



ARCTIC BIOSCIENCE

Holding zone

Although we believe the company has appealing long-term prospects, we see no potential share-price catalysts for the next 12 months. Following a change of analyst and on our lowered estimates for HRO350 (pharmaceutical business), we have downgraded the stock to HOLD (BUY) and cut our target price to NOK17 (60).

Phase IIb study on HRO350 set for mid-2022 start. The study (519 patients) aims to investigate the efficacy, safety and dose of HR=350 versus placebo. According to the company, it is largely on track with the first patient expected in mid-2022. It assumes a 6-month inclusion period followed by a 12-month data readout. Interim (6-month) data is expected in mid-2023. The company aims to conduct a Phase III clinical trial with a commercial partner based on the successful completion of the Phase IIb study.

Long-term prospects in paediatrics and diabetes. Arctic Bioscience recently announced a collaboration with Smerud Medical Research (CRO) concerning a new drug candidate for brain development in extremely premature babies. Little information has been disclosed, but the cost of the clinical programme is to be covered by the CRO and the formulation development and clinical material by Arctic Bioscience. Separately, the company has been granted a patent in the US in diabetes type 2, expanding the potential for more pharmaceutical products in the future.

Nutra sales. Although the pharmaceutical opportunities represent the most interesting part of the investment case and most of our valuation, 2021 Nutra sales of cNOK22m (+4.5% YOY) were in line with the trading update but below our forecast of cNOK25m, largely due to a disappointing Q4. Despite this, we estimate considerable growth in this segment and 2022e sales of cNOK40m.

Investment decision on construction of manufacturing facility postponed, to give the company more time to better assess the construction costs. However, it says it should not affect the development of planned pharmaceutical products.

Lowered estimates on pharmaceutical business. Following a change of analyst, estimates on likelihood of approval and peak market share have been lowered for HRO350.

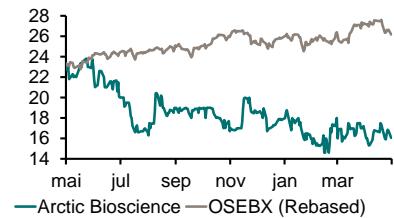
Downgraded to HOLD and target price cut to NOK17. While there is still 6% upside potential from the current share price to our target price, we see no potential share-price catalysts short-term.

| Year-end Dec | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Revenue (NOKm) | 25 | 30 | 20 | 22 | 40 | 50 | 83 |
| EBITDA adj (NOKm) | -1 | -2 | -20 | -29 | -50 | -42 | -33 |
| EBIT adj (NOKm) | -1 | -3 | -22 | -32 | -56 | -51 | -42 |
| PTP (NOKm) | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| EPS rep (NOK) | -0.12 | -0.27 | -1.55 | -1.66 | -2.58 | -2.39 | -2.04 |
| DPS (NOK) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue growth (%) | 35.3 | 20.9 | -31.8 | 4.9 | 86.0 | 25.0 | 65.0 |
| EV/Sales adj (x) | | | | 11.19 | 8.45 | 6.16 | 4.40 |
| Dividend yield (%) | nm | nm | nm | 0.0 | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | nm | nm | nm | -8.6 | -21.3 | -14.9 | -12.4 |

Source: Company (historical figures), DNB Markets (estimates)

HOLD
TP: NOK17.0

ABS versus OSEBX (12m)



Source: Factset

SUMMARY

| | |
|-------------------------------|-------------|
| Recommendation (prev.) | HOLD (BUY) |
| Share price (NOK) | 16.0 |
| Target price (previous) (NOK) | 17.0 (60.0) |
| Upside/downside potential (%) | 6 |
| Tickers | ABS NO |

CAPITAL STRUCTURE

| | |
|------------------------------|------|
| No. of shares (m) | 27.0 |
| No. of shares fully dil. (m) | 27.0 |
| Market cap. (NOKm) | 433 |
| NIBD adj end-2022e (NOKm) | -75 |
| Enterprise value adj (NOKm) | 358 |
| Net debt/EBITDA adj (x) | 1.50 |
| Free float (%) | 100 |

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are the last closing price.

NEXT EVENT

| | |
|-------------------------|------------|
| Half-yearly Report 2022 | 25/08/2022 |
|-------------------------|------------|

ESTIMATE CHANGES (NOK)

| Year-end Dec | 2022e | 2023e | 2024e |
|--------------|-------|-------|-------|
| Sales (old) | 40.00 | 50.00 | |
| Sales (new) | 40.00 | 50.00 | 82.50 |
| Change (%) | 0.0 | 0.0 | nm |
| Change (%) | nm | nm | nm |

Source: DNB Markets, Bloomberg

ANALYSTS

Geir Hiller Holom
geir.hiller.holom@dnb.no

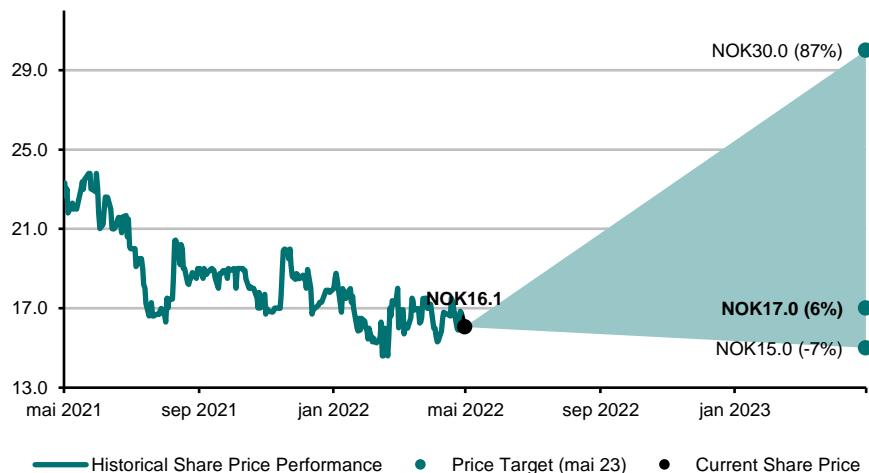
+47 977 66 583

Patrik Ling
patrik.ling@dnb.se
+46 8 473 48 43

Please see the last two pages for important information. This research report was not produced in the US. Analysts employed by non-US affiliates are not registered/qualified research analysts with FINRA in the United States.

Investment case overview

Share price performance, DNB Markets' target price, bear- and bull-case scenarios



Source: FactSet, DNB Markets

Target price methodology

- We mainly use a DCF model with probability-weighted scenario analysis to calculate our target price. We use a base-case LOA of 10%.
- Our bull-case fair value is based on an LOA of 30%.
- Our bear-case fair value is based on an LOA of 3%.

Downside risks to our investment case

- If the phase IIb or phase III trials fail due to poor efficacy or safety, it could lead to the discontinuation of its only development project.
- Delayed launch of the next clinical trial due to the pandemic or other factors, and slower than expected market penetration.
- Failing to gain and protect as large a market share as we assume.

Source: DNB Markets

DNB Markets investment case and how we differ from consensus

- There is no consensus on Arctic Bioscience.

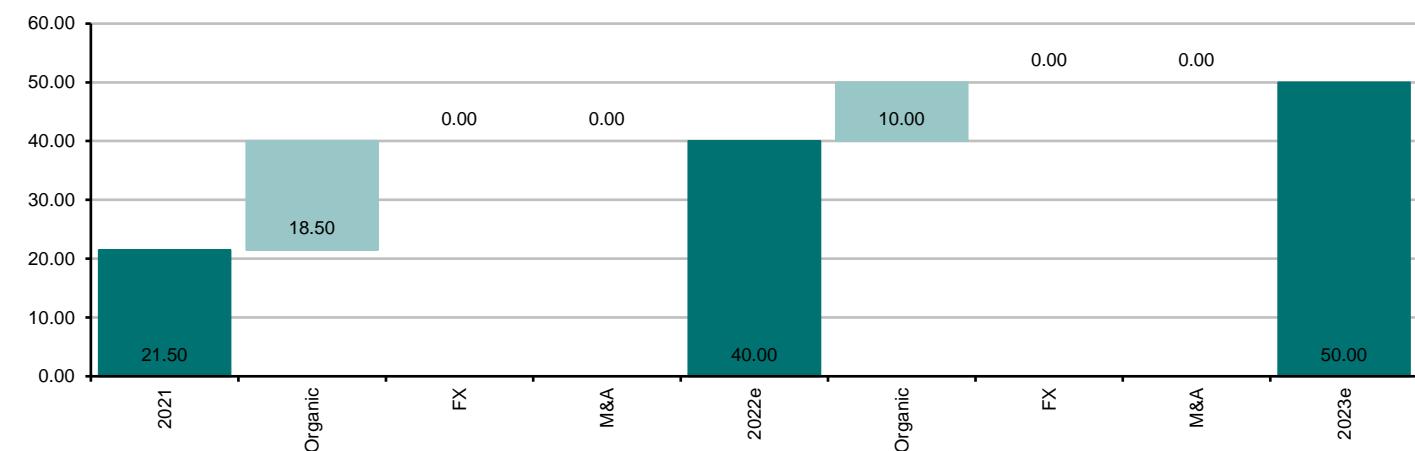
Source: DNB Markets

Upside risks to our investment case

- Better than expected results (mainly on efficacy) in upcoming trials would increase confidence in its drug candidate.
- Entering more markets than we include in our valuation, e.g. China where it already has a partner selling its omega-3 supplements.
- Tapping into the pool of diagnosed but untreated patients, which would likely give a significant revenue boost.

Source: DNB Markets

Sales bridge 2021–2023e (NOKm)



Source: DNB Markets (forecasts), company (historical data)

ESG overview

Sustainability assessment

| | Positive | Negative |
|--------------------------------|--|---|
| Conclusions | <ul style="list-style-type: none"> ■ Arctic Bioscience is developing an innovative psoriasis drug to address an unmet medical need. ■ It uses naturally occurring compounds to improve patients' health and contribute to the population's sufficient nutrition. ■ Its raw material, immature herring roe, is a residual product of the fish industry and sourced from sustainable fisheries. | <ul style="list-style-type: none"> ■ The outcome of drug development is highly uncertain, as the drug candidate's attributes along with economic and other considerations can affect development. Thus, some drug candidates never reach the market. ■ Drugs inevitably have side effects that can hurt patients' health and quality of life. |
| Actions being taken by company | <ul style="list-style-type: none"> ■ The company's operations are in alignment with UN Sustainability Development Goals 3, 9, 12 and 14. It works towards improved nutrition and health, is engaged in innovation, is committed to responsible consumption and production, and aims to preserve life below water. ■ It is committed to operating sustainably. | <ul style="list-style-type: none"> ■ The company sponsored animal studies and conducts clinical trials in humans. ■ Some components that cannot be recycled during the herring roe extraction go to waste waters and can burden the environment. |
| Key ESG drivers | | |
| Short-term | <ul style="list-style-type: none"> ■ The pharmaceutical industry has strict regulations to ensure the safety of patients and clinical trial participants. ■ The company is developing an oral psoriasis drug to address an unmet medical need and to improve patients' health and quality of life. | <ul style="list-style-type: none"> ■ A treatment-related adverse event in a clinical trial. ■ Clinical drug development is a time and resource consuming activity with an uncertain outcome. ■ The company's entry to the pharmaceutical market depends on the success of a single drug candidate. ■ Climate change can increase water temperature and adversely affect herring populations, particularly spawning rates. |
| Long-term | <ul style="list-style-type: none"> ■ Arctic Bioscience's raw material is immature herring roe, a highly underutilised source of omega-3 fatty acids available in large quantities. ■ Omega-3 fatty acids have several benefits to human health, yet the majority of the global population consumes less than is recommended. | |

Source: DNB Markets

Sustainability assessment

| | Risk | Company's risk mitigation |
|-------------------------|---|--|
| Transition risks | | |
| Policy and legal | <ul style="list-style-type: none"> Drug development and manufacturing is highly regulated; processes and product attributes have to be accurately monitored to comply with laws and regulations. | <ul style="list-style-type: none"> Communication with authorities and other stakeholders to comply with legislation. |
| Technology | <ul style="list-style-type: none"> Its development/manufacturing processes and product quality must be documented. | <ul style="list-style-type: none"> The company has dedicated personnel for quality assurance and regulatory affairs. Its nutritional supplements have minimal levels of environmental contaminants in compliance with the Global Organization for EPA and DHA Omega-3 (GOED) voluntary monograph. |
| Market | <ul style="list-style-type: none"> Arctic Bioscience's expansion into the pharmaceutical market depends on the uncertain outcome of its current drug development process. The shipping of products to international markets could have negative environmental effects. | <ul style="list-style-type: none"> Management has extensive experience in drug development. Furthermore, it has established partnerships to support the development process. Arctic Bioscience has a short supply chain and conducts most of its operations locally to minimise the harmful effects of shipping. |
| Reputation | <ul style="list-style-type: none"> Scientific evidence about the effects of omega-3 fatty acids is inconclusive in some areas. Negative scientific results and waning public perception of omega-3 health benefits could affect sales. | <ul style="list-style-type: none"> It is actively engaged in R&D to explore the effects of omega-3 fatty acids. More than 2,400 randomised clinical trials have been conducted about the effects of omega-3 fatty acids. |
| Physical risk | | |
| Acute | <ul style="list-style-type: none"> The R&D of new drugs is inherently risky. Development takes many years and requires substantial financial commitment. Projects can be discontinued at any point if a drug candidate does not have sufficient efficacy, or if it causes adverse effects that outweigh the potential benefits of the therapy. | <ul style="list-style-type: none"> The company collaborates with several partners and stakeholders and actively seeks new connections to support its drug development efforts. |
| Chronic | <ul style="list-style-type: none"> Psoriasis therapies and omega-3 nutritional supplements are competitive markets with several companies. The emergence of better drugs and nutritional supplements is a constant risk. Future products could be superior in safety, efficacy and dosing among other factors. | <ul style="list-style-type: none"> The company aims to constantly improve and develop to prepare for future challenges. Management is experienced in the pharmaceutical and nutraceutical industries with a good grasp of industry-wide trends. |

Source: DNB Markets

Forecast changes – P&L

| (NOKm) | New | | | Old | | Change | | | |
|------------------------------|-------|-------|-------|--------|--------|--------|-------|-------|-------|
| | 2022e | 2023e | 2024e | 2022e | 2023e | 2024e | 2022e | 2023e | 2024e |
| Revenues | 40 | 50 | 83 | 40 | 50 | | 0 | 0 | |
| Cost of sales | -22 | -25 | -29 | -22 | -25 | | 0 | 0 | |
| Gross profit | 18 | 25 | 54 | 18 | 25 | | 0 | 0 | |
| Operating expenses | -77 | -76 | -96 | -77 | -76 | | 0 | 0 | |
| EBITDA | -59 | -51 | -42 | -59 | -51 | | 0 | 0 | |
| EBITDA adj | -50 | -42 | -33 | -50 | -42 | | 0 | 0 | |
| EBITDA margin (%) | nm | nm | nm | -147.0 | -102.0 | nm | nm | nm | nm |
| Depreciation | -6 | -9 | -9 | -4 | -7 | | -1 | -1 | |
| EBITA | -64 | -60 | -50 | -63 | -58 | | -1 | -1 | |
| EBIT | -64 | -60 | -50 | -63 | -58 | | -1 | -1 | |
| EBIT adj | -56 | -51 | -42 | -54 | -49 | | -1 | -1 | |
| Net interest | 0 | 0 | 0 | 0 | 0 | | 0 | 0 | |
| Other financial items | -2 | -2 | -2 | 0 | 0 | | -1 | -1 | |
| Net financial items | -2 | -2 | -2 | -1 | -1 | | -1 | -1 | |
| PBT | -66 | -62 | -52 | -64 | -59 | | -2 | -2 | |
| Taxes | 0 | 0 | 0 | 0 | 0 | | 0 | 0 | |
| Net profit | -66 | -62 | -52 | -64 | -59 | | -2 | -2 | |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | | 0 | 0 | |
| Net profit adj | -66 | -62 | -52 | -64 | -59 | | -2 | -2 | |
| <i>Per share data (NOK)</i> | | | | | | | | | |
| EPS | -2.58 | -2.39 | -2.04 | -2.48 | -2.30 | | -0.09 | -0.09 | |
| DPS ordinary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | |
| DPS extraordinary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | |
| <i>Other key metrics (%)</i> | | | | | | | | | |
| Revenue growth | 86.0 | 25.0 | 65.0 | 60.0 | 25.0 | nm | 26.0 | 0.0 | nm |
| EBIT adj growth | nm | nm | nm | 165.8 | -8.9 | nm | nm | nm | nm |
| EPS adj growth | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Avg. number of shares (m) | 26 | 26 | 26 | 26 | 26 | | 0 | 0 | |
| Capex | -30 | -8 | -5 | -30 | -8 | | 0 | 0 | |
| OpFCF | -80 | -50 | -38 | -80 | -50 | | 0 | 0 | |
| Working capital | 25 | 26 | 29 | 24 | 26 | | 0 | 0 | |
| NIBD adj | -75 | -105 | -50 | -29 | -61 | | -46 | -44 | |

Source: DNB Markets

Annual P&L

| (NOKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|
| Revenues | 8 | 12 | 18 | 25 | 30 | 20 | 22 | 40 | 50 | 83 |
| Cost of sales | -7 | -5 | -12 | -16 | -20 | -21 | -18 | -22 | -25 | -29 |
| Gross profit | 1 | 7 | 6 | 9 | 10 | -1 | 4 | 18 | 25 | 54 |
| Operating expenses | -8 | -4 | -7 | -10 | -12 | -20 | -42 | -77 | -76 | -96 |
| EBITDA | -6 | 3 | -1 | -1 | -2 | -20 | -38 | -59 | -51 | -42 |
| Depreciation | 0 | -1 | -1 | -1 | -1 | -1 | -3 | -6 | -9 | -9 |
| EBITA | -7 | 2 | -1 | -1 | -3 | -22 | -41 | -64 | -60 | -50 |
| EBIT | -7 | 2 | -1 | -1 | -3 | -22 | -41 | -64 | -60 | -50 |
| Net interest | 0 | -1 | 0 | -1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial items | 0 | 0 | 0 | 0 | 0 | 0 | -2 | -2 | -2 | -2 |
| Net financial items | 0 | -1 | 0 | -1 | -1 | -1 | -2 | -2 | -2 | -2 |
| PBT | -7 | 1 | -2 | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Effective tax rate (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | -7 | 1 | -2 | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -7 | 1 | -2 | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| Dividend paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Avg. number of shares | 16 | 16 | 16 | 16 | 16 | 16 | 26 | 26 | 26 | 26 |
| <i>Per share data (NOK)</i> | | | | | | | | | | |
| EPS | -0.47 | 0.10 | -0.12 | -0.12 | -0.27 | -1.55 | -1.66 | -2.58 | -2.39 | -2.04 |
| DPS ordinary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DPS extraordinary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| <i>Growth and margins (%)</i> | | | | | | | | | | |
| Revenue growth | nm | 47.0 | 57.3 | 35.3 | 20.9 | -31.8 | 4.9 | 86.0 | 25.0 | 65.0 |
| EPS adj growth | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Gross margin | 13.8 | 55.4 | 32.1 | 35.7 | 34.1 | nm | 17.5 | 45.0 | 50.0 | 65.1 |
| EBITDA margin | nm | 22.1 | nm | nm | nm | nm | nm | nm | nm | nm |
| EBITDA adj margin | nm | 22.1 | nm | nm | nm | nm | nm | nm | nm | nm |
| Depreciation/revenues | -6.0 | -5.5 | -3.2 | -2.1 | -3.6 | -5.8 | -11.6 | -13.8 | -17.0 | -10.3 |
| EBIT margin | nm | 16.6 | nm | nm | nm | nm | nm | nm | nm | nm |
| EBIT adj margin | -88.5 | 15.9 | -7.4 | -5.0 | -10.6 | -106.2 | -147.8 | -138.8 | -101.4 | -50.4 |
| PBT margin | nm | 12.0 | nm | nm | nm | nm | nm | nm | nm | nm |
| Net profit margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to annual P&L

| (NOKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|-----------------------------|-----------|----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|
| EBITDA | -6 | 3 | -1 | -1 | -2 | -20 | -38 | -59 | -51 | -42 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBITDA adjustments | | | | | | | 9 | 9 | 9 | 9 |
| EBITDA adj | -6 | 3 | -1 | -1 | -2 | -20 | -29 | -50 | -42 | -33 |
| EBITA | -7 | 2 | -1 | -1 | -3 | -22 | -41 | -64 | -60 | -50 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBITA adjustments | | | | | | | 9 | 9 | 9 | 9 |
| EBITA adj | -7 | 2 | -1 | -1 | -3 | -22 | -32 | -56 | -51 | -42 |
| EBIT | -7 | 2 | -1 | -1 | -3 | -22 | -41 | -64 | -60 | -50 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBIT adjustments | | | | | | | 9 | 9 | 9 | 9 |
| EBIT adj | -7 | 2 | -1 | -1 | -3 | -22 | -32 | -56 | -51 | -42 |
| Net profit | -7 | 1 | -2 | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| Gains and losses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other EBIT adjustments | | | | | | | 9 | 9 | 9 | 9 |
| Net profit adj | -7 | 1 | -2 | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| <i>Per share data (NOK)</i> | | | | | | | | | | |
| EPS | -0.47 | 0.10 | -0.12 | -0.12 | -0.27 | -1.55 | -1.66 | -2.58 | -2.39 | -2.04 |

Source: Company (historical figures), DNB Markets (estimates)

Cash flow

| (NOKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|
| Net profit | -7 | 1 | -2 | -2 | -4 | -23 | -43 | -66 | -62 | -52 |
| Other non-cash adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in net working capital | 5 | -2 | -1 | -3 | -11 | 1 | 1 | 3 | -1 | -2 |
| Cash flow from operations (CFO) | 1 | -5 | -2 | -5 | -14 | -20 | -39 | -58 | -54 | -46 |
| Capital expenditure | 0 | 0 | 0 | 0 | 0 | -10 | 0 | -30 | -8 | -5 |
| Acquisitions/Investments | -2 | -1 | -1 | -4 | -7 | -9 | -37 | -2 | -2 | -2 |
| Divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing (CFI) | -2 | -1 | -1 | -4 | -7 | -19 | -37 | -32 | -10 | -7 |
| Free cash flow (FCF) | -1 | -7 | -3 | -9 | -21 | -39 | -76 | -90 | -64 | -53 |
| Net change in debt | 0 | -1 | 0 | -1 | -1 | -3 | -8 | 57 | 15 | 5 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 1 | 0 | 0 | -1 | -1 | 11 | | -55 | -5 | -5 |
| Cash flow from financing (CFF) | 8 | 2 | 7 | 3 | 44 | 27 | 291 | 2 | 110 | 0 |
| Total cash flow (CFO+CFI+CFF) | 7 | -5 | 4 | -5 | 23 | -11 | 215 | -88 | 47 | -53 |
| <i>FCFF calculation</i> | | | | | | | | | | |
| Free cash flow | -1 | -7 | -3 | -9 | -21 | -39 | -76 | -90 | -64 | -53 |
| Less: net interest | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: acquisitions | 2 | 1 | 1 | 4 | 7 | 9 | 37 | 2 | 2 | 2 |
| Less: divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth (%) | | | | | | | | | | |
| CFO | nm | -947.4 | 60.6 | -116.3 | -204.5 | -45.9 | -97.4 | -47.0 | 7.5 | 14.0 |
| CFI | nm | 19.9 | 26.9 | -323.6 | -67.6 | -162.8 | -96.4 | 12.3 | 68.8 | 30.0 |
| FCF | nm | -517.5 | 53.7 | -183.4 | -138.3 | -85.7 | -96.9 | -18.5 | 29.3 | 16.5 |
| CFF | nm | -75.7 | 265.0 | -51.7 | 1189.0 | -38.1 | 968.8 | -99.2 | 4679.4 | -99.7 |
| FCFF | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

Source: Company (historical figures), DNB Markets (estimates)

Balance sheet

| (NOKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|
| Assets | 37 | 31 | 34 | 45 | 82 | 93 | 341 | 334 | 386 | 337 |
| Inventories | 13 | 9 | 8 | 16 | 17 | 26 | 29 | 28 | 28 | 25 |
| Trade receivables | 1 | 2 | 2 | 6 | 12 | 11 | 8 | 10 | 10 | 12 |
| Other receivables | 1 | 1 | 1 | 1 | 1 | 3 | 3 | 1 | 1 | 1 |
| Cash and cash equivalents | 7 | 2 | 6 | 1 | 24 | 13 | 227 | 138 | 184 | 134 |
| Current assets | 21 | 14 | 17 | 24 | 54 | 53 | 267 | 177 | 222 | 173 |
| Property, plant and equipment | 4 | 3 | 3 | 3 | 3 | 6 | 16 | 46 | 52 | 49 |
| Other intangible assets | 12 | 13 | 14 | 18 | 25 | 34 | 59 | 111 | 113 | 115 |
| Non-current assets | 15 | 16 | 17 | 21 | 28 | 41 | 75 | 157 | 165 | 164 |
| Total assets | 37 | 31 | 34 | 45 | 82 | 93 | 341 | 334 | 386 | 337 |
| Equity and liabilities | 37 | 31 | 34 | 45 | 82 | 93 | 341 | 334 | 386 | 337 |
| Total equity to the parent | 14 | 13 | 19 | 22 | 64 | 64 | 321 | 254 | 293 | 240 |
| Total equity | 14 | 13 | 19 | 22 | 64 | 64 | 321 | 254 | 293 | 240 |
| Trade payables | 1 | 2 | 2 | 6 | 6 | 10 | 8 | 14 | 13 | 10 |
| Other payables and accruals | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 |
| Short-term debt | 6 | 5 | 4 | 5 | 4 | 9 | 10 | 6 | 7 | 7 |
| Total current liabilities | 8 | 8 | 6 | 11 | 11 | 21 | 21 | 23 | 22 | 20 |
| Long-term debt | 14 | 10 | 9 | 12 | 7 | 8 | 0 | 57 | 72 | 77 |
| Total non-current liabilities | 14 | 10 | 9 | 12 | 7 | 8 | 0 | 57 | 72 | 77 |
| Total liabilities | 22 | 18 | 15 | 24 | 19 | 29 | 21 | 80 | 94 | 97 |
| Total equity and liabilities | 37 | 31 | 34 | 45 | 82 | 93 | 341 | 334 | 386 | 337 |
| <i>Key metrics</i> | | | | | | | | | | |
| Net interest bearing debt | 14 | 13 | 7 | 16 | -13 | 5 | -217 | -75 | -105 | -50 |

Source: Company (historical figures), DNB Markets (estimates)

Valuation ratios

| (NOKm) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|-------------------------------|-------|-------|--------|-------|-------|--------|--------|--------|--------|--------|
| <i>Enterprise value</i> | | | | | | | | | | |
| Share price (NOK) | | | | | | | 17.80 | 16.05 | 16.05 | 16.05 |
| Number of shares (m) | 14.62 | 14.62 | 14.62 | 14.62 | 14.62 | 14.62 | 25.72 | 25.72 | 25.72 | 25.72 |
| Market capitalisation | | | | | | | 458 | 413 | 413 | 413 |
| Net interest bearing debt | 14 | 13 | 7 | 16 | -13 | 5 | -217 | -75 | -105 | -50 |
| Adjustments to NIBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net interest bearing debt adj | 14 | 13 | 7 | 16 | -13 | 5 | -217 | -75 | -105 | -50 |
| EV | | | | | | | 241 | 338 | 308 | 363 |
| EV adj | | | | | | | 241 | 338 | 308 | 363 |
| <i>Valuation</i> | | | | | | | | | | |
| EPS | -0.47 | 0.10 | -0.12 | -0.12 | -0.27 | -1.55 | -1.66 | -2.58 | -2.39 | -2.04 |
| DPS ordinary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DPS extraordinary | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| P/E | | | | | | | -10.8 | -6.2 | -6.7 | -7.9 |
| Average ROE | | 10.4% | -11.0% | -8.4% | -9.4% | -35.3% | -22.2% | -23.1% | -22.5% | -19.7% |
| Dividend yield | | | | | | | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/SALES | | | | | | | 11.19 | 8.45 | 6.16 | 4.40 |
| EV/SALES adj | | | | | | | 11.19 | 8.45 | 6.16 | 4.40 |
| EV/EBITDA | | | | | | | -6.3 | -5.7 | -6.0 | -8.7 |
| EV/EBITDA adj | | | | | | | -8.2 | -6.8 | -7.3 | -11.0 |
| EV/EBIT | | | | | | | -5.9 | -5.3 | -5.2 | -7.2 |
| EV/EBIT adj | | | | | | | -7.6 | -6.1 | -6.1 | -8.7 |
| EV/NOPLAT | | | | | | | -5.9 | -5.3 | -5.2 | -7.2 |
| EV/OpFCF (taxed) | | | | | | | -8.2 | -4.2 | -6.1 | -9.5 |

Source: Company (historical figures), DNB Markets (estimates)

Key accounting ratios

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e |
|---------------------------------------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|
| <i>Profitability (%)</i> | | | | | | | | | | |
| ROA | | 4.2 | -5.3 | -4.3 | -6.3 | -25.7 | -19.6 | -19.6 | -17.1 | -14.5 |
| <i>Return on invested capital (%)</i> | | | | | | | | | | |
| Net PPE/revenues | 46.3 | 29.0 | 17.1 | 12.9 | 10.5 | 31.0 | 74.4 | 116.2 | 104.0 | 60.0 |
| Working capital/revenues | 169.7 | 84.7 | 49.9 | 69.9 | 78.8 | 146.8 | 145.1 | 61.6 | 51.6 | 34.6 |
| <i>Cash flow ratios (%)</i> | | | | | | | | | | |
| FCF/revenues | -13.6 | -57.0 | -16.8 | -35.1 | -69.2 | -188.3 | -353.5 | -225.2 | -127.4 | -64.5 |
| FCF yield (%) | nm | nm | nm | nm | nm | nm | -8.6 | -21.3 | -14.9 | -12.4 |
| CFO/revenues | 7.9 | -45.3 | -11.3 | -18.1 | -45.7 | -97.6 | -183.7 | -145.2 | -107.4 | -56.0 |
| CFO/market capitalisation | | | | | | | -8.6 | -14.1 | -13.0 | -11.2 |
| CFO/capex | | | | | | -200.1 | | -193.5 | -671.0 | -923.9 |
| CFO/current liabilities | 7.8 | -69.9 | -33.4 | -39.3 | -120.2 | -96.2 | -188.8 | -255.3 | -246.9 | -235.7 |
| Cash conversion ratio | 15.6 | -475.8 | 178.1 | 510.1 | 517.5 | 170.8 | 178.4 | 135.8 | 103.5 | 101.5 |
| Capex/revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 48.8 | 0.0 | 75.0 | 16.0 | 6.1 |
| Capex/depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 838.9 | 0.0 | 545.5 | 94.1 | 58.8 |
| OpFCF margin | -81.3 | 22.1 | -3.7 | -2.5 | -6.7 | -148.7 | -136.1 | -200.0 | -100.4 | -46.2 |
| Total payout ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Leverage and solvency (x)</i> | | | | | | | | | | |
| Interest cover | nm | 3.75 | -3.10 | -2.19 | -6.12 | -42.46 | nm | nm | nm | nm |
| EBIT/interest payable | nm | 3.71 | nm | nm | nm | nm | nm | nm | nm | nm |
| EBITA adj/interest payable | nm | 3.55 | nm | nm | nm | nm | nm | nm | nm | nm |
| Cash coverage | 307.76 | 5.16 | -1.81 | -1.22 | -4.47 | -41.63 | -158.62 | -245.00 | -212.50 | -174.48 |
| Net debt/EBITDA | -2.17 | 4.97 | -10.20 | -25.38 | 6.42 | -0.24 | 5.71 | 1.28 | 2.06 | 1.20 |
| Total debt/total capital (BV) | 0.57 | 0.49 | 0.38 | 0.37 | 0.13 | 0.19 | 0.03 | 0.19 | 0.20 | 0.25 |
| LTD / (LTD + equity (MV)) | | | | | | | 0.00 | 0.12 | 0.15 | 0.16 |
| <i>Cash conversion cycle</i> | | | | | | | | | | |
| Inventory turnover days | 711.7 | 635.5 | 241.0 | 364.4 | 322.2 | 448.6 | 587.1 | 464.5 | 401.5 | 313.7 |
| Receivables turnover days | 53.2 | 99.8 | 52.5 | 107.2 | 154.1 | 245.5 | 187.4 | 97.1 | 78.9 | 60.6 |
| Credit period | 55.0 | 166.5 | 49.9 | 133.9 | 119.3 | 169.7 | 172.1 | 232.3 | 182.5 | 125.5 |
| Cash conversion cycle | 709.9 | 568.9 | 243.5 | 337.7 | 357.0 | 524.3 | 602.4 | 329.3 | 297.9 | 248.8 |

Source: Company (historical figures), DNB Markets (estimates)

Important Information

Company: Arctic Bioscience
 Coverage by Analyst: Geir Hiller Holom
 Date: 03.5.2022

This report has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. This report is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. This report does not, and does not attempt to, contain everything material which there is to be said about the Company. Any opinions expressed herein reflect DNB Markets' judgement at the time the report was prepared and are subject to change without notice. The report is planned updated minimum every quarter.

Any use of non-DNB logos in this report is solely for the purpose of assisting in identifying the relevant issuer. DNB is not affiliated with any such issuer.

This report is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets, a division of DNB Bank ASA.

This report is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the report. Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the report contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the report when making investment decisions, and may also base investment advice given to clients on the report. Such use is dependent on the buy-side investment firm citing DNB Markets as the source.

Risk warning – generally high risk

The risk of investing in financial instruments is generally high. Past performance is not a reliable indicator of future performance, and estimates of future performance are based on assumptions that may not be realised. When investing in financial instruments, the value of the investment may increase or decrease, and the investor may lose all or part of their investment. Careful consideration of possible financial distress should be made before investing in any financial instrument.

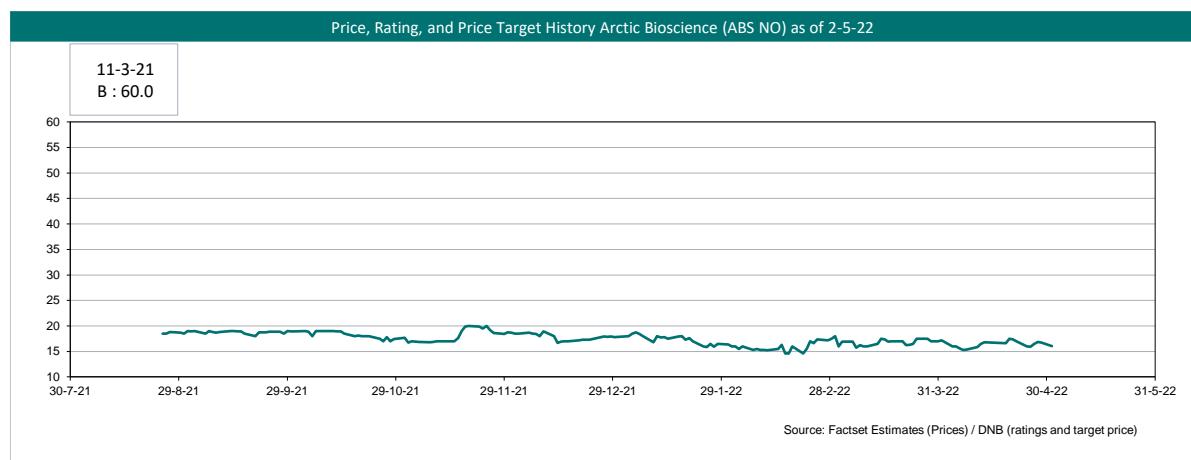
Recommendation structure

DNB Markets recommendations are based on absolute performance:

| | |
|------|---|
| Buy | - indicates an expected return greater than 10% within 12 months |
| Hold | - indicates an expected return between 0 and 10% within 12 months |
| Sell | - indicates an expected negative return within 12 months |

Price targets are based on a combination of several valuation methods such as discounted cash flow, pricing based on earnings multiples, multiple on book value, net asset value and peer comparison. Substantial material sources for coverage of this company include historical financial figures and communication with the company, and relevant third party information. If you would like further information on the valuation, methodology or underlying assumptions used in this note, please contact the analyst (contact details on front page).

Recommendations and historical target prices below do not include all recommendations published by DNB Markets. Please see DNB Markets' website (dnb.no/disclaimer/MAR) for an overview of all recommendations from DNB Markets over the past 12 months, as per Market Abuse Regulations (MAR).



Conflict of interest

DNB Markets has provided investment services and/or ancillary services to the company and received compensation for it during the past 12 months.

Readers should assume that DNB Markets may currently or may in the coming three months and beyond be providing or seeking to provide confidential investment banking services or other services to the company/companies

| Share positions in the company: | Analyst* | Employees** | DNB*** |
|---------------------------------|----------|-------------|--------|
| Number of shares | 0 | 7288 | 0 |

*The analyst or any close associates. **Share positions include people involved in the production of credit and equity research, including people that could reasonably be expected to have access to it before distribution.

***Share positions as part of DNB Group. Holdings as part of DNB Markets investment services activity are not included.

Recommendation distribution and corporate clients for the last 12 months

| | Buy | Hold | Sell | No_rec | Total |
|--------------------|------|------|------|--------|-------|
| Number | 195 | 73 | 13 | 23 | 305 |
| % of total | 64 % | 24 % | 4 % | 8 % | |
| DNB Markets client | 28 % | 10 % | 2 % | 4 % | 134 |

3 May 2022

Legal statement

This Report is a research report within the meaning of Regulation (EU) NO 596/2014 on market abuse (Market Abuse Regulation), and has been prepared in accordance with rules set out in relevant industry standards issued by The Norwegian Securities Dealers Association. This Report has been prepared as general information and is therefore not intended as a personal recommendation of particular financial instruments or strategies, and does not constitute personal investment advice as defined the Norwegian securities trading act (Norwegian verdipapirhandelloven).

The analyst hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report. DNB Markets employees, including research analysts, may receive compensation that is generated by overall firm profitability. Confidentiality rules and internal rules restricting the exchange of information between different parts of DNB Markets/DNB Bank ASA or the DNB Group are in place to prevent employees of DNB Markets who are preparing this report from utilizing or being aware of information available in the DNB Group that may be relevant to the recipients' decisions. DNB Markets and the DNB Group have incorporated internal rules and regulations in order to avoid any potential conflicts of interest.

The Report has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

It is issued subject to the General Business Terms for DNB Markets and information about the terms is available at www.dnb.no. For requests regarding the General Business Terms of the Singapore Branch of DNB Bank ASA, please contact +65 6212 6144. Information about the DNB Group can be found at www.dnb.no. DNB Markets is a member of The Norwegian Securities Dealers Association, which has issued recommendations and market standards for securities companies. The Association's Internet address where the recommendations and market standards can be found is: www.vpif.no. This report is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. No liability whatsoever is accepted for any direct or indirect (including consequential) loss or expense arising from the use of this report. Distribution of research reports is in certain jurisdictions restricted by law. Persons in possession of this report should seek further guidance regarding such restrictions before distributing this report. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this report.

Additional information for clients in Singapore

The report has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the report, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product. You have received a copy of the report because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities. Please contact the Singapore branch of DNB Bank ASA at +65 6212 6144 in respect of any matters arising from, or in connection with, the report. The report is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144. We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the report by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the report.

In the United States

Each research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report; and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

The research analyst(s) named on this report are foreign research analysts as defined by FINRA Rule 1050. The only affiliate contributing to this research report is DNB Bank through its DNB Markets division ("DNB Markets/DNB Bank"); the foreign research analysts employed by DNB Markets/DNB Bank are named on the first page; the foreign research analysts are not registered/qualified as research analysts with FINRA; foreign research analysts are not associated persons of DNB Markets, Inc. and therefore are not subject to the restrictions set forth in FINRA Rules 2241 and 2242 regarding restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

This is a Third Party Research Report as defined by FINRA Rules 2241 and 2242. Any material conflict of interest that can reasonably be expected to have influenced the choice of DNB Markets/DNB Bank as a research provider or the subject company of a DNB Markets/DNB Bank research report, including the disclosures required by FINRA Rules 2241 and 2242 can be found above.

This report is being furnished solely to Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

Any U.S. recipient of this report seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 30 Hudson Yards, 81st Floor, New York, NY 10001, telephone number +1 212-551-9800.

In Canada

The Information has been distributed in reliance on the International Dealer Exemption pursuant to NI 31-103 section 8.18. Please be advised that:

1) DNB Bank ASA (DNB Markets) and DNB Markets, Inc. are not registered as a dealer in the local jurisdiction to make the trade. We provide our services in Canada as an exempt international dealer. 2) The jurisdiction of DNB Bank ASA (DNB Markets) and DNB Markets, Inc.'s head office is Norway. 3) There may be difficulty enforcing legal rights against DNB Bank ASA (DNB Markets) and DNB Markets, Inc. because all or substantially all of their assets may be situated outside of Canada. 4) The name and address of the agent for service of process for DNB Bank ASA (DNB Markets) and DNB Markets, Inc. in the local jurisdiction is:

Alberta: Blake, Cassels & Graydon LLP, 855 - 2nd Street S.W., Suite 3500, Bankers Hall East Tower, Calgary, AB T2P 4J8. British Columbia: Blakes Vancouver Services Inc., 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3. Manitoba: MLT Aikins, 30th Floor, Commodity Exchange Tower, 360 Main Street, Winnipeg, MB R3C 4G1. New Brunswick: Stewart McKelvey, Suite 1000, Brunswick House, 44 Chipman Hill, PO Box 7289, Station A, Saint John, NB E2L 2A9. Newfoundland and Labrador: Stewart McKelvey, Suite 1100, Cabot Place, 100 New Gower Street, P.O. Box 5038, St. John's, NL A1C 5V3. Nova Scotia: Stewart McKelvey, Purdy's Wharf Tower One, 1959 Upper Water Street, Suite 900, P.O. Box 997, Halifax, NS B3J 2X2.

Northwest Territories: Field LLP, 601, 4920 52nd Street, Yellowknife, NT X1A 3T1. Nunavut: Field LLP, P.O. Box 1734, House 2436, Iqaluit, NU X0A 0H0.

Ontario: Blakes Extra-Provincial Services Inc., Suite 4000, 199 Bay Street, Toronto, ON M5L 1A9. Prince Edward Island: Stewart McKelvey, 65 Grafton Street, Charlottetown, PE C1A 1K8. Québec: Services Blakes Québec Inc., 1 Place Ville Marie, Suite 3000, Montréal, QC H3B 4N8. Saskatchewan: MLT Aikins, 1500 Hill Centre I, 1874 Scarth Street, Regina, SK S4P 4E9. Yukon: Macdonald & Company, Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, YK Y1A 3T2.

In Brazil

The analyst or any close associates do not hold nor do they have any direct/indirect involvement in the acquisition, sale, or intermediation of the securities discussed herein. Any financial interests, not disclosed above, that the analyst or any close associates holds in the issuer discussed in the report is limited to investment funds that do not mainly invest in the issuer or industry discussed in the report and the management of which these persons cannot influence.