EDISON

Pharnext

Strategy update

Revised legal structure to offer operational stability

Pharma and biotech

In a bid to increase operational oversight and financial stability, Pharnext has changed its legal framework, from a public limited company to a limited partnership with shares, following shareholder approval. Pharnext Développement, a joint-stock company controlled by Neovacs (with Hugo Brugière as chairman), will be the sole general partner with existing shareholders as limited partners. This follows the January 2022 commitment by Neovacs to provide liquidity support to Pharnext (up to €24m to December 2023 at Euribor +12%) to progress lead asset PXT3003 to final data readouts (expected in Q423). We revise our valuation for the estimated net debt figure and latest shares outstanding (875.2m as of 17 February 2023). While we keep our probability of success for PXT3003 at 70%, we raise our discount rate from 12.5% to 15% on account of recent biotech volatility and increased macro risks. Our valuation now stands at €217m (from €269m) or €0.25/basic share (vs €250/share previously, post the 5,000:1 share consolidation). We highlight that the valuation and opinions in this note are based solely on publicly available information and are consistent in our approach for our ongoing coverage of Pharnext.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/20	2.8	(21.4)	(1.17)	0.00	N/A	N/A
12/21	3.6	(30.6)	(1.01)	0.00	N/A	N/A
12/22e	2.4	(31.7)	(1.90)	0.00	N/A	N/A
12/23e	2.5	(30.4)	(0.03)	0.00	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. FY20 and FY21 shares outstanding not retrospectively adjusted for the 5,000:1 share consolidation undertaken in November 2022.

Neovacs support alleviates funding overhang

We believe that the recent structural change and additional funding commitment by Neovacs (up to €2m/month until December 2023) indicate a maturing collaboration with the goal of driving PTX3003 to clinical conclusion. Pharnext's continued reliance on the OCEANE-BSA convertible financing has weighed on the share price and Neovacs' involvement offers stability, although the servicing cost (12-month Euribor +12%, going up to Euribor +20% if repayment is delayed) for the additional funding is fairly high. However, we believe that the aforementioned changes could provide an opportunity for Pharnext to generate operational efficiencies.

Seeking strategic pharma deals

We maintain that Pharnext's trading performance is not a reflection of the potential value of PXT3003, its first-in-class treatment for Charcot-Marie-Tooth disease type IA (CMT1A). Pharnext had announced that it is actively seeking a capital transaction that could eventually lead to a takeover of the company, which we see as a sensible move, with potential to generate stakeholder value.

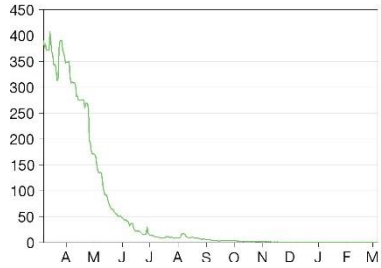
Valuation: €217m or €0.25 per basic share

We update our model for the latest estimated net debt (€30.9m vs €11.9m pro forma at 18 October 2022) and post-consolidation shares outstanding as of 17 February (€875.2m, up from 3.9m at end-November) and incorporate a higher discount rate (15% vs 12.5% previously) to account for recent market tightness. Our valuation readjusts to €217m (from €269m), with the basic per-share valuation resetting to €0.25 (assuming all future development funding is met via debt).

6 March 2023

Price	**€0.0007**
Market cap	**€1m**
	US$1.06/€
Estimated net debt at 31 December 2022	€30.9m
Shares in issue (at 17 February 2023)	875.2m
Free float	N/A
Code	ALPHA
Primary exchange	Euronext Paris
Secondary exchange	OTC Pink

Share price performance



%	1m	3m	12m
Abs	(70.0)	(99.4)	(100.0)
Rel (local)	(70.4)	(99.5)	(100.0)
52-week high/low		€416.5	€0.0

Business description

Pharnext is an advanced clinical-stage biopharmaceutical company developing novel therapies for neurodegenerative diseases lacking curative and/or disease-modifying treatments. Its lead programme is PXT3003 for Charcot-Marie-Tooth disease type 1A and is currently in advanced Phase III clinical trials with top-line data expected in Q423. PXT3003 originated from Pharnext's Pleotherapy R&D approach.

Next events

Six-year data from open-label PLEO-CMT-FU extension trial	Q223
Conclusion of PREMIER trial	Q423

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Edison profile page

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Neovacs-Pharnext expanded deal dynamics

Revised legal structure an effort to ensure business viability

On 24 February 2023, Pharnext shareholders approved a transition of Pharnext's legal and financial framework from a hitherto public limited company to a limited partnership with shares. Following the transition, Pharnext Développement, a simplified joint-stock company controlled by Neovacs (with Hugo Brugière as chairman), will be the sole general partner with existing shareholders as limited partners. This will allow Neovacs to have full operational control of the business, albeit with unlimited liability over outstanding debts and other operational requisites. The limited partners' (existing shareholders in this context) liabilities, in contrast, will be restricted to their individual holding in the company although they cease to have a say in the company's operations and decision making. The supervisory board of the limited partnership will be composed of the current members of the board of directors (Joshua Schafer, Lawrence Steinman and James Kuo, with the exception of Hugo Brugière). We note that as part of the restructuring, Pharnext Développement has decided to reduce the par value of the issued capital, from €0.01/share to €0.001/share, reducing the share capital to €87.5k.

Although the full impact of this structural change and new governance will become clear in due course, we believe that Neovacs' stewardship and financial backing provide the much-needed stability to allow Pharnext to continue operations and take PXT3003 to top-line readouts in Q423. One of the reasons cited for this decision was to shield the company from a hostile takeover at the depressed current trading performance of the stock (which is not reflective of PXT3003's intrinsic value, as mentioned earlier), which we concur with.

Neovacs financing mitigates near-term liquidity risk

In October 2022, Pharnext announced a €20.7m strategic funding agreement with Neovacs, as well as a renegotiated agreement with Alpha Blue Ocean Group (ABO), holder of the OCEANE-BSA convertible debt. According to the new agreement with ABO, the maximum gross amount to be raised from these securities was revised down to €26m from the previous €45m. The €26m was to be divided into 13 monthly tranches of €2m each (available for utilisation between December 2022 and December 2023), although the disbursement was subject to certain pre-conditions, including Pharnext's market capitalisation staying above €2m over a period of 10 days preceding the payment of each tranche. Pharnext did not meet this covenant in December, resulting in ABO not releasing the funds, although the company did manage to drawdown another €1m tranche towards the end of January 2023. To cover any shortfall and the potential 12-month liquidity risk (due to the restrictive OCEANE-BSA terms, which may have impeded the issuance of further notes to ABO), Neovacs has offered to extend its funding support to cover Pharnext's working capital needs (up to €2m/month) until December 2023, past the final data readout for PXT3003 from the pivotal Phase III PREMIER trial. To compensate for the missed €2m ABO payment in December 2022, Neovacs committed to providing Pharnext with a cash infusion of up to €2m by end January 2023. We discuss the financing terms in detail in the subsequent section, and expect this monthly disbursement to continue, at least until Pharnext's capitalisation comes back in line with the pre-conditions required by ABO. With this additional c €24m in liquidity support, total commitment by Neovacs in Pharnext now stands at c €45m.

We note that Pharnext has initiated talks with ABO to terminate the OCEANE-BSA agreement mutually in the event that there is an agreement with a strategic industrial partner. We also highlight that Pharnext has now drawn down 12 tranches of the OCEANE-BSA convertible debt facility for total gross proceeds of €37m. Ten of these tranches have been fully converted into shares, while the 11th tranche has been partially converted.

Financing terms of the Neovacs expanded arrangement

The bridging loan will be for an amount of up to €2m/month until the end of December 2023 for a maximum total amount of €24m. The monthly loan will be available in the event that Pharnext is unable to draw down from the revised OCEANE-BSA facility (such as not being in compliance with the pre-conditions required for the loan extension). The goal is to ensure that Pharnext is able to progress its pivotal Phase III PREMIER trial for PXT3003, which is at a crucial stage with final readouts expected in Q423.

The loan will be disbursed in tranches of €100,000 at Pharnext's request, but will be capped at €2m per month. The loan will bear an annual interest rate equal to the 12-month Euribor rate (currently 3.3%) +12% and will have to be repaid (principal plus interest) by 30 June 2024 at the latest. In the event that the loan is not fully repaid by the said date, the interest rate on the outstanding amount would increase to the 12-month Euribor rate +20%. The agreement is subject to certain pre-conditions, such as Pharnext not being in default of payments or in breach of any of the undertakings given to Neovacs under the initial financing agreement signed on 3 October 2022. In consideration of Neovacs' commitment, Pharnext will pay Neovacs a commitment and structuring fee equal to 1% of the amount funded by Neovacs, which translates to a maximum of €240,000. The 1% fee will have to be paid with the drawdown of each tranche. While the servicing cost is fairly high, we believe that the primary focus for Pharnext is to stay funded to trial completion, with the expectation of a sentiment reversal and corresponding stock re-rating if top-line data from the Phase III study are encouraging. In this regard, we see this firm commitment by Neovacs as a positive for Pharnext.

Seeking strategic pharma deals

With PXT3003 approaching clinical conclusion, Pharnext announced on 11 January that it will seek a capital transaction that could eventually lead to a takeover of the company. Pharnext currently favours an agreement with a player in the pharmaceutical industry. We believe this will support the next phase of development, including market authorisation in the United States and Europe and subsequent commercialisation, provided Phase III results are positive. We believe this is a sensible move.

Valuation

We value Pharnext using a risk-adjusted net present value (NPV) methodology, consistent with the approach in our initiation report of 29 September 2020 and our ongoing coverage. We highlight that the valuation and opinions in this note are based solely on publicly available information.

We focus exclusively on Pharnext's lead Phase III asset, PXT3003, which targets CMT1A, a genetic peripheral nerve disorder that causes progressive muscle weakness. It is the most common type of CMT and afflicts more than 150,000 people in the United States and Europe combined (1.5 million people worldwide), with the most severe cases (c 5% of patients) requiring wheelchairs. There are currently no approved drugs, with treatment restricted to supportive care such as orthotics, leg braces and physical and occupational therapy. PXT3003 is the most advanced clinical-stage asset for this indication and should benefit from first-mover advantage, if approved. PXT3003 is targeting patients in the mild-to-moderate range (defined as scoring below 20 on the 36-point Charcot-Marie-Tooth Neuropathy Score scale), which typically includes patients with certain gait abnormalities, although they continue to be functionally unimpaired. For this cohort, timely treatment with PXT3003 can potentially halt progression to a debilitating state and may therefore have the highest implied benefit. We note that the latest available data from the PLEO-CMT-FU open-label extension study (five years of trial time) supports this assertion (showing sustained benefit to the 126 CMT1A patients who had chosen to continue on the extension study).

If clinical development is successful and regulatory approval is achieved, PXT3003 would be the first therapy approved for the indication and would have seven years and 10 years of market exclusivity courtesy of its orphan drug designation in the United States and Europe, respectively.

We base our valuation on target geographies, the United States and EU5, as these will be the most likely markets for PXT3003 and the ones with the highest potential. We estimate the target patient population (mild to moderate CMT1A) in these geographies to be 110,000 (c 70% of the total CMT1A population). We assume a launch price of $55,000 per year in the United States for PXT3003 and a 40% lower price in Europe. We acknowledge that when considering pricing for PXT3003 there are few comparators, as few drugs have been repurposed successfully for rare genetic diseases. This pricing is on a par with tetrabenazine ($57,000/year minimum), a generic drug approved for Huntington's disease, a different movement disorder (albeit more severe). We also assume a 30% gross/net sales discount and a conservative 20% peak penetration rate (given the unmet need) to reflect the risk related to clinical benefit given this indication remains unexplored.

We continue to apply a probability of success of 70% for PXT3003 to reflect the development risk associated with a late-stage Phase III trial. However, we now raise our discount rate to 15%, from our historical rate of 12.5%, to account for the recent macroeconomic environment and biotech sector softness. We have made other adjustments to our valuation to reflect the 5,000:1 share consolidation effected in November 2022, further drawdown of the OCEANE-BSA convertible debt tranches, warrant conversions by Neovacs (in lieu of certain payments due by Pharnext) and our latest estimated net debt figure (€30.9m at end FY22 vs the €11.9m[1] pro forma figure in our 19 October 2022 update).

Our risk-adjusted NPV is now €217m (from €269m on 19 October). The per-share valuation resets to €0.25 following the aforementioned share consolidation and subsequent conversions of the OCEANE-BSA tranches, as well as warrant conversions by Neovacs (versus €250/share previously on a post-consolidation basis). Our per-share valuation is based on 875.2m shares outstanding as of 17 February 2023, but we note that an additional 107 OCEANE-BSA convertible bonds from tranche 11 are yet to be converted into shares, and Neovacs warrants are continuing to convert, which means that our per-share valuation will continue to be affected. Our valuation is not diluted for any potential equity funding that the company may require to bring the development of PXT3003 forward and, as per Edison methodology, we assume that all the development funding is secured via debt.

Exhibit 1: Pharnext valuation

Development programme	Indication	Clinical stage	Probability of success	Launch year	Patent/exclusivity protection	Launch pricing (US$/year)	Peak sales (US$m)	rNPV (€m)
PXT3003	CMT1A	Phase III	70%	2024	2031–34	55,000	626	248.2
Total								248.2
Estimated net debt at end FY22 (€m)								30.9
Total firm value (€m)								217.3
Total basic shares* (m)								875.2
Value per basic share (€)								0.25

Source: Pharnext reports, Edison Investment Research. Note: *Basic shares outstanding as of 17 February 2023.

The underlying business fundamentals and pipeline potential for PXT3003 have remained unchanged over the last year, but the convertible funding announced in June 2021 and the resulting dilution have continued to weigh on Pharnext's share price, despite its ongoing mitigation efforts. We believe that the announced extension of funding support by Neovacs is a positive development for the company, with the potential to redirect the market's attention to the underlying potential of PXT3003, albeit we note that further dilution is still expected.

1 €11.9m comprised €19.6m in net debt at end H122 plus subsequent offerings and committed repayments.

Share capital and dilution

By way of clarification, we remind investors that Pharnext has undertaken a number of previous financing initiatives as part of its development process and, as we have previously described, these have produced ongoing and sizeable dilution. These partly explain the gap between our valuation, which is based on the clinical pipeline, and the company's current market valuation.

Our previous reports are available on our website. At the time of our initiation report in September 2020, the share count was 19.2m and this increased to 19.7bn by November 2022 before being re-based to 3.9m by the 5,000:1 consolidation. The number of shares in issue has since increased to 875.2m as at 17 February 2023. This increase reflects the issue of a further c 843.7m new shares to OCEANE-BSA post consolidation under the terms of the June 2021 convertible funding and 27.7m to Neovacs on the exercise of warrants. The movements are detailed on Pharnext's website.

We expect further increases in issued shares from the remaining OCEANE-BSA conversions and warrant exercises by Neovacs. High trading volumes suggest that most of the new shares issued have been placed or sold into the market, providing liquidity for interested new investors.

Exhibit 2: Financial summary

€000s	2020	2021	2022e	2023e
31-December	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT				
Revenue	2,810.5	3,564.8	2,400.4	2,466.7
Cost of Sales	0.0	0.0	0.0	0.0
Gross Profit	2,810.5	3,564.8	2,400.4	2,466.7
R&D	(13,548.4)	(19,614.0)	(20,475.9)	(21,041.1)
Admin & Marketing	(8,175.6)	(6,807.6)	(7,302.2)	(9,904.5)
EBITDA	(18,159.2)	(22,194.5)	(25,345.2)	(28,449.9)
Operating profit (before amort. and excepts.)		(18,716.5)	(22,858.9)	(25,377.7)
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0
Share-based payments	(197.0)	2.0	0.0	0.0
Reported operating profit	(18,913.5)	(22,856.9)	(25,377.7)	(28,478.9)
Net Interest	(2,650.5)	(7,760.8)	(6,311.2)	(1,933.7)
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)	(21,367.0)	(30,619.7)	(31,688.9)	(30,412.6)
Profit Before Tax (reported)	(21,564.1)	(30,617.6)	(31,688.9)	(30,412.6)
Reported tax	0.0	0.0	0.0	0.0
Profit After Tax (norm)	(21,367.0)	(30,619.7)	(31,688.9)	(30,412.6)
Profit After Tax (reported)	(21,564.1)	(30,617.6)	(31,688.9)	(30,412.6)
Minority interests	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0
Net income (normalised)	(21,367.0)	(30,619.7)	(31,688.9)	(30,412.6)
Net income (reported)	(21,564.1)	(30,617.6)	(31,688.9)	(30,412.6)
Average Number of Shares Outstanding (m)	18.2	30.4	16.6	875.2
EPS - normalised (c)	(117.33)	(100.67)	(190.40)	(3.47)
EPS - normalised fully diluted (c)	(117.33)	(100.67)	(190.40)	(3.47)
EPS - basic reported (€)	(1.18)	(1.01)	(1.90)	(0.03)
Dividend (€)	0.00	0.00	0.00	0.00
BALANCE SHEET				
Fixed Assets	855.4	906.4	874.0	845.0
Intangible Assets	7.4	0.2	0.0	0.0
Tangible Assets	146.3	322.2	290.0	261.0
Investments & other	701.8	584.0	584.0	584.0
Current Assets	20,398.4	15,545.2	5,520.3	6,826.6
Stocks	0.0	0.0	0.0	0.0
Debtors	9,320.2	7,577.2	5,102.4	5,243.2
Cash & cash equivalents	11,078.2	7,968.0	417.9	1,583.4
Other	0.0	0.0	0.0	0.0
Current Liabilities	(15,516.6)	(19,305.3)	(12,486.8)	(14,496.7)
Creditors	(11,302.7)	(8,424.1)	(8,856.6)	(9,866.5)
Tax and social security	0.0	0.0	0.0	0.0
Short term borrowings	(3,926.0)	(8,713.2)	(1,462.2)	(2,462.2)
Other	(287.9)	(2,168.0)	(2,168.0)	(2,168.0)
Long Term Liabilities	(18,256.2)	(15,003.0)	(31,703.0)	(58,703.0)
Long term borrowings	(17,021.3)	(13,199.9)	(29,899.9)	(56,899.9)
Other long term liabilities	(1,234.8)	(1,803.1)	(1,803.1)	(1,803.1)
Net Assets	(12,519.0)	(17,856.7)	(37,795.6)	(65,528.2)
Minority interests	0.0	0.0	0.0	0.0
Shareholders' equity	(12,519.0)	(17,856.7)	(37,795.6)	(65,528.2)
CASH FLOW				
Operating Cash Flow	(17,962.2)	(22,196.5)	(25,345.2)	(28,449.9)
Working capital	1,797.7	(905.2)	2,907.4	869.1
Exceptional & other	82.5	(632.9)	0.0	0.0
Tax	0.0	0.0	0.0	0.0
Net operating cash flow	(16,081.9)	(23,734.7)	(22,437.9)	(27,580.9)
Capex	22.0	(46.5)	0.0	0.0
Acquisitions/disposals	(83.4)	72.3	0.0	0.0
Net interest	(1,622.2)	(1,089.0)	(6,311.2)	(1,933.7)
Equity financing	16,271.7	32,819.3	11,750.0	2,680.0
Dividends	0.0	0.0	0.0	0.0
Other	(199.5)	(4,294.3)	0.0	0.0
Net Cash Flow	(1,693.4)	3,727.2	(16,999.1)	(26,834.5)
Opening net debt/(cash)	7,156.0	9,869.2	13,945.2	30,944.3
FX	0.0	0.0	0.0	0.0
Other non-cash movements	(1,019.7)	(7,803.2)	0.0	0.0
Closing net debt/(cash)	9,869.2	13,945.2	30,944.3	57,778.8

Source: Pharnext, Edison Investment Research. Note: FY20 and FY21 shares outstanding not retrospectively adjusted for the 5,000:1 share consolidation undertaken in November 2022. Number of shares outstanding of 875.2m is as at 17 February 2023.

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