

Bong

Sector: Industrial Goods & Services

Promising start to 2021

Redeye is encouraged by Bong's Q1 report, which showed strong growth in Light Packaging and clearly better margins on group level. The positive impact from last year's cost reductions are more extensive than we anticipated. We are now growing more confident in the company's turn-around and raise our forecasts and valuation. Despite recent surge in the share price, our new Base case fair value of SEK 1.1 per share, suggests some further potential.

Q1 beat our expectations

Bong's Q1 report included a couple of positive surprises. Net sales declined by 11% Y/Y, which admittedly was a bit worse than we expected. However, Light Packaging showed stellar growth of 17%, Fx adjusted. Quite impressive! Selling- and Admin expenses were significantly lower thanks to last year's initiatives to reduce fixed costs. Hence, Bong posted its best quarterly earnings on bottom line in many years and a strong cash flow. Gross margins also improved in Q1, but raw material prices are now on the rise. European paper producers have announced price increases that certainly will have some impact on Bongs gross margins in 2021.

Packaging >50% of sales by 2025, or sooner

Bong is now setting a target for the transformation of the group into a light packaging producer and in parallel to downsize its envelope production. The goal is to generate the main part of sales with light packaging products by 2025, or sooner. Our take on this is that if envelopes have a CAGR of minus 6-7% until 2025 (app. long-term trend), then light packaging will need a CAGR of ~15%. Certainly an ambitious target, but our guess is that Bong will also make some acquisitions along the way.

Estimates and valuation inching higher

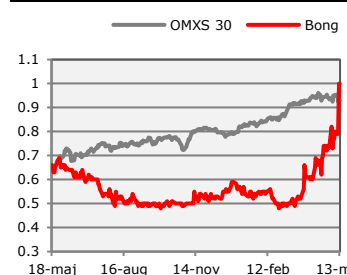
We are raising our forecasts, mainly on the back of good cost containment. We are also a bit more optimistic on long-term growth prospects as packaging is progressing well. We raise our **Base case fair value to SEK 1.1 per share** (previously: SEK 0.8). The fair value range is still wide: SEK 0.3-2.0 per share, due to high leverage and a good deal of uncertainty.

KEY FINANCIALS (SEKm)	2019	2020	2021E	2022E	2023E	2024E
Net sales	2166	1843	1800	1780	1758	1741
EBITDA	121	97	124	128	129	131
EBIT	32	-19	59	64	66	70
EPS (adj.)	-0.1	-0.1	0.1	0.2	0.2	0.2
EV/Sales	0.3	0.3	0.4	0.3	0.3	0.3
EV/EBITDA	5.5	6.2	5.1	4.6	4.2	3.8
EV/EBIT	20.8	-31.3	10.7	9.2	8.2	7.2
P/E	-6.4	-1.9	11.8	6.0	5.3	4.7

FAIR VALUE RANGE

BEAR	BASE	BULL
0.3	1.1	2.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	BONG
Market	Nasdaq
Share Price (SEK)	0.9
Market Cap (MSEK)	190
Net Debt 21E (MSEK)	442
Free Float	55%
Avg. daily volume ('000)	500

ANALYSTS

Henrik Alveskog
henrik.alveskog@redeye.se
 Viktor Westman
viktor.westman@redeye.se

Promising start to 2021

Bong's Q1 report beat our expectations on several accounts. Despite a significant decline in net sales of 11% Y/Y, earnings improved remarkably. EBIT margins of almost 5% have not been recorded in many years. Main reason is the impact from last year's initiatives to reduce fixed costs that is now feeding through. Opex in Q1 was well below the run rate in 2020.

The first quarter also saw a strong cash flow. SEK 33m after investments, which has enabled further repurchases of the bond and a reduction in net financial debt.

Bong: Actual vs. Expected

(SEKm)	Q1'20	Q1' 21 Actual	Q1'21E	Diff
Net sales	518	460	475	-3%
Whereof Light Packaging	116	130	115	13%
Gross profit	96	88	84	5%
EBITDA	32	38	27	41%
EBIT	5	22	9	144%
Pre-tax profit	-3	14	0	n.m.
Sales growth Y/Y	-9%	-11%	-8%	
Gross margin	18.5%	19.1%	17.7%	
EBITDA margin	6.2%	8.3%	5.7%	
EBIT margin	1.0%	4.8%	1.9%	

Source: Bong, Redeye Research

Envelope sales in Q1 saw another drop of 14%, Fx adjusted. Again, the UK market was really weak, while South Europe held up quite well. We expect to see a gradual recovery in Europe as Covid-19 restrictions are lifted. On the other hand, raw material prices are rising, putting pressure on margins. Paper producers have announced price increases in Q1 as well as Q2.

Light Packaging is showing an impressive 17% organic growth in the first quarter. Continued good growth for e-commerce products and paper carrier bags. According to Bong, retail gift bags also grew in Q1, after last year's setback, due to Covid-19 restrictions on retailers.

Quarterly performance

(SEK m)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21
Revenues	571	507	520	568	518	399	421	505	460
whereof Light Packaging	106	105	124	155	116	99	122	156	130
Gross profit	100	82	87	96	96	50	73	97	88
EBITDA *	36	19	34	43	35	-2	27	32	38
EBIT	15	-3	7	14	5	-20	3	-8	22
Net financial items	-11	-11	-12	-8	-8	-10	-9	-9	-9
Pre tax profit	5	-15	-6	6	-3	-30	-6	-17	14
Revenue growth, Y/Y	6%	-7%	-3%	-6%	-9%	-21%	-19%	-11%	-11%
Light Packaging growth, Y/Y	9%	-6%	-2%	1%	9%	-6%	-2%	1%	12%
Gross-margin	17.5%	16.1%	16.8%	16.9%	18.5%	12.4%	17.3%	19.1%	19.1%
EBITDA-margin *	6.3%	3.7%	6.5%	7.6%	6.7%	-0.5%	6.3%	6.3%	8.3%
Cash flow after investments	42	-11	-7	55	14	1	4	12	33
Net debt, excl leasing debt	326	360	394	346	338	351	366	365	326

* Excluding non-recurring items

Source: Bong, Redeye Research

Forecasts & Valuation

Positive adjustment
to estimates and
valuation

We have made some further adjustment to our forecasts following the Q1 report and other recent events. Overall these changes have a positive impact on earnings, cash flow and valuation. The main contributor to higher earnings estimates for 2021-23 is lower fixed costs. As far as we understand, Selling- and Admin expenses are now on a significantly lower level. Regarding Bong's top-line, we expect envelopes to continue on a negative trend, even as pandemic restrictions are lifted and economies open up. On the other hand, packaging is now showing stronger growth than we expected. The point of gravity for the group is shifting faster towards Light Packaging's positive growth and, with no doubt, better profitability. Moreover, Bong is about to refinance its bond, which they most certainly can do at more favorable terms than when the current bond was issued (interest rate ~10%). We expect to see a reduction in financial costs as of 2022.

Envelopes

The European envelope market saw a drop of around 16% in 2020, probably the worst decline on record. The long-term trend over the last decade has been minus 6-7% annually, which is what we model for Bong's envelope sales in the next few years. Bong's recent downsizing was impressive, but further initiatives will be required, given the long-term negative trend. Hence, our forecasts include future restructuring costs of SEK ~20m per year.

Light Packaging

Light Packaging continues to perform extremely well. Retail gift bags had a tough year 2020, for obvious reasons. In Q1 it was apparently back on the growth path again. Other segments like e-commerce products and paper carrier bags have excellent potential to continue its expansion, as there is significant untapped market potential across Europe. Bong is planning for further investments into production capacity during 2021.

P&L, historic and forecast					
SEK m	2019	2020	2021E	2022E	2023E
Envelopes					
Revenues	1 676	1 351	1 249	1 174	1 104
Growth, Y/Y	-5%	-19%	-8%	-6%	-6%
EBIT *	14	-10	25	29	28
EBIT-margin	0.8%	-0.7%	2.0%	2.5%	2.5%
Light Packaging					
Revenues	490	492	551	606	655
Growth, Y/Y	8%	0%	12%	10%	8%
EBIT *	29	31	44	55	59
EBIT-margin	6.0%	6.3%	8.0%	9.0%	9.0%
Non-recurring items	-11	-40	-10	-20	-20
Total revenues	2 166	1 843	1 800	1 780	1 758
Growth, Y/Y	-2%	-15%	-2%	-1%	-1%
Gross profit	364	315	324	329	334
Gross-margin	16.8%	17.1%	18.0%	18.5%	19.0%
EBITDA **	132	101	134	148	149
D.o. marginal	6.1%	5.5%	7.4%	8.3%	8.5%
EBIT	32	-19	59	64	66
Net financial items	-42	-37	-34	-26	-24
Pre tax profit	-10	-56	25	37	42

* Redeyes assessment regarding previous years.

** Excluding non-recurring items.

Source: Bong, Redeye Research

Valuation

Fair value: ~SEK 1.1 per share

Our DCF-model indicates an enterprise value of around SEK 600 million. After deducting net debt of SEK 365 m (excluding lease liabilities) our fair value of equity is around SEK 230 million, or **SEK 1.1 per share**. In our most recent research update, February 2021, the corresponding value was SEK 0.83 per share.

Assumptions for long term growth or profitability:

- Negative growth until 2024-25, due to declining envelope market. After that 2-3% CAGR as Light Packaging make up for higher proportion of group sales.
- Sustainable EBIT margins: 3%
- Terminal year (2029): 2% growth
- WACC: 12% (derived from our Redeye Rating model)

Long term assumptions for growth and profitability

As the packaging business expands, the negative growth on group level will abate and we expect Bong's sales to return to positive growth. We expect sustainable average EBIT-margins of 3.0%. This is based on packaging making up for a larger part of group total, recurring costs for downsizing the envelope business, a general down-turn in the economy or other potential problems during this period. Our Base case fair value, SEK 1.11 per share, is highlighted in the table.

DCF-value, SEK per share					
Sustainable EBIT-margins	2.0%	2.5%	3.0%	3.5%	4.0%
WACC					
11.0%	0.98	1.22	1.47	1.71	1.96
12.0%	0.68	0.90	1.11	1.33	1.54
13.0%	0.42	0.61	0.80	0.99	1.18

Source: Redeye Research

Multiples still rather attractive

EV/EBITDA is the most useful key ratio to track, since it takes both the high net debt into account and the fact that depreciations are much higher than Capex. Note that we have excluded the impact from IFRS 16 on this key ratio, since these items distort the comparison. Even after the recent share price rally multiples are quite attractive. Bong's forward looking EV/EBITDA multiples are still a bit lower than in the previous years.

Earnings multiples						
Share price, SEK: 0.86	2018	2019	2020	2021E	2022E	2023E
P/E	neg	neg	neg	11.3	5.7	5.0
EV/EBITDA *	7.6	8.1	11.7	6.9	6.5	6.4
EV/EBIT	neg	20.8	neg	10.6	9.8	9.4

* Excl impact from IFRS 16 as of 2019

Source: Redeye Research

Scenarios

Our Base case scenario, which is was outlined on the previous page, is what we believe a probable scenario that corresponds to a fair value of approximately **SEK 1.1 per share**. There is certainly a possibility that the company will develop better than we anticipate, but also worse. We have drafted two scenarios that illustrate this down below.

Bull case is based on sales returning to sustainable growth and improving profitability. If the expansion within packaging is really strong Bong may be able to show positive top-line growth on group level and higher margins than we anticipate. The green area in the table below shows the impact on DCF-value for different levels of sustainable margins and growth (all else being equal). These do not appear completely unrealistic, yet quite optimistic. Fair value would then be around **SEK 2.0 SEK per share**.

Bear case could potentially materialize if the negative trend in the envelope market accelerates causing even tougher squeeze on margins and recurring costs for capacity adjustments. It could also happen as a combination of Bongs packaging business stalling in terms of growth and profitability. The orange colored area indicates possible outcomes in this scenario. Fair value would then be only approximately **SEK 0.3 per share**.

DCF-value, SEK per share					
Sustainable EBIT-margins	1.0%	2.0%	3.0%	4.0%	5.0%
CAGR 2023-28					
-2.0%	-0.02	0.58	0.94	1.31	1.68
1.5%	-0.02	0.68	1.11	1.54	1.98
3.0%	-0.02	0.75	1.22	1.69	2.18
6.0%	-0.02	0.82	1.33	1.85	2.38

Source: Redeye Research

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report: Only minor changes

People: 3

Management has several years of experience and knows its markets very well. CEO Kai Steigleder has been with Bong since 2007. Most recently, before taking the position as CEO, he was managing director of the largest business unit, Central Europe. The last few years have been characterized by heavy restructuring measures which have been well managed. On the other hand we cannot assess whether management has the ability to create long-term growth within the Packaging segment, which they have an ambition to do. The public quarterly reports are quite brief in terms of numbers and information. Hence transparency is limited which makes it more difficult to review and understand the company.

Business: 3

All-and-all Bong is a little below average in this category. Primarily because of the negative market trend for envelopes where volumes are going down, products are standardized and competition is tough. Bong has economies of scale and probably better stamina than most of its peers. The envelope business will hardly attract new players, but with shrinking volumes and over capacity, price pressure will remain. For Light Packaging the prospects are clearly better and Bong has a good position withing a couple of growing market segments.

Financials: 2

Profitability has been weak during the past several years. In spite of substantial cost-cutting programs margins and earnings are very thin. Since depreciation is substantially higher than capex, cash flows are generally stronger than reported earnings. Bongs financial gearing is relatively high but manageable and the debt is primarily long term. The business is diversified in terms of products and customers but to some extent cyclical. Also, for the longer term there is a recurring need for restructuring measures as the envelope market is declining.

INCOME STATEMENT	2019	2020	2021E	2022E	2023E
Net sales	2,166	1,843	1,800	1,780	1,758
Total operating costs	-2,046	-1,746	-1,676	-1,652	-1,629
EBITDA	121	97	124	128	129
Depreciation	-28	-30	-20	-17	-16
Amortization	-61	-51	-45	-47	-46
Impairment charges	0	-35	0	0	0
EBIT	32	-19	59	64	66
Share in profits	0	0	0	0	0
Net financial items	-42	-37	-34	-26	-24
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-10	-56	25	37	42
Tax	-14	-9	-9	-6	-6
Net earnings	-24	-65	16	32	36

BALANCE SHEET	2019	2020	2021E	2022E	2023E
Assets					
<i>Current assets</i>					
Cash in banks	100	110	107	106	105
Receivables	223	207	202	200	197
Inventories	200	182	177	175	173
Other current assets	94	78	78	78	78
Current assets	617	577	565	559	554
<i>Fixed assets</i>					
Tangible assets	151	124	114	107	101
Associated comp.	0	0	0	0	0
Investments	1	0	0	0	0
Goodwill	530	463	463	463	463
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	9	5	6	7	8
Non-current assets	24	1	1	1	1
Total fixed assets	855	713	701	694	687
Deferred tax assets	113	103	103	103	103
Total (assets)	1,585	1,393	1,369	1,357	1,344
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	211	151	147	146	144
Other current liabilities	216	234	230	230	230
Current liabilities	427	385	377	376	374
Long-term debt	446	475	433	391	346
Other long-term liabilities	11	7	7	7	7
Convertible	0	0	0	0	0
Total Liabilities	884	867	817	774	727
Deferred tax liab	10	8	8	8	8
Provisions	0	0	0	0	0
Shareholders' equity	529	411	427	459	495
Minority interest (BS)	0	0	0	0	0
Minority & equity	529	411	427	459	495
Total liab & SE	1,585	1,393	1,369	1,357	1,344

FREE CASH FLOW	2019	2020	2021E	2022E	2023E
Net sales	2,166	1,843	1,800	1,780	1,758
Total operating costs	-2,046	-1,746	-1,676	-1,652	-1,629
Depreciations total	-89	-116	-65	-64	-62
EBIT	32	-19	59	64	66
Taxes on EBIT	-7	4	-13	-10	-10
NOPLAT	25	-23	46	54	57
Depreciation	89	116	65	64	62
Gross cash flow	114	93	111	118	119
Change in WC	14	9	2	3	3
Gross CAPEX	-23	-3	-11	-11	-11
Free cash flow	105	99	54	65	66

CAPITAL STRUCTURE	2019	2020	2021E	2022E	2023E
Equity ratio	33%	30%	31%	34%	37%
Debt/equity ratio	115%	142%	129%	110%	93%
Net debt	509	472	442	400	355
Capital employed	875	776	752	744	736
Capital turnover rate	1.4	1.3	1.3	1.3	1.3

GROWTH	2019	2020	2021E	2022E	2023E
Sales growth	-2%	-15%	-2%	-1%	-1%
EPS growth (adj)	-84%	176%	-125%	98%	13%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	12.0 %	NPV FCF (2021-2023)	153
		NPV FCF (2024-2028)	245
		NPV FCF (2029-)	308
		Non-operating assets	110
		Interest-bearing debt	-582
		Fair value estimate MSEK	233

Assumptions 2020-2026 (%)			
Average sales growth	0.1 %	Fair value e. per share, SEK	1.1
EBIT margin	3.4 %	Share price, SEK	0.9

PROFITABILITY	2019	2020	2021E	2022E	2023E
ROE	-4%	-14%	4%	7%	8%
ROCE	3%	-2%	6%	7%	7%
ROIC	3%	-3%	6%	7%	8%
EBITDA margin	6%	5%	7%	7%	7%
EBIT margin	1%	-1%	3%	4%	4%
Net margin	-1%	-4%	1%	2%	2%

DATA PER SHARE	2019	2020	2021E	2022E	2023E
EPS	-0.11	-0.31	0.08	0.15	0.17
EPS adj	-0.11	-0.14	0.08	0.15	0.17
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	2.41	2.23	2.09	1.90	1.68
Total shares	211.25	211.25	211.25	211.25	211.25

VALUATION	2019	2020	2021E	2022E	2023E
EV	660.7	594.5	632.4	590.6	545.3
P/E	-6.4	-1.9	11.8	6.0	5.3
P/E diluted	-6.4	-1.9	11.8	6.0	5.3
P/Sales	0.1	0.1	0.1	0.1	0.1
EV/Sales	0.3	0.3	0.4	0.3	0.3
EV/EBITDA	5.5	6.2	5.1	4.6	4.2
EV/EBIT	20.8	-31.3	10.7	9.2	8.2
P/BV	0.3	0.3	0.4	0.4	0.4

SHARE PERFORMANCE		GROWTH/YEAR	18/20
1 month	32.4 %	Net sales	-8.8 %
3 month	69.8 %	Operating profit adj	36.5 %
12 month	32.4 %	EPS, just	◆
Since start of the year	52.5 %	Equity	-10.1 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Stéphane Hamelin	25.0 %	25.0 %
Per-Arne Åhlgren	14.9 %	14.9 %
Avanza Pension	5.4 %	5.4 %
Theodor Jeansson	4.7 %	4.7 %
Christian Paulsson	4.3 %	4.3 %
Erik Mitteregger	3.8 %	3.8 %
John Elvesjö	3.4 %	3.4 %
Dan Drottman	2.4 %	2.4 %
Aktiebolaget Cydonia	1.8 %	1.8 %
Mattias Cramby	1.8 %	1.8 %

SHARE INFORMATION	
Reuters code	BONG.ST
List	Nasdaq Small Cap
Share price	0.9
Total shares, million	211.2
Market Cap, MSEK	190.1

MANAGEMENT & BOARD	
CEO	Kai Steigleder
CFO	Carsten Grimmer
IR	
Chairman	Christian Paulsson

FINANCIAL INFORMATION	
Q2 report	July 15, 2021
Q3 report	November 11, 2021

ANALYSTS	
Henrik Alveskog	Redeye AB Mäster Samuelsgatan 42, 10tr 111 57 Stockholm
henrik.alveskog@redeye.se	

Viktor Westman
viktor.westman@redeye.se

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

Redeye Equity Research team

Management

Björn Fahlén

bjorn.fahlen@redeye.se

Håkan Östling

hakan.ostling@redeye.se

Technology Team

Jonas Amnesten

jonas.amnesten@redeye.se

Henrik Alveskog

henrik.alveskog@redeye.se

Fredrik Nilsson

fredrik.nilsson@redeye.se

Tomas Otterbeck

tomas.otterbeck@redeye.se

Oskar Vilhelmsson

oskar.vilhelmsson@redeye.se

Viktor Westman

viktor.westman@redeye.se

Forbes Goldman

forbes.goldman@redeye.se

Mark Siöstedt

mark.siostedt@redeye.se

Danesh Zare

danesh.zare@redeye.se

Mattias Ehrenborg

mattias.ehrenborg@redeye.se

Editorial

Mark Siöstedt

mark.siostedt@redeye.se

Joel Karlsson

joel.karlsson@redeye.se

Life Science Team

Gergana Almquist

gergana.almquist@redeye.se

Oscar Bergman

oscar.bergman@redeye.se

Anders Hedlund

anders.hedlund@redeye.se

Ludvig Svensson

ludvig.svensson@redeye.se

Niklas Elmhammer

niklas.elmhammer@redeye.se

Mats Hyttinge

mats.hyttinge@redeye.se

Filip Einarsson

filip.einarsson@redeye.se

Fredrik Thor

fredrik.thor@redeye.se

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Redeye Rating (2021-05-17)

Rating	People	Business	Financials
5p	20	15	3
3p - 4p	99	78	37
0p - 2p	6	32	85
Company N	125	125	125

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CONFLICT OF INTERESTS

Henrik Alveskog owns shares in the company : No

Viktor Westman owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.