

Qlucore AB

Important milestone passed on the road to a more individualized cancer care

Johan Widmark | 2023-03-02 08:00

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The progress in Q3'22/23 (Nov-Jan) continues to support the long term case we're seeing in Qlucore, where the company aims to provide laboratories with its Diagnostics software to analyze complex data sets to enable a more individualized treatment, primarily for cancers. With Net Cash still above the current market cap we see limited downside in the valuation and maintain our fair value of 34-46 SEK in 12-24 months. After the first demonstration of a preliminary classification model for bladder cancer carried out during Q3, the next important step is now the announcement of a target date for the CE marking.

A soft quarter in line with plan and our forecast

While revenues in Q3'22/23 (Nov-Jan) were down 22% (after strong comparable with 50% growth same period previous year) to SEK 4.3m, in line with our forecast, Qlucore is on track to reach our forecast for the full year 2022/2023 of SEK 15m. As expected, revenues in the quarter consist almost entirely of the data analysis segment with Qlucore Omics Explorer. EBIT at SEK -2.9m was slightly stronger the SEK -5m loss we expected. Net cash now amounts to SEK 66m, marginally above the company's market cap. After the Q3-report we've only made some minor upwards revisions to our EBIT forecast for the full year, and keep our long term forecast for 2023/24 and beyond unchanged.

Contract with Notified Body important milestone

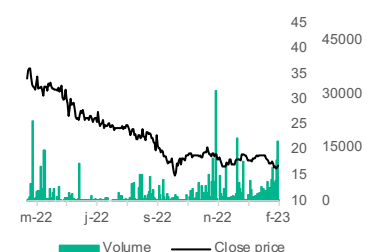
In addition to Qlucore Omics Explorer, Qlucore provides two software packages for clinical RNA-seq data analyses to facilitate classification of cancer patients as well as detailed gene fusion analysis. Those are Qlucore Insights that is already available and used at several customer sites, but for research use only, and Qlucore Diagnostics which is under development and targeted for CE-IVDR compliance. The main news item in the Q3-report was that Qlucore now has a contract signed with a Notified Body for the certification of Qlucore Diagnostics according to IVDR (CE marking), which will be required for launch. Considering that access to Notified Bodies is constrained, this both confirms the maturity of the product and signifies an important milestone of the development schedule. Now the next important step we await is the announcement of a target date for the CE marking.

Share still trading below cash with considerable upside

Qlucore continues to invest heavily in the development of cancer diagnostics tool Qlucore Insights/Diagnostics. After the Q3'22 report, we maintain our base case of a CE approval for the Qlucore Diagnostics platform and ALL in 2024, with a subsequent increase in the number of labs to 70-100 labs by 2027/28. With an estimate of the number of tests per lab at 2,500-4,000 per year, and an estimated price per test of SEK 1,000, we find support for the company's sales target of SEK 300m in 2027/28 and a 40% EBIT margin. Based on a combined DCF and multiple valuation we continue to find support for a fair value of SEK 34-46 in 12-24 months, leaving plenty of upside from today's level. We now see a) progress on CE application and CE marking target date announcement, b) new license sales, and c) the first Diagnostics sales as the most important catalysts for the share.

Qlucore

Fair Value, SEK (12-24 m)	34 - 46
Current Price (SEK)	15,40
Shares (M)	4,0
Mkt Cap (MSEK)	62
Net Debt (MSEK)	-66
EV (MSEK)	-4
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	-12	-23	-15
EBIT	-6	-11	-15	-28	-20
EPS Adjusted	-3,05	-2,88	-3,81	-7,21	-5,16
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	0,3	2,2	2,1
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 five areas of application are:

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

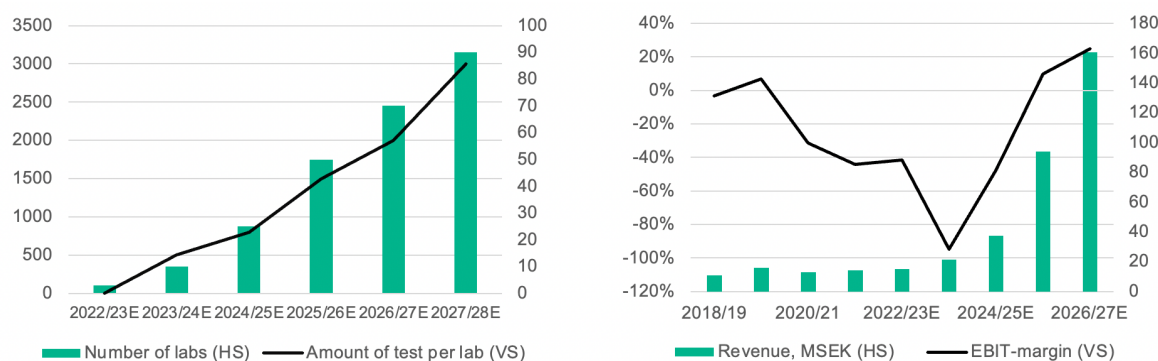
The revenue model for Qlucore Diagnostics is revenue per test for clinical diagnostics and royalties for companion diagnostics.

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	-26,6	-44,3	-52,3
EBITDA	1,2	3,6	-3,0	-8,0	-11,6	-23,1	-14,8
Depreciation	-1,7	-2,2	-2,6	-3,5	-3,7	-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	-15,3	-28,1	-19,8
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	0,0	-1,0	-1,0
Pre-tax Result	-0,6	1,3	-6,0	-11,6	-15,3	-29,1	-20,8
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	-15,3	-29,1	-20,8

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	17,1	9,1	5,5
As a Pct of Sales	-	27,2	37,0	63,4	113,7	42,9	14,6
Depreciation Multiple	-	2,0	1,8	2,6	4,6	1,8	1,1

Key Ratios

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E	2024/25E
Share Price Model Assumption at 31 Dec	-	-	-	28	15	15	15
Number of Shares (Millions)	1,98	2,0	2,0	4,0	4,0	4,0	4,0
Market Cap Model Assumption	-	-	-	114	62	62	62
Enterprise Value	-	-	-	21	4	47	77
EPS (Reported)	-0,32	0,62	-3,05	-2,88	-3,81	-7,21	-5,16
EPS (Adjusted)	-0,32	0,62	-3,05	-2,88	-3,81	-7,21	-5,16
CEPS	-0,32	0,62	-3,05	-2,88	-3,81	-7,21	-5,16
P/CEPS	n.a.	-	-	neg.	neg.	neg.	neg.
Book Value/Share	4,3	7,3	18,5	27,4	23,5	16,3	11,1
P/BV	-	-	-	1,0	0,7	0,9	1,4
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	0,3	2,2	2,1
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	-57,9	-15,4	15,3
Net Debt/Equity	0,1	0,0	-0,6	-0,8	-0,6	-0,2	0,3
Equity Ratio	0,5	0,6	0,8	0,9	0,9	1,0	1,3
Net Debt/EBITDA	1,0	0,1	7,8	11,6	5,0	0,7	-1,0

Source: Emergers, Company reports

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