

Equity Research | BONZUN: Merger with L2S a favorable reconfiguration for Bonzun's shareholders

Bonzun has agreed to sell all shares in its subsidiary Bonzun Evolve to CBT-based sleep therapy company Learning to Sleep (L2S, listed on First North) for a consideration of 311.2m newly emitted shares in L2S, equivalent to a value of SEK 31.1m or SEK 0.25 per Bonzun share. The deal will give Bonzun 77% of the shares in the combined company, after which the L2S shares will be distributed to Bonzun's shareholders and the current CEO of Bonzun will become CEO of L2S. This will expand and strengthen both companies' offerings, while also paving the way to build a new business fully focussed on digital CBT-based mental health.

Merger at a 152% premium

Bonzun's wholly-owned subsidiary, Bonzun Evolve, is transferred for a consideration of SEK 31.1m, to be fully paid through 311.2m newly issued shares in L2S at a price of SEK 0.10 per share. This corresponds to SEK 0.25 per share in Bonzun, representing a premium of 152% compared to the closing price the day before the announcement. Current Bonzun CEO Bonnie Roupé will continue as CEO in the new L2S.

After the transaction, Bonzun will own approximately 77% of the shares and votes in L2S, which it intends to distribute to Bonzun's shareholders. As for Bonzun IVF, which offers digital support for IVF clinics and patients, it will remain in the parent company and likely be spun off or sold, while the parent company will offer its listing to an as-yet-unlisted company seeking to enter the stock market through a reverse takeover. Through the deal, the current owners of Bonzun will become shareholders in both the new L2S, which will likely be renamed, and the old parent company Bonzun, where they can continue as minority shareholders in some new venture.

Future focus on CBT therapy for stress and sleep

L2S is a digital sleep clinic that offers an efficient, side effect-free, and evidence-based CBT treatment for qualified care of sleep problems through a mobile application. The clinically validated method contributes to 90.3 percent of patients achieving improved sleep after completing the treatment, thanks in part to human interaction with psychologists. This means that L2S complements Bonzun Evolve's digital program for handling and combating stress very well.

L2S has struggled to find product-market fit, with reduced reimbursements for digital providers from the public healthcare sector, and has relatively recently started exploring other models, such as direct sales to private customers and B2B, where they have seen some progress with Deloitte as a client. During Q2'23, they conducted a rights issue (subscribed to 37%) that strengthened their cash position by SEK 2 million and reduced debts by SEK 5.7 million. There should be significant opportunities for synergy and mutual benefit between Bonzun and L2S, for both the B2C and B2B operations. In the past 12 months, L2S had a turnover of SEK 3.5m and OPEX of SEK 16m, although costs have been cut towards Q1'23.

Combined sales potential of SEK 10m in 2024

As for Bonzun Evolve, it has signed deals with six municipalities and one doctor's office in 2023 for its research-based 8-step ACT program for managing stress and increasing resilience. We continue to expect 2,000 Evolve-licenses sold in 2023 and 4,000 in 2024, at an average price of SEK 1,500 per license. After completing the deal we see a fair chance for the combined company to reach SEK 10m in annual sales in 2024, although our earlier expectation for Bonzun to be cash flow positive by 2025 is now pushed somewhat into the future. But to materialize the value in one of the companies' stock market listings, find a new home for Bonzun IVF, and, most importantly, scale up and cross-pollinate Bonzun Evolve and L2S' CBT operations, we consider the deal an overall favorable reconfiguration for Bonzun's shareholders.

With a continued need to trim costs for both companies, we now see a fair chance for the combined company to turn to positive cash flow by 2026, provided that Bonzun Evolve can continue to gather momentum. After the completion of the deal, our combined DCF (20% discount rate) and valuation multiples approach provide support for a fair value of SEK 0.17-0.21 per share in the combined company (0.2-0.3 per Bonzun share) in 12-24 months, after taking an estimated rights issue of SEK 16m in 2024 into account. We now see a) securing long term financing, b) new Evolve license deals, c) further bolt-on acquisitions, and d) sustained sales growth as the primary catalysts for the share.

Read the full report here: https://www.emergers.se/bonzun_23i/

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