

AVACTA GROUP PLC (LON:AVACT)

Rapid Progress in Immuno-oncology Programs

KEY INVESTOR MESSAGES

- Faster than expected development of the second immuno-oncology (I-O) program, a LAG3 inhibitor, allows company to evolve its lead program into a more ambitious LAG3/PD-L1 bispecific aiming to enter the clinic in 2020
- Good progress of the ongoing external collaborations in two key areas: gene delivery (Moderna, OncoSec, FIT Biotech) and drug conjugates (Glythera)
- Expect further licensing deals for Affimer reagents, based on multiple on-going evaluations
- Stock price weakness reflects in our view uncertainty around a likely capital raise before year end rather than the company's strong fundamentals

RESULTS SUMMARY

Avacta Group Plc (LON:AVACT) reported interim results for the six-month period to January 31st, 2018. The company made good progress on both the Affimer therapeutics and reagents programs.

The company announced that a second I-O program (a LAG3 inhibitor) has progressed well allowing the company to leap-frog the planned first-in-man PD-L1 monotherapy and aim to take a PD-L1/LAG3 bispecific into the clinic on a similar time scale (2020). We believe that the PD-L1/LAG3 combo will have a much higher commercial appeal, as only half-dozen companies are currently working on PD-L1/LAG3 combinations and only two of those (Merck, Tesaro) have bispecific single molecules that are in pre-clinical trials. Avacta could catch up with these very quickly.

Figure 1: Avacta's target markets by segment



Source: Company presentation

The first commercial deal for Affimer reagents was signed in April 2017, and represented an important milestone in the de-risking of this business line.

Given the number of ongoing paid-for collaborations, we expect Avacta to announce at least one further licensing deal in the coming quarters.

PHARMA & BIOTECH

16/04/2018

SHARE PRICE

▲ **31.00p**

52 WEEK LOW

▲ **32.50p**

MARKET CAP

▲ **£22.4m**

52 WEEK HIGH

▲ **96.50p**

CASH

▲ **£13.2m**

NET ASSETS

▲ **£29.9m**

MAJOR SHAREHOLDERS

- 1) IP Group: 24.71%
- 2) Lombard Odier Asset: 10.74%
- 3) Aviva: 9.54%

Shares in Issue	68.99m
Avg Volume	25,725
Primary index	AIM
EPIC	LON:AVACT
Next Key Announcement	-
Sector	Pharmaceuticals and Biotechnology

SHARE PRICE CHART



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Company Information

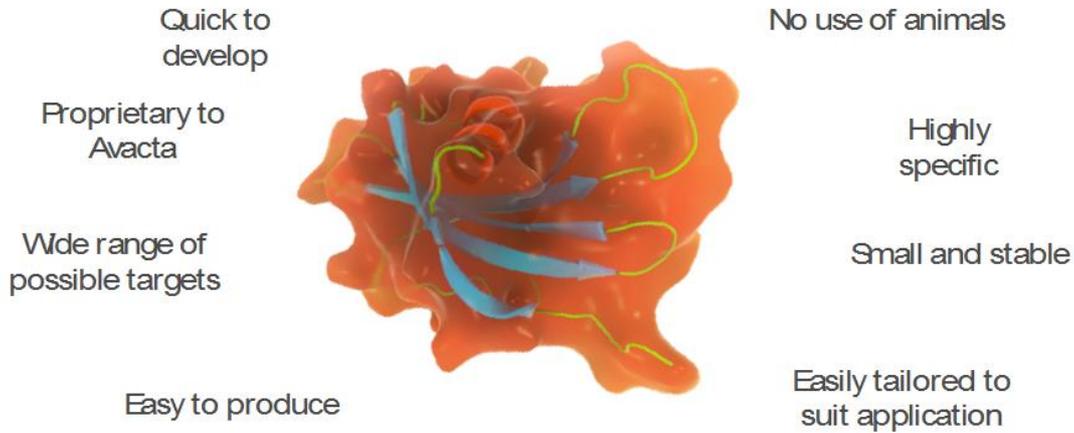
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With a cash balance of £8.3mn at the end of January 2018 and an estimated cash burn rate of £8-10mn per year, we expect the company to raise capital before year-end. Fresh money would cover R&D and operating expenses until their lead Affimer I-O programs complete the first in-human clinical studies (around 2020/2021), significantly increasing their value as licensing-out assets.

Figure 2: Key Affimers' competitive advantages



Source: Company presentation

VALUATION:

We look at Avacta using a SOTP approach that considers separately the therapeutic programs and the reagents business.

Essentially we work out "backwards" what the implied equity value should be today, assuming Affimer products reach certain commercial levels ten years from now.

We make no changes to our previously published SOTP that yields an intrinsic equity value just short of £200mn versus a current market capitalization of about £25mn.

In our view the recent weakness of the stock price is largely driven by speculation around the likely rights issue in the coming quarters.

Figure 3: Avacta SOTP valuation

Avacta's SOTP Valuation (USD million)	Market's size today	C.A.G.R.	Market's size in 2027	Affimer-based products market share	Affimer-based products sales	Market cap / Sales multiple	Equity Value	Avacta's economic interest	Equity Value to Avacta
Affinity separation	500								
Immunoassays	3,500								
Lateral flow diagnostics	5,000								
Affimers reagents (research & diagnostics)	9,000	13%	12,000	15.0%	1,800	3.0	5,400	10%	540
Affimer therapeutics	75,000	13%	100,000	3.0%	3,000	5.0	15,000	15%	2,250
Key Valuation Assumptions									
Time horizon (years)	10								
Reagents risk-adjustment	100%								
Therapeutics risk-adjustment	10%								
Discount rate	12%								
PV of Affimer-based reagents (\$ mil)	174								
PV of Affimer-based drugs (\$ mil)	72								
Avacta intrinsic equity value (\$ mil)	246								
PV of Affimer-based reagents (£ mil)	139								
PV of Affimer-based drugs (£ mil)	58								
Avacta intrinsic equity value (£ mil)	197								

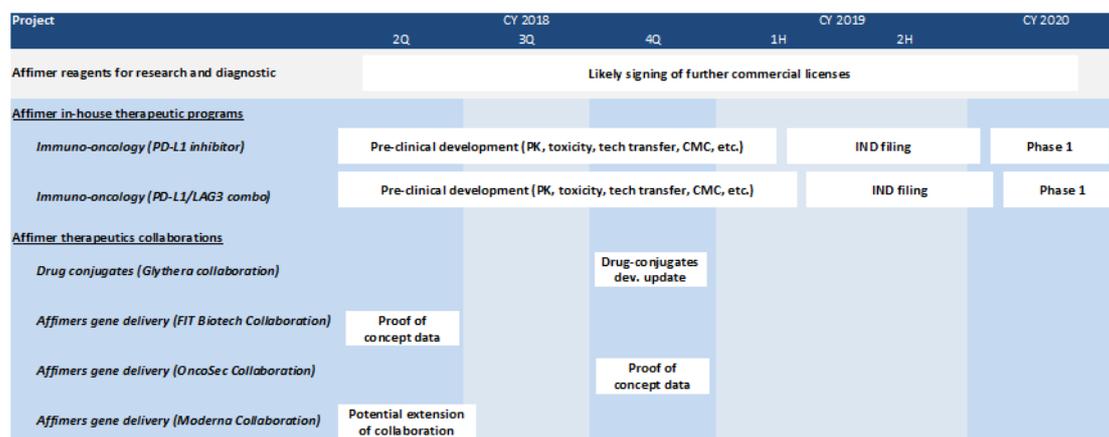
Source: Company data, CN analysis

UPCOMING MILESTONES

We have updated our chart showing key milestones expected in the near term for the numerous in-house and external programs.

The initial research phase of the collaboration with Moderna has a natural end point in May 2018; we expect Avacta to potentially announce an extension of this collaboration in the next couple of months or to have transferred an Affimer to Moderna for them to develop.

Figure 4: Key milestones



Source: Company data, CN analysis

KEY FINANCIALS

As the year progressed, we made minor changes to our FY 2018 forecasts.

Figure 5: Avacta summary financials

Summary Financials							
Year to 31 July (GBPm)	2015 A	2016 A	2017 A	2018 E	2019 E	2020 E	2021 E
Life Sciences	0.4	0.7	1.1	1.4	1.6	1.8	2.1
Animal Health	1.4	1.5	1.6	1.6	1.7	1.8	1.8
Revenue	1.8	2.2	2.7	3.0	3.3	3.6	3.9
Growth		19.4%	26.3%	9.3%	9.0%	9.3%	9.5%
Gross profit	1.3	1.3	1.8	2.0	2.1	2.3	2.6
Gross margin	71.0%	58.7%	65.6%	65.6%	65.6%	65.6%	65.6%
R&D	(0.0)	(1.5)	(2.6)	(4.2)	(5.0)	(5.2)	(5.5)
SG&A	(4.4)	(5.4)	(7.2)	(8.0)	(8.4)	(9.2)	(9.7)
EBIT	-5.6	-5.7	-8.0	-10.2	-11.2	-12.1	-12.6
Net income	-10.0	-4.6	-6.4	-8.8	-9.7	-10.4	-10.8
EPS (GBP)	(20.1)	(6.9)	(9.3)	(12.8)	(14.2)	(15.3)	(15.9)
Net cash	6.9	19.2	13.2	4.0	(5.7)	(16.5)	(27.7)
Working Capital	(0.3)	0.1	0.2	0.4	0.4	0.5	0.5
CapEx	(0.8)	(2.9)	(0.7)	(0.8)	(0.9)	(1.3)	(1.4)

Source: Company data, CN analysis

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