

EPISURF MEDICAL

CMD and Q3 results

Episurf Medical hosted a CMD on 16 November at which it discussed the state of the company and its long-term plans. International expansion will be even more important in the future, in our view. The company is still suffering from the effects of the pandemic, and Q3 sales were thus lower than we expected, though its operating losses were in line with our forecast. We reiterate our fair value for Episurf of SEK3.3–9.3.

Q3 sales softer than expected. Q3 sales were cSEK1.5m, and total revenues were cSEK1.6m (we expected sales of cSEK2.5m). Meanwhile, operating expenses were slightly lower than we expected, and operating losses were thus cSEK17.6m, compared to our forecast of cSEK18.3m. As of end-Q3, the company had a cash position of cSEK178m, in line with our forecast.

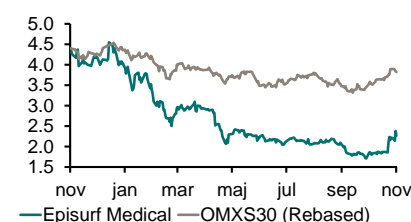
CMD summary. Episurf Medical hosted a CMD on 16 November, which focused on its plans and product portfolio and talks by Key Opinion Leaders on the data and results for the Episealer Implant system. We believe the company is in a significantly better position to market its implant system than it was a few years ago given the large amount of clinical data that has emerged and matured in recent years. We see a TAM of cUSD2bn over time in the sub-segments of the orthopaedic market that the company is addressing.

The product assortment and geographic reach is increasing. We believe the broadening of the company's product assortment (with a talus implant, MTP implant and patellofemoral implant in addition to its knee implant system) is a positive, especially given that some of the newer implants do not require PMAs to receive approval in the US. The company is also set to continue to introduce products in new geographical markets from 2023.

Foundation for sales growth appears to be in place. We believe the company's broader product assortment, greater geographical reach, and the emergence and maturation of more clinical data combined with increased usage per client (as they become more familiar and comfortable with the products) will drive sales growth. Thus, all the prerequisites for sales growth are in place, in our view.

Fair value of SEK3.3–9.3 reiterated. The company has continued to develop its data set, and the clinical experience among users is rapidly increasing. In the orthopaedic implant market, data and user experience are important sales drivers, and although sales in absolute terms have not yet taken off sharply, we believe the company is better positioned now to see growth materialise in the coming years.

EPISB versus OMXS30 (12m)



Source: Factset

SUMMARY

| | |
|-------------------|----------|
| Share price (SEK) | 2.27 |
| Tickers | EPISB SS |

CAPITAL STRUCTURE

| | |
|------------------------------|-------|
| No. of shares (m) | 266.5 |
| No. of shares fully dil. (m) | 266.5 |
| Market cap. (SEKm) | 604 |
| NIBD adj end-2022e (SEKm) | 172 |
| Enterprise value adj (SEKm) | 776 |
| Net debt/EBITDA adj (x) | -2.62 |
| Free float (%) | 100 |

Source: Company, DNB Markets (estimates)

NEXT EVENT

| | |
|----------------|------------|
| Q4 report 2022 | 17/02/2023 |
|----------------|------------|

ESTIMATE CHANGES (SEK)

| Year-end Dec | 2022e | 2023e | 2024e |
|---------------|-------|-------|-------|
| Sales (old) | 9.53 | 16.72 | 27.68 |
| Sales (new) | 8.31 | 14.70 | 25.37 |
| Change (%) | -12.8 | -12.1 | -8.3 |
| EPS adj (old) | -0.27 | -0.27 | -0.26 |
| EPS adj (new) | -0.27 | -0.28 | -0.26 |
| Change (%) | nm | nm | nm |

Source: DNB Markets, SME Direkt

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| Year-end Dec | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--------------------|-------|-------|-------|--------|-------|-------|-------|
| Revenue (SEKm) | 4 | 5 | 7 | 7 | 8 | 15 | 25 |
| EBITDA adj (SEKm) | -53 | -61 | -56 | -62 | -66 | -66 | -64 |
| EBIT adj (SEKm) | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| PTP (SEKm) | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| EPS rep (SEK) | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| EPS adj (SEK) | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| Revenue growth (%) | 39.0 | 25.6 | 29.6 | -1.4 | 20.5 | 76.9 | 72.6 |
| EV/Sales adj (x) | 23.38 | 19.92 | 92.60 | 185.23 | 93.33 | 47.62 | 24.71 |
| P/Book (x) | 1.55 | 1.90 | 2.90 | 4.02 | 3.29 | 5.47 | 15.22 |
| FCF yield (%) | -76.2 | -75.8 | -11.2 | -6.2 | -11.2 | -11.3 | -10.9 |

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

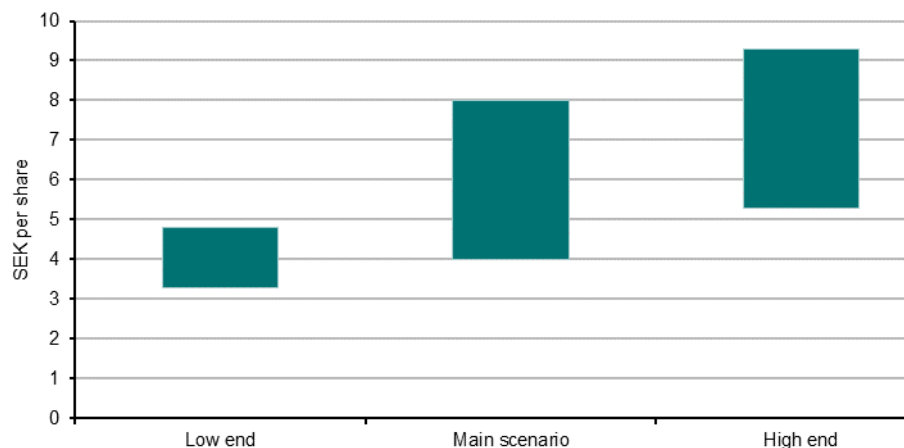
ANALYSTS

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 long-term 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 lingering effects of the pandemic might continue to hurt demand short-term.

Source: DNB Markets

DNB Markets estimates

- Our main scenario reflects what we view as reasonable sales growth, even though the market has been disappointed by historical sales.
- The company has significantly more clinical data now than in the past, 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 60%, and a WACC of 10%.
- 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.

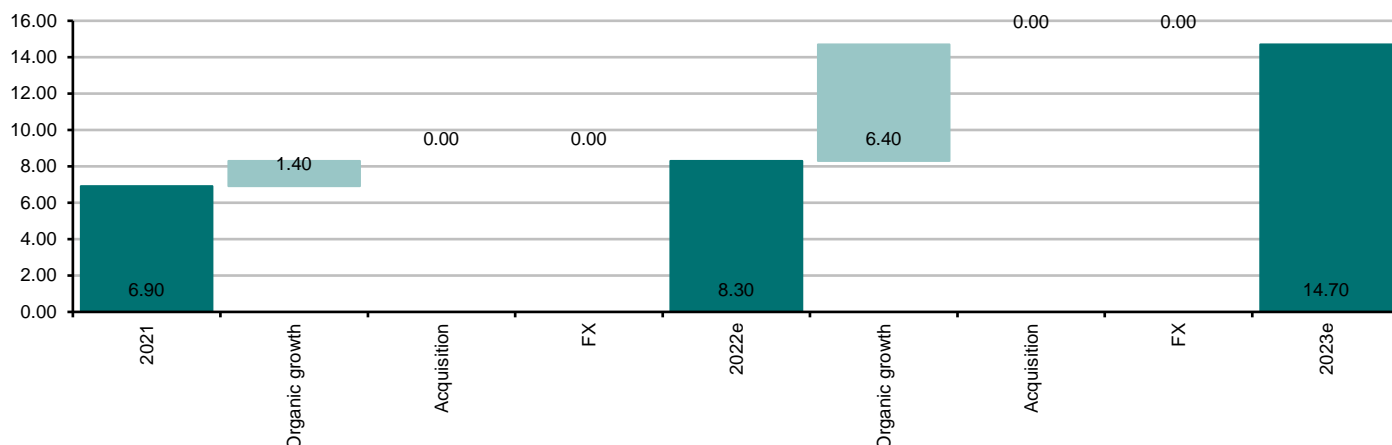
Source: DNB Markets

Upside risks to our fair value

- Sales might be stronger than we forecast, as the company has 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 2021–2023e (SEKm)



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

ESG overview

Sustainability assessment

| | Positive | Negative |
|--------------------------------|--|---|
| Conclusions | <ul style="list-style-type: none"> ■ 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. ■ 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 Medical over time. | <ul style="list-style-type: none"> ■ 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. ■ Treatment growth is to a large extent dependent on clinical outcome data, and the company is only now ready with its documentation. This historical lack of data has slowed market uptake. |
| Actions being taken by company | <ul style="list-style-type: none"> ■ Tailoring implants as well as surgical instruments means a better fit with the patients' needs and a reduced risk of revision surgery. ■ The company mainly addresses the UN sustainability goal number 3 "Good health and well-being". | <ul style="list-style-type: none"> ■ The individualisation leads to a higher degree of single-use products (especially related to the surgical tools). ■ Although the waste increases due to a high degree of single-use products, the high success rate and the low revision rate should compensate for this. |

Key ESG drivers

Short-term

- 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"
- 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

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

Source: DNB Markets

Sustainability assessment

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

Source: DNB Markets

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Q3 review

The company continued to see a negative impact in the aftermath of the pandemic (elective knee surgery has been one of the areas with the highest backlog of procedures), and Q3 activity is also typically negatively affected by the vacation period in Europe.

The Q3 operating expenses were slightly lower than we expected, and thus the operating losses were smaller than we forecasted.

Q3 results and deviations

Key highlights

(SEKm, except per share data)

| | Q3 2022 | | | Deviation (%) | | Deviation, Abs | | Q3 2021 |
|---------------------|---------|-------|-------|---------------|-------|----------------|-------|---------|
| | Actual | DNB | Cons. | DNB | Cons. | DNB | Cons. | Actual |
| Sales | 1.4 | 2.5 | n.m. | -44% | n.a. | -1.1 | n.m. | 1.5 |
| EBIT reported | -17.6 | -18.3 | n.m. | 4% | n.a. | 0.7 | n.m. | -15.9 |
| EBIT margin (%) | -1257% | -729% | n.m. | n.m. | n.a. | | | -1060% |
| Net financial items | -0.2 | 0.1 | n.m. | n.m. | n.m. | -0.3 | n.m. | 0.0 |
| Pre-tax profit | -17.8 | -18.2 | n.m. | 2% | n.a. | 0.4 | n.m. | -15.9 |
| EPS | -0.07 | -0.06 | n.m. | -17% | n.a. | 0.0 | n.m. | -0.07 |

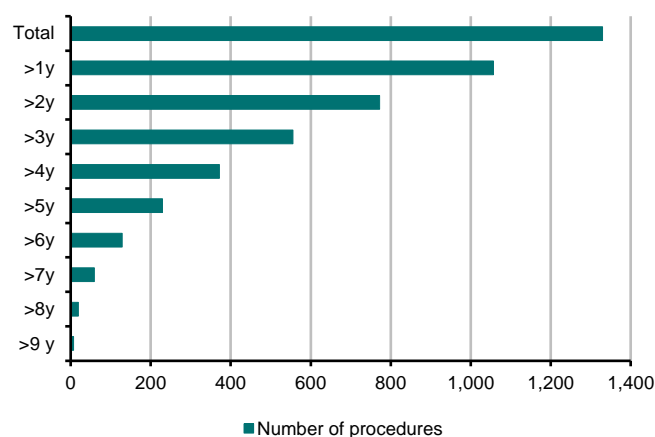
Growth YOY

| | | | | | | | |
|-------------|------|------|------|--|--|------|------|
| Group sales | -7% | 67% | n.m. | | | -74% | n.m. |
| EBIT | -11% | -15% | n.m. | | | 4% | n.m. |
| EPS | 0% | 14% | n.m. | | | -14% | n.m. |

Source: Company data (historical figures) and DNB Markets (estimates).

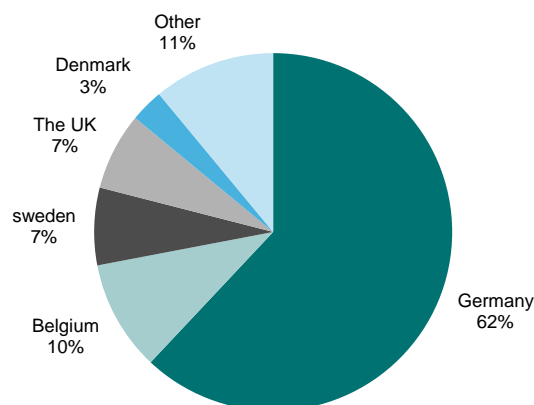
The company continued to grow in Q3, particularly in the number of customers who ordered an implant (even though the average order volume by customer is still low). As of the end of Q3 2022, the company has sold more than 1,300 implants, as shown in the figure below.

Implants sold and follow-up time per patient



Source: Company data.

Geographical sales split in Q3



Source: Company data

Germany remains Episurf Medical's single largest market. This market has the highest number of customers using the Episealer implant system in routine procedures, as shown in the figure above.

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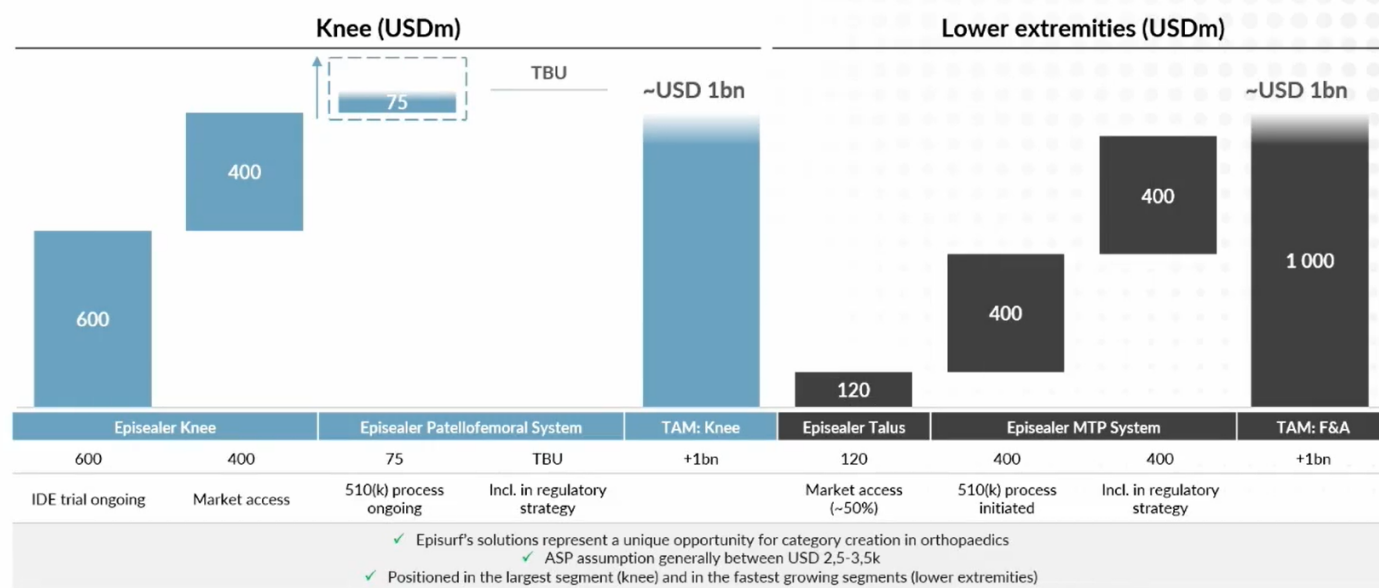
CMD summary

The company hosted a CMD on 16 November in which it focused on its plans and product portfolio. In the figure below, the company highlighted the market potential for the different segments it is addressing. According to the company, the Episealer knee segment has the most potential. The patellofemoral system might seem like a low-potential product (with a market potential of cUSD75m only), but these patients are mainly treated with total knee replacements, and Episurf's less-invasive solution could be used for these patients instead, delaying the need for a total knee replacement.

The lower extremities market (talus and MTP implants) could add cUSD1bn over time, taking the potential TAM to cUSD2bn.

Market potential for Episurf Medical

Summary of our Targeted Market Segments



Source: Company data

In addition, Episurf Medical discussed its plans for international expansion. In the figure below, the company highlighted its geographical expansion over time. According to the company, the long-term US expansion for the Episealer Knee implant system depends on the outcome of the EPIC knee clinical trial (as this product requires PMA approval in the US).

The bar graph in the middle of the figure represents the growth in the company's number of customers in the last three quarters and on average YTD in 2022. Thus, we believe growth will be based on four pillars:

- Growth in the number of customers.
- Growth in the average utilisation per customer.
- Expanding its geographical presence.
- Expanding its product portfolio.

| Product | Markets | LTM Numbers | | | | Short term - Additional mkt access | | Mid- / Long-term |
|------------------|---------|-------------|------|------|--|------------------------------------|------|------------------|
| | | | 2023 | 2024 | | 2023 | 2024 | |
| Episealer® Knee | | 72% | | | | | | |
| Episealer® Talus | | 48% | | | | | | |
| Episealer® PFJ | | 24% | | | | | | |
| Episealer® MTP | | | | | | | | |

Although the company did not provide any forecasts or guidance on revenues, we believe that, if it can deliver on the four pillars mentioned above, its growth should be attractive given the unmet medical need in most (if not all) of the indications addressed by the company.

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Forecast changes – P&L

| (SEKm) | 2022e | New 2023e | 2024e | 2022e | Old 2023e | 2024e | 2022e | Change 2023e | 2024e |
|------------------------------|-------|--------------|-------|--------|--------------|--------|-------|-----------------|-------|
| Revenues | 8 | 15 | 25 | 10 | 17 | 28 | -1 | -2 | -2 |
| Cost of sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross profit | 8 | 15 | 25 | 10 | 17 | 28 | -1 | -2 | -2 |
| Operating expenses | -81 | -88 | -96 | -81 | -88 | -96 | 0 | 0 | 0 |
| EBITDA | -66 | -66 | -64 | -64 | -64 | -61 | -1 | -2 | -2 |
| EBITDA adj | -66 | -66 | -64 | -64 | -64 | -61 | -1 | -2 | -2 |
| EBITDA margin (%) | nm | nm | nm | -676.6 | -384.6 | -221.5 | nm | nm | nm |
| Depreciation | -7 | -7 | -7 | -7 | -7 | -7 | 0 | 0 | 0 |
| EBITA | -73 | -74 | -71 | -72 | -72 | -69 | -1 | -2 | -2 |
| EBIT | -73 | -74 | -71 | -72 | -72 | -69 | -1 | -2 | -2 |
| EBIT adj | -73 | -74 | -71 | -72 | -72 | -69 | -1 | -2 | -2 |
| Net interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net financial items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | -73 | -73 | -71 | -71 | -71 | -68 | -1 | -2 | -2 |
| Taxes | 0 | 0 | 0 | | | 0 | | | 0 |
| Net profit | -73 | -73 | -71 | -71 | -71 | -68 | -1 | -2 | -2 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -73 | -73 | -71 | -71 | -71 | -68 | -1 | -2 | -2 |
| <i>Per share data (SEK)</i> | | | | | | | | | |
| EPS | -0.27 | -0.28 | -0.26 | -0.27 | -0.27 | -0.26 | 0.00 | -0.01 | -0.01 |
| EPS adj | -0.27 | -0.28 | -0.26 | -0.27 | -0.27 | -0.26 | 0.00 | -0.01 | -0.01 |
| <i>Other key metrics (%)</i> | | | | | | | | | |
| Revenue growth | 20.5 | 76.9 | 72.6 | 38.1 | 75.4 | 65.6 | -17.6 | 1.4 | 7.0 |
| EBIT adj growth | nm | nm | nm | 3.6 | -0.3 | -4.1 | nm | nm | nm |
| EPS adj growth | nm | nm | nm | -12.2 | -0.3 | -4.2 | nm | nm | nm |
| Avg. number of shares (m) | 267 | 267 | 267 | 267 | 267 | 267 | 0 | 0 | 0 |
| Capex | 0 | 0 | 0 | | | 0 | | | 0 |
| OpFCF | -66 | -66 | -64 | -64 | -64 | -61 | -1 | -2 | -2 |
| Working capital | 1 | 3 | 6 | | | 6 | | | 0 |
| NIBD adj | 172 | 96 | 23 | 173 | 100 | 29 | -1 | -3 | -6 |

Source: DNB Markets

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Annual P&L

| (SEKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 7 | 3 | 3 | 4 | 5 | 7 | 7 | 8 | 15 | 25 |
| Cost of sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Gross profit | 7 | 3 | 3 | 4 | 5 | 7 | 7 | 8 | 15 | 25 |
| Operating expenses | -51 | -64 | -64 | -62 | -74 | -70 | -76 | -81 | -88 | -96 |
| EBITDA | -42 | -58 | -57 | -53 | -61 | -56 | -62 | -66 | -66 | -64 |
| Depreciation | -2 | -4 | -4 | -5 | -8 | -8 | -7 | -7 | -7 | -7 |
| EBITA | -44 | -62 | -61 | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| EBIT | -44 | -62 | -61 | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| Net interest | 0 | 0 | 0 | 0 | -1 | -1 | 0 | 0 | 0 | 0 |
| Net financial items | 0 | 0 | 0 | 0 | -1 | -1 | 0 | 0 | 0 | 0 |
| PBT | -44 | -62 | -61 | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| 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 | -44 | -62 | -61 | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -44 | -62 | -61 | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| Avg. number of shares | 13 | 16 | 28 | 31 | 67 | 162 | 227 | 267 | 267 | 267 |
| <i>Per share data (SEK)</i> | | | | | | | | | | |
| EPS | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| EPS adj | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| <i>Growth and margins (%)</i> | | | | | | | | | | |
| Revenue growth | 184.0 | -60.0 | 16.3 | 39.0 | 25.6 | 29.6 | -1.4 | 20.5 | 76.9 | 72.6 |
| 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 | 100.0 | 100.0 |
| 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 | -33.6 | -152.5 | -135.3 | -111.6 | -138.9 | -108.6 | -107.2 | -89.0 | -50.3 | -29.2 |
| EBIT margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| EBIT adj margin | -662.3 | -2319.4 | -1978.2 | -1337.2 | -1275.9 | -905.7 | -1005.8 | -879.4 | -501.4 | -279.9 |
| 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)

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Adjustments to annual P&L

| (SEKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| EBITDA | -42 | -58 | -57 | -53 | -61 | -56 | -62 | -66 | -66 | -64 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBITDA adj | -42 | -58 | -57 | -53 | -61 | -56 | -62 | -66 | -66 | -64 |
| EBITA | -44 | -62 | -61 | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| 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 | -44 | -62 | -61 | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| EBIT | -44 | -62 | -61 | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| 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 | -44 | -62 | -61 | -58 | -69 | -63 | -69 | -73 | -74 | -71 |
| Net profit | -44 | -62 | -61 | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| 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 | -44 | -62 | -61 | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| <i>Per share data (SEK)</i> | | | | | | | | | | |
| EPS | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| Recommended adjustment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EPS adj | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |

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

Cash flow

| (SEKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Net profit | -44 | -62 | -61 | -58 | -70 | -64 | -69 | -73 | -73 | -71 |
| Other non-cash adjustments | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Change in net working capital | 4 | 1 | -5 | 0 | 3 | 0 | -2 | -2 | -2 | -2 |
| Cash flow from operations (CFO) | -38 | -56 | -61 | -53 | -60 | -55 | -64 | -68 | -68 | -66 |
| Capital expenditure | 0 | 0 | 0 | 0 | 0 | -1 | 0 | 0 | 0 | 0 |
| Acquisitions/Investments | -7 | -5 | -7 | -10 | -6 | -5 | -7 | -8 | -8 | -8 |
| Divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing (CFI) | -7 | -6 | -7 | -10 | -6 | -5 | -7 | -8 | -8 | -8 |
| Free cash flow (FCF) | -45 | -62 | -69 | -63 | -65 | -60 | -71 | -75 | -76 | -74 |
| Net change in debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | | | 0 | 1 | 1 | 1 | 2 | 0 | 1 | 1 |
| Cash flow from financing (CFF) | 115 | 0 | 98 | 20 | 62 | 190 | 158 | 0 | 1 | 1 |
| Total cash flow (CFO+CFI+CFF) | 69 | -62 | 29 | -43 | -3 | 130 | 87 | -75 | -76 | -73 |
| <i>FCFF calculation</i> | | | | | | | | | | |
| Free cash flow | -45 | -62 | -69 | -63 | -65 | -60 | -71 | -75 | -76 | -74 |
| Less: net interest | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Less: acquisitions | 7 | 5 | 7 | 10 | 6 | 5 | 7 | 8 | 8 | 8 |
| Less: divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth (%) | | | | | | | | | | |
| CFO | -20.2 | -47.5 | -9.5 | 13.9 | -12.9 | 8.4 | -17.4 | -5.4 | -0.9 | 3.9 |
| CFI | -157.1 | 24.6 | -34.4 | -29.7 | 43.3 | 7.3 | -37.3 | -7.1 | -6.7 | 0.0 |
| FCF | -31.5 | -35.8 | -11.7 | 9.1 | -4.2 | 8.3 | -19.1 | -5.6 | -1.5 | 3.5 |
| CFF | 76422.1 | -100.0 | nm | -80.0 | 217.3 | 204.7 | -16.4 | -99.9 | 500.0 | 0.0 |
| FCFF | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

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

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Balance sheet

| (SEKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--------------------------------------|------------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|-----------|
| Assets | 118 | 60 | 93 | 55 | 58 | 186 | 277 | 206 | 134 | 65 |
| Inventories | 1 | 1 | 2 | 2 | 2 | 2 | 3 | 3 | 4 | 4 |
| Trade receivables | 0 | 1 | 1 | 1 | 1 | 1 | 4 | 8 | 11 | 15 |
| Other receivables | 1 | 3 | 3 | 3 | 2 | 3 | 3 | 3 | 3 | 3 |
| Cash and cash equivalents | 104 | 42 | 71 | 28 | 25 | 155 | 242 | 167 | 91 | 18 |
| Current assets | 107 | 47 | 77 | 34 | 30 | 160 | 252 | 181 | 109 | 40 |
| Property, plant and equipment | 0 | 0 | 0 | 0 | 6 | 4 | 4 | 4 | 4 | 4 |
| Other intangible assets | 11 | 13 | 16 | 21 | 22 | 21 | 21 | 21 | 21 | 21 |
| Non-current assets | 11 | 13 | 16 | 21 | 28 | 25 | 25 | 25 | 25 | 25 |
| Total assets | 118 | 60 | 93 | 55 | 58 | 186 | 277 | 206 | 134 | 65 |
| Equity and liabilities | 118 | 60 | 93 | 55 | 58 | 186 | 277 | 206 | 134 | 65 |
| Total equity to the parent | 110 | 49 | 86 | 45 | 41 | 170 | 256 | 184 | 110 | 40 |
| Total equity | 110 | 49 | 86 | 45 | 41 | 170 | 256 | 184 | 110 | 40 |
| Trade payables | 2 | 6 | 3 | 2 | 6 | 5 | 6 | 7 | 8 | 9 |
| Other payables and accruals | 2 | 2 | 1 | 2 | 4 | 5 | 5 | 5 | 6 | 6 |
| Short-term debt | 0 | 0 | 0 | 3 | 0 | 0 | 3 | 3 | 3 | 3 |
| Total current liabilities | 4 | 8 | 4 | 6 | 10 | 10 | 14 | 16 | 17 | 18 |
| Long-term debt | 0 | 0 | 0 | 0 | 4 | 2 | 2 | 2 | 2 | 2 |
| Other non-current liabilities | 5 | 4 | 4 | 4 | 3 | 4 | 4 | 4 | 5 | 5 |
| Total non-current liabilities | 5 | 4 | 4 | 4 | 7 | 6 | 6 | 7 | 7 | 7 |
| Total liabilities | 8 | 12 | 8 | 10 | 16 | 16 | 20 | 22 | 24 | 25 |
| Total equity and liabilities | 118 | 60 | 93 | 55 | 58 | 186 | 277 | 206 | 134 | 65 |
| <i>Key metrics</i> | | | | | | | | | | |
| Net interest bearing debt | 104 | 42 | 71 | 31 | 29 | 157 | 247 | 172 | 96 | 23 |

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

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Valuation ratios

| (SEKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <i>Enterprise value</i> | | | | | | | | | | |
| Share price (SEK) | 10.35 | 8.84 | 4.19 | 2.25 | 1.17 | 3.03 | 4.55 | 2.27 | 2.27 | 2.27 |
| Number of shares (m) | 12.50 | 15.95 | 27.99 | 30.87 | 67.34 | 162.1 | 226.6 | 266.5 | 266.5 | 266.5 |
| Market capitalisation | 129 | 141 | 117 | 69 | 79 | 491 | 1,031 | 604 | 604 | 604 |
| Net interest bearing debt | 104 | 42 | 71 | 31 | 29 | 157 | 247 | 172 | 96 | 23 |
| Adjustments to NIBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net interest bearing debt adj | 104 | 42 | 71 | 31 | 29 | 157 | 247 | 172 | 96 | 23 |
| EV | 233 | 183 | 189 | 101 | 108 | 648 | 1,278 | 776 | 700 | 627 |
| EV adj | 233 | 183 | 189 | 101 | 108 | 648 | 1,278 | 776 | 700 | 627 |
| <i>Valuation</i> | | | | | | | | | | |
| EPS | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| EPS adj | -3.52 | -3.87 | -2.18 | -1.87 | -1.04 | -0.39 | -0.31 | -0.27 | -0.28 | -0.26 |
| P/E | -2.9 | -2.3 | -1.9 | -1.2 | -1.1 | -7.7 | -14.9 | -8.3 | -8.2 | -8.5 |
| P/E adj | -2.9 | -2.3 | -1.9 | -1.2 | -1.1 | -7.7 | -14.9 | -8.3 | -8.2 | -8.5 |
| P/B | 1.18 | 2.89 | 1.37 | 1.55 | 1.90 | 2.90 | 4.02 | 3.29 | 5.47 | 15.22 |
| Average ROE | -59.1% | -77.7% | -91.0% | -88.7% | -161.9% | -60.6% | -32.5% | -33.0% | -49.9% | -94.2% |
| Earnings yield adj | -34.0% | -43.7% | -52.1% | -83.2% | -88.6% | -13.0% | -6.7% | -12.0% | -12.1% | -11.7% |
| EV/SALES | 35.12 | 68.89 | 60.95 | 23.38 | 19.92 | 92.60 | 185.23 | 93.33 | 47.62 | 24.71 |
| EV/SALES adj | 35.12 | 68.89 | 60.95 | 23.38 | 19.92 | 92.60 | 185.23 | 93.33 | 47.62 | 24.71 |
| EV/EBITDA | -5.6 | -3.2 | -3.3 | -1.9 | -1.8 | -11.6 | -20.6 | -11.8 | -10.6 | -9.9 |
| EV/EBITDA adj | -5.6 | -3.2 | -3.3 | -1.9 | -1.8 | -11.6 | -20.6 | -11.8 | -10.6 | -9.9 |
| EV/EBIT | -5.3 | -3.0 | -3.1 | -1.7 | -1.6 | -10.2 | -18.4 | -10.6 | -9.5 | -8.8 |
| EV/EBIT adj | -5.3 | -3.0 | -3.1 | -1.7 | -1.6 | -10.2 | -18.4 | -10.6 | -9.5 | -8.8 |
| EV/NOPLAT | -5.3 | -3.0 | -3.1 | -1.7 | -1.6 | -10.2 | -18.4 | -10.6 | -9.5 | -8.8 |
| EV/OpFCF (taxed) | -5.6 | -3.2 | -3.3 | -1.9 | -1.8 | -11.5 | -20.6 | -11.8 | -10.6 | -9.9 |

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

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Key accounting ratios

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|---------------------------------------|----------|----------|-----------|---------|---------|----------|---------|--------|--------|--------|
| <i>Profitability (%)</i> | | | | | | | | | | |
| ROA | -54.5 | -69.1 | -79.6 | -78.1 | -124.1 | -52.5 | -29.9 | -30.1 | -43.2 | -71.1 |
| <i>Return on invested capital (%)</i> | | | | | | | | | | |
| Net PPE/revenues | 6.4 | 14.4 | 6.5 | 2.3 | 111.1 | 61.4 | 62.3 | 51.7 | 29.3 | 16.9 |
| Working capital/revenues | -11.5 | -104.1 | 58.2 | 48.8 | -87.0 | -67.1 | -29.0 | 8.4 | 23.1 | 24.0 |
| <i>Cash flow ratios (%)</i> | | | | | | | | | | |
| FCF/revenues | -683.4 | -2317.6 | -2227.3 | -1455.8 | -1207.4 | -854.3 | -1031.9 | -904.7 | -519.1 | -290.2 |
| FCF yield (%) | -29.5 | -39.9 | -52.4 | -76.2 | -75.8 | -11.2 | -6.2 | -11.2 | -11.3 | -10.9 |
| CFO/revenues | -572.4 | -2108.4 | -1985.6 | -1230.2 | -1105.6 | -781.4 | -930.4 | -814.4 | -464.7 | -258.7 |
| CFO/market capitalisation | -29.4 | -39.8 | -52.4 | -76.2 | -75.8 | -11.1 | -6.2 | -11.2 | -11.3 | -10.9 |
| CFO/capex | -29577.0 | -35153.6 | -187892.4 | | | -10940.0 | | | | |
| CFO/current liabilities | -1076.6 | -717.5 | -1574.9 | -881.7 | -621.9 | -541.6 | -452.1 | -436.7 | -406.6 | -362.6 |
| Cash conversion ratio | 103.3 | 100.0 | 112.7 | 108.3 | 93.4 | 93.6 | 102.9 | 103.4 | 104.1 | 104.2 |
| Capex/revenues | 1.9 | 6.0 | 1.1 | 0.0 | 0.0 | 7.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex/depreciation | 5.8 | 3.9 | 0.8 | 0.0 | 0.0 | 6.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| OpFCF margin | -630.6 | -2172.9 | -1843.9 | -1225.6 | -1137.0 | -804.3 | -898.6 | -790.3 | -451.0 | -250.8 |
| <i>Leverage and solvency (x)</i> | | | | | | | | | | |
| Interest cover | nm | nm | nm | -81.57 | -45.53 | nm | 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 | 1233.82 | 1396.48 | 978.12 | -175.67 | -68.22 | -111.60 | 310.00 | 165.45 | 166.99 | 160.26 |
| Net debt/EBITDA | -2.49 | -0.73 | -1.25 | -0.59 | -0.47 | -2.82 | -3.99 | -2.62 | -1.45 | -0.37 |
| Total debt/total capital (BV) | 0.00 | 0.00 | 0.00 | 0.05 | 0.06 | 0.01 | 0.02 | 0.02 | 0.04 | 0.08 |
| LTD / (LTD + equity (MV)) | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Cash conversion cycle</i> | | | | | | | | | | |
| Inventory turnover days | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Receivables turnover days | 88.7 | 541.0 | 472.0 | 322.6 | 209.5 | 177.3 | 365.0 | 456.7 | 345.2 | 250.3 |
| Credit period | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Cash conversion cycle | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

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

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Important Information

Company: Episurf Medical
 Coverage by Analyst: Patrik Ling
 Date: 18/11/2022

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