

Quantum Genomics

Development update

An accelerated pace of partnership agreements

Quantum Genomics continues to sign partnership deals for fribastat in difficult-to-treat/treatment-resistant hypertension, including two in the month of October. One of the agreements is with Qilu Pharmaceutical for the Greater China region, Hong Kong and Macau while the other is with Xediton Pharmaceuticals for Canada. Quantum Genomics announced its first partnership, with Biolab Sanus covering Latin America, in December 2019 and one covering South East Asia, Australia and New Zealand with Orient Europharma (OEP) in September. We expect additional agreements to be announced in the coming months, potentially covering the US and EU markets.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/18	0.0	(13.6)	(0.94)	0.0	N/A	N/A
12/19	0.0	(10.8)	(0.53)	0.0	N/A	N/A
12/20e	0.0	(15.6)	(0.64)	0.0	N/A	N/A
12/21e	0.0	(21.6)	(0.84)	0.0	N/A	N/A

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

Qilu agreement for Greater China

Quantum Genomics has signed a licensing and collaboration agreement with Qilu Pharmaceutical covering Greater China, Hong Kong and Macau. As part of the agreement, Quantum Genomics will receive upfront and milestone payments of up to US\$50m and double-digit royalties. Importantly, Qilu plans to join the Phase III programme in hypertension, which will enable recruitment in the region.

A Canadian deal with Xediton

Xediton Pharmaceuticals signed an agreement to develop and commercialise fribastat in Canada. As part of the agreement, Quantum Genomics will receive up to US\$11.35m in upfront and milestone payments as well as double-digit royalties.

Additional agreements likely to be announced soon

There are now four regional agreements in place covering fribastat for difficult-to-treat/treatment-resistant hypertension. However, the company has yet to license the candidate for either the major EU or US regions for hypertension, nor any region for heart failure. Based on recent management comments, we would expect additional licensing announcements in the near term.

Valuation: €1,030m or €46.34 per share

We have slightly adjusted our valuation to €1,030m or €46.34 per share from €1,028m or €47.63 per share. The higher total valuation is due to increased net cash as the short-term debt owed to Negma Group has been repaid in warrants, which were exercised. The lower per share value is due to an increased share count. We have not adjusted the valuation for the licensing deals as the specific upfront payments have not been disclosed. We may increase our probability of success in the future depending on the size and scope of future agreements.

Pharma & biotech

16 November 2020

Price €4.99

Market cap €111m

Net cash (€m) at 30 June 2020 + financing 15.1

Shares in issue 22.2m

Free float 80%

Code ALQGC

Primary exchange Euronext Paris

Secondary exchange OTCQX

Share price performance



%	1m	3m	12m
Abs	61.3	85.0	57.8
Rel (local)	48.9	73.5	72.2
52-week high/low		€4.99	€1.88

Business description

Quantum Genomics is a biopharmaceutical company developing fribastat, 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 initiated recently. A Phase IIb study in heart failure is currently enrolling patients.

Next events

Additional partnerships	2020/21
QUORUM heart failure enrolment completion	YE20

Analysts

Maxim Jacobs	+1 646 653 7027
Nathaniel Calloway	+1 646 653 7036

healthcare@edisongroup.com
[Edison profile page](#)

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Two additional partnerships and more to come

Quantum Genomics continues to sign licensing agreements for fribastat in difficult-to-treat/treatment-resistant hypertension. One of the recently announced partnerships is with Qilu Pharmaceutical for the Greater China region, Hong Kong and Macau. As part of the agreement, Quantum Genomics will receive upfront and milestone payments of up to US\$50m and double-digit royalties. Importantly, Qilu plans to join the Phase III programme in difficult-to-treat/treatment-resistant hypertension, which will enable recruitment in the region. Qilu is an established vertically integrated company that develops, manufactures and commercialises novel pharmaceuticals and biologics along with generics and biosimilars. Qilu has 23,000 employees worldwide spread across 12 subsidiaries and 10 manufacturing sites. The company has launched over 200 products and had revenue of over US\$3.3bn in 2019.

Additionally, Xediton Pharmaceuticals has signed an agreement with Quantum Genomics to develop and commercialise fribastat in Canada. As part of the agreement, Quantum Genomics will receive up to US\$11.35m in upfront and milestone payments as well as double-digit royalties.

In September Quantum Genomics announced it had signed a licensing and collaboration agreement with OEP to develop and commercialise fribastat for difficult-to-treat/treatment-resistant hypertension in South East Asia (specifically, Taiwan, Malaysia, the Philippines, Singapore, Vietnam, Indonesia, Myanmar and Cambodia), Australia and New Zealand. As part of the agreement, Quantum Genomics will receive US\$19m in upfront and milestone payments as well as double-digit royalties. Additionally, OEP will fund part of the Phase III programme in difficult-to-treat/treatment-resistant hypertension patients in Taiwan. OEP has over 1,000 employees worldwide (40% of which are outside of Taiwan) and had revenues of NT\$6.1bn (over US\$200m) in 2019.

Previously, in December 2019, Quantum Genomics had announced it has licensed fribastat for the treatment of hypertension 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. In 2019 it had revenues of around US\$600m. As part of the agreement, Biolab Sanus is obligated to pay US\$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 are expected to account for around 20% of the patients enrolled in the Phase III FRESH trial.

There are now four regional agreements in place covering fribastat for difficult-to-treat/treatment-resistant hypertension. However, the company has yet to license the candidate in either the major EU or US regions for hypertension, nor any region for heart failure. Based on management comments on our [Edison Talks podcast](#), we would expect additional licensing announcements in the near term.

Valuation

We have slightly adjusted our valuation to €1,030m or €46.34 per share from €1,028m or €47.63 per share due. The higher total valuation is due to higher net cash as the short-term debt owed to Negma Group (around €1.7m was owed as of the end of September) has been repaid in shares. The lower per share value is due to an increased share count. We have not adjusted the valuation for the licensing deals as the specific upfront payments have not been disclosed. We may increase our probability of success in the future depending on the size and scope of future agreements.

Exhibit 1: Quantum Genomics valuation table

Product	Main Indication	Local	Status	Prob. of success	Launch year	Peak sales (US\$m)	Patent protection	rNPV (€m)
Firibastat (QGC001)	Hypertension	US	Phase III	50%	2023	1,110	2031	526.69
Firibastat (QGC001)	Hypertension	Europe	Phase III	50%	2023	959	2031	446.86
Firibastat (QGC001)	Development costs							(164.06)
Firibastat (QGC001)	Heart failure	US	Phase IIb	20%	2023	574	2031	134.49
Firibastat (QGC001)	Heart failure	Europe	Phase IIb	20%	2023	687	2031	159.57
Firibastat (QGC001)	Development costs							(88.61)
Total								1,014.94
Pro forma net cash (30 June 2020 + financing) (€m)								15.13
Total firm value (€m)								1,030
Total shares (31 October 2020) (m)								22.23
Value per basic share (€)								46.34

Source: Edison Investment Research

Financials

Quantum had €13.2m in cash and investments and €2.4m in debt at the end of H120. The company raised €1.7m through an equity line of credit with Kepler Cheuvreux in March and €6m through its Negma Group financing arrangement in the first half. It raised an additional €2m from Negma after the end of H120, bringing the total raised from that financial group to €8m, all of which has now been repaid. The Negma financings were loans that were repaid with warrants that were then exercised by Negma.

The company has stated it has cash to Q321. We forecast €28m in additional financing to the end of 2021, which we model as illustrative debt. The need for additional funding past this point will depend on the FRESH data and the company's ability to sign additional licensing agreements.

Exhibit 2: Financial summary

	€000s	2018	2019	2020e	2021e
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		(13,598)	(10,760)	(15,617)	(21,572)
Operating Profit (before amort. and except.)		(13,598)	(10,760)	(15,617)	(21,572)
Intangible Amortisation		0	0	0	0
Other		0	(0)	15	0
Exceptionals		0	0	0	0
Operating Profit		(13,598)	(10,760)	(15,617)	(21,572)
Net Interest		0	0	0	0
Other		150	134	17	0
Profit Before Tax (norm)		(13,598)	(10,760)	(15,617)	(21,572)
Profit Before Tax (FRS 3)		(13,448)	(10,626)	(15,601)	(21,572)
Tax		1,458	1,547	2,028	2,804
Deferred tax		0	0	0	0
Profit After Tax (norm)		(12,140)	(9,213)	(13,589)	(18,768)
Profit After Tax (FRS 3)		(11,990)	(9,078)	(13,572)	(18,768)
Average Number of Shares Outstanding (m)		12.8	17.5	21.2	22.4
EPS - normalised (c)		(93.94)	(52.69)	(64.07)	(83.78)
EPS - FRS 3 (€)		(0.94)	(0.52)	(0.64)	(0.84)
Dividend per share (c)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		626	884	968	960
Intangible Assets		0	360	360	360
Tangible Assets		24	27	107	99
Other		602	497	501	501
Current Assets		17,855	14,222	18,922	20,162
Stocks		422	333	1,070	1,070
Debtors		2,636	2,486	3,163	3,163
Cash		14,797	11,164	14,456	15,696
Other		0	239	232	232
Current Liabilities		(5,764)	(4,061)	(5,057)	(5,057)
Creditors		(5,762)	(4,060)	(5,057)	(5,057)
Short term borrowings		(2)	(1)	0	0
Long Term Liabilities		(849)	(874)	(8,755)	(28,755)
Long term borrowings		(12)	(6)	(8,061)	(28,061)
Other long term liabilities		(837)	(869)	(695)	(695)
Net Assets		11,868	10,171	6,078	(12,690)
CASH FLOW					
Operating Cash Flow		(10,901)	(10,665)	(14,324)	(18,742)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(16)	(118)	(18)	(18)
Acquisitions/disposals		0	0	0	0
Financing		15,071	7,382	5,293	0
Dividends		0	0	0	0
Other		(446)	(232)	(9)	0
Net Cash Flow		3,708	(3,633)	(9,058)	(18,760)
Opening net debt/(cash)		(11,069)	(14,783)	(11,157)	(6,396)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		6	7	4296	0
Closing net debt/(cash)		(14,783)	(11,157)	(6,396)	12,364

Source: company 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
1185 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