

First transaction on KIN001

12 May 2023

Kinarus have announced the signing of an agreement with ChaoDain (Hangzhou) Investment Management (CDIM) for a CHF 1.5m convertible loan that will form the basis for the development of KIN001 in the treatment of idiopathic pulmonary fibrosis (IPF) in China. This is an important validation of the potential of KIN001 in IPF and could be the first of a sequence of transactions that result in development collaborations on KIN001, and not just in IPF.

IPF, orphan, and less competitive

Kinarus' lead drug – KIN001, a patent-protected anti-inflammatory combination of the p38 MAP kinase inhibitor pamapimod (licensed from Roche) and the generic glitazone pioglitazone – is in the Phase 2 KINFAST study for the treatment of the inflammatory over-reaction in mild to moderate COVID-19 patients partly funded by the Swiss government.

Kinarus have also identified wet age-related macular degeneration (wAMD) and IPF as the lead commercial indications and due to the prevalence of wAMD, we had initially thought of this as a first indication outside COVID-19. However, wAMD, although a significant unmet medical need for a non-VEGF adjunctive therapy, is also very competitive. As today's investment by CDIM has validated, the orphan indication IPF has, by contrast, few therapeutic options and the one approved drug – Roche's Esbriet (pirfenidone), which has recently gone generic – is a drug with a challenging safety profile.

Unlike pirfenidone, KIN001 has proven safety profile from the ten clinical trials conducted by Roche and **IPF as an orphan indication has few competitors** so may be a quicker and more cost-effective route to partnering and late-stage clinical trials for KIN001. A [recent letter in the Journal of the American Medical Association](#) found that **orphan drugs are just as lucrative as drugs developed for more common conditions**. Kinarus' announcement notes that the investment by CDIM is the basis for discussions on the development and commercialisation of KIN001 for the treatment of IPF in China. We would expect that CDIM and either its portfolio companies or those of its investment syndicate partners in China would the open doors for the development of KIN001 in IPF there.

We regard the investment by ChaoDain Investment Management, and the raising of the profile of KIN001 in IPF as a significant positive step in validating KIN001 in its proposed inflammatory indications, as well as providing a welcome cash inflow. We will not be changing our valuation or forecasts until at least the release of Kinarus' full-year 2022 results at the end of this month.

No change to our valuation

Our fair valuation of Kinarus remains at CHF96.0m, or CHF0.09 per share.

Summary Financials				
CHF '000s, y/e 31 Dec	2019A	2020A	2021A	2022E
Revenues				
EBIT	(2,267)	(1,522)	(4,720)	(4,236)
Basic EPS, (CHF)	(0.608)	(0.312)	(0.900)	(0.004)
Net Assets	2,555	1,287	(1,371)	37,049
Net Cash	1,019	319	5,225	(1,845)

Source: Company historic data, ED estimates

Company Data

EPIC	KNRS.SW
Share Price (last close)	CHF0.01
Market cap	CHF12m
ED Fair Value per share	CHF96.0m CHF0.09
Proforma net cash 30 Jun '22	CHF4.58m
Avg. daily volume	1,354,606

Share Price, CHF



Source: Google

Company Description

Kinarus is a Swiss clinical-stage biopharmaceutical company that focusses on small molecule drugs with a history of clinical use in human patients. Much of the early-stage risk is eliminated from Kinarus' projects as the dose range, mechanism of therapeutic benefit and manufacturing and regulatory considerations have already been addressed.

With the benefit of much of this work already undertaken, the cost and duration of Kinarus' clinical programs should be shorter than is the norm. Kinarus' lead drug KIN001 was originally developed by Roche for RA and after addressing its PD liability, Kinarus is developing KIN001 for the treatment of COVID-19, wAMD and IPF in Phase 2 clinical trials.

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Historic financials and forecasts

Consolidated Income Statement & Forecasts				
CHF'000s, y/e 31 December	2019A	2020A	2021A	2022E
IFRS Income Statement				
Total revenue				
General & Administration expenses	(903)	(851)	(1,402)	(1,615)
R&D	(1,322)	(633)	(2,939)	(727)
Depreciation & amortisation	(1)	(1)	(4)	(1,520)
Reported EBIT	(2,267)	(1,522)	(4,720)	(4,236)
Reported profit before tax	(2,280)	(1,522)	(4,724)	(4,231)
Taxation				56
Basic EPS CHF	(0.6085)	(0.3117)	(0.9003)	(0.0037)
Diluted EPS CHF	(0.6085)	(0.3117)	(0.9003)	(0.0037)
Share count at end of period (basic) '000	3,747	4,883	5,247	1,143,603

Source: Company historic data, ED estimates

Consolidated Balance Sheet & Forecasts				
CHF'000s, at y/e 31 March	2019A	2020A	2021A	2022E
Assets				
Non-current assets				
Tangible assets	3	2	7	9
Intangible assets	1,800	1,800	1,800	51,880
Total non-current assets	1,803	1,802	1,807	51,889
Current assets				
Trade and other receivables				
Cash and equivalents	1,019	419	5,032	1,490
Other current assets	22	49	49	174
Total current assets	1,041	468	5,352	1,664
Total assets	2,844	2,270	7,158	53,553
Equity and liabilities				
Equity				
Share capital	488	491	536	11,133
Share Premium	7,748	7,747	9,222	42,993
Retained earnings (loss)	(5,680)	(6,949)	(11,128)	(17,076)
Equity attributable to the company	2,555	1,287	(1,371)	37,049
Current liabilities				
Trade and other payables	64	100	77	335
Current provisions				1,140
Other current liabilities	226	182	1,052	869
Total current liabilities	289	983	4,129	2,594
Total non-current liabilities			4,400	13,910
Total liabilities	289	983	8,529	16,504
Total equity and liabilities	2,844	2,270	7,158	53,553

Source: Company historic, ED estimates

Consolidated Cash Flow Statements & Forecasts				
CHF'000s, y/e 31 March	2019A	2020A	2021A	2022E
Profit before taxation	(2,280)	(1,522)	(4,724)	(4,175)
Adjustment for:				
Depreciation & amortisation	1	1	4	1,520
Movements in working capital	(385)	(34)	5,245	(5,791)
Net cash generated by operating activities	(2,394)	(1,302)	(1,072)	(8,604)
Investing activities				
Capital expenditure on tangibles	(3)		(10)	
Proceeds from disposal of tangibles	(1,500)			
Acquisitions				5,483
Net cash used in investing activities	(1,503)		(10)	5,483
Financing activities				
Net proceeds from issue of shares			1,170	
Proceeds from share option exercise	10	2	4	
Transaction costs	(127)	(1)	(123)	(620)
Proceeds from subordinated loans			3,000	179
Movements in convertible debt	2,880	700	(230)	(250)
Net cash from financing activities	2,767	701	3,821	(691)
Cash & equivalents at beginning of year	2,154	1,019	419	5,302
Cash & equivalents at end of year	1,019	419	5,302	1,490

Source: Company historic data, ED estimates.



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