

## Research update: Q1 2021

### DANCANN PHARMA A/S

CEO: Jeppe Rasmussen

CoB: Carsten Trads

[www.dancann.com](http://www.dancann.com)

Bloomberg: DANCAN:SS

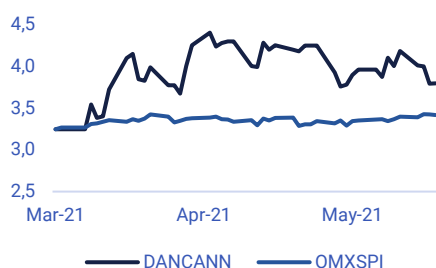
Refinitiv Eikon: DANCAN.ST

Listing: Spotlight DK

Share, last: DKK 3.8

Market Cap: DKK 79m

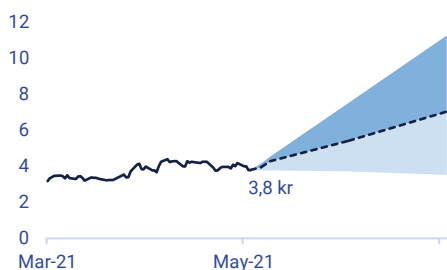
### SHARE PRICE DEVELOPMENT



	12M	YTD	6M	1M
Share perf. (%)	15.2	17.7	21.1	-11.8

Source: Refinitiv Eikon

### VALUATION INTERVAL



	BEAR	BASE	BULL
Value per share	3.5	7.0	11.3
Up-/downside	-7.3	85.5	196.8

Source: Carlsquare estimates

### CARLSQUARE EQUITY RESEARCH

Carlsquare does not take a position in the discussion whether medical cannabis should be made legal or not. The research report is based on information from sources that Carlsquare deem trustworthy.

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## Good news flow increases fair value

DanCann presented investments above our expectations during the first quarter of 2021. This also means that the company is better prepared to serve the market. As important, several events occurred after the end of the first quarter. BIOTECH PHARM1 began operations, a distribution agreement was signed with Tetra Pharma and the pilot programme was extended. The positive news flow has reduced uncertainty. We raise our view on fair value per share to DKK 7.0 (6.5) for the upcoming 6-12 months.

### Financial development

DanCann is still in a pre-commercial phase and had no revenues booked in the first quarter of 2021. Costs were slightly higher than expected as the EBITDA-result amounted to DKK -2.5m. The EBIT-result was DKK -2.6m. Cash flow of DKK -8.6m was lower than expected mainly due to higher investments in BIOTECH PHARM1 and in intangible assets. However, much of the full year's need for investments should have been taken.

### Progressing towards commercialization

On the other side, news flow has been good. DanCann opened its production facility BIOTECH PHARM1 in April 2021. Test production has been initiated, which should lead to a GMP certification at the end of this year after which the bulk-products can be sold on an international market. The facility will focus on rare cannabinoids, which should command a higher price than plants with high content of only THC or CBD. Another important event was the conversion of the LOI with Tetra Pharma into a distribution agreement. This agreement has great potential as it gives DanCann the exclusive rights of distribution of Reduvo Adversa® and Qixleaf™ on the Nordic market as well as on the large and relatively well-established German market.

In addition, an important decision was taken by the Danish government: to extend the pilot programme by four years and to allow cannabis production permanently. The regulatory risk for DanCann has consequently been drastically reduced, as it will be possible to maintain production in Denmark for the future no matter what the conclusion of the pilot programme will be.

### Valuation

Given the relatively high level of uncertainty, our assumed sales curves (and associated variable costs) from the various business models have been risk adjusted with probabilities. As the distribution agreement with Tetra Pharma is now in place, previous uncertainty related to this has been eliminated. Thus, we have increased the probabilities for the assumed sales curve from the collaboration to 32 percent from previously 26 percent. Given DMA's decision, we have also marginally reduced the discount rate. However, we have also increased future investments. All in all, we raise the risk adjusted fair value to DKK 7.0 (6.5) for the upcoming 6-12 months, using a multiple valuation combined with a DCF-model.

### Key figures (DKKm)

	2020*	2021E	2022E	2023E	2024E	2025E
Risk adj. net sales	0,0	0,8	10,0	23,2	41,6	80,8
Risk adj. EBITDA	-5,8	-10,1	-9,5	-7,8	-7,0	4,8
Risk adj. EBIT	-5,9	-11,3	-11,5	-10,2	-9,6	2,0
Risk adj. net profit	-4,7	-11,3	-11,4	-10,1	-10,6	0,8
EPS (DKK)	-0,48	-0,51	-0,47	-0,39	-0,40	0,03
Growth	NaN	NaN	1104,8%	132,0%	79,3%	94,2%
EBITDA-margin	Neg.	Neg.	Neg.	Neg.	Neg.	5,9%
EBIT-margin	Neg.	Neg.	Neg.	Neg.	Neg.	2,5%
EV/Sales (Curr.)	NaN	69,1x	5,7x	2,5x	1,4x	0,7x
EV/EBITDA (Curr.)	Neg.	Neg.	Neg.	Neg.	Neg.	12,0x

\*Actual figures. Source: Company information and Carlsquare estimates

## Follow-up and commentaries

DanCann Pharma reported an EBITDA-result of DKK -2.6m and a cash flow of DKK -8.6m during the first quarter. Investments were a higher than we initially expected. After the reporting period, the Danish pilot programme for medical cannabis was extended by four years and the permission to cultivate medical cannabis made permanent. This was an important event for the company as well as the overall market which reduces the total risk level. The LOI with Tetra Pharma was also converted into an actual distribution agreement that eliminates this specific risk. DanCann already had agreements with Cannasure and MediPharm Labs. The import of products from these manufacturers is expected to start in the second half of 2021. DanCann's own production of cannabis plants commenced in April 2021, in preparation for the application for a GMP manufacturing licence.

### Investments above expectations but risks reduced

DanCann is still a pre-revenue company. Thus no net sales were reported during the first quarter of 2021. The company is, however, preparing itself to service the growing market for medical cannabis products in the Nordics as well as in Germany. The EBITDA-result was DKK -2.5 and the EBIT-result was DKK -2.6m.

Total operating costs amounted to DKK -2,6m out of which other external expenses of DKK 1.6m made up about 62 percent of total cost base. Staff expenses of DKK 0.9m made up for about 34 percent of the cost base while the remaining close to four percent was made up of depreciation at DKK 0.1m.

### Financial position and outstanding warrants

On the 31 of March 2021, the cash position was DKK 12.7m, down from DKK 21.3m in December 2021. Thus, cash flow was DKK -8.6m (-0.3). The difference between EBITDA and cash flow is in part due to investments in property, plant and equipment as well as in intangible assets during the quarter and a positive contribution from working capital.

Given the current cash position, operating expenses less depreciation, and expected investment need during the upcoming quarters, the outstanding warrants are important. The warrants have a strike price of DKK 6.0 and may be exercised during the period of September 1-17, 2021. If all outstanding warrants are fully subscribed, the company will increase its cash position by about DKK 16.0m, before related costs.

Our view on fair value is DKK 7.1. Thus, we have assumed that the warrants will have an intrinsic value at the day of expiry. However, if the warrants were to not fall in-the-money, financing will have to be secured in some other way. This financing is not secured.

### News flow reduces uncertainty on ability to capitalize on potential

#### *Deal with Tetra finalized*

In May 2021, DanCann signed a distribution agreement with Tetra Bio-Pharma for the distribution of three cannabis based medical products, following upon the letter of intent (LOI) that was signed in March the same year. DanCann receives distribution rights in the Nordic countries and Germany for Reduvo Adversa® and Qixleaf™. The deal is important for DanCann Pharma as it is an additional source of revenue in addition to in-house products.

Qixleaf™ consists of dried cannabis and is inhaled. It is being developed as a drug candidate. A phase II-trial, REBORN1, is planned to start soon. It is intended to compete with opioids for pain relief. The same product is sold under the tradename ENJOUCA™ in jurisdictions where clinical trials are not required for it to be sold. In these jurisdictions it is classified as medical cannabis rather than as a drug. Qixleaf™ will be a prescription drug.

The third product, Reduvo Adversa®, is an improved version of Dronabinol (a drug used for certain symptoms in HIV and cancer patients). Tetra is planning to file for an approval in the US during 2022.

Tetra currently has two Phase II clinical trials ongoing in the United States. The first one, PLENITUDE, a four-week long placebo-controlled trial, will investigate how QIXLEEF™ may

manage uncontrolled pain in cancer patients. The second one, REBORN1, will compare QIXLEEF™ with oral morphine sulfate, which is an opioid, in cancer patients with pain. We expect successful phase III trials before the drug can be approved.

Dancann Pharma will pay a total consideration of DKK 6.25 million in upfront and milestones. The company estimates peak sales of DKK 340-410 million in 2028 and royalties of up to DKK 62.5 million corresponding to a royalty rate of 15 percent. These are the costs DanCann has to pay for exclusivity on its markets. As a distributor, Dancann Pharma will also have to import the goods which is a cost. The company's estimated peak sales figures indicate a good potential for the deal.

In the initial coverage report, we had risk adjusted revenue streams from this collaboration with a probability of 26 percent. Given the conversion of the LOI to an actual distribution agreement, we have adjusted the probability to 36 percent.

### ***Pilot programme partially extended and partially made permanent***

In May, it was politically decided to continue with the pilot programme. The trial scheme with medical cannabis will be extended for four years starting from 31 December this year with regard to doctors' possibility to prescribe medical cannabis to patients. The pilot scheme will be made permanent with regard to the possibility for companies to grow cannabis for medical use.

DanCann was founded right after the Danish medical cannabis pilot programme was initiated in January 2018. This outcome removes any doubts concerning the possibility to grow and handle medical cannabis in Denmark for an international market. In theory, it might be permitted to cultivate medical cannabis in Denmark but not to sell it in country. However, this seems implausible to us. We believe this means that it is just a matter of time before medical cannabis becomes permanently permitted in Denmark, though the exact conditions remain to be seen. Even though no-one expected the programme to be terminated, the result that was announced yesterday implies a certain de-risking of the business model.

This event has reduced the risk and as a consequence, we have reduced the discount rate to 13.8 percent from the previous 15.1 percent.

### ***Potential triggers in the near future***

#### **An intermediate manufacturing permit – the next trigger?!**

DanCann applied for an intermediate manufacturing permit for the import of medical cannabis products in December 2020. The company now expects it to be in place around the end of the second quarter of 2021. With this permit in place, the company can apply for a permission to sell products from CannAssure or MediPharm Labs, with which DanCann has an agreement since 2020. DanCann expects to have products registered from these two companies and sales to commence during the second half of 2021. The grant of an intermediate manufacturing permit by the DMA can thus be the next value trigger.

#### **GMP certification, yet another trigger before year end?!**

The state-of-the-art cultivation facility BIOTECH FARM1 was completed and began its first real operation and growing cycles in April. The facility will specialize in rare cannabinoids which it will sell to other biotech companies. Today, mainly CBD and THC is produced, and there is some price competition. There is as yet little use of and research on rare cannabinoids. They will most likely therefore command higher prices, assuming that the demand can be found. This facility will constitute another pillar of DanCann's business' model in addition to the import of products from other manufacturers. The company expects to have a GMP certification in place at the end of 2021. After which sales can begin and a GMP certification can thus be another value trigger in the nearby future.

## Investment case, forecasts and valuation

Danish DanCann Pharma A/S (DanCann, the company or DanCann Pharma) was founded in 2018 with the intention to supply the European market with medical cannabis products. Across the Atlantic, successful North American companies have seen a strong acceleration in sales during the last few years. At the same time the underlying market has matured driven by increased legalization, new FDA approvals, clinical evidence and awareness. Analysts expects a similar development take place in Europe. Those local companies that will be able to navigate through the different regulatory systems and meet the required quality standards at an early stage will be able to capture most of the market before the competition heats up. DanCann is now working on getting the missing pieces in place to be able to realize its goals and vision. The missing pieces are vital, including being granted licenses, EU GMP-approvals, and product approvals. These missing pieces constitutes risks but are also value triggers.

### Investment case: Risks are potential value triggers

Denmark is one of three countries in Europe currently running a medical cannabis pilot program. In Denmark, the pilot programme allows practitioners to prescribe medical cannabis products to patients. In the context of this report, medical cannabis refers to cannabinoid-based products, prescription-based or OTC, used to treat a medical condition.

The Danish medical cannabis pilot programme is a door opener to the medical cannabis market.

The Danish medical cannabis pilot programme, which was recently extended by four years, is an opportunity for patients to try medical cannabis under safe and controlled circumstances. It is also an opportunity for companies as well as the regulatory agencies to build up capacity, organize, and structure themselves around this relatively novel and growing field of medicine. The new agreement means that the cultivation of medical cannabis will be fully legalized, and not just temporarily permitted.

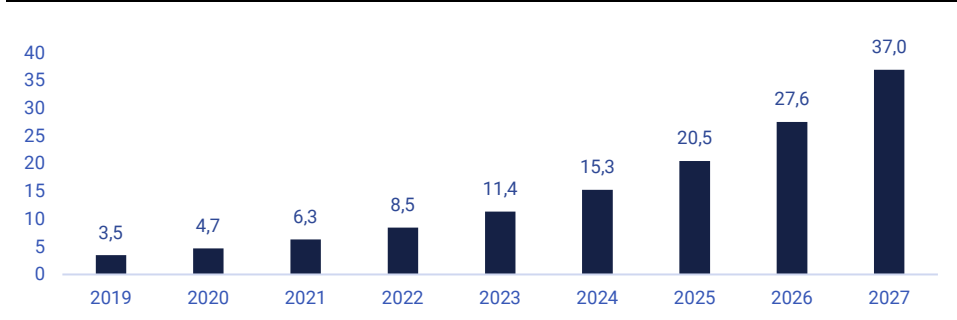
DanCann Pharma, founded in 2018 by its current CEO Jeppe Rasmussen, was one of the first companies approved to enter the pilot programme under the so-called development scheme and is now awaiting licenses to execute on its business model:

- Imports and distribution of medical cannabis products.
- Cultivation, processing and exports of medical cannabis bulk and APIs extracted from the cannabis plant.
- Identifying, developing and commercializing IP-protected medical cannabis products with a focus on combination drugs.

### Market has left the starting pit...

In the US, the market for medical cannabis has gone through a strong historical growth. In 2020, sales grew by 46 percent to reach a value of USD 17.5bn. Key drivers of the market has been the spread of legalization of medical cannabis among states in connection with important FDA-approvals of cannabinoid-based drugs, clinical studies as well as a strong demand driven by awareness and clinical evidence of benefits.

### Europe: Market medical cannabis, 2019-2027 (USDbn)



Source: MarketsAndResearch and Carlsquare

Analysts seem to agree that Europe now faces a similar future. The market has already begun to move. The Netherlands was first out to legalize medical cannabis in Europe and more countries have decided to follow in their footsteps. In 2019, the European market for

Strong growth expected in Europe during the upcoming years.

medical cannabis products was valued at USD 3.5bn. The market is expected to grow and reach around USD 37bn in 2027. This corresponds to a high average annual growth rate of just above 34 percent for the period 2020-2027.

However, what large established global companies as well as early-stage local actors are struggling with is the ununified regulatory systems and meeting high requirements on quality standards. The local companies that are able to break through early also have a great opportunity to establish themselves locally and then move across borders as the market develops in a favourable direction. We see DanCann as one of the local medical cannabis-companies with the potential to grow with the underlying market.

Early establishment on a growing market can be valuable in the long run.

### ...DanCann is getting ready in the starting pit

Even though DanCann is still in an early stage lacking the required licenses, the company has managed to enter a distribution agreement with the Israeli company, Cannassure Therapeutics Ltd and the Canadian MediPharm Labs as well as Tetra Bio-Pharma Inc.

Important distribution agreement are already in place.

#### **Distribution agreement with Cannassure and MediPharm Labs**

The agreement with Cannassure gives DanCann the exclusive right to distribute Cannassure's product portfolio in Scandinavia plus Finland. Products in the portfolio were launched on the Israeli market during early 2020. The same year, Cannassure generated revenues about USD 1.0m.

Cannassure is listed on the Tel Aviv Stock Exchange and has a market value of about EUR 10m.

However, before imports and distribution activities can start in Denmark, the products need to be approved under the pilot program (in addition to the licenses). Thus, we believe it will take some time before revenues from this collaboration can reach meaningful levels.

Nevertheless, we see good long-term potential in the collaboration. This in part due to that the agreement also gives DanCann the exclusive right to Cannassure's future products. In the pipeline is a topical medical cannabis product with Lipidor's lipid technology AKVANO® for treatment of skin inflammation, including psoriatic lesions. This is a large indication and in September 2020, a feasibility study was successfully completed.

Lipidor is listed on Nasdaq First North and has a market value of about EUR 37m.

In September 2020, a supply Agreement was signed with MediPharm Labs, giving DanCann the right to import and distribute MediPharm's products under the Danish medical cannabis pilot programme.

#### **Distribution agreement with Tetra Bio-Pharma**

The distribution agreement with Tetra stipulates DanCann's exclusive distribution rights of two potential cannabinoid-based pharmaceutical products, Reduvo™ Adversa® and QIXLEEF™ in Denmark, Norway, Sweden, Finland, and Germany.

Tetra Bio Pharma is listed on the Toronto Stock Exchange and has a market value of about EUR 42m.

Reduvo™ Adversa® is based on THC with a novel method of administration. Synthetic THC is already approved by the FDA. In the light of this approval, Tetra's intention is to use the 505 (b)(2)-pathway for approval and anticipates a launch during the second half of 2021.

QIXLEEF™ is a plant-based product consisting of dried female cannabis flowers administered through vaporizing. The intended indication is cancer pain and breakthrough pain. Two phase II trials are underway. After completed phase III trials, first sales are expected to take place during 2023. The LOI also includes ENJOUCA™, an OTC-version of QIXLEEF™ with the same APIs. This product can thus be commercialized as a medical cannabis product at an earlier point in time.

Reduvo™ Adversa® and QIXLEEF™ are undergoing registrations or regulatory trials which may or may not succeed. They are a prescription based and IP-protected, meaning that "generics" would not be allowed. Thus, they are a complement to standard GMP medical cannabis products that have not been tested in clinical trials. In the end, their commercial value depends on their efficacy, which has not yet been established.

Potential approvals of Reduvo™ Adversa® and QIXLEEF™ are value drivers for DanCann.

The company expects distribution of Tetra-products to start during the second half of 2021. DanCann Pharma will pay a total consideration of DKK 6.25 million in upfront and milestones. The company estimates peak sales of DKK 340-410 million in 2028 and royalties of up to DKK 62.5 million corresponding to a royalty rate of 15 percent.

**In-house production of bulk and API for export**

The first production facility, BIOTECH PHARM1, has been completed and the first test batch of commercial batches is being cultivated. It uses aeroponics, is fully automated and cleanroom-like. For processing and extraction of APIs, the company is planning to install its second production facility, BIOTECH PHARM2. Once EU GMP-approvals (as well as licenses granted) are in place, the company may start to produce and export medical cannabis bulk and APIs. EU GMP approval for BIOTECH PHARM 1 is expected by the company to be in place late 2021/early 2022.

Sales of cannabis bulk is expected by the company to start during the first half of 2022. Germany is currently the largest market in Europe. It is also the most interesting market for exports as they just recently opened for imports. This is because the domestic production does not meet the demand. DanCann expects peak sales of DKK 40+m from this business area.

Germany, a potential key market for export of cannabis bulk and APIs.

**Risks are also value triggers**

DanCann has a short history, and in many ways so does the underlying market. Thus, there are many levels of uncertainty. Below are the risks that in case of a positive outcome can become potential value drivers of DanCann.

- As mentioned, an application for the licenses needed to execute the business model has been filed to the DMA. The review process may take time given the detailed and precise requirements. A scenario of a granted licenses would reduce the risk considerably and be a value driver for DanCann.
- In addition, imported products sold in Denmark must be included under the danish pilot programme. Again, the review process may take time given the detailed and precise requirements lined out by the DMA. Inclusion of Cannasure’s products in the danish pilot programme is a step closer to revenues and thus a value driver for DanCann.
- Clinical development with Tetra’s products is ongoing and outcome is not a given. Positive clinical results and approvals are thus value drivers for DanCann.

**Great potential at high risk**

Given the novel market under development, along with the many company-specific uncertainties, projections are difficult. We have made assumptions on revenues as well as costs based on estimates made public by the company. Our assumptions are also based on studies of historical growth rates for companies operating on the market in North America.

Risk adjustments have been made on sales as well as associated costs to account for risks. In our base case, import and distribution is the largest revenue source followed by export of raw material and APIs. In other words, in this phase – we are not including revenues from partnership and sales of own IP-protected products.

As can be seen in the graph above, the companies reach break-even on a risk adjusted EBIT-level in 2025 at risk adjusted revenue levels of DKK 81m. The assumption may be seen as conservative. By 2030, we model with an operating margin of just below 20.6 percent. This can be viewed as a relatively optimistic assumption.

**Assumed and risk adjusted revenues and operating result (DKKm)**



Source: Company information and Carlsquare



## Fair value = DKK 7.0 per share

We value DanCann Pharma at DKK 7.0 per share (6.5) for the upcoming 6-12 months by combining a multiple valuation based on estimated sales 2025 with a DCF-model in a simple average. This corresponds to an enterprise value (EV) of DKK 133m. There are many things that need to happen and can be viewed as both risks, or potential value triggers. The grant of licenses and approvals are short term triggers/risks. As mentioned, the sector colleague STENOCARE has been granted a license by the DMA to import and distribute and is currently trading at an EV of DKK 155m. In the light of this, we consider our valuation of DanCann (EV DKK 133m) to be in line with a market-based valuation.

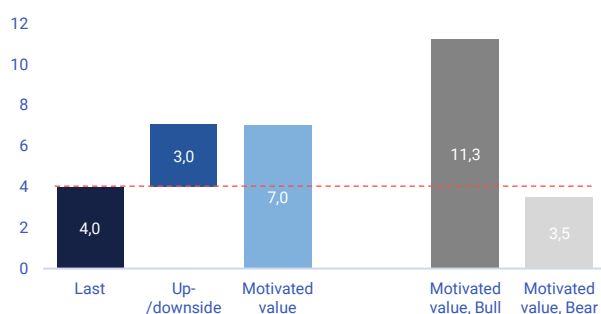
In a more optimistic bull case, we calculate a fair value of DKK 11.3. In a more conservative bear case, a fair value of DKK 3.5 is calculated.

### Summary of valuation, three scenarios

Method	BEAR	BASE	BULL
DCF-valuation	1,6	3,7	7,1
Multiple-valuation	5,5	10,4	15,4
<b>Motivated value, three scenarios</b>	<b>3,5</b>	<b>7,0</b>	<b>11,3</b>
Potential up-/downside (last: 3,8 DKK)	-7,3%	85,5%	196,8%
Implied EV/sales, 2025E	1,5x	1,6x	1,8x
Implied EV/EBITDA, 2025E	25,1x	27,8x	30,7x

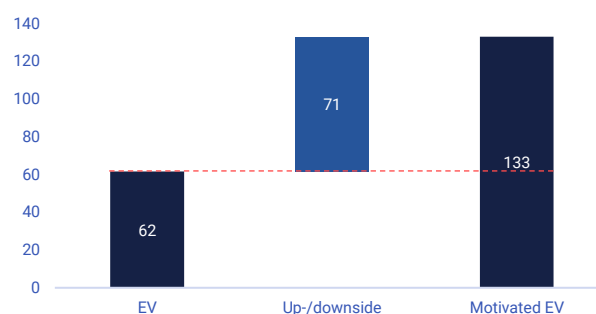
Source: Company information and Carlsquare estimates

### Visualization value per share, base case (DKK)



Source: Carlsquare estimates

### Visualization enterprise value, base case (DKKm)



Source: Carlsquare Estimates

In our base case, the implied EV/Sales-multiple on assumed and risk adjusted sales 2022 is 13.3x and on assumed and risk adjusted sales 2025, 1.6x. The implied EV/EBITDA-multiple on year 2025 assumed and risk adjusted EBITDA-result is 27.8x.

### Implied multiples, base case

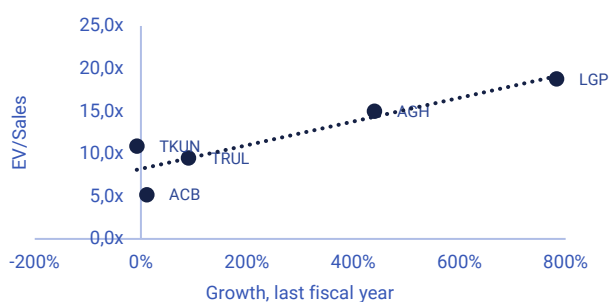
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EV/Sales	NaN	160,4x	13,3x	5,7x	3,2x	1,6x	1,2x	0,9x	0,8x	0,7x	0,7x
EV/EBITDA	neg.	neg.	neg.	neg.	neg.	27,8x	8,8x	5,3x	4,1x	3,6x	3,3x
P/E	neg.	neg.	neg.	neg.	neg.	160,4x	13,7x	7,3x	5,5x	4,8x	4,4x

Source: Company information and Carlsquare estimates

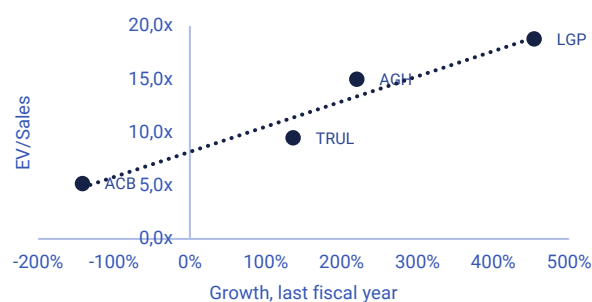
### Multiple valuation based EV/Sales and expectations for 2025E

We have studied companies operating a business consisting of mainly cultivation of medical cannabis bulk and extraction of APIs for sales and distribution to manufacturer of medical cannabis end-products as well as research and development. The companies in the reference group are more mature than DanCann. The reference group is currently trading at a median EV/Sales-multiple of 11.8x last twelve months' sales.

In addition to the fact that the multiple valuation is based on risk adjusted sales figures for DanCann, we have applied a discount of 50 percent to the reference group's median EV/Sales-multiple. This is to reflect the differences between the companies in the reference group which are more mature, already have revenue and operate on larger markets than DanCann.

**EV/Sales (LTM) and growth last fiscal year**

 $R^2 = 0,8312$ 

LTM = Last twelve months. Source: Refinitiv Eikon and Carlsquare estimates

**EV/Sales (LTM) and growth+EBITDA-marg., last fiscal year**

 $R^2 = 0,9409$ 

LTM = Next twelve months. Source: Refinitiv Eikon and Carlsquare estimates

**Multiple valuation, three scenarios**

	Mcap (EURm)	HQ	EV/Sales, LTM	EV/Sales, 2021E
Trulieve Cannabis Corp	3 913	CA	9.5x	5.7x
Aurora Cannabis Inc	1 638	CA	5.2x	5.0x
Little Green Pharma Ltd	58	AU	18.8x	NaN
Althea Group Holdings Ltd	58	AU	15.0x	NaN
Tikun Olam Cannbit Pharmaceuticals Ltd	55	IL	10.9x	NaN
Cann Global Ltd	20	AU	12.7x	NaN
<b>Median</b>	<b>58</b>		<b>11.8x</b>	<b>5.4x</b>
Average	957		12.0x	5.4x

Valuation, DanCann Pharma	Bear	Base	Bull
EV/Sales, median	11.8x	11.8x	11.8x
Rebate	-50%	-50%	-50%
<b>Applied EV/Sales-multiple</b>	<b>5.9x</b>	<b>5.9x</b>	<b>5.9x</b>
CSQ assumed revenue, 2025E	40	81	121
Implied EV	238	477	715
PV(Implied EV)	132	263	395
Debt	0	0	0
Cash	13	13	13
Equity value	144	276	408
Shares outstanding incl. future financing	26.5	26.5	26.5
<b>Fair value per share (DKK)</b>	<b>5.5</b>	<b>10.4</b>	<b>15.4</b>

Source: Company information and Carlsquare estimates

As shown in the table above, the reference group's median EV/Sales multiple on last twelve months' sale is 11.8x. After applying the rebate of 50 percent, the applied EV/Sales-multiple is 5.9x. In our base case, DanCann generated risk adjusted revenues in 2025 of DKK 81m. This yields an implied enterprise value (EV) of DKK 477m.

Further, we have discounted this number to its present value using a discount rate of 13.8 percent. This result in an EV of DKK 263m. To this we have added assumed net cash as of year-end 2021 of DKK 13m (incl. full exercise outstanding warrants) yielding equity value of DKK 276m. By dividing the total number of shares assumed after the exercise of warrants and one additional share issue, a value per share is calculated to DKK 10.4 (9.4) in our base case.

In a more optimistic scenario, we have assumed risk adjusted revenues of DKK 121m in 2025. This yields a value per share of DKK 15.4 in the bull case. In a more conservative scenario, we have assumed risk adjusted revenues of DKK 35m in 2025. This yields a value per share of DKK 5.5 in the bear case.

**Risk adjusted DCF-valuation**

We have applied the same discount rate of 13.8 percent in our DCF-model as in the multiple valuation. By the end of the projected period in 2030, we have assumed the number of shares outstanding to be 26.5 million (the number currently outstanding is 20.7). This is an increase from the 25.2 million ones in the initial coverage report as we have increased the investment need.

By discounting future assumed and risk adjusted cash flows we calculate a value per share of DKK 3.7 (3.6) in our base case. It is thus the multiple valuation method that drives the fair value per share.

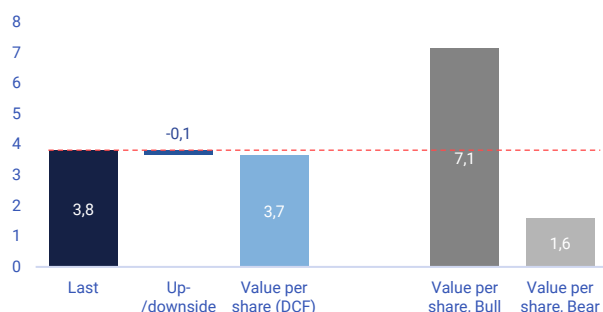


## DCF-valuation

		Disc. rate projected period		Assumptions	
PV(UFCF)	-8.0	Rf. projected period	0.3%	CAGR, 2021-2030	83.7%
PV(TV)	92	Market risk premium	7.7%	EBITDA-margin, 2030	20.6%
<b>Enterprise value (EV)</b>	<b>84</b>	Size premium	4.6%	EBIT-margin, 2030	20.3%
Net cash	13	Beta	1.1x	Tax rate	22.0%
<b>Total equity value</b>	<b>97</b>	Return on equity	13.8%	G perpet.	4.0%
				Disc.rate TV	13.8%
Current shares	20.7	Tax adj. interest rate	5.5%		
New shares	5.8	D/(D+E)	0.0%	<b>Implied multiples</b>	
Assumed shares outstanding, 2030	26.5			EV/Sales 2022E	8.4x
		WACC	13.8%	EV/Sales 2025E	1.0x
Value per share before dilution	4.7	Comp. specific premium	0.0%	EV/EBITDA 2022E	neg.
<b>Value per share after dilution</b>	<b>3.7</b>	Disc. rate	<b>13.8%</b>	EV/EBITDA 20225E	17.5x

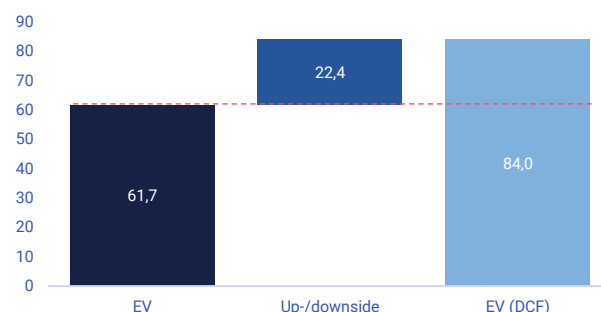
Source: Company information and Carlsquare estimates

## Visualization fair value per share, Base scenario (SEK)



Source: Carlsquare estimates

## Visualization market value, Base scenario (mSEK)



Source: Carlsquare Estimates

Our DCF-model implies an EV/Sales multiple on assumed and risk adjusted sales 2022 of 6.9x and on 2025, of 1.0x. The implied EV/EBITDA-multiple for assumed and risk adjusted EBITDA the same year is 21.2x. See the table below.

## DCF: Implied multiples, base case

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EV/Sales	NaN	101,3x	8,4x	3,6x	2,0x	1,0x	0,7x	0,6x	0,5x	0,5x	0,4x
EV/EBITDA	neg.	neg.	neg.	neg.	neg.	17,5x	5,5x	3,3x	2,6x	2,3x	2,1x
P/E	neg.	neg.	neg.	neg.	neg.	127,0x	10,9x	5,8x	4,4x	3,8x	3,5x

Source: Company information and Carlsquare estimates

In a more optimistic scenario, we have changed the risk adjusted sales curve upwards during the full projected period to yield an average annual growth rate during the years 2022-2030 of about 96 percent (base case, about 84 percent). This corresponds to sales of DKK 358m by 2030 (base case, DKK 198m). We have also adjusted the risk adjusted margin curve upwards during the full projected period to yield an EBIT-margin of 22.7 percent in 2030 (base case 20.3 percent). In this scenario a value per share is calculated to DKK 7.1.

In a more conservative scenario, we have adjusted the risk adjusted sales curve downwards during the full projected period to yield an average annual growth rate during the years 2022-2030 of about 71 percent (base case, about 84 percent). This corresponds to sales of DKK 105m by 2030 (base case, DKK 198m). We have also adjusted the risk adjusted margin curve downwards over the full projected period to yield an EBIT-margin of 18.3 percent in 2030 (base case 20.3 percent). In this scenario the value per share is calculated to DKK 1.6.

**DCF: Scenario analysis, EBIT-margin 2030 on x-axis and CAGR 2021-2030 on the y-axis (DKK)**

	18,3%	20,3%	22,3%
96,2%	5,7	6,4	7,1
83,7%	3,2	3,7	4,1
71,2%	1,6	1,8	2,1

Source: Carlsquare estimates

## Risks and challenges

### Regulatory and political risks

Even though cultivation is made legal on a permanent basis, DanCann's other business models are still dependent on the Danish pilot program that is time limited to another four years.

The current regulatory environment is largely currently developing in favour of DanCann. However, this may take a turn to the worse. The regulatory risk is larger for DanCann, compared to many other companies working with e.g., small molecule or antibodies.

In this context, regulations also include reimbursement. The market may not develop as favourable as expected if medical cannabis products are not to a greater extent included in the various reimbursement-systems.

Another aspect is that the medical cannabis industry is controversial. There is a risk that medical cannabis might be associated with the general cannabis industry leading to negative repercussions.

### Funding risk and other risk

The company is likely to need further financing. This financing is not secured. External financing vital in a scenario where revenues do not cover costs.

The company has no financial history to rely on, this applies to sales but also to the costs. This means an increase in risk for that our assumptions may differ from reality.

The company is dependent on keeping and attracting key personnel. The market for medical cannabis products is relatively novel meaning that personnel with valuable experience is scarce.

As the market matures in a favourable manner, competition is likely to increase. This may cause downward pressure on margins, especially sales of cannabis bulk and API. Regarding the latter, DanCann's intention is to focus on rare and novel APIs.

Analysts are expecting continued strong growth as new products enter the market and the base clinical evidence grows. However, the future growth of the market is uncertain and may not be as fast as expected.

# Accounts and key figures

## Risk adjusted income statement (DKKm)

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net sales	0	1	10	23	42	81	114	147	171	185	198
Other revenues	0	0	0	0	0	0	0	0	0	0	0
<b>Total revenues</b>	<b>0</b>	<b>1</b>	<b>10</b>	<b>23</b>	<b>42</b>	<b>81</b>	<b>114</b>	<b>147</b>	<b>171</b>	<b>185</b>	<b>198</b>
COGS	0	0	-6	-15	-27	-52	-74	-96	-111	-121	-129
Other external expenses	-5	-7	-8	-10	-15	-16	-16	-16	-17	-17	-17
Staff expenses	-1	-4	-5	-7	-8	-8	-9	-10	-10	-10	-11
D&A	0	-1	-2	-2	-3	-3	-2	-1	-1	-1	-1
Other operating expenses	0	0	0	0	0	0	0	0	0	0	0
Total operational costs	-6	-12	-21	-33	-51	-79	-101	-123	-139	-149	-158
<b>EBIT</b>	<b>-6</b>	<b>-11</b>	<b>-11</b>	<b>-10</b>	<b>-10</b>	<b>2</b>	<b>13</b>	<b>24</b>	<b>32</b>	<b>36</b>	<b>40</b>
<b>EBITDA</b>	<b>-6</b>	<b>-10</b>	<b>-10</b>	<b>-8</b>	<b>-7</b>	<b>5</b>	<b>15</b>	<b>25</b>	<b>33</b>	<b>37</b>	<b>41</b>
Financial income	0	0	0	0	0	0	0	0	0	0	0
Financial expenses	0	0	0	0	-1	-1	-1	-1	-1	-1	-1
Net finances	0	0	0	0	-1	-1	-1	-1	-1	-1	-1
<b>EBT</b>	<b>-6</b>	<b>-11</b>	<b>-11</b>	<b>-10</b>	<b>-11</b>	<b>1</b>	<b>12</b>	<b>23</b>	<b>31</b>	<b>35</b>	<b>39</b>
Tax	1	0	0	0	0	0	-3	-5	-7	-8	-9
<b>Net income</b>	<b>-5</b>	<b>-11</b>	<b>-11</b>	<b>-10</b>	<b>-11</b>	<b>1</b>	<b>10</b>	<b>18</b>	<b>24</b>	<b>28</b>	<b>31</b>
<b>Earnings per share</b>											
<b>Average no. shares</b>	10,4	22,1	24,2	25,7	26,5	26,5	26,5	26,5	26,5	26,5	26,5
EPS	-0,48	-0,51	-0,47	-0,39	-0,40	0,03	0,37	0,69	0,91	1,04	1,15
<b>Growth</b>											
Net sales	NaN	NaN	1104,8%	132,0%	79,3%	94,2%	41,3%	28,7%	16,2%	8,5%	6,8%
Total revenues	NaN	NaN	1104,8%	132,0%	79,3%	94,2%	41,3%	28,7%	16,2%	8,5%	6,8%
EBIT	-836,2%	-92,4%	-1,5%	11,3%	5,6%	121,3%	556,2%	81,1%	31,6%	13,9%	10,4%
EBITDA	-833,1%	-75,6%	6,2%	17,9%	9,9%	168,0%	217,0%	66,9%	29,0%	13,2%	9,9%
EBT	-836,8%	-89,1%	-1,1%	11,3%	-4,2%	110,1%	1067,1%	87,5%	32,9%	14,3%	10,7%
Net income	-848,2%	-138,8%	-1,1%	11,3%	-4,2%	107,8%	1067,1%	87,5%	32,9%	14,3%	10,7%
<b>Margins</b>											
Gross margin	NaN	39,8%	38,4%	37,4%	36,2%	35,3%	35,1%	34,9%	34,9%	34,8%	34,8%
EBITDA-margin	NaN	Neg.	Neg.	Neg.	Neg.	5,9%	13,3%	17,2%	19,2%	20,0%	20,6%
EBIT-margin	NaN	Neg.	Neg.	Neg.	Neg.	2,5%	11,7%	16,5%	18,7%	19,6%	20,3%
EBT-margin	NaN	Neg.	Neg.	Neg.	Neg.	1,3%	10,9%	15,8%	18,1%	19,1%	19,8%
Net income margin	NaN	Neg.	Neg.	Neg.	Neg.	1,0%	8,5%	12,4%	14,1%	14,9%	15,4%

Source: Company information and Carlsquare estimates

**Balance sheet (DKKm)**

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total non-current assets	20	33	39	40	40	39	39	39	39	40	40
Cash and Cash eq.	21	13	0	9	15	4	3	10	27	49	75
Total current assets	30	21	20	38	55	59	69	90	114	143	174
<b>Total assets</b>	<b>50</b>	<b>54</b>	<b>58</b>	<b>79</b>	<b>95</b>	<b>98</b>	<b>109</b>	<b>129</b>	<b>154</b>	<b>183</b>	<b>215</b>
<b>Total equity</b>	<b>44</b>	<b>48</b>	<b>52</b>	<b>69</b>	<b>58</b>	<b>59</b>	<b>69</b>	<b>87</b>	<b>111</b>	<b>139</b>	<b>169</b>
Provisions for deferred tax	1	2	2	2	2	2	2	2	2	2	2
Total non-current liabilities	0	0	0	0	20	20	20	20	20	20	20
Total current liabilities	4	4	5	8	15	17	18	21	21	22	24
<b>Total liabilities</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>8</b>	<b>35</b>	<b>37</b>	<b>38</b>	<b>41</b>	<b>41</b>	<b>42</b>	<b>44</b>
<b>Total equity and liabilities</b>	<b>50</b>	<b>54</b>	<b>58</b>	<b>79</b>	<b>95</b>	<b>98</b>	<b>109</b>	<b>129</b>	<b>154</b>	<b>183</b>	<b>215</b>
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Current ratio	7,7	5,9	3,8	4,6	3,7	3,4	3,8	4,3	5,4	6,4	7,4
Cash ratio	5,5	3,6	0,0	1,1	1,0	0,2	0,2	0,5	1,3	2,2	3,2
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net debt(-)/Net cash(+)	21,3	12,8	0,2	8,7	-4,9	-16,2	-17,1	-9,8	6,8	29,3	54,9
Net debt/EBITDA	n.m.	n.m.	n.m.	n.m.	-52%	-207%	-243%	205%	n.m.	n.m.	n.m.
Net debt/Equity	n.m.	n.m.	n.m.	n.m.	8%	27%	25%	11%	n.m.	n.m.	n.m.
Dent/Equity	9%	7%	10%	12%	60%	63%	56%	47%	37%	30%	26%
Assets/Equity	89%	90%	88%	87%	62%	60%	63%	67%	72%	76%	79%
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
ROA	-18,6%	-21,9%	-20,4%	-14,8%	-12,2%	0,9%	9,4%	15,3%	17,0%	16,4%	15,4%
ROE	-21,7%	-24,4%	-22,9%	-16,8%	-16,6%	1,4%	15,1%	23,3%	24,4%	22,1%	19,8%
ROIC	-80,0%	-64,1%	-38,9%	-23,0%	-17,1%	2,9%	15,7%	24,2%	28,2%	29,9%	31,1%

Source: Company information and Carlsquare estimates

**Cash Flow (DKKm)**

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
CF, operating activity	-8	-12	-19	-15	-12	-9	1	8	18	23	27
CF, investment activity	-19	-11	-8	-4	-2	-2	-2	-1	-1	-1	-1
CF, financing activity	48	15	15	27	20	0	0	0	0	0	0
<b>Change in cash and cash eq.</b>	<b>21</b>	<b>-9</b>	<b>-13</b>	<b>9</b>	<b>6</b>	<b>-11</b>	<b>-1</b>	<b>7</b>	<b>17</b>	<b>22</b>	<b>26</b>
Cash and cash eq., BoP	0	21	13	0	9	15	4	3	10	27	49
Cash and cash eq., EoP	21	13	0	9	15	4	3	10	27	49	75
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
CF operating/revenues	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0,9%	5,6%	10,3%	12,6%	13,5%
CF operating/assets	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0,9%	6,4%	11,5%	12,8%	12,4%

Source: Company information and Carlsquare estimates

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