

Molecure

One step back, two steps forward?

Molecure has faced a tough time - the prolonged drug interaction study (DDI) of the GLPG4716 project and the final resignation of Galapagos from the project's continuation significantly shadowed the substantive value of the project and contributed to the collapse of the company's share price. In our opinion, the resignation from the further development of the project resulted from the change of the business model by GLPG and greater focus on the development of the oncological pipeline (including the recent acquisition of CellPoint and AboundBio for the total amount of contracts at the level of approx. EUR 240 million). However, in the absence of publication of data on the interaction of OATD-01 with drugs licensed in the IPF therapy, the risk of negative clinical data cannot be ruled out. In our opinion, the OATD-01 project still has significant indications of the high value of the project, in the form of strong data on the potential mechanism of action, FDA's Orphan Drug Designation and the active advisory procedure of the EMA. Taking into account the higher risk parameters of the further development of the MOC projects, we still see an upside resulting from the company's R&D pipeline and we resume our recommendation with "Buy" and the target price TP 12M PLN 25/ share (97% upside).

The change of GLPG's business model results in resignation from further development of OATD-01. On June 23, 2022, Molecure announced that it would regain full rights to OATD-01, along with all related intellectual property (IP) rights, know-how and the manufactured active substance. This is a consequence of the ongoing change of strategic priorities of the current partner, Galapagos NV. In the our opinion, GLPG decided to terminate the contract due to the internal reorganization of the company with no negative clinical or preclinical readings during the GLPG's drug development process.

OATD-01 — The most advanced asset back in the MOC pipeline with additional clinical data and EMA advisory process. Molecure has regained full and exclusive rights to the results of all studies, including the pre-clinical and clinical development of OATD-01 conducted by Galapagos in the last 18 months, free of charge. The OATD-01 project will once again become the most clinically advanced MOC asset, and the main goal will be to introduce Phase II in the originally preferred therapeutic area (most likely sarcoidosis) as soon as possible and re-establish partnering cooperation. The company plan to start the research in 1H23, and the estimated cost may amount to approx. USD 10 million.

New partnering option. In our opinion, there are indications that the commercialization potential of OATD-01 is maintained. In 2020, the OATD-01 project received Orphan Drug Designation status from the FDA, which may be attractive for potential market partner. The annual sales potential of drugs dedicated to sarcoidosis on the US market may amount to approx. mUSD 500, representing significant market with no dedicated therapy options. We assume the new partnering is most likely after obtaining clinical data confirming the therapeutic effectiveness of the relationship (the prospect of the turn of 2023/2024),

OATD-01 financing - pipeline reorganization will generate more R&D cost of and increase the rate of cash burn. Assuming the cost of the second phase of OATD-01 clinical trials in the amount of USD 10 million and the start of the trial at the beginning of 2023, the funds at the MOC's disposal will be sufficient for the period until the end of 1Q23. Molecure plans to apply for additional non-diluting funding, e.g. under grants from foreign units, including NIH (National Institute of Health, USA) or national units - NCBR / PARP (funding will probably be available at the beginning of next year).

Return of IP rights of purchased R&D projects on the global Pharma market - a study case. The resignation from the continuation of partnering agreements and further development of the project by companies buying R&D projects is not a phenomenon very widespread on the global Pharma market. According to the Businesswire report, changes in the strategies of major pharmaceutical companies were the main reason for closing cooperation in the period from 2010 to 2021, accounting for 60% of all transactions completed in this period. We identified several re-partnering transactions with more favourable biodollar values, that can create an upside element for OATD-01 project.

GLPG resignation from the development of OATD-01- valuation impact. According to our forecast update for 1Q22, the OATD-01 / GLPG4716 project was valued by us at PLN 33.7 / share with a cumulative probability of project success to be approx. 30%, the resignation of GLPG prompts us to take into account the greater risk in the further clinical and business development of OATD-01 (change of the probability of project success to approx. 16%). Due to lack of DDI clinical data, we also established more conservative valuation assumptions with potential partnering payments and discount rates.

Valuation. We estimate the 12M TP target price of Molecure shares at PLN 25.0 / share (+ 97% upside) using the partial valuation sum (SOTP) method for projects developed under the chitinase platform (OATD-01 and YKL-40) and arginase (OATD- 02). The presented valuation is based on the rNPV method.

Risks. Detailed description is presented on page 23.

| mIn PLN | 2019 | 2020 | 2021 | 2022F | 2023F | 2024F |
|------------|------|-------|-------|-------|-------|-------|
| Revenues | 2,0 | 124,9 | 1,5 | 3,3 | 2,3 | 2,7 |
| EBITDA | -4,6 | 73,9 | -13,5 | -10,3 | -24,0 | -34,4 |
| EBIT | -4,8 | 73,7 | -13,8 | -11,7 | -25,4 | -35,5 |
| Net income | -4,2 | 64,3 | -13,6 | -11,7 | -25,4 | -35,5 |
| EPS (PLN) | -0,3 | 4,7 | -1,0 | -0,8 | -1,8 | -2,5 |
| P/E (x) | - | 5,3 | - | - | - | 0,0 |
| P/BV (x) | 4,3 | 2,4 | 2,5 | 2,7 | 3,3 | 0,0 |
| DY (%) | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |

Source: company, Trigon Brokerage House

Buy

Previous: Suspended

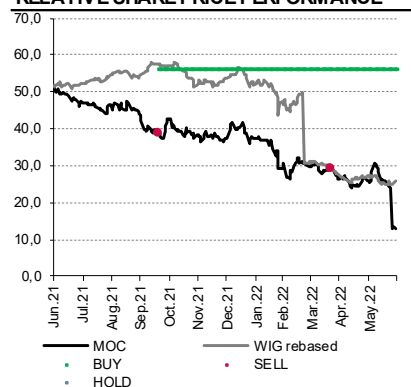
Target price: 25 PLN

Upside: +97%

FACT SHEET

| | | | |
|----------------------|---------------|--------|--------|
| Ticker | MOC | | |
| Sector | Biotechnology | | |
| Price (PLN) | 12,70 | | |
| 52wk Range (PLN) | 12,5 / 52 | | |
| Number of share (m) | 14,0 | | |
| Market Cap (mPLN) | 178 | | |
| Free-float | 56% | | |
| Avg Vol 3M (mPLN) | 0,3 | | |
| Price performance | 1M | 3M | 1Y |
| | -52,1% | -56,9% | -74,7% |

RELATIVE SHARE PRICE PERFORMANCE



| Recommendation history | Date | Price |
|------------------------|------------|-------|
| Suspended | 27.06.2088 | - |
| Buy | 20.04.2022 | 54 |
| Buy | 10.12.2022 | 57 |
| Buy | 19.10.2021 | 56 |
| Suspended | 23.04.2021 | - |
| Suspended | 06.12.2020 | - |
| Suspended | 26.10.2020 | - |

| Shareholders | Share % |
|------------------------|---------|
| Black Forest SICAV-SIF | 29,9% |
| Szumowski Marcin | 7,7% |
| NN OFE | 6,0% |
| Pozostali | 56,4% |

Important dates

| | |
|-------------|------------|
| Report 1H22 | 30.09.2022 |
| Report 3Q22 | 31.10.2022 |

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Definitions

capitalisation – market price multiplied by the number of a company's shares

free float (%) – a percentage of a company's shares held by shareholders with less than 5% shareholding reduced by treasury shares held by the company

min/max 52 wks – minimum/maximum share price within the last 52 weeks

average turnover – average volume of share trading within the last month

EBIT – operating profit

EBITDA – operating profit increased by depreciation and amortisation

adjusted profit – net profit adjusted for one-off items

CF – cash flow

capex – sum of investment expenditures on fixed assets

ROA – rate of return on assets

ROE – rate of return on equity

gross profit margin – a ratio of gross profit to net revenue
 EBITDA margin – a ratio of sum of operating profit and depreciation/amortisation to net revenue
 EBIT margin – a ratio of operating profit to net revenue
 net margin – a ratio of net profit to net revenue

EPS – earnings per share
 DPS – dividends per share
 P/E – a ratio of market price to earnings per share
 P/BV – a ratio of market price to book value per share
 EV/EBITDA – a company's EV to EBITDA ratio
 EV – sum of a company's current capitalisation and net debt
 DY – dividend yield, dividend paid to share price ratio
 ISSUER – Molecure S.A.

Recommendations of the Brokerage House

BUY – we expect that the rate of return on an investment will be at least 10%
 NEUTRAL – we expect the price of an investment to be relatively stable, optionally it will increase no greater than 10%
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 Recommendation prepared by: Katarzyna Kosiorek

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