

Pixium Vision

FY20 update

FY20 results in line, awaiting merger updates

Pixium Vision recently announced its FY20 results, which were generally in line with our forecasts. While revenue (predominantly research tax credits and grants) of €2.1m exceeded our €1.7m forecast, G&A costs (€4.0m excluding depreciation) were above expectations, largely due to costs associated with preparations for the Second Sight transaction. Normalised operating loss of €8.0m (excluding a €0.4m impairment charge) was in line with our €7.9m forecast. We are maintaining our valuation approach for Pixium (excluding any contribution from Second Sight) at this time but will revise it on completion of the transaction. After rolling forward our estimates and adjusting G&A forecasts, we now obtain an rNPV of €138.7m for Pixium Vision (standalone) versus €134.0m previously.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/19	1.8	(9.8)	(0.44)	0.0	N/A	N/A
12/20	2.1	(8.7)	(0.26)	0.0	N/A	N/A
12/21e	1.6	(11.0)	(0.25)	0.0	N/A	N/A
12/22e	1.6	(15.5)	(0.34)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Awaiting updates on the MoU

On 6 January, Pixium announced that it had entered into a memorandum of understanding (MoU) with Second Sight (EYES, Nasdaq) to combine their businesses, enabling both companies to pool their resources in complementary sight-restoration neuromodulation technologies and build a one-company solution for many causes of blindness. Pixium will become a holding company that owns 60% of the combined company's assets (which includes Pixium's retinal neuromodulation assets and 40% of a subsidiary containing the Orion-related assets), before the consideration of a \$25m financing that will be carried out at the level of the newly combined company (and is a condition for completion of the transaction). The transaction is subject to shareholder and French regulatory approval, the attainment of a \$25m capital raise (not yet committed) and is guided to close by early Q221.

Current cash runway into FY22; PRIMAvEra underway

In January 2021, Pixium raised another €1.25m tranche from its ESGO financing facility and we estimate that its current funds on hand should last into FY22. In late 2020, Pixium started the PRIMAvEra European pivotal study of the Prima Bionic Vision System in patients with dry age-related macular degeneration with geographic atrophy, which could provide top-line data in H222. Without considering the combination with Second Sight, our model assumes Pixium will need to raise €35m in funds before 2024 to bring Prima to commercial launch.

Valuation: Awaiting transaction close

After rolling forward our estimates and adjusting G&A assumptions, we obtain an rNPV (enterprise value excluding net cash) for Pixium Vision (standalone) of €138.7m (vs €134.0m previously) but will revisit our assumptions once the necessary steps for the proposed MoU are finished and/or the transaction reaches completion.

Healthcare equipment & services

3 March 2021

Price €0.97

Market cap €43m

\$1.23/€

Net cash (€m) at 31 December 2020 (excluding lease liabilities) 3.3

Shares in issue 44.0m

Free float 60%

Code ALPIX

Primary exchange Euronext Growth Paris

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (4.4) 32.3 30.9

Rel (local) (7.9) 27.2 20.6

52-week high/low €1.25 €0.50

Business description

Pixium Vision develops bionic vision systems for patients with severe vision loss. Its lead product, Prima, is a wireless sub-retinal implant system designed for dry-AMD. The company recently started a European pivotal study.

Next events

36-month data from EU feasibility study Q121

Closing of transaction with Second Sight H121

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FY20 financial update

Pixium recently announced its FY20 results, which were generally in line with our forecasts. Revenue (predominantly research tax credits and grants) of €2.1m exceeded our €1.7m forecast, but with G&A costs (€4.0m excluding depreciation) above expectations (€2.9m), offset by R&D costs (€5.7m) slightly below our projection (€6.3m), the overall normalised operating loss of €8.0m (excluding a €0.4m impairment charge due to certain patents that Pixium decided not to maintain or which had expired) was in line with our €7.9m forecast. The higher-than-expected G&A costs were partly due to costs incurred in relation to the planned combination with Second Sight, announced in early January. Operating cash flow excluding net interest was a €6.2m loss, similar to our prior estimate. The company finished Q420 with €10.6m in gross cash and €7.2m gross debt, resulting in €3.3m in net cash (excluding €1.3m in lease liabilities). This compares with our prior estimates of €13.4m in gross cash and of €3.1m in net cash (excluding lease liabilities). Subsequent to year-end, Pixium raised an additional €1.25m in convertible debt from its ESGO financing facility.

Pixium started the PRIMAVera pivotal study for Prima in Q420 and we await further announcements on recruitment progress. PRIMAVera is an open-label, non-randomized, multi-centre, prospective, single-arm study that will implant and assess the Prima Bionic Vision System (BVS) in 38 patients. Top-line, 12-month data could be sufficient for approval purposes, although patients will be followed for three years. We believe the PRIMAVera study may provide top-line, 12-month data in H222, supporting our estimate of potential CE mark and European launch in H223. Pixium remains in discussions with US regulatory authorities to explore the possibility of conducting this study in parallel in Europe and the US which, if accepted by the FDA, could lead to a US launch earlier than our baseline estimate of H225.

Awaiting updates on combination with Second Sight

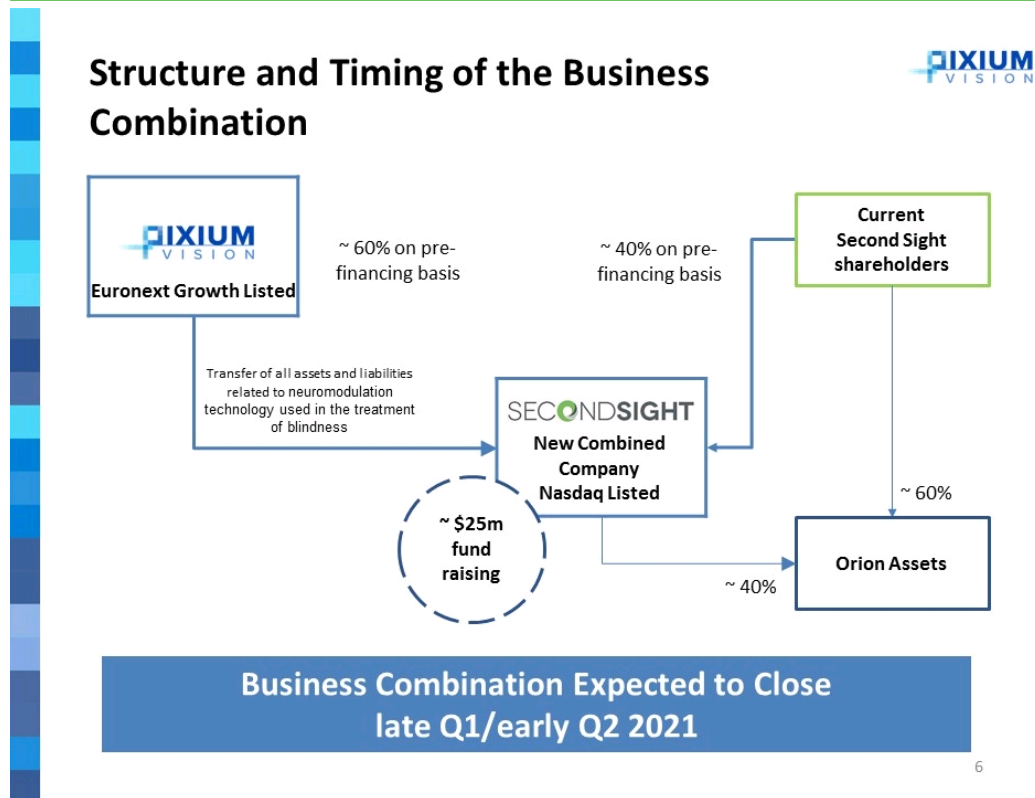
On 6 January, Pixium Vision announced that it had entered into an MoU with Second Sight to combine the two businesses. The stock-based transaction, which will also comprise a c \$25m capital raise, will enable both companies to pool their resources in complementary sight-restoration neuromodulation technologies and build a one-company solution for many causes of blindness. The combined company's Nasdaq listing may also provide broader access to US-based investors for future fund-raising needs. The transaction is subject to shareholder and French regulatory approval, the attainment of a \$25m capital raise (not yet committed) and is guided to close by early Q221.

Operationally, there should be no change in Prima's advancement as the core Prima-related operations will remain at their current location in France, and no major changes in R&D and operations headcount are anticipated. Details on the strategic rationale of the transaction and on Second Sight's Orion system are discussed in [our prior note](#).

Review of mechanics of the Second Sight transaction

The MoU lists several steps whereby Pixium Vision will become a holding company that owns 60% of the combined company's assets (which includes Pixium's retinal neuromodulation assets and 40% of a subsidiary containing the Orion-related assets), before the consideration of a \$25m financing that will be carried out at the level of the new combined company.

Exhibit 1: Structure of business combination



Source: Pixium Vision and Second Sight presentation

Under the MoU, Second Sight will form a subsidiary, SpinCo, and enter into a separation and distribution agreement and an exclusive licence agreement with SpinCo whereby:

- Second Sight will transfer to SpinCo certain intellectual property related to its Orion system and other related assets and liabilities;
- SpinCo grants Second Sight an exclusive right of first refusal to commercialise the Orion system; and
- a total of 60% of SpinCo's shares will be spun off to Second Sight shareholders before any combination with Pixium Vision.

In parallel with (and as a condition for) the formal combination, approximately \$25m is expected to be raised through a capital increase that will be carried out at the combined company (CombCo) level. Pixium will transfer all of its assets and liabilities for its Prima-related retinal neuromodulation technology to Second Sight in exchange for 34.9m newly issued Second Sight shares (currently there are 23.2m Second Sight shares outstanding). This would give Pixium 60% ownership (pre-financing) of the new Second Sight (CombCo), but this process is contingent on:

- securing a \$25m financing at the CombCo level (investment commitments have not yet been secured);
- a positive shareholder approval vote by both parties (30% of Second Sight shares have already entered into a voting agreement to vote in favour of the MoU; shareholder votes are expected in March); and
- clearance from the French Minister for the Economy (for Pixium Vision to contribute to Second Sight all its assets and liabilities in relation to its retinal neuromodulation technology).

After the transaction, Pixium Vision will effectively become a holding company, maintain its Euronext Growth listing and will hold a 60% interest (pre-financing) in CombCo. Pixium CEO Lloyd

Diamond will become the CEO of CombCo (to remain Nasdaq listed) and a general director of Pixium Vision.

Pre-financing, Pixium and its board will have effective control over CombCo's operations. However, depending on the share price and terms of the planned \$25m CombCo financing, Pixium may no longer be the majority shareholder after the financing (as we do not expect Pixium to participate in this financing), although it would still very likely be the controlling shareholder. Given Second Sight's widespread shareholder base (collectively owning 40% of CombCo pre-financing), we believe it would be very unlikely for Pixium to lose effective control over CombCo, even after the \$25m financing. Below we provide a sensitivity analysis of Pixium's ownership stake of CombCo after a \$25m financing, at different share price assumptions. On 1 March 2021, Second Sight's closing price was \$1.87 and its trading range since 6 January has been fairly wide, between c \$1.65 and \$2.70.

Exhibit 2: Scenario analysis for Pixium Vision ownership stake of CombCo after financing

Share price assumption (\$) for CombCo's \$25m capital raise	0.75	1.25	1.75	2.25	2.75
Number of CombCo shares held by Pixium Vision (m)	34.9	34.9	34.9	34.9	34.9
Total CombCo shares outstanding pre-financing (m)	58.0	58.0	58.0	58.0	58.0
Pre-financing ownership by Pixium Vision of CombCo (%)	60.1	60.1	60.1	60.1	60.1
Number of shares issued as part of \$25m financing (m)	33.3	20.0	14.3	11.1	9.1
Total CombCo shares outstanding post-financing (m)	91.3	78.0	72.3	69.1	67.1
Pixium Vision ownership stake of CombCo post-financing (%)	38.2	44.7	48.3	50.5	52.0

Source: Edison Investment Research

Financials and valuation

We have slightly adjusted our forecasts to take into account the higher than projected G&A cost burn rate in FY20, but our core valuation methodology continues to consider Pixium Vision as a standalone entity (pre-merger). Following minor increases in our G&A assumptions and after rolling forward our estimates, we now obtain an rNPV of €138.7m for Pixium Vision (standalone), versus €134.0m previously. After adding €3.3m in net cash, we obtain a valuation of €142.0m, or €3.23 per share. We reiterate that the company is planning a €25m capital increase as part of the transaction with Second Sight, which could lead to meaningful dilution.

As stated above, the company finished Q420 with €10.6m in gross cash and raised an additional €1.25m in convertible debt from its ESGO financing facility in January 2021. Without considering the combination with Second Sight, our model assumes Pixium will need to raise €35m in funds between year-end 2020 and year-end 2023, modelled as illustrative long-term debt, to complete the PRIMavera pivotal study, all EU-related regulatory and preparatory commercial activities, and bring Prima to commercial launch. We expect to revisit our assumptions once the necessary steps for the proposed MoU are completed and/or the Second Sight transaction reaches completion.

Exhibit 3: Financial summary

	€'000s	2017	2018	2019	2020	2021e	2022e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		2,535	1,598	1,782	2,092	1,600	1,600
Cost of Sales		(1,124)	(41)	0	0	0	0
General & Administrative		(5,324)	(2,019)	(3,572)	(4,017)	(3,303)	(4,185)
Research & Development		(7,817)	(5,297)	(6,563)	(5,711)	(8,000)	(10,400)
EBITDA		(11,731)	(5,758)	(8,352)	(7,636)	(9,703)	(12,985)
Depreciation		(936)	(677)	(448)	(366)	(409)	(497)
Amortization		0	0	0	0	0	0
Operating Profit (before exceptionals)		(12,666)	(6,435)	(8,801)	(8,003)	(10,112)	(13,483)
Exceptionals		0	(5,859)	(69)	(448)	0	0
Other		0	0	0	0	0	0
Operating Profit		(12,666)	(12,294)	(8,870)	(8,450)	(10,112)	(13,483)
Net Interest		(876)	(1,277)	(1,006)	(700)	(931)	(2,001)
Profit Before Tax (norm)		(13,542)	(7,712)	(9,806)	(8,703)	(11,043)	(15,484)
Profit Before Tax (FRS 3)		(13,542)	(13,571)	(9,876)	(9,150)	(11,043)	(15,484)
Tax		0	0	0	0	0	0
Profit After Tax and minority interests (norm)		(13,542)	(7,712)	(9,806)	(8,703)	(11,043)	(15,484)
Profit After Tax and minority interests (FRS 3)		(13,542)	(13,571)	(9,876)	(9,150)	(11,043)	(15,484)
Average Number of Shares Outstanding (m)		13.3	18.5	22.3	34.0	44.4	45.0
EPS - normalised (€)		(1.02)	(0.42)	(0.44)	(0.26)	(0.25)	(0.34)
EPS - normalised and fully diluted (€)		(1.02)	(0.42)	(0.44)	(0.26)	(0.25)	(0.34)
EPS - (IFRS) (€)		(1.02)	(0.73)	(0.44)	(0.27)	(0.25)	(0.34)
Dividend per share (€)		0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed Assets		9,649	3,666	4,507	3,411	3,226	2,772
Intangible Assets		7,680	2,623	2,361	1,727	1,727	1,727
Tangible Assets		1,970	1,042	2,145	1,684	1,499	1,046
Current Assets		14,241	17,756	9,107	12,721	13,570	11,493
Short-term investments		0	0	0	0	0	0
Cash		10,532	15,629	6,792	10,566	11,331	9,253
Other		3,710	2,126	2,316	2,155	2,240	2,240
Current Liabilities		(2,752)	(2,044)	(2,880)	(3,795)	(2,559)	(2,559)
Creditors		(2,752)	(2,044)	(2,880)	(3,260)	(2,023)	(2,023)
Short term borrowings		0	0	0	(536)	(536)	(536)
Long Term Liabilities		(9,302)	(8,023)	(7,033)	(7,851)	(20,351)	(32,851)
Long term borrowings		(9,130)	(7,870)	(5,787)	(6,695)	(19,195)	(31,695)
Other long-term liabilities		(172)	(153)	(1,246)	(1,157)	(1,157)	(1,157)
Net Assets		11,836	11,355	3,700	4,485	(6,114)	(21,145)
CASH FLOW							
Operating Cash Flow		(10,605)	(6,174)	(7,282)	(6,206)	(10,580)	(12,532)
Net Interest		(876)	(1,277)	(1,006)	(700)	(931)	(2,001)
Tax		0	0	0	0	0	0
Capex		(191)	(31)	(34)	(82)	(224)	(44)
Acquisitions/disposals		0	0	0	0	0	0
Financing		519	14,068	2,034	9,055	0	0
Net Cash Flow		(11,153)	6,587	(6,288)	2,068	(11,735)	(14,577)
Opening net debt/(cash)		(12,911)	(1,401)	(7,760)	(1,004)	(3,336)	8,400
HP finance leases initiated		0	0	0	0	0	0
Other		(357)	(228)	(468)	264	0	(0)
Closing net debt/(cash)		(1,401)	(7,760)	(1,004)	(3,336)	8,400	22,977
Lease debt		N/A	N/A	1,346	1,258	1,258	1,258
Closing net debt/(cash) inclusive of IFRS 16 lease debt		(1,401)	(7,760)	342	(2,078)	9,658	24,235

Source: Company accounts, Edison Investment Research

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