

# Brighter

Financial update

## Waiting on the CE mark

Back in December, Brighter announced that all the technical documentation had been submitted to the designated notified body for final approval of a CE mark for the Actiste device. We expect a decision around the end of H119. Initial commercialisation is expected to focus on Gulf Cooperation Council (GCC) countries, especially the United Arab Emirates (UAE). In the interim, management has been working on additional capital injections, including SEK17.5m in Q1 and an additional SEK19.6m after the end of the quarter.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/17	1.4	(22.8)	(0.40)	0.0	N/A	N/A
12/18	1.1	(48.8)	(0.74)	0.0	N/A	N/A
12/19e	2.5	(63.5)	(0.78)	0.0	N/A	N/A
12/20e	24.5	(83.0)	(1.01)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Initial target market is the GCC

Based on International Diabetes Federation (IDF) calculations, the prevalence of adults (aged 20–79 years) with type 2 diabetes (T2D) in the countries of the GCC ranged from 9.9% to 17.6% in 2015. Also, there are a disproportionate number of disease-related complications in the region with an estimated 40–70% of worldwide disease-related foot amputations occurring in GCC countries. Beyond the GCC, Brighter plans to focus on South-East Asia (SEA) as well as Nordic countries.

## Diabetes continues to be a significant problem

In 2017, costs attributed to diagnosed diabetes and associated complications, such as cardiovascular disease and nephropathy, totalled \$327bn in the US according to the American Diabetes Association. Patient opinions of treatment burden are heavily correlated with adherence to self-care. Negligent self-management and monitoring significantly contributes to costs of healthcare resources as well as indirect costs related to lost productivity.

## The Actiste solution

Brighter's Actiste integrates three essential steps for daily diabetes management into one device: a blood glucose meter, a lancet and an insulin injection apparatus. By lessening the number of treatment steps by 67%, in comparison to traditional self-blood glucose meters, Brighter's goal is to promote patient adherence and concordance to daily insulin-dependent diabetes management in an effort to reduce complications associated with poor self-care.

## Valuation: SEK1,099m or SEK13.85 per basic share

We have adjusted our valuation from SEK1,065m or SEK14.28 per basic share to SEK1,099m or SEK13.85 per share. The total valuation increased primarily due to rolling forward our NPVs, as well as an increase in net cash attributed to the recent capital raises. The per share value fell due to a higher number of shares.

## Pharma & biotech

13 June 2019

**Price** **SEK10.16**
**Market cap** **SEK807m**

US\$0.10/SEK

Net debt (SEKm) at 31 March 2019 plus recent equity raises (not including the Winance raise) 21.5

Shares in issue 79.4m

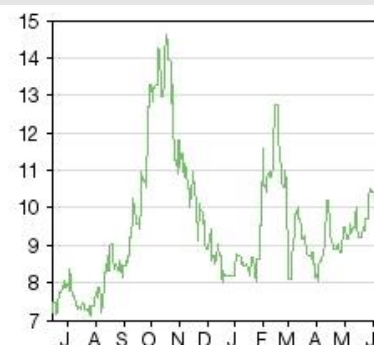
Free float 90.6%

Code BRIG

Primary exchange Nasdaq First North

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 7.1 4.7 38.3

Rel (local) 6.0 1.1 32.8

52-week high/low SEK14.91 SEK7.1

## Business description

Brighter is a Swedish healthtech company focused on the development and commercialisation of self-monitoring and self-treatment health solutions for diabetes. Its lead product, Actiste, combines three critical components of daily diabetes management including a blood glucose meter, a lancet and an injection apparatus into one device with mobile connectivity to Brighter's cloud-based service called the Benefit Loop.

## Next events

CE mark decision on Actiste H119

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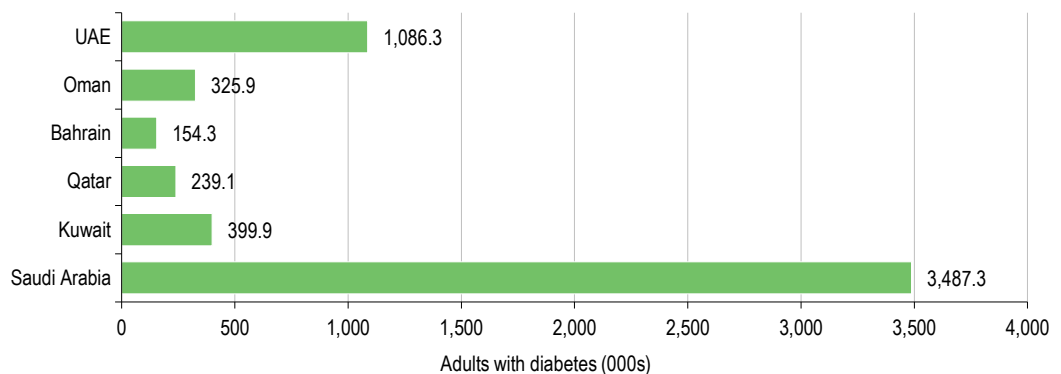
## Getting ready to launch

The upcoming CE marking decision on the Actiste device is a key milestone for Brighter. In December 2018, the company announced that all the technical documentation had been submitted to the designated notified body for final approval. We expect a decision by the end of H119. As a reminder, through the Actiste device, measurement of glucose levels, injection of insulin and automatic logging and timing of all activity is done with the same unit. The company estimates that with Actiste the number of steps for daily treatment and measurement are reduced by up to 67%. The Actiste device is delivered as part of a subscription-based service that includes different levels of data sharing, continuous replenishment of everyday supplies directly to the home and digital services designed to facilitate, improve and streamline the treatment.

Brighter's cloud-based platform called the Benefit Loop and associated companion applications for IOS and Android are already CE-marked. Together, the Benefit Loop and its applications collect, manage and analyse data for the purpose of sharing critical treatment information with friends, relatives, caregivers and healthcare providers to improve self-management outcomes.

The initial focus will be the GCC region, which is a substantial opportunity for Brighter's Actiste. In 2015, the estimated prevalence of adults (aged 20–79 years) with T2D in the countries of the GCC, which includes Saudi Arabia, Kuwait, Qatar, Bahrain, Oman and United Arab Emirates, ranged from 9.9% to 17.6% (Exhibit 1). Increased disease prevalence in these countries has been fuelled by rapid economic development, increased urbanisation and transition to a sedentary lifestyle. Notably, T2D self-management is considerably poor with a disproportionate number of disease-related complications in the region, with an estimated 40–70% of worldwide disease-related foot amputations occurring in GCC countries. The offering of diabetes management as a service can support diabetes self-management education (DSME) and encourage good practices of glycaemic control throughout the region to potentially have a positive impact on health outcomes.

**Exhibit 1: Adults with diabetes aged 20–79 in countries of the GCC**



Source: IDF Diabetes Atlas, Seventh Edition

## An additional focus on South-East Asia

In addition to the GCC, the company intends to focus on South-East Asia, particularly Thailand and Indonesia. According to the 2017 IDF Diabetes Atlas, an estimated 9.6% of the SEA population (on an age-adjusted basis) is living with the disease, while 45.8% of those have not been diagnosed and are at risk for developing complications related to hyperglycaemia. The rising trend in diabetes prevalence in the SEA region is associated with genetic and acquired risk factors that heighten predisposition to diabetes and other metabolic disorders including a low threshold for conventional risk factors (ie age and BMI), environmental factors such as ongoing urbanisation and modernisation, rural to urban migration, as well as inadequate healthcare facilities and low

awareness about the disease.<sup>1</sup> High levels of tobacco use, increasing alcohol consumption especially among the middle class, and exposure to high fat diets, carbohydrates (eg rice), and readily available fast foods are compounded by low levels of activity, which trigger gene-environmental interactions and enhance predisposition to T2D.<sup>2</sup>

Despite significant disease burden, the region lacks structured care management. Delayed diagnosis, poor glycaemic and hypertension control as well as inadequate medical facilities contribute to the development of disease-related complications. Approximately 55% of those with the disease in this region die before the age of 60.<sup>3</sup> According to one study conducted in SEA, 22% and 36% of patients with T1D and T2D, respectively, have never had HbA1c diagnostic tests.<sup>4</sup> Furthermore, optimal control is only achieved by a small portion of people with diabetes in the region, whereas an estimated 40% T2D patients perform self-monitoring of blood glucose (SMBG). Brighter is currently in negotiations with pharmaceutical manufacturers in SEA. Additionally, the company is engaged in discussions with a number of partners in Thailand regarding the right to sell Actiste as well as with additional sales partners in Indonesia.

## The opportunity in Europe

Once the CE mark is obtained the company also plans to launch in select Nordic countries, primarily Sweden. According to the WHO, the prevalence of adults (aged 25 years and older) with diabetes in Europe is an estimated 10% (see Exhibit 2). Lifestyle factors including weight, diet and physical activity contribute to the epidemic in this region. An estimated one in five Europeans are obese while 25–70% are overweight.<sup>5</sup> In one study, physical activity demonstrated a 13% relative reduction in risk of diabetes, whereas another study illustrated that 34% of Europeans reported being either never physically active or only rarely active. Surveys also suggest that citizens of Nordic countries and the Netherlands report the most physical activity.<sup>6</sup> Interestingly, diabetes prevalence is reportedly lower in select Nordic countries, specifically Sweden Denmark and Norway.<sup>7</sup> There is considerable variation of diabetes prevalence across Europe; however, diabetes is among the leading causes of death in Europe whereas disease-related complications result in increased disability and significant healthcare costs. Management of diabetes and other chronic diseases (cardiovascular disease, cancer and respiratory disease), which contribute to 86% of deaths,<sup>8</sup> is a major challenge across Europe. Efforts to identify and treat diabetes, associated complications early, increase availability of DSME, and monitor, evaluate and communicate outcomes nationally and regionally, has been made a priority for the EU.

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<sup>1</sup> Ramachandran, A., Snehalatha, C., & Ma, R. C. (2014). Diabetes in South-East Asia: An update. *Diabetes Research and Clinical Practice*, 103(2), 231-237.

<sup>2</sup> Ramachandran, A. (2012). Trends in prevalence of diabetes in Asian countries. *World Journal of Diabetes*, 3(6), 110.

<sup>3</sup> Ramachandran, A. (2012).

<sup>4</sup> Pathan, F., et al. (2018). Hypoglycaemia among Insulin-Treated Patients with Diabetes: Southeast Asia Cohort of IO HAT Study. *Journal of the ASEAN Federation of Endocrine Societies*, 33(1), 28-36

<sup>5</sup> Tamayo, T., et al. (2014). Diabetes in Europe: An update. *Diabetes Research and Clinical Practice*, 103(2), 206-217.

<sup>6</sup> TNS Opinion & Social. Special Eurobarometer 334 (Wave 72.3): sport and physical activity. Brussels: European Commission; 2010.

<sup>7</sup> Andersson, T., et al. (2015). Diabetes Prevalence in Sweden at Present and Projections for Year 2050. *Plos One*, 10(11).

<sup>8</sup> OECD.

**Exhibit 2: Persons reporting chronic diabetes in the EU and Nordic countries in 2014**

Country	Population aged 15 and older (000s)	Share reporting chronic diabetes (%)	No. with diabetes (000s)
European Union	428,244	6.90	29,549
Sweden	8,149	4.80	391
Denmark	4,746	4.60	218
Norway	4,316	4.20	181

Source: Eurostat, Statista

## Valuation

We have adjusted our valuation from SEK1,065m or SEK14.28 per basic share to SEK1,099m or SEK13.85 per share. The total valuation increased primarily due to rolling forward our NPVs, as well as an increase in net cash attributed to the recent capital raises. The per share value fell due to a higher number of shares due to capital raises, including SEK17.5m in Q1 and an additional SEK19.6m after the end of the quarter. We do not include the cash from the Winance raise (described below) in our valuation as, while the cash has been received, the shares associated with that cash have not been issued yet and will be based on a yet to be determined value.

**Exhibit 3: Valuation of Brighter**

Program	Market	Prob. of success	Launch year	Upper tier launch pricing (\$ per month)	Lower tier launch pricing (\$ per month)	Peak revenue (\$m)	Valuation (SEKm)
Actiste	Nordic region	30%	2019	131.3	71.6	5.5	17.0
	Gulf Cooperation Council countries	30%	2019	112.5	61.4	45.7	161.8
	South East Asia	30%	2019	93.8	51.1	54.7	220.1
	EU	25%	2019	133.9	73.0	243.1	641.1
	US	20%	2021	143.1	78.0	193.1	408.8
Unallocated costs							(149.2)
Total EV							1,120.8
Net debt (at 31 March 2019 including April capital raises) (SEKm)							(21.5)
Total equity value (SEKm)							<b>1,099.2</b>
Total shares (m)							79.4
Value per basic share (SEK)							<b>13.85</b>

Source: Edison Investment Research

## Financials

Brighter recently reported its Q119 results. Its reported post-tax loss for the quarter was SEK15.8m, which was an increase compared to Q118 when the loss was SEK11.0m, primarily due to costs associated with finalising the development of Actiste and the Benefit Loop. We have increased our R&D estimates by SEK22.4m for 2019 and by SEK22.2m for 2020. We have also increased our SG&A estimates by SEK7.2m for 2019 and SEK8.9m for 2020. Both changes were due to higher than expected spending rates in the first quarter.

At 31 March 2019, the company had SEK8.2m in cash and equivalents and SEK49.3m in debt. Following the quarter, the company raised SEK10m from a directed share issue to Knight Capital and another SEK9.6m from new board members. Additionally, in late May, the company announced a financing with Winance, a single family office that has offices in Dubai and New York. Per the agreement, Winance has agreed to invest €15m (approximately SEK160m) in three main transactions over a maximum of 36 months. The shares are not issued immediately but will be issued at a later date as a 'repayment' for the investment with the value of the shares determined by the lowest volume-weighted average price over the preceding five business days prior to the repayment request with a 10% discount. The first transaction was worth €3m (around SEK32m), with the funds provided on the signing date. The second transaction of €3m will be available after either full repayment, three months of the signing date or based on a cooling-off period formula.

The remaining €9m (around SEK96m) will then be available in €500,000 increments with the length of time depending on the cooling-off period calculation. Additionally, as part of this transaction, warrants that could potentially bring in an additional €19.5m in financing will be issued with an exercise price of SEK10.56. Up to €7.5m will be issued to Winance (amounting to 50% warrant coverage for its investment), while existing shareholders would receive up to €12m worth of warrants.

Following the first tranche of investment from Winance, we now estimate SEK23m worth of additional capital requirements in 2019 (previously SEK55m) and the need for SEK60m in 2020 (note that these future financings are recorded as illustrative debt), although these requirements are more than covered by the Winance financings if fully realized.

**Exhibit 4: Financial summary**

	SEK'000s	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		1,377	1,052	2,462	24,532
Cost of Sales		0	0	(497)	(4,906)
Gross Profit		1,377	1,052	1,965	19,626
Sales, General and Administrative Expenses		(9,153)	(13,014)	(20,179)	(20,986)
EBITDA		(19,744)	(44,163)	(50,945)	(69,626)
Operating Profit (before amort. and except.)		(19,946)	(44,326)	(51,051)	(69,732)
Intangible Amortisation		0	0	0	0
Other		31,416	24,455	34,858	0
Exceptionals		0	0	0	0
Operating Profit		(19,946)	(44,326)	(51,051)	(69,732)
Net Interest		(2,897)	(4,476)	(12,495)	(13,245)
Other		(4,449)	(4,278)	0	0
Profit Before Tax (norm)		(22,843)	(48,802)	(63,546)	(82,977)
Profit Before Tax (FRS 3)		(27,292)	(53,080)	(63,546)	(82,977)
Tax		0	0	0	0
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		(22,843)	(48,802)	(63,546)	(82,977)
Profit After Tax (FRS 3)		(27,292)	(53,080)	(63,546)	(82,977)
Average Number of Shares Outstanding (m)		68.2	71.7	81.2	82.0
EPS - normalised (ore)		(40.00)	(74.00)	(78.25)	(101.17)
EPS - FRS 3 (SEK)		(0.40)	(0.74)	(0.78)	(1.01)
Dividend per share (ore)		0.00	0.00	0.00	0.00
<b>BALANCE SHEET</b>					
Fixed Assets		84,961	112,430	122,552	122,645
Intangible Assets		76,794	102,929	112,247	112,247
Tangible Assets		4,738	8,537	9,340	9,433
Other		3,429	965	965	965
Current Assets		26,393	58,186	66,377	16,138
Stocks		0	7,070	8,681	8,681
Debtors		15,931	34,308	29,218	4,033
Cash		10,017	9,031	27,126	2,072
Other		445	7,777	1,352	1,352
Current Liabilities		(23,965)	(63,698)	(63,315)	(63,315)
Creditors		(15,528)	(11,805)	(13,968)	(13,968)
Short term borrowings		(8,437)	(51,893)	(49,347)	(49,347)
Long Term Liabilities		0	0	(23,000)	(83,000)
Long term borrowings		0	0	(23,000)	(83,000)
Other long term liabilities		0	0	0	0
Net Assets		87,389	106,918	102,613	(7,532)
<b>CASH FLOW</b>					
Operating Cash Flow		(24,582)	(68,249)	(46,840)	(57,792)
Net Interest		0	0	0	0
Tax		(99)	0	0	0
Capex		(34,852)	(29,986)	(27,172)	(27,262)
Acquisitions/disposals		0	0	0	0
Financing		7,913	34,655	64,195	0
Conversion of convertible debt instruments		43,065	43,065	0	0
Dividends		0	0	(87)	0
Other		(195)	(14,406)	0	0
Net Cash Flow		(8,750)	(34,921)	(9,904)	(85,054)
Opening net debt/(cash)		(1,733)	(1,580)	42,862	45,221
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		8597	-9521	7546	0
Closing net debt/(cash)		(1,580)	42,862	45,221	130,275

Source: Brighter reports, Edison Investment Research.

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