

Market data

EPIC/TKR	AVCT
Price (p)	27.5
12m High (p)	74.8
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	31.8
EV (£m)	16.8
Free Float*	78%
Market	AIM

*As defined by AIM Rule 26

Description

Avacta is a pre-clinical stage biotechnology company developing biotherapeutics based on its proprietary Affimer protein technology. It benefits from near-term revenues from research and diagnostic reagents.

Company information

CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Elliot Forster
	+44 1904 217 070
	www.avacta.com

Key shareholders

Directors	3.9%
IP Group	18.2%
Baillie Gifford	8.5%
JO Hambro	7.5%
Carlton Int Holding	7.3%
Fidelity	5.9%

Diary

Oct'18	Finals
Jan'19	AGM
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

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AVACTA

Capital increase for further development

Avacta (AVCT) is a pre-clinical stage biotechnology company and the proprietary owner of Affimer technology. Affimers represent a radical alternative to the established antibody technology, which continues to dominate the drug industry, despite its limitations. The significant technical and commercial benefits of Affimers are being recognised increasingly through corporate and academic interest, ongoing evaluations, and deal flow. Avacta has successfully completed a Placing of shares to raise £11.6m (gross) to fund its therapeutic pipeline and to increase commercial traction of its Affimer platform for future licensing deals.

- ▶ **Strategy:** AVCT is aiming to commercialise its Affimer technology through licensing for research and diagnostics, and by identifying and developing its own proprietary therapeutic pipeline for partnering. AVCT has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2020.
- ▶ **Capital increase:** AVCT has completed a Placing and Subscription for a total of 46.47m shares @25p per share with existing and new shareholders to raise gross new funds of £11.6m. This will provide the working capital for the next 12 months and boost the forecast period-end net cash position of £4.5m.
- ▶ **Use of proceeds:** AVCT provided a precise allocation of the proceeds with 48% assigned to progress the therapeutic Affimer development and to prepare for the clinic. Reagents and general R&D will receive 25% (£3.3m) and 19% (£2.5m), respectively, for gaining additional commercial traction of the Affimer platform.
- ▶ **Risks:** Affimers represent a new disruptive technology and the potential customer base might take time to recognise their advantages. While all new drug development carries a high risk, Avacta has hit a number of important milestones over the last two years which have reduced the risk profile greatly.
- ▶ **Investment summary:** AVCT has made considerable progress towards its goal of having its own proprietary Affimer-based drugs and growing a separate profitable reagents business. The company has identified potential therapeutic leads and completed both *in-vitro* and *in-vivo* pharmacokinetic pre-clinical, efficacy tests. The rising number of collaborating deals being signed is a clear sign of the value of the technology the market does not seem to recognise yet.

Financial summary and valuation

Year-end July (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	1.81	2.17	2.74	3.00	3.50	5.40
R&D spend	-0.03	-1.50	-2.60	-3.25	-4.50	-5.50
EBITDA	-2.28	-4.79	-6.66	-7.95	-9.30	-9.20
Underlying EBIT	-2.85	-5.39	-7.60	-9.02	-10.37	-10.27
Reported EBIT	-5.51	-5.66	-7.98	-9.44	-10.84	-10.78
Underlying PBT	-2.83	-5.29	-7.51	-8.98	-10.35	-10.27
Statutory PBT	-5.48	-5.57	-7.89	-9.40	-10.81	-10.78
Underlying EPS (p)	-4.38	-6.46	-8.75	-11.55	-7.88	-7.42
Statutory EPS (p)	-9.72	-6.86	-9.31	-12.17	-8.30	-7.87
Net (debt)/cash	7.33	19.52	13.17	4.50	4.94	-5.09
Capital increases	0.02	21.05	0.01	0.06	10.92	0.00
EV/sales (x)	15.2	12.7	10.1	9.2	7.9	5.1

Source: Hardman & Co Life Sciences Research

Preparing for the next stage

The last round of funding was in July 2015 when Avacta raised £22m gross of new capital, principally to initiate and fund its therapeutic strategy. During the last three years, Avacta has made solid progress in delivering some challenging goals to make a new class of therapeutic platform technology a reality, together with developing and securing licensing deals for its reagents business. The company has managed to exploit the huge opportunity for Affimer therapeutic reagents by partnering specific programmes with key collaborators. This provides a solid track record of management's ability to deliver on tough objectives in a short period of time on a promising new platform technology.

Progress against 2015 objectives



- 1) Develop the **first Affimer therapeutic candidate for clinical development.** ✓
- 2) Build a **pipeline of therapeutic Affimers** and enabling Affimer platform technologies **for licensing or future in-house development.** ✓
- 3) Secure further Affimer therapeutic **license/partnering deals.** ✓
- 4) Grow a **custom Affimer revenue stream** with the potential for long term royalties. ✓

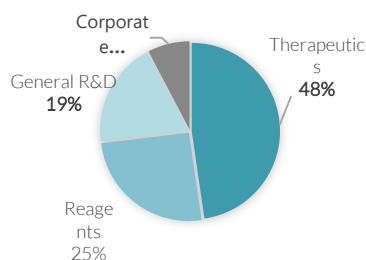
Source: Avacta Capital Market Day, Feb 2018

In order to prepare for the next stage of development, Avacta has successfully raised £11.6m gross new funds in an oversubscribed Placing and Subscription for a total of 46,472,724 shares at a price of 25p per share, with 38,952,724 Placing shares and 7,520,000 Subscription shares. This funding was undertaken at a discount of 19% to the average 30-day closing price of 30p per share. The shares were placed/subscribed for by new and existing institutional shareholders, with participation also from some of the directors. Shareholders approved the increase in shares at a general meeting on 17 August, and the new shares were admitted to trading on AIM on 21/22 August.

Use of proceeds

In the circular to shareholders, management provided a precise split for the use of the new funds. Therapeutic Affimers is anticipated to receive £6.2m (48%) of the new capital in order to advance Avacta's two lead programmes in readiness for clinical trials in 2020, including the appointment of a Chief Medical Officer (CMO). Reagents and General R&D will receive 25% (£3.3m) and 19% (£2.5m), respectively, to provide technical marketing data to support business development for additional partnerships and marketing traction. The final £1m will be allocated for additional working capital for the Group.

Use of proceeds – allocation



Source: Avacta, Hardman & Co LS research

Therapeutics

- ▶ **PD-L1/LAG3 bispecific Affimer:** The lead programme is anticipated to receive £2.0m to carry out IND-enabling studies during the 2018-19 period, in readiness for Avacta's first-in-man clinical study in 2020/21.
- ▶ **PD-L1 drug conjugate:** The second lead programme that emerged recently from the co-development partnership with the Boston-based Tufts University Medical School will receive £1.2m with the aim of developing a novel type of PD-L1 targeted drug conjugate therapeutic. Funds will be used to provide *in-vivo* pharmacology data to support development or early partnering.
- ▶ **Staffing for the clinical stage:** £1.25m is to be invested over a two-year period in additional staff required within the clinical and regulatory team, to include the appointment of a CMO for the company, and in business development and IP protection.
- ▶ **Developing the in-house pipeline:** £0.75m will be deployed on *in vivo* experiments for the existing in-house targeted agonists to build the commercial package for future partnering or development. An additional £1m will be allocated to discovery stage programmes to build the pipeline and support third party collaboration and evaluation.

Reagents

Management intends to spend £0.8m on the commercial development of the Affimer reagents business. This will support the target to have 10-20 royalty-bearing licensing deals in place by 2021 and 50-100 paid-for projects per year by 2021. AVCT will also use some of the proceeds to expand its business development team in Europe, the US, and Asia.

Research and Development,

Avacta has allocated £2.5m to be invested into R&D to continue to build its technical marketing data, which is critical to the business development and licensing process, and to develop new methodologies for generating Affimers for high-value and difficult targets to develop a new generation of Affimers for out-licensing.

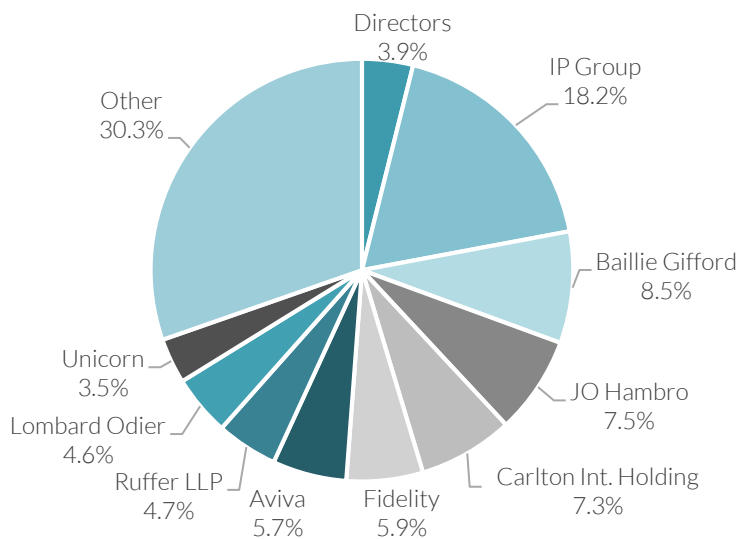
Corporate

£1.0m to be utilised to cover the usual corporate costs including capex and to consolidate the company's Intellectual Property position.

Shareholders

The Placing was well supported by existing shareholders, and attracted a new, overseas shareholder, Carlton International Holding (7.3%), an Asian private wealth fund, as well as UK-based Unicorn Investment (3.5%).

Shareholders



Source: Hardman & Co Life Sciences Research

Notes

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