Active Biotech

Sector: Biotech

Active Biotech Q1'22: Our comments and updated valuation

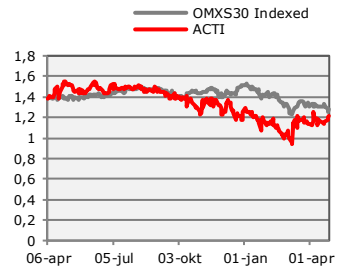
TASQUINIMOD

The most interesting news to be announced during the quarter was the collaboration with Dutch Oncode Institute concerning tasquinimod in myelofibrosis. Importantly, Oncode will finance the first clinical trial, a proof-of-concept study set to start in 2023, which translates to a very low risk for Active Biotech, who will only have to commit limited financial resources. This is also an important validation of the project's potential.

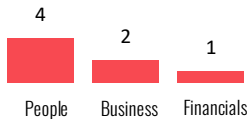
FAIR VALUE RANGE

BEAR	BASE	BULL
1.3	2.2	3.7

G5 VERSUS OMXS30



REDEYE RATING



Key Financials (SEKm)	2019	2020	2021E	2022E	2023E
Net sales	8	7	0	0	0
Revenue growth	-58%	-20%	-100%	NA	NA
EBITDA	-32	-32	-49	-53	-81
EBIT	-33	-34	-49	-53	-81
EBIT Margin (%)	-395%	-512%	NA	NA	NA
Net Income	-31	-34	-49	-53	-81
EV/Revenue	25,9	37,4	NA	NA	NA
EV/EBITDA	NA	NA	NA	NA	NA
EV/EBIT	NA	NA	NA	NA	NA

KEY STATS

Ticker	ACTI.ST
Market	Small Cap
Share Price (SEK)	1.2
Market Cap (SEKm)	260
Net Debt (SEKm)	NA
Free Float (%)	70
Avg. daily volume ('000)	250

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Myelofibrosis

Myelofibrosis is an extremely rare orphan cancer with an incidence of 4-13 cases per million in Europe. This translates to a total incidence of around 3000 to 10 000 in the seven major markets.

It is an uncurable condition, except with stem cell transplantation. Patients are highly heterogenous. Some, at low risk, are only observed and not treated, while high-risk groups receive stem cell transplantation or ruxolitinib (JAK2). Hydroxy-urea and fedratinib (JAK2) are also available. Depending on risk factors, survival has been estimated at 2-11 years.

This is a niched indication with limited competition, as treatments, except transplantation, are not disease modifying (they only treat symptoms). Laquinimod should likely be able to achieve a large market penetration if disease modifying efficacy can be proven. Pricing could likely be very high, as the population is small. As it is a chronic disease, treatment could potentially last long and across several lines.

Given these facts, we calculate a tentative peak sales of around USD 200m in this indication, which we add to multiple myeloma. However, due to inlicensing from Oncode Institute, for which Active Biotech will have to pay milestones and royalty, we assume an effective royalty rate of 10 percent in this indication (and 15 percent in MM).

Development could be comparatively fast – in theory a market application could be submitted already after the first proof-of-concept trial in patients with myelofibrosis planned to start in early 2023. However, at this early stage when a detailed plan of the trial is not yet available, we assume that a second phase III pivotal trial will have to be performed before approval, likely in the hands of a new partner. This would mean a market launch around the same time as in multiple myeloma, in 2028.

Multiple Myeloma

Tasquinimod is being positioned for approval in the third line and later in multiple myeloma, and could later, through additional trials, potentially expand into earlier lines of therapy. It is now being tested in combination with iaxozomib, lenalidomide and dexamethasone to first establish the optimal dose an treatment schedule. When this part is finished, an expansion cohort will be recruited with this dose and schedule. The trial is conducted together with Abramson Cancer Center, USA, which is the by far most important market for this indication. We believe that a somewhat larger phase II trial conducted by Active Biotech will be the next step after this.

LAQUINIMOD (UVEITIS)

A new eye drop formulation has been successfully developed, which is being tested since December 2021. The phase I trial will recruit up to 42 subjects. The first part, the single dose ascending study, has been completed without any safety issues. The second part, the multiple dose ascending study, is now onoing. The company expects full results by the middle of this year, which will be a share catalyst. We believe the likelihood of successfully concluding the phase I trial is high. A phase II results is now being planned, expected to start in 2023. It cannot be financed by cash at hand, so new financing will have to be in place by then.

NAPTUMOMAB (SOLID CANCERS)

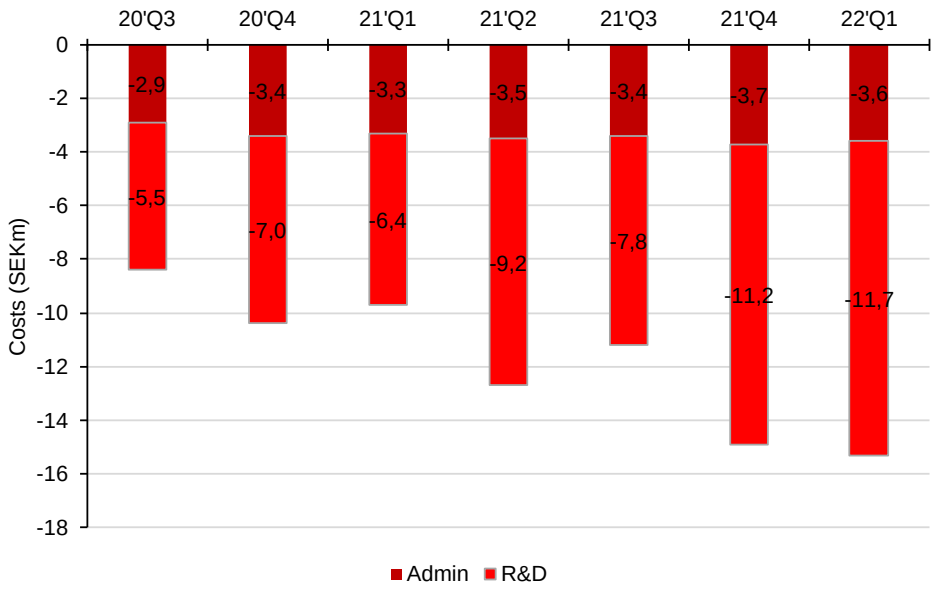
Naptumomab is outlicensed to NeoTX, which finances its further development. It has two ongoing trials, a phase IIa trial in combination with docetaxel in lung cancer as a potential

second-line treatment and a phase Ib/II trial in combination with PD-L1-inhibitor durvalumab in 5T4 positive cancer patients. All patients are treated with a drug to reduce anti-drug-antibodies (ADA). Active Biotech expects an update from the phase Ib/II trial by the first half of this year, and a first readout from the phase IIa trial in 2023, both of which could be important share catalysts.

Financials

The company had no revenue in Q1. Operating costs were stable compared to the previous quarter at SEK 15.3m. Cash flow was also negative SEK 15.3m.

Active Biotech: Operating Costs



Source: Redeye Research

The cash position at the end of the period was SEK 37.8m. Costs might decrease in H2 after the conclusion of the phase I trial with laquinimod. According to Active Biotech, cash at hand finances activities for the coming 12 months. The company is actively evaluating financial alternatives for furthering its pipeline, such as outlicensing an asset, a directed equity issue to qualified investors or a rights issue. More details about this should be communicated in the coming six months.

DCF-Valuation

We have now added myelofibrosis as an indication for tasquinimod. We have increased the SEK / Dollar rate to 9.4 (9.0) and made some minor adjustments to our costs forecast. These changes have a positive effect on our Base Case.

We have now factored in an equity issue in the valuation of the same size as the last one, or SEK 75m, which will finance, among other things, phase II trials of tasquinimod and laquinimod from 2023. As the company has a strong owner base, with the top 15 owners holding around 50 percent of all shares, the majority of them being institutional investors, we calculate with only a moderately high discount (30%) in the subscription price, similar to the last issue, leading to a moderate dilution. Our new, fully diluted, Base Case is SEK 2.2.

Sum-of-the-parts Valuation, Active Biotech

Project	Indication	Peak Sales (USDm)	LOA	Royalty	Launch	rNPV (SEKm)*
Tasquinimod	Multiple Myeloma, Myelofibrosis	580	4-12%	10-15%	2028	284
Naptumomab	Solid tumors	560	10%	15%	2027	188
Laquinimod	Ophthalmology	230	20%	15%	2027	234
Total		1370				706
	Shared costs, incl. taxes					-127
	Net cash, Q1'22					38
	Total					**617**
	Shares outstanding					218
	Value Per Share					**2,8**
	Fully Diluted Value Per Share					**2,2**

* Based on the assumption of SEK/USD of 9.4.
Source: Redeye Research

Bear Case SEK 1.3

Development of tasquinimod is cancelled owing to unfavorable results in the phase I combination trial.

Base Case SEK 2.2

For tasquinimod, we assume an LOA of 4-12 percent and peak sales of USD 580m in MM and myelofibrosis.

For laquinimod, we pencil in a partnering deal in 2024 following completion of a phase II trial in uveitis.

We assume a share issue of SEK 75m at 30 percent discount.

Bull Case SEK 3.7

Tasquinimod shows favorable results in the phase I/IIa combination trial. We raise the probability of success for the phase II trial to 40 percent.

We assume that laquinimod completes phase I successfully.

We assume a share issue of SEK 75m at 10 percent discount.

	2021	2022E	2023E	2024E
INCOME STATEMENT				
Net sales	0	0	0	139
Cost of Revenues	0	0	0	0
Gross Profit	0	0	0	139
Operating Expenses	49	53	81	55
EBITDA	-49	-53	-81	85
Depreciation & Amortization	0	0	0	0
EBIT	-49	-53	-81	85
Net Financial Items	0	0	0	0
EBT	-49	-53	-81	85
Income Tax Expenses	0	0	0	0
Non-Controlling Interest	0	0	0	0
Net Income	-49	-53	-81	85
BALANCE SHEET				
Assets				
Current assets				
Cash & Equivalents	53	75	-6	87
Inventories	0	0	0	0
Accounts Receivable	0	0	0	11
Other Current Assets	3	4	0	11
Total Current Assets	56	79	-6	109
Non-current assets				
Property, Plant & Equipment, Net	0	1	1	1
Goodwill	0	0	0	0
Intangible Assets	0	0	0	0
Right-of-Use Assets	1	0	0	0
Shares in Associates	0	0	0	0
Other Long-Term Assets	0	0	0	0
Total Non-Current Assets	1	1	1	1
Total Assets	57	80	-5	110
Liabilities				
Current liabilities				
Short-Term Debt	9	9	9	9
Short-Term Lease Liabilities	0	0	0	0
Accounts Payable	0	0	0	17
Other Current Liabilities	0	0	0	14
Total Current Liabilities	9	9	9	39
Non-current liabilities				
Long-Term Debt	0	0	0	0
Long-Term Lease Liabilities	0	0	0	0
Other Long-Term Liabilities	0	0	0	0
Total Non-current Liabilities	0	0	0	0
Non-Controlling Interest	0	0	0	0
Shareholder's Equity	48	-5	-86	-2
Total Liabilities & Equity	57	4	-78	38
CASH FLOW				
NOPAT	-49	-53	-81	85
Change in Working Capital	-7	-1	4	8
Operating Cash Flow	-46	-53	-81	93
Capital Expenditures	0	0	0	0
Investment in Intangible Assets	0	0	0	0
Investing Cash Flow	0	0	0	0
Financing Cash Flow	74	75	0	0
Free Cash Flow	-46	-53	-81	93

	2021	2022E	2023E	2024E
CAPITAL STRUCTURE				
Equity Ratio	0,8	-0,1	16,4	0,0
Debt to equity	0,2	-1,7	-0,1	-5,8
Net Debt	-44	-66	15	-78
Capital Employed	48	71	-14	71
Working Capital Turnover	0,0	0,0	NA	-16,7
GROWTH				
Revenue Growth	-100%	#DIV/0!	#DIV/0!	#DIV/0!
Basic EPS Growth	-6%	9%	53%	-204%
Adjusted Basic EPS Growth	-6%	9%	53%	-204%
PROFITABILITY				
ROE	-139%	-248%	178%	-193%
ROCE	-101%	-75%	582%	120%
ROIC	7638%	-1493%	-3121%	-2504%
EBITDA Margin (%)	NA	NA	NA	61%
EBIT Margin (%)	NA	NA	NA	61%
Net Income Margin (%)	NA	NA	NA	61%
VALUATION				
Basic EPS	-0,2	-0,2	-0,4	0,4
Adjusted Basic EPS	-0,2	-0,2	-0,4	0,4
P/E	NA	NA	NA	3,1
EV/Revenue	NA	NA	NA	1,3
EV/EBITDA	NA	NA	NA	2,2
EV/EBIT	NA	NA	NA	2,2
P/B	5,7	NA	NA	NA

SHAREHOLDER STRUCTURE	**CAPITAL %**	**VOTES %**
Mats Arnhög & bolag	26,2%	26,2%
Avanza Pension	6,8%	6,8%
Handelsbanken Liv Försäkring AB	6,6%	6,6%
Fjärde AP-fonden	2,7%	2,7%
Tredje AP-fonden	2,7%	2,7%

SHARE INFORMATION	
Reuters code	ACTI.ST
List	First North
Share price	1,22
Total shares, million	217,972

MANAGEMENT & BOARD	
CEO	Helen Tuvesson
CFO	Hans Kolam
Chairman	Michael Shalmi

ANALYSTS
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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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Redeye Rating (2022-04-28)

Rating	People	Business	Financials
5	32	15	4
3-4	154	136	47
0-2	5	40	140
total	191	191	191

Duplication and distribution

CONFLICT OF INTERESTS

Richard Ramanius owns shares in the company : No

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