (SEKm)	-25
Free Float (%)	73
Avg. daily volume ('000)	126

Q4 2022 review – some cost of one-off nature

The Q4 report was weaker than we expected, although the deviation stems from the delay in the possibility of marketing Carbonhand and the slow progress for Ironhand in the quarter. The actual sales are still small, considering the potential, although more interesting is the positive signs so far in Q1 23 about sales progress. Bioservo has, during Q4, worked hard to create the optimal situation to generate meaningful sales during 2023e. The company has been in the commercialization phase for some time now, and the MDR certification keeps the company back on track. That the company now transform into a sales-oriented company, with the scaling down of staff in-house and putting production elsewhere, is a good sign. This makes it possible to have a higher production rate and lower costs for the company. The SEK 7 m annualized cost savings will show up in Q2. We also understand that further costs will be saved as some research costs will not occur again. Our estimate is that the total savings compared to 2022 will be somewhere between SEK 10 to 15m. We have high hopes for future sales, seeing positive reviews from tests and users, and now paired with some recent success with Waupaca and sales of Carbonhand in confirmed orders in Q1.

The push in commercialization continues to incur increased cost levels, which were higher than expected. The cost will be lower from Q2.

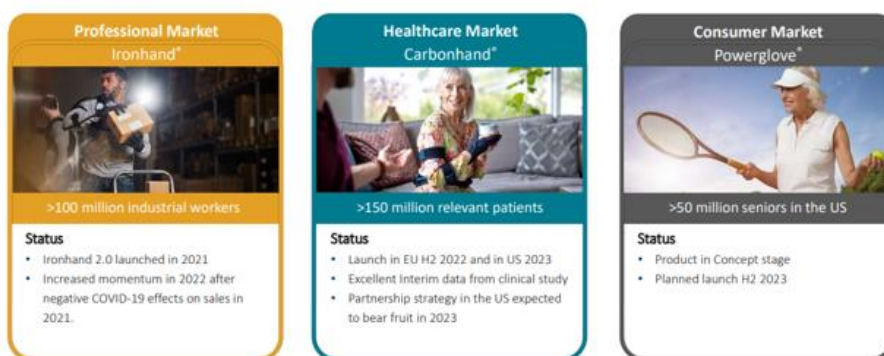
The capital need was addressed – capital addition in Q1 through component sales

The capital need was addressed during the past quarter. In addition to the cash raised, the company has sold part of the component inventory for over SEK 3.7m. This means the cash at hand at the beginning of the first quarter stands at almost SEK 30m. We have adjusted our number of shares to 38m to cover both issues assuming that both issues will be completed, even if the second one in 2023e is far away in time, and 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. The cost-cutting and expected higher sales volumes will improve the negative cash flow from 2022.

Three focus areas from now on – Carbonhand is the most promising

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



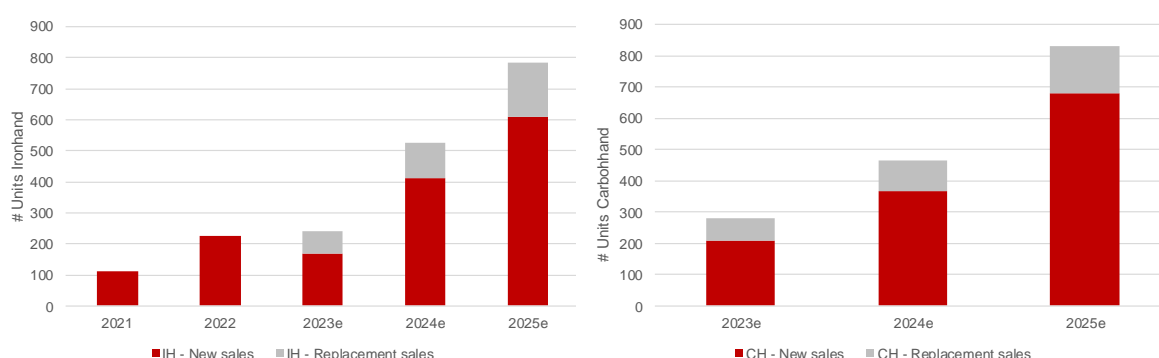
Source: Bioservo, Redeye Research

Financial forecasts 2023-2027e

With the lower sales level than expected, we have lowered our expectations for the current year, 2023e, and to a certain degree in 2024e. The sales levels are uncertain as the sales tractions are not there yet, even if there are positive signs in Q1. The Ironhand commercialization has taken longer than we expected, with some changes in target clients. The potential for both Ironhand and Carbonhand is still there as we advance; however, commercialization tends to take longer than expected.

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 220. The Carbonhand is expected to sell about 280 pieces. These numbers are still low compared to the identified potential market. The predicted number sold in 2023e could be on the downside, as we have seen positive reactions in the market to Carbonhand. This could be the breakthrough that Bioservo awaits.

Estimated number of Ironhand - Carbonhand sold



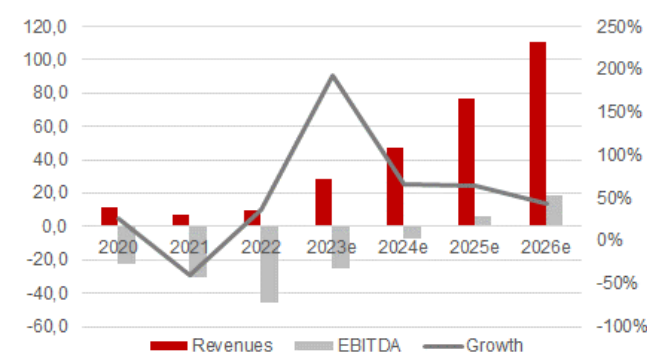
Source: Redeye Research

By lowering our anticipated number of systems sold, we reduce our sales estimates for 2023e-2024e. Sales in 2025e are expected to reach SEK 83m. This is slightly lower than the financial target set by the company to get sales of SEK 100m by 2025e.

Bioservo: Estimate change (MSEK)				
MSEK	2023e	2024e	2025e	
Net sales				
Old	29	49	72	
New	28	47	81	
% change	-2%	-4%	12%	
EBITDA				
Old	-18	-10	2	
margin	-63%	-20%	3%	
New	-25	-7	6	
margin	-87%	-14%	8%	
% change	38%	-30%	190%	
EBIT				
Old	-21	-14,6	-2,8	
margin	-75%	-30%	-4%	
New	-29	-12	1	
margin	-100%	-23%	1%	
% change	34%	-21%	-129%	

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 280 expected Carbonhand sold in 2023e is a very low number as only there a demand in an area like Stockholm that is greater than that per year, in our opinion.

Bioservo: Estimate (MSEK)													
(SEKm)	2020	2021	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024
Revenues	11,7	7	2,9	3,6	1,9	1,3	9,6	5,5	6,4	7,3	9,0	28	47
Gross Profit	5,1	2	2,6	2,7	2,3	-0,4	9	3,1	3,6	4,2	5,1	16	26
EBITDA	-22,3	-31	-11,0	-11,2	-9,9	-15,5	-45,8	-7,9	-5,9	-5,7	-5,4	-25	-7
EBIT	-26,3	-35	-12,1	-11,8	-10,7	-16,0	-48,9	-8,9	-6,9	-6,6	-6,2	-29	-11
EPS	-1,7	-2	-0,6	-0,6	-0,4	-0,6	-2	-0,3	-0,2	-0,2	-0,2	-1	0
Growth (%)	26%	-39%	96%	272%	-19%	-45%	36%	86%	78%	289%	616%	192%	66%
Gross margin	44%	27%	87%	76%	124%	-32%	93%	57%	57%	57%	57%	57%	56%
EBITDA margin (%)	-191%	-430%	-374%	-313%	-527%	-1229%	-475%	-144%	-93%	-78%	-60%	-88%	-15%
EBIT margin (%)	-225%	-488%	-412%	-332%	-569%	-1267%	-507%	-162%	-109%	-90%	-69%	-102%	-25%
Net income margin (%)	-225%	-488%	-412%	-332%	-569%	-1267%	-507%	-162%	-109%	-90%	-69%	-102%	-16%

Source: Redeye Research

Valuation

We have also fully adjusted our number of shares with the prospective second issue in September; however, the share price is now below the set floor for that transaction. We have used a total of 38m shares as if the issue in September is fully subscribed and adding another SEK 25m to 27m to Bioservo. This outcome depends on a positive share development during 2023e.

The primary change in the fair value per share stems from increased shares followed by slightly lower sales during 2023-2024e.

DCF assumptions in Base				
Assumptions:	2023E-2027E	2027E-2036E		DCF-value
CAGR Revenue	54%	17%	WACC	12%
Average EBIT-margin	-19%	19%	NPV of FCF	66
			NPV of Terminal Value	98
Terminal				
Sales growth	2,0%		Sum of NPV	164
EBIT-margin	18%		Net Debt	-25
			DCF-value	189
			Fair value per share	5
			Current share price	1,9

Source: Redeye Research

Sensitivity analysis

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

Market outlook – why we are believers 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 focusing 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 final positive results from the iHand study in December 2022 will be the natural starting point of commercialization and is seemingly off to a good start.

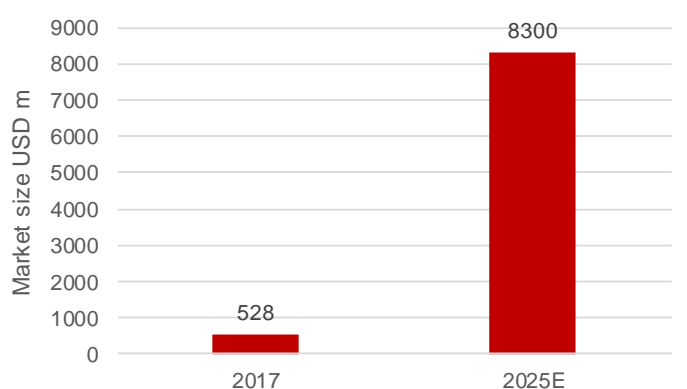
The global market for exoskeleton and power-enhancing mobile robotics-based technology is set to grow strongly in the coming years. The global exoskeleton market is primarily segmented by product type (soft & rigid), power type (powered & passive), body type (complete body, upper extremities & lower 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 grow the fastest 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 deduct 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.

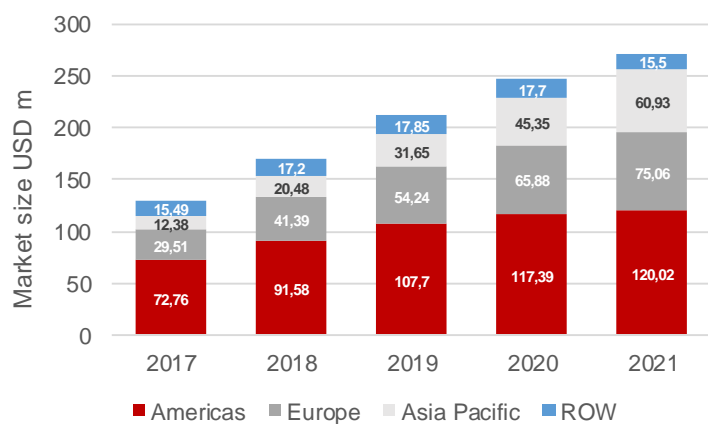
Global exoskeleton market size - 2017-2025E



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.

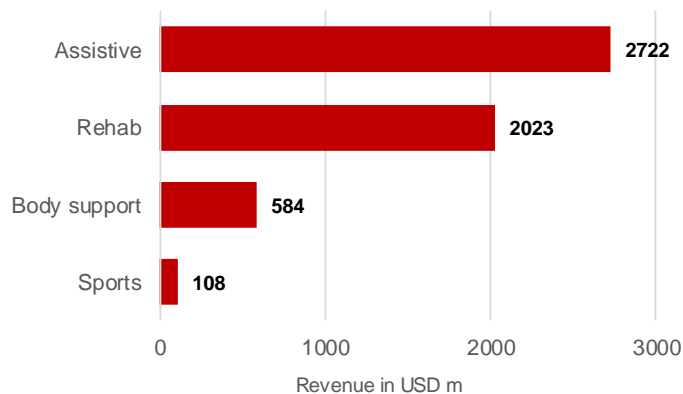
Sales value powered human exoskeleton - by region 2017-2021



Source: Statista, Redeye Research

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

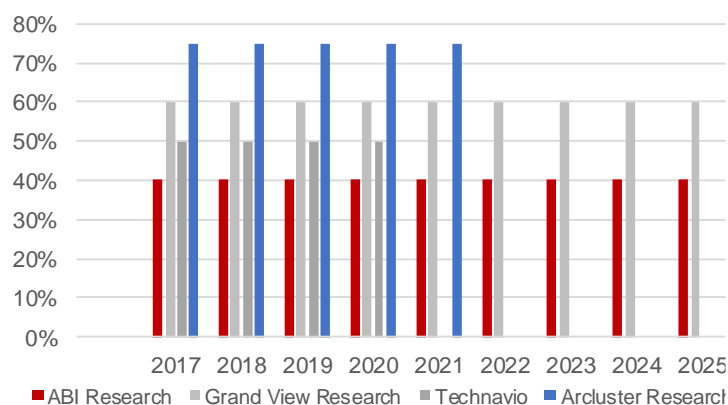
Global wearable robotic exoskeleton market size 2028E



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, the company primarily 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 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 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. (Completed for Carbonhand in EU with MDR)

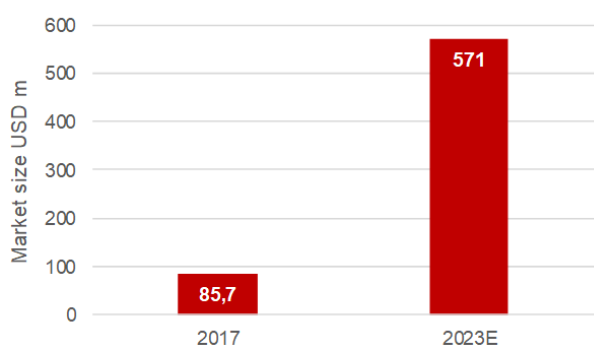
The driving forces in this segment are the same forces that are the same for all healthcare around the world.

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 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, driving 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.

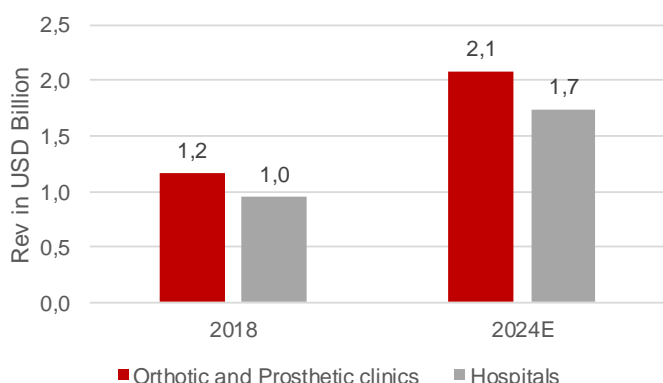
Medical exoskeleton market size worldwide - 2017 - 2023E



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 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

People: 4

Business: 3

Financials: 2

	2022	2023E	2024E	2025E						
INCOME STATEMENT					DCF Valuation Metrics					Sum FCF (SEKm)
Revenues	10	28	47	77	Initial Period (2023–2027)					-41,6
Cost of Revenues	2	12	21	34	Momentum Period (2028–2032)					61
Gross Profit	7	16	26	43	Stable Period (2033–)					145
Operating Expenses	55	41	33	37	Firm Value					164
EBITDA	-48	-25	-7	6	Net Debt (last quarter)					-25,0
Depreciation & Amortization	3	4	4	5	Equity Value					189
EBIT	-51	-29	-11	1	Fair Value per Share					5,0
Net Financial Items	0	0	0	4						
EBT	-51	-29	-11	5						
Income Tax Expenses	0	0	0	1						
Non-Controlling Interest	0	0	0	0						
Net Income	-51	-29	-7	8						
BALANCE SHEET										
Assets										
Current assets										
Cash & Equivalents	25	21	6	9						
Inventories	13	17	23	31						
Accounts Receivable	6	8	14	20						
Other Current Assets	3	6	7	12						
Total Current Assets	46	52	51	72						
Non-current assets										
Property, Plant & Equipment	0	0	1	3						
Goodwill	0	0	0	0						
Intangible Assets	6	4	3	2						
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	6	5	4	5						
Total Assets	53	56	54	76						
Liabilities										
Current liabilities										
Short-Term Debt	0	0	0	0						
Short-Term Lease Liabilities	0	0	0	0						
Accounts Payable	6	7	9	19						
Other Current Liabilities	9	15	19	23						
Total Current Liabilities	15	23	28	42						
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	37	34	26	34						
Total Liabilities & Equity	53	56	54	76						
CASH FLOW										
NOPAT	-51	-29	-11	1						
Change in Working Capital	-3	-2	-8	-4						
Operating Cash Flow	-51	-27	-11	10						
Capital Expenditures	0	-1	-1	-2						
Investment in Intangible Assets	-1	-1	-2	-4						
Investing Cash Flow	-1	-2	-4	-6						
Financing Cash Flow	25	25	0	0						
Free Cash Flow	-52	-29	-15	3						
					CAPITAL STRUCTURE					
					2022	2023E	2024E	2025E		
					Equity Ratio	0,7	0,6	0,5	0,4	
					Debt to equity	0,0	0,0	0,0	0,0	
					Net Debt	-25	-21	-6	-9	
					Capital Employed	37	34	26	34	
					Working Capital Turnover	1,5	3,3	2,9	3,8	
					GROWTH					
					Revenue Growth	36%	192%	66%	64%	
					Basic EPS Growth	-3%	-52%	-74%	-204%	
					Adjusted Basic EPS Growth	-3%	-52%	-60%	-133%	
					PROFITABILITY					
					ROE	-101%	-80%	-25%	26%	
					ROCE	-135%	-84%	-44%	2%	
					ROIC	-427%	-224%	-69%	3%	
					EBITDA Margin (%)	-493%	-88%	-15%	8%	
					EBIT Margin (%)	-525%	-102%	-25%	1%	
					Net Income Margin (%)	-525%	-102%	-16%	10%	
					VALUATION					
					Basic EPS	na	-0,9	-0,2	0,2	
					Adjusted Basic EPS	na	-0,9	-0,3	0,1	
					P/E	na	neg	neg	16,7	
					EV/Revenue	na	1,5	1,2	0,7	
					EV/EBITDA	na	neg	neg	8,7	
					EV/EBIT	na	neg	neg	69,7	
					P/B	na	1,9	2,4	1,8	
					SHAREHOLDER STRUCTURE					
									CAPITAL VOTES %	
					Tellacq AB				17,3%	17,3%
					Anders Lundmark				8,6%	8,6%
					Adrigo Asset Management				5,9%	5,9%
					Martin Öhrn				2,4%	2,4%
					Magnus Lundberg				2,4%	2,4%
					SHARE INFORMATION					
					Reuters code					BIOS
					List					First North
					Share price					1,9
					Total shares, million					38,0
					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.

Redeye Equity Research team

Management

Björn Fahlén

bjorn.fahlen@redeye.se

Tomas Otterbeck

tomas.otterbeck@redeye.se

Technology Team

Hjalmar Ahlberg

hjalmar.ahlberg@redeye.se

Henrik Alveskog

henrik.alveskog@redeye.se

Mattias Ehrenborg

mattias.ehrenborg@redeye.se

Alexander Flening

alexander.flening@redeye.se

Jesper Von Koch

jesper.vonkoch@redeye.se

Anton Hoof

anton.hoof@redeye.se

Rasmus Jacobsson

Rasmus.jacobsson@redeye.se

Viktor Lindström

viktor.lindstrom@redeye.se

Fredrik Nilsson

fredrik.nilsson@redeye.se

Mark Siöstedt

mark.siostedt@redeye.se

Jacob Svensson

jacob.svensson@redeye.se

Niklas Sävås

niklas.savas@redeye.se

Oskar Vilhelmsson

Oskar.vilhelmsson@redeye.se

Danesh Zare

danesh.zare@redeye.se

Editorial

Joel Karlsson

joel.karlsson@redeye.se

Mark Siöstedt

mark.siostedt@redeye.se

Life Science Team

Oscar Bergman

oscar.bergman@redeye.se

Christian Binder

christian.binder@redeye.se

Filip Einarsson

filip.einarsson@redeye.se

Mats Hyttinge

mats.hyttinge@redeye.se

Ethel Luvall

ethel.luvall@redeye.se

Richard Ramanius

richard.ramanius@redeye.se

Kevin Sule

kevin.sule@redeye.se

Fredrik Thor

fredrik.thor@redeye.se

Johan Unnerus

johan.unnerus@redeye.se

Disclaimer

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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 (2023-02-22)

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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Mats Hyttinge, owns shares in the company : No

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