

Year-end report June 3, 2020



SECTRA

Agenda

1. Highlights and trends - Torbjörn Kronander, CEO and President Sectra AB
2. Financial development - Mats Franzén, CFO Sectra AB
3. New subscription model for software licenses -
Fredrik Gustavsson, CTO Sectra Imaging IT Solutions
4. Sectra's way forward - Torbjörn Kronander
5. Questions

Highlights and trends

Torbjörn Kronander, CEO and President

2019/2020 best earnings so far



Earnings/share
+18.6%
SEK 6.18

Cash flow/share
+16.9%
SEK 7.69

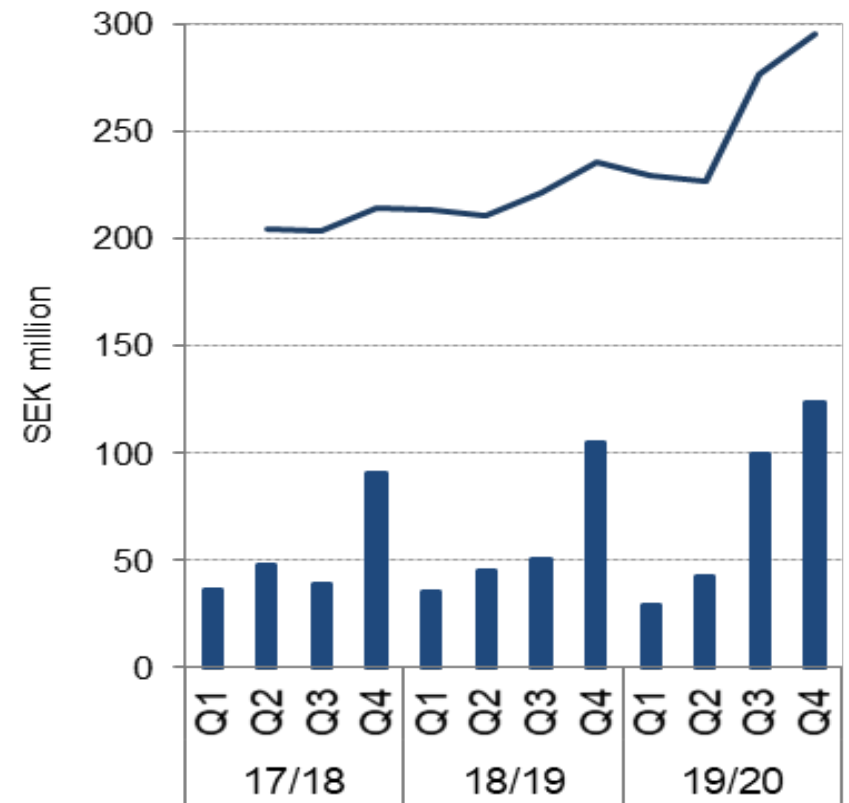
“

Result of our long-term efforts in creating real value for customers, patients and society at large.

2019/2020 best earnings so far

- » No significant impact from COVID-19 on the financial outcome for the year.
- » Large variation between quarters increased as announced early on.
- » This variation will continue to be large and will, due to Covid-19, increase even further.

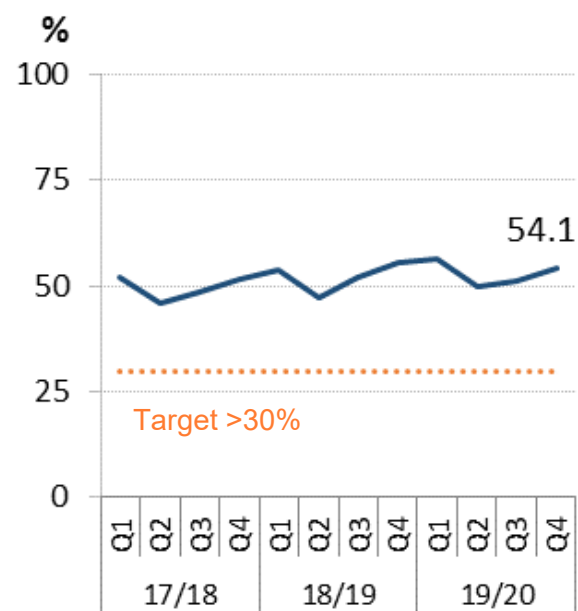
Operating profit for the Group



Financial targets for the Group fulfilled

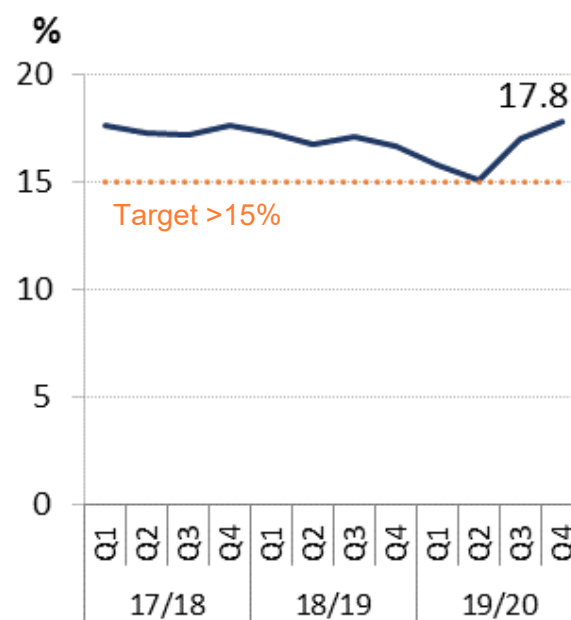
1. Stability

Equity/Assets ratio



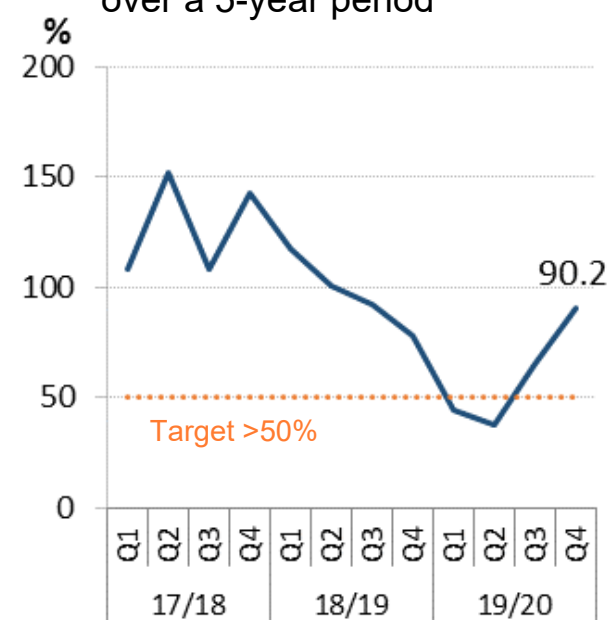
2. Profitability

Operating margin



3. Growth of profits

EBIT/share growth over a 5-year period



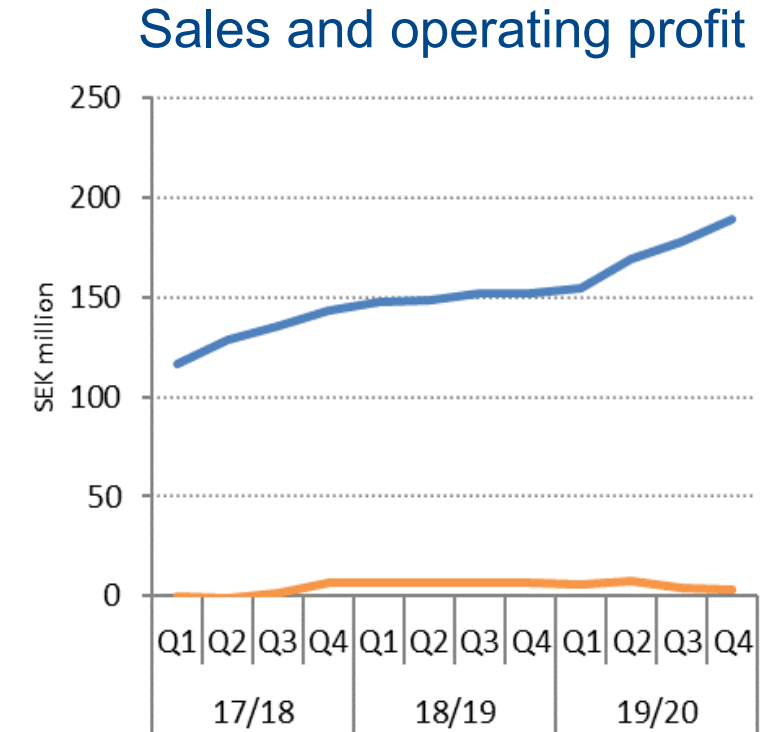
Priority



Secure Communications

Trend Secure communications

- » Good growth but inadequate margins
- » Expanding secure mobile communications offering
- » Growth in critical infrastructure
- » Growth initiatives:
 - ✓ Mobile secure ecosystems
 - ✓ Critical infrastructure product area
 - ✓ New geographic areas:
 - active sales CI started in Finland and Norway



Maintain security under exceptional circumstances

Orders for crypto solutions for mobile telephony, smartphones and the blue-light emergency services' communication network TETRA from **several European government authorities** during fourth quarter.



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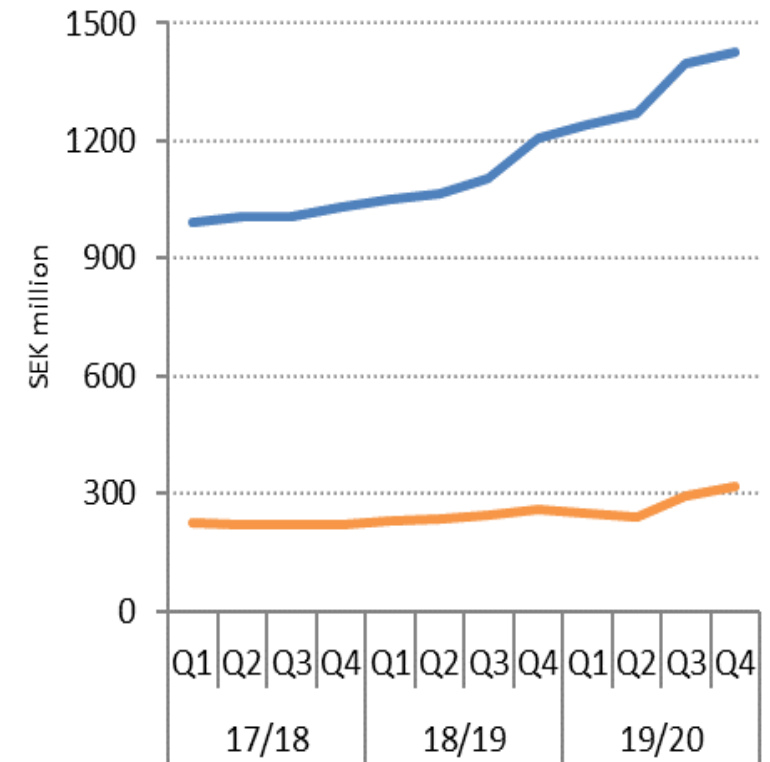
Imaging IT Solutions

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Trend Imaging IT solutions

- » Adding new customers
- » Extending and increasing contracts with existing customers
- » Strengthened delivery capacity
- » Example of growth initiatives:
 - ✓ New markets, direct and indirect
 - ✓ Digital pathology & integrated diagnostics
 - ✓ Cardiology
 - ✓ Focus US

Sales and operating profit



Dutch AI collaboration initiated

- » Collaboration with **University Medical Center Utrecht**.
- » Goal to make it easier and safer to introduce AI-based tools into the healthcare sector.



New order from Canada

Healthcare provider **Mayfair Diagnostics** ordered Sectra's solution for medical imaging IT.

The first North American order under our **new subscription model** for software licenses.



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Growing customer base in the US

New orders from:

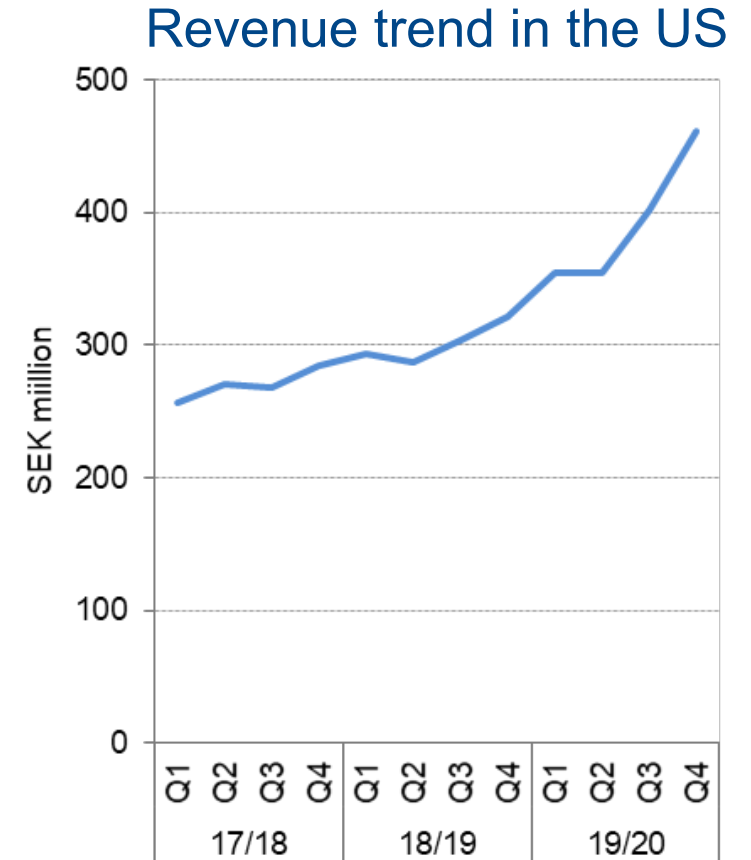
- » **MetroHealth System** university hospital, Ohio.
- » **St. Elizabeth Healthcare**, member of the renowned Mayo Clinical Care Network.



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Trend in the US

- » Special focus has delivered
 - The US is now Sectra's largest market.
- » Recent orders from luminary customers strengthen Sectra's market position.
- » FDA approval for digital pathology.
- » Opportunities:
 - ✓ The world's largest market
 - ✓ Sectra tops customer satisfaction
 - ✓ Small, but growing, market share



Digital pathology @ Sectra

Status

- » The last frontier in digitization of medical images.
- » Large synergies with Radiology
- » Sweden is world leading in digital pathology.
- » Sectra has a dominant market share in Sweden.
- » Rapidly increasing sales in the UK and the Netherlands.
- » FDA approval received.

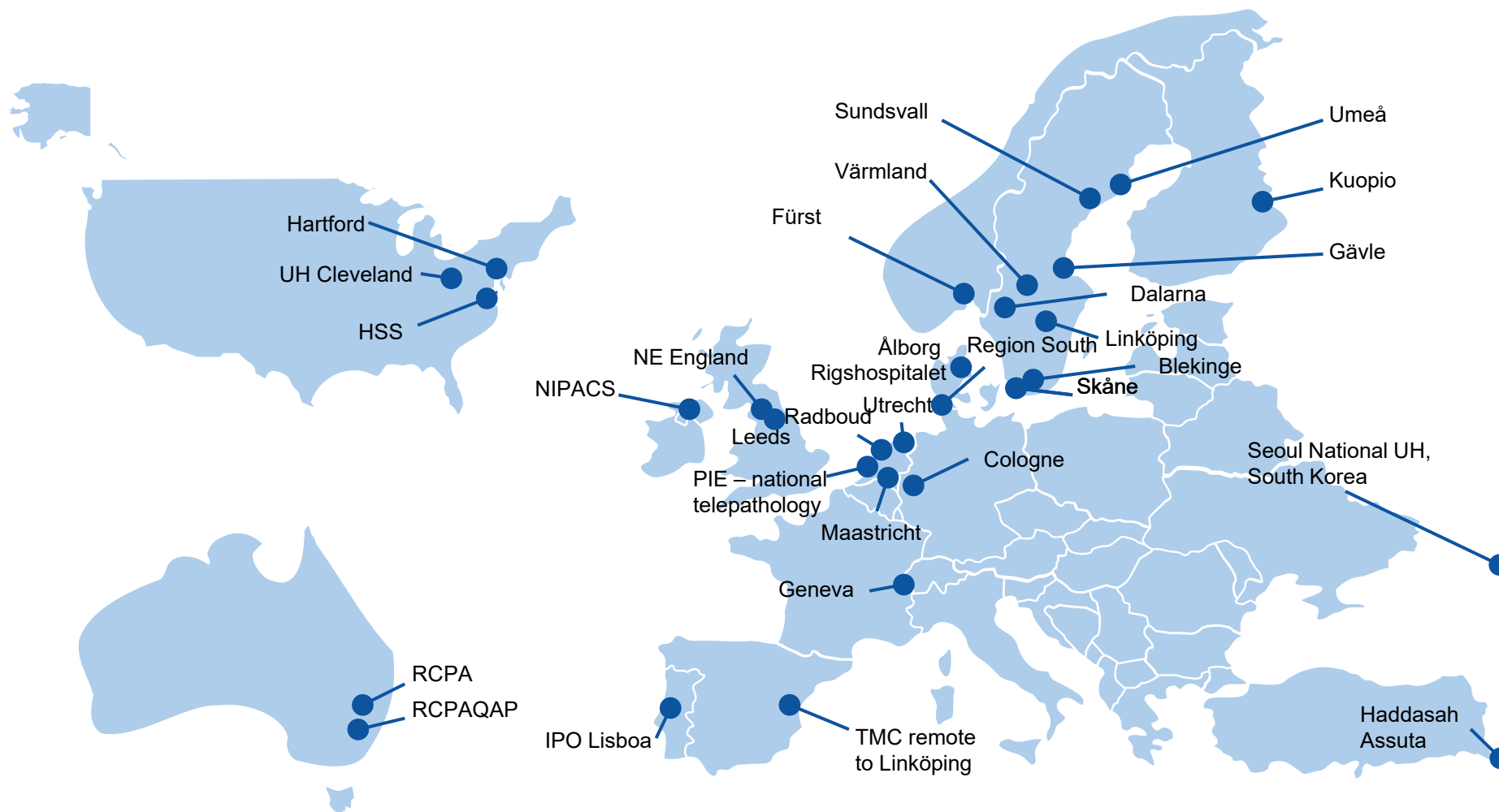
Growth strategy

- » A single system for Pathology, Radiology and Cardiology Imaging.
- » Integrated diagnostics.
- » Grow in the US.
(half the world market)

Digital pathology FDA approval received

- » US Hospital for Special Surgery put Sectra's digital pathology into operation.
- » First stage for digitizing the operations' pathology images.
- » Expansion of existing IT solution from Sectra for managing medical images.







Business Innovation

Trend Business Innovation

New areas within orthopaedics:

- » IMA: Sectra Implant Movement Analysis (Post OP)
- » CTMA: Computer Tomography Micro motion Analysis (for clinical research & studies)

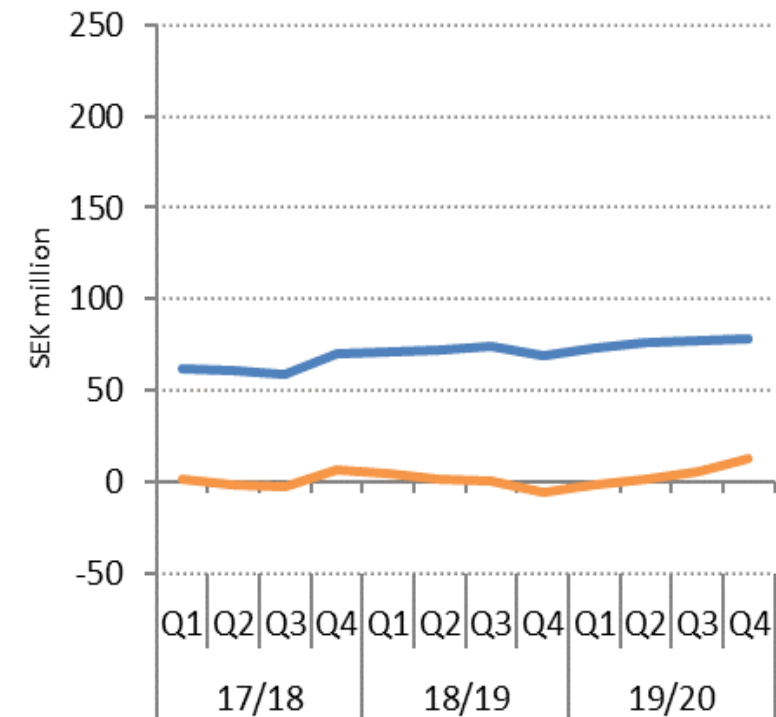
Medical Education transition:

- » From device delivery to a service including cloud-based content subscriptions

Research:

- » Large focus on AI for medical applications

Sales and operating earnings





Risks related to the COVID-19 pandemic

COVID-19 impact on healthcare IT and cybersecurity markets

Healthcare IT

- ▼ Exhibitions and travels cancelled – impacting future sales.
- ▼ Elective procedures on hold – large impact on hospital's revenue, margins and imaging volumes.
- ▲ Telediagnosis has taken a leap, motivating digitization of e.g. pathology.
- ▲ Post COVID-19 patient imaging volumes may overwhelm hospitals, thereby driving demand for efficiency and improved IT solutions

Cybersecurity

- ▼ Exhibitions and travels cancelled – impacting future sales.
- ▲ Increased demand for our cybersecurity products and mobile crypto solutions.
- ▲ Long term increase in demand for secure mobile workplaces.

Financial figures

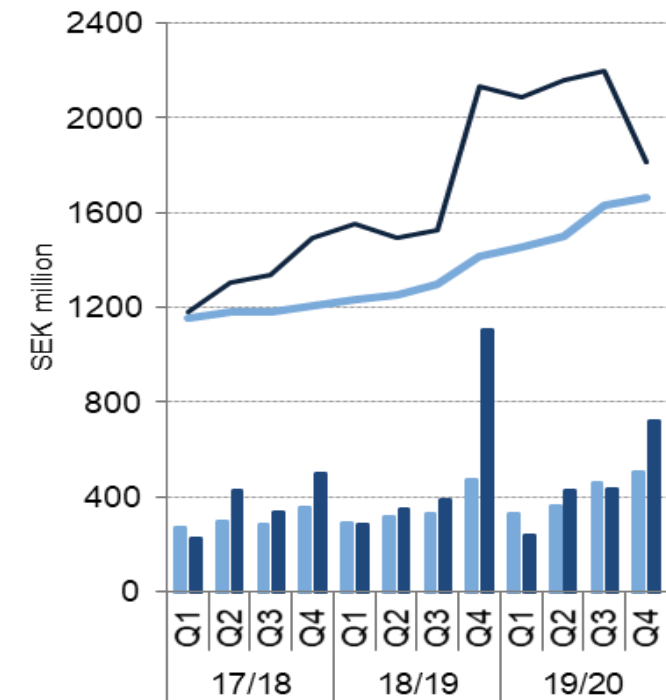
Mats Franzén, CFO

Trend

Order bookings and net sales

- » Order intake SEK 1,816.0 M (2,132.8)
 - » Last year 560 MSEK order over 13 years in Q4
- » Net sales +17.5%
Adjusted for currency fluctuations up 14.7%
- » Weaker SEK
 - » USD 6.4%
 - » EUR 2.6%
 - » GBP 3.3%

The Group

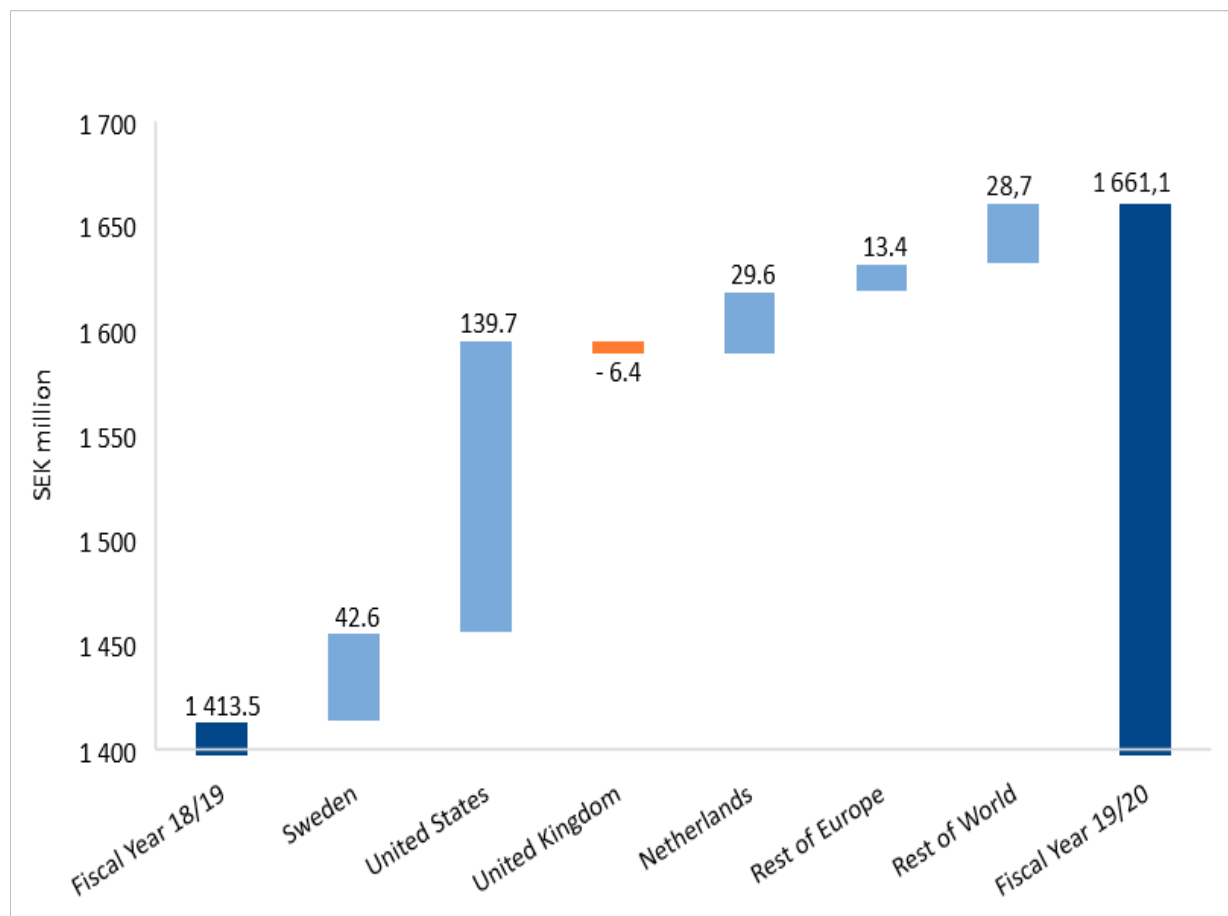


Changes compared with the average rates the preceding fiscal year.

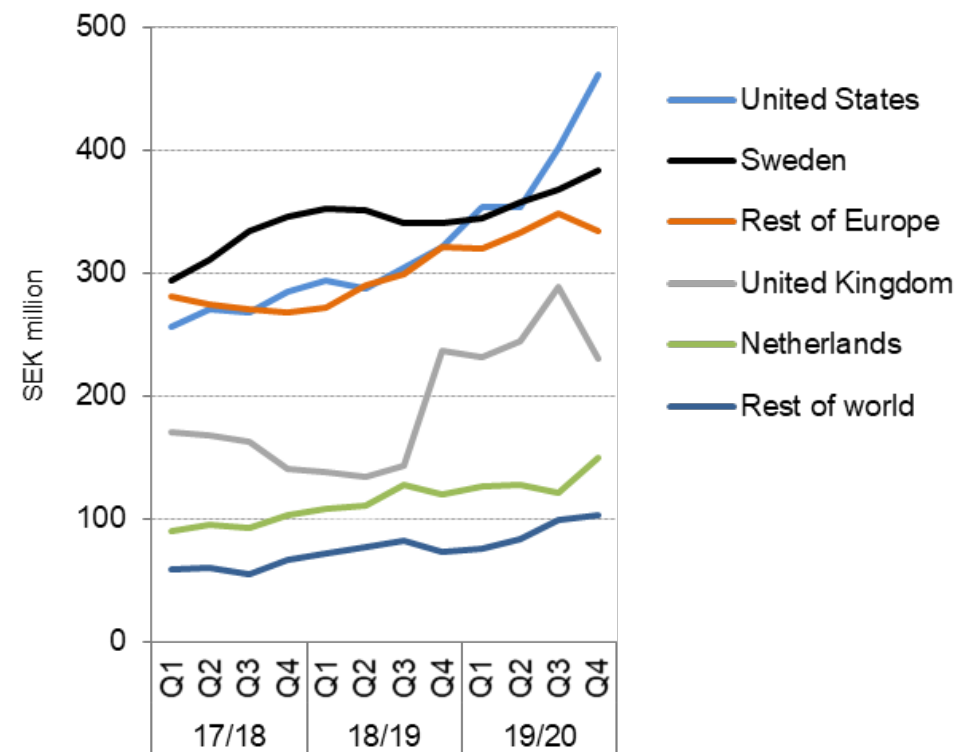
Sales trend by geographic market

– all areas are growing

By geographic market

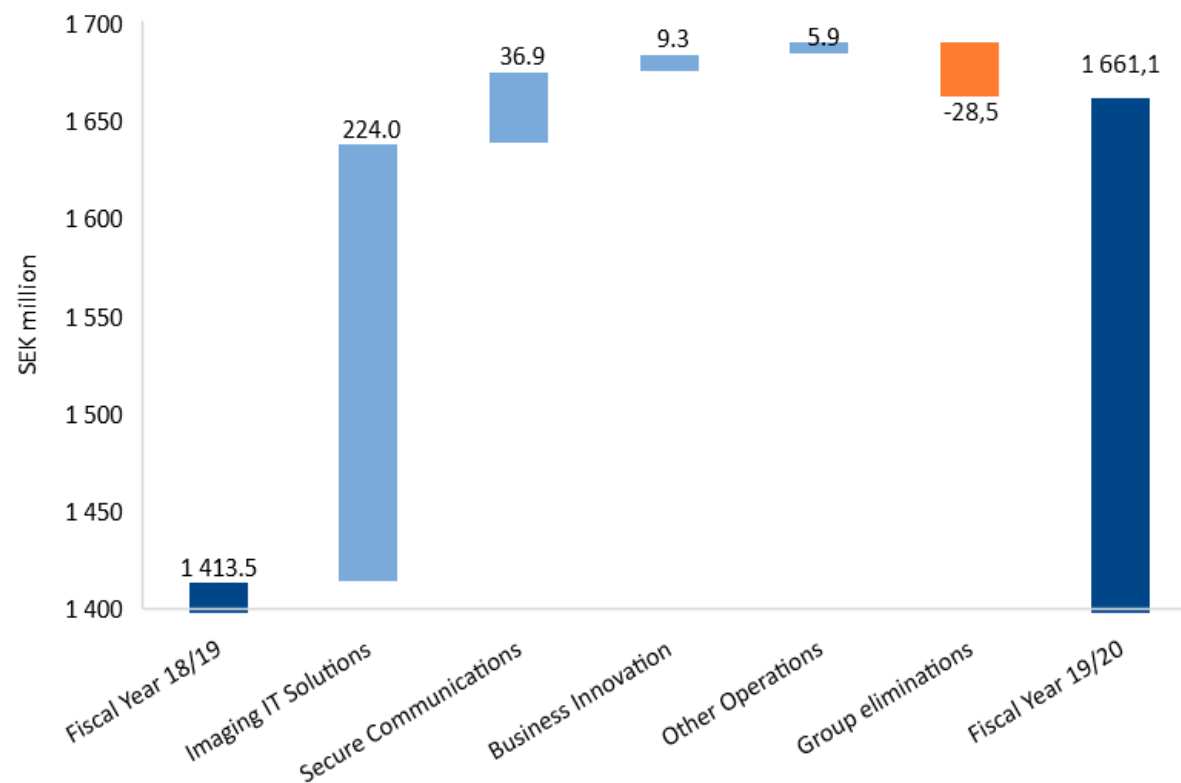


Trend 12 month rolling

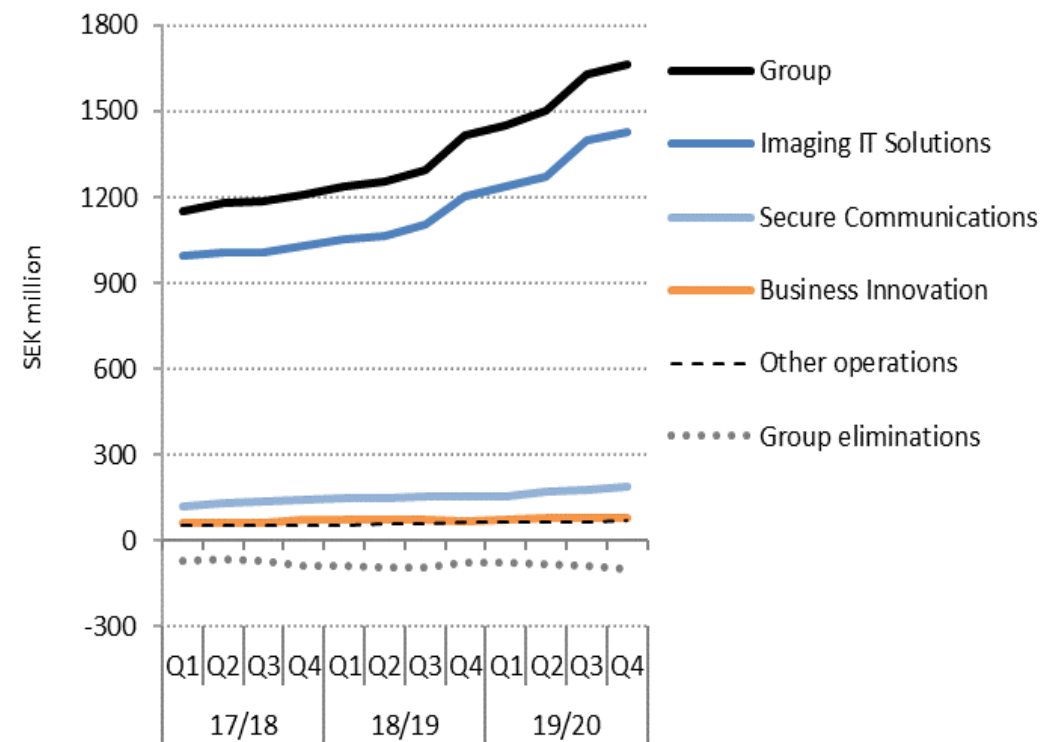


Sales trend by business segment

By business segment



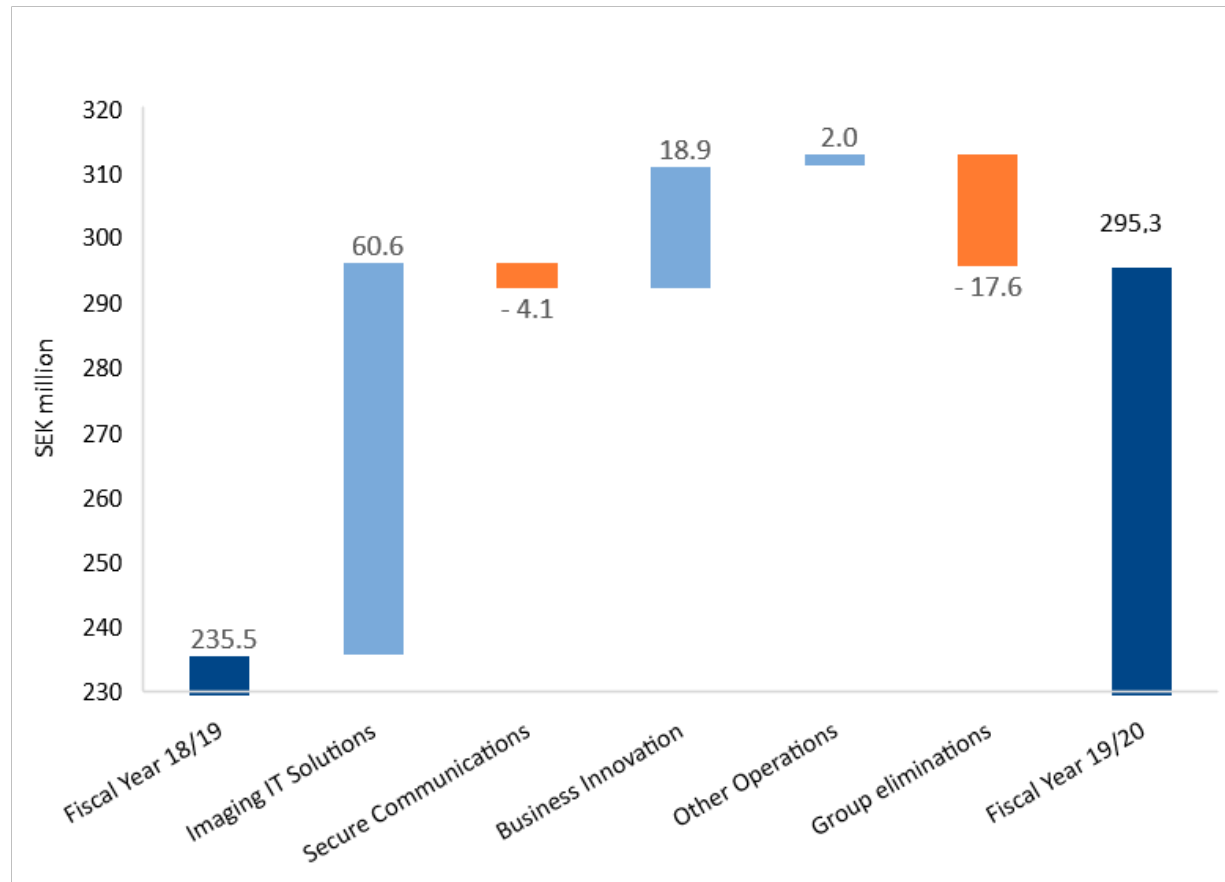
Trend 12 month rolling



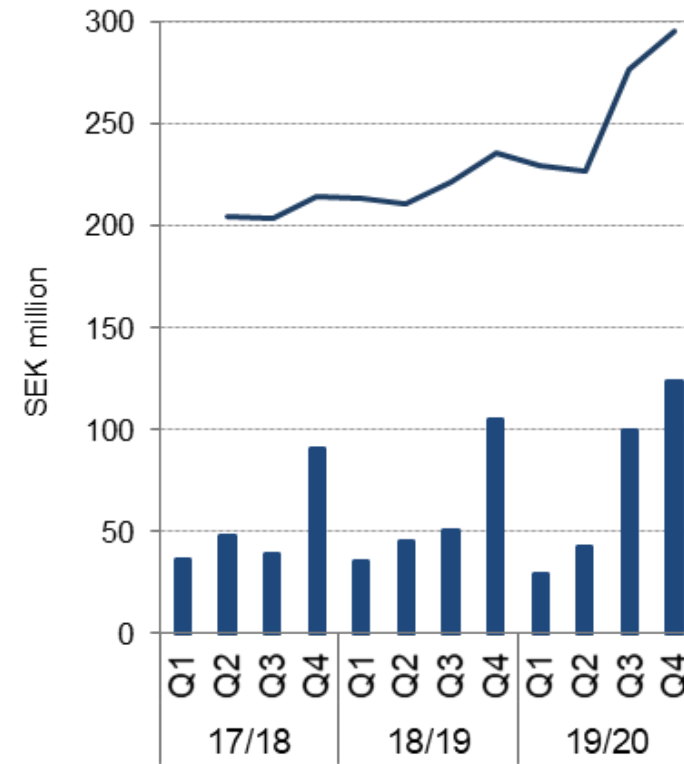
Operating earnings trend

- Imaging IT show strong performance

By segment



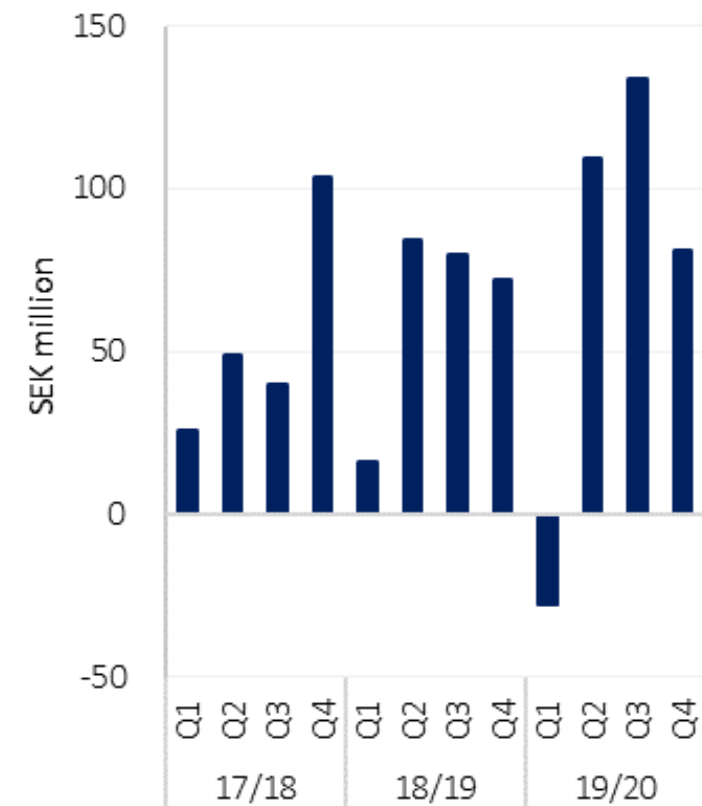
Trend for the Group



Cash flow

- » Several large contracts signed tied up considerable capital and resources during the installation phase in especially Q1.
- » Positive effect on revenue, profit margins and cash flow mainly materialized in Q3
- » Q4 cash flow stronger than last year but weaker than Q3 due to working capital tied up in receivables at a higher volume

Cash flow after changes in working capital



New subscription model

Fredrik Gustavsson, CTO

Sectra One

Enterprise imaging subscription

- 👉 Customer challenges
- 👉 Our solution
- 👉 Financial implications

Aligning around customer issues

Customer challenges & problems

Adding new
-ologies

Having the
best tools

Complex
offers

Capital
investments

Flexibility

Alignment
with vendors



All software & -ologies

Pay for what you use

Upgrades & support included



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Easier to buy our great software

Better ROI for customers and Sectra

Focus on customer success & growth



License



- » Ownership
- » Perpetual right
- » Lump sum

Subscription



- » The right to use
- » While subscription is active
- » Recurring payments

A general trend

The end of ownership?

“By 2020 80% of all traditional license vendors will have introduced a subscription model”

“
Gartner



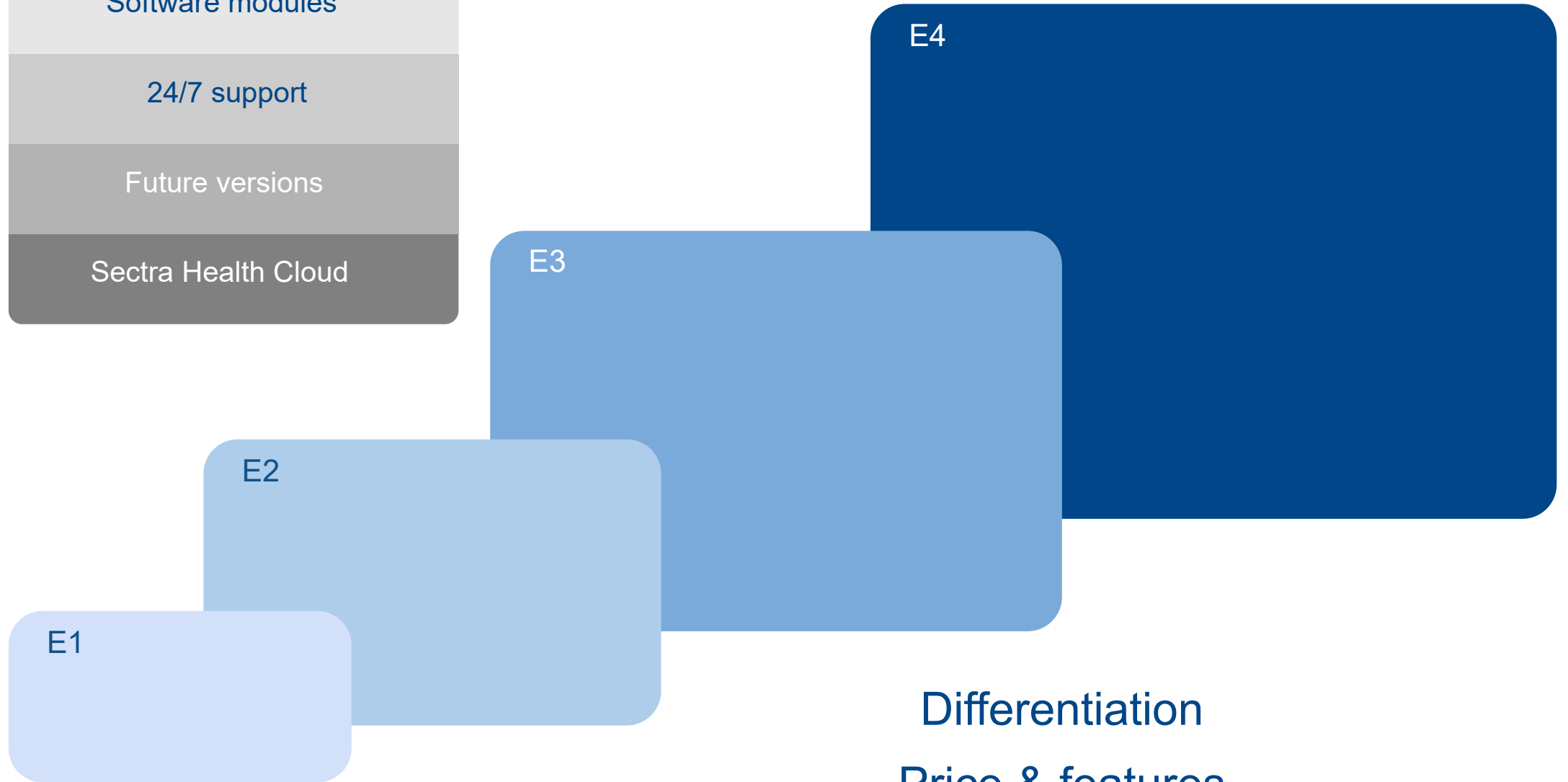
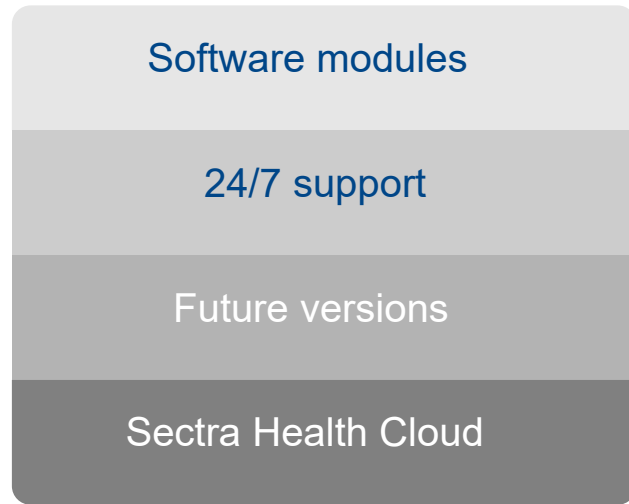
One solution

Access to the whole Sectra suite

Start with any module anytime

- No thresholds, start small & grow
- Expanding into new –ologies with Sectra is easy!





Differentiation
Price & features



Pay for usage

Commitment of volume

Overage is invoiced annually



Future proof for customers

Recurring revenue

Our offering is different

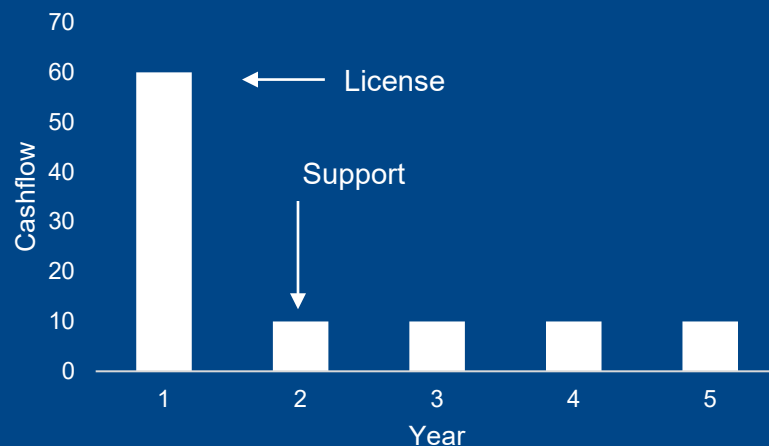
The following example is just illustrating the principles

Professional services outside the subscription (as incurred)

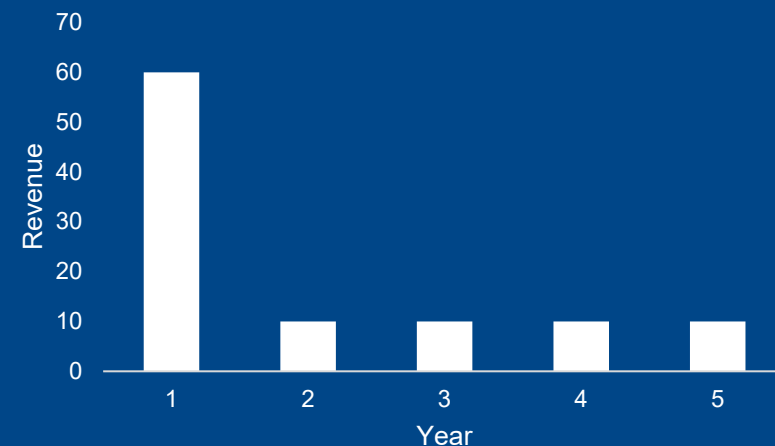
Numbers &
relations are fictive

License

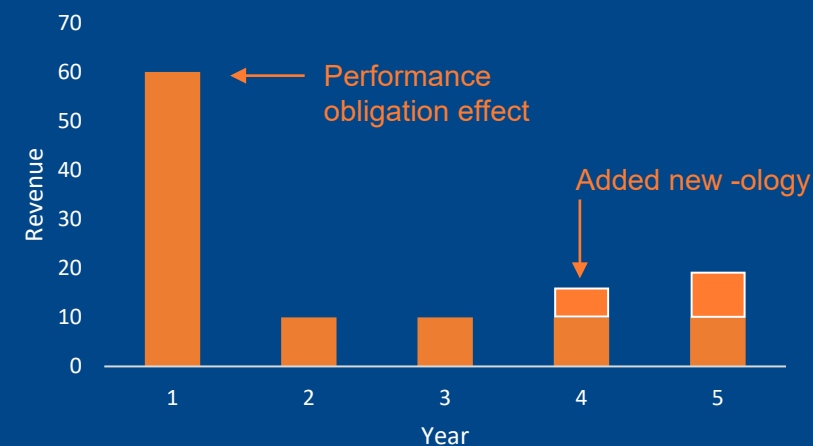
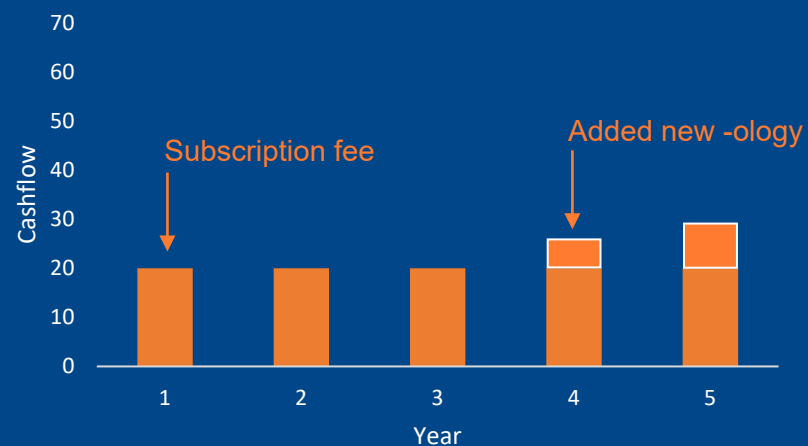
Cashflow



Revenue



Subscription

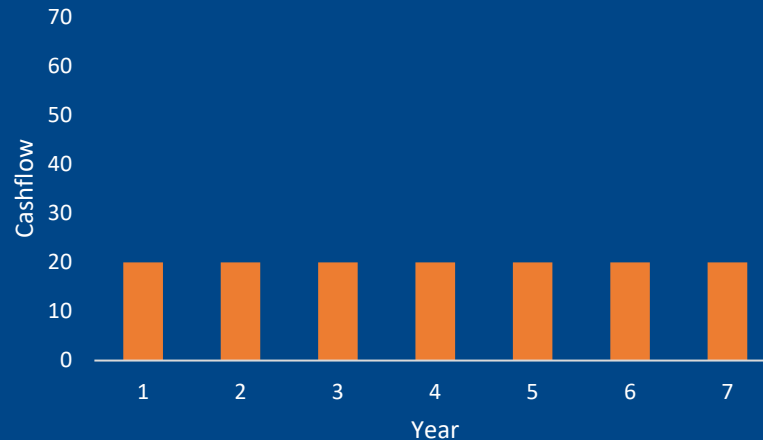


After the 5 first years

Extension of the subscription

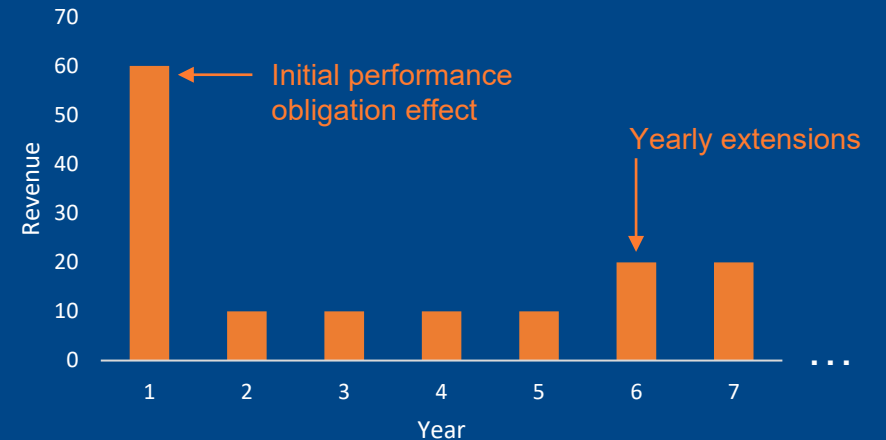
Subscription

Cashflow



Note that the customer will receive all new versions, features and will not have had to buy additional licenses! Evergreen and futureproof.

Revenue



Easier to buy our great software

Better ROI for customers and Sectra

Focus on customer success & growth



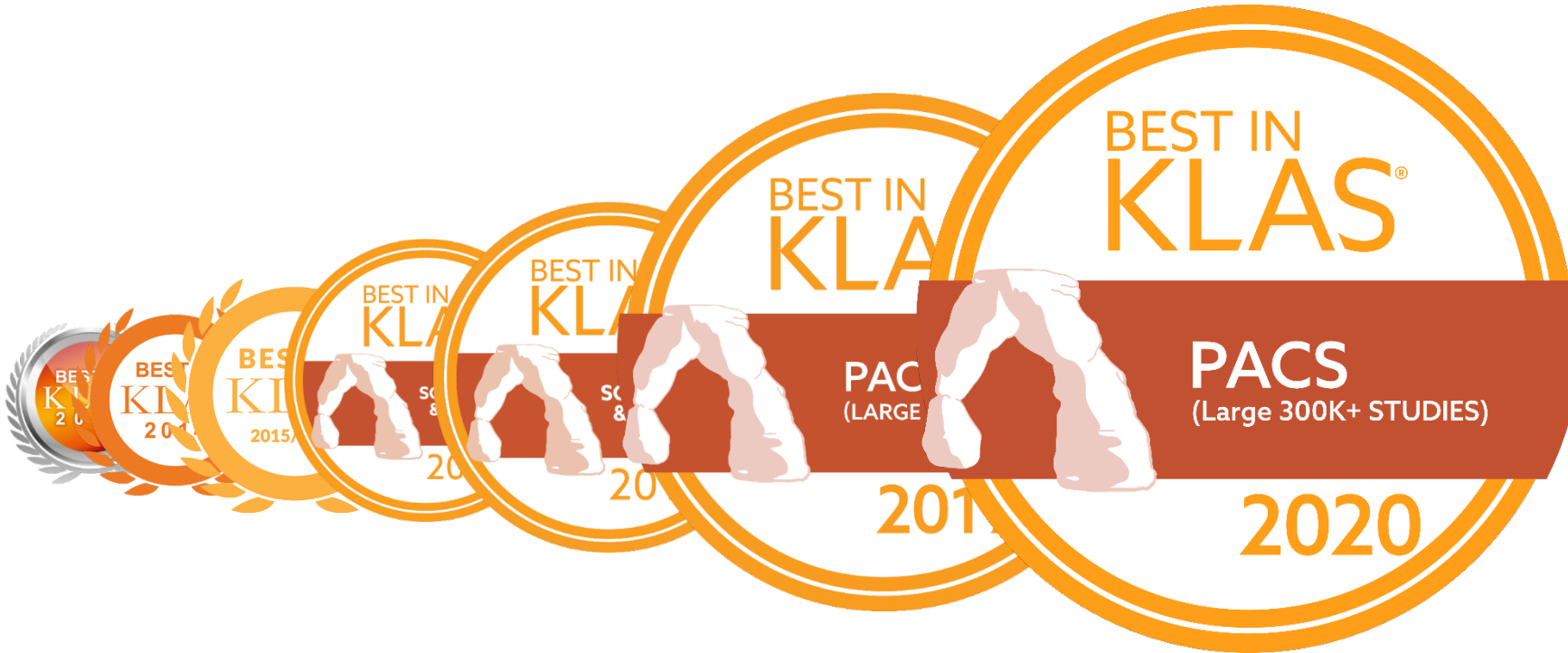
A true Win-Win for both
Customers and Sectra



Sectra's way forward

Torbjörn Kronander, CEO and President

Customers' top choice – 7 years in a row



2020 Best in KLAS awards won:

- US Large PACS
- US Small PACS
- Canada PACS

Why does Sectra win Best in KLAS?

Culture receives a grade A+

- » Proactive Services
- » Keeps Promises
- » Product Works as Promoted

Loyalty receives a grade A+

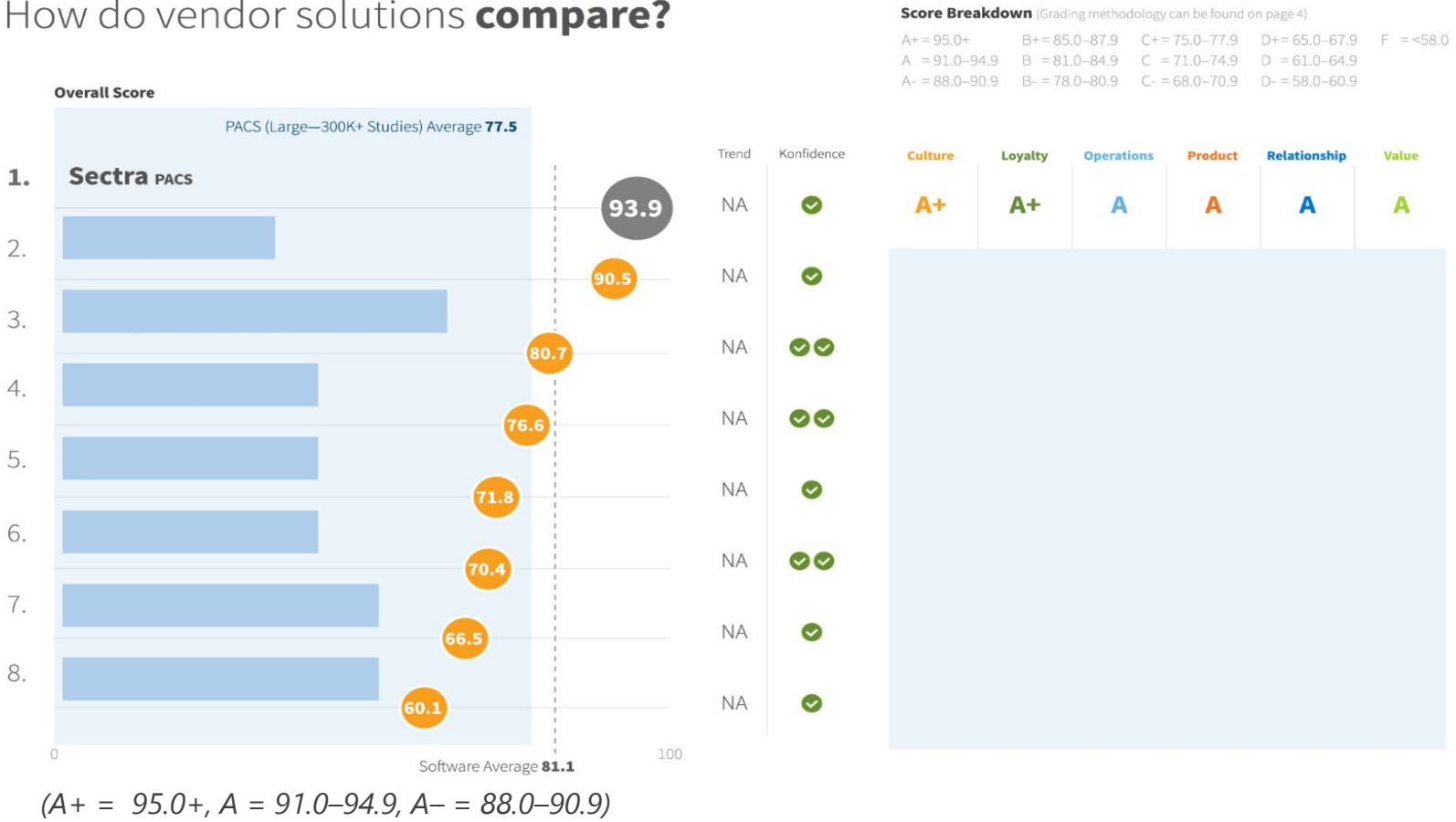
- » Part of Long-Term Plans
- » Would Buy Again
- » Likely to Recommend
- » Overall Satisfaction

Operations, Services, Relationship and Value – grade A

Sectra's KLAS 2020 scores; US Large PACS

PACS (Large—300K+ Studies)

How do vendor solutions **compare?**

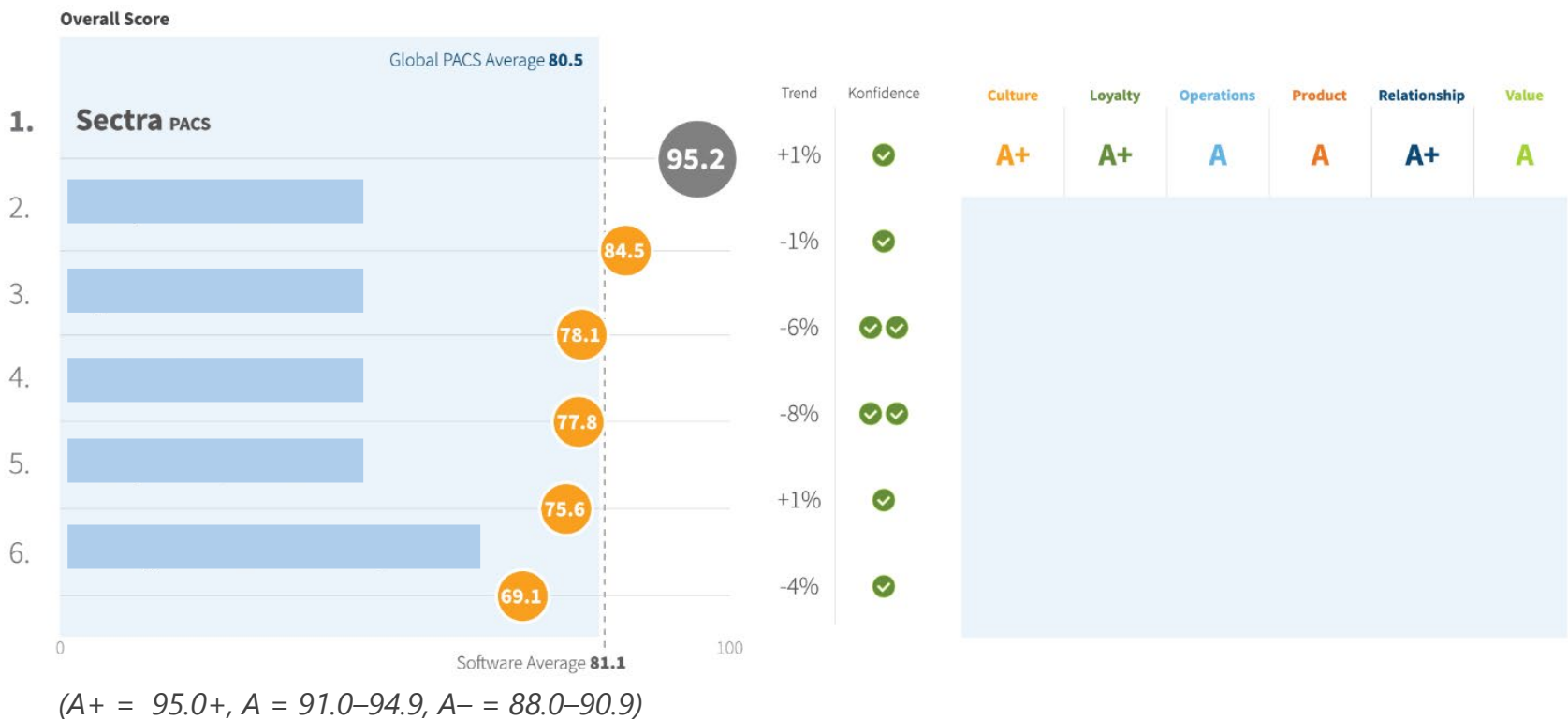


Sectra's KLAS 2020 scores; Canada

PACS Canada

How do vendor solutions **compare?**

6+ organizations (e.g., trusts, health boards, hospitals, health authorities) interviewed





Profit in business comes from repeat customers,
customers that boast about your project or service,
and that bring friends with them.

(W. Edwards Deming)

izquotes.com

Philosophy – Keep staff happy



#3
Sectra

Sweden's Best Employers 2019



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Choose markets wisely

- » Sectra is positioned in healthcare IT and cyber security – markets where society dynamics mandates growth
- » Growth is easier in growing markets



Philosophy – shareholders

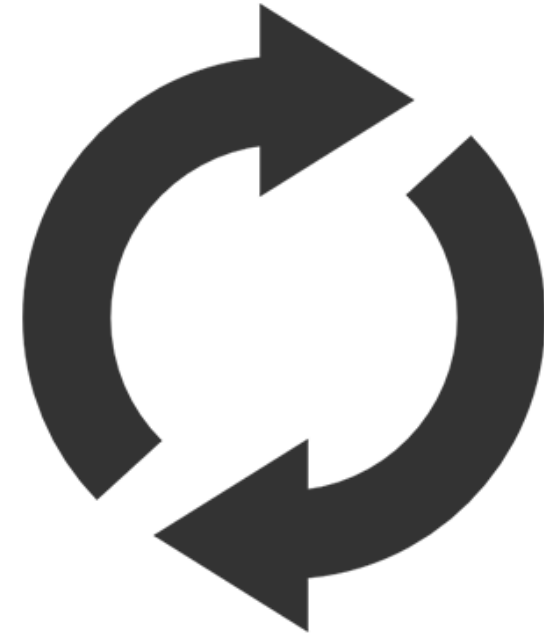
If you have

- » Happy customers
- » Happy employees
- » A good position in growing markets
- » Perseverance and reasonable cost control
- » Then shareholders WILL be happy



More recurring revenue

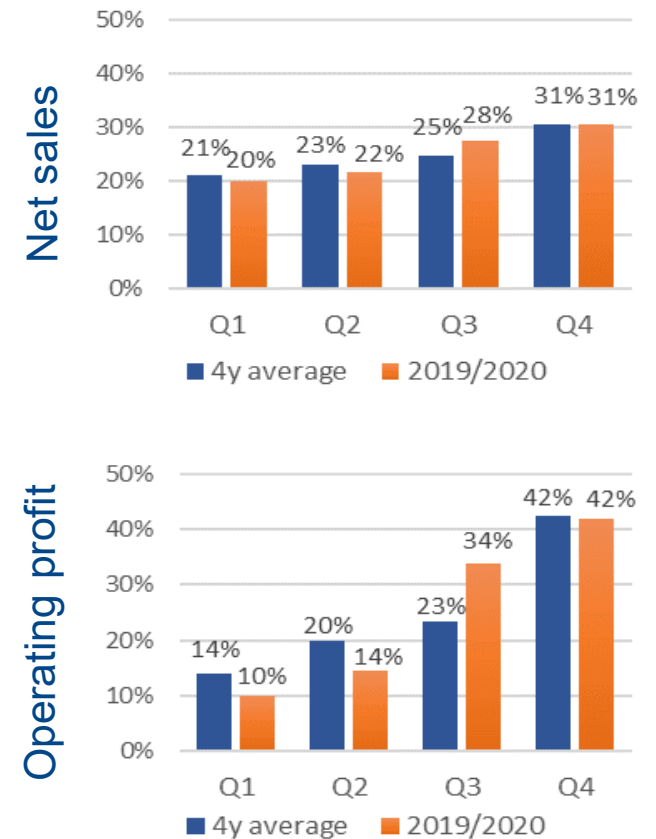
- » “Pay per usage” has been found to deliver large value to both Customers and Vendors
- » The new financial model will play an important role in Sectra’s future
- » But the transition will be over several years



Covid-19 will temporarily increase seasonal variations

We expect:

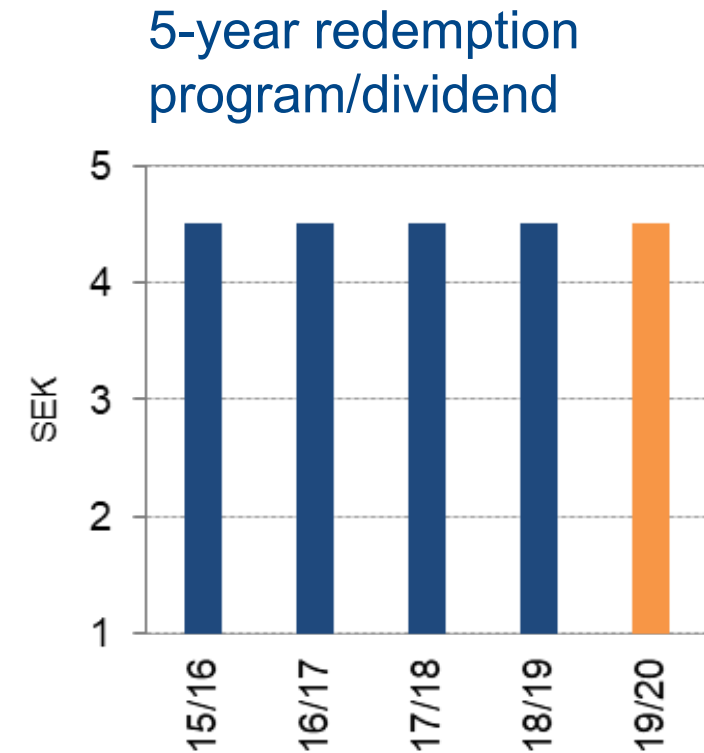
- » Short term impact on US hospitals investment budgets.
- » Longer term effects on tax income for publicly funded hospitals in Europe.
- » An even more pronounced seasonal variation than normal with a weaker Q1 and stronger ending of the year.
- » Long term, our new subscription model will reduce variations, but not significantly over the next few years.



Being a shareholder in Sectra

Share redemption proposal to the AGM 2020

- » With a strong financial position, positive cash flow and significant recurring revenue, Sectra is well equipped to managed the great degree of uncertainty resulting from COVID-19.
- » It is proposed that the AGM resolve that SEK 4.50 per share be distributed to the shareholders through a share redemption program.
- » No ordinary dividend is proposed.



Why Sectra?

- » High customer satisfaction.
- » High employee satisfaction.
- » A strong brand in markets where trust is critical.
- » Profitable, strong cash flow, and a solid balance sheet.
- » Substantial and increasing recurring revenue.
- » Positioned in niche markets with substantial underlying growth.
- » Management owns shares.
- » Sustainable investments in R&D with exciting future opportunities.



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Upcoming financial reports and AGM

- » September 4, 2020 Three-month report and presentation
- » September 8, 2020 AGM in Linköping
- » November 27, 2020 Six-month report

Your feedback is important!

Please let us know what you think at:

www.sectra.com/irsurvey

Questions?

If you follow online, please

- ✓ use the email button or
- ✓ send questions to info.investor@sectra.com

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Knowledge and passion