EDISON

Silence Therapeutics

Earnings update

Change is good

Pharma & biotech

Silence provided a corporate update with its H120 financial results that show it moving forward on all fronts. It announced that it has hired a new CEO, listed its stock on Nasdaq, enrolled its first volunteers in SLN124's Phase I study, filed its SLN360 IND ahead of schedule and expanded its existing partnership with Mallinckrodt, all in the past few weeks.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	0.0	(19.8)	(25.2)	0.0	N/A	N/A
12/19	0.2	(22.3)	(27.2)	0.0	N/A	N/A
12/20e	6.3	(20.5)	(20.9)	0.0	N/A	N/A
12/21e	10.0	(20.9)	(21.0)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

New CEO and new listing

Silence recently listed on Nasdaq (ticker: SLN; 53.7m existing shares at a 3:1 share:ADS ratio for 17.9m ADSs) for the first time, an important step in establishing itself as an international company. It also recently announced the appointment of a new CEO to guide it through this transition and the first products entering the clinic: Mark Rothera, previously CEO of Orchard Therapeutics, a UK gene therapy company. The appointment is a good fit in our view because of overlap in the two company's research as well as Mr Rothera's success during his tenure at Orchard in raising and deploying capital.

R&D progress on track

The company reported that the first volunteers have been dosed in its Phase I study of SLN124. The study previously opened sites earlier in 2020 but enrolment was delayed due to COVID-19. The company also reported that its IND for SLN360 has been approved by the FDA, ahead of previous expectations (year end 2020). Silence is planning on starting a Phase I dosing study in healthy volunteers by the end of 2020.

Mallinckrodt expands development agreement

Silence announced that Mallinckrodt has expanded its existing development partnership with Silence on complement-mediated disorders by exercising its option to license two additional complement targets from the company in July 2020. This option was granted in 2019 when Mallinckrodt licensed SLN500 (which also targets the complement pathway). A $2.0m research milestone payment was triggered on starting work on the second complement target in August 2020, with the potential for future development, regulatory and sales milestones and royalties (more details below).

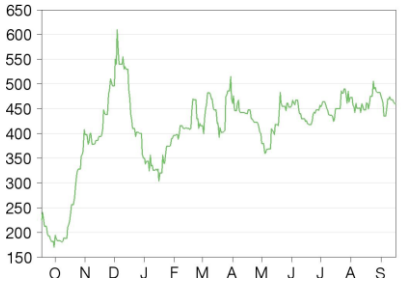
Valuation: Increased to £476.6m or 575p

We have increased our valuation to £476.6m or 575p per basic share from £461.2m or 558p/share. This increase is driven primarily by rolling forward our NPVs and offset by lower net cash (£52.0m from £67.4m).

17 September 2020

Price	**461p**
Market cap	**£382m**
	US$1.24/£
Net cash (£m) at 30 June 2020	50.3
Shares in issue	82.8m
Free float	18.3%
Code	SLN
Primary exchange	AIM
Secondary exchange	Nasdaq

Share price performance



%	1m	3m	12m
Abs	2.9	8.2	95.3
Rel (local)	3.0	10.1	131.8
52-week high/low		610p	170p

Business description

Silence Therapeutics (SLN) has a portfolio of siRNA drugs in early stage testing. SLN124 for iron overload is being dosed in a Phase I. SLN360 is being developed for cardiovascular disease and is targeting entering Phase I in 2020. Silence recently signed partnering deals with Mallinckrodt, Takeda and AstraZeneca to develop siRNA drugs using its platform.

Next events

SLN360 Phase I study	By year end 2020
SLN124 Phase Ib study	By year end 2020

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Edison profile page

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R&D update

SLN124

Silence provided an update on its R&D programs in early September 2020. It was pleased to report that the first volunteers had been dosed in the Phase I clinical study of SLN124. The study was initiated earlier in 2020 but, due to disruptions from COVID-19, enrolment was delayed. The trial is a randomized, double-blind, placebo-controlled dosing study in up to 24 healthy volunteers.

The dosing is also a milestone for Silence because it is the first in-human experience for its proprietary GalNAc-siRNA platform. GalNAc has already been vetted as a reliable hepatic targeting methodology for siRNAs, but it is encouraging to see the culmination of the company's preclinical development with this step into human testing.

The company intends to follow up this healthy volunteer study with a Phase Ib study in non-transfusion dependent beta-thalassemia and myelodysplastic syndrome (MDS) patients later this year (n=112), which may give us some early indications of whether the drug is working.

Additionally, the company reported that it had received orphan drug designation from the FDA for SLN124 for adults with beta-thalassemia. The drug also has orphan designation in Europe for beta-thalassemia and in the US for MDS. Finally the program has a rare paediatric disease designation in the US for beta-thalassemia.

SLN360

Silence also provided an update on its progress with SLN360, its drug for cardiovascular disease. The FDA has accepted the company's IND filing, which will allow it to commence human clinical studies shortly, barring any disruptions from COVID-19, about which the company remains cautious. It received approval to study the drug in the context of both primary and secondary prevention. In this context, primary prevention would be the treatment of patients with elevated Lp(a) before the emergence of other factors in need of treatment (atherosclerosis, etc), whereas secondary prevention would be after these patients have been diagnosed with other cardiac conditions. The company is planning on initiating a study in a primary prevention population by the end of the year (although COVID-19 might affect this). This is slightly faster than our previous expectations, which forecasted an IND filing before the end of the year and Phase I initiation in early 2021.

We are pleased to see the program progressing as it main competitor AMG-890 (Amgen/Arrowhead) entered Phase II clinical testing in July 2020. AMG-890 is also an Lp(a) targeting siRNA treatment. We believe it is premature to be concerned about competition with AMG-890 before either drug has demonstrated efficacy, and instead believe that both these programs advancing will collectively increase interest and opportunities in this space.

Mallinckrodt collaboration and SLN500

Finally, Silence has reported that its partner Mallinckrodt has exercised its option to license two additional complement targets from the company and Silence will now evaluate up to three targets under the collaboration. When Mallinckrodt licensed SLN500 in 2019, the deal contained the option to license two additional assets targeting the complement system (like SLN500, which targets complement factor C3). The start of work on the second development program triggered a $2m payment to Silence (leaving a final $2m option for the third asset), as well future downstream milestones ($703m maximum for all asset options) and royalties (we assume in the same range as SLN500, low double digit to high teens).

New CEO and Nasdaq listing

Shortly after Silence announced its listing of ADSs on Nasdaq (53.7m of its 82.8m existing basic shares, at a 3:1 share:ADS ratio for 17.9m ADSs), it announced that it had hired a new CEO. The new CEO, Mark Rothera, was most recently CEO of Orchard Therapeutics, a UK-based, clinical-stage gene therapy company. He stepped down as CEO of Orchard in March 2020. He guided Orchard through a similar transition after his appointment in 2017 and the company's subsequent Nasdaq listing in 2018. He helped it raise $375m through that transition ($150m in a pre-listing round and $225m with the Nasdaq IPO). He oversaw the expansion of the company's pipeline through licensing a portfolio of rare disease gene therapies from GlaxoSmithKline (among other deals). This story is also similar to his experience before Orchard with PTC Therapeutics, where he served as chief commercial officer during the launch of its two rare disease drugs. In our view, he is a good fit for Silence at its current stage with his combination of experience in rare disease, nucleotide therapies, capital markets and business development.

Valuation

We have increased our valuation to £476.6m or 575p per basic share from £461.2m or 558p/share. This increase is driven primarily by rolling forward our NPVs and offset by lower net cash (£52.0m from £67.4m). The new cash figure reflects reported £50.3m net cash at 30 June 2020 in addition to the post-period end $2m milestone payment from Mallinckrodt. The holdi4ng value used for the Mallinckrodt collaboration (SLN500) has been updated to reflect the new option, but we are not separately modelling a second drug launch at this time, although we may in the future if data are released on the existing programs and they both enter the clinic.

Exhibit 1: Valuation of Silence

Product	Indication	Clinical stage	Prob. of success	Launch year	Peak sales ($m)	Margin/ royalty rate	rNPV (£m)
SLN124	Beta-Thalassemia	Phase I	15%	2027	489.2	59%	66.5
	MDS	Phase I	15%	2027	683.7	60%	70.1
SLN360	Cardiovascular disease	Phase I ready	7.5%	2027	5214.0	54%	177.3
SLN500	Complement disorder	Preclinical	5%	2027	*400	*11–19%	32.6
Takeda project	Undisclosed	Preclinical	3%	2028	*400	*11–19%	18.8
AZ project	Undisclosed	Preclinical	3%	2029	*400	*8–12%	44.6
QPI-1002	AKI & kidney transplant	Phase III	60%	2022	381.5	1.5–4.0%	10.3
Onpattro	hATTR Amyloidosis	Approved			354.5	0.33–1.0%	4.4
Total							424.6
Net cash and deposits (at 30 June 2020 + $2m Mallinckrodt upfront) (£m)							52.0
Total firm value (£m)							476.6
Total basic shares (m)							82.8
Value per basic share (p)							575
Dilutive options (m)							5.2
Total diluted shares (m)							88.0
Value per diluted share (p)							549

Source: Silence reports, Edison Investment Research.

Financials

Silence reported an operational loss of £14.2m for H120, driven by R&D spending of £10.2m, which was consistent with our estimates. We have slightly increased our expected SG&A spending for 2020 to £9.5m from £8.8m, although the cash effect is negligible due to an increase in stock-based compensation (£2.0m from £0.6m). We have not made any other major adjustments to our 2020 financials apart from the addition of the new Mallinckrodt upfront option payment, an adjustment to

our revenue recognition schedule, and accounting for the previous upfront and milestone payments to align with the company's reporting. Our financing forecasts remain unchanged at the moment and we forecast that the company will need an additional £85m (recorded as illustrative debt in 2023) in capital before profitability if it develops its internal programmes alone, although we expect it to seek a partner to advance SLN360 into late-stage trials at the very least, given the scope of cardiovascular outcomes studies.

Exhibit 2: Financial summary

£000s	2018	2019	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	0.0	244.0	6,262.1	10,039.1
Cost of Sales	0.0	0.0	0.0	0.0
Gross Profit	0.0	244.0	6,262.1	10,039.1
R&D	(9,743.0)	(13,336.0)	(20,192.9)	(23,248.0)
SG&A	(10,828.0)	(9,642.0)	(9,480.3)	(9,764.7)
EBITDA	(20,172.0)	(22,252.0)	(22,973.1)	(22,535.6)
Normalised operating profit	(19,890.0)	(22,150.0)	(21,381.6)	(20,883.2)
Depreciation & amortisation	(399.0)	(482.0)	(438.0)	(438.0)
Exceptionals	0.0	0.0	0.0	0.0
Share-based payments	(681.0)	(584.0)	(2,029.5)	(2,090.4)
Reported operating profit	(20,571.0)	(22,734.0)	(23,411.1)	(22,973.6)
Net Interest	45.0	(136.0)	864.0	0.0
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(19,845.0)	(22,286.0)	(20,517.6)	(20,883.2)
Profit Before Tax (reported)	(20,526.0)	(22,870.0)	(22,547.1)	(22,973.6)
Reported tax	2,115.0	3,288.0	4,633.3	5,334.4
Profit After Tax (norm)	(17,800.2)	(19,989.6)	(18,403.4)	(18,731.4)
Profit After Tax (reported)	(18,411.0)	(19,582.0)	(17,913.7)	(17,639.2)
Minority interests	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0
Foreign exchange adjustment	94.0	(411.0)	585.0	0.0
Net income (normalised)	(17,706.2)	(20,400.6)	(17,818.4)	(18,731.4)
Net income (reported)	(18,317.0)	(19,993.0)	(17,328.7)	(17,639.2)
Basic average number of shares outstanding (m)	70.3	75.1	85.1	89.4
EPS - basic normalised (p)	(25.18)	(27.15)	(20.93)	(20.96)
EPS - diluted normalised (p)	(25.18)	(27.15)	(20.93)	(20.96)
EPS - basic reported (p)	(26.18)	(26.07)	(21.04)	(19.73)
Dividend (p)	0.00	0.00	0.00	0.00
BALANCE SHEET				
Fixed Assets	9,387.0	8,612.0	8,400.0	8,188.0
Intangible Assets	8,191.0	7,726.0	7,740.0	7,754.0
Tangible Assets	921.0	611.0	385.0	159.0
Investments & other	275.0	275.0	275.0	275.0
Current Assets	29,498.0	37,465.0	84,213.4	67,104.0
Stocks	0.0	0.0	0.0	0.0
Debtors	0.0	4.0	32,927.0	0.0
Cash, cash equivalents, and deposits	26,494.0	33,515.0	44,586.1	59,702.6
Other	3,004.0	3,946.0	6,700.3	7,401.4
Current Liabilities	(3,830.0)	(9,653.0)	(14,524.6)	(19,203.6)
Creditors	(3,830.0)	(6,888.0)	(5,366.6)	(6,013.3)
Tax and social security	0.0	0.0	0.0	0.0
Short term borrowings	0.0	0.0	0.0	0.0
Other	0.0	(2,765.0)	(9,158.0)	(13,190.2)
Long Term Liabilities	0.0	(15,515.0)	(57,258.1)	(50,806.5)
Long term borrowings	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	(15,515.0)	(57,258.1)	(50,806.5)
Net Assets	35,055.0	20,909.0	20,830.8	5,282.0
Minority interests	0.0	0.0	0.0	0.0
Shareholders' equity	35,055.0	20,909.0	20,830.8	5,282.0
CASH FLOW				
Op Cash Flow before WC and tax	(19,491.0)	(21,668.0)	(20,943.6)	(20,445.2)
Working capital	913.0	3,054.0	(35,625.4)	33,573.8
Exceptional & other	6.0	18,033.0	48,136.0	(2,419.4)
Tax	1,812.0	2,308.0	3,060.0	4,633.3
Net operating cash flow	(16,760.0)	1,727.0	(5,372.9)	15,342.6
Capex	(188.0)	(9.0)	(226.0)	(226.0)
Acquisitions/disposals	0.0	0.0	0.0	0.0
Net interest	39.0	(6.0)	864.0	0.0
Equity financing	341.0	5,273.0	15,806.0	0.0
Dividends	0.0	0.0	0.0	0.0
Other	319.0	0.0	0.0	0.0
Net Cash Flow	(16,249.0)	6,985.0	11,071.1	15,116.6
Opening net debt/(cash)	(42,745.0)	(26,494.0)	(33,515.0)	(44,586.1)
FX	(2.0)	36.0	0.0	0.0
Other non-cash movements	0.0	0.0	0.0	0.0
Closing net debt/(cash)	(26,494.0)	(33,515.0)	(44,586.1)	(59,702.6)

Source: Silence reports, Edison Investment Research

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