

Important news

Opinion ⁽¹⁾: Positive

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 (Hersol) and GPI (Mayoral) are reference shareholders.

Market Data

Market Cap (Mn EUR and USD)	44.4	44.9
EV (Mn EUR and USD) ⁽²⁾	28.1	28.5
Shares Outstanding (Mn)	30.4	
-12m (Max/Med/Min EUR)	2.09 / 1.68 / 1.34	
Daily Avg volume (-12m Mn EUR)	0.01	
Rotation ⁽³⁾	8.4	
Factset / Bloomberg	PANG-ES / PANG SM	
Close fiscal year	31-Dec	

Shareholders Structure (%) ⁽⁵⁾

GPI (Domínguez Family, Mayoral)	13.8
Hersol XXI (Solans Family)	10.7
Vidaro Inv. (Villagrà Blanco Fam.)	8.2
Eléctrica del Oeste	6.3
Free Float	11.6

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-13.6	-14.9	-18.6	-39.2
vs Ibex 35	-11.0	-7.6	-10.9	-18.4
vs Ibex Small Cap Index	-5.9	-6.3	-9.5	-52.9
vs Eurostoxx 50	-12.4	-5.6	-3.5	-37.9
vs Sector benchmark ⁽⁴⁾	-11.8	9.0	23.6	-56.3

(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 1.

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

(4) vs Europe Biotechnology.

(5) Others: Founders 13.2%, Mirling Europe 6.6%, Irigen 6.6%, Inv. Industriales Serpis 5.9%, Alfonso Hidalgo 5.8%, Inv. Orensanas 5.5% y Projecte Asfodel 5.1%

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

The successful raising of funds and knowing what to do with them

PANG RAISES EUR 12 MN WITH TWO CAPITAL INCREASES. Both increases were successfully executed, achieving 100% of the objective. There was a EUR 4 Mn increase with the exclusion of pre-emptive subscription rights and a second increase (with rights) for EUR 8 Mn. The first of these was concluded in June and the second on July 12 (shares pending listing). The capital increases were subscribed by Mirling Europe (optics), Irigen (*in vitro* diagnostic testing), Eléctrica del Oeste (energy) and Projecte Asfodel (an investment company linked to Europastry).

TWO IMPACTS: OVER CAPITALISATION IN ORDER TO GROW.... The company closed 2021 with EUR 1.7 Mn of net debt. After this transaction the net cash position is c. EUR 10.5 Mn; a very healthy structure requiring investment. PANG's objective is clear and explicit: inorganic growth, aimed in principle at the clinical care area (not diagnostics) with acquisitions in Spain (not international ones) to enter new regions (Madrid, Aragon; at present it only operates in Catalonia). The capital increases result in significant dilution of c.25% that implies "pressure" to execute transactions that contribute to the P&L. Logic/theory points to seeing some acquisition in the short term (2022?).

...AND A CHANGE TO THE SHAREHOLDER STRUCTURE. Lack of a core shareholder. The capital increases change the ownership of the company with: 1) an increase in the weighting of industrial shareholders (health sector) to 19% (8% at Dec. 2021); 2) a decline in the weighting of the founders (13% vs 17% 2021) and financial investors (56% vs 60%), and 3) a reduction in the free float (12% vs 15% 2021). This last point is especially significant.

WE MAINTAIN REVENUES FOR 2022E based on a 2022-2019 CAGR of c.15% (organic growth). On top of this growth there is the contribution of QTI (bought in March 2022; consolidated for 3 quarters; c. EUR 0.7 Mn in 2022) that explains the company's capacity to achieve EUR 6.0 Mn of revenue in the year (without the need for additional inorganic growth). From a point of view of mix, 2022 represents a return to normality: 1) the disappearance of revenue from COVID tests (high volume but low margin); and 2) an increase in the mix (vs 2019) of corporate services (with a bigger margin).

THE CATALYST IS MARGIN IMPROVEMENT. The most interesting aspect of 12m 2021 results was the performance of the gross margin (showing the effect of the post COVID normalisation) with growth in corporate services (oncology) well above total revenue, and explained by prices (vs volume of clients). The gross margin sequence is explicit: 2019 (66.9%) – 2020 (61.9%) – 2021 (66.6%) and points to an additional improvement in 2022, to over 70%. The combination of both factors (strong revenue growth and continuous improvement in the gross margin) means we now expect break even in EBITDA in 2022 (vs our previous estimate of 2023; losses of EUR -1.7 Mn in 2021).

IN CONCLUSION, AN EXCELLENT POSITION FOR AN AUTHENTIC STEP-UP IN SCALE.

After the capital increases the company has changed strategically. It has also gained momentum/attraction for three reasons: 1) The success of the capital increase validates the attraction for investors of a genuinely niche model that has no correlation with the macro and market scenario, 2) an obvious opportunity to grow inorganically without destroying value; and 3) potential to continue to improve margins purely due to the rebalancing of the mix in favour of more profitable revenue. The success of the capital increase goes beyond the mere capture of funds and changes the company (for the better, and significantly).

Pangaea Oncology (PANG) is a BME Growth company

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Appendix 1. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	44.4	
+ Minority Interests	-	12m Results 2021
+ Provisions & Other L/T Liabilities	0.3	12m Results 2021
+ Net financial debt	(10.5)	Lighthouse
- Financial Investments	0.3	12m Results 2021
+/- Others ⁽¹⁾	(5.7)	12m Results 2021
Enterprise Value (EV)	28.1	

(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
14-Jul-2022	n.a.	1.46	n.a.	n.a.	Important news	Alfredo Echevarría Otegui
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

