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August 12, 2021

Antisense Therapeutics

The chicken and the egg

- ANP has received feedback from the FDA that its Fast-Track Designation (FTD) request will require resubmission post the lifting of its partial hold.
- While the announcement delays the potential issuance of a valuable short-term catalyst, it does not change any long-term timelines to the program and may in fact prompt ANP to engage and address the clinical hold sooner, in our view.
- Receipt of this designation, while beneficial to the long-term value of a drug asset is meaningless unless you have the approval to commence the trial, so a push to address the hold and achieve acceptance from the FDA on these higher doses is necessary and will allow ANP to progress its US trials to align with ANP's global regulatory plans.
- While the delay of the FTD may create short-term weakness as traders move to more immediate-term catalysts, we view any weakness as an opportunity to continue to add to holdings.
- We remain positive in our view of the stock. No changes to our base case valuation and price target of A$0.44. Speculative Buy recommendation retained.

Event: Fast-track submission requires partial hold to be lifted

- ANP has received feedback from the FDA on its FTD request which notes the requirement to submit its revised clinical and toxicology protocols as part of its complete response letter (CRL) to lift the partial hold on the ATL-1102 drug for use above 25mg/week.
- The technicality arose as its submission includes trial protocols with higher and longer administration levels beyond the limits of current restrictions.
- With the hold limiting dosage to US patients to 25mg/week paired with the current thinking on trial design to be split into 3 groups including a higher dose arm (placebo / 25mg / >25mg), ANP were always going to be required to address this issue prior to commencing the studies in the US.
- Overall, no impact to the timing of the trial commencement or completion although it does push out a price catalyst which investors would view favourably if received.

No changes to timing for overall program

- Whether ANP received an FTD this month or 12 months from now doesn't really matter as the receipts are used post clinical trial completion and are designed to facilitate and expedite the review of a new drug application and not shorten the clinical trial itself.
- We would expect an update on timing in the coming months although anticipate timing on this to line up with the lodgment of its nine month toxicology protocols which we expect by the end of CY21.

Forecast and valuation update:

- No changes to forecasts or valuation.

Investment view: using short-term weakness as another entry point

- We continue to be buyers in this name. Any weakness would present an opportunity to continue to add to holdings.
- While considerable trial risk and hurdles remain, we view ANP as one of the best risk/reward plays in the healthcare space given the data produced to date and heading into a catalyst rich 12-24 month period.

Risks:

- Prolonged delays in trial recruitment and commencement.
- Failure of DMD in Ph2b program.
- Funding requirements.

EMERGING COMPANY

SPECULATIVE BUY (no change)

Stock code:	ANP AU
Price:	A$0.185
12-month target price:	A$0.44
Previous target price:	A$0.44
Up/downside to target price:	137.8%
Dividend yield:	0.00%
12-month TSR*:	120.3%
Market cap:	A$106m
Average daily turnover:	A$0.33m
Index inclusion:	N/A

** Total stock return – Up/downside to target price + 12-month forward dividend yield.*

Price performance

(%)	1M	3M	12M	3Y
Absolute	0.0	21.2	90.5	769.6
Rel ASX/S&P200	-4.0	14.7	66.7	748.8

Source: Bloomberg

Financial summary

	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A$m)	3.6	6.3	2.8	0.0
EBITDA Norm (A$m)	-6.2	-8.0	-22.8	-8.0
Net Profit (A$m)	-5.2	-7.8	-22.7	-7.7
EPS Norm (A$)	-0.01	-0.01	-0.03	-0.01
EPS Growth Norm (%)	-1846.4%	27.7%	125.3%	-70.6%
P/E Norm (x)	NA	NA	NA	NA
DPS (A$)	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	-16.5	-12.6	-4.0	-12.6
Gearing (Net Debt/EBITDA)	0.66	0.68	0.64	0.67

Source: Company data, Morgans estimates

Related research

ANP (SPEC BUY - TP A$0.441) - 01 Jul 2021

ANP (SPEC BUY - TP A$0.38) - 28 Apr 2021

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Analyst(s) own shares in the following stocks mentioned in this report:

– Antisense Therapeutics

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Antisense Therapeutics

as at August 12, 2021

Rating	SPECULATIVE BUY	Price (A$):	0.185
Market cap (A$m):	106	12-month target price (A$):	0.44
Shares outstanding (m):	574.0	Up/downside to target price (%):	137.8
Free float (%):	100.0	Dividend yield (%):	0.00

Company description

Antisense Therapeutics Limited, a biopharmaceutical company, engages in the research and development of novel antisense pharmaceuticals in Australia. Its product pipeline comprises ATL1102, an antisense inhibitor of CD49d that has completed Phase IIa for the treatment of multiple sclerosis, Duchennes Muscular Dystrophy, acromegaly, asthma, and other inflammatory indications. The company's product pipeline also includes ATL1103, a second generation antisense drug designed to block growth hormone receptor expression thereby reducing levels of the hormone insulin-like growth factor-I in the blood, as well as to treat diseases associated with excessive growth hormone action that has completed Phase II clinical trial.

Market considerations for ATL1102

ANTI-INFLAMATORY

*Anti-Inflammatory Therapeutics Market^ is expected to garner **US$106.1 billion** by 2020 (Allied Market Research)*

^MS, Arthritis, Psoriasis, Respiratory, IBD

CORTICOSTEROIDS

*The global steroid market is forecast to attain the value of **US$17 Billion** by the end of 2025 (QV Research)*

DMD THERAPIES

*The global DMD drug market is expected to reach over **US$4 Billion** by 2023 (Grand View Research)*

SOURCE: ANTISENSE THERAPEUTICS

Near-term milestones (CY21)

* ATL1102 drug product manufacture - ACHIEVED

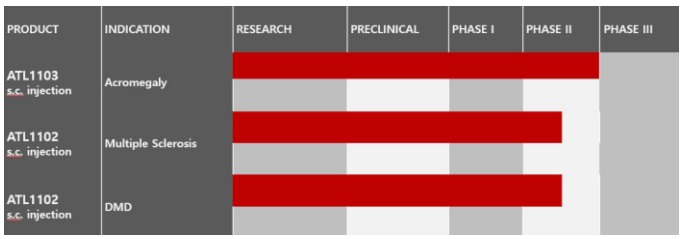
* ATL1102 in new indications - IN PROGRESS

* US FDA DMD progress - IN PROGRESS

* ATL1102 DMD Ph2b EU trial prep and initiation - IN PROGRESS

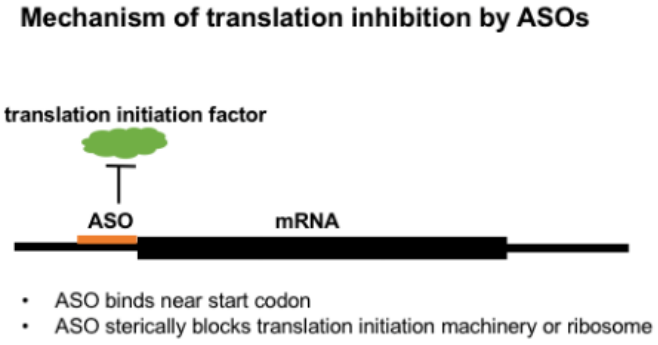
SOURCE: ANTISENSE THERAPEUTICS

Product pipeline



SOURCE: ANTISENSE THERAPEUTICS

ATL1102 mechanism of action



SOURCE: CureFFi.org

MARKET DATA	#
Population of target market ('000s)	48.0
Regulatory approval weight	25.0%
Non-ambulant population	50.0%
Number of Cases Forecast for Year 1 ('000s)	6.0
Annual Population Growth	0.70%
Peak Market Penetration	50.0%
Revenue Per Unit ($US)	$ 150,000
Market Ramp Time to Peak Penetration (Years	5
Hold peak	10
Life cycle of drug	20
Royalty Rate	20.0%

SOURCE: MORGANS

Key Drivers

Licencing deal value for late stage assets

Potential for early commercialisation

Key risks:

Timing / execution risks

Trial risks

Alternative therapies

COVID-19 related impact

Funding risk

SOURCE: MORGANS

Figure 1: Financial summary

Income statement	2019A	2020A	2021F	2022F	2023F
Milestone payments	0.0	0.0	0.0	0.0	0.0
Royalty	0.0	0.0	0.0	0.0	0.0
R&D rebate	3.0	3.6	6.3	2.9	0.0
Total revenue	**3.0**	**3.6**	**6.3**	**2.9**	**0.0**
EBITDA	**0.0**	**-6.2**	**-8.0**	**-22.8**	**-8.0**
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBITA	0.0	-6.2	-8.0	-22.8	-8.0
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	**0.0**	**-6.2**	**-8.0**	**-22.8**	**-8.0**
EBIT(incl associate profit)	0.0	-6.2	-8.0	-22.8	-8.0
Net interest expense/FX	0.0	0.3	1.0	-0.2	-0.1
Pre-tax profit	**0.3**	**-5.2**	**-8.2**	**-22.9**	**-8.3**
Income tax expense	0.0	0.0	0.0	0.0	0.0
After-tax profit	0.3	-5.2	-8.2	-22.9	-8.3
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT	**0.3**	**-5.2**	**-8.2**	**-22.9**	**-8.3**
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT post abnormals	0.3	-5.2	-8.2	-22.9	-8.3

Cash flow statement	2019A	2020A	2021F	2022F	2023F
EBITDA	0.0	-6.2	-8.0	-22.8	-8.0
Other cash items	0.0	0.0	0.0	0.0	0.0
Net interest (pd)/rec	-0.3	-1.0	0.2	0.1	0.3
Taxes paid	0.0	0.0	0.0	0.0	0.0
Change in working capital	-2.7	3.3	0.9	0.0	-1.5
Cash flow from ops (1)	**-2.9**	**-4.0**	**-6.9**	**-22.7**	**-9.2**
Capex (2)	0.0	-0.1	0.0	0.0	0.0
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**
Incr/(decr) in equity	1.5	5.2	8.3	30.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from fin (5)	**1.5**	**5.2**	**8.3**	**30.0**	**0.0**
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	-1.4	1.1	1.4	7.3	-9.2
Equity FCF (1+2+4)	-2.9	-4.1	-6.9	-22.7	-9.2

Balance sheet	2019A	2020A	2021F	2022F	2023F
Cash & deposits	2.9	4.1	5.5	14.6	5.4
Trade debtors	0.6	0.7	1.0	0.5	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	0.0	0.1	0.1	0.1	0.1
Other assets	0.0	0.0	0.0	0.0	0.0
Total assets	**3.7**	**5.4**	**7.1**	**15.7**	**6.0**
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Trade payables	0.6	0.3	1.6	2.8	0.9
Long-term borrowings	0.0	0.0	0.0	0.0	0.0
Provisions	0.3	0.5	0.5	0.5	0.5
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	**0.9**	**0.8**	**2.1**	**3.3**	**1.4**
Share capital	63.9	69.1	77.4	107.4	107.4
Other reserves	0.0	2.4	2.4	2.4	2.4
Retained earnings	-61.1	-67.0	-74.8	-97.5	-105.3
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	**2.8**	**4.6**	**5.0**	**12.4**	**4.6**
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	2.8	4.6	5.0	12.4	4.6
Total liabilities & SE	3.7	5.4	7.1	15.7	6.0

Closing price (A$)	0.185	Price target (A$)	0.44
Valuation metrics			
Methodology -DCF-PER Comp		Target Price	$0.44
DCF valuation inputs			
Rf	3.50%		
Rm-Rf	6.00%		
Beta	1.53		
CAPM (Rf+Beta(Rm-Rf))	12.7%		
E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A$m)	249.7
Equity (E/EV)	100.0%	Minority interest (A$m)	0.0
Debt (D/EV)	0.0%	Net debt (A$m)	-5.5
Interest rate	5.00%	Investments (A$m)	0.0
Tax rate (t)	30.0%	Equity market value (A$m)	255.2
WACC	12.7%	Diluted no. of shares (m)	574.0
		DCF valuation	$0.44

Multiples	2019A	2020A	2021F	2022F	2023F
Enterprise value (A$m)	103.3	102.1	100.7	91.6	100.8
EV/Sales (x)	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA (x)	n.a.	-16.5	-12.6	-4.0	-12.6
EV/EBIT (x)	-108648.8	-16.5	-12.6	-4.0	-12.5
PE (pre-goodwill) (x)	298.0	-17.5	-13.6	-6.5	-19.0
PEG (pre-goodwill) (x)	1.2	0.0	0.0	0.1	0.1

At target price	2019A	2020A	2021F	2022F	2023F
EV/EBITDA (x)	-108648.8	-16.5	-12.6	-4.0	-12.5
PE (pre-goodwill) (x)	716.2	-42.1	-32.7	-15.6	-45.7

Per share data	2019A	2020A	2021F	2022F	2023F
No. shares	420.1	488.8	574.0	796.0	796.0
EPS (cps)	0.1	-1.1	-1.4	-2.9	-1.0
EPS (normalised) (c)	0.1	-1.1	-1.4	-2.9	-1.0
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Growth ratios	2019A	2020A	2021F	2022F	2023F
Sales growth	n.a.	n.a.	n.a.	n.a.	n.a.
Operating cost growth	n.a.	n.a.	29.0%	185.3%	-64.8%
EBITDA growth	n.a.	n.a.	-29.1%	-185.1%	64.8%
EBITA growth	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT growth	n.a.	n.a.	n.a.	n.a.	n.a.
NPAT growth	n.a.	n.a.	n.a.	n.a.	n.a.
Pre-goodwill NPAT growth	n.a.	n.a.	n.a.	n.a.	n.a.
Pre-goodwill EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.
Normalised EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.

Operating performance	2019A	2020A	2021F	2022F	2023F
Asset turnover (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EBIT margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Net profit margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Return on net assets (%)	0.0	-136.0	-158.5	-184.5	-174.1
Net debt (A$m)	-2.9	-4.1	-5.5	-14.6	-5.4
Net debt/equity (%)	-103.3	-89.1	-108.4	-118.1	-116.8
Net interest/EBIT cover (x)	0.0	23.7	7.7	-123.9	-73.5

Internal liquidity	2019A	2020A	2021F	2022F	2023F
Current ratio (x)	3.3	5.1	2.6	4.4	3.9
Receivables turnover (x)	0.0	0.0	0.0	0.0	0.0
Payables turnover (x)	0.0	14.7	8.6	10.4	4.4

Source: Morgans estimates, company data

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Research independence statement

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