EDISON

Oryzon Genomics

Q216 results

Preliminary Phase I/IIa data read-out likely at ASH

Pharma & biotech

With its Q216 results, Oryzon reported that the two ongoing clinical studies, involving clinical-stage products ORY-1001 and ORY-2001, are proceeding as planned. Preliminary data from the Phase I/IIa trial with ORY-1001 are due by end-2016, which is the main catalyst for the company in the near term. ORY-2001 demonstrated safety when administered in a single dose and is now being tested in multiple ascending doses in Phase I. Recently Oryzon expanded its R&D pipeline with a new preclinical asset leveraging its proprietary epigenetics platform. Our valuation is virtually unchanged at €158m or €5.5/share.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/14	15.5	11.3	0.48	0.0	N/A	N/A
12/15	7.2	(0.1)	(0.01)	0.0	N/A	N/A
12/16e	3.9	(4.7)	(0.15)	0.0	N/A	N/A
12/17e	2.5	(5.6)	(0.19)	0.0	N/A	N/A

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

Q216 results in line, solid cash position

Oryzon reported its Q216 results on 8 August. R&D expenses were €2.2m, slightly up year-on-year. G&A costs were €2.1m (Q215: €1.6m) due to new personnel hires and increased other expenses after the IPO in December 2015. Solid cash and term deposits of €30.1m (net cash of €7.1m) at the end of Q216 were significantly boosted with the new debt of €10.5m in May. Oryzon has a history of efficient use of available public grants, which could provide further non-dilutive financing.

Clinical trials progress, new preclinical candidate

Oryzon's near-term focus is its lead product ORY-1001, lysine specific demethylase 1 (LSD1) inhibitor, which is currently in the second part of a Phase I/IIa trial with different subsets of acute leukaemia patients. ORY-2001 (dual LSD1 and monoamine oxidase B inhibitor), which is being developed for Alzheimer's disease (AD), entered a Phase I trial in Q116 with healthy volunteers to establish safety/tolerability. The company announced in July that safety/tolerability of a single dose of ORY-2001 in 40 healthy volunteers was satisfactory and the trial is now progressing with multiple ascending doses and is expected to recruit 48 additional volunteers. As guided previously, Phase II with AD patients could start in H117. In separate news in July, Oryzon revealed its third preclinical candidate, ORY-3001, which is also an LSD1 inhibitor. The precise indication has not been named, but the company said it will target non-oncological conditions. ORY-3001 could enter the clinic in H217 subject to passing animal toxicology studies.

Valuation: Risk-adjusted NPV of €158m or €5.5/share

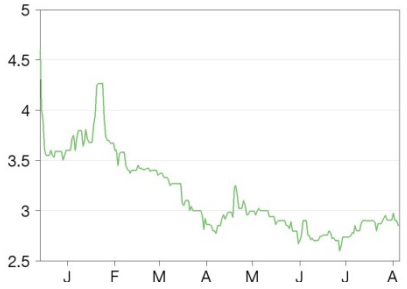
We value Oryzon at a virtually unchanged €158m (previously €160m) or €5.5/share (previously €5.6/share), based on a risk-adjusted NPV, which includes €7.1m net cash at end Q216. Changes to our valuation include the updated net cash position, fine-tuning our near-term forecasts and rolling our model forward by one quarter. The upcoming Phase I/IIa data will potentially provide a catalyst for value inflection.

8 August 2016

Price	**€2.85**
Market cap	**€81m**

Net cash (€m) at end of Q216	7.1
Shares in issue	28.5m
Free float	30%
Code	ORY
Primary exchange	Madrid Stock Exchange
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.3	(5.6)	N/A
Rel (local)	(3.4)	(4.0)	N/A
52-week high/low		€4.60	€2.60

Business description

Oryzon Genomics is a Spanish biotechnology company focused on developing novel epigenetic compounds. Lead compound ORY-1001 is partnered with Roche and is undergoing a Phase I/IIa study for acute leukaemia. ORY-2001 has potential for Alzheimer's disease and has entered Phase I. ORY-3001 is a new preclinical asset.

Next events

ORY-1001 Phase I/IIa results	Dec 2016 (ASH)
ORY-2001 Phase I results	H117

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ORY-1001 to deliver preliminary clinical data end-2016

ORY-1001 is a first-in-class inhibitor of LSD1, partnered with Roche, and represents a second-generation epigenetic therapeutic agent with increased specificity and a novel target compared to a handful of approved first-generation HDAC inhibitors. As a reminder, ORY-1001 was the first specific LSD1 inhibitor to enter a clinical trial in January 2014. Part one of the Phase I/IIa study included patients with relapsed or refractory acute leukaemia and demonstrated preliminary safety and tolerability. Part two started in November 2015, enrolling genetically selected patients with different subpopulations of acute myeloid leukaemia (AML) including mixed lineage leukaemia (MLL). This extension arm will also provide preliminary efficacy data and thus represents the next milestone event for the company. The results are expected to be presented at the American Society of Hematology (ASH) annual meeting on 3-6 December 2016.

Next steps with ORY-1001

Based on findings in the Phase I/IIa Part two, Roche will decide the way forward to Phase II, which is when there will be more clarity as to exactly which acute leukaemia patient subpopulations will be targeted with ORY-1001.

Valuation

We value Oryzon at €158m or €5.5/share, based on a risk-adjusted NPV analysis, which includes €7.1m net cash at end Q216. Fine-tuning our near-term forecasts did not significantly affect our long-term product forecasts or valuation. Rolling out model forward by one quarter mostly offset the decrease in the net cash position (with the new debt). We use a 12.5% discount rate, with probabilities of reaching the market of 15% and 12% for ORY-1001 and ORY-2001, respectively.

Exhibit 1: Oryzon rNPV valuation

Product	Indication	Launch	Peak sales (US$m)	Value (€m)	Probability (%)	rNPV (€m)	NPV/share (€/share)
ORY-1001	AML	2022	900	240.1	15%	42.8	1.5
ORY-1001	SCLC	2025	630*	113.7	8%	16.1	0.6
ORY-2001	AD	2026	4,510*	757.1	12%	91.8	3.2
Net cash (Q216)				7.1	100%	7.1	0.2
Valuation				**1,118.0**		**157.7**	**5.5**

Source: Edison Investment Research. Note: *Peak sales are rounded to the nearest US$10m, shown in US$. SCLC – small cell lung cancer; AML – acute myeloid leukaemia; AD – Alzheimer's disease.

We do not include the new preclinical candidate in our valuation yet, which we will revisit once more details have emerged. Currently our valuation is based on clinical-stage compounds and one preclinical indication (Exhibit 1). ORY-1001 has been partnered with Roche since April 2014 (for deal details see our previous report). After completion of the ongoing Phase I/IIa, Roche will be solely responsible for further clinical development and commercialisation of ORY-1001 and could expand beyond acute leukaemia. Specifically, we include ORY-1001 to be developed for small cell lung cancer (SCLC), because, in our view, this indication appears to be the most likely indication for Roche to expand. GlaxoSmithKline (GSK) has an LSD1 inhibitor, GSK2879552, in Phase I for SCLC and showed the compound's activity in SCLC cell lines and in SCLC xenograft models, providing support for the use of LSD1 inhibitors in non-haematological cancers.[1] As GSK's interest

[1] T. Maes et al. KDM1 histone lysine demethylases as targets for treatments of oncological and neurodegenerative disease. Epigenomics (2015) 7(4), 609–626.

in GSK2879552 validates LSD1 inhibition potential in SCLC and the SCLC market is larger than AML's, Roche may be interested in expanding to this indication.

ORY-2001 is still unpartnered, but Oryzon's strategy is to develop the asset until clinical proof-of-concept stage and then seek to out-license it. We have assumed a licensing deal for this asset in our model (see our initiation report for more details).

Financials

In H116 Oryzon reported revenues of €477k, which consisted of a reimbursement payment from Roche according to the R&D collaboration agreement separate to the ORY-1001 licensing deal, and the recognition of deferred income after a milestone payment of $4m from Roche in July 2015. In addition, the company recorded €1.8m income to account for the capitalisation of the development costs. Oryzon follows Spanish GAAP and research costs are expensed, while development costs can be capitalised by recognising income in the P&L statement.

We have revised our near-term financial forecasts, while our projections for Oryzon's products remain unchanged; therefore estimate revisions did not have a significant effect on our valuation. The increase in 2016 and 2017 revenue estimates come from higher R&D costs projections, which allow for more spending to be capitalised, as explained above. The increase in our R&D cost estimates mostly reflects higher overall activity, including the preclinical development with a new candidate ready for toxicological studies. G&A costs were higher year-on-year, reflecting headcount and compliance costs; we therefore increased our projections for FY16 and FY17 as well. This led to our loss per share estimates falling from €0.14 to €0.18 in FY16 and from €0.20 to €0.23 in FY17.

We forecast a comfortable 2016 year-end cash position of €25.0m (cash and term deposits classed as other current assets). In total, during the past 12-18 months Oryzon has managed to attract €27m in new funding from various sources. In addition, Oryzon has a history of efficient use of available public grants, which could provide further non-dilutive financing.

Exhibit 2: Key changes to our financial forecasts

€m	2015	2016e			2017e		
	Actual	Old	New	Change (%)	Old	New	Change (%)
Revenue	7.185	3.047	3.886	+28%	2.170	2.467	+14%
Gross profit	7.185	3.047	3.886	+28%	2.170	2.467	+14%
Operating profit (reported)	(0.233)	(4.022)	(4.612)	N/A	(5.052)	(5.590)	N/A
Profit before tax (reported)	(0.955)	(4.391)	(5.474)	N/A	(5.574)	(6.433)	N/A
Profit after tax (reported)	(0.992)	(4.053)	(5.107)	N/A	(5.574)	(6.433)	N/A
EPS reported (€)	(0.04)	(0.14)	(0.18)	N/A	(0.20)	(0.23)	N/A

Source: Oryzon accounts, Edison Investment Research

Exhibit 1: Financial summary

EUR'000s	2012	2013	2014	2015	2016e	2017e
December	Local GAAP	Local GAAP	Local GAAP	Local GAAP	Local GAAP	Local GAAP
PROFIT & LOSS						
Revenue	4,353	2,360	15,536	7,185	3,886	2,467
Cost of Sales	0	0	0	0	0	0
Gross Profit	4,353	2,360	15,536	7,185	3,886	2,467
Research and development	(876)	(873)	(1,108)	(3,191)	(4,574)	(3,774)
EBITDA	856	(94)	11,659	688	(3,686)	(4,590)
Operating Profit (before amort. and except.)	559	(370)	11,398	448	(3,804)	(4,708)
Intangible Amortisation	(455)	(657)	(657)	(657)	(808)	(882)
Exceptionals	0	(186)	(4,617)	(24)	0	0
Other	0	0	0	0	0	0
Operating Profit	104	(1,213)	6,124	(233)	(4,612)	(5,590)
Exceptionals	(220)	0	667	(169)	0	0
Net Interest	(582)	(672)	(52)	(553)	(861)	(843)
Profit Before Tax (norm)	(23)	(1,042)	11,346	(105)	(4,665)	(5,551)
Profit Before Tax (reported)	(698)	(1,885)	6,739	(955)	(5,474)	(6,433)
Tax	90	89	(88)	(37)	367	0
Profit After Tax (norm)	67	(953)	11,258	(142)	(4,298)	(5,551)
Profit After Tax (reported)	(608)	(1,796)	6,651	(992)	(5,107)	(6,433)
Average Number of Shares Outstanding (m)	23.0	23.0	23.3	24.5	28.5	28.5
EPS - normalised (EUR)	0.00	(0.04)	0.48	(0.01)	(0.15)	(0.19)
EPS - (reported) (EUR)	(0.03)	(0.08)	0.29	(0.04)	(0.18)	(0.23)
Dividend per share (EUR)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	19.7	N/A	75.0	9.6	N/A	N/A
Operating Margin (before GW and except.) (%)	12.8	N/A	73.4	6.2	N/A	N/A
BALANCE SHEET						
Fixed Assets	18,765	20,128	16,059	18,050	20,852	22,319
Intangible Assets	15,062	15,825	12,928	15,188	17,770	19,355
Tangible Assets	1,485	1,159	981	854	736	618
Investments	2,217	3,145	2,150	2,008	2,346	2,346
Current Assets	3,808	2,851	9,999	22,681	26,511	16,473
Stocks	19	2	9	4	10	7
Debtors	977	663	704	940	1,538	1,239
Cash	2,302	2,033	3,633	19,467	19,342	9,605
Other	510	153	5,654	2,270	5,621**	5,621**
Current Liabilities	(2,283)	(2,724)	(3,969)	(5,296)	(4,327)	(4,102)
Creditors	(765)	(1,005)	(1,299)	(2,401)	(1,432)	(1,737)
Short term borrowings	(1,519)	(1,719)	(2,670)	(2,895)	(2,895)	(2,365)
Long Term Liabilities	(9,949)	(11,251)	(8,196)	(7,841)	(20,549)	(18,636)
Long term borrowings	(7,963)	(9,117)	(6,420)	(6,177)	(19,077)	(18,007)
Other long term liabilities	(1,986)	(2,134)	(1,776)	(1,664)	(1,472)	(629)
Net Assets	10,341	9,004	13,893	27,594	22,487	16,054
CASH FLOW						
Operating Cash Flow	1,420	(113)	12,178	1,076	(9,245)	(4,827)
Net Interest	(582)	(672)	(52)	(553)	(861)	(843)
Tax	0	0	0	0	367	0
Capex	0	0	0	0	0	0
Acquisitions/disposals	107	(677)	798	0	0	0
Financing	0	0	0	14,725	0	0
Other	(8,125)	(161)	(9,579)	605	(3,286)*	(2,467)*
Dividends	0	0	0	0	0	0
Net Cash Flow	(7,180)	(1,623)	3,345	15,853	(13,025)	(8,136)
Opening net debt/(cash)	0	7,180	8,803	5,458	(10,395)	2,630
HP finance leases initiated	0	0	0	0	0	0
Other	0	0	0	0	0	0
Closing net debt/(cash)	7,180	8,803	5,458	(10,395)	2,630	10,767

Source: Edison Investment Research, Oryzon Genomics accounts. Note: Oryzon reports in Spanish GAAP. *Represents cash outflows related to development costs that were capitalised. **Term deposits classed as other current assets.

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