

INTERIM REPORT JANUARY–MARCH 2024



One of the biggest challenges within healthcare globally is reducing injuries that occur during care. Medical education and training are key, especially as a large part of the training can now be performed outside the operating room. Surgical Science is a world leader in the development of virtual reality simulators for evidence-based training. The simulators enable surgeons and other medical specialists to train and improve their psycho-motor skills and instrument handling before entering the clinical environment. Alongside proprietary products, Surgical Science works with

simulation solutions for medical device companies that develop instruments for clinical use, such as robotic surgery.

Surgical Science is headquartered in Gothenburg, Sweden and also has operations in Stockholm, Sweden, as well as in Tel Aviv, Israel, and Seattle and Cleveland in the US. Through sales offices in the US and China, as well as a global network of distributors, a presence is maintained in most markets. Shares in Surgical Science Sweden AB (publ) are traded on Nasdaq First North Growth Market.

PROPRIETARY SIMULATORS WEAK, INDUSTRIAL SEGMENT STRONG

First quarter 2024 (Jan–Mar)

- Net sales amounted to SEK 188.2 (229.1) million, a decrease of 18 percent compared with the corresponding period in the preceding year.
- License revenue amounted to SEK 63.2 (70.6) million and accounted for 34 (31) percent of net sales.
- The gross margin was 66 (69) percent.
- Operating profit amounted to SEK 26.0 (53.3) million.
- Net profit amounted to SEK 23.8 (49.8) million, corresponding to earnings per share of SEK 0.47 (0.98).
- Cash flow from operating activities amounted to SEK 28.5 (60.5) million. As of March 31, 2024, cash and cash equivalents amounted to SEK 659.2 (482.1) million.

Key figures

	January–March		Full year
	2024	2023	2023
Net sales, SEK million	188.2	229.1	882.9
Operating profit (EBIT), SEK million	26.0	53.3	189.2
Adjusted EBIT, SEK million	32.0	59.3	213.6
Adjusted EBIT margin, %	17.0	25.9	24.2
Profit after financial items, SEK million	27.8	55.0	268.3
Net profit, SEK million	23.8	49.8	234.0
No. employees at end of period	265	252	260
Equity/assets ratio, %	92.5	91.1	92.4
Earnings per share, SEK	0.47	0.98	4.59
Equity per share, SEK	89.92	83.70	85.16
Share price on balance sheet date, SEK	151.70	169.2	182.50
Market value on balance sheet date, SEK million	7,740.7	8,595.6	9,312.3

For definitions, see page 18.

A MESSAGE FROM THE CEO

The start of 2024 has been very weak in terms of sales of our own simulators. Simulator sales within Educational Products more than halved compared to 2023. At the same time, sales of customized simulators for medical device companies increased by 300 percent and the Industry/OEM strategy is now starting to pay off. Cost control is good with a slight decrease in operating costs despite an increase in the number of employees. Profit margins were adversely affected by the lower sales and the EBITDA margin fell to 22 (29) percent. We remain confident about 2024 as a whole, despite a total sales decrease of 18 percent for the first quarter being a significant notch in the curve.

The major deviation compared to the first quarter of last year is within Educational Products and simulators for our distributor markets. A lack of major tenders, temporarily frozen key markets, and healthcare systems that have initially held on to their money after a tough 2023 has meant that Surgical Science's usual revenue engine Educational Products has started the year threading water. Excluding the North and South America region, which largely consists of direct sales in the US, we lost roughly SEK 60 million in sales on the distributor markets compared to the same period last year. We're now starting to report Educational Products' and Industry/OEM's geographic sales separately in note 2 (page 17) to provide better transparency over the distribution of our revenues.

The major aspects of the difference in Educational Products between the first quarter of 2023 and 2024 are:

- 1) Impact of the opening order backlog in 2023, which meant that reported revenue was higher than sales during the first quarter of last year (approx. SEK 17 million)
- 2) China, a key market, where customers are now awaiting the conclusion of an anti-corruption campaign focused on the healthcare sector (approx. SEK 12 million)
- 3) Elections in India, which means that procurements are frozen until a new administration is in place (approx. SEK 8 million)
- 4) Lack of major tenders that normally constitute a foundation for each quarter (approx. SEK 25 million, spread over three large procurements in Europe/Latin America/RoW).



Despite the weak start to 2024 for Educational Products, we are positive about this business area going forward and believe that 2024 as a whole will deliver good results. We held our annual partner meeting in February with participants from more than 40 countries. Here, each distributor presents its annual plans, which gives us a good overview of expected full-year sales. Demand is strong among end-clients who have a growing need for simulators. There are plenty of large tenders at different stages, and Surgical Science's position continues to strengthen against its competitors. Although the fact that sales in Educational Products in this quarter are at the same level as the first quarter of 2022 (SEK 79 million, excluding the impact of the order backlog) which is an underperformance, we're convinced that 2024 as a whole will return growth.

Within Industry/OEM, 2024 started in the complete opposite way to Educational Products. This business area grew by 27

“In several cases, we have been able to combine different products, such as interventional ultrasound, to solutions for our customers’ needs.”

percent, and we’re working hard to handle all the sales opportunities. The big positive in this report is that we’re quadrupling the sale of simulators to medical device companies. SEK 35 million is a record in terms of sales for these customized simulation solutions of both hardware and software for product-specific specialist training. Moreover, we’ve built up a significant order backlog and see good opportunities for continued growth in 2024. The strategy we decided on in the fall of 2022 has begun to bear fruit. We see these business relationships as important, not only for growth in the forthcoming quarters but also from a more long-term strategic point of view, as they will create opportunities for further pure software sales in line with the digitalization of the health sector. A significant portion of these revenues is in the area of vascular surgery, although other solutions in our broad product portfolio also account for this success. It is very gratifying to see how, in several cases, we have been able to combine different products, such as interventional ultrasound, to solutions for our customers’ needs.

The most important revenue stream for us, license revenue from robotic surgery companies, amounted to SEK 63 million during the quarter. In 2023 as a whole, the growth in license revenue was around 50 percent, which is far above market growth as a whole. However, there is a degree of volatility in our revenue as customers who are in the launch phase buy licenses in bundles rather than in line with deliveries to end-clients. Compared with the same period last year, license revenue fell by approximately SEK 7.5 million during the first quarter of 2024. The robotic surgery market is in a very exciting phase of accelerating growth. Intuitive has shared more public information about its launch of da Vinci 5 and it’s now clear that access to the new robot will be limited for the rest of the year before accelerating in 2025. For Surgical Science, added functionality such as tactile feedback in the robot console, means that we can offer further advanced simulation solutions as clinical applications are developed. Karl Storz’s announcement that it has entered into a letter of intent to acquire the robotic surgery manufacturer Asensus Surgical, which is a client of Surgical Science, is considered by many to be the beginning of a consolidation phase. For Surgical Science, this is generally positive as smaller start-up companies can gain access to financial muscles and established market channels to increase their sales more quickly.

As fixed production costs were distributed over a smaller number of simulators as a result of the weak order intake for Educational Products, the gross margin fell to 66 (69) percent

compared to the first quarter of last year. Our definition of the cost of goods sold includes not only direct materials but also all labor costs and the share of fixed costs, such as the premises, attributable to production. Operating profit halved to SEK 26 (53) million during the first quarter of 2024. At the EBITDA level, the margin was 22 percent compared to the previous year’s 29 percent due to our investment of development resources in key future projects, which resulted in around SEK 10 (6) million being capitalized as intangible assets. Cash flow was affected by an increase in tied-up capital of SEK 14 million, although cash and cash equivalents still increased by roughly SEK 25 million, which is definitely ok after the slow start to 2024.

It was a proud moment when the Society of American Gastrointestinal and Endoscopic Surgeons, SAGES, recently held its annual clinical conference celebrating the tenth anniversary of the Fundamentals of Endoscopic Surgery (FES) program. During these ten years, 13,000 certifications have been completed with Surgical Science’s GI Mentor simulator at one of the 85 test centers located around the US. The fact that so many clinics were able to practice and be objectively certified in a safe simulated environment is a huge success for patient safety and for all of us at Surgical Science. Our understanding of medical training combined with our broad product portfolio of proprietary simulators used and validated by leading surgeons and associations makes us a truly attractive partner for medical device companies. We’re talking about two sides of the same coin, as ultimately it is the same surgeon who wants to be ready to take care of the patient in the best way. To achieve this, we need both generic technical training using simulators within Educational Products, as well as product-specific training with simulation adapted to the medical device companies.

The first signs of spring are now beginning to appear in Gothenburg, where Surgical Science has its headquarters. When this year’s general meeting is held on May 16, I hope that many shareholders will visit us to get to know our company even better, to try out our simulators, and submit last year to the archives. We’re looking forward to the rest of 2024 and another year of success.

Gothenburg, May 2024



Göran Hennermark, CEO

First quarter 2024 (January – March)

Net sales

Net sales for the first quarter of the year amounted to SEK 188.2 (229.1) million, a decrease of 18 percent compared with the same period in the preceding year. Calculated in local currencies, sales also decreased by 18 percent.

Of the sales for the quarter, SEK 79.1 (143.1) million consisted of sales within the Educational Products business area and SEK 109.1 (86.0) million within the Industry/OEM business area.

Educational Products

Sales within Educational Products decreased by 45 percent. Simulator sales amounted to SEK 56.6 (126.4) million and service revenue to SEK 22.5 (16.7) million.

The comparison period includes approximately SEK 17 million attributable to the difference in the opening and closing order backlog for the first quarter of 2023. Adjusted for this item, sales fell by 37 percent.

As described in recent quarters, a greater inertia is being experienced generally in the market. Although the need and demand exist, deals are taking longer to get over the line. The short-term uncertainty has increased, due in part to the economic climate and in part to factors such as the ongoing anti-corruption campaign in the healthcare sector in China, which has had a significant and long-lasting negative impact on this market.

As of this quarter, note 2 on page 17 has been revised and expanded. Sales by region have also been separated into the respective business areas.

Although all regions showed a decrease, the region that fared relatively better was North and South America, as the

US slightly outperformed the comparison period while South America fared slightly worse. In Europe, the first quarter of 2023 saw a major deal in Poland and good sales in the UK. In the same quarter in 2024, the countries generally displayed weak sales with no major procurements. As previously commented, Asia has been badly affected for some time by the ongoing anti-corruption campaign in the Chinese healthcare sector. Sales were similarly weak during the first quarter, especially in Japan and India. India has been affected by the current election, with activity on hold in several sectors.

A degree of recovery is expected in the second quarter. A number of major procurements are underway, it is still however unclear exactly when these can be completed. In respect of China, the forecast remains the same as previously communicated, with normalization in the second half of the year at the earliest. India will also be negatively affected during the second quarter until a new administration is in place.

Industry/OEM

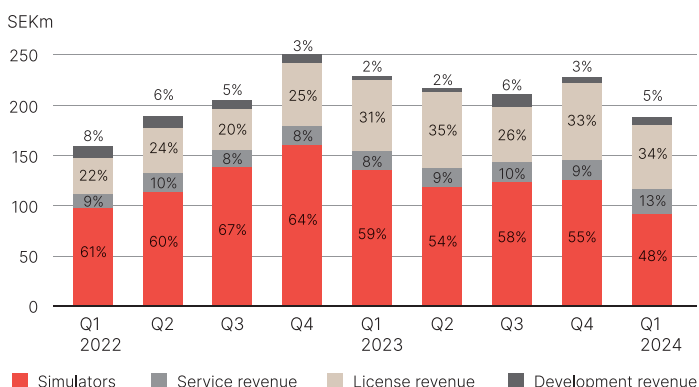
Industry/OEM showed growth of 27 percent.

License revenue for the first quarter amounted to SEK 63.2 (70.6) million, which is a decrease of 11 percent compared with the same period in the preceding year. Sales accounted for 34 (31) percent of the company's total revenue.

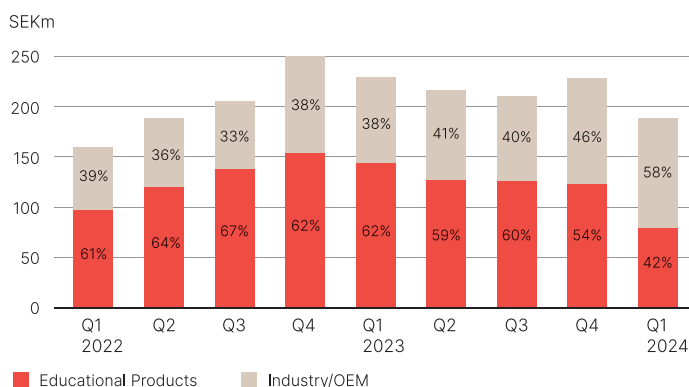
Customers who have just started selling the products from which Surgical Science earns license revenue buy the licenses in packages, which means that sales initially vary more between quarters. License revenues that are tied to the installed base can also vary between quarters. Subscriptions are usually renewed once a year and the number of subscriptions to be renewed each quarter varies.

The financial goals for 2026 state that the company expects license revenue to increase progressively towards the end of the period.

Revenue by revenue stream



Revenue by business area



Development revenue was higher in the first quarter than in the corresponding quarter in the preceding year (SEK 8.8 million compared with SEK 4.6 million). These revenues partly include revenue from robot projects, as well as from the adaptation or development of software linked to the sale of simulators, see below.

Sales of simulators to medical device companies for product-specific training amounted to SEK 34.7 (8.4) million, which is the most ever recorded for this segment. This has been a focus area since the establishment of the new strategy at the end of 2022 and the expansion of the sales force, with a clear focus on offering several different products to the major key customers. Revenues are diversified between different customers and projects and, in several cases, Surgical Science's product development team has been able to combine products such as interventional ultrasound to new solutions to suit the customers' needs.

Simulator sales within Industry/OEM vary significantly more between quarters than the corresponding sales within Educational Products. Revenues consist of projects that usually include a number of simulators where adaptations for product-specific training of, for example, an OEM company's specific instrument are included.

Service revenue for the installed base, which is mainly linked to longer agreements with specific customers where Surgical Science takes care of the shipping and servicing of these simulators for the OEM company (currently almost exclusively in the US), amounted to SEK 2.4 (2.4) million.

Costs and results

The cost of goods sold amounted to SEK 64.9 (70.4) million corresponding to a gross margin of 66 (69) percent. License revenue made up a larger share of total sales than the corresponding period in the preceding year, which had a positive effect on the margin. The fixed costs in production were distributed over a lower number of simulators sold, which had

a negative effect on the margin. The product mix also had a negative effect on the margin for the quarter.

Sales costs amounted to SEK 40.5 (46.9) million corresponding to 21 percent (20) of sales. In January, Surgical Science participated in IMSH, the biggest trade fair of the year for medical training. The event takes place in the US in January every year. The company's annual distributor meeting was also held during the quarter, this time in Budapest, where around a hundred people from 40 different countries participated.

Administration costs amounted to SEK 15.7 (16.7) million corresponding to 8 (7) percent of sales.

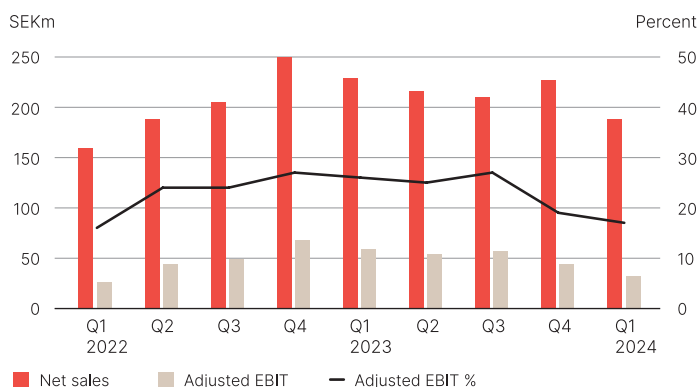
Research and development costs for the year amounted to SEK 45.0 (46.1) million, corresponding to 24 (20) percent of sales. Of the development costs, SEK 9.8 (6.4) million has been capitalized as an intangible asset.

Outstanding warrant programs were charged against other operating costs for the quarter in the amount of SEK 1.0 (0.4) million. The amount represents a calculation of IFRS 2 regarding the parts of the programs attributable to Israel and the US and is allocated across each program's term.

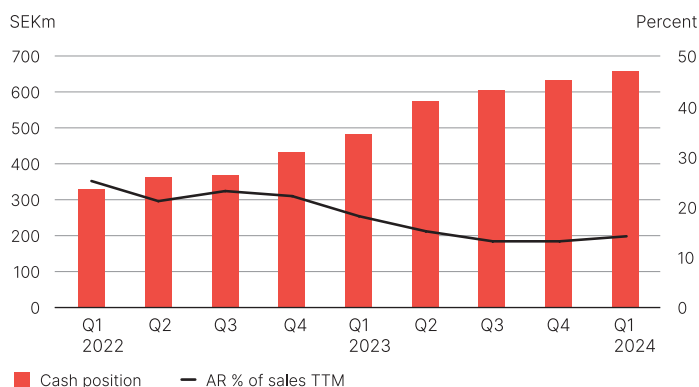
Other items under "Other operating income and operating costs" are mainly attributable to the revaluation of operating assets and operating liabilities in a foreign currency.

Operating profit for the first quarter amounted to SEK 26.0 (53.3) million, corresponding to an operating margin of 14 (23) percent.

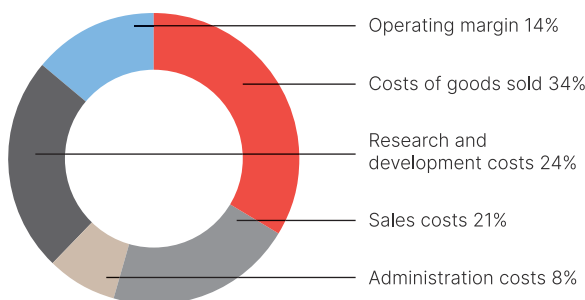
Adjusted EBIT



Cash/Accounts receivable



Costs/margin as a percentage of sales*



* Other operating income and costs -1%

Depreciation and amortization burdened profit by SEK 14.9 (13.6) million in total. Depreciation and amortization burdened the cost of goods sold by SEK 0.5 (0.4) million, sales costs by SEK 4.7 (4.6) million, administration costs by SEK 4.9 (4.3) million, and research and development costs by SEK 4.8 (4.3) million. Sales costs include amortization of SEK 4.0 (4.0) million on those parts of the company's acquisitions that are classified as customer contracts, while research and development costs include amortization of SEK 2.0 (2.1) million on those parts of the company's acquisitions that are classified as technology. Depreciation attributable to the application of IFRS 16 amounts to SEK 3.7 (3.8) million, this being included in its entirety under administration costs.

Adjusted EBIT amounted to SEK 32.0 (59.3) million, corresponding to a margin of 17 (26) percent.

EBITDA amounted to SEK 40.8 (66.8) million, corresponding to a margin of 22 (29) percent.

Surgical Science has no loan financing, net financial items for the quarter consisted mainly of interest income on bank balances of SEK 6.1 (1.1) million. Other items are the revaluation of internal loan liabilities to subsidiaries of SEK -3.6 (0.8) million and the effect of IFRS 16 of SEK -0.6 (-0.1) million.

Net profit for the quarter amounted to SEK 23.8 (49.8) million. The tax expense for the quarter of SEK 4.1 (5.2) million consists of estimated tax on profit for the period and a change in deferred tax assets. Loss carry-forwards remain in the US for 2024, attributable to Mimic Technologies.

Cash flow

During the period January–March 2024, cash flow from operating activities amounted to SEK 28.5 million compared to SEK 60.5 million for the corresponding period in 2023. Cash flow from changes in working capital amounted to SEK -14.1 (-6.1) million. Both inventory and accounts receivable have increased slightly during the quarter, other current liabilities have however also increased slightly.

Cash flow from investing activities amounted to SEK -10.4 (-6.9) million, mainly comprising investments in development related to the company's software.

Cash flow from financing activities amounted to SEK -2.6 (-2.8) million, where SEK -1.9 (-3.4) million was attributable to changes in lease liabilities in accordance with IFRS 16.

Net cash flow for the quarter, including currency effects in liquid assets, was SEK 24.8 (48.3) million.

General comments on the accounts

Surgical Science's operations are structured into two business areas; Educational Products and Industry/OEM.

Sales within Educational Products consist of sales of the company's proprietary simulators (hardware and software) to the hospital market, as well as of service revenue related to the installed base of these simulators.

Sales within Industry/OEM consist of license revenue from the company's software and are primarily attributable to the robotic surgery area. Development revenue is also included, which is obtained when Surgical Science works to adapt the company's software to the customer's hardware platform. Sales of simulators to OEM customers, primarily in the vascular and laparoscopy areas, as well as service revenue related to the installed base of these simulators, are also included in this area.

The gross margin is affected by the distribution of revenues, as the different revenue streams, "proprietary simulators containing hardware", "service revenues", "development revenues" and "license revenues", have different gross margins. A higher share of license revenue has a positive impact on the gross margin.

Surgical Science applies a functionally arranged income statement in which the gross margin also includes the salaries of employees working with production, quality control, quality assurance and support, in addition to direct materials and spare parts. In addition, the salaries of development department employees working on development revenue-generating projects are included. Shared costs, such as premises and IT, are distributed in accordance with an allocation template for all the different functions.

Other operating income and operating costs consist predominantly of exchange rate fluctuations on operating assets and operating liabilities in foreign currencies.

As Surgical Science has no loan financing, net financial items for 2024 consist mainly of interest on bank balances and revaluations of internal loan receivables/liabilities in respect of

subsidiaries, as well as the effect of IFRS 16. The comparative figures for 2023 also include the revaluation of the contingent consideration (recognized in liabilities) attributable to the acquisition of Mimic Technologies.

In Sweden and the US, utilizable tax-loss carry-forwards from previous years affected tax in 2023. Loss carry-forwards remain in the US for 2024, attributable to Mimic Technologies.

Exposure to foreign currency

Surgical Science is mainly exposed to USD, ILS, and EUR. Exposure varies depending on how large a proportion of the revenues and costs are made up of these currencies in relation to the company's total revenues and costs.

Surgical Science's revenue for 2023 as a whole had the following approximate distribution in different currencies: USD 82 (82) percent, EUR 16 (12) percent, SEK 2 (3) percent, other (e.g. GBP) 0 (3) percent. This distribution is deemed to be a good approximation of revenues in 2024 as well.

Costs for 2023 as a whole had the following approximate distribution in different currencies: USD 28 (31) percent, ILS 51 (50) percent, SEK 17 (15) percent, other (e.g. EUR, GBP) 4 (4) percent. This distribution is deemed to be a good approximation of costs in 2024 as well.

A change of 10 percent in SEK against USD, EUR, and ILS would result in a change in sales of 10 percent and a change in operating profit of approximately 15 percent. The company has not hedged its flows by way of hedging agreements.

Financial position

As at March 31, 2024, the group's cash and cash equivalents amounted to SEK 659.2 million, equity to SEK 4,588.3 million, and the equity/assets ratio was 93 percent. As at March 31, 2023, the group's cash and cash equivalents amounted to SEK 482.1 million, equity to SEK 4,252.1 million, and the equity/assets ratio was 91 percent. As at March 31, 2024 equity per share amounted to SEK 89.92 (83.70).

Parent company

The parent company, Surgical Science Sweden AB, holds shares in subsidiaries and the portion of Surgical Sciences' Swedish operations that are primarily conducted in Gothenburg. Several group-wide functions are also organized within the parent company. Due to internal transactions between the various group companies, it is not possible to draw general conclusions from the parent company's figures regarding sales and operating costs.

As Surgical Science has no loan financing, net financial items consist mainly of interest on bank balances and revaluations of internal loan receivables/liabilities in respect of subsidiaries.

Outlook

Surgical Science's strategy is to have two separate business areas. The focus of Educational Products is on customers in education and training, who use the company's proprietary simulators to increase patient safety through effective, generic training, the results of which can be measured objectively. Customers have validated the simulators over many years by way of clinical studies. The other business area, Industry/OEM, primarily makes use of Surgical Science's software resources, which enable medical device companies to integrate product-specific simulation into their clinical products. This makes it possible to generate a return on Surgical Science's development work, which has been ongoing for 25 years. The company perceives the strongest future growth to be in this area. In robotic surgery, the principal business model involves a development fee for customization/integration with the customer's products and then a software license for each unit or based on the installed base or on usage. Surgical Science retains full copyright over its product.

Underlying growth in the market for medical simulation is favorable. The largest market for medical simulation is the US, followed by Europe and Asia. Over the next few years, growth is expected to be strongest in countries where driving forces include economic development, an increased focus on patient safety, and a large population, such as China and India. The market for robot-assisted surgery is expected to grow quicker than other parts of the market.

The overarching objectives for Surgical Science in 2024 are to:

- Continue expanding the value content for existing customers in robotic surgery who license the company's technology.
- Establish broader collaborations in several product areas with major key customers within Industry/OEM.
- Grow sales within Educational Products by at least 10 percent and continue to expand the product portfolio through further product launches.
- Improve the gross margin by streamlining production and procurement as well as increasing the average sales price within Educational Products.
- Ensure a high level of employee commitment by continuing to build and maintain the culture and the company's core values.
- Be prepared to make further acquisitions when the time is right.

Surgical Science has an organization where a sizable portion of its employees are global leaders in software development for medical simulation. This gives the company the capacity to

work with the development of the core technology for future simulation, with on-time delivery of adaptations of simulation software to customers in Industry/OEM, and to continue to launch new applications for its proprietary products within Educational Products. To remain a world leader in realistic real-time simulations of medical procedures, improving the core technology is critical. In 2024, Surgical Science is continuing to invest more than ever in this area.

The company in brief

Operations

Surgical Science was founded in 1999 and works with simulation technologies. The foundation of the company is its proprietary software and hardware for simulating interactions between instruments and anatomy. Based on its proprietary technology, Surgical Science develops and sells turnkey simulation systems used to train surgeons and other medical specialists. The operations are conducted within the framework of the Educational Products business area. Since 2017, Surgical Science has also worked with simulation solutions for medical device companies that develop surgical instruments for clinical applications (such as robot-assisted surgery) – this work is conducted within the Industry/OEM business area. In 2019, Surgical Science acquired the company SenseGraphics (founded in 2004), which has worked with medical simulation sales to medical device companies for many years. In early 2021, the US-based company Mimic Technologies was acquired. It has operations in both Educational Products and Industry/OEM and has operated in the field of robotic surgery for almost 20 years. The acquisition of Symbionix, which primarily operates in Tel Aviv, Israel was completed in August 2021. Symbionix was founded in 1998 and is involved in simulation for training surgeons and other medical specialists in a wide range of areas. The business generates revenue through its proprietary simulators in areas including general surgery, endovascular procedures, endoscopy, urology, orthopedics, ultrasound, and robotic surgery, and also through partnerships with medical device companies in robotic surgery, for example.

Mission and vision

Surgical Science's overall purpose is to improve patient safety and outcomes in healthcare through validated, customized medical simulation training. The vision is that all patients who are on their way to the operating room should feel reassured that their surgeon has been trained and objectively certified in a safe, simulated environment before the procedure.

Financial targets

The target is for Surgical Science to generate sales of SEK 1,500 million by 2026. Achieving this target may entail supplementary acquisitions. The Educational Products business area is expected to grow by an average of 10 to 15 percent

annually over the period. With an extended and broadened product portfolio, the products will have different growth rates. For example, Surgical Science offers certain niche products in order to be able to submit complete tenders, although these are sold individually to a lesser extent. The Industry/OEM business area is expected to experience increasing growth during the period as robotic surgery products containing technology from Surgical Science are launched in the market. During the period, other application areas are also expected to be digitalized, which, alongside expanded application areas for simulation, will result in increased revenues.

At the end of the period, adjusted EBIT shall amount to 40 percent. Adjusted EBIT is calculated as EBIT excluding depreciation, amortization and impairment on surplus values related to acquisitions.

Strategy

Surgical Science will continue to develop its proprietary educational products to be the obvious choices for customers in a world where training and certification are mandatory. From the outset, Surgical Science has worked closely with leading university hospitals in the development of the company's products. Surgical Science's simulators have also been validated in a number of published studies demonstrating that the knowledge acquired by the surgeon by way of training with the company's products also transfers to the actual operating room. Surgical Science advocates mandatory simulations in surgeon training and for the certification of future surgeons before performing their first operation on a human patient.

Besides developing proprietary products, a strategic priority is to work with simulation solutions for medical device companies that develop instruments for clinical use. As a result of the more than 20 years of research and development behind the world's most advanced, computer-based simulations for the training of surgeons and other medical specialists in a wide range of areas, Surgical Science's software resources can be applied beyond the proprietary products.

One of the macro trends in healthcare driving this development is digitalization, which allows simulation software to be applied directly in medical device products without separate hardware. Another macro trend is increasing patient safety awareness, especially with regard to new technologies. This is evident in, for example, regulatory authorities' requirements for verified training solutions for surgeons when granting approval for the clinical use of new surgical robots, for instance.

Other information

Organization and personnel

At the end of the period, there were 265 (252) employees, of whom 74 (69) were women and 191 (183) were men. Of these, 58 (58) were employed in Sweden, 136 (126) in Israel, 56 (53) in the US, and the remaining 15 (15) mainly in Germany and China.

Information on transactions with related parties

No transactions materially impacting the company's earnings or financial position were conducted with related parties during the quarter.

Proposed appropriation of profits

The board of directors have proposed to the Annual General Meeting held on May 16, 2024 that no dividend should be paid for the 2023 financial year, i.e. SEK 0.00 per share.

Risk management

Surgical Science works on an ongoing basis to identify, assess and manage risks in various systems and processes. Risk analyses of day-to-day operations are performed on an ongoing basis and in connection with major activities.

The most significant strategic and operational risks affecting Surgical Science's operations and industry are described on pages 65 and 66 of the company's 2023 annual report.

The principal risks and uncertainties include IP, market risks, competitors and technological development, industrial partnerships, employees, acquisitions and access to capital. To all intents and purposes, the risks reported by the company and outlined in the annual report, are judged to have remained unchanged.

Seasonal effects

Surgical Science's sales within the Educational Products business area can fluctuate between quarters, with the fourth quarter of the year usually being the strongest. This is because many major hospitals use the calendar year as their budget year and hold off on purchases until they can see what funds remain in the budget towards the end of the year.

Also in the Industry/OEM business area, the fourth quarter usually generates more sales than other quarters, with license revenues from customers increasing for the same reason as for Educational Products. This effect is less pronounced for Industry/OEM, however, as clinical products in the area of robotic surgery, for example, are less dependent on there being remaining budget funds towards the end of the year.

Annual general meeting and annual report

The annual general meeting of Surgical Science Sweden AB (publ) will be held on May 16, 2024. For more information, see www.surgicalscience.com.

Surgical Science's 2023 annual report is available to download from Surgical Science's website and is sent on request to shareholders who provide their postal address. The annual report is available in Swedish and English.

Events after the balance sheet date

There have been no significant events to report following the end of the period.

Assurance

The board and CEO provide their assurance that this interim report provides a fair overview of the company's operations, position, and earnings and describes any significant risks and uncertainties that the company may face.

Gothenburg, May 15, 2024

Board of directors

This report has not been subject to review by the company's auditors.

Financial reports:

Interim reports and other financial reports are available at www.surgicalscience.com.

The following reports are planned for release:

Interim report January-June 2024: Thursday, August 22

Interim report January- September 2024: Thursday, November 14

Year-end report 2024: Wednesday, February 19, 2025

Other dates:

Annual general meeting 2024: Thursday, May 16

Stock market and Certified Adviser:

Shares in Surgical Science Sweden AB (publ) have been traded on Nasdaq First North Growth Market since June 19, 2017. The company's Certified Adviser is Carnegie Investment Bank AB (publ).

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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 May 15, 2024 at 7:30 a.m. (CET).

This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.

Condensed consolidated income statements

SEK thousands	January–March		Full year
	2024	2023	2023
Net sales	188,243	229,077	882,853
Cost of goods sold	-64,918	-70,392	-269,974
Gross profit	123,325	158,685	612,879
Sales costs	-40,456	-46,949	-167,514
Administration costs	-15,744	-16,665	-72,509
Research and development costs	-45,039	-46,059	-181,569
Other operating income and costs	3,890	4,255	-2,135
Operating profit	25,976	53,267	189,152
Financial income and costs	1,862	1,761	79,112
Profit after financial items	27,838	55,029	268,264
Taxes	-4,046	-5,210	-34,292
Net profit	23,792	49,819	233,972
Attributable to			
Parent company shareholders	23,792	49,819	233,972
Earnings per share, SEK	0.47	0.98	4.59
Earnings per share, SEK*	0.47	0.98	4.59
Amortization of intangible assets	-9,399	-8,381	-33,893
Depreciation of tangible assets	-5,469	-5,179	-21,720

* After dilution. See Note 4 for information regarding warrant programs.

Consolidated statement of income and other comprehensive income

SEK thousands	January–March		Full year
	2024	2023	2023
Net profit	23,792	49,819	233,972
Other comprehensive income			
<i>Items that have been or can be reclassified to net profit</i>			
Translation differences on translation of foreign operations	218,307	-34,554	-148,584
Total other comprehensive income	218,307	-34,554	-148,584
Comprehensive income	242,099	15,265	85,388
Comprehensive income attributable to			
Parent company shareholders	242,099	15,265	85,388

Condensed consolidated statement of financial position

SEK thousands	Mar 31, 2024	Mar 31, 2023	Dec 31, 2023
ASSETS			
Non-current assets			
Capitalized expenditure for product development	74,427	46,599	65,529
Patents, trademarks, and concessions	60,367	59,380	57,522
Customer contracts	102,369	115,764	101,559
Technology	61,603	67,991	60,005
Goodwill	3,517,654	3,424,121	3,328,683
Other intangible fixed assets	2,598	1,992	1,959
Tangible fixed assets	75,274	46,224	76,618
Deferred tax assets	15,514	22,107	14,836
Other financial fixed assets	5,022	4,256	4,770
Total non-current assets	3,914,828	3,788,435	3,711,481
Current assets			
Inventories	168,780	145,663	154,451
Accounts receivable	114,671	160,288	110,603
Other current receivables	24,607	20,503	18,849
Prepaid expenses and accrued income	77,012	71,546	72,923
Cash and cash equivalents	659,182	482,079	634,366
Total current assets	1,044,252	880,079	991,192
TOTAL ASSETS	4,959,080	4,668,513	4,702,673
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders	4,588,283	4,252,064	4,345,212
Non-current liabilities	123,114	103,802	122,524
Current liabilities	247,683	312,647	234,937
Total liabilities	370,797	416,449	357,461
TOTAL EQUITY AND LIABILITIES	4,959,080	4,668,513	4,702,673

Consolidated changes in equity

SEK thousands	Attributable to parent company shareholders				Total equity
	Share capital	Other capital contributions	Provisions	Profit and loss carried forward, incl. profit for the period	
Opening balance January 1, 2023	2,540	3,378,985	581,135	273,791	4,236,451
Profit for the period Jan–Mar				49,819	49,819
Other comprehensive income for the period			-34,554		-34,554
Warrants program IFRS 2			348		348
Closing balance March 31, 2023	2,540	3,378,985	546,929	323,610	4,252,064
Profit for the period Apr–Dec				184,153	184,153
Other comprehensive income for the period			-114,030		-114,030
Warrants program IFRS 2			3,878		3,878
Redemption warrants program	11	19,136			19,147
Closing balance December 31, 2023	2,551	3,398,121	436,777	507,763	4,345,212
Opening balance January 1, 2024	2,551	3,398,121	436,777	507,763	4,345,212
Profit for the period Jan–Mar				23,792	23,792
Other comprehensive income for the period			218,307		218,307
Warrants program IFRS 2			972		972
Closing balance March 31, 2024	2,551	3,398,121	656,056	531,555	4,588,283

Condensed consolidated cash flow statements

SEK thousands	January–March		Full year
	2024	2023	2023
Operating activities			
Profit before financial items	25,976	53,267	189,153
Adjustment for non-cash items, etc.	12,162	12,296	61,094
Interest paid/received	5,511	1,028	8,246
Tax paid	-1,042	–	-14,549
Cash flow from operating activities before changes in working capital	42,607	66,591	243,944
Changes in working capital			
Increase (-)/Decrease (+) in inventories	-7,695	-14,050	-19,567
Increase (-)/Decrease (+) in operating receivables	-12,027	-1,467	31,905
Increase (+)/Decrease (-) in operating liabilities	5,602	9,402	-17,991
Cash flow from changes in working capital	-14,120	-6,114	-5,653
Cash flow from operating activities	28,487	60,477	238,291
Investing activities			
Investments in tangible fixed assets	-548	-502	-10,456
Investments in intangible fixed assets	-9,852	-6,406	-33,673
Cash flow from investing activities	-10,400	-6,908	-44,129
Financing activities			
Change in non-current liabilities	-714	617	-2,042
Change in lease liabilities	-1,851	-3,419	-1,259
Redemption warrants program	–	–	19,148
Cash flow from financing activities	-2,565	-2,802	15,847
Cash flow for the period	15,522	50,767	210,008
Opening cash and cash equivalents	634,366	433,733	433,733
Exchange-rate difference in cash and cash equivalents	9,294	-2,421	-9,375
Closing cash and cash equivalents	659,182	482,079	634,366

Key figures, group

	January–March		Full year
	2024	2023	2023
Net sales growth, %	-17.8	44.0	10.0
Gross margin, %	65.5	69.3	69.4
EBITDA margin, %	21.7	29.2	27.7
Operating margin, %	13.8	23.3	21.4
Profit margin, %	12.6	21.7	26.5
Equity/assets ratio, %	92.5	91.1	92.4
Shares outstanding at end of period	51,026,236	50,801,236	51,026,236
Shares outstanding at end of period*	51,026,236	50,913,801	51,044,111
Average shares outstanding	51,026,236	50,801,236	50,929,361
Average shares outstanding*	51,026,236	50,908,441	50,940,778
Equity per share, SEK	89.92	83.70	85.16
Equity per share, SEK*	89.92	83.52	85.13
Dividend per share, SEK	0.00	0.00	0.00**
Share price on the balance sheet date, SEK	151.70	169.20	182.50
Average number of employees	256	243	249

* After dilution. See Note 4 for information regarding warrant programs. | ** Proposal by the board to the 2024 annual general meeting. | See page 18 for definitions of key figures.

Consolidated income statements by quarter

SEK thousands	Jan–Mar 2024	Oct–Dec 2023	Jul–Sep 2023	Apr–Jun 2023	Jan–Mar 2023	Oct–Dec 2022	Jul–Sep 2022	Apr–Jun 2022
Net sales	188,243	227,293	210,246	216,237	229,077	250,108	205,079	188,216
Cost of goods sold	-64,918	-64,864	-65,221	-69,498	-70,392	-85,859	-67,743	-61,055
Gross profit	123,325	162,429	145,025	146,740	158,685	164,249	137,336	127,161
Sales costs	-40,456	-42,502	-37,042	-41,022	-46,949	-41,430	-33,691	-33,954
Administration costs	-15,744	-19,750	-20,649	-15,444	-16,665	-16,346	-16,840	-15,268
Research and development costs	-45,039	-46,247	-40,810	-48,452	-46,059	-46,598	-44,096	-42,090
Other operating income and costs	3,890	-16,275	4,169	5,716	4,255	1,343	0	2,743
Operating profit	25,976	37,655	50,693	47,538	53,267	61,218	42,709	38,592
Financial income and costs	1,862	80,784	1,741	-5,176	1,761	65,769	-9,030	-8,990
Profit after financial items	27,838	118,439	52,434	42,362	55,029	126,987	33,679	29,602
Taxes	-4,046	-20,478	-5,031	-3,573	-5,210	-10,467	-5,176	-3,130
Net profit	23,792	97,962	47,403	38,789	49,819	116,520	28,503	26,472
Attributable to								
Parent company shareholders	23,792	97,962	47,403	38,789	49,819	116,520	28,503	26,472
Earnings per share, SEK	0.47	1.92	0.93	0.76	0.98	2.29	0.56	0.52
Earnings per share, SEK*	0.47	1.92	0.93	0.76	0.98	2.29	0.56	0.52
Average shares outstanding	51,026,236	51,026,236	51,026,236	50,863,736	50,801,236	50,801,236	50,801,236	50,801,236
Average shares outstanding*	51,026,236	51,026,236	51,026,236	50,912,736	50,908,441	50,899,171	50,904,414	50,912,107
Shares outstanding at end of period	51,026,236	51,026,236	51,026,236	51,026,236	50,801,236	50,801,236	50,801,236	50,801,236
Shares outstanding at end of period*	51,026,236	51,044,111	51,026,236	51,089,265	50,913,801	50,910,759	50,900,327	50,901,538

* After dilution. See Note 4 for information regarding warrant programs.

Parent company income statements

SEK thousands	January–March		Full year
	2024	2023	2023
Net sales	17,605	25,845	104,777
Cost of goods sold	-3,800	-10,454	-22,882
Gross profit	13,805	15,390	81,895
Sales costs	-5,656	-11,875	-20,197
Administration costs	-7,363	-7,865	-15,253
Research and development costs	-2,923	-5,938	-24,090
Other operating income and costs	1,207	-551	-4,331
Operating profit	-930	-10,838	18,023
Financial income and costs	1,685	1,912	22,377
Profit after financial items	755	-8,926	40,400
Appropriations (group contributions)	–	–	52,956
Taxes	-155	–	-19,586
Net profit	600	-8,926	73,770
Amortization of intangible assets	-2,018	-1,626	-6,384
Depreciation of tangible assets	-245	-193	-897

Because the parent company has no items to report under Other comprehensive income, no statement of comprehensive income has been prepared.

Condensed parent company balance sheets

SEK thousands	Mar 31, 2024	Mar 31, 2023	Dec 31, 2023
ASSETS			
Non-current assets			
Capitalized expenditure for product development	27,769	21,464	26,697
Other intangible fixed assets	1,163	1,053	1,176
Tangible fixed assets	2,400	1,888	2,484
Participations in group companies	3,133,116	3,188,957	3,133,116
Deferred tax assets	–	7,844	–
Total non-current assets	3,164,448	3,221,206	3,163,473
Current assets			
Inventories	10,056	12,645	8,678
Accounts receivable	11,154	15,272	11,815
Current receivables from group companies	19,212	3,319	101,970
Other current receivables	762	1,559	960
Prepaid expenses and accrued income	5,939	3,713	4,622
Cash and bank position	418,308	288,834	331,041
Total current assets	465,431	325,343	459,086
TOTAL ASSETS	3,629,879	3,546,549	3,622,559
EQUITY AND LIABILITIES			
Equity	3,508,247	3,400,965	3,506,675
Other non-current liabilities	–	150	–
Current provisions	–	80,926	–
Current receivables from group companies	70,411	39,829	68,826
Other current liabilities	51,221	24,678	47,058
Total liabilities and provisions	121,632	145,584	115,884
TOTAL EQUITY AND LIABILITIES	3,629,879	3,546,549	3,622,559

Note 1. Accounting principles

As regards the group, this interim report has been prepared in accordance with the Annual Accounts Act and IAS 34 Interim Financial Reporting and, as regards the parent company, in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Unless stated otherwise below, the accounting principles applied for the group and the parent company are the same as those applied in preparing the most recent annual report.

Disclosures in accordance with IAS 34.16A appear not only in the financial statements and the accompanying notes, but also in other parts of the interim report.

Note 2. Group operating segments

Revenue by business area and revenue stream

SEK thousands	January–March		Full year
	2024	2023	2023
Educational Products	79,125	143,055	518,433
- Simulators, hardware and software	56,629	126,359	451,000
- Service and support revenue	22,496	16,696	67,433
Industry/OEM	109,118	86,022	364,420
- Simulators, hardware and software	34,709	8,389	48,753
- Service and support revenue	2,442	2,384	11,367
- License revenue	63,183	70,603	277,729
- Development revenue	8,784	4,646	26,571
Net sales	188,243	229,077	882,853

Revenue by geographic area

SEK thousands	January–March		Full year
	2024	2023	2023
Educational Products	79,125	143,055	518,433
- Europe	9,032	35,818	121,351
- North and South America	54,335	57,375	234,035
- Asia	12,555	37,831	121,595
- Other	3,203	12,031	41,452
Industry/OEM	109,118	86,022	364,420
- Europe	7,414	6,025	28,086
- North and South America	99,697	77,379	317,936
- Asia	1,919	1,497	14,380
- Other	88	1,121	3,718
Net sales	188,243	229,077	882,853

Note 3. Financial instruments

SEK thousands	Mar 31,	Mar 31,	Dec 31,
	2024	2023	2023
Financial assets	780,209	651,330	756,431
Financial liabilities	183,884	221,657	166,016

The group's financial assets and liabilities are valued at amortized cost, with the exception of the deferred contingent consideration recognized as a liability and measured at fair value. The carrying amount is considered to be a reasonable approximation of the fair value of the group's assets and liabilities in the balance sheet.

Note 4. Warrants program

Warrants 2022_25

Surgical Science's annual general meeting on May 12, 2022 resolved to establish an incentive program for company employees. Each warrant entitles the holder to subscribe for one share in the company for SEK 175.70 during the period June 10 to July 10, 2025. The company subsidizes the warrants program so that participants receive warrants as a benefit. Participants are required to pay tax on this benefit, with the premium being calculated at SEK 28.74 per warrant.

During the period January to March 2024, both the average share price and the closing price as of the balance sheet date fell short of the exercise price for the warrants program. The share price for the rolling 12-month period exceeded the exercise price for the option program, the dilutive effect has been calculated at 8,775 shares. Fully exercised, the incentive program will increase Surgical Science's share capital by SEK 10,000 and the number of shares by 200,000, corresponding to the dilution of the total number of shares and votes by slightly less than 0.4 percent.

Incentive program costs

Preliminarily, the incentive program is estimated to entail social security contributions of SEK 0.9 million, as well as costs of SEK 5.8 million in accordance with the accounting rules under IFRS 2. For January to March 2024, the program has impacted profits negatively by SEK 0.4 million. The amount comprises the IFRS 2 cost attributable to Israel and the US and is distributed across the term of the program until July 2025.

Warrants 2023_26

Surgical Science's annual general meeting on May 17, 2023 resolved to establish an incentive program for company employees. Each warrant entitles the holder to subscribe for one share in the company for SEK 294.70 during the period June 15 to July 15, 2026. The company subsidizes the warrants program so that participants receive warrants as a benefit. Participants are required to pay tax on this benefit, with the premium being calculated at SEK 36.43 per warrant.

Fully exercised, the incentive program will increase Surgical Science's share capital by SEK 13,000 and the number of shares by 260,000, corresponding to the dilution of the total number of shares and votes by about 0.5 percent. As at the balance sheet date of March 31, 2024, the warrants program entailed no dilution.

Incentive program costs

Preliminarily, the incentive program is estimated to entail social security contributions of SEK 0.5 million, as well as costs of SEK 9 million in accordance with the accounting rules under IFRS 2. For January to March 2024, the program has impacted profits negatively by SEK 0.6 million. The amount comprises the IFRS 2 cost attributable to Israel and the US and is distributed across the term of the program until July 2026.

Programs 2022_25 and 2023_26

The board is authorized to adjust the program in response to organizational changes and to specific rules or market conditions in other countries. Most of the company's employees are employed outside Sweden, in the US and in Israel. For tax reasons, these employees are contractually entitled to subscribe for shares (Non-Qualified Stock Options) rather than warrants. In accordance with generally accepted practices in these markets, participants receive these shares free of charge.

Definitions of key figures

Surgical Science believes that the key figures reported facilitate an understanding of the company's financial trends.

EBITDA margin

Operating profit less depreciation, amortization, and impairment of tangible and intangible assets as a percentage of net sales. Over time, this key figure conveys a deeper understanding of the company's profitability.

Equity per share

Reported equity divided by the number of shares outstanding at the end of the period. The key figure gives an idea of how much capital per share is attributable to shareholders.

Average number of shares

The weighted average number of shares outstanding during the period.

Average number of shares after dilution

The weighted average number of shares outstanding during the period, adjusted for any dilution effect from warrants.

Adjusted EBIT margin

Operating profit less depreciation, amortization, and impairment of surplus values related to acquisitions as a percentage of net sales. Over time, this key figure conveys a deeper understanding of the company's profitability.

Average number of employees

The number of employees recalculated as full-time positions per month divided by the number of months in the period.

Net sales growth, %

Percentage change in net sales between two periods. This key figure conveys a view of the sales trend between periods.

Earnings per share

Profit for the period in relation to the weighted average of the number of shares during the period.

Earnings per share after dilution

Earnings after tax per share adjusted for any dilution effect from warrants.

Operating profit

Profit before financial items and tax. This key figure shows the operating profit regardless of the financing structure and tax rate.

Operating margin

Operating profit as a percentage of net sales. Over time, this key figure conveys a deeper understanding of the company's profitability.

Equity/assets ratio

Equity as a percentage of total assets. This key figure conveys a view of the extent to which the total assets have been financed by the owners.

Dividend per share

Dividend for the year divided by the number of shares outstanding on the date of payment of the dividend. Provides a picture of the value per share transferred to shareholders.

Profit margin

Profit for the year as a percentage of net sales. Over time, this key figure conveys a deeper understanding of the company's profitability.

surgicalscience

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