

Paxman

Sector: Life Science

Scalp Cooling market set to take off

Redeye is impressed by the sales progression in the past quarter. The growth investments are starting to pay off. We see signs that the scalp cooling market transformation is well underway, supporting the long-term growth case that we see in Paxman. With the positive sales adjustments for the rest of the year and slightly higher costs for the personnel, we maintain our fair value range of SEK 48 to SEK 135 per share with a Base case value of SEK 92 per share.

Sales in the quarter did not disappoint

The report for the second quarter did not disappoint in regards to sales. The increase y/y was a substantial 58%. We had expected a strong number, and some issues in Q1 pushed some of the sales into Q2. The continued good development in the US is encouraging, even if the comments from the company indicate that they had expected even more from this market. The new buy and bill model has started to yield results in that market. However, slightly later than the company and we have expected. If successful, early indications are optimistic, this could boost sales in the US going forward..

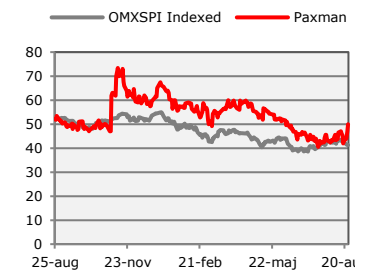
Estimate changes has marginal effect on our Base case value

With the changes to our estimates, there are marginal changes to our DCF-based model. We are more confident in the long-term potential even though the short-term cost is higher than expected. The 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. We maintain our fair value range of SEK 48 to SEK 135 per share and reiterate our Base case value of SEK 92 per share.

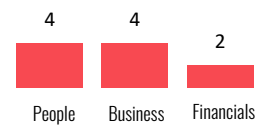
FAIR VALUE RANGE

BEAR	BASE	BULL
48	92	135

PAXMAN VERSUS OMXSPI



REDEYE RATING



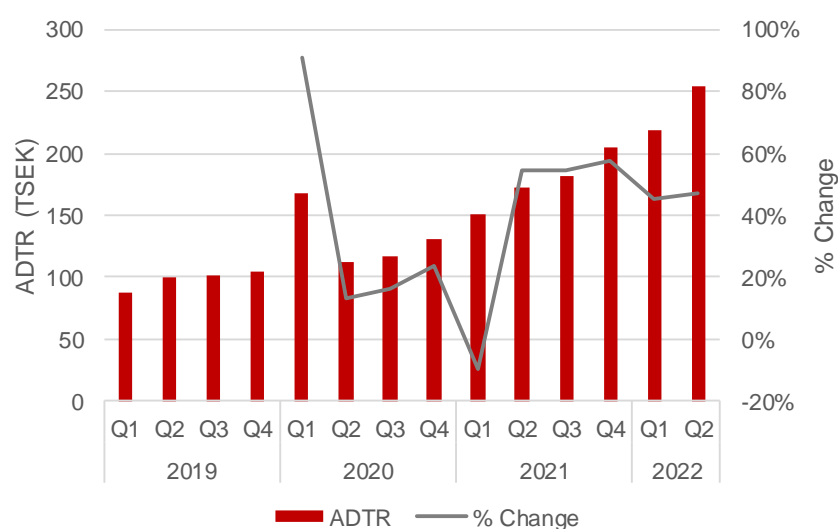
KEY STATS

Ticker	PAX
Market	First North
Share Price (SEK)	51
Market Cap (SEKm)	950
Net Debt (SEKm)	52
Free Float (%)	44

Key Financials (SEKm)	2020	2021	2022E	2023E	2024E
Revenues	78	96	143	212	322
Revenue growth	-8%	23%	49%	48%	52%
EBITDA	-1	3	5	37	84
EBIT	-12	-11	-11	20	66
EBIT Margin (%)	-15%	-11%	-8%	9%	21%
Net Income	-19	-13	-4	15	51
EV/Revenue	5,8	11,5	5,5	3,6	2,2
EV/EBITDA	neg	383,4	147,2	20,8	8,6
EV/EBIT	neg	neg	neg	38,6	10,9

ADTR improvement indicates reimbursement progress

The ADTR progression (US) is also impressive. The current USD 25.7t or SEK 253.3t is an increase of 25% in USD terms and almost 47% in SEK, to the same period in 2021. This improvement is coming from the reimbursement progress and is interesting to follow. When speaking to management, they seem pleased with this development but have expected an even better outcome.

Paxman: ADTR & % Change

Source: Redeye research

On the cost side, the levels were higher than we expected. The gross margin was, although, in line with our expectations. At the same time, the personnel cost was higher than we anticipated at SEK 12.1m, the headcount has continued to expand faster than we had calculated, and we have been behind the curve here.

We have adjusted our personnel costs for the rest of the year to be more in line. Statements from the company make us believe that the headcount will not continue to expand at the same pace as in the first half of 2022.

Other operating expenses fluctuated and were on the high side in the quarter. The EBITDA outcome of SEK 0,34m was slightly below our estimate of SEK 1.1m. D&A was in line and roughly the same as in the Q1.

There are still some inflationary costs and supply chain issues, but these seem to be maintained. We will keep an eye on these from now on. We do not expect these issues to have a material effect in the future.

Changes to estimates - sales revision and cost revision

In the light of the positive sales development and continued strong momentum in the company, we have adjusted our sales estimates upwards. In contrast, the cost levels, primarily personnel costs, have been increased. These increases in personnel during the last year have had a positive effect on sales.

Paxman: Estimate change (MSEK)			
MSEK	2022E	2023E	2024E
Net sales			
Old	138	208	316
New	143	212	316
% change	3%	2%	0%
EBITDA			
Old	9,1	36,1	82,7
margin	7%	17%	26%
New	5,4	36,9	83,9
margin	4%	18%	27%
% change	-41%	2%	1%
EBIT			
Old	-7	19,5	65,1
margin	-5%	9%	21%
New	-11	19,9	66,2
margin	-8%	10%	21%
% change	67%	2%	2%

Source: Redeye Research

Paxman: Estimate (MSEK)												
(SEKm)	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023
Revenues	78,1	20,9	22,8	23,3	29,3	96,2	27,9	35,9	36,8	42,5	143,1	211,8
Gross Profit	45,6	12,6	12,0	13,5	17,9	56,0	16,6	21,6	22,2	25,7	86,2	127,1
EBITDA	-1,0	0,4	-0,5	-1,3	4,2	2,9	-2,9	0,3	1,9	6,0	5,4	36,9
EBIT	-11,7	-2,4	-3,8	-4,8	0,4	-10,6	-6,9	-3,9	-2,2	2,0	-11,0	19,9
EPS	-1,2	-0,2	-0,3	-0,3	-0,1	-0,7	-0,3	0,0	-0,1	0,2	-0,2	0,8
Growth (%)	-8%	-14%	28%	32%	61%	23%	34%	58%	58%	45%	49%	48%
Gross margin	58%	60%	53%	58%	61%	58%	59%	60%	61%	61%	60%	60%
EBITDA margin (%)	-1%	2%	-2%	-6%	14%	3%	-10%	1%	5%	14%	4%	17%
EBIT margin (%)	-15%	-11%	-17%	-21%	1%	-11%	-25%	-11%	-6%	5%	-8%	9%
Net income margin (%)	-24%	-18%	-24%	-23%	-5%	-13%	-22%	2%	-3%	7%	-3%	7%

Source: Redeye Research

Estimate changes – small effect on our Base case value

With the changes to our estimates, there are marginal changes to our DCF-based model. We are more confident in the long-term potential even though the short-term cost is higher than expected. The 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. We maintain our fair value range of SEK 48 to SEK 135 per share and reiterate our Base case value of SEK 92 per share.

DCF assumptions in Base				
Assumptions:	2022E-2026E	2026E-2035E		DCF-value
CAGR Revenue	46%	15%	WACC	11%
Average EBIT-margin	14%	21%	NPV of FCF	1 060
			NPV of Terminal Val	650
Terminal				
Sales growth	2,0%		Sum of NPV	1 710
EBIT-margin	16%		Net Debt	-52
			DCF-value	1 762
			Fair value per share	92
			Current share price	51

Source: Redeye Research

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						
INCOME STATEMENT					DCF Valuation Metrics					Sum FCF (SEKm)
Revenues	96	143	212	322	Initial Period (2022–2025)				106,0	
Cost of Revenues	40	57	85	127	Momentum Period (2026–2029)				386	
Gross Profit	56	86	127	195	Stable Period (2030–)				1218	
Operating Expenses	53	81	90	110	Firm Value				1710	
EBITDA	3	5	37	84	Net Debt (last quarter)				-51,7	
Depreciation & Amortization	13	16	17	18	Equity Value				1762	
EBIT	-11	-11	20	66	Fair Value per Share				92,4	
Net Financial Items	-2	7	0	-2						
EBT	-13	-4	20	64						
Income Tax Expenses	0	0	4	13						
Non-Controlling Interest	0	0	0	0						
Net Income	-13	-4	15	51						
BALANCE SHEET										
Assets										
Current assets										
Cash & Equivalents	72	62	86	131						
Inventories	18	24	34	52						
Accounts Receivable	17	24	34	48						
Other Current Assets	0	4	6	10						
Total Current Assets	108	115	161	241						
Non-current assets										
Property, Plant & Equipment	36	45	35	23						
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						
Total Non-Current Assets	59	68	57	46						
Total Assets	166	183	218	287						
Liabilities										
Current liabilities										
Short-Term Debt	11	11	11	11						
Short-Term Lease Liabilities	0	0	0	0						
Accounts Payable	17	23	34	48						
Other Current Liabilities	7	14	21	32						
Total Current Liabilities	35	49	66	92						
Non-current liabilities										
Long-Term Debt	6	6	6	6						
Long-Term Lease Liabilities	0	0	0	0						
Other Long-Term Liabilities	0	0	0	0						
Total Non-current Liabilities	6	6	6	6						
Non-Controlling Interest	0	0	0	0						
Shareholder's Equity	126	128	146	189						
Total Liabilities & Equity	166	183	218	287						
CASH FLOW										
NOPAT	-11	-11	16	53						
Change in Working Capital	-4	-4	-3	-10						
Operating Cash Flow	0	9	29	59						
Capital Expenditures	-5	-26	-6	-6						
Investment in Intangible Assets	0	0	0	0						
Investing Cash Flow	-5	-26	-6	-6						
Financing Cash Flow	0	6	2	-8						
Free Cash Flow	-5	-17	23	53						
					CAPITAL STRUCTURE					
					Equity Ratio	0,8	0,7	0,7	0,7	
					Debt to equity	0,1	0,1	0,1	0,1	
					Net Debt	-55	-45	-69	-114	
					Capital Employed	132	134	152	195	
					Working Capital Turnover	8,0	9,1	11,1	11,1	
					GROWTH					
					Revenue Growth	23%	49%	48%	52%	
					Basic EPS Growth	-44%	-71%	-514%	230%	
					Adjusted Basic EPS Growth	-44%	-71%	-514%	230%	
					PROFITABILITY					
					ROE	-19%	-3%	11%	31%	
					ROCE	-8%	-8%	13%	34%	
					ROIC	-19%	-15%	21%	76%	
					EBITDA Margin (%)	3%	4%	17%	26%	
					EBIT Margin (%)	-11%	-8%	9%	21%	
					Net Income Margin (%)	-13%	-3%	7%	16%	
					VALUATION					
					Basic EPS	na	-0,2	0,8	2,7	
					Adjusted Basic EPS	na	-0,2	0,8	2,7	
					P/E	na	neg	57,6	17,4	
					EV/Revenue	na	5,5	3,6	2,2	
					EV/EBITDA	na	147,2	20,8	8,6	
					EV/EBIT	na	neg	38,6	10,9	
					P/B	na	6,5	5,7	4,4	
					SHAREHOLDER STRUCTURE					
					Glenn Paxman			30,8%	30,8%	
					Per-Anders Johansson			9,9%	9,9%	
					Creates			7,8%	7,8%	
					Länsförsäkringar			7,4%	7,4%	
					Alcur Fonder			7,1%	7,1%	
					SHARE INFORMATION					
					Reuters code				PAX	
					List				First North	
					Share price				57,2	
					Total shares, million				17,8	
					MANAGEMENT & BOARD					
					CEO				Richard Paxman	
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					Chairman				Per-Anders Johansson	
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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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Disclaimer

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Mats Hyttinge, owns shares in the company :No

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