

Pharma Equity Group



Market: Nasdaq Copenhagen

Ticker: PEG

Share price (DKK): 0.402

Market cap (DKKm): 410

Net debt (DKK): 20.2 (Q3 23)

Enterprise value (DKKm): 431

Share information*



YTD: -6.5% 1 year: N/A
1 month: -10.7% 3 years: N/A

Note: * Closing prices of 04.01.2024, have been used. IPO date 28.03.2023

Financials

(DKKm)	2022	9M 2023	2024E*
Revenue	0	0	n/a*
Revenue growth	0%	0%	xx*
Research & Development	-5.2	-6.6	n/a*
EBIT	-12	-14.0	n/a*
Total Cash flow	-8.6	-7.1	n/a*
Cash position	2.8	1.5	n/a*

Note: * Data from Pharma Equity Group's financial reports

Pipeline

Product Candidate	Phase I	Phase II	Phase III
RNX-011	Completed	Completed*	
RNX 21, RNX 22, & RNX 23	Completed	Ongoing	
RNX-041	Completed	Ongoing	
RNX-051	Completed	Ongoing	

Note: * Phase III/III multicenter study initiated with data expected in 2024

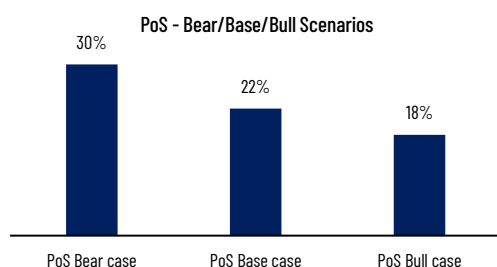
Company description

Pharma Equity Group (PEG) is a Danish biotech company based in Horsholm, north of Copenhagen, and listed on Nasdaq Copenhagen since March 2023. PEG has invested in Reponex Pharmaceutical, which has a pipeline of product candidates in Phase 2 within the following therapeutic areas: peritonitis, wound healing, inflammatory bowel disease, and colorectal cancer. Based on a repositioning and reformulation strategy, PEG plans to out-license their product candidates to partners to minimize operational development and financial risk.

Investment Case

The investment case is driven by PEG's ability to successfully implement and follow a twofold strategy: firstly, to create value by traditional medical development of the pipeline of projects for the individual indications in Reponex. Secondly, to create value through partnerships utilizing its unique repositioning and reformulation strategy, where already established medical formulas are being used for new indications, delivery mechanism, or new combinations with other established products. When utilizing already available data regarding efficacy, toxicity, and safety, PEG can save both time and money to bring products to market.

From a valuation perspective, a DCF-modelling approach is considered appropriate as PEG - like other biotech companies - still don't have revenue and income. A DCF model using publicly available company-guided information can assess the present value of future potential cash flows in different scenarios based on assumptions regarding market size, market share, royalty rates, etc. (see pages 2 and 3 for details). When doing this, the model shows, that the average implied likelihood, according to the market, for PEG to successfully receive approval and successfully commercialize its pipeline of products (through partnerships) is 22% in the base case scenario. This 'Probability of Success' (PoS) is less than half of what is the average likelihood for Phase 2 products to make it through Phase 3 and be approved and launched (according to Biostatistics, see page 2). PoS in a bear and bull case scenario is illustrated below:



Key investment reasons

Following a reformulation and repositioning strategy based on a broad and diversified pipeline, PEG provide a unique opportunity to invest in the typically high reward business model of biotechnology with a lower risk than the otherwise typically associated high risk. Also, PEG will pursue these opportunities through partnerships, further reducing the operational and execution risk often experienced by small biotech companies.

PEG's pipeline of products has exposure to therapeutic areas with medical unmet needs, bringing new solutions to already established therapeutic areas, or areas that are perhaps being neglected or de-prioritized by big pharmaceutical companies.

PEG will likely require fewer and smaller capital raises resulting in less dilution as the business model typically relies on smaller publicly financed programs or trials at hospitals or scientific institutions. These have lower cash burn levels than what the therapeutic areas would be typical if the trials were conducted by big pharma using Contract Research Organizations, CROs.

The value potential from PEG successfully implementing its partner-based strategy is only partly reflected in the current market valuation as indicated by the low PoS value.

Key investment risks

Drug development is generally high risk, and although PEG's pipeline is in, or post, Phase 2, investing in PEG requires patience and a high risk-appetite as PEG has still not engaged in partnership arrangements that validates its reformulation and repositioning strategy from both a financial (with lower cash burn) and medical development perspective.

Even if approved, some of PEG's pipeline products address therapeutic areas in large markets where there are already established treatment processes and competitors, which could materially affect the likelihood of commercial success.

If the development of its pipeline or entering into partnership agreements is delayed, PEG may have to raise more capital than otherwise planned, which could require investors to participate in future capital raises to avoid dilution. Such raises can also be challenged by low risk-appetite as seen in 2022 and 2023.

Management has expressed high confidence that the repayment of the receivables from Portihno is certain and eminent, but investors could be disappointed if the repayment is being postponed again as it has been the case during 2023.

Appendix – Discussion of assumptions in DCF-model

The model

The objective of this One-Pager is not to calculate a price target for PEG share. Instead, the objective is to use a simplified DCF (Discounted Cash Flow) model to give investment perspectives based on different scenarios. In particular, the model can use simulations to give an indication as to how much the current market cap of PEG is implicitly discounting in terms of Possibility of Successful approval and launch (PoS) of its pipeline candidates through partnerships. The DCF model considers the future potential cash flow of PEG based on several assumptions, which will be described and discussed below.

As described, PEG currently have pipeline product candidates in Phase 2. From a modelling perspective, due to the inherently huge uncertainty, only estimates regarding pipeline product candidates that are in Phase 2 or about to move into Phase 3, would typically be included, as these are statistically considered to have a realistic probability of getting approved.

Market size and market growth

The addressable market sizes of the different pipeline projects have been estimated or indicated by PEG in publicly available documents like prospectus, presentations or conference calls, and these estimates are used in the model.

Based on company guidance, the midpoint of the market size of USD 1.5-2 billion has been used for Bacterial Peritonitis (RXN-011). The combined market size of pipeline projects within wound care (RXN-021, RXN-022, and RXN-023) is assumed to grow to USD 25 billion globally in 2025. The market size for Inflammatory Bowel disease-related indications (RXN-041) is expected to grow to approximately USD 5 billion in 2025. Lastly, the market size for the treatment and prevention of colorectal cancer (RXN-051) is currently approximately USD 10 billion.

To be conservative, the value of the different markets is assumed to show substantial negative growth due to increased competition and lower prices when the patents expire. This is also an assumption used from a modelling perspective to avoid an unrealistic compound effect of the value of the cash flows.

Market share and revenue

Depending on the indication, different levels of peak market shares are assumed. Also, the market share in different regions varies, depending on the level of patent protection, strength and strategy of the potential partners etc.

For Bacterial Peritonitis (RXN-011), an average market share of 5% is assumed in the base case scenario when taking the different indications and regional patent protection levels into consideration. For the combined market size of pipeline projects within wound care (RXN-021, RXN-022, and RXN-023), an average market share of approximately 2.5% reflecting the highly competitive dynamic nature of a very big market.

The average market share for the Inflammatory Bowel disease-related indications using RXN-041 is assumed to be approximately 5%, and the market share for the treatment and prevention of colorectal cancer using RXN-051 is assumed to be approximately 5%.

Generally, a high market share is often difficult to obtain immediately after product launch, but for simplicity reasons and modelling purposes, the penetration curve is assumed to be linear from the expected launch year.

From a cash flow timing perspective, it is important to understand that the expected implementation of a partner strategy will bring forward cash flow to PEG before the partner obtains the expected peak market share due to milestones paid upfront.

Discount rate

The model uses a discount rate of 15%, reflecting the generally high level of investment risk and uncertainty typically associated with forecasting future cash flows from biotech companies. The development of the different indications probably reflects different levels of uncertainty, but the model uses the widely accepted 15% within the industry.

Probability of successful launch (PoS)

Based on historical data from Biostatistics research containing 5,764 pipeline projects across all indications in pharmaceutical and biotech companies, the average historical likelihood of a Phase 3 pipeline project passing through to launch after Phase 2 completion is approximately 55%.

EBIT-margin and royalty rates

According to Refinitiv Financial System five-year average EBIT-margins within major pharmaceutical and biotech companies are approximately 30%. Looking at biotech companies specifically, the five-year average is approximately 50%, reflecting a generally more focused business model that are often based on higher economies of scale and partnership or out-licensing deals, which is also the strategy for PEG. However, to be conservative, the model assumes an EBIT-Margin of 40%, which reflects that PEG will continue to have some development and sales and administrative costs even when various partnership deals have been made.

Besides estimating an EBIT-margin of 40%, it is expected that PEG will be able to negotiate average royalty rate of 25% across its partnership deals. The high level reflects the inclusion of upfront milestone payments etc. There will be variations depending on the type of partnership and indication, but overall, a royalty rate of 25% is considered realistic and comparable to industry standards if the products are highly valuable and represent a novel medical therapeutic approach.

Capital increases

It is assumed that a combination of current cash position and upfront milestone payments from future partners will provide PEG with sufficient capital to finance the company until cash flow generation becomes positive. Short-term repayment of the receivables from Portinho will likely be sufficient to finance the company until the first upfront milestones are received.

Appendix – Results and Conclusion

Scenarios

Based on the previously mentioned assumptions regarding market size and growth, level of profitability, royalty rates, market share and discount rate, different scenarios can be simulated to assess how much the market is on average, implicitly discounting the successful likelihood of launch of the different pipeline projects in PEG. As illustrated, the model has simulated the implicit likelihood in 3 scenarios: a bear-, base- and bull-case scenario using the indicated level of peak market share levels as the main differentiator. Accordingly, the remaining criteria discussed are assumed to be the same in all scenarios.

Base case scenario

In the base case scenario, the model uses the indicated combined market size of the six pipeline product candidates as indicated by PEG. The model uses an EBIT margin of 40% and a royalty rate of 25% as well as average estimated peak market shares of 5.0%, 2.5%, 5.0%, and 5.0% of the six pipeline candidates, respectively (using the midpoint of assumed intervals). Based on this, the market currently implicitly assumes there is 22% average probability of successful launch (PoS) for the six product candidates according to the model. This compares to a historical average level of success of approximately 55% for drug development projects having completed Phase 2 across all types of indications, noting that not all of PEG's pipeline candidates have completed Phase 2.

Bear case scenario

In the bear case scenario, the model uses an estimated peak market share of 3.5%, 2.0%, 3.5%, and 3.5% for the six product candidates, respectively, all reflecting the lower part of the previously indicated interval in the base case scenario. The remaining assumptions are similar to those used in the base case scenario, i.e. an EBIT margin of 40% and a royalty rate of 25%. Based on this, the market currently implicitly attributes an average 30% probability of successful launch (PoS) of the six candidates in the bear case scenario according to the model.

Bull case scenario

In the bull case scenario, the model uses an estimated peak market share of 6.5%, 3.0%, 6.5%, and 6.5% for the six product candidates respectively, all reflecting the higher part of the previously indicated interval in the base case scenario. The remaining assumptions are similar to those used in the base case scenario, i.e. an EBIT margin of 40% and a royalty rate of 25%. Based on this, the market currently implicitly attributes an average 20% probability of successful launch (PoS) of the six candidates in the bull case scenario according to the model.

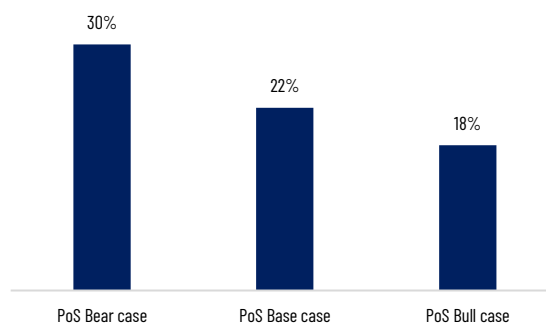
Conclusion

The three scenario simulations all suggest a relatively low level of market confidence for PEG to successfully launch their six pipeline product candidates (through partnership) when compared to the average historically level in the biotech industry for product candidates having completed Phase 2 to go through Phase 3. In the base case scenario, the market assumes less than half as high likelihood than the industry average. This means that the value potential for a successful commercialization of PEG's pipeline is only partly reflected in the share price.

According to the model, the market believes that the bear case scenario is the most likely, and the bull case scenario is least likely. Irrespective of which scenario is most likely, the market believes the likelihood is low for all the three scenarios in absolute terms. This reflects that even when relatively big changes are made in peak market share level assumptions, the PoS doesn't change that much, suggesting that something else needs to change, announcements of partnerships deals being one of the most obvious ones.

Also, a low PoS is not uncommon for biotech companies still in their developing phase as it can also reflect that the market assesses there is a relatively high likelihood that the company in question, PEG, will need to raise additional – potentially diluting – capital.

PoS – Bear/Base/Bull Scenarios



Note: Probability of success (PoS) model based on general market assumptions and HC Andersen Capital assumptions.