

Update: Report Q3 2018

2018-11-27

ChemoTech: Starting to move

- Treatments are picking up speed; 15 patients treated in September alone
- Indian study results highly supportive of D-EECT protocol
- CE mark delayed until 2019

Responsible analyst

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Stock ticker	CMOTECB
Industry	Medtech
Listed on	Nasdaq First North
Latest stock price (SEK):	17,00
Market cap (MSEK):	49,7
Enterprise Value (MSEK)	40,1
Total number of shares (M):	2,93
- of which free float (M):	2,07

VHCF fair value per share

DCF model 18,20 - 26,70 SEK

Scandinavian ChemoTech AB

Address Baltzarsgatan 25
211 36 Malmö
Webpage chemotech.se
CEO Mohan Frick

Main owners (30 Sep 2018)

Owner	Capital (%)
Mohan Frick	18,1
Göran Hellers	11,2
Martin Jerndal	6,5
Elberna Fastigheter	5,1
John Fällström	5,1
Anders Frick	4,2

Stock price history



	-1m	-3m	-12m
Change (%)	-28,4	33,1	10,4
52 w k range (Hi/Low) - SEK	9,70 / 40,40		

Source: FactSet

Scandinavian ChemoTech AB (publ) ("ChemoTech") recently presented its report for Q3 and the overall picture was one of progress. The company reported that the IQwave™ is being used to treat more patients and that more clinics have started evaluating the product. In India, patients are treated every week at several hospitals. Total treatments have reached a rate of 10-15 patients per month, with the September figure right at the top of that range.

While still modest, the treatment numbers are encouraging. They show that more clinics are getting confident in using the product. By accelerating, they also point towards further growth. We believe that clinics leading the adoption of the IQwave™ will serve as valuable reference cases later.

Also encouraging in the past quarter was the release of a clinical study in India. The study results were published in the scientific journal *Trends in Cancer Research vol 13*, which came out earlier in the autumn. For the study, 23 patients received a total of 38 treatments using ChemoTech's IQwave™ at five different cancer centres. The patients suffered from different kinds of tumours, with skin carcinoma and breast cancer the most common forms. The study concluded that 100 percent of the treated tumours showed either complete or partial responses, meaning a reduction of the tumour volume by 50 percent or more. Overall, the results were better than those achieved with the so-called first-generation electrochemotherapy from which ChemoTech's D-EECT protocol has evolved.

Despite the small number of patients in the study, we think the results are important as they reinforce the view that the IQwave™ does what it is supposed to do.

Table 1: Financial Overview

MSEK	2017	2018e	2019e	2020e	2021e
Net sales	0,0	0,8	9,3	24,4	37,8
Grow th (%)	192,7%	1938,4%	1019,3%	163,4%	54,7%
EBITDA	(8,5)	(4,6)	(11,3)	(6,3)	(1,5)
EBITDA margin (%)	neg	neg	neg	neg	neg
Cash holdings	4,6	6,5	13,1	5,1	1,6
Total assets	12,8	20,1	29,0	23,7	23,5
Interest bearing debt	0,6	0,5	0,5	0,5	0,5
Total equity	10,3	19,5	26,5	18,6	15,8
Solidity (%)	80,1%	97,1%	91,2%	78,6%	67,1%
P/E	neg	neg	neg	neg	neg
ROE	neg	neg	neg	neg	neg
EV/EBITDA (x)	neg	neg	neg	neg	neg
EV/Sales (x)	1 151,0	56,5	5,0	1,9	1,2

Source: Västra Hamnen Corporate Finance

Study makes physicians more open to try

We have yet to see what effect the study may have on ChemoTech's marketing success. When asked about its impact at the teleconference following the Q3 report, CEO Mohan Frick said that the study had been circulated to the several hundred cancer physicians in ChemoTech's network in India. Since the publication, they find it easier to convince new physicians to try the equipment. Physicians in India especially appreciate the fact that the clinical study was performed in their own country. Looking ahead, this should be supportive of the various sales initiatives ongoing in both India and elsewhere.

CE mark revision delayed until Q1

On a less positive note, ChemoTech informed the market earlier this month that the process to achieve a CE mark for the IQwave™ will take longer than anticipated. Previously, the goal was to complete the process by the end of 2018. This target is no longer viable. The company now expects the revision to take place in Q1 2019. As reason for the delay, the company points to the new routines for the CE process which came into effect at the beginning of the year. The changes have forced a rewrite of procedures among both consultancies and advisors as well as the Notified Bodies themselves. In addition, the number of Notified Bodies has gone down, increasing the workload on the ones that remain. Thus the process has become both slower and more unpredictable.

Higher operating costs in near term

Despite the delayed CE mark, all other targets communicated by the company remain unchanged according to ChemoTech. A tangible effect will however be somewhat higher operating costs in the months until the process is complete. ChemoTech reports that the CE process burdens the company with costs related to external consultants and third-party laboratories. Once the CE mark is awarded, it expects its operating cash flow to improve by about 250 kSEK per month.

Other highlights of the past quarter include two orders from its distributor Gold Lite in Myanmar, for a total of 25 kEUR. This is the first business ChemoTech does in the country, with a distributor that was contracted as recently as August. Furthermore, the company reported that the planned clinical study at the University Hospital of Kuala Lumpur, Malaysia, was initiated according to plan. At the end of September, ChemoTech announced that the first two patients had been treated under the study.

Table 2: Estimates vs actual, Q3 2018

kSEK	Q3 '17	Q3 '18e	Q3 '18 actual	Diff
Net Revenues	-	683	125	-558
Other Revenues	560	821	923	102
Total Revenues	560	1 504	1 048	-456
Cost of Goods Sold	-	(722)	(103)	619
Personnel Expenses	(498)	(402)	(335)	67
Other Operating Expenses	(2 184)	(2 118)	(1 158)	960
Total OPEX	(2 682)	(3 242)	(1 596)	1 646
EBITDA	(2 122)	(1 739)	(548)	1 191
Amortisation and Depreciation	(198)	(386)	(288)	98
EBIT	(2 320)	(2 125)	(836)	1 289
Net Financial Items	(24)	(71)	(15)	56
EBT	(2 344)	(2 196)	(851)	1 344
Taxes	-	-	-	-
Net Profit	(2 344)	(2 196)	(851)	1 344
Cash and Equivalents	8 160	11 813	10 154	(1 659)
Total Equity	12 240	20 304	21 591	1 287

Source: Västra Hamnen Corporate Finance

Minor changes to our forecast model

The reported Q3 figures showed a somewhat better net result than we had expected, primarily because of lower than expected operating costs. Operating costs for the quarter totalled MSEK 1.6, about half the level we had expected. This was partially mitigated by

MSEK 0.5 lower revenues than expected. The difference from our forecasts is largely explained by the company capitalising instead of expensing development costs more than we had forecast.

**Cash reserve
MSEK 10.2 at
end of Q3**

Cash flow for the quarter was nevertheless MSEK 1.7 lower than we had forecast. The company thus ended the quarter with a cash reserve of MSEK 10.2 instead of MSEK 11.8 as we had expected. The difference is primarily explained by a reduction in short-term debts by MSEK 4.1.

Looking ahead, we have made some minor adjustments to our forecast model. Given the prolonged process until the CE mark is awarded, we have made a slight upward adjustment to the operating costs for Q4 2018 as well as the first two quarters of 2019.

**Delayed market
rollout in some
countries?**

The delayed CE mark could also have the effect of slowing market rollout in some regions. The company has previously stated that ABEX, its distributor in Malaysia, must await the CE mark before it can register the product for commercial release in the country. Likewise, Med Lab Services who holds the distribution rights for Pakistan, will start marketing the IQwave™ only after the CE mark has been awarded.

At the teleconference following the report, the company reiterated that the goal is to sell eight IQwave™ units this year, which means three more than it has delivered so far. Mohan Frick referred to a number of ongoing sales processes in several countries. He had strong hopes that these efforts would lead to new orders, although the exact timing was hard to pin down, he said.

**We see slightly
lower 2019
EBITDA**

We have nevertheless decided to apply caution and adjust our revenue estimates, given that commercial orders from Malaysia and Pakistan will be barred at least until Q2 2019. Our forecast changes primarily take the form of delayed revenues rather than simply lower revenues. The changes are however rather small. In total, we have lowered our revenue and EBITDA estimates for 2019 to MSEK 10.1 and MSEK -11.3 respectively, compared with our previous estimates of MSEK 11.6 in revenues and MSEK -9.3 in EBITDA.

According to our forecasts, ChemoTech's free cash flow will amount to MSEK -13.4 in 2019, which exceeds the current liquidity reserve. It may be possible for the company to cover some of this shortfall by tapping into short-term debts. It is also possible that sales revenues in 2019 will outstrip our current estimates or that working capital requirements associated with the expansion will undershoot our forecast. Without any of this, we expect the issue of another capital raise to enter the agenda in 2019, probably around mid-year.

**Our fair value
range is un-
changed**

All things considered, we see no drastic changes to the economic scenario we described in our initial report on 5 September 2018. **In terms of valuation, we maintain our indicated fair value range of SEK 18.20 – 26.70 per share.**

Income Statement - Annual Data

kSEK	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Net Revenues	14	41	829	9 277	24 435	37 803	56 890	70 962
Other Revenues	1 727	2 750	3 613	778	1	1	2	2
Total Revenues	1 741	2 791	4 442	10 055	24 437	37 805	56 891	70 964
Cost of Goods Sold	-	-	(254)	(4 998)	(10 307)	(13 819)	(20 751)	(25 782)
Gross Profit	1 741	2 791	4 188	5 057	14 130	23 986	36 140	45 182
Personnel Expenses	(467)	(2 400)	(1 186)	(3 866)	(6 027)	(9 461)	(11 576)	(11 809)
Other Operating Expenses	(4 912)	(8 876)	(7 568)	(10 735)	(12 946)	(14 491)	(15 831)	(16 907)
Development Expenses	-	-	-	(1 765)	(1 448)	(1 568)	(1 697)	(1 837)
EBITDA	(3 638)	(8 486)	(4 567)	(11 308)	(6 292)	(1 533)	7 036	14 629
Amortisation and Depreciation	(28)	(784)	(1 114)	(1 725)	(1 501)	(1 282)	(1 118)	(985)
EBIT	(3 666)	(9 269)	(5 681)	(13 033)	(7 792)	(2 815)	5 918	13 644
Net Financial Items	(54)	(42)	(68)	(39)	(39)	(39)	(39)	(39)
EBT	(3 720)	(9 311)	(5 749)	(13 072)	(7 831)	(2 854)	5 879	13 605
Taxes	-	-	-	-	-	-	-	-
Net Profit	(3 720)	(9 311)	(5 749)	(13 072)	(7 831)	(2 854)	5 879	13 605
Growth (%)								
Net Revenues	na	192,7%	1938,4%	1019,3%	163,4%	54,7%	50,5%	24,7%
EBITDA	na	na	na	na	na	na	na	107,9%
EBIT	na	na	na	na	na	na	na	130,6%
Net Profit	na	na	na	na	na	na	na	131,4%
% of Revenues (%)								
EBITDA Margin	neg	neg	neg	neg	neg	neg	12,4%	20,6%
EBIT Margin	neg	neg	neg	neg	neg	neg	10,4%	19,2%
EBT Margin	neg	neg	neg	neg	neg	neg	10,3%	19,2%
Profit Margin	neg	neg	neg	neg	neg	neg	10,3%	19,2%
COGS	0,0%	0,0%	5,7%	49,7%	42,2%	36,6%	36,5%	36,3%
Personnel Expenses	26,8%	86,0%	26,7%	38,4%	24,7%	25,0%	20,3%	16,6%
Total OPEX	309,0%	404,1%	197,1%	162,8%	83,6%	67,5%	51,2%	43,1%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	27,1%	38,6%
ROIC	neg	neg	neg	neg	neg	neg	29,4%	68,5%
ROCE	neg	neg	neg	neg	neg	neg	21,1%	30,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Inventory	54	38	146	1 244	2 662	4 157	6 093	6 501
Account Receivables	-	0	260	2 219	4 749	7 415	10 868	11 596
Receivables from Subsidiaries	-	3	375	375	375	375	375	375
Other Receivables	917	644	148	155	161	167	174	181
Cash and Cash Equivalents	18 532	4 634	6 500	13 112	5 107	1 634	6 288	20 063
Total Current Assets	19 503	5 319	7 429	17 105	13 054	13 748	23 798	38 716
Property, Plant & Equipment	-	129	119	247	435	726	962	1 155
Non-Current Intangible Assets	4 138	6 362	9 143	8 227	6 788	5 616	4 661	3 883
Non-Current Financial Assets	13	1 033	3 441	3 441	3 441	3 441	3 441	3 441
Total Non-Current Assets	4 151	7 524	12 703	11 915	10 664	9 782	9 064	8 479
Total Assets	23 654	12 844	20 132	29 020	23 718	23 530	32 862	47 195
Total Equity	19 724	10 287	19 543	26 471	18 640	15 786	21 665	35 270
Non-Current Debt	750	447	329	329	329	329	329	329
Total Non-Current Liabilities	750	447	329	329	329	329	329	329
Accounts Payable	2 625	1 014	110	942	2 015	3 146	4 611	4 919
Current Interest-Bearing Debt	-	158	158	158	158	158	158	158
Other Current Liabilities	556	938	150	1 278	2 734	4 269	6 257	6 676
Total Current Liabilities	3 180	2 109	418	2 377	4 907	7 573	11 026	11 754
Total Equity and Liabilities	23 654	12 844	20 290	29 177	23 876	23 688	33 020	47 353

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Annual Data

kSEK	2016	2017	2018e	2019e	2020e	2021e	2022e	2023e
Operating Activities	(3 745)	(8 744)	(5 082)	(11 347)	(6 331)	(1 572)	6 997	14 590
Changes in Working Capital	(1 892)	(943)	(4 921)	(1 105)	(1 424)	(1 501)	(1 942)	(415)
Investing Activities	(2 977)	(4 157)	(6 293)	(937)	(250)	(400)	(400)	(400)
Financing Activities	26 078	(224)	14 945	20 000	-	-	-	-
Cash Flow for the Period	17 465	(14 068)	1 635	6 612	(8 005)	(3 473)	4 655	13 775
Beginning Cash Balance	-	18 532	4 480	6 118	12 730	4 725	1 251	5 906
Ending Cash Balance	18 532	4 480	6 118	12 730	4 725	1 251	5 906	19 681

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018e	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Net Revenues	206	104	125	394	1 024	1 748	3 142	3 363
Other Revenues	805	1 056	923	829	415	208	104	52
Total Revenues	1 011	1 160	1 048	1 223	1 439	1 956	3 246	3 415
Cost of Goods Sold	(231)	(77)	(103)	(74)	(646)	(994)	(1 677)	(1 681)
Gross Profit	780	1 083	945	1 149	793	961	1 569	1 734
Personnel Expenses	(222)	(268)	(335)	(361)	(676)	(906)	(1 139)	(1 144)
Other Operating Expenses	(1 867)	(2 135)	(1 158)	(2 409)	(2 529)	(2 655)	(2 734)	(2 816)
Development Expenses	-	-	-	-	(419)	(526)	(476)	(345)
EBITDA	(1 309)	(1 320)	(548)	(1 620)	(2 831)	(3 126)	(2 779)	(2 571)
Amortisation and Depreciation	(204)	(204)	(288)	(418)	(440)	(440)	(430)	(416)
EBIT	(1 514)	(1 524)	(836)	(2 038)	(3 271)	(3 566)	(3 209)	(2 987)
Net Financial Items	(13)	(31)	(15)	(10)	(10)	(10)	(10)	(10)
EBT	(1 526)	(1 555)	(851)	(2 048)	(3 281)	(3 576)	(3 219)	(2 997)
Taxes	-	-	-	-	-	-	-	-
Net Profit	(1 526)	(1 555)	(851)	(2 048)	(3 281)	(3 576)	(3 219)	(2 997)
Y-o-Y Growth (%)								
Net Revenues	446,2%	na	na	13148,7%	397,3%	1577,6%	2413,8%	754,0%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net Profit	na	na	na	na	na	na	na	na
% of Revenues (%)								
EBITDA Margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT Margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT Margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit Margin	neg	neg	neg	neg	neg	neg	neg	neg
COGS	22,9%	6,7%	9,9%	6,0%	44,9%	50,8%	51,7%	49,2%
Personnel Expenses	22,0%	23,1%	32,0%	29,5%	47,0%	46,3%	35,1%	33,5%
Total OPEX	206,7%	207,1%	142,5%	226,5%	251,9%	209,0%	134,0%	126,1%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018e	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Inventory	38	126	342	146	379	647	1 163	1 244
Account Receivables	-	-	-	260	676	1 154	2 074	2 219
Receivables from Subsidiaries	-	-	375	375	375	375	375	375
Other Receivables	366	927	147	148	150	151	153	155
Cash and Cash Equivalents	1 528	16 977	10 154	6 500	2 980	9 338	15 878	13 112
Total Current Assets	1 932	18 031	11 018	7 429	4 560	11 665	19 642	17 105
Property, Plant & Equipment	117	105	93	119	143	166	207	247
Non-Current Intangible Assets	6 974	7 873	8 727	9 143	9 124	8 899	8 581	8 227
Non-Current Financial Assets	1 746	2 429	3 441	3 441	3 441	3 441	3 441	3 441
Total Non-Current Assets	8 838	10 408	12 262	12 703	12 708	12 505	12 229	11 915
Total Assets	10 770	28 440	23 280	20 132	17 267	24 170	31 871	29 020
Total Equity	8 992	22 500	21 591	19 543	16 263	22 687	29 468	26 471
Non-Current Debt	408	368	329	329	329	329	329	329
Total Non-Current Liabilities	408	368	329	329	329	329	329	329
Accounts Payable	600	158	471	110	287	490	880	942
Current Interest-Bearing Debt	158	3 202	158	158	158	158	158	158
Other Current Liabilities	615	2 211	836	150	389	664	1 194	1 278
Total Current Liabilities	1 373	5 571	1 464	418	834	1 312	2 232	2 377
Total Equity and Liabilities	10 772	28 440	23 384	20 290	17 425	24 327	32 029	29 177

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Quarterly Data

kSEK	Q1 2018	Q2 2018	Q3 2018	Q4 2018e	Q1 2019e	Q2 2019e	Q3 2019e	Q4 2019e
Operating Activities	(1 322)	(1 350)	(779)	(1 630)	(2 841)	(3 136)	(2 789)	(2 581)
Changes in Working Capital	(455)	503	(3 805)	(1 165)	(235)	(270)	(517)	(83)
Investing Activities	(1 517)	(1 775)	(2 142)	(859)	(444)	(237)	(154)	(102)
Financing Activities	(39)	18 068	(98)	-	-	10 000	10 000	-
Cash Flow for the Period	(3 334)	15 446	(6 823)	(3 654)	(3 520)	6 357	6 540	(2 766)
Beginning Cash Balance	4 634	1 528	16 977	10 154	6 500	2 980	9 338	15 878
Ending Cash Balance	1 528	16 977	10 154	6 500	2 980	9 338	15 878	13 112

Source: Västra Hamnen Corporate Finance

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