

Qlife Holding

Market: First North Sweden

Ticker: QLIFE

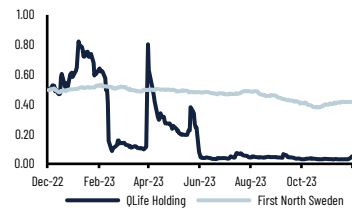
Share price (SEK): 0.050

Market cap (SEK): 32.2

Net debt (SEK): 2.5

Enterprise value (SEK): 34.6

Share information*



Ytd: -91.7% 1 year: -91.6%
1 month: 41.3% 3 year: -98.8%

Note: * Closing prices of 04 December 2023, has been used

Financials

(SEKm)	2021	2022	2023E*
Revenue	39.6	18.0	N/A
Revenue growth	90.9%	-54.6%	
Research & Development	25.6	46.7	N/A
EBIT	-43.9	-95.7	N/A
Total Cash flow	52.6	-58.0	N/A
Cash position	73.5	14.5	N/A

Note: * Data from Qlife's financial reports

Pipeline - commercialization status

Candidate	Indication	Development	Launch
CRP	Inflammation	Completed	Q2 2023
HbA1c	Diabetes	Ongoing	2023
Vitamin D	Vitamin deficiency	Ongoing	2023
PKU	Enzyme disorder	Ongoing	2024
Lipids	Cardiovascular	Planned	2026

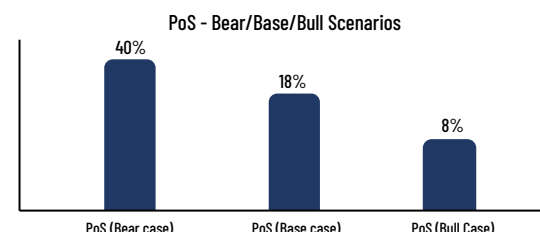
Company description

Qlife Holding is a Swedish life-science company, with main activities in Denmark, founded in 2019 and listed on NASDAQ First North Growth Stockholm since March 2020. It produces portable, at-home, and point-of-care biomarker and virus testing devices (Egoo Health system) and sells supporting single-use biomarker testing capsules. Qlife Holding previously earned revenues from Covid-19 tests, but now focuses on commercializing its Egoo Health system as a personal health and wellness monitoring product within C-Reactive Protein (CRP) testing for inflammation. The company also pursues an IVDR approval to address professional customers through partners, as agreed with Hipro Biotechnology to distribute and sell Egoo Health to hospitals in China.

Investment case

The investment case for Qlife Holding is based on the company being able to successfully commercialize its Egoo Health system to generate a high-margin 'razors and blades' business model. With first-mover and technological advantages Qlife addresses the large potential market for portable point-of-care biomarker and virus testing - primarily through partners. The company is currently demonstrating proof-of-concept in the UK & Ireland wellness market and expects to receive an IVDR approval to facilitate a wider rollout to professional capacities (General Practitioners etc). Geographically, Qlife Holding will expand into other markets (EU, US, Japan), and, in particular, China following the entering of their first partnership deal with Hipro Biotechnology. If successful, Qlife Holding will establish a network of Egoo Health systems that generate recurring revenues from sales of its single-use capsules.

From a valuation perspective, a DCF-modelling approach based on publicly available, or company-communicated information is used to discount the value of future potential cash flows under various assumptions regarding market size, market growth, and market penetration etc. (see pages 2 and 3 for details). The model generates an implied probability of successful commercialization according to the current market valuation. This probability of success (PoS) is illustrated below.



Note: Probability of success (PoS) model based on general market assumptions and HC Andersen Capital assumptions.

Key investment reasons

Qlife Holding offers a 'razors and blades' business via its portable Egoo Health system testing device and single-use assay capsules, which at scale will likely generate high-margin recurring revenues.

Qlife Holding expects to address a total addressable market for CRP testing of USD 2.6bn, reflecting significant potential from capturing just a small fraction of this market.

In UK & Ireland, Qlife Holding has identified more than 700 nutritionists from a sample of roughly 10,000 potential customers within the personal health and wellness market for its initial launch of its CRP testing to analyze inflammation levels. If successful, expansion into new markets (EU/USA/Japan), new customers (professional clinics/care homes), and additional assays will create new markets for continued growth.

The Hipro Biotechnology deal offers specifically high growth opportunities and a potentially huge upside from the likely future recurring royalty-based income streams. Similarly, Qlife Holding will likely expand into other regions through partnership arrangements.

In terms of valuation, a DCF-model approach suggests that the market implicitly only discount a relatively low probability of successful commercial launch (PoS) for the Egoo Health system in the coming years.

Key investment risks

Qlife Holding is in the very early stage of its commercialization phase, and they enter new markets with uncertain market dynamic characteristics, such as the willingness of potential customers to pay at current prices, both for the devices and the capsules, and the rate of market adoption. Deviation from Qlife Holding's assumptions would change the trajectory of future cash flows.

Even with the agreement with Hipro Biotechnology in place, Qlife Holding cannot be sure to be cash flow positive for the short- and medium-term period. As a result, Qlife depends on access to financial markets for potential funding requirements. This access will depend on the level of risk appetite in financial markets, which is always difficult to predict.

To grow profitably, Qlife Holding will have to engage in other partnerships to help accelerate and finance its commercialization efforts, which is not guaranteed, even though the agreement with Hipro Biotechnology is an important step forward in this regard. Failure to attract new partners can have a negative impact on Qlife Holdings' funding position and path to profitability.

Investing in early-stage life-science companies is generally high risk and requires a high-risk appetite. Investors could be required to participate in future capital raises to avoid being diluted.

Appendix – Discussion of assumptions in DCF-model

The model

The objective of model used in combination with this one-pager is not to calculate a price target for Qlife Holding. Instead, the objective is to use a simplified DCF (discounted cash flow) model to provide valuation perspectives in a Base, Bear, and Bull Case scenario as implied by the market. The DCF model considers the future potential cash flow of Qlife Holding based on several assumptions, which will be described and discussed below. The model indicates the market implied probability of commercial success (PoS) in each scenario, derived from Qlife Holding's current market cap. The implied PoS can be compared against the historical probability of successful launch (PoS) from Biostatistics data to provide valuation perspectives.

Market size and market growth

The model is constructed based on company-communicated expectations and publicly available information. The model is primarily driven by the number of devices in the market, the average number of capsules sold per device, the capsule price, and the royalty rates in the various regions to reflect Qlife Holdings commercialization strategy to address market opportunities through a partnership-based approach.

The initial growth rate in the UK & Ireland is modelled from Qlife Holding's expectation as outlined in its Introduction to The Market event (15.06.2023).

The model also assumes regional expansion into EU (2026), US (2027), and Japan (2027), respectively. The initial market sizes are taken from Qlife Holding's assumptions in its Introduction to The Market event, outlining addressable markets of 32,000 (EU), 75,000 (US), and 50,000 (Japan). For China, the model uses assumptions outlined by Hipro Biotechnology in the recently announced collaboration agreement. The initial market growth rate is an important adjustable variable in the different scenarios, and reflect varying speeds of commercialization.

Market share and revenue

Revenue is derived from a price times quantity basis from both devices and capsules, with devices modelled to be sold at cost. Device growth is outlined above, and thus assumptions for capsules sold per device to grow over time is another important adjustable variable.

The average capsules sold per device per day will then likely grow as Qlife release additional assays to the market (PKU, HBA1c, Vitamin D, Lipid-test) and broaden its addressable market, while sales to professional settings (care homes and professional clinics) will have a greater daily need for testing. The assumption also accounts for behaviour adaptations whereby customers acclimatise to the benefits of regular testing.

Discount rate

The model uses a discount rate of 15%, reflecting the generally high level of investment risk and uncertainty typically associated with forecasting future cash flows from life science companies. The launch of the product in each regional market and client segment will reflect different levels of uncertainty, but the model uses the widely accepted industry discount rate of 15%.

Probability of success (PoS)

When comparing PoS between companies in the pharmaceutical, life-science and biotech industry, the PoS can typically be evaluated relative to the historical average likelihood for these companies to get product candidates approved depending on the trial phase the product candidates are currently in. As an example, based on historical data from Biostatistics research containing 5,764 pipeline projects in pharmaceutical, life-science, and biotech companies, the average historical likelihood of a Phase 3 pipeline project passing through to launch from Phase 2 is approximately 55%. Similarly, a product in a phase 1 trial has on average less than 5% chance to make it all the way through phase 3.

However, for diagnostic products or platforms like the Ego System, the primary uncertainty regarding the likely approval rate is not scientific or medical, but commercial. This way, it is assumed that the Ego System works from a medical and scientific perspective, i.e. has a PoS of 100%, but the PoS of a successful commercial launch would typically be low if the commercial roll-out is in its initial phase and is far from reaching the potential level as communicated by management. The question is how low. All things being equal, a PoS of 15-20% for a diagnostic product that has a proven mode of action would generally be considered low.

EBIT-margin and royalty rates

According to Refinitiv Financial System, five-year average EBIT margins within major pharmaceutical, life-science and biotech companies are approximately 30%. For modelling simplicity reasons, it is assumed that gross margins will grow at 5 percentage points per year up to a maximum of 75% in the base case. This reflects the high margin potential of recurring capsule sales, which have a low per-unit cost. The EBIT margin will gradually increase up to 30%, which reflects the economies of scale benefits from both device and capsule production perspectives and the effect from the preferred royalty-based partnership deal business model. For these reasons, Qlife Holding's EBIT margin could potentially exceed that of large publicly listed diagnostics companies. A Qlife Holding peer, Cue Health, reached an EBIT of 30% in 2021, whilst selling its Covid-19 solution, despite still being in its commercialisation stage, not having full economies of scale benefits and high R&D costs.

Capital increases

It is assumed that Qlife Holding will successfully raise capital if necessary to meet required cash needs as it scales towards positive cash generation. We expect negative cash flow for the medium term, with cash burn becoming gradually smaller year-on-year towards break even. It is expected that the engagement of the partnership deal with Hipro Biotechnology will support Qlife Holding's financially from both a short- and long-term perspective.

Appendix – Results and Conclusion

Scenarios

Based on the previously mentioned assumptions regarding market size and growth, market share, level of profitability, and discount rate, different scenarios can be simulated to assess how much the market is, on average, implicitly discounting the likelihood of successful commercialization. The model below illustrates the implied probability of commercialization under each scenario (Base, Bull, Bear) given market prices. The base case scenario is modelled primarily from company-communicated expectations and publicly available information. To be conservative, in all scenarios, the model considers a 10 years effective patent period.

Base case scenario

In the base case scenario, the model uses continued self-commercialization in the UK & Ireland, with further market expansions through partnerships in China (revenue expected 2025) the EU (2026), US (2027), and Japan (2027). The peak penetration rate is expected at 10% of the identified market for the UK & Ireland, and EU, and 9% for the US and Japan, while peak penetration in China is 20% of Hipro Biotechnologies market potential. In the base case, the market currently implicitly assumes there is approximately a 18% probability of successful (PoS) commercial launch in line with the assumptions above.

Bear case scenario

In the bear case the peak penetration rate is expected at 7% of the identified market for the UK & Ireland, and EU, and also 7% for the US and Japan. Peak penetration in China is 15% of Hipro Biotechnologies market potential. In the bear case, the market currently implicitly assumes there is approximately a 40% probability of successful (PoS) commercial launch in line with the assumptions above.

Bull case scenario

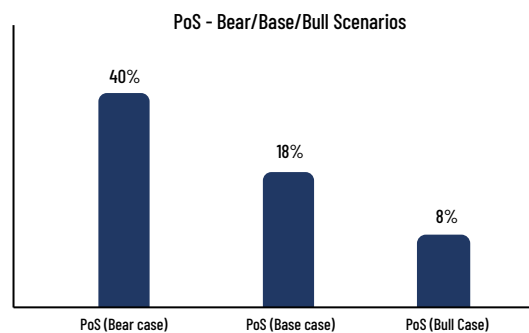
In the bull case the peak penetration rate is expected at 13% of the identified market for the UK & Ireland, and EU, and 11.5% for the US and Japan. Peak penetration in China is 25% of Hipro Biotechnologies market potential. In the bull case, the market currently implicitly assumes there is approximately an 8% probability of successful (PoS) commercial launch in line with the assumptions above.

Conclusion

The three scenario simulations all suggest a low level of market confidence for Qlife Holding to successfully commercialize its Egoo Health system through partners. This suggests the value potential of Qlife Holding's commercial opportunities is only partly reflected in the share price but can be substantially altered if Qlife Holding can meet its commercialization expectations and while ensuring sufficient access to capital throughout.

Interestingly, the positive share price reaction following the announcement of the Hipro Biotechnology deal, has not fully discounted the likely company communicated commercial potential, as the PoS has actually fallen despite the huge share price increase.

As a reminder, it is important to remember, that a low PoS is not uncommon for life-science companies in early-stage development, this can both reflect the risks of commercialization and also a high likelihood that Qlife Holding will need to raise additional capital and thereby dilute the share base.



Note: graph is illustrative

Note: Probability of success (PoS) model based on general market assumptions and HC Andersen Capital assumptions.