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Quantum Genomics **Buy**

France | Pharma & biotech

MCap: EUR123.0m

Target Price: EUR 8.70
Current Price: EUR 4.61
Up/downside: 88.7%
Market data: 25 March 2021

Bloomberg: ALQGC FP	Reuters: ALQGC.PA
Free float	84%
Avg. daily volume (EURm)	1.0
YTD abs performance	-5.9%
52-week high/low (EUR)	5.54/1.93

A busy 2021

Key points:

- Quantum Genomics released its FY 2020 results and corporate update. QG recorded revenue of EUR2.3m, integrating first upfront payments from signed partnerships.
- Net loss over the year increased to EUR11.5m due to higher R&D expenses with the launch of the FRESH study and ongoing QUORUM. Cash position at the end of the year amounted to EUR27.1m.
- The next clinical milestone should be the release of the top-line results from phase IIb QUORUM in Q2 2021.

FY 2020: first contributions from licensed partners

- Quantum recorded revenues of EUR2.3m with the first contributions resulting from the signed partnership agreements: EUR1.2m from BioLab (partner in Brazil) including upfront payments and cost invoicing linked to the FRESH study, and EUR0.8m of upfront payment from Orient EuroPharma.
- SG&A expenses decreased to EUR2.3m compared to EUR2.8m last year. The remaining operating expenses are increasing to EUR13.2m (vs. EUR8.3m in 2019) due to the increase in clinical trial expenses with the launch of the FRESH study and ongoing QUORUM trial. Operating loss came at EUR13.8m compared to EUR10.7m in 2019.
- Including the research tax credit of EUR 2.1m, QG reported a net loss of EUR 11.5m versus EUR 9.1m last year.
- QG's cash position at the end of the year amounted to EUR27.1m compared to EUR11.2m in 2019. The company's financial visibility extends beyond 2021 thanks to EUR28m of financing in 2020.
- The company expects further upfront payments from the partners already signed and should receive additional milestone payments related to the inclusion of the first Asian patient in the REFRESH phase III study.

Outlook for 2021

- Q2 2021E: Top-line results from phase IIb trial (QUORUM) evaluating firibastat in patients with heart failure (HF) has been completed.
- Q2 2021E: Recruitment of the first patient in the REFRESH phase III study.
- Q4 2021E: First results from pivotal phase III study FRESH evaluating firibastat in patients with resistant hypertension (HTN).
- In addition, in 2021, QG could sign new licensing partnerships on firibastat. A partner could be found in the US and Europe, which would be a major driver for the share price.

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Appendix 1: Research framework

Last model update: 04 December 2020

Investment case

- Quantum Genomics has an innovative approach: targeting the brain to treat cardiovascular pathologies. Its lead product, firibastat, inhibits a brain target (brain aminopeptidase A), leading to a reduction in blood pressure.
- Firibastat, is currently in phase III for the treatment of resistant hypertension (HTN), and in phase IIb in Heart Failure (HF). QG has already demonstrated positive results from a phase IIb trial in HTN, especially in hard-to-treat patients.
- EUR2.5bn peak sales can be expected in HTN in 2033E. HF is an attractive area for big pharmas (e.g. Novartis’s Entresto, USD1bn sales) where firibastat could reach EUR1.7bn of sales (2033E).

Catalysts

- Phase IIb (QUORUM) preliminary results in HF (Firibastat) due in H2.
- Potential additional out-licensing deal(s) in the coming months on Firibastat in difficult-to-treat/resistant HTN.

Valuation methodology

- Our rNPV-based model yields a TP of EUR8.7.
- We focus our rNPV of Firibastat based on two clinical programmes: HTN (46.7% likelihood of approval,LoA) and HF (11.2% LoA). We apply a discount rate of 15%, in line with our biotech universe.

Risks to our rating

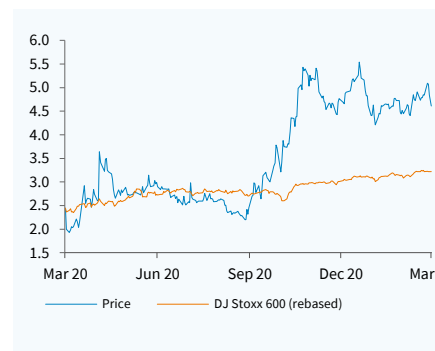
- Failure in clinical trials would be a major risk in our rating as Quantum has for now a single product in its pipeline, Firibastat.
- Delays for ongoing clinical trials (FRESH and QUORUM) due to the pandemic.

Appendix 2: Company description

Quantum Genomics is a biopharmaceutical company specialising in the development of a new class of cardiovascular drugs based on brain aminopeptidase A inhibition. Its lead candidate, firibastat, is about to start phase III trials to treat resistant hypertension and is in phase IIb trials for heart failure. The company is a spin-off from the INSERM, CNRS, and Paris Descartes University and has been listed on Euronext Growth since 2015.

Management	Jean-Philippe Milon, CEO Benoît Gueugnon, CFO B. Besse, CMO
Key shareholders	Management: 5.00% Tethys: 3.70% Otium Capital: 3.30% Institutional investors: 20.80%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Good benefit/safety profile for firibastat in HTN
- Impressive results in hard-to-treat HTN populations
- Late-stage development product (phase III to start in Q4)
- Experienced management, light organisation (9 employees).

Opportunities

- High unmet medical need in resistant hypertension
- Heart failure represents a significant, growing market (>10% per year)
- Possibility to combine firibastat with other treatments
- Main regions (US, EU) still available for partnerships

Weaknesses

- Single late-stage product company
- Limited clinical data available in HF
- High share of retail investors

Threats

- HTN is not targeted by most Big Pharma, still many regional bidders.
- HF: firibastat vs. reference drug (not placebo) make the study risky
- Huge number of cheap generic combinations could prevent quick uptake

Appendix 5: Key financials

Last model update: 04 December 2020

Market data date: 26 March 2021

FY to 31/12 (EUR)	12/14	12/15	12/16	12/17	12/18	12/19	12/20E	12/21E	12/22E	na
Income Statement (EURm)										
Sales	0.3	0.2	0.0	0.0	0.1	0.4	36.6	45.0	15.0	na
% Change	na	-50.9%	-89.8%	49.9%	177.5%	406.8%	10046.5%	22.8%	-66.7%	na
EBITDA adjusted	-2.3	-4.3	-6.2	-10.2	-13.3	-10.5	14.1	22.8	-1.9	na
EBITDA adj. margin (%)	na	na	na	na	na	na	38.5%	50.7%	-12.5%	na
EBIT adjusted	-2.4	-4.3	-6.2	-10.3	-13.6	-10.8	13.9	22.6	-2.0	na
EBIT adj. margin (%)	na	na	na	na	na	na	38.1%	50.3%	-13.6%	na
Net financial items & associates	-0.1	-0.2	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	na
Others	0.0	0.0	0.0	-0.2	0.0	0.1	0.0	0.0	0.0	na
Tax	0.3	0.7	1.0	1.1	1.5	1.5	-0.9	-2.2	2.4	na
Net profit from continuing operations	-2.2	-3.8	-5.2	-9.4	-12.0	-9.1	13.1	20.4	0.4	na
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net profit before minorities	-2.2	-3.8	-5.2	-9.4	-12.0	-9.1	13.1	20.4	0.4	na
Net profit reported	-2.2	-3.8	-5.2	-9.4	-12.0	-9.1	13.1	20.4	0.4	na
Net profit adjusted	-2.2	-3.8	-5.2	-9.4	-12.0	-9.1	13.1	20.4	0.4	na
Cash Flow Statement (EURm)										
Levered post tax CF before capex	-2.9	-3.4	-5.5	-8.1	-10.8	-10.1	12.2	19.8	-0.1	na
Capex	-0.4	-0.4	-0.2	0.1	-0.2	0.0	-0.3	-0.3	-0.3	na
Free cash flow	-3.2	-3.7	-5.7	-7.9	-11.0	-10.2	11.9	19.5	-0.4	na
Acquisitions & divestments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Others	6.1	8.8	8.3	7.7	14.8	7.0	28.0	0.0	0.0	na
Change in net financial debt	-2.9	-5.1	-2.5	0.2	-3.9	3.1	-39.9	-19.5	0.4	na
Balance Sheet (EURm)										
Intangible assets	0.4	0.1	0.1	0.1	0.0	0.4	0.4	0.4	0.4	na
Tangible assets	0.0	0.1	0.1	0.1	0.0	0.0	0.1	0.3	0.4	na
Financial & other non-current assets	0.2	0.4	0.5	0.3	0.6	0.5	0.5	0.5	0.5	na
Total shareholders' equity	5.8	8.0	10.5	8.9	11.9	10.2	51.3	71.7	72.1	na
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Liabilities and provisions	4.9	2.5	4.0	5.0	6.6	4.9	3.9	3.1	2.4	na
Net debt	0.0	-8.7	-11.2	-11.1	-14.8	-11.2	-51.1	-70.6	-70.2	na
Net financial debt	0.0	-8.7	-11.2	-11.1	-14.8	-11.2	-51.1	-70.6	-70.2	na
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net working capital	0.0	-0.4	-0.1	-1.4	-2.3	-0.9	0.2	1.0	1.6	na
Invested capital	0.0	-0.4	0.0	-1.3	-2.2	-0.9	0.3	1.3	2.0	na
Per share data (EUR)										
EPS adjusted	-0.46	-0.54	-0.62	-0.85	-0.76	-0.45	0.49	0.77	0.01	na
EPS adj and fully diluted	-0.46	-0.54	-0.62	-0.85	-0.76	-0.45	0.49	0.77	0.01	na
% Change	na	-chg	-chg	-chg	+chg	+chg	+chg	56.2%	-98.2%	na
EPS reported	-0.46	-0.54	-0.62	-0.85	-0.76	-0.45	0.49	0.77	0.01	na
Cash flow per share	-0.60	-0.48	-0.66	-0.73	-0.68	-0.50	0.46	0.74	0.00	na
Book value per share	1.21	1.16	1.25	0.81	0.75	0.50	1.92	2.69	2.70	na
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	na
Number of shares, YE (m)	4.81	6.93	8.39	10.99	15.77	18.06	26.67	26.67	26.67	na
Ratios										
ROE (%)	na	-54.4%	-56.5%	-96.7%	-115.6%	-82.4%	42.6%	33.3%	0.5%	na
ROIC (%)	na	na	na	na	na	na	na	na	-105.0%	na
ND(F+IFRS16) / EBITDA (x)	0.0	2.0	1.8	1.1	1.1	1.1	-3.6	-3.1	37.4	na
Gearing (%)	-0.2%	-107.8%	-106.4%	-125.0%	-124.7%	-109.8%	-99.7%	-98.4%	-97.3%	na
Valuation										
P/E adjusted	na	na	na	na	na	na	9.4	6.0	na	na
P/E adjusted and fully diluted	na	na	na	na	na	na	9.4	6.0	na	na
P/BV	4.3	7.2	5.0	5.8	3.5	9.1	2.4	1.7	1.7	na
P/CF	na	na	na	na	na	na	10.1	6.2	na	na
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	na
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	na
FCF yield (%)	-12.9%	-6.4%	-10.9%	-15.5%	-26.6%	-12.2%	9.7%	15.8%	-0.3%	na
EV/Sales	73.6	na	na	na	na	na	2.0	1.2	3.5	na
EV/EBITDA adj.	na	na	na	na	na	na	5.1	2.3	na	na
EV/EBIT adj.	na	na	na	na	na	na	5.2	2.3	na	na

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Reduce	9%	2%
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	23/09/2020 07:02	Equity Research	Buy	7.80	2.20
	20/10/2020 06:09	Equity Research	Buy	8.70	3.25

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