



ERIK PENSER BANK

Penser Access | Pharmaceuticals: Major | Sweden | 27 May 2021

Initiator Pharma

A lot going on

Low costs in Q1 2021

Performance in the first quarter reaffirms the company's strict cost control, and operating expenses fell to DKK 1.8 million (2.4). To finance increased clinical activity, a directed issue of SEK 30 million has been carried out and a preferential rights issue of the same amount is imminent. The issues provide financing into 2023 and also strengthen the shareholder base with reputable investors such as Linc.

Broadened pipeline

Most interesting in Q1 2021 was the announcement of a project portfolio expansion with IPTN2021 (a new formulation of IPED2015) in trigeminal neuralgia. This is an indication in severe pain where there are currently no effective treatment options. A Phase 1b trial is expected to start this year, with results in 2022. We see significant potential for IPTN2021 and will provide a more detailed view of the project.

More attractive

Following the report, we have adjusted for the issues but not made any forecast changes. We maintain our fair value for the stock that indicates potential of up to SEK 11-12. We see improved finances, the new shareholder base and a broadening of the project portfolio outside ED as significant steps to increase interest in the share among investors. However, we would like to point out that the level of risk remains high.

Estimate Changes (DKK)			Estimates (DKK)					Risk and Potential		
	Now	Before		20	21e	22e	23e	Motivated value	11.00 - 12.00	
EPS, adj 21e	-0.31	-0.36	-14.2%	Sales,m	0	0	0	102	Current price	SEK4.03
EPS, adj 22e	-0.37	-0.43	-14.2%	Sales Growth	NA%	NA%	NA%	NA%	Risk level	High
EPS, adj 23e	1.56	1.81	-14.2%	EBITDA, m	(10.5)	(15.4)	(18.4)	65	<div style="background-color: #004a33; color: white; padding: 5px; text-align: center;">One Year Performance Chart</div>	
<div style="background-color: #004a33; color: white; padding: 5px;">Calendar Events</div>				EBIT, m	(10.5)	(15.4)	(18.4)	64.8		
				EPS, adj	(0.31)	(0.31)	(0.37)	1.56		
Q2 2021		20 aug 2021	EPS Growth	NA%	NA%	NA%	NA%			
Q3 2021		19 nov 2021	Equity/Share	0.4	1.1	0.6	2.5			
<div style="background-color: #004a33; color: white; padding: 5px;">Key Figures (DKK m)</div>				Dividend	0.00	0.00	0.00	0.00		
				EBIT Marginal	-%	NA%	NA%	63.5%		
Number of Shares		35.8m	ROE (%)	-%	-%	-%	75.9%			
Market cap		144	ROCE	-%	-%	-%	72.0%			
Net Debt		(51)	EV/Sales	--x	--x	--x	0.91x			
EV		93	EV/EBITDA	(8.9)x	(6.0)x	(5.1)x	1.4x			
Free Float		100.00%	EV/EBIT	(8.8)x	(6.0)x	(5.1)x	1.4x			
Avg. No. of Daily Traded Sh.		49.0(k)	P/E, adj	(12.8)x	(13.0)x	(10.9)x	2.6x			
Reuters/Bloomberg		Init.st/Init ss	P/Equity	10.0x	3.6x	6.4x	1.6x			
			Dividend yield	0.0%	0.0%	0.0%	0.0%			
			FCF yield	(6.1)%	(8.2)%	(10.1)%	39.4%			
			Net Debt/EBITDA	1.3g	2.5g	1.1g	(1.4)g			

Analysts

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Overview

A lot going on

Investment Case

Initiator Pharma has two projects in Phase 2, IPED2015 and IP2018, that are being developed to treat patients with erectile dysfunction (ED). ED is a mass market that currently lacks effective treatment options for millions of men, despite the fact that well-known drugs such as Viagra (PDE5 inhibitors) from Pfizer have long been available.

IPED2015 is specifically aimed at older men who do not achieve good treatment outcomes with PDE5 inhibitors. This group makes up about 30 percent of all men with ED (about 10 million individuals in the EU and the US). The project risk has been reduced by positive results in a phase 2a study in individuals with severe ED. The next step is a phase 2b study to be launched soon in the UK, and the initial results are expected during H2 2022. If the outcome is positive, we expect great interest from pharmaceutical companies to license the project, based on the great commercial potential we see for IPED2015.

For IP2018, a phase 2a study is underway in the UK and results are expected in mid-2021. There are several similarities in the study design with IPED2015, but with the big difference that the individuals recruited are younger and also show mild to moderate depression. It is often the treatment of depression that triggers ED in patients. We see potential for IP2018 to treat ED in this patient group, but animal studies indicate that the potential may be broader and also include the treatment of depression.

We believe that the great potential of Initiator's pipeline is not reflected in current share price levels, which indicates very low expectations. In our opinion, positive outcomes from the ongoing and planned studies could justify up to a tenfold increase in the share from current levels. However, we would like to point out that the level of risk is high.

Company profile

Initiator Pharma was founded in 2016 as a spin-off from Danish listed company Saniona. This was done on the initiative of the people who are currently part of the management team and who saw the potential to develop drug candidates with unique characteristics, known as monoamine reuptake inhibitors (MRIs). Initiator focuses on targets within the central nervous system with projects where the risk is already reduced via associated preclinical and sometimes clinical data. At present, priority is given to IPED2015 and IP2018, and to IPTN2021 within trigeminal neuralgia. The assets have the potential to become best-in-class. Initiator has a virtual organisational structure, and its CEO is Claus Elsborg Olesen. The management team is focused and has relevant knowledge within the indications that the company has prioritized, molecular development, preclinical and clinical studies. Initiator's shares have been listed on Spotlight's marketplace since 2017.

Valuation approach

Our valuation of Initiator is based on a probability-adjusted sum-of-the-parts (SOTP) model that includes the IPED2015 and IP2018 projects. With a WACC of 16 percent, we get a fair value of SEK 11-12. We have assumed a fully subscribed rights issue in our modelling.

For more details of the reasoning behind our assumptions about the projects and the valuation, please refer to our initiation of coverage from December 7, 2020.

https://links.penser.se/f/a/init_20201207.pdf

Low valuation against comparable companies

In order to gain an understanding of how our valuation of Initiator Pharma compares with other drug development companies listed on Swedish trading venues, we compare the valuations of their project portfolios (technology value (EV)). This is a blunt instrument, but nonetheless often gives an indication of how the valuation stands up.

Comparable companies					
(MSEK)	Market cap	Share price	Net cash	Technology value (EV)	Development Phase
Listade jämförbara bolag					
Asarina	127	6,8	42	85	Phase 2
Dicot	68	1,03	29	39	Phase 1
Gabather	86	6,4	31	55	Phase 1
Initiator Pharma	150	4,2	42	108	Phase 2
Irlab	1 915	37,0	253	1 662	Phase 2
Saniona	1 129	18,1	497	632	Phase 2
Medel	579			430	
Median	139			96	

Our peer group is based on companies that develop drugs in the field of CNS. As the table shows, there are large differences between the companies, and Irlab and Saniona stand out with clearly higher valuations. One common denominator, in addition to having a background from Neurosearch like Initiator, is that they are platform companies. One explanation for the higher valuation, we believe, is that their shares are listed on Nasdaq Stockholm's main list and that the companies have previously been able to attract institutional capital. Asarina is also on the main list, but the pricing of the company's shares is weighed down by last year's negative outcome for sepranolone in a phase 2b study. Prior to these results, expectations were more inflated and the share was traded at almost 7x the current price (SEK 48), which gives an indication of the potential for the Initiator share ahead of phase 2b data at the end of 2022.

Scenario analysis

As we mentioned, several important announcements are expected in the next two years. By far the most critical are the phase 2b results for IPED2015 in H2 2022, followed by the IP2018 phase 2a results which are expected mid-2021. In addition, the company will be able to deliver results for IPTN2021, which we will return to.

Initiator upside and downside risks in our valuation					
Event	Timing	Upside	Per share SEK	Downside	Per share SEK
IP2018 Phase 2a data	Middle of 2021	Positive results	2	Negative outcome	-2
IPED2015 Phase 2b data	H2 2022	Positive results	19	Negative outcome	-9

Risks in our assumptions

Delays to the studies

The Covid-19 pandemic has affected the ability to conduct clinical trials, and the company has already warned of delays in patient recruitment for the phase 2a study into IP2018. Additional delays due to the pandemic are a risk, and could lead to delays in the start of the IPED2015 phase 2b trial and patient recruitment. One advantage, however, is that both studies are being conducted in the UK, which has come a long way in vaccinating its population against Covid-19.

Negative outcome of trials

The most obvious and critical risk in the Initiator share is a negative outcome in ongoing and planned studies. We believe that the risk level in both projects remains high, and how this affects the valuation is shown in the above scenario analysis.

Failure to sign partnership agreements

Initiator Pharma's projects are focused on major primary care indications, and phase 3 programmes may need to include a couple of thousand patients. This could mean extensive capital requirements if the company does not succeed in finding a partner before trials begin.

Shareholders and company facts

The company's largest shareholders are presented below after a directed issue of SEK 30 million, but before the planned preferential rights issue.

Shareholder structure and management		
Largest shareholders	Votes	Shares
Bengt Julander	13,21%	13,21%
Adriago Asset Management	6,04%	6,04%
Avanza Pension	5,96%	5,96%
Formue Nord A/S	4,62%	4,62%
Other	70,17%	70,17%
Chairman	Magnus Persson	
CEO	Claus Elsborg Olesen	
CFO	Torgeir Vaage	
Home page	Initiatorpharma.com	

The tables on the next page are based on a fully subscribed preferential rights issue, and we have assumed transaction costs of SEK 5 million.

Consolidated statement of comprehensive income (MDKK)

	2015	2016	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net sales			0.0	0.0	0.0	0.0	0.0	0.0	102.0
Other income			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Costs of goods sold			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit			0.0	0.0	0.0	0.0	0.0	0.0	102.0
Capitalized work for own account			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personell expenses			-1.3	-1.1	-0.9	-1.2	-1.9	-2.4	-5.2
Other external expenses			-8.2	-11.4	-8.4	-9.3	-13.5	-16.0	-32.0
Extra ordinary costs			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating earnings before depreciation (EBITDA)			-9.5	-12.5	-9.3	-10.5	-15.4	-18.4	64.8
Depreciations			-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
Goodwill write-down			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating earnings (EBIT)			-9.6	-12.6	-9.3	-10.5	-15.4	-18.4	64.8
Extra ordinary post			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted earnings (EBIT)			-9.6	-12.6	-9.3	-10.5	-15.4	-18.4	64.8
Financial income			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial expenses			-0.8	-0.1	-0.6	0.3	-0.2	-0.4	0.0
Earnings before tax			-10.4	-12.7	-10.0	-10.2	-15.6	-18.8	64.8
Tax			1.8	2.4	1.7	1.5	2.0	2.6	3.5
Minority			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit			-8.6	-10.3	-8.3	-8.7	-13.6	-16.2	68.3

Balance sheet (MDKK)

	2015	2016	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Assets									
Goodwill			0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other intangible assets			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets			0.1	0.1	0.0	0.0	0.0	0.0	0.0
Interest bearing assets			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Assets in other companies			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other tangible assets			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total fixed assets			0.2	0.1	0.0	0.0	0.0	0.0	0.0
Inventories			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable and other receivables			1.9	2.7	3.8	2.1	4.0	4.7	5.0
Cash and cash equivalents			7.2	14.5	7.6	13.5	39.6	21.8	91.6
Total current assets			9.1	17.2	11.4	15.6	43.6	26.5	96.6
Total assets			9.3	17.3	11.4	15.6	43.6	26.5	96.6
Shareholders equity and liabilities									
Shareholders equity			6.0	16.6	9.9	14.4	40.6	23.3	90.7
Minority			0.0	0.0	0.0	0.0	0	0.0	0
Total shareholders' equity			6.0	16.6	9.9	14.4	40.6	23.3	90.7
Long-term liabilities, interest bearing			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pension liabilities			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current tax liabilities			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other short-term non-interest-bearing liabilities			3.3	0.7	1.5	1.2	3.0	3.2	5.9
Total short-term liabilities			3.3	0.7	1.5	1.2	3.0	3.2	5.9
Total shareholders' equity and liabilities			9.3	17.3	11.4	15.6	43.6	26.5	96.6

Cash flow statement (MDKK)

	2015	2016	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Net profit			-7.0	-15.2	-10.3	-5.5	-14.1	-16.8	67.4
Changes in working capital			-0.8	1.6	1.8	-2.5	-0.5	-1.0	2.4
Cash flow from operating activities			-7.8	-13.6	-8.6	-8.1	-14.6	-17.8	69.8
Investments			-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Divestments			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow			-7.9	-13.6	-8.6	-8.1	-14.6	-17.8	69.8
Dividends			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from financing activities			14.9	20.9	1.6	14.0	40.7	0.0	0.0
Acquisition			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans			0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow			7.0	7.3	-6.9	5.9	26.1	-17.8	69.8

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