

ARCTIC BIOSCIENCE

Set for HeROPA-trial readout

Arctic Bioscience announced that the 6-month primary endpoint readout from the HeROPA trial is expected at end-September/in early October. We see this as a key event for the company and crucial for its plans within the psoriasis segment. After adjusting our total psoriasis market size and our nutraceutical sales estimates, we reiterate our HOLD, but have raised our target price to NOK15 (10).

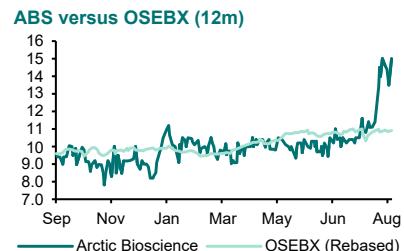
Set for HeROPA-trial readout. The company announced that the 6-month primary endpoint readout is expected at end-September/in early October, broadly in line with its previous guidance (Q3 2024). We see this as a key event for the company and crucial for its plans within the psoriasis segment.

Financials. Available liquidity as of end-H1 (including the NOK30m credit facility announced in July 2023) amounted to NOK49.8m. The company said it would consider various financing alternatives to secure funding post the HeROPA-trial readout.

Nutraceutical business. H1 revenues were NOK16.7m, compared with NOK19.1m in H1 2023. The decline was mainly explained by customers' delivery plans and slower sales in certain markets such as the US. Romega B2C sales in Norway grew by 20% YOY. Also, the company stated that total 2023 sales of Nutra products had already been surpassed including sales and received purchase orders, and guided for 20–30% YOY growth for 2024. The H1 gross margin was 30.6%, compared with 30% in H1 2023.

HOLD reiterated and target price raised to NOK15. The announced timeline of the HeROPA trial was in line with our expectation, but while we continue to use a likelihood of approval of 10%, we have increased the overall psoriasis market size (and addressable market) in our model. However, we have also lowered our nutraceutical sales estimates. We maintain our neutral view on the stock.

HOLD
TP: NOK15.0



SUMMARY	
Recommendation (prev.)	HOLD (HOLD)
Share price (NOK)	15.0
Target price (previous) (NOK)	15.0 (10.0)
Tickers	ABS NO

CAPITAL STRUCTURE	
No. of shares (m)	25.4
No. of shares fully dil. (m)	25.4
Market cap. (NOKm)	381
NIBD adj end-2024e (NOKm)	-102
Enterprise value adj (NOKm)	279
Net debt/EBITDA adj (x)	2.65
Free float (%)	63

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are correct as of 21:55 CET on 02 September 2024.

ESTIMATE CHANGES (NOKm), (NOK)		
Year-end Dec	2024e	2025e
Sales (old)	57.00	79.00
Sales (new)	41.00	55.00
Change (%)	-28.1	-30.4
Change (%)	nm	nm

Source: DNB Markets, Bloomberg

Year-end Dec	2019	2020	2021	2022	2023	2024e	2025e
Revenue (NOKm)	30	20	22	34	34	41	55
EBITDA adj (NOKm)	-2	-20	-29	-25	-67	-38	-43
EBIT adj (NOKm)	-3	-22	-32	-29	-73	-44	-48
PTP (NOKm)	-4	-23	-43	-34	-78	-50	-54
EPS rep (NOK)	-0.27	-1.55	-1.75	-1.40	-3.09	-1.96	-2.13
DPS (NOK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	20.9	-31.8	4.9	59.4	-1.5	21.5	34.1
EV/Sales adj (x)			10.01	4.78	6.16	6.79	6.05
FCF yield (%)	nm	nm	-9.1	-8.8	-15.1	-9.2	-13.5

Source: Company (historical figures), DNB Markets (estimates)

ANALYSTS

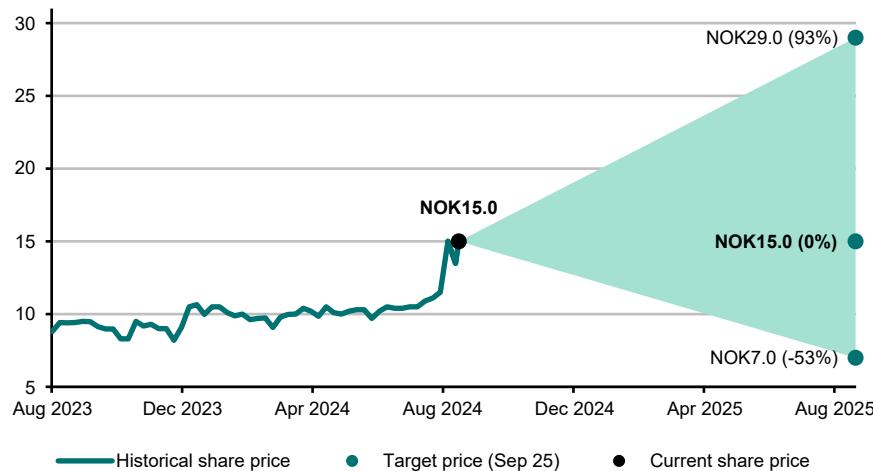
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Investment case overview

Share-price performance, DNB Markets' target price, bear- and bull-case scenarios



Source: FactSet, DNB Markets

Downside risks to our investment case

- If the phase IIb or phase III trials fail due to poor efficacy or safety, it could lead to the discontinuation of its only drug development project.
- Delayed launch of the next clinical trial and lack of interest from commercial partners and pharma companies.
- Slower than expected market penetration, and failing to gain and protect as large a market share as we assume.

Source: DNB Markets

DNB Markets investment case and how we differ from consensus

- There is no consensus on Arctic Bioscience.

Source: DNB Markets

Target price methodology

- We continue to use a DCF with a probability-weighted scenario analysis to calculate our target price. We use a base-case LOA of 10%.
- Our bull-case fair value is based on an LOA of 30%.
- Our bear-case fair value is based on an LOA of 3%.

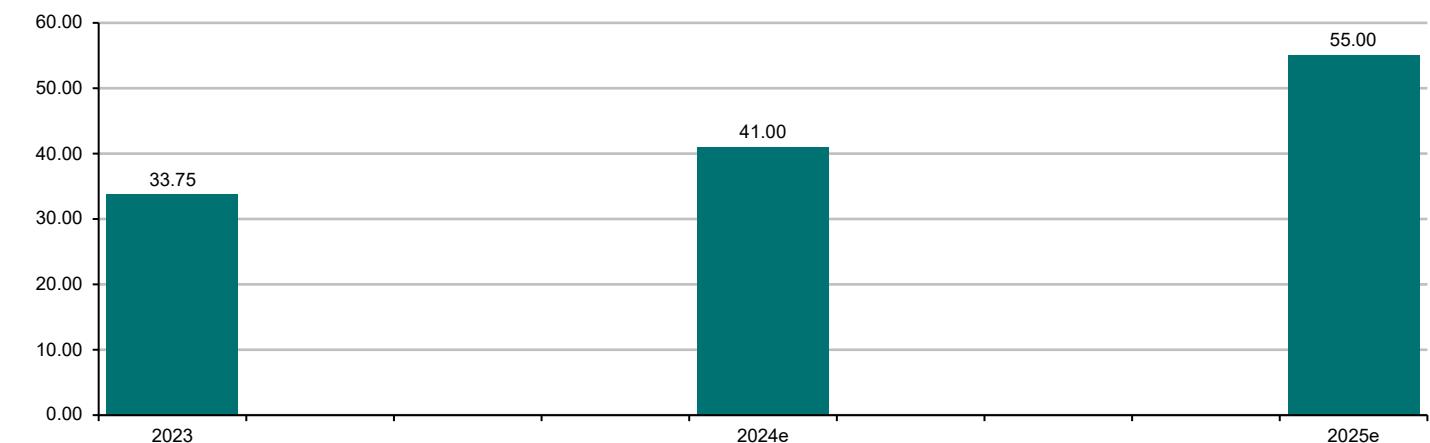
Source: DNB Markets

Upside risks to our investment case

- Better than expected results (mainly on efficacy) in the current trial would increase confidence in its drug candidate.
- Entering more markets than we include in our valuation, e.g. China where it already has a partner selling its omega-3 supplements.
- Tapping into the pool of diagnosed but untreated patients, which would likely give a significant revenue boost.

Source: DNB Markets

Sales bridge 2023–2025e (NOKm)



Source: Company (historical figures), DNB Markets (estimates)

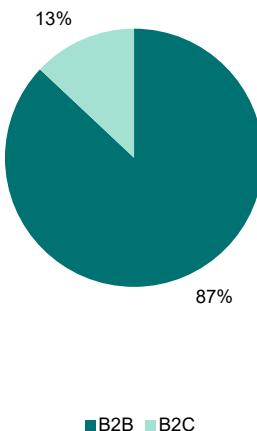
Company overview and SWOT analysis

Company description

- Arctic Bioscience produces pharmaceutical and nutraceutical products based on bioactive marine compounds that are either kept proprietary or patented.

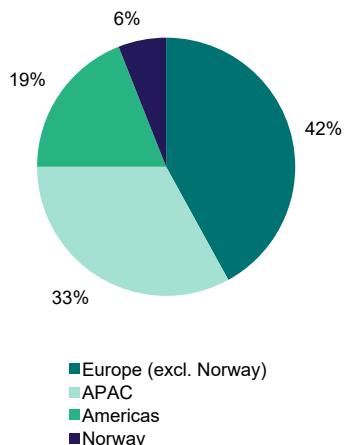
Source: DNB Markets

Split of nutra revenue 2023 (B2B vs. B2C)



Source: Company

Geographical split of nutra revenue 2023



Source: Company

Financial targets

- The company expects revenue growth of 20–30% for its nutraceutical business for 2024.

Source: Company

Key management

- Christer Valderhaug – CEO.
- Runhild Gammelsæter – Medical Director.
- Jone R. Sløning – CFO.
- Høgne Hallaråker – CSO.

Source: Company

Largest shareholders

- Ronja Capital AS – 12.17%.
- Hawk Invest AS – 7.63%.
- Capra Invest AS – 6.09%.

Source: Holdings.se

SWOT analysis

Strengths

- The link between inflammation and omega-3 fatty acids has been described in numerous scientific publications. The company has earlier published positive pilot clinical trial results (in May 2020), meeting the primary endpoint in a randomised, double-blind, placebo-controlled study.

Opportunities

- The company is addressing a large market in terms of money and patients. An oral therapy for mild-to-moderate psoriasis that is safe and effective is an unmet medical need.

Source: DNB Markets

Weaknesses

- The pharmaceutical programme is dependent on further studies to potentially reach the market. It will take both time and resources to develop towards later stages.

Threats

- The psoriasis market is a competitive market.
- There is a risk competing drug candidates – affecting the competitive landscape and pricing – reach the mild-to-moderate niche market before Arctic Bioscience.

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> Arctic Bioscience is developing an innovative psoriasis drug to address an unmet medical need. It uses naturally occurring compounds to improve patients' health and contribute to the population's sufficient nutrition. Its raw material, immature herring roe, is a residual product of the fish industry and sourced from sustainable fisheries. 	<ul style="list-style-type: none"> The outcome of drug development is highly uncertain, as the drug candidate's attributes along with economic and other considerations can affect development. Thus, some drug candidates never reach the market. Drugs inevitably have side effects that can hurt patients' health and quality of life.
Actions being taken by company	<ul style="list-style-type: none"> The company's operations are in alignment with UN Sustainability Development Goals 3, 9, 12 and 14. It works towards improved nutrition and health, is engaged in innovation, is committed to responsible consumption and production, and aims to preserve life below water. It is committed to operating sustainably. 	<ul style="list-style-type: none"> The company has sponsored animal studies and conducts clinical trials in humans. Some components that cannot be recycled during the herring roe extraction go to waste waters and can burden the environment.
Key ESG drivers		
Short-term	<ul style="list-style-type: none"> The pharmaceutical industry has strict regulations to ensure the safety of patients and clinical trial participants. The company is developing an oral psoriasis drug to address an unmet medical need and to improve patients' health and quality of life. 	<ul style="list-style-type: none"> Clinical drug development is a time and resource consuming activity with an uncertain outcome treatment-related adverse event in a clinical trial. The company's entry to the pharmaceutical market depends on the success of a single drug candidate.
Long-term	<ul style="list-style-type: none"> Arctic Bioscience's raw material is immature herring roe, a highly underutilised source of omega-3 fatty acids available in large quantities. Omega-3 fatty acids have several benefits to human health, yet the majority of the global population consumes less than is recommended. 	<ul style="list-style-type: none"> Climate change can increase water temperature and adversely affect herring populations, particularly spawning rates.

Source: DNB Markets

Forecast changes – P&L

(NOKm)	New		Old		Change	
	2024e	2025e	2024e	2025e	2024e	2025e
Revenues	41	55	57	79	-16	-24
Cost of sales	-29	-39	-51	-71	23	33
Gross profit	12	17	6	8	6	8
Operating expenses	-60	-68	-33	-55	-27	-13
EBITDA	-47	-52	-27	-47	-20	-4
EBITDA adj	-38	-43	-18	-38	-20	-4
EBITDA margin (%)	nm	nm	nm	-47.6	-59.8	nm
Depreciation	-5	-5	-7	-7	1	1
EBITA	-53	-57	-34	-54	-19	-3
EBIT	-53	-57	-34	-54	-19	-3
EBIT adj	-44	-48	-25	-45	-19	-3
Net interest	3	3	2	2	1	1
Other financial items	0	0	1	1	-1	-1
Net financial items	3	3	3	3	0	0
PBT	-50	-54	-31	-51	-19	-3
Net profit	-50	-54	-31	-51	-19	-3
Adjustments to net profit	0	0	0	0	0	0
Net profit adj	-50	-54	-31	-51	-19	-3
<i>Per share data (NOK)</i>						
EPS	-1.96	-2.13	-1.20	-1.99	-0.75	-0.13
DPS	0.00	0.00	0.00	0.00	0.00	0.00
<i>Other key metrics (%)</i>						
Revenue growth	21.5	34.1	nm	54.1	38.6	nm
EBIT adj growth	nm	nm	nm	-34.3	79.4	nm
Avg. number of shares (m)	25	25	25	25	0	0
Capex	-5	-5	-5	-5	0	0
OpFCF	-43	-48	-23	-43	-20	-4
Working capital	14	14	20	20	-5	-6
NIBD adj	-102	-48	-157	-106	55	58

Source: DNB Markets

Annual P&L

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
Revenues	12	18	25	30	20	22	34	34	41	55
Cost of sales	-5	-12	-16	-20	-21	-18	-33	-33	-29	-39
Gross profit	7	6	9	10	-1	4	1	1	12	17
Operating expenses	-4	-7	-10	-12	-20	-42	-35	-77	-60	-68
EBITDA	3	-1	-1	-2	-20	-38	-34	-76	-47	-52
Depreciation	-1	-1	-1	-1	-1	-3	-4	-5	-5	-5
EBITA	2	-1	-1	-3	-22	-41	-37	-82	-53	-57
EBIT	2	-1	-1	-3	-22	-41	-37	-82	-53	-57
Net interest	-1	0	-1	0	0	0	2	3	3	3
Other financial items	0	0	0	0	0	-2	1	0	0	0
Net financial items	-1	0	-1	-1	-1	-2	3	3	3	3
PBT	1	-2	-2	-4	-23	-43	-34	-78	-50	-54
Net profit	1	-2	-2	-4	-23	-43	-34	-78	-50	-54
Net profit adj	1	-2	-2	-4	-23	-43	-34	-78	-50	-54
Avg. number of shares	16	16	16	16	16	24	24	25	25	25
<i>Per share data (NOK)</i>										
EPS	0.10	-0.12	-0.12	-0.27	-1.55	-1.75	-1.40	-3.09	-1.96	-2.13
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Growth and margins (%)</i>										
Revenue growth	47.0	57.3	35.3	20.9	-31.8	4.9	59.4	-1.5	21.5	34.1
Gross margin	55.4	32.1	35.7	34.1	nm	17.5	3.6	2.2	30.0	30.0
EBITDA margin	22.1	nm	nm	nm	nm	nm	nm	nm	nm	nm
EBITDA adj margin	22.1	nm	nm	nm	nm	nm	nm	nm	nm	nm
Depreciation/revenues	-5.5	-3.2	-2.1	-3.6	-5.8	-11.6	-10.9	-15.9	-13.1	-9.8
EBIT margin	16.6	nm	nm	nm	nm	nm	nm	nm	nm	nm
EBIT adj margin	15.9	-7.4	-5.0	-10.6	-106.2	-147.8	-84.0	-215.6	-107.0	-87.8
PBT margin	12.0	nm	nm	nm	nm	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

Adjustments to annual P&L

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
EBITDA	3	-1	-1	-2	-20	-38	-34	-76	-47	-52
Gains and losses	0	0	0	0	0	0	0	0	0	0
Other EBITDA adjustments						9	9	9	9	9
EBITDA adj	3	-1	-1	-2	-20	-29	-25	-67	-38	-43
EBITA	2	-1	-1	-3	-22	-41	-37	-82	-53	-57
Gains and losses	0	0	0	0	0	0	0	0	0	0
Other EBITA adjustments						9	9	9	9	9
EBITA adj	2	-1	-1	-3	-22	-32	-29	-73	-44	-48
EBIT	2	-1	-1	-3	-22	-41	-37	-82	-53	-57
Gains and losses	0	0	0	0	0	0	0	0	0	0
Other EBIT adjustments						9	9	9	9	9
EBIT adj	2	-1	-1	-3	-22	-32	-29	-73	-44	-48
Net profit	1	-2	-2	-4	-23	-43	-34	-78	-50	-54
Gains and losses	0	0	0	0	0	0	0	0	0	0
Other EBIT adjustments						9	9	9	9	9
Net profit adj	1	-2	-2	-4	-23	-43	-34	-78	-50	-54
<i>Per share data (NOK)</i>										
EPS	0.10	-0.12	-0.12	-0.27	-1.55	-1.75	-1.40	-3.09	-1.96	-2.13

Source: Company (historical figures), DNB Markets (estimates)

Cash flow

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
Net profit	1	-2	-2	-4	-23	-43	-34	-78	-50	-54
Depreciation and amortisation	1	1	1	1	1	3	4	5	5	5
Change in net working capital	-2	-1	-3	-11	1	1	5	0	14	2
Cash flow from operations (CFO)	-5	-2	-5	-14	-20	-39	-25	-40	-30	-46
Capital expenditure	0	0	0	0	-10	0	0	0	-5	-5
Acquisitions/Investments	-1	-1	-4	-7	-9	-37	-59	-45	-3	-3
Divestments	0	0	0	0	0	0	0	2	2	2
Cash flow from investing (CFI)	-1	-1	-4	-7	-19	-37	-59	-43	-6	-6
Free cash flow (FCF)	-7	-3	-9	-21	-39	-76	-84	-83	-36	-52
Net change in debt	-1	0	-1	-1	-3	-8	0	2	20	0
Other	0	0	-1	-1	11			-5	-5	-5
Cash flow from financing (CFF)	2	7	3	44	27	291	1	14	85	-5
Total cash flow (CFO+CFI+CFF)	-5	4	-5	23	-11	215	-83	-69	50	-57
<i>FCFF calculation</i>										
Free cash flow	-7	-3	-9	-21	-39	-76	-84	-83	-36	-52
Less: net interest	1	0	1	0	0	0	-2	-3	-3	-3
Less: acquisitions	1	1	4	7	9	37	59	45	3	3
Less: divestments	0	0	0	0	0	0	0	-2	-2	-2
Growth (%)										
CFO	-947.4	60.6	-116.3	-204.5	-45.9	-97.4	35.7	-58.6	25.7	-55.0
CFI	19.9	26.9	-323.6	-67.6	-162.8	-96.4	-60.5	26.5	86.6	0.0
FCF	-517.5	53.7	-183.4	-138.3	-85.7	-96.9	-10.5	0.7	57.2	-46.1
CFF	-75.7	265.0	-51.7	1189.0	-38.1	968.8	-99.7	1782.5	505.0	-105.5

Source: Company (historical figures), DNB Markets (estimates)

Balance sheet

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
Assets	31	34	45	82	93	341	328	300	321	270
Inventories	9	8	16	17	26	29	35	33	12	11
Trade receivables	2	2	6	12	11	8	13	10	6	8
Other receivables	1	1	1	1	3	3	5	11	1	1
Cash and cash equivalents	2	6	1	24	13	227	144	80	136	84
Current assets	14	17	24	54	53	267	198	133	156	105
Property, plant and equipment	3	3	3	3	6	16	22	26	24	21
Other intangible assets	13	14	18	25	34	59	107	140	141	144
Non-current assets	16	17	21	28	41	75	129	166	165	165
Total assets	31	34	45	82	93	341	328	300	321	270
Equity and liabilities	31	34	45	82	93	341	328	300	321	270
Total equity to the parent	13	19	22	64	64	321	287	259	279	225
Total equity	13	19	22	64	64	321	287	259	279	225
Trade payables	2	2	6	6	10	8	18	18	5	7
Other payables and accruals	1	1	1	1	2	2	2	2	2	2
Short-term debt	5	4	5	4	9	10	20	19	13	14
Total current liabilities	8	6	11	11	21	21	40	40	20	23
Long-term debt	10	9	12	7	8	0	0	2	22	22
Total non-current liabilities	10	9	12	7	8	0	0	2	22	22
Total liabilities	18	15	24	19	29	21	40	42	42	45
Total equity and liabilities	31	34	45	82	93	341	328	300	321	270
Key metrics										
Net interest bearing debt	13	7	16	-13	5	-217	-124	-59	-102	-48

Source: Company (historical figures), DNB Markets (estimates)

Valuation ratios

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
<i>Enterprise value</i>										
Share price (NOK)						17.80	11.80	10.50	15.00	15.00
Number of shares (m)	14.62	14.62	14.62	14.62	14.62	24.30	24.38	25.37	25.37	25.37
Market capitalisation						433	288	266	381	381
Net interest bearing debt	13	7	16	-13	5	-217	-124	-59	-102	-48
Net interest bearing debt adj	13	7	16	-13	5	-217	-124	-59	-102	-48
EV						215	164	208	279	333
EV adj						215	164	208	279	333
<i>Valuation</i>										
EPS	0.10	-0.12	-0.12	-0.27	-1.55	-1.75	-1.40	-3.09	-1.96	-2.13
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P/E						-10.2	-8.5	-3.4	-7.7	-7.0
Average ROE	10.4%	-11.0%	-8.4%	-9.4%	-35.3%	-22.2%	-11.2%	-28.8%	-18.5%	-21.4%
EV/SALES						10.01	4.78	6.16	6.79	6.05
EV/SALES adj						10.01	4.78	6.16	6.79	6.05
EV/EBITDA						-5.7	-4.9	-2.7	-5.9	-6.4
EV/EBITDA adj						-7.4	-6.6	-3.1	-7.2	-7.8
EV/EBIT						-5.3	-4.4	-2.5	-5.3	-5.8
EV/EBIT adj						-6.8	-5.7	-2.9	-6.4	-6.9
EV/NOPLAT						-5.3	-4.4	-2.5	-5.3	-5.8
EV/OpFCF (taxed)						-7.4	-6.6	-3.1	-6.4	-6.9

Source: Company (historical figures), DNB Markets (estimates)

Key accounting ratios

	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
<i>Profitability (%)</i>										
ROA	4.2	-5.3	-4.3	-6.3	-25.7	-19.6	-10.2	-25.0	-16.0	-18.3
<i>Return on invested capital (%)</i>										
Net PPE/revenues	29.0	17.1	12.9	10.5	31.0	74.4	65.2	77.7	57.8	38.6
Working capital/revenues	84.7	49.9	69.9	78.8	146.8	145.1	104.8	104.3	35.2	25.3
<i>Cash flow ratios (%)</i>										
FCF/revenues	-57.0	-16.8	-35.1	-69.2	-188.3	-353.5	-245.0	-247.0	-87.1	-94.8
FCF yield (%)	nm	nm	nm	nm	nm	-9.1	-8.8	-15.1	-9.2	-13.5
CFO/revenues	-45.3	-11.3	-18.1	-45.7	-97.6	-183.7	-74.1	-119.3	-73.0	-84.3
CFO/market capitalisation						-9.1	-8.8	-15.1	-7.9	-12.2
CFO/capex					-200.1				-598.6	-927.7
CFO/current liabilities	-69.9	-33.4	-39.3	-120.2	-96.2	-188.8	-62.8	-101.6	-151.9	-200.8
Cash conversion ratio	-475.8	178.1	510.1	517.5	170.8	178.4	246.8	106.2	72.0	96.6
Capex/revenues	0.0	0.0	0.0	0.0	48.8	0.0	0.0	0.0	12.2	9.1
Capex/depreciation	0.0	0.0	0.0	0.0	838.9	0.0	0.0	0.0	92.9	92.9
OpFCF margin	22.1	-3.7	-2.5	-6.7	-148.7	-136.1	-72.5	-199.6	-106.1	-87.1
<i>Leverage and solvency (x)</i>										
Interest cover	3.75	-3.10	-2.19	-6.12	-42.46	nm	nm	-78.44	-49.33	-53.76
EBIT/interest payable	3.71	nm	nm	nm	nm	nm	nm	nm	nm	nm
EBITA adj/interest payable	3.55	nm	nm	nm	nm	nm	nm	nm	nm	nm
Cash coverage	5.16	-1.81	-1.22	-4.47	-41.63	-158.62	17.80	27.82	17.27	18.88
Net debt/EBITDA	4.97	-10.20	-25.38	6.42	-0.24	5.71	3.68	0.77	2.16	0.93
Total debt/total capital (BV)	0.49	0.38	0.37	0.13	0.19	0.03	0.06	0.07	0.11	0.13
LTD / (LTD + equity (MV))					0.00	0.00	0.01	0.01	0.05	0.05
<i>Cash conversion cycle</i>										
Inventory turnover days	635.5	241.0	364.4	322.2	448.6	587.1	391.6	362.8	156.4	104.3
Receivables turnover days	99.8	52.5	107.2	154.1	245.5	187.4	199.3	224.6	62.9	63.2
Credit period	166.5	49.9	133.9	119.3	169.7	172.1	201.6	203.2	62.6	62.6
Cash conversion cycle	568.9	243.5	337.7	357.0	524.3	602.4	389.4	384.2	156.7	104.9

Source: Company (historical figures), DNB Markets (estimates)

Important Information

Company: Arctic Bioscience
 Coverage by Analyst: Geir Hiller Holom
 Date: 02/9/2024

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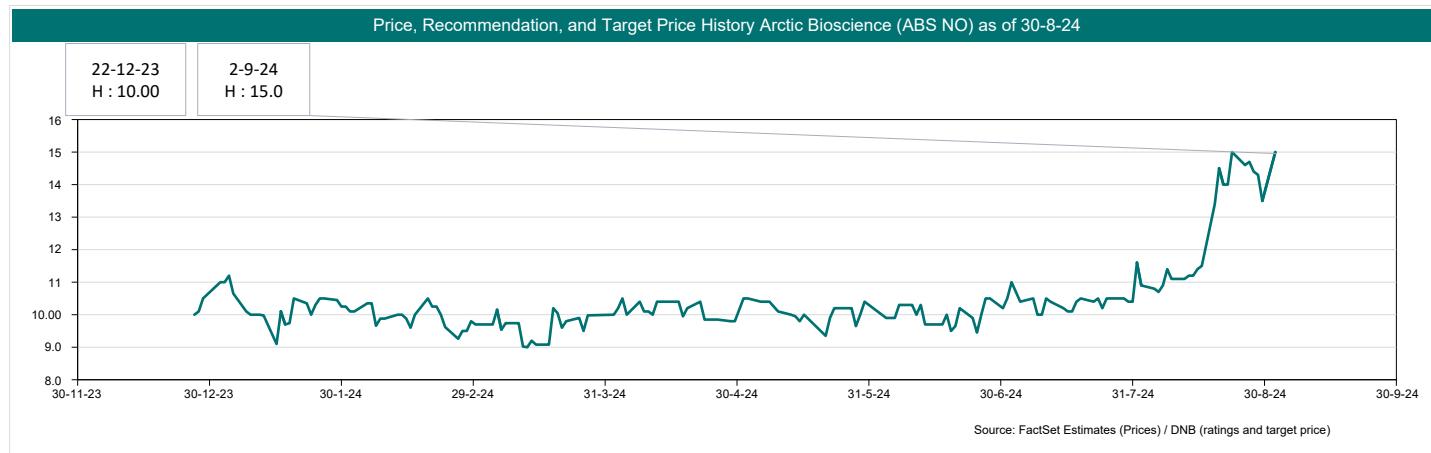
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