

Nexstim

Sector: Medtech

H1 2022: Some good, but near-term uncertainties remain

Redeye raises its full-year sales estimates for 2022E from EUR 7.6m to EUR 10.2m but lower our 2023-2024 estimates by 7-20% following the report and licensing agreement with Magnus Medical. We continue to see good prospects in Nexstim but argue that the slowing growth in the NBT segment and upcoming licensing period add some uncertainty to the case for growth in the upcoming years. We slightly lower our base case to SEK 62.5 per share.

The H1 '22 Report: Some good, but near-term uncertainties remain

Total revenue was EUR 6.8m (EUR 3m), +129% compared to H1 2021, including EUR 3.5m from the upfront payment from Magnus Medical. This includes EUR 2.1m (EUR 1.8m), +19.3% from the NBS diagnostics segment (7 NBS systems delivered) and EUR 1.2m (EUR 1.2m), 0% from the NBT therapy system when excluding the licensing revenue. The NBT segment underperformed our expectations, but total revenue was more or less in line with our estimates.

On the cost side, OPEX amounted to EUR -5.2m (-4.1m), slightly above our estimates, mainly due to increasing personnel costs. As we go forward, we anticipate a leaner increase in OPEX as the company adjusts its organisation following the licensing agreement with Magnus Medical.

Some estimate changes, slightly lower valuation

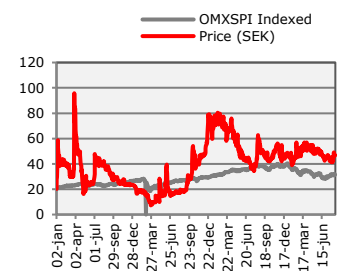
In light of all this, we slightly lower our valuation of Nexstim and lower our base case to SEK 62.5 (67.5) – representing upside of roughly 35 percent. We keep our near-term sales growth expectations for the key diagnostics segment but lower growth for the NBT treatment segment following the report, while we add a new segment “licensing” that consists of royalty revenues of mEUR 10 million up until 2027. We continue to see good prospects in Nexstim but argue that the slowing growth in the NBT segment and upcoming licensing period add some uncertainty to the case for growth – we hope to see a continued good cost control and a successful in-house pivot towards the NBS and NBS5+ systems.

Key Financials (SEKm)	2019	2020	2021E	2022E	2023E
Revenues	3	4	6	10	9
Revenue growth	25%	23%	55%	60%	-17%
EBITDA	-6	-3	-1	2	0
EBIT	-7	-3	-2	1	0
EBIT Margin (%)	-196%	-81%	-26%	12%	0%
Net Income	-7	-4	-1	2,71	0

FAIR VALUE RANGE

BEAR	BASE	BULL
15	62.5	100

NEXSTIM VERSUS OMXSPI



REDEYE RATING



KEY STATS

Ticker	NXTMS
Market	First North
Share Price (SEK)	46
Market Cap (SEKm)	313
Free Float (%)	90
Avg. daily volume ('000)	110

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Investment Thesis

Case: TMS Diagnostics market leader with KOL support

We see a significant upside (30%+) in Nexstim following a strong year for the company – further strengthened by this year’s therapy licensing agreement with the US based startup Magnus Medical, which we think will let Nexstim focus on its diagnostic segment where it has a stronger comparative advantage and less competition, while it can retain its high margin recurring revenues and add technology royalties with gross margins of, we assume, 90%+. Overall, argue that Nexstim is maturing as a company and thus on a solid path towards long-term profitability.

Evidence: Precision Positions ‘navigated’ TMS well

Nexstim’s NBS diagnostics system benefits from the support of key opinion leaders and leading university hospitals for the use of navigated TMS (transcranial magnetic stimulation) in pre-surgical mapping of brain tumors. More than 100 academic publications regarding the system have been published. As Nexstim will focus its in-house resources towards the NBS system, we think it can further leverage the strong momentum to add profitable top-line growth.. We also expect increased use in other areas following Nexstim’s launch of an NBS system with a therapy software update option.

Supportive Analysis

Nexstim's system is the only TMS method that delivers precision on a par with invasive techniques, thus allowing for precise documentation before surgery. The benefit of the NBS system's pre-surgical planning has been shown by researchers in a vast array of clinical trials spanning more than 100 academic articles. Nexstim has a strong standing amongst key opinion leaders within neurosurgery and neurology. Its system is used at leading university hospitals such as the Mayo Clinic in the US, Karolinska University Hospital in Sweden, and Charité Hospital in Germany. Nexstim's software constructs a multi-spherical 3D model of the patient's brain based on an MRI and Nexstim's proprietary software. This brain model accounts for the composition and shape of the individual's brain, such as the gray and white matter and cerebrospinal fluid. Nexstim's e-field navigation differs from line-based navigation in that it visualizes the coil location and the electrical field induced. It re-calculates the e-field location when the operator moves or tilts the coil so that the operator can directly see that the correct hotspot is stimulated. Coil navigation based on rule-of-thumb or a simpler spherical model can mainly observe if the right spot was stimulated by observing the outcome. Today, Nexstim has the only FDA-approved product on the market with the ability to locate and visualize the TMS e-field and hotspot using information about the inside of the patient's brain.

Challenge: Dependent on Success of Magnus Medical

Nexstim trades away some upside potential with the technology licensing agreement and becomes reliant on the success of Magnus Medical, still an unproven company. We also have little insight into the launch of Magnus Medical's TMS therapy. As Nexstim will stop new sales in the US when Magnus Medical's therapy launches, it will be important to both companies that the sales ramp-up is fast and successful, as Nexstim otherwise could face a period of slow growth in the segment.

Challenge: Unprofitable TMS Market

Despite sales that are 10-20x Nexstim's in TMS therapy, market leaders Neuronetics and Brainsway remain unprofitable, with their strong focus on market expansion and R&D and the overall new and immature market for TMS therapy contributing to these difficulties. While we believe that Nexstim has laid an increasingly credible path towards profitability following its technology licensing deal with Magnus medical and in-house focus on its diagnostics system, the TMS market conditions add some uncertainty to the case.

Valuation: Transformation after Magnus Medical Pivotal

Our Base Case for Nexstim is SEK 62.5 per share. Overall, we are pleased with Nexstim's recent progress which indicates that Nexstim is going in the right direction. We are also positive to Nexstim's new focus on technology licensing and see further deals, such for the NBS system or other geographies, as an option for further upside. To close the valuation gap, we think that additional news on the launch of Magnus Medicals therapy and continued profitable growth is needed.

Catalysts

H2 report

Nexstim is a commercial-stage company, and we see its H2 report as the key catalyst for the stock in the coming months. We expect FY revenues at mEUR 10.2 million and an operating result at mEUR 1.4 million.

Time Horizon: Six to nine months

News on Magnus Medical Launch

As Nexstim now depends on Magnus Medical and its launch, news on the regulatory process or early indications of market reception will be important triggers for Nexstim going forward.

Time Horizon: six to 12 months

Strategic partnerships

Like those of its larger competitors, Nexstim's therapy business is not yet profitable. This is mainly due to the high sales costs in attracting each new clinic. Nexstim plans to forge strategic partnerships with clinic chains and hospitals. Along with more usage per system, this could create a sufficient scale for TMS therapy to become profitable in the future. This could be, for example, an additional licensing agreement or through Nexstim's partner clinics. A partnership with a supplier of other pre-surgical equipment could also bolster the NBS diagnostics system's value-added further.

Time Horizon: Three to 12 months

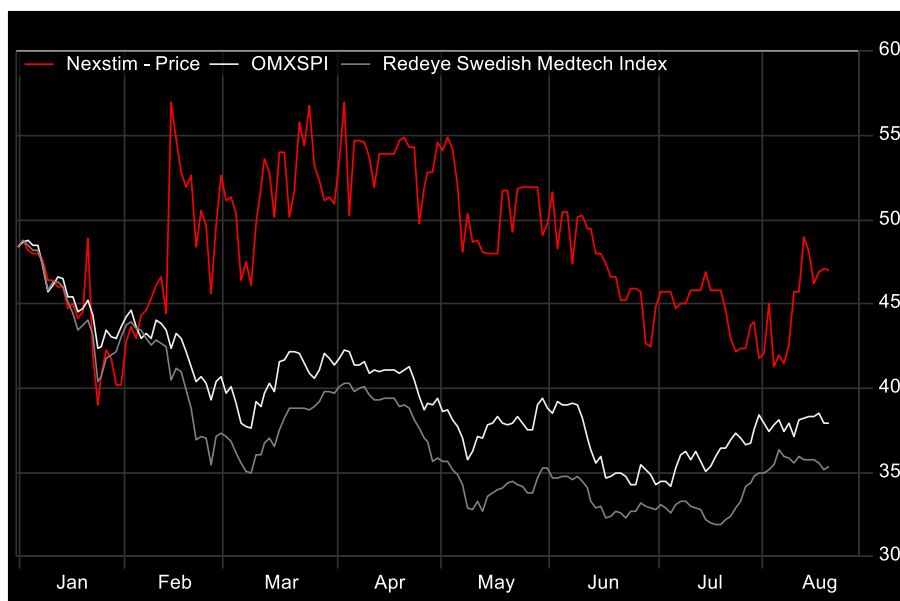
Counter-Thesis

Development Risk

Magnus Medical Fails to get Traction

Fails to raise Further Capital

Stock Performance



Source: Factset

Nexstim's stock has performed relatively well YTD, likely a combination of a strong FY21 report (that indicated a continued path towards profitability) and the licensing agreement with Magnus Medical, that secured a positive operating result for FY22 we judge. However, we note the low liquidity on First North Stockholm.

Ownership

#	Holders	Nexstim	Capital	Votes
1	Kaikaehenni Oy	1022416	15,27%	15,27%
2	Ossi Antero Haapaniemi	720242	10,76%	10,76%
3	Kyösti Kakkonen	442999	6,62%	6,62%
4	Juha Valjakka	117452	1,75%	1,75%
5	Eva Syrjänen	113440	1,69%	1,69%
6	Tero Weckroth	103558	1,55%	1,55%
7	Kari Kakkonen	69649	1,04%	1,04%
8	Pentti Juhani Niukkanen	65000	0,97%	0,97%
9	Schengen Investment Oy	50733	0,76%	0,76%
10	Salmela Veijo Ensio	44000	0,66%	0,66%

Source: Modular Finance/Holdings

We note that the ownership list is relatively stable, although we have seen increased holdings from major shareholders such as Kyösti Kakkonen (Joensuun Kauppa ja Kone Oy).

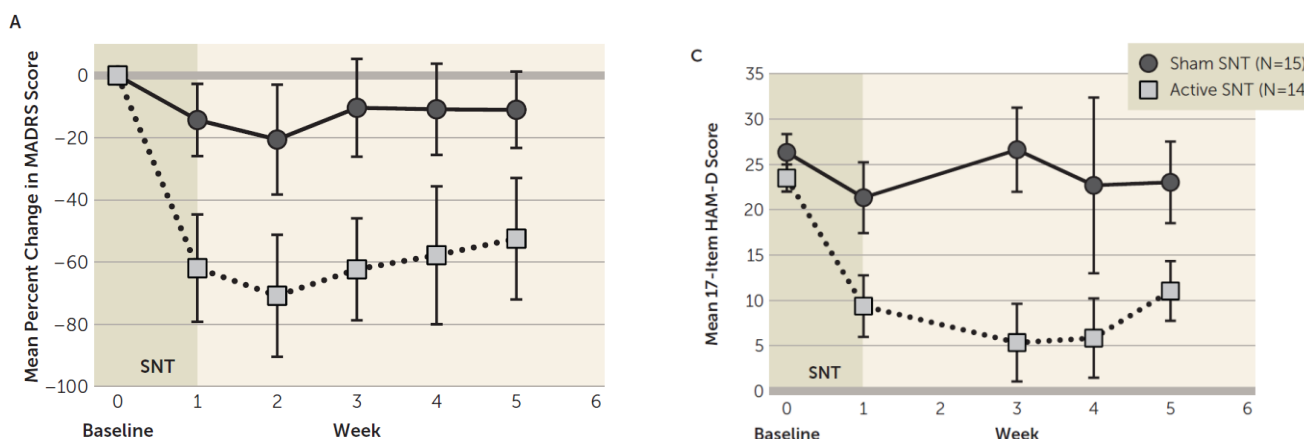
Magnus Medical Licensing Deal - Background

An indication of the efficacy of accelerated TMS – Cole et al (2021)

In 2021, a new study was published on the antidepressant effect of accelerated TMS by a research team from Stanford. The study, a placebo-controlled and randomized trial (n=29), followed participants with treatment-resistant depression with an ongoing moderate to severe episode, in a five-day daily and intense TMS treatment, followed by a four-week follow-up period. The Stanford Accelerated Intelligent Neuromodulation Therapy protocol (SAINT) is characterized by frequent daily treatment sessions (ten a day) of higher-than-usual doses of TMS (18,000 pulses daily) with a proprietary targeting method.

The results, as measured on the MADRS scale, indicated a mean percent reduction of 52.5 percent compared to 11 percent in the placebo group. The study was originally planned to enroll 60 patients, but it was ended after the interim readout due to the large effect size. As argued by the authors, the study enrolled more severe patients than other randomized TMS trials, as also indicated by the lower-than-average placebo effect, which we consider promising given the strong effect.

Stanford Neuromodulation Therapy – primary endpoint (left), secondary endpoint (right)



Source: Cole Et al (2021)

In February, it was announced that Nexstim will out-license technology used in its NBT-system to Magnus Medical, a new US-based company built on commercializing the “SAINT protocol,” developed at Stanford University (including the study above). The deal consist of an upfront payment of EUR 3.5 million and a technology royalty for a maximum of five years, projected by Magnus Medical to be approximately EUR 13 million. During the royalty period, i.e., first five years of commercialization of the technology, Nexstim will not directly sell new NBT therapy systems in the US. However, it will keep its recurring revenues from installed systems, continue sales of its NBS diagnostics system, and invest in partner clinics. Furthermore, our impression is that Nexstim also will be able to sell its combined NBS/NBT system NBS5+, which is a fast-growing segment within Nexstim.

As Magnus Medical is a private company, we don't have any insight into the application process, but we think the company's TMS treatment will get approval within two years. In a news segment from NBC News, the company representatives hope for FDA approval by the end of 2022. We choose to be a bit more conservative and assume an approval by summer 2023 in treatment-resistant MDD, and that Nexstim receives royalties by H2 2023. We think that Magnus Medical will also file an application for severe depression. Still, the timeline and what type of clinical evidence that will be needed remain somewhat uncertain today. We estimate a market approval by 2024-2025 in this indication, but note that it could be significantly sooner as well if the current data package is deemed enough.

Nexstim has guided that the royalty revenues have gross margins of 90%+, and require little involvement from Nexstim once the technology transfer is finalized. On the other hand, we argue that Nexstim trades away some upside potential as the potential revenues from Magnus Medical's first five years of commercialization in our view are somewhat limited if we assume a standard royalty rate of somewhere between 20-30%. TMS depression therapy is, as we have previously stated, competitive and while we think that Magnus Medical has a strong value proposition (robust clinical data, strong financial backers and Nexstim's TMS technology), it could take some time to win market shares from the already established actors, mainly Brainsway and Neuronetics. To us, the potential could be higher in severe depression, given the strong data and unique niche for TMS therapy – but given that it would be the first TMS treatment for severe depression, it could also take some time to build the market (such as targeting psychiatric hospitals), and most revenues from this indication could thus come after the royalty period with Nexstim.

H1 report and our Forecasts

H1 report

Last week, Nexstim released its H1 report that was roughly in line with our expectations but included some neutral to negative elements:

- Total revenue was EUR 6.8m (EUR 3m), +129% (110% adjusted from currency rates) compared to H1 2021
- EUR 2.1m (EUR 1.8m), +19.3% from the NBS diagnostics segment (7 NBS systems delivered)
- EUR 1.2m (EUR 1.2m), 0% from the NBT therapy system when excluding the licensing revenue.
- EUR 3.4m (0) from the Licensing segment (upfront payment from Magnus Medical)
- The operating result was positive (a first) at EUR 2.3m (-0.9), and at EUR 1.6 m when adjusting for capitalized development costs.
- Results were EUR 3.2 million (-0.9)

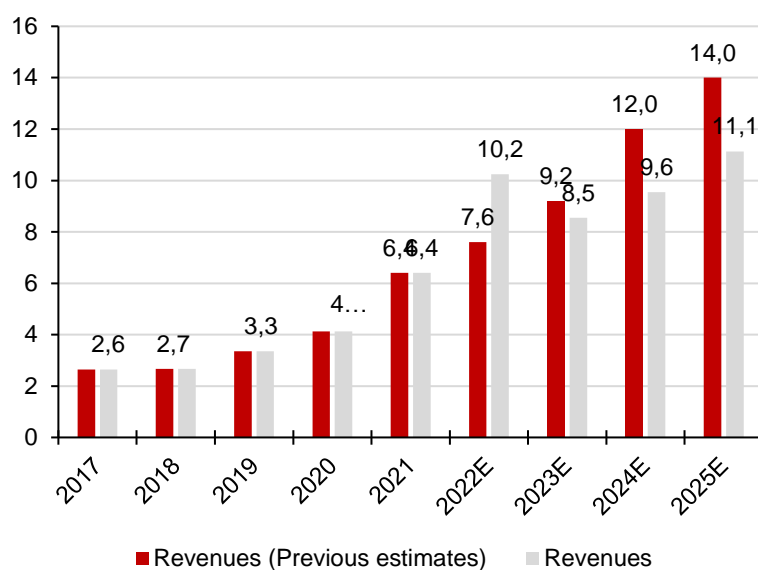
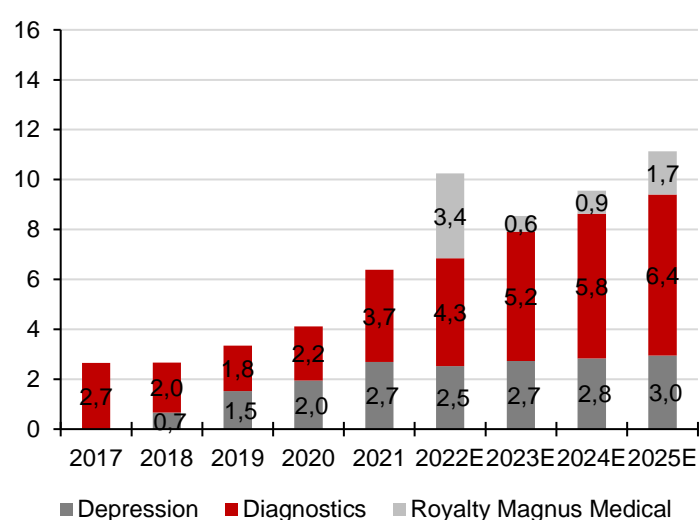
This total revenue was roughly on par with our estimates of EUR 6.85m, although the NBT segment underperformed our expectations when excluding licensing payments. The NBS diagnostics showed a continued stable growth rate in the period at 20% from relatively strong comparison numbers. Typically, Nexstim is also stronger in H2. Personnel costs increased by some 20%, a consequence of increased hiring and higher wages. This was higher than we expected and resulted in a somewhat lower EBIT for the period. As expected, the result was positively affected by the upfront payment from Magnus Medical, recognized as revenue in this report.

Overall, our investment case has historically revolved around the NBT depression treatment, given the significantly higher market potential. We have noted a somewhat slower growth rate in recent reports while the NBS segment is more durable. This further amplifies our view that the licensing agreement with Magnus Medical likely was a good choice, as it will let

Nexstim focus its in-house resources on selling the NBS diagnostics system and the combined NBS5+ system. To live up to our estimates, a successful change of focus will be key – as we now are starting to see that the NBS/combined systems will be the key sources of growth in the upcoming years.

By the end of H1, Nexstim announced that 57 systems were installed, including both NBT systems and NBS systems with NBT software. In H2'21, the company had 51 installed systems worldwide, indicating a net growth of 6 systems during the period.

Our forecasts (EURm)



Source: Redeye Research; Nexstim

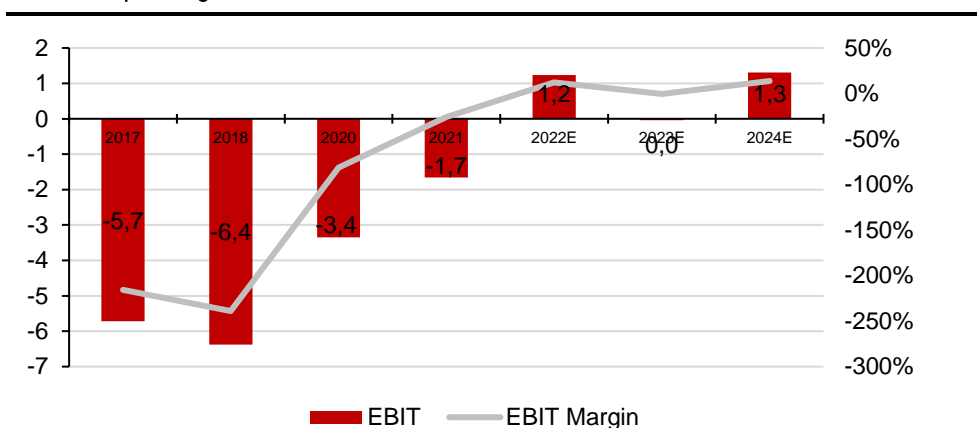
Compared to our previous estimates, we expect higher revenues than before (mEUR 10.2 vs 7.6) and a positive result in FY22 mainly due to the licensing agreement with Magnus Medical. For the NBS Diagnostics system, we expect a YoY growth of 20% and a more or less flat year for the NBT therapy segment when excluding the licensing business. This is slightly on the conservative side, as Nexstim typically is stronger in H2, and a positive surprise in the NBT segment could lead us to raise our valuation slightly. We note that value per order can be high, and that too strong conclusions should not be done from one report. We also note that Nexstim has other potential drivers for growth in the NBT segment: Strategic cooperation/partner clinics and expanding to new indications beyond depression (and to some extent; chronic pain). At this stage, we do not include these areas in our valuation.

In FY23, we expect mainly sales growth in the NBS segment (15% YoY) as we assume that Magnus Medical will launch its TMS treatment and thus start the clock for the market exclusivity (thus leading Nexstim to stop new sales of the NBT system in the US). To compensate for the NBT sales, we assume that Nexstim will in total, receive mEUR 10 million royalties up until 2027 with gross margins of 95%. Overall, we think that this is positive for Nexstim but it requires that Nexstim compensates for the lower revenues by utilizing the sales force in the diagnostics segment and by continuing its conservative view on costs. In

this report, we saw a relatively hefty increase in personnel costs – which we believe was a higher-than-average increase compared to the upcoming years (after all – it has been a hot labor market and high inflation). Still, we do expect some top-level growth due to the added personnel.

Due to the licensing upfront payment, we estimate that Nexstim will have a positive EBIT and net result for the year (EUR 1.2m and EUR 2.2m). For 2023, with less income from the licensing segment, we estimate that Nexstim's EBIT is slightly below break-even before again turning positive in 2024.

EBIT and operating cash flow



Source: Nexstim; Redeye Research

Overall, we have a positive outlook going forward but argue that the near-term growth prospects are difficult to predict given its dependence of Magnus Medical. Still, in the long term, we are overall positive to the agreement as Nexstim now can focus on the sales of its NBS diagnostics system, a less competitive segment where Nexstim has a strong standing and solid potential, while it can leverage Magnus Medical's and the SAINT protocols reputation within depression therapy. Nexstim's goal of profitability is becoming increasingly realistic.

Bear Case: SEK 20

Magnus Medical's therapy does not gain traction and Nexstim's NBT segment is more or less stagnant. Our valuation focuses on the more established diagnostics NBS system.

2022-2025 CAGR 10%
Terminal EBIT margin: 20%

Base Case: SEK 62.5

WACC 14%
2022-2026 CAGR 19%
Terminal EBIT margin: 37.5%

Bull Case: SEK 100

Magnus Medical's therapy gets a strong launch and Nexstim receives EUR 17m in royalties.

2022-2026 CAGR 30%
Terminal EBIT margin: 45%

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

People: 3

(No Changes)

Business: 3

(No Changes)

Financials: 1

(No Changes)

	2021	2022E	2023E	2024E		2021	2022E	2023E	2024E
INCOME STATEMENT									
Revenues	6	10	8	10					
Cost of Revenues	1	1	2	2					
Gross Profit	5	9	7	8					
Operating Expenses	6	7	6	6					
EBITDA	-1	2	0	2					
Depreciation & Amortization	0	1	0	0					
EBIT	-2	1	0	1					
Net Financial Items	1	0	0	0					
EBT	-1	1	0	1					
Income Tax Expenses	0	0	0	0					
Non-Controlling Interest	0	0	0	0					
Net Income	-1	2	0	2					
BALANCE SHEET									
Assets									
Current assets									
Cash & Equivalents	5	5	5	6					
Inventories	1	1	1	1					
Accounts Receivable	2	2	1	2					
Other Current Assets	0	1	1	1					
Total Current Assets	8	9	8	10					
Non-current assets									
Property, Plant & Equipment, Net	0	1	1	2					
Goodwill	0	0	0	0					
Intangible Assets	0	0	0	0					
Right-of-Use Assets	1	1	1	1					
Shares in Associates	0	0	0	0					
Other Long-Term Assets	0	0	0	0					
Total Non-Current Assets	2	3	3	3					
Total Assets	10	12	11	13					
Liabilities									
Current liabilities									
Short-Term Debt	1	1	1	1					
Short-Term Lease Liabilities	0	0	0	0					
Accounts Payable	0	1	1	1					
Other Current Liabilities	3	2	2	2					
Total Current Liabilities	4	4	3	4					
Non-current liabilities									
Long-Term Debt	3	3	3	3					
Long-Term Lease Liabilities	0	0	0	0					
Other Long-Term Liabilities	0	0	0	0					
Total Non-current Liabilities	3	3	3	3					
Non-Controlling Interest	0	0	0	0					
Shareholder's Equity	3	5	5	6					
Total Liabilities & Equity	10	12	11	13					
CASH FLOW									
NOPAT	-2	2	0	2					
Change in Working Capital	-1	-1	0	0					
Operating Cash Flow	-2	1	1	2					
Capital Expenditures	0	-1	-1	-1					
Investment in Intangible Assets	-2	0	0	0					
Investing Cash Flow	-2	-1	-1	-1					
Financing Cash Flow	6	0	0	0					
Free Cash Flow	-4	0	0	1					
					CAPITAL STRUCTURE				
					Equity Ratio	0,3	0,4	0,4	0,5
					Debt to equity	1,2	0,8	0,8	0,6
					Net Debt	-1	-2	-1	-2
					Capital Employed	6	8	8	9
					Working Capital Turnov	-54,2	15,1	22,2	17,1
					GROWTH				
					Revenue Growth	55%	63%	-21%	16%
					Basic EPS Growth	-95%	-11206%	-112%	-954%
					Adjusted Basic EPS Grov	-95%	-11206%	-112%	-954%
					PROFITABILITY				
					ROE	-109%	40%	-4%	29%
					ROCE	-26%	16%	-2%	14%
					ROIC	-480%	126%	-9%	67%
					EBITDA Margin (%)	-19%	18%	3%	19%
					EBIT Margin (%)	-26%	13%	-2%	14%
					Net Income Margin (%)	-15%	15%	-2%	17%
					VALUATION				
					Basic EPS	na	0,2	0,0	0,2
					Adjusted Basic EPS	na	0,2	0,0	0,2
					P/E	na	19,3	neg	19,4
					EV/Revenue	na	2,8	3,6	3,0
					EV/EBITDA	na	15,9	114,1	16,0
					EV/EBIT	na	22,2	neg	21,8
					P/B	na	6,4	6,7	5,0
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Redeye Rating and Background Definitions

Company Quality

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

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

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

People

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

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

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

Business

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

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

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

Financials

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

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

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

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Recommendation structure

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Redeye Rating (2022-08-19)

Rating	People	Business	Financials
5p	19	14	3
3p - 4p	96	77	36
0p - 2p	6	30	82
Company N	121	121	121

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CONFLICT OF INTERESTS

Fredrik Thor owns shares in the company : No

Filip Einarsson 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.