

Lifecare Q2 2024: High activity – initial positive signs from longevity trials

Lifecare Research Update 2024-08-28 08:05 Updated 2024-08-28 14:04

Redeye updates its view on Lifecare following the Q2 report and recent company developments, including confirmed sensor longevity of nine weeks in dogs, a strategic cooperation, and a new patent filing, among other things.



Filip Einarsson

Q2 2024 - Higher revenues softer EBIT

Lifecare's Q2 report showed revenues of NOK6.4m (1.2) and EBIT of NOK-18.6m (7.8). The cash position amounted to NOK101.3m following the rights issue concluded in the quarter. While revenues exceeded our estimates, the EBIT loss was also higher than anticipated. The deviation from our estimate is primarily due to higher personnel expenses, governmental subsidies, and the reversal of the earn-out agreement related to Lifecare Laboratory.

Operational newsflow

The company has had a high activity in the quarter and among other things it has reported that the Sencell sensor has achieved 9 weeks of longevity in the ongoing trials on dogs. The study protocol permits a total observation period of 12 weeks, and discussions with regulatory authorities are in progress to potentially extend the implant duration to 24 weeks. Additionally, Lifecare has announced a strategic partnership with OneTwo Analytics to develop a mobile application for the Sencell sensor. It has also filed a new patent application to the EPO related to a potential expansion of biomarkers measurable by Sencell - which could provide an interesting opportunity in the future.


New base case - NOK3.6

We update our base case to NOK3.6 (4.2) following adjustments to our valuation model on the back of recent newsflow and the Q2 report. Following some new guidance on the video conference we also postpone launch in the human market from H2 2025 to H1 2026, in addition to slightly increased OPEX assumptions 2024e-2026e and some general model fine-tuning.

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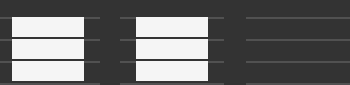
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NOKm	2022	2023	2024e	2025e	2026e
Revenues	22.2	11.6	16.0	38.1	120.2
Revenue Growth	1286%	-47.9%	38.9%	137%	216%
EBITDA	-16.2	-33.2	-66.0	-68.3	-20.6
EBIT	-19.2	-36.1	-71.2	-70.2	-26.6
EBIT Margin	-86.7%	-313%	-444%	-184%	-22.1%



REDEYE QUALITY RATING


3 3 0



People Business Financials

FAIR VALUE RANGE

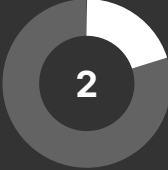
Price 1.79



Bear 1.00 Bull 10.0

Base 3.60

TIMELINESS



2

KEY STATS

Market Cap	349.5 MNOK
Entprs. Value (EV)	291.6 MNOK
Net Debt (2024e)	-57.8 MNOK
30 Day Avg Vol	605 K
Shares Outstanding	195.3M
Price / Earnings	N/A
PEG	N/A
Dividend Yield	N/A

Data from 2024-08-28 14:04

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye, Mäster Samuelsgatan 42, 10tr, Box 7141, 103 87 Stockholm. Tel. +46 8-545 013 30
E-post: info@redeye.se

NOKm	2022	2023	2024e	2025e	2026e
Net Income	-19.3	-36.1	-70.7	-70.2	-26.6
EV/Sales	nm.	nm.	109	15.2	5.2
EV/EBIT	-8.8	-15.5	-6.4	-8.2	-23.6

Q2 2024 - Continued high activity

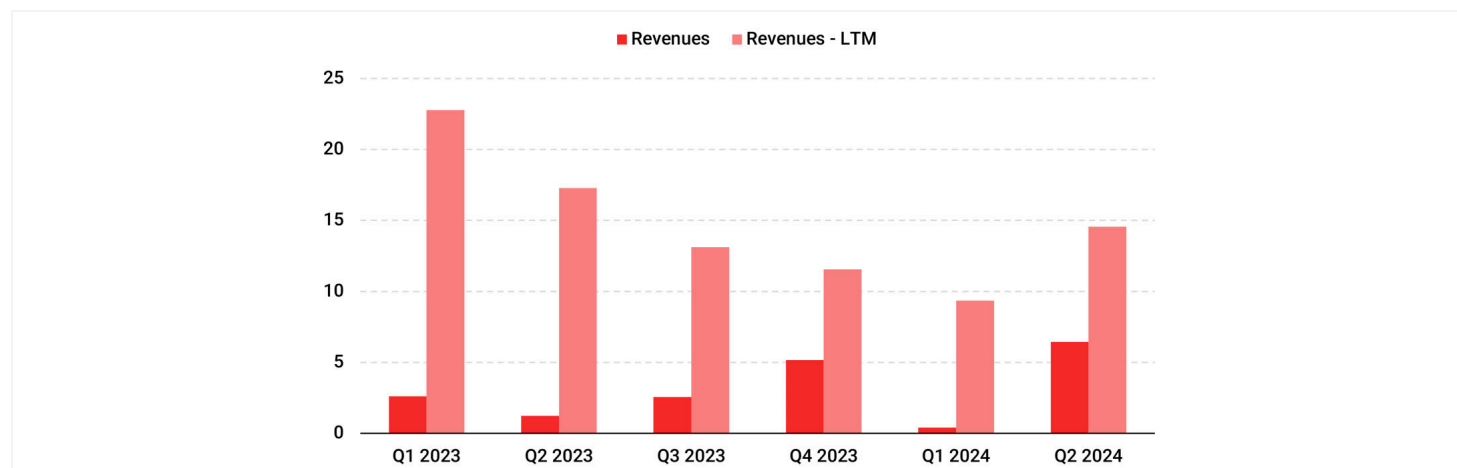
Financials

Overall, the Q2 2024 report shows higher-than-expected revenues and costs, resulting in lower EBIT/EBITDA than anticipated. The differences are primarily due to one-off items that were not included in our estimates.

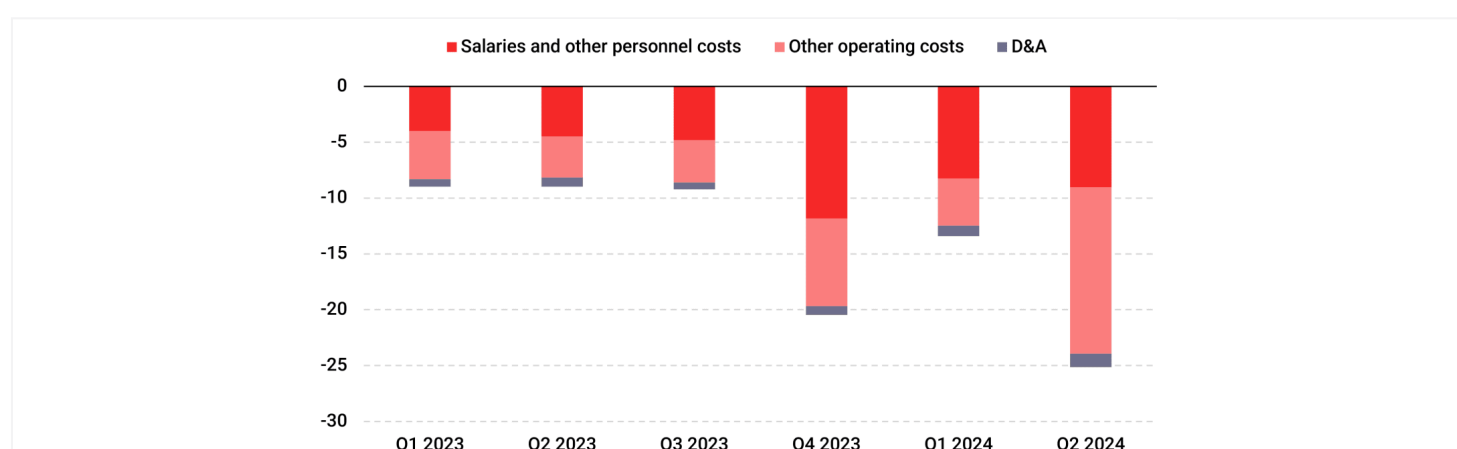
Lifecare: Deviation table								
	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024a	Q2 2024e	dev. %	dev. abs
Revenues	1.2	2.6	5.2	0.4	6.4	1.0	544%	5.4
Revenue growth y/y	-82%	-62%	-23%	-84%	423%	-19%		
Revenue growth q/q	-53%	109%	101%	-92%	1467%	143%		
OPEX	-9.0	-9.2	-20.5	-13.4	-25.1	-14.2	77%	-10.9
Salaries and other personnel costs	-4.5	-4.8	-11.8	-8.2	-9.1	-4.6		
Other operating costs	-3.7	-3.8	-7.9	-4.2	-14.9	-9.6		
D&A	-0.8	-0.6	-0.8	-1.0	-1.2	-1.1		
EBITDA	-6.9	-6.1	-14.5	-12.1	-17.5	-13.2	32%	-4.3
EBITDA margin	neg	neg	neg	neg	neg	neg		
EBIT	-7.8	-6.7	-15.3	-13.0	-18.7	-14.3	31%	-4.4
EBIT margin	neg	neg	neg	neg	neg	neg		

Source: Redeye research (estimates), Lifecare (historical data)

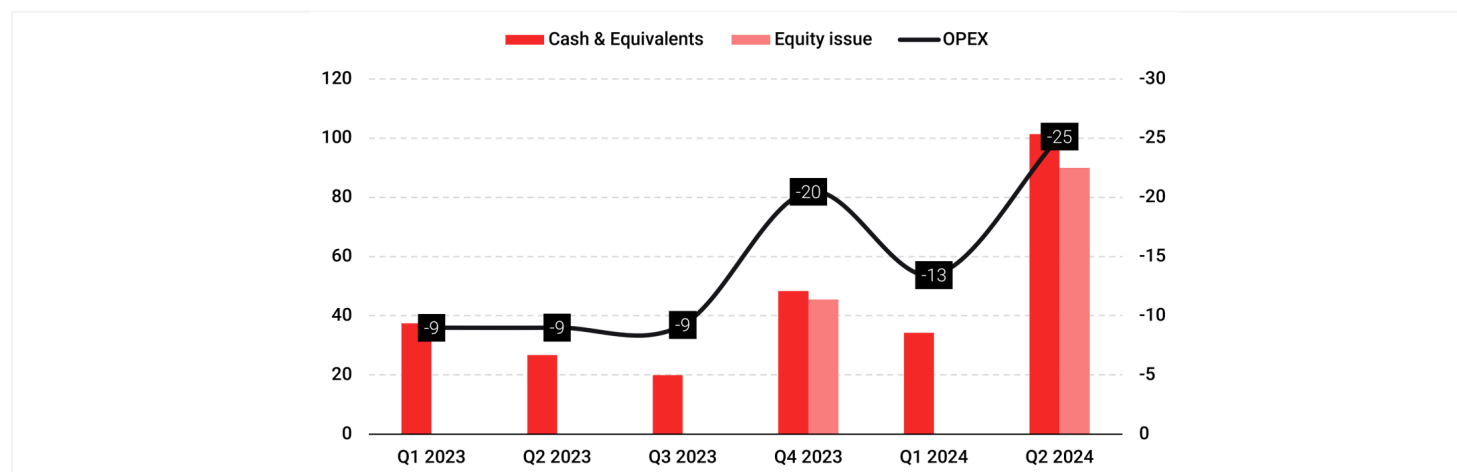
- Total revenues came in at NOK6.4m (1.2), which is higher than we had anticipated. This, however, is a consequence of governmental subsidies of NOK2.8m and the reversal of a NOK2.2m earn-out related to Lifecare Laboratory. Thus, the laboratory income of NOK1.2m aligned well with our estimated NOK1.0m.



- EBIT was NOK-18.7m (-8.0) compared to our NOK-14.3m estimate. The deviation is primarily due to a significant increase in both other operating costs and personnel expenses. In addition to new hires, the Q2 2024 figures include NOK 2.2m in employee share options, as well as rising costs associated with automated production and the investment in RemovAid, which was consolidated in May 2024.



- Cash flow from operating activities during Q2 amounted to NOK-13.4m (-11.2) of which NOK8.8m (-3.9) relates to working capital. The net cash flow in the quarter was NOK67.1m (-10.8).
- Cash and cash equivalents at the end of the quarter was NOK101.4m (26.7). In Q2 Lifecare's balance sheet was reinforced by the NOK90m from the [rights issue](#), which provided net proceeds of NOK82.8m. Additionally, the company has outstanding warrants that could raise approximately NOK108m in gross proceeds by June 2025, with a potential maximum dilution of 22%. Thus, Lifecare stands well-financed for the foreseeable future.



Newsflow

Sencell has passed nine weeks of operational longevity trials

The longevity trial (LFC-SEN-002) utilizing the wireless readout device in dogs commenced in mid-June and has passed the nine-week mark. The study aims to assess and validate the operational lifespan of the device from a longevity perspective. Thus far, the results align with expectations, and the trial is proceeding smoothly without complications. The team is preparing to enroll additional dogs, both diabetic and non-diabetic, to further validate these initial findings. The approved study protocol permits a 12-week implantation period for the Sencell device, after which it will be removed for detailed studies on potential tissue impact. Additionally, discussions are ongoing with regulatory authorities to extend the implant period to 24 weeks or more before removal. The company expects to finalize the longevity study this year, and to prepare for the CE-enabling LFC-SEN-003 trial.

Strategic cooperation with OneTwo Analytics

In mid-August, Lifecare announced a "strategic cooperation" with OneTwo Analytics, a company specializing in the analysis, self-monitoring, and automatic interpretation of CGM data through AI and ML-based software. Under this agreement, OneTwo Analytics will serve as Lifecare's digital development partner on a consultancy basis. Moreover, the partnership aims to develop a mobile application compatible with both iOS and Android platforms, designed for use with Lifecare's products in both the human and veterinary markets.

OneTwo Analytics originated from scientific research conducted at Uppsala University by co-founders Per-Ola Carlsson and Daniel Espes. The company's software complies with the European Medical Device Directive/Medical Device Regulations, adheres to ISO 13485 standards, and is FDA-approved for use in the United States.

Automated production

Lifecare is advancing toward its automated production milestone after achieving its pilot production target for Sencell in Q1 2024. In August, the company installed an ISO 7-compliant cleanroom at its facilities in Mainz, Germany, although this was delayed from the initial target of May 2024.

The automated production process for Sencell involves two key steps. First, the sensor is created using a 3D printing process that employs a Scanning Electron Microscope (SEM) and custom

software. Next, an automated system fills the sensor's nanosized chambers with Lifecare's proprietary glucose-reactive solution and seals them with nano-porous membranes. This complex process utilizes advanced equipment, including a BioScaffolder and a customized Nano-Plotter, to ensure precision and consistency in sensor production.

Despite the delay, automated production is progressing according to plan, with validation expected within a few weeks. However, volume-scale production is not anticipated until next summer.

New patent applicaiton

In June, Lifecare announced a new chemistry composition featuring modular receptor molecules that can In June, Lifecare announced a new chemical composition featuring modular receptor molecules capable of detecting various diseases and conditions. Following this development, the company filed a patent application with the European Patent Office (EPO). This innovation is designed to identify and monitor a range of acute and chronic disorders, including cardiovascular and metabolic diseases, infections, and immune disorders, in addition to its primary focus on diabetes.

This patent filing represents new verticals for Lifecare's sensor technology, potentially expanding its applications beyond glucose monitoring. While blood glucose measurement remains Lifecare's core focus, this development adds considerable potential for long-term growth. It underscores the view that Lifecare should be seen as a sensor technology company rather than solely a blood glucose measurement company.

New base case - NOK3.6

In addition to minor adjustments human launch postponed to H1 2026

On the video conference in conjunction with the Q2 report the CEO mentions that while it hopes to be able to enter the human market in 2025 it is more reasonable to assume a H1 launch. Accordingly, following the recent newsflow and the Q2 report we make the following adjustments to our valuation model:

- Slightly increased cost base 2024e-2026e
- Postponed launch of Sencell on the human market to H1 2026 from H2 2025
- Diluted our model assuming full subscription in the outstanding warrants in June 2025
- Some general model fine-tuning

Lifecare: Estimate changes	Updated			Previous			Chg. %	Chg. %	Chg. %
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Net sales	4.2	38.1	120.2	4.2	91.9	298.6	0%	-59%	-60%
Sales growth y/y		808%	216%		772%	225%			
EBITDA	-66.0	-68.3	-20.6	-60.6	-45.8	43.5	9%	49%	-147%
EBITDA margin	-412%	-179%	-17%	-571%	-49%	15%			
EBIT	-71.2	-70.2	-26.6	-65.3	-50.0	29.6	9%	40%	-190%
EBIT margin	-444%	-184%	-22%	-615%	-54%	10%			
EPS*	-0.36	-0.28	-0.11	-0.34	-0.26	0.15	9%	10%	-170%

Accordingly, this updates our fully diluted base case to NOK3.6 from NOK4.2. Bull- and bear case remains at NOK10 and NOK1.

Lifecare: Base case valuation

Assumptions		DCF	NOKm	Per share
Tax rate	22.0%	2024 - 2028	-197	-0.8
WACC	15%	2029 - 2031	191	0.8

Shares outstanding (diluted)	248.4	2032 - 2033	179	0.7
Revenues CAGR 2024 - 2028	160%	Terminal	618	2.5
Revenues CAGR 2029 - 2031	31%	Net cash	101	0.4
Terminal value assumptions 2034		Base case 3.6		
Group sales (NOKm)	2,201	Upside potential	104%	
Terminal growth	2%			
EBITDA margin	25%			

Source: Redeye research (estimates)

Share price discussion

The share price has declined from NOK5.0 in early April to NOK1.6 today. This drop is driven by the recent rights issue and the overhang from outstanding warrants, which could continue to weigh on the share price for some time. Moreover, given that Lifecare is still in the development phase, the primary value drivers will be linked to increased clinical validation and product/partnership-related newsflow. Investors can expect continued news flow from the ongoing longevity study, as well as updates on the automated production process. Additionally, potential positive developments could come from the partnering side, where further milestones from Sanofi are anticipated, along with the possibility of securing a commercial partner in the veterinary market. Progress in these areas is likely to be driving forces in closing the valuation gap to our base case.

Investment thesis

Case

Innovative technology with disruptive potential targeting USD>6bn market

Lifecare is focused on diabetes patients with its next-generation continuous glucose monitor (CGM), Sencell. We see strong potential for Sencell to secure a niche in the highly competitive CGM market, thanks to its robust and differentiated value proposition. The anticipated CE marking in 2025, following the LFC-SEN-003 trial, along with initial veterinary sales, could unlock significant commercial opportunities that are not yet reflected in the share price. With a strong financial position, the company's progress toward the human market and the corresponding derisking of its business case are likely to serve as catalysts for share price.

Evidence

Attractive value proposition opening up vast market potential

Since the first approval in 1999, CGM usage has grown rapidly, with annual growth projected at c15% until 2026, projected to reach USD>10bn. While the market is highly competitive, led by Abbott Laboratories and Dexcom, we believe Sencell's superior sensor longevity, potential for improved accuracy, and enhanced convenience—will attract a niche segment of patients. Sencell, implanted beneath the skin, does not risk accidental detachment associated with external CGMs. Additionally, its discreet subcutaneous placement appeals to patients on the cosmetic level as it remains discrete and invisible on the skin. Given the market's size, Lifecare's sensor only needs to capture a small share to generate significant recurring revenue streams, and could thus become a very profitable company. Sencell has garnered interest from industry giants and has a development agreement with Sanofi, providing spice to the investment case.

Supportive Analysis

CGMs is considered the "gold standard" having revolutionised diabetes treatment and monitoring by providing patients and physicians with real-time access to glucose levels and trends via a reader, smartphone, or other smart wearables. This stands in contrast to their predecessors, BGMs, which require a blood sample from a finger prick to measure glucose levels at a single point in time. Diabetes management relies on patients injecting insulin based on accurate glucose readings to prevent short- and long-term complications. Improvements to these devices thus have significant implications for insulin-treated diabetes patients, putting a significant emphasis on their accuracy. This accuracy is often measured by the mean absolute relative difference (MARD), which calculates the average absolute difference between CGM readings and reference glucose values over a certain period of time, with lower MARD values indicating higher accuracy. Sencell, Lifecare's CGM sensor, could provide type 1 diabetics and a subgroup of insulin-treated type 2 diabetics with a next-generation approach to blood glucose monitoring. The sensor, roughly the size of a grain of rice, is inserted under the skin on the arm and offers real-time glucose monitoring through osmotic pressure. The company has indicated that it expects the sensor to have a longevity of at least six months. In the LFC-SEN-001 clinical trial, Sencell reported a MARD that is slightly above those of the recently released successors to current market leaders, Freestyle Libre and Dexcom. LFC-SEN-002, the longevity trial are currently underway and are expected to be completed in 2024. The CE-enabling LFC-SEN-003 trial is anticipated to begin in 2025.

Challenge

Development and regulatory approvals remain

Sencell has generated promising data in a preclinical setting and in initial clinical trials. However, further steps are needed to confirm accuracy, reliability, and safety in a larger clinical setting for Lifecare to obtain regulatory approval for product marketing. Moreover, some engineering efforts remain to scale the sensor down to its commercial form. Moreover, despite a promising outlook Lifecare is in the late development and early commercialization phase of its innovative sensor,

which is associated with elevated financial risk. Should setbacks emerge, additional capital could be required.

⚠ Challenge

Market for CGM's are highly competitive

The CGM market is very competitive, dominated by large companies with well-established brands like Dexcom (G6/G7), Abbott Laboratories (Freestyle Libre 2/3), and Medtronic (Guardian). Additionally, Senseonics (Eversense E3), which shares similar characteristics with Sencell—being implantable and offering a 6-month duration—will also provide another layer of competition. However, a transmitter must still be placed above the implanted sensor. These companies will present significant competition for Lifecare. Despite this, we believe Lifecare's differentiated value proposition and innovative approach, utilizing osmotic pressure for measurement, position it well to capture a niche segment of patients. Lifecare's sensor offers several unique advantages, including extended sensor longevity, no risk of accidental detachment, and discreet subcutaneous placement that is not externally visible. These features will likely attract patients seeking a more convenient and less intrusive CGM solution.

◆ Valuation

Discounted cash flows suggests upside

We derive our fair value range based on a 2024e–2034e DCF valuation employing a WACC of 15% based on our Redeye Rating model and using a risk-free rate of 3%. Our valuation model assumes full dilution and takes height for full subscription in the outstanding warrants, leading to a dilution of 22%. Our base case amounts to NOK3.6, assuming 5% and 2% penetration of addressable T1D and T2D patients and a launch in H1 2026. Moreover, our bull case sees a value of NOK10, assuming roughly twice the market penetration. In our NOK1 bear case, we assume less than half the market penetration compared to our base case and do not consider the veterinary usage of Sencell.

Quality Rating

People: 3

Lifecare employs approximately 25 people and benefits from a management team and board of directors with expertise in research and development, finance, and law. The company should be well-positioned for transitioning from concept to a finished product.

CEO Joacim Holter holds an LL.M. from the University of Bergen in Norway and has over 15 years of management experience. His background includes six years leading international R&D and product development in Switzerland. Holter has also been a long-standing member of Lifecare, serving as both chairman and board member from 2011 to 2020.

The board of directors is chaired by Morten Foros Krohnstad, a partner at the law firm Schjødt. Krohnstad brings substantial experience as a board professional for both listed and unlisted Norwegian companies, further strengthening Lifecare's governance and strategic oversight.

Business: 3

Lifecare is an innovative medtech company that aims to capture a portion of the USD>6bn continuous glucose monitoring (CGM) market growing c15% annually through its differentiated sensor under-the-skin sensor Sencell. Moreover, CGMs are used by diabetes patients to monitor their glucose levels to assert insulin injections, creating recurring and predictable revenue streams. Although it will take a few more years for Lifecare to complete its development and clinical validation before entering the market, we believe Sencell offers a strong value proposition for a niche of diabetes patients, leading to a significant commercial opportunity.

If Sanofi, which holds a right of first refusal on Sencell, decides to utilize it, Lifecare has the potential to establish itself as a disruptive niche player in this immense market.

Financials: 0

Being in the development phase, Lifecare is equity funded and since the previous round in Q2 2024 with warrants potentially raising additional cash in Q2 2025 the company is probably founded until becoming cash flow positive.

We believe that Lifecare has the potential to become a very profitable company on the back of Sencell's value proposition towards T1D and T2D patients. We see potential for gross margins in the 50% range and EBIT margins in the twenties once the company becomes profitable, which we estimate in 2026.

Financials

Income statement

NOKm	2023	2024e	2025e
Revenues	11.6	16.0	38.1
Cost of Revenue	0.00	-2.3	-20.0
Operating Expenses	-47.7	-84.9	-88.3
EBITDA	-33.2	-66.0	-68.3
Depreciation	-1.6	-0.25	-0.19
Amortizations	-1.2	-4.9	-1.7
EBIT	-36.1	-71.2	-70.2
Shares in Associates	0.00	0.00	0.00
Interest Expenses	-1.4	-0.57	0.00
Net Financial Items	-0.46	-0.16	0.00
EBT	-36.6	-71.4	-70.2
Income Tax Expenses	0.43	0.64	0.00
Net Income	-36.1	-70.7	-70.2

Balance sheet

Assets

Non-current assets

NOKm	2023	2024e	2025e
Property, Plant and Equipment (Net)	3.8	25.7	25.6
Goodwill	0.00	0.00	0.00
Intangible Assets	12.6	10.1	8.4
Right-of-Use Assets	6.6	0.00	0.00
Other Non-Current Assets	0.00	0.00	0.00
Total Non-Current Assets	23.1	35.8	33.9

Current assets

NOKm	2023	2024e	2025e
Inventories	0.00	0.00	8.4
Accounts Receivable	4.1	19.0	6.1
Other Current Assets	10.6	0.00	3.0
Cash Equivalents	48.3	57.9	80.0
Total Current Assets	63.0	76.9	97.5
Total Assets	86.1	112.8	131.4

Equity and Liabilities**Equity**

NOKm	2023	2024e	2025e
Non Controlling Interest	0.00	0.00	0.00
Shareholder's Equity	66.1	83.1	109.6

Non-current liabilities

NOKm	2023	2024e	2025e
Long Term Debt	7.0	0.00	0.00
Long Term Lease Liabilities	4.7	10.1	10.1
Other Non-Current Lease Liabilities	1.6	1.2	1.2
Total Non-Current Liabilities	13.4	11.3	11.3

Current liabilities

NOKm	2023	2024e	2025e
Short Term Debt	0.00	0.00	0.00
Short Term Lease Liabilities	0.00	2.1	2.1
Accounts Payable	2.5	4.6	3.8
Other Current Liabilities	4.2	11.7	4.6
Total Current Liabilities	6.6	18.4	10.5
Total Liabilities and Equity	86.1	112.8	131.4

Cash flow

NOKm	2023	2024e	2025e
Operating Cash Flow	-38.1	-62.9	-74.7
Investing Cash Flow	-0.82	-8.0	-10.0
Financing Cash Flow	38.7	90.0	96.8

Rating definitions

Company Quality

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

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

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

People

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

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

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

Business

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

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

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

Financials

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

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

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

The team

MANAGEMENT



Björn Fahlén
bjorn.fahlen@redeye.se



Tomas Otterbeck
tomas.otterbeck@redeye.se



Martin Wahlström
martin.wahlstrom@redeye.se



Mats Hyttinge
mats.hyttinge@redeye.se



Oscar Bergman
oscar.bergman@redeye.se



Richard Ramanius
richard.ramanius@redeye.se

EDITORIAL



Jacob Benon
jacob.benon@redeye.se



Joel Karlsson
joel.karlsson@redeye.se

TECHNOLOGY TEAM



Anton Hoof
anton.hoof@redeye.se



Fredrik Reuterhäll
fredrik.reuterhall@redeye.se



Fredrik Nilsson
fredrik.nilsson@redeye.se



Henrik Alveskog
henrik.alveskog@redeye.se



Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se



Jesper Von Koch
jesper.vonkoch@redeye.se



Jessica Grunewald
jessica.grunewald@redeye.se



Mark Siöstedt
mark.siostedt@redeye.se



Mattias Ehrenborg
mattias.ehrenborg@redeye.se



Niklas Sävås
niklas.savas@redeye.se



Oskar Vilhelmsson
oskar.vilhelmsson@redeye.se



Rasmus Jacobsson
rasmus.jacobsson@redeye.se

LIFE SCIENCE TEAM



Christian Binder
christian.binder@redeye.se



Filip Einarsson
filip.einarsson@redeye.se



Fredrik Thor
fredrik.thor@redeye.se



Gustaf Meyer
gustaf.meyer@redeye.se



Johan Unnerus
johan.unnerus@redeye.se



Kevin Sule
kevin.sule@redeye.se

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CONFLICT OF INTERESTS

Filip Einarsson owns shares in the company : No.

Redeye performs/has performed services for Lifecare and receives/has received compensation from these Companies in connection with this.