

XMReality

Sector: Human Interaction

Well-positioned to benefit from prolonged corona issues

Redeye raises its valuation of XMReality slightly following the Q2-report, recognising the fact that the company has elevated itself to what we regard as an entirely new level. We expect the positive momentum to continue and believe that XMReality is well-positioned to gain further customer agreements and partnerships.

Q3'20 – establishing a new bare minimum

Sales in Q3 amounted to SEK 4.6m, somewhat shy, but our forecast had been raised after the very strong previous quarter. Even so, Q3 represented XMReality's second strongest quarter ever, despite traditionally being slow due to seasonal effects. Given that Q4 tends to be one of the strongest quarters, we have a positive outlook for the remainder of the year.

Positive momentum

XMReality has gained positive momentum this year – much of it due to increasing maturity of the AR technology and field services market following the corona crisis. We believe that XMReality will continue to win new customer agreements and establish partnerships – which we have seen in the beginning of Q4.

Raised base case

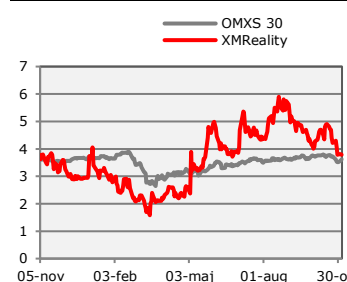
While we have left our estimates unchanged, however, we raise our base case somewhat to SEK 8 (7) driven by an adjustment to our WACC, in turn the result of the low interest rate environment. Our new fair value range is estimated to SEK 3-11. The stock is currently trading below SEK 4 – hence, we see a large upside potential.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	10	12	20	34	58	93
EBITDA	-25	-23	-17	-12	-4	11
EBIT	-29	-27	-22	-16	-9	7
EPS (adj.)	-1.7	-1.6	-0.7	-0.5	-0.3	0.1
EV/Sales	8.4	4.6	7.2	4.5	2.9	1.8
EV/EBITDA	-3.4	-2.4	-8.0	-13.2	-39.7	15.3
EV/EBIT	-2.9	-2.0	-6.3	-9.6	-19.6	23.6
P/E	-4.2	-2.3	-5.9	-7.7	-12.6	31.7

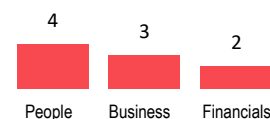
FAIR VALUE RANGE

BEAR	BASE	BULL
3	8	11

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	XMR.ST
Market	First North
Share Price (SEK)	3.8
Market Cap (MSEK)	131
Net Debt 20E (MSEK)	-20
Free Float	76 %
Avg. daily volume ('000)	148

ANALYSTS

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Q3'20: Progress despite a traditionally slow quarter

Interest for Remote Guidance continues to be high in light of the corona crisis. As previously reported on, Q2'20 was a breakthrough for XMReality, reporting its strongest quarter ever, whereby sales amounted to SEK 5.5m. On the back of an excellent Q2, Redeye significantly raised its estimates, both short and long term. While sales in Q3 came in shy of our expectations, there is no lack of evidence suggesting that XMReality is on the right track and continues to make progress in many aspects.

Below, we take a look at the past quarter, discuss XMReality's financial performance, our estimates, as well as highlights, including new customers and partners.

Financial performance in Q3'20

Sales in Q3'20 amounted to SEK 4.6m (2.7). While falling short of our expectations of SEK 6m, Q3 was XMReality's second strongest quarter ever, whereby sales grew 71% y/y. In an [interview](#) with the CEO, he explains that while Q3 usually has a negative seasonal effect for XMReality (due to the holiday season in the Northern hemisphere), Q4 tends to be a strong quarter. We further notice that XMReality is reporting excellent gross margins, in line with our expectations.

XMReality: Actual vs estimates				
(SEKm)	Q3'19	Q3'20E	Q3'20A	Diff. (%)
Net sales	2,7	6,0	4,6	-23%
Growth y/y	-3%	123%	71%	
Gross margin	91%	92%	94%	
OPEX	-8,9	-9,5	-7,7	
EBITDA	-5,3	-2,5	-3,2	26%
D&A	-1,1	-1,1	-1,3	
EBIT	-6,4	-3,6	-4,4	21%
Net income	-6,4	-3,7	-4,4	21%

Source: Redeye Research

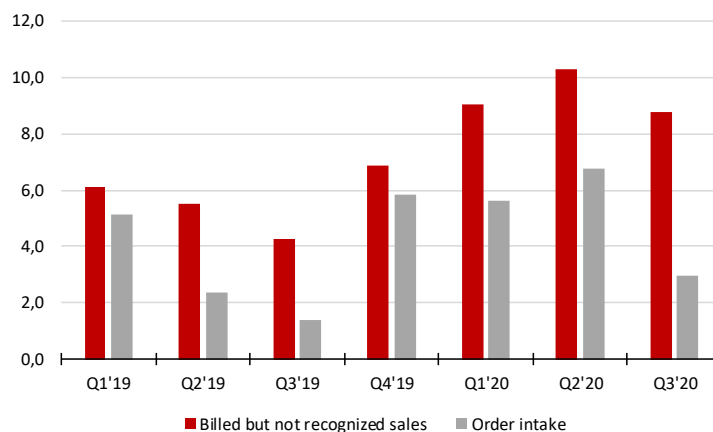
OPEX decreased both y/y and in relation to our estimates. We attribute this to the closure of the Germany office, as well as to decreased traveling expenses as a result of the corona crisis. The operating loss was more or less in line with our expectations – a substantial improvement y/y and also historically.

XMReality: Historical Financials									
(SEKm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20	Q3'20
Net sales	10,2	3,0	3,0	2,7	3,2	11,9	3,5	5,5	4,6
CoGS	-3,0	-0,5	-0,3	-0,3	-0,2	-1,3	-0,3	-0,9	-0,3
Gross margin (%)	70%	84%	89%	91%	93%	89%	92%	84%	94%
Staff costs	-20,4	-5,0	-5,2	-4,2	-5,1	-19,5	-4,3	-5,8	-3,8
External costs	-16,9	-3,9	-5,5	-4,7	-5,8	-19,9	-5,0	-5,3	-3,9
EBITDA	-25,2	-4,8	-6,6	-5,3	-6,5	-23,1	-5,4	-5,8	-3,2
D&A	-4,1	-0,9	-1,0	-1,1	-1,1	-4,2	-1,2	-1,2	-1,3
EBIT	-29,2	-5,7	-7,6	-6,4	-7,7	-27,3	-6,6	-7,1	-4,4
Growth (%) (y/y)	52%	55%	37%	-3%	-1%	17%	15%	85%	71%

Source: XMReality reports

XMReality's current state is considerably better than it ever has been – supported by the historical financials table above. Sales have increased markedly compared to only last year. Since Q3 represents the year's weakest quarter, perhaps the reported sales of SEK 4.6m should establish a new bare minimum for XMReality – positive indeed.

XMReality: Billed but not recognized sales and order intake



Source: XMReality reports

Order intake grew by 112% y/y and amounted to SEK 3m, while order backlog increased by 107% y/y to SEK 8.8m. Due to XMReality's business model, where subscriptions are invoiced in advance, a positive order intake development reflects positively on its cash flows. The period's cash flow amounted to SEK -3.1m, leaving roughly SEK 23m in cash. With the current burn-rate, XMReality finds itself in a comfortable financial position.

Q3'20 highlights

Significant events during Q3 include adding two of Coesia Group's companies as customers, in addition to receiving an order from MULTIVAC Group, a leading packaging supplier with over 80 companies.

XMReality reported its ARR at the end of Q3, amounting to SEK 15.2m, which is an 87% increase since the beginning of the year. XMReality has committed to begin reporting its ARR quarterly as per the SaaS model, which we find positive, and look forward to following. Furthermore, the company has a churn target of under 10%, and while this was not mentioned in the Q3-report, the CEO has said that it is well under 10% and has been the entire year. We find this encouraging and yet another validation that Remote Guidance indeed is a sticky solution.

Apart from benefitting from the corona crisis, XMReality is doing many things better than previously. For instance, a greater focus on large enterprise customers as well as targeting a number of selected markets. Apart from the field management business, XMReality has a clear focus on the food and beverage, and medical industries. Common for these is the packaging side – many processes involving packaging. Facility management is another industry that has emerged lately, gaining a lot of traction, especially in the UK.

Post Q3'20

Moving into Q4, news inflow continued on a positive note. Highlights include the reseller partnership with NTT and large Saab order, both of which are important for vastly different

reasons. The agreement with NTT, a world-leading business and IT service provider, establishes XMReality in the APAC region. We see high potential in this agreement, but don't expect to see large revenues materialize in the nearest term, due to onboarding of NTT personnel, among other things.

XMReality announced a large Saab order, amounting to SEK 1.6m in its initial period – covering only software licenses and server maintenance. As a result, XMReality establishes itself in the defence industry with a great reference customer, which will be very beneficial in future discussions with potential clients and partners.

AR adoption accelerating – a follow-up

In our previous [update](#) we argued that the corona crisis would accelerate the adoption of digital, remote solutions. As a result, we significantly raised our estimates, both in the short and long term. We reiterate this view and believe that XMReality will maintain its positive momentum. On a separate note, we discussed TeamViewer's acquisition of Ubimax, a competitor that solely focuses on AR solutions. The price paid amounted to EUR 136.5m, corresponding to an EV/Sales multiple of approx. 15x.

It has further come to our attention that an additional acquisition has taken place in the AR market, albeit slipping under our radar. In December 2019, Frontdoor acquired Stream, a Portland-based AR startup that enables remote video collaboration and offers simple AR tools. Stream had revenues of USD 2-2.5m according to different estimates (Owler and Zoominfo), and the price paid in the acquisition amounted to USD 55m on a cash and stock basis.¹ This corresponds to an EV/Sales multiple of around 22-27x.

While we do not primarily see XMReality as an acquisition target – or making acquisitions in the near-term given its market cap and the high multiples in precedent transactions, it is nevertheless interesting to see how peers are being valued.

Forecast and Valuation

In our ordinary fashion, we model bear, base and bull case scenarios that are outlined in detail further down below. However, we begin by focusing on our base case scenario.

XMReality: Estimates in Base case								
(SEKm)	2019	Q1'20	Q2'20	Q3'20	Q4'20E	2020E	2021E	2022E
Net sales	11,9	3,5	5,5	4,6	6,0	19,6	34,4	58,4
CoGS	-1,3	-0,3	-0,9	-0,3	-0,5	-1,9	-3,4	-5,8
Gross margin (%)	89%	92%	84%	94%	92%	90%	90%	90%
Staff costs	-19,5	-4,3	-5,8	-3,8	-5,1	-19,0	0,0	0,0
External costs	-19,9	-5,0	-5,3	-3,9	-5,0	-19,2	0,0	0,0
EBITDA	-23,1	-5,4	-5,8	-3,2	-3,1	-17,5	-11,7	-4,3
D&A	-4,2	-1,2	-1,2	-1,3	-1,1	-4,8	-4,4	-4,4
EBIT	-27,3	-6,6	-7,1	-4,4	-4,2	-22,3	-16,1	-8,8
Sales growth (%) y/y	17%	15%	85%	71%	86%	65%	75%	70%

Source: Redeye Research

Given our previous reasoning, we believe that XMReality will continue to benefit from the corona crisis. We therefore maintain our short- and long-term estimates, only making a minor adjustment to OPEX, due to corona-related cost saving.

¹ https://s1.q4cdn.com/541446483/files/Financial/Frontdoor_2019AR_FINAL.pdf

XMReality: Estimate changes in base case						
(SEKm)	2020E	2021E	2022E	2023E	2024E	2025E
Net sales (new)	20	34	58	93	135	190
Net sales (old)	21	37	63	100	145	203
Change (%)	-7%	-7%	-7%	-7%	-7%	-7%
EBIT (new)	-22,3	-16,1	-8,8	7,2	25,1	43,2
EBIT (old)	-22,3	-17,2	-9,1	8,3	27,7	46,3

Source: Redeye Research

Our key valuation assumptions can be summarized as:

- With 80+ paying customers in Q3'20, including large companies such as ABB, we believe that there is room for substantial growth going forward.
- ARR for some of these customers could amount to SEK 10m annually.
- We expect sales growth to begin to take off 2021 and onwards, driven by a maturing market. This process has accelerated substantially due to the Corona crisis.
- The number of active users increases up to around 50,000 users at the end of the forecast period.
- The scalable business model, based on mostly software, yields high gross margins of 90%.
- Breakeven is reached in 2023.
- EBIT-margin increases and peaks at 23% at the end of the forecast period.
- Terminal growth rate is 2%.
- Terminal EBIT-margin is 18%.
- Tax rate is 21%.
- **We use a WACC of 12%.**

XMReality: Base case assumptions			
Assumptions:	2020-22	2023-28	DCF-value
CAGR Sales	70%	30%	WACC 12%
EBIT-margin (avg.)	-59%	20%	NPV of FCF 103
			NPV of Terminal Value 145
Terminal			Sum of NPV 248
Sales growth	2%		Net debt -23
EBIT-margin	18%		DCF-value 271
			Fair value per share 8
			Current share price 4

Source: Redeye Research

Previously, we have used a WACC of 13%. However, due to the global negative-interest situation, we make a downward adjustment to our risk-free rate, arriving at a lower WACC corresponding 12%. In other words, while we haven't performed any fundamental changes to XMReality's case, our new WACC entails a Base case value of SEK 8 per share and an updated fair value range to SEK 3 to SEK 11 per share.

With the current share trading below SEK 4, we view XMReality as an attractively priced stock, with an additional upside of around 100%.

Bear Case 3 (3) SEK

The bear case reflects the scenario where the expected breakthrough is delayed due to a general reluctance to invest in new AR-technology. We have also incorporated tougher competition and a general price pressure on AR solutions for remote guidance.

We assume a slower adoption of XMReality's Remote Guidance, leading to lower sales growth. However, we still expect some larger orders in a few years.

Sales CAGR '20-'22E: 42%
Sales CAGR '23-'28E: 27%
Avg. EBIT-margin '20-'22E: -83%
Avg. EBIT-margin '23-'28E: 12%
Terminal growth: 2% Terminal EBIT-margin: 14%

Base Case 8 (7) SEK

The base case assumes that the AR market matures faster than in the bear case. XMReality's customers adopt the Remote Guidance solution at a more rapid pace, and we also expect fewer competitors to appear posing as serious threats to the company. This leads to that there is less price pressure in the market, translating into higher growth for XMReality.

The forecasts in the base case imply that several companies reach larger numbers of active users, generating revenue of up to SEK 10m annually per customer. The higher growth results in high margins for the company, due to the scalability of the software and that additional users can be added to its platform at negligible marginal costs.

Sales CAGR '20-'22E: 74%
Sales CAGR '23-'28E: 30%
Avg. EBIT-margin '20-'22E: -56%
Avg. EBIT-margin '23-'28E: 20%
Terminal growth: 2%
Terminal EBIT-margin: 18%

Bull Case 11 (10) SEK

The bull scenario is based on that XMReality's Remote Guidance solutions is remains competitive for many years and that it attracts many large customers. These large customers find the Remote Guidance solution to be useful, resulting in a large number of software licenses sold.

We assume that few competitors with similar offerings emerge and that XMReality hence maintains its technological advantage over a longer period. This translates into higher pricing power for the company, as well as a lower churn. Together this yields high and sustainable margins for the company.

Sales CAGR '20-'22E: 79%
Sales CAGR '23-'28E: 32%
Avg. EBIT-margin '20-'22E: -57%
Avg. EBIT-margin '23-'28E: 24%
Terminal growth: 2% Terminal EBIT-margin: 22%

Investment Case

Highly scalable offering with potential customer lock-in. XMReality targets industrial players that incorporate its software in their service offerings. The company faces negligible marginal costs of adding additional licensed users to the platform, and the potential to achieve high profitability is reflected by the gross margins exceeding 90%. The use case further opens up for lock-in effects as customers incorporate XMReality's solution in their large-scale service operations.

XMReality's technique is unique in combining hand overlay, excellent functionality in areas of weak network capacity, and that you can invite customers to new sessions through a weblink, i.e., eliminating the need to run sessions through an installed app on the customer side. Not having to download software is an important feature mitigating the potential problem of this new technique being perceived as complicated and complex. The company launched this new feature rather recently, and with sales cycles often exceeding a year, we believe that the full scope of this introduction is yet to be seen.

Corona crisis accelerating AR adoption. XMReality has experienced an explosion in customer interest since the onset of the Corona crisis. With the pandemic increasing the interest in digital, remote technical solutions, the company's sales development has taken off. The crisis has increased the speed at which the market is adopting the new technology, and we now see a quickly maturing market.

Since the Corona crash, XMReality's share has outperformed the market and surged by more than 200% and is trading at around SEK 5 per share. With the company's fundamental performance quickly improving, the outlook going forward is excellent. We currently see an upside to our base case of SEK 7 per share of roughly 30%. We still deem additional, and especially larger (>SEK 2m), software orders to be the most critical share catalysts over the coming year as it would reveal the potential within the rapidly growing customer base.

Key Catalysts

Announcement of large agreement. We see great potential in an extensive roll-out of XMReality's Remote Guidance solution throughout a large client's service organization after running tests for an extended period. Apart from yielding recurring revenues and high margins, it would indicate that the industry truly is ready to adopt the solution and use it on a larger scale.

New channel partner(s). There is further potential for a new channel partner(s) that incorporate XMReality's solution in their offering toward clients. We, however, believe this to be more relevant as the company has shown larger volumes of software sales.

Counter Points

Slow adoption brings uncertainty. The adoption of Remote Guidance has so far been slow. One of the reasons could be that the service personnel are reluctant to change their way of working. The customers of XMReality's customers may also be unwilling to receive service through an AR-based solution that requires some work by themselves, instead of someone physically coming over and conducting all work for them.

New competitor(s) with superior solution. There is a risk of superior solutions introduced by competitors emerging on the market. For the company to keep its competitive edge, it is vital to continue to invest in R&D.

Price pressure. XMReality applies a premium price strategy that could be difficult to retain if new competitors can offer solutions with a similar value proposition as XMReality. It becomes even more relevant in the long run if the technology becomes a standardized solution within industrial service operations. It is, therefore, essential that XMReality retains its technological advantage through continuing to develop its software.

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: 4

Management shows a solid understanding of the market and is focused on the field service industry, although the areas of application are boundless. XMReality's board possesses a broad area of expertise covering experience from start-ups, the IT industry, and management positions for large global companies. With the recent rights issue, the company's main owner, Investment AB Spiltan also increased its holdings, strengthening the ownership structure. The management team, however, comprises a relatively new constellation where a majority of the positions have been appointed from 2017 and onwards. We also would like to see management own more shares.

Business: 3

XMReality is active in a rapidly growing market, where numerous globally leading industrials are showing interest in technologies that can rationalize their service operations. Although the company has several direct competitors, its product offering seems very competitive so far. XMReality business model is scalable, and the company applies a licensing model for its software offering, which opens up for recurring revenues and high margins.

Financials: 2

XMReality is currently exhibiting negative earnings and cash flow. Hitherto, the customers have seemed hesitant to adopt the company's AR solution. However, the field service market has started to mature more rapidly, driven by the Corona crisis, and therefore we forecast break-even to be reached already in 2023. Still, given the company's cash burn, XMReality may have to raise additional capital. We see room for an increased rating as the company starts generating positive cash flows and reach positive earnings.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	10	12	20	34	58
Total operating costs	-35	-35	-37	-46	-63
EBITDA	-25	-23	-17	-12	-4
Depreciation	0	0	0	0	0
Amortization	-4	-4	-5	-4	-4
Impairment charges	0	0	0	0	0
EBIT	-29	-27	-22	-16	-9
Share in profits	0	0	0	0	0
Net financial items	0	0	0	-1	-2
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-29	-27	-22	-17	-10
Tax	0	0	0	0	0
Net earnings	-29	-27	-22	-17	-10

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	38	9	0	0	0
Receivables	6	7	8	10	15
Inventories	0	0	1	1	2
Other current assets	0	0	0	0	0
Current assets	44	16	8	11	16
<i>Fixed assets</i>					
Tangible assets	1	0	1	1	1
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	15	16	14	14	14
O non-current assets	0	0	0	0	0
Total fixed assets	15	17	15	15	15
Deferred tax assets	0	0	0	0	0
Total (assets)	59	33	23	26	32
Liabilities					
<i>Current liabilities</i>					
Short-term debt	1	1	6	14	23
Accounts payable	10	12	16	21	20
O current liabilities	0	0	0	0	0
Current liabilities	11	12	21	35	44
Long-term debt	1	0	4	11	17
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	12	13	25	45	61
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	48	20	-2	-19	-29
Minority interest (BS)	0	0	0	0	0
Minority & equity	48	20	-2	-19	-29
Total liab & SE	59	33	23	26	32

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	10	12	20	34	58
Total operating costs	-35	-35	-37	-46	-63
Depreciations total	-4	-4	-5	-4	-4
EBIT	-29	-27	-22	-16	-9
Taxes on EBIT	0	0	0	0	0
NOPLAT	-29	-27	-22	-16	-9
Depreciation	4	4	5	4	4
Gross cash flow	-25	-23	-17	-12	-4
Change in WC	2	1	3	2	-5
Gross CAPEX	-5	-5	-3	-5	-5
Free cash flow	-28	-28	-18	-14	-15

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	80%	62%	-9%	-73%	-93%
Debt/equity ratio	3%	4%	-455%	-129%	-138%
Net debt	-36	-8	10	25	41
Capital employed	11	12	7	6	11
Capital turnover rate	0.2	0.4	0.8	1.3	1.8

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	52%	17%	65%	75%	70%
EPS growth (adj)	10%	-7%	-59%	-24%	-39%

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	-56%	-81%	0%	0%	0%
ROCE	-54%	-78%	-156%	-249%	-104%
ROIC	-228%	-241%	-189%	-217%	-158%
EBITDA margin	-248%	-194%	-89%	-34%	-7%
EBIT margin	-288%	-229%	-114%	-47%	-15%
Net margin	-289%	-230%	-114%	-49%	-18%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-1.72	-1.60	-0.66	-0.50	-0.30
EPS adj	-1.72	-1.60	-0.66	-0.50	-0.30
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-2.13	-0.50	0.28	0.72	1.20
Total shares	17.05	17.05	34.10	34.10	34.10

VALUATION	2018	2019	2020E	2021E	2022E
EV	85.6	55.3	140.5	155.6	171.7
P/E	-4.2	-2.3	-5.9	-7.7	-12.6
P/E diluted	-4.2	-2.3	-5.9	-7.7	-12.6
P/Sales	12.0	5.3	6.7	3.8	2.2
EV/Sales	8.4	4.6	7.2	4.5	2.9
EV/EBITDA	-3.4	-2.4	-8.0	-13.2	-39.7
EV/EBIT	-2.9	-2.0	-6.3	-9.6	-19.6
P/BV	2.6	3.1	-62.7	-6.9	-4.4

SHARE PERFORMANCE	GROWTH/YEAR	18/20E
1 month	-11.3 %	Net sales 39.0 %
3 month	-16.9 %	Operating profit adj -12.7 %
12 month	6.1 %	EPS, just -38.2 %
Since start of the year	30.2 %	Equity

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Investment AB Spiltan	24.3 %	24.3 %
Handelsbanken Fonder	5.9 %	5.9 %
Avanza Pension	5.9 %	5.9 %
Lars Svensson	5.8 %	5.8 %
Nordnet Pensionsförsäkring	3.6 %	3.6 %
Björn Persson	2.7 %	2.7 %
Christer Svensson	2.4 %	2.4 %
Claes Nylander	1.8 %	1.8 %
Euroclear Bank S.A.N.V	1.3 %	1.3 %
Peter Norman Eggers	1.2 %	1.2 %

SHARE INFORMATION	
Reuters code	
List	First North
Share price	3.8
Total shares, million	34.1
Market Cap, MSEK	130.9

MANAGEMENT & BOARD	
CEO	Jörgen R Emmelg
CFO	Claes Pettersson
IR	Jörgen R Emmelg
Chairman	Björn Persson

FINANCIAL INFORMATION	
ANALYSTS	Redeye AB
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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

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 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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Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2020-11-05)

Rating	People	Business	Financials
5p	21	16	3
3p - 4p	107	87	40
0p - 2p	5	30	90
Company N	133	133	133

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