

Research update: Q3 2021

DANCANN PHARMA A/S

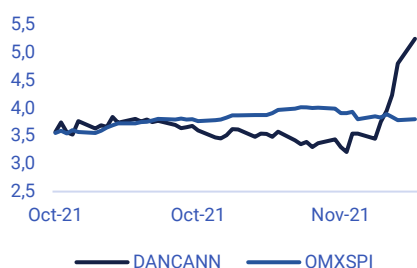
CEO: Jeppe Krog Rasmussen
 CoB: Carsten Trads
www.dancann.com

Bloomberg: DANCAN:SS
 Refinitiv Eikon: DANCAN.ST

Listing: Spotlight DK.

Share. last: DKK 5.2
 Market Cap: DKK 135m

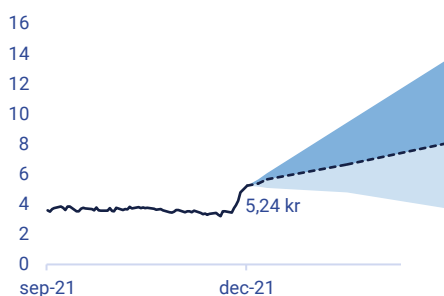
SHARE PRICE DEVELOPMENT



	12M	YTD	6M	1M
Share perf. (%)	45,3	48,9	22,6	40,4

Source: Refinitiv Eikon

VALUATION INTERVAL



	BEAR	BASE	BULL
Value per share	4,9	9,5	15,5
Up-/downside	-6%	81%	196%

Source: Carlsquare estimates

CARLSQUARE EQUITY RESEARCH

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

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Brighter outlook than ever before

DanCann has seen a high level of business activity in recent months. A strengthened cash position with good cost control has given the Company breathing space. The acquisition of the CannGros will generate the Company's first revenue in the current quarter. Regulatory progress in both Germany and Denmark has been announced. Furthermore, the Company's partner Tetra BioPharma has presented robust initial data from two Phase II studies in cancer pain. DanCann is facing a commercial breakthrough with several activities expected to drive growth. We are adjusting the fair value per share upwards to DKK 9.5 (8.5) in a conservative view, while our bull-case moves to DKK 15.5 and DKK 4.9 in bear-case.

A Nordic player in medical cannabis

DanCann was founded in 2018 by the current CEO, Jeppe Krog Rasmussen. The Company's strategy is to provide medical cannabis to the European market. It intends to do this by (i) importing and distributing medical cannabis products, (ii) cultivating and exporting cannabis raw material, and (iii) identifying and developing cannabis products as part of combination medicines.

Good cost control despite high activity

No revenues were reported for the second quarter, in line with our forecasts. The EBITDA result amounted to DKK -3.4 million. The completion of the latest financing round explains the cash flow totalling at DKK 7.1 million. The financial performance in the quarter was broadly in line with our expectations across the board.

In early October, DanCann announced the acquisition of the Danish Company CannGros, a market-leading distributor of medical cannabis, as part of the pilot programme in Denmark. The acquisition adds significant value: (i) Revenues under solid growth with good profitability will be included already from the fourth quarter of 2021. (ii) DanCann gets the necessary expertise and approval for critical regulatory processes, such as a license from DMA to import and distribute medical cannabis. (iii) Significant synergies exist in future product development and distribution of already contracted products from DanCann's established partnerships.

Regulatory progress across the board

The start of the fourth quarter has been active. The Company's partner Tetra BioPharma has made significant clinical progress with robust initial data from two Phase II studies in cancer pain. At the same time, the Danish pilot programme has been made permanent regarding the production of cannabis materials. Furthermore, the coalition government in Germany has decided to legalise cannabis also for recreational use. Overall, we assess that, for the time being, the underlying market for medical cannabis is prospering.

We adjust the fair value per share upwards

As in previous updates, our sales forecast is risk-adjusted with probabilities. We have consolidated the expected revenues and costs from CannGros and increased the probability to 75 per cent based on improved regulatory and market conditions. That results in slightly higher expected revenues. The following 12 months will be, in our opinion, the most interesting in the Company's history with increased activity in commercialisation and market entry. Overall we estimate a fair value of DKK 9.5 (8.5) per share for the next 6-12 months. This could be seen as a bit conservative. One should know that our assumptions will be adjusted when upcoming milestones are reached and affect our valuation.

Key figures (DKK m)

	2020*	2021E	2022E	2023E	2024E	2025E
Risk adj. net sales	0.0	2.0	18.9	42.2	73.5	142.7
Risk adj. EBITDA	-5.8	-12.8	-12.2	-10.8	-4.9	18.1
Risk adj. EBIT	-5.9	-14.0	-14.4	-13.7	-8.3	14.2
Risk adj. net profit	-4.7	-12.7	-14.4	-13.6	-8.3	10.5
EPS (DKK)	-0.48	-0.56	-0.54	-0.47	-0.27	0.34
Growth	NaN	NaN	864.5%	123.9%	74.0%	94.3%
EBITDA-margin	Neg.	Neg.	Neg.	Neg.	Neg.	12.7%
EBIT-margin	Neg.	Neg.	Neg.	Neg.	Neg.	10.0%
EV/Sales (Curr.)	NaN	35.8x	3.7x	1.7x	1.0x	0.5x
EV/EBITDA (Curr.)	Neg.	Neg.	Neg.	Neg.	Neg.	3.9x

*Actual figures. Source: Company information and Carlsquare estimates

Follow-up and commentaries, Q3 2021

Danish DanCann Pharma A/S (DanCann, the Company or DanCann Pharma) reported an EBITDA result of DKK -3.2 million and a cash flow of DKK 7.1 million in the third quarter of 2021 as a result of the previously announced financing round. In line with our forecasts, investments in both tangible and intangible assets were lower than in the first two quarters. The acquisition of the market-leading distributor CannGros has been completed, meaning that revenue is expected to be reported in the fourth quarter. After the quarter-end, the tailwind has been strong for the Company. (i) The Company's partner Tetra BioPharma has reported positive initial data in two clinical trials of its Qixleaf candidate for cancer pain. DanCann holds the distribution rights for the candidate in the Nordic region. (ii) The German coalition government will legalise cannabis for recreational use. (iii) The Danish pilot programme, which has been under evaluation, will now become permanent, creating a better market environment with a clear regulatory framework. Regulatory progress in Germany and Denmark indicate that the market for medical cannabis is becoming more accepted, which may have a ripple effect on other countries. DanCann has never, in our opinion, been better positioned than it is today. The coming 12 months are expected to see commercial activities take off while interesting development projects continue to be planned.

Laying the foundations for future growth

As in the first two quarters of the year, no revenue was reported in the third quarter of 2021, which was in line with our expectations. The EBITDA result came in at DKK -3.4m (-1.6), slightly better than the DKK -3.7m reported in the second quarter. At the same time, the EBIT result adds up to DKK -3.4 million (-1.7). The results are in line with our forecasts and illustrate a relatively undramatic quarter for the Company's financial figures. We observed slightly lower investments during the quarter than H1; cash flow from investments totalled DKK -2.6m (-6.1), while the first two quarters' investments amounted to DKK -12.2m. That is explained by the fact that most of the investments have been made in manufacturing.

DanCann continues to demonstrate good cost control despite a high level of business activity across all business lines.

Personnel costs in the third quarter are in line with the second quarter and amounted to DKK -1.7 million (-) and sum to DKK -4.1 million (-0.04) for the first three quarters of 2021. Other operating costs amounted to just over DKK -1.7 million (-1.6) in the third quarter and DKK -5.3 million sums for all quarters of the current year. We are pleased that the Company appears to be maintaining a stable cost base that does not fluctuate too much despite high business activity in all of the Company's business legs.

Danish pilot programme becomes permanent

Denmark is one of three countries in Europe that has run a pilot programme for medical cannabis. The pilot programme allows doctors to prescribe medical cannabis products to patients in Denmark. For this research report, medical cannabis means cannabinoid-based products, prescription or OTC, used to treat a medical condition.

With a 100% market share in the Danish pilot programme, there are good prospects for profitable product launches over time.

In early December 2021, Danish authorities announced that the program would be made permanent regarding the production of medical cannabis, including raw materials. At the same time, doctors will get an extension of their right to prescribe medical cannabis to patients. The message was a unanimous yes by 102 votes to 0. Both decisions are clearly positive for DanCann and the sector in general. We believe that the regulatory environment has prevented the market from developing faster. Decisions like these make it easier for supply to meet demand.

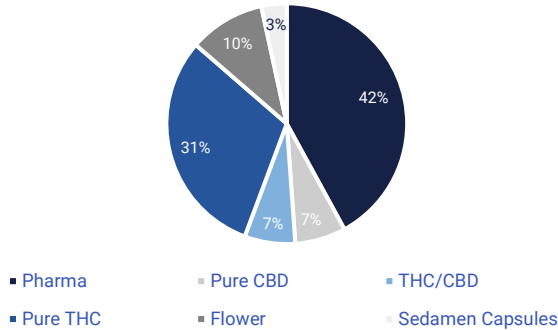
The Danish market

The tables below show what the Danish market for medical cannabis looks like today. It is worth mentioning that DanCann's competitor Aurora Nordic withdrew its product, Sedamen, from the Danish market on November 15th, 2021. The product sells for approximately 0.3 MEUR trailing 12 months. The product was one of four products in the pilot programme. The other three are sold by CannGros, which will now be part of DanCann. The products are described under "strategic acquisition of CannGros Aps".

The percentage breakdown between the different segments is shown from the left below. Given that Sedamen has been withdrawn from the market, DanCann/CannGros has a 100 per cent market share in the pilot programme. The withdrawal of larger competitors from

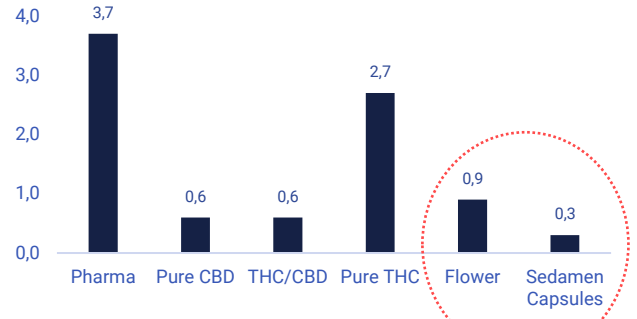
the market in Denmark may benefit a smaller and agile player such as DanCann in terms of pricing strategy and when launching new products. Which the Company has explicitly stated is under development.

TTM 12 months sales: Denmark, divided by product cat.



Source: <https://cannabis.komand.ca/factbase/DENMARK/>

TTM 12 months sales: Denmark, MEUR



Source: <https://cannabis.komand.ca/factbase/DENMARK/>

Regulatory tailwind also in Germany

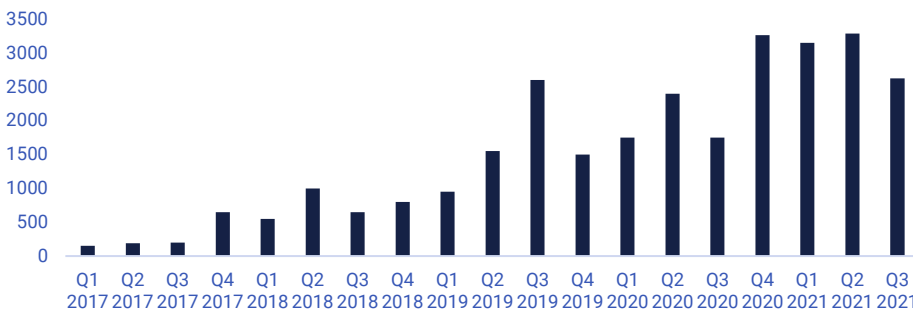
Medical cannabis was legalised in Germany in 2017 and is by far the largest market in Europe. According to Market Intelligence, it was estimated that around 170,000 patients were prescribed some form of medical cannabis in 2020. At the same time, more than 60 per cent of prescriptions were reimbursed by insurance companies and other reimbursement bodies. Although the market is relatively young, it is clear, in our view, that the uptake of legalisation has been good.

The market in Europe is expected to be worth around euro 4 billion by 2025, at a CAGR of 67.5 per cent between 2021-2025. Germany is and will be the dominant market in the region.

The challenges we see in the German market, as it relates to DannCann, are primarily how much competition the Company will face from the domestic manufacturing of local players, such as Cansativa GmbH. Risks such as constant price pressure may make it difficult for exporters to achieve sustainable profitability.

At the end of November, the coalition government in Germany announced that it would legalise cannabis for recreational use as well. The decision makes Germany, with its population of nearly 84 million, the most significant legal market for cannabis in the world in terms of population. After Luxembourg, it is the second country to take this far-reaching decision. That strengthens our thesis that the acceptance of cannabis is increasing at a rapid pace. Furthermore, it indicates that the regulatory environment is evolving, and the evidence can be used as a reference for other markets considering legalising the use of cannabis. The decision as to when legalisation will take full effect has not yet been made.

The German market for Cannabis-related materials, import, Q1 2017-Q3 2021, kg



Source: Market Intelligence, Carlsquare estimates

Strategic acquisition of CannGro ApS

As mentioned in our previous research update, the acquisition of CannGro was announced during the quarter. On October 4th, DanCann announced that it had acquired the Danish Company CannGro. A market-leading distributor of medical cannabis under the pilot program in Denmark. CannGro has a number of products on the market today. The portfolio consists of three products, Bedrocan®, Bedica® and Bediol®. All are sold as dried flowers or granules in doses of 5 grams and are available for inhalation using a Viper or as tea.

The capital injection of DKK 16.3 million mentioned earlier is expected to cover the growth initiatives the Company plans to implement in the short term.

Facilitating the regulatory path

CannGro has the necessary licenses from the DMA to import and distribute medical cannabis, something that DanCann lacks. That CannGro has these licenses and is approved by the DMA will benefit DanCann in its regulatory path forward.

Broad product portfolio expected to grow

CannGro's current product portfolio includes Bedrocan products imported from the Netherlands. Bedrocan's products are the only products in the world that are categorised as medical cannabis and are fully GMP (Good Manufacturing Practice) certified, from cultivation to packaging.

In addition, CannGro has the opportunity to apply for approval of two additional Bedrocan products, Bedrolite® and Bedronol®. The two products are also sold as medical cannabis products, dosed in granular form in doses of 5 grams, for inhalation or oral administration via tea.

CannGro also has a pending product application with the DMA for an oil product containing cannabis extracts. The application for approval for this product was submitted back in April 2021. CannGro expects a potential market launch in the first half of 2022, subject to the DMA's assessment success. That would act as a trigger for the share of DanCann.

Stenocares oilbased product sold for DKK 4.3 million during Q1 2019 before withdrawal.

The cost of the acquisition totals DKK 13 million. DKK 7 million will be paid with shares in DanCann for DKK 3,665, the remaining DKK 6 million in cash in two instalments. 2.2 million warrants will be issued, each giving the right to subscribe for one share at an exercise price of DKK 4,8685 (same terms as in the last round in July). The dilution will add up to 8.3 per cent. At the same time, we are delighted that CannGro's management will own a significant stake in DanCann as it aligns its incentives with the interests of the other shareholders.

Logical acquisition generating revenues with high historical growth

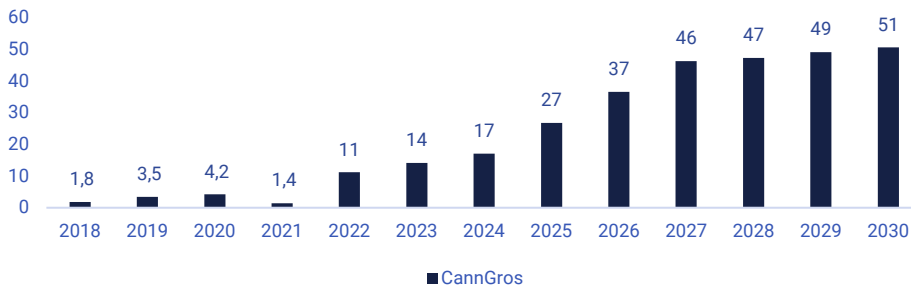
We believe that this acquisition is interesting and highly transformative for DanCann. In addition to acquired revenue under solid growth and profitability, DanCann will gain the necessary expertise and approval for the required licenses (DMA) to import and distribute medical cannabis. The Company itself believes this moves the outlined growth strategy forward 6-12 months - something we agree on and is illustrated in our assumptions for the revenues.

We expect approximately DKK 5 million sales for the full year 2021 for CannGro.

CannGro's revenues have had a CAGR of 55 per cent over the past few years. We expect growth to remain strong over our forecast period. Our long-term projections are based on the assumption of CannGro introducing new products to market in the coming years, which is in line with the Company's expectations. Given that the estimates include new product launches, sales are risk-adjusted like other parts of DanCann. We have set a probability of 75 per cent for CannGro's revenue, with a gross margin higher than the group as a whole. We expect risk-adjusted peak sales of DKK 51 million in year 2030.

The tables below show the historical figures for CannGro and our risk-adjusted revenues estimates forecasts. As shown, only a few months of 2021 revenue are included as these are the ones we expect to be reported in the fourth-quarter report. Our full-year forecasts for CannGro are approximately DKK 5 million.

Historical figures and our forecasts for CannGro’s risk-adjusted revenues (MDKK)



Source: company information and Carlsquare forecasts. *The 2021 figure is explained by the fact that the acquisition of CannGros will only include a little less than one quarter of sales contribution to DanCann. Full-year sales for CannGros are expected to be around DKK 5m.

Sale of cannabis raw material expected in 2022

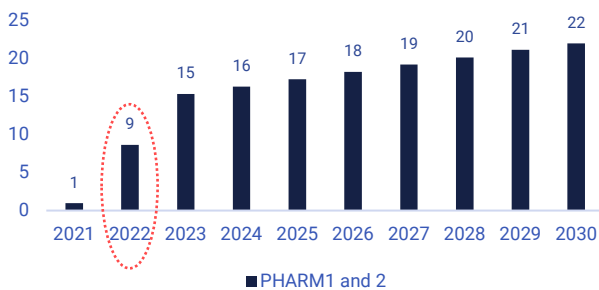
In April 2021, the Company’s BIOTECH PHARM1 production plant was completed. The first manufacturing activities to cultivate pre-selected cannabis raw material started in June. Just eight weeks later, the first batch was harvested. In our opinion, the first test-batch is an important milestone in the Company’s commercialisation strategy, which is becoming more evident in adapting to large-scale production. DanCann’s long-term goal is to produce 2.5 tonnes of dried cannabis raw material, which would meet the needs of more than 25 per cent of the German market.

With a high-tech manufacturing process, DanCann expects to harvest quality cannabis raw material at solid profitability.

The next trigger for proprietary cannabis raw material is obtaining production approval. The Company announced in its Q3 report that it now expects a decision from the DMA in H1 2022, after which sales can begin, assuming approval is granted. Our last analysis forecasted that sales would start in H1 2022; instead, we now estimate that sales will begin in H2 2022. That leads to slightly lower expected revenues from this business in 2022.

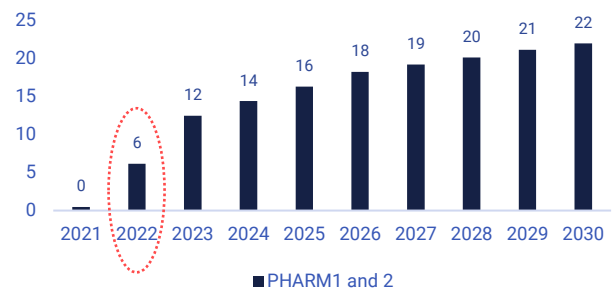
The chart below illustrates the difference between risk-adjusted revenue forecasts from BIO-TECH PHARM1 and 2 before and after our forecast adjustments. As can be seen, these are marginal changes. Worth noting is that these assumptions can be seen as slightly conservative given the Company’s target of producing 2.5 tonnes of cannabis raw material each year. The German market in 2020, according to Market Intelligence, was worth around euro 250-300 million, which is equivalent to around 10 tonnes of raw material imports. DanCann’s capacity of 25 per cent of this market thus corresponds to annual revenue of approximately euro 70 million. As operational progress is made, the probability will be revised upwards for our risk-adjusted revenues.

Risk-adjusted revenues (DKKm). (research Oct. 13th 2021)



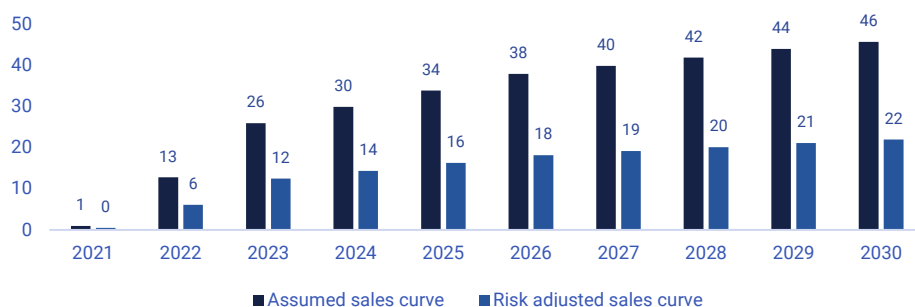
Source: Company information and Carlsquare estimates

Risk-adjusted revenues (DKKm). (current estimates)



Source: Company information and Carlsquare estimates

Below is our expected total sales potential in BIOTECHPHARM1 and 2, before and after risk adjustment. The subsequent correction to the risk adjustment is likely at the time of eventual approval.

Illustration: total sales potential, i.e. risk-adjusted revenue forecasts (raw-materials)


Source: Carlsquare estimates

Key milestones for Tetra BioPharma

DanCann has a distribution agreement with Tetra BioPharma to distribute the three cannabis-based medicinal products Reduvo, Adversa®, and Qixleaf™, for the Nordic and German markets. This enables additional revenue streams for DanCann over time. At the same time, the clinical trials the products are undergoing could be major value triggers for the Company's stock and increase potential peak sales over time.

Important news in recent months

At the end of the third quarter, Tetra BioPharma announced that it had received the report (SAA) from the Scientific Council in Malta. This is an essential piece of the puzzle for the further clinical programmes intended to be set up to meet regulatory requirements globally.

SAA = Scientific Advice Assessment.

Following the end of the quarter, Tetra received some welcome news as the European Medicines Agency (EMA) gave a positive opinion on the Company's Orphan Drug Designation (ODD) application for QIXLEEF™. The application is for Complex Regional Pain Syndrome, CRPS. The indication often involves a pain condition within a defined area and often occurs after some form of trauma. In the five largest markets in Europe, the prevalence is around 100,000 people. These patients are often treated with painkillers, often associated with a risk of dependence, such as morphine.

Furthermore, initial data from the two Phase II studies REBORN1© and PLENITUDE© with QIXLEEF™ for cancer pain have also been presented by Tetra BioPharma. The results show a good safety profile with early indication of pain-relieving effects for the patient. The candidate, which is Inhaled or taken as tea, has the potential to be an entirely new way to treat patients suffering from pain. We mentioned the importance of clinical data in our October analysis. These studies are an essential part of supporting the case for alternative treatments in cancer pain. We look forward with confidence to further data on the candidate's pain-relieving effects to draw more significant conclusions.

Screaming need for new treatment options

The pain management market is complex, large, and needs development. With the ongoing opioid epidemic in the US and other parts of the world, the need for alternative treatments for pain is great. According to the Center for Disease Control and Prevention, over 81,000 Americans died in 2020 from drug-related overdoses. Many of these addiction problems start because of the use of strong opiates for pain-relieving purposes. In light of this, the medical need for better and less addictive treatment options is immense.

QIXLEEF has the potential to become a competitive challenger to traditional opiate treatments based primarily on morphine.

Given that QIXLEEF™ in the REBORN1© study goes head-to-head against oral administration of opiates, the outcome of the candidate's effects is key, offering significant potential if successful. At the same time, the risks are high if the pain-relieving effects prove to be weaker than the current treatment regimen. The market for opiates, according to Grandview Research, was estimated at over USD 12 billion in 2020 in the US alone.

The clinical progress and the regulatory progress are a strong signal that Tetra BioPharma is a competent partner, which benefits DanCann. Should the Company's candidates reach the market with strong clinical evidence behind them, the distribution agreement DanCann has is worth a lot. Our expectation illustrates that the collaboration could generate revenues of close to DKK 400 million in peak sales

An eventful year ahead

CannGros DMA application

CannGros has a pending product application with the DMA for a product based on oil-containing extracts of cannabis. The application for approval was submitted back in April 2021. The Company’s ambition is that a market launch could potentially take place in the first half of 2022, assuming a positive outcome from the DMA. Should this product be approved and sales commence, it is relevant to look at the similar product that Stenocare had on the market previously. The oil-based product sold in q1 2019 for DKK 4.3 million with high profitability. That will potentially trigger the Company’s valuation when a new product is launched, our risk adjustment changes and probability increases, leading to upward revisions to forecasts.

GMP certification during H1 2022

The state-of-the-art BIOTECH PHARM1 cultivation facility was completed and commissioned in the first half of the current year and started its first cultivation cycle in June, with the first harvest eight weeks later. The facility will specialise in rare cannabinoids, sold to other biotechnology companies. Currently, the market produces mainly CBD and THC. There is some price competition. There is little research on rare cannabinoids, which are also not widely used. They are therefore likely to be more expensive, provided there is demand. The Company expects to have GMP certification in place by H1 2022, after which sales can begin. Therefore, we see GMP certification as a significant value driver in the short term.

Sales development

For the first time, DanCann will report revenues. That in itself is a big trigger and important metric to track - growth in the Company’s revenue. CannGros has historically reported good sales growth with high profitability.

Potential timeline for essential milestones

	2021		2022		2023		2024		2025		2026		2027		2028	
	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	H1	H2	
CannGros, DMA.A		█														
GMP Certification		█														
Sales, bulk/API			█	→												
General sales	█	→														

Source: Company information and Carlsquare estimates

Value-adding milestones

As can be seen above, many activities and milestones will be enjoyable to follow for the upcoming quarters. All of these events will impact our assumptions on risk and probabilities.

Investment case, forecasts, and valuation

DanCann was founded in 2018 to supply the European market with medical cannabis products. On the other side of the Atlantic, successful North American companies have seen strong sales growth in recent years. At the same time, the underlying market has matured due to increased legalisation, new FDA approvals, clinical evidence, and increased awareness. Analysts expect a similar trend in Europe. Those local companies that will be able to navigate the various regulatory regimes and meet the required quality standards early will be able to capture a larger share of the market before the competition begins to increase. DanCann is now working on getting all the pieces in place to realise its goals and vision. The missing parts include obtaining licenses, EU GMP approvals, and product approvals. These missing pieces pose risks but are also major value triggers. We make smaller adjustments and justify our fair value to DKK 9.5 (8.5) per share in a basecase, 15.5 in a more optimistic bullcase and 4.9 in bearcase.

Investment case: Facing commercial breakthrough

Denmark is one of three countries in Europe currently running a medical cannabis pilot program. The pilot programme allows practitioners to prescribe medical cannabis products to patients in Denmark. 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 pilot programme for medical cannabis, which was recently made permanent, is an opportunity for patients to test medical cannabis under safe and controlled conditions. It is also an opportunity for both companies and regulators to build capacity, organise and structure themselves around this relatively new and growing medical field. The new agreement means that the cultivation of medical cannabis will be fully legalised and not just temporary.

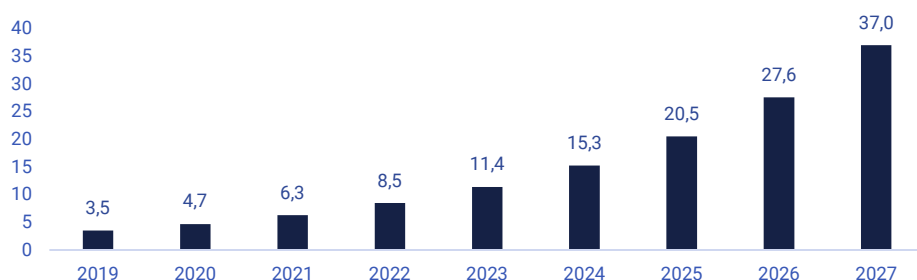
DanCann Pharma, founded in 2018 by its current CEO Jeppe Rasmussen, was one of the first companies approved to enter the pilot programme under the so-called development scheme and is now awaiting licenses to execute on its business model:

- 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 commercialising IP-protected medical cannabis products with a focus on combination drugs.

Multi-billion market under construction...

In the US, the market for medical cannabis has gone through strong historical growth. In 2020, sales grew by 46 per cent to reach a value of USD 17.5bn. Key drivers of the market have been the spread of legalisation of medical cannabis among states in connection with necessary FDA approvals of cannabinoid-based drugs, clinical studies, and 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 early to legalise medical cannabis in Europe, and more countries have decided to follow in their footsteps. In 2019, the European market for medical cannabis products was valued at USD 3.5bn. The market is expected to grow and reach around USD 37bn in 2027. That corresponds to a high average annual growth rate of just above 34 per cent for 2020-2027.

Strong growth is expected in Europe during the upcoming years.

However, large established global companies and early-stage local actors are struggling with the unified regulatory systems and meeting high requirements on quality standards. The local companies that can break through early also have an excellent 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 for commercialisation

Even though DanCann is still in an early stage, lacking the required licenses, the Company has managed to enter distribution agreements with the Israeli Company Cannasure Therapeutics Ltd, the Canadian MediPharm Labs, and Tetra BioPharma Inc.

Important distribution agreements are already in place.

Distribution agreement with Cannasure and MediPharm Labs

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

Cannasure 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 promising long-term potential in the collaboration. That is partly due to the agreement giving DanCann the exclusive right to Cannasure's future products. In the pipeline is a topical medical cannabis product with Lipidor's lipid technology AKVANO® for the treatment of skin inflammation, including psoriatic lesions. That 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 BioPharma

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 BioPharma 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 intends 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 vaporising. The intended indication is cancer pain and breakthrough pain. Two clinical phase II trials are underway. After completed phase III trials, the 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 commercialised 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 prescription-based and IP-protected, meaning that "generics" would not be allowed. Thus, they complement 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 the distribution of Tetra BioPharma-products to start during 2022. 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 per cent.

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 cultivated. It uses aeroponics, is fully automated and cleanroom-like. For processing and extraction of APIs, the Company plans to install its second production facility, BIOTECH PHARM2. Once EU GMP approvals (and licenses granted) are in place, the Company may start to produce and export medical cannabis bulk and APIs. The Company expects EU GMP approval for BIOTECH PHARM1 to be in place in H1 2022.

The Company expects sales of cannabis bulk to start during the end of H1/H2 2022. Germany is currently the largest market in Europe. It is also the most exciting market for exports as they just recently opened for imports. That is because domestic production does not meet the demand. DanCann expects peak sales of DKK 40+m from this business area.

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

Risks along the way

DanCann has a short history, and so does the underlying market in many ways. 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 license 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 DMA's detailed and precise requirements. The 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 the outcome is not a given. Positive clinical results and approvals are thus value drivers for DanCann.

Great potential at high risk

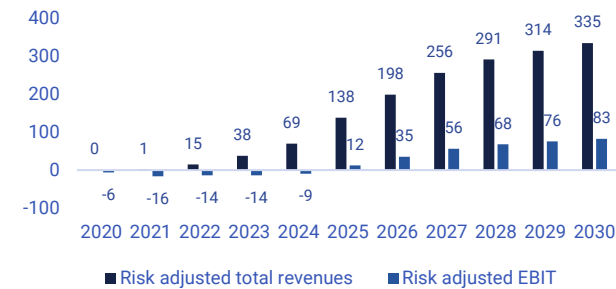
Given the novel market under development and the many company-specific uncertainties, projections are complex. We have made assumptions on revenues as well as costs based on estimates made public by the Company. Our assumptions are also based on studies of historical growth rates for companies operating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

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

Forecasts

Since our last analysis update, we have made a few minor adjustments. As shown in the chart below, we estimate slightly higher risk-adjusted revenues of DKK 19 (15) million for 2022 compared to previous forecasts. This is explained by marginally higher expected revenues for CannGros than previously estimated. We expect sales of cannabis raw material to now start in H2 2022 instead of H1; however, the outcome has less impact on the total revenue for the year. By the end of 2025, the Company reaches a positive result, according to our modelling, with risk-adjusted revenues of DKK 143m (138) and an EBIT result of just over DKK 14m (12).

Forecast 1: Revenues & EBIT (DKKm) (Oktober 13th 2021)



Source: Company information and Carlsquare estimates

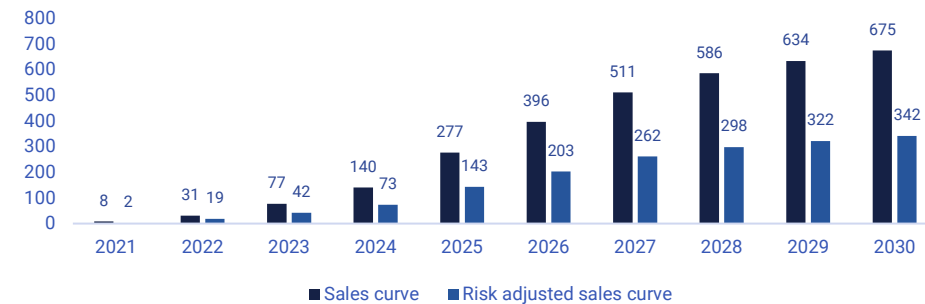
Forecast 2: Revenues & EBIT (DKKm) (current)



Source: Company information and Carlsquare estimates

The chart below illustrates our summarised sales potential for all DanCann’s business legs combined as well as the risk-adjusted sales. If the Company successfully obtains the licenses above, approvals and operational progress are taken into the commercialisation phase; there is significant potential for increased revenue projections over time.

Illustration: Total sales potential vs our risk-adjusted revenues



Source: Carlsquare estimates

Valuation assumption

Fair value of DKK 9.5 per share in a base case

We value DanCann Pharma at DKK 9.5 per share (8.5) for the next 6-12 months by combining a multiple valuation based on estimated sales in 2025 with a DCF model and taking the average from these. That corresponds to an enterprise value (EV) of DKK 196 million (170). Many things need to happen and can be seen as both risks and potential value triggers.

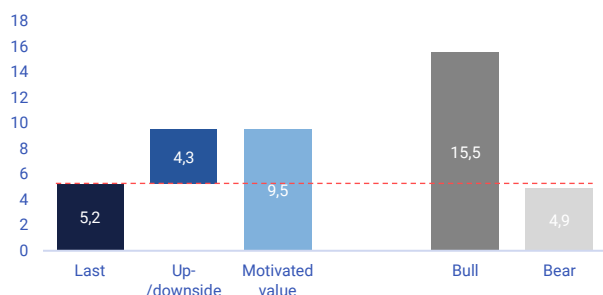
We calculate a fair value of DKK 15.5 (14.2) in a more optimistic bull scenario. We estimate a fair value of DKK 4.9 (3,9) in a more conservative bear scenario.

Summary of valuation. three scenarios

Method	BEAR	BASE	BULL
DCF-valuation	4,7	8,9	15,9
Multiple-valuation	5,0	10,1	15,1
Motivated value. three scenarios	4,9	9,5	15,5
Potential up-/downside (last: 5.3 DKK)	-7,9%	79,9%	193,8%
Implied EV/sales. 2025E	1,4x	1,4x	1,5x
Implied EV/EBITDA. 2025E	10,3x	10,1x	11,0x

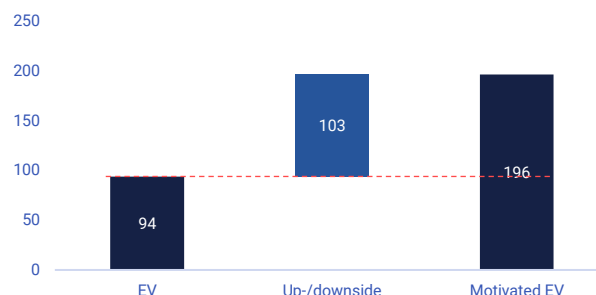
Source: Company information and Carlsquare estimates

Visualisation value per share. base case (DKK)



Source: Carlsquare estimates

Visualisation enterprise value. base case (DKKm)



Source: Carlsquare Estimates

In our base case, the implied EV/Sales multiple is 12.0x on assumed and risk-adjusted sales in 2022 and 1.3x on assumed and risk-adjusted sales in 2025. The implied EV/EBITDA multiple on assumed and risk-adjusted EBITDA results in 2025 is 10.8x.

Implied multiples. base case

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EV/Sales	NaN	100,4x	10,4x	4,6x	2,7x	1,4x	1,0x	0,7x	0,7x	0,6x	0,6x
EV/EBITDA	neg.	neg.	neg.	neg.	neg.	10,1x	4,7x	3,1x	2,6x	2,4x	2,2x
P/E	neg.	neg.	neg.	neg.	neg.	17,0x	6,7x	4,2x	3,5x	3,1x	2,9x

Source: Company information and Carlsquare estimates

Multiple valuation based EV/Sales and expectations for 2025E

We have studied companies with a business model consisting mainly of cultivation of medical cannabis plants and extraction of APIs for sale and distribution to manufacturers of medical cannabis end products and partly have research and development. The companies in the reference group are more mature than DanCann. The Reference Group currently trades at a median EV/Sales multiple of 6.1x, trailing twelve-month sales (RTM). At the last research update, the corresponding reference group was trading at 6.9x RTM. Based on EV/Sales, the sector's valuation has declined by more than 12 per cent since our latest update.

In addition to the multiple valuation being based on risk-adjusted sales figures for DanCann, we have applied a discount of 40 per cent to the median EV/Sales multiple of the reference group. That reflects the differences between companies in the peer group that are more mature, already have revenues, and operate in larger markets than DanCann. This discount will be adjusted as the Company advances in its commercialisation phase.

Multiple valuation. three scenarios

	Mcap (EURm)	HQ	EV/Sales. LTM	EV/Sales. 2021E
Trulieve Cannabis Corp	4 273	CA	6,1x	3,1x
Aurora Cannabis Inc	1 124	CA	7,0x	6,9x
Little Green Pharma Ltd	74	AU	12,8x	4,8x
Althea Group Holdings Ltd	46	AU	6,2x	1,9x
Tikun Olam Cannbit Pharmaceuticals Ltd	42	IL	5,7x	NULL
Cann Global Ltd	12	AU	5,6x	NULL
Median	60		6,1x	4,0x
Average	929		7,2x	4,2x

Valuation. DanCann Pharma	Bear	Base	Bull
EV/Sales. median	6,1x	6,1x	6,1x
Rebate	-40%	-40%	-40%
Applied EV/Sales-multiple	3,7x	3,7x	3,7x
CSQ assumed revenue. 2025E	71	143	214
Implied EV	263	527	790
PV(Implied EV)	155	310	464
Debt	-9	-9	-9
Cash	11	11	11
Equity value	156	311	466
Shares outstanding incl. future financing	30,9	30,9	30,9
Fair value per share (DKK)	5,1	10,1	15,1

Source: Company information and Carlsquare estimates

The table above shows that the median EV/Sales multiple for the reference group on the last twelve months sales is 6.1x (6.9). After applying the 40 per cent discount, the EV/Sales multiple used is 3.7x (4.2). In our base case, DanCann generates risk-adjusted revenues in 2025 of DKK 141 million (138). That gives an implied enterprise value (EV) of DKK 527 million (575).

Furthermore, we have discounted this number to present value using a discount rate of 13.7 per cent. That results in an EV of DKK 310m (327). We have added the assumed net cash/net debt at year-end 2021 of DKK -9 million. By dividing the total number of shares assumed to exist after the exercise of the new warrants and additional new issues, a value per share of DKK 10.1 (10.5) is calculated in our base case scenario.

In a more optimistic scenario, we have assumed risk-adjusted revenues of DKK 207m in 2025. That gives a value per share of DKK 15.9 in the Bull scenario. In a more conservative scenario, we have assumed risk-adjusted revenues of DKK 69m in 2025. That gives a value per share of DKK 5.2 in the Bear scenario.

Risk-adjusted DCF-valuation

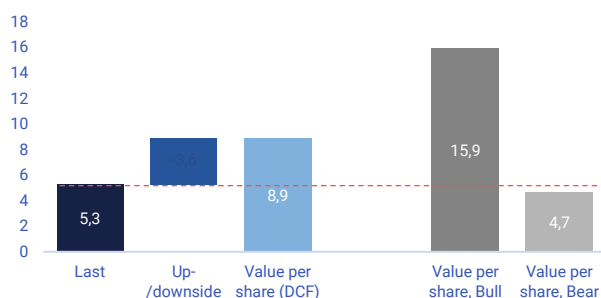
We have used the same discount rate of 13.9 per cent in our DCF model as in the multi-pillar valuation. At the end of the projected period 2030, we have assumed that the number of shares outstanding is 30.9 million (the number outstanding at the end of Q3 was 22.4 million).

By discounting future assumed and risk-adjusted cash flows, we calculate a value per share of DKK 7.2 (6.4) in our base case scenario, which is an increase since our last update.

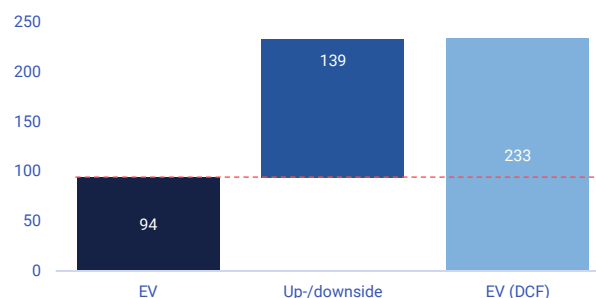
DCF-valuation

		Disc. rate projected period	Assumptions	
PV(UFCF)	35,9	Rf. projected period	0.4%	CAGR. 2021-2030 77,5%
PV(TV)	197	Market risk premium	7.7%	EBITDA-margin. 2030 25,9%
Enterprise value (EV)	233	Size premium	4.6%	EBIT-margin. 2030 25,8%
Net cash	1	Beta	1.1x	Tax rate 22,0%
Total equity value	234	Return on equity	13.9%	G perpet. 3,0%
Total equity value (Ink cash from financing)	276			Disc.rate TV 13,9%
Current shares	20,7	Tax adj. interest rate	5.5%	
New shares	10,2	D/(D+E)	0.0%	Implied multiples
Assumed shares outstanding. 2030	31,0			EV/Sales 2022E 12,4x
		WACC	13.9%	EV/Sales 2025E 1,6x
Value per share before dilution	11,3	Comp. specific premium	0.0%	EV/EBITDA 2022E neg.
Value per share after dilution	8,9	Disc. rate	13.9%	EV/EBITDA 20225E 12,0x

Source: Company information and Carlsquare estimates

Visualisation fair value per share. Base scenario (SEK)


Source: Carlsquare estimates

Visualisation market value. Base scenario (MSEK)


Source: Carlsquare Estimates

Our DCF model gives an EV/Sales multiple on assumed and risk-adjusted sales in 2022 of 12.1x and 2025 of 1.6x. The implied EV/EBITDA multiple for forecast and risk-adjusted EBITDA in the same year is 12.3x. See table below.

DCF: Implied multiples. base case

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EV/Sales	NaN	119,1x	12,4x	5,5x	3,2x	1,6x	1,1x	0,9x	0,8x	0,7x	0,7x
EV/EBITDA	neg.	neg.	neg.	neg.	neg.	12,0x	5,6x	3,7x	3,1x	2,8x	2,6x
P/E	neg.	neg.	neg.	neg.	neg.	22,0x	8,6x	5,4x	4,5x	4,0x	3,7x

Source: Company information and Carlsquare estimates

In a more optimistic scenario, we have revised the risk-adjusted sales curve upwards throughout the forecast period to obtain an average annual growth rate in the years 2022-2030 of around 94 percent (in the base case around 81%). We have also adjusted the risk-adjusted margin curve upwards over the entire projected period to obtain an EBIT margin of 22.8 percent in 2030 (base case 20.8%). In this scenario, a value per share of DKK 13.8 is calculated.

In a more conservative scenario, we have revised the risk-adjusted sales curve downwards throughout the forecast period to obtain an average annual growth rate in 2022-2030 of around 71 percent (in the base case, around 81 percent). We have also adjusted the risk-adjusted margin curve downwards throughout the period under consideration to obtain an EBIT margin of 18.8 per cent in 2030 (in the base case 20.3 per cent). In this scenario, the value per share is estimated at DKK 3.3.

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

	23,8%	25,8%	27,8%
90,0%	13,6	14,7	15,9
77,5%	8,2	8,9	9,6
65,0%	4,7	5,1	5,5

Source: Carlsquare estimates

Risks and challenges

Regulatory and political risks

Even if cultivation is made legal permanently. DanCann's other business models are still dependent on the Danish pilot programme, which is time-limited and will need to be extended.

The current regulatory environment is largely currently developing in a favourable direction for DanCann. However, it could quickly swing the other way. The regulatory risk is greater for DanCann than for many other companies involved in traditional drug development.

In this context, regulation also includes compensation. The market may not develop as favourably as expected if medical cannabis products are not included to a greater extent in the various reimbursement schemes.

Another aspect is that the medical cannabis industry is controversial. There is a risk that medical cannabis could be associated with the general cannabis industry, which could lead to negative consequences.

Funding risk and other risk

Although the Company has now raised more than DKK 16.3 million, the need to raise more funds will likely arise at a later date. Partly to repay loans, but also finance further growth initiatives.

The Company has a short financial history. That applies to sales but also costs. That increases the uncertainty in our assumptions.

The Company depends on retaining and attracting key staff. The market for medical cannabis products is relatively new, which means that staff with valuable experience are scarce.

As the market matures favourably, competition is likely to increase. That may cause downward pressure on margins, particularly on cannabis materials and APIs sales. Concerning the latter, DanCann intends to focus on rare and new APIs.

Analysts expect strong growth as new products enter the market and the clinical evidence base grows. However, future market growth is uncertain and possibly not 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	2	18	42	73	143	203	262	298	322	342
Other revenues	0	0	0	0	0	0	0	0	0	0	0
Total revenues	0	2	18	42	73	143	203	262	298	322	342
COGS	0	-1	-9	-24	-44	-87	-125	-161	-185	-200	-213
Other external expenses	-5	-8	-15	-21	-26	-28	-28	-29	-30	-30	-31
Staff expenses	-1	-4	-6	-8	-9	-10	-10	-11	-12	-12	-12
D&A	0	-1	-2	-3	-3	-4	-3	-2	-1	-1	0
Other operating expenses	0	0	0	0	0	0	0	0	0	0	0
Total operational costs	-6	-14	-33	-56	-82	-129	-167	-203	-228	-243	-256
EBIT	-6	-12	-14	-14	-8	14	37	59	71	79	86
EBITDA	-6	-11	-12	-11	-5	18	40	61	72	80	86
Financial income	0	0	0	0	0	0	0	0	0	0	0
Financial expenses	0	-1	0	0	0	-1	-1	-1	-1	-1	-1
Net finances	0	0	0	0	0	-1	-1	-1	-1	-1	-1
EBT	-6	-13	-14	-14	-8	14	36	58	70	78	85
Tax	1	2	0	0	0	-3	-8	-13	-15	-17	-19
Net income	-5	-11	-14	-14	-8	11	28	45	55	61	66
Earnings per share	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Average no. shares	10.4	22.7	26.4	29.1	30.5	30.9	30.9	30.9	30.9	30.9	30.9
EPS	-0.48	-0.49	-0.54	-0.47	-0.27	0.34	0.91	1.46	1.77	1.98	2.15
Growth	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net sales	NaN	NaN	1056.3%	128.5%	74.0%	94.3%	42.4%	28.9%	13.9%	7.9%	6.3%
Total revenues	NaN	NaN	1056.3%	128.5%	74.0%	94.3%	42.4%	28.9%	13.9%	7.9%	6.3%
EBIT	-836.2%	-111.5%	-14.9%	4.2%	38.9%	270.5%	157.3%	60.2%	20.8%	11.4%	8.7%
EBITDA	-833.1%	-93.3%	-7.6%	10.0%	54.7%	469.4%	119.1%	52.9%	19.2%	10.4%	8.1%
EBT	-836.8%	-115.3%	-10.5%	4.2%	39.0%	262.2%	165.7%	61.5%	21.1%	11.5%	8.8%
Net income	-848.2%	-133.9%	-28.5%	4.2%	39.0%	226.5%	165.7%	61.5%	21.1%	11.5%	8.8%
Margins	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Gross margin	NaN	49.9%	48.6%	42.9%	40.2%	38.8%	38.5%	38.4%	38.0%	37.8%	37.7%
EBITDA-margin	NaN	Neg.	Neg.	Neg.	Neg.	12.7%	19.5%	23.1%	24.2%	24.8%	25.2%
EBIT-margin	NaN	Neg.	Neg.	Neg.	Neg.	10.0%	18.0%	22.4%	23.8%	24.5%	25.1%
EBT-margin	NaN	Neg.	Neg.	Neg.	Neg.	9.5%	17.7%	22.1%	23.5%	24.3%	24.9%
Net income margin	NaN	Neg.	Neg.	Neg.	Neg.	7.4%	13.8%	17.2%	18.3%	19.0%	19.4%

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	38	51	55	57	57	58	56	55	54	54
Cash and Cash eq.	21	11	1	0	2	5	13	40	86	139	199
Total current assets	30	21	32	49	67	97	126	178	234	297	366
Total assets	50	59	82	104	124	154	184	234	288	351	420
Total equity	44	41	65	87	96	107	135	180	235	296	362
Provisions for deferred tax	1	2	2	2	2	2	2	2	2	2	2
Total non-current liabilities	0	9	0	0	0	15	15	15	15	15	15
Total current liabilities	4	7	16	15	26	30	32	37	37	38	41
Total liabilities	4	16	16	15	26	45	47	52	52	54	56
Total equity and liabilities	50	59	82	104	124	154	184	234	288	351	420
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Current ratio	7.7	3.0	2.0	3.3	2.6	3.2	3.9	4.8	6.4	7.7	9.0
Cash ratio	5.5	1.6	0.1	0.0	0.1	0.2	0.4	1.1	2.3	3.6	4.9
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net debt(-)/Net cash(+)	21.3	1.6	1.1	0.3	2.1	-10.1	-2.1	25.3	70.5	124.5	184.0
Net debt/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	-93%	-44%	n.m.	n.m.	n.m.	n.m.
Net debt/Equity	n.m.	n.m.	n.m.	n.m.	n.m.	9%	2%	n.m.	n.m.	n.m.	n.m.
Dent/Equity	9%	40%	24%	17%	27%	42%	35%	29%	22%	18%	15%
Assets/Equity	89%	69%	79%	84%	78%	70%	73%	77%	81%	84%	86%
	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
ROA	-18.6%	-20.5%	-20.2%	-14.6%	-7.3%	7.6%	16.6%	21.7%	21.0%	19.1%	17.2%
ROE	-21.7%	-26.1%	-27.0%	-17.9%	-9.1%	10.4%	23.1%	28.7%	26.4%	23.0%	20.2%
ROIC	-80.0%	-65.9%	-37.1%	-21.0%	-9.6%	12.6%	25.8%	34.8%	37.7%	39.7%	40.9%

Source: Company information and Carlsquare estimates

Cash Flow (DKKm)

	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
CF. operating activity	-8	-10	-24	-30	-10	-8	12	27	45	54	60
CF. investment activity	-19	-17	-15	-7	-5	-4	-4	0	0	0	0
CF. financing activity	48	16	29	36	17	15	0	0	0	0	0
Change in cash and cash eq.	21	-10	-10	-1	2	3	8	27	45	54	60
Cash and cash eq.. BoP	0	21	11	1	0	2	5	13	40	86	139
Cash and cash eq.. EoP	21	11	1	0	2	5	13	40	86	139	199
	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.	5.9%	10.5%	15.1%	16.8%	17.4%
CF operating/assets	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	6.5%	11.8%	15.7%	15.4%	14.2%

Source: Company information and Carlsquare estimates

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