Kinarus Therapeutics Holding AG

Implications of recent news flow

3 January 2023

The recent news flow on Kinarus' lead product KIN001 has bolstered its profile for the treatment of ambulatory COVID-19 patients. In addition, the outlook for the main events for KIN001 – the anti-inflammatory and anti-fibrotic indications – on which most of our valuation is based, have also been bolstered by a new US patent allowance. We also reflect on the reasons why the discontinuation of KINETIC may not impact the results of KINFAST.

KIN001 in COVID-19 down, but not out

After the recent discontinuation of Kinarus' lead drug – the combination of the p38 MAPK inhibitor pamapimod and pioglitazone – in the Phase 2 KINETIC study in **hospitalised** COVID-19 patients, some investors may wonder why the KINFAST Phase 2 study in mild to moderate ambulatory COVID-19 patients is continuing. **There is a good reason**. Other approved agents to treat COVID-19 also aimed high, failed in hospitalised patients, but have shown efficacy in earlier-stage COVID-19. Gilead Sciences' Veklury (remdesivir) failed against the standard of care in the treatment of hospitalised COVID-19 patients but was approved by the FDA for non-hospitalised patients at high-risk for COVID-19 progression. Similarly, the oral antivirals for the treatment of COVID-19 – Merck's molnupiravir and Pfizer's Paxlovid (nirmatrelvir/ritonavir) – are only approved for patients at high-risk with mild to moderate COVID-19, where they have shown to reduce the risk of hospitalisation. **The rationale for the continuation of KINFAST is therefore solid** and has been further bolstered by the recent demonstration of KIN001's strong preclinical antiviral activity against the currently circulating SARS-CoV-2 Omicron subvariants BA.2 and BA.5.

wAMD and IPF remain the main event

Our recent initiation note led with wet age-related macular degeneration (wAMD) and idiopathic pulmonary fibrosis (IPF) as the main indications for KIN001 and now comprise 91% of our valuation. Kinarus's recent notice of allowance for its US patent on KIN001 in ophthalmic diseases will help **ring-fence Kinarus' intellectual property** in those indications that, even before KINETIC, comprised the vast majority of our valuation. Investors will remember that it is the surprising long-term retention of p38 MAP kinase inhibitory activity of pamapimod by pioglitazone, resulting in the sustained anti-inflammatory and anti-fibrotic activities of KIN001, that enables the conduct of long-term fully powered phase 2 studies. Kinarus has designed its wAMD study to position the drug as a complement to anti-VEGF injectable drugs aiming to reduce injection burden.

No change to our valuation

Despite the positive updates on KIN001's enduring antiviral activity against new variants, and a further bolstered patent coverage, we have not made any changes to our valuation since Kinarus' announcement on the end of the KINETIC trial. **Our fair valuation of Kinarus remains at CHF96.0m, or CHF0.09 per share.**

Summary Financials

CHF '000s, y/e 31 Dec	2019A	2020A	2021A	2022E
Revenues				
EBIT	(2,267)	(1,522)	(4,720)	(4,236)
Basic EPS, (CHF)	(0.608)	(0.312)	(0.900)	(0.004)
Net Assets	2,555	1,287	(1,371)	37,049
Net Cash	1,019	319	5,225	(1,845)

Source: Company historic data, ED estimates

Company Data

EPIC	**KNRS.SW**
Share Price (last close)	CHF0.011
Market cap	CHF14.7m
ED Fair Value per share	CHF96.0m CHF0.09
Proforma net cash 30 Jun '22	CHF4.58m
Avg. daily volume	1,863,961

Share Price, CHF

Source: Google

Company Description

Kinarus is a Swiss clinical-stage biopharmaceutical company that focusses on small molecule drugs with a history of clinical use in human patients. Much of the early-stage risk is eliminated from Kinarus' projects as the dose range, mechanism of therapeutic benefit and manufacturing and regulatory considerations have already been addressed.

With the benefit of much of this work already undertaken, the cost and duration of Kinarus' clinical programs should be shorter than is the norm. Kinarus' lead drug KIN001 was originally developed by Roche for RA and after addressing its PD liability, Kinarus is developing KIN001 for the treatment of COVID-19, wAMD and IPF in Phase 2 clinical trials.

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Historic financials and forecasts

Consolidated Income Statement & Forecasts

CHF'000s, y/e 31 December	2019A	2020A	2021A	2022E
IFRS Income Statement				
Total revenue				
General & Administration expenses	(903)	(851)	(1,402)	(1,615)
R&D	(1,322)	(633)	(2,939)	(727)
Depreciation & amortisation	(1)	(1)	(4)	(1,520)
Reported EBIT	**(2,267)**	**(1,522)**	**(4,720)**	**(4,236)**
Reported profit before tax	**(2,280)**	**(1,522)**	**(4,724)**	**(4,231)**
Taxation				56
Basic EPS CHF	(0.6085)	(0.3117)	(0.9003)	(0.0037)
Diluted EPS CHF	(0.6085)	(0.3117)	(0.9003)	(0.0037)
Share count at end of period (basic) '000	3,747	4,883	5,247	1,143,603

Source: Company historic data, ED estimates

Consolidated Balance Sheet & Forecasts

CHF'000s, at y/e 31 March	2019A	2020A	2021A	2022E
Assets				
Non-current assets				
Tangible assets	3	2	7	9
Intangible assets	1,800	1,800	1,800	51,880
Total non-current assets	1,803	1,802	1,807	51,889
Current assets				
Trade and other receivables				
Cash and equivalents	1,019	419	5,032	1,490
Other current assets	22	49	49	174
Total current assets	1,041	468	5,352	1,664
Total assets	**2,844**	**2,270**	**7,158**	**53,553**
Equity and liabilities				
Equity				
Share capital	488	491	536	11,133
Share Premium	7,748	7,747	9,222	42,993
Retained earnings (loss)	(5,680)	(6,949)	(11,128)	(17,076)
Equity attributable to the company	2,555	1,287	(1,371)	37,049
Current liabilities				
Trade and other payables	64	100	77	335
Current provisions				1,140
Other current liabilities	226	182	1,052	869
Total current liabilities	289	983	4,129	2,594
Total non-current liabilities			4,400	13,910
Total liabilities	289	983	8,529	16,504
Total equity and liabilities	**2,844**	**2,270**	**7,158**	**53,553**

Source: Company historic, ED estimates

Consolidated Cash Flow Statements & Forecasts				
CHF'000s, y/e 31 March	**2019A**	**2020A**	**2021A**	**2022E**
Profit before taxation	(2,280)	(1,522)	(4,724)	(4,175)
Adjustment for:				
Depreciation & amortisation	1	1	4	1,520
Movements in working capital	(385)	(34)	5,245	(5,791)
Net cash generated by operating activities	(2,394)	(1,302)	(1,072)	(8,604)
Investing activities				
Capital expenditure on tangibles	(3)		(10)	
Proceeds from disposal of tangibles	(1,500)			
Acquisitions				5,483
Net cash used in investing activities	(1,503)		(10)	5,483
Financing activities				
Net proceeds from issue of shares			1,170	
Proceeds from share option exercise	10	2	4	
Transaction costs	(127)	(1)	(123)	(620)
Proceeds from subordinated loans			3,000	179
Movements in convertible debt	2,880	700	(230)	(250)
Net cash from financing activities	2,767	701	3,821	(691)
Cash & equivalents at beginning of year	2,154	1,019	419	5,302
Cash & equivalents at end of year	**1,019**	**419**	**5,302**	**1,490**

Source: Company historic data, ED estimates.

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