EDISON

Nuevolution

FY17 results

Defining year as partnerships progress on track

Pharma & biotech

FY17 has been a defining year for Nuevolution as it looks to further validate its unique Chemetics drug discovery platform. Highlights include the Amgen development collaboration, out-licensing the RORγt inverse agonist (dermatology and psoriatic arthritis indications) to Almirall and the progression of the internally generated pipeline assets. We anticipate at least one further out-licensing or risk-sharing collaboration in FY18. We value the company's recent deals with Amgen, Almirall and Janssen at SEK902m ($113m). Our valuation does not include the technology, other pipeline assets and future deal opportunities.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
06/16	21.3	(151.9)	(4.0)	0.0	N/A	N/A
06/17	120.3	(9.4)	(0.6)	0.0	N/A	N/A
06/18e	174.8	40.0	0.6	0.0	N/A	N/A
06/19e	126.6	(13.8)	(0.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY17: A major step forward in the Grand Plan

Positive progression on technical (creation of a 40 trillion screening library), business (signing of Almirall and Amgen deals) and pipeline (eg RORγt inverse agonist and BET BD1) fronts has defined Nuevolution's first full financial year on the equity market. In the medium term, Nuevolution is aiming to transition from a preclinical company to a multi-asset clinical business through rapid progression of at least one programme into the clinic. It is also looking to strength its shareholder base and to move to the Nasdaq Stockholm Main Market (in FY18).

Almirall, Amgen and Janssen: Big pharma lines up

Multiple deals in FY17 further endorse the business model and are pivotal in defining value. Nuevolution's collaboration with Amgen (up to $410m per target plus tiered royalties) continues according to our initial expectations, with two programmes hitting in vitro proof of concept. We expect the RORγt inverse agonist, which was transferred to Almirall (up to €442m plus tiered royalties), to enter the clinic in 2018. In March, Janssen added a new target to its ongoing collaboration ($0.6m payment).

Financials: Strong cash position into FY20

FY17 revenues of SEK120.3m (FY16: SEK21.3m) benefited from the gross SEK109m Almirall upfront. Operating expenses decreased to SEK130.8m (FY16: SEK173.2m). However, underlying costs increased by SEK18m. Net cash of SEK175.2m (at 30 June 2017) will be sufficient to fund Nuevolution into FY20 even if no further milestone payments are achieved.

Valuation: rNPV of SEK902m (SEK21.0/share)

Our valuation of SEK902m($113m) vs SEK901m previously is exclusively based on a risk-adjusted model of the future milestone payments we expect from the Almirall (SEK8.9/share) and Amgen (SEK7.6/share) deals plus net cash (SEK4.1/share). In addition, our valuation now includes the Janssen deal (SEK0.4/share).

28 September 2017

Price	**SEK19.7**
Market cap	**SEK845m**
	SEK8.018/US$
Net cash (SEKm) at 30 June 2017	175.2
Shares in issue	42.9m
Free float	56%
Code	NUEV
Primary exchange	Nasdaq First North Premier
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	27.9	22.4	96.0
Rel (local)	22.1	24.0	73.5
52-week high/low	SEK20.3		SEK9.6

Business description

Nuevolution is a Copenhagen-based biopharmaceutical company. Its patent protected Chemetics drug discovery platform enables the selection of drugs to an array of tough-to-drug disease targets. To date it has entered into 17 agreements with major pharmaceutical companies.

Next events

Up-list to Nasdaq Stockholm Main Market	FY18
Sign new out-licence/risk-sharing collaboration	FY18
Move one programme into the clinic	2018

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Edison profile page

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FY17 setting the foundations for future growth

Nuevolution's business model embodies continuous revenue generation and risk mitigation, executed through a 'multiple shots on goal' approach to drug development. FY17 was a pivotal year, notably on business development, as Nuevolution signed a major collaboration deal with Amgen, out-licensed its RORγt inverse agonist (in dermatology and psoriatic arthritis indications) to Almirall and expanded its agreement with Janssen. In addition, multiple research achievements in FY17, including the generation of a 40 trillion molecule Chemetics library, have kept Nuevolution's drug discovery technology at the cutting edge.

Amgen, Almirall and Janssen: Executing on track

In the 2016/17 full year results, Nuevolution noted that two of the programmes in its partnership with Amgen (signed in October 2015) have obtained in vitro proof of concept. Of these, one programme was part of the original targets agreed on, while the other was originally part of Nuevolution's own pipeline. This second programme has been transferred to the collaboration, where Amgen now has the option to license the product candidate at a future date.

The RORγt inverse agonist programme (in dermatology and psoriatic arthritis indications) has been transferred to Almirall and we expect the lead molecule to enter Phase I trials in 2018. Nuevolution received €11.2m (SEK109m) gross as an upfront licence payment (before the Spanish withholding tax of SEK20.9m). The deal could provide Nuevolution with up to €172m (SEK1.7bn) in development and regulatory milestones, and €270m (SEK2.6bn) in commercial sales milestones and tiered royalties on future net sales. Almirall is a major player in dermatology (€389.8m in worldwide dermatology sales in FY16) and well placed to maximise the potential of the RORγt inverse agonist.

The Janssen agreement represents an older-style technology access agreement, which has lower economic value compared to the newer collaborations: specifically, the Almirall and Amgen agreements. While lower value, it is highly encouraging to see progress in the collaboration and it serves as ongoing validation of the Chemetics technology platform. The original agreement was signed in October 2015 (undisclosed upfront) and to date Nuevolution has twice publicly announced an expansion of the agreement, receiving two payments of $0.6m each in June 2016 and March 2017.

Research collaborations advance the platform

In December 2016, Nuevolution entered into a three-year collaboration with the group of Professor Kristian Helin at the University of Copenhagen. Innovation Fund Denmark will contribute up to DKK16.4m (SEK21.6m) to the three-year project, which has a total budget of DKK24.4m (SEK32.3m). Nuevolution will contribute to the project and could additionally receive up to DKK 5.2m (SEK6.8m) in funding over the project period. The project aims to find small molecules to NSD proteins that are hyper-active in certain cancers including multiple myeloma, acute myeloid leukaemia and acute lymphatic leukaemia.

In January 2017, the group of Nobel Laurette Dr Robert J Lefkowitz (Duke University) in collaboration with Nuevolution published a paper titled Allosteric "beta-blocker" isolated from a DNA-encoded small molecule library. The paper described the selection of an antagonist against β2-adrenergic receptor. Importantly, the paper outlined a broadly applicable technique for screening DNA-encoded libraries against the classically hard to drug GPCR transmembrane proteins.

In February 2017, Nuevolution announced that it had successfully created and validated a Chemetics library containing 40tn compounds, which the company believes to be the largest

synthetic library ever created. The library was validated by screening it against HIV protease, where it revealed compounds with high binding affinity. For an in-depth look at the Chemetics platform, please see our initiation note, Chemetics proof is in the deal making.

Pipeline overview: Aiming for the clinic

Nuevolution continues to progress its internally generated pipeline towards the clinic. It has numerous publicly announced programmes alongside up to 10 earlier-stage undisclosed programmes in various stages from screening to hit validation and early hit optimisation. Of the main pipeline, the RORγt inverse agonist and the BRD1 programmes are the most advanced, while earlier-stage assets including cytokine X and GRP78 continue to progress well. We anticipate that Nuevolution will progress one or more of its unpartnered assets into the clinic in the next 24 months.

Exhibit 1: Nuevolution's development pipeline

Indication	Stage	Target	Ownership	Notes
Chronic inflammatory diseases	Preclinical	RORγt inverse agonist	Partner Almirall in dermatology and psoriatic arthritis.	RORγt plays an important part in the generation of mature T-cells and the subsequent production of cytokines, notably IL-17. IL-17 is a key pro-inflammatory cytokine that plays a role in multiple inflammatory and autoimmune conditions and in certain circumstances cancer. Injectable antibodies against IL17 have demonstrated good efficacy for treatment of psoriasis in humans. Nuevolution's RORγt inverse agonists are oral-based therapeutics that offer the ability to down regulate IL-17. The lead candidate is partnered with Almirall for dermatology and psoriatic arthritis. Clinical development in dermatology is expected to commence in 2018.
			Other indications 100% ownership NUE	Nuevolution retains rights to other non-dermatological indications. Proof-of-concept studies in mice are ongoing in indications outside dermatology, with initial data expected in mid-2017.
Inflammatory diseases	Discovery: lead optimisation	BET bromodomain inhibitors	100% ownership NUE	The BET sub-family of bromodomains is a novel biological disease target class offering a new mode of action for treatment of cancer and inflammatory diseases.
Inflammatory diseases	Discovery: hit-to-lead	Cytokine X	100% ownership NUE	The cytokine X (target undisclosed) programme demonstrated proof-of-concept in an animal model for inflammation. The cytokine X programme looks to offer tablet-based replacement for currently available but costly injectable medicines.
Cancer	Discovery: hit-to-lead	GRP78	50% ownership*	GRP78 is a member of the chaperone family of proteins; it is over expressed in many tumour types including breast cancer and brain tumours.
Cancer	Discovery: hit optimisation	RORγt agonist (inhibition)	100% ownership NUE	RORγt agonists may provide the immune system with a novel tumour attacking mechanism.
Various	Discovery: various	Various	100% ownership NUE	15+ discovery programmes in a range of undisclosed indications including oncology, inflammatory diseases and immuno-oncology.

Source: Nuevolution, Edison Investment Research. Note: *Collaboration with CRT and ICR.

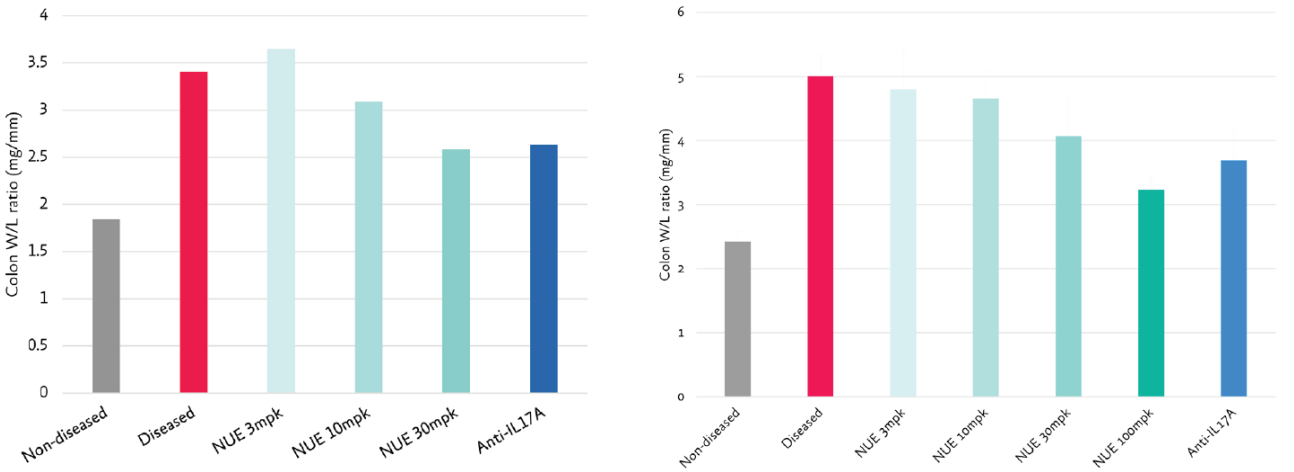
RORγt inverse agonist: Progress outside of Almirall indications

The discovery of retinoid-acid receptor-related orphan receptor gamma t (RORγt) as an important master control switch of immune system activation translates to a potential novel class of drugs for the treatment of autoimmune diseases (by immune suppression) and for cancer immunotherapy (by immune activation). RORγt plays a critical role in the generation of mature T-cells, particularly Type 17 effectors that produce an array of cytokines, notably IL-17A (IL-17A enables the recruitment of key immune components to sites of inflammation). Nuevolution has retained the rights to develop the RORγt inverse agonist (inhibitor) in indications not covered by the Almirall deal and has been testing it in Inflammatory Bowel disease (IBD) models. In two separate chemically induced IBD models (Exhibit 2), a lead compound demonstrated dose-dependent improvements in colon parameters. Importantly, the compound produced data on a par with a mouse antibody against IL-17A. Nuevolution has now started production of the active pharmaceutical ingredient (API).

RORγt has become a hot target with large pharma and biotechs keen to rapidly progress programmes (Exhibit 3). One of the most advanced RORγt inverse agonist programmes in development is by Allergan (through the acquisition of Vitae Pharmaceuticals for $639m in cash). In

May 2016, Vitae Pharmaceuticals reported top-line results from its Phase IIa clinical trial testing its small molecule RORγt inverse agonist (VTP-43742) in psoriatic patients. In the low dose cohort (350mg), VTP-43742 reported a 23% improvement in the Psoriasis Area and Severity Index (PASI) score at day 28 from baseline ($p<0.015$); this compared favourably to a 1% deterioration for patients on placebo. Patients on the higher dose cohort demonstrated a 29% improvement from baseline at day 28 ($p=0.003$). There were no reported serious adverse events at all dose levels. At the highest dose tested (700mg), reversible transaminase elevations were observed in 5/34 patients. No dose limiting toxicities were seen in any of the Phase Ia, Ib and IIa trials. In the Phase Ib trial, some nausea and headache was observed at the maximum dose of 1,400mg, however, it was not dose limiting. These data are the first Phase II data to confirm the validity of RORγt as a drug target for the treatment of psoriasis. On acquisition, Allergan confirmed the plan to initiate a 16-week Phase II trial to determine the effect of VTP-43742 over a longer time period. No further details have been released since the acquisition in September 2016.

Exhibit 2: Effect of NUE compound (RORγt inverse agonist) in TNBS (left) and DSS (right) animal models



Source: Nuevolution

RORγt agonist: Target receives first clinical validation

Instead of supressing the immune system with an inverse agonist, activation of RORγt with an agonist is believed to stimulate the immune system and could be beneficial in treating cancers. To date, Nuevolution has selected compounds that stimulate RORγt and demonstrate a dose-dependent secretion of IL-17A. The company is currently upscaling production and conducting pharmacokinetic testing for in vivo stability. Once a compound is selected, Nuevolution plans to test it as both a monotherapy and in combination with relevant checkpoint inhibitors in various cancer models.

Recently, the target was clinically validated by Lycera, which has presented positive Phase I data for its RORγt agonist LYC-55716 in advanced, relapsed or refractory solid tumours. It is currently the only RORγt agonist in the clinic and the positive data presented significantly de-risk the entire class. The Phase I trial currently consists of 15 patients divided into three cohorts, with a total of 25 patients expected to be enrolled. It is a 3+3 study design and the drug is orally administered with the primary endpoints being safety and maximum tolerated dose; the secondary endpoints include objective response according to RECIST v1.1 criteria. No serious adverse events were reported as of data cut-off and in the first two cohorts (n=11) eligible for efficacy assessment, four patients had stable disease. At time of data cut-off two of the patients had stable disease for greater than seven months and remain on treatment. The study expects to be fully enrolled by mid-2018 and, if successful, Lycera plans to enrol 70 patients in a Phase IIa study. To our knowledge, few RORγt agonists exist in preclinical or clinical development. We expect interest in the space to pick up

following the initial validation of the target by Lycera. Nuevolution plans to report further on its RORγt agonist programme in the latter part of 2017.

Exhibit 3: RORγt inverse agonists in development

Drug	Company/partner	Delivery	Status	Indication(s)	Notes
Development programme	Nuevolution/ Almirall	Oral	Preclinical	Almirall: dermatology and psoriatic arthritis indications. Nuevolution: Other indications. Most advanced in IBD.	Signed in December 2016. Deal contains €172m (SEK1.7bn) in development and regulatory milestones, €270m (SEK2.6bn) in commercial sales milestones and tiered royalties on future net sales. Nuevolution received €11.2m (SEK109m) gross as an upfront licence payment (before the Spanish withholding tax of SEK20.9m). Nuevolution retains the right to develop RORγt inverse agonist compounds outside of the Almirall indications (in dermatology and psoriatic arthritis indications).
GSK-2981278	GSK	Topical	Phase II	Psoriasis	Has completed a Phase II and Phase I trial for the topical treatment of plaque psoriasis. At its Q217 results, GSK announced it will terminate, partner or divest GSK-2981278.
VTP-43742	Allergan	Oral	Phase II	Psoriasis	Allergan, through the acquisition of Vitae Pharmaceuticals for $639m, is developing an oral RORγt inverse agonist (previously known as VTP-43742). In an ongoing Phase II trial. Has another RORγt inverse agonist (VTP-45489) in earlier undisclosed development.
ARN-6039	Arrien Pharmaceuticals/ undisclosed	Oral	Phase I	Autoimmune disorders	In June 2017, Arrien announced a worldwide licence agreement with an undisclosed, US-based pharmaceutical company. The agreement covers development in psoriasis and other autoimmune disorders. The deal includes an undisclosed upfront, development milestone, sales milestone and royalties on net sales. ARN-6039 has completed a Phase I trial.
AZD-0284	AstraZeneca	Oral	Phase I	Psoriasis	Phase I study in plaque psoriasis vulgaris has completed in healthy patients.
JTE-451	Japan Tobacco	Oral	Phase I	Psoriasis	As of 2 August 2017 it is still in development. Previously had JTE-151 in development, which had been terminated as of 2 May 2016.
BBI-6000	Orca Pharmaceuticals/ Brickell Biotech	Topical	Preclinical	Psoriasis	Acquired worldwide rights from Orca in November 2015 for a series of topical RORγt inhibitors (undisclosed deal terms). Company expects to initiate a proof-of-concept clinical trial in psoriasis (topical) by early 2018.
LYC-56056	Lycera/Celgene	Oral	Preclinical	Autoimmune disorders	Celgene has to date paid $82.5m upfront as part of the collaboration deal and $17.5m to license the ex vivo RORγt agonists. Separately in February 2013, in the expansion of an earlier agreement, Merck set out a $300m R&D, regulatory and commercial milestone package that was based around RORγt and Th17 cells. At the time of writing Merck now has the exclusive rights for a single undisclosed target and is advancing that internally.
INV-17	Innovimmune Biotherapeutics	Oral	Preclinical	Psoriasis	Most recently presented preclinical psoriasis data (topical treatment) at the 2017 European Academy of Dermatology and Venereology (EADV) annual meeting in Geneva.
IMU-366	Immunic Therapeutics	Oral	Preclinical	Psoriasis	No public information released on current status or preclinical results of the product.
Development programme	Phenex Pharma/ Janssen	Oral	Phase I	Autoimmune disorders	Development programme with Janssen worth up to $135m. Recently announced the payment of a $6m milestone payment from Janssen for the initiation of Phase I trial with a RORγt inverse agonist.
Development programme	Lead Pharma/Sanofi	Oral	Preclinical	Autoimmune disorders	Signed February 2015. Undisclosed deal value. Plan to be in clinical trials within 3-4 years of starting the research collaboration. Lead Pharma received an upfront payment and is eligible to receive milestones on research, development, regulatory and commercial progress. Sanofi is responsible for commercial development. Lead Pharma has to date received two undisclosed milestones from Sanofi, most recently in February 2017.
Development programme	Orca Pharmaceuticals/ AstraZeneca	Oral	Unknown	Autoimmune disorders	Three-year collaboration (signed in 2015) to develop inhibitors of RORγt. Total deal value worth $122.5m. Includes unknown upfront, AZ retains the rights to acquire the compounds at the end of the collaboration.
Development programme	Exelixis/ Bristol-Myers Squibb	Oral	Unknown	Autoimmune disorders	Joint discovery programme. Research period with Bristol-Myers Squibb (BMY) has ended, BMY now has had sole responsibly for its development.
Development programme	Karo Pharma/ Pfizer	Oral	Unknown	Autoimmune diseases	Signed a deal in December 2011 to develop new treatments for autoimmune diseases based on RORγt. Karo is entitled to milestones of over $200m plus royalties on sales. In May 2017 it received a $2m milestone from Pfizer.

Source: Edison Investment Research

BRD BD1

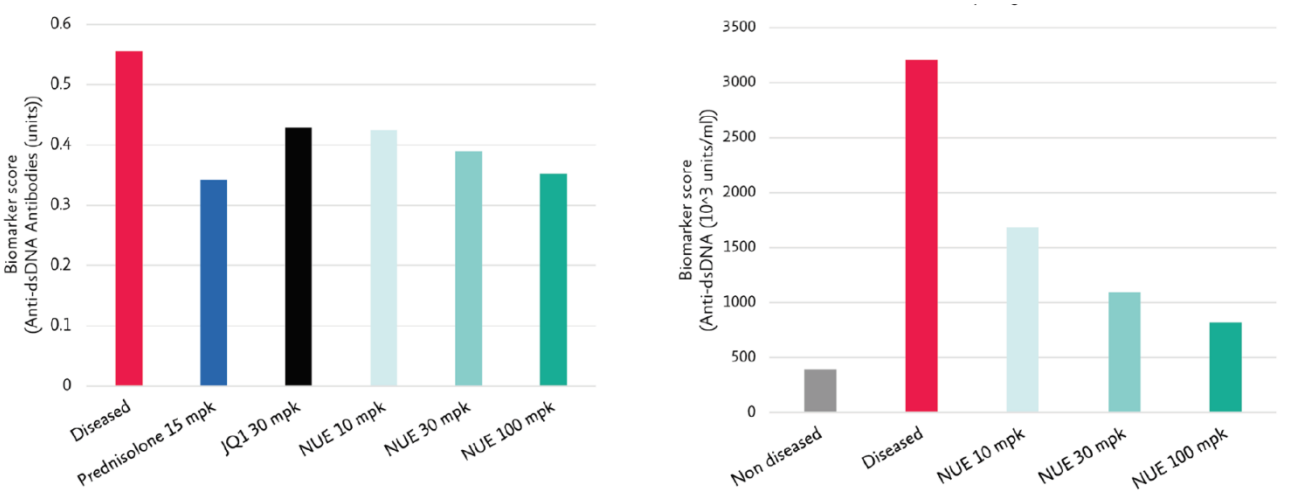
Nuevolution's second most advanced internal programme is focused on the first bromodomain (BD1) of the bromodomain and extra-terminal domain (BET) family of proteins. The most advanced molecule in the programme, NUE7770 was tested in various animal inflammatory disease models in FY17. In a pristane-induced (chemically induced) lupus model (Exhibit 4), NUE7770 reported a dose-dependent reduction in the number of antibodies against double-stranded DNA (biomarker used for diagnosis of human lupus) and with efficacy on a par with prednisolone (steroid used to

treat lupus). Based on this success, it was then tested in a genetic model (Exhibit 4). The genetic model involves inducing a mutation that prevents normal control of the immune system and results in its overstimulation (symptoms are similar to human lupus). It was able to dose-dependently reduce the concentration of anti-DNA antibodies to close to a non-diseased state. NUE7770 was additionally tested in other disease models in FY17 and demonstrated positive results in a collagen-induced arthritis mouse model, a severe lung disease idiopathic pulmonary fibrosis model and in a mouse toxicology model. In the mouse toxicology model it demonstrated a safety profile that was significantly better than a competing non-selective bromodomain inhibitor JQ-1. No negative findings were observed at all dose levels (30,100, 300 and 600 milligram per kilogram [mpk]) for NUE7770 compared to JQ-1 which demonstrated adverse effects at all dose levels including an elevated mortality rate at the highest dose (100mpk). Further data are expected to be presented later in 2017 including the selection of both the lead compound and lead indication.

We note that an array of BET BRD inhibitors are in development; however, the most advanced clinical candidates are generally non-specific in nature and target the majority of BET BRD proteins. Three of the most advanced BET inhibitors are BMS-986158 (Phase I/II) from Bristol-Myers Squibb, GS-5829 (three ongoing Phase I/II trials) from Gilead and INCB057643 (Phase I/II) from Incyte.

Non-selective BET BRD inhibitors have to date demonstrated dose limiting toxicities due to their non-specific nature. Published data on a Phase I dose ranging study with OTX015 (acquired by Merck, now designated MK-8628), a BRD2, BRD3 and BRD4 inhibitor, highlighted these problems. Dose limiting toxicities were observed across all concentrations and even at the recommended dose for the Phase II study, a seven-day interval is required after every 14 days of daily treatment. Nuevolution's selective BRD BD1 inhibitor NUE7770 has so far demonstrated a clean pre-clinical safety profile and may demonstrate a significantly improved clinical profile compared to current BET BRD inhibitors, however, caution should be noted on predicting clinical effects from preclinical data.

Exhibit 4: NUE7770 response in a pristane-induced lupus model (left) and a genetic lupus model (right)



Source: Nuevolution

Multiple shots on goal with broad pipeline

In FY17 several lead compounds had been tested in the cytokine X programme (undisclosed target) including in human disease mouse models. These efforts have been guided by the generation of multiple X-ray co-crystal structures throughout the year and Nuevolution aims to be first in class with its cytokine X programme.

The GRP78 programme is being conducted in collaboration with Cancer Research Technology (CRT) UK and the Institute of Cancer Research (ICR) UK. The programme is aiming to identify compounds that target GRP78, an intracellular protein that is believed to support cancer cell

survival. Compounds selected by Nuevolution are being tested by CRT/ICR in cancer cell lines and data are expected later in 2017.

Sensitivities: Clinical validation required

Nuevolution is subject to drug development risks, including clinical development delays or failures. However, Nuevolution's large number (15+) of compounds in parallel development helps to reduce the risks typically associated with pure-play biotech. Additional sensitivities exist around IP protection, regulatory risks, competitor successes, partnering setbacks, and financing and commercial risks. While Nuevolution's strategy minimises the business risk associated with drug development by partnering early in development, general risk still remains in the partner's willingness to progress these partnerships. One of the key sensitivities for Nuevolution relates to the successful transition of molecules discovered by its Chemetics programme into clinical-stage development; this will enable further validation of its technological capabilities. Financing needs depend on milestone revenues from existing partners and potential new partnering activities; delay or failure to receive future milestones would generate a funding gap during FY19.

Valuation: rNPV of SEK21.0/share or SEK902m ($113m)

Our valuation of Nuevolution has increased slightly to SEK902m ($113m) (vs SEK901m previously) including net cash of SEK175m ($22m, SEK4.1/share). We have added the Janssen deal (SEK0.4/share) into our risk-adjusted model, which already includes the Almirall (SEK8.9/share) out-license and the Amgen (SEK7.6/share) collaboration. We use a 12.5% discount rate. Our valuation does not include the technology, other pipeline assets and future deal opportunities due to the lack of visibility on milestone payment and structure. Specifically for the Amgen deal, our valuation is based purely on potential development milestones, with no value included from product launches. Due to the inherent confidentiality of the collaboration agreement, it is difficult to predict future milestones. However, we forecast that Amgen will license one programme in FY18 and as such Nuevolution will benefit from an upfront payment, which we assume will be in the same region as the Almirall upfront.

For Almirall, the majority of the value lies in milestone payments (65%), given the long time frame to potential launch of the product, with a smaller contribution from royalties on sales (35%). We have not ascribed value at this point to the unique platform and multiple candidates at an early stage in preclinical development; consequently, we see uplift potential as further deals are made and/or assets move into clinical development. For a full breakdown of our valuation methodology for the Amgen and Almirall deals please see our initiation note, Chemetics proof is in the deal making.

We have added the Janssen collaboration into our valuation as we believe recent newsflow including the $600k (SEK5.45m) technology access fee payment validates the Chemetics platform further. We estimate that Nuevolution currently has three Janssen assets in development, which we assume could be worth up to $30m per asset in milestone payments if they reach the market. However, due to the inherent risks in drug development we assume none of the products in development is approved and that one asset each starts a Phase I trial, a Phase II trial and a Phase III trial. As such the total milestones per asset are adjusted to reflect the relative progress. We currently do not forecast royalties as the indications are unknown. As such, this could provide further upside to our valuation.

Financials FY17

Net cash at end June 2017 was SEK175.2m ($22.0m), which was boosted by the proceeds of both the Almirall (SEK109m) and Janssen payments (SEK5.45m). Revenues in FY17 were reported at SEK120.3m (FY16: SEK21.3m). R&D costs decreased to SEK107.6m in FY17 from SEK115.7m in FY16. However, we note that FY16 was affected by one-off costs related to the 2015/21 warrant programme of SEK24.2m (R&D costs include R&D staff compensation and costs). As such, recurring year-on-year R&D costs increased by SEK16.1m predominately due to increased development costs for the RORγt and BET inhibitor programmes, in addition to increases in patent application and personnel costs.

SG&A costs dropped significantly year-on-year from SEK57.5m in FY16 to SEK23.2m in FY17. This was due to exceptional items in FY16 relating to the IPO and the warrant programme (non-cash). An underlying increase in SG&A of SEK1.9m resulted from the ongoing costs of being a publicly listed company.

Corporate tax had a significant negative impact in FY17 to the tune of SEK16.0m compared with the positive tax benefit in FY16 of SEK6.9m. Tax implications with Spain from the Almirall payment (Spain and Denmark do not have a tax agreement) resulted in Nuevolution incurring Spanish holding tax of SEK20.9m. This was offset slightly by the utilisation of Danish tax credit, adjustments for deferred tax and a FY17 tax reimbursement.

The net loss in FY17 decreased to SEK25.5m (FY16 loss: SEK145.0) as a result of the large increase in revenues year-on-year, notably from the SEK109m payment from Almirall.

Our model suggests that current cash is sufficient to fund operations into FY19, assuming current burn rates and if there were no additional revenues from milestones. After that, financing needs will depend on the exact status of the internal pipeline; progressing one or more candidates into the clinical stage could require additional funding. The cash runway to FY19 is not dependent on our expected milestone payments in the period.

We forecast that revenues should benefit from milestone payments through the ongoing collaborations with Amgen and Almirall and we forecast total revenues of SEK174.8m in FY18 (versus SEK120.3m reported in FY17) and SEK126.6m in FY19. We forecast R&D expenditure of SEK113.0m in FY18 (SEK107.6m FY17) and SEK118.6m in FY19. We expect costs to increase modestly from FY17 to FY18 as we expect one programme to enter the preclinical stage and discovery work to ramp up.

Exhibit 5: Financial summary

Accounts: IFRS, Year-end: June, SEK000s	2016	2017	2018e	2019e
Income Statement				
Total revenues	21,314	120,318	174,825	126,574
Reported gross profit	21,314	120,318	174,825	126,574
SG&A (expenses)	(57,493)	(23,216)	(23,448)	(23,683)
R&D costs	(115,707)	(107,587)	(112,966)	(118,615)
Adjusted EBIT	(151,886)	(10,485)	38,410	(15,724)
Reported EBIT	(151,886)	(10,485)	38,410	(15,724)
Finance income/ (expense)	(22)	1,045	1,575	1,941
Adjusted PBT	(151,908)	(9,440)	39,985	(13,782)
Reported PBT	(151,908)	(9,440)	39,985	(13,782)
Income tax expense	6,911	(16,046)	(13,995)	4,824
Adjusted net income	(144,997)	(25,486)	25,990	(8,959)
Reported net income	(144,997)	(25,486)	25,990	(8,959)
Earnings per share				
Basic EPS (SEK)	(4.0)	(0.6)	0.6	(0.2)
Diluted EPS (SEK)	(4.0)	(0.6)	0.6	(0.2)
Adjusted basic EPS (SEK)	(4.0)	(0.6)	0.6	(0.2)
Adjusted diluted EPS (SEK)	(4.0)	(0.6)	0.6	(0.2)
Average number of shares – basic (m)	36.5	42.9	42.9	42.9
Average number of shares – diluted (m)	36.5	43.6	43.6	43.6
Balance sheet				
Property, plant and equipment	5,494	5,538	5,761	5,973
Other non-current assets	8,585	6,397	1,665	6,489
Total non-current assets	14,079	11,935	7,426	12,462
Cash and equivalents	205,955	179,595	216,224	201,230
Trade and other receivables	367	93	93	93
Other current assets	14,564	10,032	2,902	2,902
Total current assets	220,886	189,720	219,219	204,225
Non-current loans and borrowings	3,482	2,939	2,939	2,939
Total non-current liabilities	3,482	2,939	2,939	2,939
Trade and other payables	12,162	10,986	10,986	10,986
Current loans and borrowings	1,222	1,482	1,482	1,482
Other current liabilities	20,044	16,286	15,286	14,286
Total current liabilities	33,428	28,754	27,754	26,754
Equity attributable to company	198,055	169,962	195,952	186,994
Cash flow statement				
Profit before tax	(151,908)	(9,440)	39,985	(13,782)
Depreciation of tangible assets	1,328	1,703	277	288
Share based payments	48,528	(153)	0	0
Other adjustments	22	(1,045)	(1,575)	(1,941)
Movements in working capital	19,594	(962)	0	0
Net cash from operating activities (pre-tax)	(82,436)	(9,897)	38,687	(15,436)
Interest paid / received	(224)	(798)	1,575	1,941
Income taxes paid	1,210	(12,520)	(2,133)	0
Cash from operations (CFO)	(81,450)	(23,215)	38,129	(13,494)
Capex (includes acquisitions)	(504)	(715)	(500)	(500)
Other investing activities	(51)	(9)	0	0
Cash used in investing activities (CFIA)	(555)	(724)	(500)	(500)
Net proceeds from issue of shares	242,061	0	0	0
Other financing activities	(1,119)	(1,253)	(1,000)	(1,000)
Cash from financing activities (CFF)	240,942	(1,253)	(1,000)	(1,000)
Increase/(decrease) in cash and equivalents	158,937	(25,192)	36,629	(14,994)
Cash and equivalents at beginning of period	46,250	205,955	179,595	216,224
Cash and equivalents at end of period	205,955	179,595	216,224	201,230

Source: Edison Investment Research, Nuevolution accounts

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