Initial Research

2021-02-09

Magle Chemoswed: Prepare for take-off

- CDMO with a development portfolio about to hit attractive markets
- Profits likely to increase rapidly in the next few years
- We set an initial fair value interval of SEK 42.70 – 57.30 per share

Analysts

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Stock ticker:	MAGLE
Industry:	Healthcare
Listed on:	First North Stockholm
Latest stock price (SEK):	38,00
Market cap (MSEK):	421,8
Enterprise Value (MSEK):	434,4
Total number of shares (M):	10,80
- of which free float (M):	1,73

VHCF fair value per share

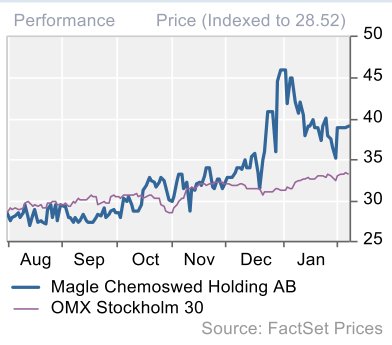
DCF model	SEK 42.70 - 57.30

Magle Chemoswed Holding AB

Address:	Agneslundsvägen 27 212 15, Malmö
Webpage:	maglechemoswed.com
CEO:	Justin Pierce

Main owners (23 Sept 2020)	**Capital (%)**
Magle AB (H.H. Lidgard)	74,0%
Fosielund Holding AB	10,0%
Others	16,0%

Stock price history



	-1m	-3m	-12m
Change (%)	-12,8	17,5	na
52 wk range (Low/Hi) - SEK		19,28 - 49,00	

Source: FactSet

Magle Chemoswed represents a unique combination of a CDMO business with strong customer relationships and steady revenues, and a development portfolio of medical devices with attractive market opportunities. Operationally, there are many synergies in having both business orientations under one roof. For investors, it means an exciting upside potential with limited downside risk.

The company enjoys nearly eight decades of experience in pharmaceutical manufacturing. The CDMO business has later expanded to comprise almost all parts of the development and manufacturing value chain, which is conducive to maintaining lasting relationships with a prestigious list of customers. Its competitive position is strong on the back of heavy investment in equipment, competence and regulatory compliance.

Magle Chemoswed recycles cash flows from the CDMO operations into developing its proprietary technology platform. The versatile technology is the basis for a host of medical devices addressing several attractive markets.

2021 could become a pivotal year for Magle Chemoswed, as two new proprietary products are brought to market and an existing one is brought to new geographies. This will completely alter the economics of the company. From a history of low or negative net profits, we see earnings increasing rapidly in the next two years thanks to the new product launches.

In our valuation model, we have included only the handful of products nearest to commercialisation and used otherwise conservative assumptions. On the back of this, our DCF model yields a fair value interval for the share of SEK 42.70 – 57.30 with further upgrade potential if the product launches prove successful.

Table 1: Financial Overview

MSEK	2 019	2020e	2021e	2022e	2023e
Net turnover	127,6	131,8	156,5	198,7	235,6
Growth (%)	20,4%	3,3%	18,7%	27,0%	18,6%
Gross margin (%)	78,4%	77,5%	79,3%	81,1%	81,9%
EBIT	0,1	(0,5)	3,6	35,6	64,6
EBIT margin (%)	0,1%	neg	2,2%	17,0%	26,2%
Cash holdings	3,3	17,3	35,5	70,3	134,2
Total assets	212,3	193,9	221,8	255,4	317,7
Total equity	113,7	111,9	134,4	163,2	222,2
Solidity (%)	53,5%	57,7%	60,6%	63,9%	69,9%
P/E	564,7	neg	170,4	14,7	8,2
ROE	0,7%	neg	1,8%	17,6%	23,2%
EV/EBIT (x)	3 194,0	neg	121,4	12,2	6,7
EV/Sales (x)	3,4	3,3	2,8	2,2	1,8

Source: Västra Hamnen Corporate Finance

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What does Magle Chemoswed do?

A combined CDMO and development company

Magle Chemoswed Holding AB is a symbiosis of two related businesses: It is a contract development and manufacturing organisation (CDMO), and it is a developer of medical technology products based on a proprietary technology platform. The company is headquartered and has laboratories and manufacturing facilities in central Malmö.

Nearly eight decades of history

The company in its current form was established in 2017 when the development company Magle Life Sciences acquired Chemoswed, a CDMO company. Both had long histories as separate entities before the merger. Chemoswed traces its history all the way back to 1944 whereas Magle Life Sciences was founded in 1997 by the current main owner of Magle Chemoswed, Hans Henrik Lidgard.

Many synergies between the halves

The combination of the two companies brings several benefits. Firstly, the cash generating CDMO business is a source of funding for the proprietary development projects, effectively removing their reliance on outside financing. Secondly, the CDMO activities are a source of learning for the organization which indirectly benefits the development of its own projects. Thirdly, having laboratories and manufacturing facilities in-house secures access to these resources when it best benefits the development projects, significantly reducing the time to market and development cost. And finally, sharing laboratory and manufacturing facilities between customer services and proprietary projects secures economies of scale for ongoing investments in advanced machinery and regulatory compliance.

Since the proprietary products are either in development or early commercialisation stage, the CDMO services provide most of the sales revenues at present. Customers in this area range from small biotech companies to global big pharma names. Among the most well-known customers we find Sanofi, GlaxoSmithKline and Bristol Myers Squibb. The company's proprietary products are oriented towards three broad clinical categories, namely minimally invasive surgery, advanced wound care and drug delivery. These products all spring from the proprietary technology platform which consists of bio-agreeable organic microspheres made from potato starch.

A one-stop shop

The company's strategy is to offer so-called *one-stop shop* service in the CDMO market and it has made two recent acquisitions geared at vertical expansion along the value chain. In 2019, it acquired Adroit Science AB 2019 from Lund, which added competencies in solid state analysis and formulation expertise for early- and late-stage development. In November 2020, the company announced the acquisition of Berlin-based PharmaCept GmbH, the European distributor of Magle Chemoswed's product EmboCept S. The acquisition will be completed during Q1 2021 and expands the company's value chain downstream, giving it a platform for distribution of many different products.

This is where profitability takes off

Historically, the steady cash flows from the CDMO services and royalties from one outlicenced product that has been selling for years, have been channelled into the company's development portfolio. Therefore, there has been little surplus cash and low or negative profits. As a series of development products enter the market in the next couple of years, we expect this situation to change drastically. 2021 promises to be the first year in a period of rapidly increasing revenues and profits.

The opportunity is reflected in the company's financial goals:

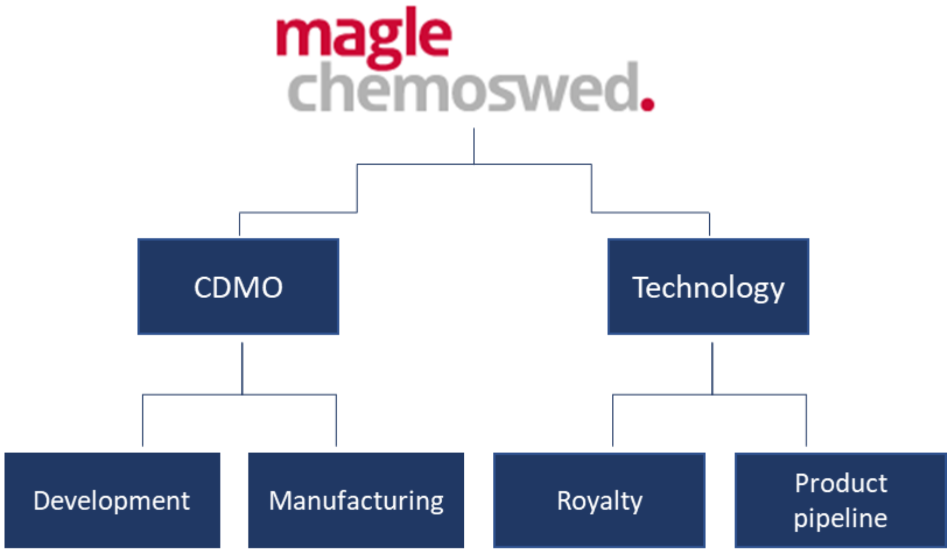
- Annual revenue growth of 10 percent from organic growth and acquisitions,
- EBITA-margin of at least 20 percent, and
- Five internally manufactured proprietary products on the market by the end of 2022.

If only the last of these goals is met, we think the company will have no trouble overshooting both of the first two goals.

Products and services

Magle Chemoswed's business activities fall into two main categories: Services offered to customers under its CDMO umbrella, and products originating from its proprietary technology platform. The two halves can be further divided into two parts each: The CDMO activities encompass development services as well as manufacturing services, whereas the proprietary product portfolio includes both the development of new products and marketing and sales of existing products.

Figure 1: Business areas



Source: Magle Chemoswed AB

CDMO services

Covers almost entire CDMO value chain

Magle Chemoswed offers services across almost every stage of the development and manufacturing value chain. The customer offering ranges from preclinical development and formulation support, through manufacturing of trial material for clinical trials as well as manufacturing, packaging, and supply chain, and finally sales and marketing. This is in keeping with an intensifying global trend among CDMO firms to offer an ever wider range of services in order to provide customers with a so-called one-stop shop.

Development

Expertise in all types of molecules

The development function is currently staffed by 19 chemists who together provide customer services in three different categories, namely development services, analytical services, and solid state chemistry. The team has experience in developing pharmaceutical products ranging from small molecules up to peptides and proteins.

The development services have two separate laboratory facilities, one of which occupies 380 sqm at Magle Chemoswed's head office in Malmö. The second facility is located at Medicon Village in Lund, and is a rented space including a 125 sqm laboratory area. The facility was originally rented by Adroit Science AB and became part of Magle Chemoswed when Adroit Science was acquired in 2019.

Recently refurbished, state-of-the-art laboratories

The Malmö laboratories have recently undergone a substantial upgrade. In 2019, the company completed the state-of-the-art facilities designed to support both customer projects and the development of Magle Chemoswed's own projects. The laboratory space can facilitate up to 12 parallel development projects and can be expanded further if needed. The facilities have been built to adhere to the highest environmental standards regarding e.g. ventilation and safe handling of toxic substances.

Figure 2: Laboratory development

Image: Magle Chemoswed AB

The facility also houses dedicated laboratories for analytical research and quality control, as well as specialised areas for sampling of hazardous substances. A dedicated area has been fitted with specialised instruments for a wide range of purposes, which secures a better workflow and more efficient analysis. The company's heavy investments in development and analysis equipment minimise the need for Magle Chemoswed to outsource parts of its value chain to third parties, and the resulting shortening of development cycles constitutes a competitive advantage for the company.

Normally invoices by the hour

For smaller projects, Magle Chemoswed usually charges customers a fixed price agreed in advance for the entire project. Larger projects are normally regulated by a master service agreement and are charged by the number of hours spent on each part of the project, and invoiced monthly. Raw materials are normally invoiced on a pass-through basis.

Manufacturing

The manufacturing services originate from the Chemoswed leg of the company and enjoy almost eight decades of experience in contract manufacturing of pharmaceutical and medical technology products. The services are manned by 19 workers and supervisors who work in two shifts, supported by a group of five chemists responsible for quality controls.

Five production lines can work in parallel

The manufacturing facilities take up more than 3 000 sqm at the company's headquarters in Malmö. The site houses five separate production lines that can run concurrently. The total capacity totals 33 cubic meters of reactor volume, capable of handling batches from 200 to 10 000 litres, equivalent to between 5 and 500 kg of active pharmaceutical ingredients. The manufacturing lines connect to drying and packaging facilities which also run two shifts during the week.

In addition to the five production lines, Magle Chemoswed has built a complete cleanroom that came into production in 2018. The cleanroom is intended for use with the company's own projects as well as customer services. The company is in the process of fitting a second cleanroom to be completed in 2021.

Two shifts, with room to grow

The decision to run only two shifts in production is made partly out of consideration for the neighbouring area in central Malmö. The area has predominantly residential buildings, whose inhabitants could be disturbed by noise if production were to run during nights and weekends. Still, the company estimates that its total output could expand as much as 35 percent without the need for any noticeable capital expenditure.

The operating margins in customer projects vary depending on the complexity of the product and the availability of high-quality raw materials. In some instances, raw materials can be bought from inexpensive sources, usually from high-volume/low-cost suppliers in Asia. In those projects, Magle Chemoswed will add fewer manufacturing steps with better margins to the final product. In others, the company has to start from very basic raw materials and run several different manufacturing steps to reach the final product.

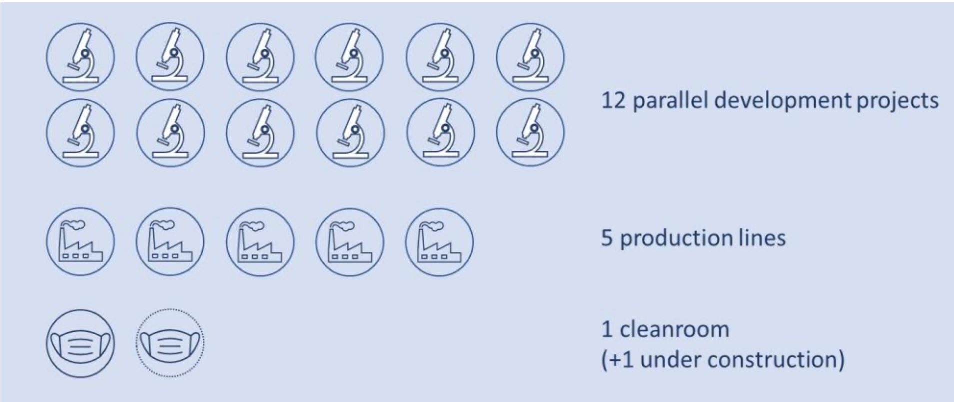
Figure 3: Manufacturing facilities

Image: Magle Chemoswed AB

Raw material supply mostly secure

Magle Chemoswed regards its supply options as relatively secure. For around 60 percent of its raw material supplies, it has many potential sources. For most of the remainder it has more selective options but mitigates some of the risk by signing long-term supply agreements. Only for a small fraction of raw materials are the options so few that it represents a vulnerability. Customer invoicing in manufacturing is usually according to an agreed price per kilogram of finished product.

Figure 4: Development and manufacturing capacity



Source: Magle Chemoswed AB

Proprietary technology platform

Three proprietary products on the market

The Magle leg of the company has been involved in developing medical technology products from its proprietary technology platform since its beginning in 1997. At present, the company has three products in commercial phase. The first is Arista, which was co-developed with an American partner and for which Magle Chemoswed has received royalties for more than a decade. The second is EmboCept S, which came on the market in 2018 and is sold via PharmaCept GmbH. The third is PlatiCept, of which Magle Chemoswed will become full owners with the acquisition of PharmaCept. Several more products are either in the registration phase or in the final stages of development. All products except PlatiCept are based on Magle Chemoswed's proprietary technology platform, consisting of organic microspheres based on potato starch that form bio-agreeable medical technology products.

Royalties

The Arista product was developed in cooperation with the US company Medafor Inc. It is designed to control bleeding during complex surgery. The plant-based Microporous Polysaccharide Hemospheres come as a dry powder and has the effect of enhancing natural hemostasis (cessation of bleeding) by stimulating the formation of a gelled matrix on the powder particles' surface, acting as a barrier to blood loss.

Medafor Inc. is now owned by Becton, Dickinson & Co (NYSE: BDX) since its acquisition of Medafor's owner C.R. Bard Inc. in 2017.

Figure 5: Arista

Arista has been selling since 2007

Arista received FDA approval for sales in the US in 2006 and has been on the market since 2007. Medafor holds a global license to produce and sell Arista but the dominant market is the US. Magle Chemoswed receives royalties in proportion to the quantities produced. The license agreement runs until the end of the product's patent period which is until December 2030.

Steady market for Arista

Arista is now a well-established product and the market is regarded as mature. The royalty payments may vary considerably from quarter to quarter but are relatively stable in annual terms. In 2019, the royalty amounted to SEK 29.3 million and in the first nine months of 2020, they ran up to SEK 24.9 million. Magle Chemoswed anticipates somewhat lower royalties for a period during the COVID-19 pandemic as non-critical surgery is put on hold in some instances. Overall, the company sees neither significant market growth nor decline for the remainder of the license period.

Product portfolio and pipeline

The latest products to emerge from the technology platform belong in three different treatment areas. The first is *minimally invasive surgery*, which encompasses EmboCept S, EmboCept M, EmboCept L, PlatiCept and SmartPan. The second, which includes SmartGel and SmartGel II, addresses *advanced wound treatment*. The third and final is the development of a *drug delivery system*.

Embolization: Cutting off a tumour's blood supply

EmboCept S is a solution containing specialised starch biospheres that are indicated for transarterial chemoembolization of inoperable liver and lung tumours. By injecting the solution into blood vessels connected to the tumour, blood supply is blocked, and the tumour will go into decline. It is often used in combination with a cytostatic agent (e.g. PlatiCept, see below). Blocking of blood supply will cause increased concentration of the cytostatic in the tumour area, further accelerating cell death in the tumour.

Selling in Europe; aiming for Asia and the Americas

EmboCept S was CE marked for treatment of liver tumours in 2018 and for lung tumours in 2019. It is currently selling throughout Europe, with Germany, Italy and Spain as its most important markets. It has recently been approved in Israel and registration applications are in filing in China, Taiwan, Singapore, South Korea, Brazil and Mexico. The company is also aiming at registration in the US. The US registration procedure is lengthier and requires direct testing against competing products, but the company hopes to launch on the US market in early 2022.

Figure 6: EmboCept S

The product is marketed by PharmaCept in Europe and will continue to do so post the acquisition. For Asian and American markets, Magle Chemoswed intends to sell through local distributors.

Embolization against benign prostate enlargement

EmboCept M is a product in development that uses the same general mode of treatment as EmboCept S, artery embolization, but with the microspheres optimised for use against benign prostate hyperplasia (BPH). BPH is a non-cancerous form of prostate enlargement, but it can cause a lot of discomfort for patients. Embolization causes cell death in the prostate and thereby reverses the enlargement. It is estimated that about half of all men over the age of fifty suffer some degree of BPH. Development is in the advanced stages with the first confirmatory manufacturing completed and preparations for CE mark filing are underway.

EmboCept L targets uterine tumours

EmboCept L is another development product employing the embolization technique, in this case for treating tumours in the uterus. The product contains a unique microsphere using a newly developed manufacturing method to ensure a highly flexible and visoelastic microsphere that regains its sphericity after catheter passage when used for embolization of uterine fibroids. EmboCept L is in late-stage development and final process validations are underway.

PlatiCept is a product that has been marketed by PharmaCept in Europe and is added to Magle Chemoswed's product portfolio with its acquisition of the company. The product has been developed by a third party, but the full ownership is now with PharmaCept. PlatiCept is a cytostatic agent based on the active ingredient cisplatin, now an off-patent substance. PlatiCept is used, sometimes in combination with EmboCept S, for treating testicular, ovarian, bladder, neck, or lung tumours.

Removing important risk of pancreatic surgery

SmartPan is a product intended to be used in connection with pancreatic surgery. Such surgery is associated with risk of incomplete closure of the pancreas, which may lead to leakage of pancreatic fluids after wound closure. A patient may suffer serious complications because of this, which could lead to prolonged hospitalisation and in the worst case, a risk of repeat surgery. Leakage is hard to detect by the surgeon since the pancreatic fluids are colourless. However, if SmartPan is applied to the pancreas after stitching, it will change colour if it comes into contact with pancreatic fluids. The surgeon will see directly where any leakages are located and can close them before finishing the operation. The product thus helps avert the painful complications and high costs associated with unsuccessful surgery. The product was awarded a CE mark in late January this year and we have assumed sales to commence in Q3 2021.

SmartGel to launch later this year

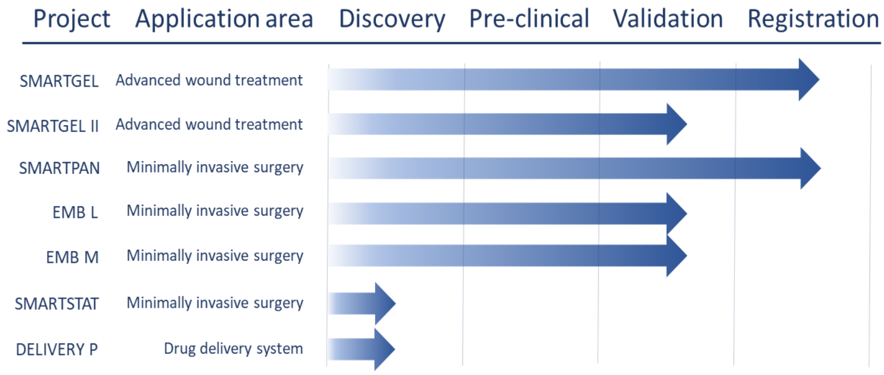
SmartGel is another application of starch-based biospheres, in this case formulated as a wound care gel for treatment of chronic wounds. The product is mainly intended for treating diabetic foot ulcers, a common problem among diabetes patients. The product comes as a hydrogel to be applied to the wound surface. The product is anti-microbial and has the effect of promoting cell growth in the wound area, thereby contributing to wound closure. Although the product has a pharmaceutical effect, the product will be marketed as a medical device. Magle Chemoswed is ready to commence marketing in Europe after having received CE mark approval last month. We expect market launch in Q3 2021.

SmartGel II is another forthcoming product in advanced wound care. The product is still in the validation phase and the company has not released a lot of information about it. The product is said to be targeting already infected wounds. Magle Chemoswed has stated an ambition to apply for registration during 2021.

Other pipeline projects

Two other technology projects worth a brief mention are SmartStat and Drug Delivery. We have not gone into detail on either since they are further behind in development and are not expected to contribute meaningfully to the company's earnings in the next few years. SmartStat is a hemostat with similar application areas to Arista and could become a replacement when Arista gets close to patent expiry. The drug delivery project is aimed at exploiting the ability of organic microspheres to deliver other active pharmaceutical ingredients. Injectable microspheres have been found to support a prolonged release of pharmaceuticals and can e.g. aid in penetrating the blood-brain barrier in treatments for Parkinson's disease.

Figure 7: Project Pipeline



Business Strategy

Competence and equipment are strategic assets

Magle Chemoswed underscores the importance of its highly trained personnel and its sophisticated, state-of-the-art equipment as its most strategic assets. Among the nearly 70 employees, most have advanced university degrees. The company attracts talent from many countries around the world. In order to retain personnel and secure an optimal level of competence, the company runs more than 40 training courses every year and encourages rotation within the firm. It emphasises values such as innovation and accountability and sees the opportunity for exciting challenges as a competitive strength in the labour market.

Economies of scale in physical facilities

Buying and installing the most advanced equipment available is equally important to staying competitive. The cost of acquiring the most modern instruments is often prohibitive for smaller companies. As a medium-sized operator, Magle Chemoswed enjoys a competitive advantage over smaller rivals in its superior opportunity to reap economies of scale. The scale offered by its CDMO activities also means that the development of the company's own projects enjoys access to the most advanced facilities available. The shared benefits sometimes lead Magle Chemoswed to co-invest in equipment together with customers in order to get the best tools for both of their projects.

Rules and regulations keep new entrants at bay

Besides the investments in competence and equipment, Magle Chemoswed's operations require continuous investment in regulatory compliance. Manufacturing procedures, material handling and waste management must live up to strict and complex rules to guarantee both the safety of the final products and safe disposal of waste products. Every manufacturing step must adhere to Current Good Manufacturing Practice (CGMP) regulations as well as national and regional standards such as the European Medical Device Regulation and ISO 13485. Meeting all requirements and keeping all permits current requires considerable time and resources, again constituting an economies-of-scale advantage for larger players over smaller.

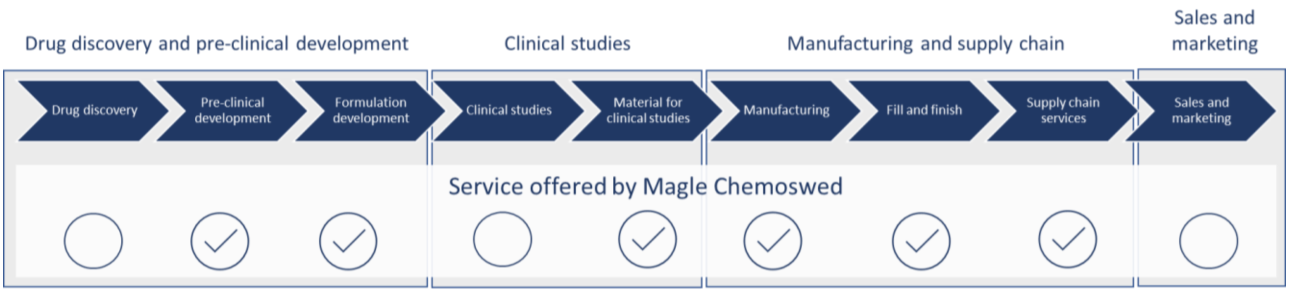
In-house CDMO means time saved in development

Having a CDMO facility in-house greatly simplifies the development of Magle Chemoswed's own products. Without such access, their projects would have to find outside CDMO companies to aid in product development and manufacturing. Especially for smaller projects, it can take a long time to get started on a new product with an outside CDMO. Sometimes the service provider has to spend time to acquire physical equipment, equipment licenses, quality documents etc. The CDMO may put the project on hold until another customer comes along with a similar project, because the investment in equipment, expertise and regulatory work is not viable unless the cost can be shared across several projects. Magle Chemoswed can jump over all these roadblocks by handing projects to its own CDMO.

Customers often stay loyal to their CDMO for years

Expanding the scope of the CDMO business to span the whole value chain, what is known as offering a one-stop shop, brings several benefits. It is often demanded by customers because it reduces the time between each development stage when it can stay with one service provider. For the CDMO, customer acquisition in later-stage development services is helped by the earlier-stage services, as customers prefer to stay with the company through many development stages. Customer recruitment to the manufacturing services is likewise helped by the development services. It can be very cumbersome for a customer to switch to a different company for manufacturing compared to staying with the CDMO who performed their development services. Because of the time it takes for the new service provider to acquire the equipment, know-how and regulatory approvals, a switch could potentially delay market entry by up to two years, according to Magle Chemoswed.

Figure 8: Magle Chemoswed services and CDMO value chain



Source: Magle Chemoswed AB

The acquisition of PharmaCept GmbH is a further step towards vertical integration. PharmaCept is Magle Chemoswed's distributor for the proprietary product EmboCept S and the intention is to use this subsidiary as distributor in Europe also for the forthcoming proprietary products. For the Asian and American markets, the plan is to recruit local distributors.

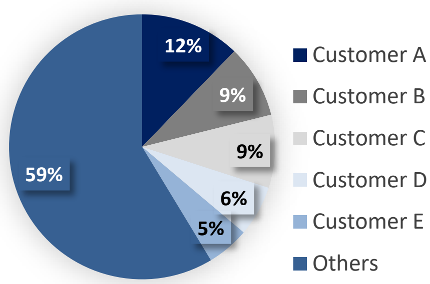
Downstream integration brings higher margins

The motivation for expanding into distribution, and the rationale for the PharmaCept acquisition, is the realisation that a disproportional share of the value-added in the value chain is earned downstream. The acquisition will likely contribute significantly to raising operating margins as Magle Chemoswed starts taking more proprietary products to the market.

Moving towards a more diversified customer base

Magle Chemoswed has historically had a vulnerability in its very concentrated customer base. As recently as 2017, three customers made up 72 percent of its sales revenues. The company has since then managed to diversify its customer base. During the first nine months of 2020, the three largest customers constituted only 30 percent, cf. Figure 9.

Figure 9: Customers' share of net sales



Source: Magle Chemoswed AB

The company has decided to mitigate another potential vulnerability by running well below full capacity in production. The optimal load factor is said to be around 80 percent. This choice of target is minimising the risk of not being able to deliver on time and in correct quality. Magle Chemoswed regards that such incidents could cause long-term damage to customer relations and has made it a priority to minimise any such risk.

Company and Key Personnel

Magle Chemoswed has 68 employees. The majority works at its headquarters and main laboratory and manufacturing facility in Malmö. A minority of 6 persons are based at the former headquarters of Adroit Sciences AB at Medicon Village in Lund. During Q1 2021, the number of employees will increase by 7 as the staff at PharmaCept GmbH in Berlin will join the organisation.

A few key people hold pivotal positions in the company:

Chairman of the Board Hans Henrik Lidgard founded Magle Life Sciences in 1997 while at the same time working as Professor of Law at Lund University. The objective was to create a company that could take innovative medical technology products from idea to market, based on biospheres made from organic starch. He is also a co-founder of the law firm Vinge and he has served as Deputy CEO at AB Leo Helsingborg and as CEO of Pharmacia EC in Brussels. He has been Chairman of Magle Chemoswed since its creation in 2017 and is the company's main owner with a stake of 74 percent.

CEO Justin Pierce has held the top job at the company since 2015. He first joined Magle Chemoswed in an advisory role in 2012. He has extensive experience of managing companies in executive roles and has served on several boards of directors. His educational background is in law, in which he holds a PhD from Lund University and master's degrees from both Lund University and the University of East London.

COO Fredrik Andersson joined Chemoswed in 1999 and has been a member of Magle Chemoswed's executive management team since 2019. During his over two decades long spell with the organisation, he has served in different roles, including Chief Development Officer and Manager Analytical Development/QC. Andersson holds a bachelor's degree in chemical engineering with a specialization in pharma from Malmö University.

Owners and financing

The ownership of Magle Chemoswed is very concentrated. Before the IPO in June 2020, 100 percent of the shares were owned by Chairman Hans Henrik Lidgard through his company Magle AB. No new shares were issued in connection with the IPO. Instead, Magle AB floated 25 percent of its existing shares in the public offering.

Several subscription undertakings were made in the IPO, of which Fosielund Holding AB put up by far the biggest. Fosielund Holding subscribed for one million shares, equivalent to 10 percent of the total shares of the company. Fosielund Holding is an investment company with interests in small and medium-sized companies, often located in the Skåne region. The owner family also owns the dental hygiene company TePe.

Main shareholder owns 74% of the shares

In the latest ownership table, compiled in September 2020, Magle AB was listed with a 74 percent ownership share, Fosielund Holding had 10 percent and the remainder of the shares were widely distributed. The company raised another SEK 20 million in a rights issue in December 2020 to finance the acquisition of PharmaCept. The transaction is unlikely to have changed ownership shares materially, as the main owners subscribed for their pro rata shares and the issue was 99.6 percent subscribed by subscription rights.

What is the market potential?

Magle Chemoswed is essentially addressing two different markets: The CDMO businesses is oriented towards a variety of life science companies while the proprietary technology projects are geared towards the end users of its medical technology products. It makes sense to look at each of them separately.

CDMO market

Pharmaceuticals are a USD 1.5 trillion market

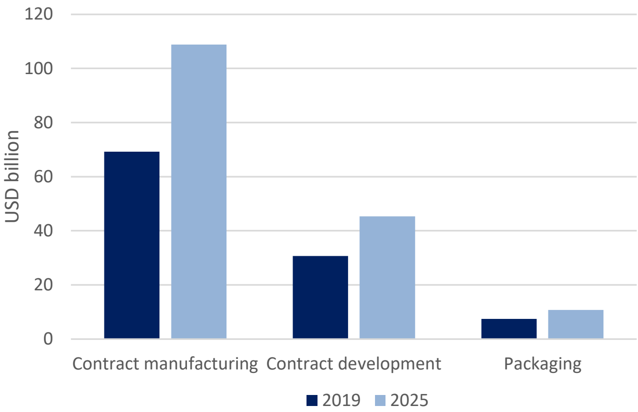
The world's demand for pharmaceutical products is increasing rapidly. According to the Quintiles IMS Institute, the global pharmaceutical industry is expected record sales of USD 1.5 trillion in 2021. This puts pressure on biotechnology and pharmaceutical companies to bring their products rapidly and efficiently to the market.

Outsourcing is a way of achieving this. There are three kinds of partners that life science companies employ for outsourcing. Some are focused on manufacturing only and are referred to as Contract Manufacturing Organisations (CMOs). Others who are solely oriented towards development are called Contract Research Organisations (CROs). Contract Research and Development Organisations (CDMOs) are companies that offer services in both areas. There has been a trend towards consolidation in recent years, where CDMO companies take a gradually increasing share of their combined market and tend towards greater and greater vertical integration.

CDMO market estimated at USD 107 billion annually

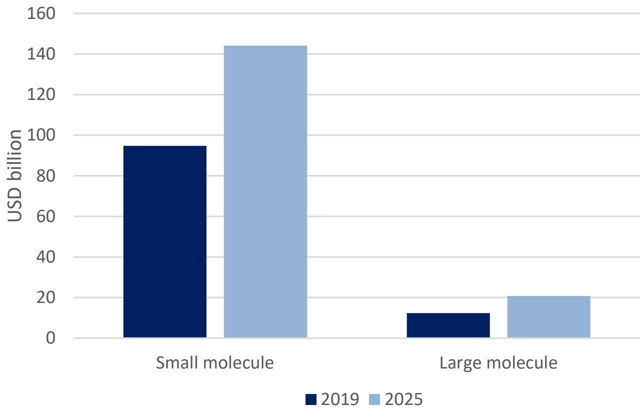
It has been estimated that CMOs, CROs and CDMOs are responsible for around one third of the direct costs of manufacturing pharmaceuticals. Different sources have estimated the global CMO market to USD 69 billion annually and the CRO market to USD 31 billion annually (2019). The CDMO market was estimated to turn over around USD 107 billion in 2019, and to grow by on average 7.5 percent annually until 2025, when it is expected to turn over around USD 165 billion.

Figure 10: CDMO market by segment (2019-2025)



Source: Technavio, September 2019

Figure 11: CDMO market by molecule type (2019-2025)



Source: Technavio, September 2019

Market drivers

There is a pronounced global trend among life science companies to outsource ever more of their activities to CDMOs. The trend is visible among global big pharma players as well as small biotechnology companies. Their motivations for outsourcing can differ, however.

Biotech companies outsource to focus on core competencies

For small biotech companies with operational focus on developing new drugs, investing in manufacturing facilities to produce small batches of test material is simply not economically viable. Likewise, the development stages require advanced laboratory equipment whose cost make them out of reach for small companies. Both manufacturing and development processes are subject to strict rules and regulations, which means substantial running costs related to the maintenance of competencies, processes, permits and licenses as well as control and surveillance routines. Small biotech companies tend to focus on their core competence of drug discovery, project management, intellectual property management and commercialisation and leave the rest to CDMO partners.

Big pharma outsources to optimise costs

Global pharmaceutical giants may have the resources to build their own labs and production facilities. But they are under increasing pressure to reduce costs, and economic considerations often compel them to reserve in-house resources for their biggest-selling, so-called blockbuster drugs. Keeping all permits, licenses, and competencies up to date for a multitude of development projects and smaller (e.g. “orphan”) drugs would be hard to justify in economic terms. Therefore, even the largest players can benefit from outsourcing to CDMOs, who have a higher chance of reaping economies of scale through grouping of similar projects.

There is an added benefit of risk-reduction when big pharma players outsource project to more than one CDMO partner. Redundancy is created, providing a backup if one partner should experience manufacturing or development disruptions.

Proprietary projects

Among the company's proprietary products, we have decided to focus our analysis on the ones that are either already on the market or getting close to market launch. The market for Arista is well established and mature, with no reason to expect major growth nor decline until the patent expires in 2030. In the discussion below, we will therefore limit our coverage to EmboCept S, PlatiCept, SmartGel and SmartPan.

EmboCept S is targeting cancerous tumours in the liver and lungs. The primary treatments for such tumours include surgery, radiation, and chemotherapy. However, when a tumour is inoperable or the patient is too sick to tolerate surgery, then embolization of the kind EmboCept S can produce is an alternative option.

Almost 3 million new lung and liver cancer cases per year

According to a recent article in Frontiers of Oncology[1], primary *liver cancer* is the sixth most common form of cancer diagnosed worldwide and the fourth most common cause of cancer mortality. The global total was estimated at 841 000 cases and 782 000 deaths in 2018. The number of cases is growing, especially in North America/Europe/Australia where growth is estimated at more than 3 percent per year. *Lung cancer* is the most commonly form of cancer worldwide, with 2.1 million cases and 1.8 million deaths in 2018, according to WHO. The prevalence varies between regions and is strongly correlated with the number of smokers two or three decades earlier. The incidence of new cases is currently around 34 per 100 000 persons per year in both Western Europe and North America.

Embolization in oncology heading for USD 1 billion in turnover

Magle Chemoswed has identified studies that detail the market for embolization. According to one of these, the world market for vascular embolization in oncological applications was estimated at USD 576 million in 2020. The market is expected to grow 10.2 percent annually to a level of USD 937 million in 2025.

Magle Chemoswed has initially designated Europe as its primary market for EmboCept S. The company is preparing for launch in secondary markets in Asia and Latin America, and further out the plan is to position for commercial rollout in North America.

PlatiCept is a cytostatic drug and belongs in the massive class of pharmaceuticals known as cancer drugs. Cancer drugs are estimated to turn over nearly USD 150 billion per year. Cytostatic agents are a subgroup of cancer drugs that includes a variety of different types, with one or more active ingredients for each type. PlatiCept is based on the active substance cisplatin, which belongs to a type called *platinum analogs*. Other substances of this type include carboplatin and oxaliplatin.

Cisplatin market over USD 300 million

Cisplatin has been on the market since the late 1970s and is now off patent. Since the first generic version was launched twenty years ago, a host of different drugs makers have launched their own generic alternatives. At least a dozen suppliers offer cisplatin products at present, including well-known generic drugs makers such as Mylan and Teva. A study by Market Growth Reports found that the cisplatin market totalled an annual turnover of USD 326 million in 2019. The market was expected to grow at 9.0 percent annually until 2025, when revenues would have grown to USD 547 million.

SmartGel is targeting the enormous global market for chronic or hard-to-heal wounds. The global market for treatment of chronic wounds has been estimated at between USD 9 and 12 billion per year. The problem affects millions of people and leads to massive healthcare spending. Some sources put the annual cost at USD 25 billion only in the US.

The market is dominated by products such as dressings, ointments, and gels. To our knowledge, only one product with an active pharmaceutical ingredient has been approved

[1] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7058661/

for marketing (Regranex), but this has subsequently been banned from the European market for safety reasons. A few other pharmaceutical products are in development, however.

Advanced wound care hydrogels is a EUR >100 million market

Magle Chemoswed has identified estimates of the global market for advanced wound care products suggesting a total of EUR 7.6 billion for 2020. Within this market, hydrogels in advanced wound care are estimated to turn over EUR 122 million in 2020. Looking ahead to 2025, this number is expected to grow to EUR 147 million.

We assume that the primary application area for SmartGel will be diabetic foot ulcers (DFU), a type of wound that causes extra suffering for diabetes patients. DFUs are estimated to have a prevalence of around 2 persons per 1 000 inhabitants. Counting only the so-called advanced pharmaceutical markets in Europe, North America, and Asia, this would imply an addressable market of roughly 2 million patients.

SmartPan addresses a much more concentrated market, where no existing alternative is available as of yet. The product will likely benefit from being first-in-class although at the cost of having to educate the market about its opportunities.

Magle Chemoswed intends the product to target the US and EU5 (GB, DE, FR, IT, SP) in particular. According to the company, between 5 and 50 percent of pancreatic surgery procedures result in so-called pancreatic fistula, a serious complication associated with leakage of pancreatic juices. By applying SmartPan after stitching the pancreas during surgery, the surgeon can minimise the risk of such complications. Unsuccessful operations cause suffering for the patient and very high costs for the hospital, with prolonged hospitalisation and risk of repeat surgery. Given the high potential cost savings, SmartPan could probably justify a fairly high price point.

60 000 operations in target markets every year

Magle Chemoswed estimates that about 60 000 pancreatic operations with risk of pancreatic leakage are performed each year in the target markets. About half of these are performed in the US. Pancreatic surgery is often caused by cancer or benign tumours in the pancreas. The company expect an increasing volume of pancreatic surgery in the years ahead. This is in harmony with GLOBOCAN 2018[2], which estimated an annual growth in the number of pancreatic cancer cases of on average 1.2 percent and 1.9 per year in Europe and the US respectively, until the year 2040.

How is the competition?

Given the diversity of business activities and clinical areas in which Magle Chemoswed operates, its competitive environment differs substantially between operations. Let us look at them in turn.

CDMO

The CDMO business is globalized and firms generally compete for assignments across a range of different geographies. The number of competitors in any given market is therefore quite high. Nevertheless, a classic Porter analysis would suggest that competition in this business is low to moderately high:

Suppliers have generally low bargaining power as most raw materials are available in bulk from a high number of low-cost, generic sources.

Customers have moderate bargaining power. It is easy to play different CDMOs off against each other in the procurement phase, but it is very risky to place your business with a firm with unproven quality standards and it is extremely costly to change to a different CDMO once a relationship has started.

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[2] https://pubmed.ncbi.nlm.nih.gov/30207593/

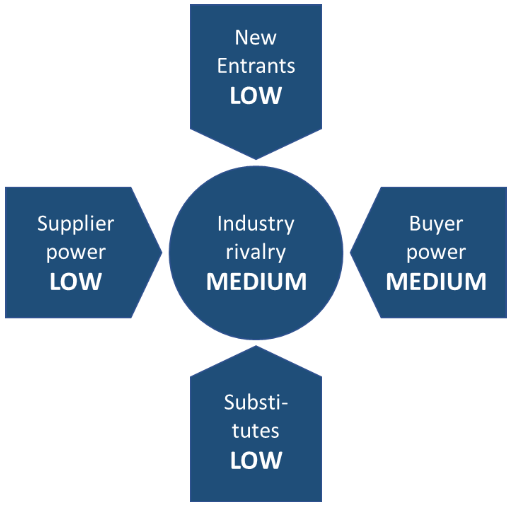
New entrants are an insignificant risk as the entry barriers in terms of equipment, knowledge and regulatory compliance are very high.

Substitutes are as of yet hard to conceive, instead it is the one-stop shop CDMOs who tend to substitute for the established CROs and CMOs with a narrower service offering.

Industry rivalry could be on the rise with the increasing popularity of the CDMO model, and the industry consolidation leading to a higher number of firms converging on the one-stop shop business model. Still, the long lead times for customers to swap one CDMO partner for another puts a damper on competition.

In Magle Chemoswed's own assessment, its leading competitors at present include Recipharm AB (STO: RECI), Piramal Enterprises Ltd (BSE India: 500302), Siegfried Holding AG (SIX Swiss: SFZN), The Lubrizol Corp (Owned by Berkshire Hathaway Inc, NYSE: BRK) and Thermo Fisher Scientific Inc (NYSE: TMO).

Figure 12: Porter's five forces, CDMO market



Source: Västra Hamnen Corporate Finance

Proprietary projects

The competition for the proprietary projects varies by project.

EmboCept S has 5-6 competitor products

EmboCept S is not the only product targeting embolization in tumour treatment. Transarterial embolization of the liver was originally developed in Japan in 1990 and the technique has spread across the world. For lung and liver tumours, the embolic agent must be of spherical form and appropriate size. Magle Chemoswed estimates that there are about five or six competing products.

Among the leading competitors we find SIR-Spheres from Sirtex (private, AUS), HepaSphere from Merit Medical Systems (Nasdaq: MMSI) and TheraSphere from Boston Scientific (NYSE: BSX). HepaSphere are microspheres made from polymers that can be used for drug delivery in connection with embolization. Sir-Spheres and TheraSphere are made from a base of resin and glass, respectively, and are impregnated with radioactive material which provide a radiation effect to battle the tumour.

EmboCept has the advantage over the competition of showing superior bio-absorbability.

PlatiCept competes in a crowded field of generics manufacturers. A host of different providers offer cisplatin products, including Mylan (Viatris, Nasdaq: VTRS), Phizer (NYSE: PFE), Teva (Tel Aviv: TEVA), and Sanofi (Euronext Paris: SAN).

SmartGel faces competition from medical devices only

SmartGel is addressing a very large market with a multitude of different products and solutions. The market is dominated by medical technology products with no pharmaceutical effect and varying efficacy. For diabetic foot ulcers, there are products intended to keep the body weight off the foot, there are several kinds of wound dressings and bandages to help keep the wound clean and bacteria-free, and there are antibiotic gels to help avoid infection. The closest competing product to SmartGel is Prontosan Wound Gel X from B. Braun (private, DE). The product works mainly by fighting infection and softening the tissue so that dressing changes become easier.

SmartGel has an advantage over most of the competing products in that it contains an active pharmaceutical ingredient, although the product will be registered as a medical device. There are a few other pharmaceutical products in development. Promore Pharma (STO: PROMO) has a candidate called Ropocamptide that recently finished phase IIb trials.

The product is initially targeting venous leg ulcers but is expected to have efficacy on DFUs as well. Also from Sweden, Ilya Pharma (private, SE) has a candidate named ILP100 that recently passed from phase I to phase II, targeting difficult and chronic wounds.

SmartPan competitors have long time left in development

SmartPan does not have any direct competition at present. The product promises to be a first-in-class product when it enters the market later this year. Magle Chemoswed has identified a just over a handful of projects in development that may in future constitute competition to SmartPan. What they all have in common is a long time left in development; two are in the pre-clinical stage and five have entered clinical development. The seven projects have different mechanisms of action and constitute different levels of threat to SmartPan. In the company's assessment, the threat levels range from very low to medium, with two of the three rated medium being the ones in pre-clinical development.

What is Magle Chemoswed's competitive advantages?

Magle Chemoswed is in an unusual position with its combination of CDMO services and a development portfolio. In assessing the strength and robustness of its value proposition from an investor's point of view, we consider the following to be its most vital success factors:

Risk/reward. As investment case, Magle Chemoswed offers a unique combination of a large upside represented by its development projects, and a limited downside represented by the steady cash flow from the CDMO business. It is rare to see an investment opportunity with the same potential rewards at such limited risk.

Experience. Magle Chemoswed, specifically the legacy Chemoswed business, has been involved in pharmaceuticals manufacturing for more than 75 years. In a business where safety, precision and regulatory compliance is vital, experience can be an invaluable competitive advantage.

One-stop shop. While not alone in offering a wide palette of services, Magle Chemoswed is already in a position more and more competitors are trying to emulate. As an incumbent, we believe the firm enjoys first-mover advantages in reputation, customer relationships and competence.

Customer retention. The one-stop shop model is advantageous for building long-term customer relationships. Customers to the development services will often find it attractive to stay with the firm through all stages up to and including manufacturing of the final product. High switching costs mean customers tend to stay loyal to their CDMO partner.

Versatile technology platform. We believe the wide variety of clinical applications for which the technology platform provide solutions, proves the versatility of the platform. It is already supporting many products and could form the basis for several more.

Fast track to market. Unusually for smaller life science development companies, Magle Chemoswed has all the necessary development and manufacturing facilities in-house. This facilitates a markedly faster progression from development to commercialisation than what is standard. This also implies significantly lower development costs.

Large, attractive markets. Some of the markets targeted by the proprietary products are very large, especially the wound care market. Others, specifically the market for SmartPan, are smaller in volume but more lucrative because of the prices a product may command.

Patents. Magle Chemoswed's intellectual property strategy encompasses patent registrations and secrecy. The company has chosen to seek patents on individual products rather than the technology platform itself. Two recent patent families were submitted in 2013-2017 and 2019, respectively, covering the application of its microspheres in surgical hemostasis, wound treatment and bodily fluid detection.

What is the earnings outlook?

To help us estimate a fair value of the company and its stock, we have developed a set of economic projections for the company's future earnings. In this economic scenario, we have included revenues from the CDMO, the royalty agreement for Arista and sales revenues from the four proprietary products that are either on the market or close to market launch. We acknowledge that there is considerable market potential in the company's other products in the pipeline, but we have not included them in our valuation at this stage. We prefer to keep our model simple and conservative for now, leaving room for future valuation upgrades when other products approach the commercialisation phase.

CDMO business to grow 5% p.a. organically

For the core operations, the **CDMO** segment of the business, we have assumed that the company has room to grow from its annual revenue of nearly SEK 100 million. Given the strong market trend, we have assumed Magle Chemoswed can maintain a 5 percent annual organic growth until the final year of our forecasts, 2030. This is exactly one half of the company's growth target for the organic and acquired growth combined. In 2030, our model puts the annual turnover of the CDMO business at SEK 160 million. In this area of the business, we assume a gross margin of around 30 percent, in line with the company's historical performance.

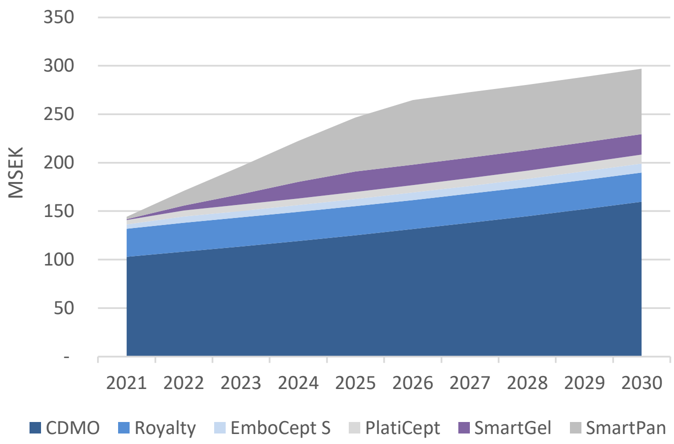
Royalty stream to stay flat until 2030

The company has a long-standing royalty agreement for the medical device **Arista.** We estimate that this royalty agreement will generate revenues of around SEK 30 million every year until 2030. However, we foresee a drop in royalties during Q4 2020 and Q1 2021 due to the impact of COVID-19 on the number of operations conducted in the US. The royalty agreement implies a 100 percent gross margin.

EmboCept S expands into secondary markets

EmboCept S is already selling in selected countries in Europe. The device has been distributed by PharmaCept. Starting from Q2 2021, PharmaCept will be a fully owned subsidiary of Magle Chemoswed and its financials will be consolidated into the group's statements. Final sales of EmboCept S have recently totalled around SEK 20 million annually, and we expect growth in the existing primary markets of 5 percent per year over the forecast horizon. In the second half of 2021, we expect sales to take off in secondary markets. These markets include Japan, South Korea and Brazil. We expect the secondary markets to grow to roughly the same size as the primary markets, and on the horizon in 2030, we foresee that EmboCept S will produce revenues of around SEK 65 million with a gross margin of around 95 percent.

Figure 13: Annual sales revenues by product/service



Source: Västra Hamnen Corporate Finance

Following the acquisition of PharmaCept, the company will also distribute **PlatiCept.** Historic sales amount to approximately SEK 6 million per year and since it is operating in a crowded market, we have assumed no major changes through the projection period. We model a growth of 5 percent annually with a gross margin of 65 percent.

SmartGel market could be one million persons in Europe

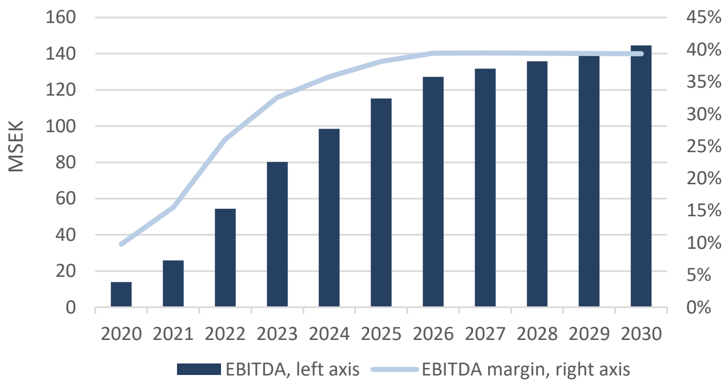
For **SmartGel,** which is targeting the wound care market, we have chosen to include only the European market for diabetic foot ulcers (DFU). The estimated prevalence of DFU is around 0.2 percent of the population, indicating around one million people in Europe. We expect the product to enter the market in Q3 2021 and grow steadily to a 2 percent share of the European market in 2025. Thereafter we keep the market share unchanged throughout the forecast period. On the horizon this means annual revenues of SEK 25 million assuming a dose price of SEK 300. However, to account for the risk represented by the remaining market preparation, we have decided to apply an 85 percent risk coefficient, meaning that our model factors in risk-adjusted revenues of around SEK 21 million per year.

SmartPan could capture very high market share

Finally, **SmartPan** looks set to become a first-in-class medical device for use during pancreatic surgery. In our scenario, we have included the company's target markets comprising the US and the five biggest European markets. The company estimates this market to total around 60 000 operations per year. We have assumed a unit price of SEK 3 000, which is probably conservative given the huge benefits it conveys in patient safety and cost savings. We believe the product has potential to establish a very high market share. From the expected market launch in Q3 2021, we have modelled a sharply increasing sales curve until reaching a 50 percent market share in 2026. From this point on the device is seen bringing in SEK 68 million in annual revenues to Magle Chemoswed. This is after risk-adjustment for the remaining uncertainty around market launch. We have applied a risk coefficient of 75 percent to account for this. For SmartPan we assume a gross margin of 85 percent.

On the cost side, the development costs have so far largely been covered by the revenues generated in the CDMO business and royalties from Arista. Our personnel cost estimates take into account that the company's staff will grow from 68 to 75 people after the acquisition of PharmaCept. Thereafter, we estimate that the staff will increase moderately over the forecast period. As for other external costs, we have modelled these based on an average from historic quarters and let them grow over coming years at about 40 percent of the growth rate of revenues.

Figure 14: Annual EBITDA and EBITDA margins



Source: Västra Hamnen Corporate Finance

Rapid profit growth next few years

Taken together, our scenario implies a net profit of SEK 2.5 million this year, which jumps more than tenfold to SEK 28.7 million next year thanks to the new product launches. The year after could bring almost another doubling of profits to SEK 51.6 million before the pace of growth starts to gradually decline. In 2030, the last year of our economic projections, our scenario implies total revenues SEK 367 million. At that point, the company delivers an EBITDA of SEK 145 million and an after-tax profit of SEK 114 million.

Table 2: Summary income statement

MSEK	2019	2020e	2021e	2022e	2023e	2024e	2025e
Total revenues	**139,5**	**142,2**	**166,2**	**209,0**	**246,4**	**275,0**	**301,7**
COGS	(27,6)	(29,7)	(32,3)	(37,6)	(42,6)	(47,4)	(51,9)
Opex	(98,5)	(98,5)	(108,1)	(117,0)	(123,5)	(129,1)	(134,6)
EBITDA	**13,4**	**13,9**	**25,8**	**54,4**	**80,2**	**98,5**	**115,2**
Amortisation & Depreciation	**(13,3)**	**(14,4)**	**(22,3)**	**(18,9)**	**(15,6)**	**(13,4)**	**(11,8)**
EBIT	**0,1**	**(0,5)**	**3,6**	**35,6**	**64,6**	**85,1**	**103,4**
Net financial items	0,9	(1,2)	(0,5)	(0,2)	0,3	1,1	1,9
Taxes	(0,3)	0,3	(0,6)	(6,6)	(13,4)	(17,8)	(21,7)
Net profit	**0,7**	**(1,4)**	**2,5**	**28,7**	**51,6**	**68,4**	**83,7**

Source: Västra Hamnen Corporate Finance

How is the cash situation?

We see cash reserves of SEK 22 million at end Q1-21

In the quarterly report for Q3 2020, the company reported cash holdings of SEK 15.1 million. Since then, Magle Chemoswed has completed a rights issue which raised another SEK 20 million to finance the acquisition of PharmaCept. We expect both the share issue and the acquisition outlay to be recognised on the books in Q1 2021. Since the proceeds from the rights issue exactly matches the cash part of the acquisition offer, the net cash effect is zero. Our estimate is that the cash reserve will land at SEK 22 million at the end of Q1.

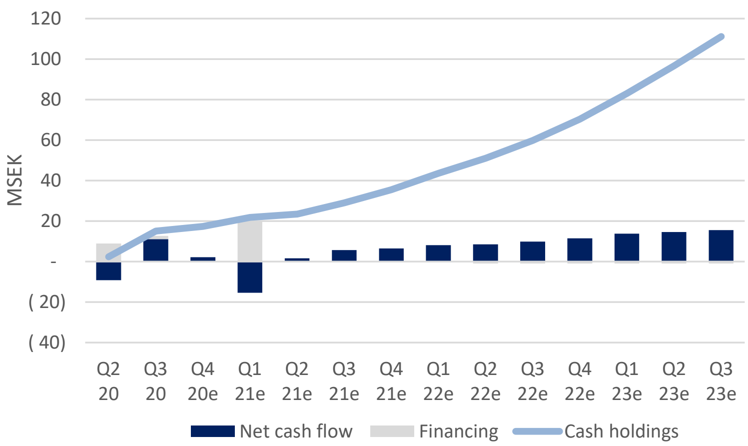
No further equity issues in our scenario

The company generates stable cashflows from the CDMO and the royalty streams from Arista. The excess cash from these sources provides the financial means to develop the company's own products based on its technology platform. By self-financing the entire development portfolio, there is no need for external financing, and we have not built any future equity issues into our scenario. We acknowledge, however, that if the company decides to buy additional businesses in the near term, that could give rise to further capital injections.

We expect net cash flows to turn positive in the coming quarters and grow steadily through the projection period as the proprietary products start to grow revenues in earnest. These cashflows can eventually be reinvested in the business and further product development or be paid out as dividends to shareholders as part of company's policy to pay out 30 to 50 percent of the net profit in dividends.

The company has an outstanding warrant program, issued to key members of the management team, giving the holders the right to buy 300 000 shares in Q4 2023. The strike price is SEK 25 meaning the warrants are currently *in-the-money.* We have therefore assumed they will be exercised in full and have added the subscription proceeds of SEK 7.5 million to our cash flow forecast for Q4 2023.

Figure 15: Cash flow and cash holdings



Source: Västra Hamnen Corporate Finance

What is fair value for the stock?

We apply two techniques to estimate fair value for the company. The first is a discounted cash flow (DCF) model based on the economic scenario described above and the second is a peer valuation.

A two-step DCF valuation

Our DCF calculation comprises two steps (see details in the appendix). In the first step, we estimate fair enterprise value assuming that the company survives until it reaches sustainable profitability. In the second, we multiply this enterprise value with a risk coefficient, reflecting the probability of it reaching the profitable stage. This method is recommended for young companies on the way to their first year of profit, but we think it is applicable also for Magle Chemoswed. Despite its long history, it is hard to argue that it has passed the threshold to becoming *sustainably* profitable. According to our estimates, the company should start enjoying rapidly rising profits in just a few quarters, hence we assign 75 – 100 percent probability that sustainable profitability will occur. The 75 and 100 percent will therefore be our risk coefficients.

We apply a WACC of 14 percent

Since the risk coefficient adjusts for the risk of non-survival, we can apply a lower discount rate than would otherwise be the case. We have chosen to discount future cash flows by a weighted average cost of capital (WACC) rate of 14 percent. Arguments in favour of a lower WACC could be that the company operates in a non-cyclical industry, that parts of its operations have a proven track record of stable cash flows, and that the long customer contracts in the CDMO supports customer retention and revenue visibility. On the other hand, even in the profitable stage the company will face continued development risk in the proprietary product portfolio, and its dependence on a highly qualified workforce remains a vulnerability. In addition, the company is operating in an area (CDMO) where the trend towards consolidation could lead to intensified competition. The company is also small in financial market terms, justifying a risk premium. A WACC of 14 percent compensates for these risks and leaves room for future valuation upgrades as the company demonstrates increasing robustness to the risk factors.

The net present value of cash flows during the model's explicit period until 2030 sums up to SEK 374.9 million. To this we add a discounted terminal value of all cash flows from 2031 onward, assuming a growth rate of 2.0 percent in perpetuity. Together this implies a fair enterprise value of SEK 648.2 million before adjusting for survival risk.

As mentioned, we regard 75 to 100 percent to be a reasonable probability range for Magle Chemoswed to make it to sustainable profitability. We use these figures as multiples to risk adjust our estimated enterprise value. Our estimate of fair enterprise value is SEK 486.2 million using 75 percent risk weight and remains at SEK 648.2 million when applying a 100 percent weight.

DCF model yields fair value of SEK 42.70 – 57.30 per share

To go from fair enterprise value to fair market capitalisation we add the company's cash holdings and subtract all interest-bearing debt. This leaves us with a fair market valuation of the equity at SEK 473.6 million using 75 percent risk weight and SEK 635.6 million using a weight of 100 percent. **After full dilution for outstanding warrants, this is equivalent to a fair value per share of SEK 42.70 and 57.30, respectively.**

Table 3: DCF model assumptions

MSEK	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Total revenues	166,2	209,0	246,4	275,0	301,7	322,4	333,5	344,3
EBIT	35,6	64,6	85,1	103,4	116,6	121,9	126,5	131,3
EBIT margin	17,0%	26,2%	30,9%	34,3%	36,2%	36,5%	36,8%	36,9%
Adj. Taxes	(7,3)	(13,3)	(17,5)	(21,3)	(24,0)	(25,1)	(26,1)	(27,0)
NOPLAT (= EBIT - tax)	**28,2**	**51,3**	**67,6**	**82,1**	**92,6**	**96,8**	**100,5**	**104,2**
Depreciation	18,9	15,6	13,4	11,8	10,7	9,8	9,2	8,8
Capex + Working cap	(8,7)	(6,8)	(6,8)	(6,6)	(6,3)	(6,0)	(6,0)	(6,0)
Net cash flow	**38,4**	**60,1**	**81,6**	**87,3**	**96,9**	**100,6**	**103,7**	**107,0**

DCF (MSEK)		
WACC	14,0%	14,0%
Enterprise value (EV)	648,2	648,2
Prob of profitability	75%	100%
Risk adjusted EV	486,2	648,2
Net cash	(12,6)	(12,6)
Fair value market cap	**473,6**	**635,6**
Number of shares (M)	11,10	11,10
Fair value/share (SEK)	**42,70**	**57,30**

Sensitivity analysis (value per share, DKK)

		Prob of profitability			
		75%	85%	95%	100%
WACC	18%	30,10	34,20	38,40	40,50
	16%	35,40	40,30	45,20	47,60
	14%	**42,70**	**48,50**	**54,30**	**57,30**
	12%	52,90	60,10	67,30	70,90
	10%	68,30	77,60	86,90	91,50

Source: Västra Hamnen Corporate Finance

We have also performed a so-called peer valuation, meaning a valuation based on what values the market assigns to comparable companies. It is difficult to compare companies against one another before they reach a level of profitability that is representative of their long-run potential. Profit is after all the most common scaling parameter for comparison. In the case of Magle Chemoswed, it is also difficult to find listed companies with a similar combination of business orientations.

For simplicity, we have chosen to compare Magle Chemoswed's valuation against the companies mentioned as its closest competitors in the listing prospectus. The named competitors include the four companies included in Table 4 below, plus the Lubrizol Corp which we have excluded since it is privately owned.

A drawback is that all of these are more exclusively concentrated in the CDMO business. They are also much more mature than Magle Chemoswed, having many years of profitable operations behind them. To compensate for the latter, we choose to apply Magle Chemoswed's forecasted financials for the year 2022, when we expect the company to enter a more stable growth path of profits. By that time, all of the pipeline products included in our valuation have been launched, yielding group total revenues of SEK 209.0 million with an EBITDA of SEK 54.4 million and a net profit of SEK 28.7 million. The comparison with the peer group is far from perfect but it serves as a helpful reality check on our DCF valuation.

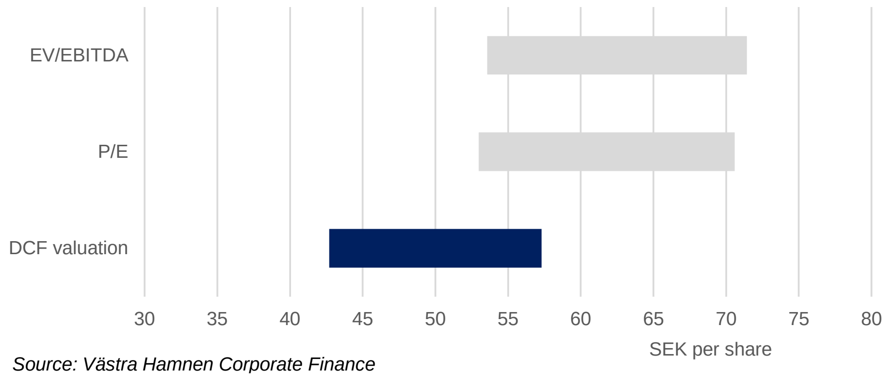
Table 4: Peer analysis

MSEK	Market cap	Net profit T12M	P/E	Enterprise value (EV)	EBITDA	Sales	EV/EBITDA	EV/sales
Magle Chemoswed	421,8	2,7	156,5	434,4	16,7	133,7	26,0x	3,2
Recipharm AB Class B (SE)	23 357,7	338,8	55,3	32 692,1	1 641,0	11 068,7	16,3x	2,5
Piramal Enterprises Ltd. (IN)	39 402,1	(744,0)	-	71 109,5	11 414,8	17 664,6	6,4x	4,2
Siegfried Holding AG (CH)	27 236,2	505,9	36,5	22 770,2	1 015,0	7 934,8	22,1x	2,8
Thermo Fisher Scientific Inc. (US)	1 668 710,5	58 680,2	29,2	1 619 976,6	94 054,0	296 558,4	19,3x	6,1
			32,8x				**17,8x**	
Magle Chemoswed 2022e		**28,7**			**54,4**	**209,0**		
Fair value per share, SEK			**53,00 - 70,60**				**53,60 - 71,40**	

Source: Factset, Västra Hamnen Corporate Finance

We have taken the median profit multiples of the peer group and applied them to Magle Chemoswed's estimated profits for 2022, discounted the resulting company valuation back to the present and finally applied the two risk coefficients 75 and 100 percent as in the DCF model. In summary, the peer analysis suggests a fair value of between SEK 53.00 and 70.60 per share using P/E and between SEK 53.60 and 71.40 based on EV/EBITDA.

Figure 16: Football field - DCF, P/E, EV/EBITDA



Source: Västra Hamnen Corporate Finance

What is behind the numbers?

In our research we try to look beyond the reported numbers to see if the company uses accounting methods or reports items off the income statement or balance sheet that could impact our interpretation of its official figures. The underlying economics of the company could be stronger or weaker than they appear at first glance and this could be important for our valuation.

Dilution from warrant programmes included in our valuation

For Magle Chemoswed we note mainly the warrant program for key employees. When fully vested, the programme entitles the holders to subscribe for 300 000 shares at a strike price of SEK 25.00 per share. This would constitute a dilution of existing shares by 2.7 percent. The warrants are currently *in the money* and we have therefore accounted for dilution in our valuation, meaning our fair value per share is based on the number of shares after full dilution for all outstanding warrants.

Concentrated ownership is a risk factor

It is also worth noting that the *free float* in the stock is extremely low as the two largest shareholders have an ownership stake of 84 percent. A low free float usually means low liquidity, which increases the risks of rapid movements in the share price. It may also be harder to buy and sell shares without affecting the share price. The two largest shareholders could affect the share price significantly if they were to start selling shares. However, since the IPO they are covered by lock-up agreements and both have raised their stakes in the company by subscribing for their pro rata share of the recent rights issue. We have no reason to believe that they plan to sell any shares in the near term.

Finally, we note that the company had a total of SEK 27.6 million in intangible assets on the balance sheet at the end of Q3 2020. Companies usually have a choice between capitalising or expensing investments in intangibles, and the more conservative choice is to expense as much as possible. By capitalising, the company merely postpones the recognition of the cost which will eventually show up as depreciation. We believe that Magle Chemoswed is rather conservative when it comes to capitalising, which can be seen as a strength.

Another thing to be aware of is that PharmaCept will be fully consolidated in Magle Chemoswed's group statements after the acquisition in Q1 2021. Since PharmaCept is a privately held company, we have little visibility into its accounts, and it is hard to predict how the consolidation will affect Magle group's balance sheet in terms of assets and goodwill.

What could go wrong?

COVID-19 still a main risk factor

The impact from COVID-19 is an overarching risk factor. The second wave of COVID-19 is still raging and Magle Chemoswed is still facing pandemic related risks. In the quarterly report for Q3, the company noted higher levels of uncertainty in customer forecasting and availability of key ingredients for pharmaceuticals manufacturing. The company also foresees lower sales of Arista as non-vital surgical procedures have slowed significantly during the pandemic.

Vulnerable to loss of personnel

Magle Chemoswed is crucially dependent on the expertise and accumulated know-how of its employees. The company is therefore vulnerable to the loss of competence if a significant number of staff should choose to leave, e.g. to join competitors. This also applies to the management team, where the loss of key persons could affect the company's future success.

Incidents could mean reputation risk

The company's customers are reliant on the quality and timely delivery of its products and services. Magle Chemoswed has a good reputation and its reliability is a compelling argument for attracting new business. If the company should fail to live up to its customers' expectations, the company's reputation could be irreversibly damaged. Such incidents could affect sales through the loss of existing customers and trouble in attracting new ones.

Environmental risk is a concern

In its operations, the company regularly handles toxic and environmentally hazardous substances. If there were to be an accident in the handling of these substances it could have a negative impact on the company's reputation both among customers and the society at large. Potential consequences include the loss of business and the risk of lawsuits and claims for damages.

Product development always entails risk

As always in developing new products, there is risk concerning the successful outcome of each project. Risk in Magle Chemoswed's case is moderate as many of the pipeline products are at a late stage of development. The development risk associated with medical devices is also lower compared to pharmaceutical products. However, even when the proprietary products reach the market, there is still uncertainty about the time it takes to establish a footprint in the market. In markets where there are competing products, the strategic response from incumbents is another uncertainty.

Coming events

Magle became a publicly traded company in June last year and has since then announced a steady stream of news. We believe that there is potential for a continued good news flow going forward.

SmartPan and SmartGel enters market this year

Magle has a broad internal development pipeline with products in different stages of development. After having secured CE marks this January, we look forward to both SmartGel and SmartPan entering the market later in 2021. In addition, products that are in earlier stages of development could generate news flow as their advancements through the development stages are announced.

Magle has many collaborations to extend the range of the company's commercial reach, but also to share the development cost and risk related to its own product development. In August 2020, Magle entered a collaboration with Sirtex Medical for creating a novel imaging agent for use in the Interventional Oncology field. Magle also has other collaborations, for example with Heidelberg University, Lund University and Uppsala University. We see good chances that other collaborations could be announced in the future.

Lastly, Magle has a history of being active in M&A by acquiring other businesses that expand its value offering. It is possible that the company will continue to acquire new businesses in the next few years.

Financial calendar

25 Feb 2021	Q4 report 2020
14 Apr 2021	Annual report 2020

Appendix: Valuation method

Companies in an early stage usually report negative net profits and may have many years left until they turn a profit. Sometimes they even have years until their first significant sales revenues. The difficulty in valuing growth companies with limited historical records is that the valuation rests on uncertain estimates of future earnings; more uncertain than for companies with years of stable profits on record. There is little in terms of historical figures on which to base estimates of future revenues, future profit margins and other items.

To handle these challenges, we choose to follow a generally accepted method for valuing growth companies described by finance professor Aswath Damodaran[1)] among others. Instead of scaling the discount rate (WACC) to account for all the risks and uncertainties associated with a young company, we use a two-stage valuation approach:

- First, we estimate fair enterprise value under the explicit assumption that the company survives until its first year of sustainable profits. We use a WACC commensurate with the circumstances of the company once it reaches profitability.
- Second, we adjust the estimated enterprise value by multiplying with a probability factor reflecting the likelihood that the company survives.

With each passing period after the initial valuation, the probability factor may be adjusted based on the company's development and our updated assessment of its chances of survival.

1) Damodaran, Aswath,*"Valuing Young, Start-up and Growth Companies: Estimation Issues and Valuation Challenges", Stern School of Business, New York University, May 2009*

Income Statement - Annual Data

kSEK	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Net sales	127 569	131 805	156 491	198 710	235 597	263 707	289 870	309 997
Capitalized development cost	4 214	-	-	-	-	-	-	-
Other revenues	7 706	10 375	9 756	10 243	10 756	11 293	11 858	12 451
Total revenues	**139 489**	**142 180**	**166 247**	**208 954**	**246 352**	**275 001**	**301 728**	**322 448**
Cost of goods sold	(27 576)	(29 702)	(32 343)	(37 567)	(42 574)	(47 378)	(51 918)	(55 584)
Gross profit	**111 913**	**112 478**	**133 904**	**171 387**	**203 778**	**227 623**	**249 809**	**266 864**
Other external expenses	(38 416)	(42 463)	(47 618)	(52 359)	(55 998)	(58 540)	(60 771)	(62 419)
Personnel costs	(57 345)	(56 071)	(60 454)	(64 598)	(67 537)	(70 610)	(73 823)	(77 182)
Other operating expenses	(2 759)	(3)	-	-	-	-	-	-
EBITDA	**13 393**	**13 941**	**25 832**	**54 430**	**80 243**	**98 473**	**115 215**	**127 263**
Amortisation & depreciation	(13 257)	(14 396)	(22 254)	(18 862)	(15 614)	(13 369)	(11 795)	(10 669)
EBIT	**136**	**(456)**	**3 578**	**35 568**	**64 629**	**85 104**	**103 421**	**116 594**
Net financial items	927	(1 222)	(460)	(184)	325	1 097	1 942	2 913
EBT	**1 063**	**(1 678)**	**3 118**	**35 384**	**64 954**	**86 201**	**105 362**	**119 508**
Taxes	(316)	281	(642)	(6 642)	(13 380)	(17 757)	(21 705)	(24 619)
Net profit	**747**	**(1 397)**	**2 476**	**28 741**	**51 573**	**68 444**	**83 658**	**94 889**
Earnings per share (SEK)	**-**	**(0,18)**	**0,23**	**2,66**	**4,74**	**6,17**	**7,54**	**8,55**
Growth (%)								
Net turnover	20,4%	3,3%	18,7%	27,0%	18,6%	11,9%	9,9%	6,9%
EBITDA	284,3%	4,1%	85,3%	110,7%	47,4%	22,7%	17,0%	10,5%
EBIT	na	na	na	894,1%	81,7%	31,7%	21,5%	12,7%
Net profit	na	na	na	1061,0%	79,4%	32,7%	22,2%	13,4%
% of revenues (%)								
Gross margin	78,4%	77,5%	79,3%	81,1%	81,9%	82,0%	82,1%	82,1%
EBITDA margin	9,6%	9,8%	15,5%	26,0%	32,6%	35,8%	38,2%	39,5%
EBIT margin	0,1%	neg	2,2%	17,0%	26,2%	30,9%	34,3%	36,2%
EBT margin	0,8%	neg	1,9%	16,9%	26,4%	31,3%	34,9%	37,1%
Profit margin	0,5%	neg	1,5%	13,8%	20,9%	24,9%	27,7%	29,4%
Personnel costs	45,0%	42,5%	38,6%	32,5%	28,7%	26,8%	25,5%	24,9%
Total OPEX	77,2%	74,8%	69,1%	58,9%	52,4%	49,0%	46,4%	45,0%
Profitability (%)								
ROE	0,7%	neg	1,8%	17,6%	23,2%	23,5%	22,3%	20,2%
ROIC	0,1%	neg	1,6%	16,2%	29,9%	39,5%	48,0%	54,3%
ROCE	0,1%	neg	1,7%	14,5%	20,6%	21,5%	20,9%	19,1%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Cash and cash eq	3 294	17 303	35 467	70 326	134 172	205 151	290 016	385 415
Inventory	27 243	23 682	18 912	21 706	24 308	26 958	29 271	30 954
Trade payables	18 424	14 780	21 448	26 903	30 338	33 823	36 776	38 758
Other payables	8 838	8 991	13 048	16 366	18 456	20 575	22 372	23 578
Prepayments and accrued income	19 677	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-
Total current assets	**77 476**	**64 755**	**88 874**	**135 302**	**207 273**	**286 508**	**378 436**	**478 705**
Tangible assets	102 090	104 270	109 275	104 529	100 240	96 365	92 862	89 697
Intangible assets	27 998	24 860	23 601	15 484	10 159	6 665	4 373	2 869
Financial assets	4 714	56	56	56	56	56	56	56
Total fixed assets	**134 802**	**129 186**	**132 931**	**120 069**	**110 456**	**103 086**	**97 292**	**92 623**
Total assets	**212 278**	**193 941**	**221 805**	**255 371**	**317 729**	**389 594**	**475 728**	**571 327**
Short-term debt	10 365	4 736	5 674	6 512	7 292	8 087	8 781	9 286
Trade payables	17 190	7 894	9 456	10 853	12 154	13 479	14 636	15 477
Liabilities to Group companies	16 000	-	-	-	-	-	-	-
Other short-term debt	16 682	34 933	37 823	43 412	48 616	53 916	58 542	61 907
Accrued expenses and prepaid inco	25 583	-	-	-	-	-	-	-
Total current liabilities	**85 820**	**47 564**	**52 953**	**60 777**	**68 062**	**75 483**	**81 959**	**86 670**
Long-term liabilities	**12 799**	**34 442**	**34 442**	**31 442**	**27 442**	**23 442**	**19 442**	**15 442**
Total equity	**113 659**	**111 934**	**134 410**	**163 151**	**222 224**	**290 668**	**374 325**	**469 215**
Total equity and liabilities	**212 278**	**193 940**	**221 804**	**255 370**	**317 728**	**389 593**	**475 727**	**571 326**

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2019	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Operating activities	14 606	15 693	24 730	47 603	67 187	81 813	95 452	105 558
Changes in working capital	(21 691)	3 916	(566)	(3 744)	(841)	(834)	(587)	(160)
Investing activities	(66 600)	(8 882)	(26 000)	(6 000)	(6 000)	(6 000)	(6 000)	(6 000)
Financing activities	-	-	20 000	-	7 500	-	-	-
Cash flow for the period	**1 053**	**14 008**	**18 164**	**34 860**	**63 846**	**70 980**	**84 865**	**95 399**
Beginning cash balance	2 241	3 294	17 303	35 467	70 326	134 172	205 151	290 016
Adjustments	-	1	-	-	-	-	-	-
Ending cash balance	**3 294**	**17 303**	**35 467**	**70 326**	**134 172**	**205 151**	**290 016**	**385 415**

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Net sales	34 263	28 779	29 970	31 526	39 861	41 612	43 492	45 527
Capitalized development cost	-	-	-	-	-	-	-	-
Other revenues	2 642	2 799	2 365	2 394	2 424	2 454	2 484	2 514
Total revenues	**36 905**	**31 578**	**32 335**	**33 921**	**42 285**	**44 065**	**45 976**	**48 042**
Cost of goods sold	(3 208)	(5 664)	(7 203)	(7 292)	(8 074)	(8 349)	(8 628)	(8 915)
Gross profit	**33 697**	**25 914**	**25 132**	**26 629**	**34 211**	**35 717**	**37 347**	**39 126**
Other external expenses	(13 320)	(10 117)	(10 730)	(10 941)	(12 020)	(12 222)	(12 434)	(12 658)
Personnel costs	(13 683)	(12 015)	(13 789)	(13 857)	(15 360)	(15 532)	(15 705)	(15 881)
Other operating expenses	-	(3)	-	-	-	-	-	-
EBITDA	**6 694**	**3 779**	**613**	**1 831**	**6 831**	**7 963**	**9 208**	**10 588**
Amortisation & depreciation	(3 645)	(2 686)	(5 397)	(5 093)	(6 066)	(5 709)	(5 386)	(5 092)
EBIT	**3 049**	**1 093**	**(4 785)**	**(3 262)**	**764**	**2 253**	**3 822**	**5 496**
Net financial items	126	(1 565)	(134)	(129)	(118)	(114)	(100)	(84)
EBT	**3 175**	**(472)**	**(4 919)**	**(3 391)**	**647**	**2 140**	**3 722**	**5 412**
Taxes	(692)	88	1 013	699	(133)	(441)	(767)	(468)
Net profit	**2 483**	**(384)**	**(3 906)**	**(2 692)**	**514**	**1 699**	**2 955**	**4 944**
Earnings per share (SEK)	**0,25**	**(0,04)**	**(0,39)**	**(0,25)**	**0,05**	**0,16**	**0,27**	**0,46**
Y-o-Y Growth (%)								
Net turnover	7,4%	(9,8%)	(6,0%)	(18,7%)	16,3%	44,6%	45,1%	44,4%
EBITDA	99,9%	12,9%	(81,7%)	(35,9%)	2,0%	110,7%	1403,0%	478,3%
EBIT	8867,6%	3114,7%	na	na	(74,9%)	106,2%	na	na
Net profit	1229,6%	na	na	na	(79,3%)	na	na	na
% of revenues (%)								
Gross margin	90,6%	80,3%	76,0%	76,9%	79,7%	79,9%	80,2%	80,4%
EBITDA margin	18,1%	12,0%	1,9%	5,4%	16,2%	18,1%	20,0%	22,0%
EBIT margin	8,3%	3,5%	neg	neg	1,8%	5,1%	8,3%	11,4%
EBT margin	8,6%	neg	neg	neg	1,5%	4,9%	8,1%	11,3%
Profit margin	6,7%	neg	neg	neg	1,2%	3,9%	6,4%	10,3%
Personnel costs	39,9%	41,7%	46,0%	44,0%	38,5%	37,3%	36,1%	34,9%
Total OPEX	78,8%	76,9%	81,8%	78,7%	68,7%	66,7%	64,7%	62,7%
Profitability (%)								
ROE	2,1%	neg	neg	neg	0,4%	1,3%	2,2%	3,5%
ROIC	1,6%	0,6%	neg	neg	0,4%	1,3%	2,3%	3,3%
ROCE	1,6%	0,6%	neg	neg	0,4%	1,1%	1,8%	2,5%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Cash and cash eq	2 386	15 092	17 303	21 854	23 411	29 013	35 467	43 519
Inventory	17 756	18 632	23 682	15 981	17 697	18 298	18 912	19 540
Trade payables	22 572	14 110	14 780	15 547	19 658	20 521	21 448	22 452
Other payables	20 920	7 874	8 991	9 458	11 958	12 484	13 048	13 658
Prepayments and accrued income	-	-	-	-	-	-	-	-
Derivative instruments	-	-	-	-	-	-	-	-
Total current assets	**63 634**	**55 708**	**64 755**	**62 840**	**72 725**	**80 315**	**88 874**	**99 169**
Tangible assets	104 827	105 405	104 270	113 163	111 834	110 538	109 275	108 043
Intangible assets	27 427	27 622	24 860	32 374	29 136	26 223	23 601	21 240
Financial assets	55	56	56	56	56	56	56	56
Total fixed assets	**132 309**	**133 083**	**129 186**	**145 593**	**141 026**	**136 817**	**132 931**	**129 339**
Total assets	**195 943**	**188 791**	**193 941**	**208 433**	**213 751**	**217 132**	**221 805**	**228 508**
Short-term debt	4 880	3 507	4 736	4 794	5 309	5 489	5 674	5 862
Trade payables	9 544	7 501	7 894	7 991	8 849	9 149	9 456	9 770
Liabilities to Group companies	-	-	-	-	-	-	-	-
Other short-term debt	30 157	27 500	34 933	31 963	35 395	36 596	37 823	39 080
Accrued expenses and prepaid inco	-	-	-	-	-	-	-	-
Total current liabilities	**44 581**	**38 508**	**47 564**	**44 748**	**49 553**	**51 235**	**52 953**	**54 712**
Long-term liabilities	**35 139**	**34 442**	**34 442**	**34 442**	**34 442**	**34 442**	**34 442**	**34 442**
Total equity	**116 223**	**115 840**	**111 934**	**129 242**	**129 755**	**131 454**	**134 410**	**139 353**
Total equity and liabilities	**195 943**	**188 790**	**193 940**	**208 432**	**213 750**	**217 131**	**221 804**	**228 507**

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q2 2020	Q3 2020	Q4 2020e	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
Operating activities	9 292	2 303	1 491	2 400	6 580	7 408	8 341	10 036
Changes in w orking capital	(13 824)	9 491	2 220	3 650	(3 522)	(307)	(387)	(483)
Investing activities	(4 694)	(773)	(1 500)	(21 500)	(1 500)	(1 500)	(1 500)	(1 500)
Financing activities	8 928	1 683	-	20 000	-	-	-	-
Cash flow for the period	**(298)**	**12 705**	**2 211**	**4 550**	**1 558**	**5 601**	**6 454**	**8 052**
Beginning cash balance	2 684	2 386	15 092	17 303	21 854	23 411	29 013	35 467
Adjustments	-	1	-	-	-	-	-	-
Ending cash balance	**2 386**	**15 092**	**17 303**	**21 854**	**23 411**	**29 013**	**35 467**	**43 519**

Source: Västra Hamnen Corporate Finance

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