

# ARCTIC BIOSCIENCE

## HeROPA-trial results

Arctic Bioscience announced results for the HeROPA trial (mild-to moderate psoriasis). While the results did not include detailed data, it was clear that the trial did not meet the primary endpoint (The proportion of patients with  $\geq 50\%$  reduction in Psoriasis Area and Severity Index (PASI50) from baseline to week 26). The failure to meet the primary endpoint was partly explained by an unexpectedly high effect rate in the placebo group (comparisons between HRO350 2,100 mg and placebo, and HRO350 1,050 mg and placebo were conducted). This is a dramatic setback for the company, in our view, since it significantly questions the technology's benefit within the pharmaceutical business in general and in the psoriasis disease area specifically.

**HeROPA trial (6-month data) primary endpoint not met.** The phase IIb study in mild-to moderate psoriasis (519 patients) aims to investigate the efficacy and safety of HRO350 versus placebo. More than 60 clinics across five European countries (the UK, Germany, Poland, Finland, and Norway) are participating in the trial. The first data readout is due once all patients have been treated for six months. We expect 12-month data in Q2 2025. While the results did not include detailed data, it was clear that the trial did not meet the primary endpoint (the proportion of patients with  $\geq 50\%$  reduction in Psoriasis Area and Severity Index (PASI50) from baseline to week 26). The failure to meet the primary endpoint was partly explained by an unexpectedly high effect rate in the placebo group (comparisons between HRO350 2,100 mg and placebo, and HRO350 1,050 mg and placebo were conducted). This is a dramatic setback for the company, in our view, since it significantly questions the technology's benefit within the pharmaceutical business in general and in the psoriasis disease area specifically.

**Financials.** Available liquidity as of end-H1 (including the NOK30m credit facility announced in July 2023) amounted to NOK49.8m. The company also said that it plans to implement cash preservation initiatives to ensure that available financial resources enable it to complete the 12-month study and continue product development.

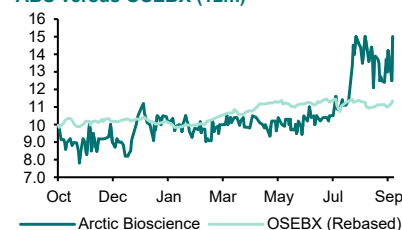
**Negative share price reaction expected.** We expect a significant negative share price reaction following the results, and the added uncertainty about the technology and the company's future overall.

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	6.73	6.00
FCF yield (%)	nm	nm	-9.1	-8.8	-15.1	-9.2	-13.6

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

**HOLD**  
**TP: NOK15.0**

ABS versus OSEBX (12m)



Source: FactSet

**SUMMARY**

Recommendation (prev.)	HOLD (HOLD)
Share price (NOK)	14.9
Target price (previous) (NOK)	15.0 (10.0)
Upside/downside potential (%)	1
Tickers	ABS NO

**CAPITAL STRUCTURE**

No. of shares (m)	25.4
No. of shares fully dil. (m)	25.4
Market cap. (NOKm)	378
NIBD adj end-2024e (NOKm)	-102
Enterprise value adj (NOKm)	276
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 the last closing price.

**ANALYSTS**

Geir Hiller Holom  
 geir.hiller.holom@dnb.no  
 +47 977 66 583

Patrik Ling  
 patrik.ling@dnb.se  
 +46 733 26 37 69

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Estimates not updated

14 October 2024

## Annual P&amp;L

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
<b>Revenues</b>	<b>12</b>	<b>18</b>	<b>25</b>	<b>30</b>	<b>20</b>	<b>22</b>	<b>34</b>	<b>34</b>	<b>41</b>	<b>55</b>
Cost of sales	-5	-12	-16	-20	-21	-18	-33	-33	-29	-39
<b>Gross profit</b>	<b>7</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>-1</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>12</b>	<b>17</b>
Operating expenses	-4	-7	-10	-12	-20	-42	-35	-77	-60	-68
<b>EBITDA</b>	<b>3</b>	<b>-1</b>	<b>-1</b>	<b>-2</b>	<b>-20</b>	<b>-38</b>	<b>-34</b>	<b>-76</b>	<b>-47</b>	<b>-52</b>
Depreciation	-1	-1	-1	-1	-1	-3	-4	-5	-5	-5
<b>EBITA</b>	<b>2</b>	<b>-1</b>	<b>-1</b>	<b>-3</b>	<b>-22</b>	<b>-41</b>	<b>-37</b>	<b>-82</b>	<b>-53</b>	<b>-57</b>
<b>EBIT</b>	<b>2</b>	<b>-1</b>	<b>-1</b>	<b>-3</b>	<b>-22</b>	<b>-41</b>	<b>-37</b>	<b>-82</b>	<b>-53</b>	<b>-57</b>
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
<b>PBT</b>	<b>1</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>-23</b>	<b>-43</b>	<b>-34</b>	<b>-78</b>	<b>-50</b>	<b>-54</b>
<b>Net profit</b>	<b>1</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	<b>-23</b>	<b>-43</b>	<b>-34</b>	<b>-78</b>	<b>-50</b>	<b>-54</b>
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)

**Cash flow**

<b>(NOKm)</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>
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
<b>Cash flow from operations (CFO)</b>	<b>-5</b>	<b>-2</b>	<b>-5</b>	<b>-14</b>	<b>-20</b>	<b>-39</b>	<b>-25</b>	<b>-40</b>	<b>-30</b>	<b>-46</b>
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
<b>Cash flow from investing (CFI)</b>	<b>-1</b>	<b>-1</b>	<b>-4</b>	<b>-7</b>	<b>-19</b>	<b>-37</b>	<b>-59</b>	<b>-43</b>	<b>-6</b>	<b>-6</b>
<b>Free cash flow (FCF)</b>	<b>-7</b>	<b>-3</b>	<b>-9</b>	<b>-21</b>	<b>-39</b>	<b>-76</b>	<b>-84</b>	<b>-83</b>	<b>-36</b>	<b>-52</b>
Net change in debt	-1	0	-1	-1	-3	-8	0	2	20	0
Other	0	0	-1	-1	11			-5	-5	-5
<b>Cash flow from financing (CFF)</b>	<b>2</b>	<b>7</b>	<b>3</b>	<b>44</b>	<b>27</b>	<b>291</b>	<b>1</b>	<b>14</b>	<b>85</b>	<b>-5</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>-5</b>	<b>4</b>	<b>-5</b>	<b>23</b>	<b>-11</b>	<b>215</b>	<b>-83</b>	<b>-69</b>	<b>50</b>	<b>-57</b>
<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
<b>Growth (%)</b>										
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)

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## Balance sheet

(NOKm)	2016	2017	2018	2019	2020	2021	2022	2023	2024e	2025e
<b>Assets</b>	<b>31</b>	<b>34</b>	<b>45</b>	<b>82</b>	<b>93</b>	<b>341</b>	<b>328</b>	<b>300</b>	<b>321</b>	<b>270</b>
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
<b>Current assets</b>	<b>14</b>	<b>17</b>	<b>24</b>	<b>54</b>	<b>53</b>	<b>267</b>	<b>198</b>	<b>133</b>	<b>156</b>	<b>105</b>
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
<b>Non-current assets</b>	<b>16</b>	<b>17</b>	<b>21</b>	<b>28</b>	<b>41</b>	<b>75</b>	<b>129</b>	<b>166</b>	<b>165</b>	<b>165</b>
<b>Total assets</b>	<b>31</b>	<b>34</b>	<b>45</b>	<b>82</b>	<b>93</b>	<b>341</b>	<b>328</b>	<b>300</b>	<b>321</b>	<b>270</b>
<b>Equity and liabilities</b>	<b>31</b>	<b>34</b>	<b>45</b>	<b>82</b>	<b>93</b>	<b>341</b>	<b>328</b>	<b>300</b>	<b>321</b>	<b>270</b>
Total equity to the parent	13	19	22	64	64	321	287	259	279	225
<b>Total equity</b>	<b>13</b>	<b>19</b>	<b>22</b>	<b>64</b>	<b>64</b>	<b>321</b>	<b>287</b>	<b>259</b>	<b>279</b>	<b>225</b>
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
<b>Total current liabilities</b>	<b>8</b>	<b>6</b>	<b>11</b>	<b>11</b>	<b>21</b>	<b>21</b>	<b>40</b>	<b>40</b>	<b>20</b>	<b>23</b>
Long-term debt	10	9	12	7	8	0	0	2	22	22
<b>Total non-current liabilities</b>	<b>10</b>	<b>9</b>	<b>12</b>	<b>7</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>22</b>	<b>22</b>
<b>Total liabilities</b>	<b>18</b>	<b>15</b>	<b>24</b>	<b>19</b>	<b>29</b>	<b>21</b>	<b>40</b>	<b>42</b>	<b>42</b>	<b>45</b>
<b>Total equity and liabilities</b>	<b>31</b>	<b>34</b>	<b>45</b>	<b>82</b>	<b>93</b>	<b>341</b>	<b>328</b>	<b>300</b>	<b>321</b>	<b>270</b>
<i>Key metrics</i>										
Net interest bearing debt	13	7	16	-13	5	-217	-124	-59	-102	-48

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

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## 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	14.90	14.90
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	378	378
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	276	330
EV adj						215	164	208	276	330
<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	-7.6	-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	6.73	6.00
EV/SALES adj						10.01	4.78	6.16	6.73	6.00
EV/EBITDA						-5.7	-4.9	-2.7	-5.8	-6.4
EV/EBITDA adj						-7.4	-6.6	-3.1	-7.2	-7.7
EV/EBIT						-5.3	-4.4	-2.5	-5.2	-5.8
EV/EBIT adj						-6.8	-5.7	-2.9	-6.3	-6.8
EV/NOPLAT						-5.3	-4.4	-2.5	-5.2	-5.8
EV/OpFCF (taxed)						-7.4	-6.6	-3.1	-6.3	-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	-13.6
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	-12.3
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	0.06	0.06
<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)

14 October 2024

## Important Information

Company: Arctic Bioscience  
 Coverage by Analyst: Geir Hiller Holom  
 Date: 04/10/2024

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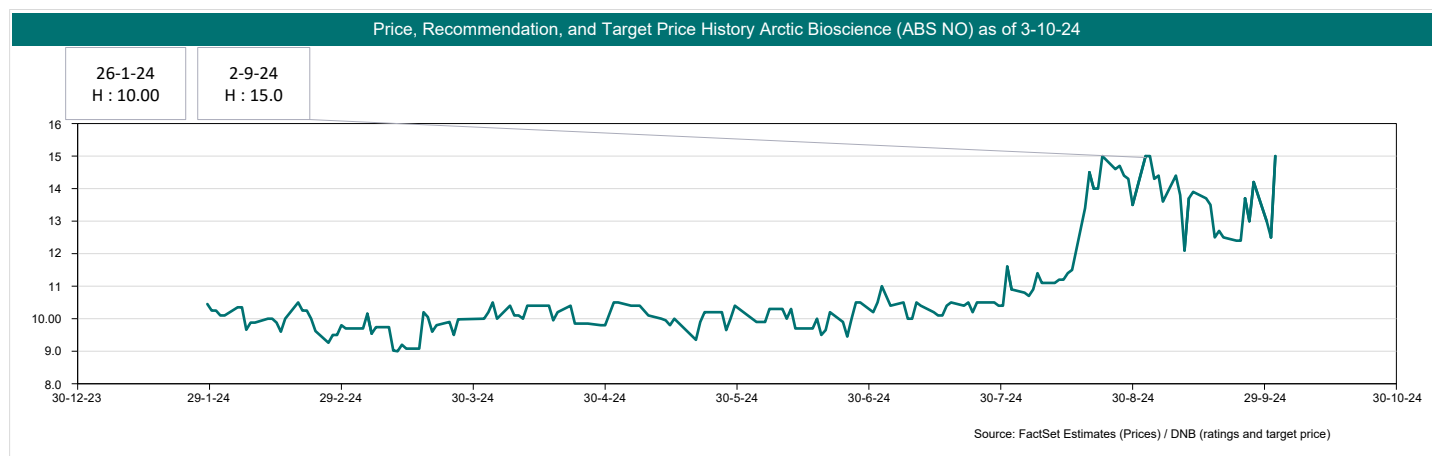
### Recommendation structure

DNB Markets recommendations are based on absolute performance:

- Buy - indicates an expected return greater than 10% within 12 months
- Hold - indicates an expected return between 0 and 10% within 12 months
- Sell - indicates an expected negative return within 12 months

Price targets are based on a combination of several valuation methods such as discounted cash flow, pricing based on earnings multiples, multiple on book value, net asset value and peer comparison. Substantial material sources for coverage of this company include historical financial figures and communication with the company, and relevant third party information. If you would like further information on the valuation, methodology or underlying assumptions used in this note, please contact the analyst (contact details on front page).

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Recommendation distribution and corporate clients for the last 12 months

	Buy	Hold	Sell	No_rec	Total
Number	221	74	30	31	356
% of total	62%	21%	8%	9%	
DNB Markets client	28%	6%	4%	3%	148

14 October 2024

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