

Sponsored Research

Genetic Analysis: A growing diagnostic company well-positioned to tackle the blooming microbiome market

Initiation of Coverage

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Investment Case

- Valuation range of NOK 2.5-8.0/sh
- What is Genetic Analysis (GA)?
 - Diagnostic company, a pioneer in the human microbiome field with more than 10 years of expertise in research and product development
- Investment case for GA:
 - First mover advantage
 - Unique product and scalable platform
 - Emerging market
 - Favourable health trends
 - Expansion in Western and Chinese markets
 - Ambitious plans and an attractive valuation

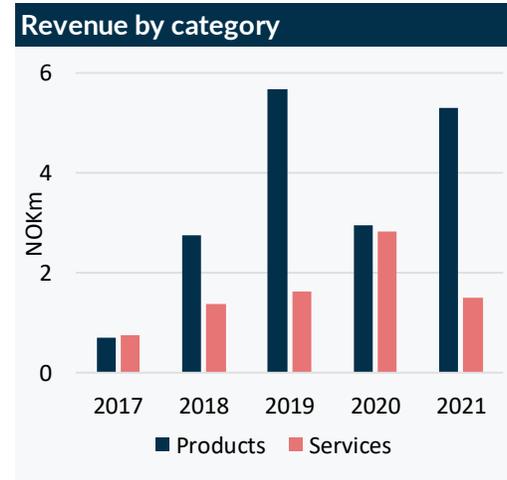


- Genetic Analysis has developed and launched a dysbiosis test on its unique GA-map® platform
 - The GA-map® Dysbiosis test currently identifies and characterizes dysbiosis for Inflammatory bowel disease (IBD) and Irritable bowel syndrome (IBS) patients and provides information about intestinal flora
 - The platform is validated and CE marked, the Dysbiosis test has been used in more than 70 clinical trials and is properly documented through over 30 scientific articles
- The GA-map® platform is continuing developments in predicting the severity of IBD development
 - This project has received a grant funding of NOK 16 million from the Research Council of Norway
 - GA is looking to expand diagnostics for disease areas such as obesity, Colorectal Cancer, Type 2 diabetes and liver diseases
 - Genetic Analysis has also developed a GA-map® COVID-19 fecal test
- Listed on the Spotlight stock market in Stockholm
 - Spotlight Stock market is a Multilateral Trading Facility, that acts as a growth market for small and medium-sized enterprises



Business Overview

- The Company's value chain consists of in-house development and manufacturing, sales of reagent kits and software to laboratories, and sales of services from GA's service laboratory in Oslo
 - Genetic Analysis has been considerably successful in receiving R&D grants from Norwegian government-associated agencies and EU research programs
- The company has launched GA-map® to the EU and US markets and currently has 4 distributors in Europe and 2 based in the US
 - The US is currently the biggest market for Genetic Analysis, but sales in Europe have started to increase
- Genetic Analysis has partnered with Thalys Medical Technology Group to develop and distribute diagnostic solutions for the rapidly growing human microbiota market in China



- **Companion diagnostics**
 - GA is preparing to partner with pharma companies as accurate diagnostic tools and procedures will be needed to accompany these products
- **Medical diagnostics**
 - Genetic Analysis believes that post-Covid there will be more concerns for health and immune system strengthening by focusing on their microbiota's well-being
- **Research diagnostics**
 - As many drugs and medicine impact the microbiome and treatment itself can be conditional on the microbiome state, demand for standardized gut microbiome testing is increasing
- **Consumer diagnostics**
 - As self-testing for health, ancestry and fitness gain in popularity, and interest in microbiome testing grows online, GA is exploring opportunities to partner up and offer their tests to the broader public

Research diagnostics partners:



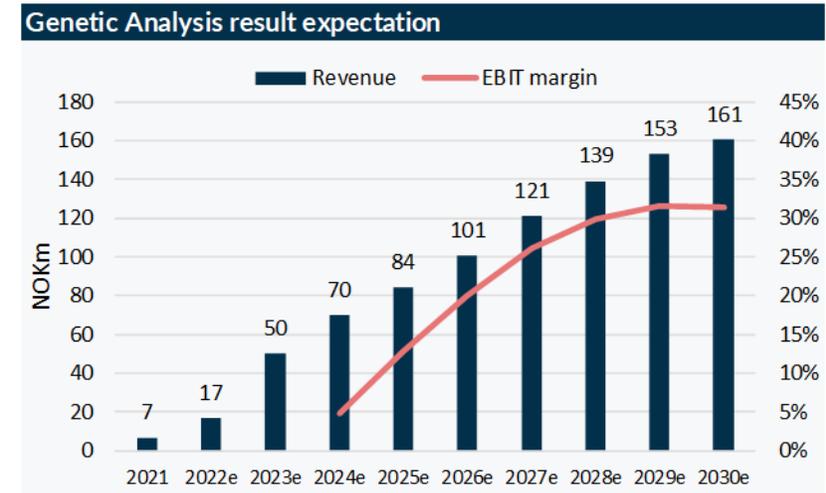
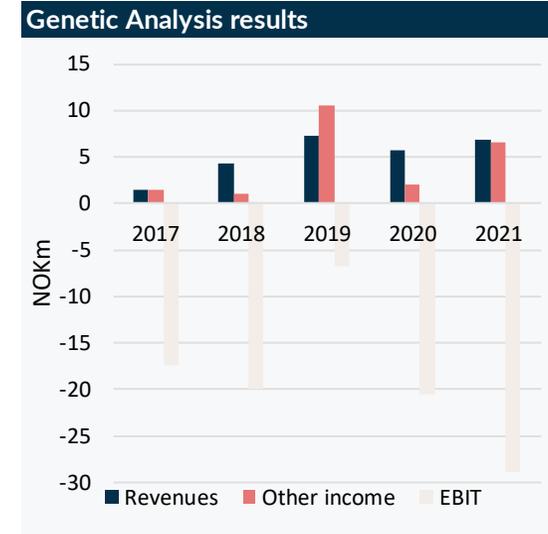
- In the past decade the human microbiome market has been increasingly gaining traction and recognition of importance, especially in the West
 - According to various market research, the human microbiome market is estimated to be around USD 600m as of 2021
 - Excluding the most conservative and aggressive estimates, we see the human microbiome market growing at an approximate compound annual growth rate (CAGR) of 20% until the year 2027
- From May 26th, 2022, the EU has entered into the In Vitro Diagnostics Regulation. This regulation should help Genetic Analysis in two ways:
 - The regulation will curb health institutions from using in-house devices. These rules will propel the use of CE-marked devices and platforms
 - A layer of security from threat of competitors for Genetic Analysis, as potential competitors will most likely have to go through a long regulatory process

Human microbiome market estimates

Research house	CAGR	Projection interval
Mordor Intelligence	15.0%	2021-2027
IMARC Group	18.0%	2021-2026
Research and Markets	22.2%	2021-2028
The Insight Partners	23.6%	2019-2027
Markets and Markets	31.1%	2023-2029

Financials

- The Company has financial targets of sales NOK 25-35m in 2022 and NOK 50-70m in 2023 and break-even at current costs and R&D levels in the year 2023
 - We cautiously expect that GA will bring in NOK 17m in sales for 2022 and NOK 50m in 2023 and reach positive EBIT from the start of 2024
 - We see mid-term revenue growth as CARG rounded consensus of 20%
 - Gross margin of around 70%, employee expenditures projected to grow at 6%, other operational costs at 3%
- 11m new shares issuance at a placement price of NOK 3/sh is expected, bringing in a total of NOK 33m
 - The share issue would dilute the current shareholding by about 44%



- We value Genetic Analysis share based on DCF at a fair value or around NOK 4.7/sh
- Scenario analysis
 - Bull case DCF valuation of around NOK 8/sh
 - NOK 25m revenue for 2022 and NOK 70m for 2023
 - Lower funding needs and lower dilution
 - Bear case DCF valuation of around NOK 2.5/sh
 - Reduced revenue growth rate of 15% for 2025-2027
 - Higher operational costs rising by 5%p from our base case

Genetic Analysis valuation

	Bear	Base	Bull
Valuation	2.5	4.7	8.2
Premium / Discount	-26%	35%	137%

DCF model

NOKm	2Q-4Q 2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	15	50	70	84	101	121	139	153	161
EBIT	-21	-8	3	11	20	32	41	48	51
Tax on EBIT	0	0	-1	-2	-4	-7	-9	-11	-11
NOPLAT (+)	-21	-8	3	8	16	25	32	38	39
Depreciation & amortization (+)	3	4	4	4	4	4	4	4	4
Capital expenditure (-)	-3	-4	-4	-4	-4	-4	-4	-4	-4
Change in working capital (- or +)	-3	-10	-4	-4	-6	0	0	2	3
Free Cash Flow to the Firm	-24	-18	-2	5	10	25	33	40	43
NPV of FCFF	-22	-15	-1	3	5	12	13	14	13

WACC calculation

Debt ratio	5.0%
Cost of debt (after tax)	5.0%
Risk free rate	3.0%
Beta	2.0
Market risk premium	6.0%
Cost of equity	15.0%
WACC	14.5%

Valuation, NOKm

Net debt	-38
Minority interest	0
NPV cash flow	
2Q-4Q 2022E - 2030E	22
2031E -	111
Total NPV cash flow	134
Equity value	172
Value per share, NOK	4.66

Assumptions

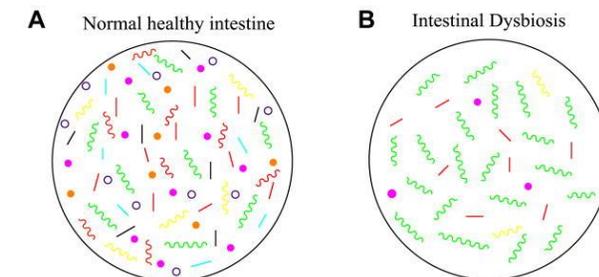
L.t. growth	2.5%
Tax rate	22%
# shares, m*	36.9
*Including PP of 12m shares @ NOK 3/sh in 2023	

Sensitivity analysis

NOK/share		L.t. growth rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	13%	5.3	5.5	5.7	5.9	6.1
	14%	4.7	4.8	5.0	5.1	5.3
	15%	4.4	4.5	4.7	4.8	5.0
	16%	3.7	3.8	3.9	4.0	4.1
	17%	3.4	3.4	3.5	3.6	3.7

Microbiome and dysbiosis

- The microbiome is defined as the collective genomes of the microbes that live inside and on the human body
 - The human gut is of importance, as it contains billions of bacterial cells and more than 1,000 different bacterial species
- The imbalance between different bacteria ratios, changes in their functional composition and metabolic activities, or changes in their local distribution is called “dysbiosis”
- **Dysbiosis - associated diseases**
 - Inflammatory bowel disease (IBD)
 - Irritable bowel syndrome (IBS)
 - Obesity
 - Colorectal Cancer (CRC)
 - Type 2 diabetes (T2D)
 - Liver diseases



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