Sprint Bioscience

Next frontier of drug discovery

Sprint Bioscience is innovative and focused on early-stage drug development, providing novel drug candidates within the cancer field. Its strategy is to outperform research productivity in preclinical phase, identifying and running tailor-made drug development projects leanly and effectively. After development, Sprint out-licenses promising and high-quality projects to the global pharma industry through milestone and royalty agreements.

- **Derisked business model.** Out-licensing projects at an early stage derisks the business model, as the licensing partner takes the clinical and commercial risk. In addition, as Sprint focuses its operations on preclinical development, the process requires fewer resources per project than driving one drug through clinical trials and potential commercialisation, allowing the company to operate several different drug discovery projects, without the risk and cost associated with the later stages of the drug-development cycle.
- **Unique and innovative technology platform.** Sprint has established a unique technology platform, which enables it to create innovative, first-in-class drug candidates in a lean and effective manner. It bases its platform on the fragment-based drug discovery (FBDD) screening method holding several advantages versus other methods in the industry, optimised in its own, company-specific fashion.
- **Major deals with global pharma companies in pipeline.** The company has been successful in closing three major deals with three global pharmaceutical companies for an aggregated sum of USD660m, of which two remain in place today, with an aggregate value of USD470m. The pipeline includes projects within acute myeloid leukaemia (AML) out-licensed to Petra Pharma, NASH out-licensed to LG Chem and two internal projects within immuno-oncology, currently unsigned.
- **Valuation.** We base our valuation on a sum-of-the-parts valuation, which gives a fair value range of SEK63-407m, corresponding to a value per share of between SEK5.1 and SEK33.0. Our base-case fair value of SEK245m corresponds to SEK19.9 per share. Currently, we do not consider any royalty-stream potential following drug approval by partners Petra Pharma and LG Chem. Once we can assess clinical data, we plan to add such revenue potential to our scenario analysis and sum of the parts.

Biotechnology

Key data

Price (SEK)*	9.94
Country	Sweden
Bloomberg	SPRINT SS
Reuters	SPRINT.ST
Free float	88.0%
Market cap (SEKm)	123
Net debt (current Y/E) (SEKm)	10
No. of shares (m)	12.3
Next event	Q1: 13-May

** Price as at close on 20 February 2020*

CEO	Jessica Martinsson
CFO	Karl Almqvist Liwendahl

Company description

Sprint Bioscience is a Sweden-based drug development company. It is engaged in the development of oncology therapeutics, focusing on cancer metabolism and liquid signalling. The company bases its research on its fragment based drug discovery (FBDD) platform, which enables rapid identification of molecules with properties suitable for drug development. Its pipeline divides into two research areas: cancer metabolism and autophagy, comprising products in the phases of establishing FBDD projects and in vivo development. The company's strategy involves out-licensing or collaborating at an early stage of drug discovery.

Ownership structure

Första Entreprenörsfonden	12.3%
Nordnet Pensionsförsäkring	6.9%
Ivar Nordqvist	6.2%
Avanza Pension	6.1%
Pär Nrdlund	5.3%

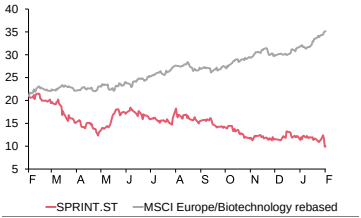
Source: Company data (31 December 2019)

Key financials

Year-end Dec (SEK)	2018	2019	2020E	2021E	2022E
Revenues (m)	18	34	35	30	27
Revenues growth	-25.2%	87.0%	3.0%	-14.5%	-8.5%
EBITDA (m)	-21	-20	-18	-23	-25
EBIT adj. (m)	-22	-20	-18	-23	-26
EBIT growth	n.m.	8.2%	9.1%	-26.7%	-9.9%
Pre-tax profit (m)	-22	-22	-18	-23	-26
EPS adj.	-2.51	-1.92	-1.49	-1.89	-2.07
DPS	0.00	0.00	0.00	0.00	0.00
Dividend yield					
FCF yield (incl. recurr capex)	-14.4%	-18.9%	-15.5%	-19.5%	-21.5%
EBIT margin (adj.)	n.m.	-60.3%	-53.3%	-78.9%	-94.7%
Net debt/EBITDA (x)	0.1	0.4	-0.5	-1.5	-2.4
ROIC	-72.1%	-108.8%	-742.3%	-876.3%	-755.1%
EV/sales (x)	11.5	4.2	3.8	5.3	6.7
EV/EBITDA (adj.) (x)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBIT (adj.) (x)	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (adj.) (x)	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company data, Danske Bank Equity Research estimates

Price performance



	1M	3M	12M	5Y
Absolute	-12%	-16%	-53%	-35%
Rel. local market	-16%	-25%	-62%	-52%
Rel. EU sector	-20%	-30%	-72%	-79%

Source: FactSet

Analysts
Siri Ladow

Daniel Albin

Find our research here:
https://research.danskebank.com

Important disclosures and certifications are contained from page 34 of this report

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Executive summary

Sprint Bioscience is an innovative pharmaceutical company providing novel drug candidates in the early stages of drug development, focused on the cellular metabolic pathways within the field of cancer. The company's strategy is to outperform research productivity in the preclinical phase, identifying and running tailor-made drug development projects in a lean and effective manner. Following development, Sprint out-licenses promising and high-quality drug projects – ready for clinical trials – to the global pharmaceutical industry through milestone and royalty agreements.

Since its founding in 2009, the company has successfully closed three major deals with three global pharmaceutical companies with an aggregate sum of USD660m, of which two are still in place today, with an aggregate value of USD470m. The company had around 30 full-time equivalent (FTE) employees at the end of Q4 19.

Derisked business model

The business model is characterised by early revenues from upfront payments in licensing agreements, together with upcoming revenues from milestones of out-licensed projects, adding scale to the development.

Out-licensing projects at an early stage derisks the business model, as the licensed partner takes the clinical and commercial risk. As Sprint focuses its operations on the early stages of drug development, the process requires fewer resources per project than if the company were driving the drug all the way through clinical trials and potential commercialisation. As these later stages of drug development tend to be very resource demanding, Sprint can instead operate several different drug candidates simultaneously. We see such targeted focus as favourable for Sprint, because it both lowers the project risk and provides the preclinical expertise that the pharmaceutical industry demands.

Unique, innovative technology platform

Sprint has established a unique technology platform based on FBDD, which enables it to create innovative, first-in-class drug candidates in a lean and effective manner in a minimal time and with minimal resource investments compared with traditional screening methods, while maintaining high quality. We identify several strengths of the Sprint technology platform, as well as its advantages over high-throughput screening (HTS) based screening method.

- Optimised integration of disciplines and library of molecules.
- Less extensive infrastructure needed.
- Efficient and adaptable compound generation.
- Streamlined process.

Ultimately, Sprint can evaluate potential targets in a few months and it can run several projects simultaneously, much quicker and more efficiently than traditional drug development. The drug projects that qualify for further development have to meet pre-established criteria, such as the quality of the hits, medical relevance, technical feasibility and market potential. In this way, Sprint controls the resources used at an early stage, strengthening its competitive position further, as well as lowering the risk in the business model in general.

Major deals with global pharma companies in pipeline

Sprint has successfully closed three major deals with three global pharmaceutical companies worth an aggregate sum of USD660m. Partners still actively run two of the three deals, with an aggregate value of USD470m. Sprint and Bayer made a joint decision to terminate the third deal with partner Bayer in 2016 due to target devalidation.

The pipeline includes projects within AML out-licensed to Petra Pharma, NASH out-licensed to LG Chem and two internal projects in immuno-oncology, currently with no partner signed.

Estimates

In our scenario, we estimate total non-risk adjusted sales of SEK167m and risk-adjusted sales of SEK75m in 2024-25. We believe the company has a run-rate for operating expenses (EBIT) of minus SEK53m on an annual basis. As the business model includes the undertaking of out-licensing agreements, Sprint does not need to build a marketing and sales organisation. With its current structure, we expect Sprint to be capable of producing one new candidate per year that it can out-license. In our scenario, we estimate the company will become profitable in 2024. We believe the main risk in Sprint is its financial position, as we estimate it needs to do a capital fundraising to fund its development of upcoming candidates in the pipeline, to bridge the gap until it receives larger upfront/milestone payments and out-licenses more projects. Sprint had a net cash position of SEK8.4m at the end of Q4 19.

Table 1: Net sales risk adjusted development and EBIT development

SEKm	2020E	2021E	2022E	2023E	2024E	2025E
Revenue model						
PIP4K2	25	25	25	0	26	26
STK25 (NASH)	10	5	3	24	24	24
VPS34	0	0	0	25	25	25
Sum (risk adj.)	**35**	**30**	**27**	**49**	**75**	**75**
Operating expenses						
COGS	-11	-11	-11	-11	-11	-11
Other external costs	-16	-16	-16	-16	-16	-16
Personnel costs	-26	-26	-26	-26	-26	-26
Depreciation & amortisation	-1	-1	0	0	0	0
Other	0	0	0	0	0	0
Sum	**-53**	**-53**	**-53**	**-53**	**-53**	**-53**
EBIT	**-18**	**-23**	**-26**	**-4**	**22**	**22**
EBIT margin	-52%	-78%	-93%	-8%	29%	29%

Source: Danske Bank Equity Research estimates

Valuation

We base our valuation of Sprint on a sum-of-the-parts valuation, calculating a fair value range of SEK63-407m, corresponding to a value per share of between SEK5.1 and SEK33.0 per share. Our base-case fair value is SEK245m, corresponding to SEK19.9 per share.

At this stage, we do not consider any revenue potential from upcoming royalty streams following drug approval from the company's current collaboration and licence agreements with Petra Pharma and LG Chem, as we view these to be highly uncertain and believe the likelihood of approval is currently low, given no yet reported clinical data to take into account in the valuation. Once such data is available, we will add any revenue potential to our scenario analysis.

Table 2: Valuation range – three scenarios

	Low fair value (SEKm)	Base fair value (SEKm)	High fair value (SEKm)
PIP4K2	263	263	263
STK25	0	183	183
Vps34	0	0	162
Pipeline, total	**263**	**446**	**608**
SG&A & overhead costs	-236	-236	-236
Cash	8	8	8
Value of tax asset	27	27	27
Fair value	**63**	**245**	**407**
Per share (SEK)	5.1	19.9	33.0

Source: Danske Bank Equity Research estimates

Table 3: Sum-of-the-parts valuation

Base case valuation Compound	Indication	Phase	Out-licensed	Deal value (USDm)	Fair value (SEKm)	NPV per share (SEK)
PIP4K2	Acute myeloid leukaemia	Pre-clinical	2016	240	263	21
STK25	NASH	Pre-clinical	2019	230	183	15
Vps34		Pre-clinical	n.a.	n.a.	0	0
VADA		Drug discovery	n.a.	n.a.	0	0
Pipeline, total				**470**	**446**	**36**
SG&A & overhead costs					-236	-19
Cash					8	1
Value of tax asset (accumulated losses)					27	2
Fair value	**(WACC 17.5%)**				**245**	**19.9**

WACC
17.5%

Number of shares (m)
12.34

USD/SEK	**9.60**

Source: Danske Bank Equity Research estimates

Market overview

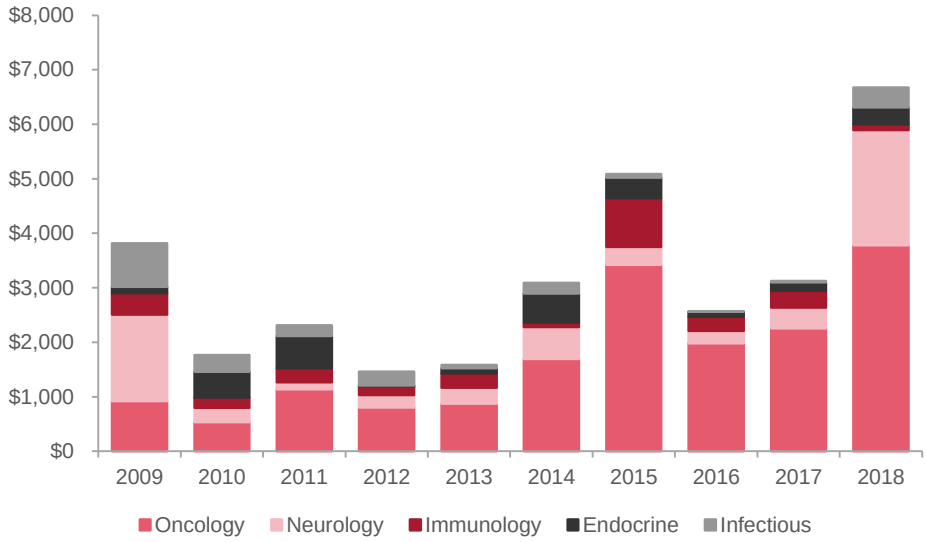
Sprint operates in the early stages of drug development within the oncology space. We define the relevant market below and discuss its size, the relevant trends, the growth drivers and the competitive landscape. We also outline the stages in the drug development cycle, followed by a description of the most important screening methods used in drug development, as these are important for understanding the market dynamics.

Market size and growth

EvaluatePharma estimates the global market for oncology-related drugs at USD123.8bn in 2018 and expects it to grow at a CAGR of +11.4% over 2019-24, driven primarily by a higher disease prevalence and the introduction of new therapies. In addition, global sales of prescription drugs are increasing steadily, with a CAGR of 6.9% over 2019-24 (source EvaluatePharma World Preview).

In addition, out-licensing of R&D has been a clear trend over the past decade, with oncology seeing a bigger increase than other research areas, from a total deal value worth of USD919m in 2009 to USD3,780m in 2018. Oncology also holds the largest share of overall out-licensing deals made, up from 17.2% in 2009 to 41.4% in 2018.

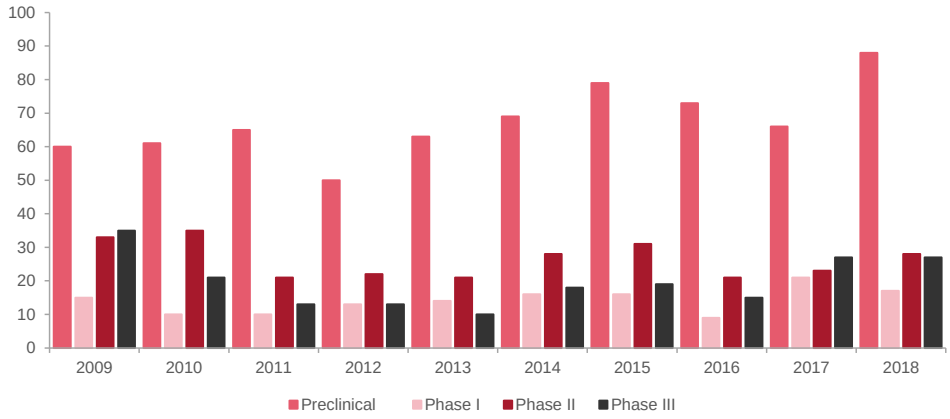
Chart 1: Out-licensing of R&D projects 2009-18 (USDm)



Source: 2019 Emerging Therapeutic Company Trend Report, BIO

Breaking down the figures into phases within the drug development chain – from preclinical development to Phase 3 – the majority of all out-licensing agreements signed from 2009 to 2018 were in the preclinical phase.

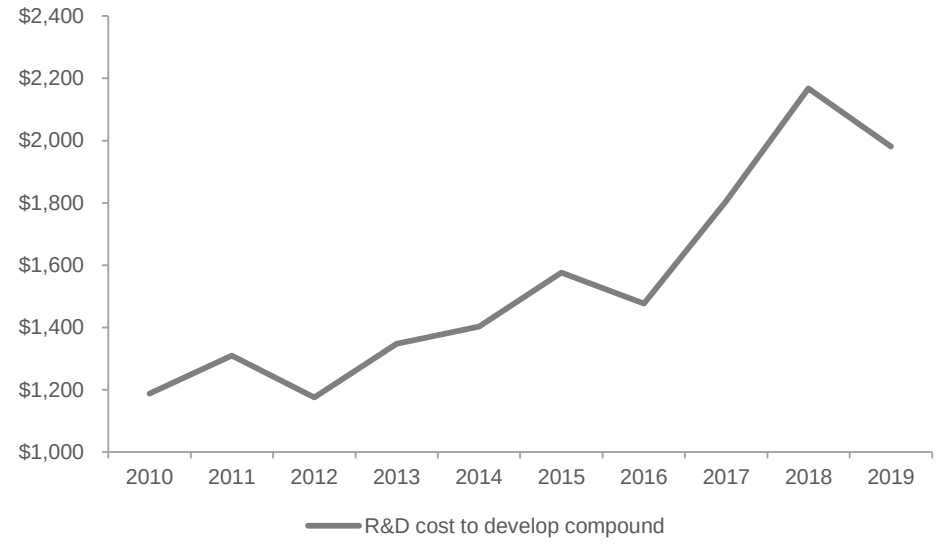
Chart 2: Number of out-licensed deals per phase 2009-18



Source: 2019 Emerging Therapeutic Company Trend Report, BIO

We are also witnessing an emerging trend among the pharmaceutical companies, namely outsourcing of R&D. Chart 3 illustrates the mean average R&D expenditure of 16 large biopharma companies to develop a compound from discovery to launch. We believe this chart demonstrates that big pharmaceutical companies are struggling with internal innovation, so need to increase spending on R&D and buy innovation elsewhere.

Chart 3: R&D cost of developing a compound from discovery to launch 2010-19 (USDm)*



*Mean average R&D expenditure of 16 large biopharma companies to develop a compound from discovery to launch
Source: Measuring the return from pharmaceutical innovation 2019, Deloitte

We see several drivers behind this trend, with the main ones the cost and time improvements for the pharmaceutical companies and access to technology, flexibility and expertise. As drug compound complexity continues to be high as new therapies emerge, the need for high quality continues to be an important factor. Thus, we argue that the pharmaceutical market is set to continue demanding drug development methods that can rapidly establish promising new drug candidates while maintaining high quality.

Competitive landscape

The biggest player in the drug development market is **the pharma companies** themselves, represented by their own R&D platforms and pipelines. While the split between outsourced preclinical R&D and overall preclinical R&D spending in the pharma market is a broad measure, it serves as a good proxy of their market share versus the smaller challengers.

As a response to the increased R&D out-licensing in the market, **contract research organisations (CROs)** have seen solid growth over the past decade. At the specific request of the pharma companies, CROs perform one part or some parts of the drug-development chain on a contracted basis. Although the CROs could be an accessible and simple way of outsourcing a specific part of the drug-development process, they lack the innovation angle in terms of providing novel drug ideas, which also affects the price tag of their offering. In this setup, the innovation still needs to come from the pharma company, which then needs not only the ability, expertise and specialisation in house to come up with the ideas but also the platform and expertise to test and perform them.

A few smaller, innovative R&D companies has emerged in the market over the past couple of years, with the aim of delivering new drug candidates sprung from innovative ideas for drug compounds. Although Sprint lacks any pure-play competitors or listed peers, three previously listed, smaller innovative companies in particular are worth highlighting.

The first is the Danish biotech company **Nuevolution**, which was listed on the Swedish Stock Exchange prior to being bought by Amgen in May 2019. Nuevolution possessed a unique and patented research platform to identify small-molecule drug candidates, which it out-licensed to large biopharma corporations. The deal was a USD166.8m cash offer, representing a 169% premium.

The second company is the American drug development company **Array Biopharma**. Although its business model was to drive its drugs from discovery to commercialisation, it specialised in small-molecule drugs with its goal to treat patients afflicted with cancer and other high-burden diseases. Pfizer bought Array in June 2019, with a cash offer of USD10.64bn, representing a 62% premium.

The third company we have identified is the most similar of the three to Sprint. **Astex Pharmaceuticals** was previously listed on Nasdaq in New York and focused on discovery and development of novel small-molecule therapeutics, with a focus on oncology. Otsuka Pharmaceutical bought Astex in September 2013, with a cash offer of USD886m, representing a 48% premium.

Innovative companies set to benefit the most

With drivers in the market including cost and time improvements for pharma companies, we believe the increasing trend of outsourced R&D in general and in oncology in particular is set to continue. In addition, as drug development complexity is increasing with the introduction of new therapies, we believe market conditions are set to favour most the smaller innovative R&D companies, which are able to deliver on both efficiency measures and the innovative angle.

Drug-development cycle

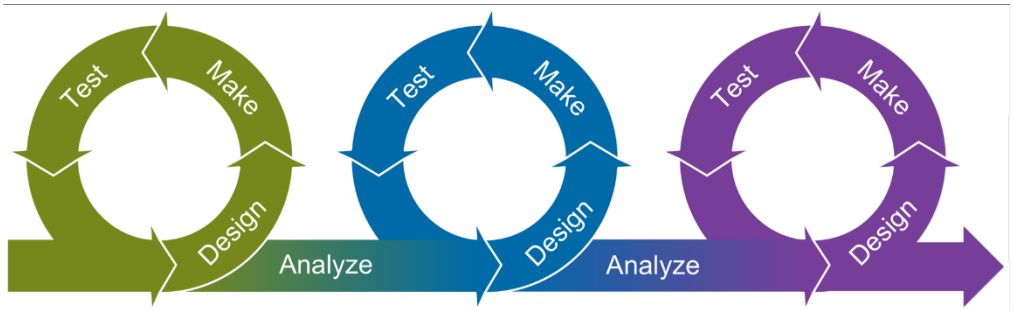
The drug-development process divides into three main steps: discovery, preclinical development and clinical trials. We can see the transition from discovery to preclinical development as a continuous unit where the boundary between preclinical development and clinical trial is defined sharply by the filing of a new drug application, which is required to enter the clinical trial stage. The details of each drug development can vary but all have some common features. We illustrate the cycle in Figure 1 and describe it below.

Stage 1. Drug discovery

Drug discovery is the initial process in the drug-development cycle by which developers discover new drug candidates. The first step in drug discovery is to identify a 'target'. Thereafter, compounds are screened, with the aim of finding a starting point (a 'lead'), which is then optimised in line with the initial thoughts of the interaction with the identified target. We elaborate on these steps below.

- **Target Identification.** The first stage of the drug development process is to identify a target, which means choosing a biochemical mechanism involved in a disease condition. Sprint's connections to leading scientists within academia and global access to newly published scientific papers provide it with a wide spectrum of ideas and targets that are likely to have both technical and commercial success.
- **Compound screening.** Thereafter, scientists test drug candidates for their interaction with the drug target. They use a screening programme to find a new drug against the chosen target, testing libraries of chemicals in an automated fashion for their ability to modify the target. While the details differ from method to method and from company to company, scientists can subject thousands to a million molecules for each potential drug candidate to a rigorous screening process. Once they confirm interaction with the drug target, they typically validate that target by checking for activity versus the disease condition for which they are developing the drug. The primary goal is to identify high-quality 'hits' or 'leads', i.e. compounds, that affect the target in the desired manner.
- **Lead optimisation.** After careful review, Sprint chooses one, or a few, compound(s). Although promising, these compounds are unlikely to be perfect drug candidates, which is why scientists modify the structure of these molecules to improve activity and potency. The process involves iterative trials to refine and gently modify the characteristics of the compound, eventually building a structure that is in line with the thoughts of the interaction with the target and the following metabolism. The figure below illustrates the process.

Figure 1: Sprint Bioscience's project process



Source: Sprint Bioscience

Stage 2. Preclinical development

From drug discovery to preclinical development, the compound selection is carefully selected by the company and narrowed down to five compounds out of c.10,000 tested in drug discovery. Preclinical development contains the activities that link drug discovery in the laboratory to initiation of the human clinical trials. Preclinical studies can be characterised as identifying a lead candidate from one or several hits, setup for the best formulation, frequency and duration of the drug. In addition, support for the intended clinical trial design is also an important factor, as we argue a well-designed drug development project facilitates both the clinical process and the probability of success.

Stage 3. Clinical trials

Although the preclinical research done in the development phase covers basic questions about a drug's safety, the drug has to be tested on humans. This is where clinical trials come into play and these divide into three different phases.

- **Phase I.** The purpose of the initial phase of clinical trials is to assess the safety of a drug. More specifically, the study should show how the human body absorbs, metabolises and excretes the drug. This phase often takes several months to complete and usually includes a small number of healthy volunteers.
- **Phase II.** In the second phase, the focus is on efficacy and safety. This is done through randomised trials, where one group of patients receives the experimental drug, while the second group, or 'control group', receives a standard treatment or placebo. Researchers often perform these studies 'blinded', meaning that neither the patients nor the researchers know who has received the experimental drug. This also provides the researchers with data on the efficacy of the drug. This phase of testing can last from several months to two years and involves up to several hundred patients.
- **Phase III.** The third phase of the clinical trial process focuses on large-scale testing. This provides researchers with a more thorough understanding of the effectiveness of the drug and the range of possible adverse reactions. This phase also involves randomised and blind testing but with several hundred to several thousand patients. This phase can last several years, which makes it a lot more likely to uncover long-term or rare side effects.

Screening methods used in drug discovery

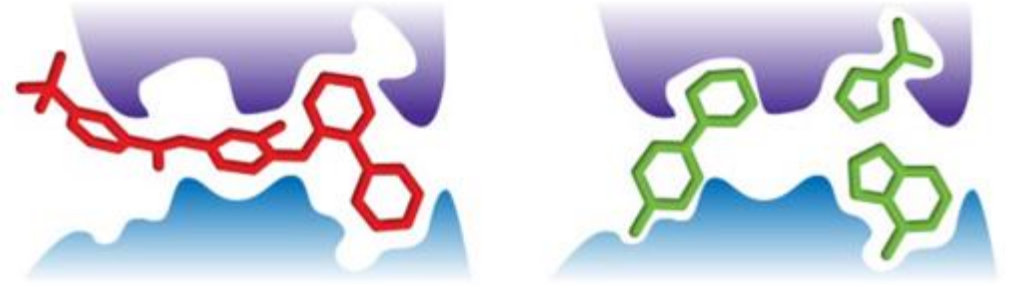
Important factors such as the quality of the drug candidate, the probability of success and efficiency abilities are fully connected to what and how a screening method is used. Thus, the choice screening method and its design play a key role in finding a well-designed, high-quality drug candidate with a high probability of success. Below we outline and compare the most prominent screening methods used in the industry.

High throughput screening vs fragment-based drug discovery

The traditional screening method for drug discovery is **HTS,** a widely recognised method with a long history within the global pharma market. However, in the recent decade, an alternative method called **FBDD** has emerged as an alternative starting point for drug discovery. FBDD began gathering interest among drug-design experts and has increased in popularity ever since. The frameworks of the two methods are similar, with a biological target setup and lead compounds the primary goal, but the content differs.

Two main and important differences between HTS and FBDD are the size of the molecule and the library system needed to store these. FBDD is able to reduce the molecular size of the chemical compounds (therefore called 'fragments'), drastically increasing the chemical space that can be sampled. As the original fragment is small and less complex, there is space in the binding pocket for many possible chemical combinations. This increases the probability of matching a target protein-binding site and is an important difference from HTS screening, where larger molecules are used, which are not as customisable or as easily connected.

Figure 2: High throughput screening and fragment-based drug discovery illustration

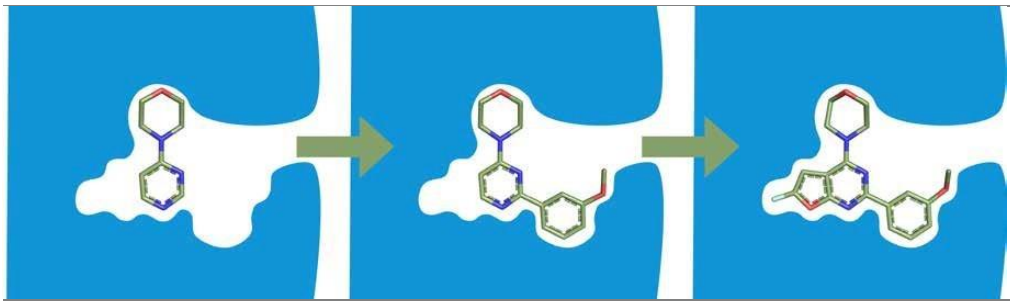


Source: Technology Networks, 'Advances in Fragment-based Drug Discovery', 2018

Because of the size, this also means the HTS method requires a much bigger library to screen than the FBDD method. Some HTS library systems contain up to a million different molecules, in contrast to the FBDD method, where the fragment libraries are often composed of only a hundred to a few thousand miniscule molecules. This makes it easier for the scientists to comprehend the library and, thus, understand the binding process, which is crucial when prioritising fragment hits and eventually developing them into promising leads.

Another clear advantage of FBDD compared with the HTS method is its efficiency. Although the absolute potency of the fragments is weak, they possess high binding energies per unit of molecular mass, making them more efficient than compounds generated by HTS. The reason for this is the high proportion of the atoms in a fragment that has the desired interaction with the protein. Then, why is efficiency a key factor in the development phase? HTS compounds are considerably more potent than the fragments, as the compounds are much larger. However, this also comes with the risk that the compound interacts with the target protein in an undesired manner. The FBDD minimises this risk, as every fragment is chosen for a specific purpose and does not include atoms that are not in line with the objective of the protein binding.

Figure 3: Fragment-based drug discovery process



Source: Sprint Bioscience

Company overview

Company background and strategy

Sprint is an innovative pharmaceutical company providing novel drug candidates within immuno-oncology, tumour metabolism and tumour microenvironment. The company's strategy is to outperform research productivity in the preclinical phase, identifying and running tailor-made drug development projects in a lean and effective manner. Following development, Sprint out-licenses promising and high-quality projects – ready for clinical trials – to the global pharmaceutical industry through milestone and royalty agreements.

A team of five, with deep experience from the early stages of drug development, founded Sprint in 2009. Of the co-founders, Jessica Martinsson, today CEO, and Martin Andersson, Head of Research, still have operating positions. The company consists of 30 employees, so has the advantage of being small and flexible compared with the industry in general. Its headquarters are located in Stockholm, Sweden.

Technology platform

Sprint has established a unique technology platform, which is able to create multiple drug candidate projects in an efficient, easily adaptable and high-quality manner. It bases its technology on the FBDD-screening method, which holds several advantages over the traditional HTS-screening method (see *Screening methods used in drug discovery* in the Market overview section earlier in this document for comparison). In addition, the platform is optimised in its own company-specific fashion, differentiating the company even more from what is offered on the market.

We identify several strengths of Sprint's technology platform and its advantages over the HTS-based screening method.

Optimised integration of disciplines and library of molecules

A wide range of disciplines can be integrated on Sprint's platform simultaneously. This includes protein production, fragment screening and x-ray crystallography (which simplified means 3D imaging of the fragment structure). For pharma companies in general, such a variety offering is not a common capability, with platforms often lacking a few, some or all disciplines.

The process continues with the disciplines being combined with Sprint's optimised library of around a thousand molecules available for screening. Looking at the industry in general, the number of molecules differs. As a rule of thumb, a larger number of molecules risks compromising quality but with only a few molecules, the risk of too few hits is higher. Sprint's choice to use around a thousand molecules has proven to be efficient at generating a relevant number of hits while still maintaining high quality.

Less extensive infrastructure needed

Using an FBDD-based method needs a less extensive infrastructure than HTS-based screening in all steps of the screening process. This is because the smaller molecular size of the chemical compound needs a smaller library system, while still being able to increase drastically the chemical space that Sprint can sample.

Efficient and adaptable compound generation

The FBDD method is able to create compounds with a customised molecule structure, as the compounds possess high binding energies per unit of molecular mass. This increases the probability of matching a target protein-binding site and is an important difference from HTS screening, which uses larger molecules. These are not as customisable or as easily connected.

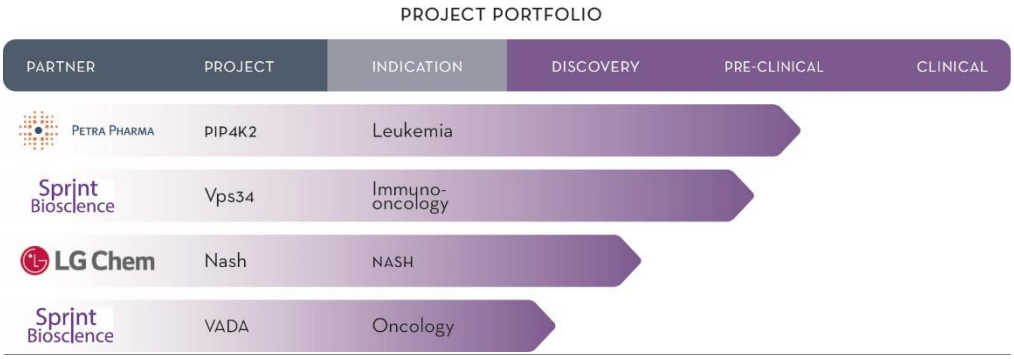
Streamlined process

Ultimately, largely because of the optimised integration of disciplines and library of molecules, the need for a less extensive infrastructure and efficient and adaptable compound generation, Sprint's process from idea to finished drug candidate is streamlined. It can run several projects simultaneously and develop drug candidates in a few months – much more quickly and more efficiently than traditional drug development. The drug projects chosen have to meet pre-established criteria, such as the quality of the hits, the medical relevance, the technical feasibility and market potential. In this way, Sprint controls the resources used at an early stage, strengthening its competitive position further and lowering the risk of the business model in general.

Product portfolio and partnerships

Springing from the technology platform, Sprint currently has four larger projects that it is running with the intention of reaching clinical trials and finally commercialisation.

Figure 4: Sprint Bioscience's project portfolio



Source: Sprint Bioscience

Project PIP4K2

PIP4K2 is the project that has gone furthest of all Sprint's current projects and the company expects it to enter clinical trials this year. The project is named after the target protein, PIP4K2, which plays an important role in different forms of leukaemia. The person behind the discovery is Dr Lewis Cantley, PhD, from Cornell University. Dr Cantley is also the scientific co-founder of Petra Pharma, which is now the licensed owner of the project. At a conference held by the American Society of Hematology in December 2018, Petra Pharma presented the project as a potential treatment for haematological diseases. Sprint will not have any costs related to the project and Petra Pharma has indicated a milestone payment this year, when the project enters clinical trials, i.e. in Phase 1.

Partnership with Petra Pharma

Petra Pharma is the licensed owner of the PIP4K2 project. Petra Pharma is a spinout from Accelerator Corp. Dr Cantley and Dr Nathanael Gray, PhD, founded it in New York as a biotechnology investment and management company. In 2016, Petra Pharma launched with one of the largest biotech Series A financings in New York history. Some of the largest healthcare corporations in the world, such as Pfizer, Johnson & Johnson, Eli Lilly and AbbVie, are among the investors. This provides Petra Pharma with solid scientific knowledge, as well as the financial muscle, to drive the project in an efficient manner.

Since the founding of Petra, the company has focused on developing clinical-stage drugs. Its portfolio consists of new therapies that modulate phosphoinositide-signalling pathways for the treatment of cancer. Although phosphoinositide-modifying enzymes are among the most frequently mutated proteins in cancer, developing drugs that successfully disrupt the cancer-causing signalling in phosphoinositide pathways has proved to be quite a challenge. One of the reasons for this is the incredibly complex biology involved in phosphoinositide-signalling pathways. The scientific founders Dr Lewis and Dr Gray have over 30 years of experience in the field and they have produced some of the notable research reports on the topic in this time. PIP4K2 is one of three ongoing projects. One of these candidates has entered Phase 2.

Project VPS34

VPS34 is a project specialising in immuno-oncology and is currently an internal oncology project at Sprint. As the first group ever, Sprint has been able to show that the small molecules that inhibit this protein (VPS34) lead to increased infiltration of immune cells into the tumour. The increased infiltration of immune cells inhibits the growth of the tumour and has been shown to increase the efficacy of other immunologic drugs. Those patients who respond poorly to immunologic treatment today suffer from low infiltration of immune cells into the tumour. Sprint is currently carrying out complementary activities, which is a result of continual and close dialogue with their customers.

Project NASH

NASH, which stands for non-alcoholic steatohepatitis is the most severe form of non-alcoholic fatty liver disease (NAFLD). Lifestyle influences NASH heavily and it is closely related to pre-diabetes, diabetes and obesity. Symptoms are often quite silent, making it hard to diagnose and leading to many patients being unaware of their condition until the very late stages of the disease. There are currently no approved drugs to treat NASH, which could lead to chronic liver damage and liver cancer. Ultimately, this could lead up to the need for a liver transplant.

Partnership with LG Chem

Sprint is running this project in collaboration with its Korean conglomerate licensing partner LG Chem. Together, Sprint and LG Chem are working on a new mechanism of action and a new target protein, which they have shown to be involved in fat storage in the liver and other tissues, inflammatory response and fibrosis in NASH. The goal is to develop treatments that can slow the development of both the early and late stages of NASH, either as a monotherapy or in combination with other NASH preparations. Through this collaboration, LG Chem is financing all costs related to the project. In addition to upcoming preclinical and clinical milestone payments, Sprint invoices the costs related to its work on the project. For the third quarter, Sprint invoiced SEK4m.

LG Chem has four different business areas: Petrochemicals, Energy Solutions, Advanced Materials and Life Sciences. The Life Sciences division was incorporated into LG Chem as late as 2017, with the goal to be the company's 'new growth engine in the mid to long term'. In 2019, the division's sales totalled to KRW0.57trn, which converts to around SEK4,6bn. The company has the ambitious goal of being one of the best global pharmaceutical companies, which will require heavy investments in R&D. LG Chem currently has over 20 ongoing projects, ranging from those in the research phase to some candidates that have reached Phase 3.

Project VADA

The VADA project is Sprint's third oncology project, aimed at an unnamed protein family. The main goal is to produce drugs targeted at a family of proteins involved in the cell's DNA damage response (DDR), cell cycle control and inflammatory signalling. Elevated levels of this protein family are found in a variety of cancers and correlate to poorer survival in patients with cancer in, for example, the liver, kidney and pancreas. Among the possible treatments Sprint could develop based on this project, the company believes treatments in combination with other drugs that inhibit DDR or in combination with radiation therapy are most likely. In addition, Sprint sees potential synergies with various immunotherapies.

Business model

The business model is characterised by early revenues from upfront payments in licencing agreements and continual revenues from project financing with milestone and royalty agreements. We argue the setup is derisked compared with traditional pharma companies focusing on a single project from start to finish. Instead, the projects focus on the preclinical phase and the licensing partner often takes both the clinical and commercial risk.

Sprint's revenues consist of four different revenue streams.

- **Access payment.** First, Sprint receives an access payment, which licensing partner pays when it signs the agreement.
- **Project financing.** The next step is the revenue stream through financing to keep the project running. Usually, and as seen in recent project agreements such as PIP4K2 and NASH, the partners have paid for all the operating expenditure related to the project. In our view, this set-up creates stability in the last phase of the development, before it is time for the partner to take over and move the project into the clinical phase. The access payment and operating expenses financing set-up provides both a continuous revenue stream and revenues early on in the drug development cycle, which we see as an important cornerstone for the stability of the business model.
- **Milestone payment.** The third income stream is the milestone payments received when projects reach predefined goals. The stages are different for each project and can occur either when Sprint is carrying out operations or once the licensing partner has taken over.
- **Royalties.** The fourth and final type of payment is royalties. Receiving these requires the drug to reach the market, royalties are determined as a percentage of sales of the drug. This means that Sprint gets some of the milestone payments and royalties while having no costs related to the project.

As Sprint has focused its operations on the preclinical phase, its process requires fewer resources per project than driving the drug through the different clinical trials and the commercialisation phase, both of which are very resource heavy. This allows Sprint to operate several different drug candidates instead of running only one or a few through all phases. We see such a focus as a strategic advantage for Sprint, because it lowers the project risk (an otherwise relevant risk in the sector in general) and because of the preclinical expertise it provides to the pharmaceutical industry.

Valuation

We base our valuation of Sprint on a sum-of-the-parts valuation, which suggests a fair value range of SEK63-407m, corresponding to a value per share of between SEK5.1 and SEK33.0 per share.

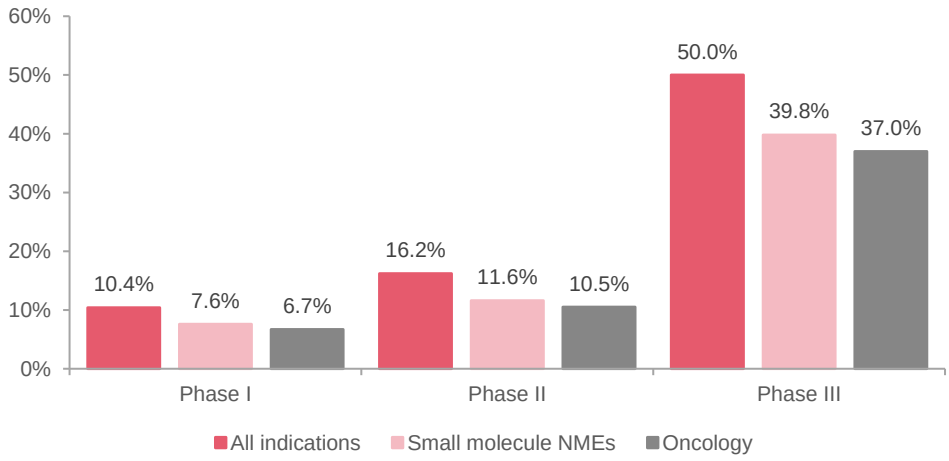
We have not considered any potential royalty streams from the company's current collaboration and licence agreements with Petra Pharma and LG Chem, as we view these to be highly uncertain and believe that the likelihood of approval is low given that there is no reported clinical data yet. If approval is successful, we believe the industry standard royalty level would mean a low to mid-single digit percentage.

We have assessed Sprint's project pipeline using a risk-adjusted net present value calculation. In our base case scenario, we consider only signed collaboration and licence agreements, i.e. PIP4K2 (AML) with Petra Pharma and STK25 (NASH) with LG Chem. In our bull case, we consider the additional potential from a signed deal regarding Sprint's immuno-oncology project Vps34 with a similar deal size to PIP4K2 (USD240m). In our bear case, we exclude NASH from our valuation.

Likelihood of approval and phase success assumptions

Drug development is highly uncertain and characterised by several challenges throughout the development and clinical phases. In order to consider success/failure rates (i.e. attrition rates) in different phases, we use data from the most comprehensive survey we know of: *Clinical development success rates for investigational drugs* by Michael Hay et al, published in *Nature* in January 2014. The study is the largest and most comprehensive of its kind, examining the success rates of 835 drug developers, including biotech companies and specialty and large pharmaceutical firms from 2003 to 2011. The study analyses the success rates for over 7,300 independent drug development paths by clinical phase, molecule type, disease area and lead versus non-lead indication status.

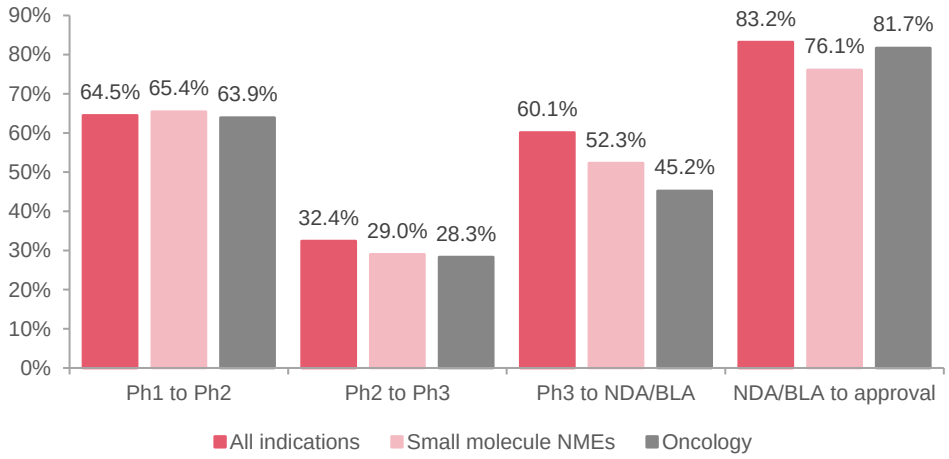
Chart 4: Phase likelihood of approval (LOA)



Source: Hay et al. 2014, Danske Bank Equity Research

While the study considers average clinical development historical probabilities and phase success versus failure, we believe additional risks such as financial risk, technology risk and losing key personnel to be additional factors to consider before making an investment in Sprint. In order to adjust for potential negative pitfalls, we use a relatively high WACC of 17.5%, compared with 12.5% for Veloxis Pharmaceuticals and Orphazyme in our Danish healthcare universe and 6.6% for Swedish Orphan Biovitrum in our Swedish universe. Although Sprint has signed three partnership agreements since it began operations (MTH1 inhibitors with Bayer in 2015, terminated in 2016 due to target devalidation), as yet no project has entered the clinical phase. We believe Sprint's project PIP4K2 will be the first project to enter the clinical phase, in 2020.

Chart 5: Phase success



Source: Hay et al. 2014, Danske Bank Equity Research

Project PIP4K2

We believe Sprint's lead candidate PIP4K2 has the most promising commercial potential given its buy-in from its licence partner Petra Pharma and its close collaboration with Petra Pharma's co-founder Dr Cantley. Petra Pharma is well financed and founded by AbbVie, Eli Lilly, Johnson Innovation and Pfizer Venture Investments, together with others.

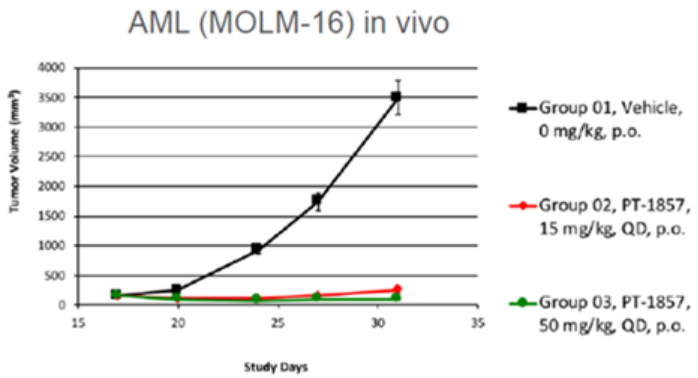
Treatment area and mode of action

PIP4K2 is a first-in-class treatment for patients with haematological malignancies such as acute myeloid leukaemia (AML). Phosphoinositide signalling is central to many cellular processes including the cell survival pathway known as autophagy (natural degradation and recycling of cellular components).

The company's working thesis is that by inhibiting the PIP4K2 enzymatic activity the tumorigenesis process should slow, i.e. inhibition will lead to tumour growth suppression. Sprint has developed fragment-based drug-like inhibitors of PIP4K2 enzymes, targeting the regenerative feature known as late-stage autophagy that enables cancer cells to survive and proliferate. In vivo studies demonstrate that these inhibitors induce rapid regression of an AML tumour (MOLM-16) in a mouse xenograft model (as shown below). These studies show a dose-dependent control of tumour growth with sustained regression of tumour volume. The mice's body weights were stable over the course of the study, suggesting the molecule is well tolerated in this dosing protocol.

Preclinical disease models also suggest favourable predicted human pharmacokinetics, according to the company. Inhibiting PIP42K could also deprive certain cancer cells of the ability to withstand chemotherapy and other therapeutic stresses. The company presented pre-clinical data (abstract) regarding *'development of inhibitors of PIP4K2 as a treatment for patients with hematologic malignancies'* at ASH in November 2018.

Chart 6: Acute myeloid leukaemia (MOLM-16) in vivo



Source: McElligott Blood 2018 Development of Inhibitors of PIP4K2 As a Treatment for Patients with Hematologic Malignancies

Valuation of project PIP4K2

In 2016, Sprint signed a licencing deal with Petra Pharma regarding its project PIP4K2. In total, the deal amounts to a total of USD240m plus royalties (not disclosed). Sprint received an upfront payment of USD3m in 2016 and a first milestone payment of USD2m in 2018, together with smaller amounts of research-related revenues (not disclosed). Sprint expects the next milestone payment when the first patient is included in a clinical study, which it expects to start in 2020. As this project has gone further than any other project in the company's history, we expect the milestone payment to be the largest payment Sprint has ever received.

Status: IND-enabling studies are ongoing for the start of clinical trials (Phase 1), which we expect in 2020.

We estimate the likelihood of approval for PIP4K2 from Phase I to new drug approval (NDA) by the FDA to be c.6.7%, in line with oncology small molecule aggregate historical statistics (see the statistics above from Hey et al. 2014).

In our scenario, we assign an expected timetable from start to completion regarding clinical phases of a total of three years (considers potential delays and phase read-out times) and NDA to approval of two years. We estimate the deal value has a ladder-approach payout ratio, with the largest weight to be set on completion of a Phase III registration study. Historically, safety and toxicity have been common pitfalls for new small molecule drugs within oncology, with an estimated phase success of c.28% between Phase 2 and Phase 3. Phase 2 primarily evaluates safety and toxicity, together with efficacy. Our risk-weighted revenue model considers the estimated likelihood of phase success in each separate phase.

Table 4: Detailed assumptions

Partner	Project	Est. phase success	Phase LOA	Non-probability adj. sales	2020	2021	2022	2023	2024	2025
Petra Pharma	PIP4K2									
	Pre-clinical									
5%	Phase 1	63.9%	6.7%	115	38	38	38			
12%	Phase 2	28.3%	10.5%	276					92	92
70%	Phase 3	45.2%	36.9%	1,613						
13%	NDA/BLA to approval	81.7%	81.7%	300						
	Net sales			**2,304**	**38**	**38**	**38**	**0**	**92**	**92**
	Net sales risk adjusted			1,126	25	25	25	0	26	26
	Deal value (USDm)	240								
	USD/SEK	9.60								
	Deal value (SEK)	2304								
	Net value of project (SEKm)	**263**								
	NPV per share (SEK)	21								
	Phase	Pre-clinical								
	Implied probability	48.9%								
	WACC	17.5%								

Source: Danske Bank Equity Research estimates

Project STK25 (NASH)

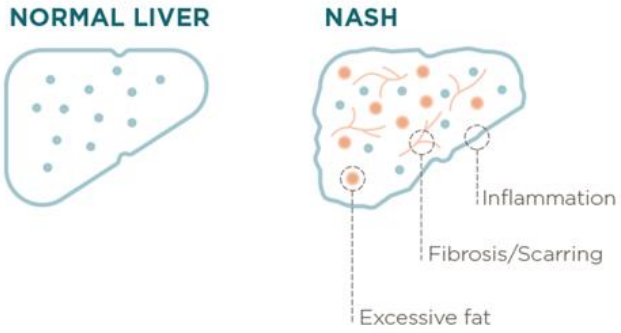
In 2019, Sprint signed a collaboration deal with LG Chem regarding its project STK25 NASH. In total, the deal amounts to a total of USD230m plus royalties (not disclosed). LG Chem paid an upfront payment of USD2.5m in 2019, milestones of USD1.5m and R&D collaboration related funding of USD1m. LG Chem is financing all costs related to the project. Sprint expects the next milestone to be a candidate ready for preclinical testing. We estimate that if drug discovery and preclinical results are successful, the NASH project could enter into clinical trials in 2023.

Status: The project is in the early-stage drug-discovery phase.

Treatment area and mode of action)

NASH is a chronic, progressive liver disease that occurs when excessive amounts of fat build up in the liver, damaging hepatocytes. NASH is driven by inflammation, which results in fibrosis. Despite its high medical importance, no treatments are available for treatment of NASH. A liver transplant is the only option for NASH cirrhosis and advanced cell damage following fibrosis in which the liver is permanently damaged and scarred and unable to function properly. By 2020, NASH is projected to overtake hepatitis C as the leading cause of liver transplants in the US (source Y. Sumida, 2019). NASH is common in people with obesity and type 2 diabetes. High triglycerides (TAG) levels correlate well with NASH prevalence. The gold standard to confirm the diagnosis of NASH is a liver biopsy, while non-invasive technologies to detect fibrosis are becoming more available.

Figure 5: Normal vs NASH liver



Source: Intercept Pharmaceuticals website

Recent studies suggest serine/threonine kinase 25 (STK25), a protein, as a key regulator of liver lipid metabolism, whole-body glucose and insulin homeostasis and the progression of NAFLD/NASH. Sprint's working thesis is that it can slow the fat storage process in liver and other tissues causing inflammation and fibrosis (reducing triglyceride levels) by identifying serine/threonine protein kinase (STK)25 as a critical regulator, by inhibiting the target protein STK25. The literature we have read seems to suggest a positive correlation between STK25 expression and NASH development.

Valuation of STK25

We estimate the likelihood of approval for the STK25 NASH-project from Phase I to NDA by the FDA to be c.7.5%, in line with small molecule new molecular entity aggregate statistics. As a reminder, Sprint's NASH project is still in the early drug discovery phase.

In our scenario, we assign an expected timetable from start to completion of the pre-clinical and clinical phases of a total of three years (considers potential delays and phase read-out times) and NDA to approval of two years. We estimate the deal value has a ladder-approach payout ratio, with the largest weight to be set on completion of a Phase 3 registration study. Historically, safety and toxicity have been common pitfalls regarding new small molecule drugs, with estimated phase success of c.29% between Phase 2 to Phase 3. Phase 2 primarily evaluates safety and toxicity, together with efficacy. Our risk-weighted revenue model considers the estimated likelihood of phase success in each separate preclinical and clinical phase.

Table 5: Detailed assumptions

Partner	Project	Estimated phase success	Phase LOA	Non-probability adj. sales	2020	2021	2022	2023	2024	2025
LG Chem	STK25 (NASH)									
	Pre-clinical	50.0%		25	10	10	5			
5%	Phase 1	65.4%	7.5%	110				37	37	37
12%	Phase 2	29.0%	11.5%	265						
70%	Phase 3	52.3%	39.8%	1.546						
13%	NDA/BLA to approval	76.1%	76.1%	287						
	Net sales			**2.233**	**10**	**10**	**5**	**37**	**37**	**37**
	Net sales risk adj.			1.193	10	5	3	24	24	24
	Deal value (USDm)	230								
	USD/SEK	9.60								
	Deal value (SEK)	2208								
	Net value of project (SEKm)	183								
	NPV per share (SEK)	15								
	Phase	Pre-clinical								
	Implied probability	53.4%								
	WACC	17.5%								

Source: Danske Bank Equity Research estimates

Project VPS34

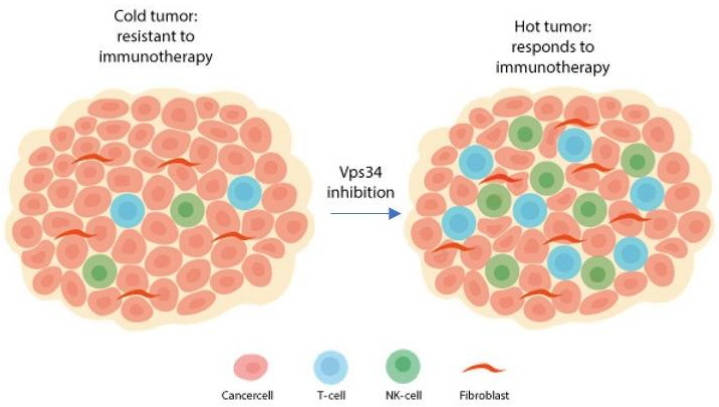
Sprint has internally developed a project within immuno-oncology called VPS34, which according to the company's latest update is in discussions with potential stakeholders. The company is conducting complementary activities on the back of requests from potential stakeholders. We believe the likelihood to be high that Sprint may sign an out-licence deal regarding VPS34 in 2020. However, our estimates conservatively reflect a deal being done in 2023.

Status: Project VPS34 is in the preclinical phase.

Treatment area and mode of action

VPS34 is a novel mechanism of action within immuno-oncology. The working thesis is that by inhibiting the lipid kinase VPS34, preclinical data from a syngeneic melanoma suggests VPS34 inhibition facilitates an immune response by increasing the infiltration of immune cells (T-cells, NK-cells and macrophages) in the tumour bed post-inoculation. The mode of action can thus turn a cold tumour with suppressed immune cells to a hot tumour with activated immune cells and, hence, respond to immunotherapy.

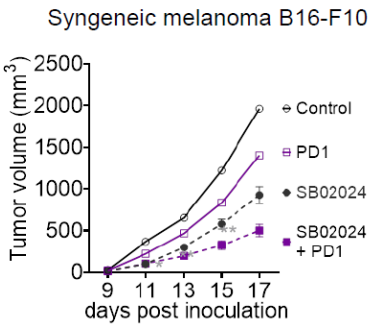
Figure 6: Cold and hot tumour



Source: Sprint Bioscience investor presentation

Sprint has tested its VPS34 project in a mice animal model as a monotherapy and in combination with the checkpoint inhibitor PD-1, showing promising preclinical results.

Chart 7: Syngeneic melanoma B16-F10



Source: Sprint Bioscience investor presentation

Valuation of VPS34

In our estimates, we consider net sales of VPS34 (substance SB02024). However, we exclude the project in our base-case valuation of Sprint, as the company has not yet signed a licence agreement. In our bull-case scenario, we consider the potential in reaching a deal regarding VPS34. We assume that the value of the VPS34 deal could amount to a total USD240m (a similar size to PIP4K2 with Petra Pharma). CEO Jessica Martinsson wrote in the Q3 report that the company has initiated complementary activities in order to increase the attractiveness of the project.

In our bull scenario, we estimate the likelihood of approval for VPS34 from Phase I to NDA from the FDA to be c.6.7%, in line with oncology small molecule aggregate historical statistics (see *the statistics above from Hey et al 2014*). In our bull scenario, we assign an expected timetable from start to completion regarding clinical phases of a total of three years (considers potential delays and phase read-out times) and an NDA to approval time of two years. We estimate the potential clinical start for VPS34 to be in 2023 if successful with IND-enabling studies and Sprint out-licensing the project to a partner. We estimate the deal value is similar to the project with Petra Pharma with a ladder-approach payout ratio, with the largest weight to be set on completion of a Phase 3 registration study.

Table 6: Detailed assumptions

Partner	Project	Est. phase success	Phase LOA	Non-probability adj. sales	2020	2021	2022	2023	2024	2025
Unknown	VPS34									
	Pre-clinical									
5%	Phase 1	63.9%	6.7%	115				38	38	38
12%	Phase 2	28.3%	10.5%	276						
70%	Phase 3	45.2%	36.9%	1,613						
13%	NDA/BLA to approval	81.7%	81.7%	300						
	Net sales			**2,304**	**0**	**0**	**0**	**38**	**38**	**38**
	Net sales risk adjusted			1,126	0	0	0	25	25	25
	Deal value (USDm)	240								
	USD/SEK	9.60								
	Deal value (SEK)	2304								
	Net value of project (SEKm)	**162**								
	NPV per share (SEK)	13								
	Phase	Pre-clinical								
	Implied probability	48.9%								
	WACC	17.5%								

Source: Danske Bank Equity Research estimates

Danske Bank

Valuation summary

Table 7: Sum-of-the-parts valuation

Base case valuation Compound	Indication	Phase	Out-licensed	Deal value (USDm)	Fair value (SEKm)	NPV per share (SEK)
PIP4K2	Acute myeloid leukaemia	Pre-clinical	2016	240	263	21
STK25	NASH	Pre-clinical	2019	230	183	15
Vps34		Pre-clinical	n.a.	n.a.	0	0
VADA		Drug discovery	n.a.	n.a.	0	0
Pipeline, total				**470**	**446**	**36**
SG&A & overhead costs					-236	-19
Cash					8	1
Value of tax asset (accumulated losses)					27	2
Fair value	**(WACC 17.5%)**				**245**	**19.9**
WACC						
17.5%						
Number of shares (m)						
12.34						
USD/SEK		**9.60**				

Source: Danske Bank Equity Research estimates

Table 8: Valuation range, three valuation scenarios

	Low fair value (SEKm)	Base fair value (SEKm)	High fair value (SEKm)
PIP4K2	263	263	263
STK25	0	183	183
Vps34	0	0	162
Pipeline, total	**263**	**446**	**608**
SG&A & overhead costs	-236	-236	-236
Cash	8	8	8
Value of tax asset	27	27	27
Fair value	**63**	**245**	**407**
Per share (SEK)	5.1	19.9	33.0

Source: Danske Bank Equity Research estimates

Estimates

Revenue forecasts

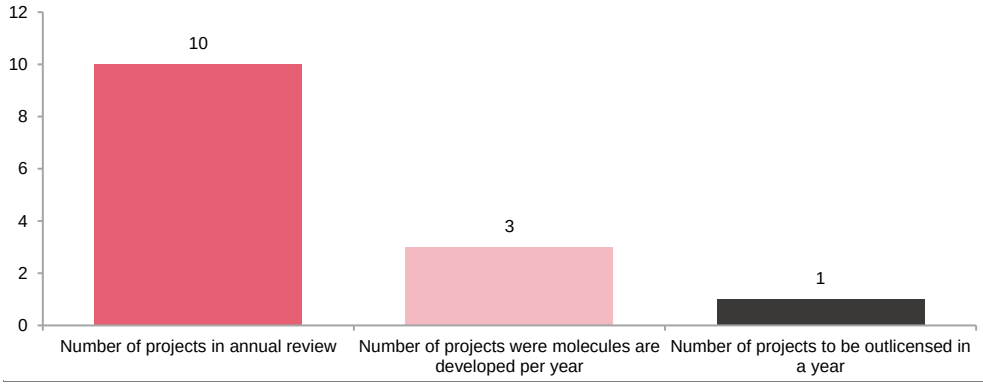
All our net sales estimates regarding Sprint are risk adjusted and milestone based regarding the projects PIP4K2, STK25 (NASH) and VPS34. We consider upcoming revenues assuming Sprint makes a deal for the company's project VPS34 (no partner currently). We do not include any research-related revenue or grants in our sales estimates. However, we expect the likelihood of receiving these to be relatively high. Regarding the timeline, we expect the Sprint PIP4K2 project to generate the first clinical-related milestone.

Operating expenses and earnings forecasts

We expect the company to have a run-rate operating expenses (EBIT) of approximately SEK-53m on an annual basis. As the business model includes the undertaking of out-licensing agreements, Sprint does not need to build out a marketing and sales organisation. Thus, Sprint's main costs are R&D-related expenses and personnel expenses.

We believe Sprint is capable of producing one new candidate it can out-license per year with its current structure. We believe the company needs to process and evaluate around 10 projects annually, with three projects proceeding and molecules being developed.

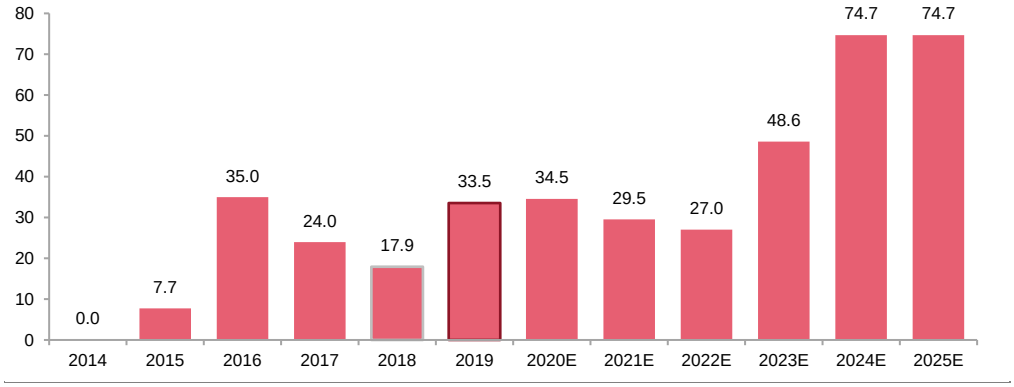
Chart 8: Number of projects from review to out-licensing per year



Source: Danske Bank Equity Research estimates

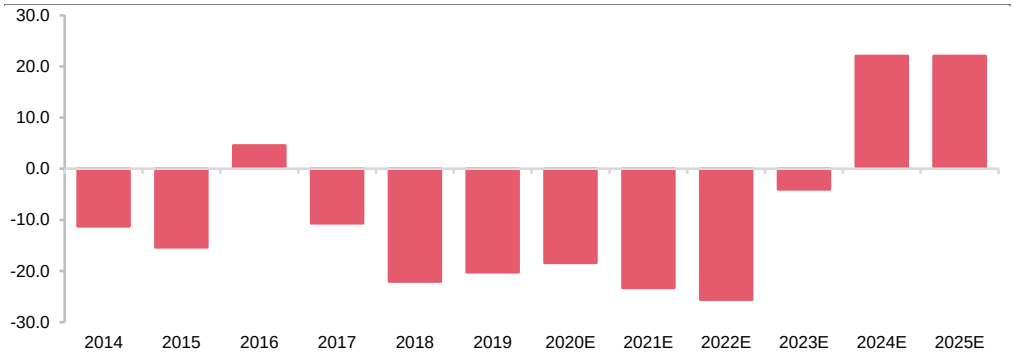
We estimate that Sprint will reach breakeven at the EBIT level by 2024. The company's business model entails high economies of scale. As Sprint does not have any ongoing costs for projects once they have been out-licensed, the incremental EBIT margin is practically 100% on milestone-associated revenues.

Chart 9: Net sales (risk adjusted) estimates (SEKm)



Source: Danske Bank Equity Research estimates

Chart 1: EBIT estimates (SEKm)



Source: Danske Bank Equity Research estimates

Table 9: Profit and loss estimates

SEKm	2020E	2021E	2022E	2023E	2024E	2025E
Revenue model						
PIP4K2	25	25	25	0	26	26
STK25 (NASH)	10	5	3	24	24	24
VPS34	0	0	0	25	25	25
Sum (risk adjusted)	**35**	**30**	**27**	**49**	**75**	**75**
Operating expenses						
COGS	-11	-11	-11	-11	-11	-11
Other external costs	-16	-16	-16	-16	-16	-16
Personnel costs	-26	-26	-26	-26	-26	-26
Depreciation & amortisation	-1	-1	0	0	0	0
Other	0	0	0	0	0	0
Sum	**-53**	**-53**	**-53**	**-53**	**-53**	**-53**
EBIT	**-18**	**-23**	**-26**	**-4**	**22**	**22**
EBIT margin	-52%	-78%	-93%	-8%	29%	29%

Source: Danske Bank Equity Research estimates

Consider financial risk

We believe Sprint is at high risk of not having sufficient funds to fund its operations and the development of its upcoming pipeline for the next 12 months and, therefore, it may have to depend on investor funding. Based on our current estimates, we believe Sprint needs to do a capital fundraising to fund the development of upcoming candidates in the pipeline to bridge the gap until larger upfront payments are made and more projects are out-licensed.

Table 10: Revenue forecasts 2020E – 2035E

SEKm	20E	21E	22E	23E	24E	25E	26E	27E	28E	29E	30E	31E	32E	33E	34E	35E
PIP4K2	25	25	25	0	26	26	26	0	243	243	243	122	122	0	0	0
STK25 (NASH)	10	5	3	24	24	24	0	26	26	26	0	269	269	269	109	109
VPS34	0	0	0	25	25	25	0	26	26	26	0	243	243	243	122	122
Total net sales risk adj.	**35**	**30**	**27**	**49**	**75**	**75**	**26**	**52**	**295**	**295**	**243**	**635**	**635**	**512**	**232**	**232**

Source: Danske Bank Equity Research estimates

Management and Board composition

Management

Jessica Martinsson – Chief Executive Officer

Jessica Martinsson is one of the co-founders of Sprint and took up her role as CEO in June 2019. She has extensive experience of the pharmaceutical industry, gained from her time as a Research Scientist at companies such as Biovitrum and Pharmacia. Her focus has been on small molecular medicine, more specifically on metabolic diseases, inflammation and cancer. Jessica holds a Master's degree in Chemistry from Uppsala University.

Jessica holds 255,000 shares.

Martin Andersson – Chief Scientific Officer

Martin Andersson is one of the co-founders of Sprint and has acted as Head of Research since the company's founding in 2009. Martin holds a PhD in Biochemistry from Stockholm University, Sweden. In addition to his academic experience at Stockholm University, Martin worked as a Senior Scientist at AstraZeneca between 2003 and 2008.

Martin holds 257,833 shares.

Anne-Marie Wenthzel – Chief Business Officer

Anne-Marie Wenthzel assumed her role as Head of Business Development in 2011. She has broad experience within the pharmaceutical industry. She has acted as a Research Scientist at Sahlgrenska University Hospital, focusing on internal medicine, and more client facing roles as Product Specialist, Key Account Manager and CEO. Anne Marie holds a PhD. Licentiate in Microbiology from Stockholm University.

Anne-Marie holds 174,384 shares and 12,500 warrants.

Karin Almqvist Liwendahl – Chief Financial Officer

Karin joined Sprint as Chief Financial Officer in 2019. She has extensive experience in primarily telecoms and finance, working for Telia from 2001 to 2017, where she held various positions including CFO, MD and other senior positions in Sweden, Russia and Azerbaijan. Before that, Karin worked at Ericsson, where she was in charge of Investor Relations from 1994 to 2000. Karin holds a Bachelor's degree in Business and Economics from Lund University.

Karin does not hold any shares in Sprint.

Board of directors

Rune Nordlander – Chair

Rune took up his role as Chair of the Board in 2010. He is the founder of First Entrepreneurship Fund, investing in growth companies with strong entrepreneurial teams. Rune has extensive management experience. He has built up the IT company Endevo AB (which is currently part of Symbio) and held various positions in the IT consultancy Frontec (which is part of Acando). Rune holds a Master's degree from the Royal Institute of Technology (KTH) and an Executive MBA from Uppsala University.

Rune holds 1,865,944 shares (privately and via his own company) in Sprint.

Fredrik Lehmann – member of the Board

Fredrik has been a member of the board since 2019. He has over 15 years of drug development experience and is currently acting as Head of Research at Oncopeptides and CEO of EpiEndo Pharmaceuticals. Before that, he worked at Pharmacia, Biovitrum, OT Chemistry and Recipharm. Fredrik also founded and operated six companies within the life science industry. Fredrik holds an MSc. in Chemistry from Uppsala University and a PhD in Pharmaceutical Chemistry from Gothenburg University.

Fredrik holds 4,000 shares in Sprint.

Charlotta Liljebris – member of the Board

Charlotta is a member of the board since 2017. She has more than 25 years of experience within the pharmaceutical industry, and is currently acting as R&D Manager at XSpray Pharma. Previously, Charlotta has been responsible for business development at Orexo, Vice President of Development at Aprea, focusing on oncology projects and project management at Biovitrum. She holds a Ph.D. in Pharmaceutical Chemistry from Uppsala University.

Charlotta does not hold any shares in Sprint.

Jan-Erik Nyström – member of the Board

Jan-Erik has been a member of the Board since 2019. He has more than 25 years' experience in industrial pharmaceutical research, with 21 years in roles such as Head of Pharmaceutical Chemistry and Research Director at AstraZeneca. Jan-Erik has extensive experience from various management teams and boards. He has several engagements for the Life Science sector through his company Alveiro LifeScience. His areas of expertise are early drug development, drug chemistry and intellectual property rights. Jan-Erik holds a Master's degree in Chemistry and a PhD from the Royal Institute of Technology (KTH), where he also lectures in organic chemistry.

Jan-Erik does not hold any shares in Sprint.

Shareholders

Table 11: Ownership structure

Owners	Number of shares	Capital & votes
Första Entreprenörsfonden	1,522,224	12.3%
Nordnet Pensionsförsäkring	848,752	6.9%
Ivar Nordqvist	761,169	6.2%
Avanza Pension	751,214	6.1%
Pär Nordlund	653,385	5.3%
Staffan Halldin	582,000	4.7%
Kudu AB	424,313	3.4%
Håkan Roos (RoosGruppen)	374,829	3.0%
WTS Invest AB	342,000	2.8%
Ludvig Löngårdh	313,333	2.5%
Other	5,054,341	43.5%
Total	**11,627,560**	**100.00%**

Source: Modular Finance AB (verified 31 December 2019)

Rights issues

Since the IPO, Sprint has done four rights issues.

- **March 2016** – Sprint carried out a rights issue of SEK19.2m to a valuation of SEK242.0m pre-money. It targeted this issue at a limited circle of investors.

- **September 2017** – Sprint did another rights issue for SEK11m. The valuation was SEK151.9m pre-money and directed at a limited circle of institutional and private investors.
- **February to March 2018** – The largest rights issue of the four was made for an amount of SEK37.9m. Sprint did this for a valuation of SEK113.7m pre-money, excluding options connected to the issue.
- **October 2019** – The most recent directed issue was done for an amount of SEK10.01m.

Risks

Drug development is risky and Sprint is no exception. Investments in such companies, include an investment in Sprint, are associated with considerably above-average risk. Its research projects may fail or the company could run into liquidity problems if the expected revenues do not materialise. Investors should also consult the risk factors in the IPO prospectus.

- **Biotech sentiment.** If the economy suffers a downturn, liquidity is likely to tighten and the high-risk asset classes could lose favour, leading to tough times for biotech investments.
- **Key personnel and recruitment.** Although this risk has decreased over time, the company is still very dependent on key personnel and qualified employees. Should the company lose any of its key personnel, this could delay or cause interruptions in the development of the research projects.
- **Project development.** It is not certain that Sprint will be able to identify drug candidates with sufficient efficacy and qualify for certain safety measures in order to continue with a project. This could be very costly and would have a significant negative effect on the company's financial position. There is also a risk that Sprint must cancel projects for which it has concluded collaboration agreements, thereby losing the revenue opportunities. This could have a serious effect on the company's operations and earnings.
- **Immaterial rights.** There is a possibility that Sprint will not be able to patent the products or future discoveries, that Sprint may not be able to maintain patents granted or that patents granted will not adequately protect the company's rights. Key factors for success include the company's ability to obtain and defend patent protection for potential products, making this a substantial risk.
- **Financial risk.** Sprint does not currently have any income related to the development of the VPS34, the VADA project and the future pipeline. This means costs could exceed the payments from other funded projects, leading to a shortage of funds. This could eventually create the need for another rights issue or other types of external funding. This increases the financial risk.
- **Technology risk.** A key risk factor when investing in biotech companies is the technology used to develop the drug candidates, as this could prove inadequate and stop the company from securing satisfactory clinical results and thus launching its product.

Company summary

Company information

Sprint Bioscience
Hälsovägen 7, Huddinge
Sweden
sprintbioscience.com

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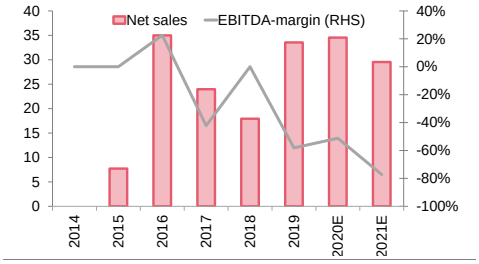
Hälsovägen 7, Huddinge
Sweden
sprintbioscience.com

Main shareholders

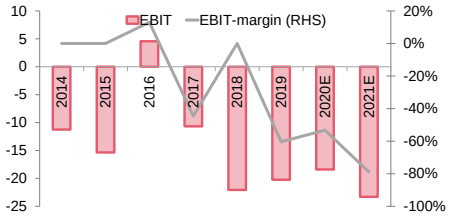
Name	Votes (%)	Capital (%)
Första Entreprenörsfonden	12.3%	12.3%
Nordnet Pensionsförsäkring	6.9%	6.9%
Ivar Nordqvist	6.2%	6.2%
Avanza Pension	6.1%	6.1%
Pär Nrdlund	6.1%	5.3%

Name	Votes (%)	Capital (%)
Första Entreprenörsfonden	12.3%	12.3%
Nordnet Pensionsförsäkring	6.9%	6.9%
Ivar Nordqvist	6.2%	6.2%
Avanza Pension	6.1%	6.1%

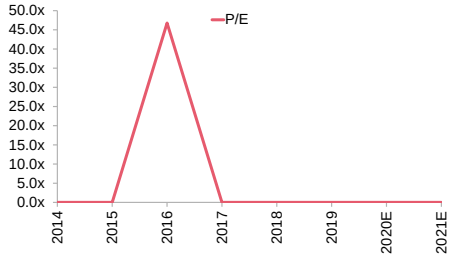
Net sales and EBITDA margin (SEKm)



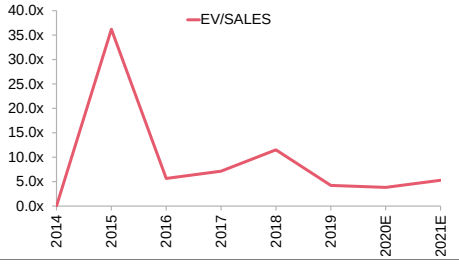
EBIT and EBIT margin (SEKm)



P/E NTM



EV/sales NTM (x)



Source: FactSet, Company data, Danske Bank Equity Research estimates

Summary tables

INCOME STATEMENT

Year end Dec, SEKm	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Net sales	0	8	35	24	18	34	35	30	27	49
Cost of sales & operating costs	-15	-29	-39	-44	-49	-54	-53	-53	-53	-53
EBITDA	**-11**	**-15**	**8**	**-10**	**-21**	**-20**	**-18**	**-23**	**-25**	**-4**
EBITDA, adj.	-11	-15	8	-10	-21	-20	-18	-23	-25	-4
Depreciation	-0	-0	-1	-0	-0	-0	-0	-0	-0	-0
EBITA	**-11**	**-15**	**7**	**-10**	**-22**	**-20**	**-18**	**-23**	**-25**	**-4**
EBIT incl. EO, bef. ass.	**-11**	**-15**	**5**	**-11**	**-22**	**-20**	**-18**	**-23**	**-26**	**-4**
EBIT, adj.	-11	-15	5	-11	-22	-20	-18	-23	-26	-4
Financial items, net	-0	-0	-0	-0	-0	-1	0	0	0	0
Pre-tax profit	**-11**	**-15**	**5**	**-11**	**-22**	**-22**	**-18**	**-23**	**-26**	**-4**
Net profit, rep.	**-11**	**-15**	**5**	**-11**	**-22**	**-22**	**-18**	**-23**	**-26**	**-4**
Net profit, adj.	-11	-15	5	-11	-22	-22	-18	-23	-26	-4

CASH FLOW

SEKm	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EBITDA	-11	-15	8	-10	-21	-20	-18	-23	-25	-4
Change in working capital	0	16	-0	-13	2	-7				
Net interest paid	-0	-0	-0	0	-0	-1				
Taxes paid										
Other operating cash items	0	0	0	0	0					
Cash flow from operations	**-11**	**1**	**8**	**-23**	**-19**	**-28**	**-18**	**-23**	**-25**	**-4**
Capex	-4	-6	-10	-9	-11	-0	-1	-1	-1	-1
Div to min										
Free cash flow	**-15**	**-5**	**-2**	**-32**	**-30**	**-28**	**-19**	**-24**	**-26**	**-5**
Disposals/(acquisitions)										
Free cash flow to equity	**-15**	**-5**	**-2**	**-32**	**-30**	**-28**	**-19**	**-24**	**-26**	**-5**
Dividend paid										
Share buybacks										
New issue common stock	28		19	10	38	36				
Incr./(decr.) in debt	-0	-1	-1	-1	12	-12				
Minorities & other financing CF	-13	6	8	0	-7	-2				
Cash flow from financing	**15**	**5**	**26**	**9**	**43**	**22**	**0**	**0**	**0**	**0**
Disc. ops & other							1			
Incr./(decr.) in cash	**0**	**0**	**24**	**-22**	**13**	**-6**	**-18**	**-24**	**-26**	**-5**

BALANCE SHEET

SEKm	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Cash & cash equivalents			24	1	15	8	-10	-34	-60	-65
Inventory										
Trade receivables	1	6	3	3	4					
Other current assets	14	9				9				
Goodwill										
Other intangible assets	10	15	21	29	39		0	0	1	1
Fixed tangible assets	1	1	2	2	2	2	2	3	3	4
Associated companies						0	0	0	0	0
Other non-current assets										
Total assets	**25**	**31**	**50**	**35**	**59**	**19**	**-7**	**-30**	**-56**	**-60**
Shareholders' equity	**20**	**5**	**28**	**28**	**37**	**11**	**-7**	**-31**	**-56**	**-60**
Of which minority interests										
Current liabilities	3	24	20	7	10	8				
Interest-bearing debt	2	2	1		12					
Pension liabilities										
Oth non-curr. liabilities										
Total liabilities	**5**	**26**	**21**	**7**	**22**	**8**	**0**	**0**	**0**	**0**
Total liabilities and equity	**25**	**31**	**50**	**35**	**59**	**19**	**-7**	**-31**	**-56**	**-60**
Net debt	2	2	-23	-1	-3	-8	10	34	60	65

Source: Company data, Danske Bank Equity Research estimates

Danske Bank

Summary tables

PER SHARE DATA	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
No. of shares, fully diluted (y.e.) (m)	6.5	6.5	7.1	7.6	10.1	12.3	12.3	12.3	12.3	12.3
No. of shares, fully diluted (avg.) (m)	6.5	6.5	6.8	7.3	8.8	11.2	12.3	12.3	12.3	12.3
EPS (SEK)	-1.75	-2.37	0.67	-1.46	-2.51	-1.92	-1.49	-1.89	-2.07	-0.33
EPS adj. (SEK)	-1.75	-2.37	0.67	-1.46	-2.51	-1.92	-1.49	-1.89	-2.07	-0.33
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CFFO/share (SEK)	-1.6	0.1	1.2	-3.1	-2.2	-2.5	-1.4	-1.8	-2.1	-0.3
Book value/share (SEK)	3.10	0.74	4.03	3.71	3.69	0.89	-0.60	-2.49	-4.56	-4.89

MARGINS AND GROWTH	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EBITDA margin	n.m.	n.m.	22.6%	-42.2%	n.m.	-58.2%	-51.2%	-77.2%	-93.6%	-7.7%
EBITA margin	n.m.	n.m.	20.2%	-42.8%	n.m.	-58.7%	-51.7%	-77.6%	-93.9%	-7.8%
EBIT margin	n.m.	n.m.	13.0%	-44.5%	n.m.	-60.3%	-53.3%	-78.9%	-94.7%	-8.3%
EBIT adj margin	n.m.	n.m.	13.0%	-44.5%	n.m.	-60.3%	-53.3%	-78.9%	-94.7%	-8.3%
Sales growth			n.m.	-31.5%	-25.2%	87.0%	3.0%	-14.5%	-8.5%	79.8%
EBITDA growth		-39.3%	n.m.	n.m.	n.m.	8.6%	9.3%	-28.9%	-11.0%	85.2%
EBITA growth		-38.6%	n.m.	n.m.	n.m.	8.5%	9.3%	-28.3%	-10.7%	85.0%
EPS adj growth		-35.2%	n.m.	n.m.	-71.9%	23.7%	22.4%	-26.7%	-9.9%	84.2%

PROFITABILITY	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
ROIC (after tax, incl. GW, adj.)	-99.5%	-106.0%	76.0%	-66.1%	-72.1%	-108.8%	-742.3%	-876.3%	-755.1%	-92.5%
ROIC (after tax, excl. GW, adj.)	-99.5%	-106.0%	76.0%	-66.1%	-72.1%	-108.8%	-742.3%	-876.3%	-755.1%	-92.5%
ROE (adj.)	-112.8%	-123.3%	27.2%	-37.8%	-68.0%	-89.2%	-1,010.5%	122.5%	58.9%	6.9%
ROIC (adj.) - WACC	-117.0%	-123.5%	58.5%	-83.6%	-89.6%	-126.3%	-759.8%	-893.8%	-772.6%	-110.0%

MARKET VALUE	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Share price (SEK)	13.5	42.5	31.2	22.8	20.7	12.2	9.94	9.94	9.94	9.94
No. shares reduced by buybacks (m)	6.5	6.5	7.1	7.6	10.1	12.3	12.3	12.3	12.3	12.3
Mkt cap used in EV (m)	**88**	**278**	**220**	**173**	**209**	**151**	**123**	**123**	**123**	**123**
Net debt, year-end (m)	2	2	-23	-1	-3	-8	10	34	60	65
MV of min/ass and oth (m)	0	0	0	0	0	-0	-0	-0	-0	-0
Enterprise value (m)	**90**	**280**	**198**	**171**	**206**	**142**	**132**	**156**	**182**	**188**

VALUATION	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
EV/sales (x)	n.m.	36.2	5.6	7.1	11.5	4.2	3.8	5.3	6.7	3.9
EV/EBITDA (x)	n.m.	n.m.	25.0	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITA (x)	n.m.	n.m.	28.0	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBIT (x)	n.m.	n.m.	43.3	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (reported) (x)	n.m.	n.m.	46.8	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
P/E (adj.) (x)	n.m.	n.m.	46.8	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
P/BV (x)	4.33	57.7	7.73	6.15	5.61	13.7	n.m.	n.m.	n.m.	n.m.
EV/invested capital (x)										
Dividend yield										
Total yield (incl. buybacks)										
FCFE-yield	-16.82%	-1.93%	-0.90%	-18.31%	-14.43%	-18.86%	-15.55%	-19.55%	-21.51%	-4.23%

FINANCIAL RATIOS	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Net debt/EBITDA (x)	-0.2	-0.1	-2.9	0.1	0.1	0.4	-0.5	-1.5	-2.4	-17.5
Net debt/equity (x), year-end	0.1	0.3	-0.8	-0.1	-0.1	-0.8	-1.3	-1.1	-1.1	-1.1
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest coverage (x)										
Cash conversion (FCF/net profit)	n.m.	n.m.	-43.5%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Capex/sales	n.m.	80.1%	28.3%	35.7%	61.8%	1.2%	4.0%	4.0%	4.0%	3.0%
NWC/sales	n.m.	-125.2%	-48.4%	-16.7%	-35.8%	2.3%	0.0%	0.0%	0.0%	0.0%

QUARTERLY P&L	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20E	Q2 20E	Q3 20E	Q4 20E
Sales (m)	0	0	0	34	0	0	0	35
EBITDA (m)	0	0	0	-20	0	0	0	-18
EBIT before non-recurring items (m)	0	0	0	-20	0	0	0	-18
Net profit (adj.) (m)	0	0	0	-22	0	0	0	-18
EPS (adj.) (SEK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA margin	n.m.	n.m.	n.m.	-58.2%	n.m.	n.m.	n.m.	-51.2%
EBIT margin (adj.)	n.m.	n.m.	n.m.	-60.3%	n.m.	n.m.	n.m.	-53.3%

Source: Company data, Danske Bank Equity Research estimates

Disclosures

This commissioned research report has been prepared by Equity Research, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report are Siri Ladow and Daniel Albin.

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