Herantis Pharma

Company report

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Inderes corporate customer

This report is a summary translation of the report “Seuraava tutkimusvaihe käynnistyy odotetusti H2:lla” published on 8/23/2024 at 7:00 am EEST

The next trial phase will begin in H2 as expected

In its H1 report, Herantis reported that a new trial will be launched during H2'24. In terms of figures, the loss was slightly higher than we expected. Costs were increased by preparation for a new clinical trial, including drug production. Secured funding should suffice until Q3'25 and allow the next clinical trial to be completed. We reiterate our Accumulate recommendation and the EUR 2.2 target price as the outlook essentially remains unchanged.

The Parkinson's disease drug candidate progresses to the next trial phase in H2 as expected

At the end of last year, Herantis completed a Phase Ia trial with HER-096, a drug candidate for Parkinson's disease. Based on the results, HER-096 crosses the blood-brain barrier. There were also no tolerability concerns, which helped reduce the risk associated with development and paved the way for further development of the candidate. Earlier this year, Herantis announced that it had filed for a Phase Ib study authorization, the primary objective of which is to evaluate the safety and tolerability of subcutaneously administered HER-096 in both healthy volunteers and Parkinson's disease patients at repeated doses. Herantis now says it expects to administer the dosage to the first patient in H2'24, which is in line with our expectations. Up to 36 subjects will be recruited for the trial, of whom the first 12 are healthy volunteers and the next 24 are patients with Parkinson's disease. The trial examines the behavior of the candidate in the body at repeated doses, its tolerability and explores biomarkers that could help monitor the effects of the drug.

Costs were higher than expected in H1 due to preparation for future trials

EBIT was -2.76 MEUR, below our forecast of -2.38 MEUR due to higher-than-expected operating expenses. Costs were raised especially due to preparation for future trials, including drug production. Cash flow for the period was -3.0 MEUR and cash and cash equivalents stood at 3.5 MEUR at the end of H1. The financial position was strengthened during H1 by a EUR 750,000 grant from the European Innovation Council (EIC) In the future, the cash position will be reinforced by the above-mentioned research funding of 3.6 MEUR to be paid in three installments upon achievement of research milestones. At the end of H1, these assets were not yet present in the balance sheet. According to management comments, the current financial resources and secured funding suffice up to Q3'25.

Risk-adjusted DCF modeling suggests that the stock is attractively priced considering the risks

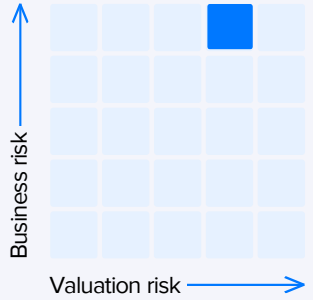
The H1 report was mainly in line with our expectations, so the forecast changes are moderate. Short-term forecast changes do not have a significant impact on the valuation that is based on long-term cash flows. Our risk-adjusted forecasts consider the significant risk of failure in drug development, which we estimate is almost 90%. We expect royalty-based revenue to start in 2032 and peak in the late 2030s. Our DCF model suggests a value of EUR 2.2 per share indicating the attractive pricing of the stock. The value of the share may also materialize through a partnership agreement or a bid. The investment profile is characterized by a high return potential with a low probability and a high probability of loss of capital.

Recommendation

Accumulate
(was Accumulate)

EUR 2.20
(was EUR 2.20)

Share price:
1.60



Key figures

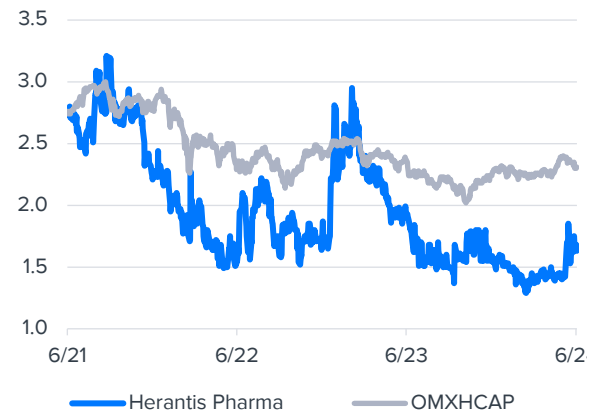
	2023	2024e	2025e	2026e
Revenue	0.0	0.0	0.0	0.0
growth-%	0%	150%	0%	0%
EBIT adj.	0.2	-5.3	-5.0	-5.4
Net Income	0.3	-5.3	-5.0	-5.4
EPS (adj.)	0.01	-0.26	-0.21	-0.23

Source: Inderes

Guidance

Herantis does not provide any guidance.

Share price



Source: Millistream Market Data AB

Value drivers

- There is a great need for new drugs in Parkinson's disease that affect the progression of the disease.
- There are potentially millions of drug users in wealthy Western countries.
- If the drug proves safe and effective, we feel that the achievable pricing is attractive.
- In terms of its operating mechanism, HER-096 could also be suitable for treating other neurodegenerative diseases such as Alzheimer's disease and ALS.
- The initial clinical study results are promising for the further development of HER-096
- There are limited credible competitors in the industry's product development pipeline

Risk factors

- The risk of failure in development is very high due to the early development phase.
- The research program is still at an early stage, so Herantis needs substantial funding for drug development.
- A licensing agreement may not be reached or its terms may be unsatisfactory.
- Drugs that may enter the market before HER-096 could raise the threshold for market entry.
- The increase in the number of shares and the dilution of their value through share issues.

Valuation	2024e	2025e	2026e
Share price	1.60	1.60	1.60
Number of shares, millions	20.2	23.9	23.9
Market cap	32	32	32
EV	32	32	38
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/FCF	neg.	>100	neg.
P/B	>100	>100	neg.
P/S	>100	>100	>100
EV/Sales	>100	>100	>100
EV/EBITDA	neg.	neg.	neg.
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Investment profile

1. **A drug development company focused on neurodegenerative diseases**
2. **High need for new drugs and strong growth outlook of the industry creates high market potential**
3. **Focus on Parkinson's disease and HER-096 candidate**
4. **Potential for high returns, but also of permanent loss of capital**
5. **Drug candidates' entry to market is uncertain and takes time even when successful**

Potential

- There is a great need for disease-modifying drugs for Parkinson's disease
- The target market is estimated to grow to 6.6 BNUSD by 2029.
- Very defensive sector
- Possibility of a globally sold drug with a significant number of patients.
- Potential can also materialize through a cooperation agreement or acquisition

Risks

- Drug development requires substantial front-loaded investments
- Failed drug development is likely to result in permanent loss of invested capital
- Success depends on the safety and efficacy of drug candidates, which may prove insufficient in studies
- If market entry is successful, the market share, sales price and royalties involve uncertainties
- Financing conditions are challenging at the moment

Source: Inderes

Costs exceeded our expectations

Estimates vs. outcome H1’24

- The operating result of -2.76 MEUR was lower than expected due to higher costs.
- Costs were increased by preparation for future trials, including production of HER-096.
- Cash flow for the period was -3.0 MEUR and cash and cash equivalents were 3.5 MEUR.
- The cash position was strengthened by the EUR 750,000 grant from the European Innovation Council (EIC) which is part of the 2.5 MEUR funding granted in 2023.
- After the end of the period in July, Herantis announced a 3.6 MEUR research funding granted jointly by two organizations. The funding is sufficient to cover the reading of the results of the soon-to-start Phase Ib, which according to management comments should commence during Q3'25.

H1’24 webcast

Estimates	H1'23	H1'24	H1'24e	H1'24e	Consensus		2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	0.00	0.00	0.01				0.01
EBITDA	-2.41	-2.76	-2.38				-5.26
EBIT	-2.41	-2.76	-2.38				-5.26
EPS (reported)	-0.09	-0.13	-0.12				-0.26

Source: Inderes

Estimate changes are minor

Estimate revisions 2024e-2026e

- Our earnings forecast for the current year decreased due to higher costs than we expected in H1
- However, we estimate that the cost increase is temporary, so we maintain our H2 cost estimates unchanged.
- Our result estimate for the coming years improves slightly, as we consider the research funding announced after H1 in our forecasts.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	0.0	0.0	0%	0.0	0.0	0%	0.0	0.0	0%
EBITDA	-4.9	-5.3	-8%	-5.2	-5.0	5%	-5.6	-5.4	2%
EBIT	-4.9	-5.3	-8%	-5.2	-5.0	5%	-5.6	-5.4	2%
EPS (excl. NRIs)	-0.24	-0.26	-8%	-0.22	-0.21	5%	-0.23	-0.23	2%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Long-term estimates

	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042
HER-096, US													
Prevalence of Parkinson's disease	1,201,025	1,225,045	1,249,546	1,274,537	1,300,028	1,326,028	1,352,549	1,379,600	1,407,192	1,435,336	1,464,043	1,493,323	1,523,190
Suitable patients, %	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Potential patients	600,512	612,523	624,773	637,269	650,014	663,014	676,275	689,800	703,596	717,668	732,021	746,662	746,662
Market share, %	0.0%	0.0%	1.0%	2.0%	4.0%	8.0%	16.0%	20.0%	20.0%	20.0%	10.0%	5.0%	2.5%
Patients that stop using the drug, %	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Price/year/patient, MEUR	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Royalty share, %	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Revenue	**0**	**0**	**21**	**43**	**90**	**188**	**391**	**509**	**529**	**551**	**286**	**149**	**74**
Probability of market entry	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Revenue, risk-adjusted	**0**	**0**	**2**	**5**	**10**	**20**	**42**	**55**	**57**	**59**	**31**	**16**	**8**
HER-096, other markets													
Prevalence of Parkinson's disease	1,791,078	1,826,900	1,863,438	1,900,707	1,938,721	1,977,495	2,017,045	2,057,386	2,098,534	2,140,505	2,183,315	2,226,981	2,271,521
Suitable patients, %	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Potential patients	895,539	913,450	931,719	950,353	969,360	988,748	1,008,523	1,028,693	1,049,267	1,070,252	1,091,657	1,113,490	1,113,490
Market share, %	0.0%	0.0%	0.0%	1.0%	2.0%	4.0%	8.0%	16.0%	20.0%	20.0%	10.0%	5.0%	2.5%
Patients that stop using the drug, %	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Price/year/patient, MEUR	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Royalty share, %	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Revenue	**0**	**0**	**0**	**16**	**34**	**70**	**146**	**303**	**395**	**411**	**214**	**111**	**57**
Probability of market entry	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Revenue, risk-adjusted	**0**	**0**	**0**	**2**	**4**	**8**	**16**	**33**	**42**	**44**	**23**	**12**	**6**
Top sales, USA	0	0	139	289	602	1253	2607	3391	3528	3670	1909	993	497
Top sales, other countries	0	0	0	108	225	467	972	2023	2631	2737	1424	741	378
Total risk-adjusted revenues	0.0	0.0	2.2	6.4	13.3	27.8	57.8	87.4	99.4	103.4	53.8	28.0	14.1
US	0.0	0.0	2.2	4.7	9.7	20.2	42.1	54.7	56.9	59.2	30.8	16.0	8.0
Other countries	0.0	0.0	0.0	1.7	3.6	7.5	15.7	32.6	42.5	44.2	23.0	12.0	6.1

The valuation picture remains unchanged

We initiate coverage with a positive recommendation

We reiterate Herantis' Accumulate recommendation and EUR 2.2 target price as the outlook remains unchanged after H1. Our risk-adjusted valuation is based on the DCF model that determines the present value of future free cash flows. In addition to free cash flow based on royalty payments, Herantis' value can also materialize through a commercialization agreement or an M&A transaction.

Our risk-adjusted forecasts and the valuation based on them are based on probabilities between two strongly divergent scenarios. In our optimistic scenario, drug development is successful, leading to high cash flows in the late 2030s. Discounted to present value these cash flows would justify a share price that is several times higher than the current level. On the other hand, in our pessimistic scenario, clinical research results would not support further development, leading to the rejection of the project and possibly a move to new indications and/or candidates. In our view, this scenario would lead to a permanent loss of capital, diluting financing rounds and a strong depreciation of the share value.

We note that due to the nature of the industry and Herantis' business model, our assessment and valuation based on these estimates contain significant uncertainties. These uncertainties stem from the numerous assumptions made regarding the market and R&D and commercial successes achieved by Herantis. Therefore, our target price, expressed as a precise figure, should be interpreted in a wide range.

Risk-adjusted cash-flow model indicates an upside in the share

Our discounted cash flow (DCF) model produces a present value of EUR 2.2 per share, which refers to the share's upside potential. We expect a new round of financing to take place at the beginning of 2025 based on Herantis' cash position and our cash flow forecasts. In case of a new share issue, the increase in the number of shares may limit the upside by weakening the share-specific indicators. However, the size of the share issue we expect is only around 5 MEUR, so we feel this risk is limited for the time being. A possible cooperation agreement with a larger pharmaceutical company may potentially create significant value for shareholders.

We model growing income, which will culminate in 2039, after which we expect income to fall when patent protection expires. Our modeling extends to 2042, after which we expect sales and earnings to fall to zero. Herantis has the opportunity to create new business in other neurodegenerative diseases and new drug candidates to be developed. We do not include these options in our estimates at this stage, however.

Herantis' cash flows are strongly negative during the clinical trial period in 2024-2031. Cash flows that bring value to the share are generated in 2032-2039. The expected cash flows are discounted using a weighted average cost of capital (WACC) of 12%. This is in line with around 11-12% that is typically used in the industry. You can read more about our forecasts and valuation in the recent initiation of coverage report

Valuation scenarios

	Optimistic[1]	Estimates [2][1-2]	Pessimistic[3]
Success of drug development	Market entry	According to Inderes' estimates	Development fails
Likelihood	Unlikely	~11%	Significant
EBIT 2039e Risk adjusted	~1 billion MEUR	~90 MEUR	Neg.
Share value in EUR (DCF)	~20	~2.2	~0

1) Commercialization is successful in Parkinson's disease. Herantis can still pursue new indications through further research.
2) Commercialization is successful with the probabilities and conditions described in this report
3) In the scenario, shortcoming appear in the safety or efficacy of HER-096 which lead to the candidate being abandoned

Source: Inderes

Probability of timing of HER-096's development success

	Phase 1	Phase 2	Phase 3	Marketing authorization application	Market entry
Probability of success	65%	33%	57%	88%	11%
Schedule	2023-2025	2026-2027	2028-2031	USA: 2031; Others: 2032	USA: 2032; Others: 2033

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price		4.15	2.40	1.65	1.58	**1.60**	**1.60**	**1.60**	**1.60**
Number of shares, millions	0.00	9.76	11.1	16.9	20.2	**20.2**	**23.9**	**23.9**	**23.9**
Market cap		40	27	28	32	**32**	**32**	**32**	**32**
EV		34	26	26	25	**32**	**32**	**38**	**44**
P/E (adj.)		neg.	neg.	neg.	>100	**neg.**	**neg.**	**neg.**	**neg.**
P/E		neg.	neg.	neg.	>100	**neg.**	**neg.**	**neg.**	**neg.**
P/FCF		neg.	neg.	neg.	85.9	**neg.**	**>100**	**neg.**	**neg.**
P/B		5.3	neg.	neg.	6.8	**>100**	**>100**	**neg.**	**neg.**
P/S	0.0	>100	>100	>100	>100	**>100**	**>100**	**>100**	**>100**
EV/Sales		>100	>100	>100	>100	**>100**	**>100**	**>100**	**>100**
EV/EBITDA		neg.	neg.	neg.	>100	**neg.**	**neg.**	**neg.**	**neg.**
EV/EBIT (adj.)		neg.	neg.	neg.	>100	**neg.**	**neg.**	**neg.**	**neg.**
Payout ratio (%)		0.0 %	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**
Dividend yield-%		0.0 %	0.0 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**0.0 %**	**0.0 %**

Source: Inderes

Income statement

Income statement	H1'22	H2'22	2022	H1'23	H2'23	2023	H1'24e	H2'24e	2024e	2025e	2026e	2027e
Revenue	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
EBITDA	**-4.4**	**-3.6**	**-8.1**	**-2.4**	**2.6**	**0.2**	**-2.8**	**-2.5**	**-5.3**	**-5.0**	**-5.4**	**-6.0**
Depreciation	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (excl. NRI)	**-4.4**	**-3.6**	**-8.0**	**-2.4**	**2.6**	**0.2**	**-2.8**	**-2.5**	**-5.3**	**-5.0**	**-5.4**	**-6.0**
EBIT	**-4.4**	**-3.6**	**-8.0**	**-2.4**	**2.6**	**0.2**	**-2.8**	**-2.5**	**-5.3**	**-5.0**	**-5.4**	**-6.0**
Share of profits in assoc. compan.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-1.3	0.0	-1.3	0.6	-0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
PTP	**-5.7**	**-3.7**	**-9.3**	**-1.8**	**2.1**	**0.3**	**-2.8**	**-2.5**	**-5.3**	**-5.0**	**-5.4**	**-6.0**
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**-5.7**	**-3.7**	**-9.3**	**-1.8**	**2.1**	**0.3**	**-2.8**	**-2.5**	**-5.3**	**-5.0**	**-5.4**	**-6.0**
Net earnings	**-5.7**	**-3.7**	**-9.3**	**-1.8**	**2.1**	**0.3**	**-2.8**	**-2.5**	**-5.3**	**-5.0**	**-5.4**	**-6.0**
EPS (adj.)	**-0.33**	**-0.22**	**-0.55**	**-0.09**	**0.10**	**0.01**	**-0.14**	**-0.12**	**-0.26**	**-0.21**	**-0.23**	**-0.25**
EPS (rep.)	**-0.33**	**-0.22**	**-0.55**	**-0.09**	**0.10**	**0.01**	**-0.14**	**-0.12**	**-0.26**	**-0.21**	**-0.23**	**-0.25**

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Tangible assets	0.0	0.0	0.0	0.0	0.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	**6.2**	**6.7**	**2.8**	**2.8**	**0.3**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	0.2	0.3	0.3	0.3	0.3
Cash and equivalents	6.0	6.5	2.5	2.5	0.0
Balance sheet total	**6.2**	**6.7**	**2.8**	**2.8**	**0.3**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**-0.1**	**4.7**	**0.2**	**0.3**	**-5.2**
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-75.4	-75.1	-80.4	-85.3	-90.8
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	75.2	79.7	80.5	85.5	85.5
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**4.4**	**0.0**	**0.0**	**0.0**	**0.0**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	4.4	0.0	0.0	0.0	0.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	**1.9**	**2.0**	**2.5**	**2.5**	**5.4**
Interest bearing debt	0.2	0.0	2.5	2.5	5.4
Payables	1.8	2.0	0.0	0.0	0.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**6.2**	**6.8**	**2.8**	**2.8**	**0.3**

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	0.0	0.0	0.0	**0.0**	**0.0**
EBITDA	-9.7	-8.1	0.2	**-5.3**	**-5.0**
EBIT	-12.5	-8.0	0.2	**-5.3**	**-5.0**
PTP	-12.8	-9.3	0.3	**-5.3**	**-5.0**
Net Income	-12.8	-9.3	0.3	**-5.3**	**-5.0**
Extraordinary items	0.0	0.0	0.0	**0.0**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	7.8	6.2	6.7	**2.8**	**2.8**
Equity capital	-1.1	-0.1	4.7	**0.2**	**0.3**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	-0.2	-1.5	-6.4	**0.0**	**0.0**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	-9.7	-8.1	0.2	**-5.3**	**-5.0**
Change in working capital	0.1	0.0	0.2	**-2.0**	**0.0**
Operating cash flow	-9.6	-8.1	0.4	**-7.2**	**-5.0**
CAPEX	0.0	0.2	0.0	**0.0**	**0.0**
Free cash flow	-9.6	-7.8	0.4	**-7.2**	**0.0**

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	-1.15	-0.55	0.01	**-0.26**	**-0.21**
EPS (adj.)	-1.15	-0.55	0.01	**-0.26**	**-0.21**
OCF / share	-0.87	-0.48	0.02	**-0.36**	**-0.21**
FCF / share	-0.87	-0.46	0.02	**-0.36**	**0.00**
Book value / share	-0.10	0.00	0.23	**0.01**	**0.01**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
6/19/2024	Accumulate	2.20 €	1.63 €
8/23/2024	Accumulate	2.20 €	1.60 €

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