

## Business Description

Sector: Medical Technology

Mkt Cap (MSEK): 1 147

**SyntheticMR** was founded in 2007 by Dr. Marcel Warntjes in Linköping where the company is still located, but it has a global strategic approach. They are in the medical technology industry, and their primary customers are hospitals. The company has developed a unique MRI-product that speeds up the doctors working process and makes every MR-scan more effective and precise. They mainly do business through close partnerships with the market leaders in the industry, and their primary partner is GE Healthcare since 2014. The founder still owns 8% of the company.

## Investment Thesis

### Revenue growth of 25,8% CAGR from 2018 to 2023 due to aggressive international expansion.

The company is expected to grow at a CAGR of 25,8% in the coming years from 2018 to 2023. The sales growth of the company will come through international expansion, and closer ties with core partners and an increasing MRI market. The market grows at an average of 7% each year, and the company will continue to take market share, currently at a low 0,05%. But since the sales will grow faster than the market, it can increase to 0,1% by 2023. The EBIT-margin and profit margin will increase since the significant investments in expansion is behind them, from 36,2% in 2018 to 57,5% in 2023 and 28,3% to 45,1% respectively. The costs will continue to grow, but at a slower pace relative to sales.

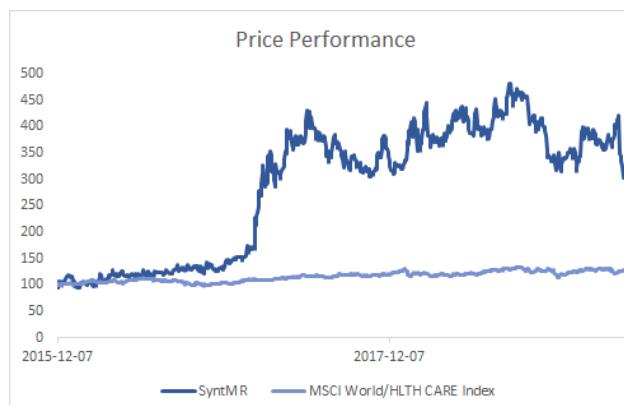
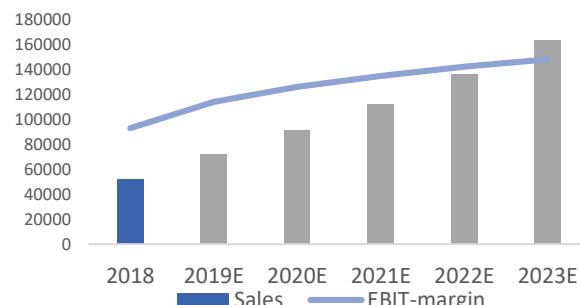
### Closer ties with market leaders

The company operates in a highly concentrated market, where three major players control close to 70% of the total MRI-market share, these are GE Healthcare, Siemens Healthineers, and Philips Healthcare. Synthetic MR cooperates with all of these companies and sells their products on license through them, so they can penetrate new markets. Currently, the company's product is protected by patents and first mover advantage, since getting FDA approvals take years to get, which in turn works like a moat. The company focus a lot on maintaining these relationships and further the cooperation. This will be a catalyst for growth, especially in emerging markets such as China.

### Peer valuation signals bullish market expectations.

At the moment the relative peer valuation of the company gives it at an optimistic view of the future earnings potential with a P/E ratio of 90,4 compared to the market average of 47,8 of comparable MedTech companies. The DCF-analysis, in comparison, gives a fair value that is 6% lower than the current trading price. This metric provides a negative view of the current valuation. Even though SyntheticMR has a lot of revenue potential the market values the future earnings high, which makes it a risky company.

## PNL: Historicals and Estimates



## Partners

**SIEMENS**  
Healthineers

**PHILIPS**  
Healthcare

 **GE Healthcare**

# Company Overview

## Products

The products that SyntheticMR are selling are plug-in products, which means that they are compatible with already existing medical equipment at hospitals. The uniqueness with the product is that it manages to perform one scan (6 minutes) instead of competitors who perform six scans (15-60 minutes) and also get more precise results. So the product is much faster and more accurate than traditional MR-scans, it speeds up the working progress at hospitals. Furthermore, they can detect neurodegenerative diseases, like Parkinson's and dementia, as well as child brain development, much faster than before.

## Sales – Divisional Distribution

The company's sales are mainly through license agreements, with a little income coming from service and support (less than 3% of total revenue). Furthermore, the company heavily relies on the international market, today the revenues coming from Sweden only accounts for 1,2% of total sales, down from 7% in 2016.

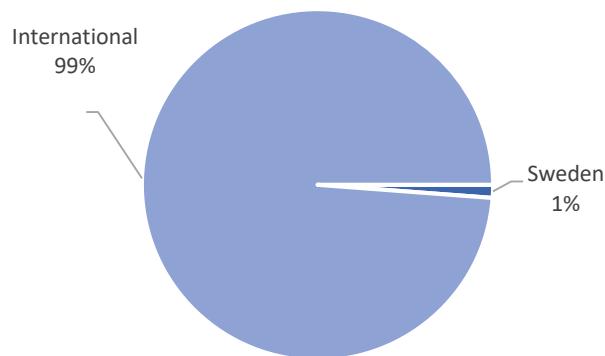
The company has a global presence and is not dependent on one country but rather several, so the risk distribution is broad. The graph below shows the insignificant importance of the Swedish market in comparison to the international market.

## Strategy

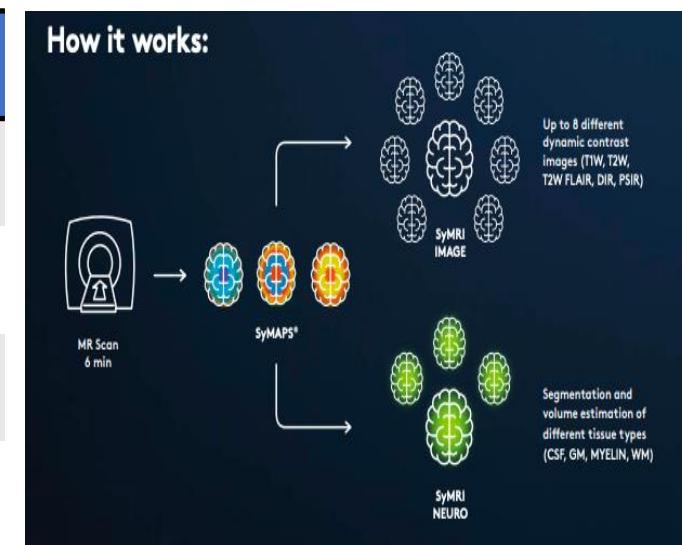
SyntheticMR has a clear policy of entering into close partnerships with the largest global manufacturers of MRI systems. This they have done by agreeing on licensing contracts with GE Healthcare and cooperative agreements with Philips and Siemens. The leading partner is GE Healthcare, a new partnership with Philips is expected to be beneficial for both parts. Furthermore, the company has a clear motive going forward, and that is developing existing partnerships, mainly by enabling the partners to offer all of SyntheticMR's products on the global market and creating joint product packages together. Finding new partners, in particular Asia is high on the agenda.



Sales by geography 2018



Owner	Capital, %
Staffan Persson, incl related persons	32,1
Jan (Marcel) Warntjes	8,3
Handelsbanken	7,8
Swedbank Robur	7,4



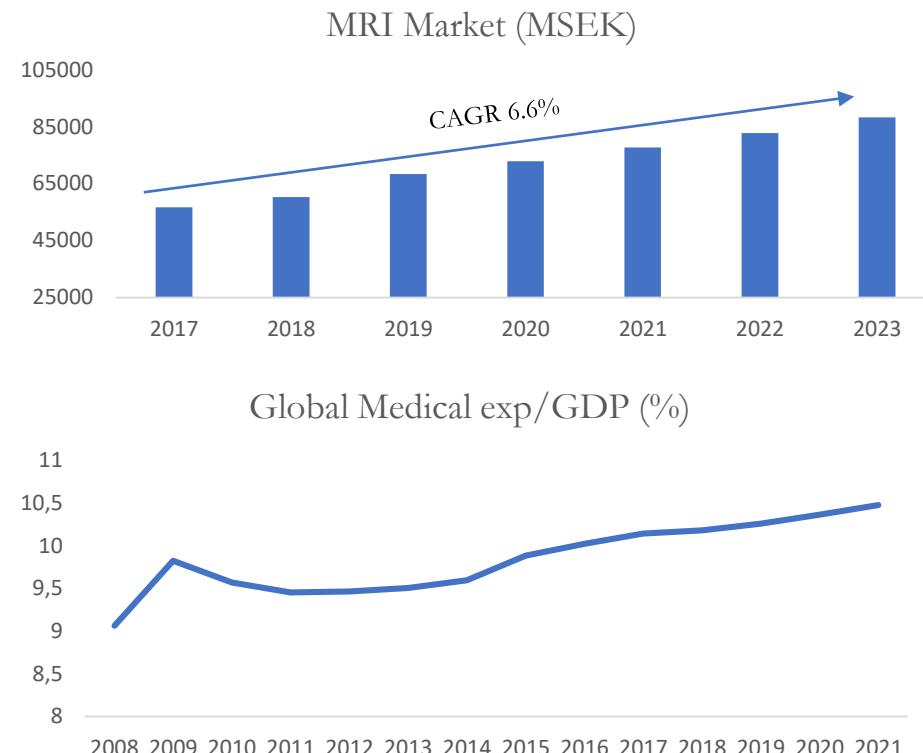
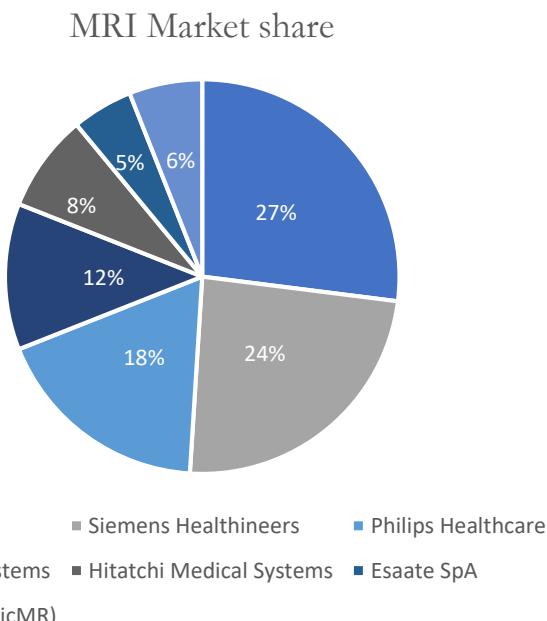
# Market- and Macro Outlook

## Market Outlook

- The global MRI market was valued at USD 6.6 billion in 2017. The annual future growth rate is estimated to be close to 6,6%. So there is potential for the company to expand in this market.
- The market is highly concentrated to mainly three large companies; these are GE Healthcare (27%), Siemens Healthineers (24%), and Philips Healthcare (18%). The market is very stable, and these companies have the same market share as the year before.
- The geographical distribution of the market is concentrated to North America (44%) and Europe (27%), Asia-Pacific accounts for 24% of the market but is also the market that is increasing the fastest. Latin America is also a fast-growing market however, this market is tiny with only 4% of the global MR-market. The company has partnerships with GE and Philips, who are the biggest players on the US market, and this will be a driver for future growth. China has opened up its market for their products in 2019, which will also be a driver.
- MRI scans on the brain constitutes approximately to 25% of all the scans performed in the global market, which is a primary area for SyntheticMR's products.

## Macro Outlook

- There are a few key trends in the MRI market:
  - An aging population and higher risk for chronic diseases are leading to growing demand in MR scans to detect chronic diseases. Most notable conditions are Alzheimer's, strokes, and MS that are estimated to be approximately 11% of all the disorders in any given country. So the need for advanced and precise MR-scans is growing in importance.
  - More people are getting access to more national healthcare insurance, in the US alone, 90% of the population has access to insurance that covers MR-scans. These types of insurance are very common in Europe and other western countries like Japan.
  - The market is mainly driven by the need for faster and more precise scans at a lower cost. The technology is changing fast.
  - Global medical expenditure as a share of GDP is expected to grow in the coming years.
  - Lastly, the adoption rate of MRI-scans is growing globally.
- The MR-market is, in general, not moving together with the overall market and is not so sensitive to macro changes in the economy because the need for medicine and healthcare remains in different market conditions.



# Key Performance Indicators and Estimates



## Sales

- SynteticMR is expected to increase their sales rapidly from 51,8 million SEK in 2018 to 163 million SEK in 2023, with a CAGR of 25,8%. The sales growth will mainly come from the international expansion and closer cooperation with primarily GE Healthcare, which will allow them to tap open the Chinese market. The Nordic region will be less critical for the company, and the growth will come from their international markets.
- The earnings per share will grow from 3,6 in 2018 to 18,2 in 2023.
- The company's market share was 0,05% in 2018 and grew 0,01 percentage points from 2017 (0,04% market share). The company is expected to continue taking market share, and it will be close to 0,1% in 2023. Still very low but increasing.

## Margins

- The company has been in an expansion phase and incur costs in developing their products and establishing themselves in new markets, most notably China. The rapidly increasing sales keep the margins high however, the fast expansion is expected to slow down after 2019.
- The margins are expected to grow as less capital will be invested in international expansion. In 2023, I expect Synthetics EBITDA-margin will go up from 41,7% in 2018 to 59,3% in 2022 and the Profit-margin will go up from 28,3% to 45,1% respectively.

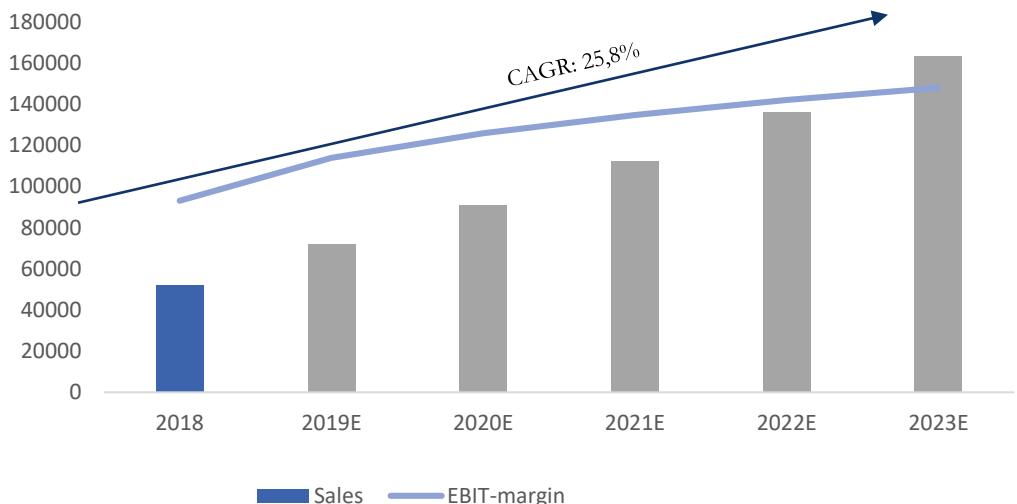
## Cash flow

- The company's strong and steady cash flow is expected to continue to increase from 15,1 MSEK in 2018 to 67,4 MSEK in 2023. The company has no long-term debt, and they finance all their expansion and investments in patents with their operating cash flow, that is why the financing key ratio is irrelevant.

## Ratios

- The company has little debt to equity; the ratio is stable and is expected to remain around 0,2 throughout the entire period. Since the company has this stable cash flow and high cash conversion, the need for debt is low.
- The return on equity and asset is attractive and is over 24% during the entire period, so the company uses its capital efficiently. The ratios decline mainly due to increases in cash and cash equivalents, so the ratios don't give a fair assumption since the company most likely would use this cash in dividends or investments.

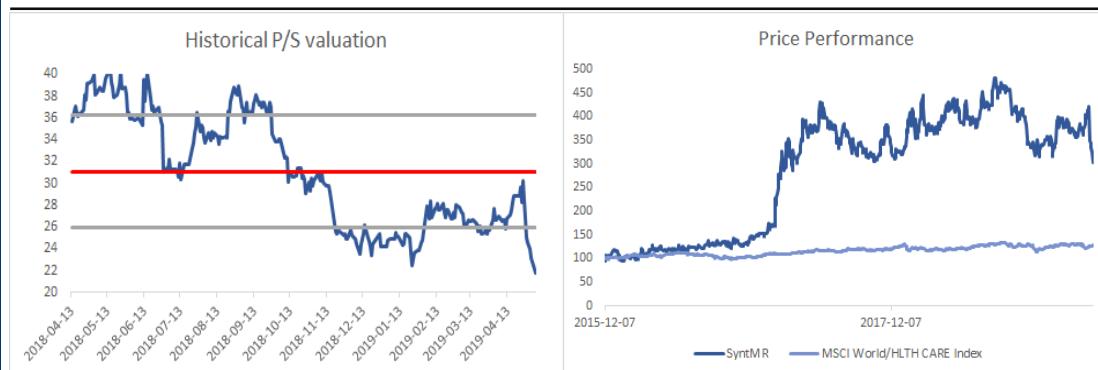
PNL: Historicals and Estimates



PNL (MSEK)	2018	2019E	2020E	2021E	2022E	2023E
Sales	51,8	71,9	90,8	112,1	136,1	163,0
Growth (%)	36,3	38,7	26,3	23,5	21,4	19,8
Gross Income	40,1	55,6	70,2	86,7	97,2	126
Gross Marg (%)	77,4	77,5	77,3	77,4	77,6	77,4
EBITDA	18,7	31,8	44,4	58,7	75,1	93,8
EBITDA Marg (%)	41,7	48,3	52,1	54,9	57,3	59,3
EBIT	18,7	31,8	44,4	58,7	75,1	93,8
EBIT Marg (%)	36,2	44,3	48,9	52,4	55,2	57,5
Earnings	14,7	24,9	34,8	46,0	58,8	73,4
Profit Marg (%)	28,3	34,6	38,3	41,0	43,2	45,1
EPS (SEK)	3,6	6,2	8,6	11,4	14,6	18,2
CF (MSEK)	2017	2018E	2019E	2020E	2021E	2022E
CAPEX	3,0	2,9	3,0	3,0	3,1	3,2
NWC	38,4	63,2	97,8	143,6	202,1	275,2
Financing	n/a	n/a	n/a	n/a	n/a	n/a
FCF	7,7	15,1	19,3	31,0	41,2	53,5
FCF Yield (%)	0,6	1,1	1,5	2,4	3,2	4,1
OCF	18,0	22,2	34,0	44,4	56,7	70,6
CF	15,1	19,3	31,0	41,3	53,5	67,4
Ratios	2018	2019E	2020E	2021E	2022E	2023E
ROIC	31,8	35,1	32,9	30,3	27,9	25,9
ROE	31,9	35,2	33,0	30,3	27,9	25,9
ROA	26,1	31,2	29,9	28,0	26,2	24,5
Debt/equity	0,2	0,2	0,2	0,1	0,1	0,1

## Valuation Conclusions

- I have performed two different valuations on the company, a DCF-valuation and a peer valuation.
- In the DCF-valuation, a WACC of 9,2% is used, a terminal growth rate of 3% and unlevered free cash flow to get the enterprise value. This valuation gives an indicated share price of 274,5 and would mean a drop in today's share price of 6%. This provides support to the claim that at the moment, the stock price is overvalued and the market has too high expectations on the company's future earnings.
- The peer valuation also gives support to overvaluation, in the table below 4 different valuation metrics has been used to compare the value of the company and similar companies in the MedTech industry. As the reader can see, SyntheticMR has the highest value in all the four metrics, which means that the company's valuation is higher than the mean. Most notable is the P/E ratio and the EV/Sales ratio. Even though the company is in a rapid expansion phase, which would mean a high multiple on the earnings, it is still much higher than the mean. It is trading at a P/E multiple of 90,4 almost double the market mean of 47,5. The EV/Sales metric is close to 3 times the industry mean, 24,1 versus 7,8.
- Lastly, the future value of the company is still higher than the current trading price. If we use a target of the four valuation metrics below (EV/Sales, EV/EBITDA, EV/EBIT and P/E) equal the industry mean then the implied upside potential is 47,3%.
- If we compare the current P/S ratio with the historical P/S-valuation, we can see that today the stock is cheap compared to the historic average. The current P/S ratio is below one standard deviation below the mean.



Peer Table	EV/Sales	EV/EBITDA	EV/EBIT	OP Marg (%)	P/E
Elektta	3,3	18,2	26,2	13,1	36,2
Vitrolife	20,1	53,0	58,9	34,2	74,8
Average (ex, Stille, Cellavision, Biottage)	8,0	32,1	35,8	20,3	47,4
Median	7,8	33,7	35,8	18,7	47,5
Min	2,5	11,6	13,0	12,9	16,5
Max	24,1	57,6	66,4	36,3	84,9
SyntMR	24,1	57,6	66,4	36,3	84,9

Valuation Metrics	2018	2019E	2020E	2021E	2022E	2023E
EV/S	20,9	15,1	11,9	9,7	8,0	6,6
EV/EBITDA	57,7	34,0	24,3	18,4	14,4	11,5
EV/EBIT	57,8	34,0	24,4	18,4	14,4	11,5
EV/FCF	140,9	71,6	56,1	34,9	26,2	20,2
EV/OP	57,8	34,0	24,4	18,4	14,4	11,5
P/E	90,4	53,2	38,1	28,8	22,5	18,0
P/B	27,4	18,4	12,2	8,5	6,1	4,6

## DCF Output (MSEK)

PV of FCF Build Up	205,6
WACC (%)	9,2
Terminal Growth (%)	3,0
PV of Terminal Value (Gordon)	1361,3
PV of Terminal Value (EV/EBITDA)	1998,5
Enterprise Value	1081,4
Equity Value	1109,1
<b>Implied Value per Share (SEK)</b>	<b>274,5</b>

## Peer Valuation per Share

EV/Sales	242,0
EV/EBITDA	530,4
EV/EBIT	570,3
P/E	589,5
Average	483,1
Implied Upside	47,3%

## Ansvarsbegränsning

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