



# EPISURF MEDICAL

## CMD 2020 highlights

The company hosted a CMD in mid-September where management presented its long-term views. There were also several interesting presentations from KOLs in the industry, discussing the benefits for patients and doctors of the Episealer implant system. We believe Episurf Medical is moving rapidly in the right direction and that the clinical documentation is improving (and very strong). Based on the longer-term outlook, we have adjusted our fair value to SEK1.9–6.5 (1.3–3.9).

**Clinical documentation key for future sales success in our view.** In recent years, the documentation supporting the outcomes for the Episealer implant system has strengthened significantly. At its capital markets day in mid-September, the company focused on all aspects of its operations but, in our view, the rapidly increasing clinical documentation and presentations by KOLs in Europe were the highlights.

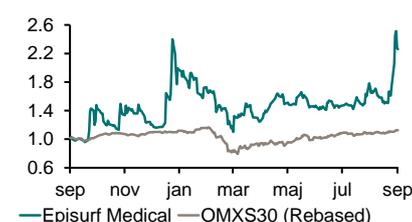
**Long-term follow-up from first trial indicates very low revision rate –** a positive in our view. In the Stålmán paper (see our 8 September 2020 note), patients were followed for up to seven years; revision rates remained low and clinical outcomes high. In our view, having this type of data to support the implant system makes it much easier to convince new customers on a broader scale (and not only tech-savvy early adopters). In addition, the European multi-centre trial should be published in the autumn. As far as we understand, the data appears very compelling.

**KOLs clearly positive for the implant system.** Several large volume users in Europe reported their experience with the implant system, and all the features we normally consider positive were highlighted by the KOLs as bringing real value to doctors and patients.

**Ambitious targets communicated.** The company believes a c30% market share in its niche is reasonable over time, and highlighted that the target is c15% market share in the US some three years post-launch (estimated for c2024). Given the alternatives available today, we believe this is realistic, but the question of a potential partner in the US market remains. We believe the choice of actual partner should affect the likelihood of reaching that target in the specified time-frame.

**Forecasts updated and fair value adjusted.** We believe the market-share targets are ambitious but doable, especially with the strong clinical outcome data seen lately. Based on the new clinical data seen this year, we have increased our longer-term market-share assumptions and as a result increased our fair value to SEK1.9–6.5.

EPISB versus OMXS30 (12m)



Source: Factset

### SUMMARY

Share price (SEK)	2.26
Tickers	EPISB SS, EPISB.ST

### CAPITAL STRUCTURE

No. of shares (m)	187.0
No. of shares fully dil. (m)	187.0
Market cap. (SEKm)	423
NIBD adj end-2020e (SEKm)	92
Enterprise value adj (SEKm)	514
Net debt/EBITDA adj (x)	-1.36
Free float (%)	100

Source: Company, DNB Markets (estimates)

### NEXT EVENT

Q3 report 2020	23/10/2020
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### ESTIMATE CHANGES (SEK)

Year-end Dec	2020e	2021e	2022e
Sales (old)	6.26	11.21	24.17
Sales (new)	6.26	11.21	21.81
Change (%)	0.0	0.0	-9.8
EPS (old)	-0.40	-0.39	-0.32
EPS (new)	-0.40	-0.39	-0.33
Change (%)	nm	nm	nm

Source: DNB Markets, SME Direkt

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Year-end Dec	2016	2017	2018	2019	2020e	2021e	2022e
Revenue (SEKm)	3	3	4	5	6	11	22
EBITDA adj (SEKm)	-58	-57	-53	-61	-67	-65	-55
EBIT adj (SEKm)	-62	-61	-58	-69	-75	-73	-63
PTP (SEKm)	-62	-61	-58	-70	-74	-72	-62
EPS rep (SEK)	-3.87	-2.18	-1.87	-1.04	-0.40	-0.39	-0.33
EPS adj (SEK)	-3.87	-2.18	-1.87	-1.04	-0.40	-0.39	-0.33
Revenue growth (%)	-60.0	16.3	39.0	25.6	15.9	79.1	94.6
EV/Sales adj (x)	68.89	60.95	23.38	19.92	82.18	43.68	26.37
P/Book (x)	2.89	1.37	1.55	1.90	4.18	5.37	2.53
FCF yield (%)	-39.9	-52.4	-76.2	-75.8	-16.3	-15.9	-13.4

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

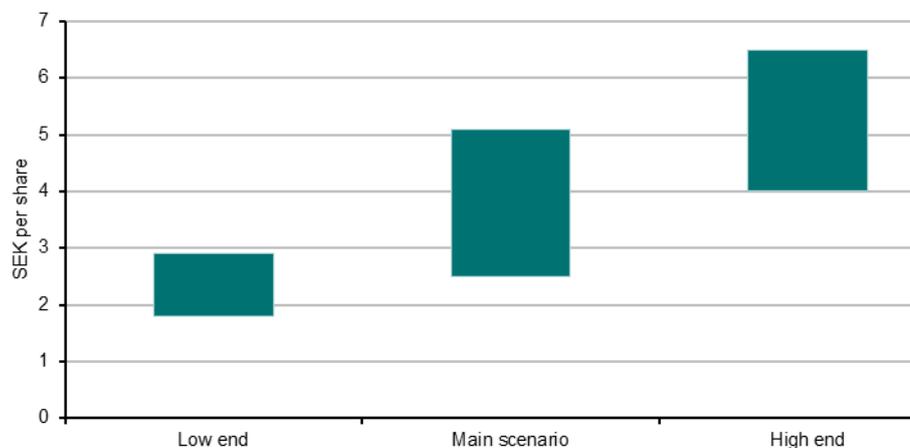
### ANALYSTS

Patrik Ling

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# Overview

## Valuation (SEK)



Source: DNB Markets

## Valuation methodology

- We continue to primarily use a DCF, with a long-term growth rate of 1%, a terminal EBIT margin of 50%, and a WACC of 11%.
- At the high end of our fair value range, we assume 25% higher sales growth than in our main scenario.
- At the low end of our fair value range, we use 25% lower sales growth than in our main scenario.

Source: DNB Markets

## Downside risks to our fair value

- We believe the largest risk relates to Episealer® sales growth. Hence, at the low end of our fair value range, we assume weaker sales than in our main 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 main 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 c30% royalty on sales.

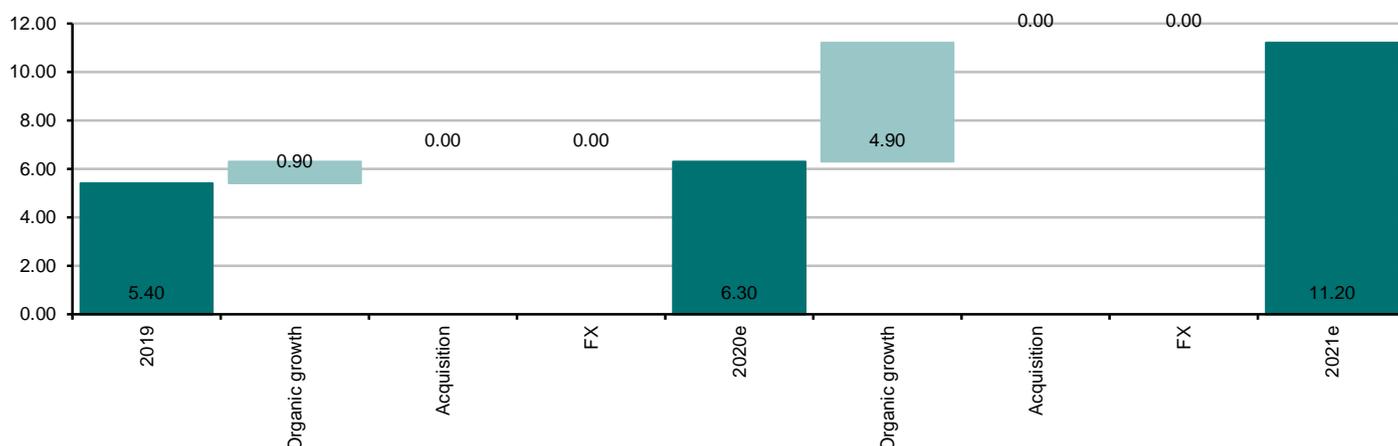
Source: DNB Markets

## Upside risks to our fair value

- Sales might be stronger than we forecast, as the company 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"> <li>■ Episurf Medical'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.</li> <li>■ The implants are individually designed to the patient's anatomy and injury, increasing the likelihood of a successful treatment outcome.</li> <li>■ We believe that general ESG trends could benefit Episurf Medical over time.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company is 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.</li> <li>■ 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.</li> </ul>
Actions being taken by company	<ul style="list-style-type: none"> <li>■ Tailoring implants as well as surgical instruments means a better fit with the patients' needs and a reduced risk of revision surgery.</li> <li>■ The company mainly addresses the UN sustainability goal number 3 "Good health and well-being".</li> </ul>	<ul style="list-style-type: none"> <li>■ The individualisation leads to a higher degree of single-use products (especially related to the surgical tools).</li> <li>■ 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.</li> </ul>

### 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's goal 3 of "Good health"
- The Episealer implant system offers treatment to a group of patients who lack suitable alternatives. The documentation on 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.
- There has been a lack of clinical documentation regarding the outcome for the Episealer implant system, but over the past year more data has emerged, which looks compelling.
- As this is a completely new way of treating patients, it takes time to educate orthopaedic surgeons in this method of treatment.

#### Long-term

- Getting younger patients (c35–40 years) back to good knee health also means that more can resume work, benefiting the overall economy as well as the patients' well-being.
- Access to healthcare differs globally, and patient needs vary from market to market. Episurf Medical's products mainly cater to patients in more developed markets.
- 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.
- New drugs or alternative treatments could have a negative impact on certain therapies, making some of Episurf Medical's current equipment obsolete.

**Sustainability assessment**

	<b>Risk</b>	<b>Company's risk mitigation</b>
<b>Transition risks</b>		
Policy and legal	<ul style="list-style-type: none"> <li>Changes in reimbursement systems can have a significant impact on its 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.</li> </ul>	<ul style="list-style-type: none"> <li>All products have been recently re-certified in Europe, meaning that certification according to the MDR is not critical until 2024.</li> </ul>
Technology	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
Market	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The company focuses on certain markets and regions in markets to establish the system as a standard treatment. Discussions with potential partners are ongoing.</li> </ul>
Reputation	<ul style="list-style-type: none"> <li>A rising revision rate would be a clear negative. We see a potential risk in new surgeons using the system without sufficient training.</li> </ul>	<ul style="list-style-type: none"> <li>As cases are scanned and sent to the company for manufacture, this makes it easy for it to detect whether a potential patient is unsuitable.</li> </ul>
<b>Physical risk</b>		
Acute	<ul style="list-style-type: none"> <li>Any manufacturing faults in an implant could have serious implications for a patient.</li> </ul>	<ul style="list-style-type: none"> <li>Quality control is imperative in the entire manufacturing chain.</li> </ul>
Chronic	<ul style="list-style-type: none"> <li>The launch of new biological technology that makes the implant solution outdated.</li> </ul>	<ul style="list-style-type: none"> <li>There is the potential for the company to use its technology for other applications.</li> </ul>

Source: DNB Markets

**Sustainability assessment**

	<b>Opportunities</b>	<b>Company's utilisation of opportunity</b>
Resource efficiency	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The single-use feature limits the risk of an implant being unsuitable in the surgical situation. This reduces the need for revisions.</li> </ul>
Products/Services	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The company sometimes advises against surgery after it receives the patient's images, thereby increasing the likelihood of a positive outcome.</li> </ul>
New markets	<ul style="list-style-type: none"> <li>The company is expanding its market presence in Europe and will seek a marketing partner for the US market.</li> </ul>	<ul style="list-style-type: none"> <li>The company is currently conducting a large (c180 patients) IDE trial in the US.</li> </ul>
Supply chain resilience	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The company uses CMOs to help with a large part of the manufacturing process.</li> </ul>

Source: DNB Markets

21 September 2020

## Capital markets day highlights

Episurf Medical hosted a CMD last week. We believe that the event was very good for the company as it included several interesting items. From our perspective, for some time we have considered that the company needs to have a more comprehensive clinical data package, and we see that this is materialising rapidly. Earlier in September we received the five- to seven-year follow-up data from the first 10 patients ever treated with the Episealer implant system, and that data was very strong (see our report from 8 September).

The European multi-centre trial in 80 patients treated with the Episealer implant system has been accepted for publication and will, in addition to the Swedish data from Stålmán, add a significant amount of clinical data on the implant system. Even though we have not seen the data yet, the title of the article strongly indicates that the outcomes have been good. Among other things, the article talks about “excellent clinical results at 2 years”. We believe that the company needs more clinical data in order to address the implant market outside of the tech-savvy early adopters, i.e. the physicians that like to test new products. This data is rapidly accumulating now.

The company outlined its longer-term (c10y) financial targets as regards market share and sales. The aim is to achieve c30% market share in all target markets (the US and Europe) in the niche in which the Episealer implant system fits well (patients too old for biological treatment but too young for total knee replacement – i.e. those in the so-called ‘treatment gap’).

The company also stated that the target is to reach a market share of c15% some three years after the system is launched in the US. We believe that the PMA trial in the US and the approval process could be completed in the coming three to four years, hence launch in the US could take place in 2024. One area of uncertainty regarding the performance in the US relates to the ‘go to’ market strategy in the US: we have assumed that the company will use a marketing partner in the US; depending on which partner the company chooses, the likelihood of reaching the market share targets will also vary.

At the CMD, the company had invited several key opinion leaders (KOLs) to talk about how they use the implant system and what they see as the benefits for them as doctors as well as for their patients. It was clear to us that the fact that the implants are individualised, as well as the surgical tools, means a high degree of success in the final placement of the implant. One indication of a high degree of success is the low revision rate (c0–4%) seen thus far in the long-term clinical follow-up.

In our forecasts, we have increased the potential market share for the implant system in the longer term but also lowered our price assumption slightly for the implants in Europe and the US. At the same time, the change in currency rates has a negative impact on the forecast adjustments. However, the net effect of a potentially higher market share coupled with a slightly lower realised price per implant is still a clear increase in our forecasts. As a result, we have increased our fair value to SEK1.9–6.5.

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenues	6	11	22	6	11	24	0	0	-2
Cost of sales	0	-6	-10	0	-6	-11	0	0	1
Gross profit	6	6	12	6	6	13	0	0	-1
Operating expenses	-81	-79	-75	-81	-79	-75	0	0	0
EBITDA	-67	-65	-55	-67	-65	-54	0	0	-1
EBITDA adj	-67	-65	-55	-67	-65	-54	0	0	-1
EBITDA margin (%)	nm	nm	nm	-1074.5	-583.6	-222.3	nm	nm	nm
Depreciation	-8	-8	-8	-8	-8	-8	0	0	0
EBITA	-75	-73	-63	-75	-73	-61	0	0	-1
EBIT	-75	-73	-63	-75	-73	-61	0	0	-1
EBIT adj	-75	-73	-63	-75	-73	-61	0	0	-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	-74	-72	-62	-74	-72	-61	0	0	-1
Taxes	0	0	0			0			0
Net profit	-74	-72	-62	-74	-72	-61	0	0	-1
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	-74	-72	-62	-74	-72	-61	0	0	-1
<i>Per share data (SEK)</i>									
EPS	-0.40	-0.39	-0.33	-0.40	-0.39	-0.32	0.00	0.00	-0.01
EPS adj	-0.40	-0.39	-0.33	-0.40	-0.39	-0.32	0.00	0.00	-0.01
<i>Other key metrics (%)</i>									
Revenue growth	15.9	79.1	94.6	15.9	79.1	115.6	0.0	0.0	-21.0
EBIT adj growth	nm	nm	nm	8.6	-2.5	-16.0	nm	nm	nm
EPS adj growth	nm	nm	nm	-61.7	-2.5	-16.1	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	-67	-65	-55	-67	-65	-54	0	0	-1
Working capital	-2	1	3	-2	1	3	0	0	0
NIBD adj	92	67	153	92	67	154	0	0	-1

Source: DNB Markets

21 September 2020

## Annual P&amp;L

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<b>Revenues</b>	2	2	7	3	3	4	5	6	11	22
Cost of sales	0	0	0	0	0	0	0	0	-6	-10
<b>Gross profit</b>	2	2	7	3	3	4	5	6	6	12
Operating expenses	-25	-36	-51	-64	-64	-62	-74	-81	-79	-75
<b>EBITDA</b>	-22	-32	-42	-58	-57	-53	-61	-67	-65	-55
Depreciation	-1	-2	-2	-4	-4	-5	-8	-8	-8	-8
<b>EBITA</b>	-23	-33	-44	-62	-61	-58	-69	-75	-73	-63
<b>EBIT</b>	-23	-33	-44	-62	-61	-58	-69	-75	-73	-63
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
<b>PBT</b>	-23	-33	-44	-62	-61	-58	-70	-74	-72	-62
Taxes	0	0	0	0	0	0	0	0	0	0
Effective tax rate (%)	0	0	0	0	0	0	0	0	0	0
<b>Net profit</b>	-23	-33	-44	-62	-61	-58	-70	-74	-72	-62
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0
Net profit adj	-23	-33	-44	-62	-61	-58	-70	-74	-72	-62
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	-0.40	-0.39	-0.33
<b>EPS adj</b>	-2.91	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.40	-0.39	-0.33
<i>Growth and margins (%)</i>										
Revenue growth	nm	37.9	184.0	-60.0	16.3	39.0	25.6	15.9	79.1	94.6
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	-121.4	-67.8	-34.8
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	-1195.9	-651.4	-287.1
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)

21 September 2020

Adjustments to annual P&L

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<b>EBITDA</b>	<b>-22</b>	<b>-32</b>	<b>-42</b>	<b>-58</b>	<b>-57</b>	<b>-53</b>	<b>-61</b>	<b>-67</b>	<b>-65</b>	<b>-55</b>
Gains and losses	0	0	0	0	0	0	0	0	0	0
EBITDA adj	-22	-32	-42	-58	-57	-53	-61	-67	-65	-55
<b>EBITA</b>	<b>-23</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-69</b>	<b>-75</b>	<b>-73</b>	<b>-63</b>
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	-75	-73	-63
<b>EBIT</b>	<b>-23</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-69</b>	<b>-75</b>	<b>-73</b>	<b>-63</b>
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	-75	-73	-63
<b>Net profit</b>	<b>-23</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-70</b>	<b>-74</b>	<b>-72</b>	<b>-62</b>
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	-74	-72	-62
<i>Per share data (SEK)</i>										
EPS	-2.91	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.40	-0.39	-0.33
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	-0.40	-0.39	-0.33

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	-74	-72	-62
Other non-cash adjustments	0	0	0	0	0	0	0	0	0	0
Change in net working capital	1	-1	4	1	-5	0	3	-2	-2	-2
<b>Cash flow from operations (CFO)</b>	<b>-21</b>	<b>-32</b>	<b>-38</b>	<b>-56</b>	<b>-61</b>	<b>-53</b>	<b>-60</b>	<b>-69</b>	<b>-67</b>	<b>-57</b>
Capital expenditure	0	0	0	0	0	0	0	0	0	0
Acquisitions/Investments	-3	-3	-7	-5	-7	-10	-6	-7	-7	-8
Divestments	0	0	0	0	0	0	0	0	0	0
<b>Cash flow from investing (CFI)</b>	<b>-4</b>	<b>-3</b>	<b>-7</b>	<b>-6</b>	<b>-7</b>	<b>-10</b>	<b>-6</b>	<b>-7</b>	<b>-7</b>	<b>-8</b>
<b>Free cash flow (FCF)</b>	<b>-24</b>	<b>-35</b>	<b>-45</b>	<b>-62</b>	<b>-69</b>	<b>-63</b>	<b>-65</b>	<b>-76</b>	<b>-74</b>	<b>-64</b>
Net change in debt	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	1	1	2	-1	0
<b>Cash flow from financing (CFF)</b>	<b>70</b>	<b>0</b>	<b>115</b>	<b>0</b>	<b>98</b>	<b>20</b>	<b>62</b>	<b>136</b>	<b>49</b>	<b>150</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>46</b>	<b>-34</b>	<b>69</b>	<b>-62</b>	<b>29</b>	<b>-43</b>	<b>-3</b>	<b>60</b>	<b>-25</b>	<b>86</b>
<i>FCFF calculation</i>										
Free cash flow	-24	-35	-45	-62	-69	-63	-65	-76	-74	-64
Less: net interest	0	0	0	0	0	0	1	-1	-1	-1
Less: acquisitions	3	3	7	5	7	10	6	7	7	8
Less: divestments	0	0	0	0	0	0	0	0	0	0
<b>Growth (%)</b>										
CFO	-37.9	-52.6	-20.2	-47.5	-9.5	13.9	-12.9	-15.7	2.7	15.5
CFI	-143.9	21.2	-157.1	24.6	-34.4	-29.7	43.3	-18.2	-7.7	-7.1
FCF	-47.5	-41.5	-31.5	-35.8	-11.7	9.1	-4.2	-15.9	1.8	13.3
CFF	nm	-99.8	76422.1	-100.0	nm	-80.0	217.3	118.2	-63.6	203.4
FCFF	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
<b>Assets</b>	<b>76</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>122</b>	<b>101</b>	<b>191</b>
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	85	61	146
<b>Current assets</b>	<b>71</b>	<b>37</b>	<b>107</b>	<b>47</b>	<b>77</b>	<b>34</b>	<b>30</b>	<b>94</b>	<b>74</b>	<b>163</b>
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
<b>Non-current assets</b>	<b>5</b>	<b>6</b>	<b>11</b>	<b>13</b>	<b>16</b>	<b>21</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>
<b>Total assets</b>	<b>76</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>122</b>	<b>101</b>	<b>191</b>
<b>Equity and liabilities</b>	<b>76</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>122</b>	<b>101</b>	<b>191</b>
Total equity to the parent	72	39	110	49	86	45	41	101	79	167
<b>Total equity</b>	<b>72</b>	<b>39</b>	<b>110</b>	<b>49</b>	<b>86</b>	<b>45</b>	<b>41</b>	<b>101</b>	<b>79</b>	<b>167</b>
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
<b>Total current liabilities</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>4</b>	<b>6</b>	<b>10</b>	<b>14</b>	<b>15</b>	<b>16</b>
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
<b>Total non-current liabilities</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>8</b>
<b>Total liabilities</b>	<b>5</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>8</b>	<b>10</b>	<b>16</b>	<b>21</b>	<b>22</b>	<b>24</b>
<b>Total equity and liabilities</b>	<b>76</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>122</b>	<b>101</b>	<b>191</b>
<i>Key metrics</i>										
Net interest bearing debt	69	34	104	42	71	31	29	92	67	153

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

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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	2.26	2.26	2.26
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	423	423	423
Net interest bearing debt	69	34	104	42	71	31	29	92	67	153
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	92	67	153
EV	288	156	233	183	189	101	108	514	490	575
EV adj	288	156	233	183	189	101	108	514	490	575
<i>Valuation</i>										
EPS	-2.91	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.40	-0.39	-0.33
<b>EPS adj</b>	<b>-2.91</b>	<b>-4.14</b>	<b>-3.52</b>	<b>-3.87</b>	<b>-2.18</b>	<b>-1.87</b>	<b>-1.04</b>	<b>-0.40</b>	<b>-0.39</b>	<b>-0.33</b>
P/E	-9.6	-3.7	-2.9	-2.3	-1.9	-1.2	-1.1	-5.7	-5.8	-6.8
P/E adj	-9.6	-3.7	-2.9	-2.3	-1.9	-1.2	-1.1	-5.7	-5.8	-6.8
P/B	3.06	3.11	1.18	2.89	1.37	1.55	1.90	4.18	5.37	2.53
Average ROE	-47.6%	-59.6%	-59.1%	-77.7%	-91.0%	-88.7%	-161.9%	-104.2%	-80.5%	-50.5%
Earnings yield adj	-10.4%	-27.2%	-34.0%	-43.7%	-52.1%	-83.2%	-88.6%	-17.6%	-17.1%	-14.7%
EV/SALES	169.87	66.47	35.12	68.89	60.95	23.38	19.92	82.18	43.68	26.37
EV/SALES adj	169.87	66.47	35.12	68.89	60.95	23.38	19.92	82.18	43.68	26.37
EV/EBITDA	-13.0	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-7.6	-7.5	-10.5
EV/EBITDA adj	-13.0	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-7.6	-7.5	-10.5
EV/EBIT	-12.4	-4.7	-5.3	-3.0	-3.1	-1.7	-1.6	-6.9	-6.7	-9.2
EV/EBIT adj	-12.4	-4.7	-5.3	-3.0	-3.1	-1.7	-1.6	-6.9	-6.7	-9.2
EV/NOPLAT	-12.4	-4.7	-5.3	-3.0	-3.1	-1.7	-1.6	-6.9	-6.7	-9.2
EV/OpFCF (taxed)	-12.7	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-7.6	-7.5	-10.5

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	-82.7	-65.0	-42.5
<i>Return on invested capital (%)</i>										
Net PPE/revenues	30.6	18.2	6.4	14.4	6.5	2.3	111.1	95.9	53.5	27.5
Working capital/revenues	-2.1	28.1	-11.5	-104.1	58.2	48.8	-87.0	-32.0	6.2	15.6
<i>Cash flow ratios (%)</i>										
FCF/revenues	-1438.4	-1475.9	-683.4	-2317.6	-2227.3	-1455.8	-1207.4	-1207.2	-662.1	-294.9
FCF yield	-9.7	-26.2	-29.5	-39.9	-52.4	-76.2	-75.8	-16.3	-15.9	-13.4
CFO/revenues	-1223.6	-1353.3	-572.4	-2108.4	-1985.6	-1230.2	-1105.6	-1103.3	-599.7	-260.5
CFO/market capitalisation	-9.5	-26.2	-29.4	-39.8	-52.4	-76.2	-75.8	-16.3	-15.9	-13.4
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	-504.0	-448.0	-348.5
Cash conversion ratio	106.7	104.9	103.3	100.0	112.7	108.3	93.4	101.8	102.5	103.7
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	-1074.5	-583.6	-252.2
<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	112.63	109.54	92.13
Net debt/EBITDA	-3.10	-1.09	-2.49	-0.73	-1.25	-0.59	-0.47	-1.36	-1.02	-2.77
Total debt/total capital (BV)	0.00	0.00	0.00	0.00	0.00	0.05	0.06	0.05	0.06	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	182.4	122.7
Receivables turnover days	387.7	148.7	88.7	541.0	472.0	322.6	209.5	384.9	329.0	227.6
Credit period	nm	nm	nm	nm	nm	nm	nm	nm	521.1	334.7
Cash conversion cycle	nm	nm	nm	nm	nm	nm	nm	nm	-9.8	15.6

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

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Company: Episurf Medical  
 Coverage by Analyst: Patrik Ling  
 Date: 21/09/2020

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