Corporate Research SyntheticMR

SEB

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| Company Update | Healthcare | Sweden |
|----------------|------------|--------|
| | | |

Key Data (2020E) 327.00 Price (SEK) Reuters SYNT.ST Bloomberg 0 Market cap (SEKm) 1.321 Market cap (USDm) 152 Market cap (EURm) 128 Net debt (SEKm) (30)Net gearing (71%)Net debt/EBITDA (x) (3.1)4.0 Shares fully dil. (m) 0.0 Avg daily turnover (m) Free float 0%

300 250 200 150 100 Aug Oct Dec Jan Apr Jun Aug

Absolute (green) / Relative to Sweden (purple).

Share Price (12M)

Marketing communication commissioned by: SyntheticMR

Going beyond the conventional

We initiate coverage of SyntheticMR, a leading provider of innovative software solutions for Magnetic Resonance Imaging (MRI). Based on already existent partner agreements with the three major global MRI OEMs and after a period of investment, we believe the company is ready to reignite its growth trajectory. Based on our estimates, we derive a DCF fair-value range of SEK 290-382 per share with a mid-point value of SEK 333 per share.

SyMRI provides both speed and objective decision support

SyntheticMR provides innovative software solutions for MRI that deliver more information to the clinician and allow for shorter exam times than conventional MRI scans. The global market for MRI is valued at USD 4.8bn according to company data, and growth is underpinned by demographic shifts, an increased prevalence of chronic disease and a need for more innovative and cost-efficient healthcare solutions to curb rising healthcare costs. The market is dominated by three players: GE Healthcare, Philips Healthcare and Siemens Healthineers. Since 2016, SyntheticMR has had individual partner agreements with each of these players.

Entering harvesting period – several pockets of potential growth

We believe SyntheticMR is entering a harvesting period with a chance to get back on the growth path. It has agreements with the three main OEMs and has recently invested in its own sales resources across its key markets. There is also the potential for new agreements with additional strategic partners and for product innovation. We estimate a 2019-22 sales CAGR of c. 33%.

Mid-point DCF value of SEK 333 per share

Based on the assumption that SyntheticMR can deliver in line with our estimates, we derive a DCF-based fair value range of SEK 290-382 per share with a midpoint valuation of SEK 333 per share (WACC 7%; steady state EBIT margin of 25%).

| Year end: Dec201820192020E2021E2022ERevenues (m)52505789113Adj. EBIT20562741Pre-tax profit (m)19562741EPS3.630.940.925.197.90Adj. EPS3.630.940.925.197.90DPS1.501.501.501.562.37 |
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| Pre-tax profit (m) 19 5 6 27 41 EPS 3.63 0.94 0.92 5.19 7.90 Adj. EPS 3.63 0.94 0.92 5.19 7.90 DPS 1.50 1.50 1.50 1.56 2.37 |
| EPS3.630.940.925.197.90Adj. EPS3.630.940.925.197.90DPS1.501.501.501.562.37 |
| Adj. EPS3.630.940.925.197.90DPS1.501.501.501.562.37 |
| DPS 1.50 1.50 1.50 1.56 2.37 |
| |
| Revenue growth (%) 36.3 (3.7) 13.7 56.6 27.0 |
| Adj. EBIT growth (%) 77.5 (73.6) 7.3 384.5 52.0 |
| Adj. EPS growth (%) 75.3 (74.1) (2.3) 466.7 52.1 |
| Adj. EBIT margin (%) 38.1 10.5 9.9 30.5 36.5 |
| ROE (%) 37.4 8.4 8.7 42.9 46.1 |
| ROCE (%) 50.4 11.4 12.7 53.9 58.4 |
| PER (x) 79.7 237.7 n.m. 63.0 41.4 |
| Free cash flow yield (%) 1.3 1.0 0.2 1.4 2.3 |
| Dividend yield (%) 0.5 0.7 0.5 0.7 0.5 |
| P/BV (x) 25.35 20.57 31.89 23.44 16.12 |
| EV/Sales (x) 23.51 18.94 24.03 14.96 11.53 |
| EV/Adj. EBITDA (x) 50.3 100.5 135.3 40.7 27.3 |
| EV/Adj. EBIT (x) 57.5 166.3 230.8 47.2 30.4 |
| Operating cash flow/EV (%) 1.6 1.5 0.5 1.8 2.8 |
| Net debt/Adj. EBITDA (x) (1.42) (3.87) (3.10) (1.33) (1.44) |

research.sebgroup.com/corporate Important. All disclosure information can be found on pages 51 – 53 of this document

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SyntheticMR's product offering includes innovative software solutions for Magnetic Resonance Imaging (MRI) that deliver more information to the clinician and allow for shorter exam times. The global addressable market for MRI was valued at USD 4.8bn in 2019 and has historically shown a steady mid-single digit growth according to Frost & Sullivan. This growth is driven by several mega-trends, including demographic shifts, increased prevalence of chronic disease and a growing need for innovative and cost-efficient healthcare solutions to curb rising healthcare costs throughout the world. The MRI market is dominated by three original equipment manufacturers (OEMs), including GE Healthcare, Philips Healthcare and Siemens Healthineers which control more than 70% of the market. SynthethicMR already has partner agreements with all three. We initiate coverage and based on the assumption that SyntheticMR can deliver in line with our estimates, we derive a DCF-based fair value range of SEK 290-382 per share with a mid-point valuation of SEK 333 per share.

Further strengthened relationship with the three main OEMs

Whilst a large part of SyntheticMR's sales historically (we estimate c. 70-80%) in 2019) has been largely derived from sales of MAGiC (a customer-specific version of SyMRI marketed by GE Healthcare), the company already holds partner agreements with the two other major OEMs globally as well, including Philips Healthcare and Siemens Healthineers. Together, these three players control well over70% of the global market for MRI and thus provide a solid foundation for growth for SyntheticMR. Recently, Philips Healthcare US announced the integration of SyMRI into its product catalogue in the US and by now, SyMRI is available in Siemens Healthineers Syngo.via OpenApps platform which means that it can be seamlessly integrated in the clinical workflow. Recently, SyntheticMR also received an extended compatibility notification for SyMRI from the FDA in the US relating to Siemens Healthineers MR-scanners, meaning a further expanded reach for SyMRI on the US market. Furthermore, with GE Healthcare we see potential for a further broadening of the current collaboration to encompass all SyntheticMR's versions of SyMRI (e.g. Neuro). Altogether, we expect SyntheticMR's continued efforts to further strengthen its relationship and collaboration with its key partners to contribute positively to sales growth throughout our forecasting period.

Current OEM partners



Source: GE Healthcare, Philips Healthcare, Siemens Healthineers

Invested for future growth - harvesting time

Over the last year, SyntheticMR has made significant investments to establish its own US subsidiary, SyntheticMR Inc. in order to strengthen its presence in the important US market (c. 22% of the global MRI market). SyntheticMR has also recently ramped up its sales presence in India and Japan, two of the largest markets for MRI globally outside the US. With the addition of more than 10,000 annual hours of sales resources during 2019, we believe that SyntheticMR is now ready to reap the benefits of previous investments done. Furthermore, because sales generated through SyntheticMR's own sales channels do not include any revenue-sharing with OEMs and licences are time-limited (typically around three years based on our understanding), we expect this to translate into accelerated sales growth and a larger proportion of recurring revenues over time.



Continued product innovation

SynthethicMR's product SyMRI is today approved for use on the brain. The company is however currently investigating the potential to expand into other applications such as the musculoskeletal system (MSK), including e.g. knee and spine. Because the spine and the brain account for a clear majority of all MRI exams currently done in a clinical setting today and the new applications make use of the same MR sequence as today is used for the brain, this would mean a significantly increased sales potential of SyMRI. Furthermore, alongside its OEM partners, SyntheticMR is developing a 3D version of SyMRI which holds the potential to significantly improve the output of an MRI exam via even more detailed images and further increased quantitative analysis.

Organ distribution of MRI scans



Source: Magnetic Resonance in Medicine, SEB

Potential to add new strategic partners

In addition to the ongoing work of further strengthening the relationship with its current partners, SyntheticMR is working on several development projects involving new potential partners. The aim is to further increase the market potential and contribute to long-term sales growth. We believe such potential future strategic partners may include Canon Medical Systems (c. 16% global market share), Hitachi Medical (c. 7% global market share) and potentially Chinese players such as United Imaging.



Source: SyntheticMR, SEB

Recent key wins a sign of strength and are supportive for future growth

In March, SyntheticMR announced an order from the renowned Mayo Clinic in the US. The order relates to SyMRI for use in clinical routines, according to company information. The product will be installed across all three Mayo Clinic campuses: Rochester in Minnesota, Phoenix/Scottsdale in Arizona and Jacksonville in Florida. SyMRI will be utilised in combination with all three major vendors – GE, Siemens and Philips – as a fully vendor-agnostic solution. In addition, SyntheticMR in early 2020 received an order from the world-renowned MD Anderson Cancer Center in the US. In June, SyntheticMR announced that Dr Wende Gibbs, Senior Associate Consultant and Assistant Professor in Neuroradiology at the Mayo Clinic would join SynthethicMR's Medical Advisory Board. In our view, this adds credibility and validation of SyntheticMR's technology which will likely be supportive in future sales processes.

Source: SyntheticMR, SEB

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Company overview

Sweden-based SyntheticMR is active in the USD 4.8bn market for Magnetic Resonance Imaging (MRI), developing innovative software solutions that deliver more information to the clinician and allow for shorter treatment times than today's conventional MRI scans.

Company history

SyntheticMR was founded in 2007 by Dr Marcel Warntjes in Linköping, Sweden. The company's early years were eventful and included the initiation of a cooperation with another Linköping-based company, Sectra Imtec AB in 2008 in order to integrate the technology in to its PACS solution. By 2009, SyntheticMR's SyMRI product received regulatory clearance across Europe via the CE-mark. This was followed by a major breakthrough in 2012 when SyntheticMR signed an evaluation licence agreement with GE Healthcare to assess the opportunity to sell SyMRI as an add-on option for GE's MRI systems. Based on a successful evaluation period, SyntheticMR and GE Healthcare signed a licence agreement regarding MAGiC, a customized version of the SyMRI IMAGE package in 2014. In the two following years, co-operation and comarketing agreements were signed with Philips Healthcare and Siemens Healthineers, meaning that SyntheticMR had reached licence agreements/co-operation agreements with the three major players within the MR market, which together control more than 70% of the global market.



Product offering

SyntheticMR's product offering includes innovative software solutions for Magnetic Resonance Imaging (MRI) that deliver more information to the clinician and allow for shorter treatment times. SyntheticMR's technology is certified for clinical use on the brain and measures the absolute properties of the brain and delivers synthetically recreated adjustable contrast images, automatic biomarker segmentation and quantitative data in a single and short six-minute MRI scan. SynthethicMR's product SyMRI is available in several packages including SyMRI IMAGE, SyMRI NEURO and MAGiC (customer-specific version marketed by GE Healthcare)

Sales split

Most (96%) of SyntheticMR's revenue is derived from outside Sweden. In 2019, licence sales accounted for close to 97% of total group sales whilst the remaining part was derived from service and support revenues.



Source: SyntheticMR, SEB

Company strategy – Three initiatives

SyntheticMR's strategy has three main components: market expansion, OEM development and product development.

Market expansion

One of SyntheticMR's key aims is to expand into new markets. The market expansion strategy includes in investing in new infrastructure and expanding regulatory clearances in order to be able to market and sell in additional markets globally. In 2019, SyntheticMR established SyntheticMR Inc. in order to expand its footprint in the important US market. It also invested in sales resources globally, including in India, Japan and the EU. Recent regulatory clearances include Australia, Brazil and Turkey.

OEM development

The three main original equipment manufacturers (OEMs), Siemens Healthineers, GE Healthcare and Philips Healthcare control more than 70% of the global MRI market according to Frost & Sullivan. As the OEMs provide the platform for SyntheticMR's product range, they constitute a vital element of SyntheticMR's business. SyntheticMR has had strategic partnerships with GE Healthcare, Philips Healthcare and Siemens Healthineers since 2014, 2015 and 2017 respectively. In addition to further strengthening relationships with the three main OEMs, efforts are also being made in order to secure new strategic partners enabling routes to new markets.

Product development

SynthethicMR's strategy include continual product development in order to improve its product offering further and potentially expand into more application areas and thereby increase the market potential. During 2019, a number of key developments were made including for example the release of SyMRI version 11.1.

Shareholder structure

Around 70% of SyntheticMR's ownership is concentrated in the top 10 shareholders. Staffan Persson remains the single largest shareholder (29.4%) followed by SynthethicMR's founder and current board member Marcel Warntjes (8.6%). Other large shareholders include Swedbank Robur Fonder (7.5%), Handelsbanken Fonder (6.85%) and chairman of the board Johan Sedihn (4.81%).

Shareholder structure (as of 31 March)

| | Share of capital | Share of votes | Number of shares |
|----------------------------|------------------|----------------|------------------|
| Staffan Persson | 29.43% | 29.43% | 1,189,091 |
| Marten (Marcel) Warntjes | 8.56% | 8.56% | 346,000 |
| Swedbank Robur Fonder | 7.54% | 7.54% | 304,685 |
| Handelsbanken Fonder | 6.85% | 6.85% | 276,566 |
| Johan Sedihn | 4.81% | 4.81% | 194,305 |
| Berenberg Funds | 3.58% | 3.58% | 144,802 |
| Avanza Pension | 2.61% | 2.61% | 105,349 |
| Thord Wilkne | 2.48% | 2.48% | 100,000 |
| Nordnet Pensionsförsäkring | 2.24% | 2.24% | 90,544 |
| Aktia Asset Management | 2.09% | 2.09% | 84,480 |
| Top 10 | 70.2% | 70.2% | 2,835,822 |
| Other | 29.8% | 29.8% | 1,204,256 |
| Total | 100.0% | 100.0% | 4,040,078 |

Source: Holdings, SEB

Share capital development

| Year | Transaction | Change in no. of shares | Increase in share capital (SEK) | Total share capital (SEK) | No. of shares |
|------|--------------------------|----------------------------|---------------------------------|------------------------------|---------------|
| | | | | | |
| 2007 | Formation | 100,000 | 100,000 | 100,000.00 | 100,000 |
| 2008 | New issue | 5,000 | 5,000 | 105,000.00 | 105,000 |
| 2008 | Stock dividend issue | na. | 244,650 | 349,650.00 | 105,000 |
| 2008 | New issue | 48 | 159.84 | 349,809.84 | 105,048 |
| 2008 | Reverse stock split 1:36 | -102,130 | na. | 349,809.84 | 2,918 |
| 2008 | New issue | 1,301 | 155,963.88 | 505,773.72 | 4,219 |
| 2008 | Split of shares 270:1 | 1,134.911 | na. | 505,773.72 | 1,139.130 |
| 2008 | New issue | 12,500 | 5,550 | 511,323.72 | 1,151.630 |
| 2009 | New issue | 38,750 | 17,205 | 528,528.72 | 1,190.380 |
| 2009 | Split of shares 20:1 | 22,617.20 | na. | 528,528.72 | 23,807.600 |
| 2012 | New issue | 4,328.654 | 96,096.12 | 624,624.84 | 28,136.254 |
| 2013 | New issue | 6,492.981 | 144,144.178 | 768,769.017 | 34,629.235 |
| 2013 | Equalization issue | 5 | 0.1110 | 768,769.128 | 34,629.240 |
| 2013 | Reverse stock split 1:10 | -31,166.316 | na. | 768,769.128 | 3,462.924 |
| 2014 | New issue | 577,154 | 128,128.188 | 896,897.316 | 4,040.078 |

Source: SyntheticMR, SEB

Technology overview

Within medical imaging, there are several different types of image modalities available for clinicians, including Ultrasound, MRI, CT and X-ray. Whilst each modality makes use of different technologies, they all provide medical imaging which in turn can be used for diagnosis and therapeutic purposes. SyntheticMR's product offering includes innovative software solutions for Magnetic Resonance Imaging (MRI).

Ultrasound

Ultrasound is one of the safest and most cost-effective medical imaging techniques available today. Ultrasound makes use of sound waves rather than ionising radiation and its application areas are broad, often making it the first-line imaging modality.

Examples of Ultrasound systems



Source: Siemens Healthineers, SEB

X-ray

X-ray imaging is one of the oldest but still most frequently used imaging modalities. X-rays are typically cheap to operate and user friendly for both clinicians and patients. However, because X-rays make use of high-energy electromagnetic radiation, it exposes patients to radiation during each scan, which may cause side-effects such as radiation-induced cancer and/or cataracts. It may also cause disturbances in the growth of an embryo or foetus in a pregnant patient. As such, X-rays should only be used when absolutely necessary and with the correct shielding for patients/staff.



Source: Siemens Healthineers, SEB

CT scans use X-rays to produce cross-sectional images of the body. Compared with a conventional X-ray, the CT is far superior in terms of image detail for internal organs, soft tissue, bones and blood vessels. However, because CT uses ionizing radiation, its risks are similar to X-rays and therefore its use should be limited to when there is a clear medical benefit.

Example of CT system



Source: Siemens Healthineers, SEB

Magnetic Resonance Imaging (MRI)

Magnetic Resonance Imaging, or MRI, is a highly advanced type of medical imaging technique used to diagnose conditions, assess the effectiveness of previous treatments and/or plan future treatments. Instead of using harmful radiation, an MRI uses strong superconducting magnets and radio waves to generate images of the body's soft tissues. MRIs provide extensive and detailed images of for example the brain, spinal cord and vascular anatomy of the patient.



Source: Siemens Healthineers, GE Healthcare, Philips Healthcare, SEB

MRI technology - How it works

The body is made up mostly of water molecules (60%), which in turn consist of two hydrogen atoms and one oxygen atom. These atoms react in a very useful way to an MRI's main magnetic fields and the radio waves it emits. In the nucleus of every hydrogen atom is a positively charged spinning proton that acts like a tiny magnet and is thus sensitive to magnetic fields. Normally these hydrogen protons spin around a randomly oriented axis. However, when exposed to the MRI's strong magnetic field (typically 0.2-3 tesla), the axes of the hydrogen protons re-align with magnetic field and spin at a specific frequency, its residence frequency, which is a function of the strength of the magnetic field. Inside the MRI, an RF coil, which acts as a radio antenna that transmits and receives radiofrequency or RF waves, is placed near the part of the body being scanned. The MRI technologist then uses the RF coil to send RF pulses at the residence frequency of the spinning protons which causes the protons to absorb the energy from the magnetic field and flip their spins. When the RF pulse then stops, the protons release that absorbed energy and return to their previous alignments through various relaxation processes and, in turn emit a signal back to the coil. This signal is turned into an electric current which the scanner digitalises. The scanner then processes the signal using advanced software algorithms in order to produce the image.

MRI scanner overview



Source: Journal of Medical Science, SEB

Protons in different body tissues return to their normal spins at different rates and tissues are typically characterized by two different relaxation times, T1 and T2. T1 (longitudinal relaxation time) measures the time it takes for spinning protons to realign with the magnetic field and T2 (transverse relaxation time) is a measure of the time taken for the spin to diphase so the signal disappears.

Typically, an MRI scan involves several different sequences with different settings for repetition time (TR) and echo time (TE) which is typically measured in milliseconds (msec). The most typical MRI sequences include T1-weighted (T1W) and T2-weighted (T2W) scans. In the T1-weighted images the TE and TR-times are shorter than in the T2-weighted scans where images are generated using longer TE and TR-times. A thirdly commonly used sequence is the T2-weighted Fluid Attenuated Inversion Recovery (FLAIR). The FLAIR sequence is similar to the T2-weighted image just that the TE and TR times are even longer. The more contrast images required by the radiologist, the more sequences are run during the MRI exam.

| Typical MRI sequences and approx. TR and TE-times | | | | | | |
|---|-----------|-----------|--|--|--|--|
| | TR (msec) | TE (msec) | | | | |
| T1-Weighted | 500 | 14 | | | | |
| T2-Weighted | 4,000 | 90 | | | | |
| T2-Weighted FLAIR | 9 000 | 114 | | | | |

T2-Weighted FLAIR Source: CaseMed_SEB

| Differences between T1, T2 and T2 FLAIR | | | | | | | |
|---|-------------|-------------|-------------------|--|--|--|--|
| Tissue | T1-Weighted | T2-Weighted | T2-Weighted FLAIR | | | | |
| CSF | Dark | Bright | Dark | | | | |
| White Matter | Light | Dark gray | Dark gray | | | | |
| Cortex | Gray | Light gray | Light gray | | | | |
| Fat (within bone marrow) | Bright | Light | Light | | | | |
| Inflammation | Dark | Bright | Bright | | | | |

Source: CaseMed, SEB

In for example the brain, tissues have different T1 and T2 relaxation times and proton density. This means that they will be highlighted differently with different contrast images. In a T1-image, high-fat content tissues are bright whilst fluids appear darker. In a T2-image on the contrary, high-fat content tissue appears darker whilst fluids are brighter. Lastly, in a T2-weighted FLAIR, the fat-rich tissues are dark, fluids are bright but normal fluids are nulled.

T1-weighted, T2-weighted, T2- weighted FLAIR



Source: SyntheticMR, SEB

A typical MRI scan takes between 30 and 45 minutes but can extend up to 1.5 hours depending on the area being scanned and the number of sequences being run during the exam. According to company data, a typical neurological MRI scan takes approximately 45 minutes. As the sequences are run in order, this means that the patient must remain still inside the MRI for quite a long period which may be uncomfortable. Depending on the area being scanned, the patient may also be required to hold his/her breath for up to 30 seconds.

Following the completion of an MRI scan, the images are typically examined manually by a radiologist using the naked eye to ensure that the correct contrasts were acquired. If not, the patient may be recalled for a second scan. Furthermore, as important parameters and measurements are often based solely on the radiologist's naked eye and manually measuring volumes is difficult, the diagnosis today often remains subjective.



SyMRI

Compared with a standard MRI-exam (which often involves several sequences), SyntheticMR's product SyMRI uses a unique scanning sequence taking approximately six minutes that can measure the absolute tissue properties of the brain. To use SyMRI, the customer needs a special sequence on its MRI camera to be installed. Whilst the sequence is purchased from the OEM (typically in conjunction with the purchase of the MRI systems), the software is purchased from SyntheticMR.

Based on the quantitative data acquired via this sequence, the software then presents this as "SyMAPS" which allows radiologists to synthetically recreate contrast images, segmentations and parametric maps of the patient.



Source: SyntheticMR, SEB

As the contrast images in SyMRI are synthetically created based on quantitative data, this enables the radiologist to adjust contrasts post-scan. In turn this reduces the risk and need for re-scans as images can be fine-tuned after the scan has been performed, according to company data.

In addition, because SyMRI provides automatic segmentations and volume calculations for white matter, grey matter and cerebrospinal fluid (CSF) the radiologist is offered objective decision support, unlike typical diagnoses, which are often subjective and based on the view of the radiologist solely.

According to company data, SyMRI is also the first product on the market to provide segmentation and volume measurements of myelin. Myelin is a lipid-rich substance that functions as an isolation to nerve cell axons (the wires of the nervous system) to speed up the transmission of nerve signals. The measurement of myelin may be important as measures beyond normal are linked to not only several neurodegenerative diseases such as dementia and multiple sclerosis (MS) but also ADHD and diseases within the autism spectrum disorder (ASD). SyMRI also includes advanced parametric maps which displays relaxation values for brain tissue in terms of T1, T2 and PD. Some product packages allow for exportable maps to external formats which is useful in research surrounding neurology and neuroradiology.

In a prospective multicentre, multi-reader trial, published in the American Journal of Neuroradiology, MAGiC (a customized version of SyMRI marketed by GE Healthcare) results showed that synthetically generated MRI images were similar to conventional MRI images in terms of diagnostic quality, morphologic legibility, radiologic findings and artefacts.



Conventional 1.5T MRI images (top row) vs. SyMRI (bottom row)

Source: Tanenbaum et al., American Journal of Neuroradiology, 2017; 28 (6), SEB

Furthermore, according to Tanenbaum et al, 2017, SyMRI's unique sequence provided multiple contrasts such as T1W, T2W, T2W FLAIR, STIR, DIR, PSIR and PD as well as T1 and T2 where TE, TR and TI were able to adjust post-scan. In addition, the full acquisition was done in one-third of the time compared with conventional MRI. Adding to the clinical foundation of SyMRI includes studies by Hagiwara A et al, 2017 which confirmed its clinical viability on lesion detection in patients suffering from MS.

SyntheticMR's key product SyMRI is today available in several different versions including IMAGE, NEURO and MAGiC (customer-specific version marketed by GE Healthcare).

MAGiC is a customer-specific version of SyMRI IMAGE. MAGiC is sold by GE Healthcare under the licence agreement signed in 2014. Based on our understanding, the revenue per new MAGiC licence is in the range of SEK 100,000.

IMAGE is specifically designed to allow for higher patient throughput and faster workflow and delivers multiple contrast images in a short six-minute scan according to company data, whilst NEURO encompass a more advanced and comprehensive product version with capabilities including contrast images, biomarker segmentation, volumetric measurements of brain tissues and quantitative parametric maps. As such, SyMRI NEURO offers the radiologist more information than a conventional MRI scan and objective decision support for diagnosis. According to our understanding, the price per SyMRI licence is SEK 300,000-600,000.

Regulatory overview

SyntheticMR's products are all CE-marked, meaning that it is applicable to current EU regulations and allowed to be sold across 32 European countries. Furthermore, MAGiC (the customer-specific version of SyMRI IMAGE sold via GE Healthcare) received FDA clearance (510(k)) in September 2016, meaning that MAGiC was regulatory approved to be used on MRI systems from GE Healthcare. In June 2018, SyMRI was also FDA-approved to be used with Philips MRI scanners and subsequently also on MRI systems from Siemens Healthineers one year later. Since then, several local regulatory approvals have followed, including Brazil, Turkey and Australia. Recently, SyntheticMR received an extended compatibility notification for SyMRI from the FDA in the US relating to Siemens Healthineers MR-scanners, meaning a further expanded reach for SyMRI on the US market.

Case study: Impact of shortened exam times on yearly revenues

One of the key elements of SyntheticMR's solutions is shortened image acquisition time. A typical MRI scan takes between 30 and 45 minutes but can extend up to 1.5 hours depending on the area being scanned and the number of sequences being run during the exam. By contrast, SyMRI/MAGiC's sequence is completed in a brief six-minute scan. Consequently, SyntheticMR's solutions hold the potential for significantly improved patient throughput within clinics. By assuming a total of 2,000 scans per year, of which brain scans account for around 25% of the total volume, an average revenue per scan of USD 500 and an average scan time of 30 minutes (meanings a time saving of 24 minutes per scan via the use of SyMRI), the potential revenue increase per year would amount to around USD 1m. By instead assuming a total number of scans per year of 3,500 whilst keeping all other assumptions unchanged, the yearly revenue increase would amount to USD 1.8m.



Impact from shortened exam times on yearly revenue

Source: SyntheticMR, SEB

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Market overview

Large and steadily growing market

The value of the global MRI market is estimated at USD 4.8bn in 2019, showing stable mid-single digit growth according to Frost & Sullivan. The main growth drivers include demographic shifts, increased prevalence of chronic disease and a growing need for innovative and cost-efficient healthcare solutions to curb rising healthcare costs throughout the world. Furthermore, for MRI within neurology factors such as an increased prevalence of neurological disorders, such as Alzheimer's, strokes and MS are all expected to contribute to growth.

US the largest market globally

Globally, according to company data, it is estimated that 70-80m MRI scans are carried out each year. In total, we estimate there to be around 50,000 MRI systems installed globally and that the total number of sold systems each year is approximately 5,000, according to industry sources.

The largest market for MRI globally is the US, which is estimated to constitute 22% of the total global addressable market. This is in turn followed by the Asia-Pacific region (39%), Europe (15%), South America (14%) and Middle-East and Africa (10%). The estimated growth in unit shipments varies by region. For 2018-22, Frost & Sullivan estimates a CAGR in unit shipments of 5% for Europe, 3.2% for the US and 2.9% for Asia-Pacific.



Source: Frost & Sullivan, SEB

Source: Frost & Sullivan, SEB

According to data from the OECD, Japan has the highest MRI density globally with c. 55 units per million inhabitants. This is followed by the US (39 units) and Germany (c. 35 units). In terms of the number of MRI procedures performed each year, Germany and the US stand out in a global context, performing an average of 143 and 119 MRI procedures per 1,000 inhabitants a year respectively, according to data from the OECD. For Japan, which has the highest MRI density in the world, utilization of MRI is reverse in rank compared with the number of existing units implying a relative low system utilization rate according to studies by the Japan Radiological Society (JRS) and the Japanese College of Radiology (JCR).



Source: OECD, SEB





The number of MRI exams/procedures performed each year increased across the main markets globally in 2015-18. We believe this to have been driven partly by recent innovations within MRI (faster and quieter scans) alongside, for example, the recent introduction of MRI-compatible pacemakers, which means that the technology is now, accessible to a larger patient population. Furthermore, increasing demand for the use of MRIs in other anatomies, e.g. heart, lung and chest, has likely contributed to the increased use of MRI in recent years.

Number of MRI procedures, 2015-2018



Source: OECD, SEB

Organ distribution

MRI scans are used for a broad range of indications but the most common include spine, brain as well as upper and lower extremities. SynthethicMR's product SyMRI, or MAGiC when sold via GE Healthcare is today approved for use on the brain. However, the company is investigating the potential to expand into other applications such as the musculoskeletal system, including knee and spine. Because spine together with brain account for most of all MRI exams, this would mean a significantly increased sales potential for SyMRI. Furthermore, alongside its OEM partners, SyntheticMR is developing a 3D version of SyMRI which holds the potential to significantly improve the output of an MRI exam and thereby provide major benefits for the healthcare providers' management of various disease states according to company comments.





Source: Magnetic Resonance in Medicine, SEB

Market structure

The global MRI market is dominated by three players (OEMs): GE Healthcare, Siemens Healthineers and Philips Healthcare. Together, it is estimated that these three players hold a market share well above 70% according to Frost & Sullivan. Trailing players include Canon Medical, holding 16% of the global MRI market as well as Hitachi Medical Systems (7%).



Source: Frost & Sullivan, SEB

MRI systems sold per OEM

Based on the assumption that 5,000 MRI systems are sold each year globally and using each OEM's estimated respective market share, we estimate Siemens Healthineers to sell approximately 1,350 MRI systems a year, GE Healthcare to sell 1,250 systems and Philips Healthcare 1,000 systems. Out of the 5,000 MRI systems sold each year, we estimate replacements to constitute around 60% of total volumes.



Market share by region

Based on market data, it is estimated that the US market is heavily dominated by the major OEMs – GE Healthcare, Siemens Healthineers and, Philips Healthcare, Canon Medical Systems and Hitachi Medical. Together, it is estimated that these players control close to 100% of the total market.

In Japan, the third largest market in the APAC region, Canon Medical Systems controls the main part of the market with an estimated 26.5% market share. This is followed by Hitachi Medical, with a share of around 14.5%.



Source: Frost & Sullivan, SEB

In the Indian market, the third largest market globally, the three main OEMs hold strong positions with Siemens controlling around 31% of the market, followed by GE Healthcare (28.5%) and Philips Healthcare (22.5%).



Source: Frost & Sullivan, SEB

Siemens Healthineers

Siemens Healthineers (Healthineers) is the largest player within the global MRI market, with an estimated market share of c. 27% according to Frost & Sullivan. Healthineers reported revenues of EUR 14.5bn (up 8% y/y) in FY 2019 and adjusted profit of EUR 2.5bn (margin of 17.3%; up 10bps y/y). The business is divided into three different operating segments, Imaging, Diagnostics and Advanced Therapies.



Source: Siemens Healthineers, SEB

Source: Siemens Healthineers, SEB

Imaging constitutes the largest business segment (c. 60% of total group sales) and includes Healthineers' medical imaging solutions such as MRI, Computed Tomography (CT), X-ray products, Ultrasound and Molecular Imaging. Based on our assessment, we estimate MRI to constitute around 37% of revenues within the Imaging segment followed by CT (28%), X-ray products (15%), Molecular Imaging (13%) and Ultrasound (7%).



Source: Siemens Healthineers, SEB

GE Healthcare

GE Healthcare, the healthcare division of General Electric (GE) is the second largest player globally within MRI (c. 25% market share) and reported segment revenues of USD 19.9bn (up 1% y/y) and profits of USD 3.9bn (margin of 19.5%; up 80bps y/y) in 2019.



Source: GE Healthcare, SEB

Source: GE Healthcare, SEB

We estimate revenues in the Imaging segment, including GE Healthcare's offering within CT, MRI, Molecular Imaging and X-ray to have amounted to c. USD 9bn in 2019 (c. 44% of total segment revenues), including both equipment and services related revenues.

Revenue split by product type – GE Healthcare segment



Source: GE Healthcare, SEB

Philips Healthcare

Philips Healthcare, the healthcare division of Philips, is estimated to hold around a 20% share of the global MRI market. Philips reported total revenues of EUR 19.5bn in 2019, of which EUR 8.5bn (44% of total group sales) was related to the Diagnosis and Treatment business area comprising Philips offering within Diagnostic Imaging, Image-Guided Therapy, Ultrasound and Healthcare Informatics.



Within the Diagnosis and Treatment business area, we estimate 40% of revenues to be derived from Diagnostic Imaging (MRI, CT, Molecular Imaging, X-ray), 32% from Image-Guided therapy (interventional X-ray systems), 21% from Ultrasound and 7% from Enterprise Diagnostics Informatics.



Source: Philips, SEB

Competitor overview

Indirect competition from other imaging modalities

As SyntheticMR's product range is only compatible with MRI systems, competition partly arises from other medical imaging modalities. Computed tomography (CT) and MRI are two complementary techniques which both can be used for brain imaging. Key differences between the two imaging modalities include speed, price, image detail/quality and safety. In terms of speed, a CT scan is typically faster than a conventional MRI scan, making it more suitable for trauma and other acute neurological disorders. On average, a CT scan takes approximately five minutes compared with a conventional MRI scan that takes approximately 30-45 minutes. In terms of price, a CT scanner is less expensive than an MRI scanner. According to market data, the price for a typical 1.5 tesla MRI scanner (diagnostic quality) is often the range of USD 1-1.5m compared to a standard CT scanner, which typically costs from USD 350,000 to USD 1m, depending on specifications. However, in terms of image detail and quality, the MRI is perceived to be superior to a CT scan, meaning that in those cases requiring a high-level of detail, an MRI scan will likely be preferred over CT. In terms of safety, the CT produces ionizing radiation which the MRI, via its magnetic resonance imaging technology, does not. However, as MRIs make use of superconducting magnets, they are typically unsuitable for patients with artificial joints or pacemakers as these may react to the magnet within the MRI system.

Direct competition within MRI

SyntheticMR differentiates itself through the optimization of the MRI workflow via shortening of the exam time and by using a unique scanning sequence that measures the absolute tissue properties of the brain and then, based on this quantitative data, synthetically recreates contrast images, segmentations and parametric maps of the patient. Based on our understanding, SyntheticMR's software solution is unique and as such, we cannot identify any competing product in the market currently which alone could replace or act as a full substitute to SyMRI/MAGiC. However, we do note alternative approaches for shortening MRI scan times and added objective decision support for clinicians.

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Below we list alternative approaches that we believe are relevant to highlight as alternative techniques to Synthetic MR:

- Compressed sensing: MRI Imaging has evolved over recent years, but in conventional MRI acquisition speed remains a challenge. This is especially so for those patients who are anxious, cannot keep still (e.g. young children) or find it difficult to hold their breath. Several acceleration techniques have been presented to try to overcome these issues while still maintaining image quality. One of these techniques includes compressed sensing (CS). A conventional MRI scan includes the sampling of all raw data points in the so-called k-space, which guarantees the highest image quality but at the same time also makes MRI scans long. CS instead builds upon three key techniques: incoherent subsampling, transform sparsity and non-linear iterative reconstruction. Whilst subsampling increases speed, it typically also means a degradation of image quality. However, in CS and via incoherent subsampling, this issue may be overcome as data points are sampled randomly. Secondly, in order to remove potential overlay noise, the image is transformed into another representation where it is easier to distinguish between useless and useful information. However, as it is difficult to fully separate the noise from the valuable information, the third aspect of non-linear iterative reconstruction is needed. Non-linear iterative reconstruction means trying to achieve the optimal balance between data consistency and sparsity so that as much noise as possible is removed whilst all useful image information is kept. If the transform sparsity is overweighted, this would result in a completely blacked-out image whilst and over-weighted data consistency results in insufficient noise being filtered out, resulting in no improvement in image quality. By the non-linear iterative reconstruction, the optimal balance is achieved, and the image quality is optimized. However, whilst CS allows for faster image acquisition times and shortened exam times, is still does not allow for images to be synthesized and adjusted post-scan, as is the case with SyntheticMR's quantitative approach.
- NeuroQuant (atlas-based product by Cortech labs): Within brain segmentation and brain image analysis, we highlight NeuroQuant from US-based Cortech labs. However, as NeuroQuant is an atlas-based solution we argue that SyntheticMR's quantitative approach remains superior as it is based on the absolute tissue properties of the brain and provides quantitative data, automatic tissue segmentation and adjustable contrast weighted images. Furthermore, within Myelin segmentation we believe SyMRI NEURO to be unique in the market currently.

Growth drivers

Growth within the global MRI market is driven by several strong underlying drivers, with key themes including demographic shifts, increased prevalence of chronic disease and a growing need for innovative and cost-efficient healthcare solutions in order to curb rising healthcare costs throughout the world. In addition, increased access to care in emerging economies is expected to contribute to growth within the global MRI market. Furthermore, for MRI within neurology, factors such as an increased prevalence of neurological disorders, such as Alzheimer's, strokes and MS are all expected to contribute to growth.

Demographic shifts

In the past decade, average life expectancy has increased by almost five years in OECD nations, leading to an increase in the percentage of the population aged 65 and over. According to data from The World Bank, people over the age of 65 are expected to comprise close to 16% of the global population by 2050, compared with slightly over 6% in 2000. At the same time, the proportion of people aged 15-64 years is expected to decrease from 66% in 2010 to 63% in 2050, meaning that a shrinking labour force will have to pay for an increasingly larger share of the population.



Source: OECD, SEB

Moreover, as the costs for healthcare provision increase with age, we believe that the world's rapidly ageing population is set to further drive the demand for improved productivity and efficiency in healthcare systems globally. According to data from the US Department of Health & Human Services, the average annual healthcare spend for a person aged 65 years and above is close to USD 10,000 per year, compared with below USD 2,000 for the age group 0-19 years and slightly over USD 4,000 per person aged 45-54 years.



Source: US Department of Health & Human Service MEPS Data, SEB

Increased prevalence of chronic disease

As the prevalence of chronic and non-communicable diseases (e.g. cancer, diabetes and obesity) is often associated with age, we expect the ageing population to further increase the prevalence of NCDs, and in turn to drive a general increase in healthcare demand. According to data from the World Health Organisation (WHO), non-communicable diseases as a cause of death increased from 60% in 2000 to more than 70% in 2015. The rise of non-communicable disease in both developed and developing markets is said to be explained by demographics, urbanisation, sedentary lifestyles, changing diets, and rising obesity levels (The Economic Intelligence Unit).



Source: The World Bank, SEB

Source: The World Bank, SEB

Growing need for cost-efficient care

Rapidly ageing populations, increased prevalence of disease, increased access to care, and population growth are all important explanations for the increased healthcare spend as a share of total GDP visible globally over the past decades. According to OECD data, the share of GDP spent on healthcare has increased from 7% in 2000 to 9% in 2017, meaning an increase of 200bp in less than 20 years. This trend is likely to continue with global healthcare expenditure expected to increase at a CAGR of 5.4% in 2017-22 (The Economic Intelligence Unit) compared with a CAGR of 3.5% for world GDP (IMF). In order to curb rising healthcare costs and improve global healthcare systems' ability to manage a growing incidence of NCDs, we see good reasons for further increases in investment into new and innovative and cost-efficient treatment solutions.



Healthcare spending as share of GDP \$ 9.0% **DP** 4,000 8.5% USD per capita 8.0% 3,000 7.5% 7.0% 2,000 6.5% 6.0% 1,000 5.5% 5.0% 0 2015 2010-2011 Healthcare spending per capita (avg. OFCD) -Healthcare spending per capita as share of GDF

Source: The Economist Intelligence Unit, SEB

Source: OECD, SEB

Increased healthcare spending in emerging economies

Additional factors spurring on the growth for MRI globally includes increases in average income, growing demand for healthcare and higher standards for care in emerging markets. According to investment firm KraneShares, it is suggested that emerging market countries on average are expected to increase their healthcare spending as a share of GDP by 24.4% by 2040, compared to just 9.8% in developed markets. Already now, several emerging economies such as India (National Health Protection Mission) and China (Healthy China 2030) have enacted major investment programs to improve the general standard of its healthcare systems in order to meet the growing demand.

Increase of neurological disorders

According to the World Health Organization, neurological disorders accounted for 6.3% of the total global burden of disease in 2005. In total this amounted to 92.4m DALYs (the sum of years of potential life lost due to premature mortality and the years of productive life lost due to disability). By 2015, this had increased to 94.6m (6.4% of total global burden of disease). Partly due to demographic shifts, leading to a rapidly ageing population, this figure is expected to increase further by 2030 to 103.3m, corresponding to an increase of c. 12% versus 2005 and close to 6.8% of the total global burden of disease.

| No. of DALYs for neurological disorders and as % of global DALYs 2005-2030 | | | | | | | |
|--|--------------------|------------------|--------------------|------------------|--------------------|------------------|--|
| Cause category | category 2005 201 | | 5 | 2030 | | | |
| | No. of DALYs (000) | % of total DALYS | No. of DALYs (000) | % of total DALYS | No. of DALYs (000) | % of total DALYS | |
| Epilepsy | 7,308 | 0,5 | 7,419 | 0,5 | 7,442 | 0,49 | |
| Alzheimer and other dementias | 11,078 | 0,75 | 13,540 | 0,91 | 18,394 | 1,2 | |
| Parkinson's disease | 1,617 | 0,11 | 1,762 | 0,12 | 2,015 | 0,13 | |
| Multiple sclerosis | 1 510 | 0,1 | 1,586 | 0,11 | 1,648 | 0,11 | |
| Migraine | 7,660 | 0,52 | 7,736 | 0,52 | 7,596 | 0,5 | |
| Cerebrovascular disease | 50,785 | 3,46 | 53,815 | 3,63 | 60,864 | 3,99 | |
| Poliomyelitis | 115 | 0,01 | 47 | 0.0 | 13 | 0.0 | |
| Tetanus | 6,423 | 0,44 | 4,871 | 0,33 | 3,174 | 0,21 | |
| Meningitis | 5,337 | 0,36 | 3,528 | 0,24 | 2,039 | 0,13 | |
| Japanese encephalitis | 561 | 0,04 | 304 | 0,02 | 150 | 0,01 | |
| Total | 92,392 | 6,29 | 94,608 | 6,39 | 103,335 | 6,77 | |

Source: WHO, SEB

Financial Summary

Historical financials

From 2015 to 2018, SyntheticMR reported stellar growth with yearly revenues growing from SEK 6.2m in 2015 to SEK 48.3m by 2018, corresponding to a CAGR of close to 100%. The sharp growth was purely organically generated and mainly a result of increased licence revenue from MAGiC, sold via GE Healthcare but also, to a lesser extent, thanks to more licences sold via Philips and Siemens. In 2019, however, growth stagnated (sales were down c. 5% y/y) mainly due to lower sales of MAGiC licences through GE Healthcare and a weak fourth quarter (down c. 31% y/y). We believe the stagnating growth in 2019 was partly related to attach-rates for MAGiC, sold via GE Healthcare, reaching a more mature stage, that licences previously sold were perpetual and thus not yielding any recurring-revenue over time, at the same time as the collaborations with Philips Healthcare and Siemens Healthineer's had not yet gained ground. As a result of the slowing growth especially during the latter part of 2019, SyntheticMR announced increased investments into its sales organization across the US as well as in India and Japan.



Source: SyntheticMR, SEB



Source: SyntheticMR, SEB

Licence sales constitute most of SyntheticMR's sales (97% of total group sales in 2019) with the remainder coming from service and support sales (3% of group sales). Licence sales include sales of MAGiC, sold via GE Healthcare and sales of SyMRI licences sold together with Philips and Siemens. The remaining parts of sales includes service and support revenues related to those sold licences.





Source: SyntheticMR, SEB

In 2016, SyntheticMR reached a milestone as it was the first year since inception that the company reported an operating profit for the full year (SEK 3.2m; EBIT margin of 16.6%). This was made possible by a tripling of sales year-over-year thanks to FDA-approval of MAGiC leading to a sharply increased sales of licences. In 2017, the sharp growth continued (FY 2017 sales up 88% y/y) which enabled an adj. EBIT margin expansion of close to 15pp y/y to 31.2% for the FY 2017. 2018 was another strong year with sales growing by 36% y/y, in turn allowing for a continued adj. EBIT margin expansion of 9.7 pp. y/y and a record-high FY adj. EBIT result of SEK 19.7m adjusted for severance pay for the departing CEO. In 2019 however, SyntheticMR experienced slower growth of MAGiC licences via GE Healthcare which in combination with efforts to strengthen its sales and marketing organization put pressure on operating margins. For the FY 2019, and partly due to a very weak fourth quarter, FY adj. EBIT declined to SEK 5.2m (margin of 11.4%; down 29.5 pp y/y).



Source: SyntheticMR, SEB

Source: SyntheticMR, SEB

SyntheticMR's operating costs are split into employee benefit costs (54% of total costs), other external expenses (37%), depreciation and amortization (8%) and other expenses (1%). Employee benefit costs encompass salaries for SyntheticMR's 24 employees. Out of those 24 employees, 20 are employed by the Swedish parent company whilst four are employed by the subsidiary in the US. Other external expenses mainly include sales and marketing costs such as costs for participating in various exhibitions and events as well as overhead and administration costs.

| Cost structure, SEKth | | | |
|------------------------------|---------|---------|---------|
| | 2017 | 2018 | 2019 |
| Total sales | 35,645 | 48,304 | 45,803 |
| Own work capitalized | 2,272 | 2,430 | 2,578 |
| As percentage of sales, % | 6.4% | 5.0% | 5.6% |
| Other income | 101 | 1093 | 1528 |
| As percentage of sales, % | 0.3% | 2.3% | 3.3% |
| Other external expenses | -8,621 | -11,753 | -16,809 |
| As percentage of sales, % | 24.2% | 24.3% | 36.7% |
| Employee benefit costs | -14,598 | -18,214 | -24,184 |
| As percentage of sales, % | 41.0% | 37.7% | 52.8% |
| Depreciation & Amortizations | -2,879 | -2,857 | -3,412 |
| As percentage of sales, % | 8.1% | 5.9% | 7.4% |
| Other expenses | -803 | -266 | -588 |
| As percentage of sales, % | 2.3% | 0.6% | 1.3% |
| EBIT | 11,117 | 18,737 | 4,917 |
| EBIT margin, % | 31.2% | 38.8% | 10.7% |

SyntheticMR reached positive cash flows for the first time in 2016 and throughout the strong growth period of 2016-18, cash conversion in general remained strong. On the back of gradually weakening operational performance throughout 2019, FCF declined to SEK 9.1m compared to SEK 15.1m in FY 2018. Over the last three years, the capex-to-sales-ratio has remained stable in the range of 6.0%-8.4% whilst the NWC-to-sales-ratio declined year-over-year in 2019 mainly thanks to working capital release.



Despite slowing operation performance in FY 2019, resulting in weaker cash flow generation, SyntheticMR's financial position remains strong with a net cash position of c. SEK 33m by year-end 2019.



Tax

SyntheticMR reported an average tax rate of around 23% for the period 2016-19. For 2019, the reported tax rate was 23.9%.

Dividend

For the financial year of 2019, SyntheticMR's board of directors proposed a dividend of SEK 1.50 per share. This is in line with previous years dividend of SEK 1.50 share. For the period 2016-2017 SyntheticMR paid no dividend.

| Dividends, 2016-19, SEK | | | | |
|-------------------------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 |
| EPS | 0.59 | 2.07 | 3.63 | 0.94 |
| DPS | 0.0 | 0.0 | 1.50 | 1.50 |

Source: SyntheticMR, SEB

Q1 2020 review

In Q1 2020, SyntheticMR reported sales of SEK 12.5m, corresponding to growth of 22% y/y. The strong growth was mainly attributable to increased sales of SyMRI licences and thus provided the first signs that SyntheticMR's recent efforts to strengthen is sales organization and presence across its key markets are bearing fruit. However, despite the strong sales growth, earnings remained under pressure with a Q1 EBIT of SEK 0.8m, down from SEK 3.2m in Q1 2019, and corresponding to an EBIT margin of 6.5% (down c. 24.5pp y/y). This was mainly a result of the recent investments into additional sales resources. Other major highlights in Q1 included the announcement of an order from the renowned Mayo Clinic (ranked the no. 1 hospital in the US) for SyMRI. The product will be installed across all three Mayo Clinic campuses: Rochester in Minnesota, Phoenix/Scottsdale in Arizona and Jacksonville in Florida and will be used in combination with all three major OEMs, GE, Siemens and Philips as a fully vendor-agnostic solution.





Q2 2020 review

In Q2 2020, SyntheticMR reported sales of SEK 9,9m, corresponding to a decline of 23 pp. y/y. The steep decline was mainly attributable to lower sales of MAGiC via GE Healthcare because some end customer postponed projects due to the COVID-19 pandemic. However, SyntheticMR sees no examples of planned projects being cancelled. The sharp volume drop took its toll on earnings with Q2 EBIT amounting to SEK -3m versus SEK 2.5m in Q2 last year. In addition to the volume drop, earnings were negatively impacted by increased investment in its own sales force. SyntheticMR at the same time commented that it was well-positioned to quickly reduce costs, as these are scalable, if deemed necessary.



Source: SyntheticMR, SEB



Source: SyntheticMR, SEB

Financial forecasts and assumptions

Based on the assumption that SyntheticMR can deliver in line with our estimates, we forecast a sales CAGR of c. 33% for 2019-22 and an improvement in the reported EBIT margin from 10.7% in 2019 up to just below 40% in 2022, mainly driven by a low variable cost base resulting in significant operating leverage when volumes gradually increase. Our estimates do not include any type of acquisitions throughout our forecast period.

Revenue estimates

SyntheticMR's main sales opportunity has historically been partly confined to GE Healthcare's sales of new systems, replacements and other types of upgrades. However, based on increasingly stronger relations with the two other major OEMs (Philips and Siemens), recent investments into its own sales channels and future expected product innovation, we believe that SyntheticMR is well positioned to capture an increasingly larger share of the USD 4.8bn and steadily growing global MRI market. Backed by the recent investments into its own sales force, which holds the potential to generate sales without revenue-sharing with the OEMs, and an increased focus on sales of time-limited licences (typically three years), we also see potential for increased recurring revenues over time.

Market assumptions

Based on information from market sources, it is estimated that a total of c. 5,000 MRI systems are sold each year globally and that the current installed base amounts to c. 50,000 systems. Using the respective OEM's market share we estimate Siemens Healthineers to sell approximately c. 1,350 MRI systems each year, GE Healthcare to sell c. 1,250 systems and Philips Healthcare c. 1,000 systems. Out of the 5,000 MRI systems sold each year, and based on information from industry sources, we estimate replacements to constitute c. 60% of total volumes sold each year. Beyond 2020, where we expect COVID-19 to reduce the number of MRI systems sold (decline of 15% y/y), we assume an increase in the number of sold systems by c. 5% p.a. throughout our forecasting period.



Source: Industry sources, SEB



Source: Industry sources, SEB

Attach rate assumptions

Currently, we expect SyntheticMR to have a significantly higher attach rate to GE Healthcare, compared to Philips and Siemens, as SyMRI is white-labelled under the MAGiC brand when sold via GE and thereby marketed as one of GE's own products. However, based on the recent inclusion of SyMRI into for example Philips Healthcare US own product catalogue – meaning that Philips US sales team now will be able to offer SyntheticMR's full solution to its customers – and also because the full SyMRI offering now is available on Siemens Healthineers Syngo.via open app platform, we expect SyntheticMR's attach rates with Philips and Siemens Healthineers to gradually increase throughout our forecasting period. We expect SyntheticMR's recent efforts to beef up its own sales force (more than 10,000 annual hours of sales resources added during 2019) to contribute positively to this. Furthermore, thanks to the beefing up of its own sales force, we also see potential for increased penetration of SyMRI on already compatible installed systems (systems holding the necessary sequence but which have yet not opted for the SyMRI add-on).



Source: Industry sources, SEB

Price assumptions

Based on our understanding, the compensation SyntheticMR receives for each licence sold varies greatly depending on which OEM is selling it and what type of version (SyMRI Image vs. SyMRI NEURO) the customer opts for.

In the oldest and most long-standing agreement with GE Healthcare, we estimate SyntheticMR to receive in the range of SEK 50,000-100,000 for each MAGiC licence sold via GE Healthcare. However, recently and as a result of SyntheticMR being stricter on pricing, we expect the revenue per licence to rather be in the upper part of the SEK 50,000-100,000 range.

However, based on our understanding, SyntheticMR receives a significantly higher compensation for each licence sold when the licences are sold via the more recently added partners – Philips Healthcare and Siemens Healthineers. Within the agreements with Philips Healthcare and Siemens Healthineers, we assume SyntheticMR to receive c. 75% of the selling price, meaning c. SEK 225,000 per SyMRI Image licence and up to SEK 450,000 for each SyMRI NEURO licence sold.

Lastly, when licences are sold via SyntheticMR's own sales force, we don't assume any revenue share but for the company to instead receive full compensation in-line with the global price list, which based on our understanding, the company applies a strict adherence to. For SyMRI Image, this implies revenues of SEK 300,000 for each licence sold and SEK 600,000 for each SyMRI NEURO licence sold. Based on our understanding, this price typically includes service and licences are typically time-limited to a period of three years.





Source: SEB

Summary of revenue estimates

Based on above assumptions, we derive an estimated 2019-20 sales CAGR of c. 33%. Whilst we estimate that a clear majority of SyntheticMR's sales today is still derived from the sale of MAGiC licences via GE Healthcare (we estimate c. 75% in 2019), we expect the beefing up of SyntheticMR's own sales force and strengthened relationships with the two other main OEMs, Philips and Siemens, to lead to SyMRI constituting an increasingly large share of group revenues throughout our forecasting period, and thereby further reducing the dependency on sales of MAGiC via GE Healthcare.





Source: SyntheticMR, SEB

Source: SyntheticMR, SEB

Cost estimates

SyntheticMR's operating costs in 2019 were split into employee benefit costs (c. 53% of total costs), other external expenses (37%), depreciation and amortization (c. 7%) and other expenses (1%).

| Cost structure (SEKth) | | | | | | | |
|------------------------------|---------|---------|---------|---------|--|--|--|
| | 2019 | 2020E | 2021E | 2022E | | | |
| Total sales | 45,803 | 53,747 | 85,491 | 108,837 | | | |
| Own work capitalized | 2,578 | 2,770 | 3,006 | 3,592 | | | |
| As percentage of sales, % | 5.6% | 5.2% | 3.5% | 3.3% | | | |
| Other income | 1,528 | 233 | 400 | 500 | | | |
| As percentage of sales, % | 3.3% | 0.4% | 0.5% | 0.5% | | | |
| Other external expenses | -16,809 | -19,754 | -25,510 | -30,474 | | | |
| As percentage of sales, % | 36.7% | 36.8% | 29.8% | 28.0% | | | |
| Employee benefit costs | -24,184 | -27,449 | -31,933 | -36,460 | | | |
| As percentage of sales, % | 52.8% | 51.1% | 37.4% | 33.5% | | | |
| Depreciation & Amortizations | -3,412 | -3,952 | -4,344 | -4,789 | | | |
| As percentage of sales, % | 7.4% | 7.4% | 5.1% | 4.4% | | | |
| Other expenses | -588 | 0 | 0 | 0 | | | |
| As percentage of sales, % | 1.3% | 0.0% | 0.0% | 0.0% | | | |
| EBIT | 4,917 | 5,595 | 27,110 | 41,205 | | | |
| EBIT margin, % | 10.7% | 10.4% | 31.7% | 37.9% | | | |

Based on recent investments into additional sales resources across key markets (more than 10,000 annual hours of sales resources added during 2019), we regard SyntheticMR as well-invested in the short-term. However, as the company grows, we believe there will be a need to add additional costs to beef up the organisation, albeit by the same magnitude as in 2019. Based on our current estimates, we expect flat opex-to-sales in 2020 y/y with a decrease in coming years (down 20 pp. y/y and 6pp. y/y in 2021 and 2022 respectively).



Source: SyntheticMR, SEB

Seasonal variations

We note that SyntheticMR's earnings historically have followed a seasonal pattern with Q4 typically being the strongest earnings quarter, partly coinciding with typical hospital budget cycles. In Q4 2019 however, this trend was not visible partly related to a significant volume shortfall as well as additional costs related to internal organizational changes.



Capital expenditure (capex)

Over the last three years, SyntheticMR's capex-to-sales-ratio has remained in the range of 6.0%-8.4%. As we currently see no major investment requirements, we estimate for the capex-to-sales ratio to decline throughout our forecasting period.

| Capex-to-sales, % | | | | | | |
|---------------------|--------|--------|--------|--------|--------|--------|
| | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
| Capex | -2,984 | -2,906 | -3,624 | -4,250 | -4,500 | -4,750 |
| Capex-to-sales, % | 8.4% | 6.0% | 7.9% | 7.9% | 5.3% | 4.4% |
| CONTRACT OF AND CED | | | | | | |

Source: SyntheticMR, SEB

Cash flows

SyntheticMR reached positive cash flows for the first time in 2016 and throughout the strong growth period of 2016-2018, cash conversion in general remained strong. Whilst we expect cash flow generation to be somewhat more muted in 2020, we expect a gradual improvement thereafter. This is based on an anticipated sales growth pick-up, which combined with a with a low variable cost base should trigger strong earnings growth and improved cash flow generation.



Source: xxx

Leverage

SyntheticMR's financial position remains strong with a net cash position of c. SEK 33m at year-end 2019. Based on the anticipated strong cash flow generation throughout our forecasting period, we expect SyntheticMR to remain in a solid financial position.



Source: SyntheticMR, SEB

Tax assumptions

SyntheticMR reported an average tax rate of c. 23% for the period 2016-19. For 2019, the reported tax rate was 23.9%. We assume a tax rate of 22.5% throughout our forecast period which is broadly in-line with the historical tax rate.

| Detailed quarterly and yearly estimates, (SEKth) | | | | | | | | | | | | |
|---|-----------------------------|-----------------------------|-----------------------------|---------------------------------|-------------------------------|-------------------------------|------------------------------|-----------------------------|---------------------------------|-------------------------------|-------------------------------|--------------------------------|
| | Q1/19 | Q2/19 | Q3/19 | Q4/19 | Q1/20 | Q2/20 | Q3/20E | Q4/20E | 2019 | 2020E | 2021E | 2022E |
| Net sales Sales growth, % | 10,274 -3.5% | 12,942 16.2% | 12,004 7.0% | 10,583 - <i>30.9%</i> | 12,522 21.9% | 9,902 -23.5% | 14,793 23.2% | 16,530 56.2% | 45,803 <i>-5.2%</i> | 53,747 <i>17.3%</i> | 85,491 <i>59.1%</i> | 108,837 <i>27.3%</i> |
| Own work capitalized Other income Total income | 604 824 11,702 | 674 381 13,997 | 680 252 12,936 | 620 71 11,274 | 720 1,371 14,613 | 621 -1,138 9,385 | 710 -200 15,303 | 719 200 17,449 | 2,578 1,528 49,909 | 2,770 233 56,750 | 3,006 400 88,897 | 3,592 500 112,928 |
| Other external expenses Employee benefit costs Deprcn of tang and intangible assets | -3,104 -4,990 -721 | -4,289 -5,757 -719 | -3,460 -5,074 -980 | -5,955 -8,363 -991 | -6,353 -6,455 -992 | -4,300 -7,081 -977 | -4,142 -6,805 -991 | -4,959 -7,108 -992 | -16,809 -24,184 -3,412 | -19,754 -27,449 -3,952 | -25,510 -31,933 -4,344 | -30,474 -36,460 -4,789 |
| EBIT EBIT margin, % | 2,887 28.1% | 3,232 25.0% | 3,422 28.5% | -4,623 -43.7% | 813 6.5% | -2,973 -30.0% | 3,365 22.7% | 4,390 26.6% | 4,917 10.7% | 5,595 10.4% | 27,110 <i>31.7%</i> | 41,205 <i>37.9%</i> |
| NRI | -300 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -300 | 0 | 0 | 0 |
| Adj. EBIT Adj. EBIT margin, % | 3,187 31.0% | 3,232 25.0% | 3,422 28.5% | -4,623 -43.7% | 813 6.5% | -2,973 -30.0% | 3,365 22.7% | 4,390 26.6% | 5,217 11.4% | 5,595 10.4% | 27,110 <i>31.7%</i> | 41,205 <i>37.9%</i> |
| Financial income Financial expenses Net financial income/expense | 0 -1 -1 | 0 -1 -1 | 1 -9 -8 | 1 -7 -6 | 0 -26 -26 | 0 -9 -9 | 0 -9 -9 | 0 -9 -9 | 2 -18 -16 | 0 -53 -53 | 0 -36 -36 | 0 -30 -30 |
| Earnings before tax | 2,886 | 3,231 | 3,414 | -4,629 | 787 | -2,982 | 3,356 | 4,381 | 4,901 | 5,542 | 27,074 | 41,175 |
| Tax | -660 | -754 | -890 | 1,132 | -2 | 0 | -755 | -986 | -1,172 | -1,743 | -6,092 | -9,264 |
| Net profit | 2,226 | 2,477 | 2,524 | -3,497 | 785 | -2,982 | 2,601 | 3,396 | 3,729 | 3,800 | 20,982 | 31,911 |
| EPS | 0.55 | 0.61 | 0.62 | -0.85 | 0.21 | -0.77 | 0.64 | 0.84 | 0.94 | 0.92 | 5.19 | 7.90 |

Valuation approach

Summary

We derive our fair value from a DCF framework, supported by a peer group valuation used for reference. Based on the assumption that SyntheticMR can deliver in line with our estimates, we derive a fair value range of SEK 290-382 per share with +/- 1% absolute change to our sales growth and EBITDA margin assumptions being the upper and lower ends. Our weighted average cost of capital is 7% We use explicit forecasts for 2020-40 and then make the following assumptions:

- Revenues to grow at 4% long term and beyond our forecast period.
- A steady state EBIT margin of 25% beyond our forecast period.
- Working capital to stabilise at around 5% of sales.

| Mid-point DCF valuation | | | | | | | | | |
|---|--------|--------------------------------------|------|--|--|--|--|--|--|
| DCF valuation (SEKm) | | Weighted average cost of capital (%) | | | | | | | |
| NPV of FCF in explicit forecast period | 768 | Risk free interest rate | 2.5 | | | | | | |
| NPV of continuing value | 547 | Risk premium | 4.5 | | | | | | |
| Value of operation | 1,315 | Cost of equity | 7.0 | | | | | | |
| Net debt | (30) | After tax cost of debt | 2.0 | | | | | | |
| Share issue/buy-back in forecast period | - | | | | | | | | |
| Value of associated companies | - | WACC | 7.0 | | | | | | |
| Value of minority shareholders' equity | - | | | | | | | | |
| Value of marketable assets | - | Assumptions | | | | | | | |
| DCF value of equity | 1,345 | Number of forecast years | 20 | | | | | | |
| DCF value per share (SEK) | 333 | EBIT margin - steady state (%) | 25.0 | | | | | | |
| Current share price (SEK) | 332.00 | EBIT multiple - steady state (x) | 11.4 | | | | | | |
| DCF performance potential (%) | 0 | Continuing value (% of NPV) | 41.6 | | | | | | |

Source: SEB

In order to test our assumptions, we provide sensitivity analyses where we provide variations for the cost of capital as well as sales growth and EBITDA margin assumptions.

| Sensitivity Analysis I | | | | | | | Sensitivity A | Analysis | ; | | | | |
|------------------------|-----|-----|-----------------|---------------|-------------|-----|----------------|----------|-----|--------|--------------|-----|-----|
| | | Abs | olute change in | EBITDA margin | - all years | | | | | Cost o | f equity (%) | | |
| | | -2% | -1% | 0 | +1% | +2% | | | 6.0 | 6.5 | 7.0 | 7.5 | 8.0 |
| | -2% | 254 | 262 | 271 | 279 | 288 | | 80 | 538 | 487 | 443 | 406 | 374 |
| Abs. change in | -1% | 281 | 290 | 300 | 310 | 319 | Equity capital | 90 | 464 | 419 | 381 | 349 | 321 |
| sales growth - | 0 | 311 | 322 | 333 | 344 | 355 | weight (%) | 100 | 406 | 366 | 333 | 304 | 279 |
| all years | +1% | 345 | 358 | 370 | 382 | 395 | • • • • | 100 | 406 | 366 | 333 | 304 | 279 |
| • | +2% | 384 | 398 | 412 | 426 | 440 | | 100 | 406 | 366 | 333 | 304 | 279 |
| | | | | | | | | | | | | | |

Source: SEB

Source: SEB

As a reference and a complement to our DCF framework, we have included a relative valuation. Our peer group for the most closely related domestic peers includes Sectra and RaySearch Laboratories, which are Swedish medtech/IT software companies. Sectra is a leading and global provider of medical imaging IT solutions and security solutions to handle critical infrastructure and classified information. RaySearch operates within radiation oncology software solutions through its treatment planning system Raystation and Oncology Information System RayCare.

Multiples of our selected peers are high, which we believe is partly related to the defensive and non-cyclical characteristic of the end-market as well as its strong underlying market growth prospects. Furthermore, we also believe that these companies have high technology value, which should provide a premium valuation, because it creates barriers to entry for new entrants. We note that SyntheticMR currently trades at a 2021E P/E of c. 61x and EV/EBIT of c. 46x. This can be compared to the average of our selected peers of c. 66x on P/E and c. 45x EV/EBIT.

| Peer group comparison – closely related domestic peers | | | | | | | | | | | | | |
|--|-------------|-------|-------|-------|---------|-------|-----------|-------|-------|----------|-------|-------|-------|
| | Mkt cap PER | | | | EV/EBIT | | EV/EBITDA | | | EV/Sales | | | |
| | (EURm) | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E |
| SyntheticMR AB (publ) | 129 | 313.9 | 60.5 | 38.1 | 216.6 | 46.4 | 29.2 | 129.9 | 39.4 | 26.5 | 22.8 | 15.0 | 11.7 |
| Peers | | | | | | | | | | | | | |
| Raysearch Laboratories AB | 221 | 42.3 | 37.0 | 24.8 | 26.4 | 21.4 | 14.3 | 7.9 | 7.0 | 5.7 | 2.8 | 2.4 | 2.1 |
| Sectra AB | 2,205 | 106.1 | 95.7 | 83.8 | 70.8 | 68.8 | 60.5 | 60.0 | 54.3 | 48.5 | 13.4 | 12.3 | 11.2 |
| Average | , | 74.2 | 66.4 | 54.3 | 48.6 | 45.1 | 37.4 | 33.9 | 30.6 | 27.1 | 8.1 | 7.3 | 6.7 |
| C TI D I D I I | CED. | | | | | | | | | | | | |

Source: Thomson Reuters Datastream, SEB

If we compare SyntheticMR to global closely related peers, we note that the peer group, on average, currently trades at a 2021E P/E of c. 32x and an EV/EBIT of c. 24x.

| Peer group comparison – closely related global peers | | | | | | | | | | | | | |
|--|-------------------|-------|--------------|-------|-------|------------------|-------|-------|--------------------|-------|-------|-------------------|-------|
| | Mkt cap (EURm) | 2020E | PER 2021E | 2022E | 2020E | EV/EBIT 2021E | 2022E | 2020E | EV/EBITDA 2021E | 2022E | 2020E | EV/Sales 2021E | 2022E |
| SyntheticMR AB (publ) | 129 | 313.9 | 60.5 | 38.1 | 216.6 | 46.4 | 29.2 | 129.9 | 39.4 | 26.5 | 22.8 | 15.0 | 11.7 |
| Peers | | | | | | | | | | | | | |
| Cegedim SA | 387 | 23.0 | 17.3 | 14.3 | 19.8 | 16.2 | 13.9 | 6.2 | 5.8 | 5.3 | 1.3 | 1.2 | 1.2 |
| CompuGroup Medical | 4,061 | 32.6 | 30.7 | 28.7 | 27.4 | 24.9 | 23.2 | 19.9 | 18.2 | 17.3 | 5.1 | 4.8 | 4.6 |
| Instem PLC | 122 | 30.3 | 32.1 | 28.2 | 24.8 | 23.7 | 21.3 | 17.6 | 16.1 | 14.7 | 3.6 | 3.3 | 3.2 |
| Craneware PLC | 505 | 35.8 | 35.9 | 35.5 | 26.7 | 25.3 | 24.3 | 23.0 | 22.5 | 21.5 | 7.7 | 7.5 | 7.1 |
| Nexus AG | 695 | 48.9 | 41.7 | 36.2 | 32.9 | 28.5 | 25.0 | 18.2 | 16.6 | 15.3 | 4.2 | 3.9 | 3.6 |
| Average | 1,154 | 34.1 | 31.6 | 28.6 | 26.3 | 23.7 | 21.5 | 17.0 | 15.8 | 14.8 | 4.4 | 4.2 | 3.9 |

Source: Thomson Reuters Datastream, SEB

Compared with larger global medtech peers, we note that the peer group, on average, currently trades at a 2021E P/E of c. 36x and an EV/EBIT of 26.6x.

| Peer group comparison – global medtech peers | | | | | | | | | | | | | |
|--|---------|-------------|-------|-------|-------|---------|-------|-------|--------------------|-------|-------|-------|-------|
| | Mkt cap | Mkt cap PER | | | | EV/EBIT | | | EV/EBITDA EV/Sales | | | | |
| | (EURm) | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E | 2020E | 2021E | 2022E |
| SyntheticMR AB (publ) Peers | 129 | 313.9 | 60.5 | 38.1 | 216.6 | 46.4 | 29.2 | 129.9 | 39.4 | 26.5 | 22.8 | 15.0 | 11.7 |
| Getinge AB | 5,043 | 18.5 | 20.9 | 19.4 | 13.1 | 15.5 | 14.7 | 8.7 | 9.8 | 9.4 | 2.0 | 2.0 | 2.0 |
| Draegerwerk AG & Co KGaA | 1,344 | 8.4 | 10.0 | 8.6 | 5.4 | 6.6 | 5.7 | 3.5 | 4.0 | 3.7 | 0.4 | 0.4 | 0.4 |
| Coloplast A/S | 27,034 | 49.5 | 43.5 | 39.7 | 34.7 | 31.2 | 28.7 | 30.8 | 27.9 | 25.6 | 10.8 | 10.0 | 9.2 |
| Straumann Holding AG | 13,272 | 63.5 | 43.4 | 35.9 | 54.4 | 35.1 | 29.7 | 38.0 | 28.2 | 24.5 | 10.3 | 8.6 | 7.8 |
| Sonova Holding AG | 12,984 | 25.4 | 43.0 | 26.8 | 24.7 | 37.3 | 24.0 | 19.2 | 25.4 | 18.2 | 4.7 | 5.8 | 4.8 |
| GN Store Nord A/S | 8,378 | 52.7 | 30.6 | 25.9 | 42.0 | 26.5 | 23.5 | 29.5 | 20.6 | 18.3 | 5.3 | 4.6 | 4.2 |
| Demant A/S | 6,176 | 67.3 | 23.6 | 20.2 | 51.1 | 20.6 | 18.3 | 26.6 | 15.1 | 13.6 | 3.9 | 3.2 | 3.0 |
| Ambu A/S | 6,498 | 166.9 | 120.1 | 78.6 | 97.1 | 75.9 | 52.6 | 74.1 | 58.7 | 41.7 | 13.4 | 11.2 | 9.2 |
| Siemens Healthineers AG | 39,869 | 26.3 | 22.2 | 20.1 | 18.0 | 15.1 | 13.8 | 14.1 | 12.2 | 11.0 | 2.7 | 2.5 | 2.4 |
| Steris PLC | 11,262 | 28.3 | 27.6 | 24.2 | 20.9 | 23.0 | 20.2 | 17.0 | 17.7 | 16.3 | 4.2 | 4.7 | 4.3 |
| Hill-Rom Holdings Inc | 5,208 | 17.0 | 16.2 | 14.0 | 14.7 | 14.3 | 12.7 | 13.1 | 12.5 | 11.1 | 2.7 | 2.7 | 2.6 |
| Elekta AB (publ) | 3,560 | 30.8 | 29.0 | 24.2 | 23.0 | 20.3 | 17.7 | 13.6 | 12.5 | 11.5 | 2.7 | 2.7 | 2.5 |
| Varian Medical Systems Inc | 13,269 | 45.2 | 33.9 | 28.4 | 33.6 | 24.8 | 21.3 | 29.8 | 22.2 | 19.1 | 4.9 | 4.4 | 4.0 |
| Average | 12,404 | 46.1 | 35.7 | 28.1 | 33.3 | 26.6 | 21.8 | 24.5 | 20.5 | 17.2 | 5.2 | 4.8 | 4.3 |

Source: Thomson Reuters Datastream, SEB

By comparing SyntheticMR's current valuation with its historical average, we note that the share is currently trading at a premium relative to its two years' historical average NTM P/E and EV/EBIT multiples respectively.



SyntheticMR P/E NTM versus 2Y historical average 80.0 70.0 60.0 50.0 40.0 30.0 20.0 10.0 0.0 Aug-18 -Oct-19 -Feb-20 -Mar-20 -Apr-20 -May-20 ß Apr-19 19 19 Jan-20 Jun-20 Jan-19 0 Mar-19 Aug-19 6 Nov-19 May-> Sep. Ċ De Feb-Ë -in Sep. Dec ģ ş SyntheticMR P/EPS NTM SyntheticMR 2Y average P/EPS NTM Source: Thomson Reuters Datastream, SEB

Source: Thomson Reuters Datastream, SEB

Key near term risks and concerns

COVID-19 impact

Whilst SyntheticMR so far has seen a limited impact from COVID-19, it is likely too early to fully assess the longer-term implications of the pandemic. The immediate direct effects include a change of priorities among hospitals with an increased focus on handling the large volumes of COVID-19 patients at the expense of elective services. This may impact demand in the short term. Furthermore, there are additional potential risks in the pandemic's aftermath, such as increasing budget constraints among hospitals/clinics, which may have a negative impact on replacement cycles and general capital investment and equipment purchases.

Historically high dependence on one customer

SyntheticMR has historically been dependent to a large degree on sales of MAGiC via GE Healthcare. We estimate sales of MAGiC via GE healthcare to have accounted for 70-80% of total group sales in 2019. However, based on recent initiatives, including a ramp-up of own sales resources and further strengthened collaborations with Philips Healthcare and Siemens Healthineers, we note a recently stronger product mix compared with previous periods (growth in SyMRI sales of more than 100% y/y in Q2). We expect this trend to continue, resulting in further decreased dependency on sales of MAGiC via GE Healthcare.

Inability to capitalise on recent investments

Whilst we expect SyntheticMR's recent efforts to beef up its own sales force (more than 10,000 annual hours of sales resources during 2019) to contribute positively to sales growth throughout our forecasting period, a potential inability to capitalize on recent investments may pose a risk to the investment case. However, in response to this, SyntheticMR has previously commented that the costs are largely scalable and thus can be quickly reduced in the event of any negative market signals.

Appendix

Appendix I: Management & board

Group Management

Ulrik Harrysson, CEO joined SynthethicMR in 2019. Prior to joining the company, Mr Harrysson held the position as Senior Vice President Global Marketing at Hermes Medical Solutions AB. Before this, he held leading positions in global companies such as HemoCue, Danaher and Pfizer.

Johanna Norén, Interim CFO joined SyntheticMR recently. Prior to joining SyntheticMR, Ms Norén held various position within Aebi Schmidt and Relacom.

Lisa Warnroth, Head of QA/RA joined SyntheticMR from Sanofi Pasteur MSD where she worked with product safety and clinical trials for vaccines. She was also responsible for some quality management.

Markus Malmgren, Head of R&D worked with product development at Zenterio where he was Head of Development prior to joining SyntheticMR. Mr Malmgren has more than 15 years' experience in management within software companies and had a similar roll and responsibility at Enea AB.

Board of Directors

Johan Sedihn, Chairman of the board since 2020 and board member since 2011. Mr Sedihn has more than 25 years' experience in the medical technology industry. This includes leading positions within Elekta of which the latest as Chief Operating Officer (COO).

Staffan Persson, former chairman of the board and board member since 2013. Mr Persson is a long-time investor and entrepreneur in privately owned as well as publicly traded companies.

Marcel Warntjes, board member since 2007 and senior adviser and Head of Innovation at SyntheticMR since 2018. Mr Warntjes is the founder of SyntheticMR and former CEO and CTO.

Petra Apell, board member since 2020. Ms Apell founded Orzone AB and Ten Medical Design AB (10MD). She has also worked at companies such as Johnson & Johnson, XVIVO Perfusion, Mentice and Ortoma.

Overview

| Investment considerations | SyntheticMR's product offering includes innovative software solutions for Magnetic Resonance Imaging (MRI) that delivers more information to the clinician and allows for shorter exam times. The global addressable market for MRI was valued at USD 4.8bn and based on already existent partner agreements with the three major global MRI OEMs and after a period of investments, we believe the company is ready to get back up on the growth path. |
|---------------------------|---|
| Company profile | Sweden-based SyntheticMR's innovative software solutions for Magnetic Resonance Imaging (MRI) is certified for clinical use on the brain. It measures the absolute properties of the brain and delivers synthetically recreated adjustable contrast images, automatic biomarker segmentation and quantitative data in a single and short six-minute MRI-scan. SyntheticMR's product SyMRI is available in several different product packages including SyMRI IMAGE, MAGiC and SyMRI NEURO. Most of SyntheticMR's revenue is derived from outside of Sweden (c. 96%). In 2019, licence sales accounted for close to 97% of total group sales with the remainder coming from service and support revenues related to those licences sold. |
| Valuation approach | We derive our valuation range from a DCF framework, supported by a peer group valuation used for reference. |
| Investment risks | A larger-than-expected negative impact from the COVID-19 pandemic (e.g. squeezed hospital budgets and extended MRI replacement cycles), together with the historically relatively large dependence on one customer (GE Healthcare) and a potential inability to capitalise on recent investments done all pose a risk to the investment case. |
| | |





Source: SyntheticMR, SEB



Source: SEB























| Profit & loss statement SyntheticMP | | | | | | | | |
|---|------------------|--------------|------------------|--------------|---------------|--------------|---------------|--------------------|
| (SEKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020F | 2021F | 2022F |
| Net Sales | 6 | 19 | 36 | 48 | 46 | 54 | 85 | 109 |
| Other revenues Total revenues | 3 10 | 4 23 | 2 38 | 4 52 | 4 50 | 5 57 | 3 89 | 4 113 |
| Total expenses | (13) | (17) | (24) | (30) | (42) | (47) | (57) | (67) |
| Profit before depreciation | (4) | 6 | 14 | 22 | 8 | 10 | 31 | 46 |
| Depreciation - Fixed assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation - Other assets Amortisation - Goodwill | (2) | (3) | (3) | (3) | (3) | (4) | (4) | (5) |
| Amortisation - Other intangibles | 0 | Ö | 0 | 0 | Ö | 0 | 0 | 0 |
| Operating profit | (6) | 3 | 11 | 19 | 5 | 6 | 27 | 41 |
| Net interest expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial items Value changes - Fixed assets | 0 | (0) | (0) | (0) | (0) | (0) | (0) | (0) |
| Value changes - Financial assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Value changes - Other assets Reported pre-tax profit | (6) | 3 | 11 | 19 | 5 | 6 | 27 | 41 |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total taxes | 6 | (1) | (3) | (4) | (1) | (2) | (6) 21 | (9) |
| | • | - | 0 | | - | - | | |
| Discontinued operations Extraordinary items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 0 | 2 | 8 | 15 | 4 | 4 | 21 | 32 |
| Adjustments: | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Discontinued operations Interest on convertible debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Minority interests (IFRS) | 0 | 0 | 0 | 0 | 0 | (0) | 0 | 0 |
| Goodwill/intangibles amortisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Restructuring charges | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax effect of adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjusted profit after tax | 0 | 2 | 8 | 15 | 4 | 4 | 21 | 32 |
| Margins, tax & returns | | 144 | Z1 0 | ZO O | 107 | 10 / | 717 | 77.0 |
| Pre-tax margin | n.m. | 16.4 | 31.2 | 38.7 | 10.7 | 10.4 | 31.7 | 37.9 |
| Tax rate | 101.2 | 23.1 | 24.6 | 21.7 | 23.9 | 31.4 | 22.5 | 22.5 |
| ROCE | (58.3) | 13.9 | 39.6 | 50.4 | 11.4 | 12.7 | 53.9 | 58.4 |
| Growth rates y-o-y (%) | | | | | | | | |
| Total revenues Operating profit | n.a. n m | 135.5 nm | 67.5 251 7 | 36.3 68 5 | (3.7) | 13.7 13.8 | 56.6 384 5 | 27.0 52.0 |
| Pre-tax profit | n.m. | n.m. | 255.9 | 68.7 | (73.8) | 13.1 | 388.5 | 52.1 |
| EPS (adjusted) | 0.0 | 2,968.6 | 249.3 | 75.3 | (74.1) | (2.3) | 466.7 | 52.1 |
| | | | | | | | | |
| Cash flow | 004 5 | 001/ | 0017 | 0010 | 0010 | 00005 | 00015 | 00005 |
| (SEKM) Net profit | 2015 | 2016 | 2017 | 2018 15 | 2019 | 2020E 4 | 2021E 21 | 2022E 32 |
| Non-cash adjustments Cash flow before work cap | (4) | 3 6 | 5 14 | 7 21 | 3 7 | 4 8 | 4 25 | 5 37 |
| | (1) | (1) | (7) | (7) | _ | (1) | (7) | (1) |
| Operating cash flow | (1) | (1) 5 | (3) 11 | (3) 18 | 13 | (1) 6 | 23 | (1) 36 |
| Capital expenditures | (3) | (3) | (3) | (3) | (4) | (4) | (5) | (5) |
| Asset disposals | Ó | Ó | Ó | Ó | Ó | Ó | Ó | Ó |
| Acquisitions / adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Free cash flow | (8) | 1 | 8 | 15 | 9 | 2 | 18 | 31 |
| Net loan proceeds | (0) | (0) | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend paid Share issue | 0 | 0 | 0 | 0 | (6) | (6) | (6) | (6) 0 |
| Other Natabarga in cash | 0 | 0 | 0 | 0 | (0) | 0 | 0 | 0 |
| Net change in cash | (8) | 1 | 0 | 15 | 3 | (4) | 12 | 25 |
| Adjustments C/flow bef chng in work cap | (4) | 6 | 14 | 21 | 7 | 8 | 25 | 37 |
| Adjustments | Ó | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash earnings | (4) | 6 | 14 | 21 | 7 | 8 | 25 | 0 37 |
| Per share information | | | | | | | | |
| Cash earnings | (0.96) | 1.38 | 3.4 | 5.28 | 1.68 | 1.92 | 6.27 | 9.08 |
| Operating cash flow Free cash flow | (1.16) (1.89) | 1.15 0.33 | 2.64 1.9 | 4.46 3.74 | 3.16 2.26 | 1.61 0.56 | 5.64 4.53 | 8.82 7.64 |
| Investment cover | | | | | - | | | |
| Capex/sales (%) | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex/depreciation (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Source for all data on this page: SEB

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| Balance sheet - SyntheticMR | | | | | | | | |
|---|--|--|--|--|--|---|---|---|
| (SEKm) Cash and liquid assets Debtors Inventories Other Current assets | 2015 8 3 0 1 12 | 2016 9 5 0 1 16 | 2017 17 11 0 1 29 | 2018 32 15 0 1 48 | 2019 35 10 0 2 47 | 2020E 31 12 0 2 45 | 2021E 43 18 0 2 63 | 2022E 68 23 0 2 92 |
| Interest bearing fixed assets Other financial assets Capitalized development cost Goodwill Other intangibles Fixed tangible assets Other fixed assets Fixed assets | 0 6 0 1 0 6 13 | 0 0 7 0 1 0 6 13 | 0 0 7 0 1 0 3 10 | 0 0 7 0 1 0 0 8 | 0 7 0 1 0 1 10 | 0 8 0 1 0 1 10 | 0 0 8 0 1 0 1 10 | 0 8 0 1 0 1 10 |
| Total assets | 25 | 29 | 39 | 56 | 56 | 55 | 73 | 102 |
| Creditors Other trade financing S/T interest bearing debt Other Current liabilities | 1 1 0 3 4 | 1 0 4 5 | 2 0 5 7 | 2 1 0 7 10 | 2 1 1 8 12 | 2 1 1 8 13 | 5 2 1 8 16 | 8 3 1 8 20 |
| L/T interest bearing debt Other long-term liabilities Convertible debt Pension provisions Other provisions Deferred tax Long term liabilities | 0 0 0 0 0 0 | 0 0 0 0 0 0 | 0 0 0 0 0 0 0 | 0 0 0 0 0 0 0 | 0 0 0 0 0 0 | 0 0 0 0 0 0 | 0 0 0 0 0 0 | 0 0 0 0 0 0 0 |
| Minority interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 21 | 24 | 32 | 46 | 44 | 41 | 56 | 82 |
| Total liabilities and equity | 25 | 29 | 39 | 56 | 56 | 55 | 73 | 102 |
| Net debt (m) Working capital (m) Capital employed (m) Net debt/equity (%) Net debt/EBITDA (x) Equity/total assets (%) Interest cover | (8) 0 21 (38) 2.2 85 0.0 | (9) 1 24 (39) (1.6) 83 0.0 | (17) 5 32 (53) (1.2) 82 0.0 | (32) 6 46 (70) (1.4) 82 0.0 | (33) 1 45 (76) (3.9) 78 0.0 | (30) 2 43 (71) (3.1) 76 0.0 | (42) 4 58 (74) (1.3) 77 0.0 | (66) 6 83 (81) (1.4) 80 0.0 |
| Valuation | | | | | | | | |
| (SEK) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
| No of shares, fully dil. (y/e) No of shares, fully dil. avg. Share price, y/e Share price, high Share price, low | 4.0 4.0 100.0 100.0 46.5 | 4.0 4.0 125.0 135.3 74.0 | 4.0 4.0 278.5 373.0 124.3 | 4.0 4.0 289.0 412.0 261.0 | 4.0 4.0 223.0 380.0 171.0 | 4.0 4.0 327.0 337.0 117.0 | 4.0 4.0 327.0 | 4.0 4.0 327.0 |
| Share price, avg EPS (reported) EPS (adjusted) Cash earnings/share Dividend/share | 67.2 0.02 (0.96) 0.00 | 103.8 0.59 0.59 1.38 0.00 | 272.1 2.07 2.07 3.40 0.00 | 3.63 3.63 5.28 1.50 | 266.2 0.94 0.94 1.68 1.50 | 234.4 0.92 0.92 1.92 1.50 | 5.19 5.19 6.27 1.56 | 7.90 7.90 9.08 2.37 |
| Enterprise value/share Book value/share Adjusted equity/share | 98 5.3 5.3 | 123 5.9 5.9 | 274 8.0 8.0 | 281 11.4 11.4 | 215 10.8 10.8 | 320 10.3 10.3 | 317 13.9 13.9 | 311 20 20 |
| PER (adjusted) CEM Dividend yield | n.m. (104.2) 0.0 | n.m. 90.9 0.0 | 134.6 81.9 0.0 | 79.7 54.7 0.5 | n.m. 133.0 0.7 | n.m. 170.4 0.5 | 63.0 52.2 0.5 | 41.4 36.0 0.7 |
| EV/EBITDA EV/EBITA EV/EBIT | (104.8) (63.2) (63.2) | 85.8 156.8 156.8 | 79.2 99.7 99.7 | 50.3 57.5 57.5 | 100.5 166.3 166.3 | 135.3 230.8 230.8 | 40.7 47.2 47.2 | 27.3 30.4 30.4 |

| Difficient field | 010 | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 | 0.0 |
|-------------------------------|---------|-------|-------|-------|-------|-------|-------|
| EV/EBITDA | (104.8) | 85.8 | 79.2 | 50.3 | 100.5 | 135.3 | 40.7 |
| EV/EBITA | (63.2) | 156.8 | 99.7 | 57.5 | 166.3 | 230.8 | 47.2 |
| EV/EBIT | (63.2) | 156.8 | 99.7 | 57.5 | 166.3 | 230.8 | 47.2 |
| EV/Sales (x) | 63.85 | 26.08 | 31.09 | 23.51 | 18.94 | 24.03 | 14.96 |
| Price/Book value | 18.82 | 21.16 | 34.91 | 25.35 | 20.57 | 31.89 | 23.44 |
| Price/adjusted equity | 18.82 | 21.16 | 34.91 | 25.35 | 20.57 | 31.89 | 23.44 |
| Free cash flow/Market cap (%) | (1.9) | 0.3 | 0.7 | 1.3 | 1.0 | 0.2 | 1.4 |
| Operating cash flow/EV (%) | (1.2) | 0.9 | 1.0 | 1.6 | 1.5 | 0.5 | 1.8 |
| EV/Capital employed (x) | 18.4 | 20.8 | 34.4 | 24.7 | 19.2 | 30.1 | 22.1 |

| Main shareholders | | | Manageme | ent | Company information | | | |
|------------------------|-----------|---------|----------|------------------------|---------------------|---------------------|--|--|
| Name | (%) Votes | Capital | Title | Name | Contact | | | |
| Staffan Persson | 29.4 | 29.4 | COB | Johan Sedihn | Internet | www.syntheticmr.com | | |
| SEB Life International | 10.8 | 10.8 | CEO | Ulrik Harrysson | Phone number | +46(0)13101650 | | |
| Jan (Marcel) Warntjes | 8.6 | 8.6 | CFO | Interim, Johanna Norén | | . / | | |

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