

a

EPISURF MEDICAL

Moving into the US

Q4 earnings were below our forecast, but there were clear positives in the report including a growing customer base and the first distribution agreement in the US (for the recently cleared patellofemoral implant system). We have made only minor forecast changes and reiterate our fair value of SEK3.3–9.3.

Q4 earnings softer than expected. Q4 revenues were SEK2m (c35% below our estimate of cSEK3.1m) and EBIT was cSEK-23.6m (c19% below our forecast of cSEK-19.8m). Higher than expected operating costs related largely to the intense work related to the 510(k) process for the patellofemoral implant system. The end-Q4 cash position was cSEK155m, marginally below our cSEK157m forecast.

Customer base grew c72% YOY in Q4 and c52% in 2022. This is good as orthopaedic surgeons typically like to test a product before they decide whether to use it more routinely, so a higher number of surgeons who have tested one or more of its products is important.

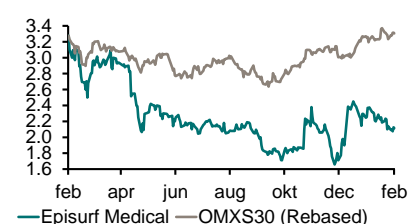
First distribution agreement signed in US for patellofemoral system. The company received its 510(k) clearance late last year and has now signed its first distributor agreement in the US (local distributor in the Minnesota area). We believe more such agreements will be signed as the marketing strategy is to use freestanding distributor organisations rather than building a proprietary organisation. In our forecasts we have assumed the company will pay a c30% distribution margin to its US distributors.

We expect focus on commercialisation in 2023 onwards. With the company's portfolio of personalised implants approved in many markets, we expect increased focus on commercialisation in the coming years. It has already partly restructured its European organisation and should continue to build a US distribution network for the patellofemoral implant. Also, it reiterated that the 510(k) application for the MTP implant (for the big toe) should be filed this year and – if things go as planned – be launched in the US in 2024.

Recruitment for EPIC knee trial still a challenge. Recruitment to the PMA trial for US approval of Episealer knee implant system still faces recruitment challenges. The company is trying to speed up recruitment and now plans to file for PMA approval in 2026. Hence, we include first revenues from the Episealer system in the US in late 2027e.

SEK3.3–9.3 fair value reiterated. We believe the growing customer base is promising and the company should sign more distribution agreements for the patellofemoral system in the US and hence focus on commercialising its products.

EPISB versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK)	2.12
Tickers	EPISB SS

CAPITAL STRUCTURE

No. of shares (m)	266.5
No. of shares fully dil. (m)	266.5
Market cap. (SEKm)	564
NIBD adj end-2023e (SEKm)	85
Enterprise value adj (SEKm)	649
Net debt/EBITDA adj (x)	-1.25
Free float (%)	100

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q1 report 2023	28/04/2023
----------------	------------

ESTIMATE CHANGES (SEK)

Year-end Dec	2023e	2024e	2025e
Sales (old)	14.70	25.37	
Sales (new)	13.60	29.40	56.08
Change (%)	-7.5	15.9	nm
EPS adj (old)	-0.28	-0.26	
EPS adj (new)	-0.28	-0.19	-0.14
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

Year-end Dec	2019	2020	2021	2022	2023e	2024e	2025e
Revenue (SEKm)	5	7	7	7	14	29	56
EBITDA adj (SEKm)	-61	-56	-62	-70	-68	-63	-44
EBIT adj (SEKm)	-69	-63	-69	-77	-76	-70	-52
PTP (SEKm)	-70	-64	-69	-77	-75	-70	-51
EPS rep (SEK)	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
EPS adj (SEK)	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
Revenue growth (%)	25.6	29.6	-1.4	0.0	97.1	116.2	90.8
EV/Sales adj (x)	19.92	92.60	184.72	114.34	47.74	33.64	16.68
P/Book (x)	1.90	2.90	4.08	3.52	5.51	3.33	4.26
FCF yield (%)	-75.8	-11.2	-5.7	-11.0	-12.5	-8.3	-5.9

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

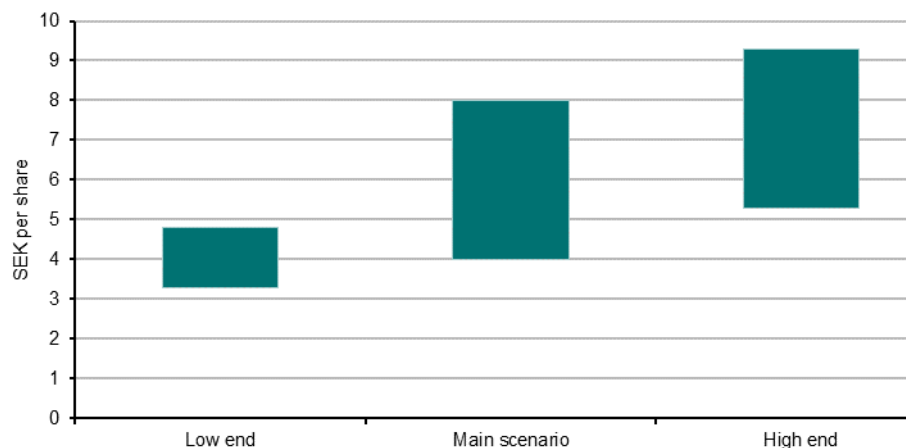
ANALYSTS

Patrik Ling

Please see the last two pages for important information. This research report was not produced in the US. Analysts employed by non-US affiliates are not registered/qualified research analysts with FINRA in the United States.

Overview

Valuation (SEK)



Source: DNB Markets

Valuation methodology

- We continue to primarily use a DCF, with a long-term growth rate of 2%, a terminal EBITDA margin of 40%, 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

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.

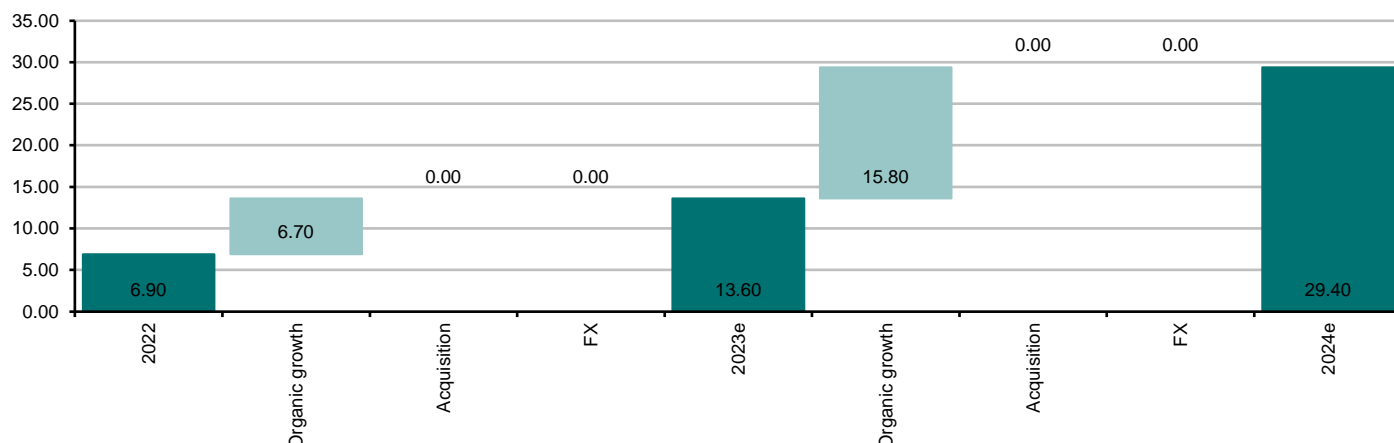
Source: DNB Markets

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

Revenue growth bridge 2022–2024e (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 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. 	<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

Q4 review

Q4 earnings were lower than we expected, related mainly to the top line and somewhat higher operating costs associated with the regulatory activities for the 510(k) application for the patellofemoral system in the US.

Q4 results and deviations

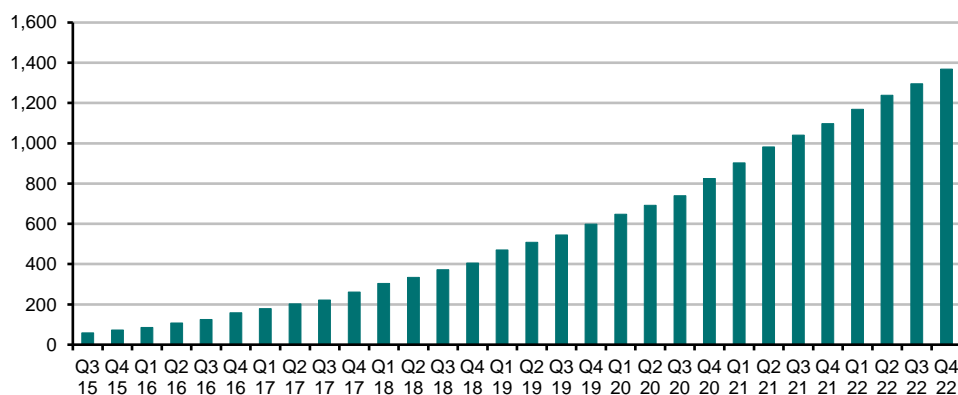
(SEKm, except per share data)	Q4 2022			Deviation (%)		Deviation, Abs		Q4 2021
	Actual	DNB Markets	Cons.	DNB Markets	Cons.	DNB Markets	Cons.	Actual
Sales	1.8	3.1	n.m.	-42%	n.a.	-1.3	n.m.	1.5
EBIT reported	-23.6	-19.8	n.m.	-19%	n.a.	-3.8	n.m.	-19.0
EBIT margin (%)	-1311%	-639%	n.m.	n.m.	n.a.			-1267%
Net financial items	0.0	0.1	n.m.	n.m.	n.m.	-0.1	n.m.	0.1
Pre-tax profit	-23.6	-19.7	n.m.	-20%	n.a.	-3.9	n.m.	-18.9
EPS	-0.09	-0.07	n.m.	-29%	n.a.	0.0	n.m.	-0.08
Growth YOY								
Group sales	20%	107%	n.m.			-87%	n.m.	
EBIT	-24%	-4%	n.m.			-20%	n.m.	
EPS	-13%	13%	n.m.			-25%	n.m.	

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

Note: There is no consensus on Episurf Medical

The company continues to grow and accumulate data on its implant system, and this is important in our view. The chart below shows the total number of implant procedures over the years.

Total implants sold accumulated

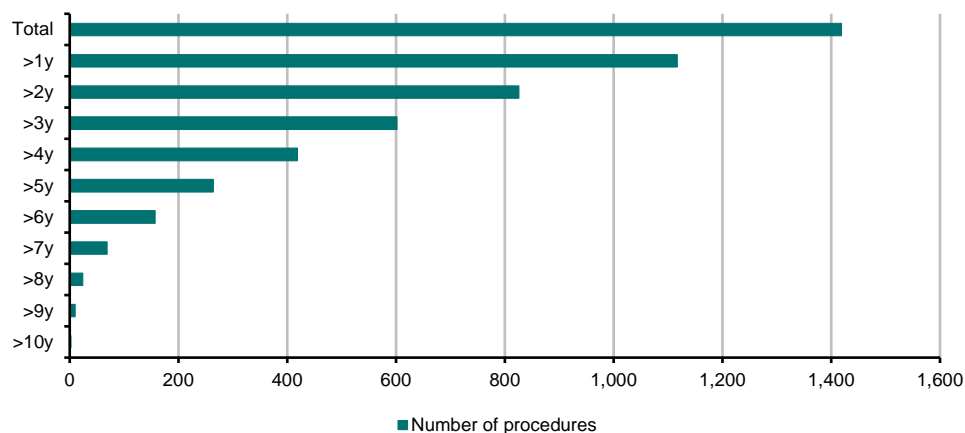


Source: Company data

However, more importantly, the follow-up time on these implants continues to grow (see below). The number of procedures where patients have had their implant for more than 3–4 years is rapidly increasing, and at end-Q4 c600 patients had had their implant for more than three years and c400 patients for more than four years.

19 February 2023

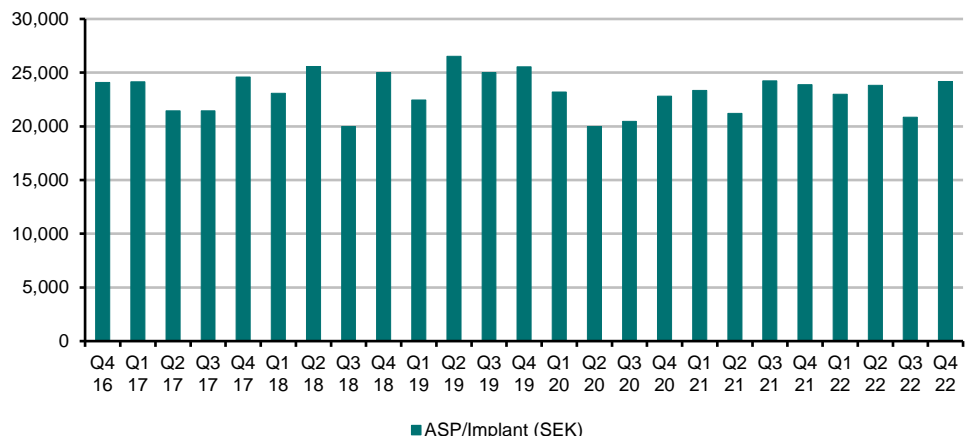
Time since operation



Source: Company data.

We were pleased to see the ASP of the Episealer system being rather stable. We believe the fluctuations relate to how many ‘test cases’ for new surgeons are done in an individual quarter – where we expect the implants are sold with relatively large discounts. As we see it, the ASP remains around the forecast cSEK23,000 per implant.

ASP per operation over time



Source: Company data

We believe that as the patellofemoral system is launched in the US, the company’s ASP will be reasonably stable. We believe the price in the US is higher than in markets where products is already launched – but with a c30% distributor margin the ASP to Episurf should be around the same as in the past we believe.

We have made some minor forecast changes – and these have not fundamentally changed our view of the valuation for Episurf, hence we reiterate our fair value of SEK3.3–9.3.

19 February 2023

Forecast changes – P&L

(SEKm)	New			Old			Change		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
Revenues	14	29	56	15	25		-1	4	
Cost of sales	0	0	-15	0	0		0	0	
Gross profit	14	29	41	15	25		-1	4	
Operating expenses	-89	-99	-93	-88	-96		-1	-3	
EBITDA	-68	-63	-44	-66	-64		-2	1	
EBITDA adj	-68	-63	-44	-66	-64		-2	1	
EBITDA margin (%)	nm	nm	nm	-451.0	-250.8	nm	nm	nm	nm
Depreciation	-7	-7	-7	-7	-7		0	0	
EBITA	-76	-70	-52	-74	-71		-2	1	
EBIT	-76	-70	-52	-74	-71		-2	1	
EBIT adj	-76	-70	-52	-74	-71		-2	1	
Net interest	0	0	0	0	0		0	0	
Net financial items	0	0	0	0	0		0	0	
PBT	-75	-70	-51	-73	-71		-2	1	
Taxes	0	0	0		0			0	
Net profit	-75	-70	-51	-73	-71		-2	1	
Adjustments to net profit	0	0	0	0	0		0	0	
Net profit adj	-75	-70	-51	-73	-71		-2	1	
<i>Per share data (SEK)</i>									
EPS	-0.28	-0.19	-0.14	-0.28	-0.26		-0.01	0.08	
EPS adj	-0.28	-0.19	-0.14	-0.28	-0.26		-0.01	0.08	
<i>Other key metrics (%)</i>									
Revenue growth	97.1	116.2	90.8	76.9	72.6	nm	20.2	43.5	nm
EBIT adj growth	nm	nm	nm	0.8	-3.6	nm	nm	nm	nm
EPS adj growth	nm	nm	nm	0.8	-3.6	nm	nm	nm	nm
Avg. number of shares (m)	267	367	367	267	267		0	100	
Capex	0	0	0		0			0	
OpFCF	-68	-63	-44	-66	-64		-2	1	
Working capital	2	5	8		6			-1	
NIBD adj	85	214	160	96	23		-11	190	

Source: DNB Markets

19 February 2023

Annual P&L

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenues	3	3	4	5	7	7	7	14	29	56
Cost of sales	0	0	0	0	0	0	0	0	0	-15
Gross profit	3	3	4	5	7	7	7	14	29	41
Operating expenses	-64	-64	-62	-74	-70	-76	-84	-89	-99	-93
EBITDA	-58	-57	-53	-61	-56	-62	-70	-68	-63	-44
Depreciation	-4	-4	-5	-8	-8	-7	-7	-7	-7	-7
EBITA	-62	-61	-58	-69	-63	-69	-77	-76	-70	-52
EBIT	-62	-61	-58	-69	-63	-69	-77	-76	-70	-52
Net interest	0	0	0	-1	-1	0	0	0	0	0
Net financial items	0	0	0	-1	-1	0	0	0	0	0
PBT	-62	-61	-58	-70	-64	-69	-77	-75	-70	-51
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	-62	-61	-58	-70	-64	-69	-77	-75	-70	-51
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0
Net profit adj	-62	-61	-58	-70	-64	-69	-77	-75	-70	-51
Avg. number of shares	16	28	31	67	162	227	267	267	367	367
<i>Per share data (SEK)</i>										
EPS	-3.87	-2.18	-1.87	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
EPS adj	-3.87	-2.18	-1.87	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
<i>Growth and margins (%)</i>										
Revenue growth	-60.0	16.3	39.0	25.6	29.6	-1.4	0.0	97.1	116.2	90.8
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	73.8
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	-152.5	-135.3	-111.6	-138.9	-108.6	-107.2	-107.2	-54.4	-25.2	-13.2
EBIT margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
EBIT adj margin	-2319.4	-1978.2	-1337.2	-1275.9	-905.7	-1005.8	-1115.9	-557.4	-238.1	-91.9
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)

19 February 2023

Adjustments to annual P&L

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBITDA	-58	-57	-53	-61	-56	-62	-70	-68	-63	-44
Gains and losses	0	0	0	0	0	0	0	0	0	0
EBITDA adj	-58	-57	-53	-61	-56	-62	-70	-68	-63	-44
EBITA	-62	-61	-58	-69	-63	-69	-77	-76	-70	-52
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	-62	-61	-58	-69	-63	-69	-77	-76	-70	-52
EBIT	-62	-61	-58	-69	-63	-69	-77	-76	-70	-52
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	-62	-61	-58	-69	-63	-69	-77	-76	-70	-52
Net profit	-62	-61	-58	-70	-64	-69	-77	-75	-70	-51
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	-62	-61	-58	-70	-64	-69	-77	-75	-70	-51
<i>Per share data (SEK)</i>										
EPS	-3.87	-2.18	-1.87	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS adj	-3.87	-2.18	-1.87	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14

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

Cash flow

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net profit	-62	-61	-58	-70	-64	-69	-77	-75	-70	-51
Depreciation and amortisation	4	4	5	8	8	7	7	7	7	7
Other non-cash adjustments	0	0	0	0	1	3	0	0	0	0
Change in net working capital	1	-5	0	3	0	-1	1	-2	-2	-2
Cash flow from operations (CFO)	-56	-61	-53	-60	-55	-59	-69	-70	-65	-46
Capital expenditure	0	0	0	0	-1	0	0	0	0	0
Acquisitions/Investments	-5	-7	-10	-6	-5	-7	-11	-8	-8	-8
Divestments	0	0	0	0	0	0	0	0	0	0
Cash flow from investing (CFI)	-6	-7	-10	-6	-5	-7	-11	-8	-8	-8
Free cash flow (FCF)	-62	-69	-63	-65	-60	-66	-80	-78	-73	-54
Net change in debt	0	0	0	0	0	1	1	0	0	0
Other		0	1	1	1	0	0	1	1	1
Cash flow from financing (CFF)	0	98	20	62	190	149	-2	1	201	1
Total cash flow (CFO+CFI+CFF)	-62	29	-43	-3	130	83	-83	-77	128	-53
<i>FCFF calculation</i>										
Free cash flow	-62	-69	-63	-65	-60	-66	-80	-78	-73	-54
Less: net interest	0	0	0	1	1	0	0	0	0	0
Less: acquisitions	5	7	10	6	5	7	11	8	8	8
Less: divestments	0	0	0	0	0	0	0	0	0	0
Growth (%)										
CFO	-47.5	-9.5	13.9	-12.9	8.4	-8.6	-16.5	-1.6	8.2	28.6
CFI	24.6	-34.4	-29.7	43.3	7.3	-27.5	-72.3	28.6	0.0	0.0
FCF	-35.8	-11.7	9.1	-4.2	8.3	-10.2	-22.0	2.6	7.4	25.5
CFF	-100.0	nm	-80.0	217.3	204.7	-21.5	-101.5	140.9	22188.9	-99.7
FCFF	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

19 February 2023

Balance sheet

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Assets	60	93	55	58	186	271	197	124	256	206
Inventories	1	2	2	2	2	2	2	2	3	3
Trade receivables	1	1	1	1	1	2	2	5	9	12
Other receivables	3	3	3	2	3	3	2	2	2	2
Cash and cash equivalents	42	71	28	25	155	238	155	78	206	153
Current assets	47	77	34	30	160	244	161	88	220	170
Property, plant and equipment	0	0	0	6	4	3	7	7	7	7
Other intangible assets	13	16	21	22	21	23	30	30	30	30
Non-current assets	13	16	21	28	25	26	36	36	36	36
Total assets	60	93	55	58	186	271	197	124	256	206
Equity and liabilities	60	93	55	58	186	271	197	124	256	206
Total equity to the parent	49	86	45	41	170	253	178	102	233	182
Total equity	49	86	45	41	170	253	178	102	233	182
Trade payables	6	3	2	6	5	6	4	5	6	7
Other payables and accruals	2	1	2	4	5	1	2	2	2	3
Short-term debt	0	0	3	0	0	2	3	3	3	3
Total current liabilities	8	4	6	10	10	9	9	10	12	13
Long-term debt	0	0	0	4	2	4	5	5	5	5
Other non-current liabilities	4	4	4	3	4	5	6	6	7	7
Total non-current liabilities	4	4	4	7	6	9	11	11	11	12
Total liabilities	12	8	10	16	16	18	20	21	23	25
Total equity and liabilities	60	93	55	58	186	271	197	124	256	206
<i>Key metrics</i>										
Net interest bearing debt	42	71	31	29	157	244	163	85	214	160

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

19 February 2023

Valuation ratios

(SEKm)	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<i>Enterprise value</i>										
Share price (SEK)	8.84	4.19	2.25	1.17	3.03	4.55	2.35	2.12	2.12	2.12
Number of shares (m)	15.95	27.99	30.87	67.34	162.1	226.6	266.5	266.5	366.5	366.5
Market capitalisation	141	117	69	79	491	1,031	626	564	775	775
Net interest bearing debt	42	71	31	29	157	244	163	85	214	160
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	42	71	31	29	157	244	163	85	214	160
EV	183	189	101	108	648	1,275	789	649	989	935
EV adj	183	189	101	108	648	1,275	789	649	989	935
<i>Valuation</i>										
EPS	-3.87	-2.18	-1.87	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
EPS adj	-3.87	-2.18	-1.87	-1.04	-0.39	-0.31	-0.29	-0.28	-0.19	-0.14
P/E	-2.3	-1.9	-1.2	-1.1	-7.7	-14.9	-8.1	-7.5	-11.2	-15.2
P/E adj	-2.3	-1.9	-1.2	-1.1	-7.7	-14.9	-8.1	-7.5	-11.2	-15.2
P/B	2.89	1.37	1.55	1.90	2.90	4.08	3.52	5.51	3.33	4.26
Average ROE	-77.7%	-91.0%	-88.7%	-161.9%	-60.6%	-32.8%	-35.9%	-53.8%	-41.5%	-24.6%
Earnings yield adj	-43.7%	-52.1%	-83.2%	-88.6%	-13.0%	-6.7%	-12.3%	-13.4%	-9.0%	-6.6%
EV/SALES	68.89	60.95	23.38	19.92	92.60	184.72	114.34	47.74	33.64	16.68
EV/SALES adj	68.89	60.95	23.38	19.92	92.60	184.72	114.34	47.74	33.64	16.68
EV/EBITDA	-3.2	-3.3	-1.9	-1.8	-11.6	-20.6	-11.3	-9.5	-15.8	-21.2
EV/EBITDA adj	-3.2	-3.3	-1.9	-1.8	-11.6	-20.6	-11.3	-9.5	-15.8	-21.2
EV/EBIT	-3.0	-3.1	-1.7	-1.6	-10.2	-18.4	-10.2	-8.6	-14.1	-18.2
EV/EBIT adj	-3.0	-3.1	-1.7	-1.6	-10.2	-18.4	-10.2	-8.6	-14.1	-18.2
EV/NOPLAT	-3.0	-3.1	-1.7	-1.6	-10.2	-18.4	-10.2	-8.6	-14.1	-18.2
EV/OpFCF (taxed)	-3.2	-3.3	-1.9	-1.8	-11.5	-20.7	-11.4	-9.5	-15.8	-21.2

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

19 February 2023

Key accounting ratios

	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<i>Profitability (%)</i>										
ROA	-69.1	-79.6	-78.1	-124.1	-52.5	-30.3	-33.0	-46.9	-36.6	-22.1
<i>Return on invested capital (%)</i>										
Net PPE/revenues	14.4	6.5	2.3	111.1	61.4	47.8	97.1	49.3	22.8	11.9
Working capital/revenues	-104.1	58.2	48.8	-87.0	-67.1	-13.0	-7.2	16.2	16.7	13.6
<i>Cash flow ratios (%)</i>										
FCF/revenues	-2317.6	-2227.3	-1455.8	-1207.4	-854.3	-955.1	-1165.2	-575.8	-246.7	-96.3
FCF yield (%)	-39.9	-52.4	-76.2	-75.8	-11.2	-5.7	-11.0	-12.5	-8.3	-5.9
CFO/revenues	-2108.4	-1985.6	-1230.2	-1105.6	-781.4	-860.9	-1002.9	-516.9	-219.4	-82.1
CFO/market capitalisation	-39.8	-52.4	-76.2	-75.8	-11.1	-5.8	-11.0	-12.5	-8.3	-5.9
CFO/capex	-35153.6	-187892.4			-10940.0	14850.0	69200.0			
CFO/current liabilities	-717.5	-1574.9	-881.7	-621.9	-541.6	-638.7	-795.4	-682.6	-556.1	-356.8
Cash conversion ratio	100.0	112.7	108.3	93.4	93.6	95.2	104.0	104.0	104.3	105.9
Capex/revenues	6.0	1.1	0.0	0.0	7.1	-5.8	-1.4	0.0	0.0	0.0
Capex/depreciation	3.9	0.8	0.0	0.0	6.6	-5.4	-1.4	0.0	0.0	0.0
OpFCF margin	-2172.9	-1843.9	-1225.6	-1137.0	-804.3	-892.8	-1007.2	-502.9	-213.0	-78.7
<i>Leverage and solvency (x)</i>										
Interest cover	nm	nm	-81.57	-45.53	nm	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	1396.48	978.12	-175.67	-68.22	-111.60	310.00	-348.00	137.62	125.95	88.77
Net debt/EBITDA	-0.73	-1.25	-0.59	-0.47	-2.82	-3.93	-2.34	-1.25	-3.41	-3.63
Total debt/total capital (BV)	0.00	0.00	0.05	0.06	0.01	0.02	0.04	0.06	0.03	0.04
LTD / (LTD + equity (MV))	0.00	0.00	0.00	0.04	0.00	0.00	0.01	0.01	0.01	0.01
<i>Cash conversion cycle</i>										
Inventory turnover days	nm	nm	nm	nm	nm	nm	nm	nm	nm	84.5
Receivables turnover days	541.0	472.0	322.6	209.5	177.3	232.8	201.0	195.9	134.1	93.1
Credit period	nm	nm	nm	nm	nm	nm	nm	nm	nm	183.9
Cash conversion cycle	nm	nm	nm	nm	nm	nm	nm	nm	nm	-6.3

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

19 February 2023

Important Information

Company: Episurf Medical
 Coverage by Analyst: Patrik Ling
 Date: 18/02/2023

This report has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. This report is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. This report does not, and does not attempt to, contain everything material which there is to be said about the Company. Any opinions expressed herein reflect DNB Markets' judgement at the time the report was prepared and are subject to change without notice. The report is planned updated minimum every quarter.

Any use of non-DNB logos in this report is solely for the purpose of assisting in identifying the relevant issuer. DNB is not affiliated with any such issuer.

This report is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets, a division of DNB Bank ASA.

This report is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the report. Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the report contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the report when making investment decisions, and may also base investment advice given to clients on the report. Such use is dependent on the buy-side investment firm citing DNB Markets as the source.

Conflict of interest

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.

Readers should assume that DNB Markets may currently or may in the coming three months and beyond be providing or seeking to provide confidential investment banking services or other services to the company, and may receive compensation for these services.

Share positions in the company:	Analyst*	Employees**	DNB***
Number of shares	0	0	0

*The analyst or any close associates. **Share positions include people involved in the production of credit and equity research, including people that could reasonably be expected to have access to it before distribution.

***Share positions as part of DNB Group. Holdings as part of DNB Markets investment services activity are not included.

Recommendation distribution and corporate clients for the last 12 months

	Buy	Hold	Sell	No_rec	Total
Number	199	81	17	32	329
% of total	60%	25%	5%	10%	
DNB Markets client	28%	7%	2%	3%	131

19 February 2023

Legal statement

This Report is a research report within the meaning of Regulation (EU) NO 596/2014 on market abuse (Market Abuse Regulation), and has been prepared in accordance with rules set out in relevant industry standards issued by The Norwegian Securities Dealers Association. This Report has been prepared as general information and is therefore not intended as a personal recommendation of particular financial instruments or strategies, and does not constitute personal investment advice as defined the Norwegian securities trading act (Norwegian verdipapirhandeloven).

The analyst hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report. DNB Markets employees, including research analysts, may receive compensation that is generated by overall firm profitability. Confidentiality rules and internal rules restricting the exchange of information between different parts of DNB Markets/DNB Bank ASA or the DNB Group are in place to prevent employees of DNB Markets who are preparing this report from utilizing or being aware of information available in the DNB Group that may be relevant to the recipients' decisions. DNB Markets and the DNB Group have incorporated internal rules and regulations in order to avoid any potential conflicts of interest.

The Report has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

It is issued subject to the General Business Terms for DNB Markets and information about the terms is available at www.dnb.no. For requests regarding the General Business Terms of the Singapore Branch of DNB Bank ASA, please contact +65 6212 6144. Information about the DNB Group can be found at www.dnb.no. DNB Markets is a member of The Norwegian Securities Dealers Association, which has issued recommendations and market standards for securities companies. The Association's Internet address where the recommendations and market standards can be found is: www.vpff.no. This report is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. No liability whatsoever is accepted for any direct or indirect (including consequential) loss or expense arising from the use of this report. Distribution of research reports is in certain jurisdictions restricted by law. Persons in possession of this report should seek further guidance regarding such restrictions before distributing this report. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this report.

Additional information for clients in Singapore

The report has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the report, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product. You have received a copy of the report because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities. Please contact the Singapore branch of DNB Bank ASA at +65 6212 6144 in respect of any matters arising from, or in connection with, the report. The report is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144. We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the report by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the report.

In the United States

Each research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report; and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

The research analyst(s) named on this report are foreign research analysts as defined by FINRA Rule 1050. The only affiliate contributing to this research report is DNB Bank through its DNB Markets division ("DNB Markets/DNB Bank"); the foreign research analysts employed by DNB Markets/DNB Bank are named on the first page; the foreign research analysts are not registered/qualified as research analysts with FINRA; foreign research analysts are not associated persons of DNB Markets, Inc. and therefore are not subject to the restrictions set forth in FINRA Rules 2241 and 2242 regarding restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

This is a Third Party Research Report as defined by FINRA Rules 2241 and 2242. Any material conflict of interest that can reasonably be expected to have influenced the choice of DNB Markets/DNB Bank as a research provider or the subject company of a DNB Markets/DNB Bank research report, including the disclosures required by FINRA Rules 2241 and 2242 can be found above.

This report is being furnished solely to Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

Any U.S. recipient of this report seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 30 Hudson Yards, 81st Floor, New York, NY 10001, telephone number +1 212-551-9800.

In Canada

The Information has been distributed in reliance on the International Dealer Exemption pursuant to NI 31-103 section 8.18. Please be advised that:

- 1) DNB Bank ASA (DNB Markets) and DNB Markets, Inc. are not registered as a dealer in the local jurisdiction to make the trade. We provide our services in Canada as an exempt international dealer.
- 2) The jurisdiction of DNB Bank ASA (DNB Markets) and DNB Markets, Inc.'s head office is Norway.
- 3) There may be difficulty enforcing legal rights against DNB Bank ASA (DNB Markets) and DNB Markets, Inc. because all or substantially all of their assets may be situated outside of Canada.
- 4) The name and address of the agent for service of process for DNB Bank ASA (DNB Markets) and DNB Markets, Inc. in the local jurisdiction is:
 - Alberta: Blake, Cassels & Graydon LLP, 855 - 2nd Street S.W., Suite 3500, Bankers Hall East Tower, Calgary, AB T2P 4J8.
 - British Columbia: Blakes Vancouver Services Inc., 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3.
 - Manitoba: MLT Aikins, 30th Floor, Commodity Exchange Tower, 360 Main Street, Winnipeg, MB R3C 4G1.
 - New Brunswick: Stewart McKelvey, Suite 1000, Brunswick House, 44 Chipman Hill, PO Box 7289, Station A, Saint John, NB E2L 2A9.
 - Newfoundland and Labrador: Stewart McKelvey, Suite 1100, Cabot Place, 100 New Gower Street, P.O. Box 5038, St. John's, NL A1C 5V3.
 - Nova Scotia: Stewart McKelvey, Purdy's Wharf Tower One, 1959 Upper Water Street, Suite 900, P.O. Box 997, Halifax, NS B3J 2X2.
 - Northwest Territories: Field LLP, 601, 4920 52nd Street, Yellowknife, NT X1A 3T1.
 - Nunavut: Field LLP, P.O. Box 1734, House 2436, Iqaluit, NU X0A 0H0.
 - Ontario: Blakes Extra-Provincial Services Inc., Suite 4000, 199 Bay Street, Toronto, ON M5L 1A9.
 - Prince Edward Island: Stewart McKelvey, 65 Grafton Street, Charlottetown, PE C1A 1K8.
 - Québec: Services Blakes Québec Inc., 1 Place Ville Marie, Suite 3000, Montréal, QC H3B 4N8.
 - Saskatchewan: MLT Aikins, 1500 Hill Centre I, 1874 Scarth Street, Regina, SK S4P 4E9.
 - Yukon: Macdonald & Company, Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, YK Y1A 3T2.

In Brazil

The analyst or any close associates do not hold nor do they have any direct/indirect involvement in the acquisition, sale, or intermediation of the securities discussed herein. Any financial interests, not disclosed above, that the analyst or any close associates holds in the issuer discussed in the report is limited to investment funds that do not mainly invest in the issuer or industry discussed in the report and the management of which these persons cannot influence.