

Update: Report Q4 2019

2020-02-27

Heliospectra: Poor sales, strong orders

- Sales in Q4 was the lowest in years
- However, sales may fluctuate more as the company targets bigger customers
- Added uncertainty makes us lower our valuation range

Analysts

Aif Riple, CFA
073-840 4008
aif.riple@vhcorp.se

Pascal Dettwiler
073-332 1473
pascal.dettwiler@vhcorp.se

Stock ticker: HELIO
Industry: Electrical equipment
Listed on: Nasdaq First North
Latest stock price (SEK): 5,32
Market cap (MSEK): 298,9
Enterprise Value (MSEK): 253,8
Total number of shares (M): 56,18
- of which free float (M): 21,10

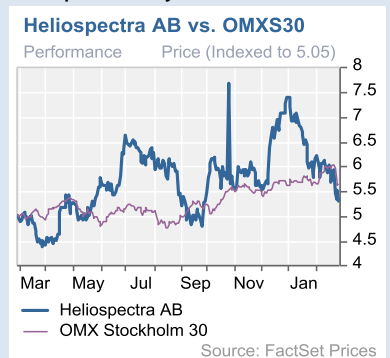
VHCF fair value per share
DCF model SEK 5,50 - 8,30

Heliospectra AB
Address: Fiskhammsgatan 2
414 58 Göteborg
heliospectra.com
Webpage:
CEO: Ali Ahmadian

Main owners (31 Dec 2019)

Company	Capital (%)
Weland Värdepapper AB	22,5
Weland Stål AB	16,5
ADMA Förvaltnings AB	12,4
Midroc New Technology AB	11,5
Avanza Pension	3,9

Stock price history



	-1m	-3m	-12m
Change (%)	-12,5	-5,7	5,4
52 w k range (Low /Hi) - SEK	4,36 / 8,31		

Source: FactSet

Heliospectra presented its full-year result last week and two issues immediately caught our attention. First, net sales for Q4 came in at only SEK 2.8 million, nearly SEK 13 million lower than our forecast. Second, the company has not yet received the expected down payment from Nectar Farms in Australia, meaning that their blockbuster order totalling SEK 72 million is postponed. This adds uncertainty.

The disappointing revenue drop may not be so dramatic, however. The company has said that the change in product strategy in 2019 would give access to new sorts of customers, whose orders may take longer to secure but would compensate by being bigger. A reasonable interpretation is that sales and orders may vary between quarters more than before. The massive order intake of SEK 97 million in the past quarter appears to support the validity of this claim.

The lion's share of that order reserve is the postponed order from Nectar Farms. We regarded the order as somewhat risky to begin with, and the present delay does nothing to assuage our concern. But the remaining SEK 25 million of new orders is still a good baseline going into 2020.

The added uncertainty around the fate of the Australian order and the surprising revenue drop in Q4 compels us to review our forecasts. We have decided to proceed with caution and push the expected acceleration of revenues further into the future. In our DCF model, the implication is a lowering of our fair value range for the stock to SEK 5.50 – 8.30, compared with our previous range of SEK 6.70 – 10.50. We are however prepared to reverse this change quickly if the Australian order goes through as planned or if additional major orders prove our revenue forecast inappropriate.

Table 1: Financial Overview

MSEK	2 018	2 019	2020e	2021e	2022e
Total revenues	46,0	26,8	86,8	155,5	261,1
Growth (%)	25,1%	(41,6%)	223,4%	79,1%	67,9%
EBITDA	(30,5)	(47,7)	(27,8)	(8,6)	19,2
EBITDA margin (%)	neg	neg	neg	neg	7,4%
EBT	(33,3)	(51,7)	(31,4)	(12,8)	14,7
Cash holdings	11,2	54,2	13,0	5,7	9,6
Total assets	40,2	94,0	68,0	83,3	128,6
Total equity	15,2	60,7	29,3	31,6	46,2
Solidity (%)	37,9%	64,6%	43,1%	37,9%	35,9%
P/E	neg	neg	neg	neg	19,9
ROE	neg	neg	neg	neg	31,7%
EV/EBIT (x)	neg	neg	neg	neg	16,7
EV/Sales (x)	5,4	9,2	2,8	1,6	0,9

Source: Västra Hamnen Corporate Finance

Disappointing drop in sales

The sales figure in Q4 really stood out in comparison with recent quarters. As illustrated in Figure 1, it is the lowest quarterly sales reported in the last four years. Not only that, it extrapolates on a negative trend that has been noticeable since Q3 2018. We would be very worried if it was not for a couple of mitigating factors.

MITRA gives access to bigger customers

First, during 2019 Heliospectra made a strategic shift that represents significant risk but also opens unprecedented opportunities. It was made in response to the painful recognition that while their product portfolio was among the most advanced on the market, it was not well suited for large customer groups who wanted cost effectiveness and light intensity first and foremost. The launch of the MITRA series last year was an attempt to meet the demands of these customer groups. The customer segment includes operators of large industrial glasshouse facilities who often look to equip tens of thousands of square meters of grow area with a single order. For Heliospectra, it opens opportunities for much larger order sizes than it has enjoyed in the past. However, these large orders take time and may occur at irregular intervals, meaning quarter-to-quarter sales variability could become significant going forward.

Figure 1: Net sales and orders



Source: Heliospectra, Västra Hamnen Corporate Finance

Order intake in Q4 far outsizes recent sales

Second, the disappointing sales were partly compensated by the massive increase in order intake in Q4. Heliospectra announced several orders during the quarter, of which the most notable was the SEK 72 million order from Nectar Farms in Australia and the 12 million order from Bridge Farm Group in the UK. In total, Heliospectra counted new orders for a total of SEK 97 million in the quarter. The contrast with previous quarters is striking, as illustrated in Figure 1. When compared with the quarterly sales figures (note the different scales on the two axes), the jump in orders makes the quarterly sales variability seem inconsequential. It should also be noted that both two major orders were for the MITRA lights, which seems to verify the strategic shift mentioned above.

The reason we say that the orders only “partly” compensated for the disappointing sales in Q4, is to do with the delay in initiating the Nectar Farms order. Heliospectra was supposed to receive a down payment of half the SEK 72 million during Q4 2019. Only after receipt of these funds would production of the order commence. The payment did not arrive, and the explanation given is that Nectar Farms has yet to secure financing for their project. Heliospectra stresses that this does not mean the project is off, only that it will be delayed “a few months”.

Postponement means increased risk around the order

As we wrote in our last update, we see some risk surrounding the Nectar Farms order. Heliospectra’s insistence on a 50 percent down payment suggests that it also regards the customer as risky. The present delay adds to our concern, given that a project that has been postponed once has a higher risk of being postponed again, and for unknown stretches of time. We have therefore moved the expected cash flow from this order several quarters forward, see further details below.

We have already mentioned our significant overestimation of revenues in the last reported quarter, see Table 2 below. With lower turnover came lower cost of goods, but the operating expenses were somewhat higher than we expected. In total, the net result fell SEK 9.6 million short of our estimate with the reported net loss of SEK 18.5 million.

Cash balance SEK 21M lower than expected

This was a significant drain on the company's cash reserves, which were topped up as recently as December in the latest rights issue. The cash holdings at year-end stood at SEK 54.2 million, which was 21.3 million less than we expected. The net loss was only part of the reason. In addition, changes in working capital contributed SEK 8.1 million less to the period's cash flow than we had forecast. The difference is explained by a combination of the missing down payment from Nectar Farms and a higher than expected inventory level, mitigated by higher than expected increase in short-term liabilities.

Table 2: Estimates vs actual, Q4 2019

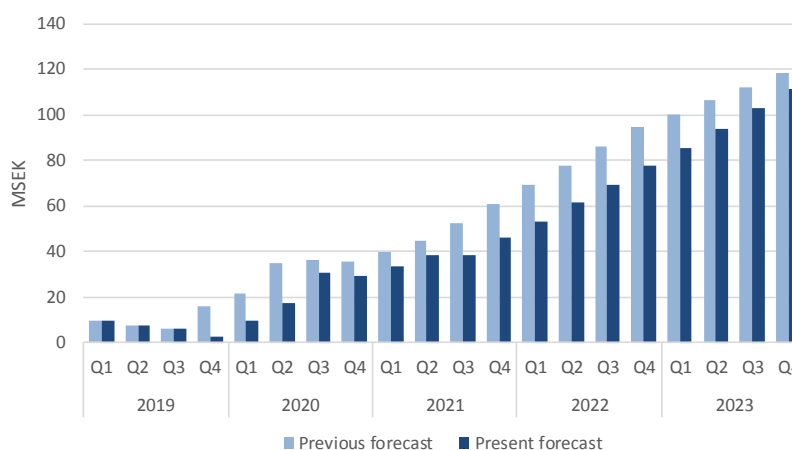
kSEK	Q4 '18	Q4 '19e	Q4 '19 act	Diff
Net Revenues	11 083	15 598	2 784	(12 814)
Other Revenues	25	0	150	150
Total Revenues	11 108	15 598	2 934	(12 664)
Cost of Goods Sold	(7 598)	(9 071)	(1 619)	7 452
Personnel Expenses	(7 595)	(7 688)	(9 552)	(1 864)
Other Operating Expenses	(7 200)	(6 919)	(9 309)	(2 390)
Total OPEX	(22 393)	(23 679)	(20 480)	3 199
EBITDA	(11 285)	(8 081)	(17 546)	(9 465)
Amortisation and Depreciation	(735)	(810)	(956)	(146)
EBIT	(12 020)	(8 891)	(18 502)	(9 611)
Net Financial Items	(10)	(23)	(11)	12
EBT	(12 030)	(8 914)	(18 513)	(9 599)
Net Profit	(12 030)	(8 914)	(18 513)	(9 599)
Cash and Equivalents	11 165	75 505	54 243	(21 262)
Total Equity	15 207	74 032	60 687	(13 345)

Source: Västra Hamnen Corporate Finance

We push revenues into the future due to uncertainty

No matter how well the strategic shift explains the poor result in Q4, we feel that in combination with the uncertainty around the Australian order it would be prudent to make some changes to our forecast model. Primarily, we have pushed out the timing of the Nectar Farms order so that the down payment appears in Q2 this year and the revenue occurs between quarters Q3 2020 and Q2 2021. We risk-adjust the size of the order just as we did in our previous forecast. We have not risk-adjusted the other major order (from Bridge Farm) and have included this revenue in Q2 and Q3 2020. Apart from that, we have pushed forward the pace of market penetration in both the Food Grower and AgTech market segments, to reflect the uncertainty. The eventual magnitude of sales is not affected, only the timing. A comparison of our present and previous sales forecasts is shown in Figure 2 below.

Figure 2: Net Sales, present and previous forecast



Source: Heliospectra, Västra Hamnen Corporate Finance

The present forecast means that we risk undershooting sales in 2020 if the Nectar Farms order goes through this year as planned. We will therefore be on high alert to possibly reverse our forecast downgrade if this scenario plays out.

Fate of Australian order decides Heliospectra's financing needs

The fate of the Nectar Farms order could also have implications for the future financing needs of the company. In our present model, we have risk adjusted the order to nearly half of its value, which if it were to play out would imply a financing need of about SEK 15 million around mid-year 2021. For the sake of our model we have pencilled in an equity issue to fill that gap. On the other hand, if the order is completed in full before mid-year 2021 this financing need disappears, and no further equity issues are needed.

The forecast changes impact our valuation model since profits in all the near-term periods have been lowered. A summary of our DCF model inputs are shown in Table 3 below.

Table 3: DCF model assumptions

MSEK	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Total revenues	86,8	155,5	261,1	393,8	505,9	589,6	657,9	723,4
EBIT	(31,3)	(12,7)	14,8	49,0	82,1	108,5	129,6	149,7
EBIT margin	-36,0%	-8,1%	5,7%	12,5%	16,2%	18,4%	19,7%	20,7%
Adj. Taxes	-	-	-	-	-	-	(24,0)	(32,0)
NOPLAT (= EBIT - tax)	(31,3)	(12,7)	14,8	49,0	82,1	108,5	105,6	117,7
Depreciation	3,5	4,0	4,5	4,8	5,1	5,4	5,5	5,7
Capex + Working cap	(13,2)	(13,5)	(15,2)	(10,1)	(4,6)	(6,1)	(7,3)	(8,3)
Net cash flow	(40,9)	(22,2)	4,0	43,7	82,6	107,8	103,8	115,1

DCF (MSEK)	
WACC	16,0% 16,0%
Enterprise value (EV)	530,8 530,8
Prob of profitability	50% 80%
Risk adjusted EV	265,4 424,6
Warrants	(0,8) (0,8)
Net cash (= cash - debt)	45,0 45,0
Fair value market cap	309,7 468,9
Diluted no of shares (M)	56,18 56,18
Fair value/share (SEK)	5,50 8,30

Sensitivity analysis (value per share, SEK)					
Prob of profitability					
		50%	60%	70%	80%
WACC	20%	3,90	4,50	5,10	5,70
	18%	4,60	5,30	6,10	6,80
	16%	5,50	6,50	7,40	8,30
	14%	6,80	8,00	9,30	10,50
	12%	8,80	10,40	12,00	13,60

Source: Västra Hamnen Corporate Finance

We lower valuation range to SEK 5.50 - 8.30 per share

With the present model input our DCF model points to a lower fair value interval for the stock than before. **We lower our valuation interval to SEK 5.50 – 8.30 per share, from previously SEK 6.70 – 10.50 per share.** As noted above, this is in response to the increased uncertainty and we recognise the possibility of both better and worse outcomes. A full delivery of the large Australian order could be all that is needed for us to revise our valuation up again.

Income Statement - Annual Data

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Net revenues	45 370	25 530	86 801	155 498	261 099	393 777	505 947	589 598
Other revenues	615	1 310	-	-	-	-	-	-
Total revenues	45 985	26 840	86 801	155 498	261 099	393 777	505 947	589 598
Cost of goods sold	(30 057)	(14 555)	(52 737)	(95 146)	(163 137)	(249 439)	(320 003)	(371 250)
Personnel costs	(23 854)	(33 873)	(32 541)	(36 314)	(41 448)	(47 620)	(51 983)	(55 015)
Other external costs	(22 481)	(25 627)	(29 287)	(32 683)	(37 303)	(42 858)	(46 784)	(49 514)
Other operating expenses	(120)	(496)	-	-	-	-	-	-
EBITDA	(30 527)	(47 711)	(27 763)	(8 646)	19 211	53 859	87 178	113 818
Amortisation & depreciation	(2 725)	(3 832)	(3 528)	(4 015)	(4 458)	(4 818)	(5 112)	(5 351)
EBIT	(33 252)	(51 543)	(31 291)	(12 661)	14 754	49 041	82 066	108 468
Financials, net	(52)	(133)	(90)	(90)	(90)	(90)	(90)	(90)
EBT	(33 304)	(51 676)	(31 381)	(12 751)	14 664	48 951	81 976	108 378
Taxes	-	-	-	-	-	-	-	-
Net profit	(33 304)	(51 676)	(31 381)	(12 751)	14 664	48 951	81 976	108 378
Earnings per share (SEK)	(1,30)	(1,11)	(0,57)	(0,22)	0,25	0,84	1,41	1,86
Growth (%)								
Net revenues	na	na	na	na	na	na	na	na
EBITDA	na	na	na	na	na	180,4%	61,9%	30,6%
EBIT	na	na	na	na	na	232,4%	67,3%	32,2%
Net profit	na	na	na	na	na	233,8%	67,5%	32,2%
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	7,4%	13,7%	17,2%	19,3%
EBIT margin	neg	neg	neg	neg	5,7%	12,5%	16,2%	18,4%
EBT margin	neg	neg	neg	neg	5,6%	12,4%	16,2%	18,4%
Profit margin	neg	neg	neg	neg	5,6%	12,4%	16,2%	18,4%
Personnel costs	52,6%	132,7%	37,5%	23,4%	15,9%	12,1%	10,3%	9,3%
Total OPEX	102,4%	235,0%	71,2%	44,4%	30,2%	23,0%	19,5%	17,7%
Profitability (%)								
ROE	neg	neg	neg	neg	31,7%	51,4%	46,3%	38,0%
ROIC	neg	neg	neg	neg	25,4%	75,8%	128,1%	167,0%
ROCE	neg	neg	neg	neg	21,0%	37,0%	34,7%	28,9%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Inventories	5 499	15 931	11 746	18 442	31 981	46 511	56 368	63 838
Short term receivables	6 869	7 150	24 122	37 640	63 539	91 560	111 649	126 896
Cash and cash equivalents	11 165	54 243	12 997	5 733	9 612	53 266	135 762	243 435
Total current assets	23 533	77 324	48 866	61 814	105 132	191 337	303 778	434 168
Tangible assets	1 309	2 125	2 844	3 800	4 579	5 214	5 731	6 152
Intangible assets	15 316	14 548	16 301	17 729	18 893	19 840	20 612	21 240
Total fixed assets	16 625	16 673	19 145	21 530	23 472	25 054	26 342	27 392
Total assets	40 158	93 997	68 011	83 344	128 604	216 391	330 121	461 560
Accounts payable	6 035	-	9 493	17 126	29 365	44 899	57 600	66 825
Short term liabilities	8 566	24 110	20 239	25 689	44 047	67 349	86 401	100 238
Total current liabilities	14 601	24 110	29 732	42 816	73 412	112 248	144 001	167 063
Long term liabilities	9 800	9 200	8 973	8 973	8 973	8 973	8 973	8 973
Other provisions	550	-	-	-	-	-	-	-
Total equity	15 207	60 687	29 306	31 555	46 219	95 170	177 147	285 525
Total equity and liabilities	40 158	93 997	68 011	83 344	128 604	216 391	330 121	461 560

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Operating activities	(30 359)	(47 776)	(27 853)	(8 736)	19 122	53 769	87 088	113 729
Changes in working capital	4 771	(1 754)	(7 166)	(7 129)	(8 843)	(3 715)	1 807	345
Investing activities	(3 280)	(4 066)	(6 000)	(6 400)	(6 400)	(6 400)	(6 400)	(6 400)
Financing activities	(600)	96 647	(227)	15 000	-	-	-	-
Cash flow for the period	(29 468)	43 078	(41 246)	(7 264)	3 879	43 654	82 495	107 674
Beginning cash balance	40 633	11 165	54 243	12 997	5 733	9 612	53 266	135 762
Ending cash balance	11 165	54 243	12 997	5 733	9 612	53 266	135 762	243 435

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Net revenues	9 657	7 087	6 002	2 784	9 730	17 036	30 687	29 349
Other revenues	-	151	1 009	150	-	-	-	-
Total revenues	9 657	7 238	7 011	2 934	9 730	17 036	30 687	29 349
Cost of goods sold	(5 352)	(3 719)	(3 865)	(1 619)	(5 305)	(10 218)	(19 350)	(17 864)
Personnel costs	(6 801)	(7 891)	(9 629)	(9 552)	(7 934)	(7 954)	(8 202)	(8 451)
Other external costs	(6 036)	(5 845)	(4 815)	(8 931)	(7 141)	(7 159)	(7 382)	(7 606)
Other operating expenses	50	(235)	67	(378)	-	-	-	-
EBITDA	(8 482)	(10 452)	(11 231)	(17 546)	(10 650)	(8 295)	(4 246)	(4 571)
Amortisation & depreciation	(947)	(959)	(970)	(956)	(834)	(867)	(899)	(929)
EBIT	(9 429)	(11 411)	(12 201)	(18 502)	(11 484)	(9 162)	(5 145)	(5 500)
Financials, net	(54)	(50)	(18)	(11)	(23)	(23)	(22)	(22)
EBT	(9 483)	(11 461)	(12 219)	(18 513)	(11 507)	(9 184)	(5 167)	(5 522)
Taxes	-	-	-	-	-	-	-	-
Net profit	(9 483)	(11 461)	(12 219)	(18 513)	(11 507)	(9 184)	(5 167)	(5 522)
Earnings per share (SEK)	(0,27)	(0,24)	(0,26)	(0,33)	(0,21)	(0,17)	(0,09)	(0,10)
Y-o-Y Growth (%)								
Net revenues	na	na	na	na	na	na	na	na
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
Personnel costs	70,4%	111,3%	160,4%	343,1%	81,5%	46,7%	26,7%	28,8%
Total OPEX	132,4%	197,1%	239,5%	677,5%	154,9%	88,7%	50,8%	54,7%
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 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Inventories	5 928	11 939	11 010	15 931	8 000	6 719	12 723	11 746
Short term receivables	7 799	12 817	12 370	7 150	7 997	14 002	25 222	24 122
Cash and cash equivalents	7 979	29 047	13 863	54 243	39 505	37 729	15 704	12 997
Total current assets	21 706	53 803	37 243	77 324	55 502	58 450	53 649	48 866
Tangible assets	1 242	1 229	1 340	2 125	2 319	2 503	2 678	2 844
Intangible assets	15 134	14 668	14 865	14 548	15 021	15 470	15 896	16 301
Total fixed assets	16 376	15 897	16 205	16 673	17 339	17 972	18 574	19 145
Total assets	38 082	69 700	53 448	93 997	72 842	76 422	72 223	68 011
Accounts payable	-	16 371	12 653	-	2 612	3 781	6 569	9 493
Short term liabilities	12 802	-	-	24 110	12 000	23 672	21 853	20 239
Total current liabilities	12 802	16 371	12 653	24 110	14 612	27 453	28 421	29 732
Long term liabilities	19 527	9 550	9 350	9 200	9 050	8 973	8 973	8 973
Other provisions	-	-	-	-	-	-	-	-
Total equity	5 753	43 776	31 446	60 687	49 180	39 996	34 828	29 306
Total equity and liabilities	38 082	69 697	53 449	93 997	72 842	76 422	72 223	68 011

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Operating activities	(8 507)	(10 453)	(11 204)	(17 612)	(10 673)	(8 317)	(4 269)	(4 594)
Changes in working capital	(3 720)	(7 460)	(2 342)	11 768	(2 415)	8 118	(16 256)	3 387
Investing activities	(686)	(480)	(1 280)	(1 435)	(1 500)	(1 500)	(1 500)	(1 500)
Financing activities	9 727	39 461	(358)	47 659	(150)	(77)	-	-
Cash flow for the period	(3 186)	21 068	(15 184)	40 380	(14 738)	(1 776)	(22 025)	(2 707)
Beginning cash balance	11 165	7 979	29 047	13 863	54 243	39 505	37 729	15 704
Ending cash balance	7 979	29 047	13 863	54 243	39 505	37 729	15 704	12 997

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Jungmansgatan 12

211 11 Malmö

Telefon: +46 40 200 250

E-post: info@vhcorp.se

www.vhcorp.se

