

Mendus AB

Company report

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Ilixadencel to return to the clinical arena

For Mendus, Q2'24 marked the start of the pivotal CADENCE trial in acute myeloid leukemia (AML). The company also announced plans to restart clinical development of ilixadencel in soft tissue sarcomas (STS). In parallel, Mendus is building readiness for a pivotal trial in AML by H2'25. These key developments are supported by a secured cash runway until Q3'25. We include the STS indication in our estimates and revise our R&D cost estimates upwards for the coming years. We reiterate our recommendation (Buy) as well as our target price of SEK 14 as both our DCF model and peer valuation suggest upside for the stock.

Q2 saw launch of the CADENCE trial and plans to bring ilixadencel back into clinical development

Mendus announced new data in Q2 on the ability of vididencel to induce anti-tumor immune responses in AML and ovarian cancer. We have previously commented on the news [here](#) and [here](#). After the end of the quarter, the company announced that ilixadencel will be studied for STS in combination with the checkpoint inhibitor avelumab and the tyrosine kinase inhibitor regorafenib. We believe patient recruitment could begin in Q4'24-Q1'25 and, according to the company, first data can be expected in H1'26. The CADENCE study was also initiated in Q2, although patient enrollment did not start in Q2 as previously expected. In parallel, the company is building readiness for a pivotal trial in AML by H2'25. This includes the upscaling of the vididencel manufacturing in partnership with NorthX Biologics, which appears to be on track. In Q2, technology transfer progressed and first larger batches of vididencel were produced.

R&D costs came in above our expectations

In terms of figures, the EBIT of -37.9 MSEK was below our expectations of -31.1 MSEK. The earnings miss was due to higher operating expenses related to technology transfer to NorthX to scale up production of vididencel for larger scale trials and commercialization. Cash flow from operating activities was -22.4 MSEK. Operating cash below is significantly higher than EBIT due to prepaid expenses to NorthX. Cash at the end of Q2 was 130.2 MSEK. Mendus confirmed cash runway until Q3'25. We believe that CADENCE data readout and pivotal stage readiness are achievable with the financing already in place.

We are updating our ilixadencel modeling based on STS and increasing our R&D cost estimates

We increase our expectation for R&D costs, resulting in lower EBIT in the coming years. This is offset by the inclusion of STS as a priority indication for ilixadencel. STS has a higher incidence compared to gastrointestinal stromal tumors, on which we previously based our modeling.

Risk/reward ratio is attractive as Mendus moves towards late-stage clinical development

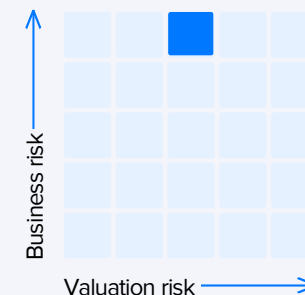
Our DCF model indicates an unchanged net present value of SEK 14 per share. Relative valuation is below the Nordic Phase II immuno-oncology peers. In our view, the absolute valuation of the peer group is on the low side providing upside if the overall market environment improves. The stock's valuation has become more attractive due to the depreciation in the share price after our recent [Initiation of coverage](#). The possibility of a favorable partnering deal or Mendus becoming an acquisition target brings an additional positive option for investors to realize value. We see a favorable risk/reward ratio that supports a positive recommendation.

Recommendation

Buy
(prev. Buy)

14,00 SEK
(prev. 14,00 SEK)

Share price:
7,93



Key indicators

	2023	2024e	2025e	2026e
Revenue	0,0	0,0	0,0	0,0
growth-%	0 %	0 %	0 %	0 %
EBIT adj.	-125,9	-139,1	-140,4	-101,6
Net income	-126,9	-140,3	-143,4	-104,6

Source: Inderes

Guidance

Mendus does not provide guidance.

Osakekurssi



Source: Millistream Market Data AB



Value drivers

- Urgent need for new cancer treatments
- Target market is estimated to grow to USD 9.5 billion by 2030 (CAGR >8%)
- Very defensive sector with potential for high profitability
- Potential for globally sold products with annual revenue potential estimated in several billions SEK per indication.
- Potential can also materialize through a partnering agreement or an M&A deal.



Risk factors

- Therapy development requires substantial upfront investment
- Failed development is likely to result in permanent loss of invested capital
- Success depends on the safety and efficacy of the therapy candidates, which may prove to be insufficient in clinical trials
- Even if market entry is successful, the market share, sales price and royalties involve significant uncertainties

Valuation	2024e	2025e	2026e
Share price	7,93	7,93	7,93
Number of shares, millions	50,4	50,4	50,4
Market cap	399	399	399
EV	339	482	587
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/FCF	neg.	neg.	neg.
P/B	0,6	0,8	1,0
P/S	>100	>100	>100
EV/Sales	>100	>100	>100
EV/EBITDA	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0,0 %	0,0 %	0,0 %
Dividend yield-%	0,0 %	0,0 %	0,0 %

Source: Inderes

R&D costs higher than anticipated

Estimates vs. actualized Q2'24

- Mendus' R&D costs came in higher than we had estimated, leading to EBIT miss.
- Reported EBIT for Q2'24 was -37.9 MSEK vs. Inderes estimated -31.1 MSEK.
- The operating cash flow of -22.4 MSEK was significantly lower than EBIT. This is due to prepaid costs to NorthX in connection with technology transfer.
- Cash at the end of the period amounted to 130.2 MSEK
- Mendus reiterated that its cash runway lasts until Q3'25. We believe the CADENCE data readout and pivotal-stage readiness are achievable with the financing already in place.
- According to the company, the newly announced ilixadencel trial has already been factored into the cash burn estimates. Therefore, there is no negative impact on the cash runway.

Estimates MEUR / EUR	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	0,0	0,0	0,0				0,0
EBIT	-27,7	-37,9	-31,1				-139,1
EPS (reported)	-0,08	-0,76	-0,62				-2,79

Source: Inderes

[Listen to the Q1'24 webcast](#)



We factor in STS and up our R&D cost estimates

Adjusted estimates 2024e-2026e

- We increase our estimate of R&D costs, leading to lower estimated EBIT for the upcoming years.
- Our previous ilixadencel modeling was based on a prioritized indication of gastrointestinal stromal tumors.
- We have now updated our model based on STS.
- STS has somewhat higher incidence (~13 600 in the US) compared with gastrointestinal stromal tumors.
- STS are typically treated with surgery, radiotherapy, chemotherapy, targeted drug therapy and immunotherapy.
- Ilixadencel is next being evaluated in combination with an immunotherapy (PD1 inhibitor) and a tyrosine kinase inhibitor.

[Listen to the CEO interview](#)



Estimate revisions	2024e		Change	2025e		Change	2026e		Change
	Old	New		Old	New		Old	New	
MEUR / EUR									
Revenue	0,0	0,0	0 %	0,0	0,0	0 %	0,0	0,0	0 %
EBIT	-127,3	-139,1	-9 %	-123,0	-140,4	-14 %	-93,0	-101,6	-9 %
EPS (excl. NRIs)	-2,55	-2,79	-9 %	-2,50	-2,85	-14 %	-1,91	-2,08	-9 %

Source: Inderes

Both DCF and peer valuation suggest upside

The risk/reward ratio is attractive

We reiterate our Buy recommendation based on the gap between the market price and our DCF model and reiterate our target price of SEK 14. Our valuation is primarily based on the DCF model. We also reflect Mendus' valuation relative to Nordic peers. In addition to the free cash flow generated by product sales, Mendus' value can also be realized through a partnering or an acquisition deal. As the timing and value of such deals are virtually impossible to predict, we have not included such scenarios in our valuation model with the exception of a partner covering Phase III R&D costs from 2026. We view such a partnering deal or becoming an acquisition target as positive options for Mendus' investors.

Risk-adjusted DCF model indicates an upside

Our DCF model yields a net present value of SEK 14 per share, indicating strong upside potential for the stock. We expect a new funding round to take place in mid-2025 in line with Mendus' cash runway. In case of a new share issue, the increase in the number of shares may limit the upside by diluting the per-share metrics. However, we see a possibility for a partnering deal that may potentially be highly value-creating for shareholders.

We model increasing revenue that peaks in 2038, after which we expect revenue to decline as new competing innovations may enter the market. Our modeling extends to 2042, after which we assume terminal growth of 2%, supported by an aging population and increasing cancer incidence. Cash flows are strongly negative during the clinical research phase 2024-2028. The vast majority of cash flows are generated during the growth phase in 2029-2038, while the period thereafter still generates cash flows relevant to the current valuation.

There are significant uncertainties regarding the realization of the cash flows. Therefore, the DCF model is inherently sensitive to the assumptions used.

Valuation is below Nordic peers

To complement our DCF-based valuation, we compare the valuation of Mendus to its Nordic peers. As a peer group, we use clinical Phase II companies that are developing new cancer immunotherapies or drugs. Our peer group consists of 13 companies: Active Biotechnology, Alligator Bioscience, Bavarian Nordic, BerGenBio, BioInvent International, Cantargia, Circio Holdings, Faron Pharmaceuticals, Isofol Medical, Lytix Biopharma, Medivir, Oncopeptides and Ultimovacs.

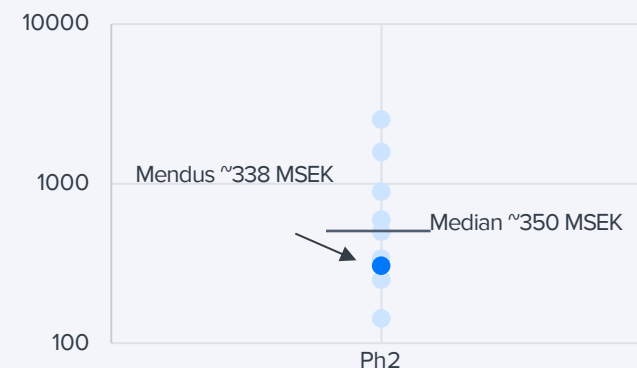
We note that these peers differ significantly in terms of target indications and other factors. The indications affect the addressable market and sales potential, and thus have an impact on market capitalization. Nevertheless, we believe that the peers as a group provide a reasonable framework for the relative valuation of Mendus. In this comparison, we consider Mendus a Phase II clinical stage company based on the Phase II CADENCE trial.

The Nordic immuno-oncology peers in clinical Phase II have a median enterprise value (EV) of approx. 420 above that of Mendus (338 MSEK). The highest EV is ~2,500 MSEK for Faron, a company in Phase II clinical trial in blood cancers and ambitions to expand the lead asset indications into multiple solid tumors. At the lower end of the spectrum, four companies are valued in the range of 150-300 MSEK, highlighting the significant spread in valuations within the sector. In summary, we believe that Mendus is valued in line with its Nordic peers. In our view, general biotech valuation in the Nordics is below long-term averages.

Valuation	2024e	2025e	2026e
Share price	7,93	7,93	7,93
Number of shares, millions	50,4	50,4	50,4
Market cap	399	399	399
EV	339	482	587
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/FCF	neg.	neg.	neg.
P/B	0,6	0,8	1,0
P/S	>100	>100	>100
EV/Sales	>100	>100	>100
EV/EBITDA	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0,0 %	0,0 %	0,0 %
Dividend yield-%	0,0 %	0,0 %	0,0 %

Source: Inderes

EV of Phase II Nordic Immunoncology companies, MSEK



Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price		6,82	3,95	2,22	0,52	7,93	7,93	7,93	7,93
Number of shares, millions	92,3	8,31	9,97	9,97	41,8	50,4	50,4	50,4	50,4
Market cap		57	39	22	22	399	399	399	399
EV	-13,5	-87,8	-115,9	9,5	-98,9	339	482	587	694
P/E (adj.)	0,0	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/E	0,0	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/FCF	0,0	neg.	neg.	neg.	neg.	neg.	neg.	neg.	neg.
P/B	0,0	0,1	0,1	0,0	0,0	0,6	0,8	1,0	1,4
P/S	0,0	>100	>100	>100	>100	>100	>100	>100	>100
EV/Sales	neg.	neg.	neg.	>100	neg.	>100	>100	>100	>100
EV/EBITDA	0,3	1,0	0,9	neg.	0,7	neg.	neg.	neg.	neg.
EV/EBIT (adj.)	0,3	1,0	0,9	neg.	0,8	neg.	neg.	neg.	neg.
Payout ratio (%)	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Dividend yield-%		0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

Source: Inderes

Income statement

Income statement	2021	2022	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBITDA	-132,0	-138,5	-133,2	-35,3	-34,1	-34,8	-34,9	-139,1	-140,4	-101,6	-104,0
Depreciation	1,9	4,8	7,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
EBIT (excl. NRI)	-130,1	-133,7	-125,9	-35,3	-34,1	-34,8	-34,9	-139,1	-140,4	-101,6	-104,0
EBIT	-130,1	-133,7	-125,9	-35,3	-34,1	-34,8	-34,9	-139,1	-140,4	-101,6	-104,0
Net financial items	-3,3	-5,1	-1,0	-0,3	-0,3	-0,3	-0,3	-1,2	-3,0	-3,0	-3,0
PTP	-133,4	-138,8	-126,9	-35,6	-34,4	-35,1	-35,2	-140,3	-143,4	-104,6	-107,0
Taxes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	-133,4	-138,8	-126,9	-35,6	-34,4	-35,1	-35,2	-140,3	-143,4	-104,6	-107,0
EPS (adj.)	-13,38	-13,92	-3,04	-0,71	-0,68	-0,70	-0,70	-2,79	-2,85	-2,08	-2,13
EPS (rep.)	-13,38	-13,92	-3,04	-0,71	-0,68	-0,70	-0,70	-2,79	-2,85	-2,08	-2,13

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	573	568	568	568	568
Goodwill	108	108	108	108	108
Intangible assets	450	447	447	447	447
Tangible assets	13,9	11,2	11,2	11,2	11,2
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	0,0	0,0	0,0	0,0	0,0
Other non-current assets	0,6	0,6	0,6	0,6	0,6
Deferred tax assets	0,0	0,0	0,0	0,0	0,0
Current assets	47,2	188	144	74,4	74,4
Inventories	0,0	0,0	0,0	0,0	0,0
Other current assets	1,9	64,4	64,4	64,4	64,4
Receivables	3,4	3,3	0,0	0,0	0,0
Cash and equivalents	41,9	120,8	80,0	10,0	10,0
Balance sheet total	620	756	712	642	642

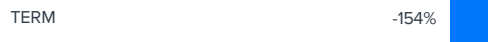
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	514	705	640	497	392
Share capital	10,0	43,2	43,2	43,2	43,2
Retained earnings	-626,0	-727,6	-867,9	-1011,2	-1115,8
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	-0,2	-5,6	0,0	0,0	0,0
Other equity	1131	1395	1465	1465	1465
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	46,5	22,0	22,0	22,0	190
Deferred tax liabilities	0,0	0,0	0,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0	0,0
Interest bearing debt	0,0	0,0	0,0	0,0	168
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	46,5	22,0	22,0	22,0	22,0
Current liabilities	59,4	29,3	49,5	123	59,8
Interest bearing debt	29,2	0,0	19,3	92,7	29,6
Payables	0,0	0,0	0,0	0,0	0,0
Other current liabilities	30,2	29,3	30,2	30,2	30,2
Balance sheet total	620	756	712	642	642

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Revenue growth-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	NA	131,3 %	155,0 %	110,5 %	105,8 %	39,7 %	18,1 %
EBIT-%							-788,3 %	-304,5 %	30,0 %	35,0 %	35,0 %	35,0 %	35,0 %
EBIT (operating profit)	-125,9	-139,1	-140,4	-101,6	-104,0	-106,5	-99,1	-88,5	22,2	54,6	112	157	185
+ Depreciation	-7,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Paid taxes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Tax, financial expenses	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Change in working capital	-63,2	4,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Operating cash flow	-196,5	-134,8	-140,4	-101,6	-104,0	-106,5	-99,1	-88,5	22,2	54,6	112	157	185
+ Change in other long-term liabilities	-24,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- Gross CAPEX	12,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Free operating cash flow	-208,1	-134,8	-140,4	-101,6	-104,0	-106,5	-99,1	-88,5	22,2	54,6	112	157	185
+/- Other	0,0	69,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
FCFF	-208,1	-65,7	-140,4	-101,6	-104,0	-106,5	-99,1	-88,5	22,2	54,6	112	157	185
Discounted FCFF		-63,2	-120,5	-77,9	-71,3	-65,2	-54,1	-43,2	9,7	21,3	39,1	48,8	51,4
Sum of FCFF present value		589	652	772	850	922	987	1041	1084	1074	1053	1014	965
Enterprise value DCF		589											
- Interest bearing debt		0,0											
+ Cash and cash equivalents		121											
-Minorities		0,0											
-Dividend/capital return		0,0											
Equity value DCF		710											
Equity value DCF per share		14,1											

Cash flow distribution



■ 2024e-2031e ■ 2032e-2042e ■ TERM

WACC	
Tax-% (WACC)	20,6 %
Target debt ratio (D/(D+E))	0,0 %
Cost of debt	10,0 %
Equity Beta	1,78
Market risk premium	4,75 %
Liquidity premium	1,00 %
Risk free interest rate	2,5 %
Cost of equity	12,0 %
Weighted average cost of capital (WACC)	12,0 %

Source: Inderes

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	0,0	0,0	0,0	0,0	0,0	EPS (reported)	-13,38	-13,92	-3,04	-2,79	-2,85
EBITDA	-132,0	-138,5	-133,2	-139,1	-140,4	EPS (adj.)	-13,38	-13,92	-3,04	-2,79	-2,85
EBIT	-130,1	-133,7	-125,9	-139,1	-140,4	OCF / share	-13,48	-11,17	-4,70	-2,68	-2,79
PTP	-133,4	-138,8	-126,9	-140,3	-143,4	FCF / share	-11,52	-13,45	-4,98	-1,31	-2,79
Net Income	-133,4	-138,8	-126,9	-140,3	-143,4	Book value / share	65,87	51,59	16,86	12,72	9,87
Extraordinary items	0,0	0,0	0,0	0,0	0,0	Dividend / share	0,00	0,00	0,00	0,00	0,00
Balance sheet	2021	2022	2023	2024e	2025e						
Balance sheet total	721,0	620,4	756,0	711,9	641,9						
Equity capital	656,7	514,4	704,7	640,4	497,0						
Goodwill	108,4	108,4	108,4	108,4	108,4						
Net debt	-155,3	-12,7	-120,8	-60,7	82,7						
Cash flow	2021	2022	2023	2024e	2025e						
EBITDA	-132,0	-138,5	-133,2	-139,1	-140,4						
Change in working capital	-2,4	27,1	-63,2	4,2	0,0						
Operating cash flow	-134,4	-111,4	-196,5	-134,8	-140,4						
CAPEX	2,1	-32,6	12,9	0,0	0,0						
Free cash flow	-114,9	-134,1	-208,1	-65,7	-140,4						
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	neg.	>100	neg.	>100	>100						
EV/EBITDA	0,9	neg.	0,7	neg.	neg.						
EV/EBIT (adj.)	0,9	neg.	0,8	neg.	neg.						
P/E (adj.)	neg.	neg.	neg.	neg.	neg.						
P/B	0,1	0,0	0,0	0,6	0,8						
Dividend-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %						

Source: Inderes

Disclaimer and recommendation history

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Buy The 12-month risk-adjusted expected shareholder

return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10.4.2024	Accumulate	0,70 €	0,49 €
20.5.2024	Buy	0,70 €	0,45 €
<i>Reverse stock split 1:20</i>			
26.8.2024	Buy	14,00 €	7,93 €



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