

# Pharnext

FY22 update

## Improving FY23 financial footing

Pharnext's FY22 results covered an eventful period marked by efforts to bolster its financial position to see it through to top-line readouts of its potentially first-in-class Phase III asset, PXT3003. FY22 also saw Pharnext strengthen its ties with Neovacs (following a strategic €20.7m debt funding agreement in September 2022 and a €24m debt commitment in January 2023), culminating in a revised legal framework with Neovacs's CEO Hugo Brugière at the helm. The FY22 operating costs were higher than our estimates, particularly admin expenses (€7.4m vs our estimate of €5.2m), resulting in an EBITDA loss of €27.2m. The end-FY22 gross cash balance was €0.6m, which should be supported by the €4m available for drawdown from the original Neovacs agreement in 2023. We estimate that Pharnext will need to raise another €22m in FY23 (potentially from the January Neovacs facility). Our revised valuation is €213.9m (from €217m). Our per-share valuation re-adjusts to €309.6/share based on the post 1:10,000 consolidation shares outstanding (691k at 10 May 2023).

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (c)	P/E (x)	Yield (%)
12/21	3.6	(30.6)	(1.0)	0.00	N/A	N/A
12/22	2.3	(38.5)	(0.2)	0.00	N/A	N/A
12/23e	1.9	(24.7)	(35.8)**	0.00	N/A	N/A
12/24e	8.9	(13.2)	(19.1)**	0.00	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*Adjusted for 1:10,000 stock consolidation.

## FY22 opex slightly ahead of expectations

FY22 revenue was reported at c €2.3m (FY21: €3.6m), mostly attributable to subsidies and R&D tax credits. Operating loss (€27.8m) and net loss (€38.4m) were above our estimates of €25.4m and €31.7m, respectively, due to higher-than-expected admin expenses and one-off non-cash financing expenses (€9.2m) linked to the treatment under IFRS of the penalties related to conversion of the OCEANE BSA tranches. Net cash outflow from operations was €25.3m versus our expectation of €22.4m. We have made slight adjustments to our estimates to reflect FY22 performance and near-term operational visibility.

## Neovacs support provides headroom to readouts

While Pharnext has €26m in available funding from the OCEANE-BSA convertible debt facility, drawdown is subject to restrictive covenants (eg maintaining a market cap of >€2m). We therefore anticipate that Pharnext will need to add support from the up to €2/month in additional debt funding from Neovacs in FY23. We note that the ongoing OCEANE-BSA and Neovacs warrant conversions continue to weigh on the stock price, and Pharnext undertook a 1:10,000 share consolidation as a tool to restrict the number of shares outstanding and consolidate holdings. The stock commenced trading on a post-consolidation basis on 10 May 2023.

## Valuation: €213.9m or €309.6 per basic share

We adjust our estimates for the FY22 performance (assuming a late 2024 launch for PXT3003), pro-forma net debt figure (€17.8m) and the post 1:10,000 consolidation shares outstanding as of 10 May (0.691m). Our overall valuation is now €213.9m (from €217m) or €309.6/share (from €0.25, based on 875.2m shares outstanding per our [last note](#)). We expect further dilution with additional debt conversions.

## Pharma and biotech

22 May 2023

**Price** €0.74

**Market cap** €0.51m

US\$1.10/€

Pro-forma net debt (€m) at 31 December 2022 17.8

Shares in issue (at 10 May 2023) 691k

Free float N/A

Code ALPHA

Primary exchange Euronext Paris

Secondary exchange OTC Pink

## Business description

Pharnext is an advanced clinical-stage biopharmaceutical company developing novel therapies for neurodegenerative diseases lacking curative and/or disease-modifying treatments. Its lead programme is PXT3003 for Charcot-Marie-Tooth disease type 1A and is currently in advanced Phase III clinical trials, with top-line data expected in Q423. PXT3003 originated from Pharnext's Pleotherapy R&D approach.

## Next events

Six-year data from open-label PLEO-CMT-FU extension trial Q223

Conclusion of PREMIER trial Q423

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## Financials

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### Estimate revisions

Pharnext's FY22 revenue was in line with our expectations (€2.3m against our expectation of €2.4m) and almost entirely attributable to government subsidies and R&D tax credits. The reported operating loss was €27.8m, ahead of our estimate of €25.4m and 22% higher than the FY21 figure of €22.9m. This difference is attributed to higher than anticipated administrative expenses (€7.4m versus our expectation of €5.2m; FY21: €4.7m). R&D and marketing expenses were largely stable (€20.6m and €2.1m, respectively) and in line with our estimates of €20.5m and €2.1m, respectively. The R&D expense accounted for 68% of the company's operating expenses for the period (versus 74% in FY21), driven by the ongoing pivotal PREMIER Phase III trial. We expect this trend to continue until the conclusion and final readouts from the PREMIER study in Q423 and decline sharply thereafter. In contrast, we expect marketing expenses to rise materially in FY24 given the anticipated focus on commercialisation efforts, if top-line data are positive. We have adjusted our operating expense expectations for FY23 to reflect the trend in FY22, increasing our forecasts for administrative expenses (to €6.7m from €5.7m previously) and reducing our R&D forecasts (to €16.9m from €21.0m previously). We have also cut our marketing expense estimate (to €2.1m from €4.2m) as we now expect sales and marketing efforts to only commence from FY24. We now introduce FY24 estimates, projecting revenue of €8.9m (assuming PXT3003 is launched in Q424), gross profit of €8.1m and total operating expenses of €19.0m (R&D: €4.4m, administrative: €7.0m and marketing: €7.6m). Our FY23 and FY24 projections for normalised operating loss are €23.9m and €11.0m, respectively.

### Committed funding provides operational headroom

The company ended FY22 with net debt of €21.1m (€0.6m cash and €21.8m in debt). The debt includes €17.2m related to the Neovacs convertible bonds (due in 2027), €3.3m related to the non-converted portion of the OCEANE-BSA facility (likely to be converted to shares in FY23 given that the owner has historically been converting its positions to equity) and €1.2m in repayable advances. We note that following the company's decision to terminate further development work on the PXT864 programme in Alzheimer's, the €8m in repayable advances linked to the programme stand cancelled. Of the October 2022 Neovacs debt (bonds) funding arrangement worth up to €20.7m, €16.7m has been utilised as of 31 December 2022 (€10.7m in September 2022, €2.5m in both October and November 2022 and €1m in December 2022) and another €1.5m was received across two tranches in February and March (tranches five and six, respectively). We expect Pharnext to utilise the remaining €2.5m by the July 2023 timeline for the loan drawdown. Based on our projections, we calculate that Pharnext will need to raise an additional €22m in H223 and €15m in FY24, before being able to finance operations through internally generated funds (we expect this to happen in FY25, assuming a Q424 launch of PXT3003).

Pharnext holds the option to utilise the remaining €22m available under the OCEANE-BSA facility (tranches 12 and 13 were drawn down between January and March 2023 for total net proceeds of €2m, and a further 11 tranches are available for drawdown until December 2023), although we note that restrictive covenants (in particular the requirement to maintain a market capitalisation of more than €2m over a period of 10 days preceding the payment of each tranche) may act as a hurdle in accessing these funds, at least until Pharnext's market capitalisation comes back in line with the requirements. We therefore expect the company to seek additional support from Neovacs to continue funding operations through to trial completion. As a reminder, in January 2023 Neovacs offered to extend its funding support to cover Pharnext's working capital needs (up to €2m/month

for a total of €24m) until December 2023, past the final data readout for PXT3003 from the pivotal Phase III PREMIER trial. Of this, €990k was received by Pharnext in March 2023.

We note that the original €20.7m funding agreement with Neovacs has associated warrants (termed BSAP) attached (equal to 50% of Pharnext's total outstanding shares at the time of issue), which could allow Neovacs to hold up to one-third of Pharnext's fully diluted share capital from 1 January 2024 (the end of the vesting period). The extended €2m/month facility (for a maximum of €24m until December 2023) signed in January 2023 attracts an interest rate of 12-month Euribor +12% (c 16%) and has a maturity date of 30 June 2024. If repayment is not made by that date, the servicing cost increases to 12-month Euribor +20% (c 24%).

## Another round of share consolidation undertaken in May

As noted previously, Pharnext's efforts to secure financing have resulted in sizeable dilution in the last two years. At the time of our [initiation report](#) in September 2020, the share count was 19.2m, which increased to [19.7bn by November 2022](#) before being rebased to 3.9m by the 1:5,000 consolidation effective 23 November 2022. When we last wrote on the company in March 2023, the number of shares in issue was 875.2m (as at 17 February 2023), which has since increased to 6.8bn as at 6 April 2023. This increase reflects the issue of a further c 6.3bn new shares to OCEANE-BSA post the November 2022 consolidation under the terms of the June 2021 convertible funding and 524.4m to Neovacs on the exercise of warrants. The movements are detailed on Pharnext's [website](#). We highlight that of the five OCEANE-BSA tranches drawn down in FY22 (tranches 7 to 11) for total gross proceeds of €15.5m, €3.75m remained outstanding (€3.3m on the balance sheet) for conversion (tranches 11 and 10 partially) as at 31 December 2022. Since then, we believe that both tranches 10 and 11 have been fully converted (according to the latest available information). However, we note that Pharnext has now drawn down tranches 12 and 13 (between January and March 2023) for proceeds of €2m (200 units at par value of €10,000/unit). These tranches are yet to be converted to shares, indicating that further dilution is possible in the near term.

In a bid to restrict the number of shares outstanding and consolidate holdings, on 24 March 2023 Pharnext announced plans to undertake another 1:10,000 share consolidation, with the new shares entering circulation on 10 May (691k shares outstanding post-consolidation). We continue to expect further increases in issued shares from the remaining OCEANE-BSA conversions and warrant exercises by Neovacs, beyond the share consolidation.

## Valuation

We value Pharnext using a risk-adjusted net present value (NPV) methodology, focusing exclusively on its lead Phase III asset, PXT3003, which targets Charcot-Marie-Tooth Disease type 1A (CMT1A), a genetic peripheral nerve disorder that causes progressive muscle weakness. We highlight that the valuation and opinions in this note are based solely on publicly available information.

CMT1A is the most common type of CMT and afflicts more than 150,000 people in the United States and Europe combined (1.5 million people worldwide), with the most severe cases (c 5% of patients) requiring wheelchairs. There are currently no approved drugs, and PXT3003 is the most advanced clinical-stage asset for this indication. PXT3003 targets patients in the mild-to-moderate range (defined as scoring below 20 on the 36-point [Charcot-Marie-Tooth neuropathy score](#)). The latest available data from the PLEO-CMT-FU open-label extension study ([five years of trial time](#)) support this assertion (showing sustained benefit to the 126 CMT1A patients who had chosen to continue on the extension study) and we view the forthcoming six-year data from the extension study (in Q223) as a key catalyst for investor attention.

If clinical development is successful and regulatory approval is achieved, PXT3003 will be the first therapy approved for the indication and will have seven and 10 years of market exclusivity, courtesy of its orphan drug designation, in the United States and Europe, respectively.

Our underlying assumptions related to target markets, population, pricing and peak penetration are unchanged from our last [published report](#). We have made minor adjustments to our estimates to reflect the trends in FY22, rolled forward our model and incorporated the latest pro-forma net debt figure (€17.8m as of 31 December 2022). We adjust our risk-adjusted NPV to €213.9m (from €217m on 6 March 2023). Our per-share valuation resets to €309.6/share due to the lower share count following the 1:10,000 share consolidation (691k shares outstanding as at 10 May 2023) (from €0.25).

While our current per-share valuation is based on 691k shares outstanding as of 10 May 2023, we note that there is likely to be further dilution with additional conversions of the OCEANE-BSA bonds and Neovacs warrants, which means that our per-share valuation will continue to be affected. Assuming that the 200 units issued under tranches 12 and 13 are converted to equity at the current market price of €0.94, Pharnext will have to issue an additional 2.1m shares, resulting in our per-share valuation being revised down to €75.9. Our current valuation is not diluted for any potential equity funding that the company may require to bring development of PXT3003 forward and, according to our methodology, we assume that all development funding is secured via debt. According to our projections, Pharnext would need external funding of €22m in FY23 and another €15m in FY24 before achieving profitability in FY25. If the estimated €15m funding requirement in FY24 is secured through equity issue(s), we estimate that Pharnext will need to issue an additional 16m shares (assuming conversion is effected at the current market price of €0.94). This would reduce our per-share valuation to €12.9, all else being equal.

#### Exhibit 1: Pharnext valuation

Development programme	Indication	Clinical stage	Probability of success	Launch year	Patent/exclusivity protection	Launch pricing (US\$/year)	Peak sales (US\$m)	rNPV (€m)
PXT3003	CMT1A	Phase III	70%	2024	2031–34	55,000	626	231.7
Total								231.7
Pro-forma net cash/(debt) at end FY22* (€m)								(17.8)
Total firm value (€m)								213.9
Total basic shares** (m)								0.691
Value per basic share (€)								309.6

Source: Pharnext reports, Edison Investment Research. Note: \*Adjusted for debt-to-equity conversion of the €3.3m of convertible debt outstanding as at 31 December 2022. \*\*Basic shares outstanding as at 10 May 2023 (post 1:10,000 share consolidation).

Note that our estimates are based on the assumption that Pharnext will self-commercialise PXT3003, once approved. Management had previously indicated that it would seek strategic pharma deals or a capital transaction, which could eventually lead to a takeover of the company.

**Exhibit 2: Financial summary**

€000s	2020	2021	2022	2023e	2024e
	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>					
Revenue	2,810.5	3,564.8	2,257.9	1,850.3	8,949.5
Cost of Sales	0.0	0.0	0.0	0.0	(846.8)
Gross Profit	2,810.5	3,564.8	2,257.9	1,850.3	8,102.8
R&D	(13,548.4)	(19,614.0)	(20,569.2)	(16,860.2)	(4,391.2)
Admin & Marketing	(8,175.6)	(6,807.6)	(9,506.7)	(8,785.7)	(14,640.6)
EBITDA	(18,159.2)	(22,194.5)	(27,238.8)	(23,690.5)	(10,834.4)
Operating profit (before amort. and excepts.)	(18,716.5)	(22,858.9)	(27,889.8)	(23,867.5)	(11,000.9)
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Share-based payments	(197.0)	2.0	71.8	71.8	71.8
Reported operating profit	(18,913.5)	(22,856.9)	(27,818.0)	(23,795.6)	(10,929.1)
Net Interest	(2,650.5)	(7,760.8)	(10,627.9)	(865.7)	(2,202.0)
Joint ventures & associates (post tax)	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	(21,367.0)	(30,619.7)	(38,517.7)	(24,733.2)	(13,202.9)
Profit Before Tax (reported)	(21,564.1)	(30,617.6)	(38,445.9)	(24,661.4)	(13,131.1)
Reported tax	0.0	0.0	0.0	0.0	0.0
Profit After Tax (norm)	(21,367.0)	(30,619.7)	(38,517.7)	(24,733.2)	(13,202.9)
Profit After Tax (reported)	(21,564.1)	(30,617.6)	(38,445.9)	(24,661.4)	(13,131.1)
Minority interests	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	(21,367.0)	(30,619.7)	(38,517.7)	(24,733.2)	(13,202.9)
Net income (reported)	(21,564.1)	(30,617.6)	(38,445.9)	(24,661.4)	(13,131.1)
Average Number of Shares Outstanding (m)	18.2	30.4	231.1	0.7	0.7
EPS - normalised (€)	(1.17)	(1.01)	(0.17)	(35.79)	(19.11)
EPS - normalised fully diluted (€)	(1.17)	(1.01)	(0.17)	(35.79)	(19.11)
EPS - basic reported (€)	(1.18)	(1.01)	(0.17)	(35.69)	(19.00)
Dividend (€)	0.00	0.00	0.00	0.00	0.00
<b>BALANCE SHEET</b>					
Fixed Assets	855.4	906.4	1,454.5	1,349.3	1,254.6
Intangible Assets	7.4	0.2	0.0	0.0	0.0
Tangible Assets	146.3	322.2	1,051.7	946.5	851.9
Investments & other	701.8	584.0	402.8	402.8	402.8
Current Assets	20,398.4	15,545.2	6,400.1	6,506.3	2,924.2
Stocks	0.0	0.0	0.0	0.0	208.8
Debtors	9,320.2	7,577.2	5,804.7	4,756.8	1,471.2
Cash & cash equivalents	11,078.2	7,968.0	595.4	1,749.5	1,244.2
Other	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(15,516.6)	(19,305.3)	(21,167.0)	(19,697.8)	(14,309.5)
Creditors	(11,302.7)	(8,424.1)	(8,525.5)	(7,269.8)	(4,895.9)
Tax and social security	0.0	0.0	0.0	0.0	0.0
Short term borrowings	(3,926.0)	(8,713.2)	(3,313.5)	(3,100.0)	(85.6)
Other	(287.9)	(2,168.0)	(9,328.0)	(9,328.0)	(9,328.0)
Long Term Liabilities	(18,256.2)	(15,003.0)	(19,384.8)	(42,274.8)	(57,189.2)
Long term borrowings	(17,021.3)	(13,199.9)	(18,374.1)	(41,264.1)	(56,178.5)
Other long term liabilities	(1,234.8)	(1,803.1)	(1,010.8)	(1,010.8)	(1,010.8)
Net Assets	(12,519.0)	(17,856.7)	(32,697.3)	(54,117.0)	(67,320.0)
Minority interests	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	(12,519.0)	(17,856.7)	(32,697.3)	(54,117.0)	(67,320.0)
<b>CASH FLOW</b>					
Operating Cash Flow	(17,962.2)	(22,196.5)	(27,310.6)	(23,762.3)	(10,906.3)
Working capital	1,797.7	(905.2)	1,429.9	(207.9)	703.0
Exceptional & other	82.5	(632.9)	541.8	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Net operating cash flow	(16,081.9)	(23,734.7)	(25,338.9)	(23,970.2)	(10,203.2)
Capex	22.0	(46.5)	(0.1)	0.0	0.0
Acquisitions/disposals	(83.4)	72.3	433.7	0.0	0.0
Net interest	(1,622.2)	(1,089.0)	(1,986.3)	(865.7)	(2,202.0)
Equity financing	16,271.7	32,819.3	11,750.0	3,313.5	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other	(199.5)	(4,294.3)	(4,956.2)	0.0	0.0
Net Cash Flow	(1,693.4)	3,727.2	(20,097.8)	(21,522.4)	(12,405.3)
Opening net debt/(cash)	7,156.0	9,869.2	13,945.2	21,092.2	42,614.6
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	(1,019.7)	(7,803.2)	12,950.8	0.0	0.0
Closing net debt/(cash)	9,869.2	13,945.2	21,092.2	42,614.6	55,019.9

Source: Pharnext, Edison Investment Research. Note: Number of shares outstanding of 691k as at 10 May 2023.

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