

# ARCTIC BIOSCIENCE

## Recommendation and target price withdrawn

While the 6-month HeROPA results did not include detailed data, it was clear that the trial did not meet the primary endpoint. This is a dramatic setback for the company, in our view, since it significantly questions the technology's benefit as a pharmaceutical. As a result of the company's financial situation (we estimate available liquidity to Q1 2025) and limited available information on the potential financing alternatives the company is considering for further funding, we have withdrawn our target price (NOK15) and recommendation (HOLD).

**HeROPA trial (6-month data) primary endpoint not met.** 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). While the 12-month readout (expected Q1 2025) may yield a different result (due to delayed onset of effect or other factors such as seasonal fluctuations), 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) was NOK49.8m. The company also said that cash preservation initiatives are being implemented to ensure that available financial resources enable it to complete the 12-month study and continue product development.

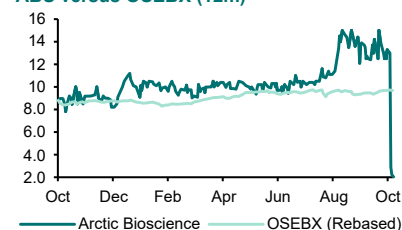
**Recommendation and target price withdrawn** as a result of the company's financial situation (we estimate available liquidity to Q1 2025) and limited available information on the potential financing alternatives the company is considering for further funding.

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	-34	-38	-43
EBIT adj (NOKm)	-3	-22	-32	-29	-40	-44	-48
PTP (NOKm)	-4	-23	-43	-34	-46	-53	-59
EPS rep (NOK)	-0.27	-1.55	-1.75	-1.40	-1.79	-2.09	-2.32
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	0.97	1.48
FCF yield (%)	nm	nm	-9.1	-8.8	-15.1	-108.4	-76.3

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

## NO REC

ABS versus OSEBX (12m)



Source: FactSet

### SUMMARY

Recommendation (prev.)	NO REC (HOLD)
Share price (NOK)	2.02
Target price (previous) (NOK)	N/A (15.0)
Tickers	ABS NO

### CAPITAL STRUCTURE

No. of shares (m)	25.4
No. of shares fully dil. (m)	25.4
Market cap. (NOKm)	51
NIBD adj end-2024e (NOKm)	-11
Enterprise value adj (NOKm)	40
Net debt/EBITDA adj (x)	0.29
Free float (%)	63

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are correct as of 21:49 CET on 18 October 2024.

### ESTIMATE CHANGES (NOKm), (NOK)

Year-end Dec	2024e	2025e	
Sales (old)	41.00	55.00	
Sales (new)	41.00	55.00	
Change (%)	0.0	0.0	nm
Change (%)	nm	nm	nm

Source: DNB Markets, Bloomberg

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# ESG overview

## Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> <li>■ Arctic Bioscience is developing an innovative psoriasis drug to address an unmet medical need.</li> <li>■ It uses naturally occurring compounds to improve patients' health and contribute to the population's sufficient nutrition.</li> <li>■ Its raw material, immature herring roe, is a residual product of the fish industry and sourced from sustainable fisheries.</li> </ul>	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ Drugs inevitably have side effects that can hurt patients' health and quality of life.</li> </ul>
Actions being taken by company	<ul style="list-style-type: none"> <li>■ 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.</li> <li>■ It is committed to operating sustainably.</li> </ul>	<ul style="list-style-type: none"> <li>■ The company has sponsored animal studies and conducts clinical trials in humans.</li> <li>■ Some components that cannot be recycled during the herring roe extraction go to waste waters and can burden the environment.</li> </ul>

### Key ESG drivers

Short-term	<ul style="list-style-type: none"> <li>■ The pharmaceutical industry has strict regulations to ensure the safety of patients and clinical trial participants.</li> <li>■ The company is developing an oral psoriasis drug to address an unmet medical need and to improve patients' health and quality of life.</li> </ul>	<ul style="list-style-type: none"> <li>■ Clinical drug development is a time and resource consuming activity with an uncertain outcome treatment-related adverse event in a clinical trial.</li> <li>■ The company's entry to the pharmaceutical market depends on the success of a single drug candidate.</li> </ul>
Long-term	<ul style="list-style-type: none"> <li>■ Arctic Bioscience's raw material is immature herring roe, a highly underutilised source of omega-3 fatty acids available in large quantities.</li> <li>■ Omega-3 fatty acids have several benefits to human health, yet the majority of the global population consumes less than is recommended.</li> </ul>	<ul style="list-style-type: none"> <li>■ Climate change can increase water temperature and adversely affect herring populations, particularly spawning rates.</li> </ul>

Source: DNB Markets

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## 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	-22	-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>12</b>	<b>12</b>	<b>17</b>
Operating expenses	-4	-7	-10	-12	-20	-42	-35	-55	-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>-43</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>-49</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>-49</b>	<b>-53</b>	<b>-57</b>
Net interest	-1	0	-1	0	0	0	2	3	1	-1
Other financial items	0	0	0	0	0	-2	1	0	-1	-1
Net financial items	-1	0	-1	-1	-1	-2	3	3	0	-2
<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>-46</b>	<b>-53</b>	<b>-59</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>-46</b>	<b>-53</b>	<b>-59</b>
Net profit adj	1	-2	-2	-4	-23	-43	-34	-46	-53	-59
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	-1.79	-2.09	-2.32
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	35.4	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	-117.9	-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	-46	-53	-59
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	-3	19
<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>-51</b>	<b>-34</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>-56</b>	<b>-40</b>
Net change in debt	-1	0	-1	-1	-3	-8	0	2	20	10
Other	0	0	-1	-1	11				-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>19</b>	<b>15</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>-65</b>	<b>-41</b>	<b>-35</b>
<i>FCFF calculation</i>										
Free cash flow	-7	-3	-9	-21	-39	-76	-84	-83	-56	-40
Less: net interest	1	0	1	0	0	0	-2	-3	-1	1
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	-25.6	32.6
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	32.4	29.3
CFF	-75.7	265.0	-51.7	1189.0	-38.1	968.8	-99.7	2408.9	-18.5	-65.3

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>253</b>	<b>202</b>
Inventories	9	8	16	17	26	29	35	33	33	11
Trade receivables	2	2	6	12	11	8	13	10	8	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	46	16
<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>88</b>	<b>36</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>253</b>	<b>202</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>253</b>	<b>202</b>
Total equity to the parent	13	19	22	64	64	321	287	259	206	147
<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>206</b>	<b>147</b>
Trade payables	2	2	6	6	10	8	18	18	10	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>25</b>	<b>23</b>
Long-term debt	10	9	12	7	8	0	0	2	22	32
<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>32</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>47</b>	<b>55</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>253</b>	<b>202</b>
<i>Key metrics</i>										
Net interest bearing debt	13	7	16	-13	5	-217	-124	-59	-11	30

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	2.02	2.02
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	51	51
Net interest bearing debt	13	7	16	-13	5	-217	-124	-59	-11	30
Net interest bearing debt adj	13	7	16	-13	5	-217	-124	-59	-11	30
EV						215	164	208	40	82
EV adj						215	164	208	40	82
<i>Valuation</i>										
EPS	0.10	-0.12	-0.12	-0.27	-1.55	-1.75	-1.40	-1.79	-2.09	-2.32
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	-5.9	-1.0	-0.9
Average ROE	10.4%	-11.0%	-8.4%	-9.4%	-35.3%	-22.2%	-11.2%	-16.7%	-22.8%	-33.5%
EV/SALES						10.01	4.78	6.16	0.97	1.48
EV/SALES adj						10.01	4.78	6.16	0.97	1.48
EV/EBITDA						-5.7	-4.9	-4.8	-0.8	-1.6
EV/EBITDA adj						-7.4	-6.6	-6.0	-1.0	-1.9
EV/EBIT						-5.3	-4.4	-4.3	-0.8	-1.4
EV/EBIT adj						-6.8	-5.7	-5.2	-0.9	-1.7
EV/NOPLAT						-5.3	-4.4	-4.3	-0.8	-1.4
EV/OpFCF (taxed)						-7.4	-6.6	-6.0	-0.9	-1.7

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	-14.5	-19.2	-25.9
<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	77.2	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	-137.4	-72.5
FCF yield (%)	nm	nm	nm	nm	nm	-9.1	-8.8	-15.1	-108.4	-76.3
CFO/revenues	-45.3	-11.3	-18.1	-45.7	-97.6	-183.7	-74.1	-119.3	-123.3	-62.0
CFO/market capitalisation						-9.1	-8.8	-15.1	-98.7	-66.5
CFO/capex					-200.1				-1011.4	-681.6
CFO/current liabilities	-69.9	-33.4	-39.3	-120.2	-96.2	-188.8	-62.8	-101.6	-202.0	-147.5
Cash conversion ratio	-475.8	178.1	510.1	517.5	170.8	178.4	246.8	183.1	106.3	67.6
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	-101.9	-106.1	-87.1
<i>Leverage and solvency (x)</i>										
Interest cover	3.75	-3.10	-2.19	-6.12	-42.46	nm	nm	-45.21	high	-56.56
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	15.78	47.28	-103.36
Net debt/EBITDA	4.97	-10.20	-25.38	6.42	-0.24	5.71	3.68	1.36	0.24	-0.59
Total debt/total capital (BV)	0.49	0.38	0.37	0.13	0.19	0.03	0.06	0.07	0.14	0.23
LTD / (LTD + equity (MV))						0.00	0.00	0.01	0.30	0.38
<i>Cash conversion cycle</i>										
Inventory turnover days	635.5	241.0	364.4	322.2	448.6	587.1	391.6	549.4	417.2	104.3
Receivables turnover days	99.8	52.5	107.2	154.1	245.5	187.4	199.3	224.6	81.1	63.2
Credit period	166.5	49.9	133.9	119.3	169.7	172.1	201.6	307.8	130.4	62.6
Cash conversion cycle	568.9	243.5	337.7	357.0	524.3	602.4	389.4	466.3	367.9	104.9

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

18 October 2024

## Important Information

Company: Arctic Bioscience  
 Coverage by Analyst: Geir Hiller Holom  
 Date: 18/10/2024

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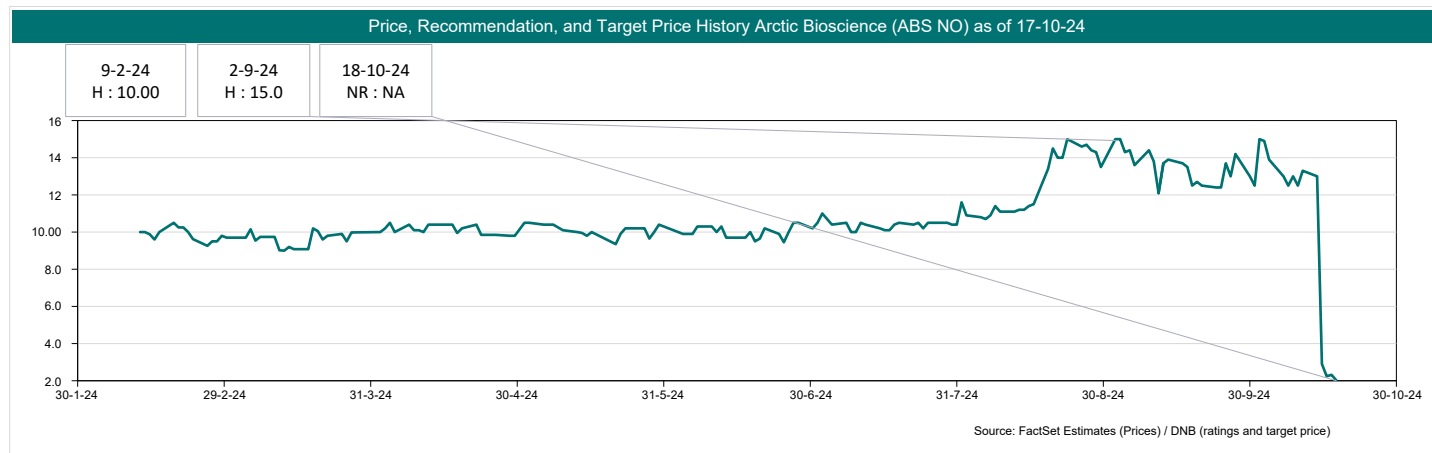
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	Buy	Hold	Sell	No_rec	Total
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% of total	61%	21%	9%	9%	
DNB Markets client	28%	6%	4%	2%	146

18 October 2024

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