

Calvine Partners

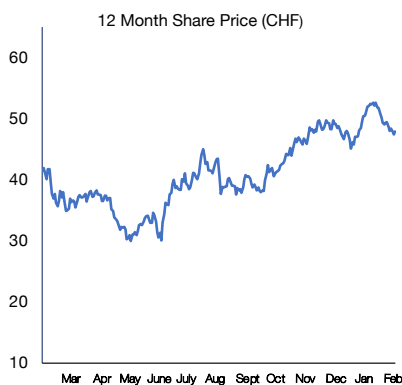
Basilea Pharmaceutica

14 February 2023

Share Price (CHF)	48
CP Fair Value (CHF)	91

Market Cap (CHFm)	626
Net Cash (CHFm)	109
EV (CHFm)	686

Country	Switzerland
Code	BSLN
Index	SIX



Source: Calvine Partners Research

Successful transformation in 2022

The FY 2022 results at Basilea reflect a period of financial, clinical and strategic progress. The financial contribution of the anti-infectives franchise and, in particular, the antifungal Cresemba through Astellas in the US and Pfizer has resulted in Basilea delivering operating profitability well ahead of its initial 2022 objective. Cresemba demand continues to outpace our expectations with royalty revenue of CHF 65m (+22.4%), and we expect future growth as demand continues and new geographies are added. Basilea is guiding to CHF145m-148m for Cresemba and Zevtera-related revenues during 2023. The company has also benefited from one-off payments (CHF15m) for the out-licensing of oncology assets during 2022. Reassuringly, these programmes have attracted highly relevant partners with oncology expertise – important given that Basilea has retained a long-term financial interest. With R&D spending reduced as oncology activity waned and SG&A remaining stable, Basilea delivered a positive operating profit of CHF18.5m and ended 2022 in a robust financial position with CHF108.6m in cash and investments. Based on the strong performance and reduced spending, Basilea has guided to an operating profit of CHF45-48m in FY'23.

Ceftobiprole partnering a key de-risking event

The 5th generation cephalosporin antibiotic ceftobiprole (Zevtera) has yet to deliver its full potential as it is only approved outside of the US for HAP/CAP (not VAP). However, positive study results from TARGET (severe skin infections; ABSSSI) and ERADICATE (*Staphylococcus aureus* bacteraemia, or SAB) suggest this is about to change. Regulatory submission is expected by March/April, with Basilea seeking approval not just for SAB and severe skin infections but also for community-acquired bacterial pneumonia (CABP). From our perspective, it is the SAB indication which represents the major unmet need, with few treatment options available, particularly for resistant (MRSA) infections. Furthermore, a broader label should increase the attraction of ceftobiprole to infectious disease physicians. Our forecasts suggest peak end-market sales for ceftobiprole approaching \$400m in the US alone. Fine-tuning this forecast awaits the attraction (and identity) of a commercial partner for ceftobiprole in the US. A company with an existing anti-infectives franchise would bring greater certainty to ceftobiprole attaining its full commercial potential.

Looking forward to pipeline activity in 2023

With its focus on anti-infectives, we look forward to the replenishment of the pipeline in 2023. In particular, adding a novel antifungal should be a priority given the unmet need, the limited treatment options, and the need to secure the franchise's longevity as Cresemba matures. We are encouraged by the language today, which confirms that “..with first transactions expected in 2023”.

Dr Brian White
Partner
bw@calvinepartners.com

Andrew Keith
Partner
ak@calvinepartners.com

Sustainable profitability ahead

The financial performance at Basilea has long been dominated by the ongoing success of the antifungal Cresemba (isavuconazole). Despite its maturity in major markets, continued growth in the short term seems assured as new geographies are added. Cresemba has been a highly rewarding success story for Basilea, its licensees and distributors alike. Cresemba has also enjoyed a protracted rollout as Basilea has identified new distributors and licensing partners.

It is worth a reminder that Cresemba continues to benefit from several pillars of growth. These include 1) growth of the immunocompromised patient population, 2) its extended-spectrum and benign safety profile and 3) the strong existing franchises of current licensees Astellas (US) and Pfizer (Europe, Israel and Asia/Pac) as well as distributors. Momentum has continued as new geographies have been added and awareness of the differentiated profile of Cresemba increases. Given the maturity of Cresemba in major markets and the limited life cycle in the US, new territories (China in particular) take on greater significance. Additionally, we note that after many barren years, there has been some progress on the development of novel antifungals elsewhere, with olorofim (F2G) progressing to a US regulatory filing with an action date of 17 June 2023.

All eyes are on ceftobiprole for now

The 5th generation cephalosporin Zevtera (ceftobiprole) is fleshing out the current anti-infectives franchise. While recent sales performance outside of the US has been muted, we expect the long-term prospects for ceftobiprole should be boosted significantly by the potential addition of bacteraemia (and severe skin infections). The overtly positive nature of the Phase 3 programme and its potential in Staph aureus bacteraemia (including MRSA) in particular, along with severe skin (ABSSSI) and pneumonia (CABP), should facilitate the attraction of a relevant commercial partner. Success here is a key element of enabling ceftobiprole to reach its full commercial potential in the important US market for antibiotics. The company has confirmed today that it intends to enter into a commercial partnership prior to regulatory approval.

Guidance for 2023 confirms sustainable profitability

Basilea is guiding towards revenue contributions of CHF145-148m from a combination of Cresemba and Zevtera during FY'23. This represents growth of 19%-21%. Total revenue guidance of CHF155m-158m for 2023 compares favourably to our forecast of CHF131m. The expectations for significantly reduced R&D spend in 2023 following the effective withdrawal from expensive oncology development is reflected in the FY'23 guidance, with total operating spend expected to decline to circa CHF80m (from CHF104.5m).

With cash and investments of CHF108.6m at the end of FY'22, Basilea remains well capitalised to progress its pipeline ambitions.

The financial performance and fiscal prudence at Basilea have been evident throughout 2022. Pivoting back to the anti-infectives franchise 12 months ago may have been surprising, but there is no denying the attraction of near-term and sustainable profitability that the company has delivered. The key for Basilea now is to secure the longevity of the antifungal franchise, and we note the company's aspirations to replenish the franchise. In the release today, the company has confirmed that the first transactions are expected in 2023. We believe that securing the longevity of the antifungal franchise would represent an important de-risking event for the company, as would the attraction of a suitable commercial partner for ceftobiprole in the key US market.

Disclosures

Calvine Partners LLP is authorised and regulated by the Financial Conduct Authority for UK investment advisory and arranging activities.

This publication has been commissioned and paid for by Basilea Pharmaceutica and as defined by the FCA is not independent research. This report is considered a marketing communication under FCA Rules. It has not been prepared under the laws and requirements established to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This information is widely available to the public.

This report in the United Kingdom is directed at investment professionals, certified high net worth individuals, high net worth entities, self-certified sophisticated investors, and eligible counterparties as defined by Financial Services and Markets Act 2000 (Financial Promotion) Order 2000. The report may also be distributed and made available to persons to whom Calvine Partners is lawfully permitted. This publication is not intended for use by any individual or entity in any jurisdiction or country where that use would breach law or regulations or which would subject Calvine Partners or its affiliates to any registration requirement within such jurisdiction or country.

Calvine Partners may provide, or seek to provide, services to other companies mentioned in this report. Partners, employees, or related parties may hold positions in the companies mentioned in the report subject to Calvine Partners' personal account dealing rules.

Calvine Partners has only used publicly available information believed to be reliable at the time of this publication and made best efforts to ensure that the facts and opinions stated are fair, accurate, timely and complete at the publication date. However, Calvine Partners provides no guarantee concerning the accuracy or completeness of the report or the information or opinions within. This publication is not intended to be an investment recommendation, personal or otherwise, and it is not intended to be advice and should not be treated in any way as such. Any valuation estimates, such as those derived from a discounted cash flow, price multiple, or peer group comparison, do not represent estimates or forecasts of a future company share price. In no circumstances should the report be relied on or acted upon by non-qualified individuals. Personal or otherwise, it is not intended to be advice and should not be relied on in any way as such.

Forward-looking statements, information, estimates and assumptions contained in this report are not yet known, and uncertainties may cause the actual results, performance or achievements to be significantly different from expectations.

This report does not constitute an offer, invitation or inducement to engage in a purchase or sale of any securities in the companies mentioned. The information provided is for educational purposes only and this publication should not be relied upon when making any investment decision or entering any commercial contract. Past performance of any security mentioned is not a reliable indicator of future results and readers should seek appropriate, independent advice before acting on any of the information contained herein. This report should not be considered as investment advice, and Calvine Partners will not be liable for any losses, costs or damages arising from the use of this report. The information provided in this report should not be considered in any circumstances as personalised advice.

Calvine Partners LLP, its affiliates, officers or employees, do not accept any liability or responsibility with regard to the information in this publication. None of the information or opinions in this publication has been independently verified. Information and opinions are subject to change after the publication of this report, possibly rendering them inaccurate and/or incomplete.

Any unauthorised copying, alteration, distribution, transmission, performance, or display, of this report, is prohibited.