

# Railcare Group

Sector: Industrial Goods &amp; Services

## Sales at new ATH

Redeye is encouraged by the strong Q3 numbers including group sales hitting a new ATH. Swedish operations had another strong quarter while the UK bounced back from a weak Q2. We are raising our forecasts and see an appealing potential in the share, which is trading at attracting multiples and a Base case fair value around SEK 29 per share.

### Q3 beat our expectations

Net sales of SEK146m were 16% higher Y/Y and again, well above our forecast. Q3 is the strongest quarter from a seasonality point and SEK146m is a new ATH by a wide margin. EBIT: SEK23m also beat our estimate, but some extra maintenance costs were incurred in Q3, which reduced the leverage from higher volumes.

### Solid performance across the board

All segments performed better or in line with our expectations. Transport Scandinavia continues to work at high capacity, both within transports and at the locomotive workshop. Contracting Sweden had a solid quarter, and the relining business has great momentum, with sales more than twice as high as last year, both in Q3 and accumulated. Contracting Abroad picked-up considerably compared to the weak Q2 numbers. The segment posted break-even in Q3, which is a bit of a relief although the UK market remains unpredictable. Machines and Technology is primarily focused on the new version of the MPV, expected to be completed in the second half of 2023.

Looking into next year, market conditions seem stable, at least for the Swedish operations, which account for the vast majority of group sales.

### Raising our forecasts

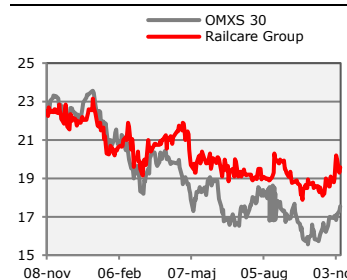
We are making some positive adjustments to our near-term forecasts as well as assumptions for sustainable profitability: EBIT margins 12%, vs 11% previously. Our Base case fair value around **SEK 29 per share** suggests good potential from current share price level.

| Key Financials (SEKm) | 2020 | 2021 | 2022e | 2023e | 2024e |
|-----------------------|------|------|-------|-------|-------|
| Net sales             | 401  | 438  | 496   | 508   | 566   |
| Revenue growth        | 8%   | 9%   | 13%   | 2%    | 11%   |
| EBITDA                | 114  | 108  | 108   | 111   | 119   |
| EBIT                  | 60   | 56   | 65    | 63    | 70    |
| EBIT Margin (%)       | 15%  | 13%  | 13%   | 12%   | 12%   |
| Net Income            | 44   | 40   | 48    | 47    | 54    |
| EV/Revenue            | 1.8  | 1.5  | 1.2   | 1.2   | 1.0   |
| EV/EBITDA             | 6.4  | 6.1  | 5.5   | 5.4   | 5.0   |
| EV/EBIT               | 12.0 | 11.9 | 9.1   | 9.4   | 8.5   |

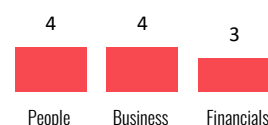
### FAIR VALUE RANGE

| BEAR | BASE | BULL |
|------|------|------|
| 18.0 | 29.0 | 38.0 |

### RAIL.ST VERSUS OMXS30



### REDEYE RATING



### KEY STATS

|                          |         |
|--------------------------|---------|
| Ticker                   | RAIL.ST |
| Market                   | Nasdaq  |
| Share Price (SEK)        | 19.3    |
| Market Cap (MSEK)        | 465     |
| Net Debt 22E (MSEK)      | 123     |
| Free Float               | 60%     |
| Avg. daily volume ('000) | 10      |

### ANALYSTS

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

## Q3 sales at ATH

The Q3 report beat our forecast by a wide margin, mainly due to stronger performance within segments Transport Scandinavia and Contracting Abroad.

### Railcare: Actual vs. Expectations

| SEKm             | Q3'21 | Q3'22  |        | Diff |
|------------------|-------|--------|--------|------|
|                  |       | Actual | Q3'22E |      |
| Net sales        | 126.2 | 146.5  | 126.0  | 16%  |
| EBIT             | 25.3  | 23.9   | 15.2   | 57%  |
| Pre Tax Profit   | 24.2  | 22.4   | 14.0   | 60%  |
| Sales growth Y/Y | 34%   | 16%    | 0%     |      |
| EBIT margin      | 20%   | 16%    | 12%    |      |

Source: Railcare, Redeye Research

**Contracting Sweden** posted solid numbers despite high maintenance costs in Q3. Relining of culverts continued to show strong growth and is now making a meaningful contribution.

**Contracting Abroad** bounced back from the very weak Q2. The break-even result in Q3 is quite reassuring as it suggests that Railcare has been agile, taking down costs.

**Transport Scandinavia** again posted stronger sales and earnings than we expected. Business activity is high and order intake for the locomotive workshop has been high.

**Machines and Technology** is primarily focused on completing the development of the new version of the MPV by the second half of 2023. Reported net sales are mainly related to intra-group invoicing.

### Segments by quarter

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

\* Including capital gains from divestment.

Source: Railcare, Redeye Research

## Financial forecasts

*New financial targets soon?*

Following the upbeat Q3 numbers, we are making some positive adjustments to our forecasts. Both short- and long-term. Railcare has in the last few years displayed solid growth and stability in earnings. In 2020-22 EBIT margins have averaged 13-14%. Hence, well above the company's own target of 10%. Moreover, Railcare is now very close to meeting its sales target of SEK500m. Our guess is that the company will revise its financial targets in the not-too-distant future. We are not speculating in Railcare's new targets, but regarding Redeye's estimates, we are now assuming sustainable EBIT margins of 12% (vs 11% earlier).

**Contracting Sweden** appears to have stable market conditions for the coming years with extensive maintenance projects planned for the Swedish railway. Moreover, the relining business is growing. Relining is still quite small, but potentially a higher margins business with large untapped market potential. In our forecasts we have assumed EBIT margins around 12%, which is in line with five-year average since 2017.

**Contracting Abroad** has proved unpredictable and our expectations on this segment remain low until we see signs of a positive trend. This could be supported by the new framework agreement with Network Rail which includes a new webtool making it easier for customers to book Railcare's services. The Q3 recovery (after the Q2-dip) was at least a relief, but we still don't know what to expect near-term.

**Transport Scandinavia** has exceeded our expectations so far in 2022. And the activity level is set to remain high within transports as well as the locomotive workshop. To manage the growth, Railcare has recruited more employees, e.g. train drivers. EBIT margins have improved significantly in the last few years to 13-14% in 2020-21. This may be sustainable, but we are a bit more cautious and expect margins around 10% going forward. One factor that might overturn our forecasts is the contract with LKAB. It expires by year-end, but we expect it to be extended into 2023.

**Machines and Technology** is the segment with the greatest future potential in our view. But it's still very difficult to predict and at this point our forecasts are extremely uncertain. The new MPVe will be completed H2 2023, followed by the commercial phase.

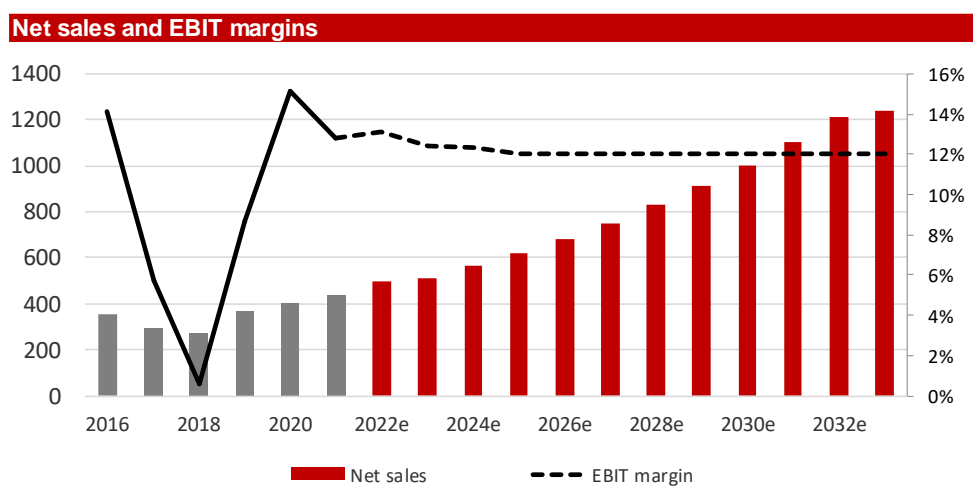
| Forecasts per segment          |            |            |            |            |            |            |
|--------------------------------|------------|------------|------------|------------|------------|------------|
| SEKm                           | 2019       | 2020       | 2021       | 2022e      | 2023e      | 2024e      |
| <b>Contracting Sweden</b>      |            |            |            |            |            |            |
| Net sales                      | 171        | 159        | 131        | 180        | 180        | 189        |
| PTP                            | 22         | 18         | 8          | 23         | 22         | 23         |
| Margin                         | 13%        | 11%        | 6%         | 13%        | 12%        | 12%        |
| <b>Contracting Abroad</b>      |            |            |            |            |            |            |
| Net sales                      | 68         | 60         | 48         | 37         | 47         | 54         |
| PTP                            | -1         | 2          | 4          | -6         | 0          | 2          |
| Margin                         | -2%        | 3%         | 8%         | -15%       | 0%         | 4%         |
| <b>Transport Scandinavia</b>   |            |            |            |            |            |            |
| Net sales                      | 158        | 184        | 274        | 281        | 281        | 292        |
| PTP                            | 5          | 24         | 39         | 34         | 28         | 29         |
| Margin                         | 3%         | 13%        | 14%        | 12%        | 10%        | 10%        |
| <b>Machines and Technology</b> |            |            |            |            |            |            |
| Net sales                      | 19         | 83         | 37         | 91         | 100        | 130        |
| PTP                            | 1          | 11         | 1          | 9          | 10         | 13         |
| Margin                         | 4%         | 14%        | 2%         | 10%        | 10%        | 10%        |
| <b>Group net sales</b>         | <b>371</b> | <b>401</b> | <b>438</b> | <b>496</b> | <b>508</b> | <b>566</b> |
| <b>EBIT</b>                    | <b>32</b>  | <b>61</b>  | <b>56</b>  | <b>65</b>  | <b>63</b>  | <b>70</b>  |
| Sales growth, Y/Y              | 37%        | 8%         | 9%         | 13%        | 2%         | 11%        |
| EBIT margin                    | 9%         | 15%        | 13%        | 13%        | 12%        | 12%        |

Source: Railcare, Redeye Research

## Long-term assumptions, years 2025-32:

- 10% annual growth
- 12% EBIT margin (previously 11%)
- From 2033 (Terminal year): 12% EBIT margin and 2% annual growth

In the period up until 2032 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 a little over SEK1.2bn.



Source: Railcare, Redeye Research

## Valuation

Fair value:  
~SEK 29 per share

Our cash flow model indicates a fair enterprise value of SEK 846m. After deducting net debt, we arrive at a fair equity value around SEK 700m, or **SEK ~29 per share** (basically unchanged vs previously). Assumptions for our Base case scenario and valuation are summarized in the table below.

| <b>Railcare: Base case</b> |                 |                      |            |
|----------------------------|-----------------|----------------------|------------|
| <b>Assumptions</b>         | <b>2025-32e</b> | <b>DCF-value</b>     |            |
| CAGR                       | 10%             | WACC                 | 10.0%      |
| EBIT margin                | 12%             | NPV FCF 2022-32      | 301        |
| ROIC (avg)                 | 17%             | NPV FCF Terminal     | 545        |
|                            |                 | Total (EV)           | 846        |
|                            |                 | Net debt             | 148        |
| <b>Terminal</b>            |                 |                      |            |
| Net sales 2033 (SEKm)      | 1 237           |                      |            |
| Growth FCF                 | 2%              | Fair value           | 698        |
| EBIT margin                | 12%             | Fair value per share | 28.9       |
| EV/S Exit multiple         | 1.2             | Share price          | 19.3       |
| EV/EBIT Exit multiple      | 12.5            | <b>Potential</b>     | <b>50%</b> |

Source: Redeye Research

### Multiples increasingly attractive

Based on our estimates it is now trading at more attractive multiples than we have seen historically. With a rather stable business and continued good outlook, we find this somewhat surprising and unwarranted.

EV/EBIT is the most relevant multiple since it also takes net debt into account. We are not including leasing debt in our EV/EBIT. However, our EV/EBITDA does include leasing debt.

| <b>Valuation multiples</b> |             |             |             |              |              |              |
|----------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
|                            | <b>2019</b> | <b>2020</b> | <b>2021</b> | <b>2022e</b> | <b>2023e</b> | <b>2024e</b> |
| P/E                        | 29.4        | 12.9        | 13.3        | 9.9          | 10.1         | 8.8          |
| EV/EBIT                    | 23.3        | 11.6        | 11.8        | 9.1          | 9.4          | 8.5          |
| EV/EBITDA                  | 9.8         | 6.7         | 6.6         | 6.2          | 6.0          | 5.6          |
| P/S                        | 1.6         | 1.4         | 1.2         | 1.2          | 1.2          | 1.0          |
| Share price                | 26.6        | 23.3        | 22.4        | 19.3         | 19.3         | 19.3         |

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 38 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 18 per share**.

## 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

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: 3

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.

|                             | 2021 | 2022e | 2023e | 2024e |
|-----------------------------|------|-------|-------|-------|
| <b>INCOME STATEMENT</b>     |      |       |       |       |
| Net sales                   | 438  | 496   | 508   | 566   |
| Cost of Revenues            | 141  | 187   | 173   | 192   |
| Gross Profit                | 297  | 309   | 335   | 373   |
| Operating Expenses          | 189  | 201   | 225   | 255   |
| <b>EBITDA</b>               | 108  | 108   | 111   | 119   |
| Depreciation & Amortization | 52   | 43    | 56    | 62    |
| <b>EBIT</b>                 | 56   | 65    | 63    | 70    |
| Net Financial Items         | -5   | -5    | -6    | -5    |
| EBT                         | 52   | 60    | 57    | 65    |
| Income Tax Expenses         | 11   | 12    | 10    | 11    |
| Non-Controlling Interest    | 0    | 0     | 0     | 0     |
| <b>Net Income</b>           | 40   | 48    | 47    | 54    |

|                             |     |     |     |     |
|-----------------------------|-----|-----|-----|-----|
| <b>BALANCE SHEET</b>        |     |     |     |     |
| <b>Assets</b>               |     |     |     |     |
| <b>Current assets</b>       |     |     |     |     |
| Cash & Equivalents          | 39  | 36  | 27  | 29  |
| Inventories                 | 28  | 30  | 30  | 34  |
| Accounts Receivable         | 47  | 55  | 56  | 62  |
| Other Current Assets        | 12  | 20  | 20  | 23  |
| <b>Total Current Assets</b> | 125 | 140 | 134 | 148 |

|                                  |     |     |     |     |
|----------------------------------|-----|-----|-----|-----|
| <b>Non-current assets</b>        |     |     |     |     |
| Property, Plant & Equipment, Net | 357 | 387 | 417 | 451 |
| Goodwill                         | 7   | 7   | 7   | 7   |
| Intangible Assets                | 3   | 5   | 3   | 0   |
| Right-of-Use Assets              | 61  | 57  | 57  | 54  |
| Shares in Associates             | 0   | 0   | 0   | 0   |
| Other Long-Term Assets           | 5   | 5   | 5   | 5   |
| <b>Total Non-Current Assets</b>  | 433 | 461 | 489 | 517 |
| <b>Total Assets</b>              | 558 | 601 | 622 | 665 |

|                                      |     |     |     |     |
|--------------------------------------|-----|-----|-----|-----|
| <b>Liabilities</b>                   |     |     |     |     |
| <b>Current liabilities</b>           |     |     |     |     |
| Short-Term Debt                      | 62  | 62  | 52  | 52  |
| Short-Term Lease Liabilities         | 11  | 11  | 11  | 11  |
| Accounts Payable                     | 26  | 30  | 30  | 34  |
| Other Current Liabilities            | 45  | 51  | 51  | 53  |
| <b>Total Current Liabilities</b>     | 144 | 153 | 144 | 150 |
| <b>Non-current liabilities</b>       |     |     |     |     |
| Long-Term Debt                       | 97  | 97  | 97  | 97  |
| Long-Term Lease Liabilities          | 48  | 48  | 48  | 48  |
| Other Long-Term Liabilities          | 48  | 48  | 48  | 48  |
| <b>Total Non-current Liabilities</b> | 193 | 193 | 193 | 193 |

|                                       |     |     |     |     |
|---------------------------------------|-----|-----|-----|-----|
| Non-Controlling Interest              | 0   | 0   | 0   | 0   |
| Shareholder's Equity                  | 221 | 254 | 285 | 322 |
| <b>Total Liabilities &amp; Equity</b> | 558 | 601 | 622 | 665 |

|                                 |     |     |     |     |
|---------------------------------|-----|-----|-----|-----|
| <b>CASH FLOW</b>                |     |     |     |     |
| NOPAT                           | 68  | 78  | 74  | 81  |
| Change in Working Capital       | -15 | -8  | -1  | -7  |
| Operating Cash Flow             | 89  | 83  | 101 | 109 |
| Capital Expenditures            | -42 | -50 | -56 | -62 |
| Investment in Intangible Assets | -2  | -5  | -8  | -8  |
| Investing Cash Flow             | -44 | -71 | -84 | -91 |
| Financing Cash Flow             | -48 | -14 | -27 | -16 |
| Free Cash Flow                  | 45  | 28  | 38  | 38  |

|                              |  |  |  |                       |
|------------------------------|--|--|--|-----------------------|
| <b>DCF Valuation Metrics</b> |  |  |  | <b>Sum FCF (SEKm)</b> |
| Initial Period (2022–2025)   |  |  |  | 86                    |
| Momentum Period (2026–2029)  |  |  |  | 218                   |
| Stable Period (2030–)        |  |  |  | 545                   |
| Firm Value                   |  |  |  | 850                   |
| Net Debt (last quarter)      |  |  |  | 148                   |
| Equity Value                 |  |  |  | 702                   |
| Fair Value per Share         |  |  |  | 29.1                  |

|                          | 2021 | 2022e | 2023e | 2024e |
|--------------------------|------|-------|-------|-------|
| <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                 | 120  | 123   | 122   | 120   |
| Capital Employed         | 414  | 448   | 478   | 515   |
| Working Capital Turnover | 96.1 | 39.8  | 36.4  | 27.2  |

|                           |     |     |     |     |
|---------------------------|-----|-----|-----|-----|
| <b>GROWTH</b>             |     |     |     |     |
| Revenue Growth            | 9%  | 13% | 2%  | 11% |
| Basic EPS Growth          | -7% | 18% | -2% | 15% |
| Adjusted Basic EPS Growth | -7% | 18% | -2% | 15% |

|                       |     |     |     |     |
|-----------------------|-----|-----|-----|-----|
| <b>PROFITABILITY</b>  |     |     |     |     |
| ROE                   | 19% | 20% | 17% | 18% |
| ROCE                  | 14% | 15% | 13% | 14% |
| ROIC                  | 19% | 20% | 17% | 18% |
| EBITDA Margin (%)     | 25% | 22% | 22% | 21% |
| EBIT Margin (%)       | 13% | 13% | 12% | 12% |
| Net Income Margin (%) | 9%  | 10% | 9%  | 9%  |

|                    |      |     |      |     |
|--------------------|------|-----|------|-----|
| <b>VALUATION</b>   |      |     |      |     |
| Basic EPS          | 1.7  | 2.0 | 1.9  | 2.2 |
| Adjusted Basic EPS | 1.7  | 2.0 | 1.9  | 2.2 |
| P/E                | 13.5 | 9.9 | 10.1 | 8.8 |
| EV/Revenue         | 1.5  | 1.2 | 1.2  | 1.0 |
| EV/EBITDA          | 6.1  | 5.5 | 5.4  | 5.0 |
| EV/EBIT            | 11.9 | 9.1 | 9.4  | 8.5 |
| P/B                | 2.5  | 1.9 | 1.7  | 1.5 |

|                                   | CAPITAL % | VOTES % |
|-----------------------------------|-----------|---------|
| <b>SHAREHOLDER STRUCTURE</b>      |           |         |
| Norra Västerbotten Fastighets AB  | 29.5%     | 29.5%   |
| TREAC Aktiebolag                  | 10.0%     | 10.0%   |
| Ålandsbanken AB                   | 5.1%      | 5.1%    |
| 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              | 19.3            |
| Total shares, million    | 24.1            |

|                               |                   |
|-------------------------------|-------------------|
| <b>MANAGEMENT &amp; BOARD</b> |                   |
| CEO                           | Mattias Remahl    |
| CFO                           | Mattias Remahl    |
| Chairman                      | Anders Westermark |

|                 |  |
|-----------------|--|
| <b>ANALYSTS</b> |  |
| Henrik Alveskog | Redeye AB  |
| Fredrik Nilsson | Mäster Samuelsgatan 42, 10tr<br>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

**Douglas Forsling**

douglas.forsling@redeye.se

**Forbes Goldman**

forbes.goldman@redeye.se

**Jessica Grünwald**

jessica.grunwald@redeye.se

**Jesper Henriksson**

jesper.henriksson@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

**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

## 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 redev.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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### CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Fredrik Nilsson 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.