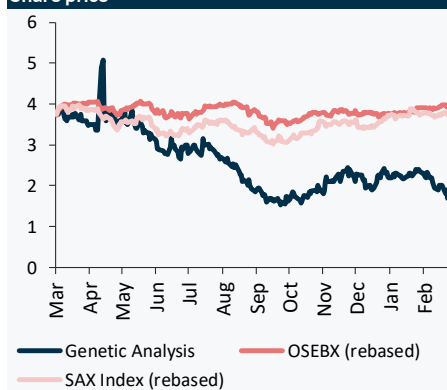


Genetic Analysis

Key share data

Sector	Healthcare Technology
Bloomberg	GEAN SS
Market Cap (NOKm)	43
Net debt (NOKm)	-18
EV (NOKm)	25
Net debt / equity	-41%
Issued shares (m)	24.9

Share price



Performance

	1m	3m	12m
GEAN	-25%	-21%	-1%
OSEBX	-1%	0%	2%
SAX	-3%	1%	-2%

Upcoming events

Annual report	April 20, 2023
AGM	March 11, 2023
1Q23 report	May 25, 2023

This report is paid for by the company covered in it

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Solid business development, but sales lag behind

Genetic Analysis (GA) reported its 4Q results on February 17th. Total revenue was close to our estimates, but EBIT and net earnings slightly missed our forecast. The company has announced several good operational, organisational and product developments in the quarter. However, due to lagging sales and looming financing needs in the short term, we estimate a fair value range for GA's shares at NOK 1.0-4.3/sh (previous NOK 1.5-5.5/sh).

Financial results slightly below estimates

4Q sales revenue arrived at an all-time high of NOK 3.5m, but still lower than our expected NOK 6m. However, the total revenue of NOK 5.7m was aided by NOK 2.6m received from research work and grants. This is an improvement in QoQ, but a dip compared to the period a year before. Overall, FY22 revenues grew by 55%. EBIT came in at NOK -7.8, below our estimates of NOK -6.4. This was in part caused by an increase in personnel costs and no capitalization of development costs in the year. In the quarter GA moved into new tailor-made offices in Oslo. The new leasing contract is in place until the end of 2028 and added NOK ~7m to PPE and lease liabilities.

4Q/22 results	4Q/21	3Q/22	4Q/22	4Q/22e	Deviation
NOKm			Reported	Norne	
Sales revenue	2.8	2.2	3.5	6.0	-42%
Other revenue	4.8	2.6	2.2	0.0	nm
EBIT	-7.1	-6.7	-7.8	-6.4	nm
EPS rep.	-0.28	-0.27	-0.31	-0.26	nm

Expansion into Asia going well

Most of GA's sales are currently in the U.S. and European markets, but GA is also swiftly expanding in Asia:

- [At the end of last year](#), GA became the first provider of CE-IVD marked standardized gut microbiome test in Thailand. This was achieved by partnering with a Bangkok-based medical technology company Hausen Bernstein Co. Ltd. Additionally, later this year, the GA-map® Dysbiosis Test has been [granted a licence from the Thailand Food and Drug Administration](#). This will allow GA's offering to reach public and clinical laboratories in Thailand from 1Q23.
- [In January](#), GA expanded into India by entering into a tech transfer agreement with Mumbai-based Microbiome Research Pvt. Ltd. (MRPL). MRPL will launch a test service portfolio based on the GA-map® Dysbiosis Test – making it the first CE-IVD marked standardized gut microbiome test on the Indian market. The commercial launch is expected in 2Q23.

Lower mid-term estimates and financing crunch in the near term

Even though the company is expanding decently into new geographies, and is showing [good progress in its organization](#) and product development, the company has been showing subpar sales and profitability results. Following this, we slightly reduce near-term revenue estimates. Additionally, the company has stated it will need to raise capital this year, for which we expect a private placement to ensue. Following this, we lower our Genetic Analysis share fair value range to NOK 1.0-4.3/sh (from NOK 1.5-5.5/sh).

Valuation

Genetic Analysis valuation			
	Bear	Base	Bull
Valuation	1.0	2.7	4.3
Premium (-) / Discount (+)	-51%	35%	115%

Due to the services being Paid Research, Norne Securities will, under current legislation, not provide a specific research recommendation with respect to GA's shares, but will provide a fair value estimate range, from conservative to optimistic, in accordance with market practice for such research.

For our base case estimates, we cautiously expect that GA will bring in NOK 30m in 2023, NOK 60m in 2024 and NOK 75m in 2025. We project the company to have positive EBIT from the second half of 2024. For revenue growth in 2026-2027, we see the overall microbiota market compound annual growth rate (CAGR) at 20% as a good projection. Afterwards, the growth is projected to slow down by 5%p each year, reaching 5% in 2030.

Genetic Analysis had an average gross margin of 75% for 2017-2021 and expects a stable gross margin of around 70%. Wages are the largest expense for Genetic Analysis, and we predict that expenses for the company's skilled workforce will grow by 6% per year. Other operational costs (excluding IPO costs) are projected to grow at 5% for the foreseeable periods. Additionally, in our modelling, an issue of 22m new shares at a placement price of NOK 1.60/sh is assumed, bringing in a total of NOK 35.2m in gross proceeds.

These estimates would return a fair value of NOK 2.7/sh. using a Discounted Cash Flow valuation with long-term growth of 2.5% and a weighted average cost of capital of 15.5%.

DCF model

NOKm	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	30	60	75	90	108	124	137	143
EBIT	-25	-4	5	13	24	34	40	42
Tax on EBIT	0	0	-1	-3	-5	-7	-9	-9
NOPLAT (+)	-25	-4	4	10	19	26	31	32
Depreciation & amortization (+)	5	5	5	5	5	5	5	5
Capital expenditure (-)	-4	-4	-4	-4	-4	-4	-4	-4
Change in working capital (- or +)	-10	-16	-2	-7	-8	-7	-6	-3
Free Cash Flow to the Firm	-33	-19	3	5	12	20	27	31
NPV of FCFF	-29	-14	2	3	6	9	10	10

WACC calculation	
Debt ratio	5.0%
Cost of debt (after tax)	5.0%
Risk free rate	4.0%
Beta	2.0
Market risk premium	6.0%
Cost of equity	16.1%
WACC	15.5%

Valuation, NOKm	
Net debt*	-53
Minority interest	0
NPV cash flow	
2023E - 2030E	-4
2031E -	77
Total NPV cash flow	73
Equity value	126
Value per share, NOK	2.70

Assumptions	
L.t. growth	2.5%
Tax rate	22%
# shares, m*	46.9
*Including PP of 22m shares @ NOK 1.6/sh in 2023	

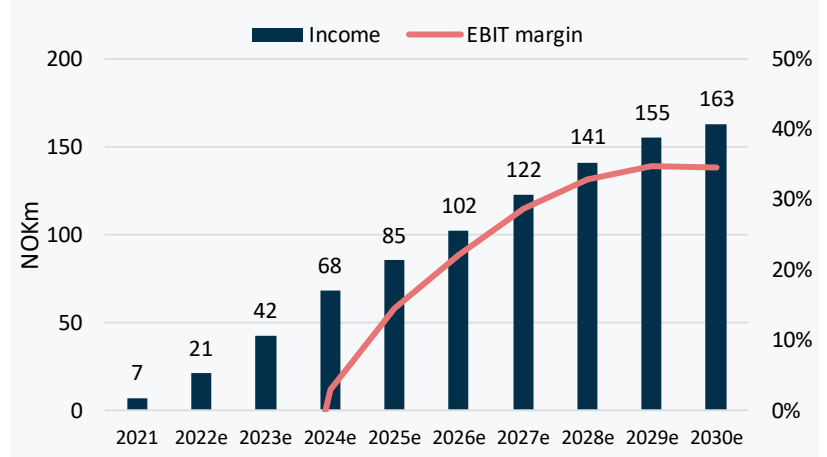
*Including NOK 35.2m from Private Placement

Sensitivity analysis		L.t. growth rate					
NOK/share		1.5%	2.0%	2.5%	3.0%	3.5%	
WACC	14%	3.0	3.1	3.2	3.3	3.4	
	15%	2.7	2.8	2.8	2.9	3.0	
	16%	2.6	2.6	2.7	2.8	2.8	
	17%	2.2	2.3	2.3	2.4	2.4	
	18%	2.1	2.1	2.1	2.2	2.2	

Scenarios

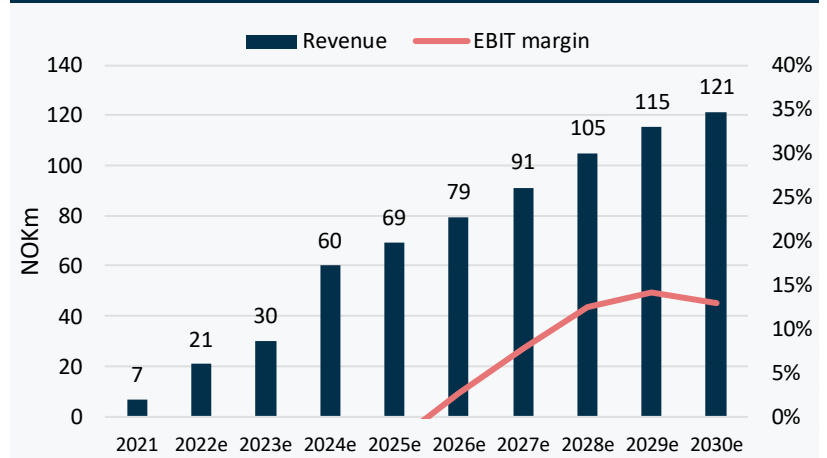
For our Bull case scenario valuation, we assume Genetic Analysis will manage to accelerate its sale development in the US, EU and Asian markets. With this progress, the company would be accelerating sales and growing revenues faster and we forecast NOK 42m for 2023, NOK 68m for 2024 and NOK 85m in 2025. Just like in the base case, in 2026-2027 we forecast revenue growth of 20%, afterwards, the growth is projected to slow down by 5%p each year, reaching 5% in 2030. Following upward revisions, GA would most likely need less funding in 2023, and the assumption of 22m new shares decreases to 16m. In this scenario, we obtain a fair value for Genetic Analysis shares of NOK 4.3/sh.

Genetic Analysis bull case estimates



Our Bear case scenario assumes that Genetic Analysis will not sustain a revenue growth that is forecasted as the CARG of the market and our base case scenario. For the years 2025-2028, we predict that turnover will be growing at a reduced rate of 15% per year, the lowest estimated CAGR from our collected microbiome market projections. Afterwards, the growth is projected to slow down by 5%p each year, reaching 5% in 2030. At the same time, we estimate higher operational costs, rising by 5%p from our base case to 10% yearly growth. With both revenue and cost amendments to our model, the valuation of the share price of Genetic Analysis is brought down to NOK 1.0/sh.

Genetic Analysis bear case estimates



Annual financial data, base case

Profit & Loss (NOKm)	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	4	7	6	7	11	30	60	75	90	108	124
Other income	1	11	2	7	10	-	-	-	-	-	-
COGS	-2	-2	-1	-1	-4	-7	-15	-18	-22	-26	-30
Wages	-13	-14	-16	-23	-25	-27	-28	-30	-32	-34	-36
Other operational costs	-8	-6	-6	-14	-15	-15	-16	-17	-18	-19	-20
EBITDA	-18	-4	-16	-24	-23	-19	1	10	18	29	39
Depreciation	-2	-2	-5	-5	-5	-5	-5	-5	-5	-5	-5
Adj. EBIT	-20	-7	-21	-29	-28	-25	-4	5	13	24	34
Non-recurring costs	-	-	-1	-	-	-	-	-	-	-	-
EBIT	-20	-7	-22	-29	-28	-25	-4	5	13	24	34
Net financial items	-3	-0	-0	-0	-0	-1	-1	-1	-1	-1	-1
Pretax profit	-22	-7	-22	-29	-28	-25	-5	4	13	24	33
Minority interest	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-	-	-
Net profit	-22	-7	-22	-29	-28	-25	-5	4	13	24	33
EPS rep. (NOK)	-0.33	-0.10	-0.21	-1.43	-1.13	-0.68	-0.10	0.09	0.27	0.50	0.70
EPS adj. (NOK)	-0.25	-0.10	-0.20	-1.43	-1.13	-0.68	-0.10	0.09	0.27	0.50	0.70
Margins											
Operating margin	nm	nm	nm	nm	nm	nm	nm	6%	15%	22%	27%
ROE	nm	nm	nm	nm	nm	nm	nm	6%	17%	23%	24%
ROCE	nm	nm	nm	nm	nm	nm	nm	6%	16%	22%	24%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Growth rates (YoY)											
Operating revenues	196%	68%	nm	18%	64%	169%	100%	25%	20%	20%	15%
EBIT (adj)	15%	nm	>100%	40%	nm	nm	nm	nm	>100%	81%	38%
EPS (adj)	17%	nm	99%	>100%	nm	nm	nm	nm	>100%	85%	39%
Balance sheet (NOKm)											
Intangible assets	19	26	26	24	21	21	21	21	21	21	21
PP&E	1	3	2	2	8	8	8	8	8	8	8
Fixed assets	20	29	28	26	29	29	41	40	40	41	41
Financial assets	-	-	-	-	-	-	-	-	-	-	-
Long term assets	20	29	28	26	29	29	41	40	40	41	41
Inventories	-	1	2	2	2	2	5	5	6	7	8
Accounts receivable	6	12	2	8	8	15	30	31	38	45	52
Cash and cash equivalents	20	4	24	47	25	25	5	7	13	29	54
Current assets	26	17	28	58	35	43	39	43	57	81	114
Total assets	46	46	56	83	64	72	80	84	96	122	156
Shareholders equity	39	34	47	72	44	54	61	65	77	102	135
Long-term liabilities	2	3	1	1	7	7	7	7	7	7	7
Accounts payable	1	1	2	2	5	2	3	3	4	4	5
Other short term liabilities	5	8	6	8	8	8	8	8	8	8	8
Current liabilities	6	9	8	10	13	10	12	11	12	13	13
Total liabilities and equity	46	46	56	83	64	72	80	84	96	122	156
Working Capital	5	12	2	8	5	16	32	33	40	48	55
Net IB debt	-18	-1	-23	-45	-25	-24	-4	-6	-12	-28	-54
Capital employed	41	36	48	74	51	62	68	72	84	109	143
Net IB debt / equity	-47%	-4%	-49%	-63%	-56%	-45%	-6%	-10%	-16%	-27%	-40%
Equity / total assets	83%	74%	84%	86%	69%	76%	76%	78%	80%	84%	87%

Cash flow (NOKm)	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
Pre-tax Profit (loss)	-22	-7	-22	-29	-28	-25	-5	4	13	24	33
Depreciation & Amortization	2	2	6	5	5	5	5	5	5	5	5
Stock options	2	2	2	1	0	-	-	-	-	-	-
Taxes paid	-	-	-	-	-	-	-	-	-	-	-
Loss from disposal of listed equity securities	2	-	-	-	-	-	-	-	-	-	-
Cash earnings in operations	-16	-2	-14	-23	-23	-20	0	9	18	29	38
Changes in Inventory	-	-1	-1	-0	1	-1	-2	-0	-1	-1	-1
Changes in trade receivables	-1	-6	6	-6	-2	-7	-15	-1	-6	-8	-7
Changes in trade payables	0	-0	1	1	2	-3	2	-0	1	1	1
Changes in other current items	1	3	1	2	2	-	-	-	-	-	-
Cash flow from operating activities	-16	-6	-7	-28	-19	-30	-16	7	11	21	31
Purchase of property, plant and equipment	-1	-0	-0	-1	-0	-1	-1	-1	-1	-1	-1
Purchase of intangible assets	-4	-8	-5	-2	-	-4	-4	-4	-4	-4	-4
Payments from disposal of listed equity securities	12	-	-	-	-	-	-	-	-	-	-
Cash flow from investing activities	7	-8	-5	-3	-0	-5	-5	-5	-5	-5	-5
Free cash flow	-10	-15	-12	-31	-20	-35	-21	2	6	16	26
Repayment of borrowings	-1	-0	-0	-	-0	-	-	-	-	-	-
New share issues & share buy-backs (+/-)	8	-	33	54	-	35	-	-	-	-	-
Installments on leasing liabilities	-	-1	-1	-0	-1	-	-	-	-	-	-
Cash flow from financing activities	8	-2	32	54	-2	35	-	-	-	-	-
Change in Cash and Cash Equivalents	-2	-16	20	23	-21	-0	-21	2	6	16	26

Share data	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
Shares outstanding, year end (mill.)	68.684	68.684	103.026	24.916	24.916	24.916	24.916	24.916	24.916	24.916	24.916
Share price, year end (NOK)	-	-	-	6.24	2.07	1.74	1.74	1.74	1.74	1.74	1.74
Market cap (NOKm)	-	-	-	155	52	52	52	52	52	52	52
Enterprise value (NOKm)	-18	-1	-23	110	34	34	54	52	46	30	5
EPS rep. (NOK)	-0.33	-0.10	-0.21	-1.43	-1.13	-0.68	-0.10	0.09	0.27	0.50	0.70
EPS adj. (NOK)	-0.25	-0.10	-0.20	-1.43	-1.13	-0.68	-0.10	0.09	0.27	0.50	0.70

Valuation	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
EV/Sales	-4.2	-0.2	-3.9	16.2	3.0	1.1	0.9	0.7	0.5	0.3	0.0
EV/EBITDA	1.0	0.3	1.4	neg.	neg.	neg.	60.1	5.3	2.5	1.0	0.1
EV/EBIT (adj)	0.9	0.2	1.1	neg.	neg.	neg.	neg.	11.1	3.4	1.3	0.1
P/E (adj)	-	-	-	neg.	neg.	neg.	neg.	20.1	6.4	3.5	2.5
P/B (excl. goodwill)	na	na	na	2.2	1.2	1.0	0.8	0.8	0.7	0.5	0.4

Growth (YoY)	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	196%	68%	-21%	18%	64%	169%	100%	25%	20%	20%	15%
EBITDA	nm	nm	nm	nm	nm	nm	nm	978%	89%	59%	32%
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	81%	38%
Pre-tax profit (rep)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	85%	39%
Net profit (adj)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	85%	39%
EPS (rep)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	85%	39%
EPS (adj)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	85%	39%

Margins	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA (adj)	nm	nm	nm	nm	nm	nm	1.5 %	13.0 %	20.5 %	27.1 %	31.1 %
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	6.2 %	14.9 %	22.4 %	27.0 %
Pre-tax profit	nm	nm	nm	nm	nm	nm	nm	5.4 %	14.2 %	21.8 %	26.5 %
Net profit (adj)	nm	nm	nm	nm	nm	nm	nm	5.4 %	14.2 %	21.8 %	26.5 %

Profitability	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
ROE	nm	nm	nm	nm	nm	nm	nm	6.3 %	16.6 %	23.1 %	24.3 %
ROCE	nm	nm	nm	nm	nm	nm	nm	6.5 %	15.9 %	22.1 %	23.5 %
Dividend yield	-	-	-	-	-	-	-	-	-	-	-

Valuation

To arrive at our fair value estimates, we have used DCF results for different scenario valuations.

Risks

The main risks to our target price on Genetic Analysis:

- **New and narrow market** – The market is still developing and other methods of testing and evaluation may still appear from the competition.
- **Regulatory framework uncertainty** – There is currently no US legislation in place to directly regulate the human microbiome sphere, and the formation of such frameworks might bring risks to GA's business model.
- **Distributor performance** – Genetic Analysis performance is reliant on the chosen distributor's ability to sell the kits to the labs.
- **Dependency on microbiome-enhancing drugs** – To reach the full potential of the GA-map test, the treatments that would improve gut flora and dysbiosis medications are needed to reach the market.
- **Delays and increased development costs** – Cost planning related to the development of new biomarkers is difficult to forecast accurately, and delays may add significant costs.
- **Financing risks** – Until the Company becomes profitable, additional funding either through additional share issuance or debt will have to be secured in the near future.

Sources

The sources used in the preparation of this report were: Genetic Analysis, Oslo Stock Exchange, Bloomberg, Infront.

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All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

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