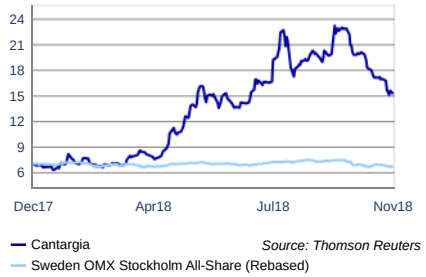
Cantargia

Healthcare
Sweden

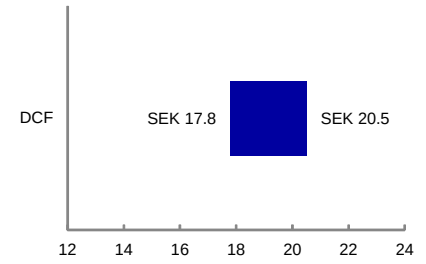
KEY DATA

Stock country	Sweden
Bloomberg	CANTA SS
Reuters	CANTA.ST
Share price (close)	SEK 15.30
Free Float	78%
Market cap. (bn)	EUR 0.10/SEK 1.01
Website	http://cantargia.com/
Next report date	27 Feb 2019

PERFORMANCE



VALUATION APPROACH



Source: Nordea estimates

ESTIMATE CHANGES

Year	2018E	2019E	2020E
Sales	n.a.	n.a.	0%
EBIT (adj)	-16%	-6%	-1%

Source: Nordea estimates

Nordea Markets - Analysts

Hans Mähler
Director

Dan Johansson
Analyst

CANFOUR set to move to the next stage

The key milestone during the third quarter was the interim CANFOUR ph I data presented at ESMO in October, indicating that CAN04 has generally been well tolerated. In addition, the company presented encouraging biomarker results. A maximum tolerated dose has not yet been established and the last cohort has been enrolled, with final dose results expected in Q4, followed by the initiation of ph IIa of the clinical programme. Moreover, Cantargia joined the main list on Nasdaq OMX Stockholm on 24 September, exposing it to a broader group of potential investors. Upcoming triggers in 2018 include ph I data on the final dose level, the initiation of ph IIa and the company releasing its US regulatory and clinical strategy.

Ramped-up clinical projects; move to Nasdaq OMX main list

For Q3, Cantargia's operating loss increased to SEK 21m, up SEK 10m y/y, which can be mainly attributed to increased R&D activities and costs related to the relisting project. The company still has a comforting cash position of SEK 81m and short-term investments of SEK 110m, which should support its planned activities until mid-2020.

Interim CANFOUR data implies safe and tolerable CAN04

The main highlight in Q3 was the positive interim ph I data presented at ESMO in October. CAN04 has generally been well tolerated using repeated dosing. The most common side effects were infusion-related reactions and related events, which are common with antibody treatments. These side effects were generally observed at the first infusion and resolved within a few hours. In terms of dosing, 6 mg/kg has been established as safe and tolerable, although a maximum tolerable dose has not yet been determined. A fifth cohort has been enrolled at 10 mg/kg. In a heavily pre-treated patient population, 38% showed stagnant disease (SD) upon an eight-week follow-up (five of 13 patients). One patient with NSCLC had SD for six months. Early biomarker data supports target engagement already after two doses. The company expects to conclude ph I during Q4.

More triggers to come in 2018

We adjust our cost estimates slightly upwards after Q3 but note that costs should be a smaller concern since funding is secured. Our long-term forecasts are kept unchanged and we maintain our valuation range of SEK 17.8-20.5 per share. Our key focus during the remaining part of the year will be the completion of ph I and the initiation of ph IIa during Q4, which will trigger us to revise our success probability. There could also be an update on the strategy for the US, as well additional pre-clinical data.

SUMMARY TABLE - KEY FIGURES

SEKm	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	0	0	0	0	0	0	548
EBITDA (adj)	-8	-17	-48	-60	-87	-94	479
EBIT (adj)	-8	-17	-48	-60	-87	-94	479
EBIT (adj) margin	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
EPS (adj)	-1.10	-1.27	-2.27	-1.28	-1.27	-1.39	7.26
EPS (adj) growth	12.0%	-15.5%	-78.4%	43.5%	1.1%	-9.3%	623.1%
DPS (ord)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	0.9
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0
P/E (adj)	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	2.1
P/BV	n.a.	n.a.	n.a.	1.2	6.2	14.4	1.8
Dividend yield (ord)	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%
FCF Yield bef acq & disp	n.a.	n.a.	n.a.	-13.7%	-10.6%	-9.1%	44.8%
Net debt	-17	-25	-35	-270	-162	-70	-523
Net debt/EBITDA	2.1	1.4	0.7	4.5	1.9	0.7	-1.1
ROIC after tax	115.8%	199.6%	1,337.9%	328.8%	571.6%	n.m.	2,731.6%

Source: Company data and Nordea estimates

Quarterly review

On 20 October, Cantargia presented interim results from the ongoing phase of its CANFOUR clinical trial at the European Society for Medical Oncology (ESMO) congress in Munich. The key findings were that CAN04 has been generally well tolerated – 6mg/kg is considered a safe dose and the maximum tolerated dose of CAN04 is higher. A fifth cohort has been enrolled at 10mg/kg and the final stage is planned to be finalised in Q4, which will trigger an initiation of the ph IIa part of the study. Early efficacy data and biomarker results have so far been encouraging. The key upcoming triggers will be the full ph I results of the company's CANFOUR study, which are expected in Q4 2018, and the subsequent initiation of the ph IIa part. In addition, the company could present further preclinical findings as well as a US regulatory and clinical strategy before the end of the year.

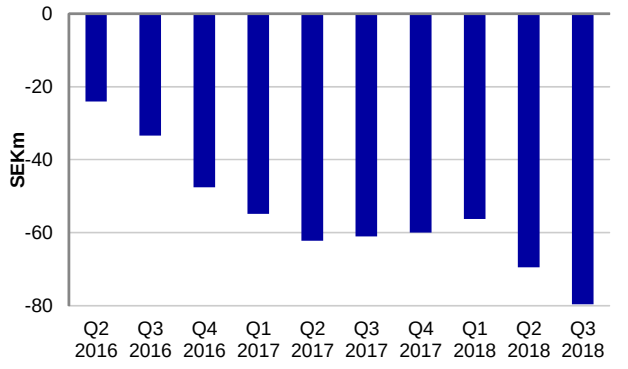
Q3 operating loss of SEK 21.4m

Cantargia reported operating income of SEK -21.4m for Q3 2018 compared with SEK -11.3m during Q3 2017. Opex of SEK 21.4m was higher than we expected and mostly a result of higher R&D spending, mainly related to the development of the CAN04 and CANxx product candidates, according to Cantargia. There were also one-off costs impacted by the listing process on Nasdaq Stockholm main list.

Q3 LTM operating loss up 15% q/q

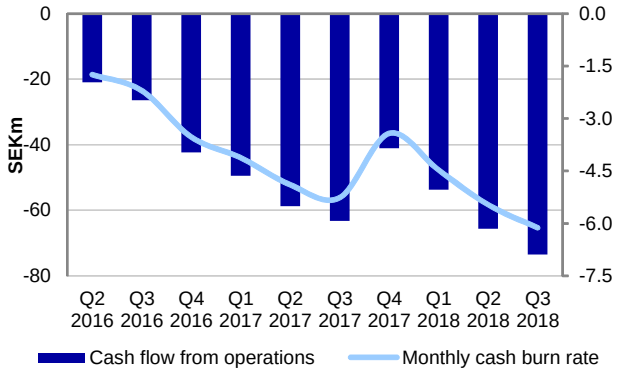
The operating loss over the past 12 months totalled SEK 79.6m. The increased loss is mainly attributable to the company's intensified research activities.

OPERATING INCOME: ROLLING LTM



Source: Company data and Nordea

CASH FLOW FROM OPERATIONS: ROLLING LTM



Source: Company data and Nordea

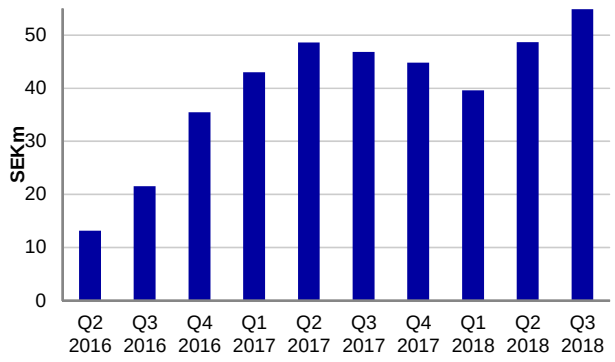
Higher opex mainly due to increased R&D spending

Q3 R&D costs came in at SEK 13.9m, up 83% y/y. LTM R&D costs as of Q3 2018 accounted for SEK 54.9m. R&D costs are prone to fluctuations between quarters. Nevertheless, we expect to see a continued upward trend for R&D costs given the ramped-up research activities and upcoming CANFOUR ph IIa trials, although the increase will not be dramatic compared to today's levels.

Q3 LTM SG&A up 18% q/q and 74% y/y

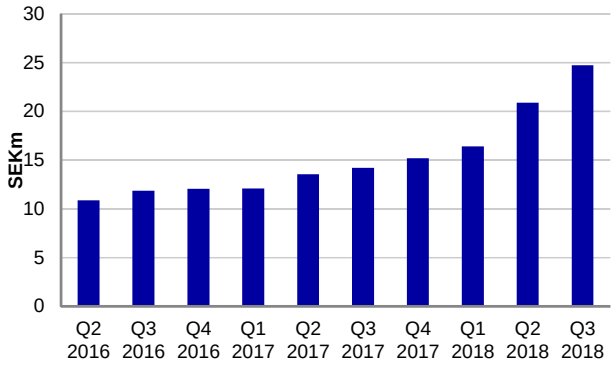
SG&A costs have increased steadily on a rolling LTM basis. LTM SG&A costs have reached SEK 24.7m in Q3, up 18% q/q. Expenses related to the change on the Nasdaq OMX main list in September were one factor contributing to the increase.

R&D COSTS: ROLLING LTM



Source: Company data and Nordea

SG&A COSTS: ROLLING LTM



Source: Company data and Nordea

Q3 LTM operating cash flow SEK -73.5m, down 12% q/q

Cash balance and short-term investments of SEK ~191m are sufficient until mid-2020E

Cantargia's Q3 operating cash flow reached SEK -21.9m, ie SEK -73.5m on a LTM basis, resulting in an end-of-quarter cash and bank balance of SEK 80.7m alongside SEK 110.0m from other short-term investments. The decrease in cash flow is partly due to increased operating costs and working capital changes. We estimate Cantargia is now financed throughout the ph IIa trials, up until mid-2020, given its comfortable cash position, which is in line with management's latest guidance.

Interim data on the CANFOUR phase I study: Safe and tolerable

No treatment discontinuations or grade 4 or 5 adverse effects

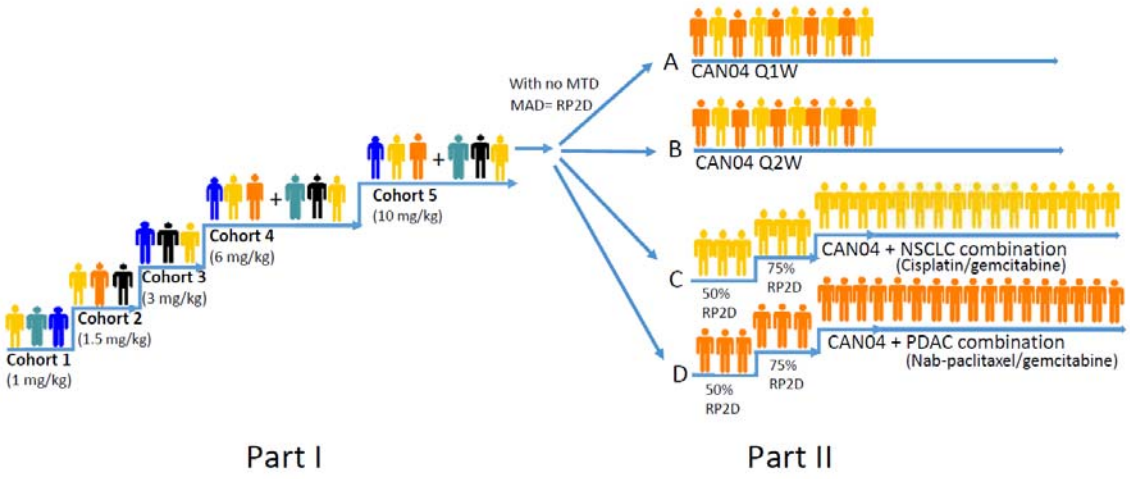
Infusion related reactions (IRR) most prevalent adverse effect

On 20 October, Cantargia presented interim data from the ongoing ph I of its CANFOUR clinical trial at the European Society for Medical Oncology (ESMO) congress in Munich. At the time of ESMO, 16 patients in solid cancers had been treated and CAN04 (nidanilimab) has so far been well tolerated with no treatment-related grade 4 or 5 adverse effects. The most common side effect was infusion-related reaction (IRR) during the first infusion, which was resolved during a few hours. This effect is often observed with antibody therapy. Only one patient experienced IRR at the second infusion, otherwise no IRR have been experienced at later doses.

Maximum tolerated dose has not been reached yet

Four cohorts have been enrolled with weekly infusions at escalating dose levels (1-6mg/kg) and a maximum tolerated dose has so far not been reached. Hence, testing of a higher, final dose (10mg/kg) has been initiated in a fifth cohort. The study is planned to be finalised in Q4 and the objective is to assess the safety and tolerability of CAN04 to determinate the recommended dose to be used in ph IIa.

PHASE I/IIA STUDY SETUP



Source: Company data

First signs of clinical efficacy and encouraging biomarker data

Signs of stable disease despite heavily pre-treated patient population

At the time of data cut-off (5 October), 13 patients had received at least one dose of CAN04 and pre- and post-treatment assessments with imaging. Even though the patient population was heavily pre-treated (four previous therapies on average), five out of 13 patients (38%) demonstrated stable disease by immune-related response criteria at eight weeks follow-up. One non-small cell lung cancer (NSCLC) patient showed stable disease for six months.

Encouraging preliminary effect on biomarkers

In addition, an interim biomarker analysis indicated encouraging results with serum levels of IL-6 being reduced in 11 of 14 patients and serum levels of CRP being reduced in nine of 11 patients. An extensive biomarker analysis will be performed by the end of the study.

Looking ahead to the phase IIa study

Ph IIa is planned to be initiated by the end of the year, in combination with the completion of ph I

The ph IIa part of the CANFOUR study is scheduled to commence shortly after completion of ph I and the recommended dose has been established. After that, CAN04 will be evaluated in the dose expansion phase as a potential monotherapy as well as in combination therapy, alongside the standard of care for NSCLC (1/2 line, Cisplatin/ Gemcitabine) and pancreatic cancer (first line, Gemcitabine/Nab-paclitaxel). The goal is to gain the ability to treat patients at earlier disease stages, which could increase the likelihood of response to the treatment. Pre-clinical findings suggest that CAN04 may be well suitable for both enhanced therapy effect and reduced side effects in combination with certain chemotherapies.

Cantargia estimates ph IIa trial results will be available in early 2020

The company estimates that patient recruitment for ph IIa will take 12 months and that results will likely be available in early 2020. Ph IIa trials are planned to include around 20 research centres in six to seven European countries.

Strengthening of the patent portfolio

Cantargia has also delivered further strengthening of the patent portfolio in recent months:

Patent approvals were granted in Japan and the US in September and October, respectively

- In September, the Japanese Patent Office (JPO) approved the company's patent application for Cantargia's antibody CAN04.
- In October, the US Patent and Trademark Office (USPTO) approved a new patent for the CAN03 antibody following a Notice of Allowance issued in May. The CAN03 antibody is included in the company's CANxx project, which is in pre-clinical stage.

Included on the main list of Nasdaq OMX

On 13 September, Cantargia was approved by Nasdaq to be included on the main list on the Nasdaq Stockholm OMX and commenced trading there on 24 September. We believe the new listing could improve liquidity in the stock, potentially attract new investors and also increase Cantargia's visibility among potential partners.

Several inflection points remain in 2018

Near-term triggers include updates for CANFOUR, pre-clinical data and the US strategy

In addition to the expected progress in the CANFOUR study, we also expect updates on several other frontiers. During the remainder of 2018, Cantargia could present further preclinical data on immuno-oncology effects and combinations, as well as a regulatory and clinical strategy for the US.

Valuation kept intact, next trigger will be full ph I data

We slightly increase our cost assumptions

Full ph I results will prompt us to revise the success probability

We make some minor changes to our estimates, reflect higher-than-anticipated costs in Q3. Primarily, we raise our personnel costs, but we also assume somewhat higher R&D and external expenses going forward. As the company has a comfortable cash position, this should not be of any concern and we believe the funding is sufficient for its planned activities beyond 2020. The next trigger will be the full data from ph I, which should prompt us to revise our success probability. Our valuation is unchanged at SEK 17.8-20.5 per share.

Detailed estimates

CANTARGIA: P&L QUARTERLY AND ANNUAL ESTIMATES

SEKm	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018E	2018E	2019E	2020E
Sales	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**547.7**
growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBITDA	**-17.2**	**-15.3**	**-11.3**	**-14.4**	**-15.2**	**-28.6**	**-21.4**	**-21.5**	**-86.7**	**-94.3**	**479.5**
margin (%)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0.9
EBIT	**-17.2**	**-15.3**	**-11.3**	**-14.4**	**-15.2**	**-28.6**	**-21.4**	**-21.5**	**-86.7**	**-94.3**	**479.5**
margin (%)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0.9
Net financials	0.0	0.0	0.0	-0.3	1.6	0.4	0.0	0.7	2.7	2.4	1.1
EBT	**-17.2**	**-15.3**	**-11.3**	**-14.7**	**-13.7**	**-28.1**	**-21.5**	**-20.8**	**-84.0**	**-91.9**	**480.5**
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**-17.2**	**-15.3**	**-11.3**	**-14.7**	**-13.7**	**-28.1**	**-21.5**	**-20.8**	**-84.0**	**-91.9**	**480.5**

Source: Company data and Nordea estimates

Factors to consider when investing in Cantargia

Cantargia is a biotech company active in the rapidly growing field of immuno-oncology, specialising in antibody-based cancer treatment. Its lead candidate CAN04, currently undergoing the ph I/IIa CANFOUR study, has a dual mechanism of action as it activates the immune system and blocks signals that lead to tumour growth. CAN04 is a likely candidate for combination therapies, which are increasingly viewed as the future of cancer treatment, and the targeted indications have substantial market potential. Given a positive outcome of the CANFOUR study, we expect the company to close a partnership deal on CAN04 in 2020. The company's patent portfolio is quite unique, with protection not only for drug candidates but also for its target molecule. An impressive list of institutional owners has contributed to Cantargia being fully funded until 2020. The main near-term triggers we see involve ph I results during Q4 2018, and the initiation of ph IIa trials shortly thereafter.

We identify a number of key themes describing the investment case for Cantargia

We consider the following factors key when evaluating an investment in Cantargia:

- Lead antibody candidate CAN04 has a dual mechanism of action, both inhibiting tumour growth and activating the body's immune system, stimulating it to attack cancer cells. Furthermore, its IL-1 pathway has been clinically validated through Novartis's extensive CANTOS trial.
- Immuno-oncology is the strongest-growing pharmaceutical segment and Cantargia's initial target indications, ie NSCLC and pancreatic cancer, represent substantial market opportunities. In addition, the company's platform also has potential in additional attractive cancer indications and in other diseases.
- Cantargia has a unique patent portfolio, with protection not only for product candidates but also for the use of IL1RAP as a target molecule.
- Cantargia has rare institutional ownership for an early-stage life science company. These strong owners have fully funded the company until 2020.
- In our view, the ph I results and ph IIa initiation are the main triggers for 2018. In a longer perspective, the major event will be the result of the CANFOUR study and, given a positive outcome, a subsequent licensing deal.

Key risk factors:

- Clinical trials are risky and have no guarantee of success, despite promising results in a pre-clinical setting.
- Cantargia is still in the development phase and is currently not generating any positive cash flow.
- Cantargia faces competition from companies with extensive experience and resources. Apart from established treatments, Cantargia could also see competition from novel treatments currently under development.
- The company is highly dependent on a number of key employees.

Dual mechanism of action as CAN04 inhibits tumour growth and activates the body's immune system

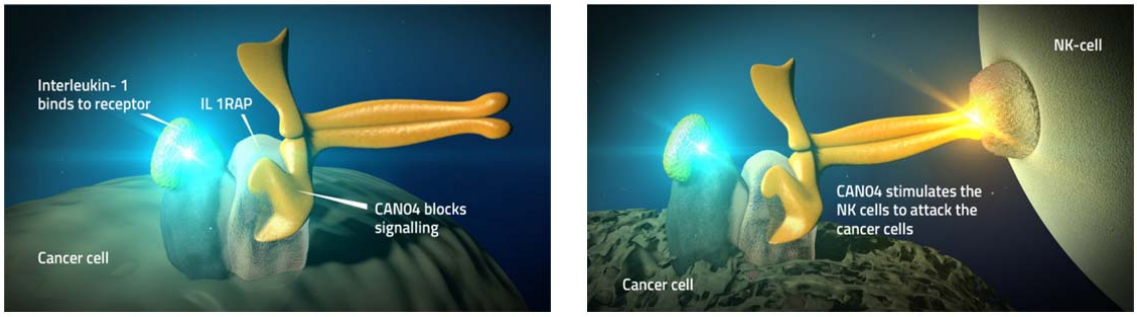
Dual mechanism of action with externally validated pathway

CAN04, Cantargia's lead antibody candidate, has a dual mechanism of action as it not only inhibits tumour growth but also activates the body's immune system. The antibody attaches to the IL1RAP receptor molecule and blocks it from sending signals that induce inflammation and contribute to tumour growth. At the same time, it stimulates the body's immune system, which sends natural killer (NK) cells to attack the tumour. Recent data presented at this year's AACR conference also indicated that, in addition to its dual mechanism, CAN04 also has the potential to counteract metastasis.

CAN04 is a likely candidate for combination therapies

Given positive outcomes in the clinic, Cantargia could position CAN04 as a valuable addition to combination therapies and potentially generate significant interest in a licensing deal from pharmaceutical companies.

ONE ANTIBODY – TWO POTENTIAL MODES OF ACTION



Source: Company data and Nordea

Novartis's CANTOS trial clinically validated the IL-1 pathway and generated results promising enough for Novartis to commission three ph III studies in NSCLC

The scientific case for CAN04 was recently strengthened when Novartis's extensive CANTOS trial clinically validated its IL-1 pathway. The results in the study regarding lung cancer incidence and death were promising enough for Novartis to commission another three ph III studies. This substantial investment indicates the significant potential that Novartis sees in its Canakinumab drug.

Cantargia's CAN04 plausibly has higher potential than Canakinumab considering that it blocks the IL-1b ligand, which is what Canakinumab does, but also the IL-1a ligand and induces the killing of the cancer cells via the immune system.

Attractive immuno-oncology assets

Immuno-oncology is the strongest-growing pharmaceutical segment

Immuno-oncology is the strongest-growing pharmaceutical segment and has seen a flurry of deal making in recent years. In the past five years, the segment accounted for 32 of the 35 multi-billion dollar oncology licensing deals, according to Defined Health. Deal activity has largely been the result of pharma companies on the prowl for potential components to combination therapies, which are emerging as a likely standard of care for cancer treatment.

Combination therapies are increasingly seen as the future standard of cancer care and potential components are being snapped up

Owing to the challenging nature of the discovery of effective combinations, high-potential candidates can generate substantial value quite early in the clinical stage. Given a dual mechanism of action, CAN04 could thus generate interest from the likes of Bristol-Myers Squibb as a potential component in combination therapies. As an indication of the potential value that can be unlocked given a positive readout in the ongoing CANFOUR study, Defined Health found that the average licensing deal in 2015-16 for immuno-oncology projects in ph II was USD 601m, with an average upfront payment of USD 130m.

Target indications represent substantial market opportunities

NSCLC and pancreatic cancer represent substantial market opportunities

Non-small-cell lung cancer (NSCLC) and pancreatic cancer, the company's initial target indications, represent substantial market opportunities that are expected by consensus to grow at high rates in the coming years.

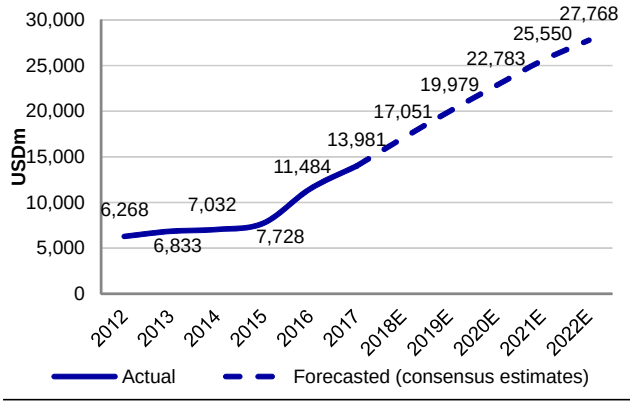
Immuno-oncology is expected to grow its market share in the NSCLC market and grow at a 19% CAGR until 2022

Lung cancer is among the deadliest types of cancer, and 80-85% of all lung cancers are NSCLC. There are four antibody treatments for NSCLC sold globally, and consensus forecasts indicate that immuno-oncology will expand its NSCLC market share and grow at a 19% CAGR, compared with the total NSCLC market at 15%. In 2017, global sales in the NSCLC were USD 14.0bn and consensus estimates compiled by Evaluate Pharma indicate a total market of USD 27.8bn in 2022.

Pancreatic cancer is extremely difficult to treat; it is the indication most in need of new treatment alternatives amongst all cancer types

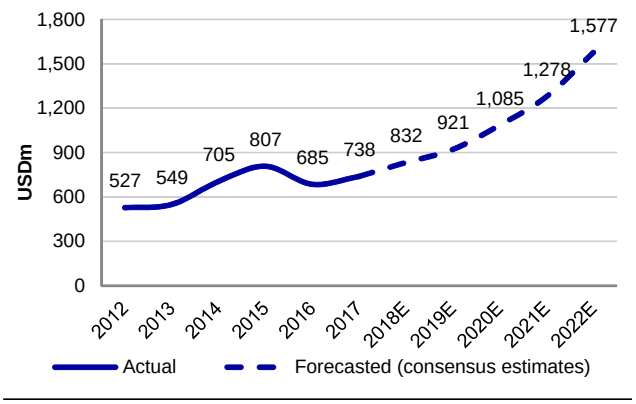
Pancreatic cancer is extremely difficult to treat since it is most often discovered at a late stage. According to Evaluate's data, global sales in the pancreatic cancer market reached USD 738m in 2017 and they are forecast to grow at a 16% CAGR to USD 1.6bn by 2022. The acceleration in sales is primarily driven by the innovation of new products – eight new products are currently under development. This is factored into consensus' forecasts. According to an Ipsos Healthcare survey amongst oncologists in the US and Europe, pancreatic cancer was perceived as the cancer type most in need of new treatment alternatives.

GLOBAL SALES IN THE NSCLC MARKET



Source: Evaluate Pharma

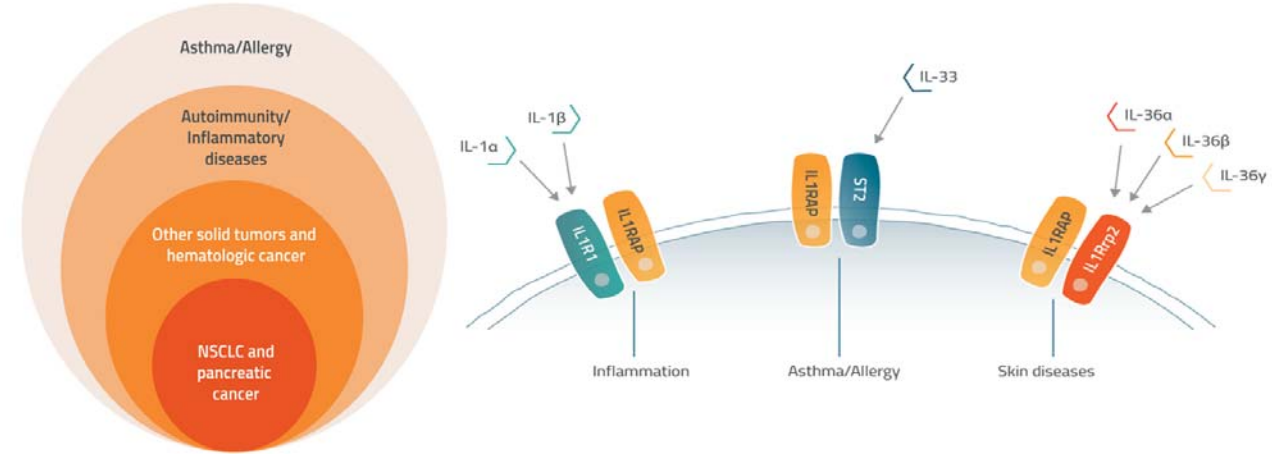
GLOBAL SALES IN THE PANCREATIC CANCER MARKET



Source: Evaluate Pharma

In addition to NSCLC and pancreatic cancer, CAN04 has potential in further cancer indications and the research phase CANxx project adds indications beyond cancer, such as autoimmune and inflammatory diseases.

INDICATIONS WITH POTENTIAL FOR CANTARGIA'S PLATFORM



Source: Company data and Nordea

Cantargia's strong patent portfolio includes unique protection for the use of IL1RAP as a target molecule that could add a premium to a future partnership deal

Unique patent portfolio

Cantargia has a strong patent portfolio that provides protection for its initial indications in solid tumours, ie NSCLC and pancreatic cancer, until 2035. What differentiates Cantargia from many of its peers with regards to patents is that it not only has patent protection for its product candidates but also for the use of IL1RAP as a target molecule, which is a unique situation. Although Cantargia's patents were recently challenged in Europe, the opposition was rejected by the European Patent Office in January 2018 and the patents remain in force. We believe that patent protection for the use of IL1RAP as a target molecule represents a strong selling point that could add a premium in a future partnership deal around CAN04.

PATENT OVERVIEW

Patent family	Patent application	Approved patents	Validity
Hematological cancers	Australia, Canada, China, Europe, Israel, Japan, Mexico, South Africa, USA	Australia, Canada, China, Europe (France, Italy, Netherlands, Switzerland, Spain, Great Britain, Germany), Israel, Japan, Mexico, South Africa, USA	2030
Solid tumors	Australia, Brazil, Canada, China, Europe, Japan, Mexico, Russia, South Korea, USA	Australia, Europe (Belgium, Denmark, France, Ireland, Italy, Netherlands, Poland, Switzerland, Spain, Sweden, Germany, Austria), Japan, Mexico, USA, Russia	2032
CAN04	Australia, Brazil, Canada, China, Europe, India, Israel, Japan, Mexico, Russia, Singapore, South Africa, South Korea, USA	China, Europe (Austria, Belgium, Czech Republic, Denmark, Estonia, France, Germany, Great Britain, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Spain, Sweden, Switzerland, Turkey), South Africa, USA	2035
CAN01 & CAN03	Australia, Brazil, Canada, China, Europe, India, Japan, Mexico, South Korea, USA	National phase examination in progress	2035

Source: Company data and Nordea estimates

Strong owners have provided full funding until 2020

Rare institutional ownership in an early-stage life science company sends a positive signal

Cantargia's ownership structure is a rare sight among life science companies at such an early stage of development. The top owners include three of the six national pension funds in Sweden as well as additional well-renowned institutional investors. These strong owners have helped fill the company's coffers with sufficient funding to cover operations until 2020. At that point, results of the CANFOUR study should have been reported and, assuming a positive outcome, the company should have reached a licensing deal with a partner that can support or take over the continued development of CAN04.

Combined directed issue and rights issue in December 2017 brought in SEK 232m, securing funding needs until 2020

In December 2017, Cantargia conducted a combined directed issue and rights issue that raised SEK 232m before costs. The majority of the proceeds will be devoted to lead candidate CAN04 but the funding will also enable further development of the CANxx project in autoimmune and inflammatory diseases (still in pre-clinical phase).

USE OF COMBINED DIRECTED ISSUE AND RIGHTS ISSUE PROCEEDS

Use	Amount (SEKm)
Clinical trial phase IIa CAN04 (solid tumours)	60
Preclinical support CAN04	20
Other development CAN04	40
Preclinical and other activities CANxx	40
Other working capital strengthening	49
Issuance costs	23
Total	232

Source: Company data and Nordea estimates

Ph I results and listing change represent triggers in 2018

Near-term triggers include the results of the ph I part of the CANFOUR study

We expect ph I of the ongoing CANFOUR study to be completed in Q4 2018, with results representing a near-term trigger for Cantargia. The results announcement will also signal the initiation of the ph IIa part of the study, which is planned to directly follow the completion of ph I.

During 2018, the company also expects to update the market on its regulatory and clinical strategy for the US, where there could be further pre-clinical findings.

UPCOMING TRIGGERS FOR 2018

Event	Expected
Results of phase I part of CANFOUR study	Q4 2018
Initiation of phase IIa part of CANFOUR study	Q4 2018
US clinical and regulatory strategy announcement	Q4 2018
Preclinical data	Q4 2018

Source: Company data and Nordea estimates

The outcome of the CANFOUR study will represent a pivotal event for Cantargia

From a longer-term perspective, the most important trigger we see for Cantargia will be the IIa results of the CANFOUR study, which we expect to be reported by early 2020. Given a positive outcome, a subsequent licensing deal could constitute a major event of value creation and provide the company with financial resources to fund the continued development of its CANxx project.

ESTIMATED TIMETABLE FOR CANTARGIA'S PROJECTS

Event	Indication	Q3 2018	Q4 2018	H1 2019	H2 2019	H1 2020
CAN04 phase I (CANFOUR)	Cancer					
CAN04 phase IIa (CANFOUR)	NSCLC, Pancreatic cancer					
CANxx, discovery phase	Autoimmune & inflammatory diseases					
CANxx, preclinical phase	Autoimmune & inflammatory diseases					

Source: Company data and Nordea estimates

Our DCF valuation indicates a fair value range of SEK 17.8-20.5 per share

Valuation

Based on the assumption that the company can deliver in line with our expectations, and using a WACC of 10-12%, we estimate a fair value range of SEK 17.8-20.5 per share. We derive our fair value from our fundamental DCF framework.

Risk factors

Below, we list the main risk factors we find relevant for Cantargia. The purpose of this is not to provide a comprehensive picture of all of the risks that the company may be subject to, but instead to highlight those that we find most relevant. The main risks we identify relate to the success of clinical trials, regulatory uncertainty and the limited commercial history of the company.

Cantargia depends on the success of its product candidate

Dependence on one drug candidate
Cantargia depends on regulatory approvals and the successful commercialisation of its product candidate, CAN04. Failure to receive approval for this product candidate could affect the prospects for strategic collaborations and funding, and thus limit future earnings potential.

Clinical trials are risky and time-consuming

Clinical studies are risky and require substantial resources
Clinical trials are risky and there are no guarantees that they will be successful despite promising results in earlier trials. Even in the event of positive results, there is a risk that regulatory bodies, such as the FDA and EMA, might have another interpretation of the results. Trials are also time-consuming, expensive, and they require certain expertise. It can take several years to complete a trial and regulatory bodies may delay or terminate trials at any time.

Regulatory outcomes are uncertain and differ between regions

Regulatory approvals
Regulatory processes are also uncertain, demanding substantial time and resources from management. In addition, the requirements might differ between countries, and additional studies could be required to obtain approvals. In the event of approval, products will still undergo continual regulatory overviews covering all parts of the manufacturing process, labelling, packing, distribution etc. Failure to comply with current regulations could lead to marketing restrictions being imposed and recalls, among other things. Another risk is that the current policies may change in the future.

Pharmaceutical products are governed by strict regulation

Manufacturing
Manufacturing of Cantargia's product candidate requires compliance with the EMA, FDA and other international standards, such as current Good Manufacturing Practice (GMP). If the company fails to meet these standards, this could cause production disruptions that could delay clinical trials. Increased requirements in the future could also cause disruptions and lead to increased investments.

Cantargia could face competition from companies with extensive experience and resources

Competition
The market for pharmaceutical products is highly competitive and Cantargia might face multiple competitors for its products and product candidates, including major pharmaceutical companies, speciality pharma companies and biotechnology companies. Apart from established treatments, Cantargia might also face competition from novel treatments currently under development.

Several of the current and potential competitors also have significant advantages in terms of experience, resources and established market positions. In addition, early-stage companies might also prove a threat, through strategic collaborations with larger players.

Product could cause severe side effects

Adverse events
There is a risk that the company's product candidate could cause serious and/or unexpected side effects. If these were to occur, they could cause a delay to clinical trials or even stop them, leading to negative outcomes in market approval processes, induce labelling requirements, or be the source of legal disputes and reputational damage.

Cantargia does not have sufficient funds to reach the commercial phase on its own

Financial position and capital needs
Cantargia is still in a development phase and is currently not generating any positive operational cash flows. While the company recently received a significant boost to its financial position with the SEK 232m equity issue in Q4 2017, the proceeds will last only until 2020. The company is continually working with several different financing options,

eg licensing deals, to ensure that it has enough liquidity until its products are registered and can generate revenue streams. The company believes its prospects of receiving funding through a licensing deal are good, but if it were not to receive sufficient funds, it would be difficult for Cantargia to continue as a going concern.

Its limited history makes it difficult to predict the long-term viability of the business

Limited operational history to assess long-term viability

Cantargia has been an active company since 2009, but operations have so far been limited to early-stage development activities such as identifying product candidates, raising capital and conducting pre-clinical studies. In order to take the next step by advancing through the clinical stages and later commercialising the product, the company might need to recruit personnel with new skill sets.

Cantargia depends on key personnel, including scientists

Hiring/maintaining qualified personnel

Cantargia's future success depends on its ability to keep, motivate and attract key personnel. This includes senior scientists as well as senior management. Loss of key individuals could lead to delays to or prevention of the successful development of its product candidates. As previously mentioned, the company might also need to add new capabilities to engage in commercial activities and failure to do so could limit its future success.

Intellectual property is key to the future success of its product candidates

Patents and other intellectual property rights

Intellectual property is crucial in pharmaceutical development and Cantargia has a broad portfolio of issued, pending and published patents covering many of the major markets. If the company cannot adequately defend its intellectual property, however, this could affect the future success of its product candidate. It might also be forced into litigation or could itself be subject to allegations of patent infringements by a third party.

Reported numbers and forecasts

INCOME STATEMENT											
SEKm	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net revenue	**n.a.**	**n.a.**	**n.a.**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**548**
Revenue growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0	0	0	-8	-8	-17	-48	-60	-87	-94	479
Depreciation and impairments PPE	0	0	0	0	0	0	0	0	0	0	0
EBITA	0	0	0	-8	-8	-17	-48	-60	-87	-94	479
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	n.a.	n.a.	n.a.	-8	-8	-17	-48	-60	-87	-94	479
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	0	0	0	0	0	0	0	3	2	1
Pre-tax profit	**0**	**0**	**0**	**-8**	**-8**	**-17**	**-47**	**-60**	**-84**	**-92**	**481**
Reported taxes	0	0	0	0	0	0	0	0	0	0	0
Net profit from continued operations	0	0	0	-8	-8	-17	-47	-60	-84	-92	481
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	0	0	0	-8	-8	-17	-47	-60	-84	-92	481
EPS	**n.a.**	**n.a.**	**n.a.**	**-1.25**	**-1.10**	**-1.27**	**-2.27**	**-1.28**	**-1.27**	**-1.39**	**7.26**
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
EBITA	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
EBIT	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
Adjusted earnings											
EBITDA (adj)	0	0	0	-8	-8	-17	-48	-60	-87	-94	479
EBITA (adj)	0	0	0	-8	-8	-17	-48	-60	-87	-94	479
EBIT (adj)	0	0	0	-8	-8	-17	-48	-60	-87	-94	479
EPS (adj)	n.a.	n.a.	n.a.	-1.25	-1.10	-1.27	-2.27	-1.28	-1.27	-1.39	7.26
Adjusted profit margins in percent											
EBITDA (adj)	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
EBITA (adj)	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
EBIT (adj)	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	87.6%
Performance metrics											
CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	34.9%
Average EBITDA margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	34.9%

VALUATION RATIOS - ADJUSTED EARNINGS											
SEKm	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
P/E (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	2.1
EV/EBITDA (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0
EV/EBITA (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0

VALUATION RATIOS - REPORTED EARNINGS											
SEKm	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	2.1
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	0.9
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0
EV/EBITA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	1.0
Dividend yield (ord.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%
FCF yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-13.7%	-10.6%	-9.1%	44.8%
Payout ratio	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Intangible assets	0	0	1	2	2	0	0	0	0	0	0
of which R&D	0	0	1	2	2	0	0	0	0	0	0
of which other intangibles	0	0	0	0	0	0	0	0	0	0	0
of which goodwill	0	0	0	0	0	0	0	0	0	0	0
Tangible assets	0	0	0	0	0	0	0	0	0	0	0
Shares associates	0	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	0	0	0	0	2	3	3	0	0	0
Total non-current assets	0	0	1	2	3	2	3	3	0	0	0
Inventory	0	0	0	0	0	0	0	0	0	0	0
Accounts receivable	0	0	0	0	0	0	0	0	0	0	82
Other current assets	0	0	0	1	1	1	2	2	0	0	27
Cash and bank	0	0	3	1	17	25	35	270	162	70	523
Total current assets	0	0	3	2	17	25	37	271	162	70	633
Assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total assets	**0**	**0**	**4**	**4**	**20**	**27**	**40**	**274**	**162**	**70**	**633**
Shareholders equity	0	0	3	3	4	24	30	246	162	70	551
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	0	0	3	3	4	24	30	246	162	70	551
Deferred tax	0	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	0	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	0	0	0	0	0	0	0
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	0	0	0	1	1	2	7	21	0	0	55
Other current liabilities	0	0	0	0	15	1	2	8	0	0	27
Short term interest bearing debt	0	0	0	0	0	0	0	0	0	0	0
Total current liabilities	0	0	1	1	16	3	10	28	0	0	82
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**0**	**0**	**4**	**4**	**20**	**27**	**40**	**274**	**162**	**70**	**633**
Balance sheet and debt metrics											
Net debt	0	0	-3	-1	-17	-25	-35	-270	-162	-70	-523
Working capital	0	0	0	0	-15	-2	-7	-27	0	0	27
Invested capital	0	0	0	2	-13	-1	-5	-24	0	0	27
Capital employed	0	0	3	3	4	24	30	246	162	70	551
ROE	n.m.	n.m.	0.0%	-256.0%	-231.6%	-123.4%	-176.5%	-43.6%	-41.2%	-79.1%	154.8%
ROIC	n.m.	n.m.	0.0%	-604.2%	115.8%	199.6%	1,337.9%	328.8%	571.6%	n.m.	2,731.6%
ROCE	n.a.	n.a.	n.a.	-254.8%	-198.1%	-71.6%	-158.3%	-24.4%	-53.5%	-134.2%	87.1%
Net debt/EBITDA	n.m.	n.m.	n.m.	0.2	2.1	1.4	0.7	4.5	1.9	0.7	-1.1
Interest coverage	n.a.	n.a.	n.a.	n.m.	-29.9	-87.2	-729.6	-182.1	n.m.	n.m.	n.m.
Equity ratio	n.m.	n.m.	81.5%	78.5%	20.4%	88.3%	75.6%	89.7%	100.0%	100.0%	87.0%
Net gearing	n.m.	n.m.	-86.2%	-47.8%	-406.6%	-103.1%	-116.0%	-109.6%	-100.0%	-100.0%	-95.0%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
EBITDA (adj) for associates	**0**	**0**	**0**	**-8**	**-8**	**-17**	**-48**	**-60**	**-87**	**-94**	**479**
Paid taxes	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	0	0	0	0	0	0	0	3	2	1
Change in provisions	0	0	0	0	0	0	0	0	0	0	0
Change in other LT non-IB	0	0	0	0	0	-1	-1	0	3	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	0	0	0	0	0	1	1	0	0	0	0
Funds from operations (FFO)	**0**	**0**	**0**	**-8**	**-8**	**-17**	**-47**	**-60**	**-81**	**-92**	**481**
Change in NWC	0	0	0	0	15	-13	5	19	-27	0	-27
Cash flow from operations (CFO)	**0**	**0**	**0**	**-8**	**7**	**-30**	**-42**	**-41**	**-108**	**-92**	**453**
Capital expenditure	0	0	0	0	0	0	0	0	0	0	0
Free cash flow before A&D	**0**	**0**	**0**	**-8**	**7**	**-30**	**-42**	**-41**	**-108**	**-92**	**453**
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Free cash flow	0	0	0	-8	7	-30	-42	-41	-108	-92	453
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Equity issues / buybacks	0	0	0	8	10	45	56	304	0	0	0
Net change in debt	0	0	0	0	0	0	0	0	0	0	0
Other financing adjustments	0	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	3	-1	-1	-7	-4	-28	0	0	0
Change in cash	0	0	3	-1	15	8	10	235	-108	-92	453
Cash flow metrics											
Capex/D&A	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Capex/Sales	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0.0%
Key information											
Share price year end (/current)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6	15	15	15
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	300	1,013	1,013	1,013
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	31	851	942	489
Diluted no. of shares, year-end (m)	0.0	0.0	0.0	6.3	7.6	13.5	20.9	46.9	66.2	66.2	66.2

Source: Company data and Nordea estimates

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