

Pharnext

Funding update

Convertible debt terms revised

Due at least in part to significant recent share price depreciation, Pharnext has announced a revision in the terms of its June 2021 convertible debt financing (OCEANE-BSA). Effective February 2022, the number of tranches will be reduced to 12 from 35, with the last five tranches to be issued between January and May 2022 for total proceeds of €15m. As of 28 December, the first six tranches have been drawn down for gross proceeds of €20.5m. This development has the potential, in time, to reassure investors, given that dilution had been a significant factor in driving down the stock price since the June 2021 debt issue. Separately, Pharnext also announced the appointment of Dr Elisabeth Svanberg as chairman of the board of directors (effective 1 January 2022), succeeding Michel de Rosen.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	3.6	(23.4)	(1.61)	0.00	N/A	N/A
12/20	2.8	(21.4)	(1.17)	0.00	N/A	N/A
12/21e	3.6	(27.7)	(0.27)	0.00	N/A	N/A
12/22e	3.9	(30.8)	(0.23)	0.00	N/A	N/A

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

Deal terms amendment to mitigate dilution concerns

While the previous convertible debt agreement provided Pharnext with sufficient funds to conclude the clinical trials of PXT3003, a key concern has been the dilutive impact of the funding, an issue demonstrated by the sharp share price correction since June 2021. We believe Pharnext's decision to truncate the number of tranches may have the potential to assuage some investor concerns, although the company will have to explore alternate financing options going into H222. The revision of the deal terms also requires Pharnext to share low single-digit royalties on PXT3003's sales with the debt holder, Global Tech Opportunities 13, which will also have some impact on the company's margins.

Dr Elisabeth Svanberg appointed as chairman

Pharnext also announced the appointment of Dr Elisabeth Svanberg as chairman of the board of directors, taking over from Michel de Rosen (chairman since June 2016), who will continue to serve as a non-executive director of the company. Dr Svanberg has more than two decades of experience across different therapeutic areas and has been associated with leading healthcare companies such as Bristol Myers Squibb (BMS) and Janssen Pharmaceuticals. This appointment follows a series of recent senior-level recruitments at Pharnext in an effort to successfully progress and commercialise PXT3003 in Charcot-Marie-Tooth Disease type 1A (CMT1A).

Valuation: €265.6m or €2.0 per basic share

We have revised our valuation to factor in the new share issue and slightly lower expected margins due to the royalty agreement with Global Tech Opportunities 13. While we have revised our total valuation down to €265.6m from €273.6m, the basic per share valuation comes down significantly to €2.0 (from €5.7), following additional equity issued to cover the conversion of tranches 3 and 4 (until 27 December) of the June 2021 convertible debt.

Pharma & biotech

29 December 2021

Price €0.03
Market cap €3.8m

Net debt (€m) at end H121	6.5
Shares in issue	131.5m
Free float	8.5%
Code	ALPHA
Primary exchange	Euronext Paris
Secondary exchange	OTC Pink

Share price performance



%	1m	3m	12m
Abs	(72.7)	(94.0)	(99.1)
Rel (local)	(74.2)	(94.5)	(99.3)
52-week high/low		€3.98	€0.03

Business description

Pharnext is developing new therapies for both rare and common neurological disorders using its proprietary Pleotherapy platform, which unearths new therapeutic effects from drug combinations. Its lead programme is PXT3003 for Charcot-Marie-Tooth disease type 1A, which has entered pivotal Phase III trials. It also has PXT864 for Alzheimer's disease, which has completed Phase IIa but has been deprioritised.

Next events

Phase III PREMIER trial recruitment completion	Q222
Additional data from the PLEO-CMT-FU extension study	Q222
Top-line data from the animal factorial study	Q123

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OCEANE-BSA programme to conclude prematurely

On 22 December 2021, Pharnext announced that it had reached an [agreement with Global Tech Opportunities 13](#) (subscribers of the June 2021 convertible bond issue) to amend the terms of its existing financing agreement, effectively reducing the number of tranches to 12 from the earlier 35. The effective date of the amendment would be made concrete retroactively subject to the vote at the extraordinary shareholders meeting expected to be held no later than 11 February 2022. As of 28 December 2021, the first six tranches have been drawn down for gross proceeds of €20.5m (the first tranche was worth €5.5m, while the subsequent five drawn tranches stood at €3m each; total net funding of €16.86m). The company expects the last five tranches to be issued between January and May 2022 (the last tranche in May 2022) for total gross proceeds of €15m (€13.2 net). It is unclear at the moment when a seventh tranche will be drawn down (we have tentatively factored in a drawdown in late December 2021). As a reminder, the previous agreement comprised 35 tranches totaling 8,100 OCEANE-BSA convertible bonds with a par value of €10,000 each (for a total gross value of €81m), which could be drawn down over a period of 36 months. According to the latest available information, Pharnext has fully converted the first three tranches into equity, while the fourth tranche is partially converted as of 28 December 2021 (€2.1m converted out of a total €3m). A total of €13.6m of the total €20.5 gross debt issued has been converted to equity, including €12.3m in H221 to date).

We believe the decision to end the financing arrangement prematurely was driven by negative market sentiment around the potentially dilutive impact of the convertible debt funding, which has been weighing heavily on the company's stock price (c 98% loss in value since [the debt issue announcement in June 2021](#)). We believe the restructuring has the potential to reduce the ongoing overhang on the stock, although some further dilution is still expected (at least eight of the 12 tranches would still need to be converted to equity) and funding avenues will need to be reassessed in H222.

New chairman appointed

Following news of the convertible debt amendment, the company announced the appointment of [Dr Elisabeth Svanberg as chairman](#) of the company's board of directors (effective 1 January 2022), taking over from Michel de Rosen, who had been chair since June 2016 and will continue as a non-executive director. Dr Elisabeth Svanberg is a board-certified general surgeon and associate professor of surgery, with extensive experience in the development of novel treatments across different therapeutic areas. She has more than 20 years' experience and has been associated with major healthcare companies like BMS and Janssen Pharmaceuticals. As a reminder, this appointment is the latest in a series of senior-level recruitments made by the company, the most recent being the appointment of Dr Burkhard Blank as chief medical officer in November 2021.

Valuation

We have updated our valuation to reflect the recent amendment in the terms of the OCEAN-BSA convertible debt programme. Our expectations for the clinical progression and commercialisation of PXT3003 remain unchanged and we continue to attribute a 70% probability of success to the asset. Our risk-adjusted net present value (NPV) goes down slightly to €259.7m as we lower our gross margin estimates slightly (from 95% to 92%) following the requirement to pay low single-digit royalties on PXT3003 as part of the amended debt agreement (we have factored in a 3% royalty payment in our valuation model). This has been partially offset by an increase in the pro forma net cash position (€5.9m) following further debt to equity conversions (tranche 3 and partial conversion

of tranche 4) since our last update (an additional €3.1m of debt was converted to equity since we [last wrote](#) on the company, resulting in an increase in shares outstanding to 131.5m from 48.3m and an increase in pro forma net cash to €5.9m from €2.8m). Our overall valuation of the company goes down slightly to €265.6m from €273.6m. However, the per share valuation sees another significant dip (€2.0 versus €5.7 previously) following further conversion (tranche 3 and partial conversion of tranche 4) of the OCEANE-BSA convertible debt. [The number of shares outstanding is currently 131.5m](#) versus 22.4m before the convertible financing and subsequent conversion of associated debt to equity (tranches 1 to 3 are fully converted, whereas tranche 4 is partially converted as of 28 December 2021). To compensate for the loss of funding due to the amended OCEANE-BSA terms, we estimate that Pharnext will be required to raise a further €15m in H222 and €40m in 2023, which we have presented as illustrative debt in our model.

Exhibit 1: Pharnext valuation

Development programme	Indication	Clinical stage	Probability of success	Launch year	Patent/exclusivity protection	Launch pricing (\$/year)	Peak sales (US\$m)	rNPV (€m)
PXT3003	CMT1A	Phase III	70%	2024	2031-34	55,000	626	259.7
Total								259.7
Net cash (end H121, pro forma adjusted for subsequent conversions of debt to equity) (€m)								5.9
Total firm value (€m)								265.6
Total basic shares (m)								131.5
Value per basic share (€)								2.0
Dilutive options and warrants (m)								0.9
Total diluted shares (m)								132.
Value per diluted share (€)								2.0

Source: Pharnext reports, Edison Investment Research

Exhibit 2: Financial summary

	€000s	2019	2020	2021e	2022e
31-December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		3,597.4	2,810.5	3,591.3	3,945.3
Cost of Sales		0.0	0.0	0.0	0.0
Gross Profit		3,597.4	2,810.5	3,591.3	3,945.3
R&D		(15,178.1)	(13,548.4)	(20,837.3)	(25,155.4)
Admin & Marketing		(8,444.6)	(8,175.6)	(8,059.8)	(8,140.4)
EBITDA		(19,501.6)	(18,159.2)	(25,190.6)	(29,312.0)
Operating profit (before amort. and excepts.)		(20,093.0)	(18,716.5)	(25,108.7)	(29,153.5)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0
Share-based payments		67.7	(197.0)	(197.0)	(197.0)
Reported operating profit		(20,025.3)	(18,913.5)	(25,305.7)	(29,350.5)
Net Interest		(3,283.9)	(2,650.5)	(2,546.6)	(1,661.8)
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)		(23,376.9)	(21,367.0)	(27,655.3)	(30,815.3)
Profit Before Tax (reported)		(23,309.2)	(21,564.1)	(27,852.3)	(31,012.3)
Reported tax		0.0	0.0	0.0	0.0
Profit After Tax (norm)		(23,376.9)	(21,367.0)	(27,655.3)	(30,815.3)
Profit After Tax (reported)		(23,309.2)	(21,564.1)	(27,852.3)	(31,012.3)
Minority interests		0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0
Net income (normalised)		(23,376.9)	(21,367.0)	(27,655.3)	(30,815.3)
Net income (reported)		(23,309.2)	(21,564.1)	(27,852.3)	(31,012.3)
Average Number of Shares Outstanding (m)		14.5	18.2	103.2	131.5
EPS - normalised (c)		(161.08)	(117.33)	(26.80)	(23.43)
EPS - normalised fully diluted (c)		(161.08)	(117.33)	(26.80)	(23.43)
EPS - basic reported (€)		(1.61)	(1.18)	(0.27)	(0.24)
Dividend (€)		0.00	0.00	0.00	0.00
BALANCE SHEET					
Fixed Assets		1,526.5	855.4	740.3	701.8
Intangible Assets		12.1	7.4	0.0	0.0
Tangible Assets		293.2	146.3	38.5	0.0
Investments & other		1,221.2	701.8	701.8	701.8
Current Assets		21,645.1	20,398.4	13,757.9	8,659.6
Stocks		0.0	0.0	0.0	0.0
Debtors		0.0	9,320.2	590.4	648.5
Cash & cash equivalents		16,246.6	11,078.2	13,167.6	8,011.1
Other		5,398.5	0.0	0.0	0.0
Current Liabilities		(9,959.6)	(15,516.6)	(12,761.3)	(11,172.2)
Creditors		(5,792.7)	(11,302.7)	(7,048.3)	(8,151.8)
Tax and social security		0.0	0.0	0.0	0.0
Short term borrowings		(3,806.3)	(3,926.0)	(5,425.0)	(2,732.4)
Other		(360.5)	(287.9)	(287.9)	(287.9)
Long Term Liabilities		(20,457.9)	(18,256.2)	(22,731.2)	(49,998.8)
Long term borrowings		(11,181.4)	(8,157.4)	(12,632.4)	(39,900.0)
Other long term liabilities		(9,276.6)	(10,098.8)	(10,098.8)	(10,098.8)
Net Assets		(7,245.9)	(12,519.0)	(20,994.3)	(51,809.5)
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		(7,245.9)	(12,519.0)	(20,994.3)	(51,809.5)
CASH FLOW					
Operating Cash Flow		(19,569.3)	(17,962.2)	(24,993.6)	(29,115.0)
Working capital		(1,523.1)	1,797.7	4,475.5	1,045.3
Exceptional & other		(476.0)	82.5	0.0	0.0
Tax		0.0	0.0	0.0	0.0
Net operating cash flow		(21,568.4)	(16,081.9)	(20,518.0)	(28,069.6)
Capex		0.0	22.0	0.0	0.0
Acquisitions/disposals		193.5	(83.4)	0.0	0.0
Net interest		(1,412.9)	(1,622.2)	(2,546.6)	(1,661.8)
Equity financing		16,494.9	16,271.7	19,180.0	0.0
Dividends		0.0	0.0	0.0	0.0
Other		0.0	(199.5)	0.0	0.0
Net Cash Flow		(6,292.9)	(1,693.4)	(3,884.6)	(29,731.5)
Opening net debt/(cash)		16,011.4	(1,258.7)	1,005.7	4,890.3
FX		0.0	0.0	0.0	0.0
Other non-cash movements		23,563.0	(571.0)	0.0	0.0
Closing net debt/(cash)		(1,258.7)	1,005.7	4,890.3	34,621.8

Source: Pharnext reports, Edison Investment Research

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