### Global pharma vs. UK pharma

*Source: Refinitiv*

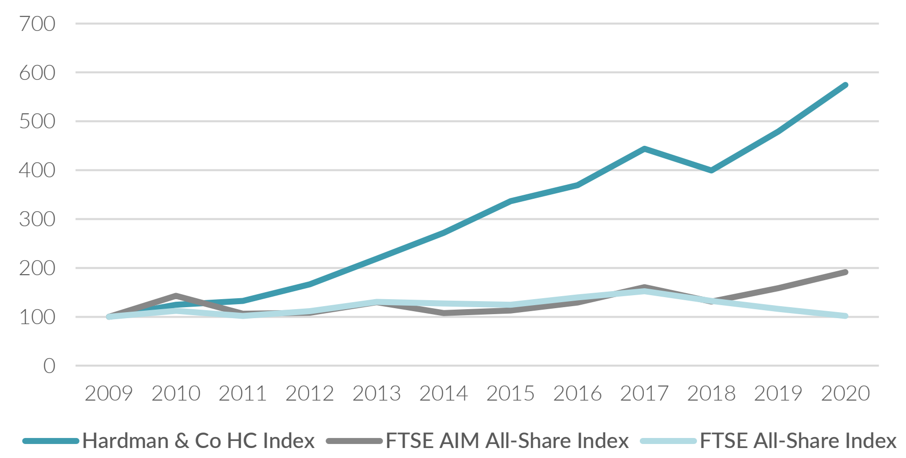
# HARDMAN & CO HEALTHCARE INDEX

## 2020 – greater appreciation of science

**The Hardman & Co Healthcare Index (HHI) has been running since 2009. Its main function is to highlight the attractions of life sciences investments over the long term. 2020 was an exceptional year, with the index rising 19.9% to 590.6, broadly in line with the FTSE AIM All-Share Index (+20.7%), but in complete contrast to the performances of the FTSE 100 (-14.3%) and FTSE All-Share (-12.5%) indices. A number of our life sciences companies really stepped up to meet the challenges posed by the COVID-19 pandemic and, with the market's greater appreciation of science and technology, no less than 52% (27/52) took the opportunity to increase their capital bases. Even allowing for both capital increases and share buybacks, the index still rose 13.4% in 2020. Given the current situation with COVID-19, we expect the life sciences industry to remain very much the focus of attention in 2021, offering attractive shareholder returns.**

- Since inauguration, the CAGR for the HHI has been 17.2%, compared with 0.1% for the FTSE All-Share Index and 6.1% for the FTSE AIM All-Share Index, highlighting the attractiveness of the healthcare sector as a long-term investment, even though it is capital-intensive.
- Of the 52 companies included in the HHI, 36 recorded an increase in their share prices in 2020, whereas 14 saw a fall, with two companies simply marking time.
- The variance between the best- and worst-performing stocks was exceptional, at 2,370% – **Synairgen (SNG)** rising 2,306% and **Shield Therapeutics (STX)** falling 65% – and ca.10x greater than usual; the median share price change was 27%.
- In relative terms, 27 stocks outperformed the index during 2020, with the other 25 underperforming.
- **COVID-19:** One positive to emerge from the COVID-19 pandemic was the response of the healthcare sector, highlighting some of the tremendous technologies that existed within many life sciences companies around the world. Many companies really stepped up to the challenges posed by the virus.

### Performance of Hardman Healthcare Index – rebased




*Source: London stock Exchange, Hardman & Co Life Sciences Research*

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## Share price performance

| Listing | Company | Ticker | Share price (p) 31 Dec 2019 | Share price (p) 31 Dec 2020 | Market cap (£m) 31 Dec 2020 | Price change (%) |
|---|---|---|---|---|---|---|
| AIM | Abcam | ABC | 1,352.0 | 1,550.0 | 3,513.3 | 15% |
| AIM | Advanced Medical Soln. | AMS | 296.0 | 243.0 | 523.4 | -18% |
| AIM | Advanced Oncotherapy* | AVO | 40.0 | 36.0 | 120.0 | -10% |
| AIM | Allergy Therapeutics | AGY | 10.3 | 16.6 | 106.4 | 62% |
| AIM | Alliance Pharma | APH | 84.0 | 87.5 | 466.0 | 4% |
| Main | Arix Bioscience* | ARIX | 106.5 | 219.0 | 297.0 | 106% |
| Main | Assura | AGR | 77.8 | 76.8 | 2,046.9 | -1% |
| AIM | Avacta | AVCT | 17.3 | 114.0 | 288.0 | 561% |
| AIM | Caretech | CTH | 445.0 | 522.0 | 590.8 | 17% |
| Main | Circassia | CIR | 19.0 | 28.2 | 112.1 | 48% |
| Main | Convatec | CTEC | 199.0 | 199.0 | 3,988.7 | 0% |
| AIM | Deltex Medical Group | DEMG | 1.4 | 1.4 | 8.1 | 0% |
| AIM | Destiny Pharma | DEST | 43.8 | 68.5 | 41.0 | 57% |
| AIM | Diurnal* | DNL | 28.0 | 57.0 | 78.9 | 104% |
| AIM | Eco Animal | EAH | 207.0 | 247.5 | 167.2 | 20% |
| AIM | EKF Diagnostics | EKF | 34.3 | 71.5 | 325.3 | 109% |
| AIM | Emis | EMIS | 1,108.0 | 1,082.0 | 685.0 | -2% |
| AIM | e-Therapeutics | ETX | 3.1 | 17.5 | 73.6 | 465% |
| AIM | Futura Medical | FUM | 13.9 | 15.3 | 37.5 | 10% |
| AIM | Genedrive | GDR | 22.5 | 48.5 | 30.6 | 116% |
| Full | Genus | GNS | 3,176.0 | 4,196.0 | 2,739.9 | 32% |
| AIM | Immunodiagnostics | IDH | 273.0 | 210.0 | 60.4 | -23% |
| AIM | Immupharma | IMM | 16.0 | 13.4 | 33.4 | -17% |
| Full | Indivior | INDV | 39.5 | 108.8 | 797.7 | 175% |
| Full | IP Group | IPO | 71.0 | 99.0 | 1,051.7 | 39% |
| AIM | Ixico | IXI | 90.5 | 102.5 | 48.3 | 13% |
| AIM | Lidco Group | LID | 4.9 | 11.8 | 28.8 | 140% |
| Full | MD Medical Group | MDMG | 5.0 | 6.1 | 335.4 | 22% |
| AIM | Midatech Pharma | MTPH | 60.0 | 26.6 | 16.8 | -56% |
| AIM | Omega Diagnostics | ODX | 14.4 | 64.5 | 116.1 | 348% |
| AIM | Open Orphan | ORPH | 4.9 | 25.8 | 172.4 | 432% |
| Full | Oxford BioMedica | OXB | 645.0 | 1,030.0 | 847.6 | 60% |
| AIM | Oxford Metrics | OMG | 106.0 | 94.5 | 119.5 | -11% |
| Full | Primary Health Properties | PHP | 160.0 | 152.8 | 2,010.2 | -4% |
| AIM | Proteome Sciences | PRM | 2.9 | 3.9 | 11.4 | 32% |
| AIM | Redx Pharma | REDX | 8.0 | 62.5 | 171.2 | 681% |
| AIM | ReNeuron | RENE | 148.5 | 82.5 | 46.9 | -44% |
| AIM | Sareum | SAR | 0.4 | 2.4 | 79.4 | 594% |
| AIM | Scancell | SCLP | 7.3 | 14.0 | 110.9 | 93% |
| AIM | Shield Therapeutics* | STX | 180.5 | 63.5 | 74.7 | -65% |
| AIM | Silence Therapeutics | SLN | 350.0 | 514.0 | 428.2 | 47% |
| Full | Smith & Nephew | SN. | 1,832.0 | 1,510.0 | 13,242.3 | -18% |
| Full | Spire | SPI | 142.0 | 155.4 | 623.3 | 9% |
| AIM | Surgical Innovations | SUN | 2.1 | 1.7 | 15.4 | -20% |
| AIM | Synairgen | SNG | 6.4 | 153.0 | 305.9 | 2,306% |
| Full | Syncona | SYNC | 219.0 | 261.0 | 1,732.2 | 19% |
| AIM | Tissue Regenix* | TRX | 1.0 | 0.5 | 38.0 | -46% |
| AIM | Tristel | TSTL | 385.0 | 527.0 | 245.2 | 37% |
| AIM | Valirx | VAL | 13.8 | 19.5 | 12.7 | 42% |
| Full | Vectura | VEC | 92.7 | 124.5 | 742.0 | 34% |
| AIM | Venture Life | VLG | 33.5 | 93.0 | 117.0 | 178% |
| AIM | Yourgene Health | YGEN | 13.3 | 14.8 | 106.3 | 11% |

**Client of Hardman & Co*

*Source: Company data, Hardman & Co Life Sciences Research*

# Hardman & Co Healthcare Index

## Impact of COVID-19

2020: year science and technology better appreciated by stock markets

Although 2020 will probably go down in history as one of the most challenging years experienced during our lifetime, it will also likely be chronicled as one of the best years for the recognition and appreciation of science. As we entered 2020, the COVID-19 pandemic was in its infancy. However, it rapidly evolved through the exponential rise in infections and mortality globally. Much has been achieved during the past 12 months in the fight against COVID-19, but, as we enter 2021, there are considerable concerns about the emergence of a mutant version of the virus and the second wave that we are now facing.

Life sciences responded to challenge of COVID-19 with rapid innovation, tenacity and resilience

One positive to emerge from the COVID-19 pandemic has been the response of the life sciences sector on a global basis. This highlighted some of the tremendous technologies that existed within many life sciences companies around the world that were being under-appreciated by stock markets, particularly in the case of the UK. Many companies have stepped up to the challenges posed by the virus through rapid innovation to address the following areas:

- **Diagnosis:** The development of new diagnostic tests to identify either active virus (PCR tests) or previous exposure (antibody/affimer tests). Once the accurate tests were available, the challenge was to speed up the time to get results and to have point-of-care tests.
- **Vaccines:** The development and regulatory approval of COVID-19 vaccines within 12 months, in order to protect the population and prevent the spread of the virus, is unprecedented. Now the challenge is on logistics for manufacturing, distribution and vaccination.
- **Treatments:** In general, the development of specific drugs to treat patients infected with COVID-19 is at a much earlier stage. The strategy has generally been to identify potential drug treatments from existing drugs already approved for other indications.
- **Infection control:** Manufacture and distribution of disinfectants, soaps and cleaners that can be used for infection control, decontamination and hygiene, on both a personal and industrial scale.
- **Medical equipment:** Adaption of existing technologies for medical equipment that can be used to treat patients with COIVID-19, such as ventilators, where global demand for intensive care units has soared.

GDR was a leader in fight against COVID-19…

…but is now at risk of being left behind

This rapid response shows how advanced and adaptable certain technologies are. A good example of this was Genedrive (GDR). Back in March 2020, GDR was struggling from a poor commercial performance, the failure to deliver on financial targets and the need to raise new capital. Knowing this, there were few takers in the market, at 7p per share. Then along came COVID-19. Fundamental to government exit strategies from the severe lockdowns in many countries was the adoption of regular testing and contact tracing. GDR informed the market that a combination of its embedded chemistry knowledge with its Genedrive technology platform had the potential to generate two COVID-19 molecular tests – a high-throughput, laboratory-based test, and a more flexible and user-friendly point-of-care test. This news changed everything and caused the shares to peak at 220p in early May. The company took the opportunity to raise more capital, now readily available, at 80p. Although GDR has progressed both of its tests well over the past six months, at the time of writing, this has not resulted in significant orders. Meanwhile, many new competing tests have become available, and GDR is in danger of being left behind, leaving the stock languishing at 48.5p, 40% below the Placing price.

# Review of 2020

**HHI comprises 52 stocks…**

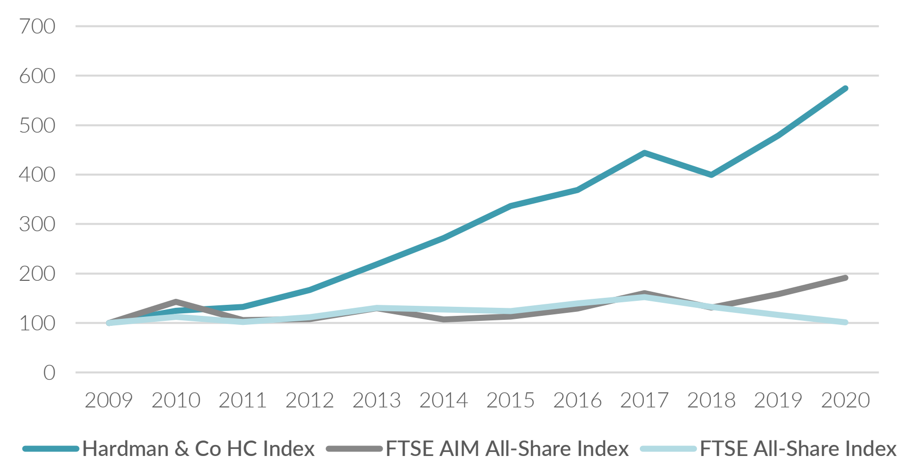
The main function of the HHI is to monitor the performance, and to highlight the attractiveness, of life sciences investments over the long term, and to try to identify those stocks that have disruptive technologies that consistently allow them to outperform both the index and the markets. Many of the 52 constituents of the index are high-risk, still being in the development stage, with micro-capitalisations and a long way from sales and profitability. Despite this, some companies can still make extremely attractive returns for investors, as evidenced by the top-performing stock in 2020, Synairgen (SNG), which saw its shares rise 28-fold.

**…with disruptive technologies that allow them to outperform index and markets**

**HHI significantly outperformed all other market indices during 2020**

During 2020, COVID-19 had a severe impact on the ability of many companies in the world to operate normally, denting financial performance. For example, the FTSE 100 Index and FTSE All-Share Index fell by 14.3% and 12.5%, respectively, in 2020.[1] In contrast, the HHI rose by 19.9%, only bettered by the FTSE AIM All-Share index[1], which increased by 20.7%. Even allowing for the high level of capital increases and share buybacks, the HHI still increased 13.4%, significantly outperforming the main London indices. Since inception, companies that comprise the HHI have shown a CAGR of 17.2%, compared with 0.1% for the FTSE All-Share Index and 6.1% for the FTSE AIM All-Share Index, highlighting the attractiveness of the sector.

**Performance of Hardman Healthcare Index – rebased**




*Source: London stock Exchange, Hardman & Co Life Sciences Research*

**Comparison of HHI with London markets**

| @ 31 Dec | 2009 Index | 2010 Δ | 2011 Δ | 2012 Δ | 2013 Δ | 2014 Δ | 2015 Δ | 2016 Δ | 2017 Δ | 2018 Δ | 2019 Δ | 2020 Δ | CAGR % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Hardman & Co Healthcare Index | 98.4 | 24.7% | 6.2% | 25.9% | 31.2% | 24.1% | 23.9% | 9.7% | 20.3% | -10.0% | 25.3% | 19.9% | 17.2% |
| FTSE AIM All-Share Index | 654.2 | 42.7% | -25.8% | 2.0% | 20.3% | -17.5% | 5.2% | 14.3% | 24.3% | -18.2% | 11.6% | 20.7% | 6.1% |
| FTSE All-Share Index | 2772.0 | 12.1% | -9.0% | 9.5% | 16.7% | -2.1% | -2.5% | 12.5% | 9.0% | -13.0% | 14.2% | -12.5% | 0.1% |

*Source: London Stock Exchange, Hardman & Co Life Sciences Research*

## *Comparison with the majors*

**Despite being involved in COVID-19 work, all majors fell during 2020**

In order to put the share price movement of our – generally – small market capitalisation index constituent companies into perspective, the following table shows the performance of the three major UK healthcare companies over the same period. Despite both AstraZeneca (AZN) and GlaxoSmithKline (GSK) being involved in the development of COVID-19 vaccines and their defensive qualities, their share prices fell 3.7% and 24.6%, respectively, over the year.

[1] https://www.londonstockexchange.com/indices?tab=ftse-indices

**Performance of healthcare majors**

| Company | Ticker | Share price (p) 31 Dec 2019 | Share price (p) 31 Dec 2020 | Change (%) | CAGR 2010-20 (%) |
|---|---|---|---|---|---|
| AstraZeneca | AZN | 7,607 | 7,324 | -3.7% | 9.2% |
| GlaxoSmithKline | GSK | 1,779 | 1,342 | -24.6% | 1.8% |
| Smith & Nephew | SN. | 1,832 | 1,510 | -17.6% | 8.1% |

*Source: Hardman & Co Life Sciences Research*

**AZN share price development in 2020**

*Source: Hardman & Co Life Sciences Research*

However, this snapshot does not tell the full story. AZN has been headline news for much of the year, having partnered with the University of Oxford for the development, manufacture and fair allocation and distribution of its COVID-19 vaccine (AZD1222) globally. AZN has been engaging with governments, multilateral organisations and collaborators around the world to ensure broad and equitable access to the vaccine at no profit for the duration of the pandemic. This culminated with UK regulatory approval on 30 December. Meanwhile, AZN has agreed to acquire Alexion for $39bn. These activities have resulted in a rollercoaster ride for shareholders. The shares peaked at 9,320p in August, but had a big correction in December, when the Alexion deal was announced, as the market questioned the benefits of the deal other than much-needed cashflow[2], and considered the deal to be a deflection away from AZN's own cashflow generation and growth prospects.

## *Index changes*

Three companies have been taken over/lost…

…and been replaced by eight others to make up market capitalisation

During 2020, three of our constituent companies were either taken over or de-listed from the London market, and need to be replaced. The biggest loss was Consort Medical, which was acquired by Recipharm for 1,010p per share, valuing the company at £505m.

**Changes to HHI constituents**

| Out | $^{+}$Mkt cap (£m) | In | $^{+}$Mkt cap (£m) |
|---|---|---|---|
| Consort Medical | 501.0 | Indivior | 289.7 |
| Verona Pharma | 65.2 | Shield Therapeutics | 212.0 |
| Collagen Solutions | 15.1 | Midatech | 28.2 |
| | | Destiny Pharma | 19.2 |
| | | Open Orphan | 13.2 |
| | | Redx Pharma | 10.1 |
| | | Synairgen | 7.0 |
| | | Valirx | 1.6 |
| **Total** | **581.3** | | **581.0** |

*$^{+}$Based on share prices at 31 December 2019*
*Source: Hardman & Co Life Sciences Research*

# Movers and shakers

27 companies outperformed and 25 underperformed

Of the 52 companies included in the HHI, 36 saw an increase in their share prices during 2020; there were two unchanged and 14 fallers. Compared with the movement in the index, 27 companies outperformed and 25 underperformed. Furthermore, no less than 27 companies (52%) in our index took the positive sentiment towards healthcare to increase their capital bases, among them raising £949m. This does influence the performance of the index but, as mentioned earlier, even excluding them, the index rose by 13.4% in 2020.

Given our large portfolio of constituent companies, we usually focus on both the top five (outperformers) and the bottom five (underperformers), and we try to offer a short explanation as to why the shares performed in the way that they did.

[2] https://www.hardmanandco.com/astrazeneca-where-has-all-the-cash-gone/

Best and worst performers in 2020

| Rank | Company | Δ | Rank | Company | Δ |
|---|---|---|---|---|---|
| ----------------- Top five ----------------- | | | ---------------- Bottom five ---------------- | | |
| 1 | Synairgen | 2,306% | 48 | Immunodiagnostics | -23% |
| 2 | Redx Pharma | 681% | 49 | ReNeuron | -44% |
| 3 | Sareum | 594% | 50 | Tissue Regenix* | -46% |
| 4 | Avacta | 561% | 51 | Midatech Pharma | -56% |
| 5 | e-Therapeutics | 465% | 52 | Shield Therapeutics* | -65% |

**Client of Hardman & Co*

*Source: Hardman & Co Life Sciences Research*

## The "top five"

### *Synairgen (SNG)*

At peak, SNG shares were up 40-fold…

…but we have reservations about future prospects

Investors who were shareholders in SNG at the beginning of 2020 have seen a fantastic performance, with the shares rising 23-fold over the year. At its peak (247p) in August, the rise was 40-fold. The need for a capital injection – £2.5m cash versus an annual burn rate of ca.£5.0m – in order to progress its lead product, SNG001 (inhaled interferon-beta 1a), in chronic obstructive pulmonary disease (COPD), meant that the shares began the year in a depressed state (6.4p). In March, the company announced that it had received expedited authorisation from the UK regulator to conduct a clinical trial (SG016) of SNG001 in COVID-19 patients. This transformed the company, and it was able to raise £14.0m from investors at 35p per share. News flow surrounding the trial was generally positive, and headline results from the trial were announced in July.

Company took the opportunity to raise £87.0m at 175p

Following further positive news, management took the opportunity of its inflated share price to raise £87.0m at 175p in October. However, the shares underwent a big correction in November, when the full results of the SG016 trial were reported in *Lancet Respiratory Medicine* (Lancet)[3], raising questions about how effective the drug was. At the time, we reported that we felt the results left much to be desired and that they were being viewed through rose-tinted glasses. At the time of writing, we remain unconvinced. First, beta-interferon is an old drug of modest benefit, which has been used for many years to treat multiple sclerosis; while reformulation and administration locally to the lung might be beneficial, the outcomes to date are not exceptional. Secondly, we are concerned about the conflict of interest, with heavy involvement of directors/personnel of the company in the clinical trials. Thirdly, the effectiveness in the SNG001 trial reported in the Lancet article was questionable, and there was no commentary on the comparative "standard-of-care" treatments given to patients in either the placebo or treatment arms of the study, which is not usual and lacks transparency (for comparison, see Gilead trial with remdesivir[4]). The administration of SNG001 would be in addition to existing therapies, such as oral dexamethasone, so consideration must be given to the marginal extra benefits that could be derived from what would be an expensive drug. As the old saying goes, it never does any harm to take a profit.

### *Redx Pharma (REDX)*

After a difficult start, good year for REDX, with two licensing deals

2020 was a very eventful year for REDX. It started the year in a distressed position, requiring a shareholder loan to keep operating. Then it was effectively taken over and supported financially by two specialist VC funds – Redmile Group and Sofinnova. Meanwhile, the company continued to develop products in its innovative pipeline to the extent that it attracted development and commercialisation deals with AZN for RXC006 (porcupine inhibitor) and Jazz Pharmaceuticals for two cancer targets on the Ras/Raf/MAP kinase (MAPK) pathway, in return for upfront payments, development milestones and potential royalties.

[3] Monk et al., published online November 12, 2020: https://doi.org/10.1016/S2213-2600(20)30511-7

[4] Biegel et al., Remdesivir for the Treatment of Covid-19 — Final Report, *New England Journal of Medicine*: https://www.nejm.org/doi/full/10.1056/NEJMoa2007764

On the back of these, the company raised £25.5m at 56p in December. Currently, Redmile and Sofinnova own 79.6% and 9.4%, respectively, so a shareholding in REDX is very much on a minority basis.

## *Sareum (SAR)*

**Positive news flow has driven performance of SAR**

News flow tends to have a disproportionate effect on companies with a very small share price. That said, SAR delivered a regular flow of positive news during 2020. Consequently, its share price increased 594%. The main focus of the company is to advance the development of its two TYK2/JAK1 programmes: namely SDC-1801 for autoimmune diseases and SDC-1802 for cancer. Pre-clinical toxicology studies with SDC-1801 demonstrated excellent tolerability, and established a manufacturing process. A new formulation, designed specifically to deliver higher exposure levels of the drug, has been developed, and additional toxicology studies with this are expected to be completed early in 2021. These will form part of a regulatory application for a clinical trial exemption certificate (CTA) during 1Q'21, which will be an important milestone for the company. In addition, in December, SAR was awarded a UK Government (UKRI) research grant of £174k to explore the potential of SDC-1891 to treat COVID-19.

## *Avacta (AVCT)*

**COVID-19 really benefited AVCT, and company now well-funded**

2020 was an important year for AVCT, as it was seeking to fulfil its strategy to have one of its drug candidates (AVA6000) enter the clinic during the year. The company had a number of positive announcements, and raised £5.75m at 18p per share. Immediately after securing the funding, AVCT announced that it was partnering with Cytiva (formerly GE Healthcare) to develop and manufacture a rapid test for population screening for the COVID-19 infection.

At this point, the shares embarked upon an exponential rise, peaking at 202p in May, or about 12 times the January share price, when it took the opportunity to raise substantial funds (£45m) for the future development of the company. AVCT is continuing with its partnerships to develop diagnostics and therapeutics for COVID-19, and has announced a number of collaborations for its Affimer programmes. Inevitably, both the global lockdown and the work on COVID-19 did delay its own development programmes, but the company managed to complete the pre-clinical development of AVA6000 and apply to the UK regulator for a CTA in December. 2021 is expected to be another good year for the company.

## *e-Therapeutics (ETX)*

**Good year for ETX…**

**…but this does follow several years of underperformance**

Over the years, ETX has appeared several times in our "worst-performing" list. In contrast, 2020 was a year of refocusing and recovery. In February, the group announced a change in management and a small top-up fundraise at the depressed price of 3p per share. In March, in response to the COVID-19 pandemic, the company stated that it would use its technology platform and strategies that had proven successful in identifying compounds effective against the influenza virus to identify combinations of compounds with activity against Sars-CoV-2. This resulted in a rapid rise in its share price, peaking at 21.75p in May. The new management team took this opportunity to raise £12.4m at 12p per share. In December, ETX announced that its technology platform was suitable for identifying compounds and targets that could modulate biological processes. While this is good news, in our opinion, the project is likely to take some years to come to fruition.

## The "bottom five"

### *Shield Therapeutics (STX)*

Bad year for STX…

…but enters 2021 with great opportunity…

…that should leave shareholders well rewarded

STX entered 2020 with optimism. In January, the company announced a development and commercial deal with ASK Pharma in China for its iron replacement therapy, Feraccru®/Accrufer®. This was followed shortly thereafter by a positive trading statement. However, with FDA approval already secured, the key priority for 2020 was to secure a US commercial partner for Accrufer. For a number of reasons, STX was unable to conclude an acceptable deal and, when this was announced to the market in December, the shares crashed. During discussions with potential partners, privileged commercial information has been shared with management. This has led the board to consider an STX-led commercial option for Accrufer. Financial modelling suggests that a "go-it-alone" strategy would generate over three times greater returns compared with the partnership model.[5] The main operational risk with this strategy is that of execution, with little in-house commercial experience, but STX has begun to address this by recruiting experienced US commercial managers. However, to go down this route, STX would require funding of £25m-£30m ($30m-$40m) for working capital purposes covering the next two years. This could be funded via debt, which would be non-dilutive but expensive, or via equity, which would be at the current depressed valuation. Consequently, financing the STX-led launch proposal is likely to be a blend of equity and debt, probably around 50%:50%. In our opinion, the current valuation is more than supported by current deals in Europe and China – so the downside is limited. STX will definitely generate a return from the US commercialisation of Accrufer, irrespective of which route it takes, and, once uncertainty over the US has been removed, the upside potential is significant.

### *Midatech Pharma (MTPH)*

Board continues to seek ways to realise value for shareholders

2020 was a tumultuous year for MTPH, with the shares falling 56%. In March, the company announced that, as part of a strategic review prompted by prevailing market conditions and its inability to raise additional capital, it had terminated all further in-house development of MTD201 and would close its dedicated manufacturing facilities in Bilbao. In addition, the board was looking at ways of extracting shareholder value from its technologies, which could involve partnering of its clinical-stage assets – MTD201 (for acromegaly, NET), MTX110 (for childhood brain cancers) and MTX114 (for psoriasis) – and/or partnering existing and upcoming proof-of-concept formulations. However, after nine months, little progress appears to have been made. At its recent interim results, the company stated that "it has funding into the fourth quarter of 2021."

### *Tissue Regenix (TRX)*

Well positioned for growth…

…when elective surgical procedures return to normal…

…and new capacity comes on stream in 2H'21

TRX entered 2020 with an urgent need for a capital injection to cover its working capital requirement to satisfy demand for its products and to fund a capacity expansion programme. Financing of capital-intensive medical technology companies is complex at the best of times. However, in the case of TRX, it was even more challenging, because of the external adverse events surrounding its then two largest shareholders. This made it very difficult for the company to raise the necessary funds for its investment plans without attracting considerable support from new institutional shareholders. In addition, during the global lockdown, a significant reduction in elective surgical procedures, in which TRX's products are used, created an unwelcome backdrop. During 2Q'20, greater appreciation of science and technology meant that life sciences indices rallied and the broader capital markets opened up in dramatic fashion. Consequently, TRX was able to raise significantly more capital than it had originally intended, albeit at a very depressed share price. During 2H'20, there was some recovery in surgical procedures, and TRX commenced investment into Phase 1 of its capacity expansion programme, which

[5] https://www.hardmanandco.com/research/corporate-research/reassessing-the-us-opportunity/

should start to benefit 2H'21. Although the shares fell 46% during 2020, new investors that supported the capital increase are already sitting on >100% profit. 2021 should be a much better year for TRX, notwithstanding the risk of another prolonged global lockdown affecting elective surgeries.

### *ReNeuron (RENE)*

**Really disappointing investment over many years**

RENE is involved in cell-based therapeutics, attempting to harness stem cells to develop "off-the-shelf" treatments that do not require immunosuppressive drugs. It has one product in Phase II clinical trials for the treatment of *retinitis pigmentosa*, a genetic disorder of the eyes that causes loss of vision. In addition, it has a proprietary exosome technology for the delivery of gene-silencing therapeutics, which it out-licenses to partners. The business of RENE is very capital-intensive relative to the development progress, with a cash burn of ca.£15m p.a. RENE has been a poor investment since listing in 2005, absorbing £134m to date, yet, after its recent capital increase, its market capitalisation is only £47m, of which ca.£20m is cash, leaving the EV at just £27m.

### *Immunodiagnostics (IDH)*

**Hit by COVID-19….**

**…and still uncertainty in recent outlook statement**

The shares of IDH had a volatile year in 2020, with large swings, both upwards and downwards. The most important news came in June, when the company announced that it had achieved CE marking for a new COVID-19 IgG assay to run on its automated IDS-iSYS analyser, causing the share price to rise 50%, peaking at 310p. Despite other news about tests and a relatively positive 1H'21 trading update in October, the market became unnerved when the actual interim results were released in November. Sales for the area of focus, the automated business, were down 25%, and sales for the less fashionable manual business were down 37%. While business during the global lockdown (April-June) was understandably down, even when it was over (July-September), sales were still down 16%. This, coupled with a cautious outlook statement, has caused the shares to drift back. Despite its COVID-19 tests, 2021 is likely to remain difficult, and any recovery is "highly contingent on the future development of the pandemic".

# About the author

*Dr Martin Hall*

Martin's career in the City started as a healthcare analyst in 1987, working at Morgan Grenfell and then UBS. He joined HSBC in 1992, where he was Head of Global Pharmaceutical/Healthcare Equity Research. In 2005, he set up as an independent Life Sciences Analyst and Corporate Broker under the umbrella of Eden Financial Limited. Martin is acknowledged for his thought-provoking and opinionated research. He joined Hardman & Co in June 2013.

Martin qualified as a pharmacist (B.Pharm.Hons) at the School of Pharmacy, University of London, and has a PhD in Neuropharmacology, also from the University of London. After two years of post-doctoral research under a Royal Society Fellowship at the Collège de France, Paris, he became leader in Biochemical Pharmacology at the Parke-Davis Research Centre in Cambridge. Martin is a member of the Royal Pharmaceutical Society of Great Britain.

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