

Strategic Update

9 November 2022

After the recent discontinuation of the Phase 2 KINETIC study of Kinarus's oral anti-inflammatory drug combination KIN001 in the treatment of hospitalised COVID-19 patients, the company has announced a strategic update on the way forward. Kinarus' focus (and the majority of our fair value) remains on the Phase 2 studies of KIN001 in wet age-related macular degeneration (wAMD) and idiopathic pulmonary fibrosis (IPF).

Focus on wAMD and IPF

As we explored in our initiation note, while wAMD is a large and highly competitive therapeutic indication, companies like Roche, Novartis and Regeneron have hit a ceiling with their drugs that target VEGF and are only making incremental improvements via drug delivery technologies. This means that there are large existing franchises that could benefit from the differentiation that an oral drug like KIN001 could bring, if it was included in their ophthalmology portfolios. The recent acquisition of ophthalmology biotech Oyster Point Pharma for about \$300m validates the interest in this area. This competitive imperative will increase further with increasing biosimilar competition to Roche's Lucentis (ranibizumab) and Regeneron's Eylea (afibercept). Thus, with Kinarus' announcement that it is exploring financial and strategic options to fund the Phase 2 trials of KIN001 in wAMD and IPF, we would not discount the possibility that some of this funding could come from a strategic partnership. As Kinarus' announcement mentioned – KIN001 complements the current anti-VEGF drugs and could provide meaningful improvements in patients suffering from wAMD and IPF, in combination with marketed therapies.

KINFAST continues unchanged but not the key valuation driver

Kinarus is committed to completing the Phase 2 KINFAST study in mild to moderate COVID-19 patients that is partially funded by the Swiss government and is also in a different patient population and measures different endpoints than the now discontinued PHASE 2 KINETC study in hospitalised patients. In our valuation however, the wAMD and IPF indications for KIN001 comprise of 91% of our valuation and as Kinarus's announcement notes, Kinarus was founded to pursue wAMD and IPF while Kinarus stepped-up in the pandemic to investigate KIN001's utility in resolving the inflammatory cascade that characterises COVID-19 in some patients.

No change to our valuation

Bearing in mind the financial and strategic options to fund the Phase 2 trials of KIN001 in wAMD and IPF may or may not result in some dilution – from a partner's investment, for example – we have not made any changes to our valuation as a result of Kinarus's announcement. We have made some changes to our YE 2022 financials to take into account the cash burn after the discontinuation of the KINETIC study and some prepayments before YE. **Our fair valuation of Kinarus remains at CHF96.0m, or CHF 0.09 per share.**

Company Data

EPIC	KNRS.SW
Share Price	CHF0.009
Market cap	CHF9.6m
ED Fair Value per share	CHF96.0m CHF0.09
Proforma net cash 30 Jun '22	CHF4.58m
Avg. daily volume	1,152,756

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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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 estimate

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	1,113,315

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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