



Sleep Cycle AB (publ) intends to list its shares on Nasdaq Stockholm

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Gothenburg, Sweden - May 19, 2021

Sleep Cycle AB (publ) (“Sleep Cycle” or the “Company”), a market leading sleep tracking application, hereby announces its intention to launch an initial public offering of its shares (the “IPO” or the “Offering”) and to list its shares on Nasdaq Stockholm. The Offering is expected to consist of existing shares in the Company offered by the Selling Shareholders (as defined below) and newly issued shares.

Sleep Cycle was founded in 2009 with a mission to empower people to sleep better to improve global health. Sleep Cycle uses a patented AI-based audio technology to measure users’ sleep and provide personalized insights based on the Company’s sleep database. In 2015, Sleep Cycle launched the world’s first audio-based sleep tracking application and transformed the business model from one-off purchases of the mobile application to a subscription-based revenue model. Sleep Cycle’s market is driven by several long-term trends including increased consumer empowerment and focus on health and wellness, growth of the mobile health market and increasing prevalence of subscription-based applications. Sleep Cycles’ subscription base has seen considerable growth, and with a market share of over 50 percent of the highly fragmented sleep tracking market the application is now the largest one globally^[1].

Carl Johan Hederöth, CEO of Sleep Cycle, comments:

“Since inception in 2009, Sleep Cycle has continuously worked towards its goal of empowering people to sleep better to improve global health. Today, we are the leading sleep tracking platform, with more than 2.1 million monthly active users in over 150 countries globally. With an appreciated product and a business model that has enabled high growth and profitability, we are ready to take the next step in scaling up our product offering as well as accelerate our product development. For these reasons, we have applied for a listing on Nasdaq Stockholm. The listing will strengthen our profile and brand as well as provide new shareholders, including our personnel, with the opportunity to take part in our continued growth journey.”

Lars Berg, Chairman of the Board of Sleep Cycle, comments:

“Sleep Cycle has an impressive history of entrepreneurship, creativity and positive financial development. The Company has during the past years made rapid progress and with a leading market position, competent employees and a stable technical platform, Sleep Cycle is well positioned for the future. There are good prospects for future expansion and growth in Sleep Cycle, supported by global trends within eHealth as well as growing global challenges such as

stress and sleep disorders.”

The Board of Directors and the management team of Sleep Cycle, together with the Selling Shareholders, consider the IPO to be a logical step to strengthen Sleep Cycle’s global brand and increase credibility with potential partners to pursue growth opportunities and remain at the forefront of sleep tracking applications. The IPO will support the Company’s continued growth and provide Sleep Cycle with access to the capital markets, as well as a diversified base of Swedish and international shareholders. The Company also believes that a listing will increase the profile of Sleep Cycle and allow the Company to attract, retain and invest in talented people to achieve Sleep Cycle’s long-term mission. For these reasons, the Board of Directors has applied for listing on Nasdaq Stockholm.

The Company will carry out an issue of new shares as part of the Offering. Sleep Cycle has a history of growth and has since inception developed a comprehensive sleep application and expanded the product offering. Sleep Cycle has an ambition to accelerate growth going forward and is exploring several strategic initiatives such as increased paid subscriber acquisitions, increased reach through partnerships, growing the offering to corporates as well as expanding the product offering further to increase user value. The Company intends to deploy the proceeds received in connection with the Offering over time to support selected new strategic initiatives.

Nasdaq Stockholm's listing committee has made the assessment that the Company fulfils the applicable listing requirements. Nasdaq Stockholm will approve an application for admission to trading of the Company’s shares on Nasdaq Stockholm, provided that certain conditions are fulfilled, including that the Company submits such application and fulfils the distribution requirement. Depending on market conditions, the IPO on Nasdaq Stockholm is expected to be completed in the second quarter 2021.

The Offering in brief

Should the Company proceed with the IPO, the Offering is expected to include the following:

- a public offer to the general public in Sweden; and
- a directed offer to institutional investors in Sweden and other jurisdictions in accordance with applicable laws and exemptions.

The offering to institutional investors will only be made (i) to certain institutional investors outside the United States, pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”); and (ii) in the United States, only to those reasonably believed to be Qualified Institutional Buyers (“**QIBs**”) in reliance on Rule 144A under the U.S. Securities Act and “**qualified purchasers**” as defined under the U.S. Investment Company Act of 1940, as amended (the “**U.S. Investment Company Act**”).

The Offering is expected to consist of newly issued and existing shares in the Company, of which the latter are offered by GLA Invest S A (a company directly controlled by Pierre Siri), MCGA AB and h265 AB (companies directly controlled by Maciek Drejak), and Petter Wallin (the “**Selling Shareholders**”). Immediately prior to the IPO, GLA Invest S A will hold 33 percent of the shares MCGA AB will hold 31 percent of the shares, h265 AB will hold 31 percent of the shares and Petter Wallin will hold 5 percent of the shares in the Company^[2].

Full terms, conditions and instructions for the Offering will be included in the prospectus that will be prepared by the Company in connection with the IPO. The prospectus will, if published, be available on the Company's website at www.sleepcycle.com.

Cornerstone investors

Three cornerstone investors have, subject to certain conditions, undertaken to acquire shares amounting to a total of SEK 150 million in the Offering at an enterprise valuation of up to c.

SEK 1.3bn. The three cornerstone investors are Handelsbanken Fonder, Skandia Fonder AB and E. Öhman J:or AB .

About Sleep Cycle

Sleep Cycle is a market leading sleep tracking application with a mission to empower people to sleep better to improve global health. Sleep Cycle uses a patented AI-based audio technology to measure users' sleep and provide personalized insights based on the Company's sleep database. Sleep Cycle was founded in 2009 and is headquartered in Gothenburg, Sweden.

Sleep Cycle offers a digital subscription service that gives users access to its sleep tracking application and can be accessed on both smartphones and smartwatches. The subscriptions to the application are sold through Apple App Store, Google Play Store, Huawei App Gallery and the Company's website. Sleep Cycle offers both a freemium and premium version of the application. The premium version is accessed through a 12-month subscription and includes broader functionality compared to the freemium version such as expanded sleep tracking and insights features.

As of 31 March 2021, Sleep Cycle had 2.1 million monthly active users and 820 thousand subscribers, with the application available in 13 different languages to users across more than 150 countries. The Company had as of 31 March 2021 28 employees and recorded a net revenue of SEK 163 million during the twelve-month period ended 31 March 2021. Adjusted operating profit (adjusted for items affecting comparability related to development of and preparations linked to future strategic initiatives, as well as the transition to IFRS) amounted to SEK 57 million for the same period, corresponding to an adjusted operating profit margin of 35 percent.

Strengths and competitive advantage

Large market growing at an attractive rate

Sleep is increasingly recognized as the foundation of health and wellness. The increasing interest in sleep has been driven by increased awareness of not only the health risks from sleep deprivation, but also of the physical and cognitive benefits from sufficient sleep. Sleep Cycle's serviceable addressable market value is estimated at SEK 4.9 billion in 2020 and is expected to grow by approximately 19 percent per annum 2020-'25E, according to the Strategy& market report. The growth is primarily driven by increased demand and willingness to pay for digital health services and adoption of subscription-based business models.

Leading global sleep tracking application^[3]

Sleep Cycle is the leading sleep tracking application globally, based on (i) the most comprehensive and highest rated product offering among competitors, (ii) the highest brand awareness compared to core competitors and (iii) a market share of more than 50 percent of the global sleep tracking application market based on estimated net revenue for 2020. 32 percent of survey respondents that use a sleep tracking application were aware of Sleep Cycle, which is 68 percent higher than the closest competitor. The leading market position puts Sleep Cycle in a favorable position to capitalize on the forecasted market growth for sleep tracking applications.

First-mover advantage and network effects

Sleep Cycle has a first-mover advantage in developing an audio-based sleep tracking technology, which combined with a large user base makes it difficult for competitors to dislodge Sleep Cycle's position due to the extensive data requirements. As of 31 March 2021, Sleep Cycle had 2.1 million monthly active users and a large database consisting of more than 480 million nights of sleep data. The technology benefits from significant network effects wherein a higher number of engaged users create more data, which improves user value through increased sleep tracking accuracy and better personalized insights, in turn driving a higher number of engaged users.

Strong growth and high profitability

Sleep Cycle has experienced strong net revenue growth with a CAGR of 31 percent per annum during 2018-'20 and the subscription-based business model allows for high revenue visibility. As of 31 March 2021, Sleep Cycle had 820 thousand subscribers, of which 99 percent are 12-month subscriptions. In 2020, Sleep Cycle recorded a net revenue of SEK 159 million. Sleep Cycle's business model and operational efficiency enable high profitability. The Company's adjusted operating profit amounted to SEK 64 million in 2020, corresponding to an adjusted operating profit margin of 40 percent. The technology is highly accessible and scalable, as the technology can be accessed through a basic smartphone or smartwatch and all processing is undertaken on the device itself. Sleep Cycle has an asset-light business model supported by limited investment needs. Sleep Cycle receives subscription fees upfront, creating favorable net working capital characteristics that drives adjusted operating cash flow and cash conversion, which amounted to SEK 76 million and 118 percent, respectively in 2020.

Growth initiatives

Sleep Cycle has a history of product innovation and growth and has successfully expanded its product from a niche sleep tracking application to a more holistic sleep solution. Sleep Cycle has initiated several strategic initiatives to accelerate growth by increasing reach through marketing and new distribution channels as well as to expand the product offering into adjacent markets. The Company has identified the following key initiatives to drive future growth:

- i. Build on strong organic platform to scale marketing and increase the number of new subscribers;
- ii. Extend product reach through new distribution channels, including partnerships and corporate wellness; and
- iii. Leverage data to expand user value and product offering into mHealth addressing sleep disorder diagnosis, monitoring and treatment.

Entrepreneurial team

Sleep Cycle is an entrepreneurial Company, led by a management team with sector expertise. The Company has a strong culture which is evidenced by an employee net promoter score of 94. The Company has historically achieved low employee turnover by focusing on maintaining a healthy workplace where employees can develop.

Financial information

SEK million	Fiscal year ending Dec 31			Three-month period ending Mar 31	
	2020	2019	2018	2021	2020
Net revenue	159.4	122.7	93.3	42.0	38.1
<i>Net revenue growth</i>	30.0%	31.5%	<i>n.a.</i>	10.2%	30.7%
<i>Currency adjusted net revenue growth</i>	26.9%	<i>n.a.</i>	<i>n.a.</i>	14.4%	24.6%
EBITDA	56.9	52.8	36.9	4.8	18.5
Adjusted EBITDA ^[4]	64.4	52.8	36.9	12.0	18.5
Operating profit	56.2	52.0	36.1	4.7	18.4
Adjusted operating profit [†]	63.7	52.0	36.1	11.8	18.4

<i>Adjusted operating profit margin</i>	40.0%	42.4%	38.7%	28.1%	48.2%
<i>Adjusted operating profit less marketing costs margin</i>	52.3%	53.5%	44.4%	46.5%	52.4%
Net profit for the period	44.0	41.6	26.7	3.7	14.4
Adjusted operating cash flow ⁴	76.2	66.3	58.2	4.4	14.7
<i>Adjusted cash conversion</i>	118.3%	125.6%	157.8%	36.5%	79.2%
Total subscriptions (Thousand)	788	716	619	820	732
ARPU (SEK)	212	184	164	209	211

Financial targets and dividend policy

The Board of Directors of Sleep Cycle has adopted the following financial targets and dividend policy:

- The Company aims to have annual net revenue growth of at least 30 percent adjusted for currency effects, from 2022 and onwards.
- The Company's aims to prioritize growth over profitability and targets an operating profit margin of approximately 20 percent in the medium-term, whereas the long-term operating profit margin shall exceed 30 percent.
- The Company's Board of Director intend to use the cash flow generated for continued investments in growth. The Board of Directors shall each year evaluate the possibility of distributing a dividend, after taking into account the development of the business as well as its operating profit and financial position.

The Company believes that 2020 subscription growth was tempered by COVID-19. Following the decreased annual growth rate of subscribers, the Company believes that 2021 will show lower net revenue growth rate compared to 2020. Furthermore, as the Company recognizes revenue from subscriptions over a twelve-month period, net sales during the fiscal year 2021 largely comprises sales from the fiscal year 2020. The Company further assess that the change in exchange rates during the last twelve months have an adverse effect on the Company's net revenue growth and earnings during 2021 compared to the fiscal year 2020.

In terms of profitability, the Company believes that the 2021 operating profit margin will be impacted by the planned increase in marketing costs, additional operational expenses linked to administrative costs and personnel as part of becoming a listed company, as well as additional staff costs linked to growth initiatives related to sales and product development.

Advisors

Skandinaviska Enskilda Banken AB (publ) and Carnegie Investment Bank AB are acting as Joint Global Coordinators and Joint Bookrunners. Advokatfirman Vinge KB is legal advisor to Sleep Cycle and the Selling Shareholders. White & Case is legal advisor to the Joint Global Coordinators.

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The securities referred to in this announcement have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and accordingly may not be offered or sold in the United States absent registration or an exemption from the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws. The Company does not intend to register any offering in the United States or to conduct a public offering of securities in the United States. Any public offering of securities to be made in the United States will be made by means of a prospectus that will contain detailed information about the Company and its management, as well as financial statements. Copies of this announcement are not being, and should not be, distributed in or sent into the United States.

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^[1] Sleep Cycle is pursuant to the Strategy& market report the leading sleep tracking application globally based on Sleep Cycle’s net revenue relative to total market size in 2020. Sleep Cycle has during 2021 obtained certain market and competitive positioning information from a market report commissioned and paid for by the Company and performed by Strategy& (“**Strategy& market report**”).

^[2] Ownership percentages are excluding dilution effects from outstanding incentive programs.

^[3] Sleep Cycle is pursuant to the Strategy& market report the leading sleep tracking application globally based on Sleep Cycle’s net revenue relative to total market size in 2020.

^[4] Adjusted for items affecting comparability related to development of and preparations linked to future strategic initiatives, as well as the transition to IFRS.

About Sleep Cycle

Sleep Cycle is one of the world's most popular sleep applications and tools for tracking and analyzing sleep habits with more than 2 million active users in more than 150 countries. Using patented sound analysis technology, Sleep Cycle tracks sleep patterns and analyze data about everyday activities and factors affecting sleep quality. The results are presented in easy-to-read graphs and insights. Sleep Cycle offers its users help to fall asleep more easily with a large library of relaxing music, meditations and stories, and wakes its users in the lightest sleep phase, which simulates the feeling of waking up naturally without an alarm clock. Sleep Cycle's headquarter is located in Gothenburg, Sweden and the company's mission is to improve global health through better sleep.