

# Railcare Group

Sector: Industrial Goods &amp; Services

## Good leverage in Q3

Redeye is making some small positive revisions to our forecasts and valuation following the Q3 report. EBIT margins reached 17% in the quarter, illustrating the leverage and potential for profit generation. Business segment Transport Scandinavia had an exceptionally strong quarter with sales and earnings at new highs. Our Base case fair value around SEK30 per share (previously: SEK29) is supported by attractive earnings multiples (EV/EBIT and P/E ~8-10).

### Q3 – earnings higher than expected

Net sales of SEK159m in Q3 were 9% higher Y/Y and in line with our forecast. EBIT on the other hand, was clearly higher: SEK27m (vs est: SEK18m). Transport Scandinavia is again the brightest shining star, with new ATH in terms of both sales and profits. Contracting Abroad (UK operations) is not showing any progress and Railcare now seems less optimistic about any near-term turn-around. Fortunately, this is the smallest business segment and deficits are quite modest. The remaining two business segments seem to have progressed according to plan. Previous concerns and problems with the new MPK planning system had no material negative impact on Railcare's activities in Q3.

### New major contract adding recurring revenues

Railcare was recently awarded another major and long-term contract by the Swedish Transport Administration for standby locomotives, starting 2025. The five-year contract is worth SEK403m or SEK80m annually, adding over 10% to the group's top-line growth in 2025-26. Also, it will add more recurring revenues making profits more predictable, which is an important objective in Railcare's expansion strategy. In 2026, we believe around 40% of total revenues will be generated from these contracts, which include transports for Kaunis Iron and LKAB, standby locomotives and snow removal.

### Forecasts and valuation inching higher

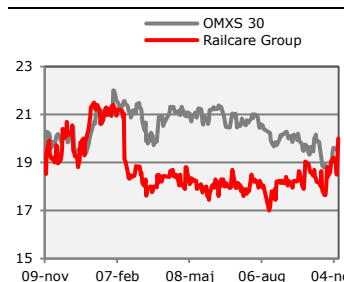
We have raised our forecasts for 2023 due to the strong Q3 numbers. Also, the new contract for standby locomotives supports a little higher growth 2025-26. Our Base case fair value is now around SEK30 per share (SEK29). The share has recovered somewhat but is still trading at EV/EBIT multiples of 8-9, which we find clearly attractive.

Key Financials (SEKm)	2021	2022	2023e	2024e	2025e
Net sales	438	497	557	610	680
Sales growth	9%	13%	12%	10%	11%
EBITDA	108	95	115	129	145
EBIT	56	52	72	78	87
EBIT Margin (%)	13%	11%	13%	13%	13%
Net Income	40	37	49	53	61
EV/Sales	1.5	1.2	1.1	1.0	0.9
EV/EBITDA	6.1	6.5	5.4	4.9	4.4
EV/EBIT	11.9	11.7	8.8	8.2	7.2

### FAIR VALUE RANGE

BEAR	BASE	BULL
17.0	30.0	40.0

### RAIL.ST VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	RAIL.ST
Market	Nasdaq
Share Price (SEK)	20.0
Market Cap (MSEK)	482
Net Debt 23E (MSEK)	144
Free Float	60%
Avg. daily volume ('000)	11

### ANALYSTS

Henrik Alveskog  
[henrik.alveskog@redeye.se](mailto:henrik.alveskog@redeye.se)  
 Fredrik Nilsson  
[fredrik.nilsson@redeye.se](mailto:fredrik.nilsson@redeye.se)

## Q3 highlights

### Railcare: Actual vs. Expectations

SEKm	Q3 2022	Q3 2023 Actual	Q3 2023e	Diff
Net sales	146.5	159.2	158.0	1%
EBIT	23.9	26.8	17.5	53%
Pre Tax Profit	22.4	23.9	15.2	57%
Sales growth Y/Y	16%	9%	8%	
EBIT margin	16.3%	16.8%	11.1%	

Source: Railcare, Redeye Research

**Contracting Sweden** posted 18% higher sales Y/Y while earnings decreased somewhat. Higher proportion of groundworks in the lining business had a negative impact on margins.

**Contracting Abroad** had another weak quarter with 44% lower sales Y/Y and a somewhat higher deficit. The near-term outlook also seems quite weak as we are now approaching the end of the UK control period with only limited new assignments up until April 2024.

**Transport Scandinavia** was again the strongest segment with new ATH in terms of both sales and earnings. The boost comes from high activity in the locomotive workshop, including the completion of system upgrades and installation for five Traxx locomotives. Volumes for contract transports were lower Y/Y, but offset by price increased from longer contracts and the three standby locomotives in operation since January 2023.

**Machines and Technology** recorded no external sales in Q3. The construction of the new MPV is advancing with trial runs planned for Q4 and full production in Railcare's contracting operations in 2024.

**On group level** sales grew by 9% Y/Y and EBIT margins reached an impressive 17%. Trailing 12 months, top-line growth is still growing 8% while EBIT margins remain just over 11%.

Segments by quarter							
SEKm	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23
<b>Contracting Sweden</b>							
Net sales	37	52	49	48	41	58	58
PTP	5	5	6	5	2	5	6
PTP margin	13%	10%	13%	10%	4%	8%	10%
<b>Contracting Abroad</b>							
Net sales	11	5	10	10	13	5	6
PTP	-1	-5	0	-3.3 *	2	-1	-1
Profit margin	-7%	-100%	-1%	n.m.	12%	-19%	-26%
<b>Transport Scandinavia</b>							
Net sales	43	73	88	75	68	82	97
PTP	0	11	14	4	7	9	18
Profit margin	0%	15%	15%	5%	10%	11%	18%
<b>Machines and Technology</b>							
Net sales	22	23	24	19	18	18	24
PTP	3	2	3	1	1	1	1
Profit margin	13%	7%	11%	3%	5%	8%	3%
<b>Group sales:</b>	<b>95</b>	<b>127</b>	<b>146</b>	<b>128</b>	<b>111</b>	<b>145</b>	<b>159</b>
Growth Y/Y	7%	40%	16%	-3%	17%	14%	9%
Growth, TTM	16%	30%	25%	13%	15%	10%	8%
<b>EBIT</b>	<b>9</b>	<b>13</b>	<b>24</b>	<b>7</b>	<b>13</b>	<b>15</b>	<b>27</b>
EBIT-margin	9%	10%	16%	5%	12%	10%	17%
EBIT margin TTM	12.7%	15.0%	14.1%	10.5%	11.1%	11.1%	11.3%

\* Including one-off costs of SEK3m in Q4 2022.

Source: Railcare, Redeye Research

## Financial forecasts

Earnings forecasts  
a little higher

On group level, our earnings forecasts are now higher for 2023, following the strong Q3 results. Also, we raise our 2025e, mainly on the back of the newly acquired contract for standby locomotives. All and all, we have raised our forecasts for business segment Transport Scandinavia. However, the positive impact is to some extent balanced by lower expectations on Contracting Abroad.

**Contracting Sweden's** market outlook remains solid as far as we can tell, although Railcare has not specifically commented on order backlog or bookings. Demand for contracting services as well as relining are expected to remain high. Problems related to the MPK planning system and access to the tracks (experienced earlier in 2023) have eased off according to Railcare. We expect the segment to generate around 10% EBIT margins. Historically margins have ranged between 6-15% with an average just over 10%.

**Contracting Abroad** continues to struggle with low volumes and we are now less optimistic about any near-term sustainable improvement. Thanks to their flexible cost structure, deficits are fortunately quite modest. Our expectations for the segment are now rather low, awaiting more tangible positive indications.

**Transport Scandinavia** is one of the cornerstones in Railcare's growth strategy with an ambition to expand significantly in the coming years. This includes transports as well as services offered by the locomotive workshop. The segment posted exceptionally high margins of 13-14% in 2020-21 and YTD 2023, thanks to high utilization and a good sales mix. We believe around 11% is probably more realistic going forward. Transporting services are typically not a very high margin business and capacity utilization will not always be high.

**Machines and Technology** has in our view great long-term potential for profitable growth through its unique and attractive product range mainly based on the Railvac systems and soon also the new electric MPV with pantographs. There is a wide range of business opportunities here and we hope to see the first order and sales of an MPVe in 2024. In this context, recent news that Railcare will participate in an exhibition in Australia in November this year, is of course very interesting.

Forecasts per segment						
SEKm	2020	2021	2022	2023e	2024e	2025e
<b><u>Contracting Sweden</u></b>						
Net sales	159	131	186	212	219	225
Wherof leasing operators to UK	-	-	-	22	22	24
PTP	18	8	21	18	22	23
Margin	11%	6%	11%	8%	10%	10%
<b><u>Contracting Abroad</u></b>						
Net sales	60	48	36	32	32	35
PTP	2	4	-9	-1	-1	0
Margin	3%	8%	-25%	-4%	-4%	0%
<b><u>Transport Scandinavia</u></b>						
Net sales	184	274	279	328	355	390
PTP	24	39	28	41	39	43
Margin	13%	14%	10%	13%	11%	11%
<b><u>Machines and Technology</u></b>						
Net sales	83	37	88	84	110	140
PTP	11	1	8	4	9	14
Margin	14%	2%	9%	5%	8%	10%
<b>Group net sales</b>	<b>401</b>	<b>438</b>	<b>497</b>	<b>557</b>	<b>610</b>	<b>680</b>
<b>EBIT</b>	<b>61</b>	<b>56</b>	<b>52</b>	<b>72</b>	<b>78</b>	<b>87</b>
Sales growth, Y/Y	8%	9%	13%	12%	10%	11%
EBIT margin	15.1%	12.8%	10.5%	12.8%	12.7%	12.9%

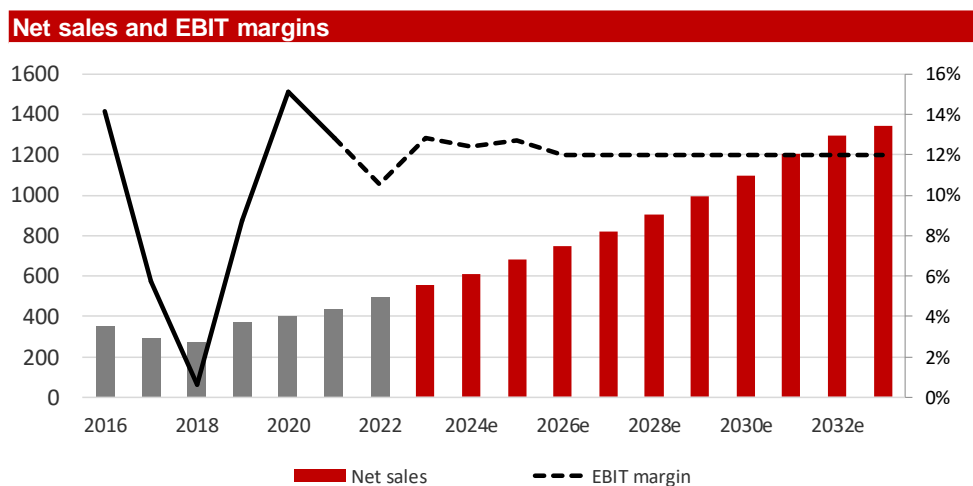
Source: Railcare, Redeye Research

## 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 around SEK1.3bn.



Source: Railcare, Redeye Research

## Valuation

Fair value:  
~SEK 30 per share

Our cash flow model indicates a fair enterprise value around SEK 875m. After deducting net debt, we arrive at a fair equity value just above SEK 700m, or **SEK ~30 per share** (SEK 29 previously). This suggests a rather appealing potential of around 50% from current share price level. Assumptions for our Base case scenario and valuation are summarized in the table below.

<b>Railcare: Base case</b>			
<b>Assumptions</b>	<b>2026-32e</b>	<b>DCF-value</b>	
CAGR	10%	WACC	10.0%
EBIT margin	12%	NPV FCF 2022-32	271
ROIC (avg)	17%	NPV FCF Terminal	604
		Total (EV)	875
		Net debt	158
<b>Terminal</b>			
Net sales 2033 (SEKm)	1 302		
Growth FCF	2%	Fair value	717
EBIT margin	12%	Fair value per share	29.7
EV/S Exit multiple	1.1	Share price	20
EV/EBIT Exit multiple	9.4	<b>Potential</b>	<b>49%</b>

Source: Redeye Research

### Still trading at attractive multiples

Based on our estimates Railcare is 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.

<b>Valuation multiples</b>						
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>
P/E	12.9	13.3	13.1	9.9	9.2	7.9
EV/EBIT	11.6	11.8	11.7	8.8	8.4	7.3
EV/EBITDA	6.7	6.6	7.1	6.0	5.5	4.8
P/S	1.4	1.2	1.2	1.1	1.0	0.9
Share price	23.3	22.4	20.5	20.0	20.0	20.0

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 Railcare 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 40 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 still rather new 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. So a good mix on the Board.

#### 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
<b>INCOME STATEMENT</b>				
Net sales	497	557	610	680
Cost of Revenues	193	206	220	245
Gross Profit	304	351	391	435
Operating Expenses	209	236	262	291
<b>EBITDA</b>	95	115	129	145
Depreciation & Amortization	43	44	51	57
<b>EBIT</b>	52	72	78	87
Net Financial Items	-5	-10	-11	-10
EBT	47	61	66	77
Income Tax Expenses	10	13	14	16
Non-Controlling Interest	0	0	0	0
<b>Net Income</b>	37	49	53	61
<b>BALANCE SHEET</b>				
<b>Assets</b>				
<b>Current assets</b>				
Cash & Equivalents	32	16	18	19
Inventories	32	39	43	48
Accounts Receivable	41	61	61	61
Other Current Assets	37	39	43	48
<b>Total Current Assets</b>	142	155	164	176
<b>Non-current assets</b>				
Property, Plant & Equipment, Net	383	416	457	497
Goodwill	6	6	6	6
Intangible Assets	2	-2	-3	-4
Right-of-Use Assets	55	51	53	52
Shares in Associates	0	0	0	0
Other Long-Term Assets	5	5	5	5
<b>Total Non-Current Assets</b>	451	476	518	556
<b>Total Assets</b>	593	632	682	732
<b>Liabilities</b>				
<b>Current liabilities</b>				
Short-Term Debt	64	59	69	69
Short-Term Lease Liabilities	11	11	11	11
Accounts Payable	34	39	43	48
Other Current Liabilities	42	47	48	49
<b>Total Current Liabilities</b>	151	155	170	176
<b>Non-current liabilities</b>				
Long-Term Debt	101	101	101	101
Long-Term Lease Liabilities	43	43	43	43
Other Long-Term Liabilities	55	55	55	55
<b>Total Non-current Liabilities</b>	198	198	198	198
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	244	278	314	357
<b>Total Liabilities &amp; Equity</b>	593	632	682	732
<b>CASH FLOW</b>				
NOPAT	64	86	93	106
Change in Working Capital	-19	-20	-2	-4
Operating Cash Flow	68	73	102	115
Capital Expenditures	-53	-55	-67	-68
Investment in Intangible Assets	0	-2	-6	-7
Investing Cash Flow	-65	-69	-93	-95
Financing Cash Flow	-8	-19	-7	-18
Free Cash Flow	15	16	28	40

	2022	2023e	2024e	2025e
<b>DCF Valuation Metrics</b>				
Initial Period (2023–2025)				55
Momentum period (2026-32)				219
Stable period (2033-)				604
Firm Value				878
Net Debt (last quarter)				158
Equity Value				720
Fair Value per Share				29.8
<b>CAPITAL STRUCTURE</b>				
Equity Ratio	0.4	0.4	0.5	0.5
Debt to equity	0.7	0.6	0.5	0.5
Net Debt	133	144	152	151
Capital Employed	442	476	512	555
Working Capital Turnover	21.3	13.0	13.5	13.9
<b>GROWTH</b>				
Revenue Growth	13%	12%	10%	11%
Basic EPS Growth	-9%	32%	9%	16%
Adjusted Basic EPS Growth	-9%	32%	9%	16%
<b>PROFITABILITY</b>				
ROE	16%	19%	18%	18%
ROCE	12%	15%	15%	16%
ROIC	16%	20%	19%	20%
EBITDA Margin (%)	19%	21%	21%	21%
EBIT Margin (%)	11%	13%	13%	13%
Net Income Margin (%)	7%	9%	9%	9%
<b>VALUATION</b>				
Basic EPS	1.5	2.0	2.2	2.5
Adjusted Basic EPS	1.5	2.0	2.2	2.5
P/E	13.1	9.9	9.1	7.9
EV/Revenue	1.2	1.1	1.0	0.9
EV/EBITDA	6.5	5.4	4.9	4.4
EV/EBIT	11.7	8.8	8.2	7.2
P/B	2.0	1.7	1.5	1.4
<b>SHAREHOLDER STRUCTURE</b>				
	<b>CAPITAL %</b>	<b>VOTES %</b>		
Norman Invest AB	29.5%	29.5%		
TREAC Aktieföretag	9.9%	9.9%		
Ålandsbanken AB	5.3%	5.3%		
Försäkringsbolaget Avanza Pension	3.4%	3.4%		
Bernt Larsson	3.1%	3.1%		
<b>SHARE INFORMATION</b>				
Reuters code				RAIL.ST
List				Nasdaq Smallcap
Share price				20.0
Total shares, million				24.1
<b>MANAGEMENT &amp; BOARD</b>				
CEO				Mattias Remahl
CFO				Lisa Borgs
Chairman				Anders Westermark
<b>ANALYSTS</b>				
Henrik Alveskog				Redeye AB
Fredrik Nilsson				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

**Alexander Flening**

alexander.flening@redeye.se

**Jessica Grünewald**

jessica.grunewald@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](mailto:niklas.savas@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

## Disclaimer

### Important information

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### CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Fredrik Nilsson owns shares in the company : No

Redeye performs services for the Company and receives compensation from the Company in connection with this.