

23andMe (NASDAQ: ME)

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Company Overview

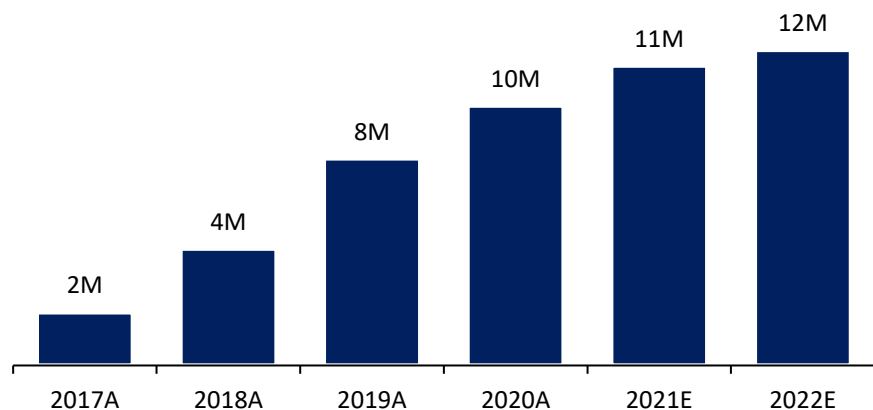
Investment & Company Overview



Company Description

- Operates as a personal genomics and biotechnology company
- Founded in 2006 in Sunnyvale, California
- The company operates through 2 segments:
 - Consumer & Research Services:** Provides a suite of genetic reports, including customers' genetic ancestral origins, personal genetic health risks, chances of passing on carrier conditions to children, and the impact of genetics on responses to medications
 - Therapeutics:** Focuses on drug development, discovery of novel therapies across oncology, respiratory, and cardiovascular diseases, and out-licensing of intellectual property related to drug candidates under development
- The company has a collaboration agreement with GlaxoSmithKline to validate, develop and commercialize drugs

Genotyped Customer Growth



Management Team



Name	Anne Wojcicki	Steven J Schoch	Kathy L Hibbs
Position	President/CEO	CFO/Chief Accounting Officer	Chief Legal & Regulatory Officer
Background	Cofounder and board member of Breakthrough Prize	CFO/CAO of VG Acquisition Corp CFO of 23andme	Ex-VP/Secy/General Counsel of Genomic Health

Key Financial Data

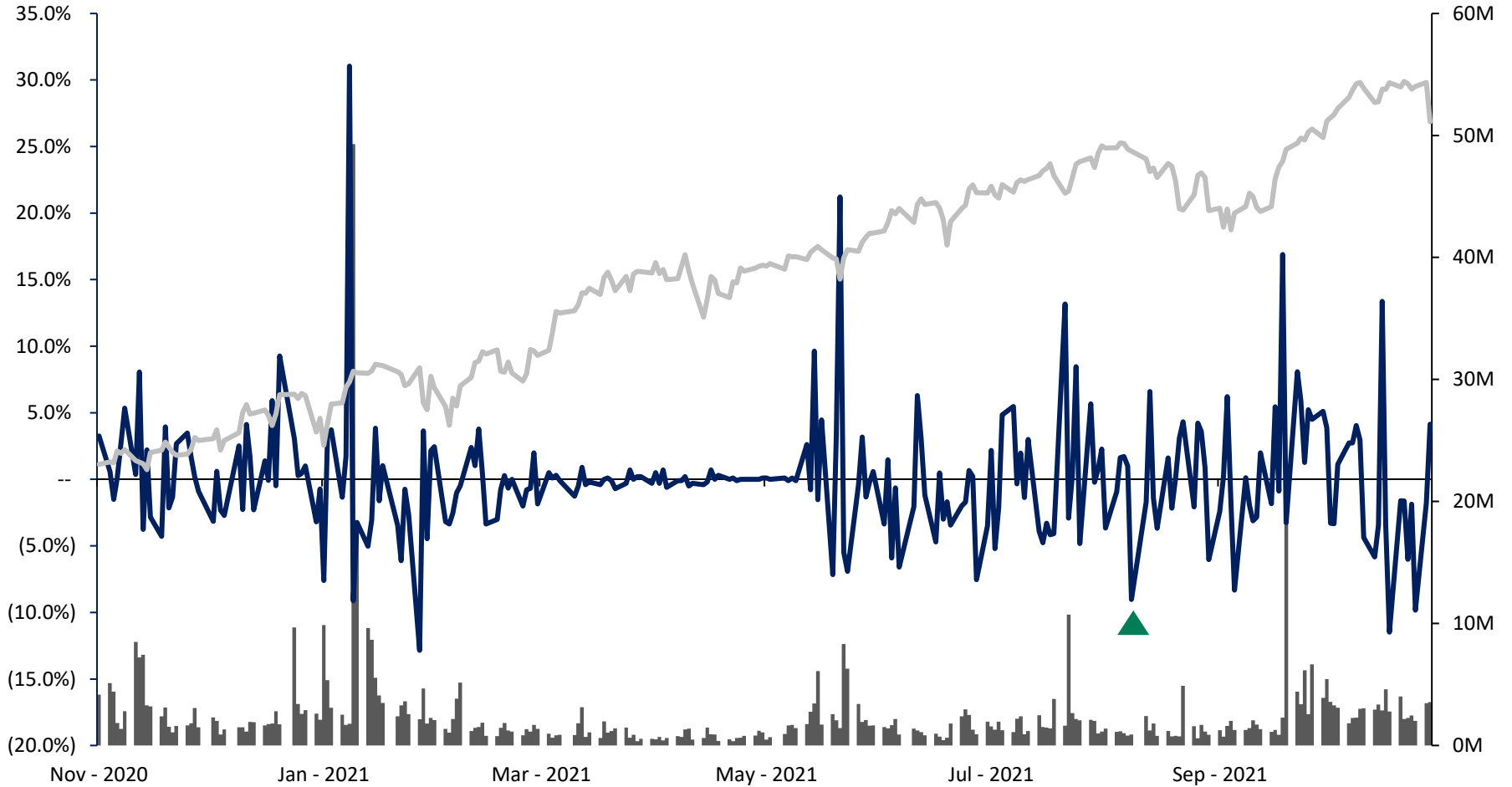
Enterprise Value	\$3.4B
Market Cap	\$3.4B
EV/Revenue	13.2x
P/TBV	5.7x
LTM Gross Margin	49.7%
LTM Total Debt/ Capital	11.9%

Annotated Stock Price Chart



Annotated Stock Price Graph: ME is up 4.13% since IPO, with earnings beat and promising pipeline as drivers

■ Volume — ME — SP500 ▲ / ▼ = Earnings beat/miss



ME's partnership with GlaxoSmithKline and promising developments present strong recurring cash flow potential and a catalyst for its stock

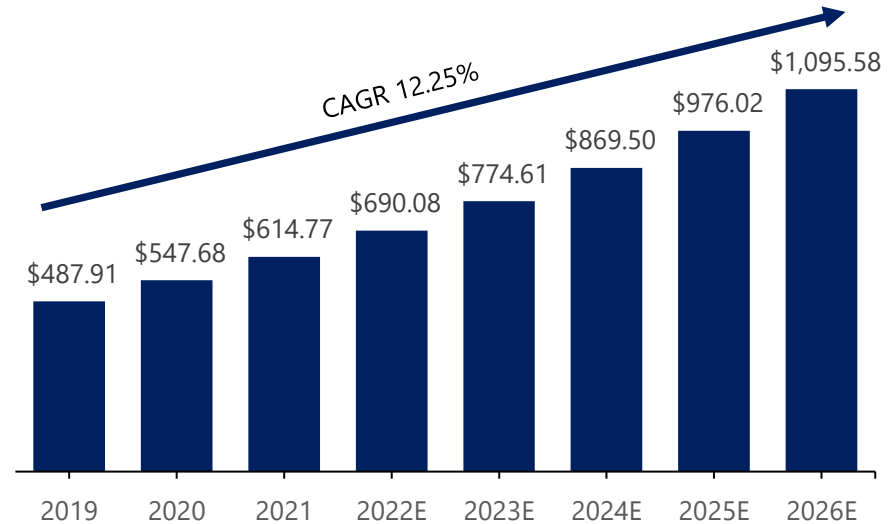
Genetic Genealogy Overview

- The genetic genealogy industry is expected to be worth \$1,095.58 million by 2026, with a CAGR of 12.25%
- The industry has four main segments: presymptomatic testing, diagnostic testing, newborn screening, and prenatal testing.
- The COVID-19 pandemic hindered revenue growth as safety restrictions left many consumers unable to receive services
- Increased government funding for genetic genealogy projects represents a large potential for growth and development in industry technologies
- The genetic genealogy industry is in the growth stage of the life cycle

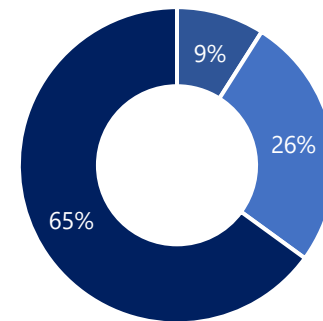
Industry Drivers and Trends

- A large influx of startups have begun establishing in recent years given the massive potential held by genome sequencing and related products and services
- Government investment and funding in support of genomics projects have driven the development of new technologies that are expected to increase the usage of genomics products
- Personalized medicine provides a unique opportunity for the genomics industry to grow with the increasing use of genetic info in developing these customized drugs
- Preventative healthcare is another opportunity that is heavily dependent on genetic testing in order to reveal hidden health conditions that can then be treated






Market Size Growth (\$USD M)



Industry Revenue Segmentation



- Presymptomatic testing
- Diagnostic testing
- Prenatal and newborn screening

	<ul style="list-style-type: none"> ▪ The largest for-profit genealogy company in the world ▪ Provides access to about 10 billion historical records with over 3 million paying subscribers ▪ Over 18 million DNA kits sold 	<p>N/A</p>
	<ul style="list-style-type: none"> ▪ Clinical genetic testing company based in Austin, Texas ▪ Focus on non-invasive, cell-free testing technology ▪ Concentrated on women's health, cancer, and organ health ▪ Revenues of \$391 million USD in 2020 	<p>Market Cap: \$8.65 B EV: \$7.99 B EV/EBITDA: -20.71x</p>
	<ul style="list-style-type: none"> ▪ Population health technology company providing genetic tests and analysis ▪ Focus on direct-to-consumer or through employer ▪ Specialized in genes that show risk for cancer, heart disease and those that affect medication response 	<p>N/A</p>
	<ul style="list-style-type: none"> ▪ Hereditary disease company providing healthcare services with relation to genetic testing ▪ Screening and diagnosis for various conditions including cancer, epilepsy, cardiovascular and neurodevelopmental disorders ▪ Subsidiary under Konica Minolta 	<p>Market Cap: \$2.06 B EV: \$4.61 B EV/EBITDA: 0.05x</p>
	<ul style="list-style-type: none"> ▪ American population geonomics company specialized in personal geonomics and citizen science ▪ Handles sample collection, DNA sequencing, securing data and developing new partners on products 	<p>N/A</p>

Thesis I – Unique End-to-End Business Model

Recent Push Into Pharmaceutical Distribution Creates Differentiated Business Model

Entry into Pharmaceutical Distribution

- 23andMe has entered and diversified their products into the pharmaceutical industry, as they see an opportunity in translating the collective data of customers into new drugs
- Diversifies product offering beyond consumer and research services
 - These consumer & research services have represented most of their revenue up-to-date
- Strong value proposition for customers that helps them have more control over their health and work on prevention
- Significant pipeline of opportunities for drug creation
 - Furthest developed drug CD96, is currently at its Phase 1 testing trials

Therapeutic Program Pipeline



Strategic Alignment and Strong Pipeline

- Partnered with GlaxoSmithKline (GSK) to pursue drug-development collaborations in exchange for \$300 million equity investment
 - This collaboration is expected to be a driver in the growth of 23andMe's research-services revenue stream
- 23andMe has acquired Lemonaid Health, a company that offers a platform for telemedicine and pharmacy services, for \$400 million
- Has a promising pipeline of over 40 therapeutic programs covering Immuno-oncology, Cardiovascular/Metabolic Disorders, Immunology, Neurology, Gynecology, and Infectious Diseases

Strong Competitive Moats

- 23andMe has a large database of customer healthcare information that gives them a competitive advantage
 - Has the largest genetic data set in the world
 - They have genotyped 11.9 million customers, with 80% of their customers having agreed to their data being used by the company for research and by scientists to understand the causes of diseases and how best to treat them
 - Potential for data monetization, like Facebook selling the online interaction of their users
- Obtained cost advantage through economies of scale as competitor genome products are priced at a premium

Thesis II – Potential to Capitalize on Growing DTC Industry



Demand for Personalized Health Driving Genetic Research

Rapidly Aging Population Increasing Addressable Market

- By 2030, the United States for the first time will have more 65-and-older residents than children, the Census Bureau reports
- In addition, older adults will live longer than ever before: one out of every four 65-year-olds today will live past age 90, increasing the cases of diseases like Alzheimer's and Parkinson's
- This demographic shift has moved the focus of researchers, health care providers and policymakers from how to extend the lifespan to ways to improve the quality of later years through early disease diagnosis
- Insurance coverage for all types of genetic testing has increased, and this combined with the factor of significant reductions in costs per sample, is expected to result in stronger growth for 23andMe

FDA Approvals

- 23and Me is supported by 6 FDA authorizations as a risk screener for a handful of conditions

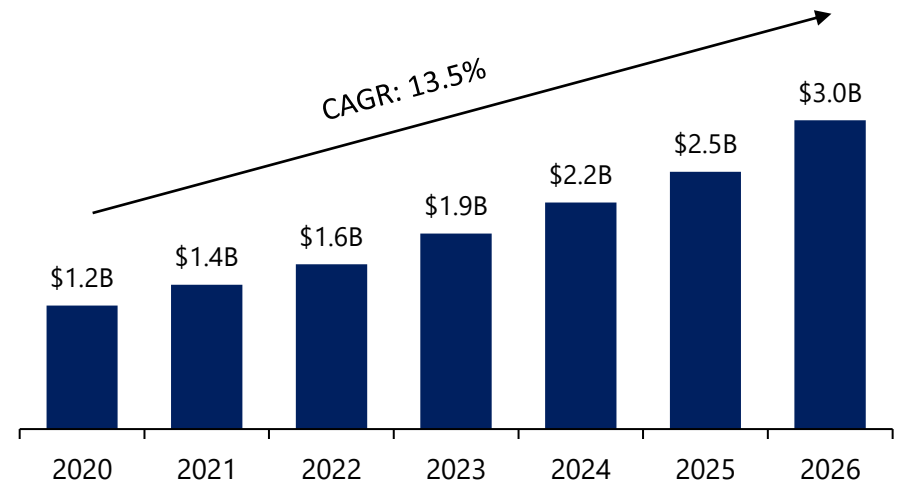
Proven accuracy (99%NPV/PPV) and accessibility

2015	Carrier Status (inherited conditions)
2016	GHR (genetic health risk)
2017	BRCA (breast and ovarian cancer)
2018	PGt (pharmacogenetic metabolism)
2019	MUTYH (colorectal cancer)
2020	PGt (pharmacogenetic drug response)

Covid-19 Impacts on Health


- Amid the COVID-19 pandemic more people are interested in affordable and personalized healthcare allowing users to be proactive instead of reactive to avoid rising treatment costs
- 23andMe's kits are unique with genetic health risk testing: 80% of customers receive a report with a meaningful genetic variant and 76% report taking a positive health action
- COVID-19 study that examined how genetic markers could affect a person's susceptibility to COVID-19 had 3 million participants with 750K participants in the first 90 days
- New research segment provides subscription service with FDA-authorized pharmacogenetics, heart health, and polygenic risk scores and has 125K+ subscribers since launch in Oct 2020

Global Direct-to-Consumer Testing Market




Risks


High Supplier Concentration

 Company is dependent on a suppliers of saliva collection kits, bead chips, reagents, and other materials necessary for laboratory operations. Currently, there is a single supplier for saliva collection kits.

Growing Competition In The Personal Genetics Market


 The number of competitors with similar products continues to grow. Current competitors have longer operating histories and greater financial, technical, marketing, and other resources than the company.

Uncertainty In Development And Commercialization


 Developing new drugs is inherently speculative. Drugs that show promise, may be found unsafe in clinical trials.

Implications


Suppliers May Fail To Deliver

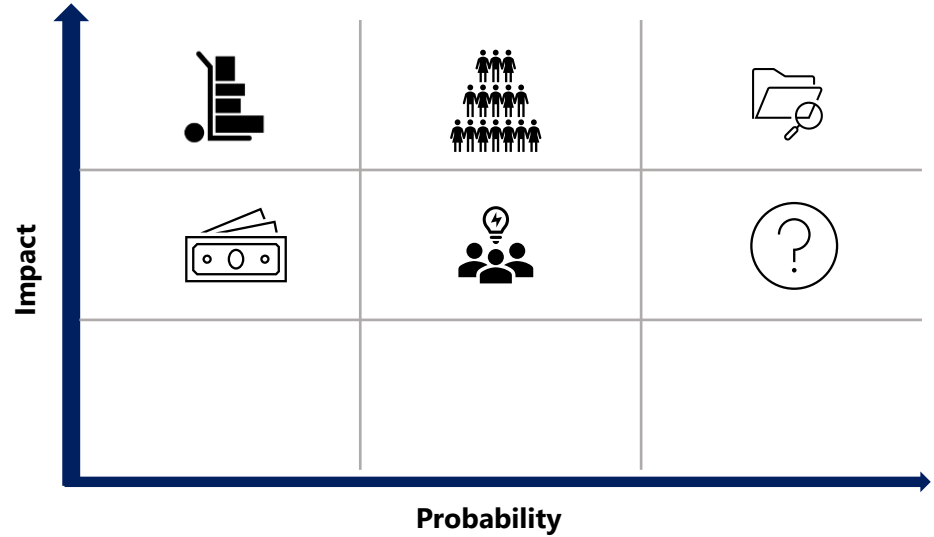
 The lack of supplier agreements for commercial production of key materials exposes the company to a delayed commercial launch of drugs, lower revenues, and higher costs

Competitor's Economies of Scale

 Competitors may engage in more extensive R&D efforts or enact broader marketing campaigns, reducing the company's market share.


Future Commercialization Uncertain

 If projects fail prematurely, the company will need to alter its offerings, repeat clinical studies, and require approval. Projects may be abandoned before realizing any ROI. May face financial pressures in the interim.




Catalysts


Large Volume Of Patient Data

 The company has a database of greater than 11.9 million genotyped customers. It serves as a strong discovery engine that will help in therapeutics development using human genetics.

SPAC Proceeds Used In Cancer Drug Development

 \$592M+ to be used towards development of two cancer drugs. One is being developed in with GlaxoSmithKline and is currently in clinical trials.

Novel Method To Analyze Patient Data

 Competitive edge stems from its novel method to collect and analyse genomic data. This can be challenging for competitors, which rely on a range of data sources such as scientific publications and clinical trials.

Valuation

Comparable Company Analysis



All figures are in USD\$M, except if noted otherwise

Valuation Statistics		Share	Diluted	Equity	Enterprise	EV/Revenue		P / Sales	
Company Name	Ticker	Price	Shares	Value	Value	2021E	2022E	2021E	2022E
Invitae Corporation	NVTA	18.3	226.4	4,147.6	4,622.6	10.0 x	7.1 x	0.04 x	0.03 x
Natera, Inc.	NTRA	95.6	94.6	9,047.5	8,409.5	13.5 x	11.1 x	0.15 x	0.13 x
NeoGenomics, Inc.	NEO	34.1	123.1	4,198.9	4,268.9	8.8 x	7.6 x	0.07 x	0.06 x
Veracyte, Inc.	VCYT	45.0	71.0	3,194.3	3,045.3	14.2 x	11.2 x	0.21 x	0.17 x
Maximum		95.6		9,047.5	8,409.5	14.2 x	11.2 x	0.21 x	0.17 x
75th Percentile		57.7		5,411.1	5,569.4	13.7 x	11.1 x	0.17 x	0.14 x
Median		\$ 39.6		\$ 4,173.3	\$ 4,445.8	11.7 x	9.3 x	0.11 x	0.09 x
25th Percentile		30.2		3,909.3	3,963.0	9.7 x	7.5 x	0.06 x	0.05 x
Minimum		18.3		3,194.3	3,045.3	8.8 x	7.1 x	0.04 x	0.03 x
23andMe Holding Co.	ME	\$ 6.88	437.5	\$ 3,010.0	\$ 2,398.0	9.3 x	8.0 x	0.03 x	0.02 x

Implied Valuation	REVENUE	
Company	2021E	2022E
23andMe Holding Co.	\$ 258.0	\$ 299.0
Summaries	EV/Revenue	
Median	11.7 x	9.3 x
Implied Enterprise Value		
Median	\$ 3,029.3	\$ 2,791.7
Adjustments		
Net Debt	\$ (612.0)	\$ (612.0)
Implied Equity Value		
Median	\$ 3,641.3	\$ 3,403.7
/ Shares Outstanding	437.5	437.5
Implied Share Price		
Median	\$ 8.32	\$ 7.78

Discounted Cash Flow Analysis

Base Case



Cash Flow Summary	FY 2020A	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY2028E
Revenue	\$306	\$259	\$284	\$318	\$366	\$421	\$484	\$557	\$641	\$705	\$775
<i>Revenue Growth %</i>		(15.4%)	9.65%	10.1%	12.2%	15.0%	15.0%	15.0%	15.0%	10.0%	10.0%
EBITDA	(\$214)	(\$200)	(\$154)	(\$173)	(\$73)	(\$84)	(\$48)	\$28	\$31	\$106	\$155
<i>EBITDA Margin %</i>	(70.0%)	(77.4%)	(54.3%)	(54.3%)	(20.0%)	(20.0%)	(10.0%)	5.0%	5.0%	15.0%	20.0%
EBIT	(214)	(200)	(154)	(173)	(73)	(84)	(48)	28	31	106	155
Less: Taxes	-	-	-	-	-	-	-	(6)	(7)	(23)	(34)
NOPAT	(214)	(200)	(154)	(173)	(73)	(84)	(48)	22	25	82	121
Add: Amortization	-	-	-	-	-	-	-	-	-	-	-
Less: Capital Expenditures	(86)	(2)	(2)	(3)	(3)	(4)	(4)	(5)	(5)	(6)	(7)
Less: Change in NWC	95	45	114	127	146	168	194	223	256	282	310
Unlevered FCF	(\$187)	(\$157)	(\$43)	(\$48)	\$70	\$81	\$141	\$240	\$276	\$358	\$424
Discount Period		1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Discount Factor		0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46	0.42
PV of Unlevered FCF		(\$144)	(\$36)	(\$37)	\$50	\$52	\$84	\$131	\$138	\$165	\$179

- Discounted cash flow analysis with an assumed WACC of 9.0%
- Terminal value based on perpetuity growth methodology with an assumed growth rate of 2.0% and the multiples based on an EV/Revenue multiple of 11x

Discounted Cash Flow Analysis

Terminal Period Calculation

Terminal Multiple Method

Terminal Revenue Multiple	11.0x
Terminal Value	\$8,526
Discount Period	11.0
Discount Factor	0.39
PV of Terminal Value	\$3,304
Implied Perpetuity Growth Rate	3.6%
Implied Enterprise Value	\$3,886
Less: Debt	(\$89)
Add: Cash	\$701
Implied Equity Value	\$4,499
FD Shares Outstanding (million)	437.5
FD Implied Equity Value Per Share	\$10.28

Perpetuity Growth Rate

Baseline Terminal Growth Rate	2.0%
Terminal Value	\$6,183
Discount Period	10.0
Discount Factor	0.42
PV of Terminal Value	\$2,612
Implied Terminal EBITDA Multiple	43.5x
Implied Enterprise Value	\$3,194
Less: Debt	(\$89)
Add: Cash	\$701
Implied Equity Value	\$3,807
FD Shares Outstanding (million)	437.5
FD Implied Equity Value Per Share	\$8.70

		WACC				
		7.00%	8.00%	9.00%	10.00%	11.00%
Terminal Multiple	\$3,886					
	10.0x	\$4,384.0	\$3,963.6	\$3,586.1	\$3,246.8	\$2,941.6
	10.5x	\$4,568.1	\$4,129.8	\$3,736.3	\$3,382.7	\$3,064.6
	11.0x	\$4,752.2	\$4,296.0	\$3,886.5	\$3,518.5	\$3,187.5
	11.5x	\$4,936.4	\$4,462.2	\$4,036.7	\$3,654.3	\$3,310.5
	12.0x	\$5,120.5	\$4,628.4	\$4,186.8	\$3,790.2	\$3,433.5

		WACC				
		7.00%	8.00%	9.00%	10.00%	11.00%
Perpetuity Growth	\$3,194					
	1.0%	\$4,332.9	\$3,475.4	\$2,845.4	\$2,366.2	\$1,991.9
	1.5%	\$4,682.6	\$3,708.7	\$3,008.2	\$2,483.9	\$2,079.2
	2.0%	\$5,102.3	\$3,980.8	\$3,194.3	\$2,616.2	\$2,176.2
	2.5%	\$5,615.2	\$4,302.5	\$3,409.0	\$2,766.2	\$2,284.6
	3.0%	\$6,256.4	\$4,688.4	\$3,659.5	\$2,937.6	\$2,406.6

		WACC				
		7.00%	8.00%	9.00%	10.00%	11.00%
Terminal Multiple	\$10.28					
	10.0x	\$11.42	\$10.46	\$9.60	\$8.82	\$8.12
	10.5x	\$11.84	\$10.84	\$9.94	\$9.13	\$8.40
	11.0x	\$12.26	\$11.22	\$10.28	\$9.44	\$8.69
	11.5x	\$12.68	\$11.60	\$10.63	\$9.75	\$8.97
	12.0x	\$13.10	\$11.98	\$10.97	\$10.06	\$9.25

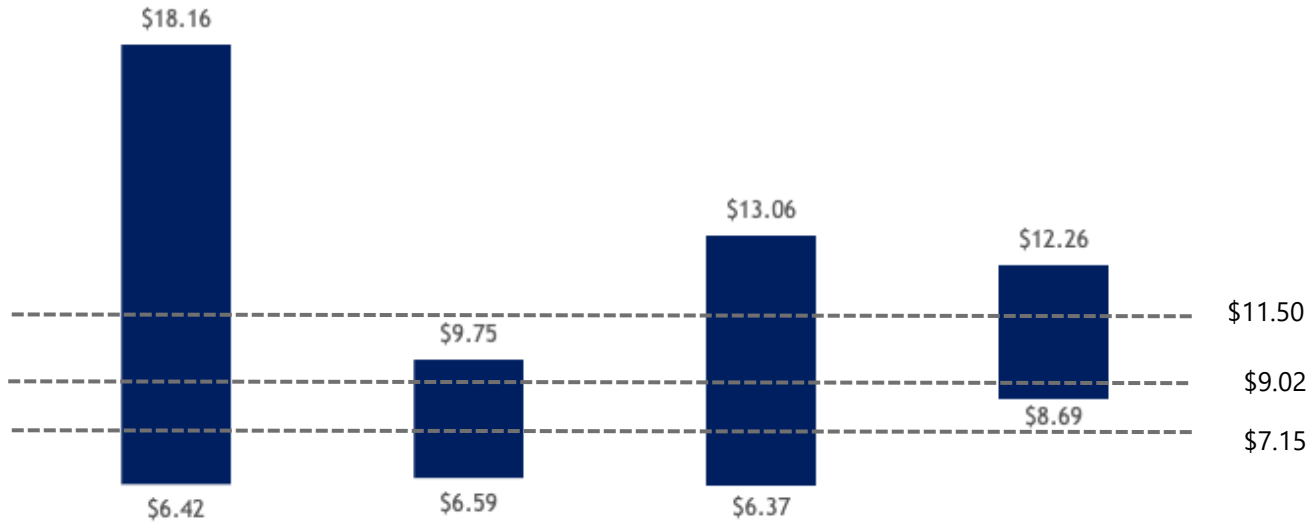
		WACC				
		7.00%	8.00%	9.00%	10.00%	11.00%
Perpetuity Growth	\$8.70					
	1.0%	\$11.30	\$9.34	\$7.90	\$6.81	\$5.95
	1.5%	\$12.10	\$9.88	\$8.28	\$7.08	\$6.15
	2.0%	\$13.06	\$10.50	\$8.70	\$7.38	\$6.37
	2.5%	\$14.23	\$11.23	\$9.19	\$7.72	\$6.62
	3.0%	\$15.70	\$12.12	\$9.76	\$8.11	\$6.90

Recommendation

BUY

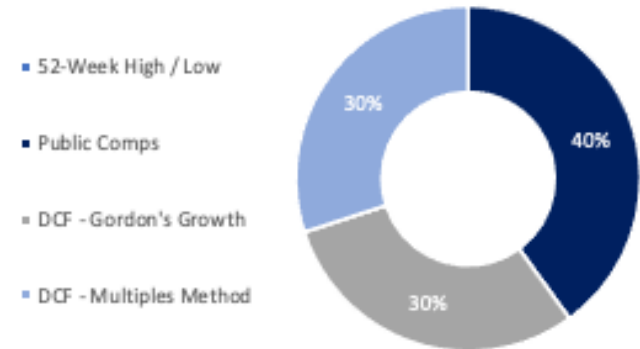


Football Field			
52-Week High / Low	Public Comparables	DCF - Gordon's Growth	DCF - Multiples Method



Valuation Methodology	Min	Median	Max	Weighting
52-Week High / Low	\$6.42	\$11.50	\$18.16	0%
Public Comps	\$6.59	\$8.32	\$9.75	40%
DCF - Gordon's Growth	\$6.37	\$8.70	\$13.06	30%
DCF - Multiples Method	\$8.69	\$10.28	\$12.26	30%
Implied Share Price	\$7.15	\$9.02	\$11.50	100%

Implied Share Price Weighting



- 23&Me
- Becker's Healthcare
- Capital IQ
- CNBC
- Craft.co
- Fortune Business Insights
- Research and Markets
- Seeking Alpha
- Yahoo
- WSJ

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