

Update: Report Q1 2020

2020-05-05

ViroGates: Detects COVID-19 relevance

- suPAR determines severity of COVID-19 in preliminary study
- Steady increase in hospitals evaluating suPARnostic® for clinical use
- We keep our valuation interval unchanged

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Stock ticker:	VIRO
Industry:	MedTech
Listed on:	First North Copenhagen
Latest stock price (DKK):	63,00
Market cap (MDKK):	191,2
Enterprise Value (MDKK):	141,0
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

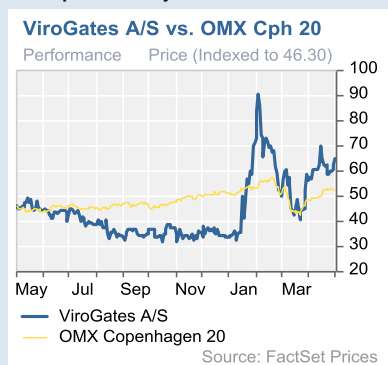
ViroGates A/S

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

Main owners (1 Apr 2020)

	Capital (%)
N. P. LOUIS-HANSEN APS.	24,25%
KIM GINNERUP APS	10,74%
4AM APS	10,74%
JEO Holding ApS	5,00%

Stock price history



	-1m	-3m	-12m
Change (%)	15,0	-11,2	40,4
52 w k range (Low /Hi) - DKK	30,3 / 98,6		

Source: FactSet

ViroGates published its quarterly report for Q1 2020 last week. The figures showed somewhat lower revenues, but even lower costs compared with our expectations, yielding a net profit slightly better than our estimates. The report was however overshadowed by the news last Thursday that ViroGates' suPAR test has shown to be relevant in triaging COVID-19 patients. Clinical results show that suPAR has significant predictive power in identifying which patients are likely to develop severe respiratory failure (SRF). This is highly interesting with respect to future sales of ViroGates' products.

An article in the journal Critical Care summarises the findings of an academic study where suPAR readings were collected from Greek patients diagnosed with COVID-19 pneumonia. Blood samples were taken from 57 patients within the first 24 hours after hospital admission, after which their condition was followed up for 14 days.

21 out of the 57 patients developed SRF and needed treatment by ventilator or airway pressure. It was shown that the admission level of suPAR was much higher in the group that developed SRF (see Figure 1 next page) than the one who did not. Patients with a suPAR reading of 6 ng/ml or more were found to be 16 times more likely to develop SRF ($p < 0.0001$) than those with a lower suPAR. Other biomarkers such as CRP and Neutrophils were also considered in the study but found not to predict SRF.

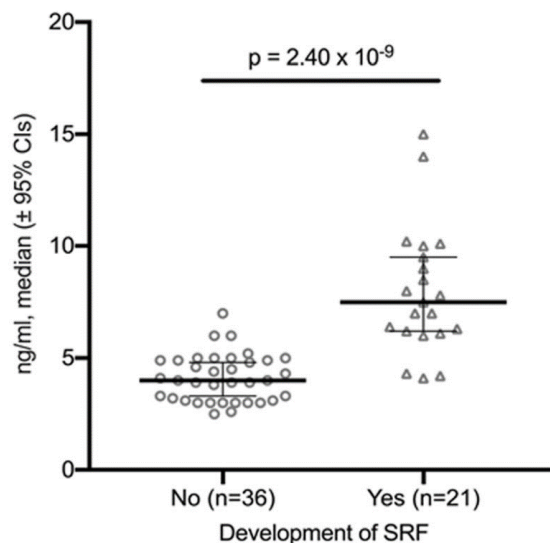
These are very interesting and promising results. However, there are a couple of reasons to interpret them with caution. Firstly, the patient number of 57 is both small and from a single geography. It remains to be seen if the results replicate in bigger samples. Secondly, the tests revealed a small number of patients with suPAR readings on a par with the non-SRF group, but who nevertheless developed SRF. Depending on the chosen cutoff level for hospital admission, these could be counted as false negatives.

Table 1: Financial Overview

MDKK	2 018	2 019	2020e	2021e	2022e
Net sales	3,3	3,6	6,3	30,7	52,3
Growth (%)	na	8,0%	75,1%	389,6%	70,1%
Gross margin (%)	90,6%	89,3%	79,1%	80,0%	79,9%
EBIT	(18,1)	(19,7)	(24,2)	(6,7)	8,1
EBIT margin (%)	neg	neg	neg	neg	15,4%
Cash holdings	60,1	41,4	18,5	3,2	7,1
Total assets	63,4	45,2	24,7	17,7	25,8
Total equity	61,0	42,2	23,1	16,1	23,9
Solidity (%)	96,2%	93,5%	93,5%	91,2%	92,5%
P/E	neg	neg	neg	neg	26,1
ROE	neg	neg	neg	neg	32,6%
EV/EBIT (x)	neg	neg	neg	neg	19,0
EV/Sales (x)	46,2	42,8	24,4	5,0	2,9

Source: Västra Hamnen Corporate Finance

Figure 1: Result of Greek clinical study



Source: Rovina et al. *Critical Care* (2020) 24:187

Triage for COVID-19 relieves healthcare system?

Still, assuming further testing can confirm the general findings and refine their application, it could be very significant for ViroGates. It would be of immense value to use suPAR for quick and easy determination of which patients to monitor at a hospital and which to send back to home quarantine. It would help alleviate pressure on healthcare systems struggling to cope with the pandemic.

At the time of our previous research update, we speculated that the COVID-19 pandemic might end before ViroGates would have the chance to demonstrate the benefits of suPAR testing to hospital decision makers. In the month that has passed, signs have emerged to suggest that the COVID-19 pandemic might continue for years still, albeit on a different scale. If so, with the help of further clinical evidence there may be a large market opportunity for ViroGates in supplying suPAR tests to healthcare units fighting the effects of the virus.

No surprises in Q1

When comparing our forecasted figures for the quarter with the actual outcome, there are only minor differences, cf. Table 2. In our last research update we lowered our sales forecast for Q1 through Q3 due to the ongoing pandemic. However, we still slightly overestimated the sales figure, which is dragged down by the halt in testing by the company's largest customer following a customer complaint. The halt in the customer's testing is said to be temporary but the company expects an impact on revenue in the coming months. For the time being the customer has switched platform and is now using the suPARnostic® Quick Triage product instead during the COVID-19 outbreak.

Good opportunity to showcase suPARnostic®

In our last research update, we also revised up our near-term forecast of Other Operating Expenses. This was done to account for the fact that ViroGates is offering free test kits during the COVID-19 outbreak. In a longer perspective, this might prove to be an effective strategy to showcase the usefulness of the suPARnostic® product line to potential customers. The Cash and Equivalents came in about DKK 1 million higher than we anticipated, largely due to the fact that the Net Profit was better than we had expected.

Table 2: Estimates vs actual, Q1 2020

kDKK	Q1 '19	Q1 '20est	Q1 '20act	Diff
Net Revenues	1 105	722	445	(277)
Total Revenues	1 105	722	445	(277)
Cost of Goods Sold	(90)	(144)	(147)	(3)
Personnel Expenses	(2 305)	(3 015)	(2 890)	125
Other Operating Expenses	(2 542)	(4 523)	(3 787)	736
Total OPEX	(4 938)	(7 682)	(6 824)	858
EBITDA	(3 833)	(6 960)	(6 379)	581
Amortisation and Depreciation	(31)	(46)	(54)	(8)
EBIT	(3 864)	(7 006)	(6 433)	573
Net Financial Items	(81)	(70)	(76)	(6)
EBT	(3 945)	(7 076)	(6 509)	567
Tax	270	-	322	322
Net Profit	(3 675)	(7 076)	(6 187)	889
Cash and Equivalents	55 992	34 705	35 725	1 020
Total Equity	57 336	35 139	36 028	889

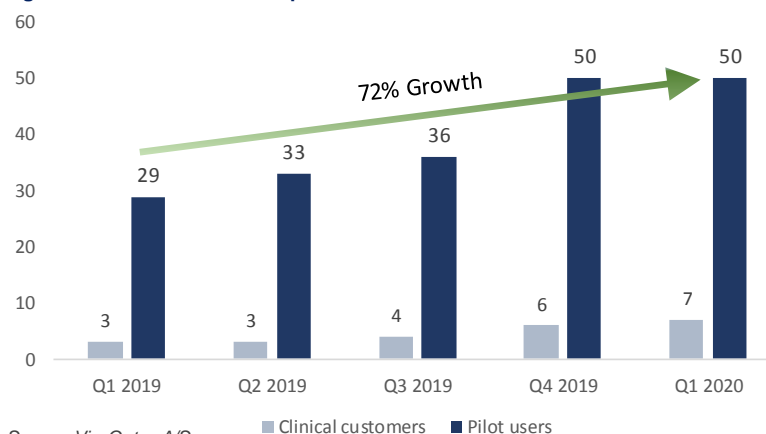
Source: Västra Hamnen Corporate Finance

Looking ahead, we keep the revised sales forecast from our previous research update unchanged. At the time we downgraded our sales forecast for Q1 through Q3 due to the outbreak of COVID-19. The pandemic affects the company's customers, mainly hospitals, to a great extent, leading to the company's sales efforts being severely affected. On the other hand, we still regard the future outlook as promising, not least with the emerging support of clinical evidence of suPAR being relevant in managing COVID-19.

The customer count is growing steadily

The development of new pilot customers understandably slowed a little in Q1 but the upward trajectory is clearly intact, see Figure 2. The number of pilot hospitals at the end of Q1 2020 stood 72 percent higher than a year earlier and the company expects that a number of these will be converted into clinical routine customers in 2020. The company announced one new routine customer during Q1, Region Zealand in Denmark. In mid-April, the Emergency Department of Complejo Asistencial Universitario de León (León Hospital) in Spain became ViroGates' eighth customer to implement suPARnostic® in clinical routine.

Figure 2: Clinical routine and pilot users



Small financing need?

Earlier this year the company reported that it has abandoned the previous goal of having 40 routine customers by the end of 2020 and to become cash flow positive during the course of this year. Instead, the goal is now to become cash flow positive before the current cash reserve of DKK 35.7 million runs out, implying no further equity issues. In our scenario, it is a very close call whether more capital is needed or not. We see very low liquidity in one year's time and have pencilled in a minor (DKK 5 million) capital injection in Q2 2021.

Unchanged valuation interval

All things considered, we keep our valuation interval unchanged and reiterate our previous valuation interval of DKK 68.00 – 100.50 per share.

Income Statement - Annual Data

kDKK	2018	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Net revenues	3 316	3 582	6 274	30 717	52 250	71 026	103 119	135 467
Total revenues	3 316	3 582	6 274	30 717	52 250	71 026	103 119	135 467
Cost of goods sold	(312)	(384)	(1 313)	(6 143)	(10 526)	(14 667)	(22 788)	(31 342)
Gross profit	3 004	3 198	4 961	24 574	41 724	56 359	80 331	104 125
Personnel costs	(5 858)	(10 839)	(12 586)	(14 163)	(15 264)	(17 017)	(18 791)	(20 750)
Other external costs	(15 123)	(11 965)	(16 358)	(16 995)	(18 316)	(20 421)	(22 549)	(24 900)
EBITDA	(17 977)	(19 606)	(23 983)	(6 584)	8 144	18 922	38 991	58 475
Amortisation & depreciation	(125)	(116)	(167)	(112)	(79)	(56)	(39)	(28)
EBIT	(18 102)	(19 723)	(24 151)	(6 696)	8 065	18 866	38 951	58 447
Net financial items	(814)	(286)	(286)	(280)	(280)	(280)	(280)	(280)
EBT	(18 916)	(20 008)	(24 437)	(6 976)	7 785	18 586	38 671	58 167
Taxes	1 930	1 212	322	-	-	-	-	(2 483)
Net profit	(16 986)	(18 796)	(24 115)	(6 976)	7 785	18 586	38 671	55 684
Earnings per share (DKK)	(5,88)	(6,19)	(7,95)	(2,30)	2,57	6,13	12,74	18,35
Growth (%)								
Net revenues	na	8,0%	75,1%	389,6%	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	133,9%	106,5%	50,1%
Net profit	na	na	na	na	na	138,7%	108,1%	44,0%
% of revenues (%)								
Gross margin	90,6%	89,3%	79,1%	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	15,4%	26,6%	37,8%	43,1%
EBT margin	neg	neg	neg	neg	14,9%	26,2%	37,5%	42,9%
Profit margin	neg	neg	neg	neg	14,9%	26,2%	37,5%	41,1%
Personnel costs	176,7%	302,6%	200,6%	46,1%	29,2%	24,0%	18,2%	15,3%
Total OPEX	632,7%	636,6%	461,4%	101,4%	64,3%	52,7%	40,1%	33,7%
Profitability (%)								
ROE	neg	neg	neg	neg	32,6%	43,7%	47,6%	40,7%
ROIC	neg	neg	neg	neg	35,5%	68,6%	110,2%	137,8%
ROCE	neg	neg	neg	neg	26,3%	34,6%	37,4%	33,3%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kDKK	2018	2019e	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	18 525	3 180	7 101	21 666	54 590	105 064
Total current assets	63 197	44 443	24 165	17 236	25 489	44 229	84 058	140 759
Tangible assets	117	548	381	269	190	134	95	67
Intangible assets	-	-	-	-	-	-	-	-
Financial assets	110	167	167	167	167	167	167	167
Total fixed assets	227	715	548	436	357	301	262	234
Total assets	63 424	45 158	24 713	17 672	25 846	44 530	84 320	140 993
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	23 100	16 124	23 909	42 495	81 166	136 850
Total equity and liabilities	63 423	45 157	24 714	17 673	25 847	44 531	84 321	140 994

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	2018	2019e	2020e	2021e	2022e	2023e	2024e	2025e
Operating activities	(17 081)	(17 963)	(23 947)	(6 864)	7 864	18 642	38 711	55 712
Changes in working capital	701	(110)	(3 935)	(8 481)	(3 943)	(4 077)	(5 786)	(5 238)
Investing activities	(2)	(603)	-	-	-	-	-	-
Financing activities	75 000	-	5 000	-	-	-	-	-
Cash flow for the period	58 618	(18 676)	(22 883)	(15 346)	3 921	14 565	32 924	50 474
Beginning cash balance	-	58 618	39 942	17 059	1 713	5 635	20 200	53 124
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	58 618	39 942	17 059	1 713	5 635	20 200	53 124	103 598

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kDKK	Q1 2019	Q2 2019	Q3 2019	Q4 2019e	Q1 2020	Q2 2020e	Q3 2020e	Q4 2020e
Net revenues	1 105	1 465	551	461	445	759	1 990	3 079
Total revenues	1 105	1 465	551	461	445	759	1 990	3 079
Cost of goods sold	(90)	(80)	(88)	(127)	(147)	(152)	(398)	(616)
Gross profit	1 015	1 386	463	334	298	607	1 592	2 464
Personnel costs	(2 305)	(3 442)	(1 975)	(3 116)	(2 890)	(3 121)	(3 231)	(3 344)
Other external costs	(2 542)	(2 506)	(2 725)	(4 192)	(3 787)	(4 681)	(3 877)	(4 013)
EBITDA	(3 833)	(4 562)	(4 237)	(6 974)	(6 379)	(7 195)	(5 515)	(4 894)
Amortisation & depreciation	(31)	(31)	0	(54)	(54)	(41)	(38)	(35)
EBIT	(3 864)	(4 594)	(4 237)	(7 028)	(6 433)	(7 236)	(5 553)	(4 928)
Net financial items	(81)	(78)	(66)	(60)	(76)	(70)	(70)	(70)
EBT	(3 945)	(4 672)	(4 303)	(7 089)	(6 509)	(7 306)	(5 623)	(4 998)
Taxes	270	322	309	311	322	-	-	-
Net profit	(3 675)	(4 350)	(3 994)	(6 778)	(6 187)	(7 306)	(5 623)	(4 998)
Earnings per share (DKK)	(1,21)	(1,43)	(1,32)	(2,23)	(2,04)	(2,41)	(1,85)	(1,65)
Y-o-Y Growth (%)								
Net revenues	92,6%	34,2%	(33,2%)	(44,2%)	(59,7%)	(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%	67,0%	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%	649,4%	411,2%	162,3%	108,6%
Total OPEX	438,7%	405,9%	853,2%	1586,6%	1500,4%	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 2019e	Q1 2020	Q2 2020e	Q3 2020e	Q4 2020e
Inventories	578	829	741	390	249	333	872	1 350
Account receivable	752	809	129	244	253	374	981	1 519
Other receivables	2 615	4 273	3 435	2 401	2 358	949	2 090	2 772
Cash and cash equivalents	55 992	50 165	47 626	41 408	35 725	28 036	20 658	18 525
Total current assets	59 937	56 076	51 931	44 443	38 585	29 692	24 601	24 165
Tangible assets	86	55	257	548	494	453	415	381
Intangible assets	-	-	-	-	-	-	-	-
Financial assets	112	279	279	167	167	167	167	167
Total fixed assets	198	334	536	715	661	620	582	548
Total assets	60 135	56 410	52 467	45 158	39 246	30 311	25 183	24 713
Accounts payable	1 108	1 343	1 385	927	1 242	832	1 091	844
Short-term debt	-	-	-	-	-	-	-	-
Other liabilities	1 690	2 081	2 089	2 015	1 977	759	995	770
Total current liabilities	2 798	3 423	3 474	2 942	3 219	1 591	2 086	1 614
Other provisions	-	-	-	-	-	-	-	-
Total equity	57 336	52 987	48 993	42 215	36 028	28 722	23 099	23 100
Total equity and liabilities	60 135	56 410	52 466	45 157	39 247	30 312	25 184	24 714

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	Q1 2019	Q2 2019	Q3 2019	Q4 2019e	Q1 2020	Q2 2020e	Q3 2020e	Q4 2020e
Operating activities	(3 914)	(4 640)	(4 553)	(4 856)	(6 133)	(7 265)	(5 585)	(4 964)
Changes in working capital	(176)	(1 020)	2 215	(1 130)	450	(424)	(1 793)	(2 169)
Investing activities	(2)	(167)	(202)	(232)	-	-	-	-
Financing activities	-	-	-	-	-	-	-	5 000
Cash flow for the period	(4 092)	(5 827)	(2 540)	(6 218)	(5 683)	(7 689)	(7 378)	(2 132)
Beginning cash balance	60 084	55 992	50 165	47 626	41 408	35 725	28 036	20 658
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	55 992	50 165	47 626	41 408	35 725	28 036	20 658	18 525

Source: Västra Hamnen Corporate Finance

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