

Research Update

NOSA PLUGS AB

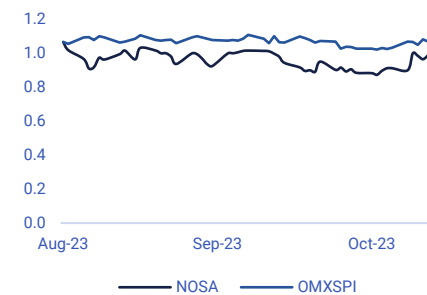
Nosa Plugs AB, a medical technology company, develops, manufactures and sells intranasal breathing products. Products include plugs for odor protection, allergies and smell training. Nosa Plugs AB (publ) was incorporated in 2014 and is headquartered in Stockholm, Sweden.

CEO: Adrian Liljefors
CoB: Dan Josefsberg
www.nosaplugs.com

Listing: Nasdaq First North Stockholm
Share price, latest: 1.0 SEK
Market Cap: 184 SEKm
Enterprise Value: 176 SEKm

CapitalIQ: OM:NOSA
Bloomberg: NOSA:SS

SHARE PRICE



	12M	YTD	6M	1M
Development (%)	291	263	109	15

Source: S&P Capital IQ

VALUATION INTERVAL (SEK)



	BEAR	BASE	BULL
Target Price (SEK)	0.5	1.3	1.8
Potential (%)	-50%	30%	80%

Source: S&P Capital IQ and Carlsquare estimates

CARLSQUARE EQUITY RESEARCH

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Moving ahead of schedule

The third quarter for Nosa Plugs was not a shocker, as all eyes are on the following fourth quarter. The quarter saw new partnerships and developments being made with the soon-to-launch smell training plugs. Launching at the Düsseldorf Medica fair, the smell training plugs are expected to come in hot, with total sales expected to grow somewhere between 60% to 80%. Costs came in close to our expectations, but more importantly, seeing as the smell training plugs will launch much sooner than expected, we have modified our sales curves. This results in a new fair value of SEK 1.3 (1.2) per share.

App development intended to support new launch

NOSA announced the completion of a companion app for the smell training plugs on 12 September. The app is intended to support patients and make the treatment more effective. The app is designed to be used as the first step of the treatment and until the treatment is complete. The user enters their characteristics and personal preferences which the app then uses as a foundation for the treatment. The app reminds and notifies when it is timely to start training and when to change to a new scent.

Nosa smell training sooner than expected

The previous target was to launch the new smell training plugs by the end of the first quarter of 2024. However, thanks to speedy development, the new launch date is set for November 13. The product is already fully developed, soon to be CE-marked and the first commercial batch has been completed. The clinical study is running according to plan, with patient recruitment active and results expected to be made public by the end of Q2 2024. Thanks to launching earlier than expected, the smell training plugs will make their debut at the Medica in Düsseldorf, one of the largest trade fairs for medicine and medical technology. The strong news flow supports our expectations of a successful launch, especially considering the seasonality of launching during winter times, which is associated with a heightened demand for smell training products.

Finances stable for continued development

NOSA sales were slightly lower than what we had expected while the opposite was true for costs, coming in slightly above our expectations. The costs were however not significantly higher in order to raise concerns regarding the company liquidity. This is essential considering the long-term plan for developing new plugs for slow-release drug delivery. As mentioned in the report, big news is expected to be announced before the end of the year regarding the drug delivery plugs. Other than the drug delivery plugs, increased patent protection in several key geographies increases the prospects of the other products. Nosa allergy filter plugs were patented in four new geographies, giving further credibility to our sales estimates in this segment. Furthermore, two new patent publications for the microbial plugs entail further news flow about new markets.

Raised fair value reflects accelerated sales curves

The faster-than-expected launch of the smell training plugs is expected to result in higher revenues faster. We believe this will be the case as the timing with the Medica fair, in tandem with the heightened awareness during winter months, opens the door to better initial penetration. This assumption gains credibility from the fact that previous Medica fair visits have yielded new distributor agreements. Taken together, we bring our sales curves forward for the smell training plugs. The expected stronger sales performance is to some extent offset by a higher risk-free rate, but still results in us deriving a new fair value at SEK 1.3 (1.2) per share.

Financial Key Ratios (SEKm)

	2021A	2022A	2023E	2024E	2025E	2026E
Net revenues	3.9	6.7	11.4	21.7	44.3	68.6
Total revenues	3.9	6.7	11.4	21.7	44.3	68.6
EBIT	-9.8	-13.9	-10.6	-11.3	-0.2	7.1
EBT	-10.2	-14.1	-10.8	-12.0	-0.1	7.1
Earnings per share	-0.99	-0.69	-0.06	-0.06	0.00	0.03
EV/Sales	0.0x	0.0x	16.5x	8.6x	4.2x	2.7x
EV/EBITDA	NM	NM	NM	NM	66.5x	18.0x
EV/EBIT	NM	NM	NM	NM	NM	26.5x

Source: Company information and Carlsquare estimates

Investment Case

Nosa Plugs made it through the other side of the pandemic and has since continued on the strong growth curve they were on before it. The ongoing work to roll out products through new partnerships with distributors means reaching both new geographies and new customer bases. Further development of the patented technology, pursuing the smell training, and slow-release drug lines secure longer-term growth and margins, like what was seen in Q2 2023.

Strong organic growth, breakeven on the horizon

With Nosa menthol plugs as the original and primary product, growth has been both strong and steady, with a sales CAGR of 24% in 2019-2022, only deviating on account of obligatory usage of facemasks during the pandemic. We expect an average annual sales growth of 34.5% during our forecast period, producing an estimated fair share value of SEK 1.3 (1.2) after full dilution, or an upside of 30%. This rises to SEK 1.8 (1.6) in an optimistic bull case and goes down to 0.5 (0.6) in a pessimistic bear case.

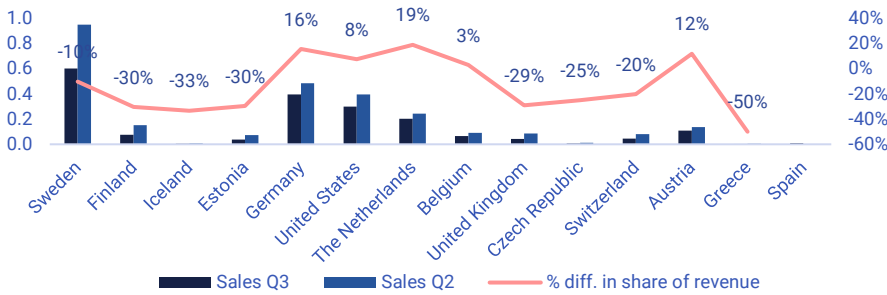
- **Listed through reverse acquisition and picking up steam.** Nosa Plugs was a private company until recently, in March of 2023, when it was listed on the Nasdaq First North Stockholm exchange. More precisely, on the 15th of March, Nosa Plugs bought out FRISQ Holding AB from the stock exchange through a reverse merger. Nosa Plugs AB bought 100% of the shares in the created entity NoseOption AB for SEK 74.9 million. The payment was made with 111.6 million shares in Nosa Plugs AB at SEK 0.671 per share. Following the acquisition, the original owners of Nosa Plugs AB hold 62% of the shares, with the remainder owned by FRISQ Holding AB's original owners.
- **Multiple incoming triggers broadening the customer base.** By offering the first CE-marked solution for smell training Nosa Plugs is primed to seize shares quickly in a big market. The company will be able to leverage its existing technology to develop and reach new customer bases. With an approximate 20% of the world living with some form of impairment to their sense of smell, bringing a first-in-class medical device should entail a big first-mover advantage. Furthermore, NOSA is conducting a study, intended to involve 200 patients with olfactory impairment, intended to generate a solid argument for the superiority of the plugs compared to SoC. The product launched on November 13, at the Medica fair in Düsseldorf, a fair where previous years have yielded new distributor agreements. Further possibilities lie in the slow release of drugs, with Nosa drug delivery being able to offer better administration of certain drugs through the nose. Although in an early stage, the company expects to publish big news in this area before year-end.
- **Two business legs secure both short and long-term growth.** Through strong organic growth in both B2B and B2C customer bases, the current plugs act as the cash cow for Nosa Plugs. Over time, this will fund the other leg of research and development. Furthermore, thanks to high degrees of customer retention, much of the revenue will be recurring. Compared to other medtech companies, the ability to reach a wide customer base combined with recurring revenue means that the quality of the revenues goes up. Furthermore, through clever marketing strategies targeting specific influencers, exceptional returns on investments can be made in otherwise new or fresh geographies.

Quarterly sales comparison

Geography and customer mix

In terms of the geographical distribution of sales we see the DACH area performing well during the third quarter. The percentage of Net sales that was going to Germany increased by 16%, with the German share of Net sales going from 17.8% in Q2 to 20.6% in Q3. Sweden, the biggest market for Nosa Plugs, went down in importance, going from a 34.8% of Net sales to a 31.3% share. We expect the coming quarter to see the DACH area and Sweden to increase their shares, as small training plugs are launched at the Medica fair.

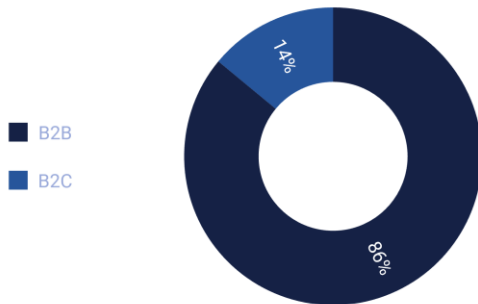
Geographical distribution, sales (SEKm) and change in revenue share (%), QoQ



Source: Company Information

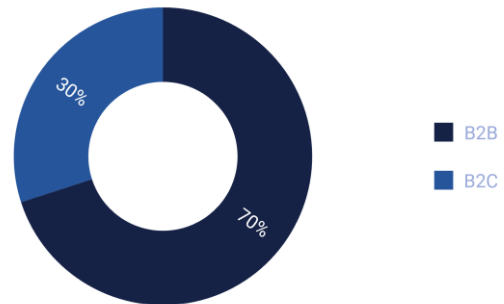
In terms of the consumer mix the change was in line with our expectations, with B2B increasing from a 70% share of Net sales to a share of 86%. We view the seasonality of the current product portfolio, especially toward consumers rather than businesses, to be weaker in Q3 and stronger in Q4. Businesses, or more exactly budgeting entities, should reasonably be more stable in demand than consumers. Given the above, we expect the B2C segment to increase in share of Net sales for Q4 as well as for Q1 2024.

B2B and B2C sales mix Q3 2023 (%)



Source: Company information

B2B and B2C sales mix Q2 2023 (%)



Source: Company information

Estimates

Early launch bring sales estimates forward

We expect the Nosa smell training plugs to be a solid addition to the product portfolio that will grow fast. The launch being moved forward with four months means that sales curves have shifted nearer in time. We expect sales of smell training plugs to reach SEK 0.9 million in Q4. Following the early launch we expect a CAGR of 41% over the following five-year period, with the CAGR over our total forecasting period at 21%. The company has stated goals to reach at least SEK 70 million in sales by 2026, representing a yearly growth target of 80% on average. Furthermore, the company aims for a 65% gross margin with a corresponding 20% EBIT margin. In our model, we expect NOSA to fall just short of the first goal, reaching sales of SEK 68.6 by 2026, representing a sales CAGR of 78.7% over the period 2022-2026. We believe the company will be able to maintain a high gross margin with automated production and the possibility of increasing shifts at the producer, keeping a lid on direct costs. In our model, the gross margin goes down to 66.2% by 2026, down from 68.6% in 2022, a relatively small decrease considering the new lower-margin products. The goal for the EBIT margin for 2026 is, in our view, hard to reach, keeping in mind that a lot of investments need to be made in increasing staff as well as continuing the marketing efforts. We estimate a 10.4% EBIT margin by 2026 as overheads increase to enable continued sales efforts.

Financial Key Ratios (SEKm)

	Q3, 23E	Q3, 23A	Deviation (%)
Net sales	2.1	1.9	-7.6%
Gross profit*	1.4	1.3	-9.2%
Gross profit margin*	67.7%	66.5%	
EBITDA	-2.3	-3.6	-54.8%
EBITDA margin	Neg.	Neg.	
EBIT	-3.1	-3.9	-26.5%
EBIT margin	Neg.	Neg.	
EBT	-3.2	-3.9	-22.9%
EPS (SEK)	-0.02	-0.02	-11.5%

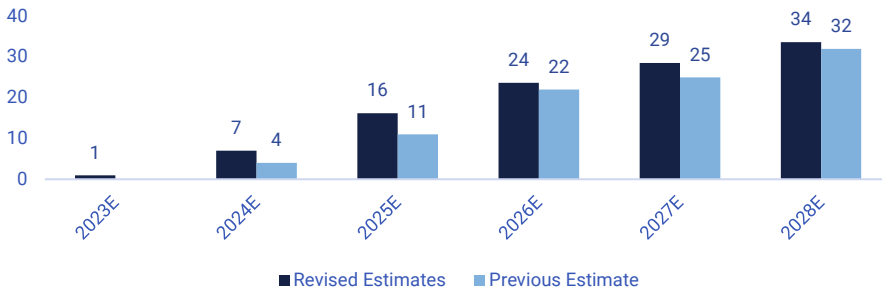
Source: Company information and Carlsquare estimates

Costs, estimates compared to actuals (SEKm), Q3



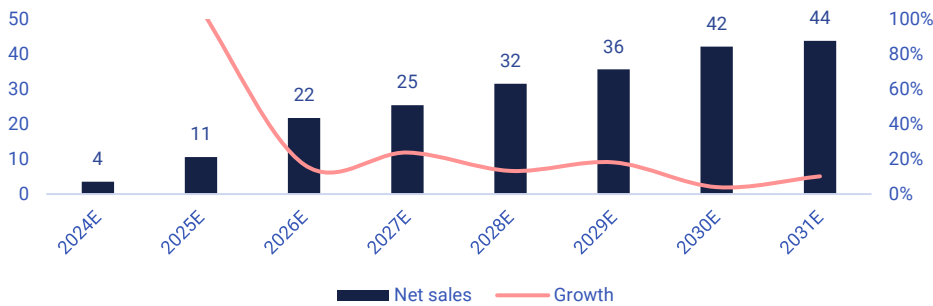
Source: Carlsquare estimates

Revenue, smell training estimates (SEKm), 2023E-2028E



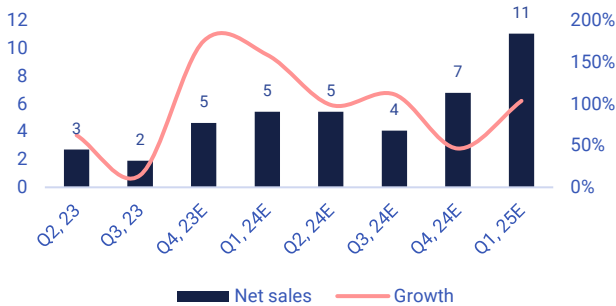
Source: Carlsquare estimates

Net Sales (SEKm) and growth (%), 2024E-2031E



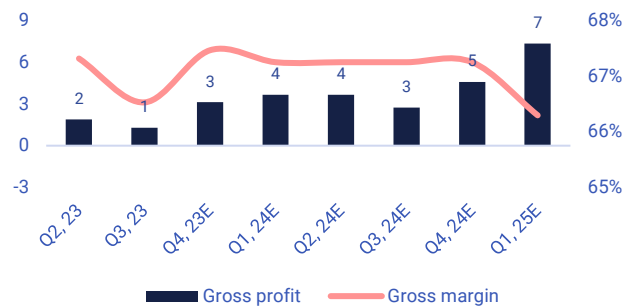
Source: Carlsquare estimates

Net sales (SEKm) and growth (%)



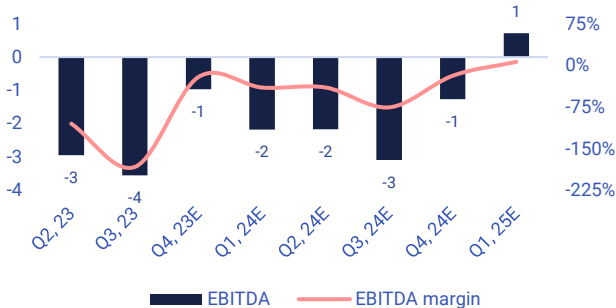
Source: Carlsquare estimates

Gross profit (SEKm) and gross margin (%)



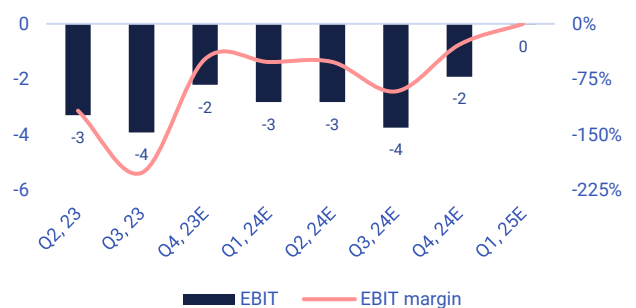
Source: Carlsquare estimates

EBITDA (SEKm) and EBITDA-margin (%)



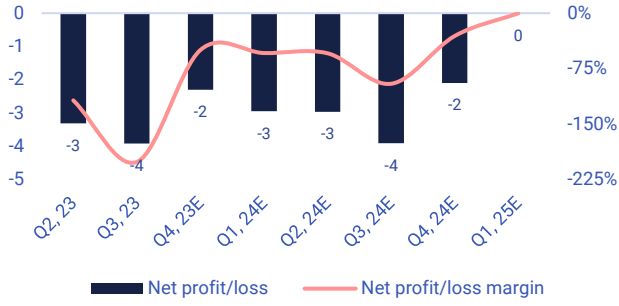
Source: Carlsquare estimates

EBIT (SEKm) and EBIT-margin (%)



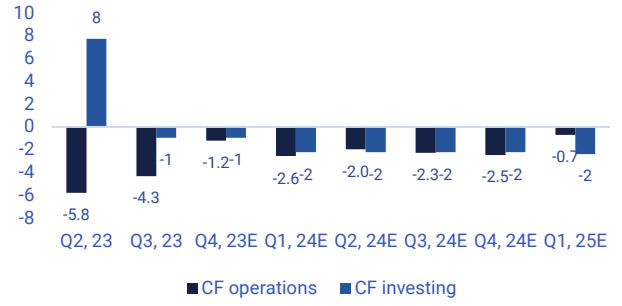
Source: Carlsquare estimates

Net profit (SEKm) and net margin (%)



Source: Carlsquare estimates

Cashflow (SEKm)



Source: Carlsquare estimates

Valuation

We raise the fair value to reflect a faster launch

Through the computation of a DCF valuation, we reach a fair value per share of SEK 1.3 in a base-case scenario. For our valuation, we have used a WACC of 14.9% (14.3%). As compared to the initiation of coverage report, the discount rate has been updated to reflect the tougher financial climate, negatively impacting the valuation. The valuation is, to a large extent, contingent on the successful launch of Nosa smell training plugs, but strong organic growth from existing products is also expected. We expect Nosa Plugs to be able to utilize the Medica fair in order to better time the market and launch at a convenient time.

DCF inputs and corresponding multiples

DCF valuation						
PV(UFCF)	SEKm	76	Disc. rate			
PV(TV)	SEKm	154	Risk-free rate	3.0%	Tax adj. Int. on debt	11.2%
Enterprise value	SEKm	230	Market risk premium	6.1%	Leverage	0.0%
Net cash(+), last Q	SEKm	6.6	Size premium	3.8%	WACC	14.9%
Value, associated comps.	SEKm	0.0	Beta	1.2x	Comp. spec. premium	0.0%
Value, minority interest	SEKm	0.6	Req. return on equity	14.9%	Discount rate	14.9%
Shareholder value	SEKm	257	Assumptions			
PV(equity financing proceeds)	SEKm	20	CAGR, 2023-2035	31.0%		
Shareholder value, after financing	SEKm	257	EBITDA-margin, 2035	17.2%		
Current shares outstanding	M	184	EBIT-margin, 2035	11.3%		
Discount attributable to financing	%	10.0	Tax rate	20.6%		
Shares outstanding after financing and dilution	M	203	Implied multiples			
Value per share (before financing and dilution)	SEK	1.3	EV/Sales, NTM	12.1x	EV/EBITDA, NTM	NM
Value per share (after financing and dilution)	SEK	1.3	EV/Sales, 2024E	10.6x	EV/EBITDA, 2024E	NM
Currency	SEK/SEK	1.0	P/S, NTM	12.4x	EV/EBIT, NTM	NM
Value per share (before financing and dilution)	SEK	1.3	P/S, 2024E	10.9x	EV/EBIT, 2024E	NM
Value per share (after financing and dilution)	SEK	1.3	EV/Gross prof., NTM	17.9x	P/E, NTM	NM
Potential up-/downside		26%	EV/Gross prof., 2024E	15.7x	P/E, 2024E	NM

*Please note that consensus estimates move daily which can entail small discrepancies between used and actual multiples

Source: S&P Capital I.Q. and Carlsquare estimates

Valuation range

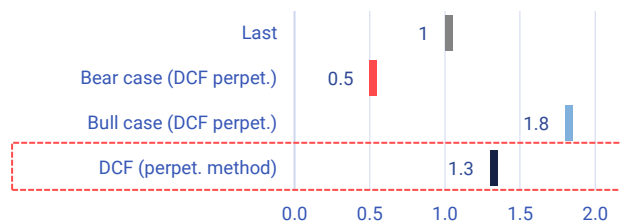
The value increases in a Bull-case scenario, where the smell training plugs launch gains more traction more quickly, resulting in a fair value of SEK 1.8 per share. In the Bear case, we expect weaker performance in terms of both sales and margins, hurting the long-term prospects for NOSA. This results in a fair share value of SEK 0.5 per share.

Fair value (SEK/Share), base-case

Currency, SEK	1.0
Cash (23'Q3A)	7.6
Fair Value	231
Number of shares	185
Per share	1.3
Discount attributable to financing	10%
Fair value per share	1.3

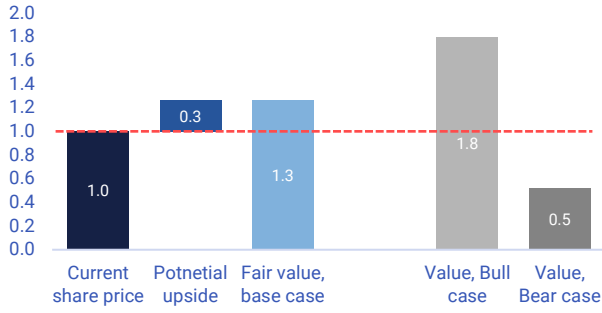
Source: Carlsquare estimates

Fair value within an interval (SEK/Share)



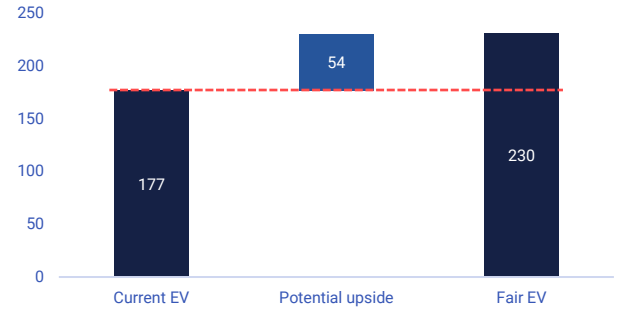
Source: Carlsquare estimates

Fair value per share (SEK), three scenarios



Source: Carlsquare estimates

Visualization E.V., base (SEKm)



Source: Carlsquare estimates

Key Figures and Accounts

Income Statement (SEKm), Quarterly

	Q1, 23A	Q2, 23A	Q3, 23A	Q4, 23E	Q1, 24E	Q2, 24E	Q3, 24E	Q4, 24E
Net sales	2	3	2	5	5	5	4	7
Total revenue	2	3	2	5	5	5	4	7
Gross profit	1	2	1	3	4	4	3	5
EBITDA	-2	-3	-4	-1	-2	-2	-3	-1
Adj. EBITDA	-2	-3	-4	-1	-2	-2	-3	-1
EBIT	-2	-3	-4	-2	-3	-3	-4	-2
Adj. EBIT	-2	-3	-4	-2	-3	-3	-4	-2
EBT	-2	-3	-4	-2	-3	-3	-4	-2
Adj. EBT	-2	-3	-4	-2	-3	-3	-4	-2
Net profit/loss	-2	-3	-4	-2	-3	-3	-4	-2
Adj. Net profit/loss	-2	-3	-4	-2	-3	-3	-4	-2
Basic EPS adj. (SEK)	0	0	0	0	0	0	0	0
Growth	Q1, 23	Q2, 23	Q3, 23	Q4, 23	Q1, 24E	Q2, 24E	Q3, 24E	Q4, 24E
Net sales	25%	63%	15%	176%	159%	99%	112%	47%
Total revenue	13%	59%	7%	150%	159%	95%	111%	47%
Gross profit	735%	546%	229%	205%	153%	94%	113%	46%
EBITDA	70%	57%	53%	90%	-40%	26%	13%	-31%
EBIT	69%	59%	55%	80%	-48%	15%	4%	13%
EBT	69%	59%	55%	80%	-53%	11%	0%	9%
Net profit/loss	69%	59%	55%	80%	-53%	11%	0%	9%
Margins	Q1, 23	Q2, 23	Q3, 23	Q4, 23	Q1, 24E	Q2, 24E	Q3, 24E	Q4, 24E
Gross margin	69%	67%	67%	67%	67%	67%	67%	67%
EBITDA margin	-74%	-105%	-183%	-21%	-40%	-40%	-75%	-19%
Adj. EBITDA margin	-74%	-105%	-183%	-21%	-40%	-40%	-75%	-19%
EBIT margin	-90%	-117%	-201%	-47%	-52%	-52%	-91%	-28%
Adj. EBIT margin	-90%	-118%	-201%	-47%	-52%	-52%	-91%	-28%
EBT margin	-91%	-118%	-201%	-50%	-54%	-54%	-95%	-31%
Adj. EBT margin	-91%	-118%	-201%	-50%	-54%	-54%	-95%	-31%
Profit margin	-91%	-118%	-201%	-50%	-54%	-54%	-95%	-31%
Adj. profit margin	-91%	-118%	-201%	-50%	-54%	-54%	-95%	-31%

Source: Company information and Carlsquare estimates

Income statement (SEKm), yearly

	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Net sales	3.9	6.7	11.4	21.7	44.3	68.6	89.4
Total operating income	4.5	6.7	11.4	21.7	44.3	68.6	89.4
COGS	-1.4	-2.1	-3.7	-7.1	-14.9	-23.2	-30.3
Gross profit	3.2	4.6	7.7	14.6	29.4	45.5	59.1
Other operating expenses, less COGS and D&A	-10.9	-12.3	-16.0	-23.4	-26.6	-35.1	-50.2
EBITDA	-7.8	-7.7	-8.3	-8.8	2.8	10.4	8.9
Adj. EBITDA	-7.8	-7.7	-8.4	-8.8	2.8	10.4	8.9
Dep. and amort.	-2.0	-6.2	-2.3	-2.6	-3.0	-3.3	-3.9
EBIT	-9.8	-13.9	-10.6	-11.3	-0.2	7.1	5.0
Adj. EBIT	-9.8	-13.9	-10.7	-11.3	-0.2	7.1	5.0
Net finances	-0.4	-0.3	-0.1	-0.6	0.0	0.0	0.0
EBT	-10.2	-14.1	-10.8	-12.0	-0.1	7.1	5.1
Adj. EBT	-22.9	-14.1	-11.5	-11.9	-0.1	7.1	5.1
Tax	0.0	-3.7	0.0	0.0	0.0	-0.2	0.2
Net profit/loss	-10.2	-17.8	-10.8	-12.0	-0.2	6.9	5.2
Adj. net profit/loss	-22.9	-17.8	-11.5	-11.9	-0.1	6.9	5.2
Basic EPS adj.	-1.0	-0.7	-0.1	-0.1	0.0	0.0	0.0
Growth	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Net sales	-15%	71%	69%	91%	104%	55%	30%
Tot. revenue	-8%	49%	69%	91%	104%	55%	30%
Gross profit	34%	47%	67%	90%	101%	55%	30%
EBITDA	-34%	1%	-8%	-5%	132%	269%	-14%
Adj. EBITDA	-34%	1%	-8%	-5%	132%	269%	-14%
EBIT	-32%	-41%	23%	-7%	99%	4528%	-29%
Adj. EBIT	-32%	-41%	23%	-7%	99%	4528%	-29%
EBT	-36%	-39%	24%	-11%	99%	5660%	-29%
Adj. EBT	-204%	38%	19%	-4%	99%	10351%	-29%
Net profit/loss	-36%	-75%	40%	-11%	99%	4038%	-24%
Adj. net profit	-204%	22%	36%	-4%	99%	6015%	-24%
Basic EPS adj.	2%	-30%	-91%	-4%	-99%	-6064%	-25%
Margins	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Gross profit	70%	69%	67%	67%	66%	66%	66%
EBITDA margin	-173%	-115%	-73%	-40%	6%	15%	10%
Adj. EBITDA margin	-173%	-115%	-73%	-40%	6%	15%	10%
EBIT margin	-218%	-206%	-93%	-52%	0%	10%	6%
Adj. EBIT margin	-218%	-206%	-93%	-52%	0%	10%	6%
EBT margin	-226%	-210%	-94%	-55%	0%	10%	6%
Adj. EBT margin	-508%	-210%	-101%	-55%	0%	10%	6%
Profit margin	-226%	-265%	-94%	-55%	0%	10%	6%
Adj. profit margin	-508%	-265%	-101%	-55%	0%	10%	6%

EOp = End of period. Source: Company information and Carlsquare estimates

Balance sheet (SEKm)

	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Tot. intangible assets	7	1	2	6	11	16	21
Tot. tangible assets	3	2	3	7	12	17	22
Tot. other fixed assets	5	1	1	1	1	1	1
Total fixed assets	14	5	6	15	24	34	45
Inventories	2	2	3	5	6	11	9
Accounts Receivables	1	1	3	3	4	6	8
Other current assets	1	1	1	1	1	2	3
Cash	4	2	5	5	6	2	2
Total current assets	8	6	12	12	18	21	23
Total assets	22	11	18	27	43	56	67
Total equity	17	7	11	18	18	25	30
Debt to creditors	0	0	0	0	0	0	0
Other long-term liabilities	3	1	3	5	18	22	25
Tot. long-term liabilities	3	1	3	5	18	22	25
Short-term debt to creditors	0	0	0	0	0	0	0
Accounts payable	1	1	3	3	4	6	8
Other short-term liabilities	1	1	1	1	2	3	3
Tot. short-term debt	2	3	4	4	6	9	12
Total debt	5	3	7	10	25	31	37
Tot. equity and debt	22	11	18	27	43	56	67
Liquidity	2 021.0	2 022.0	2023E	2024E	2025E	2026E	2027E
Current ratio	4	2	3	3	3	2	2
Cash ratio	2	1	1	1	1	0	0
Leverage	2 021.0	2 022.0	2023E	2024E	2025E	2026E	2027E
Net debt(+)/Net cash(-)	-1	-1	-1	2	13	20	24
Net debt/EBITDA	NM	NM	NM	NM	-5	-2	-3
Net debt/Equity	NM	NM	NM	0	-1	-1	-1
Equity/Total Assets	1	1	1	1	0	0	0

Source: Company information and Carlsquare estimates

Cash flow (SEKm)

	2021A	2022A	2023E	2024E	2025E	2026E	2027E
C.F., operations b4 delta W.C.	-8	-8	-9	-9	3	10	9
Delta operating capital	0	1	-5	-1	-1	-5	2
C.F. operations	-8	-7	-14	-11	1	6	11
C.F. investing	-2	0	14	-9	-10	-10	-10
Free cash flow			1	-20	-8	-4	0
C.F. financing	10	6	2	19	10	0	0
Cash flow	0	-2	3	-1	2	-4	0
Cash, BoP	4.2	4	2	5	5	6	2
Cash, EoP	4	2	5	5	6	2	2
Key ratios	2021A	2022A	2023E	2024E	2025E	2026E	2027E
C.F. operations/Total operating income	-175%	-103%	-121%	-49%	3%	8%	12%
C.F. operations/EBITDA	102%	89%	165%	122%	51%	55%	119%

Source: Company information and Carlsquare estimates

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