Significant Potential in Unique Dry Eye Drug

RP101 Has Blockbuster Potential

Redwood Pharma develops ophthalmic drugs in areas with high unmet medical needs. The RP101 program targets dry eye disease (DED) in post-menopausal women by providing a low-dose treatment with estrogen to the front of the eye. After positive phase 2 results were presented in March 2020, the drug candidate is well positioned for further development in a pivotal phase 3 study. In December, US research organization Ora, Inc. published new findings on RP101 that emerged from an independent in-depth analysis. RP101 showed statistically significant clinical effect in terms of inferior corneal staining, with a difference of 0.70 against the control group on day 90. This is notable when considering that Xiidra, to which Novartis recently acquired the rights in a deal worth up to USD 5.3 billion, showed an improvement of less than 0.10 after three months of treatment.

RP501 a New OTC Product for Mild DED

The company's other program, RP501, is intended to treat milder forms of dry eye disease in a broader patient population consisting of both men and women. The completed phase 2 trial of RP101 revealed that the drug delivery platform IntelliGel had properties worth developing further. Based on these findings, Redwood Pharma has now started the project RP501 which is intended as a non-prescription therapy. Since OTC products generally have a lower price point, the sales potential of RP501 is lower, at an estimated USD 50 million per year. However, for Redwood Pharma it has the advantage that it can reach the market and generate revenue as soon as within two to three years.

We Initiate Coverage With a SEK 14 Target Price

Redwood Pharma is a development stage company and an investment does entail significant risk. However, we see great potential in the company's share price if clinical development continues to be successful. We assume that an RP101 launch will take place in 2025, and that the drug will reach peak sales of EUR 500 million. We are initiating coverage of Redwood Pharma with a SEK 14 target price. In our more optimistic bull scenario, we reach a fair value of SEK 28 per share, and in our more pessimistic bear scenario, the corresponding figure is SEK 7 per share. In January, the company also announced that it intends to move to the Nasdaq First North stock exchange.

Redwood Pharma

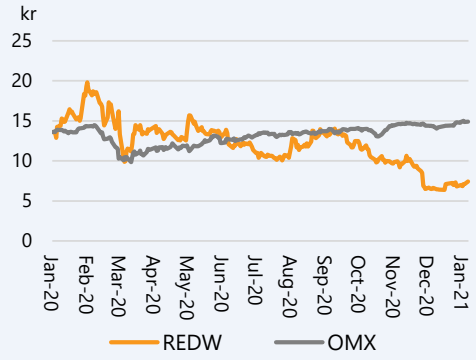
Initiating Coverage

Date	19 January 2021
Analyst	Thomas Nilsson

Basic Facts

Industry	Health Care
Chairman	Gunnar Mattsson
CEO	Martin Vidaeus
Listed Since	2016
Exchange	Spotlight
Ticker	REDW
Share price	SEK 7,42
Number of Shares, m	20.7
Market Cap, MSEK	154
Net Debt, SEK million	-29
Enterprise Value, MSEK	125
Website	www.redwoodpharma.se

Share Price Development



Source: Spotlight Stock Market

Financials, MSEK

	2019	202E	2021E	2022E
Revenue	0	0	0	0
EBITDA	-16	-15	-14	-14
Operating Profit	-16	-15	-14	-14
Pretax Profit	-16	-15	-14	-14
Net Income	-16	-15	-14	-14
EPS	-1,07 kr	-1,03 kr	-0,68 kr	-0,68 kr
Dividend	0,00 kr	0,00 kr	0,00 kr	0,00 kr
Revenue Growth	n/a	n/a	n/a	n/a
EBITDA margin	n/a	n/a	n/a	n/a
Operating Margin	n/a	n/a	n/a	n/a
Net Debt/Equity	-0,7	-0,4	-0,9	-0,6
Net Debt/EBITDA	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	n/a
EV/EBIT	n/a	n/a	n/a	n/a
EV/Sales	n/a	n/a	n/a	n/a
Dividend Yield	0,0%	0,0%	0,0%	0,0%

Investment Case

Focusing on Therapies for Dry Eye Disease

In March 2020, Redwood Pharma published successful results from the phase 2 clinical trial of RP101. In addition to ongoing discussions with potential partners, the company is planning for preparatory studies for a future phase 3 trial of RP101. Furthermore, Redwood Pharma has now officially established RP501 as a separate development project for the treatment of mild dry eye disease based on IntelliGel. This is in line with the company's ambition to develop new products to meet the needs of different patient groups with dry eye.

Positive phase 2 results for RP101 were presented in March 2020

RP101 for Post-Menopausal Women

A new in-depth study published in December 2020 showed additional strengths of the drug candidate RP101. Following the publication of the topline results of the phase 2 clinical study in March 2020, Redwood Pharma commissioned the US research organization Ora, Inc. to perform an independent in-depth analysis. During these studies, new findings were made which concluded that RP101 showed statistically significant efficacy of treatment in relation to corneal damage. RP101 showed a significant (p=0.0463) improvement of 0.70 points compared to the control group on day 90. These results are encouraging when taken into account that Xiidra, which received FDA approval largely due to inferior corneal staining, showed an improvement of just under 0.10 points (p=0.0007) after three months of treatment in a larger phase 3 study. However, it should be noted that the patient groups in these two studies were not identical. It is also worth noting that Novartis acquired the rights of Xiidra from Takeda in a deal worth up to USD 5.3 billion. In addition, these findings on the significance of treatment vis-à-vis the control group will facilitate the design of a major decisive phase 3 study. The company also looks forward to sharing these new results in discussions with potential partners. With 10 million postmenopausal women in Europe and the US suffering from dry eye disease in its target group, RP101 has significant sales potential. In our model, we forecast peak sales of EUR 500 million by 2031, which is about half of the USD 1.2 billion in sales that Xiidra is expected to reach in 2025.

RP101 showed a better effect on corneal damage than Novartis' drug Xiidra, which was acquired for up to USD 5.3 billion

OTC Drug RP501 Can Reach the Market in Two Years

In the phase 2 clinical trial of RP101, Redwood Pharma found that it is not only safe and effective. It was also found that the drug delivery platform IntelliGel was by itself able to provide relief to patients affected by mild dry eye disease**.** The company believes that RP501 has the potential to become a non-prescription product in the US and Europe. RP501 also extends the possibility of more potential partners as the product is likely to be marketed through non-pharmaceutical

Over-the-counter drug RP501 can start generating revenue within two to three years

channels. As a non-prescription product, RP501 will not have as much potential as RP101 in terms of sales. In the context of ophthalmic OTC products, annual sales of USD 50 million are considered successful. On the positive side, however, RP501 could start generating revenue for Redwood Pharma within two to three years, compared to RP101, which is not expected to be launched until 2025.

Rights Issue Provides SEK 29 Million

Redwood Pharma will carry out a rights issue that is guaranteed to 85% between January 25 and February 8, 2021. This will provide the company with at most SEK 29 million net of costs. The background is that the company is planning additional clinical studies to further validate RP101 and RP501. For an upcoming pivotal phase 3 clinical trial of RP101, Redwood Pharma plans to conduct preparatory studies on medical compatibility with contact lenses, as well as further clinical studies on tolerability when it comes to intensive use of IntelliGel. Furthermore, capital is needed to drive the development of RP501 towards regulatory approval. Of the net proceeds of approximately SEK 29 m, SEK 10 million will be used for in-depth studies of RP101, SEK 9 million for development work on the RP501 project, and SEK 10 million for working capital. The terms of the rights issue are that 13 existing shares give the holder the right to buy four newly issued shares at a price of SEK 7 per share. The rights issue is 85% secured by guarantee from the Danish fund Formue Nord Market Neutral.

The proceeds from the rights issue will be used for in-depth studies of RP101 and development work on the RP501 project

We Initiate Coverage With a SEK 14 Target Price

We see great sales potential in RP101 and forecast peak sales of EUR 500 million in 2031. This is about half of the USD 1.2 billion that Novartis' Xiidra is expected to reach in 2025. RP101 is not expected to reach the market until 2025. However, in 2021, a potential agreement with a major pharma partner could be a positive trigger for the share price. As CE approval is a less taxing process, the RP501 project will not require such large investments and this product is expected to reach the market within two to three years. We are initiating coverage of Redwood Pharma with a target price of SEK 14.

The Market for Dry Eyes

Large Unmet Medical Needs

The market potential for Redwood Pharma's drugs is substantial as 344 million people worldwide are affected by some form of dry eye disease. Redwood Pharma's business strategy is based on driving the early development of new innovative drugs and then licensing them to major pharmaceutical companies. It currently has the drug candidate RP101 and the medical device RP501 in its pipeline. Chronic or severe dry eye disease is something that affects 7% of all women after menopause.[1] In the United States alone, 4 million women who have experienced menopause suffer from moderate to severe chronic dry eye disease, and in Europe the corresponding figure is 6 million. With RP101, Redwood Pharma initially targets this large segment with a biologically active pharmaceutical substance. A market survey conducted by the company among American and European ophthalmologists shows enthusiasm around RP101 and that many of these intend to prescribe it when it comes on the market.

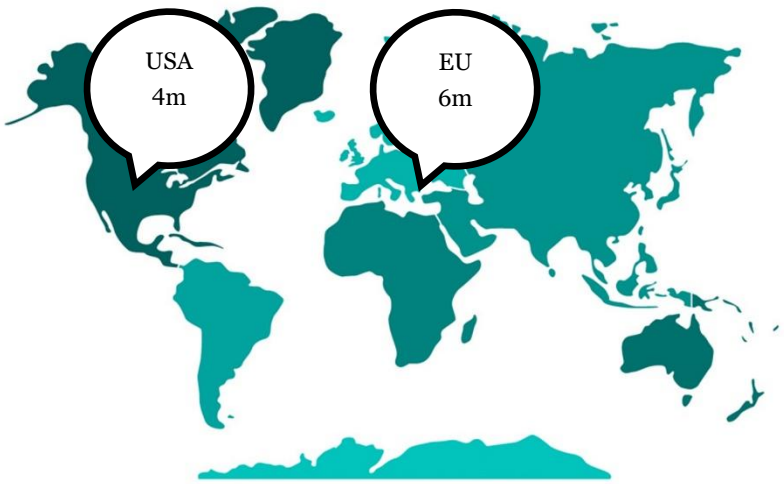
344 million people worldwide suffer from some form of dry eye disease

The Need for Better Drugs Drives Market Growth

The total market size of drugs to treat dry eye disease is estimated at USD 5.4 billion. This can be divided into eye drops and anti-inflammatory drugs that each account for about half of this. The market will grow in the future as there are still a lack of sufficiently effective therapies. The market is expected to reach USD 8.7 billion by 2030 and industry analysts believe the best-selling drugs could reach over USD 1 billion in annual sales.[2]

The market for dry eye disease drugs is expected to grow from USD 5.4 billion to USD 8.7 billion in 2030

There is room for blockbusters with over a billion dollars in annual sales in this market segment



[1] Frost & Sullivan – US Ophthalmic Disease Markets, 2006
[2] TMR – Dry Eye Disease Market 2020-2030, 2020

Novartis' Acquisition of Xiidra Shows the Potential

In 2019, Novartis announced that it was acquiring the rights to Xiidra for treatment of dry eyes disease from Takeda in a deal worth up to USD 5.3 billion. Of this, USD 3.4 billion was paid in cash. In Q3 2020, Xiidra sold for USD 102 million, and market research firm GlobalData estimates that Xiidra could reach sales of USD 1.2 billion by 2025[3]. Xiidra was approved by the FDA in 2016, and became the second drug approved for dry eyes in the US after Allergan's Restasis, which was approved in 2003. However, Novartis has temporarily withdrawn its application for market authorization in Europe for the medicine, as the EMA has come to question the clinical significance of previous study data. As Novartis does not currently have a new ongoing clinical study for Xiidra, the company decided to suspend the application with the EMA.

Novartis acquired the rights to Xiidra from Takeda in a deal worth up to USD 5.3 billion

Xiidra expected to reach USD 1.2 billion in sales by 2025

Source: Novartis

Allergan, Novartis and Santen Among the Key Players

In the market for ophthalmic drugs, the three largest companies have a combined market share of over 50%. These three companies are American Allergan, Swiss Novartis, and Japanese Santen Pharmaceutical. By being a pioneer with prescription Restasis and also having a strong portfolio of eye drops and other products, Allergan has gained a market share in the range of 30-35%. Santen Pharmaceutical has a market share of 8-10%, due to its strong position in Asia. Following the acquisition of the specialty product Xiidra from Takeda, Novartis has increased its market share, which now stands at 9-15%. The following table shows sales figures on the best-selling ophthalmic products.

[3] https://www.globaldata.com/xiidras-estimated-sales-of-us1-2bn-by-2025-will-provide-boost-for-novartis-in-ophthalmology-market/

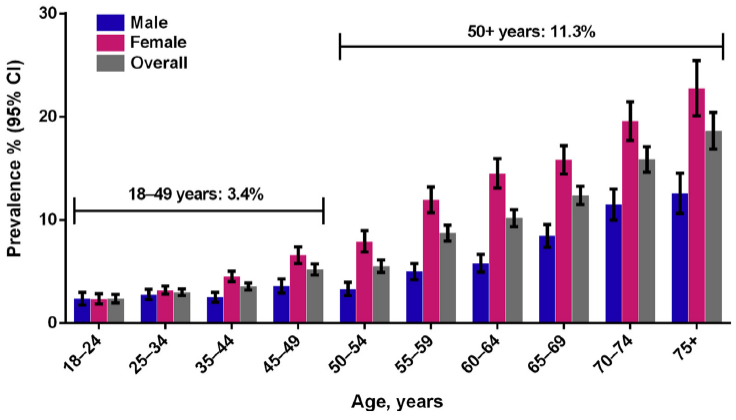
Sales of Ophthalmology Products

Company	Product	Indication	Active Ingredient	2019 Sales, MUSD	2018 Sales, MUSD
Alcon	Ocular Health	Ophthalmology		1 219	1 222
Allergan	Restasis	Dry Eye Disease	Cyclosporine	1 189	1 262
Bausch Health	Renu, Ocuvite, Biotrue, etc.	Ophthalmology		665	665
Novartis	Xiidra	Dry Eye Disease	Lifitegrast	n/a	383
Otsuka Holding	Mucosta Suspension	Ophthalmology	Rebamipide	5	5
Santen Pharma	Hyalein, Diquas, Ikervis	Ophthalmology		n/a	318

Source: Transparency Market Reserarch 2020

Growth Drivers

Dry eyes are a common problem that occurs when the eye does not produce enough tear fluid. Several factors can cause dry eye such as aging and side effects from certain drugs such as histamines, air pollution, diabetes, the use of contact lenses, as well as an increasing number of eye laser surgeries. Eye drops have long been used as a first option and there are now many variants from different manufacturers. Unfortunately, this cheaper option does not suit all patients. The chart below clearly shows how older people are more likely to suffer from dry eyes than younger ones.



Source: Transparency Market Research 2020

Market Trends

A large growing market will of course attract competition. Several companies are currently working actively with research and development in this area, and there are a number of drug candidates in clinical development. These include Allergan's Optive Super and Optive Lite MDPF in phase 2, and phase 3 respectively, and Novartis' new eye drops ECF 843 which are in phase 2. Furthermore, RegeneRx Biopharma will soon complete phase 3 on its eye drops RGN-259 and Wize Pharma begins phase 4 for its prescription eye drops LO2A for patients with Sjögren's syndrome. Harbour BioMed recently completed Phase 2 in China on HBM9036 in adult patients with moderate to severe dry eye disease. Seciera and NOV03 are two more clinical phase 3 drug candidates run by Sun Pharma and Bausch Health respectively.

RP101 for Dry Eye in Elderly Women

RP101 For Chronic Dry Eye Disease in Elderly Women

Redwood Pharma is developing a low-dose, estrogen-based local eye treatment for post-menopausal women suffering from dry eye disease (DED). Currently, there are no sufficiently reliable treatments for women with moderate to severe symptoms. RP101 will be the first hormone treatment of DED for this patient group, which targets the specific underlying biological mechanisms and increases the production of tear fluid. In Redwood Pharma's recently completed phase 2 trial in Europe, RP101 has demonstrated safety and efficacy with dosing up to twice daily.

The IntelliGel Platform Provides Sustained Release

Redwood Pharma's first product RP101 is based on an estrogen that in previous clinical studies has been shown to restore tear film production and to be an effective treatment. RP101 is intended to restore the natural level of this molecule to promote the tear film production needed to properly lubricate the anterior part of the eye. Many locally administered eye medicines have the disadvantage that the patient has to take several doses each day, which increases the risk of mismedication. A system of sustained release that keeps the drug over the eye for a longer period of time can help solve this problem. Redwood Pharma has achieved this through sustained-release platform IntelliGel, which has been licensed from Broda Technologies. IntelliGel is an odorless, clear and transparent hydrogel that forms an invisible film when applied to a warm surface. The hydrogel can reduce the diffusion rate for more than 8 hours, allowing for new treatment methods.

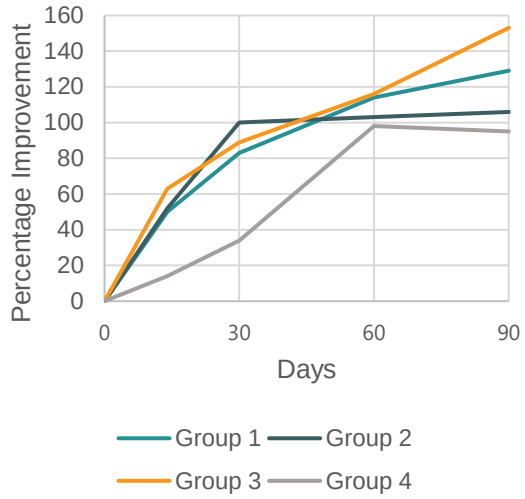
The sustained-release platform IntelliGel has been licensed from Broda Technologies

Positive Phase 2 Results for RP101

In March 2020, Redwood Pharma presented the initial results of the phase 2 study of RP101. The drug candidate showed significant efficacy against the patient's baseline in several subjective and objective endpoints. The primary endpoint, which was the production of tear fluid according to the Schirmer test, showed a rapid improvement after 14 days while maintaining efficacy throughout the study until day 90. This is much faster than what has been achieved by other products on the market. Tear fluid production increased by up to 150%, as shown in the following chart. In the phase 2 study of RP101, the sustained-release platform IntelliGel was used as a placebo. The outcome for patients who only received IntelliGel is shown as group 4 in the diagram.

RP101 increased tear fluid production by 150% after 90 days of treatment

Highest Dose Gave a 150% Increase in Tear Production



Source: Redwood Pharma, Schirmer test RP101

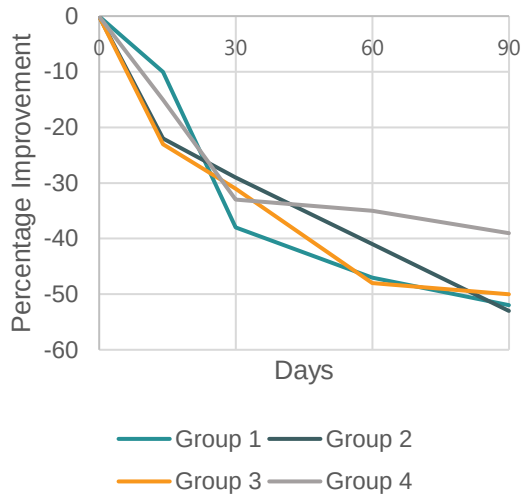
In-Depth Analysis Shows Significance Relative to Placebo

In the early results Redwood Pharma presented in March 2020, statistically significant differences between different groups that received different doses were not apparent. There was also no significant difference between the three groups treated with RP101 and group 4 which received placebo in the form of IntelliGel. However, significant differences did emerge in the in-depth analysis published in December 2020 by the US research organization Ora, Inc. These additional findings showed significant difference in patients receiving RP101 relative to IntelliGel when special subgroups were studied for inferior corneal staining. The fact that the data from the phase 2 trial now clearly show robust and significant effect even compared to the control group, means that the program has significantly improved its chances of clinical success and commercialization. In parallel with ongoing discussions with potential partners regarding commercialization, the company continues to plan for additional studies to prepare for future phase 3 trials of RP101.

In-depth analysis of Phase 2 data from Ora, Inc. shows statically significant efficacy when compared to placebo

Marked Improvement After 30 Days

To get an ophthalmic drug approved, an objective and a subjective parameter are needed, as well as two studies confirming each other. The following diagram shows how patients in a so-called SANDE test describe that their symptoms are significantly alleviated after 30 days of treatment with RP101. Here, too, group 4 were given IntelliGel and in the SANDE test there was a significant difference between RP101 and IntelliGel after 90 days.



Source: Redwood Pharma, SANDE Test RP101

RP501 Relieves Temporary Dry Eyes

The fact that the drug delivery platform IntelliGel showed such good properties in the aforementioned phase 2 study has led Redwood Pharma to start the project RP501 with the intention of developing a non-prescription product based on the carrier IntelliGel without estrogen. RP501 will therefore be a new project for the relief of temporary dry eye in both men and women. It allows for fewer dosages, one in the morning and one in the evening, instead of 5-10 times per day as when using regular eye drops. Redwood Pharma intends to apply for CE registration of RP501 as a medical device in Europe, as well as get a 510 (k) approval in the US. A market survey conducted for RP501 on 350 patients in Europe and the US gave positive results. It is also possible to use the positive phase 2 data that emerged from the study on RP101. According to a report by the American Journal of Ophtalmology in 2017, 6.8% of American adults had dry eye disease.[4] This also provides good sales potential for RP501, albeit not as large as RP101. However, the RP501 project does have the advantage that the product can start generating sales as soon as two years from now.

[4] https://www.ajo.com/action/showPdf?pii=S0002-9394%2817%2930290-8

In-Depth Analysis of RP101

New Results Reveals Additional Strengths

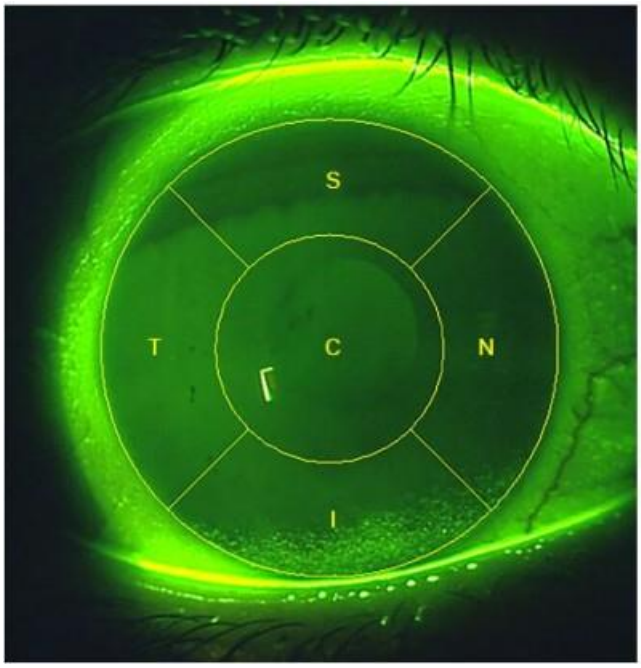
Redwood Pharma is very pleased with the outcome of both the Schirman test and the SANDE test of RP101. Phase 3 of RP101 could start within two years, but before that some additional preparatory studies need to be undertaken. The RP501 project aims for CE registration and has a maximum of two to three years before it reaches the market. This would of course also validate the RP101 project. A pivotal phase 3 study with RP101 has to be designed to harmonize various different requirements. The company believes it has strong candidates for endpoints in a future phase 3 study of RP101.

Corneal Staining a Possible New Endpoint for RP101

The challenge in treating dry eye disease is finding significant effect in relation to placebo as the symptoms are due to an instability in the tear film. As soon as water is added to the eye, the patient gets better. One option here is to continue looking at corneal staining which is the endpoint that was used when Novartis' Xiidra was approved. One then looks at different regions of the cornea. In the in-depth analysis conducted by Ora, Inc. on RP101, it looked even stronger than Xiidra in terms of the effect of the treatment on corneal staining. RP101 showed statistically significant efficacy in the case of corneal damage by inferior corneal staining, with a difference of 0.70 points against the control group on day 90. Xiidra, to which Novartis recently acquired the rights in a deal worth up to USD 5.3 billion, showed an improvement of just under 0.10 units after three months of treatment in a larger study.

Objective Image Analysis of Corneal Damage

Patients with dry eye disease may have difficulties with daily chores such as reading, driving, and using a computer. This can co-vary with damage to the cornea. To objectively assess this, the patient can be examined by adding a dye to the eye. By illuminating the eye with a blue light, the doctor can then see problem areas appearing as green under the blue light. In order to objectively grade damage to the cornea, the eye is divided into five different zones and scores are then given to the observations made in each zone.



Source: A Novel Scale for Describing Corneal Staining, Woods et al.
Schematic illustration of the five zones of the corneal. C (central zone), S (superior zone), N (nasal zone), I (inferior zone), T (temporal zone)

Forecasts and Valuation

RP101 has Blockbuster Potential

Redwood Pharma's RP101 will be the first hormone-based eye drug against dry eye disease that focuses on a specific underlying biological mechanism in and around the eye. This means that the drug addresses a major medical need in a well-defined market segment. According to Redwood Pharma's estimates, 4 million post-menopausal women suffer from severe to moderate dry eye in the US. In Europe, the corresponding figure is 6 million. In our baseline scenario, we assume that 20% of these 10 million potential patients are particularly interesting as they have severe symptoms. Of these 2 million, we in turn assume that 15% will be treated with RP101 by the year 2031. That would mean that 300,000 patients would be treated with RP101 by 2031. We also assume that the annual price per patient will be EUR 2400 in the US and EUR 1200 in Europe. Furthermore, we assume that Redwood Pharma receives a royalty of 15% of the sales price.

Base Case Scenario Based on Sales of 500 MEUR

In our valuation approach, we are building a base case scenario on RP101 reaching peak sales of approximately EUR 500 million five years after the expected launch in 2025. This is about half of the USD 1.2 billion that Novartis' Xiidra is expected to reach in 2025. The discount rate of 12.8% is based on a risk-free interest rate of 0%, a beta value of 1.3, a risk premium of 6.8%, and an additional small-cap premium of 4.0%. These numbers come from the PWC Risk Premia Study from 2020 and the beta value is an average for biotech companies, according to Damodaran Online.

Probability of Success for Each Clinical Phase Across All Indications

	Phase 1 to phase	Phase 2 to phase 3	Phase 3 to approval	Total
Oncology	57.6%	32.7%	35.5%	3.4%
Metabolic	76.2%	59.7%	51.6%	19.6%
Cardiovascular	73.3%	65.7%	62.2%	25.5%
CNS	73.2%	51.9%	51.1%	15,0%
Autoimmune	69.8%	45.7%	63.7%	15.1%
Genitourinary	68.7%	57.1%	66.5%	21.6%
Infectious	70.1%	58.3%	75.3%	25.2%
Ophthalmology	87.1%	60.7%	74.9%	32.6%
Vaccines	76.8%	58.2%	85.4%	33.4%
Overall	66.4%	48.6%	59,0%	13.8%
All without oncology	73,0%	55.7%	63.6%	20.9%

Source: Chi Heem Wong, Kien Wei Siah, Andrew W Lo. "Estimation of clinical trial success rates and related parameters." Biostatistics, april 2019. URL: https://academic.oup.com/biostatistics/article/20/2/273/4817524

We Model 45% Probability of Launch in 2025

The previous table illustrates the statistical probabilities of success in clinical studies given the current phase and therapeutic area. It is worth noting that cancer drugs have a markedly lower chance of successful studies and thus reduce average probabilities. As RP101 completed phase 2 in March 2020 and Redwood Pharma is preparing for a pivotal phase 3 study, we have chosen to use these statistics to model RP101s chance of reaching the market. We then get a 45% chance that RP101 will make it through all stages from the end of phase 2 until launch, $p = 0{,}607 * 0{,}749$.

We Initiate Coverage with a SEK 14 Target Price

The following table presents our valuation of Redwood Pharma in three different scenarios. Since RP101 has reached furthest in development, we base our valuation of the company on this. Of the 10 million women in Europe and the US who are eligible for treatment with RP101, we assume that 3%, or 300,000, will be treated with the drug by 2031. This would result in sales of just over SEK 5 billion for RP101, which assuming a 15% royalty rate would revenues of SEK 766 million for Redwood Pharma. We are initiating coverage of Redwood Pharma with a SEK 14 target price. In our more optimistic bull scenario, we reach a fair value of SEK 28 per share, and in our more pessimistic bear scenario, the corresponding figure is SEK 7 per share. In January, the company also announced that it intends to change its listing to Nasdaq First North.

Valuation of Redwood Pharma, Three Scenarios

	Bear Case	Base Case	Bull Case
RP101 Launch Year	2025	2025	2025
US Postmenopausal Women with Dry Eye Disease, m	4,0	4,0	4,0
EU Postmenopausal Women with Dry Eye Disease, m	6,0	6,0	6,0
% of all Patients Prescribed RP101	1,50%	3,00%	6,00%
Number of Patients Prescribed RP101	0,2	0,3	0,6
US Price per Patient per Annum, EUR	2 400	2 400	2 400
EU Price per Patient per Annum, EUR	1 200	1 200	1 200
Forecast US Sales in 2031, MEUR	144	288	576
Forecast EU Sales in 2031, MEUR	108	216	432
Forecase RP101 Sales in 2031, MSEK	2 553	5 106	10 211
Redwood Pharma Royalty Rate	15%	15%	15%
Estimated RP101 Royalties in 2031, MSEK	383	766	1 532
Operating Margin	35%	35%	35%
Operating Profit in 2031, MSEK	134	268	536
Net Income, MSEK	106	213	426
EPS in 2031 (20,7m)	5,1 kr	10,3 kr	20,6 kr
2031 P/E-Multiple	10	10	10
Fair Value per Share in 2013	51 kr	103 kr	206 kr
Discounted to 2021 Using a 13% Discount Rate	15 kr	30 kr	61 kr
RP101 Probability of Launch	45%	45%	45%
Risk Adjusted NPV per Share	7 kr	14 kr	28 kr

Source: Analysguiden

Three Reasons to Invest in Redwood Pharma

RP101 Against Dry Eyes Has Blockbuster Potential

The dry eye drug market currently stands at USD 5.4 billion and is expected to grow to USD 7.2 billion by 2025, according to a report by TMR. [5] This market research firm also believes that there is potential for a number of blockbusters, i.e., drugs that reach a billion dollars or more in annual sales. In our model, we assume that RP101 will reach annual sales of EUR 500 million by 2031, which is about half of the USD 1.2 billion that Novartis' eye medicine Xiidra is expected to have a worldwide. Redwood Pharma is in regular discussions with potential partners and in 2021 a potentially valuable cooperation agreement could be announced.

Novartis' Acquisition of Xiidra Shows the Potential

Redwood Pharma's own assessment is that RP101 has the potential to reach USD 1 billion or more in sales five years after launch in Europe and the US. Novartis recently acquired the rights to the dry eye drug Xiidra in a deal worth up to USD 5.3 billion. It is worth noting that RP101 has shown better results in assessing the effect of treatment on corneal lesions than Xiidra did. It was also this type of endpoint that formed the basis for Xiidra's market approval in the US.

RP501 To Reach the Market Within 2-3 Years

Redwood Pharma's new project RP501 is intended to relieve temporary eye dryness in a wider group of patients. Since the product will be over-the-counter, it does have lower sales potential than RP101. However, it can make a valuable contribution to Redwood Pharma if it starts generating revenue within two to three years.

[5] https://www.asdreports.com/market-research-report-562474/dry-eye-disease-diagnostics-treatment-market

Company description

Background

Redwood Pharma develops ophthalmic drugs for areas with great medical needs. The company will focus on early clinical development and move projects to a licensing deal with larger pharmaceutical companies no later than after phase 2 clinical trials. The share has been listed on the Spotlight Stock Market since June 2016 and the company has its offices in Stockholm, Sweden. The company's first project, RP101, is a biologically active drug for chronic dry eye disease among women after menopause. The drug uses the licensed drug delivery platform IntelliGel, which controls the release of the active substance.

RP101 Builds on Work by Nascent Pharmaceuticals

The RP101 project is based on the work carried out with the drug candidate iDESTRIN for eye dryness in women after menopause at the Nascent Pharmaceuticals in San Francisco. By 2010, however, this project had been suspended, despite the fact that clinical phase 2 data showed both safety and efficacy[6]. In 2012, CEO Martin Vidaeus founded Redwood Pharma with chief operating officer Hans Ageland. In order to further develop Nascent Pharmaceuticals' candidate drug for which Redwood Pharma now has the intellectual property rights, it needed to find a suitable drug delivery platform. This was because Nascent Pharmaceuticals' preparations had to be administered four times a day. With the help of IntelliGel, which was licensed from Broda Technologies in 2015[7], this has now been reduced to only one or two doses per day with RP101.

Project Portfolio Expanded with RP501

RP101 builds on the previous successful phase 2 studies and the drug consists of an estrogen that is incorporated into the carrier IntelliGel. In March 2020, new positive study results for RP101 were presented both in terms of subjective and objective parameters. This study also revealed that IntelliGel, which was used as a placebo in the study, had interesting properties of its own. This has led to the start of the project RP501, which is intended as a medical device. As this requires less investment, RP501 may reach the market within 2-3 years, while RP101 is expected to be launched only around 2025.

[6] https://www.biospace.com/article/releases/nascent-pharmaceuticals-inc-reports-positive-results-for-phase-ii-dry-eye-treatment-/
[7] https://www.brodatech.com/news06252015.html

Major Shareholders, %

Avanza Pension	10,0%
Martin Vidaeus	8,0%
Jan Petersen	4,1%
Capa Vision Ltd	2,9%
Hans Gunnar Ageland	2,8%

Source: Spotlight Stock Market

Income Statement (MSEK)

	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	0	0	0	0	0	0	0
Operating Costs	-9	-19	-14	-16	-15	-14	-14
EBITDA	-9	-19	-14	-16	-15	-14	-14
Depreciation	0	0	0	0	0	0	0
EBITA	-9	-19	-14	-16	-15	-14	-14
Amortization	0	0	0	0	0	0	0
Operating Profit (EBIT)	-9	-19	-14	-16	-15	-14	-14
Extraordinary Items	0	0	0	0	0	0	0
EBIT Excluding Extraordinary Items	-9	-19	-14	-16	-15	-14	-14
Net Financial Items	0	0	0	0	0	0	0
Pretax Profit	-9	-19	-14	-16	-15	-14	-14
Taxes	0	0	0	0	0	0	0
Minority Interests	0	0	0	0	0	0	0
Net Income	-9	-19	-14	-16	-15	-14	-14

Balance Sheet (MSEK)

	2016	2017	2018	2019	2020E	2021E	2022E
ASSETS							
Property, Plant & Equipment	0	0	0	0	0	0	0
Other Fixed Assets	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0
Other Intangible Assets	1	1	6	6	6	8	10
Other Fixed Assets	0	0	0	0	0	0	0
Total Fixed Assets	1	1	6	6	6	8	10
Inventory	0	0	0	0	0	0	0
Accounts Payable	0	0	0	0	0	0	0
Other Current Assets	0	0	0	0	1	1	2
Cash and Cash Equivalents	13	8	11	8	3	22	8
Total Current Assets	13	8	11	8	3	23	10
TOTAL ASSETS	14	9	17	14	9	31	20

Equity and Liabilities (MSEK)

	2016	2017	2018	2019	2020E	2021E	2022E
Equity	12	3	13	12	7	25	14
Minority Interests	0	0	0	0	0	0	0
Total Equity	12	3	13	12	7	25	14
Long-Term Interest-Bearing Debt	0	0	0	0	0	0	0
Other Long-Term Liabilities	0	0	0	0	0	0	0
Total Long-Term Liabilities	0	0	0	0	0	0	0
Short-Term Interest-Bearing Debt	0	0	0	0	0	0	0
Accounts Payable	0	3	0	1	0	1	1
Other Short-Term Liabilities	2	3	4	1	6	5	5
Total Current Liabilities	2	6	4	2	6	6	6
TOTAL EQUITY AND LIABILITIES	14	9	17	14	13	31	20

Cash Flow Statement (MSEK)

	2016	2017	2018	2019	2020E	2021E	2022E
CF Before Changes in Working Capital	-9	-19	-14	-16	-15	-14	-14
Changes in Working Capital	1	4	-2	-2	4	0	0
Other Items	0	0	0	0	0	0	0
Cash Flow From Operating Activities	-7	-15	-16	-18	-11	-14	-14
Cash Flow From Investing Activities	-1	0	-5	0	0	0	0
Free Cash Flow	-8	-15	-21	-18	-11	-14	-14
Cash Flow From Financing Activities	21	10	24	15	9	29	0
Cash Flow for the Period	13	-5	3	-3	-2	15	-14
Cash and Cash Equivialents	13	8	11	8	7	22	8
Net Debt (Net Cash)	-13	-8	-11	-8	-3	-22	-8

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