



EPISURF MEDICAL

Covid-19 to affect procedures

On 24 April Episurf Medical reported solid Q1 earnings, especially bearing in mind that EpiSealer procedures are typically elective and hence among the areas where healthcare organisations globally have lowered activity levels in the wake of Covid-19. This effect should be even more pronounced in Q2. Overall, we believe the company is moving in the right direction and its stable financial situation is a big benefit in the volatile times ahead due to the Covid-19 pandemic. We calculate a fair value of SEK1.4–4.1 (previously SEK1.6–4.3).

Q1 affected by Covid-19 and impact set to increase in Q2. The company reported sales of cSEK1.5m in Q1 and an operating loss of cSEK17.9m. The loss was larger than last year, but below our expectation given the increased activity in the US IDE trial. Covid-19 started to affect order intake in February/March. As EpiSealer procedures are typically elective in nature, we were not surprised to see an impact on the back of hospital organisations around the world reorganising to focus on extending ICU capacity and scaling back (in some cases substantially) elective procedures. As the Covid-19 pandemic hit Europe in March the impact on Episurf Medical should be even more pronounced in Q2 we believe.

More and more clinical outcome data available, which should drive sales. As the acute effects of the pandemic start to abate and healthcare operations in Europe and the US return to normal, we expect sales growth for the company to return. As we have stated before, we believe that strong clinical data is imperative for good traction in the market and that this data is being rapidly accumulated. This year, we should see several publications with data from longer-term use of the EpiSealer implant.

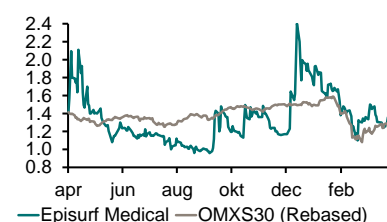
Strong start to the year. As mentioned in the CEO's comments in the Q1 report, orthopaedic surgeons who have gained experience of the implant system continue to drive use, which points to a positive experience with the system.

Forecasts adjusted for Covid-19. We have adjusted our forecasts down due to the impact from Covid-19 seen at the end of Q1 and the impact we expect in Q2. We still see large demand for the company's implant system in patients too old for any biological treatment to have an effect and too young for total knee replacements. Our new fair value is SEK1.4–4.1 (previously SEK1.6–4.3).

| Year-end Dec | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Revenue (SEKm) | 3 | 3 | 4 | 5 | 7 | 12 | 26 |
| EBITDA adj (SEKm) | -58 | -57 | -53 | -61 | -70 | -71 | -58 |
| EBIT adj (SEKm) | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| PTP (SEKm) | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| EPS rep (SEK) | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| EPS adj (SEK) | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| Revenue growth (%) | -60.0 | 16.3 | 39.0 | 25.6 | 25.4 | 79.7 | 116.2 |
| EV/Sales adj (x) | 68.89 | 60.95 | 23.38 | 19.92 | 53.77 | 27.43 | 15.85 |
| P/Book (x) | 2.89 | 1.37 | 1.55 | 1.90 | 2.79 | 3.88 | 1.76 |

Source: Company (historical figures), DNB Markets (estimates)

EPISB versus OMXS30 (12m)



Source: Factset

SUMMARY

| | |
|-------------------|--------------------|
| Share price (SEK) | 1.47 |
| Tickers | EPISB SS, EPISB.ST |

CAPITAL STRUCTURE

| | |
|------------------------------|-------|
| No. of shares (m) | 187.0 |
| No. of shares fully dil. (m) | 187.0 |
| Market cap. (SEKm) | 275 |
| NIBD adj end-2020e (SEKm) | 89 |
| Enterprise value adj (SEKm) | 364 |
| Net debt/EBITDA adj (x) | -1.28 |
| Free float (%) | 100 |

Source: Company, DNB Markets (estimates)

NEXT EVENT

| | |
|----------------|------------|
| Q2 report 2020 | 17/07/2020 |
|----------------|------------|

ESTIMATE CHANGES (SEK)

| Year-end Dec | 2020e | 2021e | 2022e |
|--------------|-------|-------|-------|
| Sales (old) | 8.52 | 16.44 | 32.28 |
| Sales (new) | 6.77 | 12.17 | 26.31 |
| Change (%) | -20.5 | -26.0 | -18.5 |
| EPS (old) | -0.42 | -0.42 | -0.35 |
| EPS (new) | -0.41 | -0.42 | -0.35 |
| Change (%) | nm | nm | nm |

Source: DNB Markets, SME Direkt

This report has been commissioned and paid for by the company, and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

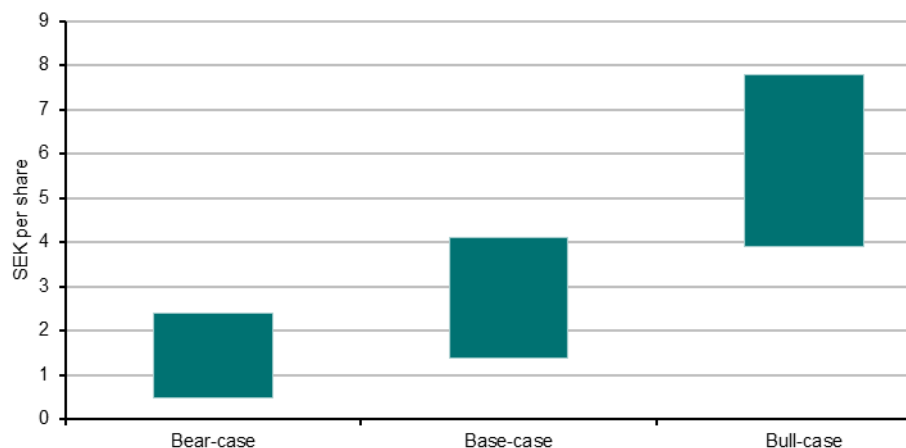
ANALYSTS

Patrik Ling

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Overview

Valuation (SEK)



Source: DNB Markets

Valuation methodology

- We continue to primarily use a DCF, with a base-case long-term growth rate of 1%, a terminal EBIT margin of 45%, and a WACC of 11%.
- In our bull-case scenario we assume 25% higher sales growth than in our base-case scenario.
- In our bear-case scenario we use 25% lower sales growth than in our base-case scenario.

Source: DNB Markets

Downside risks to our fair value

- We believe the largest risk relates to Episealer® sales growth. Hence, our bear-case scenario assumes weaker sales than our base-case scenario. Even weaker sales would be a negative.
- We believe the company will need additional financing to reach our forecasts and this might not be available at acceptable terms.
- The US IDE trial might take longer than expected to complete and be more expensive than estimated.
- The Covid-19 pandemic might negatively affect short-term demand.

Source: DNB Markets

DNB Markets estimates

- We believe our base-case scenario includes reasonable sales growth even though the market has been disappointed by historical sales.
- The company has significantly more clinical data now than at the time of the IPO, which supports the case.
- We assume the company will complete the US IDE trial and out-license the Episealer® system to a US partner. We have not factored in an upfront payment but instead have estimated that the company receives a royalty on sales.

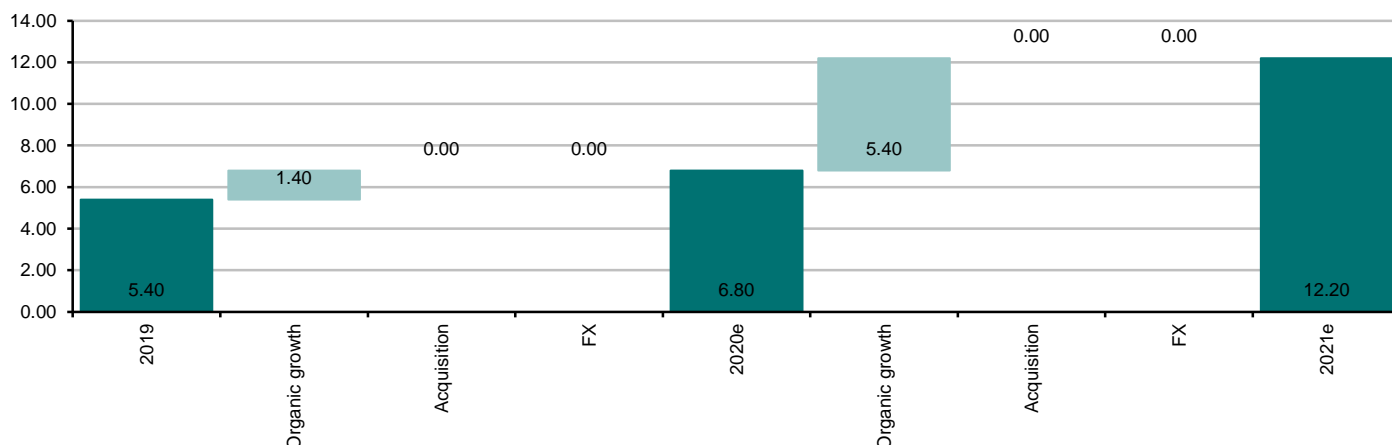
Source: DNB Markets

Upside risks to our fair value

- Sales might be stronger than we forecast, as it has clearly more clinical documentation than in the past.
- A US partnership might include better terms than we expect.
- The company could become a takeover target for a larger orthopaedic implant company.

Source: DNB Markets

Sales growth bridge 2019–2021e (SEKm)



Source: DNB Markets (forecasts), company (historical data)

ESG overview

Sustainability assessment

| | Positive | Negative |
|--------------------------------|--|---|
| Conclusions | <ul style="list-style-type: none"> ■ Episurf’s products aim to improve knee-health in younger patients with well-defined arthritic injuries. The main drivers for the company are the combination of demographic changes and a lack of suitable alternatives for patients deemed too young for a total knee replacement. ■ The implants are individually designed to the patient’s anatomy and injury, increasing the likelihood of a successful treatment outcome. ■ We believe that general ESG trends could benefit Episurf over time. | <ul style="list-style-type: none"> ■ The company is in the process of establishing a new treatment paradigm for knee injuries, but this takes time. Despite the poor treatment alternatives for younger patients, it still takes time to educate surgeons about the new treatment. ■ Treatment growth is to a large extent dependent on clinical outcome data, and the company is only now ready with its documentation. This historical lack of data has slowed market uptake. |
| Actions being taken by company | <ul style="list-style-type: none"> ■ Tailoring implants as well as surgical instruments means a better fit with the patients’ needs and a reduced risk of revision surgery. ■ The company mainly addresses the UN sustainability goal number 3 “Good health and well-being”. | <ul style="list-style-type: none"> ■ The individualisation leads to a higher degree of single-use products (especially related to the surgical tools). ■ Although the waste increases due to a high degree of single-use products, the high success rate and the low revision rate should compensate for this. |

Key ESG drivers

Short-term

- | | |
|---|---|
| <ul style="list-style-type: none"> ■ All the company’s products, in one way or the other, are aimed at improving health among patients. Hence they all address the UN goal 3 of “Good health” ■ The Episealer implant system offers treatment to a group of patients who lack suitable alternatives. The documentation of clinical efficacy is rapidly increasing which we believe will make it easier to convince more orthopaedic surgeons to test the products and ultimately offer this solution to more patients. ■ These patients are to a large extent treated with painkillers long-term; a successful Episealer treatment can reduce the need and risks associated with long-term painkiller usage. | <ul style="list-style-type: none"> ■ There has been a lack of clinical documentation regarding the outcome for the Episealer implant system but over the last year more data has emerged, which looks compelling. ■ As this is a completely new way of treating the patients it takes time to educate orthopaedic surgeons in this method of treatment. |
|---|---|

Long-term

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ Getting younger patients (c35–40 years) back into good knee health also means that more can resume work, benefiting the overall economy as well as for the patients’ well-being. ■ Cost effectiveness of care should increase in the future as growth in total resources for healthcare is likely to be slower than that in demand. | <ul style="list-style-type: none"> ■ Access to healthcare differs globally, and patient needs vary from market to market. Episurf’s products mainly cater to patients in more developed markets. ■ New drugs or alternative treatments could have a negative impact on certain therapies, making some of Episurf’s current equipment obsolete. |
|--|--|

Source: DNB Markets

Sustainability assessment

| | Risk | Company's risk mitigation |
|-------------------------|--|---|
| Transition risks | | |
| Policy and legal | <ul style="list-style-type: none"> Changes in reimbursement systems can have a significant impact on Episurf's operations from time to time. Other regulations such as MRD and FDA approvals can take time and affect the company's ability to market its products. | <ul style="list-style-type: none"> All products have been recently re-certified in Europe, meaning that certification according to the MDR is not critical until 2024. |
| Technology | <ul style="list-style-type: none"> The Episealer implant system and surgical instruments are difficult for the competition to copy. There are other implant systems available, but they are not patient-specific. | <ul style="list-style-type: none"> There are no direct technical barriers left; rather the system is now rolled out in the market and also developed for other types of cartilage damage. |
| Market | <ul style="list-style-type: none"> The company sells direct in Europe, which is a slow process. In the US market the company will most likely enter into an agreement with a partner; this can be difficult to achieve. | <ul style="list-style-type: none"> The company focuses on certain markets and regions within markets to establish the system as a standard treatment. Discussions with potential partners are ongoing. |
| Reputation | <ul style="list-style-type: none"> A rising revision rate would be a clear negative. We see a potential risk in new surgeons using the system without sufficient training. | <ul style="list-style-type: none"> As cases are scanned and sent to the company for manufacture, this makes it easy for the company to detect if a potential patient is unsuitable. |
| Physical risk | | |
| Acute | <ul style="list-style-type: none"> Any manufacturing faults in an implant could have serious implications for a patient. | <ul style="list-style-type: none"> Quality control is imperative in the entire manufacturing chain. |
| Chronic | <ul style="list-style-type: none"> The launch of new biological technology that makes the implant solution outdated. | <ul style="list-style-type: none"> The company could potentially use its technology for other applications. |

Source: DNB Markets

Sustainability assessment

| | Opportunities | Company's utilisation of opportunity |
|-------------------------|--|--|
| Resource efficiency | <ul style="list-style-type: none"> By manufacturing patient-specific implants and instruments, there will be only a limited amount of waste. On the other hand, the surgical tools are single-use products and cannot be re-used. | <ul style="list-style-type: none"> The single-use feature limits the risk of an implant being unsuitable in the surgical situation. This reduces the need for revisions. |
| Products/Services | <ul style="list-style-type: none"> The individualised products result in a precise fit to the patient's injury. The software planning tools also eliminate the risk of carrying out the procedure on unsuitable patients. | <ul style="list-style-type: none"> The company sometimes advises against surgery after it receives the patient's images, thereby increasing the likelihood of a positive outcome. |
| New markets | <ul style="list-style-type: none"> The company is expanding its market presence in Europe and will seek a marketing partner for the US market. | <ul style="list-style-type: none"> The company is currently conducting a large (c180 patients) IDE trial in the US. |
| Supply chain resilience | <ul style="list-style-type: none"> The production is still relatively costly but as volumes expand economies of scale should kick in. It has capacity to significantly increase volumes without any major investments. | <ul style="list-style-type: none"> The company uses CMOs to help with a large part of the manufacturing process. |

Source: DNB Markets

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Q1 results review

Episurf Medical reported Q1 sales slightly below our forecast but the cost base was smaller than expected. The year seems to have started with positive momentum in orders and sales but this changed at the end of February/early March as the Covid-19 pandemic struck.

The procedures where Episealer implants are used are typically elective, explaining why they have been cancelled by healthcare organisations in Europe and the US looking to free up resources to handle an increased need for ICU beds. While this is unfortunate for the company, we believe it is limited what the company can do to mitigate the situation in the short term.

It has taken action in the form of cost reductions where possible. At the same time, it is continuing the work with the US IDE trial and there are certain sites ready for launch already.

Q1 results and deviations

Key highlights

| (SEKm, except per share data) | Q1 2020 | | | Deviation (%) | | Deviation, Abs | | Q1 2019 |
|-------------------------------|---------|--------|-------|---------------|-------|----------------|-------|---------|
| | Actual | DNB | Cons. | DNB | Cons. | DNB | Cons. | Actual |
| Sales | 1.5 | 1.7 | n.m. | -12% | n.a. | -0.2 | n.m. | 1.4 |
| EBIT reported | -17.9 | -19.7 | n.m. | 9% | n.a. | 1.8 | n.m. | -14.0 |
| EBIT margin (%) | -1193% | -1159% | n.m. | n.m. | n.a. | | | -1000% |
| Net financial items | 0.0 | 0.2 | n.m. | n.m. | n.m. | -0.2 | n.m. | -0.6 |
| Pre-tax profit | -17.9 | -19.5 | n.m. | 8% | n.a. | 1.6 | n.m. | -14.6 |
| EPS | -0.19 | -0.21 | n.m. | 10% | n.a. | 0.0 | n.m. | -0.35 |

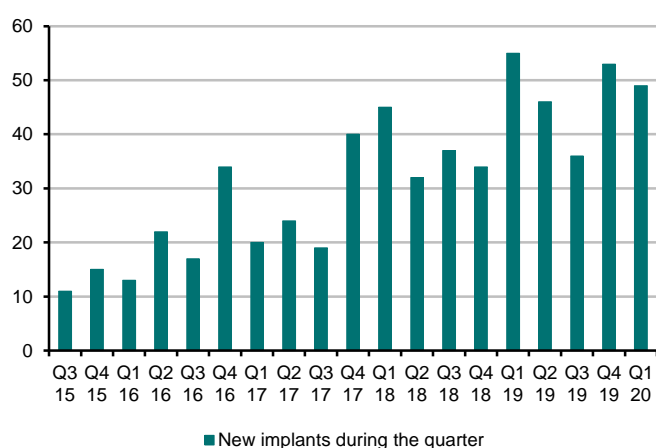
Growth YOY

| | | | | | | | | |
|-------------|------|------|------|--|--|------|------|--|
| Group sales | 7% | 21% | n.m. | | | -14% | n.m. | |
| EBIT | -28% | -41% | n.m. | | | 13% | n.m. | |
| EPS | 46% | 40% | n.m. | | | 6% | n.m. | |

Source: Company data (historical figures) and DNB Markets estimates. There is no consensus available.

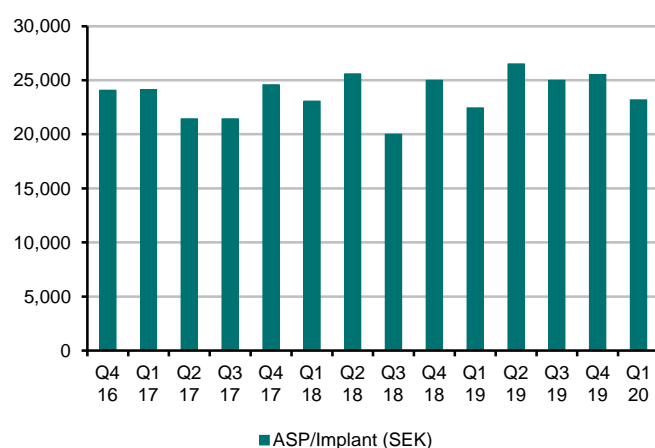
Looking at the number of implants sold during the quarter the trend still looks good we believe. As we understand it, the drop seen QOQ in implants sold comes from a weak March. The ASP remains in the same range as we have seen before, at cSEK23,000 per implant.

New implants sold during the quarter



Source: Company data

Average Selling Price per implant



Source: Company data

On the back of the report and our expectation that Q2 will be the weakest quarter in the year for the company (due to the Covid-19 pandemic) we have revised our forecasts for the coming years. As the company is still early in the launch process we have basically pushed the launch trajectory forward in time but note that once the pandemic is over and life starts to return to normal there will still be patients and the medical need will continue to be there for a very long time; hence the long-term outlook has not changed on the back of the Covid-19 pandemic. The company has during the spring strengthened its financial situation

considerably with a combination of a directed share issue and a rights issue. In total the company has raised cSEK140m before costs.

Our new fair value is SEK1.4–4.1.

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Forecast changes – P&L

| (SEKm) | New | | | Old | | | Change | | |
|------------------------------|-------|-------|-------|--------|--------|--------|--------|-------|-------|
| | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e |
| Revenues | 7 | 12 | 26 | 9 | 16 | 32 | -2 | -4 | -6 |
| Cost of sales | 0 | -6 | -12 | -5 | -7 | -15 | 5 | 1 | 3 |
| Gross profit | 7 | 6 | 14 | 4 | 9 | 18 | 3 | -3 | -3 |
| Operating expenses | -84 | -85 | -80 | -83 | -89 | -84 | -2 | 4 | 4 |
| EBITDA | -70 | -71 | -58 | -71 | -72 | -58 | 1 | 1 | 1 |
| EBITDA adj | -70 | -71 | -58 | -71 | -72 | -58 | 1 | 1 | 1 |
| EBITDA margin (%) | nm | nm | nm | -835.0 | -437.6 | -180.4 | nm | nm | nm |
| Depreciation | -8 | -8 | -8 | -8 | -8 | -8 | 0 | 0 | 0 |
| EBITA | -77 | -79 | -65 | -79 | -79 | -66 | 1 | 1 | 1 |
| EBIT | -77 | -79 | -65 | -79 | -79 | -66 | 1 | 1 | 1 |
| EBIT adj | -77 | -79 | -65 | -79 | -79 | -66 | 1 | 1 | 1 |
| Net interest | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 |
| Net financial items | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 |
| PBT | -77 | -78 | -65 | -78 | -79 | -65 | 1 | 1 | 1 |
| Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | -77 | -78 | -65 | -78 | -79 | -65 | 1 | 1 | 1 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -77 | -78 | -65 | -78 | -79 | -65 | 1 | 1 | 1 |
| <i>Per share data (SEK)</i> | | | | | | | | | |
| EPS | -0.41 | -0.42 | -0.35 | -0.42 | -0.42 | -0.35 | 0.01 | 0.01 | 0.00 |
| EPS adj | -0.41 | -0.42 | -0.35 | -0.42 | -0.42 | -0.35 | 0.01 | 0.01 | 0.00 |
| <i>Other key metrics (%)</i> | | | | | | | | | |
| Revenue growth | 25.4 | 79.7 | 116.2 | 57.8 | 92.9 | 96.3 | -32.4 | -13.2 | 19.8 |
| EBIT adj growth | nm | nm | nm | 14.2 | 1.0 | -17.3 | nm | nm | nm |
| EPS adj growth | nm | nm | nm | -59.7 | 1.0 | -17.4 | nm | nm | nm |
| Avg. number of shares (m) | 187 | 187 | 187 | 187 | 187 | 187 | 0 | 0 | 0 |
| Capex | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OpFCF | -70 | -71 | -58 | -71 | -72 | -58 | 1 | 1 | 1 |
| Working capital | -2 | 1 | 3 | -2 | 1 | 3 | 0 | 0 | 0 |
| NIBD adj | 89 | 59 | 142 | 88 | 57 | 139 | 1 | 2 | 3 |

Source: DNB Markets

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Annual P&L

| (SEKm) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|-------------------------------|---------|---------|--------|---------|---------|---------|---------|---------|--------|--------|
| Revenues | 2 | 2 | 7 | 3 | 3 | 4 | 5 | 7 | 12 | 26 |
| Cost of sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -6 | -12 |
| Gross profit | 2 | 2 | 7 | 3 | 3 | 4 | 5 | 7 | 6 | 14 |
| Operating expenses | -25 | -36 | -51 | -64 | -64 | -62 | -74 | -84 | -85 | -80 |
| EBITDA | -22 | -32 | -42 | -58 | -57 | -53 | -61 | -70 | -71 | -58 |
| Depreciation | -1 | -2 | -2 | -4 | -4 | -5 | -8 | -8 | -8 | -8 |
| EBITA | -23 | -33 | -44 | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| EBIT | -23 | -33 | -44 | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| Net interest | 0 | 0 | 0 | 0 | 0 | 0 | -1 | 1 | 1 | 1 |
| Net financial items | 0 | 0 | 0 | 0 | 0 | 0 | -1 | 1 | 1 | 1 |
| PBT | -23 | -33 | -44 | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Effective tax rate (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | -23 | -33 | -44 | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -23 | -33 | -44 | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| Avg. number of shares | 8 | 8 | 13 | 16 | 28 | 31 | 67 | 187 | 187 | 187 |
| <i>Per share data (SEK)</i> | | | | | | | | | | |
| EPS | -2.91 | -4.14 | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| EPS adj | -2.91 | -4.14 | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| <i>Growth and margins (%)</i> | | | | | | | | | | |
| Revenue growth | nm | 37.9 | 184.0 | -60.0 | 16.3 | 39.0 | 25.6 | 25.4 | 79.7 | 116.2 |
| EPS adj growth | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Gross margin | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 50.0 | 55.0 |
| EBITDA margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| EBITDA adj margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Depreciation/revenues | -63.4 | -75.3 | -33.6 | -152.5 | -135.3 | -111.6 | -138.9 | -112.2 | -62.4 | -28.9 |
| EBIT margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| EBIT adj margin | -1372.7 | -1421.7 | -662.3 | -2319.4 | -1978.2 | -1337.2 | -1275.9 | -1141.9 | -645.2 | -247.6 |
| PBT margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Net profit margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

Source: Company (historical figures), DNB Markets (estimates)

29 April 2020

Adjustments to annual P&L

| (SEKm) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| EBITDA | -22 | -32 | -42 | -58 | -57 | -53 | -61 | -70 | -71 | -58 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBITDA adj | -22 | -32 | -42 | -58 | -57 | -53 | -61 | -70 | -71 | -58 |
| EBITA | -23 | -33 | -44 | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBITA adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBITA adj | -23 | -33 | -44 | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| EBIT | -23 | -33 | -44 | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT adj | -23 | -33 | -44 | -62 | -61 | -58 | -69 | -77 | -79 | -65 |
| Net profit | -23 | -33 | -44 | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -23 | -33 | -44 | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| <i>Per share data (SEK)</i> | | | | | | | | | | |
| EPS | -2.91 | -4.14 | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| Recommended adjustment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EPS adj | -2.91 | -4.14 | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |

Source: Company (historical figures), DNB Markets (estimates)

Cash flow

| (SEKm) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Net profit | -23 | -33 | -44 | -62 | -61 | -58 | -70 | -77 | -78 | -65 |
| Other non-cash adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 3 | 4 |
| Change in net working capital | 1 | -1 | 4 | 1 | -5 | 0 | 3 | -2 | -2 | -2 |
| Cash flow from operations (CFO) | -21 | -32 | -38 | -56 | -61 | -53 | -60 | -70 | -70 | -55 |
| Capital expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisitions/Investments | -3 | -3 | -7 | -5 | -7 | -10 | -6 | 0 | 0 | 0 |
| Divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing (CFI) | -4 | -3 | -7 | -6 | -7 | -10 | -6 | 0 | 0 | 0 |
| Free cash flow (FCF) | -24 | -35 | -45 | -62 | -69 | -63 | -65 | -70 | -70 | -55 |
| Net change in debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 1 | 1 | -7 | -11 | -12 |
| Cash flow from financing (CFF) | 70 | 0 | 115 | 0 | 98 | 20 | 62 | 127 | 39 | 138 |
| Total cash flow (CFO+CFI+CFF) | 46 | -34 | 69 | -62 | 29 | -43 | -3 | 58 | -30 | 83 |
| <i>FCFF calculation</i> | | | | | | | | | | |
| Free cash flow | -24 | -35 | -45 | -62 | -69 | -63 | -65 | -70 | -70 | -55 |
| Less: net interest | 0 | 0 | 0 | 0 | 0 | 0 | 1 | -1 | -1 | -1 |
| Less: acquisitions | 3 | 3 | 7 | 5 | 7 | 10 | 6 | 0 | 0 | 0 |
| Less: divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth (%) | | | | | | | | | | |
| CFO | -37.9 | -52.6 | -20.2 | -47.5 | -9.5 | 13.9 | -12.9 | -16.5 | -0.3 | 20.6 |
| CFI | -143.9 | 21.2 | -157.1 | 24.6 | -34.4 | -29.7 | 43.3 | 100.0 | nm | nm |
| FCF | -47.5 | -41.5 | -31.5 | -35.8 | -11.7 | 9.1 | -4.2 | -6.6 | -0.3 | 20.6 |
| CFF | nm | -99.8 | 76422.1 | -100.0 | nm | -80.0 | 217.3 | 104.5 | -69.0 | 251.3 |
| FCFF | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

Source: Company (historical figures), DNB Markets (estimates)

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Balance sheet

| (SEKm) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|--------------------------------------|-----------|-----------|------------|-----------|-----------|-----------|-----------|------------|-----------|------------|
| Assets | 76 | 43 | 118 | 60 | 93 | 55 | 58 | 119 | 93 | 180 |
| Inventories | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 3 | 3 |
| Trade receivables | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 4 | 8 | 11 |
| Other receivables | 2 | 1 | 1 | 3 | 3 | 3 | 2 | 2 | 2 | 2 |
| Cash and cash equivalents | 69 | 34 | 104 | 42 | 71 | 28 | 25 | 83 | 53 | 136 |
| Current assets | 71 | 37 | 107 | 47 | 77 | 34 | 30 | 92 | 66 | 153 |
| Property, plant and equipment | 1 | 0 | 0 | 0 | 0 | 0 | 6 | 6 | 6 | 6 |
| Other intangible assets | 5 | 6 | 11 | 13 | 16 | 21 | 22 | 22 | 22 | 22 |
| Non-current assets | 5 | 6 | 11 | 13 | 16 | 21 | 28 | 28 | 28 | 28 |
| Total assets | 76 | 43 | 118 | 60 | 93 | 55 | 58 | 119 | 93 | 180 |
| Equity and liabilities | 76 | 43 | 118 | 60 | 93 | 55 | 58 | 119 | 93 | 180 |
| Total equity to the parent | 72 | 39 | 110 | 49 | 86 | 45 | 41 | 99 | 71 | 156 |
| Total equity | 72 | 39 | 110 | 49 | 86 | 45 | 41 | 99 | 71 | 156 |
| Trade payables | 2 | 1 | 2 | 6 | 3 | 2 | 6 | 7 | 8 | 9 |
| Other payables and accruals | 0 | 1 | 2 | 2 | 1 | 2 | 4 | 4 | 4 | 5 |
| Short-term debt | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 3 | 3 | 3 |
| Total current liabilities | 2 | 2 | 4 | 8 | 4 | 6 | 10 | 14 | 15 | 16 |
| Long-term debt | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 4 | 4 | 4 |
| Other non-current liabilities | 2 | 3 | 5 | 4 | 4 | 4 | 3 | 4 | 4 | 4 |
| Total non-current liabilities | 2 | 3 | 5 | 4 | 4 | 4 | 7 | 7 | 7 | 8 |
| Total liabilities | 5 | 4 | 8 | 12 | 8 | 10 | 16 | 21 | 22 | 24 |
| Total equity and liabilities | 76 | 43 | 118 | 60 | 93 | 55 | 58 | 119 | 93 | 180 |
| <i>Key metrics</i> | | | | | | | | | | |
| Net interest bearing debt | 69 | 34 | 104 | 42 | 71 | 31 | 29 | 89 | 59 | 142 |

Source: Company (historical figures), DNB Markets (estimates)

29 April 2020

Valuation ratios

| (SEKm) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <i>Enterprise value</i> | | | | | | | | | | |
| Share price (SEK) | 27.91 | 15.21 | 10.35 | 8.84 | 4.19 | 2.25 | 1.17 | 1.47 | 1.47 | 1.47 |
| Number of shares (m) | 7.86 | 7.96 | 12.50 | 15.95 | 27.99 | 30.87 | 67.34 | 187.0 | 187.0 | 187.0 |
| Market capitalisation | 219 | 121 | 129 | 141 | 117 | 69 | 79 | 275 | 275 | 275 |
| Net interest bearing debt | 69 | 34 | 104 | 42 | 71 | 31 | 29 | 89 | 59 | 142 |
| Adjustments to NIBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net interest bearing debt adj | 69 | 34 | 104 | 42 | 71 | 31 | 29 | 89 | 59 | 142 |
| EV | 288 | 156 | 233 | 183 | 189 | 101 | 108 | 364 | 334 | 417 |
| EV adj | 288 | 156 | 233 | 183 | 189 | 101 | 108 | 364 | 334 | 417 |
| <i>Valuation</i> | | | | | | | | | | |
| EPS | -2.91 | -4.14 | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| EPS adj | -2.91 | -4.14 | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.41 | -0.42 | -0.35 |
| P/E | -9.6 | -3.7 | -2.9 | -2.3 | -1.9 | -1.2 | -1.1 | -3.6 | -3.5 | -4.3 |
| P/E adj | -9.6 | -3.7 | -2.9 | -2.3 | -1.9 | -1.2 | -1.1 | -3.6 | -3.5 | -4.3 |
| P/B | 3.06 | 3.11 | 1.18 | 2.89 | 1.37 | 1.55 | 1.90 | 2.79 | 3.88 | 1.76 |
| Average ROE | -47.6% | -59.6% | -59.1% | -77.7% | -91.0% | -88.7% | -161.9% | -109.6% | -92.0% | -56.9% |
| Earnings yield adj | -10.4% | -27.2% | -34.0% | -43.7% | -52.1% | -83.2% | -88.6% | -27.9% | -28.3% | -23.5% |
| EV/SALES | 169.87 | 66.47 | 35.12 | 68.89 | 60.95 | 23.38 | 19.92 | 53.77 | 27.43 | 15.85 |
| EV/SALES adj | 169.87 | 66.47 | 35.12 | 68.89 | 60.95 | 23.38 | 19.92 | 53.77 | 27.43 | 15.85 |
| EV/EBITDA | -13.0 | -4.9 | -5.6 | -3.2 | -3.3 | -1.9 | -1.8 | -5.2 | -4.7 | -7.2 |
| EV/EBITDA adj | -13.0 | -4.9 | -5.6 | -3.2 | -3.3 | -1.9 | -1.8 | -5.2 | -4.7 | -7.2 |
| EV/EBIT | -12.4 | -4.7 | -5.3 | -3.0 | -3.1 | -1.7 | -1.6 | -4.7 | -4.3 | -6.4 |
| EV/EBIT adj | -12.4 | -4.7 | -5.3 | -3.0 | -3.1 | -1.7 | -1.6 | -4.7 | -4.3 | -6.4 |
| EV/NOPLAT | -12.4 | -4.7 | -5.3 | -3.0 | -3.1 | -1.7 | -1.6 | -4.7 | -4.3 | -6.4 |
| EV/OpFCF (taxed) | -12.7 | -4.9 | -5.6 | -3.2 | -3.3 | -1.9 | -1.8 | -5.2 | -4.7 | -7.2 |

Source: Company (historical figures), DNB Markets (estimates)

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Key accounting ratios

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|---------------------------------------|---------|----------|----------|----------|-----------|---------|---------|---------|--------|--------|
| <i>Profitability (%)</i> | | | | | | | | | | |
| ROA | -43.8 | -55.0 | -54.5 | -69.1 | -79.6 | -78.1 | -124.1 | -86.7 | -73.4 | -47.2 |
| <i>Return on invested capital (%)</i> | | | | | | | | | | |
| Net PPE/revenues | 30.6 | 18.2 | 6.4 | 14.4 | 6.5 | 2.3 | 111.1 | 88.6 | 49.3 | 22.8 |
| Working capital/revenues | -2.1 | 28.1 | -11.5 | -104.1 | 58.2 | 48.8 | -87.0 | -29.5 | 5.8 | 12.9 |
| <i>Cash flow ratios (%)</i> | | | | | | | | | | |
| FCF/revenues | -1438.4 | -1475.9 | -683.4 | -2317.6 | -2227.3 | -1455.8 | -1207.4 | -1026.7 | -572.9 | -210.3 |
| FCF/market capitalisation | -11.1 | -28.5 | -35.1 | -43.7 | -58.8 | -90.2 | -82.8 | -25.3 | -25.4 | -20.1 |
| CFO/revenues | -1223.6 | -1353.3 | -572.4 | -2108.4 | -1985.6 | -1230.2 | -1105.6 | -1026.7 | -572.9 | -210.3 |
| CFO/market capitalisation | -9.5 | -26.2 | -29.4 | -39.8 | -52.4 | -76.2 | -75.8 | -25.3 | -25.4 | -20.1 |
| CFO/capex | -4435.2 | -81809.4 | -29577.0 | -35153.6 | -187892.4 | | | | | |
| CFO/current liabilities | -873.2 | -1789.9 | -1076.6 | -717.5 | -1574.9 | -881.7 | -621.9 | -507.5 | -464.8 | -339.5 |
| Cash conversion ratio | 106.7 | 104.9 | 103.3 | 100.0 | 112.7 | 108.3 | 93.4 | 90.6 | 89.5 | 85.7 |
| Capex/revenues | 27.6 | 1.7 | 1.9 | 6.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex/depreciation | 43.5 | 2.2 | 5.8 | 3.9 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| OpFCF margin | -1336.8 | -1348.1 | -630.6 | -2172.9 | -1843.9 | -1225.6 | -1137.0 | -1029.6 | -582.7 | -218.7 |
| <i>Leverage and solvency (x)</i> | | | | | | | | | | |
| Interest cover | nm | nm | nm | nm | nm | -81.57 | -45.53 | nm | nm | nm |
| EBIT/interest payable | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| EBITA adj/interest payable | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Cash coverage | 52.49 | 90.82 | 1233.82 | 1396.48 | 978.12 | -175.67 | -68.22 | 116.79 | 118.78 | 96.36 |
| Net debt/EBITDA | -3.10 | -1.09 | -2.49 | -0.73 | -1.25 | -0.59 | -0.47 | -1.28 | -0.83 | -2.47 |
| Total debt/total capital (BV) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.05 | 0.06 | 0.05 | 0.07 | 0.03 |
| LTD / (LTD + equity (MV)) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.01 | 0.01 | 0.01 |
| <i>Cash conversion cycle</i> | | | | | | | | | | |
| Inventory turnover days | nm | nm | nm | nm | nm | nm | nm | nm | 168.0 | 101.7 |
| Receivables turnover days | 387.7 | 148.7 | 88.7 | 541.0 | 472.0 | 322.6 | 209.5 | 355.7 | 302.9 | 188.7 |
| Credit period | nm | nm | nm | nm | nm | nm | nm | nm | 479.9 | 277.5 |
| Cash conversion cycle | nm | nm | nm | nm | nm | nm | nm | nm | -9.0 | 12.9 |

Source: Company (historical figures), DNB Markets (estimates)

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Important Information

Company: Episurf Medical
 Coverage by Analyst: Patrik Ling
 Date: 29/04/2020

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