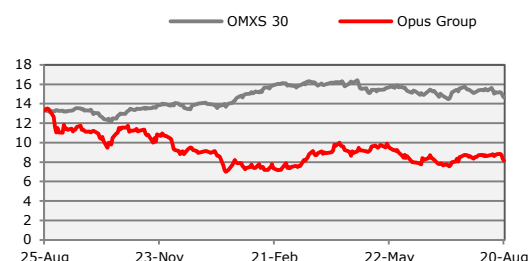


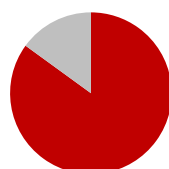
Summary
Opus Group (OPUS.ST)
Restorer for profitability

- The Q2 report was clear proof of earnings strength. EBITDA reached a new record of SEK 94m, up 5% on last year and 10% better than we anticipated. High depreciation and amortisation, plus currency effects in net financial income, mean the bottom-line result ended, as expected, slightly in the red.
- Vehicle Inspection Sweden rebounded sharply from the lull of the past three quarters. Vehicle Inspection International also lifted profitability, partly as a result of recently acquired Drew Technologies, which is said to be proceeding as planned.
- The divestment of the Equipment division and continued growth in several parts of Opus international operations will boost margins in the coming year. The stock has once again slipped down to levels where we see good potential to our fair value estimate of around SEK 12-13 per share.

List: Mid Cap
 Market Cap: 1,722 MSEK
 Industry: Industrial Goods & Services
 CEO: Magnus Greko
 Chairman: Göran Nordlund

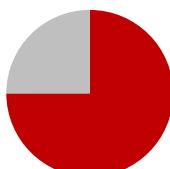

Redeye Rating (0 – 10 points)

Management



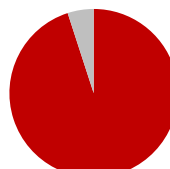
8.5 points

Ownership



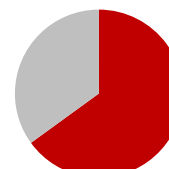
7.5 points

Growth prospect



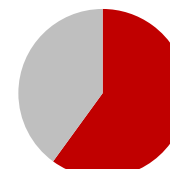
9.5 points

Profitability



6.5 points

Financial strength



6.0 points

Key Financials

	2013	2014	2015E	2016E	2017E	Share information	
Revenue, MSEK	1,055	1,467	1,671	1,699	1,785	Share price (SEK)	6.0
Growth	124%	39%	14%	2%	5%	Number of shares (m)	286.8
EBITDA	142	246	291	349	369	Market Cap (MSEK)	1,722
EBITDA margin	13%	17%	17%	21%	21%	Net debt (MSEK)	764
EBIT	112	149	131	188	215	Free float (%)	73%
EBIT margin	11%	10%	8%	11%	12%	Daily turnover ('000)	650
Pre-tax earnings	90	185	89	139	177	Analyst: Henrik Alveskog henrik.alveskog@redeye.se	
Net earnings	61	142	57	102	129		
Net margin	6%	10%	3%	6%	7%		
Dividend/Share	0.06	0.09	0.06	0.10	0.14		
EPS adj.	0.24	0.55	0.19	0.34	0.44		
P/E adj.	60.7	16.6	38.6	21.5	16.9		
EV/S	3.6	2.1	1.8	1.6	1.4		
EV/EBITDA	26.8	12.2	10.1	8.0	7.0		

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

Redeye Rating: Background and definitions

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

Company Qualities

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

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

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

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

Management

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

Ownership

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

Growth Outlook

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

Profitability

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

Financial Strength

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

Recovered margins

The Q2 report was really uplifting in terms of earnings. Although revenues were slightly lower than we had expected, EBITDA was clearly better and recorded a new high of SEK 94m. Cash flow from operations of SEK 65m did not quite reach last year's level, but was higher than that generated in the previous three quarters. High depreciation and amortisation, and the negative currency effects in financial items, were overall roughly as expected. Profit before tax ended around zero, but we had expected red numbers, see table.

Better earnings and significantly higher margins than expected

Actual vs. Forecast				
SEKm	Q2'14	Q2'15P	Actual	Diff
Sales	404	470	452	-4%
EBITDA	89	85	94	11%
EBIT	63	41	55	34%
PTP	65	-7	1	n.m.
Sales growth	58%	16%	12%	
EBITDA margin	22.0%	18.1%	20.8%	
EBIT margin	15.6%	8.7%	12.1%	

Source: Opus Group, Redeye Research

Vehicle Inspection Sweden offered a hefty restorer and had its best earnings and margins to date. Although Q2 is certainly seasonally strong, we were surprised by its vigorous recovery. Vehicle Inspection International also had a recovery in margins, close to previous highs of around 25% adjusted for a small non-recurring item.

Quarterly performance by segment									
SEKm	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15
Equipment									
Net sales	31	22	35	36	34	27	39	37	37
EBITDA	1	0	2	1	2	2	3	2	1
EBITDA-margin	4.5%	-0.4%	4.4%	3.0%	6.8%	6.4%	6.9%	6.5%	1.5%
Vehicle Inspection Sweden									
Net sales	156	120	149	143	162	118	137	139	166
EBITDA	32	19	22	19	34	15	19	13	37
EBITDA-margin	20.8%	16.1%	14.7%	12.9%	20.7%	12.4%	14.1%	9.5%	22.2%
Vehicle Inspection International									
Net sales	72	115	131	123	214	221	226	235	259
EBITDA	12	24	21	27	54	48	39	42	64
EBITDA-margin	16.7%	20.5%	16.4%	21.6%	25.4%	21.7%	17.4%	17.9%	24.5%
Group elimination etc	0	-	-17	-	-	-	-12	-5	-3
Total sales	261	255	310	297	404	361	395	401	452
EBITDA *	47	44	45	45	89	63	59	56	97
EBITDA-margin *	17.8%	17.1%	14.4%	15.3%	22.0%	17.3%	15.0%	14.0%	21.5%
EBITDA	46	44	28	45	89	63	49	51	94
Depreciation & amortization	-7	-7	-6	-13	-26	-27	-31	-39	-39
EBIT	39	37	22	32	63	35	18	11	55

* Excluding acquisition and start up costs.

Source: Opus Group, Redeye Research

Opus has regained market share, and Besikta and AB Svensk Bilprovning now face a switch of IT systems

Swedish comeback

Opus Vehicle Inspection in Sweden clearly made a comeback in early spring after its new IT system was implemented and fine-tuned. It retook most of the market share that was lost during last autumn and winter. Over the coming year it has good potential to continue to expand market share since both its major competitors, Besikta and Svensk Bilprovning, are poised to replace their IT systems and are likely to also have some problems with bookings during this period. The Swedish Transport Agency is currently evaluating whether cars will need to be inspected every year in the future. We believe that any such change is quite unlikely since around 30% actually have some kind of advisory, and annual inspections seem an effective way to identify these faults. We are more concerned that the market could become over-established since smaller players like Carspect and, in particular, Clearcar continue to expand.

Vehicle Inspection International improves its margins

Overall, this segment is showing slightly slower growth but better margins than we anticipated. Sales have increased due to the stronger dollar, the acquisition of Drew Technologies and rising revenues from the rental programme in California. In terms of revenues, Drew contributed almost SEK 20m. We had expected a little more, but management says that its business volumes vary quite substantially during the year.

It has become more difficult for us to dissect this division now that it consists of so many different units. Additionally, some are in start-up phases and represent only costs so far. These include the vehicle inspection programmes in Pakistan and Chile, and Remote Sensing for markets outside the United States, with Opus stating that China is next.

Three contracts in Chile

Chile and Pakistan underway

Opus now has three minor contracts in Chile that will ramp up in 2015-16. These provide total annual revenue of USD 3-4m. The company sees good opportunities to win more contracts and may even consider buying an existing business in the country. They aim to achieve at least USD 8-10m in annual revenue to reach critical mass in Chile. Pakistan is also in the pipeline, with estimated start-up around year-end. According to the management, they are lagging slightly behind the initial plan. Next year's revenues are likely to be modest, but once the programme is in full swing annual volume is expected to be around SEK 60m.

Pakistan kicking off at year-end

Debate in Missouri

Messy in Missouri

The Opus contract in Missouri was put back to tender and the authority awarded it to competitor Worldwide Environmental Products. Opus has appealed the decision as they see that the terms of the tender were changed, which decided the outcome. Opus's management seems convinced that its appeal will be successful. As it already has the contract, they are not really worried about the process becoming lengthy, since it will retain the business in the meantime. This is a decentralised programme that provides revenues of approximately USD 3m annually.

Forecasts & Valuation

The outcome of the Q2 report leads us to raise our forecasts slightly for both the remaining divisions. To some extent this is weighed against the sale of Equipment, which gives a capital loss of SEK 6.5m this year and a small reduction in earnings going forward. However, we are upbeat about the sale since management can now focus more on the business that has the potential to become bigger and more profitable than this division has been. The divestment of course also means that margins in the group will rise going forward. Currency effects in net financial income can obviously affect earnings significantly, but are evident only in the accounts and have no significance for cash flows.

- **Vehicle Inspection Sweden** showed surprisingly strong results in Q2. We have raised our forecasts slightly but are a little cautious about going too far. Opus has previously warned of higher costs for marketing and internal training on the new IT system.
- **Vehicle Inspection International** had good profitability in the past quarter and we are slightly upping its margins for this year's forecast. Growth in the next two years is expected to come from several directions. Rising rental income from California, the new programmes in Chile and Remote Sensing in Virginia are all relatively secure and predictable. In addition, the programme in Pakistan and registration renewal in New York could provide an additional boost over and above what we have anticipated.

Redeye estimates						
SEKm	2012	2013	2014	2015E	2016E	2017E
Equipment						
Net sales	124	123	135	74	0	0
EBITDA	2	4	8	3	0	0
EBITDA-margin	2%	3%	6%	4%	0%	0%
Vehicle Inspection Sweden						
Net sales	72	551	560	576	611	646
EBITDA	7	85	86	95	109	117
EBITDA-margin	10%	15%	15%	17%	18%	18%
Vehicle Inspection Internat. (ex Drew Tech)						
Net sales	275	387	783	948	1025	1074
EBITDA	40	70	161	190	216	226
EBITDA-margin	14%	18%	21%	20%	21%	21%
Drew Technologies						
Net sales	41	65	107	74	105	110
EBITDA	11	20	46	26	37	39
EBITDA-margin	26%	31%	43%	35%	35%	35%
Group & Eliminations						
EBITDA	-19	-17	-9	-23	-12	-12
Total sales	471	1054	1467	1631	1699	1785
EBITDA	30	142	246	291	349	369
EBITDA-margin	6%	13%	17%	18%	21%	21%
Depreciation & amortization	-36	-30	-98	-160	-161	-154
EBIT	-6	112	148	131	188	215
EBIT-margin	-1%	11%	10%	8%	11%	12%

Source: Opus Group, Redeye Research

Valuation

Our forecast adjustments are fairly small overall and our DCF model indicates a fair value around SEK 3.6bn, or **SEK 12.5 per share**. In our most recent research update of 22 May 2015 the corresponding figure was SEK 13.2.

Our long-term assumptions for growth and profitability are unchanged. Once the Equipment division has been divested, these will also be easier to achieve, but we have made a slightly greater allowance for increased pressure on prices in new vehicle inspection programmes. For the period 2018-23 we anticipate 6% annual growth and a 16% average operating margin. With normalised amortisation and depreciation levels this corresponds to approximately the same level as in our forecasts for 2016-17.

DCF-value, SEK per share						
Sustainable EBIT-margin	12%	14%	16%	18%	20%	
WACC						
8%	11.8	13.6	15.3	17.0	18.8	
9%	9.7	11.1	12.5	14.0	15.4	
10%	8.0	9.2	10.4	11.5	12.7	

Source: Redeye Research

The stock has once again slipped down to clearly attractive levels. EV/EBITDA below 10x is a valuation of Opus that we have not seen in a long time. The other key ratios have obviously been adjusted downwards, but given the high depreciation and amortisation levels in the coming years and relatively high net debt of SEK 764m, both the P/E ratio and EV/EBIT are less relevant than the measure EV/EBITDA.

Earnings multiples					
Share price: 6.0 SEK	2013	2014	2015E	2016E	2017E
P/E	60.7	16.4	30.4	16.9	13.3
EV/EBIT	34.0	20.3	19.0	13.2	11.6
EV/EBITDA	26.8	12.2	8.5	7.1	6.7

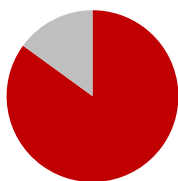
Source: Redeye Research

Summary Redeye Rating

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

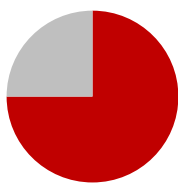
Rating changes in the report: No changes

Management 8.5p



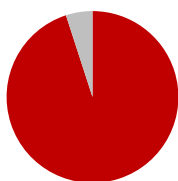
Management performance has been outstanding at growing the company in recent years. This has been accomplished both through winning new and profitable business and a few truly major acquisitions. Industry experience is considerable and the company culture seems strong.

Ownership 7.5p



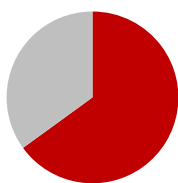
There is strong commitment among management and directors through their ownership of the company. The CEO and the chairman of the board both have substantial holdings, although no single shareholder controls more than 20% of the votes, which limits the rating for Ownership.

Growth prospect 9.5p



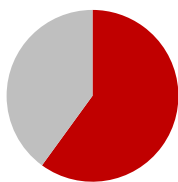
The growth outlook is extremely good and Opus almost takes the jackpot for all criteria. The company has obvious competitive advantages that are creating the conditions to continue growing while maintaining high profitability. Underlying market growth is limited in the Western world, but there is significant long-term potential in other parts of the world.

Profitability 6.5p



The business has demonstrated good profitability and stable positive cash flows for a long time. Reported profits and return figures have been modest, however, due to high amortisation of intangible assets from previous acquisitions. Profitability and key financial data are set to improve over the next year in pace with the company's planned expansion.

Financial strength 6.0p



Opus has stable earnings and a good credit rating, although net debt is relatively high after the last two major acquisitions. As the loans are paid off, the Financial Strength rating will improve as the interest coverage ratio rises and the debt/equity ratio falls. To hit the jackpot, however, would also require sales above SEK 10 billion, which still seems a long way off.

Income statement	2013	2014	2015E	2016E	2017E
Net sales	1,055	1,467	1,671	1,699	1,785
Total operating costs	-913	-1,220	-1,380	-1,350	-1,417
EBITDA	142	246	291	349	369

Depreciation	-17	-58	-91	-92	-87
Amortization	-13	-40	-69	-70	-67
Impairment charges	0	0	0	0	0
EBIT	112	149	131	188	215

Share in profits	0	0	0	0	0
Net financial items	-22	37	-42	-49	-38
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	90	185	89	139	177

Tax	-28	-43	-33	-38	-48
Net earnings	61	142	57	102	129

Balance	2013	2014	2015E	2016E	2017E
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Assets					
<i>Current assets</i>					
Cash in banks	453	382	84	85	89
Receivables	58	100	117	119	125
Inventories	86	108	117	119	125
Other current assets	76	93	93	93	93
Current assets	673	684	411	416	432

<i>Fixed assets</i>					
Tangible assets	130	688	777	735	698
Associated comp.	0	0	0	0	0
Investments	6	8	8	8	8
Goodwill	470	624	774	774	774
Cap. exp. for dev.	48	254	199	150	102
O intangible rights	10	35	40	41	43
O non-current assets	21	0	0	0	0
Total fixed assets	685	1,608	1,797	1,707	1,625
Deferred tax assets	0	35	35	35	35

Total (assets)	1,358	2,327	2,243	2,158	2,092
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Liabilities					
<i>Current liabilities</i>					
Short-term debt	81	193	165	134	100
Accounts payable	60	48	84	85	107
O current liabilities	182	326	326	326	326
Current liabilities	323	567	575	545	533

Long-term debt	455	871	746	605	450
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	778	1,438	1,321	1,151	983

Deferred tax liab	40	159	159	159	159
Provisions	75	92	92	92	92
Shareholders' equity	466	639	672	757	859
Minority interest (BS)	0	0	0	0	0
Minority & equity	466	639	672	757	859

Total liab & SE	1,358	2,327	2,243	2,158	2,092
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Free cash flow	2013	2014	2015E	2016E	2017E
Net sales	1,055	1,467	1,671	1,699	1,785
Total operating costs	-913	-1,220	-1,380	-1,350	-1,417
Depreciations total	-30	-98	-160	-161	-154
EBIT	112	149	131	188	215
Taxes on EBIT	-35	-35	-48	-51	-58
NOPLAT	76	114	83	137	157

Depreciation	30	98	160	161	154
Gross cash flow	106	212	243	299	311
Change in WC	13	-42	10	-3	10
Gross CAPEX	-21	-697	-350	-71	-72

Free cash flow	98	-527	-96	225	249
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Capital structure	2013	2014	2015E	2016E	2017E
Equity ratio	34%	27%	30%	35%	41%
Debt/equity ratio	115%	167%	135%	98%	64%
Net debt	83	682	827	654	460
Capital employed	548	1,320	1,499	1,411	1,319
Capital turnover rate	0.8	0.6	0.7	0.8	0.9

Growth	2013	2014	2015E	2016E	2017E
Sales growth	124%	39%	14%	2%	5%
EPS growth (adj)	269%	129%	-65%	80%	27%

DCF valuation		Cash flow, MSEK	
WACC (%)	9.0 %	NPV FCF (2015-2017)	503
		NPV FCF (2018-2024)	1236
		NPV FCF (2025-)	2563
		Non-operating assets	360
		Interest-bearing debt	-1064
		Fair value estimate MSEK	3596

Assumptions 2018-2023 (%)		Fair value per share, SEK	12.5
Average sales growth	6.0 %	Share price, SEK	6.0
EBIT margin	16.0 %		

Profitability	2013	2014	2015E	2016E	2017E
ROE	17%	26%	9%	14%	16%
ROCE	13%	11%	8%	12%	15%
ROIC	13%	21%	6%	9%	11%
EBITDA margin	13%	17%	17%	21%	21%
EBIT margin	11%	10%	8%	11%	12%
Net margin	6%	10%	3%	6%	7%

Data per share	2013	2014	2015E	2016E	2017E
EPS	0.24	0.56	0.20	0.35	0.45
EPS adj	0.24	0.55	0.19	0.34	0.44
Dividend	0.06	0.09	0.06	0.10	0.14
Net debt	0.33	2.69	2.88	2.28	1.61
Total shares	251.43	253.16	286.77	286.77	286.77

Valuation	2013	2014	2015E	2016E	2017E
EV	3,804.1	3,010.7	2,949.2	2,776.4	2,582.6
P/E	60.7	16.5	37.5	20.9	16.4
P/E diluted	60.7	16.6	38.6	21.5	16.9
P/Sales	3.5	1.6	1.3	1.2	1.2
EV/Sales	3.6	2.1	1.8	1.6	1.4
EV/EBITDA	26.8	12.2	10.1	8.0	7.0
EV/EBIT	34.0	20.3	22.6	14.8	12.0
P/BV	8.0	3.6	3.2	2.8	2.5

Share performance		Growth/year	13/15e
1 month	-14.0 %	Net sales	25.9 %
3 month	-21.7 %	Operating profit adj	8.0 %
12 month	-43.5 %	EPS, just	-11.3 %
Since start of the year	-18.7 %	Equity	20.2 %

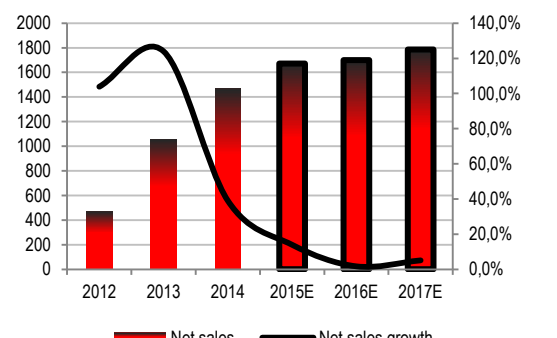
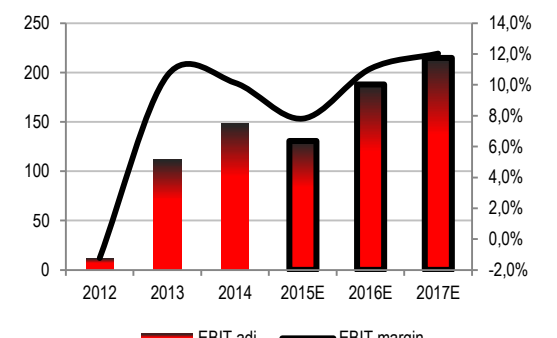
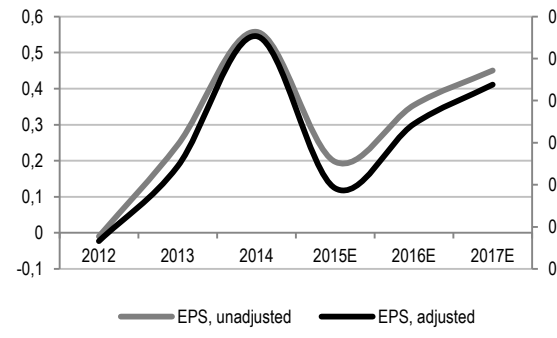
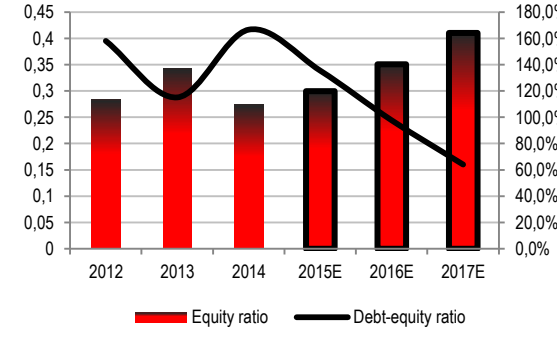
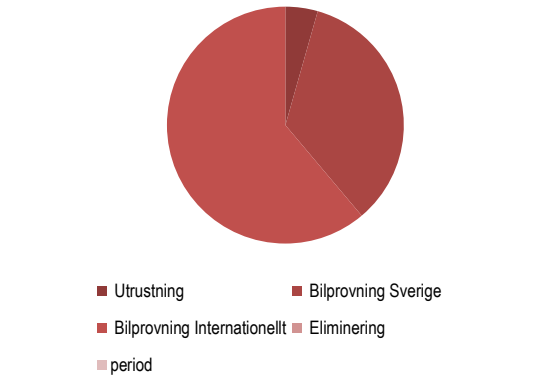
Shareholder structure %	Capital	Votes
AB Kommandoran	14.6 %	14.6 %
Lothar Geilen	6.7 %	6.7 %
Andra AP-fonden	6.5 %	6.5 %
Schroders PLC	5.1 %	5.1 %
Invesco fonder	4.3 %	4.3 %
Henrik Wagner Jörgensen	3.6 %	3.6 %
Handelsbanken fonder	3.1 %	3.1 %
Grandeur Peak fonder	2.4 %	2.4 %
Aberdeen Investment Funds	1.2 %	1.2 %
Ruffer Investment Funds	0.8 %	0.8 %

Share information	
Reuters code	OPUS.ST
List	Mid Cap
Share price	6.0
Total shares, million	286.8
Market Cap, MSEK	1722.1

Management & board	
CEO	Magnus Greko
CFO	Annica Lindström
IR	Peter Stenström
Chairman	Göran Nordlund

Financial information	
Q3 report	November 20, 2015

Analysts	Redeye AB
Henrik Alvskog	Mäster Samuelsgatan 42, 10tr
henrik.alvskog@redeye.se	111 57 Stockholm

Revenue & Growth (%)	EBIT (adjusted) & Margin (%)
 <p>Net sales (red bars) and Net sales growth (black line) from 2012 to 2017E. Net sales grow from ~500 to ~1800. Growth peaks at ~120% in 2013 and remains high through 2017E.</p>	 <p>EBIT adj (red bars) and EBIT margin (black line) from 2012 to 2017E. EBIT adj grows from ~10 to ~220. EBIT margin peaks at ~12% in 2013 and remains high through 2017E.</p>
Earnings per share	Equity & debt-equity ratio (%)
 <p>EPS, unadjusted (grey line) and EPS, adjusted (black line) from 2012 to 2017E. EPS, unadjusted peaks at ~0.55 in 2014. EPS, adjusted peaks at ~0.55 in 2014 and remains high through 2017E.</p>	 <p>Equity ratio (red bars) and Debt-equity ratio (black line) from 2012 to 2017E. Equity ratio grows from ~0.28 to ~0.42. Debt-equity ratio peaks at ~160% in 2014 and remains high through 2017E.</p>
Sales division	Geographical areas
 <p>Utrustning, Bilprovning Sverige, Bilprovning Internationellt, Eliminering</p>	
Conflict of interests	Company description
<p>Henrik Alveskog owns shares in the company: Yes</p> <p>Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.</p>	<p>Opus is a service provider within vehicle safety and emissions testing. The company operates testing programs in the USA and since year 2012 also in Sweden. In addition Opus is a manufacturer of equipment for vehicle testing for the international market.</p>

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Redeye Rating (2015-08-24)

Rating	Management	Ownership	Growth Prospect	Profitability	Financial Strength
7,5p - 10,0p	30	33	16	7	17
3,5p - 7,0p	58	48	72	33	36
0,0p - 3,0p	2	9	2	50	37
Company N	90	90	90	90	90

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