

Update: Report Q2 2022

2022-08-19

Magle Chemoswed: Delivering healthy sales

- Strong net sales in Q2 due to high CDMO sales and royalties
- Impressive margins mean two out of three financial targets are met
- We maintain our valuation interval of SEK 46.60 – 62.80 per share

Analysts

Joakim Eriksson
072-729 9984
joakim.eriksson@vhcorp.se

Jens Jacob Aabel Nordkvist
073-422 5876
jensjacob.aabelnordkvist@vhcorp.se

Stock ticker: MAGLE
Industry: Healthcare
Listed on: First North Stockholm
Latest stock price (SEK): 29,40
Market cap (MSEK): 326,3
Enterprise Value (MSEK): 362,2
Total number of shares (M): 10,80
- of which free float (M): 1,67

VHCF fair value per share
DCF model SEK 46.60 - 62.80

Magle Chemoswed Holding AB

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

Main owners (28 Jun 2022)

	Capital (%)
Magle AB (H.H. Lidgard)	74,0%
Fosielund Holding AB	10,5%
Others	15,5%

Stock price history (SEK)



	-1m	-3m	-12m
Change (%)	42,7	33,6	-20,5
52 wk range (Low/Hi) - SEK		20,00 - 42,00	

Source: Börssdata

Magle Chemoswed's report for Q2 2022 showcased higher-than-expected revenue as CDMO sales and royalties came in strong. Generic API sales have recovered well from the temporary dip in the previous quarter and are currently back to historic levels. This resulted in strong margins and a healthy bottom line. During the quarter, the DSM products have developed well with sales of EmboCept S going according to plan and manufacturing having begun for both SmartGel and SmartPan. With two out of three financial targets fulfilled during Q2, we keep our long-term scenario intact and therefore maintain our valuation interval.

Magle Chemoswed reported total revenues of SEK 38.9 million in Q2, of which SEK 35.5 million was reported as net sales, SEK 0.5 million as capitalized development costs and SEK 2.9 million as other revenues. A decomposition of sales shows that DSM sales were SEK 4.6 million for the quarter, compared to SEK 0.7 million in Q2 2021. Royalties from Becton Dickinson's sales of Arista in the US increased to SEK 6.4 million this quarter compared to SEK 3.0 million in Q2 last year. Both contract manufacturing and generic API sales noted a total revenue of SEK 25.6 million, lower than the SEK 30.4 million recorded for the same period in 2021. However, CDMO development services totalled SEK 9.7 million, significantly higher than last year's Q2 figure of SEK 1.5 million.

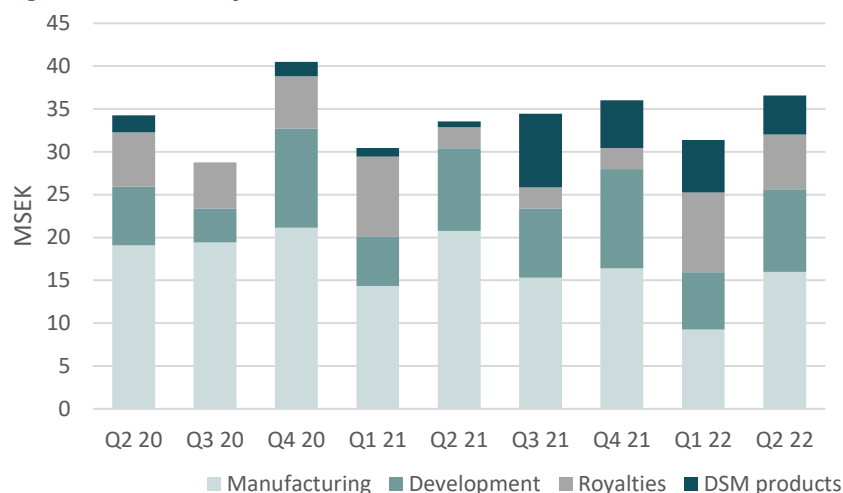
During the quarter, the company's product mix has continued to steadily shift towards the high margin business areas of DSM products and royalties, cf. Figure 1 on the next page. Gross margin for the quarter was 97.0 percent and OPEX totalled SEK 30.3 million, resulting in an EBITDA of SEK 7.7 million. Net profit totalled SEK 3.8 million and cash balances stood at SEK 7.8 million at the end of the quarter.

Table 1: Financial Overview

MSEK	2020	2021	2022e	2023e	2024e
Net turnover	137,4	132,2	145,5	199,3	219,0
Growth (%)	7,7%	-3,8%	10,0%	37,0%	9,9%
Gross margin (%)	77,9%	83,9%	88,2%	84,1%	84,4%
EBIT	4,4	5,3	13,4	40,7	53,6
EBIT margin (%)	3,0%	3,7%	8,5%	19,2%	23,2%
Cash holdings	5,9	4,0	20,6	65,7	111,4
Total assets	197,9	233,3	249,1	288,3	328,5
Total equity	116,1	139,4	151,3	190,5	232,5
Solidity (%)	58,7%	59,8%	60,7%	66,1%	70,8%
P/E	198,6	73,5	29,7	10,3	7,8
ROE	1,4%	3,2%	7,3%	16,6%	18,1%
EV/EBIT (x)	83,3	68,6	27,0	8,9	6,8
EV/Sales (x)	2,6	2,7	2,5	1,8	1,7

Source: Västra Hamnen Corporate Finance

Figure 1: Revenue by business areas



Source: Västra Hamnen Corporate Finance

CDMO site expansion set for 2026

As mentioned in our previous [research update](#), Magle Chemoswed has signed a pre-agreement with the city of Malmö to potentially acquire a piece of land. The land is adjacent to their existing site and would expand their CDMO facilities with an additional 3 600 square meters. Details regarding the development plan are being discussed with Malmö City currently. However, during the recent [web conference](#) CEO Justin Pierce disclosed that there is still a lot of work to do in terms gauging the expansion's environmental impact, risk assessment and land sampling. These aspects are expected to be finalised around 2026.

DSM products set for launch in 2022 and 2023

Turning to Magle Chemoswed's DSM portfolio it can be stated that the products are progressing as planned. **EmboCept S**, which was approved in the CIRSE Guidelines as a standard of care earlier this year, is CE marked and is being sold on the European market via direct sales channels. A geographic expansion outside of Europe is under evaluation while post-market studies to expand its therapeutic use are ongoing. **SmartGel**, called so in Europe and AXXO WoundGel elsewhere, is also CE marked and is being manufactured to support registrations and supply into the Middle East and Latin America. SmartGel recently received regulatory approval in Latin America (Peru), with commercial launch in these regions and Germany expected in 2022 and 2023. **SmartPan**, which is also CE marked, is approved for sale in Europe. Manufacturing of SmartPan has begun to support both the post-market clinical follow-up study that was initiated this quarter and the pre-market product launch. The response from surgeons participating in the study has been overwhelmingly positive, and the study's results will be used to support reimbursement applications and to expand registrations outside of Europe. Sales of the product are expected to commence in late 2022 or early 2023.

DSM pipeline showing promise

The progress of Magle Chemoswed's DSM pipeline, which includes four products, is also developing well. **EmboCept M** and **EmboCept L** are both currently in their final scale-up and commercial readiness stages, with regulatory documentations for approval in the European Union to be filed thereafter. The filing is expected to occur in Q3 or Q4 2022 for EmboCept M and in Q4 2022 or Q1 2023 for EmboCept L. As for **SmartGel II**, filing is expected to take place around Q2 2023, with the approval process for all three products anticipated to take around 6-8 months. Lastly, **SmartBone**, a gel that induces tissue re-generation and reparation which is to be used in dental bone tissue engineering, is in the early development phase. A patent was filed in 2021/2022 and the project will move into the pre-clinical stage in 2022.

Better sales and gross margin than expected

Turning back to the reported financials for the quarter, Table 2 below shows a difference of SEK 1.6 million between our forecast and the outcome in terms of net revenue. The main reason for this discrepancy is higher CDMO sales than we had anticipated. As for the difference in COGS, this is mainly explained by higher-than-expected gross margins in the CDMO business as well as higher royalty sales for the quarter than we forecasted.

Table 2: Estimates vs actual, Q2 2022

kSEK	Q2 '21	Q2 '22est	Q2 '22act	Diff
Net Revenues	33 535	33 860	35 459	1 599
Other Revenues	2 941	2 550	2 960	410
Total Revenues	36 476	36 410	38 943	2 533
Cost of Goods Sold	-4 948	-6 035	-905	5 130
Gross Profit	31 528	30 375	38 038	7 663
Personnel Expenses	-16 188	-15 330	-17 969	-2 639
Other Operating Expenses	-11 328	-11 514	-12 365	-851
Total OPEX	-27 516	-26 844	-30 334	-3 490
EBITDA	4 012	3 531	7 704	4 173
Amortisation and Depreciation	-2 787	-4 363	-3 543	820
EBIT	1 225	-832	4 161	4 993
Net Financial Items	-257	-216	391	607
EBT	968	-1 048	4 552	5 600
Tax	-212	216	-749	-965
Net Profit	756	-832	3 803	4 635
Cash and Equivalents	12 010	14 899	7 849	-7 050
Total Equity	137 881	142 667	146 987	4 320

Source: Västra Hamnen Corporate Finance

Larger investments explain cash balance difference

When it comes to the quarter's reported OPEX, the difference of SEK 2.6 million in personnel expenses is due to the company's headcount being higher than our estimate for the quarter. The discrepancies posted in terms of EBIT, EBT and net profit can in turn be explained by a higher-than-expected net revenue and gross margin. Ultimately, the deviation in cash holdings of SEK 7.1 million can primarily be explained by a higher level of investments having been made, while the difference in equity of SEK 4.3 million is due to the aforementioned discrepancy in net profit.

License for new cleanroom facility expected soon

Following on from our previous update, Magle Chemoswed's new grade A cleanroom facility has now undergone an inspection from The Swedish Medical Products Agency (Läkemedelsverket). Pierce explained that the inspection went well and that despite some slight delays they expect to get their license in the near future.

Expanding sales force in Europe

Other news from the quarter includes the increase in headcount that has occurred as a result of the company's focus on establishing direct sales channels in Germany through PharmaCept. Looking ahead, focus will now shift towards France, which means further additions to personnel is to be expected; the total number of employees in Q1 this year amounted to 73 and the company expects that number to increase to above 80 towards the end of Q3 this year.

Magle Chemoswed also announced a sponsorship of the SmiLe incubator, which is located in Lund, under which they will provide advisory and development support to the emerging biotech companies within the incubator.

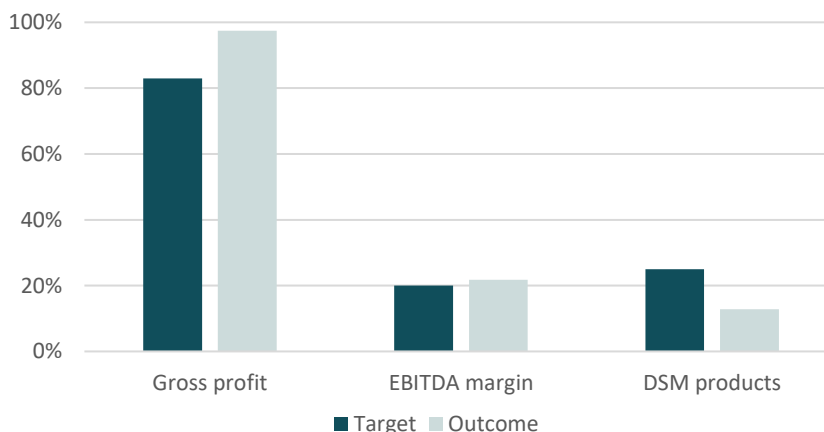
New financial targets announced

Looking further ahead, Magle Chemoswed has announced three financial targets pertaining to the period between 2022 and 2025. These targets are to have (1) a gross margin of at least 83 percent, (2) an EBITDA margin of at least 20 percent and (3) the DSM technology platform products accounting for at least 25 percent of total revenues.

Two out of three targets achieved already

For the second consecutive quarter, the company exceeded both its gross margin target and EBITDA target; the EBITDA margin was 22 percent while the gross margin was 97 percent in Q2 2022, c.f. Figure 2 below. As for the third target, only 13 percent of revenues excluding royalties in the quarter came from the DSM technology platform. However, we see a good chance for the company to meet its DSM target in the coming years given the progress of their DSM portfolio.

Figure 2: Financial targets vs outcome in Q2 2022



Source: Västra Hamnen Corporate Finance

We make minor revisions to our model

We see little reason to make significant changes to our valuation model as a result of this report. In the previous quarter, manufacturing within the CDMO business was negatively impacted as demand for generic API products dipped. This dip was due to Covid lockdowns in China and the war in Ukraine. This report shows that Magle Chemoswed has managed to overcome this dip in demand quicker than we expected, which is why we slightly increase our CDMO forecasts for the coming quarters. We also make slight adjustments to our forecast with regards to the market launch of SmartGel and SmartPan to better align with the company's expectations. Finally, we choose to increase our forecast for personnel costs in the coming quarters to account for the coming sales force expansion.

We keep our valuation interval unchanged

As these changes are minor and entail no changes to our fair value estimate, we choose to maintain our valuation interval for Magle Chemoswed of SEK 46.60 – 62.80 per share.

Income Statement - Annual Data

kSEK	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Net sales	137 449	132 196	145 476	199 263	219 034	253 533	281 022	307 524
Capitalized development cost	0	0	524	0	0	0	0	0
Other revenues	8 776	12 231	11 551	13 156	11 734	12 320	12 937	13 583
Total revenues	146 225	144 427	157 551	212 419	230 768	265 854	293 958	321 108
Cost of goods sold	-30 395	-21 293	-17 105	-31 688	-34 276	-39 746	-44 180	-48 482
Gross profit	115 830	123 134	140 446	180 731	196 492	226 107	249 778	272 625
Other external expenses	-40 976	-43 453	-46 329	-51 155	-52 824	-55 939	-58 255	-60 365
Personnel costs	-58 833	-62 779	-65 338	-72 201	-74 455	-76 299	-79 650	-83 274
Other operating expenses	-3	-44	0	0	0	0	0	0
EBITDA	16 018	16 858	28 779	57 374	69 213	93 869	111 873	128 987
Amortisation & depreciation	-11 667	-11 576	-15 381	-16 675	-15 647	-14 717	-13 878	-13 119
EBIT	4 351	5 282	13 399	40 700	53 567	79 152	97 995	115 868
Net financial items	-2 093	322	215	-784	-704	-624	-544	-464
EBT	2 258	5 604	13 614	39 916	52 863	78 528	97 451	115 404
Taxes	-614	-1 167	-2 621	-8 223	-10 890	-16 177	-20 075	-23 773
Net profit	1 644	4 437	10 993	31 693	41 973	62 351	77 376	91 631
Earnings per share (SEK)	0,12	0,41	1,02	2,91	3,78	5,62	6,97	8,26
Growth (%)								
Net turnover	7,7%	-3,8%	10,0%	37,0%	9,9%	15,8%	10,8%	9,4%
EBITDA	19,6%	5,2%	70,7%	99,4%	20,6%	35,6%	19,2%	15,3%
EBIT	3098,9%	21,4%	153,7%	203,8%	31,6%	47,8%	23,8%	18,2%
Net profit	120,0%	170,0%	147,7%	188,3%	32,4%	48,6%	24,1%	18,4%
% of revenues (%)								
Gross margin	77,9%	83,9%	88,2%	84,1%	84,4%	84,3%	84,3%	84,2%
EBITDA margin	11,0%	11,7%	18,3%	27,0%	30,0%	35,3%	38,1%	40,2%
EBIT margin	3,0%	3,7%	8,5%	19,2%	23,2%	29,8%	33,3%	36,1%
EBT margin	1,5%	3,9%	8,6%	18,8%	22,9%	29,5%	33,2%	35,9%
Profit margin	1,1%	3,1%	7,0%	14,9%	18,2%	23,5%	26,3%	28,5%
Personnel costs	42,8%	47,5%	44,9%	36,2%	34,0%	30,1%	28,3%	27,1%
Total OPEX	72,6%	80,4%	76,8%	61,9%	58,1%	52,2%	49,1%	46,7%
Profitability (%)								
ROE	1,4%	3,2%	7,3%	16,6%	18,1%	21,1%	20,8%	19,8%
ROIC	2,4%	2,3%	6,1%	19,5%	27,0%	41,3%	53,0%	64,7%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Cash and cash eq	5 946	3 983	20 180	65 281	110 980	174 640	253 254	345 328
Inventory	18 348	19 620	22 203	18 797	19 854	22 755	25 086	27 459
Trade payables	26 271	24 942	22 405	26 608	28 524	32 628	35 864	39 151
Other payables	14 271	9 851	12 267	16 186	17 352	19 849	21 817	23 817
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	64 836	58 396	77 056	126 872	176 711	249 872	336 020	435 754
Tangible assets	104 029	103 191	101 773	97 750	94 114	90 829	87 859	85 176
Intangible assets	28 966	71 035	69 060	62 409	56 398	50 966	46 058	41 622
Financial assets	56	676	823	823	823	823	823	823
Total fixed assets	133 051	174 902	171 656	160 982	151 335	142 618	134 740	127 621
Total assets	197 887	233 298	248 712	287 854	328 047	392 489	470 760	563 375
Short-term debt	12 723	6 776	20 605	20 605	20 605	20 605	20 605	20 605
Trade payables	12 365	18 752	11 102	11 278	11 913	13 653	15 051	16 475
Liabilities to Group companies	0	0	0	0	0	0	0	0
Other short-term debt	22 671	22 888	24 424	28 196	29 781	34 133	37 629	41 188
Accrued expenses and prepaid income	0	0	0	0	0	0	0	0
Total current liabilities	47 759	48 416	56 130	60 079	62 299	68 391	73 285	78 269
Long-term liabilities	34 183	45 484	41 695	37 695	33 695	29 695	25 695	21 695
Total equity	116 121	139 398	151 296	190 489	232 462	294 813	372 189	463 820
Total equity and liabilities	198 063	233 298	249 121	288 263	328 456	392 898	471 169	563 784

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Operating activities	16 005	14 476	22 840	48 368	57 619	77 068	91 254	104 750
Changes in working capital	-1 720	9 064	-3 696	-767	-1 920	-3 409	-2 641	-2 676
Investing activities	-7 350	-35 262	-13 141	-6 000	-6 000	-6 000	-6 000	-6 000
Financing activities	4 951	15 530	-2 704	3 500	-4 000	-4 000	-4 000	-4 000
Cash flow for the period	2 651	-2 140	16 196	45 101	45 699	63 659	78 614	92 074
Beginning cash balance	3 294	5 946	3 807	20 003	65 104	110 803	174 463	253 077
Adjustments	1	1	0	0	0	0	0	0
Ending cash balance	5 946	3 807	20 003	65 104	110 803	174 463	253 077	345 151

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022e	Q4 2022e	Q1 2023e
Net sales	33 535	32 240	35 992	30 239	35 459	38 888	40 890	44 893
Capitalized development cost	0	0	0	0	524	0	0	0
Other revenues	2 941	4 931	3 393	2 301	2 960	3 122	3 168	3 216
Total revenues	36 476	37 171	39 385	32 540	38 943	42 010	44 058	48 109
Cost of goods sold	-4 948	-4 506	-7 927	-2 864	-905	-6 582	-6 754	-7 151
Gross profit	31 528	32 665	31 458	29 676	38 038	35 428	37 304	40 958
Other external expenses	-11 328	-12 342	-10 840	-9 894	-12 365	-11 962	-12 108	-12 386
Personnel costs	-16 188	-15 381	-16 206	-13 312	-17 969	-16 669	-17 388	-17 649
Other operating expenses	0	0	-44	0	0	0	0	0
EBITDA	4 012	4 942	4 368	6 470	7 704	6 797	7 809	10 923
Amortisation & depreciation	-2 787	-2 951	-3 084	-3 081	-3 543	-4 415	-4 342	-4 271
EBIT	1 225	1 991	1 284	3 389	4 161	2 382	3 467	6 652
Net financial items	-257	-121	202	246	391	-213	-208	-203
EBT	968	1 870	1 486	3 635	4 552	2 168	3 258	6 449
Taxes	-212	-356	-323	-754	-749	-447	-671	-1 328
Net profit	756	1 514	1 163	2 881	3 803	1 722	2 587	5 120
Earnings per share (SEK)	0,07	0,14	0,11	0,27	0,35	0,16	0,24	0,47
Y-o-Y Growth (%)								
Net turnover	-2,1%	12,0%	1,1%	-0,6%	5,7%	20,6%	13,6%	48,5%
EBITDA	-40,1%	30,8%	62,4%	83,0%	92,0%	37,5%	78,8%	68,8%
EBIT	-59,8%	81,8%	5985,3%	333,4%	239,7%	19,6%	170,0%	96,3%
Net profit	-69,6%	na	na	187,0%	403,0%	13,7%	122,2%	77,7%
% of revenues (%)								
Gross margin	85,2%	86,0%	78,0%	90,5%	97,4%	83,1%	83,5%	84,1%
EBITDA margin	11,0%	13,3%	11,1%	19,9%	19,8%	16,2%	17,7%	22,7%
EBIT margin	3,4%	5,4%	3,3%	10,4%	10,7%	5,7%	7,9%	13,8%
EBT margin	2,7%	5,0%	3,8%	11,2%	11,7%	5,2%	7,4%	13,4%
Profit margin	2,1%	4,1%	3,0%	8,9%	9,8%	4,1%	5,9%	10,6%
Personnel costs	48,3%	47,7%	45,0%	44,0%	50,7%	42,9%	42,5%	39,3%
Total OPEX	82,1%	86,0%	75,3%	76,7%	85,5%	73,6%	72,1%	66,9%
Profitability (%)								
ROE	0,5%	1,1%	0,8%	2,0%	2,6%	1,2%	1,7%	3,3%
ROIC	0,6%	0,9%	0,6%	1,5%	1,8%	1,1%	1,6%	3,1%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022e	Q4 2022e	Q1 2023e
Cash and cash eq	12 010	4 195	3 983	8 222	7 849	15 058	20 180	30 054
Inventory	18 364	20 278	19 620	24 747	30 981	25 247	22 203	15 673
Trade payables	21 786	29 851	24 942	21 540	23 049	23 440	22 405	22 139
Other payables	11 012	9 361	9 851	26 055	17 963	15 555	12 267	13 468
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	63 172	63 685	58 396	80 564	79 842	79 299	77 056	81 334
Tangible assets	101 165	102 047	103 191	102 799	103 943	102 844	101 773	100 729
Intangible assets	45 644	70 896	71 035	71 704	72 647	70 831	69 060	67 334
Financial assets	56	55	676	784	823	823	823	823
Total fixed assets	146 865	172 998	174 902	175 287	177 413	174 498	171 656	168 886
Total assets	210 037	236 683	233 298	255 851	257 255	253 798	248 712	250 219
Short-term debt	7 071	8 507	6 776	17 839	20 605	20 605	20 605	20 605
Trade payables	14 206	16 020	18 752	22 126	22 538	16 230	11 102	9 404
Liabilities to Group companies	0	0	0	0	0	0	0	0
Other short-term debt	18 790	28 213	22 888	28 153	23 839	25 968	24 424	23 509
Accrued expenses and prepaid income	0	0	0	0	0	0	0	0
Total current liabilities	40 067	52 740	48 416	68 118	66 982	62 803	56 130	53 517
Long-term liabilities	32 115	45 174	45 484	44 234	43 695	42 695	41 695	40 695
Total equity	137 881	138 767	139 398	143 499	146 987	148 709	151 296	156 416
Total equity and liabilities	210 063	236 681	233 298	255 851	257 664	254 207	249 121	250 628

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022e	Q4 2022e	Q1 2023e
Operating activities	3 543	2 928	4 247	2 647	7 128	6 136	6 929	9 391
Changes in working capital	8 065	-2 236	3 310	-7 660	-302	3 572	694	2 983
Investing activities	-18 608	-8 432	-5 370	-1 649	-8 492	-1 500	-1 500	-1 500
Financing activities	-4 829	-250	-2 399	10 898	1 294	-1 000	-1 000	-1 000
Cash flow for the period	-11 829	-7 990	-213	4 237	-372	7 209	5 123	9 874
Beginning cash balance	23 839	12 010	4 195	3 983	8 222	7 849	15 058	20 180
Adjustments	0	0	-1	0	0	0	0	0
Ending cash balance	12 010	4 195	3 983	8 222	7 849	15 058	20 180	30 054

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Jungmansgatan 12

211 11 Malmö

Telefon: +46 40 200 250

E-post: info@vhcorp.se

