

Update: Report Q3 2020

2020-10-27

ViroGates: Stronger across the board

- Revenues higher and costs lower than expected
- Two new clinical routine customers in the quarter
- Given the uncertainty, we retain valuation range of DKK 68.00 – 100.50 per share

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| | |
|-----------------------------|------------------------|
| Stock ticker: | VIRO |
| Industry: | MedTech |
| Listed on: | First North Copenhagen |
| Latest stock price (DKK): | 62,00 |
| Market cap (MDKK): | 193,8 |
| Enterprise Value (MDKK): | 157,5 |
| Total number of shares (M): | 3,13 |
| - 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



Source: FactSet

In this morning's Q3 report from ViroGates, the figures were almost uniformly better than we had expected. Net revenues were a full 70 percent higher than our estimate. In addition, the gross margin was higher and other costs lower than our forecast, which in combination with other factors caused a DKK 5.5 million higher cash reserve than our estimate. Uncertainty is still high in view of the COVID-19 situation, but overall, we regard the chances of reaching a cash flow positive stage with the available cash as improved.

Net turnover for the period was reported at DKK 1 850 thousand (see Table 2 next page), which was more than double the sales in Q2. The company attributes the improvement in part to the resumption of testing by one large customer, a Danish hospital that halted testing in March because of malfunctioning analytical instruments. The customer probably accounts for a very large share of revenues, since its almost complete halt in Q2 and resumption in Q3 triggered such wide swings in ViroGates' revenues. The problems at the customer side seem to be over and ViroGates' revenues are therefore heading back to their growth trajectory.

The gross margin in Q3 landed at impressive 82.4 percent, higher than our estimate of 80 percent. To our questions at today's [web conference](#) about what drove this margin improvement, the company answered that it was partly helped by the company scaling back on its offers of free triage kits to new customers. The company generally regards around 80 percent gross margin to be a fair expectation, and we stick with this as a forecast for the coming quarters.

Other operating expenses were also lower than our estimate, particularly due to lower personnel costs. In answer to our question, the company stated that the outcome in Q3 is a benchmark of what level of personnel costs to expect in coming quarters.

Table 1: Financial Overview

| MDKK | 2 018 | 2 019 | 2020e | 2021e | 2022e |
|------------------|--------|--------|--------|--------|-------|
| Net sales | 3,3 | 3,6 | 5,0 | 23,4 | 44,9 |
| Growth (%) | na | 8,0% | 40,9% | 364,6% | 91,7% |
| Gross margin (%) | 90,6% | 89,3% | 79,1% | 80,0% | 79,8% |
| EBIT | (18,1) | (19,7) | (18,9) | (8,5) | 3,4 |
| EBIT margin (%) | neg | neg | neg | neg | 7,6% |
| Cash holdings | 60,1 | 41,4 | 28,4 | 11,6 | 10,7 |
| Total assets | 63,4 | 45,2 | 32,8 | 24,2 | 27,8 |
| Total equity | 61,0 | 42,2 | 31,7 | 23,0 | 26,1 |
| Solidity (%) | 96,2% | 93,5% | 96,8% | 94,7% | 93,9% |
| P/E | neg | neg | neg | neg | 61,7 |
| ROE | neg | neg | neg | neg | 12,0% |
| EV/EBIT (x) | neg | neg | neg | neg | 46,0 |
| EV/Sales (x) | 47,5 | 44,0 | 31,2 | 6,7 | 3,5 |

Source: Västra Hamnen Corporate Finance

Table 2: Estimates vs actual, Q3 2020

| kDKK | Q3 '19 | Q3 '20est | Q3 '20act | Diff |
|-------------------------------|----------------|----------------|----------------|--------------|
| Net Revenues | 551 | 1 086 | 1 850 | 764 |
| Total Revenues | 551 | 1 086 | 1 850 | 764 |
| Cost of Goods Sold | (88) | (217) | (326) | (109) |
| Personnel Expenses | (1 975) | (3 231) | (2 561) | 670 |
| Other Operating Expenses | (2 725) | (2 908) | (2 883) | 25 |
| Total OPEX | (4 788) | (6 355) | (5 770) | 585 |
| EBITDA | (4 237) | (5 270) | (3 920) | 1 350 |
| Amortisation and Depreciation | 0 | (37) | (59) | (22) |
| EBIT | (4 237) | (5 307) | (3 979) | 1 328 |
| Net Financial Items | (66) | (70) | (74) | (4) |
| EBT | (4 303) | (5 377) | (4 053) | 1 324 |
| Tax | 309 | - | 305 | 305 |
| Net Profit | (3 994) | (5 377) | (3 748) | 1 629 |
| Cash and Equivalents | 47 626 | 32 544 | 38 030 | 5 486 |
| Total Equity | 48 993 | 34 128 | 35 757 | 1 629 |

Source: Västra Hamnen Corporate Finance

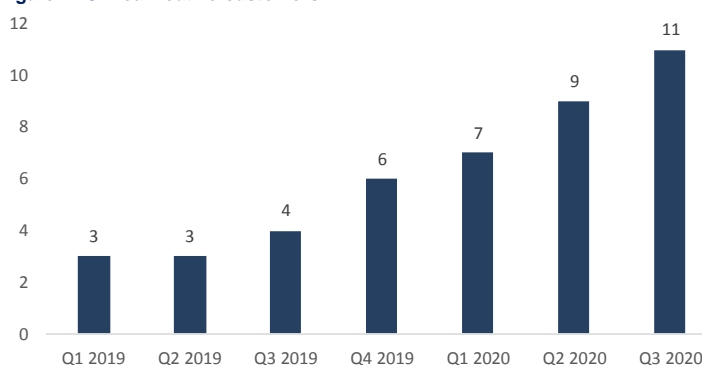
Cash boosted by advance on EU grant

As mentioned initially, the cash reserve at the end of Q3 ended up DKK 5 486 thousand higher than our estimate. Apart from EBIT overshooting our estimate by DKK 1 328 thousand, the main contribution came from an unforeseen increase in current liabilities. This can be explained by an advance payment from the EU Horizon 2020 grant program, where ViroGates is involved in developing suPARnostic triage guidelines for COVID-19 patients. The balance sheet item will be reduced as work is completed under the program, and the positive cash flow effect from Q3 will be gradually reversed.

Continued progress in Spain

Operationally, the company is adding more and more hospitals to its list of clinical routine customers. After having added two Spanish hospitals in Q2 and another two in Q3, the total now stands at 11, see Figure 1 below. It is clear that the company has got a real foothold in the Spanish market and this lends credibility to the company's ambition of having neighboring hospitals inspire each other to implement suPARnostic testing. This is promising with respect to adding even more hospital customers in Spain in coming months. However, it is also clear that Spain is undergoing a severe second wave of COVID-19. It is too early to tell whether this will hamper ViroGates' sales efforts more than it will drive demand for more test kits from its existing customers.

Figure 1: Clinical routine customers



Source: ViroGates A/S

ViroGates has not quantified the number of customers in pilot programmes, but informs us that the number is fairly unchanged "around fifty". This forms a solid base from which to recruit more routine customers and the company states an expectation that more clinical routine customers will be added in coming quarters.

Slight forecast adjustments to the positive

Taking stock of the company and where it stands in relation to our forecasts, we think the third quarter was a step forward. We have made some minor adjustments to our valuation model in response. We have made a small upward adjustment to net revenues in Q4 2020 and a downward revision to personnel costs all through 2021. This, on top of the better than expected outcome in the latest quarter, yields a stronger projection for the development of cash reserves in coming quarters. Previously, we saw a risk of running out of cash before turning cash flow positive, and included a minor new equity issue in 2021 as

a safety measure. In our present scenario, the company looks more likely to fulfill its financial goal of turning cash flow positive with the cash at hand, and we have deleted the capital injection next year from our forecast.

**We keep valuation
at DKK 68.00 -
100.50 per share**

The changes to our scenario are all to the positive, yet they are too small to make any marked impact on our valuation model. **In consequence, we retain our valuation interval of DKK 68.00 – 100.50 per share.**

Income Statement - Annual Data

| kDKK | 2018 | 2019 | 2020e | 2021e | 2022e | 2023e | 2024e | 2025e |
|---------------------------------|-----------------|-----------------|-----------------|----------------|---------------|---------------|---------------|----------------|
| Net revenues | 3 316 | 3 582 | 5 048 | 23 450 | 44 948 | 62 285 | 90 625 | 121 678 |
| Total revenues | 3 316 | 3 582 | 5 048 | 23 450 | 44 948 | 62 285 | 90 625 | 121 678 |
| Cost of goods sold | (312) | (384) | (1 054) | (4 690) | (9 066) | (12 778) | (19 777) | (27 946) |
| Gross profit | 3 004 | 3 198 | 3 994 | 18 760 | 35 882 | 49 507 | 70 848 | 93 731 |
| Personnel costs | (5 858) | (10 839) | (11 024) | (12 285) | (14 624) | (16 494) | (18 214) | (20 112) |
| Other external costs | (15 123) | (11 965) | (11 692) | (14 742) | (17 549) | (19 793) | (21 856) | (24 135) |
| EBITDA | (17 977) | (19 606) | (18 723) | (8 267) | 3 710 | 13 220 | 30 778 | 49 484 |
| Amortisation & depreciation | (125) | (116) | (208) | (220) | (288) | (336) | (370) | (394) |
| EBIT | (18 102) | (19 723) | (18 931) | (8 487) | 3 421 | 12 884 | 30 408 | 49 090 |
| Net financial items | (814) | (286) | (268) | (280) | (280) | (280) | (280) | (280) |
| EBT | (18 916) | (20 008) | (19 199) | (8 767) | 3 141 | 12 604 | 30 128 | 48 810 |
| Taxes | 1 930 | 1 212 | 880 | - | - | - | - | - |
| Net profit | (16 986) | (18 796) | (18 319) | (8 767) | 3 141 | 12 604 | 30 128 | 48 810 |
| Earnings per share (DKK) | (5,88) | (6,19) | (6,04) | (2,89) | 1,04 | 4,15 | 9,93 | 16,09 |
| Growth (%) | | | | | | | | |
| Net revenues | na | 8,0% | 40,9% | 364,6% | 91,7% | 38,6% | 45,5% | 34,3% |
| EBITDA | na | na | na | na | na | 256,4% | 132,8% | 60,8% |
| EBIT | na | na | na | na | na | 276,6% | 136,0% | 61,4% |
| Net profit | na | na | na | na | na | 301,2% | 139,0% | 62,0% |
| % of revenues (%) | | | | | | | | |
| Gross margin | 90,6% | 89,3% | 79,1% | 80,0% | 79,8% | 79,5% | 78,2% | 77,0% |
| EBITDA margin | neg | neg | neg | neg | 8,3% | 21,2% | 34,0% | 40,7% |
| EBIT margin | neg | neg | neg | neg | 7,6% | 20,7% | 33,6% | 40,3% |
| EBT margin | neg | neg | neg | neg | 7,0% | 20,2% | 33,2% | 40,1% |
| Profit margin | neg | neg | neg | neg | 7,0% | 20,2% | 33,2% | 40,1% |
| Personnel costs | 176,7% | 302,6% | 218,4% | 52,4% | 32,5% | 26,5% | 20,1% | 16,5% |
| Total OPEX | 632,7% | 636,6% | 450,1% | 115,3% | 71,6% | 58,3% | 44,2% | 36,4% |
| Profitability (%) | | | | | | | | |
| ROE | neg | neg | neg | neg | 12,0% | 32,6% | 43,8% | 41,5% |
| ROIC | neg | neg | neg | neg | 16,5% | 51,7% | 93,5% | 127,7% |
| ROCE | neg | neg | neg | neg | 10,2% | 26,0% | 34,5% | 32,5% |

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

| kDKK | 2018 | 2019 | 2020e | 2021e | 2022e | 2023e | 2024e | 2025e |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Inventories | 694 | 390 | 873 | 3 830 | 5 953 | 7 211 | 9 592 | 11 548 |
| Account receivable | 431 | 244 | 983 | 4 309 | 6 509 | 8 667 | 12 870 | 16 033 |
| Other receivables | 1 988 | 2 401 | 1 793 | 3 495 | 3 495 | 3 495 | 3 495 | 3 495 |
| Cash and cash equivalents | 60 084 | 41 408 | 28 389 | 11 644 | 10 724 | 19 838 | 44 343 | 88 787 |
| Total current assets | 63 197 | 44 443 | 32 038 | 23 277 | 26 680 | 39 211 | 70 301 | 119 863 |
| Tangible assets | 117 | 548 | 567 | 799 | 963 | 1 078 | 1 160 | 1 218 |
| Intangible assets | - | - | - | - | - | - | - | - |
| Financial assets | 110 | 167 | 171 | 171 | 171 | 171 | 171 | 171 |
| Total fixed assets | 227 | 715 | 738 | 970 | 1 134 | 1 249 | 1 331 | 1 389 |
| Total assets | 63 424 | 45 158 | 32 776 | 24 247 | 27 814 | 40 460 | 71 632 | 121 252 |
| Accounts payable | 339 | 927 | 546 | 670 | 893 | 1 202 | 1 918 | 2 475 |
| Short-term debt | - | - | - | - | - | - | - | - |
| Other liabilities | 2 073 | 2 015 | 498 | 612 | 815 | 548 | 875 | 1 129 |
| Total current liabilities | 2 412 | 2 942 | 1 044 | 1 282 | 1 708 | 1 750 | 2 794 | 3 604 |
| Other provisions | - | - | - | - | - | - | - | - |
| Total equity | 61 011 | 42 215 | 31 731 | 22 964 | 26 105 | 38 709 | 68 837 | 117 647 |
| Total equity and liabilities | 63 423 | 45 157 | 32 775 | 24 246 | 27 813 | 40 459 | 71 630 | 121 250 |

Source: Västra Hamnen Corporate Finance

Cash flow statement

| kDKK | 2018 | 2019e | 2020e | 2021e | 2022e | 2023e | 2024e | 2025e |
|---------------------------------|---------------|-----------------|-----------------|-----------------|--------------|---------------|---------------|---------------|
| Operating activities | (17 081) | (17 963) | (18 111) | (8 547) | 3 430 | 12 940 | 30 498 | 49 204 |
| Changes in working capital | 701 | (110) | (2 512) | (7 746) | (3 897) | (3 374) | (5 541) | (4 308) |
| Investing activities | (2) | (603) | (231) | (452) | (452) | (452) | (452) | (452) |
| Financing activities | 75 000 | - | 7 835 | - | - | - | - | - |
| Cash flow for the period | 58 618 | (18 676) | (13 019) | (16 745) | (920) | 9 114 | 24 506 | 44 444 |
| Beginning cash balance | - | 58 618 | 39 942 | 26 923 | 10 178 | 9 258 | 18 372 | 42 877 |
| Adjustments | - | - | - | - | - | - | - | - |
| Ending cash balance | 58 618 | 39 942 | 26 923 | 10 178 | 9 258 | 18 372 | 42 877 | 87 321 |

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

| kDKK | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020e | Q1 2021e | Q2 2021e |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net revenues | 551 | 461 | 445 | 760 | 1 850 | 1 993 | 2 720 | 4 903 |
| Total revenues | 551 | 461 | 445 | 760 | 1 850 | 1 993 | 2 720 | 4 903 |
| Cost of goods sold | (88) | (127) | (147) | (182) | (326) | (399) | (544) | (981) |
| Gross profit | 463 | 334 | 298 | 578 | 1 524 | 1 594 | 2 176 | 3 922 |
| Personnel costs | (1 975) | (3 116) | (2 890) | (2 819) | (2 561) | (2 754) | (2 871) | (3 000) |
| Other external costs | (2 725) | (4 192) | (3 787) | (2 268) | (2 883) | (2 754) | (3 445) | (3 601) |
| EBITDA | (4 237) | (6 974) | (6 379) | (4 509) | (3 920) | (3 915) | (4 139) | (2 679) |
| Amortisation & depreciation | 0 | (54) | (54) | (54) | (59) | (41) | (47) | (53) |
| EBIT | (4 237) | (7 028) | (6 433) | (4 563) | (3 979) | (3 956) | (4 186) | (2 732) |
| Net financial items | (66) | (60) | (76) | (48) | (74) | (70) | (70) | (70) |
| EBT | (4 303) | (7 089) | (6 509) | (4 611) | (4 053) | (4 026) | (4 256) | (2 802) |
| Taxes | 309 | 311 | 322 | 253 | 305 | - | - | - |
| Net profit | (3 994) | (6 778) | (6 187) | (4 358) | (3 748) | (4 026) | (4 256) | (2 802) |
| Earnings per share (DKK) | (1,32) | (2,23) | (2,04) | (1,44) | (1,24) | (1,33) | (1,40) | (0,92) |
| Y-o-Y Growth (%) | | | | | | | | |
| Net revenues | (33,2%) | (44,2%) | (59,7%) | (48,1%) | 235,8% | 332,6% | 511,3% | 545,1% |
| 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 | 84,1% | 72,5% | 67,0% | 76,1% | 82,4% | 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 | 358,6% | 676,5% | 649,4% | 370,9% | 138,4% | 138,2% | 105,5% | 61,2% |
| Total OPEX | 853,2% | 1586,6% | 1500,4% | 669,3% | 294,3% | 276,5% | 232,2% | 134,6% |
| 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 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020e | Q1 2021e | Q2 2021e |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Inventories | 741 | 390 | 249 | 488 | 586 | 873 | 1 193 | 2 149 |
| Account receivable | 129 | 244 | 253 | 564 | 1 324 | 983 | 1 342 | 2 418 |
| Other receivables | 3 435 | 2 401 | 2 358 | 2 604 | 2 417 | 1 793 | 2 176 | 3 432 |
| Cash and cash equivalents | 47 626 | 41 408 | 35 725 | 39 433 | 38 030 | 28 389 | 23 387 | 17 353 |
| Total current assets | 51 931 | 44 443 | 38 585 | 43 089 | 42 357 | 32 038 | 28 098 | 25 352 |
| Tangible assets | 257 | 548 | 494 | 441 | 495 | 567 | 633 | 693 |
| Intangible assets | - | - | - | - | - | - | - | - |
| Financial assets | 279 | 167 | 167 | 167 | 171 | 171 | 171 | 171 |
| Total fixed assets | 536 | 715 | 661 | 608 | 666 | 738 | 804 | 864 |
| Total assets | 52 467 | 45 158 | 39 246 | 43 697 | 43 023 | 32 776 | 28 901 | 26 215 |
| Accounts payable | 1 385 | 927 | 1 242 | 1 276 | 1 022 | 546 | 745 | 806 |
| Short-term debt | - | - | - | - | - | - | - | - |
| Other liabilities | 2 089 | 2 015 | 1 977 | 2 916 | 6 243 | 498 | 680 | 735 |
| Total current liabilities | 3 474 | 2 942 | 3 219 | 4 192 | 7 265 | 1 044 | 1 425 | 1 541 |
| Other provisions | - | - | - | - | - | - | - | - |
| Total equity | 48 993 | 42 215 | 36 028 | 39 505 | 35 757 | 31 731 | 27 475 | 24 673 |
| Total equity and liabilities | 52 466 | 45 157 | 39 247 | 43 697 | 43 022 | 32 775 | 28 900 | 26 214 |

Source: Västra Hamnen Corporate Finance

Cash flow statement

| kDKK | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020e | Q1 2021e | Q2 2021e |
|---------------------------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|
| Operating activities | (4 553) | (4 856) | (6 133) | (4 304) | (3 689) | (3 985) | (4 209) | (2 749) |
| Changes in working capital | 2 215 | (1 130) | 450 | 177 | 2 404 | (5 543) | (680) | (3 172) |
| Investing activities | (202) | (232) | - | - | (118) | (113) | (113) | (113) |
| Financing activities | - | - | - | 7 835 | - | - | - | - |
| Cash flow for the period | (2 540) | (6 218) | (5 683) | 3 708 | (1 403) | (9 641) | (5 002) | (6 034) |
| Beginning cash balance | 50 165 | 47 626 | 41 408 | 35 725 | 39 433 | 38 030 | 28 389 | 23 387 |
| Adjustments | - | - | - | - | - | - | - | - |
| Ending cash balance | 47 626 | 41 408 | 35 725 | 39 433 | 38 030 | 28 389 | 23 387 | 17 353 |

Source: Västra Hamnen Corporate Finance

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