

Nicox

Financing update

Funded through key milestones

Nicox announced on 9 December that it has raised €15m in gross proceeds (€13.7m net) through a private placement and restructured its bond financing agreement with Kreos Capital. Management expects these initiatives to extend Nicox's cash runway to Q423, and thus comfortably past the top-line Mont Blanc Phase III study data readout for NCX-470 in glaucoma, expected in Q123. We expect the Mont Blanc data release to be a potential key catalyst for the company. The improved funding visibility through this milestone helps reduce a financial overhang and may draw investors' attention more strongly towards NCX-470's opportunity as a potential best-in-class single-agent glaucoma therapy.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	8.3	(16.0)	(0.40)	0.0	N/A	N/A
12/20	14.4	(10.2)	(0.30)	0.0	N/A	N/A
12/21e	5.8	(20.6)	(0.51)	0.0	N/A	N/A
12/22e	9.0	(16.2)	(0.37)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Normalised 2020 figures differ from reported amounts primarily due to the €6.9m loss reported following the divestment of Nicox's holdings in VISUfarma.

Review of key financing terms

The equity financing consisted of a private placement of 6m shares at €2.50 per share, with attached warrants for up to €5.1m additional shares at €3.21 per share. The Kreos amendment allows Nicox to reduce its cash-out over the next two years by €10.4m compared to its previous agreement largely by extending the interest-only portion of 70% of the loan to July 2023 (from January 2022). The overall loan maturity was also extended by c 18 months to early 2026.

Strengthened funding runway

Nicox reported cash and equivalents of €31.6m and debt excluding lease liabilities of c €18.1m at 31 October. Given the €13.7m net equity raise and €0.34m in debt restructuring commissions, we calculate a pro forma net cash position of €26.9m (gross cash of €45.0m). We believe Nicox has sufficient funds to operate into 2024 and it will need to raise an additional €45m (down from €55m previously), modelled as illustrative debt, before potentially launching NCX-470 in H225.

Valuation: Higher rNPV but reduced value per share

After rolling forward our estimates and adjusting forex assumptions, we now obtain a €294.0m rNPV valuation (vs €282.8m previously). After adding pro-forma net cash of €26.9m described above, we obtain an equity value of €320.9m, or €7.44 per basic share. This is lower than our prior per-share valuation of €8.00 due to the increased shares outstanding following the equity offering. After considering the potential dilutive effect of options, warrants and convertible debt and their effects on net cash, our fully diluted valuation becomes €6.68 per fully diluted share.

Pharma & biotech

16 December 2021

Price €2.56

Market cap €110m

\$1.13/€

Pro-forma net cash (€m) at 31 October 2021 (post-financing) 26.9

Shares in issue 43.1m

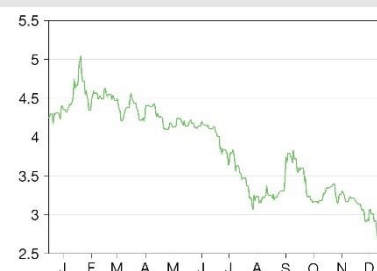
Free float 98%

Code COX

Primary exchange Euronext

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (20.0) (29.0) (39.7)

Rel (local) (17.3) (31.8) (50.9)

52-week high/low €5.04 €2.56

Business description

Based in France, Nicox develops therapeutics for the treatment of ocular conditions. Lead development candidate NCX-470 is in Phase III studies for the treatment of glaucoma. Nicox also receives licence revenue from its partners for its FDA-approved drugs Vyzulta and Zerviate.

Next events

Mont Blanc Phase III NCX-470 top-line results Q123

Denali Phase III NCX-470 confirmatory study top-line results 2023

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Capital raise and debt restructuring extend runway

On [9 December](#) Nicox announced it has raised €15m in gross proceeds (€13.7m net) through a private placement of shares (and attached warrants) and it restructured its bond financing agreement with Kreos Capital. Excluding any potential proceeds from the exercise of the warrants, management expects these initiatives to extend Nicox's cash runway to Q423, and thus comfortably past the top-line [Mont Blanc](#) Phase III study data readout for NCX-470 in glaucoma, expected in Q123.

As a reminder, lead candidate NCX-470 is based on the company's proprietary nitric oxide (NO)-donating platform, which combines an NO-donating molecule with an analogue of established prostaglandin F2α (PGA) drug bimatoprost, thereby providing an additional mechanism for the drug to reduce intraocular pressure (IOP). We continue to forecast potential NCX-470 commercialisation in H225.

Review of terms of equity issue and Kreos debt restructuring

The equity financing consisted of a private placement of 6m shares at €2.50 per share, with attached share purchase warrants included that permit the purchase of €5.1m additional shares for up to five years at an exercise price of €3.21 per share purchase warrant. The full exercise of these attached share purchase warrants would provide €16.4m in additional proceeds.

The company indicates the full proceeds of the private placement will be allocated to NCX 470 development. Approximately 40% will be applied to complete the Mont Blanc trial, c 33% to continue to progress the [Denali](#) NCX-470 confirmatory Phase III trial (study completion still guided before YE23), and c 27% to fund certain pharmaceutical activities (stability and manufacturing validation) required in preparation for the New Drug Application (NDA) filing with the US FDA if Phase III study data are positive. If the warrants are exercised, which we believe would be likely in the event of positive Phase III data, the company believes the received proceeds should be sufficient to complete the US NDA and finance pre-commercial activities ahead of potential launch.

As it relates to the company's debt financing agreement with Kreos Capital, the company had €16.1m in outstanding debt with Kreos as of end-October and was scheduled to only pay interest on the loan until January 2022, and then start paying principal and interest thereafter in order to fully repay the loan by July 2024. As part of the restructuring, 70% of the company's Kreos debt¹ will be restructured to remain interest-only until July 2023 (vs January 2022 previously) and this portion's maturity will be extended to January 2026; the interest rate remains unchanged at 9.25%. For the remaining 30% of the Kreos loan (€5.1m), €3.3m will be structured as convertible bonds (at 9.25% interest rate) maturing in January 2026 and convertible to Nicox shares at €3.67/share, and €1.8m will be structured similarly (ie same rate and maturity) but will not be convertible to Nicox shares. Nicox will also pay a restructuring commission of €0.34m to Kreos.

Financials

Nicox reported cash and equivalents of €31.6m (excluding the proceeds of the equity financing) as of 31 October and outstanding debt of €19.4m (consisting of the €16.1m Kreos loan, a €2m French-state guaranteed credit agreement with Société Générale and Le Crédit Lyonnais and €1.3m in lease liabilities). Given the €13.7m net proceeds from the equity offering and after considering the

¹ Total Kreos calculated debt at €16.9m by excluding the pre-payments Nicox had made; this explains why this amount (€16.9m) differs from the company's IFRS reporting of the Kreos debt on its balance sheet.

€0.34m restructuring commission, we calculate a pro forma net cash position of €26.9m as of 31 October (gross cash of €45.0m).

Following the equity issue and Kreos bond restructuring, we now estimate the company's cash on hand should be sufficient to maintain operations into 2024. Our financial model no longer assumes a €10m fundraise in 2022, but we believe it will need to raise an additional €45m (down from €55m previously), before potentially launching NCX-470 for the treatment of elevated IOP in patients with glaucoma. We assume the company will raise €10m in 2023, €20m in 2024 and €15m in 2025 (all these fundraisings are modelled as illustrative debt). Our projections do not include any potential proceeds from the exercise of options or warrants, which if exercised, would lower our funding forecasts accordingly.

Following the anticipated NCX-470 launch in H225, we do not expect Nicox to require additional capital as we expect its royalty streams plus NCX-470 sales should enable it to start achieving consistent positive operating income starting in H226.

Valuation

We have made minor adjustments to our rNPV valuation for Nicox by rolling forward our estimates and adjusting forex assumptions (we now assume \$1.13/€ vs \$1.16/€ previously). Our local-currency sales and profitability forecasts are unchanged, although we did increase our FY21 net financial expense by €0.34m to consider the restructuring commission paid to Kreos.

Exhibit 1: Nicox SA rNPV assumptions

Product contribution	Indication	Stage	NPV (€m)	Probability of success	rNPV (€m)	rNPV/basic share (€)	Launch year	Peak sales (€m) in 2031
NCX-470 (net of R&D and SG&A costs) in US Market	Glaucoma	Phase III ongoing	332.1	50%	158.8	3.68	H225	336
NCX-470 (net of R&D and SG&A costs) in Europe and unpartnered regions	Glaucoma	Phase III	162.2	35%	54.0	1.25	2027	171
NCX-470 license fees from Ocumension (China and other)	Glaucoma	Phase III ongoing	9.3	50%	4.5	0.10	2024	3.1*
NCX-4251 (net of R&D and SG&A costs) sales and license fees/royalties	Acute blepharitis	Phase IIb ongoing	47.4	30%	9.3	0.22	2026	55.4
Vyzulta royalties from Bausch & Lomb	Glaucoma	Commercial	99.2	100%	99.2	2.30	2017	21.2*
Zerviate royalties from Eyevance and others	Allergic conjunctivitis	Commercial	21.8	100%	21.8	0.51	2020	5.5*
Corporate costs			(53.6)	100%	(53.6)	(1.24)		
Total			618.5		294.0	6.82		
Net cash (Oct 2021 pro forma) excluding lease liabilities			26.9		26.9	0.62		
Total equity value			645.3		320.9	7.44		
Basic shares outstanding (000)			43,138					
Outstanding options and warrants and convertible debt adjustments (000)			8,058					
FD shares outstanding (000)			51,197					

Source: Edison Investment Research. Note: *Reflects net license and royalties received by Nicox and not commercial sales by licensee.

We now obtain a €294.0m rNPV valuation for Nicox (vs €282.8m previously). After updating for pro-forma October 2021 net cash of €26.9m described above, we obtain an equity value of €320.9m, or €7.44 per basic share. This is lower than our prior per-share valuation of €8.00 due to the added shares outstanding following the equity financing. After considering the potential dilutive effect of options, warrants and convertible debt and their effects on net cash, our fully diluted valuation would be €6.68 per fully diluted share.

Exhibit 2: Financial summary

	€'000s	2018	2019	2020	2021e	2022e	2023e	2024e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		4,717	8,260	14,423	5,761	9,010	11,709	21,648
Cost of Sales		(690)	(1,405)	(1,516)	(1,681)	(2,349)	(3,029)	(5,606)
Gross Profit		4,027	6,855	12,907	4,080	6,661	8,680	16,042
General & Administrative		(9,506)	(7,666)	(6,677)	(6,520)	(6,751)	(10,044)	(18,213)
Net Research & Development		(15,491)	(16,883)	(11,991)	(17,731)	(15,150)	(15,550)	(11,350)
Amortisation of intangible assets		0	(659)	(1,252)	(1,184)	(1,178)	(1,157)	(1,136)
Operating profit before exceptionals		(20,970)	(18,353)	(7,013)	(21,355)	(16,418)	(18,072)	(14,657)
EBITDA		(20,718)	(17,230)	(5,270)	(19,795)	(14,946)	(16,633)	(13,206)
Depreciation & other		(252)	(464)	(491)	(376)	(293)	(282)	(315)
Operating Profit (before amort. and except.)		(20,970)	(17,694)	(5,761)	(20,171)	(15,240)	(16,914)	(13,521)
Exceptionals including asset impairment		302	(6,115)	(6,621)	(18)	0	0	0
Other		0	0	0	0	0	0	0
Operating Profit		(20,668)	(23,809)	(12,382)	(20,189)	(15,240)	(16,914)	(13,521)
Net Interest		2,390	1,690	(4,436)	(415)	(937)	(1,169)	(2,150)
Profit Before Tax (norm)		(18,580)	(16,004)	(10,197)	(20,586)	(16,177)	(18,084)	(15,671)
Profit Before Tax (FRS 3)		(18,278)	(22,778)	(18,070)	(21,788)	(17,355)	(19,241)	(16,808)
Tax		(113)	3,856	(28)	24	0	0	0
Profit After Tax and minority interests (norm)		(18,693)	(12,148)	(10,225)	(20,562)	(16,177)	(18,084)	(15,671)
Profit After Tax and minority interests (FRS 3)		(18,391)	(18,922)	(18,098)	(21,764)	(17,355)	(19,241)	(16,808)
Average Basic Number of Shares Outstanding (m)		29.6	30.3	33.7	40.1	43.4	43.7	44.1
EPS - normalised (€)		(0.63)	(0.40)	(0.30)	(0.51)	(0.37)	(0.41)	(0.36)
EPS - normalised and fully diluted (€)		(0.63)	(0.40)	(0.30)	(0.51)	(0.37)	(0.41)	(0.36)
EPS - (IFRS) (€)		(0.62)	(0.62)	(0.54)	(0.54)	(0.40)	(0.44)	(0.38)
Dividend per share (€)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET								
Fixed Assets		112,498	110,660	89,745	91,247	90,022	88,876	87,966
Intangible Assets		71,397	72,120	64,848	65,759	64,580	63,423	62,287
Tangible Assets		25,628	27,517	24,829	25,419	25,373	25,384	25,610
Investments in long-term financial assets		15,473	11,023	68	69	69	69	69
Current Assets		26,092	32,146	52,521	48,589	33,775	25,399	29,104
Short-term investments		0	0	0	0	0	0	0
Cash		22,059	28,102	47,195	43,075	27,796	18,685	22,205
Other		4,033	4,044	5,326	5,514	5,979	6,714	6,899
Current Liabilities		(8,069)	(9,828)	(15,405)	(15,106)	(14,939)	(13,144)	(11,202)
Creditors		(8,069)	(7,751)	(10,116)	(12,497)	(12,330)	(10,535)	(8,593)
Short term borrowings		0	(2,077)	(5,289)	(2,609)	(2,609)	(2,609)	(2,609)
Long Term Liabilities		(16,868)	(23,681)	(26,051)	(29,105)	(29,105)	(39,105)	(59,105)
Long term borrowings		0	(9,045)	(12,687)	(15,368)	(15,368)	(25,368)	(45,368)
Other long-term liabilities		(16,868)	(14,636)	(13,364)	(13,737)	(13,737)	(13,737)	(13,737)
Net Assets		113,653	109,297	100,810	95,625	79,754	62,027	46,763
CASH FLOW								
Operating Cash Flow		(21,533)	(17,741)	(956)	(16,932)	(14,095)	(17,649)	(13,788)
Net interest and financing income (expense)		2,390	1,690	(4,436)	(415)	(937)	(1,169)	(2,150)
Tax		0	0	0	0	0	0	0
Capex		(268)	(95)	(20)	(118)	(247)	(293)	(541)
Acquisitions/disposals		0	0	0	0	0	0	0
Financing		0	11,290	13,321	13,536	0	0	0
Dividends		0	0	0	0	0	0	0
Net Cash Flow		(19,411)	(4,856)	7,909	(3,929)	(15,279)	(19,111)	(16,480)
Opening net debt/(cash)		0	(37,532)	(28,003)	(29,287)	(25,167)	(9,888)	9,223
HP finance leases initiated		0	0	0	0	0	0	0
Other		56,943	(4,673)	(6,625)	(191)	0	0	0
Closing net debt/(cash)		(37,532)	(28,003)	(29,287)	(25,167)	(9,888)	9,223	25,703
Lease debt		N/A	1,527	1,099	971	971	971	971
Closing net debt/(cash) inclusive of IFRS 16 lease debt		(37,532)	(26,476)	(28,188)	(24,196)	(8,917)	10,194	26,674

Source: Company reports, Edison Investment Research

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