Active Biotech Q3 2022: Approaching important milestones

Active Biotech **Research Update** 2022-11-03 12:06

Redeye comments on Active Biotech's report for the third quarter and discusses several near-term milestones.

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Rights issue

The most important even in Q3 was the successful rights issue that was subscribed to 86 percent. It raised SEK 47m (it could have raised up to SEK 55m), with expenses amounting to only around SEK 2.2m. This will fund the company across important milestones.

Laquinimod

The phase I trial with laquinimod in healthy volunteers is progressing according to plan. The single-ascending dose part has been completed. An additional higher dose cohort was recruited to the multiple ascending dose part, since the tolerability and safety was good with the lower doses. Results from the trial should be reported in early 2023. After this, an application for phase II study in uveitis patients, an inflammatory eye disease, can be submitted in 2023.

Tasquinimod and Naptumomab

Tasquinimod is being tested in a phase I/IIa trial in multiple myeloma patients in combination with ixazomib, lenalidomide and dexamethasone. There will be a readout of the dose escalation part of this study in late 2022 or early 2023. Furthermore, a proof-of-concept study with tasquinimod in myelofibrosis funded by the Oncode Institute will start in early 2023. In parallel, Active Biotech is working with the MD Anderson Cancer Center in an extended preclinical program for tasquinimod in myelofibrosis. Naptumomab is an anti-cancer fusion protein that binds to 5T4 on cancer cells and contains a bacterial superantigen that triggers the immune system. It is outlicensed to NeoTX, which explores it in two trials. The first results from the phase I/IIa study of naptumomab + durvalumab in solid tumours will be reported late in 2022 or perhaps in early 2023.

SEKm	2020	2021	2022E	2023E	2024E
Revenues	7	-	-	-	136
Revenue Growth	(20.5%)	(100.0%)	N/A	N/A	N/A
EBITDA	(32)	(49)	(55)	(50)	94
EBIT	(32)	(49)	(55)	(50)	94
EBIT Margin	(482.1%)	N/A	N/A	N/A	68.8%
Net Income	(32)	(49)	(56)	(50)	94
EV/Revenue	37.4	N/A	N/A	N/A	1.4
EV/EBIT	(7.7)	(4.7)	(4.3)	(5.8)	2.0

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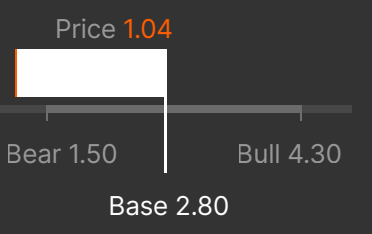
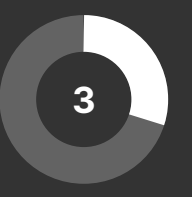
REDEYE QUALITY RATING

FAIR VALUE RANGE



TIMELINESS



KEY STATS

Market Cap	**227.1 MSEK**
Entprs. Value (EV)	**182.7 MSEK**
Net Debt	**-44.4 MSEK**
30 Day Avg Vol	**272 K**
Shares Outstanding	**218.0 M**
EV / Sales	**N/A**
EV / EBIT	**N/A**
Price / Earnings	**N/A**
PEG	**0.0**
Dividend Yield	**N/A**

IMPORTANT INFORMATION

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Case

Three drug candidates with clinical data readouts in 2022-2023 will drive the share

The combination arm of tasquinimod (with ixazomib, lenalidomide, and dexamethasone) in multiple myeloma (MM) is ongoing. We expect to see results from the dose-escalation part in late 2022/ early 2023, while results from the expansion arm (phase IIa) might be available late in 2023 or 2024. A proof-of-concept study with tasquinimod in myelofibrosis funded by the Oncode Institute will start in early 2023. The tasquinimod trial is already externally funded. The phase I trial with laquinimod has tested single doses and is recruiting an additional cohort in the multiple ascending dose part. Results will be reported in early 2023. Active Biotech will seek external funding for the planned phase II trial with tasquinimod in 2023. The third candidate, naptumomab, is outlicensed to NeoTX in a deal worth up to USD 71m with favourable royalty rates. Data from two clinical trials are expected: phase IIa data from the trial in NSCLC in combination with docetaxel is expected in 2023. Phase I data from the phase I/IIa trial with naptumomab and durvalumab in solid tumours is expected in late 2022. A phase II readout might then be possible later in 2023 or 2024. An advantage of Active Biotech over similar companies has been its ability to obtain external financing, or licensing deals, for its projects, leading to substantially lower costs than would otherwise be expected.

Evidence

Repurposed, well-studied compounds reduce risks

The projects have undergone unsuccessful phase III trials, but have demonstrated some level of clinical efficacy. Its internal projects are first-in-class, have well-documented safety profiles, and generally allow for easy administration. Data from previous trials come from several hundred to more than a thousand patients, which can be referenced in the upcoming clinical trials, reducing the clinical risk and potentially cutting costs. Ophthalmology indications historically have a high likelihood of approval.

Challenge

Diluation risk

Although the company uses its cash effectively and has external financing for many of its projects (including tasquinimod and naptumomab), the present cash position will likely only last the company through 2023. The current environmnent for raising cash is highly challenging, though the strong ownership and good historical perfromance in the recent issues argue that Active Biotech should be able to find funding next year, if necessary as long, as the projects develop according to plan.

Challenge

Early-stage projects

Active Biotech's project portfolio is still at an early stage of development. Consequently, there is a high risk of attrition, and timelines are still uncertain. Moreover, Active Biotech and its partner NeoTX are targeting competitive markets in cancer treatment. The probability of success of each clinical phase is low in cancer.

Valuation

Large upside if projects succeede

Our base case is SEK 2.8 and includes the valuation of three projects. Our bull case of 4.3 SEK assumes positive outcomes with laquinimod, tasquinimod and naptumomab in 2022 and 2023.

Discussion

Active Biotech is reaching inflection points across all of its programs. There are now several important triggers in the near term from all three projects:

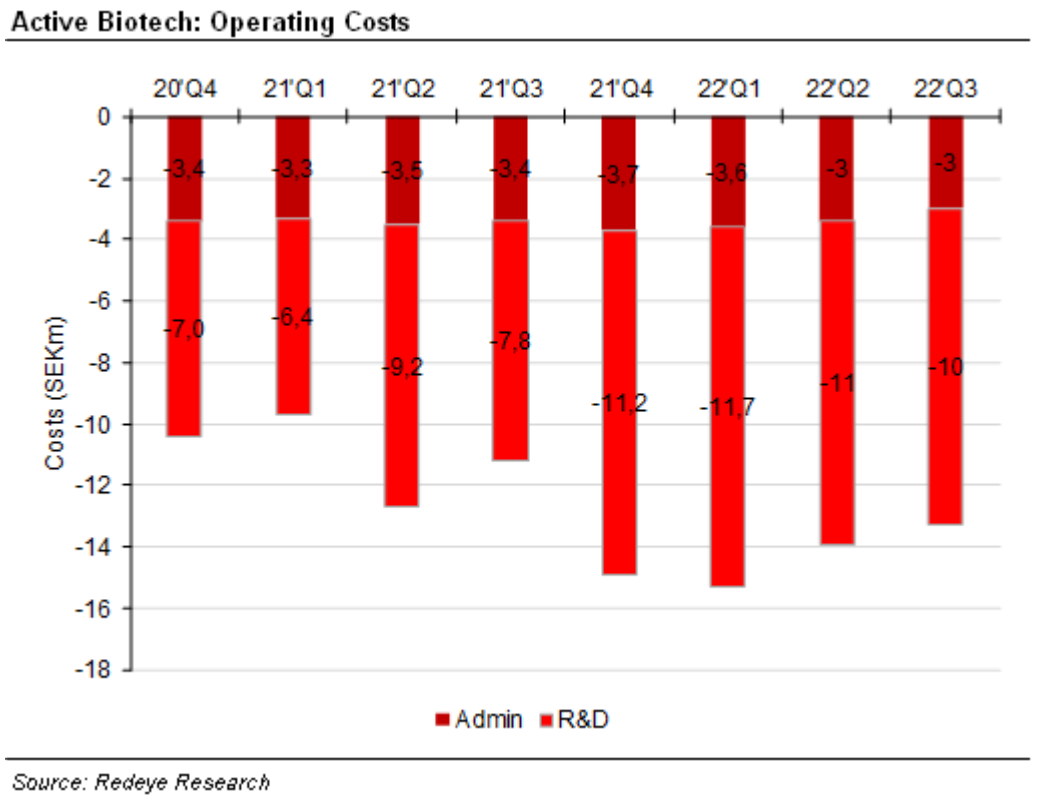
- The phase I study of laquinimod will report results in early 2023.
- The phase I/IIa study of tasquinimod will report results from the first part in late 2022/early 2023.
- The myelofibrosis proof-of-concept study will start in H1 2023.
- The phase I/IIa study of durvalumab will report results from the first part in late 2022/early 2023.

This means that the company will progress from the phase I to the phase II stage across all of its projects in 2023. Naptumomab + docetaxel is already in phase IIa trial, and results from this trial in lung cancer will likely be reported later in 2023.

Other events during the third quarter include the granting of a US patent for the use of laquinimod as a treatment of eye diseases associated with excessive vascularization. A similar European patent was issued in April this year. These use patents are important in broadening the protection of laquinimod since the substance patent has expired. There are several other patent applications for laquinimod. In particular, laquinimod formulation for ocular use will protect the topical formulation if granted.

Financials

The company had no revenues in Q3. Operating costs were in line with the previous quarter at SEK 13.3m (the Q2 figure was 13.9m). The cash position at the end of the quarter was SEK 55m after the receipt of SEK45.5m from the new share issue.



Source: Redeye Research

Valuation

We raise the WACC by 0.5% to 14.5% due to an increase in the risk-free rate. We also raise the SEK/EUR exchange rate. These changes work against each other. The time-value of money also has a slightly positive effect, as the projects are closer in time to positive cash flows, while the decrease in the cash position counteracts this. The overall result is a slight increase in our Base Case to SEK 2.8 (2.7).

Sum-of-the-parts Valuation, Active Biotech						
Project	Indication	Peak Sales (USDm)	LOA	Royalty	Launch	rNPV (SEKm)
Tasquinimod	Multiple Myeloma, Myelofibrosis	580	7-12%	10-15%	2028	326
Naptumomab	Solid tumors	560	11%	15%	2027	230
Laquinimod	Ophthalmology	230	22%	15%	2027	270
Total		1370				827
	Shared costs, incl. taxes					-142
	Net cash, Q2'22					55
	Total					**740**
	Shares outstanding					265
	Value Per Share					**2,8**

Source: Redeye Research

You can read more about our valuation assumptions and Active Biotech's projects in our in depth research update.

People: 3

Management consists of a small, experienced team with extensive experience in clinical and business development. The CEO was previously Chief Scientific Officer at the company and led the research and clinical development of Active Biotech's projects in neurodegenerative diseases and cancer. The board brings extensive and relevant international bio-pharma experience.

Business: 3

Active Biotech is a clinical-stage biotech, developing first-in-class treatments in oncology and inflammatory eye disorders. Current commercial and academic partnerships enable low-cost development of tasquinimod (multiple myeloma) and naptumomab (solid tumors).

Financials: 0

Active Biotech has never generated any income from product sales and has not been profitable on an annual basis since 2001. The company raised SEK75m before costs for January 2021 in a rights issue. It raised SEK45m to fund operations in 2023.

SEKm	2020	2021	2022E	2023E	2024E
Accounts Receivable	0.28	-	-	-	11
Average Inventories	-	-	-	-	-
Other Current Assets	4	3	-	-	11
Total Current Assets	30	56	41	(9)	115
Property, Plant and Equipment (Net)	-	-	6	6	6
Invested Capital	(4)	3	6	6	(2)
Goodwill	-	-	-	-	-
Right-of-Use Assets	2	1	-	-	-
Other Long Term Assets	-	-	-	4	4
Total Non-Current Assets	2	1	6	10	10
Total Assets	32	57	47	1	125
Short Term Debt	1	9	7	7	7
Accounts Payable	3	-	-	-	16
Other Current Liabilities	5	-	-	-	14
Total Current Liabilities	9	9	7	7	37
Long Term Debt	1	-	-	-	-
Other Long Term Lease Liabilities	-	-	3	7	7
Shareholder's Equity	22	48	37	(12)	81
Non Controlling Interest	-	-	-	-	-
Total Liabilities and Equity	32	57	47	1	125
Cash Equivalents	26	53	41	(9)	93
Change in Working Capital	(2)	(7)	3	-	8
Operating Cash Flow	(32)	(46)	(56)	(50)	102
Capital Expenditures	-	-	-	-	-
Investing Cash Flow	-	-	-	-	-
Financing Cash Flow	(1)	74	44	-	-
Free Cash Flow	(32)	(46)	(56)	(50)	102

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 longterm 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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