

Update: Report Q1 2022

2022-05-10

ViroGates: Healthy growth

- Net sales in Q1 slightly above our forecast
- Net result stronger than our estimate largely due to lower costs
- We maintain our valuation interval of DKK 115 – 180 per share

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Stock ticker: VIRO
Industry: MedTech
Listed on: First North Copenhagen
Latest stock price (DKK): 74,20
Market cap (MDKK): 241,0
Enterprise Value (MDKK): 230,1
Total number of shares (M): 3,25
- of which free float (M): 1,64

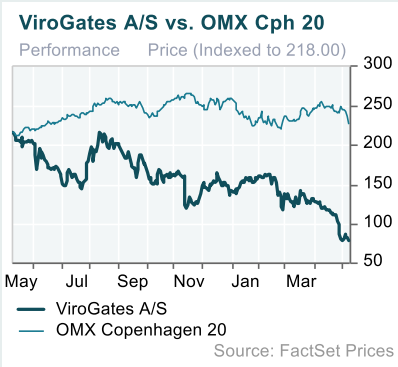
VHCF fair value per share
DCF model DKK 115,00 - 180,00

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

Main owners (23 Mar 2022)

Owner	Capital (%)
N. P. LOUIS-HANSEN APS.	25,77%
KIM GINNERUP APS	10,28%
4AM APS	10,28%

Stock price history



	-1m	-3m	-12m
Change (%)	-35,0	-51,5	-63,8
52 w k range (Low /Hi) - DKK	69,4 / 220		

Source: FactSet

ViroGates reported revenues slightly above our projections for Q1 2022. The net result for the period also came in stronger than expected by a margin of DKK 1.5 million. The outcome once again proves the growth trajectory for product sales. ViroGates have now reached a total of 33 clinical routine customers, helped in part by EMA's label extension covering suPAR guided anakinra treatment for COVID-19 patients. The challenge ahead is to convert hospitals using suPAR for COVID-19 triage into using it for general emergency room triage. We are also eagerly anticipating the launch of POC+ this spring.

Revenue for Q1 2022 totalled DKK 3.2 million (DKK 2.1 million), while COGS came in at DKK 0.8 million (DKK 0.5 million). Hence, ViroGates' gross margin for the quarter of 74.6 percent (78.2 percent) was slightly better than the margin posted in Q4 2021 but was still lower than Q1 2021's gross margin. OPEX for the quarter summed to DKK 5.8 million (DKK 6.2 million), and this meant the company showed a significant improvement in EBIT, which came in at DKK -3.5 million (DKK -4.6 million). As for net profit, a figure of DKK -3.0 million (DKK -4.3 million) was recorded. ViroGates exited the quarter with cash holdings of DKK 10.9 million and equity of DKK 13.5 million.

There is little news since our latest research update in late March. The most notable was the announcement on 19 April that the number of clinical routine customers has now grown to 33. This is roughly a tripling compared to Q1 2021 and a doubling since the end of last year. Of the 33, ViroGates writes that 18 are located in Southern Europe, 11 in Northern and Western Europe and 4 in Eastern Europe. Hospitals that have placed two or more orders for suPARnostic products for clinical use in the last 12 months are counted as clinical routine customers.

Table 1: Financial Overview

MDKK	2019	2020	2021	2022e	2023e
Net sales	3,6	5,4	7,7	16,4	48,7
Growth (%)	8,0%	49,5%	43,0%	114,5%	196,8%
Gross margin (%)	89,3%	78,3%	75,6%	75,7%	75,5%
EBIT	-19,7	-19,7	-18,8	-12,7	7,5
EBIT margin (%)	neg	neg	neg	neg	15,3%
Cash holdings	41,4	33,5	14,9	8,1	8,5
Total assets	45,2	38,2	20,2	16,5	26,1
Total equity	42,2	31,3	16,4	14,7	21,9
Solidity (%)	93,5%	81,9%	81,2%	89,2%	84,1%
P/E	neg	neg	neg	neg	33,2
ROE	neg	neg	neg	neg	33%
EV/EBIT (x)	neg	neg	neg	neg	30,8
EV/Sales (x)	64,2	43,0	30,1	14,0	4,7

Source: Västra Hamnen Corporate Finance

Revised disclosure policy on new customers

At the same time, ViroGates stated that it changes the disclosure policy regarding new routine customers. Now that the number of routine customers has reached a substantial number, additional small and medium sized customers are not regarded as market driving news and will not be press released individually. Particularly large new customer agreements may still be regarded as market moving and thus merit a separate press release. Instead, the company will update the market on how the customer base develops in future quarterly and annual reports.

EMA decision last year is driving growth now

ViroGates notes that the European Medicines Agency’s (EMA) decision to grant a label extension for suPAR-guided anakinra treatment has been an important driver for the surge in routine customers. EMA’s decision means that hospitals are alerted to the benefits of screening severe COVID-19 sufferers for treatment with anakinra, which has proved effective in improving patient outcomes and even saving lives. COVID-19 is still a big challenge for healthcare providers and the benefits of this method is getting attention in the medical society. In the Q1 report, ViroGates states the expectation that this will bring in more routine customers during the year.

Converting hospitals from COVID to general ED triage

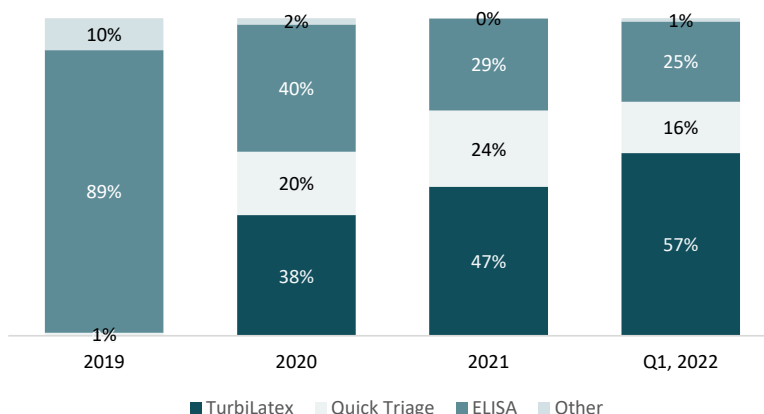
The next challenge is to convince hospitals to generalize the use of suPAR testing from COVID-19 triage to general triage of all manner of patients arriving at an emergency department. Once acquainted with the method, it is reasonable to assume that hospital staff should see the benefit of using it to save both patients and hospital resources in handling all types of patients. This conversion is a core focus for ViroGates during the coming months.

At the [web conference](#) following the Q1 report, we asked the company whether the decision to employ suPAR testing for general emergency department use would rest with the same group of decision makers who took it on for COVID-19 triage. CEO Jakob Knudsen explained that such a decision would normally be taken by the senior management of the hospital, but that those familiar with the product from the COVID departments could be expected to serve as important inside ambassadors. These ambassadors would then need to bring the hospital’s clinical lab on board, after which management could endorse it for general emergency department use.

>70 percent clinical products

Going back to the reported revenue for the quarter, it is ever more clear that the sales mix is shifting more and more towards the clinically relevant products, cf. Figure 1 below. TurbiLatex stood for 57 percent of sales in Q1. Adding Quick Triage, the other product aimed at clinical applications, these products now make up 73 percent of the company’s turnover.

Figure 1: Revenue by product (DKKm, % of total)



Source: ViroGates

POC+ due for re-lease this quarter

There were no new signals regarding the upcoming launch of POC+, a small point-of-care device for suPAR measurements that does not require access to a laboratory. The device runs on a fingerprick sample of blood and produces a readout in a matter of 20 minutes. The message is still that the product is due for release during the first half of this year.

Comparing the reported Q1 numbers to our forecasts, we see strength across the board, cf. Table 2 below. Net revenues were marginally ahead of our forecast, which secured a slightly better than expected gross profit although the gross margin was 1.4 percentage points below our estimate.

OPEX clearly below our estimates

Total OPEX undercut our estimates by a combined DKK 1.4 million, largely because sales and marketing costs came in lower than expected. The company explains that compared to last year's Q1, the company has reduced staff by transferring some tasks to distributors and has also lowered consultancy costs. The present cost level is likely more representative of what to expect in the future. In addition, there has been a temporary reallocation of personnel resources from sales and marketing to R&D which explains the unexpected drop in the former.

Both revenues and costs thus contributed to a net result that was DKK 1.5 million stronger than our estimate. The cash balance at the end of the quarter stood at DKK 10.9 million, 2.3 million higher than our forecast, due to somewhat lower net working capital.

Table 2: Estimates vs actual, Q1 2022

kDKK	Q1 '21	Q1 '22est	Q1 '22act	Diff
Net Revenues	2 076	2 916	3 197	281
Total Revenues	2 076	2 916	3 197	281
Cost of Goods Sold	-453	-700	-812	-112
Gross profit	1 623	2 216	2 385	169
R&D Costs	-1 694	-1 728	-2 064	-336
Sales and Marketing Costs	-3 675	-4 147	-2 262	1 885
Administrative Costs	-795	-1 037	-1 440	-403
Total OPEX	-6 164	-6 912	-5 766	1 146
EBITDA	-4 541	-4 696	-3 381	1 315
Amortisation and Depreciation	-59	-18	-53	-35
EBIT	-4 600	-4 714	-3 434	1 280
Net Financial Items	-48	-70	-25	45
EBT	-4 648	-4 784	-3 459	1 325
Tax	373	351	494	143
Net Profit	-4 275	-4 433	-2 965	1 468
Cash and Equivalents	23 563	8 522	10 870	2 348
Total Equity	27 039	11 993	13 460	1 467

Source: Västra Hamnen Corporate Finance

Minor model adjustments

We make only some minor adjustments to our valuation model following this report. Although the present outcome was stronger than our forecast, we realise that our sales forecasts for the coming quarters are going to be tough to fulfil. By lowering the bar a little bit, we see more balanced probabilities between stronger vs. weaker outcomes compared to our estimates. At the same time, we are inspired by the latest reading on OPEX to shave a small amount off those cost estimates for the next year or so. Otherwise, our model is largely unchanged.

We keep valuation range unchanged

In conclusion, we maintain our fair value estimate for the stock of DKK 115 – 180 per share.

Income Statement - Annual Data

kDKK	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Net revenues	3 582	5 354	7 656	16 426	48 743	87 931	145 134	190 963
Total revenues	3 582	5 354	7 656	16 426	48 743	87 931	145 134	190 963
Cost of goods sold	-384	-1 164	-1 868	-3 987	-11 928	-21 703	-37 175	-49 821
Gross profit	3 198	4 190	5 788	12 439	36 815	66 228	107 959	141 142
R&D costs	-5 584	-5 798	-5 937	-6 881	-7 328	-8 071	-8 909	-9 834
Sales and marketing costs	-13 921	-14 150	-14 554	-13 823	-17 588	-19 371	-21 381	-23 601
Administrative costs	-3 300	-3 740	-3 869	-4 330	-4 397	-4 843	-5 345	-5 900
EBITDA	-19 607	-19 498	-18 572	-12 595	7 503	33 944	72 324	101 807
Amortisation & depreciation	-116	-229	-217	-90	-37	-26	-18	-13
EBIT	-19 723	-19 727	-18 789	-12 686	7 466	33 918	72 305	101 794
Net financial items	-286	-253	-175	-235	-280	-280	-280	-280
EBT	-20 009	-19 980	-18 964	-12 921	7 186	33 638	72 025	101 514
Taxes	1 212	1 246	1 302	1 188	64	0	-1 040	-22 333
Net profit	-18 797	-18 734	-17 662	-11 733	7 250	33 638	70 986	79 181
Earnings per share (DKK)	-6,19	-6,17	-5,82	-3,87	2,39	11,09	23,39	26,09
Growth (%)								
Net revenues	8,0%	49,5%	43,0%	114,5%	196,8%	80,4%	65,1%	31,6%
EBITDA	na	na	na	na	na	352,4%	113,1%	40,8%
EBIT	na	na	na	na	na	354,3%	113,2%	40,8%
Net profit	na	na	na	na	na	364,0%	111,0%	11,5%
% of revenues (%)								
Gross margin	89,3%	78,3%	75,6%	75,7%	75,5%	75,3%	74,4%	73,9%
EBITDA margin	neg	neg	neg	neg	15,4%	38,6%	49,8%	53,3%
EBIT margin	neg	neg	neg	neg	15,3%	38,6%	49,8%	53,3%
EBT margin	neg	neg	neg	neg	14,7%	38,3%	49,6%	53,2%
Profit margin	neg	neg	neg	neg	14,9%	38,3%	48,9%	41,5%
Total OPEX	636,6%	442,4%	318,2%	152,4%	60,1%	36,7%	24,6%	20,6%
Profitability (%)								
ROE	neg	neg	neg	neg	33,0%	53,4%	53,0%	37,1%
ROIC	neg	neg	neg	neg	43,3%	140,8%	216,8%	0,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kDKK	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Inventories	390	907	1 695	2 943	7 282	10 420	14 752	16 521
Account receivable	244	1 601	1 474	2 904	7 842	12 646	19 807	25 769
Other receivables	2 401	1 609	1 810	2 183	2 183	2 183	2 183	2 183
Cash and cash equivalents	41 408	33 525	14 859	8 139	8 505	44 198	107 956	182 961
Total current assets	44 443	37 642	19 838	16 169	25 812	69 446	144 697	227 434
Tangible assets	548	432	216	126	89	63	44	31
Intangible assets	0	0	0	0	0	0	0	0
Financial assets	167	171	176	176	176	176	176	176
Total fixed assets	715	603	392	302	265	239	220	207
Total assets	45 158	38 245	20 230	16 471	26 077	69 685	144 917	227 641
Accounts payable	927	3 654	380	929	2 570	4 168	6 809	9 012
Short-term debt	0	0	0	0	0	0	0	0
Other liabilities	2 015	3 278	3 423	848	1 563	2 536	4 142	5 482
Total current liabilities	2 942	6 932	3 803	1 777	4 133	6 704	10 950	14 494
Total equity	42 215	31 314	16 426	14 692	21 942	62 980	133 966	213 147
Total equity and liabilities	45 157	38 246	20 229	16 470	26 076	69 684	144 916	227 641

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Operating activities	-17 963	-18 505	-17 445	-11 642	7 287	33 664	71 004	79 194
Changes in working capital	-110	2 905	-3 991	-5 077	-6 921	-5 372	-7 246	-4 188
Investing activities	-603	-114	-4	0	0	0	0	0
Financing activities	0	7 835	2 776	10 000	0	7 400	0	0
Cash flow for the period	-18 676	-7 879	-18 664	-6 720	366	35 692	63 758	75 006
Beginning cash balance	60 083	41 407	33 528	14 864	8 144	8 510	44 203	107 961
Adjustments	0	0	0	-1	0	0	0	0
Ending cash balance	41 407	33 528	14 864	8 144	8 510	44 203	107 961	182 966

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kDKK	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022e	Q3 2022e	Q4 2022e
Net revenues	2 076	1 815	1 172	2 593	3 197	3 284	4 055	5 889
Total revenues	2 076	1 815	1 172	2 593	3 197	3 284	4 055	5 889
Cost of goods sold	-453	-407	-287	-721	-812	-788	-973	-1 413
Gross profit	1 623	1 408	885	1 872	2 385	2 496	3 082	4 476
R&D costs	-1 694	-1 313	-1 256	-1 674	-2 064	-1 528	-1 604	-1 685
Sales and marketing costs	-3 675	-3 825	-3 054	-4 000	-2 262	-3 667	-3 851	-4 043
Administrative costs	-795	-1 513	-1 081	-480	-1 440	-917	-963	-1 011
EBITDA	-4 541	-5 243	-4 506	-4 282	-3 381	-3 616	-3 336	-2 263
Amortisation & depreciation	-59	-53	-53	-52	-53	-14	-12	-11
EBIT	-4 600	-5 296	-4 559	-4 334	-3 434	-3 630	-3 348	-2 274
Net financial items	-48	-37	-50	-40	-25	-70	-70	-70
EBT	-4 648	-5 333	-4 609	-4 374	-3 459	-3 700	-3 418	-2 344
Taxes	373	286	289	354	494	271	251	172
Net profit	-4 275	-5 047	-4 320	-4 020	-2 965	-3 428	-3 167	-2 172
Earnings per share (DKK)	-1,41	-1,66	-1,42	-1,32	-0,98	-1,13	-1,04	-0,72
Y-o-Y Growth (%)								
Net revenues	366,5%	138,8%	-36,6%	12,8%	54,0%	80,9%	246,0%	127,1%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
Gross margin	78,2%	77,6%	75,5%	72,2%	74,6%	76,0%	76,0%	76,0%
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Total OPEX	296,9%	366,4%	460,0%	237,3%	180,4%	186,1%	158,3%	114,4%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kDKK	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022e	Q3 2022e	Q4 2022e
Inventories	1 494	2 099	1 801	1 695	1 922	1 641	2 027	2 943
Account receivable	2 017	1 816	1 088	1 474	2 172	1 620	2 000	2 904
Other receivables	2 059	2 227	2 493	1 810	2 183	2 183	2 183	2 183
Cash and cash equivalents	23 563	21 323	17 475	14 859	10 870	5 743	11 868	8 139
Total current assets	29 133	27 465	22 857	19 838	17 147	11 187	18 078	16 169
Tangible assets	373	321	268	216	163	149	137	126
Intangible assets	0	0	0	0	0	0	0	0
Financial assets	172	172	172	176	176	176	176	176
Total fixed assets	545	493	440	392	339	325	313	302
Total assets	29 678	27 958	23 297	20 230	17 486	11 512	18 391	16 471
Accounts payable	785	1 484	1 012	380	3 300	691	747	929
Short-term debt	0	0	0	0	0	0	0	0
Other liabilities	1 854	1 706	1 838	3 423	725	788	779	848
Total current liabilities	2 639	3 190	2 850	3 803	4 025	1 479	1 525	1 777
Total equity	27 039	24 768	20 448	16 426	13 460	10 032	16 864	14 692
Total equity and liabilities	29 678	27 958	23 298	20 229	17 485	11 511	18 390	16 470

Source: Västra Hamnen Corporate Finance

Cash flow statement

kDKK	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022e	Q3 2022e	Q4 2022e
Operating activities	-4 216	-4 994	-4 267	-3 968	-2 912	-3 415	-3 155	-2 161
Changes in working capital	-5 746	-21	420	1 356	-1 076	-1 713	-720	-1 569
Investing activities	0	0	0	-4	0	0	0	0
Financing activities	0	2 776	0	0	0	0	10 000	0
Cash flow for the period	-9 962	-2 239	-3 847	-2 616	-3 989	-5 127	6 125	-3 729
Beginning cash balance	33 525	23 563	21 323	17 475	14 859	10 870	5 743	11 868
Adjustments	0	0	0	0	-1	0	0	0
Ending cash balance	23 563	21 323	17 475	14 859	10 870	5 743	11 868	8 139

Source: Västra Hamnen Corporate Finance

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