



Analysguiden - Update

24 June 2020

[Brighter](#)

Telemedicine – an Obvious Choice for Diabetics

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Telemedicine – an Obvious Choice for Diabetics

Several articles have been published in recent months in magazines such as *The Lancet* and *Nature*, showing how diabetics are a risk group for the new Corona virus. As they often have a weakened immune system, diabetics and other chronic disease patients are currently advised not to visit hospitals for their regular check-ups. From Brighter's perspective, it is believed that telemedicine through Actiste is part of the solution to this challenge.

Actiste is a subscription service that aims to facilitate self-care of diabetes. It combines all the necessary parts for diabetics who take insulin via injections: blood sampler, blood glucose meter and insulin syringe into a single cloud connected device. Initially, the company focuses on selling the service in Sweden, Southeast Asia and the Middle East. The most progress has so far been made in the United Arab Emirates, which seems to be closest to placing a first order.

In 2019, a number of investments were made that broadened the business beyond diabetes. The subsidiary Camanio's Smartcare platform aims to offer a digital platform for better homecare, and through the subsidiary Nectarine Health's AI solutions, the company wants to improve the care of the elderly without compromising the patient's integrity. With the associated company Accumbo, Brighter is also developing solutions for patients with high blood pressure.

Brighter completed a successful rights issue in January that provided SEK 191 million in new capital. As Brighter is in a stage of sharply increased market investments, with a focus on launching in several markets, it is natural to have increased operating costs. This is part of the company's plan in addressing its large identified market of potential users. The risk-adjusted valuation in our baseline scenario is SEK 9.40 per share, which indicates upside to the share price upon a successful launch.

Financials

MSEK	2017	2018	2019	2020E	2021E	2022E
Revenue	33	26	38	19	123	374
Operating profit	-24	-49	-80	-46	-44	-7
Earnings per share, SEK	-0.3	-0.7	-0.8	-0.5	-0.5	-0.1

Source: Brighter (historical data) and Analysguiden (estimates)

Date: 24 June 2020
Analyst: Thomas Nilsson

Company Name:	Brighter AB
Listing:	Nasdaq First North
CEO:	Henrik Norström
Chairman:	Mats Lindstrand
Market Cap:	924 MSEK
Share Price:	SEK 4.92
Company Description:	Brighter has developed a platform called the Benefit Loop that can be used in a variety of clinical diseases. The company has initially focused on diabetes with its mobile solution Actiste. The company is working towards commercializing the service on the initial target markets. Among them the UAE. During 2019, the company made several investments which has broadened the scope of the company's activities to include several other indications beside diabetes. Through the subsidiary Camanio and its Smartcare platform, the company seeks to provide a digital platform for better help at homecare. The subsidiary Nectarine Health seeks to improve elderly care through AI solutions without compromising the integrity of the patients. Brighter also develops digital solutions for patients with high blood pressure in collaboration with Accumbo, in which the company is also an investor. In December 2019, a joint venture was started to integrate Actiste with a new service called 'The Diabetes Doctor', which will be an extension of Accumbo's offering.

Opportunities and Strengths:	With its first product connected to its platform, the company has created a product that will facilitate self-care of diabetes. The market potential is significant and given the growth in the number of patients worldwide the niche is interesting. The product is relatively unique as it is easy to use, cloud connected, and combines several features in one device. Actiste offers clear benefits compared to existing products on the market.
Risks and Weaknesses:	Product development is risky, and the company currently lacks revenue that covers the costs. The company has now received the CE approval which eliminates the greatest risk short term. However, the company must now present orders to defend its valuation.

Valuation: Bear 5,6 Base 9,4 Bull 16,5

The First Quarter of 2020

Telemedicine is an Obvious Choice for the Chronically Ill

Brighter's approach to telemedicine can be beneficial to the healthcare sector both during and after the covid-19 pandemic. As diabetics often have a weakened immune system, they and other chronic disease patients are currently advised not to visit hospitals for their regular check-ups. From Brighter's perspective, it is believed that telemedicine through Actiste is part of the solution to this challenge.

Continued Escalation of Market Activities During the Quarter

Brighter is now scaling up marketing of Actiste in Southeast Asia and the Gulf States. Registration of Actiste is ongoing in Malaysia, Singapore, Thailand, Indonesia and the United Arab Emirates. In Southeast Asia, Brighter continues to work with partners and the intention is to offer Actiste through partners in Indonesia, Thailand, Singapore and potentially Malaysia before the end of the year.

Registration of Actiste will soon also begin in Saudi Arabia, Kuwait, Oman and Bahrain. The partnership with the AFAQ Group, which focuses on community-enhancing issues for residents of the Arabian Peninsula, has been successful in increasing brand and product awareness in the region.

In Europe, Sweden and the UK are priority markets. In May, Actiste was launched directly for Swedish consumers via the Actiste website. Although Sweden is a fairly small market, it is hoped to get valuable data from users, which will be of help in the continued global launch.

Successful Rights Issue in January

Brighter completed a successful rights issue in January, which brought in SEK 191 million in new capital. As Brighter is in a stage of sharply increased market investments, with a focus on launching in several markets, it is natural that operating costs are high. This is a planned feature of the company's journey to reach its large identified market.

Investment Case

A Growing Number of Diabetics Provide Great Market Potential

Diabetes is the world's fastest growing chronic disease affecting 425 million people in the world (one in 11 adults), which is expected to increase to 629 million in 2045 (one in 10 adults). Many children also suffer from diabetes. This creates a great need for new services and tools that facilitate and streamline diabetes care. Brighter has created Actiste to give diabetic patients a better way to manage their diabetes, thereby reducing the burden on the healthcare systems. By combining blood glucose meters, lancets and insulin pens into one device connected to a cloud service with mobile data, Actiste simplifies the daily routine. At the same time, it is easy to share data with relatives and caregivers. In the United States alone, there are 31.4 million diabetics, and 500,000 new patients are diagnosed with diabetes each year.

Benefits of Actiste

Brighter's product Actiste received EU approval in 2019. Actiste is part of a platform that, together with the company's cloud solution, the Benefit Loop, can expand to other therapy areas in the future. For example, patients with high blood pressure or other chronic diseases where medication is injected. The most important advantages for the users are the unique technical integration in a device, the ability to follow injection data, automatic logging of vital data, secure communication, and follow-up and tracking of consumables that need to be ordered.

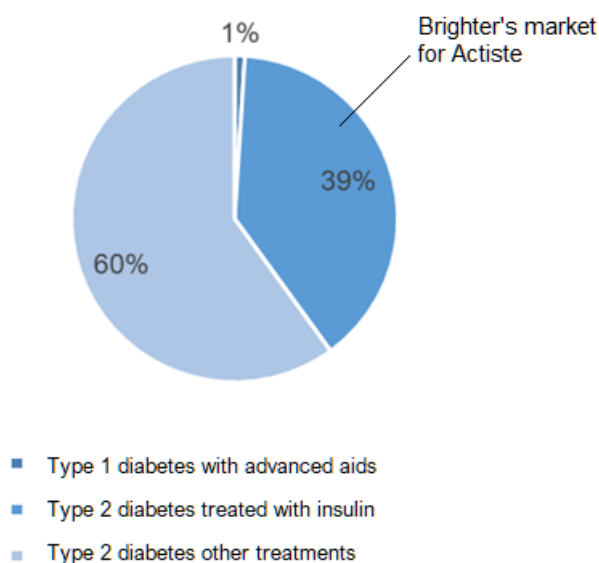
Valuation Upside When Compared to Peers

The fact that the market for this type of service is large will of course create competition. The success of American Livongo (Nasdaq: LGVO, USD 60.91) confirms the business model for this type of subscription service. Livongo grew its subscriber base by 100% in Q1 2020, compared to the same period last year and now has 328,000 subscribers. Their service is priced at a similar level and since the market value of this company is now about USD 6.5 billion, it indicates significant upside potential for Brighter's share price given a successful launch of Actiste.

The Diabetes Market

Diabetes is a chronic disease that occurs when the pancreas can no longer produce insulin, or when the body cannot absorb the insulin it produces. Insulin is a hormone produced in the pancreas, which enables glucose from the food we eat pass through the bloodstream to the cells of the body to produce energy. All carbohydrates in the food break down into glucose in the blood, and insulin helps glucose enter the cells. Failure to produce insulin or use it effectively leads to elevated blood sugar levels. Over time, this is linked to damage to organs and tissue in the body.

In 2016, WHO estimated that there were 422 million adult diabetics in the world, and that this is expected to grow to 642 million in 2040. Globally, the International Diabetes Federation estimates that just over 150 million diabetic patients are treated with insulin injections, and initially, Brighter targets these 40% of diabetics treated with insulin. This also includes type 1 diabetics, those diabetics who cannot produce their own insulin, which is, however, a very small part of the total number. Today, there are sophisticated insulin pumps that are often used in the treatment of type 1 diabetes. In the US, about 13% of all type 1 diabetics have insulin pumps¹ and the corresponding figure in Sweden is 14%. Thus, it is mainly type 2 diabetics who are treated with insulin that constitute Brighter's initial target market. This is illustrated in the following chart.



¹ Source: "Description and Preliminary Evaluation of a Diabetes Technology Simulation Course", Wilson et al, 2011

About Brighter

Brighter is a Swedish medical device company headquartered in Kista near Stockholm. The company is focused on chronic diseases, including diabetes, and has a data-centric approach to provide better treatment for the chronically ill. In 2019, a number of investments were made that have broadened the business and product portfolio beyond diabetes, which has been the initial focus of the company. Through the subsidiary Camanio and their Smartcare platform, the company wants to offer a digital platform for better homecare, and through the subsidiary Nectarine Health, through AI solutions, to work proactively and improve elderly care without compromising the patient's integrity. Together with the associated company Accumbo, Brighter is also developing digital solutions for patients with high blood pressure. In December 2019 a joint venture was launched to integrate Actiste into the upcoming service called "The Diabetes Doctor", which will be an extension of Accumbo's current offering.

However, Actiste continues to be Brighter's flagship offering with high priority and the commercialization of it is ongoing. Following the investments, the Brighter Group offers a number of solutions related to diabetes care, welfare technology, digital healthcare services and user data. As part of the company's long-term strategy, its IP is also considered to be an active asset that strengthens existing operations but also enables, for example, licensing.

The company targets a number of segments:

- Consumers and patients
- Healthcare providers
- Mobile network operators
- Government and academic bodies
- Insurance companies and employers
- Organizations working with clinical research
- Pharmaceutical companies

Actiste is a complete care solution for the treatment and follow-up of insulin-dependent diabetes. The unit combines all the necessary functions into a single connected device; blood sampling, blood glucose measurement and insulin injection. The device is based on patented technology for collecting data on specified biomarkers and injected volumes of drugs. The Actiste unit received EU approval in September 2019 and is marketed as part of a subscription service. The service includes global connectivity, different levels of data sharing, ongoing automatic replenishment of consumables and enables personal coaching and guidance to optimize and improve treatment.

Estimates and Valuation Approach

Growth Scenario for Actiste

We have forecasted subscriber development for a total of nine markets. These forecasts so far include only Actiste, the first application of Brighters IP platform. This can be applied to several other treatment areas where medicine is injected. Since, for example, the number of people in the United States with high blood pressure is slightly higher than the number of diabetics, there is also a very large addressable market here. The chart below shows our scenario for subscriber growth in 2020 - 2026. Since Brighter's goal is to help as many millions of diabetics as possible, it is to be expected that the largest number of future patients will be found in populous regions such as China, the USA and Asia.



Source: Analysguiden. GCC, or the Gulf Cooperation Council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. Many of these countries have a high prevalence of diabetes.

According to the Swedish Medicines Council, a regular blood sugar measurement costs about SEK 8,000 per year. Flash glucose measurement with a sensor costs 13,000 per year. These prices both include VAT. If we assume that Actiste is priced midway between these, we end up at a price of SEK 10,500 per year or SEK 8,400 excluding VAT, which is equivalent to SEK 700 per month. Brighter has previously stated a range of 60 - 110 euros per month, which is in line with this estimate.

Furthermore, in our forecasts, we expect distribution channels to receive about half the revenue as compensation for their marketing efforts.

Peer Group Valuation

American Livongo Health (Nasdaq: LVGO, USD 60.91) is an interesting peer to compare Brighter with. It managed to grow its subscriber base to 328,000 at the end of Q1 2020, an increase of 100% from the same period in 2019. On its website, Livongo mentions a price of between USD 50 and 75 per month for its service, which is in line with the assumptions we have made for Actiste. The company's valuation is high, with a market capitalization of USD 6 billion, a full 20 times 2020 sales, which are expected to come in at USD 300 million.

We reiterate our previously communicated target price of SEK 9.40. This implies potential upside given a successful launch of Actiste. The table below shows how other listed medical device companies focused on diabetes are valued in terms of price-to-sales multiples.

Peer Group Valuation

Company	Symbol	Price	Currency	Mcap	Net Debt	EV	Sales19A	EV/Sales
Becton Dickinson	BDX	263.54	USD	74550	18080	92631	17414	5.3
Dexcom	DXCM	403.94	USD	37300	614	37913	1601	23.7
Insulet	PODD	196.92	USD	12422	512	12934	777	16.7
Medtronic	MDT	98.14	USD	131508	14628	146136	32062	4.6
Ypsomed	YPSN.SW	132.2	CHF	1666	-8	1657	454	3.7
Median								5.3

Source: Thomson Reuters

Three Reasons to Invest in Brighter

Big Market Potential in Insulin-Treated Diabetes

With 150 million diabetics in the world taking insulin via injection, the market potential is very large. In addition, a report from the Milken Institute in 2019 showed that the annual cost in the United States for chronic diseases such as heart disease, cancer, diabetes and Alzheimer's amounts to the astronomical sum USD 1,100 billion.

EU-approved Product in Early Launch Phase

Actiste, Brighter's flagship offering, is a subscription service designed to facilitate self-care of diabetes. Initially, the company focuses on selling the service in Sweden, Southeast Asia and the Middle East. The biggest progress has so far been made in the United Arab Emirates, which seems to be the closest to placing a first order.

Upside in valuation when compared to international equivalents

We stick to our target price of SEK 9.40 in our baseline scenario for Brighter. International medical technology companies focused on diabetes are valued at high multiples in relation to their turnover. This shows the potential for Brighter's share now that Actiste is being launched in several markets in the world.

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Analyst: Thomas Nilsson