

# Paxman

Sector: Life Science

## Strong momentum

Redeye is once again impressed by the sales progression. The signs that the scalp-cooling market transformation is underway are underscored company and give us continued confidence in the long-term growth case we see in Paxman. With some positive estimate adjustments due to the beat in the quarter and a negative one regarding the risk-free interest rate, we have adjusted our fair value range slightly downwards. our fair value range is now SEK 43 to SEK 132 per share with a Base case value of SEK 89 per share.

### Sales continue to surprise on the positive side

The report for the third quarter was strong. The sales increase y/y was a substantial 78%. We had expected a very healthy number at 58%. The positive momentum in the company and the industry creates a foundation for continued growth. The US strength is apparent; even if positive numbers are coming out of there, they are still small compared to the potential. The buy-and-bill model that was implemented earlier is yielding results.

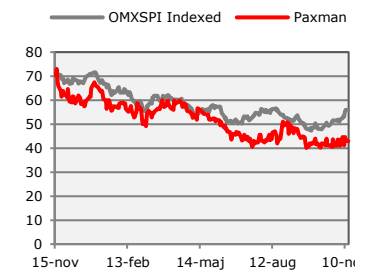
### Estimate changes have a marginal effect on our Base case value

We have made some positive estimate changes; however, they are negated by the increase in risk-free interest. The raise is from 2.0% to 2.5%, thus bringing the WACC to 11.5% in our DCF model. With that said, we are even more confident in the long-term potential as the market is indeed changing. The underlying positive momentum in the company is impressive, and the market changes regarding reimbursement in the US will bring long-term positive effects to the scalp cooling market. Due primarily to the WACC increases, we lower our fair value range of SEK 43 (48) to SEK 132 (135) per share with our Base case value of SEK 89 per share.

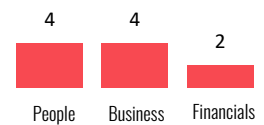
### FAIR VALUE RANGE

BEAR	BASE	BULL
43	89	132

### PAXMAN VERSUS OMXSPI



### REDEYE RATING



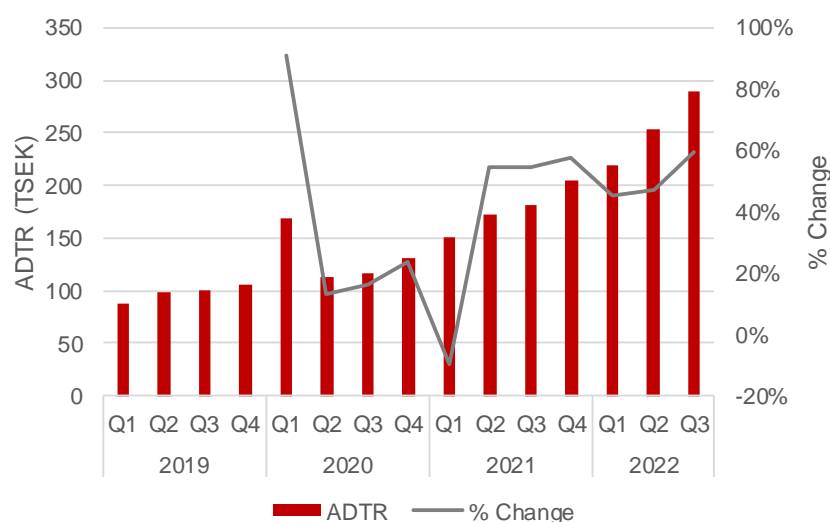
### KEY STATS

Ticker	PAX
Market	First North
Share Price (SEK)	49
Market Cap (SEKm)	890
Net Debt (SEKm)	-44
Free Float (%)	45

Key Financials (SEKm)	2020	2021	2022E	2023E	2024E
Revenues	78	96	148	219	329
Revenue growth	-8%	23%	54%	48%	50%
EBITDA	-1	3	12	38	86
EBIT	-12	-11	-5	21	68
EBIT Margin (%)	-15%	-11%	-3%	9%	21%
Net Income	-19	-13	5	16	52
EV/Revenue	5,8	11,5	5,6	3,7	2,3
EV/EBITDA	neg	383,4	68,3	21,2	8,8
EV/EBIT	neg	neg	neg	39,2	11,2

**Q3 result – Strong topline again!**

An interesting statistic that we follow with interest due to the sign of efficacy is the ADTR progression (US). This continued to be strong in the quarter with a current number of USD 27.4t or SEK 289.4t, an increase of 30.9% in USD terms and almost 60% in SEK, to the same period in 2021. This is just one of many indications that the scalp cooling market is improving.

**Paxman: ADTR & % Change**

Source: Redeye research

The cost was better maintained this quarter than earlier in the year, but slightly higher than our expectations. However, the deviations were slight. We have adjusted our costs previously and believe most of the increases have been made. However, with strong growth comes the need to invest in driving growth even further. So far, the investments during the last 12 months have paid off handsomely, reflected in the awe-inspiring growth numbers.

Other operating expenses fluctuated and were on the high side in the quarter. The EBITDA outcome was higher than we expected. The SEK 5.6m was above our estimate of SEK 1.9m. Mainly due to the stronger sales figure and better Cogs than we expected. D&A was just a tad higher than we anticipated.

The very positive net financial was affected by a currency gain of SEK 4m. The cash flow, given the result, may have been a bit weak; however, the increase in accounts receivables is really not worrying.

The company indicates that some issues in the market could affect sales during 2023e. There are still some inflationary costs and supply chain issues, but at this point, we see them as well maintained, but clearly something to keep an eye on.

**Changes to estimates - sales revision**

In light of the positive sales development and continued strong momentum in the company, we have adjusted our sales estimates upwards. The cost levels generally stay the same apart from some fine-tuning. One of the factors during the last 12 months has been personnel investment. We can now see that these additions have positively affected sales.

<b>Paxman: Estimate change (MSEK)</b>			
<b>MSEK</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>Net sales</b>			
Old	143	212	316
<b>New</b>	<b>148</b>	<b>219</b>	<b>329</b>
% change	4%	4%	4%
<b>EBITDA</b>			
Old	5	37	84
margin	4%	17%	27%
<b>New</b>	<b>12</b>	<b>38</b>	<b>86</b>
margin	<b>8%</b>	<b>18%</b>	<b>27%</b>
% change	124%	4%	3%
<b>EBIT</b>			
Old	-11	20	66
margin	-8%	9%	21%
<b>New</b>	<b>-5</b>	<b>21</b>	<b>68</b>
margin	<b>-3%</b>	<b>10%</b>	<b>22%</b>
% change	-55%	4%	3%

Source: Redeye Research

<b>Paxman: Estimate (MSEK)</b>												
<b>(SEKm)</b>	<b>2020</b>	<b>2021Q1</b>	<b>2021Q2</b>	<b>2021Q3</b>	<b>2021Q4</b>	<b>2021</b>	<b>2022Q1</b>	<b>2022Q2</b>	<b>2022Q3</b>	<b>2022Q4</b>	<b>2022</b>	<b>2023</b>
Revenues	78,1	20,9	22,8	23,3	29,3	96,2	27,9	35,9	41,3	43,1	148,3	219,4
Gross Profit	45,6	12,6	12,0	13,5	17,9	56,0	16,6	21,6	27,9	29,1	95,2	131,7
EBITDA	-1,0	0,4	-0,5	-1,3	4,2	2,9	-2,9	0,3	5,6	9,1	12,1	38,2
EBIT	-11,7	-2,4	-3,8	-4,8	0,4	-10,6	-6,9	-3,9	0,8	5,0	-5,0	20,6
EPS	-1,2	-0,2	-0,3	-0,3	-0,1	-0,7	-0,3	0,0	0,2	0,3	0,3	0,8
Growth (%)	-8%	-14%	28%	32%	61%	23%	34%	58%	78%	47%	54%	48%
Gross margin	58%	60%	53%	58%	61%	58%	59%	60%	68%	68%	64%	60%
EBITDA margin (%)	-1%	2%	-2%	-6%	14%	3%	-10%	1%	13%	21%	8%	17%
EBIT margin (%)	-15%	-11%	-17%	-21%	1%	-11%	-25%	-11%	2%	12%	-3%	9%
Net income margin (%)	-24%	-18%	-24%	-23%	-5%	-13%	-22%	2%	11%	14%	3%	7%

Source: Redeye Research

#### Estimate changes – small effect on our Base case value – WACC change negative effect

The changes to our estimates generally had a low effect on our DCF model. We already have pretty high expectations for growth going into 2023 and beyond. In our DCF-based model, we used a 2.0% risk-free interest rate. Redeye-wide, we have increased this to 2.5%, thus bringing the WACC up to 11.5%.

We are even more confident in the long-term potential as there are clear signs from both Paxman and competitors that the market is changing in the US. Due primarily to the WACC increase, we lower our fair value range of SEK 43 (48) to SEK 132 (135) per share with our Base case value of SEK 89 per share.

In our DCF model, the total changes are small, and as can be seen by the table below, our assumptions are relatively unchanged from before, apart from the WACC change. We expect Paxman to show strong growth in the forecast period between 2022-2026e with a CAGR of 45%. We also expect an average EBIT margin of 15% for the same period. The growth is expected to be strong after this period; however, we use a CAGR of 15% between 2026 and 2035e. Given the potential in the market, the terminal growth of 2.0% could be understated.

DCF assumptions in Base				
Assumptions:	2022E-2026E		2026E-2035E	DCF-value
CAGR Revenue	45%	15%	WACC	11,5%
Average EBIT-margin	15%	21%	NPV of FCF	1 038
			NPV of Terminal Vali	610
<b>Terminal</b>				
Sales growth	2,0%		Sum of NPV	1 648
EBIT-margin	16%		Net Debt	-44
			<b>DCF-value</b>	<b>1 692</b>
			<b>Fair value per share</b>	<b>89</b>
			Current share price	49

Source: Redeye Research

**Sensitivity analysis**

		9,50%	10,50%	11,50%	12,50%	13,50%
<b>EBIT MARGIN</b>	14,0 %	105	92	81	73	65
	15,0 %	110	96	84	75	68
	16,3 %	116	101	89	79	71
	17,0 %	120	104	91	81	72
	18,0 %	125	108	94	83	74
<b>GROWTH</b>	1,0%	109	95	85	76	68
	1,5%	112	98	86	77	69
	2,0%	116	101	89	79	71
	3,0%	127	108	94	83	73
	4,0%	140	117	100	87	77

## 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 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report – No changes

People: 4

Business: 4

Financials: 2

	2021	2022E	2023E	2024E						
<b>INCOME STATEMENT</b>					<b>DCF Valuation Metrics</b>					<b>Sum FCF (SEKm)</b>
Revenues	96	148	219	329	Initial Period (2022–2025)				107,5	
Cost of Revenues	40	53	88	130	Momentum Period (2026–2029)				379	
Gross Profit	56	95	132	199	Stable Period (2030–)				1161	
Operating Expenses	53	83	93	113	Firm Value				1648	
<b>EBITDA</b>	3	12	38	86	Net Debt (last quarter)				-44,0	
Depreciation & Amortization	13	17	18	18	Equity Value				1692	
<b>EBIT</b>	-11	-5	21	68	Fair Value per Share				88,7	
Net Financial Items	-2	10	0	-2						
EBT	-13	5	20	66						
Income Tax Expenses	0	0	4	14						
Non-Controlling Interest	0	0	0	0						
<b>Net Income</b>	-13	5	16	52						
<b>BALANCE SHEET</b>										
<b>Assets</b>										
<b>Current assets</b>										
Cash & Equivalents	72	63	82	128						
Inventories	18	25	35	53						
Accounts Receivable	17	24	35	49						
Other Current Assets	0	1	7	10						
<b>Total Current Assets</b>	108	114	159	240						
<b>Non-current assets</b>										
Property, Plant & Equipment,	36	52	43	31						
Goodwill	0	0	0	0						
Intangible Assets	16	16	16	16						
Right-of-Use Assets	0	0	0	0						
Shares in Associates	0	0	0	0						
Other Long-Term Assets	6	6	6	6						
<b>Total Non-Current Assets</b>	59	75	66	54						
<b>Total Assets</b>	166	189	225	295						
<b>Liabilities</b>										
<b>Current liabilities</b>										
Short-Term Debt	11	11	11	11						
Short-Term Lease Liabilities	0	0	0	0						
Accounts Payable	17	22	35	49						
Other Current Liabilities	7	12	22	33						
<b>Total Current Liabilities</b>	35	45	68	94						
<b>Non-current liabilities</b>										
Long-Term Debt	6	6	6	6						
Long-Term Lease Liabilities	0	0	0	0						
Other Long-Term Liabilities	0	0	0	0						
<b>Total Non-current Liabilities</b>	6	6	6	6						
Non-Controlling Interest	0	0	0	0						
Shareholder's Equity	126	137	151	195						
<b>Total Liabilities &amp; Equity</b>	166	189	225	295						
<b>CASH FLOW</b>										
NOPAT	-11	-5	16	54						
Change in Working Capital	-4	-4	-3	-10						
Operating Cash Flow	0	18	30	61						
Capital Expenditures	-5	-33	-9	-7						
Investment in Intangible Assets	0	0	0	0						
Investing Cash Flow	-5	-33	-9	-7						
Financing Cash Flow	0	6	-3	-8						
Free Cash Flow	-5	-15	21	54						
					<b>CAPITAL STRUCTURE</b>					
					Equity Ratio	0,8	0,7	0,7	0,7	
					Debt to equity	0,1	0,1	0,1	0,1	
					Net Debt	-55	-46	-65	-111	
					Capital Employed	132	143	157	201	
					Working Capital Turnover	8,0	9,1	11,1	11,1	
					<b>GROWTH</b>					
					Revenue Growth	23%	54%	48%	50%	
					Basic EPS Growth	-44%	-140%	211%	226%	
					Adjusted Basic EPS Growth	-44%	-140%	211%	226%	
					<b>PROFITABILITY</b>					
					ROE	-19%	4%	11%	30%	
					ROCE	-8%	-3%	13%	34%	
					ROIC	-19%	-7%	20%	69%	
					EBITDA Margin (%)	3%	8%	17%	26%	
					EBIT Margin (%)	-11%	-3%	9%	21%	
					Net Income Margin (%)	-13%	3%	7%	16%	
					<b>VALUATION</b>					
					Basic EPS	na	0,3	0,8	2,8	
					Adjusted Basic EPS	na	0,3	0,8	2,8	
					P/E	na	180,7	58,0	17,8	
					EV/Revenue	na	5,6	3,7	2,3	
					EV/EBITDA	na	68,3	21,2	8,8	
					EV/EBIT	na	neg	39,2	11,2	
					P/B	na	6,4	5,8	4,5	
					<b>SHAREHOLDER STRUCTURE</b>					
					Glenn Paxman			30,8%	30,8%	
					Per-Anders Johansson			8,3%	8,3%	
					Creates			7,8%	7,8%	
					Länsförsäkringar			7,4%	7,4%	
					Richard Paxman			6,7%	6,7%	
					<b>SHARE INFORMATION</b>					
					Reuters code				PAX	
					List				First North	
					Share price				49,0	
					Total shares, million				17,8	
					<b>MANAGEMENT &amp; BOARD</b>					
					CEO				Richard Paxman	
					CFO				Emelie Gustafsson	
					Chairman				Per-Anders Johansson	
					<b>ANALYSTS</b>					
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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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Mats Hyttinge. 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.