# XMReality

Sector: Human Interaction

## Awaiting substantial roll-outs

### Revenues below forecast, but explained by lower hardware sales

XMReality reported sales of SEK 3m in Q1 (55% y/y growth). The deviation to our forecast (SEK 3.4m) is mainly explained by expectations of greater hardware sales, which however is less critical for the long-term case. The gross margin of 84% indicates that software as part of sales keeps increasing. Costs were at the same time lower than forecast, which resulted in better than expected EBIT (SEK -5.7m vs. estimate: SEK -8.1m). Billed but not recognized sales amounted to SEK 6.1m (134% y/y increase), which partly is driven by the large software order received in March (SEK 1.5m in ARR).

### Solid growth in sales of software subscriptions

Software sales continue to develop at a rapid pace, reflected by the statement that subscription billing (software) was up by more than 200% compared to the same period last year. It now accounts for over 80% of the total billing. For the first time, XMReality revealed the number of customers with ongoing subscriptions, which exceeded 50 companies in Q1. While recognized software sales still are on a rather low level, it is growing at rapid pace.

### Lowered sales outlook, but the long-term case remains unchanged

We have reduced our sales estimates for the upcoming years as we find our earlier estimates to aggressive given its current revenues and announced agreements. Our reduced sales estimates bring a **lowered fair value in base case, which now amounts to SEK 12 per share** (previously SEK 13 per share). The fair values in our bear and bull cases are unchanged.
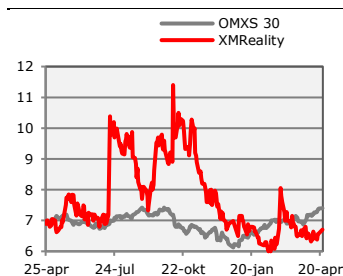
At the same time, it shows positive development, and we argue that the long-term potential remains. XMReality is positioned as one of the leading providers of AR software for remote guidance and we believe that the company will grow sales at a very rapid pace over the coming years. The progress of securing additional larger software orders and general agreements remain to be the most important factors to follow in the current phase, we argue.

### FAIR VALUE RANGE

| BEAR | BASE | BULL |
|------|------|------|
| 6.0 | **12.0** | 22.0 |

### VERSUS OMXS30



### REDEYE RATING
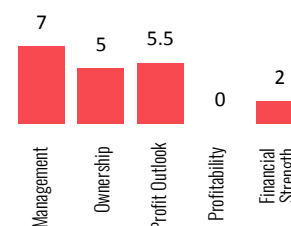


### KEY STATS

| | |
|---|---|
| Ticker | XMR |
| Market | First North |
| Share Price (SEK) | 6.5 |
| Market Cap (MSEK) | 111 |
| Net Debt 19E (MSEK) | -9 |
| Free Float | 77 % |
| Avg. daily volume ('000) | 30 |

### ANALYSTS

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| KEY FINANCIALS (SEKm) | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|
| Net sales | 7 | 10 | 18 | 34 | 61 | 90 |
| EBITDA | -21 | -25 | -20 | -15 | 3 | 17 |
| EBIT | -23 | -29 | -25 | -19 | -1 | 13 |
| EPS (adj.) | -1.6 | -1.7 | -1.5 | -1.1 | -0.1 | 0.8 |
| EV/Sales | 16.2 | 7.9 | 5.7 | 3.4 | 2.0 | 1.2 |
| EV/EBITDA | -5.2 | -3.2 | -5.1 | -8.0 | 46.7 | 6.4 |
| EV/EBIT | -4.8 | -2.7 | -4.1 | -6.1 | -114.4 | 8.2 |
| P/E | -6.7 | -4.0 | -4.4 | -5.8 | -105.6 | 8.3 |

# Q1'19: Software sales moving in the right direction

Net sales amounted to SEK 3m in Q1, corresponding to 55% y/y and -7% q/q growth. We had expected somewhat greater hardware sales, which explains the main deviation to reported figures in Q1. It also explains the q/q decline as Q4'18 was affected by larger deliveries of hardware. This is reflected by the gross margin, which increased by 6 pp (q/q). In the Q4'18 report, it stated that software accounted for about 70% of total billing and we find it reasonable to assume that software as part of total sales exceeded 70% in Q1.

Hence, it is clear that hardware orders still have large impact on quarterly sales. **It is, however, not important for our investment case which relies on its ability to sell software subscriptions**. Regarding its customer base, XMReality revealed that it had over 50 customers with ongoing subscriptions. It also mentioned that software subscriptions now account for more than 80% of the total billing.

| XMReality: Actual vs estimates | | | | |
|---|---|---|---|---|
| (SEKm) | Q1'18 | Q1'19E | Q1'19A | Diff. (%) |
| Net sales | 2.0 | 3.4 | 3.0 | -11% |
| *Growth y/y* | *114%* | *74%* | *55%* | |
| *Gross margin* | *50%* | *78%* | *84%* | |
| OPEX | -8.6 | -10.7 | -8.9 | |
| **EBITDA** | **-5.8** | **-7.0** | **-4.8** | **32%** |
| D&A | -0.8 | -1.1 | -0.9 | |
| **EBIT** | **-6.6** | **-8.1** | **-5.7** | **30%** |
| **Net income** | **-6.6** | **-8.1** | **-5.7** | **30%** |

*Source: Redeye Research*

Both external and personnel costs came in below our expectations (SEK 8.9m vs. forecasted SEK 10.7m), which ultimately resulted in better than expected EBIT. It is mainly explained by lower costs but also capitalized development costs coming in at SEK 1.56m (we assumed SEK 1m), which affects reported EBIT positively.

Operating cash flow amounted to SEK -4.9m, whereof SEK -0.07m attributable to change in working capital. After investing activities of SEK -1.56m (capitalised R&D) and financing activities of SEK -0.1m, the total cash flow amounted to SEK -6.6m. XMReality held SEK 31.2m in cash and interest bearing debt of SEK 1.35m by the end of the quarter.

CEO Castevall mentioned that its automatic extensions have had positive impact on its sales while also reducing sales efforts. The company also kept dropping new customers. This time, XMReality mentioned that GE Healthcare France was one of the new signed customer during the quarter.

Billed but not recognized sales was SEK 6.1m by the end of the quarter, corresponding to an increase by 134% compared to the end of Q1'18. This indicates a solid development, but it is important to recall that sales of software has a trailing effect on reported revenues which are recognized throughout the subscription period.

To summarize, we are not concerned about sales coming in below our forecast as it was based on assumptions of greater hardware sales. Costs were also lower than expected, which ultimately resulted in a better than expected result. Software sales is developing in the right direction and the customer base seems to be increasing.

**Invoiced but not recognized sales, net sales and GM**
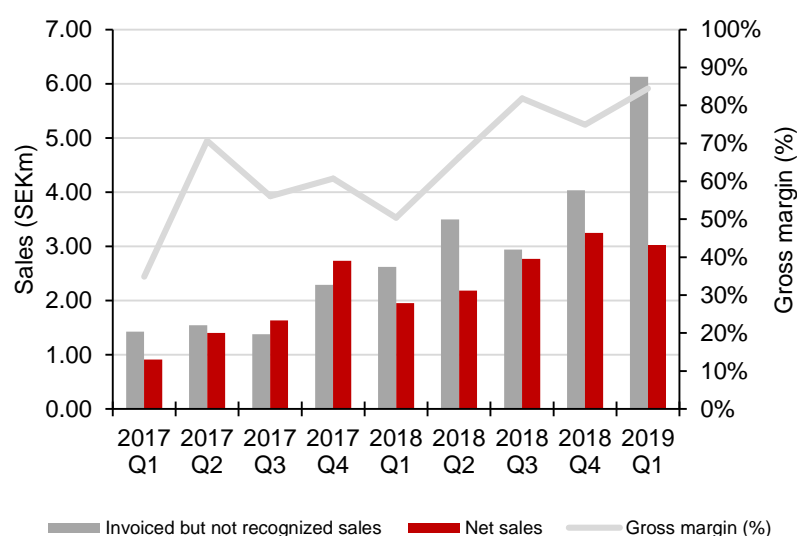


*Source: XMReality*

We have, however, revised our sales forecasts as our previous estimates were based on somewhat higher hardware sales and assumptions of a number of substantial software orders. Given that the software orders have a trailing effects on recognized sales, we find our previous estimates too aggressive given its current revenues and announced orders.

We have at the same time not seen any factors affecting the long-term potential and argue that the long-term case remains. We believe that XMReality maintains its position as one of the leading suppliers of AR-software for remote support. It has over 50 customers with ongoing subscriptions and there should be potential for numerous large software orders given the size of the companies among that base.

We believe that the big question regards whether the large customers will start placing greater software orders in the near term. The order announcements in Q4'18 and, in particular, the order worth SEK 1.5m in ARR points in this direction.

**Sales mix in 2018 disclosed**

The growth in 2018 was almost fully explained by increased software sales, which accounted for 55% (38%) of the total revenues in 2018. While reflecting that its sales of software still is on a rather low level, it grew at a rapid pace (120% in 2018). Hardware accounted for 41% of total revenues in 2018, which reflects that it still has a large impact on reported sales.

| Sales mix 2018 | | | |
|---|---|---|---|
| (SEKm) | 2017 | 2018 | Growth |
| Software | 2.5 | 5.6 | 120% |
| Hardware | 3.9 | 4.2 | 6% |
| Services | 0.2 | 0.4 | 103% |

*Source: XMReality*

The company has already announced several software orders that will increase its software sales in 2019, such as the four orders announced in Q4 and Q1 (SACMI, Strömsholmen, Bühler Consumer Food and the American defense company), which together will add about SEK 2.8m to its ARR.

**First individual software order exceeding SEK 1m**

During the mid of March, XMReality announced that it had received a follow-up order from the undisclosed American defense company. The software order worth SEK 1.5m **shows that the order sizes are increasing**. Our interpretation is that this order should not be added on top of its previous agreements (such as the software order announced in July 2018).

Given the size of the order, the defense company is likely XMReality's largest customer in terms of revenues, but not in user base as XMReality mentions that it regards a "limited number of licenses". Hence, we believe that there should be potential for an increased number of sold subscriptions to the customer.

HoloLens2 launched

During MWC19, Microsoft launched the second generation of its Mixed Reality headset HoloLens, which brought several important improvements compared to the first version, such as expanded field of view, battery, etc., which overall makes it more suitable for enterprise use.

We believe that this is positive news for the AR market as a whole, as the general interest in AR solutions should increase as hardware improve and with giants such as Microsoft heavily investing in AR solutions. An interesting take is found in VDC Research MWC 2019 recaps, where the research firm states that the HoloLens2 might be overkill for remote assist purposes, and that it might have disadvantages for use in challenging environments.

# Estimates

We have revised our 2019 and 2020 estimates based on the reasoning in the previous section. While XMReality shows a positive development in software sales, we do not believe that it has announced the orders needed to reach our previous short-term estimates. Our previous estimates was also based on greater sales of hardware, which has a somewhat bumpy effect on quarterly revenues. As mentioned, sales of software will have a trailing effect on recognized sales and we have therefore also reduced our estimates for 2020E and 2021E. We have also lowered our cost forecasts somewhat, which offset some of the negative effect on EBIT.

| XMReality: Estimate changes | | | |
|---|---|---|---|
| (SEKm) | 2019E | 2020E | 2021E |
| Net sales (new) | 18.0 | 34.2 | 60.9 |
| Net sales (old) | 21.9 | 41 | 71.3 |
| *Change (%)* | *-18%* | *-16%* | *-15%* |
| | | | |
| EBIT (new) | -24.9 | -19.0 | -1.0 |
| EBIT (old) | -24.6 | -15.6 | 5.3 |

*Source: Redeye Research*

As mentioned, sales are still on a low level but is rapidly increasing. There is potential for numerous large orders, where we believe that a single order could bring > SEK 2m in ARR. XMReality has not illustrated this potential yet, but the announced orders in H2'18 and Q1'19 shows that the order values are increasing. The potential differs between customers, but we expect that a large share of the mentioned 50 customers could bring annual revenues exceeding SEK 3m over time. Although the user base within each organization likely will not jump from 50 users to 500 users from one day to the next, we argue that it illustrates the long-term potential.

For 2019, we expect the growth to be driven by an additional number of orders in the sizes recently shown. We further forecast gradual increasing among the majority of customers while also expecting the company to maintain its solid inflow of new customers. In Q4'18, the company stated that about 70% of the billing was for software subscriptions. This increased to over 80% in Q1'19. Therefore, we estimate it to maintain a gross margin in excess of 80% during 2019.

Regarding OPEX, we argue that it should have found stability in the current levels. We do expect smaller increases following recruitment of new sales staff in 2019 and 2020. CEO Castevall argues that the market is maturing, which has a positive effect on its sales efforts.

Our belief is that a large deal of its previous sales efforts have concentrated around educating customers about AR technology and the benefits it brings, while a larger share of the incoming customers now should be more familiar with the technology. This means that its sales resources can focus less on education and more on sales. Although acknowledging this pattern, we believe that the company would have to recruit additional employees to facilitate larger user bases among customers' organizations.

| XMReality: Estimates in Base case | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (SEKm) | 2017 | 2018 | Q1'19E | Q2'19E | Q3'19E | Q4'19E | 2019E | 2020E | 2021E |
| Net sales | 6.7 | 10.2 | 3.0 | 4.0 | 5.0 | 6.0 | 18.0 | 34.2 | 60.9 |
| CoGS | -2.8 | -3.0 | -0.5 | -0.8 | -1.0 | -1.2 | -3.4 | -5.8 | -7.9 |
| Gross margin (%) | 58% | 70% | 84% | 81% | 81% | 80% | 81% | 83% | 87% |
| Staff costs | -13.9 | -20.4 | -5.0 | -6.0 | -5.0 | -6.2 | -22.2 | -26.7 | -31.1 |
| External costs | -17.6 | -16.9 | -3.9 | -4.5 | -4.3 | -4.9 | -17.6 | -20.8 | -23.9 |
| EBITDA | -20.7 | -25.2 | -4.8 | -6.1 | -4.2 | -5.1 | -20.1 | -14.5 | 2.6 |
| D&A | -1.9 | -4.1 | -0.9 | -1.2 | -1.3 | -1.4 | -4.8 | -4.5 | -3.6 |
| EBIT | -22.6 | -29.2 | -5.7 | -7.3 | -5.5 | -6.5 | -24.9 | -19.0 | -1.0 |
| | | | | | | | | | |
| Growth (%) | 30% | 52% | 55% | 83% | 81% | 85% | 77% | 90% | 78% |
| EBIT Margin (%) | -339% | -288% | -338% | -358% | -209% | -257% | -138% | -56% | -2% |

*Source: Redeye Research*

With its current cost structure, it needs about SEK 45m in full-year sales to reach break-even at EBITDA level. As we, however, expect costs to increase, we forecast XMReality to reach break-even at EBITDA level in 2021. Hence, there is a risk that the company would have to raise additional capital before reaching break-even and becoming cash flow positive. If the company, however, delivers on our growth estimates, a minor loan should be sufficient to reach break-even.

# Valuation

Our valuation is based on a discounted cash flow (DCF) model, in which we have used a discount rate (WACC) of 15.2% and a tax rate of 22% for valuation purposes.

## Base case

Our base case is founded on the estimates presented in the earlier section. XMReality is still positioned as one of the leading supplier of AR-based software for remote service. There is great potential in the customer base carrying potential for significant roll-outs. Our belief is that the long-term potential has not changed. It keeps attracting new customers while the average order size increases. During 2018, it signed the first agreements opening up for larger usage and we expect XMReality to sign numerous new important agreements in 2019. An example is the **negotiation** regarding a general agreement with a global engineering group with revenues about SEK 300bn that was communicated in February.

The software offering is based on sales of software subscriptions running with automatic extension bringing recurring revenues given that it maintains a low churn. To date, the company has, however, not disclosed any numbers regarding the current churn among testing users. We argue that the offering is scalable and its sales of licenses should result in very high margins. The business model is further asset light meaning that the investment needs are low. We expect XMReality to grow its revenues at a substantially higher rate than costs, and expect it to reach high operating margins over time.

| XMReality: Base case assumptions | | | | |
|---|---|---|---|---|
| Assumptions: | 2018-2020 | 2021- | DCF-value | |
| CAGR Sales | 72% | 28% | WACC | 15.2% |
| EBIT-margin (avg.) | -161% | 24% | PV of FCF | 75 |
| | | | PV of Terminal Value | 93 |
| Terminal | | | Sum of PV | 169 |
| Sales growth | 2% | | Net cash [1] | 37 |
| EBIT-margin | 24% | | DCF-value | 206 |
| | | | Fair value per share | 12 |
| | | | Current share price | 6.5 |

[1] Per year-end 2018

*Source: Redeye Research*

The estimate changes presented in the earlier section have a negative effect on our fair value in base case, which now amounts to **SEK 12 per share** (previously SEK 13 per share).

## Bear Case 6.0 SEK

Reflects the scenario where the expected breakthrough is delayed due to a general reluctance to invest in new AR-technology.

We have also incorporated tougher competition and a general price pressure on AR solutions for remote guidance.  We assume a slower adoption of XMReality's Remote Guidance, leading to lower sales growth.

However, we still assume a couple of larger orders during the upcoming year, leading to revenue expectations of SEK 15m in 2019 and SEK 25m in 2020.

As sales are assumed to grow at a slower pace than in our other cases, CAGR of 25% beyond 2021 (from lower levels), we further assume lower margins. Our bear case is based on an average EBIT-margin of 17% beyond 2020.

## Base Case 12.0 SEK

The company has shown that its software base is increasing, but we expect to see significantly larger roll-outs where a single customer could bring annual revenues exceeding SEK 5m over time.

Its business model is based on sales of software licenses (recurring revenue) and we believe that the company has potential to achieve stickiness by becoming part of large companies' service organizations.

This implies that it has great prospects to achieve high growth over a period of time if it manages to secure a steady inflow of new large customers while maintaining a low churn.

There is great scalability in XMReality's offering with many customers acting as resellers of the software and additional users can be added to its platform at negligible marginal costs. We expect XMReality to exhibit high margins given the scalability in the offering. In base case, we assume an average EBIT-margin about 24% beyond 2021.

## Bull Case 22.0 SEK

Based on the assumption of several large roll-outs within the coming year, having a substantial effect on the company's revenues during 2019.

We are in general expecting roll-outs within larger organizations, resulting in an increased number of software licenses. The bull case also entails a greater inflow of new industrial clients.

The above results in expectations of strong sales growth during 2018-2021, where sales is expected to grow at a CAGR of 85%. We further assume that sales will continue to grow at a high rate beyond 2021, leading to revenues around SEK 350m in our final estimation period (2028).

We expect XMReality to maintain its technological advantage over a longer period of time, leading to an increased capability of charging its customers higher prices as well as maintaining a lower long-term churn.  Great sales of software open up for high margins. We assume that its operating margin will peak around 35% in our long-run period of estimation.

# Investment Case

**AR market expected to grow rapidly.** From being a technology regarded as science fiction, AR solutions are now being adopted by enterprises. AR brings great opportunities for improved service processes in aftermarket and field service organizations, improving the speed of service and fix rates, resulting in cost savings. Reports indicate that the industry now is ready to adopt AR-technologies on a larger scale, where industrial maintenance is expected to spur some of the most substantial AR investments, related to the trend of digitalizing industry processes (Industry 4.0). The interest from large global industrials is proven by XMReality's impressive list of customers including actors such as ABB, Bosch Rexroth, Epiroc, Sandvik and Siemens Industry Turbomachinery.

**Technological advantage with strong industrial focus.** There are numerous competitors targeting field service companies with different AR-based solutions for knowledge sharing. XMReality, however, has a short-term competitive advantage in its offering of a software solution that incorporates hands overlay, is deployable in areas of weak network capacity and is supported on smartphones, tablets, and smart glasses. Remote guidance adds value to customers by increasing the mobility of the clients' support organization and rationalizing their operational efficiency by improving first-time fix rates. It further provides opportunities for significant costs savings, illustrated by the client Bombardier which reported savings of SEK 20k in a single service session. The solution also provides a solid resource for internal training which is an essential factor for companies dealing with an aging workforce.

**Scalable offering.** XMReality's business model is highly scalable where the company faces a negligible marginal cost of adding additional licensed users to the platform. The scalability is further illustrated by the offering towards industrial companies that will incorporate XMReality's solution in their service offering. This also constitutes for potential lock-in effects given that clients incorporate XMReality's solution in their large-scale service operations. Several large clients are currently running evaluations and tests of XMReality's Remote Guidance solution, and we believe that there is potential for multiple large-scale software roll-outs within existing client organizations during the coming years, where a single customer could account for annual recurring revenues exceeding SEK 5m.

## Counter-thesis (bear points)

**Delayed ramp-up.** We believe that the greatest risk with an investment in an early stage is that XMReality's great prospects never come to materialize or is delayed due to inflexibility among large clients' organizations that increase the duration of large-scale implementations. This have been the case during 2017-2018 and an extended delay will increase the risk of needing to raise additional capital before reaching break-even.

**New competitor(s) with superior solution.** There is a risk of potential superior solutions introduced by competitors. The AR/VR market has traditionally been affected by high M&A volumes, and there is further a possibility that XMReality's competitive situation will be affected by this. The company must succeed in exploiting its short-term competitive advantage as

**Price pressure.** XMReality applies a premium price strategy that could be difficult to retain if new competitors can offer solutions with a similar value proposition as XMReality. It becomes even more relevant in the long-run if the technology becomes a standardized solution within industrial service operations. It is therefore essential that XMReality retain its technological advantage through continued successful development of its software.

# Catalysts

**Announcement of large agreement**

We see great potential in a large roll-out of XMReality's Remote Guidance solution throughout a large client's service organization after running tests for a long period. Apart from yielding recurring revenues and high margins, it would indicate that the industry truly is ready to adopt the solution and run it on a larger scale. We believe such an agreement is to be expected within the coming 12 months.

**New channel partner(s)**

There is further potential for a new channel partner(s) that incorporate XMReality's solution in their offering toward clients. We, however, believe this to be more relevant as the company has shown larger software sales volumes.

**New technology partner(s)**

We believe that new technological partners in hardware developers such as Microsoft or RealWear would strengthen XMReality's case. Such a partnership would increase the potential user base and further strengthen XMReality's position as a leading provider of industrial AR-solutions.

# Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

## Rating changes in the report

No rating changes.

### Management: 7.0

Management shows good understanding of the market and is focused on the field service industry although the areas of application are boundless. XMReality's board possess a broad area of expertise covering experience from start-ups, IT-industry and management work for large global companies. CoB has further been with the company for a long period. The management team, however, compromises a relatively new constellation where a majority of the positions have been appointed during 2016/2017. We thus want to follow the company's performance before increasing our rating.

### Ownership: 5.0

The company has a solid list of shareholders where a majority of the board members are represented. There is further four institutional owners among the 10 largest shareholders, which is rather unusual in a company of XMReality's size. We further like that CEO, CoB and founders possess holdings in the company.

### Profit Outlook: 5.5

The company is active on a rapidly growing market, where numerous globally leading industrials are showing interest in technologies that can rationalize their service operations. XMReality's offering is scalable and the company applies a licensing model for its software offering which opens up for recurring revenues and high margins.

### Profitability: 0.0

XMReality is currently exhibiting negative earnings and operating cash flow. It is therefore difficult to award a higher rating than zero in the current stage of business. We see room for improvements of our profitability rating as XMReality starts showing positive earnings.

### Financial Strength: 2.0

XMReality recently announced a directed share issue, thereby accommodating its needs for at least the coming 18 months. We believe that the company should be able to reach break-even without having to raise additional capital based on our assumption of a sales breakthrough in 2019. If the breakthrough, however, is delayed, there is a risk that the company would have to raise new capital towards the end of 2020. We see room for an increased rating as the company starts generating positive cash flows that bolster its capital strength.

| INCOME STATEMENT | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Net sales | 7 | 10 | 18 | 34 | 61 |
| Total operating costs | -27 | -35 | -38 | -49 | -58 |
| EBITDA | -21 | -25 | -20 | -15 | 3 |
| Depreciation | 0 | 0 | 0 | 0 | 0 |
| Amortization | -2 | -4 | -5 | -4 | -4 |
| Impairment charges | 0 | 0 | 0 | 0 | 0 |
| EBIT | -23 | -29 | -25 | -19 | -1 |
| Share in profits | 0 | 0 | 0 | 0 | 0 |
| Net financial items | 0 | 0 | 0 | 0 | 0 |
| Exchange rate dif. | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | -23 | -29 | -25 | -19 | -1 |
| Tax | 0 | 0 | 0 | 0 | 0 |
| Net earnings | -23 | -29 | -25 | -19 | -1 |

| BALANCE SHEET | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | | | | | |
| Cash in banks | 46 | 38 | 10 | 0 | 0 |
| Receivables | 6 | 6 | 7 | 10 | 12 |
| Inventories | 0 | 0 | 0 | 1 | 2 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Current assets | 52 | 44 | 17 | 11 | 15 |
| Fixed assets | | | | | |
| Tangible assets | 2 | 1 | 1 | 1 | 1 |
| Associated comp. | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Cap. exp. for dev. | 0 | 0 | 0 | 0 | 0 |
| O intangible rights | 12 | 15 | 15 | 14 | 15 |
| O non-current assets | 0 | 0 | 0 | 0 | 0 |
| Total fixed assets | 14 | 15 | 16 | 16 | 16 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 |
| Total (assets) | 66 | 59 | 33 | 27 | 31 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Short-term debt | 1 | 1 | 1 | 5 | 9 |
| Accounts payable | 7 | 10 | 9 | 17 | 18 |
| O current liabilities | 0 | 0 | 0 | 0 | 0 |
| Current liabilities | 8 | 11 | 10 | 22 | 28 |
| Long-term debt | 2 | 0 | 0 | 0 | 0 |
| O long-term liabilities | 0 | 1 | 1 | 1 | 1 |
| Convertibles | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 10 | 12 | 11 | 23 | 28 |
| Deferred tax liab | 0 | 0 | 0 | 0 | 0 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 57 | 48 | 23 | 4 | 3 |
| Minority interest (BS) | 0 | 0 | 0 | 0 | 0 |
| Minority & equity | 57 | 48 | 23 | 4 | 3 |
| Total liab & SE | 66 | 59 | 33 | 27 | 31 |

| FREE CASH FLOW | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Net sales | 7 | 10 | 18 | 34 | 61 |
| Total operating costs | -27 | -35 | -38 | -49 | -58 |
| Depreciations total | -2 | -4 | -5 | -4 | -4 |
| EBIT | -23 | -29 | -25 | -19 | -1 |
| Taxes on EBIT | 0 | 0 | 0 | 0 | 0 |
| NOPLAT | -23 | -29 | -25 | -19 | -1 |
| Depreciation | 2 | 4 | 5 | 4 | 4 |
| Gross cash flow | -21 | -25 | -20 | -15 | 3 |
| Change in WC | 1 | 3 | -3 | 4 | -2 |
| Gross CAPEX | -9 | -5 | -5 | -4 | -4 |
| Free cash flow | -28 | -28 | -28 | -14 | -4 |

| CAPITAL STRUCTURE | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Equity ratio | 86% | 80% | 68% | 13% | 8% |
| Debt/equity ratio | 4% | 1% | 3% | 148% | 360% |
| Net debt | -44 | -37 | -9 | 5 | 9 |
| Capital employed | 13 | 11 | 14 | 9 | 12 |
| Capital turnover rate | 0.1 | 0.2 | 0.5 | 1.3 | 2.0 |

| GROWTH | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| Sales growth | 30% | 52% | 77% | 90% | 78% |
| EPS growth (adj) | 30% | 10% | -15% | -24% | -94% |

| DCF VALUATION | | CASH FLOW, MSEK | |
|---|---|---|---|
| WACC (%) | 15.2 % | NPV FCF (2018-2020) | -39 |
| | | NPV FCF (2021-2027) | 115 |
| | | NPV FCF (2028-) | 93 |
| | | Non-operating assets | 38 |
| | | Interest-bearing debt | -1 |
| | | Fair value estimate MSEK | 206 |
| Assumptions 2017-2023 (%) | | | |
| Average sales growth | 49.9 % | Fair value e. per share, SEK | 12.0 |
| EBIT margin | -12.7 % | Share price, SEK | 6.5 |

| PROFITABILITY | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| ROE | -55% | -56% | -71% | -145% | -34% |
| ROCE | -51% | -55% | -70% | -118% | -10% |
| ROIC | -320% | -228% | -237% | -140% | -12% |
| EBITDA margin | -310% | -248% | -111% | -42% | 4% |
| EBIT margin | -339% | -288% | -138% | -56% | -2% |
| Net margin | -340% | -289% | -139% | -56% | -2% |

| DATA PER SHARE | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| EPS | -1.56 | -1.72 | -1.46 | -1.12 | -0.06 |
| EPS adj | -1.56 | -1.72 | -1.46 | -1.12 | -0.06 |
| Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net debt | -3.01 | -2.18 | -0.53 | 0.31 | 0.54 |
| Total shares | 14.61 | 17.05 | 17.05 | 17.05 | 17.05 |

| VALUATION | 2017 | 2018 | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|
| EV | 107.9 | 80.2 | 101.8 | 116.2 | 120.1 |
| P/E | -6.7 | -4.0 | -4.4 | -5.8 | -105.6 |
| P/E diluted | -6.7 | -4.0 | -4.4 | -5.8 | -105.6 |
| P/Sales | 22.7 | 11.6 | 6.2 | 3.2 | 1.8 |
| EV/Sales | 16.2 | 7.9 | 5.7 | 3.4 | 2.0 |
| EV/EBITDA | -5.2 | -3.2 | -5.1 | -8.0 | 46.7 |
| EV/EBIT | -4.8 | -2.7 | -4.1 | -6.1 | -114.4 |
| P/BV | 2.7 | 2.5 | 4.9 | 30.7 | 43.2 |

| SHARE PERFORMANCE | | GROWTH/YEAR | 16/18E |
|---|---|---|---|
| 1 month | -0.5 % | Net sales | 64.2 % |
| 3 month | -2.3 % | Operating profit adj | 4.9 % |
| 12 month | -5.7 % | EPS, just | -3.0 % |
| Since start of the year | -5.5 % | Equity | -36.9 % |

| SHAREHOLDER STRUCTURE % | CAPITAL | VOTES |
|---|---|---|
| Investment AB Spiltan | 11.9 % | 11.9 % |
| Handelsbanken Fonder | 9.4 % | 9.4 % |
| AMF Försäkring & Fonder | 7.5 % | 7.5 % |
| Lars Svensson | 4.9 % | 4.9 % |
| Avanza Pension | 4.7 % | 4.7 % |
| Nordnet Pensionsförsäkring | 3.4 % | 3.4 % |
| Claes Nylander | 3.2 % | 3.2 % |
| LMK-bolagen & Stiftelse | 3.0 % | 3.0 % |
| C WorldWide Asset Management | 2.8 % | 2.8 % |
| Christer Svensson | 2.4 % | 2.4 % |

| SHARE INFORMATION | |
|---|---|
| Reuters code | XMR |
| List | First North |
| Share price | 6.5 |
| Total shares, million | 17.1 |
| Market Cap, MSEK | 110.8 |

| MANAGEMENT & BOARD | |
|---|---|
| CEO | Johan Castevall |
| CFO | Claes Pettersson |
| IR | Johan Castevall |
| Chairman | Claes Nylander |

| FINANCIAL INFORMATION | |
|---|---|
| Q2 report | August 16, 2019 |
| Q3 report | October 25, 2019 |

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# Redeye Rating and Background Definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

**Company Qualities**

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

### Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

### Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

### Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

### Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

### Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

# Redeye Equity Research team

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# Disclaimer

**Important information**

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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**Redeye Rating (2019-04-25)**

| Rating | Management | Ownership | Profit outlook | Profitability | Financial Strength |
|---|---|---|---|---|---|
| 7,5p - 10,0p | 48 | 46 | 19 | 11 | 20 |
| 3,5p - 7,0p | 91 | 86 | 120 | 41 | 56 |
| 0,0p - 3,0p | 15 | 22 | 15 | 102 | 78 |
| Company N | 154 | 154 | 154 | 154 | 154 |

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**CONFLICT OF INTERESTS**

Dennis Berggren owns shares in the company : No

Eddie Palmgren 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.