Ulisse BioMed

Sector: Health Care

Deal completed, now time for integration

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Ulisse BioMed (UBM) is an Italian Diagnostic company active in development of: i) real time-PCR molecular diagnostic assays/reagents; ii) nano-switches based assays; iii) antiviral aptamers. Listed on EGM in 2021, after the merger with Hyris Ltd, the offer includes a full PCR system.

UBM & Hyris: potentially a very good fit, confirmed

When UBM signed the agreement with Hyris Ltd last December, we welcomed the deal as it could address UBM shortcomings and create a much stronger player: the innovative integrated PCR platform created by Hyrys, UBM's assays and a combination of hardware, software and diagnostic expertise. After a few months only, the distinctive and versatile closed diagnostic system by UBM & Hyris seems to meet market expectations, with a strongly improved response from clients.

Reverse merger, capital increase, new BoD: completed

The deal has been completed with 13.5mn new shares issued to purchase Hyris equity in Dec 2023, 235k new shares issued to UBM shareholder (rising €455k) in Jan 2024 and with the Feb 2024 GSM appointing the new BoD, now led by Hyris founders and managers. *New UBM* capitalizes ca. €26mn with ca. €2.3mn net cash as of Dec 2023.

FY23 loss misleading, FY24E €2.2mn VoP, €1.3mn cash

FY23 Balance Sheet did consolidate Hyris while P&L did not (as deal closed on 28 Dec), yet EBIT and bottom line were affected by €2.3mn goodwill amortization. While FY results were not very meaningful, the strategic potential for the new entity is very attractive on paper (stronger competitive position and larger addressable market), albeit execution risk is high. In this context, we built the *New UBM* model with FY24E VoP around €2.2mn and net cash down to €1.3mn by year end. As for FY25E we expect further strong growth and margin expansion, with operations fully funded and cash burn zeroed, provided i) new integrated Hyris System takes off as planned on a wider assay menu and ii) cost optimization brings expected savings.

Our post-deal Fair Value down to €1.25 per share

Lower than expected revenues from UBM standalone and stronger than expected cash needs in FY24, combine with i) further sector de-rating (peers now trade at avg. 6.9x FY_2 EV/Sales vs 14x at IPO and 8.3x of Oct 2023; ii) post-deal NOSH 2.7x larger. This led us to cut the *new UBM* fair value to €1.25 p/s vs previous €1.90 (Oct 2023), including €0.15 p/s optionality for custom projects not factored in our forecasts. We reckon M/T potential might surprise, but pending better visibility on strategy execution and/or a sector re-rating, the current €25mn mkt cap seems to factor the good prospects (FY25E 7.1x EV/Revenues vs peers' 6.9x).

Fair Value (€)	**1.25**
Market Price (€)	**1.15**
Market Cap. (€m)	**25.0**

KEY FINANCIALS (€mn,*)	2023A	2024E	2025E
VALUE OF PRODUCTION	0.3	2.2	3.4
EBITDA	-2.1	-0.3	0.7
EBIT	-4.8	-2.9	-2.0
NET PROFIT adj.	-2.5	-0.6	0.3
OPFCF a.t.	-1.5	-1.5	-0.1
NET INV. CAP.	25.5	24.1	22.3
EQUITY	27.4	24.9	22.9
NET FIN. POS.	2.3	1.3	1.2

Source: Ulisse BioMed SpA (historical figures), Value Track (estimates), (*) Combined Entity as of FY23 B/S and FY24E P&L

KEY RATIOS (*)	2023A	2024E	2025E
GROSS MARGIN (%)	nm	79.7	79.5
EBITDA MARGIN (%)	nm	nm	20.1
EBIT MARGIN (%)	nm	nm	nm
NET PROFIT MARGIN (%)	nm	nm	nm
EV/SALES (x)	nm	10.8	7.1
EV/EBITDA (x)	nm	nm	nm
P/E (x)	nm	nm	nm

Source: Ulisse BioMed SpA (historical figures), Value Track (estimates), (*) Combined Entity as of FY23 B/S and FY24E P&L

STOCK DATA	
FAIR VALUE (€)	1.25
MARKET PRICE (€)	1.15
SHS. OUT. (m), primary	21.8
MARKET CAP. (€m)	25.0
FREE FLOAT (%)	30.9
AVG. -20D VOL. (#)	29,050
RIC / BBG	UBM.MI / UBM IM
52 WK RANGE (€)	1.05 - 2.52

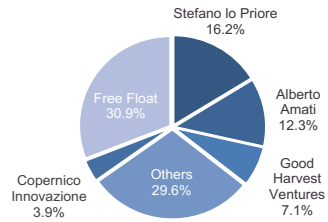
Source: Stock Market Data

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Business Description

Ulisse Biomed (UBM) is a small healthcare biotech company, specialized in the development of innovative, cost-effective and rapid in-vitro diagnostics (Molecular Diagnostics), personalized medicine products and innovative therapeutic solutions. The company announced in December 2023 the reverse merger with the UK company Hyris Ltd, completed on 28 December 2023. The combined entity is expected to become a much stronger player, thanks to an innovative integrated PCR platform, an attractive assay menu and a combination of hardware, software and diagnostic expertise.

Shareholders Structure (post deal)



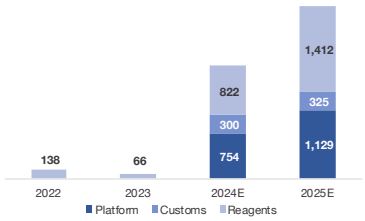
Source: UBM

Key Financials (*)

(€'000)	2022A	2023A	2024E	2025E
Total Revenues	**524**	**263**	**2,197**	**3,351**
Chg. % YoY	26.3%	-49.8%	nm	52.5%
EBITDA	**-987**	**-2,142**	**-258**	**674**
EBITDA Margin (%)	nm	nm	nm	20.1%
EBIT	**-1,306**	**-4,797**	**-2,927**	**-2,010**
EBIT Margin (%)	nm	nm	nm	nm
Net Profit	**-1,308**	**-4,797**	**-2,922**	**-2,012**
Chg. % YoY	nm	nm	nm	nm
Adjusted Net Profit	**-988**	**-2,473**	**-598**	**312**
Chg. % YoY	nm	nm	nm	nm
Net Fin. Position	**3,786**	**2,298**	**1,268**	**1,194**
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-157	-98	-149	-150
OpFCF b.t.	**-1,204**	**-1,488**	**-1,491**	**-73**
OpFCF b.t. as % of EBITDA	nm	nm	nm	nm

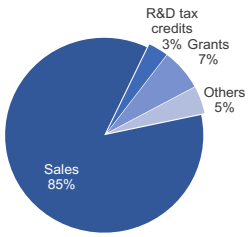
Source: UBM (historical data), Value Track (estimates) (*) Combined Entity as of FY23 B/S and FY24E P&L

Revenues Forecast



Source: UBM, Value Track estimates

Revenues by category (2024E)



Source: Value Track estimates

Investment case

Strengths / Opportunities

- Stronger post deal positioning, guaranteed by the comprehensive commercial offering (software+ hardware + reagents);
- HW Rental and SaaS business model allow a more stable revenue stream;
- Highly innovative and fast-growing technologies and applications;
- Strong R&D team with a rich and diversified expertise;
- Potential for further strengthening of assay panel menu (incl. M&A).

Weaknesses / Risks

- Necessity to keep cash burn under control and actual funding needs for strategy execution still not made fully clear;
- Market response to combined offer positive but yet to be really tested on large volumes, execution risk still high.

Stock multiples @ €1.25 Fair Value

	2024E	2025E
EV / SALES (x)	11.8	7.8
EV / EBITDA (x)	nm	nm
EV / EBIT (x)	nm	nm
EV / CAP.EMP. (x)	1.1	1.2
OpFCF Yield (%)	nm	nm
P / E (x)	nm	nm
P / BV (x)	1.1	1.2
Div. Yield. (%)	0.0	0.0

Source: Value Track

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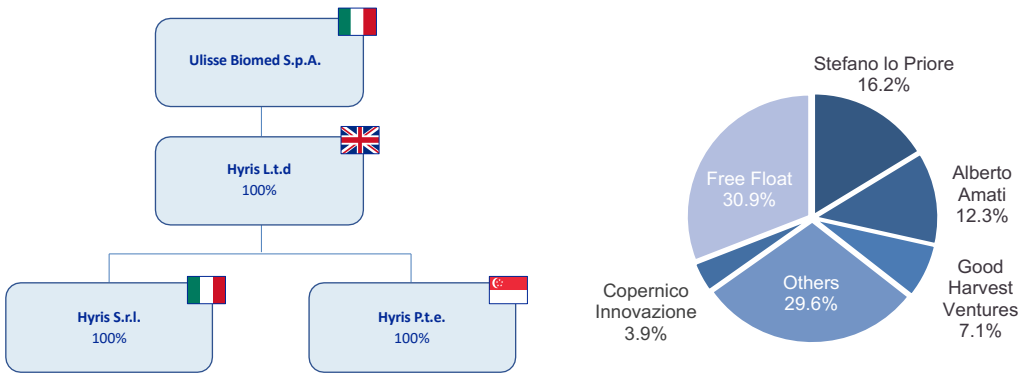
The deal is completed

On 4 December 2023, UBM announced the acquisition of the entire share capital of Hyris Limited (see our Report of 15 December 2023 for full details on the deal).

Following the announcement and the issue of the Information Memorandum the following steps /events occurred:

- UBM issued **13.5mn new shares** (with no option right for UBM shareholders) in favor of Hyris shareholders, **to purchase 100% of Hyris equity** at an implied price of €1.94/share (€26.2mn consideration). The issue was effective as of 28 December 2023;
- UBM issued further **235k new shares, offered to UBM shareholders**, at the same €1.94/share. The offer period ended on 22 January 2024;
- The total number of **shares currently stands at 21.8mn vs 8.0mn pre-deal** shares and new shareholding structure is reported in the chart below;
- The UBM Board of Directors resigned on 29 December 2023 and the new board was appointed by the General Shareholder Meeting on 12 February 2024. The **new Board of 5 members** includes Stefano Lo Priore (Founder and main shareholder of Hyris Ltd) as Chairman, Nicola Basile (Hyris Ltd) as CEO, Bruna Marini (UBM Spa), Carlo Giuseppe Montenovesi (Hyris Ltd) and Cristina Sbaizero (as independent member, who resigned on 8 May 2024 with effect from 3 June).

***New UBM*: Group and Shareholder Structure**



Source: UBM

FY23 released, albeit not very meaningful

On 2 May, the renewed BoD announced the full set of FY2023 results, which however were not fully meaningful as:

- **P&L 2023 did not consolidate Hyris**, as the deal was closed on 28 December 2023 and hence FY23 only included Ulisse business, leaving out the ca. €1mn turnover expected from Hyris Group;
- Secondly, the FY23 UBM costs were inflated by the **extremely high one-off costs related to the Hyris deal**, indicated by management around **€900k** on the UBM side only. These fully explain the gap compared to our pre-deal expectations at EBITDA level;
- In addition, UBM Reported EBIT and net profit were heavily affected by the **sizeable (€2.3mn) amortization of the goodwill** emerged from the reverse-merger with Hyris. This item has no implications in terms of cash or fiscal, being a mere accounting effect, yet it will inflate D&A over the next 10 years and it dramatically reduced reported EBIT and bottom line in FY23, when Hyris business was not even consolidated;
- Hence, the massive and **higher than expected FY23 loss was attributable to** i) the extraordinary **costs associated to the deal**, and ii) the **amortization of the goodwill emerged from the Hyris reverse merger.**

UBM: FY2023 P&L (UBM only) vs Value Track estimates (pre-deal)

(€'000)	2022A	2023A	2023E (pre-deal)	Diff. Act. Vs Est
Net sales	**138.4**	**66.2**	**69.7**	**-3.5**
R&D tax credits	67.3	51.8	67.5	-15.7
Grants	220.2	44.0	104.9	-60.9
Other revenues (incl. fiscal credits)	97.8	101.1	99.3	1.8
Value of production (*)	**523.8**	**263.2**	**341.4**	**-78.2**
COGS	-318.8	-317.0	-149.7	-167.3
Gross Profit	**-205.0**	**-53.9**	**191.7**	**-245.6**
Opex (cash)	-781.8	-2,088.3	-1,675.2	*-413.1*
EBITDA	**-986.8**	**-2,142.2**	**-1,483.5**	**-658.7**
EBITDA margin %	n.m.	n.m.	nm	
D&A	-319.6	-2,654.3	-338.0	-2,316.3
o/w goodwill	0.0	-2,324.2	0.0	-2,324.2
EBIT	**-1,306.4**	**-4,796.5**	**-1,821.4**	**-2,975.1**
EBIT margin %	*n.m.*	*n.m.*	*nm*	
EBIT adj. for goodwill	**-1,306.4**	**-2,472.3**	**-1,821.4**	**-650.9**
Financial Income (expense)	-1.3	-0.3	7.3	-7.6
EBT	**-1,307.7**	**-4,796.8**	**-1,814.1**	**-2,982,7**
Income taxes	0.0	0.0	0.0	0.0
Net Profit (loss)	**-1,307.7**	**-4,796.8**	**1,814.1**	**-2,982.7**

Source: Value Track analysis (*) The FY23 split of other revenues among R&D tax credits, grants, other fiscal credits and change in inventories is estimated

- On the contrary, **Hyris was consolidated on the Balance Sheet as of December 2023** and in fact it expanded materially, both on total assets (mostly due to the sizeable goodwill) and on equity, due to the shares issued for the reverse merger;
- **Net Working Capital** including Hyris apparently did not expand, but this was the combination of two opposite effects: on the one hand Hyris consolidation caused a **major increase of inventories** (in particular finished goods, reported at €1.8mn, and represented mostly by high volumes of bCubes), while on the other hand we believe the increased amount of **payables (around €2mn**) was due to the extraordinary cash costs related to the deal that closed around year end, which were particularly high (including Hyris, around €1.3mn);
- In short, while the **net cash at the end of FY2023 (€2.3mn)** was slightly better than expected, this was fully attributable to the fact that costs and fees related to the deal, which came higher than expected, had payments delayed to early 2024.

UBM: FY2023 Balance Sheet (post deal) vs Value Track estimates (pre-deal)

(€'000)	2022A (UBM)	2023A (UBM+Hyris)	2023E (pre-deal)	Impact of Hyris consolidation and deal
Net Working Capital	**565.1**	**471.5**	**541.8**	Hyris NWC ca. €673k
Net Fixed Assets	**1,611.4**	**24,813.0**	**1,424.4**	€20.9mn goodwill from Hyris merger
TFR	-15.7	-232.0	-24.8	
Total Capital Employed	**2,160.8**	**25,052.5**	**1,941.5**	Mostly due to goodwill
Shareholders' Equity	**5,947.0**	**27,350.2**	**4,132.9**	13.5mn new shares (reverse merger)
NFP [i.e. Net Debt (-) Cash (+)]	**3,786.3**	**2,297.7**	**2,191.5**	Hyris NFP not meaningful (-€12k)

Source: Value Track analysis. Combined Entity as of FY23 B/S and FY24E P&L

Now it is time for integration

The ball starts rolling as for the *new UBM*

We have been talking with the new management of UBM recently and our understanding is that the team is actively working to exploit the benefits of the integration on both operations and on the commercial side.

As for operations, we understand management is currently working on different layers:

- the process of **right sizing Hyris costs** to the new post-Covid business model. We remind that in 2020 the company saw its turnover increasing tenfold (to ca. €7.0mn) - with nearly 1mn Covid-19 tests processed with bCUBE - and in 2021 the business continued to be significantly supported by the huge processing demand, leading to a peak of almost €10mn Value of Production and 50 employees. As in 2022 the pandemic effect gradually vanished, management started to reshape the business model and right-size the organization, but the process had not been completed by the time of the deal with UBM;
- **cost optimization** of the combined entity, leveraging on overlapping functions, not only general overhead, but also R&D and development as well as production, rationalization of buildings and locations, supply, etc.;
- **cross selling, upselling** & **synergies** of the combined offer and the separate services on existing and prospects clients: the key advantage of the combined team and know-how is related to the possibility of offering customized solutions via both closed and open systems which should be relatively cheaper, faster and more reliable.

On the cost size, the early benefits of these measures combined will be felt in Q2, but they will have **full impact from H2 2024**.

As for existing products and commercial pipeline, Hyris is facing a nice take-up of the products launched in its post-Covid-19 repositioning as an open platform, but also early indications of market response to the combined offer for a full closed system (hardware, software and proprietary reagents) are very encouraging. Early outcomes are described below:

- The initial reaction of clients to the fully integrated system offered by Hyris and incorporating Ulisse assays has been extremely favorable, according to management, and the order flow for the test for **HPV** screening and genotyping has **accelerated in early months of 2024**;
- Hyris announced (20 February) the positive conclusion of a 3-year international project to develop a technology for active surveillance of the spread of malaria in remote and disadvantaged countries, thanks to Hyris System, allowing on-site tests (with no need of a cold logistic support) and cloud computing for data collection. The project was funded by the *Bill and Melinda Gates Foundation* and brough to Hyris US$260k grants;
- Commercial agreement with **Generon** - on 4 March UBM announced the partnership between Hyris and Generon Spa, a small Italian player active in agro-food quality control systems. Generon will be entitled to use Hyris System platform (device + cloud software) for an initial period of 5 years (renewable) with a formula of a) subscription (or purchase), with a minimum granted of €243k over the 5-year period (€450k for the following 5 years) and b) an additional royalty to be paid on actual platform usage. Remote predictive maintenance services are also offered on top;
- Distribution agreement with **Mediline** d.o.o. - on 18 March UBM announced that Hyris signed a non-exclusive agreement with Mediline, which will distribute its products in Slovenia, Croatia and other six countries in the region. The deal does not set a minimum granted, and is based on a formula of subscription or purchase plus an additional royalty to be paid on actual platform usage. The partnership targets private and public labs, focused on human or vet healthcare, nutrition and R&D segments.

No commercial news for Ulisse reagents = bad news for FY24E-25E

As for the **UBM "legacy" business**, on the contrary, the lack of news has negative implications: the lack of updates relative to the commercial agreements announced in 2023 with other distribution and IVD partners leads us to think that the commercial take-off of those agreements and of early talks for white labelling productions are slower than initially expected. Also, one of these key partners (ELITechGroup) has been recently taken-over by Bruker, a Nasdaq US$3bn Revenues Group, leader in high-performance scientific instruments and high-value analytical and diagnostic solutions.

In addition, we understand that the commercial launch of the other tests with Hyris closed System, which we assumed to widen already from 1H 2024 the Hyris offer beyond HPV, are unlikely to occur before Q3 and hence the new assays will contribute to FY24E for six months at the most.

Hence, despite the nice take-off of the HPV assays sold via Hyris platform, and pending further updates from the company, we believe that the contribution from UBM standalone to post-deal revenues will be lower than expected (and published in our October 2023 report).

Short-term cash burn of the combined entity addressed faster than expected

As described above, the FY23 P&L was not useful to capture the real picture of ***new UBM***, as Hyris revenues were not consolidated, opex did not provide the actual size of the combined cost base while UBM SG&A were inflated by i) the extraordinary and relatively high costs linked to the deal and ii) the huge amortization of the goodwill emerged from the merger.

If we aggregate the two entities (based on Hyris 1H 2023 annualized data), we get for the **FY23 combined entity** the following indications:

- **Top line in the range of €1.3mn** (VoP), including the €1mn contribution from Hyris;
- Total **opex in a range of €4.4mn**, of which ca €1.2mn attributable to UBM and ca. €3.2mn attributable to Hyris Group. This level of costs, as anticipated above, did not fully factored the Hyris post-Covid right sizing process (launched pre-deal) and did not benefit at all from the post deal optimization measures;
- Cost based inflated by **extraordinary costs of €1.3mn** in total, costs faced by UBM and Hyris in 4Q 2023 but not cashed out yet as of December 2023.

The picture above suggests that even before extraordinary costs and excluding non-cash goodwill amortization, the cost base was extremely high (as suggested in our December 2023 Flash Note) compared to turnover. However, management believe the **optimization actions taken could more than halve the "pro-forma" cost base,** with savings in excess of what we indicated last December.

In short, as for the ***new UBM*** we see the cash burn in the next quarters to reduce dramatically, compared to the FY23 "pro-forma" rate, due to

i) lack of extraordinary charges;

ii) cost cutting;

iii) accelerating revenues;

iv) sizeable stock of finished products of Hyris hardware (bCUBE);

v) large fiscal credits cumulated (€1.4mn as of Dec 2023).

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Longer term prospects strongly improved

As stated at the time of the deal announcement, we recognize the strategic rationale behind the business combination of UBM and Hyris, which allows to create a new integrated group with a **distinctive positioning** guaranteed by the control of the entire industrial chain, with a system CE-IVD marked and registered also with Health Canada and FDA (US).

The step changes derived from the integration are in our view the following:

1. stronger **commercial proposition and** hence a stronger **competitive position**;
2. wider Target **Addressable Market** from the very beginning and a much wider Serviceable and Obtainable Market over the medium term;
3. massively **improved long-term strategic prospects** of the Company following the deal, despite the execution risk is still there;
4. a new potential for ***industrial* M&A,** which could be instrumental to exploit growth.

#1 A stronger commercial proposition and competitive position

The *new UBM* will showcase a strong commercial proposition, being able to provide

1) a distinctive and **versatile closed diagnostic system**; from a technical point of view, management believes the *new UBM* Group would achieve a competitive edge across all system components (hardware, software and proprietary reagents, as UBM / Sagitta today and others in the future) compared to existing market technology;
2) a **flexible open system**, leveraging on Hyris hardware (bCUBE) and/or software (bAPP, bDATA, bGATE), for clients operating also outside the medical segment. This service is offered as a SaaS proprietary platform, able to integrate also third parties' hardware if required and third parties' reagents;
3) according to latest trends in IVD, **digital diagnostics**, i.e. the combination of strong data analytics with traditional testing, is becoming critical to improve clinical insight and make workflow simpler and more efficient;
4) a **wide range of tests (CE-IVD marked**), developed by UBM thanks to its proprietary *Sagitta* technology – these are 16 at the moment and deal among others with **HPV**, viral and bacterial **respiratory** pathogens, **STD** and resistant STI, Tropical pathogens. In addition, the strong development and validation skills of the *new UBM* allow the integration of **new partners' panel** to further strengthen the proprietary menu offer;
5) in addition, UBM has two additional technologies to develop **nanoswitches** (*Nanohybrid* platform) and **aptamers** (*Aptavir* platform), with no commercial applications yet, but focused on theranostic (drug monitoring) and therapeutic utilization respectively.

#2 Wider addressable market: a "safe niche", potentially much larger

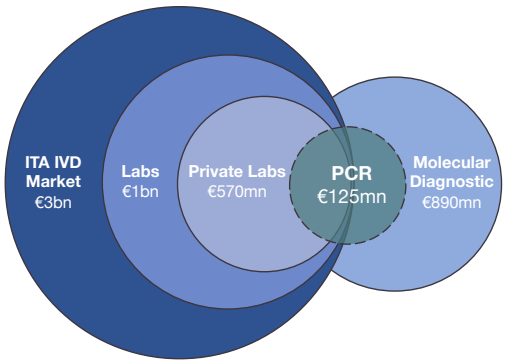
The combination of complementary products, technologies and competences (know-how) from the two companies allows *new UBM* to address a much wider market in a more effective way, compared to UBM standalone. Also, Hyris services already address not only **Human Health**, but also other fields as **Veterinary, Food and Botanicals**, which are relatively young and growing fast.

The Total Addressable Market of the Company is initially represented by all the private domestic laboratories, as large public institutions will be targeted only in a second phase, according to management, as it will be the case of foreign European markets.

Hence, as a broad indication of the Italian market size for Molecular Diagnostics and PCR in particular, these markets are worth ca. €0.89bn and €0.66bn respectively (2022E by PwC, *In Vitro Diagnostics Market trends – Overview*, 2021) and are expected to growth at a 7% CAGR into 2026E.

Focusing on **private labs** (representing almost 60% of total laboratories and ca. 20% of total IVD demand), and **PCR** technology only (ca. 22% of total Italian IVD market), we could evaluate the 2022E **total serviceable market at ca.€125mn** per year, which would include the full process (HW, services, reagents), out of the total €3bn Italian IVD market (*PwC, Statista Market Insight*).

Reference Market – Today Italian private labs PCRs



Source: PWC, In Vitro Diagnostic Market Trends, Statista, Market Insight, Value Track analysis

Should the Company start to address also the public segment, the addressable market would increase by ca. 70%, and a further step change would be to enter EU foreign markets, a move that would increase the addressable market by ca. 8x (as Italy represents only 11% of the European IVD market; *PwC, Grand View Research*).

Moving from another angle, according to an internal estimate by the Company, the total addressable volume demand as of today – i.e. limited to Italian private labs and assuming only the diagnostic segments already addressed or due to be addressed shortly by the Company via UBM's and other partners' assays - could be close to **11mn tests per year**, growing to 19mn and 82mn once the domestic public sector and the EU private markets are targeted, respectively.

#3 Long-term prospects are improved massively, but execution has just started

As a result of the considerations above on products and costs, we see for the *new UBM* massively improved long-term prospects. Yet, we point out that despite the strong potential ahead, there are also a few elements of cautiousness:

- we are still in a very early phase and the company is now managed but a new team, which has proven effective in exploiting the pandemic potential, but it will be now tested in terms of vision, execution, and communication of the repositioning as well as in terms of managing cost cutting and integration,

- the next quarters will be key in order to roll-out the new tests and enlarge the offer menu of the platforms,
- also, management will need to further sound and better evaluate the actual market response to all the solutions offered, i.e. the open and versatile platform and the closed proprietary one.

#4 *Industrial* M&A: possible to "replicate" the UBM-Hyris deal to exploit growth?

One of the main weak points we identified for UBM standalone business model (developer and producer of diagnostic tests/assays) was it dependance on licensing and/or distribution agreements with big pharma and IVD players.

The deal with Hyris solved this issue, as the combined entity is now able to offer a fully integrated system. In addition, Hyris already boasts other non-exclusive distribution partnership, e.g. the agreement with BioMol has just been renewed for Genetics, Oncohematology and Pharmacogenetics for 2024.

However, in order **to exploit the potential of such a flexible system**, management is willing to go beyond the assay menus provided by UBM and by the other non-exclusive agreements, in order to steadily improve the depth and quality of its assay offer in Human Health, Vet, Food, Botanicals, etc.

Hence, further partnerships are likely to be considered, and we would not rule out that new management may rather go for **strong and long-term partnerships, involving equity swap, JVs, etc.** instead of plain vanilla commercial/distribution agreements. In addition, the development and validation know-how provided by the UBM team, would facilitate the process of scouting, validation and integration of new panels.

Updated forecasts

Following the publication of FY2023 Results, we can draw a reasoned picture for FY2024E-2025E, but we also acknowledge that the medium and long-term picture of the new group may differ materially, on both sides, as time of execution is also a key variable. The key assumptions we made for the combined entity are the following:

Revenues

Data reported in **FY23 P&L** refer to **UBM standalone**, but as indicated above, a good proxy for FY23 **pro-forma VoP** would be **€1.3mn**. Moving from this figure, we expect **FY2024 revenues (on a post deal basis) to grow materially**, despite we now expect Ulisse reagents to be mostly sold via Hyris System, compared to pre-deal assumptions.

Given the business model has been deeply revised following the merger with Hyris, the revenues split of the combined entity (*new UBM*) is the following:

- **Open Platform & services** – this segment includes the offer of any potential combination of i) Hyris Hardware (bCube in its different versions and the related accessories and complementary products), ii) Hyris proprietary software and applications and iii) potential consumables (reagents provided by third parties);
- **Closed platform and proprietary reagents** – this relates to the offer of new UBM closed and fully integrated platform, i.e. a fully integrated PCR system which incorporates proprietary HW, SW and consumable. This offer today includes only the HPV test menu, but will be soon widened with new assays, and it typically focuses on recurring revenues from consumables (reagents). At the moment we include in this segment also the (small) revenues of Sagitta (HPV) assays sold to two clients, according to contracts signed before the Hyris deal;
- **Custom projects** – *new UBM* now offers support for projects requiring deep customization, flexible capabilities and highly specialized know-how. These address also medium size enterprises and also segments beyond healthcare and are typically high margins and non-recurring revenues, yet, these contracts may also tag along recurring revenues under SaaS/IP based contracts.

From **FY2024** revenues should start benefitting from

- the push of **Hyris Open System**, i.e. the historical proposition by Hyris, as an open & application-neutral platform (as from the agreement with Generon just announced). I will be **strengthened by the** gradual take-off of Hyris new products in the medical segment,
- the launch of the **Closed Hyris platform** enriched by UBM assays (mostly HPV). As for the HPV tests in particular, we now assume volumes much higher than those implied by our UBM standalone model, as early response from Hyris clients is very strong, according to management. The offer is expected to widen in 2H by the introduction of new assays, which should drive and accelerate 2H 2024 revenues.

In addition, we expect Ulisse to contribute also with

a) revenues from **sales towards other partners**/distributors albeit, as anticipated above, the actual contribution of the agreements signed in 2023 is likely to be poorer than initially expected, and

b) **grants and fiscal credits** related to R&D and to the IPO.

The combined entity should reach **revenues from sales of €1.9mn** and total **Value of Production of €2.2mn** (vs annualized pro-forma VoP FY23 of €1.3mn).

Looking into **FY2025**, we would still focus on the domestic market and on the private segment only, factoring however a growth that is now stronger than initially expected for **Hyris** closed **platform** with proprietary assays (HPV, respiratory panel, STD and others), plus a steady growth for its open platform revenues. We also expect **reagent** revenues to accelerate their growth, given the cumulated effect from the growing installed base.

On the other hand, we see more stable trends for revenues related to UBM **reagents sold to third parties/distributors**, because here we have not a very clear reading either about *new UBM* strategy and actual potential in the post-deal scenario, or about the implications of the recent acquisition of the partner ELITechGroup.

As for the **revenues from custom projects**, which in most cases boast also very high margins, we assume very limited revenues in our sales model (see below) for both FY24E and FY25E, but this is mostly because this business is not supported by typically recurring revenues and hence it is hard to predict. However, according to management, the Hyris platform is currently in the spotlight of a few potential new clients and partners, which requested special projects, for customization or development, still under negotiations but quite sizeable. This suggests in turn that the potential turnover of this segment of business could be 3x/4x larger than we factor, and expand rapidly already in the next 12-18 months. Yet, we prefer not to include this opportunity in our model and rather incorporate it in our valuation exercise (see below).

UBM: Revenues from Sales Breakdown 2023-2025E

(€ '000)	2023	2023E PF	2024E	2025E
Open platform & services	n.m.		753.9	1,128.9
Closed platform and proprietary reagents	66.2		821.8	1,411.7
Custom projects	n.m.		300.0	325.0
Revenues from Sales	**66.2**	**ca. 900**	**1,875.7**	**2,865.6**
R&D tax credits	51.8		122.0	136.0
Grants	44.0		100.0	250.0
Other revenues (incl. fiscal credits)	101.1		99.3	99.3
Value of production (*)	**263.2**	**ca. 1,300**	**2,197.0**	**3,351.0**

Source: Value Track analysis. (*) The FY23 split of other revenues among R&D tax credits, grants, other fiscal credits and change in inventories is estimated. Combined Entity as of FY23 B/S and FY24E P&L

Among the other components of Value of Production, we also include the following items:

- the **grants**, which we estimated equal to €44k in 2023 corresponding to a grant already awarded and cashed (HORIZON 2020). As for 2024E-25E we expect the amounts indicated in the table above, but we cautiously assume the next cash-in and recognition of a new POR grant to occur in 2025E;
- **R&D tax credits**, equal to ca. 10% of the same year R&D costs;
- the annual quota of **the fiscal credit** awarded in relation to the **listing costs**, according to Italian accounting, and equal to of €99k per year over 2021-2025E.

Margins

FY2023 lacks significance also from a margin perspective, as revenue generation remained minimal and slightly below expectations, and as anticipate margins and net result were impacted by ca. **€900k in extraordinary costs** related to Hyris deal and by a non-cash charge of **€2.3mn for goodwill amortization**, stemming from the premium recognized on Hyris equity.

For **FY2024-2025**, it is expected:

- **Gross margin** to stabilize at ca. 80% of VoP revenues, reflecting the increasing VoP and the expected revenues mix. We expect each segment of revenues from sales to contribute with Gross Margins converging towards the following: 1) ca. 75-80% for the Open Hyris Platform; 2) ca. 70% for the closed platforms (driven by reagents/consumable revenues); 3) ca. 85-90% for custom projects (e.g. clinic trials, other research projects, collaboration revenues, etc.); as for grants and fiscal credits we assume virtually no cost (despite they do help covering R&D);
- **EBITDA margin** is expected to essentially reach breakeven in FY2025E, with still wide room for improvement thereafter. FY24E will be marked by the consolidation of Hyris's costs, and by the essential early-stage integration efforts. However, the cost base will reduce due to the lack of extraordinary deal costs and to the gradual effect of the **ongoing restructuring plan**, which should reduce annual Opex to ca. €2mn/year, through the elimination of overlapping roles and redundant offices, e.g. production will be relocated to Milan, while R&D will concentrate in Trieste, enabling a downsize in terms of rented areas;
- **EBIT margin** is expected to remain negative into FY2025E, due to the large goodwill amortization charge, but **on adjusted basis (i.e. adding back goodwill amortization) we see break-even in FY2025E,** with still wide room for improvement thereafter.
- **Regarding R&D**, we incorporate Hyris's additional costs, predominantly related to staffing. Our updated assumptions include:
  - Total R&D expense to account for €4.1mn over 2023-25E and entirely charged on P&L;
  - R&D to benefit from an annual tax credit of around 10% of total expenses;
  - Research costs fully focused on Sagitta platform and digital diagnostics.

UBM: Profit & Loss 2023-2025E

(€'000)	2023	2024E	2025E
Value of production	**263.2**	**2,197.0**	**3,351.0**
COGS	-317.0	-446.8	-686.6
Gross Profit	**-53.9**	**1,750.2**	**2,664.3**
Gross margin %	*nm*	*79.7%*	*79.5%*
R&D expenses	-450.0	-1,220.0	-1,360.0
Sales and marketing expenses	-50.0	-150.0	-130.0
General and Administrative expenses	-1,588.3	-638.3	-500.0
EBITDA	**-2,142.2**	**-258.1**	**674.3**
EBITDA margin %	*nm*	*nm*	*20.1%*
D&A (*)	*-2,654.3*	*-2,669.3*	*-2,684.3*
EBIT	**-4,796.5**	**-2,927.4**	**-2,010.0**
EBIT margin %	*nm*	*nm*	*nm*
EBIT adj. for goodwill amort.	**-2.472.3**	**-603.2**	**314.2**
Financial Income (expense)	-0.3	5.2	-1.8
EBT	**-4,796.8**	**-2,922.2**	**-2,011.8**
Income taxes	0.0	0.0	0.0
Net Profit (loss)	**-4,796.8**	**-2,922.2**	**-2,011.8**
Net Profit (loss) adj. for goodwill amort.	**-2,472.6**	**-597.9**	**312.4**

Source: Value Track analysis, (*) including €2.3mn Goodwill amortization. Combined Entity as of FY23 B/S and FY24E P&L

Balance Sheet / Cash Flow

Our considerations about Balance Sheet and Cash Flow move from a consolidated picture as of December 2023, as FY23 data already included Hyris Group in terms of assets (mostly inventories, and goodwill) and net debt (virtually none) as of 31 December 2023.

As for **FY2024** we point out the following key factors:

- **€455k** proceeds from the **capital increase** finalized in Jan 2024,
- The **strong reduction in opex**, flat y/y despite the consolidation of Hyris, and down from €5.7mn in FY23 to €2.0mn in FY24, due to **lack of extraordinary charges** (€1.3mn in FY23 pro-forma) and to **cost cutting** measures for another €2.4mn,
- the expected **payment of the suppliers** involved in the Hyris-UBM deal, on the back of outstanding payables of ca €1.3mn as of December 2023, which we assume to be zeroed in 1Q 2024, on total payables of almost €2mn,
- we expect from FY24 onwards the company to benefit from a faster **utilization of fiscal credits** (al high as €1.4mn in Dec 2023) via compensation of social security costs (this should allow a€150-200k cash saving every year),
- finally, the significant bounce in revenues expected in FY2024, which will require some working capital, all the rest being equal.

The net effect of the drivers described should be a **cash absorption of ca. €1mn** in FY24E to a position of €1.3mn net cash at year-end, which would be **much more favourable than our initial post-deal expectations.**

We expect the normalization process of the NWC to continue into **FY25E**, as revenues keep accelerating, also on the back of enlarged installed basis and wider menu offer. According to our model, this should drive further cash absorption from NWC into FY25E and we may expect the company to **start generating cash only by the second half of the year, with a free cash flow still slightly negative on FY25E**.

Hence, under our assumptions the Company should start generating a positive EBITDA (above 20%) in FY25E, due to further expand in FY26E, and cash burn should be virtually zeroed by year end. On the other hand, we may not rule out management identify a high potential partnership to strengthen its competitive positioning and as a result, we would not exclude the prospect of the company undertaking further capital raises if:

a) free cash flow turnaround is not at sight by mid FY2025, and/or

b) one M&A target is identified.

UBM: Balance sheet 2023-2025E

(€'000)	2023	2024E	2025E
Net Working Capital	**471.5**	**1,584.5**	**2,214.0**
Net Fixed Assets	**24,813.0**	**22,292.7**	**19,758.4**
Provisions	0.0	0.0	0.0
TFR	-232.0	-261.3	-293.9
Total Capital Employed	**25,052.5**	**23,616.0**	**21,678.4**
Shareholders' Equity	**27,350.2**	**24,883.9**	**22,872.1**
NFP [i.e. Net Debt (-) Cash (+)]	**2,297.7**	**1,267.9**	**1,193.6**

Source: Value Track analysis. Combined Entity as of FY23 B/S and FY24E P&L

UBM: Cash flow Statement 2023-2025E

(€'000)	2023	2024E	2025E
EBITDA	-2,142.2	-258.1	674.3
Change in Working Capital	536.1	-1,113.0	-629.5
Capex	-98.5	-149.0	-150.0
Change in Provisions & TFR	216.3	29.3	32.6
OpFCF b.t.	**-1,488.2**	**-1,490.8**	**-72.5**
Cash Taxes	0.0	0.0	0.0
OpFCF a.t.	**-1,488.2**	**-1,490.8**	**-72.5**
Capital Injection	0.0	455.8	0.0
Other Fiscal liabilities	0.0	0.0	0.0
Other Op. Items	0.0	0.0	0.0
CF available to serve debt/equity	**-1,488.2**	**-1,035.0**	**-72.5**
Net Financial Charges	-0.3	5.2	-1.8
Dividends paid	0.0	0.0	0.0
Net Cash generated (absorbed)	**-1,488.5**	**-1,029.8**	**-74.3**

Source: Value Track analysis. Combined Entity as of FY23 B/S and FY24E P&L

Valuation Update

Our valuation exercise on the *new UBM* (combined entity) is overall consistent with the ones made in the past for UBM standalone.

However, it is worth to point out a few key drivers of the revised valuation, which are the following:

- **Sector rating** – the peers' group has been facing a **steady de-rating** since UBM IPO, and this trend has been particularly strong over the last year, with both stock market trading multiples and M&A implied multiples further reduced. Average FY24E EV/Sales currently stands at 7.0x for listed peers and the recent acquisition by Bruker Corp. (Feb 2024), which has agreed to acquire UBM partner ELITechGroup in a €870m ($942m) cash deal, implies EV/Sales multiple around 6x, we estimate;
- **Operations** – our revised model factors much higher revenues in FY24E for the combined entity compared to UBM standalone. However, the **much heavier cost base** of the combined entity will fully offset the higher revenues and gross margin, and will turn into a weaker EBITDA and negative cash flow in both years, according to our estimates;
- **Cash burn** – the corollary of the above consideration is that we expect a **much higher cash burn** for the combined entity as for FY24E and FY25E – **fully funded though** – but a) such a cash burn is much lower than initially expected after the deal announcement (see our Flash Report of Dec 2023) according to management and also thanks to cost saving measures, and b) much stronger growth and free cash flow prospects should materialize from FY25E onwards provided the new integrated Hyris System takes off as planned on a wider assay menu and cost optimization bring expected savings;
- **Shares in issue** – the reverse merger to combine the two entities has required the **issue of 13.5mn new shares (vs 8.0mn** outstanding shares **pre-deal**) and the economic benefits of the deal mentioned above are shared with the new shareholders (i.e. Hyris shareholders). In short, based on better financials, the value of the business would be higher post deal, all the rest being equal, but it is split over a number of shares that is almost tripled;
- **The Hyris deal** - should we focus on the deal in itself, trying to compare what would be the current picture of UBM standalone with *new UBM* post deal, at first sight we would say the deal is dilutive for UBM shareholders over FY24E-25E (in terms of adj. earnings and net cash per share). However, we notice that 1) the agreements with other partners have proven less attractive than initially expected and those streams of revenues have been strongly revised down in our updated model, and 2) without the Hyris deal, UBM would still lack a full and integrated offer and hence a visible "go to market" model, while the stronger commercial offer by ***New UBM* should enhance long-term shareholder value**;
- **Optionality in custom projects** - The wide range of services now offered (hardware, software, development, diagnostics) suggests the Company may become a unique partner - also for medium size enterprises and beyond healthcare – for projects requiring deep customization capabilities, combined with a lean and flexible structure. This entails a **huge potential for custom projects**, which bring **high margins non-recurring** revenues, but may lead also to recurring revenues under SaaS/IP based contracts.

The net effect of the drivers described above is negative and lead to a new **fair equity value of €1.25/share (vs previous €1.90),** including a risk adjusted value for the custom project optionality.

As anticipated, the valuation methodologies we use remain the same:

1. **Relative market multiples (EV/Sales);** despite this implies to deal with high dispersion of multiples and often lack of meaningful forecasts, it is still the sole market multiple applicable for smaller players of the sector. This methodology gives a value of **€1.11/share;**

2. **Valuation as a Scale-Up company;** based on the average EV in absolute terms of similar peers (scale-up/pre-revenues firms) and leading to an average equity value of **€1.08/share**;

3. In addition, we now add to the outcomes of the points above the potential and **risk adjusted value related to the custom contract** segment, where new large (unsolicited) contracts may bring significant revenues and free cash flow in the near future. The value of this optionality is equal to **€0.15/share**, according to our estimates, and may add a 10-15% to the equity story;

By averaging the two methodologies above (€1.10/sh.) and adding the value of the optionality related to the custom projects' business (€0.15/sh.), we get to a **fair equity value of €1.25/share**.

The table below indicates the implied multiples of the stock in a price range broadly between current market prices and our previous fair value, broadly aligned to the €1.94/share Hyris deal theoretical price.

UBM: Sensitivity of implicit stock trading multiples at fair value levels

Equity Value p.s.	Mkt Cap (€mn)	EV (€mn)		EV / Sales (x)	
	Current	2024E	2025E	2024E	2025E
€ 1.20	26.2	24.9	25.0	11.3	7.5
€ 1.40	30.5	29.3	29.3	13.3	8.8
€ 1.60	34.9	33.6	33.7	15.3	10.1
€ 1.80	39.2	38.0	38.1	17.3	11.4
€ 2.00	43.6	42.3	42.4	19.3	12.7

Source: Value Track Analysis

Peers' Analysis

The comparable analysis focuses on European scale-up names (mostly pre-revenues) and the group includes most of the names included in the past, i.e. similar to UBM as for products, business model and life cycle, plus a few additions to mirror the different business model post deal. Also, we move our focus to FY2025E, as FY24E at this stage is still not very meaningful for the Company.

These firms are **loss-making**, often with tiny revenues and frequent recapitalization needs, and hence they show scattered around and often not meaningful trading multiples. Yet, we still believe this is the best sample for UBM and these names currently trade on average **at 7.0x-6.9x FY24-25E EV/Sales**.

These multiples factor the **steady de-rating** faced by the sector since UBM listing in 2021 - when with hindsight we could say the whole industry prospects and rating were inflated by the pandemic: FY_2 EV/Sales at the end of 2021 (see our Initiation of Coverage Report) was on average 14.0x, falling to 8.3x by the end of 2023 (our Update Report dated 20 Oct 2023) and to current 7.0x (FY24E).

UBM: Scale-up Peers' trading multiples

Company	Listing market	Market Cap (€mn)	Enterprise Value (€mn)	EV/Sales (x)	
				2024E	2025E
Spago Nanomedical AB	Sweden	5.3	nm	nm	nm
SenzaGen AB	Sweden	20.2	19.5	3.2	2.4
BioMark Diagnostics Inc.	Germany	14.2	15.9	13.3	12.2
Genedrive PLC	UK	2.3	nm	12.1	10.4
Epigenomics AG	Germany	1.3	nm	nm	nm
Biovica International AB	Sweden	12.2	4.7	5.3	0.6
Lumito AB	Sweden	22.0	20.0	nm	nm
Aegirbio AB	Sweden	1.6	nm	10.8	9.5
Attana AB	Sweden	1.7	nm	2.7	3.3
Active Biotech	Sweden	16.7	17.3	nm	14.7
Alligator Bioscience	Sweden	57.4	nm	nm	nm
Co-Diagnostics	US	38.2	38.2	5.1	6.0
Sophia Genetics	Switzerland	334.5	nm	3.2	2.9
Average		**40.6**	**19.3**	**7.0**	**6.9**
Median		**14.2**	**18.4**	**5.2**	**6.0**

Source: Consensus Estimates, Value Track Analysis

Based on average EV/Sales of peers, this methodology gives a fair equity value extremely penalizing if we limit our exercise to the current year, while it indicates **a value of €1.11 p.s. based on FY2025**, when we expect the new business model to be at last mirrored by its financials, as reported below.

UBM: Fair value based on peers' EV/Sales

(€mn)	2024E	2025E
UBM Sales	2.2	3.4
Peers EV/Sales (avg)	7.0x	6.9x
Fair Enterprise Value	**15.3**	**23.1**
UBM Net Cash	1.3	1.2
Fair Equity Value	**16.6**	**24.3**
Shares total (mn)	21.8	21.8
Fair Equity Value p/s (€) - Range	**0.76**	**1.11**
Fair Equity Value p/s (€) – Based on FY25E	**1.11**	

Source: Value Track Analysis

Scale-up companies' absolute values

Here we focus on the value stock markets attribute to companies' potential, as from their R&D pipeline and initial commercial agreements and collaboration, notwithstanding their current or "visible" revenues. Hence, we limit the analysis to current market capitalizations and FY23 and FY24 net cash/debt figures, in order to reduce as much as possible forecasted data.

We stick to the same peer group above, given consistent features in terms of market segment, life cycle and risk profile, but in order to bypass the limited availability of meaningful KPIs:

- we look at the firms' absolute market values and Enterprise Values - peers' market capitalisations range mostly between €5-55mn with **Enterprise Values** between negative and €50mn, and a high concentration **in the €15-20mn bracket**,
- we focus on those firms with **Enterprise Values above €5mn** in either FY23 or FY24 - using this threshold we **get to** average EVs broadly between **€24-19mn** for 2023-24E respectively.

UBM: Scale Up Peers' Key Data

(€mn)	Revenues	Net debt (Cash)	Market Cap	EV	EV
	2023	2023	Actual	2023	2024
Spago Nanomedical AB	6.5	-4.0	5.3	1.3	0.3
SenzaGen AB	50.0	-1.4	20.2	18.8	19.5
BioMark Diagnostics Inc.	0.2	1.7	14.2	15.9	15.9
Genedrive PLC	0.1	-3.0	2.3	nm	6.5
Epigenomics AG	0.3	-2.1	1.3	nm	nm
Biovica International AB	3.4	-10.1	12.2	2.1	4.7
Lumito AB	0.3	-2.0	22.0	20.0	20.0
Aegirbio AB	1.3	-2.0	1.6	nm	1.4
Attana AB	7.1	0.0	1.7	1.7	1.7
Active Biotech	0.0	-3.2	16.7	13.5	17.3
Alligator Bioscience	61.9	-5.9	57.4	51.5	nm
Co-Diagnostics	34.2	-63.8	38.2	nm	38.2
Sophia Genetics	62.4	-134.1	334.5	200.5	273.5
Average	**17.5**	**-17.7**	**40.6**	**36.1**	**36.3**
Median	**3.4**	**-3.0**	**14.2**	**15.9**	**15.9**

Source: Value Track Analysis

We have selected only peers with an Enterprise Value above €5mn, and excluded outliers that would cause distortions as Sophia Genetics: this methodology gets to a **fair equity value range of ca. €20-26mn, and an average value of €1.08 per share.**

UBM: Fair value based on Scale Up companies' absolute market value

(€mn)	2023	2024E
Enterprise Value of peers (average, EV > €5mn)	23.9	19.6
UBM Net Cash	2.3	1.3
Fair Equity Value UBM	**26.2**	**20.8**
Shares total (mn)	21.8	21.8
Fair Equity Value p/s (€)	**1.20**	**0.96**
Fair Equity Value p/s (€) - Average	**1.08**	

Source: Value Track Analysis

Additional value may come from new large custom contracts

As anticipated above, the combined entity can offer now a wide array of product and services, ranging from hardware, software, development and/or customization skills of HW/SW and molecular diagnostics, monitoring and cloud-based support, etc. This suggests the Company may become a unique partner - also for medium size enterprises and beyond healthcare – for projects requiring deep customization capabilities, highly specialized but competitive and suitable for smaller size enterprises too, i.e. combined with a lean and flexible structure.

Hence, the positioning of *new UBM* paves the way to a very specific segment of custom projects, which is very attractive, as

- it boasts typically **high margins**;
- it can bring not only **non-recurring** revenues, but could also tag along **recurring revenues** under SaaS/IP based contracts;
- management is already in talks with a number of potential clients/partners for special projects, based on **unsolicited requests of customization or development**. These prospect contracts are still under negotiation, but they have on average a sizeable potential, compared to the current size of the "custom" segment.

It is clearly hard to evaluate this optionality, but it is relatively easy to understand that this business segment could become much larger than we factor, and it could start accelerating already in the next quarters. Our model includes €625k revenues from custom business over the next two years, but we understand additional business from new contracts could be in the range of €0.8-1.3mn (e.g. 2-5 projects worth €300-400k each): should this business be secured by contracts signed over the next 12 months, this would definitely add value to the equity story.

According to the simplified model below, **the additional value could be above €3mn or €0.15 per share**, based on the following assumptions:

- Additional revenues in year FY2 range from €800k to €1.3mn in Base and Bull case respectively and compare to current forecast of €325k in FY25E;
- We assume this business to add value by i) providing positive free cash flow equal to its gross margin and ii) triggering an adjustment of the enterprise value based on the sector EV/Sales trading multiple. The latter is assumed at 50% discount to current FY25E EV/Sales in our Base case (i.e. 3.5x) and in line with peer group with no discount in the Bull case (6.9x),
- The value is risk adjusted by a factor of 50%.

UBM: Potential value related to new large contracts in custom projects

(€, 000)		Base Case	Bull Case
Potential additional revenues		800	1,300
Estimated margin		80%	80%
Free Cash Flow	**A**	**640**	**1,040**
Potential additional revenues		800	1,300
Multiple applied (FY_2 EV/Sales)		3.5x	6.9x
EV	**B**	**2,760**	**8,970**
Additional Equity from new business	**A+B**	**3,400**	**10,010**
Shares total (mn)		21.8	21.8
Risk factor		50%	50%
Additional Equity from new business/share	**Risk Adjusted**	**0.08**	**0.23**
Additional Equity from new business/share	**Average**	**0.15**	

Source: Value Track Analysis

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