

Novacyt

Innovative clinical diagnostics

Novacyt is a high growth diagnostics company that has developed innovative technology platforms specifically in liquid-based cytology (LBC) testing and new-generation molecular products based on real-time quantitative polymerase chain reaction (qPCR). Novacyt also has an established manufacturing and global distribution channel, which offers a wide range of profitable infectious disease diagnostic products. 2017 could be a transformative year, as the integration of recent acquisitions helps accelerate sales momentum of its key products NOVAprep (LBC) and Primerdesign's genesig (qPCR). By targeting wider markets the company aims to achieve EBITDA break-even in 2017.

Organic growth, M&A and R&D

Novacyt, listed on Alternext, is a group of companies that offer novel clinical diagnostics platforms, but also conventional laboratory products. The two most notable recent transactions were the merger of Novacyt with Lab21 in June 2014 and the acquisition of Primerdesign in May 2016. Novacyt's operations are split into three business segments: cytology – a core business involving innovative LBC diagnostic equipment NOVAprep and consumables; molecular testing – Primerdesign, innovative real-time qPCR equipment and consumables; and diagnostics – laboratory products (Lab21 and its subsidiaries). Novacyt's strategy has three pillars: commercial expansion of the existing product portfolio, progressing the R&D pipeline to bring innovative products to the market and opportunistic acquisitions of synergistic businesses.

Financials: Strong growth and back to black in 2017

In January 2017 Novacyt reported FY16 sales with the top line growing 25% from €8.9m to €11.1m (38% using a constant exchange rate). Through a combination of organic and acquisitive expansion (Primerdesign has been consolidated from May 2016 and Lab21 from June 2014) sales increased from €1.1m in FY13 to €11.1m in FY16 at a CAGR of 110%. To date Novacyt has been loss making, but the company aims to be profitable in H217 with continued organic growth. During 2016 Novacyt raised a total of €8.1m in new equity and €3.0m in convertible debt and ended the year with €2.9m in cash (net debt of €2.9m using debt at end-June 2016).

Valuation: Undemanding 1.2x EV/sales

Based on the consensus sales estimates for 2017, an EV/sales ratio of just 1.2x seems undemanding. 2017 could be transformational if Novacyt manages to achieve profitability, while dual listing on AIM may also provide additional liquidity. Primerdesign's expansion into the clinical testing market (see below) is one of the most significant near-term catalysts.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (c)	P/E (x)	Yield (x)
12/14	4.5	(3.7)	(0.88)	0.0	N/A	N/A
12/15	8.9	(13.2)*	(2.05)*	0.0	N/A	N/A
12/16e	11.1	(2.1)	(0.33)	0.0	N/A	N/A
12/17e	15.2	(0.8)	(0.35)	0.0	N/A	N/A

Source: Bloomberg. Note: *A goodwill impairment of €9.8m was recorded in 2015.

Clinical diagnostics

21 March 2017

Price €0.89
Market cap €16m

Share price graph



Share details

Code	ALNOV
Listing	Alternext
Shares in issue (includes €2.7m fund-raise in December 2016)	17.3m
Estimated net debt (€m) at end-2016 using year-end cash and debt at end-June 2016	2.9

Business description

Novacyt is a clinical diagnostics company that has developed innovative platforms, but is also offering more conventional laboratory products for an established client base. NOVAprep is an innovative, proprietary liquid-based cytology platform, while recently acquired Primerdesign offers novel, real-time qPCR devices and consumables. Lab21 offers more conventional laboratory products.

Bull

- Strong historical top-line growth, undemanding EV/sales multiples.
- Primerdesign is a molecular diagnostics business in a rapidly growing market; expansion into the clinical use market will substantially increase the potential.
- Novacyt is contemplating a potential dual listing on the London Stock Exchange's AIM, which could increase liquidity and improve access to capital for its growth plans.

Bear

- Novacyt is yet to achieve profitability.
- The company is a player in the highly fragmented and competitive diagnostics market.
- Some dependency on the tendering process may cause volatility in revenues.

Analyst

Jonas Peculis +44 (0)20 3077 5728

healthcare@edisongroup.com

Novacyt is a research client of Edison Investment Research Limited

Outlook for Novacyt's businesses

NOVAprep: Next-generation LBC system

Novacyt was incorporated in Paris, France, in 2006 to develop the next-generation, liquid-based cytology screening system NOVAprep, which was CE marked in 2008; the company listed on Alternext in 2012. The technology platform has recently been approved in China, Russia and Australia, and the vial has been registered as a class I device in the US market while the company is still exploring potential commercial options in the US. NOVAprep is marketed as a next generation LBC system, predominantly for cervical cancer screening, and allows both cellular and molecular analysis from the same specimen. Historically, LBC was revolutionary in an attempt to increase the sensitivity and specificity of the classic Papanicolaou smear (Pap smear) for screening for cervical abnormalities. Instead of spreading the sample onto a glass slide, in LBC the brush is transferred to a vial with a fixative medium, which is then spun and prepared for analysis. NOVAprep's differentiating properties are a unique, patented vial, a proprietary fixative medium (non-formaldehyde based, no refrigeration, with a longer storage period) and a fully automated preparation process.

In June 2014 Novacyt acquired and merged with Lab21, combining the innovative NOVAprep platform with the profitable infectious disease diagnostics business from Lab21. NOVAprep is still in the early stage of commercialisation, therefore the combination with Lab21 provided synergistic marketing channels and experience, with sales now gaining traction. The company has signed several distribution deals (with MDL Asia for Asia Pacific, Leica for China, Microm Microtech for France and a partnership with Cepheid for South America) and is now selling NOVAprep in Europe, Asia, the Middle East and Australia. NOVAprep's FY16 sales were €1.6m, up 24% y-o-y, with the Asia region growing the fastest at 116%. In 2017 Novacyt aims to launch NOVAprep in South America through a partnership with Cepheid and recently successfully registered the NOVAprep vial as a class I device with the US FDA.

Primerdesign: An innovative real-time qPCR solution

Primerdesign, acquired in May 2016, is a UK-based molecular diagnostics company that has developed and commercialised a real-time qPCR system called genesig and sells proprietary molecular assays (it has developed a catalogue of around 500 molecular test so far) to academic and industrial customers in over 100 countries. Novacyt paid £9.9m using equity and cash, with another £2.5m in earnouts over the next three years. In our view, a crucial step in the investment case for Primerdesign is the expansion into clinical diagnostics beyond its current research use market. Novacyt has already identified the first six infectious disease assays from Primerdesign's catalogue and will invest in the work needed to "upgrade" to get the CE mark in 2017.

Primerdesign's sales grew at a CAGR of 32% over the past three years; it recorded FY15 revenues of €5.3m and EBITDA of €1.8m. Novacyt expected the business to be immediately accretive after the acquisition. On a pro forma basis, Primerdesign's 2016 sales were £4.2m (€5.1m), constituting 46% of the total Novacyt revenues compared to £3.9m (€5.3m) in 2015. Novacyt is making significant investments in Primerdesign's commercial and regulatory infrastructure and expects growing sales in 2017, which should be boosted by the expansion in clinical diagnostics.

Lab21: An established profitable products business

Lab21 was founded in 2005 and is headquartered in Cambridge, UK. After several acquisitions, Lab21 mainly focuses on infectious diseases and oncology products and consists of three business activities: microbiology and haematology/serology products. Lab21 has a broad client base covered by more than 300 distributors, also employing a direct salesforce in the UK. Lab21 represents an established business within Novacyt, with FY16 sales coming in at €6.2m. This was a decrease of 8% at constant exchange rates, mainly due to a series of one-offs including lumpy tender awards, challenging emerging market conditions and a strong comparator period.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Novacyt and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") (c) FTSE [2017]. "FTSE(r)" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.