

Update: Report Q2 2019

2019-08-15

ChemoTech: Pet care getting attention

- Increased focus on veterinary market and progress towards CE mark
- Yet the near-term outlook unlikely to meet our projections
- We lower forecasts and cut valuation range to SEK 15.40 – 23.70 per share

Responsible analyst

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Stock ticker	CMOTECB
Industry	Medtech
Listed on	Nasdaq First North
Latest stock price (SEK):	13,00
Market cap (MSEK):	44,3
Enterprise Value (MSEK)	39,0
Total number of shares (M):	3,41
- of which free float (M):	2,07

VHCF fair value per share

DCF model 15,40 - 23,70 SEK

Scandinavian ChemoTech AB

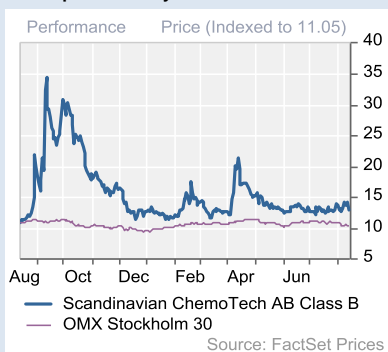
Address Medicon Village
Scheelevägen 2
223 63 Lund

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 (%)	2,0	-6,8	17,6
52 w k range (Low /Hi) - SEK		10,90 / 37,70	

Source: FactSet

ChemoTech released its second quarter report earlier this week. In it, the company described several promising developments, not least its intensified efforts towards the veterinary market. However, we are worried that our near-term projections may have been too optimistic. We therefore reduce our sales estimates for the coming 2-year period, giving the company more room to surprise on the upside. In consequence, we lower our valuation range to SEK 15.40 – 23.70 per share from SEK 17.00 – 25.70.

ChemoTech is a company with several interesting opportunities but it is currently struggling uphill because of delays in getting a CE mark for the IQwave 3.0. This has slowed the commercial development since several of its target countries require a CE mark before approving the equipment. The order intake of SEK 170k during Q2 was below the company's expectations and relates to the lengthy CE process.

The most positive news in the report was about the development of IQwave for veterinary use. The company's efforts are becoming more tangible through the recruitment of a business developer with special focus on this area. Mr Anders Johnsson will start the position at the end of August. The company claims to have reached an advanced stage of development and expects to perform the first test treatments together with veterinaries in Europe around the end of this year.

As we discussed in our research update dated 15 February 2019, global pet cancer therapeutics could be a USD 150 million market and continues to grow fast. Getting a foothold in this market could unlock significant value for ChemoTech, but we find it still too early to weigh the opportunity into our valuation.

Table 1: Financial Overview

MSEK	2018	2019e	2020e	2021e	2022e
Net sales	0,6	2,6	13,7	35,6	62,4
Growth (%)	1277,4%	360,1%	430,3%	160,2%	75,4%
EBITDA	(3,7)	(9,8)	(13,3)	(5,6)	9,8
EBITDA margin (%)	neg	neg	neg	neg	15,6%
Cash holdings	6,8	0,6	4,9	5,9	12,0
Total assets	22,8	16,5	21,9	28,3	40,9
Interest bearing debt	0,4	5,4	5,4	5,4	5,4
Total equity	20,5	10,1	14,1	6,2	13,8
Solidity (%)	89,9%	61,2%	64,5%	21,8%	33,9%
P/E	neg	neg	neg	neg	1,7
ROE	neg	neg	neg	neg	55,4%
EV/EBITDA (x)	neg	neg	neg	neg	4,5
EV/Sales (x)	79,0	17,2	3,2	1,2	0,7

Source: Västra Hamnen Corporate Finance

Two IQwave units delivered to Kenya

As for the company's main business area, tumour treatment in humans, there are some positive developments despite the CE delay. Most importantly, the company has now delivered the two IQwave units to Kenya which were ordered in Q1. Kenya thus looks like a promising market and could be a bridgehead into neighbouring countries.

Moreover, in July, ChemoTech signed an agreement with a new distributor in the Philippines. The agreement included a commercial order, which we take to mean an order for another IQwave unit. If correct, this would double the number of active units in the Philippines to two.

Another two rental units have arrived in India

Lastly in India, ChemoTech has delivered another two IQwave units to its local subsidiary which rents the equipment out to hospitals. Even though ChemoTech retains ownership of the units, the rental business assures increasing sales of disposable treatment kits.

Horizon 2020 application for D-EEPC in preparation

Another interesting opportunity is posed by ChemoTech's development project D-EEPC, which aims to treat pain associated with metastases in the spine. The project could find an attractive market in Europe and North America if it is successful. Commercialisation is still years into the future as no clinical studies have been started yet, and we have therefore not assigned it any value in our valuation of ChemoTech. However, the company has been granted EUR 50k in EU aid to help fund an application for the Horizon 2020 programme, and the company is currently working on its application.

CE mark in Q4?

As mentioned, the CE process is still a barrier to accelerating the commercial rollout of IQwave. The status given by the company is that the final technical file was completed and submitted by ChemoTech during Q2 and that it is awaiting a final revision by the Notified Body. This is in line with the signals given in ChemoTech's Q1 report. We then assessed the process to be finished in Q3 at the earliest. With half of Q3 already gone, Q4 looks more likely if it is to happen this year at all.

We cut sales estimates for India 2020

The delayed CE mark is only part of the reason why we have lowered our economic projections for ChemoTech. We have taken a critical look at our sales projections for the different markets and found that especially for India, we may have been too optimistic given the present facts. Our previous model assumed commercial orders for twelve IQwave units from India during calendar year 2020. We feel this is excessive given the experience so far and have lowered the number to a more manageable eight units. We have also lowered the expected selling prices somewhat for the years 2019-2021, assuming it may be necessary to offer discounts during the early ramp-up period. Our forecasts for 2019 imply a marginally better net result, mainly because recent quarters have shown lower OPEX and higher capitalisation of development costs than we had anticipated. A summary of our model revisions is displayed below.

Table 2: Summary of forecast changes

MSEK	New	Old	Chg
2019e			
Total revenues	6,8	6,1	0,7
EBITDA	(9,8)	(11,4)	1,6
Net profit	(11,7)	(13,4)	1,6
			-
2020e			
Total revenues	14,6	19,8	(5,3)
EBITDA	(13,3)	(9,5)	(3,8)
Net profit	(16,0)	(11,9)	(4,1)
			-
2021e			
Total revenues	35,6	37,3	(1,7)
EBITDA	(5,6)	(2,3)	(3,3)
Net profit	(7,9)	(4,3)	(3,6)

Source: Västra Hamnen Corporate Finance

Looking specifically at the reported Q2 figures, we see no significant deviations from our model forecasts. The biggest discrepancy regards the cash balance at the end of the quarter, but this is easily explained. ChemoTech was granted a SEK 5 million credit facility by a bank earlier this year and we had expected them to draw on the facility during Q2. It appears the facility was still undrawn in Q2, but we expect it to be utilised in Q3 instead.

Table 3: Estimates vs actual, Q2 2019

kSEK	Q2 '18	Q2 '19 est	Q2 '19 act	Diff
Net Revenues	104	800	454	(346)
Other Revenues	1 056	564	1 469	905
Total Revenues	1 160	1 364	1 923	559
Cost of Goods Sold	(77)	(541)	-	541
Personnel Expenses	(268)	(906)	(572)	334
Other Operating Expenses	(2 135)	(2 760)	(3 103)	(343)
Total OPEX	(2 480)	(4 207)	(3 675)	532
EBITDA	(1 320)	(2 843)	(1 752)	1 091
Amortisation and Depreciation	(204)	(487)	(456)	31
EBIT	(1 524)	(3 330)	(2 208)	1 122
Net Financial Items	(31)	(58)	22	80
EBT	(1 555)	(3 388)	(2 186)	1 202
Taxes	-	-	-	-
Net Profit	(1 555)	(3 388)	(2 186)	1 202
Cash and Equivalents	16 977	9 119	5 625	(3 494)
Total Equity	22 500	17 056	17 063	7

Source: Västra Hamnen Corporate Finance

More funding needed

On the subject of liquidity, our current economic projections suggest the current cash reserve including the 5 million credit line will be exhausted around the end of this year. We expect the company to need another SEK 20 million in financing to take it through 2020 and possibly another 5-10 million in early 2021 before it can live off its own funds.

DCF model points to SEK 15.40 – 23.70 per share

The funding situation as well as the lower economic projections cause changes to the fair value interval suggested by our DCF model. We show the most important variables in our model below. Our previous valuation interval was SEK 17.00 – 25.70 SEK per share. **With the updated inputs, we land at a fair value estimate of SEK 15.40 – 23.70 per share.**

Table 4: DCF Model Assumptions

MSEK	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Total revenues	6,8	14,6	35,6	62,4	72,4	73,8	80,0
NOPLAT	(11,8)	(15,6)	(7,5)	8,1	11,9	12,6	15,1
Free Cash Flow	(14,9)	(14,7)	(6,6)	8,7	12,9	13,3	15,7

DCF (MSEK)		Sensitivity Analysis (Value per Share)			
		Prob of Profitability (%)			
		50%	60%	70%	80%
WACC	12,0%	12,0%			
Enterprise Value (EV)	94,3	94,3			
Prob of Profitability	50%	80%			
Risk Adjusted EV	47,1	75,4			
Gross Debt	(0,4)	(0,4)			
Cash Holdings	5,6	5,6			
Fair Value Market Cap	52,4	80,7			
Number of Shares (M)	3,41	3,41			
Fair Value/Share (SEK)	15,40	23,70			

Source: Västra Hamnen Corporate Finance

Income Statement - Annual Data

kSEK	2017	2018	2019e	2020e	2021e	2022e	2023e	2024e
Net Revenues	41	560	2 577	13 664	35 555	62 366	72 357	73 830
Other Revenues	2 750	3 864	4 241	904	17	18	19	20
Total Revenues	2 791	4 425	6 818	14 568	35 573	62 384	72 375	73 849
Cost of Goods Sold	-	(258)	(2 059)	(7 889)	(15 734)	(22 920)	(25 997)	(26 638)
Gross Profit	2 791	4 167	4 758	6 680	19 839	39 464	46 379	47 211
Personnel Expenses	(2 400)	(1 153)	(3 020)	(5 100)	(8 041)	(9 646)	(11 809)	(12 047)
Other Operating Expenses	(8 876)	(6 678)	(11 320)	(12 815)	(15 078)	(17 656)	(18 852)	(18 941)
Development Expenses	-	-	(200)	(2 102)	(2 275)	(2 402)	(2 438)	(2 438)
EBITDA	(8 486)	(3 665)	(9 782)	(13 338)	(5 556)	9 759	13 279	13 785
Amortisation and Depreciation	(784)	(1 152)	(2 015)	(2 243)	(1 943)	(1 656)	(1 423)	(1 234)
EBIT	(9 269)	(4 816)	(11 797)	(15 581)	(7 498)	8 103	11 856	12 551
Net Financial Items	(42)	19	71	(429)	(429)	(429)	(429)	(429)
EBT	(9 311)	(4 797)	(11 726)	(16 010)	(7 928)	7 673	11 427	12 122
Taxes	-	-	(20)	-	-	-	-	-
Net Profit	(9 311)	(4 797)	(11 746)	(16 010)	(7 928)	7 673	11 427	12 122
Earnings per share (SEK)	(6,40)	(2,62)	(3,57)	(3,62)	(1,79)	1,73	2,58	2,74
Growth (%)								
Net Revenues	192,7%	1277,4%	360,1%	430,3%	160,2%	75,4%	16,0%	2,0%
EBITDA	na	na	na	na	na	na	36,1%	3,8%
EBIT	na	na	na	na	na	na	46,3%	5,9%
Net Profit	na	na	na	na	na	na	48,9%	6,1%
% of Revenues (%)								
EBITDA Margin	neg	neg	neg	neg	neg	15,6%	18,3%	18,7%
EBIT Margin	neg	neg	neg	neg	neg	13,0%	16,4%	17,0%
EBT Margin	neg	neg	neg	neg	neg	12,3%	15,8%	16,4%
Profit Margin	neg	neg	neg	neg	neg	12,3%	15,8%	16,4%
COGS	0,0%	5,8%	30,2%	54,1%	44,2%	36,7%	35,9%	36,1%
Personnel Expenses	86,0%	26,1%	44,3%	35,0%	22,6%	15,5%	16,3%	16,3%
Total OPEX	404,1%	177,0%	213,3%	137,4%	71,4%	47,6%	45,7%	45,3%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	55,4%	45,2%	32,4%
ROIC	neg	neg	neg	neg	neg	36,7%	56,5%	61,4%
ROCE	neg	neg	neg	neg	neg	21,9%	23,0%	18,7%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2017	2018	2019e	2020e	2021e	2022e	2023e	2024e
Inventory	38	605	574	1 343	3 816	6 539	6 614	6 912
Account Receivables	0	-	1 024	2 396	6 807	11 665	11 798	12 329
Receivables from Subsidiaries	3	378	-	-	-	-	-	-
Other Receivables	644	550	2 362	2 457	2 557	2 661	2 769	2 882
Cash and Cash Equivalents	4 634	6 763	621	4 852	5 894	11 996	24 263	36 809
Total Current Assets	5 319	8 296	4 580	11 048	19 074	32 862	45 445	58 931
Property, Plant & Equipment	129	71	150	356	661	910	1 112	1 277
Non-Current Intangible Assets	6 362	9 388	11 765	10 453	8 605	7 100	5 875	4 876
Non-Current Financial Assets	1 033	5 053	-	-	-	-	-	-
Total Non-Current Assets	7 524	14 512	11 915	10 809	9 266	8 010	6 987	6 153
Total Assets	12 844	22 808	16 495	21 857	28 340	40 871	52 431	65 084
Total Equity	10 287	20 495	10 103	14 093	6 165	13 838	25 265	37 387
Non-Current Debt	447	289	5 000	5 000	5 000	5 000	5 000	5 000
Total Non-Current Liabilities	447	289	5 000	5 000	5 000	5 000	5 000	5 000
Accounts Payable	1 014	1 207	434	1 016	2 888	4 949	5 005	5 231
Current Interest-Bearing Debt	158	158	368	368	368	368	368	368
Other Current Liabilities	938	659	590	1 379	3 919	6 716	6 793	7 099
Total Current Liabilities	2 109	2 024	1 392	2 764	7 175	12 033	12 166	12 697
Total Equity and Liabilities	12 844	22 808	16 495	21 856	18 340	30 871	42 431	55 084

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Annual Data

kSEK	2017	2018e	2019e	2020e	2021e	2022e	2023e	2024e
Operating Activities	(8 744)	(3 862)	(9 731)	(13 767)	(5 985)	9 330	12 850	13 355
Changes in Working Capital	(943)	(3 761)	(4 632)	(865)	(2 573)	(2 827)	(183)	(410)
Investing Activities	(4 157)	(8 139)	(4 393)	(1 137)	(400)	(400)	(400)	(400)
Financing Activities	(224)	14 905	10 929	20 000	10 000	-	-	-
Cash Flow for the Period	(14 068)	2 129	(7 050)	4 231	1 042	6 102	12 267	12 545
Beginning Cash Balance	18 532	4 634	6 763	621	4 852	5 894	11 996	24 263
Ending Cash Balance	4 634	6 763	621	4 852	5 894	11 996	24 263	36 809

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Net Revenues	125	125	20	454	551	1 551	2 585	4 263
Other Revenues	923	1 081	1 121	1 469	1 031	620	497	398
Total Revenues	1 048	1 206	1 141	1 923	1 582	2 172	3 082	4 661
Cost of Goods Sold	(103)	(77)	-	-	(855)	(1 205)	(1 626)	(2 661)
Gross Profit	945	1 129	1 141	1 923	727	967	1 456	2 000
Personnel Expenses	(335)	(328)	(736)	(572)	(797)	(915)	(1 150)	(1 156)
Other Operating Expenses	(1 158)	(1 519)	(2 745)	(3 103)	(2 633)	(2 839)	(3 001)	(3 188)
Development Expenses	-	-	-	-	-	(200)	(510)	(520)
EBITDA	(548)	(718)	(2 340)	(1 752)	(2 702)	(2 988)	(3 205)	(2 864)
Amortisation and Depreciation	(288)	(455)	(454)	(456)	(539)	(566)	(571)	(570)
EBIT	(836)	(1 173)	(2 794)	(2 208)	(3 241)	(3 554)	(3 776)	(3 433)
Net Financial Items	(15)	77	214	22	(57)	(107)	(107)	(107)
EBT	(851)	(1 096)	(2 580)	(2 186)	(3 299)	(3 661)	(3 883)	(3 541)
Taxes	-	-	(20)	-	-	-	-	-
Net Profit	(851)	(1 096)	(2 600)	(2 186)	(3 299)	(3 661)	(3 883)	(3 541)
Earnings per share (SEK)	(0,29)	(0,37)	(0,89)	(0,64)	(0,97)	(1,08)	(0,88)	(0,80)
Y-o-Y Growth (%)								
Net Revenues	na	4105,9%	(90,3%)	335,7%	341,0%	1141,1%	12826,5%	838,9%
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	9,9%	6,4%	0,0%	0,0%	54,0%	55,5%	52,8%	57,1%
Personnel Expenses	32,0%	27,2%	64,5%	29,7%	50,4%	42,2%	37,3%	24,8%
Total OPEX	142,5%	153,2%	305,1%	191,1%	216,8%	182,1%	151,2%	104,3%
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	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Inventory	342	605	650	658	204	574	957	1 577
Account Receivables	-	-	-	-	364	1 024	1 706	2 813
Receivables from Subsidiaries	375	378	-	-	-	-	-	-
Other Receivables	251	550	2 698	2 315	2 338	2 362	2 385	2 409
Cash and Cash Equivalents	10 154	6 763	7 279	5 625	4 776	621	16 360	12 300
Total Current Assets	11 123	8 296	10 627	8 598	7 681	4 580	21 408	19 099
Property, Plant & Equipment	93	71	67	58	105	150	192	233
Non-Current Intangible Assets	8 727	9 388	10 157	11 219	11 710	11 765	11 694	11 528
Non-Current Financial Assets	3 441	5 053	-	-	-	-	-	-
Total Non-Current Assets	12 262	14 512	10 224	11 277	11 815	11 915	11 887	11 761
Total Assets	23 384	22 808	20 851	19 875	19 496	16 495	33 294	30 861
Total Equity	21 591	20 495	18 944	17 063	13 764	10 103	26 220	22 679
Non-Current Debt	329	289	-	-	5 000	5 000	5 000	5 000
Total Non-Current Liabilities	329	289	-	-	5 000	5 000	5 000	5 000
Accounts Payable	471	1 207	1 498	2 444	154	434	724	1 194
Current Interest-Bearing Debt	158	158	408	368	368	368	368	368
Other Current Liabilities	836	659	-	-	209	590	982	1 620
Total Current Liabilities	1 464	2 024	1 906	2 812	732	1 392	2 074	3 181
Total Equity and Liabilities	23 384	22 808	20 850	19 875	19 496	16 495	33 294	30 860

Source: Västra Hamnen Corporate Finance

Cash Flow Statement - Quarterly Data

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Operating Activities	(779)	(641)	(2 146)	(1 730)	(2 760)	(3 095)	(3 312)	(2 971)
Changes in Working Capital	(3 805)	(5)	(1 565)	116	(2 013)	(393)	(406)	(644)
Investing Activities	(2 142)	(2 705)	(1 142)	(1 508)	(1 077)	(666)	(543)	(444)
Financing Activities	(98)	(40)	4 462	1 467	5 000	-	20 000	-
Cash Flow for the Period	(6 823)	(3 391)	(391)	(1 655)	(850)	(4 155)	15 739	(4 060)
Beginning Cash Balance	16 977	10 154	7 563	7 276	5 625	4 776	621	16 360
Ending Cash Balance	10 154	6 763	7 279	5 625	4 776	621	16 360	12 300

Source: Västra Hamnen Corporate Finance

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