



Viela Bio Research (11/8/19)

Description: Viela Bio, Inc., a clinical-stage biotechnology company that engages in the research and development of treatments for severe inflammation and autoimmune diseases in the United States. The company was founded in 2017 and is headquartered in Gaithersburg, Maryland.

Ticker: VIE

Price: \$26.99

Market Cap: \$1.32B

Performance: +42% From IPO Price of \$19 on September 2nd, 2019

Dividend Yield: N/A

Analysis

Viela Bio (VIE) was spun out of MedImmune, a division of AstraZeneca (AZN), in 2017 to develop treatments for various autoimmune disease conditions.

The company is developing the following drugs:

1. Inebilizumab (more on this later)
2. VIB4920 for kidney transplantation rejection and sjögren's syndrome
3. VIB7734 for cutaneous lupus erythematosus

As we can see in the diagram below, Inebilizumab for spectrum disorder is by far their prize possession right now that can drive revenues in the near-term. The drug for this disorder is anticipated to receive BLA approval in the first half of 2020 and hit the shelves shortly thereafter.

and (in children) seizures. While no clinical features are disease-specific, some are highly characteristic.

- NMOSD has a relapsing course in 90% or more of cases.

According to research, the prevalent cases of NMOSD was 32,382 in 2016 in 7 major countries and is expected to increase during through 2027. Among the 7 major countries, the United States accounts for highest prevalent cases of NMOSD with 16,000 prevalent cases in 2016.

Viela plans on leveraging Inebilizumab to also treat:

- A. Kidney transplant desensitization
 - a. It is estimated that out of the roughly 80,000 people on the national kidney transplant waiting list, 30% of them are “sensitized”, due to high amounts of antibodies circulating in their blood.
- B. Myasthenia gravis
 - a. When the immune system produces antibodies that stimulate the thyroid gland to release excess amounts of thyroid hormone into the blood. Symptoms of Graves' disease can include bulging eyes as well as weight loss, nervousness, irritability, rapid heart rate, weakness, and brittle hair. Destruction or removal of the thyroid gland, using medicines or surgery, is usually required to treat Graves' disease.
 - b. Affects about 56,000 people in the U.S.
- C. IgG4-related diseases
 - a. A fibro-inflammatory condition that can affect nearly any organ system. Common presentations include major salivary and lacrimal gland enlargement, orbital disease, autoimmune pancreatitis, retroperitoneal fibrosis and tubulointerstitial nephritis.

These 3 areas are also large markets for Viela to address but these products are years away from hitting the markets if all approvals are obtained but what makes this a tailwind for Viela is the fact that it's the same drug that is simply being used to treat other diseases. Essentially, it is being shown as a proof of concept with NMOSD.

At this moment, VIE doesn't generate any revenue from the sale of their products which makes them a speculative investment, but the data thus far has been pretty encouraging and it does look like an approval is in their favor from our standpoint. For example, in May, Viela's product, Inebilizumab, met primary and secondary endpoints in a study for patients with NMOSD. The 231-patient study showed that Inebilizumab lowered the risk of developing an NMOSD attack by 77% in patients, compared with those who received the placebo. The company reported that the candidate also had an impact on worsening disability, hospitalizations and central nervous system lesions.

As VIE waits for approval to hit the market, the company has been sure to lock in partnerships to get it into as many countries as possible. For example, Viela and Hansoh Pharmaceutical Group Company Limited announced a collaboration focused on the development and commercialization of Inebilizumab in China in which Viela is eligible to receive an upfront collaboration fee and milestone payments of more than \$220M plus royalties on product sales. \$20M in licensing payments were recognized as revenue from this deal in the first half of 2019.

Just recently, Viela also signed another deal with Mitsubishi Tanabe Pharma Corporation to get Inebilizumab into nine Asia regions including Japan. Viela is also eligible to receive an upfront licensing fee of \$30M as well as development and commercialization milestones and payments based, in part, on sales revenue.

Since there aren't any direct product revenues coming in right now, cash burn is going to be something that investors keep a close eye on.

	Year ended	Six Months Ended	
	December 31,	June 30,	
	2018	2019	2018
	(in thousands)		
Net cash provided by (used in):			
Operating activities	\$ (29,531)	\$(25,656)	\$ (3,295)
Investing activities	(143,824)	(60)	(143,480)
Financing activities	300,253	87,856	282,253
Net increase (decrease) in cash	\$ 126,898	\$ 62,140	\$ 135,478

In their S1 filing, we see that cash net cash used in operating activities was \$25.7M and \$3.3M for the six months ended June 30, 2019 and 2018, respectively. The net cash used in operating activities for the six months ended June 30, 2019 was primarily due to their net loss of \$26.4M, partially offset by non-cash charges of \$1.3 million related to stock-based compensation expense and depreciation and cash provided by changes in our operating assets and liabilities of \$0.5 million. The net cash used in operating activities for the six months ended June 30, 2018 was primarily due to our net loss of \$159.5 million, partially offset by non-cash charges of \$144.1 million primarily related to their acquisition of IPR&D assets from MedImmune and AstraZeneca and cash provided by changes in our operating assets and liabilities of \$12.2 million.

Net cash used in investing activities was less than \$0.1 million and \$143.5 million for the six months ended June 30, 2019 and 2018, respectively. The net cash used in investing activities for the six months ended June 30, 2019 was primarily due to purchases of property and equipment. The net cash used in investing activities for the six months ended June 30, 2018 was primarily due to their acquisition of IPR&D from MedImmune and AstraZeneca and purchases of property and equipment.

Net cash provided by financing activities was \$300.3M for the year ended December 31, 2018 and was due to the proceeds from the issuance of Series A-1 and A-2 convertible preferred stock.



The company had \$189M in cash on hand as of June 30th and now with the IPO proceeds of \$150M, should have close to \$340M in cash.

Overall, the cash burn isn't too bad and some upfront licensing fees from their partnerships also helps in the short-term. The company believes this amount of cash will be sufficient enough to get them through 2022 which is great because it pushes dilution concerns away that many clinical stage pharma investors have to often deal with and worry about.

Before we step into the technical analysis, VIE seems to be one of the better clinical stage pharma companies we've done research on. The autoimmune disease market is massive. According to the National Institutes of Health (NIH), around 23.5M Americans are suffering from autoimmune disease and it is also estimated that the annual direct health care costs for autoimmune disease are near \$100B and expected to grow at an 11.2% CAGR from 2017-2023. Coupling this data with the fact that their lead drug is almost approved and the partnerships are being set up around the globe to hit the shelves is very encouraging. What's also encouraging to CUBE is how much money has been raised in the private equity market to fund Viela and also the fact that it's a spinoff from AstraZeneca who owns more than 14.2 million shares of common stock, or more than 38% of the business, according to SEC filings. Adding to this is the fact that their lead drug can serve as a proof of concept for NMOSD and help in pushing it further along to cure other related autoimmune disorders.

The downside here is that all of the VIE's eggs are in the Inebilizumab basket. If something takes a turn for the worst, Viela does not have a diversified and established product pipeline to fall back on. It all comes down to this approval as it will help set up the approvals for the rest of the disorders and give the company the necessary cash flows to invest in VIB4920 and VIB7734.

Technical Analysis



Since VIE has only recently gone public it's very tough to draw conclusions from the chart because there is little historical backtracking we can do. With what we can analyze, VIE looks like it's ready for a short-term pullback as the stock has broken above its upper Bollinger band and is overbought on W%R and RSI. Another point that needs to be made is that this rise has occurred on very little volume compared to when the stock went public. Generally, when you see a breakout and want to ensure its legitimacy and stability, you'd like to see it happen on strong volume and that is not the case here. Short-term it looks like a pullback to the trend line is likely in which it would need to hold, otherwise the stock will break to the downside and give up most of its recent gains.