



ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 8 June 2021

Optifreeze

Eventful Q1

Some Covid impact in Q1


OptiFreeze reported another eventful quarter. The company established an initial commercial agreement for OptiBoost with APH, while merging with ArcAroma and creating a major company in Plant and Food Tech. OptiFreeze has also started production of five machines. However, it is still seeing some impact from Covid-19 such as restricted international travel.

Ready for easing of restrictions

We believe the company is well positioned for eased travel restrictions, both for continued business within OptiBoost and OliveCEPT, and for other existing or upcoming applications. Given the Covid restrictions, we have chosen to make some minor adjustments to our estimates and have postponed our forecasts from 2021 to 2022. In terms of the number of machines sold, our overall forecast for 2021–2022 is unchanged.

Big upside remains

We have downwardly adjusted our estimates somewhat, but believe the long-term potential is unchanged. This means that the adjustments do not impact our assessment of the upside or the valuation. We see a fair value of SEK 136–138 per share and high risk.

Estimate Changes (SEK)				Estimates (SEK)				Risk and Potential			
	Now	Before			20	21e	22e	23e	Motivated value	136.00 - 138.00	
EPS, adj 21e	3.35	3.45	-2.8%	Sales,m	0	140	461	818	Current price	51.10	
EPS, adj 22e	12.06	12.58	-4.1%	Sales Growth	(92.1)%	30,643.7%	228.6%	77.5%	Risk level	High	
EPS, adj 23e	21.56	21.94	-1.8%	EBITDA, m	(10.4)	79	295	513	<div>One Year Performance Chart</div> 		
<div>Calendar Events</div> <div>Årsstämma Q2-report</div> <div>2021-06-28 2021-08-10</div>				EBIT, m	(11.9)	62.1	278.4	495.7			
				EPS, adj	(0.98)	3.35	12.06	21.56			
				EPS Growth	21.0%	30.0%	259.8%	78.8%			
				Equity/Share	2.0	26.6	38.6	59.7			
				Dividend	0.00	0.00	0.00	0.00			
<div>Key Figures (mkr)</div> <div>Number of Shares Market cap Net Debt EV Free Float Avg. No. of Daily Traded Sh. Reuters/Bloomberg</div> <div>18.3m 935 (15) 921 92.00% 73.7(k) OPTI.ST/OPTI:SS</div>				EBIT Marginal	(192.0)%	44.2%	60.4%	60.6%			
				ROE (%)	(27.0)%	0.0%	0.0%	0.0%			
				ROCE	(34.2)%	47.7%	67.7%	66.2%			
				EV/Sales	--x	6.56x	2.00x	1.13x			
				EV/EBITDA	(88.7)x	11.7x	3.1x	1.8x			
				EV/EBIT	(77.5)x	14.8x	3.3x	1.9x			
				P/E, adj	(52.1)x	15.2x	4.2x	2.4x			
				P/Equity	25.5x	1.9x	1.3x	0.9x			
				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	(1.4)g	(1.1)g	(1.4)g			
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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 board chairman 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

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. 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.

Target Price

136 - 138 kr

The quarter in detail

The merger of ArcAroma and OptiFreeze has been approved at each shareholder meeting. Following the merger and on the basis of indications from the market, the company increased its sales forecast to 45 machines for the period up to and including 2022. This corresponds to an increase in estimates of 50%. OptiFreeze also established an initial commercial agreement with APH Svenska for the treatment of cut flowers.

After the end of the period, the company proposed a restructuring of the board that makes Ulf Hagman the chairman with an operational role and responsibility for the customer side in the plant applications. Johan Möllerström will become the new CEO with the main responsibility for the day-to-day operations. OptiFreeze has also proposed a name change to OptiCept Technologies, and is planning a list change.

The company talks in its report about a general Covid-19 effect that has impacted several of its segments. It has previously pointed out how travel restrictions affect certain segments such as the work with Syngenta and MM Flowers. Overall, we feel that the pandemic has delayed the company's rollout but believe the impact is only temporary. We believe the company is well positioned to meet the easing of Covid-19 restrictions, such as through announcing the preparatory production of five systems.

Estimate adjustments

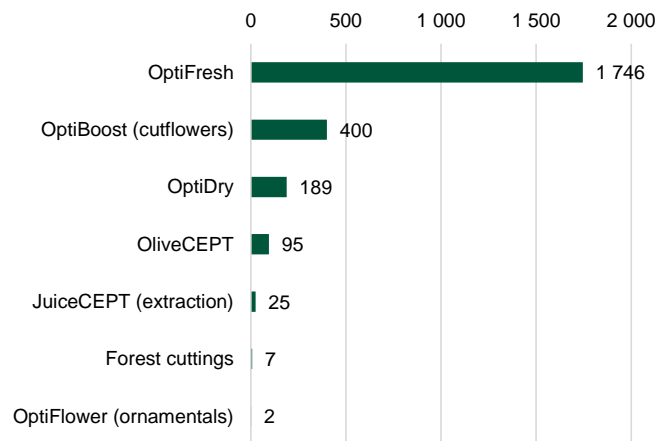
Overall, we do not see any long-term effects from Covid-19 during the quarter. We feel that the substantial long-term potential is unchanged, and our estimate adjustments do not entail any changes in the number of machines that we forecast the company to sell in 2021–2022. Below is a summary of our estimate adjustments.

Nya estimat	2021e	2022e	2023e
Omsättning	140	461	818
Tillväxt	N/A	229%	77%
EBIT	62	278	496
Rörelsemarginal	44%	60%	61%
EPS	3	12	21

Tidigare estimat	2021e	2022e	2023e
Omsättning	153	486	853
Tillväxt	N/A	218%	76%
EBIT	64	288	508
Rörelsemarginal	42%	59%	60%
EPS	3	13	22

Förändring i %	2021e	2022e	2023e
Omsättning	-8%	-5%	-4%
EBIT	-3%	-3%	-2%
EPS	-13%	-4%	-2%

Market value EPB est (SEK md)



	2018A	2019A	2020A	2021E	2022E	2023E
Net sales	1	3	0	140	461	818
Other income	1	2	3	16	11	7
Cost of goods sold	0	-4	-1	-38	-136	-267
Gross profit	2	2	2	102	325	551
Cost of sales	-4	-5	-4	-23	-24	-27
Other external expenses	-5	-5	-9	-16	-17	-18
EBITDA	-6	-8	-10	79	295	513
Depreciation/amortisation	-1	-1	-1	-17	-17	-17
Goodwill impairments						
EBIT	-7	-8	-12	62	278	496
Extraordinary items						
Adjusted EBIT	-7	-8	-12	62	278	496
Net financial items	0	0	0	-1	-1	-1
Profit before tax (EBT)	-7	-8	-12	61	278	495
Tax	0	0	0	-13	-57	-101
Minority interest						
Net Income	-7	-8	-12	61	247	395
Net Income (Adjusted)	-7	-8	-12	61	247	395

Balansräkning

	2018A	2019A	2020A	2021E	2022E	2023E
Assets						
Other intangible assets	6	7	12	66	66	66
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	375	378	381
Inventory	2	1	1	0	0	0
Accounts receivable	1	1	1	0	0	0
Cash and cash equivalents	7	14	22	119	336	719
Total current assets	10	15	23	119	336	720
TOTAL ASSETS	18	25	39	495	714	1101
Equity and liabilities						
Equity	15	23	35	487	706	1 093
Total equity	15	23	35	487	706	1 093
Deferred tax liabilities	0	0	0	0	0	0
Non-current liabilities	0	0	2	8	8	8
Current liabilities	3	2	2	0	0	0
Total Equity and Liabilities	18	25	39	495	714	1 101

	2018A	2019A	2020A	2021E	2022E	2023E
EBIT	-7	-8	-12	62	278	496
Changes in working capital	-1	-1	0	7	0	0
Adjustments for items that are not included in cash flow	0	0	1	10	-41	-85
Cash flow from operating activities	-7	-9	-10	79	238	411
Investments	-2	-3	-5	-3	-3	-3
Free Cash Flow	-9	-11	-15	76	235	408
Debt financing and other adjustments	0	18	24	-8	-18	-24
Cash Flow	-9	7	8	68	216	384
Cash end of period	7	14	22	119	336	719

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