Sleep Cycle

OM: SLEEP

Wake-up Call

Sleep Cycle's share price stands at 28.7 SEK, close to its 52-week low of 23.8 SEK and far below its high of 49.4 SEK. We believe the share is attractively priced because:

- **The market has overreacted to the slowdown in growth**: We believe the share price decline is mainly due to decreased revenue growth. Most of the issues are more cyclical than structural and will revert to normal. The development of other sleep analysis/tracking apps backs this. Sleep Cycle has actually been gaining market share, not losing it.

- **New revenue streams:** To address the slowdown in growth from paying subscribers, Sleep Cycle has initiated multiple new revenue-enhancing initiatives. The promotion partnerships, which opened up opportunities to monetize free users, generate new B2B revenue, and facilitate sleep apnea screening, hold the most substantial promise.

- **Buyback opportunity**: Sleep Cycle holds a substantial cash position and should utilize that money in a buyback program. At record low valuation levels, this would yield tremendous value and also signal confidence to the market.

- **Trend shift in app store ranking:** We have spotted a trend shift in the app store ranking, which, combined with rising new partner revenue, should likely lead to a Q3 beat.

The current valuation implies that Sleep Cycle is a company in terminal decline, which could not be further from the truth. The current share prices create a significant margin of safety from fair value, and we expect to see a mean reversion in the coming quarters, followed by a re-rating of the share. We rate SLEEP as ***Outperform*** *with a target of* ***40 SEK per share*** *within an 18-month timeframe.*

Rating: Outperform **Confidence: Medium** **Target price: 40 SEK**

Timeframe: 18m

(SEKm)	2023	2024	2025E	2026E	2026E
Revenue	236	262	257	284	339
EBITDA	70.0	91.3	77.3	86.0	105.0
EBIT	61.4	82.7	70.5	77.9	96.7
EV/S	2.8x	2.6x	1.7x	1.5x	1.3x
EV/EBITDA	9.4x	7.5x	5.6x	5.0x	4.1x
EV/EBIT	10.7x	8.2x	6.1x	5.6x	4.5x

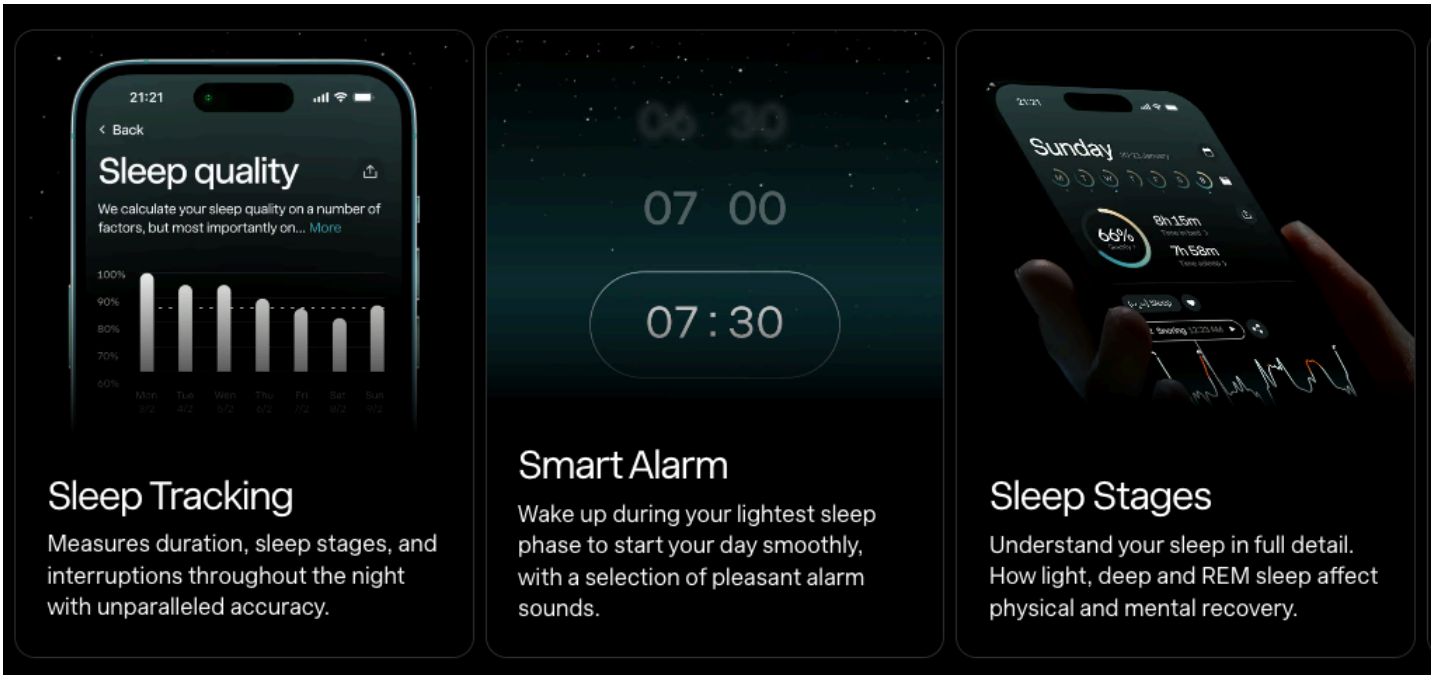
Key data	
Company	Sleep Cycle
Ticker:	SLEEP
FYE:	DEC
Price:	26.5
Mcap:	536
EV	433

Source: Lind Research & Koyfin

Research

Description

Sleep Cycle AB (OM: SLEEP) is a Swedish sleep-tech company behind the subscription-based Sleep Cycle app, which tracks sleep, provides analytics, and a smart alarm to help users improve sleep health. The company earns its revenue from annual subscriptions from paying subscribers that amounted to 878k during Q2'25.



What triggered our interest?

We have been monitoring Sleep Cycle since their IPO and have occasionally used their product. The company appeared on a deep-value screen for low EV/EBITDA multiples, which we regularly review. After digging slightly deeper, we see an interesting opportunity at current share price levels.

Sleep Cycle's share price saw a sharp decline following the release of disappointing Q1 and Q2 reports. It is now trading close to its 52-week low. And about 30% below its

52-week high. As shown in the chart, the most significant decline occurred during the past year, following the release of the Q1'25 report and has since then continued.

SLEEP - 1YR price shart



All analysts (DNBCAR/SEB/Redeye) with coverage of SLEEP have lowered their target/fair value estimates in the past few months, primarily citing low subscriber and revenue growth as the primary concern.

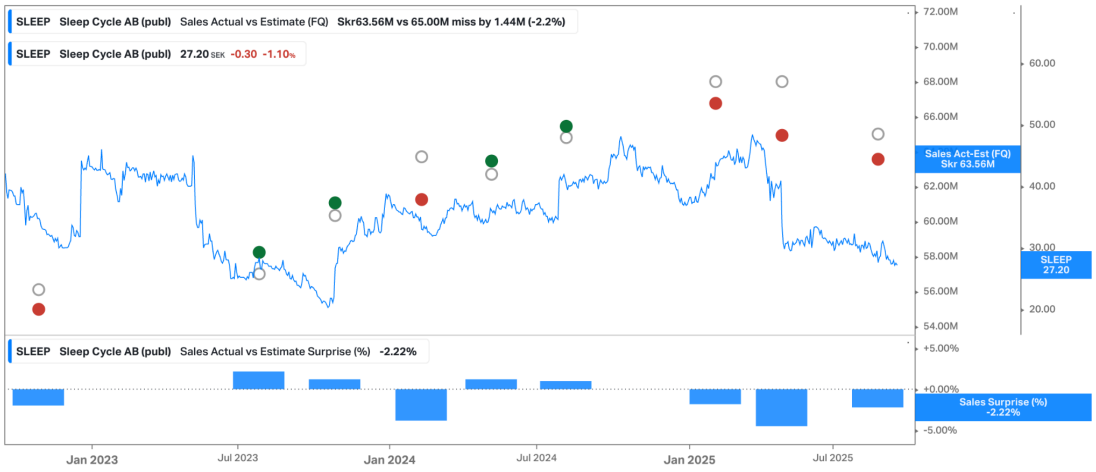
Do the declines deter us? No, this is the setup we like to find potential value. Now, one must understand if the issues Sleep Cycle is facing are temporary or structural.

Market narrative

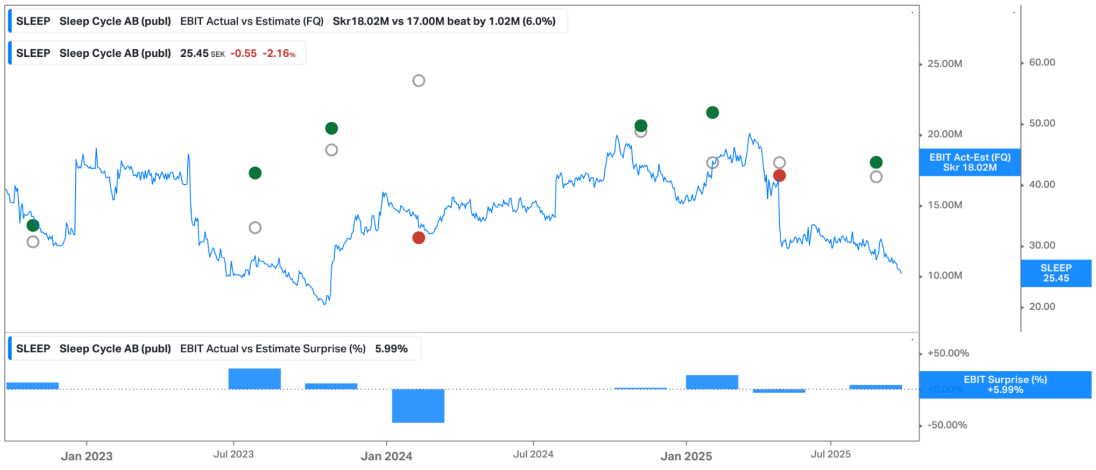
Growth concerns - Share price declines are mostly related to declining growth rates in both revenue and subscribers, as well as management team statements about a volatile environment for health and wellness apps. The market believes that the business will deteriorate further, threatened by user subscription fatigue and a slower economic environment.

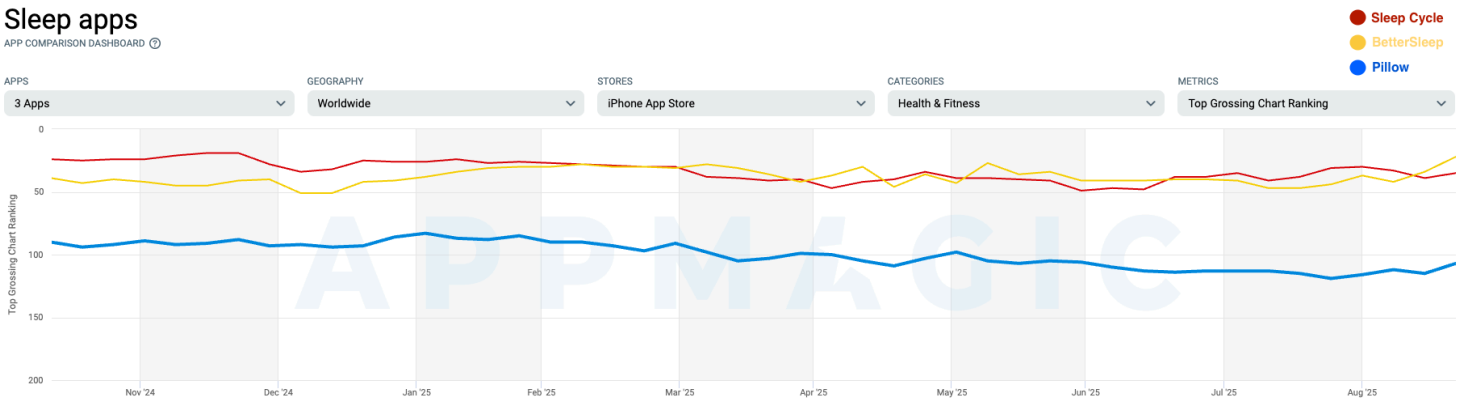
If we compare market beats/misses of sales and EBIT, the underperformance has been relative to sales expectations. This suggests that the market's primary focus is currently on revenue growth. But what then is the actual reality concerning this?

Sleep Cycle - Sales Acutal and Estimate



Sleep Cycle - EBIT Acutal and Estimate





- **Gaining market share**: Sleep Cycle is not falling behind competitors but is actually gaining market share. Market trends tend to be cyclical, and CPI rates along with interest in wellness and health apps will eventually rebound. Changes in app store ranking and visibility impact the entire category, not just Sleep Cycle. Compared to major competitors, Sleep Cycle has seen an increase in app store ranking over the past few months.

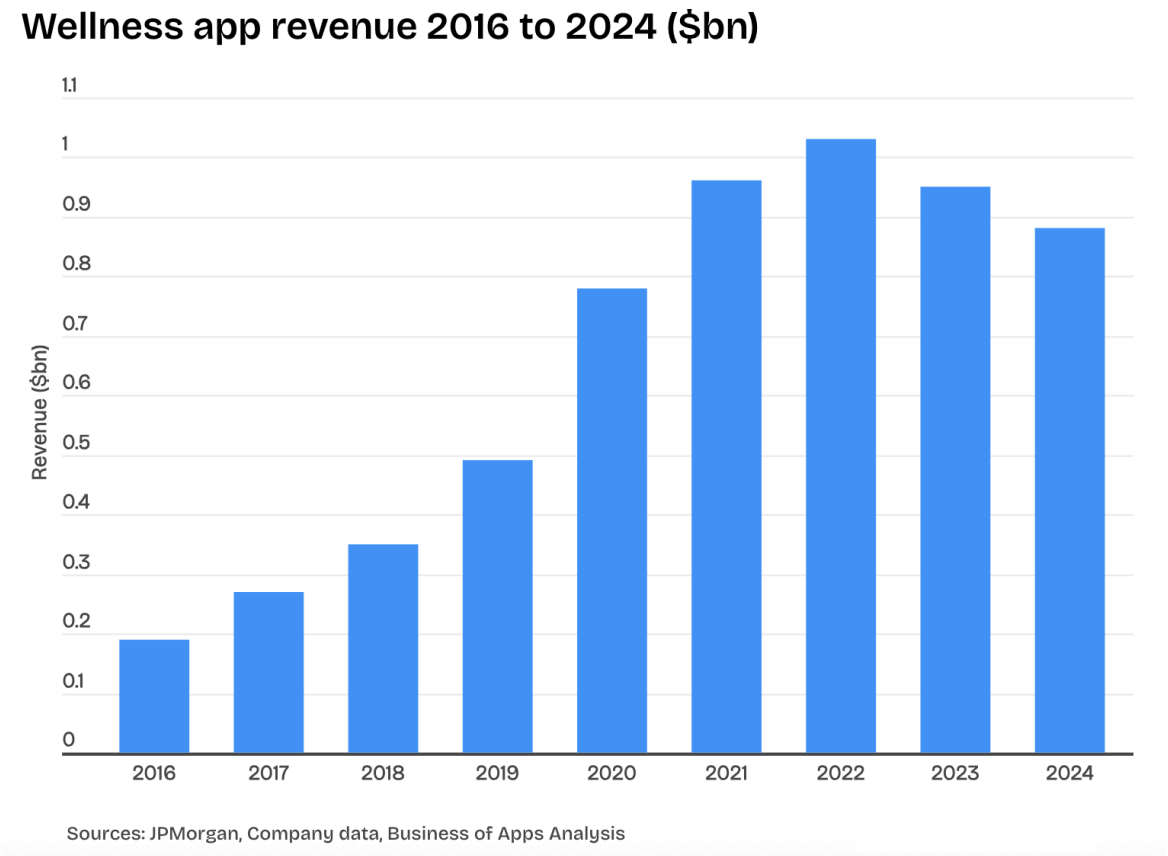
- **New revenue streams and growth initiatives**: Sleep Cycle is launching several new initiatives aimed at fueling growth and generating new revenue streams. These include:
    - Partnerships to expand the paying subscriber base with companies like MyFitnessPal.
    - New in-app promotion partners to monetize the free user base.
    - Sleep apnea certification which could open up an entirely new industry for the company.
    - Selling the core technology to potential partners and other health-related apps where sleep is not the main feature but part of the overall offering.

- **Growing profits:** Sleep Cycle has shown slower revenue growth but increased profit growth. Profitability remains high due to cost controls and efficiency, which will help the sleep cycle when market conditions improve. The strong will survive, and Sleep Cycle remains financially very healthy.

Variant perspective

To make money in investing, you have to have a different view than the market and be right. This is our variant perspective backed by evidence.

1. **Cyclical swings, not structural**: The issues regarding the market are more cyclical than structural, which means that there will be a mean reversion to more favorable market conditions again for health-related apps. The topline has also been heavily affected by the weakened dollar, which we also believe is more cyclical than structural.

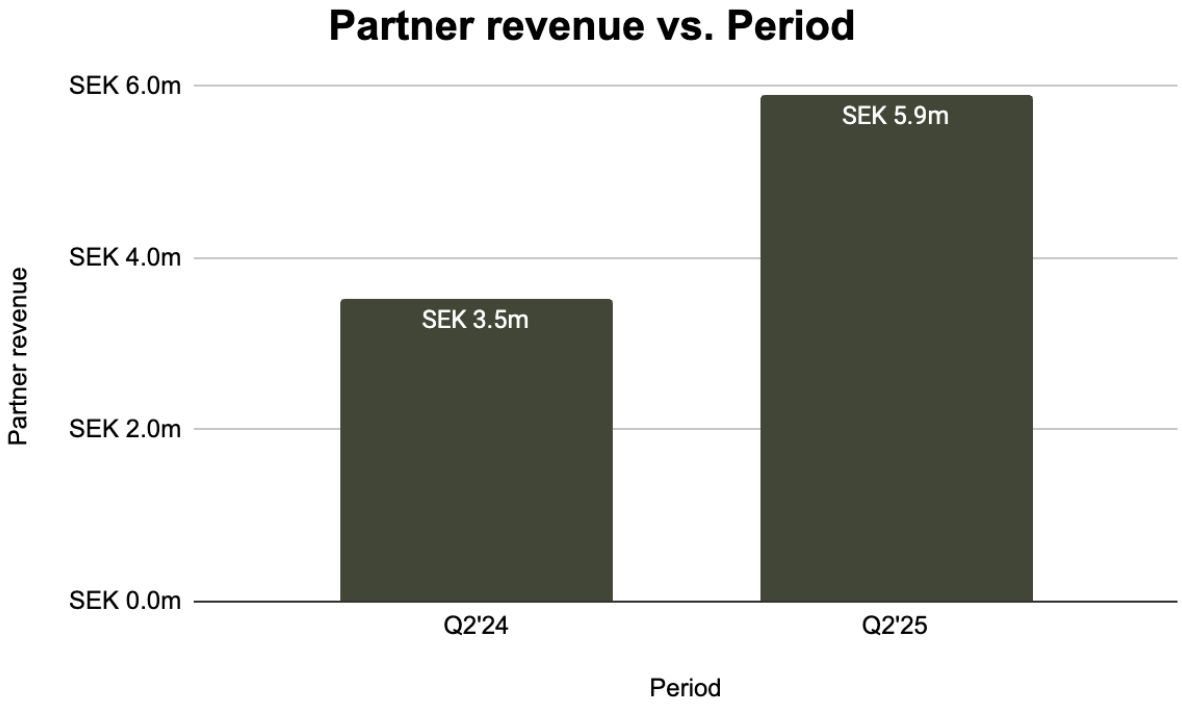


   a. **Evidence**: Declines in users are not isolated to Sleep Cycle. Data suggest most health and wellness apps are experiencing similar patterns, with Sleep

Cycle faring better than most, as they have been able to increase revenue while the category has seen declines since COVID-19 peaks.

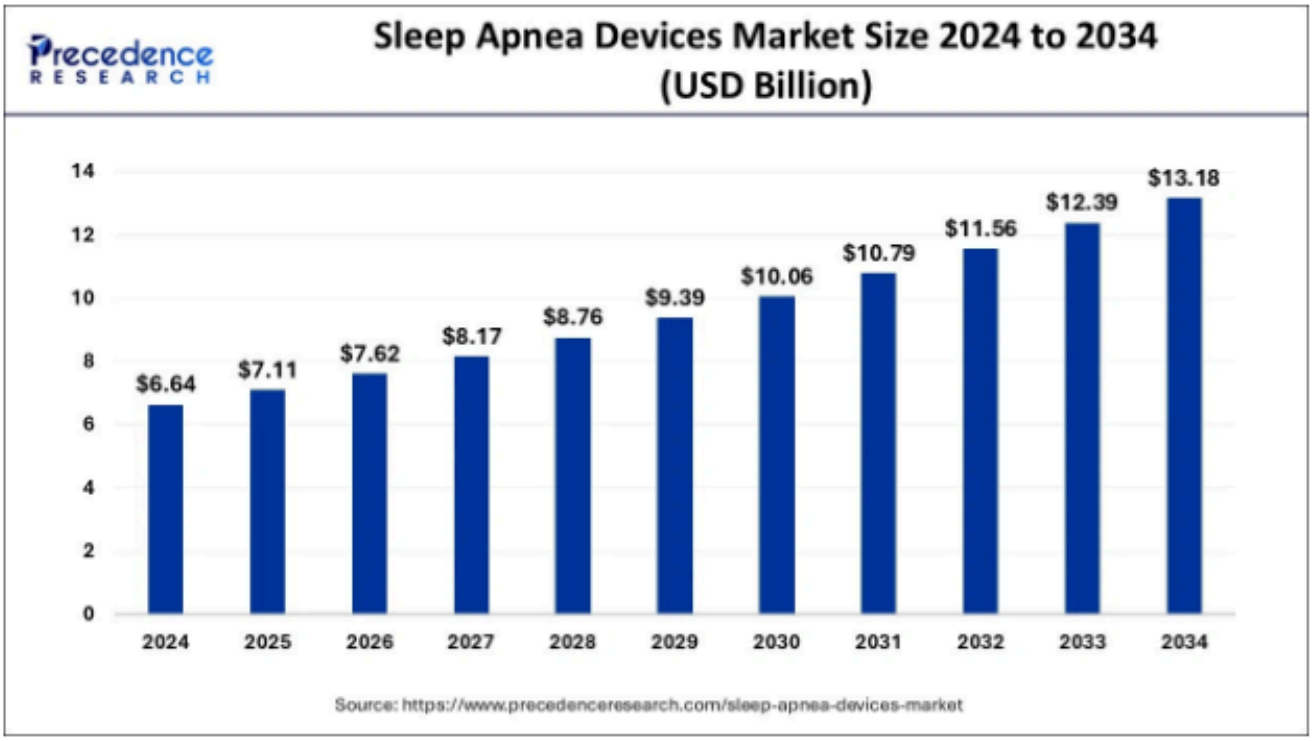
2. **Monetization of free users**: The free user base has significant untapped potential, given that it far exceeds the number of paying users. These can be monetized through in-app promotions with partners or more direct affiliated deals. This can be expanded from the current partners to other sleep-related products, such as innovative mattresses or other devices.

    a. **Evidence**: Successful monetization of free users could be a huge boost to revenue at almost no cost. Estimating eCPM rates with current information is not plausible; however, using a conservative monetization rate of $0.1-$0.2 per free user would increase revenue by 10-20%.



    b. As stated in the Q2 '25 report, revenue from new partner initiatives is growing rapidly and now accounts for 9.3% of net sales, up from 5.4% in Q2 last year. It's still very early, with promotion partnerships going live in June, likely having minimal contribution in Q2.

3. **Sleep apnea certification plausible**: We have seen other examples of sleep apnea certifications for apps and also smartwatches. This gives us confidence that Sleep Cycle will also be an approved sleep apnea screening tool, thus giving rise to significant revenue potential in the coming years.



   a. **Evidence**: Several devices and solutions have recently received FDA approval for consumer- or prescription-grade sleep apnea detection technology. These include smartphone apps, smartwatches, rings, and wearable patches, demonstrating strong regulatory momentum in accessible OSA screening.

      i. **ResApp**: The most similar FDA approval was ResApp's SleepCheckRx from 2022. It was acquired by Pfizer in 2022 for A$179 million, in the year before the acquisition, ResApp had a revenue of A$69.3 thousand. Quite much lower than Sleep Cycle has…

ii. **The potential**: The global sleep apnea market is projected to grow from $795 million in 2024 to $4.07 billion by 2035 at a 16.2% CAGR. The home sleep testing segment alone represents $712 million in 2025, growing to $966 million by 2035. Sleep Cycle's smartphone-based solution could capture meaningful market share by eliminating hardware costs and improving accessibility. Exact market estimates should always be taken with a pinch of salt, but the market is significant and growing.

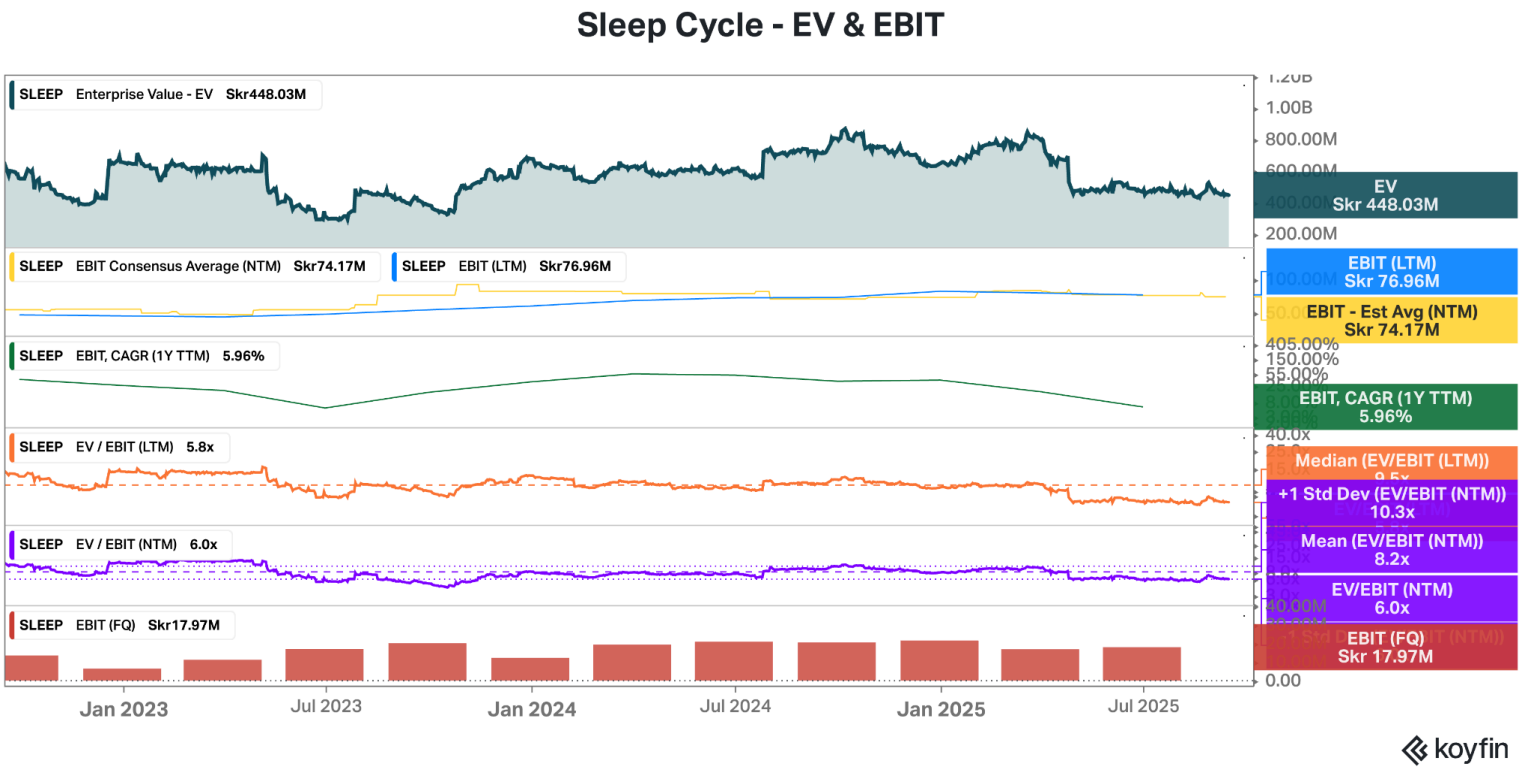
4. **Powered by Sleep Cycle**: A new revenue stream will be to sell Sleep Cycles patented technology to other companies that could enhance their own service by utilizing the technology. A good example is a training app that does not have sleep analysis as its core value proposition, but would like to add it. This is a B2B revenue stream with very different characteristics than the regular consumer subscription.

    a. **Evidence**: Sleep Cycle just launched an SDK solution for developers to build against to gain access to their technology. This is the first step to establishing the B2B leg. See the press release here.

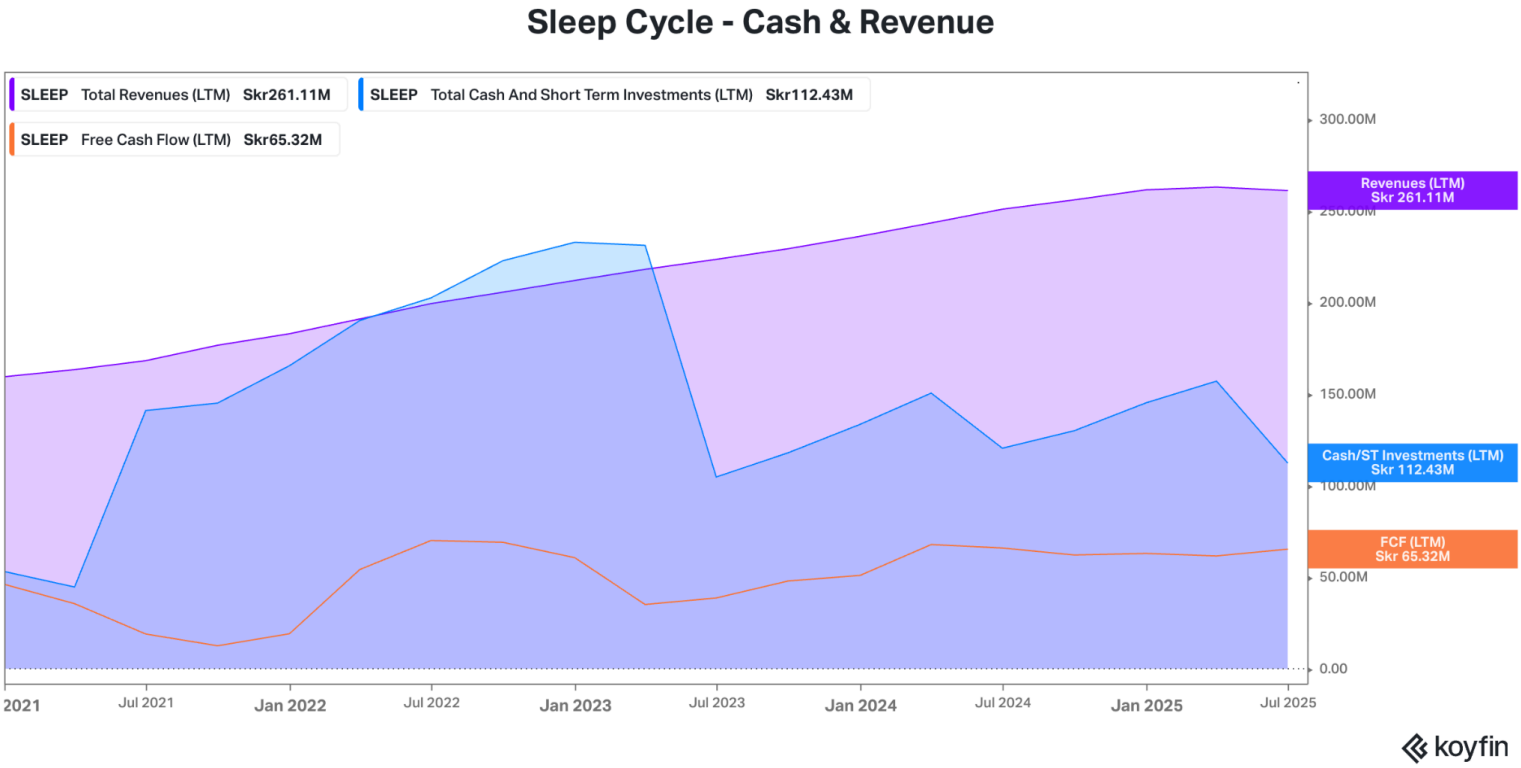
Value-unlock opportunities

In addition to the incorrect market narrative, there are multiple ways for the company to unlock further value. Most crucially, we believe Sleep Cycle has too large a cash position, and that the market is not fully appreciating it, creating a disconnection between market cap and Enterprise value.

1. **Cash not valued by the market**: It looks like the market is not fully valuing the large cash position and prominent cash flow-generating capabilities of Sleep Cycle.



   a. **Evidence**: Based on enterprise value valuation multiples, current levels indicate very depressed levels. It's obviously due to growth concerns, but also because the market is not fully pricing in the significant cash position. Likely, since the company has historically not taken the opportunity of a low valuation to initiate buybacks.



b. Operating cash should usually be maintained at around 5-10% of annual revenue. Sleep Cycle has a cash position of 43% of LTM revenue. This is obviously too high. If Sleep Cycle were a company with negative FCF, it may make sense; however, in this case, the opposite is true.

2. **Buyback opportunity**: The combination of Sleep Cycle's substantial cash position and record-low valuation presents a compelling buyback opportunity.

    a. **Rationale**: Valuation multiples are trading at historical lows, despite the company having initiated multiple new revenue-enhancing actions. Market concerns relate primarily to declining growth. If the company is confident about its new revenue opportunities, it makes sense to repurchase the shares.

        i. A prudent capital allocation action would be to take advantage of the low share price and initiate a buyback program.

1. The buybacks would signal that the company views the valuation as too low at current levels, which might make the market more confident in current revenue opportunities. Despite the record low valuation, no insider transactions have occurred. A buyback would make a clear signal to the market.

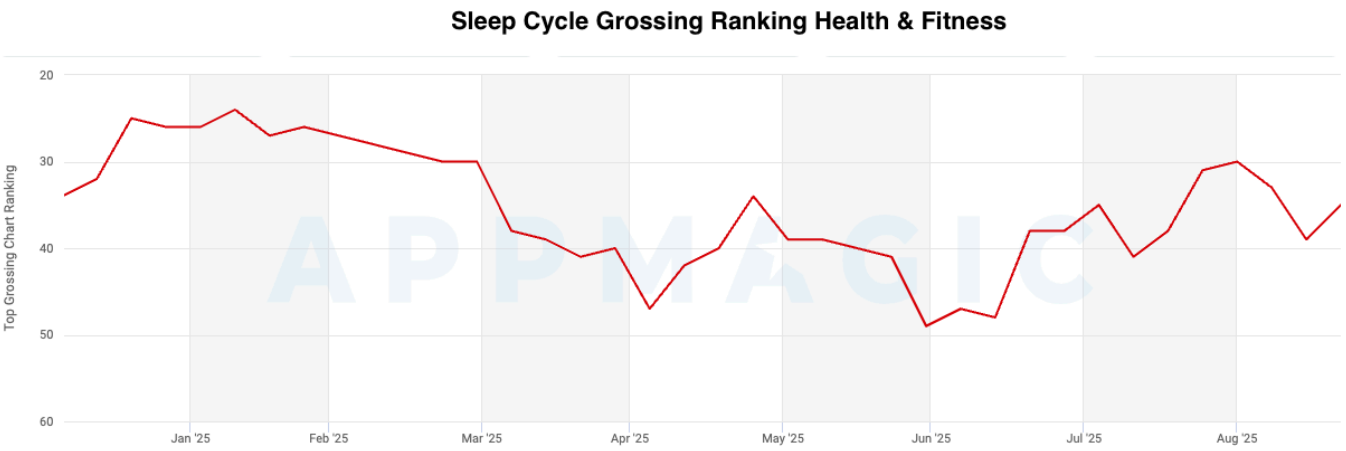
2. Sleep Cycle should actively buy the shares as long as the EV/EBIT LTM remains below 8.0x (currently at 5.4x) for at least 10% of the outstanding shares, which would amount to approximately SEK 50m.

3. **Push for revenue growth**: For us, it's pretty clear that the market values revenue growth more than near-term profitability. The primary reason for this is likely the vast market and long-term monetization opportunities for users.

    a. **A new LTV calculation**: Sleep Cycle should evaluate a more aggressive growth strategy. New monetization options, such as partner deals, could slightly alter the current LTV (Lifetime Value) calculation. If, for example, free users are monetized after a certain point, the situation changes significantly.

    b. **Lean into the user referrals more**: The company states that 80% of new users come through referrals, and a steady flow of new users has a double benefit as it also drives long-term growth. The company should lean more heavily on the referral aspect of the app and try to drive that behavior further. This can be achieved through gamification or rewards for inviting friends.

Timing



The key market concern related to Sleep Cycle is revenue growth. We have observed a trend shift in app store rankings, indicating that Q3 is expected to trend upwards compared to Q2. Along with the initiation of buybacks, market beat on revenue is likely the most significant catalyst for revaluation.

The market expects a decline in Q3 and minimal growth in Q4. We think that the recent rise in rankings and the increasing revenue from new partners seem pessimistic, and we believe there's a good chance we'll see some overperformance and positive updates after Q3.

Earnings Matrix - Reported & Estimates

Sales | EBITDA | EBIT | EPS | EPS GAAP

	FY 2024	FY 2025	FY 2026	FY 2027
1Q Mar	Skr 63.46M	Skr 64.92M	-	-
2Q Jun	Skr 65.44M	Skr 63.56M	-	-
3Q Sep	-	*Skr 63.00M*	-	-
4Q Dec	Skr 66.76M	*Skr 65.00M*	-	-
Year	Skr 261.53M	*Skr 257.00M*	*Skr 283.50M*	*Skr 338.50M*
Growth	10.75%	-1.73%	10.31%	19.40%

Catalyst

The following events might trigger a rerating of Sleep Cycle as the market will gain confidence in growth prospects.

- **Q3 report beat:** We believe Sleep Cycle will beat on Q3. This might trigger a perception change.
- **Partner revenue success**: Continued growth of partner revenue should increase market confidence in future growth.
- **Sleep Apnea Study Results:** The study results are expected to be finalized in late 2025 or early 2026. Positive indications should act as a trigger for the share valuation.
- **Buybacks**: We hope the company will announce a buyback program. This will both lead to long-term value and be a strong signal to the market about the company's prospects.

Risks

The weak USD has a negative short-term impact on Sleep Cycle's reported results. However, this is a temporary headwind that will normalize over time. We believe the market's negative reaction to a factor outside the company's control creates an opportunity rather than a structural concern.



Valuation

The current valuation levels are some of the lowest we have seen for Sleep Cycle since its IPO. Based on consensus estimates, the current EV/EBIT (NTM) stands at 5.7x. Over the past three years, the mean level has been 8.1x.

Basically, the only time we have seen depressed multiple valuations like the current was in 2023, after that period, the share appreciated by about 160%.

Sleep Cycle is due for a mean reversion as the new revenue initiatives start to show effects over the next 6-9 months. Additionally, it appears there is a shift in grossing ranking, which suggests a beat on Q3 numbers.

SLEEP - EV/EBIT NTM



Currently, the market consensus expects EBIT to reach approximately SEK 97 million in 2027; however, these estimates overlook new revenue opportunities and are primarily based on trends of paying subscribers. Therefore, the estimate is somewhat too pessimistic and will assume EBIT will reach SEK 110m. We also assume that when we reach the end of 2026, the market will value Sleep Cycle at 8.0x its next year's EBIT.

Valuation	Anchor	Metric	Multiple	Value	Per share (SEK)
Sleep Cycle	EV/EBIT ('27E)	110	7.0x	770	43
Total				**770**	**43**

Discounted value	
EV 2026	**770**
PC of FCF 25-26	80
WACC	15%
PV	**716**
Debt	8.9
Cash obligations	0.0
Cash	112.4
MCAP	820
Nr of shares	20.3m
Share price	**40.4**
Current price	26.0
MoS	**55%**

IRR-calculation		
	Share price	**EV**
Current	SEK 26.0	SEK 424m
At 2026	SEK 43.1	SEK 770m
IRR	*51%*	*63%*

Using a WACC of 15%, which is relatively high. Yields a current value of SEK 40.7 per share, significantly above the current share price.

Reverse DCF

Market

Reverse DCF Model	Historical							
	2020	2021	2022	2023	2024	2025E	2026E	2027E
Revenue	**158.0**	**181.5**	**212.0**	**236.1**	**261.5**	**256.3**	**281.9**	**335.5**
% Growth rate		*15%*	*17%*	*11%*	*11%*	*-2%*	*10%*	*19%*
Operating Profit	**62.6**	**35.0**	**45.6**	**61.4**	**82.7**	**69.2**	**76.1**	**97.3**
% Operating profit margin	40%	19%	22%	26%	32%	*27%*	*27%*	*29%*
Cash tax	-13.8	-7.7	-10.0	-13.5	-18.2	-15.2	-16.7	-21.4
NOPAT	**48.8**	**27.3**	**35.6**	**47.9**	**64.5**	**54.0**	**59.4**	**75.9**
% NOPAT margin	*31%*	*15%*	*17%*	*20%*	*25%*	*21%*	*21%*	*23%*
Inc. OC investment	**0.5**	**-3.0**	**-1.7**	**3.4**	**5.4**	**1.0**	**2.6**	**-3.2**
Inc. OC rate (%)		13%	5%	-14%	-21%	*-20%*	*-10%*	*6%*
Δ NWC		**-8.7**	**-3.9**	**7.1**	**-17.9**	**-2.6**	**-2.6**	**-5.4**
Inc. NWC rate (%)		-37%	-13%	29%	-70%	*-50%*	*10%*	*10%*
Free Cash Flow (FCF)	**49.4**	**15.6**	**30.0**	**58.4**	**52.0**	**52.4**	**59.4**	**67.3**
% FCF Margin	*31%*	*9%*	*14%*	*25%*	*20%*	*20%*	*21%*	*20%*
ROIC	**167%**	**53%**	**74%**	**100%**	**88%**	**77%**	**92%**	**122%**
DCF calculation								
Discount Factor						0.97	0.84	0.73
FCF Present Value						**51**	**50**	**49**
FCF Cumulative Present Value						51	100	150
Terminal Value						347	332	369
Enterprise Value						**398**	**433**	**519**
- Debt						8.9	8.9	8.9
- Cash obligations						0.0	0.0	0.0
- Preferred shares						0.0	0.0	0.0
- Minority interest						0.0	0.0	0.0
+ Cash						112	112	112
Equity Value						**502**	**536**	**622**
Shares Outstanding (mm)						20.3	20.3	20.3
Implied Share Price						24.7	26.4	30.7
Current Market Share Price						27.6	27.6	27.6
% diff						-10%	-4%	11%
% WACC						15%		

We prefer performing reverse DCFs to gauge implied expectations rather than using the DCF for absolute valuation. In this reversed DCF we are using 15% WACC, which by itself is quite conservative for a cashflow-rich company like Sleep Cycle.

When we use current consensus projections and relatively conservative development of investments, and NWC is evident, the market is pricing a very bleak future for Sleep Cycle.

The current valuation suggests, if the consensus estimates are accurate, that Sleep Cycle will not exhibit value-creating growth. Meaning the market more or less expects the company to be in terminal decline.

Historical vs. expectations		
Factor	**Historical 20'-24'**	**Forecast**
CAP (years)	-	3
CAGR	13%	9%
Avg. oper. marg.	28%	28%
Avg. inc. OC rate	-4%	-8%
Avg. Inc NWC rate	-23%	-10%
Avg. ROIC	96%	97%

This can be compared to the past few years, during which the ROIC averaged 96% and the CAGR was 13%. Margins are not expected to decline that much, and the consensus projects a revenue CAGR of 9% over the coming years. Still, the Competitive Advantage Period (CAP) is implied to be only 3 years, which means that after these years, the ROIC should be below the WACC and not create additional value.

This is unimaginable and implies a significant shift in the competitive environment, effectively wiping out the entire sleep analysis/tracking business for every actor. Highly unlikely in our view.

Target price, rating, and confidence level



The market is overlooking Sleep Cycle and overreacting to the slowdown in growth while ignoring its strong financial health. The current valuation offers a significant margin of safety and does not reflect the true quality of Sleep Cycle's business. In addition, the growth trend will likely reverse due to new partner revenues and other initiatives.

We have set our target price at **SEK 40** per share, with a **Medium** level of confidence. Our target price is based on a ≈7.0x EBIT multiple on our 2027 EBIT projection. We rate Sleep Cycle as **Outperform** within 18 months, and believe we will see a reversion of both growth rates and investor confidence.

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Position: Yes, as of Sep 30, 2025