

Lifecare

Sector: Medtech

Injection of growth capital sets the stage for an eventful year

Redeye expects an eventful 2024 for Lifecare following the Q3 report, which sported slightly higher revenues and lower costs than anticipated. We largely maintain our estimates and slightly increase our base case.

Q3 2023 – Solid cost control and growth capital acquired

Redeye has a positive take on the Q3 financials, which came in slightly above our revenue estimates and even more in EBIT, following a lower cost base than estimated. This signals solid cost control despite a high activity. Including the net proceeds from the private placement, we estimate the current cash position to be cNOK55m. This should sustain Lifecare to establish both automated production and the forthcoming launch of its veterinary product in mid-2024.

Progress on several fronts, LFC-SEN-002 to commence in Q1 2024

Lifecare is developing on several fronts and seems to be progressing according to plan, where the most near-term event is related to the ISO13485 audit by mid-November. However, a slight setback has arisen due to a sub-supplier issue, resulting in the postponement of the LFC-SEN-002 trial. Instead of the initially anticipated commencement in Q4 2023, the study will begin in Q1 2024.

Strong share price development, additional supportive catalysts in 2024

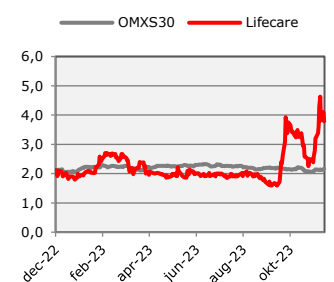
Lifecare's shares have performed very well in H2, and we see potential for additional share price supporting newsflow in the first half of 2024. Apart from some financial housekeeping, we maintain our perspective on Lifecare and have made a slight adjustment to our financing estimate for 2024, resulting in a positive impact on our valuation. Our diluted base case amounts to NOK4.2, with a bull- and bear case of NOK10 and NOK0.5, respectively.

Key Financials (SEKm)	2021	2022	2023e	2024e	2025e
Revenues	2	22	8	9	73
Revenue growth	-70%	1284%	-62%	8%	711%
EBIT	-16	-17	-32	-64	-57
EBIT Margin (%)	-996%	-78%	-381%	-714%	-78%
EV/Revenue	91,0	7,4	55,5	51,7	6,4
EV/EBIT	neg	neg	neg	neg	neg

FAIR VALUE RANGE

BEAR	BASE	BULL
0.5 (0.5)	4.2 (4)	10 (10)

LIFE VERSUS OMXS30 – 12 MONTHS



REDEYE RATING



KEY STATS

Ticker	LIFE
Market	Euronext Growth
Share Price (NOK)	3.8
Market Cap (NOKm)	514
Net Debt (NOKm)	-51
Free Float (%)	64%
Avg. daily volume ('000)	320

ANALYSTS

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Investment Case

Innovative technology with disruptive potential targeting USD>6bn market

Lifecare targets diabetes patients with its next-generation continuous glucose monitor (CGM), Sencell. We see potential for Sencell – thanks to its robust and differentiated value proposition – to capture a slice of the >USD6bn market, which is growing c15% each year. The sensor's CE marking, anticipated in 2024 following the LFC-SEN-003 trial, should pave the way for a significant commercial opportunity not yet reflected in the share price.

Attractive value proposition opening up vast market potential

The blood glucose monitoring market is valued at cUSD11bn and comprises c60% of continuous glucose monitors (CGM), which have grown rapidly since the first approval in 1999. Annual growth is projected at c15% until 2026, suggesting it reaches USD13bn. CGM has revolutionised diabetes monitoring, and we believe Sencell's superior sensor longevity, potentially improved accuracy, and improved convenience should appeal to many patients. Considering the market size, Lifecare's sensor only needs to capture a fraction of the market to generate significant recurring revenue streams and becoming a very profitable company.

Supportive analysis: Appealing market, high value proposition

CGMs have revolutionised diabetes treatment and monitoring by providing patients and physicians with real-time access to glucose levels and trends via a reader, smartphone, or other smart wearables. This stands in contrast to their predecessors, BGMs, which require a blood sample from a finger prick to measure glucose levels at a single point in time. Diabetes management relies on patients injecting insulin based on accurate glucose readings to prevent short- and long-term complications. Improvements to these devices thus have significant implications for insulin-treated diabetes patients, putting a significant emphasis on their accuracy. This accuracy is often measured by the mean absolute relative difference (MARD), which calculates the average absolute difference between CGM readings and reference glucose values over a certain period of time, with lower MARD values indicating higher accuracy.

Sencell, Lifecare's CGM sensor, could offer type 1 diabetics and a subgroup of insulin-treated type 2 diabetics a next-generation approach to blood glucose monitoring. The device, which is the size of a grain of rice, is inserted under the skin and provides real-time glucose monitoring through osmotic pressure for up to six months. In the LFS-SEN-001 clinical trial, Sencell has reported a MARD just above the recently released successors to current market leaders, Freestyle Libre and Dexcom. Such characteristics should be appealing to many patients and allow Sencell to capture a slice of the CGM market, which entails a significant commercial opportunity.

Comparison of CGM's		Sencell	Dexcom G7	Eversense E3	Freestyle Libre 3	Medtronic Guadian 4	Competitor Average
Company	Lifecare	Dexcom	Senseonics	Abbott	Medtronic		
MARD (%)	9,6%	8,2%	8,5%	7,9%	8,7%	8,3%	
Sensor longevity (weeks)	26**	1,5	26	2	1	7,6	
Warm-up time (hours)	0,5-1	0,5	24	1	2	6,9	
Reading frequency (minutes)	<5	5	5	1	5	4,0	
Sensor size (mm)	1x0.5x0.25	24x24x2	16x4x4	19x19x3	19x11x10	20x15x5	
Approximate annual cost (USD)	650	4 000	3 300	1 700	4 200	3 300	
Placement	Under skin	Arm/abdomen	Under skin	Arm	Arm/abdomen	N/A	
Integrable with insulin pump	No	Yes	No	Yes	Yes***	N/A	
Calibration required?	No	No	Every 12 hours	No	Every 12 hours	N/A	
Requires transmitter to transfer data to phone / wearable	Yes	No	Yes	No	Yes	N/A	

* In the LFS-SEN-001 trial, MARD is likely to decrease ahead of becoming commercially available

**Estimated minimum of 26 weeks

***Only integrable with Medtronic insulin pump

Challenge I: More capital will be required

Promising prospects and market opportunities aside, Lifecare will require additional capital before turning profitable, which raises the financial risk. In this context, it is comforting that the company has supportive major owners that have participated in previous financing rounds. Our valuation accounts for this risk by including a capital injection at the end of 2024, raising a total of cNOK100m, resulting in c25% dilution.

Challenge II: Development and regulatory approval remain

Sencell has generated promising data in a preclinical setting and in initial clinical trials. However, further steps are needed to confirm accuracy, reliability, and safety in a larger clinical setting for Lifecare to obtain regulatory approval for product marketing. Moreover, some minor engineering efforts remain to scale the sensor down to its commercial form.

Valuation

We derive our fair value range based on a 2023e–2032e DCF valuation using a WACC of 15% based on our Redeye Rating model and with a risk-free rate of 3%.

Our base case amounts to NOK4.2, using relatively conservative assumptions. Moreover, our bull case sees a value of NOK10, assuming a higher market penetration. In our NOK0.5 bear case, we assume Lifecare encounters problems in its clinical trials, delaying market entry, and we assume muted market interest.

Base case DCF-assumptions

Base case DCF				
Assumptions		DCF	NOKm	Per share
Tax rate	22,0%	2023e-2025e	-79	-0,4
WACC	15,0%	2026e-2031e	240	1,3
Revenue CAGR, 2023e-2025e	195,6%	Terminal	449	2,5
Revenue CAGR, 2026e-2031e	45,4%	Net cash*	142	0,8
Shares outstanding	134,9			
Shares outstanding (diluted)	178,6			
Terminal values, 2032		Fair value (diluted)	752	4,2
Group revenue (SEKm)	1 788	Upside from current price		11%
Terminal growth	2%			
EBIT margin	20%			

*Including net proceeds from two rights issues

Source: Redeye Research

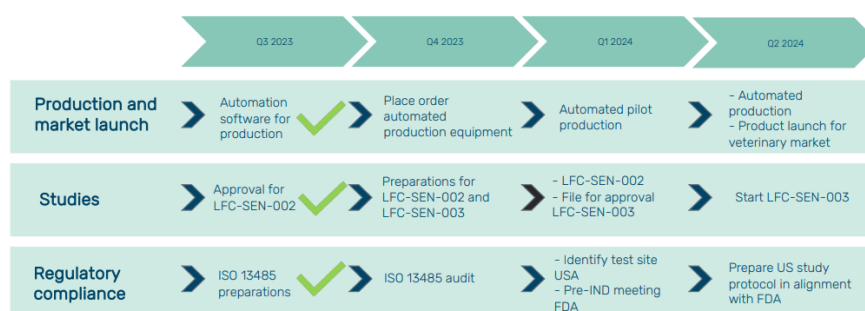
Q2 2023 – Review

Recent activities

- Lifecare has conducted a sensor experiment where Sencell reached an operational lifetime of 172 days with a chemistry shelf-life of 187 days.
- In October Lifecare raised SEK42.5m in gross proceeds through a private placement at a subscription price of NOK2.5.
- Lifecare has received approval to start LFC-SEN-992 from the NFSA, where it will further investigate the longevity and biocompatibility of Sencell.
- Lifecare has reported that its Laboratory in Mainz, Germany, is considered ready for ISO13485 audit, which will be carried out in the middle of November 2023.
- Additional progress with the product development agreement together with Sanofi has been finalized in Q4.

Largely, development is progressing according to plan but lifecare announced in yesterday's conference call that the commencement of the LFC-SEN-002 trial will be postponed from Q4 2023 to Q1 2024 due to a sub-supplier responsible for the wireless communication from Lifecare's sensor to the read-out-device. Hence, the current outlook is visualized below:

Company timeline overview



Source: Lifecare

Financials

Revenues of NOK2.6m were above our NOK1.4m estimate. These revenues are largely related to third-party services through its laboratory in Germany.

OPEX was NOK-8.6m leading to EBIT of NOK-6.7m, which was 52% higher than our NOK13.9m estimate. The deviation is largely attributable lower other operating costs than we had forecasted, however, these costs are likely to surface in either Q4 or Q1 and is likely partly related to the delayed trial commencement.

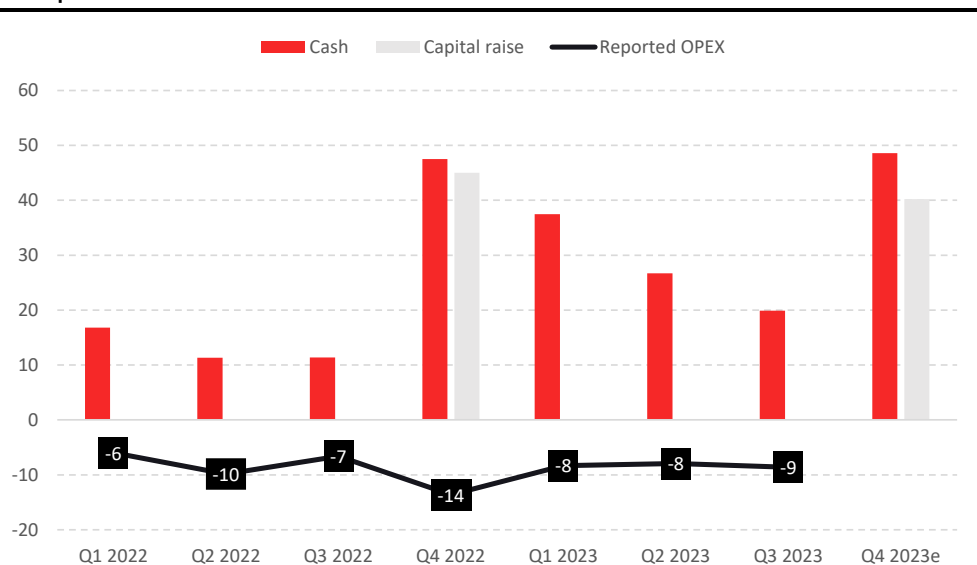
Cash and cash equivalents amounted to NOK19.9m and does not include the net proceeds from the NOK42m private placement announced in October. The current cash position (including burn rate since end of Q3) is cNOK55-60m. Hence, Lifecare stands well financed to proceed toward its goals of automated production and launch of its first veterinary product by my 2024.

Deviation table (NOKm)

(SEKm)	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q3 2023e	dev. %	dev. Abs.
Revenues	6,7	5,3	2,6	1,2	2,6	1,4	82%	1,2
Revenue growth y/y	N/A	N/A	32%	-82%	-62%	-79%		
Revenue growth q/q	#DIV/0!	-21%	-51%	-53%	109%	15%		
Total opex	-6,6	-13,6	-8,3	-7,9	-8,6	-14,3	-40%	5,7
Personnel expenses	-2	-5	-4	-4	-5	-5		
Other operating costs	-4	-9	-4	-4	-4	-10		
Depreciation/Amortization	0	0	-1	-1	-1	-1		
EBITDA	0,1	-8,3	-5,7	-6,7	-6,1	-12,9	-53%	6,9
EBITDA margin	1%	-156%	-219%	-546%	-236%	-914%		
EBIT	-0,2	-8,7	-6,4	-7,5	-6,7	-13,9	-52%	7,2
EBIT margin	-3%	-163%	-245%	-612%	-259%	-983%		

Source: Redeye Research

Cash position and OPEX



Source: Redeye Research

Estimate changes and preview

We have made the following adjustments to our near-term forecasts following the report:

- Adjusted cost base to reflect costs in 2023e spilling over to 2024e
- Minor financial fine-tuning

Updated forecasts 2023e-2025e

	Updated			Previous			Chg % 2023e	Chg % 2024e	Chg % 2025e
	2023e	2024e	2025e	2023e	2024e	2025e			
Revenues	8,4	9,0	73,4	6,9	7,4	69,8	22%	22%	5%
Revenue growth y/y (%)	-62%	7%	713%	-63%	5%	845%			
OPEX	-37,6	-69,4	-84,7	-47,5	-64,7	-78,7	-21%	7%	8%
Personnel expenses	-19	-28	-31	-19	-28	-31			
Other operating costs	-19	-42	-54	-28	-37	-48			
EBITDA	-29,2	-60,3	-51,7	-40,6	-57,3	-47,3	-28%	5%	9%
Depreciation/Amortization	-3	-4	-5	-4	-4	-5			
EBIT	-32,0	-64,5	-57,1	-44,3	-61,7	-52,5	-28%	4%	9%
EBIT margin (%)	-381%	-714%	-78%	-644%	-835%	-75%			

Source: Redeye Research

Historical financials and preview 2019 – 2025e (SEKm)

SEKm	2019	2020	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023e	2023e	2024e	2025e
Revenues	2,1	5,4	1,6	22,1	2,6	1,2	2,6	2,0	8,4	9,0	73,4
Net sales	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	63,7
Other income	2,1	5,4	1,6	22,1	2,6	1,2	2,6	2,0	8,4	9,0	9,7
OPEX	-8,8	-7,8	-16,9	-36,7	-8,3	-7,9	-8,6	-12,7	-37,6	-69,4	-84,7
Personnel expenses	-0,3	-0,7	-1,7	-11,3	-4,0	-4,3	-4,8	-5,9	-19,0	-27,7	-30,5
Other operating costs	-8,4	-7,1	-15,2	-25,4	-4,3	-3,7	-3,8	-6,8	-18,6	-41,7	-54,2
EBITDA	-6,7	-2,4	-15,3	-14,6	-5,7	-6,7	-6,1	-10,7	-29,2	-60,3	-51,7
Depreciation/Amortization	0,0	0,0	-0,6	-2,7	-0,7	-0,8	-0,6	-0,8	-2,8	-4,1	-5,4
EBIT	-6,7	-2,5	-15,9	-17,3	-6,4	-7,5	-6,7	-11,4	-32,0	-64,5	-57,1
Revenue growth y/y (%)	-41%	161%	-70%	1284%	32%	-82%	-62%	-62%	-62%	7%	713%
Gross margin (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	45%
EBITDA margin (%)	-325%	-45%	-959%	-66%	-219%	-546%	-236%	-535%	-347%	-668%	-70%
EBIT margin (%)	-326%	-46%	-996%	-78%	-245%	-612%	-259%	-572%	-381%	-714%	-78%
EPS	-0,1	0,0	-0,2	-0,1	-0,1	-0,1	-0,1	-0,1	-0,3	-0,5	-0,5

Source: Redeye research, Lifecare

Valuation

At Redeye, we approach the valuation of a company's stock using three scenarios to provide a dynamic view of the case. We also model pessimistic (bear case) and optimistic (bull case) scenarios to complement our base case valuation. The differences in estimates between the scenarios are based on modifications to the assumptions in our valuation process.

We apply a WACC of 15% to all scenarios derived from Redeye's Company Quality Rating using a risk-free interest rate of 3%. We set the NOK/EUR exchange rate to x and our valuation also takes height for cNOK100m (c25% dilution) in equity financing to bridge the funding gap we have identified.

Summary of changes affecting our valuation:

- We update our assumption for the 2024 capital injection to reflect a lower dilution
- Minor financial housekeeping

Base case: NOK4.2 (4)

Our base case assumes a European launch of Sencell in 2025, followed by a launch in the US and Japan one year later. Considering the value proposition for patients and the expected health-economic benefits, we anticipate a successful launch that would enable Lifecare to capture 5% of the addressable T1D patients and 2% of the addressable T2D patients for Sencell's usage.

Base case DCF

Base case DCF				
Assumptions		DCF	NOKm	Per share
Tax rate	22,0%	2023e-2025e	-79	-0,4
WACC	15,0%	2026e-2031e	240	1,3
Revenue CAGR, 2023e-2025e	195,6%	Terminal	449	2,5
Revenue CAGR, 2026e-2031e	45,4%	Net cash*	142	0,8
Shares outstanding	134,9			
Shares outstanding (diluted)	178,6			
Terminal values, 2032		Fair value (diluted)	752	4,2
Group revenue (SEKm)	1 788	Upside from current price		11%
Terminal growth	2%			
EBIT margin	20%			

*Including net proceeds from capital injections

Source: Redeye Research

Sensitivity analysis

Our valuation of Lifecare is affected by the WACC we attribute to the company, along with our assumptions for terminal EBIT margin and terminal growth rate. We illustrate the impact of applying changes to these variables on our base case valuation in the sensitivity analysis below.

Sensitivity analysis

		Weighed Average Cost of Capital (WACC)				
		17,0%	16,0%	15,0%	14,0%	13,0%
Terminal EBIT margin	16,0%	2,9	3,2	3,5	3,9	4,3
	18,0%	3,2	3,5	3,9	4,3	4,8
	20,0%	3,5	3,8	4,2	4,7	5,3
	22,0%	3,7	4,1	4,6	5,1	5,8
	24,0%	4,0	4,4	4,9	5,5	6,3
		Weighed Average Cost of Capital (WACC)				
		17,0%	16,0%	15,0%	14,0%	13,0%
Terminal EBIT margin	1,0%	3,3	3,6	4,0	4,4	5,0
	1,5%	3,4	3,7	4,1	4,6	5,1
	2,0%	3,5	3,8	4,2	4,7	5,3
	2,5%	3,5	3,9	4,3	4,8	5,5
	3,0%	3,6	4,0	4,5	5,0	5,7

Source: Redeye Research

Bull case: NOK10(10)

Our bull case is built upon the foundations of our base case but envisions an even more successful launch, resulting in a greater penetration in both patient groups. In this scenario, we anticipate capturing 10% of the addressable T1D patients and 5% of the relevant T2D patients, creating a substantial market opportunity that would position Lifecare as a highly profitable company.

Bull case DCF

Bull case DCF				
Assumptions		DCF	NOKm	Per share
Tax rate	22,0%	2023e-2025e	-56	-0,3
WACC	15,0%	2026e-2031e	672	3,8
Revenue CAGR, 2023e-2025e	330,2%	Terminal	1 043	5,8
Revenue CAGR, 2026e-2031e	46,1%	Net cash*	142	0,8
Shares outstanding	134,9			
Shares outstanding (diluted)	178,6			
Terminal values, 2032		Fair value (diluted)	1 802	10,1
Group revenue (SEKm)	4 135	Upside from current price		165%
Terminal growth	2%			
EBIT margin	20%			

*Including net proceeds from two rights issues

Source: Redeye Research

Bear case: NOK0.5 (0.5)

Our bear case considers the possibility of Lifecare facing challenges during the development process, resulting in delays to market launch. Furthermore, we assume Sencell fails to generate the expected traction among patients, resulting in limited usage. These circumstances would create difficulties for the company in achieving profitability and we see a limited value in IP and other tangible assets.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report: No rating changes in this report

People: 3

Business: 3

Financials: 0

	2021	2022	2023e	2024e		
INCOME STATEMENT					DCF Valuation Metrics 2023e-2037e	Sum FCF (SEK M)
Net sales	0	0	0	0	2023e-2025e	-79
Total revenues	2	22	8	9	2026e-2030e	240
Operating Expenses	17	37	38	69	Terminal value	449
EBITDA	-15	-15	-29	-60	Net cash (capital raises)	142
Depreciation & Amortization	1	3	3	4	Equity Value	752
EBIT	-16	-17	-32	-64	Fair Value per Share	4,2
Net Financial Items	0	0	0	0		
EBT	-16	-17	-32	-64	SHAREHOLDER STRUCTURE	CAPITAL % VOTES %
Income Tax Expenses	0	1	0	0	Teigland Eiendom AS	18% 18%
Non-Controlling Interest	0	0	0	0	Lacal AS	16% 16%
Net Income	-16	-17	-32	-64	Vpf Nordea Avkastning	7% 7%
					Tjelta AS	6% 6%
					Spit Air AS	2% 2%
BALANCE SHEET					SHARE INFORMATION	
Assets					Reuters code	LIFE
Current assets					List	Euronext Growth Oslo
Cash & Equivalents	21	48	55	76	Share price	3,8
Inventories	0	0	1	2	Total shares, million	134,9
Accounts Receivable	0	1	2	2	Total shares, million (diluted)	178,6
Other Current Assets	2	6	6	6		
Total Current Assets	23	55	64	86		
Non-current assets					MANAGEMENT & BOARD	
Property, Plant & Equipment, I	0	3	6	19	CEO	Joacim Holter
Goodwill	2	6	6	6	Chairman	Morten Foros Krohnstad
Intangible Assets	7	6	6	4		
Right-of-Use Assets	0	0	-1	-1		
Shares in Associates	0	0	0	0	ANALYSTS	Redeye AB
Other Long-Term Assets	0	0	0	0	Filip Einarsson	Mäster Samuelsgatan 42, 10tr
Total Non-Current Assets	9	15	17	28	Gustaf Meyer	111 57 Stockholm
Total Assets	32	70	81	115		
Liabilities						
Current liabilities						
Short-Term Debt	0	0	0	0		
Short-Term Lease Liabilities	0	0	0	0		
Accounts Payable	2	2	4	6		
Other Current Liabilities	2	7	9	10		
Total Current Liabilities	4	9	13	16		
Non-current liabilities						
Long-Term Debt	0	0	0	0		
Long-Term Lease Liabilities	0	0	0	0		
Other Long-Term Liabilities	4	6	6	6		
Total Non-current Liabilities	4	6	6	6		
Non-Controlling Interest	0	0	0	0		
Shareholder's Equity	24	55	62	93		
Total Liabilities & Equity	32	70	81	115		
CASH FLOW						
NO PAT	-16	-18	-32	-64		
Change in Working Capital	3	1	2	2		
Operating Cash Flow	-14	-18	-27	-58		
Capital Expenditures	-7	-3	-5	-15		
Investment in Intangible Assets	0	0	0	0		
Investing Cash Flow	-7	-9	-5	-15		
Financing Cash Flow	30	54	40	95		
Free Cash Flow	-21	-21	-32	-73		

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2023-11-14)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	142	128	43
0p - 2p	5	36	132
Company N	179	179	179

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Filip Einarsson owns shares in the company : No

Gustaf Meyer owns shares in the company : No

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