EQUITY RESEARCH – COMMISSIONED RESEARCH
Research report prepared by DNB Markets, a division of DNB Bank ASA
Health Care
Update
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10 January 2020

ESG insight

EPISURF MEDICAL

Talus implant approved in the EU

It took longer than expected for EpiSurf to get the new Talus implant system approved for marketing in Europe but it is now finally in place. We expect this to become a sizeable market over time, given the lack of alternatives and the number of patients suffering from defects in the talus. The company has not offered an over-abundance of details on the outlook for this market segment and we expect it to provide more information over the coming months.

The talus implant system approved for marketing in the EU. It took slightly longer than expected to obtain approval for the implant system in Europe but as this hurdle is now behind the company, focus should be on the market introduction. There are essentially no alternative implant systems for defects in the talus, making this an attractive area for EpiSurf in our view.

Damage marking can be done on CT for talus. For the talus implant, the treating physicians can fill out the damage marking report based on CT images instead of an MRI (as is the case with the knee-implant system). This will make it slightly easier for the orthopaedic surgeons as CT systems are more readily available than MRI in the orthopaedic department.

A complicated procedure – even with the company's surgical guides. The surgical procedure itself is complicated and we believe it will take some time before we see a sizeable impact on sales from the talus implant system. As we have seen with the knee implant system, surgeons need some time to become familiar with the implant system, In the interest of the company, we believe a relatively slow and structured launch, where the surgeons are required to do training on the implant system, will most likely benefit the company the most in the long run.

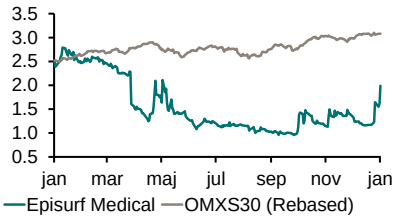
We have not changed our forecast based on the approval. We have been expecting an approval for this system and believe it is very positive that the approval is finally in hand. In our base case, we expect the company to price the talus implant more or less in line with the knee implant system. As mentioned above, we would expect a rather slow launch, as a controlled launch now most likely would lead to better clinical outcomes a few years down the road (and these implant systems sell on good clinical data).

Fair value kept at SEK1.8–4.7. We do not do any forecast changes based on the news, thus we keep our fair value estimate for the stock.

Year-end Dec	2015	2016	2017	2018	2019e	2020e	2021e
Revenue (SEKm)	7	3	3	4	6	10	19
EBITDA adj (SEKm)	-42	-58	-57	-53	-68	-73	-70
EBIT adj (SEKm)	-44	-62	-61	-58	-75	-80	-77
PTP (SEKm)	-44	-62	-61	-58	-75	-80	-77
EPS rep (SEK)	-3.52	-3.87	-2.18	-1.87	-0.83	-0.88	-0.85
EPS adj (SEK)	-3.52	-3.87	-2.18	-1.87	-0.83	-0.88	-0.85
Revenue growth (%)	184.0	-60.0	16.3	39.0	34.2	73.3	94.0
EV/Sales adj (x)	35.12	68.89	60.95	23.38	21.57	26.33	9.29
P/Book (x)	1.18	2.89	1.37	1.55	2.83	1.68	5.89

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

EPISB versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK)	1.99
Tickers	EPISB SS, EPISB.ST

CAPITAL STRUCTURE

No. of shares (m)	91.0
No. of shares fully dil. (m)	91.0
Market cap. (SEKm)	181
NIBD adj end-2019e (SEKm)	18
Enterprise value adj (SEKm)	199
Net debt/EBITDA adj (x)	-0.26
Free float (%)	100

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q4 report 2019	07/02/2020

ESTIMATE CHANGES (SEK)

Year-end Dec	2019e	2020e	2021e
Sales (old)	5.77	10.00	19.40
Sales (new)	5.77	10.00	19.40
Change (%)	0.0	0.0	0.0
EPS (old)	-0.83	-0.88	-0.85
EPS (new)	-0.83	-0.88	-0.85
Change (%)	nm	nm	nm

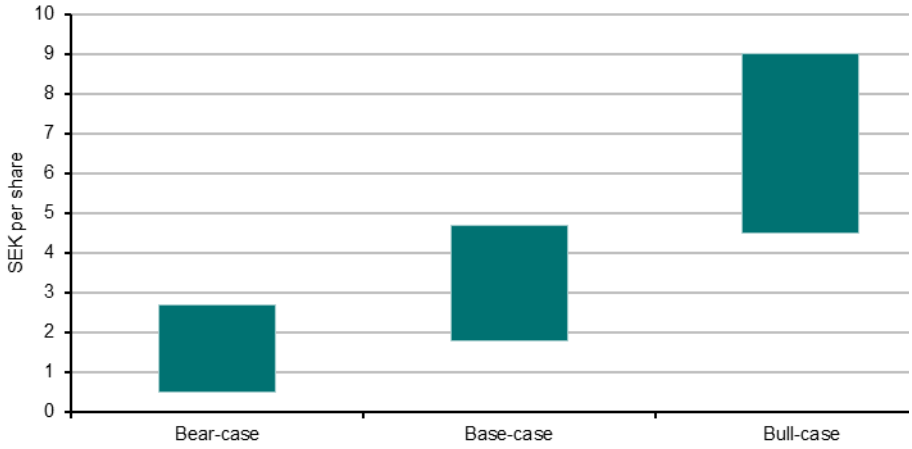
Source: DNB Markets, SME Direkt

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

Overview

Valuation (SEK)



Source: DNB Markets

Valuation methodology

- We continue to use mainly DCF, with a base-case long-term growth rate of 1%, a terminal EBIT margin of 50%, and a WACC of 12%.
- 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.

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.

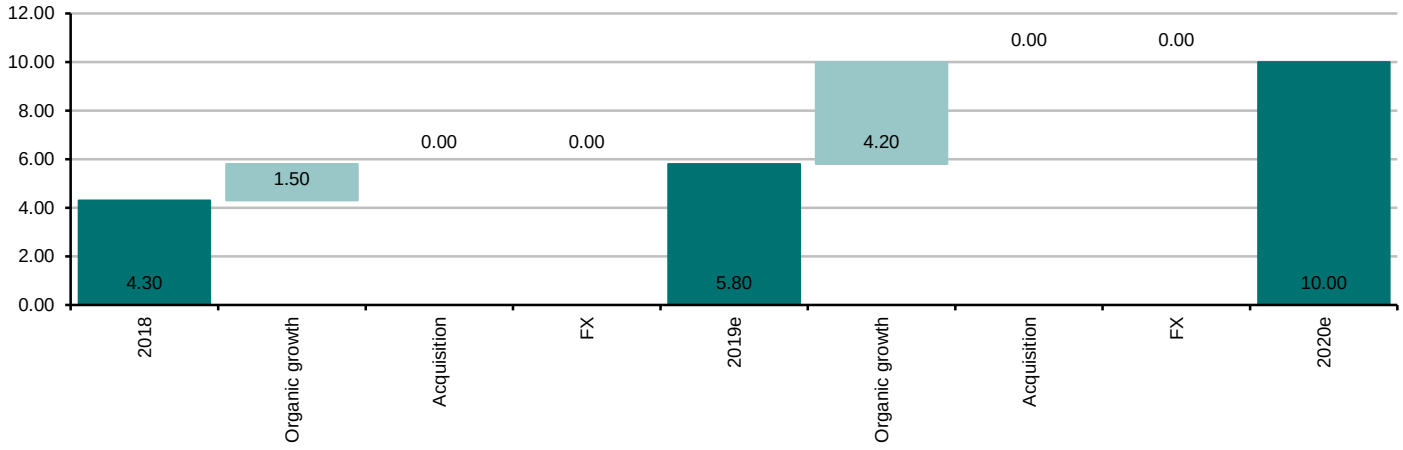
Source: DNB Markets

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 2018–2020e (SEKm)



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

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	■ Episurf's products aim at improving 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.	■ The company is in the process of establishing a new treatment paradigm for knee injuries and it takes time to do this. Even though the treatment alternatives for the younger patients are poor, it still takes time to educate the 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 down the market uptake.
Actions being taken by company	■ Individualising implants as well as surgical instruments means a better fit to the patients need and a reduced risk of revision surgery. ■ The company mainly addresses the UN sustainability goal number 3 "Good health and well-being".	■ 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	■ 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 that currently lack suitable alternatives. The documentation of clinical efficacy is rapidly increasing and this 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 and a successful Episealer treatment can reduce the need and risks attached to long-term painkiller usage.	■ 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	■ Getting younger patients (c35-40 years) back into good knee health also means that more patients can resume work, which is good for the overall economy as well as for the patients' well-being. ■ Cost effectiveness of care will increase in the future as the total resources for healthcare are likely to grow more slowly than actual demand.	■ The access to healthcare is unevenly distributed globally and the needs vary from market to market. Episurf's products mainly cater for treatment of patients in more developed markets. ■ New drugs or alternative treatments might have a negative impact on certain therapies making some of the company's current equipment obsolete.

Source: DNB Markets

Sustainability assessment

	Risk	Company's risk mitigation
Transition risks		
Policy and legal	■ Changes in the reimbursement system can have a big impact on Episurf's operations from time to time. Other regulations such as MRD and FDA approvals can take time and have an impact on the company's ability to market its products.	■ All products have been recently re-certified in Europe, meaning that certification according to the MDR is not critical until 2024.
Technology	■ The Episealer implant system and surgical instruments are difficult for the competition to copy. There are other implant systems available but these are not patient-specific.	■ 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	■ 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.	■ 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	■ If the revision rate goes up, this would be a clear negative. New surgeons using the system without sufficient training represents a risk.	■ 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	■ If any manufacturing faults in an implant become apparent, it could have serious implications for a patient.	■ Quality control is imperative in the whole manufacturing chain.
Chronic	■ If new biological technology emerges that makes the implant solution outdated.	■ The company could potentially use its technology for other applications.

Source: DNB Markets

Sustainability assessment

	Opportunities	Company's utilisation of opportunity
Resource efficiency	■ 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.	■ The single-use feature limits the risk of an implant being unsuitable in the surgical situation. This reduces the need for revisions.
Products/Services	■ 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.	■ The company sometimes advises against surgery after it receives the patient's images, thereby increasing the likelihood of a positive outcome.
New markets	■ The company is expanding its market presence in Europe and will seek a marketing partner for the US market.	■ The company is currently conducting a large (c180 patients) IDE trial in the US.
Supply chain resilience	■ 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.	■ The company uses CMOs to help with a large part of the manufacturing process.

Source: DNB Markets

Summary of positives

In this section we summarise what we believe are the most positive aspects of the case now and in the future.

Clear medical need for better treatment for 'gap' patients

There are limited treatment options for patients with cartilage damage in the synovial joints, who are too young to qualify for total knee replacement. This is a real problem, as the biological treatment options for these patients generally are only effective until the age of c40 years. Moreover, as the life expectancy of a total knee replacement is 15–20 years, doctors tend to delay such treatment as long as possible (as there are limited opportunities to redo a failed knee implant).

Limited options for patients with cartilage damage in synovial joints, who are too young to qualify for knee replacement

Number of 'gap' patients likely to grow

Apart from trauma, being overweight is an important cause of cartilage damage in younger patients. Given the obesity trends in developed markets, we expect the number of patients at a relatively young age with significant problems from cartilage damage in the knees to increase.

We expect the number of young patients with knee cartilage damage to rise

Episurf Medical's products create stable long-term outcomes

Since the launch of Episurf Medical's Episealer® system, the company has accumulated ever more data on outcomes, which is clearly beneficial for the future adoption of the product. The company has more than 500 treated patients and the number of patients living with implants for more than two years has surpassed 200. The first clinical trial data on implant stability has been published in peer-reviewed papers.

Episurf Medical has treated c500 patients with implants

Reimbursement situation seems stable and improving in most markets

It is important to have a clear and realistic understanding of the reimbursement environment, and we believe the company has a good handle on the situation and understands how to navigate the various reimbursement systems in different markets.

Tailor-made implants and instruments

The time between a doctor sending in a patient's MRI to the implants and instruments being manufactured and in the hands of the surgeon is around three weeks. As far as we understand, there has not been a case where the company has manufactured an implant that did not fit as intended. Episurf Medical uses external partners for manufacturing, so there should be no bottlenecks in the manufacturing if volumes were to grow sharply.

Three weeks from MRI to the implant being in the surgeon's hands

Aiming to take implant system to the US

The company has an approval to do an IDE (Investigational Device Exemption) trial in the US. We understand it will need to carry out a large clinical trial to get the implant system approved in the US, as it would be classified as a class III medical device. We expect this to take some time (approximately three years) but if successful it would open up a large market. We estimate that a randomised clinical trial for the Episealer® system would include c180 patients in two groups, with the Episealer® being compared to microfracturing.

US approval would need large clinical trial

More likely to partner the system for the US

The company does not have a sales and marketing partner in any market yet. We see this as a potential positive – particularly regarding the US.

Summary of negatives

In this section we summarise what we consider to be the most important negative issues for the company now and in the future.

Slow uptake of Episealer® likely to continue

We are not surprised uptake of Episealer® has been slow, as new medical technology products tend to have much slower uptake than new drugs. This is particularly true when – as in the case of Episurf Medical – they include a change in surgical practice, i.e. that orthopaedic surgeons need to change how they work with patients. With this in mind, we expect continued, albeit slow growth in the coming years as long as the product is not approved in the US.

We expect continued – albeit slow – growth in the coming years

Share price has suffered

In our view, the key negative is a history of overpromising and under-delivering on sales. That said, we believe the new management team is more realistic about the products and knows it will take time to establish a new treatment concept. This, of course, affects our sales forecasts.

Overpromising and under-delivering has put real pressure on the share price

We expect it to need additional funding before reaching breakeven

In our view, the company will be loss-making for a substantial period and will need additional financing to deliver on its strategic plan. Additional financing for a small, loss-making medical technology company tends to come from shareholders; thus, we expect it to issue new shares several times before reaching cash flow breakeven. This might result in substantial dilution for shareholders if they do not take their share of rights issues. The share price also puts a dampener on the company's ability to raise new equity on favourable terms.

We expect several new share issues before cash flow breakeven is achieved

A cap on how high EBIT margins can go

Given the tailor-made manufacturing of the Episealer® and instruments for each individual patient, we believe the gross margin will be capped at c50% as long as manufacturing is at relatively low volumes. We estimate it could reach a peak gross margin of c75%. However, even if it reaches large sales volumes, it is more difficult to achieve sizeable economies of scale in non-standardised manufacturing than in manufacturing of one-size-fits-all products.

Addressing sales-intensive segment of orthopaedic market

We understand the company's sales force in Europe is fewer than 10 reps. As orthopaedic sales reps spend a lot of their time in the operating theatre with surgeons, there is a limit on how fast a company like Episurf Medical can ramp up sales with such a limited sales force.

<10 sales reps in Europe

Orthopaedic market is highly competitive and Episurf Medical is taking it on by itself

The company has no partnerships with large industry companies. We believe that with its limited sales force, it could benefit from a strong partner, particularly in the US. This is, however, something that could quickly turn into a positive if the company signed a co-operation deal with a larger company (see summary of positives).

We believe Episurf Medical could benefit from a strong partner

Company overview

The company started as an internal project in Diamorph AB, with the aim of developing implants and patient-specific instruments to treat cartilage damage in knees, in 2008. The first pre-clinical pilot trials on sheep were initiated in 2009. The first initial pre-clinical validation study on sheep was undertaken in 2010 with a 1-year follow up.

Listed on OMX First North in 2011

EpiSurf Medical AB was spun off from Diamorph AB and listed on the unofficial list Aktietorget in 2010, and was listed on OMX First North in 2011. The first clinical trial was initiated in 2012 and during this year the first patent protection was granted. A CE mark was obtained in 2013 for its first product and an initial controlled launch phase was initiated in the Nordics. The second product received its CE mark in 2014 and the build-up of a European sales & marketing organisation was started with Benelux being the first area outside the Nordics. In 2015 direct sales were initiated in Germany and the UK.

In parallel with this, the number of operations kept increasing as did the number of patients to evaluate. In 2016, clinical results from 1- and 2-year follow-up patient data were presented. In 2017, the first patient had his 5-year follow-up. At this time, the company passed the 300 sold implants mark.

Clinical outcome data and long-term follow-up are key

We believe the company's history illustrates that it can take a long time for medical technology companies to establish a new treatment on the market, particularly if it involves doctors changing how they treat patients. The history also shows that clinical outcome data and long-term follow-up are important factors for a company's ability to succeed in the market.

In retrospect, the company probably should not have gone public as early as it did. That said, it might have been the only way to finance the development up until where it is right now. Thus, we would recommend that new (and old) investors not focus entirely on the history but rather evaluate the future on its current merits.

Estimate changes

No estimate changes.

Forecast changes – P&L

	New			Old			Change		
(SEKm)	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Revenues	6	10	19	6	10	19	0	0	0
Cost of sales	-5	-5	-9	-5	-5	-9	0	0	0
Gross profit	1	5	11	1	5	11	0	0	0
Operating expenses	-76	-85	-88	-76	-85	-88	0	0	0
EBITDA	-68	-73	-70	-68	-73	-70	0	0	0
EBITDA adj	-68	-73	-70	-68	-73	-70	0	0	0
EBITDA margin (%)	nm	nm	nm	-1184.5	-729.9	-362.6	nm	nm	nm
Depreciation	-7	-7	-7	-7	-7	-7	0	0	0
EBITA	-75	-80	-77	-75	-80	-77	0	0	0
EBIT	-75	-80	-77	-75	-80	-77	0	0	0
EBIT adj	-75	-80	-77	-75	-80	-77	0	0	0
Net interest	0	0	0	0	0	0	0	0	0
Net financial items	0	0	0	0	0	0	0	0	0
PBT	-75	-80	-77	-75	-80	-77	0	0	0
Taxes	0	0	0	0	0	0	0	0	0
Net profit	-75	-80	-77	-75	-80	-77	0	0	0
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	-75	-80	-77	-75	-80	-77	0	0	0
Per share data (SEK)									
EPS	-0.83	-0.88	-0.85	-0.83	-0.88	-0.85	0.00	0.00	0.00
EPS adj	-0.83	-0.88	-0.85	-0.83	-0.88	-0.85	0.00	0.00	0.00
Other key metrics (%)									
Revenue growth	34.2	73.3	94.0	34.2	73.3	94.0	0.0	0.0	0.0
EBIT adj growth	nm	nm	nm	30.7	6.2	-3.3	nm	nm	nm
EPS adj growth	nm	nm	nm	-55.9	6.2	-3.3	nm	nm	nm
Avg. number of shares (m)	91	91	91	91	91	91	0	0	0
Capex	-1	-1	-1	-1	-1	-1	0	0	0
OpFCF	-69	-73	-71	-69	-73	-71	0	0	0
Working capital	5	8	10	5	8	10	0	0	0
NIBD adj	18	82	-1	18	82	-1	0	0	0

Source: DNB Markets

Annual P&L

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Revenues	**0**	**2**	**2**	**7**	**3**	**3**	**4**	**6**	**10**	**19**
Cost of sales	0	0	0	0	0	0	0	-5	-5	-9
Gross profit	**0**	**2**	**2**	**7**	**3**	**3**	**4**	**1**	**5**	**11**
Operating expenses	-16	-25	-36	-51	-64	-64	-62	-76	-85	-88
EBITDA	**-16**	**-22**	**-32**	**-42**	**-58**	**-57**	**-53**	**-68**	**-73**	**-70**
Depreciation	-1	-1	-2	-2	-4	-4	-5	-7	-7	-7
EBITA	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
EBIT	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
Net interest	1	0	0	0	0	0	0	0	0	0
Net financial items	1	0	0	0	0	0	0	0	0	0
PBT	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
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	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0
Net profit adj	-16	-23	-33	-44	-62	-61	-58	-75	-80	-77
Avg. number of shares	0	8	8	13	16	28	31	91	91	91
Per share data (SEK)										
EPS		-2.91	-4.14	-3.52	-3.87	-2.18	-1.87	-0.83	-0.88	-0.85
EPS adj		**-2.91**	**-4.14**	**-3.52**	**-3.87**	**-2.18**	**-1.87**	**-0.83**	**-0.88**	**-0.85**
Growth and margins (%)										
Revenue growth	nm	nm	37.9	184.0	-60.0	16.3	39.0	34.2	73.3	94.0
EPS adj growth	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Gross margin	nm	100.0	100.0	100.0	100.0	100.0	100.0	20.0	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	nm	-63.4	-75.3	-33.6	-152.5	-135.3	-111.6	-117.9	-68.0	-35.1
EBIT margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
EBIT adj margin	nm	-1372.7	-1421.7	-662.3	-2319.4	-1978.2	-1337.2	-1302.4	-797.9	-397.6
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)

Adjustments to annual P&L

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
EBITDA	**-16**	**-22**	**-32**	**-42**	**-58**	**-57**	**-53**	**-68**	**-73**	**-70**
Gains and losses	0	0	0	0	0	0	0	0	0	0
EBITDA adj	-16	-22	-32	-42	-58	-57	-53	-68	-73	-70
EBITA	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
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	-16	-23	-33	-44	-62	-61	-58	-75	-80	-77
EBIT	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
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	-16	-23	-33	-44	-62	-61	-58	-75	-80	-77
Net profit	**-16**	**-23**	**-33**	**-44**	**-62**	**-61**	**-58**	**-75**	**-80**	**-77**
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	-16	-23	-33	-44	-62	-61	-58	-75	-80	-77
Per share data (SEK)										
EPS		-2.91	-4.14	-3.52	-3.87	-2.18	-1.87	-0.83	-0.88	-0.85
Recommended adjustment		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	-0.83	-0.88	-0.85

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

Cash flow

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Net profit	-16	-23	-33	-44	-62	-61	-58	-75	-80	-77
Other non-cash adjustments	0	0	0	0	0	0	0	1	2	3
Change in net working capital	0	1	-1	4	1	-5	0	-2	-2	-2
Cash flow from operations (CFO)	**-15**	**-21**	**-32**	**-38**	**-56**	**-61**	**-53**	**-70**	**-73**	**-70**
Capital expenditure	0	0	0	0	0	0	0	-1	-1	-1
Acquisitions/Investments	-1	-3	-3	-7	-5	-7	-10	-3	-3	-3
Divestments	0	0	0	0	0	0	0	0	0	0
Cash flow from investing (CFI)	**-1**	**-4**	**-3**	**-7**	**-6**	**-7**	**-10**	**-4**	**-4**	**-4**
Free cash flow (FCF)	**-17**	**-24**	**-35**	**-45**	**-62**	**-69**	**-63**	**-73**	**-77**	**-73**
Net change in debt	0	0	0	0	0	0	0	0	0	0
Other		0				0	1	-8	-9	-10
Cash flow from financing (CFF)	**0**	**70**	**0**	**115**	**0**	**98**	**20**	**60**	**141**	**-10**
Total cash flow (CFO+CFI+CFF)	**-17**	**46**	**-34**	**69**	**-62**	**29**	**-43**	**-13**	**64**	**-83**
FCFF calculation										
Free cash flow	-17	-24	-35	-45	-62	-69	-63	-73	-77	-73
Less: net interest	-1	0	0	0	0	0	0	0	0	0
Less: acquisitions	1	3	3	7	5	7	10	3	3	3
Less: divestments	0	0	0	0	0	0	0	0	0	0
Growth (%)										
CFO	-65.5	-37.9	-52.6	-20.2	-47.5	-9.5	13.9	-31.9	-5.2	5.0
CFI	2.6	-143.9	21.2	-157.1	24.6	-34.4	-29.7	63.9	0.0	0.0
FCF	-55.7	-47.5	-41.5	-31.5	-35.8	-11.7	9.1	-17.0	-5.0	4.8
CFF	-100.0	nm	-99.8	76422.1	-100.0	nm	-80.0	207.1	134.6	-106.9
FCFF	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

Balance sheet

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Assets	**28**	**76**	**43**	**118**	**60**	**93**	**55**	**49**	**121**	**46**
Inventories	0	1	1	1	1	2	2	2	3	3
Trade receivables	0	0	0	0	1	1	1	4	8	11
Other receivables	2	2	1	1	3	3	3	3	3	3
Cash and cash equivalents	23	69	34	104	42	71	28	15	80	-3
Current assets	**25**	**71**	**37**	**107**	**47**	**77**	**34**	**25**	**93**	**14**
Property, plant and equipment	0	1	0	0	0	0	0	1	1	2
Other intangible assets	3	5	6	11	13	16	21	24	27	30
Non-current assets	**3**	**5**	**6**	**11**	**13**	**16**	**21**	**25**	**28**	**32**
Total assets	**28**	**76**	**43**	**118**	**60**	**93**	**55**	**49**	**121**	**46**
Equity and liabilities	**28**	**76**	**43**	**118**	**60**	**93**	**55**	**49**	**121**	**46**
Total equity to the parent	24	72	39	110	49	86	45	38	108	31
Total equity	**24**	**72**	**39**	**110**	**49**	**86**	**45**	**38**	**108**	**31**
Trade payables	2	2	1	2	6	3	2	3	4	5
Other payables and accruals	0	0	1	2	2	1	2	2	2	3
Short-term debt	0	0	0	0	0	0	3	3	3	3
Total current liabilities	**2**	**2**	**2**	**4**	**8**	**4**	**6**	**7**	**9**	**10**
Long-term debt	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	2	2	3	5	4	4	4	4	5	5
Total non-current liabilities	**2**	**2**	**3**	**5**	**4**	**4**	**4**	**4**	**5**	**5**
Total liabilities	**4**	**5**	**4**	**8**	**12**	**8**	**10**	**12**	**13**	**15**
Total equity and liabilities	**28**	**76**	**43**	**118**	**60**	**93**	**55**	**49**	**121**	**46**
Key metrics										
Net interest bearing debt	23	69	34	104	42	71	31	18	82	-1

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

Valuation ratios

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Enterprise value										
Share price (SEK)		27.91	15.21	10.35	8.84	4.19	2.25	1.17	1.99	1.99
Number of shares (m)	0.00	7.86	7.96	12.50	15.95	27.99	30.87	90.93	90.93	90.93
Market capitalisation		219	121	129	141	117	69	106	181	181
Net interest bearing debt	23	69	34	104	42	71	31	18	82	-1
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	23	69	34	104	42	71	31	18	82	-1
EV		288	156	233	183	189	101	124	263	180
EV adj		288	156	233	183	189	101	124	263	180
Valuation										
EPS		-2.91	-4.14	-3.52	-3.87	-2.18	-1.87	-0.83	-0.88	-0.85
EPS adj		**-2.91**	**-4.14**	**-3.52**	**-3.87**	**-2.18**	**-1.87**	**-0.83**	**-0.88**	**-0.85**
P/E		-9.6	-3.7	-2.9	-2.3	-1.9	-1.2	-1.4	-2.3	-2.3
P/E adj		-9.6	-3.7	-2.9	-2.3	-1.9	-1.2	-1.4	-2.3	-2.3
P/B		3.06	3.11	1.18	2.89	1.37	1.55	2.83	1.68	5.89
Average ROE	-48.9%	-47.6%	-59.6%	-59.1%	-77.7%	-91.0%	-88.7%	-182.3%	-109.7%	-111.3%
Earnings yield adj		-10.4%	-27.2%	-34.0%	-43.7%	-52.1%	-83.2%	-70.6%	-44.1%	-42.6%
EV/SALES		169.87	66.47	35.12	68.89	60.95	23.38	21.57	26.33	9.29
EV/SALES adj		169.87	66.47	35.12	68.89	60.95	23.38	21.57	26.33	9.29
EV/EBITDA		-13.0	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-3.6	-2.6
EV/EBITDA adj		-13.0	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-3.6	-2.6
EV/EBIT		-12.4	-4.7	-5.3	-3.0	-3.1	-1.7	-1.7	-3.3	-2.3
EV/EBIT adj		-12.4	-4.7	-5.3	-3.0	-3.1	-1.7	-1.7	-3.3	-2.3
EV/NOPLAT		-12.4	-4.7	-5.3	-3.0	-3.1	-1.7	-1.7	-3.3	-2.3
EV/OpFCF (taxed)		-12.7	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-3.6	-2.5

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

Key accounting ratios

	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
Profitability (%)										
ROA	-45.0	-43.8	-55.0	-54.5	-69.1	-79.6	-78.1	-144.4	-93.7	-92.6
Return on invested capital (%)										
Net PPE/revenues		30.6	18.2	6.4	14.4	6.5	2.3	10.4	11.0	8.2
Working capital/revenues		-2.1	28.1	-11.5	-104.1	58.2	48.8	83.2	75.0	52.6
Cash flow ratios (%)										
FCF/revenues		-1438.4	-1475.9	-683.4	-2317.6	-2227.3	-1455.8	-1269.5	-769.0	-377.5
FCF/market capitalisation		-11.1	-28.5	-35.1	-43.7	-58.8	-90.2	-68.9	-42.5	-40.5
CFO/revenues		-1223.6	-1353.3	-572.4	-2108.4	-1985.6	-1230.2	-1208.8	-734.0	-359.5
CFO/market capitalisation		-9.5	-26.2	-29.4	-39.8	-52.4	-76.2	-65.6	-40.6	-38.5
CFO/capex	-31971.6	-4435.2	-81809.4	-29577.0	-35153.6	-187892.4		-13949.8	-14680.5	-13946.8
CFO/current liabilities	-787.3	-873.2	-1789.9	-1076.6	-717.5	-1574.9	-881.7	-955.5	-853.5	-704.4
Cash conversion ratio	104.9	106.7	104.9	103.3	100.0	112.7	108.3	97.5	96.4	94.9
Capex/revenues		27.6	1.7	1.9	6.0	1.1	0.0	8.7	5.0	2.6
Capex/depreciation	8.2	43.5	2.2	5.8	3.9	0.8	0.0	7.4	7.4	7.4
OpFCF margin		-1336.8	-1348.1	-630.6	-2172.9	-1843.9	-1225.6	-1193.2	-734.9	-365.1
Leverage and solvency (x)										
Interest cover	nm	nm	nm	nm	nm	nm	-81.57	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	29.52	52.49	90.82	1233.82	1396.48	978.12	-175.67	-23074.27	-24645.40	-23744.43
Net debt/EBITDA	-1.47	-3.10	-1.09	-2.49	-0.73	-1.25	-0.59	-0.26	-1.13	0.01
Total debt/total capital (BV)	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.06	0.02	0.06
LTD / (LTD + equity (MV))		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash conversion cycle										
Inventory turnover days	nm	nm	nm	nm	nm	nm	nm	158.1	182.5	125.4
Receivables turnover days	nm	387.7	148.7	88.7	541.0	472.0	322.6	461.8	394.2	269.1
Credit period	nm	nm	nm	nm	nm	nm	nm	205.6	262.8	192.3
Cash conversion cycle	nm	nm	nm	nm	nm	nm	nm	414.3	313.9	202.2

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

Important Information

Company: Episurf Medical
Coverage by Analyst: Patrik Ling
Date: 10-1-2020

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