

NOXXON Pharma NV

Germany / Biotechnology

Paris

Bloomberg: ALNOX FP

ISIN: NL0012044762

**2016 Results and
capital increase**
RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 39.00**

108.6%

High

CENTER FOR NOX-A12 PHASE II TRIAL SECURED, FINANCING RAISED

On 16 May, Noxxon closed an agreement with the National Centre for Tumour Disease (NCT) in Heidelberg. At this leading cancer centre, Noxxon will conduct the Phase II study of its lead drug candidate NOX-A12 in combination with Merck's drug Keytruda (pembrolizumab) in a total of 20 metastatic colorectal and pancreatic cancer patients. This is good news and we expect enrolment to start soon. A few days earlier Noxxon published FY/16 results which were slightly better than we expected, and closed a capital increase raising €1.0m. The company also converted most of Kreos' outstanding €2.6m debt and secured up to €20m financing through the issue of €10m of convertible notes with warrants to subscribe to a further €10m. We currently expect Noxxon to raise only €4.5m through the notes (giving rise to a further €4.5m in warrants) which will suffice to generate the required Phase II top-line data of NOX-A12. Overall we view the deal as positive as it secures funding through 2018. However, the dilutive effect (substantial discount to the current share price) has a slightly negative impact on our valuation. We have therefore lowered our price target to €39.00 (previously €40.00). We reiterate our Buy rating.

Leading cancer centre appointed for NOX-A12/Keytruda combination Phase II trial The company will conduct the open label phase II trial in 10 patients in each of the metastatic colorectal and pancreatic cancer indications (20 patients in total) at the NCT in Heidelberg. Prof. Dr. Dirk Jäger, Managing Director and Head of the Clinical Research Groups at NCT, together with Dr. Niels Halama, Group Leader, will be responsible for the clinical trials. Both have deep expertise in cancer research, immunology and in the tumour microenvironment for clinical application.

FY/16 Sales, EBIT and net income slightly better than expected Noxxon's FY/16 sales of €83k were generated through the sale of oligonucleotides (FB: €40k; FY/15: €43k). However, this business is not part of the strategic focus of the company and was discontinued in early 2017. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017E	2018E	2019E	2020E
Revenue (€m)	0.04	0.08	0.00	15.00	0.00	0.00
Y-o-y growth	72.0%	93.0%	-100.0%	n.a.	-100.0%	n.a.
EBIT (€m)	-14.83	-8.60	-4.98	8.97	-7.08	-7.54
EBIT margin	n.a.	n.a.	n.a.	59.8%	n.a.	n.a.
Net income (€m)	-16.10	-10.75	-4.98	8.97	-7.08	-7.53
EPS (diluted) (€)	-42.43	-5.24	-2.15	3.48	-2.63	-2.75
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-14.40	-9.35	-5.11	8.94	-7.12	-7.57
Net gearing	n.a.	n.a.	n.a.	-121.3%	-117.3%	-120.4%
Liquid assets (€m)	4.09	2.21	0.95	17.63	10.52	8.95

RISKS

Risks include, but are not limited to development, regulatory, competition and financing risks.

COMPANY PROFILE

Noxxon Pharma NV is an immuno-therapeutic biotech company focused on the research and development of new drugs to treat cancer based on its proprietary Spiegelmer technology platform. The company is based in Berlin and currently has two drugs in phase I and phase II clinical trials to treat several types of cancer.

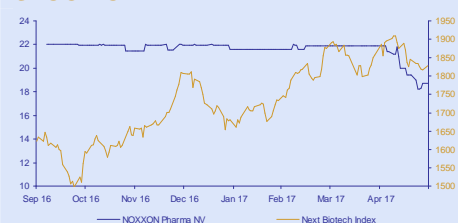
MARKET DATA

As of 29 May 2017

Closing Price	€ 18.70
Shares outstanding	2.01m
Market Capitalisation	€ 37.51m
52-week Range	€ 18.20 / 22.00
Avg. Volume (12 Months)	035

Multiples	2016	2017E	2018E
P/E	n.a.	n.a.	5.2
EV/Sales	0.0	2.5	0.0
EV/EBIT	n.a.	n.a.	4.2
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2016

Liquid Assets	€ 2.21m
Current Assets	€ 2.79m
Intangible Assets	€ 0.01m
Total Assets	€ 2.87m
Current Liabilities	€ 5.35m
Shareholders' Equity	€ -2.48m

SHAREHOLDERS

Kreos Capital IV Ltd.	17.8%
TVM Capital GmbH	16.0%
Sofinnova Capital V FCPR	15.8%
Other investors	36.7%
Freefloat	13.7%



Operating income (EBIT) of €-8.6m (FBe: €-9.2m; FY/15: €-14.8m) was slightly better than anticipated, due chiefly to higher other operating income of €437k (FBe: €20k; FY/15: €74k). Following management's decision to restructure and focus on the core business, the company carried out the disposal of some equipment and non-core preclinical assets, which accounted for the higher than expected operating income. Due to lower than projected interest expenses of €2.1m following the conversion of most of Kreos' financial debt during FY/16 (FBe: €2.6m; FY/15: €1.3m), net income for the period amounted €-10.8m (FBe: €-11.8m; FY/15: €-16.1m).

Figure 1: P&L Q1/17 reported figures vs. FB estimates and Q1/16 (KPIs)

All figures in EUR '000	FY/16	FY/16E	Delta	FY/15	Delta
Revenue	83	40	108%	43	93%
Operating income (EBIT)	-8,599	-9,207		-14,830	
margin	neg.	neg.		neg.	
Net income / loss	-10,752	-11,834		-16,102	
margin	neg.	neg.		neg.	

Source: First Berlin Equity Research, Noxxon NV

Cash position of €2.2m (FBe: €2.8m, FY/15: €4.1m) Due mainly to the operating performance, operating cash flow came in at €-9.0m (FBe: €-10.6m; FY/15: €-13.5m). Following the conversion of most of Kreos' financial debt (€2.6m is still outstanding) and a private placement, net financing cash flow amounted to €7.1m (€FB: €8.5m; FY/15: 16.1m). As a result, net cash flow for the period was €-1.9m (FBe: €-2.1m; FY/15: €16.1m).

Private placement of €1m, further financing of up to €20m through €10m in convertible notes plus warrants for a further €10m On 2 May, the company completed a capital increase of €1m, placing 64.5k shares at €15.50 (discount of 29.2% to the previous day's closing) with existing shareholders and YA II PN Ltd investment fund. The investors also received 53.8k warrants with an exercise price of €18.60 and maturity of 4 years.

The company also agreed the issue of up to €10m in undated convertible bonds (ODIRNANE bonds) with an equal number of warrants attached to the YA II PN Ltd investment fund This means that if all bonds are issued and all warrants are exercised the company will raise €20m in additional capital. The convertible bonds will be issued in tranches. The first tranche of €1m can be placed once Noxxon switches its listing from the "private placement" to the "public offering" segment of the Alternext market. This transfer may take several weeks as it also requires the publication of a prospectus with the authority of financial markets (AFM). Tranches 2-6 can be placed every two months and will amount to €0.5m each totalling €2.5m. We anticipate that Noxxon will place all these convertibles, which together with the private placement provides total funding of €4.5m. This amount gives Noxxon the required funding to get NOX-A12 through to top-line data in the Phase II clinical trial combining NOX-A12 and Keytruda.

The conversion price for bonds will be at an 8% discount to the share price in the pricing period. The company may also conduct further tranches with a nominal amount of €0.25m which we have not taken into consideration for our projections. All convertible bonds have warrants attached for the same amount with a strike price of €18.60 and maturity of 4 years.



Noxxon also negotiated new terms for conversion of the €2.6m in financial debt with Kreos

Following the private placement, Kreos converted debt amounting to €925k at a price of €15.50 per share receiving 59.7k shares and 49.7k warrants with an exercise price of €18.60. Upon transfer of Noxxon's listing to the "public offering" compartment, Kreos committed to convert further €841k at €15.50 (or less if the share price is lower) receiving 54.3k shares and 45.2k warrants with an exercise price of €18.60 and maturity of 4 years. Kreos is committed to convert the remaining €841k in debt if a new capital increase takes place at conditions equal to the previous transaction (or the price offered to the new investor if it is lower). However, the remaining debt will charge no interest until 30 November 2018.

Cash flow model update on financing measures We have updated the new financing measures in our cash flow and valuation model. Since all warrants linked to the €1m capital increase, the €3.5m convertible, and to the Kreos debt conversion are in the money, we have assumed that they will be converted during 2017 and 2018.

Buy recommendation reiterated, price target lowered slightly Given the milestones achieved so far such as the Merck deal, the agreement with leading cancer centre NCT, securing financing, we believe Noxxon is on track to carry out a successful trial on NOX-A12. Due to dilution of the latest financing measures, our updated pipeline valuation model yields a new price target of €39.00 (previously: €40.00). This represents an upside of 109% from current levels. We reiterate our Buy recommendation.

VALUATION MODEL

Compound	Project ¹⁾	Present Value	Patient Pop	Treatment Cost	Market Size	Market Share	Peak Sales	PACME Margin ²⁾	Discount Factor	Patent Life ³⁾	Time to Market
NOX-A12	Pancreatic cancer	€37.9M	94K	€65,913	€6,195.9M	6%	€714M	18%	21%	9	6 Years
NOX-A12	Colorectal cancer	€54.7M	360K	€65,913	€23,729M	3%	€958M	18%	21%	9	6 Years
NOX-A12	Multiple Myeloma	€11.2M	150K	€65,913	€9,887M	2%	€31M	18%	21%	7	7 Years
NOX-A12	Brain & lung cancer	€19.3M	431K	€65,913	€28,409M	1%	€450M	18%	21%	7	8 Years
PACME PV		€123.0M			€68,220M		€2,337M				
Costs PV⁴⁾		€36.3M									
NPV		€86.7M									
Milestones PV		€9.0M									
Net cash (pro-forma)		€13.2M									
Fair Value		€109.0M									
Share Count (fully diluted)		2,792K									
Price Target		€39.00									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues.

This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E	2020E
Revenue	43	83	0	0	0	0
Upfront & milestone payments	0	0	0	15,000	0	0
Total revenue	43	83	0	15,000	0	0
General and administrative	7,319	3,780	1,000	1,050	1,103	1,158
Research and development	7,587	5,327	4,000	5,000	6,000	6,400
Other operating income (expense)	33	425	20	20	20	20
Operating income (EBIT)	-14,830	-8,599	-4,980	8,970	-7,083	-7,538
Net financial result	-1,294	-2,126	-1	2	5	3
Pre-tax income (EBT)	-16,124	-10,725	-4,981	8,972	-7,077	-7,534
Income taxes	22	-27	0	0	0	0
Net income / loss	-16,102	-10,752	-4,981	8,972	-7,077	-7,534
Diluted EPS	-42.43	-5.24	-2.15	3.48	-2.63	-2.75
EBITDA	-14,612	-8,259	-4,960	9,020	-7,003	-7,438
Ratios						
EBIT-Margin on total revenue	n.a.	n.a.	n.a.	59.8%	n.a.	n.a.
EBITDA margin on total revenue	n.a.	n.a.	n.a.	60.1%	n.a.	n.a.
Net Margin on total revenue	n.a.	n.a.	n.a.	59.8%	n.a.	n.a.
Expenses as % of Revenues						
General and administrative	n.a.	n.a.	n.a.	7.0%	n.a.	n.a.
Research and development	n.a.	n.a.	n.a.	33.3%	n.a.	n.a.
Y-Y Growth						
Total revenue	72.0%	93.0%	-100.0%	n.a.	-100.0%	n.a.
Operating income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



BALANCE SHEET

All figures in EUR '000	2015	2016	2017E	2018E	2019E	2020E
Assets						
Current Assets, Total	5,364	2,786	1,746	18,458	11,380	9,846
Cash and Cash Equivalents	4,093	2,214	951	17,631	10,516	8,947
Receivables	3	0	5	5	10	10
Inventories	13	0	0	0	0	0
Other Current Assets	1,096	413	631	663	696	730
Financial Assets	159	159	159	159	159	159
Non-Current Assets, Total	677	83	83	83	83	83
Property, Plant & Equipment	603	67	67	67	67	67
Goodwill & Other Intangibles	74	15	15	15	15	15
Total Assets	6,041	2,869	1,829	18,541	11,463	9,929
Shareholders' Equity & Debt						
Current Liabilities, Total	6,783	5,351	2,500	2,500	2,500	2,500
Short-Term Debt	2,591	2,941	0	0	0	0
Accounts Payable	3,174	1,422	1,600	1,600	1,600	1,600
Other current liabilities	1,018	988	900	900	900	900
Longterm Liabilities, Total	6,290	0	2,000	1,500	0	0
Long Term Debt	6,289	0	0	0	0	0
Other Liabilities	1	0	2,000	1,500	0	0
Shareholders Equity	-7,032	-2,482	-2,671	14,541	8,963	7,429
Total Consolidated Equity and Debt	6,041	2,869	1,829	18,541	11,463	9,929
Ratios						
Current ratio (x)	0.79	0.52	0.70	7.38	4.55	3.94
Quick ratio (x)	0.79	0.52	0.70	7.38	4.55	3.94
Net gearing	n.a.	n.a.	n.a.	-121.3%	-117.3%	-120.4%
Book value per share (€)	n.a.	n.a.	n.a.	5.64	3.34	2.71
Net debt	4,787	727	-951	-17,631	-10,516	-8,947
Equity ratio	-116.4%	-86.5%	-146.1%	78.4%	78.2%	74.8%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E	2020E
Net income	-16,102	-10,752	-4,981	8,972	-7,077	-7,534
Depreciation and amortization	218	340	20	50	80	100
Interest, net	1,294	2,126	1	-2	-5	-3
Tax provision	-22	27	0	0	0	0
Changes in Working Capital	857	-877	-133	-32	-38	-35
Other Adjustments	273	0	0	0	0	0
Cash interest net	-915	-335	-1	2	5	3
Operating cash flow	-14,397	-9,471	-5,094	8,991	-7,035	-7,469
CapEx	-8	-21	-20	-50	-80	-100
Investments in Intangibles	0	0	0	0	0	0
Free cash flow	-14,405	-9,347	-5,114	8,941	-7,115	-7,569
Cash flow from financing	16,971	7,443	3,851	7,740	0	6,000
Net cash flows	2,566	-2,049	-1,263	16,680	-7,115	-1,569
Cash, start of the year	1,527	4,093	2,214	951	17,631	10,516
Cash, end of the year	4,093	2,214	951	17,631	10,516	8,947
EBITDA/share	-38.55	-4.03	-2.14	3.81	-2.96	-3.14
Y-Y Growth						
Operating Cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 November 2016	€21.49	Buy	€40.00
...	↓	↓	↓	↓
2	19 December 2016	€21.99	Buy	€40.00
3	Today	€18.70	Buy	€39.00

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