

# Oncology Venture

Pipeline now wholly owned by OV

Business update

Pharma & biotech

10 September 2020

**Price** **SEK1.43**

**Market cap** **SEK260m**

SEK10.03/DKK6.81/US\$

Net debt (DKKm) at 31 March 2020 DKK0.015

Shares in issue 181.6m

Free float 72%

Code OV

Primary exchange Nasdaq First North Stockholm

Secondary exchange N/A

Oncology Venture continues to consolidate the ownership of its pipeline with the purchase of the remaining share of Oncology Venture US held by minority shareholders. This brings the PARP inhibitor 2X-121 fully under ownership of the company (as well as the deprioritised asset 2X-111). The company issued 12,383,770 shares at SEK1.52 to complete the transaction.

Year end	Revenue (DKKm)	PBT* (DKKm)	EPS* (DKK)	DPS (DKK)	P/E (x)	Yield (%)
12/18	2.1	(22.5)	(0.44)	0.0	N/A	N/A
12/19	0.8	(174.9)	(2.08)	0.0	N/A	N/A
12/20e	0.9	(124.4)	(0.67)	0.0	N/A	N/A
12/21e	0.9	(260.1)	(1.42)	0.0	N/A	N/A

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

## Bringing it all under one roof

Historically Oncology Venture has engaged in a number of different ownership structures for its assets through its subsidiaries. However, with the assumption of the new management team in 2019 and the streamlining of the company's pipeline, it has shifted its strategy to the consolidation of the ownership of its primary assets (2X-121, Ixempra and dovitinib). Earlier in June 2020, we [reported](#) on the company acquiring the remaining interest in dovitinib. With the current transaction, the company has gained full ownership of these three assets.

## A PARP paired with the DRP

2X-121 is a poly-ADP-ribose polymerase (PARP) inhibitor that the company is investigating for the treatment of metastatic breast and ovarian cancer in combination with its drug response predictor (DRP) diagnostic. The drug candidate is being studied in a Phase II clinical study at the Dana-Farber Cancer Institute with a target enrolment of 30 patients (eight enrolled). The drug was initially licensed from Eisai in 2017.

## Deprioritised assets out-licensed

The company announced in June 2020 that it would be out-licensing two of its deprioritised assets 2X-111 and LiPlaCis to Smerud Medical Research, a CRO the company previously engaged to run LiPlaCis clinical studies. As part of the agreement, Oncology Venture is entitled to \$30m in regulatory milestones and royalties on future sales (rate undisclosed).

## Valuation: Increased to SEK1,212m, lower per share

Our valuation is increased to SEK1,212m from SEK1,179m due to the inclusion of the remaining share of 2X-121 in our valuation and increased net cash. However, it is lower on per share basis (SEK6.59 from SEK7.36) due to 9m new shares from financing and the 12.4m shares in the transaction.

## Share price performance



% 1m 3m 12m

Abs (2.9) 16.9 (60.0)

Rel (local) (10.6) (1.2) (63.4)

52-week high/low SEK4.98 SEK1.16

## Business description

Oncology Venture is a Denmark-based biopharmaceutical company focused on oncology. Its patent-protected mRNA-based drug response predictor platform enables the identification of patients with gene expression highly likely to respond to treatment. The company is advancing the PARP inhibitor 2X-121, the TKI dovitinib and microtubule inhibitor Ixempra.

## Next events

Ixempra study initiation Q320

Dovitinib NDA submission Late H220

2X-121 Phase II results Late 2021

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## Consolidation complete

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The decision to buy out the remaining minority (16%) shareholders of Oncology Venture US (OVUS, formerly 2X Oncology) marks the final effort to consolidate the company's ownership of its pipeline. The company now owns 100% of 2X-121, dovitinib and Ixempra, the three drugs it plans to focus its development efforts on. The company previously owned 84% of OVUS, although it effectively had 92% ownership due to undisclosed agreements associated with the subsidiary structure.

2X-121 is an orally bioavailable small molecule inhibitor of PARP-1/2 and TNKS-1/2 that was in-licensed from Eisai in July 2017 (previously named E7449). PARPs are a family of 17 enzymes that are involved in cellular metabolic regulation. PARP-1 is a critical anticancer target due to its role in DNA damage repair, maintenance of genomic stability and functions in transcriptional regulation. More specifically, PARP-1 and -2 nuclear enzymes are responsible for the majority of PARP activity in the cell where they are recruited to and triggered by sites of DNA damage. PARP enzymes repair single-strand DNA breaks; as a result, PARP inhibition causes double-strand breaks, which require BRCA1/2 for repair. PARP inhibition is therefore particularly lethal to cancer cells containing BRCA1/2 mutations. TNKS enzymes also belong to the PARP family and are involved in Wnt/ $\beta$ -catenin signalling, which plays a central role in cancer biology. Wnt overexpression contributes to tumour progression and, consequently, TNKS inhibition interferes with Wnt signalling.

OV plans to develop 2X-121 for the treatment of ovarian and breast cancer. A breast cancer trial started in June 2018 and an ovarian study was initiated in April 2019. The company reported in the announcement that eight (of 30) patients in the ovarian cancer study have been enrolled. The company has a planned expansion of the clinical study to Guy's Hospital in the UK, which it previously reported was undergoing internal review.

We expect the recent transaction to make the company structure and relationships easier to present and market to future investors. The company is aiming to streamline itself, which includes both its pipeline and the corporate structure. Previously the company had a large number of development programs held partially or in whole by multiple subsidiaries, and the current transaction marks the final step of the overhaul to get a select few assets under one corporate roof.

## Other assets out-licensed

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On the other side of the company's efforts to focus its clinical strategy, it has out-licensed two of its de-prioritised assets, 2X-111 and LiPlaCis, to Smerud Medical Research. Smerud was the CRO that was previously engaged by the company to run clinical studies of LiPlaCis, which are still ongoing. The transaction includes up to \$30m in regulatory milestones to Oncology Venture and undisclosed royalties on future sales. Additionally, Smerud plans to continue to develop the assets in combination with the DRP diagnostic, which may provide additional future revenue streams to Oncology Venture if the products reach the market. The company previously returned the rights for its other deprioritised asset APO010, leaving a single asset, Irofulven, in its legacy portfolio.

## Valuation

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Our valuation is increased to SEK1,212m (from SEK1,179m) although it is lower on a per share basis at SEK6.59 (from SEK7.36). The increase in the valuation is due to increasing the ownership in 2X-121 to 100% (from the effective 92%) and increased estimated net cash (pro-forma

SEK20.9m as of Q120, from SEK5.4m) due to the company's ongoing financing efforts. The company raised SEK7.75m gross through its agreement with Global Corporate Finance (resulting in the issuance of 5.18m shares) and converted SEK8.0m in debt (leading to the issue of 6.84m shares) through its agreement with Negma since our 9 June 2020 report, combined resulting approximately 12.02m new shares. These transactions combined with the 12.4m shares issued for 2X-121 account for the decrease in the per share valuation. We currently do not include milestones and royalties associated with LiPlaCis and 2X-111 but may include these in the future if Smerud makes clinical progress with these programs. LiPlaCis has been in Phase II studies since shortly after it was acquired by Oncology Venture in 2016, and 2X-111 is not currently in clinical studies.

**Exhibit 1: Valuation of Oncology Venture**

Development Program	Indication	Clinical stage	Prob. of success	Launch year	Launch pricing	Peak sales (\$m)	rNPV (SEKm)	% rights held by OV	OV rNPV (SEKm)
2X-121	Metastatic breast cancer and ovarian cancer	Phase II	25%	2025	\$138,000	122.1	215.4	100%	215.4
Dovitinib	Renal cancer	Phase Ib/II	35–50%	2024–25	\$145,000	176.9	786.8	100%	786.8
Ixempra	Metastatic breast cancer	Phase II	50%	2025	\$41,000	56.4	188.5	100%	188.5
Total									1,190.7
Net cash (pro-forma Q120 + debt conversion + GCF issuance, SEKm)									20.9
Total firm value (SEKm)									1,211.6
Total shares (m)									183.9
Value per basic share (SEK)									6.59
Dilutive warrants and options (m)									57.9
Fully diluted shares in issue (m)									241.8
Fully diluted value per share (SEK)									6.33

Source: Oncology Venture reports, Edison Investment Research

## Financials

Our forecasts have been updated to include the recent financings and the acquisition of the minority share of OVUS. The recent financings have reduced our expected financing requirement to DKK1.015bn from DKK1.020m. We record and model this financing need as illustrative debt (DKK135m additional debt in 2020, DKK500m in 2021 and DKK380m in 2022), although we expect the company to finance near-term costs with its current facilities (Negma, Global Corporate Finance), and seek licensing arrangements to address much of the remaining costs.

**Exhibit 2: Financial summary**

DKK'000s	2018	2019	2020e	2021e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>				
Revenue	2,147	801	901	901
Cost of Sales	0	0	0	0
Gross Profit	2,147	801	901	901
EBITDA	(32,258)	(66,502)	(123,598)	(258,713)
Operating Profit (before amort. and except.)	(32,471)	(148,102)	(124,650)	(259,765)
Intangible Amortisation	0	0	0	0
Exceptionals/Other	0	0	0	0
Operating Profit	(32,471)	(148,102)	(124,650)	(259,765)
Net Interest	(192)	(26,822)	218	(345)
Other	10,146	0	0	0
Profit Before Tax (norm)	(22,517)	(174,924)	(124,432)	(260,110)
Profit Before Tax (IFRS)	(22,517)	(174,924)	(124,432)	(260,110)
Tax	6,973	36,792	9,065	4,954
Deferred tax	0	0	0	0
Profit After Tax (norm)	(15,544)	(138,132)	(115,367)	(255,157)
Profit After Tax (IFRS)	(15,544)	(138,132)	(115,367)	(255,157)
Average Number of Shares Outstanding (m)	33.8	63.4	171.5	180.1
EPS - normalised (DKK)	(0.44)	(2.08)	(0.67)	(1.42)
EPS - IFRS (DKK)	(0.44)	(2.08)	(0.67)	(1.42)
Dividend per share (ore)	0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>				
Fixed Assets	237,096	158,895	196,822	195,826
Intangible Assets	236,733	155,978	194,838	194,838
Tangible Assets	363	2,917	1,984	988
Other	0	0	0	0
Current Assets	14,401	22,306	100,187	315,495
Stocks	0	0	0	0
Debtors	5,262	5,937	10,803	25,591
Cash	1,547	10,176	74,748	270,315
Other	7,592	6,193	14,636	19,589
Current Liabilities	(35,407)	(31,497)	(67,560)	(37,029)
Creditors	(16,515)	(27,919)	(67,538)	(37,007)
Short term borrowings	(18,892)	(3,578)	(22)	(22)
Long Term Liabilities	(34,234)	(8,370)	(141,436)	(641,436)
Long term borrowings	0	0	(135,000)	(635,000)
Other long term liabilities	(34,234)	(8,370)	(6,436)	(6,436)
Net Assets	181,856	141,334	88,013	(167,144)
<b>CASH FLOW</b>				
Operating Cash Flow	(31,392)	(54,511)	(87,058)	(304,377)
Net Interest	(2,391)	(26,846)	363	0
Tax	6,159	8,942	13	0
Capex	0	(56)	(56)	(56)
Acquisitions/disposals	9,855	0	(38,925)	0
Financing	198	62,715	60,782	0
Dividends	0	0	0	0
Other	(3,299)	(4,253)	(1,914)	0
Net Cash Flow	(20,870)	(14,009)	(66,795)	(304,433)
Opening net debt/(cash)	(3,326)	17,345	(6,598)	60,274
HP finance leases initiated	0	0	0	0
Exchange rate movements	(199)	(98)	77	0
Other	398	38,050	(154)	0
Closing net debt/(cash)	17,345	(6,598)	60,274	364,707

Source: Oncology Venture reports, Edison Investment Research

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