

Increasing public interest and exciting new partners

Growth in a turbulent quarter

The second quarter net sales amounted to 476 thousand SEK (53). Total operating income amounts to 1.15 million SEK (0.09). Earnings before interest and taxes, EBIT, for the period amounts to -3.55 million SEK (-2.65). The first 6 months of 2020 has total revenues of 2.3 million SEK (0.52), net sales of 1.1 million SEK (0.44) and EBIT of -4.58 (-4.85). The company has been operating under lockdown restrictions for the entire quarter and all international projects came to a halt during the pandemic. This has also led to many potential customers postponing investment decisions and many companies withhold larger investments before the full effects of the pandemic are clear. A number of steps were taken to reduce the effects of the pandemic on the company's operations. Industrial Solar reduced costs by utilizing the aid package provided by the German government as well as reduced personnel costs by applying for short-time work. As a result of the lockdown and unfavorable conditions for larger, international projects Industrial Solar has focused on developing the German home market as well as neighboring European countries. This is a market expected to accelerate in growth, as the European Green Deal will mean heavily increasing investments in renewable energy sources.

Potential for accelerated market growth

In the long-term perspective, the effects of the pandemic can in some ways accelerate the development of the renewable energy market. The company is still relatively dependent on public support for R&D activities and projects and now reports growing interest and attention from public actors. Many of the initiatives that states, governments and the EU are conducting to aid in the economic recovery after Covid-19 also highlight and promotes clean energy initiatives. One such example is the EU's Innovation Fund, aimed at promoting and funding low carbon technologies with up to 10 billion euros between 2020-2030.

New partnerships and collaborations

Industrial Solar communicated in April that they have entered into a cooperation with Kyotherm, to jointly offer their clean energy solutions without capital investments for end users. Kyotherm is an investment company specializing in third-party financing on renewable energy projects. In August, the company signed a cooperation agreement with Solar UV Solutions, USA, to jointly develop the US market. Furthermore, the company reported in August that SolarSprings membrane distillation technology has the ability to be used in environmentally friendly lithium production. This will be further developed and researched as part of a 1.5-million euro R&D project funded by the German state with a consortium of renowned international partners.

Industrial Solar Holding Europe

Commissioned equity research

Date 10 september 2020
Analyst Nils Hellström & Johan Hellström

Basefacts

Industry Energy supply
Chairman Olle Olsson
CEO Christian Zahler
Entry year 2019
Stock list Spotlight Stock Market
Ticker ISHE
Share price 7,16 (7/9-2020)
Outstanding shares, mil. 12,2
Market cap, mil. SEK 87
Net cash, mil. SEK. 26,1
Enterprise value, mil. SEK 61
Website www.industrial-solar.se

Share price development last year



Source: Refinitiv

Forecasts and key figures, msek

	2018*	2019	2020p	2021p
Net sales	2.3	0.8	4.7	7.1
EBITDA	-2	-8.8	-8.46	-8.52
EBIT	-2	-9	-9	-9
Netresult	-2	-8.9	-9.2	-9.2
Earnings per share	neg.	neg.	neg.	neg.
Sales growth	-	-64.6%	487.5%	51.1%
EBITDA-margin	-88.5%	-1100.0%	-180.0%	-120.0%
EBIT-margin	-88.5%	-1125.0%	-191.5%	-126.8%
Profit-margin	-88%	-1113%	-196%	-130%
P/E	-43.7	-9.7	-9.7	-9.7
EV/ebit	-30.6	-6.8	-6.8	-6.8
P/S	38.7	109.2	18.6	12.3
EV/S	27.10	76.57	13.03	8.63

2018 refers only to august-dec.

Source: The company, Analysguiden

Investment case

Stable development through turbulent year

The first half year of 2020 has so far been a turbulent one for Industrial Solar and the effects on their sales efforts has been large. Not only has the travel restrictions made any international travel for businesses and projects impossible, but many companies have also postponed major investments. Combining this with historically low oil prices create an environment where companies focused on renewable energy solutions are facing many challenges. Nevertheless, although the impact on the company's sales have been large the situation could have been worse. Net sales have increased for the quarter and the half year and the company has managed to not see any significant increases in costs. The projected increased attention and support from the public sector as part of the economic recovery after Covid-19 bodes well for the future growth of the market as a whole. Although restricted, the company the quarter has so far brought several exciting news and events for Industrial Solar.

Larger revenues expected from SolarSpring

In the beginning of July, the company announced that the share issue for the acquisition of SolarSpring had been completed. The share issue resulted in 795 243 new shares being emitted, raising the total number of outstanding shares to 12 188 792. This acquisition is already beginning to bear fruit, as the company states in the latest report that synergies has already been identified and utilized. These synergies are especially apparent in sales activities, allowing the company to streamline and co-market these technologies. SolarSpring has provided two additional solar-powered drinking water solutions to Colombia during the period through their sales partner Col Energy. When market conditions turn more favourable the results of the SolarSpring acquisition will become obvious where we expect more significant increases in sales. Overall, we expect Industrial Solar's revenues to grow for the full year and that larger growth will be visible from 2021 onwards.

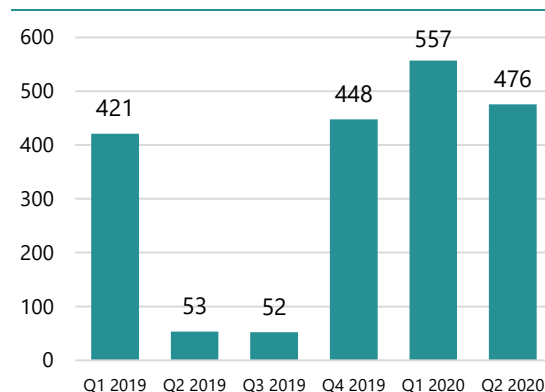
Upside remains despite strong share development

Since our last analysis, the share price of Industrial Solar has shown impressive development. Through using a DCF valuation method with a 15 percent discount rate as well as relative comparisons to the sector and industry, we still find an upside and retain our motivated share price of Industrial Solar at 7.5-10 SEK at this moment. Many factors are hard to project and the market is still young and dependent on public sector support, making it hard to predict and adds more risk. However, we see the company and their technologies as being well positioned to meet future market demands and global trends and we now await larger orders and increases in net sales.

Motivated share value: 7.5-10 SEK

Increasing net sales

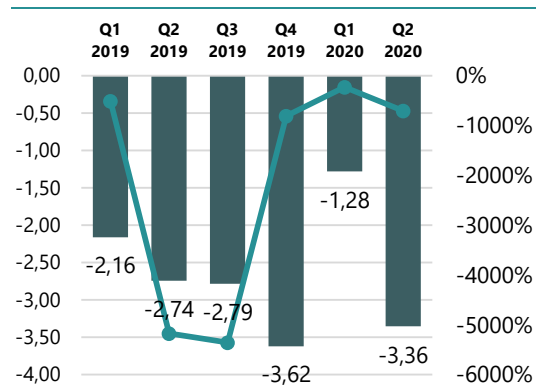
Net sales Q1 2019 – Q2 2020, in thousands SEK.



Source: The company and. Analysguiden

Still losses but better margins

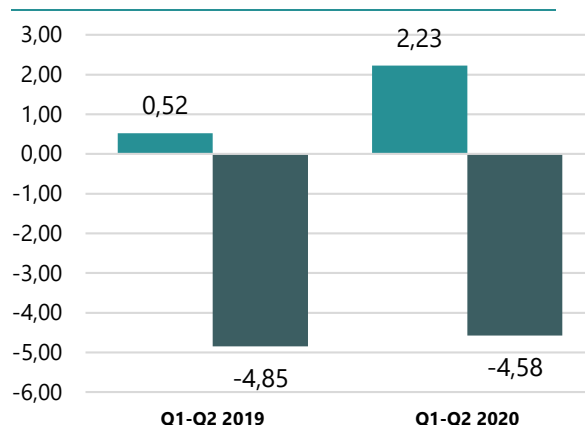
EBIT and EBIT-margin, Q1 2019 – Q2 2020



Source: The company

Stronger 2020 in spite of Covid-19

Revenues and EBITDA: Q1-Q2 2019 versus Q1-Q2 2020, in million SEK



Source: The company

About Industrial Solar

Industrial Solar Holding Europe AB provides, through their ownership of Industrial Solar GmbH in Germany, turnkey and customizable solutions for energy supply and energy efficiency for the industrial sector. The company recently acquired Solar-Spring GmbH and thereby expanded their offering to include cleaning solutions for industrial wastewater through their innovative membrane distillation technology. Industrial Solar thereby strengthens its role as a one-stop shop for renewable energy and energy efficiency for the industrial sector. The company is based on technology researched at the Fraunhofer Institute since 1999. Industrial Solar was formed in 2008 and was restarted in 2018 with economical support from the owners of Absolicon. The company was listed on Spotlight Stock Market in 2019.

2019 was an eventful year for Industrial Solar. The pipeline for ongoing sales projects amounted to 1.4 GW. Total revenue for the year amounted to SEK 2.8 million, with net sales amounted to just over SEK 800,000 and a loss for the year of SEK 8.9 million. Industrial Solar has won several awards for its technology in 2019. The company's Fresnel technology was awarded with the "Solar Impulse Efficient Solution" label, a label from the organization SolarImpulse that is used as an evaluation tool for clean and profitable technology. Industrial Solar also won the European Solar Prize in 2019 from the Eurosolar association, which recognizes companies pushing for a paradigm shift in the sector on the grounds that Industrial Solar's technology proves the potential of solar thermal technology in the industrial sector.

The company has entered into a number of strategic partnerships and participates in several public projects. These partnerships and projects work to create momentum in the industry, lowers the barriers for customers to transition to greener energy sources and provides valuable funding for Industrial Solar's continued operations.

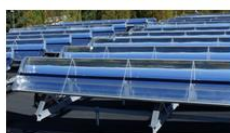
Wide range of technologies

Industrial Solar provides a wide range of technologies for heating, cooling, electricity, and water treatment in the industrial sector.

Fresnel Collector



Parabolic Trough Collector



Hot Water Collector



Photovoltaic



Others



Turnkey solutions for clean energy

Industrial Solar provides a range of holistic solutions for clean energy in the industrial sector.



Source: The company

Award winning technology

Industrial Solar has been awarded several prizes and certifications, most notably the Solar Impulse Label and European Solar Prize in 2019.



Source: The company, Eurosolar

The market

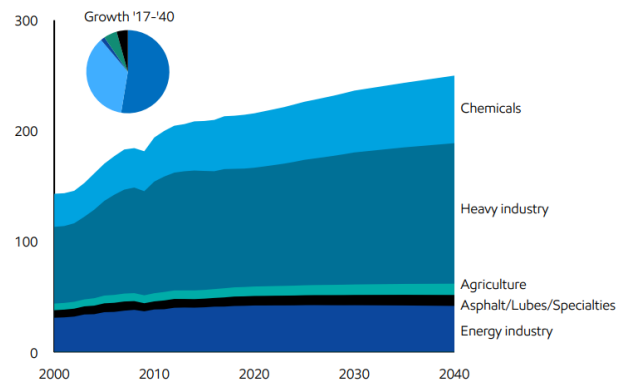
The industrial sector accounts for a large part of the global energy demand, according to the "2019 Outlook for Energy: A Perspective to 2040" from ExxonMobil. The report further states that the industrial need for energy will increase approximately 17% until 2040. This need is currently met by primarily fossil fuels, such as oil, gas and coal. A large part of this increase is driven by heavy industries and chemical production. Most of the projected increase can be attributed to developing markets and non-OECD countries in Asia, Africa and South America. Coupled with a long-term increase in living standards, these regions will naturally drive the future global demand of energy. Many of these regions are also well suited to meet this increase with the help of solar energy, as the geographical conditions are beneficial with high amounts of solar radiation. The industrial sector currently uses about half of the total global energy consumption.

Most of the industrial use of energy consists of industrial process heating. These heating processes are used in boiling, pasteurizing, distillation, melting and much more. The heating of industrial processes is an integral part of the global energy market, using almost 20% of the total global energy demand. These heating processes are currently supplied by 90% coal, natural gas and oil and thus it is no surprise that the majority of direct carbon dioxide emissions from the industrial sector are from process heating, according to the International Energy Agency. According to a report from Solar Payback, the total energy consumption from industrial process heating is larger than the total global electricity consumption. This highlights the fact that even though electricity is a large factor in the current debate regarding the readjustment to green energy, the transition to green industrial heating to meet climate goals is of even greater importance. solar energy and transitioning to cleaner heating processes in the industrial sector is vital in reaching net-zero emission goals.

In general, the transition of process heating to more renewable sources in the industrial sector has not gained the same momentum as the transition regarding electricity. There have traditionally been obstacles as a result of the high temperature demands as well as the lack of equipment which meets industrial standards for life span and cost efficiency. These obstacles are no longer a problem due to the commercial and technical solutions which Industrial Solar presents, as well as a range of new financing models. These financing models creates incentives and possibilities for companies to bypass large initial investments and can enhance and accelerate the adoption of solar energy in the industry. SolarPayback, a large German government funded project for solar power, mentions high upfront costs and long payback periods as key reasons behind the relatively low deployment rates of solar heating solutions. Providing companies with a holistic approach, including financing models, thus removes one key barrier for the adoption of solar power.

Rapidly growing industrial needs

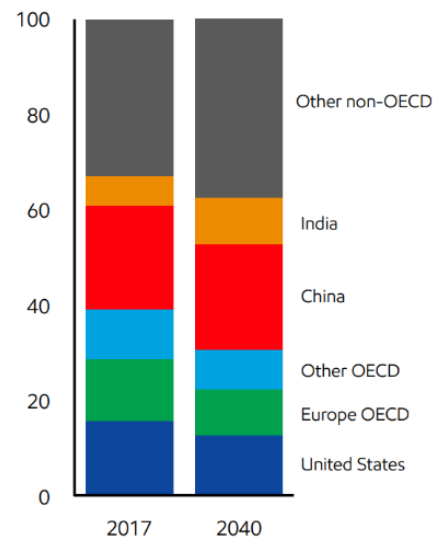
Estimated growth in energy needs of different industrial sectors, 2000-2040.



Source: ExxonMobil

Non-OECD countries growing fast

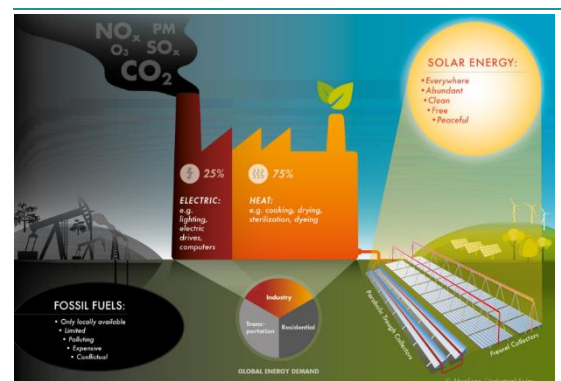
Percentage of global energy demand by region, 2010-2024.



Source: ExxonMobil

Clear advantages to clean energy

75 percent of industrial energy demand are from heating processes, which could be supplied by solar energy.



Source: The company

Technologies and products

Industrial Solar provides a wide range of customizable and environmentally sustainable solutions for energy supply and maintenance in the industrial sector. Providing turnkey solutions means a holistic approach where Industrial Solar handles the entire project life cycle, from initial analysis to fully operational system. This includes engineering, procurement, construction, maintenance, and monitoring. This wide range of solutions are accompanied by several key technologies and systems, all customized according to the needs of the customer. Industrial Solar can thus offer, among other things, photovoltaic electricity generation (solar cells), cooling systems, consulting, maintenance, heat storage and much more. The broad expertise the company possesses and its long history of work with renewable energy sources thus positions Industrial Solar as a comprehensive supplier for energy efficiency, renewable energy sources and solar heat.

Four key solutions areas

Industrial Solar provides technologies and turnkey solutions within four different areas.



Steam



Cooling



Water



Electricity

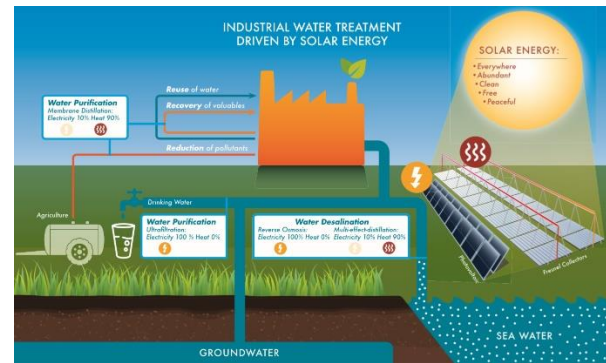
Source: The company.

One key technology for the company is the Fresnel solar collector. The solar collector works by reflecting direct solar radiation from several mirrors onto a stationary receiver. This receiver is made up of a vacuum tube, surrounded by secondary mirrors. Around two thirds of the solar radiation are reflected directly to the tube, whilst the remaining part reaches the tube through the secondary mirrors. The heat from the solar radiation is thus trapped in the tube and transported through the system through a medium for heat transportation, usually a liquid with high thermal transfer capabilities.

Based on this Fresnel technology, Industrial Solar has developed the LF-11 Fresnel solar collector, optimized for industrial processes. The LF-11 solar collector has the capacity to provide heat up to 400 degrees Celsius and can operate with pressures of up to 120 bars. The capacity can also be scaled up from 500kW to 30 MW. A heating capacity of 400 degrees Celsius means that the LF-11 solar collector is well suited to meet more than 50 percent of industry requirements

Strengthened offering in water area

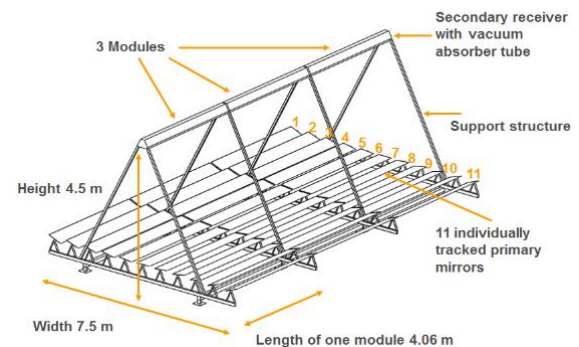
The company has significantly strengthened their offering in water management and treatment with the acquisition of SolarSpring GmbH.



Source: The company

Optimized for industrial processes

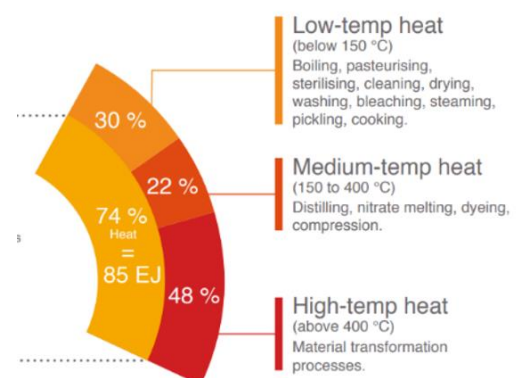
Industrial Solar's Fresnel LF-11 solar collector is optimized for use for industrial processes



Source: The company

Covers majority of industrial needs

The LF-11 solar collector can provide heat up to 400 degrees Celsius, covering over 50 percent of industry requirements.



Source: Solar Payback

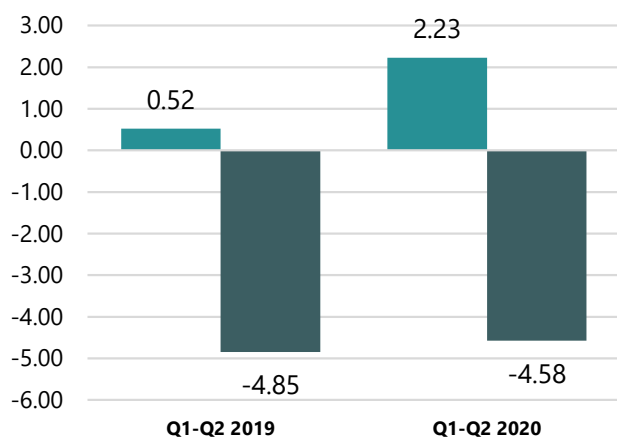
Growth in a turbulent quarter

The second quarter net sales amounted to 476 thousand SEK, an increase from 53 thousand the corresponding period 2019. Total operating income amounts to 1.15 million SEK (0.09). Earnings before interest and taxes, EBIT, for the period amounts to -3.55 million SEK (-2.65). The first 6 months of 2020 has total incomes of 2,3 million SEK (0,52), net sales of 1,1 million SEK (0.44) and EBIT of -4.58 (-4.85). Free cash flow for the first half year amounts to -6.07 million SEK (-4) and cash and cash equivalents at the end of the period was 26,1 million SEK (9.6). Overall, the quarter results in better EBIT than expected considering the far-ranging effects of Covid-19 and the company still manages to increase sales during the current circumstances. The company has been operating under lockdown restrictions for more or less the entire quarter and says that all international projects came to a halt during the pandemic. This has also led to many potential customers postponing investment decisions and many companies withhold larger investments before the full effects of the pandemic are clear. A number of steps were taken to reduce the effects of the pandemic on their operations. Industrial Solar reduced costs by utilizing the aid package provided by the German government as well as reduced personnel costs by applying for short-time work. As a result of the lockdown and unfavorable conditions for larger, international projects Industrial Solar has focused on developing the German home market as well as neighboring European countries.

In the long-term perspective, the effects of the pandemic can in some ways accelerate the development of the renewable energy market. The company is still relatively dependent on public support for R&D activities and projects and now reports growing interest and attention from public actors. Many of the initiatives that states, governments and the EU are conducting to aid in the economic recovery after Covid-19 also highlight and promotes clean energy initiatives. One such example is the EU's Innovation Fund, aimed at promoting and funding low-carbon technologies with up to 10 billion euros between 2020-2030. These are indications of higher growth in the market as a whole, as it relies on public initiatives and support to accelerate growth.

Stronger half-year in spite of Covid-19

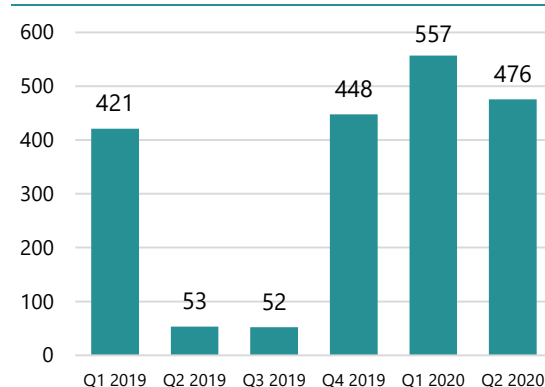
Revenues and EBITDA; Q1-Q2 2019 versus Q1-Q2 2020, in million SEK.



Source: The company

Increasing net sales

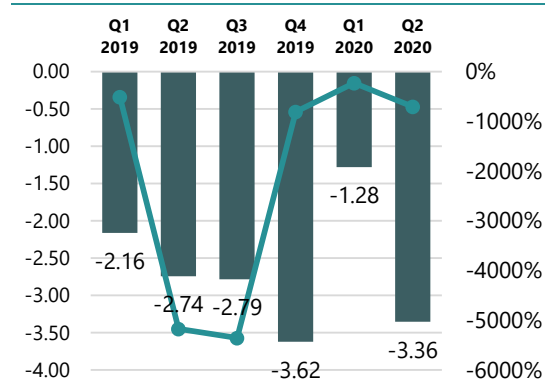
Net sales Q1 2019 – Q2 2020, in thousands SEK.



Source: The company

Still losses but better margins

EBIT and EBIT-margin, Q1 2019 – Q2 2020



Source: The company

The quarter and the period after it have resulted in a number of exciting activities and news for Industrial Solar. Industrial Solar communicated in April that they had entered into a cooperation with Kyotherm, to jointly offer their clean energy solutions without capital investments for end users. Kyotherm is an investment company specializing in third-party financing on renewable energy projects. This collaboration means that Industrial Solar takes a step toward lowering barriers for potential customers and helps them overcome financing challenges.

In June, the company announced that it has joined the Austria Solar industry association. The association brings together suppliers of solar heating systems and represents the interest of over 100 companies. These companies come from all parts of the supply chain and it also includes renowned Austrian R&D facilities. The association is also a member of several other platforms, like Solar Heat Europe. With Industrial Solar's entry into the association, the company creates important connections within the industry and works to create more momentum for the solar heat industry as a whole.

In the beginning of July, the company announced that the share issue for the acquisition of SolarSpring had been completed. The share issue resulted in 795 243 new shares being emitted, raising the total number of outstanding shares to 12 188 792. This acquisition is already beginning to bear fruit, as the company states in the latest report that synergies have already been identified and utilized. These synergies are especially apparent in sales activities, allowing the company to streamline and co-market these technologies. SolarSpring has provided two additional solar-powered drinking water solutions to Colombia during the period through their sales partner Col Energy.

After the reporting period, Industrial Solar announced that the Swiss research institute Paul Scherrer Institut has conducted a life cycle assessment on Industrial Solar's LF-11 Fresnel solar collectors. The evaluation found that Industrial Solar's technology performs at the highest level in many of the ecological evaluation categories compared to heat from oil or other fossil fuels. The results of the study are an important proof of the potential of Industrial Solar's technologies and position the company at the forefront of the market. In August, the company signed a cooperation agreement with Solar UV Solutions, USA, to jointly develop the US market. By collaborating, the two companies can jointly offer tailored solutions and might be a valuable inroad for Industrial Solar to a potentially huge new market. Furthermore, the company reported in August that SolarSpring's membrane distillation technology has the ability to be used in environmentally friendly lithium production. This will be further developed and researched as part of a 1.5 million euro R&D project with a consortium of renowned international partners.

Five years successful operations

Industrial Solar's direct steam generation plant at RAM Pharma in Jordan turns 5 years and has during that time proven to not only reduce CO₂ emissions but also significant energy cost savings.



Source: The company

Accepted into important association

In June, the company announced that it has joined the Austria Solar industry association. The association brings together suppliers of solar heating systems and represents the interest of over 100 companies.



Source: The company

Technology received highest grade

The Swiss research institute Paul Scherrer Institut has in a life cycle assessment found that Industrial Solar's technology performs at the highest level in many of the ecological evaluation categories compared to heat from oil or other fossil fuels.



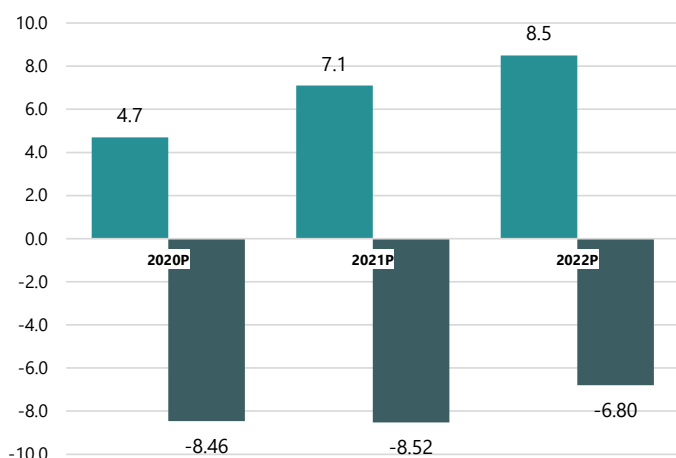
Source: Paul Scherrer Institut

Valuation

The first half year of 2020 has so far been a turbulent one for Industrial Solar and the effects on their sales efforts has been large. Not only has the travel restrictions made any international travel for businesses and projects impossible, but many companies have also postponed major investments. Combining this with historically low oil prices create an environment where companies focused on renewable energy solutions are facing many challenges. Nevertheless, although the impact on the company's sales have been large the situation could have been worse. Net sales have increased for the quarter and the half year and the company has managed to not see any significant increases in costs. The projected increased attention and support from the public sector as part of the economic recovery after Covid-19 bodes well for the future growth of the market as a whole. Although restricted by Covid-19, the quarter has so far brought several exciting news and events for Industrial Solar. When market conditions turn more favourable the results of the SolarSpring acquisition will become obvious where we expect more significant increases in sales. Overall, we expect Industrial Solar's revenues to grow for the full year and that larger growth will be visible from 2021 onwards.

Revenues and EBITDA, 2020-2022

Projections for revenues and EBITDA, 2020-2022, in million SEK.



Source: Analysguiden

Through using a DCF valuation method with a 15 percent discount rate as well as relative comparisons to the sector and industry, we retain our motivated share price of Industrial Solar at 7.5-10.0 SEK at this moment. Many factors are hard to project and the market is still young and dependent on public sector support, making it hard to predict and adds more risk. However, we see the company and their technologies as being well positioned to meet future market demands and global trends and we now await larger orders and increases in net sales.

Motivated share value: 7.5-10.0 SEK

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Responsible analysts:

Nils Hellström and Johan Hellström