Cyxone AB

Sweden / Biotechnology
Nasdaq First North
Bloomberg: CYXO SS
ISIN: SE0007815428

Q1 2021 results & pipeline update

RATING	**BUY**
PRICE TARGET	**SEK 16.00**
Return Potential	254.8%
Risk Rating	Speculative

PIPELINE ON TRACK, WARRANT EXERCISE STRENGTHENS FINANCIAL POSITION

Cyxone published Q1/21 results which were slightly better than our expectations. EBIT came in at SEK -8.6m, ahead of our estimate of SEK -9.0m (Q1/20: SEK -10.1m). The cash position amounted to SEK 47.3m (FY/20: SEK 56.3m), which should be sufficient to fund the company into 2022. On 1 June, Cyxone also raised net proceeds of SEK 18.2m from warrant exercise. A total of 5.6m out of 6m TO4 warrants outstanding from the capital increase conducted in November of last year were exercised at a discounted subscription price of SEK 3.24 p/s. The 93.5% exercise rate demonstrates investors' confidence in the company's business prospects. The update on the R&D pipeline was also positive. Recruitment of patients for Rabeximod's phase II study in COVID-19 is progressing well, and the company is on track to report preliminary results by the end of Q3/21. Cyxone additionally entered a collaboration with the leading rheumatology authority Costantino Pitzalis, Professor of Rheumatology at the William Harvey Research Institute, Barts and The London School of Medicine and Dentistry, Queen Mary University of London. He will support Cyxone's recently built team of rheumatology experts on the preparation and conduct of Rabeximod's phase IIb study in rheumatoid arthritis (RA). Rabeximod is on track to start its RA study in H2/21. Cyxone is exploring biomarkers for T20K in multiple sclerosis, which is good news. In parallel, the company plans to determine the optimal formulation for T20K, either oral or subcutaneous, by Q3/21, and begin preparations for manufacturing T20K. Based on this we estimate that the phase I trial will start in FY/22 (FBe old: H2/21). We reiterate our Buy rating and SEK 16.00 price target.

Rabeximod's COVID-19 study in 300 patients is on track to publish results by the end of Q3/21 Patient recruitment has progressed as scheduled despite difficulties at the hospitals due to the pandemic. Cyxone took timely measures to secure recruitment by expanding the number of participating countries and sites. To date, the company has managed to deploy 12 out of 23 planned sites in 5 out of 6 Eastern European countries. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Revenue (SEK m)	0.00	0.00	0.03	0.00	0.00	178.00
Y-o-y growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT (SEK m)	-8.82	-31.78	-35.17	-49.00	-74.15	97.89
EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	55.0%
Net income (SEK m)	-8.82	-31.78	-35.17	-49.00	-74.15	97.89
EPS (diluted) (SEK)	-0.50	-1.41	-0.86	-0.96	-1.17	1.42
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (SEKm)	-43.49	-36.22	-45.06	-72.33	99.51	-67.64
Net gearing	0.0	-81.3%	-86.1%	-84.0%	-73.3%	-94.4%
Liquid assets (SEK m)	33.36	38.72	61.76	56.34	24.60	124.06

RISKS

Risks include, but are not limited to development, regulatory, competition and financing risks.

COMPANY PROFILE

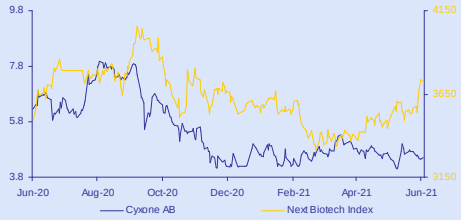
Cyxone AB is a Swedish biotech company focused on the research and development of new drugs to treat autoimmune diseases. The company's proprietary discovery technology is generating drug candidates which belong to a new class of drugs called Cyclotides. Cyxone currently has one drug in a phase I trial for multiple sclerosis and a second drug at the phase II stage for rheumatoid arthritis as well as for COVID-19.

MARKET DATA

As of 14 Jun 2021	
Closing Price	SEK 4.51
Shares outstanding	63.68m
Market Capitalisation	SEK 287.18m
52-week Range	SEK 4.10 / 8.00
Avg. Volume (12 Months)	331,744

Multiples	2020	2021E	2022E
P/E	n.a.	n.a.	3.2
EV/Sales	n.a	n.a.	1.3
EV/EBIT	n.a.	n.a.	2.5
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2021	
Liquid Assets	SEK 47.27m
Current Assets	SEK 48.06m
Intangible Assets	SEK 14.41m
Total Assets	SEK 62.48m
Current Liabilities	SEK 3.99m
Shareholders' Equity	SEK 58.49m

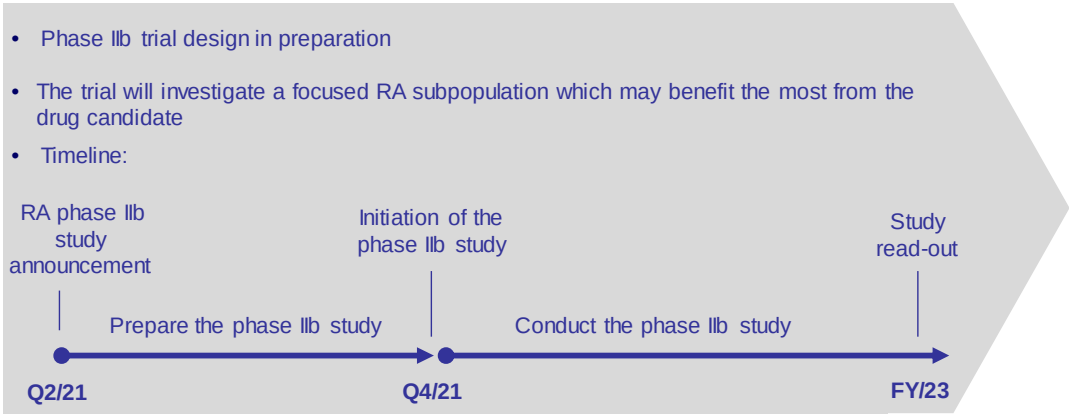
SHAREHOLDERS

Accequa AB	12.1%
Avanza Pension	6.6%
Jan Ivar Nordqvist	4.3%
OxyPharma AB	3.9%
Freefloat and other	73.2%

Analyst: Christian Orquera, Tel. +49 30 80 93 96 93

Collaborating Prof Pitzalis to add new biopsy-driven approach in Rabeximod's phase IIb clinical study in RA As a leading international expert in rheumatology, as well as in biopsy-driven randomised clinical trials (BRCTs), he will add valuable expertise to Cyxone's world-class rheumatologist advisory team. These experts will provide input on the new phase IIb clinical trial design, which we anticipate will include biopsy driven endpoints. Biopsies will demonstrate the action of Rabeximod on immune cells in joints and will provide key biomarkers as early predictors of therapeutic efficacy. According to Cyxone, a recent meeting of the expert advisory team ended with a positive assessment of Rabeximod, viewing it as an ideal alternative to methotrexate as first-line therapy due to its innovative mode of action and excellent side-effect profile. We expect Cyxone to complete the IIb study trial design and to disclose the details during the next few weeks, followed by the initiation of the trial in Q4/21. The study may last close to two years. We anticipate preliminary results in FY/23E.

Figure 1: Roadmap of Rabeximod's phase IIb study in RA



Source: First Berlin Equity Research, Cyxone AB

Partnering discussions underway for the RA programme Cyxone's management confirmed they are currently in conversations with potential partners on a co-development or license agreement for the RA program. Management expects to close a potential deal towards year-end. A deal would validate the drug's potential and secure the partner who will fund the expensive phase III trials. With regard to the licensing option, we believe management is considering licensing certain less valuable non-core territories (core regions: US and Europe) to access an additional non-dilutive source of funding. We note that the value of Rabeximod will be maximised by out-licensing it after completion of the phase IIb study. We conservatively assume that potential licensing deals either for Rabeximod in RA or COVID-19 or for T20K in MS will occur in FY/22E generating total proceeds of SEK 178m.

Cyxone intends to explore the potential use of Rabeximod in other immune diseases Based on the recommendation of its advisory team, Cyxone intends to conduct ex-vivo studies to deepen the understanding of Rabeximod's mode of action and identify other potential disease indications that may benefit from the drug candidate.

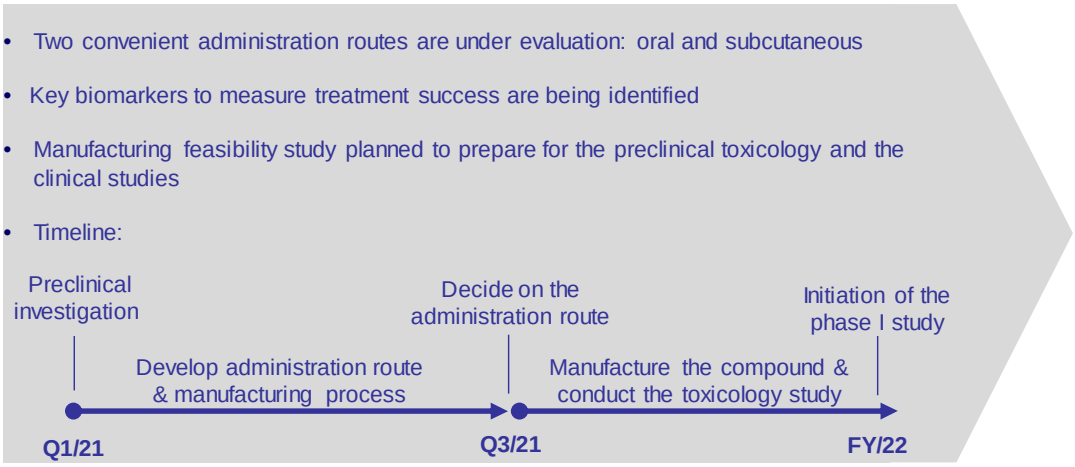
Decision on T20K's administration route to be taken in Q3/21, the phase I MS study may start in 2022 (FBe old: H2/21) Additional preclinical and formulation studies to determine the optimal product formulation are on track. The company is currently focusing on evaluating the two most convenient and promising forms of administration:

- Oral,
- Subcutaneous (SubQ).

Preclinical in-vivo studies already carried out have demonstrated the benefits of oral administration. During the next few months, Cyxone will conduct an animal feasibility study in which the drug candidate is administered subcutaneously. In parallel, the company is

investigating the use of biomarkers to help assess the effectiveness of treatment. Based on results expected in Q3/21, the company will decide on the optimal administration route for T20K. The company has also decided to move forward in selecting a contract manufacturing organisation (CMO) to validate T20K's manufacturing process. Once the administration route for T20K has been determined, Cyxone will decide on the most appropriate manufacturing process and proceed to produce the larger quantities of the compound required for further preclinical and clinical tests. Preclinical toxicology studies and other studies are required for the new administration form. These are needed to obtain permission to carry out the phase I clinical study using the administration form the company will proceed with. Based on Cyxone's updated activities, we anticipate that the phase I study may initiate in 2022, later than we have been expecting so far (FBe old: H2/21). Nevertheless, this timing is within the industry's typical range and we have taken account of it in our model. The potential use of biomarkers is good news as it raises the probability of success of the programme (see: "Biomarkers increase the success rate of drug development programmes"- Nature, 2018).

Figure 2: Roadmap of T20K's preclinical and phase I study in MS



Source: First Berlin Equity Research, Cyxone AB

Carl-Magnus Högerkorp, PhD, has taken over the COO role from Malin Berthold, PhD On 25 May, Dr Högerkorp was appointed as the new COO. He is an experienced scientist and manager within the pharmaceutical and biotech industries. Dr Högerkorp has strong expertise in immunology and autoimmune diseases. He has participated in R&D projects within infectious diseases, immuno-oncology, regenerative medicine, inflammation and autoimmune diseases. He has held executive positions in several biotech companies such as Edvince (CEO), Canimguide Therapeutics (CEO), Immodulate Pharma (CEO) and Xintela (CSO), where he took part in the company's listing on Nasdaq First North. Dr Högerkorp holds a PhD in immunology from Lund University, as well as an MBA from EFL/Lund School of Economics and Management. Dr Högerkorp will be a solid addition to Cyxone's management team. Dr Berthold is leaving Cyxone in connection with the company's strategic personnel change.

Henrik Hang hired as new CFO Mr Hang will start his new role on 1 August, taking over from Mr Skannung (current CFO), who will continue working for Cyxone as a senior executive advisor. Mr Hang has a degree in business administration and many years experience in the CFO role and in senior finance positions at international companies listed on the First North Growth Market (e.g. Yara International – Chemical company) and private companies (e.g. Oboya Horticulture Industries).

Q1/21 RESULTS

P&L Cyxone reported sales and other income of SEK 50k (Q1/20: SEK 0). The company achieved EBIT of SEK -8.6m (FBe: SEK -9.0m, Q1/20: SEK -10.1m). In particular other external operating expenses at SEK 5.8m were substantially lower than in the previous period (Q1/20: SEK 8.6m) due chiefly to lower development activity in the period. Net income came in at SEK -8.6m (FBe: SEK -9.0m, Q1/20: SEK -10.1m).

Table 1: P&L Q1/21 reported figures vs FB estimates and Q1/20 (KPIs)

in SEK'000	Q1/21	Q1/21E	Delta	Q1/20	Delta
Revenue & other income	50	0	-	0	-
EBIT	-8,612	-9,000	n.m.	-10,109	n.m.
margin	*n.m.*	*n.m.*	-	*n.m.*	-
Net income	-8,612	-9,000	n.m.	-10,109	n.m.
margin	*n.m.*	*n.m.*	-	*n.m.*	-

Source: First Berlin Equity Research, Cyxone AB

Balance sheet - Cash position increased by SEK 18.2m due to exercise of warrants in June Cyxone's cash position declined to SEK 47.3m (FY/20: SEK 56.3m), chiefly because of pipeline development. The quarter-end cash position is sufficient to fund operations into FY/22E. In addition, the company has raised gross proceeds of SEK 18.5m (net proceeds 18.2m) from warrant exercise, which took place on 1 June 2021. The company had 6m TO4 warrants outstanding from the capital increase conducted in November last year. These warrants entitled the holders to subscribe to new shares during the period 17-28 May 2021 at a 30% discount to the volume-weighted average share price from 29 April to 12 May 2021. Based on the calculated average price of SEK 4.63, Cyxone determined the exercise price at SEK 3.24. A total of 5.6m warrant holders, equating to about 93.5% of all holders, exercised their warrants. As a result of this measure, shares outstanding increased by 5.6m from 58.1m to 63.7m. Besides the attractive discount, the high exercise rate in our view reflects the strong confidence of current investors in Cyxone's business prospects.

Intangible assets were slightly lower at SEK 14.4m (FY/20: SEK 14.8m). This position chiefly includes the patent right expenses and fees for Rabeximod and T20K. This value is depreciated over the useful patent lifetime. Equity declined to SEK 58.5m (FY/20: SEK 67.1m), corresponding to a high equity ratio of 94% (FY/20: 93%).

Cash flow Net operating cash flow came in at SEK -9.1m (Q1/20: SEK -9.0m). Cash flow from investment activities amounted to SEK 0 (Q1/20: SEK 0). As in Q1/20, there was no financing cash flow in Q1/21.

Uplisting to the Stockholm Nasdaq Main Market planned for Q1/22 To increase its investor exposure, Cyxone is taking measures to comply with all regulatory requirements for an uplisting from its current Nasdaq First North Growth Market stock exchange to the Nasdaq Main Market.

Buy rating and price target confirmed Cyxone's Q1/21 financial results came in slightly better than expected. The lead drug candidates T20K and Rabeximod are both on track, and we see promising prospects for their forthcoming clinical studies. Following the positive financial results and the encouraging pipeline progress achieved thus far, our sum-of-the-parts valuation model still yields a price target for Cyxone of SEK 16.00. We reiterate our Buy rating.

VALUATION

Table 2: "Sum-of-the-parts" valuation model

Compound	Project[1]	Present Value	Patient Pop (K)	Treatment Cost (SEK)	Market Size (SEKM)	Market Share (%)	Peak Sales (SEKM)	PACME Margin[2] (%)	Discount Factor (%)	Patent Life[3] (years)	Time to Market (years)
Rabeximod	RA	SEK 444.0M	470K	104,400	49,068.0M	9%	8,430.1M	16%	21.5%	16	6
Rabeximod	COVID-19	SEK 464.0M	34,000K	13,050	443,700.0M	1%	4,437.0M	15%	21.5%	20	1
T20K	MS	SEK 235.7M	850K	208,800	177,480.0M	5%	12,425.7M	18%	21.5%	9	7
PACME PV		SEK 1,143.8M			670,248.0M		25,292.9M				
Costs PV[4]		SEK 231.0M									
NPV		SEK 912.8M									
Milestones PV		SEK 96.5M									
Net cash (pro-forma)		SEK 85.8M									
Fair Value		SEK 1,095.0M									
Share Count (fully diluted)		68,293K									
Price Target		SEK 16.00									

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues. This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

INCOME STATEMENT

All figures in SEK '000	2017	2018	2019	2020	2021E	2022E
Revenue & other income	**0**	**1**	**27**	**0**	**0**	**0**
Upfront & milestone payments	**0**	**0**	**0**	**0**	**0**	**178,000**
Total revenue & other income	**0**	**1**	**27**	**0**	**0**	**178,000**
Personnel costs	2,287	2,231	5,252	6,067	6,128	6,189
Other external costs	6,515	28,597	28,010	41,018	65,942	71,737
Depreciation & amortisation	22	956	1,794	1,796	1,957	2,055
Other operating expenses	0	0	136	119	123	126
Operating income (EBIT)	**-8,824**	**-31,783**	**-35,165**	**-49,000**	**-74,149**	**97,893**
Net financial result	0	0	0	0	0	0
Pre-tax income (EBT)	**-8,824**	**-31,784**	**-35,165**	**-49,000**	**-74,150**	**97,893**
Income taxes	0	0	0	0	0	0
Net income / loss	**-8,824**	**-31,784**	**-35,165**	**-49,000**	**-74,150**	**97,893**
Diluted EPS (SEK)	**-0.50**	**-1.41**	**-0.86**	**-0.96**	**-1.17**	**1.42**
Ratios						
EBIT-Margin on total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA margin on total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net Margin on total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Expenses as % of Revenues						
Personnel costs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other external costs	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Y-Y Growth						
Total revenue & other income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net income/ loss	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

BALANCE SHEET

All figures in SEK '000	2017	2018	2019	2020	2021E	2022E
Assets						
Current Assets, Total	**33,499**	**39,268**	**62,420**	**57,278**	**25,551**	**125,106**
Cash and Cash Equivalents	33,357	38,715	61,756	56,343	24,601	124,061
Accounts Receivable & others	142	553	664	935	950	1,045
Non-Current Assets, Total	**7,565**	**13,498**	**12,696**	**14,874**	**13,417**	**12,162**
Capitalised development costs*	6,554	0	0	0	0	0
Other intangibles (patents, licenses)	1,011	13,498	11,741	14,855	13,398	12,143
Other Assets	0	0	955	19	19	19
Total Assets	**41,064**	**52,766**	**75,115**	**72,152**	**38,968**	**137,268**
Shareholders' Equity & Debt						
Current Liabilities, Total	**3,932**	**5,121**	**3,378**	**5,047**	**5,423**	**5,830**
Accounts Payable	3,079	4,026	1,694	2,577	2,706	2,841
Other current liabilities	853	1,095	1,684	2,470	2,717	2,989
Longterm Liabilities, Total	**0**	**0**	**0**	**0**	**0**	**0**
Shareholders Equity	**37,132**	**47,645**	**71,737**	**67,105**	**33,545**	**131,438**
Total Consolidated Equity and Debt	**41,064**	**52,766**	**75,115**	**72,152**	**38,968**	**137,268**
Ratios						
Current ratio (x)	8.52	7.67	18.48	11.35	4.71	21.46
Quick ratio (x)	8.52	7.67	18.48	11.35	4.71	21.46
Net gearing	n.a.	-81.3%	-86.1%	-84.0%	-73.3%	-94.4%
Book value per share (€)	2.09	2.12	1.75	1.33	0.53	1.91
Net debt	-33,357	-38,715	-61,756	-56,343	-24,601	-124,061
Equity ratio	90.4%	90.3%	95.5%	93.0%	86.1%	95.8%

**The company stopped capitalising development costs at the financial statement of FY/19; FY/18 figures were also adjusted retroactively.*

CASH FLOW STATEMENT

All figures in SEK '000	2017	2018	2019	2020	2021E	2022E
Net income	**-8,824**	**-31,784**	**-35,165**	**-49,000**	**-74,150**	**97,893**
Interest, net	0	0	0	0	0	0
Tax provision	0	0	0	0	0	0
EBIT	**-8,824**	**-31,783**	**-35,165**	**-49,000**	**-74,149**	**97,893**
Depreciation and amortization	22	956	1,794	1,796	1,957	2,055
EBITDA	**-8,802**	**-30,827**	**-33,371**	**-47,204**	**-72,192**	**99,948**
Changes in working capital & others	3,426	778	-1,854	2,324	361	361
Cash interest net	0	0	-1	0	0	0
Other Adjustments	0	0	0	0	0	0
Operating cash flow	**-5,376**	**-30,049**	**-35,226**	**-44,880**	**-71,832**	**100,308**
CapEx	-5,990	-13,444	-991	-178	-500	-800
Free cash flow	**-11,366**	**-43,493**	**-36,216**	**-45,058**	**-72,332**	**99,508**
Cash flow from investing	**-5,990**	**-13,444**	**-991**	**-178**	**-500**	**-800**
Debt Financing, net	0	0	0	0	0	0
Equity Financing, net	23,125	48,851	59,257	39,686	40,590	0
Cash flow from financing	**23,125**	**48,851**	**59,257**	**39,686**	**40,590**	**0**
Net cash flows	**11,759**	**5,358**	**23,041**	**-5,372**	**-31,742**	**99,508**
Cash, start of the year	21,598	33,357	38,715	61,756	56,343	24,601
Cash, end of the year	**33,357**	**38,715**	**61,756**	**56,343**	**24,601**	**124,061**

Y-Y Growth						
Operating Cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Free cashflow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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INFORMATION PURSUANT TO SECTION 85 (1) SENTENCE 1 OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO ART. 20 (1) OF REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO ART. 37 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565 (MIFID) II.

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	30 October 2018	SEK2.09	Buy	SEK13.50
2	3 December 2018	SEK2.17	Buy	SEK13.50
3	1 July 2019	SEK3.32	Buy	SEK13.50
4	6 September 2019	SEK5.75	Buy	SEK13.50
5	26 June 2020	SEK6.79	Buy	SEK12.70
6	8 September 2020	SEK7.31	Buy	SEK12.70
7	17 December 2020	SEK4.20	Buy	SEK16.00
8	22 February 2021	SEK4.60	Buy	SEK16.00
9	Today	SEK4.51	Buy	SEK16.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- **key sources of information in the preparation of this research report**
- **valuation methods and principles**
- **sensitivity of valuation parameters**

can be accessed through the following internet link: https://firstberlin.com/disclaimer-english-link/

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