

Zenikor Medical Systems

Sweden | Healthcare | MCAP SEK 64,2m

Buy

Target Price
Current Price
Up/downside

SEK 19,0
SEK 11,4
67,0%

Two ECGs a day keeps the stroke at bay

Zenikor medical systems (Zenikor) is a small Swedish Medtech company offering a scientific supported portable ECG with associated software. For the past five years, top-line growth has been 11,0% CAGR, but a recent change in the business model has caused the growth to stagnate. With the new business model, pay-per-patient, a model better suited for health centres compensation, the top-line growth over the next 3 years is estimated to 20,7% CAGR. Based on a comparably company analysis with a median EV/S of 9,8x and a 60,2% discount on Zenikor, resulting in a target multiple of EV/S 3,9x, a target price of 19,0 SEK and an upside of 67,0% is motivated.

Zenikor's growth is expected to accelerate from 11,0% CAGR last 5 years to 20,7% CAGR the coming three years when the new business model scales up.

The company is currently using two different business models. Historically, Zenikor have sold on a leasing model, meaning that you bought the instrument and then paid the license of the software. With the new model, pay-per-use, the instruments are handed out free of charge to the health centres and then charged per use. This model matches the revenue and costs of the health centres better and removes their upfront cost. It also allows Zenikor to scale their business much easier since it's directly correlated to how many patients that use the instrument. The new business model is growing by 300% YoY but from a small absolute number, representing ~5% of total revenue. The number of patients that used Zenikor's products in 2019 grew by 35% YoY and should be seen as a better proxy for future growth. It would take about a year for the contract to reach full capacity, which means that the new business model will start to have a significant impact from early 2021.

Recent procurement win and three significant contracts with an estimated value of 4,2MSEK will pave the future for similar deals.

Events over the last two years validate Zenikor's product and competitiveness in the market. Zenikor is supported by 30 independently published scientific studies and 6 doctoral dissertations. This, along with being selected as the only provider of ECG instruments to SAFER (the largest randomized study of arrhythmia in the world) makes strong scientific validation for Zenikor's product. In Q3-2018 Zenikor signed two deals with Tammerfors Hjärtsjukhus and Region Värmland and these contracts will mark as an example for the rest of the regions in Sweden and Finland. In Q3-2019 Zenikor signed a contract with NHS in the UK, starting with 5 (out of 191) health centres in Bradford CCG. It's fair to say that the barriers to entry in these countries have been lowered significantly for Zenikor and several deals over the coming three years are expected.

Gustav Lill
Equity Research Analyst

Market Data

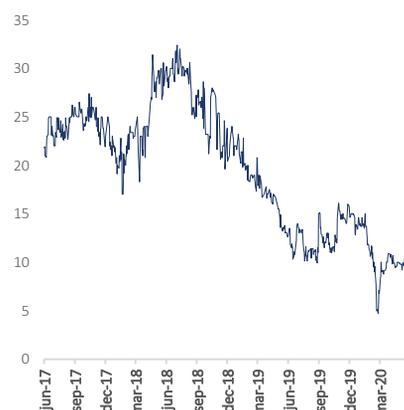
Listing Venue	Spotlight markets	
Price (SEK)		11,4
No. of outstanding shares (m)		5,6
Market Cap (m)		64,2
Cash & Cash Equivalents (m)		1,0
Debt (m)		5,1
Net Debt (m)		4,1
Enterprise Value (m)		68,3

Key Financials (SEK)

	19A	20E	21E	22E
Sales (m)	20,7	23,0	27,5	36,4
Sales Growth y/y	-0,2	11,5	19,1	32,2
Gross Profit	17,5	19,6	23,6	31,6
Gross Margin (%)	85,1%	85,0%	86,0%	86,5%
EBITDA (m)	-1,2	0,5	-0,5	1,5
EBITDA – Margin (%)	-6,0%	2,1%	-2,0%	3,8%
EBIT (m)	-1,3	0,4	-0,7	1,4
EBIT – Margin (%)	-6%	2%	-2%	3,9
Net Income	-1,7	-0,1	-0,8	0,9
Profit Margin (%)	-8,3%	-0,6%	-3,4%	2,2%

Key Ratios (SEK)

	19A	20E	21E	22E
EV/EBITDA	neg	neg	neg	49,2
EV/EBIT	neg	neg	neg	54,9
Net Debt/EBITDA	neg	9,5	neg	2,6
P/E	neg	neg	neg	81,3
EPS	neg	neg	neg	0,1
ROIC	neg	neg	neg	2,1%
ROCE	neg	neg	neg	5,7%



Major shareholders

	%
Sonny Nordström	15,1
Mats Palerius	14,3
Ydrehall AS	12,4
Humle fonder	8,9
Staffan Eriksson	6,0
Total insider	40,6
Total institutional	21,3
Total	56,7

Investment thesis

Zenikor is disrupting how we discover arrhythmia and making the healthcare system more efficient.

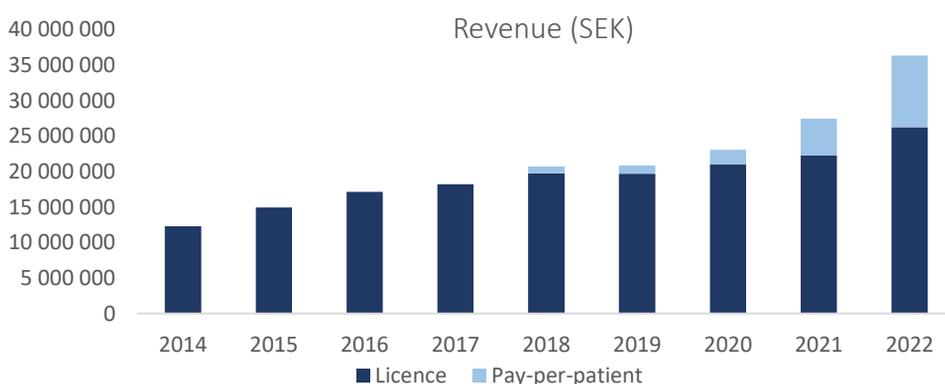
About 80% of all arrhythmias are overlooked by the assessment pathways used today. The problem is that patients don't experience their arrhythmia regularly or all the time. This results in it being hard to detect when the screening is done for shorter periods. This is the strong case for Zenikor since their instrument is used at home for 14 days, easy to use by pressing your thumbs against the instrument two to four times a day. The results are automatically sent to a centralized unit and evaluated by a cardiologist at the local clinic. A diagnosed atrial fibrillation (AF) patient is running a 5 times higher risk to suffer from a stroke than an average person. Zenikor's product is ~3-5 times more effective to diagnose arrhythmia compared to conventional methods and possibly prevent a stroke.

The last five years' revenue growth has been 11,0% CAGR, but the coming three years will be 20,7% CAGR due to a shift in Zenikor's business model that suits the health centres' compensation models.

The shift in the business model caused the growth to stagnate, but the new model will pick up growth and push margins higher. The company has received an upfront payment on the instrument and post 12 months license revenue at the time of sale. This because the company needed funding and stability in the business before shifting towards pay-per-use. With the new model towards health centres upfront and initial licensing revenues are lost; however, this results in higher recurring revenue over time as well as pushing the gross margin from 85% to 87% in 2022 as the expected economic life of the product increases. The already sold licenses are expected to be renewed when they expire as the instruments last for about 5 years and clinics will continue to use the licensing model while healthcare centres use pay-per-patient as it matches their compensation better.

Several new contracts over the coming year are expected to drive revenue growth to 20,7% CAGR 2019-2022.

The pay-per-patient model is expected to drive revenue growth with new contracts signed between 2019 and 2021 with an estimated worth of ~7,5 MSEK. The value for each contract is derived from the reach of the health center/clinic. The Bradford CCG was signed in Q3-2019 with an estimated revenue of £80 000 yearly when fully utilized and with a reach of 200 000 people. Using Bradford as a benchmark lets us estimate the value of the other signed contracts. One minor is expected (equivalent to Tiohundra with a reach of 60.000 people) and one larger deal (Värmland/Tammerfors size with a reach of 250.000-350.000 people) during 2020. In 2021 two minor deals and a larger deal should be and place and in 2022 the two major deals and two minor to medium-sized in 2022.



Valuation

A target EV/Sales multiple of 3,9x implies a share price of 19,0 SEK and an upside of 67,0% with a large margin of safety.

Zenikor operates in a market with structural growth drivers such as the aging population and efficiency needs within the healthcare system. Since Zenikor probably will not make any net profit until 2022, EV/S would be the multiple-choice for peer comparison. Because the company failed to deliver on the IPO sales target of 80 MSEK in 2020, it today trades at EV/S 2,5x for 2021. It can be compared to the company's two years forward average of EV/S 3,9x. Comparable companies trade at a median of EV/S 9,8x, which suggests a potential upside of 319,6%; However, due to the reasons listed below, Zenikor should trade at the historical valuation of EV/S 3,9x, which implies a discount of 60,2% to comparable companies.

- Zenikor is at an earlier stage than most of its peers who are operative on more mature markets.
- Zenikor needs to prove its business model and needs to accelerate revenue growth.
- The company is in a competitive market where there are several larger competitors.

Peer group summary

		EV/S				EV/EBIT				Gross margin				EBIT margin			
		2019	2020e	2021e	2022e	2019	2020e	2021e	2022e	2019	2020e	2021e	2022e	2019	2020e	2021e	2022e
Biotage	BIOT	7,3	8,3	6,8	6,0	39,2	57,4	32,8	27,7	62%	63%	64%	64%	20,6%	19,6%	21,6%	22,4%
Vitrolife	VITR	14,1	15,7	13,6	12,1	42,7	56,0	39,7	34,6	66%	63%	63%	63%	35,8%	31,0%	32,0%	32,5%
Sectra	SECT	8,5	9,6	10,9	9,9	50,9	53,9	60,2	54,5	85%	83%	84%	84%	16,7%	17,5%	17,8%	18,5%
Boule	BOUL	2,8	2,8	2,4	2,2	19,9	22,7	15,6	13,5	45%	46%	46%	47%	14,0%	14,0%	15,6%	16,6%
Xvivo	Xvivo	19,8	20,8	14,8	10,5	1120,0	336,2	104,6	43,2	74%	74%	75%	76%	1,8%	6,2%	14,0%	24,2%
Irhythm	IRHC	8,5	12,6	8,7	6,5	neg	neg	neg	neg	76%	76%	77%	79%	neg	neg	neg	0,4%
Average		10,2	11,6	9,5	7,9	254,6	105,2	50,6	34,7	68%	67%	68%	69%	18%	18%	20%	19%
Median		8,5	11,1	9,8	8,2	42,7	56,0	39,7	34,6	70%	68%	69%	70%	17%	18%	18%	20%
Zenikor	ZENI	3,3	3,0	2,5	1,9	neg	neg	neg	neg	85%	85%	86%	87%	neg	neg	neg	3,4%

On the flipside, in a more mature phase, Zenikor should have close to or a higher EBIT margin than the comparable companies. The business model is very scalable, with the majority of costs fixed and high gross margins (85%). In addition, Zenikor has a more attractive position compared to competitors. The software can handle large amounts of data smoothly, providing a competitive advantage. Proof of concept has been achieved as Zenikor is the only provider of instruments to the world's largest screening study SAFER as well as Strokestop 1 and 2.

Weak balance sheet with 1,0 MSEK in cash but with possibilities to manage it.

One should note that the company is running low on cash, and a possible rights issue with the following dilution of the share could be coming up. But Zenikor has different possibilities to manage the liquidity. As of last quarter (Q1 2020), Zenikor had 1,0 MSEK in cash on their balance sheet. They have a steady cash flow from licensing, and they can utilize credit if needed. In Q4-2020, 6,5 MSEK of accounts payable will be converted to cash following payment from STROKESTOP. Hospitals and health centres have pulled much of their capital expenditures trying to combat Covid-19, and that will probably last until the end of 2020, but steady growth of patients that use Zenikor's products will keep the story intact.

Strong lock-in effect for Zenikor, due to long sale cycles, high switching cost, and clinical support.

Sales to hospitals and health centres have long sale cycles, and clinical support is required. Long sales cycles, paired with high switching cost, creates a good lock-in effect for Zenikor on their customers. Today, Zenikor is supported by 30 independently published scientific studies and 6 doctoral dissertations which also gives them a competitive advantage to competitors.

SEKm	Actual		Estimates		
	2018	2019	2020	2021	2022
Revenue	20,8	20,7	23,1	27,5	36,4
<i>Growth (%)</i>		-0,2%	11,5%	19,1%	32,2%
OPEX	22,2	22,9	20,7	25,2	30,0
EBITDA	-2,3	-1,2	0,5	-0,5	1,5
<i>Margin (%)</i>	-11,0%	-6,0%	2,1%	-2,0%	3,8%
D&A	0,1	0,1	0,1	0,1	1,5
EBIT	-2,4	-1,3	0,4	-0,6	1,4
<i>Margin (%)</i>	-11,5%	-6,4%	1,7%	-2,4%	3,4%
Interest	-0,3	-0,4	-0,5	-0,3	-0,2
Tax	0	0	0	0	0,2
Net Income	-2,7	-1,7	-0,1	-0,9	0,9

		EV/S				EV/EBIT				Gross margin				EBIT margin			
		2019	2020e	2021e	2022e	2019	2020e	2021e	2022e	2019	2020e	2021e	2022e	2019	2020e	2021e	2022e
Biotage	BIOT	7,3	8,3	6,8	6,0	39,2	57,4	32,8	27,7	62%	63%	64%	64%	20,6%	19,6%	21,6%	22,4%
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Average		10,2	11,6	9,5	7,9	254,6	105,2	50,6	34,7	68%	67%	68%	69%	18%	18%	20%	19%
Median		8,5	11,1	9,8	8,2	42,7	56,0	39,7	34,6	70%	68%	69%	70%	17%	18%	18%	20%
Zenikor	ZENI	2,9	2,6	2,2	1,6	neg	neg	neg	neg	85%	85%	86%	87%	neg	neg	neg	3,4%