Medistim ASA (MEDI) – Solid quality company in a blue ocean market

Thiago Brito & Sebastian Andersen

Business Description	Sector: Medical Equipment	Mkt Cap (MNOK): 1 309

Medistim ASA is a Norwegian health care company founded in 1984 that develops, manufactures and distributes medical equipments focused on cardiac and vascular diseases. The Company's mission is to serve patients, surgeons, and health care providers with innovative and cost effective medical devices. These devices are used to measure blood flow and visualize blockages in arteries, helping on the quality control and improving the results of cardiac and vascular surgeries.

Investment Thesis

Cutting edge technology solutions for an old world problem.

Cardiac and vascular diseases continue to be the most common cause of death in the western world. During a coronary bypass surgery for example, the doctor have to rely on their own sense to identify where is located the artery blockage as well as use their fingertip to feel the pulsation and confirm the blood flow in the new graft. Medistim's products provides relevant information that empowers surgeons to make better-informed decisions in the operating room, enabling medical professionals to reduce risk and enhance quality of cardiac, vascular and transplant surgery.

Blue ocean market ready to be explored.

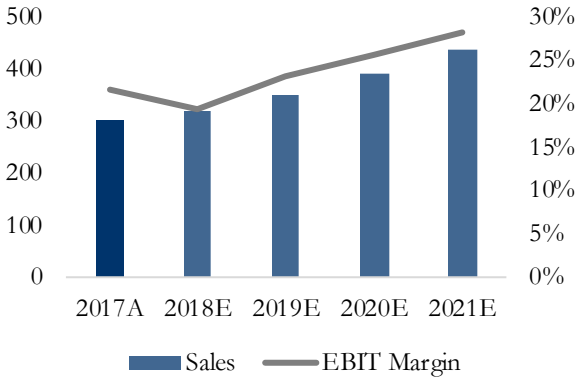
More than 700 000 coronary bypass surgeries are performed annually worldwide, 63% of these without using a quality assurance device. Medistim is this niche market leader being present in 32% of the world procedures while competitors owns the remaining 5%. The Company's penetration is expected to increase as quality assurance in surgeries is getting more attention and acceptance. In Japan and in some European countries for example, it is almost unthinkable to perform bypass surgery without using a flow system to ensure proper graft quality.

High growth opportunities ahead.

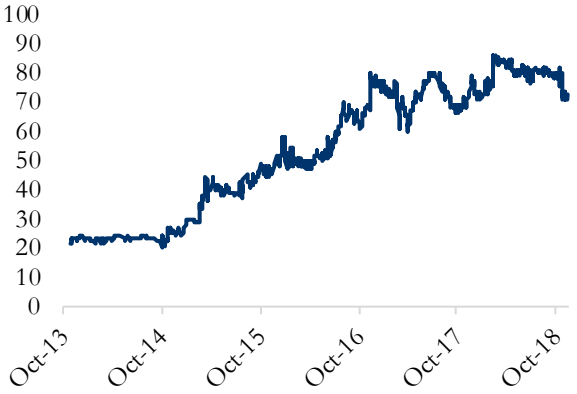
Considering that there is broad clinical and scientific support for the method, the expansion potential is large in major markets like USA, England and France. At the same time, markets like Brazil, Russia, India and China are showing a growing demand and interest in Medistim's products. The devices are also applicable to vascular and open heart surgeries which creates new opportunities for the Company in addition to the coronary market that today is the focus of Medistim.

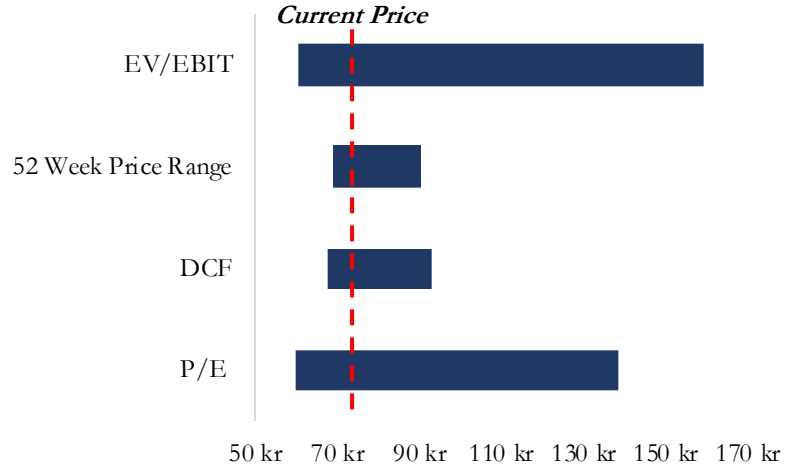
Current Price	71,4 NOK				
Buy Range	< 71,0 NOK				
Sell Range	> 90,0 NOK				
PNL (MNOK)	**2017A**	**2018E**	**2019E**	**2020E**	**2021E**
Net Revenue	301,5	317,0	349,2	391,8	437,1
Growth (%)	12,5	5,2	10,1	12,2	11,5
Gross Marg (%)	75,9	74,1	76,0	76,9	77,8
EBIT	65,5	61,3	80,9	100,7	123,1
EBIT Marg (%)	21,7	19,3	23,2	25,7	28,2
Earnings	47,6	44,4	62,2	79,8	99,8
Key Ratios	**2017A**	**2018E**	**2019E**	**2020E**	**2021E**
EV/EBIT	19,46	20,80	15,76	12,65	10,35
EV/EBITDA	16,19	17,27	13,42	10,98	9,12
P/E	27,52	29,52	21,04	16,41	13,12
ND/EBITDA	-0,45	-0,65	-0,69	-0,73	-0,79
ROIC (%)	25,6	21,7	27,6	31,5	34,6

Estimated Sales (MNOK) and EBIT Margin



Historical Share Price (NOK)





Company Overview

Growth Opportunities

- The main markets in Europe are seen as mature while the USA is considered the main driver of growth. Certain Asian (Japan excluded) and Latin American countries are seen as potential growth markets.

Clinical Studies

- Clinical studies are a key part of the business to support discussions with the medical community. The results of the REQUEST study was released in October 2018 and scientifically confirms the positive effect of Medistim's products in coronary surgeries.

Customers

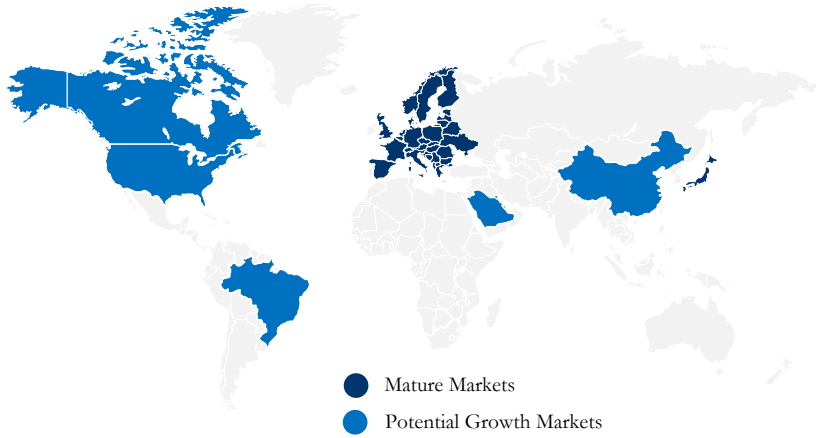
- Include hospitals where sales representatives are in close contact with surgeons and doctors.

Strategy

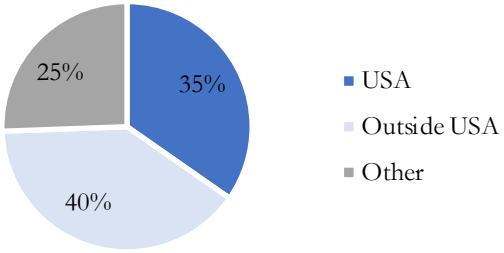
- Medistim's strategy in the USA is to lease its products or charge customers per procedure, while in the other markets it sells the systems and probes. The Company has own subsidiaries (in the US, DE, UK, ES, NO, DK) as well as counts with a global network of distributors in more than 50 countries.

Products

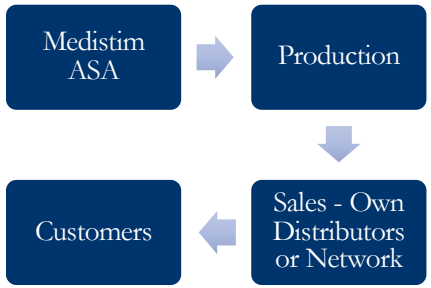
- Medistim supplies three main products: VeriQ (flow system), VeriQ C (imaging system), and the latest generation medical device MiraQ (both flow and imaging system). Besides of this, the Company also sells replacing flow and imaging probes for its machines worldwide as well as complementary third party products in Norway and Denmark.



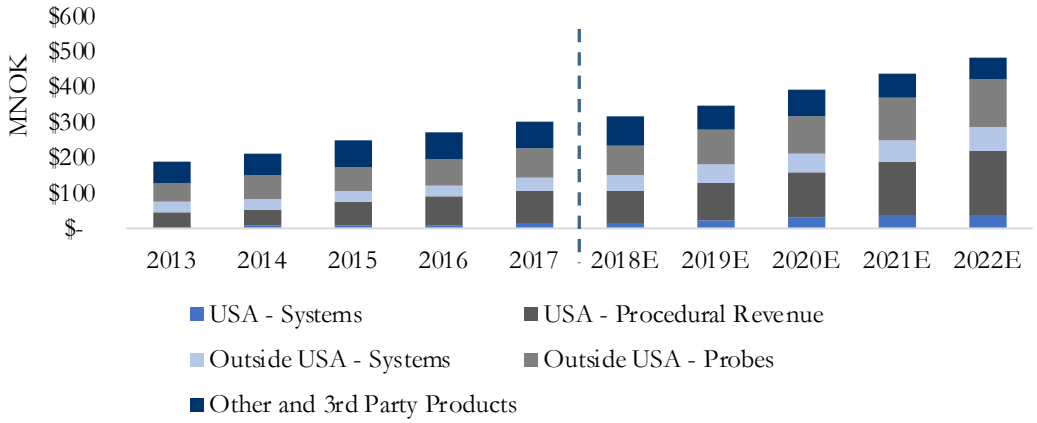
Sales Breakdown (2017)



Value Chain



Revenue per Segment



Product Portfolio

Flow Probes

Imaging Probes

MiraQ

VeriQ

VeriQ C

Strategic Insight and Market Outlook

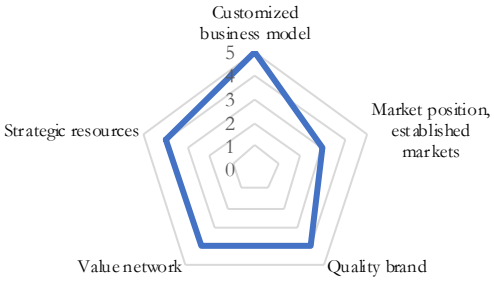
Strategic Insight

- Flexible and market-customized business model focused on knowing needs of customers as well as being built specifically for each geographic market., for example the pay-per-procedure and leasing basis in the USA and the onetime investment sales in the rest of the world.
- Strategy focusing on commercialization of current product portfolio through own subsidiaries and global networks and thereby become standard of care at hospitals.
- Main strategic resource is staff, including sales representatives, having extensive knowledge and experience within the healthcare industry, and who can communicate and drive value creating discussions with key persons in the industry being doctors and surgeons.
- Value network consists of study collaborations with universities on studies like REQUEST and CIDAC as well as focus on being recognized as a market leader by participating in trade fairs.
- Medistim has obtained long-term debt with floating interest rates, which may affect business performance if rates hike, also costs of third party products are high and represents 60% of COGS.

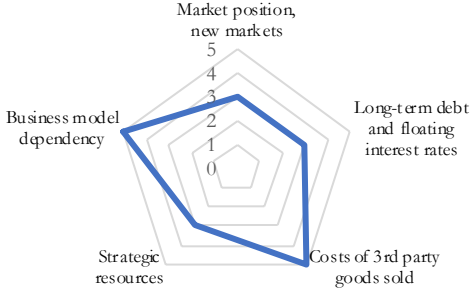
Market and Macro Outlook

- Latin American and Asian markets have an increased focus on cardiac diseases regarding the population in some of these countries adopt lifestyles that are favorable for heart problems to arise.
- Despite challenging economic situation in European countries, sales are still positive but Europe is in general viewed as a mature market.
- USA remains the largest market in the world where 33% of all coronary bypass procedures are performed, being this market the main growth driver for Medistim.
- Equipment supplied by competitors are estimated to be used in 5% of the bypass surgeries performed worldwide, making Medistim a global leader with products being used in 32% of all surgeries globally. The remaining 63% of surgeries take place with no quality assurance devices.
- Risks and uncertainties lies within global markets, where international trades and economy growth may slow. Other risks are seen in regulatory spheres where lost approvals can affect sales, as well as foreign exchange risks regarding that most of Medistim's revenue comes from outside Norway.

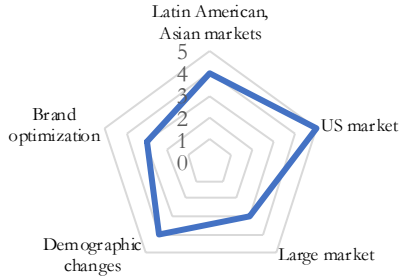
Strengths



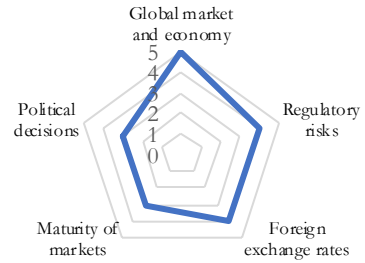
Weaknesses



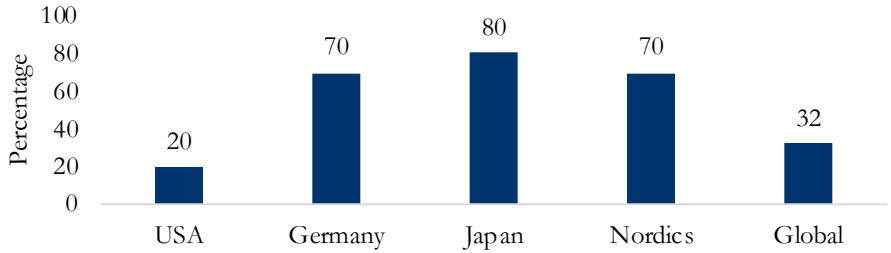
Opportunities

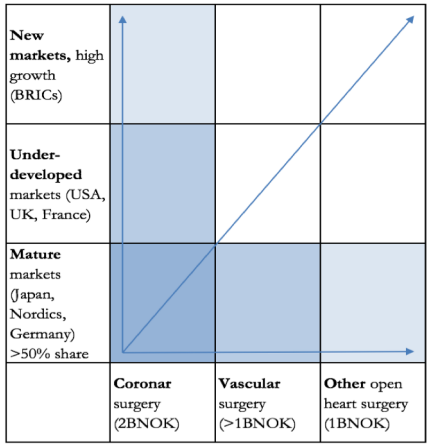


Threats

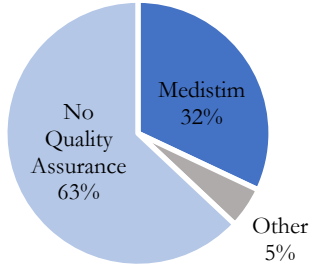


Estimated Market Penetration - Coronary Bypass Surgery (2017)





Market Penetration - Coronary Bypass Surgery (2017)



Key Performance Indicators and Estimates

Sales

- Net Revenue of YTD 2018 was negatively affected by USD and EUR exchange rate and is expected to result in a lower growth when compared to the previous periods. For the next three fiscal years is estimated that the Company will deliver a CAGR of 11,9% driven by the expansion of its presence in the American market, a higher penetration in developing countries, as well as a result of the REQUEST study release proving that Medistim's dual technology of image and flow measure improves quality of the surgery.

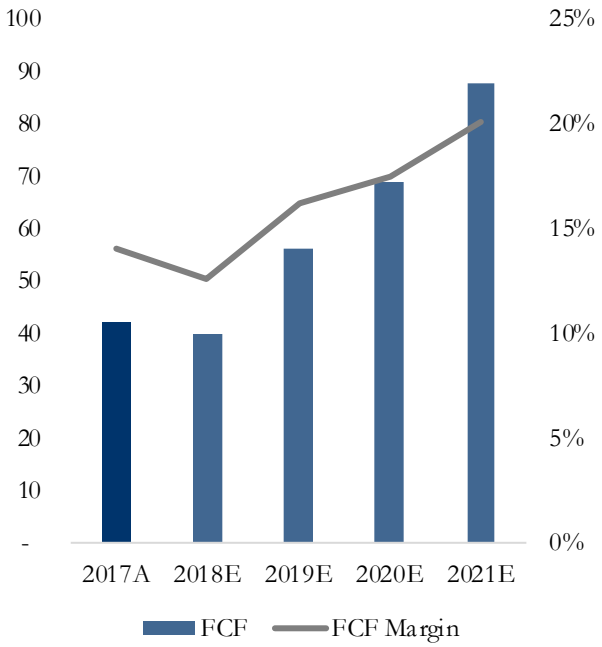
Costs

- Higher sales of third party products with lower margins when comparing to the previous year was the main reason for the pressure on costs during YTD 2018. Third party products currently represents 60% of COGS but is responsible for only 24% of the revenue. Its representativeness on total sales is expected to decrease over the next periods with a better product sales mix leading to higher margins.

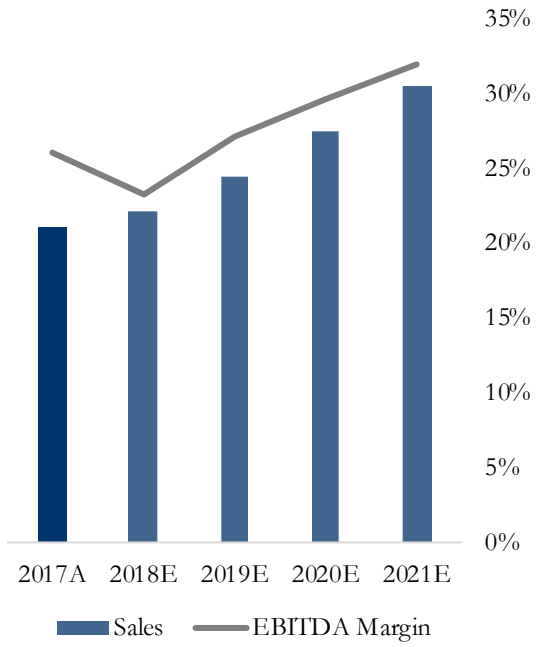
FCF

- Medistim has been delivering consistent Free Cash Flow over the last years due to its strong operational cash generation. For the following three terms is projected a CAGR of 24,8% that will result in a FCF Margin of 20,1% in 2021.

FCF (MNOK) and FCF Margin



Estimated Sales (MNOK) and EBITDA Margin



PNL (MNOK)	2017A	2018E	2019E	2020E	2021E
Net Revenue	301,5	317,0	349,2	391,8	437,1
Growth (%)	12,5	5,2	10,1	12,2	11,5
Gross Profit	228,7	234,8	265,2	301,4	340,3
Gross Marg (%)	75,9	74,1	76,0	76,9	77,8
OPEX	163,2	173,6	184,4	200,7	217,2
EBITDA	78,7	73,8	95,0	116,1	139,7
EBITDA Marg (%)	26,1	23,3	27,2	29,6	32,0
EBIT	65,5	61,3	80,9	100,7	123,1
EBIT Marg (%)	21,7	19,3	23,2	25,7	28,2
Net Profit	47,6	44,4	62,2	79,8	99,8
EPS (NOK)	2,62	2,44	3,43	4,39	5,49

Cash Flow(MNOK)	2017A	2018E	2019E	2020E	2021E
NWC	122,7	140,9	166,0	197,1	235,1
Operating CF	60,1	51,5	69,1	82,9	103,7
Investing CF	-14,5	-9,5	-10,5	-11,8	-13,1
Financing CF	-22,3	-29,1	-40,8	-52,3	-65,3
CF	23,3	12,9	17,9	18,9	25,3
FCF	42,2	39,9	56,4	68,7	87,8

Ratios	2017A	2018E	2019E	2020E	2021E
ROE (%)	27,2	23,3	29,8	34,2	37,7
ROA (%)	20,3	17,1	22,4	26,3	29,8
ROIC (%)	25,6	21,7	27,6	31,5	34,6
Dividend Yield (%)	2,5	2,2	3,1	4,0	5,0
FCF Yield (%)	3,2	3,1	4,3	5,2	6,7

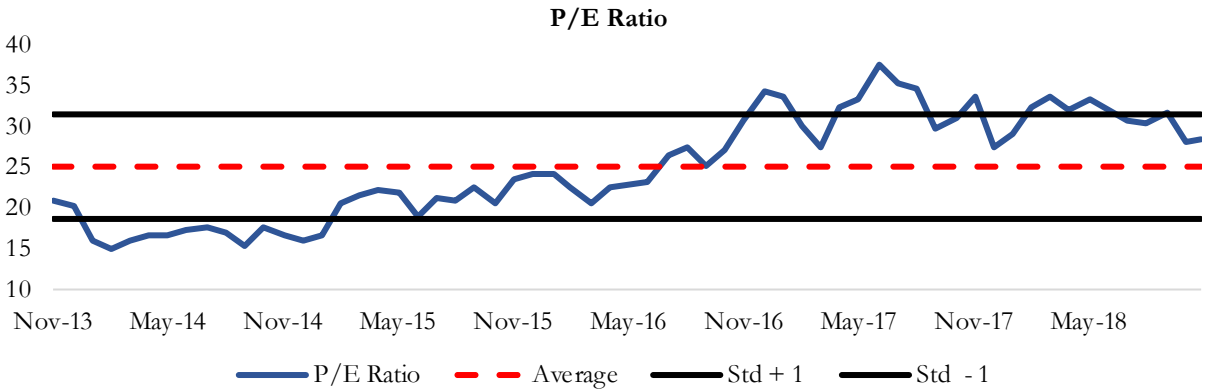
Valuation

Valuation Conclusions

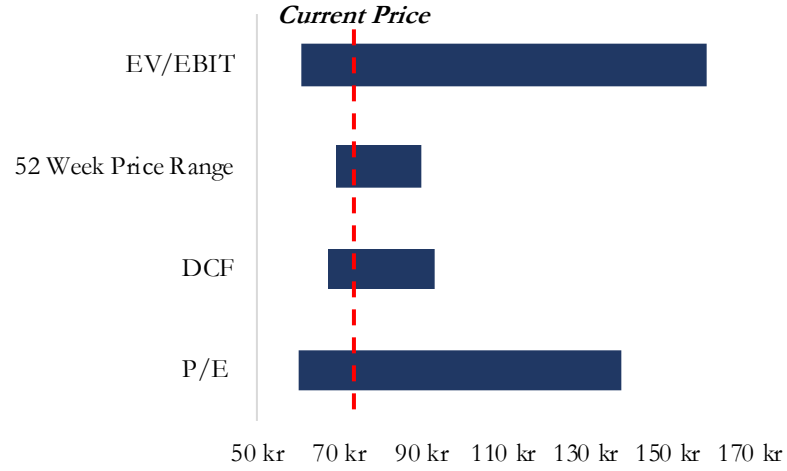
- A Discounted Cash Flow method with conservative assumptions indicates a fair value of 78,2 NOK, which would represent a 9,6% upside potential considering the current price of 71,4 NOK (November 27th, 2018).
- Comparing Medistim with other European medical equipment companies it is possible to notice that it is delivering a higher ROIC and a better EBIT Margin than most of its peers. Performing a relative valuation using the peers' multiples median would result in potential prices of 159 NOK for EV/EBIT and 139 NOK for P/E.
- The current Medistim's P/E Ratio is right on the middle of its five year average and +1 standard deviation. However it is still very below the trading multiple of the health care industry, giving signs that more upside is about to come.
- It is also important to mention that the stock is currently being traded close to its lowest price considering the 52 week range, confirming that this is the right time to buy shares of this high quality company for a very attractive value.

Valuation Metrics	2017A	2018E	2019E	2020E	2021E
EV/Sales	4,23	4,02	3,65	3,25	2,91
EV/EBITDA	16,19	17,27	13,42	10,98	9,12
EV/EBIT	19,46	20,80	15,76	12,65	10,35
EV/FCF	30,19	31,90	22,59	18,55	14,50
P/E	27,52	29,52	21,04	16,41	13,12
P/B	7,16	6,60	5,96	5,29	4,65

DCF Output (MNOK)	
FCF Build Up	109,4
WACC (%)	9,0
Terminal Growth (%)	2,5
Terminal Value	1.726,2
Enterprise Value	1.386,7
Equity Value	1.434,8
Implied Value per Share (NOK)	**78,2**



Peer Table	Mkt Cap (BNOK)	EV (BNOK)	EBIT (%)	ROIC (%)	EV/EBIT	P/E
Livanova	51,50	52,14	11,4	1,97	132,46	63,20
Elekta	39,00	40,37	13,9	9,04	25,96	32,92
Boule	1,08	1,09	15,6	11,23	17,53	31,09
SyntheticMR	1,23	1,20	40,6	37,63	68,34	92,59
Average	**23,20**	**23,70**	**20,4**	**14,97**	**61,07**	**54,95**
Median	**20,12**	**20,79**	**14,7**	**10,14**	**47,15**	**48,06**
Medistim	**1,30**	**1,27**	**21,7**	**25,60**	**20,36**	**28,21**



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