



ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 30 April 2021

Optifreeze

Multiple milestones in 2021

Multiple milestones after announced merger

OptiFreeze communicated various news this spring, including improved drying of vegetables, an evaluation agreement in Kenya, and evaluation of multiple treatments in the distribution chain for roses. Several of the announcements are a consequence of the merger with ArcAroma. OptiFreeze has pre-emptively begun production of five OptiBoost systems that are scheduled for completion this summer.

OptiBoost the foundation for sales estimates

OptiBoost is the core of our sales estimates for the coming years, and success in the segment is fundamental for OptiFreeze to achieve its sales target of 45 machines by 2022. At the same time, the current market capitalization factors in a limited rollout in the coming years, which we discuss below. We have a positive view of the pre-emptive production as it signals optimism on the part of the company.

Large upside in fair value

We see a fair value of SEK 136–138 per share and a high level of risk. We are making no adjustments to our estimates or fair value since our last publication. The estimates are based on the merger with ArcAroma, which is scheduled to be registered in May.

| Estimate Changes (SEK) | | | | Estimates (SEK) | | | | | Risk and Potential | |
|------------------------|-------|--------|------|-----------------|----------|--------|--------|-----------------|--------------------|-------|
| | Now | Before | | 20 | 21e | 22e | 23e | Motivated value | 136.00 - 138.00 | |
| EPS, adj 21e | 3.45 | 3.45 | 0.0% | Sales,m | 0 | 153 | 486 | 843 | Current price | 59.70 |
| EPS, adj 22e | 12.58 | 12.58 | 0.0% | Sales Growth | (92.1)% | 30.6 | 43.7% | 217.2% | Risk level | High |
| EPS, adj 23e | 21.94 | 21.94 | 0.0% | EBITDA, m | (10.4) | 80 | 305 | 525 | | |
| | | | | EBIT, m | (11.9) | 63.9 | 288.0 | 507.8 | | |
| | | | | EPS, adj | (0.98) | 3.45 | 12.58 | 21.94 | | |
| | | | | EPS Growth | 21.0% | 30.0% | 2.6% | 0.7% | | |
| | | | | Equity/Share | 2.0 | 26.1 | 37.7 | 58.3 | | |
| | | | | Dividend | 0.00 | 0.00 | 0.00 | 0.00 | | |
| | | | | EBIT Marginal | (192.0)% | 41.7% | 59.3% | 60.2% | | |
| | | | | ROE (%) | (27.0)% | 13.2% | 33.4% | 37.6% | | |
| | | | | ROCE | (34.2)% | 47.7% | 67.7% | 66.2% | | |
| | | | | EV/Sales | --x | 6.92x | 2.18x | 1.26x | | |
| | | | | EV/EBITDA | (102.2)x | 13.2x | 3.5x | 2.0x | | |
| | | | | EV/EBIT | (89.3)x | 16.6x | 3.7x | 2.1x | | |
| | | | | P/E, adj | (60.9)x | 17.3x | 4.7x | 2.7x | | |
| | | | | P/Equity | 29.8x | 2.3x | 1.6x | 1.0x | | |
| | | | | Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | | |
| | | | | FCF yield | (3.6)% | 5.0% | 21.7% | 0.0% | | |
| | | | | Net Debt/EBITDA | 2.1g | (0.9)g | (0.7)g | (1.0)g | | |

| Calendar Events | |
|-----------------|------------|
| Q1 report | 2021-05-27 |

| Key Figures (mkr) | |
|------------------------------|---------------|
| Number of Shares | 18.3m |
| Market cap | 1,093 |
| Net Debt | (32) |
| EV | 1,061 |
| Free Float | 90.21% |
| Avg. No. of Daily Traded Sh. | 73.7(k) |
| Reuters/Bloomberg | OPTLST/OPTLSS |

| One Year Performance Chart | |
|----------------------------|--|
| | |

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Overview

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Investment Case

OptiFreeze's patented CEPT technology has great market potential for applications in both food and plants. We see it as attractive that the company has a technology with well-documented efficacy, broad industry knowledge in each market, and attractive pricing models with recurring revenues. In 2020, OptiFreeze established agreements with important reference customers APH and Dagab. The additions from ArcAroma now provide exposure to new and attractive markets. Within oliveCept, the company has extended an existing evaluation agreement with an olive oil producer in China, and is conducting evaluations in the dairy industry with a leading Swedish dairy. OptiFreeze's management has extensive experience from each sector, and we regard the industry knowledge of individuals like CEO Ulf Hagman as a significant asset.

OptiFreeze and ArcAroma communicated several identified benefits of their merger. OptiFreeze will be able to make use of ArcAroma's organization, which has extensive experience in the market. This provides two benefits. Firstly, OptiFreeze will be able to reduce costs by leveraging ArcAroma's expertise in supply chain management, administration and sales channels. And secondly, ArcAroma's organization creates better conditions for a faster roll-out of machines like OptiBoost. ArcAroma's sales are focused around the olive season, which means the company has a sales force during the summer months that is not fully utilized. This capacity can be used for sales of other systems. For ArcAroma, the merger was motivated by the use of OptiFreeze's knowledge in research and development. This capacity can be employed for further development of the projects that were previously in the separate company ArcAroma.

Company Profile

OptiFreeze is a tech company with a patented technology applied in areas such as preservation that provides properties like extended shelf life and retained aroma for raw materials in the plant and food industry. The technology is called CEPT and has a number of applications at various stages of commercialization. In 2020, OptiFreeze focused a lot on OptiBoost, its system for cut flowers. The main focus of the previously independent ArcAroma was on food, primarily food oils and freshly squeezed juices through its oliveCEPT and juiceCEPT. ArcAroma has also worked with applications in whey protein and oat drinks as well as evaluations in a number of other potential markets.

The companies share the technology that forms the basis of the CEPT system. This uses a process called electroporation, a biological process that leads to increased extraction capacity from the raw material, and higher quality and longer shelf life for the end product. The effects of the process are well documented, and the systems provide efficiency and savings for the company's customers. The process is largely patented, and the company has extensive industry knowledge and insights into fine-tuning systems and processes for different applications. This means that potential competitors would have to handle protracted product development cycles that create large entry barriers in OptiFreeze's markets.

Valuation approach

We believe that OptiFreeze could grow strongly in the coming years. In 2022, we estimate the company could have a gross margin of 70% after royalty-share, while the operating margin could strengthen to 59%. In 2023, we project that OptiFreeze could have an operating margin of 60%. The consolidated pro forma balance sheet for 2020 suggests that the joint cash reserves of the company amount to SEK 52 million, and we assess that it will not need to raise additional capital before it is able to generate a positive annualized cash flow.

Our valuation approach is a DCF model for the period 2021-2030. We believe that a DCF valuation best reflects the value of the company's growth potential, while its new growth potential following the merger



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makes it challenging to conduct a valuation against relevant peers. The merger involves the issue of 6,205,494 new shares, taking the total number of shares from 12.1 million to 18.3 million, and the valuation is based on the new number. Our model assumes that OptiFreeze will continue its commercial rollout and achieve a CAGR corresponding to 37% for the period 2023-2030. We assume growth beyond the forecast period of 1%, and apply a WACC of 16%. This generates a fair value of SEK 136–138 per share after the merger has been completed.

The risk profile remains high. We believe the company is attractively positioned with unique products and a great deal of industry knowledge, but we note that the growth in our forecasts, and those of OptiFreeze, leave limited room for setbacks. The expansion going forward requires establishment in new markets and additions to the customer book.

Target Price

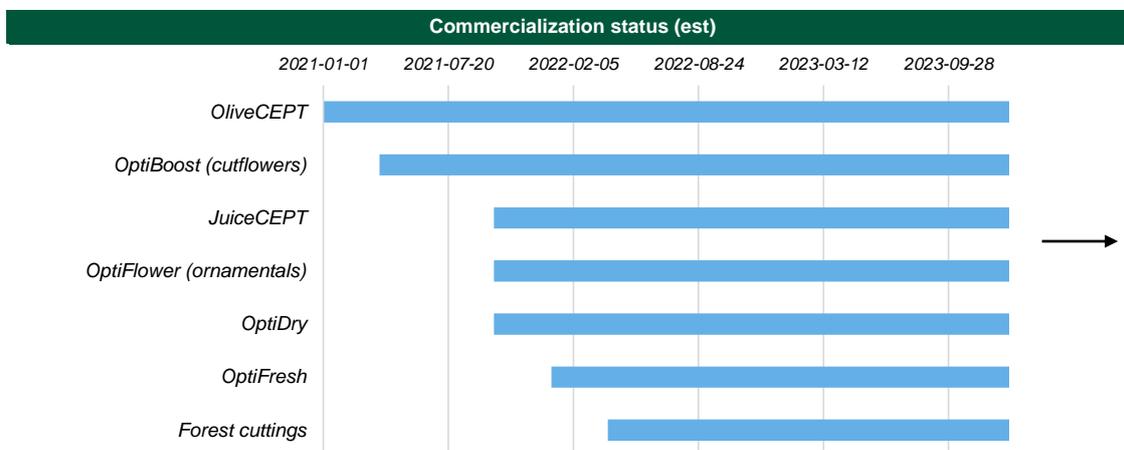
136 - 138 kr

Prospects factored in

A fictitious scenario can illustrate how today's market capitalization factors in the company's commercialization. We start from a scenario where an OptiBoost machine generates SEK 0.50 in royalty-share and processes 15 million flowers per year. This means that a machine generates SEK 7.5 million in revenue, and we expect an operating margin of 50%. Derivation of the discounted profit at a price of SEK 47 and EV/EBIT of 15x means that the market factors in 9 machines generating royalties in 2024. We believe there is a significant upside assuming the company continues its commercialization, and the communicated production is a sign of strength.

Markets and commercialization

The graph below illustrates our estimates of a commercial breakthrough for the company's various segments. We note that OliveCEPT (within previously independent ArcAroma) is already at a commercial stage, while several other application areas may be commercialized shortly. Several commercializations have been brought forward as a result of the merger with ArcAroma.



| Income statement | | | | | | |
|--------------------------------|-------------|-------------|--------------|-----------|------------|------------|
| | 2018A | 2019A | 2020A | 2021E | 2022E | 2023E |
| Net sales | 1 | 3 | 0 | 153 | 486 | 843 |
| Other income | 1 | 2 | 3 | 10 | 7 | 5 |
| Cost of goods sold | 0 | -4 | -1 | -44 | -148 | -278 |
| Gross profit | 2 | 2 | 2 | 109 | 338 | 565 |
| Cost of sales | -4,2 | -4,5 | -3,8 | -22 | -24 | -27 |
| Other external expenses | -4,6 | -4,9 | -8,5 | -16 | -17 | -18 |
| EBITDA | -6 | -8 | -10 | 80 | 305 | 525 |
| Depreciation/amortisation | -0,6 | -0,6 | -1,5 | -17 | -17 | -17 |
| Goodwill impairments | | | | | | |
| EBIT | -6,8 | -8,3 | -11,9 | 64 | 288 | 508 |
| Extraordinary items | | | | | | |
| Adjusted EBIT | -6,8 | -8,3 | -11,9 | 64 | 288 | 508 |
| Net financial items | 0,0 | 0,0 | 0,0 | -1 | -1 | -1 |
| Profit before tax (EBT) | -6,8 | -8,3 | -11,9 | 63 | 287 | 507 |
| Tax | 0,0 | 0,0 | 0,0 | -13 | -59 | -104 |
| Minority interest | | | | | | |
| Net Income | -6,8 | -8,3 | -11,9 | 63 | 230 | 402 |
| Net Income (Adjusted) | -7 | -8 | -12 | 63 | 230 | 402 |

| Balance sheet | | | | | | |
|-------------------------------------|-----------|-----------|-----------|------------|------------|--------------|
| | 2018A | 2019A | 2020A | 2021E | 2022E | 2023E |
| Assets | | | | | | |
| Other intangible assets | 6 | 7 | 12,2 | 49 | 32 | 15 |
| Tangible fixed assets | 2 | 1 | 2 | 11 | 14 | 17 |
| Other fixed assets | 0 | 2 | 1 | 0 | 0 | 0 |
| Goodwill | 0 | 0 | 0 | 298 | 298 | 298 |
| Total fixed assets | 8 | 10 | 15 | 359 | 345 | 330 |
| Inventory | 2,1 | 0,6 | 0,6 | 42 | 129 | 208 |
| Accounts receivable | 1 | 1 | 1 | 49 | 140 | 229 |
| Cash and cash equivalents | 7 | 14 | 22 | 78 | 214 | 516 |
| Total current assets | 10 | 15 | 23 | 169 | 482 | 952 |
| TOTAL ASSETS | 18 | 25 | 39 | 528 | 827 | 1283 |
| Equity and liabilities | | | | | | |
| Equity | 15 | 23 | 35 | 478 | 690 | 1 067 |
| Total equity | 15 | 23 | 35 | 478 | 690 | 1 067 |
| Non-current financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred tax liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-current liabilities | 0 | 0 | 2 | 8 | 8 | 8 |
| Current liabilities | 3 | 2 | 2 | 42 | 129 | 208 |
| Total Equity and Liabilities | 18 | 25 | 39 | 528 | 827 | 1 283 |

| Cash flow statement | | | | | | |
|--|-------------|--------------|--------------|-------------|--------------|--------------|
| | 2018A | 2019A | 2020A | 2021E | 2022E | 2023E |
| EBIT | -7 | -8 | -12 | 64 | 288 | 508 |
| Changes in working capital | -1 | -1 | 0 | -42 | -90 | -90 |
| Adjustments for items that are not included in cash flow | 0 | 0 | 1 | 16 | -41 | -89 |
| Cash flow from operating activities | -7 | -9 | -10 | 38 | 157 | 329 |
| Investments | -2,1 | -2,5 | -5,2 | -3 | -3 | -3 |
| Free Cash Flow | -9,2 | -11,3 | -15,3 | 34,5 | 153,9 | 326,3 |
| Debt financing and other adjustments | 0,3 | 18,2 | 23,8 | -8,2 | -18,3 | -24,3 |
| Cash Flow | -9 | 7 | 8 | 26 | 136 | 302 |
| Cash end of period | 7 | 14 | 22 | 78 | 214 | 516 |

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