

IRRAS

Sector: Medtech

Q3: Relatively in line with our expectations

Redeye embraces another quarter of continuous sales growth and key activities in its clinical trial progressions but notes a lingering uncertainty in COGS and the need for cash. We believe the coming +12 months will offer an opportunity for IRRAS to demonstrate its commercial progress and increase interest among investors once its balance sheet is once again strengthened. We adjust our fair value range based on the assumption of an equity issue in late 2023e.

Nine quarters of sales growth

Q3 sales amounted to SEK11.0m (6.1) and were in line with our SEK10.5m estimate. Gross margin returned to the negatives due to a one-off write down on inventory, though it came in at SEK-7.3m adjusted, compared to our SEK-7.4m estimate.

EBIT amounted to SEK-51.9m compared to our SEK-27.0m forecast due to higher administrative and research and development expenses. These were related to transaction costs for its SEK215m equity issue and a start-up cost for one of its clinical trials.

No (significant) estimate changes

Except for upping our research and development expenses from SEK10.3m to SEK13.2m in Q4 2022e, we make no further adjustments to our 2022-2025e forecast. We estimate sales to reach SEK42.6m this year, increasing to SEK320m by 2025e, indicating a CAGR of 96%. IRRAS financial targets include sales of SEK350m by 2025.

Adjusted fair value range for an expected equity issue

We factor in an equity issue of SEK150m in Q4 2023e and adjust our fair value range accordingly. We emphasise the uncertainty in our assumption for the sum and the subscription price, though we argue that the adjustment provides a better reflection of the fundamental value at current. As such, the assumptions for the expected equity issue will be re-evaluated continuously.

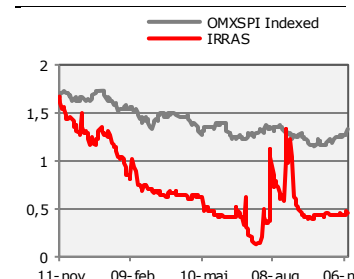
Our new fair value range consists of a SEK0.6 (0.9) base case. Bull and bear cases stand at SEK1.4 (2.0) and SEK0.3 (0.4), respectively.

Key financials (SEKm)	2021	2022e	2023e	2024e	2025e
Net sales	22	43	98	195	320
Sales growth	203%	90%	131%	98%	64%
Gross profit	-28	10	44	127	224
Gross margin	-125%	24%	45%	65%	70%
EBIT	-136	-162	-140	-69	-3
EBIT margin	-609%	-379%	-142%	-35%	-1%

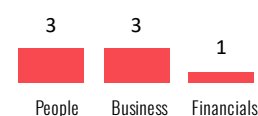
FAIR VALUE RANGE

BEAR	BASE	BULL
0.4	0.6	1.4

IRRAS VS. OMXSPI



REDEYE RATING



KEY STATS

Ticker	IRRAS
Market	Small Cap
Share Price (SEK)	0.45
Market Cap (SEKm)	356
Net Debt (SEKm)	-125
Free Float (%)	72%
Avg. daily volume ('000)	176

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Q3 2022 review

Activities during Q3

We highlight the following events and activities carried out by the company during Q3 2022:

- SEK215m rights issue completed.
- Repaid short-term financing amounting to SEK40m.
- DIVES study patient recruitment started.

Q3 results

Sales of SEK11.0m were 5% above our SEK10.5m forecast and indicate an 80% y/y growth from Q3 2021 sales of SEK6.1m and 13% q/q. Of the sales, SEK6.7m came from its US operations, where 80% of sales came from reorders of disposables. SEK2.4m came from Europe (excluding Germany), SEK0.5m from Germany and SEK1.4m from other regions.

COGS were SEK-11.8m (6.0) compared to our SEK-7.4m estimate. Of the COGS, SEK4.5m related to a one-off write-down of inventory of new control units that will be lent out to US hospitals. Adjusted for the write-downs, COGS would amount to SEK-7.3m. The gross margin amounted to -7% vs our 30% forecast. In the report, the company states that it expects FY 2022e gross margins to exceed 30%.

OPEX was SEK-51.2m (-27.2) compared to our SEK-39.1m estimate. The largest deviations were in administrative expenses, where the difference was mainly due to costs related to its capital raise and research and development expenses. In R&D, the company states that the large increase from previous quarters is due to the costs of active clinical trials. **EBIT was SEK-51.9m** (-27.0) compared to our SEK-36.0m estimate.

Operating cash flow was SEK-57.2m (-28.6), and IRRAS left Q3 with a cash position of SEK125m. The company expects this cash position to suffice operations for more than 12 months. However, we believe IRRAS will raise additional equity in Q4 2023e.

Q3 2022e vs Q3 2022 actual (SEKm)

(SEKm)	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22e	Q3 22	dev. %	dev. abs.
Net sales	6,1	7,2	8,6	9,7	10,5	11,0	5%	0,5
Cost of sales	6,0	19,5	4,4	6,7	7,4	11,8	61%	4,5
Gross profit	0,1	-12,3	4,2	3,0	3,15	-0,8	-125%	-4,0
Gross margin	1%	-171%	49%	31%	30%	-7%		
Other operating expense/(income)	-0,1	0,0	0,0	0,1	0	-0,1	-	-0,1
Marketing and sales expenses	12,4	14,2	13,3	14,2	14,2	13,7	-4%	-0,5
Administrative expenses	8,8	12,5	17,1	13,2	15,5	22,0	42%	6,5
R&D expenses	6,0	4,4	7,6	11,2	9,4	15,5	65%	6,1
EBIT	-27,0	-43,5	-33,7	-35,7	-36,0	-51,9	44%	-16,0
EBIT margin	-443%	-604%	-392%	-368%	-342%	-472%		

Source: Redeye research, IRRAS

Financials

Q4 2022e preview

Following the report, we leave our Q4e financials unchanged except for research and development, which we increase from SEK10.3m to SEK13.2m. We note that the company expects FY 2022 gross margins of 30%. However, we argue that the uncertainty is too high on COGS considering its historical volatility and thus keep our gross margin assumption at 30% for Q4e, rendering a FY 2022e gross margin of 24%. IRRAS' Q4 report is due on February 22.

Updated Q4 and FY 2022e financials

(SEKm)	Q4 22e		chg. %	chg. abs.	FY 2022e		chg. %	chg. abs.
	Previous	Updated			Previous	Updated		
Net sales	13,3	13,3	0%	0,0	42,1	42,6	1%	0,5
Cost of sales	9,3	9,3	0%	0,0	27,8	32,2	16%	4,5
Gross profit	4,0	4,0	0%	0,0	14,3	10,4	-28%	-4,0
Gross margin	30%	30%			34%	24%		
Other operating expense/(income)	0,0	0,0	-	-	0,1	0,0	-	-
Marketing and sales expenses	14,8	14,8	0%	0,0	56,5	56,0	-1%	-0,5
Administrative expenses	16,2	16,2	0%	0,0	62,0	68,5	10%	6,5
R&D expenses	10,3	13,2	28%	2,9	38,5	47,5	23%	9,0
EBIT	-37,3	-40,2	-8%	-2,9	-142,7	-161,5	-13%	-18,9
EBIT margin	-281%	-302%			-339%	-379%		

Source: Redeye research

Estimates 2022-2025e

We remain confident in our estimates for the coming years and expect sales to continue accelerating as more US centres expand their implementation of IRRASflow. Moreover, we expect sales to ignite in the EU during next year and argue that its clinical trials are crucial for its long-term adoption at the centres. Between 2022-2025e, we anticipate a 96% sales CAGR and that IRRAS's OPEX will remain relatively stable from here, growing with a 9% CAGR in the same period.

On the gross margin, we believe 2023e will begin demonstrating less volatile COGS, as the company's reclassification of COGS and OPEX, as well as write-downs, should be sorted. We anticipate a positive EBIT and operating cash flow by 2026e.

Financial estimates 2022-2025e (SEKm)

	2022e	2023e	2024e	2025e
Net sales	42,6	98,5	195,3	320,5
Sales growth	90%	131%	98%	64%
Cost of sales	32,2	54,2	68,4	96,1
Gross profit	10,4	44,3	127,0	224,3
Gross margin	24%	45%	65%	70%
Marketing and sales expenses	56,0	72,2	81,4	105,8
Administrative expenses	68,5	69,7	70,4	70,5
R&D expenses	47,5	42,0	44,1	51,3
EBIT	-161,5	-139,6	-69,0	-3,2
EBIT margin	-379%	-142%	-35%	-1%

Source: Redeye research

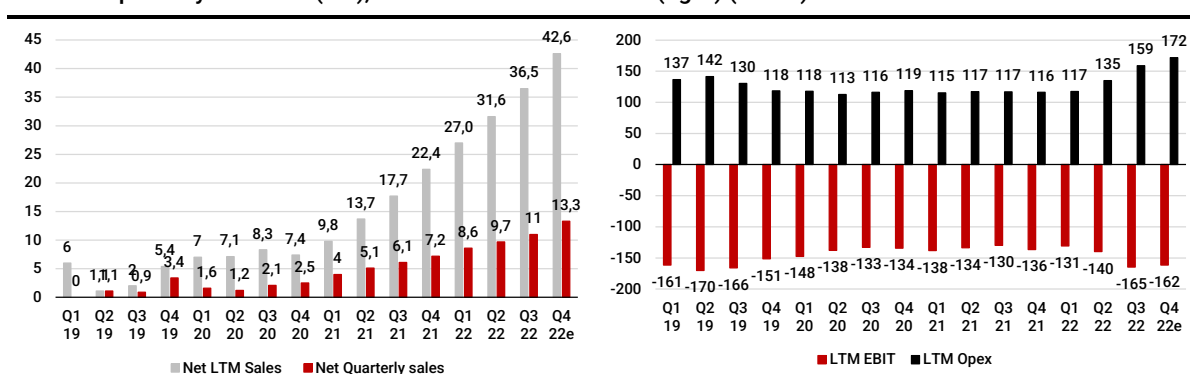
IRRAS' financial targets for 2025

In H1 2022, IRRAS announced its 2025 financial targets, including:

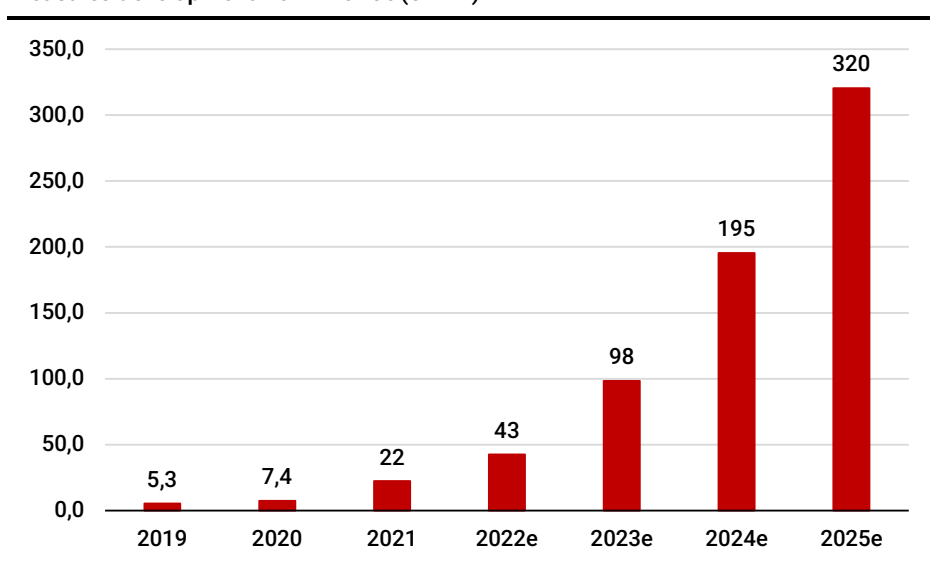
- Sales exceeding SEK350m.
- Gross margin exceeding 60%.
- Cash flow break-even.

Our FY 2022e sales stand at SEK42.6m, and the company upped its 2022e sales target from SEK35m to SEK40m in the report. Compared to our estimates, IRRAS' targets are relatively close. We anticipate sales of SEK320m by 2025e, with a 70% gross margin and a cash flow break-even by 2026e.

IRRAS has long battled a high OPEX with a lack of sales, causing several capital raises. However, we emphasise that the company has undoubtedly started delivering on sales, with LTM sales in Q3 2022 reaching SEK36.5m (a 106% y/y increase). Judging from the different scientific articles and papers shared by surgeons using IRRASflow and its increasing sales, we reiterate our stance on the clinical advantage of using IRRASflow vs traditional catheters of today. With its three clinical trials (ACTIVE, ARCH and DIVES) totalling +1000 patients, we believe its publications can be of good use in its marketing and sales activities.

LTM and quarterly net sales (left), LTM EBIT and LTM OPEX (right) (SEKm)

Source: Redeye research, IRRAS

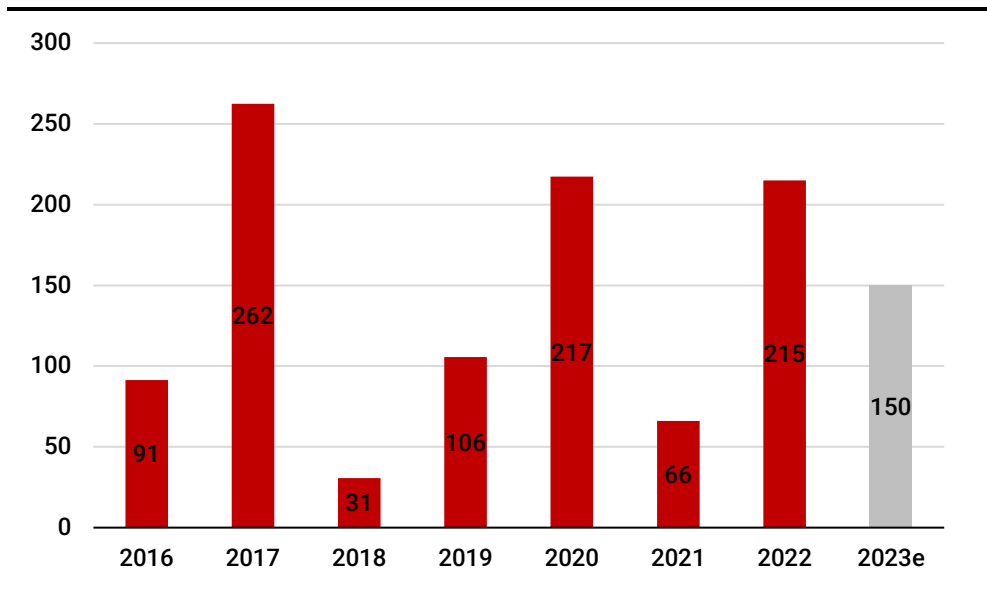
Net sales development 2019-2025e (SEKm)

Source: Redeye research, IRRAS

We expect an equity issue by the end of 2023

The company expects its current SEK125m cash position to finance its operations for +12 months. However, we expect IRRAS to raise additional cash in Q4 2023e in the realms of SEK150m to fund its operations until 2025e.

Capital raises since 2016 (SEKm)



Source: Redeye research, IRRAS

Setting itself up for a turn-around case

We judge that IRRAS has the chance to soon regain the trust and interest of investors in the share and identify four key factors:

- **Continuing its sales growth** – the company must demonstrate that the centers are implementing IRRASflow to a higher degree while at the same time expanding its footprint to additional centers both in the US and in Europe.
- **Clinical trial results** – through clinical evidence and documentation of IRRASflow's advantage over traditional catheters, its value proposition will be easier recognized.
- **EBIT improvements** – IRRAS must not only grow sales but also control its OPEX for EBIT to begin nearing more attractive (positive) levels.
- **Strengthening its balance sheet** – there still is a financing need despite its recent SEK215m equity issue. We believe an equity issue of roughly SEK150m by the end of next year could carry operations until 2025. With a stronger balance sheet and potentially delivering on the above-mentioned factors, we judge IRRAS eventually has the potential to attract interest to its equity story once again.

Valuation of IRRAS

At Redeye, we approach the valuation of a company's shares through a set of three scenarios. These provide a more dynamic view of the case. We apply a WACC of 13.5% (13) in all scenarios.

Fair value range adjusted expected 2023 equity issue

We factor in a SEK150m equity issue by the end of 2023e and assume a 40% rebate from current levels of SEK0.46 per share, rendering +540m new shares in our DCF model. We emphasise the uncertainty in our assumption for the sum and the subscription price, though we argue that the adjustment provides a better reflection of the fundamental value at current. As such, the assumptions for the expected equity issue will be re-evaluated continuously.

Bear case: SEK0.3 (0.40)	Base case: SEK0.6 (0.9)	Bull case: SEK1.4 (2.0)
Slower adoption at sites	Considerable traction in key markets	Key player in neurocritical care
<p>Our pessimistic scenario entails the assumption of a much slower adoption of IRRAS and Hummingbird at customer sites. We model a market penetration of 4-5% in the US, 2-3% in the EU, excluding Germany, and 6-7% in Germany for IRRAS. For Hummingbird, we estimate market penetration of 0.6% in the US, 0.6% in the EU, excluding Germany, and 1% in Germany.</p> <p>In our bear case, positive EBIT and positive cash flow are achieved in 2026e as sales reach SEK 269m. Towards the end of the period, we estimate the EBIT margin reaches 35%.</p>	<p>Our base case for IRRAS relies on aggressive and sustainable sales growth in the coming years, with IRRAS outcompeting the outdated EVDs and also paving the way for Hummingbird. We estimate a CAGR of some 96% on the top line until 2025e. Positive EBIT and cash flow are achieved in 2026e.</p> <p>Sales in 2024e amount to SEK 195m, and positive EBIT is achieved in 2026e when sales tick in at SEK 450m. We estimate EBIT margins of some 30 to +40% from 2027 to 2030. We assume market penetration of 7-9% in the US, 3-5% in the EU excluding Germany, and excess of 10-12% in Germany in the second half of our 2022-2030e forecast period (IRRAS). For Hummingbird, we assume market penetrations of 1, 1, and 2% for these regions over the same period, respectively.</p>	<p>In our bull case, we factor in a greater market penetration for IRRAS and Hummingbird, as IRRAS positions itself as a key player in the field of neurocritical care. We model market penetration of 10-13% in the US, 4-7% in the EU excluding Germany, and exceeding 14-17% in Germany in the latter half of our forecast period. For Hummingbird, we assume 1.4% in the US, 1.4% in the EU excluding Germany, and just under 3% in Germany.</p> <p>In this scenario, IRRAS turns cash flow positive in 2024e, when sales reach SEK 250m, with an EBIT margin of +16%. In the longer term, we estimate EBIT margins of 45% kicking in during 2027e.</p>

Investment Case

Beginning to show sales traction and sorted balance sheet

The IRRAS share has long been severely depressed but could be nearing a possible turn-around after sorting out its balance sheet, as its commercial operations finally begin to show substantial sales development. With a strengthened balance sheet, we believe investors should start to recognize the coming years' growth prospects, which we expect to resemble a hockey stick-like development.

Activities and traction to regain confidence

Investors have long punished the IRRAS stock after the company failed to deliver on two financial targets and owing to a prolonged regulatory process for its IRRASflow product in the EU. Sales have lagged expectations considerably, but the fairly recent management change, proven sales growth, and impressive customer base of comprehensive stroke centers (driving sales growth even further) could help turn around the market's take on the case. We believe that quarterly reports will eventually trigger market interest in combination with disappearing concerns about its cash position.

As IRRAS continues to roll out its control units at stroke centers, it builds its base for recurring revenue through its consumables. In the past quarters, the usage of IRRASflow consumables has begun increasing and represents most sales. As surgeons and nurses become more used to the device and its experiences and advantages are shared, the long-term growth prospect of IRRAS will take on. This is finally beginning to show.

New financial targets and cash until the end of 2023

IRRAS has a history of capital raises since its IPO and has endured a plummeting share price. Its most recently announced rights issue of SEK 215m is expected to fund operations until late 2023, according to us. With new financial targets in hand, it will be of utmost importance for IRRAS not to disappoint shareholders once again, or else it might remain in its historically pressed financial situation.

Broader implementation following additional clinical data

In our view, IRRAS will need to strengthen its clinical evidence before a more significant implementation of IRRASflow/Hummingbird is likely. The company has recently begun to focus more on this matter, initiating a series of clinical trials to include +1000 patients to demonstrate its clinical advantages better. Study recruitment is ongoing, and publications are some years away. We believe that the clinical trials are great drivers for implementation, and, as such, progress with this is of utmost importance to the case.

Sorted balance sheet should relieve concerns

Our base case stands at SEK 0.6 per share, with bull and bear cases at SEK 1.4 and SEK 0.3 per share, respectively. With a strengthened balance sheet, we believe IRRAS' commercial and clinical progression will be better recognized by the market. We expect an equity issue of SEK 150m in Q4 2023e and factor this into our valuation.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 3

Business: 3

Financials: 1

	2021	2022E	2023E	2024E	DCF Valuation Metrics	Sum FCF (SEKm)			
INCOME STATEMENT					Initial Period (2022–2030)	52,547			
Revenues	22	43	98	195	Stable Period (2031–)	508			
Cost of Revenues	50	32	54	68	Firm Value	560,332			
Gross Profit	-28	10	44	127	Net Debt	-275			
Operating Expenses	109	164	177	189	Equity Value	835			
EBIT	-136	-162	-140	-69	Fair Value per Share	0,6			
Net Financial Items	0	1	1	1					
EBT	-136	-161	-139	-68					
Income Tax Expenses	0	0	0	0					
Non-Controlling Interest	0	0	0	0					
Net Income	-136	-161	-139	-68					
BALANCE SHEET									
Assets									
Current assets									
Cash & Equivalents	56	98	97	5					
Inventories	13	26	37	47					
Accounts Receivable	16	12	22	37					
Other Current Assets	7	0	1	2					
Total Current Assets	93	136	156	91					
Non-current assets									
Property, Plant & Equipment, Net	1	5	12	15					
Goodwill	0	0	0	0					
Intangible Assets	35	30	29	33					
Right-of-Use Assets	4	4	3	3					
Shares in Associates	0	0	0	0					
Other Long-Term Assets	0	0	0	0					
Total Non-Current Assets	40	39	44	50					
Total Assets	133	175	200	141					
Liabilities									
Current liabilities									
Short-Term Debt	0	0	0	0					
Short-Term Lease Liabilities	4	4	4	4					
Accounts Payable	6	21	36	45					
Other Current Liabilities	12	0	0	0					
Total Current Liabilities	21	25	39	48					
Non-current liabilities									
Long-Term Debt	0	0	0	0					
Long-Term Lease Liabilities	0	0	-1	-1					
Other Long-Term Liabilities	0	0	0	0					
Total Non-current Liabilities	0	0	-1	-1					
Non-Controlling Interest	0	0	0	0					
Shareholder's Equity	112	151	162	94					
Total Liabilities & Equity	133	175	200	141					
CASH FLOW									
NOPAT	-136	-162	-140	-69					
Change in Working Capital	-7	2	-7	-17					
Operating Cash Flow	-131	-151	-139	-78					
Capital Expenditures	0	-4	-7	-4					
Investment in Intangible Assets	0	-2	-5	-10					
Investing Cash Flow	-7	-6	-12	-14					
Financing Cash Flow	58	200	150	0					
Free Cash Flow	-131	-158	-151	-92					
DCF Valuation Metrics									
					2020,0	2021E	2022E	2023E	
CAPITAL STRUCTURE									
Equity Ratio					1	1	1	0	
Debt to equity					0	0	0	-4	
Net Debt					-129	-69	-17	99,9	
Capital Employed					182,5	127,8	76,4	-29,0	
Working Capital Turnover					0,840909	1,473103	2,739052	4,176587	
GROWTH									
Revenue Growth					40%	203%	90%	131%	
Basic EPS Growth					-63%	0%	18%	-14%	
Adjusted Basic EPS Growth									
PROFITABILITY									
ROE					-87%	-93%	-123%	-89%	
ROCE					-75%	-126%	-183%	238%	
ROIC					-1062%	-527%	-794%	-673%	
EBITDA Margin (%)					-1815%	-609%	-362%	-135%	
EBIT Margin (%)					-1815%	-609%	-379%	-142%	
Net Income Margin (%)					-1836%	-608%	-378%	-141%	
VALUATION									
Basic EPS					-2,1	-2,1	-2,4	-2	
Adjusted Basic EPS					-2,1	-2,1	-2,4	-2,1	
P/E					-18,7	-15,8	-18,3	13,0	
EV/Revenue					7,0	3,7	1,6	0,8	
EV/EBIT					neg	neg	neg	neg	
P/B					2,1	0,0	2,1	-2,3	
								2,1	
SHAREHOLDER STRUCTURE									
						CAPITAL %	VOTES %		
Spetses Investments Limited						25,9%	25,9%		
Bacara Holdings Ltd						23,5%	23,5%		
Lexington Holding Assets Ltd						4,0%	4,0%		
Andra AP-fonden						2,3%	2,3%		
March Asset Management						2,2%	2,2%		
SHARE INFORMATION									
Reuters code							IRRAS		
List							First North		
Share price							0,5		
Total shares, million (estimated)							1338,292		
MANAGEMENT & BOARD									
CEO							Will Martin		
CFO							Griffen Stapp		
Chairman							Marios Fotiadis		
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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

Important information

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Redeye Rating (2022-10-24)

Rating	People	Business	Financials
5p	32	15	4
3p - 4p	157	139	48
0p - 2p	5	40	142
Company N	194	194	194

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CONFLICT OF INTERESTS

Oscar Bergman owns shares in the company: Yes

Gustaf Meyer owns shares in the company: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.