

# MEDS Apotek AB

## Strong momentum in pharmacy market's transition to online

Andreas Eriksson & Johan Widmark | 2022-08-23 15:00

**With a proprietary tech platform, 80-130% retention rates and a Net Promotor Score (NPS) of 72/100, MEDS is on track to capture the SEK 50bn market opportunity in the Swedish pharmacy market's shift to online, which at 19% penetration still lies ahead. Since launch in 2018, sales have grown at a CAGR of 171% and the company is passed all costly entry barriers. With an estimated 4+ LTV:CAC ratio, a 2x revenue to OPEX growth ratio and an estimated capital injection of SEK 200m by mid 2023, we forecast positive EBITDA in 2025E. Following a contraction of peer multiples over the last year, our base case supports a fair value range of SEK 100 - 120 per share in 12-24 months, while we see an upside to SEK 220 per share (SEK 3.5bn market cap) should management reach its long-term goals.**

### Online pharmacies – not like other online retailers

Despite a generally high level of digitalisation in Sweden, only 19% of sales on the SEK 50 billion Swedish pharmacy market happens online. But, Sweden's poor availability of physical pharmacies (third fewest per capita in Europe), a generational shift to buy more pharmacy products online and a favourable regulation with e-prescriptions and digital IDs, are all factors that should drive a further penetration of online sales. In addition, pharmacy products are as well very suited for online sales. With logistics easily manageable considering the often smaller sized and similar sized products, long shelf life, no "touch and feel"-element as opposed to clothing, and a low return frequency makes it a perfect candidate for a profitable online business.

### Strong growth and key metrics

Since launch in 2018 when sales amounted to SEK 24m, MEDS has gained a lot of traction, closing 2021 with sales of SEK 470m, representing a CAGR of 171% and over 3.5 million orders shipped. In 2021, MEDS gained 408 000 new customer totalling around 630 000 active customers during the year, meaning an ARPC of SEK 730, while average order value has increased 37% since 2018. Other noteworthy metrics are the 80-130% retention rate, meaning existing customers come back and buy for more. Unsurprisingly this also shows in the 72/100 NPS (Net Promoter Score), which compares to retail average at 44/100.

### Plenty of room on the upside – despite market contraction

We expect a continuous rapid online penetration of the pharmacy market, as online pharmacy sales grew by 51% CAGR between 2015-2020, and it should only be a matter of time before online pharmacies reach the levels of online book sales at 60% penetration. This presents a fantastic opportunity for online pharmacies in general, and for MEDS in particular. With continued strong momentum throughout the year, we forecast sales of SEK 690m in 2022, on track with the company's own financial target to reach sales of SEK 2.5bn by 2026 while showing a positive EBITDA in two to three years. After raising SEK 247m since January 2021, the financing situation is solid but in order to reach targets we expect the company to raise another SEK 200m in H2'23. Peer group has experienced a significant contraction in valuation multiples, in reflection of the market's shift to reward near term profits and punish cash flow far ahead in the future. With a combination of DCF (WACC 13%) and target multiples of 1.5x SALES 2024-25E and 25x EBITDA 2025E, our base case support a fair value range of SEK 100 - 120 per share in 12-24 months.

## MEDS

<b>Fair Value, SEK (12-24 m)</b>	<b>100 - 120</b>
Current Price, SEK	80
Shares (M)	15,779
Market Capitalisation (MSEK)	1 262
Net Debt (MSEK)	-82
Enterprise Value (MSEK)	1 180
Market	First North

Price based on share price in most recent capital raising before listing

## Financial Summary

MSEK	2020	2021	2022E	2023E	2024E
Revenue	229	470	690	1 000	1 400
EBITDA	-87	-106	-106	-75	-36
EBIT	-87	-107	-108	-77	-39
EPS Adjusted	-116,6	-108,7	-6,9	-4,9	-2,5
Sales Growth, %	-	105%	47%	45%	40%
EBITDA Margin, %	-38%	-23%	-15%	-7%	-3%
EBIT Margin, %	-38%	-23%	-16%	-8%	-3%
EV/Sales	5,06	2,5	1,7	1,2	0,8
EV/EBITDA	-13,36	-10,9	-10,9	-15,6	-32,3
EV/EBIT	-13,31	-10,9	-10,7	-15,2	-29,8
P/E	-	-	-11,6	-16,5	-32,3

Source: Emergers \*Multiples in 22-24E based on share price in most recent capital raise before listing.

### MEDS in brief

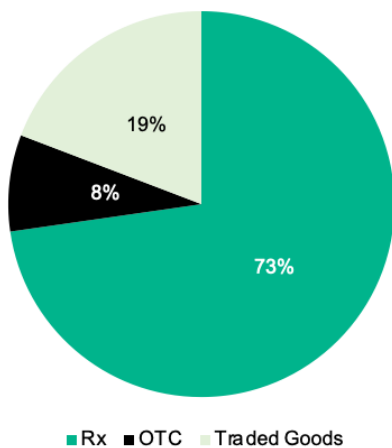
With a strong mix of skills and experiences, Björn Thorngren joined forces with pharmacist Johanna Elmes and system architect Adham Shawwaf in 2017 and founded e-pharmacy company MEDS. With a strong IP, consisting of an in-house tech platform, automated pricing and orders, iOS app and core systems for prescription drugs (rx), MEDS has shipped over 2.5 million orders to date. Along with an impressive delivery time of 1-2 hours within Stockholm metropolitan area and delivery within 24h to 91% of Swedish households, MEDS also offers professional and confidential advisory through pharmaceutical experts.

### Swedish pharmaceutical – a SEK 50 billion market

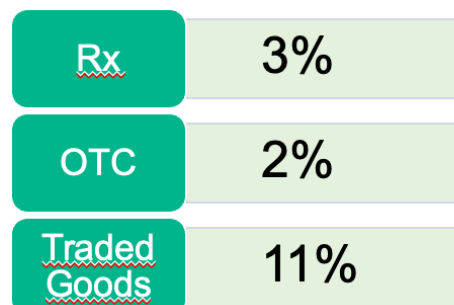
The Swedish pharmaceutical market was deregulated in 2009 when the previous monopoly with state owned Apoteket was abandoned, and several new actors entered the market. Despite a growth in number of pharmacies by 50% since the deregulation, Sweden still has 50% of the pharmacies per capita compared to the EU average. The total addressable pharmacy market reached SEK 50 billion in 2021, and can be divided into three segments:

- Rx (Prescription drugs)
- OTC (non-prescription drugs)
- Traded goods (all other goods)

#### Swedish pharmaceutical market 2021

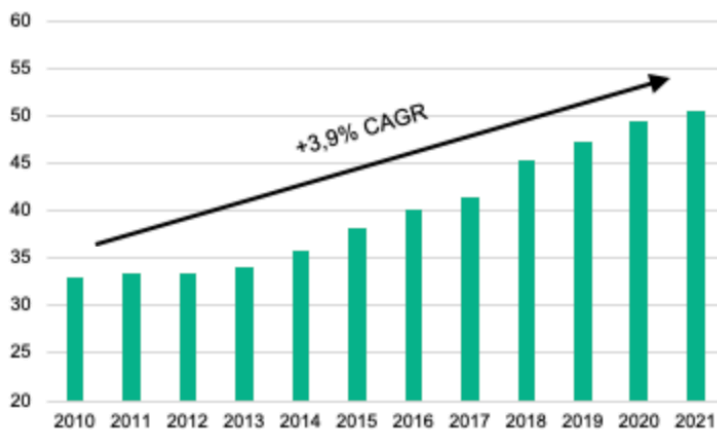


#### CAGR per segment, 2010-2020



Source: MEDS, Emergers

## Swedish pharmaceutical market growth (SEKbn)



Source: MEDS, Emergers

The total market grew at a CAGR of 3,9% from 2010 – 2021, mainly driven by an 11% CAGR of the traded goods section. There are underlying factors which support a further growth such as population growth, an ageing population, a prevalence of chronic diseases and an increased focus on self-care and self-medication. For MEDS as a company, another segment of Private label can be added to the mix, which contains both MEDS-labelled and other labelled OTC-products and traded goods.

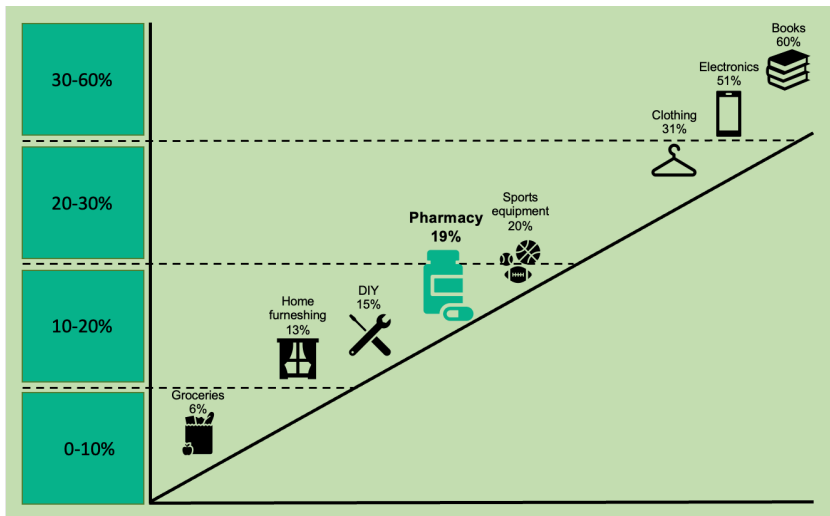
### Seizing opportunities on non-cyclical high potential market

As many markets more or less have been pushed into the online space, as a matter of survival, many of these markets are not suited for it. There are several factors weighing in whether a product is suitable for online sales or no:

- **“Logistical smoothness”** – shipping is made easier by small and similarly sized boxes
- **Long shelf life** – no need to change the inventory because of season or trends
- **Low return frequency** – the customer knows what’s expected of the product and a broken seal means no return
- **“Privacy factor”** – maybe you don’t want to show that you’re buying a nail fungus-treatment, or products for hair loss. Online = privacy
- **No touch and feel element** – compared to make sure clothes fit, a ripe avocado, the sound of a guitar or the feel of a golf club
- **Repeat purchase behaviour** – we often use the same skin products, pain killers or dietary supplements over and over

Pharmacy products checks all of these boxes which makes it a perfect fit for online sales, where for instance “clothing” giant Zalando, has a [return rate of about 50%](#) of all items sold which greatly affects margins. The only thing lacking from the online model is perhaps the personal meeting when a customer comes seeking advice. Even though advisory is offered through phone and chat, it can never completely replace a physical meeting in terms of confidence.

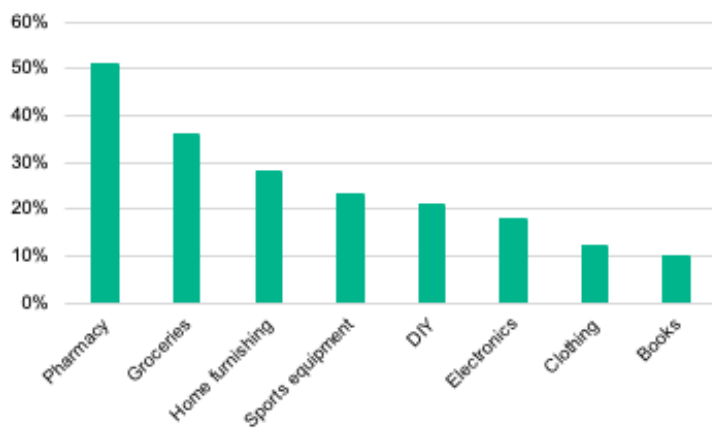
## Online penetration, % of total market sales



Source: MEDS, Emergers

Pharmacy is the fastest growing industry online, with a CAGR of 51% between 2015-2020, and online sales now stands for 19% of total market sales, which can be compared to books where online sales stands for 60%. There are many reasons that the pharmacy online migration will continue even further, the biggest ones being a shift in generation where the younger generation are more used to shopping and doing their business online, which will most likely translate into higher percentage online sales in the future. Sweden also has a solid regulatory infrastructure regarding e-prescriptions, pharmacy regulation and digital ID.

## Online sales CAGR per sector, 2015-2020

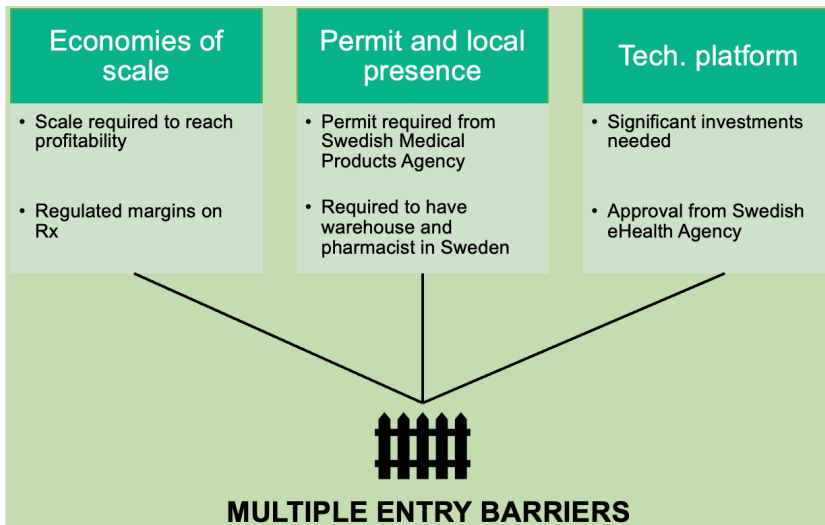


Source: Swedish Pharmacy Association market reports, PostNord E-barometer annual reports, HUI Research

## A business model that's up to date

Having a central warehouse from where all orders are being shipped from, like MEDS, comes with many benefits. The product range can be 5-10x higher than a physical pharmacy, and it's possible to have a very high and increasing product availability. All this while also offering 40-60% lower prices than physical pharmacies. As checkout and delivery costs are (more or less) the same regardless of order value, it is of great importance to continue to grow order values to reach profitability. Since launch in 2018, MEDS has been able to grow the average order value by 37% with retention rates between 80-130% during that time. This is a key metric in online sales, indicating that MEDS' customers are loyal and that MEDS is doing a lot of things right.

## Entry barriers slowing newcomers down



Source: MEDS, Emergers

## Speedy deliveries vital part of the offering

One reason for the high retention rates we believe is the focus on building a strong brand through smart marketing and high customer satisfaction. Being in a business where the identical product can be bought at several different retailers, MEDS has found a way to compete not only with price, but also with fast deliveries. Located in Stockholm, MEDS offers 1-2 hours delivery to Stockholm metropolitan area, same day delivery to 60% of Swedish households and 24-hour delivery to 91% of the households. MEDS also offers customer service 08:00 – 22:00 seven days a week while also having pharmacists ready to answer any pharmaceutical questions and advisory. It's a comprehensive offer, where a customer should be able to get everything they would a physical pharmacy, but with the comfort from their own home and with lower prices.

## Order values have grown by 37% since 2018



Source: MEDS, Emergers

## LTV:CAC estimate to illustrate strength of the business

As a rule of thumb, an online/SaaS business should preferably present a LTV:CAC ratio (Life Time Value / Customer Acquisition Cost) above 3x to ensure the company's survival. To estimate the LTV:CAC for MEDS we've used the following assumptions.

- Roughly SEK 60m spent on marketing in 2021

- This resulted in roughly 400 000 new customers
- A total of 630 000 customer placed an order during 2021
- The avg. contribution per customer was SEK 183
- Estimated avg. retention rate of 90%
- Discount rate of 15%

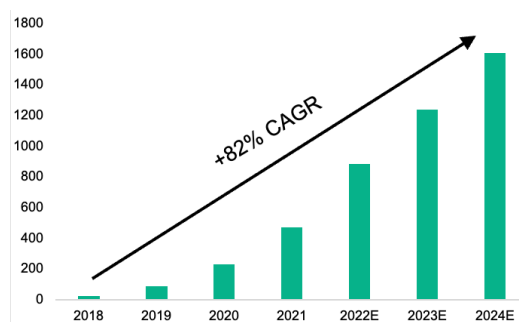
All the above numbers are moving targets, which we expect to improve over time, but applying the above numbers gives a LTV:CAC of 4.5x, which is good and improves significantly with a higher retention.

Also, the company's marketing expenses are dynamic, meaning that MEDS can more or less drive growth with the push of a button, but at a cost. As new customers keep rolling in, we believe we will see a steady drop in marketing expense as share of sales in the coming years, down to levels of about 4-5%, compared to today's >10%.

### Solid case for continued strong growth

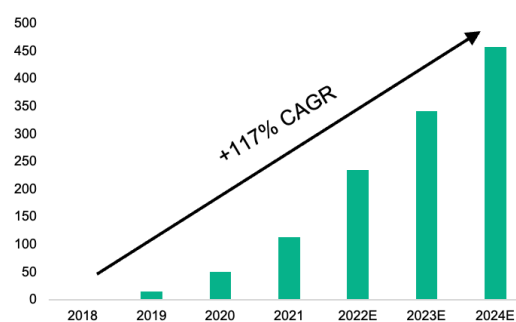
We have no doubt the online migration of the Swedish pharmacy market will continue in the foreseeable future, creating a natural inflow of new customers to the likes of MEDS and other online pharmacies.

**SALES 2018 – 2024E, SEKm**



Source: MEDS, Emergers

**Gross Profit 2018 – 2024E, SEKm**



Also important is the establishment of the MEDS' private label-products, and that new product lines get real traction in the market. Mainly because of high margins, but also because it helps the branding of MEDS as a company. With successful launches, the company will receive even more attention which should correlate with inflow of new customers. Long term, MEDS is looking for private label to account for 15% of total sales.

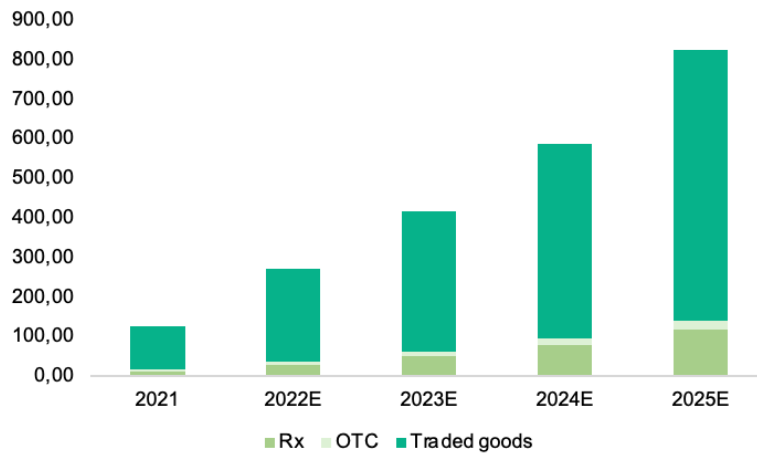
### Product mix key for margin expansion

Building a strong brand is important, especially when considering the high-margin segment of private label-products. MEDS has already initiated their first MEDS-labelled product series including dietary supplements and is now looking to launch products within skin care, dental care and OTC-drugs. Since gross margins can reach 80%, this is an important contributor towards profitability, which makes a strong brand essential. One goal for MEDS is to grow the Rx part of sales from today's 17% to 40%, and while margins are substantially lower, the more expensive drugs contribute a lot to the order value, actual SEK per order, which also is an important metric for profitability.

There's still plenty of opportunities for improving margins even further, one way to do it is by growing the business and taking advantage of economies of scale, but margins can also improve quite heavily from automating the warehouse. In Q1'22 MEDS installed a machine for SEK 11m which automated the packing and sorting of parcels, something that earlier accounted for 40% of warehouse personnel costs and has decreased personnel packing costs by 70%. Picking and storage are probably the next two milestones where MEDS

can automate, and thereby grow margins even more, but it is associated to investments.

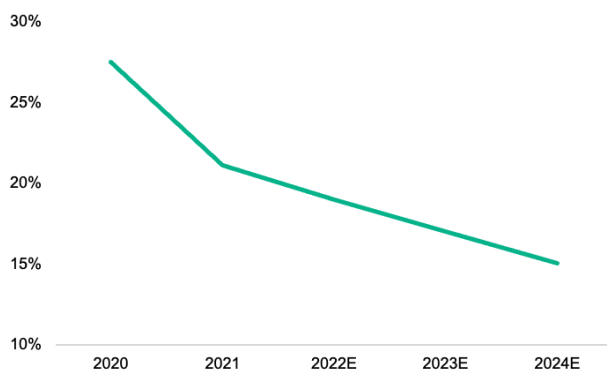
## Product mix and gross contribution



Source: MEDS, Emergers

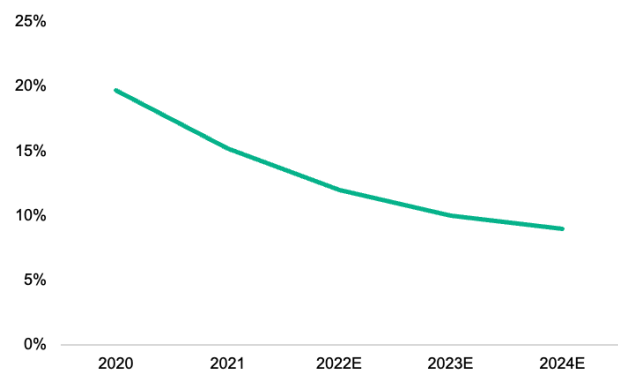
We expect costs to continue to fall as share of sales, partly because of economics of scale and partly because of warehouse automation, even though this is associated with investments. This means margins will improve the next few years, and we expect a positive EBITDA in 2025 and profitability in 2026.

### Other external costs, % of sales



Source: MEDS, Emergers

### Personnel cost, % of sales



## Financial situation

As MEDS raised SEK 80m in June 2022 and SEK 167m in January 2021, cash is looking solid at the moment, and we see no further financing need in the next 12 months. But even if burn rate is contracting as both sales and margins continue to grow, we foresee a need to fuel-up with some SEK 200m in H2'23 in order to hit the company's growth target and take the company to profitability.

## Peers

Like MEDS, **Apotea** is an online pharmacy without physical stores. Founded in 2012, Apotea reported sales of SEK 4.1bn in 2020, and according to financial media Di.se, sales grew to SEK 4.5bn in 2021. Investment company Creades own a 5% stake in the online pharmacy valued to SEK 477m in 2021, reflecting a market cap of SEK 9.5bn. But as interests and inflation rates soared during H1'22, the valuation has now dropped by 37%, and Creades now values their 5% to SEK 301m indicating a market cap of SEK 6bn. There are many similarities between Apotea and MEDS, but the biggest difference we spot is



the branding and the UX of the website, something we think is critical since both companies' assortment are quite identical.

**Apothem** is another full-blooded online pharmacy owned by Novax and grocery giant Axfood. Being in a similar situation as MEDS, Apothem has put in a lot of effort on building a strong brand and have seen strong growth especially during 2020.

**Apoteket AB, Kronans Apotek and Apotek Hjärtat** are the three biggest pharmacy companies in terms of sales. As online sales boomed during the pandemic years of 2020 and 2021 the three have more or less been forced into prioritize their online assortment, and rapid growth has been noted among all three of them. But their disadvantage is that they still sit on the physical stores with all the inefficiencies and costs that comes with it. They also need to overcome all online entry barriers to compete with MEDS, Apotea and Apothem.

**Shop Apotheke Europe NV and Zur Rose Group AG** are two listed peers based in Germany and Switzerland respectively. Both of them have a low and declining percentage Rx compared to Sales, because of the lack of e-prescriptions, and both companies are therefore struggling with both growth and profitability. Many European markets aren't technically developed enough to support a profitable online pharmacy business, here Sweden stands out.

## Peers

Name	Country	Market cap	Sales growth,		EBITDA Share price		EV/S	EV/EBITDA
			Sales	1 year	marg. 1y avg	dev. 1y		
Apothem*	Sweden	-	141	258%	-55,0%	-	-	-
Apotea*	Sweden	-	4 126	52%	6,0%	-	-	-
Apotek Hjärtat	Sweden	-	15 531	3%	4,0%	-	-	-
Apoteket AB*	Sweden	-	19 536	-4%	4,0%	-	-	-
Kronans Apotek*	Sweden	-	8 578	3%	3,0%	-	-	-
Shop Apotheke Europe NV	Germany	1 398	1 118	7,7%	-3,9%	-43%	1,3	-
Zur Rose Group AG	Switzerland	587	1 727	17%	-1,6%	-83%	0,5	-
<b>Average</b>							<b>0,9</b>	-
<b>Median</b>							<b>0,9</b>	-

\* Data from 2020. NOTE: Sales in local currency. Source: Emergers.

## Valuation

We estimate continued strong growth for the full year of 2022 with a 50% growth Y-o-Y, that will gradually decline to 30% by 2026. With sales growing, and costs dropping as share of sales, we expect a positive EBITDA by 2025 and profitability in 2026 with sales just above SEK 2.5bn.

Considering that pharmacy products are non-cyclical, that MEDS is passed all the costly entry barriers but that profitability is still a few years away, we rate MEDS as a medium risk case. Using a discount factor (WACC) of 13% we find support for a fair value of SEK 1.6bn or SEK 100 per share.

Looking at other online retailers as a reference for valuation, we note the highest EV/S-multiples in Swedish cosmetics retailer Lyko and electronics retailer CDON, whereas sales of clothing giants Boozt and Zalando aren't valued as much, most likely due to the 50% returns rate. A comparison to CDON and Lyko that are more similar industries in terms of price elasticity and cyclicity, suggests that a bit higher multiples are justified.

All in all, using a combined target multiple valuation approach of 1.5x sales 2024-25E and 25x EBITDA 2025E we find support for a fair value of SEK 1.9bn, or SEK 120 per share in 12-24 months.



Although, as trends seem to favour the online pharmacy market with strong structural growth, looking just one more year ahead, a 1.5x target multiple of sales 2025-26E indicates a market cap just shy of SEK 3.5bn.

## Risks

**GDPR-related risks:** There are always risk associated to the handling of personal data when involved in e-commerce, as three Swedish pharmacies experienced after [Ekot](#) disclosed leaks regarding online customers in June 2022. This is a risk shared by many consumer facing companies. Using an in-house built proprietary system could potentially contribute to mitigating such risk further.

**Regulatory changes:** While Sweden is at the global forefront when it comes to facilitating framework for online pharmacies, there's always risks of changing regulations. At present, we don't see this as a material risk.

**Risk of financing and shareholder dilution:** Our model shows that MEDS will need to raise at least SEK 200m in the near- to midterm future in order to reach their long-term goals. While a failure to raise that amount would increase risk of not reaching their targets substantially, a successful equity financing on the other hand would mean new shares issued, leading to dilution for non-participating shareholders.

## Corporate Governance

**CEO and co-founder** Björn Thorngren have extensive experience from the Swedish venture capital industry and working for an American tech company in London before co-founding MEDS in 2018. Thorngren was the Vice President of Boingo Wireless which after listing on Nasdaq reached unicorn status. Björn Thorngren also serves on the Board of Directors.

**Chairman of the board** Christian W. Jansson served as CEO of mail order company Ellos and later moved on as CEO of KappAhl where he turned loss into profit for the clothing giant. Christian W. Jansson was chairman for Apoteket AB between 2009 – 2018 before he was appointed as chairman for PostNord in 2018 and MEDS in 2019.

**CTO and co-founder** Adham Shawwaf is the architect of the MEDS technological platform. Shawwaf has previous experience from working at Apotek Hjärtat, Byggmax and Scania.

**CFO** Nick Mendola joined MEDS in 2021 after a role as Group CFO as Babyshop and ten years of experience from Ernest & Young in both USA and Sweden.

**CMO (interim)** Carl Jansson came to MEDS in 2021, but been involved with the company since 2017 as an investor. Jansson has previous experience from a CMO-role at Min Doktor.

**Head of Procurement** Vesam Ashouri joined MEDS in 2017 after a similar role at construction giant Byggmax.

**People and Culture Director** Jenny Edin came from Academic Work to MEDS in 2020.

## Ownership

Shareholder	No. shares	% capital and votes	Fully diluted no. shares (incl. options)	Fully diluted % of capital and votes
M2 Asset management AB	2 915 445	18,5%	2 915 445	17,5%
Björn Thomgren	1 626 135	10,3%	1 716 135	10,3%
Ilija Batljan Invest AB	1 192 155	7,6%	1 192 155	7,1%
Management and Board (excl. Björn Thomgren)	1 077 165	6,8%	1 679 055	10,1%
Other shareholders	8 968 020	56,8%	9 172 845	55,0%
<b>Total Shares Outstanding</b>	<b>15 778 920</b>	<b>100%</b>	<b>16 675 635</b>	<b>100%</b>

Source: MEDS

## MEDS

### Income Statement

MSEK	2020	2021	2022E	2023E	2024E
Sales	229,5	470,0	689,8	1 000,2	1 400,3
Operating Costs (incl. COGS)	-316,5	-576,3	-796,1	-1 074,8	-1 436,2
EBITDA	-87,0	-106,3	-106,3	-74,6	-35,9
Depreciation	-0,3	-0,7	-2,0	-2,0	-3,0
Amortisation of Goodwill	0,0	0,0	0,0	0,0	0,0
EBIT	-87,3	-107,0	-108,3	-76,6	-38,9
Non-recurring Items	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-0,1	-0,1	-0,1	-0,1	-0,1
<b>Pre-tax Result</b>	<b>-87,3</b>	<b>-107,1</b>	<b>-108,4</b>	<b>-76,7</b>	<b>-39,0</b>
Tax	0,0	0,0	0,0	0,0	0,0
Minority Interest	0,0	0,0	0,0	0,0	0,0
<b>Net Result</b>	<b>-87,3</b>	<b>-107,1</b>	<b>-108,4</b>	<b>-76,7</b>	<b>-39,0</b>

### Capital Expenditure

	2020	2021	2022E	2023E	2024E
Capital Expenditure, Absolute	-	-4,1	-3,4	-5,0	-7,0
As a Pct of Sales	-	-0,9	-0,5	-0,5	-0,5
Depreciation Multiple	-	-5,8	-1,7	-2,5	-2,3

### Key Ratios

Share Price: SEK 80

	2020	2021	2022E	2023E	2024E
Share Price at 31 Dec	-	-	80	80	80
Number of Shares (Millions)	0,75	0,99	15,78	15,78	15,78
Market Cap	430,0	1262,0	1262,0	1262,0	1262,0
Enterprise Value	405,5	1162,0	1236,0	1315,7	1358,8
EPS (Reported)	-116,56	-108,72	-6,87	-4,86	-2,47
EPS (Adjusted)	-116,56	-108,72	-6,87	-4,86	-2,47
Dividend	0,00	0,00	0,00	0,00	0,00
Dividend Yield (%)	0,0	-	-	-	-
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0
EV/Sales	5,1	2,5	1,7	1,2	0,8
EV/EBITDA	-13,4	-10,9	-10,9	-15,6	-32,3
EV/EBIT	-13,3	-10,9	-10,7	-15,2	-29,8
P/E (Adjusted)	-	-	-11,6	-16,5	-32,3
Sales Growth, Y/Y (%)	-	104,8	46,8	45,0	40,0
EBIT Growth, Y/Y (%)	-	22,6	1,2	-29,3	-49,2
EPS Growth (Adjusted), Y/Y (%)	-	-6,7	-93,7	-29,2	-49,1
EBITDA Margin (%)	-37,9	-22,6	-15,4	-7,5	-2,6
EBIT Margin (%)	-38,0	-22,8	-15,7	-7,7	-2,8
Return on Equity (%)	-109,8	-99,1	-257,5	152,0	36,0
Return on Capital Employed (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax Rate (%)	0,0	0,0	0,0	0,0	0,0

### Financial Position

Interest-Bearing Net Debt	-24	-100	-26	54	97
Net Debt/Equity	-	-1,0	2,1	-0,6	-0,8
Equity Ratio	-	0,8	1,0	1,0	1,0
Net Debt/EBITDA	0,3	0,9	0,2	-0,7	-2,7

Source: Emergers, Company reports. \*Price and multiples in 22-24E based on price in most recent capital raise before listing.

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