

6m Results 2021

Opinion ⁽¹⁾: Above expectations

Impact ⁽¹⁾: We will have to raise our estimates

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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.20% of capital). The Solans family (G. Pikolin) and GPI (Mayoral) are reference shareholders.

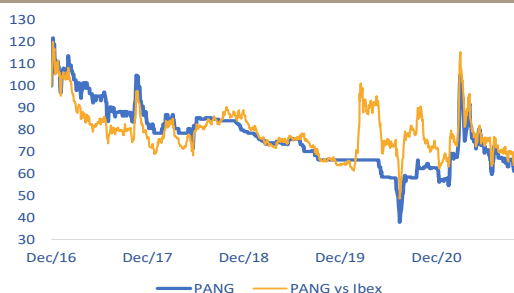
Market Data

Market Cap (Mn EUR and USD)	31.1	36.3
EV (Mn EUR and USD) ⁽²⁾	26.1	30.5
Shares Outstanding (Mn)	18.7	
-12m (Max/Med/Min EUR)	2.70 / 1.77 / 1.40	
Daily Avg volume (-12m Mn EUR)	n.m.	
Rotation ⁽³⁾	3.5	
Factset / Bloomberg	PANG-ES / PANG SM	
Close fiscal year	31-Dec	

Shareholders Structure (%) ⁽⁵⁾

Founders	23.3
GPI (Domínguez Family, Mayoral)	22.5
Vidaro Inv. (Villagrà Blanco Fam.)	13.4
Solans Family	3.0
Free Float	19.2

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-2.4	6.4	3.7	n.a.
vs Ibex 35	-5.1	3.0	-25.6	n.a.
vs Ibex Small Cap Index	-2.7	9.7	-22.1	n.a.
vs Eurostoxx 50	-6.4	3.1	-27.4	n.a.
vs Sector benchmark ⁽⁴⁾	-7.3	0.3	-15.9	n.a.

(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 TR Europe Biotechnology & Medical Research.

(5) Founders: Inv. Indust. Serpis 9.6%, Inv. Orensanas 8.9%, BIOSense (J. Rivela) 8.0%, Top Genetics + Biolifepat + Maectorax 15.3%

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

1H 2021: Return to its core business

REVENUE IN LINE (+21.3%), CONSOLIDATING EXPECTATIONS FOR EXCEEDING EUR 5MN IN 2021. Positive performance by all activity indicators. Oncological appointments continue to accelerate (+13.2% vs. 1H20), with an increase in clinical trials (+17.9%; 84 trials), surgical operations (+75%) and pharma clients (+5.6%; 4 additional clients for a total of 75). What is interesting is that the snapshot in terms of activity is a repeat of what was seen in 2H 2020 (when almost all indicators also saw double-digit growth) and means the impact of the pandemic on PANG's core business has been overcome. Revenue growth has been achieved by "replacing" (as expected) Covid testing revenue (now virtually non-existent vs EUR 0.4 Mn in 2020) with oncology-associated revenue.

THE CHANGE IN THE REVENUE MIX IS DRIVING THE MARGIN. By divisions, growth in the Corporate Services division (higher margin) more than doubled that of the clinical care business (+30.9% vs +13.8%). This effect is in addition to the virtual disappearance of revenue from Covid testing (that also has a smaller margin than oncology services: surgical activity, clinical trials) with an instant impact on the consolidated gross margin that improved by 4.4 p.p vs 1H 2020. Everything suggests the improvement in margins is not circumstantial, as it is associated with the expected revenue mix for 2022.

EXPECTATIONS FOR EBIT TO EXCEED BREAK EVEN IN 2021E. Investment on research (focused on molecular diagnostics: liquid biopsy, biomarkers) has been reduced (-8.4%) but there has been a significant step-up in structural costs (+20%; explained by the increased headcount) with break even in EBITDA and expectations of c. EUR 0.5Mn of EBIT in 2021e (that will lead us to upgrade our estimates, currently with EBIT at break even).

A NET CASH POSITION. The capitalisation of the debt with the Pikolin group (Solans family) has eliminated debt and leaves PANG (cash of EUR 0.3 Mn) in an optimal position for non-organic growth.

IN CONCLUSION, THE EQUITY STORY REMAINS INTACT (LIQUID BIOPSY). In the first post-pandemic year, PANG has recovered its core business. 1H 21 results point to three drivers: 1) the optimisation of the revenue mix, seeking to improve the margin, 2) insistence on the core business (oncology), although this implies a larger structure, and 3) low debt that allows for both investment (R+D) and growth via M&A. The CAGR for revenue since 2019 (+25%) is a clear indication of strength and a message to the market...

Pangaea Oncology (PANG) is a BME Growth company

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Appendix 1. Results table

EUR Mn	6m21 Real	6m20	6m21 Real vs 6m20
Total Revenues	2.5	2.0	21.3%
Medical services	1.24	1.09	13.8%
Corporate Services (DX)	1.23	0.94	30.9%
Gross Margin	2.1	1.7	27.8%
<i>Gross Margin (o/Revenues)</i>	<i>86.0%</i>	<i>81.6%</i>	<i>+4,4 p.p.</i>
Recurrent EBITDA⁽¹⁾	-0.4	-0.4	n.a.
<i>Rec. EBITDA/Revenues</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
EBITDA	-0.3	-0.3	100.0%
<i>EBITDA/Revenues</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
EBIT	0.2	-0.5	n.a.
PBT	0.0	-0.7	n.a.
NP	0.1	-0.6	n.a.
Ordinary NP	0.1	-0.6	n.a.
Net Debt	-0.3	6.7	n.a.
ND / Equity	n.a.	0.9	n.a.

(1) Excludes capitalizations and non recurrent income/expense.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	31.1	
+ Minority Interests	-	6m Results 2021
+ Provisions & Other L/T Liabilities	-	6m Results 2021
+ Net financial debt	(0.3)	6m Results 2021
- Financial Investments	-	6m Results 2021
+/- Others ⁽¹⁾	(4.7)	12m Results 2020
Enterprise Value (EV)	26.1	

(1) Tax loss carry forward

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
29-Oct-2021	n.a.	1.66	n.a.	n.a.	6m Results 2021	Alfredo Echevarría Otegui
02-Sep-2021	n.a.	1.72	n.a.	n.a.	Important news	Ana Isabel González García, CIIA
25-Jun-2021	n.a.	1.88	n.a.	n.a.	Important news	Ana Isabel González García, CIIA
05-May-2021	n.a.	2.20	n.a.	n.a.	12m Results 2020 - Estimates downgrade	Ana Isabel González García, CIIA
03-Nov-2020	n.a.	1.60	n.a.	n.a.	6m Results 2020	Ana Isabel González García, CIIA
16-Oct-2020	n.a.	1.58	n.a.	n.a.	Initiation of Coverage	Ana Isabel González García, CIIA

