

Update: Report Q1 2021

2021-05-04

ViroGates: Success in anakinra study

- Q1 revenue and net loss slightly weaker than our estimates
- Anakinra success should accelerate demand and we raise our forecasts
- New valuation interval of DKK 115.00 – 180.00 (DKK 104.20 – 162.00) per share

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Stock ticker: VIRO
Industry: MedTech
Listed on: First North Copenhagen
Latest stock price (DKK): 210,0
Market cap (MDKK): 682,0
Enterprise Value (MDKK): 658,5
Total number of shares (M): 3,25
- of which free float (M): 1,64

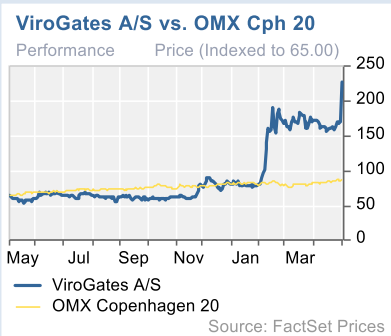
VHCF fair value per share
DCF model DKK 115,00 - 180,00

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

Main owners (24 Mar 2021)

Owner	Capital (%)
N. P. LOUIS-HANSEN APS.	26,14%
KIM GINNERUP APS	10,43%
4AM APS	10,43%
JEO HOLDING APS	4,72%

Stock price history



	-1m	-3m	-12m
Change (%)	31,0	154,7	261,9
52 w k range (Low /Hi) - DKK	54 / 230		

Source: FactSet

Last week's release of ViroGates' Q1 report contained no big surprises. Revenues were slightly lower than we had expected and the net loss therefore marginally wider, but the overall picture corresponded well with our scenario for the company. A more noteworthy news item arrived yesterday with the [outcome of the phase III clinical trial](#) with suPAR-guided anakinra treatment of COVID-19 pneumonia patients. The study showed strong significance for the treatment, paving the way for an EMA application for the combined use of suPAR tests with anakinra. This is an important validation of suPAR triaging and should accelerate ViroGates' commercial progress. While much is still uncertain, we feel it is appropriate to scale up our revenue forecasts and thereby raise our valuation interval.

The clinical trial with anakinra has been executed at an unusual speed. The trial involved 42 hospitals in Greece and Italy and comprised over 600 patients hospitalised with COVID-19 and deemed at risk of severe respiratory failure. All patients were enrolled before the end of March with a final follow-up 28 days later, and the fact that summary results are already out shows the effort that has been put into completing the trials swiftly.

We have no details on the study results other than that the treatment group had 64 percent better clinical outcomes than the placebo group, as measured by the comparative 11-point WHO Clinical Progression ordinal scale, the study's primary endpoint. The result was highly significant ($p < 0.001$). There was a demonstrated decrease both in deaths and in cases of severe respiratory failure.

In the trial, patients were triaged with a suPARnostic product and only patients with an elevated suPAR reading of more than 6 ng/ml were randomised to receive either anakinra or placebo in addition to standard-of-care treatment. Patients with lower suPAR levels were deemed as not needing acute care and could in many instances be discharged from hospital.

Table 1: Financial Overview

MDKK	2019	2020	2021e	2022e	2023e
Net sales	3,6	5,4	19,2	59,9	95,6
Growth (%)	8,0%	49,5%	258,1%	212,6%	59,6%
Gross margin (%)	89,3%	78,3%	79,8%	79,9%	79,3%
EBIT	(19,7)	(19,7)	(11,7)	15,6	39,5
EBIT margin (%)	neg	neg	neg	26,0%	41,3%
Cash holdings	41,4	33,5	13,2	19,2	52,8
Total assets	45,2	38,2	25,3	40,4	80,9
Total equity	42,2	31,3	20,2	35,6	74,8
Solidity (%)	93,5%	81,9%	80,1%	88,0%	92,5%
P/E	neg	neg	neg	44,5	17,4
ROE	neg	neg	neg	43,1%	52,4%
EV/EBIT (x)	neg	neg	neg	42,2	16,7
EV/Sales (x)	183,8	123,0	34,3	11,0	6,9

Source: Västra Hamnen Corporate Finance

Anakinra should only be prescribed to those in acute need

The point of restricting the use of anakinra to the most severely suffering patients, as explained by CEO Jakob Knudsen in [yesterday's web conference](#), is that the pharmaceutical involves some unwanted side effects. Anakinra will suppress the patient's own immune response and should not be administered to patients who have an immune system capable of overcoming the virus on its own. It is therefore extremely valuable to have a suPAR reading as a reliable indication of whether the patient needs the drug or not.

COVID-related remedies get express treatment

The next step forward is for the study investigator at the Hellenic Institute for the Study of Sepsis to complete the data analysis, including side effects and secondary endpoints. The objective is to present the findings in a peer-reviewed journal article. We are told that many journals have adopted an expedited procedure for article approval for COVID-related material, which could mean (we assume) publication within weeks rather than months. Simultaneously, Swedish Orphan Biovitrum, who owns the rights to anakinra and its commercial product Kineret, will be responsible for filing a market application to EMA. The company will probably look for a label extension specifying the use of Kineret with patients triaged to a suPAR level above a certain threshold. The EMA process also runs at express speed for COVID-related applications so, according to our guesstimate, approval could be less than a year away.

The implications for ViroGates could be monumental. It is the only company supplying suPARnostic tests and must therefore be commercially involved in any application. Its test products will not be bundled with Kineret and sold as a kit, but the use of Kineret would in the COVID context imply simultaneous use of one of ViroGates' products, either TurbiLatex or Quick Triage. The products would sell at the same prices as in other contexts.

Physicians may start suPAR testing candidates for anakinra at any time

The question is how soon ViroGates could experience an uptick in demand. An effect can certainly be expected when (if) EMA approves a label extension for anakinra referencing suPAR levels. From that moment, ViroGates may use the results actively in its marketing, but we suspect the effect could kick in much sooner. As soon as the full result of the phase III study is published in a peer reviewed journal, the medical profession will become aware of the benefits of using suPARnostic tests with anakinra, both of which have market approval already. It would be up to each practicing physician to start combining them.

Anakinra study could be breakthrough event for wider use of suPAR

We will work under the assumption that an article could be out as soon as early Q3 this year and that an uptick in demand would become increasingly noticeable from there on. Longer term, COVID-19 will most likely abate but the market for suPAR tests will not. In the recently completed phase III trials, ViroGates gained 42 new hospitals who became accustomed to triaging patients with suPAR, and many can be expected to transfer that experience to general emergency room triaging. As the word spreads, we expect it to be much easier to advance the company's market expansion than it would have in the absence of the present study. We have therefore decided to adjust our forecasts to imply steeper sales growth from Q3 2021 and onward, see details further down.

Focusing for a minute on the report for Q1 2021, it was largely in line with our expectations. Revenue increased by 367 percent compared to the first quarter 2020 and reached DKK 2.1 million, whilst operating expenses decreased by 8 percent to DKK -6.2 million. This entailed a decrease of 28% in operating loss, which amounted to DKK -4.3 million and remains well in line with our forecasts.

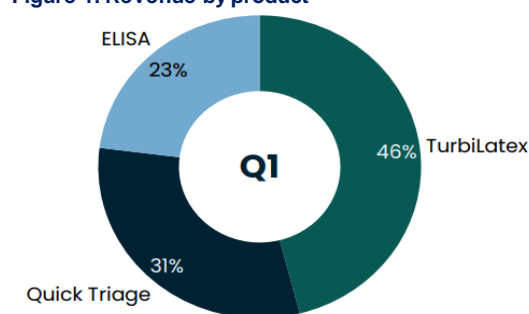
Sales mix slides towards clinically relevant products

The report only contained minor news compared to the information we had a month ago when we published our [most recent update](#) following the release of ViroGates' annual report for 2020. The effort since 2020 to shift sales towards their products TurbiLatex and Quick Triage is proceeding well. These products are more commercially viable as they are considered clinically relevant products. This new sales mix in combination with a growing customer base is expected to help the company grow sales. The focus on selling the more commercially viable products results in a decreased revenue share for ELISA compared to

2020, which Figure 1 illustrates; TurbiLatex and Quick Triage accounted for more than 75 percent of total sales in the first quarter of 2021.

ViroGates also announced that the EU grant they received in 2020 will be used to set up alternative production facilities in Europe for TurbiLatex. This will help ensure a more stable supply of the product since ViroGates can turn to multiple manufacturers, whilst it also decreases production related risks.

Figure 1: Revenue by product



Source: ViroGates

Revenue and cash equivalents lower than expected

If we turn to the numbers reported by ViroGates for the past quarter, we can see in Table 2 that revenue came in about DKK 640 thousand below our forecast, despite its impressive growth of 367 percent compared to the same quarter last year. The company's operating expenses came in lower than expected, which means the discrepancy in net profit is smaller than the revenue discrepancy.

The one noteworthy aspect of Table 2 is the difference in cash and equivalents of more than DKK 2 million. This is due to ViroGates' having a higher net working capital than we forecast, which means more cash was tied up in operating assets and thereby decreased cash and equivalents.

Table 2: Estimates vs actual, Q1 2021

kDKK	Q1 '20	Q1 '21est	Q1 '21act	Diff
Net Revenues	445	2 720	2 076	(644)
Total Revenues	445	2 720	2 076	(644)
Cost of Goods Sold	(147)	(544)	(453)	91
Gross profit	298	2 176	1 623	(553)
R&D Costs	(1 481)	(1 579)	(1 694)	(115)
Sales and Marketing Costs	(4 402)	(3 789)	(3 675)	114
Administrative Costs	(794)	(947)	(795)	152
Total OPEX	(6 677)	(6 316)	(6 164)	152
EBITDA	(6 379)	(4 140)	(4 541)	(401)
Amortisation and Depreciation	(54)	(36)	(59)	(23)
EBIT	(6 433)	(4 175)	(4 600)	(425)
Net Financial Items	(76)	(70)	(48)	22
EBT	(6 509)	(4 245)	(4 648)	(403)
Tax	322	311	373	62
Net Profit	(6 187)	(3 934)	(4 275)	(341)
Cash and Equivalents	35 725	25 773	23 563	(2 210)
Total Equity	36 028	27 380	27 039	(341)

Source: Västra Hamnen Corporate Finance

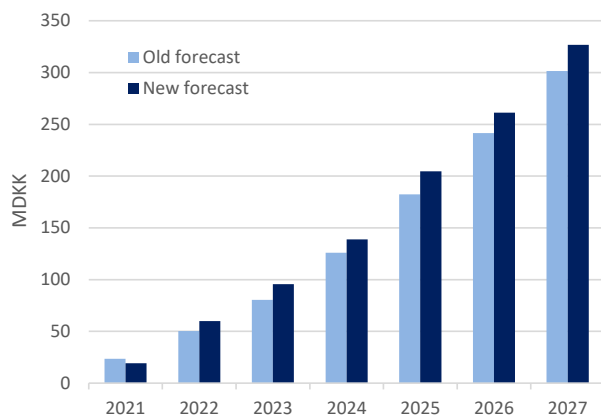
Five new customers added during the quarter

Other news worth mentioning, which were discussed in our previous update, include the addition of five new customers during the quarter. Four hospitals in Greece and one hospital in Spain were added to ViroGates' list of clinical routine customers. This decreases their dependency on individual customers, which in turn decreases the risks associated with losing an important customer. CE-IVD approval was also obtained for TurbiLatex on the Abbot Alinity platform whilst the delay with regards to the POC+ product means it is expected to launch in H2 2021.

We have decided to adjust our valuation model somewhat, primarily on the basis of the successful anakinra study. We expect the outcome to help accelerate the company's sales progress notably. The effect could be felt already in Q3 this year, but we have made bigger adjustments to the following quarters, which is when we think the effect will kick in more fully. At the same time, we have lowered our baseline sales scenario for the coming two quarters, reflecting the somewhat weaker than expected outcome in Q1. In combination,

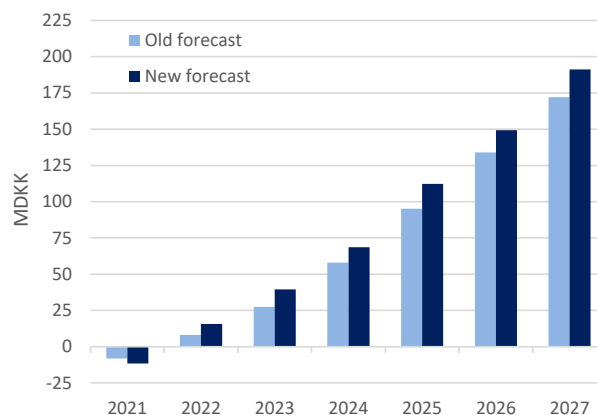
the model revisions mean slightly lower revenue and profit forecasts for 2021 than before, but higher ditto for every year thereafter, cf. Figures 2 and 3 below.

Figure 2: Revenue forecasts



Source: Västra Hamnen Corporate Finance

Figure 3: EBITDA forecasts



Source: Västra Hamnen Corporate Finance

Below is a summary of our DCF model reflecting the revision. The forecast adjustments mean we arrive at a new and higher fair value interval for the share. **We raise our valuation interval to DKK 115.00 – 180.00 per share from our previous interval DKK 104.20 – 162.00 per share.**

Table 3: DCF model assumptions

MDKK	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Total revenues	19,2	59,9	95,6	139,0	204,5	261,4	326,7
EBIT	(11,7)	15,6	39,5	68,4	112,2	149,3	191,2
EBIT margin	-61,1%	26,0%	41,3%	49,3%	54,9%	57,1%	58,5%
Adj. Taxes	-	-	-	(5,4)	(24,7)	(32,8)	(42,1)
NOPLAT (= EBIT - tax)	(11,7)	15,6	39,5	63,0	87,5	116,4	149,2
Depreciation	0,1	0,1	0,1	0,0	0,0	0,0	0,0
Capex + Working cap	(9,4)	(9,4)	(5,7)	(7,6)	(6,8)	(5,6)	(5,3)
Net cash flow	(21,0)	6,3	33,9	55,5	80,8	110,9	143,9

DCF (MDKK)

WACC	16,0%	16,0%
Enterprise value (EV)	702,8	702,8
Prob of profitability	50%	80%
Risk adjusted EV	351,4	562,2
Options	-	-
Net cash	23,6	23,6
Fair value market cap	374,9	585,8
No. of shares, diluted (M)	3,25	3,25

Fair value/share (DKK) 115,00 180,00

Source: Västra Hamnen Corporate Finance

Sensitivity analysis (value per share, DKK)

		Prob of profitability			
		50%	60%	75%	80%
WACC	19%	89,00	105,00	130,00	138,00
	17%	105,00	125,00	154,00	164,00
	16%	115,00	137,00	170,00	180,00
	13%	158,00	189,00	234,00	249,00
	11%	205,00	245,00	304,00	324,00

Income Statement - Annual Data

kDKK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Net revenues	3 582	5 354	19 172	59 925	95 647	138 965	204 517	261 358
Total revenues	3 582	5 354	19 172	59 925	95 647	138 965	204 517	261 358
Cost of goods sold	(384)	(1 164)	(3 872)	(12 061)	(19 833)	(30 408)	(48 019)	(63 221)
Gross profit	3 198	4 190	15 300	47 864	75 814	108 557	156 498	198 137
R&D costs	(5 584)	(5 798)	(6 872)	(8 043)	(9 072)	(10 017)	(11 062)	(12 215)
Sales and marketing costs	(13 921)	(14 150)	(16 102)	(19 303)	(21 772)	(24 042)	(26 548)	(29 316)
Administrative costs	(3 300)	(3 740)	(3 902)	(4 826)	(5 443)	(6 010)	(6 637)	(7 329)
EBITDA	(19 607)	(19 498)	(11 576)	15 692	39 527	68 487	112 251	149 278
Amortisation & depreciation	(116)	(229)	(145)	(84)	(60)	(42)	(30)	(21)
EBIT	(19 723)	(19 727)	(11 720)	15 607	39 467	68 445	112 221	149 257
Net financial items	(286)	(253)	(258)	(280)	(280)	(280)	(280)	(280)
EBT	(20 009)	(19 980)	(11 978)	15 327	39 187	68 165	111 941	148 977
Taxes	1 212	1 246	911	-	-	(6 058)	(24 627)	(32 775)
Net profit	(18 797)	(18 734)	(11 068)	15 327	39 187	62 107	87 314	116 202
Earnings per share (DKK)	(6,19)	(6,17)	(3,65)	5,05	12,91	20,47	28,78	38,30
Growth (%)								
Net revenues	8,0%	49,5%	258,1%	212,6%	59,6%	45,3%	47,2%	27,8%
EBITDA	na	na	na	na	151,9%	73,3%	63,9%	33,0%
EBIT	na	na	na	na	152,9%	73,4%	64,0%	33,0%
Net profit	na	na	na	na	155,7%	58,5%	40,6%	33,1%
% of revenues (%)								
Gross margin	89,3%	78,3%	79,8%	79,9%	79,3%	78,1%	76,5%	75,8%
EBITDA margin	neg	neg	neg	26,2%	41,3%	49,3%	54,9%	57,1%
EBIT margin	neg	neg	neg	26,0%	41,3%	49,3%	54,9%	57,1%
EBT margin	neg	neg	neg	25,6%	41,0%	49,1%	54,7%	57,0%
Profit margin	neg	neg	neg	25,6%	41,0%	44,7%	42,7%	44,5%
Total OPEX	636,6%	442,4%	140,2%	53,7%	37,9%	28,8%	21,6%	18,7%
Profitability (%)								
ROE	neg	neg	neg	43,1%	52,4%	43,0%	37,7%	33,4%
ROIC	neg	neg	neg	74,5%	140,2%	180,8%	241,3%	0,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kDKK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Inventories	390	907	3 830	8 016	10 748	15 295	18 972	21 261
Account receivable	244	1 601	4 309	9 305	13 501	20 303	27 655	35 519
Other receivables	2 401	1 609	3 495	3 495	3 495	3 495	3 495	3 495
Cash and cash equivalents	41 408	33 525	13 169	19 224	52 803	114 742	195 301	305 938
Total current assets	44 443	37 642	24 802	40 040	80 547	153 835	245 422	366 213
Tangible assets	548	432	287	203	143	101	71	50
Intangible assets	-	-	-	-	-	-	-	-
Financial assets	167	171	172	172	172	172	172	172
Total fixed assets	715	603	459	375	315	273	243	222
Total assets	45 158	38 245	25 261	40 415	80 862	154 108	245 665	366 436
Accounts payable	927	3 654	2 394	2 531	3 793	6 118	8 756	11 597
Short-term debt	-	-	-	-	-	-	-	-
Other liabilities	2 015	3 278	2 621	2 310	2 308	3 722	5 327	7 055
Total current liabilities	2 942	6 932	5 015	4 841	6 101	9 840	14 083	18 651
Total equity	42 215	31 314	20 246	35 574	74 761	144 268	231 583	347 784
Total equity and liabilities	45 157	38 246	25 261	40 415	80 862	154 108	245 665	366 436

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Operating activities	(17 963)	(18 505)	(10 923)	15 412	39 247	62 149	87 344	116 223
Changes in working capital	(110)	2 905	(9 433)	(9 356)	(5 668)	(7 610)	(6 785)	(5 585)
Investing activities	(603)	(114)	-	-	-	-	-	-
Financing activities	-	7 835	-	-	-	7 400	-	-
Cash flow for the period	(18 676)	(7 879)	(20 356)	6 056	33 579	61 939	80 558	110 638
Beginning cash balance	60 083	41 407	33 528	13 172	19 227	52 806	114 745	195 304
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	41 407	33 528	13 172	19 227	52 806	114 745	195 304	305 941

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kDKK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e
Net revenues	445	760	1 850	2 299	2 076	2 542	5 818	8 737
Total revenues	445	760	1 850	2 299	2 076	2 542	5 818	8 737
Cost of goods sold	(147)	(182)	(326)	(509)	(453)	(508)	(1 164)	(1 747)
Gross profit	298	578	1 524	1 790	1 623	2 034	4 654	6 989
R&D costs	(1 481)	(1 164)	(1 412)	(1 741)	(1 694)	(1 650)	(1 725)	(1 803)
Sales and marketing costs	(4 402)	(2 948)	(3 279)	(3 521)	(3 675)	(3 961)	(4 140)	(4 327)
Administrative costs	(794)	(974)	(753)	(1 219)	(795)	(990)	(1 035)	(1 082)
EBITDA	(6 379)	(4 508)	(3 920)	(4 691)	(4 541)	(4 567)	(2 245)	(222)
Amortisation & depreciation	(54)	(54)	(59)	(62)	(59)	(31)	(28)	(26)
EBIT	(6 433)	(4 562)	(3 979)	(4 753)	(4 600)	(4 598)	(2 274)	(248)
Net financial items	(76)	(48)	(74)	(55)	(48)	(70)	(70)	(70)
EBT	(6 509)	(4 610)	(4 053)	(4 808)	(4 648)	(4 668)	(2 344)	(318)
Taxes	322	253	305	366	373	342	172	23
Net profit	(6 187)	(4 357)	(3 748)	(4 442)	(4 275)	(4 326)	(2 172)	(295)
Earnings per share (DKK)	(2,04)	(1,44)	(1,24)	(1,46)	(1,41)	(1,43)	(0,72)	(0,10)
Y-o-Y Growth (%)								
Net revenues	(59,7%)	(48,1%)	235,8%	399,1%	366,5%	234,5%	214,5%	280,0%
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	67,0%	76,1%	82,4%	77,9%	78,2%	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
Total OPEX	1500,4%	669,2%	294,3%	281,9%	296,9%	259,7%	118,6%	82,5%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kDKK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e
Inventories	249	488	586	907	1 494	1 114	2 550	3 830
Account receivable	253	564	1 324	1 601	2 017	1 254	2 869	4 309
Other receivables	2 358	2 604	2 417	1 609	2 059	1 779	3 491	3 495
Cash and cash equivalents	35 725	39 434	38 031	33 525	23 563	20 691	15 386	13 169
Total current assets	38 585	43 090	42 358	37 642	29 133	24 839	24 295	24 802
Tangible assets	494	441	495	432	373	342	313	287
Intangible assets	-	-	-	-	-	-	-	-
Financial assets	167	167	171	171	172	172	172	172
Total fixed assets	661	608	666	603	545	514	485	459
Total assets	39 246	43 698	43 024	38 245	29 678	25 353	24 781	25 261
Accounts payable	1 242	1 276	1 022	3 654	785	1 114	1 913	2 394
Short-term debt	-	-	-	-	-	-	-	-
Other liabilities	1 977	2 916	6 243	3 278	1 854	1 525	2 327	2 621
Total current liabilities	3 219	4 192	7 265	6 932	2 639	2 640	4 240	5 015
Total equity	36 028	39 506	35 758	31 314	27 039	22 713	20 541	20 246
Total equity and liabilities	39 247	43 698	43 023	38 246	29 678	25 353	24 781	25 261

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e
Operating activities	(6 133)	(4 303)	(3 689)	(4 380)	(4 216)	(4 295)	(2 143)	(269)
Changes in working capital	450	177	2 404	(126)	(5 746)	1 423	(3 162)	(1 948)
Investing activities	-	-	(118)	4	-	-	-	-
Financing activities	-	7 835	-	-	-	-	-	-
Cash flow for the period	(5 683)	3 709	(1 403)	(4 502)	(9 962)	(2 872)	(5 306)	(2 217)
Beginning cash balance	41 408	35 725	39 434	38 031	33 525	23 563	20 691	15 386
Adjustments	-	-	-	-	-	-	-	-
Ending cash balance	35 725	39 434	38 031	33 525	23 563	20 691	15 386	13 169

Source: Västra Hamnen Corporate Finance

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