

Update Q2 report 2021

2021-09-01

LED iBond: Delayed by the pandemic

- Lower top and bottom line than forecast
- Acquisition of VirusKill presents opportunity to raise stakes
- We lower our fair value interval to DKK 14.70 – 22.10 per share

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Stock ticker: LEDIBOND
Industry: Electrical products
Listed on: First North Copenhagen
Latest stock price (DKK): 10,40
Market cap (MDKK): 165,0
Enterprise Value (MDKK): 122,4
Total number of shares (M): 15,86
- of which free float (M): 4,57

VHCF fair value per share

DCF model 14,70 - 22,10

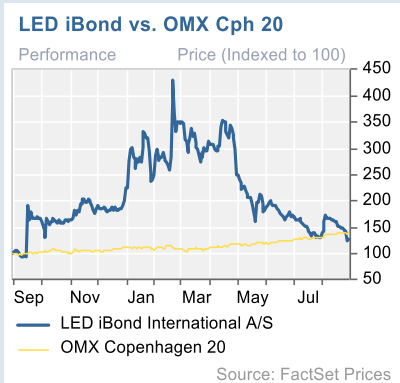
LED iBond International A/S

Address: Agern Allé 5A
2970 Hørsholm, Denmark
Webpage: ledibond.com
CEO: Pia Stangerup

Main owners (31 Mar 2021)

Owner	Capital (%)
NLR Invest ApS	21,3%
LAROMINI ApS	17,3%
Green Technology Investment ApS	12,5%

Stock price history



	-1m	-3m	-12m
Change (%)	-10.9	-31.3	16.7
52 w k range (Low /Hi) - DKK	6,82 - 37,44		

Source: FactSet

LED iBond's report for the second quarter came in lower than we had forecast with regards to revenue. This is mainly down to the fact that the Covid-19 pandemic continues to negatively impact the company and its main segments. The interest in and demand for LED iBond's products within vertical farming is, however, substantial and bodes well for the future. The company also welcomed new CEO Pia Stangerup on board during the quarter. In the Q2 report, certain modifications to the downside were made to the company's financial outlook. This, combined with the ongoing impact of the pandemic, means we see it appropriate to decrease our fair value per share to an interval of DKK 14.70 – 22.10.

The net revenue for the second quarter came in at DKK 1.1 million. This figure, which continues to be negatively impacted by the Covid-19 pandemic, can be compared to last year's Q2 revenue of DKK 0.4 million and this year's Q1 revenue of DKK 4.1 million. The revenue entailed a gross margin for the quarter of 21.3%, down from 41.9% in Q1. An increase in staff costs meant that operating expenses, which totalled DKK 3.9 million during Q2, increased compared to Q1 and that the net loss amounted to DKK 5.7 million. Cash holdings at the end of the quarter equalled DKK 43 million, in part due to a capital increase in the shape of a rights issue.

In April, LED iBond announced that they had raised DKK 57.1 million from a rights issue. The company noted a significant demand, hence it was oversubscribed by 62% and just over 3 million new shares were offered. Furthermore, LED iBond acquired the remaining 50% of LED VirusKill after the quarter's closing date, meaning they now own 100% of the company. Although no price is stated, LED VirusKill had a balance sheet total at the end of last year of just over DKK 2 million, and we assume the price is close to that figure. Lastly, the company welcomed Pia Stangerup as the new CEO during the quarter, leaving her previous role since December 2020 as Chief Commercial Officer to take up her new role.

Table 1: Financial Overview

MDKK	2018	2019	2020	2021e	2022e
Net turnover	6,5	11,8	7,4	10,6	69,2
Growth (%)	na	80,0%	-37,5%	44,6%	549,9%
Gross margin (%)	35,1%	37,9%	41,2%	27,5%	33,2%
EBIT	-16,1	-17,5	-18,5	-17,7	-3,9
EBIT margin (%)	neg	neg	neg	neg	neg
Cash holdings	13,0	6,4	9,9	39,0	31,6
Total assets	66,5	58,0	66,4	96,8	117,1
Total equity	19,6	32,7	44,2	77,9	75,3
Solidity (%)	29,5%	56,3%	66,6%	80,4%	64,3%
P/E	neg	neg	neg	neg	neg
ROE	neg	neg	neg	neg	neg
EV/EBIT (x)	neg	neg	neg	neg	neg
EV/Sales (x)	17	10	15	11	2

Source: Västra Hamnen Corporate Finance

Table 2: Estimates vs actual, Q2 2021

kDKK	Q2 '20	Q2 '21est	Q2 '21act	Diff
Net Revenues	354	4 368	1 134	-3 234
Grants & compensations	0	90	0	-90
Total Revenues	354	4 458	1 134	-3 324
Cost of Goods Sold	-386	-2 799	-892	1 907
Gross Profit	-32	1 658	242	-1 416
Personnel Expenses	-1 947	-1 816	-2 733	-917
Other Operating Expenses	-1 474	-3 453	-1 421	2 032
Total OPEX	-3 421	-5 269	-4 154	1 115
EBITDA	-3 453	-3 611	-3 912	-301
Amortisation and Depreciation	-2 679	-1 797	-3 030	-1 233
EBIT	-6 132	-5 408	-6 942	-1 534
Net Financial Items	-3 778	-90	-379	-289
EBT	-9 910	-5 498	-7 321	-1 823
Tax	2 180	1 210	1 613	403
Net Profit	-7 730	-4 289	-5 708	-1 419
Cash and Equivalents	20 383	47 105	43 022	-4 083
Total Equity	50 364	84 845	83 010	-1 834

Source: Västra Hamnen Corporate Finance

Top and bottom line lower than forecast

When comparing LED iBond's reported figures to our forecast, certain differences become apparent. Net revenues were over DKK 3 million lower compared to our forecast, mainly because we underestimated the continued impact of Covid-19 throughout certain segments. This in turn entailed that our forecasted gross profit was significantly higher than reported. Personnel expenses were around DKK 1 million higher, something we assume is related to the CEO change and therefore constitutes a one-off increase. LED iBond were able to parry the increased personnel expenses with much lower other operating expenses than forecast, hence EBITDA was very much in line with our expectations. Net profit was DKK 1.5 million lower mainly due to higher amortization and depreciation expenses. Lastly, the discrepancy in cash holdings of DKK 4 million is explained by the company's increased investment in IPR for the quarter, which amounted to ca DKK 3.5 million.

Adjustments made to our valuation model

As a result of the reported numbers presented, we have made some adjustments to our valuation model. All segments are impacted by the Covid-19 pandemic where procurement processes are postponed, cross-border travel is restricted, transportation of goods is experiencing bottlenecks and shortages of components is apparent. The adjustments we have made reflect our suspicion that these pandemic-related affects will persist until the beginning of next year, 2022. More specifically, we have made changes to reflect the following with regards to LED iBond's different segments.

Smart building market afflicted by the pandemic

The **smart building** market is significantly impacted by the pandemic since these renovations are non-critical. This is apparent in Singapore, where a big elevator renovation project has been paused for over a year following instructions from the Singapore government. Lighting renovation projects within the gas station segment have, however, been resumed recently, hinting at a recovery from the pandemic. Sales within Tracy have so far not been satisfactory, according to LED iBond. However, the renovations market could lift sales and if the company invests more in the product, in the form of personnel or R&D, then that bodes well for the future. We believe that when these markets recover from the pandemic's restrictions, which we forecast to be during H1 next year, the growth will be at a high pace. Until then, sales forecasts have been revised down.

Strong demand for vertical farming products

Within **vertical farming**, LED iBond reports strong growth and a high demand in the shape of multiple requests for proposals to lighting solutions for indoor horticultural projects. This segment has not been affected by the pandemic in the same way smart buildings has. This is mainly because the customers within vertical farming are food growers, and they managed and coped very well during Covid-19 because demand for their products was always high. Hence, money is available for future investments meaning demand for LED iBond's superior vertical farming products is higher than we expected. Hence, we increase our sales forecast for the next year to reflect the stronger-than-anticipated demand.

Aviation sales within UV-C disinfection delayed by pandemic

The **UV-C disinfection** market, where LED iBond’s spin-off LED Aviation delivers disinfection systems for airport security checkpoints, has experienced a significant slowdown due to the pandemic. Airport investments are at very low levels due to airports having to prioritize other things to survive during a time where travel is at a minimum. LED Aviation has received an order for 50 disinfection systems from Vanderlande, which we originally thought would be delivered this year. However, the order has been postponed and no new date is set as of yet. The system is, however, approved by Intertek for international sales. The aviation component of the company’s UV-C disinfection segment will, according to our forecast, reinstate sales during 2022 and grow from thereon. This means we have delayed sales by about six months compared to our previous estimate.

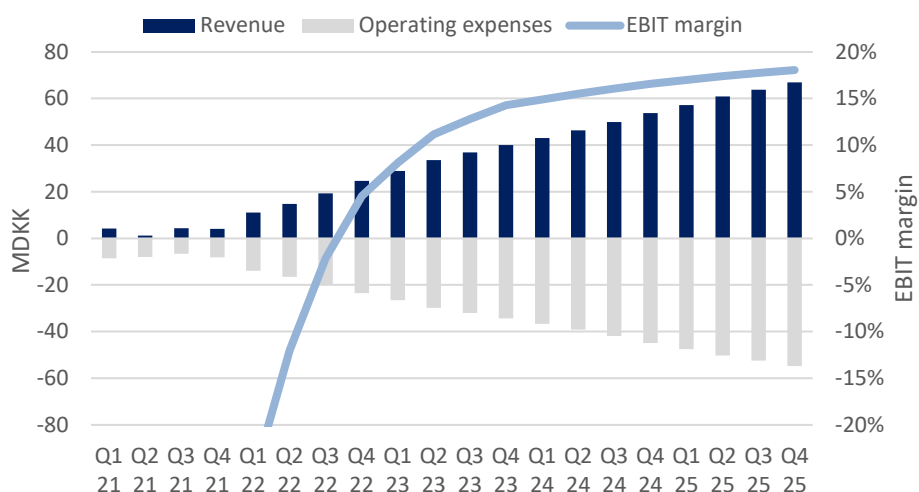
VirusKill acquisition raises the stakes

LED iBond’s previously mentioned acquisition of VirusKill makes the company’s decision to review the go-to-market plan and product portfolio for the UV-C disinfection segment, in our view, very interesting. The potential is obvious since the products can supplement vaccines and aid in controlling the spreading of Covid-19. The acquisition of VirusKill also means the stakes are raised and we speculate that LED iBond sees significant potential in this product area. We therefore await further news regarding this review before making adjustments with regards to VirusKill.

Hiring new employees to increase sales capabilities

The final adjustment made to our valuation model pertains to operating expenses generally, and personnel expenses specifically. As can be seen [here](#) and [here](#), LED iBond is hiring new employees for more senior roles to drive the company forward. One of the roles is as a sales manager and hints at increased efforts to improve the marketing and sales of the company’s products. This entails a higher operating expense, which we have accounted for in our valuation model, but it also entails a more active pursuit of the company’s goals and financial outlook. All these adjustments result in the revenue, OPEX and EBIT growth illustrated in Figure 1 below. As the figure shows, H2 2021 will see significant effects from the pandemic but revenue growth, and the EBIT margin, will pick up during 2022 when these effects subside.

Figure 1: Revenue and operating expenses



Källa: Västra Hamnen Corporate Finance

Lower fair value to DKK 14.70 - 26.30 per share

These changes, which are reflected in Table 3 below, mean that our valuation model now yields a lower value than previously. We therefore lower our fair value estimate for LED iBond’s share price to DKK 14.70 – 22.10 (16.60 – 26.30) per share.

Table 3: DCF model assumptions

MDKK	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e
Total revenues	9,3	13,7	69,7	139,3	193,2	248,8	302,2	359,4
EBIT	-17,7	-3,9	16,5	30,5	43,7	56,9	71,7	89,1
EBIT margin	-189,6%	-28,6%	23,7%	21,9%	22,6%	22,9%	23,7%	24,8%
Adj. Taxes	0,0	0,0	-2,5	-6,7	-9,6	-12,5	-15,8	-19,6
NOPLAT (= EBIT - tax)	-17,7	-3,9	14,0	23,8	34,1	44,4	55,9	69,5
Plus: Profit/loss from affiliates	0,0	0,4	0,7	0,9	1,2	1,7	2,3	3,1
Depreciation	9,6	6,1	5,0	4,1	3,4	2,8	2,3	1,9
Capex + Working cap	-10,1	-4,1	-0,1	-3,5	-2,0	-2,2	-2,3	-2,7
Net cash flow	-18,2	-1,4	19,5	25,3	36,7	46,7	58,2	71,8

DCF (MDKK)	
WACC	16,0% 16,0%
Enterprise value (EV)	394,5 394,5
Prob of profitability	50% 80%
Risk adjusted EV	197,3 315,6
Options	-0,5 -0,5
Net cash	36,1 36,1
Fair value market cap	233,0 351,3
Number of shares (M)	15,86 15,86
Fair value/share (DKK)	14,70 22,10

Sensitivity analysis (value per share, DKK)

		Prob of profitability			
		50%	60%	75%	80%
WACC	20%	10,70	12,40	14,90	15,80
	18%	12,40	14,40	17,50	18,50
	16%	14,70	17,20	20,90	22,10
	14%	17,90	21,00	25,70	27,20
	12%	22,50	26,50	32,60	34,60

Source: Västra Hamnen Corporate Finance

Income Statement - Annual Data

kDKK	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Net turnover	6 549	11 788	7 362	10 644	69 175	138 469	192 073	247 282
Other operating income	0	1 782	1 965	3 072	542	815	1 108	1 508
Total revenues	6 549	13 570	9 327	13 716	69 718	139 283	193 181	248 790
Cost of goods sold	-4 253	-7 318	-4 327	-7 717	-46 198	-91 921	-127 700	-164 853
Gross profit	2 296	6 252	5 000	6 000	23 520	47 363	65 482	83 937
Staff costs	-6 553	-6 416	-6 263	-8 289	-12 308	-14 920	-17 806	-21 294
Other external costs	-5 001	-5 007	-6 547	-5 774	-8 999	-10 909	-13 019	-15 570
EBITDA	-9 258	-5 170	-7 809	-8 063	2 213	21 534	34 657	47 073
Amortisation & depreciation	-6 798	-12 312	-10 699	-9 622	-6 133	-5 022	-4 117	-3 380
EBIT	-16 056	-17 482	-18 508	-17 685	-3 919	16 512	30 540	43 693
Net financial items	-2 895	-3 757	-4 819	-1 166	15	556	909	1 236
EBT	-18 952	-21 239	-23 327	-18 851	-3 904	17 068	31 449	44 929
Taxes	4 194	4 377	5 730	4 150	859	-3 755	-6 919	-9 884
Net profit	-14 757	-16 861	-17 598	-14 701	-3 045	13 313	24 530	35 045
Earnings per share (DKK)	-1,16	-1,33	-1,74	-0,99	-0,16	0,88	1,60	2,29
Growth (%)								
Net turnover	na	80,0%	-37,5%	44,6%	549,9%	100,2%	38,7%	28,7%
EBITDA	na	na	na	na	na	872,9%	60,9%	35,8%
EBIT	na	na	na	na	na	na	85,0%	43,1%
Net profit	na	na	na	na	na	na	84,3%	42,9%
% of revenues (%)								
Gross margin	35,1%	37,9%	41,2%	27,5%	33,2%	33,6%	33,5%	33,3%
EBITDA margin	neg	neg	neg	neg	3,2%	15,5%	17,9%	18,9%
EBIT margin	neg	neg	neg	neg	neg	11,9%	15,8%	17,6%
EBT margin	neg	neg	neg	neg	neg	12,3%	16,3%	18,1%
Profit margin	neg	neg	neg	neg	neg	9,6%	12,7%	14,1%
Personnel costs	100,1%	54,4%	85,1%	77,9%	17,8%	10,8%	9,3%	8,6%
Total OPEX	176,4%	96,9%	174,0%	132,1%	30,8%	18,7%	16,0%	14,9%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	14,9%	21,4%	23,2%
ROIC	neg	neg	neg	neg	neg	15,8%	29,1%	37,1%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kDKK	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Cash and cash eq	12 999	6 356	9 861	38 995	31 604	49 804	82 079	137 366
Inventory	7 066	4 564	4 084	3 089	17 865	17 371	23 399	29 160
Accounts receivables	802	817	1 923	2 676	16 088	26 185	29 294	36 437
Deferred tax asset	4 143	6 179	9 848	11 300	12 159	8 404	1 485	0
Receivables corporate tax	2 458	2 342	2 061	2 000	2 000	2 000	2 000	2 000
Accrued income and deferrec	393	615	655	488	2 447	1 991	2 673	3 325
Other receivables	1 134	308	618	1 853	4 466	4 343	5 850	7 290
Total current assets	28 995	21 181	29 050	60 402	86 629	110 099	146 780	215 579
Tangible assets	9 109	7 718	5 841	4 343	3 671	3 123	2 678	2 314
Intangible assets	28 189	28 872	30 316	28 662	23 345	19 015	15 488	12 615
Financial assets	186	252	1 157	3 434	3 434	3 434	3 434	3 434
Total fixed assets	37 484	36 843	37 315	36 438	30 450	25 572	21 599	18 363
Total assets	66 480	58 023	66 365	96 840	117 078	135 671	168 379	233 942
Short-term part of LT debt	959	1 300	4 518	5 000	4 000	3 000	3 000	3 000
Bank debts	1	1	2	0	0	0	0	0
Accounts payable	2 715	4 159	3 696	3 089	17 865	26 057	35 099	43 740
Other liabilities	6 048	2 997	4 044	4 016	16 079	17 371	15 599	19 440
Total current liabilities	9 723	8 457	12 261	12 105	37 944	46 429	53 698	66 181
Long-term liabilities	37 157	16 910	9 912	6 873	3 873	0	0	0
Total equity	19 600	32 656	44 193	77 863	75 263	89 244	114 683	150 964
Total equity and liabilities	66 480	58 023	66 365	96 841	117 080	135 672	168 381	217 144

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	2018	2019e	2020	2021e	2022e	2023e	2024e	2025e
Operating CF ex chg in WC	0	0	-7 812	-9 229	2 673	22 757	36 474	57 945
Changes in working capital	0	0	-1 747	404	-6 920	-540	-4 056	-2 513
Investing activities	0	0	-11 154	-8 461	-144	-144	-144	-144
Financing activities	0	0	24 068	46 422	-3 000	-3 873	0	0
Cash flow for the period	0	0	3 355	29 136	-7 391	18 200	32 274	55 288
Beginning cash balance	0	0	0	4 134	33 270	25 879	44 079	76 354
Adjustments	0	0	779	0	0	0	0	0
Ending cash balance	0	0	4 134	33 270	25 879	44 079	76 354	131 641

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kDKK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Net turnover	354	2 264	2 726	3 161	1 134	2 280	4 070	10 954
Other operating income	0	1 664	301	1 001	0	2 071	0	90
Total revenues	354	3 928	3 027	4 162	1 134	4 351	4 070	11 044
Cost of goods sold	-386	-1 446	-1 253	-2 420	-892	-1 586	-2 819	-7 388
Gross profit	-32	2 482	1 774	1 742	242	2 765	1 251	3 656
Staff costs	-1 947	-1 430	-1 439	-1 756	-2 733	-1 800	-2 000	-2 800
Other external costs	-1 474	-1 145	-2 736	-1 373	-1 421	-1 450	-1 530	-2 047
EBITDA	-3 453	-93	-2 400	-1 387	-3 912	-485	-2 279	-1 191
Amortisation & depreciation	-2 679	-2 675	-5 345	-3 032	-3 030	-1 825	-1 735	-1 650
EBIT	-6 132	-2 768	-7 745	-4 419	-6 942	-2 310	-4 014	-2 841
Net financial items	-3 778	-135	-906	-512	-379	-137	-137	-64
EBT	-9 910	-2 903	-8 651	-4 931	-7 321	-2 447	-4 151	-2 905
Taxes	2 180	639	2 911	1 085	1 613	538	913	639
Net profit	-7 730	-2 264	-5 740	-3 846	-5 708	-1 909	-3 238	-2 266
Earnings per share (DKK)	-0,86	-0,18	-0,45	-0,30	-0,36	-0,12	-0,20	-0,14
Y-o-Y Growth (%)								
Net turnover	-88,0%	-23,2%	-7,5%	56,6%	220,3%	0,7%	49,3%	246,5%
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	neg	36,1%	54,0%	23,4%	21,3%	30,4%	30,7%	32,6%
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	550,0%	63,2%	52,8%	55,6%	241,0%	79,0%	49,1%	25,6%
Total OPEX	966,4%	113,7%	153,1%	99,0%	366,3%	142,6%	86,7%	44,2%
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	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Cash and cash eq	20 383	15 409	9 861	3 928	43 022	42 173	38 995	36 769
Inventory	4 795	4 508	4 084	3 002	3 288	1 738	3 089	8 097
Accounts receivables	9	3 530	1 923	1 939	2 114	1 499	2 676	7 203
Deferred tax asset	7 035	8 861	9 848	10 328	9 848	10 386	11 300	11 939
Receivables corporate tax	2 373	1 187	2 061	2 666	4 720	2 000	2 000	2 000
Accrued income and deferrec	295	724	655	687	1 029	342	488	1 095
Other receivables	301	408	618	355	340	1 043	1 853	2 429
Total current assets	35 191	34 627	29 050	22 905	64 361	59 181	60 402	69 532
Tangible assets	7 050	6 849	5 841	5 313	4 734	4 533	4 343	4 162
Intangible assets	27 629	27 446	30 316	30 631	31 758	30 170	28 662	27 229
Financial assets	922	922	1 157	3 443	3 434	3 434	3 434	3 434
Total fixed assets	35 601	35 217	37 315	39 387	39 926	38 137	36 438	34 824
Total assets	70 792	69 844	66 365	62 292	104 287	97 318	96 840	104 356
Short-term part of LT debt	2 048	3 297	4 518	6 195	5 597	5 000	5 000	4 000
Bank debts	0	0	2	0	0	0	0	0
Accounts payable	4 205	2 703	3 696	3 936	3 250	1 912	3 089	8 097
Other liabilities	1 890	5 828	4 044	3 629	5 558	2 433	4 016	9 716
Total current liabilities	8 143	11 828	12 261	13 760	14 405	9 345	12 105	21 812
Long-term liabilities	12 285	9 914	9 912	8 193	6 873	6 873	6 873	6 873
Total equity	50 364	48 100	44 193	40 346	83 010	81 102	77 863	75 672
Total equity and liabilities	70 792	69 842	66 365	62 299	104 288	97 319	96 841	104 357

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Operating CF ex chg in WC	-4 278	-228	-3 306	-1 899	-4 291	-623	-2 416	-1 181
Changes in working capital	3 374	-2 605	-2 516	1 720	-400	-191	-725	-1 010
Investing activities	-2 661	-1 680	-6 813	-4 840	-3 549	-36	-36	-36
Financing activities	17 610	150	6 308	-905	47 327	0	0	0
Cash flow for the period	14 045	-4 363	-6 327	-5 924	39 087	-849	-3 177	-2 226
Beginning cash balance	6 338	19 772	15 409	9 859	3 928	43 022	42 173	38 995
Adjustments	0	0	779	0	0	0	0	0
Ending cash balance	20 383	15 409	9 861	3 928	43 022	42 173	38 995	36 769

Source: Västra Hamnen Corporate Finance

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