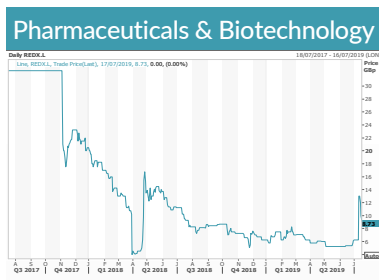




18 July 2019



Market data

EPIC/TKR	REDX
Price (p)	9.3
12m High (p)	14.7
12m Low (p)	4.8
Shares (m)	126.5
Mkt Cap (£m)	11.7
EV (£m)	8.4
Free Float*	81%
Market	AIM

*As defined by AIM Rule 26

Description

Redx Pharma (REDX) is focused on the discovery and development of proprietary, small molecule therapeutics to address areas of high unmet medical need, in cancer and fibrosis. The aim is to develop putative drugs through early trials and then to partner them for late-stage development and commercialisation.

Company information

CEO	Lisa Anson
CFO	Dr James Mead
Chairman	Iain Ross
	+44 1625 469 900
	www.redxpharma.com

Key shareholders

Directors	0.6%
Jon Moulton	18.2%
Seneca Partners	12.6%
AXA	9.7%
Aviva	8.2%
P & T Blackmore	4.0%

Diary

3Q'19	ROCK2 candidate nomin.
2H'19	RXC004 initial clinical

Analysts

Martin Hall	020 7194 7632	mh@hardmanandco.com
Dorothea Hill	020 7194 7626	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628	gp@hardmanandco.com

REDX PHARMA

Pan-RAF agreement strengthens balance sheet

REDX is a clinical-stage R&D company focused on drugs targeting oncology and fibrotic disease. 2018 was a year that reset the benchmarks – new management team, restructured organisation focused on two therapeutic areas, and a clean balance sheet. A core focus for 2019 has been to strengthen the balance sheet. REDX has entered into a definitive agreement with Jazz Pharmaceuticals (JAZZ) for the sale of its pan-RAF inhibitor programme. Under the terms of the contract, REDX will receive an upfront payment of \$3.5m (£2.84m) and is eligible to receive up to \$203m (£162m) in milestone payments.

- **Strategy:** REDX is focused on the discovery and early clinical development of small molecule therapeutics in oncology and fibrotic disease. Its strategy is to develop assets through proof-of-concept clinical trials and then partner them for late-stage development and commercialisation.
- **Agreement with JAZZ:** REDX has signed a definitive agreement with JAZZ for its pre-clinical stage pan-RAF inhibitor programme. JAZZ has made an upfront payment of \$3.5m (£2.84m) to REDX, with the potential for further payments up to \$203m (£162m) in development, regulatory and commercial milestones.
- **Partnering:** In a separate agreement, JAZZ will also pay REDX an undisclosed sum to perform additional research and pre-clinical work, with the aim of completing IND-enabling studies. JAZZ is a strong partner, with five marketed products, and more than 20 R&D programmes in multiple stages of development.
- **Risks:** REDX has emerged from fiscal 2018 in a clean position with a focused strategy. The company has limited cash resources, boosted by a short-term shareholder loan, while it continues to explore the long-term funding of the group to advance the proof-of-concept trials for its development programmes.
- **Investment summary:** The business plan focuses cash resources on progressing its drug leads in oncology and fibrotic disease to early clinical development proof-of-concept. Big pharma has been shown to pay substantial prices for good science and novel and/or de-risked assets with clinical data, reinforcing REDX's strategy, potentially generating good returns and enhancing shareholder value.

Financial summary and valuation

Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Other income	2.38	1.29	1.32	0.00	0.00	0.00
R&D investment	-14.32	-13.00	-7.70	-10.61	-10.83	-12.99
SG&A (corp. cost)	-2.21	-5.70	-3.30	-3.04	-3.22	-3.38
Underlying EBIT	-14.15	-17.41	-9.68	-13.65	-14.04	-16.37
Underlying PBT	-14.61	-17.74	-9.66	-13.72	-14.10	-16.37
Statutory PBT	-15.41	1.65	-10.15	-11.19	-14.42	-16.71
R&D tax credit	0.64	-0.12	1.30	1.79	1.83	2.20
Underlying EPS (p)	-17.83	-15.80	-6.61	-4.31	-2.88	-3.32
Statutory EPS (p)	-19.81	1.35	-6.99	-3.40	-2.95	-3.46
Disposals	0.00	30.47	0.00	2.84	0.00	0.00
Net cash/(debt)	3.76	23.81	6.47	10.79	-1.44	-16.71
Capital increases	9.30	11.07	0.00	14.10	0.00	0.00

Source: Hardman & Co Life Sciences Research

Realising value from its asset

Deal headlines

JAZZ has acquired REDX's entire pan-RAF inhibitor programme...

...in return for \$3.5m upfront and potential milestones up to \$203m

Following a period of evaluation, Jazz Pharmaceuticals (Nasdaq: JAZZ) has acquired REDX's proprietary pan-RAF inhibitor programme, including all related patents. Under the terms of the definitive agreement, REDX is entitled to receive:

- ▶ an upfront payment of \$3.5m (£2.84m) from JAZZ;
- ▶ up to \$203m (£162m) in milestone payments; and
- ▶ incremental tiered mid-single-digit royalties based on any future net sales.

Near-term milestones

JAZZ will be responsible for all future development, regulatory, manufacturing and commercialisation activities for the pan-RAF programme. REDX has indicated that this could lead to two near-term milestone payments:

- ▶ initiation of IND-enabling studies; and
- ▶ IND submission to the FDA.

Pre-clinical collaboration

Furthermore, under a separate collaboration agreement, JAZZ will pay REDX to perform additional pre-clinical studies in order to get potential lead compounds IND-ready.

The deal is another success for REDX, proving its ability to identify, develop and leverage innovative assets, following on from the successful sale of the BTK programme to Loxo Oncology (Nasdaq: LOXO) in 2017 for a single payment of \$40m (£30.5m net) – but not with entitlement to milestones or royalties. The lead candidate from this programme (LOXO-305) has now progressed into Phase I/II clinical trials. The BTK programme was a significant part of LOXO's pipeline at the time of its acquisition by Eli Lilly for \$8bn in February 2019.

On the day of the announcement (10 July) the market reacted positively to this agreement with a strong bounce in REDX's share price (+134% over previous close).

Pan-RAF programme

Pan-RAF inhibitor programme could target nearly a third of cancers

The pan-RAF programme had reached the late lead optimisation pre-clinical stage but was not considered to be one of REDX's core oncology assets. The RAS/RAF/MEK signalling pathway is seen to be unregulated in nearly 33% of human cancers and plays a key role in tumour cell proliferation and survival. The aim of the pan-RAF inhibitor programme is to overcome resistance mechanisms usually seen with approved B-RAF selective drugs, such as vemurafenib (Zelboraf, Roche) and dabrafenib (Tafinlar, Novartis), which need combination strategies (usually with a MEK inhibitor). There is also the opportunity to be effective in upstream RAS-driven tumours.

REDX's pan-RAF inhibitor showed promising efficacy in B-RAF^{V600E} mutant driven colorectal cancer xenograft models and some activity in RAS-mutated cancer cells

REDX has indicated previously that its pan-RAF inhibitor has demonstrated *in vivo* efficacy in B-RAF^{V600E} mutant-driven colorectal cancer xenograft models as a single agent, where approved B-RAF selective drugs are ineffective clinically. It has also shown promising activity in RAS-mutated cancer cells.

Jazz Pharmaceuticals

With net product sales of \$1.9bn in 2018, JAZZ is a strong partner, with valuable experience in developing oncology products through to commercialisation. It has five marketed products and a strong clinical pipeline in multiple stages of development from Phases I to III, with a strong focus on oncology and sleep disorder.

Financials

- ▶ **R&D:** Investment in R&D is extremely variable, and is largely dependent on the timing of commencement and conclusion of clinical trials. An increase in R&D is forecast due to the re-start of RXC004 in Phase I, as well as the additional pre-clinical and regulatory work on other programmes.
- ▶ **Net cash:** At 31 March 2019, REDX had net cash of £3.3m on its balance sheet. The \$3.5m (£2.84m) received from JAZZ for the pan-RAF asset has been included in other income. This has extended its cash runway into 1Q'20.
- ▶ **Short-term loan:** The £2.5m loan signed with Moulton Goodies (MGL) is to be repaid on 31 December 2019, extending further the cash runway into 2020. Both MGL and REDX also have options to capitalise the loan into new Ordinary shares in REDX under certain conditions.
- ▶ **Capital increase:** Our cashflow forecasts, together with the MGL loan agreement, indicate that REDX will still need to raise more capital in the short-term of £10m-£20m (gross). There is also the possibility that new capital could come from a licensing deal for RXC004, or any of REDX's other assets.

Summary financials						
Year-end Sep (£m)	2016	2017	2018	2019E	2020E	2021E
Profit & Loss						
SG&A	-2.21	-5.70	-3.30	-3.04	-3.22	-3.38
R&D	-14.32	-13.00	-7.70	-10.61	-10.83	-12.99
Other income	2.38	1.29	1.32	0.00	0.00	0.00
Licensing/Royalties	0.00	0.00	0.00	0.00	0.00	0.00
Underlying EBIT	-14.15	-17.41	-9.68	-13.65	-14.04	-16.37
Share-based costs	-0.25	-0.01	-0.28	-0.30	-0.32	-0.34
Statutory EBIT	-14.95	-24.94	-10.17	-13.95	-14.37	-16.71
Net interest	-0.46	-3.89	0.02	-0.07	-0.06	0.00
Underlying PBT	-14.61	-17.74	-9.66	-13.72	-14.10	-16.37
Extraordinary items	0.00	30.47	0.00	2.84	0.00	0.00
Reported taxation	-0.11	-0.12	1.30	1.79	1.83	1.95
Underlying net income	-13.97	-17.86	-8.36	-11.93	-12.27	-14.18
Underlying basic EPS (p)	-17.83	-15.80	-6.61	-4.31	-2.88	-3.32
Statutory basic EPS (p)	-19.81	1.35	-6.99	-3.40	-2.95	-3.46
Balance sheet @30 Sep						
Share capital	0.94	1.27	1.27	4.26	4.26	4.26
Reserves	0.78	13.06	4.50	6.21	-6.39	-21.15
Capitalised R&D	30.10	36.05	37.52	37.01	37.52	39.61
Loans	2.00	0.00	0.00	2.50	0.00	0.00
less: Cash	5.76	23.81	6.47	13.29	-1.44	-16.71
Invested capital	27.46	26.57	37.42	36.69	36.84	39.43
Cashflow						
Underlying EBIT	-14.15	-17.41	-9.68	-13.65	-14.04	-16.37
Depreciation	0.26	0.33	0.16	0.16	0.16	0.16
Working capital	1.15	7.69	-8.39	-0.22	-0.44	-0.74
Other	-0.56	-4.99	-0.02	0.00	0.00	0.00
Operational cashflow	-13.29	-14.38	-17.93	-13.70	-14.33	-16.95
Capital expenditure	-0.44	-0.03	-0.13	-0.14	-0.14	-0.15
Disposals	0.00	30.47	0.00	2.84	0.00	0.00
Share issues	9.30	11.07	0.00	14.10	0.00	0.00
Change in net debt	-3.68	20.05	-17.34	4.32	-12.67	-15.27
Period-end net cash/(debt)	3.76	23.81	6.47	10.79	-1.44	-16.71

Source: Hardman & Co Life Sciences Research

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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com