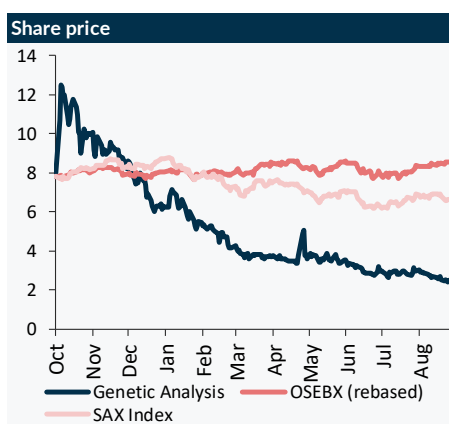


Genetic Analysis

Key share data	
Sector	Healthcare Technology
Bloomberg	GEAN SS
Market Cap (NOKm)	63
Net debt (NOKm)	-32
EV (NOKm)	30
Net debt / equity	-55%
Issued shares (m)	24.9



Performance			
	1m	3m	12m
GEAN	-20%	-26%	-68%*
OSEBX	4%	7%	12%
SAX	0%	-2%	-20%

*From IPO price of NOK 7.8 on 30 Sept 2021

Upcoming events	
3Q22 report	November 1, 2022
4Q22 report	February 17, 2023

This report is paid for by the company covered in it

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Solid income and laboratory platform sales in 2Q

Genetic Analysis (GA) reported its 2Q results last week. Total revenues beat our expectations, fuelled by solid reagent kit sales and funding received from research work and grants. EBIT also came in better than expected. Notably, the laboratory platform sales are increasing, which is a leading indicator of reagent kit revenues. We keep our estimates unchanged and maintain our fair value range for GA's shares at NOK 2.5-8.0/sh.

Financials boosted by additional income

2Q sales came in at NOK 3.0m, lower than our expected NOK 3.5m. However, this slight miss was largely offset by NOK 2.5m received from research work and grants. This brought the total income to NOK 5.5m and boosted the company's EBIT, to a somewhat better than expected NOK -6.1m. An encouraging sign is a growth in reagent kit sales - NOK 2.2m for the quarter, compared to NOK 1m in 2Q21. The cash position of NOK 33.4m is in line with our expectations and additional financing is not likely to be needed before 2023, in our view.

2Q/22 results NOKm	2Q/21	1Q/22	2Q/22 Reported	2Q/22e Norne	Deviation
Sales revenue	2.3	2.5	3.0	3.5	-15%
Other revenue	1.1	2.3	2.5	0.0	nm
EBITDA	-12.9	-6.5	-4.8	-6.8	-29%
EBIT	-15.1	-7.7	-6.1	-7.9	-23%
Net earnings	-15.1	-7.7	-6.1	-7.9	-23%
EPS rep.	-0.88	-0.31	-0.24	-0.32	-23%

Strategic collaboration with Servatus

At the end of June, Genetic Analysis and Servatus Biopharmaceuticals [signed a strategic collaboration agreement](#). Servatus has immense experience in developing microbial-based biotherapeutic drugs, and this cooperation is expected to develop new treatment regimens. The partnership will enable Servatus to establish a GA-map® Flagship Lab at its Queensland manufacturing facility, Australian Biotherapeutics. The partner company will be able to fully supply in-house and external microbiome analysis in the research field.

Laboratory platform installations are the key for Genetic Analysis

During the 1H 2022, GA booked NOK 0.9m in laboratory platform sales, this is a rather sizeable increase, as for the category in 2021 a total of NOK 0.5m revenues were received. Laboratory platform installation income is a key sign that companies are willing to invest in the long term. We see this as a leading indicator of increasing reagent kit sales. Furthermore, laboratory income is a crucial catalyst needed to achieve scale.

Estimates and fair value range unchanged

While the quarter has presented decent results, it was fueled by "other" non-recurring income. We await higher core-business revenues and maintain our estimates unchanged. We keep our Genetic Analysis share fair value range stable at NOK 2.5-8.0/sh.

Valuation

Genetic Analysis valuation			
	Bear	Base	Bull
Valuation	2.5	4.5	8.0
Premium (-) / Discount (+)	-8%	69%	200%

Due to the services being Paid Research, Norne Securities will, under current legislation, not provide a specific research recommendation with respect to GA's shares, but will provide a fair value estimate range, from conservative to optimistic, in accordance with market practice for such research.

For our base case estimates, we cautiously expect that GA will bring in NOK 20m in sales for 2022, NOK 50m in 2023 and NOK 70m in 2024. We project the company to have positive EBIT from the start of 2024. For revenue growth until 2027 we see the overall microbiota market compound annual growth rate (CAGR) at 20% as a good projection. Afterwards, the growth is projected to slow down by 5%p each year, reaching 5% in 2030.

Genetic Analysis had an average gross margin of 75% for 2017-2021 and expects a stable gross margin of around 70%. Wages are the largest expense for Genetic Analysis, and we predict that expenses for the company's skilled workforce will grow by 6% per year. Other operational costs (excluding IPO costs) are projected to grow at 5% for the foreseeable periods. Additionally, in our modelling, an issue of 12m new shares at a placement price of NOK 2.20/sh is assumed, bringing in a total of NOK 26.4m in gross proceeds.

These estimates would return a fair value of NOK 4.5/sh. using a Discounted Cash Flow valuation with long-term growth of 2.5% and a weighted average cost of capital of 14.5%.

DCF model

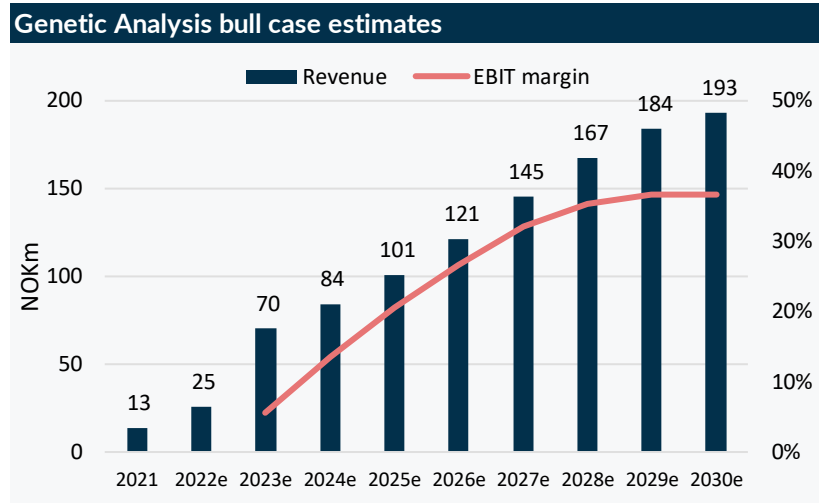
NOKm	3Q-4Q 2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	11	50	70	84	101	121	139	153	161
EBIT	-14	-10	2	9	18	29	39	46	48
Tax on EBIT	0	0	0	-2	-4	-6	-9	-10	-11
NOPLAT (+)	-14	-10	1	7	14	23	31	36	37
Depreciation & amortization (+)	2	4	4	4	4	4	4	4	4
Capital expenditure (-)	-2	-4	-4	-4	-4	-4	-4	-4	-4
Change in working capital (- or +)	-5	-7	-5	-2	-6	0	0	2	3
Free Cash Flow to the Firm	-19	-16	-3	5	8	23	31	38	41
NPV of FCFF	-18	-13	-2	3	4	11	13	14	13

WACC calculation		Valuation, NOKm		Assumptions	
Debt ratio	5.0%	Net debt	-32	Lt. growth	2.5%
Cost of debt (after tax)	5.0%	Minority interest	0	Tax rate	22%
Risk free rate	3.0%	NPV cash flow		# shares, m*	36.9
Beta	2.0	3Q-4Q 2022E - 2030E	25	*Including PP of 12m shares	
Market risk premium	6.0%	2031E -	111	@ NOK 2.2/sh in 2023	
Cost of equity	15.0%	Total NPV cash flow	135		
WACC	14.5%	Equity value	167		
		Value per share, NOK	4.53		

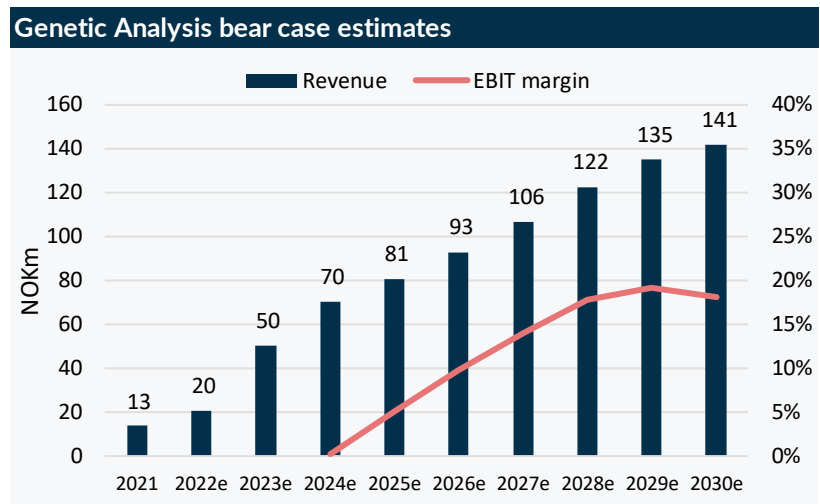
Sensitivity analysis						
NOK/share		L.t. growth rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	13%	5.1	5.3	5.5	5.7	5.9
	14%	4.5	4.7	4.8	5.0	5.2
	15%	4.3	4.4	4.5	4.7	4.8
	16%	3.6	3.7	3.8	3.9	4.0
	17%	3.3	3.3	3.4	3.5	3.6

Scenarios

For our Bull case scenario valuation, we assume Genetic Analysis will manage to accelerate its sale development in the US and EU markets. With this progress, the company would achieve their IPO-stated revenue goals for 2022 and 2023 of NOK 25m and NOK 70m, respectively. Following that development, GA would most likely need less funding in 2023, and the assumption of 12m new shares decreases to 8m. In this scenario, we obtain a fair value for Genetic Analysis shares of NOK 8/sh.



Our Bear case scenario assumes that Genetic Analysis will not sustain a revenue growth that is forecasted as the CARG of the market and our base case scenario. For the years 2024-2027 we predict that turnover will be growing at a reduced rate of 15% per year, the lowest estimated CAGR from our collected microbiome market projections. At the same time, we estimate higher operational costs, rising by 5%p from our base case to 10% yearly growth. With both revenue and cost amendments to our model, the valuation of the share price of Genetic Analysis is brought down to NOK 2.5/sh.



Annual financial data

Profit & Loss (NOKm)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	1	4	7	6	7	16	50	70	84	101	121
Other income	1	1	11	2	7	5	-	-	-	-	-
COGS	-0	-2	-2	-1	-1	-5	-15	-21	-25	-30	-36
Wages	-9	-13	-14	-16	-23	-26	-27	-29	-31	-32	-34
Other operational costs	-9	-8	-6	-6	-14	-13	-14	-15	-15	-16	-17
EBITDA	-16	-18	-4	-16	-24	-23	-6	6	13	22	34
Depreciation	-2	-2	-2	-5	-5	-5	-4	-4	-4	-4	-4
Adj. EBIT	-17	-20	-7	-21	-29	-28	-10	2	9	18	29
Non-recurring costs	-	-	-	-1	-	-	-	-	-	-	-
EBIT	-17	-20	-7	-22	-29	-28	-10	2	9	18	29
Net financial items	-2	-3	-0	-0	-0	-0	-0	-0	-0	-0	-0
Pretax profit	-20	-22	-7	-22	-29	-28	-10	1	9	18	29
Taxes	-	-	-	-	-	-	-	-	-	-	-
Net profit	-20	-22	-7	-22	-29	-28	-10	1	9	18	29
EPS rep. (NOK)	-0.28	-0.33	-0.10	-0.21	-1.43	-1.12	-0.33	0.04	0.25	0.50	0.82
EPS adj. (NOK)	-0.22	-0.25	-0.10	-0.20	-1.43	-1.12	-0.33	0.04	0.25	0.50	0.82
Margins											
Operating margin	nm	nm	nm	nm	nm	nm	nm	2%	11%	18%	24%
ROE	nm	nm	nm	nm	nm	nm	nm	2%	11%	18%	23%
ROCE	nm	nm	nm	nm	nm	nm	nm	2%	11%	18%	23%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Growth rates (YoY)											
Operating revenues	na	196%	68%	nm	18%	142%	203%	40%	20%	20%	20%
EBIT (adj)	na	15%	nm	>100%	40%	nm	nm	nm	>100%	>100%	63%
EPS (adj)	na	17%	nm	99%	>100%	nm	nm	nm	>100%	>100%	63%

Balance sheet (NOKm)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Intangible assets	16	19	26	26	24	23	23	23	23	23	23
PP&E	1	1	3	2	2	1	1	1	1	1	1
Fixed assets	17	20	29	28	26	24	24	35	34	33	34
Financial assets	9	-	-	-	-	-	-	-	-	-	-
Long term assets	26	20	29	28	26	24	24	35	34	33	34
Inventories	-	-	1	2	2	4	10	13	13	17	16
Accounts receivable	4	6	12	2	8	14	18	21	23	27	30
Cash and cash equivalents	22	20	4	24	47	14	24	20	27	39	68
Current assets	26	26	17	28	58	32	52	54	63	82	115
Total assets	52	46	46	56	83	56	76	89	97	116	149
Shareholders equity	46	39	34	47	72	44	60	73	81	98	128
Long-term liabilities	2	2	3	1	1	1	1	1	1	1	1
Accounts payable	1	1	1	2	2	3	6	7	7	8	11
Other short term liabilities	4	5	8	6	8	8	8	8	8	8	8
Current liabilities	5	6	9	8	10	11	14	15	15	16	20
Total liabilities and equity	52	46	46	56	83	56	76	89	97	116	149
Working Capital	3	5	12	2	8	16	22	27	29	35	35
Net IB debt	-20	-18	-1	-23	-45	-13	-23	-19	-26	-38	-67
Capital employed	48	41	36	48	74	45	62	74	82	99	129
Net IB debt / equity	-44%	-47%	-4%	-49%	-63%	-30%	-38%	-27%	-32%	-39%	-52%
Equity / total assets	87%	83%	74%	84%	86%	79%	80%	82%	83%	85%	86%

Cash flow (NOKm)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Pre-tax Profit (loss)	-20	-22	-7	-22	-29	-28	-10	1	9	18	29
Depreciation & Amortization	2	2	2	6	5	5	4	4	4	4	4
Stock options	0	2	2	2	1	0	-	-	-	-	-
Taxes paid	-	-	-	-	-	-	-	-	-	-	-
Loss from disposal of listed equity securities	1	2	-	-	-	-	-	-	-	-	-
Cash earnings in operations	-17	-16	-2	-14	-23	-23	-6	6	13	22	33
Changes in Inventory	-	-	-1	-1	-0	-2	-6	-3	0	-4	0
Changes in trade receivables	-1	-1	-6	6	-6	-4	-4	-3	-2	-3	-4
Changes in trade payables	-0	0	-0	1	1	0	3	1	-0	1	3
Changes in other current items	-1	1	3	1	2	-1	-	-	-	-	-
Cash flow from operating activities	-18	-16	-6	-7	-28	-30	-13	1	11	16	33
Purchase of property, plant and equipment	-1	-1	-0	-0	-1	-0	-0	-0	-0	-0	-0
Purchase of intangible assets	-3	-4	-8	-5	-2	-2	-4	-4	-4	-4	-4
Payments from disposal of listed equity securities	5	12	-	-	-	-	-	-	-	-	-
Cash flow from investing activities	1	7	-8	-5	-3	-2	-4	-4	-4	-4	-4
Free cash flow	-17	-10	-15	-12	-31	-32	-17	-3	7	12	29
Repayment of borrowings	-4	-1	-0	-0	-	-0	-	-	-	-	-
New share issues & share buy-backs (+/-)	8	8	-	33	54	-	26	-	-	-	-
Installments on leasing liabilities	-	-	-1	-1	-0	-0	-	-	-	-	-
Cash flow from financing activities	4	8	-2	32	54	-1	26	-	-	-	-
Change in Cash and Cash Equivalents	-12	-2	-16	20	23	-33	10	-3	7	12	29

Share data	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Shares outstanding, year end (mill.)	68.684	68.684	68.684	103.026	24.916	24.916	24.916	24.916	24.916	24.916	24.916
Share price, year end (NOK)	-	-	-	-	6.24	2.51	2.51	2.51	2.51	2.51	2.51
Market cap (NOKm)	-	-	-	-	155	63	63	63	63	63	63
Enterprise value (NOKm)	-20	-18	-1	-23	110	50	40	43	37	25	-4
EPS rep. (NOK)	-0.28	-0.33	-0.10	-0.21	-1.43	-1.12	-0.33	0.04	0.24	0.49	0.79
EPS adj. (NOK)	-0.22	-0.25	-0.10	-0.20	-1.43	-1.12	-0.33	0.04	0.24	0.49	0.79

Valuation	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
EV/Sales	-13.6	-4.2	-0.2	-3.9	16.2	3.0	0.8	0.6	0.4	0.2	-0.0
EV/EBITDA	1.3	1.0	0.3	1.4	neg.	neg.	neg.	7.7	2.8	1.1	neg.
EV/EBIT (adj)	1.1	0.9	0.2	1.1	neg.	neg.	neg.	27.5	4.1	1.4	neg.
P/E (adj)	-	-	-	-	neg.	neg.	neg.	63.2	10.5	5.2	3.2
P/B (excl. goodwill)	na	na	na	na	2.2	1.4	1.0	0.9	0.8	0.6	0.5

Growth (YoY)	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	nm	196%	68%	-21%	18%	142%	203%	40%	20%	20%	20%
EBITDA	nm	nm	nm	nm	nm	nm	nm	nm	130%	70%	51%
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	>100%	63%
Pre-tax profit (rep)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	>100%	63%
Net profit (adj)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	>100%	63%
EPS (rep)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	>100%	63%
EPS (adj)	nm	nm	nm	nm	nm	nm	nm	nm	>100%	>100%	63%

Margins	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
EBITDA (adj)	nm	nm	nm	nm	nm	nm	nm	8.1 %	15.5 %	22.0 %	27.7 %
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	2.3 %	10.6 %	17.9 %	24.3 %
Pre-tax profit	nm	nm	nm	nm	nm	nm	nm	2.1 %	10.5 %	17.8 %	24.2 %
Net profit (adj)	nm	nm	nm	nm	nm	nm	nm	2.1 %	10.5 %	17.8 %	24.2 %

Profitability	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
ROE	nm	nm	nm	nm	nm	nm	nm	2.0 %	10.9 %	18.3 %	22.9 %
ROCE	nm	nm	nm	nm	nm	nm	nm	2.1 %	10.9 %	18.2 %	22.8 %
Dividend yield	na	na	na	na	-	-	-	-	-	-	-

Valuation

To arrive at our fair value estimates, we have used DCF result for different scenario valuations.

Risks

The main risks to our target price on Genetic Analysis:

- **New and narrow market** – The market is still developing and other methods of testing and evaluation may still appear from competition.
- **Regulatory framework uncertainty** – There is currently no US legislation in place to directly regulate human microbiome sphere, and the formation of such frameworks might bring risks to GA's business model.
- **Distributor performance** – Genetic Analysis performance is reliant on the chosen distributors ability to sell the kits to the labs.
- **Dependency on microbiome enhancing drugs** – To reach the full potential of the GA-map test, the treatments that would improve gut flora and dysbiosis medications are needed to reach the market.
- **Delays and increased development costs** – Cost planning related to development of new biomarkers is difficult to forecast accurately, and delays may add significant costs.
- **Financing risks** – Until the Company becomes profitable, additional funding either through additional share issuance or debt will have to be secured in the near future.

Sources

The sources used in the preparation of this report were: Genetic Analysis, Oslo Stock Exchange, Bloomberg, Infront.

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All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

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