

EQUITY - SPAIN
 Sector: Biotechnology

 Closing price: EUR 1.84 (3 May 2023)
 Report date: 4 May 2023 (09:00h)

12m Results 2022
 Independent Equity Research

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Opinion ⁽¹⁾: Below expectations

Impact ⁽¹⁾: We will maintain our estimates

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FY 2022 earnings were short of estimates, but the equity story remains the same

Business description

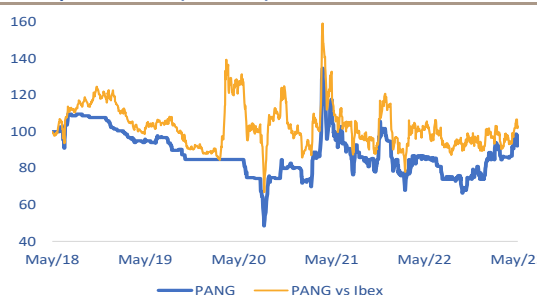
Pangaea Oncology (PANG) is a small Spanish biotech company (Zaragoza), specialising in differentiated cancer diagnosis and treatment and corporate services (molecular diagnostics and biomarker discovery for the pharmaceutical industry). It is run by a prestigious medical team that includes its founders (c.13% of capital). The Solans family (Hersol) and GPI (Mayoral) are reference shareholders.

Market Data

Market Cap (Mn EUR and USD)	56.1	62.0
EV (Mn EUR and USD) ⁽²⁾	55.7	61.6
Shares Outstanding (Mn)	30.5	
-12m (Max/Med/Min EUR)	1.95 / 1.60 / 1.31	
Daily Avg volume (-12m Mn EUR)	0.03	
Rotation ⁽³⁾	11.7	
Factset / Bloomberg	PANG-ES / PANG SM	
Close fiscal year	31-Dec	

Shareholders Structure (%) ⁽⁵⁾

GPI (Domínguez Family, Mayoral)	13.8
Vidaro Inv. (Villagrà Blanco Fam.)	8.2
Mirling Europe	6.6
Hersol XXI (Solans Family)	4.4
Free Float	12.4

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	7.6	2.2	7.9	-6.8
vs Ibex 35	8.6	3.9	2.1	3.1
vs Ibex Small Cap Index	13.5	13.4	20.7	-8.9
vs Eurostoxx 50	7.6	1.0	-5.8	-23.7
vs Sector benchmark ⁽⁴⁾	5.0	18.6	51.0	-7.1

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Europe Biotechnology.

(5) Others: Founders 13.2%, Irigen 6.6%, Eléctrica del Oeste 6.3%, Areyhold S.L.U. 6.2%, Inv. Industriales Serpis 5.9%, Ideas de Bombero 5.8%, Inv. Orensanas 5.5%, Proyecto Asfodel 5.1%.

(* Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

THE CORPORATE SERVICES BUSINESS UNDERMINED REVENUE IN 2022 (EUR 4.4MN; -5.1% VS 2021)... The trend seen in 1H continued the rest of the year. Clinical care revenue was in line with estimates (+36.6% vs 2021) thanks to: i) improvement in KPIs (new patients: +9.2%, clinical trials: +15.6%) and ii) contribution from M&A (acquisition of 75% stake in QTI in March 2022: revenue of EUR 0.7Mn in nine months). However, revenue from corporate services (contracts with large international pharmaceutical companies) plunged 52.5% in 2022 (to EUR 1Mn), hurt by the failure (in two key contracts) to achieve the right level of activity (patients) to be recognised in the company's financial statements (which worked against the company in 2022, but will work in its favour in 2023). The order backlog at year-end 2022 stood at EUR 3.2Mn vs EUR 4.2Mn at year-end 2021.

AND SQUEEZED MARGINS (41.3% GROSS MARGIN IN 2022, -25.3P.P. VS 2021) for two reasons: i) unfavourable revenue mix (smaller contribution by the higher margin corporate services business, which represented c. 23.5% of 2022 revenue vs 46.7% in 2021) and ii) the impact of the acquisition of QTI, whose surgical activity achieves a lower margin than PANG's.

REC. EBITDA IN 2022 FELL TO EUR -3.3MN (VS EUR -1.6MN IN 2021). The additional headcount from QTI (+7 employees) resulted in a 13% increase in personnel expenses, although PANG managed to keep other operating expenses in line despite inflation (excluding M&A-related costs of EUR 0.4Mn). This dragged down rec. EBITDA in 2022 to EUR -3.3Mn (vs EUR -1.6Mn in 2021).

WITH A SOLID NET CASH POSITION IN 2022 (EUR 4.8MN). After the capital increases carried out in 2022 (EUR 12Mn) and despite the company's capital requirements in 2022 (rec. FCF of EUR -3.4Mn), PANG ended the year with a solid net cash position, of EUR 4.8Mn, leaving the door open to continue pursuing its inorganic growth strategy.

IN CONCLUSION: 2022 RESULTS CONFIRM OUR ESTIMATES AND "HIDE" PANG'S POTENTIAL. The fall in revenue contradicts the performance of activity KPIs. This leads us to believe that 2023 could feature a potential 'rebound' in earnings (as occurred in 1H21) and confirm that PANG's shift in strategy did not feed through to its 2022 results. Our estimates are unchanged. Today, our baseline scenario for 2023e is still for revenue of c. EUR 6.5Mn and rec. EBITDA of EUR -0,9Mn.

Appendix 1. Results table

	12m22 Real	12m21	12m22 Real vs 12m21	2022e	2022 vs 2022e
Total Revenues	4.4	4.6	-5.1%	5.5	-20.9%
Medical services	3.3	2.4	36.6%	3.3	1.9%
Corporate Services (DX)	1.0	2.2	-52.5%	2.2	-54.3%
Gross Margin	1.8	3.1	-41.2%	3.7	-51.4%
Gross Margin/Revenues	41.3%	66.6%	-25.3 p.p.	67.2%	-25.9 p.p.
Recurrent EBITDA ⁽¹⁾	-3.3	-1.6	-110.5%	-1.5	117.3%
Rec. EBITDA/Revenues	-76.2%	-34.4%	-41.9 p.p.	-27.8%	-48.5 p.p.
EBITDA ⁽²⁾	-3.6	-1.6	-120.3%	-1.3	185%
EBITDA/Revenues	-83.0%	-35.8%	-47.3 p.p.	-23.0%	-60.0 p.p.
EBIT	-2.6	-0.5	n.a.	-0.3	n.a.
PBT	-2.8	-1.1	-158.5%	-0.7	n.a.
NP	-2.7	-0.6	-322.5%	-0.6	n.a.
Ordinary NP	-2.5	-1.0	n.a.	-0.9	n.a.
New patients	1,608	1,473	9.2%		
Total visits	28,542	31,326	-8.9%		
Clinical trials	126	109	15.6%		
Surgical activities*	113	48	135.4%		
Pharma clients	67	66	1.5%		
Rec. FCF	-3.4	-2.2	-56%	-2.5	-27.3%
Net Debt/Net Cash	-4.8	2.4	-296%	-3.5	36.2%

Note 1: Rec. EBITDA does not include subsidies or capitalised expenses.

Note 2: EBITDA does not include capitalised expenses.

Note *: PANG has changed the way this KPI is accounted for.

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Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	56.1	
+ Minority Interests	0.2	12m Results 2022
+ Provisions & Other L/T Liabilities	0.3	12m Results 2022
+ Net financial debt	(4.8)	12m Results 2022
- Financial Investments	0.3	12m Results 2022
+/- Others ⁽¹⁾	4.2	12m Results 2022
Enterprise Value (EV)	55.7	

(1) Tax loss carry forward

LIGHTHOUSE

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
04-May-2023	n.a.	1.84	n.a.	n.a.	12m Results 2022	Luis Esteban Arribas
31-Oct-2022	n.a.	1.47	n.a.	n.a.	6m Results 2022 - Estimates downgrade	Luis Esteban Arribas
14-Jul-2022	n.a.	1.46	n.a.	n.a.		Important news
02-May-2022	n.a.	1.70	n.a.	n.a.	12m Results 2021	Alfredo Echevarría Otegui
29-Oct-2021	n.a.	1.64	n.a.	n.a.	6m Results 2021	Alfredo Echevarría Otegui
02-Sep-2021	n.a.	1.70	n.a.	n.a.	Important news	Ana Isabel González García, CIIA
25-Jun-2021	n.a.	1.85	n.a.	n.a.	Important news	Ana Isabel González García, CIIA
05-May-2021	n.a.	2.17	n.a.	n.a.	12m Results 2020 - Estimates downgrade	Ana Isabel González García, CIIA
03-Nov-2020	n.a.	1.58	n.a.	n.a.	6m Results 2020	Ana Isabel González García, CIIA
16-Oct-2020	n.a.	1.56	n.a.	n.a.	Initiation of Coverage	Ana Isabel González García, CIIA

