

Update

2019-09-25

## Hövding: A new chapter begins

- Significant product improvements in Hövding 3
- Product launch executed according to schedule
- Eager response from resellers

**Analysts**

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Stock ticker: HOVD  
Industry: Consumer goods  
Listed on: Nasdaq First North  
Latest stock price (SEK): 29,30  
Market cap (MSEK): 652,8  
Enterprise Value (MSEK): 614,6  
Total number of shares (M): 22,28  
- of which free float (M): 11,90

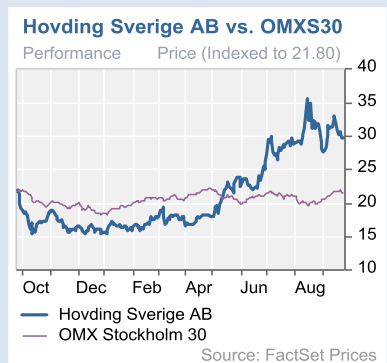
**VHCF fair value per share**  
DCF model 20,10 - 29,30 SEK

**Hövding Sverige AB**  
Address: Bergsgatan 33  
214 22 Malmö  
Webpage: hovding.se  
CEO: Fredrik Carling

**Main owners (31 Jul 2019)**

Owner	Capital (%)
Indigo Capital	21,1
Fosielund Holding AB	16,9
Carl-Olof och Jenz Hamrins Stiftelse	10,3
VH Sweden AB	10,2
Avanza Pension	3,7

### Stock price history



	-1m	-3m	-12m
Change (%)	-4,6	26,8	36,7
52 w k range (Low /Hi) - SEK		15,10 / 38,10	

Source: FactSet

In the past week, the new Hövding 3 was released and this marks a big milestone in the evolution of Hövding as a company. The new Hövding comes with new features that will enhance the user experience and at the same time improve safety for the user.

The new product design of Hövding 3 includes several new features. The most obvious might be that Hövding 3 comes with an adjustable size. This serves more than one purpose. For the user it enables multiple users for one Hövding, for example within a family. From a shipping perspective it reduces and simplifies the shipping, allowing Hövding and its retailers to reduce its working capital employed. It might also benefit the margins of the product due to a more streamlined production and less time allocated to dealing with different sizes throughout the product cycle.

The new generation Hövding comes with a longer lasting battery life (15 h) compared to Hövding 2.0 (9-10 h). Moreover, the new design of Hövding 3 feels more comfortable to the user. Even though Hövding 3 is slightly heavier than the 2.0, the neater design, narrower and more flexible collar adds to make a more comfortable and wearable product. In addition, the opportunity to adjust size enables a better fit, which can be adapted according to season and clothing.

Another key feature is the Hövding mobile app which connects to a smartphone using Bluetooth. This enables several new features both for the user and for Hövding as a company. It is worth highlighting that it is not obligatory to download and use the Hövding app for the new device to work properly.

**Table 1: Financial Overview**

MSEK	2017	2018	2019e	2020e	2021e
Net sales	56,7	92,5	130,0	262,3	369,1
Growth (%)	58,7%	63,2%	40,5%	101,8%	40,7%
Gross margin (%)	21,8%	22,7%	28,7%	28,2%	28,3%
EBIT	(41,0)	(41,5)	(57,6)	(5,7)	22,8
EBIT margin (%)	neg	neg	neg	neg	6,2%
Cash holdings	21,6	66,5	16,1	14,3	33,7
Total assets	58,7	95,7	60,9	92,7	141,4
Total equity	34,4	62,1	4,8	9,1	31,9
Solidity (%)	58,5%	64,9%	7,8%	9,8%	22,5%
P/E	neg	neg	neg	neg	34,2
ROE	neg	neg	neg	neg	71,5%
EV/EBIT (x)	neg	neg	neg	neg	32,5
EV/Sales (x)	13,1	8,0	5,7	2,8	2,0

Source: Västra Hamnen Corporate Finance

**Notifies relatives upon an accident**

One of the main app features is the ICE (In Case of Emergency) function. If enabled, this function will notify chosen phonebook contacts in the event of an accident. The message will also include the position of the accident. The user will have a two-minute window to cancel the message from being sent, if the accident wasn't too severe. We believe that this feature will be especially appreciated by the most security-minded users, e.g. elderly people who have recently started biking (again).

Other features in the new app include statistical data collection about the user's cycling habits, combined with the aggregate cycling habits of all the Hövding 3 users. From Hövding's side, this data collection process holds a value on its own. Hövding has not yet revealed how they plan to use the data, but several uses can be thought of. Lastly, the new app provides a communication channel between Hövding and its users. This channel might be used to increase its direct sales, by pushing notifications upon the users about e.g. new skins that are available. It may also notify the user when there is a new software or firmware update available, allowing for continuous product upgrades.

**Premium packaging elevates product prestige**

Looking at the packaging, it stands clear that Hövding 3 gives the user a more sensory experience compared to its predecessor. With the association to the packaging design of Apple products, the new Hövding 3 gives a clean, simple and direct appearance. The new design also comes with two major benefits. First, the high-end glossy paper is assembled in Sweden, meaning that the company can tailor each package at a late stage in the shipping cycle thus improving the flexibility of the shipping. Secondly, the package is purposely fitted with two differently designed sides. One that displays a minimalistic, yellow finish, and the other that displays a more informative, product enlightening side. This makes Hövding 3 more versatile and attractive for retailers to showcase.

Collectively, we regard the upgrades in version 3 to be substantial. With an unchanged price point towards consumers, the value for money is considerably improved and suggests an opportunity for higher sales figures in coming quarters. Sales in the next few quarters may also benefit from pent-up demand from consumers who have postponed a purchase in anticipation of the new model. In addition, Hövding's sales may see a temporary increase as resellers and distributors buy for inventory, besides what they need to meet current demand.

**A warm welcome from retailers**

Hövding 3 went on sale on 12 September from the company's own web shop. A week later the product was released through resellers, first with the major sports chains and subsequently through a wider network of retailers. The new version appears to receive a warm response from resellers, who are pushing the product through diverse channels such as storefront and instore displays, newsletters and retail events. These activities will be concentrated around launch, first half of October and the Christmas shopping season.

As the product was launched right before the end of Q3, we have assumed a minor contribution from Hövding 3 on Q3 revenues. As noted in our Q2 comment, stocks of version 2.0 were emptying during last quarter and will act as a drag on total sales in Q3. In total, our revenue estimate for Q3 of SEK 22.5 million is unusually uncertain but we maintain it as our best guess. In Q4 we see a more comprehensive boost from the new model, assuming sales totalling SEK 59.7 million, more than a doubling compared with Q4 last year. Our scenario assumes just over 100 percent y/y growth rate even quarters 1 and 2 next year.

**A valuation upgrade is likely if early sales are positive**

We see no reason to revise our sales estimates at this time, as the product launch have so far progressed according to our expectations. As for valuation, our DCF model gives unchanged cash flow estimates before adjusting for risk. One could argue that a successful and timely product launch implies lower overall risk in the investment case. Pitfalls concerning e.g. manufacturing, logistics, certification and retail coordination have been overcome, and these plus a number of unnamed risks are why we risk adjust our DCF output to begin with. However, we would like to get a first impression of sales in the opening weeks before we adjust our valuation span. If they live up to our expectations, we will all else equal lean towards an upgrade after the Q3 report.

## Income Statement - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Net revenues	35 723	56 694	92 536	130 009	262 349	369 106	459 698	528 653
Other revenues	9 615	10 289	2 076	115	126	131	136	141
<b>Total revenues</b>	<b>45 338</b>	<b>66 983</b>	<b>94 612</b>	<b>130 123</b>	<b>262 474</b>	<b>369 237</b>	<b>459 834</b>	<b>528 794</b>
Cost of goods sold	(37 721)	(44 359)	(71 535)	(92 740)	(188 320)	(264 557)	(329 000)	(378 350)
<b>Gross profit</b>	<b>7 617</b>	<b>22 624</b>	<b>23 077</b>	<b>37 384</b>	<b>74 155</b>	<b>104 680</b>	<b>130 834</b>	<b>150 445</b>
Personnel costs	(21 435)	(25 194)	(29 651)	(34 991)	(35 930)	(37 297)	(38 811)	(39 887)
Other external costs	(21 249)	(27 662)	(31 776)	(57 809)	(42 316)	(43 169)	(44 039)	(44 926)
Other operating expenses	(764)	(1 571)	(481)	(465)	(484)	(484)	(484)	(484)
<b>EBITDA</b>	<b>(35 831)</b>	<b>(31 803)</b>	<b>(38 831)</b>	<b>(55 881)</b>	<b>(4 575)</b>	<b>23 731</b>	<b>47 500</b>	<b>65 147</b>
Amortisation & depreciation	(9 417)	(9 227)	(2 656)	(1 685)	(1 087)	(945)	(844)	(761)
<b>EBIT</b>	<b>(45 248)</b>	<b>(41 030)</b>	<b>(41 487)</b>	<b>(57 566)</b>	<b>(5 662)</b>	<b>22 786</b>	<b>46 657</b>	<b>64 386</b>
Net financial items	137	42	7	33	-	-	-	-
<b>EBT</b>	<b>(45 111)</b>	<b>(40 988)</b>	<b>(41 480)</b>	<b>(57 533)</b>	<b>(5 662)</b>	<b>22 786</b>	<b>46 657</b>	<b>64 386</b>
Taxes	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>(45 111)</b>	<b>(40 988)</b>	<b>(41 480)</b>	<b>(57 533)</b>	<b>(5 662)</b>	<b>22 786</b>	<b>46 657</b>	<b>64 386</b>
<b>Earnings per share (SEK)</b>	<b>(5,51)</b>	<b>(2,77)</b>	<b>(2,25)</b>	<b>(2,58)</b>	<b>(0,25)</b>	<b>1,02</b>	<b>2,09</b>	<b>2,89</b>
<b>Growth (%)</b>								
Net revenues	na	58,7%	63,2%	40,5%	101,8%	40,7%	24,5%	15,0%
EBITDA	na	na	na	na	na	na	100,2%	37,2%
EBIT	na	na	na	na	na	na	104,8%	38,0%
Net profit	na	na	na	na	na	na	104,8%	38,0%
<b>% of revenues (%)</b>								
Gross margin	-5,6%	21,8%	22,7%	28,7%	28,2%	28,3%	28,4%	28,4%
EBITDA margin	neg	neg	neg	neg	neg	6,4%	10,3%	12,3%
EBIT margin	neg	neg	neg	neg	neg	6,2%	10,1%	12,2%
EBT margin	neg	neg	neg	neg	neg	6,2%	10,1%	12,2%
Profit margin	neg	neg	neg	neg	neg	6,2%	10,1%	12,2%
Personnel costs	60,0%	44,4%	32,0%	26,9%	13,7%	10,1%	8,4%	7,5%
Total OPEX	121,6%	96,0%	66,9%	71,7%	30,0%	21,9%	18,1%	16,1%
<b>Profitability (%)</b>								
ROE	neg	neg	neg	neg	neg	71,5%	59,4%	45,1%
ROIC	neg	neg	neg	neg	neg	74,0%	131,8%	163,1%
ROCE	neg	neg	neg	neg	neg	30,8%	32,9%	27,9%

Source: Västra Hamnen Corporate Finance

**Balance Sheet - Annual Data**

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Inventories	7 079	12 447	6 013	18 823	34 354	48 262	58 113	66 830
Account receivable	9 159	13 602	13 977	13 072	28 715	40 400	48 719	56 027
Tax receivables	422	599	717	1 193	1 747	2 458	2 964	3 408
Prepaid costs & accrued inco	3 810	5 550	1 175	4 771	6 987	9 831	11 855	13 633
Other receivables	89	1 005	151	1 133	1 660	2 335	2 816	3 238
Cash and cash equivalents	34 082	21 634	66 464	16 081	14 253	33 705	83 101	149 133
<b>Total current assets</b>	<b>54 641</b>	<b>54 837</b>	<b>88 497</b>	<b>55 073</b>	<b>87 716</b>	<b>136 990</b>	<b>207 567</b>	<b>292 270</b>
Tangible assets	930	960	641	709	812	1 032	1 212	1 358
Intangible assets	11 683	2 874	6 526	5 065	4 125	3 360	2 737	2 229
Financial assets	52	52	52	52	52	52	52	52
<b>Total fixed assets</b>	<b>12 665</b>	<b>3 886</b>	<b>7 219</b>	<b>5 826</b>	<b>4 989</b>	<b>4 445</b>	<b>4 001</b>	<b>3 639</b>
<b>Total assets</b>	<b>67 306</b>	<b>58 723</b>	<b>95 716</b>	<b>60 900</b>	<b>92 705</b>	<b>141 435</b>	<b>211 568</b>	<b>295 909</b>
Accounts payable	8 078	10 813	15 001	28 235	41 225	57 914	69 735	80 196
Accrued cost & prepaid incon	7 496	3 196	5 653	11 928	15 722	19 662	23 710	27 267
Other liabilities	987	1 082	557	2 982	4 367	6 144	7 409	8 521
<b>Total current liabilities</b>	<b>16 561</b>	<b>15 091</b>	<b>21 211</b>	<b>43 145</b>	<b>61 314</b>	<b>83 720</b>	<b>100 855</b>	<b>115 983</b>
<b>Other provisions</b>	<b>10 727</b>	<b>9 257</b>	<b>12 371</b>	<b>13 001</b>	<b>22 300</b>	<b>25 837</b>	<b>32 179</b>	<b>37 006</b>
<b>Total equity</b>	<b>40 018</b>	<b>34 375</b>	<b>62 134</b>	<b>4 754</b>	<b>9 092</b>	<b>31 878</b>	<b>78 534</b>	<b>142 920</b>
<b>Total equity and liabilities</b>	<b>67 306</b>	<b>58 723</b>	<b>95 716</b>	<b>60 900</b>	<b>92 705</b>	<b>141 435</b>	<b>211 568</b>	<b>295 909</b>

Source: Västra Hamnen Corporate Finance

**Cash flow statement**

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Operating activities	(26 486)	(33 231)	(35 710)	(55 218)	4 723	27 269	53 842	69 974
Changes in working capital	4 506	(14 114)	17 290	4 975	(16 302)	(7 416)	(4 046)	(3 542)
Investing activities	(1 056)	(447)	(5 966)	(292)	(250)	(400)	(400)	(400)
Financing activities	38 608	35 345	69 239	153	10 000	-	-	-
<b>Cash flow for the period</b>	<b>15 572</b>	<b>(12 447)</b>	<b>44 853</b>	<b>(50 383)</b>	<b>(1 829)</b>	<b>19 452</b>	<b>49 396</b>	<b>66 032</b>
Beginning cash balance	18 696	34 082	21 634	66 464	16 081	14 253	33 705	83 101
Adjustments	(186)	(1)	(23)	-	-	-	-	-
<b>Ending cash balance</b>	<b>34 082</b>	<b>21 634</b>	<b>66 464</b>	<b>16 081</b>	<b>14 253</b>	<b>33 705</b>	<b>83 101</b>	<b>149 133</b>

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	29 777	29 349	19 640	28 229	22 500	59 640	43 106	60 076
Other revenues	93	136	24	30	30	31	31	31
<b>Total revenues</b>	<b>29 870</b>	<b>29 485</b>	<b>19 664</b>	<b>28 259</b>	<b>22 530</b>	<b>59 670</b>	<b>43 137</b>	<b>60 107</b>
Cost of goods sold	(23 683)	(21 535)	(13 477)	(20 122)	(16 200)	(42 941)	(30 943)	(43 124)
<b>Gross profit</b>	<b>6 187</b>	<b>7 950</b>	<b>6 187</b>	<b>8 137</b>	<b>6 330</b>	<b>16 730</b>	<b>12 195</b>	<b>16 983</b>
Personnel costs	(6 887)	(8 243)	(8 527)	(8 808)	(8 741)	(8 915)	(8 915)	(8 915)
Other external costs	(6 176)	(9 771)	(8 936)	(17 100)	(15 804)	(15 970)	(10 500)	(10 553)
Other operating expenses	107	(40)	(102)	(121)	(121)	(121)	(121)	(121)
<b>EBITDA</b>	<b>(6 769)</b>	<b>(10 104)</b>	<b>(11 378)</b>	<b>(17 892)</b>	<b>(18 335)</b>	<b>(8 276)</b>	<b>(7 342)</b>	<b>(2 605)</b>
Amortisation & depreciation	(535)	(1 082)	(531)	(538)	(315)	(301)	(289)	(277)
<b>EBIT</b>	<b>(7 304)</b>	<b>(11 186)</b>	<b>(11 909)</b>	<b>(18 430)</b>	<b>(18 649)</b>	<b>(8 578)</b>	<b>(7 631)</b>	<b>(2 882)</b>
Net financial items	19	28	32	1	-	-	-	-
<b>EBT</b>	<b>(7 285)</b>	<b>(11 158)</b>	<b>(11 877)</b>	<b>(18 429)</b>	<b>(18 649)</b>	<b>(8 578)</b>	<b>(7 631)</b>	<b>(2 882)</b>
Taxes	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>(7 285)</b>	<b>(11 158)</b>	<b>(11 877)</b>	<b>(18 429)</b>	<b>(18 649)</b>	<b>(8 578)</b>	<b>(7 631)</b>	<b>(2 882)</b>
<b>Earnings per share (SEK)</b>	<b>(0,46)</b>	<b>(0,50)</b>	<b>(0,53)</b>	<b>(0,83)</b>	<b>(0,84)</b>	<b>(0,38)</b>	<b>(0,34)</b>	<b>(0,13)</b>
<b>Y-o-Y Growth (%)</b>								
Net revenues	101,3%	36,9%	138,9%	12,1%	(24,4%)	103,2%	119,5%	112,8%
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
<b>% of revenues (%)</b>								
Gross margin	20,5%	26,6%	31,4%	28,7%	28,0%	28,0%	28,2%	28,2%
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
Personnel costs	23,1%	28,1%	43,4%	31,2%	38,8%	14,9%	20,7%	14,8%
Total OPEX	43,5%	61,5%	89,4%	92,2%	109,6%	41,9%	45,3%	32,6%
<b>Profitability (%)</b>								
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
Inventories	9 203	6 013	7 594	2 051	8 877	18 823	18 650	23 630
Account receivable	14 040	13 977	5 974	12 953	7 397	13 072	16 534	19 751
Tax receivables	607	717	447	556	450	1 193	862	1 202
Prepaid costs & accrued inco	723	1 175	1 152	717	1 800	4 771	3 449	4 806
Other receivables	579	151	936	809	428	1 133	819	1 141
Cash and cash equivalents	84 681	66 464	53 332	38 246	16 327	16 081	11 916	12 855
<b>Total current assets</b>	<b>109 833</b>	<b>88 497</b>	<b>69 435</b>	<b>55 332</b>	<b>35 278</b>	<b>55 073</b>	<b>52 230</b>	<b>63 385</b>
Tangible assets	776	641	759	678	694	709	724	738
Intangible assets	7 438	6 526	6 069	5 612	5 331	5 065	4 812	4 571
Financial assets	52	52	52	52	52	52	52	52
<b>Total fixed assets</b>	<b>8 266</b>	<b>7 219</b>	<b>6 880</b>	<b>6 342</b>	<b>6 078</b>	<b>5 826</b>	<b>5 588</b>	<b>5 361</b>
<b>Total assets</b>	<b>118 099</b>	<b>95 716</b>	<b>76 315</b>	<b>61 674</b>	<b>41 356</b>	<b>60 900</b>	<b>57 818</b>	<b>68 746</b>
Accounts payable	22 382	15 001	8 807	11 313	12 427	28 235	25 432	33 081
Accrued cost & prepaid incon	8 214	5 653	5 493	6 079	4 500	11 928	7 759	10 814
Other liabilities	1 751	557	555	908	1 125	2 982	2 155	3 004
<b>Total current liabilities</b>	<b>32 347</b>	<b>21 211</b>	<b>14 855</b>	<b>18 300</b>	<b>18 052</b>	<b>43 145</b>	<b>35 347</b>	<b>46 899</b>
<b>Other provisions</b>	<b>12 460</b>	<b>12 371</b>	<b>11 203</b>	<b>11 393</b>	<b>9 972</b>	<b>13 001</b>	<b>15 347</b>	<b>17 606</b>
<b>Total equity</b>	<b>73 292</b>	<b>62 134</b>	<b>50 257</b>	<b>31 981</b>	<b>13 332</b>	<b>4 754</b>	<b>7 124</b>	<b>4 241</b>
<b>Total equity and liabilities</b>	<b>118 099</b>	<b>95 716</b>	<b>76 315</b>	<b>61 674</b>	<b>41 356</b>	<b>60 900</b>	<b>57 818</b>	<b>68 746</b>

Source: Västra Hamnen Corporate Finance

**Cash flow statement**

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Operating activities	(4 403)	(10 165)	(12 514)	(17 701)	(19 756)	(5 247)	(4 995)	(347)
Changes in working capital	12 491	(8 017)	(426)	2 462	(2 113)	5 052	(9 120)	1 336
Investing activities	(257)	(35)	(192)	-	(50)	(50)	(50)	(50)
Financing activities	69 239	-	-	153	-	-	10 000	-
<b>Cash flow for the period</b>	<b>77 070</b>	<b>(18 217)</b>	<b>(13 132)</b>	<b>(15 086)</b>	<b>(21 919)</b>	<b>(245)</b>	<b>(4 165)</b>	<b>939</b>
Beginning cash balance	7 611	84 681	66 464	53 332	38 246	16 327	16 081	11 916
Adjustments	-	-	-	-	-	-	-	-
<b>Ending cash balance</b>	<b>84 681</b>	<b>66 464</b>	<b>53 332</b>	<b>38 246</b>	<b>16 327</b>	<b>16 081</b>	<b>11 916</b>	<b>12 855</b>

Source: Västra Hamnen Corporate Finance

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