

## Saniona: Reflections on the rights issue and interim report

31 May 2019

*We give our initial reflections to the share rights issue, announced Tuesday evening, and the Q1'19 interim report that was published Wednesday morning. In short, we believe the rights share was the right thing to do, although it always creates dilution effects and selling pressure. Accordingly, we have lowered our fair values, effective immediately.*

### Rights issue

On Tuesday evening, Saniona announced a share issue with preferential rights to existing shareholders. The key aspects of this offer are:

- The subscription price is SEK 18 per share, representing a discount of 32 percent based on 30 days VWAP
- Up to 4,349,540 shares can be issued
- Saniona can obtain net proceeds of SEK 64 million from this transaction
- It is underwritten up to 85 percent
- The aim with the share issue is to support Saniona's ongoing operations, where Tesomet in eating disorders are the primary focus and will accordingly drive costs
- Further, the intention with the rights issue is to replace future tranches in the agreement with Nice & Green (N&G)

Our view of this transaction is cautiously positive. In our last update ([link](#)), we concluded that there was a funding gap of approximately SEK 125 million during the next years, mainly due to moving forward with Tesomet in eating disorders into pivotal trials in 2020-2021. This funding gap could hence be sliced down to roughly half of our estimates.

Furthermore, the rights issue:

- Provide Saniona with strengthened partner negotiation capabilities, it is always better to have strengthened financials when considering out-licensing projects
- The rights issue is not oversized, which we believe was the right move to do, considering the stock price trading far from all-time high levels.
- The dilution effect of approximately 15 percent is acceptable. On the contrary, there is still a funding gap to support the company's operations and advance Tesomet. We give guidance that the cash position will be > SEK 80 mn right after the transaction, and that will support the operations and projects until the first quarter, 2020
- The convertible agreement with Nice & Green (N&G) and the potential to draw future tranches are to be replaced with this rights issue

Our notion is that Nice & Green have been a serious funding partner to Saniona during this period and that the selling pressure seen on the stock price is not to be attributed entirely to them. Given the general, increasingly bad reputation of the convertible tranche solutions, we believe this is the right thing to do by Saniona.

We take the net proceeds into account and base our valuation on a fully underwritten rights issue. Taking outstanding conversion by N&G into consideration, our current per share value is based on 28.4 million shares. It gives a new Base Case of SEK 90 per share (105), our Bear and Bull Case are changed accordingly. Naturally, we will update once we have the outcome of the rights issue.

## Q1'19 report

Revenues for the first quarter was low and came in at SEK 1.7 mn (4.3). For 2019, we don't anticipate a modest revenue, under SEK 10 mn. It is due to that we don't foresee any milestone to occur until 2020.

The cost-burn was largely in line with what we had anticipated. Operating profit came in at SEK -29.1 mn (-15.7). Free cash flow amounted to SEK - 25.3 mn (-15.2), and the cash position at the end of the period was SEK 46.9 million.

From an operational perspective, it seems to go according to plan. In the CEO letter, we learned that the open-label extension (OLE) part with Tesomet in Prader-Willi Syndrome (PWS) is doing good. We expect to see results from the OLE in July. Furthermore, the CEO letter also states that Medix remains confident in the market launch of tesofensine for the treatment of obesity in Mexico in 2020. Moreover, the preclinical assets are advancing, where for instance SAN711 (Neuropathic pain and itching disorders) and the Boehringer Ingelheim (Schizophrenia) is moving towards first-in-human studies.

As we stated above, we update our fair value with immediate effect but will take action again once we see the announcement of the rights issue.