

Qlucore AB

Expanding pipeline of precision diagnostics projects

Johan Widmark & Magnus Brolin | 2022-05-31 12:00

With sales consisting of the data analytics software Omics Explorer, Qlucore reported revenue growth of 9% for the full year 2021/22 (May-April), while continued investments in the development of Diagnostics and Insights increased costs, in line with the company's plan. In addition to the ongoing projects to develop classifier models for individualised treatment of three cancer indications, the new collaboration with Lund University to develop a solution for improved clinical diagnostics of bladder cancer, provide further support to both the company's long-term revenue target over 300 MSEK in 2026E, and our combined DCF and multiple valuation with a fair value of SEK 53-75 per share in 12-24 months.

Increased investments in development in line with plan

Qlucore reported 6% decrease in sales in Q4'21/22 (May-April) totaling revenue growth of 9% for the full year. The data analysis software Omics Explorer still dominate sales, with 200 active users both in academia and the industry. EBIT was -3.5 MSEK weighed down by higher development costs in Diagnostics and Insights, but also higher personnel costs after recruitments of e.g. management. Longer customer decision making processes and problems with reaching new customers due to residual pandemic effects also contributed to the negative operating result in Q4. Overall, Qlucore reported a result in line with our expectations for fiscal year of 2021/22.

Expanding project pipeline with bladder cancer

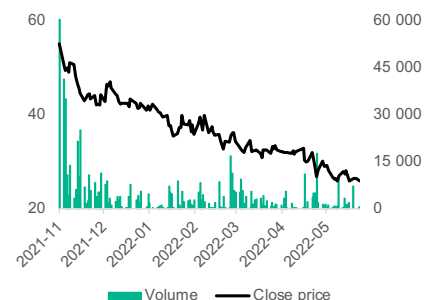
The development work continues to focus on improving Diagnostics and Insights and a more general version update for bioinformatics software Omics Explorer. Diagnostics and Insights are two software platforms offering AI-based machine learning for multi-omics companion and precision diagnostics with tailored classification models to help create individually adapted treatment for different types of cancer. Bladder cancer is the third classifier model launched by Qlucore in the area of solid tumours and was announced 23rd May. The company is currently preparing its CE mark application for Acute lymphocytic leukemia (ALL) but point out that there is some uncertainty with regards to a lack of capacity of "Notified Bodies" required in the application process, which might affect the timeline of the outcome.

Keeping our forecast and fair value

We expect continued revenue growth in 22/23 driven by passing pandemic effects shortening customer decision processes and continued sales efforts to new customers. We expect the CE applications for the Diagnostics platform and ALL to be approved in about a year, in line with company guidance, and a subsequent increase in the number of labs to 70-100 labs by 2026/27. The addition of bladder cancer as the next classifier model development co-operation lends further support to our estimated number of tests per lab of 2,500-4,000 per year, which along with an estimated price per test of 1,000 SEK support the company's sales target of 300 MSEK in 2026/27 and a 40% EBIT margin. Based on a combined DCF and multiple valuation we find continued support for a fair value of 53-75 SEK in 12-24 months.

Qlucore

Fair Value, SEK (12-24 m)	53 - 75
Current Price, SEK	26,9
Shares post merger (M)	4,0
Mkt Cap (MSEK)	108
Net Debt (MSEK)	-93
EV (MSEK)	16
Market	First North



Summary financials

MSEK	2019/20	2020/21	2021/22	2022/23E	2023/24E
Revenue	16	13	14	17	29
EBITDA	4	-3	-8	-18	-20
EBIT	1	-6	-11	-22	-25
EPS Adjusted	0,62	-3,05	-2,88	-5,54	-6,46
Sales Growth, %	51%	-19%	9%	17%	77%
EBITDA Margin, %	22%	neg.	neg.	neg.	neg.
EBIT Margin, %	9%	neg.	neg.	neg.	neg.
EV/Sales	-	-	-5,4	-3,4	-0,6
EV/EBITDA	-	-	9,6	3,2	0,9
EV/EBIT	-	-	6,7	2,6	0,7
P/E	-	-	neg.	neg.	neg.

Source: Emergers

About Qlucore

Qlucore was founded in 2007 in Lund by Thoas Fioretos, professor of genetics, Magnus Fontes, professor of mathematics, Johan Råde, mathematician and software specialist and the company's CEO Carl-Johan Ivarsson. The company develops and sells software for machine learning-based (AI) cancer diagnostics and analysis and visualization of complex data sets. So far, the company has primarily been active in analysis support through the product Qlucore Omics Explorer, but now aims to grow in AI-based precision diagnostics with a focus on various cancers, with the platform Qlucore Diagnostics, and with the help of Qlucore Insights. With over 200 customers in 25 countries, in academia as well as the food and pharmaceutical industry and references to the company's product Qlucore Omics Explorer in over 1000 scientific publications, Qlucore is not a start-up. Most of the revaluation potential, however, is found in Qlucore Diagnostics, which helps laboratories and doctors to analyze complex data sets to make a so-called precision diagnosis and enable a more individualized treatment, often called precision medicine.

With a clearly declining cost of RNA sequencing in recent years, which opens for a broader adaptation of RNA sequencing-based diagnostics, the focus is now on growing in clinical cancer diagnostics, with the development of CE-marked and FDA-approved specific modules for different types of cancer. The proceeds from the listing issue are expected to be sufficient to bear both increased development and marketing costs and the entire business to a positive cash flow, which we expect in 2024 / 2025E.

Two-part business with the support of underlying growth

Qlucore has two business areas that targets two different markets, bioinformatics and precision and companion diagnostics.

The target group for **Qlucore Diagnostics** is the precision and companion diagnostic software segment, and customers are normally hospitals and laboratories that perform diagnostic tests and treat cancer. Qlucore focuses on NGS techniques (Next Generation Sequencing is a method for sequencing large amounts of DNA or RNA, which involves a determination of the genetic code, i.e., the order of the "letters" in the genome). Precision diagnostic is a test used for precision medicine, which involves diagnostic methods and therapies for individualized investigation and treatment of disease at the individual level. Companion diagnostics is a diagnostic test that is used as a companion to a treatment to determine how well the treatment suits a specific individual.

In the market for precision and companion diagnostics, there are several players internationally, such as Foundation Medicine, which is owned by Roche, Swiss Sophia Genetics and French Integragen.

In the autumn of 2021, Qlucore launched **Qlucore Insight**, which shares functionality with **Qlucore Diagnostics** but will not undergo a regulatory review approval but only be available for research purposes.

Market overview for each product

Product	Qlucore Omics Explorer	Qlucore Diagnostics	Qlucore Insight
Target market	Bioinformatics	Precision and companion diagnostics	
Typical customers	Research	Laboratory	Research
Market Growth	8,4% CAGR 2020–2025	20% CAGR 2017–2024	-
Addressable market	11–20 Bn SEK	6 Bn SEK 2028	-

Source: Qlucore, Emergers

Qlucore Omics Explorer is marketed primarily for the bioinformatics market and the customers are normally research organizations, universities, or companies active in food. The work with data sets that are of such complexity and size that the work requires special tools and analysis tools.

The market in which Qlucore operates, the bioinformatics market, covers a wide range of services and as a whole, the market is expected to grow by 8.4% CAGR between 2020 and 2025 as it is expected to reach a value of USD 16 billion. The company addresses a subset of the market that the company itself estimates at approximately 16% of the total market, which corresponds to an addressable market potential of approximately SEK 11-20 billion.

Business model

Qlucore Omics Explorer

Qlucore Omics Explorer is sold under license. The license repurchase rate for Omics Explorer is 87%, giving that leg a SaaS-like character.

Qlucore Diagnostics

Qlucore Diagnostics is a software used by laboratory analysis staff, such as clinical geneticists and pathologists, to analyse and make the correct diagnosis, which ultimately aims to provide the treating physician with the best possible basis for decisions on optimal treatment. Qlucore's solution offers the lab more efficient workflows, lower labor costs and faster handling.

Qlucore Diagnostics has a modular structure with a basic platform and separate disease-specific classification modules. A classification model is a trained algorithm that can take information from a sample and then determine the gene expression profile, i.e., which sample group the sample belongs to. To develop these classification models, the company collaborates with the necessary expertise in selected areas. At present, there are four collaborations with commercial agreements, which is the focus of the company's work to develop classification models. These three areas of application are:

- Acute lymphocytic leukemia (ALL)
- Non-small cell lung cancer (NSCLC)
- Breast cancer
- Bladder cancer

The revenue model for Qlucore Diagnostics is revenue per test for clinical diagnostics and royalties for companion diagnostics.

Business model overview for each product

Product	Qlucore Omics Explorer	Qlucore Diagnostics	Qlucore Insights
Business model	License	Revenue per test or royalty	License

Source: Emergers

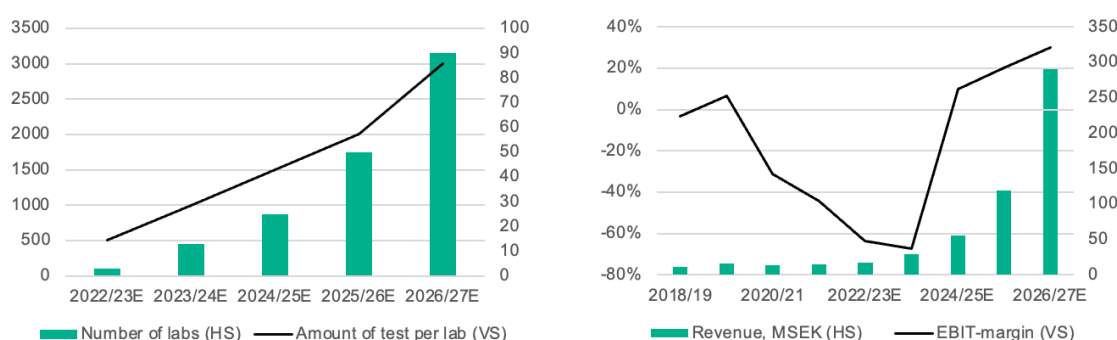
Timeline och forecast

Qlucore Insights, including the functionality for classifying ALL, is currently offered for evaluation, even though Qlucore Diagnostics does not yet have CE approval. At present, revenues are dominated by the research product Qlucore Omics Explorer, which can also be expected to have the largest impact on revenues and cash flows in the coming years.

At the same time, the company has an aggressive target for revenues of 300 MSEK by 2026E with an operating margin exceeding 40%. The goal reflects a clear ambition to develop and have a broad impact on the market for Qlucore Diagnostics. For this, the company has set several sub-goals, which include CE approval of the basic platform (by EU IVDR class A), development and CE certification of classification models, where the model for ALL has come the furthest and the company expects a CE approval 2023 (by EU IVDR class C).

At present, Qlucore is preparing the market for precision and companion diagnostics through the marketing of Qlucore Insights with the ambition of spreading knowledge about the company's products, while we expect that the CE approval of the platform and the first classification model will be the starting point for the rollout of Qlucore Diagnostics in 2023. In parallel with the development of more classification models for more diseases, the next step will be expansion towards North America and FDA approval.

Lab and number of tests, Revenue and EBIT-margin



Source: Emergers

Peers and valuation

We believe that Qlucore Diagnostics is responsible for the bulk of the value and, above all, the revaluation potential in the company. Qlucore has several listed comparison objects, the closest of which, in terms of operations, are in the United States.

However, Qlucore is in a relatively early phase, even compared with the international comparison companies with related operations and offerings,

where many have high revenues and show profitability. We therefore choose to apply a valuation discount of 30% to reflect the many uncertainty factors that lie ahead of the company before reaching a more mature phase with CE- and FDA-approved products and profitability. With the support of a combination of a DCF and a multiple valuation, we therefore see total support for a justified value of SEK 53-75 per share in 12-24 months' time.

Risks and scenario analysis

Among the risks described in Qlucore's listing prospectus, we primarily see risks with competition in the market for precision and companion diagnostics, risks linked to technical development and regulatory requirements that are particularly worth noting.

The new regulations for In-Vitro Diagnostics, the EU IVDR and the timetable for its implementation can have a major impact on the company's development and the conditions for bringing Diagnostics to market. CE marking of Diagnostics is a key step in achieving the company's goals and our forecast for 2026. It is not uncommon for larger product development projects to prove to be more costly or protracted than originally expected.

The table below shows a sensitivity analysis that describe how our calculation of justified value is affected by a shift of CE approval by one and two years compared to our base scenario (2023), and how increased competition, measured as price pressure on compensation per precision diagnostic test by 10% respectively 20% affects the justified value compared with the base scenario (1000 SEK).

Sensitivity analysis and effect on justified value

		Delay of CE-approval, years		
		0	1	2
Effect of price	0%	61	50	41
price pressure	-10%	55	46	37
per test	-20%	50	41	33

Soruce: Emergers

Management

The chairman is Pia Gideon, who has extensive experience of chairing and board assignments in listed, state-owned and start-up companies, with an emphasis on technology and healthcare. Pia Gideon is also a board member of Apoteket AB and Guard Therapeutics and owns shares corresponding to 0.75% of the capital and votes in Qlucore.

Carl-Johan Ivarsson is one of the company's founders and CEO of Qlucore since the start. Carl-Johan Ivarsson has a background as Vice President of Ericsson Mobile Platforms. Carl-Johan Ivarsson owns shares corresponding to 8.6% of the capital and votes in Qlucore.

Qlucore

Income Statement

MSEK	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Sales	10,6	16,0	12,9	14,1	16,5	29,2	55,0
Operating Costs	-9,4	-12,4	-15,9	-22,1	-34,4	-49,2	-43,1
EBITDA	1,2	3,6	-3,0	-8,0	-17,9	-20,0	11,9
Depreciation	-1,7	-2,2	-2,6	-3,5	-4,0	-5,0	-6,0
Amortisation of Goodwill	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT	-0,5	1,4	-5,6	-11,5	-21,9	-25,0	5,9
Non-recurring Items	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-0,1	-0,1	-0,4	-0,1	-0,4	-1,0	-1,0
Pre-tax Result	-0,6	1,3	-6,0	-11,6	-22,3	-26,0	4,9
Tax	0,0	0,0	-0,1	0,0	0,0	0,0	0,0
Minority Interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Result	-0,6	1,2	-6,0	-11,6	-22,3	-26,0	4,9

Capital Expenditure

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Capital Expenditure, Absolute	-	4,4	4,8	9,4	17,1	9,0	5,9
As a Pct of Sales	-	27,2	37,0	66,4	103,7	30,9	10,8
Depreciation Multiple	-	2,0	1,8	2,7	4,3	1,8	1,0

Key Ratios

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Share Price Model Assumption at 31 Dec	-	-	-	27	27	27	27
Number of Shares (Millions)	1,98	2,0	2,0	4,0	4,0	4,0	4,0
Market Cap Model Assumption	-	-	-	108	108	108	108
Enterprise Value	-	-	-	-76	-57	-17	-11
EPS (Reported)	-0,32	0,62	-3,05	-2,88	-5,54	-6,46	1,22
EPS (Adjusted)	-0,32	0,62	-3,05	-2,88	-5,54	-6,46	1,22
CEPS	-0,32	0,62	-3,05	-2,88	-5,54	-6,46	1,22
P/CEPS	n.a.	-	-	neg.	neg.	neg.	22,1
Book Value/Share	4,3	7,3	18,5	48,8	43,3	36,9	38,1
P/BV	-	-	-	0,6	0,6	0,7	0,7
Dividend	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Dividend Yield (%)	0,0	-	-	0,0	0,0	0,0	0,0
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EV/Sales	-	-	-	-5,4	-3,4	-0,6	-0,2
EV/EBITDA	-	-	-	9,6	3,2	0,9	neg.
EV/EBIT	-	-	-	6,7	2,6	0,7	neg.
P/E (Adjusted)	-	-	-	neg.	neg.	neg.	22,1
Sales Growth, Y/Y (%)	-	51,1	-19,3	9,1	16,9	77,0	88,3
EBIT Growth, Y/Y (%)	-	neg.	-492,7	neg.	neg.	neg.	neg.
EPS Growth (Adjusted), Y/Y (%)	-	neg.	-592,2	neg.	neg.	neg.	neg.
EBITDA Margin (%)	11,3	22,4	neg.	neg.	neg.	neg.	21,6
EBIT Margin (%)	neg.	8,8	neg.	neg.	neg.	neg.	10,7
Return on Equity (%)	0,0	8,8	neg.	neg.	neg.	neg.	10,7
Tax Rate (%)	0,0	0,0	0,0	0,0	0,0	0,0	0,0

Financial Position

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Interest-Bearing Net Debt	1,2	0,2	-22,9	-184,8	-164,9	-125,5	-119,1
Net Debt/Equity	0,1	0,0	-0,6	-0,9	-0,9	-0,8	-0,8
Equity Ratio	0,5	0,6	0,8	0,9	0,8	0,9	0,9
Net Debt/EBITDA	1,0	0,1	7,8	23,1	9,2	6,3	-10,0

Source: Emergers, Company reports

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