

Valneva SE

France / Biotechnology

Euronext Paris

Bloomberg: VLA FP

ISIN: FR0004056851

€50m placement

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 5.40**

46.3%

High

U.S. PROFILE RAISED, FUTURE FINANCING OPTIONS INCREASED

Valneva has raised a gross €50m through a private placement. Around 81% of the placement was allocated to US investors, including several high profile healthcare funds. Valneva's end-June cash position was €37.7m. We forecast an aggregate free cash outflow of €18.6m until the end of 2020. Valneva's medium term clinical development programme (phase I trials in Chikungunya and Zika and the imminent start of a phase II trial in Lyme disease) are thus amply financed. We had previously assumed that the costs of the phase III trial in Lyme disease, which we expect to start during 2021, would be fully borne by a partner. However, following discussions with management, we now expect Valneva to share the cost within the framework of a co-development agreement. We note that Glaxo Smith Kline (GSK), has an option to partner on the trial. However, even if the costs are split 50-50, Valneva's share might amount to ca. USD175m. Besides strengthening Valneva's financial position, the US-led placement should prove useful in developing relationships which may be helpful in funding the Lyme phase III trial. We have adjusted our model to reflect the dilution arising from the just completed issue and an assumed USD100m capital raise towards the end of 2020. Given our expectation that Valneva will be co-financing the phase III Lyme Disease trial, we also raise our PACME (profit after costs and marketing expenses) margin forecast from 12% to 50%. We now see fair value for the stock at €5.40 (previously: €5.80). We maintain our Buy recommendation.

US funds took 81% of issue but European shareholders also participated
 Valneva has raised a gross €50m through a private placement of 13,333,334 new shares (equivalent to a ca. 17% increase in the share capital) at €3.75. 81% of the issue was allocated to US investors but two of Valneva's European shareholders, Groupe Grimaud and MVM took 12.0% and 6.0% of the issue volume respectively. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015	2016	2017	2018E	2019E	2020E
Revenue (€m)	78.36	94.06	105.29	113.88	124.52	136.26
Y-o-y growth	84.7%	20.0%	11.9%	8.2%	9.3%	9.4%
EBIT (€m)	-6.75	-42.57	-3.95	-2.29	1.42	1.74
EBIT margin	n.a.	n.a.	n.a.	n.a.	1.1%	1.3%
Net income (€m)	-20.62	-49.18	-11.48	-6.61	-1.83	-2.27
EPS (diluted) (€)	-0.28	-0.66	-0.15	-0.08	-0.02	-0.02
DPS (€)	0.00	0.00	0.00	0.00	0.00	0.00
FCF (€m)	-22.35	2.82	8.79	-5.09	-0.42	-0.51
Net gearing	41.4%	40.3%	36.1%	-6.7%	-6.5%	-44.9%
Liquid assets (€m)	42.57	42.18	38.06	65.46	50.05	125.45

RISKS

Risks include, but are not limited to development, partnering, regulatory, competition and retaining management risks.

COMPANY PROFILE

Valneva is a fully integrated, commercial stage biotech company focused on developing innovative vaccines for diseases with unmet medical need. The company has a portfolio of two commercialised travel vaccines and four vaccines in clinical development for infectious diseases. Valneva is incorporated in France and has approx. 400 employees.

MARKET DATA

As of 03 Oct 2018

Closing Price	€ 3.69
Shares outstanding	90.92m
Market Capitalisation	€ 335.48m
52-week Range	€ 2.67 / 4.15
Avg. Volume (12 Months)	138,611

Multiples	2017	2018E	2019E
P/E	n.a.	n.a.	n.a.
EV/Sales	3.4	3.1	2.8
EV/EBIT	n.a.	n.a.	249.3
Div. Yield	0.0%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2018

Liquid Assets	€ 37.72m
Current Assets	€ 79.52m
Intangible Assets	€ 46.61m
Total Assets	€ 181.48m
Current Liabilities	€ 46.19m
Shareholders' Equity	€ 91.94m

SHAREHOLDERS

Groupe Grimaud La Corbière	15.1%
Bpifrance Participations SA	8.2%
MVM Funds	7.3%
Management, Employees, others	2.1%
Free Float, other	67.3%



In addition to its ongoing commercial sales of the vaccines Ixiaro (against Japanese encephalitis) and Dukoral (used against cholera and in certain territories ETEC-induced travellers' diarrhea), Valneva has three further vaccines under clinical development.

Phase II trial in Lyme disease to start by end 2018 The company is currently preparing a protocol of a phase II clinical trial of VLA15 against Lyme disease and will submit it for approval by the FDA soon with a view to initiation of the trial by the end of this year. The main objective of the phase II trial will be dose optimization. The company additionally intends to investigate two higher doses than the ones used in the Phase I trial. The study will include approximately 800 subjects in the US and the EU at more than 10 study sites. The company is also currently running a study with 60 patients from the Phase I trial to investigate booster performance. The results from the booster extension study will be available in H1/19. Valneva anticipates results from the Phase II study in H2 2020.

The Chikungunya and the Zika phase I trials are making good progress. Data from these trials are expected in early 2019 and late 2018/early 2019 respectively.

We expect a phase III Lyme disease trial to start in 2021 During the summer management stated that the potential Phase III trial in Lyme disease will likely involve approximately 16,000 subjects in high-risk endemic areas of the US and Europe (probably also Canada).

Buy recommendation maintained; price target lowered to €5.40 from €5.80 We have changed our P&L forecasts to 2020 (see figure 1) to reflect the impact on net interest income of the just completed €50m share issue and the USD100m issue we envisage for 2020. Starting with 2018, we have also raised each year's G&A forecast by €1m. Given our expectation that Valneva will be co-financing (50-50) the phase III Lyme disease trial, we also raise our PACME (profit after COGS and marketing expenses) margin forecast from 12% to 50%. However, as far as our valuation model is concerned (see figures 2 and 3), the impact of this increase is outweighed by the dilutive impact of the just completed issue and the USD100m capital raise we assume in 2020. We now see fair value for the Valneva share at €5.40 (previously: €5.80). We maintain our Buy recommendation.

Figure 1: Changes to our forecasts

All figures in EUR '000	2018E			2019E			2020E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Product revenues	102,732	102,732	0.0%	113,366	113,366	0.0%	125,111	125,111	0.0%
Revenues collab., licensing, serv.	11,151	11,151	0.0%	11,151	11,151	0.0%	11,151	11,151	0.0%
Total revenues	113,883	113,883	0.0%	124,518	124,518	0.0%	136,262	136,262	0.0%
Gross profit	68,202	68,202	0.0%	76,150	76,150	0.0%	85,649	85,649	0.0%
Gross margin	59.9%	59.9%	-	61.2%	61.2%	-	62.9%	62.9%	-
EBITDA	5,197	4,197	-19.2%	9,448	8,448	-10.6%	10,000	9,000	-10.0%
EBITDA margin	4.6%	3.7%	-	7.6%	6.8%	-	7.3%	6.6%	-
EBIT	-1,287	-2,287	-	2,420	1,420	-41.3%	2,738	1,738	-36.5%
EBIT margin	n.a.	n.a.	-	1.9%	1.1%	-	2.0%	1.3%	-
Net financial result	-2,977	-3,221	-	-2,344	-1,821	-	-2,084	-2,149	-
EBT	-4,264	-5,508	-	77	-401	n.m.	654	-411	n.m.
Income taxes	-1,250	-1,100	-	-1,625	-1,430	-	-2,113	-1,859	-
Net income / Net loss	-5,514	-6,608	-	-1,548	-1,831	-	-1,459	-2,270	-
EPS (in EUR, dil.)	-0.07	-0.08	-	-0.02	-0.02	-	-0.02	-0.02	-

Source: First Berlin Equity Research estimates



Figure 2: Valuation model

Compound	Project ¹⁾	Present Value	Target Pop	Vaccine Cost	Market Size	Penetration Rate	Sales 2030	PACME Margin ²⁾	Discount Factor	Time to Market
Ixiaro	Japanese Encephalitis	€624.3M	21,112K	€198	€4,180M	2.6%	€175M	49%	10%	-
Dukoral	Cholera & ETEC	€201.6M	56,000K	€40	€2,240M	2.5%	€8M	36%	10%	-
VLA84	Clostridium Difficile	€67.5M	60,000K	€248	€14,870M	2.2%	€425M	12%	10%	8 Years
VLA15	Lyme Disease	€271.7M	120,000K	€135	€16,145M	3.2%	€37M	50%	10%	7 Years
VLA 1553	Chikungunya virus	€72.3M	25,000K	€164	€4,091M	22%	€125M	42%	10%	7 Years
VLA 1601	Zika virus	€56.1M	145,000K	€145	€20,959M	1.4%	€37M	7%	10%	7 Years
EB66 cell line	Technology Platform	€53.1M					€23M	21%	10%	-
PACME PV		€1,346.7M			€62,491M		€1,515M			
Costs PV ⁴⁾		€907.5M								
NPV		€439.2M								
PV grants, collabs., 3rd party distrib.		€75.7M								
Net cash (pro-forma)		€96.6M								
Fair Value		€611.6M								
Share Count (fully diluted)		112,397K								
Price Target		€5.40								

1) A project typically refers to a specific indication or, where necessary or relevant, a combination between indication and geographic market

2) PACME (Profit After Costs and Marketing Expenses) reflects the company's profit share on future revenues.

This share may be derived in the form of royalties (outsourced marketing/manufacturing) or operating EBITDA margin (in-house model), or some mix of both (depending on the specific parameters of partnership agreements)

3) Remaining patent life after the point of approval

4) Includes company-level R&D, G&A, Financing Costs and CapEx; COGS and S&M are factored into the PACME margin for each project

Source: First Berlin Equity Research estimates

Figure 3: Changes to our valuation model

	Old	New	Delta
PACME PV	€1,212.0M	€1,346.7M	11.1%
Costs PV	€797.1M	€907.5M	13.8%
NPV	€414.9M	€439.2M	5.9%
PV grants, collabs., 3rd party distrib.	€73.0M	€75.7M	3.8%
Net cash (pro-forma)	-€26.6M	€96.6M	n.m.
Fair Value	€461.3M	€611.6M	32.6%
Share Count (fully diluted)	79,940K	112,397K	40.6%
Price Target	€5.80	€5.40	-6.9%

Source: First Berlin Equity Research estimates



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Product sales	61,545	80,428	92,619	102,732	113,366	125,111
Collaborations, licensing & services	16,814	13,634	12,672	11,151	11,151	11,151
Revenues	78,359	94,062	105,291	113,883	124,518	136,262
Total revenues	78,359	94,062	105,291	113,883	124,518	136,262
Cost of materials/Goods sold	46,961	43,076	45,979	45,681	48,368	50,613
Gross Profit	31,398	50,986	59,312	68,202	76,150	85,649
Sales & marketing	9,121	16,639	17,875	22,000	23,000	24,500
General & administrative	14,394	14,412	15,545	18,000	18,500	18,500
Research & development	25,367	24,589	23,356	31,250	34,000	41,500
Impairment of fixed assets & intangibles	0	34,109	3,568	0	0	0
Amortization of Intangibles	7,273	7,137	7,163	3,385	3,347	3,445
Other Operating Items, net*	4,823	3,332	4,241	4,146	4,117	4,034
Gain on bargain purchase	13,183	0	0	0	0	0
Operating income (EBIT)	-6,751	-42,568	-3,954	-2,287	1,420	1,738
Net financial result	-13,642	-6,260	-8,606	-3,221	-1,821	-2,149
Pre-tax income (EBT)	-20,393	-48,828	-12,560	-5,508	-401	-411
Income taxes	-224	-356	1,078	-1,100	-1,430	-1,859
Net income / loss	-20,617	-49,184	-11,482	-6,608	-1,831	-2,270
EPS	-0.28	-0.66	-0.15	-0.08	-0.02	-0.02
EBITDA**	-8,492	2,811	10,755	4,197	8,448	9,000

*Note 1: Other operating income includes the former top line position of grants income

**Note 2: EBITDA for 2015 and 2016 are adjusted for a one-off bargain purchase and impairment of intangibles respectively



BALANCE SHEET

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Assets						
Current Assets, Total	116,383	91,197	83,448	113,248	101,185	179,933
Cash and cash equivalents	42,567	42,180	38,055	65,464	50,048	125,452
Receivables	15,754	16,912	17,622	19,778	21,556	23,496
Inventories	26,687	22,701	19,931	19,774	20,937	21,909
Other current assets	31,375	9,404	7,840	8,232	8,644	9,076
Non-Current Assets, Total	158,804	115,686	105,896	102,968	99,915	96,586
Property, plant & equipment	42,439	39,039	38,374	37,805	37,071	36,157
Intangibles	98,567	58,959	48,468	46,283	44,136	41,890
Other assets	17,798	17,688	17,368	17,194	17,022	16,852
Deferred tax assets	0	0	1,686	1,686	1,686	1,686
Total Assets	275,187	206,883	189,344	216,217	201,100	276,519
Shareholders' Equity & Debt						
Current Liabilities, Total	46,362	38,890	37,675	34,114	31,151	22,652
Short-term debt	25,687	20,959	17,399	13,749	10,098	1,000
Accounts payable	10,698	7,808	9,527	9,465	10,022	10,487
Other current liabilities and provisions	2,664	2,439	2,896	2,896	2,867	2,838
Tax and employee-related liabilities	6,888	7,123	7,531	7,682	7,835	7,992
Income tax payables	425	561	322	322	328	335
Longterm Liabilities, Total	84,490	67,942	59,000	48,542	38,219	33,495
Long term debt	76,568	61,544	54,097	42,747	31,398	25,496
Deferred tax liabilities	112	65	65	65	65	63
Other liabilities	7,810	6,333	4,838	5,730	6,756	7,936
Shareholders Equity	144,335	100,051	92,669	133,561	131,730	220,371
Total Consolidated Equity and Debt	275,187	206,883	189,344	216,217	201,100	276,519
Ratios						
Current ratio (x)	2.51	2.34	2.21	3.32	3.25	7.94
Quick ratio (x)	1.93	1.76	1.69	2.74	2.58	6.98
Net gearing	41.4%	40.3%	36.1%	-6.7%	-6.5%	-44.9%
Book value per share (€)	1.98	1.34	1.20	1.65	1.45	2.43
Equity ratio	52.4%	48.4%	48.9%	61.8%	65.5%	79.7%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017	2018E	2019E	2020E
Net income / loss	-20,617	-49,184	-11,482	-6,608	-1,831	-2,270
Depreciation and amortization	11,442	11,269	11,141	6,485	7,028	7,262
Impairment	0	34,109	3,568	0	0	0
Share based payments	1,018	1,428	811	892	1,026	1,180
Tax provision	224	357	-1,078	1,100	1,430	1,859
Changes in Working Capital	-14,585	3,032	4,199	-2,453	-2,824	-2,908
Other Adjustments	2,690	5,494	5,670	-776	-1,098	-1,526
Operating cash flow	-19,828	6,505	12,829	-1,360	3,731	3,597
Property, Plant and equipment	-1,726	-2,411	-2,890	-2,531	-2,947	-2,903
Investments in intangibles	-792	-1,270	-1,148	-1,200	-1,200	-1,200
Free cash flow	-22,346	2,824	8,791	-5,091	-416	-505
Acquisitions & disposals, net	-24,180	15,279	-94	0	0	0
Interest received	133	3,290	72	0	0	0
Investing cash flow	-26,565	14,888	-4,060	-3,731	-4,147	-4,103
Debt financing, net	22,185	-23,331	-5,415	-15,000	-15,000	-15,000
Equity financing, net	42,010	7,471	-43	47,500	0	90,909
Interest expense	-4,506	-10,932	-4,980	0	0	0
Cash flow from financing	59,689	-26,792	-10,438	32,500	-15,000	75,909
Forex & other effects	-246	-1,241	-53	0	0	0
Net cash flows	13,050	-6,640	-1,722	27,409	-15,416	75,404
Cash, start of the year	28,857	41,907	35,267	33,545	65,464	50,048
Cash, end of the year	41,907	35,267	33,545	65,464	50,048	125,452
Short term deposits	660	6,913	4,510	0	0	0
Cash and short term deposits, EoP	42,567	42,180	38,055	65,464	50,048	125,452
EBITDA/share	-0.12	0.04	0.14	0.05	0.09	0.10
Y-Y Growth						
Operating Cashflow	n.a.	n.a.	97.2%	n.a.	n.a.	-3.6%
Free cashflow	n.a.	n.a.	211.3%	n.a.	n.a.	n.a.
EBITDA/share	n.a.	n.a.	268.8%	-62.6%	79.1%	6.5%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	26 April 2017	€2.52	Buy	€4.00
2...8	↓	↓	↓	↓
9	27 March 2018	€3.63	Buy	€6.00
10	18 May 2018	€4.01	Buy	€6.00
11	3 August 2018	€4.11	Buy	€5.80
12	Today	€3.69	Buy	€5.40

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Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

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At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

SUBJECT TO CHANGE

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Legally required information regarding

- key sources of information in the preparation of this research report
- valuation methods and principles
- sensitivity of valuation parameters

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

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