

# Company Description OrganoClick AB (publ)

# Pareto Securities

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It should be noted that certain statements herein which are not historical facts, including, without limitation, those regarding expectations for general economic development and the market situation, expectations for OrganoClick's development and profitability and statements preceded by "expects", "estimates", "forecasts" or similar expressions, are forward-looking statements. These statements are based on current decisions and plans and currently known factors. They involve risks and uncertainties which may cause the actual results to materially differ from the results currently expected for OrganoClick.

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Investing in the Company involves a high degree of risk. For a discussion of certain of the risk factors that should be considered in connection with an investment in the company, please see the section "Risk Factors".

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# Financial calendar

- Annual report 2014: 31 March 2015
- Annual General Meeting: 5 May 2015
- Interim report January-March 2015: 26 May 2015

# Identification

- ISIN code for the OrganoClick share: SE0006510335
- Short name (ticker) on Nasdaq First North for the OrganoClick share: ORGC

# Summary

OrganoClick develops, produces and sells functional, environmentally friendly, and economically competitive fiber-based materials and bio-additives used to add functions to fiber-based materials. The Company markets for instance fire resistant and rot protected timber under the brand name OrganoWood<sup>®</sup>, and water repellent technology for textiles under the brand name OrganoTex<sup>®</sup>. Products that are close to commercial launch include specially designed moulded fiber products with the first application being burial coffins.

Through the years, OrganoClick has been awarded several prestigious prizes for its environmentally friendly technologies. A scholarship was awarded in the spring of 2007 from the Swedish King Carl XVI Gustaf's 50th Anniversary Fund for Science, Technology and the Environment. In 2008, the Company won the Swedish environmental innovation prize "Miljöinnovation" (Environmental innovation) and was named "Sweden's most promising start-up company", winning the Innovation & Technology Award. During 2010, the Company was appointed as a Climate Solver by WWF (World Wildlife Fund) and in 2011 it was appointed as one of Sweden's 20 most innovative companies by the Swedish Institute. In 2012 and 2013, the Company featured Affärsvärlden's and Nyteknik's list of the 33 hottest tech-companies in Sweden. In 2014, OrganoWood was appointed as the "Hottest building material" at the Nordic's largest trade fair for building material, Nordbygg. The same year, OrganoTex was appointed as "One of the most interesting new materials" at the World's largest trade fair for sport and outdoor goods, ISPO in Munich.

Based on the product families, OrganoClick has organised the Company in three business units: Functional wood, Performance textiles and nonwoven, and Fiber composites and paper products. The first product that was launched was the fire and rot protected timber used for wooden decks, OrganoWood-modified timber. This product concept also includes complementing surface treatment products that enhance timber's rot and fire resistance, as well as dirt and water repellence. The products were launched in 2011 and are currently offered in Sweden, Norway, Finland, and Denmark. Resellers are for instance hardware stores and building material suppliers such as XL-BYGG, K-rauta, Optimera, Bygma, and Kodin Terra. The products are sold via the subsidiary OrganoWood AB ("**OrganoWood**"), which is partly owned (approximately 54.5 percent of the capital and 59.4 percent of the voting rights) together with the investment company Kvigos AB (approximately 35.5 percent of the capital and 38.6 percent of the voting rights) and certain other minority shareholders.

Within the business area Performance textiles and nonwoven, the Company offers environmentally friendly, water repellent textiles sold under the brand name OrganoTex. The technology used contains no toxic substances such as perfluorinated carbon compounds (PFCs), unlike most of the prevailing functional textiles. This business area also offers bio-based binders under the trade name OC-biobinder<sup>™</sup>. These are used to strengthen the mechanical properties of woven and nonwowen textiles. Customers include Swedish textile producer Almedahls and Taiwanese Chang-Ho Fibers. Application areas include outdoor and sportswear, home textiles, and industrial applications.

The third business area, Fiber composites and paper products, offers specially designed fiber composite materials that can be used in a variety of applications. OrganoClick combines a newly developed production technology for moulding of fibers together with its advanced material technologies. The first product to be launched is a material used in burial coffins which has been developed together with the dominating funeral coffin producer in the Nordics, Nyarp Holding AB.

The product development is mainly performed together with customers in collaboration projects in which OrganoClick supplies the technology and know-how, and the customer supply co-financing as well as product and market knowledge. OrganoClick is currently running several development projects; for instance one with the third largest plasterboard producer Siniat (previously LaFarge Gypsum).

The Company was founded in 2006 based on research performed at Stockholm University and the Swedish University of Agricultural Science. Mårten Hellberg, with an educational background containing a M.Sc. in Molecular Biotechnology Engineering and courses in Business and Economics, is co-founder and has been the CEO of OrganoClick since the foundation. The Company currently has 18 employees and a 3,500 m<sup>2</sup> large facility

in Täby, Stockholm, with production lines for chemical formulations and moulded fiber products, research and development laboratory, and office space.

The board of directors is led by Chairman Ashkan Pouya, one of the founders of Serendipity Innovations AB (publ). Other members of the board include the previous president of Tetra Pak Bertil Hagman, the previous Technical Director of Tetra Pak and CTO of SCA Hygiene Products Claes-Göran Beckeman, and Armando Córdova, professor in Organic Chemistry and one of the scientific co-founders of OrganoClick.

In order to scale up OrganoClick's sales and marketing organization in Performance textiles and nonwoven, market launch the first Fiber composite product, as well as keep up the current strong growth in Functional wood, the Company made a private placement of 11,029,412 shares to a value of SEK 75 million in February 2015 (the "Equity Issue" or "Private Placement"). In connection with the Private Placement, the Company submitted an application to list its shares at Nasdaq First North. The Company has received approval from Nasdaq First North and the expected first day of trading on Nasdaq First North is 16 February 2015. The Company expects that the raised capital will last until the Company is cash-flow positive, which according to the current business plan is expected during H2 2016.

# **Risk factors**

Investment in OrganoClick shares is associated with a number of risks and uncertainties. A number of factors affect, or may affect, the Group's business, both directly and indirectly. Prior to investing in the Shares, prospective investors should carefully consider the factors, risks and uncertainties associated with any such investment, the Groups' business, strategy and the industry in which it operates, together with all other information contained in this Company Description including, in particular, the risk factors described below.

Risk factors deemed to be of material importance for the Group's business, operating results, financial condition and prospects are described below and should be used as guidance only. The description is not exhaustive and the order in which the risks are presented is not an indication of the likelihood of the risks actually materialising, of the potential significance of the risks or of the scope of any potential harm to the Group's operations, operating results, financial condition or prospects. Additional risks and uncertainties relating to the Group that are currently not known to the Group, or that the Group currently deems immaterial, may individually or cumulatively have a material adverse effect on the Group's business, financial condition or prospects and, if any such risk should materialise, the price of the Shares may decline and investors could lose all or part of their investment. Prospective investors should carefully consider whether an investment in the Shares is suitable for them in light of the information in this Company Description and their personal circumstances.

# Market, financial and business related risks

# The Company has a limited history with no proven earning capacity

Since the establishment of OrganoClick in 2006, the Company has consolidated and developed a significant knowledge regarding Functional wood, fiber composites, paper products and textiles. In addition, the Group has initiated the commercialisation of its products. However, such sale has only been initiated in certain markets, primarily in the Nordic region, and has only generated limited incomes. Although the initial market introduction of the Company's products has been successful, there is a risk that future sales will not meet the anticipated sales targets. Furthermore, the Group has experienced operating losses from the inception of its business and it is expecting to continue to suffer such losses in the near and medium-long term. Consequently, the Group has no proven earning capacity and it is uncertain whether its business will be sufficiently profitable or generate a sufficient cash flow to satisfy the Group's need of working capital. If the above described risk would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

## Macroeconomic factors

The markets for Functional wood, fiber composites, paper products and textiles are to a large extent affected by macroeconomic factors such as the general economic trend, regional economic development, employment rate development and interest rates. The Company is particularly exposed to macroeconomic factors which affect the Nordic region as the Company primarily conducts business in that region. If one or several of these factors would have a negative development, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

## Risks relating to cooperation with partners of the Group

The Group depends on, and is expected to continue to depend on, collaborating partners to manufacture, market and sell its current products and to develop future products. Accordingly, the Group's business relies to a large extent on third parties. If these third parties do not carry out their contractual obligations or meet expected deadlines, or if the quality or accuracy of the work performed is inadequate, planned marketing and sales activities as well as product developments may (among other things) be delayed or terminated. If any of the above described risks would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Risks relating to research and development

OrganoClick manages product development programs within each of its business areas and intends to focus on developing new and improved products based on its current technologies, which then can be introduced on the market. However, there is no assurance that the Group will be successful in developing new products, or that a new product will enter the market as expected or at all. A failure to develop new products may be caused by several factors. One factor is that the relevant product does not contain the desired qualities or features. Another factor is that the relevant product is too expensive to manufacture and sale. Consequently, there is a risk that the Group will allocate significant resources in time consuming and costly development projects without having any benefit thereof. If the above described risk would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Sales related risk

It is difficult to anticipate the market response in connection with the launch of a new product. Although the quality of a new product is good and is being sold at a competitive price, a successful sale of a new product may not occur as expected or at all. Consequently, there is a risk that the Group will not be successful in its future product introductions and sales. If the above described risk would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Manufacturing disruptions

The manufacturing of the Group's products is partially carried out by third parties and partially by the Group at its production facility located in the industrial area of Arninge, Täby municipality (Sweden). The Group's success is dependent on reliable and efficient production. Disturbances, even minor, in or damage to the Group's production facility or to the production equipment as a result of, for example, strikes, natural disasters, sabotage or fire may have an adverse impact on its business, both in respect of direct damage to the property as well as manufacturing disruptions. Such occurrences (both at internal and external production facilities) may make it difficult, or impossible, for the Group to fulfil its obligations towards customers and to deliver agreed quantity and quality in time, which would increase the risk of the customers changing supplier. The customers may also be entitled to compensation if the Group is unable to deliver according to its undertakings. If the above described risk would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Price fluctuations of input goods

For all business areas, the Group produces the specific substances that give the relevant material its characteristic features, while the raw and other material are purchased from third parties. The costs for such material are a large cost item and constitute a significant part of the sales prices of the Group's products. Consequently, the pricing of the Group's products are influenced by the costs for such input goods. If the price of raw and other material increases, the total production costs for the Group and its production partners would also increase resulting in higher prices for the customers which in turn could result in a decreased sale of the Group's products. If the above described risk would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Financing risks

The Group has used and will continue to require substantial funds to conduct research, development and commercialisation of the Company's current and future products. The Group is currently in an expansion phase and may be required to seek additional external funding in the future to continue its operations. However, such additional financing may not be available to the Group on acceptable terms or at all. If the Group is not able to obtain financing or refinancing of previously received financing, or is only able to obtain such financing on terms that are disadvantageous to the Group, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Risks related to intellectual property, know-how and confidentiality

The success of the Group is to a large extent dependent on its ability to obtain and retain protection for its intellectual property rights (including patents) attributable to the current and future products. There is a risk that the Group may not be able to obtain patents or other intellectual property protection for its future innovations. Furthermore, patents are only valid for a limited period of time and there is a risk that the Group's current and future intellectual property rights will not constitute a satisfactory protection. The technologies and methods used by the Group in its research and development, or which is attributable to its commercialised products, may also constitute infringements in patents owned or controlled by a third party. If the Group is forced into legal proceedings regarding the title to a patent, the costs for such proceedings may be significant and the Group may also lose such cases, which could result in ceased protection for one or several of the Group's products or an obligation to pay significant damages.

The Group is also dependent on know-how and trade secrets and it seeks to protect such information by (among other things) confidentiality agreements with its employees, consultants and other partners. However, it is not possible to fully protect the Group against unauthorised disclosure of information and there is a risk that competitors may receive access to and use the know-how and trade secrets developed by the Group.

If any of the above described risks would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Competition

The Company operates on a competitive market. The Company's future possibilities to compete are (among other things) dependent upon the Company's and its competitors' financial resources, marketing and product development. Furthermore, several of the Group's competitors have greater financial resources than the Group and other market participants may obtain such financial resources, which could result in a competitive advantage for such companies. There is also a risk that the Company cannot react rapidly on actions from its competitors and on existing and future market needs. Increased competition from existing and new market participants as well as deteriorated competition possibilities could result in decreased sales and market shares, which may have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Credit risks

The Group is exposed to credit risks. Credit risks for the Group arise mainly through credit exposure to customers, that is, that the Group will not receive payments as agreed or make a loss due to a counterparty's inability to meet its commitment towards the Group. If a counterparty cannot fulfil its obligations towards the Group, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Liquidity risks

Liquidity risk is the risk that the Group cannot meet its payment obligations at the maturity date. If the Group's liquidity sources prove not to be sufficient, there is a risk that the Group can only meet its payment obligations by raising funds on terms significantly increasing its financing costs or that the Company cannot meet its payment obligations at all and, as a result thereof, being in default under agreements entered into by the Company. If the above described risk would materialise, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### **Reputational damage**

OrganoClick's reputation is central to its business. The Group's business is based on that consumers and other business partners associate OrganoClick with positive values and good quality. If, for example, OrganoClick or any of its senior management were to act in a manner that conflict with the values represented by OrganoClick, or if any of the Group's products does not meet the expectations of the market, there is a risk that its reputation

will be damaged. Furthermore, if one or several of the Group's products prove to be harmful to the environment, there is a risk that the Group's environmental friendly approach will be damaged, regardless of whether this is due to a failure of the Group or any of its production partners. Such reputational damage may have a material negative effect on the Group's operations, operating results, financial condition and prospects.

## Key employees

The Group is dependent on a number of key employees, including senior executives and other employees with specialist competence within the Group's business areas. Accordingly, the Group's future development and success is dependent on its ability to recruit and retain such key employees. If key employees leave the Group, or if the Group is unable to recruit such employees, it could have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Legal risks

New laws or rules or changes with respect to the application of current laws or rules which are applicable to the activities of the Group or the actions of its customers, may have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Tax risks

The Group's operations are affected by the tax rules in force from time to time in the jurisdictions where the Company operates. These rules include corporate tax, value added tax, other governmental or municipal taxes and interest deductions and subsidies. There is no assurance that the Company's interpretation of applicable tax laws and regulations is correct. Furthermore, changes in applicable tax laws and regulations may affect the conditions of the business of the Company. It cannot be excluded that tax rates are changed in the future or that other changes of regulations occur which affect the Company's business. If any of the above described risks would materialise, it may have a material negative effect on the Group's operations, operating results, financial condition and prospects.

#### Disputes

The Company is currently not, but may in the future become involved in, disputes. Such disputes could be time consuming and result in costs, the size of which cannot always be foreseen. Disputes could, therefore, have a material negative effect on the Group's operations, operating results, financial condition and prospects.

# Risks associated with the Shares

The market price of the Company's share may fluctuate and an investor may lose a portion or all of its investment The Company's shares have been approved for trading at Nasdaq First North, however, there are no guarantees that an active market for trading in the shares of the Company will evolve or, if one should emerge, that it will remain after the listing is completed. The shares of the Company may also be subject to considerable fluctuation as a result of changes in the way investors view the shares due to various circumstances and events, such as changes to applicable laws and regulations that affect the Company's business, or changes in the Company's operating results and development. In addition, the stock market has experienced extreme price and volume fluctuations in the past that have often been unrelated or disproportionate to listed companies' operating performance. Broad market and industry factors may also affect the market price of a company's shares, including OrganoClick, regardless of its actual operating performance. Moreover, the Company's operating results, financial position or business may not meet the expectations of analysts or investors. One or more of these factors, individually or jointly, could result in the price of the Company's shares falling below the offering price and an investor who purchases shares in the Company may lose a portion or all of the investment.

## The Company's ability to distribute dividends is limited

Under Swedish law, the general meeting decides on dividends, if any. A dividend may only be paid if the Company has funds available for distributions and the distribution is justifiable. Moreover, as a general rule, the

shareholders may not decide on a dividend that is greater than that proposed or approved by the Board of Directors. Only in certain circumstances can the general meeting decide on a dividend following a request from the minority shareholders. In addition, the Company has not made any dividends historically and is not expecting to make any dividends during the upcoming years.

#### Future sales of OrganoClick shares after the Private Placement may affect the market price of the shares

In connection with the Private Placement, the Major Shareholders and Beckeman Consulting AB (board member Claes-Göran Beckeman) have agreed to a lock-up arrangement with Pareto. When these lock-up arrangements expire, or if they are waived or terminated by Pareto, the shares in the Company that are subject to the lock-up arrangements will be available for sale in the public market or otherwise. Sales of a significant number of OrganoClick shares following the Equity Issue, whether by the Major Shareholders or not, or the perception that such sales could occur, may have a material negative effect on the market price of the shares in the Company.

Future issuances of shares may dilute the holdings of existing shareholders and could affect the price of the shares OrganoClick may in the future decide to issue shares to raise capital. Any such share issue could reduce the proportional ownership and voting rights for the Company's shareholders as well as have an adverse effect on the market price of the shares.

#### Differences in currency exchange rates may adversely affect the value of shareholdings or dividends paid

The shares will be quoted in SEK only, and any dividends will be paid in SEK. As a result, shareholders outside Sweden may experience adverse effects on the value of their shareholding and their dividends, when converted into other currencies, if SEK depreciates against the relevant currency.

#### Certain foreign shareholders may be prevented from exercising their preferential rights

If the Company issues new shares in a cash issue, shareholders shall, as a general rule, have preferential rights to subscribe for new shares proportionally to the number of shares held prior to such issue. Shareholders in certain other countries may, however, be subject to limitations in this respect. For example, shareholders in the United States may be unable to exercise rights to subscribe for new shares unless a registration statement under the Securities Act is effective in respect of such subscription rights and shares or an exemption from the registration requirements under the Securities Act is available. Shareholders in other jurisdictions outside Sweden may be similarly affected if the rights and the new shares being offered have not been registered with, or approved by, the relevant authorities in such jurisdiction. To the extent that OrganoClick's shareholders in jurisdictions outside Sweden are not able to exercise their rights to subscribe for new shares in any future rights issues, their proportional interests in the Company would be reduced.

# Background and rationale

For more information, please refer to this Company Description, which has been prepared by the Board of Directors of ORGANOCLICK AB (PUBL) in connection with the First North Listing.

# General

OrganoClick launched its first products in 2011 and has since grown rapidly from a revenue of circa SEK 3 million in 2012 to circa SEK 25 million in 2014. Several new products were launched during 2013 within Functional wood and Performance textiles and nonwoven. Within Fiber composites and paper products the first product will be launched in the beginning of 2015. The aim of the Company is to continue its fast growth generated both through increased sales of its current products and through market penetration of its new products. In order to do so, the Company needs to invest in marketing in existing and new markets, and build up a larger and stronger sales organization. The general need of working capital will also increase in order to enable the fast growth and keep a high delivery capacity to the customers. Before the Private Placement in February 2015, total invested capital since the foundation of the Group (including OrganoWood AB) in 2006 amounts to circa SEK 76 million, of which shareholders have invested circa SEK 60 million and customer financing and grants have contributed with circa SEK 16 million.

# A market change in functional textiles

The interest for "green chemicals" and sustainable materials has increased significantly during the past years. The interest is growing particularly within the textile field, as media attention has been high on the toxic chemicals used in consumer goods such as garments and shoes in the fashion, outdoor and sport industry. Greenpeace recently published several reports on the use of so called perfluorinated compounds (PFCs) in outdoor garments. The PFCs are used to enhance the water repellent properties in textiles but have been found to be toxic and extremely bioaccumulative. The outdoor and sport goods market is now searching for alternative chemicals to replace the PFCs. Several brands – including many of those mentioned in the Greenpeace reports such as Nike, Adidas, and Puma – started a joint program called Zero Discharge of Hazardous Chemicals with the goal of eliminating hazardous chemicals in their textiles before 2020.

OrganoClick has developed a technology (OrganoTex, and OC-aquasil Tex) since 2007 with the ambition to replace the PFCs. The Company is now technically well-positioned to supply the market with this alternative product. In order to do so, a sales and marketing structure needs to be set-up rapidly, in particular in Asia where the textile producers are located. The Company thus needs to invest in a larger sales and technical service organization as well as in marketing towards end customers (outdoor, sports, and fashion brands).

## Share issue and listing at Nasdaq First North

In order to scale up OrganoClick's sales and marketing organization in Performance textiles and nonwoven, market launch the first Fiber composite product, as well as keep up the current strong growth in Functional wood, the Company made a private placement of 11,029,412 shares to a value of SEK 75 million in February 2015. In connection with the Private Placement, the Company submitted an application to list its shares at Nasdaq First North. The Company has received approval from Nasdaq First North and the expected first day of trading on Nasdaq First North is 16 February 2015. The Company expects that the raised capital will last until the Company is cash-flow positive, which according to the current business plan is expected during H2 2016. The listing is also expected to add credibility to the Company's discussions with future potential partners and customers.

The proceeds from the intended share issue are to be used as follows:

- Working capital to enable a more rapid expansion of OrganoWood
- Investments in new geographical markets for OrganoWood

- Enlarge the sales organization for Performance textiles and start marketing of OrganoTex
- Set up a sales organization for Fiber composites and paper products

We declare that, to the best of our knowledge, the information provided in the Company Description is accurate and that, to the best of our knowledge, the Company Description is not subject to any omissions that may serve to distort the picture the Company Description is to provide, and that all relevant information in the minutes of board meetings, auditors' records and other internal documents is included in the Company Description.

> Stockholm, **11 February** 2015 **ORGANOCLICK AB (PUBL)** *The Board of Directors*

# OrganoClick AB (publ)

# Introduction

One of the greatest challenges of our time is to decrease the human negative impact on the environment. This involves everything from reducing greenhouse gas emissions to having better waste management. An important aspect for the environment is also to phase out the use of toxic chemicals and to increase the use of renewable and recyclable materials.

Fiber-based materials are common in today's society. These can be renewable fibers based on for instance cellulose, and synthetic fibers based on for instance polyester. Cellulose is one of the world's most easily accessible raw materials and is the main element in wood products, cotton textiles, and paper products. By adding new properties to the cellulose, the application areas for these materials can be increased dramatically. These enhanced cellulosic materials even have the potential to replace several petroleum-based materials and thus make substantial contributions to improving the environment.

OrganoClick's business idea is to develop, produce, and sell functional, environmentally friendly, and economically competitive fiber-based materials with high performance and quality. The Company's offerings include water resistant paper and textiles, fire and rot protected wood products, and highly functional paper and pulp-based materials. Based on these products, OrganoClick has organised the Company in three business units: Functional wood, Performance textiles and nonwoven, and Fiber composites and paper products.



# **Business model**

The base in OrganoClick's business model is market-driven innovation. The Company will continuously develop new, innovative products, and by positioning its brands high up in the value chains, create material brands that the end customers are demanding. The value chains are different within the three business areas but the business model and the Company offering is in large part the same. OrganoClick has since inception developed a strong competence within fiber chemistry. From its basic technology, four functional areas have been developed: water repellence, mechanical strength, fire resistance and fungal protection. Fiber based materials that include one or several of these functions are currently the base of the Company's offering. Wooden, textile and fiber based materials such as paper or fiber composites are the main materials used in the business.

Based on these fundamentals, the Company has created an offering that targets both consumers and industrial customers. The physical product offered by the Company can however differ between consumer and industrial customers. The products offered can be separated into three different offerings:

- 1. A complete material (e.g. fire and rot protected timber, or moulded fiber composites)
- 2. A service to produce a material (e.g. water repellent textile treatment)
- 3. A chemical product to create a certain property in a material (e.g. wood preservative substance)

These three offerings complement each other and enable marketing and sales towards different customer segments. The type of offering depends on the targeted customer segment. The focus of the Company is on the first two offerings as these are generally closer to the end customer and therefore in general have a higher profitability.

An important aspect of this business model is how the production is performed. OrganoClick always produces the critical components in all of its products *in-house*. These are often water-based formulations that are applied to the cellulose-based materials via different application technologies, a process most often made by production partners to OrganoClick or by the customer (depending on the offer). In offer no. 1, a production partner to OrganoClick treats the material, but the product is then marketed and sold by OrganoClick (e.g. OrganoWood-modified timber). In offer no. 2, the customers choose specific materials which are then treated by production partners to OrganoClick (e.g. a specific water repellent textile). In offer no. 3, the customers themselves apply the product to the material and then resell or use the completed product (e.g. when producing mechanically enhanced home textiles).

This business model enables a production that ties up relatively low amounts of capital, and is also scalable as different production partners can be used on different geographical markets. It also enhances the focus on sales, marketing, and product development which are the primary value creating activities that the Company performs. The business model is summed up in the illustration below.



# History

The foundation of OrganoClick began already during the 1990s when Professor Armando Córdova and Associate Professor Jonas Hafrén were graduate students at the Royal Institute of Technology and the research institute STFI-Packforsk (renamed to Innventia). Professor Córdova studied enzymatic modification of cellulose while Professor Hafrén studied fiber structure and morphology. After post-doctoral work at the SCRIPPS Institute of Technology in the US where Professor Córdova was working with organocatalysis, he started collaborating with Professor Hafrén who had been doing research in France and took up the task of developing a viable method to modify biofibers. In 2004 the breakthrough came and OrganoClick's first patent was filed. In 2006 Professor Córdova and Professor Hafrén joined forces with innovation management company Serendipity Innovations (Ashkan Pouya and Saeid Esmaeilzadeh) and the entrepreneur Mårten Hellberg, and together founded OrganoClick AB.

During 2007 the business started to pick up speed and in June the same year, the Company signed their first three customer-financed development contracts. The first employee was recruited in order to work with product development.

During the autumn of 2007 and spring of 2008, three additional customer-financed projects were started and two additional employees were recruited. In January 2008, the first external investment was made into the Company, as the collaboration with industrial and financial magnate Anders Wall was initiated. The board of the Company started to take shape during 2008 as additional investments in the Company were made by Tetra Pak's former president and CEO Bertil Hagman and SCA Hygiene Products' former CTO Claes-Göran Beckeman. In October 2014, Anders Wall resigned from the Board of Directors. The board of directors currently consist of Bertil Hagman, Claes-Göran Beckeman, Ashkan Pouya and Professor Armando Córdova.

In April 2008, the Company moved its business to a facility called Teknikhöjden between Stockholm University and KTH. Investments were made in an own laboratory to further accelerate the product development. An additional employee was hired in the autumn of 2008.

In the end of 2008, pilot runs were made with minor paper products with great results. This became the stepping stone for the Company's industrial development that during 2009 and 2010 was continued with both pilot and full-fledged test runs within both paper and timber products. The positive test results led to the decision to start an own pilot production unit in 2010.

The Company's first pilot production unit opened in May 2011. This facility is located in Arninge in Täby municipality, outside of Stockholm. Office and research and development laboratory was also set up in the same building. The first product that was produced and marketed was a wood preservative named OrganoWood – flame and rot protection. This was launched by the building supplier chain XL-BYGG during 2011 via the subsidiary OrganoWood (approximately 54.5 percent of the capital and 59.4 percent of the voting rights are held by OrganoClick and approximately 35.5 percent of the capital and 38.6 percent of the voting rights are held by Kvigos AB and the remaining shares are held by certain other minority shareholders). The next timber product to be launched was the OrganoWood-modified timber in 2012. This product was produced together with the production partner Bergs Timber Production AB, Sweden's largest timber treatment facility.

During 2012 the Company launched its first textile product OC-biobinder, which is a binder additive for textiles and nonwoven. This product has been implemented in the production of high-qualitative home décor textiles of Almedahls AB's, one of Sweden's largest textile producers. One additional partnership was initiated during 2012 with the dominating Nordic coffin producer Nyarp Holding AB, for the development and supply of the Company's first moulded fiber composite product.

In December 2013, the Company initiated a partnership with the publicly listed, Taiwanese textile company Chang-Ho Fibers regarding the production of OrganoTex. This was the Company's first Asian customer which marked an important milestone.

During 2014 the production capacity of OrganoWood was increased through a joint investment with Bergs Timber Production AB in their production facility in Nybro. The progress with setting up a new and significantly larger facility in Arninge, Täby was initiated the same year. This new facility will hold the production line for chemical products, offices, laboratory, and the first production line for the moulded fiber products, estimated to be up and running in Q1 2015.

Through the years, OrganoClick has been awarded several prestigious prizes. A scholarship was awarded in the spring of 2007 from the Swedish King Carl XVI Gustaf's 50th Anniversary Fund for Science, Technology and Environment. The Company then won the prize "Miljöinnovation" (Environment innovation) and was named Sweden's most promising start-up company, winning the Innovation & Technology Award in 2008. During 2010 the Company was appointed as a Climate Solver by WWF (World Wildlife Fund) and in 2011 they were appointed as one of Sweden's 20 most innovative companies by the Swedish Institute. In 2012 and 2013 the Company was featured in Affärsvärlden's and Nyteknik's list of the 33 hottest tech-companies in Sweden. In 2014, OrganoWood was appointed as the "Hottest building material" at the Nordic's largest trade fair for building material, Nordbygg. The same year, OrganoTex was appointed as "One of the most interesting new materials" at the World's largest trade fair for sport and outdoor goods, ISPO in Munich.

Since the first product launch in 2011, the turnover has increased quickly – from approximately SEK 3 million in 2012 to almost SEK 11 million in 2013 and circa SEK 25 million in 2014.

With products on the market, a rapidly increasing turnover, increased production capacity in place, distribution channels up and running, and a well-functioned organization, the Company is well positioned for a coming expansion. The current focus areas are marketing, sales, and delivery of the Company's current products, as well as launching a number of new products in the coming year.



In order to scale up OrganoClick's sales and marketing organization in Performance textiles and nonwoven, market launch the first Fiber composite product, as well as keep up the current strong growth in Functional wood, the Company made a private placement of shares to a value of SEK 75 million in January 2015. In connection with the Private Placement, the Company submitted an application to list its shares at Nasdaq First North. The Company has received approval from Nasdaq First North and the expected first day of trading on Nasdaq First North is 16 February 2015. The Company expects that the raised capital will last until the Company is cash-flow positive, which according to the current business plan is expected during H2 2016.

# Vision and mission

## Mission:

OrganoClick will be a leading example in the shift towards a more ecologically durable community by promoting and increase the use of green chemicals and innovative, fiber-based products.

#### Vision:

OrganoClick will enable the best performing and most sustainable materials in our markets.

# Strategy and goals going forward

## Short-term goals

The Company has the following goals for 2015:

- Total revenue of at least SEK 50 million (2014: circa SEK 25 million)
- Be present in at least six geographic markets in Europe and Asia
- ISO 9001 and 14001 certified

## Long –term goals

Within the five-year period, the Company has the following goals:

- High double digit revenue growth in the coming five years
- Be present in at least 30 geographic markets in Europe, Asia and North America
- EBITDA-margin of at least 25% within five years
- Cash flow positive H2 2016

## General strategy

OrganoClick's strategy is based on its vision, mission, goals, business model and current position of the three business units. The general strategy can be described with the following points:

- Focus on expanding sales and marketing of the Company's current product families on current and new geographic markets
- Continue to work with market-driven innovation with a strong focus on value creation for the end customer
- Perform business-critical production in-house, while collaborating as much as possible with production partners in order to decrease tied-up capital
- Create a profitable business by offering innovative product solutions packaged with both services and high technical performance, in combination with strong material brands

• Focus product development on improving and further developing the Company's current product families



Expected future revenue and EBITDA distribution<sup>1</sup>

# Estimated time to market

The figure below illustrates the estimated time to market for the different products of the business areas. This is for illustrative purposes only and includes estimations based on the Company's current business plan.



<sup>&</sup>lt;sup>1</sup> Excluding minority interests in OrganoWood AB

#### General business plan 2015

During 2015, the operations will be focused on continued market development within the Company's current business areas. Within Functional wood the market penetration will be continued on the Nordic market. In Norway and Finland, the focus will be to create a reseller network and to continue building the brand towards consumers and the professional construction sector. In Sweden, focus will be on building the brand, further penetrating the construction market, and further developing the partnerships with existing resellers. To further create a high credibility around the product and expand the application areas, additional independent tests will be performed by SP –Technical Research Institute of Sweden. Another focus area will be to strengthen the internal quality control in order to have even more satisfied customers. A new head of marketing that will act across the three business areas will also be hired in the beginning of the year.

Within Performance textiles and nonwoven, the focus will be to initiate the brand building of OrganoTex toward end customers on the Nordic market. This will partly be achieved by advertising but also by working together with outdoor brand partners on joint activities. A great focus will also be placed on initiating partnerships with new European outdoor brands and also increasing the number of production partners in Asia (textile producers). Within the area of industrial textile, the focus will be to sign more agreements with industrial customers within nonwoven, air-laid, and home textiles. The sales focus will be on the OC-biobinder but also on the development of the OC-aquasil Tex. Several recruitments will increase the sales organization in order to enhance the sales force and a technical support and quality function will be built up in Asia to support new and existing textile mills.

Within the business area of Fiber composites and paper products, 2015 will be the first year when continuous deliveries of products will be made. The Company's product line for moulding fiber has nearly been set in place and deliveries of moulded coffin materials will be initiated in Q1 2015. A large focus will be on optimising the production and on assuring the quality of the produced materials. Additionally, a sales organization will be set up with the initial key recruitment of a business area manager in the beginning of the year.

The product development will be focused on improvement, further development, and testing of the Company's current product families. This will increase the application areas for the current products thus increasing the Company's potential market. Additional work will be conducted within the product families to strengthen the IP-portfolio with both new patent applications and brand registrations.

In the new production facility, a continuous work will be to further optimize and automate the chemical and moulding fiber production lines. The up scaling of the production will continue throughout the year to increase the productivity of the Company's production organization even further. A strong focus will also be on quality improvement and the Company intends to get ISO 9001 and 14001 certified during Q2 2015. A key recruitment will be a Quality control manager that will be in charge of QA and the Company's ISO-certification.

# Technology, product development and IP-portfolio

## Technology platform

OrganoClick has developed a technology platform for environmentally friendly functionalization of fiber-based materials. Through the use of OrganoClick's technologies, materials such as paper, textile and wood can be modified in order to obtain new properties. Examples of properties that can be applied to the materials are improved mechanical performance, water repellence and fire resistance. This can be achieved by binding functional substances to the materials according to the figure.

The functionalization of cellulose is made by connecting a functional substance to the cellulose by different types of chemical bonds. Depending on the nature of the substance, various functionalities can be given to the materials.



The flow chart below shows the homogenous platform – enabling large synergies between the business areas. OrganoClick's business

idea is to use environmentally friendly and non-toxic chemicals to functionalize fiber-based materials. This is achieved by utilising the Company's knowledge within green chemical catalysis. Instead of traditional metallic catalysts, natural organic catalysts are used to bind functional molecules covalently to the fibers.<sup>3</sup> Functional molecules that can be attached to the materials include for instance carboxylic acids, polymers of carboxylic acids, aliphatic polyesters, cyclic lactones, epoxides or silanes.<sup>4</sup> Via the use of these molecules, several new materials can be developed such as specially designed paper products, functional textiles, functional wood products and nonwoven materials. The technology can also be used, from an economic and environmental



<sup>&</sup>lt;sup>3</sup> Hafrén, J., Zhou, W., and A. Córdova. (2006). Heterogenous "OrganoClick" derivatization of Polysaccharides. Rapid. Macromol. Com. 27:1362-66.

<sup>&</sup>lt;sup>4</sup> Hafrén, J, and A. Córdova. (2005). Direct organocatalytic polymerization from cellulose fibers. Rapid. Macromol. Com. 26:82-6.

aspect, to improve and optimise traditional functions such as hydrophobicity and mechanical strength in cellulose-based materials.

# Product development

OrganoClick is performing organised product development programs within each of its business areas. The focus is on developing new or improved products based on the current technologies for water resistance, mechanical strength and fire and rot protection. In the product development great synergies are created between the business areas as all technologies that are developed normally can be used on all different materials with only minor modifications. A number of the Group's development projects have been partly financed by grants awarded by the European Union, for more information, please see section "Financing arrangements" under "Legal and supplementary information".

Projects	Business area	Development status	Financing
Stronger gypsum grade paper with French Siniat and Mid- Sweden University	Fiber composites & paper products	Process development	EU – Eurostars
Biodegradable nonwoven table cloth with large industrial producer using OC-biobinder	Performance textiles & nonwoven	Process development	Customer and internal
Biodegradable curtains cloth with large industrial producer using OC-biobinder	Performance textiles & nonwoven	Process development	Customer and internal
Fire retardant wood panelling	Functional wood	Development project	Internal
Biodegradable roller-blinds with Belgian Calcutta, Centexbel, Swerea, and others using OC-biobinder	Performance textiles & nonwoven	Development project	EU – Bioscreen
Improved properties for nanocellulose with Israelian Melodea, and others	Fiber composites & paper products	Research project	EU – FLHEA
New biomolecules as binders with KTH, Innventia, Åbo	Performance textiles & nonwoven	Research project	EU – Woobama

The long-term strategy is to continuously start new development projects both in-house and together with customers. The ambition is to always have 3-5 development projects in the Company's pipeline. The goal is to create new products that can be introduced on the market within 1-3 years after project inception.

## Patent strategy

OrganoClick is actively trying to strengthen its position via patents and other intellectual property rights. The Company works together with well-renowned patent consultants to develop strategies and prepare patent applications.

OrganoClick is building patent families around the different product families that the Company is creating. The strategy is that each product area will have its own patent portfolio which will be built in four levels:

- Technology patents
- Patents for chemical formulations
- Material patents
- Product patents

# Patent strategy connected to business strategy

Via the patent strategy based on OrganoClick's technology platform, a strong patent portfolio can be created around each product area, both in terms of breadth and specificity. Within each application area, patents will be applied for to get the best possible protection based on the business strategy used in the specific product area.

#### Current patents and patent applications

Two approved patents are owned by OrganoClick AB and one patent titled "Environmentally friendly wood treatment process" is owned by OrganoWood AB. All of the current pending patent applications were filed by OrganoClick AB. The first patent to expire is in 2024. More information regarding intellectual property and the Company's trademarks can be found under "Legal and supplementary information".

Region/country	Status
Sweden and New Zealand	Approved: 2012 in Sweden and 2014 in New Zealand Pending: EU, USA, Canada, Australia, China, Japan, India, Russia
Sweden	Approved: 2011 in Sweden
Sweden, USA and Canada	Approved: 2011 in Sweden, 2014 in USA and Canada Pending: EU, China, Japan, India, Brazil
	Pending: Europe
	Pending: USA, EU, International PCT
	Pending: International PCT
	Region/country    Sweden  and  New    Sweden

# Production

OrganoClick has the ambition to become a leading supplier of materiel and chemical products within its selected segments. The chemical production for all the business areas has large similarities, leading to great cost synergies in between the business areas. For all of the business areas, OrganoClick is producing the critical chemical substances and formulations that give the materials its unique properties. Raw materials and chemicals are bought from raw material or chemical producing companies. OrganoClick are thereby producing the formulations in-house and delivers them to production partners or to customers (please see section "Business model" or the respective "Production" section per business area for illustrations).

#### **Production machinery**

Current machinery

OrganoClick's production is separated into chemical formulation and materiel production. In the chemical formulation production, homogenizers and stirrers are the main machines used which are all owned and operated by OrganoClick. For the material production, fiber moulding machines are used for moulded fiber products (the first production line will be owned and operated by OrganoClick), pressure impregnation tubes are used for the wooden materials (co-owned by OrganoWood but operated by production partners), and foulards and padding machines are used for textiles (owned and operated by production partners).

## Future machinery

No new machinery is currently planned to be purchased as the current production lines are able to cover the planned production needs. However, add-on investments will be made to increase automation, optimisation, and other capacity increasing investments. These add-on investments are planned for both the chemical production lines as well as for the moulding fiber production line. The OrganoWood production line will need investments to increase capacity within two years.

# Facilities

OrganoClick is currently moving into a new office and production facility in Arninge, Täby municipality. The new facility is 3,500 m<sup>2</sup> in total, including 1,000 m<sup>2</sup> of laboratory and office space. The production facility holds the production lines for fiber moulding as well as three production lines for the chemical formulation products. OrganoClick will in its new facility have a capacity to produce circa 17,000 m<sup>3</sup> of liquid products per year, and 36,000 moulded fiber products. The facility houses both office space and laboratory to enable quick and easy communication between the different functions in the Company.

As the production will be highly automated and therefore not personnel-intensive, the main costs will be transportation of the raw materials from the suppliers, and the delivery of the produced goods to customers. The proximity to customers is therefore important as well as signing strategic distribution agreements with raw material and chemical suppliers.

# Company structure and organization

# Company structure

The Company has structured its organization based on its focus on sales, marketing, production and innovation. The organizational structure consist of six units; three business areas with their own sales and marketing focus, one general product development unit, one general production unit, and the administrative unit with the general responsibility for all business units. This structure has been created to achieve maximal focus on sales and marketing within respective business area, while at the same time achieve maximal synergies within the chemical and material product development, production and administration. Additionally, OrganoClick together with Kvigos AB and certain other minority shareholders co-own OrganoWood AB that sells and markets the wood products of OrganoWood. OrganoWood currently has a Norwegian branch office and soon a Finnish subsidiary.

OrganoClick holds approximately 59.4 percent of the voting rights in OrganoWood, with Kvigos AB and certain other minority shareholders holding the remaining 40.6 percent. There was a preferential share issue amounting to SEK 20 million in OrganoWood in 2013 (registered with the Swedish Companies Registration Office in 2014), resulting in OrganoClick's share capital in OrganoWood being diluted to 54.5 percent, and the voting share to 59.4 percent. The preferential shares in OrganoWood do not entitle to any dividends but each preferential share will entitle the holder to a certain specified redemption amount (as set out in the articles of association) and the size thereof is dependent on the redemption date. The preferential shares may be redeemed in May each year.

As a subsidiary, OrganoWood purchases certain products and services from OrganoClick in order to produce the OrganoWood products. These include both variable and fixed costs such as production of chemicals, research and development, and management services. All of the products add up to a total production cost which is priced with a fixed markup, rendering a direct extra cash flow for OrganoClick, in excess of the cash flow from the majority ownership.



# The Company's operative organization

The Company has 18 employees and is managed by the CEO who has the overall responsibility for the Company. The three business areas are each led by a manager, which has responsibility for sales and marketing within the respective area (a business area manager for Fiber composites and paper products is expected to be hired in the beginning of 2015). All production and purchases are led by a joint production manager that is responsible for process operators, process engineers, quality control and purchasers. Research and development is led by a R&D manager that is responsible for development engineers and specialists. The administration is led by the CFO of the Company.

# **Business areas**

# Functional wood

# The offer

Traditionally, wood has been protected against rot by using heavy metals and biocides as a fungal toxic. Substances such as arsenic, chromium and copper (so called CCA), or creosote are globally the most frequently used wood preservatives. The problem with these is that they, besides being toxic to fungi, are also toxic to other organisms and humans. In a similar way the traditional fire retardants are also based on environmentally impacting substances such as bromine, boron, and phosphates.

The business area Functional wood offers and markets highly functional, environmentally friendly wood products and wood preservatives. Fire and rot resistant timber free from biocides, heavy metals, and other strong chemicals is marketed under the brand OrganoWood via the partly owned subsidiary OrganoWood. In addition, a number of wood preservatives are offered that together with the modified timber creates a complete wood protection system.

# Short-term goals

The Company (incl. OrganoWood AB) has the following goals for 2015:

- Double the revenue
- Be present in at least five geographic markets
- Increase the number of Nordic resellers
- Launch at least two new products, including OrganoWood-modified wood panel

# Long-term goals

The Company (incl. OrganoWood AB) has the following goals for the coming five years:

- Launch in Germany in 2016
- High double digit revenue growth
- Be present in at least ten geographic markets
- EBITDA margin of at least 20% within five years

# General strategy

To be able to reach the goals of the business area OrganoWood AB has designed a strategy on both short term and long term. The general points in this strategy are summed up below:

- Focus on sales and market penetration of the OrganoWood products on the Nordic market during 2015 and 2016 to enable a wider international expansion from 2017
- Focus on further verifying the technology in independent third party tests and delivering quality products and in that way continue to establish a strong brand towards customers, authorities and construction companies
- Develop products for new applications based on the same concept, strengthening and complementing the business area's current offer

# Technology background

Traditional wood preservatives use toxic substances to kill the organisms that decompose the fibers of the wood. Examples of such substances are arsenic, chromium and copper (so called CCA), and creosote. These substances are however also toxic to other organisms and animals, leading to pollution of nearby areas if the substances are leached out from the wood. Additionally, wood that has been impregnated with toxic substances needs to be recycled as toxic waste.

Fire retardants have traditionally been based on brominated substances. These have however lately been discovered to be very harmful for the environment and have thereby been banned in many countries. The currently most usual fire retardants are phosphorus-based compounds, which are known to be responsible for eutrophication in e.g. the Baltic Sea. The commonly occurring organophosphate may additionally be toxic for both humans and other living organisms.

Harder environmental regulations and the increasing interest for ecologically durable products have conveyed the wood preservative industry to actively start looking for less toxic alternatives. One substance that during the last years have been introduced to prevent fungal attacks on wood is boric acid and its salts. The boron works as a poison to rot and mould fungus but is more selective than traditionally used substances. It is however still toxic (e.g. reproduction inhibitory effects for humans) and treated wood must be recycled as environmentally toxic waste. Other alternative methods include furfurylation (chemical modification) of timber<sup>5</sup>, acetylation<sup>6</sup>, or thermal treatment<sup>7</sup>. However, these methods are significantly more expensive than traditional impregnation of wood and are therefore competing in a premium segment.

OrganoWood, aided by OrganoClick's technology, has developed a technology based on silicon compounds in combination with organic catalysts that protects the wood fibers from fungal attacks. Silicon substances in the form of water glass have been used to conserve eggs during more than 100 years and are completely harmless. The silicon substances used are alkaline and protects the wooden fibers by creating a physical barrier that prevents the rot from eating the fibers. Additionally, these silicon substances are incombustible, giving the treated wood fire retardant properties.

During the last decade the wood industry has started to investigate the silicon substances' conserving properties. During the 1990s and 2000s several research projects have studied their protection from fungal attacks. Studies have shown that silicon impregnated wood has good resistance against rot, as the modified fiber structure prevents the rot fungus from eating the fibers. As there are no toxic substances used in the wood preservative, and the fact that silicon is one of nature's most commonly occurring substances, the wood preservative is completely harmless for man and nature. The wood thereby does not need to be recycled as toxic waste, but can instead be incinerated after use.

One problem with the prevailing silicon-based impregnation is that the silicon substances used are water soluble in its native form. Moist conditions and rain can therefore create problems for silicon-based solutions if the silicon molecules are not properly bonded to the wood.

Most products currently on the market use a two-step process in order to bind the protective coating to the material. The first step is the application of the silicon-based solution. The second step involves the binding process in some form, either by using a complex binder or a form of acid that makes the silicon water insoluble. However, via the technology used by OrganoWood this process has been dramatically simplified by using the OrganoClick technology for modification of biofibers by binding the silicon to the fibers with organic catalysts. The timber thereby obtains a water insoluble fire and rot protection.

The products that OrganoWood have developed from this technology consist of a formulation that only needs a one-step application process, instead of the two-step processes that other competitors on the market use. This gives large economic advantages, especially in industrial processes where the timber otherwise has to be dried in two separate stages.

<sup>&</sup>lt;sup>5</sup> www.kebony.com

<sup>&</sup>lt;sup>6</sup> www.accoya.com

<sup>&</sup>lt;sup>7</sup> www.lunawood.fi

# Products

Within the business area Functional wood, OrganoClick offers a number of innovative products via the subsidiary OrganoWood AB. The products that OrganoWood offers are separated in the product families modified wood and wood treatment products.

# Modified wood

OrganoWood produces modified wood in collaboration with production partners, currently Bergs Timber Production AB. The first product that was launched was timber decking used for terraces, verandas and other wooden decks. Besides a long lasting, environmentally friendly wood preservation technology of high quality (tested in the European tests EN 84 and EN 113), the product also has a top quality fire protection for floors (reaction to fire class B<sub>fl</sub>-s1, tested according to EN 13501-1).The raw material for the modified wood is Nordic pine or spruce of high quality from the northern part of Sweden.

In its product portfolio, OrganoWood currently offers a complete timber decking concept, including decking material, studs, and poles. Wood for panelling are also offered on a by-order basis. Two types of timber decking qualities are offered: standard and premium. The standard timber decking has the OrganoWood standard treatment to resist rot and fire and has wooden raw material quality of class G4-2/3 (O/S-V("kvinta")). The premium timber decking has besides the standard treatment an additional OC-aquasil Wood surface treatment that gives the wood a water repellent surface and a better finish. The wooden raw material for the premium timber is also of a higher quality class, G4-1 (O/S I-IV), which gives it smaller and healthier knots.

With regards to pricing, the standard timber decking is placed in a middle-price segment between the traditional pressure impregnated timber and Siberian larch. The premium timber decking is in the same price segment as Siberian larch and thermally treated timber (e.g Thermowood).

Besides a base range of modified wood, modification of wooden materials is also offered on a project basis. These offerings include an adaption of the process for the specific wooden material (e.g. plywood or particle boards) and, if necessary, performance tests needed for different types of product approvals.

## Wood preservative products

During 2011 OrganoWood launched its first wood preservative named OrganoWood - flame and rot protection. This product is used to protect wooden surfaces that is placed in sensitive or exposed environments but does not require protection all through the solid wood. Application areas are for instance cellars, attics and exposed areas outdoors under roofs. The product can also be used as a fire retardant for indoor use and can with a surface application process obtain the fire protection (reaction to fire) classification Cs1,d0.

During the autumn of 2012, OrganoWood launched its product OrganoWood – Dirt and water protection, a water and dirt repellent solution which together with the OrganoWood – Flame and rot protection creates a complete wood preservative system.

When treating vertically placed wood outdoors such as fences and panels, OrganoWood - Flame and rot protection can be used as a base coating and OrganoWood - Dirt and water protection can be used as a top coating. This will create a long lasting wood preservative with a nice bright surface that will turn grey naturally with time. The wood preservative system can also be used to treat old pressure impregnated decks that has darkened, to give them a nice, bright surface. This product is also offered as an industrial product under the brand OC-aquasil Wood to clients within construction of timber and wooden houses, as well as sawmills and pressure impregnation facilities.

# Product development

The focus for the product development within this business area is to improve and further develop the existing products for new applications. This requires both internal product development, and that new application tests are continuously performed by SP –Technical Research Institute of Sweden. During the coming year, third party tests will be performed to further verify the rot protection that OrganoWood is developing within new application areas. Tests will also be performed in new regions such as Central Europe, Asia, and the US in order to prepare the Company for a coming geographical expansion. Fire protection tests for wooden panels will also be performed in order to start offering fire resistant OrganoWood-modified wood panels. The current development projects are presented below.

# OrganoWood-modified wooden panel

A large market for the OrganoWood-modified timber is façade panels. There is a current trend among architects that drive the use of wood especially in large buildings. When using wood in large constructions the wood needs to have a certain fire resistance class. Naturally grey-coloured and weathered houses are also in fashion and this trend also sets high requirements of the rot resistant properties of the wood. The goal is to launch the OrganoWood-modified wall panel by the end of 2015. Important properties that need to be tested are dimensional stability, cracking, mechanical properties, and which paint system that can be used to paint the wooden surface. Additional tests will also be performed to receive the necessary fire protection classification for panels, Bs1,d0.

# Sales strategy

OrganoWood's sales strategy is based on the structure of the market and the different purchase patterns of the customer segments. End-customers of OrganoWood products can be divided in three main segments (which are explained more in the customer segment section):

- Consumers and smaller construction and painting firms targeted via DIY stores
- Construction companies that run large construction projects where timber is used targeted via builder merchants
- Industrial clients who surface-treats their timber in larger scales targeted via direct sales

Customers of the two later segments are known to be relatively conservative and demand comprehensive documentation about the products. For the first segment, positive brand image and brand recognition are the more vital aspects.

The largest of these markets is the second segment. There are several possible decision makers involved in the purchasing process in this segment, such as e.g. architects, building contractors, construction consultants (within e.g. fire protection), and developers. Architects and construction consultants usually provide the preferred choice of materials. The developers are setting the budget for the projects while the building contractors purchase and use the building material. All of these parties are therefore important in the sales strategy towards this customer segment.

The industrial customer segment consists of professional users of wood products such as e.g. wood house producers and wood treatment facilities. This customer segment also buys significant amounts of timber directly from producers (sawmills and planing mills). In some cases this segment has its own processes to treat the timber, making them a highly interesting direct customer for OrganoWood. In other cases they buy their wood from wood treatment facilities, making the treatment facilities the important party that OrganoWood will focus on.

The customer segment of consumers and smaller construction and painting firms buy their products from DIY stores and building suppliers such as e.g. XL-BYGG, Optimera, Interpares, Bauhaus, K-rauta, and Beijer Byggmaterial. This segment consists of a large amount of customers where each customer buys smaller quantities. Different marketing channels will therefore be important in order to reach these customers.

OrganoWood has established reseller networks in Sweden, Norway, Denmark, and Finland. These are the current general sales strategies for all geographic markets:

- Increase sales towards consumers and smaller construction firms by increasing the reseller network, with the focus on getting an even geographic distribution on the different markets
- Pursue an active PR and marketing process towards consumers through advertisement in home magazines, strategic partnerships, social media, product placements in selected TV-shows, and exhibitions on trade fairs
- Support local dealers through joint marketing campaigns, participation on "builders-breakfast" events, and continuous education of their personnel. The sales work will be focused on the centrally governed DIY chains as the decisions on product range often are centrally controlled
- Actively process the large construction companies through personal visits with architects, building contractors, construction consultants, and developers

# Marketing and brand strategy

# The OrganoWood brand

The Company's aim is to make the OrganoWood brand a globally known brand among users of wood products. Several positive attributes will be connected to the Company and the brand in the marketing process. The attributes that the Company and OrganoWood will focus on connecting are:

- 100% environmentally friendly products
- High quality
- Aesthetically appealing

In order to connect the brand to these attributes, several parameters are important to focus on in the product marketing. The green image of the brand is acquired by having a strict environmental policy in terms of both what substances are used in the products and how the Company's internal work processes are designed. Building material documentation, environmental documentation, and certificates have been collected for the different products. The OrganoWood-modified timber has for instance been evaluated by the independent environmental chemistry institute Jegrelius in Jämtland with good recommendations, has been recommended by Byggvarubedömningen (a Swedish association for evaluating building materials), and has received the highest classification (A) of the building industry's environmental evaluation system Sunda Hus (Healthy homes) and can thereby be included in a so called "Green Building". The wood preservative OrganoWood – Flame and rot protection is also certified with Naturskyddsföreningen's (Swedish Society for Nature Conservation) eco label "Bra Miljöval" ("Good Environmental Choice").

OrganoWood will also emphasize its connection to the OrganoClick technology and its award for "Sweden's best environmental innovation" (an environmental prize from the Swedish King Carl XVI Gustaf) and the "Climate Solver" appointment by the World Wildlife Fund. By also being relatively open with what the product contains (silicon compounds and organic catalysts), the Company demonstrates that it does not work with any toxic substances.

The product's multi functionality with both fire and rot resistant properties is something that most competing technologies can achieve only by combining several different products. These have to be applied in a multi-step process which complicates the technical processes and leads to higher cost. The multi functionality of

OrganoWood is therefore communicated in all marketing and is one of the most important aspects of the product.

The scientific and technological foundation is connected to the Company's brand via OrganoClick and its academic founders and partners. These connections are highlighted in communication and marketing towards customers, authorities, and interest organizations and associations to create a higher credibility. The product credibility and quality is also based on independent tests and documentation of all of the declared properties and functions. Tests are always performed and documented by accredited testing labs such as SP –Technical Research Institute of Sweden within both fire and rot protection. Interested parties of OrganoWood may have access to the documentation from these tests.

## Marketing

To be able to reach the end-consumers, active marketing is performed through advertisements in home magazines, product placements in TV-shows (e.g. "Sommar med Ernst" and "Bygglov"), collaborations with selected partners ("Rosendahls Trädgårdar" and "Nordic Parks"), and campaigns in social media.

The advertising is complemented by an active PR work in which different PR-creating activities and co-operations are performed. PR consultants are involved in this work to maximize the impact. A wider marketing will be conducted via the web where OrganoWood has its own Facebook page on the respective market and actively influences bloggers via communication and sometimes sponsoring of material. The Company exhibits its products at the leading building and home trade fairs (in Sweden for instance at "Hem & Villa" and "Nordbygg"). The Company also participates in local events in cooperation with local resellers.

## Pricing

OrganoWood represents quality, aesthetics and environmental awareness. OrganoWood therefore does not compete on the low price market. The OrganoWood pricing strategy always uses the value and utility that the products offer different customer segments as a starting point, with consideration for the prevailing product segment pricing. Products are offered in the mid-price segment in each product area to reach a wider consumer group, and in the premium price segment to reach a consumer group that is willing to pay more for premium quality.

Product	SEK/meter
Pressure impregnated timber	12.90
Pressure impregnated timber (brown)	16.90
OrganoWood-modified timber (standard)	27.90
Siberian larch	36.00
OrganoWood-modified timber (premium)	39.90
Thermo-treated wood	40.00
Kirai	65.00
Kebony	65.00
Ассоуа	>100.00
lpé	120.00

# Pricing of modified timber

Modified timber is offered via resellers (building suppliers) to the Company's different end customers. The product is priced in a segment between the traditional pressure impregnated wood and Siberian larch, which is

the cheapest product in the mid to premium price segment. There is currently a large gap in this specific price segment, as the difference in price between traditional pressure impregnated wood and Siberian larch is circa 150-200 percent. Within this gap lies a possibility and a need for an environmentally friendly, qualitative alternative that will attract both the customers who believe that the premium priced, exclusive wood types are too expensive, and the ones who are willing to pay a premium and could have chosen the Siberian Larch. The table above shows a pricing comparison between the OrganoWood-modified timber and its competing products. Prices are for end customers including VAT for the standard timber decking dimension 28 mm x 120 mm.

# Pricing of surface treatment products

OrganoWood's wood preservative products are sold via building suppliers to consumers in cans, and directly to industrial customers who surface-treat their wood in large scale. For the consumer market the products are sold in 1, 3, and 5 litre cans where the packaging of the product is vital. For the industrial market, the products are sold in bulk packs of 30-1,000 litres.

In the building suppliers market the products will be priced as premium products. This is because the effects and environmental profile of the OrganoWood products are unique in comparison with competing products. The product OrganoWood – flame and rot protection protects the wood from both fire and fungal attacks and by adding OrganoWood Dirt & water protection, superhydrophobic properties are added to the wooden surface, making the maintenance of the wood easier. Additionally, the product is eco-labelled by Naturskyddsföreningen (Swedish Society for Nature Conservation) as "Bra Miljöval" ("Good Environmental choice").

## Geographic expansion

## Planned expansion

During the coming years OrganoWood will focus its sales and marketing towards the Nordic market. This will require limited costs as a reseller network is already established in Sweden, Norway, Denmark and Finland, but can generate substantial income for the Company as the Nordics is one of the regions that use most wood per capita in the world. Within two to three years, OrganoWood expects to commence a further international expansion, concentrating on the Central European market.

OrganoWood will carry out different strategies in different countries. In some countries, OrganoWood will set up subsidiaries with sales organizations while in other countries, OrganoWood will sign distribution agreements with existing distribution companies. The production partner Bergs Timber Production AB exports a large share of its current production and has developed international distribution channels that can be used to speed up the international expansion.

Within the EU, OrganoWood will gradually increase its presence via in first hand distributors and wholesalers followed by its own sales organization in prioritized countries. Other interesting future markets with expected large potential are Australia and New Zealand, Japan, North America, Russia, Turkey and Northern Africa. The main strategy in these countries will be to establish distribution partners.

The North American, Japanese and Australian markets follow different rules and regulations than the European market, thus demanding additional technical tests and documentation to be completed before a launch can be initiated. The intention is however to eventually be able to commence sales in these regions as well, even though it currently lies outside of the five year plan.

## Introduction into new markets

Every new geographic market introduction will require initial investments mainly in marketing and sales, but also in distribution systems. These investments are different depending on the market strategy for the respective country. The largest investment costs will arise when OrganoWood sets up subsidiaries with its own sales, marketing, and distribution functions. The initial costs when signing distribution agreements will be significantly lower as the investments from OrganoWood will mainly be in general marketing. The time until profitability when expanding into new regions is estimated to be circa two years when starting a new subsidiary, and circa one year when signing a new distribution agreement, as the signing of a distribution agreement does not incur any large costs or salaries.

# Production

All of the chemical products will be produced by OrganoClick in their production facility in Täby. The products are shipped from OrganoClick's production facility in bulk packaging to either industrial timber treatment facilities or to repackaging sites where the substances are packed into consumer packaging and stocked before shipped to resellers.

There is a current production agreement between OrganoClick and OrganoWood that determines the prices of the OrganoClick chemical products needed for the production of OrganoWood products. The prices of the production products and services will be adjusted yearly and will mostly be dependent on the expected sales volume and a possible price difference in raw material. The pricing is set based on OrganoClick's direct production cost (variable + fixed costs) with a fixed markup.

The modification of the wood is performed by production partners of OrganoWood. There is a current collaboration agreement with Bergs Timber Production AB, which operates Northern Europe's largest pressure impregnation facility. Together with Bergs Timber Production AB, an investment was made into a new production line that only produces OrganoWood-modified timber. The modification and the subsequent stock keeping is performed by Bergs Timber Production AB, while the distribution and logistics is performed by OrganoWood.

OrganoWood purchases its wood mainly from planing mills. The raw material for the modified wood is Nordic pine or spruce of high quality, harvested from the northern part of Sweden. OrganoWood AB buys the wood which is delivered to its production partner Bergs Timber Production AB. The chemical substances (as well as research and development, and management services) are bought from OrganoClick. The wood is then impregnated with the chemical substance at Bergs Timber's production site, and then shipped to resellers or construction companies. The production chain is pictured below.



# The market for Functional wood

This section has been based on industry reports, company information and OrganoClick's own knowledge. Unless stated otherwise, the information contained in this market overview has been produced and/or accepted as the appropriate view by the Board of Directors of OrganoClick to the best of their knowledge.

#### Introduction

OrganoWood aided by OrganoClick's technology has developed a series of products to enhance the use of wood as a functional and sustainable construction material. Decay from rot fungus and fire are problems that often arise when working with wooden materials. The most usual type of durable wood in Sweden is timber that has been pressure impregnated with biocides and heavy metals. In Sweden, 1,249,200 m<sup>3</sup> pressure impregnated timber<sup>8</sup> was produced to a value of SEK 3-4 billion in 2013. 610,700 m<sup>3</sup> of this was exported, corresponding to a domestic market of 638,500 m<sup>3</sup> out of which almost 90 percent was planed timber. Remaining volume is a mixture of for instance poles, window and door carpentry. In the Nordic region in total, 2,174,750 m<sup>3</sup> pressure impregnated timber was produced in 2009<sup>9</sup>, corresponding to an estimated value of SEK 5-6 billion. The global market for pressure impregnated wood amounts to several hundred million m<sup>3</sup> timber per year. Large Nordic impregnation companies include Bergs Timber, Derome Timber, SCA Timber, Moelven, and livari Mononen.

For the pressure impregnation process, large amounts of wood preservatives are used. The global market for wood preservatives is expected to have a yearly turnover of USD 4 bn and growth of around 3 percent per year. On the Swedish market alone, 16,000 tonnes of wood preservative (concentrate, dry weight) is used every year, equalling to 400 - 600 million litres mixed solution per year<sup>10</sup>.

The market in the Nordics (buyers) of durable wood can be separated into two segments. One segment is the *do-it-yourself (DIY) stores*. These sell circa 150,000 m<sup>3</sup> pressure impregnated timber per year to consumers and small to mid-sized construction companies. The other market of buyers is the *professional market* in which timber is acquired for large construction projects by constructors in collaboration with architects and construction companies. This timber is often bought from *building materials and hardware merchants* or straight from the supplier or a distributor. In total there are around 750 stores<sup>11</sup> in Sweden selling building materials.

Besides the pressure impregnated timber there are other alternative wood products with high durability. Thermally treated wood (e.g. Thermowood from Stora Enso), furfuryl alcohol-treated wood (e.g. Kebony<sup>12</sup>), and acetylated wood (e.g. Accoya<sup>13</sup>) are some non-toxic alternatives, and together with naturally durable wood such as Siberian Larch and tropical hardwoods, these alternatives make up 10-20 percent of the Swedish market.

<sup>&</sup>lt;sup>8</sup> Svenska träskyddsföreningen. www.traskydd.se (2014-10-15)

<sup>&</sup>lt;sup>9</sup> Nordiska träskyddsrådet. www.ntr-nwpc.com (2014-10-15)

<sup>&</sup>lt;sup>10</sup> www.kemi.se (2010-10-18)

<sup>&</sup>lt;sup>11</sup> Sveriges Järn och Bygghandlarförbund. www.byggjarnhandlarna.se (2012-06-07)

<sup>&</sup>lt;sup>12</sup> www.kebony.com

<sup>&</sup>lt;sup>13</sup> www.accoya.com

Product	Description	SEK/meter	Biomimetic	Aesthetically	Sustainable	Fire resistant	Durabilitv <sup>1</sup>
Pressure impregnated timber	Impregnated with toxic chemicals (classified as hazardous waste in many countries)	SEK 13-17			×	×	
OrganoWood (Standard)	Sustainable fire and rot protection	SEK 28	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	
Siberian larch	Naturally durable larch wood	SEK 36	×	$\checkmark$	$\checkmark$	×	3
OrganoWood (Premium)	Sustainable fire and rot protection <sup>2</sup>	SEK 39	$\checkmark$	$\checkmark$	$\checkmark$	$\checkmark$	
Thermally treated wood	Heat-treated wood	SEK 40	$\checkmark$	$\checkmark$	$\checkmark$	×	2
Kebony	Furfuryl alcohol-treated wood	SEK 65	$\checkmark$	$\checkmark$	$\checkmark$	×	
Tropical hardwood	Naturally durable tropical wood types (e.g. Kirai and Ipé)	SEK 65-120	×	$\checkmark$	×	×	
Ассоуа	Wood treated with acetic anhydride	SEK >100	$\checkmark$	$\checkmark$	$\checkmark$	×	

One problem that currently limits the market potential of these alternatives is that they are expensive compared to the more common pressure impregnated timber. There is however a large demand for more environmentally friendly substitutes. A number of new laws and regulations have been adopted (e.g. REACH<sup>14</sup>), prohibiting the use of several of the wood preservatives that were previously used in the European market. The market share of environmentally friendly wood preservatives is therefore estimated to rise and obtain large market shares from conventional wood preservation methods.

## Market segments

The market for durable wood can be categorized into a number of segments. The largest is the segment of industrially pressure impregnated wood products. Another segment is the naturally durable wood and a third is modified wood. The market can also be segmented by the international classification of natural durability in wood. This scale reaches from 1 to 5 where 1 means "very durable" and 5 means "not durable". Pine sapwood has class 5, spruce class 4, pine heartwood and larch class 3, thermally treated wood (Thermowood) and furfuryl alcohol-treated wood (Kebony) class 2, and teak, Accoya and pressure impregnated timber class 1. OrganoWood has, in this classification, received a class 1 certification in durability to brown rot (most common rot fungus affecting pine and spruce) determined from the EN 113 test method for determining the protective effectiveness against wood destroying basidiomycetes.

Another classification system is the Nordic Wood Preservation Association's (Nordiska Träskyddsrådet, NTR) quality labelling for durable wood. The labels are separated in different classes depending on the durability and usability of the wood. For traditionally pressure impregnated wood, the classification by areas of use is as follows:

<sup>&</sup>lt;sup>14</sup> http://www.kemi.se/en/Start/REACH-regulation/

Product	Class
Wood used in marine contexts	M
Wood in contact with earth and soil, e.g. power poles and building foundations	A
Wood used outdoors but not in contact with earth and soil, e.g. terraces and outdoor furniture	B
Surface treated wood in moist conditions but not in contact with earth and soil, e.g. windowsills	AB

Of these categories, the AB classification represents by far the largest market. In Sweden, this market represents more than half of the total market. The Swedish market for fire resistant timber is estimated to circa 20,000  $m^3$  timber per year.

#### Fire resistance:

Fire resistant timber – reaction to fire class A-F where B is the best classification that can be obtained by timber (A is fireproof materials like stone). Evacuation routes in public buildings demands B-classified materials and rooms and other spaces in public buildings demands C classified materials. Regular timber with no treatment has class D. OrganoWood flooring has received a  $B_{\rm ff}$ -s1 classification.

## Market trends

The wood preservative market is a traditional and conservative industry. The large environmental problems that toxic impregnation chemicals and bromine-based flame retardants give rise to have however created a market for more environmentally friendly alternatives. CCA and bromine-based fire retardants have previously dominated the market but have now been exchanged for copper as the most common wood preservative against rot, and phosphorus-based solutions as the most common fire retardant. During the last decade, boric acid has also taken large market shares because of its environmental advantages compared to copper. The even more environmentally friendly thermally treated wood and Siberian Larch, which are both considerably more expensive than pressure impregnated wood, have also taken market shares during the last ten years. The demand of environmentally friendly timber is increasing and customers are now also willing to pay a premium for these. Other alternatives of modified timber are advancing on the market, where OrganoWood is strongly positioned.

#### **Customer segments**

End-customers of OrganoWood products are expected to be in three segments. These segments are divided by uses and purchasing of the products:

- *Consumers and smaller construction and painting firms*: These purchase their products from DIY-stores or building material and hardware merchants which acts as retailers for OrganoWood-modified timber and OrganoWood's complementing surface-treatment products.
- Construction companies that run large construction projects where timber is used: On this professional market, OrganoWood products will be sold through professional building suppliers (e.g. Optimera and Beijer Byggmaterial).
- Industrial clients who surface-treat their timber in larger scales: These are e.g. timber and wood house producers, as well as wood-treatment companies. This client group requires larger volumes of wood preservatives and is therefore most often bought directly from the producer of the wood preservative.

# Current customers Sweden

*XL-BYGG* is a chain of circa 110 independent building material stores. XL-BYGG was the first chain of stores to sign a reseller agreement in 2012. 34 stores are currently offering OrganoWood's timber and surface treatment products in their stores, while the others have the products on a by-order basis.

*Optimera*, the Nordic building material chain of Saint-Gobain, has been selling OrganoWood products since 2012. Optimera has 37 units whereof 23 have OrganoWood timber and surface treatment products in stock, while the rest of the stores have it on a by-order basis.

*Bygma*, the Danish building material chain consists of 15 stores from Stockholm and northward. The reseller agreement was signed in 2012 and currently; six stores have OrganoWood timber and surface treatment products in stock, while the rest of the stores have it on a by-order basis.

*K-rauta* runs 20 large DIY-stores that mostly cater to consumers. All of the stores have OrganoWood timber and surface treatment products in stock since 2013.

*Karl Hedin* is a privately owned chain of 35 building material stores. In 2014 a reseller agreement was signed and six stores have OrganoWood timber and surface treatment products in stock.

*Interpares* is a cooperation of circa 110 independent building material and hardware merchants. *Woody Bygghandel, 100% Proffs* and *Fredells* are all part of Interpares. In total, 16 stores within the Interpares cooperation have OrganoWood timber and surface treatment products in stock.

# Finland

*Kodin Terra* is one of Finland's leading building material chains with circa ten large building suppliers. Kodin Terra belongs to a group called S-gruppen, which in total has circa 100 smaller units. OrganoWood products are in stock in six of Kodin Terra's big stores.

# Norway

*Optimera* is one of Norway's leading building suppliers with a total of 140 units. Since the summer of 2014, OrganoWood has a reseller agreement with Optimera.

## Denmark

*Frøslev træ* is one of Denmark's leading wood distributors and has almost all of Denmark's 500 building material stores as customers. OrganoWood has signed a distribution agreement 2014 with Frøslev træ for Denmark.

## Competition

Competition within wood preservatives

A few large players dominate the production of the traditional wood preservatives. Leading companies are American Arch Timber Protection<sup>15</sup>, Osmose<sup>16</sup>, and BASF – Dr. Woolman<sup>17</sup>.

OrganoWood's primary competitors are among the new, innovative companies that have launched environmentally friendly wood preservatives during the last years. The primary competitor on the domestic

<sup>&</sup>lt;sup>15</sup> www.archtp.info

<sup>&</sup>lt;sup>16</sup> www.koppersperformancechemicals.com

<sup>&</sup>lt;sup>17</sup> www.wolman.de
market for OrganoWood is Sioo Woodprotection AB<sup>18</sup> that during 2009 launched a wood preservative based on potassium silicate. It is a similar but more expensive derivative than the silicon compounds that OrganoWood uses. Another similar concept is marketed by Finnish HomePro<sup>19</sup>. Their products are marketed as an environmentally friendly anti-mould product which also has rot and flame resistant qualities. HomePro focuses mainly on the market for mould sanitation.

In Northern America, Timber Treatment Technologies Inc. markets products that have been combined with the properties of glass, Timbersil glass wood products<sup>20</sup>. Timber Treatment Technologies has a patented method of pressure impregnating the timber with sodium silicate and then thermally treating it at temperatures above 200°C, polymerizing the sodium silicate and making it non-solvent in water. The drawback of their method is the extreme thermal treatment that has to be performed. The timber will however get the same functionalities as OrganoWood-modified timber. Stora Enso has adapted this method and launched the product Q-Treat<sup>21</sup> in 2012, becoming a direct competitor to OrganoWood on the Nordic market. Because of the extreme thermal treatment needed, the pricing of this product is however considerably higher than of OrganoWood-modified timber.

Another competitor is Norwegian Kebony<sup>22</sup>, which together with a Canadian professor has developed a new furfurylation method for wood fibers. This method gives the timber an environmentally safe, effective protection to decay but lacks the fire resistant qualities that OrganoWood products provide. Additionally, these products are in the same price segment as tropical hardwood, which is considerably higher priced than the middle segment that OrganoWood-modified timber is offered at.

Acetylated wood by Dutch Accoya<sup>23</sup> is another environmentally safe method of creating durable timber. This method is however even more expensive than Kebony. Thermally treated wood is another competing technology that is marketed by a number of companies, e.g. Finnish Lunawood<sup>24</sup>.

#### Competition within fire retardants

Companies that work with fire protection are often specialized within fire retardant products. A few of the larger companies (Arch Timber protection, Osmose, and BASF – Dr. Wolman GmbH) produces and offers both fire and rot protection products. Specialised fire retardant companies are for instance Dutch Flame Guard B.V.<sup>25</sup>, which produces fire retardants based on non-organic and organic substances. Other companies are British Fire Retardant UK<sup>26</sup>, Swiss Clariant<sup>27</sup>, and Swedish DeFlamo AB<sup>28</sup> that markets fire retardants based on organic acids. DeFlamo's technology is marketed under the brand Apyrum and is licensed from the British Trulstech Group for the European market.

<sup>26</sup> www.fireretardantuk.com

<sup>&</sup>lt;sup>18</sup> www.sioo.se

<sup>&</sup>lt;sup>19</sup> www.homepro.fi

<sup>&</sup>lt;sup>20</sup> www.timbersilwood.com

 $<sup>^{21}\ {\</sup>rm building and living. storaen so. com/products-and-services/q-treat}$ 

<sup>&</sup>lt;sup>22</sup> www.kebony.com

<sup>23</sup> www.accoya.com

<sup>24</sup> www.lunawood.fi

<sup>&</sup>lt;sup>25</sup> www.flameguard.nl

<sup>&</sup>lt;sup>27</sup> additives.clariant.com

<sup>&</sup>lt;sup>28</sup> deflamo.se

## Performance textiles and nonwoven

## The offer

The textile industry uses a great volume of chemicals in their production process. The textile chemical companies have traditionally mainly focused on improving the functions of the chemicals, creating better functional textiles. They have however not been showing as much attention for environmental issues or health hazards. This means that the hazardous effects that these chemicals may have on the environment are currently being discovered.

One chemical group that recently has had a lot of media attention is the perfluorinated compounds (e.g. PFOA and PFOS) used to make textiles water repellent. They have excellent performance but have recently been shown to cause reproduction problems for animals. The often bad working conditions for workers in factories exacerbate the reputation of the textile industry even more. The Western clothing brand companies are therefore struggling to improve their reputation by trying to minimize the use of dangerous chemicals and by improving working conditions in factories.

OrganoClick markets and sells technologies to create functional and environmentally friendly textiles with high quality standards. The first functions that the Company is focusing on are water repellence and increased mechanical properties. Modifiable textiles include natural fibers such as cotton, linen, viscos and hemp, as well as man-made fibers such as polyester, polyamide (nylon), and elastane. By only offering environmentally friendly technologies, the Company will create a niche where function, environmental concern, and high quality of the completed garment are parts of the offer.

The Company will cooperate with textile producers to produce and deliver water repellent textiles under the brand OrganoTex for the outdoor and sports industry. For the producers of industry or home textiles, the Company will offer a textile additive with hydrophobizing properties under the trade name OC-aquasil Tex, and a binder, OC-biobinder, used to increase the mechanical features of textiles and nonwoven.

## Short-term goals

The Company has the following goals for 2015:

- Launch OrganoTex with at least one outdoor clothing brand and one fashion clothing brand
- At least two new agreements with industrial customers regarding OC-biobinder
- Increase sales and market penetration on the European market for industrial textiles
- Establish physical presence in Asia

## Long-term goals

The Company has the following goals for the coming five years:

- Expand partner base in Asia
- Build a strong OrganoTex brand towards consumers and companies that use functional garments
- High double digit revenue growth
- Be present in at least 25 geographic markets in Europe, North America and Asia
- EBITDA margin of at least 30% within five years

#### General strategy

To be able to reach the goals of the business area the Company has set up a strategy on both short and long term. The general points in this strategy are summed below:

• Focus on sales and market penetration of the Company's products on the European market during 2015 and 2016

- Initiating several new production partnership in Asia during 2015-2016 for the production of OrganoTex-treated textile
- Focus on building a strong OrganoTex brand towards consumers and brands that use functional and performance textiles

#### Technology background

Traditionally, a large volume of petrochemical and other synthetic chemicals have been used to create desirable functions in textiles. One of the most commonly used substances is the so called PFCs used to create water repellent textiles. These have however been shown to give rise so severe environmental problems as they resemble the hormones in animals, disturbs reproduction, and are extremely persistent in the eco system (degradation time of several thousand years). This has incurred the EU to ban a large group of the PFCs currently on the market, although there is currently no general ban on the entire chemical group.

To increase the mechanical properties in textile and nonwowen, various binders are used. These are traditionally based on petrochemicals like polyacrylates. Some nonwoven textiles are to 30 percent consisting of these synthetic binders. Besides from contributing to the use of fossil raw materials, several of these are also hazardous in the production process. Many compounds are carcinogenic in their basic (monomeric) forms which incur risks for the textile workers.

OrganoClick has through its technology for fiber modification developed two products that address these problems. The hydrophobic (water repellent) product has been developed based on the Company's patented technology for giving fiber based material hydrophobic properties. Modifiable textiles include natural fibers such as cotton, linen, viscose and hemp, as well as man-made fibers such as polyester, polyamide (nylon), and elastane.

The same basic technology has also been used to develop biopolymer based (organic) binders. The biopolymers are used to bind the fibers in the textile together to enhance mechanical properties such as increased stiffness, strength and flexibility. The biopolymers are based on renewable raw material and are also biodegradable.

#### Products

Within the business area of Performance textiles and nonwoven, OrganoClick offers a number of ecological sustainable and innovative products. The products have been divided into the product families durable water repellents (DWR) sold under the trade name OC-aquasil Tex and the brand name OrganoTex, and binders sold under the trade name OC-biobinder.

#### OrganoTex

OrganoClick offers a so called DWR technology to create water repellent textiles for functional clothing under the brand name OrganoTex. These textiles are completely free from PFCs and the commonly used isocyanates. The first textiles launched under the brand OrganoTex are made from polyester and are designed for casual wear and lighter outdoor activities. The textiles are produced by selected industrial textile companies mainly in Asia. The first OrganoTex-treated textiles were launched in the beginning of 2014 at the trade fair for outdoor and sporting goods, ISPO in Munich. The customer values are functionality, environmental profile and high quality of the textile. A number of standard textiles are sold under the OrganoTex brand, but there is also a service for treating and branding textiles selected by customers.

#### OC-aquasil Tex

For industrial textiles and other market segments where the OrganoTex-brand is not marketed, the Company offers the product OC-aquasil Tex as an industrial additive with hydrophobizing properties. The product enables a high grade of water repellence and is completely free from PFCs and isocyanates. Application areas include work wear, industrial textiles, and home textiles.

#### OC-biobinder

OrganoClick markets and sells a number of binders for the textile and nonwoven industry under the trade name OC-biobinder. These substances are based on renewable raw materials in the form of biopolymers and organic molecules. They are used in textiles in which the mechanical properties need to be altered in some way. The application areas include home textiles (e.g. curtains, cloths, and napkins) and nonwoven textiles in for instance the automotive, medical, or agricultural industry. Besides the products' leading environment profile, the OC-biobinders are also often a more economic alternative than the prevailing synthetic binders.

#### Product development

The current development focus is on improving and further developing the current products to find uses in new application areas. The Company will apply for a number of new certifications for the textile products, for instance the Bluesign and Ökotex certifications. The development projects are outlined below.

#### OrganoTex

Further development of the OrganoTex process will be a prioritised area. The development will focus on simplifying the production process as well as creating better productivity.

#### OC-aquasil Tex base

OC-aquasil is currently being sold to industrial customers as a premium product that offers very good functional properties. The most industrial textile producers do not however need the best water repellence, but would rather have a cheaper product. To enable a wider customer base, OrganoClick will develop a base product that will be offered in a lower price segment. The functions will not be performing as good as the current product, but the price segment will make the new products attractive to a larger target group.

#### OC-biobinder

During the coming year the focus will be to optimise the existing products for current application areas. The focus areas are home textiles and nonwoven for various industrial areas.

#### Sales strategy

OrganoClick's sales strategy is based on the different structures of the market segments, competition and different purchasing patterns. Customers of OrganoClick products are expected to be in three segments (which are explained more in the customer segment section below):

- Companies within sport and outdoor clothing
- Companies within casual wear and fashion brands
- Industrial customers within nonwoven or industrial textiles

Within the segment for casual wear and fashion companies, the Company will mainly market itself towards the western clothing brands. The Company will target both small, mid, and large companies within this segment and offer its OC-aquasil Tex treatment. For the sports and outdoor clothing brands, the Company will offer both its OC-aquasil products and OrganoTex brand license.

For the industrial customer segment the Company will focus on offering its binder, OC-biobinder. The customers that will be prioritised are those who to a large extent use natural fibers in their textile production. There are two strong sales arguments for these applications. Firstly, the OC-biobinder works great with natural fibers and because of its effectiveness can give economic advantages compares to competing synthetic binders. Additionally, the use of OC-biobinder together with natural fibers will create a 100% renewable end product that also is biodegradable. These arguments however have less impact when using the product with synthetic fibers.

The industrial companies often have a long testing period for new chemical additives which leads to long sale processing cycles before these can become new customers for OrganoClick. The result of getting a large industrial customer would however show a significant impact on the Company's revenue.

## Marketing and brand strategy

The OrganoTex brand

The Company's goal for OrganoTex is to become an internationally known so called *ingredient brand*. To market the brand, a number of positive attributes will be tied to OrganoTex in the Company's communication and marketing. The attributes that the Company will focus on are:

- Highly functional, innovative, biomimetic technology
- Environmentally friendly and free from dangerous chemicals
- High quality and credibility

In order to connect the brand to these attributes, a number of parameters are important in the marketing. To be able to give the brand a green image, the Company has set up a detailed environmental policy in terms of both what substances that may be used in the products, and how the Company's internal work processes are designed. Product disclosures, environmental disclosures and environmental certificates are currently being established for the different products. The most important environmental certificates to obtain are:

- Bluesign the widest and most recognised environmental certificate for textiles and textile chemicals
- Ökotex is used to classify textiles that may also consist of man-made fibers

There are some additional alternative environmental certificates that could be of interest for the Company. One internationally recognised certificate that has gained attention is the so called Cradle-to-cradle certificate.<sup>29</sup> This certificate takes into account the product's whole life cycle, including recycling. The goal, eventually, is for all of the OrganoClick materials to gain Cradle-to-cradle certificates.

OrganoTex emphasizes the connection to the OrganoClick technology and the prizes that this technology has received. By being relatively open with what the product contains, the Company demonstrates that it does not work with any toxic substances.

The scientific and technological base will be connected to the OrganoTex brand via OrganoClick and its academic founders and partners. These connections will be highlighted in communication and marketing towards customers, authorities, and interest organizations and associations to create a higher credibility.

One of the most important parameters when creating credibility in an ingredient brand is to connect them with the right clothing brands. Therefore, co-branding of the brand will not be offered to all customers, but instead to a few selected ones. The customer segments that initially will be offered to use the brand are well-renowned companies within sports and outdoor industry that cherish similar values as OrganoTex represents. Examples of such companies are Patagonia, Haglöfs, Klättermusen, Fjällräven, Houdini, and Bergans of Norway.

The brand credibility and product quality will also be based on independent test data and documentation. Tests will be performed and documented by authorised testing labs such as SWEREA and Intertek. Interested parties of OrganoClick will always have free access to documentation from these tests.

## Marketing

OrganoTex-products will be actively marketed toward the different customer segments via PR-work, trade fairs and the web. The target group for OrganoTex is generally a segment that is used with the web and social media.

<sup>&</sup>lt;sup>29</sup> www.c2c.com

These channels will therefore be used as much as possible, as they are also cheap relative to traditional marketing channels. The main target groups are buyers and designers of different brand companies, as well as end consumers that are interested in outdoors and sports goods.

#### Pricing

#### Pricing of OrganoTex

The pricing strategy for OrganoTex will always be based on the value that the products offer different customer segments, with consideration to the prevailing pricing by competitors. The price is divided in two, one for OC-aquasil Tex and one for the brand license of OrganoTex. OC-aquasil Tex is sold per kilogram of formulation and the licensing is priced per running meter of textile.

#### Pricing of the Company's industrial bio additive

The OC-biobinder and OC-aquasil Tex are sold as industrial bio-additives. The customers are price conscious and the products have no brand value that the customers are willing to pay a premium for. The most important sales arguments are as above described the environmental aspect and quality. The pricing of the product is made based on these considerations as well as the functionality aspect in comparison with competing products.

#### Geographic expansion

The Company believes that in the short-term perspective, growth in this segment can be obtained with low investment costs since a number of strong outdoor and fashion brands are based in the Nordic region and a have a wide geographic reach. Focus will therefore be on sales and marketing towards the Nordics as well as the North and Central European market. Within two to three years the Company expects to initiate further geographic expansion, where North America is seen as one of the most interesting regions. It is of high importance to set up a large network of Asian production partners in order to handle an increasing number of customers that comes with a geographic expansion. A subsidiary will also be set up in Shanghai, China, where personnel will be able to process and provide technical assistance to the Asian production partners. Within the EU, the Company will gradually increase its presence initially via direct sales towards the brands.

## Production

When producing OrganoTex, the hydrophobizing properties are being added in the final finishing stage of the textile production chain. OrganoClick produces its chemical formulations and then delivers the products to the finishing factories that treat the textile. All of the chemical products are produced by OrganoClick in its production facility in Täby. Products are sent in bulk from the facility to either production partners in Asia or to industrial customers in Europe. Of the finalized textile, garments are produced by for instance clothing brands and resellers or distributors then offer the garments to the end customers.

The treatment of OrganoTex-textile will mainly be done by Asian production partners. OrganoClick has ensured that the OrganoTex treatment can be performed with conventional production machinery currently used in the industry, i.e. padding machines. This means that few adjustments need to be made in order to switch from other prevailing solutions to OrganoTex. Parameters for drying and curing the textiles have been optimised by OrganoClick to get the molecules to bind hard to the textile, making it able to withstand several washes with detergents.



## The market for performance textiles and nonwowen

This section has been based on industry reports, company information and OrganoClick's own knowledge. Unless stated otherwise, the information contained in this market overview has been produced and/or accepted as the appropriate view by the Board of Directors of OrganoClick to the best of their knowledge.

## Introduction

The textile industry uses large quantities of synthetic chemicals to achieve properties such as water repellence, increased softness, non-iron, wrinkle-less, or antibacterial clothing. The market for textile chemicals has a turnover of USD 8.5 bn and it grows with circa 3 percent yearly.<sup>30</sup> The large market participants are chemical companies such as BASF – Ciba and Dow Chemicals, together with numerous niche players such as German Rudolph Chemie, Schoeller, Clariant, Tanatex and HeiQ. The market for binders, at which the OC-biobinder is active in, has an estimated turnover of circa USD 400m per year.<sup>31</sup> Users are large industrial nonwoven producers such as Ahlström, Fibertex, Fiberweb, and Concert Industries. The total market for hydrophobizing substances for textiles, at which OC-aquasil Tex is active in, is estimated to have an annual turnover of more than USD 1 bn per year.<sup>32</sup>

The market for functional textiles includes textiles for outdoor, working clothes and industrial textiles. The global annual turnover is estimated to USD 50-60 bn per year and the market is estimated to grow with 13 percent per

<sup>&</sup>lt;sup>30</sup> SCUP report: Textile chemicals, http://www.sriconsulting.com/SCUP/Public/Reports/TEXTI000/ (2008-08-20)

<sup>&</sup>lt;sup>31</sup> IFAI Expo 2003. http://ascouncil.org/news/endusermaterials/presentations/IFAI03-AdhesInTextiles\_Nick.pdf

<sup>&</sup>lt;sup>32</sup> Renner, R. (2006). "The long and the short of perfluorinated replacements". Environmental Science & Technology 40 (1): 12–3

year.<sup>33</sup> OrganoTex will especially focus on the market for outdoor textiles, which is one of the larger market segments within functional textiles.

## The textile industry value chain

The value chain within functional textile is complex and fragmented. In the first stage, fibers and threads are created in spinning mills from either man-made polymers such as polyester or from natural fibers such as cotton. The threads are delivered to weaving mills that create raw weave. This is then treated with chemicals followed by the dying of the textile in a dying house. A final finish can be applied in a finishing facility in order to add additional functionality to the textile.

The textile is then sent to a sewing factory where a garment is sewn on behalf of a clothing brand. The completed garment is then delivered by distributors to the different resellers that offer the garments to the end customer.

Nonwoven textiles are either created by synthetic fibers or by fibers made of regenerated cellulose such as viscose. The raw material of the fibers can be based on wood, cotton, or flax. The value chain thus begins either in the forest, on the cotton fields, or flax cultivations. The fibers are then made into pulp by pulp companies. A fiber producer then regenerates the cellulose and rebuilds the viscose fibers in a number of steps. The completed fibers are then delivered to nonwoven producers that make the nonwoven textile in a process that resembles the process of making paper.

The production steps involve adding a number of functional chemicals that give the material its final functionality. These chemicals are bought in from chemical companies and it is in this stage that OrganoClick adds its OC-biobinder or OC-aquasil to the nonwoven material. After the production of the nonwoven material by nonwoven producers, the material is delivered to the companies that use nonwoven material to produce e.g. filter materials, hospital disposables, and home textiles.

## Market segments

Customers of OrganoClick products are expected to be in three segments. They are primarily divided by application areas but also by purchasing of the products:

- Casualwear, sport and outdoor clothing
- Workwear
- Industrial customers within nonwoven or industrial textiles

A number of characteristics are important depending on the product segment. The first segment with outdoor and sport clothing combines the features of functionality, fashion and texture. The attributes connected to the textile is of importance, and the environmental aspect is a significant parameter. The brand can play a great part in consumers' choice of products. A good or very good water repellent ability is a common demand from consumers, depending on if the clothes are to be used in regular or outdoor extreme conditions.

The workwear segment has mainly high demands on the technical aspects of the garments. Fashion and brand are less important. The demands for textiles in this segment are often not only that they are water repellent, but also that they are oil repellent. The prices of these textiles are also of high importance, and the market for each sub component is therefore competitive.

The industrial segment consists of textile used in for instance the auto, construction, and medical industry. The demands on technical functionality are often high. Both water and oil repellent properties are demanded and pricing is often of significant importance. This part of the market is often highly competitive with regards to pricing except in some niche segments where the functional demands are very specific.

<sup>&</sup>lt;sup>33</sup> www.just-style.com (2012-06-11)

OrganoClick offers its brand OrganoTex only to the first segment. This is because of the large potential to niche itself with the attributes that OrganoTex possesses. The customers in this segment are also less price-sensitive when it comes to clothes with specific functional and environmental attributes and are very used with cobranding (e.g Gore-Tex or Polartec).

For the other two segments, OrganoClick offers the OC-aquasil Tex base as an industrial hydrophobizing product. As this product only has water repellent abilities and not oil repellent (like the competing PFC-based products have), the potential customer base is large but has a certain limit.

#### Market trends

Within the market segment for sport and outdoor clothing there are two apparent trends. The first is the high demands on functionality and the second are the demands on environmentally and ecologically durable products. The users of outdoor clothing are generally interested in nature and outdoor activities. Naturally, these customers want ecologically sustainable products with high functionality. Quality is of course of great importance as well, as these products generally are expensive and thereby are expected to last a long time.

The on-going debate in media regarding the possibly toxic chemicals in textiles has brought the attention to consumers regarding these issues. Consumers are also prepared to pay a premium for environmentally approved products. This debate and the current consumer trend increases the pressure on brands within the outdoor segment to find and use more environmentally friendly and non-toxic textiles.

This environmental trend can also be seen within the production of industrial nonwoven textiles although not as apparent. The price and functionality are still the most important aspects.

#### Customer segments

As described above in the market segmentation, customers to OrganoClick products are expected to be in three segments. They are primarily divided by application areas but also by purchasing of the products:

- *Companies within sport and outdoor clothing:* These customers want to be associated with positive brands, meaning the brand strategy for OrganoTex will be of high importance. Examples of companies are Haglöfs, Peak Performance, Fjällräven, and Patagonia.
- *Companies within casual wear and fashion brands:* Applications include outdoor jackets, coats and pants. Most of these companies do not traditionally get associated with other brands, meaning that OrganoClick initially will not offer co-branding for companies in this segment.
- Industrial customers within nonwoven or industrial textiles: For instance customers that need water repellent or increased mechanical properties, such as producers of home textiles or industrial nonwoven materials. OrganoClick offers these customers OC-biobinder and OC-aquasil Tex. Examples of companies in this segment are Hunter Douglas, Ahlström, Freudenberg, IMS Nonwoven, and Rexcel.

## Current customers and partners

#### Chang-Ho Fiber Corp

Chang-Ho Fiber Corp is a large, publicly listed, Taiwanese functional textile company. It is an integrated textile company that weaves, dyes, and finishes circa 30 million running metres of textile annually in their two factories in Taiwan and China. They also have three weaving facilities in Vietnam where they sew clothes and backpacks. OrganoClick has been cooperating with Chang-Ho Fiber since 2013 and the first industrial production of OrganoTex textile was made in December 2013. Chang-Ho has currently developed some 100 weaves that are OrganoTex treated and offered to the market.

#### Scandinavian Outdoor Group

A project with the goal to phase out the use of PFCs in Scandinavian produced outdoor products has been performed together with the trade organization Scandinavian Outdoor Group. The outdoor clothing companies that participated in this project were Haglöfs, Klättermusen, Norröna, Bergans of Norway and Houdini. The project was very successful and a joint press release was sent out in April 2014.

## Almedahls AB

OC-biobinder was launched during the autumn of 2011. The first industrial customer that implemented the product in its production is the Swedish textile producer Almedahls AB, which is a mid-sized producer of home textiles with a focus on specially designed curtain textiles in the premium segment. Almedahls together with OrganoClick developed a curtain textile from renewable raw materials that is 100 percent biodegradable. The textile was launched at a trade fair in March 2012 and has been on the market since then.

#### Competition

The competition on the market for innovative textiles is relatively high compared to the competition in the market for innovative wood or paper material. It is therefore even more important with the segmentation and to keep focus on chosen niches.



Gore-Tex, supplied by A. W. Gore & Associates, has been the leading brand during the last decades in the market of water repellent technologies for textiles. Gore had total revenue of USD 3.2 billion in 2013<sup>34</sup>, from its products based on its fluorocarbon polymer (PFCs) technologies used in both textile, electronic, medical and industrial products. The Gore-tex technology is created with a membrane that is laminated on the inside of the textile to add water proofness to the fabric, whereafter a surface finish is applied to the outer textile layer to repel the water. Both the membrane and the surface finish are however made of PFCs, which is currently one of the most questioned chemical groups in the textile industry.

Nanotechnology has also entered the field of water repellent technologies for textiles and a few companies are working with developing products based on nanoparticles. The technologies are still in early phases and most products are also based on PFC-containing nanoparticles. The nanotech products are also in general considerably more expensive than other technologies.

However, within the market for PFC-free solutions, the market participants are limited. There are a number of players with products on the market, but the ones with a sufficient level of quality are few with Schoeller and HeiQ (currently cooperating with Rudolph Chemie) as the most serious competitors. OrganoClick's products OrganoTex and OC-aquasil Tex are marketed in competition with these companies. The most important competitive advantages towards these is the environmental aspect, as they are biodegradable and free from the otherwise commonly used carcinogenics and diisocyanates, as well as the functionality.

<sup>&</sup>lt;sup>34</sup> <u>www.gore.com</u>, 2014-10-19

Within the market for binders, the competitors are mostly producers of traditional synthetic binders. These include BASF – Ciba, Clariant and Dow Chemicals. Within the segment for biopolymer based binders where OC-biobinder is marketed, some research is being conducted but very few high quality products have reached the market.

## Fiber composites and paper products

## The offer

More consumers are demanding products that are made from biodegradable material that only contains renewable raw material. The use of petroleum-based plastic materials is questioned as the massive heaps of garbage keep growing and the continent of plastic flowing in the World seas keeps increasing. Forest raw material in the form of plant fibers may become an increasingly interesting alternative to plastic in many products.

Improved production technology that makes advanced fiber products out of moulded fibers has started to drive the development forward. A Swedish company called Södra recently demonstrated a children chair made out of moulded pulp, receiving great attention at the furniture fair in Milano. This concept product is made out of a new pulp that Södra has developed, which contains regular cellulosic fibers mixed with a bio-plastic made from lactic acid (PLA). This special pulp gives the products significantly more stiffness that increases the possibilities with moulding pulp products – from today's egg cartons etc.

New technologies that enhance the functions of moulded fibers give rise to new application areas for the material. OrganoClick will offer functional fiber-based products to consumers and industrial customers within the business area of Fiber composites and paper products. Via the use of a newly developed production technology for moulded fibers, OrganoClick will produce significantly larger moulded fiber-based products than currently available on the market. This approach opens up a whole new array of markets, where previously wooden materials, chipboards, or plastic have been used. The production equipment and development cost for this technology was roughly half externally financed by EU grants and a potential customer of OrganoClick. The products that OrganoClick will offer will also have high functional demands on for instance water or fire resistance, so that obvious synergies with the Company's different technical divisions can be achieved. Different bio-additives will also be offered for niche areas such as specialty paper.

The first product that OrganoClick has developed is a material used in the production of burial coffins. The majority of the coffins currently produced are made of particle board. The remaining part is produced with solid wood materials or other alternative materials such as metal. One problem with the cheaper mass-produced particle board coffins is that they contain glues that emit the environmentally toxic chemical formaldehyde. Producers are trying to phase out the use of this toxic and carcinogenic chemical due to its problems in the work environment. The coffin developed by using OrganoClick's material will look like a regular coffin in its design, but will besides the environmental advantage also be significantly cheaper to produce.

## Short-term goals

The Company has the following goals for 2015:

- Complete the first production line
- Launch first product, the coffin, in Q1
- Produce 2,000 coffins

#### Long-term goals

The Company has the following goals for the coming five years:

- At least three new products will be in full-scale production
- Be present in at least 15 geographic markets in Europe and North America
- High double digit revenue growth
- EBITDA margin of at least 35% within five years

#### General strategy

To reach the goals of the business area the Company has designed a strategy on both short term and long term. The general points in this strategy are summed below:

- During 2015 focus on initiating the production of the Company's first moulded fiber products
- As of 2016 start developing new products in cooperation with potential customers to increase the market for the Company's moulding technology.
- As of 2017 start selling licenses for the fiber-moulding production technology to possible production partners

## Products

#### Moulded fiber coffins

Coffins are currently produced in a number of materials. The functional demands on the coffins are however similar in the whole Western world. Coffins have to be able to withstand 120 kilogram of weight, and be sufficiently stiff and water resistant. In Lutheran countries, circa 80 percent of the coffins are cremated, thus setting demands on the coffin's resistance to fire. The fire process must not be too quick, as this would give rise to problems when cremating the body. All of these functional demands must be met in order to get an approval for the product.

OrganoClick's product concept is based on three parts. The first is the Company's knowledge within functionalization of biofibers. Via this knowledge, the Company has the means to develop a material that can manage the current high functional demands of coffins in the Western world. The second part is the development and use of an advanced production technology for moulding of plant fibers. Products of this size have never been in serial production before, even though the technology does exist. OrganoClick has been developing the production machinery together with an engineering-firm with specialist knowledge within production machinery for moulded pulp.

The third part is a collaboration with Nyarp Holding AB (merged entity of Fredahl and Rydéns), which is the dominating coffin producer in the Nordic region. Contracts have been signed with Nyarp Holding AB regarding production, design, marketing and distribution for the Nordic region, Germany, Poland, the Netherlands and Great Britain. The combination of these three parts makes it possible to produce coffins significantly more economically but at the same time also offer advanced shape and design.

#### Product development

#### Moulded fiber coffins

The coffin has been developed from a product concept to a working prototype during the last four years, and an automated production line is expected to be in in use H1 2015. The product development process has been performed together with a customer in a collaboration project in which OrganoClick has supplied the technology and know-how, and where the customer has supplied co-financing as well as product and market knowledge.

Vinnova and the EU, through the program Eco-Innovation, has also been part of the financing of the development.

The first step towards completing the products has however been the development of a working material concept. This development work has been performed by using OrganoClick's knowledge within functional plant fiber materials. The development and design of production machinery has been performed by an engineering firm with specialist competence within fiber moulding.

#### Paper strength additives

An important property for paper-based products is its so called dry strength. This is measured as the paper's mechanical strength in its dry state. The dry strength for most paper materials is proportional to its weight (g/m<sup>2</sup>). An increased dry strength could thereby mean that the weight could be reduced and the amount of raw material (paper pulp) could be reduced, while still maintain the same strength. OrganoClick is developing a product that when added to the paper material, can increase the dry strength significantly. The result is a significant reduction in paper pulp needed for the product, effectively decreasing the material costs. Additionally, pulp production is one of the world's most energy demanding processes, and a decreased amount of pulp would thereby also mean large savings in energy costs. Less amount of forest would need to be harvested which means a decreased impact on the environment.

OrganoClick is currently working together with Siniat (former Lafarge Gypsum) on a strength additive for paper products. The project is financed by the EU (the R&D program Eurostars) with a total of SEK 3 million during two and a half years. Professor Armando Córdova's research group from Mittuniversitetet is also participating as a project partner.

A product is estimated to be launched in 2015 at the earliest.

## Intellectual property

IP-strategy

As the products that are developed will be produced through both unique production equipment and novel materials, there are good possibilities to create a strong patent protection around the technologies being used. The aim with the patent protection is to give the Company a strong protection against other companies on the market. A patent family will be created around the technologies and methods used for serial production of large moulded fiber products with automated production equipment. The patent families will also be created around the specific products and materials that are developed.

## Sales and marketing strategy

#### Moulded fiber composites

The business area of Fiber composites and paper products targets niche applications in which other materials have traditionally been used. The selling of these products will demand high technical competence combined with product development work performed together with customers. Most customers will be industrial companies in existing value chains in which the materials that are developed will be of high value. The sales and marketing process will therefore to a large extent also consist of business development and demand technical support. A good understanding of the different industries' value chains is also of great importance in order to understand the value creation of OrganoClick's products.

The first product developed is for the production of burial coffins, which has a value chain of three steps. The first step is the production of materials that the coffins are based on, i.e. particle boards of wood. The other step consists of a small number of larger industrial companies that puts together and produces the coffins. The coffin producers also decorate the interior and exterior of the coffins before the coffins are delivered to the funeral

directors. The last step before reaching the end customers consists of a large number of smaller funeral agencies that offer complete funeral solutions, including coffins.

OrganoClick does not have the ambition to become a coffin producer, but instead a supplier of innovative, moulded fiber materials. Therefore, the strategy is to initially sell semi-manufactured, in-house produced coffin material to coffin producers. In time, the production process will likely be outsourced to licensed production partners. This strategy will also be used for other moulded fiber products that the Company develops for industrial customers.

This strategy that utilises OrganoClicks core competencies has mainly three advantages. The first is to avoid direct competition with the established industry participants. The other is that OrganoClick avoids the need to build up a large sales organization towards the end customers but can rather take use of the sales channels and networks from the established players. The third advantage is that OrganoClick can focus on product development, design and production of other products, rather than focusing on the completion of the coffin (such as the painting and decoration of the coffin, currently done by the coffin producer).

#### Paper strength additives

OrganoClick's customers within the paper industry will be large paper companies to which OrganoClick will deliver bio-additives in bulk. The potential customers are relatively few and the sales process to each individual customer is long, which is why the process of choosing the right customers is of high importance. The products currently developed together with customers will be the groundwork for the future sales and marketing towards new customers when the products are developed.

When selling to new industrial customers within the paper industry, new development projects need to be initiated with each paper mill. This is because the formulations need to be individually adjusted for each application and process line, as well as because the paper mills cannot introduce new additives without examining them carefully. These projects will however be processed quicker than the development projects used to develop completely new products, due to experience with earlier, similar assimilation projects.

As the forest companies often have several paper mills producing specific products and also have a rather high degree of autonomy, the sales process will be directed towards the paper mills rather than directly to the companies.

#### Pricing

#### Moulded fiber composites

The pricing of Fiber composites and paper products will always use the value and utility that the products offer different customer segments as a starting point, with consideration regarding the prevailing prices of competing products.

The end customer pricing of the coffins will be in the same range as the current mid to high-priced chipboard alternatives. It is of great importance that a certain sales volume is achieved as the investment cost of the production equipment is relatively high. The current price has been adjusted as to give a price to the end customer at around SEK 6,000-7,000 (including VAT).

#### Paper strength additives

Within the industrial production of paper, cost control and economic efficacy are the most important competitive advantages. OrganoClick's strength additives shall be in line with these. The main function of the products is to strengthen the paper, in order for the customers to reduce their costs by decreasing the weight of the paper, while maintaining its strength. The pricing of the product will therefore be decided based on the

potential economic saving that the paper producers may achieve, as well as the functionality aspect in comparison with competing products.

#### Production

#### Moulded fiber composites

Production of moulded fiber products in the size of a coffin is not currently available on the market. New production equipment therefore had to be developed and produced. The production technology that will be used is based on the otherwise common way of producing smaller moulded fiber products. This technology has then been developed and modified by the Company for the last four years, together with mechanics and production technology consultants with specialist knowledge within production of moulded fiber components.

Since the autumn of 2012, OrganoClick's new production line has been engineered, produced, and installed. The machine will be used to produce smaller series of completed products, but will also be used for developing and testing new products. The ambition is to initiate collaborations with production partners that will buy the license to produce the products that OrganoClick develops to customers. Through this model, scalability of the products and different applications can be achieved much quicker than if OrganoClick would set up own production lines for different application areas. The coffin production will be the model for new applications that are developed.

	Plant fibers	Bio additives	Moulding process	Possible applications
	Biodegradable plant fibers	Adding OC-aquasil, OC-	Improved moulding	Furniture
posites	producers and used as raw material	bioadditives in order to add new properties to the material	<ul> <li>Large objects</li> <li>Stiff structure</li> </ul>	Building materials
fiber com			Smooth surface	Automotive interior panel
Vloulded (	free form to its and	llink and amanga fiker	Depleting election MD5 and	Food and beverage containers
2	free from toxics and glues	High performance fiber composite	chipboards	
	с	organoClick's production proce	ss	

#### Paper strength additives

Production of the industrial paper additives for the paper industry will be performed in OrganoClick's existing production lines, like for the rest of the chemical formulation products.

## The market for Fiber composites and paper products

This section has been based on industry reports, company information and OrganoClick's own knowledge. Unless stated otherwise, the information contained in this market overview has been produced and/or accepted as the appropriate view by the Board of Directors of OrganoClick to the best of their knowledge.

#### Introduction

Moulded fiber composites

Within the business area of Fiber composites and paper products, OrganoClick will supply materials that can be used by customers working in several markets. The first material within this business area has been developed for use in burial coffins. The Swedish market for coffin production has a turnover of circa SEK 250 million per

year<sup>35</sup>. The global market for coffin production has a turnover of several billion SEK per year<sup>36</sup>. The dominating coffin producer in the Nordic market is Nyarp Holding AB. The other large player on the market is the cooperative Fonus. The reseller market consists of a large number of smaller funeral homes, and a couple of larger chains where Fonus is the leading player.

#### Paper additives

The strength additives that OrganoClick is developing are currently focused on modifying properties for paper. Normally when increasing the strength in paper, starch, starch derivatives or other bio and synthetic polymers are added. Some of the largest specialised starch producers are Lyckeby Stärkelsen, Emsland Stärke, AkzoNobel – National Starch, Roquette, and CP Kelco. The market for strength additives for paper products has an annual turnover of circa EUR 5.5 bn.

#### Paper industry value chain

The value chain within the paper industry is based around the large, producing forest companies and their customers. This makes the value chain relatively compact with few players. The forest companies often own forest and therefore supply themselves with timber. Most often, the forest companies both supply their own wood and have their own pulp factories in conjunction with their paper mills.

In order to produce paper products, large volumes of functional chemicals (supplied from chemical companies) are added in a number of steps in the process. OrganoClick will produce chemical formulas with raw materials and chemicals supplied from the traditional chemical companies, in order to deliver the complete formulas to the paper companies. OrganoClick will thereby be positioned not in direct competition with the traditional chemical producers, but rather use these as suppliers.

The paper companies will use OrganoClick's products as an additive in their production. When the paper products have been produced, the forest companies sell these to customers such as packaging companies, printers, bag producers, and paper converters. These are in turn sold to end customers such as consumers or companies using paper packaging for its products.

## Market segments

Moulded fiber coffins

The coffin market can be divided into several segments with regards to the pricing of the coffin. On the European market, the bestselling coffins are made of chipboard. These have a retail price to the end customer of SEK 4,000 to 7,000 (including VAT). The difference in pricing is due to difference in design and choice of material.

The premium segment consists of coffins made in solid wood with a more aesthetically appealing design. Price levels at funeral homes are from SEK 7,000 to 15,000 to the end customers. The top segment coffins are made of exclusive wood materials with carved details. These are priced at from SEK 15,000 up to more than SEK 30,000.

## Market trends

#### Moulded fiber coffins

The majority of the coffins currently produced are made of chipboard. The remaining part is produced with solid wood materials or other alternative materials such as metal. One problem with the cheaper mass-produced chipboard coffins is that they contain glues that emit the environmentally toxic chemical formaldehyde. Producers are trying to phase out the use of this toxic and carcinogenic chemical due to its problems on the work environment.

<sup>&</sup>lt;sup>35</sup> Company estimate

<sup>&</sup>lt;sup>36</sup> Company estimate

There is a current consumer trend for so called ecological funerals, in particular in the Anglo-Saxon markets. This concept involves environmentally friendly and carbon dioxide-neutral funeral ceremonies with coffins made in environmentally friendly material. This trend has also created great conditions for marketing OrganoClick's new materials.

One material that long has been used in Asia is paper. One advantage with paper is that it is cheap and made without formaldehyde-based glues. Paper coffins have however not had any success in the Western world. There are two main reasons to this; it is partly due to the current technical demands of coffins in the funeral industry, and partly because of a general perception in the West that it would be an unworthy burial. Other materials that have been evaluated are materials based on starch or lignin. The problems with these are mainly the lack of resistance to water. If they get wet, for instance in rain, they simply get dissolved, which has led to plastic being incorporated into these materials.

#### **Current customers**

#### Moulded fiber coffins

The first customer is the dominating Nordic player Nyarp Holding AB. OrganoClick has signed an exclusive agreement giving Nyarp Holding AB rights to sales, marketing and distribution of the burial coffin in the Nordics, Germany, Poland, Holland and Great Britain. Agreements with other companies in other geographical markets may be signed in the future. Sales will be initiated within other application areas for fiber-composite products in the coming years, when the production has been initiated.

#### Paper additives

OrganoClick has since the summer of 2012 been cooperating with Siniat, the World's third largest producer of plasterboards. A project financed by Siniat and the EU has been initiated, with the purpose of implementing OrganoClicks's strength additive into Siniat's production of gypsum grade paper, used in plasterboard. In total, Siniat uses circa 300,000 tonnes gypsum grade paper per year.

Other important customers to OrganoClicks's paper additives are expected to be the dominating paper producers. The largest companies in the world are companies such as International Paper, UPM Kymmene, Stora Enso, SCA, Mondi, Smurfit Kappa, and Nippon Paper among others. Other, more specialised companies will also be interesting potential customers within certain segments such as the Swedish BillerudKorsnäs, Munksjö Paper and Holmen.

## Competitors

## Moulded fiber coffins

There are a number of players that have targeted the market for environmentally friendly coffins. In England, there is a company called ARKA Ecopod Ltd<sup>37</sup> that produces coffins made of recycled pulp. These are however handmade, making them significantly more expensive and they only compete in the premium-priced coffin segment. A Danish company called Dancof<sup>38</sup> has initiated development of a moulded fiber coffin. The production technology that they intend to use is to a large part similar to that of OrganoClick, which may make them to a serious competitor. The cheapest alternatives are the paper coffins that mainly are popular in the Asian market but they also are marketed and sold as budget products.

<sup>37</sup> http://www.ecopod.co.uk/ (2011-02-06)

<sup>&</sup>lt;sup>38</sup> www.dancof.com (2011-02-06)

# **Financial overview**

The consolidated accounts are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 1:00. Information in this section is gathered from the 2013 Annual Report and the Q1-Q3 2014 Interim Report.

The Company intends to prepare the financial statements for the annual report 2014 in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the EU. The changes that are expected to have the most significant impact on the income statement and balance sheet are recognition of lease agreements (IAS 17), recognition of internally generated intangible assets (IAS 38), and accounting for government grants (IAS 20). Additionally, the notes will increase significantly and the structure of the statements will change.

## Consolidated income statement

	2014	2013	2013	2012
Amounts in SEK	Jan-Sep	Jan-Sep	Jan-Dec	Jan-Dec
Income				
Net sales	17,969,809	6,337,477	7,752,140	1,077,159
Other operating income	2,959,636	2,179,655	3,087,024	1,855,425
Total revenue	20,929,446	8,517,131	10,839,164	2,932,584
Costs				
Raw material	-11,618,106	-5,088,824	-6,186,236	-842,162
Other external costs	-12,374,086	-4,409,263	-9,123,391	-4,617,639
Personnel costs	-7,589,395	-5,262,780	-7,431,492	-5,339,130
Depreciation and amortisation	-929,287	-794,173	-1,064,445	-1,059,407
Total costs	-32,510,874	-15,555,040	-23,805,564	-11,858,338
Operating profit	-11,581,429	-7,037,909	-12,966,400	-8,925,754
Profit from financial items				
Interest income and other similar items	8 <i>,</i> 538	192	53,129	8,936
Interest expenses and other similar items	-144,413	-164,057	-186,959	-105,174
Net financial items	-135,875	-163,865	-133,830	-96,238
Profit after financial items	-11,717,303	-7,201,774	-13,100,231	-9,021,992
Profit/loss before tax	-11,717,303	-7,201,774	-13,100,231	-9,021,992
Income tax	-	-	-	-
Minority holdings	2,090,594	1,280,802	2,716,666	1,036,028
Net profit	-9,626,710	-5,920,972	-10,383,565	-7,985,964
Average number of shares	55,038,449	54,862,645	54,921,407	51,439,914
Earnings per share, SEK	-0.17	-0.11	-0.19	-0.16

## Consolidated balance sheet

Amounts in SEK	2014-09-30	2013-09-30	2013-12-31	2012-12-31
ASSETS				
Non-current assets				
Intangible assets				
Patents	1,697,116	1,669,302	1,650,863	1,562,509
Brands	39,851	-	-	-
	1,736,967	1,669,302	1,650,863	1,562,509
Tangible assets				
Equipment, tools and fixtures	2,177,671	1,269,584	1,173,295	1,230,010
	2,177,671	1,269,584	1,173,295	1,230,010
Total non-current assets	3,914,638	2,938,886	2,824,158	2,792,519
Current assets				
Inventory				
Raw material and inventory	5,192,041	2,682,714	2,756,801	1,534,602
	5,192,041	2,682,714	2,756,801	1,534,602
Short-term receivables				
Accounts receivable	3,549,268	1,523,890	580,127	172,078
Tax receivables	122,732	79,276	97,237	-
Other receivables	794,707	641,023	1,118,715	15,368,171
Prepaid expenses and accrued income	1,904,147	1,542,299	2,214,964	267,720
	6,370,854	3,786,488	4,011,044	15,807,969
Cash and bank	4,447,575	2,950,295	20,737,590	71,478
Total current assets	16,010,470	9,419,497	27,505,435	17,414,049
TOTAL ASSETS	19,925,108	12,358,383	30,329,593	20,206,568
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	275,192	275,192	275,192	256,403
Share capital, current placement				17,094
Reserves	5,559,878	15,943,444	15,943,444	22,482,448
Net profit	-9,626,710	-5,920,972	-10,383,565	-7,985,964
Total equity	-3,791,639	10,297,664	5,835,071	14,769,981
Minority holdings	13,709,998	-2,763,545	15,800,591	-1,482,743
Total shareholders' equity and minority holdings	9,918,358	7,534,119	21,635,662	13,287,238
Current liabilities				
Accounts payable	2,097,726	1,230,426	1,360,343	1,472,692
Taxes payable	-	-	-	5,178
Other liabilities	5,672,072	2,802,519	3,237,993	3,756,500
Accrued expenses and deferred income	2,236,951	791,319	4,095,596	1,684,960
Total current liabilities	10,006,749	4,824,264	8,693,932	6,919,330
TOTAL EQUITY AND LIABILITIES	19,925,108	12,358,383	30,329,593	20,206,568

## Consolidated statement of cash flow

	2014	2013	2013	2012
Amounts in SEK	Jan-Sep	Jan-Sep	Jan-Dec	Jan-Dec
Operating activities				
Profit/loss before tax	-11,717,303	-7,201,774	-13,100,231	-9,021,992
Adjustments for non-cash flow items:				
Depreciation, amortisation and asset write-downs	929,287	794,173	1,064,445	1,059,407
Tax paid	-25,495	-84,454	-102,415	33,943
Cash flow from operating activities before	-10,813,511	-6,492,055	-12,138,201	-7,928,643
changes in working capital				
Increase/decrease in inventory	-2,435,240	-1,148,112	-1,222,199	-1,132,102
Increase/decrease in accounts receivable	-2,969,140	-1,351,812	-408,049	-87,769
Increase/decrease in operating receivables	634,826	13,452,569	12,302,213	-15,065,364
Increase/decrease in accounts payable	737,383	-242,266	-112,349	1,273,412
Increase/decrease in operating liabilities	575,435	-1,847,622	1,892,128	4,475,061
Total changes in working capital	-3,456,737	8,862,758	12,451,745	-10,536,762
Cash flow from operating activities	-14,270,249	2,370,703	313,544	-18,465,405
Cash flow from investing activities				
Investments in intangible assets	-589,784	-549,492	-689,351	-430,015
Investments in tangible non-current assets	-1,429,983	-391,048	-406,734	-178,733
Cash flow from investing activities	-2,019,767	-940,540	-1,096,085	-608,748
Cash flow from financing activities				
Equity raised	-	1,048,654	21,048,654	13,993,678
Received shareholder contributions, minority	-	400,000	400,000	1,133,000
Cash flow from financing activities	-	1,448,654	21,448,654	15,126,678
Cash flow for the period	-16,290,015	2,878,817	20,666,112	-3,947,475
Cash and cash equivalents, beginning of the year	20,737,590	71,478	71,478	4,018,953
Cash and cash equivalents at the end of year	4,447,575	2,950,295	20,737,590	71,478
Decrease/increase in cash and cash equivalents	-16,290,015	2,878,817	20,666,112	-3,947,475

# Comments to the financial development

## **Revenue and results**

## January – September 2014 compared to January – September 2013

The group net sales for the period January to September 2014 increased with 184 percent compared to the corresponding period 2013 and amounted to SEK 18.0 (6.4) million. The increase is mostly attributable to an increase in sales of OrganoWood-modified timber, where the stockholding stores increased from circa 70 by the end of 2013 to circa 120 by 30 September 2014.

The costs amounted to SEK 32.5 (15.6) million during January to September. The largest cost item was made up of external costs, which amounted to SEK 12.4 (4.4) million and is attributable to higher rental costs, development of the new production facility, and investments in marketing and sales. Non-recurring costs during the period (Jan-Sep 2014), related to the set-up of the new production facility, was SEK 3.8 million. Personnel costs increased to SEK 7.6 (5.3) million as the number of employees increased from 10 to 16.

Operating profit for the period amounted to SEK -11.6 (-7.0) million and the net profit amounted to SEK -9.6 (-5.9) million.

## January – December 2013 compared to January – December 2012

The group net sales for the period January to December 2013 amounted to SEK 7.8 (1.1) million. 2012 was the first year the Company had OrganoWood-modified timber on the market and in 2013 the efforts put into sales and marketing started to show in the demand for the Company's products. The increase is mainly attributable to an increase in sales of OrganoWood-modified timber.

The costs amounted to SEK 23.8 (11.9) million during January to December 2013. The largest cost item was made up of external costs, which amounted to SEK 9.1 (4.6) million and is attributable to non-recurring costs of SEK 3.2 million related to the planning of the new production facility and for issuing preference shares in OrganoWood. Investments in marketing and sales also contributed to higher costs. Personnel costs increased to SEK 7.4 (5.3) million as the number of employees increased from 8 in the end of 2012 to 10 in the end of 2013.

Operating profit for the period amounted to SEK -13.0 (-9.0) million and the net profit amounted to SEK -10.4 (-8.0) million.

## Cash flow

## January - September 2014 compared to January - September 2013

Cash flow from operations amounted to SEK -14.3 (2.4) million. The negative change is explained by a lower operating profit and a lower amount of operating receivables. The large change in operating receivables in 2013 is explained by the equity placement in 2012. The total cash flow for the period amounted to SEK -16.3 (2.9) million.

## January – December 2013 compared to January – December 2012

Cash flow from operations amounted to SEK 0.3 (-18. 5) million. The large change in operating receivables between the periods is explained by the equity placement in 2012. In 2012 the shares were issued but the capital wasn't settled until 2013. The total cash flow for the period amounted to SEK 20.7 (-4.0) million. In 2013 a preferential share issue was carried out in OrganoWood AB which brought in SEK 20 million excluding costs in connection with the issue.

## Investments

#### January - September 2014 compared to January - September 2013

Net investments during January-September 2014 in intangible assets amounted to SEK 0.6 (0.5) million and consisted of costs for patents and trademarks. Net investments in tangible assets amounted to SEK 1.4 (0.4) million.

OrganoClick AB has signed a lease agreement for the financing of new production equipment, amounting to SEK 4.5 million. The lease runs for six years with a residual value of ten percent. Investments for SEK 3.7 million have been made so far.

## January – December 2013 compared to January – December 2012

Net investments during January-December 2014 in intangible assets amounted to SEK 0.7 (0.4) million and consisted of costs for patents. Net investments in tangible assets amounted to SEK 0.4 (0.2) million.

## Ongoing and planned investments

The total remaining investment in the new production facility and production equipment for the Group during Q4 2014 and 2015 will be approximately SEK 4.6 million.

## Working capital

The need for working capital during the coming twelve months is estimated to be in average 20 percent of the Groups revenue. With revenue of SEK 50 million the Group will need an average working capital of SEK 10 million. However, as the sales in the business area Functional wood is highly seasonal, variation in working capital will be high and the highest need of working capital will always be in Q2 each year.

The Company expects that the capital raised in the Equity Issue will be enough until the Company is cash-flow positive, which according to current business plan is expected during H2 2016.

## **Fixed assets**

The Group has production and laboratory equipment to a value of SEK 2.2 (1.3) million as per 30 September 2014.

## Intangible assets

The Group has intangible assets such as patents and trademarks to a value of SEK 1.7 (1.7) million as per 30 September 2014.

## Equity

The group equity is calculated by consolidating the equity of the parent company and the subsidiary (OrganoWood AB). In the subsidiary OrganoWood AB there are two types of shares, common shares and preferential shares. The preferential shares, owned by 83 minority owners, equal SEK 20.0 million of OrganoWood AB's equity capital. This is treated as a minority interest in the group's balance sheet, leading to the equity capital becoming negative even though both two legal entities have a positive equity capital. This does not in any way affect the solidity of the legal entities but is rather an accounting technicality.

## Tax Losses carried forward

OrganoClick AB and OrganoWood AB has tax losses carried forward amounting to SEK 27.2 million and SEK 10.2 million respectively as per 30 September 2014. According to Swedish income tax law (IL), as set out in chapter 40, tax losses carried forward might be affected when a loss company is subject to a change of ownership (directly or indirectly). Tax losses can, according to the specific rules, be forfeited, partly or fully. Theoretically, a transaction whereby a loss company is listed, its shares subject to transfer and new shares are issued could give rise to a change of ownership in this respect. The Company's view is, however, that it is unlikely that the

Company will be affected by these rules in connection to the Equity Issue. Instead, the Company expects that the Company's possibility to set off future profits against losses carried forward should not be affected by the transaction.

## Important changes since 31 December 2013

During the recent period, OrganoClick has continued to scale up its production of several products both in Täby and with the production partner Bergs Timber Production AB in Nybro. In the beginning of 2014, OrganoWood AB signed a new agreement with the builder merchant chain AB Karl Hedin and during the third quarter an agreement was signed with Nordströms, also a chain of builder merchants. A branch office was started in Norway in the first quarter and during the third quarter, the first agreement to sell surface treatment products and OrganoWood-modified timber was signed with the builder merchant chain Optimera. Sales were starting to pick up in Finland in a number of Kodin Terra stores. A distribution agreement was also signed with the leading wood wholesaler in Denmark, Frøslev træ.

In December 2013, the Company initiated a partnership with the publicly listed, Taiwanese textile company Chang-Ho Fibers regarding the production of OrganoTex. This was the Company's first Asian customer which marked an important milestone. Chang-Ho has currently developed some 100 weaves that are OrganoTex treated and offered to the market. An important sales process is currently being initiated, with the purpose of implementing these textiles with different clothing brands mainly in Europe.

A number of development projects have been conducted. One project was to develop water repellent and fluorocarbon-free nylon textiles which was accomplished with great results together with the Scandinavian outdoor companies Haglöfs, Houdini, Klättermusen, Bergans of Norway, and Norrøna.

The Company has implemented a production line for the fiber composite products and the production start is estimated to be in Q1 2015. This step, along with the general growth of the Company, led to a move into new facility in Täby. The new facility includes 2,500 m<sup>2</sup> of production space, 750m<sup>2</sup> of office and 250 m<sup>2</sup> of laboratory.

OrganoWood AB started a subsidiary in Finland in December 2014.

Previous board member Anders Wall announced his retirement from the board of directors in October 2014. The election committee will propose a successor to the 2015 annual general meeting.

In November 2014 an extraordinary general meeting was held which resolved on a bonus issue resulting in an increase of the Company's share capital by SEK 275,192.25 without issuance of any new shares.

The extraordinary general meeting also resolved on a change of company category from a private limited liability company to a public limited liability company and to convert the Company into a central securities depository company. In November 2014, the company's shares were affiliated with Euroclear Sweden AB's CSD system.

In order to scale up OrganoClick's sales and marketing organization in Performance textiles and nonwoven, market launch the first Fiber composite product, as well as keep up the current strong growth in Functional wood, the Company made a private placement of 11,029,412 shares to a value of SEK 75 million in February 2015. In connection with the Private Placement, the Company submitted an application to list its shares at Nasdaq First North. The Company has received approval from Nasdaq First North and the expected first day of trading on Nasdaq First North is 16 February 2015. The Company expects that the raised capital will last until the Company is cash-flow positive, which according to the current business plan is expected during H2 2016.

The Private Placement will increase the Company's total equity with SEK 75 million, minus the transaction costs for the Private Placement. Following the Equity Issue, the Company will repay its shareholder loans, which will decrease the Company's debt.

# Shares, share capital and ownership structure

## General

Under the Company's articles of association, the Company's share capital may not be less than SEK 500,000 and not more than SEK 2,000,000, and the number of shares may not be less than 50,000,000 and not more than 200,000,000. As of the date of this Company Description, the Company has issued a total of 55,038,449 shares and its share capital amounts to SEK 550,384.50. The shares are denominated in SEK and the quota value of each share is approximately SEK 0.01. All shares in the Company have been issued in accordance with the Swedish Companies Act. All issued shares are freely transferable. Following the Equity Issue, there will be a total of 66,067,861 shares issued by the Company and the Company's share capital will amount to 660,678.61.

## Certain rights associated with the shares

All issued shares in the Company are of the same class. The rights associated with the shares issued by the Company can only be amended in accordance with the procedures set out in the Swedish Companies Act.

Each share in the Company entitles the holder to one vote at general meetings. In the event that the Company issues new shares, warrants or convertibles in a cash issue or a set-off issue, shareholders shall, as a general rule, have preferential rights to subscribe for such securities proportionally to the number of shares held prior to the issue. Furthermore, in the event of the Company's liquidation, all shares carry equal rights to participation in the Company's assets and to any surplus.

All shares carry equal rights to dividends. Resolutions regarding dividends are passed by the general meeting. All shareholders registered as shareholders in the share register maintained by Euroclear Sweden on the relevant record date shall be entitled to receive dividends. Dividends may be paid out as a cash payment or in a manner other than cash (in-kind dividend). If shareholders cannot be reached through Euroclear Sweden, such shareholder still retains its claim on the Company to the dividend, subject to a statutory limitation period of ten years. Upon the expiry of such statutory limitation period, the dividend amount shall be allotted to the Company.

## **Dividend policy**

No dividends are expected to be made during the upcoming years.

## Authorisations

The extraordinary general meeting held on 7 November 2014 authorised the Board of Directors to resolve, on one or more occasions, during the period up to the next annual general meeting on the issue of new shares, convertibles or warrants with or without preferential rights for the Company's shareholders. Through decisions based on this authorisation, the Board of Directors is entitled to issue up to the maximum number of shares and thereby increase the share capital by up to the amounts allowed within the limits set by the articles of association.

## Shareholders' agreements

As far as the Board of Directors is aware, there are no shareholders' agreements in respect of OrganoClick.

## Trading with the Company's shares

The shares of the Company are expected to be listed on Nasdaq First North 16 February 2015.

## Lock-up arrangement

The Major Shareholders and Beckeman Consulting AB (board member Claes-Göran Beckeman) have all entered into lock-up agreements with Pareto. Pursuant to the lock-up arrangement, these shareholders have undertaken not to sell any shares for a period of 365 days counted from the date that the Private Placement was completed, except for in certain circumstances.

## Central securities register

The Company's shares are registered in a CSD register in accordance with the Swedish Financial Instruments Accounts Act. This register is managed by Euroclear Sweden AB, Box 191, SE-101 23 Stockholm. No share certificates are issued for the Company's shares. The ISIN code for the Company's shares is SE0006510335.

## Convertibles, warrants, etc.

In accordance with what is set out under section "Incentive program" below, the Company has issued in total 1,060,060 warrants, all of which are held by the Company's managing director, Mårten Hellberg. Other than such warrants, there are no outstanding warrants, convertibles or other financial instruments relating to the Company's shares.

## Development of the share capital

The table below shows changes in the Company's share capital from 2006 until the date of this Company Description, and also after completion of the Equity Issue.

Year	Description	Change in the number of shares	Change in share capital	Total number of shares	Total share capital (SEK)	Quota value (SEK)
2006	Formation			21,859,907	100,000	0.0046
2008	New issue	53	5,300	21,859,960	105,300	0.0048
2008	New issue	40	4,000	21,860,000	109,300	0.005
2009	New issue	800,000	4,000	22,660,000	113,300	0.005
2010	New issue	25,000,000	125,000	47,660,000	238,300	0.005
2011	New issue	3,620,686	18,103.43	51,280,686	256,403.43	0.005
2013	New issue	3,418,712	17,093.56	54,699,398	273,496.99	0.005
2013	New issue	339,051	1,695.26	55,038,449	275,192.25	0.005
2014	Bonus issue	0	275,192.25	55,038,449	550,384.50	0.01
2015	New issue (to be registered by the Swedish Companies Registration Office)	11,029,412	110,294.12	66,067,861	660,678.61	0.01

## Ownership structure

As of 16 February 2015, the ownership of the Company is expected to be divided among approximately 155 shareholders. The table below shows the expected ownership structure of OrganoClick following the Equity Issue, broken down by size of shareholding.

Name	Number of shares	Percentage of share capital	Percentage of voting rights
Serendipity Ixora AB (publ)	12,603,311	19.08	19.08
Beijer sphere	11,860,994	17.95	17.95
Bertil Hagman	8,440,603	12.78	12.78
Mårten Hellberg (personally and through company)	6,083,876	9.21	9.21
Armando Cordova (personally and through company)	7,067,081	10.70	10.70
Jonas Hafrén	5,350,000	8.10	8.10
Others	14,661,996	22.19	22.19
Total	66,067,861	100.00	100.00

## Private placement

The Company has completed a private placement of 11,029,412 shares. The Board of Directors resolved on the Equity Issue on 9 February 2015. Following the Equity Issue, the Major Shareholders will hold in aggregate approximately 78% of the OrganoClick shares.

## Listing

In connection with the Equity Issue, the Board of Directors applied for listing on Nasdaq First North. The Company has received approval for listing of its shares by Nasdaq First North. Such listing would encompass all shares registered in Euroclear Sweden. The first day of trading is expected to occur on 16 February 2015.

Pareto Securities will act as liquidity provider for the Company's shares in connection with the listing on Nasdaq First North. Pareto Securities will also act as Certified Adviser to the Company.

# Board of Directors, Management and Auditors

## **Board of Directors**

The Board of Directors currently consists of four Members. The work of the Board is led by the Chairman. Board members are elected at the annual general meeting.

## Ashkan Pouya

Chairman of the Board of Directors since 2006.

Born: 1976

*Education:* Ashkan Pouya holds a Bachelor of Science in business administration from Uppsala University and has studied business administration at Queens University in Canada and WHU-Otto Beisheim School of management in Germany.

*Other current assignments:* Chairman of the Board of Directors of S:t Eriks Hiss Aktiebolag, EuroTech Sire System AB, Diamorph AB (publ), Serendipity Innovations AB (publ), KM Hiss & Portservice AB, Serendipity Ixora AB (publ) and Sdip Telfero AB and member of the Board of Directors of Stockholms Hiss- & Elteknik Aktiebolag, Serendip Invest AB, Rootberg AB and Serendipity ES AB. Deputy member of the Board of Directors of Diamorph Bearings AB, OrganoWood AB, Diamorph Ceramic AB and Diamorph Services AB.

*Prior assignments (last five years):* Ashkan Pouya is an experienced serial entrepreneur who has been involved in the creation and development of several research-based companies such as Diamorph AB, Nanologica AB,

Prozeo AB, Xbrane Bioscience AB, and Serendipity Innovations AB. Previously, he was Director of Innovation at Lund University.

*Other:* Ashkan Pouya is co-founder of OrganoClick. He has also been a professional athlete in martial arts where he won the world championships in the year 2000.

*Shareholding:* Ashkan is a majority owner (through company) in Serendipity Ixora, which will own 19.08% of the shares in the Company, following the Equity Issue.

## Claes-Göran Beckeman

Member of the Board of Directors since 2008.

*Born:* 1942

Education: Master of Science in chemical engineering from Chalmers University of Technology.

*Other current assignments:* Member of the Board of Directors of Scandiflex Pac Aktiebolag, Beckeman Consulting AB, Food Radar Systems in Sweden AB, OrganoWood AB, Löftet Holding AB, Elopak AS and Cellcomb i Karlstad AB.

*Prior assignments (last five years):* Chairman of the Board of Directors of Aktiebolaget Tre-Form and member of the Board of Directors of AB Tre-Form Holding, Cellcomb Foodpad AB and Scandiflex Pac International AB.

*Other:* From 1977 to 1997, Claes-Göran Beckeman worked within the group of Tetra Pak in different leading positions, such as Technical Director. He then joined SCA where he worked as Chief Technology Officer within the business area Hygiene Products. From 2004 to 2007, he was responsible for the building up of the Forest-Based Sector Technology Platform, an initiative of the European forest industry and forest owners in order to establish a private/public partnership with EU and other national authorities regarding research and development within this sector. Claes-Göran Beckeman is a member of the Royal Swedish Academy of Engineering Sciences and of the advisory board of Serendipity Innovations AB. He is currently partner in Beckeman Consulting AB by holding 50 percent of the shares in that company and was previously partner in AB Tre-Form Holding (and indirectly in Aktiebolaget Tre-Form) by holding 25 percent of the shares in that company. *Shareholding:* 689,316 shares (through company), following the Equity Issue.

## Armando Córdova

Member of the Board of Directors since 2006.

*Born:* 1970

*Education:* Master of Science in chemical engineering and Doctor of Philosophy in chemistry at the Royal Institute of Technology.

Other current assignments: Member of the Board of Directors of Armando Cordova Invest AB.

Prior assignments (last five years): -

*Other:* Armando Córdova is Associate Professor in organic chemistry at Stockholm University, Professor in organic chemistry at the Mid Sweden University in Sundsvall and one of the co-founders of OrganoClick's core-technology and the inventor of eight patents or patent applications.

Shareholding: 7,067,081 shares (private and through company), following the Equity Issue.

## Bertil Hagman

Member of the Board of Directors since 2009.

Born: 1937

Education: Master of Science in law, Lund University.

Other current assignments: -

Prior assignments (last five years): -

*Other:* Bertil Hagman is a Swedish industrialist and entrepreneur with a long international experience. He has held various leading positions in the Tetra Pak group, such as Director for Tetra Pak in Japan and Great Britain, Global Sales and Marketing Director, and thereafter as President and Managing Director for the Tetra Laval group. He has also been Managing Director and Chairman of the Board of Directors of Sintercast AB. *Shareholding:* 8,440,603 shares, following the Equity Issue.

## Jonas Hafrén

Board member between 2006 and 2008 and deputy member of the Board of Directors since 2008. *Born:* 1969

*Education:* Master of Science in biochemistry, Stockholm University, Doctor of Philosophy in chemistry at the Royal Institute of Technology.

*Other current assignments:* Managing Director, member of the Board of Directors and owner of Larbolin Invest AB.

Prior assignments (last five years): -

*Other:* Jonas Hafrén is Associate Professor in cellulose biology at the Swedish University of Agricultural Science and one of the co-founders of OrganoClick's core-technology. He is the author of more than 20 scientific articles and the inventor of five patents or patent applications.

Shareholding: 5,350,000 shares, following the Equity Issue.

## Saeid Esmaeilzadeh

Board member between 2006 and 2008 and deputy member of the Board of Directors since 2008. *Born:* 1974

Education: Master of Science and Doctor of Philosophy in chemistry, Stockholm University.

*Other current assignments:* Managing Director of Serendipity Innovations AB (publ) and Serendipity Ixora AB (publ). Chairman of the Board of Directors of Xbrane Bioscience AB, Episurf Medical AB, Premune AB (publ) and Swecure AB and member of the Board of Directors of Diamorph AB (publ), Rootberg AB, Avanture AB, IRRAS AB and deputy member of the Board of Directors of Serendip Invest AB, VZL Vilande AB, Sprof AB, Leonova CONSULTING AB, Serendipity ATS AB and Ixora EPV AB.

*Prior assignments (last five years):* Chairman of the Board of Directors of Diamorph Bearings AB, Diamorph Ceramic AB and Biozoul AB. Member of the Board of Directors of Serendipity Innovations AB (publ), Nanologica AB (publ), Slutplattan QRZOLF 94373 AB, Vascuring AB, SciLife Clinic AB, Vator Securities AB, Binary Bio AB and Abera Bioscience AB.

*Other:* Saeid Esmaeilzadeh is Associate Professor in materials chemistry at Stockholm University and co-founder of OrganoClick and several other high tech companies, such as Diamorph AB and Premune AB. Saeid Esmaeilzadeh is also a member of the Industry Council of the Royal Swedish Academy of Engineering Sciences. *Shareholding:* Saeid is a majority owner (through company) in Serendipity Ixora, which will own 19.08% of the shares in the Company, following the Equity Issue.

## Management

#### Mårten Hellberg

CEO since 2007.

*Born:* 1980

*Education:* Master of Science in engineering molecular biotechnology from Uppsala University and studies in business and economics at Stockholm University.

*Other current assignments:* Managing Director and member of the Board of Directors of OrganoWood AB and member of the Board of Directors of M. Hellberg AB.

Prior assignments (last five years): Member of the Board of Directors of Swedish Prestige Wine & Spirits AB.

*Other:* Mårten Hellberg is a co-founder of OrganoClick and has previously been working in the life science industry. He has also had an active career in canoeing where he was a member of the Swedish National Canoeing Team for 12 years.

Shareholding: 6,083,876 shares (private and through company), following the Equity Issue.

#### Jessica Sundborg

Chief Financial Officer since 2013.

Born: 1982

Education: Master of Science in Economics, Södertörn University.

Other current assignments: -

Prior assignments (last five years): -

*Other:* Jessica Sundborg has extensive experience from various positions within the area of finance and economics, such as Group Chief Accountant at Avega Group. She has also worked at Deloitte and the Swedish National Audit Office.

Shareholding: 30,000 shares, following the Equity Issue.

#### Robin Grankvist

Business Area Manager Performance Textiles and Nonwoven since 2011.

Born: 1983

*Education:* Robin Grankvist holds a Master of Science in Biological Engineering from Umeå University and has studied at Uppsala School of Entrepreneurship.

Other current assignments: -

Prior assignments (last five years): -

*Other:* Before joining OrganoClick, he worked as a Management Consultant at Inno Group Scandinavia. *Shareholding:* 24,591 shares, following the Equity Issue.

## Juhanes Aydin

Research and Development Manager since 2013.

*Born:* 1978

Education: Doctor of Philosophy in Organic Chemistry, Stockholm University.

Other current assignments: -

Prior assignments (last five years): -

*Other:* Before joining OrganoClick in 2010, Juhanes Aydin has among other things worked at University of Barcelona and as development engineer at Statoil lubricants. He is inventor of several patents and is the co-author of more than ten scientific articles.

Shareholding: 29,000 shares, following the Equity Issue.

Fredrik Eng

Production Manager since 2014.

Born: 1977

Education: Technical education at senior high school level.

Other current assignments: Managing Director and Chairman of the Board of Directors of Prestore AB.

*Prior assignments (last five years):* Member of the Board of Directors of Stenhusgruppen AB, Stenhusgruppen Mark och Hus AB and Nordisk Mark & Husentreprenad AB and member of the Board of Directors and Deputy Managing Director of Stenhusgruppen Invest AB.

*Other:* Partner in Stenhusgruppen AB (and indirectly in its subsidiaries) by holding 8.5 percent of the shares in that company and partner in Prestore AB by holding 50 percent of the shares in that company. *Shareholding:* 0 shares

## Compensation, pension and benefits

## Board of Directors

Fees and other remuneration to the members of the Board of Directors, including the Chairman, are resolved by the annual general meeting. At the annual general meeting held on 10 April 2014, it was resolved that no remuneration shall be payable to the Board of Directors for the period until the next annual general meeting.

## Managing director and other senior executives

Remuneration for the managing director and other senior executives of the Group normally consists of a fixed salary and certain benefits, such as pension benefits and health care contributions. In addition, the managing director is subject to an incentive program, as further described below. However, members of the executive management are generally not entitled to any variable salaries, bonuses or subject to any incentive programs. In 2013, the total remuneration to the current members of the executive management who were employed during 2013 amounted to approximately SEK 4.0 million.

Between the Company and the managing director, termination of employment is subject to a mutual notice period of 12 months, while termination of the other senior executives' employment is subject to a mutual notice period of three months. None of the senior executives are entitled to any severance pay upon termination of their employment.

## Incentive program

The Company has established an incentive programme, addressed to its managing director as a way to promote and stimulate continuous loyalty with the Company's operations by linking the interests of the managing director with the interests of the shareholders. The programme was approved by the extraordinary general meeting held on 15 June 2010 and comprises 1,060,060 warrants. Each warrant entitles the managing director to subscribe for one new share in the Company at a subscription price of SEK 3.50. The subscription period commenced upon registration of the warrants with the Swedish Companies Registration Office and expires on 15 June 2015. The programme does not contain any performance conditions. If exercised in full, the share capital of the Company will be increased by SEK 5,300, resulting in a dilution of approximately 1.9 per cent of the total number of shares in the Company currently outstanding.

## Other information regarding the Board of Directors and the management

None of the board members or senior executives has any related-party relationship with any other board member or senior executive. Apart from what is set out in the section "Legal and supplementary information – Related party transactions", there are no conflicts of interest between the board members' or senior executives' obligations to OrganoClick and their private interests or other obligations.

Claes-Göran Beckeman was Chairman of the Board of Directors for the Swedish company Aktiebolaget Tre-Form, and indirectly a partner (through his shareholding in AB Tre-Form Holding), when it was declared bankrupt on 6 May 2013. The bankruptcy was completed on 7 May 2014. Claes-Göran Beckeman was also member of the Board of Directors and a partner in the Swedish company AB Tre-Form Holding when it was declared bankrupt on 26 June 2013. The bankruptcy was completed on 10 February 2014. Moreover, Fredrik Eng was a member of the Board of Directors and Deputy Managing Director of the Swedish company Stenhusgruppen Invest AB when it was declared bankrupt on 10 April 2013. The bankruptcy was completed on 5 May 2014. Fredrik Eng was also a member of the Board of Directors of the Swedish company Nordisk Mark & Husentreprenad AB prior to, and indirectly a partner (through his shareholding in Stenhusgruppen AB) when, it was declared bankrupt on 1 November 2011. The bankruptcy was completed on 6 September 2013. Saeid Esmaeilzadeh was Chairman of the Board of Directors of Vascuring AB when it was declared bankrupt on 13 March 2014. The bankruptcy is not yet completed.

None of the Company's board members or senior executives has been found guilty in any case of fraud or has been the object of any sanctions in the past five years imposed by any authority authorised by laws or regulations to do so (including approved professional bodies). Apart from what is set out above, none of the Company's board members or senior executives has been involved in any bankruptcy, compulsory liquidation or similar procedure in their capacity as board member, deputy board member or senior executive over the past five years. No board member or senior executive has over the past five years been the subject of official accusations or sanctions by supervisory or legislative bodies and none of them has been prohibited by a court of law from serving as a board member or in management or engage in business ventures in any other way over the past five years. None of the Company's board appointments has a time limit other than what is stipulated in the Swedish Companies Act and no board member has any agreement with OrganoClick granting the right to compensation after the appointment term has ended.

The board members and the senior executives can be reached at OrganoClick's address.

## Auditor

Ernst & Young Aktiebolag, with Per Hedström as the auditor-in-charge, is currently and has been the Company's auditor since 20 August 2008. Per Hedström is a member of FAR. The business address to Ernst & Young Aktiebolag is Jakobsbergsgatan 24, P.O. Box 7850, SE-103 99 Stockholm, Sweden.

# Legal and supplementary information

## Information about the Company and the Group

The Company is a public limited liability company established and registered in accordance with the Swedish Companies Act under the company name OrganoClick AB. The Company is domiciled in Stockholm municipality.

The postal address of the Company's head office is Ritarslingan 20, SE-187 66 Täby, Sweden, and its telephone number is +46(0)8 674 00 80. The Company was established on 15 March 2006 and was registered with the Swedish Companies Registration Office on 24 May 2006. The present company name was registered on 4 September 2006. The Company's corporate identification number is 556704-6908. The object of the Company's operations is stated in § 3 of the articles of association – please refer to the section "Articles of association" below.

The Company has one subsidiary, OrganoWood AB (corporate identification number 556801-8906). The Company holds approximately 54.5 per cent of the shares and 59.4 per cent of the voting rights in OrganoWood. The remaining shares in OrganoWood are held by Kvigos AB and certain other minority shareholders. The Company and Kvigos AB have entered into a shareholders' agreement relating to OrganoWood, as will be further described below.

## Material agreements

## Agreements entered into by the Company relating to OrganoWood

OrganoWood is responsible for the Group's business area Functional wood. The Company and Kvigos AB have entered into a shareholders' agreement relating to their respective holding of shares in OrganoWood. The agreement contains, among other things, provisions regarding the financing of OrganoWood's business, appointment of Board Members, consent requirement for certain resolutions and certain restrictions on share transfers. Consequently, the parties to the shareholders' agreement have joint control of OrganoWood.

In addition to the shareholders' agreement, OrganoClick, OrganoWood and Kvigos AB have entered into a cooperation agreement. Pursuant to the terms of the cooperation agreement, OrganoWood has granted OrganoClick the right to exclusively manufacture all chemical products being used by OrganoWood in the production of the modified wood products or being sold in cans to end-users. OrganoWood has also granted OrganoClick and Kvigos AB, respectively, the right to use OrganoWood's current and future intellectual property provided that such intellectual property is not related to the business area Functional wood. Furthermore, OrganoClick and Kvigos AB have granted OrganoWood an exclusive right to sell and commercialise products, within the area of Functional wood, which OrganoClick and Kvigos AB have title to or will be developed by them during the term of agreement.

## Cooperation agreement with Nyarp Holding AB

The Company and Nyarp Holding AB have entered into an agreement regarding cooperation with respect to the development, manufacturing and sale of fiber composite burial coffins. Pursuant to the terms of the cooperation agreement, the Company has, subject to certain conditions, granted Nyarp Holding AB an exclusive right to distribute, sale and market the fiber composite burial coffins in the Nordic region as well as Germany, Poland, the Netherlands and Great Britain. Moreover, Nyarp Holding AB shall purchase fiber composite burial coffins and other products relating to the burial industry and consisting of fiber composite exclusively from the Company.

#### Distribution, customer and supply agreements

In addition to the cooperation agreements described above, the Group is party to several customer and supply agreements. The Group is not dependent upon any specific customer or supply agreement.

OrganoWood has entered into a distribution agreement with Welin & Co according to which Welin & Co shall, subject to certain conditions, be the exclusive distributor in Sweden of OrganoWood's wood treatment products sold in cans to end-users.

#### Financing arrangements

OrganoWood has a credit facility with Swedbank AB (publ) with a credit limit of SEK 3.0 million. The credit facility is undrawn as of the date of this Company Description.

Moreover, the Company has entered into a SEK 4.5 million leasing arrangement with Nordea Bank AB (publ) in relation to its production facility. The total leasing period is 72 months and the leasing fee is payable on a monthly basis.

Certain shareholders of OrganoClick and other related parties which are entities under the control of such shareholders have provided shareholder loans to the Company. As per 30 September 2014, there were in total SEK 5 million outstanding shareholder loans (Kjell Beijer's 80-year foundation SEK 2 million, Bertil Hagman SEK 2.3 million and Armando Córdova Invest AB SEK 0.7 million). In December 2014 Serendipity Ixora AB provided the Company with a shareholder loan of SEK 3 million. All shareholder loans run with an annual interest rate of 7 percent. The Company intends to repay all of these shareholder loans upon completion of the Equity Issue.

The Group has initiated a number of development projects that are partly financed by grants awarded by the European Union. There are five ongoing projects that will grant the Company approximately SEK 10 million throughout the duration of the projects.

Programme	Project time	Duration	Funding SEK
Eurostars	30 months	2012-2014	2,194,500
Ecolnnovation	36 months	2012-2015	≈5,110,000
FLHEA	24 months	2013-2015	≈2,110,000
Bioscreen	24 months	2014-2015	≈270,000
Hemicell	34 months	2014-2016	239,260

## Intellectual property

As described above, the Group's business is divided into three business areas; Functional wood, Performance textiles and nonwoven and Fiber composites and paper products. Products within the business area Functional wood are marketed under the trademark OrganoWood<sup>®</sup>, which is registered as a Community Trademark. Some of the products within the business area Performance textiles and nonwoven are marketed under the trademarks OrganoTex<sup>®</sup>, which also is registered as a Community Trademark. In addition, the Company has registered the trademark OrganoClick<sup>®</sup> as a Community Trademark. Moreover, the Group holds certain domain names, including organoclick.com and organowood.com.

The Company's strategy for intellectual property rights is intended to protect the Company's core technologies and the application of these. As regarding patent protection, the strategy of the Group is to establish a patent family for each product family. A patent family is a collection of patents and patent applications, which cover an invention or a group of related inventions.

## Legal and arbitration proceedings

The Company is not aware of any pending or threatening litigation or arbitration proceedings which may have a material negative effect on the Group's business.

## Insurance

The current insurance portfolio includes (among other things) property insurance, all-risks insurance for machinery, business interruption insurance, liability insurance and directors and officer's liability insurance. The Company believes that the Group's current insurance portfolio provides adequate coverage in respect of its current activities.

## Related party transactions

Certain shareholders of OrganoClick and other related parties which are entities under the control of such shareholders have provided shareholder loans to the Company. Please see the section "Financing arrangements" above for more information.

In addition, some of the Company's shareholders are also employees of the Group and receive customary salaries and other benefits from the Group. Employees and board members in the Group have also had the possibility to purchase OrganoWood products for below-market prices to a total value of around SEK 36,000.

## **Regulatory matters**

There are no licenses, permits and/or registrations required to carry out the operations of the Group. However, as the Group strives to be considered as an environmental friendly and qualitative company, it intends to be certified according to ISO 9001 and ISO 14001 during 2015. In addition, the Company has several environmental certifications for its products and intends to seek additional environmental certifications for its various products continuously.

## Certified adviser at Nasdaq First North

All companies with shares traded on Nasdaq First North must have a certified adviser that monitors the relevant company's compliance with the rules and regulations of Nasdaq First North. The Company has appointed Pareto as its certified adviser. As of the date of this Company Description, Pareto holds no shares or other securities in or issued by OrganoClick.

## Articles of association

## OrganoClick AB (publ)

#### §1 Name

The company's name is OrganoClick AB. The company is a public company (publ).

#### § 2 Registered office of the board of directors

The board of directors has its registered office in Stockholm municipality.

#### § 3 Business

The company shall (directly or indirectly) develop, produce and sell cellulose-based materials and bioadditives for the paper-, packaging-, textile- and wood industry, and conduct other activities compatible therewith.

#### § 4 Share capital

The share capital shall be not less than SEK 500,000 and not more than SEK 2,000,000.

#### § 5 Number of shares

The number of shares shall be not less than 50,000,000 and not more than 200,000,000.

#### § 6 Board of directors

The board of directors elected by the general meeting shall consist of not less than three and not more than nine members, with not more than five deputy members.

#### § 7 Auditors

The company shall have one or two auditors.

#### § 8 Notice

Notice of general meetings shall be announced in the Official Swedish Gazette (Sw. *Post- och Inrikes Tidningar*) and by keeping the notice available on the Company's website. Information that the notice has been issued shall be announced in Dagens Industri.

#### § 9 Place of general meetings

General meetings shall be held in Stockholm or Täby.

#### § 10 Notice to attend general meetings

Shareholders who wish to participate at a general meeting shall be listed as a shareholder in a printout or other presentation of the entire share register with respect to the circumstances five weekdays prior to the meeting, and notify the Company not later than the date specified in the notice to attend the

meeting. Such a date may not be a Sunday, other public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and may not occur earlier than the fifth weekday prior to the meeting.

Shareholders or proxies may be accompanied by one or two advisors at the general meeting, provided, however, that the shareholder has made a notification hereof in accordance with the preceding paragraph.

#### § 11 Matters at annual general meetings

At annual general meetings, the following matters shall be addressed:

- 1. Election of a chairman of the meeting;
- 2. Preparation and approval of the voting list;
- 3. Election of one or two persons to verify the minutes;
- 4. Determination of whether the meeting has been duly convened;
- 5. Approval of the agenda;

6. Submission of the annual report and the auditors' report and, where applicable, the consolidated financial statements and the auditors' report for the group;

- 7. Resolutions on:
  - (a) adoption of the income statement and balance sheet and, where applicable, the consolidated income statement and the consolidated balance sheet
  - (b) distribution of the Company's profit or loss in accordance with the adopted balance sheet
  - (c) discharge of liability of the members of the board or directors and the managing director

8. Determination of the number of members and possible deputy members of the board of directors and auditors;

- 9. Determination of fees for the board members and auditors;
- 10. Election of the members of the board of directors and auditors; and
- 11. Any other matter which shall be brought up to the general meeting according to the Swedish Companies Act (2005:551) or the Articles of Association.

#### § 12 Financial year

The financial year is 1 January – 31 December.

## § 13 Central securities depository clause

The company's shares shall be registered in a central securities depository register pursuant to the Swedish Financial Instruments Accounts Act (Sw. *lagen (1998:1479) om kontoföring av finansiella instrument*).

\* \* \*

The Articles of Association has been adopted at an extraordinary general meeting held on 7 November 2014.
## Tax issues in Sweden

The following is a summary of certain Swedish tax consequences for shareholders holding shares in the Company. The summary is based on the assumption that the shares in the Company will be considered as subject to a market trading ("listed") from a tax perspective, which is the case if the shares are traded on a regulated market place within the EEA or subject to trading on another market place where information about transactions in the shares are made public on a regular basis. The summary does not address shares held by partnerships or shares held as current assets in business operations. Moreover, the summary does not address the specific rules on taxexempt capital gains and dividends (including non-deductibility for capital losses) in the corporate sector that may be applicable when shares are considered to be held for business purposes (Sw. näringsbetingade andelar) by the shareholder. Neither are the specific rules covered that could be applicable to holdings in companies that are, or have previously been, closely held companies or shares acquired on the basis of such holdings. Moreover, the summary does not address shares or other equity-related securities that are held on an "investment savings account" (Sw. investeringssparkonto). Special tax rules apply to certain categories of taxpayers, for example, investment companies and insurance companies. The tax treatment of each individual shareholder depends on such investor's particular circumstances. Each holder of Shares should therefore consult a tax advisor for information on the specific implications that may arise in an individual case, including the applicability and effect of foreign rules and tax treaties.

### Individuals

### Capital gains taxation

Upon the sale or other disposition of listed shares, a taxable capital gain or deductible capital loss may arise. Capital gains are for individuals taxed as capital income at a tax rate of 30 percent. The capital gain or loss is calculated as the difference between the sales proceeds, after deducting sales costs, and the acquisition cost, i.e. the "tax basis". The tax basis for all shares of the same class and type is calculated together in accordance with the "average cost method". Alternatively, shareholders may choose to use 20 percent of the sales proceeds, after deducting sales costs, as the tax basis for the sale of listed shares.

Capital losses on listed shares are fully deductible against taxable capital gains on shares and on other listed equity-related securities realised in the same year except for shares in securities funds or special funds that invest solely in Swedish receivables (*Sw. räntefonder*). 70 percent of capital losses exceeding nettable capital gains can be offset against other capital income. For any remaining capital losses after netting against other capital income, a tax reduction is allowed against municipal and national income tax, as well as against real estate tax and municipal real estate charges. A tax reduction of 30 percent is allowed on the portion of such net loss that does not exceed SEK 100,000 and of 21 percent on any remaining loss. Such net loss cannot be carried forward to future fiscal years.

#### **Dividends taxation**

For individuals, dividends on listed shares are taxed as capital income at a rate of 30 percent. A preliminary tax of 30 percent is generally withheld on dividends paid to individuals resident in Sweden. The preliminary tax is withheld by Euroclear Sweden or, regarding nominee-registered shares, by the Swedish nominee.

### Limited liability companies

### Capital gains and dividends

For a limited liability company, all income, including taxable capital gains and dividends, is taxed as business income at a tax rate of 22 percent. Capital gains and capital losses are calculated in the same manner as set forth above with respect to individuals. However, deductible capital losses on shares and other equity-related

securities may only be deducted against taxable capital gains on such securities. Under certain circumstances such capital losses may also be deducted against capital gains in another company in the same group, provided that the companies may exchange taxable and deductible group contributions (the Swedish regime for tax consolidation - *Sw. koncernbidragsrätt*). A capital loss that cannot be utilised during a given year may be carried forward and offset taxable capital gains on shares and other equity-related securities during subsequent fiscal years without any limitation in time.

### Shareholders not tax resident in Sweden

Shareholders not tax resident in Sweden and who are not operating a business from a permanent establishment in Sweden are normally not liable for Swedish capital gains taxation on the disposal of shares. The fact that the Company will be listed on First North should not make any difference in this respect. Under a specific tax rule individuals that are not tax resident in Sweden may, however, be subject to tax in Sweden on the sale of shares if they have been resident or lived permanently in Sweden at any time during the calendar year of such disposal or during any of the preceding ten calendar years and provided that the shares were acquired when the shareholder was tax resident in Sweden. The so called ten year rule applies whether or not the shares have been acquired before or after a person becomes non-resident in Sweden in respect of shares in Swedish companies. However, foreign shares are covered by this rule only if they have been acquired during the time of Swedish residency in order for the ten year rule to apply. Tax treaties between Sweden and other countries may limit the applicability of this rule.

Withholding tax ("WHT" - Swe: "Kupongskatt") is normally levied on dividends from a Swedish company to non-Swedish residents. The normal tax rate is 30%. Generally the tax rate is reduced following Tax Treaties, for avoidance of double taxation, which Sweden has entered into with several countries.

It should be noted that there is an exception from WHT in the situation where the shareholder is a foreign company whose shares in the distributing company would have been so called "business related", had the receiving company been a Swedish resident company (listed shares should have been held for 12 months for the exception to apply). This implies that the listing of the Company may render that WHT will be levied on dividends to non-Swedish residents to a larger extent than today (primarily for shareholders holding less than 10% of the votes in the Company).

Non-Swedish resident shareholders are recommended to engage foreign tax expertise as appropriate in order to ascertain potential tax issues in their respective home countries.

## Documents incorporated by reference

Investors should inform themselves of all information that has been included in this Company Description by reference and the information to which the reference is made shall be read as part of this Company Description.

The documents below are incorporated into this Company Description by reference. Copies of this Company Description and the documents that are incorporated by reference can be obtained from OrganoClick via email info@organoclick.com or telephone +46(0)8 674 00 80 and can be downloaded electronically from OrganoClick's website, www.organoclick.com.

Information	Source
Audited income statements, balance sheets, notes, information about accounting principles and audit report for the financial years 2012 and 2013.	Annual report 2013
Reviewed income statements, balance sheets, notes, information about accounting principles and review report for the first nine months of 2014.	Interim report for the first nine months of 2014

# Definitions

EUR	Refer to the single currency of the participating member states in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time
USD	Refer to the lawful currency of the United States
OrganoClick or Company	ORGANOCLICK AB (PUBL), reg. no. 556704-6908
Euroclear	Euroclear Sweden AB, reg. no. 556112-8074
Equity Issue or Private Placement	The new share issue of 11,029,412 shares to a value of SEK 75 million in February 2015.
Group	OrganoClick and its subsidiaries
Company Description	This Company Description, dated 11 February 2015
Beijer sphere	Beijerinvest AB, Kjell Beijers 80-årsstiftelse, Kjell & Märta Beijers stiftelse, Domarbo skog AB, Ryda Bruk AB
Major Shareholders	Serendipity Ixora AB, the Beijer sphere, Bertil Hagman, M. Hellberg AB, Armando Córdova, Armando Cordova Invest AB, and Jonas Hafrén
Shares	Shares in OrganoClick AB
SEK	Swedish krona, the currency of Sweden

### Addresses

### The Company

OrganoClick AB Ritarslingan 20 187 66 Täby

### Certified adviser

Pareto Securities AB Berzelii Park 9 P.O. Box 7415 SE-103 91 Stockholm, Sweden Tel: +46 8 402 50 00

### Legal advisor

Gernandt & Danielsson Advokatbyrå KB Hamngatan 2 Box 5747 114 87 Stockholm

### Auditor

Ernst & Young AB Jakobsbergsgatan 24 Box 7850 103 99 Stockholm