

Genetic Analysis

Mangold Insight – Commissioned research – Update – 2023-06-02

Diagnostic company on growth

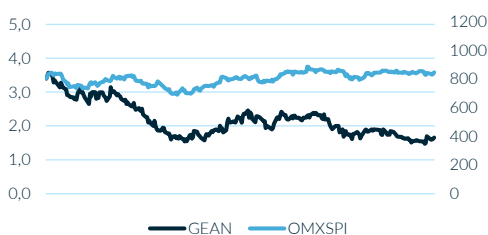
Genetic Analysis, a microbiome diagnostic company, increased its total revenue to NOK 6,4 million in the first quarter. An increase of 32 percent compared to the same period last year. Sales, which include reagent kit and its GA platform, increased by 64 percent to NOK 4.1 million. Research grants amounted to NOK 2.3 million. The quarter sees as strong even if it did not live up to our estimates.

Positive trend in the microbiome market

The positive trend for the microbiome market continues. Another microbiome altering drug has been approved by the FDA, which suggests that the demand for microbiome diagnostic tests will increase. Mangold estimates that Genetic Analysis is well positioned to capture an expected increased demand from labs and pharmaceutical companies. The company's sales are increasing as more labs are installing the GA-map platform. For 2023, Mangold expects sales to increase by 86 percent to NOK 21 million. The company is expected to become EBIT positive by the end of 2024. In order to maintain a high pace of sales and product development Mangold believes that the company may need a capital injection.

Estimates adjusted

Mangold has chosen to fine-tune the forecasts, which gives a fair value of the company amounting to NOK 4.47 per share. The target price is set at NOK 4.00 per share. The upside of the share is significant and for it to be materialized, it requires continued high growth and clear signs that profitability can be achieved.



Price Performance %	1m	3m	12m
Genetic Analysis	3,6	-13,0	-47,0
OMXSPI	-1,4	-0,2	2,4

Information

Target Price (NOK)	4,00
Risk	High
Price (NOK)	1,7
Market value (MNOK)	43
No. of shares (million)	24,9
Free float	73,0%
Ticker	GEAN
Next earnings report	2023-08-30
Website	genetic-analysis.com
Analyst	Jan Glevén

Ownership structure	Shares	Capital
Avanza Bank	6.8	27.2%
Bio-Rad Inc	5.3	21.3%
Nordnet	1.4	5.8%
Biohit Oyi	1.4	5.7%
Molver AS	0.6	2.6%
LJM AS	0.6	2.2%
Muen Invest AS	0.5	2.0%
S. Munkhaugen AS	0.5	1.9%
Jama Holding AS	0.4	1.7%
Bjelland Capital I AS	0.4	1.7%
Total	24.9	100.0%

Key Ratios (MNOK)	2021	2022	2023E	2024E	2025E
Revenue (Incl Grants)	13.4	20.7	30.5	43.1	49.7
EBIT	-28.9	-28.2	-17.6	-4.1	1.7
Profit b. tax	-29.0	-28.3	-17.8	-3.1	1.1
EPS, adj	-1.16	-1.13	-0.71	-0.12	0.05
EV/S	13.7	8.4	4.5	2.8	1.9
EV/EBITDA	-3.2	-3.3	-5.3	-22.6	54.1
P/E	neg	neg	neg	neg	nm

Genetic Analysis - Investment Case

Improved stomach health with new test

Mangold repeats Buy for Genetic Analysis and the price target of NOK 4.00 (NOK 4.50).

*Buy the stock - target price
NOK 4.00*

Test to become standard

The company's product GA-map is intended to be used in-vitro diagnostics for examination of samples from the human body to obtain information about treatment effects or disease conditions in the intestinal flora. There is significant market potential linked to diseases such as IBS and IBD. In the United States and Europe, about 73 million people suffer from IBS and about 6 million from chronic IBD. The company also sees opportunities in other disease indications with great need of cost-effective and reliable diagnostics.

Microbiome diagnostic company

A new market takes shape

The market for microbiome testing is characterized by non-standardized research-based tests. There is a clear incentive for taking microbiome testing from the research area to clinical routine use. The market was estimated at around \$600 million in 2021 according to Data Bridge Market Research. Growth (CAGR) is expected to reach 23 per cent. The value of the microbial market is expected to increase to \$3.1 billion in 2029.

Growing market

Platform strategy

Genetic Analysis has a platform strategy with recurrent revenues from the sale of reagent kits to laboratories. Mangold estimates that the company can grow by an average of 53 percent per year during the period 2021 to 2027. By the end of the forecast period, the company is expected to be able to reach an EBIT margin close to 30 percent. Sales should reach NOK 90 million by 2027 according to our Basecase.

Recurring Revenue

Growth of 53% CAGR 2021-2027

To grow in the US and Europe

Triggers consists of sales taking off in the North American and European markets. Larger labs are prioritized. Genetic Analysis is in an early stage in their sales cycle and there is still a lot of uncertainty about how its product will be received on the market. Reason for a success is that interest from the United States Life Science community is high and that the number of clinical studies in microbiome has risen sharply. If the company's products get high demand and succeed in reaching the clinical market after positive opinions from the FDA, we see the company as a takeover candidate.

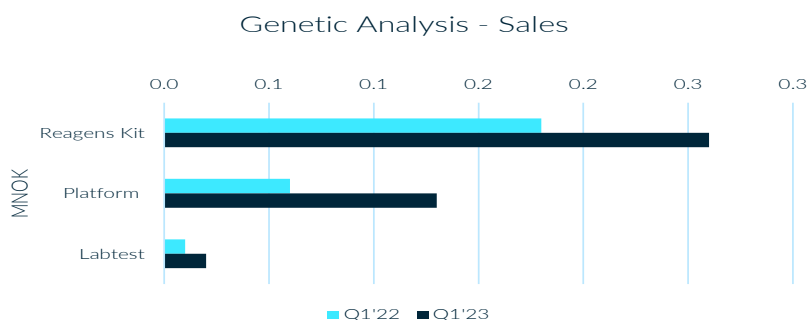
More drugs in the microbiome market provide support

Genetic Analysis - Update Q1

High growth in expanded market

Sales increased by 64 per cent to NOK 4,1 million (NOK continued in the analysis) in the first quarter. The distribution of its sales consists of the GA platform, reagent kits and lab tests.

Growth of 64%



The quarter may be seen as strong even if it did not live up to our estimates. EBIT amounted to NOK -7.3 million, which was lower than the same period last year but higher than our estimates. The company's operating expenses amounted to NOK 13.6 million, which was slightly higher than the previous quarter (-13.4). Costs for the IBD project and R&D amounted to NOK 4.3 million. There has been no capitalization of development costs during Q1, which has affected the development costs. The company has capitalized development costs of NOK 20 million, none of which were capitalized in 2023.

No capitalization of expenditures affected profit and loss

GENETIC ANALYSIS - Q1 ESTIMATES VS ACTUAL

MNOK	Q1'22	Q1'23P	Q1'23A	Diff%
Sales	2,5	4,5	4,1	-9%
Growth	156%	80%	64%	
Grants	2,3	2,5	2,3	-10%
Total revenue	4,8	7,0	6,4	-9%
EBIT	-7,7	-5,0	-7,3	

Source: GA

More Opportunities

Genetic Analysis revenue is gradually increasing as more GA-map platforms are installed in the lab. GA-map is now available in some 20 labs. A business opportunity is to convert covid-19 equipped labs, which are now losing revenue, to be equipped with the GA-map platform. The investment barrier is considered to be low as these labs already are equipped for this type of diagnostics.

Covid labs represent target

Genetic Analysis is also aiming to approach the pharmaceutical companies. With more drugs on the market within the microbiome market, demand for standardized diagnostic tests are expected to increase.

Genetic Analysis - Update Q1

New product launched for research

Genetic Analysis launches a new product mid 2023 intended for research, named GA-map Discovery. Mangold expects the product to be seen as a supplement for diagnostic research within the microbiome field, and a product that pharmaceutical companies can use in their development and clinical trials. The product can detect over 200 biomarkers that can be linked with various gastrointestinal and metabolic diseases.

GA-map Discovery opens for new opportunities

Developing a cloud solution for GA-map has also been an important step forward. The GA-map Analyser increases availability for customers where the software can be updated and lab staff trained.

FDA-approved microbiome altering drugs

Genetic Analysis benefits from more drugs being approved by the FDA. It places greater need for better and more standardized diagnostics. In April 2023, Seres Therapeutics drug SER-109 (named Vowst) was approved for the treatment of recurrent infections with C difficile. It is the first oral drug on the market in this field. Nestlé Health Science has a contract with Seres Therapeutics for marketing rights of Vowst. The treatment cost is expected to be \$17,500.

Seres launches new drug in the microbiome market

C difficile is a major problem because antibiotic treatments have not been shown to be effective. Rebiotix has previously taken Rebyota to the market for the treatment of recurrent C difficile in the United States.

MANGOLD - MICROBIOM-BASED DRUGS

Companies	Project	Indication	Phase
Rebiotix	RBX2660/Rebyota	C Difficile	Launched
Seres Therapeutics	SER-109/Vowst	C Difficile	Approved
Mikrobiomik	MBK-01	C Difficile	Phase 3
Vedanta Biosciences	VE303	C Difficile	Phase 3
Destiny Pharma	NTCDD-M3	C Difficile	Phase 3
Ferring Pharma	RBX7455	C Difficile	Phase 3
Acurx Pharma	Ibezapolstat	C Difficile	Phase 2
Adiso Therapeutics	ADS 024	C Difficile	Phase 2
My Biotics	MBX	C Difficile	Phase 1

Source: Clinical Trials Gov

Studies are also being conducted in other indications, but where nothing has yet been approved. Drugs for C Difficile are seen as a first step for microbiome drugs. Companies such as MaaT Pharma, AOBiome Therapeutics, Microbiomics and Microbiotica have candidates in the clinical phase for other indications.

C Difficile a first step

Genetic Analysis - Estimates

Continued high growth

For Genetic Analysis, we expect the high growth rate to continue for the rest of the year. The company has added more distributors in Europe and has contracts in both China and Thailand that can bear fruit in the long term. The company has most of its sales in the United States, the biggest market. Approaching the pharmaceutical industry and growing with more labs can take Genetic Analysis to the next level. Our sales estimates are shown in the table below:

Growth of 86% is expected in 2023

MANGOLD INSIGHT - 2023 QUARTERLY ESTIMATES				
MNOK	Q1	Q2E	Q3E	Q4E
Net Sales	4,1	5,5	4,8	6,2
Growth	64%	85%	120%	80%
Grants	2,3	2,5	2,5	2,5
Total Sales	6,4	8,0	7,3	8,7

For 2023, Mangold expects sales to increase to NOK 21 million. Growth of 86 percent. The company is expected to be profitable at EBIT level by the end of 2024. In 2025, the company is expected to be profitable, but a decrease in the share of grants has a negative impact on EBIT. The company's operating costs are expected to decrease in 2023 compared to 2022 because of efficiency measures. Forecasts for the following years up to 2027 are set out in the table below:

EBIT profitable at end of 2024

GENETIC ANALYSIS - YEARLY ESTIMATES						
MNOK	2022	2023E	2024E	2025E	2026E	2027E
Net Sales	11	21	33	50	67	87
Growth	64%	86%	60%	50%	35%	30%
Grants	10	10	10	0	0	0
Total Sales	21	30	43	50	67	87
EBIT	-28	-18	-4	2	14	26
Marginal %				3%	22%	30%

Källa: Mangold Insight

Needs capital

Mangold considers that the company needs a capital injection. Genetic Analysis had over NOK 17 million cash at the end of the first quarter and a negative cash flow of around 7 million. The alternative is to slow down the pace of development and the pace of sales-enhancing activities, which would slow down the path to profitability. A capital raise is needed to keep up the pace of further research and development and sales. This is foreseen and as previously been mentioned in the prospectus in connection with the IPO and mentioned in the the annual report.

Mangold estimates that Genetic Analysis will conduct some form of capital raise in 2023

xxx - Investment case

Genetic Analysis - Valuation

DCF-valuation

Mangold value Genetic Analysis using a DCF-model. A riskadjusted discount rate of 12 per cent has been used which is in line with the recommendations of the 2022 Risk Premium Study by PwC. Mangold has opted for a 4.3 per cent risk premium supplement and a 7.8 per cent discount rate. Norwegian tax rates have been used. Based on these assumptions Mangold gets a fair value of NOK 4.50. Mangold chooses to set the target price at NOK 4.00 (previously NOK 4.50 per share). This results in an upside of just over 130 percent. As the company reaches more markets and increases sales, the value of the company is expected to approach our Basecase.

Target price NOK 4.00 per share

GENETIC ANALYSIS - DCF

(TNOK)	2023E	2024E	2025E	2026E	2027E
EBIT	-17 638	-4 144	1 728	14 496	25 766
Free Cash Flow	-16 332	-2 343	27	8 335	15 155
Terminal Value					151 547

Assumptions	Disc.rate	Growth	Tax
	12%	2%	28%

Equity Value	111 424
Fair Value/share	4,47

Source: Mangold Insight

Sensitivity analysis

Mangold has chosen to carry out a sensitivity analysis in which revenue increased by 10 per cent in a Bull case and decreased by 10 per cent in a Bear case. These scenarios have then been compared with different yield requirements ranging from 11 to 13 per cent. With 10 per cent higher growth and lower yield requirements, a fair value of the share can amount to NOK 5.95 per share.

Lower yield requirements result in higher fair value

MANGOLD - SENSITIVITY ANALYSIS

Disc rate %	Bear	Base	Bull
11%	4,20	5,08	5,95
12%	3,71	4,47	5,24
13%	3,30	3,98	4,66

Source: Mangold Insight

Genetic Analysis - Peers valuation

Diagnostic Peers

The following table shows comparable peers in Life Science and Diagnostics. The table is organized by market capitalization in local currency. For Genetic Analysis, the P/S ratio is 3.6x for 2022 and is expected to fall to 2.0x in 2023 on our estimates. The table has no bearing on our valuation of the company. It should be seen as an overview of how similar companies are valued.

GA traded at P/S 2,0x on estimates for 2023

MANGOLD - PEERS

Company	Exchange	Activities	MC (M)*	Sales 2022 (M)*	P/S 2022
Gentian Diagnostics	Oslo Börs	IVD	709	101	7,0
Viro Gates	First North Köpenhamn	suPAR (measures protein in blood)	70	10	6,8
Alphahelix	Spotlight Stock Market	PCR/qPCR (viruses och bacteria)	0	34	0,0
Snitt					4,6
Genetic Analysis	Spotlight Stock Market Norge	Tester human microbiome	40	11	3,6

*Local Currency, MNOK, MDKK, MSEK

Summary

Genetic Analysis aims to become standard for microbiome diagnostics. It is the first company to have developed a CE-marked In Vitro diagnostic test for patients with IBS and IBD. As more drugs are launched in the microbiome market, the need for standardized diagnostic tests will increase. Genetic Analysis also benefits from the new IVDR-regulation which sets higher requirements for in vitro diagnostic medical devices.

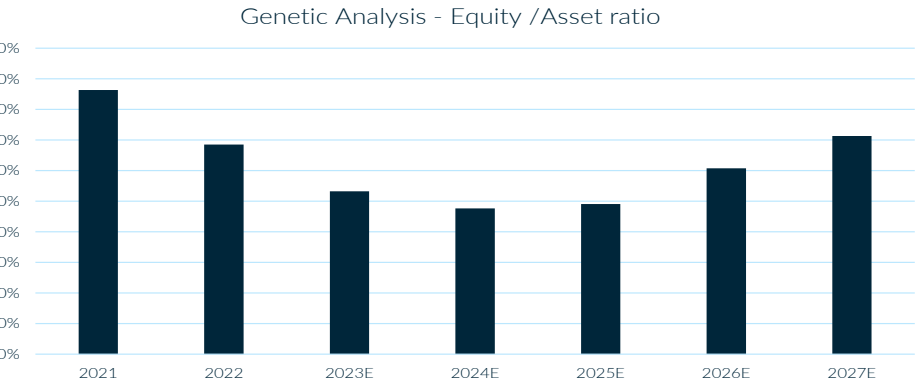
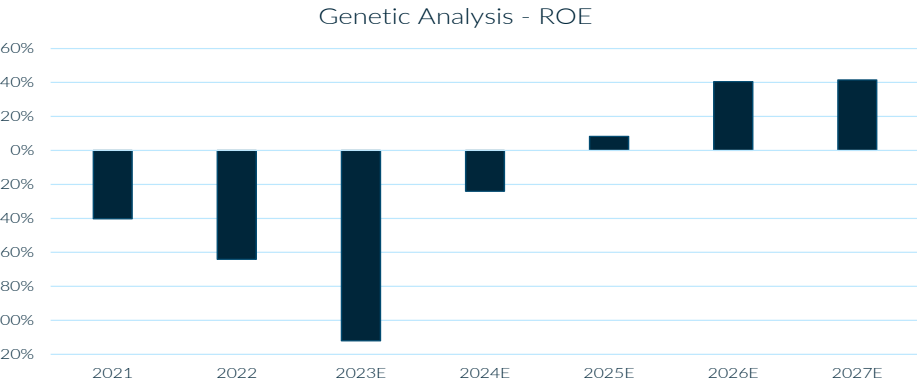
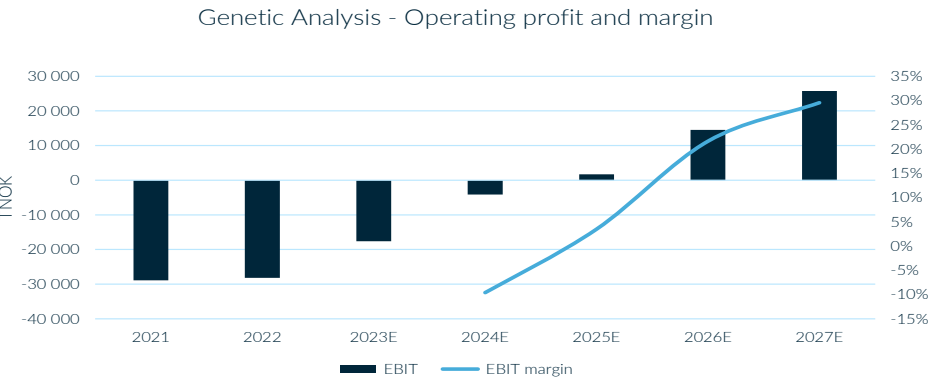
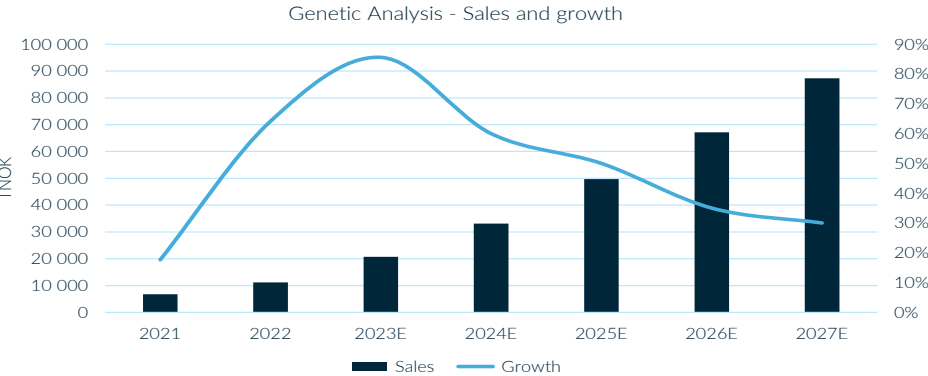
Increased need for standardized tests

Benefit from IVDR

Genetic Analysis – SWOT



Genetic Analysis – Appendix



Genetic Analysis – Profit and loss

Income Statement (TNOK)	2021	2022	2023E	2024E	2025E	2026E	2027E
Total Revenues	13 379	20 747	30 468	43 149	49 724	67 128	87 266
Gross profit	12 098	16 840	26 325	38 177	42 266	55 716	69 813
Personnel costs	-22 835	-25 196	-26 341	-27 487	-27 487	-28 632	-30 922
Other operating expenses	-13 602	-14 994	-12 745	-10 833	-9 750	-9 847	-10 832
Depreciation	-4 531	-4 834	-4 876	-4 001	-3 301	-2 741	-2 292
Operating result	-28 870	-28 184	-17 638	-4 144	1 728	14 496	25 766
Operating margin	0%	0%	0%	-10%	3%	22%	30%
Net interest income	135	90	132	132	132	1 324	2 649
Profit after net fin. items	-29 005	-28 274	-17 770	-4 276	1 596	13 172	23 117
Taxes	0	0	0	0	1 197	-447	-3 688
Net profit	-29 005	-28 274	-17 770	-3 079	1 149	9 484	16 644

Källa: Mangold Insight

Balance sheet	2021	2022	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and bank	46 810	25 323	3 648	937	595	7 703	20 678
Trade receivables	8 419	8 359	5 109	8 174	12 261	16 552	21 518
Inventory	2 367	1 755	1 022	1 226	1 839	2 814	4 304
Fixed assets	25 894	28 987	20 004	16 503	13 703	11 462	9 670
Total assets	83 490	64 425	29 783	26 840	28 398	38 532	56 169
Liabilities							
Account Payables	9 968	12 946	681	817	1 226	1 876	2 869
Liabilities	1 432	7 338	13 244	13 244	13 244	13 244	13 244
Total liabilities	11 400	20 284	13 925	14 061	14 470	15 120	16 113
Equity							
Restricted equity	99 871	72 090	72 090	72 090	72 090	72 090	72 090
Unrestricted equity	-27 781	-27 950	-56 232	-59 311	-58 162	-48 678	-32 034
Total equity	72 090	44 141	15 858	12 779	13 928	23 412	40 056
Liabilities and Equity	83 490	64 425	29 783	26 840	28 398	38 532	56 169

Källa: Mangold Insight

Disclaimer

Mangold Fondkommission AB ('Mangold' or 'Mangold Insight') offers financial solutions to companies and private individuals with potential, delivered in a personalised manner with a high level of service and availability. The company currently operates in two segments: i) Investment Banking and ii) Private Banking. Mangold comes under the supervision of Finansinspektionen (FI), Sweden's financial supervisory authority, and conducts business with transferable securities, in accordance with the Securities Market Act (2007:528). Mangold is a member of NASDAQ Stockholm, Spotlight Stock Market and Nordic Growth Market, and a derivative member on NASDAQ Stockholm. This publication has been compiled by Mangold Insight for information purposes and should not be viewed as advice. Mangold Insight only publishes commissioned research based on and/or containing publicly disclosed information. If undisclosed, price sensitive information is shared with Mangold, publishing of the commissioned research will be halted until the information has been publicly disclosed. The content is based on information from publicly accessible sources that have been deemed reliable. The accuracy and totality of the subject content, as well as any estimates and recommendations provided, can thereby not be guaranteed. Mangold Insight does not provide any advance conclusions and/or judgements in the publication. Any opinions provided in the publication are those of the analyst at the time of its preparation, and these may change. No assurance is given that future events will be in accordance with opinions conveyed in the publication. Mangold disclaims all liability for direct or indirect damage that may be attributed to this publication. Investments in financial instruments are associated with financial risk. The historical performance of an investment is no guarantee for the future. Mangold thereby disclaims all liability for any loss or damage of any kind attributable to the use of this publication. This publication may not be reproduced for any purpose other than personal use. The document may not be distributed to physical or legal entities who are citizens of or resident in a country where such distribution is prohibited under applicable laws or other provisions. Mangold's written consent is required in order to distribute all or any part of this publication. Mangold may carry out publications on behalf of, and against payment from, the company highlighted in the analysis, or an issuing institute in conjunction with M&A, new issues or IPOs. In relation to the execution of this publication, the reader may assume that Mangold receives remuneration from the company. A client/assignment relationship or consulting situation may also exist between the company and another department at Mangold. Mangold has guidelines for managing conflicts of interest, and restrictions on when trading may take place in financial instruments. Analysts at Mangold Insight are not allowed to own or trade any securities issued by a company they are responsible for analysing. The analysts are also not allowed to be members of the client's board of directors, or in any other capacity, be operational within the company.

Mangold last analysed Genetic Analysis 2023-02-24.

Mangold's analyst does not own shares in Genetic Analysis.

Mangold does not own shares in Genetic Analysis, such as for own stock.

Mangold does not own shares in Genetic Analysis through assignments, such as a liquidity guarantor.

Mangold has performed services for the company and has received remuneration from the company for these.

Mangold comes under the supervision of Finansinspektionen (FI), Sweden's financial supervisory authority.

Recommendation structure:

Mangold Insight grades its share recommendations over a 12-month period, according to the following structure:

Buy – An upside in the share of at least 20%

Increase – An upside in the share of 10–20%

Neutral – An upside and downside in the share of 0–10%

Decrease – A downside in the share of 10–20%

Sell – A downside in the share of at least 20%