



## EPISURF MEDICAL

### Moving forward despite Covid-19

The company's overall Q4 report (19 February) was strong, given the headwind among almost all elective procedures in Q4. However, underlying sales still increased YOY in 2020, a good sign. During the year, the amount of published clinical data increased (and should continue to rise in 2021) and this strengthens the company's competitive position. Focus going forward will be on the EPIC-knee trial and the patellofemoral implant aimed to be filed in the US this year. We have lifted our fair value for the shares to SEK2.5–8 (previously SEK1.9–6.5).

**Q4 earnings hurt by the pandemic.** Sales of implants were below our forecast, but included a one-off revenue from a license sale of its software system, leading to higher revenues than expected. Operating costs were somewhat higher than forecast but lower than Q4 last year. Sales of implants were hurt by the Covid-19 pandemic and the second wave of infections spiking in Q4. The type of surgical procedures where Episurf Medical's implants are used are the typical elective surgeries that have been cancelled and postponed due to the pandemic.

**US PMA trial moving forward but pandemic affecting the pace.** The trial started in Q3, with only a few patients included as of now. The pandemic has hurt patient recruitment, although we believe the company is attempting to speed up recruitment. It is discussing the inclusion/exclusion criteria with the FDA, looking for ways to increase the proportion of screened patients recruited for the trial. We hope changes will be implemented during the spring. Having the trial fully recruited in 2021 (180 patients) might be a challenge, given the pandemic impact in Q4 and also in Q1 2021.

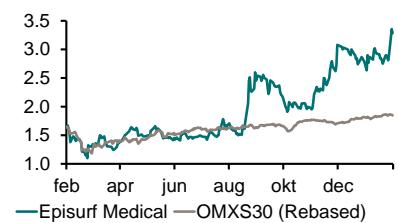
**New implant for patella injuries developed.** The company announced a new implant product developed for focal cartilage injuries of the patella for which it plans to file in the US (for a 510(k) clearance) during 2021. Such a product could be approved and available in the US market in 2022. Focal cartilage damages in the patella are a problem and a potential contraindication to the ordinary Episealer implant. This could become an interesting addition to the overall implant portfolio, we believe.

**New fair value of SEK2.5–8/share.** We believe the company is moving in the right direction with the growth in clinical documentation set to continue into 2022. The new patella implant product could add revenues earlier than previously forecast and allow entry into the US market sooner than with the Episealer implant system. Its financial position improved solidly in 2020 and is stable, and its cash should take it into 2023.

Year-end Dec	2017	2018	2019	2020	2021e	2022e	2023e
Revenue (SEKm)	3	4	5	7	9	17	32
EBITDA adj (SEKm)	-57	-53	-61	-56	-66	-57	-47
EBIT adj (SEKm)	-61	-58	-69	-63	-74	-65	-54
PTP (SEKm)	-61	-58	-70	-64	-74	-65	-54
EPS rep (SEK)	-2.18	-1.87	-1.04	-0.32	-0.33	-0.29	-0.24
EPS adj (SEK)	-2.18	-1.87	-1.04	-0.32	-0.33	-0.29	-0.24
Revenue growth (%)	16.3	39.0	25.6	29.6	28.6	93.3	84.5
EV/Sales adj (x)	60.95	23.38	19.92	107.72	96.14	54.49	27.77
P/Book (x)	1.37	1.55	1.90	3.52	5.01	3.16	4.14
FCF yield (%)	-52.4	-76.2	-75.8	-9.2	-9.4	-8.2	-6.7

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

#### EPISB versus OMXS30 (12m)



Source: Factset

#### SUMMARY

Share price (SEK) 3.29

Tickers EPISB SS

#### CAPITAL STRUCTURE

No. of shares (m)	222.0
No. of shares fully dil. (m)	222.0
Market cap. (SEKm)	729
NIBD adj end-2021e (SEKm)	136
Enterprise value adj (SEKm)	866
Net debt/EBITDA adj (x)	-2.05
Free float (%)	100

Source: Company, DNB Markets (estimates)

#### NEXT EVENT

Q1 report 2021

29/04/2021

#### ESTIMATE CHANGES (SEK)

Year-end Dec	2021e	2022e	2023e
Sales (old)	10.90	21.20	
Sales (new)	9.00	17.40	32.10
Change (%)	-17.4	-17.9	nm
EPS (old)	-0.39	-0.33	
EPS (new)	-0.33	-0.29	-0.24
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

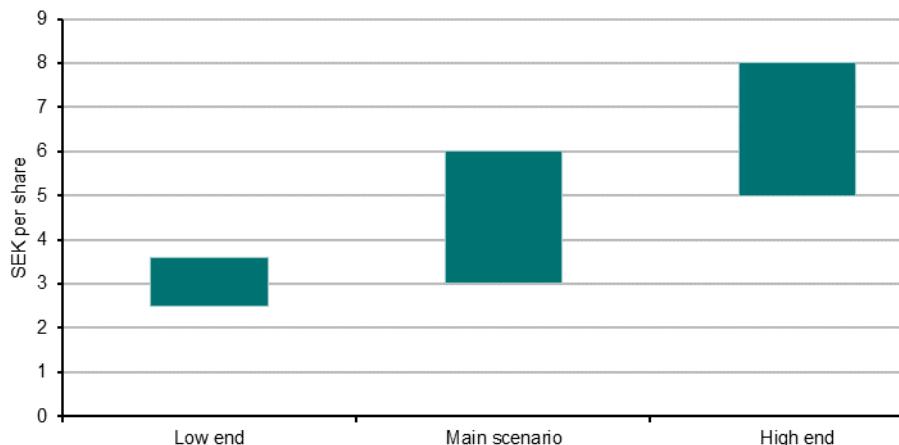
#### ANALYSTS

Patrik Ling

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# Overview

## Valuation (SEK)



Source: DNB Markets

## Downside risks to our fair value

- We believe the largest risk relates to sales growth. 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

## 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.

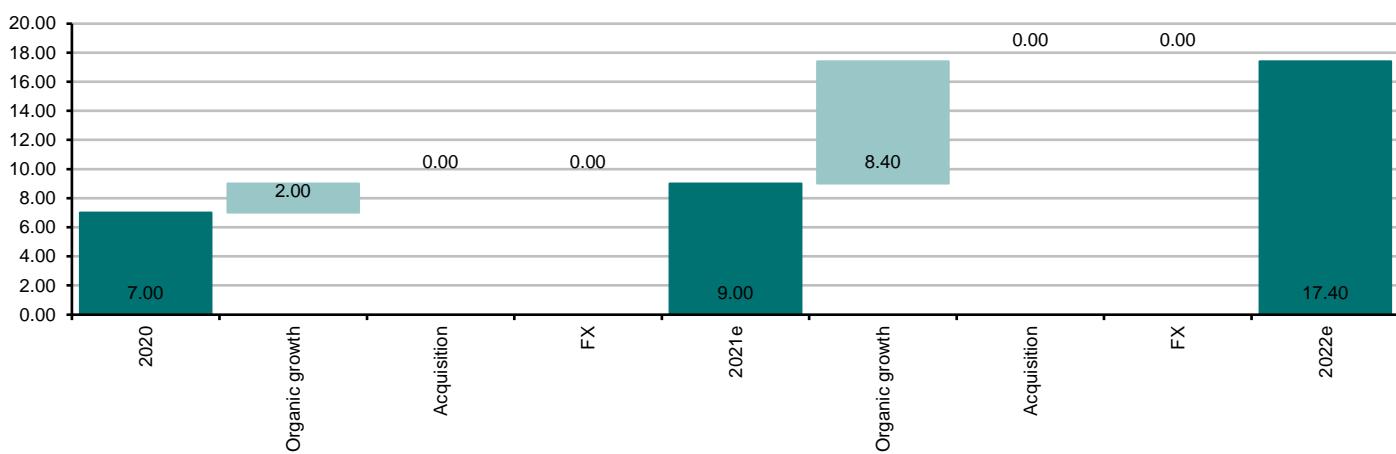
Source: DNB Markets

## 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 2020–2022e (SEKm)



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

# ESG overview

## Sustainability assessment

	<b>Positive</b>	<b>Negative</b>
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	<ul style="list-style-type: none"> <li>■ All the company's products, in one way or the other, are aimed at improving health among patients. Thus, they all address the UN's goal 3 of "Good health"</li> <li>■ 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.</li> <li>■ 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.</li> </ul>	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ As this is a completely new way of treating patients, it takes time to educate orthopaedic surgeons in this method of treatment.</li> </ul>
Long-term	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ 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.</li> </ul>	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ New drugs or alternative treatments could have a negative impact on certain therapies, making some of Episurf Medical's current equipment obsolete.</li> </ul>

## Sustainability assessment

	Risk	Company's risk mitigation
<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

	Opportunities	Company's utilisation of opportunity
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

## Q4 outcome

Elective surgical procedures have clearly moved down in priority during the first and the second waves of Covid-19 infections and with this in mind, we believe it is actually a sign of strength for the company to show a slight sales increase in 2020 versus 2019 for implant sales. Total revenues rose from SEK4.9m in 2019 to SEK7m in 2020 but included in this number is among others, a one-off revenue of SEK1.5m related to an out-licensing deal for the software system μ-fidelity.

### Q4 outcome and deviations

Key highlights (SEKm, except per share data)	Q4 2020			Deviation (%)		Deviation, Abs		Q4 2019 Actual
	Actual	DNB	Cons.	DNB	Cons.	DNB	Consensus	
Sales	1.5	2.1	n.m.	-29%	n.a.	-0.6	n.m.	1.3
EBIT reported	-16.0	-14.9	n.m.	-7%	n.a.	-1.1	n.m.	-18.6
EBIT margin (%)	-1067%	-710%	n.m.	n.m.	n.a.			-1431%
Net financial items	-0.2	0.0	n.m.	n.m.	n.m.	-0.2	n.m.	-0.1
Pre-tax profit	-16.2	-14.9	n.m.	-9%	n.a.	-1.3	n.m.	-18.7
EPS	-0.08	-0.08	n.m.	0%	n.a.	0.0	n.m.	-0.21
<b>Growth YOY</b>								
Group sales	15%	62%	n.m.			-46%	n.m.	
EBIT	14%	20%	n.m.			-6%	n.m.	
EPS	62%	62%	n.m.			0%	n.m.	

Source: Company data (historical figures) and DNB Markets. No consensus available.

The operating costs improved slightly YOY (from cSEK20m in Q4 last year to cSEK19.1m in Q4 this year). The larger improvement in the operating loss is due to the one-off revenue on cSEK1.5m mentioned above that is not related to sales of implants per se.

The lower levels of elective surgical procedures are something we believe will continue to affect sales trends during the beginning of 2021, or at least until the vaccinations start to take effect in the form of a higher level of immunity in the populations.

### The EPIC Knee trial

The company's most important clinical development going forward is the development of the US PMA clinical trial. Recruitment to this trial has, due to the pandemic, been slower than expected, but this is nothing that is company-specific as most clinics are more cautious to start clinical trials during the pandemic and especially for new technologies, where the clinicians are less familiar with the technique and the expected clinical outcomes. Clinical trials also often include more frequent follow-ups of the patients than what might be clinical practice and as everyone (patients and healthcare organisations) want to limit hospital and clinic visits as much as possible during the pandemic, this also contributes to a lower recruitment rate in clinical trials.

As far as we understand, the company has also been in discussions with the regulatory agency (FDA) about making some minor changes to the trial protocol to increase patient recruitments. We believe this is a good move and should, if everything goes as planned, help the company to increase the recruitment rate. Management mentioned that it is a few months behind its original time-plan and that having the trial fully recruited by end-2021 is an optimistic target. We believe that anything that could help lift the recruitment rate without compromising the data expected from the trial is a good move. Having said that, we still believe the EPIC knee trial is of paramount importance to the company and from our perspective it is more value-creating to execute well on the trial than to rush it and potentially jeopardise the data. In short, we see no drama in a few months delay in recruiting the patients.

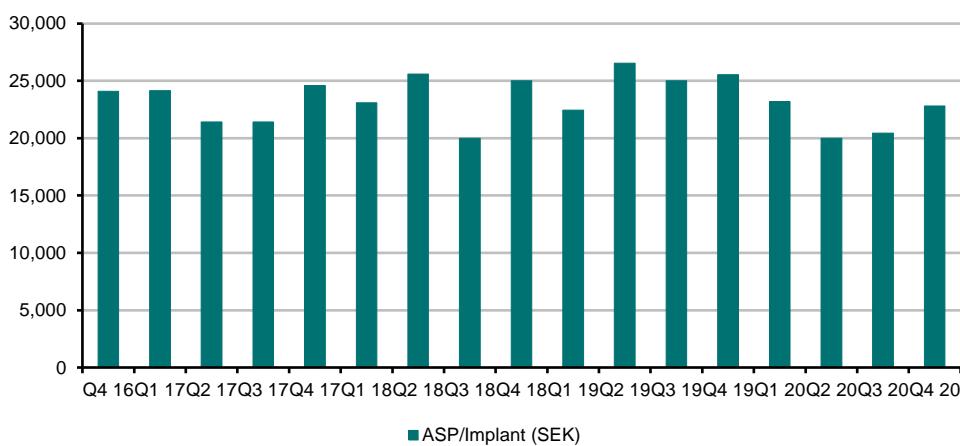
### New product development might lead to earlier than expected US market entrance

In connection with the Q4 report, the company disclosed a new addition to the implant portfolio, the Episealer Patellofemoral implant. This implant is aimed at focal cartilage injuries in the patella, something that is quite common but also something that from time to time constitutes a contraindication for the original Episealer implant.

### Implant ASP seems to be stabilising

We have over time seen the ASP for the company's implant slide a little but over the last two quarters, we have seen a rebound in the ASP to cSEK22,000 per implant. The slightly lower price today is a reflection of sales in high-priced markets like Germany (had c59% of all implants sold in the last quarter). Having said that, we believe that as the company continues to grow in new markets, this should put some pressure on the implant ASP.

### ASP per implant



Source: Company data

The company recently launched its new implant for cartilage damages in the ankle, the Talus implant. The company has not sold many of these implants but in all fairness, launching a new implant and a new surgical procedure during the ongoing pandemic is not easy. As of now, there have been a few procedures conducted and there are a handful more that are planned. The Talus implant is also an implant where the market is smaller than for the knee implant. However, the development of this implant is an important step on the way to broadening the applicability of the implant system.

### Clinical data continue to build

We believe that one of the most important, if not the most important, factor to increase sales is the very development we have seen in the amount of clinical outcome data presented and published during 2020. This trend should continue in 2021 as the company communicated that there are several new articles on the way to become published.

In all, we believe the company is moving in the right direction despite the headwinds faced due to the Covid-19 situation. We expect the company to continue to present new clinical data to strengthen the clinical evidence for the Episealer implant system as well as to continue to build out its sales and marketing organisation in the markets where the system has been launched already. On top of this, we believe focus will be on increasing the recruitment rate in the US PMA trial to get the trial fully recruited as soon as possible. We have adjusted our fair value assumption on the shares to SEK2.5–8 (previously SEK1.9–6.5).

## Forecast changes – P&amp;L

(SEKm)	New			Old		Change			
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Revenues	9	17	32	11	21		-2	-4	
Cost of sales	-5	-8	-13	-5	-10		1	2	
Gross profit	5	10	19	5	12		-1	-2	
Operating expenses	-79	-75	-74	-79	-75		0	0	
EBITDA	-66	-57	-47	-66	-55		-1	-2	
EBITDA adj	-66	-57	-47	-66	-55		-1	-2	
EBITDA margin (%)	nm	nm	nm	-601.4	-261.1	nm	nm	nm	nm
Depreciation	-8	-8	-8	-8	-8		0	0	
EBITA	-74	-65	-54	-73	-63		-1	-2	
EBIT	-74	-65	-54	-73	-63		-1	-2	
EBIT adj	-74	-65	-54	-73	-63		-1	-2	
Net interest	0	0	0	1	1		-1	-1	
Net financial items	0	0	0	1	1		-1	-1	
PBT	-74	-65	-54	-73	-62		-1	-3	
Taxes	0	0	0		0			0	
Net profit	-74	-65	-54	-73	-62		-1	-3	
Adjustments to net profit	0	0	0	0	0		0	0	
Net profit adj	-74	-65	-54	-73	-62		-1	-3	
<i>Per share data (SEK)</i>									
EPS	-0.33	-0.29	-0.24	-0.39	-0.33		0.05	0.04	
EPS adj	-0.33	-0.29	-0.24	-0.39	-0.33		0.05	0.04	
<i>Other key metrics (%)</i>									
Revenue growth	28.6	93.3	84.5	81.9	94.5	nm	-53.3	-1.2	nm
EBIT adj growth	nm	nm	nm	-2.6	-14.0	nm	nm	nm	nm
EPS adj growth	nm	nm	nm	-2.6	-14.1	nm	nm	nm	nm
Avg. number of shares (m)	222	222	222	187	187		35	35	
Capex	0	0	0	0	0		0	0	
OpFCF	-66	-57	-47	-66	-55		-1	-2	
Working capital	-2	1	3	1	3		-3	-3	
NIBD adj	136	219	162	67	152		70	67	

Source: DNB Markets

## Annual P&amp;L

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<b>Revenues</b>	2	7	3	3	4	5	7	9	17	32
Cost of sales	0	0	0	0	0	0	0	-5	-8	-13
<b>Gross profit</b>	2	7	3	3	4	5	7	5	10	19
Operating expenses	-36	-51	-64	-64	-62	-74	-70	-79	-75	-74
<b>EBITDA</b>	<b>-32</b>	<b>-42</b>	<b>-58</b>	<b>-57</b>	<b>-53</b>	<b>-61</b>	<b>-56</b>	<b>-66</b>	<b>-57</b>	<b>-47</b>
Depreciation	-2	-2	-4	-4	-5	-8	-8	-8	-8	-8
<b>EBITA</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-69</b>	<b>-63</b>	<b>-74</b>	<b>-65</b>	<b>-54</b>
<b>EBIT</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-69</b>	<b>-63</b>	<b>-74</b>	<b>-65</b>	<b>-54</b>
Net interest	0	0	0	0	0	-1	-1	0	0	0
Net financial items	0	0	0	0	0	-1	-1	0	0	0
<b>PBT</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-70</b>	<b>-64</b>	<b>-74</b>	<b>-65</b>	<b>-54</b>
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>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-70</b>	<b>-64</b>	<b>-74</b>	<b>-65</b>	<b>-54</b>
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0
Net profit adj	-33	-44	-62	-61	-58	-70	-64	-74	-65	-54
Avg. number of shares	8	13	16	28	31	67	197	222	222	222
<i>Per share data (SEK)</i>										
EPS	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.32	-0.33	-0.29	-0.24
<b>EPS adj</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>-0.32</b>	<b>-0.33</b>	<b>-0.29</b>	<b>-0.24</b>
<i>Growth and margins (%)</i>										
Revenue growth	37.9	184.0	-60.0	16.3	39.0	25.6	29.6	28.6	93.3	84.5
EPS adj growth	nm									
Gross margin	100.0	100.0	100.0	100.0	100.0	100.0	100.0	50.0	55.0	60.0
EBITDA margin	nm									
EBITDA adj margin	nm									
Depreciation/revenues	-75.3	-33.6	-152.5	-135.3	-111.6	-138.9	-108.6	-84.4	-43.7	-23.7
EBIT margin	nm									
EBIT adj margin	-1421.7	-662.3	-2319.4	-1978.2	-1337.2	-1275.9	-905.7	-823.0	-373.7	-169.3
PBT margin	nm									
Net profit margin	nm									

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

## Adjustments to annual P&amp;L

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<b>EBITDA</b>	<b>-32</b>	<b>-42</b>	<b>-58</b>	<b>-57</b>	<b>-53</b>	<b>-61</b>	<b>-56</b>	<b>-66</b>	<b>-57</b>	<b>-47</b>
Gains and losses	0	0	0	0	0	0	0	0	0	0
EBITDA adj	-32	-42	-58	-57	-53	-61	-56	-66	-57	-47
<b>EBITA</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-69</b>	<b>-63</b>	<b>-74</b>	<b>-65</b>	<b>-54</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	-33	-44	-62	-61	-58	-69	-63	-74	-65	-54
<b>EBIT</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-69</b>	<b>-63</b>	<b>-74</b>	<b>-65</b>	<b>-54</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	-33	-44	-62	-61	-58	-69	-63	-74	-65	-54
<b>Net profit</b>	<b>-33</b>	<b>-44</b>	<b>-62</b>	<b>-61</b>	<b>-58</b>	<b>-70</b>	<b>-64</b>	<b>-74</b>	<b>-65</b>	<b>-54</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	-33	-44	-62	-61	-58	-70	-64	-74	-65	-54
<i>Per share data (SEK)</i>										
EPS	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.32	-0.33	-0.29	-0.24
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS adj	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.32	-0.33	-0.29	-0.24

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

## Cash flow

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
Net profit	-33	-44	-62	-61	-58	-70	-64	-74	-65	-54
Other non-cash adjustments	0	0	0	0	0	0	1	0	0	0
Change in net working capital	-1	4	1	-5	0	3	0	-2	-2	-2
<b>Cash flow from operations (CFO)</b>	<b>-32</b>	<b>-38</b>	<b>-56</b>	<b>-61</b>	<b>-53</b>	<b>-60</b>	<b>-55</b>	<b>-69</b>	<b>-60</b>	<b>-49</b>
Capital expenditure	0	0	0	0	0	0	-1	0	0	0
Acquisitions/Investments	-3	-7	-5	-7	-10	-6	-5	-7	-8	-8
Divestments	0	0	0	0	0	0	0	0	0	0
<b>Cash flow from investing (CFI)</b>	<b>-3</b>	<b>-7</b>	<b>-6</b>	<b>-7</b>	<b>-10</b>	<b>-6</b>	<b>-5</b>	<b>-7</b>	<b>-8</b>	<b>-8</b>
<b>Free cash flow (FCF)</b>	<b>-35</b>	<b>-45</b>	<b>-62</b>	<b>-69</b>	<b>-63</b>	<b>-65</b>	<b>-60</b>	<b>-76</b>	<b>-67</b>	<b>-57</b>
Net change in debt	0	0	0	0	0	0	0	0	0	0
Other				0	1	1	1	2	0	0
<b>Cash flow from financing (CFF)</b>	<b>0</b>	<b>115</b>	<b>0</b>	<b>98</b>	<b>20</b>	<b>62</b>	<b>190</b>	<b>52</b>	<b>150</b>	<b>0</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>-34</b>	<b>69</b>	<b>-62</b>	<b>29</b>	<b>-43</b>	<b>-3</b>	<b>130</b>	<b>-24</b>	<b>83</b>	<b>-57</b>
<i>FCFF calculation</i>										
Free cash flow	-35	-45	-62	-69	-63	-65	-60	-76	-67	-57
Less: net interest	0	0	0	0	0	1	1	0	0	0
Less: acquisitions	3	7	5	7	10	6	5	7	8	8
Less: divestments	0	0	0	0	0	0	0	0	0	0
<b>Growth (%)</b>										
CFO	-52.6	-20.2	-47.5	-9.5	13.9	-12.9	8.4	-25.8	13.2	17.9
CFI	21.2	-157.1	24.6	-34.4	-29.7	43.3	7.3	-37.3	-7.1	-6.7
FCF	-41.5	-31.5	-35.8	-11.7	9.1	-4.2	8.3	-26.8	11.3	15.2
CFF	-99.8	76422.1	-100.0	nm	-80.0	217.3	204.7	-72.5	187.2	-99.7
FCFF	nm									

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

## Balance sheet

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<b>Assets</b>	43	118	60	93	55	58	186	166	253	200
Inventories	1	1	1	2	2	2	2	3	3	4
Trade receivables	0	0	1	1	1	1	1	4	8	11
Other receivables	1	1	3	3	3	2	3	3	3	3
Cash and cash equivalents	34	104	42	71	28	25	155	131	214	157
<b>Current assets</b>	<b>37</b>	<b>107</b>	<b>47</b>	<b>77</b>	<b>34</b>	<b>30</b>	<b>160</b>	<b>141</b>	<b>227</b>	<b>175</b>
Property, plant and equipment	0	0	0	0	0	6	4	4	4	4
Other intangible assets	6	11	13	16	21	22	21	21	21	21
<b>Non-current assets</b>	<b>6</b>	<b>11</b>	<b>13</b>	<b>16</b>	<b>21</b>	<b>28</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>
<b>Total assets</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>186</b>	<b>166</b>	<b>253</b>	<b>200</b>
<b>Equity and liabilities</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>186</b>	<b>166</b>	<b>253</b>	<b>200</b>
Total equity to the parent	39	110	49	86	45	41	170	145	231	176
<b>Total equity</b>	<b>39</b>	<b>110</b>	<b>49</b>	<b>86</b>	<b>45</b>	<b>41</b>	<b>170</b>	<b>145</b>	<b>231</b>	<b>176</b>
Trade payables	1	2	6	3	2	6	5	6	7	8
Other payables and accruals	1	2	2	1	2	4	5	5	5	6
Short-term debt	0	0	0	0	3	0	0	3	3	3
<b>Total current liabilities</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>4</b>	<b>6</b>	<b>10</b>	<b>10</b>	<b>14</b>	<b>16</b>	<b>17</b>
Long-term debt	0	0	0	0	0	4	2	2	2	2
Other non-current liabilities	3	5	4	4	4	3	4	4	4	5
<b>Total non-current liabilities</b>	<b>3</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>7</b>	<b>7</b>
<b>Total liabilities</b>	<b>4</b>	<b>8</b>	<b>12</b>	<b>8</b>	<b>10</b>	<b>16</b>	<b>16</b>	<b>20</b>	<b>22</b>	<b>24</b>
<b>Total equity and liabilities</b>	<b>43</b>	<b>118</b>	<b>60</b>	<b>93</b>	<b>55</b>	<b>58</b>	<b>186</b>	<b>166</b>	<b>253</b>	<b>200</b>
<i>Key metrics</i>										
Net interest bearing debt	34	104	42	71	31	29	157	136	219	162

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

## Valuation ratios

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<i>Enterprise value</i>										
Share price (SEK)	15.21	10.35	8.84	4.19	2.25	1.17	3.03	3.29	3.29	3.29
Number of shares (m)	7.96	12.50	15.95	27.99	30.87	67.34	197.0	222.0	222.0	222.0
Market capitalisation	121	129	141	117	69	79	597	729	729	729
Net interest bearing debt	34	104	42	71	31	29	157	136	219	162
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	34	104	42	71	31	29	157	136	219	162
EV	156	233	183	189	101	108	754	866	948	892
EV adj	156	233	183	189	101	108	754	866	948	892
<i>Valuation</i>										
EPS	-4.14	-3.52	-3.87	-2.18	-1.87	-1.04	-0.32	-0.33	-0.29	-0.24
<b>EPS adj</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>-0.32</b>	<b>-0.33</b>	<b>-0.29</b>	<b>-0.24</b>
P/E	-3.7	-2.9	-2.3	-1.9	-1.2	-1.1	-9.3	-9.9	-11.2	-13.4
P/E adj	-3.7	-2.9	-2.3	-1.9	-1.2	-1.1	-9.3	-9.9	-11.2	-13.4
P/B	3.11	1.18	2.89	1.37	1.55	1.90	3.52	5.01	3.16	4.14
Average ROE	-59.6%	-59.1%	-77.7%	-91.0%	-88.7%	-161.9%	-60.6%	-47.0%	-34.5%	-26.7%
Earnings yield adj	-27.2%	-34.0%	-43.7%	-52.1%	-83.2%	-88.6%	-10.7%	-10.1%	-8.9%	-7.4%
EV/SALES	66.47	35.12	68.89	60.95	23.38	19.92	107.72	96.14	54.49	27.77
EV/SALES adj	66.47	35.12	68.89	60.95	23.38	19.92	107.72	96.14	54.49	27.77
EV/EBITDA	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-13.5	-13.0	-16.5	-19.1
EV/EBITDA adj	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-13.5	-13.0	-16.5	-19.1
EV/EBIT	-4.7	-5.3	-3.0	-3.1	-1.7	-1.6	-11.9	-11.7	-14.6	-16.4
EV/EBIT adj	-4.7	-5.3	-3.0	-3.1	-1.7	-1.6	-11.9	-11.7	-14.6	-16.4
EV/NOPLAT	-4.7	-5.3	-3.0	-3.1	-1.7	-1.6	-11.9	-11.7	-14.6	-16.4
EV/OpFCF (taxed)	-4.9	-5.6	-3.2	-3.3	-1.9	-1.8	-13.4	-13.0	-16.5	-19.1

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

## Key accounting ratios

	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<i>Profitability (%)</i>										
ROA	-55.0	-54.5	-69.1	-79.6	-78.1	-124.1	-52.5	-42.1	-31.0	-24.0
<i>Return on invested capital (%)</i>										
Net PPE/revenues	18.2	6.4	14.4	6.5	2.3	111.1	61.4	47.8	24.7	13.4
Working capital/revenues	28.1	-11.5	-104.1	58.2	48.8	-87.0	-67.1	-22.2	4.0	10.6
<i>Cash flow ratios (%)</i>										
FCF/revenues	-1475.9	-683.4	-2317.6	-2227.3	-1455.8	-1207.4	-854.3	-841.9	-386.3	-177.7
FCF yield (%)	-26.2	-29.5	-39.9	-52.4	-76.2	-75.8	-9.2	-9.4	-8.2	-6.7
CFO/revenues	-1353.3	-572.4	-2108.4	-1985.6	-1230.2	-1105.6	-781.4	-764.2	-343.2	-152.8
CFO/market capitalisation	-26.2	-29.4	-39.8	-52.4	-76.2	-75.8	-9.2	-9.4	-8.2	-6.7
CFO/capex	-81809.4	-29577.0	-35153.6	-187892.4			-10940.0			
CFO/current liabilities	-1789.9	-1076.6	-717.5	-1574.9	-881.7	-621.9	-541.6	-484.5	-385.4	-291.9
Cash conversion ratio	104.9	103.3	100.0	112.7	108.3	93.4	93.6	102.4	103.5	105.2
Capex/revenues	1.7	1.9	6.0	1.1	0.0	0.0	7.1	0.0	0.0	0.0
Capex/depreciation	2.2	5.8	3.9	0.8	0.0	0.0	6.6	0.0	0.0	0.0
OpFCF margin	-1348.1	-630.6	-2172.9	-1843.9	-1225.6	-1137.0	-804.3	-738.6	-330.0	-145.6
<i>Leverage and solvency (x)</i>										
Interest cover	nm	nm	nm	nm	-81.57	-45.53	nm	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	90.82	1233.82	1396.48	978.12	-175.67	-68.22	-111.60	685.28	591.81	481.65
Net debt/EBITDA	-1.09	-2.49	-0.73	-1.25	-0.59	-0.47	-2.82	-2.05	-3.81	-3.47
Total debt/total capital (BV)	0.00	0.00	0.00	0.00	0.05	0.06	0.01	0.03	0.02	0.02
LTD / (LTD + equity (MV))	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00	0.00
<i>Cash conversion cycle</i>										
Inventory turnover days	nm	nm	nm	nm	nm	nm	nm	202.7	139.8	99.5
Receivables turnover days	148.7	88.7	541.0	472.0	322.6	209.5	177.3	279.7	218.1	158.0
Credit period	nm	nm	nm	nm	nm	nm	nm	518.9	344.9	238.8
Cash conversion cycle	nm	nm	nm	nm	nm	nm	nm	-36.5	13.0	18.8

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

## Important Information

Company: Episurf Medical  
 Coverage by Analyst: Patrik Ling  
 Date: 24/02/2021

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25 February 2021

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