

Surgical Science has entered into an agreement to acquire a company within the robotic surgery segment

Surgical Science Sweden AB (publ) ("Surgical Science" or the "Company") has entered into a conditional agreement to acquire all shares outstanding of Mimic Technologies Inc. ("Mimic") for an initial consideration of USD 18.0 million (approximately SEK 150 million) on a cash and debt-free basis. In addition, a maximum deferred contingent consideration of USD 15.6 million (approximately SEK 130 million) tied to qualifying revenue targets for the years 2021, 2022 and 2023 may be paid. The maximum total consideration, given that all conditions are met, amounts therefore to USD 33.6 million (approximately SEK 281 million). The consideration will be paid through cash and the Company intends to complete a directed share issue to finance the acquisition. Through the acquisition Surgical Science further expands its customer base within the robotic surgery segment, gains access to technology for data collection/advanced analytics and strengthens its footprint in the highly important American market. Mimic's net sales for 2020 was heavily affected by amongst other things COVID-19, and amounted to USD 2.1 million, compared to USD 6.0 million in 2019. The acquisition of Mimic is expected to be completed in the end of January/early February provided all conditions are fulfilled.

Background and acquisition of Mimic

Long history within robotic surgery with key customers

Mimic, headquartered in Seattle, USA, develops simulation solutions for robotic surgery and was founded in 2001. Mimic generates sales from the licensing of its technology for simulation to robotic surgery device manufacturers as well as through the development and sales of simulators, sold under their own brand name to primarily university hospitals for robotic surgery training purposes. Mimic has 26 employees of which 8 are software developers.

Intuitive, the world's leading supplier of surgical robots, was for long a key customer to Mimic. Intuitive however introduced a new simulation solution – to which Surgical Science is one of two suppliers – post which Mimic's solution has been phased out over a number of years, consequently affecting the license sales. Today, Mimic's most important customer contracts within the robotic surgery segment are with Medtronic and Medcaroid. Additionally, Mimic's simulation technology has been implemented by a number of smaller robotic surgery companies to their platforms. Development for the customers has been completed and certain initial licensing sales have been invoiced. Medcaroid – a Japanese robotic surgery company owned by Kawasaki amongst others – saw its Hinotori robot receive approval for use in the Japanese market in August 2020. Initial commercial focus for the Hinotori system will be on urological institutions. Full commercial launch in Japan is expected for 2021, and internationally for 2022.

Medtronic's robot, Hugo, is currently undergoing final validation. Medtronic have communicated that they, for the European market, expect to apply for CE-marking during the first quarter 2021. Similarly, for the American market, Medtronic expect to apply for Investigative Device Exemption (IDE) during the first quarter 2021. Approval from the U.S Food and Drug Administration (FDA) is necessary for Medtronic to initiate clinical studies with the robot in the US. Medtronic has not disclosed when they expect FDA approval for Hugo or when the system will be introduced on the market in Europe and the US.

In 2019, Mimic's net sales amounted to USD 6.0 million with a marginally positive EBIT and net income. In 2020 sales reduced significantly. This was mainly due to COVID-19 impact which affected Mimic's hardware sales, but also due to the lack of license sales to Intuitive whilst new customers had not yet launched sales of their robots. Net sales for 2020 amounted to USD 2.1 million with a negative net income of approximately USD 3.0 million. Mimic has interest-bearing debt of approximately USD 2.3 million. Surgical Science estimate that rationalization and cost-savings of approximately USD 0.5-1.0 million can be made annually post the acquisition. Given the challenge of forecasting how license sales to Mimic's customers in the initial stages of launch for their robots will develop in 2021, Surgical Science's current expectation is that the acquisition of Mimic will have a negative effect on the group's result for the year and a positive effect on the group's result from 2022.

Complementing technologies and leadership within simulation for robotic surgery

Mimic complements and strengthens Surgical Science's business within primarily the Industry/OEM segment, with sales of software to medical technology companies. Mimic has a very strong background within robotic surgery and important technological assets within primarily data collection/analysis that can be utilized both for Surgical Science's products within the Educational Products segment and in projects towards the Industry/OEM segment. Mimic is involved in several important partnerships such as the "Inception Program Partner" for nVidia's Deep Learning AI and Intel's partner program for automated training of visualization systems.

Presence in the important American market

Mimic's operations will be integrated with Surgical Science's subsidiary in the US, Surgical Science Inc., and form an organization for the highly important American market. Mimic is an established player and pioneer in the development of simulation solutions for robotic surgery. Mimic is well renowned and maintains a large contact network within the industry. As the majority of current – as well as future – customers are in North America, the acquisition is an important step towards strengthening Surgical Science's local presence in the market.

Jeff Berkley, who founded Mimic and is today CEO, will upon closing of the transaction transition to a global role as Chief Innovation Officer for Surgical Science. Jan Östman, currently Director Global Accounts Industry/OEM at Surgical Science will assume the role of CEO of Mimic Technologies and Surgical Science, Inc. Jan previously worked at Mimic until 2017, for a period of 10 years, before entering his current role at Surgical Science. As both an American and Swedish citizen, Jan will upon closing of the transaction immediately assume his new role and subsequently move to Seattle.

Post the acquisition, the group will have approximately 85 employees of which approximately 40 will be software developers. Strengthening the number of software developers is considered an additional rationale for the acquisition, as this type of competence is very specific.

"Mimic is an important piece of the puzzle to our acquisition strategy and I am pleased that we can now conclude this transaction. With this acquisition we will have approximately 10 robotic surgery customers and work with all the larger manufacturers. In addition to its customer base and sales competence, Mimic brings with it a team of strong software developers and important know-how within data collection/analysis. Strategically, it is also important for Surgical Science to have a greater presence in the American market where several of the larger customers within the Industry/OEM segment are headquartered. These are two organizations that have long known each other, and we believe the acquisition has been made possible due to the current market situation, which has affected Mimic negatively," says Gisli Hennermark, CEO, Surgical Science.

“Discussions to combine efforts have been ongoing for long and I look forward now to finally being able to work together. I think there is great potential to transfer technology from Mimic to Surgical Science, primarily within data collection/analysis and the development of future AI applications. Conversely, many of Mimic’s current customers have expressed a need for advanced procedural simulation, where Surgical Science has a significant advantage,” says Jeff Berkley, CEO and Founder, Mimic.

Terms of the transaction and financing

The sellers of Mimic are approximately 10 shareholders. In addition to this, there are approximately 20 stakeholders in the form of option holders, primarily current or past employees, whose redemption of options is included in the initial consideration. Jeff Berkley is Mimic’s major shareholder with approximately 40 percent after dilution due to options.

Pursuant to and as an integrated part of the acquisition, Surgical Science and Mimic’s major shareholder Jeff Berkley have agreed that Jeff Berkley shall receive USD 2.0 million (approximately SEK 17 million) of the initial consideration in the form of shares in Surgical Science. For technical reasons, as the acquisition of Mimic is structured as a merger, this will be carried out by way of a cash re-investment by Jeff Berkley by acquiring shares in Surgical Science. The board of directors of Surgical Science intend to, pursuant to the authorization granted by the annual general meeting held on 6 May 2020, in connection with the directed share issue, resolve on a directed share issue to Jeff Berkley corresponding to the amount he will receive in shares. The number of shares and price will be finalized in connection with Surgical Science’s intended directed share issue to finance the acquisition of Mimic. The shares acquired by Jeff Berkley will be subject to a lock-up undertaking by Jeff Berkley for a period of three (3) years with one third (1/3) of the shares being partially released each year.

The consideration for Mimic constitutes a cash and debt-free value of USD 18.0 million (approximately SEK 150 million) and is funded through cash. Surgical Science intends to conduct a directed share issue to institutional investors with deviation from the shareholders’ pre-emption rights to finance the consideration.

In addition to the initial consideration, a deferred contingent consideration amounting to a maximum of USD 15.6 million (approximately SEK 130 million) may be paid. The deferred contingent consideration is based on the sales outcome of certain customer contracts for the years 2021, 2022 and 2023. Each year is calculated separately, with fixed contingent consideration amounts tied to incremental qualifying revenue targets. For any deferred contingent consideration to be paid the minimum qualifying revenue target for that given year must be met. There is thereby for each year a maximal deferred contingent consideration, which for each year increases progressively, with the largest amount to potentially be paid in 2023 and lowest in 2021. The deferred contingent consideration is to be funded through cash. The maximum total consideration – assuming all conditions are met – amounts to USD 33.6 million (approximately SEK 281 million).

The acquisition is subject to that the Company’s board of directors resolve on the directed new share issue. The Company’s annual general meeting held on 6 May 2020 granted the board of directors the authorization to, during the period up until the next annual general meeting, on one or more occasions, and with or without deviation from the shareholders’ pre-emption rights, resolve to issue shares corresponding to a maximum of ten (10) percent of the Company’s share capital. Additional information regarding the directed share issue will be announced shortly after the publishing of this press release. Surgical Science has engaged Pareto Securities AB as Sole Manager and Bookrunner in connection with the directed share issue, which will be conducted through an accelerated book-building procedure shortly after publishing of this press release.

The acquisition of Mimic is expected to be completed in the end of January/early February provided that all conditions are met. In addition to Mimic Technologies Inc., Mimic Medical Education and Development LLC. – a dormant company – is also included in the acquisition. Both companies will be consolidated into Surgical Science upon closing of the acquisition.

Advisers

Surgical Science has appointed Pareto Securities AB as financial advisor. Advokatfirman Vinge acts as legal advisor to Surgical Science and Baker McKenzie Advokatbyrå KB acts as legal adviser to Pareto Securities AB in connection with the transaction.

Gothenburg, 20 January 2021
Surgical Science Sweden AB (publ)

This press release, in its entirety, is available through the attachment or via:

<https://surgicalscience.com/aktien/pressmeddelanden/>

For further information, please contact:

Gisli Hennermark, CEO

Telephone: +46 70 420 83 00

E-mail: gisli.hennermark@surgicalscience.com

Anna Ahlberg, CFO

Telephone: +46 70 855 38 35

E-mail: anna.ahlberg@surgicalscience.com

This is information that Surgical Science Sweden AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact persons above, on 20 January 2021 at 17:31 (CET).

This is a translation of the Swedish version of the press release. When in doubt, the Swedish wording prevails.

About Surgical Science Sweden AB (publ)

One of the biggest challenges within healthcare globally is how injuries during care can be reduced. Medical education and training are key, as a large part of the training today can be performed outside the operating room. Surgical Science is a world leader in the manufacture of virtual reality simulators for evidence-based laparoscopic and endoscopic training. The simulators enable surgeons and other medical specialists to train and improve their psychomotor skills and instrument handling before entering the operating room. In parallel with its own products, Surgical Science works with simulation solutions for medical technology companies that develop surgical instruments for clinical use, such as robotic surgery.

Surgical Science is headquartered in Gothenburg, Sweden and present in Stockholm, Sweden. Through sales offices in the US, France, China and UAE as well as a global network of distributors, Surgical Science maintains a presence in most markets around the world. Surgical Science Sweden AB (publ) is traded on Nasdaq First North Growth Market. Certified Adviser is Erik Penser Bank (Telephone: 08-463 83 00; E-mail: certifiedadviser@penser.se).