



enersize

Q4 Company Brief March 2019

Enersize Oyj
2317518-8

www.enersize.com

ENERSIZE OYJ

Ever since Enersize was founded the overall goal has been to reduce CO₂ emissions. By focusing on improving and optimizing compressed air systems instead of general energy savings for industry, Enersize can both create credibility for its products against competing solutions and greatly reduce emissions from one of the most common, most energy-intensive and emission-generating industrial processes.

With modern measurement methods and user interfaces that utilize the latest developments in connection and cloud-based solutions, Enersize can make much smarter systems than before, where software plays the decisive role. The industry has begun to adopt this with the measurement of industrial processes within Industry 4.0, but in compressed air the technology level remains low and advanced tools for smart monitoring and digitized improvement processes have not yet been developed to a greater extent.

Enersize's goal is to become a market leader, leading and shaping this development by taking the management of compressed air systems one step further than just measurements and also offering smart software that makes it easy and convenient for customers to monitor, find and implement system improvements and cost reductions.

The Acquisition of LEAQS

One of the most important steps towards becoming a software supplier was taken through the acquisition of LEAQS in 2018. With LEAQS, Enersize gained both access to a newly developed web-based version of the LEAQS system, which was adapted to be sold in the form of online subscriptions to local players who already has access to both resources and the right type of customers, but also to a network of end customers who have already done leak search projects with earlier versions of the software. The latest version of LEAQS software is thanks to the subscription form and the ability to allow local industrial maintenance companies to act as retailers and take responsibility for repairs. No longer a software that is bought once to make individual projects, LEAQS is a complete life-cycle solution to give factories the opportunity to keep a constant low leakage level.

Operations in China

Enersize has two partners in China, several installation agreements and profit-sharing agreements with several major Chinese manufacturing industries. The business model has previously been focused primarily on profit-sharing in China. However, the Chinese projects have been delayed and have not led to the development and revenue generation in 2018 that the Company's management previously estimated. Two of the projects are currently in a profit generation phase. The management is conducting a review and evaluation of the other Chinese projects to determine whether the Company intends to continue with the profit-sharing model or in agreement with partners and the factories seek another model for the respective factory. For some projects where the most viable route has been considered to continue with a license model, such discussions have begun. Discussions have also been initiated with both partners about initiating license sales.

Activities in Europe

In addition to existing pilot installations in Scania's factory in Södertälje and Dürr AG's factory in Bietigheim-Bissingen, Germany, most of Enersize's investment in Europe is based on the contact network acquired through the purchase of LEAQS. The main focus of the European initiative is on software sales in subscription form via companies specialized in industrial maintenance or compressed air. Through partnerships and collaboration with local companies for industrial maintenance, Enersize also intends to be able to offer turnkey solutions directly to larger industrial customers.

Business Idea

Enersize's business concept is to provide industries with streamlining and energy saving of compressed air systems with the help of smart online software.

Business Model

The basis of the business model is the sale of software in the form of online subscriptions, so-called SaaS (Software as a Service). In addition, Enersize also offers turnkey installation solutions with IoT measuring systems specializing in compressed air. Enersize also offers, in collaboration with local partners, projects directly to end customers. These can include installation, commissioning, efficiency and monitoring.

The local partners / distributors are typically companies that offer services or products to the industry, mainly companies in the field of industrial maintenance, spare parts sales or compressed air services and compressed air products. Typical end customers for Enersize's products are medium-sized and large manufacturing industries.

Products

Enersize's software can be divided into two main categories

- Smart measuring and monitoring systems, Enersize Q +
- Management system for leakage repairs, LEAQS

These two categories can be sold separately but together provide a holistic approach for optimizing, monitoring and streamlining industrial compressed air systems.

Enersize Q + can, in its smallest design Q-base, also be installed in smaller factories. For medium-sized and large factories, Q + can be expanded largely unlimited. With Enersize Q-Master, several geographically separated factories can be interconnected and monitoring and follow-up of these factories can be managed centrally. The Enersize Q + concept includes measurement data collection, visualization of measurement data, report generation, deviation alarm and Enersize's unique patent-pending algorithms for automated real-time analysis of system stability and efficiency.



LEAQS offers a web-based management tool for a complete leakage reduction process. The tool includes searching, identifying and classifying leaks and inefficient compressed air use as well as automated filter maintenance routines. What primarily distinguishes LEAQS from many other leakage detection systems is LEAQS' focus on the structure, implementation, logistics and follow-up of the actual repair process rather than focusing on cataloging the leakage. This results in a significantly better end result because only one repaired leak provides some savings.

By combining Q + with LEAQS, customers can, in addition to measuring key figures and implementing optimization support, also follow up and quantify the result of leakage repairs and identify when it is time to implement new leakage reduction measures for a factory or part of a factory. Leakage repairs along with optimization adapted to the reduced use gives positive synergy effects and further reduces energy consumption.



Previous versions of LEAQS have been used in 9,000 projects by 4,000 customers. LEAQS was sold before the acquisition as a project

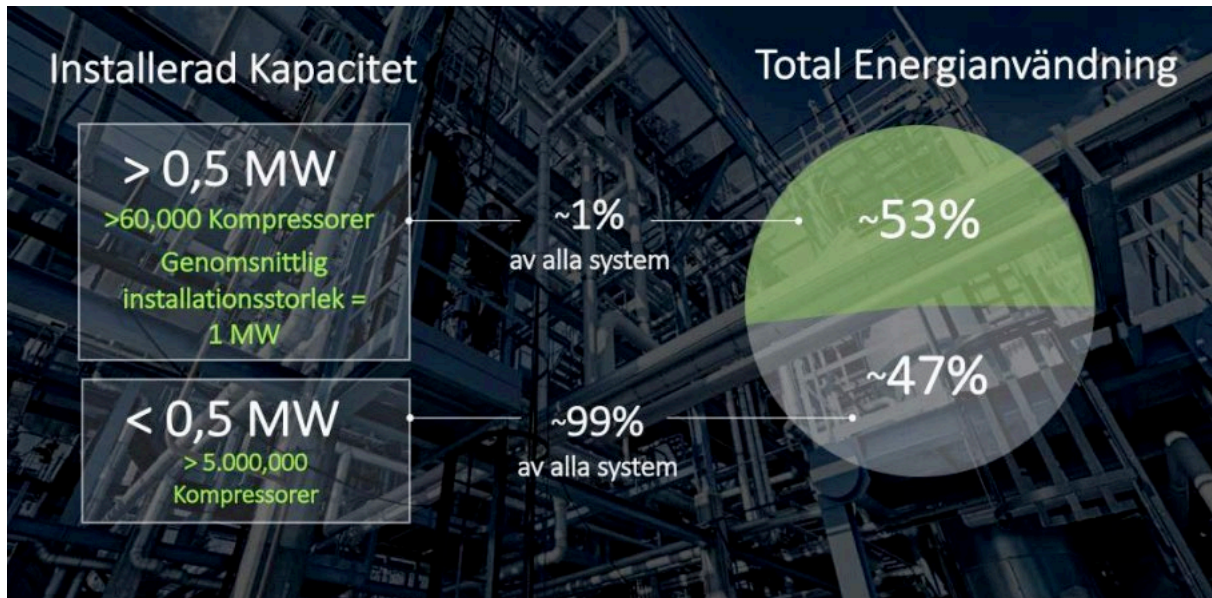
tool and not as a software license, which only generated one-off income for each project carried out. Instead, the newest version of LEAQS is based on a cloud-based subscription solution, which provides opportunities for sales via partners of turnkey solutions with recurring monthly revenues.

Technology

Enersize does not develop its own sensors to measure energy consumption, pressure, flow, etc., but uses industrially proven and available sensors that can communicate with Enersize's platform via standardized industrial protocols. Enersize's technology builds on software that runs in the cloud and thereby collects measurement data from the factories via optional internet connection, for example via the mobile network. Users can then easily access the software, data and its various functions through standard web interfaces.

Market and market size

The market for streamlining industrial compressed air systems has enormous potential. The global electricity consumption for operating compressed air systems is estimated at approximately SEK 2,000 billion per year. The major part of the electricity use is the operation of large systems (> 0.5MW). These account for about 1% of the installed systems, but use about 53% of the total energy use, the average system size for these systems is 1MW / factory. With 30% savings potential only for the 1% largest installations, which is Enersize's focus, the annual savings potential is approximately SEK 300 billion.



The market for industrial compressed air systems is expected to grow strongly in the future. The annual sales of centrifugal compressors, the most common type in the largest installations, are expected to grow to over SEK 50 billion annually by 2024. Sales of screw compressors, the most common type in large and medium-sized installations, are expected to grow from SEK 65 billion per year 2016, to 90 billion SEK per year to 2021. The operational life of a compressor installation can be up to 20 years. This means that there is a large proportion of old inefficient compressor installations on the market today. During a compressor lifetime, more than 70% of the total cost of energy costs. The purchase cost of a compressor can in some cases constitute less than 10% of the life cycle cost, with the remaining part consists of maintenance and repairs. The largest proportion of all industrial compressed air systems operates very inefficiently, which in many cases results in a capacity shortage. System efficiency is today the foremost competitor of new investment in compressor capacity, it is faster, much cheaper and saves more energy and emissions than upgrades to new compressors.

Competition

The market for optimizing existing compressed air systems is today fragmented and consists of local contractors with generally low technical competence. The company's experience shows that the savings projects that are often implemented are of low quality, have poor structure and result in poor results. Some factories run their own efficiency projects, but these often suffer from an even lower level of competence and often generate even worse results. The only ones that offer optimization on a global basis are the international compressor manufacturers, but their optimization offer mainly consists of system analysis aimed at supporting new investment in more efficient compressor generations. Such investments have very long repayment times since the efficiency increase for new compressors is often marginal. Enersize's experience is that most compressor manufacturers lack the correct competence in the final sales organization to implement correct installations. Another crucial factor is that implemented savings usually disappear very quickly because of production changes and incorrect system adjustments. The company's experience is also that measurements are most often carried out incorrectly with incorrect results and incorrect measures as a result of this, because today there are only inadequate tools available.

There are a lot of different general measurement systems that are marketed to the industry. However, these are generally not designed with respect to compressed air measurements. In essence, these systems consist of either process measurement systems intended to be integrated over an entire factory or they consist of pure energy measurement systems. A common and significant shortcoming that makes it impossible to efficiently analyze the compressed air systems is that compressed air measurements and energy measurements are usually carried out in separate systems. There are a number of existing measurement systems in the market for compressed air, but these are not cloud-based, which means that they cannot be adapted for monitoring several manufacturing units and lack the advanced visualizations and automated real-time analysis that Enersize has. In the case of leakage detection systems, there are a few such systems on the market. However, these do not have LEAQS' focus on repairs and spare parts logistics, nor are they structured in the same way with a cloud-based subscription model that enables resale through local partners. Enersize has been unable to identify any competitor that offers the combination of leak reduction, measurement, analysis, monitoring and advanced optimization tools.

CEO ANDERS SJÖGREN COMMENTS



The fiscal year 2018 has offered major upheavals and more or less a new start for Enersize on most fronts. The fact that I entered the CEO role during the last quarter of 2018 and the acquisition of LEAQS are perhaps the most visible changes. At the same time, the company has a little more in the hidden transformed from a pure project company to more of a software company. We will still offer turnkey projects, but now together with local partners and based on our license models. This will ultimately give us a more scalable business with less capital-intensive growth and reduced risk.

The development is progressing on most fronts, but it has taken time for me to steer up all the different areas and yet there are many improvements and changes to be made. A small company like Enersize, which strives to build its own market niche, must be responsive to customers in an innovative and fast-paced way. This means that we must not be afraid of adapting ourselves, our products and our target image for both the best possible customer value and shareholder value.

A new start for the company

As a relatively new CEO and with a clear mandate from the Board to enforce necessary changes and give Enersize a new start, in this letter I will focus more on where we are now and how we look at the future. With a new start, there will also be new expectations for the Company and what we can deliver. I have the ambition to build Enersize from scratch and rather to surprise with a positive development than to set high goals that may not be reached. With our software and LEAQS, we now have a wide cloud-based product offering for compressed air optimization and efficiency that can be sold both as cloud software in subscription form and in project form. This is quite right in time and well matches the goals of medium-sized and large industries for reduced energy use and reduced CO2 emissions.

Operations in China

Activities in China, as the masses know, have not developed at all according to expectations and I have spent a lot of time evaluating and finding the right way forward for these projects. I see in front of me that this will be attacked in different ways from project to project and my assessment is that it will be important to let this take the time it takes. We have gained interest in our product portfolio in China and some of the projects may very well be transferred to license deals to generate cash flow to the business more quickly. To this we expect our existing partners to start rolling out our new software products in the Chinese market in the coming quarters.

In January 2019, we entered into a four-year cooperation agreement with Bo Kuraa, who will thereby work exclusively for Enersize on compressed air efficiency. For many years, Bo Kuraa has worked as leading expert on industrial energy efficiency and industrial energy management with, among other things, compressed air as a specialty. Formerly, Bo has for instance been hired by the World Bank and the UN (UNIDO) for international industrial energy efficiency assignments in Asia and the Middle East. With Bos's expertise, we have the right conditions to create savings in projects that we choose to continue in the form of profit-sharing agreements.

Acquisition of LEAQS and expansion to Europe

The acquisition of LEAQS has been essential to create a holistic offering, we are very pleased that it could be implemented and has through this initiated our expansion to Europe. Through LEAQS, we immediately get a large customer base and new distribution channels in Europe where there is already a great demand for energy saving and reduction of CO2 emissions. LEAQS already has thousands of registered customers using their software. With this as a basis we hope to be able to quickly reach out and increase the number of installations through direct contact with customers and via partners where we can introduce our overall concept to optimize compressed air systems.

In connection with the acquisition of LEAQS, Daniel Winkler (formerly CEO of LEAQS) also took over as global manager for sales and marketing in Enersize. Daniel Winkler has many years of experience in sales to Enersize's customer category, a huge contact network in the industry and great knowledge of compressed air systems and customer needs. In recent years, Winkler has also successfully completed training in compressed air, which has created a steady intake of new business. We will invest in this by increasing our activities and offers within education-driven sales.

Redesigned and strengthened organization

Another step in getting the right side of the business has been to make organizational changes. The undersigned took over as CEO in December 2018 and I have subsequently replaced the management team, implemented cost reductions, reduced the number of employees in Helsinki, restructured the Chinese organization and recruited sales resources in Europe. Through the acquisition of LEAQS, our way of working has changed and focused more on collaboration with local partners, which also had an impact on our Chinese business area where we started a similar transition.

By being able to offer established local players with existing industrial customers the right digital tools to be able to offer their industrial customers improvement and streamlining of their systems, a win-win situation is created that makes local players possible Enersize customers instead of competitors.

Financing solutions and views on the way forward

In order to finance the acquisition of LEAQS and our expansion in Europe, in November 2018 we entered into a financing solution with Formue Nord Focus A / S of a maximum of SEK 30 million through a convertible loan over three years. The financing solution ensures long-term basic financing of the Company. In February 2019, we also received a project financing of initially EUR 250,000 from our principal owner, Loudspring Oyj, as part of their growth financing program from NEFCO (Nordic Environmental Finance Corporation). The project financing is intended to provide scope for continued development of Enersize's Chinese projects in connection with the larger investment in the European market. With this funding, we have the opportunity to continue driving the Chinese projects against returns while at the same time investing heavily in the European market, where we see a large pent-up need and opportunity for rapidly increasing sales and cash flow thanks to the customer contacts and the sales history we have received through the acquisition by LEAQS.

There are a large number of players who are good at selling, developing software or maintaining compressed air systems. We at Enersize are good and get better at the interdisciplinary combination of these two areas. With Daniel and Bo, we have two of the most experienced people in Europe regarding the sale and maintenance of compressed air systems and together with my expertise in research and development we have a core group that can lift Enersize.

I look forward with great hope in 2019 and thank all shareholders who follow our development with great interest!

Anders Sjögren
CEO, Enersize Oyj

EXECUTIVE CHAIRMAN CHRISTIAN MERHEIM COMMENTS



As Chairman of Enersize, the last year has meant work to enable and enforce many major changes for the Company, which has required both great commitment, determination and hard work for the entire board. The changes have been necessary to manage and circumvent the challenges Enersize has encountered in the form of development companies and through our efforts we have now created the conditions for a substantial new start.

I am very happy for the board member Alexander Lidgren's support during this process. Without his involvement and help, we would not have succeeded with the transition that was made. Also, Loudspring as the main owner, through Thomas Bengtsson on the Board, has strongly supported the changes that have been made and they have also played a central role in the financing process.

The fact that Anders Sjögren has taken over as CEO of Enersize has been decisive in many ways. With great dedication, discipline and fearlessness, he has taken the helm and given Enersize the control needed now and in the future. At the same time, I would also like to welcome Bo Kuraa and Daniel Winkler with the LEAQS team, who are a necessary piece of puzzle to create the new Enersize.

Next to the customers, you the shareholders are our main stakeholders. The last year has meant a tough test for all owners, but we are pleased to see that most of the early owners are loyal and supporting Enersize, and believe in our long-term goal of changing the handling of the compressed air systems in the industry with smart software and creating lasting energy savings and CO2 reductions. That means a lot to us on the board of having this support from you because you are our clients and we work purposefully towards the management because we together will deliver a positive development. We only have one planet to take care of and success in Enersize will have a significant environmental effect beyond quarterly reports and shareholder value. This is something that drives both us on the board, the company's management and the company's employees to make an effort for that little extra and I believe that this is also an important reason why many of us are major shareholders.

The Board's work during the year has been extremely focused on laying the foundation for the right conditions for building sales in Europe and with it a more scalable and easy-to-manage business model through software sales. Through the acquisition of LEAQS, the development of Enersize Q + products, but also through the financing solution with Formue Nord, we have come a bit along the way and we expect that this is where most of the growth will take place.

Implementing radical changes in a company requires focus, determination and a clear target of what one wants to achieve. In addition to daring to evaluate everything and change what is needed, it also means that some things must be left aside or postponed until other things fall into place. This is clearly frustrating for shareholders who want to take part in a continuous news flow and a constant development. I think and feel that Enersize has now come out on the other side, in new shape, with new energy and an attractive sales concept. In this way, we expect the Company to be able to show a positive development in the coming year by delivering both good news and increasing sales. It will be very exciting to see the roll-out of software licenses, new partnerships and, above all, new European industrial customers.

Now that Anders Sjögren, after a hectic period, has begun to get warm in his role as CEO and also made the biggest changes, you will also see much more of Anders Sjögren in the communication with the stock market and I hope you will take note of this differently.

Christian Merheim
Chairman of the Board, Enersize Oyj