



# Geometrica Fund

## Absolute return

November 2023

*Ambu A/S*

# Ambu is small, but dominates in single use endoscopes

## Ambu

- Once a **market darling** trading > 100x P/E
- Stock crashed post covid.
  - Revenue stalled on channel stuff + poor cost control.
  - EBIT margins fell from 22.5% in 2019 to 4.1% in 2022.
  - Multiple fell from >100x to <25x.
- But consumption of Ambu single use endoscopes still growing high teens.
- Ambu is a **self-help recovery story**.
  - New management team. Cut costs. Rationalise portfolio.
  - Now on near trough margins, near trough multiple
  - Sales are starting to reaccelerate
    - ENT scope growth >30%.
    - Pulmonology scope exit rate Sept 23 Quarter >15%.
- Large upside on continued mgmt. execution



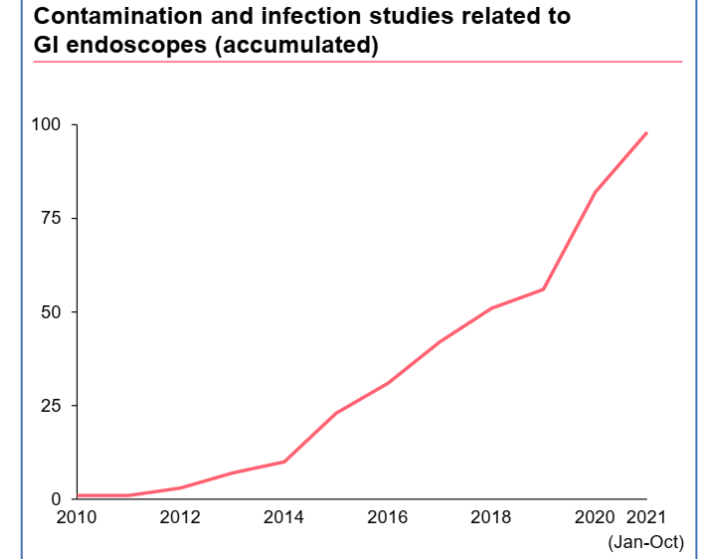
# The market is 98% reusable endoscopes...with safety risks!

“The FDA has received numerous Medical Device Reports (MDRs) which describe **patient infections** post procedure or other possible contamination issues **associated with reprocessing these [endoscope] devices.**”

4 April 2022

*FDA guidance: “facilities should work to transition from using duodenoscopes with fixed endcaps to ones that are either fully disposable or made with disposable components ...eliminate the need for reprocessing and bring the **contamination rate from as high as 6% down to just 0.5%....**”*

April 2022.



Source: Ambu

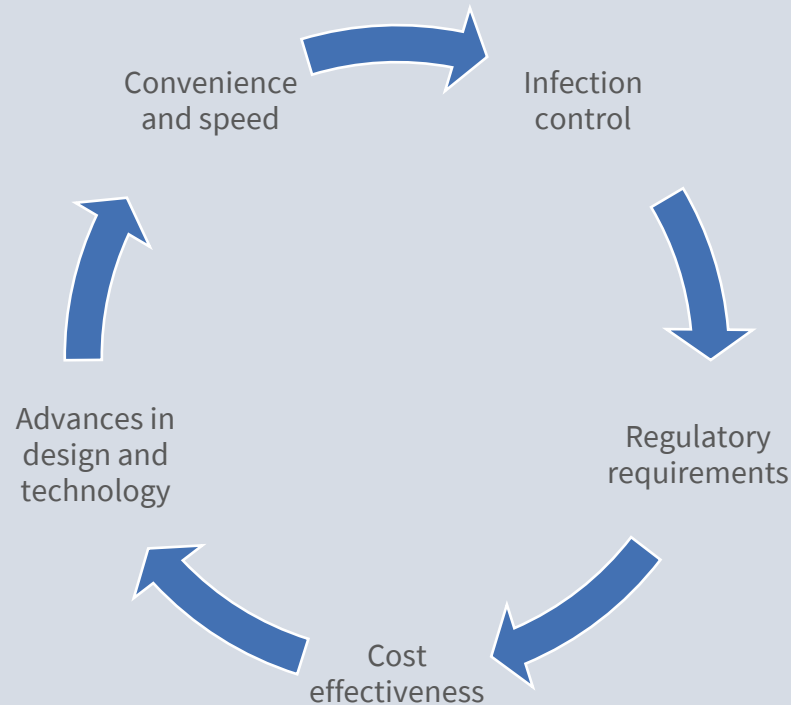
## Reusable Endoscopes - FDA Pronouncements

Date	Headline
January 10, 2023	FDA Issues Two Warning Letters to Leading Manufacturer of Endoscopes (Olympus and Aizu Olympus)
April 4, 2022	UPDATE: Change in Reprocessing Methods with Certain Karl Storz Urological Endoscopes – Letter to Health Care Providers
June 25, 2021	Flexible Bronchoscopes and Updated Recommendations for Reprocessing: FDA Safety Communication
April 01, 2021	FDA is Investigating Reports of Infections Associated with Reprocessed Urological Endoscopes
August 29, 2019	FDA recommends health care facilities and manufacturers begin transitioning to duodenoscopes with disposable components to reduce risk of patient infection
March 09, 2018	FDA warns duodenoscope manufacturers about failure to comply with required postmarket surveillance studies to assess contamination risk

Source: FDA.gov

# An inexorable trend

*“20 years-ago things like needles, clamps and forceps were all reusable  
[disinfected and used again]...  
**...now they are all single use”***



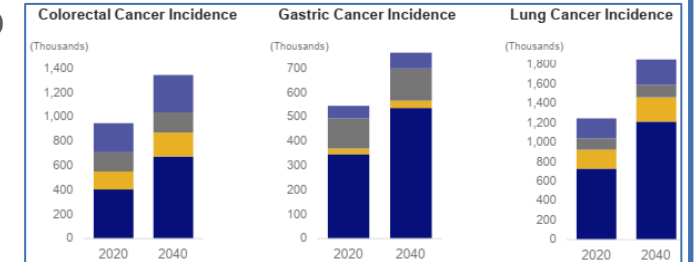
# Whilst Ambu is small, its niche is growing very fast.

## Endoscope:

- Medical device that looks deep into the body.
- Mechanical sheath, optical lens, image sensor, light source and display.
- Can carry and use tools.

## Market size:

- > 100m annual endoscopy procedures per annum in OECD
- Growth driven by increasing disease incidence.
- Olympus ~70% market share in GI endoscopy
- Market is ~98% **Reusable** endoscopes.
- Single use segment growing ~3x faster than total market.

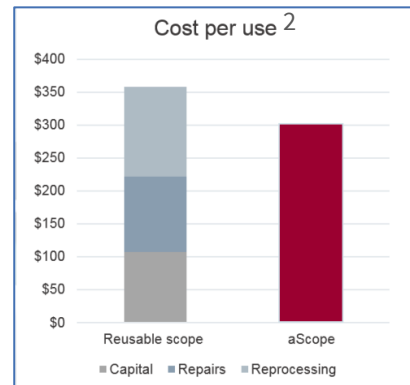


Source: Ambu image library and market estimates, Olympus, Geometrica estimates

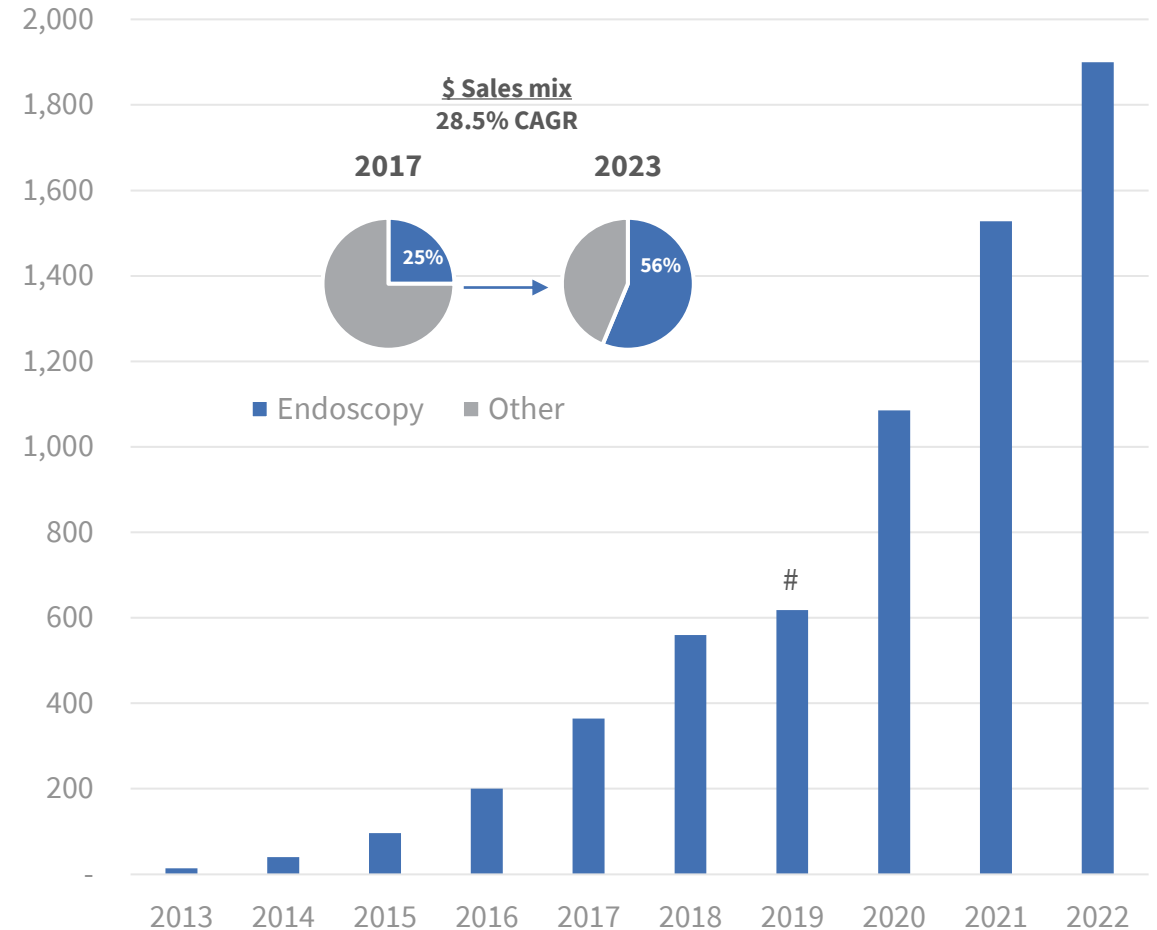
# Ambu is expanding into a large growing TAM

## Business mix shift

- Single use market growing ~3x faster<sup>1</sup> than reusable endoscope market
- Driven by safety concerns and superior economics in some settings; variables including:
  - Cost of reprocessing (transport, clean, repair, disinfect, transport).
  - Differences in capital cost.
  - Efficacy and availability.
- Single use endoscopes getting better over time.
  - Initially the domain of lower frequency use (eg, OR, ICU).
  - Now for some uses, entering high volume suites (e.g. aScope 5 in bronchoscopy)
- Ambu introduced first single use endoscope in 2009.



## Ambu single-use endoscopes sold (000s)



Source: Company filings.

# in 2019 Ambu moved from selling to a distribution partner to selling direct, resulting in a reversal of sales equal to inventory held by the distributor.

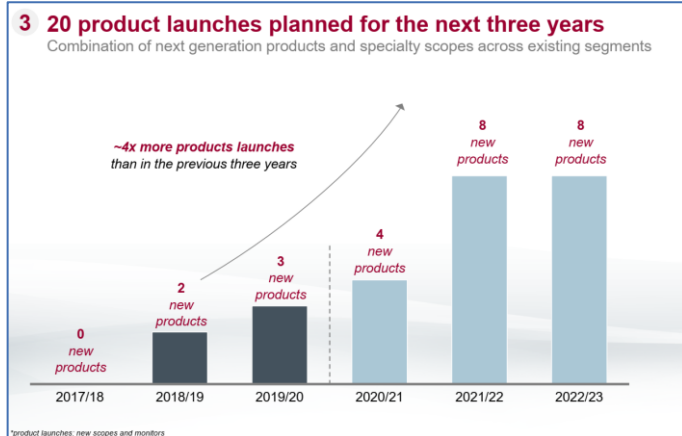
<sup>1</sup> Per Olympus 12 May 2023 FY results presentation slides 19,22, 27 and Geometrica analysis

<sup>2</sup> Illustrative, from Ambu prior year presentations

# 2019–2022 Ambu got ahead of its skis

## Ambu's issues from 2019 to 2022 were mostly self-inflicted

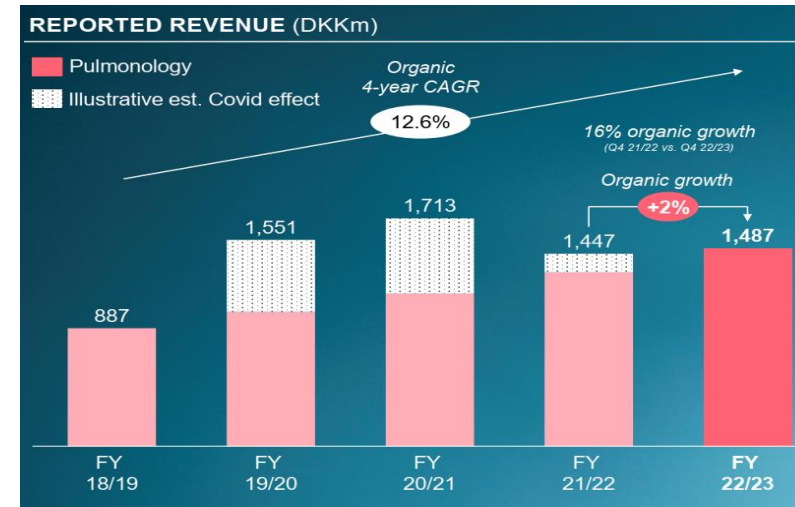
- Overly optimistic (visionary) management...



- ...aggressively grew costs (staff count +35% in 2020).
- Sales grew slower than expected...each end market is highly nuanced.**
- So, Opex grew 1.65x faster than sales from 2019 to 2022.
- EBIT margin was crushed, falling from 22.5% in 2019 to 4.1% in 2022**
- Ambu became a short seller favourite.
- CEO departed in 2020...with the next leaving in 2022.

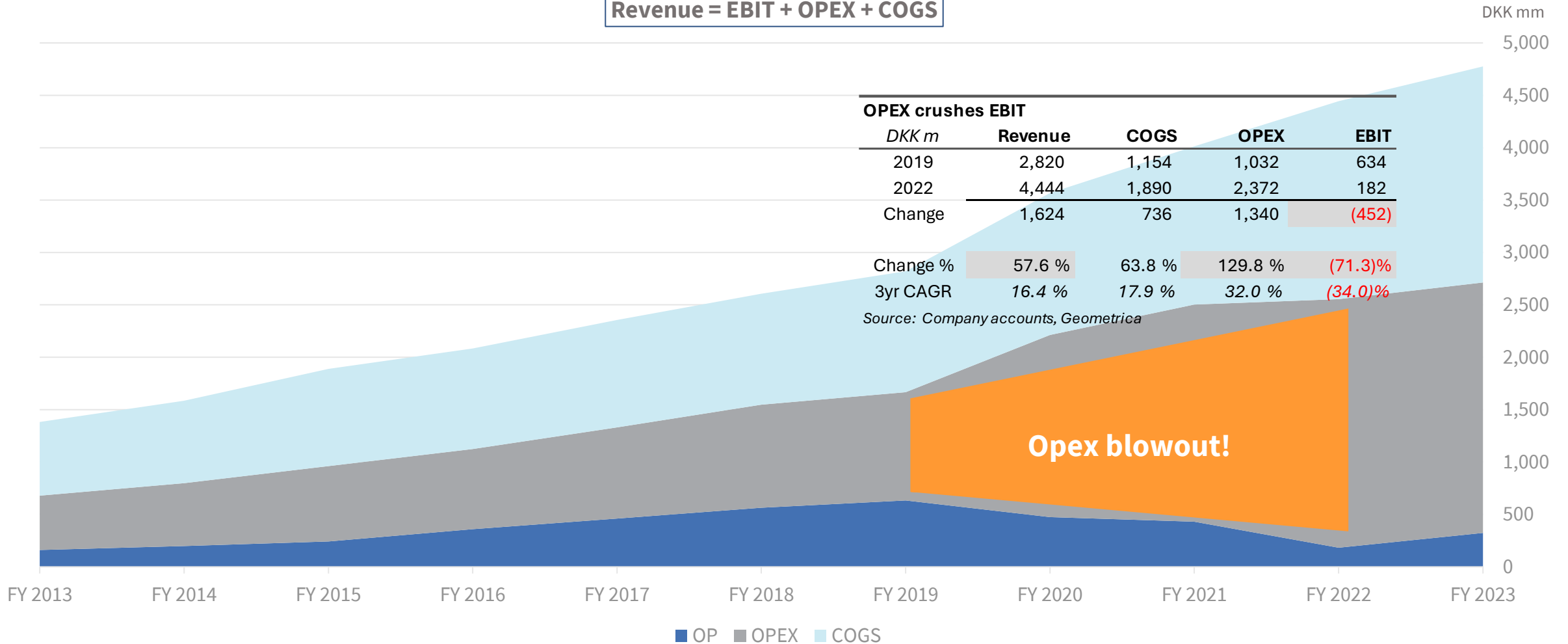
## Ambu 2022 covid channel stuff unwind

- Bronchoscopes in heavy demand with Covid
- Resulted in shortages
- Customers over ordered to build safety stock
- This overstocked channel position unwound across 2022 and 2023
- 2022 sales decline in key pulmonary endoscope market in 2022.
- 2023 now growing; 4Q-2023 exit rate 16% yoy.



# Cost management from 2019-2022 was very weak

$$\text{Revenue} = \text{EBIT} + \text{OPEX} + \text{COGS}$$



Source: Ambu company annual financials, Geometrica analysis



# New CEO enters in early 2022...turnaround starting to kick

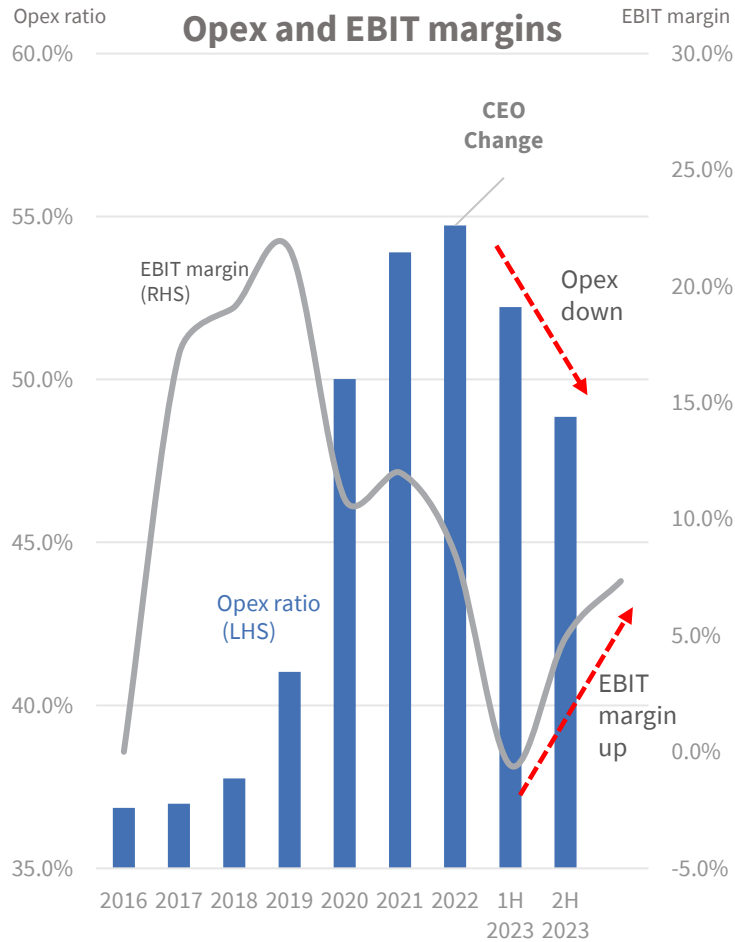
- CEO commenced May 2022...
  - Board director from December 2019 to May 2022
  - Deep knowledge of what went wrong...understanding of how to fix
  - Ex McKinsey, ex Novo Nordisk, ex CEO of Zealand Pharma & Atos Medical
- Key issues to address:
  - Product development cycle
    - Insufficient design-in and proof of benefit.
    - Too many programs running concurrently.
    - Launch phase excessively compressed.
  - Cost management
    - Not scaled to revenue
  - Culture of accountability needed
- Costs cut...refocused on key products...revenue and margins to follow



Source: Ambu capital markets day, 21 March 2023

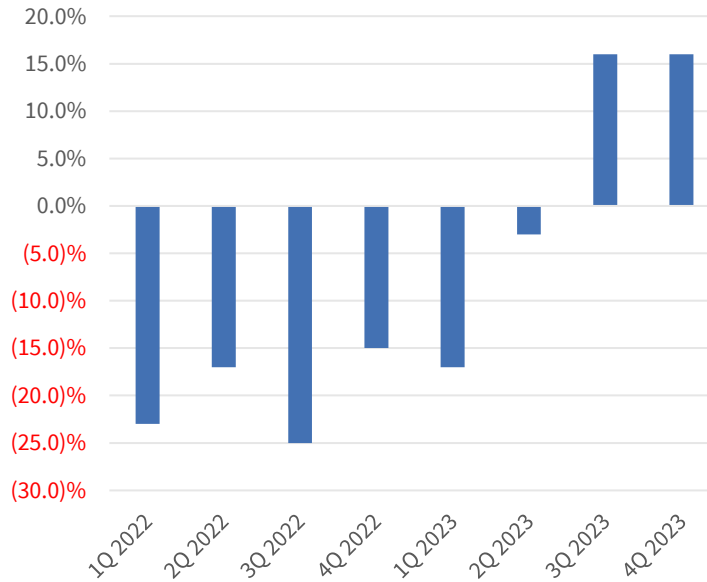
# New management. Classic self-help playbook. Big upside.

## New management targeting costs



## COVID hangover cycling

### Pulmonology Organic Growth y/y

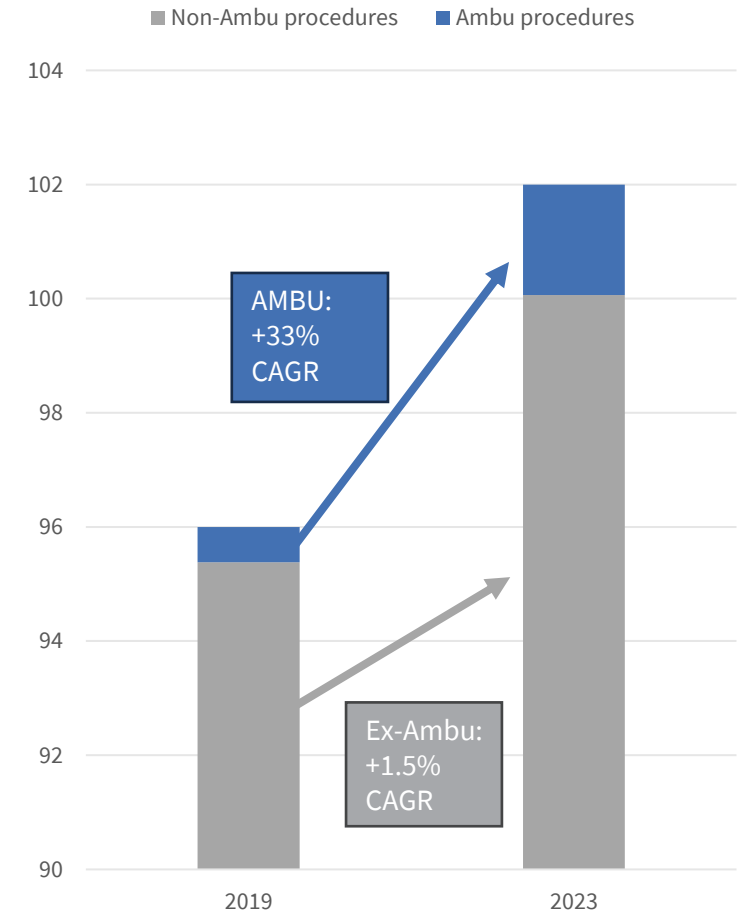


### **Britt Meelby Jensen, Ambu CEO:**

“...inventories that our customers had bought during the Omicron wave, but that were not used [were] still impacting the sales in the first half of the year ... we believe that we are behind this. So now we're fully normalized...” - FY2023 Earnings Call, 8<sup>th</sup> Aug 2023

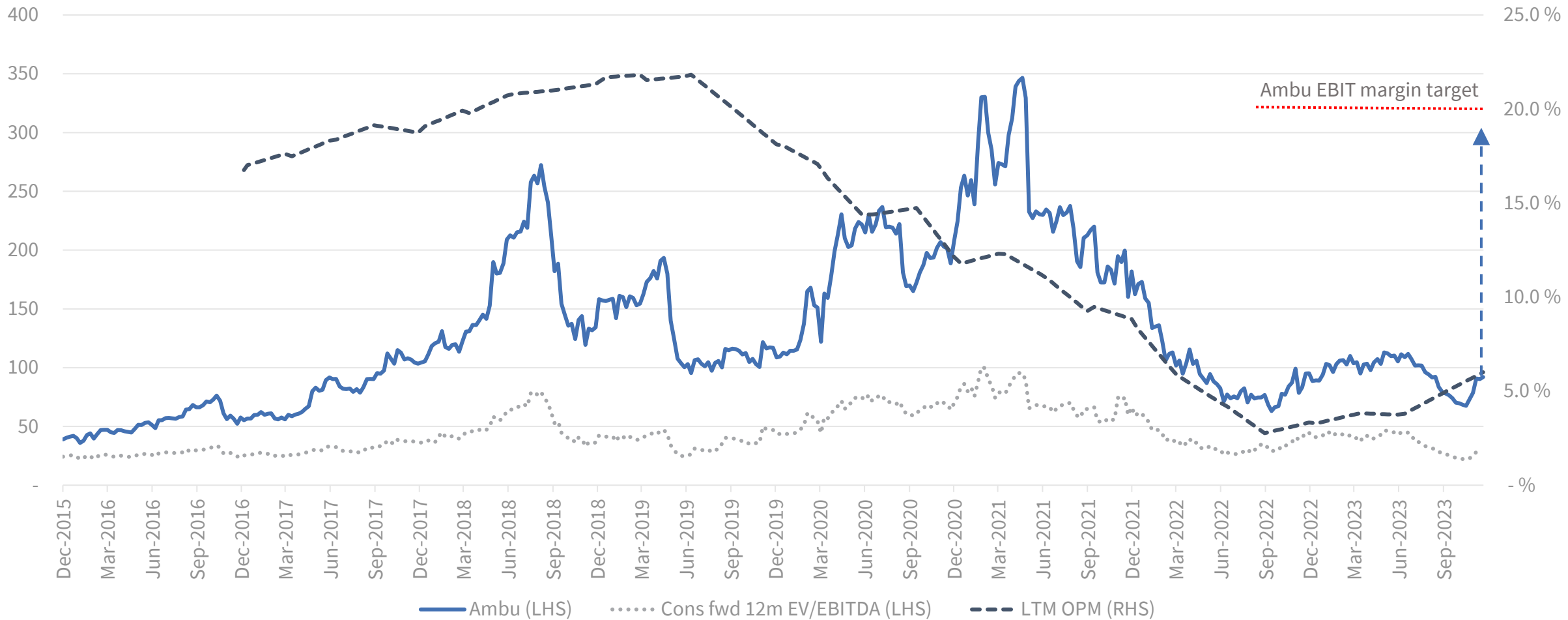
## Structural growth visible again

### Endoscope Procedures



# Ambu: Self-help to drive margin recovery and share price

Ambu's margins are starting to recover as OPEX / sales falls



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