

# Senzime

Sector: Medtech

## Strengthening EU prospects

Redeye reviews its take on Senzime following its establishment of a direct sales force in Germany while also factoring in a continued effect on its sales prospects due to Corona. We make slight downward adjustments to our shorter-term sales estimates, but our confidence in Senzime's ability to reach its SEK 200m sales target in 2023 remains. We repeat our positive view on the share and see a significant upside of 60%, likely to be ignited in H2 on the back of impressive revenue growth.

### Implementing direct sales force in Germany

Being the largest medtech market in Europe, a significant focus on Germany is hugely important. The initial order at Bochum Hospital and its goal of replacing existing monitors with TetraGraph increases our confidence in Senzime's product offering's clinical need. Additional clinical studies to be carried out at his hospital will play an essential role in demonstrating its advantages over competing methods and products.

### Directed share issue demonstrates continued institutional confidence

Despite being financially equipped to reach positive cash flow in 2024, Senzime carried out an additional directed share issue in December of some SEK 100m. The participants (already large shareholders) increased their positions significantly, which in our view, tells a great deal of these professional investors' positive take on the case. Still, the share appears to be relatively undiscovered among retail investors, despite inching in on a potential hockey stick sales growth.

### +50% potential

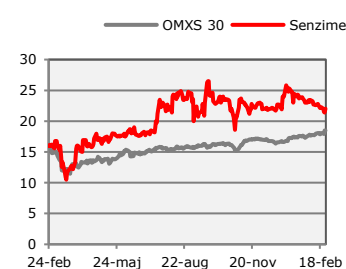
Our fundamental analysis suggests a Base Case of SEK 35 per share, some 60% up from current levels. We highlight that the gap to our Base Case depends on quarterly sales and that this will be the key catalyst for it to close. This should be closed within six to nine months though we see the potential for even greater share price levels when looking at a longer time horizon and through an EV/Sales multiple perspective. Based on peers' EV/Sales multiples, Senzime's shares could be valued at SEK 40 in 2022, further supporting our view of its potential.

KEY FINANCIALS (SEKm)	2018	2019	2020	2021E	2022E	2023E
Net sales	3	7	9	40	100	204
EBIT	-27	-34	-49	-23	-13	5
EPS	-0.6	-0.7	-0.8	-0.4	-0.2	0.1

### FAIR VALUE RANGE

BEAR	BASE	BULL
14	35	53

### VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	
Market	First North
Share Price (SEK)	22
Market Cap (MSEK)	1375
Net Debt 21E (MSEK)	136
Free Float	80 %
Avg. daily volume ('000)	71

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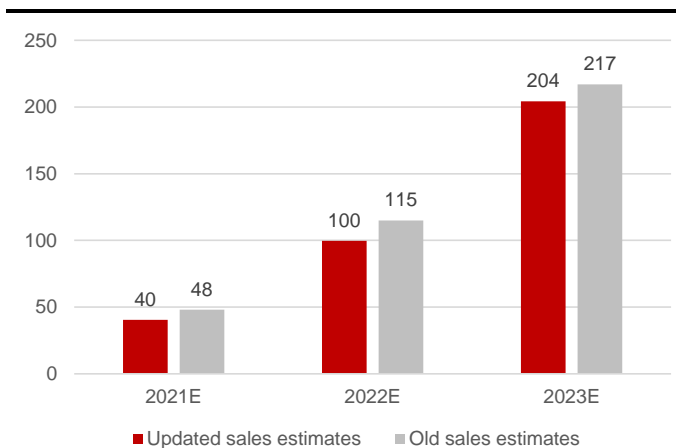
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## Strategical changes boost the already positive outlook

The company continues to align its strategy for long-term sales growth, most recently expanding a direct sales model in Germany. This, and bringing some of its manufacturing back to Sweden, should positively impact the longer-term operating margins that we estimate at some 36-37% in the second half of our forecast period of 2020-2030.

While we have a positive view on its expansion of the direct sales force and increased presence in Germany, we also make smaller adjustments to our sales estimates on the back of the continued negative impacts from Corona. These changes are insignificant to the longer-term potential of the case, we argue. We expect Senzime to deliver spectacular sales growth in the shorter term and expect sales to reach SEK 204m in 2023, slightly above its sales target of SEK 200m.

### Updated sales estimates (SEKm)



Source: Redeye Research

### Germany under construction

Senzime's establishment in Germany with its own sales force increases its control over the market and the launch of its monitoring system. Furthermore, the technology's validation also strengthens as its first customer (Bochum Hospital) intends to gradually replace all its monitors with TetraGraph. While the initial order included only one monitor, we see a strong proof of concept already. We believe sales from Germany could be rather modest in the shorter term as the company is currently constructing its local operations.

Moreover, apart from its some 1,600 beds and the importance Bochum Hospital could have on Senzime's medium to longer-term sales, this highly innovative hospital intends to carry out several studies on TetraGraph. Indeed, increasing its clinical validation helps in approaching the other +2,000 hospitals in Germany and elsewhere.

### Potential to become one of the big players

In short, we see that Senzime continues to increase its likelihood of a successful commercial roll-out, clearly demonstrating its ambitions to become a well-established player in its field. We expect nothing less of the CEO – Pia, nor the rest of the management and the board, as the company has undergone impressive organizational and strategical changes in the last few years. Now, however, is the time to execute.

While limited access to hospitals still distracts early-stage medtech firms from introducing new products and training users, we have high hopes for Senzime considering the below-mentioned factors.

### **Three factors for an attractive long-term growth story**

We emphasize three factors that, in our view, could turn Senzime into one of the five market leaders for NMBDs when objective monitoring reaches a higher degree of maturity:

- The market-leading AMG system is no longer in production
- Superior technology in TetraGraph (EMG vs. AMG)
- A relatively scarce competitive landscape

#### *Market leader TOF-Watch is no longer in production*

The AMG-based system for patient monitoring, TOF-Watch, became a part of Merck & Co in 2009 by acquiring Schering-Plough. As Merck & Co did not focus on this segment, it decided to discontinue the production in 2016. At that point in time, the system had an installed base of some 50,000 units (Sandberg and Brull, 2018).

Considering its lifetime of some 3-5 years, the last units should be replaced during this year, which further strengthens the opportunity for Senzime to introduce its technology on several hospitals. However, we still expect Senzime to introduce its system at hospitals that already have made the transition from TOF-Watch, as we argue that a transition phase may take a long time, where different systems are tested and evaluated. Therefore, Senzime's opportunity depends not only on the gap emerging this year (as the last TOF-Watch systems are taken out of use) but a broad base that has not yet entirely tied itself to any particular system.

#### *Senzime's technology is better than what is used today*

The conventional systems are based on the acceleromyography technology (AMG), which measures the level of muscle relaxation through the registration of movements of the patient's thumb from neurostimulation. Senzime's offering, TetraGraph, is based on the electromyography technology (EMG), which measures the action potential (muscles' or nerves' electric reaction on stimulation) and allows for a more precise measurement of the level of muscle relaxation. Furthermore, several clinical studies confirm that the AMG-based systems tend to overestimate the level of recovery from NMBDs. The TetraGraph system poses less risk for postoperative complications and can assure that the patient is given the right dose of NMBDs and the reversing drugs, and the reversing is adequately conducted at the right time.

In addition to this, we see other pros of using the EMG-based TetraGraph system, for example, its short start-up time of some 30 seconds without the need for calibration. Moreover, it allows the patient to lay with the arm alongside the body, while the AMG-based systems require the patient's arm to lay away from the body. A placing of the arm alongside the body makes it easier to conduct robot surgery, as it takes less space in the operating room. This feature was one of the main reasons behind Uppsala University Hospital's decision to use TetraGraph, and we argue that the robot surgery trend could undoubtedly be a growth driver for Senzime.

#### *Competitors should be aware*

There are several products on the market today, though most are based on the AMG technology. These are now intended to replace TOF-Watch as it is phased out, and as a consequence of this, we expect more competition. As we have argued previously, we still view Senzime as well-positioned with ample opportunities to become one of the market leaders.

Our research suggests that the next generation of patient monitoring systems have scarce or non-existing published clinical documentation. In contrast, TetraGraph has been evaluated in several clinical studies and head-to-head comparisons with TOF-Watch and Phillips' IntelliVue NMT Module. The results from these studies show that TetraGraph has an impressive performance where the findings have been published in abstracts and posters at anaesthesiology conferences. We expect that the company will expand its clinical documentation this year (Bochum Hospital in Germany is an example of that) to demonstrate TetraGraph's pros further.

### Market cleared TOF systems

System	Technology	Manufacturer	Comment
<b>Stand-alone systems</b>			
TwitchView	EMG	Blink Device Company	The only competitor with a cleared stand-alone EMG-based system.
TOF-Watch	AMG	Organon / Merck & Co	The most used TOF system as of today. Discontinued production in 2016. Has shown to be less precise than TetraGraph in clinical studies.
TOFscan	AMG	IDMed	Does not require calibration and uses 3D-AMG, which could increase its precision compared to conventional AMG. This remains to be clinically proven.
Stimpod	AMG	Xavant Technology	Uses 3D-AMG and has received support from Anaesthesia Patient Safety Foundation (APSF). Studies have shown that the system tends to overestimate TOFR.
TOF-Cuff	CMG	RGB Medical Devices	A less advanced system which uses a modified blood pressure monitor. Studies have shown that precision is inadequate.
<b>Integrated systems</b>			
IntelliVue NMT Module	AMG	Philips	The system has been affected by technical issues and has shown to have less precision than TetraGraph in clinical studies. Philips has signed a license and cooperation agreement with Senzime to enable integration of TetraGraph in IntelliVue.
E-NMT	EMG	GE Healthcare	GE decided to discontinue its sales of the system in 2014 after indications of the TOF values not being coherent to the level of muscle relaxation.
M-NMT	KMG	GE Healthcare	This system suffers from the same issues as the AMG-based systems do. However, we see that the integrated solution in combination with GE's large sales organization increases its competitiveness.

Source: Redeye Research

### Institutional investors demonstrate confidence in the case

During the fourth quarter of 2020, some of Senzime's largest institutional investors continued the trend of increasing their positions through another [directed share issue](#) (SEK 22 per share). The institutional investors' participation in the equity issue demonstrates their confidence, once again.

At the same time, retail investors do not seem to have discovered Senzime as the share has traded with low turnovers for quite some time. With an eventual paradigm shift to occur in the coming years in patient monitoring, increased investor attention amongst the retail crowd should follow as well.

### Institutional ownership changes Q4

Shareholder	Period	Number of stocks	% of capital	Increase from Q3 (# of stocks)	Increase from Q3 (%)
Fjärde AP-fonden	Q4	2 700 000	4,32%	1 350 000	100%
ÖstVäst Capital Management	Q4	2 855 075	4,57%	732 519	35%
Swedbank Robur Fonder	Q4	2 565 000	4,10%	681 766	36%
TIN Fonder	Q4	2 001 500	3,20%	540 000	37%

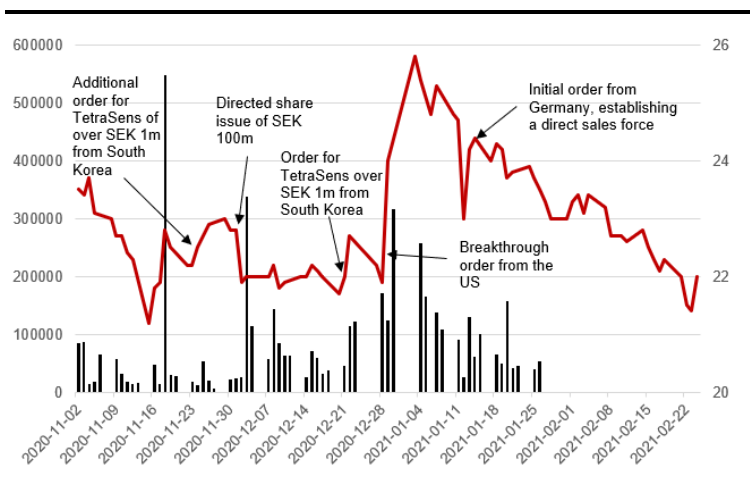
Source: Modular Finance, Redeye Research

## Share performance and Valuation

Since we published our latest research update on Senzime at the beginning of November of last year, the share has remained at the levels of SEK 22-24. Senzime has had a continued positive news flow during that period, but we judge that the share requires more concrete grounds for take-off. Increased sales growth is paramount at this stage to take the stock to higher levels.

While we view the quarterly sales as key catalysts going forward, we also highlight significant communicated orders of TetraGraph and *particularly* TetraSens, as eventual share price drivers. Orders for its consumables tell that the practitioners prefer the product over existing methods and products.

### Senzime share performance since last update (SEK)



Source: Bloomberg, Redeye Research

### Base Case – SEK 35 per share, 60% upside

Taking the positive impact from the direct sales model in Germany and a lowered WACC to some 12%, our new Base Case suggests a fundamental value of SEK 35 per share. We see a potential of some 60% in six to nine months from current levels.

In this scenario, we expect revenues to increase to some SEK 40m during this year, followed by a CAGR of some 125%, reaching SEK 204m in 2023 – slightly above the company's sales target. We expect a positive EBIT margin in the same year of some 3%. In the years following, we anticipate the EBIT margin to expand rapidly towards 36-37%, thanks to its razor-razor-blade business model.

### Shorter-term expectations on sales growth pose a risk...

High expectations on a hockey stick-like sales development leave little room for errors and pose a risk on the share price. Should Senzime's revenue prospects take a downturn, where its sales target becomes unreachable, investors might 1) be less prone to invest and 2) evaluate their holdings.

### ... but with risk comes reward

While our fundamental value suggests a price per share of some SEK 35 in our Base Case, we also consider how similar medtech firms are valued. Specifically, we look at companies in a phase where we expect Senzime to be in roughly two to three years.

We identify a cohort of companies with LTM sales ranging from SEK 44-189m with market capitalizations of SEK 1.4-7.9bn. Comparing Senzime with these provides a different take on its potential outside the valuation approach of using a DCF model. This further demonstrates the longer-term potential in the case, we argue.

The median EV/sales multiple for our cohort ranges from 30 to 14 between 2020 and 2022, with a relatively large variance in the different years. In our view, given Senzime's sales growth prospects, an EV/sales multiple of some 25 for 2022 and 15 for 2023 are justified. Applying these multiples suggests that Senzime's share could be valued at around SEK 40 in 2022 and roughly SEK 67 in 2023. Compared to today's share price, this gives an 80-200% potential in one to two years.

#### EV/sales, medtech firms

	Sales LTM	EV/Sales LTM	Estimated sales* (SEKm)		
			2020	2021	2022
Sedana Medical	116	65	125	157	240
Bonesupport	175	24	179	276	394
Bactiguard	189	18	177	289	398
Surgical Science	105	42	112	168	213
SyntheticMR	44	31	50	78	100

	Market Cap (SEKm)	Share price performance LTM	EV/Sales		
			2020	2021	2022
Sedana Medical	7,963	128%	60	48	31
Bonesupport	4,628	83%	24	15	11
Bactiguard	5,065	87%	30	18	13
Surgical Science	4,321	33%	38	25	20
SyntheticMR	1366	46%	27	17	14
<b>Median</b>			<b>30</b>	<b>18</b>	<b>14</b>
Highest			60	48	31
Lowest			24	15	11

\*Analysts' consensus estimates

Source: Bloomberg, Redeye Research

#### *Bear Case – SEK 14 per share, 36% downside*

We do not expect that clinical guidelines for objective monitoring will come anytime soon in our more pessimistic scenario. At the same time, we anticipate an increased activity amongst competitors. We estimate sales of SEK 65m in 2023 and that its marketing and sales investments will hold back any particular EBIT growth in the coming years – we expect a positive EBIT in 2025 and its margin to top out at some 30% towards the end of the forecasting period.

#### *Bull Case – SEK 53 per share, 140% upside*

In our more optimistic scenario, we assume that the clinical guidelines will come during the year and have a tremendous positive impact on Senzime's sales prospects. We estimate sales of some SEK 255m in 2023 and an EBIT margin of 12%, and that its operating leverage quickly expands, opening up for margins upwards of 40%.

## Summary Redeye Rating

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

### Rating changes in the report

**People: 3**

**Business: 3**

**Financials: 2**

INCOME STATEMENT	2018	2019	2020	2021E	2022E
Net sales	3	7	9	40	100
Total operating costs	-22	-28	-41	-46	-73
EBITDA	-22	-24	-37	-9	0
Depreciation	0	0	0	0	0
Amortization	-5	-12	-12	-8	-7
Impairment charges	0	0	0	0	0
EBIT	-27	-36	-49	-23	-13
Share in profits	0	0	0	0	0
Net financial items	0	0	0	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-27	-36	-49	-22	-12
Tax	1	3	0	0	0
Net earnings	-26	-34	-47	-22	-12

BALANCE SHEET	2018	2019	2020	2021E	2022E
<b>Assets</b>					
<i>Current assets</i>					
Cash in banks	33	31	160	136	119
Receivables	3	3	3	8	23
Inventories	1	2	4	7	13
Other current assets	1	1	6	6	10
Current assets	38	37	174	157	165
<i>Fixed assets</i>					
Tangible assets	0	0	0	4	10
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	159	151	82	74	67
O non-current assets	0	0	3	3	0
Total fixed assets	159	151	85	82	82
Deferred tax assets	0	0	0	0	0
Total (assets)	197	188	259	82	82
<b>Liabilities</b>					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	5	3	5	7	17
O current liabilities	25	21	9	20	28
Current liabilities	30	24	14	27	45
Long-term debt	0	0	0	0	0
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	30	24	27	29	48
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	167	164	231	210	198
Minority interest (BS)	0	0	0	0	0
Minority & equity	0	0	0	0	0
Total liab & SE	197	187	259	238	246

FREE CASH FLOW	2018	2019	2020	2021E	2022E
Net sales	3	7	9	40	100
Total operating costs	-22	-28	-41	-46	-73
Depreciations total	-6	-12	-12	-8	-7
EBIT	-27	-36	-49	-23	-13
Taxes on EBIT	0	0	0	0	0
NOPLAT	-27	-36	-49	-23	-13
Depreciation	6	12	12	8	7
Gross cash flow	-21	-24	-37	-15	-6
Change in WC	3	-4	-17	5	-7
Gross CAPEX	-11	-4	-0	-4	-6
Free cash flow	-28	-32	-53	-26	-18

CAPITAL STRUCTURE	2018	2019	2020	2021E	2022E
Equity ratio	85%	87%	89%	88%	80%
Debt/equity ratio	18%	15%	12%	13%	24%
Net debt	-33	-31	-160	-119	-94
Capital employed	167	164	245	211	201

GROWTH	2018	2019	2020	2021E	2022E
Sales growth	1,601%	109%	39%	333%	146%

DCF VALUATION	WACC (%)	CASH FLOW, MSEK	
	12.0 %	NPV FCF (2021-2023)	-42
		NPV FCF (2024-2030)	846
		NPV FCF (2030-)	1226
		Fair value estimate MSEK	2189
Assumptions 2021-2025 (%)			
Average sales growth	101%	Fair value e. per share, SEK	35
EBIT margin	-4%	Share price, SEK	22

PROFITABILITY	2018	2019	2020	2021E	2022E
ROE	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg
EBITDA margin	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg
Net margin	neg	neg	neg	neg	neg

VALUATION	2018	2019	2020	2021E	2022E
EV	335.4	356.2	1215	1239	1256
P/Sales	114.5	57.7	149	34	14
EV/Sales	104.4	53.1	131	31	13

SHARE PERFORMANCE	
1 month	-11 %
3 month	-4 %
12 month	31 %
Since start of the year	-11 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Crafoord family	14.6%	14.6%
Segulah Venture AB and AB Segulah	7.1 %	7.1 %
Handelsbanken Fonder	6.3 %	6.3 %
Pershing Llc.	6.3 %	6.3 %
Sorin J. Brull	5.2 %	5.2 %
Länsförsäkringar Fonder	4.4 %	4.4 %
Lindskog family	4.3 %	4.3 %
Fjärde AP-fonden	4.3 %	4.3 %
Swedbank Robur Fonder	4.1 %	4.1 %
Stone Bridge Medical	3.5 %	3.5 %

SHARE INFORMATION	
Reuters code	
List	First North
Share price	
Total shares, million	62.5
Market Cap, MSEK	

MANAGEMENT & BOARD	
CEO	Pia Renaudin
CFO	Erik Bergman
IR	
Chairman	Philip Siberg

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## 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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### Redeye Rating (2021-02-26)

Rating	People	Business	Financials
5p	21	16	3
3p - 4p	107	88	39
0p - 2p	5	29	91
Company N	133	133	133

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### CONFLICT OF INTERESTS

Oscar Bergman owns shares in the company : No

Anders Hedlund owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.