

Genetic Analysis

Mangold Insight – Commissioned research – Update – 2023-11-16

Capital raise give boost

Genetic Analysis, a diagnostic company within Life Science, is growing rapidly. To continue its expansion, the company needs to raise capital, expected to be done in several steps. First, in a direct issue to a group of existing shareholders, followed by a repair rights issue directed to existing shareholders. Its partner in China, is also expected to invest in the company early next year. In total, the company is expected to be able to raise up to NOK* 25 million. This enables continued growth that will take the company to profitability.

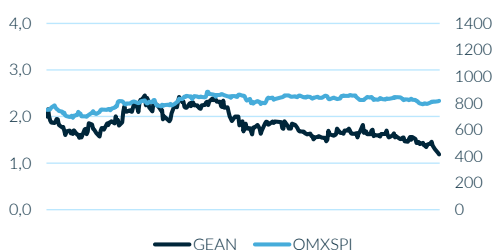
Soft third quarter

The third quarter was soft due to earlier stock-building at larger customers. Sales increased by 17 percent to NOK 2.6 million compared to last year. So far, this year, growth stands at 39 percent. Positive elements in the report were a reduction in operational costs.

Accelerated growth expected

Estimates has been adjusted for coming years. In 2023, growth is expected to increase to 32 percent before accelerating in 2024 and 2025. Mangold use a DCF model to value the company, full dilution of upcoming shares is considered. This gives a new target price set to NOK 2.00 (3.40) per share in our Base-case. We see plenty of triggers in the stock which we highlight in this update. Above all, the company benefits from a growing microbiome market.

*Norwegian kroner (NOK) throughout the analysis



Price Performance %	1m	3m	12m
Genetic Analysis	-10,2	-36,2	-53,2
OMXSPI	2,6	-0,4	0,9

Information

Price Target (NOK)	2.00
Risk	High
Price (NOK)	0,97
Market value (MNOK)	24
No. of shares (million)	24.9
Free float	73,0%
Ticker	GEAN
Next earnings report	2024-02-29
Website	genetic-analysis.com
Analyst	Jan Glevén

Ownership structure*	Shares	Capital
Avanza Bank	6,5	26,1%
Bio-Rad Lab	5,3	21,3%
Nordnet Pension	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 AS	0,4	1,7%
Total	24.9	100.0%

*Before directed issue of shares

Key Ratios (MNOK)	2021	2022	2023E	2024E	2025E
Revenue (Incl Grants)	13,4	20,7	23,1	31,3	41,0
EBIT	-28,9	-28,2	-20,9	-13,2	-3,0
Profit b. tax	-29,0	-28,3	-21,0	-13,4	-3,2
EPS, adj	-1,16	-1,13	-0,84	-0,54	-0,13
EV/S	12,6	7,7	5,8	3,8	2,1
EV/EBITDA	-3,0	-3,0	-4,1	-6,5	-28,2
P/E	neg	neg	neg	neg	nm

Genetic Analysis - Investment Case

Improving gastric health with new test

Mangold repeats Buy for Genetic Analysis at a target price of NOK 2.00 (3.40) per share. It represents an upside of over 100 percent.

Buy the stock - target price 2.00 (NOK)

To become standard

The company's product GA-map is intended for in vitro diagnostic examination of samples from the human body in order to obtain information about treatment effects or 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 a great need for cost-effective and reliable microbiome diagnostics.

A microbiome diagnostic company

Platform strategy

The company is based on a platform strategy with recurrent revenues from the sale of reagent kits to laboratories. Mangold estimates that the company can grow by 46 percent on average per year during the period 2022 to 2027. At the end of the projection period, the company is expected to reach an EBIT margin of more than 25 per cent. The sales should be able to reach NOK 75 million in 2027 according to our Base case.

Recurring revenue

Growth of 46 percent CAGR 2022-2027

A new market takes shape

The market for microbiome tests is characterized by non-standardized research-based platforms and tests. There is a clear incentive for moving microbiome testing from research into clinical routine use. Genetic Analysis intends to become standard for diagnostic microbiome testing. It is the first company to have developed a CE IVD-marked (InVitroDiagnostic) product for use for patients with IBS and IBD. The microbiome market was a USD 600 million market in 2021 according to Data Bridge Market Research. Growth (CAGR) is expected to reach 23 percent. In 2029, the value of the microbial market is expected to increase to USD 3.1 billion.

Intending to become standard

Growing market

To grow in Europe and the US

Sales will be made to larger labs primarily and will take place in Europe, USA and Asia. Genetic Analysis is still at an early sales cycle, but in addition to existing customers in the US and Europe, GA has already entered into agreements in China, India and Thailand that are expected to contribute to sales. The success of the company is supported by a strong interest from the United States and a strong increase in research and clinical studies in the microbiome field. As more microbiome altering drugs are launched in the market, the need for standardised microbiome based diagnostic tests is expected to increase. If Genetic Analysis products get high demand and succeed in reaching the clinical market after positive opinions from the FDA (US Medicines Agency), we see the company as a takeover candidate.

More drugs in the microbiome market provide support

Need for standardised diagnostic tests

Genetic Analysis - Update Q3

Soft quarter - inventory effect, again

Genetic Analysis increased sales by 17 percent in the third quarter compared to the same period last year. As in the second quarter, sales were affected by past stock-piling during the pandemic. Adjusted for the inventory effect, sales had increased over 50 percent. Sales were weaker than our estimates. The contribution of the research grants was also lower than expected. In the future, research projects are expected to take place to a greater extent through partners. A positive feature of the interim report was the reduction in costs, which contributed to a reduced loss.

Sales increased by 17 percent

Adjusted sales over 50 percent

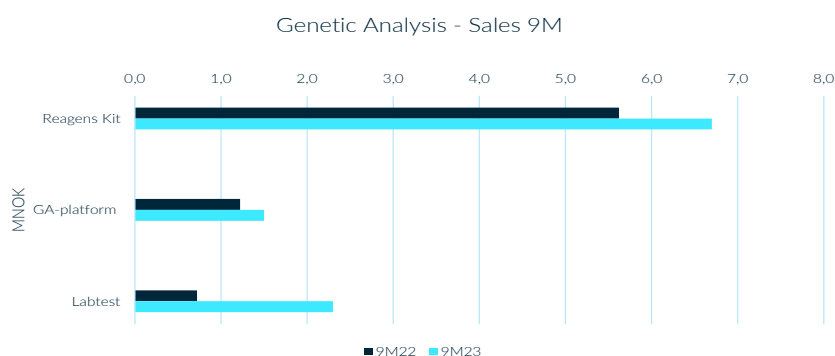
GENETIC ANALYSIS - Q3 ESTIMATES VS ACTUAL

MNOK	Q3'22	Q3'23E	Q3'23A	Diff%
Sales	2.2	3.5	2.6	-27%
Growth	33%	60%	17%	
Grants	2.6	2.4	2.2	-10%
Total revenue	4.8	5.9	4.7	-20%
EBIT	-6.7	-5.3	-4.3	

Source: GA

Increased sales in all segments

Over the first nine months of the year, sales of reagents increased by 19 percent and its GA-map platform by 23 percent. The remaining revenue is made up of lab services that varied in the quarters but grew 219 percent. In total sales grew 39 percent during the first nine months.



Source: GA, Mangold Insight

Standardisation drives growth

Recommendations from the FDA in the US and IVDR (In Vitro Diagnostics Regulation) in Europe drive growth. In the long run, Genetic Analysis has the products and the infrastructure in place to take part of this growth. The company had a large influx of new customers that are not yet visible in sales. In the third quarter, the number of new customers increased by 100 percent compared to the same period last year. The number of active customers has increased by 200 percent.

Significantly increased growth of new customers

Genetic Analysis - Update Q3

Sales expected to grow 25 percent in Q4

We have chosen to adjust growth below the 9-month average, 34 percent, for the fourth quarter. Sales in the fourth quarter are expected to grow by 25 percent. Also grants, are adjusted lower. Overall, this will result in an expected growth in sales of 32 percent for the full year 2023.

Lower estimates for Q4

GENETIC ANALYSIS - 2023 QUARTERLY ESTIMATES

MNOK	Q1	Q2	Q3	Q4E
Net Sales old				5,2
Net Sales new	4,1	3,7	2,6	4,3
Growth	64%	22%	17%	25%
Grants	2.3	2.1	2.2	2.0
Total Revenue	6.4	5.7	4,7	6,3

Source: Mangold Insight

Growth Accelerates in 2024

The effect of increasing number of customers is expected to come gradually. We estimate that it will be more evident in 2024 and beyond. The path to profitability will take about two years. We expect the company to make a profit in 2026. The company aims to achieve positive cash flow by 2025 and reach sales of NOK 20-25 million in 2023, NOK 25-35 million in 2024 and NOK 40-60 million in 2025.

More customers expected to contribute to increased revenue in 2024

GENETIC ANALYSIS - YEARLY ESTIMATES

MNOK	2022	2023E	2024E	2025E	2026E	2027E
Net Sales old	11	16	26	38	53	68
Net Sales	11	15	23	41	57	75
Growth	64%	32%	55%	80%	40%	30%
Grants	10	8	9	0	0	0
Total Revenue	21	23	31	41	57	75
EBIT	-28	-21	-13	-3	9	20
Margin %					15%	27%

Source: Mangold Insight

Plenty of triggers

A faster way forward can go through collaborations and new agreements. The North American market has not yet taken off, which is an important trigger for increased sales. A collaboration with a larger lab in the US or Germany that does 50-60 thousand tests can bring recurring revenue of NOK 30-35 million per year. In China, Genetic Analysis cooperates with Thalys. There is a strong interest in microbiome testing in Asia, which can lead to increased revenue. The IBD project is also expected to be commercialized in 2025. The company also intends to put more focus on the consumer market, which is growing rapidly. At the same time, development of its GA-map technology into new products is ongoing.

Larger labs on the wishlist

New products can increase sales

Genetic Analysis - Financing

Capital raise

Genetic Analysis will carry out a directed issue of shares where the company can raise NOK 10 million. An investor consortium consisting of several new and existing owners will participate. The existing large owner Bio-Rad will participate with NOK 3.3 million and others (see table) with NOK 1.0 to 0.5 million.

Directed issue of shares

GENETIC ANALYSIS - CONSORTIUM

Bio-Rad

Lucellum, S. Munkhaugen, Muen Invest, Ochrino, Stella Invest, Kagge, LJM

Source: Genetic Analysis

The number of shares will increase after the directed issue, giving a dilution of 35 percent. The price amounts to NOK 0,79 per share. This corresponds to a 20 percent discount on the weighted average price during a measurement period from 19 September to 30 October 2023.

Dilution effect

A supplement to the directed issue where board members and management of the company (PDMR) will subscribe for may add NOK 0.7 million.

Subsequent offering to shareholders

The company also plans to issue new shares to existing shareholders under the same conditions as in the directed share issue up to NOK 9 million. Overall, Genetic Analysis can raise a total of NOK 19.7 million.

Planned rights issue

A letter of intent (LOI) has also been signed with Thalys Medical Laboratory. Thalys intends to invest USD 500 000. This is expected to be implemented in the first quarter of 2024 and will also mean that more shares will be added.

GENETIC ANALYSIS - CAPITAL RAISE

Type	MNOK
Directed issue	10.0
Board and management	0.7
Rights issue	9.0
Thalys	5.0
Total	24.7

Source: Genetic Analysis

Background to capital raise

The company is growing and to grow at the pace needed to take the company to profitability, a capital raise is required. The company has chosen a directed issue of shares that quickly ensures that the company can continue with the plan that has been set up. The company has several goals over the next two years, which requires capital (see page 7 for triggers). At the upcoming Extraordinary General Meeting on 20 November, decisions will be made over PDMR and a rights issue, as well as the investment by Thalys.

Decisions will be taken at a general meeting

Genetic Analysis - Valuation

DCF-valuation

Mangold has chosen to value Genetic Analysis with a DCF-model. A risk-adjusted rate of return of 12 percent has been used which is in line with recommendations from the PwC Risk Premium Study 2023. Mangold has applied a size-related risk premium of 8.4 percent and a rate of return of 3.8 percent, rounded to 12 percent. We use Norwegian tax rates. Based on these assumptions, we receive a fair value of NOK 2.09. A target price is set to NOK 2.00 (3.40) per share. This results in an upside of over 100 percent. Mangold has chosen to take full dilution of future shares into account, which affects fair value.

Target price NOK 2.00 per share

GENETIC ANALYSIS - DCF

(TNOK)	2023E	2024E	2025E	2026E	2027E
EBIT	-20 891	-13 236	-3 041	8 767	20 460
Free Cash Flow	-16 684	-7 834	-801	5 584	13 385
Terminal Value					133 854

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

Equity Value	103 701
Fair Value/share	2,09

Source: Mangold Insight

Sensitivity analysis

Mangold has chosen to carry out a sensitivity analysis in which revenue increased by 10 percent in a Bull case and decreased by 10 percent in a Bear case. These scenarios have since been compared with various yield requirements ranging from 11 percent to 13 percent. With a 10 percent higher growth and lower yield requirements, a fair value of the share can amount to SEK 2.78 per share.

NOK 2.78 in Bull case (12 percent disc rate)

MANGOLD - SENSITIVITY ANALYSIS

Disc rate %	Bear	Base	Bull
11%	1,93	2,36	2,78
12%	1,72	2,09	2,46
13%	1,54	1,87	2,20

Source: Mangold Insight

Genetic Analysis - Peers valuation

Diagnostic Peers

The following table shows comparable peers in Life Science and diagnostics for Genetic Analysis. The table is organized by market capitalization in local currency. The table does not form a basis for valuation but should be seen as an overview of how similar companies are valued. The P/S ratio for Genetic Analysis is less than two (<2) for 2023 which is low compared to similar companies (peers).

Peers has higher valuations

GENETIC ANALYSIS - PEERS

Company	Exchange	Activities	MC (M)*	Sales 2023 (M)*	P/S 2023
Gentian Diagnostics	Oslo Börs	IVD	617	140	4,4
Viro Gates	First North Köpenhamn	suPAR (measures protein in blood)	45	7	6,4
Alphahelix	Spotlight Stock Market	PCR/qPCR (viruses och bacteria)	40	26	1,5
Average					4,1
Genetic Analysis	Spotlight Norge	Human Microbiome Diagnostics	25	15	1,7

*Local Currency, MNOK, MDKK, MSEK

Source: Mangold Insight

Triggers for the share

Genetic Analysis wants to increase the pace of contracts, sales, and projects. For example, if the company obtains larger lab customers in the United States, it will constitute a significant trigger for the share.

GENETIC ANALYSIS - TRIGGERS 2024

Supplemental diagnostic microbiome marker	Contracts
Major Diagnostic Lab USA	Contracts
GA-map to new customers in USA	Sales
Marker Type 2 diabetes	Project
Finalizing Research use only IBD marker	Project
Expand to End User / Consumer	Sales

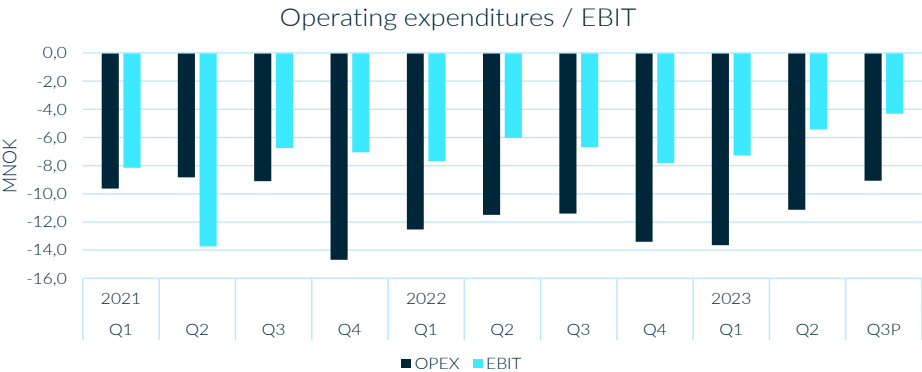
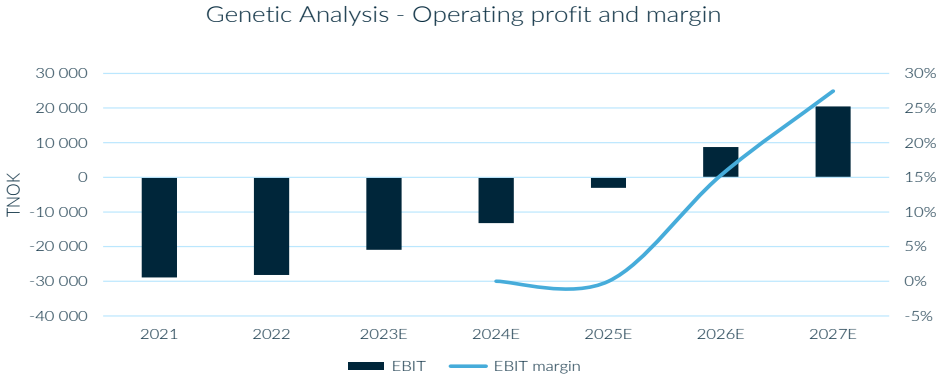
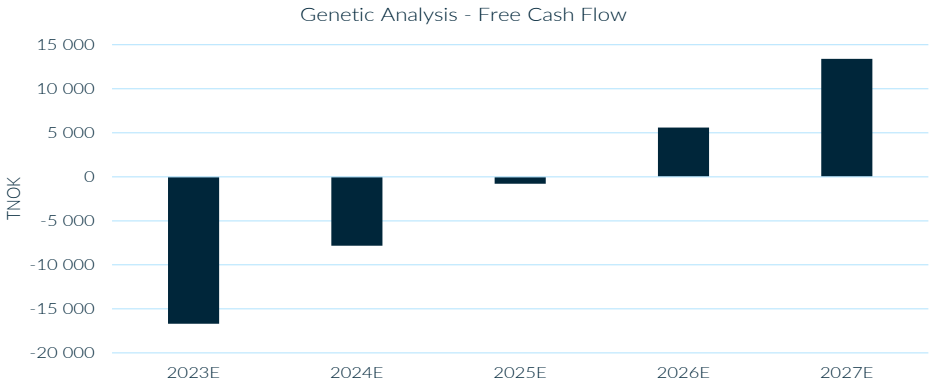
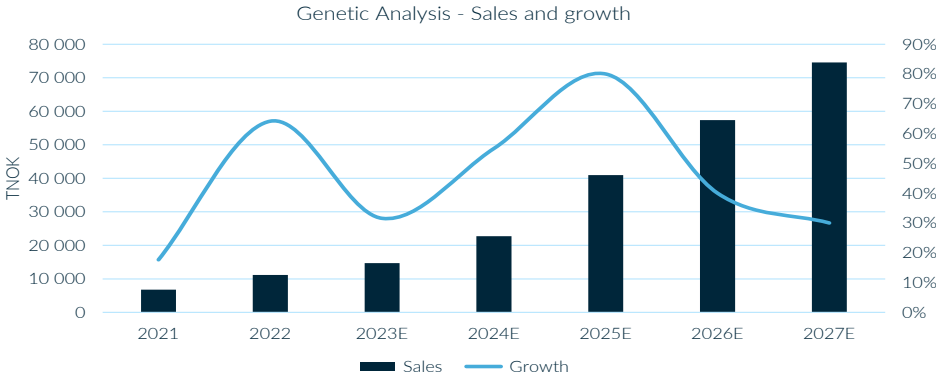
List of triggers

Source: GA

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	23 136	31 263	40 973	57 362	74 570
Gross profit	12 098	16 840	19 170	25 572	30 729	43 021	55 928
Personnel costs	-22 835	-25 196	-23 452	-24 518	-24 518	-25 584	-26 650
Other operating expenses	-13 602	-14 994	-11 246	-10 233	-6 140	-6 140	-6 754
Depreciation	-4 531	-4 834	-5 364	-4 057	-3 112	-2 530	-2 064
Operating result	-28 870	-28 184	-20 891	-13 236	-3 041	8 767	20 460
Operating margin	0%	0%	0%	0%	0%	15%	27%
Net interest income	135	90	132	132	132	132	132
Profit after net fin. items	-29 005	-28 274	-21 023	-13 368	-3 173	8 635	20 327
Taxes	0	0	0	0	0	-2 418	-5 692
Net profit	-29 005	-28 274	-21 023	-13 368	-3 173	6 217	14 636

Källa: Mangold Insight

Balance sheet	2021	2022	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and bank	46 810	25 323	13 285	15 539	13 781	19 297	32 614
Trade receivables	8 419	8 359	3 621	5 613	6 735	9 429	12 258
Inventory	2 367	1 755	978	1 403	2 526	3 536	4 597
Fixed assets	25 894	28 987	19 317	15 560	12 648	10 319	8 455
Total assets	83 490	64 425	37 200	38 115	35 691	42 581	57 924
Liabilities							
Account Payables	9 968	12 946	652	935	1 684	2 357	3 065
Liabilities	1 432	7 338	13 244	13 244	13 244	13 244	13 244
Total liabilities	11 400	20 284	13 896	14 179	14 928	15 601	16 309
Equity							
Restricted equity	99 871	72 090	82 790	96 790	96 790	96 790	96 790
Unrestricted equity	-27 781	-27 950	-59 486	-72 854	-76 027	-69 810	-55 174
Total equity	72 090	44 141	23 304	23 936	20 763	26 980	41 616
Liabilities and Equity	83 490	64 425	37 200	38 115	35 691	42 581	57 924

Källa: Mangold Insight

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Mangold last analysed Genetic Analysis 2023-09-06.

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%