EDISON

Sequana Medical

Pipeline update

FDA clears expansion of POSEIDON enrolment

Pharma & biotech

Sequana Medical announced on 4 October that it had received approval from the US FDA to expand patient recruitment in the pivotal cohort of its POSEIDON pivotal study to 70 (an increase of 10 patients). This decision should allow Sequana to meet its pre-defined target of having 40 evaluable patients for the primary efficacy analysis, and thus provide it with the desired statistical power to potentially meet the primary endpoint. In our view, the positive FDA decision reduces a degree of uncertainty with regards to the North American clinical programme, hence we raise our probability of success for alfapump in refractory and recurrent ascites in this market to 60% (from 55% previously). We now obtain a new pipeline rNPV of €246.4m (versus €219.8m, previously).

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	1.0	(14.9)	(1.22)	0.0	N/A	N/A
12/20	1.0	(19.0)	(1.25)	0.0	N/A	N/A
12/21e	0.5	(22.7)	(1.25)	0.0	N/A	N/A
12/22e	1.2	(22.8)	(1.22)	0.0	N/A	N/A

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

POSEIDON timelines re-established

Sequana announced in July that it is seeking to expand POSEIDON study enrolment by c 10 patients to address higher attrition rates and meet its target of having 40 evaluable implantations for the primary efficacy analysis. It now expects to complete POSEIDON recruitment in Q421 and report primary efficacy data in Q422. To date, 59 patients have been enrolled in the pivotal cohort. We remain confident in alfapump's efficacy profile to date as trends shown in recent interim analyses appear to exceed the primary endpoints significantly, as defined for the pivotal cohort. The company expects to submit a US premarket approval (PMA) application in mid-2023, which we believe could lead to US launch in mid-2024.

Cash on hand until Q222

Sequana had a net cash position of €14.7m at 30 June 2021 (€21.8m in cash offset by €7.1m in long-term debt) excluding €0.3m in lease liabilities. We continue to expect that Sequana's funds on hand should be sufficient for it to maintain operations into Q222, and model that it will need to raise a total of €125m until it starts to generate sustained positive operating cash flows in H127. We assume the company will raise €20m in 2022, €25m in 2023 and an additional €80m before FY27. As per our usual policy, we model these financing requirements as illustrative debt.

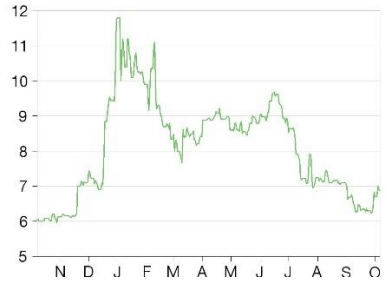
Valuation: Increasing rNPV to €246.4m

We have increased our probability of success for alfapump in the North American market to 60%. After rolling forward our estimates and adjusting forex expectations, we now obtain a pipeline rNPV valuation of €246.4m versus €219.8m, previously. After adding H121 net cash of €14.7m (excluding lease liabilities), we obtain an equity valuation of €261.1m or €14.06 per share (€12.85 fully diluted).

7 October 2021

Price	**€6.88**
Market cap	**€128m**
	$1.16/€
Net cash (€m) at 30 June 2021 (excluding €0.3m lease liabilities)	14.7
Shares in issue	18.58m
Free float	50%
Code	SEQUA
Primary exchange	Euronext
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.8	(20.6)	15.1
Rel (local)	7.1	(19.4)	(6.2)
52-week high/low		€11.8	€6.0

Business description

Based in Belgium, Sequana Medical develops devices based on its alfapump platform for the treatment of diuretic-resistant fluid overload in liver disease, malignant ascites and heart failure. Alfapump is CE marked for refractory ascites and is in a pivotal North American study for this indication.

Next events

Interim data for SAHARA DESERT alfapump DSR study	Q421
Complete recruitment for POSEIDON study	Q421

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Edison profile page

POSEIDON study enrolment expansion adds clarity

Sequana Medical announced on 4 October that it had received approval from the US FDA to expand patient recruitment in the pivotal cohort of its POSEIDON study to 70 (an increase of 10 patients). POSEIDON is Sequana's North American pivotal study of the alfapump for the treatment of recurrent or refractory ascites (RRA) due to liver cirrhosis.

As a reminder, Sequana reported positive data in July from the second interim analysis in patients in the roll-in cohort.[1] At the time, Sequana announced that, based on an analysis of attrition rates between study enrolment and alfapump implantation, it anticipated that c 10 additional patients would need to be enrolled in the pivotal cohort (above the pre-specified study size of 60 for the pivotal cohort initially approved by the FDA) to meet its target of 40 evaluable implantations for the primary efficacy analysis. As explained in our July note, the higher attrition rate was largely due to delays caused by COVID-19 restrictions on elective surgery, leading to disease progression in some of the patients in the pre-implantation observation period, whereby they no longer met inclusion criteria by the expected time of implantation.

Initially, the company planned to enrol 60 patients in the pivotal cohort, to implant at least 50 of these patients with the alfapump (following the three-month pre-implant observation period and eligibility reassessment) and have at least 40 of the implanted patients evaluable for the primary endpoint analysis at six months after implantation. Due to the higher attrition rate between initial enrolment and implantation, Sequana was seeking to enrol 10 additional patients to ensure that at least 50 patients would undergo alfapump implantation, with at least 40 of these included for the primary endpoint analysis (as originally planned).

With the recently provided FDA clearance for additional study enrolment, Sequana can now meet these POSEIDON study objectives (ie have at least 50 patients undergo alfapump implantation and at least 40 included for the primary endpoint analysis) and it also resumed providing POSEIDON study guidance. Sequana now expects completion of POSEIDON study recruitment in Q421 and for primary endpoint data to be available in Q422. To date, it reports that 59 patients have been enrolled in the pivotal cohort.

Overall, this development is positive in our view, and adds clarity and reassurance to POSEIDON's likelihood of meeting the primary endpoint, as had the FDA not agreed to expand enrolment, we estimate that the POSEIDON trial's evaluable pivotal cohort would then consist of only c 35 patients, thereby dampening the statistical power compared to the planned target of c 40 in that cohort. As a reminder, the primary effectiveness outcomes of POSEIDON include:

- the proportion of patients with a 50% reduction in overall average frequency of therapeutic paracentesis (TP) per month in the post-implant observation period (reflecting month four to month six after implantation) compared to the pre-implant observation period; and
- whether at least 50% of patients receive a 50% reduction in their monthly frequency of required TP post-implantation compared to the average monthly number of TP required pre-implantation.

As outlined in our recent note, the second interim analysis of the study roll-in cohort showed that subjects had a greater than 90% reduction in mean frequency of TP versus baseline, and all patients experienced at least a 50% reduction in mean TP frequency per month versus baseline. As these trends substantially exceed the primary endpoints as defined for the pivotal cohort, we are

[1] The POSEIDON study allows for up to 30 patients to be enrolled in a training (or 'roll in') cohort (which will be excluded from primary efficacy analysis), to ensure centres are experienced in the use of the alfapump before the actual study (pivotal) cohort is enrolled.

confident that the POSEIDON study will likely meet the primary endpoint if trends shown in the roll-in cohort are maintained.

Another favourable development, in our view, is that, in allowing POSEIDON recruitment size to increase, the FDA did not impose any new restrictions or conditions on the trial, which we perceive as a vote of confidence in the data reported to date and in the study's overall progression.

Financials and valuation

We have not modified our forecasts in local currency terms (for instance, in US dollars for the US market) and continue to forecast net operating cash burn rates of €22.6m and €23.9m for 2021 and 2022 respectively. We continue to expect that Sequana's funds on hand should be sufficient for it to maintain operations into Q222, and our forecasts for fund-raising needs are unchanged. We model that Sequana will need to raise a total of €125m until it starts to generate sustained positive operating cash flows in H127.

We continue to value Sequana using a risk-adjusted NPV model with a 12.5% cost of capital for alfapump in North America and alfapump DSR, and a 10% rate for alfapump in ex-North American markets (where it is commercialised). Given the improved clarity relating to the FDA's acceptance of the company's POSEIDON pivotal cohort expansion request and the increased confidence that the primary endpoint analysis should include at least 40 patients as originally planned, we have reinstated our probability of success for alfapump in the North American market to 60% (versus our earlier reduction to 55% when there was a lack of certainty as to whether the request would have been accepted).

Exhibit 1: Sequana Medical rNPV assumptions

Product contribution	Indication	Stage	NPV (€m)	Probability of success	rNPV (€m)	rNPV/ basic share (€)	Launch year	Sales (€m) in 2032
alfapump in North America (net of R&D and SG&A costs)	Refractory and recurrent ascites and malignant ascites	Pivotal studying ongoing	213.1	60%	122.3	6.59	Mid-2024	180.2
alfapump in Europe and ex-NA regions (net of SG&A costs)	Refractory and recurrent ascites and malignant ascites	Commercial/ Marketed	2.2	100%	2.2	0.12	2013	3.4
alfapump DSR and short-term DSR	Fluid overload in heart failure	Human feasibility studies	779.5	25%	179.5	9.66	H226 in US	445.2*
Corporate costs			(57.6)	100%	(57.6)	(3.10)		
Total			937.2		246.4	13.27		
Net cash (H121) excluding lease liabilities			14.7		14.7	0.79		
Total equity value			951.8		261.1	14.06		
Basic shares outstanding (000) (27 July 2021)			18,577					
Outstanding warrants and share options			1,747					
FD shares outstanding (000) (27 July 2021)			20,324					

Source: Edison Investment Research. *Reflects estimate of projected transfer pricing revenue to Sequana Medical rather than end-market commercial sales.

We have also rolled forward our forecasts and made a slight revision in our forex assumptions ($1.16/€ versus $1.19/€ previously). Following these adjustments, we now obtain a pipeline rNPV valuation of €246.4m versus €219.8m, previously. After adding H121 net cash of €14.7m (excluding lease liabilities), we obtain an equity valuation of €261.1m or €14.06 per share (€12.85 fully diluted).

Exhibit 2: Financial summary

€'000s	2018	2019	2020	2021e	2022e	2023e	2024e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	1,029	971	963	525	1,214	1,396	3,661
Cost of Sales	(158)	(198)	(202)	(105)	(243)	(279)	(732)
Gross Profit	871	773	761	420	971	1,117	2,929
General & Administrative	(8,206)	(7,102)	(6,738)	(7,103)	(7,038)	(8,529)	(13,597)
Net Research & Development	(5,816)	(7,652)	(11,835)	(15,606)	(15,500)	(12,000)	(12,500)
Operating profit before exceptionals	(13,150)	(13,981)	(17,813)	(22,289)	(21,567)	(19,412)	(23,168)
EBITDA	(13,070)	(13,737)	(17,506)	(22,117)	(21,380)	(19,275)	(23,064)
Depreciation & other	(81)	(244)	(307)	(172)	(187)	(137)	(104)
Operating Profit (before amort. and except.)	(13,150)	(13,981)	(17,813)	(22,289)	(21,567)	(19,412)	(23,168)
Exceptionals including asset impairment	74	18	41	17	0	0	0
Operating Profit	(13,077)	(13,964)	(17,771)	(22,272)	(21,567)	(19,412)	(23,168)
Net Interest	(883)	(878)	(1,178)	(416)	(1,229)	(3,157)	(5,254)
Profit Before Tax (norm)	(14,033)	(14,859)	(18,991)	(22,705)	(22,795)	(22,569)	(28,422)
Profit Before Tax (FRS 3)	(13,960)	(14,841)	(18,949)	(22,688)	(22,795)	(22,569)	(28,422)
Tax	(24)	(136)	(157)	(129)	0	0	0
Profit After Tax and minority interests (norm)	(14,057)	(14,995)	(19,148)	(22,834)	(22,795)	(22,569)	(28,422)
Profit After Tax and minority interests (FRS 3)	(13,983)	(14,977)	(19,106)	(22,817)	(22,795)	(22,569)	(28,422)
Average Number of Shares Outstanding (m)	10.0	12.3	15.3	18.3	18.7	18.7	18.8
EPS - normalised (€)	(1.41)	(1.22)	(1.25)	(1.25)	(1.22)	(1.20)	(1.51)
EPS - normalised and fully diluted (€)	(1.41)	(1.22)	(1.25)	(1.25)	(1.22)	(1.20)	(1.51)
EPS - (IFRS) (€)	(1.40)	(1.22)	(1.25)	(1.25)	(1.22)	(1.20)	(1.51)
Dividend per share (€)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed Assets	242	829	772	640	486	385	372
Tangible Assets	184	765	705	561	407	305	293
Investments in long-term financial assets	58	63	67	79	79	79	79
Current Assets	3,099	8,522	13,441	12,142	8,372	10,295	7,584
Short-term investments	0	0	0	0	0	0	0
Cash	1,318	5,586	11,016	11,035	7,099	9,705	5,852
Other	1,782	2,935	2,425	1,107	1,273	590	1,733
Current Liabilities	(18,727)	(5,315)	(5,966)	(4,950)	(3,464)	(2,490)	(2,817)
Creditors	(6,654)	(4,855)	(5,966)	(4,950)	(3,464)	(2,490)	(2,817)
Short term borrowings	(12,073)	(459)	0	0	0	0	0
Long Term Liabilities	(3,374)	(3,110)	(8,135)	(7,839)	(27,839)	(52,839)	(77,839)
Long term borrowings	(2,582)	(2,261)	(7,473)	(7,089)	(27,089)	(52,089)	(77,089)
Other long-term liabilities	(792)	(849)	(662)	(750)	(750)	(750)	(750)
Net Assets	(18,760)	926	113	(8)	(22,445)	(44,650)	(72,700)
CASH FLOW							
Operating Cash Flow	(8,987)	(17,596)	(15,791)	(22,087)	(22,674)	(19,202)	(23,507)
Net interest and financing income (expense)	(883)	(878)	(1,178)	(416)	(1,229)	(3,157)	(5,254)
Tax	(5)	(9)	(36)	(85)	0	0	0
Net Operating Cash Flow	(9,875)	(18,482)	(17,005)	(22,588)	(23,902)	(22,360)	(28,762)
Capex	(39)	(106)	(138)	(71)	(34)	(35)	(92)
Acquisitions/disposals	0	0	0	0	0	0	0
Financing	2	26,165	19,000	22,768	0	0	0
Dividends	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Net Cash Flow	(9,912)	7,576	1,857	109	(23,936)	(22,394)	(28,853)
Opening net debt/(cash)	0	13,337	(2,866)	(3,543)	(3,946)	19,990	42,384
HP finance leases initiated	0	0	0	0	0	0	0
Other	(3,425)	8,627	(1,179)	293	(0)	(0)	(0)
Closing net debt/(cash)	13,337	(2,866)	(3,543)	(3,946)	19,990	42,384	71,238
Lease debt	N/A	504	387	343	343	343	343
Closing net debt/(cash) inclusive of IFRS 16 lease debt	13,337	(2,362)	(3,157)	(3,603)	20,333	42,727	71,580

Source: Company data, Edison Investment Research

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