



## Healthcare

2nd October 2019

## BIOCARTIS

- Healthcare
- Life Sciences Tools & Services

## BUY

|             |                |
|-------------|----------------|
| Fair Value  | EUR13,5(+118%) |
| Share price | EUR6.20        |
| EPS 3Y Cagr | NM             |

## No pain, no gain

## TMO deal over ... a Biocartis decision

During the roadshow we organised with Biocartis' CEO (Herman Verrelst) and CFO (Ewoud Welten) in Stockholm, discussions focused on the implications of the termination of the co-commercialisation agreement with ThermoFisher (TMO) announced on Sept. 5<sup>th</sup>. The limited interest TMO sales reps had in placing Idylla alongside the impossibility for Biocartis to provide TMO clients with the necessary support led the company to bought TMO out from the four years exclusive co-commercialization agreement signed in 2016.

## What are the next steps?

The management identified three main steps to successfully retain Idylla users which were handled by TMO reps.

While the first step consisting in transitioning the contracts (paperwork) has already been done, the second step relating to the implementation of a supply chain is well under way (warehouse and shipping) and we see a very low risk for disruption at existing customers. Indeed, the vast majority of US Idylla instruments have been placed over the past 6-9 months and consumables are bought every six months at first, then on a quarterly basis. This should simplify the implementation of a logistic chain i.e. no push/order and limited number of customers ordering on a monthly basis to be management in the implementation phase.

The last step, necessary to expand the footprint, requires Biocartis to ramp-up its direct sales force from a dozen to c.20 direct reps. This should enable to Biocartis to cover most US Tier 1 hospitals which could drive volumes of up to 400-500 cartridge/year in routine mode. We note that some reps have already been hired over the course of the summer hereby limiting disruption in the transitioning of TMO accounts in our view.

## Expansion of menu key to drive long-term volume growth

The feedback Biocartis is getting from customers is that there is a strong demand for new panels that can qualify the mutational status in short turnaround time, as suggested by the company's 30% market share in CRC testing in Europe. On this front, the company is investing in R&D to cope with customers' demand. Although the EUR20m spent in R&D in H1 2019 has also been driven by 1/ testing to ensure continuous quality production from ML1 to ML2 and 2/ FDA inspection readiness, investments directed to menu expansion represents the bulk part of R&D expenses. We would expect the US lunch of the ctEGFR assay for research use in Q4 2020, followed by the lunch of the GeneFusion panel and submission of the MSI test with the FDA in the course of 2020.

## Market Data

|                        |                   |
|------------------------|-------------------|
| Bloomberg / Reuters    | BCART BB/BCART.BR |
| Market Cap.            | EUR350m           |
| E.V.                   | EUR321m           |
| Free Float             | 0%                |
| Avg. Daily volume (6m) | 134.3             |
| 12m high / low         | EUR12.5 / EUR5.6  |
| Ytd Perf.              | -37.6%            |

| EURM       | 12/18 | 12/19e | 12/20e | 12/21e |
|------------|-------|--------|--------|--------|
| Sales      | 28.7  | 44.6   | 70.0   | 106.9  |
| % Change   |       | 55.7%  | 56.9%  | 52.8%  |
| EBITDA     | -42.6 | -42.2  | -23.3  | -6.5   |
| % Change   |       | 0.9%   | 44.7%  | 72.2%  |
| EBIT       | -46.9 | -48.9  | -30.3  | -14.3  |
| % Change   |       | -4.4%  | 38.0%  | 53.0%  |
| Net Income | -48.2 | -58.7  | -36.8  | -20.6  |
| % Change   |       | -21.9% | 37.3%  | 44.1%  |
| ROE        | -0.55 | -0.72  | -0.83  | -0.86  |

|           | 12/18 | 12/19e | 12/20e | 12/21e |
|-----------|-------|--------|--------|--------|
| EV/Sales  | 11.2x | 7.3x   | 5.3x   | 3.7x   |
| EV/EBITDA | NS    | NS     | NS     | NS     |
| EV/EBIT   | NS    | NS     | NS     | NS     |
| EPS       | -0.94 | -1.05  | -0.66  | -0.37  |
| % change  |       | -12.3% | 37.3%  | 44.1%  |
| P/E       | NM    | NM     | NM     | NM     |
| Div Yield | NM    | NM     | NM     | NM     |

Next Catalyst : Nov. 14<sup>th</sup> Q3 business update

Last FV Change:

2019-9-5, H1 2019: delayed uptake of US consumable sales will impact FY19 sales

Last Reports:

2019-9-6, "Show me story" with near-term catalyst

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|                |   |
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