

16 August 2011

Addex Pharmaceuticals

Year End	Revenue (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)	Yield (%)
12/09	4.5	(42.4)	(7.2)	0.0	N/A	N/A
12/10	4.0	(33.3)	(5.3)	0.0	N/A	N/A
12/11e	3.7	(31.5)	(4.1)	0.0	N/A	N/A
12/12e	0.5	(19.1)	(2.3)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: New CEO named

The appointment as CEO of Dr Bharatt Chowrira, a US biotech executive with experience in licensing and business development, should bring the recent period of turbulence to an end. Under Dr Chowrira's leadership, Addex can look to build value in its pipeline by establishing new corporate partnerships principally for its earlier-stage R&D programmes. However, in the medium term, Addex's investment case rests on its ability to secure a licensing deal for dipraglurant for PD-L1D on the back of a result in the current Phase IIa study, which should render data in H112.

CEO appointment should mark turning point

Dr Bharatt Chowrira, who joined Addex as CEO yesterday, is an US national with a strong track record licensing and corporate development, especially in legal and operations, including "turnaround" situations. He was until recently SVP and COO of Nektar Therapeutics and had previously been executive director of worldwide licensing & external research at Merck & Co and VP legal and patent counsel at Sirna Therapeutics, which was acquired in 2006 by Merck.

Rationalisation of early stage research

The CEO appointment, which also follows a restructuring at Addex, should allow the company to emerge from the turbulence in the wake of the departure of founder-CEO Dr Vincent Mutel. The company is now smaller (with 82 FTEs) and is currently implementing a rationalisation of its earlier-stage R&D programmes, the details of which have not yet been announced. Development of the lead programme, dipraglurant, is not affected by these changes.

Cash reach to end 2013

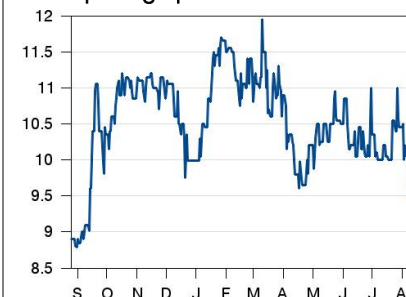
Addex's cash (CHF50m) should last to the end of 2013, giving it a cash reach of some 18 months after the read out of the dipraglurant PD-L1D study.

Valuation: Risk-adjusted NPV of CHF212m

Our risk-adjusted NPV of key late-stage assets in the R&D pipeline yields a valuation of CHF212m, equivalent to CHF30/share including FY11 cash. This remains based on an assumption that dipraglurant is second to market for PD-L1D; hence it would increase if this compound's competitive position improves versus Novartis's AFQ056.

Price CHF9.49
Market Cap CHF74m

Share price graph



Share details

Code ADXN
Listing SIX
Sector Biotech
Shares in issue 7.83m

Price

52 week High Low
CHF11.9 CHF8.8

Balance Sheet as at 30 June 2011

Debt/Equity (%) N/A
NAV per share (CHF) 7.6
Net cash (CHFm) 50.2

Business

Addex Pharmaceuticals is a Swiss biotech company with a proprietary allosteric modulator discovery platform and a pipeline in CNS, inflammatory and metabolic disorders. It has partnerships with J&J (Ortho-McNeil-Janssen) and Merck & Co.

Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Revenues by geography

	Europe	US	Other
0%	100%	0%	0%

Analysts

Robin Davison +44 (0)20 3077 5737
Jacob Plieth +44 (0)20 3077 5736
healthcare@edisoninvestmentresearch.co.uk

Update: Appointment of CEO should mark turning point

The appointment as CEO of Dr Bharatt Chowrira, a US biotech executive, should bring to a conclusion the period of turbulence left by the departure of founder-CEO Dr Vincent Mutel. Dr Chowrira, who joined Addex yesterday, is a US national with a track record in licensing and corporate development, including in “turnaround” situations. Under Dr Chowrira’s leadership, Addex can now focus on building shareholder value by establishing new corporate partnerships for earlier stage programmes. In the medium term, Addex’s investment case rests on its ability to secure a licensing deal for dipraglurant for Parkinson’s disease-levadopa-induced dyskinesia on the back of the results of the current Phase IIa study, which are expected in H112. Addex’s cash resources should last to the end of 2013, giving it a cash reach of some 18 months after the read out of this study.

US executive with licensing/operations background

Dr Chowrira was until recently SVP and COO of Nektar Therapeutics (May 2008-January 2011). He has also previously been executive director, worldwide licensing and external research at Merck & Co (2007-08) and a VP at Sirna Therapeutics (1993-2006). During his period at Merck, Dr Chowrira was a member of the team that established collaborations with leading Indian pharmaceutical firms including Nicholas Piramal and Ranbaxy Labs. At Sirna, he was VP of legal affairs and chief patent counsel and later head of legal affairs up to its acquisition by Merck in late 2006. Dr Chowrira was involved in Sirna’s 2003 re-launch/restructuring, which led to the formation of collaborations with Lilly in 2004 (oncology, undisclosed value), Allergan in 2005 (ophthalmology, \$245m) and GlaxoSmithkline in 2006 (respiratory disease, \$700m).

Dr Chowrira holds a PhD in microbiology and molecular genetics from University of Vermont and a JD degree from University of Denver. He is a registered US patent attorney and a licensed member of the Colorado Bar Association. Dr Chowrira has re-located from the San Francisco Bay area to Switzerland.

The CEO appointment allows Addex to dissolve its transition management committee, which had been led by Vice-Chairman Vincent Lawton and included Chairman André Mueller and Dr Ray Hill, a non-executive director. Mr Lawton and Dr Hill, who will remain as board members, are both former Merck executives, respectively head of EU licensing and head of MSD (UK)/VP Europe.

R&D pipeline

Addex currently has 12 active R&D programmes, two of which are partnered, although it is reviewing its R&D portfolio with a view to focusing its efforts on fewer early-stage programmes to create shareholder value. It has four proprietary and two partnered programmes targeting allosteric modulators of metabotropic glutamate receptors, and a number of early programmes outside of mGluRs, including a GABA_B PAM and a follicle stimulating hormone receptor (FSHR) NAM.

Key R&D programmes are summarised in Exhibit 1.

Exhibit 1: Addex R&D programmes (clinical/late preclinical)

Product	Indication	Phase	Notes
JNJ-40411813 (ADX71149)	Schizophrenia/anxiety/other CNS	Phase II	Partnered with J&J . Results expected H112.
Dipraglurant	PD-LID/dystonia	Phase II	Results: H112. IR version for PD-LID; ER version for dystonia/other CNS.
FSH-R NAM	Endometriosis/BPH	Preclinical	In vivo PoC ongoing
GABA _B PAM	OA pain/Fragile X, urinary incontinence and GERD	Lead opt	
mGluR2 NAM	AD/depression	Lead opt	In vivo PoC achieved
mGluR4 PAM	Parkinson's disease	Lead opt	Partnered with Merck & Co.
mGluR7 NAM	Depression/PTSD	Lead opt	
mGluR5 NAM	Schizophrenia/cognition	Lead opt	
GLP1R PAM	Type II diabetes	Lead opt	
TrkB PAM	Neurodegeneration	Hit to lead.	
TNF receptor superfamily	Autoimmune (RA, psoriasis, IBD, MS).	Hit to lead.	
A2A PAM	Psoriasis, OA	Hit to lead.	

Source: Edison Investment Research

Sensitivities

Addex is subject to sensitivities common to many biotech companies, including the unpredictable outcome of clinical trials, the success or failure of competitors, and a reliance on existing partners (and on the formation of new partnerships). The company is well funded with cash to the end of 2013 and milestones payable under its partnerships with J&J and Merck. A single investor, Biotechnology Value Fund, holds a 30% equity stake.

Valuation

Our recently-updated risk-adjusted NPV yields a valuation of CHF212m, which compares with the current enterprise value of CHF22m and is equivalent to c CHF30 per share including forecast FY11 cash. The valuation is also based on the assumption that dipraglurant will be second to the market in PD-LID hence it would increase if this compound's competitive position improves versus Novartis's AFQ056.

Financials

Addex reported H1 revenues of CHF3.2m, largely reflecting a single milestone, and in the absence of further milestones, we assume FY11 revenue of CHF3.7m. R&D expenses were CHF14.6m in H1, and we assume CHF28m for FY11 and CHF15m/year in the following two years. Cash as of 30 June was CHF50m. Our model does not assume any milestone payments (from actual or potential licensing deals), although it is possible that some may be received relating to the development of JNJ-40411813 in schizophrenia in the forecast period.

The financial model is shown in Exhibit 2.

Exhibit 2: Addex financial model

Notes: No assumption of future milestones from collaborations is made. Expenditure is consistent with the guided cash reach to the end of 2013. Revenue includes some deferred recognition of previously received upfronts and milestones.

Year ending 31 December	CHF'000s	2008	2009	2010	2011e	2012e
PROFIT & LOSS						
Revenue		26,874	4,503	4,000	3,693	500
Cost of sales		0	0	0	0	0
Gross profit		26,874	4,503	4,000	3,693	500
EBITDA		(21,505)	(39,044)	(29,353)	(29,169)	(16,774)
Operating profit (before GW and except.)		(23,420)	(41,758)	(32,178)	(30,891)	(17,956)
Amortisation		(102)	(121)	(116)	(80)	(40)
Share-based payments		(1,350)	(975)	(1,104)	(1,104)	(1,104)
Exceptionals		0	0	0	0	0
Operating profit		(24,872)	(42,855)	(33,398)	(32,075)	(19,100)
Net interest		2,805	362	(48)	500	200
Profit before tax (norm)		(21,965)	(42,372)	(33,329)	(31,495)	(18,860)
Profit before tax (FRS 3)		(22,066)	(42,493)	(33,445)	(31,575)	(18,900)
Tax		0	0	0	0	0
Profit after tax (norm)		(20,614)	(41,396)	(32,225)	(30,391)	(17,756)
Profit after tax (FRS 3)		(22,066)	(42,493)	(33,445)	(31,575)	(18,900)
Average number of shares outstanding (m)		5.7	5.7	6.1	7.5	7.8
EPS - normalised (CHF)		(3.6)	(7.2)	(5.3)	(4.1)	(2.3)
EPS - FRS 3 (CHF)		(3.8)	(7.4)	(5.5)	(4.2)	(2.4)
Gross margin (%)		100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margin (%)		N/A	N/A	N/A	N/A	N/A
Operating margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed assets		9,731	10,155	7,689	6,132	5,155
Intangible assets		224	182	84	49	54
Tangible assets		8,994	9,568	6,568	5,046	4,064
Refund from assumption of dev costs		0	0	0	0	0
Other		513	405	1,037	1,037	1,037
Current assets		122,596	78,399	66,495	36,228	19,409
Stocks		0	0	0	0	0
Debtors		1,890	737	1,199	1,199	1,199
Cash		119,471	76,560	63,797	33,530	16,711
Other		1,236	1,102	1,499	1,499	1,499
Current liabilities		(13,336)	(10,890)	(9,277)	(10,335)	(10,335)
Trade payables		(4,145)	(4,524)	(3,147)	(4,500)	(4,500)
Short term borrowings		0	0	0	0	0
Provisions		0	0	0	0	0
Finance lease liabilities		0	0	0	0	0
Other current liabilities		(7,324)	(5,679)	(5,835)	(5,835)	(5,835)
Current portion deferred income		(1,867)	(687)	(295)	0	0
Long Term Liabilities		0	(83)	(592)	(592)	(592)
Long-term borrowings		0	0	0	0	0
Provisions		0	(83)	(592)	(592)	(592)
Deferred income		0	0	0	0	0
Deferred taxes		0	0	0	0	0
Other long-term liabilities		0	0	0	0	0
Net assets		118,991	77,581	64,314	31,432	13,635
CASH FLOW						
Operating cash flow		(17,792)	(39,376)	(31,341)	(30,522)	(16,774)
Net interest		3,307	315	(48)	500	200
Tax		0	0	0	0	0
Capex		(5,486)	(4,137)	(408)	(200)	(200)
Acquisitions/disposals		0	0	0	0	0
Financing		(102)	315	19,851	0	0
Dividends		0	0	0	0	0
Other		(124)	(73)	(452)	(45)	(45)
Net cash flow		(20,197)	(42,957)	(12,397)	(30,267)	(16,819)
Opening net debt/(cash)		(140,045)	(119,471)	(76,560)	(63,797)	(33,530)
HP finance leases initiated		(507)	46	(366)	0	0
Other		130	(0)	0	0	0
Closing net debt/(cash)		(119,471)	(76,560)	(63,797)	(33,530)	(16,711)

Source: Edison Investment Research, Addex Pharmaceuticals accounts

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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