

Sunesis Pharmaceuticals

Earnings update

A shift of gears

Sunesis's task in realigning the company towards its new lead asset SNS-510 is twofold. First, it is examining the precise direction it intends to take the drug, and it has found synergies both with certain genetic subtypes of cancer as well as with other cancer drugs. Secondly, the company is both raising capital and reducing costs in order to provide the drug a runway into the clinic, and it estimates that it has cash through most of 2021.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/18	0.2	(26.6)	(0.75)	0.0	N/A	N/A
12/19	2.1	(23.3)	(0.27)	0.0	N/A	N/A
12/20e	0.1	(19.9)	(0.14)	0.0	N/A	N/A
12/21e	0.0	(19.9)	(0.11)	0.0	N/A	N/A

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

Steering the direction for SNS-510

Sunesis is engaged in a range of activities in preparation to bring SNS-510 to the clinic. The company is currently performing the studies to support an IND application, which is planned to be submitted by H121. Part of the process will also be determining the precise patient subgroup it intends to target. The company has publicized that cancers mutated in CDKN2A have a higher susceptibility to the drug, and it is also examining if there are any useful combinations with other cancer drugs. On the company's conference call, CDK4/6, KRAS and Bcl-2 were mentioned as targets.

Putting gas in the tank

Sunesis additionally has the financial goal of providing sufficient capital to get SNS-510 into the clinic and get early results. The company previously announced that it was reducing its headcount by 30%, which should extend the runway. Additionally, in July 2020 the company raised \$12.6m net in a public offering (60m shares at \$0.23). Following the offering, the company paid off all of its existing debt (\$5.7m with principal and fees). Sunesis predicts that it currently has enough cash to bring it through most of 2021, which will give the company enough time to get the drug into the clinic and perhaps have some early insights.

Valuation: Increased to \$54.4m

We have increased our valuation to \$54.4m from \$47.2m previously, although it is lower on a per share basis: \$0.28 per diluted share from \$0.36. This is largely due to higher net cash following the offering (\$30.1m estimated net cash, from \$23.4m previously). We have reduced our financing requirement for the company to \$50m (from \$60m): \$20m in 2021 and \$30m in 2023 (both modelled as illustrative debt).

Pharma & biotech

20 August 2020

Price **US\$0.28**
Market cap **US\$51m**

Net cash (\$m) at June 2020 + offering 30.1

Shares in issue 180.9m

Free float 49%

Code SNSS

Primary exchange NASDAQ

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.3) (35.7) (67.4)

Rel (local) (9.5) (44.3) (71.7)

52-week high/low US\$1.11 US\$0.26

Business description

Sunesis Pharmaceuticals is a pharmaceutical company focused on oncology. Its lead asset is SNS-510, an inhibitor of PDK1 in preclinical studies for a range of solid and hematologic tumors. It recently discontinued the development program for its previous lead asset vecabrutinib. It has also developed pan-Raf inhibitor TAK-580, currently licensed to DOT Therapeutics.

Next events

SNS-510 IND submission H121

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The focus is on SNS-510

Sunesis is currently realigning its focus to its new lead asset SNS-510, and preparing the drug to enter the clinic. The company is currently conducting IND-enabling studies and intends to submit an IND application in H121. We expect the drug to enter a Phase I dosing study shortly thereafter.

The drug is an inhibitor of PDK1, a key effector of the PI3K/AKT pathway. Although PDK1 inhibitors are a novel class, this pathway has been deeply implicated in the pathology of cancer growth and metastasis. There have been multiple approvals of PI3K inhibitors targeting this same pathway for the treatment of a range of cancers. Part of the work the company is currently engaged in while designing its future clinical studies is assessing which patient populations would benefit the most from SNS-510. The company has identified a number of genetic markers that signal susceptibility to the drug, most notably mutations in cyclin-dependent kinase inhibitor 2A (CDKN2A). 44% of cell lines where the drug was active harbored mutations or deletions in this protein. The company is also examining if the drug should be used in combination with any other cancer treatments. It noted that synergies have been seen with CDK4/6 inhibitors such as Ibrance (Palbociclib, Pfizer), and that inhibitors of KRas (in development) and Bcl-2 (eg Venclaxta, AbbVie/Roche) may also show synergies. These experiments are ongoing, and we expect further clarity as the drug approaches the clinic.

Aiming for efficiency

As the company shifts gears towards concentrating on SNS-510, many of its recent activities have been focused on providing the program the longest runway possible. In July, the company performed an offering of 59,999,999 shares at \$0.23 (\$13.8m gross, \$12.6m net). The company used some of the proceeds of this raise to eliminate its outstanding debt in a \$5.7m payment (net of fees), also in July.

Additionally, the company has reduced its workforce by approximately 30%. In the short term, however, costs associated with R&D were significantly up in Q220: \$4.3m from \$3.7m in Q120. These costs are driven by the vecabrutinib Phase Ib study, which is currently being wound down. Sunesis's overall Q220 operating loss was \$6.3m. We expect its R&D expense to be lower in following periods, and forecast a total of \$12.4m for the year (from previous estimates of \$8.6m).

With these combined measures, the company has guided that it has sufficient cash through 'most of 2021.' We expect Phase I studies to be initiated shortly after IND submission in H121, so the program may be able to provide some early dosing data before the company needs to raise more capital. We forecast that the company will need \$50m in additional capital, lowered from \$60m previously, which is recorded as illustrative debt (\$20m in 2021, \$30m in 2023), to reach profitability in 2025.

Given the capital needs of starting new clinical programs, it is likely that the company will seek partners to advance it and defray some of these costs. The company is in the process of exploring 'strategic alternatives' as a pathway forward, which it states may include 'asset in-licensing, partnering, and mergers and acquisitions', which we expect will determine the future direction of the company.

Valuation

We have increased our valuation to \$54.4m from \$47.2m previously, although it is lower on a per share basis: \$0.28 per diluted share from \$0.36. The increase in the valuation is predominantly due to higher net cash (\$30.1m pro-forma as of 30 June 2020, from \$23.4m on 31 March previously) following the July offering. Additionally, we have rolled forward our NPVs, and this is offset by increases to unallocated costs as we adjust our R&D run rate.

Exhibit 1: Valuation of Sunesis

Development program	Clinical stage	Expected commercialization	Prob. of success	Launch year	Launch pricing (\$)	Peak sales (\$m)	Patent/exclusivity protection	Royalty/margin	rNPV (\$m)
TAK-580	Phase I/II	Licensed to DOT	5%	2025	500,000	600	2032	10%	\$6.9
SNS-510	IND ready	Proprietary	10%	2025	130,000	344	2031	51%	\$28.0
Unallocated costs (discovery programs, administrative costs, etc)									(\$10.5)
Total									\$24.3
Pro-forma net cash and equivalents (Q220 cash & equivalents + offering minus debt repayment) (\$m)									\$30.1
Total firm value (\$m)									\$54.4
Total basic shares (m)									180.9
Value per basic share (\$)									\$0.30
Convertible Pref stock (m)									10.2
Total diluted shares (m)									191.2
Value per diluted share (\$)									\$0.28

Source: Sunesis Pharmaceuticals reports, Edison Investment Research

Exhibit 2: Financial summary

	\$'000s	2018	2019	2020e	2021e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS					
Revenue		237	2,073	120	0
Cost of Sales		0	0	0	0
Gross Profit		237	2,073	120	0
Research and development		(14,615)	(15,412)	(12,438)	(10,507)
Selling, general & administrative		(11,332)	(9,949)	(7,649)	(7,879)
EBITDA		(25,719)	(23,288)	(19,967)	(18,385)
Operating Profit (before GW and except.)		(25,710)	(23,288)	(19,967)	(18,385)
Intangible Amortization		0	0	0	0
Exceptionals/Other		0	0	0	0
Operating Profit		(25,710)	(23,288)	(19,967)	(18,385)
Net Interest		(905)	(42)	93	(1,500)
Other (change in fair value of warrants)		0	0	0	0
Profit Before Tax (norm)		(26,615)	(23,330)	(19,874)	(19,885)
Profit Before Tax (IFRS)		(26,615)	(23,330)	(19,874)	(19,885)
Tax		0	0	0	0
Deferred tax		0	0	0	0
Profit After Tax (norm)		(26,615)	(23,330)	(19,874)	(19,885)
Profit After Tax (IFRS)		(26,615)	(23,330)	(19,874)	(19,885)
Average Number of Shares Outstanding (m)		35.6	87.1	146.2	189.1
EPS - normalised (\$)		(0.75)	(0.27)	(0.14)	(0.11)
EPS - IFRS (\$)		(0.75)	(0.27)	(0.14)	(0.11)
Dividend per share (\$)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		124	918	651	660
Intangible Assets		0	0	0	0
Tangible Assets		11	3	10	19
Other		113	915	641	641
Current Assets		15,200	36,322	25,386	27,057
Stocks		0	0	0	0
Debtors		0	0	0	0
Cash		13,696	34,625	23,674	25,345
Other		1,504	1,697	1,712	1,712
Current Liabilities		(11,323)	(9,416)	(3,898)	(3,560)
Creditors		(3,927)	(3,951)	(3,898)	(3,560)
Short term borrowings		(7,396)	(5,465)	0	0
Long Term Liabilities		(8)	(281)	0	(20,000)
Long term borrowings		0	0	0	(20,000)
Other long term liabilities		(8)	(281)	0	0
Net Assets		3,993	27,543	22,139	4,157
CASH FLOW					
Operating Cash Flow		(24,404)	(22,185)	(17,867)	(18,320)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		0	0	(7)	(9)
Acquisitions/disposals		0	0	0	0
Financing		6,343	45,082	12,623	0
Dividends		0	0	0	0
Other		0	0	0	0
Net Cash Flow		(18,061)	22,897	(5,251)	(18,329)
Opening net debt/(cash)		(24,546)	(6,300)	(29,160)	(23,909)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		(185)	(37)	0	0
Closing net debt/(cash)		(6,300)	(29,160)	(23,909)	(5,580)

Source: Sunesis Pharmaceuticals reports, Edison Investment Research

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