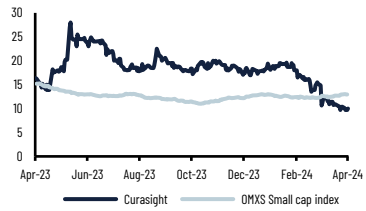
Curasight

Market: Spotlight Stock Market | *Ticker: CURAS* | *Share price (DKK): 10.0* | *Market cap (DKK): 198.9m* | *Net cash (DKK): 12.7m* | *Enterprise value (DKK): 186.2m*

Share information



YTD:	-43.7%	1 year:	-37.9%
1 month:	-16.7%	3 year:	-66.0%

Note: Closing price from 11 April 2024. Rebased to 12.04.2023

Financials

(DKKm)	2022	2023	2024E*
Revenue	0	0	N/A*
Revenue growth	*0%*	*0%*	*N/A%**
Gross loss	-11.5	-25.7	N/A*
EBIT	-19.0	-33.2	N/A*
Cash flow from operations	-16.8	-29.9	N/A*
Cash position	50.0	20.1	N/A*

Note: *No company guidance announced

Pipeline

Cancer type	Product	Phase I	Phase II	Phase III
Brain	uTRACE®	Completed	Completed	Planned
Brain	uTREAT®	Planned		
Prostate	uTRACE®	Completed	Completed	Planned
Prostate	uTREAT®	Planned		
Neuroendocrine	uTRACE®	Completed	Completed	Planned
Head & neck	uTRACE®	Completed	Completed	Planned
Non-small cell lung	uTRACE®	Completed	Ongoing	

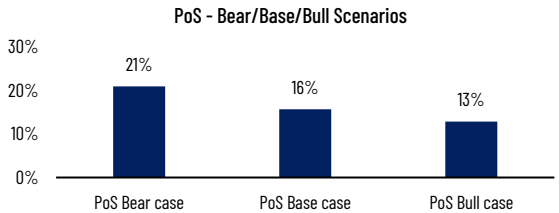
Company description

Curasight is a Danish biotech company established in 2013 with headquarters in Copenhagen, Denmark. Curasight was listed on the Spotlight Stock Market in 2020. The company has developed two technologies based on the uPAR receptor, which is only found in cancer. The first product candidate, uTRACE, is a diagnostic product that can find and visualize different types of cancer cells and how aggressive they are. The second product candidate, uTREAT, is a therapeutic product that is potentially able to remove the cancer cells by using targeted radiation therapy, where the patient receives uTREAT that will seek out the cancer inside the body, and 'attach' a small dose of radiation to eliminate the cancer. Combined, the diagnostic uTRACE and therapeutic uTREAT products represent a novel *uPAR Theranostic* technology platform, according to the company, that will potentially diagnose and treat cancer at the same time.

Investment case

The investment case for Curasight is driven by the successful development of uTRACE and uTREAT and entering partnerships to validate its technology, obtain funding, and potentially secure successful commercialization. Curasight has entered a partnership with French-based Curium in 2023, regarding uTRACE in prostate cancer, which will provide Curasight with up to USD 70 million in milestones. Also, the release of positive study data regarding uTRACE for brain cancer (phase 2), and uTREAT for aggressive brain and lung cancer (both preclinical) confirm that Curasight is on track in its medical development plans.

To accelerate the therapeutic concept, Curasight has decided to develop its product candidates in a so-called basket trial in parallel rather than sequentially. To finance this, Curasight initiated a rights issue in February 2024, but the company chose not to proceed with this and sought alternate financing instead, which has affected sentiment towards the Curasight share markedly negatively. Also, the market-implied Probability of Success (PoS) for Curasight to successfully develop and commercialize uTRACE and uTREAT has fallen below 20% (in the base scenario):



Key investment reasons

Curasight has gained proof-of-concept for its uTRACE diagnostic technology based on the uPAR receptor in phase 2 studies in four different cancer indications with a total of more than 400 patients. Additionally, interest in radionuclide-based treatments like uTREAT has increased a lot in recent years from the scientific community as well as from the established pharmaceutical industry.

An accelerated (parallel) successful development of uTRACE and uTREAT will make it possible for Curasight to address the more lucrative therapeutic market. As an example, uTREAT in brain cancer has an addressable market 25 times the size of uTRACE for diagnosing brain cancer, according to Curasight. Also, the uPAR based uTRACE and uTREAT technology is not limited to specific cancer types, but to cancer itself, making the technology potentially viable for diagnosing and treating other cancer types.

Curasight has a liquidity position of DKK 20.1 million as of Q4 2023 and expects to seek non-diluting financing and receive milestones from the Curium partnership, which combined is assumed to be sufficient to finance the accelerated development plans.

Curasight will sell their products through partners, which allows the company to focus on R&D and lowers risk of the commercialization process to be successful. Still, according to our model, the market implicitly thinks there is a much lower probability of success (PoS) for uTRACE and uTREAT compared to average industry approval rates. This suggests a positive market reaction if successful.

Key investment risks

Curasight's uPAR based technology for uTRACE and uTREAT are still in their developing phases, and there are no guarantees the products will be approved – neither individually or combined.

Curasight will secure commercialization partners for uTRACE and uTREAT, but it may not be able to negotiate favorable terms with other partners than Curium. Even with partners, there is no guarantee product launches will be commercially successful.

Like many other biotech companies, Curasight can be affected by low-risk appetite in financial markets, which can increase the dependence on the issue of warrants to internal management and employees to secure funding, resulting in potentially a high level of dilution.

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Appendix – Discussion of assumptions in DCF-model

The model

The objective of the model used in this One-Pager is not to calculate a price target for Curasight share, but to use a simplified DCF (Discounted Cash Flow) model to give investment perspectives based on different scenarios. In particular, the model can use simulations to give an indication as to how much the current market cap of Curasight is implicitly discounting in terms of the likelihood of drug approval and successful launch or partnerships deals (PoS) for the five indications for uTRACE.

The DCF model takes into account the future potential cash flow of the company based on several assumptions, which will be evaluated and discussed below. As described, Curasight has pipeline products for uTRACE and uTREAT in pre-clinical, phase 1, and 2 and is expected to enter phase 3 for some indications. Although uTREAT (currently in pre-clinical phase) has potentially a very high value in the future if it becomes successful, from a modelling perspective, only estimates regarding pipeline product candidates that are in – or about to move into - phase 3, are included as these are statistically considered to have a relatively high and realistic probability of getting approved. This is not to say that pipeline products in earlier phases, or that the potential accelerated parallel basket-trial based development of uTRACE and uTREAT cannot be successful sometime in the future, but it should be considered an 'optional' type of value at this point.

Market size and market growth

The addressable market sizes of the five different cancer indications have been estimated by Curasight in publicly available documents or presentations, and these estimates are used in the model. It is assumed that the market sizes for all five individual uTRACE indications constitute approximately 5% of the total combined uTRACE and uTREAT market within each indication. uTRACE markets will perhaps constitute more or less than 5% of total markets in some indications, but for simplicity reasons – and to be conservative – the same relative size of 5% is being used across indications. Similarly, the model uses the same market growth rate of 4.8% annually until 2030 for uTRACE across all indications. To be conservative, it is assumed the growth rate will halve to 3% annually from 2031, and for the rest of the effective patent protection period of 10 years, after which the value of the market is assumed to show negative growth of 25% annually due to increased competition and lower prices. This is also an assumption used from a modelling perspective to avoid an unrealistic compound effect of the value of the cash flows after the patents expires.

Market share and revenue

Depending on the indication, different levels of peak market shares are expected. uTRACE for brain cancer is expected to peak at 30% in 2037, uTRACE for prostate cancer at 5% due to the competitive field of diagnostic products available in the huge market, uTRACE for neuroendocrine tumours at 15%, uTRACE for head and neck cancer at 20%, and lastly uTRACE for non-small cell lung cancer at 15%. Generally, the markets shares levels are assumed to reflect the competitive dynamics and niche characteristics of the markets; the smaller the market, the higher the likely market share and visa-versa. Generally, a high market share is often difficult to obtain immediately after product launch due to established workflow processes within hospitals etc., but for novel cancer diagnostic products, this general perception could prove to be to conservative.

However, for simplicity reasons and modelling purposes, the penetration curve is assumed to be linear from the expected launch year.

Discount rate

The model uses a discount rate of 15% reflecting the generally high level of investment risk and uncertainty typically associated with forecasting future cash flows from biotech companies. As Curasight is active within the field of development of novel cancer diagnostic and cancer treatment products which would generally be perceived to have higher risk than average, it can be argued that a higher discount rate is appropriate, but the model uses the widely accepted 15% within the industry.

Probability of successful launch (PoS)

Based on historical data from Biostatistics research containing 5,764 pipeline projects in pharmaceutical and biotech companies, the average historical likelihood of a Phase 3 pipeline project passing through to launch from Phase 2 is appr. 55%. This is calculated across all medical indications, including those areas that are typically perceived as being very difficult to pass.

A lower-than-average PoS illustrates that the market implicitly thinks there is a lower-than-average likelihood for Curasight to successfully launch uTRACE through various partnership deals and/or that further diluting capital raises should be expected. Another way to interpret a low PoS is that it suggest a corresponding potential value increase in the market value of the Curasight if uTRACE is approved and successfully launched - all things being equal.

EBIT-margin and royalty rates

According to Refinitiv Financial System, five-year average EBIT-margins within major pharmaceutical and biotech companies are approximately 30%. Looking at biotech companies specifically, the five-year average is approximately 50%, reflecting a generally more focused business model that is often based on higher economies of scale and partnership deals, which is also the strategy for Curasight. However, to be conservative, the model assumes an EBIT-Margin of 40%, which reflects that Curasight will continue to have development and sales, and administrative costs even when various partnership deals have been made.

It is expected that Curasight can obtain an average royalty rate of 25% across its partnership deals. There will be variations depending on the type of partnership, if it is a partnership based on uTRACE or uTREAT – or both, the duration of the deal, and the level of exclusivity etc., but overall, a royalty rate of 25 % is considered appropriate and comparable to industry standards if the products are highly valuable and represent a novel approach.

Capital increases

At this point, it is assumed that a combination of the financial implications of entering into partnership deals, non-diluting alternate financing of DKK 50 million (with an assumed 'cost' of DKK 10 million) and funding from warrant programs being exercised will provide Curasight with sufficient capital to finance the company until cash flow generation becomes positive. Therefore, at this point, the only potential dilution from a share count perspective refers to the effect from the warrant program being exercised.

Appendix – Results and Conclusion

Scenarios

Based on the previously mentioned assumptions regarding market size and growth, level of profitability, market share and discount rate, different scenarios can be simulated to assess how much the market is implicitly discounting as far as the likelihood of launch of uTRACE through partnership agreements is concerned. As illustrated, the model has simulated the implicit likelihood in 3 scenarios; a bear-, base- and bull-case scenario using the indicated level of peak market share levels as the main differentiator. Accordingly, the remaining criteria discussed are assumed to be the same in all scenarios.

Base case scenario

In the base case scenario, the model uses the indicated combined market size of the five indications of uTRACE as estimated by Curasight. The model uses an EBIT margin of 40% and royalty rate of 25% as well as an estimated peak market share for brain cancer, prostate cancer, neuroendocrine tumours, head and neck cancer, and non-small cell lung cancer of 30%, 5%, 15%, 20% and 15% for the five uTRACE indications, respectively. Based on this, the market currently implicitly assumes there is a 16% probability of successful launch (PoS) for uTRACE through partnership deals according to the model. This compares to a historical average level of success of approximately 55% for pipeline projects across all indications, and likely even higher likelihood for biotech companies developing diagnostic products, similar to uTRACE. In other words, the market attributes less than one third of a chance for Curasight to be successful with uTRACE compared to other biotech companies developing diagnostic products.

Bear case scenario

In the bear case scenario, the model uses an estimated peak market share for the indications are 20%, 4%, 12.5%, 15%, and 20% for the five uTRACE indications, respectively. The remaining assumptions are all similar to those used in the base case scenario, i.e an EBIT margin of 40% and a royalty rate of 25%. Based on this, the market currently implicitly attributes a 21% probability of successful launch (PoS) for uTRACE in a bear case scenario according to the model.

Bull case scenario

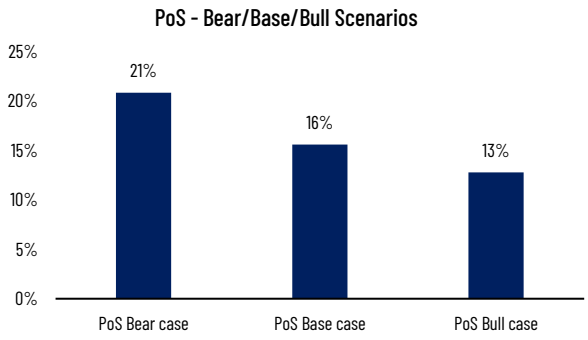
In the bull case scenario, the model uses an estimated peak market share of 40%, 6%, 17.5%, 25%, and 35% for the five uTRACE indications, respectively. The remaining assumptions are all similar to those used in the base case scenario, i.e an EBIT margin of 40% and a royalty rate of 25%. Based on this, the market currently implicitly assesses there is a 13% probability of successful launch (PoS) for uTRACE in a bull case scenario according to the model.

Conclusion

The decision by Curasight not to proceed with its rights issue has raised investor concerns about Curasight and its financial situation. As a result, the three model scenarios now implicitly all suggest a low level of market confidence for Curasight to successfully launch uTRACE in the coming years. It stands in contrast with the fact there is no change in the fundamental potential of uTRACE (and uTREAT) from a medical advancement perspective. Quite the opposite, as the company continues to develop and expand the pipeline.

As the share price appreciation following the announcement of the Curium partnership has previously shown, investors should recognize that new additional partnership agreements could result in a positive share price development. Also, generally a low PoS is not uncommon for biotech companies still in their developing phase seeking funding that will potentially dilute the share base.

As described, although Curasight has the ambition to accelerate a parallel development of uTRACE and uTREAT, only uTRACE is included in the model at this point. However, any news regarding either positive data readouts from pre-clinical trials of uTREAT, or announcements of partnership deals for uTREAT will both be seen as a validation of the uTREAT technology and make probable that the market currently underappreciates the potential value of the combined uTRACE and uTREAT technology platform.



Note: Probability of success (PoS) model based on general market assumptions and HC Andersen Capital assumptions.