Lifecare Q3 2024: Steady progress but veterinary launch postponed

Lifecare **Research Update** 2024-11-14 07:55 **Updated** 2024-11-14 08:06

Redeye updates its view on Lifecare following its Q3 report. Despite the anticipated delay in the veterinary market launch, the company continues to make steady progress in key areas, including production automation, clinical validation, and business development.

Filip Einarsson

Q3 2024 financials

Lifecare reported revenue of NOK1.5m (-43% vs REe, -40% y/y growth), with OPEX, including D&A, amounting to NOK-21m. This resulted in an EBIT of NOK-20.4m, slightly above our forecast of NOK-17.6m. The deviation, while minor in absolute terms, was due to slightly lower laboratory revenue and slightly higher personnel costs than we had penciled in. These figures, although below our estimates, are relatively in line with the Q2 numbers. The end-of-quarter cash position was NOK75.8m, and does not include the NOK16.6m gross proceeds raised in early Q4 following the Euronext Oslo uplisting.

Operational newsflow

Lifecare has maintained high activity levels in Q3 and beyond, achieving key milestones, including the completion of the 12-week longevity study, automating critical stages of its production process, and finalizing a draft for the long-term human study protocol, which is required for the CE clinical trial. The company has also partnered with OneTwo Analytics to develop a data analytics platform for Sencell, designed for veterinary use but also compatible with human healthcare applications. This platform aids in diabetes management by analyzing glucose data from CGM sensors. Additionally, Lifecare's shares are now listed on Euronext Oslo, aimed to enhance visibility and market access. Lastly, the company has also postponed the veterinary market launch to 2025.

Slightly adjusted estimates

Given the postponed veterinary launch, we have revised our revenue estimates to align with the current outlook while largely maintaining our cost-base assumptions. These adjustments result in a slight adverse impact on our fair value range, which now stands at NOK10-98 (12-128), with a base case of NOK36 (43).

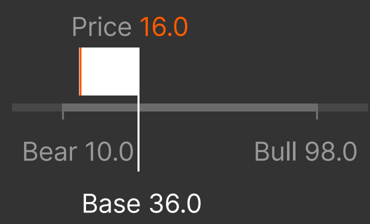
Key financials

NOKm	2022	2023	2024e	2025e	2026e
Revenues	22.2	11.6	11.9	17.8	59.6
Revenue Growth	1286%	-47.9%	3.0%	50.1%	234%
EBITDA	-19.2	-36.1	-69.4	-67.7	-36.3
EBIT	-22.2	-39.0	-73.5	-68.0	-38.7
EBIT Margin	-100%	-338%	-618%	-381%	-64.9%
EV/Revenue	7.6	48.5	15.6	9.8	3.8

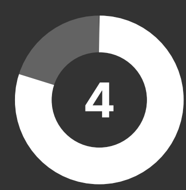
REDEYE

REDEYE QUALITY RATING

FAIR VALUE RANGE



MOMENTUM



KEY STATS

Market Cap	253.6 MNOK
Entprs. Value (EV)	199.0 MNOK
Net Debt (2024e)	-54.6 MNOK
30 Day Avg Vol	22 K
Shares Outstanding	15.9M
Price / Earnings	N/A
PEG	N/A
Dividend Yield	N/A

Data from 2024-11-14 08:06

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Q3 2024 financials

Deviation table

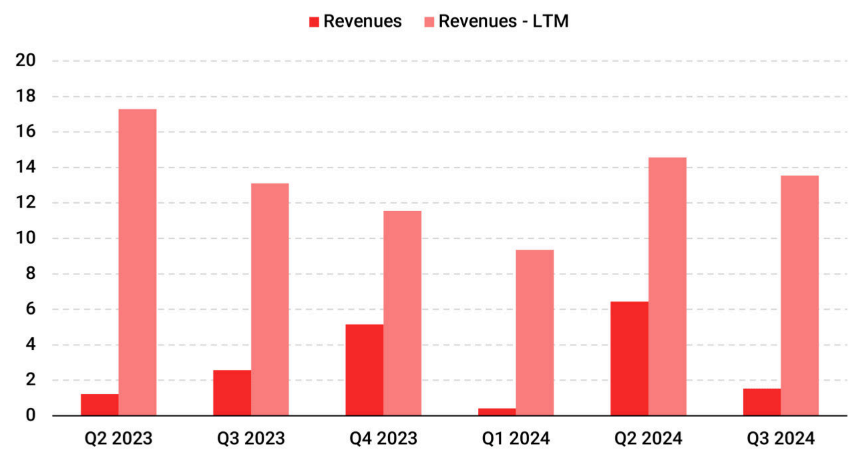
Lifecare: Deviation table

	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024a	Q3 2024e	dev. %	dev. abs
Revenues	**2.6**	**5.2**	**0.4**	**6.4**	**1.5**	**2.7**	**-43%**	**-1.2**
Revenue growth y/y	-62%	-23%	-84%	423%	-40%	6%		
Revenue growth q/q	109%	101%	-92%	1467%	-76%	-58%		
OPEX	**-9.2**	**-20.5**	**-13.4**	**-25.1**	**-21.0**	**-20.0**	**5%**	**-1.0**
Salaries and other personnel costs	-4.8	-11.8	-8.2	-9.1	-9.4	-7.1		
Other operating costs	-3.8	-7.9	-4.2	-14.9	-11.6	-11.5		
D&A	-0.6	-0.8	-1.0	-1.2	-0.9	-1.4		
EBITDA	**-6.7**	**-15.3**	**-13.0**	**-18.7**	**-19.5**	**-16.3**	**20%**	**-3.2**
EBITDA margin	neg	neg	neg	neg	neg	neg		
EBIT	**-7.3**	**-16.1**	**-14.0**	**-19.9**	**-20.4**	**-17.6**	**16%**	**-2.8**
EBIT margin	neg	neg	neg	neg	neg	neg		

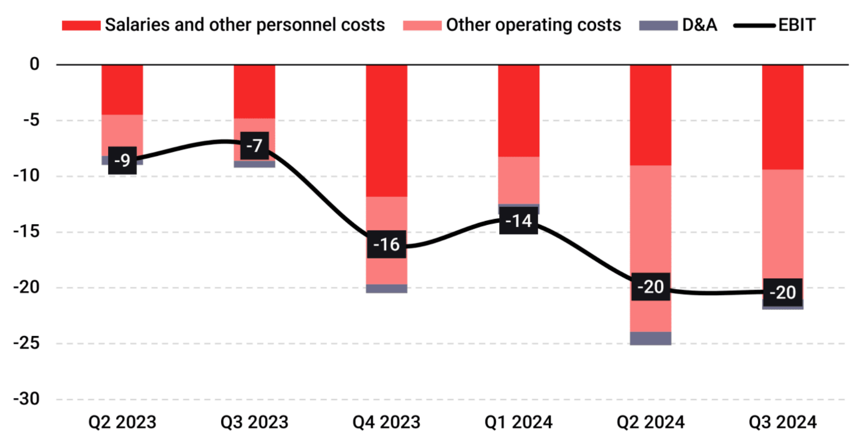
Source: Redeye research (estimates), Lifecare (historical data)

Financials

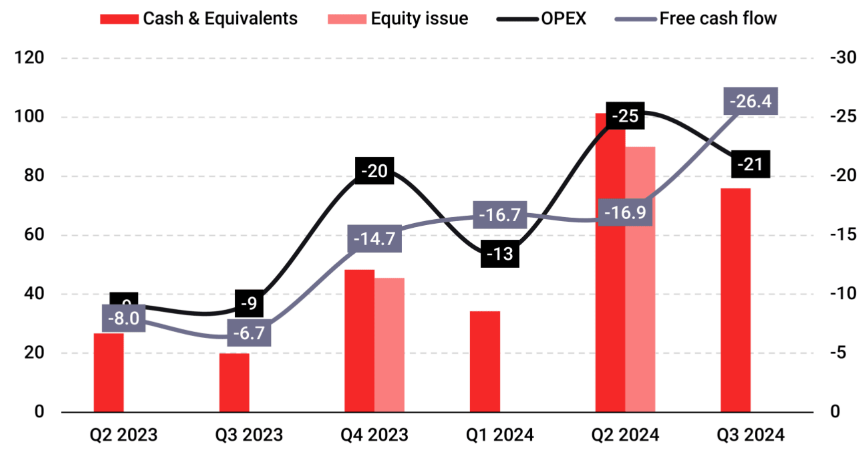
Total revenues came in at NOK1.5m (2.5) and primarily constitute revenue from laboratory services and other public grants, the figure is slightly lower than the NOK2.7m that we had estimated, the shortfall represents a slightly lower laboratory related income than we had penciled in. The LTM figure amounts to NOK13.5m (13.1).



EBIT came in at NOK-20.4m, with the cost base fairly evenly split between personnel expenses and other operating costs. The OPEX base has doubled y/y, reflecting the company's expansion, which includes rising R&D-related expenses and an increase in full-time employees, from 24 a year ago to 32 by the end of Q3 2024.



FCF was NOK-26.4m (-6.7), with a quarter-end cash balance of NOK75.9m. However, this figure does not include the NOK16.6m in gross proceeds raised in early October alongside the company's uplisting. Consequently, the current cash position (including burn rate since end of September) is likely slightly higher than the figure in the report. Thus, the company should be financed well into 2025.



Newsflow

Step forward under development agreement with Sanofi

At the end of October the company announced that it has completed "defined development phase", triggering the release of funding from Sanofi under their existing produt development agreement, see our recent comment.

Study in dogs

The initial 12-week phase of the Sencell implant longevity study in a veterinary setting has concluded successfully. Conducted at the Norwegian University of Life Sciences (NMBU), the study focused on implant durability and biocompatibility, ensuring no foreign body reactions over time. Throughout the trial, the dog in the trial, Elli, showed no signs of discomfort. Post-removal inspections confirmed a healthy implant site with no adverse tissue reactions, and tests showed that the implant's glucose sensor remained fully functional.

Automated production

By the end of Q1, Lifecare achieved a key milestone with the successful pilot production of Sencell implants and began automating critical production steps by Q3. The Reutlingen lab team has now automated two essential processes: precise deposition using a Scanning Electron Microscope (SEM) and the filling of nanosized chambers with Lifecare's glucose-reactive solution, sealed with nano-porous membranes for sensor reliability. To further enhance production quality and efficiency, Lifecare is collaborating with UK-based TTP plc, aiming for significant improvements by late 2024 and validation by early 2025. The product remains on schedule for a veterinary market launch in H1 2025.

Study protocol

A working group led by Lifecare's CSO, Prof. Dr. Andreas Pfützner, along with board member Prof. Dr. Lutz Heinemann and scientific advisory board chair Prof. David C. Klonoff, has completed a draft protocol for a long-term human clinical study, which will soon be submitted to regulatory authorities. Lifecare will collaborate with a Contract Research Organization to support this process and finalize clinical study sites, with Pfützner Science and Health GmbH in Mainz, Germany, already confirmed. This protocol marks a key step toward the next phase: the CE clinical study for regulatory approval.

OneTwo Analytics partnership

Lifecare has partnered with OneTwo Analytics AB, a Swedish diabetes data analytics firm, to improve CGM data interpretation for the veterinary market. This collaboration provides Lifecare access to OneTwo's AI-driven CGM software, with OneTwo as its digital partner. OneTwo will develop a veterinary-focused digital platform, including the "INSIGHTS and Clinic Portal" software and a mobile app for transferring Sencell sensor data to the cloud. Compatible with human healthcare, this platform will be exclusively licensed to Lifecare for global commercialization, supporting diabetes diagnosis and management in veterinary care.

Forecasts and valuation

Estimates

We have revised our estimates to reflect the updated timeline, now forecasting a veterinary market launch in H1 2025 rather than Q4 2024 as previously anticipated. Consequently, we have reduced our 2024–2026 revenue projections by 24–51% (as our prior estimates were optimistic) and conduct some model housekeeping to better align with the current outlook.

Lifecare: Estimate changes	Updated			Previous			Chg. %	Chg. %	Chg. %
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Revenues	11.9	17.8	59.6	15.7	38.2	120.5	-24%	-53%	-51%
Revenue growth y/y	3%	50%	234%	36%	808%	216%			
EBITDA	-69.4	-67.7	-36.3	-66.0	-68.3	-20.5	5%	-1%	77%
EBITDA margin	-583%	-379%	-61%	-411%	-179%	-17%			
EBIT	-73.5	-68.0	-38.7	-71.2	-70.2	-26.5	3%	-3%	46%
EBIT margin	-618%	-381%	-65%	-443%	-184%	-22%			

Valuation

The adjustments to our valuation model lead to an updated fair value range. The revised base case is now NOK36 (previously NOK43), with the bull and bear cases at NOK98 (previously NOK128) and NOK10 (previously NOK12), respectively.

Lifecare: Base case valuation

Assumptions		DCF	NOKm	Per share
Tax rate	22.0%	2024 - 2028	-225	-11.2
WACC	15%	2029 - 2031	147	7.3
Shares outstanding (diluted)	20.0	2032 - 2033	176	8.8
Revenues CAGR 2024 - 2028	167%	Terminal	571	28.5
Revenues CAGR 2029 - 2031	25%	Net cash	47	2.3
Terminal value assumptions 2034		**Base case**		36
Group sales (NOKm)	1,972	Upside potential		123%
Terminal growth	2%			
EBITDA margin	25%			

Source: Redeye research (estimates)

Investment thesis

Case

Innovative technology with disruptive potential targeting USD>6bn market

Lifecare is focused on diabetes patients with its next-generation continuous glucose monitor (CGM), Sencell. We see potential for Sencell to secure a niche in the highly competitive CGM market, thanks to its robust and differentiated value proposition. The anticipated CE marking in 2025, following the LFC-SEN-003 trial, along with initial veterinary sales, could unlock substantial commercial opportunities that are not yet reflected in the share price. With a strong financial position, the company's progress toward the human market and the corresponding derisking of its business case are likely to serve as catalysts for share price.

Evidence

Attractive value proposition opening up vast market potential

Since the first approval in 1999, CGM usage has grown rapidly, with annual growth projected at c15% until 2026, projected to reach USD>10bn. While the market is highly competitive, led by Abbott Laboratories and Dexcom, we believe Sencell's superior sensor longevity, potential for improved accuracy, and enhanced convenience—will attract a niche segment of patients. Sencell, implanted beneath the skin, does not risk accidental detachment associated with external CGMs. Additionally, its discreet subcutaneous placement appeals to patients on the cosmetic level as it remains discrete and invisible on the skin. Given the market's size, Lifecare's sensor only needs to capture a small share to generate significant recurring revenue streams, and could thus become a very profitable company. Sencell has garnered interest from industry giants and has a development agreement with Sanofi, providing spice to the investment case.

Supportive Analysis

CGMs is considered the "gold standard" having 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 provide type 1 diabetics and a subgroup of insulin-treated type 2 diabetics with a next-generation approach to blood glucose monitoring. The sensor, roughly the size of a grain of rice, is inserted under the skin on the arm and offers real-time glucose monitoring through osmotic pressure. The company has indicated that it expects the sensor to have a longevity of at least six months. In the LFC-SEN-001 clinical trial, Sencell reported a MARD that is slightly above those of the recently released successors to current market leaders, Freestyle Libre and Dexcom. LFC-SEN-002, the longevity/biocompatability, and data accuracy trial are currently underway and are expected to be concluded in 2025. The CE-enabling LFC-SEN-003 trial is anticipated to begin in 2025, which could setup the product for launch in 2026.

Challenge

Development and regulatory approvals 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 engineering efforts remain to scale the sensor down to its commercial form. Moreover, despite a promising outlook Lifecare is in the late development and early commercialization phase of its innovative sensor, which is associated with elevated financial risk. Should setbacks emerge, additional capital could be required.

Challenge

Market for CGM's are highly competetive

The CGM market is very competitive, dominated by large companies with well-established brands like Dexcom (G6/G7), Abbott Laboratories (Freestyle Libre 2/3), and Medtronic (Guardian). Additionally, Senseonics (Eversense E3), which shares similar characteristics with Sencell—being implantable and offering a 6-month duration—will also provide another layer of competition. However, a transmitter must still be placed above the implanted sensor. These companies will present significant competition for Lifecare. Despite this, we believe Lifecare's differentiated value proposition and innovative approach, utilizing osmotic pressure for measurement, position it well to capture a niche segment of patients. Lifecare's sensor offers several unique advantages, including extended sensor longevity, no risk of accidental detachment, and discreet subcutaneous placement that is not externally visible. These features will likely attract patients seeking a more convenient and less intrusive CGM solution.

Valuation

Discounted cash flows suggests upside

Our fair value range is derived using a DCF model for the 2024-2034 period, applying a WACC of 15% based on our Redeye Rating model and a 3% risk-free rate. The model assumes full dilution, factoring in full subscription of the outstanding warrants (around 22% dilution). In our base case, we anticipate a human market launch for Sencell in 2026, projecting peak market penetration of 5% among T1D patients and 2% among T2D patients, with a modest valuation assigned to the veterinary application. In our bull case, we assume that Sencell gains significant traction, resulting in roughly double the market penetration compared to the base case. The bear case envisions launch delays, with Sencell's value proposition failing to gain substantial patient interest, resulting in limited penetration in both the human and veterinary markets; under this scenario, another dilutive equity injection may be required by 2026.

Quality Rating

People: 3

Lifecare employs approximately 35 people and benefits from a management team and board of directors with expertise in research and development, finance, and law. The company should be well-positioned for transitioning from concept to a finished product.
CEO Joacim Holter holds an LL.M. from the University of Bergen in Norway and has over 15 years of management experience. His background includes six years leading international R&D and product development in Switzerland. Holter has also been a long-standing member of Lifecare, serving as both chairman and board member from 2011 to 2020.

The board of directors is chaired by Morten Foros Krohnstad, a partner at the law firm Schjødt. Krohnstad brings substantial experience as a board professional for both listed and unlisted Norwegian companies, further strengthening Lifecare's governance and strategic oversight.

Business: 3

Lifecare is an innovative medtech company that aims to capture a portion of the USD>6bn continuous glucose monitoring (CGM) market growing c15% annually through its differentiated sensor under-the-skin sensor Sencell. Moreover, CGMs are used by diabetes patients to monitor their glucose levels to assert insulin injections, creating recurring and predictable revenue streams. Although it will take a few more years for Lifecare to complete its development and clinical validation before entering the market, we believe Sencell offers a strong value proposition for a niche of diabetes patients, leading to a significant commercial opportunity.

If Sanofi, which holds a right of first refusal on Sencell, decides to utilize it, Lifecare has the potential to establish itself as a disruptive niche player in this immense market.

Financials: 0

Being in the development phase, Lifecare is equity funded and since the previous round in Q2 2024 with warrants potentially raising additional cash in Q2 2025 the company is probably founded until becoming cash flow positive.

We believe that Lifecare has the potential to become a very profitable company on the back of Sencell's value proposition towards T1D and T2D patients. We see potential for gross margins in the 50% range and EBIT margins in the twenties once the company becomes profitable, which we estimate in 2027.

Financials

Rating 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 longterm 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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Filip Einarsson owns shares in the company : No.
Redeye performs/has performed services for Lifecare and receives/has received compensation from these Companies in connection with this.