LIDDS

Sector: Biotech

Towards next phase

Successful Phase IIb

In September, positive topline data was reported from the Phase IIb study for Liproca Depot. The study showed that 67% of patients receiving the 16 ml dose were determined as responders, and that 90% of patients who received a 16 ml injection experienced a reduction in PSA. In our opinion, these data appear robust and we see improved chances for a partner deal in the coming 6-12 months.

What to expect in 2020

We see scope for exciting news flow during 2020 with the potential partner deal and Phase I data from DTX-001 as two key catalysts. Also, the TLR-9 project is expected to enter into Phase I during next year.

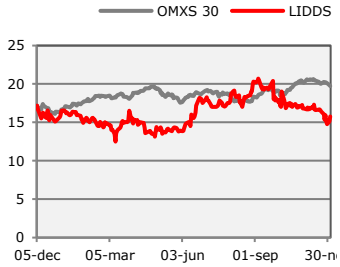
Raised valuation

As a result of the positive data, we have raised the likelihood of approval (LoA) from 40 % to 45 % in our Base Case. This translates into a somewhat higher valuation: our Base Case is raised to SEK 30 (25) per share and our Bear Case to SEK 10 (5) per share. We leave our Bull Case unchanged at SEK 55 per share, however. If a partner deal could be reached during 2020, we would most likely justify even higher higher LoA, but at the moment prevailing uncertainty leads us to deem 45 % as reasonable.

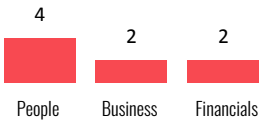
FAIR VALUE RANGE

BEAR	BASE	BULL
10,0	**30,0**	55,0

LIDDS.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	LIDDS
Market	First North
Share Price (SEK)	15,8
Market Cap (MSEK)	383
Net Debt 19E (MSEK)	12
Free Float	85 %
Avg. daily volume (MSEK)	0,5

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	1	8	4	72	61	7
EBITDA	-7	1	-10	58	47	-7
EBIT	-7	1	-10	58	47	-7
EPS (adj.)	-0,3	0,0	-0,4	1,9	1,9	-0,3
EV/Sales	-14,9	0,0	110,9	5,1	5,5	50,8
EV/EBITDA	2,3	0,0	-39,1	6,3	7,2	-55,3
EV/EBIT	2,3	0,0	-39,1	6,3	7,2	-55,3
P/E	0,0	0,0	-36,1	8,5	8,1	-58,6

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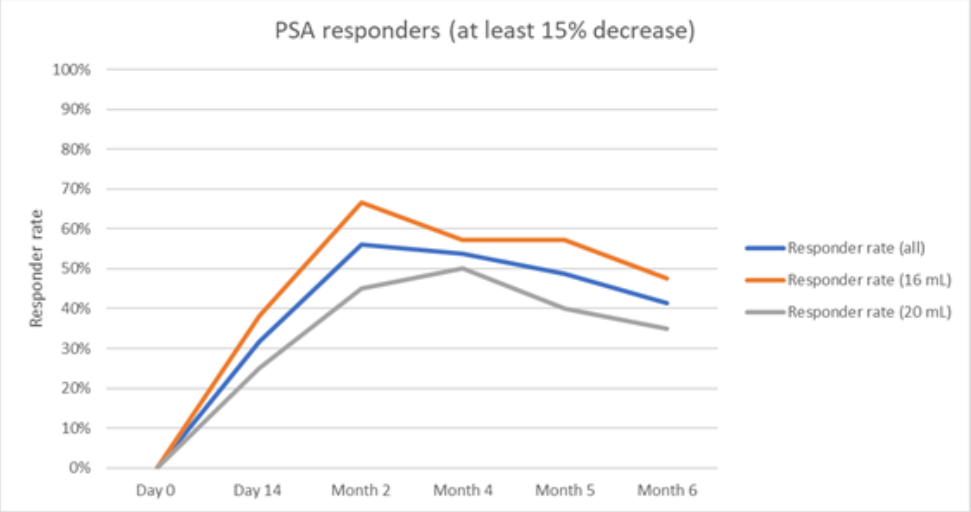
Liproca Depot – the main story

On 24 September, preliminary results were communicated from the Phase IIb Liproca Depot study. The study was designed to find the optimal dose for a phase III study in part I and to determine the level of PSA reduction for 41 patients after five months in part II. In part II, there were two cohorts, 21 patients received 16 ml, and 20 patients received 20 ml.

The study showed that 67% of patients receiving 16 ml dose were determined as responders, and 90% of patients who received a 16 ml injection experienced a reduction in PSA during treatment. For the 20 ml dose, the effect was slightly lower, which indicates that LIDDS has found the perfect match for Liproca Depot in the 16 ml dose. We thus conclude that the way forward will be with the 16 ml dose.



LIDDS presented more data at the European Multidisciplinary Congress on Urological Cancers (EMUC) in Vienna from the Phase IIb study, Liproca Depot. Apart from the primary endpoint results, which already were communicated, results from the secondary endpoint were also disclosed. This study showed no systemic hormonal adverse reactions, which is positive. Liproca Depot was also safe and well-tolerated, which is essential for further development. 84 % of the patients were positive to receive a second injection of Liproca Depot. The result showed that a single injection of Liproca Depot reduced the PSA levels in 60 % and 40 % for > 6 months.

Furthermore, the open-label extension (OLE) study of Liproca Depot had shown a PSA reduction for up to one year, which is longer than the six months that was first anticipated. In the study, twelve patients received a second injection after the PSA level had returned to its level before the treatment with Liproca Depot. Six of the patients in the OLE study took 8 to 10 months before the PSA level had returned to the same PSA levels as before treatment, and in some patients, the PSA level remained below baseline PSA for at least 12 months.

In our opinion, the data presented from the Liproca Depot study are robust, and we now assume that there is a 75 % chance that a partner deal could be reached within the next 6-12 months. LIDDS Chinese partner, Jiangxi Puheng Pharma, has decided to start preparing for Phase III in China, which we see as a positive sign. If a deal for some reason cannot be reached, however, we believe the need for new external capital to take LPC-004 forward may be significant.

Valuation

Based on the successful Phase IIb study with LPC-004, we have raised the likelihood of approval (LoA) from 40 % to 45 %. We still see uncertainties regarding the way forward, and a partnership is needed before we can revise the LoA further. However, the higher LoA contributes to increased valuation of LPC-004 and, hence, for LIDDS. Based on the successful data, we now assume that LIDDS will focus on making deals for LPC-004 before entering into Phase III. LIDDS aims to license out the rights globally and don't intend to enter Phase III on their own at this moment. We estimate that a partner deal could be reached within 6-12 months.

We assume that a partner deal could be worth perhaps 75 million dollars, about 10% of which likely to be paid upfront with milestones payments over 10 years. We estimate a likelihood of 75 % for a deal. If a partner deal cannot be reached within 6-12 months, however, we see an increased risk that external capital will be needed to fund the development of LPC-004 going forward.

We have a new Base Case of SEK 30 (25) per share and a new Bear Case of SEK 10 (5) per share. We retain our Bull Case of SEK 55 per share. Thus we see an upside of 90 % in our Base Case and an upside of 250 % in our Bull Case. Our Bear Case indicates a downside of 35 %.

Looking forward to 2020

As an exciting year for LIDDS soon will come to an end, let's we focus on what milestones we should look out for in 2020. Next year could well bring important news, such as data from DTX-001 Phase I study during the second half and a potential partner deal for LPC-004.

Another potential highlight, according to us, is more information regarding the TLR-9 project, where a Phase I study shall be initiated during 2020. We expect more details regarding the study design and way forward during the first half of the year. After the Phase I study, we assume that LIDDS will try to license out the project before entering into Phase II. Overall, we see exciting times ahead for LIDDS, and if things work out well the value gap vis-a-vis our Base Case is, in our view, likely to contact. If, on other hand, LIDDS turns out to be unsuccessful in finding a partner, the need for new capital will be real which is a challenge for the case at this point in time.

Investment Case

Multi-pronged business strategy that could start paying off in near-term
Lead project Liproca Depot aiming for a lucrative and untapped market opportunity
Multiple early-stage projects and collaborations could be value options
Valuation shows upside but clinical success needed to close the gap

LIDDS is a Swedish biopharma company attempting to unlock product value with its proprietary drug formulation technology NanoZolid. LIDDS use a multi-pronged business strategy, focusing on developing internal projects for out-licensing, formulating new drug products for partners, or re-formulating established products for life cycle management. Lead internal projects Liproca Depot has reported positive Phase IIb data and NZ-DTX are set to report data from Phase I in 2020, and the company looks ready to expand its collaboration business going forward.

Liproca Depot is a slow-release formulation of the well-used anti-androgen flutamide, being developed for early-stage prostate cancer. A 60-patient Phase IIb study was carried out successfully during 2019, and results justify further development of Liproca Depot. The global prostate cancer market is roughly USD 8.6 billion in size, and several established products make up the vast majority of sales. However, early-stage patients, diagnosed and put on active monitoring, represent an untapped market opportunity. We forecast a USD 400 million market opportunity if Liproca Depot can stabilise patients at the localised cancer stage.

LIDDS also has multiple early-stage projects that could offer upside potential in the near-term. Of the internal projects, NZ-DTX is now a clinical project and given the importance of docetaxel for the treatment of various cancer forms, could generate interest. A local, slow-release formulation could offer improved efficacy and safety, representing a potentially meaningful improvement in the treatment of many cancer patients. A Phase I study has been initiated, and we expect results in 2020. Our risk-adjusted sum-of-the-parts valuation shows a Base Case of SEK 30 per share. Our Bull and Bear Case is SEK 55 and 10 per share, respectively. The most relevant project in our view is Liproca Depot, and with the positive data from the Phase IIb, it's now essential to reach a partner deal.

Valuation

Bear Case 10,0 SEK

We assume a more pessimistic stance on the Liproca Depot Phase IIb trial, meaningless conclusive evidence of beneficial efficacy and safety, rendering less likelihood of reaching a partnering deal. We use a 30% probability of reaching the market and a 25% probability of a deal.

Base Case 30,0 SEK

For Liproca Depot, we assume a deal valued at USD 75 million, with USD 7 million upfront and 18% royalty rate for all markets ex-China. In China, we believe Jiangsu will bring Liproca Depot to market by 2024, which will bring in SEK 50 million in yearly royalty revenues to LIDDS. We risk-adjust the project at 45%. - NZ-DTX is assumed to be out-licensed after the upcoming Phase I study. We forecast a deal valued at about USD 50 million, with USD 2.5 million upfront. We further assume a 10% royalty rate and risk-adjust the sales to 15% probability.

Bull Case 55,0 SEK

We assume that Liproca Depot will show promising results in the Phase IIb study. As a consequence, LIDDS finds a partner for the US and EU markets and a well-designed Phase III raises the expectations on the likelihood of reaching the market. We use a 100% probability of reaching a deal and a 60% probability of reaching the market.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 4

The management team has vast experience from the medical field. CEO Monica Wallter has, for example, served as CEO of Ellen AB and Probi, both publicly listed companies in Sweden. Experienced people in the R&D space is a plus.

Business: 2

LIDDS does not have any products on the market and thus no recurring revenues. However, the revenue potential in the NanoZolid platform could be large, and the business has opportunities to expand in the coming years.

Financials: 2

LIDDS has no recurring revenues and there will be multiple years before the company is likely to reach consistent profitability.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	1	8	4	72	61
Total operating costs	-8	-7	-14	-14	-14
EBITDA	-7	1	-10	58	47
Depreciation	0	0	0	0	0
Amortization	0	0	0	0	0
Impairment charges	0	0	0	0	0
EBIT	-7	1	-10	58	47
Share in profits	0	0	0	0	0
Net financial items	0	0	-1	-1	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-7	1	-11	58	47
Tax	0	0	0	-13	0
Net earnings	-7	1	-11	45	47

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
Current assets					
Cash in banks	15	0	0	17	46
Receivables	0	0	0	0	0
Inventories	0	0	0	0	0
Other current assets	1	1	1	1	1
Current assets	17	1	1	18	48
Fixed assets					
Tangible assets	0	0	0	0	0
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	114	129	145	162	179
O non-current assets	0	0	0	0	0
Total fixed assets	114	129	145	162	179
Deferred tax assets	0	0	0	0	0
Total (assets)	131	131	146	180	227
Liabilities					
Current liabilities					
Short-term debt	0	0	12	0	0
Accounts payable	4	0	0	0	0
O current liabilities	0	0	0	0	0
Current liabilities	4	0	12	0	0
Long-term debt	0	0	0	0	0
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	4	0	12	0	0
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	127	138	135	180	227
Minority interest (BS)	0	0	0	0	0
Minority & equity	127	138	135	180	227
Total liab & SE	131	138	146	180	227

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	1	8	4	72	61
Total operating costs	-8	-7	-14	-14	-14
Depreciations total	0	0	0	0	0
EBIT	-7	1	-10	58	47
Taxes on EBIT	0	0	0	-13	0
NOPLAT	-7	1	-10	46	47
Depreciation	0	0	0	0	0
Gross cash flow	-7	1	-10	46	47
Change in WC	-4	-4	0	0	0
Gross CAPEX	-14	-15	-16	-17	-17
Free cash flow	-25	-18	-26	29	30

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	97%	100%	92%	100%	100%
Debt/equity ratio	0%	0%	9%	0%	0%
Net debt	-15	0	12	-17	-46
Capital employed	112	138	146	163	180
Capital turnover rate	0,0	0,1	0,0	0,4	0,3

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	25 625	657%	-54%	1 925%	-16%
EPS growth (adj)	0%	-115%	-991%	-525%	4%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	13,0 %	NPV FCF (2019-2020)	23
		NPV FCF (2021-2027)	341
		NPV FCF (2028-)	387
		Non-operating assets	0
		Interest-bearing debt	0
		Fair value estimate MSEK	751
Assumptions 2017-2023 (%)			
Average sales growth	65,9 %	Fair value e. per share, SEK	31,0
EBIT margin	5,7 %	Share price, SEK	15,8

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-6%	1%	-8%	29%	23%
ROCE	-6%	1%	-7%	36%	23%
ROIC	-7%	1%	-7%	31%	29%
EBITDA margin	-649%	14%	-284%	81%	77%
EBIT margin	-649%	14%	-284%	81%	77%
Net margin	-648%	15%	-298%	63%	77%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0,32	0,05	-0,44	1,86	1,94
EPS adj	-0,32	0,05	-0,44	1,86	1,94
Dividend	0,00	0,00	0,00	0,00	0,00
Net debt	-0,73	0,00	0,48	-0,69	-1,92
Total shares	20,98	24,25	24,25	24,25	24,25

VALUATION	2017	2018	2019E	2020E	2021E
EV	-15,3	0,0	395,0	366,4	336,8
P/E	0,0	0,0	-36,1	8,5	8,1
P/E diluted	0,0	0,0	-36,1	8,5	8,1
P/Sales	0,0	0,0	107,6	5,3	6,3
EV/Sales	-14,9	0,0	110,9	5,1	5,5
EV/EBITDA	2,3	0,0	-39,1	6,3	7,2
EV/EBIT	2,3	0,0	-39,1	6,3	7,2
P/BV	0,0	0,0	2,8	2,1	1,7

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	-6,8 %	Net sales	86,1 %
3 month	-23,7 %	Operating profit adj	23,0 %
12 month	-8,1 %	EPS, just	17,4 %
Since start of the year	4,3 %	Equity	2,9 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Lars Wikander	8,9 %	8,9 %
Avanza Pension	8,3 %	8,3 %
Daniel Lifveredson (Inkl. Bolag)	8,2 %	8,2 %
Nyenburgh Holding B.V.	6,4 %	6,4 %
Swedbank Försäkring	6,3 %	6,3 %
Abn Amro Global Custody Services Nv	5,2 %	5,2 %
Bengt Sporre	3,9 %	3,9 %
Recipharm Venture Fund AB	3,0 %	3,0 %
Gunvald Berger	2,9 %	2,9 %
Bfcm P/C Bfcm Sweden Opcvm Lt	2,7 %	2,7 %

SHARE INFORMATION	
Reuters code	LIDDS.ST
List	First North
Share price	15,8
Total shares, million	24,3
Market Cap, MSEK	383,2

MANAGEMENT & BOARD	
CEO	Monica Wallter
CFO	Anja Peters
IR	
Chairman	Jan Törnell

FINANCIAL INFORMATION

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2019-12-06)

Rating	People	Business	Financials
5p	11	11	2
3p - 4p	86	65	28
0p - 2p	9	30	76
Company N	106	106	106

Duplication and distribution

CONFLICT OF INTERESTS

Jakob Svensson owns shares in the company : No
Klas Palin owns shares in the company : No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.