QUANTUM GENOMICS

BUY

TARGET PRICE : 11.5€ (vs 9€) +216%

COMPANY UPDATE

ANTICIPATING THE START OF PHASE 3 STUDY IN 2019

The company reported 1H19 financial results and provided a corporate update. We anticipate the lead clinical asset, firibastat, to move into a Phase 3 study in 2019, with the second Phase 3 potentially starting in 2021. Additionally, the company initiated a safety study of firibastat in patients with renal failure, expected to read out in April, 2020. QUANTUM GENOMICS also entered into negotiations with a South American company for potential licensing deal in Latin America, which we expect to be signed and announced in 2020. Following 1H19 results and the recent news flow, we update our financial model. As a result, we reiterate our BUY rating and increase our TP to €11.5 (vs €9.0).

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Financial update

The company reported 1H19 financial results and provided a corporate update. For 1H19, the company reported income of €0.28M and net loss of €4.1M, in-line with our estimates. For 2019, we project no revenues and a net loss of €9.2M. QUANTUM GENOMICS ended 1H19 with €11.6M and, considering additional €5.8M under equity line with Kepler Chevreux, the company has potential financial visibility until 3Q20.

The FDA defined clinical path forward for firibastat

In September, the company has also announced the outcome from the post-Phase-2 meeting with the FDA, which defined clinical path forward for its lead asset, firibastat, in arterial hypertension (HTN). Recall, QUANTUM GENOMICS is developing firibastat as a treatment for cardiovascular complications, such as HTN and heart failure (HF). Firibastat is based on a novel approach to target brain aminopeptidase A (BAPA), an enzyme that is present in the brain and can regulate peripheral blood pressure. The drug has already shown positive antihypertensive activity in the Phase 2b NEW-HOPE study and the company held a post-Phase-2 meeting with the FDA to advance the asset into the pivotal Phase 3 study. According to company, the agency requested 2 Phase 3 studies: 1) QGC001/3QG1, which will evaluate safety and efficacy of the drug, and 2) QGC001/3QG2, which will further look into long-term safety of firibastat.

Double-blind, placebo-controlled QGC001/3QG1 study is expected to enroll 500 hypertensive patients with systolic automated office blood pressure (AOBP) above 140 mmHg despite being treated with two (hard-to-treat) or three (resistant) anti-antihypertensive classes, including a diuretic. The patients will be treated with firibastat or placebo on top of the standard of care for 3 months and, similarly to NEW-HOPE study, the efficacy will be assessed by the primary endpoint of the change from baseline in systolic AOBP. The study is planned to begin by the end of 2019 with expected readout in 2H21. The second QGC001/3QG2 study would enroll 750 hard-to-treat or resistant HTN patients: 650 patients will receive firibastat for 6 months, and 100 patients will receive firibastat for 12 months. We currently expect this study to begin at the beginning of 2021, with the top-line results by the end of 2022 – beginning 2023.

We note that the studies will include both hard-to-treat and resistant hypertensive patients, and the former group was the population where firibastat achieved positive results in the Phase 2b study.

in € / share	2019e	2020e	2021e
Adjusted EPS	-0.49	-0.50	0.41
chg.	*n.s.*	*n.s.*	*n.s.*
estimates chg.	*n.s.*	*n.s.*	*n.s.*

au 31/12	2019e	2020e	2021e
PE	n.s.	n.s.	8.8x
EV/Sales	n.s.	27.9x	2.7x
EV/EBITDA	n.s.	n.s.	5.0x
EV/EBITA	n.s.	n.s.	5.0x
FCF yield*	n.s.	n.s.	0.2x
Div. yield (%)	n.s.	n.s.	0.2x

* After tax op. FCF before WCR

key points	
Share price (€)	3.64
Number of Shares (m)	16.9
Market cap. (€m)	61
Free float (€m)	51
ISIN	FR0011648971
Ticker	ALQGC-FR
DJ Sector	Health Technology

	1m	3m	Ytd
Absolute perf.	-26.5%	-27.9%	-31.8%
Relative perf.	-24.6%	-25.1%	-38.1%

Source : Factset, Invest Securities estimates

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Additionally, the direct competitor, aprocitentan from IDORSIA, is being evaluated in the Phase 3 study in resistant HTN only and the results are expected in 1Q21. Thus, we believe that firibastat, with the novel mechanism of action and potentially broader indication, could be positioned competitively. In our view, the results from the FDA meeting clearly outlined the development path forward for firibastat in HTN, which represents a significant milestone for the company. We currently project firibastat to be launched in hard-to-treat and resistant HTN in the US and the EU in 2024, generating risk-adjusted sales revenues of €31M and growing to €959M by 2031.

QGC001/1QG4 could help firibastat's adoption for patients with SRI

In September, 2019, the company also launched QGC001/1QG4 study to evaluate pharmacokinetics and safety of firibastat in patients with HTN and HF, who are suffering from severe renal impairment (SRI). Nearly 50% of all hypertensive patients develop renal impairment, including acute renal impairment and clinical kidney disease (CKD). Albeit SRI and kidney failure represent only about 15% of CKD, this patient population is difficult to treat and has a high mortality rate. Nowadays, agents that target the renin-angiotensin-aldosterone system (RAAS), such as angiotensin-converting enzyme (ACE) inhibitors or angiotensin receptor blockers (ARBs), are generally considered first-line antihypertensive therapy for hypertensive patients with SRI. The subsequent lines of therapy usually include diuretics and aldosterone agents. However, while RAAS agents lower proteinuria and progression of CKD in hypertensive patients, these drugs require precaution, including monitoring of serum creatinine and serum potassium. Moreover, some agents such as specific diuretics and spironolactone are even contraindicated due to potential worsening of renal condition, which could result in complete renal failure. Firibastat, on another hand, demonstrated no negative impact on renal function in NEW-HOPE study.

QGC001/1QG4 study will evaluate the pharmacokinetics and safety of a once-daily formulation (500mg) of firibastat in 14 patients with SRI compared to 14 healthy volunteers with a normal renal function. With the estimated cost of about €500,000, we believe that QGC001/1QG4 represents a cost-effective opportunity that could lead to the fast adoption of firibastat in SRI patients with HTN and HF, if the drug is approved in these indications. The company announced that the study will include the clinical sites in France and Hungary and that the recruitment started in September, 2019. We currently expect the results of QGC001/1QG4 in April, 2020.

First licencing deal could be signed for Latin America

On October 7, the company announced that it entered into the exclusive negotiations with the undisclosed South American company for potential licensing deal in Latin America. According to press release, the potential partner would support the next steps in the clinical development of firibastat and would commercialize the drug in HTN in Latin America. According to management, the company would pursue a regional partnership strategy for firibastat in HTN, whereas the global partnership agreement could be established in HF.

While, we note that resistant HTN market in Latin America is estimated at nearly $5B, our analysis showed that, historically, the licensing terms for this region were fairly modest, with the total development and regulatory milestones ranging between $10M and $45M across different indications. Albeit we note that this potential licensing agreement could be the first in the row. We currently project the licensing deal with South American company to be announced in 2020 and potentially another regional partnership agreement to come in 2021.

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Changes to our financial model

Following the post-Phase-2 meeting the FDA, and the recent news flow we made the following changes to our financial model: 1) we add additional Phase 3 study to our projections; 2) we expect the launch of firibastat in the US and the EU in 2024, vs 2023 previously; 3) we currently project 2 regional deals (including Latin America) to be announced in 2020 – 2021, which could partly finance the Phase 3 studies; 4) we assume additional capital raise in 2020 to partly cover the costs of the additional Phase 3 study; 5) we increase the probablity of success (PoS) for firibastat in hard-to-treat and resistant HTN to 62% (up from 32% previously), in-line with PoS for the assets in the Phase 3 study in cardiovascular indications; 6) we updated WACC to account for changes in the market volatility, as well as stock volatility (beta 2.5 vs 2.25 previously), resulting in WACC of 16.3%, higher than 14.4% peviously. As a result of these changes and rolling our model forward, we increase our TP to €11.5, up from €9.0. Reiterate BUY.

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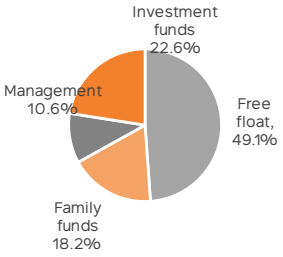
INVESTMENT CASE

The company's most advanced asset, firibastat, achieved positive topline results in the Phase 2b study in high-risk hypertension. The company is expected to initiate the first Phase 3 study in hard-to-treat resistant hypertension in 2H19, followed by the second Phase 3 study in 2021. If successful, firibastat could become first-in-class antihypertensive drug with the potential launch in the US and EU in 2024. In our view, Quantum Genomics with the promising mid-stage clinical program, is an attractive option for investors interested in cardiovascular space.

FINANCIAL DATA

Shareholders



Share information	2014	2015	2016	2017	2018	2019e	2020e	2021e
Published EPS (€)	-0.46	-0.55	-0.63	-0.90	-0.76	-0.55	-0.56	0.46
Adjusted EPS (€)	**-0.40**	**-0.47**	**-0.52**	**-0.65**	**-0.67**	**-0.49**	**-0.50**	**0.41**
Diff. I.S. vs Consensus	*+0.5%*	*-3.4%*	*-2.2%*	*-32.6%*	*-22.7%*	*-45.3%*	*n.s.*	*n.s.*
Dividend	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00

Valuation ratios	2014	2015	2016	2017	2018	2019e	2020e	2021e
P/E	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	8.8x
EV/Sales	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	27.91x	2.69x
VE/EBITDA	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	5.0x
VE/EBITA	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	5.0x
Op. FCF bef. WCR yield	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	20.2%
Op. FCF yield	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	20.2%
Div. yield (%)	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Share price in €	*5.2*	*8.3*	*6.3*	*3.6*	*3.6*	*3.6*	*3.6*	*3.6*
Market cap.	25	58	53	37	57	62	69	69
Net Debt	0	-9	-11	-11	-15	-9	-4	-13
Minorities	0	0	0	0	0	0	0	1
Provisions/ near-debt	0	0	0	0	0	0	0	0
+/- Adjustments	0	0	0	0	0	0	0	1
Entreprise Value (EV)	**25**	**49**	**42**	**26**	**43**	**53**	**65**	**58**

Income statement (€m)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Sales	0	0	0	0	0	0	2	22
chg.	*n.s.*	*n.s.*	*n.s.*	*n.s.*	*n.s.*	*n.s.*	*n.s.*	*n.s.*
EBITDA	-2	-4	-6	-10	-14	-11	-12	12
EBITA	**-2**	**-4**	**-6**	**-10**	**-14**	**-11**	**-12**	**12**
chg.	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***
EBIT	-2	-4	-6	-10	-14	-10	-12	12
Financial result	0	0	0	0	0	0	0	0
Corp. tax	0	1	1	1	1	1	2	-3
Minorities+affiliates	0	0	0	0	0	0	0	0
Net attributable profit	-2	-4	-5	-9	-12	-9	-11	9
Adjusted net att. profit	**-2**	**-4**	**-5**	**-9**	**-12**	**-9**	**-11**	**9**
chg.	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***	***n.s.***

Cash flow statement (€m	2014	2015	2016	2017	2018	2019e	2020e	2021e
EBITDA	-2	-4	-6	-10	-14	-11	-12	12
Theoretical Tax / EBITA	0	0	0	0	0	0	0	0
Capex	0	0	0	0	0	0	0	0
Operating FCF bef. WCR	**-3**	**-4**	**-6**	**-10**	**-14**	**-11**	**-12**	**12**
Change in WCR	-1	0	0	1	1	0	0	0
Operating FCF	**-3**	**-4**	**-7**	**-9**	**-13**	**-11**	**-12**	**12**
Acquisitions/disposals	0	0	0	0	0	0	0	0
Capital increase/decrease	4	12	8	8	15	3	6	0
Dividends paid	0	0	0	0	0	0	0	0
Other adjustments	0	1	2	1	1	1	2	-3
Published FreeCash Flow	**1**	**8**	**3**	**0**	**4**	**-6**	**-5**	**9**

Balance Sheet (€m)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Assets	1	1	1	0	1	1	1	1
Intangible assets/GW	0	0	0	0	0	0	0	0
WCR	-1	-1	-1	-3	-3	-3	-3	-3
Group equity capital	0	8	11	9	12	6	1	10
Minority shareholders	0	0	0	0	0	0	0	0
Provisions	0	0	0	0	0	0	0	0
Net financial debt	**0**	**-9**	**-11**	**-11**	**-15**	**-9**	**-4**	**-13**

Financial ratios	2014	2015	2016	2017	2018	2019e	2020e	2021e
EBITDA margin	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	54.2%
EBITA margin	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	54.0%
Adjusted Net Profit/Sales	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	40.5%
ROCE	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	-432.3%
ROE adjusted	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	87.6%
Gearing	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.
ND/EBITDA (in x)	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	n.s.	-1.1x

Source : company, Invest Securities Estimates

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SWOT ANALYSIS

STRENGTHS

- First-in-class mechanism of action
- Mid-stage clinical programs
- Secured financing through equity line

WEAKNESSES

- Competitve market
- More advanced competitor
- Potential dilution

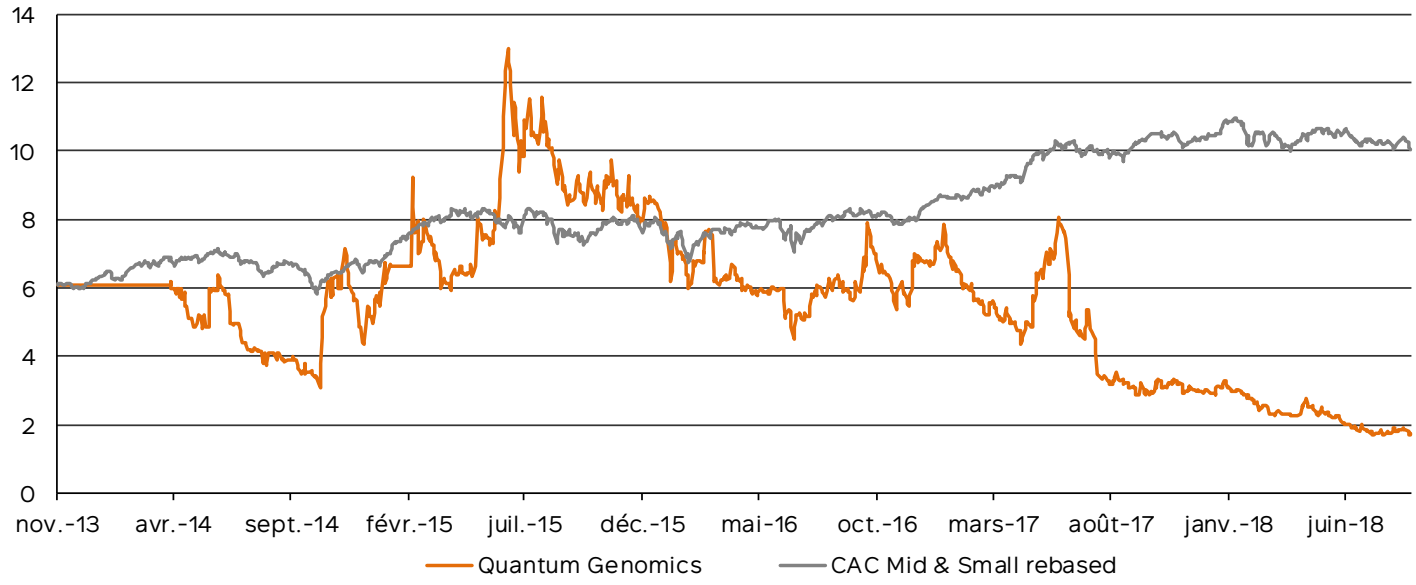
OPPORTUNITIES

- Commercialization agreement
- Earlier-than-expected market approvals
- Marketing in other territories

THREATS

- Clinical and regulatory risks
- Commercial risks
- Legal risks

SHARE PRICE CHANGE FOR 5 YEARS



DETECTION OF CONFLICTS OF INTEREST

	Corporate Finance	Treasury stocks holding	Prior communication to company	Analyst's personal interest	Liquidity contract	Listing Sponsor	Research Contract
Quantum Geno	Yes	No	Yes	No	Yes	No	Yes

DISCLAIMER

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