

Stock Data

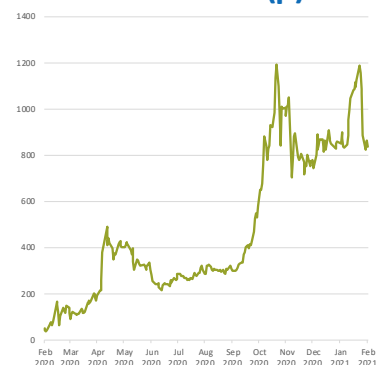
Ticker: NCYT.L
Share Price: 821p
Market Cap: £579.8m
Source: Bloomberg (prior day's close)

* SP Angel acts as Nomad and Broker to Novacyt and therefore this information should be viewed as a Marketing Communication.

Company Description

Life science business focused on the development, manufacture and distribution of laboratory and diagnostic tests.

Share Price Chart (p)



Source: Bloomberg

Contacts

Healthcare Research

Vadim Alexandre

vadim.alexandre@spangel.co.uk

+44 20 3470 0532

Liam Gascoigne-Cohen

liam.gascoigne-

cohen@spangel.co.uk

+44 20 3470 0530

Sales

Rob Rees

+44 20 3470 0535

Abigail Wayne

+44 20 3470 0534

Richard Parlons

+44 20 3470 0472

Grant Barker

+44 20 3470 0471

Update Note

Novacyt S.A.*

FY20 trading update shows surge in sales

Key points

- **Significant revenue growth:** FY20E revenues are expected to be €311.6m (FY19A: €13.1m), significantly ahead of our estimates (SP Angel estimates: €287.8m).
- **EBITDA profitability in-line with expectations:** FY20E EBITDA is expected to be above €210m (SP Angel estimates: €210.6m).
- **Gross margin improvement:** Group gross margins for FY20E is expected to be 80% (FY19 gross margin was 64%). This is due to revenues coming primarily from high-margin CE-IVD sales of the COVID-19 test and exsig™ product lines.
- **Strong cash balance:** Cash at period end grew to €101m (SP Angel estimates: €79.5m) after substantial investment in working capital and paying down all outstanding debts.
- **New products released:** The Group continues to develop and release new products, including the recent launch of SNPsig® for the detection of new COVID-19 variants. Novacyt's existing PCR-based COVID-19 tests remain able to detect all published SARS-CoV-2 variants.
- **Forecasts:** We have updated our forecasts to reflect the trading update. We maintain a **BUY** rating and provide a new price target of **1,433p** (Previously: 1,463p).

Novacyt recently announced a positive trading update for the year ended 31 December 2020 (FY20E). The update outlined the significant demand for the Group's COVID-19 test offering over the period. Sales have resulted in a surge in revenues for FY20E which is 24-fold higher than FY19A revenues (€13.1m) and exceeded our estimates by €23.8m (SP Angel FY20E: €287.8m).

With gross margins improving to c.80%, a significant proportion of revenue has converted into cash, resulting in a strong cash position which is also ahead of our forecasts (Novacyt had cash of €101m at 31 December 2020; SP Angel estimates: €79.5m). This cash generation provides Novacyt with a platform to enhance revenues and drive profitability via investment in organic and acquisitive growth opportunities.

We expect continued demand for the Group's COVID-19 test offering in FY21E, especially in H121E, whilst the widescale rollout of vaccines continues to take place. Once the pandemic subsides, the Group is looking to drive long-term growth across its business via the development of high-margin clinical diagnostics and establish itself as a leader in infectious disease testing.

Year-end Dec	2019A	2020E	2021E	2022E	2023E	2024E
Revenue (€m)	13.1	311.6	270.2	127.0	127.1	143.3
EBITDA (€m)	0.1	210.8	173.0	57.7	55.6	64.7
Pre-tax Profit (€m)	(3.9)	207.1	171.5	56.2	54.1	63.2
EPS (c)	(0.1)	237.5	196.6	65.2	63.6	75.1
Net Cash/(Debt) (€m)	(9.1)	101.0	278.1	337.7	386.1	442.6

Source: SP Angel forecasts

Positive trading update highlights response to COVID-19

On Friday 29th January 2021, Novacyt provided a trading update for the year ended 31 December 2020 (FY20E). The Company expects to announce its full year results in April 2021. Key elements of the Trading Update are described below :

- FY20E revenues are expected to be €311.6m, an increase of over 2,000% compared to FY19A revenues (€13.1m). The growth in revenues is driven by sales of COVID-19 related products, such as the *genesig* PCR COVID-19 test, which was one of the first COVID-19 tests to receive CE-mark approval. FY20E revenues are significantly ahead of SP Angel estimates (FY20E: €287.8m).
- FY20E revenue was heavily weighted towards the second half of the year with revenues of €239.2m compared to €72.4m in H120E.
- FY20E gross margin is expected to be above 80%, slightly lower than our estimates (82%), but significantly higher than FY19A gross margin (64%).
- FY20E EBITDA is expected to be above €210m, in line with our estimates (€210.6m).
- Cash at period end grew to €101m (SP Angel estimates: €79.5m) from €19.7m on 30 June 2020 and €1.8m on 31 December 2019. The stated cash position follows substantial investment in working capital, such as inventory, to meet significant product demand. The Group also cleared all outstanding debt obligations making the Company debt free for the first time in its history.
- Management expect conversion of EBITDA to free cash flow before acquisitions to be c.80%.

Novacyt stated that it has had a strong start to FY21E with continued demand for the Group's COVID-19 product portfolio expected to continue throughout most of the year. Management look to launch additional products over the year and expand its services, such as Versalab™, which supports private sector testing of infectious diseases.

The significant cash generation provides Novacyt with a platform to enhance revenues and drive profitability through investment in organic and acquisitive growth opportunities. The Group is looking to make further investments into new products as well as scaling up its manufacturing, regulatory and sales capabilities. Novacyt is also evaluating M&A opportunities to add strategic assets to its portfolio and to broaden its capabilities. The Group noted that IT-IS International Ltd (IT-IS), a profitable diagnostic instrument manufacturer, has been fully integrated. IT-IS was acquired in October 2020 for £10.1m and was the exclusive supplier of the Group's q16/q31 instruments. Novacyt remains focused on increasing manufacturing volumes at IT-IS to reduce COGS and improve the gross margin on instrument sales.

Table 1: FY20E Trading statement vs SP Angel forecasts (SPA FY20E)

Fiscal period end-date (€m)	2019A	2020E	SPA FY20E	FY20E vs SPA
	31/12/2019	31/12/2020	31/12/2020	FY20E
Revenue	13.1	311.6	287.8	23.8
EBITDA	0.1	210.0	210.6	(0.6)
Cash	1.8	101.0	79.5	21.4

Source: Company announcements, SP Angel estimates

Appointment of new CFO and other new hires

In January 2021, Novacyt appointed James McCarthy as Chief Financial Officer (CFO). Mr McCarthy has held senior roles in large manufacturing businesses, such as CFO of Flint Group (private) and CFO of Brambles Plc's (ASX.BXB) EMEA CHEP business. Anthony Dyer (previous CFO) has taken on a new role as Chief Corporate Development Officer (CCDO). The Group has also appointed Guillermo Raimondo as Chief Commercial Officer. Mr Raimondo was previously Executive Vice President Global Marketing & Sales at Siemens Healthineers where he was responsible for \$4b of revenues. Over the period, Novacyt increased its headcount to reflect the significant growth in the business. 124 people were hired, primarily across manufacturing, sales and R&D operations.

Multiple new products launched

Novacyt continues to develop and release new products to support customer testing and provide incremental revenues. Recently released products include:

SNPsig® portfolio to detect COVID-19 variants

SNPsig® is a portfolio of assays to aid the diagnosis of SARS-CoV-2 variants. The assays are designed to run on central laboratory systems as well as the Group's q16/q32 rapid PCR instruments as research-use-only products (RUO). The Group has launched three SNPsig® assays which enable the identification of the non-variant SARS-CoV-2 virus and variants first identified in the UK (B.1.1.7), South Africa (B.1.351) or Brazil (B.1.1.28) in a single test. Regulatory-approved clinical diagnostic assays are expected to be launched in March 2021. Alongside this, Novacyt plans to launch an additional assay panel, known as VariPLEX™, to detect these three variants as well as two other key variants. Given the concern that certain strains may impact the efficacy of COVID-19 vaccines, the SNPsig® assays should support efforts to track and trace individuals and reduce transmission. Novacyt noted that its existing COVID-19 PCR tests remain able to detect all published SARS-CoV-2 strains.

PROmate™

In November 2020, Novacyt launched PROmate™, a CE-marked kit which aims to improve workflow efficiency of COVID-19 testing when using the Company's q16/q32 PCR instruments. PROmate™ has been validated by the NHS Test and Trace's Technology Validation Group (TVG) which concluded that PROmate™ aligns with the acceptable standard for point-of-care testing. TVG consists of experts in technologies, viral testing and infectious disease and is involved in evaluating and making recommendations to the UK Department of Health and Social Care (UK DHSC).

VersaLab™

The Group has launched VersaLab™, a new service which aims to support private sector testing for infectious diseases. Private testing laboratories and healthcare providers can design a bespoke service using VersaLab™ to support their testing capabilities. VersaLab™ can provide on-site COVID-19 PCR testing using the Group's PCR q16/q32 platforms or a mobile laboratory, as well as manage centralised testing. Whilst the public sector conducts the majority of tests, we expect demand for private sector testing to grow once lockdown restrictions begin to be lifted and companies look to safely return employees back to workplaces whilst overseas travel recovers.

LAMP and Lateral Flow Tests

Novacyt is developing a new form of COVID-19 test which relies on Loop-mediated isothermal amplification (LAMP) technology to detect active infection. The LAMP test is designed to be compatible with q16 and q32 instruments with an expected cycle time of 20 minutes. The test is expected to be launched in Q121. The Group is also developing an IgG antibody lateral flow test as a rapid antibody test for professional use. The antibody test is expected to launch during Q121. The launch of these tests would complement the Group's existing offering which focuses on PCR-based tests.

Contract with UK Department for Health and Social Care

Novacyt continues to support the NHS as part of a contract struck in September 2020 with the UK Department for Health and Social Care (DHSC) for the supply of COVID-19 testing products for up to six months. The initial phase involved the deployment of PCR instruments, related kits and support services with a minimum value of £150m for the first 14 weeks. The second element of this phase would be to extend supply by a further 10 weeks which we expect could generate a further £100m of revenue. Novacyt is currently in active discussions with the DHSC to extend this phase of the contract.

Financials

We have updated FY20E forecasts to reflect the recent trading update and have made changes to our future year forecasts after discussions with management.

- **COVID-19 PCR revenue:** Given the revenue stated in the Trading Update was ahead of our expectations, we have increased our FY20E COVID-19 PCR revenue to €174.6m (previously €150.8m) to reflect this growth. We maintain our FY21E expectations for PCR test revenues at €150.8m as we expect continued high demand for the test in H121E prior to the widescale rollout of vaccines. We also maintained our original estimates for the remainder of the forecast period.
- **exsig® product and near patient testing (NPT) revenue:** We maintain our FY20E estimates at €125m with FY21E revenues lowered to €105.0m (previously: €125.0m). In FY22E, we expect exsig® and NPT revenues to fall 40% to €63.0m (previously €62.5m) and then grow 20% y/y to €75.6m for FY23E (previously €50.0m) with further growth of 10% and 5% for FY24E and FY25E, respectively. We expect instrument sales in FY20E and FY21E to provide a large installed base to drive repeat consumables sales in the later years of our forecast period.
- **Other product revenue:** We have made no changes to our forecasts for other product revenue.
- **Gross profit** for FY20E and FY21E is expected to be €249.3m (previously €236.9m) and €213.5m (previously: €235.1m), respectively. We have reduced FY20E gross margin by 2% to 80% (Previously 82%) in-line with the figure stated in the Trading Statement. As a result, we have slightly lowered our gross margin expectations for FY21E and FY22E to 79%. This falls to 78% in FY24E as Near Patient Testing instrument sales and some lower margin RUO tests account for more of the sales mix.
- **Operating expenses:** We have increased our FY20E operating expenses to €40m (previously: €27.8m, includes Other operating expenses) driven by an increase in R&D and Sales & Marketing expenses to reflect the significant growth of the business over the period. We expect operating expenses to grow 5% y/y over the remainder of the forecast period.
- **Tax expenses:** We have modified our tax rate after discussions with management. We expect tax of 19% for FY20E and FY21E which then falls by 1% y/y to 15% in FY25E. This change is driven by eligibility for the UK Patent Box regime. This regime provides tax relief for companies which retain and commercialise R&D activities in the UK. Patent Box relief can be up to 10% on profits attributed to qualifying patents.
- **Working Capital** We have reduced Working Capital outflows to €56m (Previously: €90m). In FY21E we expect Working Capital inflows of €34.3m falling to €10m for FY22E (Previously: FY21E inflow of €50m; FY22E inflow of €25m).

DCF valuation

We updated our valuation in line with our new forecasts. We maintained our discount rate of 10.0% and a long-term free cash flow growth rate of 4%. Our DCF model indicates a **fair value of £1.0b**, implying a **1,433p target price** (Previous: 1,463p).

December year end (000' €)	2020E	2021E	2022E	2023E	2024E	2025E
Operating CF	154,780	210,250	70,698	58,588	67,652	74,511
Net Interest	(2,204)	-	-	-	-	-
Capex	(400)	(600)	(900)	(990)	(1,089)	(1,198)
Tax (net)	(39,344)	(32,577)	(10,116)	(9,195)	(10,104)	(10,502)
FCF	112,832	177,073	59,683	48,403	56,459	62,812
Discounted FCF	112,832	160,975	49,325	36,366	38,562	39,001

NPV	437,060
TV	676,020
EV	1,113,080
Net Cash/(Debt)	-
Fair Value (000' €)	1,113,080
€/£	1.10
Fair Value (000' £)	1,011,891
Shares out (m)	71
Target Price (p)	1,433
Discount rate	10.0%
Terminal growth rate	4.0%

Source: SP Angel forecasts

Income Statement

December year end (000' €)	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Covid-19 PCR		174,600	150,800	45,240	27,144	28,501	29,926
<i>Growth rate (%)</i>			-14%	-70%	-40%	5%	5%
Exsig product and Near patient testing		125,000	105,000	63,000	75,600	83,160	87,318
<i>Growth rate (%)</i>			-16%	-40%	20%	10%	5%
Other product revenue	13,081	12,000	14,400	18,720	24,336	31,637	37,964
<i>Growth rate (%)</i>	-5%	-8%	20%	30%	30%	30%	20%
Revenue	13,081	311,600	270,200	126,960	127,080	143,298	155,208
<i>Revenue growth (%)</i>	-5%	2282%	-13%	-53%	0%	13%	8%
Cost of sales	(4,709)	(62,320)	(56,742)	(26,662)	(26,687)	(31,526)	(34,146)
Gross profit	8,372	249,280	213,458	100,298	100,393	111,772	121,063
GM (%)	64%	80%	79%	79%	79%	78%	78%
Total OPEX (incl. D&A)	(9,614)	(40,000)	(42,000)	(44,100)	(46,305)	(48,620)	(51,051)
Operating Profit (loss) (before exceptional items and D&A)	(1,242)	209,280	171,458	56,198	54,088	63,152	70,011
Costs related to acquisitions	-						
Other operating income	127						
Other operating expenses	(661)	-	-	-	-	-	-
Operating Profit (loss) after exceptional items	(1,776)	209,280	171,458	56,198	54,088	63,152	70,011
Financial income/(expense)	(2,134)	(2,204)					
Profit/(loss) before Tax	(3,910)	207,076	171,458	56,198	54,088	63,152	70,011
Tax (expense)/income	8	(39,344)	(32,577)	(10,116)	(9,195)	(10,104)	(10,502)
<i>Effective tax rate (%)</i>		19%	19%	18%	17%	16%	15%
Profit/(loss) after tax from continuing operation	(3,902)	167,732	138,881	46,083	44,893	53,048	59,510
Loss from discontinued operations	(2,656)						
Profit (loss) after tax	(6,558)	167,732	138,881	46,083	44,893	53,048	59,510
EPS (p)	(0.1)	237.5	196.6	65.2	63.6	75.1	84.3
EPS fully diluted (p)	(0.1)	237.5	196.6	65.2	63.6	75.1	84.3
Weighted average number of shares	45,731,091	70,626,248	70,626,248	70,626,248	70,626,248	70,626,248	70,626,248
Impact of dilutive instruments	-						
Weighted average number of diluted shares	45,731,091	70,626,248	70,626,248	70,626,248	70,626,248	70,626,248	70,626,248

Source: SP Angel forecasts

Cash flow

December year end (000' €)	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	(1,776)	209,280	171,458	56,198	54,088	63,152	70,011
Depreciation & Amortisation	1,880	1,500	1,500	1,500	1,500	1,500	1,500
EBITDA	104	210,780	172,958	57,698	55,588	64,652	71,511
Share option related charges	-	-	3,000	3,000	3,000	3,000	3,000
Working capital movements	1,120	(56,000)	34,292	10,000	-	-	-
Exchange Translation	-	-	-	-	-	-	-
Operating CF	1,224	154,780	210,250	70,698	58,588	67,652	74,511
Net Interest	(1,046)	(2,204)	-	-	-	-	-
Capex	55	(400)	(600)	(900)	(990)	(1,089)	(1,198)
Tax (net)	82	(39,344)	(32,577)	(10,116)	(9,195)	(10,104)	(10,502)
FCF	315	112,832	177,073	59,683	48,403	56,459	62,812
Acquisitions/Disposals	(1,353)	(7,150)	-	-	-	-	-
Share issues (net)	(175)	-	-	-	-	-	-
Debt movement	4,171	(6,500)	-	-	-	-	-
Other	(2,285)	-	-	-	-	-	-
Change in cash	673	99,182	177,073	59,683	48,403	56,459	62,812
Cash at beginning of period	1,132	1,805	100,987	278,059	337,742	386,145	442,604
Cash at end of period	1,805	100,987	278,059	337,742	386,145	442,604	505,416

Source: SP Angel forecasts

Balance Sheet

December year end (000' €)	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Goodwill	15,918	23,068	23,068	23,068	23,068	23,068	23,068
Other intangible assets	4,313	1,556	1,256	956	656	356	56
Property, plant and equipment	3,478	2,678	2,078	1,778	1,568	1,457	1,455
Non-current financial assets	240	-	-	-	-	-	-
Other long-term assets	214	-	-	-	-	-	-
Non-current assets	24,163	27,302	26,402	25,802	25,292	24,881	24,579
Inventories and work in progress	2,439	58,439	24,147	14,147	14,147	14,147	14,147
Trade and other receivables	2,168	37,182	27,182	17,182	10,182	10,182	10,182
Tax receivables	4	-	-	-	-	-	-
Prepayments	406	-	-	-	-	-	-
Short-term investments	10	-	-	-	-	-	-
Cash & cash equivalents	1,805	100,987	278,059	337,742	386,145	442,604	505,416
Current assets	6,832	196,608	329,389	369,071	410,474	466,933	529,745
Assets classified as held for sale	70	-	-	-	-	-	-
TOTAL ASSETS	31,065	223,910	355,791	394,873	435,766	491,814	554,324
Bank overdrafts and current portion of long-term borrowings	2,457	-	-	-	-	-	-
Short-term provisions	50	-	-	-	-	-	-
Trade and other liabilities	4,591	39,591	29,591	19,591	12,591	12,591	12,591
Other current liabilities	591	-	-	-	-	-	-
Total current liabilities	7,689	39,591	29,591	19,591	12,591	12,591	12,591
Borrowings and convertible bond notes	8,493	-	-	-	-	-	-
Long-term provisions	240	-	-	-	-	-	-
Deferred tax liabilities	49	-	-	-	-	-	-
Total non-current liabilities	8,782	-	-	-	-	-	-
TOTAL LIABILITIES	16,471	39,591	29,591	19,591	12,591	12,591	12,591
Share capital	3,873	3,873	3,873	3,873	3,873	3,873	3,873
Share premium account	58,012	60,005	63,005	66,005	69,005	72,005	75,005
Own shares	(174)	(174)	(174)	(174)	(174)	(174)	(174)
Other reserves	(3,306)	(3,306)	(3,306)	(3,306)	(3,306)	(3,306)	(3,306)
Equity reserve	401	401	401	401	401	401	401
Retained earnings	(44,212)	123,520	262,401	308,483	353,376	406,424	465,934
TOTAL EQUITY	14,594	184,319	326,200	375,282	423,175	479,223	541,733
TOTAL EQUITY+LIABILITIES	31,065	223,910	355,791	394,873	435,766	491,814	554,324

Source: SP Angel forecasts

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Buy - Expected return >15%

Hold - Expected return range -15% to +15%

Sell - Expected return < 15%