

Synektik S.A.



Price target: PLN 109.70

Update

Rating: BUY

In fiscal-year 2022/23, Synektik S.A. (SNT PW) beat our estimates between 2.7% and 7.9%. At +197.4% y-o-y, the fastest-growing segment was "Medical equipment/software/services" as the number of da Vinci robots in PL, CZ and SK reached in total 57 driven by the introduction of partial reimbursement for robotic surgeries in Poland (in CZ, there is already full reimbursement) and the volume of recurring revenues amounted to PLN 112.9m (25.3% of the total). With 9 new contracts announced since 30/09/2023, we estimate the number of robot sales in 2023/24E at 20, in 2024/25E at 18 and in 2025/26E at 16. In addition, SNT should sell at least one ZAP-X device per year (they also generate recurring revenues). Consequently, the share of high-margin recurring revenues should grow to c. 46% within two years. An additional growth driver for SNT's business should be the release of PLN 106.9bn from the EU Recovery and Resilience fund that had so far been blocked due to the controversial judicial reforms of the previous Polish government. With higher estimates for 2023/24E and beyond, we derive a new 12-months PT (40% DCF, 40% SOTP, 20% peer group) for Synektik's shares of PLN 109.70 (previously: PLN 95.50). The rNPV-based present value of the cardiac tracer now equals PLN 28.81/share. Despite a 197.7% increase YTD, the stock is still trading at an attractive PEG 2023/24E of 0.45 on our new estimates. We expect a higher DPS for the last FY of PLN 2.30.

Due to higher profitability of both business segments Synektik's EBITDA margin in 2022/23 improved further y-o-y and reached 18.7% (2021/22: 17.8%). In the future, an increase to >21% seems likely due to rapidly growing recurring revenues (CAGR until 2031/32E = 15.8% vs. 6.2% in general). The demand for da Vinci has surpassed our expectations and we expect a further acceleration should the additional EU funds be released next year. In our new forecasts for this fiscal-year and the next, which are 3.7-6.9% higher on top-line but 11.2%-23.1% on EBITDA/EBIT/net income level, we have assumed a stronger increase of da Vinci robots than before and one ZAP-X/year.

in PLNm	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Net sales	128.63	166.86	446.92	474.91	505.72	530.10
EBITDA*	19.16	29.66	83.57	101.33	107.45	112.07
EBIT	11.19	17.62	68.79	83.76	88.99	92.99
Net income	8.38	10.30	54.39	67.68	71.94	75.19
EPS	0.98	1.21	6.38	7.94	8.43	8.82
DPS	0.45	0.60	2.30	2.40	2.50	2.60
Dividend yield	0.52%	0.69%	2.64%	2.76%	2.87%	2.99%
RoE	10.71%	12.23%	48.57%	42.27%	34.27%	28.64%
Net gearing	0.91%	32.25%	-31.33%	-40.13%	-53.93%	-60.91%
EV/Sales	6.15x	4.74x	1.77x	1.67x	1.56x	1.49x
EV/EBITDA	41.27x	26.67x	9.46x	7.80x	7.36x	7.06x
P/E	88.51x	72.03x	13.64x	10.96x	10.31x	9.87x

* EBITDA reflects expenses for the cardiac tracer

Company profile

Synektik S.A. is a leading Polish player in the area of distribution of therapeutic & diagnostic devices and production of radiopharmaceuticals, which patients have to take before undergoing a PET-CT exam. The company's strategy foresees the expansion in the area of devices for medical therapy, which require additional products and services on a regular basis. Currently, Synektik has >150 employees.

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Sector	Healthcare Services
Country	Poland
ISIN	PLSNKTK0001
Reuters	SNTPW.WA
Bloomberg	SNT PW

Share information

Last price	87.00
Number of shares (m)	8.53
Market cap. (PLNm)	742.03
Market cap. (EURm)	171.37
52-weeks range	PLN 87.80 / PLN 27.90
Average volume (shares)	20,247

Performance

4-weeks	30.03%
13-weeks	37.03%
26-weeks	30.03%
52-weeks	164.11%
YTD	197.68%

Shareholder structure

Ksiazek Holding Sp. z o.o	26.13%
Melhus Company Ltd.*	24.00%
Free float	49.87%

* vehicle of Mr Cezary Kozanecki (CEO & founder)

Financial calendar

Audited 2022/23 report	January 18, 2024
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Analyst

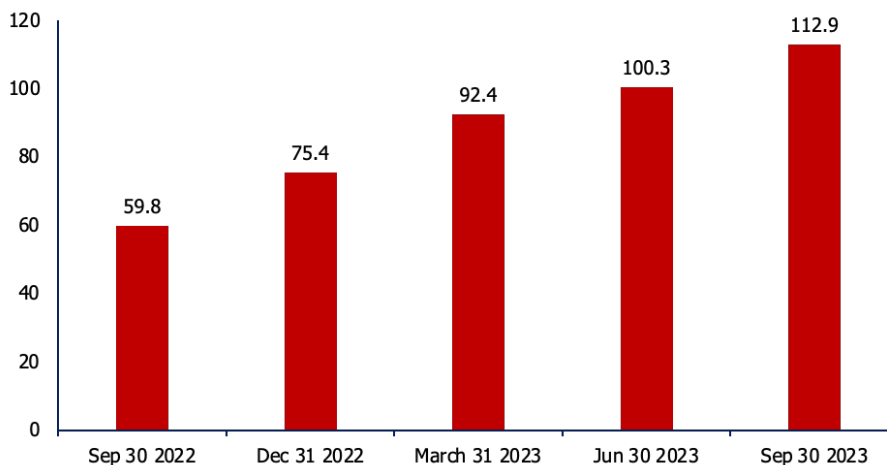
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Fiscal-year 2022/23 results

Revenues and Profitability

Between October 2022 and September 2023, Synektik generated total sales of PLN 446.9m. They were 167.8% higher y-o-y and 4.3% above our estimates.

Sales of the largest segment “Medical equipment/software/services” equalled PLN 410.5m and were 197.4% higher y-o-y. EBITDA margin was 24.2% (2021/22: 21.5%). Our forecasts equalled PLN 393m and 19.6% respectively. In 2022/23, Synektik sold 21 surgical robots, thereof 11 in Poland and 10 in the Czech Republic and Slovakia (in the current fiscal-year, 9 have been sold to date). Over the last 12 months, there have been 12,800 surgical exams, which all require high-margin usable materials. This is >10x than in fiscal-year 2020/21, when the respective figure equalled 1,153. At the end of 2022/23, the value of recurring revenues – mainly sales of usable materials, but also service revenues and sales of the zbadani.pl SaaS-based platform for radiologists – reached PLN 112.9m over the previous 12 months compared to PLN 59.8m at the end of September 2022 (+89% y-o-y).



Source: Company information, East Value Research GmbH

In 2022/23, Synektik signed new contracts for delivery of medical equipment worth PLN 310.4m (+151.3% y-o-y). At the end of September, the combined value of the backlog and active offers equalled PLN 197.5m, 18% above 9/2022.

In the “Production of radiopharmaceuticals” segment, revenues improved by 26.3% y-o-y to PLN 36.5m and the EBITDA margin from 25.2% to 30.5%. We estimated PLN 35.2m and 22% respectively.

in PLNm	2022/23	2021/22
Medical equipment & IT	410.45	137.99
<i>Share in total sales</i>	<i>91.8%</i>	<i>82.7%</i>
<i>EBITDA margin</i>	<i>24.2%</i>	<i>21.5%</i>
Production of radiopharmaceuticals	36.47	28.87
<i>Share in total sales</i>	<i>8.2%</i>	<i>17.3%</i>
<i>EBITDA margin</i>	<i>30.5%</i>	<i>25.2%</i>
Total net sales	446.92	166.86

Source: Company information, East Value Research GmbH

in PLNm	2022/23	2022/23E	2021/22	22/23 vs. 22/23E	22/23 vs. 21/22
Net sales	446.92	428.33	166.86	4.3%	167.8%
EBITDA	83.57	77.46	29.66	7.9%	181.8%
<i>EBITDA margin</i>	<i>18.7%</i>	<i>18.1%</i>	<i>17.8%</i>		
EBIT	68.79	63.96	17.62	7.6%	290.5%
<i>EBIT margin</i>	<i>15.4%</i>	<i>14.9%</i>	<i>10.6%</i>		
Net income	54.39	52.94	10.30	2.7%	428.0%
<i>Net margin</i>	<i>12.2%</i>	<i>12.4%</i>	<i>6.2%</i>		

Source: Company information, East Value Research GmbH

In 2022/23, the Group's EBITDA advanced by 181.8% y-o-y to PLN 83.6m (our estimate: PLN 77.5m) and the EBIT by 290.5% y-o-y to PLN 68.8m (PLN 64m). While the share of distribution (7.3% vs. 11.2% in 2021/22), administration (3.1% vs. 5.7%), R&D (3.6% vs. 6.1%) and D&A expenses (3.3% vs. 6%) significantly declined y-o-y, the share of CoGS (direct sales costs & costs of equipment that SNT buys from global MedTech companies) increased from 63.7% to 67.2%. Net income, which advanced by 428% y-o-y to PLN 54.4m (our estimate: PLN 52.9m), increased even more than the operating income due to a much better net financial result (PLN -600k vs. PLN -5.3m in 2021/22) that stemmed from lower interest-bearing debt and FX hedging.

Balance sheet and Cash flow

At the end of September 2023, Synektik had equity of PLN 136.1m (equity ratio of 45.8% vs. 37.1% in the previous FY). Property, plant and equipment (especially equipment and the three cyclotrons – production facilities for radiopharmaceuticals - in Kielce, Warsaw and Mszczonow, plus assets with a right to use) were worth PLN 60.4m (2021/22: PLN 54.9m), while intangible assets (rights relating to special radiopharmaceuticals and software) were valued at PLN 50.8m (PLN 56.6m) respectively. According to our methodology, the working capital equalled PLN -2.4m (PLN 17.1m).

In 2022/23, Synektik generated an operating cash flow of PLN 94.2m (2021/22: PLN -6.2m). The main reasons were a much higher profit y-o-y and significantly lower working capital. Cash flow from investing amounted to PLN -10m (PLN -4.6m) and cash flow from financing PLN -31.2m (PLN 2.1m) as the company repaid PLN >27m of financial debt and paid out a higher dividend (PLN 5.1m vs. PLN 3.8m in 2021/22). At the end of September 2023, Synektik had financial debt (predominantly leasing) of PLN 18.9m, thereof 72% long-term.

Changes to our forecasts

Revenues and Profitability

In the last months, SNT's performance has turned to be even better than we had expected. The company's results for fiscal-year 2022/23 were between 2.7% and 7.9% above our forecasts. Management maintain their view that the favorable business momentum remains intact and are optimistic for 2023/24E. Since October 1, the company has signed 9 new contracts for da Vinci robots and has sold one ZAP-X therapeutic device for PLN 22m net (they also generate recurring revenues). The R&D work on the cardiac tracer is also going according to plan. In October 2023, representatives of Synektik presented the Phase III results from Poland during a conference of the American Association of Nuclear Cardiology in Toronto and apparently received very positive feedback from industry experts. In order to maximise the return for shareholders from the cardiac tracer project, Synektik plans to finance the Phase III study in the US itself and only afterwards gain a buyer/partner. The company has already successfully completed discussions with FDA regarding the main protocol assumptions of the Phase III clinical study in the US ("pre-submission phase").

Below are our updated estimates for SNT's segments. After the 2022/23 report and our recent discussions with management, we have increased our forecasts for 2023/24E and beyond. For the current fiscal-year, we now expect revenues of PLN 474.9m (previously: PLN 444.4m), an EBITDA of PLN 101.3m (PLN 82.3m) and net income of PLN 67.7m (PLN 56.9m). SNT's results could be even higher if the Polish government was to expand the reimbursement of robotic surgeries to other application areas – besides surgical treatment of prostate, endometrial and colorectal cancer – and the EU was to transfer the funds from its Recovery and Resilience Fund that have been blocked so far due to the controversial judicial reforms of the previous Polish government (in total PLN 106.9bn, thereof PLN 18.3bn for healthcare). According to Synektik's management, Polish healthcare facilities plan many investments in new equipment, but they need the additional EU funds for financing them.

Medical equipment/software/services: After fiscal-year 2022/23 results, we have increased our estimates for 2023/24E and beyond. In the current fiscal-year, we now expect revenues of PLN 432.9m (previously: PLN 403.6m) and an EBITDA margin of 22.2% (20%). This is due to a higher expected number of new da Vinci robots than before (20 vs. 13) and higher sales of diagnostic equipment (PLN 50m vs. PLN 40m). In 2024/25E and 2025/26E, we now expect sales of 18 (13) and 16 (13) robots respectively as well as PLN 49.7m (PLN 40m) and PLN 49.3m (PLN 39.5m) of revenues from new diagnostic equipment.

Production of radiopharmaceuticals: In 2022/23, the number of PET procedures in Poland reached >70,000. Synektik, which is the Polish market leader when it comes to production of radiopharmaceuticals, expects it to grow to c. 100,000 in the longer run as the number of PET scans per 1,000 inhabitants still equals only 1.8/year compared to 3.3 on average in EU-25. Moreover, the Polish public health insurance NFZ reimburses all PET exams, which supports the demand for respective procedures.

Based on discussions with Synektik's management, we expect a continuation of the positive trend from the last years. The Radiopharma segment should be able to grow at a CAGR of 13.7% (previously: 18.7%) in the coming years and generate EBITDA margins of 26-30% (previously: >20%). Thereby, we have assumed price increases for simple and special tracers of 2% on average per year and an average volume growth of 10.6% per annum.

According to our research, the delivery of radiopharmaceuticals to PET centers in the Czech Republic and Slovakia is limited by their short half life and high transport costs. In these countries, local manufacturers have their own cyclotrons. If Synektik wanted to start sales of radiopharmaceuticals in the Baltic region, which has been mentioned by management as a potential new foreign market in the past, it would have to build a cyclotron there first.

in PLNm	2023/24E	2024/25E	2025/26E
Medical equipment/software/services	432.90	458.01	475.93
<i>(% of net sales)</i>	<i>91.2%</i>	<i>90.6%</i>	<i>89.8%</i>
EBITDA margin	22.2%	22.0%	21.8%
thereof: Diagnostic equipment & IT	50.00	49.65	49.30
thereof: ZAP-X	21.00	21.42	21.85
thereof: da Vinci surgical robots	206.40	181.44	161.28
thereof: Recurring sales	155.50	205.50	243.50
Production of radiopharmaceuticals	42.01	47.71	54.17
<i>(% of net sales)</i>	<i>8.8%</i>	<i>9.4%</i>	<i>10.2%</i>
EBITDA margin	30.0%	29.5%	29.0%
Number of sold doses	25,887	28,476	31,323
<i>Share of FDG</i>	<i>56.8%</i>	<i>55.6%</i>	<i>54.4%</i>
<i>Share of special tracers</i>	<i>43.2%</i>	<i>44.4%</i>	<i>45.6%</i>
Price per dose FDG	918	936	955
Price per dose - special tracers	2,550	2,601	2,653
Total net sales	474.91	505.72	530.10
<i>(change y-o-y)</i>	<i>6.3%</i>	<i>6.5%</i>	<i>4.8%</i>

Source: East Value Research GmbH

	2023/ 24E		2024/ 25E		2024/ 25E	
in PLNm	new	old	new	old	new	old
Net sales	474.91	444.35	505.72	487.68	530.10	529.63
EBITDA	101.33	82.33	107.45	92.80	112.07	103.25
<i>EBITDA margin</i>	<i>21.3%</i>	<i>18.5%</i>	<i>21.2%</i>	<i>19.0%</i>	<i>21.1%</i>	<i>19.5%</i>
EBIT	83.76	68.76	88.99	78.40	92.99	88.14
<i>EBIT margin</i>	<i>17.6%</i>	<i>15.5%</i>	<i>17.6%</i>	<i>16.1%</i>	<i>17.5%</i>	<i>16.6%</i>
Net income	67.68	56.85	71.94	64.67	75.19	73.14
<i>Net margin</i>	<i>14.3%</i>	<i>12.8%</i>	<i>14.2%</i>	<i>13.3%</i>	<i>14.2%</i>	<i>13.8%</i>

Source: East Value Research GmbH

CAPEX and Working capital

We have forecast that in 2023/24E and 2024/25E gross CAPEX will reach PLN 17.6m and PLN 18.5m respectively, and will mainly be spent on new radiopharmaceuticals and the cloud-based IT platform Zbadani.pl. Our forecasts are above the previous ones due to a c. PLN 2m higher estimate for depreciation & amortization expenses. Regarding working capital, we have assumed that the cash conversion cycle will converge towards 60 days in the future from -20 days in 2022/23.

Valuation

Our model for Synektik consists of a DCF valuation of the company's traditional business (incl. "Medical equipment/software/services" and sales of radiopharmaceuticals), Sum-of-the Parts (Distribution business + Radiopharmaceuticals), peer group analysis as well as a risk-adjusted Net Present Value (rNPV) calculation of the cardiac tracer. After adjustments, our model derives a new 12-months PT of PLN 109.70 per share (previously: PLN 95.50), which implies an upside of 26.1% and a BUY rating. Our valuation would increase by PLN 28.81 per share if we were to take the value of SNT's cardiac tracer into account.

DCF model

Below are the key assumptions of our DCF valuation:

- (1) *Risk-free rate*: Current yield of Polish long-term government bonds with maturity in 2047E is 5.67% (Source: boerse-stuttgart.de)
- (2) *Target equity ratio*: 100%
- (3) *Beta*: Average 4-year unlevered beta for companies from the Healthcare Products sector, which are based in Emerging Markets, is 1.06x (Source: damodaran.com)
- (4) *Equity risk premium (Poland)*: 7.4% (Source: damodaran.com)
- (5) *Effective tax rate*: 19%
- (6) *After-tax debt costs*: 6.5%
- (7) *Equity cost = WACC*: 13.5%
- (8) *Sales growth in the terminal period*: 2%
- (9) Free cash flows are discounted to December 13th, 2023

in PLNm	2023/24E	2024/25E	2025/26E	2026/27E	2027/28E	2028/29E	2029/30E	2030/31E	2031/32E
Net sales	474.91	505.72	530.10	547.35	588.57	630.97	674.70	719.92	766.82
(y-o-y change)	6.3%	6.5%	4.8%	3.3%	7.5%	7.2%	6.9%	6.7%	6.5%
EBIT	83.76	88.99	92.99	95.65	102.57	109.59	116.74	124.03	132.08
(EBIT margin)	17.6%	17.6%	17.5%	17.5%	17.4%	17.4%	17.3%	17.2%	17.2%
NOPLAT	67.84	72.09	75.32	77.48	83.08	88.77	94.56	100.47	106.99
+ Depreciation & amortisation	17.57	18.46	19.08	19.43	20.60	21.77	22.94	24.12	25.31
= Net operating cash flow	85.41	90.54	94.41	96.91	103.68	110.54	117.50	124.58	132.29
- Total investments (Capex and WC)	-31.96	-24.78	-24.21	-25.88	-28.96	-31.20	-33.73	-69.65	-32.25
Capital expenditure	-17.57	-18.46	-19.08	-19.43	-20.60	-21.77	-22.94	-24.12	-25.31
Working capital	-14.38	-6.32	-5.12	-6.45	-8.36	-9.44	-10.79	-45.53	-6.95
= Free cash flow (FCF)	53.46	65.77	70.20	71.03	74.72	79.33	83.76	54.93	100.04
PV of FCF's	48.30	52.35	49.22	43.88	40.66	38.03	35.38	20.44	32.79
PV of FCFs in explicit period 361.06									
PV of FCFs in terminal period 300.93									
Enterprise value (EV)	661.99								
+ Net cash / - net debt (30 Sep 2023)	48.80								
Shareholder value	710.80								
Number of shares outstanding (m)	8.53								
		Terminal EBIT margin							
WACC	13.5%	14.2%	15.2%	16.2%	17.2%	18.2%	19.2%	20.2%	
Cost of equity	13.5%	9.5%	131.76	136.80	141.84	146.89	151.93	156.97	162.02
Pre-tax cost of debt	8.0%	10.5%	116.73	120.84	124.94	129.05	133.16	137.27	141.38
Normal tax rate	19.0%	11.5%	104.88	108.27	111.67	115.07	118.46	121.86	125.26
After-tax cost of debt	6.5%	12.5%	95.30	98.14	100.98	103.82	106.66	109.51	112.35
Share of equity	100.0%	13.5%	87.40	89.80	92.20	94.60	97.00	99.40	101.80
Share of debt	0.0%	14.5%	80.77	82.82	84.86	86.91	88.95	91.00	93.04
Fair value per share in PLN (today)	83.34								
Fair value per share in PLN (in 12 months)	94.60								

Source: East Value Research GmbH

Peer Group Analysis

We have compared Synektik to four listed companies, which supply diagnostic equipment and/or radiopharmaceuticals:

- (1) *Ion Beam Applications SA*: Ion Beam Applications (IBA), which is headquartered in Louvain-La-Neuve/Belgium, is the world leader in particle accelerator technology. The company is the leading supplier of equipment and services in the field of proton therapy, considered to be the most advanced form of radiation therapy available today. IBA is also a leading player in the fields of industrial sterilization, radiopharmaceuticals and dosimetry. The company employs >1,800 people worldwide and operates through three business segments: Proton Therapy (61% of total sales in 2022), Dosimetry (15%) and Other accelerators (24%). In 2022, Ion Beam generated revenues of EUR 361.3m and an EBITDA margin of 3.6%.
- (2) *Jubilant Pharmova Ltd.*: Jubilant Pharmova, which is based in Noida/India, is an integrated global pharmaceuticals company with the three business segments Pharmaceuticals (manufacturing and supply of radiopharmaceuticals, allergy therapy products, contract manufacturing of sterile injectables and non-sterile products, active pharma ingredients and solid dosage formulations), Contract Research and Development Services for global pharma innovators and Proprietary Novel Drugs (development of breakthrough therapies in the area of oncology and auto-immune disorders). In fiscal-year 2022/23, Jubilant had revenues of INR 62.8bn and generated an EBITDA margin of 10.3%.
- (3) *Voxel S.A.*: Voxel, which is based in Krakow, is the No 2 private provider of diagnostic services in Poland (incl. for example diagnostic imaging, nuclear medicine, isotope therapy, neuroradiosurgery and production of radiopharmaceuticals). The company is also the leading provider of software for medical facilities. Apart from Synektik, it is the only private company with own cyclotrons (Krakow and Warsaw). In 2022, Voxel generated revenues of PLN 414.8m at an EBITDA margin of 23.7%.
- (4) *Lantheus Holdings Inc.*: Lantheus Holdings, Inc., which is based in North Billerica/US, provides innovative diagnostics, targeted therapeutics and artificial intelligence (AI) solutions for clinicians. The company offers a broad portfolio of products including PYLARIFY® (Piflufolastat F18), a PSMA PET radiopharmaceutical for the detection of suspected recurrent or metastatic prostate cancer; PYLARIFY AI™, an artificial intelligence platform that assists in the evaluation of PSMA PET images; DEFINITY® Vial for (Perflutren Lipid Microsphere) Injectable Suspension, an ultrasound enhancing agent for patients with suboptimal echocardiograms; TechnelLite® (Technetium Tc99m Generator), a technetium-based generator that provides the essential medical isotope used in nuclear medicine procedures; and AZEDRA® (Iobenguane I 131) for the treatment of certain rare neuroendocrine tumors. 11 radiopharmaceuticals are currently in the development stage, thereof the cardiac tracer Flurpiridaz F 18 has already completed Phase III clinical trials. The Holding includes the following subsidiaries: Lantheus Medical Imaging Inc., Progenics Pharmaceuticals Inc. (a developer of radiopharmaceuticals and AI for oncological applications that was acquired in 2019 at an implied EV/Sales multiple of 14.9x) and EXINI Diagnostics AB (a Swedish developer of radiopharmaceuticals and AI-based solutions).

For 2022, Lantheus reported revenues of USD 935.1m and an EBITDA margin of 9%.

Flurpiridaz F 18 is a fluorine 18-labeled agent that binds to mitochondrial complex 1 (MC-1) and is a novel PET imaging agent that may better evaluate patients with known or suspected coronary artery disease, which affects c. 15.5m people in America alone. In the first Phase III study, flurpiridaz F 18, which has a half-life of 110 min, demonstrated improved CAD detection and reduced radiation exposure over SPECT. The Phase III clinical study was conducted together with GE Healthcare, with whom Lantheus signed a commercialization deal on February 22, 2017. The transaction with GE included the following payments for Lantheus: (1) USD 5m upfront cash payment (2) up to USD 60m in regulatory and sales milestone payments as well as (3) tiered double-digit royalties on US sales and mid-single-digit royalties on sales outside the US. Lantheus also received an option to co-promote in the U.S.

Company	EV/Sales		EV/EBITDA		P/E		P/BVPS	EBITDA margin	Net gearing
	2024E	2025E	2024E	2025E	2024E	2025E	Latest	Last FY	Latest
Ion Beam Applications SA (EUR)	0.50x	0.43x	9.04x	4.86x	26.10x	11.35x	3.51x	3.59%	-71.00%
Jubilant Pharmova Ltd. (INR)	n.a	n.a	n.a	n.a	n.a	n.a	1.34x	10.29%	49.79%
Voxel S.A. (PLN)	1.97x	1.82x	7.32x	6.48x	14.39x	12.01x	3.10x	23.67%	27.91%
Lantheus Holdings Inc. (USD)	3.72x	3.38x	7.60x	6.82x	12.24x	12.04x	7.40x	8.99%	0.49%
Median	1.97x	1.82x	7.60x	6.48x	14.39x	12.01x	3.30x	9.64%	0.14x
Synektik S.A. (PLN)	1.46x	1.37x	6.84x	6.45x	10.96x	10.31x	5.45x	18.70%	-35.86%
Premium/Discount	-26.0%	-24.6%	-10.0%	-0.4%	-23.8%	-14.1%			
Fair value Synektik (PLN)	104.66								

Source: CapitalIQ, marketscreener.com, East Value Research GmbH

Other peers:

- (1) *Advanced Accelerator Applications SA (AAA)*: Advanced Accelerator Applications, which is headquartered in Rueil-Malmaison Cedex /France, develops, produces and commercializes diagnostic and therapeutic molecular nuclear medicine products in the fields of oncology, neurology, cardiology and infectious & inflammatory diseases. According to its website, it has one of the broadest commercial PET portfolios in Europe: GLUSCAN/BARNASCAN, SOMAKIT TOC, FLUOROCHOL, DOPAVIEW/PADOVIEW, NETSPOT as well as third party manufacturing agreements. In 2017, AAA received approval for its first therapeutic product, LUTATHERA (USAN: lutetium Lu 177 dotatate/INN: lutetium (177Lu) oxodotreotide) in Europe and in 2018 in the US. In its pipeline, there are currently 11 tracers against prostate cancer, glioblastoma, multiple solid tumours lung cancer and neuroendocrine tumours. Four of them – Lu-DOTATATE, LU-PSMA-617, F-CTT1057, Ga-Neob – are currently in the Phase III stage. The company is active in 12 countries (incl. US and Canada) with distribution in >30.

In 2017, the Swiss pharma giant Novartis bought 100% in AAA for an equity value of USD 3.9bn. The transaction implied a P/Sales of 30.1x based on 2016 results and 27.4x based on estimated full-year 2017 sales.

- (2) *Eczacıbaşı-Monrol Nuclear Products*: The privately-held Istanbul/Turkey-based company, which was established in 2008, is a joint-venture between Monrol Nuclear Products and Eczacıbaşı Pharmaceuticals Manufacturing. According to its website, it sells own radiopharmaceuticals to >60 countries worldwide. The company also conducts clinical trials for third parties. In December 2017, Monrol signed a sale agreement with Synektik related to its cyclotron in Mszczonow as it had decided to withdraw from the Polish market.
- (3) *Eckert & Ziegler AG*: EZAG, which is headquartered in Berlin, is one of the world's largest providers of isotope technology for medical, scientific and industrial use. The core businesses of the Group are cancer therapy, industrial radiometry and nuclear-medical imaging. Eckert & Ziegler operates 24 subsidiaries and has offices in Europe, India, Brazil, Argentina and the US. The company has been listed on the Frankfurt Stock Exchange since 1999 and in 2022 generated total revenues of EUR 222.3m at an EBITDA margin of 21.8%.

On 5 May 2017, Alliance Medical Holding Ltd., an Irish operator of diagnostic centers and producer of radiopharmaceuticals, which itself was taken over by South-African Life Healthcare Group Holdings in November 2016 for GBP 800m (implied EV/Sales 2016 of 3.4x and EV/EBITDA of 12.4x), announced the acquisition of EZAG's cyclotron business (part of its Radiopharma segment, incl. operations in Poland, Germany and Austria) for EUR 13m. The transaction implied an EV/Sales 2016 of 0.7x.

Sum-of-the-Parts valuation

Our price target calculation also accounts for a Sum-of-the-Parts to better reflect the value of Synektik's different segments, "Medical equipment/software/services" (mostly distribution of diagnostic/therapeutic devices and surgical robots of third-party producers) and "Production of radiopharmaceuticals" (SNT produces and distributes 8 own tracers - FDG, FLT, Choline, PSMA, Dopa, FET, FES, Metaflu - and a licensed one Axumin).

We have valued the "Medical equipment/software/services" segment based on trading multiples of three listed US-based medical distributors. For the calculation of the fair value of the "Production of radiopharmaceuticals" segment, we have used the transaction multiple of the Lantheus-Progenics Pharmaceuticals deal. In order to account for the fact that Synektik is a Polish company, we have applied a discount of 30% to the combined value of both segments.

Valuation of the Medical equipment, IT & services segment

Company	EV/Sales		EV/EBITDA		EBITDA margin
	2024E	2025E	2024E	2025E	Last FY
McKesson Corporation (USD)	0.20x	0.19x	11.66x	11.07x	1.8%
Cencora Inc. (USD)	0.16x	0.15x	11.38x	10.70x	1.5%
Henry Schein Inc. (USD)	0.89x	0.85x	10.10x	9.37x	8.6%
Median	0.20x	0.19x	11.38x	10.70x	1.8%
<i>Est. Sales and EBITDA of SNT's Distribution segment</i>	<i>432.90</i>	<i>458.01</i>	<i>96.04</i>	<i>100.70</i>	<i>24.2%</i>
Implied EV SNT's Distribution segment	87.71	87.22	1093.18	1077.09	
Median	582.40				

Source: CapitalIQ, East Value Research GmbH

When it comes to its agreements with Intuitive Surgical or ZAP-X, Synektik does not act as a typical medical distributor. As in its markets it has exclusivity and is in charge of servicing, training, marketing and registration of devices, the company is able to generate higher EBITDA margins than US-based distributors such as McKesson or Henry Schein. Also, we would like to emphasize that in the US trading multiples and valuations are different than in Poland as the US has the largest and most liquid capital market worldwide.

Valuation of the Radiopharma segment

	Trans. EV/Sales	2022/23 sales of SNT's Radiopharma segment
Acquisition of Progenics by Lantheus	14.9x	36.47
Implied EV SNT's Radiopharma segment (PLNm)		543.43

Source: Lantheus' website, CapitalIQ, East Value Research GmbH

In the area of Radiopharmaceuticals, which is highly profitable, Synektik is the undisputed leader in Poland with a long track record and strong client relationships. The market is characterized by high entry barriers as a new player would have to build a cyclotron for several million Euro first, register the radiopharmaceuticals and find clients. Hence, a high sales multiple for this segment is justified, in our view.

Sum-of-the-Parts (in PLNm)	
Implied EV (Distribution + Radiopharma)	1125.83
+ Net cash (30/09/2023)	48.80
Equity Value (PLNm)	1174.64
Number of shares (m)	8.53
Fair value per share (Distribution + Radiopharma)	137.72
<i>Discount</i>	<i>30%</i>
Discounted FV per share (Distribution + Radiopharma)	105.94

Source: East Value Research GmbH

Price target calculation

Valuation method	Fair value	Weight
DCF model	83.34	40%
Sum-of-the-Parts	105.94	40%
Peer Group Analysis	104.66	20%
Weighted average (present value)	96.64	
In 12-months (PV * (1+WACC))	109.70	

Source: East Value Research GmbH

rNPV model (Risk-adjusted Net Present Value) - Cardiac tracer

We have estimated the value of the cardiac tracer, which will soon start Phase III clinical studies in the US (in Poland, they have already been completed), with the probability-weighted rNPV method, which accounts for project-related CAPEX of USD 14.9m during Phase III (2023/24E-2025E/26E). We have applied the latest average probabilities for the completion of the different stages of drug commercialization (Source: QLS Advisors – “Clinical Development Success Rates 2011-2020”), however would like to stress that the commercialization of radiopharmaceuticals is much less complicated and costly than in case of drugs. We now expect that SNT will sign a commercialization contract for its cardiac tracer, which in December 2022 received a 20-year patent protection in Europe and has a patent in the US until 2031E, with a partner in 2024/25E. This could be (1) producers of medical devices, which are interested in expansion into the cardiovascular area with PET-CTs (2) manufacturers of radiopharmaceuticals, which would like to grow their product portfolio and (3) Big Pharma companies.

As benchmark for our calculation, we have taken the Phase III partnering deal between Lantheus Holdings and GE Healthcare in 2017, which is the most recent one. According to the press release, GE Healthcare was supposed to pay Lantheus USD 5m initially, up to USD 60m in regulatory and sales milestone payments as well as tiered double-digit royalties on US sales and mid-single-digit royalties on sales outside the US. While the number of cardio exams in the US is known (9.1m per year; Source: <https://www.ncbi.nlm.nih.gov/books/NBK567716/>), of which almost all are currently conducted with SPECT devices, we have assumed that on average 10% thereof will be done on PET-CT in the future. With an average price of a PET-CT cardiac tracer of USD 400-USD 600, this conservative approach leads to a total value of the US market alone of USD >360m per year. With an estimated average royalty rate of 8.5%, we arrive at yearly royalty payments for Lantheus of c. USD 30.9m or USD 464.1m over 15 years. Including initial and regulatory/sales milestones, the total deal value equals USD 529.1m.

Estimation of the total value of Lantheus' partnering deal

Phase	Milestone payment (USDm)	Share of total value
Initial payment	5.00	0.9%
Regulatory & sales milestones	max. 60	11.3%
Total sales royalties over 15 years	464.00	87.7%
Total value (initial payment, milestones and royalties)	529.10	100.0%

Source: Lantheus, GE Healthcare, East Value Research GmbH

For the calculation of the total deal value of Synektik's cardiac tracer, we have applied a 30% discount on the estimated value of Lantheus' deal, however have used higher shares of initial and regulatory/sales milestones as according to our research Lantheus has had issues with the clinical studies on its tracer. Our approach results in a total deal value of USD 407m and the following shares of the different components: Upfront payment (5% of total deal value), Development & Registration milestone (20%), Sales & Others (75%). We have assumed that Synektik's cardiac tracer will be introduced on the market in 2027/28E and generate yearly royalties until 2042/43E, when its patent in Europe expires.

Below are our detailed assumptions for the rNPV model:

SNT's cash flows from the cardiac tracer

Phase	Year	Milestone payment (USDm)	Share of total value
Initial payment	2024/25	20.35	5.0%
Phase III	2025/26	40.70	10.0%
Registration in the US and EU	2026/27	40.70	10.0%
Start of commercial sales	2027/28	40.70	10.0%
Yearly sales royalties in 2028E-43E*	2027/28	264.55	65.0%
Total value (initial payment, milestones and royalties)		407.00	100.0%

* until patent expiration

Source: East Value Research GmbH

rNPV model of the cardiac tracer

	2023/2	2024/2	2025/2	2026/2	2027/2	2028/2	2029/3	2030/3	2031/3	2032/3	2033/3	2034/3	2035/3	2036/3	2037/3	2038/3	2039/4	2040/4	2041/4	2042/4	
	4E	5E	6E	7E	8E	9E	0E	1E	2E	3E	4E	5E	6E	7E	8E	9E	0E	1E	2E	3E	
CF before investments and taxes (USDm)	0.00	20.35	40.70	40.70	58.34	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64	17.64
Probability of successful Phase III*	n.a	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%
Probability of successful registration*	n.a	n.a	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%	90.6%
Cumulative probability	0.0%	57.8%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%	52.4%
Probability-weighted CF before investments and taxes (USDm)	0.0	11.8	21.3	21.3	30.5	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Investments in the cardiac tracer project (USDm)	-4.96	-4.96	-4.96	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CF after accounting for investments (USDm)	-4.96	6.80	16.35	21.31	30.55	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24	9.24
PLN-USD rate	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11	4.11
CF accounting for investments (PLNm)	-20.40	27.94	67.20	87.60	125.56	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96	37.96
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
CF accounting for investments and taxes (PLNm)	-16.52	22.63	54.43	70.95	101.70	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75	30.75
Discount factor	1.11	1.26	1.43	1.62	1.84	2.09	2.37	2.69	3.05	3.46	3.93	4.46	5.07	5.75	6.53	7.41	8.41	9.55	10.84	12.30	
Discounted CF accounting for investments and taxes (PLNm)	-14.93	18.02	38.17	43.83	55.35	14.74	12.99	11.44	10.08	8.88	7.82	6.89	6.07	5.35	4.71	4.15	3.66	3.22	2.84	2.50	
rNPV (PLN m)		245.75																			
Number of SNT's shares		8.53																			
rNPV per share (PLN)		28.81																			

* Source: Clinical Development Success Rates 2011-2020* by QLS Advisors

Source: East Value Research GmbH

Profit and loss statement

in PLNm	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Net sales	128.63	166.86	446.92	474.91	505.72	530.10
Cost of goods sold	-90.39	-106.32	-300.35	-296.82	-315.06	-338.73
Gross profit	38.24	60.54	146.56	178.09	190.66	191.36
Other operating income	1.47	7.60	0.00	0.00	0.00	0.00
Distribution costs	-7.63	-18.75	-32.81	-34.87	-37.13	-38.92
Administration expenses	-6.78	-9.52	-13.77	-16.15	-17.19	-18.02
R&D expenses	-6.14	-10.22	-16.02	-20.42	-21.75	-13.25
Other operating expenses	0.00	0.00	-0.38	-5.33	-7.13	-9.09
EBITDA	19.16	29.66	83.57	101.33	107.45	112.07
Depreciation & Amortization	-7.97	-12.04	-14.78	-17.57	-18.46	-19.08
EBIT	11.19	17.62	68.79	83.76	88.99	92.99
Net financial results	-0.97	-5.33	-0.60	-0.20	-0.18	-0.16
EBT	10.22	12.29	68.19	83.56	88.81	92.83
Income taxes	-1.84	-1.99	-13.80	-15.88	-16.87	-17.64
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Net income / loss	8.38	10.30	54.39	67.68	71.94	75.19
EPS	0.98	1.21	6.38	7.94	8.43	8.82
DPS	0.45	0.60	2.30	2.40	2.50	2.60
Share in total sales						
Net sales	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Cost of goods sold	-70.27 %	-63.72 %	-67.21 %	-62.50 %	-62.30 %	-63.90 %
Gross profit	29.73 %	36.28 %	32.79 %	37.50 %	37.70 %	36.10 %
Other operating income	1.15 %	4.56 %	0.00 %	0.00 %	0.00 %	0.00 %
Distribution costs	-5.93 %	-11.24 %	-7.34 %	-7.34 %	-7.34 %	-7.34 %
Administration expenses	-5.27 %	-5.71 %	-3.08 %	-3.40 %	-3.40 %	-3.40 %
R&D expenses	-4.78 %	-6.13 %	-3.59 %	-4.30 %	-4.30 %	-2.50 %
Other operating expenses	0.00 %	0.00 %	-0.08 %	-1.12 %	-1.41 %	-1.72 %
EBITDA	14.90 %	17.77 %	18.70 %	21.34 %	21.25 %	21.14 %
Depreciation & Amortization	-6.20 %	-7.22 %	-3.31 %	-3.70 %	-3.65 %	-3.60 %
EBIT	8.70 %	10.56 %	15.39 %	17.64 %	17.60 %	17.54 %
Net financial results	-0.75 %	-3.19 %	-0.13 %	-0.04 %	-0.04 %	-0.03 %
EBT	7.95 %	7.36 %	15.26 %	17.59 %	17.56 %	17.51 %
Income taxes	-1.43 %	-1.19 %	-3.09 %	-3.34 %	-3.34 %	-3.33 %
Minority interests	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Net income / loss	6.52 %	6.17 %	12.17 %	14.25 %	14.23 %	14.18 %

Balance sheet

in PLNm	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Cash and cash equivalents	18.27	9.68	62.66	91.68	142.64	189.65
Other financial assets	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	2.84	48.28	21.27	24.40	25.90	27.84
Trade accounts and notes receivables	36.69	44.77	72.25	78.07	83.13	87.14
Prepaid expenses, deferred charges and others	6.15	7.02	9.04	9.61	10.23	10.72
Current assets	63.94	109.75	165.21	203.75	261.90	315.36
Property, plant and equipment	53.57	54.89	60.43	60.43	60.43	60.43
Other intangible assets	28.57	56.63	50.77	50.77	50.77	50.77
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Other long-term assets	5.52	1.59	3.05	3.08	3.11	3.14
Deferred tax assets	8.08	13.61	17.87	7.53	0.00	0.00
Non-current assets	95.74	126.73	132.11	121.80	114.30	114.33
Total assets	159.69	236.48	297.32	325.56	376.20	429.69
Trade payables	33.09	55.39	86.01	80.12	79.86	80.30
Short-term financial debt	6.46	23.67	5.28	4.98	4.68	4.38
Other liabilities	14.69	24.72	16.30	17.33	18.45	19.34
Pension provision	0.71	1.04	1.08	1.14	1.22	1.28
Provision	0.08	0.08	0.00	0.00	0.00	0.00
Current liabilities	55.03	104.91	108.68	103.57	104.22	105.30
Long-term financial debt	11.71	13.21	13.57	11.57	9.57	7.57
Other long-term liabilities	11.22	22.83	25.66	26.17	26.69	27.23
Pension provision	0.12	0.08	0.08	0.09	0.10	0.10
Deferred tax liabilities	1.04	7.60	13.24	0.00	0.00	0.00
Long-term liabilities	24.09	43.73	52.55	37.83	36.36	34.89
Total liabilities	79.13	148.63	161.23	141.40	140.57	140.19
Shareholders equity	80.56	87.85	136.10	184.16	235.63	289.50
Minority interests	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities and equity	159.69	236.48	297.32	325.56	376.20	429.69

Cash Flow Statement

in PLNm	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Net income / loss	8.38	10.30	54.39	67.68	71.94	75.19
Depreciation & Amortization	7.97	12.04	14.78	17.57	18.46	19.08
Change of working capital	4.58	-25.55	19.72	-14.38	-6.32	-5.12
Others	0.77	-2.98	-1.30	2.91	-7.53	0.00
Net operating cash flow	21.71	-6.18	87.58	73.78	76.55	89.15
Cash flow from investing	-3.23	-4.55	-14.45	-17.57	-18.46	-19.08
Free cash flow	18.48	-10.73	73.13	56.21	58.09	70.07
Cash flow from financing	-11.07	2.14	-20.16	-27.18	-7.13	-23.06
Change of cash	7.40	-8.59	52.98	29.03	50.96	47.01
Cash at the beginning of the period	10.87	18.27	9.68	62.66	91.68	142.64
Cash at the end of the period	18.27	9.68	62.66	91.68	142.64	189.65

Financial ratios

Fiscal year	2020/21	2021/22	2022/23	2023/24E	2024/25E	2025/26E
Profitability and balance sheet quality						
Gross margin	29.73%	36.28%	32.79%	37.50%	37.70%	36.10%
EBITDA margin	14.90%	17.77%	18.70%	21.34%	21.25%	21.14%
EBIT margin	8.70%	10.56%	15.39%	17.64%	17.60%	17.54%
Net margin	6.52%	6.17%	12.17%	14.25%	14.23%	14.18%
Return on equity (ROE)	10.71%	12.23%	48.57%	42.27%	34.27%	28.64%
Return on assets (ROA)	6.21%	7.89%	20.60%	21.80%	20.55%	18.70%
Return on capital employed (ROCE)	8.77%	11.22%	29.08%	30.56%	26.50%	23.22%
Economic Value Added (in PLNm)	-4.97	-3.01	29.37	37.84	35.33	31.48
Net debt (in PLNm)	0.73	28.33	-42.64	-73.90	-127.07	-176.32
Net gearing	0.91%	32.25%	-31.33%	-40.13%	-53.93%	-60.91%
Equity ratio	50.45%	37.15%	45.77%	56.57%	62.63%	67.37%
Current ratio	1.16	1.05	1.52	1.97	2.51	2.99
Quick ratio	1.00	0.52	1.24	1.64	2.17	2.63
Net interest cover	11.58	3.31	114.61	418.78	494.41	581.20
Net debt/EBITDA	0.04	0.96	-0.51	-0.73	-1.18	-1.57
Tangible BVPS	9.45	10.30	15.96	21.59	27.63	33.94
Capex/Sales	-9.93%	-24.83%	-3.23%	-3.70%	-3.65%	-3.60%
Working capital/Sales	-1.64%	11.96%	0.05%	3.08%	4.14%	4.92%
Cash Conversion Cycle (in days)	-18	74	-20	-9	-3	3
Trading multiples						
EV/Sales	6.15	4.74	1.77	1.67	1.56	1.49
EV/EBITDA	41.27	26.67	9.46	7.80	7.36	7.06
EV/EBIT	70.69	44.89	11.50	9.44	8.89	8.50
P/E	88.51	72.03	13.64	10.96	10.31	9.87
P/Tangible BVPS	9.21	8.45	5.45	4.03	3.15	2.56
P/FCF	40.16	-69.13	10.15	13.20	12.77	10.59

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