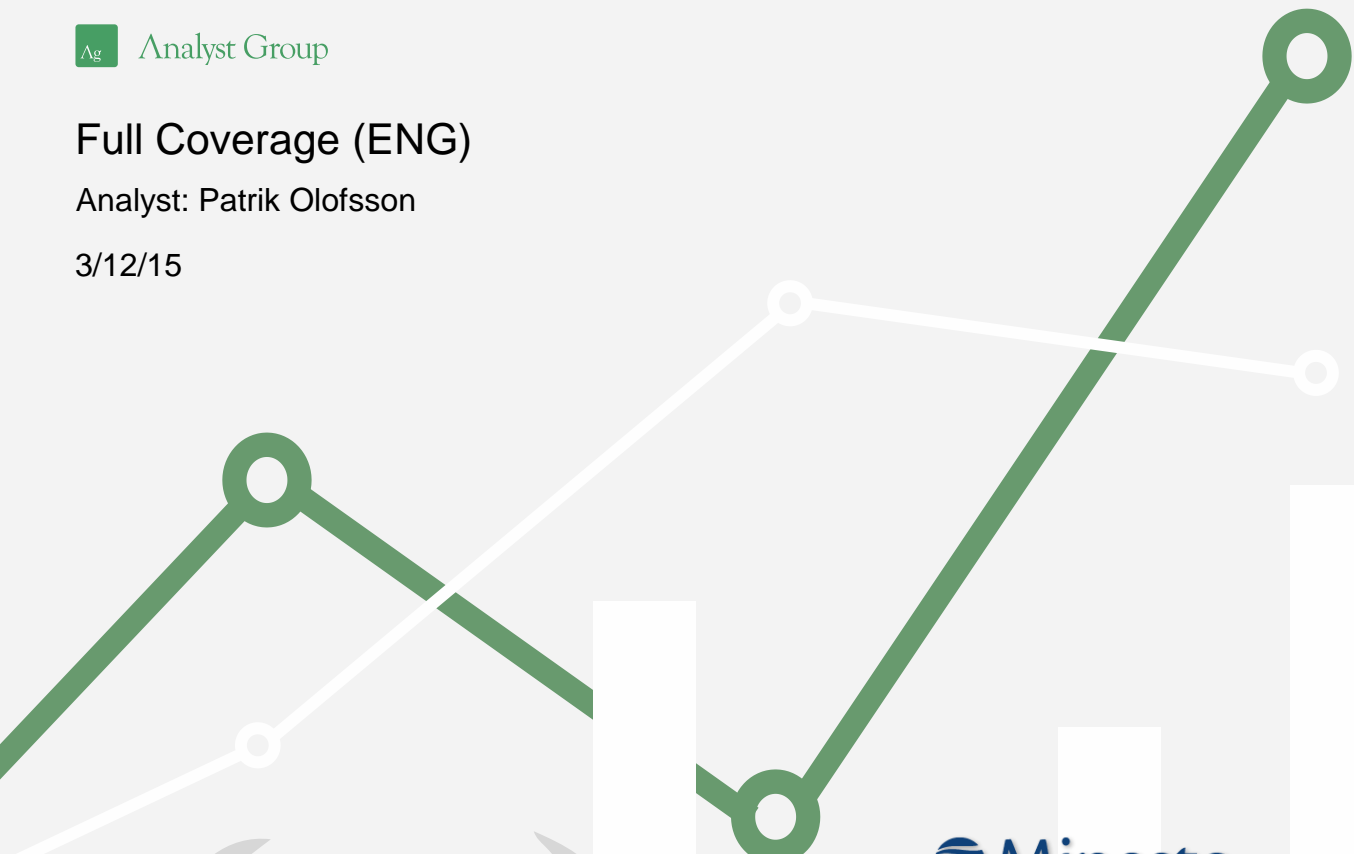


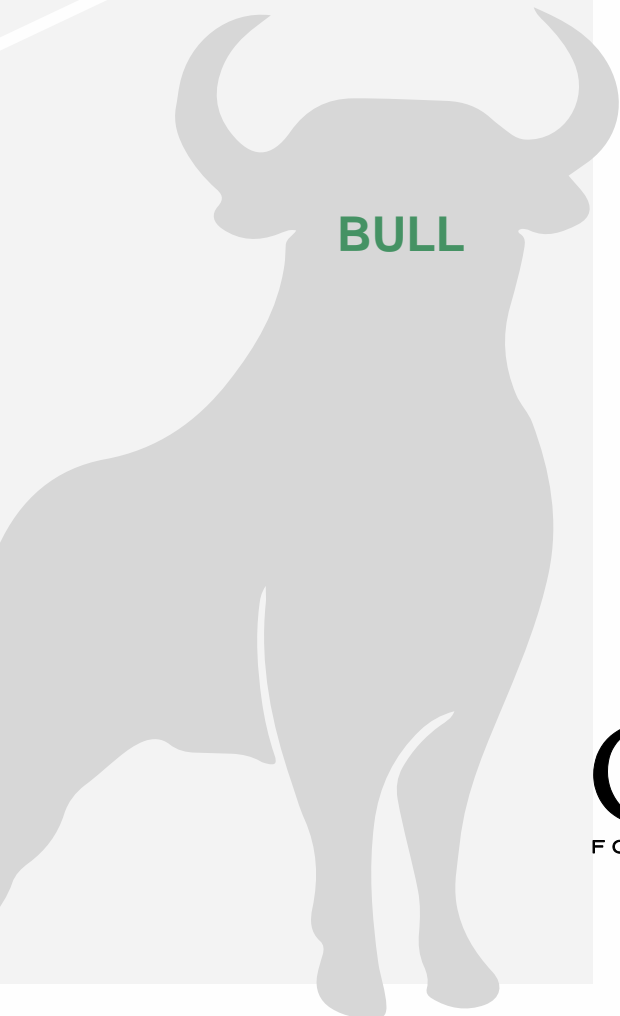
# Full Coverage (ENG)

Analyst: Patrik Olofsson

3/12/15



 **Minesto**  
FULL COVERAGE



**G&W**  
FONDKOMMISSION





- » **In 2010, Time Magazine ranked Deep Green as one of the world's 50 best inventions.** Minesto is now listed on First North, trading to a market capitalization of SEK415.9 million with net cash of approximately SEK95 million and the promise of a further SEK150 million in funding from EU-related sources.
- » **According to the consultant firm GL Garrad Hassan, Minesto have a unique leading position in renewable energy** - its power plant Deep Green enables cost-efficient energy recovery from slow tidal and ocean currents, a market estimated to be worth around €600 billion/year in electricity sales.
- » **Management and board inspires solid trust.** For example, the CEO has been involved from the start and he is also on the board of Marine Strategy Group in Renewable UK. The CTO is recruited from Volvo AB, where she, amongst others, previously was the manager for the Department of Energy Conversion.
- » **The valuation is considered to be attractive.** A simple multiple-analysis (P/S) between Minesto and other high-tech companies is pointing to an upside of 259% as soon as the stock becomes known among investors.
- » **Our assessment is that the risk consist primarily of delayed technology development or that the commercial phase is delayed or fails.** This could lead to a loss of growth and in a few years result in financial problems for Minesto.

ANALYST	
Patrik Olofsson	<a href="mailto:patrik.olofsson@analystgroup.se">patrik.olofsson@analystgroup.se</a>
Address	AG Equity Research AB Skeppargatan 41 114 52 Stockholm
Homepage	<a href="http://www.analystgroup.se">www.analystgroup.se</a>

MINESTO	
Share price	6.75
52 v high / low	11.30/6.85
Shares	61 613 911
Market Cap (MSEK)	415.9
Net Debt (MSEK)	-95.0
EV (MSEK)	320.9
Sector	Energy
List / ticker	First North/MINEST
Next report	2016-03-31

STOCK PERFORMANCE	
1 month	-6.16%
3 months	-6.16%
1 year	-6.16%
YTD	-6.16%

MAJOR SHARE HOLDERS	
BGA Invest AB	32.40 %
Midroc New Technology AB	22.60 %
Verdane Capital VI K/S	2.90 %
Saab Venture Aktiebolag	2.50 %
Chalmers Venture Creation	1.0 %

MANAGEMENT	
CEO	Anders Jansson
Chairman of the Board	Martin Edlund

Stock price 6.75	P/S	P/CF	P/E
2015E	N/A	5.4	-8.7
2016E	24.6	-5.7	-3.1
2017E	1.8	5.1	-4.7
2018E	2.0	160.0	-8.9
2019E	0.9	10.6	10.9

## Value Drivers

Sales of geographic licenses, agreements on test installations, technological progress

Additional sales of tidal parks

Strong market-driven growth

Further contributions, contracts, public debate on climate evolution, climate agreement in Paris during December

Sales and installation of the first tidal park

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### Disclosure:

Patrik Olofsson – Does not hold any shares in Minesto AB.

*The main currency used in this analysis is SEK. 1 SEK = 0.11 Euro on the 3<sup>rd</sup> of December 2015.*

# Investment Thesis

**In 2010, Time Magazine ranked the Deep Green power plant as one of the world's 50 best inventions.** To us this is a sign of Minesto's high technological standard. Minesto was also recently introduced on First North Stockholm. The offer was oversubscribed and Minesto is now planning to expand through installing the first full-scale Deep Green, which according to Minesto will take place during 2016 and 2017.

**The global addressable market for tidal and ocean currents is valued at €600 billion/year in electricity sales.** This is what Minesto assesses, together with external parties such as The Carbon Trust. Furthermore, Deep Green is deemed so unique that Minesto initially can have a monopoly in much of the tidal market and be the most suitable technology for ocean currents.

**Deep Green will produce energy at low costs.** The long-term energy costs for Deep Green is judged by the company to be below €100/MWh latest by 2025. The cost for competitors in tidal energy is today at an average of €200/MWh. Minesto's ultimate goal is to achieve an energy cost below €60/MWh, which would mean a cost below all offshore energy production alternatives. Furthermore, it represents a energy cost that can compete with the cost of onshore wind power. From an investment point of view, it is therefore important to monitor Minesto's future level of energy costs which will determine sales, market growth and profit margins. Notably, in many markets, such as the UK, there are support programs for electricity generated from ocean currents. This allows Minesto's tidal parks to be highly profitable, even before production prices are fully commercially viable.

Furthermore, small boats can be used for installation, service, and maintenance, lowering daily costs considerably compared to competing technologies who require larger vessels. From this aspect, Minesto is expected to provide customers with cost savings up to 90%.

**Minesto has a strong financial position.** The IPO injected approximately SEK95 millions into Minesto. Minesto has also received funding commitments and investments totaling

approximately SEK150 million. This sums up to a total of SEK245 million in available funds, which can be related to the stock market value SEK415.9 million. Minesto thus has a strong financial position, showing that there is a credibility in Minesto's future possibilities.

**By 2017, we expect Minesto to sell their first tidal park.** The sale will be of the first commercial tidal park in Holyhead Deep in Wales where we estimate the sales revenue to SEK212.2 million. We also expect the company to sell geographic licenses during this period, which together with the sale of the tidal park will result in a full-year revenue of SEK229.4 million in 2017.

**The expected revenues of approximately SEK230 millions in 2017 propose an upside in the stock of 259%, based on a relative valuation with similar companies.** Minesto is not an energy producer but a developer of advanced technological solutions, and in our valuation we therefore compare Minesto with companies that we believe are within the same category. By forecasting the 2017 revenues for these companies, a P/S-multiple has been calculated and based on the assumption that Minesto is to be traded at par with our identified peer group, this shows an upside of about 259%.

**Acquisitions and joint venture (JV).** Historically, several acquisitions of marine energy technologies like Minesto has been made by major players such as Siemens, Alstrom and DCNS. In a later stage of development, we believe that the chances are good that a bid offer will be placed on Minesto. We also see potential in a JV, similar to the one between Danish Vestas and Mitsubishi as possible future drivers to an investment in Minesto.

**The risk is assessed to mainly consist of delayed technology development or that the commercial phase is delayed or fails.** This would result in a loss of growth and could lead to financial problems for Minesto. However, with the company's current management and board, we believe the probability for this downside to be low and in the current situation we are positive towards Minesto's future.

# Business Summary

## AG-view

Minesto's Deep Green is a unique solution and product with a great potential, that has been awarded and gained recognition in multiple contexts. Minesto has a great opportunity to grow and become a successful global player with a high level of competitiveness in renewable energy.



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**Minesto is a product and project developer in the area of marine energy** whose business strategy is to sell their marine power plant Deep Green, which generate energy from low velocity tidal and ocean currents. Its design allows energy producers to make use of slower tidal and ocean currents, compared with competing technologies that requires significantly faster currents. This enables producers who use Deep Green to operate in calmer waters, resulting in lower costs and easier service. Minesto have a strong protection of their intellectual property through strong patents that protects them during the current expansion phase and many years to come.

Deep Green harvest energy from tidal and ocean currents into electricity by using the same principle that allows a sailing boat to move at a greater speed than the wind velocity. Deep Green can be compared to a large underwater kite that consists of a wing and turbine, which is attached by a tether to a fixed point on the ocean bed. When water flows over its wing a lifting force is created, pushing the kite forward at a velocity that is up to ten times faster than the present speed of the water current. The kite is guided by a rudder in a figure eight shaped pattern, when the kite moves, water is pressed through the turbine and electricity is produced. The electricity is then transferred by cables to land where the electricity is distributed to the consumer.

**According to the credible GL Garrad Hassan, Deep Green is today the only known technology on the market that cost-efficiently can operate in slow tidal and ocean currents.**<sup>1</sup> Deep Greens design allows high levels of efficiency when water flows through the turbine, which can be accelerated up to ten times, resulting in increased energy without increasing the power plant's size. Its relatively limited size, compared to competing tidal energy technology,

and the use of slow currents, makes Minesto's Deep Green unique. Furthermore, Minesto has the whole world as a potential market, in the sense that there are water currents around the globe where the flows are continuous. These currents are additionally almost fully predictable and unchanging. Deep Green lacks noticeable visual disturbance or impact on the landscape, unlike wind and solar. Moreover Minesto is intensively working to maintain a low environmental impact. In 2010, TIME Magazine ranked Deep Green as one of the world's 50 best inventions which according to us is a high quality mark that rises the credibility for the product.

**The business model** is based on selling marine power plants and technologies to energy producers or other companies building marine power plants. Secondly, Minesto will sell geographical licenses for the manufacturing of Deep Green systems. During the development phase, these geographical licenses might constitute the majority of the revenues, excluding to state and government contributions. Other expected sources of revenues are from services in connection with exploration and development of areas for Deep Green power plants and tidal parks, as well as sales of services and spare parts associated with the maintenance of such facilities.

**The testing's of Deep Green has been successful.** Today Minesto is in a late phase of technological development and have begun installing the first commercial Deep Green tidal park, which is expected to be completed in 2019.

1. The world's largest independent consultant on renewable energy, with extensive experience in a wide range of tidal power units and wind power, both offshore and onshore.

# Market

## AG-view

The market addressed by Deep Green is highly interesting for investors. The renewable sector will grow dramatically in the coming decades, accelerated by contributions for product development and subsidies for electricity sales. Tidal and ocean currents has huge potential. If Minesto manage to finalize their technology a global market will open up for the company.



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Climate change, economic growth, rising electricity prices and demand for a secure access to energy creates a global need for locally produced renewable energy. IEA (World Energy Outlook) estimates that global electricity demand will increase by 2.1 % per year between 2012-2040. The ocean is likely the largest non-exploited source of renewable energy today. Minesto's Deep Green aims to produce energy at a level that par with wind power. This is probably necessary for commercial success after the initial 15 years, when Minesto will need to fund their business without subsidies. Marine energy is expected in many regions to be the most cost effective method of producing renewable electricity.

**The global addressable market for tidal and ocean currents are measured for Minesto to €600 billion/year in electricity sales.** Minesto is at this point the only market player with a design that permits the use of slow currents, and Minesto is initially expected to be able to claim 50% of the global tidal market and be the most suitable technology for ocean currents. Note that the characteristics of Deep Green also opens a completely new geographical market, not accessible for traditional tidal technology.

Governments and other public funding sources has shown support for Minesto's field, and Minesto has historically received contributions, grants promises and investments of around SEK280 million, which shows that several external parties look to promote growth in Minesto's market.

Today Minesto operates in the United Kingdom which is considered as the company's primary market. An expansion from there would primarily be to Chile, Japan, Korea, Taiwan and North America. Secondary markets to expand to are markets such as Norway, South Africa, Australia and Indonesia.

## There are several challenges for Minesto seen purely from a market perspective

In recent years, several markets in Europe have experienced declining electricity prices and the economic growth since 2008 has been low. This, combined with large investments in the energy market and predominately in renewable energy, has resulted in a electricity surplus in many of the European markets. Many challenges in a more general context also arise for companies operating in renewable energy. Among the established energy producers, a reluctance to phase out older power plants can be observed, partly as a result of the sharp decline in prices for emission trading rights (ETR) within the EU. However, forecasts by various analysts indicate price increase for carbon emission in coming years and in combination with the grid parity for renewable energy is reached, which is estimated to happen shortly, the transition to renewable energy sources like Minesto's will likely accelerate in the coming years.<sup>2</sup>

## Large institutional investors and operators move more and more away from activities that affect the environment negatively

Examples of this are the world's largest sovereign wealth fund, the Norwegian oil fund, who made the decision to divest its holdings in utility businesses with more than 30 % coal-based electricity production. Another clear example is the French asset manager AXA that abandon investments in all activities that use coal. AXA's managed capital in 2014 amounted to around SEK1300 billion. This shows that big players is moving their capital to sustainable markets which in time could have spill-over effects on Minesto. As mentioned earlier, we want to emphasize that Minesto already has received financial support and contributions from external parties.

2. Minesto Prospect, 2015.

# Management & Board

## AG-view

Minesto has a very experienced management and board with different backgrounds and experiences. We believe that in Minesto's sector it is important to be able to combine different kinds of expertise, which in the current situation is done very well. AG find that this combination will lead to a successful expansion and that Minesto has great potential to quickly become profitable.



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### Tech. dr. Martin Edlund – Chairman of the Board

Over the past 15 years, Martin has been working with strategic research partnerships in world leading technology companies such as LM Ericsson, ABB, GE and ITT Industries, as a management consultant. In Minesto, Martin has a focus on business development and partnerships. Martin holds a PhD in Innovation Management from the School of Industrial Organization and Economics at Chalmers University of Technology and a MSc in Engineering Physics.

*Holds 0 shares of Minesto stock*

### Bengt Adolfsson – Member of the Board

Bengt is the CEO and owner of investment company BGA Invest, Minesto's largest and primary shareholder. Previous engagements include employment as CEO of Europe's largest bed manufacturer 'Hilding Anders'. During Bengt's time as CEO at Hilding Anders he increased the turnover from €6 million to nearly €400 million. Bengt Adolfsson is married to Git Sturesjö Adolfsson.

*Holds 17 560 540 shares of Minesto stock via BGA Invest*

### Git Sturesjö Adolfsson – Member of the Board

Git is the Vice President of BGA Invest and also active as CEO of Facino AB and board member in all of BGA's portfolio companies. She has 20 years experience in business management, including her time as Marketing Manager at Arla Foods and L'Oreal as well as Vice President of Sales and Marketing at Malmö Aviation. Git Sturesjö Adolfsson is married to Bengt Adolfsson.

*Holds 17 560 540 shares of Minesto stock through BGA Invest*

### Göran Linder - Member of the Board

Göran is the current CEO at venture capital company Midroc New Technology AB and the investment company Midroc Invest AB. Both are holdings of Sheikh Mohammed Al-Amoudis investment portfolio. He has more than 25 years experience in sales, business development and management with extensive knowledge related to technical areas. Göran has previously been involved in about 30 start-up companies, some of which have been publicly introduced. Göran holds a MSc at the Royal Institute of Technology in Stockholm.

*Holds 0 shares of Minesto stock*

### Stefan Karlsson – Member of the Board

Stefan has extensive experience from the industry of renewable energy. Between 2012 and 2015 he was chairman of the trade organization Swedish Wind Energy. From 2002-2015 Stefan was global Head of Business Development for the segment of renewable energy (wind, solar, and ocean energy) at SKF. Stefan also has strong international experience, with a long history as Managing Director for several different SKF sales units. In his career, Stefan has lived in Colombia, Brazil, Panama, Norway and Germany. Between 1986 and 1988, Stefan was Trade Commissioner for Sweden based in Colombia. Recently, Stefan started his independent consultancy firm, RenSo AB, with focus on business development and management support to companies in the sector of renewable energy. Stefan has an MSc in Management & Engineering from Linköping Institute of Technology.

*Holds 0 shares of Minesto stock*

## Management



### **Anders Jansson – CEO**

Anders holds a MSc in Venture Creation at Chalmers University of Technology in Gothenburg as well as a BSc in International Business from Copenhagen Business School. He is also on the board of the Marine Energy Strategy Group in Renewable UK. In 2013 the Swedish magazine Veckans Affärer appointed Anders Jansson as the 31st most influential persons in Sweden under the age of 40. Anders founded Minesto in 2007.

*Holds 314 080 shares of Minesto stock*



### **Fredrik Ahlström – CFO**

Prior to Minesto Fredrik have a ten year experience in the mining industry. Fredrik was previously the CFO at Sibelco Nordic, a company within mining, production and logistics of industry related metals. Fredrik also holds a BSc in Business Administration and Economics at the University of Gothenburg.

*Holds 0 shares of Minesto stock*



### **Charlotta Ekman – COO**

Charlotta holds a MSc in Finance and Accounting from Gothenburg University and an MSc in Venture Creation from Chalmers University of Technology. Previously she also has founded the company Ecoera, a bioenergy company within the renewable energy sector. Charlotta has been in charge of Minesto's R&D since

*Holds 4 880 shares of Minesto stock*



### **Fil. dr. Heije Westberg – CTO**

Heije has 13 years of experience as a researcher at Chalmers Technical University. She also has valuable experience from Volvo AB as the manager of the Department of Energy Conversion at Volvo Technology AB. After 12 years at Volvo, she ended her career as a senior technical advisor at the Advanced Technology & Research. Heije has a PhD in Inorganic Chemistry from the University of Gothenburg and Chalmers University of Technology.

*Holds 35 580 shares of Minesto stock*



# Financial Forecasts

## AG-view

Minesto have the opportunity to be unique in a segment of the energy market. The products are developed from a technological platform based on strong patents. The establishment for the next 15 years will be assist by grants and subsidies. Our assessment is that this creates the conditions for an exceptionally strong financial performance and the company should be able to reach and maintain strong operating profitability.



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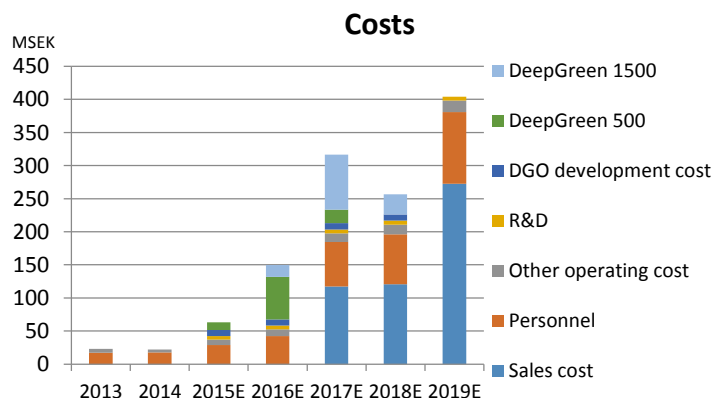
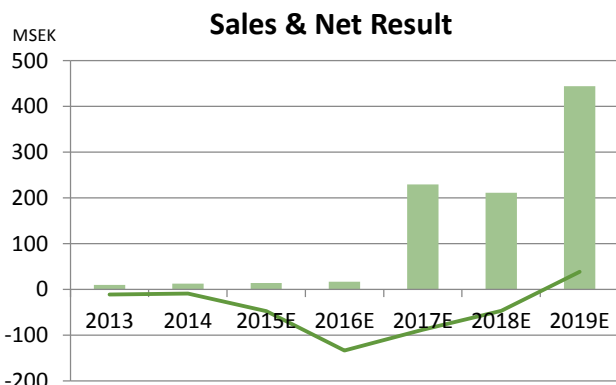
**First revenues are expected in 2016 from the sale of geographical licenses.** Minesto is already negotiating with external parties, including a local operator in Chile, Green Elements, which has shown interest in acquiring licenses. Green Elements is a local company whose aim is to develop projects for electricity production. Our view is that this is an important step for Minesto and for their future expansion outside of the United Kingdom and Wales. Measurements show that converting only 10% of the energy in tidal currents along the coast of Chile would exceed existing installed grid capacity. In other words, the market in Chile is very attractive. Minesto expects to close the deal with green Elements during the period 2015-2016.

**By 2017, we expect Minesto to sell the first tidal park in Holyhead Deep in Wales.** We expect Minesto to receive an order of twenty Deep Green plants for the assumable price of SEK12.2 million/unit. Based on Minestos sales model, 60% of the revenue will be obtained during the year 2017, meanwhile the remaining revenues will be distributed with 30% respectively 10% during the subsequent years. With the sale of the tidal park we also expect Minesto to receive payment for the site itself. The price of this site Minesto has communicated an approximately value of SEK65.8 million. Along with the assumption of additional license sales, this results in a full-year revenue of SEK229.4 million for 2017.

**In 2018, we expect Minesto to receive a new order for a tidal park.** We expect that the company receives an order of another twenty Deep Green power plants for the assumable price of SEK9.5 million/unit. The reason for why Minesto now can charge a lower price, but still maintain margins, is a result of increased efficiency and lower costs. Like before 60% of these revenues is obtained in 2018. Together with the previous 30% of sales in 2017 and the assumptions of license sales, this results in a full-year revenue of SEK211.1 million.

**In 2019 we expect Minesto to reach breakeven.** During this period Minesto receives an order of sixty Deep Green power plants for the assumable price of SEK9.5 million/unit. 60% of these revenues will be obtained during 2019, and the final 10% of revenues from sales in 2017 and 30 % from sales in 2018 will also be added. Together with licenses this summarize to expected full-year revenues of around SEK444.2 million. We also expect the full-year net-result to be about SEK38.1 million.

**Increased costs during the expansion.** During Minestos expansion we are expecting increased costs. How these costs develop will be important from an investment point of view to monitor so that they do not diminish the profitability. During the years 2017-2019, we anticipate a gross margin between 20-35%.



# Valuation

**By 2017, we expect Minesto to sell its first tidal park which together with sale of licenses results in a full-year sale of SEK229.4 million.**

To get an idea of how this could affect the valuation, we have chosen to put Minesto's forecasted sales in relation to the sales forecast for three other companies. These companies' sales are then matched towards each company's market cap, thereby obtaining an average P/S multiple. This multiple, and various sizes of it, is then applied to Minesto's forecasted sales, thus showing different potential market values for Minesto. Cash ratios have not been used as we assume that the current held cash level has to be spent to reach the full-year sales of SEK229.4 million in 2017. In the valuation, we therefore choose to use the current market cap of Minesto, which amounts to SEK415.9 million, without regards to cash holdings.

In a valuation it's important to clarify that Minesto is not an energy producer but a developer of advanced technology solutions. Comparing Minesto with other companies whose business model is to produce renewable energy is thus irrelevant. More accurate is to compare Minesto with other companies that like Minesto are unique, holds a great technology and strong patents, are leaders in their industry and operates in a large market. These criteria's must be taken into account when choosing the comparative companies. We believe that the companies Tobii, Sintercast and Arcam partly meet these criteria's and therefore to some extent can be compared with Minesto.

Based on our own forecasts, Tobii, Sintercast and Arcam today trades at the following P/S multiples based on forecasted sales for 2017:

Tobii	Sintercast	Arcam	Average
6.6	8.9	4.1	6.5

If we assume that Minesto reaches the expected sales of SEK229.4 million in 2017 and that we initially assume that Minesto is to be traded in line with the average, it means that Minesto should be valued to SEK1491 millions today. Based on the current market value of SEK415.9 million this shows an upside of 259%.

What we think separates Minesto most from comparative companies is that if Minesto actually succeed, Minesto will be completely unique while at the same time a whole new market will open, which size is huge least said. Therefore is it not unthinkable that Minesto is supposed to be traded at a higher P/S multiple than the average. If we instead assume that Minesto is to be traded at a P/S multiple of 9 based on the forecasted sales in 2017, will this give an upside of 396%.

The risk of investing in Minesto is consisting mainly of them not succeeding during their commercial phase. This would result in our sales forecasts of SEK229.4 million by 2017 to not be reach, which is something we in a base scenario have expected the company to manage. Due to the fact that Minesto is still in an early stage of its commercial phase and not yet have any sales, the risk might be considered to be high enough to justify a lower P/S multiple than the comparative average. Moreover, these comparable companies already have existing sales, which is still something Minesto has to prove. If we instead assume that Minesto is to be traded at a significantly lower P/S multiple of 2, this would with the current market value result in a downside of 10%.

Thus, the valuation can be summarized into three different scenarios depending on how Minesto might be traded relative to the comparable average. Illustrated as follows:

	P/S 9	P/S 6.5	P/S 2
<b>Market Value (MSEK)</b>	2 065	1 491	459
<b>Valuation</b>	+396%	+259%	+10%

**Valuing a company like Minesto is difficult and can be done in many ways.** We believe that this valuation is one approach but take note that this valuation partly is based on that Minesto is comparable with the selected companies. If Minesto succeeds, the market potential is almost endless, and with their strong patent portfolio as well as several years of head start, Minesto will be the sole market operator. Such a position is to say at least unique and therefore it is difficult to make a precise calculation. However, we are confident that a breakthrough for Minesto will have a major positive impact on the valuation.

# Bull or Bear

## Bull case

In a bull scenario, besides from our financial forecasts in a base scenario, Minesto also takes the step into other key markets. Closest to hand could be the Chilean market where Minesto already holds negotiations to sell geographic licenses which can pave way for future expansion. Minesto is also examining together with other parties in Japan, USA and Taiwan the potential of oceans currents in these geographic areas. However, a potential market expansion is something we expect occur only after the project in Holyhead Deep in Wales has been completed.

In this scenario, we expect a higher gross margin. By 2017 we expect the gross margin to be about 30% and further at 40% during 2018 and 2019. The effect on the net-result is illustrated in the below graph.

After 2019, we also expect Minesto to increase sales volumes of Deep Green. This will then contribute to a more predictable profitability and stable cash flows. This could also facilitate debt financing. Through access to such financing, it could help to accelerate sales further in the continued expansion.

Furthermore, we believe that there is a probability that Minesto in the future will be acquired by an external part. By looking back in the history of the industry, major players such as Siemens, Alstrom and DCNS has acquired companies operating within marine energy technology. However, these companies were in a later stage of development compared to Minesto and therefore we expect that an acquisition of Minesto will happen after a further development in technology and a more established commercial phase.

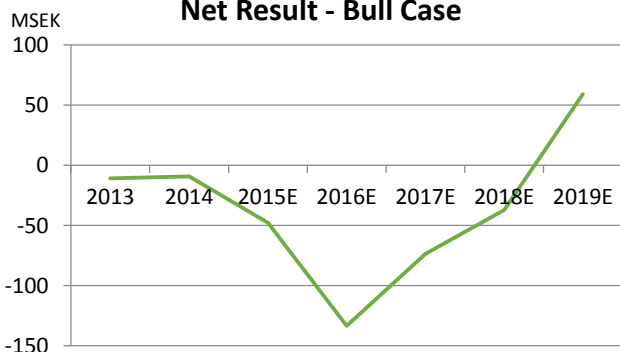
## Bear case

In a bear scenario, we see that Minesto does not succeed in developing the technology sufficiently, or that it takes a considerably longer time, to allow commercialization of Deep Green which would result in a delayed commercial phase. If this occurs, we expect that a large portion of the funds has already been consumed by investments in commercial projects, and with low revenues this could lead to a strained liquidity for the company. This scenario will lead to a slowdown in the expansion phase.

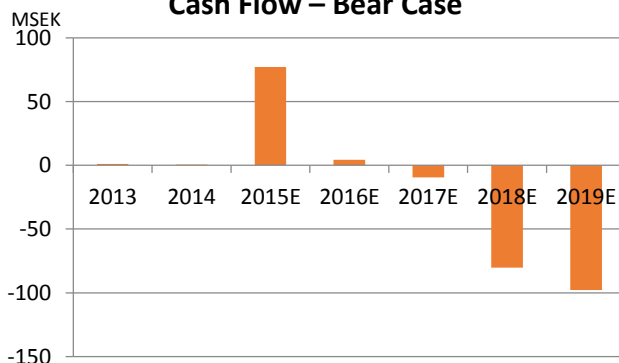
If future earnings are absent long enough and liquidity thus becomes strained, Minesto may be forced to turn to the capital market to finance the company. Burn rate currently amounts to SEK4.1 million/month which with available funding of around SEK245 million is covered for about 5 years. However, coming years we expect an increasingly higher burn rate, which shortens the time available for funding's without any future sales. Below is an illustration of a future cash flow without additional sales where we simply have excluded sales completely, but development-related costs have been kept. The lack of liquidity, for a longer period of time, could result in a company reorganization or in the worst case liquidation.

The risk for this scenario we believe to be very low, and even in a bear scenario we see that the downside may be limited. This is because Minesto has a proven performance for Deep Green and Minesto holds strong patents for its solution. It's therefore not unthinkable that in the event of liquidity problems, Minesto may get a bid offer from a third party which could mitigate the downside even in a bear case scenario.

Net Result - Bull Case



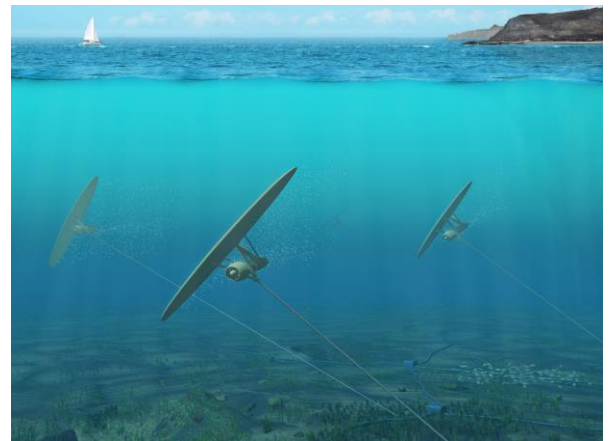
Cash Flow – Bear Case








# Summary

The market for renewable energy is, to say the least, of significant size and will likely continue to grow in a foreseeable future. Solutions like Minesto faces higher and higher demand and in 2010, TIME Magazine ranked Deep Green as one of the world's 50 best inventions. This is a quality stamp of Minesto and since then, development has only advanced. We therefore believe that Minesto's solution has more than a good chance to manage a breakthrough in the market of renewable energy solutions.

Minesto has now been listed on the Swedish stock exchange First North Stockholm and in connection with this issued new stocks and raised new capital. With strong finances in the back, the company will now take a major step in its expansion plans and move towards the commercial phase where a first full-scale Deep Green power plant will be installed during the period 2016-2017. The risks are judged primarily to consist of Minesto not managing the technical development and the commercial phase, resulting in an absence of future profitability. However, we have strong confidence in the management and board and we consider it more likely that Minesto does succeed. The future is very interesting and we will continue to follow Minesto in their development.



# Rating

 4	Value Drivers	The value drivers are very attractive in terms of future sales and market growth. In relation to this, we believe that the valuation is low and if the drivers come through, Minesto will probably be a major global player in the future.
 4	Quality of Earnings	Historically there has been no sales and thus today there is no profitability in the company. However, there is potential for growth, which raises overall rating for Minesto.
 2	Risk Profile	The risk is assessed to primarily consist of Minesto not managing the technical development and the commercial phase which in such cases can lead to illiquidity problems. However, this risk is considered to be low.
 4	Quality of Management	Management are assessed as competent and experienced with many years in the industry. The company has previously performed well and with the involvement of several key people, we have good confidence in future growth.
 3	Overall view	Minesto's current expansion offers a great opportunity for investors. The risk lies in that Minesto does not succeed in its expansion. However, we have confidence that the current management will succeed and in general we have a positive view of Minesto's future.

## CEO-Interview

### **How hard would it be for any of your competitors with other types of tidal power plants to copy your technology and solution?**

Minesto has a well-established strategy of how we ensure our intangible assets such as patents, black box and so on. Today, we have built a patent portfolio that provides Minesto with a broad and global security. This means that we are legally protected. When it comes to copying, knowledge and experience will be needed, and here we are 10 years ahead of any competitors. That means they need to invest much time and capital for catching up while taking the risk of patent infringement. Our view is that we can not see any other parties use our method without patent infringement. This view has partly been proved earlier when two major players tried and we had a third party evaluation of our IP which proved positive.

### **How do you see the possibility to in the future be acquired by a third party?**

We see it as very likely that one of the global players in the energy sector lays a bid for the company in the future. Companies such as Alstom, Siemens and DCNS are some examples of big companies that has bought companies developing marine energy technology. The acquired companies have been in a later stage of development.

### **Today you have an average burn rate of about SEK4.1 million/month. Do you expect that this level will increase, decrease or remain the same in the future?**

It will increase based on more employees and consultants and that we will build power plants. However, we obtain 43% of costs from WEFO for the most of what we do that balances the increased development costs.

### **What are your predictions for depreciable assets in the income years 2016-2018?**

Minesto AB will start the amortization of the capitalized intangible assets in the year that the first income attributable to Deep Green takes place. This is expected to take place in 2016, when the first licensing deal is expected.

### **Regarding projected development costs for the project Deep Green 1500 between the years 2015 to 2018, will these costs continue in 2019 and forward?**

It will be fully developed in 2018, so from 2019 these costs will amount to zero.

### **Do Minesto already hold dialogues with established parties to buy your tidal park in Holyhead Deep which should be completed in the year 2017? That is, are there already someone waiting in line that has shown interest in buying?**

We have four parties who have shown interest in buying the 10MW's park in Wales and two financiers. We have not really begun to sell, but these parties have come to us.

### **What happens after 2019/2020 for Minesto? What is the goal? Are there other markets you especially have looked at?**

We are already processing other markets but also know that the short-term focus is on realizing the 10MW park that is projected in Wales. When it is realized, Minesto will have created a position enabling to accelerate sales and also the company's development significantly.

### **For an investor, can you tell the three top reasons why one should invest in Minesto?**

EU, US and several other countries have set high targets for the proportion of their future energy that will come from the sea. Today, there are actually no electricity from the ocean, which means that marine energy will be one of the fastest growing industries in the energy sector.

Minesto is sitting on more or less a monopoly with 7/8 parts of the global potential in tide and ocean currents with a solid portfolio of patents for the currently only known product that can extract energy cost-efficiently from slow water flows.

Minesto has become a well known and trusted player, which has ensured over SEK160 millions in investment from WEFO and KIC. This gives an incredibly good leverage for investors who are investing in Minesto now.

# SWOT-Analysis

## Strengths

- The only known technology on the market that have a proven efficiency in slow tidal and ocean currents.
- Can offer a more cost-efficient solution compared to competitors with similar solutions.
- Today, the demand for fossil fuels are decreasing which benefits Minesto.
- The Company's product uses 1/10 to 1/20 part of the material as competitors in the industry uses, leading to significantly lower capital costs.

## Weakness

- The technological maturity in tidal and ocean currents is low relative to other energy sources.
- Minesto are not yet in a commercial phase and revenues are thus currently non existing. This means that the company is dependent on external financing.
- Since Minesto develop a new way of producing electricity, it becomes difficult to rely on past data in electricity generation.

## Opportunity

- Financial support from the government and investors increase the company leverage.
- Deep Green is deemed so unique that Minesto initially can have a monopoly in much of the tidal market and be the most suitable technology for ocean currents.
- Increased demand from the market of renewable energy sources where the supply of electricity is reliable and stable.
- Large institutional investors are increasingly looking to investments in renewable energy.

## Threats

- Today there are various types of companies in the market offering some extent similar solutions like Minestos. These does not have all the technological advantages that Minesto will offer, but yet have to be monitored.
- Minesto also compete with other renewable energy sources such as wind and solar which are more established in the market.
- Apart from the legal aspect, the development of tidal parks depend on a number of approvals by external parties.
- Market barriers to enter a new market are high.

# Triggers

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Confirmation of the robustness of the developed systems and the equipment and methods to ensure delivery. This will allow a first full-scale installation in 2017. Meanwhile, the company has continued strong financing from state and government grants and also investments from external parties.



In 2016, we expect Minesto to receive revenues from the sale of geographic licenses which will increase the financial strength of the company during the process toward commercialization. The licenses also enables Minesto to enter into markets that traditionally have high market barriers.



During 2017, the first full-scale Deep Green will be installed in Holyhead Deep in Wales, meaning that Minesto will go from development to productive operations. During this time, Minesto also obtains an order for a complete tidal park to the year 2019/2020 and revenues for 2017 are expected to be approximately SEK212.2 million. Along with expected licenses this amounts to a full-year sales of SEK229.4 million.



During 2018, an additional two Deep Green power plants will be installed at Holyhead Deep in Wales. These power plants will together supply energy to the grid. The total plant capacity then amounts to 1.5 MW.

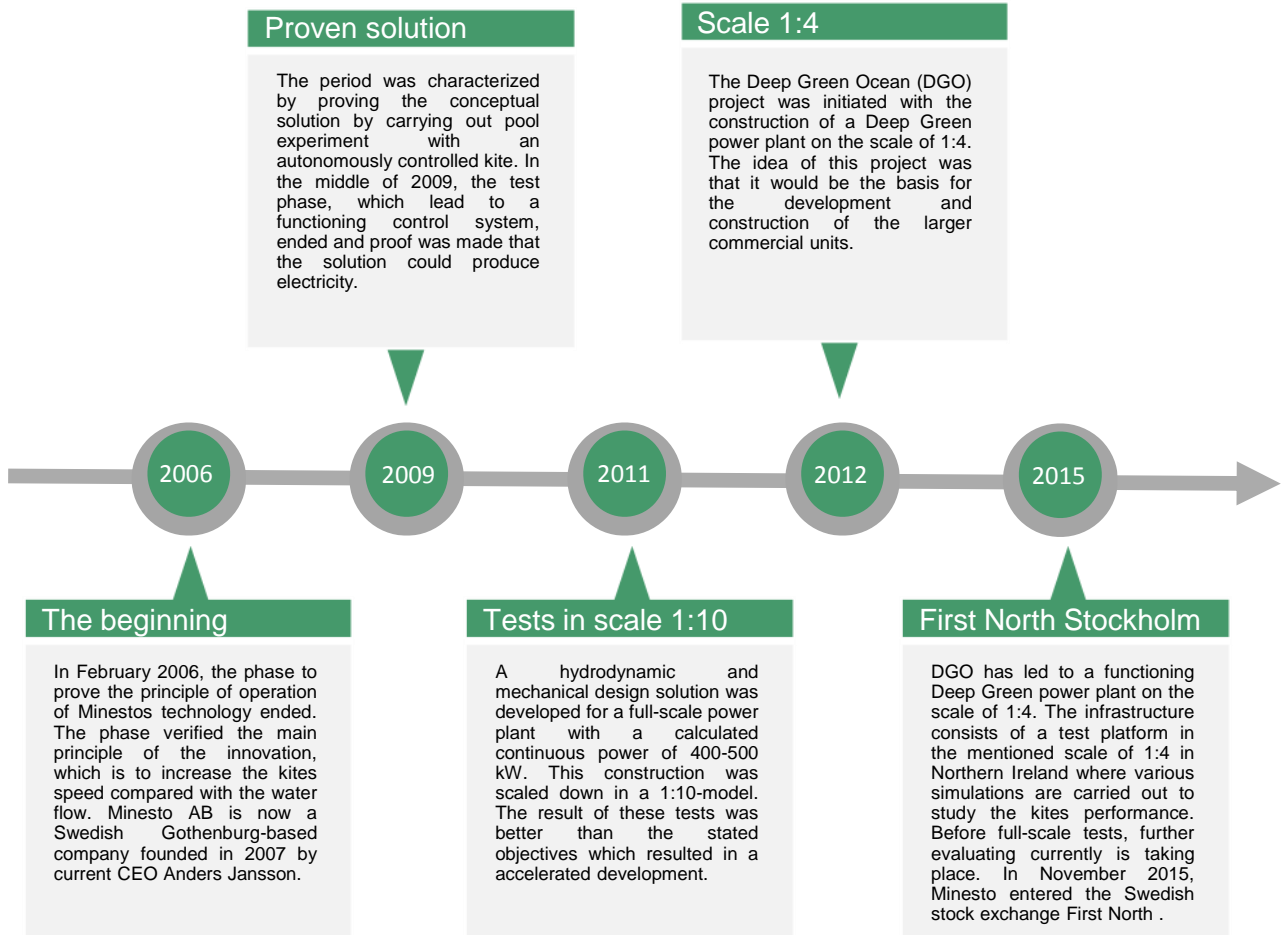


In 2019/2020, Minesto have built up an entire tidal park with 20 Deep Green power plants with a total capacity of 10 MW, which can be handed over to the customer. This is also when the company makes break-even and starts to show positive results on the bottom line, with an annual sales of about SEK444.2 million in 2019.



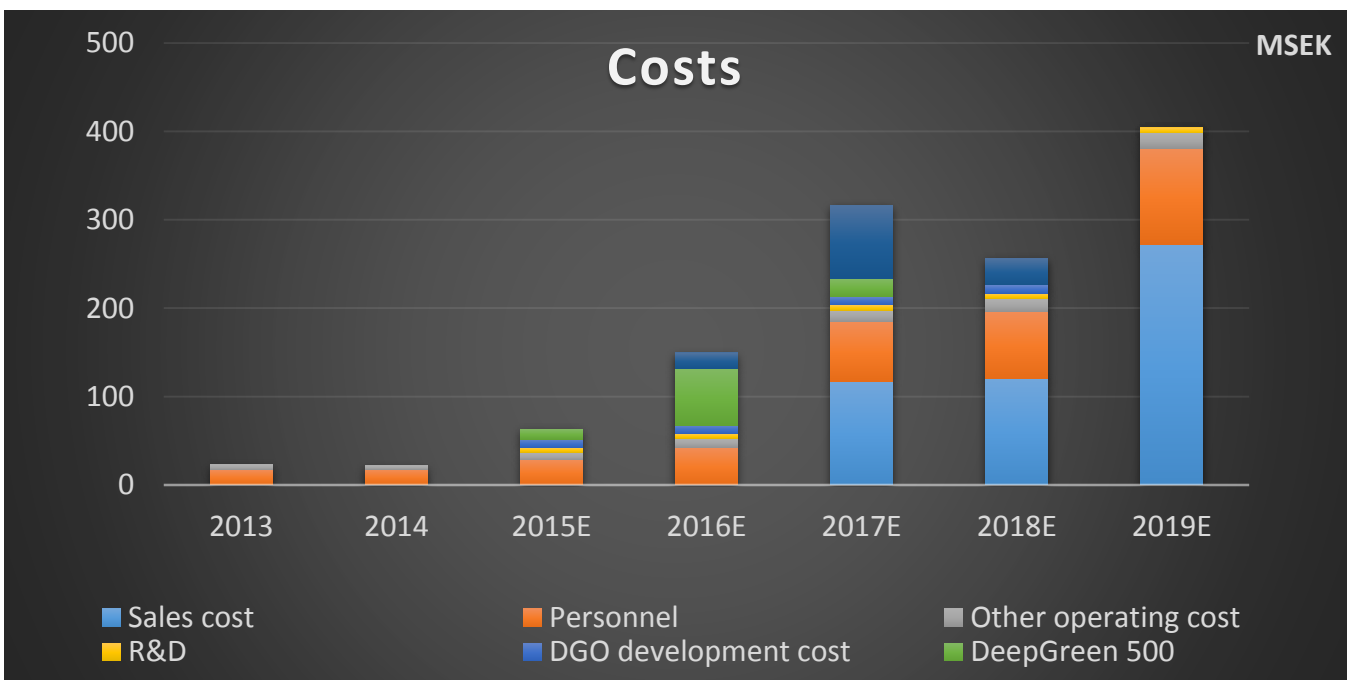
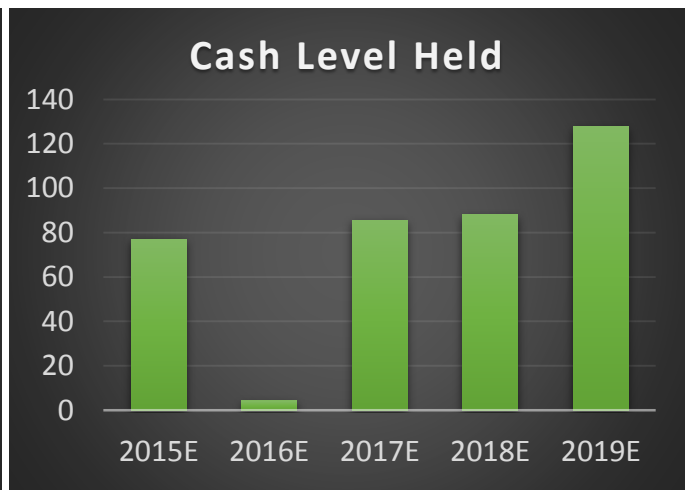
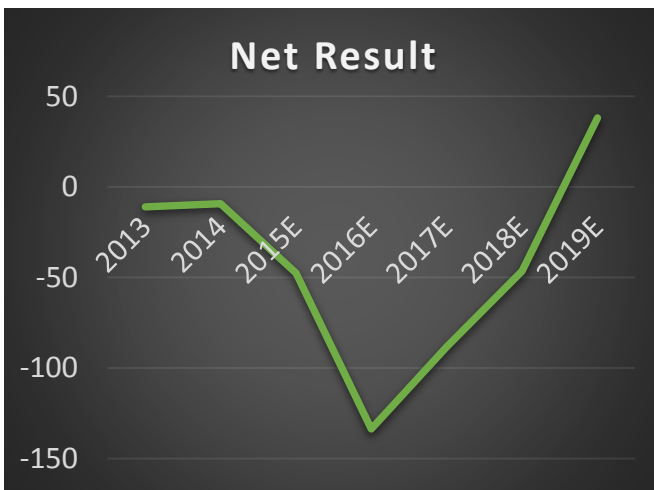
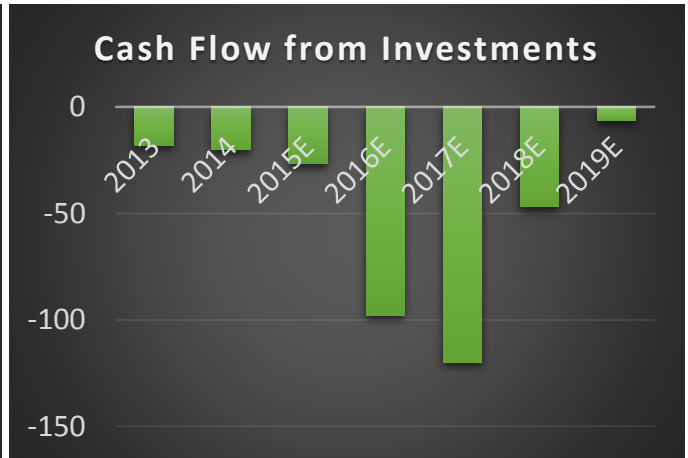
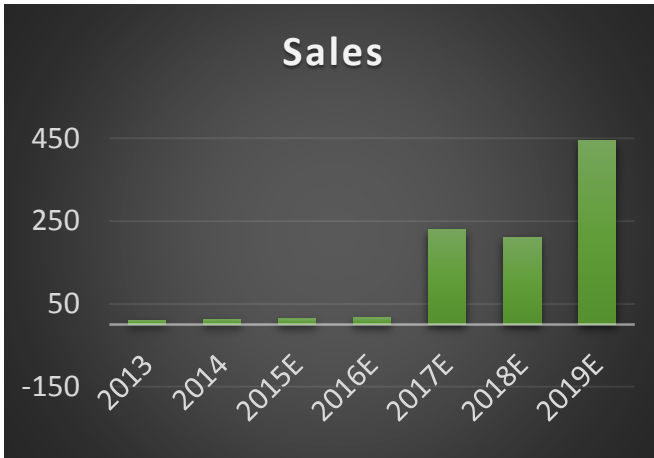
The company has strong market potential and there are several potential countries to expand to after the UK. We therefore, in the longer term, consider it to be likely that Minesto enters into new markets.

# Timeline





# Financial Charts



1 SEK = 0.11 Euro on the 3<sup>rd</sup> of December 2015.

# Key figures

## Company performance

MSEK	2013	2014	2015E	2016E	2017E	2018E	2019E
<b>Growth, top-line</b>	N/A	25,3%	12,5%	20,9%	1256,0%	-8,0%	110,4%
<b>Gross margin</b>	N/A	N/A	N/A	N/A	20,0%	35,0%	35,0%
<b>EBITDA margin</b>	-132,9%	-78,1%	-351,3%	-783,8%	-38,0%	-21,6%	9,0%
<b>EBIT margin</b>	-138,3%	-81,3%	-354,9%	-789,7%	-38,5%	-22,1%	8,6%
<b>Net margin</b>	-110,3%	-73,9%	-340,6%	-789,7%	-38,5%	-22,1%	8,6%
<b>Dividend</b>	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%

## Income Statement

MSEK	2013	2014	2015E	2016E	2017E	2018E	2019E
<b>Turn over</b>	9,9	12,4	14,0	16,9	229,4	211,1	444,2
<b>Operating expenses</b>	-23,1	-22,2	-63,2	-149,5	-316,7	-256,7	-404,1
<b>EBITDA</b>	-13,2	-9,7	-49,2	-132,6	-87,3	-45,6	40,1
<b>EBITDA margin</b>	-132,9%	-78,1%	-351,3%	-783,8%	-38,0%	-21,6%	9,0%
<b>Depreciation</b>	-0,5	-0,4	-0,5	-1,0	-1,0	-1,0	-2,0
<b>EBIT</b>	-13,7	-10,1	-49,7	-133,6	-88,3	-46,6	38,1
<b>EBIT margin</b>	-138,3%	-81,3%	-354,9%	-789,7%	-38,5%	-22,1%	8,6%
<b>Financial expenses, net</b>	-0,2	-1,7	-2,5	0,0	0,0	0,0	0,0
<b>EBT</b>	-13,9	-11,8	-52,2	-133,6	-88,3	-46,6	38,1
<b>EBT margin</b>	-140,2%	-94,7%	-372,6%	-789,7%	-38,5%	-22,1%	8,6%
<b>Net result</b>	-10,9	-9,2	-47,7	-133,6	-88,3	-46,6	38,1
<b>Net margin</b>	-110,3%	-73,9%	-340,6%	-789,7%	-38,5%	-22,1%	8,6%
<b>Earnings growth</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A

## Cash Flow

MSEK	2013	2014	2015E	2016E	2017E	2018E	2019E
<b>Operating CF excl. change, working capital</b>	-13,4	-11,4	-25,4	-35,6	31,7	0,4	45,9
<b>CF investments</b>	-18,0	-20,1	-26,8	-98,0	-120,0	-46,9	-6,5
<b>Free cash flow</b>	-31,4	-31,4	-52,2	-133,6	-88,3	-46,5	39,4
<b>CF financing</b>	8,0	24,2	128,7	60,9	169,6	49,1	0,0
<b>Cash flow</b>	-27,3	-0,6	76,5	-72,8	81,3	2,6	39,4
<b>Cash held at period end</b>	1,1	0,6	77,1	4,3	85,6	88,2	127,6

1 SEK = 0.11 Euro on the 3<sup>rd</sup> of December 2015.

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