



FINDING HIDDEN GEMS - AMBU A/S

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FINDING HIDDEN GEMS

As investment advisors, we are always screening the global stock markets for opportunities on behalf of our clients. We define an 'opportunity' as a stock currently undervalued or overlooked by the market for some specific reason, with upside potential of over 100%.

COMPANY DETAILS

Ticker: AMBU B
Current Price: DKK 220
1y Target: DKK 310 (41% upside)
Stop Loss: DKK 196 (11% downside)

Shares Outstanding (M)	217
Market Capitalization (M)	56'100
Enterprise Value (M)	58'900
Net Cash / Share	0.08
Book Value / Share	5.89
Dividend / Yield	0.2%
P/E	176
PEG	3.2

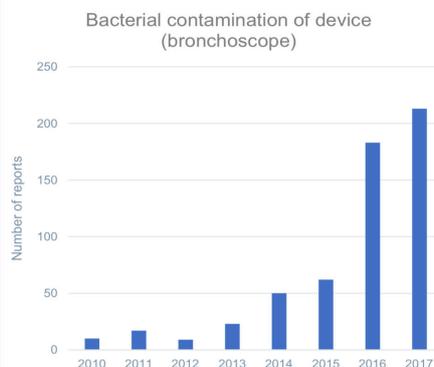
DESCRIPTION

Ambu A/S engages in the development, production, and marketing of diagnostic and life-supporting devices for hospitals and rescue services.

The case

Nowadays, if a person is living in one of the most advanced countries, and is prescribed an endoscopy by their physician, the words "superbug" and "contamination" are usually not the reason to have such a visit, however, it may sadly happen that afterwards, once this person receives the diagnosis from the visit, they may become more familiar with these words. Believe it or not, this is because the endoscope which is inserted for the exam is a multi-use tool, therefore the same endoscope will be used again on another patient after being sterilised. We are used to thinking that the sterilisation process is 100% effective, however, given the specifications of the tool, this sterilisation process, to be effective, requires complex, time consuming and costly procedures which are often not properly executed. For this rea-

son, recently there has been increasing concern of cross-contamination led by outbreaks. Following the death of patients due to a superbug from contaminated medical scopes in the US in 2015, the FDA emitted new guidelines on reprocessing medical devices, however, contamination is still occurring (as reported by the American Journal of Infection Control), and endoscope reprocessing is considered to be the #2 top health technology hazard in 2018 according to the ECRI institute. The problem with the flexible endoscope is that they are costly to purchase (a single ma-



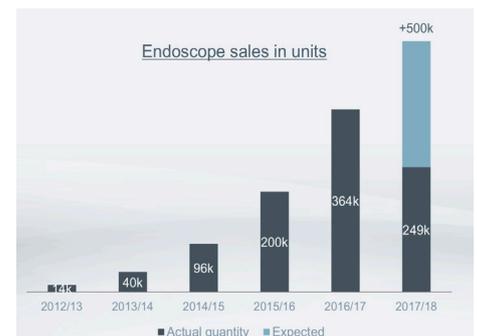
Source: Ambu Q2 Presentation

chine is about \$30'000), reprocess and repair, they are not always available when needed and their use exposes patients to infections. Furthermore, hospitals are very concerned due to potential claims from patients and insurance companies, however, increasing the resources for multi-use endoscopes is simply not efficient due to the need of multiple and costly devices, the cost of labour involved with the sterilisation process, and finally the difficulty to get a 100% sterilised device, even when perfectly following the latest stricter guidances which requires even longer sterilisation time, during which the

device cannot be used, requiring hospitals to increase the number of machines and therefore a higher capital deployed in addition to the higher sterilisation and labour costs.

Ambu

This is the perfect environment for hospitals to switch to single-use devices, which, contrary to the multi-use, are much cheaper, disposable and always available, in addition to not exposing patients to any infection risk. In this segment, a Danish company, **Ambu A/S (AMBU B)** is the undisputed leader, having launched in 2009 the world's first single-use flexible endoscope. Initially used for pulmonary endoscopies and deployed in more than 3'000 hospitals across the globe, Ambu, which we met during their latest roadshow, is aiming to expand its use to other clinical areas: urology, ENT and GI, including single-use duodenoscopes, gastroscopes and colonoscopes. Ambu endoscopes are inexpensive (\$300) and single-use, which can be disposed and solve the problems which hospitals are facing, such as the need for multiple expensive devices, labour involved in the sterilisation process, which in this case is totally absent and, finally, the potential risk of



Ambu endoscope sales. Source: Ambu Q2 Presentation

	Growth	2018				2019				2020				2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Visualisation	43%	158	211	234	259	286	317	351	389	429	475	526	582	641	710	786	871	957	1060	1174	1300	1426	1579	1749	1937
Patient Monitoring	8%	188	228	233	237	242	247	252	257	262	267	272	278	283	288	294	300	306	312	318	324	330	337	344	350
Anaesthesia	3%	207	212	214	215	217	218	220	222	223	225	227	228	230	232	233	235	237	239	240	242	244	246	247	249
Total (quarterly)	5%	553	651	680	711	745	782	823	867	914	967	1025	1088	1154	1230	1314	1406	1500	1610	1732	1867	2000	2162	2340	2537
Total (yearly)	18%	2595				3216				3993				5105				6709				9039			
Discount factor		0%				2%				4%				6%				8%				10%			
Endoscopes sold (quarterly)		100	145	161	178	193	213	236	262	283	313	347	384	414	459	508	563	631	699	775	858	921	1020	1130	1251
Endoscopes sold (yearly)		583				904				1327				1944				2963				4323			
Growth (endoscopes)		43%				55%				47%				46%				52%				46%			
Growth (total)		18%				22%				26%				29%				33%				36%			
Stock Price		140	220	240	251	263	276	291	306	323	342	362	385	408	435	465	497	530	569	612	660	707	764	827	897

AMBU stock price - KTS forecast

patients infections and therefore risk for claims. Ultimately Ambu is experiencing a growth in the segment, which is becoming exponential as hospitals are addressing the issues and switching from the multi-use to single-use device models, due to lower labour time, sterilisation costs and capital expenditure to have multiple machines. Only from 2016 onward this process has started gaining real traction, therefore sales have just started to ramp-up as hospitals have started switching. The expectation from the last quarterly results is to reach and pass the target of half a million endoscopes sold in the current year, and the company is ready to ramp up the production according to this growth rate, with a factory in Malaysia which is capable of producing 4 Mln endoscopes a year. This massive growth will also be lead by the application of the single-use devices to the other areas where they are not yet used and in which Ambu is focusing its efforts. In fact, Ambu is currently working with the FDA for the development of the duodenoscope in a pre qualification

phase, this is because of the FDA's concerns for contamination with multi-use endoscopes, and this should lead to a faster FDA approval for the use of the single-use endoscopes in all other areas where they are not yet used, leading to an exponential need which should also translate in exponential sales growth for Ambu.

Valuation

The company is mainly involved in three business areas: patient monitoring & diagnostics, anaesthesia and finally visualisation (the endoscopy business). The first two amount to roughly 2/3 of company's revenues, whereas the endoscopy amounts for the remaining 1/3. The company is growing organically at a 15% growth rate with a 60% gross margin, however the endoscopy business has quite a higher growth rate compared to the other areas (43%) and higher margins as well (80%). We have a conservative approach in forecasting our target stock price, keeping margins constant across the entire product line (con-

sidering the lower figure) and use a growing discount factor for either turnover and volume growth, resulting in more than doubling the stock price over the next 3 years. The calculation is very conservative, considering that the company foresees that the market would need at least 140 Mln devices and the company would be able to scale production up to 4 Mln in the next two to three years (with the plan to further expand production up to 8 Mln depending on sales), therefore sales would increase 5X for 1/3 of total revenues which would mean at least doubling total revenues in the next two to three years. We can therefore understand Danske Bank's analysts which have a target price range of DKK1250 to 6250 in the next 5 to 10 years. Taking into account that our investment committee is neutral to negative for the markets and the stock is a long term story, having reached the top 25 bluechip index in Denmark, we started investing slowly in our baskets and fund and we are ready to increase our positions in case of a price correction.

AMBU stock price



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