

OssDsign

Sector: Medtech

Strengthening the balance sheet to take on next steps

Redeye returns with a review of OssDsign following its announced rights issue and recently presented strategy update – ASCENT25. We are encouraged by its intensified focus on its neurosurgery product portfolio and its new, though adjacent, vertical in spine, strengthening our already favourable view on its longer-term prospects.

ASCENT25 – focus on core business with ambitious sales targets

The new strategy revolves around its cranial implant and the newly acquired synthetic bone graft for spinal fusion. The facial implant is being reassessed, and we expect it to receive less focus going forward. ASCENT25 also entails the financial ambition of reaching sales between SEK 300-400m by 2025 and positive cash flow in 2024. While we have relatively strong confidence in its ability to increase Cranial sales, we have a more cautious stance towards its ability to do so for Osteo3, as we believe further clinical evidence is needed.

Announced rights issue of SEK 240m at SEK 7.75 per share

Its announced fully covered rights issue, with an over-allotment option of roughly SEK 30m, could bring a cash intake of a total SEK 270m. While we argue that the strengthened balance sheet allows for OssDsign to capitalize on its potential, we withhold any take on the stocks' direction in the shorter-term until the outcome of the rights issue. However, solving its pressed financial situation lifts a heavy weight off the investors' shoulders, and upwards momentum in the share should follow in the medium to long-term.

Focus on core offerings positively impacts sales estimates

The reassessment of its facial implant and the accelerated focus on its cranial implant and the synthetic bone graft renders a re-take on our estimates. Our 2021-2023 estimates remain relatively untouched, though we believe OssDsign stands a good chance to reach its 2025 sales target (SEK 300-400m) – at least the lower end of the interval.

Updated and adjusted Base Case

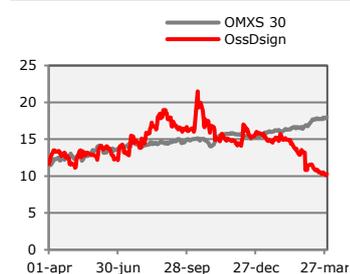
Our new Base Case amounts to SEK 19 per share, raised on the back of our updated financial estimates and adjusting for the rights issue. Though we will return with our take on the share's shorter-term performance, we emphasize that quarterly results are key drivers of the valuation gap, which should be closed in the coming 12 months.

SEKm	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales	13	17	25	46	94	155	227	313
Growth y/y	73%	27%	47%	85%	104%	65%	46%	38%
EBIT	-50	-84	-84	-95	-70	-16	16	45
Margin (%)	n.a	n.a	n.a	n.a	n.a	n.a	7%	14%
EV/Sales				4,8	2,4	1,4	1,0	0,7
EV/EBIT							14	5

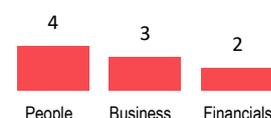
FAIR VALUE RANGE

BEAR	BASE	BULL
7.50	19.0	29.0

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	OSSD
Market	First North
Share Price (SEK)	10.4
Market Cap (MSEK)	222
Net Debt 21E (MSEK)	-97
Free Float	57%
Avg. daily volume ('000)	162

ANALYSTS

Oscar Bergman
Oscar.bergman@redeye.se
Anders Hedlund
Anders.hedlund@redeye.se

ASCENT25 – a clear strategic direction

OssDsign presented its [strategy update](#) at Redeye on March 2, where the company laid out its path to reach its financial targets; sales of SEK 300-400m by 2025 and a positive cash flow in 2024. The targets were relatively close to our previous estimates of SEK 274m by 2025 and a positive cash flow in the same year.

Focusing on the core business

The strategy aims to focus on the core business of its cranial implant and added synthetic bone graft for spinal fusion. This prompts us to review our take on the case. We judge that its prospects of reaching its (at least the lower end of the interval) sales target as likely.

Freeing up resources for more attractive allocations

Reassessing its facial implants should allow for a more efficient resource allocation. This should enable OssDsign to fully leverage its current and expanding commercial infrastructure for its neurosurgery products and its new venture into synthetic bone grafts for spine. While we lower our expected revenues from the facial implants, we increase our sales estimates for Cranial, CranioPlug and Osteo3.

Sirakoss acquisition holds an exhilarating long-term option to the case

While we argue that Osteo3 will require far more data (clinical data, rather than just relying on pre-clinical data), we still view it as an exciting addition to its product portfolio. We note that it perfectly fits management's and the board's past experiences in – and knowledge of – the spinal field. For a more detailed take on the acquisition, see our [update](#) from December 10, 2020.

Furthermore, we argue that impressive contribution could come from this product, as spinal fusion procedures are characterized by high volumes per surgeon, using premium-priced products with attractive gross margins of +90%. Moreover, considering that the targeted surgeons are established users of OssDsign Cranial, we judge that attracting a low number of surgeons, initially, could still have a remarkable impact on sales in the medium term. However, to gain a wider market implementation, today's pre-clinical data is not enough and is something we expect OssDsign to address in the coming years.

OssDsign's sales target of SEK 300-400m by 2025 – positive cash flow in 2024

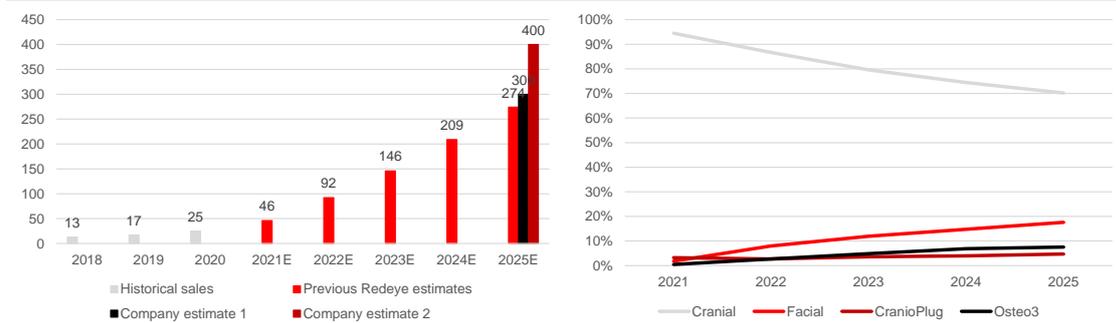
In 2020, OssDsign recorded sales of SEK 25m and now aims to reach SEK 300-400m by 2025 – implying a CAGR between 64-74%. The company aims to achieve this through five key priorities:

1. Accelerate its surgeon engagement and KOL activities in the US, expanding its sales coverage
2. Integrating Osteo3 into the established US commercial infrastructure (the surgeons targeted for Cranial are typically also conducting spinal surgery – synergies!)
3. Product development leveraged on its existing technology platforms
4. Continue to show clinical superiority of its products through pre-clinical and clinical studies as well as clinical registries
5. Increase operational efficiency through cost reductions and scalability

Compared to our old sales estimates, we feel that the relatively small discrepancy (looking at the lower end of the interval), strengthens our confidence in our view of the case. It was not a monstrous figure presented by the company and its range suggests a modesty towards uncertainty.

A look at how we previously viewed Facial's contribution to our estimates also provides an insight to the changes we make and the outcome of these.

Old sales estimates/OssDsign sales target (SEKm), product contribution as % of old sales estimates



Source: Redeye Research, OssDsign

As the graph above illustrates, we estimated 70% of 2025 sales to stem from its cranial impact and 18% from its facial implants. With an increased focus on Cranial and Osteo3, we, therefore, do not view the re-prioritization of Facial as a blow to our projections, but rather a sound strategic choice to maximize shareholder value. Thanks to the synergies between Cranial, CranioPlug, and Osteo3, we argue that all three products should see their sales contributions lift (tilted to the long-term).

Anticipated rights issue finances ASCENT25

OssDsign ended 2020 with a cash position of some SEK 49m. Its announced fully covered rights issue aims to raise SEK 240m with an over-allotment option of an additional SEK 30m (should the issue be oversubscribed). We expect the rights issue to finance its operations until reaching a positive cash flow in 2024.

The subscription price is SEK 7.75 per share – a c. 41% discount compared to its close on March 1. The subscription period runs from April 21 to May 7.

Awaiting outcome

Moreover, some 49.6% of the rights issue is filled by undertakings (roughly SEK 119m), leaving some SEK 121m to be subscribed. At first glance, this could be managed rather easily, and eventual overhang to guarantors should therefore be avoided. We will return once the outcome of the capital raise is published and cannot say much about its eventual short-term impact on the share price. However, we believe that the issue should re-ignite interest for the share and fuel upwards momentum – the share is in the all-time-low territory, while the business's fundamentals strengthen continuously, we argue.

Proceeds of the rights issue

The net proceeds of the rights issue are intended for the following:

1. c. 20% to pay the two cash instalments for the Sirakoss acquisition
2. c. 35% to commercialize Osteo3 and expand the marketing and sales activities – increasing surgeon commitment and KOL activity
3. c. 25% to finance pre-clinical, clinical trials and clinical registries for Cranial and Osteo3 in the US as well as regulatory approvals
4. c. 15% to optimize production processes, reducing COGS, shortening delivery time, and expanding the portfolio to new indications and products
5. c. 5% to finance general corporate purposes

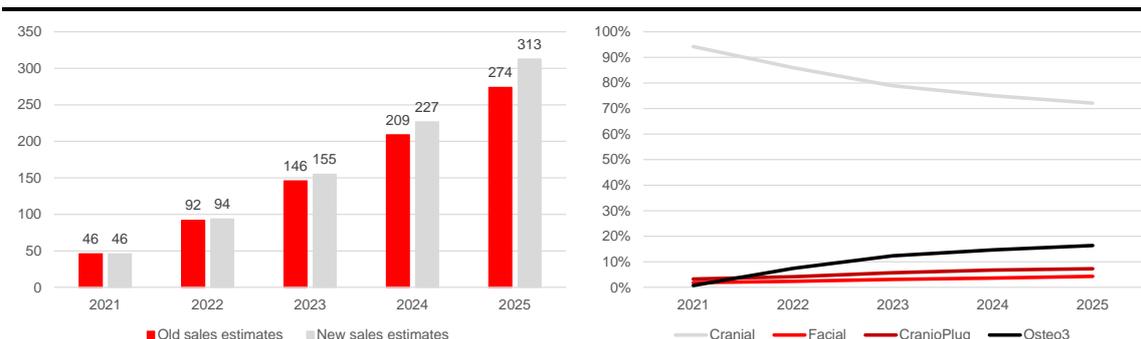
Financial projections

We review our longer-term sales estimates, where we downgrade our projections for its facial implant. Furthermore, the increased focus we expect on Cranial, CranioPlug and Osteo3 will position OssDsign even more attractively to the neurosurgeon (and spine) segment, boosting sales for these products.

Changes to sales estimates

On the back of our updated take on the case and the company's medium and longer-term sales prospects, we up our estimates – reaching the lower end of OssDsign's interval for its 2025 sales target in our Base Case (slightly surpassing it in our Bull Case scenario).

Sales estimates 2021-2025 (SEKm) and product contribution as % total sales



Source: Redeye Research

Product mix in our forecast period

We believe that most of its value will come from the cranial implant and that its contribution to group sales will stabilize at roughly 70-66% in the longer term. Previously, we expected some 18-25% of sales to come from OssDsign Facial but decrease our estimates following its ASCENT25 strategy – we now expect roughly 10% in the second half of our forecast period.

We emphasize that the contribution to group sales from Osteo3 is difficult to predict due to its non-existent clinical data (only pre-clinical exist today) and it being a non-commercialized product. As we advance, we expect OssDsign to initiate clinical trials, which could positively impact its potential. Higher-than-expected sales from Osteo3 in 2021-2022 could also prompt us to reassess our estimates for this product upwards.

Income statement forecast

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Net sales	46	94	155	227	313	398	479	550	611	665	707	730	753	770	786
Sales growth	85%	104%	65%	46%	38%	27%	21%	15%	11%	9%	6%	3%	3%	2%	2%
Gross margin	78%	80%	80%	80%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%
EBIT	-95	-70	-16	16	45	95	135	177	209	236	254	263	272	278	284
EBIT margin	-206%	-74%	-11%	7%	14%	24%	28%	32%	34%	35%	36%	36%	36%	36%	36%
Taxes	0	0	0	0	0	0	0	30	45	50	54	56	58	59	61
Net Income	-95	-70	-16	16	45	95	135	147	164	185	200	207	214	218	223

Source: Redeye Research

Valuation and share price performance

Our raised Base Case comes from our increased longer-term sales prospects, as well as a slight upwards increased EBIT margins – more sales of Cranial, Osteo3, and CranioPlug drive higher overall gross margins. We also factor in the new number of shares from the announced rights issue (excluding the eventual over-allotment).

Fair value range – a scenario-based approach

At Redeye, we approach the valuation of a company through a set of three scenarios to provide for a more dynamic view of the case. We use a 12% WACC across all scenarios.

Base Case (SEK 19): 82% upside

The reassessment of Facial ensures a more efficient reallocation of resources, allowing OssDsign to accelerate on its core offering(s) entirely. We expect that the increased focus on Cranial and Osteo3 (as well as CranioPlug) positions OssDsign attractively on its respective markets, which all have synergies with each other.

We forecast sales to reach SEK 46m this year, followed by SEK 94m and SEK 155m by 2022 and 2023, respectively. Moreover, we expect the company to reach the lower-end interval of its 2025 sales target of SEK 300-400m (we estimate SEK 313m). In 2024, we anticipate a positive EBIT margin and a positive cash flow in 2025. The announced rights issue finances the operations until then. We expect long-term EBIT margins upwards 36%.

Bull Case (SEK 29): 178% upside

We expect a greater market acceptance of Osteo3 in the shorter-term and an aggressive and successful launch in Japan with the Cranial implant during 2021 to ramp up next year and 2023.

We forecast sales of SEK 51m for 2021, followed by SEK 139m, and SEK 222m for 2022 and 2023, respectively. We expect OssDsign to slightly surpass its top-end interval of the sales target, SEK 409m in 2025 with positive cash flow in 2024. We expect long-term EBIT margins upwards 39%.

Bear Case (SEK 7.50): 28% downside

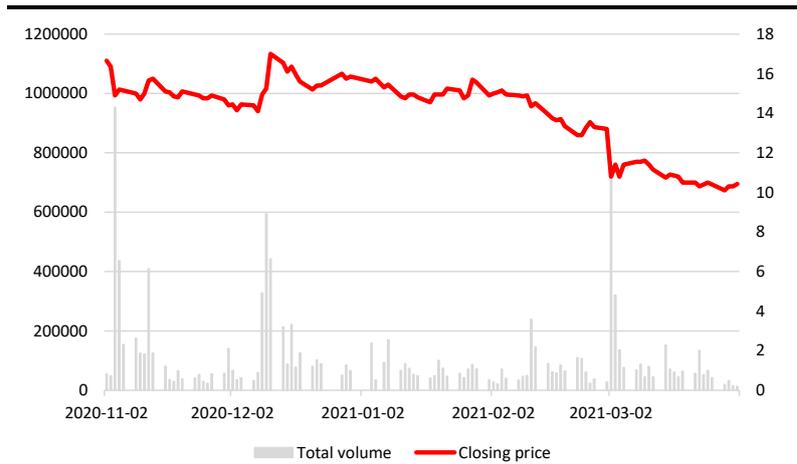
We expect a slower market uptake of its cranial implant across all markets, as well as a slow launch of Osteo3 owing to its prolonged lack of clinical data.

We forecast sales of SEK 30m this year, SEK 40m in 2022, and SEK 79m in 2023. We do not expect OssDsign to reach its 2025 sales target, coming in SEK 130m under the lower end of the interval. We anticipate a positive EBIT in 2026 and a positive cash flow in the same year. However, additional equity is required. We expect long-term EBIT margins upwards 29%.

Share performance

Current levels suggest a +80% potential to our updated Base Case of SEK 19 (including the new number of shares). The stock has had a notoriously lousy development since its IPO in May 2019 – down some 61%. The announcement of its capital raise pushed the price below its Corona lows in March last year. Simultaneously, the commercial progress has developed nicely for OssDsign, and current levels (and the SEK 7.75 subscription price) should provide attractive returns for investors (emphasize on medium to long term). Its shorter-term development after the rights issue is unsure at the moment, and its outcome will give more insights on the matter (eventual selling pressure could hold back positive momentum). We believe its quarterly results will be the most critical catalyst for the share in the longer run.

Share price development 2020-11-02 to 2021-04-01



Source: Redeye Research, Bloomberg

Balance Sheet	2018	2019	2020	2021E	2022E	2023E
Current Assets						
Cash & Equivalents	14	114	49	99	37	10
Inventories	1	2	2	5	9	15
Accounts Receivable	6	5	6	11	23	32
Other Current Assets	17	3	3	5	8	11
Total Current Assets	38	123	60	120	77	68
Non-Current Assets						
Property, Plant & Equipment, Net	5	4	18	21	26	34
Goodwill	-	-	-	-	-	-
Intangible Assets	29	26	166	135	113	109
Right-of-Use Assets	-	-	-	-	-	-
Shares in Associates	-	-	-	-	-	-
Other Long-Term Assets	-	-	2	2	2	2
Total Non-Current Assets	33	30	186	159	141	145
Total Assets	72	153	247	279	218	213
Current Liabilities						
Short-Term Debt	1	1	1	1	1	1
Short-Term Lease Liabilities	-	-	2	2	2	2
Accounts Payable	4	3	3	20	26	31
Advances From Customers	-	-	-	-	-	-
Prepaid Income	8	8	-	5	5	8
Accrued Expenses	-	-	14	-	-	-
Other Current Liabilities	7	3	49	5	8	11
Total Current Liabilities	19	15	69	32	42	53
Non-Current Liabilities						
Long-Term Debt	5	3	2	2	2	2
Long-Term Lease Liabilities	-	-	12	12	12	12
Other Long-Term Liabilities	-	-	52	-	-	-
Other Long-Term Liabilities, % of Rev.	0,0%	0,0%	207,5%	0,0%	0,0%	0,0%
Total Non-current Liabilities	5	3	66	14	14	14
Shareholder's Equity	47	135	112	233	163	146
Total Liabilities & Equity	72	153	247	279	218	213
Net Debt	(9)	(110)	(47)	(97)	(35)	(7)

Cash Flow Statement	2018	2019	2020	2021E	2022E	2023E
Operating Activities						
Net Income	-	-		(95)	(70)	(17)
Non-Controlling Interest	-	-		-	-	-
Associated Income / (loss)	-	-		-	-	-
Dividends Received from Associates	-	-		-	-	-
Depreciation	-	-		-	-	-
Amortization	-	-		33	27	23
Amortization of Right-to-Use Assets	-	-		-	-	-
Net Working Capital Change, Decrease / (Inc	-	-		(47)	(9)	(7)
Other Long-Term Liabilities, Increase / (Decr	-	-		(52)	-	-
Operating Cash Flow	(66)	(87)	(79)	(161)	(53)	(1)
Cash EPS	-	(4,9)	(1,5)	(3,0)	(1,0)	(0,0)
Investing Activities						
Capital Expenditures	(1)	(0)	(2)	(3)	(5)	(8)
Capital Expenditures, % of Rev.	7,2%	1,4%	7,0%	7,0%	5,0%	5,0%
Intangible Assets	(7)	(0)	-	(2)	(5)	(19)
Intangible Assets, % of Rev.	50,5%	0,6%	0,0%	5,0%	5,0%	12,0%
Other Long Term Assets	-	-	-	-	-	-
Other Long Term Assets, % of Rev.	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Acquisitions	-	-		-	-	-
Divestments	-	-		-	-	-
Goodwill	-	-		-	-	-
Investing Cash Flow	(8)	(0)	(18)	(6)	(9)	(26)
Financing Activities						
Short-Term Debt, Issuance / (Repayment)	-			-	-	-
Long-Term Debt, Issuance / (Repayment)	-			-	-	-
Share Issuance / (Repurchase)	-		15	216	-	-
Dividends Paid to Shareholders	-			-	-	-
Dividends Paid to Non-Controlling Interest	-	-		-	-	-
Repayment of Lease Liabilities	-	-		-	-	-
Other Financing Activities	-	-		-	-	-
Financing Cash Flow	53	186	33	216	-	-
Net Cash Flow	(21)	99	(64)	50	(62)	(27)
Cash Balance	14	114	49	99	37	10

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3

Business: 3

Financials: 1

Redeye Rating and Background 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 long-term 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.

Redeye Equity Research team

Management

Björn Fahlén

bjorn.fahlen@redeye.se

Håkan Östling

hakan.ostling@redeye.se

Technology Team

Jonas Amnesten

jonas.amnesten@redeye.se

Henrik Alveskog

henrik.alveskog@redeye.se

Fredrik Nilsson

fredrik.nilsson@redeye.se

Tomas Otterbeck

tomas.otterbeck@redeye.se

Viktor Westman

viktor.westman@redeye.se

Forbes Goldman

forbes.goldman@redeye.se

Mark Siöstedt

mark.siostedt@redeye.se

Danesh Zare

danesh.zare@redeye.se

Mattias Ehrenborg

mattias.ehrenborg@redeye.se

Editorial

Mark Siöstedt

mark.siostedt@redeye.se

Joel Karlsson

joel.karlsson@redeye.se

Life Science Team

Gergana Almquist

gergana.almquist@redeye.se

Oscar Bergman

oscar.bergman@redeye.se

Anders Hedlund

anders.hedlund@redeye.se

Ludvig Svensson

ludvig.svensson@redeye.se

Niklas Elmhammer

niklas.elmhammer@redeye.se

Mats Hyttinge

mats.hyttinge@redeye.se

Filip Einarsson

filip.einarsson@redeye.se

Fredrik Thor

fredrik.thor@redeye.se

Disclaimer

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Redeye Rating (2021-04-05)

Rating	People	Business	Financials
5p	20	15	3
3p - 4p	95	76	36
0p - 2p	6	30	82
Company N	121	121	121

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Oscar Bergman owns shares in the company : Yes

Anders Hedlund owns shares in the company : No

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