

Update: Report Q2 2021

2021-08-18

Magle Chemoswed: Looking up

- CDMO business developing strongly
- Impact of PharmaCept acquisition visible in H2 2021
- We raise our valuation interval to SEK 46.60 – 62.80 (42.70 – 57.30) per share

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Stock ticker: **MAGLE**
Industry: **Healthcare**
Listed on: **First North Stockholm**
Latest stock price (SEK): **35,10**
Market cap (MSEK): **389,6**
Enterprise Value (MSEK): **409,5**
Total number of shares (M): **10,80**
- of which free float (M): **1,73**

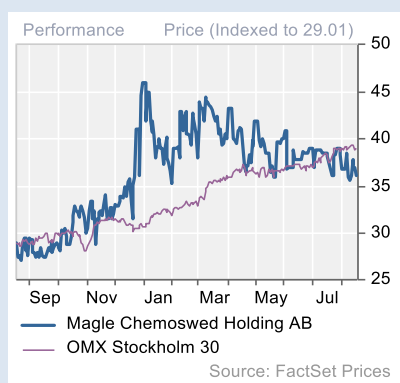
VHCF fair value per share
DCF model **SEK 46.60 - 62.80**

Magle Chemoswed Holding AB
Address: **Agneshundsvägen 27**
212 15, Malmö
Webpage: **maglechemoswed.com**
CEO: **Justin Pierce**

Main owners (30 Jun 2021)

Company	Capital (%)
Magle AB (H.H. Lidgard)	74,0%
Fosielund Holding AB	10,2%
Others	15,8%

Stock price history



	-1m	-3m	-12m
Change (%)	-5,2	-0,8	24,8
52 w k range (Low /H) - SEK	26,60 - 49,00		

Source: FactSet

Magle Chemoswed reported a net profit of SEK 0.8 million for Q2 2021, almost exactly in line with our forecast. Net revenues were somewhat below our forecast at SEK 33.5 million, but a higher-than-expected operating margin made up for this. Adjusted for an unpredictable royalty stream, revenues showed a healthy recovery from the setback triggered by COVID-19 last year. Our scenario of rising profits in the coming quarters is therefore strengthened, supported by the expected revenue boost from the acquisition of PharmaCept, looming product launches and a higher expected gross margin. We raise our valuation interval to SEK 46.60 – 62.80 per share.

The company finalised the takeover of PharmaCept GmbH during Q2. The acquisition is now fully consolidated in the balance sheet for the end of the quarter. The takeover was first announced back in November 2020 and at the time, it was estimated to add revenues in the interval of EUR 1.7 – 2.5 million and an EBIT of EUR 0.2 – 0.3 million per year on average. CEO Justin Pierce revealed during the [web conference](#) that this impact will become visible during H2 this year. The point of the acquisition is for Magle Chemoswed to capture a wider scope of the value chain, especially since the downstream is an unproportionally valuable part of the chain. In addition, Magle Chemoswed achieves better control of the commercialisation process and expects to reduce the time to market for upcoming products.

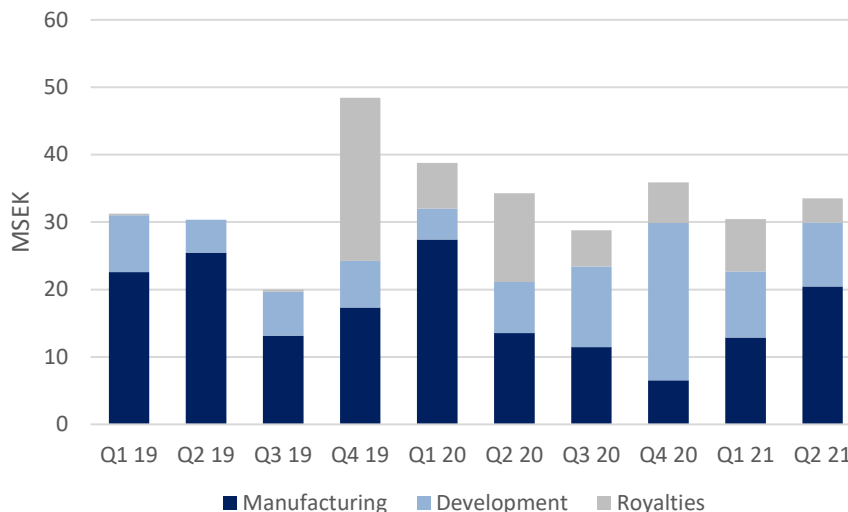
The past quarter was otherwise characterised by a continued improvement in the core CDMO business. Manufacturing revenues totalled SEK 20.4 million in Q2, up 51 percent compared to the same period last year and 59 percent higher than in Q1 this year. Manufacturing was buoyed by increased demand for both clinical material and medical devices. Development revenues came in at SEK 9.5 million, which was a 25 percent improvement over last year and down 3 percent from Q1. The company notes especially increased demand for analytic chemistry and solid-state services.

Table 1: Financial Overview

MSEK	2019	2020	2021e	2022e	2023e
Net turnover	127,6	137,7	146,9	196,1	238,6
Growth (%)	20,4%	8,0%	6,6%	33,5%	21,7%
Gross margin (%)	78,4%	77,9%	84,9%	83,0%	82,4%
EBIT	0,1	4,5	8,9	32,7	60,2
EBIT margin (%)	0,1%	3,1%	5,7%	15,8%	24,1%
Cash holdings	3,3	6,1	21,5	48,2	102,7
Total assets	212,3	198,1	212,2	247,1	304,1
Total equity	113,7	116,1	143,3	168,7	223,6
Solidity (%)	53,5%	58,6%	67,5%	68,3%	73,5%
P/E	521,6	214,2	55,8	15,3	8,2
ROE	0,7%	1,6%	4,9%	15,1%	21,2%
EV/EBIT (x)	3 011,3	90,5	46,0	12,5	6,8
EV/Sales (x)	3,2	3,0	2,8	2,1	1,7

Source: Västra Hamnen Corporate Finance

Figure 1: Revenue by business areas



Source: Västra Hamnen Corporate Finance

CDMO business showing strong growth

Together, the CDMO business (= Manufacturing + Development) netted a revenue of SEK 29.9 million, which was almost 42 percent better than Q2 last year, cf. Figure 1 above. It was only SEK 2 million shy of the strong pre-pandemic quarter Q1 2020 and revealed a healthy recovery. The slight decline in total revenues to SEK 33.5 million from SEK 34.3 million last year is fully attributable to a decline in royalty income from the legacy product Arista. These royalty revenues vary substantially from quarter to quarter but tend to even out in annual terms at a rate of roughly SEK 30 million per year.

CDMO growth despite currency headwind

Another component to consider when addressing the CDMO business' strong growth is the currency headwinds. The majority of Magle Chemoswed's sales are conducted in foreign currency, of which the USD and EUR constitute a significant part. Both currencies have depreciated against the SEK so far this year and depreciated significantly during Q2. In fact, adjusted for the currency headwind, manufacturing sales year-to-date would have increased by 8 percent instead of decreasing by 2 percent compared to the same period last year. Similarly, development sales would have increased by 2 percent instead of decreasing by 6 percent. It should also be noted that during H1 2020, the USD/SEK exchange rate averaged 9.55 compared to this year's 8.41, helping improve Magle Chemoswed's reported sales for last year's H1. Hence, adjusting for currency fluctuations, the company is successfully growing its CDMO business and illustrating strong development within its operations.

When comparing the report's outcome to our forecast it becomes apparent that whilst the top line was lower than expected, the bottom line was very much in line with our forecast. The divergence in revenue stems from lower royalty payments for Arista from Becton Dickinson than we had forecast. The company also continued to deliver an impressive gross margin, owing to efficiency improvements and supplier renegotiations outlined in our [previous update](#). Personnel expenses were marginally higher than forecast because Magle Chemoswed increased salaries by 5%, in line with the collective agreement. All in all, the lower revenue was compensated for by an impressive cost control with regards to the gross margin, meaning that since all other line items were in line with expectations, net profit barely showed any discrepancy compared to our forecast.

Table 2: Estimates vs actual, Q2 2021

kSEK	Q2 '20	Q2 '21est	Q2 '21act	Diff
Net Revenues	34 263	37 218	33 535	-3 683
Other Revenues	2 642	2 082	2 941	859
Total Revenues	36 905	39 300	36 476	-2 824
Cost of Goods Sold	-3 208	-7 301	-4 948	2 353
Gross Profit	33 697	31 999	31 528	-471
Personnel Expenses	-13 683	-15 360	-16 188	-828
Other Operating Expenses	-13 320	-12 042	-11 328	714
Total OPEX	-27 003	-27 402	-27 516	-114
EBITDA	6 694	4 597	4 012	-585
Amortisation and Depreciation	-3 645	-3 303	-2 787	516
EBIT	3 049	1 294	1 225	-69
Net Financial Items	126	-170	-257	-87
EBT	3 175	1 124	968	-156
Tax	-692	-232	-212	20
Net Profit	2 483	893	756	-137
				0
Cash and Equivalents	2 386	8 986	12 185	3 199
Total Equity	116 223	138 164	138 027	-137

Source: Västra Hamnen Corporate Finance

Cash and cash equivalents did, on the other hand, differ from our forecast. This is due to two reasons. Firstly, the acquisition cost of PharmaCept was slightly higher compared to the previously forecasted numbers in our previous update, and secondly, change in working capital was greater than expected. Working capital was lower due to Magle Chemoswed's lower inventory and due to their more efficient use of total current assets, which was significantly lower than we expected. This resulted in a higher decrease in working capital than forecast, which in turn entails an increase in cash. The higher acquisition costs, however, decreased cash and the net effect of the two totals slightly more than SEK 3 million, i.e. the same amount as the discrepancy in cash.

After reviewing the Q2 figures and listening to the company's presentation, we have decided to make a few amendments to our economic scenario for Magle Chemoswed. On balance, the changes are towards the positive:

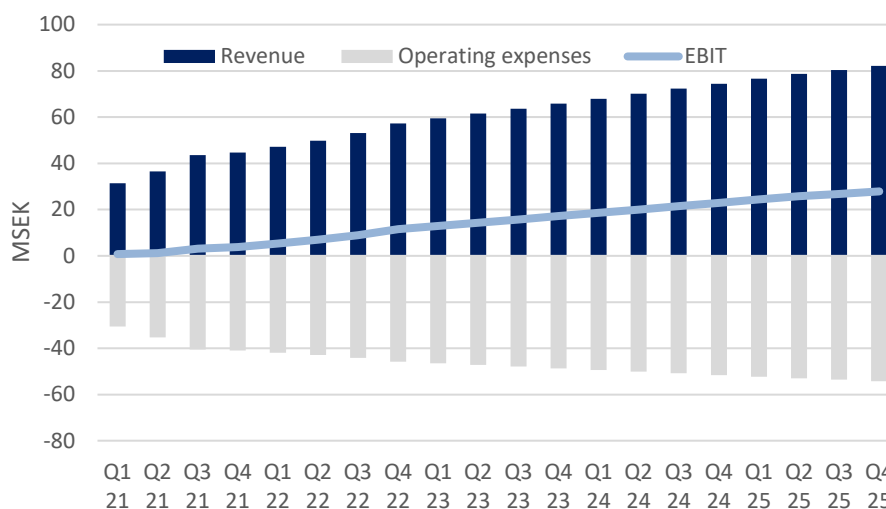
- At the conference call, CEO Justin Pierce confirmed that the initial estimate of the additional revenue from the takeover of PharmaCept is still valid overall. The short term is still tempered by the lingering effects of the pandemic but our scenario of a jump in net revenues between Q2 and Q3 following the takeover is largely intact, although we shave a little off our revenue forecasts for the next few quarters.
- The takeover will also imply an increase in operating expenses, and we have adjusted our estimate of personnel expenses slightly upwards, partly due to the salary increases noted above.
- The above-mentioned revenue boost from the takeover does not take into account the future sales of SmartPan and SmartGel, for which the company will control the entire value chain and reap attractive prices and margins. We have therefore adjusted these upwards in the scenario.
- During the conference call, Justin Pierce explained that it is reasonable to expect the first sales revenues from SmartGel in Q4 2021 and from SmartPan in either Q4 2021 or Q1 2022. This is on the one hand roughly one quarter later than in our previous forecast model. But on the other, both projects have now advanced to a stage where we think market launch is inevitable, and we remove the risk-adjustment we previously subjected both revenue streams to. This increases the risk-weighted revenues and profits in our valuation model.
- Royalties were lower than expected in Q2 due to pandemic-related delays in non-essential surgical procedures. We see no reason why this drop should be sustained; on the contrary, it is possible to imagine a future catch-up effect

when the postponed procedures get underway. However, we have assumed a return to the normal level of royalties at SEK 30 million/year.

- Finally, we have reviewed our assumptions on gross margins in CDMO manufacturing after our underestimation in the last two quarters. The company mentions several reasons why margins should improve, and we find it reasonable to increase our estimate to 82 percent from 72 percent going forward. This will positively affect gross margin and net earnings for the whole company already from Q3 onwards.

Our most recent estimates for net revenues, operating expenses and EBIT are illustrated in Figure 2 below.

Figure 2: Revenue and operating expenses



Källa: Västra Hamnen Corporate Finance

The updated economic scenario implies higher net revenues and EBIT over the forecast scenario, most notably from 2022 and onwards. This motivates a revision of our valuation interval at this juncture. The table below details the inputs to our DCF-model.

In summary, we raise our valuation interval to SEK 46.60 – 62.80 from our previous interval of SEK 42.70 – 57.30 per share.

Table 3: DCF model assumptions

MSEK	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Total revenues	156,2	207,4	250,5	284,9	317,9	346,1	363,2	374,2
EBIT	8,9	32,7	60,2	83,1	104,9	122,9	132,2	136,4
EBIT margin	5,7%	15,8%	24,1%	29,2%	33,0%	35,5%	36,4%	36,5%
Adj. Taxes	-1,8	-6,7	-12,4	-17,1	-21,6	-25,3	-27,2	-28,1
NOPLAT (= EBIT - tax)	7,1	26,0	47,8	66,0	83,3	97,6	104,9	108,3
Depreciation	12,8	13,9	13,2	12,5	11,9	11,3	10,8	10,3
Capex + Working cap	-15,8	-9,0	-8,6	-8,6	-8,3	-8,1	-6,6	-6,7
Net cash flow	4,1	30,9	52,4	77,3	86,8	100,8	109,1	112,0

DCF (MSEK)

WACC	14,0%	14,0%
Enterprise value (EV)	716,8	716,8
Prob of profitability	75%	100%
Risk adjusted EV	537,6	716,8
Net cash	-19,9	-19,9
Fair value market cap	517,7	696,9
Number of shares (M)	11,10	11,10
Fair value/share (SEK)	46,60	62,80

Sensitivity analysis (value per share, SEK)

		Prob of profitability			
		75%	85%	95%	100%
WACC	18%	33,00	37,60	42,30	44,60
	16%	38,80	44,20	49,60	52,30
	14%	46,60	53,10	59,60	62,80
	12%	57,70	65,60	73,60	77,50
	10%	74,50	84,60	94,80	99,90

Source: Västra Hamnen Corporate Finance

Income Statement - Annual Data

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Net sales	127 569	137 749	146 858	196 054	238 566	272 377	304 752	332 316
Capitalized development cost	4 214	0	0	0	0	0	0	0
Other revenues	7 706	8 502	9 366	11 326	11 893	12 487	13 112	13 767
Total revenues	139 489	146 251	156 224	207 380	250 459	284 864	317 864	346 083
Cost of goods sold	-27 576	-30 395	-22 208	-33 325	-41 964	-47 570	-52 987	-57 710
Gross profit	111 913	115 856	134 016	174 055	208 495	237 294	264 877	288 373
Other external expenses	-38 416	-40 801	-45 521	-53 863	-58 185	-61 292	-64 066	-66 299
Personnel costs	-57 345	-58 859	-66 756	-73 546	-76 892	-80 391	-84 048	-87 873
Other operating expenses	-2 759	-3	0	0	0	0	0	0
EBITDA	13 393	16 193	21 740	46 646	73 418	95 612	116 763	134 202
Amortisation & depreciation	-13 257	-11 667	-12 827	-13 948	-13 182	-12 491	-11 866	-11 301
EBIT	136	4 526	8 912	32 698	60 236	83 121	104 897	122 901
Net financial items	927	-2 093	-80	-612	-532	-452	-372	-292
EBT	1 063	2 433	8 832	32 086	59 703	82 669	104 525	122 609
Taxes	-316	-614	-1 844	-6 610	-12 299	-17 030	-21 532	-25 257
Net profit	747	1 819	6 988	25 476	47 404	65 639	82 993	97 351
Earnings per share (SEK)	0,00	0,14	0,65	2,36	4,36	5,91	7,48	8,77
Growth (%)								
Net turnover	20,4%	8,0%	6,6%	33,5%	21,7%	14,2%	11,9%	9,0%
EBITDA	284,3%	20,9%	34,3%	114,6%	57,4%	30,2%	22,1%	14,9%
EBIT	na	3227,6%	96,9%	266,9%	84,2%	38,0%	26,2%	17,2%
Net profit	na	143,4%	284,3%	264,6%	86,1%	38,5%	26,4%	17,3%
% of revenues (%)								
Gross margin	78,4%	77,9%	84,9%	83,0%	82,4%	82,5%	82,6%	82,6%
EBITDA margin	9,6%	11,1%	13,9%	22,5%	29,3%	33,6%	36,7%	38,8%
EBIT margin	0,1%	3,1%	5,7%	15,8%	24,1%	29,2%	33,0%	35,5%
EBT margin	0,8%	1,7%	5,7%	15,5%	23,8%	29,0%	32,9%	35,4%
Profit margin	0,5%	1,2%	4,5%	12,3%	18,9%	23,0%	26,1%	28,1%
Personnel costs	45,0%	42,7%	45,5%	37,5%	32,2%	29,5%	27,6%	26,4%
Total OPEX	77,2%	72,4%	76,5%	65,0%	56,6%	52,0%	48,6%	46,4%
Profitability (%)								
ROE	0,7%	1,6%	4,9%	15,1%	21,2%	22,7%	22,3%	20,7%
ROIC	neg	2,4%	4,5%	17,0%	32,2%	45,3%	58,2%	69,4%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Cash and cash eq	3 294	6 121	21 462	48 234	102 708	167 193	248 874	344 670
Inventory	27 243	18 348	14 902	21 097	24 138	27 228	30 012	32 595
Trade payables	18 424	26 271	20 708	26 830	30 968	35 155	38 862	42 243
Other payables	8 838	14 271	12 597	16 322	18 839	21 386	23 641	25 698
Prepayments and accrued income	19 677	0	0	0	0	0	0	0
Derivative instruments	0	0	0	0	0	0	0	0
Total current assets	77 476	65 011	69 668	112 482	176 653	250 962	341 388	445 205
Tangible assets	102 090	104 029	99 132	95 364	91 958	88 880	86 098	83 585
Intangible assets	27 998	28 966	43 390	39 211	35 435	32 022	28 938	26 151
Financial assets	4 714	56	56	56	56	56	56	56
Total fixed assets	134 802	133 051	142 579	134 631	127 448	120 958	115 092	109 791
Total assets	212 278	198 062	212 247	247 113	304 101	371 919	456 480	554 997
Short-term debt	10 365	12 723	7 071	7 071	7 071	7 071	7 071	7 071
Trade payables	17 190	12 365	7 451	10 548	12 069	13 614	15 006	16 297
Liabilities to Group companies	16 000	0	0	0	0	0	0	0
Other short-term debt	16 682	22 671	22 352	31 645	36 208	40 842	45 018	48 892
Accrued expenses and prepaid income	25 583	0	0	0	0	0	0	0
Total current liabilities	85 820	47 759	36 874	49 264	55 348	61 527	67 095	72 260
Long-term liabilities	12 799	34 183	32 115	29 115	25 115	21 115	17 115	13 115
Total equity	113 659	116 121	143 255	168 731	223 635	289 274	372 267	469 618
Total equity and liabilities	212 278	198 063	212 244	247 110	304 098	371 916	456 477	554 994

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2019	2020	2021e	2022e	2023e	2024e	2025e	2026e
Operating activities	14 606	16 180	19 815	39 424	60 587	78 130	94 858	108 652
Changes in working capital	-21 691	-1 720	7 753	-3 652	-3 612	-3 645	-3 178	-2 855
Investing activities	-66 600	-7 350	-24 460	-6 000	-6 000	-6 000	-6 000	-6 000
Financing activities	0	4 951	17 884	-3 000	3 500	-4 000	-4 000	-4 000
Cash flow for the period	1 053	2 826	15 340	26 772	54 475	64 484	81 681	95 797
Beginning cash balance	2 241	3 294	6 121	21 462	48 234	102 708	167 193	248 874
Adjustments	0	1	2	0	0	0	0	0
Ending cash balance	3 294	6 121	21 462	48 234	102 708	167 193	248 874	344 670

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e
Net sales	34 263	28 779	35 914	30 429	33 535	40 903	41 991	44 359
Capitalized development cost	0	0	0	0	0	0	0	0
Other revenues	2 642	2 799	492	966	2 941	2 713	2 746	2 780
Total revenues	36 905	31 578	36 406	31 395	36 476	43 616	44 737	47 139
Cost of goods sold	-3 208	-5 664	-7 896	-3 912	-4 948	-6 549	-6 799	-7 268
Gross profit	33 697	25 914	28 510	27 483	31 528	37 067	37 938	39 870
Other external expenses	-13 320	-10 117	-9 068	-8 943	-11 328	-12 560	-12 689	-12 962
Personnel costs	-13 683	-12 015	-16 577	-15 004	-16 188	-17 683	-17 881	-18 081
Other operating expenses	0	-3	0	0	0	0	0	0
EBITDA	6 694	3 779	2 865	3 536	4 012	6 824	7 368	8 828
Amortisation & depreciation	-3 645	-2 686	-2 668	-2 754	-2 787	-3 670	-3 616	-3 563
EBIT	3 049	1 093	197	782	1 225	3 153	3 752	5 265
Net financial items	126	-1 565	-1 005	498	-257	-161	-161	-161
EBT	3 175	-472	-808	1 280	968	2 993	3 591	5 104
Taxes	-692	88	118	-276	-212	-617	-740	-1 051
Net profit	2 483	-384	-690	1 004	756	2 376	2 852	4 053
Earnings per share (SEK)	0,25	-0,04	-0,07	0,09	0,07	0,22	0,26	0,38
Y-o-Y Growth (%)								
Net turnover	7,4%	-9,8%	12,6%	-21,6%	-2,1%	42,1%	16,9%	45,8%
EBITDA	99,9%	12,9%	-14,4%	23,9%	-40,1%	80,6%	157,2%	149,6%
EBIT	8867,6%	3120,6%	476,8%	318,2%	-59,8%	188,0%	1813,3%	573,2%
Net profit	1229,6%	na	na	144,9%	-69,6%	na	na	303,6%
% of revenues (%)								
Gross margin	90,6%	80,3%	78,0%	87,1%	85,2%	84,0%	83,8%	83,6%
EBITDA margin	18,1%	12,0%	7,9%	11,3%	11,0%	15,6%	16,5%	18,7%
EBIT margin	8,3%	3,5%	0,5%	2,5%	3,4%	7,2%	8,4%	11,2%
EBT margin	8,6%	neg	neg	4,1%	2,7%	6,9%	8,0%	10,8%
Profit margin	6,7%	neg	neg	3,2%	2,1%	5,4%	6,4%	8,6%
Personnel costs	39,9%	41,7%	46,2%	49,3%	48,3%	43,2%	42,6%	40,8%
Total OPEX	78,8%	76,9%	71,4%	78,7%	82,1%	73,9%	72,8%	70,0%
Profitability (%)								
ROE	2,1%	neg	neg	0,7%	0,5%	1,7%	2,0%	2,8%
ROIC	1,6%	neg	neg	0,4%	0,6%	1,6%	1,9%	2,7%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e
Cash and cash eq	2 386	15 092	6 121	24 014	12 185	14 765	21 462	26 728
Inventory	17 756	18 632	18 348	18 093	18 364	14 354	14 902	15 930
Trade payables	22 572	14 110	26 271	21 750	21 786	20 171	20 708	21 875
Other payables	20 920	7 874	14 271	16 858	11 012	14 316	12 597	13 308
Prepayments and accrued income	0	0	0	0	0	0	0	0
Derivative instruments	0	0	0	0	0	0	0	0
Total current assets	63 634	55 708	65 011	80 715	63 347	63 606	69 668	77 842
Tangible assets	104 827	105 405	104 029	103 175	101 165	100 136	99 132	98 154
Intangible assets	27 427	27 622	28 966	28 932	45 644	44 503	43 390	42 306
Financial assets	55	56	56	56	56	56	56	56
Total fixed assets	132 309	133 083	133 051	132 163	146 865	144 695	142 579	140 516
Total assets	195 943	188 791	198 062	212 878	210 212	208 301	212 247	218 357
Short-term debt	6 393	3 854	12 723	10 020	7 071	7 071	7 071	7 071
Trade payables	9 544	7 501	12 365	8 427	14 206	7 177	7 451	7 965
Liabilities to Group companies	0	0	0	0	0	0	0	0
Other short-term debt	28 644	27 153	22 671	23 179	18 790	21 532	22 352	23 896
Accrued expenses and prepaid income	0	0	0	0	0	0	0	0
Total current liabilities	44 581	38 508	47 759	41 626	40 067	35 780	36 874	38 932
Long-term liabilities	35 139	34 442	34 183	33 980	32 115	32 115	32 115	32 115
Total equity	116 223	115 840	116 121	137 271	138 027	140 403	143 255	147 307
Total equity and liabilities	195 943	188 790	198 063	212 877	210 209	208 298	212 244	218 354

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021e	Q4 2021e	Q1 2022e
Operating activities	9 292	2 303	1 978	3 758	3 543	6 046	6 468	7 616
Changes in working capital	-13 824	9 491	-3 416	-75	8 065	-1 967	1 730	-849
Investing activities	-4 694	-773	32	-2 852	-18 608	-1 500	-1 500	-1 500
Financing activities	8 928	1 683	-7 565	17 061	-4 829	0	0	0
Cash flow for the period	-298	12 705	-8 971	17 892	-11 829	2 580	6 697	5 266
Beginning cash balance	2 684	2 386	15 092	6 121	24 014	12 185	14 765	21 462
Adjustments	0	1	0	2	0	0	0	0
Ending cash balance	2 386	15 092	6 121	24 014	12 185	14 765	21 462	26 728

Source: Västra Hamnen Corporate Finance

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