EDISON

SymBio Pharmaceuticals

Treakisym label expansion submitted

Earnings and regulatory update

Pharma & biotech

SymBio announced on 11 May 2020 that it submitted an application to expand the label for Treakisym in Japan to include the treatment of relapsed and refractory diffuse large B-cell lymphoma (DLBCL) in combination with rituximab. This follows the positive results seen in the Phase III study for the combination reported in November 2019. We expect this label expansion to more than double the sales potential for the drug.

Year end	Revenue (¥m)	PBT* (¥m)	EPS* (¥)	DPS (¥)	P/E (x)	Yield (%)
12/18	3,836	(2,749)	(166)	0	N/A	N/A
12/19	2,838	(4,377)	(189)	0	N/A	N/A
12/20e	2,608	(5,256)	(181)	0	N/A	N/A
12/21e	9,228	1,090	19	0	22.8	N/A

Note: *PBT and EPS are adjusted, excluding D&A and exceptional items.

DLBCL key to future growth

Treakisym (bendamustine) is currently approved in Japan for low-grade non-Hodgkin lymphoma (NHL) or mantle cell lymphoma and chronic lymphocytic leukemia. We estimate the label expansion would approximately double the target market with 11,200 second-line DLBCL patients. While the company did not publish detailed results from its Phase III study, it reported that it met its primary endpoints and the combination has established efficacy in the literature.

Label expansion part of multi-pronged strategy

The label expansion is one aspect of the company's ongoing strategy to reach profitability. The drug is currently sold by Eisai, with SymBio regaining full control at the end of 2020, after which the product will be sold by an internal salesforce. The company has also licensed the rights to two proprietary formulations of bendamustine from Eagle Pharmaceuticals and plans to convert providers to the new, more convenient formulations prior to the October 2020 loss of exclusivity for the current formulation.

Supply issues continue to affect sales, margins

The company reported with Q120 results that quality control issues of Treakisym sourced from Astellas have continued to affect the ability of the company to deliver product to Eisai. This problem has persisted since mid-2019. The company reported revenue of ¥551m for the quarter, down from ¥1,611m for Q119, and a gross profit of ¥128m (down from ¥609m), citing lack of inventory as the cause.

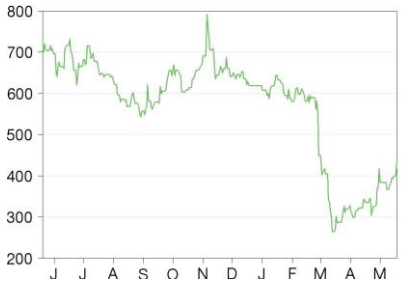
Valuation: Increased to ¥39.0bn

We have increased our valuation to ¥39.0bn ($354m) from ¥37.2bn ($338m) previously, although it is lower on a per share basis: ¥1,144 ($10.40) from ¥1,351 ($12.28). We estimate a cash balance of ¥5.58bn following multiple recent rights exercises (¥1.71bn raised since Q120 cash of ¥3.88bn). We expect this to be sufficient for the company to deliver on its strategy to reach profitability in 2021.

19 May 2020

Price	**¥434**
Market cap	**¥14.8bn**
	¥110/US$
Net cash (¥m) at 31 March 2020 + subsequent exercises	5,584
Shares in issue	34.1m
Free float	92.5%
Code	4582
Primary exchange	TYO
Secondary exchange	OTC US

Share price performance



%	1m	3m	12m
Abs	29.6	(24.8)	(40.1)
Rel (local)	28.1	(14.1)	(36.2)
52-week high/low		¥791	¥264

Business description

SymBio Pharmaceuticals is a Japanese specialty pharma company with a focus on oncology and hematology. The Treakisym powder formulation was in-licensed from Astellas in 2005; liquid Treakisym was in-licensed from Eagle Pharmaceuticals in 2017. Rigosertib was in-licensed from Onconova. And brincidofovir was licensed from Chimerix in 2019.

Next events

Rigosertib Phase III results	H120
Treakisym RTD approval decision	October 2020

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Edison profile page

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Treakisym DLBCL label expansion submitted

SymBio announced in May 2020 that it had completed and submitted its application to the PMDA to expand the addressable indications for Treakisym to include relapsed and refractory DLBCL (in combination with rituximab). SymBio previously announced that it had met is primary endpoint in its Phase III study of Treakisym (bendamustine). The primary endpoint was overall response rate, with progression free survival and overall survival as secondary endpoints, but a detailed report was not presented. The study was open label and single arm, but this may be able to support a label expansion for the drug to this indication considering the well-demonstrated activity in other studies. Although bendamustine is not approved explicitly for DLBCL in the US (although it is approved for indolent NHL), it has been demonstrated to have activity when combined with rituximab,[1] similar to the company's pivotal study. The company previously announced an overall response rate (ORR) of 62.7% and complete response (CR) of 37.3% was observed in the earlier Phase II study. We estimate a target market of 11,200 second-line DLBCL patients in Japan, which would approximately double the current addressable market. We expect an approval decision from the PMDA within 12 months.

Frustrating quality control issues continue

The quality control issues the company has experienced with shipments of bendamustine from its supplier Astellas continue unabated. This has significantly affected the ability of the company to deliver drug to Eisai and the associated revenue from that agreement. The company reported revenue of ¥551m for Q1 (Q119: ¥1,611m), and a gross profit of ¥128m (Q119: ¥609m).

This has been an issue since mid-2019, which the company first identified quality issues in shipments of drug from Astellas. SymBio has repeatedly sought to resolve the issue, but apparently to no effect. We have lost confidence that this issue can be resolved in a timely manner and have reduced our forecasted revenue for 2020 to ¥2,608m from ¥3,433m previously, and our gross profit to ¥652m from ¥1,030m.

However, the company has planned to transition to using the formulations licensed from Eagle once they are approved. We expect a decision on the approval of the ready-to-dilute (RTD) formulation by the end of September 2020.

Valuation

We have increased our valuation to ¥39.0bn ($354m) from ¥37.2bn ($338m) previously, although it is lower on a per share basis: ¥1,144 ($10.40) from ¥1,351 ($12.28). The increase in total valuation is from rolling forward our NPVs. Although we now forecast lower revenue in 2020 than previously, this impact is limited to the current year (FY20), dampening the overall effect on the valuation. The increase in shares outstanding is driven by the recent large rights exercises in the ongoing rights offering: 5.61m new shares to date in April and May, bringing the total outstanding to an estimated 34.1m. We expect to update our valuation with the top-line results from the Phase III study of rigosertib (in development at and licensed from Onconova) expected in H220 (delayed from H120 previously).

[1] Arcari A. et al. (2014) Safety and Efficacy of Rituximab Plus Bendamustine in Relapsed or Refractory Diffuse Large B-Cell Lymphoma Patients. *Blood* 124, 3074.

Exhibit 1: Valuation of SymBio

Product	Indication	Launch	Peak sales (¥m)	NPV (¥m)	Probability	rNPV (¥m)	rNPV/share (¥/share)
Treakisym	Low grade NHL/MCL (r/r and 1st line); CLL	2010	8,600	19,571	100–95%	18,724	549.8
Treakisym (DLCBL)	r/r DLBCL	2021	9,600	13,383	90%	11,975	351.6
Rigosertib (IV)	r/r HR-MDS	2023	3,800	2,909	50%	1,365	40.1
Rigosertib (oral)	LR-MDS (mono) or First-line HR-MDS (combo)	2025	7,500	4,302	15%	436	12.8
Brincidofovir	vHC	2025	4,200	3,383	30%	882	25.9
Net cash (March 2020 + subsequent exercises)				5,584	100%	5,584	164.0
Valuation				49,132		38,967	1,144.2

Source: SymBio Pharmaceuticals reports, Edison Investment Research

Financials

The company ended the quarter with ¥3.88bn and subsequently raised ¥1.71bn in equity through rights exercises. We expect this to be sufficient cash for the company to continue its commercial buildout in preparation for the 2021 relaunch of Treakisym, and we expect sustained profitability thereafter. We previously included ¥607m in additional capital needed to provide a cash buffer going into the launch, which has been removed given the raised cash. Other changes to our forecasts (besides those described above) include adjusting 2020 SG&A spending (¥3,325m from ¥3,525m), other minor changes to reflect Q120 results, and an update to our tax treatment to align better with Japanese GAAP and tax law changes. We have slightly increased 2021 expected revenue (¥9,228m from ¥9,159m) to reflect warehoused patients unable to get treatment with the current supply issues.

Exhibit 2: Financial summary

Accounts: JPN GAAP, year-end: 31 Dec, ¥m	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Total revenues	2,368	3,444	3,836	2,838	2,608	9,228	11,484	12,769	14,048	15,395
Cost of sales	(1,464)	(2,413)	(2,663)	(1,973)	(1,956)	(1,619)	(2,261)	(1,904)	(2,097)	(2,299)
Gross profit	904	1,031	1,173	865	652	7,609	9,223	10,864	11,951	13,096
SG&A (expenses)	(1,364)	(1,961)	(1,996)	(2,725)	(3,325)	(5,772)	(6,397)	(7,542)	(7,440)	(8,005)
R&D costs	(1,667)	(3,018)	(1,833)	(2,442)	(2,603)	(765)	(1,040)	(1,815)	(1,547)	(866)
Other income/(expense) included in adjusted	0	0	0	0	0	0	0	0	0	0
Other income/(expense) excluded from adjusted	0	0	0	0	0	0	0	0	0	0
Reported EBIT	(2,127)	(3,947)	(2,656)	(4,302)	(5,276)	1,072	1,786	1,507	2,964	4,226
Finance income/(expense)	5	3	1	0	20	19	28	57	96	177
Other income/(expense) included in adjusted	7	3	(0)	4	0	0	0	0	0	0
Other income/(expense) excluded from adjusted	(195)	(33)	(93)	(75)	0	0	0	0	0	0
Reported PBT	(2,309)	(3,974)	(2,749)	(4,372)	(5,256)	1,090	1,814	1,564	3,061	4,403
Income tax expense	(4)	(4)	(4)	(4)	(4)	(437)	(571)	(555)	(801)	(1,024)
Reported net income	(2,313)	(3,978)	(2,753)	(4,376)	(5,260)	653	1,243	1,008	2,259	3,379
Average number of shares - basic (m)	9.8	12.5	16.6	23.2	29.0	34.1	34.1	34.1	34.1	34.1
Basic EPS (¥)	(235.27)	(319.14)	(165.54)	(189.03)	(181.42)	19.17	36.47	29.59	66.30	99.16
Adjusted EBITDA	(2,101)	(3,917)	(2,621)	(4,264)	(5,179)	1,165	1,883	1,613	3,081	4,356
Adjusted EBIT	(2,127)	(3,947)	(2,656)	(4,302)	(5,276)	1,072	1,786	1,507	2,964	4,226
Adjusted PBT	(2,317)	(3,977)	(2,749)	(4,377)	(5,256)	1,090	1,814	1,564	3,061	4,403
Adjusted EPS (¥)	(236.02)	(319.35)	(165.54)	(189.22)	(181.42)	19.17	36.47	29.59	66.30	99.16
Adjusted diluted EPS (¥)	(236.02)	(319.35)	(165.54)	(189.22)	(181.42)	18.94	36.03	29.23	65.50	97.96
BALANCE SHEET										
Property, plant and equipment	75	47	57	75	80	136	201	263	323	380
Goodwill	0	0	0	0	0	0	0	0	0	0
Intangible assets	42	69	71	241	211	191	178	169	163	159
Other non-current assets	77	100	73	70	70	70	70	70	70	70
Total non-current assets	193	216	201	386	362	398	449	503	557	609
Cash and equivalents	5,719	2,947	4,821	3,911	1,875	1,855	2,801	3,812	5,824	8,970
Inventories	273	363	534	0	220	182	254	214	236	258
Trade and other receivables	487	490	412	549	286	1,011	1,258	1,399	1,540	1,687
Other current assets	205	237	272	427	427	427	427	427	427	427
Total current assets	6,685	4,037	6,038	4,887	2,808	3,476	4,741	5,852	8,027	11,343
Non-current loans and borrowings	450	0	0	0	0	0	0	0	0	0
Trade and other payables	0	0	0	0	0	0	0	0	0	0
Other non-current liabilities	1	1	1	2	2	2	2	2	2	2
Total non-current liabilities	451	1	1	2	2	2	2	2	2	2
Trade and other payables	322	604	726	121	479	530	603	760	729	718
Current loans and borrowings	0	0	0	0	0	0	0	0	0	0
Other current liabilities	620	407	610	751	751	751	751	751	751	751
Total current liabilities	942	1,011	1,336	872	1,231	1,281	1,355	1,512	1,480	1,470
Equity attributable to company	5,485	3,239	4,902	4,400	1,937	2,591	3,833	4,842	7,101	10,481
Non-controlling interest	0	0	0	0	0	0	0	0	0	0
CASH FLOW STATEMENT										
Profit before tax	(2,309)	(3,974)	(2,749)	(4,372)	(5,256)	1,090	1,814	1,564	3,061	4,403
Depreciation and Amortisation	26	30	35	38	97	93	98	106	117	130
Share based payments	137	121	148	0	0	0	0	0	0	0
Other adjustments	197	42	61	229	(20)	(19)	(28)	(57)	(96)	(177)
Movements in working capital	(13)	(35)	184	(242)	402	(637)	(246)	56	(193)	(181)
Interest paid / received	6	3	1	1	20	19	28	57	96	177
Income taxes paid	(4)	(4)	(4)	(4)	(4)	(437)	(571)	(555)	(801)	(1,024)
Cash from operations (CFO)	(1,960)	(3,817)	(2,325)	(4,351)	(4,761)	110	1,095	1,171	2,183	3,329
Capex	(28)	(57)	(40)	(217)	(72)	(129)	(149)	(160)	(171)	(183)
Acquisitions & disposals net	0	0	0							
Other investing activities	(16)	(20)	14	0	0	0	0	0	0	0
Cash used in investing activities (CFIA)	(44)	(78)	(26)	(216)	(72)	(129)	(149)	(160)	(171)	(183)
Net proceeds from issue of shares	3,226	1,164	4,272	3,738	2,797	0	0	0	0	0
Movements in debt	450	0	0	0	0	0	0	0	0	0
Other financing activities	(18)	0	0	2	0	0	0	0	0	0
Cash from financing activities (CFF)	3,658	1,164	4,272	3,740	2,797	0	0	0	0	0
Currency translation differences and other	(196)	(42)	(47)	(83)	0	0	0	0	0	0
Increase/(decrease) in cash and equivalents	1,458	(2,772)	1,874	(911)	(2,036)	(20)	946	1,011	2,012	3,146
Opening net (debt)/cash	4,261	5,719	2,947	4,821	3,911	1,875	1,855	2,801	3,812	5,824
Cash and equivalents at end of period	5,719	2,947	4,821	3,911	1,875	1,855	2,801	3,812	5,824	8,970
Net (debt)/cash	5,269	2,947	4,821	3,911	1,875	1,855	2,801	3,812	5,824	8,970
Movement in net (debt)/cash over period	1,008	(2,322)	1,874	(911)	(2,036)	(20)	946	1,011	2,012	3,146

Source: SymBio Pharmaceuticals reports, Edison Investment Research

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