

Beijer Electronics Group

Sector: Industrial Goods & Services

Solid Post-Pandemic Rebound Expected

Redeye leaves estimates and valuation unchanged, following mostly in-line Q1'20 performance, and reiterate our positive long-term stance on the stock. More importantly, the company's communication in the [report](#) and [conference call](#) makes us even more confident that it will be able to sustain a potential period of lower activity and succeed in a solid post-pandemic rebound. Base case amounts to **SEK 46 per share**.

Our estimates reflects a scenario with plenty of caution

In our [note](#) from March 26, we lowered estimates for Beijer Group due to the Corona crisis and see no reason to revise these to any great extent. Sales forecasts are now cut by 14%/13%/9% for '20/'21/'22 and EBIT by 42%/35%/18%, respectively. As uncertainty remains exceptionally high around the pandemic's duration and its broader impact, our revisions reflect a scenario with plenty of caution. Overall, Beijer Group estimates that Covid-19 negatively impacted sales with around 7-9%, numbers that will inevitably increase in the coming quarters (the real impact from the corona crisis is too early to be felt). Beijer Group is not making any estimates regarding underlying financial performance for the full year 2020.

Experience from previous crises is an invaluable asset

While the potential near-term fallout from the corona crisis is difficult to gauge, we believe investors should look to the Company's underlying momentum, exemplified by the SEK 80 million [contract](#) with a large North American rail company, its record of successfully weathering past downturns and its strong shareholder base with committed long-term owners. Today's organisation is even sharper (several key personnel have experiences from crises in the past) and are taking the right [preventive measures](#) to limit the impact.

Attractive valuation at current levels

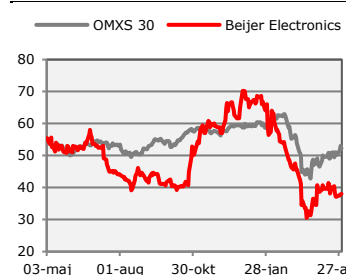
Based on our 2021e, Beijer Group currently trades at an EV/EBIT multiple of **~14x**, which we find as an attractive valuation.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	1417	1559	1525	1645	1839	1943
EBITDA	151	227	222	271	331	376
EBIT	74	104	76	126	183	235
EPS (adj.)	1.5	2.3	1.8	3.0	4.6	6.0
EV/Sales	1.0	1.4	1.1	1.1	0.9	0.8
EV/EBITDA	9.7	9.7	7.8	6.4	5.0	4.1
EV/EBIT	19.7	21.4	22.9	13.8	9.0	6.5
P/E	23.8	23.8	20.9	12.7	8.3	6.3

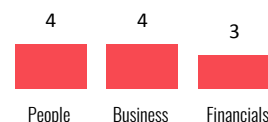
FAIR VALUE RANGE

BEAR	BASE	BULL
29.0	46.0	65.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BELE
Market	Small Cap
Share Price (SEK)	38.0
Market Cap (MSEK)	1096
Net Debt 20E (MSEK)	643
Free Float	45 %
Avg. daily volume ('000)	35

ANALYSTS

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Beijer Electronics Group: Q1'20

Overall, the Q1 report reinforced the trend from previous quarters; Westermo continues to convince, Beijer Electronics is still negatively affected by the phase-out of older products (shows order growth though) while Korenix's challenges has been further intensified (most heavily impacted by Covid-19 given its size and its focus on Asia). Importantly, cash flow execution was solid with a free cash flow from operating activities of SEK 38.3 million (12.8) and cash flow after investing activities of SEK 14.2 million (-16.1).

SEKm	Beijer Electronics			Westermo			Korenix		
	Q1'19	Q1'20	change	Q1'19	Q1'20	change	Q1'19	Q1'20	change
Order Intake	183.4	187.7	2%	162.1	201.9	25%	29.1	20.3	-30%
Sales	189.5	164.0	-13%	158.7	214.6	35%	28.8	20.7	-28%
EBIT-margin	9.6%	neg.		13.4%	15.6%		neg.	neg.	
<i>EBIT-margin excl restruct.</i>	9.6%	2.9%		13.4%	15.6%		neg.	neg.	

Source: Redeye Research, Beijer Electronics Group

At group-level, organic order intake declined by 3% y/y with an organic sales decline of 5%, highlighting that, while the fundamental backdrop remains challenging, Beijer Group has not yet been hit too hard (and healthy backlog at +3% y/y). The company estimate a loss of sales of 7-9% during Q1 due to Covid-19 with the main impact on Korenix and Beijer Electronics.

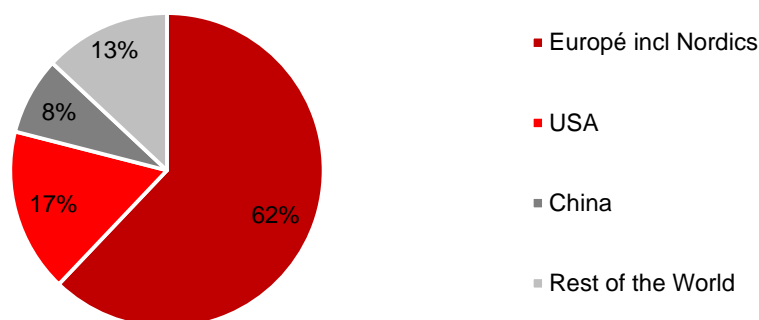
Beijer Electronics Group: Q1'20 key figures

SEKm	Q1'19	Q1'20	change
Order Intake	368.5	405.8	10%
Sales	370.9	395.3	7%
EBIT-margin	8.1%	2.1%	
<i>EBIT-margin excl restruct.</i>	8.1%	6.0%	

Source: Redeye Research, Beijer Electronics Group

Geographically, what happens in Europe is the most important thing going forward as >60% of sales are from this region.

Beijer Electronics Group: Geographic sales distribution 2019



Source: Redeye Research

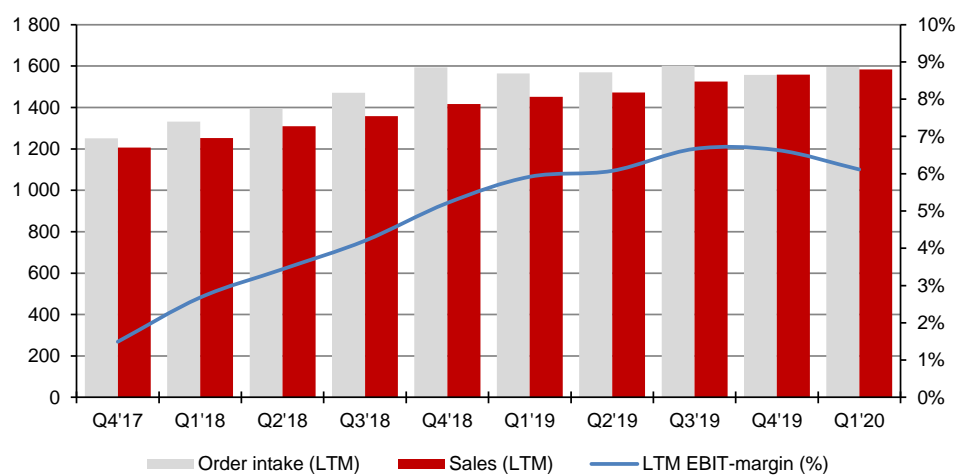
Moreover, even as operations have been impacted to an extent by postponed deliveries and increased shipping costs, Beijer Group did not see any cancellations of previous orders and there was now “stocking up” effect from customers during the quarter.

EBIT of SEK 8.4 m was 26% below our expectation, impacted by SEK 15 million in restructuring costs, corresponding to a 2.1% margin. We highlight that the adjusted EBIT-margin of 6.0% improved q/q and that the cost reduction programme (scheduled for final completion at the end of April), generating SEK 10-11 million/quarter in savings, should support a mid-single-digit EBIT-margin in 2020.

Beijer Electronics Group Q1'20: Actuals vs Estimates				
SEKm	Q1'19	Q1'20E	Q1'20A	Diff (%)
Net sales	370.9	400.5	395.3	-1%
<i>growth, y/y</i>	10.1%	8.0%	6.6%	
EBITDA	58.0	46.0	43.6	-5%
D&A	-27.9	-34.7	-35.2	
EBIT	30.1	11.3	8.4	-26%
<i>margin</i>	8.1%	2.8%	2.1%	
PTP	27.0	7.8	7.2	-8%
Net earnings	20.0	5.8	5.2	-9%
<i>margin</i>	5.4%	1.4%	1.3%	

Source: Redeye Research

Beijer Electronics Group: Order Intake, Sales, EBIT (SEKm)



Source: Redeye Research, Beijer Electronics Group

Westermo continues to drive performance for the Group

Westermo continues to convince with +8% organic sales growth y/y and its EBIT-margin at 15.6% was the highest to date, strong numbers in this environment. Order intake was down ~5% y/y.

At the end of the quarter, Westermo signed a supply agreement with a large North American train operator at a value estimated to SEK 80 million. This order is not included in quarterly order intake, but will be reported on delivery, according to contract. Rail infrastructure and power distribution represents new growth opportunities going forward and we think this order is one of many upcoming orders. Beijer Group estimates that the market size for rail infrastructure and power distribution is around USD 120 million (with 15% CAGR the coming years) and USD 200 million (with 9% CAGR the coming years), respectively.

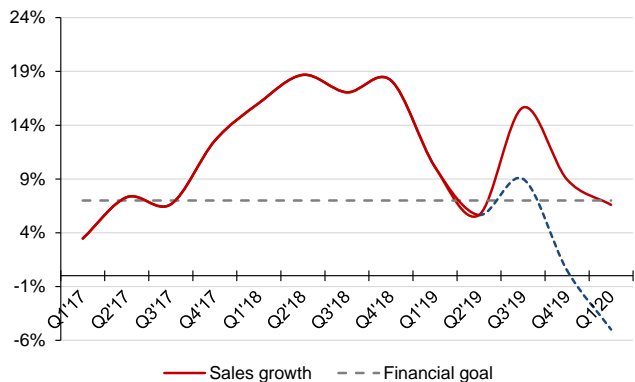
Beijer Electronics Group: Estimates, '18-'22E												
(SEKm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
Sales	1 417	371	381	391	415	1 559	395	376	366	388	1 525	1 645
<i>growth y/y</i>	18%	10%	6%	16%	9%	10%	7%	-1%	-6%	-7%	-2%	8%
Beijer Electronics	731	189	193	180	194	756	164	154	150	160	628	666
Westermo	586	159	164	183	199	705	215	204	200	210	829	911
Korenix	118	29	31	33	27	120	21	22	20	22	85	91
Total costs (excl. D&A)	-1 267	-315	-331	-328	-360	-1 335	-354	-320	-304	-328	-1 305	-1 373
EBITDA	151	58	50	63	56	227	44	56	62	60	222	271
D&A	-77	-28	-29	-33	-34	-124	-35	-36	-37	-38	-147	-145
EBIT	74	30	22	30	22	103	8	20	25	22	76	126
<i>margin (%)</i>	5%	8%	6%	8%	5%	7%	2%	5%	7%	6%	5%	8%
Beijer Electronics	47	18	14	12	11	55	-5	5	8	8	16	67
<i>margin (%)</i>	6%	10%	7%	7%	6%	7%	neg.	3%	5%	5%	3%	10%
Westermo	70	21	20	26	22	90	33	31	31	27	122	134
<i>margin (%)</i>	12%	13%	12%	14%	11%	13%	16%	15%	16%	13%	15%	15%
Korenix	-6	-1	0	-1	-3	-4	-9	-6	-5	-4	-24	5
<i>margin (%)</i>	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.	-28%	6%
PTP	63	27	20	26	19	92	7	19	24	21	71	112
EPS, SEK	1.52	0.70	0.48	0.65	0.43	2.26	0.18	0.49	0.62	0.53	1.82	2.92

Source: Redeye Research, Beijer Electronics Group

Beijer Electronics Group: Estimate changes, '20e-'22e									
(SEKm)	Old			New			Changes		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Sales	1771	1895	2016	1525	1645	1839	-14%	-13%	-9%
EBITDA	276	341	373	222	271	331	-19%	-20%	-11%
EBIT	132	195	224	76	126	183	-42%	-35%	-18%
PTP	117	181	217	71	112	174	-39%	-38%	-20%
EPS, SEK	3.02	4.72	5.81	1.82	2.92	4.65	-40%	-38%	-20%

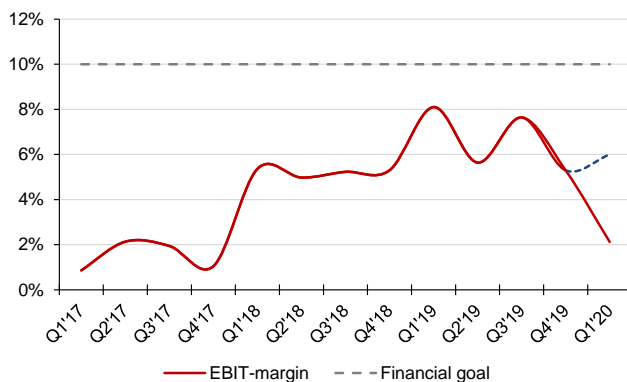
Source: Redeye Research

Beijer Electronics Group: Sales growth versus financial goal



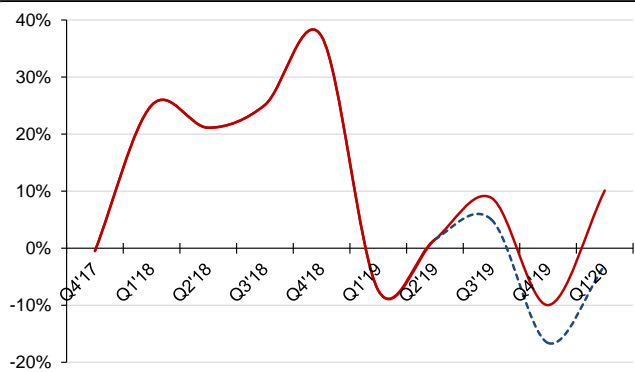
Source: Redeye Research
The blue bar is for organic numbers

Beijer Electronics Group: EBIT-margin versus financial goal



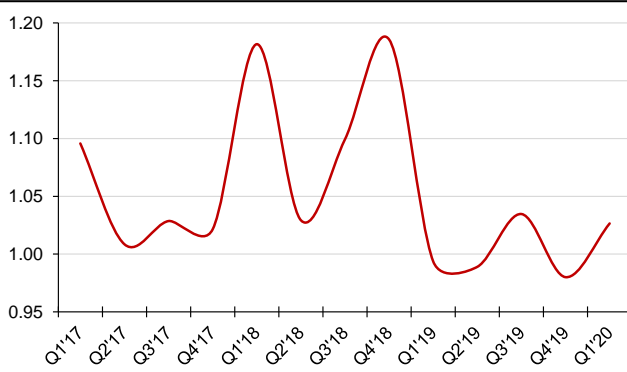
Source: Redeye Research
The blue bar for Q1'20 is excluding restructuring expenses of SEK 15m

Beijer Electronics Group: Order intake growth



Source: Redeye Research
The blue bar is for organic numbers

Beijer Electronics Group: Book-to-bill ratio



Source: Redeye Research

Valuation

Our valuation is based on a DCF analysis for three scenarios - a base case plus an optimistic bull case and pessimistic bear case. No additional acquisitions are considered and we use a WACC of 10.0% in all our scenarios. Fair value range amounts to SEK 29.0 – 65.0 with a base case of **SEK 46.0 per share**.

Base Case

Sales should grow at a CAGR of ~6% between 2020 and 2022. Beyond 2022, we assume a sales CAGR of ~4% and terminal growth of 2%. We forecast substantially improved profitability on the back of increased sales and new products when the corona crisis is over. The prospects for additional profitability improvements remain favorable given the recent profitability enhancing acquisitions, higher margins from sales of new products, and the opportunities to leverage on higher sales volumes. We believe the company should be able to reach its financial goal (10% EBIT-margin) during 2022, and further expect it to achieve higher margins in the long-term.

Valuation: Base case				
Assumptions	2020-2022	2023-2029	DCF-value	
CAGR Sales	5.7%	3.8%	WACC	10%
EBIT-margin (avg)	7.5%	12.8%	NPV FCF	954
ROIC	7.4 %	14.8%	NPV Terminal value	961
			Sum NPV	1 915
Terminal			Net debt (20E)	-580
Terminal FCF growth		2%	DCF-value	1 314
Terminal EBIT-margin		11%	Fair value per share	46
			Current share price	38

Source: Redeye Research

We see an upside of around ~20% from today's levels of SEK 38 per share.

Fair Value Range

Below we highlight the assumptions in our different scenarios.

Bear Case 29.0 SEK

Key assumptions:

- Sales growth (CAGR) 20-22E: 4.8%
- Sales growth (CAGR) 23-29E: 3.0%
- Average EBIT-margin 20-22E: 5.5%
- Average EBIT-margin 23-29E: 9.0%
- Terminal EBIT-margin: 8.0%

In general, we take a more cautious stance on the company's growth ability over the coming years.

Our conservative bear case incorporates lower returns of the commercial launch of its software offering, less successful penetration of Westermo's new target markets as well as an extended turnaround in Korenix – ultimately resulting in lower sales and earnings.

This case reflects the scenario where the strong momentum BELE currently is showing will scale down. We assume both lower growth rates and gross margins compared to the two previously presented scenarios. Less profitability improvements following lower sales growth and lower returns from new offerings.

Base Case 46.0 SEK

Key assumptions:

- Sales growth (CAGR) 20-22E: 5.7%
- Sales growth (CAGR) 23-29E: 3.8%
- Average EBIT-margin 20-22E: 7.5%
- Average EBIT-margin 23-29E: 12.8%
- Terminal EBIT-margin: 11.0%

Following increased sales of new products, we expect gross margins to increase. Over time, we estimate the company to maintain a gross margin exceeding 50% and EBIT improvements in all units.

We expect EBIT improvements over the next years, seeing the EBIT-margin increasing from around 5% in 2018 up towards 10% by 2022, primarily from leveraging on increased sales volumes and sales of new products.

Bull Case 65.0 SEK

Key assumptions:

- Sales growth (CAGR) 20-22E: 9.0%
- Sales growth (CAGR) 23-29E: 5.2%
- Average EBIT-margin 20-22E: 8.4%
- Average EBIT-margin 23-29E: 14.0%
- Terminal EBIT-margin: 13.0%

In our bull case, we are estimating higher growth rate in each business entity. We assume a more successful launch of Beijer Electronics software offering, leading to higher gross margins during 2021 and beyond. We further expect higher sales growth from sales of operator panels and IIoT gateways. Regarding profitability, we expect the improved gross margin to result in Beijer Electronics reaching higher EBIT-margins.

This case also incorporates higher sales growth for Westermo following successful penetration of both new focus segments. Furthermore, we estimate improved profitability following increased sales. The recent acquisition of Virtual Access is also expected to contribute to greater profitability.

Besides, we expect quicker and higher returns from Korenix's turnaround. We also assume a slightly higher long-term sales growth following a successfully established positioning as a primer provider of connectivity products within its security and surveillance segments.

Hence, apart from higher growth rates, we also expect somewhat higher gross margins, ultimately resulting in improved profitability compared to our base case.

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

The People rating is based on quantitative scores in seven sub-categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board. In our rating assessment, Beijer Group gains the highest points from its open communication, qualified and experienced board, and compensation. Relevant industry experience characterizes BELE's management and board of directors. Management shows a good understanding for the targeted markets, and has a clear long-term focus. BELE has shown solid progress with current management, which we judge to have completed the company's turnaround.

Business: 4

The Business rating is based on quantitative scores in five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks. Beijer Group receives the highest scores in Value Proposition and Operational Risk. The company operates in large fragmented growth markets, primarily related to the digitalization trend. Long customer relationships characterize its business, where products are designed into customers' systems - laying the ground for potentially durable competitive advantages (switching costs).

Financials: 3

The Financials rating is based on quantitative scores in five sub-categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality. Although currently showing solid progress, BELE's financial rating is burdened by a couple of years of negative results and free cash flow. As additional profitability improvements are expected, we see room for an increased rating going forward. The company has a solid capital structure, the business is diversified, and we see no risk of needing to raise external capital going forward. On the negative side, the business is cyclical, implying that there is a risk of negative growth in a period of economic downturn.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	1,417	1,559	1,525	1,645	1,839
Total operating costs	-1,267	-1,331	-1,303	-1,373	-1,508
EBITDA	151	227	222	271	331
Depreciation	-18	-58	-66	-63	-64
Amortization	-58	-66	-81	-83	-84
Impairment charges	0	0	0	0	0
EBIT	74	104	76	126	183
Share in profits	0	0	0	0	0
Net financial items	-11	-12	-5	-15	-14
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	63	92	71	111	169
Tax	-20	-27	-19	-24	-37
Net earnings	44	65	53	87	132

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	94	122	131	135	125
Receivables	251	304	305	313	349
Inventories	178	215	244	247	276
Other current assets	59	164	164	164	164
Current assets	581	804	843	858	913
<i>Fixed assets</i>					
Tangible assets	91	100	97	97	96
Associated comp.	1	0	0	0	0
Investments	0	0	0	0	0
Goodwill	525	807	807	807	807
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	264	281	276	271	265
0 non-current assets	2	0	0	0	0
Total fixed assets	883	1,188	1,181	1,175	1,168
Deferred tax assets	51	50	50	50	50
Total (assets)	1,515	2,042	2,074	2,083	2,131
Liabilities					
<i>Current liabilities</i>					
Short-term debt	75	187	187	187	187
Accounts payable	293	312	305	329	368
0 current liabilities	0	0	0	0	0
Current liabilities	368	499	492	516	555
Long-term debt	436	586	586	586	485
0 long-term liabilities	5	117	117	30	30
Convertibles	0	0	0	0	0
Total Liabilities	808	1,202	1,195	1,132	1,070
Deferred tax liab	50	56	56	56	56
Provisions	0	150	150	150	150
Shareholders' equity	653	629	668	740	850
Minority interest (BS)	4	4	4	4	4
Minority & equity	657	634	672	744	855
Total liab & SE	1,515	2,042	2,074	2,083	2,131

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	1,417	1,559	1,525	1,645	1,839
Total operating costs	-1,267	-1,331	-1,303	-1,373	-1,508
Depreciations total	-77	-124	-147	-146	-148
EBIT	74	104	76	126	183
Taxes on EBIT	-23	-30	-20	-28	-40
NOPLAT	51	73	56	98	143
Depreciation	77	124	147	146	148
Gross cash flow	128	197	203	244	291
Change in WC	-28	-22	-37	14	-27
Gross CAPEX	-117	-334	-139	-140	-141
Free cash flow	-17	-158	27	118	123

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	43%	31%	32%	36%	40%
Debt/equity ratio	78%	123%	116%	105%	79%
Net debt	416	651	643	638	548
Capital employed	1,071	1,285	1,314	1,382	1,402
Capital turnover rate	0.9	0.8	0.7	0.8	0.9

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	18%	10%	-2%	8%	12%
EPS growth (adj)	-898%	48%	-19%	65%	52%

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	7%	10%	8%	12%	17%
ROCE	7%	8%	5%	8%	12%
ROIC	5%	7%	4%	7%	10%
EBITDA margin	11%	15%	15%	17%	18%
EBIT margin	5%	7%	5%	8%	10%
Net margin	3%	4%	3%	5%	7%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	1.52	2.26	1.82	3.00	4.57
EPS adj	1.52	2.26	1.82	3.00	4.57
Dividend	0.50	0.00	0.00	0.50	1.00
Net debt	14.52	22.62	22.27	22.11	18.98
Total shares	28.64	28.79	28.85	28.85	28.85

VALUATION	2018	2019	2020E	2021E	2022E
EV	1,458.5	2,210.4	1,736.4	1,731.0	1,640.0
P/E	23.8	23.8	20.9	12.7	8.3
P/E diluted	23.8	23.8	20.9	12.7	8.3
P/Sales	0.7	1.0	0.7	0.7	0.6
EV/Sales	1.0	1.4	1.1	1.1	0.9
EV/EBITDA	9.7	9.7	7.8	6.4	5.0
EV/EBIT	19.7	21.4	22.9	13.8	9.0
P/BV	1.6	2.5	1.6	1.5	1.3

SHARE PERFORMANCE	GROWTH/YEAR		18/20E
1 month	-1.6 %	Net sales	3.7 %
3 month	-33.8 %	Operating profit adj	1.3 %
12 month	-31.4 %	EPS, just	9.4 %
Since start of the year	-45.9 %	Equity	1.1 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stena	29.5 %	29.8 %
Svolder	15.0 %	15.1 %
Nordea Fonder	10.1 %	10.2 %
Fjärde AP-fonden	7.5 %	7.6 %
Humle Fonder	4.8 %	4.8 %
Clients Fonder	3.6 %	3.7 %
Tredje AP-fonden	2.3 %	2.3 %
Torsten Bjurman	2.0 %	2.1 %
Nicolas Hassbjer	1.6 %	1.6 %
Nordea Funds (Lux)	1.0 %	1.0 %

SHARE INFORMATION	
Reuters code	BELE
List	Small Cap
Share price	38.0
Total shares, million	28.9
Market Cap, MSEK	1096.4

MANAGEMENT & BOARD	
CEO	Per Samuelsson
CFO	Joakim Laurén
IR	Joakim Laurén
Chairman	Bo Elisson

FINANCIAL INFORMATION	
2020-07-14	Interim Report January-June 2020
2020-10-27	Interim Report January-September 2020

ANALYSTS	
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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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Disclaimer

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Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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Redeye Rating (2020-05-04)

Rating	People	Business	Financials
5p	12	11	4
3p - 4p	103	78	30
0p - 2p	8	34	89
Company N	123	123	123

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CONFLICT OF INTERESTS

Havan Hanna 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.