Metacon Insights 2

Information and updates about our business

In this second issue of Metacon Insights, I want to share my thoughts on the latest news about our planned rights issue.

The background to the issue is relatively simple and is based on the fact that Metacon's financial goal is to achieve a positive cash flow in 2025, until then the business requires financing to be able to operate. Provided that the company has access to sufficient capital, the business can develop to reach the financial targets and we are proud to have delivered in line with our plans from the previous share issue in Q2, 2022. As we have stated in the reasons for the issue, we have tried to earmark the expected proceeds against certain specific uses. I will return to these below.

Based on the above, it has become clear that Metacon, just like other companies in a similar phase, at some point until we have reached a positive cash flow, must seek additional forms of financing. The assessments we have made are to continuously evaluate the capital market and what the general access to capital has looked like, a work that we began before the summer of this year. As most people with some insight into the capital market know, the situation in the capital market has been extremely strained over the past two years due to various extreme external events. There has been a great deal of uncertainty in light of high interest rates, inflation and, not least, the geopolitical situation, with the risk of increased conflicts in the world around us. We have therefore chosen – and are pleased to have had the opportunity – to postpone the implementation of a capital round until we could see improvements in the current market. We have concluded that the conditions are now in place to carry out a capital round on terms that can be considered better than just a few months ago.

Choice of solution for raising capital

We have chosen to raise capital through a guaranteed rights issue. I would like to explain why we have chosen this solution and not any other. Of course, debt financing is not a viable solution in a company that still has negative cash flow, and access to lenders is also limited. A capital round must therefore take place through the injection of venture capital in a new share issue. There are several ways to carry out a new share issue, the first choice is always to carry out a rights issue so that all shareholders are given the opportunity to defend their holdings. Another way would have been to carry out a directed share issue.

A directed share issue can be carried out in several ways, either by finding one or a few investors who wish to invest in the company in advance, or to offer several investors in a short period of time to invest in the company in a so-called ABB (accelerated book-building process).

The latter variant was common a few years ago and means that shares are sold in a single auction procedure for a short period of time and are offered primarily to financial actors, such as various funds. This form of raising capital is primarily suitable for companies that have good liquidity in their shares and with positive cash flow. For Metacon, this has not been an option at the moment.

Another possibility would have been to carry out a directed share issue to one or a few interested investors, for example in the form of an industrial partner. This could have been a possible way to secure capital and, under the right conditions and with the right partners, could have added additional value to the company. We do not take a negative view of this form of financing. However, we have made the assessment that, with our existing market value, this would have meant a significant dilution for our existing shareholders, who would then have had no opportunity to defend themselves against it. It would also have meant that the company would come under the control of one or a few new shareholders, who would have gained a strong position in the company and been able to influence the business in a direction that best suited them. It is not uncommon for partnership agreements to be entered into in connection with this type of investment, which can shift the focus away from planned activities. In summary, this should be interpreted and understood to mean that the Board of Directors and management have a strong belief in the possibility of creating great value for the owners through continued retention of independence and freedom of action in a very expansive future market.

The choice has fallen on a guaranteed rights issue with the right for all shareholders to participate in relation to their existing shareholdings, but which also opens up for subscription for additional shares via acquired subscription rights. In my opinion, with the conditions that now exist, this is the most advantageous way to raise capital as all shareholders are given the chance to defend and increase their shareholdings. We have also chosen to carry out the issue with "units", which means that everyone who subscribes for shares will have the opportunity to participate in a second round on what we believe to be favorable terms after approximately 12 months. We see great advantages with such a procedure as those who wish to subscribe in the issue can divide their investment into two parts and are thus given the opportunity to await the outcome of the business before a second subscription. Alternatively, those who are participating now can sell their rights to subscribe in the second round.

We have chosen to secure the rights issue partly through subscription commitments of approximately SEK 2.4 million from the Board of Directors and management, and partly through an underwriting consortium that guarantees the issue up to approximately SEK 97.6 million. The rights issue is thus secured to approximately SEK 100 million. Once we made the decision to get started, we received a great deal of interest from underwriters in a very short time to participate in the issue and we saw no reason not to go ahead and implement it when the interest was so great.

On the use of injected capital

Since the company will not be able to access issue proceeds until the end of March 2024, we have through a loan of SEK 10 million and with a loan commitment of an additional SEK 15 million also ensured that we have access to capital to be able to carry out investments until the issue proceeds are available to the company. We believe that it is necessary to have a cash buffer to bridge the possible risks that always exist in a business. With the operations we have now started in a very concrete way, there is also a dependence on things falling into place as planned and that the customers we have always pay according to plan. Since there are practically no guarantees for this and we do not want to have to slow down, this type of loan is more about risk management than anything else. You never want to risk ending up too low in the cash register.

We have also presented how we expect to use the capital raised. The company has many major projects to be carried out in 2024 that will tie up capital, including in the form of advances to suppliers. One of the projects we envision is to secure the production of components for our Reforming Plants (HHG). It is important that we are now able to scale up a production of reformers to meet the demand that we see in front of us. We already have partnerships with WattAnyWhere, which we expect to buy ethanol reformers for its planned operations, as well as with our associated company Pherousa for ammonia-based propulsion systems for "deep-sea shipping". If we get our OEM agreement with PERIC as expected, they will also have a need for components for their manufacturing of our HHG systems in China for the Chinese market. We are also in ongoing discussions with various stakeholders about various forms of partnerships, which, if completed, may entail additional investments in the design and commissioning of production capacity. And not least, we must be prepared to be able to deliver HHG plants as orders come in.

We also intend to use the proceeds to further strengthen our own organization, including management and delivery organization, and to expand our sales capabilities. We have learned a lot from the projects we have been involved in so far, where one lesson is that the tendering process for large plants is very extensive and binds many employees for a long time. We have so far been able to solve this by using external consultants, which is a very costly procedure and which, in the worst case, if we do not receive a particular order, means that the money is wasted.

In any case, it is an exciting future that we are facing to say the least, and which, with the right capital, gives us increased opportunities to succeed.

In conclusion

I hope that with this second Metacon Insights we have painted a picture of how we view the planned capital raise and that you have gained insight into our underlying thoughts and motives. It is always a more difficult situation for a smaller listed company to carry out business-intensive capital raisings because we are always guided by our market value. I can make a comparison with the large industrial projects that are underway in northern Sweden, which can raise billions for their operations without being bound by the share price of the shares. Conversely, I see this as an opportunity for many small and large shareholders to be able to access the journey that Metacon wishes to make, even if the capital raises are made in small lots compared to our unlisted industry colleagues. And the assessment is that we have a great deal of value creation for shareholders that can be done in a more interesting way with higher potential in a journey where we are not dependent on the interests of a few large shareholders.

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