

Pharma Equity Group



Market: OMXC Small Cap

Ticker: PEG

Share price (DKK): 0.1965

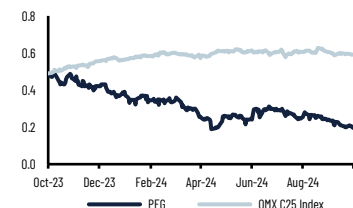
Market cap (DKK): 201.01m

Net debt (DKK): -7.1m

Enterprise value (DKK): 208.1m

*Includes equity and debt raised post Q2

Share information*



YTD -54.3% 1 year: -58.9%
 1 month: -16.4% Since IPO: -80.4%

Note: * Closing prices of 25.10.2024, have been used. IPO date 28.03.2023, subscription price DKK 1.0.

Financials

(DKKm)	2022	2023	2024E*
Revenue	0	0	n/a
Revenue growth	0%	0%	n/a
Research & Development	-5.2	-9.1	n/a
EBITDA	-10.7	-20.4	n/a
EBT	-11.3	-22.4	-24 to -29*
Total Cash flow	-8.6	0.4	n/a
Cash position	2.8	4.2	n/a

Note: *Pharma Equity Group's own guidance, and reflects EBT, before any gains/losses relating to fair value adjustments of the Portinho S.A receivable.

Pipeline

Product Candidate	Phase I	Phase II	Phase III
RNX-011	Completed	Completed*	
RNX-021, RNX-022, RNX-023	Completed	On-hold	
RNX-041	Completed	Ongoing	
RNX-051	Completed	Completed	

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, pouchitis (Crohn's 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.

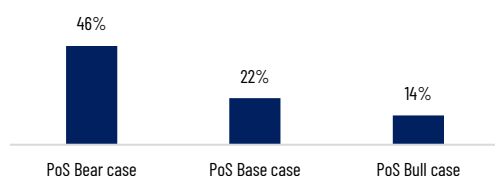
Investment Case

In 2024, Pharma Equity Group strengthened its capital position by securing subordinated debt and a directed share issue. The company still awaits a resolution of outstanding matters with Portinho, which we expect will be finalized in 2025, positioning PEG to remain well-capitalized through the end of 2026, at its current burn rate of around DKK 7m per quarter in 2024-25. Our revised DCF model concentrates on individual projects, assigning the highest valuations to RNX-051 and RNX-011.

At the start of Q4 on 04.10.2024, Pharma Equity Group further strengthened its capital base, raising DKK 51 million through a directed share issue, priced at DKK 0.25 per share—a 20% premium over the October 3, 2024, closing price, from new and existing investors, and the PEG board and management. The additional capital enhances the company's working capital, enabling a stronger focus on its pipeline, particularly on its three lead programs: RNX-051 for colorectal cancer, RNX-011 for peritonitis, and RNX-041 for inflammatory bowel diseases. In addition to advancing the pipeline, another key milestone for Pharma Equity Group is to secure a partner for one or more of these projects. Earlier in 2024, the company expanded its leadership team with a Chief Business Development Officer. Combined with the capital increase, these initiatives provide a solid foundation for negotiations with potential partners.

From a valuation perspective, our base case assigns around 20% Probability of Success (PoS), to achieve approval and commercialize the pipeline through partnerships. This PoS is less than a third of the average success rate for Phase 2 complete products progressing through Phase 3 to approval, based on biostatistical data (see pages 2 and 3 for more).

PoS - Bear/Base/Bull Scenarios



Key investment reasons

Following a reformulation and repositioning strategy based on a broad and diversified pipeline, PEG provides an opportunity to invest in the typically high-reward biotech business model with a lower risk. 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 potentially require smaller capital raises as the business model typically relies on smaller publicly financed programs or trials at hospitals or scientific institutions. These have lower cash burn levels 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 partially reflected in the current market valuation as indicated by a low PoS value. This persists despite PEG's recent progress, including a newly granted patent and promising trial data for its cancer treatment candidate RNX-051.

Key investment risks

Drug development is generally high risk, and 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.

Even if approved, some of PEG's pipeline candidates 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 pipeline development or entering partnership is delayed, PEG may have to raise capital, which could require investors to participate in these to avoid dilution. Such raises can also be challenged if markets are characterized by low risk-appetite.

Management has high confidence that the repayment of the receivables from Portinho is certain and will be attained before end-2025, but this has so far been delayed and the share price could continue to slide if the receivable is further written down. If the receivables are not attainable further capital raises may be needed in 2025. This may in turn be mitigated by a partner agreement with up front subsidies.

Appendix – Discussion of assumptions in DCF-model

The model

This one-pager does not aim to determine a price target for Pharma Equity Group (PEG) shares but rather provides investment perspectives using a simplified Discounted Cash Flow (DCF) model across different scenarios. The model uses scenarios to indicate the extent to which PEG's current market capitalization reflects the implied probability of success (PoS) for its pipeline products to achieve marketing authority and successful commercialization, based on the model assumptions described below.

PEG currently has multiple pipeline product candidates around Phase II, ranging from pending Phase II initiation to Phase II completion. We include RNX-011, RNX-022, RNX-023, RNX-041, and RNX-051 in our model, but exclude RNX-021, since RNX-022 seems more promising following Phase I data. We estimate the larger share of the value (NPV) is derived from the RNX-011 and RNX-051 products, which have completed Phase II. We therefore compare the market implied PoS against the average historical likelihood (PoS) of a pipeline product that has completed Phase II reaching a successful launch of around 60%, based on biostatistics.

Market size and market growth

The addressable market sizes of the different pipeline projects used in the model are company-guided by PEG, based on publicly available documents such as its IPO prospectus, presentations, or conference calls. We assume a midpoint market size of USD 1.5-2.0 billion for Bacterial Peritonitis (RNX-011). The combined market size of wound care projects (RNX-021, RNX-022, and RNX-023) is expected to reach USD 25 billion globally by 2025. The market size for the Crohn's disease/pouchitis indication (RNX-041) is expected to grow to around USD 4.7 billion in 2025. Finally, the market size for the treatment and prevention of colorectal cancer (RNX-051) is currently around USD 10 billion. We apply a conservative growth rate of 2% to each market and a negative growth rate to PEG's market share of -50% following patent expiry for each indication to reflect increased competition and avoid an unrealistic compound effect in the value of future cash flows.

Market share and revenue

Various levels of peak market share are assumed to reflect factors such as addressable share of the market, product strength (unmet need), market competition, patent protection, and more. Adjusting peak market share is our primary differentiating factor between the base, bear, and bull scenarios.

Our base case assumes a peak market share for Bacterial Peritonitis (RNX-011) of 10%, based on strong Phase II efficacy significantly improving patient discharge times following surgery. For the combined wound care projects (RNX-022 and RNX-023), we assume a peak market share of 2.5%, reflecting the very large, highly competitive, and dynamic market. For the inflammatory bowel disease project (RNX-041), we assume a peak market share of 5%, as it initially targets only pouchitis, the smaller portion of the overall market. Lastly, for the treatment and prevention of colorectal cancer (RNX-051), we assume a 20% peak market share reflecting strong Phase IIa (MEFO) study efficacy data to reduce bacterial biomass/biofilm and increase T-cell prevalence, which could significantly improve patient outcomes if successful.

Generally, a high market share is difficult to obtain immediately after product launch, however, for simplicity reasons, we model a linear penetration curve 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 pipeline project passing through to launch after Phase 2 completion is around 60%. PEG's repositioning strategy may reflect a higher likelihood of clinical success. Alternatively, PEG's Phase II studies have primarily been Phase IIa, requiring Phase IIb/III studies during the final clinical stage acting as a counterbalance.

EBIT-margin and royalty rates

According to S&P Capital IQ 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 generally more focused business models which 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, sales, and administrative costs even when various partnership deals have been made.

In addition to an estimated EBIT margin of 40%, PEG anticipates an average royalty rate of 25% across partnership deals, as outlined in company expectations. However, we model a 10% royalty rate for wound care products (RNX-022 and RNX-023) to reflect their earlier stage of development. The generally high royalty rate 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 achievable, although on the higher end of industry standards, if the products represent a novel medical therapeutic approach offering high value to partners.

Capital increases

It is assumed that a combination of the current cash position, following the latest equity raise via a direct issue on 04.10.2024, and realizing the receivable from Portinho before the end of 2025, will provide PEG sufficient capital to finance operating expenses and ongoing clinical progression until milestones from partners, followed by royalty revenue, are sufficient to sustain the company's operating expenses, and repay bridge-financing agreements. Following Q2 2024 PEG had DKK 18.5m in a subordinated convertible loan, which it has since increased by DKK 1.0m with an interest rate of 3.25%/quarter. Of this debt DKK 12.6m was included in the private placement, hence converting debt to equity. The remaining convertible debt has a high interest rate but is included in our run rate assumptions.

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 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 we use an EBIT margin of 50%, maintain our royalty rate assumptions for 25% for phase II products and 10% for the RNX-022, and RNX-023 product bundle, with peak market shares of RNX-011: 10.0%, RNX-022 & RNX-023: 2.5%, RNX-041: 10.0%, and RNX-051: 20.0%. Our base case model suggests that the market currently implicitly assumes there is around 20% probability of successful launch (PoS) for the product candidates. This compares to a historical average level of success of approximately 55% for drug development projects having completed Phase II across all types of indications, noting that not all of PEG's pipeline candidates have completed Phase II.

Bear case scenario

In the bear case scenario, our model estimates lower peak market shares of RNX-011: 5.0%, RNX-022 & RNX-023: 1.5%, RNX-041: 5.0%, and RNX-051: 10.0%. The remaining model assumptions are maintained, including EBIT margin, royalty rates, launch date, and time to peak market share. Based on our bear case model, the market currently implicitly attributes around 45% probability of successful launch (PoS) of PEG's pipeline candidates.

Bull case scenario

In the bull case scenario, our model estimates lower peak market shares of RNX-011: 15.0%, RNX-022 & RNX-023: 3.5%, RNX-041: 20.0%, and RNX-051: 30.0%. The remaining model assumptions are maintained, including EBIT margin, royalty rates, launch date, and time to peak market share. Based on our bull case model, the market currently implicitly attributes around 15% probability of successful launch (PoS) of PEG's pipeline candidates.

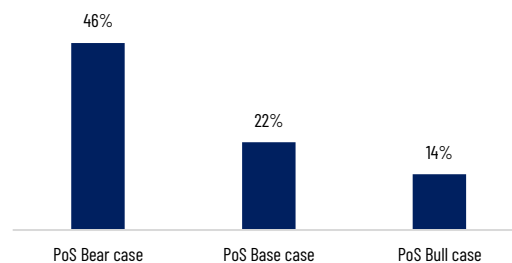
Conclusion

The three scenario simulations all suggest a relatively very low level of market confidence for PEG to successfully launch their six pipeline product candidates (through partnership) when compared to the average historical 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 a third of the historical industry average likelihood. This means that the value potential for a successful approval and commercialization of PEG's pipeline is only partly reflected in the share price to a very low degree.

According to the model, the market believes that the bear case scenario is the most likely, and the bull case scenario is the least likely. Irrespective of which scenario is most likely, the market believes the PoS is below the historical average for all three scenarios in absolute terms. This reflects that even when relatively big changes are made in peak market share level assumptions, the PoS remains below the market average level. This suggests that something else needs to change, announcements of partnerships or a repayment of the Portinho receivables are the two of the most obvious ones.

Also, a low PoS is generally 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.