



Ikonisys

Med Tech / France

A 'fully-automated' oncology diagnostic play

Initiation cov. - 20/07/2021

Diagnostic firm Ikonisys is set to enter a major product launch cycle – its recently-introduced 'fully-automated' Ikoniscope20 platform comes with an industry first true 'walk-away' feature which should ensure sustained share gain from manual/ semi-automated workflows. Importantly, the growing installation base should in turn augment the group's recurring revenue (high margin) generation capability. A successful IPO has fulfilled the near-term funding requirements and, with a highly-experienced management team at the helm of affairs, Ikonisys' future looks bright. **BUY.**

Recommendation and upside

We initiate coverage on Ikonisys with a 'Buy' recommendation and a target price of €11.6 per share. Our optimism on this diagnostic firm is driven by the anticipated rapid adoption of its recently-introduced 'fully-automated' platform, Ikoniscope20. Importantly, this next-gen instrument (built on a proven technology) is positioned as a true 'walk-away' solution – can be left unattended from start to finish, enabling the pathologists to deliver more accurate results in less time – and this first-of-a-kind feature should ensure steady market share gain from manual/ semi-automated workflows in the coming years. Not forgetting, there is a clear need of fully-automated solutions within the FISH (market growing at 8% p.a.) and CTC (market growing at 25% p.a.) markets as the dependence on pathologists, who are over-burdened and in short supply, makes it difficult to process higher volumes with accuracy.

To unleash the full potential of Ikoniscope20, the recently-strengthened management team has put down a good commercialisation plan on paper and, given that these highly-experienced individuals have been associated with successful launches of various diagnostic products in the past, we remain confident about Ikoniscope20's commercial success. Notably, the growing installation base – we anticipate placement of c.500 units by end-FY25 – should in turn augment the group's recurring revenue generation capability (in the form of software applications, maintenance and consumables/ reagents kits). Also, an increasing proportion of high-margin recurring revenues in the mix should provide good visibility into earnings – we anticipate Ikonisys to turn EBITDA positive in FY23 – and make the cash flows stickier/ stable in the mid-term. Further upside could come from expansion into the immuno-oncology and infectious diseases therapeutic areas. Also, we won't be surprised if Ikonisys is grabbed by an industry heavyweight even before Ikoniscope20 gains critical mass. **BUY.**

Business and Trends

Ikonisys is a diagnostic firm developing instruments and software for oncology/ cancer and prenatal testing/ applications. It operates in the highly concentrated c.\$69bn global in-vitro diagnostic (IVD) market and is trying to establish its niche in the two segments of the market – FISH (fluorescence in situ hybridisation; market size: \$1.2bn) and CTC (circulating tumour cells; market size: \$0.5bn).

For the past five years, Ikonisys has largely been an R&D focused organisation and, as it has now developed a potential 'game-changing' product, Ikoniscope20, emphasis is shifting towards commercialisation – the plan is to tap 1,450 mid-to-



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This research has been commissioned and paid for by the company and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

Buy	Upside: 196%
Target Price (6 months)	€ 11.6
Share Price	€ 3.92
Market Cap. €M	37.2
Price Momentum	
Extremes 12Months	76.0 ▶ 76.0
Sustainability score	5.6 /10
Credit Risk	DDD →
Bloomberg	ALIKO FP EQUITY
Reuters	ALIKO.PA

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PERF	1w	1m	3m	12m
Ikonisys	n/a	n/a	n/a	n/a
Health	-0.56%	3.93%	6.14%	20.6%
STOXX 600	-3.59%	-1.72%	0.48%	19.2%

Last updated: 20/07/2021	12/20A	12/21E	12/22E	12/23E
Adjusted P/E (x)	-21.9	ns	-9.87	38.5
Dividend yield (%)	0.00	0.00	0.00	0.00
EV/EBITDA(R) (x)	ns	ns	-10.9	32.8
Adjusted EPS (€)	-0.18	-0.03	-0.40	0.10
Growth in EPS (%)	n/a	n/a	n/a	n/a
Dividend (€)	0.00	0.00	0.00	0.00
Sales (€M)	0.39	0.55	8.76	20.0
Other margin (%)	97.9	62.8	47.3	55.7
Attributable net profit (€M)	-1.57	-0.29	-3.77	0.96
ROE (after tax) (%)	-27.7	-4.02	-52.2	16.6
Gearing (%)	16.1	-1.88	21.8	59.1

[Company Valuation](#) - [Company Financials](#)

large sized laboratories in the US and Europe in the medium term with a mix of direct and distributor-based sales channels. Like other diagnostic players, Ikonisys will also operate under the 'razor blade' business model, wherein the instruments/ platforms to conduct tests will be placed with laboratories/ hospitals under software and consumables supply agreement. Thus, software applications, reagents kits/ consumables and maintenance services – all of which are recurring in nature – are expected to form the main revenue stream.

Notably, the 'automated' Ikoniscope Robotic Digital Microscope (in market since 2006) was the key platform in the company's portfolio up to now and, recently, the company introduced its next-gen product. Ikoniscope20 (first instrument sold in Q2 21) offers high resolution imaging and higher throughput as compared to the previous device and comes in a much smaller size. Importantly, automation has also moved a notch higher and Ikoniscope20 is positioned as a fully-automated 'walk-away' solution that can be left unattended from start to finish. These features help overcome human error in testing and ensure higher consistency and, at the same time, reduce the burden on pathologists, who are generally over-stretched. Given the shortage of pathologists, which was a bottleneck for industry growth, this a major breakthrough and we believe that Ikonisys should gain significant market share from manual/ semi-automated workflows, which should become obsolete in the automated era. Like its predecessor, Ikoniscope20 has broad applications in FISH-based tests for solid tissues (market growing at 8% p.a.) and, additionally, it is suitable for CTC/ liquid biopsies (market growing at 25% p.a.). Also, the platform could have additional potential in immuno-oncology and infectious disease therapeutic areas in the mid/ long term.

Need to know

Given its small scale and continuous investments into R&D, Ikonisys has reported an operating loss every year since formation. Considering that its lead product, Ikoniscope20, should require significant spend on the commercial front in the near/ mid-term and R&D into Ikoniscope AI and software applications is expected to make progress, the company is still a couple of years away from meaningful profitability and/or cash generation.

However, Ikonisys' ability to raise funds could play a pivotal role in a successful turnaround of the business. To unleash the full commercial potential of Ikoniscope20, the group needs to build-up gradually a sales and marketing organisation and for that it raised fresh equity (to the tune of c.€4m) – three-quarters of the IPO proceeds should be used for sales and marketing while the remainder should be utilised either for R&D or for working capital purposes. Not forgetting, the management team has recently been strengthened to make Ikoniscope20 a commercial success.

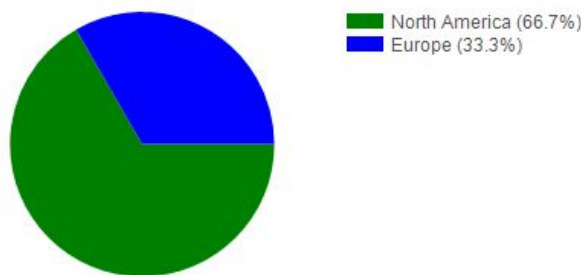
Given the significant under-penetration of automated solutions within the industry, we anticipate faster adoption of Ikoniscope20 and thus equipment/ instrument sales should be a key contributor to the top-line in the near term. As the installation base grows, high-margin recurring revenue (in the form of reagents, software applications and maintenance) should grab a bigger slice of the pie, as with any other IVD firm. According to our estimates, Ikonisys should turn EBITDA positive in FY23 and Ikoniscope20 should have an installed base of c.500 units by the end of FY25.

Notably, the board is chaired by Mario Mauri, who also happens to be the chairman and CEO of Ikonisys' largest shareholder Cambria Funds (holds c.89% shares in Ikonisys SA).

Key risks

If Ikoniscope20 fails to gain scale, it could be a deal-breaker for Ikonisys. Although the commercialisation plan sounds good, management needs money to scale up the infrastructure and if there is a delay on the funding front, Ikoniscope20 might remain a 'game-changing' product only on paper. Also, even after a commercial footprint is established, entering into a rival's customer base is likely to be a herculean task. Moreover, considering that hospital capex budgets are constrained due to COVID-19, Ikoniscope20's adoption could be slower than expected. The technological risk for FISH assays is also there, particularly from the faster-growing molecular diagnostic technologies like next-generation sequencing. Remember, the management team is relatively new and is yet to prove its mettle in terms of execution.

Sales by Geography



Consolidated P&L Accounts

	12/20A	12/21E	12/22E
Sales	€M 0.39	0.55	8.76
Change in sales	% -37.6	43.6	1,483
Change in staff costs	% 1.01	50.0	90.0
EBITDA	€M 0.17	-0.34	-3.74
EBITDA(R) margin	% 44.9	-62.2	-42.7
Depreciation	€M -0.07	0.00	0.00
Underlying operating profit	€M 0.10	-0.35	-3.74
Operating profit (EBIT)	€M 0.20	-0.25	-3.74
Net financial expense	€M -1.77	-0.04	-0.01
of which related to pensions	€M 0.00	0.00	0.00
Exceptional items & other	€M		
Corporate tax	€M -0.01	0.00	-0.02
Equity associates	€M		
Minority interests	€M		
Adjusted attributable net profit	€M -1.57	-0.29	-3.77
NOPAT	€M 0.07	-0.24	-2.62

Cashflow Statement

	12/20A	12/21E	12/22E
EBITDA	€M 0.17	-0.34	-3.74
Change in WCR	€M 0.15	-1.13	-1.33
Actual div. received from equity holdi...	€M 0.00	0.00	0.00
Paid taxes	€M -0.01	0.00	-0.02
Exceptional items	€M		
Other operating cash flows	€M -2.62	0.10	0.00
Total operating cash flows	€M -2.31	-1.38	-5.09
Capital expenditure	€M 0.00	-0.01	-0.13
Total investment flows	€M 0.00	-0.01	-0.13
Net interest expense	€M -1.77	-0.04	-0.01
Dividends (parent company)	€M		
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M 0.09	4.00	0.00
Total financial flows	€M 2.03	3.01	3.69
Change in cash position	€M -0.14	1.62	-1.53
Free cash flow (pre div.)	€M -4.08	-1.43	-5.23

Per Share Data

		12/20A	12/21E	12/22E
No. of shares net of treas. stock (year...	Mio	8.78	9.48	9.48
Number of diluted shares (average)	Mio	8.78	9.13	9.48
Benchmark EPS	€	-0.18	-0.03	-0.40
Restated NAV per share	€			
Net dividend per share	€	0.00	0.00	0.00

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 9.77	40%	● Qiagen
NAV/SOTP per share	€ 18.5	40%	
P/E	€ 1.96	5%	
EV/Ebitda	€ 0.00	5%	
P/Book	€ 3.70	5%	
Dividend Yield	€ 0.00	5%	
TARGET PRICE	€ 11.6	100%	

NAV/SOTP Calculation

Balance Sheet

	12/20A	12/21E	12/22E
Goodwill	€M 4.42	4.42	4.42
Total intangible	€M 7.92	7.92	7.92
Tangible fixed assets	€M 0.00	0.01	0.14
Financial fixed assets	€M		
WCR	€M -1.03	0.10	1.43
Other assets	€M 0.03	0.03	0.03
Total assets (net of short term liab.)	€M 7.01	8.15	9.61
Ordinary shareholders' equity	€M 5.39	9.10	5.33
Quasi Equity & Preferred	€M 0.27	0.27	0.27
Minority interests	€M		
Provisions for pensions	€M 0.00	0.00	0.00
Other provisions for risks and liabilities	€M		
Total provisions for risks and liabilities	€M 0.00	0.00	0.00
Tax liabilities	€M		
Other liabilities	€M 0.23	0.23	0.23
Net debt (cash)	€M 1.11	-1.45	3.78
Total liab. and shareholders' equity	€M 7.01	8.15	9.61

Capital Employed

	12/20A	12/21E	12/22E
Capital employed after depreciation	€M 6.89	8.03	9.49

Profits & Risks Ratios

		12/20A	12/21E	12/22E
ROE (after tax)	%	-27.7	-4.02	-52.2
ROCE	%	1.07	-3.01	-27.6
Gearing (at book value)	%	16.1	-1.88	21.8
Adj. Net debt/EBITDA(R)	x	6.43	4.22	-1.01
Interest cover (x)	x	0.06	-7.76	-552

Valuation Ratios

		12/20A	12/21E	12/22E
Reference P/E (benchmark)	x	-21.9	ns	-9.87
Free cash flow yield	%	-11.9	-3.85	-14.1
P/Book	x	6.39	4.09	6.97
Dividend yield	%	0.00	0.00	0.00

EV Calculation

	12/20A	12/21E	12/22E	
Market cap	€M 34.4	37.2	37.2	
+ Provisions	€M 0.00	0.00	0.00	
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00	
+ Net debt at year end	€M 1.04	-1.53	3.69	
+ Leases debt equivalent	€M 0.00	0.00	0.00	
- Financial fixed assets (fair value)	€M 0.01	0.01	0.01	
+ Minority interests (fair value)	€M			
= EV	€M 35.4	35.6	40.8	
EV/EBITDA(R)	x	ns	ns	-10.9
EV/Sales	x	92.0	64.4	4.66

Analyst : Sumit Sayal, Changes to Forecasts : 20/07/2021.