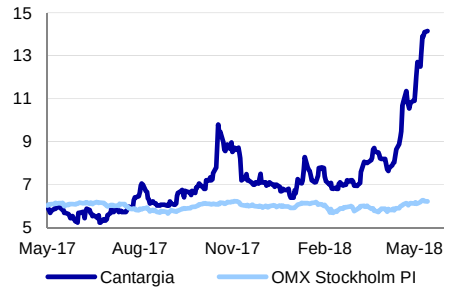
# Cantargia

## Healthcare | Sweden

**KEY DATA**

| | |
|---|---|
| Country | Sweden |
| Bloomberg | CANTA SS |
| Reuters | CANTA.ST |
| Share price | 14.15 |
| Free float | 89% |
| Market cap (m) | SEK 937 |
| Website | www.cantargia.com |
| Next report date | 21 August 2018 |

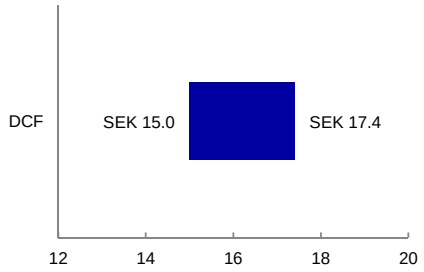
**ABSOLUTE & RELATIVE PERFORMANCE**




| | -1M | -6M | -12M | YTD |
|---|---|---|---|---|
| Absolute | 64% | 93% | 141% | 121% |
| Relative | 59% | 89% | 140% | 116% |

*Source: FactSet and Bloomberg*

**VALUATION APPROACH**




*Source: FactSet and Nordea estimates*

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# First part of CANFOUR is nearing completion

### Decent cost control during Q1

Cantargia reported Q1 EBIT of SEK -15.3m, compared with our estimate of SEK -19.6m and SEK -18.4m in Q1 2017. The better result was attributable to lower R&D spending in the quarter y/y and versus our estimates.

### Continued M&A activity in the immuno-oncology space

So far in 2018, there have been multiple M&A deals in the immuno-oncology field, indicating the potential for attractive product candidates in the space. For example, Eli-Lilly recently announced an all-cash USD 1.6bn acquisition of ARMO BioSciences. Its lead product candidate, AM0010 (pegilodecakin, PEGylated interleukin-10), has shown clinical benefits as a single agent as well as in combination with chemotherapy and checkpoint inhibitors across several tumour types. It is being investigated in a ph III trial in pancreatic cancer, as well as earlier-phase trials in lung cancer and other solid tumours.

### Phase I results of the CANFOUR study forthcoming

We expect Cantargia to reveal preliminary ph I results during the summer, followed by immediate progress into ph IIa. We believe the study will yield positive results and a solid safety profile for CAN04, as no serious adverse events have been reported yet. We expect the complete CANFOUR study to be finalised at the end of 2019, which could spark partnership discussions.

### Multiple inflection points ahead

As well as progress in the CANFOUR study, we expect Cantargia to provide news flow on other fronts during 2018. For example, we anticipate updates on the expected listing change, the clinical and regulatory strategy for the US, and progress on preclinical studies.

### Valuation

Based on our fundamental DCF approach, and assuming a WACC of between 10% and 12%, we derive an equity value per share of SEK 15 to SEK 17.4.

**SUMMARY TABLE - KEY FIGURES**

| SEKm | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|---|
| Net sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 464 |
| - growth | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| EBIT | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 |
| - margin | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | 87.0% |
| EPS | -1.25 | -1.10 | -1.27 | -2.27 | -1.28 | -1.03 | -1.23 | 6.12 |
| - growth | | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. |
| DPS | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| P/E | 0.0 | 0.0 | n.m. | n.m. | n.m. | n.m. | n.m. | 2.2 |
| EV/EBIT | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 |
| EV/Sales | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | 0.9 |
| RoE | -231.6% | -123.4% | -176.5% | -43.6% | -32.0% | -59.3% | 135.4% | -11.9% |
| Div. yield | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| FCF yield | n.a. | n.a. | -23.6% | -30.2% | -13.7% | -10.1% | -9.0% | 42.0% |
| ND/EBITDA | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | -1.2x |

*Source: Company data and Nordea estimates*

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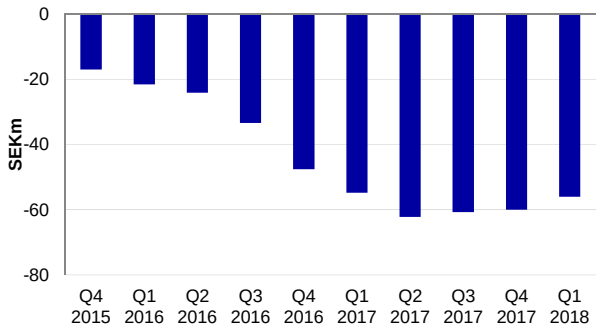
# Quarterly review

Cantargia reported Q1 2018 operating income of SEK -15.3m. This was an improvement on the SEK -18.4m seen during the same quarter of 2017 and was also better than our estimate of SEK -19.6m. The improvement was a result of lower R&D spending during the quarter. We make limited positive changes to our estimates and look ahead to the phase I results from the company's CANFOUR study, expected in the coming months, as well as other news flow expected during the remainder of the year.

**Costs were lowered than we had anticipated**

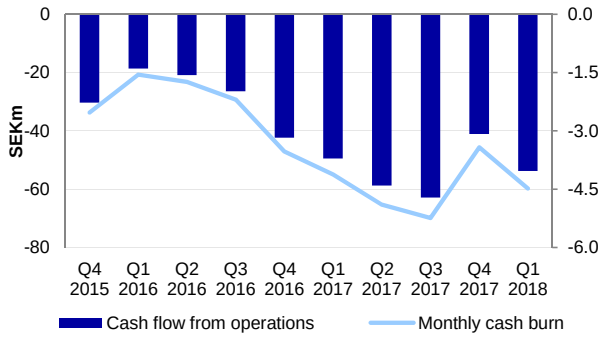
Cantargia reported Q1 2018 operating income of SEK -15.3m, compared with SEK 18.4m during the same period last year. The relatively subdued operational expenses of SEK -15.3m were lower than our SEK -19.6m forecast, owing to less R&D spending during the quarter. For the last 12-month period, operating income came in at SEK -56.0m.

**OPERATING INCOME - ROLLING 12M**




*Source: Company data and Nordea*

**CASH FLOW OPERATIONS - ROLLING 12M**



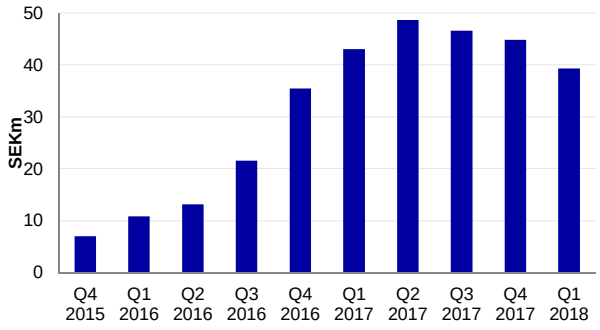

*Source: Company data and Nordea*

**Lower R&D spending the main explanation for lower costs in the quarter**

The R&D component of operating costs came in at SEK 11.0m in Q1 versus SEK 15.7m in the same period in 2017. R&D costs for the last 12 months as of Q1 2018 was thus SEK 39.3m, down from the SEK 43.0m seen during the preceding 12-month period. R&D costs are prone to fluctuations between quarters owing to the timing of invoicing.

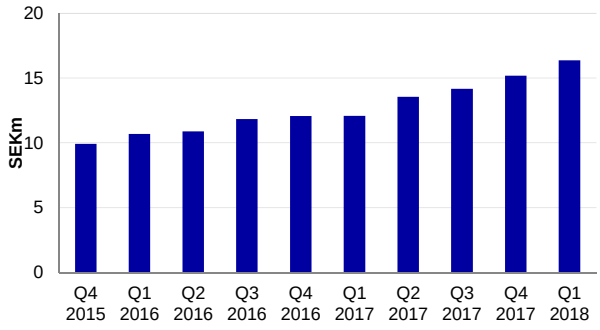
Other operating expenses were reported at SEK 4.2m for the quarter and SEK 16.4m for the last 12 months, compared with SEK 3.1m and SEK 12.1m, respectively, for Q1 2017 and the preceding 12-month period.

**R&D COSTS - ROLLING 12M**




*Source: Company data and Nordea*

**SG&A COSTS - ROLLING 12M**




*Source: Company data and Nordea*

## Continued M&A interest in the immuno-oncology space

**Immuno-oncology continues to be a hot M&A space**

We have seen steady news flow on the M&A front during 2018 in Cantargia's field of immuno-oncology. Eli Lilly recently announced two substantial deals, one of which is especially relevant as a benchmark for Cantargia.

**Eli-Lilly recently acquired ARMO BioSciences for USD 1.6bn**

On 10 May, Eli Lilly announced an all-cash offer of around USD 1.6bn for ARMO BioSciences, which is a late-state immuno-oncology company developing a pipeline of proprietary product candidates designed to activate the immune systems of cancer patients to recognise and eradicate tumours.

**ARMO's lead product candidate is being studied in a ph III trial in pancreatic cancer**

ARMO's lead product candidate, pegilodecakin, a PEGylated IL-10, has demonstrated clinical benefit as a single agent, and in combination with both chemotherapy and checkpoint inhibitor therapy, across several tumour types. Pegilodecakin is currently being studied in a ph III clinical trial in pancreatic cancer, as well as in earlier-phase trials in lung and renal cell cancer, melanoma and other solid tumour types. The company also has a number of other immuno-oncology product candidates in various stages of pre-clinical development.

ARMO BioSciences thus shares some similarities with Cantargia, although ARMO has a broader portfolio that has progressed further in clinical development. Direct valuation comparisons would be misleading at this stage.

## Phase I results of the CANFOUR study forthcoming

**Ph I is progressing according to schedule and the company will release the results in the coming months**

We expect ph I of the ongoing CANFOUR study to be completed this summer, as it is reported to be progressing according to schedule. This event will signal the initiation of the ph IIa part of the study, which is planned to follow directly on from the completion of the first part of the study. No adverse events have been reported, so we expect a positive outcome, but the completion will still mark a major milestone in Cantargia's development.

## Multiple value inflection points ahead

**Several triggers in the near term with updates on preclinical studies, listing change and US strategy expected during 2018**

In addition to the expected progress of the CANFOUR study, we expect the news flow in the coming quarters to include several updates. The company is preparing a listing change from First North to the main list on Nasdaq OMX, which could improve liquidity in the stock and potentially attract new investors. During 2018, Cantargia also expects to deliver preclinical data on combination therapies, report further progress in preclinical studies, and update the market on its regulatory and clinical strategy for the US.

## Estimate changes

**We make limited revisions to our estimates, with slightly lower 2018 R&D cost assumptions**

We make limited changes to our estimates, as the report came in better on R&D costs than we expected. We lower R&D spending slightly for 2018E owing to good cost control in Q1, even though costs can be somewhat volatile between quarters. We also revise the cost curve to be more back-end loaded in 2018E, based on our expectation that R&D spending will increase sequentially during the year as clinical development moves into the ph IIa stage in Q3. We also make smaller positive adjustments to net financials, as we believe the company can generate modest returns on its current cash pile.

**CANTARGIA: ESTIMATE REVISIONS**

| | New estimates | | | Old estimates | | | Difference % | | |
|---|---|---|---|---|---|---|---|---|---|
| SEKm | 2018E | 2019E | 2020E | 2018E | 2019E | 2020E | 2018E | 2019E | 2020E |
| Sales | 0.0 | 0.0 | 464.2 | 0.0 | 0.0 | 464.2 | - | - | 0.0 |
| Adj. EBIT | -71.9 | -84.2 | 403.8 | -78.3 | -84.7 | 403.3 | 8% | 1% | 0% |

*Source: 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 phase 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 around CAN04 in 2020. The company's patent portfolio is rather unique with protection not only for drug candidates but also for their target molecule. An impressive list of institutional owners has contributed to Cantargia being fully funded until 2020. Near-term triggers involve phase I results during the summer and a listing change during H2 2018.

**We have identified a number of key themes describing the investment case in 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' extensive CANTOS trial.
- Immuno-oncology is the strongest growing pharmaceutical segment and Cantargia's initial target indications, NSCLC and pancreatic cancer, represent substantial market opportunities. In addition, the company's platform also has potential in additional attractive indications, in cancer as well as other diseases.
- It has a unique patent portfolio with protection not only for product candidates but also for the use of IL1RAP as a target molecule.
- Rare institutional ownership in an early-stage life science company. These strong owners have contributed to the company having full funding until 2020.
- Phase I results and listing change are triggers we see in 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 preclinical 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 face competition from novel treatments currently under development.
- The company is highly dependent on a number of key employees.

## Dual mechanism of action with externally validated pathway

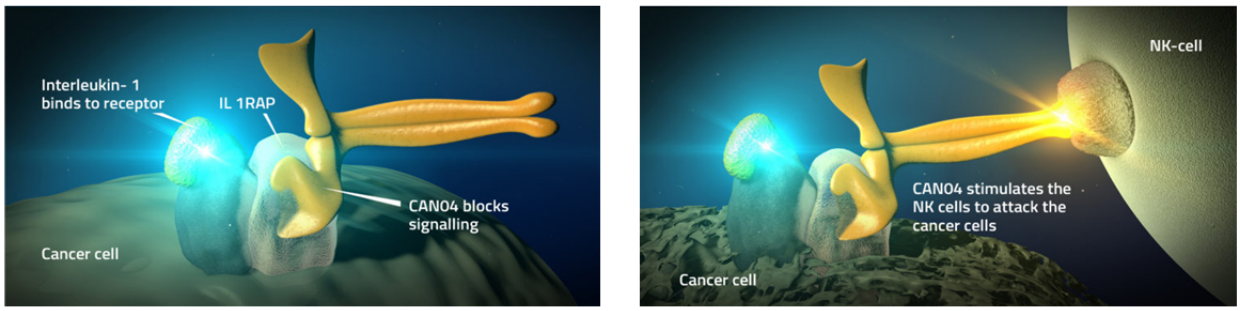
**Dual mechanism of action as CAN04 inhibits tumour growth and activates the body's immune system**

Cantargia's lead antibody candidate CAN04 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.

**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 Markets*

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

The scientific case for CAN04 was recently strengthened when Novartis' 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 a further three phase III studies; a substantial investment that sends an indication of the significant potential that Novartis sees for its Canakinumab drug.

Cantargia's CAN04 plausibly has higher potential than Canakinumab considering that it not only blocks the IL-1b ligand, which is what Canakinumab does, but also the IL-1a ligand and in addition also induces 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 last five years, the segment accounted for 32 of the 35 multi-billion dollar oncology licensing, deals according to Defined Health. This deal activity has largely been due to pharma companies being 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**

As a consequence of the challenging nature of the discovery of effective combinations, high-potential candidates can generate substantial value quite early in the clinical stage. With 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 phase 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.

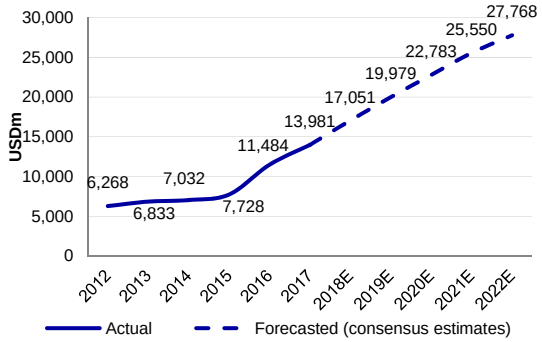
**Immuno-oncology is expected to grow its market share in the NSCLC market and grow at a 19% CAGR until 2022**

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 immune-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 indicate a total market of USD 27.8bn in 2022.

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

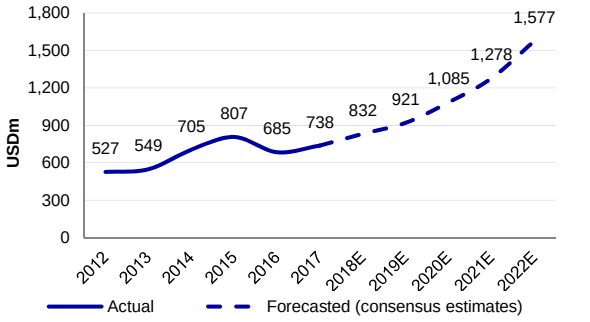
Pancreatic cancer is extremely difficult to treat as it is most often discovered at a late stage. According to Evaluate data, global sales within the pancreatic cancer market were USD 738m in 2017, and are forecast to grow at a 16% CAGR to USD 1.6bn in 2022. The acceleration in sales is primarily driven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

**GLOBAL SALES IN THE NSCLC MARKET**




*Source: Evaluate Pharma and Nordea Markets*

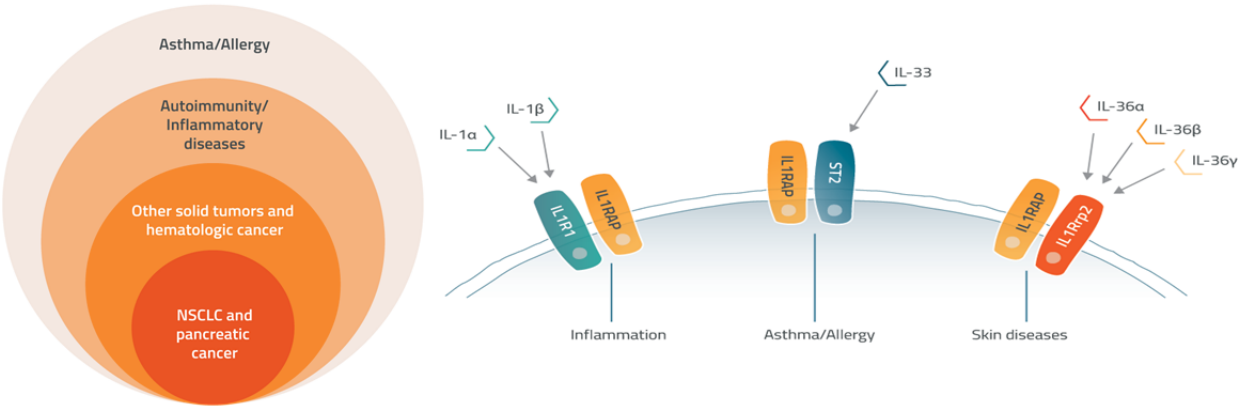
**GLOBAL SALES IN THE PANCREATIC CANCER MARKET**




*Source: Evaluate Pharma and Nordea Markets*

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 Markets*

## Unique patent portfolio

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

Cantargia has a strong patent portfolio that provides protection for its initial indications within solid tumours, ie NSCLC and pancreatic cancer, until 2035. What differentiates Cantargia with regards to patents from many of its peers 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 rather unique situation.

Cantargia's patents were, however, recently challenged in Europe but the opposition was rejected by the European Patent Office in January 2018 and the patents thus remain in force. We believe that the patent protection for using 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, 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 | Europe, 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 Markets*

## 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 in a relatively early stage of development. The top owners include three of the six national pension buffer 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 is expected to have been reported and the company is likely, given a positive outcome, to 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 and secured the company's funding needs until 2020**

In December 2017, Cantargia conducted a combined directed issue and rights issue that raised SEK 232m before costs. A majority of the proceeds will be devoted to the lead candidate CAN04 but the funding will also enable further development of the CANxx project within autoimmune and inflammatory diseases which is in the preclinical 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 Markets*

## Phase I results and listing change represent triggers in 2018

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

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

**Listing change and news on the company's strategy for the US are also expected in 2018**

During 2018, the company also expects to deliver preclinical data on combination therapies, report further progress in preclinical studies as well as update the market on its regulatory and clinical strategy for the US. In addition to the research-related news flow, the company is also preparing a listing change from First North to the main list at Nasdaq OMX, which could improve liquidity in the stock and potentially attract new investors.

**UPCOMING TRIGGERS IN 2018**

| Event | Expected |
|---|---|
| Results of phase I part of CANFOUR study | Summer 2018 |
| Initiation of phase IIa part of CANFOUR study | Summer 2018 |
| US clinical and regulatory strategy announcement | H2 2018 |
| Listing change to Nasdaq Main Market | H2 2018 |

*Source: Company data*

**The outcome of the CANFOUR study, expected in late 2019, will represent a pivotal event for Cantargia**

In a longer perspective, the most important trigger for Cantargia will be the final results of the CANFOUR study, which we expect to have been reported at the end of 2019. Given a positive outcome, a subsequent licensing deal in 2020 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 | Q2 2018 | 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*

## Valuation

**Our DCF valuation indicates an fair value range of SEK 15.0-17.4 per share**

Based on the assumption that the company can deliver in line with our expectations, and using a WACC of between 10%-12%, we estimate a fair value range of SEK 15.0-17.4 per share. We derive our fair value from our fundamental DCF framework.

## Risk factors

**A full description of the risk factors we find most relevant for Cantargia can be found on pages 11-12**

Clinical trials are risky and there are no guarantees they will be successful despite promising results in previous 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 time-consuming, expensive and require certain expertise. It can take several years to complete a trial, and regulatory bodies may delay or terminate trials at any time.

Cantargia is still in a development phase and is not generating positive cash flows.

The market for pharmaceutical products is highly competitive and Cantargia could face competition for its products and product candidates from companies with extensive experience and resources. Apart from established treatments, Cantargia might also face competition from novel treatments currently under development.

The company's future success is dependent on its ability to keep, motivate and attract key personnel. This includes senior scientists as well as senior management.

We provide a full description of the main risk factors we find relevant for Cantargia on pages 11-12.

## Further information

We provide a more in-depth description of the company's scientific concept, research design, underlying market as well as historical financials and more detailed estimates in our initiation report published in May 2018. The full report can be accessed via this link.

# Detailed estimates

**CANTARGIA - P&L QUARTERLY AND ANNUAL ESTIMATES**

| SEKm | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018E | Q3 2018E | 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** | **464.2** |
| 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** | **-11.1** | **-14.4** | **-15.2** | **-16.1** | **-18.7** | **-21.9** | **-71.9** | **-84.2** | **403.8** |
| 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** | **-11.1** | **-14.4** | **-15.2** | **-16.1** | **-18.7** | **-21.9** | **-71.9** | **-84.2** | **403.8** |
| 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 | 0.8 | 0.8 | 0.8 | 4.0 | 2.7 | 1.5 |
| **EBT** | **-17.2** | **-15.3** | **-11.1** | **-14.7** | **-13.7** | **-15.2** | **-17.9** | **-21.0** | **-67.9** | **-81.5** | **405.2** |
| 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** | **-11.1** | **-14.7** | **-13.7** | **-15.2** | **-17.9** | **-21.0** | **-67.9** | **-81.5** | **405.2** |

*Source: Company data and Nordea estimates*

# 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.

### Dependence on one drug candidate

**Cantargia is dependent on the success of its product candidate**

Cantargia is dependent 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 studies are risky and require substantial resources

**Clinical trials are risky and time-consuming**

Clinical trials are risky and there are no guarantees that they are 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 and 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 approvals

**Regulatory outcomes are uncertain and differ between regions**

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.

### Manufacturing

**Pharmaceutical products are governed by strict regulation**

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.

### Competition

**Cantargia could face competition from companies with extensive experience and resources**

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.

### Adverse events

**Product could cause severe side effects**

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.

## Financial position and capital needs

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

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.

## Limited operational history to assess long-term viability

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

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 preclinical 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.

## Hiring/maintaining qualified personnel

**Cantargia depends on key personnel, including scientists**

Cantargia's future success is dependent 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.

## Patents and other intellectual property rights

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

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. However, if the company is not able to adequately defend its intellectual property, 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** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018E** | **2019E** | **2020E** | **2021E** | **2022E** |
| **Net revenue** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **464** | **0** | **244** |
| Revenue growth | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | -100.0% | n.a. |
| EBITDA | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 | -64 | 180 |
| Depreciation and impairments PPE | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBITA | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 | -64 | 180 |
| Amortisation and impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 | -64 | 180 |
| of which associates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Associates excl. from EBIT | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net financials | 0 | -0 | -0 | 0 | -0 | 4 | 3 | 1 | 7 | 7 |
| **Pre-Tax Profit** | **-8** | **-8** | **-17** | **-47** | **-60** | **-68** | **-82** | **405** | **-57** | **186** |
| Reported taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit from cont. operations | -8 | -8 | -17 | -47 | -60 | -68 | -82 | 405 | -57 | 186 |
| Discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit to equity | -8 | -8 | -17 | -47 | -60 | -68 | -82 | 405 | -57 | 186 |
| **EPS** | **-1.25** | **-1.10** | **-1.27** | **-2.27** | **-1.28** | **-1.03** | **-1.23** | **6.12** | **-0.85** | **2.82** |
| DPS | 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 |
| of which extraordinary | 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.a. | n.a. | n.a. | n.a. | 87.0% | n.a. | 73.6% |
| EBITA | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 87.0% | n.a. | 73.6% |
| EBIT | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 87.0% | n.a. | 73.6% |
| **Adjusted earnings** | | | | | | | | | | |
| EBITDA (adj.) | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 | -64 | 180 |
| EBITA (adj.) | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 | -64 | 180 |
| EBIT (adj.) | -8 | -8 | -17 | -48 | -60 | -72 | -84 | 404 | -64 | 180 |
| EPS (adj.) | -1.25 | -1.10 | -1.27 | -2.27 | -1.28 | -1.03 | -1.23 | 6.12 | -0.85 | 2.82 |
| **Adjusted profit margins in percent** | | | | | | | | | | |
| EBITDA (adj.) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 87.0% | n.a. | 73.6% |
| EBITA (adj.) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 87.0% | n.a. | 73.6% |
| EBIT (adj.) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 87.0% | n.a. | 73.6% |
| **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.a. | n.a. |
| EBITDA | n.a. | n.a. | n.a. | n.a. | n.a. | 55.2% | 59.7% | -288.4% | 6.0% | -224.5% |
| EBIT | n.a. | n.a. | n.a. | n.a. | n.a. | 55.2% | 59.7% | -288.4% | 6.0% | -224.5% |
| EPS | n.a. | n.a. | n.a. | n.a. | n.a. | -3.9% | 2.3% | -236.9% | -17.8% | -217.0% |
| DPS | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Average EBIT margin | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | 30.2% | 26.7% | 51.3% |
| Average EBITDA margin | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | 30.2% | 26.7% | 51.3% |

*Source: Company data and Nordea estimates*

| VALUATION RATIOS - ADJUSTED EARNINGS | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **SEKm** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018E** | **2019E** | **2020E** | **2021E** | **2022E** |
| P/E (adj.) | 0.0 | 0.0 | n.m. | n.m. | n.m. | n.m. | n.m. | 2.2 | n.m. | 4.9 |
| EV/EBITDA (adj.) | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 | n.m. | 1.8 |
| EV/EBITA (adj.) | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 | n.m. | 1.8 |
| EV/EBIT (adj.) | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 | n.m. | 1.8 |
| **Valuation ratios/reported earnings** | | | | | | | | | | |
| P/E | 0.0 | 0.0 | n.m. | n.m. | n.m. | n.m. | n.m. | 2.2 | n.m. | 4.9 |
| EV/Sales | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | 0.9 | n.m. | 1.3 |
| EV/EBITDA | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 | n.m. | 1.8 |
| EV/EBITA | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 | n.m. | 1.8 |
| EV/EBIT | 0.2 | 2.1 | n.m. | n.m. | n.m. | n.m. | n.m. | 1.1 | n.m. | 1.8 |
| Dividend yield (ord.) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| FCF yield | n.a. | n.a. | -23.6% | -30.2% | -13.7% | -10.1% | -9.0% | 42.0% | -3.7% | 16.5% |
| Payout ratio | n.a. | 0.0% | 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 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|
| Intangible assets | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which R&D | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which other intangibles | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tangible assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares associates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest bearing assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-int. bearing assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-current assets | 0 | 0 | 2 | 3 | 3 | 0 | 0 | 0 | 0 | 0 |
| **Total non-current assets** | **2** | **3** | **2** | **3** | **3** | **0** | **0** | **0** | **0** | **0** |
| Inventory | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accounts receivable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 70 | 0 | 61 |
| Other current assets | 1 | 1 | 1 | 2 | 2 | 0 | 0 | 23 | 0 | 12 |
| Cash and bank | 1 | 17 | 25 | 35 | 270 | 178 | 97 | 479 | 445 | 595 |
| **Total current assets** | **2** | **17** | **25** | **37** | **271** | **178** | **97** | **572** | **445** | **668** |
| Assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **4** | **20** | **27** | **40** | **274** | **178** | **97** | **572** | **445** | **668** |
| **Shareholders equity** | **3** | **4** | **24** | **30** | **246** | **178** | **97** | **502** | **445** | **632** |
| of which preferred stock | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which Equity of hyb. debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Equity** | **3** | **4** | **24** | **30** | **246** | **178** | **97** | **502** | **445** | **632** |
| Deferred tax | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long term int. bearing debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-current liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pension provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other long-term provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other long-term liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Convertible debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shareholder debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hybrid debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total non-curr. liabilities** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Short-term provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accounts payable | 1 | 1 | 2 | 7 | 21 | 0 | 0 | 46 | 0 | 24 |
| Other current liabilities | 0 | 15 | 1 | 2 | 8 | 0 | 0 | 23 | 0 | 12 |
| Short term interest bearing debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total current liabilities** | **1** | **16** | **3** | **10** | **28** | **0** | **0** | **70** | **0** | **37** |
| Liab.for assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities and equity** | **4** | **20** | **27** | **40** | **274** | **178** | **97** | **572** | **445** | **668** |
| **Balance sheet and debt metrics** | | | | | | | | | | |
| Net debt | -1 | -17 | -25 | -35 | -270 | -178 | -97 | -479 | -445 | -595 |
| Working capital | 0 | -15 | -2 | -7 | -27 | 0 | 0 | 23 | 0 | 37 |
| Invested capital | 2 | -13 | -1 | -5 | -24 | 0 | 0 | 23 | 0 | 37 |
| Capital employed | 3 | 4 | 24 | 30 | 246 | 178 | 97 | 502 | 445 | 632 |
| ROE | -231.6% | -123.4% | -176.5% | -43.6% | -32.0% | -59.3% | 135.4% | -11.9% | 34.6% | 8.8% |
| ROIC | n.m | 149.5% | 256.4% | n.m | 422.0% | n.m | n.m | n.m | n.m | n.m |
| Net debt/EBITDA | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | n.m. | -1.2 | n.m. | -3.3 |
| Interest coverage | n.m. | -29.9 | -87.2 | -729.6 | -182.1 | n.m. | n.m. | n.m. | n.m. | n.m. |
| Equity ratio | 78.5% | 20.4% | 88.3% | 75.6% | 89.7% | 100.0% | 100.0% | 87.8% | 100.0% | 94.5% |
| Net gearing | -47.8% | -406.6% | -103.1% | -116.0% | -109.6% | -100.0% | -100.0% | -95.4% | -100.0% | -94.2% |

*Source: Company data and Nordea estimates*

## CASH FLOW STATEMENT

| SEKm | 2013 | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|
| **EBITDA (adj.) for associates** | **-8** | **-8** | **-17** | **-48** | **-60** | **-72** | **-84** | **404** | **-64** | **180** |
| Paid taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net financials | 0 | 0 | 0 | 0 | 0 | 4 | 3 | 1 | 7 | 7 |
| Change in Provisions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in other LT non-IB | 0 | 0 | -1 | -1 | 0 | 3 | 0 | 0 | 0 | 0 |
| Cash flow to/from associates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid to minorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other adj. to reconcile to cash flow | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Funds from operations (FFO)** | **-8** | **-8** | **-17** | **-47** | **-60** | **-65** | **-82** | **405** | **-57** | **186** |
| Change in NWC | 0 | 15 | -13 | 5 | 19 | -27 | 0 | -23 | 23 | -37 |
| **Cash flow from op. (CFO)** | **-8** | **7** | **-30** | **-42** | **-41** | **-92** | **-82** | **382** | **-33** | **150** |
| Capital Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Free Cash Flow before A&D** | **-8** | **7** | **-30** | **-42** | **-41** | **-92** | **-82** | **382** | **-33** | **150** |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisitions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Free cash flow | -8 | 7 | -30 | -42 | -41 | -92 | -82 | 382 | -33 | 150 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity issues / buybacks | 8 | 10 | 45 | 56 | 304 | 0 | 0 | 0 | 0 | 0 |
| Net change in debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financing adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-cash adjustments | -1 | -1 | -7 | -4 | -28 | 0 | 0 | 0 | 0 | 0 |
| Change in cash | -1 | 15 | 8 | 10 | 235 | -92 | -82 | 382 | -33 | 150 |
| **Cash flow metrics** | | | | | | | | | | |
| Capex/D&A | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Capex/Sales | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 0% | n.a. | 0% |
| **Key information** | | | | | | | | | | |
| Share price year end (current) | - | - | 9.5 | 6.7 | 6.4 | 13.8 | 13.8 | 13.8 | 13.8 | 13.8 |
| Market cap | - | - | 128.3 | 140.1 | 300.4 | 910.1 | 910.1 | 910.1 | 910.1 | 910.1 |
| Enterprise value | -1.5 | -16.7 | 103.8 | 105.3 | 30.6 | 731.8 | 813.4 | 431.3 | 464.7 | 314.9 |
| Diluted no. of shares, year-end (m) | 6.3 | 7.6 | 13.5 | 20.9 | 46.9 | 66.2 | 66.2 | 66.2 | 66.2 | 66.2 |

*Source: Company data and Nordea estimates*

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