EDISON

Quantum Genomics

A deal and a Phase III initiation

Development update

Pharma & biotech

Quantum Genomics recently announced a regional licensing agreement for firibastat for the treatment of hypertension in Latin America with Biolab Sanus Pharmaceutical, one of the largest Brazilian pharmaceutical companies, for $21.2m in upfront and milestones as well as royalties. In addition, the company announced the initiation of the pivotal Phase III FRESH study in 500 difficult-to-treat and resistant hypertension patients who are already on treatments from two or three anti-hypertensive classes. Data are expected in H221.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	0.0	(10.3)	(0.93)	0.0	N/A	N/A
12/18	0.0	(13.6)	(0.94)	0.0	N/A	N/A
12/19e	0.0	(17.0)	(0.87)	0.0	N/A	N/A
12/20e	0.0	(22.6)	(1.11)	0.0	N/A	N/A

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

Licensing agreement with Biolab Sanus

The company announced that it has licensed firibastat for the treatment of hypertension (but not for the heart failure indication, which can be licensed separately) to Biolab Sanus covering the Latin American region. As part of the agreement, Biolab Sanus is obligated to pay $21.2m in upfront and milestone payments as well as royalties. Additionally, Biolab Sanus will be responsible for clinical trial costs in Latin America, which is expected to account for around 20% of the patients enrolled in the trial.

Phase III FRESH study initiated

The pivotal FRESH study is a three-month, 500-patient study comparing firibastat to placebo in difficult-to-treat or resistant hypertension patients who are already on treatments from two or three anti-hypertensive classes (firibastat and placebo will be added on top of the current treatment), yet still have systolic automated office blood pressure (AOBP) above 140mmHg. The primary endpoint will be a change from baseline in systolic AOBP. Data are expected in H221.

Phase IIb QUORUM study enrolment ongoing

The Phase IIb QUORUM study is enrolling 294 subjects from 40 centres in the US and Europe within 72 hours of suffering acute myocardial infarction (AMI), commonly referred to as a heart attack. The primary endpoint will be the change from baseline in the left ventricular ejection fraction (LVEF) after a three-month treatment. Results are expected in H220.

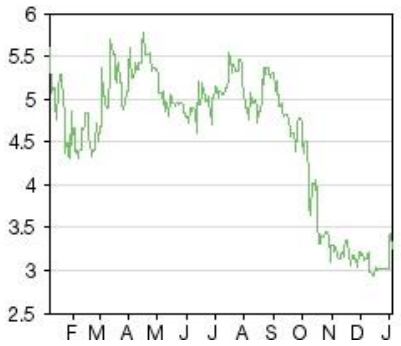
Valuation: €909m or €51.80 per share

Our valuation is €909m or €51.80 per share compared to €909m or €53.01 per share previously. We have not adjusted our model following the Biolab Sanus collaboration as the breakout of upfront versus milestone payments was not disclosed. Our per-share value fell slightly due to a higher number of shares.

6 January 2020

Price	**€3.25**
Market cap	**€57m**
Net cash (€m) at 30 June 2019	11.6
Shares in issue	17.5m
Free float	86.5%
Code	ALQGC
Primary exchange	Euronext Paris
Secondary exchange	OTCQX

Share price performance



%	1m	3m	12m
Abs	2.0	(27.2)	(30.0)
Rel (local)	(3.1)	(34.3)	(46.0)
52-week high/low		€5.77	€2.94

Business description

Quantum Genomics is a biopharmaceutical company developing firibastat, a brain aminopeptidase A inhibitor for treating hypertension and heart failure. Its mechanism is implicated in the 25% of patients resistant to treatment. The Phase IIb study in hypertension was very positive and a Phase III was recently initiated. Also, a Phase IIb study in heart failure is currently enrolling patients.

Next events

QUORUM heart failure study data	H220

Analysts

Maxim Jacobs +1 646 653 7027

Wiktoria O'Hare +1 646 653 7028

healthcare@edisongroup.com

Edison profile page

A strong finish to the year

Quantum Genomics announced that it has licensed firibastat for the treatment of hypertension (but not for the heart failure indication, which can be licensed separately) to Biolab Sanus covering the Latin American region. Biolab Sanus is one of the largest pharmaceutical companies in Brazil, with over 140 products and 3,200 employees and 2019 revenues expected to be around $600m, according to the licensing agreement press release. Importantly, it is also a leader in cardiology and hypertension in Brazil, with more than a 15% market share in that category.

As part of the agreement, Biolab Sanus is obligated to pay $21.2m in upfront and milestone payments as well as royalties (though the precise rate is undisclosed). Additionally, Biolab Sanus will be responsible for clinical trial costs in Latin America, which are expected to account for around 20% of the patients enrolled in the Phase III FRESH trial.

Quantum Genomics also announced the initiation of its Phase III programme for firibastat for the treatment of difficult-to-treat or resistant hypertension patients. The FRESH study will be a three-month, 500-patient study comparing firibastat (at a dose of 500mg twice a day) to placebo in difficult-to-treat or resistant hypertension patients who are already on treatments from two or three anti-hypertensive classes (firibastat and placebo will be added on top of the current treatment), yet still have systolic AOBP above 140mmHg. The trial is expected to be conducted in approximately 70 hospitals across Europe (especially France, Germany, Poland, Spain and the Czech Republic), Canada, the US and Latin America (primarily Brazil and Mexico). The primary endpoint will be a change from baseline in systolic AOBP. Data are expected in H221.

Based on feedback from the FDA, two studies will be required for approval, one focused on efficacy (FRESH) and one focused on safety. The safety study will enrol 750 patients, with 650 staying on the drug for six months and 100 staying on it for a year. Precise timing for the initiation of the safety study has not been announced.

In terms of the heart failure programme, Quantum Genomics is continuing to enrol patients in the QUORUM study, which is assessing the safety and efficacy of Quantum's drug firibastat compared to ramipril, an angiotensin-converting enzyme inhibitor, in 294 subjects enrolled within 72 hours of suffering AMI, who were treated with primary percutaneous coronary intervention and have reduced LVEF. There are three arms in this randomised, double-blind, active-controlled study with patients receiving either 100mg of firibastat twice a day, 500mg of firibastat twice a day or 5mg of ramipril twice a day. The primary endpoint is the change from baseline in LVEF after a three-month treatment. Secondary endpoints will include cardiac events, functional status and change in heart failure biomarkers. The subjects will be recruited from 40 centres in the US and Europe and trial results are expected in H220. We expect potential partnership discussions for firibastat in heart failure to intensify once the QUORUM study results are out. We do not believe that licensing agreements for hypertension will necessarily preclude separate agreements for heart failure, as the product may have different formulations and dosages in the two indications.

Valuation

Our valuation is €909m or €51.80 per share compared to €909m or €53.01 per share previously. We have not adjusted our model following the Biolab Sanus collaboration as the breakout of upfront versus milestone payments was not disclosed. Our per-share value fell slightly due to a higher number of shares.

Exhibit 1: Quantum Genomics valuation

Product	Main indication	Local	Status	Prob. of success	Launch year	Peak sales ($m)	Patent protection	rNPV (€m)
Firibastat (QGC001)	Hypertension	US	Phase III	50%	2023	1,110	2031	468.17
Firibastat (QGC001)	Hypertension	Europe	Phase III	50%	2023	959	2031	397.21
Firibastat (QGC001)	Development costs							(148.70)
Firibastat (QGC001)	Heart failure	US	Phase IIb	20%	2023	574	2031	119.54
Firibastat (QGC001)	Heart failure	Europe	Phase IIb	20%	2023	687	2031	141.84
Firibastat (QGC001)	Development costs							(80.82)
Total								**897.25**
Net cash (30 June 2019) (€m)								11.57
Total firm value (€m)								908.82
Total shares (30 November 2019) (m)								17.54
Value per basic share (€m)								**51.80**

Source: Edison Investment Research

Financials

Quantum had €11.6m in cash and investments at the end of H119. In March 2018, it announced an equity line of credit with Kepler Cheuvreux and has approximately €5.8m of the original €24m line remaining after drawing down an additional €3.4m during the first half of the year. The company stated in October that it believes its available cash and equity line will be enough to fund the company for the next 12 months. We model (as illustrative long-term debt) that the company will have used the remainder of the available credit line in 2019 and will raise an additional €17.5m in 2020 (which we have not reduced following the Biolab Sanus partnership as the upfront payment was not disclosed).

Exhibit 2: Financial summary

€000s	2017	2018	2019e	2020e
Year end 31 December	PCG	PCG	PCG	PCG
PROFIT & LOSS				
Revenue	0	0	0	0
Cost of Sales	0	0	0	0
Gross Profit	0	0	0	0
EBITDA	(10,292)	(13,598)	(16,507)	(20,704)
Operating Profit (before amort. and except.)	(10,292)	(13,598)	(16,507)	(20,704)
Intangible Amortisation	0	0	0	0
Other	0	0	6	0
Exceptionals	0	0	0	0
Operating Profit	(10,292)	(13,598)	(16,507)	(20,704)
Net Interest	0	0	(468)	(1,868)
Other	(239)	150	310	0
Profit Before Tax (norm)	(10,292)	(13,598)	(16,976)	(22,572)
Profit Before Tax (FRS 3)	(10,531)	(13,448)	(16,666)	(22,572)
Tax	1,150	1,458	2,167	2,934
Deferred tax	0	0	0	0
Profit After Tax (norm)	(9,142)	(12,140)	(14,809)	(19,638)
Profit After Tax (FRS 3)	(9,381)	(11,990)	(14,499)	(19,638)
Average Number of Shares Outstanding (m)	9.9	12.8	17.0	17.7
EPS - normalised (€)	(0.93)	(0.94)	(0.87)	(1.11)
EPS - FRS 3 (€)	(0.95)	(0.94)	(0.85)	(1.11)
Dividend per share (c)	0.0	0.0	0.0	0.0
BALANCE SHEET				
Fixed Assets	439	626	940	961
Intangible Assets	91	0	260	260
Tangible Assets	52	24	34	55
Other	296	602	646	646
Current Assets	13,478	17,855	11,070	8,912
Stocks	189	422	422	422
Debtors	2,197	2,636	3,461	3,461
Cash	11,089	14,797	7,055	4,897
Other	3	0	132	132
Current Liabilities	(4,572)	(5,764)	(4,577)	(4,577)
Creditors	(4,571)	(5,762)	(4,576)	(4,576)
Short term borrowings	(1)	(2)	(1)	(1)
Long Term Liabilities	(474)	(849)	(6,705)	(24,205)
Long term borrowings	(19)	(12)	(5,853)	(23,353)
Other long term liabilities	(454)	(837)	(852)	(852)
Net Assets	8,871	11,868	729	(18,909)
CASH FLOW				
Operating Cash Flow	(7,977)	(10,901)	(16,774)	(19,630)
Net Interest	0	0	0	0
Tax	0	0	0	0
Capex	32	(16)	(29)	(29)
Acquisitions/disposals	0	0	0	0
Financing	7,733	15,071	3,360	0
Dividends	0	0	0	0
Other	104	(446)	(99)	0
Net Cash Flow	(108)	3,708	(13,542)	(19,659)
Opening net debt/(cash)	(11,179)	(11,069)	(14,783)	(1,201)
HP finance leases initiated	0	0	0	0
Exchange rate movements	0	0	0	0
Other	(2)	6	(40)	0
Closing net debt/(cash)	(11,069)	(14,783)	(1,201)	18,457

Source: Quantum Genomics accounts, Edison Investment Research

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia