

# Saniona Q4 2022: Transformational year

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Redeye returns with a research update following the Q4 report and recent events in the company. We reiterate our base case and conclude that 2022 was a transformational year for the company, for both good and bad. We see good prospect for positive momentum in the share during 2023 if Saniona delivers on its agenda.



Fredrik Thor

## Q4 as expected

We conclude that the financial report came in as expected, with revenues of SEK3.3m (2.9m) and an operating loss at SEK-22.6m (-125.7m), which indicate continued cost control following the significant changes made to the organization in 2022.

## SAN903 Ready for the clinic

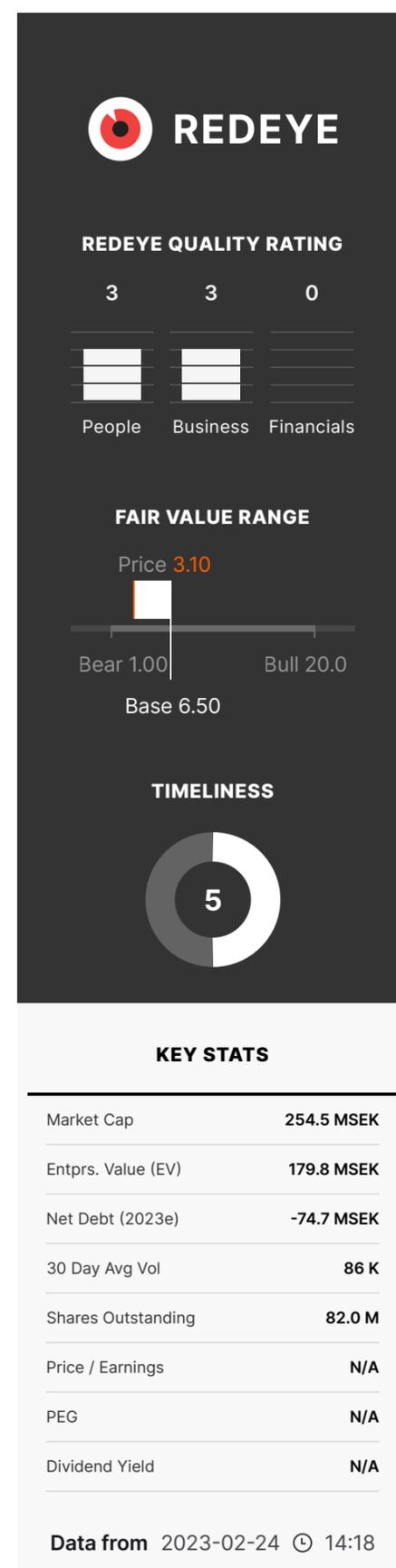
In Q4, we saw additional pre-clinical progress with drug candidate SAN903, that has compelling anti-inflammatory and anti-fibrotic properties. Potential indications include inflammatory bowel disease and fibrotic disorders such as chronic kidney disease and idiopathic pulmonary fibrosis ("IPF"). The company now guides that it is ready to start the regulatory process for a first clinical study.

## Continued focus on business development

In the report, CEO Feldthus reiterates the company's focus on partnering in order to secure non-dilutive funding. The company hopes to close two licensing agreements during 2023, including one in H1 2023. This would be an impressive achievement to deliver. The company states that interest in the company's assets remain strong and that there have been several dialogues and set up data rooms for potential partners to review. We believe that Saniona has a strong track record in this area and consider this a feasible option. However, we acknowledge that licensing agreements are uncommon in the Scandinavian sector, and the timing, data, and target indication must be appropriate for both parties. In our base case, we reiterate our prognosis of one licensing agreement (SAN711) (risk adjusted) the upcoming year, and will make upward revisions to our valuation if Saniona delivers two agreements.

## Key financials

SEKm	2022	2023E	2024E
Revenues	15	80	79
EBIT	(226)	(6)	19
Net Income	(245)	(8)	19



## IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

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## Building the pipeline

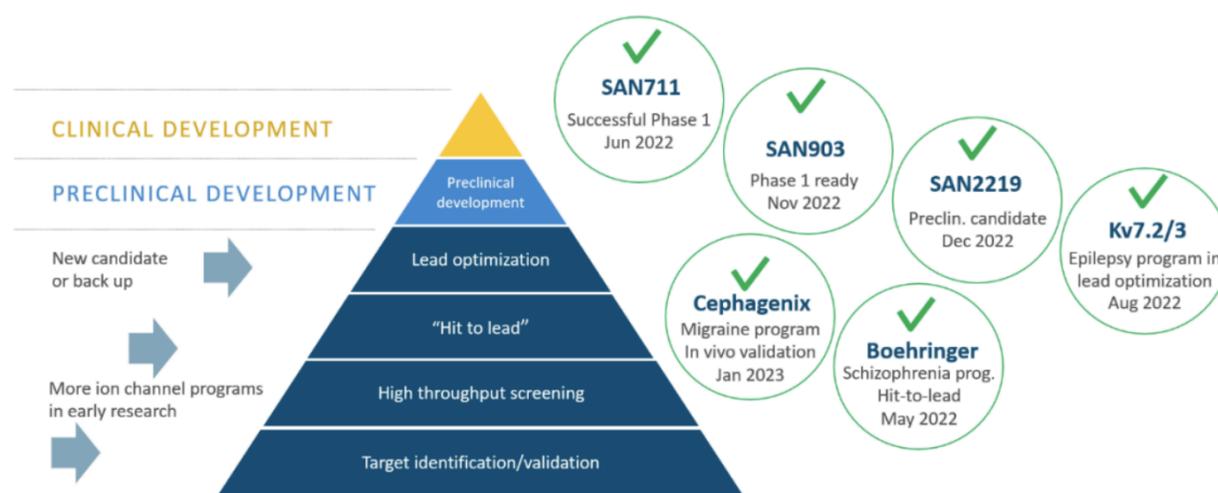
We continue to be impressed by the many programs and drug candidates within Saniona's portfolio. In December, the company announced a new candidate, SAN2219, which is the first preclinical candidate from the GABA-A A2/A3 activation program, that has shown encouraging preclinical data in for example epilepsy. Furthermore, Saniona announced exciting progress in the joint venture Cephagenix, targeting mainly migraine. According to the report, Cephagenix has identified *"the first generation of novel highly selective inhibitors of the specific KATP channel subtype expressed in the intracranial arteries and demonstrated that these compounds are effective in relevant in vivo animal models"*.

## Ion Channel Platform

Saniona possesses a proprietary drug discovery engine that focuses on modulating ion channels - a well-established and validated target for several successful drugs on the market. The company's in-house team has unique competencies and methods, resulting in a library of over 20,000 proprietary molecules that target different types of ion channels. Last year, Saniona achieved a significant milestone when its first candidate from the platform, SAN711, entered clinical trials, which were completed last year. Another potential drug candidate, SAN903, with the ability to inhibit inflammation and fibrosis, has also progressed well during 2022.

Ion channels are unique proteins that regulate the passage of charged ions across the lipid membrane that surrounds all cells. These membrane proteins are expressed in all types of cells, including the central and peripheral nervous systems. Despite being a high-potential target, ion channels are highly heterogeneous and, as a result, are often seen as difficult to explore. Saniona's value proposition lies in developing "highly selective, subtype-specific, state-dependent ion channel modulators and inhibitors," which utilize its "ionbase" database as the backbone of drug discovery. Saniona's in-house expertise allows it to develop modulators specific to a particular ion channel, enabling the desired effect without affecting other channels and potentially leading to adverse effects. Additionally, the company has a defined and sometimes unique set of methods, including imaging technology, assay design, and electrophysiological approaches.

While ion channel drug discovery is complex, we believe investors should view the platform as an increasingly critical part of Saniona's equity story, ultimately providing the company with additional drug candidates over time.



\* All 2022/2023 ion channel milestones achieved

## Valuation

We largely reiterate our view of Saniona from our Q3 comment but do some housekeeping (adjust FX; adjust our WACC due to a change in our Redeye Rating). We reiterate our base case of SEK6.5 per share. In 2023, we maintain our belief that a licensing agreement will remain the primary value driver in the mid-term, as it would serve as further confirmation of Saniona's new

business development-focused model.

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## Investment thesis

### Case

#### Turn Around Case with Plenty of Value

It has been a turbulent year for Saniona, which includes a major restructuring of the management team, stopped clinical studies with Tesomet due to financial difficulties and a refocused strategy towards business development. We see high quality in Saniona's assets, including its mid-stage orphan drug candidate Tesomet, phase I asset SAN711 (targeting neurophatic pain), and in the long run: its many assets from its Ion Channel Platform. To turn the case around, we argue that a funding solution and/or licensing agreement by H2 2023 and further advancement with phase I candidate SAN711 will be key.

### Evidence

#### Validated Platform and History of Collaborations

The Saniona case offers some unique factors: a validated, target-driven research platform focused on ion channels, including its lead candidate SAN711 that recently presented positive phase I data, combined with Tesomet, a mid-stage asset (phase IIb ready) targeting two rare eating disorders—PWS and HO. Saniona's research platform has been validated by several collaborations and spinouts over the years, providing non-dilutive funding from upfront payments and milestones – and the current (reinstated) CEO and management team have a proven track record at Saniona: Assuring given the turnaround situation the company is in.

### Challenge

#### Regaining Investors' and Market Confidence

In retrospect, the company's pivot towards the US and in-house clinical development, including its high ambitions and expenses, was premature and damaged the reputation of Saniona, and the stock is down some 70% in a year. Furthermore, the company has lost a few cornerstone institutional investors. We think that the new management team has done the right things lately: Smaller organization, significantly reduced costs and a focus on business development. To further turn the company around, additional execution on its new strategy will be needed.

### Challenge

#### Funding Needs Remain

Even though Saniona has reduced costs by some 75%, the company is still in need of additional funding for its operations and clinical programs. We estimate that the company has a cash runway into H1 2024– and the company has declared that it will focus on non-dilutive funding from partnering. The company has started to turn its reputation around, but strong execution – preferably a licensing deal with a significant upfront payment – would be a major relief.

### Valuation

#### Strong value proposition in Saniona

We largely reiterate our positive stance on Saniona's clinical drug candidates and research platform, but we see that uncertainty about funding could monopolize investors' attention in 2023. To turn the case around, we argue that a funding solution and/or licensing agreement by H2 2023 and further advancement with phase I candidate SAN711 will be key in pushing the share toward and beyond our Base Case of SEK 6.5 Per Share.

## Quality Rating

People: 3

**Business: 3**

**Financials: 0**

## Financials

### Balance sheet

#### Assets

##### Non-current assets

SEKm	2022	2023E	2024E
Property, Plant and Equipment (Net)	6	6	6
Goodwill	-	-	-
Intangible Assets	7	7	7
Right-of-Use Assets	10	10	10
Other Non-Current Assets	3	3	3
<b>Total Non-Current Assets</b>	<b>26</b>	<b>26</b>	<b>26</b>

##### Current assets

SEKm	2022	2023E	2024E
Inventories	-	-	-
Accounts Receivable	5	-	-
Other Current Assets	11	6	6
Cash Equivalents	112	156	101
<b>Total Current Assets</b>	<b>127</b>	<b>163</b>	<b>107</b>
<b>Total Assets</b>	<b>154</b>	<b>189</b>	<b>133</b>

#### Equity and Liabilities

##### Equity

SEKm	2022	2023E	2024E
Non Controlling Interest	-	-	-
Shareholder's Equity	53	95	114

##### Non-current liabilities

SEKm	2022	2023E	2024E
Long Term Debt	76	76	1
Long Term Lease Liabilities	-	-	-
Other Non-Current Lease Liabilities	2	2	2
<b>Total Non-Current Liabilities</b>	<b>78</b>	<b>78</b>	<b>3</b>

##### Current liabilities

SEKm	2022	2023E	2024E
Short Term Debt	6	6	6
Short Term Lease Liabilities	-	-	-
Accounts Payable	14	-	-
Other Current Liabilities	3	10	10
<b>Total Current Liabilities</b>	<b>23</b>	<b>16</b>	<b>16</b>
<b>Total Liabilities and Equity</b>	<b>154</b>	<b>189</b>	<b>133</b>

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**Cash flow**

SEKm	2022	2023E	2024E
Operating Cash Flow	(18)	(5)	19
Investing Cash Flow	(1)	-	-
Financing Cash Flow	(21)	50	(75)

## Rating definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

## The team

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