

atai Life Sciences (ATAI)

EQUITY RESEARCH

March 7, 2023

Price: \$1.56

Price Target: \$11.00

Rating: Overweight

Key Statistics:

Symbol	NASDAQ: ATAI
52-Week Range	\$1.45 - \$5.80
Market Cap (\$M)	258.8
ADV (3 mo)	1,385,420
Shares Out (M)	165.9

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One-Year Price History



Quick Take

Sufficient Cash and Pipeline Progress Bode Well for Value Creation in Next 12-18 months

Takeaways

- atai announced several corporate updates and provided further visibility on potential pipeline progress
- We highlight the first patient dosing of the P2b study of RL-007 in CIAS with initial results guided for 2H24
- The company plans to initiate a P2 study of GRX-917 in an unspecified anxiety disorder
- Restructuring and pipeline updates extend cash runway to 1H26, according to atai

Summary

We reiterate our OW rating and 12-month price target of \$11 on ATAI shares. Yesterday (3/6), atai Life Sciences N.V. (“atai”) announced several corporate and pipeline development updates, from which we highlight: 1) first patient dosing of the P2b study of RL-007 (‘007, cholinergic, glutamatergic and GABA-B receptor modulator) in cognitive impairment associated with schizophrenia (CIAS) and 2) plans to initiate a P2 study of GRX-917 (‘917, deuterated etifoxine) in an unspecified anxiety disorder. Additionally, the company reiterated the acceleration of COMPASS Pathways’ P3 COMP005 trial (~22.5%, OW, \$21 PT; note [here](#)) and stated that it will explore strategic partnership options for PCN-101 (note [here](#)). Finally, atai disclosed the extension of its cash runway to 1H26 following a restructuring and the pipeline updates.

Key to us is the announcement of the first patient dosing of the P2b study of ‘007 in CIAS with initial results guided for 2H24. The randomized, placebo-controlled trial is to evaluate 20mg and 40mg of ‘007 compared to placebo in approximately 230 patients, according to [clinicaltrials.gov](#). The primary endpoint is the MATRICS Consensus Cognitive Battery (MCCB) neurocognitive composite score at week 6. Considering prior P2a results demonstrating dose-dependent improvements in Symbol Coding Test (SCT) and Hopkins Verbal Learning Task (HVLT), the former being a key component of MATRICS MCCB, we see a potential read-through vis-à-vis positive signals of pro-cognitive benefit (note [here](#)).

The company also disclosed its plans to initiate a P2 study in an undisclosed anxiety disorder that is designed to generate clinical data that best support potential registration. Since ‘917 was originally slated for development in generalized anxiety disorder (GAD), the potential change in indication catches our eye. However, as anxiety has a heterogenous patient population, we surmise the company may be pursuing a different and more narrowly classed type that could be relatively “capital efficient”. We see this “measure twice and cut once” strategy as not anxiety-producing, as we anticipate atai will provide details on initiation timing and the study design in the near future (next ~1-2 quarters).

Overall, we find the updates positive, as we believe atai is undervalued despite having a differentiated and expansive pipeline across varied mechanisms and under treated psychiatric indications (note [here](#)). In particular, we opine ‘007 and ‘917 have been consistently overlooked by investors, despite demonstrating dose-dependent effect in clinical measurements and relevant biomarkers (note [here](#)). As such, the visibility updates on the company’s pipeline are timely to set up potential value creation in the future, in our view, and we look forward to additional milestones (P1 and P2 readouts across its programs) in the next 12-18 months that we believe will reinvigorate investor interest.

Investment Thesis

atai is an emerging Neuro-Innovator that is leveraging a portfolio business strategy to generate multiple product candidates, with both psychedelic and non-psychedelic centrally acting agents. The company has invested in seven drug candidates and three enabling technologies focused on unmet mental health disorders with significant market opportunities. Key, in our view, is that atai focuses on drug candidates that have shown signals of efficacy in humans, which we believe increases the PoS for these programs. atai expects to hit several potential value-creating milestones in the next 12-18 months.

Valuation

In valuing ATAI, we use a DCF analysis in which we have estimated the free cash flow to atai by applying a 70% cash flow contribution margin to our probability-adjusted revenue projections, a 35% discount rate, & no terminal value, which yields ~\$2/share for PCN-101 in TRD (15% PoS), ~\$2/share for VLS-01 in TRD (25% PoS), <\$1/share for RL-007 for CIAS (25% PoS), ~\$1/share for DMX-1002 in OUD (25% PoS), <\$1/share for KUR-101 in OUD (25% PoS), & ~\$2/share for GRX-917 in GAD (25% PoS). We add a \$50M placeholder (<\$1/share) for EMP-01 in PTSD, a \$100M placeholder (<\$1/share) for platform enabling technologies, and a \$150M placeholder (~\$1/share) for digital platform. Lastly, we incorporate 22.5% of CMPS' (OW) EV, which yields ~\$1/share.

Risks

The company may fail to develop a formulation that has a PK/PD profile required for efficacy, such as an oral thin film formulation for DMT.

If approved, new, more efficacious products may enter the market and may compete for market share for one or all pipeline candidates.

Scheduled drugs that are part of the pipeline may not be rescheduled by the Drug Enforcement Agency which may create a barrier for commercialization.

The company may fail to secure financing for future studies or commercialization, should any of the products be approved.

The company may fail to find additional BD deals to expand the pipeline.

For candidates that currently have no patents, such as VLS-01 & KUR-101, the company may fail to secure patents and protection for those products.

Company Description

ATAI is a decentralized Neuro-Innovator drug development company focused on mental health disorders, such as treatment resistant depression (TRD), opioid use disorder (OUD) & others.

Disclosures Appendix

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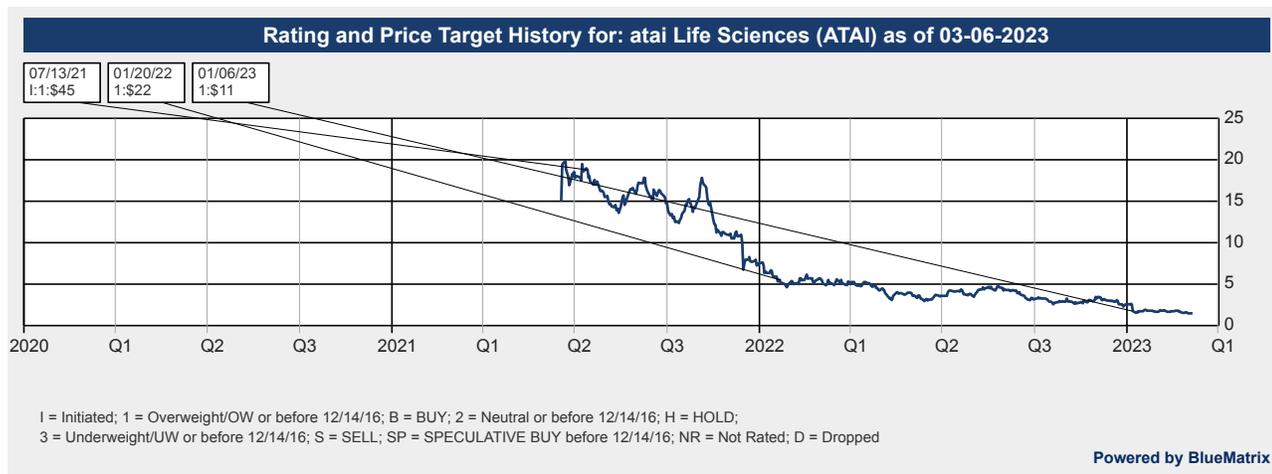
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Rating	Cantor		IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [1/B]	240	81.63	166	69.17
HOLD [2]	54	18.37	27	50.00
SELL [SL/3]	0	0.00	0	0.00



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