

Nightingale Health

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report “Sulatellaan hetki arvostuksen etunojaa” published on 5/13/2024 at 7:20 pm EEST.

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Taking a breather from forward-leaning valuation

Nightingale has continued to lay the groundwork for future growth by announcing new research customers where we see the potential for greater commercial opportunities in the future. The news adds some visibility to our top-line growth projections and provides a rationale for a positive share price development. The main risk to growth remains the success in scaling up the won clinical accounts. Against this backdrop, we think the share valuation has become too forward-oriented (+76% since our March 8 report). We believe the risk/reward is unsatisfactory based on the current data and await further news from the company's customer base or a moderation in the valuation. We raise our target price to EUR 1.6 on the back of a slight decline in the risk level (was EUR 1.25) but lower our recommendation to Reduce following the share price increase.

The news flow of the past few months suggests that the company is continuing to execute on its strategy

In April, Nightingale landed a contract in the US to analyze samples from Kaiser Permanente's biobank and a letter of intent with Weill Cornell Medicine. We see both as opportunities to later move to the continued use of Nightingale blood tests in clinical practice, and for the latter this was directly stated as one of the objectives in the letter of intent. Nightingale has also announced a collaboration with US-based Mass General Brigham with similar features. In recent months, the company has secured some good customer wins, the success of which would support our forecasts for strong revenue growth in the coming years.

The search for a commercial breakthrough slowly gains concreteness although risks remain high

Nightingale aims to integrate its disease risk detection service with the blood sample flows of existing healthcare providers. If successful, the company's revenue would grow strongly and profitability would become positive over time (target: positive EBITDA in the medium term). The company has continued to take visible steps in this direction: its technology is already widely used in occupational health (01/2024), is being rolled out to Pathology Asia in Singapore (~H2/2024) and is being used in research applications in the US by several prominent players (Weill Cornell Medicine, Mass General Brigham and Kaiser Permanente). We also see research clients as an opportunity to push for later clinical use on a larger scale. We believe that our estimates rely on a realistic but very high-risk scenario of Nightingale's business growth (revenue CAGR 38% in 2023-2032e). This requires not only the success of the Terveystalo partnership, but also the success of the Pathology Asia account and new successful commercial agreements every year. In our view, an investor must therefore take a very long-term view of the company, believe in the commercial breakthrough of the technology and accept the risk of capital loss.

The direction remains promising, although we see room for a breather after the strong price rally

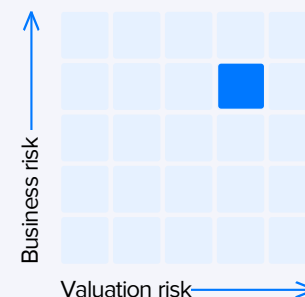
Nightingale's fundamental-based valuation is very challenging, as possible scenarios vary between destruction and multiplication of invested capital. Based on current data, our view of the fair value range of the stock remains wide at EUR 0.3-5.8 (approx. EUR 0.3-5.2). Given its long-term potential, we think the stock is cheap, but in the short term we see evidence of progress toward realizing the company's potential driving the valuation. The good news flow from new customers with improved visibility justifies higher pricing (we lowered WACC-%: 16.7->15.9%). More important for reducing the risk level, however, is the success in scaling up the accounts (in particular Terveystalo and Pathology Asia), which will take time to materialize. Given this, we believe the valuation leans forward too much. We are moving to the sidelines to wait for a more attractive risk/reward ratio to hop back on board the story.

Recommendation

Reduce
(previous Accumulate)

EUR 1.60
(previous EUR 1.25)

Share price:
1.79



Key figures

	2023	2024e	2025e	2026e
Revenue	4.2	4.7	8.7	15.1
growth-%	81%	13%	85%	73%
EBIT adj.	-18.5	-17.8	-17.6	-13.1
EBIT-% adj.	-443%	-377%	-202%	-87%
PTP	-18.2	-16.3	-16.7	-12.4
EPS (adj.)	-0.30	-0.27	-0.27	-0.19
P/E (adj.)	neg.	neg.	neg.	neg.
P/B	0.5	1.3	1.7	2.1
EV/EBIT (adj.)	1.3	neg.	neg.	neg.
EV/EBITDA	1.9	neg.	neg.	neg.
EV/S	neg.	9.2	6.5	4.6

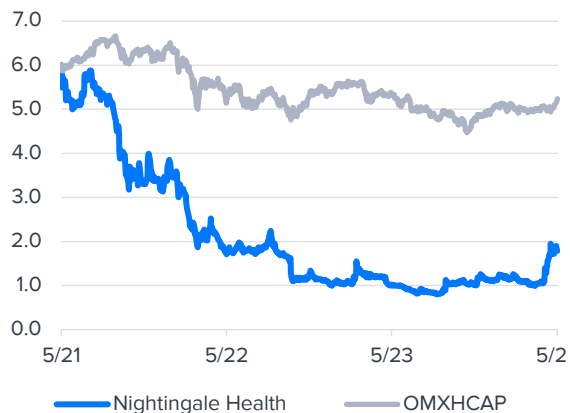
Source: Inderes

Guidance

(Unchanged)

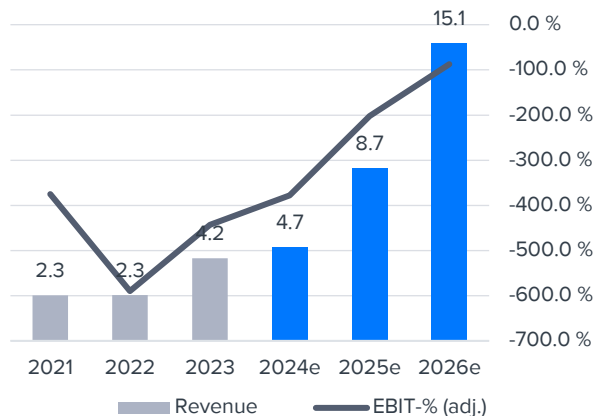
Nightingale Health has not provided guidance for the fiscal period 2023-2024.

Share price



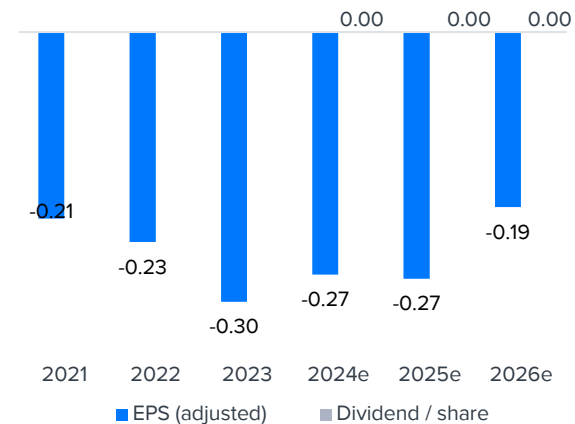
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Huge growing global market supported by mega trends
- Competitive and cost-efficient technology for predicting disease risks from blood samples
- Scalable business model
- Strong position as analyzer of Biobanks' blood samples
- Credible investors support internationalization as partners



Risk factors

- The business model proves ineffective and service demand is weak
- Slower than expected progress in the implementation of new technology in a conservative industry
- Falling behind ambitious objectives and drop in valuation that relies on successful commercialization
- Competing technologies
- Data breach including personal health data
- Need for new financing

Valuation	2024e	2025e	2026e
Share price	1.79	1.79	1.79
Number of shares, millions	60.9	60.9	60.9
Market cap	109	109	109
EV	43	57	69
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/B	1.3	1.7	2.1
P/S	23.1	12.5	7.2
EV/Sales	9.2	6.5	4.6
EV/EBITDA	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Forecasts unchanged, required return fell slightly with the contract news (WACC: 16.7->15.9%)

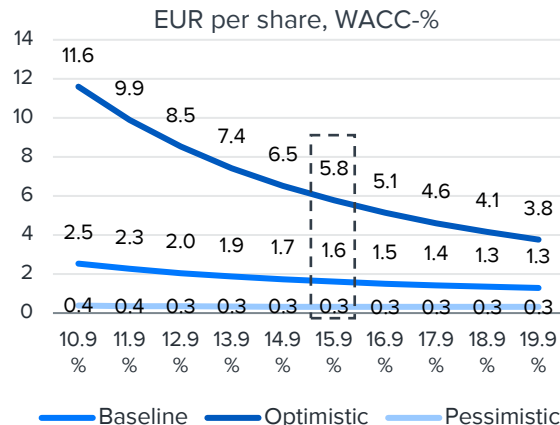
Estimate revisions	2024e			2025e			2026e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
MEUR / EUR									
Revenue	4.7	4.7	0%	8.7	8.7	0%	15.1	15.1	0%
EBITDA	-9.8	-9.8	0%	-9.6	-9.6	0%	-6.4	-6.4	0%
EBIT (exc. NRIs)	-17.8	-17.8	0%	-17.6	-17.6	0%	-13.1	-13.1	0%
EBIT	-17.8	-17.8	0%	-17.6	-17.6	0%	-13.1	-13.1	0%
PTP	-16.3	-16.3	0%	-16.7	-16.7	0%	-12.4	-12.4	0%
EPS (excl. NRIs)	-0.27	-0.27	0%	-0.27	-0.27	0%	-0.19	-0.19	0%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

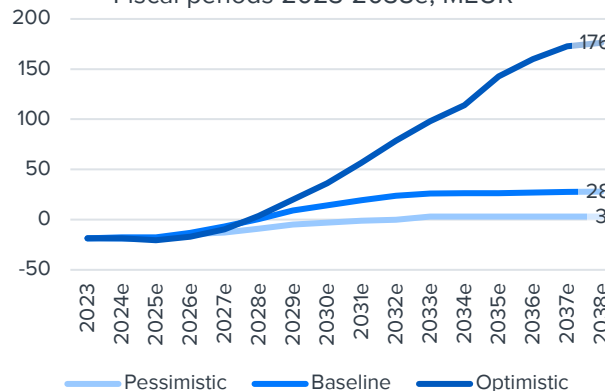
Valuation in graphs

 Fair value range

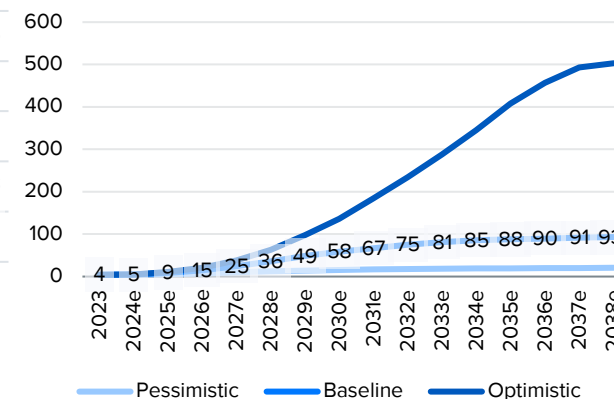
Sensitivity of the DCF value to the required return,
EUR per share, WACC-%



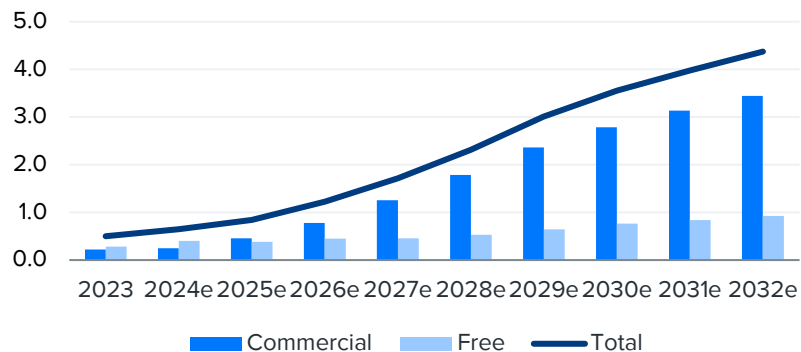
Profitability development under different scenarios (EBIT),
Fiscal periods 2023-2038e, MEUR



Revenue development in DCF scenarios,
Fiscal periods 2023-2038e, MEUR



Estimate on the number of samples analyzed,
fiscal periods 2022-2032e, million samples per year



NB: Nightingale has not published detailed data on the volume of analyzed samples so the figures in the graph are based on our own estimates.

Source: Inderes

Estimated future valuation ranges,
Fiscal period 2027e

2027e fiscal period	Low multiple	High multiple
Revenue, MEUR	24.9	24.9
EV/S, LTM, ratio	6	12
EV/S, NTM, ratio	4.1	8.3
EV, MEUR	149	298
Net cash, MEUR	33	33
Market cap, MEUR	183	332
EUR per share	3.0	5.4
Discounted to the present	1.8	3.3

NTM = 12 months forward-looking
LTM = 12 months backward-looking

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price			5.77	1.81	0.87	1.79	1.79	1.79	1.79
Number of shares, millions			41.7	60.2	60.9	60.9	60.9	60.9	60.9
Market cap			349	110	53	109	109	109	109
EV			241	19	-25.0	43	57	69	76
P/E (adj.)			neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/E			neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/B			2.8	1.0	0.5	1.3	1.7	2.1	2.3
P/S			>100	47.6	12.7	23.1	12.5	7.2	4.4
EV/Sales			>100	8.3	neg.	9.2	6.5	4.6	3.0
EV/EBITDA			neg.	neg.	1.9	neg.	neg.	neg.	neg.
EV/EBIT (adj.)			neg.	neg.	1.3	neg.	neg.	neg.	neg.
Payout ratio (%)			0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%			0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes

Peer group valuation

Peer group valuation Company	Market cap	EV	EV/S		Revenue growth-%		EBIT-%		EV/EBIT		P/E		P/B
	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
23AndMe	149	-77			-29%	13%	-266%	-151%	0.2	0.2			0.4
Aiforia Technologies	102	106	24.6	14.7	80%	88%	-263%	-125%					
CellaVision	483	474	7.2	6.3	18%	14%	27%	31%	26.2	20.5	34.3	26.2	6.8
Illumina	16459	16814	4.0	3.8	1%	7%	5%	13%	84.6	29.8	157.7	43.7	2.8
Immunovia	7	3	0.1	0.0	801%	80%	29%	23%	0.2	0.1	0.3	0.1	0.2
Nanopore	1131	865	4.0	3.1	8%	29%	-80%	-52%					1.9
Pfizer	148171	203349	3.6	3.5	3%	4%	29%	31%	12.7	11.2	12.0	10.2	1.8
Prenetics	103	69	0.5	0.3	206%	93%	11%	38%	4.3	0.7	3.3	0.6	
Quest Diagnostics	14242	18273	2.1	2.0	3%	3%	16%	16%	13.2	12.4	15.6	14.6	2.3
Roche Holding	186327	211166	3.4	3.2	1%	6%	32%	33%	10.5	9.7	12.4	11.3	5.1
Standard BioTools	832	1066	5.8	5.0	95%	16%	-69%	-37%					1.9
Nightingale Health (Inderes)	109	43	9.2	6.5	13%	85%	-377%	-202%	-2.4	-3.2	-6.7	-6.5	1.3
Average			5.5	4.2	108%	32%	-48%	-16%	19.0	10.6	33.6	15.3	2.6
Median	832	865	3.8	3.3	8%	14%	11%	16%	11.6	10.4	12.4	11.3	1.9
Diff-% to median	-87%	-95%			95%	60%	507%						-28%

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2021	2022	2023	H1'24	H2'24e	2024e	2025e	2026e	2027e
Revenue	2.3	2.3	4.2	1.7	3.0	4.7	8.7	15.1	24.9
EBITDA	-7.3	-9.4	-12.9	-5.3	-4.5	-9.8	-9.6	-6.4	-0.7
Depreciation	-2.5	-4.2	-5.6	-4.0	-4.0	-8.0	-8.0	-6.7	-6.0
EBIT (excl. NRI)	-8.6	-13.6	-18.5	-9.3	-8.5	-17.8	-17.6	-13.1	-6.7
EBIT	-9.8	-13.6	-18.5	-9.3	-8.5	-17.8	-17.6	-13.1	-6.7
Net financial items	0.0	-2.6	0.3	0.8	0.7	1.5	0.9	0.7	0.4
PTP	-9.7	-16.2	-18.2	-8.5	-7.8	-16.3	-16.7	-12.4	-6.3
Taxes	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.6	0.3
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	-9.7	-16.1	-18.2	-8.5	-7.8	-16.4	-16.7	-11.8	-5.9
EPS (adj.)	-0.21	-0.23	-0.30	-0.14	-0.13	-0.27	-0.27	-0.19	-0.10
EPS (rep.)	-0.23	-0.27	-0.30	-0.14	-0.13	-0.27	-0.27	-0.19	-0.10

Key figures	2021	2022	2023	H1'24	H2'24e	2024e	2025e	2026e	2027e
Revenue growth-%		0.3 %	80.8 %	-23.5 %	54.8 %	12.8 %	85.0 %	72.7 %	65.0 %
Adjusted EBIT growth-%		57.7 %	35.9 %	7.3 %	-13.7 %	-3.9 %	-1.1 %	-25.5 %	-48.9 %
EBITDA-%	-316.7 %	-405.9 %	-308.4 %	-311.1 %	-149.9 %	-208.5 %	-110.2 %	-42.6 %	-2.8 %
Adjusted EBIT-%	-375.0 %	-589.5 %	-442.9 %	-542.6 %	-283.2 %	-377.5 %	-201.9 %	-87.0 %	-26.9 %
Net earnings-%	-421.9 %	-695.7 %	-435.4 %	-497.3 %	-261.5 %	-347.2 %	-191.1 %	-78.5 %	-23.9 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	26.8	24.8	20.5	16.5	14.3
Goodwill	1.0	1.0	1.0	1.0	1.0
Intangible assets	16.2	16.0	11.9	7.8	5.7
Tangible assets	7.8	7.2	7.1	7.1	7.0
Associated companies	0.1	0.1	0.1	0.1	0.1
Other investments	1.2	0.0	0.0	0.0	0.0
Other non-current assets	0.4	0.4	0.4	0.4	0.4
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	97.3	82.0	70.8	60.1	52.5
Inventories	0.6	0.6	0.6	1.1	2.6
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	1.4	0.8	1.3	2.8	5.3
Cash and equivalents	95.3	80.6	68.9	56.2	44.6
Balance sheet total	124	107	91.3	76.6	66.8

Source: Inderes

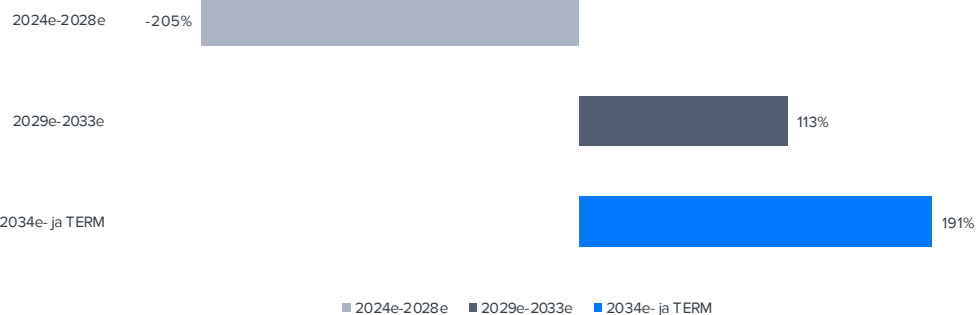
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	111	97.4	81.0	64.3	52.5
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-31.0	-45.1	-61.5	-78.2	-90.0
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	142	142	142	142	142
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	4.7	2.7	3.9	4.4	4.4
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	2.6	1.3	2.5	3.0	3.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2.1	1.4	1.4	1.4	1.4
Current liabilities	7.9	6.8	6.4	7.9	9.9
Interest bearing debt	2.1	1.4	0.5	1.0	2.0
Payables	4.7	4.4	4.9	5.9	6.9
Other current liabilities	1.1	1.0	1.0	1.0	1.0
Balance sheet total	124	107	91.3	76.6	66.8

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	2036e	2037e	2038e	TERM
Revenue growth-%	80.8 %	12.8 %	85.0 %	72.7 %	65.0 %	45.0 %	35.0 %	20.0 %	15.0 %	12.0 %	8.0 %	5.0 %	3.0 %	2.0 %	2.0 %	2.0 %	
EBIT-%	-442.9 %	-377.5 %	-201.9 %	-87.0 %	-26.9 %	1.0 %	18.5 %	24.5 %	28.8 %	31.6 %	32.0 %	31.0 %	30.0 %	30.0 %	30.0 %	30.0 %	
EBIT (operating profit)	-18.5	-17.8	-17.6	-13.1	-6.7	0.4	9.0	14.3	19.3	23.8	26.0	26.4	26.4	26.9	27.4	28.0	
+ Depreciation	5.6	8.0	8.0	6.7	6.0	5.5	5.1	6.1	7.1	7.9	7.3	8.1	8.7	9.2	9.5	9.7	
- Paid taxes	0.0	0.0	0.0	0.6	0.3	0.0	-0.4	-0.7	-1.0	-1.8	-2.6	-3.3	-3.9	-5.3	-5.4	-5.5	
- Tax, financial expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	0.1	0.0	-1.0	-3.0	-0.8	-1.0	-1.4	-1.6	-0.9	-0.8	-0.6	-0.4	-0.3	-0.2	-0.2	-0.2	
Operating cash flow	-12.8	-9.9	-10.6	-8.8	-1.2	4.9	12.2	18.1	24.5	29.1	30.1	30.8	30.9	30.5	31.3	31.9	
+ Change in other long-term liabilities	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-3.7	-3.7	-4.0	-4.5	-5.4	-6.5	-7.6	-8.5	-9.2	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	
Free operating cash flow	-17.1	-13.6	-14.6	-13.3	-6.6	-1.6	4.6	9.6	15.3	19.1	20.1	20.9	20.9	20.6	21.3	21.8	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-17.1	-13.6	-14.6	-13.3	-6.6	-1.6	4.6	9.6	15.3	19.1	20.1	20.9	20.9	20.6	21.3	21.8	160
Discounted FCFF		-13.3	-12.3	-9.7	-4.1	-0.9	2.2	3.9	5.3	5.7	5.2	4.7	4.0	3.4	3.1	2.7	19.8
Sum of FCFF present value		19.7	33.0	45.4	55.0	59.2	60.0	57.9	54.0	48.7	42.9	37.7	33.1	29.0	25.6	22.5	19.8

Enterprise value DCF	19.7
- Interest bearing debt	-2.7
+ Cash and cash equivalents	80.6
- Minorities	0.0
- Dividend/capital return	0.0
Equity value DCF	97.7
Equity value DCF per share	1.60

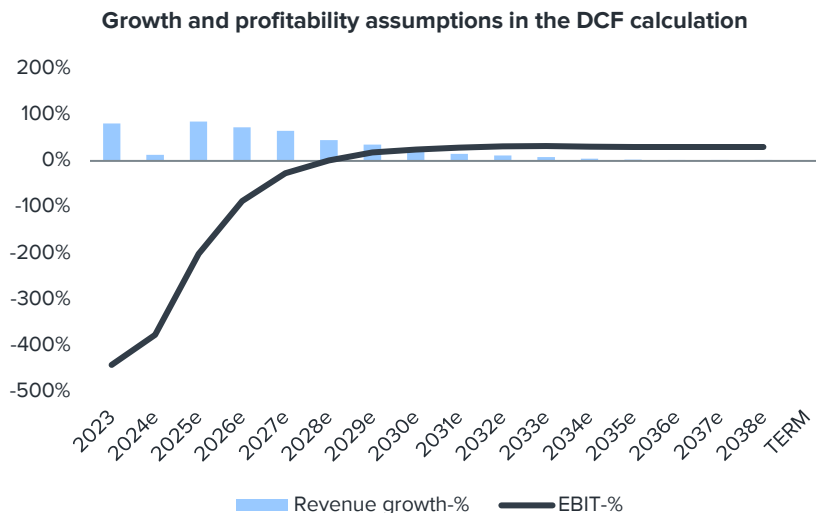
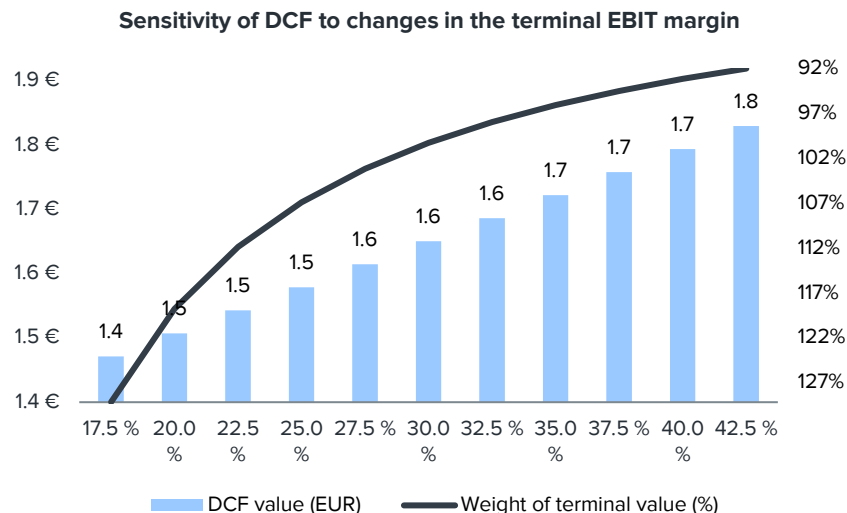
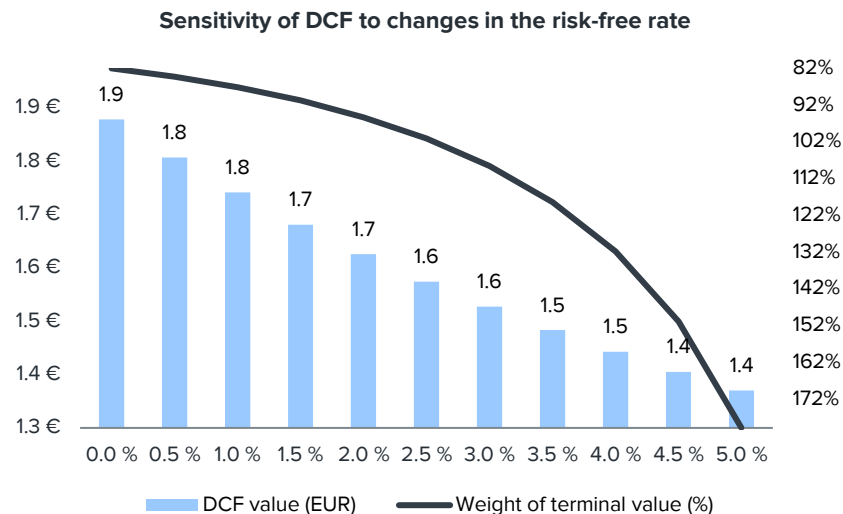
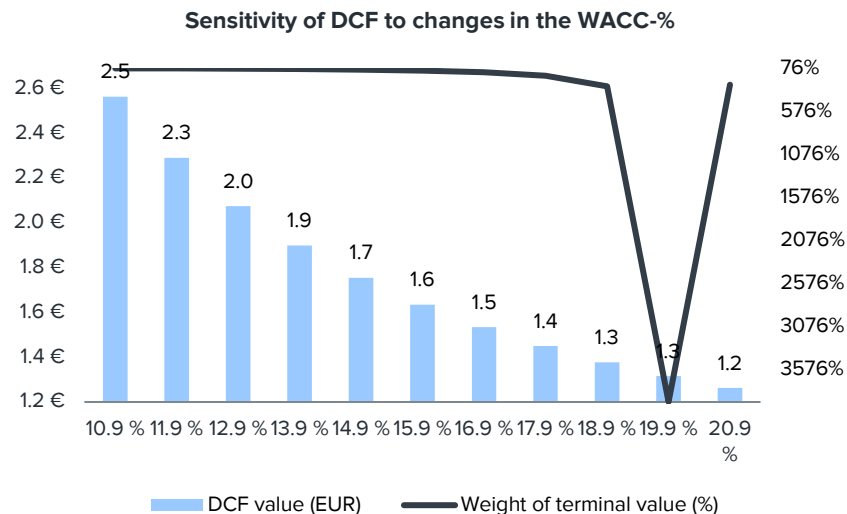
Key figures



WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	10.0 %
Equity Beta	2.8
Market risk premium	4.75%
Liquidity premium	1.00%
Risk free interest rate	2.5 %
Cost of equity	16.8 %
Weighted average cost of capital (WACC)	15.9 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	2.3	2.3	4.2	4.7	8.7	EPS (reported)	-0.23	-0.27	-0.30	-0.27	-0.27
EBITDA	-7.3	-9.4	-12.9	-9.8	-9.6	EPS (adj.)	-0.21	-0.23	-0.30	-0.27	-0.27
EBIT	-9.8	-13.6	-18.5	-17.8	-17.6	OCF / share	-0.12	-0.18	-0.21	-0.16	-0.17
PTP	-9.7	-16.2	-18.2	-16.3	-16.7	FCF / share	2.53	-0.31	-0.28	-0.22	-0.24
Net Income	-9.7	-16.1	-18.2	-16.4	-16.7	Book value / share	2.95	1.85	1.60	1.33	1.06
Extraordinary items	-1.1	0.0	0.0	0.0	0.0	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	139.0	124.0	106.8	91.3	76.6	Revenue growth-%	29%	0%	81%	13%	85%
Equity capital	123.0	111.4	97.4	81.0	64.3	EBITDA growth-%	134%	29%	37%	-24%	-2%
Goodwill	0.0	1.0	1.0	1.0	1.0	EBIT (adj.) growth-%	159%	58%	36%	-4%	-1%
Net debt	-107.5	-90.6	-78.0	-65.9	-52.2	EPS (adj.) growth-%		13%	28%	-10%	2%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	-316.7 %	-405.9 %	-308.4 %	-208.5 %	-110.2 %
EBITDA	-7.3	-9.4	-12.9	-9.8	-9.6	EBIT (adj.)-%	-375.0 %	-589.5 %	-442.9 %	-377.5 %	-201.9 %
Change in working capital	2.4	-1.3	0.1	0.0	-1.0	EBIT-%	-423.2 %	-589.5 %	-442.9 %	-377.5 %	-201.9 %
Operating cash flow	-4.9	-10.6	-12.8	-9.9	-10.6	ROE-%	-15.0 %	-13.7 %	-17.4 %	-18.4 %	-23.0 %
CAPEX	-8.1	-7.2	-3.7	-3.7	-4.0	ROI-%	-13.7 %	-11.1 %	-17.1 %	-19.4 %	-23.1 %
Free cash flow	105.4	-18.4	-17.1	-13.6	-14.6	Equity ratio	88.5 %	89.8 %	91.2 %	88.7 %	84.0 %
						Gearing	-87.4 %	-81.3 %	-80.1 %	-81.3 %	-81.2 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	>100	8.3	neg.	9.2	6.5						
EV/EBITDA (adj.)	neg.	neg.	1.9	neg.	neg.						
EV/EBIT (adj.)	neg.	neg.	1.3	neg.	neg.						
P/E (adj.)	neg.	neg.	neg.	neg.	neg.						
P/B	2.8	1.0	0.5	1.3	1.7						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
4/20/2021	Buy	7.00 €	5.00 €
9/16/2021	Buy	6.00 €	4.04 €
2/25/2022	Buy	4.00 €	2.26 €
9/30/2022	Reduce	1.40 €	1.29 €
3/17/2023	Reduce	1.30 €	1.19 €
3/24/2023	Reduce	1.30 €	1.27 €
6/5/2023	Reduce	1.10 €	0.99 €
9/29/2023	Reduce	1.10 €	1.01 €
3/8/2024	Accumulate	1.25 €	1.02 €
5/11/2024	Reduce	1.60 €	1.79 €



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