# Railcare Group

Sector: Industrial Goods & Services

## Q1- Well on Track

Redeye concludes that Railcare had a promising start to the year with higher sales and earnings than we expected. General market conditions remain favorable, and we see good opportunities for continued profitable growth within Railcare's main business segments. We are leaving our forecasts and valuation basically unchanged. Our Base case fair value around SEK29 per share offers an appealing potential to current share price levels.

**Good start into 2023**

Net sales of SEK111m in Q1 is 16% higher Y/Y and well above our forecast. EBIT SEK13m is also an improvement and better than expected.

Transport Scandinavia is making up for the bulk of the delta. We are also happy to see Contracting Abroad (UK) posting earnings in positive territory following the resent reorganization. Contracting Sweden had a slower quarter due to cold weather and a later start of the contracting season. However, more operators have been hired to meet higher demand. The overall business outlook remains solid. One potential challenge in 2023 could be access to the railway, as Trafikverket has announced that there may be more limitations than normal.

**New Board members and some changes in the management group**

The Board has appointed two new members: Linn Andersson and Andreas Lantto. Linn Andersson with a background from Boliden and Skellefteå Kraft. Andreas Lantto is a partner at Nordkonsult i Luleå AB and the main project manager for the development of the new Port of Luleå. Previously Andreas worked at Kaunis Iron and Northland Resources. Anna Weiner Jiffer and Adam Ådin declined re-election.

As Railcare is growing and has the ambition to keep growing (sales target SEK800m by 2027), some changes to Group management have been made. Lisa Borgs is the new CFO (previously Mattias Remahl was CEO and CFO). Johan Hansén is now head of transportation operations, while Jonny Granlund is head of contracting operations as well as Machine and Technology.

**Only minor changes to forecasts and valuation**

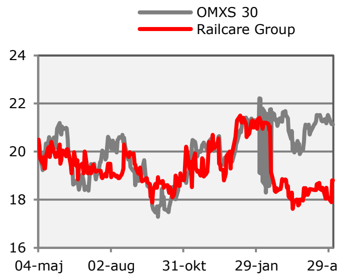
We are only making very small adjustments to our forecasts and valuation. Our Base case fair value is inching up to SEK29 per share (previously: SEK28).

| Key Financials (SEKm) | 2021 | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|
| Net sales | 438 | 497 | 529 | 589 | 651 |
| Sales growth | 9% | 13% | 6% | 11% | 10% |
| EBITDA | 108 | 95 | 113 | 115 | 127 |
| EBIT | 56 | 52 | 67 | 75 | 82 |
| EBIT Margin (%) | 13% | 11% | 13% | 13% | 13% |
| Net Income | 40 | 37 | 44 | 53 | 59 |
| | | | | | |
| EV/Sales | 1.5 | 1.2 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA | 6.1 | 6.5 | 5.2 | 5.2 | 4.6 |
| EV/EBIT | 11.9 | 11.8 | 8.8 | 7.9 | 7.1 |

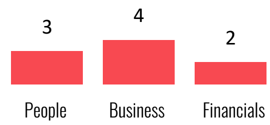
### FAIR VALUE RANGE

| BEAR | BASE | BULL |
|---|---|---|
| 17.0 | **29.0** | 37.0 |

### RAIL.ST VERSUS OMXS30




### REDEYE RATING




### KEY STATS

| | |
|---|---|
| Ticker | RAIL.ST |
| Market | Nasdaq |
| Share Price (SEK) | 18.6 |
| Market Cap (MSEK) | 449 |
| Net Debt 23E (MSEK) | 132 |
| Free Float | 60% |
| Avg. daily volume ('000) | 10 |

### ANALYSTS

Henrik Alveskog
henrik.alveskog@redeye.se
Fredrik Nilsson
fredrik.nilsson@redeye.se

# Q1 highlights

**Railcare: Actual vs. Expectations**

| SEKm | Q1 2022 | Q1 2023 Actual | Q1 2023e | Diff |
|---|---|---|---|---|
| Net sales | 95.3 | 111.0 | 100.0 | 11% |
| EBIT | 8.8 | 13.1 | 9.5 | 38% |
| Pre Tax Profit | 7.8 | 11.0 | 8.0 | 38% |
| *Sales growth Y/Y* | 7% | 16% | 5% | |
| *EBIT ** | 9% | 12% | 10% | |
| *EBIT margin* | 9% | 12% | 10% | |

*Source: Railcare, Redeye Research*

Contracting Sweden's had a later start to the season compared to last year due to weather conditions. The reason why reported sales are higher Y/Y is related to the new setup with operators being hired to the UK operations, generating revenues on a cost neutral basis.

Contracting Abroad posted encouraging numbers. Higher sales than we have seen lately and margins clearly improving, thanks to last year's reorganization.

Transport Scandinavia had a surprisingly strong first quarter with a significant improvement Y/Y. Contributing factors were new contracts for standby locomotives, resumed transports for LKAB and continued high activity in the locomotive workshop, which has a good order backlog and strong pipeline for new assignments. Also, the impact of annual cost price adjustments (mainly in the Kaunis contract) is most likely reflected in Q1 earnings.

Machines and Technology recorded no major deliveries of machines during the quarter. Construction of the new MPV proceeds according to plan and will be tested during the second half of 2023 and be in production in Railcare's contracting operations in 2024.

On group level sales grew by 16% Y/Y and EBIT improved to SEK13m, beating our expectations. Trailing 12 months, sales have grown 15% with EBIT margins around 11%.

**Segments by quarter**

| SEKm | Q2'21 | Q3'21 | Q4'21 | Q1'22 | Q2'22 | Q3'22 | Q4'22 | Q1'23 |
|---|---|---|---|---|---|---|---|---|
| **Contracting Sweden** | | | | | | | | |
| Net sales | 24 | 36 | 40 | 37 | 52 | 49 | 48 | 41 |
| PTP | -7 | 7 | 7 | 5 | 5 | 6 | 5 | 2 |
| PTP margin | -30% | 19% | 16% | 13% | 10% | 13% | 10% | 4% |
| **Contracting Abroad** | | | | | | | | |
| Net sales | 10 | 6 | 14 | 11 | 5 | 10 | 10 | 13 |
| PTP | -2 | -3 | 5 * | -1 | -5 | 0 | -3.3 * | 2 |
| Profit margin | -24% | -47% | n.m. | -7% | -100% | -1% | n.m. | 12% |
| **Transport Scandinavia** | | | | | | | | |
| Net sales | 52 | 89 | 85 | 43 | 73 | 88 | 75 | 68 |
| PTP | 5 | 17 | 14 | 0 | 11 | 14 | 4 | 7 |
| Profit margin | 9% | 19% | 16% | 0% | 15% | 15% | 5% | 10% |
| **Machines and Technology** | | | | | | | | |
| Net sales | 20 | 6 | 7 | 22 | 23 | 24 | 19 | 18 |
| PTP | 3 | 0 | -1 | 3 | 2 | 3 | 1 | 1 |
| Profit margin | 14% | -1% | -13% | 13% | 7% | 11% | 3% | 5% |
| **Group sales:** | **91** | **126** | **132** | **95** | **127** | **146** | **128** | **111** |
| Growth Y/Y | -14% | 34% | 38% | 7% | 40% | 16% | -3% | 17% |
| Growth, TTM | -9% | 1% | 9% | 16% | 30% | 25% | 13% | 15% |
| **EBIT** | **-2** | **25** | **25** | **9** | **13** | **24** | **7** | **13** |
| EBIT-margin | -3% | 20% | 19% | 9% | 10% | 16% | 5% | 12% |
| EBIT margin TTM | 9% | 11% | 13% | 13% | 15% | 14% | 11% | 11% |

* Including capital gains of SEK2.6m in Q4 2021 and one-off costs of SEK3m in Q4 2022.

*Source: Railcare, Redeye Research*

# Financial forecasts

*Only minor changes to our forecasts*

Our overall view is unchanged, and we only make some minor changes to our forecasts following the Q1 report. We expect earnings to improve in 2023 vs 2022, mainly due to an anticipated turn-around in Contracting Abroad. As for 2024-25 we believe all business segments will continue to grow with somewhat improved or at least maintained profitability.

*Leasing operators to UK inflate sales*

Contracting Sweden's pipeline for 2023 looks promising with more maintenance projects planned vs 2022. As mentioned earlier, access to the tracks could potentially be a challenge for some of these projects to be completed as planned. The segment now also includes the pool of machine operators, where some are leased to the UK (Contracting Abroad), see table below. Hence, net sales will be higher while margins slightly diluted.

Contracting Abroad now has a more flexible cost structure, with a lower break-even point. And hopefully the new approach with railway partners in the UK will help bring in more business. The UK market has been very unpredictable but at least Q1 numbers were encouraging. We are now a bit more optimistic, but still have a rather cautious view.

Transport Scandinavia will most likely continue to grow substantially, as it is a cornerstone in Railcare's overall growth strategy and in achieving the sales target of SEK800m by 2027. This includes transports as well as services offered by the locomotive workshop. A number of new contracts have been announced lately, and we as far as we can tell market demand is solid. The segment showed exceptionally high margins of 13-14% in 2020-21. Going forward, we believe around 10% is probably more realistic. Transporting services are typically not a very high margin business and capacity utilization will not always be optimized.

Machines and Technology is the segment with the greatest long-term potential we believe. Railcare has a unique and very attractive product range mainly based on the Railvac systems and soon also the new electric MPV. The MPVe will be tested in H2'23 and in full production in 2024. There is a wide range of business opportunities here and we hope to see the first order and sales of an MPVe in 2024. Admittedly, this is still unpredictable and our forecasts for the next few years include rather modest success at this point.

**Forecasts per segment**

| SEKm | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|---|
| **Contracting Sweden** | | | | | | |
| Net sales | 159 | 131 | 186 | 222 | 228 | 235 |
| Wherof leasing operators to UK | - | - | - | 28 | 30 | 33 |
| PTP | 18 | 8 | 21 | 22 | 23 | 24 |
| Margin | 11% | 6% | 11% | 10% | 10% | 10% |
| **Contracting Abroad** | | | | | | |
| Net sales | 60 | 48 | 36 | 44 | 48 | 52 |
| PTP | 2 | 4 | -9 | 2 | 3 | 4 |
| Margin | 3% | 8% | -25% | 5% | 7% | 7% |
| **Transport Scandinavia** | | | | | | |
| Net sales | 184 | 274 | 279 | 299 | 323 | 349 |
| PTP | 24 | 39 | 28 | 30 | 32 | 33 |
| Margin | 13% | 14% | 10% | 10% | 10% | 10% |
| **Machines and Technology** | | | | | | |
| Net sales | 83 | 37 | 88 | 90 | 120 | 150 |
| PTP | 11 | 1 | 8 | 5 | 10 | 15 |
| Margin | 14% | 2% | 9% | 5% | 8% | 10% |
| **Group net sales** | **401** | **438** | **497** | **529** | **589** | **651** |
| **EBIT** | **61** | **56** | **52** | **67** | **75** | **82** |
| Sales growth, Y/Y | 8% | 9% | 13% | 6% | 11% | 10% |
| EBIT margin | 15.1% | 12.8% | 10.5% | 12.6% | 12.7% | 12.6% |

*Source: Railcare, Redeye Research*

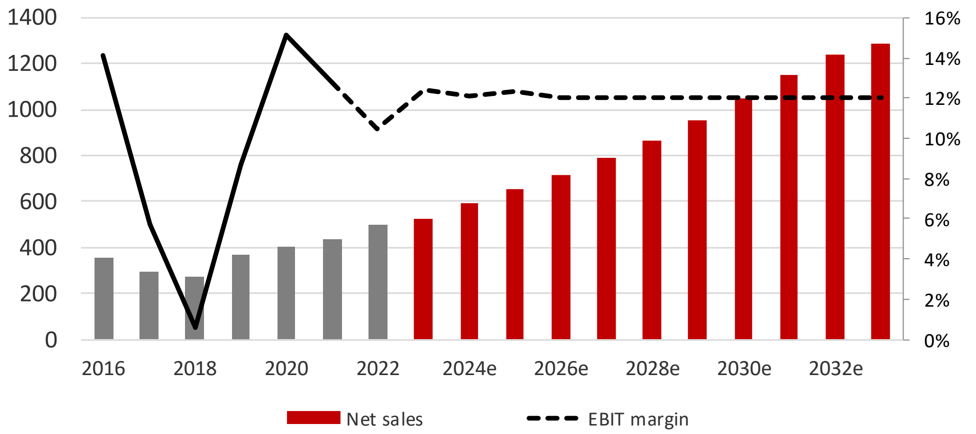
## Long-term assumptions, years 2026-33

No changes have been made to our long-term assumptions. Railcare's target of reaching sales of SEK800m by 2027 coincides with our forecasts. As for EBIT margins we believe an average of 12% is attainable, vs company target of 10%. Redeye assumptions include:

- 10% annual growth
- 12% EBIT margin
- From 2033 (Terminal year): 12% EBIT margin and 2% annual growth

In the period up until 2033 we find it highly likely that Railcare will expand into new geographic markets. In our view, probably countries in northern Europe. And with machine exports to the global market. The future progression will certainly not be linear, like our model suggests. But a CAGR of 10% should be attainable, given the significant expansion opportunities available. If so, annual sales in 2033 will reach close to SEK1.3bn.

**Net sales and EBIT margins**




*Source: Railcare, Redeye Research*

## Valuation

*Fair value: ~SEK 29 per share*

Our cash flow model indicates a fair enterprise value just over SEK 800m. After deducting net debt, we arrive at a fair equity value of SEK 698m, or SEK ~29 per share (basically unchanged vs previously). This suggests a rather appealing potential of more than 50% from current share price level. Assumptions for our Base case scenario and valuation are summarized in the table below.

**Railcare: Base case**

| Assumptions | 2026-32e | DCF-value | |
|---|---|---|---|
| CAGR | 10% | WACC | 10.0% |
| EBIT margin | 12% | NPV FCF 2022-32 | 291 |
| ROIC (avg) | 17% | NPV FCF Terminal | 538 |
| | | Total (EV) | 829 |
| **Terminal** | | Net debt | 131 |
| Net sales 2033 (SEKm) | 1 274 | | |
| Growth FCF | 2% | Fair value | 698 |
| EBIT margin | 12% | Fair value per share | 29.0 |
| EV/S Exit multiple | 1.2 | Share price | 18.6 |
| EV/EBIT Exit multiple | 9.8 | **Potential** | **56%** |

*Source: Redeye Research*

### Still trading at attractive multiples

Based on our estimates Railcare is still trading at more attractive multiples than we have seen historically. With a rather stable business and continued good outlook, we find this unjustified and a bit surprising. EV/EBIT is in our view the most relevant multiple since it also takes net debt into account. We are not including leasing debt in our EV/EBIT. It is however included in our EV/EBITDA multiple.

**Valuation multiples**

| | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|---|---|
| P/E | 12.9 | 13.3 | 13.2 | 10.3 | 8.5 | 7.7 |
| EV/EBIT | 11.6 | 11.8 | 11.8 | 8.8 | 7.9 | 7.1 |
| EV/EBITDA | 6.7 | 6.6 | 6.7 | 5.7 | 5.6 | 5.1 |
| P/S | 1.4 | 1.2 | 1.2 | 1.1 | 1.0 | 0.9 |
| Share price | 23.3 | 22.4 | 18.6 | 18.6 | 18.6 | 18.6 |

*Source: Railcare, Redeye Research*

## Scenarios

For a company like Railcare there are of course a variety of possible scenarios. We do not see any specific binary events that would cause a significantly different development than the one outlined in our main scenario, Base case. Business operations are stable and the balance between different segments offer some diversification in terms of risks. However, two other possible scenarios are outlined below: Bull- and Bear-case. Both are quite possible, but in our view rather optimistic and pessimistic, respectively.

**Bull-case**

Railcare certainly could grow faster than we anticipate for an extended period of time. If they, e.g. establish operations in a new country or if machine sales really start taking off. The Railvac, Minevac, Tubevac and MPV, all have significant market potential globally. These machines have a potential for very good gross margins and with higher volumes Rilcare can improve its manufacturing process. Growth driven by machine sales should also drive margins. Assumptions for our Bull case:

- CAGR 2023-32: ~13%, taking sales to SEK1.6bn in 2033.
- Sustainable EBIT margins of 12%.
- Bull case fair value around SEK 37 per share.

**Bear-case**

Although the near-term outlook is bright, market conditions could deteriorate later on. New competitors, that we don’t see today could emerge and impact profitability. State budgets could see major cuts or Railcare itself could run into internal problems. Bear case assumptions:

- CAGR 2023-32: 5% taking sales to ~SEK800m in 2033.
- Sustainable EBIT margins of 10%.
- Bear case fair value around SEK 17 per share.

# Investment Thesis

**Unique position in attractive market segment**

Railcare has established a solid position in the railway maintenance market, with an offer based on its own unique proprietary vacuum technology. The company has developed efficient systems to handle ballast replacement that standard excavators are unable to perform. This means maintenance work can be done at a lower cost and with less interruptions in railroad traffic. The global market potential is huge and if executed well, Railcare has decades of major growth opportunities ahead.

**Successfully validated**

The Railvac systems have been operating successfully in Sweden and the UK for many years and been exported to several markets overseas. It has become a well-known concept, validated by partners and clients. With the new all-electric MPV (emission-free and low noise), Railcare is adding features very appealing to niche applications like maintenance in subways, tunnels and populated areas.

## Challenges

**Limited progress lately**

In recent years, export sales of Railvac systems have been quite few and far apart. This is reason for some concern, as we believe the company's ambition has been higher. We don't really know the reasons behind this. When it comes to Railcares' overall growth ambitions, our sense is that they have been somewhat defensive and not too eager. This may be changing considering the new financial sales target of SEK800m by 2027, corresponding to a CAGR ~10%.

**Political risk**

A significant part of the group's operations is exposed to public utilities and government budgets. Currently there is good support for railroad maintenance, but there is always a risk associated with political involvement. This can certainly be applied to Railcare's own contracting business, but also to some extent when it comes to exports of machinery and equipment.

# 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:** 3

Management is very active in daily operations and have extensive experience from the railroad industry. However, Mattias Remahl is newly appointed as CEO and we really cannot evaluate him in this capacity yet. Communication and financial reports are relevant and transparent and Railcare is ticking most boxes in the People category. Furthermore, the two dominant owners are represented on the Board of directors, which also has some independent members.

**Business:** 4

Revenues and profitability have been quite volatile in the last few years, due to fluctuating demand. The customer offer based on the unique Railvac machines is a competitive advantage that should give good prospects for growth and profitability. There are still no head-on competitors in this niche segment, as far as we know. For some of Railcare's other service offerings, there is more competition. Management appears to be committed on innovation of new products and services and we also believe that Railcare will expand geographically, in due course.

**Financials:** 2

Profitability was poor in 2017-18, due to declining volumes, but has improved remarkably since then. Railcare decided not to make any drastic reductions in personnel during 2017-18, as they anticipated better times and need skilled staff. EBIT margins have been well over the company's own target of 10% lately and we would not be surprised if Railcare decides to raise this target. However, there is limited leverage in the major part of the company's business offering. Hence, there are also limitations in terms of what they can score in our Financial rating. Financial gearing (debt/equity) is on a reasonable level given stable and profitable operations. But there is probably limited room for major acquisitions or significant expansions into new markets.

| | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|
| **INCOME STATEMENT** | | | | |
| Net sales | 497 | 529 | 589 | 651 |
| Cost of Revenues | 193 | 200 | 216 | 238 |
| Gross Profit | 304 | 329 | 373 | 412 |
| Operating Expenses | 209 | 215 | 258 | 285 |
| **EBITDA** | 95 | 113 | 115 | 127 |
| Depreciation & Amortization | 43 | 48 | 52 | 58 |
| **EBIT** | 52 | 67 | 75 | 82 |
| Net Financial Items | -5 | -9 | -8 | -8 |
| EBT | 47 | 58 | 67 | 74 |
| Income Tax Expenses | 10 | 14 | 14 | 15 |
| Non-Controlling Interest | 0 | 0 | 0 | 0 |
| **Net Income** | 37 | 44 | 53 | 59 |
| **BALANCE SHEET** | | | | |
| **Assets** | | | | |
| Current assets | | | | |
| Cash & Equivalents | 32 | 22 | 14 | 23 |
| Inventories | 32 | 37 | 41 | 46 |
| Accounts Receivable | 41 | 48 | 53 | 59 |
| Other Current Assets | 37 | 37 | 41 | 46 |
| **Total Current Assets** | 142 | 144 | 149 | 173 |
| Non-current assets | | | | |
| Property, Plant & Equipment, Net | 383 | 416 | 463 | 508 |
| Goodwill | 6 | 6 | 6 | 6 |
| Intangible Assets | 2 | 1 | 1 | 1 |
| Right-of-Use Assets | 55 | 48 | 39 | 16 |
| Shares in Associates | 0 | 0 | 0 | 0 |
| Other Long-Term Assets | 5 | 5 | 5 | 5 |
| **Total Non-Current Assets** | 451 | 476 | 514 | 536 |
| **Total Assets** | 593 | 619 | 663 | 708 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Short-Term Debt | 64 | 54 | 54 | 54 |
| Short-Term Lease Liabilities | 11 | 11 | 11 | 11 |
| Accounts Payable | 34 | 37 | 41 | 46 |
| Other Current Liabilities | 42 | 46 | 47 | 49 |
| **Total Current Liabilities** | 151 | 148 | 153 | 159 |
| Non-current liabilities | | | | |
| Long-Term Debt | 101 | 101 | 101 | 101 |
| Long-Term Lease Liabilities | 43 | 43 | 43 | 43 |
| Other Long-Term Liabilities | 55 | 55 | 55 | 55 |
| **Total Non-current Liabilities** | 198 | 198 | 198 | 198 |
| Non-Controlling Interest | 0 | 0 | 0 | 0 |
| Shareholder's Equity | 244 | 273 | 311 | 352 |
| **Total Liabilities & Equity** | 593 | 619 | 663 | 708 |
| **CASH FLOW** | | | | |
| NOPAT | 64 | 83 | 91 | 99 |
| Change in Working Capital | -19 | -5 | -8 | -9 |
| Operating Cash Flow | 68 | 87 | 97 | 108 |
| Capital Expenditures | -53 | -56 | -72 | -73 |
| Investment in Intangible Assets | 0 | -4 | -6 | -7 |
| Investing Cash Flow | -65 | -73 | -90 | -79 |
| Financing Cash Flow | -8 | -24 | -15 | -19 |
| Free Cash Flow | 15 | 26 | 19 | 28 |

| DCF Valuation Metrics | Sum FCF (SEKm) |
|---|---|
| Initial Period (2023–2025) | 48 |
| Momentum Period (2026–2028) | 244 |
| Stable Period (2029–) | 543 |
| Firm Value | 835 |
| Net Debt (last quarter) | 131 |
| Equity Value | 704 |
| Fair Value per Share | 29.2 |

| | 2022 | 2023e | 2024e | 2025e |
|---|---|---|---|---|
| **CAPITAL STRUCTURE** | | | | |
| Equity Ratio | 0.4 | 0.4 | 0.5 | 0.5 |
| Debt to equity | 0.7 | 0.6 | 0.5 | 0.4 |
| Net Debt | 133 | 133 | 141 | 132 |
| Capital Employed | 442 | 472 | 510 | 550 |
| Working Capital Turnover | 21.3 | 19.0 | 16.2 | 14.5 |
| **GROWTH** | | | | |
| Revenue Growth | 13% | 6% | 11% | 10% |
| Basic EPS Growth | -10% | 20% | 22% | 10% |
| Adjusted Basic EPS Growth | -10% | 20% | 22% | 10% |
| **PROFITABILITY** | | | | |
| ROE | 16% | 17% | 18% | 18% |
| ROCE | 12% | 14% | 15% | 15% |
| ROIC | 16% | 19% | 19% | 19% |
| EBITDA Margin (%) | 19% | 21% | 20% | 20% |
| EBIT Margin (%) | 11% | 13% | 13% | 13% |
| Net Income Margin (%) | 7% | 8% | 9% | 9% |
| **VALUATION** | | | | |
| Basic EPS | 1.5 | 1.8 | 2.2 | 2.4 |
| Adjusted Basic EPS | 1.5 | 1.8 | 2.2 | 2.4 |
| P/E | 13.2 | 10.4 | 8.5 | 7.7 |
| EV/Revenue | 1.2 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA | 6.5 | 5.2 | 5.2 | 4.6 |
| EV/EBIT | 11.8 | 8.8 | 7.9 | 7.1 |
| P/B | 2.0 | 1.7 | 1.5 | 1.3 |

| SHAREHOLDER STRUCTURE | CAPITAL % | VOTES % |
|---|---|---|
| Norra Västerbotten Fastighets AB | 29.5% | 29.5% |
| TREAC Aktiebolag | 9.9% | 9.9% |
| Ålandsbanken AB | 5.1% | 5.1% |
| Försäkringsbolaget Avanza Pension | 3.4% | 3.4% |
| Bernt Larsson | 3.1% | 3.1% |

| SHARE INFORMATION | |
|---|---|
| Reuters code | RAIL.ST |
| List | Nasdaq Smallcap |
| Share price | 18.6 |
| Total shares, million | 24.1 |

| MANAGEMENT & BOARD | |
|---|---|
| CEO | Mattias Remahl |
| CFO | Lisa Borgs |
| Chairman | Anders Westermark |

| ANALYSTS | Redeye AB |
|---|---|
| Henrik Alveskog | Mäster Samuelsgatan 42, 10tr |
| Fredrik Nilsson | 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

Alexander Flening
alexander.flening@redeye.se

Jessica Grünewald
jessica.grunewald@redeye.se

Jesper Henriksson
jesper.henriksson@redeye.se

Anton Hoof
anton.hoof@redeye.se

Rasmus Jacobsson
rasmus.jacobsson@redeye.se

Viktor Lindström
viktor.lindström@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

Danesh Zare
danesh.zare@redeye.se

Fredrik Reuterhäll
fredrik.reuterhall@redeye.se

## Life Science Team

Sebastian Andersson
sebastian.andersson@redeye.se

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

Gustaf Meyer
gustaf.meyer@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

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Henrik Alveskog owns shares in the company : No

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