ANALYSGUIDEN - COMMISSIONED RESEARCH

May 29, 2019

KANCERA

CLINICAL TRIALS IN SIGHT

Contents

Biotechnology

Clinical trials in sight

The application for the Phase Ib-trial with KAND567 has been approved. Thus, Kancera may in the coming months take an important step towards a clinical trial in myocardial infarction. A new early-stage project in inflammation has been added to the pipeline.

Recently, Kancera's application for a Phase Ib-trial with KAND567 to determine dosage rate and to confirm safety in humans with intravenous administration has been approved. The trial is planned to start in June 2019. A successful trial should pave the way for a subsequent controlled Phase IIa-trial in acute myocardial infarction patients towards the end of this year. Thus, important value enhancing steps in Kancera's most advanced project may be taken in the coming six months. KAND567 is a unique project which is underlined by the fact that Kancera has been invited to present at a large scientific conference in Cardiology in September 2019.

Kancera has also announced a new drug candidate, KAND145, in the class of Fractalkine system-blockers. Although not much detail has been revealed, Kancera sees opportunities to develop treatments for niche chronic inflammation diseases. External clinical evidence confirms that the Fractalkine system is a promising drug target in e.g., Inflammatory Bowel Disease. We view the new project as a logical extension of the pipeline and are positively surprised by the rapid development. KAND145 may add clear value to Kancera's portfolio going forward if preclinical data is promising.

The expected increase in clinical activity should provide important news flow for the remainder of the year. Kanceras has an investment deal with GCF in place; however, we believe additional financing is needed towards the end of the year to enable clinical development for KAND567 in a desired pace. Accordingly, we have made revised our fair value to SEK 1.5 per share (from SEK 1.7) to account for expected dilution.

Date:	May 29, 2019
Analyst:	Niklas Elmhammer, Carlsquare (previously Jarl Securities)
Company:	Kancera AB
Listing:	Nasdaq First North Premier
CEO:	Thomas Olin
Chairman:	Erik Nerpin
Market Cap:	SEK 204m
Current share price:	SEK 1.03
Kancera in brief:	Kancera was founded in 2010 by researchers at the Karolinska Institute Cancer Research Centre. iNovacia AB and a private investor group. Kancera focuses on developing innovative small molecule therapies for CVD, cancer and inflammatory diseases. The company is currently preparing for phase IIa clinical trials in the end of 2019.
Opportunities and strengths:	Completion of phase I trials provides the flag ship project KAND567 with important validation. Shortly Kancera will conduct another phase I trial to confirm safety and tolerability in humans, and to calibrate the dosage, in intravenous administration External studies point to many applications in CVD, cancer and inflammatory diseases from blocking the Fractalkine system
Risks and weaknesses:	Drug development in cardiovascular disease indications is a challenging task. We project a financing need next year to cover planned clinical activities.
Valuation:	Bear 1.1 SEK / Base 1.5 SEK / Bull 3.0 SEK

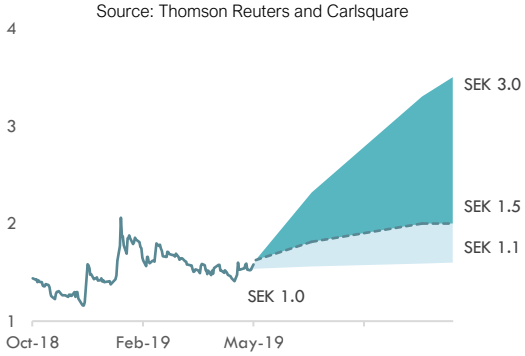
Key Figures

SEKm	2016	2017	2018	2019E
Net sales	0.3	0.1	0.1	0
EBIT	-22	-56	-45	-35
EPS, SEK	neg.	neg.	neg.	neg.
Net Cash	55	25	21	6

Source: Kancera (outcome) and Carlsquare (estimates)

KANCERA

Source: Thomson Reuters and Carlsquare



Temperature

Management

CEO Thomas Olin, COO Martin Norin and Project Director Johan Schultz has long experience from drug development from e.g., Biovitrum and Pharmacia. The management group has expanded the last two years with CMO and Business Development positions. These are important additions supporting the further clinical development of KAND567.

Management is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the management's experience, industry knowledge, business management skills, stock market confidence and previous accomplishments.

Owners

Management and board members are among the ten largest owners. Kancera has no large institutional investors as shareholders.

The owners are evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading are the owner's historical company procedures, financial strength, their representation on the board and from previous investments in similar companies or industries. Long-term preference and responsibility towards minor shareholders are also essential criteria.

Financial position

We project a financing need towards the end of 2019 to cover planned clinical activities. An investment deal with GCF provides some financial flexibility.

The financial position is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. This decision criteria considers the company's profitability, financial situation, future investment commitments and other financial obligations, potential over- and under values in the financial statement and balance sheet.

Potential

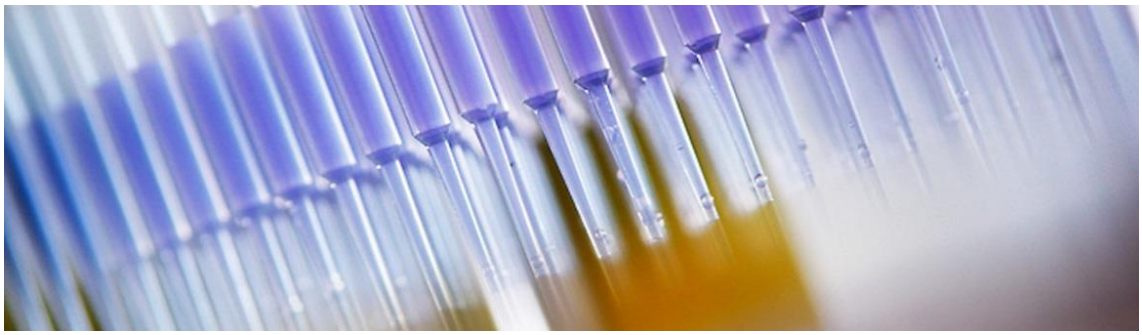
We see upside potential in the shares. This is contingent on progress the next six months in preparations for clinical trials.

The company's potential is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. Decisive for the grading is the size of the company's potential in terms of increased profit in relation to the company's trading share price today. In which market, the company operates and the prospects for that market are also decisive factors. A company can achieve a high grading even though the growth projections are modest, provided that the share price today is below the growth projections and vice versa.

Risk

Kancera's drug development projects are early-stage and thus carry considerable risk. During 2018 a phase I-study for KAND567 was completed with generally promising results

The risk is evaluated on a scale from 1-10, where grade 1 is the lowest and 10 the highest. The risk is a combined assessment of all potential risks the company can be exposed to and that affect the share price. The grading is based on a combined assessment of the company's general risk level, stock valuation, the company's competitive situation and estimations of future environmental events that can come to affect the company.



Clinical trials in sight

An important step towards a myocardial infarction study may be taken in the summer

Kancera has announced that the Swedish Medical Products Agency and the Ethics Committee have approved the application for a Phase Ib trial with KAND567. The goal is to determine dosage rate and to confirm safety in humans with intravenous administration. Results from the previous first in human study showed that KAND567 with an orally administered formulation was generally well tolerated. The intravenous administration is required for the further clinical development of a treatment for acute myocardial infarction. Kancera plans to start the trial in June 2019 and expects that it will take about two months to complete. Subsequently, Kancera will apply for a Phase IIa-trial. In our view, this should enable to initiate the latter very important study in Q4 this year, barring any major delays.

Kancera has also been invited to orally present the Fractalkine project, including preclinical results for KAND567, at the ESC Cardiology Conference in Paris in September 2019. This should be a very valuable opportunity to present the project to potential partners and KOLs at one of the largest scientific meetings in the field. Treatments targeting inflammatory pathways has long been hypothesized as potential therapies to prevent and treat cardiovascular disease. There have been some promising signs in clinical development, but no treatment has yet reached the market. KAND567 is in early development but a unique project.

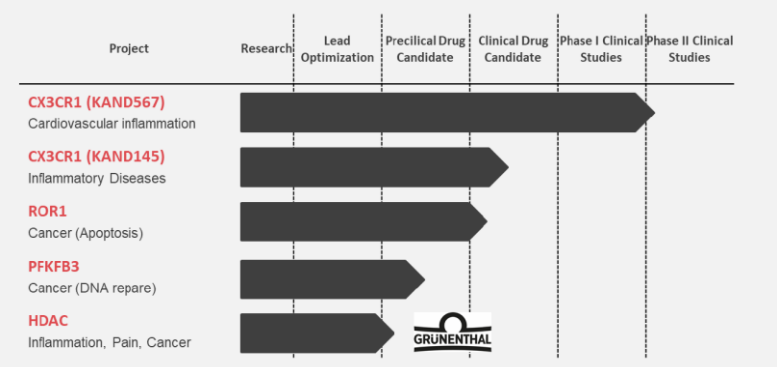
A new drug candidate could increase value of the Fractalkine project

The company has also nominated a new drug candidate, KAND145. It is a unique blocker of the Fractalkine system. At this stage, we do not exactly how it differs from KAND567. KAND145 is covered by a patent application that was filed in 2018, thus the substance patent could extend well beyond the patent for KAND567 (whose patent expires in 2027, however a patent application regarding manufacturing method was filed in 2018). Kancera sees the main opportunity for KAND145 in niche chronic inflammation diseases. Results from clinical trials with antibody drug candidate E6011 (developed by Eisai) supports the hypothesis that

blocking the Fractalkine system is viable for the treatment of autoimmune diseases. As KAND567 targets acute inflammation, KAND145 should be an interesting complement to the pipeline.

The rapid development of new compounds in the Fractalkine project is a positive sign. Given limited information at this stage, we have not yet included KAND145 in our valuation. Unveiling of preclinical data could thus be a potential value driver, in our view.

Kancera pipeline



Source: Kancera

Financial position

Preparations for upcoming clinical trials has contributed to somewhat higher costs during the last two quarters compared to our expectations. At the end of Q1, 2019, the cash position was SEK 15m. In the autumn Kancera struck a deal with U.S. family-office firm Global Corporate Finance (GCF) whereby GCF will invest a maximum of SEK 60m over 30 months in directed issues. At the end of May 2019, five million shares were issued to GCF.

In our view, Kancera has a need for additional financing to enable clinical development of KAND567 at a desired pace. A rights issue is a likely component. Additional sources of funds are research grants from EU bodies or upfront payments from possible licensing of any of the preclinical projects. In addition, outstanding warrants with subscription period in November 2019 could bring in some SEK 39m before issuing costs. As the warrants currently are "out of the money" (strike price SEK 1.95) they are however an uncertain source of capital.

Valuation

An investment in drug development is very risky and is characterized by its binary nature, in the sense that either it gets approved or not. Our preferred method is to value Kancera as the sum of estimated risk adjusted and discounted values on the projects in the portfolio.

We assume scenarios where the projects reach the market. Milestone payments and royalties are risk adjusted to reflect the probability that the development and sales materialize in our assumed scenario. We model with probabilities and use historical data from the *Biotechnology Industry Organization* (BIO) (2016) as a starting point. We have generally used a discount rate of 14.5 percent (up from previous 14.0 percent). This is based on a risk-free rate of 0.2 percent and beta value of 1.3 and a risk premium of 11 percent. The latter is based on PwC:s *Riskpremiestudien 2019* and constitutes of a market risk premium of 6.8 percent and a size related addition of 4.2 percent. The beta value is an average for biotech according to *Damodaran Online*.

Slight decrease in Fair Value on assumed dilution

We make no adjustments to assumptions on sales forecasts or attrition rates for the individual projects. As stated above we have raised the discount rate somewhat, this however is largely compensated by a higher US dollar rate. A larger cash burn than anticipated has decreased the calculated fair value to SEK 351m (SEK 369m).

In our base case scenario, we have assumed additional financing mainly for the Phase IIa-trial. We have projected a share issue of SEK 39m, corresponding to the amount that could be raised if all outstanding warrants were to be exercised. We have assumed a similar pre-money valuation as the previous rights issue in 2018. The share issue is risk adjusted with a probability of 90 percent.

Kancera sum-of-the-parts valuation

Project	Phase	Peak Sales (USDm)	Risk adjusted NPV (SEKm)	Per share (SEK)	Assumption
KAND567, CVD (MCI)	I	1,000	268	1.4	10 % LOA, 15 % royalty, USD 400m mst
ROR-1, CLL	Preclin.	300	43	0.2	9 % LOA, 5% % royalty, USD 250m mst., 60 % discount
PFKFB3, ovarian cancer	Preclin.	250	31	0.2	4 % LOA, 5 % royalty, USD 250m mst., 60 % discount
HDAC6, Multiple Myeloma	Preclin.	300	23	0.1	3 % LOA, 5 % royalty, USD 250m mst. , 60 % discount
Grünenthal deal		1,000	21	0.1	4% LOA, 5 % royalty, USD 38m, mst.
Overhead			-46	-0.2	SEK 13m per year
Net debt			11	0.1	Q2 2019 (E)
Total			351	1.8	197.8m shares
GCF-avtal			55		55m new shares
Total, after dilution			406	1.6	255m shares (GCF + payment Acturum)
Additional financing			36		
After dilution			442	1.5	

Source: Carlsquare

Assuming full dilution from the investment deal with GCF and additional financing we calculate a fair value per share of SEK 1.5, down from SEK 1.7 previously.

- In a bull scenario, in about six months' time, we assume preparations for the phase IIa trials have proceeded according to plan and that the study is initiated towards the end of the year . We have also assumed that a license deal for the preclinical ROR-1 project can provide non-dilutive

financing. We also add a value of SEK 100m for the KAND145 project. This raises fair value to about SEK 650m or SEK 3.0 per share assuming dilution from outstanding warrants.

- In a bear scenario we assume no further development of the preclinical projects and assign them no value in our model (with exception of the Grünenthal deal). We also assume a more prolonged clinical development and that the phase I study is not completed by the end of the third quarter. We also assume less favourable terms for additional financing. We derive a fair value of SEK 1.1 per share in this scenario.

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