WILSONS

Date 13 September 2022

Theme Company Update

Sector Healthcare

Company

Antisense Therapeutics (ANP)

The path is altered, but is achievable

We maintain our OVERWEIGHT rating on Antisense Therapeutics (ANP) but reduce our PT to $0.36 per share. Funding constraints have led ANP to reconfigure their clinical trial aspirations for ATL1102 in the treatment of non-ambulant DMD in the near-term. Rather than launch into a registration-directed Phase IIb/III trial in non-ambulant DMD that is not fully funded, the company has proposed a smaller Phase IIb study to bolster its proof of principle claims with randomised, controlled data which it plans to initiate in 4Q CY22. Whilst this change sets back European commercialisation by ~2 years, it offers a clearer 'readthrough' on ATL1102 efficacy (at two different doses) within current funding capacity. Although this change in strategy materially reduces our valuation, after allowing for further R&D investment (for a follow-on Phase III study) and delayed commercial revenue, it brings partnering optionality into consideration earlier. A hard data-readout is planned for 1Q24. We continue to see the significant opportunity for ATL1102 in DMD, noting updates in the competitive landscape, and whilst this is a revised, less direct path to commercialisation, it does feel like an appropriate strategy given market conditions.

Recommendation	**OVERWEIGHT**
12-mth target price (AUD)	$0.36
Share price @ 12-Sep-22 (AUD)	$0.09
Forecast 12-mth capital return	304.5%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	**304.5%**

Market cap ($m)	59.5
Enterprise value ($m)	40.3
Shares on issue (m)	668.8
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day ($m)	0.1

Key Points

DMD trial revision. ANP have outlined a new Phase IIb trial design to replace the previous Phase IIb/III trial in Europe. This will enrol 45 non-ambulant patients to evaluate ATL1102 at two doses (25mg and 50mg) versus placebo over a 6-month treatment window followed by a 6-month open-label safety and follow up phase. Importantly by 1Q'24 ANP will be in a position to unblind the data and report on efficacy versus placebo.

Long COVID collaboration. The recent trading halt and associated announcement regarding exploratory Long COVID research is a distraction in our view to ANP's core opportunity in DMD. We do not place any formal valuation on this project, noting it is very early stage and exploratory in nature. The ability to secure any licensing deal that is material to ANP is a low probability in our assessment, given the early nature of the research and the correlational outcomes to date.

Combination preclinical project. Antisense have commenced dosing in their preclinical program in collaboration with the Murdoch Children's Research Institute (MCRI) in a mouse model of muscular dystrophy. This project explores combination of ATL1102 with existing US approved dystrophin restoring drugs (akin to Sarepta's exon-skipping assets). This advances the knowledge around use of ATL1102 in combination with existing therapies examining potential synergies and may inform future clinical work – however at present is preliminary. First data due in 4Q CY22.

Forecasts. No changes to our market model estimates in terms of peak sales/share, however we do amend our timeline forecasts pushing EU market entry into end CY26, and USA into late CY27. Further, we add in an additional $35M in R&D spend associated with a Phase III pivotal trial.

Valuation. Changes to trial timelines affects our real options NPVs, which reduces our risked valuation to $0.36/share, with 79% of our valuation associated with EU ATL1102 opportunity with the balance in the US market. Our revised un-risked valuation is $1.00/share.

Dr Melissa Benson
melissa.benson@wilsonsadvisory.com.au
Tel. +61 2 8247 6639

Dr Shane Storey
shane.storey@wilsonsadvisory.com.au
Tel. +61 7 3212 1351

Madeleine Williams
madeleine.williams@wilsonsadvisory.com.au
Tel. +61 3 9640 3834

12-mth price performance ($)

	1-mth	6-mth	12-mth
Abs return (%)	(19.1)	(28.8)	(49.1)
Rel return (%)	(17.4)	(26.8)	(45.1)

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales ($m)	0.0	0.0	0.0	0.0	0.0
Consensus sales ($m)			3.2		1.0
EBITDA norm ($m)	(8.0)	(5.7)	(17.8)	(20.1)	(29.4)
EPS norm (cents)	(1.5)	(0.9)	(2.4)	(2.7)	(4.0)
EV/Sales (x)	n/m	n/m	n/m	n/m	n/m

Key changes		18-Jan	After	Var %
Sales	FY23E	0.0	0.0	0%
($m)	FY24E	0.0	0.0	0%
	FY25E	0.0	0.0	0%
EBITDA	FY23E	(4.6)	(17.8)	-288%
norm	FY24E	(25.3)	(20.1)	21%
($m)	FY25E	90.3	(29.4)	-132%
Price target		0.57	0.36	-37%
Rating		O/W	O/W	

Source: Company data, Wilsons estimate, Refinitiv.
All amounts are in Australian Dollar (A$) unless otherwise stated.

Business Description

Antisense Therapeutics is a clinical stage biopharmaceutical company focused on development of antisense oligonucleotides targeting rare diseases. Their primary asset, ATL1102, is currently in Phase II trials for the treatment of Duchenne Muscular Dystrophy (DMD) with positive results thus far in the more advanced, non-ambulant disease population. Antisense have also conducted some advanced clinical work in multiple sclerosis (MS) and with another asset ATL1103, in Acromegaly.

Catalysts

a) Clinical trial recruitment updates and readouts; b) Regulatory interactions regarding CTA/IND approvals and/or cross regional approvability of EU trials; c) Partnering/licensing opportunities.

Investment Thesis

We maintain our OVERWEIGHT rating on ANP but reduce PT to $0.36. Funding constraints have led ANP to reconfigure their ATL1102 clinical trial program moving to a smaller Phase IIb study to bolster its proof of principle claims with randomised, controlled data which it plans to initiate in 4Q CY22. Whilst this change sets back EU commercialisation by 2 years, it offers a clearer 'readthrough' on ATL1102 efficacy within current funding capacity and is the right decision given market conditions.

Risks

a) Competitor development progress in DMD market; b) Failure of ATL1102 to show adequate efficacy to achieve regulatory approvals; c) ability of management to deliver on commercialisation outcomes; d) availability of capital to fund development.

P&L ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	0.0	0.0	0.0	0.0	0.0
EBITDA norm	(8.0)	(5.7)	(17.8)	(20.1)	(29.4)
EBIT norm	(8.1)	(5.8)	(17.9)	(20.2)	(29.5)
PBT norm	(8.1)	(5.8)	(17.8)	(20.0)	(29.3)
NPAT norm	(8.1)	(5.8)	(17.8)	(20.0)	(29.3)
NPAT reported	(8.1)	(5.8)	(17.8)	(20.0)	(29.3)
EPS norm (cents)	(1.5)	(0.9)	(2.4)	(2.7)	(4.0)
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	n/m	n/m	n/m	n/m	n/m
EBITDA norm	37.2	(28.1)	211.3	12.6	46.4
NPAT norm	37.0	(28.0)	205.9	12.4	46.7
EPS norm (cents)	15.8	(40.7)	171.4	12.4	46.7
DPS (cents)	n/m	n/m	n/m	n/m	n/m

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E

Interims ($m)	2H21A	1H22A	2H22A	1H23E	2H23E
Sales	0.0	0.0	0.0	0.0	0.0
EBITDA norm	(6.0)	(2.9)	(2.8)	(8.3)	(9.6)
EBIT norm	(6.0)	(3.0)	(2.8)	(8.3)	(9.6)
PBT norm	(6.0)	(3.0)	(2.8)	(8.2)	(9.6)
NPAT norm	(6.0)	(3.0)	(2.8)	(8.2)	(9.6)
NPAT reported	(6.0)	(3.0)	(2.8)	(8.2)	(9.6)
EPS norm (cents)	(1.1)	(0.5)	(0.4)	(1.1)	(1.3)
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
R&D expense ($m)	4.9	4.5	17.0	21.0	32.0

Balance sheet ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	6.0	19.2	6.3	23.8	27.3
Current receivables	0.6	1.8	1.8	2.1	2.4
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Other assets	0.4	1.4	1.4	1.5	1.6
Total assets	7.0	22.4	9.5	27.4	31.4
Current payables	0.5	0.5	0.7	0.6	0.6
Total debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.7	0.5	0.6	0.6	0.6
Total liabilities	1.3	1.2	1.4	1.3	1.4
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders equity	5.7	21.1	8.2	26.1	30.0

Cash flow ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	(6.1)	(7.8)	(17.7)	(20.1)	(29.3)
Maintenance capex	0.0	(0.0)	0.0	0.0	0.0
Free cash flow	(6.1)	(7.8)	(17.7)	(20.1)	(29.3)
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other cash flow	(0.7)	(1.6)	(0.3)	(2.4)	(2.1)
Cash flow pre-financing	(6.7)	(9.4)	(18.0)	(22.5)	(31.4)
Funded by equity	8.5	22.6	5.0	40.0	35.0
Funded by cash/debt	(10.3)	(35.8)	8.0	(57.5)	(38.6)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	76.0	137.1	100.0	101.2	100.6
Net debt ($m)	(6.0)	(19.2)	(6.3)	(23.8)	(27.3)
Net debt / EBITDA (x)	0.8	3.4	0.4	1.2	0.9
ND / ND + Equity (%)	n/m	n/m	(327.4)	n/m	n/m
EBIT / Interest expense (x)	n/m	n/m	n/m	n/m	n/m

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	n/m	n/m	n/m	n/m	n/m
EV / EBITDA (x)	n/m	n/m	n/m	n/m	n/m
EV / EBIT (x)	n/m	n/m	n/m	n/m	n/m
P / E (x)	n/m	n/m	n/m	n/m	n/m
P / BV (x)	8.9	3.1	8.0	2.5	2.2
FCF yield (%)	(11.8)	(11.9)	(26.9)	(30.6)	(44.6)
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Weighted shares (m)	539.5	655.3	738.7	738.7	738.7

Source: Company data, Wilsons estimate, Refinitiv.
All amounts are in Australian Dollar (A$) unless otherwise stated.

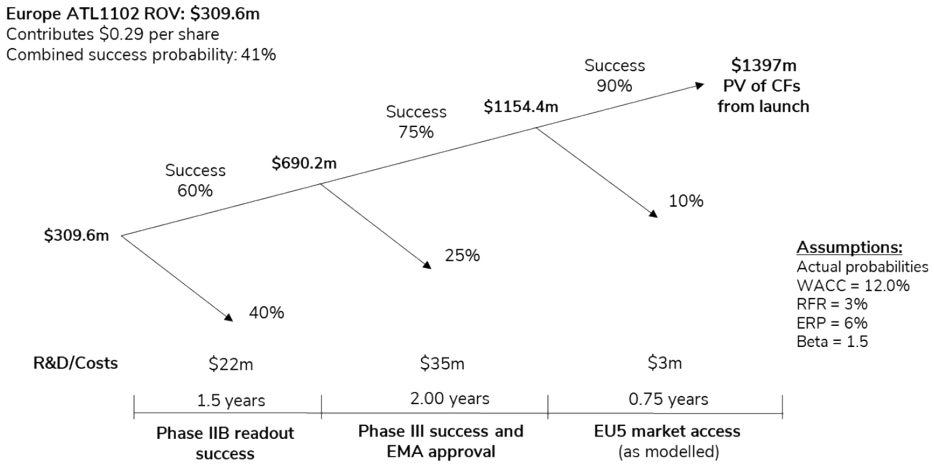
Valuation

Revised $0.36/sh PT reflects program timeline revision and increased R&D investment

We note the possibility for the EMA to grant conditional approval of ATL1102 pending excellent results in the upcoming Phase IIB trial. Precedents exist in other rare disease indications, usually alongside a Phase III/IV study in parallel. We take a conservative view on this and assume a Phase III follow on study is required for European market entry, which we now model as end CY26 (~2year delay from prior estimates). Our real options trees below (**Figure 1 & 2**) demonstrate how we value the European and USA DMD opportunities for ATL1102, noting of course we restrict the market opportunity to non-ambulant boys only at this time (~50% of total DMD market) recognising the opportunity is likely broader than this.

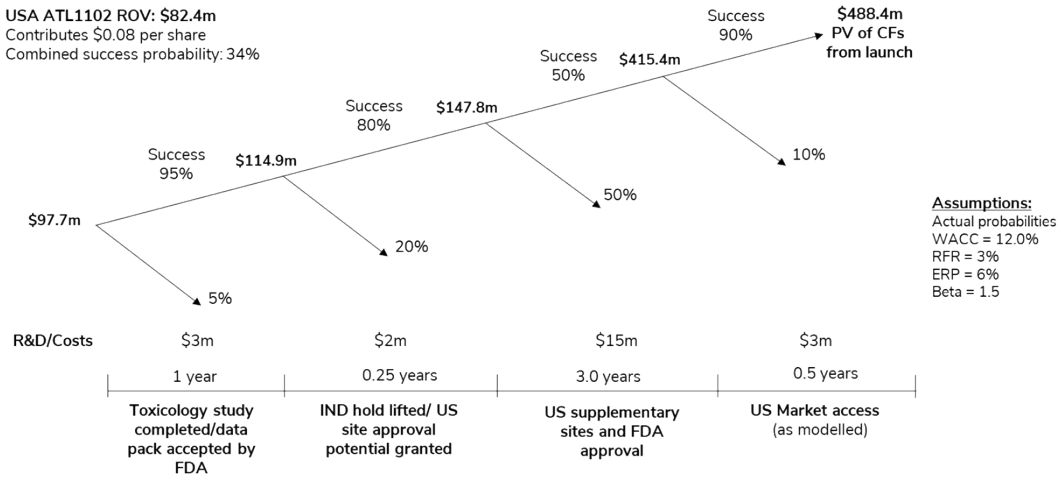
Key points of difference to our valuation frameworks below in light of the updated Phase IIB plan include the additional Phase III step in Europe with associated R&D spend ($35M) in addition to US site optionality (either in Phase IIB or Phase III trial) with FDA site additions and approval risked at 50:50 in our current framework. Europe contributes ~80% of our risked $0.36 PT (~$0.28/sh) with the balance being the US opportunity. We do not include any other pipeline opportunities in our valuation.

Figure 1. Real options valuation for European ATL1102 opportunity in non-ambulant DMD



Source: Wilsons.

Figure 2. Real options valuation for US ATL1102 opportunity in non-ambulant DMD



Source: Wilsons.

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Wilsons contact

For more information please phone: 1300 655 015 or email: publications@wilsonsadvisory.com.au