

# Dignitana

Sector: Life Science

## Underlying positive momentum

Redeyes' view on Dignitana is generally unchanged. We see that the sales momentum continued in the quarter, which could have been even higher without the component issues that hampered sales a bit. A write-down negatively affected the gross margin; however, the underlying gross margin was in the normal range. The US market is transforming, and we believe there is more to come which supports the long-term growth case in Dignitana. The development over quarters can vary, but the trend is positive. We lower our **very high** expectation on growth for 2023e to high. With the estimate adjustments, we adjust our fair value range to SEK 5 (7) to SEK 22 (24) per share and a Base case value of SEK 12 (15) per share.

### Underlying momentum continued in Q4

The report for the fourth quarter was slightly lower than expected in sales. The increase y/y was on net sales was 25%. We believe that Dignitana could have done even better without some of the lingering component issues. Dignitana is confident in its business model, underpinned by improving utilization and high approval rates. We still see positive signs from the most important US market; however, we have been too optimistic and pushed some sales progress. Overall, we maintain a high expectation for growth, albeit a bit lower than before. The actual sales numbers are still small compared to our identified potential for Dignitana in the market.

### The Base case value is affected by a lowering our short-term growth rate

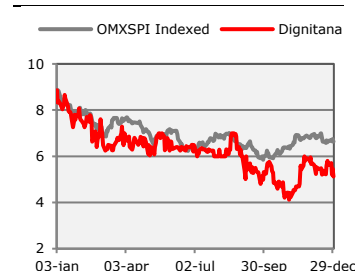
With the changes to our estimates, the Base case is lowered to SEK 12 (15) per share with a fair value range of SEK 5 (7) to 22 (24). We are still confident in the long-term case, driven mainly by the US market. The signals from the scalp cooling market continue to be strong, even if some extra uncertainty has crept into the market as to where the macroeconomics will take us and is partly a reason for our downward adjustment in growth for 2023 - 2024e. The potential in the US market is excellent, and we see that Dignitana has worked hard to reach its position in the market.

Key Financials (SEKm)	2022	2023E	2024E	2025E
Revenues	74	108	162	240
Revenue growth	29%	46%	50%	48%
EBITDA	-7	-2	24	60
EBIT	-21	-13	13	50
EBIT Margin (%)	-28%	-12%	8%	21%
Net Income	-22	-14	16	40
EV/Revenue	5,0	3,5	2,2	1,3
EV/EBITDA	neg	neg	14,6	5,2
EV/EBIT	neg	neg	27,3	6,2

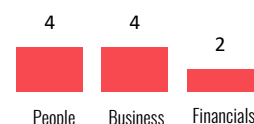
### FAIR VALUE RANGE

BEAR	BASE	BULL
5	12	22

### DIGNITANA VERSUS OMXSPI



### REDEYE RATING



### KEY STATS

Ticker	DIGN
Market	First North
Share Price (SEK)	5.2
Market Cap (SEKm)	384
Net Debt (SEKm)	10
Free Float (%)	66

## Summary of Q4 – write down affected the gross margin

The results came in lower than we expected as a whole; however, the sales progression was hampered in the quarter by the component issues. Adjusted, we believe the outcome would have been much closer to our expectations. The net sales still grew at a healthy 25% in the quarter. We were initially negatively surprised by the low gross margin; however, after conferring with management, there was a write-down of approx. SEK 2m in the quarter that adjusted for that, the gross margin would be a more typical 64%; even if it were lower than our expectation, it would be in the normal range we have seen over the last years. The focus on the US operations is positive as increased sales here will help the gross margin; from what we understand, the margins there are on the 69% level.

The OPEX development was mixed, where the operating expenses were just below our expectations while the personnel cost was higher. We see that Dignitana has added some key personnel and is driving up the costs. The general picture otherwise is that the cost is contained well, and the new CEO has taken the reins firmly and pushing forward with a more focused team. We also deduce that some of the costly consultants are gone, which should also benefit the margins in the medium term.

### Dignitana actual vs expectations

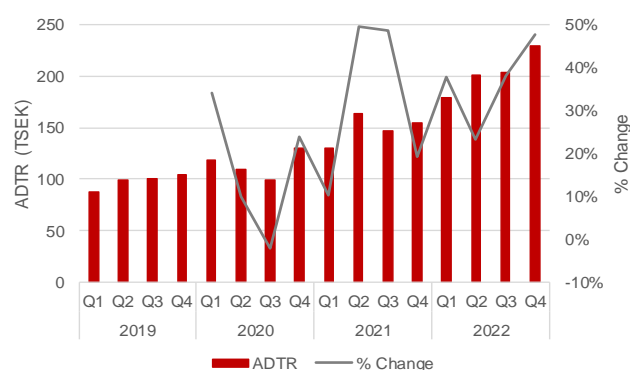
SEKm	Q4'21	Q4'22 Actual	Q4'22e	Diff
<b>Net sales</b>	<b>16,2</b>	20	23	-12%
<b>Gross Profit</b>	<b>11,2</b>	11,0	16,5	-33%
<b>EBITDA</b>	<b>-8,1</b>	-7,3	-1,2	508%
<b>EBIT</b>	<b>-11,4</b>	-11	-4,6	137%

Source: Redeye Research

### The ADTR is a fundamental indicator

The ADTR progression (US) has been strong for a long time and has taken another leap in the past quarter. The increase in Q4 was 48%, to SEK 229t, compared to SEK 155t for the same quarter a year ago. This continues to be an improvement to a whole new level. As seen by the graph below, the level was almost flat between Q2-Q3. We are content with the outcome, as this shows the efficiency and that utilization is improving, and if it continues, it will improve total growth on the already installed base.

### Dignitana: ADTR & % Change



Source: Redeye research

### Changes to estimates - sales revision due to macroeconomics and toning down our very high expectations

The strong growth is expected to continue into 2023e, albeit on a lower level than we assumed earlier. We have long predicted that there would be a blowout year; however, we have changed our assumption to be more of a long and steady growth pattern for many years. We have also taken some added altitude for the uncertainties in world events. The slower business cycle may not affect Dignitana significantly, as the clients are relatively secure. Still, we have decided to further shave some of the sales in 2023e and 2024e to reflect this uncertainty and somewhat tone down our high expectations. It is important to remember that the sales numbers vs. what we see as the potential in the market are still very small. The growth is still solid, and the potential is clearly there, and we still believe that they have every opportunity to grow for an extended period of time.

While lowering our sales expectations for next year, we have adjusted our cost levels upwards as personnel is added to drive growth. On the other hand, we increase our gross margin assumptions as we see much of the growth coming from the high gross margin US market. (Adjusting for the one-off effect in the Q4, the whole year gross margin would be higher than reported) It is important to remember that the market is in such a significant transformation that the uncertainty in general regarding the sales estimates is larger than on average. Even in such a developed market as the US, the market is untapped to a large degree, which could mean that the sales figures that we anticipate are way too low in the long term.

Dignitana: Estimate changes (MSEK)			
MSEK	2023E	2024E	2025E
<b>Net sales</b>			
Old	135	207	297
<b>New</b>	<b>108</b>	<b>162</b>	<b>240</b>
% change	-20%	-22%	-19%
<b>EBITDA</b>			
Old	24	36	70
margin	18%	17%	23%
<b>New</b>	<b>-1,7</b>	<b>24</b>	<b>60</b>
margin	-1%	12%	20%
% change	-107%	-32%	-14%
<b>EBIT</b>			
Old	12	24	58
margin	9%	12%	19%
<b>New</b>	<b>-12,5</b>	<b>13</b>	<b>50</b>
margin	-9%	6%	17%
% change	-209%	-46%	-13%

Source: Redeye Research

Dignitana: Estimate (MSEK)												
(SEKm)	2021	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024
Revenues	57,1	16,7	18,3	18,6	20,2	73,8	22,9	26,0	28,3	31,0	108,1	162,2
Gross Profit	36,4	10,9	12,6	12,4	11,0	46,8	15,1	17,1	18,7	20,4	71,3	107,0
EBITDA	-28,8	-2,9	3,4	-0,1	-7,3	-6,8	-3,2	0,3	0,3	0,9	-1,7	24,3
EBIT	-41,5	-6,1	0,1	-3,6	-10,9	-20,6	-5,5	-2,3	-2,5	-2,2	-12,5	13,0
EPS	-0,6	-0,1	0,0	-0,1	-0,2	-0,3	-0,1	0,0	0,0	0,0	-0,2	0,2
Growth (%)	22%	27%	30%	36%	25%	29%	37%	42%	52%	53%	46%	50%
Gross margin	64%	65%	69%	66%	54%	63%	66%	66%	66%	66%	66%	66%
EBITDA margin (%)	-50%	-17%	19%	-1%	-36%	-9%	-14%	1%	1%	3%	-2%	15%
EBIT margin (%)	-73%	-37%	0%	-19%	-54%	-28%	-24%	-9%	-9%	-7%	-12%	8,0%
Net income margin (%)	-74%	-39%	-1%	-20%	-59%	-30%	-25%	-10%	-10%	-8%	-13%	9,7%

Source: Redeye Research

### The Base case value still represents our long-term positive view on the scalp cooling market

With the changes to our estimates, primarily the lower growth in the near term, we lower our fair value range of SEK5 (7) to SEK 22 (24) per share and update our Base case value to SEK 12 (15) per share.

We continue to be confident in the long-term potential and strong long-term growth. Many signals point to reimbursement approval being the industry's game-changer, although it is not moving as fast as we expected. However, the market changes regarding reimbursement in the US has to the potential to drive growth in many years to come.

DCF assumptions in Base				
Assumptions:	2023E-2027E	2027E-2036E		DCF-value
CAGR Revenue	39%	13%	WACC	11,5%
Average EBIT-margin	15%	19%	NPV of FCF	533
			NPV of Terminal Value	339
<b>Terminal</b>				
Sales growth	2,0%		Sum of NPV	872
EBIT-margin	16%		Net Debt	10
			DCF-value	863
			Fair value per share	12
			Current share price	5

Source: Redeye Research

### Sensitivity analysis

		WACC				
		9,5%	10,5%	11,5%	12,5%	13,5%
EBIT margin	12,0%	13,9	12,1	10,6	9,4	8,5
	14,0%	15,2	13,1	11,4	10,1	9,0
	16,0%	16,5	14,1	12,3	10,8	9,6
	18,0%	17,8	15,1	13,1	11,4	10,1
	19,0%	18,4	15,6	13,5	11,8	10,4
		9,5%	10,5%	11,5%	12,5%	13,5%
Growth	1,0%	15,3	13,3	11,6	10,3	9,2
	1,5%	15,9	13,7	11,9	10,5	9,4
	2,0%	16,5	14,1	12,3	10,8	9,6
	3,0%	18,0	15,2	13,0	11,3	10,0
	3,5%	19,0	15,8	13,5	11,7	10,2

## 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

	2022	2023E	2024E	2025E	DCF Valuation Metrics			Sum FCF (SEKm)	
INCOME STATEMENT					Initial Period (2023–2027)			144,1	
Revenues	74	108	162	240	Momentum Period (2028–2032)			238	
Cost of Revenues	27	37	55	82	Stable Period (2033–)			490	
Gross Profit	47	71	107	158	Firm Value			872	
Operating Expenses	54	73	83	98	Net Debt (last quarter)			9,5	
EBITDA	-7	-2	24	60	Equity Value			863	
Depreciation & Amortization	14	11	11	10	Fair Value per Share			12	
EBIT	-21	-13	13	50					
Net Financial Items	-2	-1	3	0		2022	2023E	2024E	2025E
EBT	-22	-14	16	50	CAPITAL STRUCTURE				
Income Tax Expenses	0	0	0	10	Equity Ratio	0,4	0,2	0,3	0,4
Non-Controlling Interest	0	0	0	0	Debt to equity	0,8	1,7	0,7	0,3
Net Income	-22	-14	16	40	Net Debt	9	12	-11	-50
					Capital Employed	33	19	35	75
					Working Capital Turnover	-113,8	-19,1	-22,3	-36,9
BALANCE SHEET					GROWTH				
Assets					Revenue Growth	29%	46%	50%	48%
Current assets					Basic EPS Growth	-51%	-39%	-215%	154%
Cash & Equivalents	9	7	29	68	Adjusted Basic EPS Growth	-51%	-39%	-215%	154%
Inventories	5	13	18	26					
Accounts Receivable	7	11	16	24	PROFITABILITY				
Other Current Assets	4	6	10	14	ROE	-81%	-79%	86%	86%
Total Current Assets	24	37	73	133	ROCE	-62%	-65%	37%	67%
Non-current assets					ROIC	-56%	-45%	69%	249%
Property, Plant & Equipment, Net	27	20	13	11	EBITDA Margin (%)	-9%	-2%	15%	25%
Goodwill	0	0	0	0	EBIT Margin (%)	-28%	-12%	8%	21%
Intangible Assets	7	8	10	12	Net Income Margin (%)	-30%	-13%	10%	17%
Right-of-Use Assets	0	0	0	0					
Shares in Associates	0	0	0	0	VALUATION				
Other Long-Term Assets	0	0	0	0	Basic EPS	na	-0,2	0,2	0,6
Total Non-Current Assets	34	28	23	23	Adjusted Basic EPS	na	-0,2	0,2	0,6
					P/E	na	neg	23,1	9,1
Total Assets	59	65	96	156	EV/Revenue	na	3,5	2,2	1,3
Liabilities					EV/EBITDA	na	neg	14,6	5,2
Current liabilities					EV/EBIT	na	neg	27,3	6,2
Short-Term Debt	10	10	10	10	P/B	na	34,7	13,9	5,5
Short-Term Lease Liabilities	0	0	0	0					
Accounts Payable	6	15	23	34	SHAREHOLDER STRUCTURE			CAPITAL %	VOTES %
Other Current Liabilities	10	21	28	38	Greg Dingizian			28,7%	28,7%
Total Current Liabilities	26	46	61	81	Handelsbanken Fonder			7,8%	7,8%
Non-current liabilities					Swedbank Robur			7,7%	7,7%
Long-Term Debt	9	9	9	9	C3 Device Partners			6,4%	6,4%
Long-Term Lease Liabilities	0	0	0	0	Skandia			4,0%	4,0%
Other Long-Term Liabilities	0	0	0	0					
Total Non-current Liabilities	9	9	9	9	SHARE INFORMATION				
Non-Controlling Interest	0	0	0	0	Reuters code				DIGN.ST
Shareholder's Equity	24	11	26	66	List				First North
Total Liabilities & Equity	59	65	96	156	Share price				5,2
					Total shares, million				70,4
CASH FLOW									
NOPAT	-21	-13	13	40					
Change in Working Capital	-1	5	2	-1	MANAGEMENT & BOARD				
Operating Cash Flow	-9	2	29	49	CEO			Catarina Löwenadler	
					CFO			Ulf Jönsson	
Capital Expenditures	-3	-2	-3	-5	Chairman			Klas Arildsson	
Investment in Intangible Assets	0	-2	-3	-5					
Investing Cash Flow	-3	-4	-6	-10					
					ANALYSTS				Redeye AB
Financing Cash Flow	12	0	0	0	Mats Hytinge				
Free Cash Flow	-12	-2	22	39				Master Samuelsensgatan 42, 10tr	
								111 57 Stockholm	

## 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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Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.