

Qlucore AB

CE headwind overshadows structural growth story

Johan Widmark | 2022-09-01 08:00

While the business side of Qlucore is moving steady forward, with 67% growth, two new Qlucore Insight license deals and an expansion of the project pipeline, the regulatory process for CE approval is lagging, causing the company to push the financial target of SEK 300m in revenues one year into the future, to 2027. With Net Cash above the company's market cap, the trough in valuation should be near and we now find support for a fair value of 34-46 (53-75) SEK in 12-24 months, leaving plenty of upside from today's level, with progress on the CE application process, new license deals, and continued top line growth as the primary triggers.

Business side moving forward with growth and new deals...

In Q1'22/23 (May-July) net sales grew 67% to SEK 2.7m (up 47% adjusted for FX), primarily driven by the bioinformatics software Qlucore Omics Explorer. Costs continue to be dominated by investments in cancer diagnostics tools Qlucore Insights and Qlucore Diagnostics, the 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. Despite a prolonged customer focus on Covid, Qlucore signed two new license deals in Q1 with hospital laboratories in Denmark and Italy for Qlucore Insights. In Q1, Qlucore also signed an agreement with Lund University for the development of a diagnostics solutions for leukemia AML, in addition to the existing ALL project.

...while development and regulatory process is lagging

The preparation of Qlucore Diagnostics' CE application in accordance with IVDR has turned out to be more thorough than expected, which combined with poor availability of a Notified Body, now make Qlucore expect to file the application in 2023, rather than in 2022, in turn pushing the company's financial targets one year into the future to 2027. For us this means pushing forward our expectation for the CE approval for the Qlucore Diagnostics platform and ALL to 2024, and the subsequent increase in the number of labs to 70-100 labs by 2027/28 instead of 2026/27. All in all, we estimate number of tests per lab to 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 SEK 300m in 2027/28 and a 40% EBIT margin.

Exaggerated mistrust leaves plenty of upside on the table

With three years of estimated losses (2022/23-2024/25) at a total SEK 77m before turning to profit in 2025/26, our model supports the management's claim that the SEK 86m net cash position will be enough to reach profitability. Furthermore, Net cash exceeds the Market Cap at SEK 81, implying an exaggerated distrust in the company's ability to monetize its technology. In our initiation report on Qlucore, we presented a calculation that showed that a one year delay in the CE approval would reduce fair value by 18% in a DCF approach. Since then, market sentiment has shifted to reward near term profits and punish companies with profits far ahead in the future, lowering peer multiples. Based on a combined DCF and multiple valuation we now find support for a fair value of 34-46 (53-75) SEK in 12-24 months, still leaving plenty of upside from today's level. Main triggers to reverse the negative sentiment towards the share would be a) progress and visibility on the CE application process, b) new Qlucore Insights and eventually Qlucore Diagnostics deals and c) continued growth for Qlucore Omics Explorer which would alleviate cash burn.

67%

Revenue growth
in Q1'22/23

40%

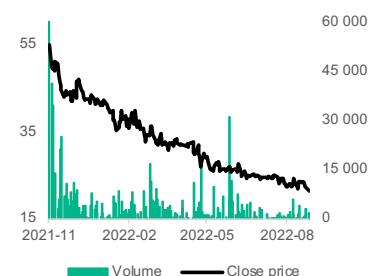
EBIT margin
target in 2027

300

MSEK revenue
target in 2027

Qlucore

Fair Value, SEK (12-24 m)	34 - 46
Current Price (SEK)	20,00
Shares (M)	4,0
Mkt Cap (MSEK)	81
Net Debt (MSEK)	-86
EV (MSEK)	-5
Market	First North



Summary financials

MSEK	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Revenue	13	14	15	21	37
EBITDA	-3	-8	-18	-25	-17
EBIT	-6	-11	-22	-30	-22
EPS Adjusted	-3,05	-2,88	-5,55	-7,81	-5,77
Sales Growth, %	-19%	9%	6%	41%	77%
EBITDA Margin, %	neg.	neg.	neg.	neg.	neg.
EBIT Margin, %	neg.	neg.	neg.	neg.	neg.
EV/Sales	-	1,5	1,2	2,9	2,5
EV/EBITDA	-	neg.	neg.	neg.	neg.
EV/EBIT	-	neg.	neg.	neg.	neg.
P/E	-	neg.	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 2025/2026E.

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)
- Acute Myeloid Leukemia (AML)
- Non-small cell lung cancer (NSCLC)
- Breast cancer
- Bladder cancer

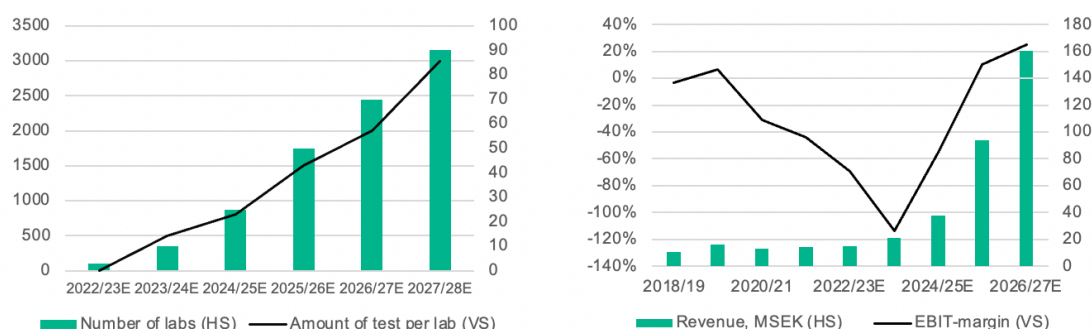
The revenue model for Qlucore Diagnostics is revenue per test for clinical diagnostics and royalties for companion diagnostics.

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

Lab and number of tests, Revenue and EBIT-margin



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 34-46 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. It is not uncommon for larger product development projects to prove to be more costly or protracted than originally expected.

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	15,0	21,2	37,5
Operating Costs	-9,4	-12,4	-15,9	-22,1	-33,3	-46,7	-54,7
EBITDA	1,2	3,6	-3,0	-8,0	-18,3	-25,5	-17,2
Depreciation	-1,7	-2,2	-2,6	-3,5	-3,8	-5,0	-5,0
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	-22,1	-30,5	-22,2
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	-0,2	-1,0	-1,0
Pre-tax Result	-0,6	1,3	-6,0	-11,6	-22,3	-31,5	-23,2
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	-22,4	-31,5	-23,2

Capital Expenditure

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Capital Expenditure, Absolute	-	4,4	4,8	9,0	11,8	6,4	4,1
As a Pct of Sales	-	27,2	37,0	63,4	78,5	30,2	11,0
Depreciation Multiple	-	2,0	1,8	2,6	3,1	1,3	0,8

Key Ratios

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Share Price Model Assumption at 31 Dec	-	-	-	28	20	20	20
Number of Shares (Millions)	1,98	2,0	2,0	4,0	4,0	4,0	4,0
Market Cap Model Assumption	-	-	-	114	81	81	81
Enterprise Value	-	-	-	21	18	61	92
EPS (Reported)	-0,32	0,62	-3,05	-2,88	-5,55	-7,81	-5,77
EPS (Adjusted)	-0,32	0,62	-3,05	-2,88	-5,55	-7,81	-5,77
CEPS	-0,32	0,62	-3,05	-2,88	-5,55	-7,81	-5,77
P/CEPS	n.a.	-	-	neg.	neg.	neg.	neg.
Book Value/Share	4,3	7,3	18,5	27,4	21,8	14,0	8,3
P/BV	-	-	-	1,0	0,9	1,4	2,4
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	-	-	-	1,5	1,2	2,9	2,5
EV/EBITDA	-	-	-	neg.	neg.	neg.	neg.
EV/EBIT	-	-	-	neg.	neg.	neg.	neg.
P/E (Adjusted)	-	-	-	neg.	neg.	neg.	neg.
Sales Growth, Y/Y (%)	-	51,1	-19,3	9,1	6,2	41,3	76,9
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.	neg.
EBIT Margin (%)	neg.	8,8	neg.	neg.	neg.	neg.	neg.
Return on Equity (%)	0,0	8,8	neg.	neg.	neg.	neg.	neg.
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	-92,6	-62,1	-19,9	11,9
Net Debt/Equity	0,1	0,0	-0,6	-0,8	-0,7	-0,4	0,4
Equity Ratio	0,5	0,6	0,8	0,9	0,9	1,0	1,2
Net Debt/EBITDA	1,0	0,1	7,8	11,6	3,4	0,8	-0,7

Source: Emergers, Company reports

Disclaimer

General disclaimer and copyright

This material is not intended to be financial advice. This material has been commissioned by the Company in question and prepared and issued by Emergers, in consideration of a fee payable by the Company. Emergers standard fees are SEK 240 000 pa for the production and broad dissemination of a detailed note following by regular update notes. Fees are paid upfront in cash without recourse. Emergers may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained herein represent those of the research analyst at Emergers at the time of publication. The company has been given the opportunity to influence factual statements before publication, but forecasts, conclusions and valuation reasoning are Emergers' own. Forward-looking information or statements contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Emergers shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this material.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Emergers's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in this material may not be eligible for sale in all jurisdictions or to certain categories of investors. Investors are encouraged to seek additional information as well as consult a financial advisor prior to any investment decision.

Investment in securities mentioned: Emergers has a restrictive policy relating to personal dealing and conflicts of interest. Emergers does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Emergers may have a position in any or related securities mentioned in this report, subject to Emergers' policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Incirrata AB (Emergers)

United Kingdom

This document is prepared and provided by Emergers for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Emergers relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Emergers does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Johan Widmark | Tel: 0739196641 | Mail: johan@emergers.se