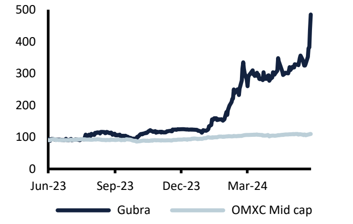
Gubra

Market: OMXC Mid cap	Ticker: GUBRA	Share price (DKK): 485.0	Market cap (DKK): 7.9bn	Net cash (DKKm): 438 (ex leasing)	Enterprise value (DKK): 7.5bn

Share information



Ytd:	288.0%	1 year:	438.3%
1 month:	55.9%	Since IPO	340.9%

Note: * Closing prices of 24 June 2024, have been used
IPO Subscription price DKK 110 on 30.03.2023

Financials

(DKKm)	2022	2023	2024E
Revenue	199.4	205.0	N/A
Revenue growth	*-21.9%*	*2.8%*	*N/A*
Research & Development	56.8	89.2	N/A
EBIT	-1.3	-43.8	N/A
Total Cash flow	-63.3	-18.4	N/A
Cash position	71.9	437.6	N/A

Note: FY 2024E guidance for 10-15% CRO revenue growth with a 25-28% EBIT margin; and 1-2 new partnerships in D&P with total costs of DKK 145-155

Key pipeline assets

Indication	Partner	Development
Obesity	Boehringer Ingelheim	Phase 1
Obesity (amylin)	Gubra	Phase 1
Obesity UCN2	Gubra	Pre-clinical
Obesity	Boehringer Ingelheim	Pre-clinical
Obesity	Boehringer Ingelheim	Drug discovery
Obesity	Boehringer Ingelheim	Drug discovery
Bleeding	Hemab	Drug discovery
Other*	Gubra	Drug discovery

*Obesity (GLP1R), Narcolepsy, Endocinology

Company description

Gubra is a Danish life-science company specialising in pre-clinical contract research (CRO) services, and peptide-based drug discovery. The company was founded in 2008 and listed on Nasdaq Copenhagen on 30th March 2023. Within CRO, Gubra helps clients to carry out their pre-clinical research activities with a focus on metabolic and fibrotic diseases. Its Discovery & Partnerships (D&P) segment uses its streaMLine Platform with AI and machine learning to identify and develop new peptide-based drug candidates.

Investment case

From an investment perspective, Gubra offers investors a unique risk and return profile by combining 1) A high growing and positive cash flow-generating CRO business benefitting from the trend of pharma companies increasingly outsourcing CRO services, with CRO market spending forecast to grow at 11% CAGR 2026[1]), and 2) A high-reward traditional drug discovery activity in its D&P business. The CRO segment's positive cash flows support its D&P activities with additional synergies from knowledge and resource exchange. Gubra's D&P segment are developing pipeline candidates with partners with significant future milestones and royalty potential, as well as its own two (non-partnered) obesity product candidates Amylin-analog based GUBamy and UCN2 (targeting 'healthy weight loss'). They can both act as stand-alone products or products used in combination with other obesity products – or even be combined with each other.

Gubra's CRO business continues to show strong momentum, as illustrated by strong organic revenue growth in its Q124 report of 51% (y/y) and EBIT margins of 39% driven by particular high growth within obesity. Following the Q124 report, Gubra raised its 2024 guidance for organic revenue growth to 15-20% (from 10-15%) and EBIT margin to 28-31% (from 25-28%).

Gubra's share price is up almost 300% YTD due to increased general investor interest in the obesity space, and increased awareness of Gubra's obesity focus within its D&P business. Assuming a 20% premium peer group multiples for its CRO business (due to the higher than industry average growth and profitability), the market implied Probability of Success (PoS) for Gubra's D&P pipeline is now approximately 90%. See page 2 and 3 for assumptions.

Key investment reasons

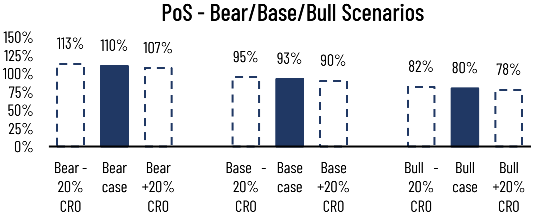
Gubra offers unique access to a high-margin specialized CRO business, which services 15 of the top 20 pharma companies, and high growth supported by sector trends, and international and service line expansion.

In D&P, its strong and diversified obesity-focused pipeline has the potential to generate significant royalties as the obesity market is forecasted to reach USD 54b in 2030 (according to the IPO prospectus), or USD 100b or more by most analysts and experts.

Solid cash flow generation from its CRO segment and future milestone payments will lower the likelihood of - potentially diluting - capital raises, as Gubra expects potential milestone payments of up to DKK 420m[1] from its partnerships between 2023-2026 according to the prospectus.

Adjusting for the peer-group based value of the CRO business, the market-implied PoS of Gubra's D&P obesity products pipeline is more than 90%, which is above the historic industry average reflecting high market confidence in Gubra's ability to develop new products.

PoS - Bear/Base/Bull Scenarios



Note: Probability of Success (PoS) model based on general market assumptions and HC Andersen Capital assumptions. CRO +/- 20% reflects PoS sensitivity to Gubra's CRO valuation relative to peer group multiples of +/- 20%.

Key investment risks

Gubra's pipeline candidates, may not realise their full milestone potential due to insufficient safety and efficacy results, delays or partner sidelining. Generally, the probability of early-stage product candidates reaching the market is low. The company does not develop products beyond phase IIa and relies on partners for the clinical development phase and commercialisation.

While CRO revenues are considered more stable than D&P revenues, significant volatility relating to market conditions still exists, as shown by historical topline and cash flow fluctuations.

Source [1]: https://investors.gubra.dk/ipo/ipo-documents/default.aspx

Gubra CRO segment peer group

Company	Price (local)	Total return YTD	Market cap (EURm)	Latest net debt (EURm)	Price/sales		EV/EBIT		Price/EPS	
					2024E	2025E	2024E	2025E	2024E	2025E
Medpace Holdings Inc	USD 404.0	31.8%	11,636	-377	5.8x	5x	30.1x	25.6x	36x	30.8x
ICON PLC	USD 318.8	12.6%	24,501	2,874	3.1x	2.9x	18x	16.4x	21.6x	18.8x
IQVIA Holdings Inc	USD 216.3	-6.5%	36,625	11,082	2.6x	2.4x	16.5x	15.4x	19.5x	17.4x
Labcorp Holdings Inc	USD 205.3	-9.1%	16,082	4,701	1.4x	1.3x	12.5x	11.7x	13.8x	12.9x
Charles River Laboratories International Inc	USD 211.6	-10.5%	10,132	2,155	2.6x	2.4x	15.4x	13.7x	19.3x	17.2x
Evotec SE	EUR 8.3	-60.9%	1,470	109	1.4x	N/A	N/A	26.8x	78.8x	N/A
Median		**-7.8%**	**13,182**	**2,865**	**2.6x**	**2.4x**	**16.5x**	**15.9x**	**20.5x**	**17.4x**
Gubra A/S	**DKK 485.0**	**288.0%**	**1,057**	**-67.5**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Note: Data from 24/06/24

Source: Refinitiv

Appendix – Discussion of assumptions in DCF-model

Value of Gubra's CRO business

Using a peer group of established CRO companies, an estimate can be made of the value of Gubra's CRO business based on the peer group median one-year forward EV/EBIT multiple and applying it to the FY 2024 guidance for Gubra's CRO business. The peer group has a median FY2024 EV/EBIT multiple of 16.5x Given Gubra's CRO segment guidance, the EBIT estimate can be calculated to an average of DKK 58.4m, corresponding to a market value for the CRO segment of c. DKK 964m, when applying the updated higher peer group median EV/EBIT. The PoS for the pipeline can then be found once adjusting for this peer group value of the CRO business. The PoS illustration on page 1 highlights how the PoS would adjust if the CRO business was values to be 20% above or below the peer group median.

The model

The objective of the model used in combination with this one-pager is not to calculate a price target for Gubra but instead to use a simplified DCF (discounted cash flow) model to provide perspective for the market-implied probability of success (PoS) of Gubra's pipeline, given a peer-group-implied CRO segment valuation and three scenarios for pipeline product outcomes. The model is based on company-communicated expectations, publicly available information, and assumptions based on industry data and statistics, and looks at a Base case, Bear case, and Bull case scenario. The DCF model considers the future potential cash flow from milestones and royalties of Gubra's most mature product candidates, which includes its primary partnership products and its own Amylin and UNC2 products. By adjusting for the peer group based CRO value relative to Gubra's total market cap, a market-implied average probability of success, PoS, for the pipeline in the D&P segment can be calculated, which can be compared against historical probabilities of successful launch from Biostatistics or GlobalData Inc. to give investment perspectives.

Market size and market growth

The model is constructed based on company-communicated expectations and publicly available information. The model first assesses the milestone potential from existing partnerships and then royalty potential thereafter. The model uses a milestone potential of DKK 420m between 2023-2026, and DKK 4,500m between 2027-2030, in line with the milestone potential set out in Gubra's prospectus and with cash flows spread linearly. Industry statistics suggest a 3-4-fold increase of average milestone payments when projects from drug discovery to clinical phases [2]. As Gubra expects to take GUBamy and UCN2 further before entering partnerships, the model assumes markedly higher milestone payments related to GUBamy than for the combined Boehringer Ingelheim partnerships (2017 & 2019). GUBamy milestones are expected to be received between 2026-2030 and spread linearly. From 2031-2040, a royalty potential is modelled, for both the GUBamy and Boehringer Ingelheim partner products. To be conservative the UNC2 project related milestones are expected to be half the size of GUBamy due to the niche market characteristics of the 'healthy weight loss' segment and the increasingly competitive market dynamic reflected by the huge increase in number of registered obesity product candidates across the industry. For the overall obesity market, the model assumes a market size of USD 100bn in 2030, or twice the size guided in Gubra's prospectus. This market size is conservatively assumed to grow annually at 5% for 2030-2040. The relatively lower than current growth rates reflects the uncertainty in predicting the combined positive effect of high demand for obesity product with the negative effect on prices as patents expire, competition increases, and obesity treatment expenses become a growing share of national healthcare budgets.

Source [2]: Nature, May 2019

Market share and revenue

The revenue estimate used in the model is comprised by milestones and royalties derived from the market share obtained by partners. In the Gubra prospectus, it is described that the GUBamy product has the potential to become 'widely used' as an obesity drug and provide a 'significant commercial opportunity', but to be conservative it is assumed in the base case scenario that the GUBamy, Boehringer Ingelheim and UNC2 obesity products will be able to reach a peak market share of 2,0, 2,0 and 1,0% respectively. The penetration curve will be linear between 2031-2034 at which point market share will remain stable until 2040. The peak market share is the key variable between the base, bear, and bull case, as most other variables are held constant.

Capital increases

A central argument for investing in Gubra is the expectation that the combination of its positive cash flow generating CRO segment and milestone payments from its partnership deals within D&P will provide Gubra with sufficient capital to finance the company, thereby lowering the risk of diluting capital raises substantially. Consequently, the most likely potential dilution will arise from Gubra issuing new shares to cover warrant programmes. The current warrant programme constitutes less than 1% of total share capital.

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. The development of each pipeline candidate will reflect different levels of uncertainty, but the model uses the widely accepted industry discount rate of 15%.

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%, which has been used in the model, reflecting a generally more focused business model based on partnership deals, which is the strategy for Gubra.

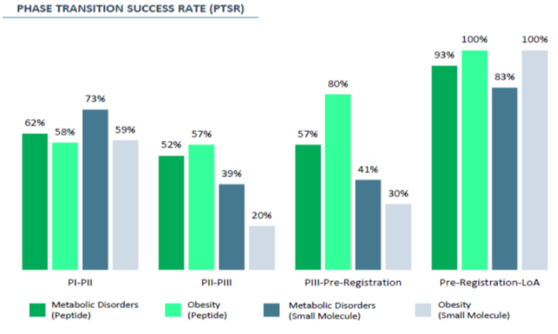
In terms of royalty rates, Gubra expects an average of high single-digit rates, according to their prospectus (page 67). There will be variations depending on the type of partnership, the duration of the deal, and the level of exclusivity etc. This level is relatively low when compared to other therapeutic areas. As the financing of development arises from the combination of milestones and royalties, and as the potential of milestones is quite substantial in Gubra's case, the low royalty rates could reflect the effect of financing 'brought forward' via high milestones, a trade-off not uncommon for biotech companies to consider.

Appendix – Results and Conclusion

Probability of success (PoS):

Based on historical data provided by GlobalData as published in the Gubra prospectus, the average likelihood for obesity drugs to move from pre-clinical trials all the way through phase 3 to be successful in terms of approval, registration, and launch is 26%. Compared to drugs for other indications, this is high.

Generally, a high PoS indicates that the market implicitly assesses there is a high possibility of success for a company and its given product candidates. In the case of Gubra, a PoS of more than 90% indicates that the market attributes a much higher likelihood for Gubra to successfully develop obesity drugs with its partners when compared to the industry average for obesity products.



Source: GlobalData Inc. via Gubra's IPO prospectus

Importantly, a high PoS can also reflect that the market thinks there is a low likelihood a company will have to raise capital and dilute the share base. As described, this risk is considered relatively low in Gubra's case, so the PoS will primarily reflect the market assessment of Gubra's' ability to develop products.

Scenarios

Based on the previously mentioned assumptions regarding market size and growth, market share, level of profitability, and discount rate, different scenarios can be simulated to assess how much the market is, on average, implicitly discounting the likelihood of a successful launch. The model below illustrates the implied probability of a successful pipeline launch under each scenario (Base, Bull, Bear) given market prices. The base case scenario is modelled primarily from company-communicated expectations and publicly available information. In all cases, the model considers periods 2023-2040, reflecting a 7-year period for development and a 10-year effective patent period.

Base case scenario

In the base case scenario, the model uses a pipeline milestone potential of DKK 420m between 2023-2026, and DKK 4,500m between 2027-2030, in line with the milestone potential set out in Gubra's prospectus and modelling the cash flows linearly. For Amylin, we assume markedly higher milestones as per page 2. From 2031-2040 a royalty potential is modelled, for the GUBamy and Boehringer Ingelheim partner products, with market share growing linearly from 2031-2034, where they reach peak market shares and remain stable until 2040. Total market size is expected to grow 5% annually as per page 2, with the GUBamy and Boehringer Ingelheim partner products both achieving market shares of 2,0% and 1,0% for UNC2. In the base case, the market currently implicitly assumes a Probability of Success of approximately 90% in line with the assumptions above.

Bear case scenario

In the bear case scenario, the model assumes each product achieves a peak market share of 1,5, 1,5 and 0,75% respectively, which results in the market currently implicitly assessing a PoS of more than 100% in line with the assumptions above.

Bull case scenario

In the bull case scenario, the model assumes each product achieves a peak market share of 2,5, 2,5 and 1,25%, which results in the market currently implicitly assessing a PoS of 80% in line with the assumptions above.

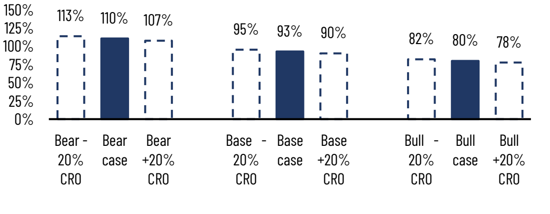
Conclusion

The base case scenario illustrates that when considering the implied value of Gubras CRO business conservatively based on a peer group valuation, the residual value of the pipeline reflect that the market assess there is a higher average likelihood for Gubra to successfully launch its different pipeline projects through partnership deals than what the historical likelihood of successfully launches in the industry for obesity products suggests.

Apart from a general high confidence, a high PoS could also reflect the company has a low likelihood it will need to raise capital where the share base is diluted, which is also the qualitative assessment in the case of Gubra. All things being equal, a high PoS should therefore be expected. Although the PoS is high compared to industry statistics, there are still upside potential as the model only includes the most advanced part of the pipeline. If the prospects of the rest of the pipeline was included, the PoS would be lower, suggesting some underappreciation of Gubra's assets by the market.

In addition to valuing the CRO segment on par with peer group multiples, PoS for the pipeline has been calculated based on valuing the CRO segment on either a 20% discount or 20% premium to the peer group multiples. A discount could reflect the smaller cap nature of Gubra relative to the peer group, while a premium, on the other hand, could be motivated by the much higher growth and profitability of the CRO Segment in Gubra relative to the industry and the peer group.

PoS – Bear/Base/Bull Scenarios



Note: Probability of Success (PoS) model based on general market assumptions and HC Andersen Capital assumptions. CRO +/- 20% reflects PoS sensitivity to Gubra's CRO valuation relative to peer group multiples of +/- 20%.

Note: Graph is illustrative