

Valneva SE

France / Biotechnology
 Euronext Paris
 Bloomberg: VLA FP
 ISIN: FR0004056851

H1/18
 Results

RATING
BUY

PRICE TARGET
€ 5.80

Return Potential 41.3%
 Risk Rating High

PRODUCT SALES UP 11% DESPITE CURRENCY/CAPACITY HEADWINDS

On 2 August Valneva published H1/18 results and held a conference call. The company reported a good set of results, which were slightly below our estimates largely due to negative currency impact. Total group revenues increased y/y by 9.4% (+16.4% at CER or constant exchange rates) in H1/18 and amounted to €59.0m (FBe: €59.7m; H1/17: €53.9m) Product revenues increased by 11.4% (+18.6% at CER) to €53.5m (FBe: €53.7m; H1/17: €48.1m). EBITDA came in at €5.8m, lower than our estimate of €7.2m (H1/17: €7.6m), chiefly due to timing of R&D expenses and typical quarterly volatility. Management confirmed operating guidance for 2018 but following the conference call, we have adjusted our cost forecasts upward for 2018 and subsequent years. For 2018 our EBITDA forecast at €5.2m (previously: €7.6m) is now closer to the lower end of the guidance range of €5-10m. Adjustments to our cost forecasts reflect higher marketing expenditure in connection with increasing commercialisation efforts in the US. We also pencil in higher R&D costs to reflect the likelihood that the company will be running phase II trials in both Lyme disease and Chikungunya in 2019 and 2020. Following these adjustments, we now see fair value for the Valneva share at €5.80 (previously: €6.00). We maintain our Buy recommendation.

Ixiaro exceeded our expectations despite negative currency impact Sales of the vaccine Ixiaro for treatment of Japanese encephalitis increased by 19.4% (+27.5% at CER) to €37.6m (FBe: €36.6m; H1/17: €31.5m) The negative currency impact (US-dollar against Euro) on the product was approx. €2m. The product currently generates over 60% of sales in the US. This strong growth was largely driven by sales in the US private market. The company has been commercialising the product through its own infrastructure since November 2017.

Dukoral showed weak performance, but should recover in H2/18 Sales of the vaccine Dukoral used against Cholera and in certain territories ETEC-induced travellers' diarrhea declined to €14.2m (FBe: €15.3m; H1/17: €15.4m) (p.t.o)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	78.36	94.06	105.29	113.88	124.52	136.26
Y-o-y growth	84.7%	20.0%	11.9%	8.2%	9.3%	9.4%
EBIT (€m)	-6.75	-42.57	-3.95	-1.29	2.42	2.74
EBIT margin	n.a.	n.a.	n.a.	n.a.	1.9%	2.0%
Net income (€m)	-20.62	-49.18	-11.48	-5.51	-1.55	-1.46
EPS (diluted) (€)	-0.28	-0.66	-0.15	-0.07	-0.02	-0.02
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-22.35	2.82	8.79	-4.06	-0.35	-0.71
Net gearing	41.4%	40.3%	36.1%	43.0%	44.2%	45.8%
Liquid assets (€m)	42.57	42.18	38.06	25.84	18.49	13.73

RISKS

Risks include, but are not limited to development, partnering, regulatory, competition and retaining management risks.

COMPANY PROFILE

Valneva is a fully integrated, commercial stage biotech company focused on developing innovative vaccines for diseases with unmet medical need. The company has a portfolio of two commercialised travel vaccines and four vaccines in clinical development for infectious diseases. Valneva is incorporated in France and has approx. 400 employees.

MARKET DATA

As of 02 Aug 2018

Closing Price	€ 4.11
Shares outstanding	78.77m
Market Capitalisation	€ 323.36m
52-week Range	€ 2.67 / 4.15
Avg. Volume (12 Months)	136,799

Multiples	2017	2018E	2019E
P/E	n.a.	n.a.	n.a.
EV/Sales	3.4	3.1	2.8
EV/EBIT	n.a.	n.a.	146.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 37.72m
Current Assets	€ 79.52m
Intangible Assets	€ 46.61m
Total Assets	€ 181.48m
Current Liabilities	€ 46.19m
Shareholders' Equity	€ 91.94m

SHAREHOLDERS

Groupe Grimaud La Corbière	15.6%
Bpifrance Participations SA	9.6%
MVM Funds	7.6%
Management, Employees, others	2.5%
Free Float	64.7%



Over 60% of revenues are generated in Canada and sales were negatively affected by the weakness of the Canadian dollar against the Euro. In H1/18 this reduced sales by approx. €1m. Sales were also affected by production capacity limitations. Valneva has taken steps to deal with this issue and anticipates growing sales in H2/18.

Revenues from collaborations and licensing declined by 6.2% to €5.4m (FBe: €6.0m, H1/17: €5.8m); we anticipate stronger figures in H2/18.

The gross margin widened from 54.6% to 59.3% Gross profit increased by 18.8% y/y to €34.9m (FBe: €35.5m; H1/17: €29.4m). The underlying gross margin increased to 59.3% in H1/18 from 54.6% in H1/17. Besides economies of scale, we believe the margin expansion was largely driven by a shift in the sales mix to the higher margin product, Ixiaro.

H1/18 EBITDA and EBIT slightly weaker than anticipated, but well on track to achieve our FY/18 forecasts The company reported EBITDA of €5.8m (FBe: €7.2; H1/17: €7.6m). The shortfall in EBITDA compared to our estimate, can be largely explained by the timing of R&D activities. A larger than anticipated increase in R&D expense related to the Lyme programme took place during Q2/18. As a result, R&D increased 33.0% y/y in H1/18 to €12.9m (H1/17: €9.7m). We note that a substantial part of the preparation and initiation of the Phase II Lyme trial will take place in H2/18. We therefore expect to see higher R&D expenses in the second half of the year compared to the first half. EBIT increased to €2.3m (FBe: €3.7m; H1/17: €1.8m). The company reported a net financial result of €-2.0m (FBe: €-2.2m; H1/17: €-5.1m), which was slightly better than we expected and underscores the company's achievement in optimising its cost of debt through refinancing. Net income for the period came in at €-0.2m (FBe: €0.7m; H1/17: €-44m).

Figure 1: P&L H1/18 reported figures vs. FB estimates and H1/17 (KPIs)

All figures in EUR '000	H1/18	H1/18E	% Δ	H1/17	% Δ
Product revenues	53,539	53,700	0%	48,074	11%
Revenues collab., licensing, serv.	5,428	6,000	-10%	5,785	-6%
Total revenues	58,967	59,700	-1%	53,859	9%
Gross profit	34,945	35,500	-2%	29,418	19%
EBITDA	5,784	7,200	-20%	7,554	-23%
EBIT	2,274	3,700	-39%	1,816	25%
Net financial result	-1,965	-2,200	-11%	-5,062	-61%
Income taxes	-503	-800	-37%	-1,116	-55%
Net income / Net loss	-194	700	-128%	-4,362	-96%
Margins	H1/18	H1/18E		H1/17	
Gross profit	59.3%	59.5%		54.6%	
EBITDA	9.8%	12.1%		14.0%	
EBIT	3.9%	6.2%		3.4%	

Source: First Berlin Equity Research, Valneva SE

Sound H1/18 balance sheet, debt lowered by €9.5m The cash position declined slightly to €37.7m (2017: €38.1m) and represents a solid base for ongoing operations. Receivables declined substantially to €12.8m (2017: €17.6m), reflecting positive measures for optimizing working capital. Total liabilities (ST+LT), were reduced by approx. €9.5m to €62.0m in H1/18 (2017: €71.5m) and reflect the company's steps to reduce its debt.

The company continues with positive cash flow generation Based on Valneva's good H1/18 performance and a working capital improvement of €6.8m, the company achieved an operating cash flow of €13.7m (H1/17: €16.6m).



Free cash flow (operating cash flow minus CAPEX) and net cash flow were also positive at €12.7m (H1/17: €14.0m) and €2.1m (H1/17: €8.5m).

Main R&D programmes developing as expected The analyst conference call focused on the lead product candidate VLA15 (Lyme). Management confirmed during the call that preparations for the Phase II clinical trial of VLA15 (Lyme) are progressing well. The recent discussions with the FDA in the US led to an alignment of strategy for the Phase II trial in July. The company is preparing a Phase II protocol and will submit it for approval soon. The company plans to initiate the Phase II study towards end of 2018. The main objective for the Phase II trial will be dose optimization. The company additionally intends to investigate two higher doses than the ones used in the Phase I trial. The study will include approximately 800 subjects in the US and the EU in more than 10 study sites. The company is also currently running a study with 60 patients from the Phase I trial to investigate booster performance. The results from the booster extension study will be available in H1/19. Valneva anticipates results from the Phase II study in H2 2020. Further, management mentioned that the potential Phase III pivotal, placebo controlled efficacy study will likely involve approximately 16,000 subjects in high-risk endemic areas of the US and Europe (probably also Canada).

The Chikungunya and the Zika programmes are making good progress. They have both completed recruitment and are still expected to deliver Phase I data in early 2019 and late 2018/early 2019 respectively.

VALUATION MODEL

2018E guidance reiterated 2018 management guidance is unchanged at >10% growth in product revenue to >€100m and EBITDA of €5-10m including R&D costs of roughly €30-35m.

We maintain our Buy rating but lower the price target to €5.80 (€6.00) Following the conference call, we have adjusted our P&L forecasts for upward revisions to cost estimates in 2018 and subsequent years as shown in figure 2 below.

Figure 2: Changes to our forecasts

All figures in EUR '000	2018E			2019E			2020E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Product revenues	102,732	102,732	0.0%	113,366	113,366	0.0%	125,111	125,111	0.0%
Revenues collab., licensing, serv.	11,151	11,151	0.0%	11,151	11,151	0.0%	11,151	11,151	0.0%
Total revenues	113,883	113,883	0.0%	124,518	124,518	0.0%	136,262	136,262	0.0%
Gross profit	68,202	68,202	0.0%	76,150	76,150	0.0%	85,649	85,649	0.0%
Gross margin	59.9%	59.9%	-	61.2%	61.2%	-	62.9%	62.9%	-
EBITDA	7,633	5,197	-31.9%	14,014	9,448	-32.6%	21,204	10,000	-52.8%
EBITDA margin	6.7%	4.6%	-	11.3%	7.6%	-	15.6%	7.3%	-
EBIT	-3,646	-1,287	-	2,652	2,420	-8.7%	9,628	2,738	-71.6%
EBIT margin	n.a.	n.a.	-	2.1%	1.9%	-	7.1%	2.0%	-
Net financial result	-2,977	-2,977	-	-2,344	-2,344	-	-2,084	-2,084	-
EBT	-6,622	-4,264	-	308	77	-75.1%	7,544	654	-91.3%
Income taxes	-1,250	-1,250	-	-1,625	-1,625	-	-2,113	-2,113	-
Net income / Net loss	-7,872	-5,514	-	-1,317	-1,548	-	5,431	-1,459	-
EPS (in EUR, dil.)	-0.10	-0.07	-	-0.02	-0.02	-	0.07	-0.02	-

Source: First Berlin Equity Research



For 2018 our EBITDA forecast at €5.2m (previously: €76m) is now closer to the lower end of the guidance range of €5-10m. Adjustments to our cost forecasts reflect higher marketing expenditure in connection with increasing commercialisation efforts in the US. We also pencil in higher R&D costs to reflect the likelihood that the company will be running phase II trials in both Lyme disease and Chikungunya in 2019 and 2020. Following these adjustments, we now see fair value for the Valneva share at €5.80 (previously: €6.00). We maintain our Buy recommendation.

Figure 3: Pipeline valuation model

Compound	Project ¹⁾	Present Value	Target Pop	Vaccine Cost	Market Size	Penetration Rate	Sales 2030	PACME Margin ²⁾	Discount Factor	Time to Market
Ixiaro	Japanese Encephalitis	€624.3M	21,112K	€205	€4,338M	2.5%	€175M	49%	10%	-
Dukoral	Cholera & ETEC	€201.6M	56,000K	€40	€2,240M	2.5%	€3M	36%	10%	-
VLA84	Clostridium Difficile	€72.7M	60,000K	€267	€16,020M	2.2%	€458M	12%	10%	8 Years
VLA15	Lyme Disease	€127.9M	120,000K	€140	€16,755M	3.2%	€65M	12%	10%	6 Years
VLA 1553	Chikungunya virus	€75.0M	25,000K	€170	€4,245M	22%	€130M	42%	10%	7 Years
VLA 1601	Zika virus	€57.4M	145,000K	€150	€21,750M	1.4%	€36M	7%	10%	7 Years
EB66 cell line	Technology Platform	€53.1M					€23M	21%	10%	-
PACME PV		€1,212.0M			€65,348M		€1,903M			
Costs PV⁴⁾		€797.1M								
NPV		€414.9M								
PV grants, collabs., 3rd party distrib.		€73.0M								
Net debt (pro-forma)		€26.6M								
Fair Value		€461.3M								
Share Count (fully diluted)		79,940K								
Price Target		€5.80								

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	2017	2018E	2019E	2020E
Product sales	61,545	80,428	92,619	102,732	113,366	125,111
Collaborations, licensing & services	16,814	13,634	12,672	11,151	11,151	11,151
Total revenues	78,359	94,062	105,291	113,883	124,518	136,262
Cost of materials/Goods sold	46,961	43,076	45,979	45,681	48,368	50,613
Gross Profit	31,398	50,986	59,312	68,202	76,150	85,649
Sales & marketing	9,121	16,639	17,875	22,000	23,000	24,500
General & administrative	14,394	14,412	15,545	17,000	17,500	17,500
Research & development	25,367	24,589	23,356	31,250	34,000	41,500
Impairment of fixed assets & intangibles	0	34,109	3,568	0	0	0
Amortization of Intangibles	7,273	7,137	7,163	3,385	3,347	3,445
Other Operating Items, net*	4,823	3,332	4,241	4,146	4,117	4,034
Gain on bargain purchase	13,183	0	0	0	0	0
Operating income (EBIT)	-6,751	-42,568	-3,954	-1,287	2,420	2,738
Net financial result	-13,642	-6,260	-8,606	-2,977	-2,344	-2,084
Pre-tax income (EBT)	-20,393	-48,828	-12,560	-4,264	77	654
Income taxes	-224	-356	1,078	-1,250	-1,625	-2,113
Net income / loss	-20,617	-49,184	-11,482	-5,514	-1,548	-1,459
EPS	-0.28	-0.66	-0.15	-0.07	-0.02	-0.02
EBITDA**	-8,492	2,811	10,755	5,197	9,448	10,000

*Note 1: Other operating income includes the former top line position of grants income

**Note 2: EBITDA for 2015 and 2016 are adjusted for a one-off bargain purchase and impairment of intangibles respectively

Ratios as % of total revenues

Gross margin	40.1%	54.2%	56.3%	59.9%	61.2%	62.9%
EBIT margin	n.a.	n.a.	n.a.	n.a.	1.9%	2.0%
EBITDA margin	n.a.	3.0%	10.2%	4.6%	7.6%	7.3%
Net margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Expenses as % of total revenues

Sales & marketing	11.6%	17.7%	17.0%	19.3%	18.5%	18.0%
General & administrative	18.4%	15.3%	14.8%	14.9%	14.1%	12.8%
Research & development	32.4%	26.1%	22.2%	27.4%	27.3%	30.5%

Y-Y Growth

Product sales	118.8%	30.7%	15.2%	10.9%	10.4%	10.4%
Total revenues	84.7%	20.0%	11.9%	8.2%	9.3%	9.4%
Operating income (EBIT)	n.a.	n.a.	n.a.	n.a.	n.a.	13.1%
Net income / loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.



BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Assets						
Current Assets, Total	116,383	91,197	83,448	73,608	69,421	67,751
Cash and cash equivalents	42,567	42,180	38,055	25,841	18,488	13,732
Receivables	15,754	16,912	17,622	19,260	20,425	21,647
Inventories	26,687	22,701	19,931	20,275	21,865	23,296
Other current assets	31,375	9,404	7,840	8,232	8,644	9,076
Non-Current Assets, Total	158,804	115,686	105,896	102,968	99,915	96,586
Property, plant & equipment	42,439	39,039	38,374	37,805	37,071	36,157
Intangibles	98,567	58,959	48,468	46,283	44,136	41,890
Other assets	17,798	17,688	17,368	17,194	17,022	16,852
Deferred tax assets	0	0	1,686	1,686	1,686	1,686
Total Assets	275,187	206,883	189,344	176,576	169,336	164,336
Shareholders' Equity & Debt						
Current Liabilities, Total	46,362	38,890	37,675	35,700	34,282	32,626
Short-term debt	25,687	20,959	17,399	15,414	13,710	12,724
Accounts payable	10,698	7,808	9,527	9,387	9,541	8,736
Other current liabilities and provisions	2,664	2,439	2,896	2,896	2,867	2,838
Tax and employee-related liabilities	6,888	7,123	7,531	7,682	7,835	7,992
Income tax payables	425	561	322	322	328	335
Longterm Liabilities, Total	84,490	67,942	59,000	53,721	49,448	47,561
Long term debt	76,568	61,544	54,097	47,926	42,627	39,563
Deferred tax liabilities	112	65	65	65	65	63
Other liabilities	7,810	6,333	4,838	5,730	6,756	7,936
Shareholders Equity	144,335	100,051	92,669	87,155	85,606	84,149
Total Consolidated Equity and Debt	275,187	206,883	189,344	176,576	169,336	164,336
Ratios						
Current ratio (x)	2.51	2.34	2.21	2.06	2.03	2.08
Quick ratio (x)	1.93	1.76	1.69	1.49	1.39	1.36
Net gearing	41.4%	40.3%	36.1%	43.0%	44.2%	45.8%
Book value per share (€)	1.98	1.34	1.20	1.12	1.10	1.09
Equity ratio	52.4%	48.4%	48.9%	49.4%	50.6%	51.2%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Net income / loss	-20,617	-49,184	-11,482	-5,514	-1,548	-1,459
Depreciation and amortization	11,442	11,269	11,141	6,485	7,028	7,262
Impairment	0	34,109	3,568	0	0	0
Share based payments	1,018	1,428	811	892	1,026	1,180
Tax provision	224	357	-1,078	1,250	1,625	2,113
Changes in Working Capital	-14,585	3,032	4,199	-2,514	-3,041	-3,919
Other Adjustments	2,690	5,494	5,670	-926	-1,293	-1,779
Operating cash flow	-19,828	6,505	12,829	-327	3,796	3,397
Property, Plant and equipment	-1,726	-2,411	-2,890	-2,531	-2,947	-2,903
Investments in intangibles	-792	-1,270	-1,148	-1,200	-1,200	-1,200
Free cash flow	-22,346	2,824	8,791	-4,058	-350	-706
Acquisitions & disposals, net	-24,180	15,279	-94	0	0	0
Interest received	133	3,290	72	0	0	0
Investing cash flow	-26,565	14,888	-4,060	-3,731	-4,147	-4,103
Debt financing, net	22,185	-23,331	-5,415	-8,156	-7,003	-4,050
Equity financing, net	42,010	7,471	-43	0	0	0
Interest expense	-4,506	-10,932	-4,980	0	0	0
Cash flow from financing	59,689	-26,792	-10,438	-8,156	-7,003	-4,050
Forex & other effects	-246	-1,241	-53	0	0	0
Net cash flows	13,050	-6,640	-1,722	-12,214	-7,353	-4,756
Cash, start of the year	28,857	41,907	42,180	38,055	25,841	18,488
Cash, end of the year	41,907	35,267	33,545	25,841	18,488	13,732
Short term deposits	660	6,913	4,510	0	0	0
Cash and short term deposits, EoP	42,567	42,180	38,055	25,841	18,488	13,732
EBITDA/share	-0.12	0.04	0.14	0.07	0.12	0.13
Y-Y Growth						
Operating Cashflow	n.a.	n.a.	97.2%	n.a.	n.a.	-10.5%
Free cashflow	n.a.	n.a.	211.3%	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	268.8%	-51.7%	81.8%	5.8%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	26 April 2017	€2.52	Buy	€4.00
2...7	↓	↓	↓	↓
8	20 March 2018	€3.71	Buy	€6.00
9	27 March 2018	€3.63	Buy	€6.00
10	18 May 2018	€4.01	Buy	€6.00
11	Today	€4.11	Buy	€5.80

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First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
	Current market capitalisation (in €)	0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

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