

Update: Full Year Report 2019

2020-03-30

ViroGates: Better days to come

- COVID-19 raises awareness of the benefits of suPAR testing
- Financial target reduced but pilot customers increased
- We reiterate our fair value interval of DKK 68.50 – 100.50 per share

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Stock ticker: VIRO
Industry: MedTech
Listed on: First North Copenhagen
Latest stock price (DKK): 46,00
Market cap (MDKK): 139,6
Enterprise Value (MDKK): 89,4
Total number of shares (M): 3,03
- of which free float (M): 1,64

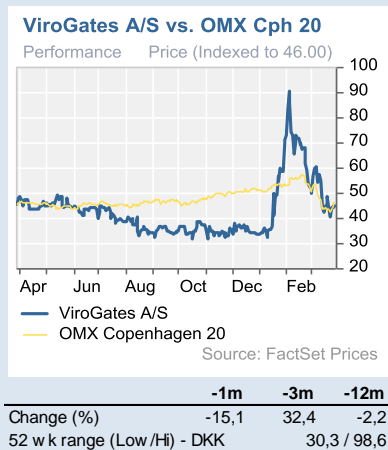
VHCF fair value per share
DCF model DKK 68,00 - 100,50

ViroGates A/S
Address: Banevænget 13
DK-3460 Birkerød, Denmark
Webpage: virogates.com
CEO: Jakob Knudsen

Main owners (31 Dec 2019)

Owner	Capital (%)
N. P. LOUIS-HANSEN APS.	24,25%
KIM GINNERUP APS	10,74%
4AM APS	10,74%
JEO Holding ApS	5,07%

Stock price history



Source: FactSet

We have reviewed our analysis of ViroGates following the release of its Annual Report for 2019 last week. We have seen both good and bad news since our Initial Research report in January. At this stage, it is impossible to say whether the positives or negatives should be given more weight, so we maintain our valuation range and general view of the investment case while stressing that uncertainty has increased markedly.

The COVID-19 pandemic is affecting ViroGates like so many other companies. But unlike most, ViroGates' business is both hindered and helped by the present circumstances. On the negative, the company finds it more difficult to get access to hospital decision makers at present. Many hospitals with acute care departments are already overburdened trying to cope with incoming patients. Some have even forbidden access to outside visitors, which makes sales calls impossible. The process of recruiting new hospitals to pilot programmes and converting pilot customers into routine customers has therefor largely been put on hold for the time being.

ViroGates has decided to help fighting the COVID-19 emergency by offering its suPARnostic® products free of charge to hospitals in Denmark. So far, Region Zealand has been confirmed as taking up the offer. The region comprises seven hospitals and all will be able to take samples using the suPARnostic® Quick Triage, whereas one hospital (Næstved) will conduct analysis on behalf of all seven hospitals.

The benefit of applying suPAR testing in an emergency such as COVID-19 is that severe cases can quickly be determined from the less severe. Suspected COVID-19 cases can be dealt with efficiently, where those with low suPAR can be sent home and ordered to self-isolate while those with high suPAR can get priority access to hospital resources. For hospitals under extreme pressure, this efficiency boost should be very welcome.

Table 1: Financial Overview

MDKK	2 018	2 019	2020e	2021e	2022e
Net sales	3,3	3,6	6,6	30,7	52,3
Growth (%)	na	8,0%	82,9%	368,9%	70,1%
Gross margin (%)	90,6%	89,3%	80,0%	80,0%	79,9%
EBIT	(18,1)	(19,7)	(24,7)	(6,8)	8,0
EBIT margin (%)	neg	neg	neg	neg	15,2%
Cash holdings	60,1	41,4	17,4	1,9	5,6
Total assets	63,4	45,2	23,8	16,7	24,7
Total equity	61,0	42,2	22,2	15,1	22,8
Solidity (%)	96,2%	93,5%	93,2%	90,7%	92,2%
P/E	neg	neg	neg	neg	18,2
ROE	neg	neg	neg	neg	33,6%
EV/EBIT (x)	neg	neg	neg	neg	11,2
EV/Sales (x)	27,0	25,0	13,6	2,9	1,7

Source: Västra Hamnen Corporate Finance

ViroGates does not have clinical evidence that a suPAR test would react to COVID-19 infections in particular. But given that it reacts to virtually all other infections, it would be reasonable to expect a suPAR response. During the course of this pandemic, data will be collected to answer this question more decisively.

Long-term outlook might have improved

Since hospital managements are so inaccessible right now, the whole pandemic may pass before ViroGates get the chance to supply some of them with products. We do not expect a sudden demand pull from this pandemic in the short term. However, when things calm down a bit, we can easily imagine that market opportunities for ViroGates will have improved markedly. Hospitals may then realise that suPAR tests would have been a great help in allocating scarce resources when faced with a sudden surge in patient flow. Long-term, we lean towards thinking that the company's outlook has now improved.

In recent developments, ViroGates has reported that one of its routine customers has had quality issues with suPAR tests using the ELISA product. The company's investigation suggest that the problem originates with the customer's analysis equipment and not the product supplied by ViroGates. However, the customer, which is one of ViroGates' handful of routine customers, will not be using suPARnostic® ELISA for clinical decision making for a while. This will negatively impact revenues in Q1 and possibly Q2.

Big increase in pilot customers

On a more positive note, ViroGates managed to increase the number of pilot customers significantly during the last quarter of 2019. From 36 pilot customers at the end of Q3, the number stood 39% higher at 50 customers at year-end. This is a huge step forward and makes a solid base for recruiting routine customers once they have become familiar with the products through pilot testing.

Given the near-term problems with the COVID-19 outbreak, we were not surprised to see that ViroGates recently announced an amendment to its financial targets. It has now given up on the target of becoming cash flow positive in 2020. Instead, it now states an objective to become cash flow positive before the current liquidity runs out. The implication is that investors should not expect any new equity issues if the goal is met.

Lower revenue than expected

Comparing the financial outcome of the fourth quarter with our estimates, the two are fairly in line. The revenue for the period came in at DKK 0.5 million, which is lower than we had anticipated and marks the lowest sales figure in the past two years. However, the company uses a volume-based pricing model, meaning that customers' prices depends on the number of test kits bought during the current year. This means that the actual number of sold test kits might be higher than it first appears, especially during the end of the year. We have modelled a rapidly increasing sales growth in the coming years, anticipating that many customers in pilot use will become clinical routine customers.

Table 2: Estimates vs actual, Q4 2019

kSEK	Q4 '18	Q4 '19est	Q4 '19act	Diff
Net Revenues	826	1 082	461	(621)
Total Revenues	826	1 082	461	(621)
Cost of goods sold	(109)	(216)	(127)	89
Personnel costs	(1 712)	(2 400)	(3 116)	(716)
Other external costs	(7 340)	(2 880)	(4 192)	(1 312)
Total OPEX	(9 161)	(5 496)	(7 435)	(1 939)
EBITDA	(8 335)	(4 414)	(6 974)	(2 560)
Amortisation & depreciation	(31)	(21)	(54)	(33)
EBIT	(8 366)	(4 435)	(7 028)	(2 593)
Non-recurring items	5 178	-	-	-
Net financial items	(38)	(70)	(60)	10
EBT	(3 226)	(4 505)	(7 089)	(2 584)
Tax	(383)	-	311	311
Net profit	(3 609)	(4 505)	(6 778)	(2 273)
Cash and Equivalents	60 084	40 470	41 408	938
Total Equity	61 011	44 486	42 215	(2 271)

Source: Västra Hamnen Corporate Finance

Free test kits imply higher costs

Looking at the cost side, the Personnel costs were somewhat higher than we expected but did not deviate too far from our estimate. However, Other external costs came in DKK 1.3 million higher than we had anticipated. This could be explained by the increasing number of hospitals in pilot use. The trial users are provided with free tests kits during the run-in period, leaving ViroGates to bear the associated material costs. These costs should be seen as an investment in future revenue streams since it is a necessary step when attracting potential clinical routine customers. This had an overall negative effect on the cash holdings which came in at DKK 0.9 million less than we had anticipated. For the moment, we assess the current cash holdings to be satisfactory and believe it should provide a solid ground to continue the company's expansion from.

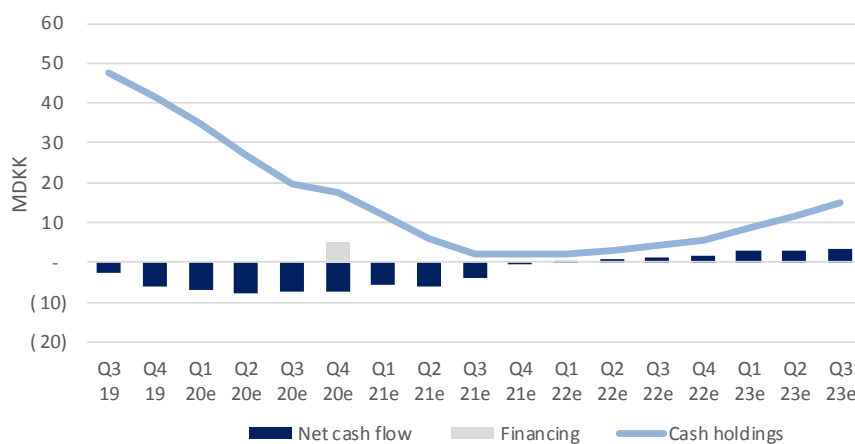
Lower near-term sales due to COVID-19

Looking forward, we have chosen to revise down our sales forecast for Q1 through Q3 this year. This is done with respect to the global disruptions caused by COVID-19, which we believe will affect the company's sales efforts in the short-term. Moreover, ViroGates is offering free test kits for all hospitals in Denmark during the pandemic. Therefore, we have also increased the Other expenditure during the same quarters, since the company will have to bear the costs of manufacturing the free test kits. It is worth emphasizing, that even if this move results in higher near-term costs for the company, it will increase the presence of suPAR testing in Danish hospitals, which is beneficiary in the long-term.

Minor financing might be needed

Taking a closer look at the financial situation of the company, we see a risk that the current cash holdings of DKK 41.4 million might be too scarce to take the company to a self-sufficient financial state, due to the aforementioned changes. As can be seen in Figure 1 below, we expect the cash holdings to become negative and bottom out in the end of 2021. Thereafter, we see positive cash flows generated by the company building up the cash reserve, which can be used for investments and/or dividends. To fill this gap in financing we have tentatively modelled a small capital raise at the end of the year to make sure that the company has enough financial strength to finance its expansion. With that said, the additional financing must not necessarily come from equity investors, it could as well be financing by a bank loan or similar.

Figure 1: Cash flow and cash holdings



Source: Västra Hamnen Corporate Finance

We keep valuation interval unchanged

As for now, we are closely monitoring the company and its performance in these troublesome times. It is too early to say how the events taking place around the world will affect the company. We have revised down our short-term financial estimates, but we have no reason to believe that the company will be negatively affected in the long-term. We have therefore chosen not to change any major assumptions in our valuation model, and we keep our valuation interval unchanged. **We reiterate our fair value interval of DKK 68.50 – 100.50 per share.**

Income Statement - Annual Data

kDKK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Net revenues	3 316	3 582	6 551	30 717	52 250	71 026	103 119	135 467
Total revenues	3 316	3 582	6 551	30 717	52 250	71 026	103 119	135 467
Cost of goods sold	(312)	(384)	(1 310)	(6 143)	(10 526)	(14 667)	(22 788)	(31 342)
Gross profit	3 004	3 198	5 240	24 574	41 724	56 359	80 331	104 125
Personnel costs	(5 858)	(10 839)	(12 711)	(14 163)	(15 264)	(17 017)	(18 791)	(20 750)
Other external costs	(15 123)	(11 965)	(17 094)	(16 995)	(18 316)	(20 421)	(22 549)	(24 900)
EBITDA	(17 977)	(19 606)	(24 564)	(6 584)	8 144	18 922	38 991	58 475
Amortisation & depreciation	(125)	(116)	(185)	(189)	(192)	(195)	(196)	(197)
EBIT	(18 102)	(19 723)	(24 749)	(6 774)	7 952	18 727	38 794	58 278
Net financial items	(814)	(286)	(280)	(280)	(280)	(280)	(280)	(280)
EBT	(18 916)	(20 008)	(25 029)	(7 054)	7 672	18 447	38 514	57 998
Taxes	1 930	1 212	-	-	-	-	-	(2 209)
Net profit	(16 986)	(18 796)	(25 029)	(7 054)	7 672	18 447	38 514	55 789
Earnings per share (DKK)	(5,88)	(6,19)	(8,25)	(2,32)	2,53	6,08	12,69	18,39
Growth (%)								
Net revenues	na	8,0%	82,9%	368,9%	70,1%	35,9%	45,2%	31,4%
EBITDA	na	na	na	na	na	132,3%	106,1%	50,0%
EBIT	na	na	na	na	na	135,5%	107,2%	50,2%
Net profit	na	na	na	na	na	140,5%	108,8%	44,9%
% of revenues (%)								
Gross margin	90,6%	89,3%	80,0%	80,0%	79,9%	79,4%	77,9%	76,9%
EBITDA margin	neg	neg	neg	neg	15,6%	26,6%	37,8%	43,2%
EBIT margin	neg	neg	neg	neg	15,2%	26,4%	37,6%	43,0%
EBT margin	neg	neg	neg	neg	14,7%	26,0%	37,3%	42,8%
Profit margin	neg	neg	neg	neg	14,7%	26,0%	37,3%	41,2%
Personnel costs	176,7%	302,6%	194,0%	46,1%	29,2%	24,0%	18,2%	15,3%
Total OPEX	632,7%	636,6%	455,0%	101,4%	64,3%	52,7%	40,1%	33,7%
Profitability (%)								
ROE	neg	neg	neg	neg	33,6%	44,7%	48,3%	41,2%
ROIC	neg	neg	neg	neg	34,2%	66,6%	107,8%	135,2%
ROCE	neg	neg	neg	neg	27,2%	35,4%	37,9%	33,5%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kDKK	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Inventories	694	390	1 350	4 628	6 754	8 389	10 832	13 279
Account receivable	431	244	1 519	5 206	7 411	9 951	14 414	18 193
Other receivables	1 988	2 401	2 772	4 223	4 223	4 223	4 223	4 223
Cash and cash equivalents	60 084	41 408	17 430	1 885	5 606	19 971	52 695	103 244
Total current assets	63 197	44 443	23 070	15 941	23 994	42 534	82 163	138 939
Tangible assets	117	548	563	574	582	587	591	594
Intangible assets	-	-	-	-	-	-	-	-
Financial assets	110	167	167	167	167	167	167	167
Total fixed assets	227	715	730	741	749	754	758	761
Total assets	63 424	45 158	23 801	16 682	24 743	43 288	82 921	139 699
Accounts payable	339	927	844	810	1 013	1 398	2 166	2 846
Short-term debt	-	-	-	-	-	-	-	-
Other liabilities	2 073	2 015	770	739	925	638	988	1 298
Total current liabilities	2 412	2 942	1 614	1 549	1 938	2 036	3 155	4 144
Other provisions	-	-	-	-	-	-	-	-
Total equity	61 011	42 215	22 186	15 132	22 804	41 251	79 765	135 554
Total equity and liabilities	63 423	45 157	23 800	16 681	24 742	43 287	82 920	139 698

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	2018	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Operating activities	(17 081)	(17 963)	(24 844)	(6 864)	7 864	18 642	38 711	55 986
Changes in working capital	701	(110)	(3 933)	(8 481)	(3 943)	(4 077)	(5 786)	(5 238)
Investing activities	(2)	(603)	(200)	(200)	(200)	(200)	(200)	(200)
Financing activities	75 000	-	5 000	-	-	-	-	-
Cash flow for the period	58 618	(18 676)	(23 978)	(15 546)	3 721	14 365	32 724	50 548
Beginning cash balance	-	58 618	39 942	15 964	419	4 140	18 505	51 229
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	58 618	39 942	15 964	419	4 140	18 505	51 229	101 778

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kDKK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Net revenues	1 105	1 465	551	461	722	759	1 990	3 079
Total revenues	1 105	1 465	551	461	722	759	1 990	3 079
Cost of goods sold	(90)	(80)	(88)	(127)	(144)	(152)	(398)	(616)
Gross profit	1 015	1 386	463	334	578	607	1 592	2 464
Personnel costs	(2 305)	(3 442)	(1 975)	(3 116)	(3 015)	(3 121)	(3 231)	(3 344)
Other external costs	(2 542)	(2 506)	(2 725)	(4 192)	(4 523)	(4 681)	(3 877)	(4 013)
EBITDA	(3 833)	(4 562)	(4 237)	(6 974)	(6 960)	(7 195)	(5 515)	(4 894)
Amortisation & depreciation	(31)	(31)	0	(54)	(46)	(46)	(46)	(47)
EBIT	(3 864)	(4 594)	(4 237)	(7 028)	(7 006)	(7 241)	(5 562)	(4 940)
Net financial items	(81)	(78)	(66)	(60)	(70)	(70)	(70)	(70)
EBT	(3 945)	(4 672)	(4 303)	(7 089)	(7 076)	(7 311)	(5 632)	(5 010)
Taxes	270	322	309	311	-	-	-	-
Net profit	(3 675)	(4 350)	(3 994)	(6 778)	(7 076)	(7 311)	(5 632)	(5 010)
Earnings per share (DKK)	(1,21)	(1,43)	(1,32)	(2,23)	(2,33)	(2,41)	(1,86)	(1,65)
Y-o-Y Growth (%)								
Net revenues	92,6%	34,2%	(33,2%)	(44,2%)	(34,7%)	(48,2%)	261,3%	568,5%
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 (%)								
Gross margin	91,9%	94,6%	84,1%	72,5%	80,0%	80,0%	80,0%	80,0%
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	208,6%	234,9%	358,6%	676,5%	417,6%	411,2%	162,3%	108,6%
Total OPEX	438,7%	405,9%	853,2%	1586,6%	1044,0%	1028,0%	357,1%	238,9%
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

kDKK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Inventories	578	829	741	390	316	333	872	1 350
Account receivable	752	809	129	244	356	374	981	1 519
Other receivables	2 615	4 273	3 435	2 401	1 083	949	2 090	2 772
Cash and cash equivalents	55 992	50 165	47 626	41 408	34 705	27 041	19 613	17 430
Total current assets	59 937	56 076	51 931	44 443	36 461	28 697	23 556	23 070
Tangible assets	86	55	257	548	552	556	560	563
Intangible assets	-	-	-	-	-	-	-	-
Financial assets	112	279	279	167	167	167	167	167
Total fixed assets	198	334	536	715	719	723	727	730
Total assets	60 135	56 410	52 467	45 158	37 180	29 420	24 283	23 801
Accounts payable	1 108	1 343	1 385	927	1 029	832	1 091	844
Short-term debt	-	-	-	-	-	-	-	-
Other liabilities	1 690	2 081	2 089	2 015	1 011	759	995	770
Total current liabilities	2 798	3 423	3 474	2 942	2 039	1 591	2 086	1 614
Other provisions	-	-	-	-	-	-	-	-
Total equity	57 336	52 987	48 993	42 215	35 139	27 828	22 196	22 186
Total equity and liabilities	60 135	56 410	52 466	45 157	37 179	29 419	24 282	23 800

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020e	Q2 2020e	Q3 2020e	Q4 2020e
Operating activities	(3 914)	(4 640)	(4 553)	(4 856)	(7 030)	(7 265)	(5 585)	(4 964)
Changes in working capital	(176)	(1 020)	2 215	(1 130)	377	(349)	(1 793)	(2 169)
Investing activities	(2)	(167)	(202)	(232)	(50)	(50)	(50)	(50)
Financing activities	-	-	-	-	-	-	-	5 000
Cash flow for the period	(4 092)	(5 827)	(2 540)	(6 218)	(6 703)	(7 664)	(7 428)	(2 182)
Beginning cash balance	60 084	55 992	50 165	47 626	41 408	34 705	27 041	19 613
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	55 992	50 165	47 626	41 408	34 705	27 041	19 613	17 430

Source: Västra Hamnen Corporate Finance

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