

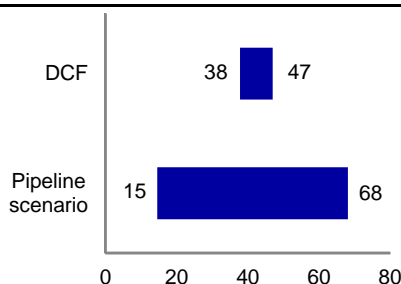
## KEY DATA

Stock country	Sweden
Bloomberg	SANION SS
Reuters	SANION.ST
Share price (close)	SEK 30.85
Free Float	73%
Market cap. (bn)	EUR 0.07/SEK 0.69
Website	<a href="https://saniona.com/">https://saniona.com/</a>
Next report date	21 Feb 2019

## PERFORMANCE



## VALUATION APPROACH



## ESTIMATE CHANGES

Year	2018E	2019E	2020E
Sales	0%	0%	1%
EBIT (adj)	0%	0%	0%

Source: Nordea estimates

## Nordea Markets - Analysts

Jesper Iisøe  
AnalystMichael Novod  
Director, Sector Coordinator

## Smooth sailing in Q3 – key triggers coming up

Saniona's Q3 report contained few surprises, in our view. As the stock trades on pipeline news rather than quarterly numbers, we believe the key point in the report was that pipeline progression remains on track for the news flow-heavy coming months, with pivotal ph III top-line results in obesity for Tesofensine due in December 2018 and Tesomet ph IIa data in Prader-Willi syndrome (PWS) due in Q1 2019 – projects that are key to the case and the share price development in the near term.

## Few surprises in Q3 – key pipeline news coming up

Saniona's Q3 report contained few surprises, in our view. The company reported positive earnings this quarter (SEK 19.9m), as the Boehringer Ingelheim milestone was booked in the P&L. We consider this a one-time event, as we assume that going forward the company will prioritise driving drugs through clinical development and towards the market over near-term profitability. The coming months will be an important time for Saniona, as two key pipeline projects will report data – Tesofensine ph III in obesity (December 2018) and Tesomet ph IIa in PWS (Q1 2019).

## Story intact

The equity story in Saniona is mainly about Tesomet, the company's franchise molecule addressing obesity and orphan indications, which provides exposure to attractive market opportunities that could drive income and the share. The company also has other projects in the pipeline to crystallise value. We believe cash burn should be funded into late 2020, beyond potential key pipeline catalysts.

## Valuation

We value Saniona using a DCF model. Based on our underlying valuation assumptions, estimates and pipeline scenarios, we value Saniona at SEK 38-47 per share, up from SEK 36-45 previously owing to updated FX spot prices and time value in the model. Risks include the following: pipeline failures, delays or regulatory hurdles; partners' and Saniona's ability to successfully commercialise Tesofensine and Tesomet; and funding needs beyond 2020.

## SUMMARY TABLE - KEY FIGURES

SEKm	2014	2015	2016	2017	2018E	2019E	2020E
Total revenue	22	14	75	21	59	38	58
EBITDA (adj)	-7	-27	5	-57	-49	-77	-122
EBIT (adj)	-8	-28	4	-57	-50	-77	-122
EBIT (adj) margin	-38.0%	-206.0%	5.5%	-276.4%	-83.5%	-205.9%	-211.2%
EPS (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EPS (adj) growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DPS (ord)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales	n.a.	n.a.	n.a.	n.a.	11.2	19.6	14.3
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
P/E (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
P/BV	n.a.	n.a.	n.a.	n.a.	10.3	9.7	-82.6
Dividend yield (ord)	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%
FCF Yield bef acq & disp	n.a.	n.a.	n.a.	n.a.	-3.0%	-7.3%	-11.4%
Net debt	-10	-47	-53	-22	-72	-84	9
Net debt/EBITDA	1.3	1.7	-11.7	0.4	1.5	1.1	-0.1
ROIC after tax	288.8%	-870.7%	76.0%	-498.2%	-524.2%	20,584.2%	4,686.3%

Source: Company data and Nordea estimates

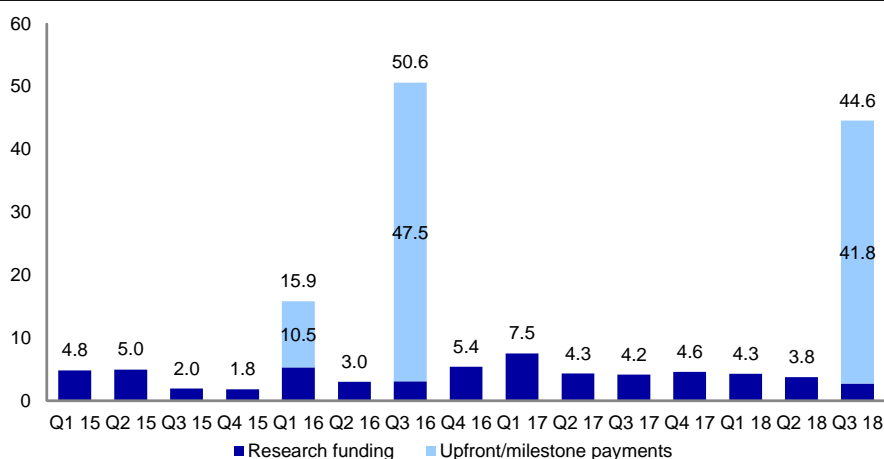
## Q3 2018 highlights

Saniona's Q3 report contained few surprises, in our view. The company reported positive earnings this quarter, as the Boehringer Ingelheim milestone was booked in the P&L. We consider this a one-time event, as we assume that going forward the company will prioritise driving drugs through clinical development and towards the market over near-term profitability. The next few months will be an important time for Saniona, as several clinical studies will report data, including pivotal ph III top-line results in obesity for Tesofensine (December 2018) and Tesomet ph IIa data in PWS (Q1 2019) – two key readouts.

### Few surprises in Q3 – key pipeline news coming up

Saniona's Q3 revenue was SEK 44.6m, a substantial step-up versus recent quarters, but this was explained by the Boehringer Ingelheim (BI) milestone booked in the quarter (EUR 4m, corresponding to SEK 41.8m).

#### SANIONA'S REVENUE PER QUARTER, SEKm



Source: Company data and Nordea estimates

The BI milestone led the company to report positive EBIT for the first time since Q3 2016. While this is obviously positive, we consider positive earnings in a company like Saniona a one-time event rather than a precedent for the coming years (until 2023, on our estimates), as we assume that going forward the company will prioritise driving drugs through clinical development and towards the market over near-term profitability. Q3 EBIT was SEK 19.9m (versus SEK -15.1m in Q3 2017), with costs for the quarter primarily being development costs in relation to Tesomet – Saniona's key pipeline asset – followed by preclinical development costs related to the IK programme and the SAN711.

We make no changes to our 2018 estimates but now implement two changes to our model:

- We now apply a higher SEK/USD spot price in our model (9.05 versus 8.8 previously) and a lower SEK/EUR spot price (10.22 versus 10.3 previously). This raises our revenue estimates from 2020, due to product sales being in USD and EUR.
- We still expect Saniona to be awarded a priority review voucher (PRV) in 2023 (see our initiation report for further details on this), but we now assume the price to be USD 80m (risk-adjusted by 15% – similar to our risk adjustment on Tesomet alone in PWS), versus USD 100m previously. This is in line with the most recent PRV transaction by SIGA Technologies and has a negative impact on 2023E only.

## ESTIMATE CHANGES

SEKm	New estimates						Estimate changes					
	2018E	2019E	2020E	2021E	2022E	2023E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Total revenues</b>	<b>59</b>	<b>38</b>	<b>58</b>	<b>49</b>	<b>80</b>	<b>296</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>	<b>3%</b>	<b>3%</b>	<b>-6%</b>
Product sales and royalties	0	0	20	49	80	188	n.a.	n.a.	3%	3%	3%	3%
Tesofensine, obesity	0	0	20	49	80	115	n.a.	n.a.	3%	3%	3%	3%
Tesomet, Prader-Willi syndrome	0	0	0	0	0	48	n.a.	n.a.	n.a.	n.a.	n.a.	3%
Tesomet, Hypothalamic obesity	0	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tesomet, obesity	0	0	0	0	0	25	n.a.	n.a.	n.a.	n.a.	n.a.	3%
NS2359, CNS	0	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other (milestones/PRV)	59	38	38	0	0	109	0%	0%	0%	n.a.	n.a.	-18%
<b>Gross profit</b>	<b>59</b>	<b>38</b>	<b>58</b>	<b>49</b>	<b>80</b>	<b>296</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>	<b>3%</b>	<b>3%</b>	<b>-6%</b>
R&D costs	-74	-80	-140	-50	-50	-50	0%	0%	0%	0%	0%	0%
S&D costs	0	0	0	0	0	-50	n.a.	n.a.	n.a.	n.a.	n.a.	0%
Admin costs	-35	-35	-40	-45	-45	-45	0%	0%	0%	0%	0%	0%
<b>EBIT</b>	<b>-50</b>	<b>-77</b>	<b>-122</b>	<b>-46</b>	<b>-15</b>	<b>151</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>-3%</b>	<b>-13%</b>	<b>-11%</b>
PTP	-49	-77	-122	-46	-15	151	0%	0%	0%	-3%	-13%	-11%
<b>Net profit</b>	<b>-38</b>	<b>-60</b>	<b>-95</b>	<b>-36</b>	<b>-12</b>	<b>118</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>-3%</b>	<b>-13%</b>	<b>-11%</b>
Free cash flow	-22	-60	-94	-37	-11	133	0%	0%	0%	-3%	-14%	-10%

Source: Company data and Nordea estimates

### Several pipeline triggers lined up in the coming months

The next four to five months will be an important time for Saniona, as the company will report results from five clinical studies, including pivotal ph III top-line results in obesity for Tesofensine and Tesomet ph IIa data in PWS – two key readouts.

NS2359 will also deliver ph IIa data in cocaine addiction in Q4 2018, but we consider this project a free option rather than one with high expectations in the market. We do not include NS2359 in our model.

## UPCOMING NEWS FLOW

Timeline	Project	Event	Indication	Description
Q4 2018	Tesofensine	Ph 3 results	Obesity	Saniona and its partner Medix expect topline data by December 2018
Q4 2018	NS2359	Ph 2a interim data	Cocaine addiction	Saniona expects to report ph 2a interim results in Q4 2018
Q4 2018	Tesomet	Ph 1 results	-	Results from ph 1 pharmacodynamic study
Q1 2018	Tesomet	Ph 2a results	Prader-Willi syndrome	Results from ph 2a study in adolescents (step 2)
Q1 2019	Tesomet	Ph 2a study initiated	Hypothalamic obesity	Saniona plans to start a ph 2a study "within the coming months"
H1 2019	Tesomet	Ph 2b study initiated	Prader-Willi syndrome	We expect Saniona to start a ph 2b dose-finding study in Prader-Willi
H2 2019	Tesomet	Ph 2b study initiated	Obesity	We expect Saniona to start a ph 2b study in obesity
2018/2019	Pre-clinical	Deal	-	Potential for partnership deals on pre-clinical programmes
2018/2019	Pre-clinical	Deal	-	Potential for spin-outs on pre-clinical programmes
2018/2019	Pre-clinical	Milestones	-	Progress and potential milestones under existing collaborations
2019/2020	Tesomet	Deal	Metabolic diseases	Potential for partnership deals on Tesomet in metabolic diseases

Source: Company data and Nordea estimates

Tesofensine is a key near-term value driver, with ph III top-line results expected in December 2018...

We eagerly anticipate the upcoming ph III top-line results for Tesofensine, as this remains a big trigger in the Saniona case. Saniona's partner, Medix, completed recruitment for the trial in January 2018 and all patients in the study have completed the 24-week treatment period and the three-month follow-up visit, suggesting that top-line data should be ready in December 2018, ie around a month from now.

...which may provide a positive read-across to Tesomet as well

While Tesomet stands out as the key asset in Saniona, we view Tesofensine as an important product. Positive ph III results in this trial will, in our view, provide a positive read-across to Tesomet (fixed-dose combination between Tesofensine and Metoprolol), validating the molecule and its weight loss properties, while at the same time sharpening partner interest in the Tesomet programme from pharmaceutical companies.

Tesomet ph IIa PWS results are expected in Q1 – key to the case and the share price in the near term

Saniona is also running a ph IIa study investigating Tesomet in patients with Prader-Willi syndrome (PWS).

The study is divided into two steps. Step 1 tested Tesomet in adults with PWS, which will then be extended to adolescents (step 2). The company reported top-line results from step 1 in January 2018. Tesomet achieved a positive outcome on the primary endpoint (change in body weight from baseline) with a clinically meaningful reduction in body weight for the PWS patients treated with Tesomet compared to placebo. Tesomet also led to a dramatic decrease in hyperphagia (extreme and insatiable appetite in patients). No serious adverse events were reported during the study, but some patients experienced a worsening of existing behavioural problems. However, this reversed when patients were offered a temporary reduction in dose during the

study, suggesting that by reducing the dose, Tesomet may be better tolerated in this highly sensitive patient group, while at the same time remaining efficacious.

Based on the findings in the study and discussions and feedback from key opinion leaders, Saniona will continue to give lower doses in the adolescent patient population in order to ensure that these patients can tolerate the drug. The trial is expected to be completed in early 2019 with top-line results available in Q1 2019.

# Factors to consider when investing in Saniona

The equity story in Saniona is mainly about Tesomet, the company's franchise molecule addressing high unmet medical needs in obesity and rare obesity-associated diseases. The company also has other high-potential projects in the pipeline to secure long-term growth, value and news flow, funded by partnerships and a funding agreement at the current stage until late 2020 – beyond important key pipeline catalysts. Potential product sales and royalties on product sales will tick in during the next two to five years, taking over funding. Saniona's share price performance will be highly dependent on clinical pipeline updates on its ongoing trials (mainly Tesomet and Tesofensine), posing a high risk to investors but also potentially great rewards.

## The Saniona equity story

Saniona is a Denmark-based small-cap biotech company listed in Sweden. It has a broad pipeline, with one product in ph III for obesity (Tesofensine) and two products in ph II, including Tesomet, the company's franchise molecule and key value driver, which may be used across several rare diseases related to obesity. For investors willing to take on the common biotech risk in a small-cap company comprising just pipeline projects and no marketed products – and thus exposure to a company and a stock heavily dependent on clinical development, regulatory risk and volatile trading volumes – an investment in Saniona could provide exposure to attractive market opportunities in the orphan drug space and several catalysts in the pipeline.

## Factors to consider when investing in Saniona

We view the following to be key when considering an investment in Saniona

- Saniona's late-stage pipeline programmes address small, rare diseases, that the company could take all the way to the market on its own, as well as larger indications, such as obesity, through a partnership approach with selected pharmaceutical companies.
- The high unmet medical needs in rare diseases have resulted in increased regulatory focus, with regulators in the US and EU (FDA and EMA) having implemented several financial incentives to invest in drug development in this area, creating attractive market opportunities.
- Saniona's lead asset, Tesomet, has been shown in trials to reduce both body weight and hyperphagia (insatiable appetite), providing patients with a novel treatment option with potential not only in obesity but also in multiple, rare obesity-associated disorders.
- Tesofensine and Tesomet could be favourably positioned to address the high unmet medical needs in obesity treatment in Mexico, Argentina and other RoW markets.
- Saniona's early-stage pipeline should provide investors with positive news flow, deals, sustainable growth prospects and valuation optionality over the long term.
- Funding should be sufficient until late 2020 – beyond important key pipeline catalysts.

## Key risk factors and potential investor concerns in the case

- Clinical trials are risky, and despite promising results in earlier clinical studies, key projects (Tesofensine and Tesomet) may fail later-stage studies, be delayed in development or fail to gain approval from regulatory authorities.
- Tesofensine is generally well-tolerated in patients, but it has been shown to lead to an increase in heart rate. This poses a potential risk in the upcoming ph III trial,



### Tesomet: the biggest upside, the biggest risk

We view Tesomet as a major growth, earnings and valuation driver for Saniona in the coming years. While Tesomet represents the largest upside to the case, it also represents by far the largest risk should it fail in clinical trials or fail to gain approval from regulators.

We provide our Tesomet forecasts below, split by indication. On a risk-adjusted basis, we forecast that the drug will generate up to SEK ~700m in revenue for Saniona. The main driver is its sales potential in orphan disorders.

#### TESOMET: FORECAST SUMMARY (RISK-ADJUSTED REVENUE)

SEKm	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
Prader-Willi (15% risk-adj)	48	107	171	230	271	313	359	407	458	474	491	247	124	85	45
- Growth (y/y)	N.a.	122%	59%	35%	17%	16%	14%	13%	13%	4%	4%	-50%	-50%	-32%	-47%
Hypothalamic obesity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
- Growth (y/y)	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.	N.a.
Total orphan disorders	48	107	171	230	271	313	359	407	458	474	491	247	124	85	45
- Growth (y/y)	N.a.	122%	59%	35%	17%	16%	14%	13%	13%	4%	4%	-50%	-50%	-32%	-47%
Obesity (40% risk-adj)	25	52	81	113	149	187	196	206	216	227	238	161	82	75	68
- Growth (y/y)	N.a.	110%	57%	40%	31%	26%	5%	5%	5%	5%	5%	-32%	-49%	-8%	-9%
<b>Total Tesomet</b>	<b>73</b>	<b>159</b>	<b>252</b>	<b>344</b>	<b>419</b>	<b>500</b>	<b>555</b>	<b>613</b>	<b>674</b>	<b>701</b>	<b>729</b>	<b>408</b>	<b>206</b>	<b>160</b>	<b>114</b>
- Growth (y/y)	N.a.	118%	58%	37%	22%	19%	11%	10%	10%	4%	4%	-44%	-49%	-22%	-29%
Share of total sales	39%	51%	57%	68%	76%	84%	89%	90%	92%	93%	94%	91%	87%	87%	88%
Share of total sales growth	68%	70%	69%	149%	172%	168%	204%	112%	111%	132%	132%	98%	96%	86%	85%

Source: Nordea estimates

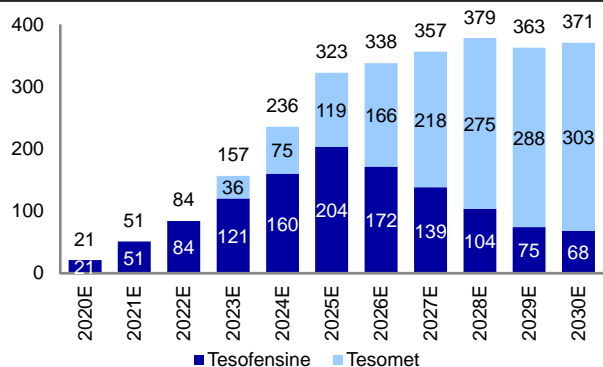
At present, we do not include explicit forecasts for hypothalamic obesity in our valuation; this remains as potential upside to our valuation.

### Tesofensine and Tesomet to address the obesity epidemic in RoW markets

We believe the commercial opportunity presented by obesity holds the potential to be much larger than PWS and hypothalamic obesity. Obesity afflicts ~600-700 million people worldwide, including some 24 million adults in Mexico, but the market, though large in absolute patient numbers, is still in a development phase commercially.

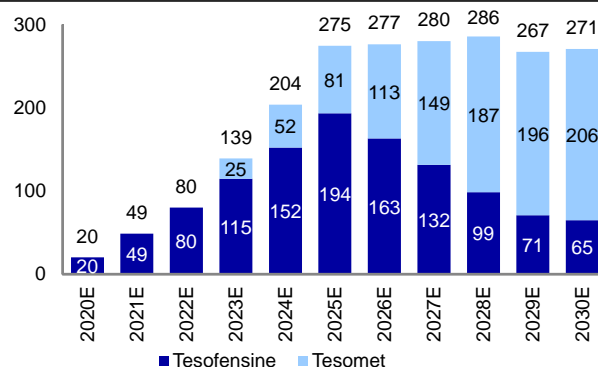
Despite the potential for a long-term ballooning market for effective anti-obesity drugs, we only model USD ~400m in combined peak sales for Tesofensine and Tesomet in obesity in Mexico, Argentina and other relevant non-US and non-EU markets.

#### SANIONA'S COMBINED OBESITY SALES, USDm



Source: Nordea estimates

#### SANIONA'S COMBINED OBESITY ROYALTIES, SEKm



Source: Nordea estimates

We believe Tesofensine and Tesomet could be favourably positioned to address the high unmet medical need in obesity treatment in these markets. They present patients with a superior weight-loss alternative versus currently marketed drugs in Mexico, an area dominated by old generic compounds with questionable efficacy and safety profiles.

While Saniona intends to develop and commercialise treatments for rare diseases in orphan drug indications on its own, its strategy in large global diseases, such as obesity and type II diabetes, is to engage in partnerships with selected pharmaceutical companies to develop and commercialise its products. This provides Saniona with royalty income on product sales commercialised by partners.

### Early pipeline to generate positive news flow, deals and upside

Saniona's early-stage (ph I and pre-clinical) pipeline projects are developed in-house using its technology platform. The company is focused on developing Tesomet in orphan diseases, while it finances most other lead and preclinical assets through partnerships or research grants – a key strategy that ensures a low cash burn rate.

#### SANIONA'S EARLY-STAGE PIPELINE

Project	Indication	Pre-clinical Research	Pre-clinical Development	Phase 1	Rights	Next steps
CAD-1883	Ataxia and essential tremors	[Progress bar]			Cadent Therapeutics	Finish ph 1
SAN711	Neuropathic pain and itching	[Progress bar]			Saniona	Move into ph 1
BI program	Schizophrenia	[Progress bar]			Boehringer Ingelheim	Move into ph 1
IK program	Inflammatory bowel disease	[Progress bar]			Saniona	Candidate selection
Kv7	Pain, epilepsy and UI	[Progress bar]			Saniona	Lead optimisation
Nicotinic a6	Parkinson's disease	[Progress bar]			Saniona	Lead optimisation

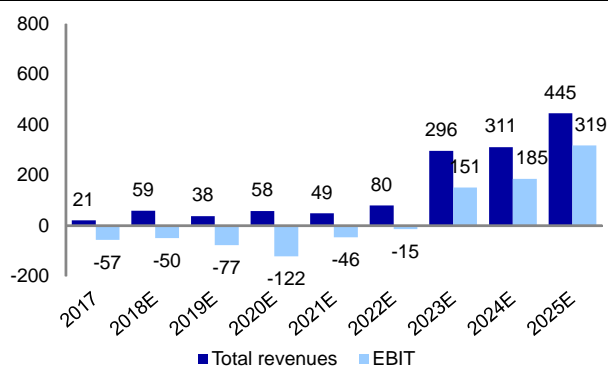
Source: Company data and Nordea

We do not attach any value to Saniona's early-stage pipeline in our valuation, but it offers valuation optionality and crystallises value as projects develop to the clinical stage or when entering potential partnerships deals, thus securing long-term growth and positive news flow.

### Funded until late 2020 – beyond important key pipeline catalysts

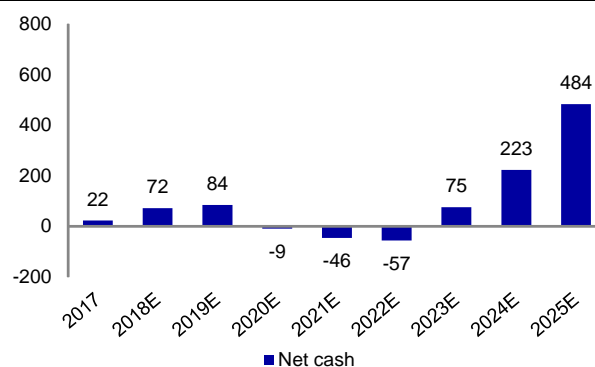
We expect funding to be sufficient to fund operations and cash burn until late 2020, thanks to net cash, partnership agreements and a convertible notes funding agreement. By that time, numerous late-stage clinical catalysts should provide potential opportunities to crystallise value, including ph III top-line data on Tesofensine in obesity and ph II readouts for Tesomet in PWS and hypothalamic obesity.

SANIONA: REVENUE AND EBIT FORECASTS, SEKm



Source: Company data and Nordea estimates

SANIONA: NET CASH FORECASTS, SEKm



Source: Company data and Nordea estimates

Our model assumes that Saniona turns profitable and cash flow positive in 2023 thanks to Tesomet sales starting to kick in.



**SANIONA: REVENUE AND P&L OVERVIEW**

SEKm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Total revenues</b>	<b>21</b>	<b>59</b>	<b>38</b>	<b>58</b>	<b>49</b>	<b>80</b>	<b>296</b>	<b>311</b>	<b>445</b>	<b>507</b>	<b>551</b>	<b>599</b>	<b>626</b>	<b>678</b>
Growth	N.a.	187%	-37%	54%	-16%	64%	269%	5%	43%	14%	9%	9%	4%	8%
<b>Product sales and royalties</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>49</b>	<b>80</b>	<b>188</b>	<b>311</b>	<b>445</b>	<b>507</b>	<b>551</b>	<b>599</b>	<b>626</b>	<b>678</b>
Tesofensine, obesity	0	0	0	20	49	80	115	152	194	163	132	99	71	65
Tesomet, Prader-Willi syndrome	0	0	0	0	0	0	48	107	171	230	271	313	359	407
Tesomet, Hypothalamic obesity	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tesomet, obesity	0	0	0	0	0	0	25	52	81	113	149	187	196	206
NS2359, CNS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (milestones/PRV)	21	59	38	38	0	0	109	0	0	0	0	0	0	0
Gross profit	21	59	38	58	49	80	296	310	444	505	548	596	622	674
Gross margin	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	99%	99%	99%
R&D to revenue	207%	125%	213%	242%	102%	62%	17%	16%	11%	10%	9%	8%	8%	7%
In SEK	-43	-74	-80	-140	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
S&D to revenue	0%	0%	0%	0%	0%	0%	17%	10%	7%	6%	5%	5%	5%	4%
In SEK	0	0	0	0	0	0	-50	-30	-30	-30	-30	-30	-30	-30
Admin & other costs to revenue	169%	59%	93%	69%	92%	56%	15%	14%	10%	9%	8%	8%	7%	7%
In SEK	-35	-35	-35	-40	-45	-45	-45	-45	-45	-45	-45	-45	-45	-45
<b>EBIT</b>	<b>-57</b>	<b>-50</b>	<b>-77</b>	<b>-122</b>	<b>-46</b>	<b>-15</b>	<b>151</b>	<b>185</b>	<b>319</b>	<b>380</b>	<b>423</b>	<b>471</b>	<b>497</b>	<b>549</b>
EBIT margin	-276%	-84%	-206%	-211%	-95%	-18%	51%	60%	72%	75%	77%	79%	79%	81%
PTP	-56	-49	-77	-122	-46	-15	151	185	319	380	423	471	497	549
Net profit	-49	-38	-60	-95	-36	-12	118	145	249	296	330	367	388	428
<b>Free cash flow</b>	<b>-58</b>	<b>-22</b>	<b>-60</b>	<b>-94</b>	<b>-37</b>	<b>-11</b>	<b>133</b>	<b>148</b>	<b>261</b>	<b>304</b>	<b>337</b>	<b>375</b>	<b>391</b>	<b>433</b>
Net cash	22	72	84	-9	-46	-57	75	223	484	788	1,124	1,499	1,890	2,323

Source: Company data and Nordea estimates

We assume that the company will prioritise driving drugs through clinical development and towards the market over near-term profitability. In our view, this strategy seems prudent, as success with early-stage pipeline projects and subsequent advancement into ph II clinical studies will drive value for the company, as will pipeline progress with Tesomet in PWS, hypothalamic obesity and obesity.

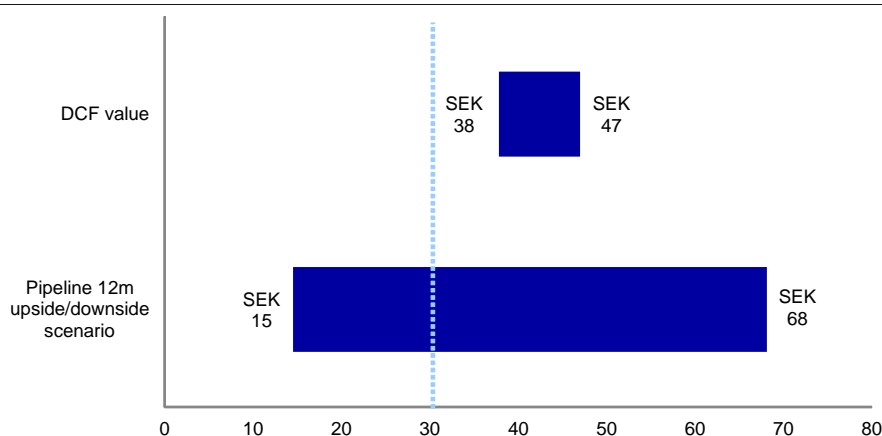
# Valuation

We conduct a DCF valuation to capture the underlying fundamental equity value for Saniona fully. We favour a bottom-up net present value (NPV) model comprising probability-adjusted NPVs for each key pipeline project, summarised in a sum-of-the-parts (SOTP) valuation. Based on our underlying valuation assumptions, estimates and pipeline scenarios for key events occurring over the next 12 months, we value Saniona at SEK 38-47 per share.

## We value Saniona at SEK 38-47 per share

We value Saniona based on a discounted cash flow (DCF) approach, as we do with all other pharma and biotech companies in our coverage universe. Based on our underlying valuation assumptions, estimates and pipeline scenarios – detailed in the following sections – we value Saniona at SEK 38-47 per share, taking into account a WACC between 12.5% and 14.5% and downside and upside scenarios based on events that could drive the share over the coming 12 months.

### VALUE PER SHARE, SEK



Source: Nordea estimates

### SOTP valuation summary

Clinical achievements could have a significant impact on valuation in either direction

Our valuation model comprises probability-adjusted NPVs involving a DCF analysis to value each pipeline project individually. We adjust revenue and cash flow for the product candidates to reflect the probability we ascribe to each successfully reaching the commercial phase. This implies that clinical achievements could have a significant impact on valuation in either a positive or a negative direction, depending on the outcome. The model extends for 20 years (2018E-37E) to properly capture the full NPV value for pipeline projects, while also giving the company full credit for patents, which may extend well into the 2030s for some projects.

### SANIONA SOTP VALUATION – BASE CASE

Project	Indication	Peak sales (USDm)	Potential launch	NPV (SEKm)	Prob.	Adj. NPV (SEKm)	Adj. NPV per share	Adj. NPV share (%)
Tesofensine	Obesity	204	2020	652	60%	391	17	41%
Tesomet	Obesity	350	2023	896	40%	358	16	38%
Tesomet	Prader-Willi syndrome	362	2023	3,848	15%	577	26	61%
Priority Review Voucher	Prader-Willi syndrome	N.a.	2023	295	15%	44	2	5%
Tesomet	Hypothalamic obesity	155	N.a.	0	0%	0	0	0%
Tesomet	Type 2 diabetes	N.a.	N.a.	0	0%	0	0	0%
NS2359	Cocaine addiction	486	N.a.	0	0%	0	0	0%
Pre-clinical programs		N.a.	N.a.	0	0%	0	0	0%
<b>Pipeline value</b>				<b>5,691</b>		<b>1,371</b>	<b>61</b>	<b>145%</b>
Group costs not allocated to individual projects				-446	100%	-446	-20	-47%
Net cash/(debt)				22	100%	22	1	2%
<b>SOTP valuation</b>				<b>5,268</b>		<b>948</b>	<b>42</b>	<b>100%</b>

Source: Company data and Nordea estimates

With no marketed products, Saniona's cash flow is risky and the company is dependent on external financing

We apply a 13.5% discount rate (WACC) to our DCF. To benchmark this level versus other biotech companies, it is ~2 pp higher than the WACC we use for Zealand Pharma (11.5%) and ~2.8 pp higher than the WACC we use for Bavarian Nordic (10.7%). We believe this seems fair, as we deem Saniona's risk profile to be higher, given that it has no marketed products with which to finance its operations at the current stage, unlike Bavarian Nordic (stockpiling smallpox vaccines for the US government) and Zealand Pharma (products within type II diabetes). Moreover, Saniona's pipeline is more early-stage than Zealand Pharma's, making Saniona's cash flow both more risky and more dependent on external financing.

The sensitivity table below shows how a higher or lower WACC would impact our DCF value.

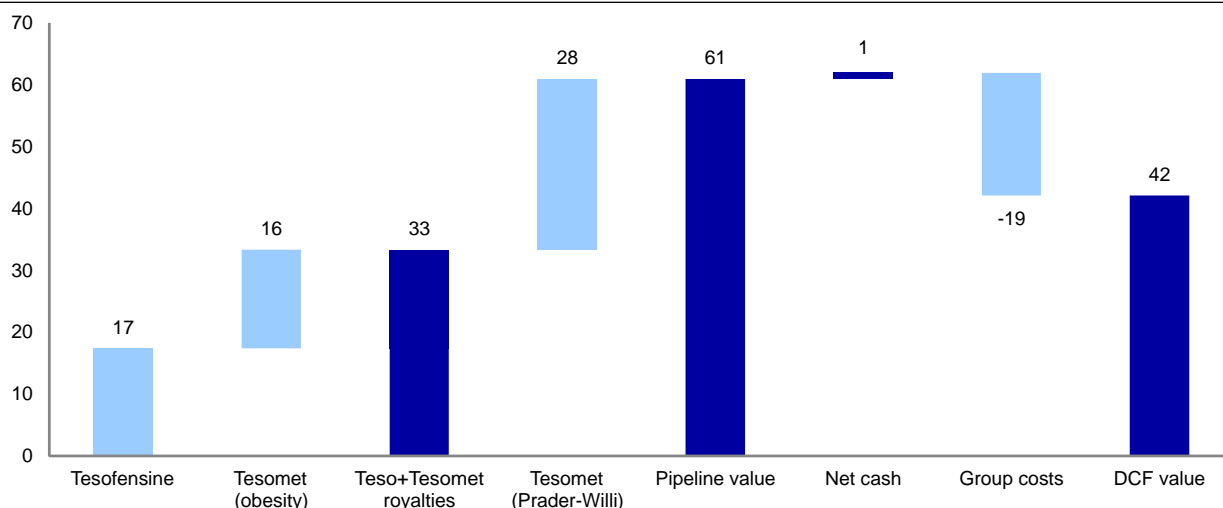
**VALUE PER SHARE (SEK): WACC SENSITIVITY**

	WACC				
Base case scenario	11.5%	12.5%	13.5%	14.5%	15.5%
	52	47	42	38	34

Source: Nordea estimates

Our sensitivity analysis suggests that applying a WACC in line with the one we use for Zealand Pharma could take our DCF-based value up to SEK 52 per share. This highlights the potential value creation we envisage for Saniona when its pipeline advances through clinical trials, de-risking the company.

**SANIONA SOTP VALUATION, SEK PER SHARE**



Source: Company data and Nordea estimates

Tesomet's potential in PWS and other orphan diseases is the biggest potential value driver, in our view

Looking at the value split, Tesomet stands out as the key value driver in Saniona. Our analysis suggests that Tesomet in Prader-Willi syndrome (PWS) alone is worth SEK ~28 per share on a risk-adjusted basis (15% approval probability). We view Tesomet's potential in PWS and other orphan diseases as the biggest catalyst for the stock, with the potential to take Saniona's market cap to entirely new levels.

On our estimates, Saniona's market cap would, all else being equal, be boosted to SEK ~5.3bn or SEK ~240 per share if we were to fully include Tesomet in PWS in our model at 100% risk adjustment. This highlights the considerable upside to the share from positive news flow related to Tesomet in orphan diseases over the next few years. Note that we assign no value to Tesomet's potential use in hypothalamic obesity, type II diabetes, fatty liver disease (NASH) or binge eating, which remain free options in our model that could drive additional upside.

We ascribe SEK ~32 per share to combined Tesofensine and Tesomet royalties on obesity sales on a risk-adjusted basis.

We do not attach any value to Saniona's early-stage (ph I and pre-clinical) pipeline projects in our model or include projects for which we have yet to see ph II results (eg, NS2359 for cocaine addiction) – in line with our general valuation approach across our pharma and biotech coverage universe. We argue that a pre-clinical pipeline is should

drive positive news flow, which is important in a biotech stock. Nevertheless, it attracts very little value. We believe this is reasonable, as:

- Investors will generally have limited willingness to pay for preclinical early-stage pipeline projects, given the extremely high attrition rates at this stage.
- It is inherently difficult to put a fair value on projects for which no safety or efficacy data has been reported in humans yet.
- Even with potential considerable future revenue and value, the pipeline projects would have to be risk-adjusted so heavily that the NPV effect would end up being only marginally accretive.
- So, it often creates more noise than benefits to argue for a pre-clinical pipeline valuation.

However, we note that we do not assume increasing R&D spending for the early-stage projects in our model either. Normally, a significant rise in spend would be modelled once drugs move into the clinical phase and revenue and income starts rising, but we do not assume this in our cost modelling.

### Upside and downside scenarios

When addressing upside and downside to our base-case valuation, we look at events that could drive the share in the next 12 months. Three key pipeline programmes are expected to read out over this period: Tesofensine ph III in obesity, NS2359 ph IIa in cocaine addiction, and Tesomet ph IIa in PWS in adolescents. These trials could have a significant impact on valuation in either direction, depending on their outcome, as highlighted below.

#### UPSIDE POTENTIAL AND DOWNSIDE RISK TO SOTP VALUATION

Event	Upside	SEK per share	Downside	SEK per share
Tesofensine ph III trial in obesity	Positive ph III topline data	9	Launch postponed three years	-4
Tesomet ph IIa trial in PWS (adolescents)	Positive safety and efficacy	11	PWS is abandoned	-24
NS2359 ph IIa	Positive safety and efficacy	6	Fails	0
<b>Potential upside/downside to base case</b>		<b>26</b>		<b>-28</b>
<b>Potential valuation</b>		<b>68</b>		<b>15</b>

Source: Company data and Nordea estimates

# Reported numbers and forecasts

## INCOME STATEMENT

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>Net revenue</b>	n.a.	n.a.	n.a.	13	22	14	75	21	59	38	58
Revenue growth	n.a.	n.a.	n.a.	n.a.	63.0%	-37.2%	449.7%	-72.4%	187.1%	-36.7%	53.8%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0	0	0	-1	-7	-27	5	-57	-49	-77	-122
Depreciation and impairments PPE	0	0	0	0	-1	-1	0	-1	-1	0	0
EBITA	0	0	0	-2	-8	-28	4	-57	-50	-77	-122
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	n.a.	n.a.	n.a.	-2	-8	-28	4	-57	-50	-77	-122
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	0	0	0	1	-1	1	1	1	1	1
<b>Pre-tax profit</b>	0	0	0	-2	-8	-29	5	-56	-49	-76	-121
Reported taxes	0	0	0	0	2	6	-3	7	11	17	27
Net profit from continued operations	0	0	0	-1	-6	-23	2	-49	-38	-59	-94
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	0	0	0	-1	-6	-23	2	-49	-38	-59	-94
<b>EPS</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

## Profit margin in percent

EBITDA	n.a.	n.a.	n.a.	-9.1%	-34.5%	-200.4%	6.1%	-273.7%	-82.7%	-205.9%	-211.2%
EBITA	n.a.	n.a.	n.a.	-12.5%	-38.0%	-206.0%	5.5%	-276.4%	-83.5%	-205.9%	-211.2%
EBIT	n.a.	n.a.	n.a.	-12.5%	-38.0%	-206.0%	5.5%	-276.4%	-83.5%	-205.9%	-211.2%

## Adjusted earnings

EBITDA (adj)	0	0	0	-1	-7	-27	5	-57	-49	-77	-122
EBITA (adj)	0	0	0	-2	-8	-28	4	-57	-50	-77	-122
EBIT (adj)	0	0	0	-2	-8	-28	4	-57	-50	-77	-122
EPS (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

## Adjusted profit margins in percent

EBITDA (adj)	n.a.	n.a.	n.a.	-9.1%	-34.5%	-200.4%	6.1%	-273.7%	-82.7%	-205.9%	-211.2%
EBITA (adj)	n.a.	n.a.	n.a.	-12.5%	-38.0%	-206.0%	5.5%	-276.4%	-83.5%	-205.9%	-211.2%
EBIT (adj)	n.a.	n.a.	n.a.	-12.5%	-38.0%	-206.0%	5.5%	-276.4%	-83.5%	-205.9%	-211.2%

## Performance metrics

<b>CAGR last 5 years</b>											
Net revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	34.8%	11.6%	33.5%
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
<b>Average last 5 years</b>											
Average EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-63.1%	-73.0%	-100.9%	-120.7%
Average EBITDA margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-61.1%	-71.4%	-99.8%	-120.1%

## VALUATION RATIOS - ADJUSTED EARNINGS

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
P/E (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EV/EBITA (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.

## VALUATION RATIOS - REPORTED EARNINGS

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
P/E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/Sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.2	19.6	14.3
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EV/EBITA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
EV/EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.
Dividend yield (ord.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%
FCF yield	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-3.0%	-7.3%	-11.4%
Payout ratio	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data and Nordea estimates

**BALANCE SHEET**

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Intangible assets	0	0	0	0	0	0	0	0	0	0	0
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	0	0	0	0	0	0	0	0	0	0
of which goodwill	0	0	0	0	0	0	0	0	0	0	0
Tangible assets	0	0	0	1	1	1	1	1	1	1	1
Shares associates	0	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	0	0	1	1	1	1	6	0	0	0
Total non-current assets	0	0	0	2	2	2	3	8	1	1	1
Inventory	0	0	0	0	0	0	0	0	0	0	0
Accounts receivable	0	0	0	1	3	8	14	18	15	9	14
Other current assets	0	0	0	0	1	0	1	1	2	1	2
Cash and bank	0	0	0	1	10	47	53	22	72	84	-9
Total current assets	0	0	0	2	13	55	68	41	89	95	7
Assets held for sale	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>15</b>	<b>58</b>	<b>71</b>	<b>48</b>	<b>90</b>	<b>96</b>	<b>7</b>
Shareholders equity	0	0	0	-3	9	53	54	38	72	84	-10
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	0	0	0	-3	9	53	54	38	72	84	-10
Deferred tax	0	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	0	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	0	0	0	0	0	0	0
Short-term provisions	0	0	0	0	0	0	2	0	0	0	0
Accounts payable	0	0	0	2	2	3	6	5	6	4	6
Other current liabilities	0	0	0	5	4	2	9	6	12	8	12
Short term interest bearing debt	0	0	0	0	0	0	0	0	0	0	0
Total current liabilities	0	0	0	7	7	5	17	11	18	11	17
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
<b>Total liabilities and equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>15</b>	<b>58</b>	<b>71</b>	<b>48</b>	<b>90</b>	<b>96</b>	<b>7</b>
<b>Balance sheet and debt metrics</b>											
Net debt	0	0	0	-1	-10	-47	-53	-22	-72	-84	9
Working capital	0	0	0	-6	-3	4	0	8	-1	-1	-1
Invested capital	0	0	0	-4	-1	6	3	15	-1	0	-1
Capital employed	0	0	0	-3	9	53	54	38	72	84	-10
ROE	n.m.	n.m.	n.m.	86.9%	-201.0%	-74.4%	4.1%	-107.1%	-69.3%	-76.1%	-253.4%
ROIC	n.m.	n.m.	n.m.	72.9%	288.8%	-870.7%	76.0%	-498.2%	-524.2%	0.584.2%	34.686.3%
ROCE	n.a.	n.a.	n.a.	57.2%	-94.1%	-53.0%	7.7%	-152.0%	-69.2%	-91.8%	1,229.7%
Net debt/EBITDA	n.m.	n.m.	n.m.	0.8	1.3	1.7	-11.7	0.4	1.5	1.1	-0.1
Interest coverage	n.a.	n.a.	n.a.	-118.5	-197.4	-23.8	22.0	-148.7	n.m.	n.m.	n.m.
Equity ratio	n.m.	n.m.	n.m.	-73.0%	56.8%	91.8%	76.7%	77.8%	80.1%	88.2%	-133.9%
Net gearing	n.m.	n.m.	n.m.	31.5%	-110.4%	-88.8%	-98.2%	-59.3%	-100.8%	-100.0%	-94.8%

Source: Company data and Nordea estimates

**CASH FLOW STATEMENT**

SEKm	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
<b>EBITDA (adj) for associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>-7</b>	<b>-27</b>	<b>5</b>	<b>-57</b>	<b>-49</b>	<b>-77</b>	<b>-122</b>
Paid taxes	0	0	0	0	0	0	0	0	11	17	27
Net financials	0	0	0	0	0	0	0	0	1	1	1
Change in provisions	0	0	0	0	0	0	2	-2	0	0	0
Change in other LT non-IB	0	0	0	-1	0	-1	0	-5	6	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	0	0	0	-5	0	1	-2	7	0	0	0
<b>Funds from operations (FFO)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-7</b>	<b>-7</b>	<b>-27</b>	<b>5</b>	<b>-56</b>	<b>-31</b>	<b>-59</b>	<b>-94</b>
Change in NWC	0	0	0	3	0	-2	3	-1	9	-1	0
<b>Cash flow from operations (CFO)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4</b>	<b>-8</b>	<b>-29</b>	<b>8</b>	<b>-57</b>	<b>-22</b>	<b>-60</b>	<b>-94</b>
Capital expenditure	0	0	0	-2	-1	0	-1	-1	0	0	0
<b>Free cash flow before A&amp;D</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5</b>	<b>-9</b>	<b>-29</b>	<b>7</b>	<b>-58</b>	<b>-22</b>	<b>-60</b>	<b>-94</b>
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Free cash flow	0	0	0	-5	-9	-29	7	-58	-22	-60	-94
Dividends paid	0	0	0	n.a.	n.a.	n.a.	0	0	0	0	0
Equity issues / buybacks	0	0	0	0	18	67	0	33	72	72	0
Net change in debt	0	0	0	0	0	0	0	0	0	0	0
Other financing adjustments	0	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	0	6	0	0	0	-6	0	0	0
Change in cash	0	0	0	1	9	37	6	-31	50	12	-94

**Cash flow metrics**

Capex/D&A	n.m.	n.m.	n.m.	361.9%	105.9%	31.7%	212.5%	126.2%	0.0%	n.m.	n.m.
Capex/Sales	n.a.	n.a.	n.a.	-12.2%	-3.7%	-1.8%	-1.1%	-3.4%	0.0%	0.0%	0.0%

**Key information**

Share price year end (/current)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	31	31	31
Market cap.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	740	820	820
Enterprise value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	668	736	830
Diluted no. of shares, year-end (m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.5	24.0	26.6	26.6

Source: Company data and Nordea estimates

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