

BUY (unchanged)

# ATRY'S HEALTH

SPAIN | HEALTH CARE

Acquisitions a net positive despite dilution; reiterating Buy

Price (€)	6.16
Target Price (€)	9.40
Target Return	52.6%
Ticker	ATRY SM
Shares Out (m)	75
Market Cap (€m)	464

Key Estimates	2021a	2022e	2023e
P/E (x)	nm	45.0	17.8
P/CF (x)	nm	17.9	10.3
EV/EBITDA (x)	122.0	16.4	9.9
P/BV (x)	2.2	1.2	1.2
Div yield (%)	0.0	0.0	0.0

Performance (%)	1D	1M	YTD
Price Perf	-1.3	-5.8	-39.3

Source: Company data, FactSet and JB Capital estimates

Atrys announced the purchase of Initia and ChileRad for €10.3m. The purchases will be financed through a €10.5m capital increase. We maintain our TP as the accretive value from the transactions offsets the dilution from the capital increase. We view these transactions as positive as it will enable the Group to consolidate its presence in Chile as well as reinforce its operations in the oncology segment in Spain.

**Attractive valuations:** The transaction price for Initia amounts to €2.25m in cash and a €0.19m earn-out, implying an EV/EBITDA of 4.1x. As for ChileRad, the price amounts to €7.43m in cash, €0.62m in shares and €0.85m in earn-outs, implying an EV/EBITDA of 8.8x (6.3x EV/EBITDA accounting with the €0.4m synergies expected for 2023). Both transactions are well below previous transactions, which were made at around 8x EV/EBITDA and below peer multiples of 11.6x.

**Rationale for the deal:** these transactions seems to be highly aligned with the firm's strategy and should drive growth of Atrys' Diagnostics and Radiotherapy division, one of its most profitable businesses. Additionally, Atrys expects to generate €0.4m of EBITDA synergies by 2023, given the complementary capabilities of ChileRAD and ITMS in Chile. Atrys also becomes the largest player in tele diagnostics in Chile as it acquires its biggest competitor, reducing pressure in prices. With the acquisition of Initia, Atrys is acquiring one of three direct competitors of Bienzobas, it is also entering into the area of clinical research, which can help the Group reduce cost of new medicine and make its centers more attractive. By acquiring Initia, the Group is also increasing its talent pool, acquiring 3 very recognized Oncologists, which are scarce. Finally, transactions are value accretive as they were purchased at very attractive multiples of 4.1x and 6.3x for Initia and Chile Rad (post earn-outs and synergies), below the 8.0x of previous transactions and the 11.6x of its peers. As for growth prospects, both companies are expected to growth at high-single digit for the coming years in line with Atrys' growth prospects.

**Capital increase:** The capital increase amounted to €10.5m with 1.7m shares issued, representing a 2.37% of Atrys' share capital. This implies an issue price of €5.98/shr, representing a discount of 4% on the last trading day before the announcement, and an 8% discount to past 6-month price. The new shares are expected to be admitted on 29 December. Although we believe that the placement price is somewhat low, the discount applied is similar to the average of previous operations. Moreover, given the extremely bearish market momentum, we believe that the 4% discount to the previous day's closing price is positive as it shows that there is still a lot of confidence in the growth story for the Group.

**Investment opinion:** We reiterate Buy for Atrys, based on the following reasons: 1) While current market conditions are not optimal, we believe momentum will continue to be positive for the industry, and we like Atrys' sound business model, well-defined strategy and unique positioning; 2) cross-selling opportunities and higher-than-guided synergies should underpin growth and enhance Atrys' business model; and 3) further value-accretive M&A and increased attraction of foreign investment following the recent jump into the continuous market should act as catalysts.



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**Brief company description of Initia:** Initia is a company specialized in comprehensive care for cancer patients located in Valencia that develops clinical trials in treatments for different types of cancers, an area in which until now Atrys had no presence and which is essential for the development of new therapies and drugs. In 2022, the company has carried out more than 1,500 oncology consultations. It posted sales of €2.1m and EBITDA of €0.6m in FY21 and is expected to post sales of €2.25m and EBITDA of €0.63m in FY22.

**Brief company description of ChileRad:** Founded in 2008, ChileRad is a telemedicine company specialized in tele radiology, which incorporates the latest medical and computer technologies into remote imaging diagnosis. It has more than 70 medical specialists in diagnostic imaging. Its integration into Atrys will consolidate its position in the area of tele diagnosis in Chile and become the largest player in the area. It will also contribute to increase penetration in the Chilean health market, providing its clients with innovative technological solutions based on Artificial Intelligence (AI) for the diagnosis of images. Likewise, this acquisition will make it possible to deepen the cross-selling plan of other Atrys services such as tele cardiology, teleconsultation and health risk management. ChileRad posted sales of €5.1m and EBITDA of €0.9m in FY21 and is expected to post sales of €5.7m and EBITDA of €1.01m in FY22.

## New Vs old estimates

	2022e			2023e			2024e			2025e			Avg
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.	
<b>Revenues</b>	<b>199</b>	<b>199</b>	<b>0.0%</b>	<b>242</b>	<b>250</b>	<b>3.5%</b>	<b>263</b>	<b>272</b>	<b>3.5%</b>	<b>282</b>	<b>292</b>	<b>3.5%</b>	<b>2.6%</b>
<b>Rec. EBITDA</b>	<b>39</b>	<b>39</b>	<b>0.0%</b>	<b>61</b>	<b>63</b>	<b>3.0%</b>	<b>73</b>	<b>75</b>	<b>2.7%</b>	<b>81</b>	<b>83</b>	<b>2.6%</b>	<b>2.1%</b>
% mg	19.4%	19.4%	0.0pp	25.2%	25.0%	-0.1pp	27.6%	27.4%	-0.2pp	28.5%	28.3%	-0.2pp	-0.1pp
D&A	-16	-16	0.0%	-19	-19	2.0%	-22	-23	1.8%	-23	-24	1.8%	
<b>EBIT</b>	<b>23</b>	<b>23</b>	<b>0.0%</b>	<b>42</b>	<b>43</b>	<b>3.5%</b>	<b>50</b>	<b>52</b>	<b>3.1%</b>	<b>57</b>	<b>59</b>	<b>2.9%</b>	<b>2.4%</b>
% mg	11.6%	11.6%	0.0pp	17.3%	17.3%	-0.0pp	19.2%	19.1%	-0.1pp	20.2%	20.1%	-0.1pp	-0.0pp
<b>Net Financials</b>	<b>-10</b>	<b>-10</b>	<b>-0.1%</b>	<b>-10</b>	<b>-10</b>	<b>-1%</b>	<b>-8</b>	<b>-8</b>	<b>-3%</b>	<b>-7</b>	<b>-7</b>	<b>-3%</b>	
Fin. Income	2	2	0.3%	3	3	4.3%	3	3	6.5%	4	5	5.3%	
Fin. Expenses	-11	-11	0.0%	-12	-12	0.0%	-11	-11	0.0%	-11	-11	0.0%	
Net FX dif.	0	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	
Others	0	0	n.a.	0	0	n.a.	0	0	n.a.	0	0	n.a.	
<b>EBT</b>	<b>13</b>	<b>13</b>	<b>0.0%</b>	<b>32</b>	<b>33</b>	<b>5.0%</b>	<b>42</b>	<b>44</b>	<b>4.2%</b>	<b>50</b>	<b>52</b>	<b>3.7%</b>	<b>3.2%</b>
Tax	-3	-3	0.0%	-7	-7	5.0%	-9	-10	4.2%	-11	-11	3.7%	
<b>Net Income</b>	<b>10</b>	<b>10</b>	<b>0.0%</b>	<b>25</b>	<b>26</b>	<b>5.0%</b>	<b>33</b>	<b>34</b>	<b>4.2%</b>	<b>39</b>	<b>41</b>	<b>3.7%</b>	<b>3.2%</b>

Source: JB Capital estimates

## Comparable peers

Company	Mkt. Cap (€m)	P/E(x)		EV/SALES(x)		EV/EBITDA(x)		EV/EBIT(x)		ND/EBITDA(x) 2022e
		2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	
Atrys Health	464	45.0x	17.8x	3.2x	2.5x	16.4x	9.9x	27.4x	14.3x	3.3x
Eurofins	13,075	18.5	18.8	2.5	2.4	10.4	10.4	15.3	16.1	1.7
Medica Group	194	17.9	14.9	2.8	2.3	10.6	8.9	12.8	10.7	0.0
IQVIA Holdings	35,253	19.9	18.6	3.5	3.4	14.5	13.3	19.5	17.5	3.9
Thyrocare Technologies	377	16.8	38.6	6.5	5.1	11.9	22.9	13.5	31.3	-0.5
Radnet	975	102.1	53.2	1.9	1.8	9.4	8.7	37.3	31.1	9.6
Metropolis Healthcare	765	30.3	42.1	7.0	5.5	19.1	21.7	23.0	30.8	0.6
Healius	1,112	5.8	28.6	1.8	1.5	4.5	8.4	7.0	24.5	2.3
Medicover AB	1,868	60.9	38.7	2.0	1.8	12.4	10.7	44.5	31.6	3.4
<b>Average</b>		<b>34.0</b>	<b>31.7</b>	<b>3.5</b>	<b>3.0</b>	<b>11.6</b>	<b>13.1</b>	<b>21.6</b>	<b>24.2</b>	<b>2.6</b>

Source: Bloomberg and JB Capital estimates as 28/12/2022

## Company overview

Atrys is a biomedical company that provides diagnostic services and medical treatments. The Company was founded in 2007 by a group of doctors and cancer experts led by Dr. Carlos Cordon-Cardo with the aim of providing a new model in the clinical management of cancer, by combining innovative and precise diagnostic techniques in the fields of surgical and molecular pathology, along with new radiotherapy treatments. Atrys is a small-to-mid-size player with >100 fixed employees and with presence in Spain (88% of 2019 pro-forma revenues) and Colombia (12%). In 2020, Atrys posted Revenues of €31.4m and Rec. EBITDA of €9.5m (30.3% Rec. EBITDA margin), or €45.1m Revenues and €13m Rec. EBITDA pro-forma (28.8% pro-forma Rec. EBITDA margin). To date, the Company has reported revenues through four business lines: Pathology (33% of 2020 pro-forma Revenues), Online Diagnostic (50%), Radiotherapy (9%) and Smartdata (8%). In June 2021, Atrys closed the acquisition of ASPY Global for an Equity Value of €223m. As for 2022, The Group closed the acquisition of Bienzobas for an Equity Value of €76.3m. The integration of Bienzobas will provide the Group with a full array of services in the oncology segment as well as the entrance in Mexico, where they expect high growth in the short-to-medium term.

## Valuation and catalysts

We apply the SOTP methodology, through which we reach an EV of €1,053m. From this EV figure, we subtract the Group's 2023 Net Debt (€109m), the minorities (€15) and BV of provisions (€27m), while adding the BV of the tax shield (-€24m) and the BV of financial assets (€3.6m). Moreover, we apply a 20% liquidity discount, given the low liquidity for the name, yielding an end-23 TP of €9.4/shr (fully diluted)

### Valuation

Valuation breakdown	€m	EV/EBITDA 23	Comments
Diagnostic	379	22.3x	DCF (6.7% WACC, 2.5% g). TV represents 82% of EV.
Oncology	423	18.6x	DCF (6.7% WACC, 2.5% g). TV represents 78% of EV.
Preventive Medicine	195	12.2x	DCF (7.6% WACC, 2.5% g). TV represents 70% of EV.
Compliance Services	60	10.5x	DCF (7.6% WACC, 1% g). TV represents 66% of EV.
Overheads	-4	-1.4x	R&D related
<b>Total EV</b>	<b>1,053</b>	<b>16.3x</b>	
(-) Net debt 23e	109		
(-) Minorities @ BV	15		
(-) Provisions & Pension funds	27		
(-) Factoring	0		
(+) Deferred tax assets/ (-) Liabilities	-24		
(+) Other Financial Assets	4		
<b>Total Equity</b>	<b>882</b>		
Nº of Shares (m)	75.4		
Treasury Stock	0.0		
Effective Nº of Shares (m)	75.4		
<b>Fair Value (Eur/Shr)</b>	<b>9.4</b>		

Source: JB Capital estimates

## Recommendation

We reiterate Buy for Atrys, based on the following reasons: 1) Momentum is positive for the industry, and we like Atrys' sound business model, well-defined strategy and unique positioning; 2) cross-selling opportunities and higher-than-guided synergies should underpin growth and enhance Atrys' business model; and 3) further value-accretive M&A and the increased attraction of foreign investment following the recent jump into the continuous market should act as catalysts.

## P&amp;L

€m	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Revenues	7	15	31	121	199	250	272
EBITDA	2	3	6	6	39	63	75
Depreciation	-1	-2	-4	-21	-16	-19	-23
Provisions	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
EBIT	1	1	2	-15	23	43	52
Net financial result	-1	-1	-2	-8	-10	-10	-7
Associates	0	0	0	0	0	0	0
Non-recurrent results & others	0	0	-1	-1	0	0	0
PBT	0	0	-1	-25	13	33	44
Taxes	0	0	-1	2	-3	-7	-10
Results from discontinued operations	0	0	0	0	0	0	0
Minorities	0	0	0	0	0	0	0
Net Attributable profit	0	0	-2	-23	10	26	34

## BALANCE SHEET

€m	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Tangible assets	3	6	10	30	40	62	79
Intangible assets	27	55	122	420	527	511	494
Financial assets & Associates	3	4	1	4	4	4	4
Other L/T assets	6	6	6	9	9	7	6
Inventories	0	0	1	1	1	2	2
Account Receivable	4	8	17	55	60	75	82
Other S/T assets	2	1	2	13	13	13	13
Cash & cash equivalents	10	8	17	35	52	67	82
TOTAL ASSETS	54	88	176	566	706	742	761
Shareholders' equity	26	40	75	274	375	401	436
Minority interests	0	0	0	0	0	0	0
L/T Financial debt	6	5	10	104	112	112	111
L/T Provisions	1	2	13	4	2	3	3
Other L/T liabilities	15	31	56	111	128	110	106
S/T Financial debt	1	2	3	12	14	13	13
Accounts payable	1	2	6	16	27	38	39
Other S/T liabilities	3	6	12	43	47	66	54
TOTAL LIABILITIES	54	88	176	566	706	742	761

Source: Company data, FactSet and JB Capital estimates

## CASH FLOW STATEMENT

€m	2018a	2019a	2020a	2021a	2022e	2023e	2024e
EBITDA	2	3	6	6	39	63	75
Net financial result	-1	-1	-2	-9	-10	-10	-7
Dividends collected	0	0	0	0	0	0	0
Taxes	0	0	0	-1	-3	-7	-10
Change in Working Capital	-2	-1	-4	0	5	-5	-5
Other CF from operations	0	0	-1	9	0	0	0
<b>Cash Flow from Operations</b>	<b>-1</b>	<b>1</b>	<b>-2</b>	<b>5</b>	<b>31</b>	<b>40</b>	<b>52</b>
CAPEX	-8	-21	-52	-2	-147	-25	-22
Disposals	0	0	0	0	20	0	0
Financial investments	0	0	0	0	0	0	0
Other CF from investments	0	0	0	0	0	0	0
<b>Cash Flow from Investments</b>	<b>-8</b>	<b>-21</b>	<b>-52</b>	<b>-2</b>	<b>-127</b>	<b>-25</b>	<b>-22</b>
Dividends	0	0	0	0	0	0	0
Change in capital stock	4	5	34	0	91	0	0
Treasury stock variation	0	0	0	0	0	0	0
Debt variation (net)	7	16	28	14	23	-6	-19
Other CF from financing	-2	-3	0	0	-1	7	4
<b>Cash Flow from Financing</b>	<b>2</b>	<b>2</b>	<b>34</b>	<b>0</b>	<b>90</b>	<b>7</b>	<b>4</b>
Exchange rate effect	0	0	0	1	0	0	0
<b>Net increase in cash &amp; cash equivalents</b>	<b>-7</b>	<b>-18</b>	<b>-19</b>	<b>3</b>	<b>-6</b>	<b>21</b>	<b>34</b>
<b>Net debt variation</b>	<b>4</b>	<b>20</b>	<b>27</b>	<b>70</b>	<b>6</b>	<b>-21</b>	<b>-34</b>

## Per share data/ Leverage/ Profitability/ Valuation

	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Last price (€)	2.8	5.0	8.9	10.2	6.2	6.2	6.2
Number of shares (m)	22	26	35	61	75	75	75
Market capitalization (€m)	58	100	224	604	464	464	464
Net Debt	7	27	54	124	130	109	75
EV (€)	57	121	285	763	635	621	591
EPS (€)	0.00	-0.00	-0.06	-0.38	0.14	0.35	0.46
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ND/EBITDA (x)	3.5	8.6	9.3	19.8	3.3	1.7	1.0
ND/(Equity + ND) (%)	21.4	40.3	41.6	31.1	25.7	21.3	14.7
EBITDA margin (%)	28.1	21.1	18.4	5.2	19.4	25.0	27.4
EBIT margin (%)	10.6	8.2	6.1	-12.4	11.6	17.3	19.1
ROE (%)	0.0	-0.3	-2.7	-8.5	2.8	6.5	7.9
ROCE (pre-tax) (%)	1.6	1.6	1.2	-3.0	3.8	6.9	7.9
EV/EBITDA	28.0	38.6	49.4	122.0	16.4	9.9	7.9
EV/EBIT	74.6	99.5	148.6	nm	27.4	14.3	11.4
FCFe yield (%)	nm	nm	nm	nm	nm	4.5	6.7
FCF/EV (%)	nm	nm	nm	0.6	1.1	4.9	6.5
P/E	4,798.8	nm	nm	nm	45.0	17.8	13.5
P/CF	44.6	55.1	122.2	nm	17.9	10.3	8.1
P/B	2.2	2.5	3.0	2.2	1.2	1.2	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, FactSet and JB Capital estimates

## PROFITABILITY

FY End Dec (%)	2018a	2019a	2020a	2021a	2022e	2023e	2024e
Gross Margin	66.6	69.9	69.6	81.0	78.8	76.8	78.0
EBITDA Margin	28.1	21.1	18.4	5.2	19.4	25.0	27.4
EBIT Margin	10.6	8.2	6.1	-12.4	11.6	17.3	19.1
EBT Margin	0.9	1.4	-4.2	-20.6	6.6	13.3	16.3
Net Margin	0.2	-0.7	-6.4	-19.2	5.2	10.4	12.7
Return on Assets	0.0	nm	nm	nm	1.5	3.5	4.5
Return on Equity	0.0	-0.3	-2.7	-8.5	2.8	6.5	7.9
Return on Capital Employed	1.6	1.6	1.2	-3.0	3.8	6.9	7.9
Return on Investment	-1.1	-1.4	-2.4	-5.5	0.1	2.2	3.6

## VALUATION

FY End Dec (x)	2018a	2019a	2020a	2021a	2022e	2023e	2024e
P/E	4,798.8	nm	nm	nm	45.0	17.8	13.5
P/E (diluted)	4,798.8	nm	nm	nm	37.4	14.8	11.2
P/BVPS	2.2	2.5	3.0	2.2	1.2	1.2	1.1
P/Tangible BVPS	2.2	2.5	3.0	2.2	1.2	1.2	1.1
P/CFPS	44.6	55.1	122.2	nm	17.9	10.3	8.1
P/FCFPS	nm	nm	nm	nm	nm	22.1	14.9
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Div payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV	57	121	285	763	635	621	591
EV/Sales	7.9	8.1	9.1	6.3	3.2	2.5	2.2
EV/EBIT	74.6	99.5	148.6	nm	27.4	14.3	11.4
EV/EBITDA	28.0	38.6	49.4	122.0	16.4	9.9	7.9
Net Debt/EBITDA	3.5	8.6	9.3	19.8	3.3	1.7	1.0
FCFe yield (%)	nm	nm	nm	nm	nm	4.5	6.7
FCF / EV (%)	nm	nm	nm	0.6	1.1	4.9	6.5
Net Debt / (Equity + Net Debt)	21.4	40.3	41.6	31.1	25.7	21.3	14.7

Source: Company data, FactSet and JB Capital estimates

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