Hardman & Co
November 2024 Investor Forum

Join us for the Investor Forum on Thursday 13 November at 3:00pm.

Hardman has been holding investor forums for over nine years, giving all types of investors the opportunity to hear company managements' stories and pose questions.

This Forum comes at a crucial time, following the UK's recent Budget announcement. Presenting companies will address how their growth strategies and opportunity pipelines are set to perform in the post-budget environment, exploring the potential impacts and opportunities arising from the latest economic measures.

Investors stand to gain valuable insights into how these businesses plan to leverage market conditions to sustain and drive growth. Each company will give a presentation, followed by a Q&A session.

We will end with a focus talk from Hardman & Co's Property Analyst, Mike Foster, discussing whether REITs are a good investment. Watch the rest of Mike's REITs series here: The REIT Report.

In this pack you will find profiles of the speakers and background information on each of the companies presenting. We would encourage you to read these before the Forum to get the most out of the event.

During the Forum we will conduct a number of polls; we will also be collecting feedback in other ways. These are excellent ways to influence management. You are also invited to submit questions to management during the presentations, using the Q&A function in the webinar.

For professional investors, the Forum has been authorised to count towards your Continuing Professional Development time. Click here to request certification after the event.

I hope you enjoy the event.

Keith Hiscock
CEO, Hardman & Co

CPD MEMBER
The CPD Certification Service

HARDMAN & CO.

Chair of the Forum

Richard Angus
Head of Business Development, Hardman & Co

Richard has more than 30 years of City experience. His primary focus has been US equity capital markets, and he has been involved predominantly in the development of growth companies. He has experience on both the buy and sell sides. Having worked for M&G as a fund manager, Richard then worked for US investment banks Alex Brown & Sons and Furman Selz. Latterly, he was Managing Director and Head of Institutional Sales for Europe at FBR & Co. Besides being involved in many public flotations, Richard's experience includes pre-IPO capital raises. He joined Hardman & Co in September 2014. He holds a BA (Hons) in Economics from the University of Liverpool and is a Chartered Accountant.

Presenters

Mike Foster
Property Analyst, Hardman & Co

Mike is an equity analyst at Hardman & Co, and covers a wide range of clients in the Support Services, Building and Property sectors. He spent his early career working in fund management with British Rail Pension Fund and Eagle Star Investment Management. He then spent two decades in sell-side research at several firms, including Peel Hunt and Credit Lyonnais. He has covered sectors including Construction, Support Services and Real Estate. In his fund management career, he was responsible for both bond and equity portfolios. Mike was part of the group of investors that acquired Hardman & Co in late 2012. He holds a BA (Hons) in Geography from the University of Cambridge.

Richard Shepherd-Cross
Fund Manager, Custodian Property Income REIT

Richard qualified as a Chartered Surveyor in 1996 and until 2008 worked for JLL, latterly running its national portfolio investment team. Since joining Mattioli Woods in 2009, he established Custodian Capital as the Property Fund Management subsidiary to Mattioli Woods and in 2014 was instrumental in the establishment of Custodian Property Income REIT from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the company, Richard has overseen the growth of the company to its current property portfolio of over £0.6bn.

Anders Lundstrom
Interim CEO, Shield Therapeutics

Anders has over 30 years of US and global pharmaceutical/biotech experience. He served as the EVP, Chief Commercial Officer at Banner Life Sciences. His prior experience includes senior commercial and general management roles in AstraZeneca, Biogen, Orexo AB (where he was President and CEO), EMD Serono and Santhera Pharmaceuticals.

Santosh Shanbhag
CFO, Shield Therapeutics

Santosh joined the company in January 2024 as CFO and is a senior financial executive with 20+ years of experience leading financial operations for both US and international organisations. Prior to joining Shield, Santosh was CFO of Nasdaq-listed Akili, Inc., where he helped transform the company from a private to a public entity, raised capital to support its business aspirations, and was also responsible for corporate and business development.

Dr Mike Hudson
CEO, EDX Medical

Mike is an experienced scientific entrepreneur. He met EDX founder Professor Sir Chris Evans, OBE, at Imperial College before completing his PhD and establishing a career in health, nutrition and bio-ingredients with Unilever, Bristol-Myers Squibb and Royal Numico. In 2005 he co-founded his first biopharma company, joined by Sir Chris with whom he has worked ever since. Mike has co-authored several patents, founded and/or invested in over 10 early-stage companies and led transactions and partnerships with a combined value of over $2bn.

Ami Daniel
CEO, Windward

Ami is co-founder and CEO of Windward. He was recognised as one of the 40 most promising entrepreneurs in Israel by Israel's leading economical newspapers. Under his leadership Windward has received multiple awards including as a finalist in the Boldness in Business Awards by the FT, Red Herring, The Hottest Startup in Israel by Wired and many others. Ami served as a naval officer in the Israeli Navy and he holds an LLB from Tel Aviv University.

Ofer Segev
CFO, Windward

Ofer joined the company as CFO in 2019, with over 25 years' management experience in the high-tech and services sectors in small and large international companies. He was a partner at Ernst & Young in Israel, where he led the high-tech sector team, and has served as CFO of private and public companies. Ofer is an independent director, sitting on the Audit Committee of Nasdaq-listed Varonis Systems, Inc. and the board of directors of Verix, Inc.

Company research and background information

Click on the title to jump to each company.

HARDMAN&CO.

November 2024

SHIELD THERAPEUTICS

Proactive cash management to cashflow-breakeven

Shield is a commercial-stage pharma company delivering specialty products that address the needs of patients with iron deficiency (ID). Since its July 2021 US launch, Shield and Viatris have increased physician awareness of the differentiating characteristics of ACCRUFeR® as an oral ID drug, in order to generate sales traction. The 3Q'24 trading update reiterated the interim statement dialog: sales continue to progress, while costs are being actively managed. Shield is being proactive, extending its working capital financing from $10m to $15m and issuing $10m new shares to AOP, to manage the company through to cashflow-breakeven in 2H'25.

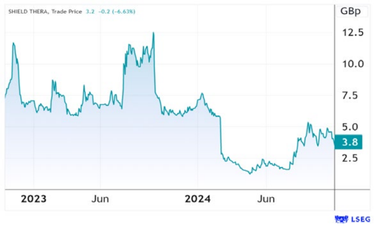
- **Strategy:** Shield and co-marketing partner Viatris are commercialising Accrufer in the US. Elsewhere, Shield's strategy is to out-license commercial rights to partners with appropriate expertise in target markets, which has been achieved so far in Europe, China, Republic of Korea and Canada.
- **3Q'24 trading:** In 3Q'24, sales grew 4% over 2Q'24, to $7.2m, on the back of 20% Rx growth, offset by a weaker selling price in July, which gave an average of $167 per Rx for the quarter. Prices improved greatly, to $190+, in August and September. Gross cash to end-September was $7.7m, down from $8.1m at end-June, with management proactively strengthening the cash resources.
- **ACCRUFeR Rx:** Sequential 3Q'24 Rx growth of 20%, to 43,500, was modestly below expectations (28%). Combined with the weak July selling price, sales, at $7.2m, were below our $7.9m forecast. However, the higher $192 selling price in the latter months of 3Q'24 is expected to be maintained throughout 4Q'24.
- **Forecasts:** Modestly lower Rx growth has a knock-on effect on 4Q'24 expectations, but this is being offset by a selling price that is $20 higher than forecast, at $192. While this reduces overall 2024 sales by $1.0m, additional cost savings mean that our EBITDA and EBIT forecasts remain unchanged.
- **Investment summary:** The 3Q'24 trading statement indicates that Shield is continuing to move in the right direction and that the new CFO has a firm grip on cash. The trend for lower ACCRUFeR Rx growth, coupled with much-improved pricing (lower discounting), leaves forecasts broadly unchanged. Management is being very proactive in the management of gross cash in order to take the company through to cashflow-breakeven in 2H'25.

Financial summary and valuation

Year-end Dec ($m)	2020	2021	2022	2023	2024E	2025E
Product sales	0.94	1.40	5.50	13.09	30.31	71.48
R&D	-3.31	-0.80	-1.32	-1.81	-1.30	-0.50
Other income	11.40	0.79	1.11	4.41	6.05	1.90
EBITDA	-0.29	-24.46	-28.55	-30.26	-18.33	-4.99
Underlying EBIT	-3.77	-27.50	-31.40	-31.33	-19.53	-6.19
Underlying PBT	-3.76	-27.50	-30.99	-31.83	-22.13	-7.99
Underlying EPS (p)	-3.20	-13.27	-13.49	-4.52	-2.83	-1.02
Statutory EPS (p)	-3.79	-13.11	-21.25	-4.59	-2.83	-1.02
Gross cash	4.01	16.33	3.40	13.95	5.25	12.89
Net cash/(debt)	3.97	16.12	-3.95	-6.30	-15.18	-12.11
Equity issues	0.01	40.21	2.67	28.16	0.00	10.00
EV/sales (x)	-	-	-	2.4	1.1	0.4

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: LSEG, 2024

Market data

EPIC/TKR	**STX/SHIEF**
Price (p/$)	**2.70/0.037**
12m high (p/$)	7.80/0.084
12m low (p/$)	1.05/0.014
Shares (m)	782.1
Mkt cap (£m)	21.1
EV (£m)	32.1
Free float*	59%
Country/Ccy	UK/USD
Markets	AIM/OTCQX

**As defined by AIM Rule 26*
Priced on 11 November 2024

Description

Shield Therapeutics (Shield) is a specialty pharma company with an iron replacement product, Feraccru/Accrufer, approved in Europe and the US for the treatment of iron deficiency in adults, with or without anaemia. In Europe, Feraccru is marketed by Norgine, with Shield receiving royalties. In the US, Accrufer is co-marketed by Shield and Viatris, with the aim of rapidly expanding its market share.

Company information

CEO	Anders Lundstrom
CFO	Santosh Shanbhag
Chairman	Hans Peter Hasler

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www.shieldtherapeutics.com

Key shareholders

Directors	2.2%
AOP Orphan AG	39.8%
Hargreaves Lansdown	8.2%
Inventages	7.2%

Analyst

Dr Martin Hall mh@hardmanandco.com

YTD performance

Operational highlights

- **ACCRUFeR:** Shield reported a 125% increase in ACCRUFeR Rx for the nine months ending September 2024. Given that 1Q'24 growth was broadly flat on 4Q'24, due to the well-documented change in the Texas PBM, this growth was driven by excellent 2Q'24 and 3Q'24, reflecting the 12-month anniversary of the expanded and trained US sales team. Sequential quarterly growth in ACCRUFeR Rx is expected to continue moving forward.
- **ACCRUFeR discounts:** There is clear evidence that the efforts being made by the Shield-Viatris sales team to reduce the level of subsidised Rx are being rewarded, with the average Rx generating $139 in 1Q'24, $171 in 2Q'24, and $167 in 3Q'24. The latter figure was reduced by summer buying patterns, but is now running at about $190 per Rx, as the commercial strategy moves away from consignment volumes.
- **Partnering:** Progress has been made during 2024 with several partners. The sales performance of Norgine in Europe was better than expected, Kye received ACCRUFeR regulatory approval in Canada, Korea filed for regulatory approval in Korea, and ASK continued to enrol patients into its Phase III regulatory trial.

Financial highlights

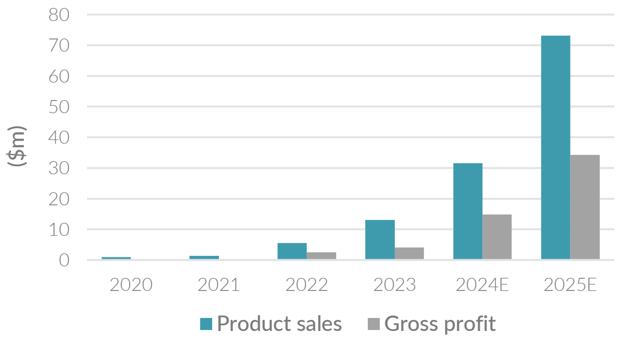
- **Sales:** ACCRUFeR has generated YTD sales of $18.1m (+132%) through a combination of Rx growth and lower discounts. This is being supported by European royalties of $1.07m (+80%) and modest sales from Korea.
- **COGS:** Manufacturing and supply costs are being managed with a modest improvement in gross margins expected – currently ca.45.0% (44.3%). COGS is dictated by the percentage of US sales payable to Viatris and the 5% royalty.
- **SG&A:** Despite the cost of employing the enlarged sales team for the whole of 1H'24, the underlying SG&A costs increased only 8% to $18.23m ($16.89m). Underlying SG&A is expected to be around this level again in 2H'24.
- **Net cash/(debt):** At 30 September, Shield had gross cash of $7.7m. Financial flexibility has been enhanced by a receivables financing deal with Sallyport of up to $15m, of which $6.4m was drawn down on 30 June. Flexibility has been further enhanced through the China milestone monetisation agreement with AOP (+$5.7m) and regulatory approval in Canada (+$0.32m).

Interim results summary – actual vs. expectations

Year-end Dec ($m)	1H'23 actual	1H'24 actual	Growth CER	1H'24 *forecast	Delta Δ
Product sales	4.33	12.13	+224%	11.53	+0.60
COGS	-2.09	-6.68	n/m	-6.92	+0.24
SG&A	-16.89	-18.23	+8.0%	-18.55	+0.32
Share-based costs	-0.18	-0.58	n/m	-0.44	-0.14
R&D	-0.43	-0.75	+73%	-0.65	-0.10
Other income	4.30	0.00	-	0.00	-
Underlying EBIT	**-11.54**	**-14.06**	**+22%**	**-15.03**	**+0.97**
Gross cash	13.59	8.10	-	6.85	+1.25
Debt/leases	-5.77	-19.97	-	-20.00	+0.03
Net cash/(debt)	**7.82**	**-11.87**	**-**	**-13.15**	**+1.28**

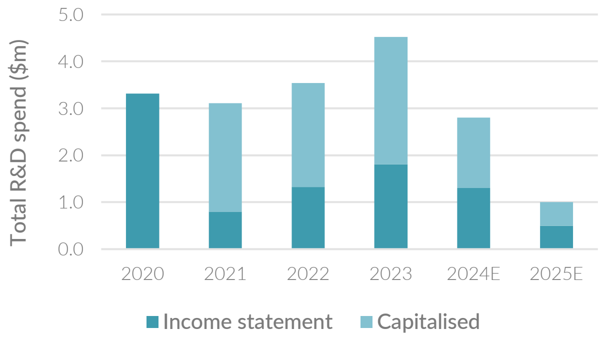
**Prior to release of business update statement on 24 July*
Note: numbers may not add up exactly due to rounding
Source: Hardman & Co Research

Product sales and gross profit



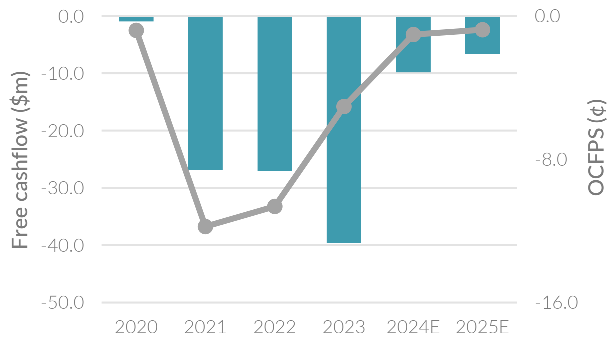
- The US is the only market in which Shield records product sales. In other countries, it partners with distributors.
- Shield is recording 100% of net sales of ACCRUFeR in the US, with Viatris's 45% proportion being charged to COGS, reducing the gross margin from 85% to ca.45%.
- Sales milestones and royalties from commercial partners are treated as "other income", and are not included in our sales.

Total R&D investment



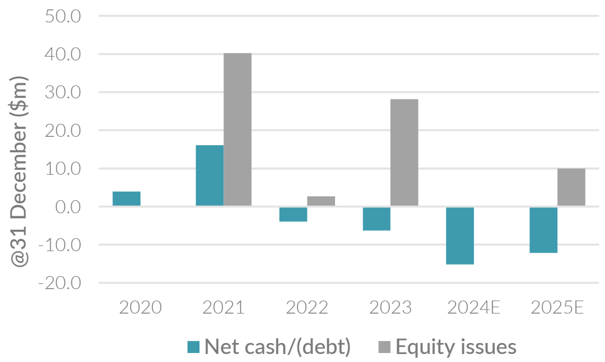
- Total R&D spend in 2023 peaked at $4.5m. However, only 40% was recorded through the income statement; the other 55% was capitalised.
- Main investment is a paediatric study with Feraccru/ACCRUFeR initiated at the end of 2021; this was forecast to cost $6.5m-$7.0m over a three-year period. Most of these costs are now behind the group, allowing R&D spend to ease off.

Free cashflow and OFCPS



- Shield has been cashflow-negative during the investment phase and commercialisation of Feraccru/ACCRUFeR.
- 2024 cashflows will continue to be dominated by ramp-up in ACCRUFeR marketing spend for the co-promotional programme agreed with Viatris.
- Acceleration of ACCRUFeR Rx and sales in 2024 and 2025 is expected to see Shield become cashflow-breakeven in 2H'25 and beyond.

Net cash/(debt) and equity issues



- Gross cash, at 30 September 2024, was $7.7m, offsetting ca.$25.0m of debt.
- More favourable covenants on the SWK debt facility were negotiated in April 2024.
- Shield has arranged a flexible accounts receivable facility up to $15m with Sallyport to provide greater working capital flexibility.
- In July 2024, Shield monetised its potential China regulatory milestone to raise an additional $5.7m to strengthen the balance sheet further.

Source: Company data; Hardman & Co Research

Operational update

Progress against 2024 business objectives

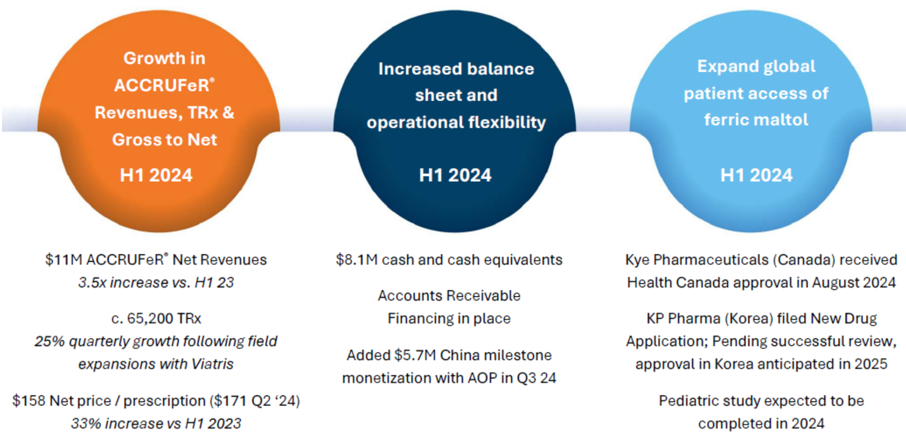
Progress against three clearly defined goals

In its presentation of fiscal 2023 results, management set out three clear business objectives for 2024:

- Maximise revenues (product sales and royalties) directly in the US through the commercial deal with Viatris and indirectly through its overseas partners. In the US, the aim was to grow ACCRUFeR RX and reduce the discounting and subsidies frequently used in the industry when a drug is first used.
- Increase balance sheet and operational flexibility through tight control of operating expenses and enhancements to working capital. A clear focus on making investments that were directly tied to supporting ACCRUFeR.
- Expand global patient access to ferric maltol by working closely with overseas partners.

The following slide, extracted from Shield's interim results presentation, shows that the company has made considerable progress against all three business objectives in 1H'24, and this has continued further, so far in 2H'24.

Shield – 2024 business priorities



Source: Shield interim results presentation

ACCRUFeR

ACCRUFeR Rx progress

Good recovery in 2Q'24 after poor start in 1Q'24 in Texas

2024 did not start well for Shield when the largest state (Texas) user of ACCRUFeR decided to change its Pharmacy Benefit Manager (PBM), throwing the whole process of pre-approvals into disarray for a short period, until a new PBM was appointed starting from April. Really good performances in other states – notably New York and California – only just offset the impact from Texas, with 1Q'24 ACCRUFeR Rx rising 1%.

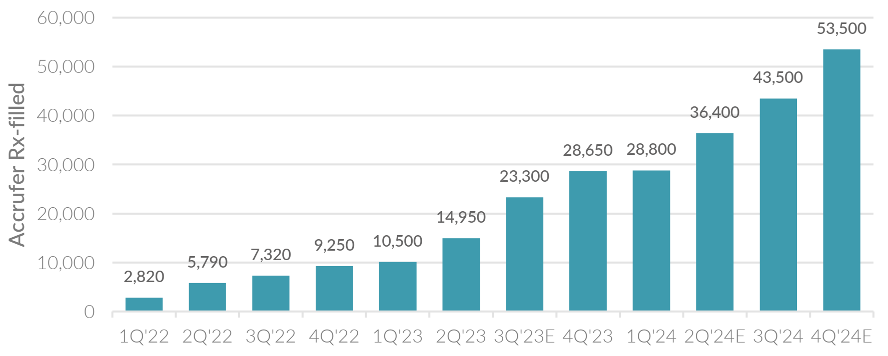
Return to sequential quarterly Rx growth

2Q'24 saw the Texas State Medicaid programme return to normal and, with continued growth elsewhere, ACCRUFeR Rxs have grown 125% compared with the first nine months of 2024. The top states for ACCRUFeR, currently, are California, Florida, New York, and Texas.

Continually addressing the volume:price balance

One characteristic of the large state Medicaid programmes is something called consignment volume, whereby higher discounts are demanded for high volumes. During 2024, Shield-Viatris has continued its goal to redress the balance between price and volume, gradually reducing the number of subsidised Rx.

ACCRUFeR Rx progression



Source: Hardman & Co Research

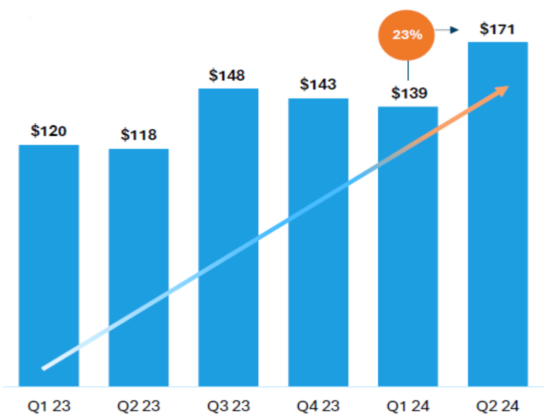
ACCRUFeR pricing trend

In order to increase awareness of ACCRUFeR among physicians and to establish the drug in the market, ACCRUFeR was given away either for free, or on a heavily subsidised basis, when it was first launched. This is normal industry practice. As new products become better known, more established, and included under Medicaid and Medicare formulary coverage, the aim is to reduce the discount levels. A key goal of the Shield-Viatris commercial team over the past 12 months has been to reduce the average discount that each ACCRUFeR Rx attracted.

2Q'24 Rx price outcome of $171 was best to date

During 2024, Shield has made significant progress in reducing these discounts with the long-term aim of achieving an average price per Rx of $220. The following chart shows the average net ACCRUFeR price, on a quarterly basis, since 1Q'23. In the same way that Rx levels in the industry tend to be lower in the early part of each year, pricing also tends to be lower. This can be seen in the dip between 4Q'23 and 1Q'24. In 2Q'24, Shield recorded its best quarter for pricing with the average price reaching $171. Although the 3Q'24 figure of $167 was affected by summer buying patterns, in August and September, the average price was $192, and it is expected to run around this rate for 4Q'24.

Quarterly ACCRUFeR net price per Rx



Source: Shield interim results presentation

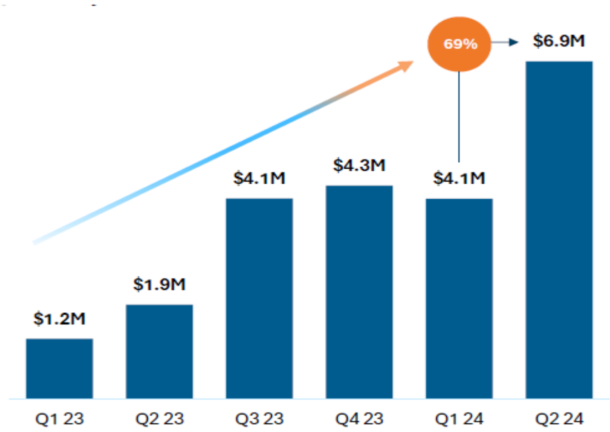
ACCRUFeR sales

Sales beginning to dominate the focus

While ACCRUFeR Rx growth and average net prices remain very important and are both contributory factors, a general observation that we have made in recent trading updates and results announcements is a subtle change in emphasis on to sales.

Clearly, sales are dependent on both Rx levels and price; however, moving forward, we envisage that Shield-Viatris is trying to move away from notching up an Rx at any price, thereby improving the quality of each Rx filled. This might result in a slight reduction in the quarterly Rx growth rate reported but at continually improving average price. Consequently, we see greater focus on sales and sales growth. To that end, the company provided accurate back information on quarterly ACCRUFeR sales, corrected for all the well-documented issues in 2023.

Quarterly ACCRUFeR net sales



Source: Shield interim results presentation

Data quality has improved under new CFO

In our opinion, this is also a reflection of the desire of the new CFO to put his stamp on the quality and consistency of the information being provided in recent trading updates and financial reports. There is no doubt that the 1H'24 report and presentation had much greater transparency and that the data can be relied upon by investors.

Changes to ACCRUFeR forecasts

Slight tweak to forecasts due to volume versus price balance

On the basis that Shield-Viatris is trying to reduce the level of consignment volume and improve process, we have tweaked downwards our growth expectations for ACCRUFeR Rx but slightly raised our average price per Rx. Although this has resulted is a slight fall in ACCRUFeR US sales, it is compensated for, at the group level, by an increased forecast for the contribution from Norgine in Europe.

Changes to ACCRUFeR forecasts

	1Q'24	2Q'24	3Q'24	4Q'24E	2024E
ACCRUFeR Rx growth rate					
Old	+1%	+26%	+28%	+23%	169,100
New			+20%	+23%	162,200
ACCRUFeR average net Rx price					
Old	$130	$171	$176	$181	$173
New			$169	$190	$175
ACCRUFeR net sales					
Old	$4.1m	$6.9m	$8.1m	$10.1m	$29.2
New			$7.2m	$10.2m	$28.3

Source: Hardman & Co Research

Global partnerships

To date in 2024, Shield has made progress with each of its non-US partners, which are summarised in the following graphic.

Global (ex-US) partnerships

NORGINE	KYE Pharmaceuticals	KP 한국피마 KOREA PHARMA	
EU+[1]	Canada	Republic of Korea	China +[2]
Currently commercialized across Europe	Approved by Health Canada in August 2024	Filed for approval; Pending successful review, approval anticipated in 2025	Phase 3 Study ongoing Approval expected in H2 2026
Royalties and milestone payment upon approval for Pediatrics in EU	**Revenue-based milestone payments and Double-digit royalties on net sales**	**Mid-teens royalties on net sales**	**Approval Milestone Double-digit royalties on net sales**

Source: Shield interim results presentation

Norgine

The slow progress of Norgine – EU, UK, Norway, Australia, New Zealand plus some other non-EU Countries – has been a frustration, particularly in Europe. However, progress does appear to be evolving, as evidenced by the 80% increase in royalties received in 1H'24, which was much greater than forecast. After some initial problems with NICE and the payors in the UK, Feraccru is now being accepted on many more hospital formularies. We expect a continuation of this progress in 2H'24.

Kye

Imminent receipt of £0.24m/$0.32m milestone

Kye filed for approval of ACCRUFeR with the Canadian regulator in 2023 and approval was always anticipated in 2H'24. This duly arrived at the end of August, triggering an approval milestone of £250k/$325k, which is due to be paid imminently. Kye is now going through the pre-launch phase and is expected to formally launch in Canada in 1Q'25.

Korea Pharma

Following the successful completion of the required pharmacokinetic study, Korea Pharma has submitted ACCRUFeR to the regulator for approval in the Republic of Korea. A decision is expected during 2025.

ASK Pharma

For approval in China, ASK is required to undertake a pivotal Phase III clinical trial. The protocol is similar to those used to obtain regulatory approval from the EMA and the FDA. Although, as discussed previously, recruitment has been slower than anticipated, good progress has been made in 1H'24 and full enrolment is targeted for completion towards the end of 2024. Trial results are expected in 2025 and, if successful, the regulatory submission is also expected to occur next year.

Paediatric study

As part of the regulatory process in Europe and the US, Shield was required to undertake a Phase III paediatric study (FORTIS/ST10-01-305) comparing the safety, tolerability and effectiveness of an oral liquid suspension of ferric maltol with oral ferrous sulphate liquid in children with iron deficiency anaemia. This trial has now completed with positive outcomes.

Financing update

Since his appointment at the end of 2023, the new CFO has undertaken a complete review of the company's finances and spending plans. As stated earlier, in our opinion, there has been a noticeable improvement in the quality of the information being provided and that investors can rely on these data.

He inherited a stretched balance sheet, with the market generally of the view that more capital was required. However, through a series of operational decisions and changes, and some financing deals, the balance sheet has improved and the current and forecast gross cash position is expected to see the company through to cashflow-breakeven in 2025, assuming that internal and external forecasts are met.

Operating costs

Hands-on control of operating cost

The first thing that the new CFO addressed was to reschedule some of the company's operating costs to ensure that investment was in a focused and timely manner to grow ACCRUFeR in the US.

In 1H'24, US selling costs increased by 10.2%, reflecting the full contribution from the expanded sales team, which was only in the recruitment phase in 1Q'23. General administration costs (excluding share-based payments) were reduced by 1.4% to \$5.12m (\$5.19m), despite the negative impact of translating the UK administrative costs into USD. D&A rose substantially in 1H'24. Taking all of these points into account, the underlying SG&A costs rose only 8.0% in 1H'24. During the 1H'24 analyst meeting, management stated that costs would be largely similar in 2H'24 compared with 1H'24, but, at that stage, we prudently allowed for a ca.\$1.5m increase in our forecasts. However, in the 3Q'24 trading update, with further proactive cash management, Shield indicated that it was looking to reduce these costs by 10% over the coming 12 months, so forecasts have been maintained on slightly reduced sales expectations.

SG&A costs

$m	1H'23	2H'23	2023	1H'24	2H'24E	2024E
US selling costs	-11.20	-10.52	-21.72	-12.34	-13.28	-25.62
General administration	-5.19	-9.11	-14.30	-5.12	-5.10	-10.21
D&A	-0.50	-0.58	-1.07	-0.77	-0.77	-1.54
Underlying SG&A	**-16.89**	**-20.20**	**-37.09**	**-18.23**	**-19.69**	**-37.93**
Share-based costs	-0.18	-0.70	-0.88	-0.58	-0.58	-1.17
Reported SG&A	-17.06	-20.90	-37.96	-18.82	-19.72	-39.10

Source: Hardman & Co Research

It should be noted that the general administration costs were abnormally high in 2H'23. This was due to the inclusion of various financing costs within this figure, which are not expected to be repeated.

Financing deals

Shield has undertaken three financing/refinancing deals so far in 2024 to strengthen the balance sheet and provide increased flexibility to its working capital.

SWK Funding LLC

Revised sales covenants are on a rolling 12-month basis

Shield renegotiated its existing \$20m debt financing agreement with SWK to provide more favourable covenant terms. On a rolling 12-month basis, the minimum ACCRUFeR sales targets are \$16.5m, \$22.5m, \$31.5m, \$38.9m, and \$45.7m in 2Q'24, 3Q'24, 4Q'24, 1Q'25, and 2Q'25 and beyond, respectively. Shield maintained that its internal forecasts would consistently comply with these revised minimum sales requirements.

Financing deals in 2024*

SWK	Sallyport	AOP Health
$20M Term Loan	**$10M AR Factoring**	**$5.7M Milestone Monetization**
Sept. 2028 maturity	Through Apr 2025, extendable to 2026	Monetization of $11.4M milestone upon ACCRUFeR® approval in China
Interest rate SOFR + 9.25%	Advance rate on eligible ACCRUFeR® receivables	ACCRUFeR® approval in China expected by YE 2026
Nine quarters interest only periods	Interest rate of WSJ Prime + 3.0%	Secured by the ASK Milestone[2]
6.5% final payment fee	Secured by AR and Inventory	
Secured by all assets	$1.0M in restricted cash	
Minimum liquidity and minimum revenue targets[1] covenants		

*The AR factoring facility was increased to $15m in 3Q'24
Source: Shield interim results presentation

Sallyport Commercial Finance

Accounts receivable facility will vary on a day-to-day basis…but up to $15m

In April 2024, Shield strengthened its balance sheet through an accounts receivable arrangement with Sallyport for up to $10m. The amount was increased to $15m during 3Q'24. On issue of an invoice in the US, Shield can draw down the receivable from Sallyport, which is then repaid, less costs, to Sallyport, immediately upon payment receipt from the customer. This improves Shield's working capital position, covering, for example, the average 72-day payments from its largest customer, Cardinal Health.

The amount drawn down will vary on a day-to-day basis. On 30 June, Shield had an outstanding draw down of $6.84m with Sallyport, showing up in short-term liabilities (note 11 in the accounts). In addition, under the terms of the agreement, Shield is required to hold $1.0m of restricted cash as a contingency until closure of the agreement, listed under long-term assets.

AOP Health

Accounting for AOP arrangement still uncertain…but we have included whole $5.7m in "other income"

On 3 July, Shield announced that it had signed an agreement with its major shareholder, to monetise the anticipated $11.4m China approval milestone from ASK Pharma. Under the terms of this agreement, AOP has paid Shield $5.7m immediately, in return for the right to receive the full $11.4m from ASK within 30 days from the "approval milestone" being achieved. ASK is expected to complete enrolment into the Phase III trial by the end of 2024 and, all being well, the approval milestone is expected to become payable around the end of 2026.

In the event that the approval milestone has not been triggered by 31 December 2026, or in the event that this agreement is terminated, including at Shield's election or due to a breach by Shield of its terms, the $5.7m advance plus accrued interest and fees at an interest rate of SOFR+9.25% (calculated from the date of the advance until the day of payment) and an exit fee of 6.5% of the advance will be payable by Shield to AOP.

Summary

Management is totally focused on commercial execution. All of these financing deals, together with close control of costs and working capital are designed to see Shield through to cashflow-breakeven in 2H'25.

Financials and investment case

Income statement

- **Sales:** Strong performance in 1H'24 and the key focus. Modest adjustment to 2024 and 2025 forecasts to reflect the balance between consignment volume and price, with the aim of continually reducing the level of subsidised Rxs.
- **COGS:** There are three components to Shields's COGS. Apart from the basic product manufacturing costs, there are royalties and Viatris's 45% proportion of net sales. A normalised gross margin is around 45% of net sales.
- **SG&A:** Management intends to continue its planned investment into marketing in order to drive sales growth. However, it does have some flexibility around the timing of this investment to help with the management of its cash position.
- **R&D:** Shield is continuing to invest in the paediatric study required by the regulators. However, much of this R&D spend is capitalised.
- **Other income:** This is a combination of sales milestones from Viatris and regulatory milestones from global partners. 2024 includes $5.7m received from AOP and the imminent approval milestone from Kye.
- **Profitability:** Shield is expected to become EBITDA-positive during 2H'25. Timing of profitability is dependent on receipt of sales milestones from Viatris, which look set to commence in fiscal 2026.

Income statement

Year-end Dec ($m)	2020	2021	2022	2023	2024E	2025E
Product sales	0.94	1.40	5.50	13.09	30.31	71.48
COGS	-1.74	-1.35	-3.04	-9.06	-16.06	-37.97
Gross profit	-0.80	0.05	2.46	4.03	14.25	33.52
Gross margin	7.2%	60.2%	44.7%	30.8%	47.0%	46.9%
SG&A (underlying)	-10.06	-26.19	-32.73	-37.09	-37.37	-39.94
Share-based costs	-0.99	-1.36	-0.91	-0.88	-1.17	-1.17
R&D	-3.31	-0.80	-1.32	-1.81	-1.30	-0.50
Other income	11.40	0.79	1.11	4.41	6.05	1.90
EBITDA	**-0.29**	**-24.46**	**-28.55**	**-30.26**	**-18.33**	**-4.99**
Depreciation	-0.03	-0.03	-0.04	-0.04	-0.04	-0.04
Amortisation	-3.45	-3.01	-2.81	-1.04	-1.17	-1.17
Underlying EBIT	**-3.77**	**-27.50**	**-31.40**	**-31.33**	**-19.53**	**-6.19**
Exceptional items	0.00	0.00	-18.11	0.00	0.00	0.00
Statutory EBIT	-3.77	-27.50	-49.51	-31.33	-19.53	-6.19
Net interest	0.00	0.01	0.41	-0.50	-2.60	-1.81
Forex gain/loss	0.27	0.38	0.00	-0.54	0.00	0.00
Underlying PBT	**-3.76**	**-27.50**	**-30.99**	**-31.83**	**-22.13**	**-7.99**
Extraordinary items	0.00	0.00	0.00	0.00	0.00	0.00
Statutory PBT	-3.50	-27.11	-49.10	-32.38	-22.13	-7.99
Tax payable/credit	-0.96	0.32	-0.46	-0.92	0.00	0.00
Underlying net income	**-3.75**	**-27.13**	**-31.45**	**-32.75**	**-22.13**	**-7.99**
Statutory net income	-4.45	-26.80	-49.56	-33.29	-22.13	-7.99
Ordinary 1.5p shares:						
Period-end (m)	117.62	215.89	259.39	782.06	782.06	782.06
Weighted average shares (m)	117.40	204.41	233.19	725.22	782.06	782.06
Fully diluted (m)	121.35	211.87	285.79	782.54	844.37	849.37
Underlying basic EPS (¢)	**-3.20**	**-13.27**	**-13.49**	**-4.52**	**-2.83**	**-1.02**
Statutory basic EPS (¢)	-3.79	-13.11	-21.25	-4.59	-2.83	-1.02
Underlying fully dil. EPS (¢)	-3.09	-12.80	-11.00	-4.19	-2.62	-0.94
Statutory fully dil. EPS (¢)	-3.67	-12.65	-17.34	-4.25	-2.62	-0.94
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Hardman & Co Research

Balance sheet

- **Net cash/(debt):** On 30 September 2024, Shield had gross cash of $7.7m including the part drawdown of the accounts receivable financing deal. The $20m debt facility from SWK was fully utilised. During 3Q'24, Shield received the $5.7m China milestone monetisation advance from AOP and payment of the Canada approval milestone.
- **Loan facility:** In September 2023, Shield entered into a $20m five-year term loan facility with SWK Holdings. This term loan is interest-only (minimum 14.25%) for eight quarters; thereafter, it will be interest plus $1m capital repayment per quarter. Sales covenants were renegotiated to more favourable terms in April 2024.
- **Inventories:** Inventories increased 26%, to $4.0m, in 1H'24 compared with the level at 31 December 2023. Shield has the flexibility to release some working capital at a suitable time point, again as part of the overall management of gross cash.
- **Working capital:** Overall, there was a $3.90m release of working capital in 1H'24, but this includes the drawdown accounts receivable facility from Sallyport. Net cash burn in 3Q'24 was -$0.4m.
- **AOP subscription:** Shield has signed a non-binding agreement with AOP Health to subscribe for new Ordinary shares for a minimum of $10m, at a price of 4.0p per share. This would take AOP's shareholding above 50%, so Shield has requested a waiver from the Panel on Takeovers and Mergers.

Balance sheet

@31 Dec ($m)	2020	2021	2022	2023	2024E	2025E
Shareholders' funds	41.33	55.31	6.54	15.03	-7.10	-5.10
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Total equity	41.33	55.31	6.54	15.03	-7.10	-5.10
Share capital	2.41	4.36	5.37	15.01	15.25	15.25
Reserves	38.92	50.95	1.17	0.02	-22.35	-20.35
Provisions/liabilities	0.00	0.00	0.00	0.00	8.00	8.00
Deferred tax	0.00	0.00	0.00	0.00	0.00	0.00
Long-term leases	0.00	0.00	0.00	0.20	0.00	0.00
Short-term leases	0.04	0.21	0.11	0.21	0.00	0.00
Long-term loans	0.00	0.00	7.25	19.84	20.00	25.00
Short-term debt	0.00	0.00	0.00	0.00	0.00	0.00
less: Cash	4.01	16.33	3.40	13.95	5.25	12.89
less: Deposits	0.00	0.00	0.00	0.00	0.00	0.00
less: Non-core investments	0.00	0.00	0.00	0.00	0.00	0.00
Invested capital	**37.35**	**39.19**	**10.49**	**21.33**	**15.65**	**15.01**
Fixed assets	0.04	0.41	0.24	0.67	0.52	0.68
Intangible assets	37.22	36.20	14.21	16.86	17.35	16.87
Inventories	1.88	2.20	1.76	3.20	3.52	4.23
Trade debtors	*0.30*	*1.10*	*4.09*	*9.99*	*10.52*	*11.81*
Other debtors	*0.55*	*2.85*	*2.40*	*3.51*	*3.51*	*3.51*
Tax liability/credit	*0.40*	*0.78*	*0.53*	*0.61*	*0.59*	*0.00*
Trade creditors	*-0.54*	*-1.77*	*-2.20*	*-4.05*	*-6.01*	*-7.11*
Other creditors	*-2.50*	*-2.58*	*-10.52*	*-9.47*	*-14.35*	*-14.97*
Debtors less creditors	-1.79	0.38	-5.71	0.59	-5.74	-6.76
Invested capital	**37.35**	**39.19**	**10.50**	**21.33**	**15.65**	**15.01**
Net cash/(debt)	**3.97**	**16.13**	**-3.95**	**-6.30**	**-15.18**	**-12.11**

Source: Hardman & Co Research

Cashflow

- **Net cash/(debt):** Our forecasts assume that Shield will continue to fully utilise its $20m SWK term loan facility. It will also continue to utilise its accounts payable facility, but this changes on a day-to-day basis based on the timing of the issuance of invoices and the payment receipt for those invoices. Careful management of the timing of planned marketing spend and working capital are expected to maintain a modest gross cash position at the end of each month and at the year-end, obviating the need for an equity injection.
- **Capitalised R&D:** Although the paediatric study is continuing, much of the cost is contracted and pre-paid to the contract research organisation conducting the trial. A further $0.98m was capitalised in 1H'24, but we expect this to tail off as the trial proceeds to a conclusion at the end of 2024.
- **Working capital:** Timing differences between supply of drugs to US wholesalers and payments have resulted in an increase in working capital, which has been offset by utilisation of accounts payable agreement with Sallyport. As ACCRUFeR Rxs accelerate and net selling discounts reduce, Shield will have more flexibility with its working capital to manage the gross cash position.

Cashflow						
Year-end Dec ($m)	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Underlying EBIT	-3.77	-27.50	-31.40	-31.33	-19.53	-6.19
Depreciation	0.03	0.03	0.04	0.04	0.04	0.04
Amortisation	3.45	3.01	2.81	1.04	1.17	1.17
Share-based costs	0.99	1.36	0.91	0.88	1.17	1.17
Inventories	*1.20*	*-0.35*	*0.22*	*-1.45*	*-0.32*	*-0.70*
Receivables	*-0.34*	*-3.96*	*-2.79*	*-7.01*	*-0.53*	*-1.29*
Payables	*-2.66*	*2.26*	*7.27*	*1.91*	*9.96*	*1.10*
Change in working capital	-1.80	-2.05	4.70	-6.55	9.12	-0.90
Exceptionals/provisions	0.00	0.00	0.00	0.00	3.40	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.34	0.71	-0.81	0.17	0.00	0.00
Company op. cashflow	**-0.77**	**-24.44**	**-23.75**	**-35.76**	**-4.65**	**-4.72**
Net interest	0.00	-0.04	-0.37	-0.10	-4.02	-1.81
Finance leases	-0.07	-0.11	-0.23	-0.09	-0.23	-0.23
Tax paid/received	-0.11	0.56	-0.43	-0.72	1.19	0.59
Operational cashflow	**-0.94**	**-24.03**	**-24.78**	**-36.66**	**-7.71**	**-6.17**
Capital expenditure	0.00	-0.51	-0.06	-0.24	-0.15	-0.19
Capitalised R&D	0.00	-2.32	-2.22	-2.71	-1.50	-0.50
Sale of fixed assets	0.00	0.00	0.00	0.00	0.00	0.00
Free cashflow	**-0.94**	**-26.86**	**-27.06**	**-39.61**	**-9.36**	**-6.86**
Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	-0.03	-0.01	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other investments	0.00	0.00	0.00	0.00	0.00	0.00
Cashflow after invests.	**-0.97**	**-26.87**	**-27.06**	**-39.61**	**-9.36**	**-6.86**
Share repurchases	0.00	0.00	0.00	0.00	0.00	0.00
Equity issues	0.01	40.21	2.67	28.16	0.00	10.00
Cost of fundraise	0.00	-2.09	-0.19	-1.35	0.00	-0.50
Currency effect	0.82	0.53	-2.83	0.45	0.50	0.00
Loans/cash acquired	0.00	0.37	7.34	10.00	0.00	0.00
Change in net debt	**-0.15**	**12.15**	**-20.07**	**-2.35**	**-8.86**	**2.64**
OCFPS (p)	-0.80	-11.76	-10.63	-5.06	-0.99	-0.79
Opening net cash/(debt)	4.12	3.97	16.12	-3.95	-6.30	-15.18
Closing net cash/(debt)	**3.97**	**16.13**	**-3.95**	**-6.30**	**-15.18**	**-12.11**

Source: Hardman & Co Research

Valuation

Sum-of-the-parts

Taking all recent events into account, valuation drops from 17p to 16p per share

Our analysis, which pulls together the DCF models for each of the key commercial markets for Feraccru/ACCRUFeR, has been updated following all the recent events. This has generated a revised sum-of-the-parts EV of $185m/£143m. The US valuation has reduced modestly along with the slightly reduced sales expectations. However, this has been more than offset by an increase in the European valuation following the better-than-expected performance from Norgine. The recent strength in sterling has negated the overall positive USD outcome. Updating the net debt position leaves our overall NPV per share at 16p.

Sum-of-the-parts valuation

	NPV (l.c.)	NPV (GBP)	NPV per share
NPV of ACCRUFeR in US	$109m	£85m	11p
NPV of Feraccru royalty stream in Europe	€33m	£28m	4p
Risk-adjusted NPV of China royalty stream	$35m	£26m	3p
Enterprise value	**$187m**	**£139m**	**18p**
Net cash/(debt)	-$15m	-£11m	-1p
Group valuation	**$172m**	**£128m**	**16p**

Source: Hardman & Co Research

Rerating of shares dependent on sequential quarterly progress at least close to expectations

Although there had been some recovery in the share price to ca.5.0p, following the 3Q'24 trading update, the market has become more concerned about the continuing commercial risk and the debate about gross cash. This was exacerbated by the updated view that Shield needed to agree a share subscription for a minimum of $10m from its major shareholder, AOP Health, to get it to cashflow-breakeven. The market needs to see further benefits of the enlarged sales team in each sequential quarter in order to have the confidence to rerate the shares.

Comparator valuations

Covis acquired AMAG for $647m in November 2020, and CSL bid CHF11.1bn for Vifor in December 2021

There are no directly comparable UK peers – so, we continue to observe some global competitors for completeness. In addition, we have been highlighting the need of the pharma majors for M&A activity to bolster R&D pipelines and commercial portfolios. Iron replacement therapy is no exception. Covis (private company) paid an EV of $647m in November 2020 for AMAG (EV/sales: 2.4x), and CSL bought Vifor for CHF11.1bn in December 2021 (EV/sales: 9.3x). In the event that ACCRUFeR targets are met in the next three years, the stance of Viatris would become very interesting, in our opinion, especially if the Shield valuation is slow to recover.

Comparative valuation

Company	*Vifor Pharma	*AMAG (now Covis)	Akebia Therapeutics	Shield Therapeutics
Ticker	VIFN	AMAG	AKBA	STX
Local currency	CHF	$	$	£
Share price	173.0	13.8	1.99	0.027
Shares in issue (m)	65.0	36.7	218.2	782.1
Market cap $m)	11,245.0	505.0	434.2	36.2
Mkt cap (£m)	**8,875.3**	**385.5**	**331.4**	**21.1**
Cash	994.5	168.9	34.0	4.9
Debt	-603.6	-311.2	-43.3	-15.6
EV ($m)	10,854.1	647.3	443.5	44.4
EV (£m)	**8,566.8**	**494.1**	**338.5**	**33.9**
EV relative to Shield	**252.5**	**14.6**	**10.0**	**-**

Share prices and currencies taken at close of business on 11 November 2024
**Based on shares in issue at date of completion of acquisition*
Source: Hardman & Co Life Sciences Research

Company matters

Registration

Incorporated in the UK with company registration number 09761509.

Registered office:

Northern Design Centre
Baltic Business Quarter
Gateshead Quays
Newcastle
NE8 3DF

+44 (0)191 511 8500

www.shieldtherapeutics.com

Board of Directors

Board of Directors

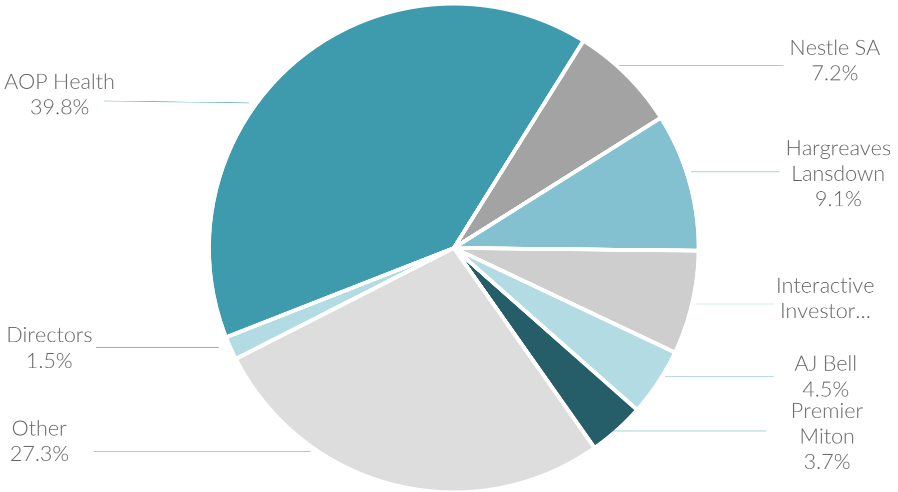
Position	Name	Nominations	Remuneration	Audit
Chairman	Hans Peter Hasler	C	M	M
Chief Executive Officer	Anders Lundstrom			
Non-Executive Director	Fabiana Lacerca-Allen			M
Non-Executive Director	Peter Llewellyn-Davies	M		C
Non-Executive Director	Christian Schweiger	M		
Chief Financial Officer*	Santosh Shanbhag			

M = member; C = chair
**Non-board PDMR appointment*
Source: Company reports

Share capital

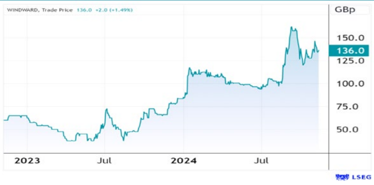
On 11 November 2024, there were 782,056,367 Ordinary shares in issue. In addition, there are 57.32m options outstanding.

Share register



Source: Hardman & Co Research

Technology



Source: LSEG, 2024

Market data

EPIC/TKR	**WNWD**
Price (p)	**135**
12m high (p)	164
12m low (p)	65
Shares (m)	88.654
Mkt cap (£m)	119.7
EV (£m)	110.0
Free float*	73.1%
Country/Ccy of listing	UK/GBP
Market	AIM

**As defined by AIM Rule 26*
Priced on 8 November 2024

Description

Windward is a maritime AI company, offering a comprehensive platform for risk management and maritime domain awareness. With advanced technology and extensive industry expertise, it helps organisations overcome maritime challenges, predict future events, and drive success.

Company information

CEO	Ami Daniel
CFO	Ofer Segev
Chairman	Lord Browne of Madingley

+44(0)203 405 0205
www.windward.ai

Key shareholders

Directors and PDMR's	14.68%
Aleph	15.73%
Gresham House AM	9.31%
Canaccord Genuity WM	8.69%
XL Innovate	6.97%
Maritime Invest Scandinavia	6.69%

Diary

Jan'25	Trading update

Analyst

Richard Jeans rj@hardmanandco.com

WINDWARD

High-growth maritime artificial intelligence play

Windward is a fast-growing predictive analytics company that is focused on digitalising the global maritime industry. Windward's AI-powered decision platform offers a wide-ranging view of the maritime ecosystem and enables stakeholders to make real-time, predictive intelligence-driven decisions to achieve business and operational readiness. The group operates a subscription-based or software-as-as-service revenue model, which provides very high (ca.99%) levels of recurring revenue and is cash-generative, with payments made in advance. The business grew revenue at 37% in the first half, and we believe could soon surpass the Rule of 40 (growth plus margin) test if management succeeds in driving growth.

- **Strategy:** The group targets a huge addressable market with a land-and-expand approach and using partners to help target as much of the market as is practicable. The product roadmap focuses on generative AI solutions; we note the recent launches of MAI Expert, Early Detection and Advanced Intelligence.
- **Recent trading:** In October, the company said it had made a strong start to 2H. It said that wins in the commercial sector continued at a steady pace, consistent with previous periods, and that acceptance rates for the recently launched MAI Expert, its proprietary generative AI agent, had been strong.
- **Valuation:** While Windward is growing strongly, it sits below the Rule of 40 (growth plus margin) target that is often used as a yardstick to rate high-growth companies. However, we believe the consensus forecasts are conservative, and management has plans to accelerate the growth rate.
- **Risks:** Accelerated investment by larger competitors is a threat. However, Windward has established a strong position over its 14 years of operation and is protecting its IP with a growing portfolio of patents. While its main operations are in Israel (regional conflict risk), the company has moved its HQ to London.
- **Investment summary:** Windward offers a rare investment proposition in the UK market in a genuine AI-play, with a compelling product offering and supported by a 14-year track record. The company estimates that it has more than 250,000 target customers, with an addressable market of over $10bn. The company has built up a high-quality customer base of 200+, which includes the US government, BP, Shell, HSBC and Maersk.

Financial summary and valuation

Year-end Dec ($000)	2021	2022	2023	2024E	2025E	2026E
Revenue	17,351	21,643	28,327	36,307	41,906	51,081
Gross profit	12,535	15,497	22,502	29,400	35,600	42,800
Gross margin (%)	72.2	71.6	79.4	81.0	85.0	83.8
Operating profit/(loss)	(12,525)	(15,510)	(7,977)	(2,172)	1,557	5,039
Statutory PTP	(13,117)	(19,199)	(8,845)	(3,100)	(300)	1,600
Adjusted EBITDA	(8,613)	(12,112)	(5,024)	(1,559)	579	5,608
Adjusted EBITDA margin (%)	(49.6)	(56.0)	(17.7)	(4.3)	1.4	11.0
Operating cash flow	(6,183)	(14,599)	(3,291)	(100)	400	2,300
Net (debt)/cash	43,688	22,141	17,317	16,100	16,200	18,300
Adjusted diluted EPS (¢)	(55)	(22)	(10)	(3.5)	(0.3)	1.8
Adjusted diluted EPS (p)	(40)	(18)	(8)	(2.7)	(0.3)	1.4
P/E (x)	n/a	n/a	n/a	n/a	n/a	96.9

Source: Company accounts and LSEG consensus forecasts

Investment case

Modern, disruptive platform allows Windward to chase significant chunk of $10bn global maritime market

Windward was established by ex-naval officers, with a goal to digitalise the $10bn global maritime marketplace. It has developed a disruptive platform built on modern technologies, incorporating AI and a range of industry data sources. In our view, Windward is now in a "land grab" phase as it seeks to aggressively expand to capture a significant portion of a $10bn addressable market.

Cash-generative model and high recurring revenues

The group's software-as-a-service (SaaS) revenue model is highly attractive, with payments upfront (resulting in a high level of deferred revenue), and contracts are typically for three years. Hence the group operates a cash-generative revenue model and nearly all revenue is recurring in nature. Further, churn is low (3.2% in 1H'24).

Consensus forecasts look conservative

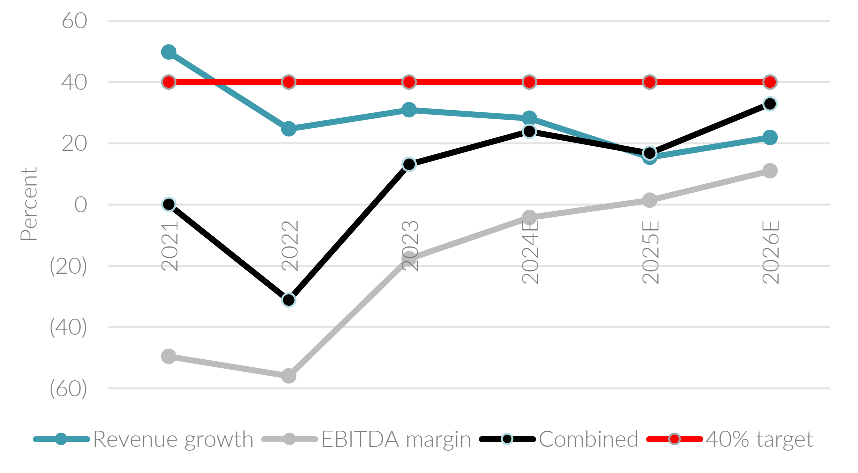
Annual contract value (ACV) increased by 35% in the first half. In addition, the group is investing strongly in new product (37% of 1H'24 revenues was spent on R&D), and this investment is expected to be heavily focused on generative AI applications going forward. The investment will result in broadening the solutions, from risk management applications to operational functions, for the group's customer base, thus creating more cross-sell opportunities. Consequently, in our view, the consensus revenue growth forecasts (15% in FY'25 and 22% in FY'26) look conservative.

Investment conclusion

If growth continues apace, Rule of 40 could be surpassed by next year

A popular metric for comparing SaaS companies is the so-called Rule of 40. This is a simple analytical tool that combines the annual revenue growth rate and profit margin (we choose EBITDA margin). A score above 40 is regarded as attractive. The stock is closing in on the 40 level, and we believe there are many reasons why it could surpass 40 as early as next year. In the 1H'24 results, the metric stood at 30 (37% growth less 7% negative EBITDA margin). This is a dramatic improvement on the negative 12% level in 1H'23. The group is quickly approaching profitability and the investment in new products, expanded sales and marketing as well as broadening partnerships provide strong potential for upgrades, in our view.

Rule of 40 analysis



Source: Company accounts and LSEG consensus forecasts

Company description

Background

Strong new product investment will help expand customer solutions, driving cross-sell opportunities

Windward is focused on digitalising the maritime industry, transforming how data on global vessel activities is collected, analysed, and used. Traditionally, the maritime sector relied on various manual and disconnected data sources for tracking, risk management, and compliance assessments. Windward's AI-powered platform aggregates real-time data from multiple sources, including Automatic Identification System (AIS) transmissions, to provide a comprehensive, real-time view of vessel activity. By digitalising this information, Windward offers customers – such as banks, commodity traders, insurers, government agencies, and energy companies – a more streamlined and data-rich approach to managing maritime risks and improving operational efficiencies.

The group has established a high-quality customer base

Windward's customers include a number of leading participants across the maritime industry, covering banks, commodity traders, insurers, government agencies, and major energy and shipping companies. Windward has more than 200 globally spread customers, including BP, Shell, HSBC, Gard and Danske Bank as well as leading government agencies, including agencies from the US department of Defence and Homeland Security, Frontex (the pan-European border and coast guard agency) and the United Nations.

The group generates its solutions from the following data types:

- public data;
- commercial data (20+ vendors);
- private data (i.e. from customers when this is allowed); and
- Windward-generated data.

Interim results

ACV jumped by 35% in 1H

Annual contract value (ACV), which is the group's primary key performance indicator (KPI), jumped by 35% over the 12 months to stand at $37.2m, as at 30 June 2024. Revenues over the six-month period surged by 37%, to $17.6m, while the adjusted EBITDA loss shrank by 66% to $1.3m. Cash fell from $17.3m, as at 31 December 2023, to stand at $13.8m at 30 June 2024, and management believes the group is adequately financed to see it through to profitability.

October trading update

Strong start to 2H

In October, the company said it had made a strong start to the second half. It said that wins in the commercial sector had continued at a steady pace, consistent with previous periods. In the ROW government sector, it won two new customers for a total of $1.9m of ACV. It said that acceptance rates for the recently launched MAI Expert, its proprietary generative AI agent, had been strong.

Target markets

Windward's initial success was in the public sector, where it has gained prominence with customers including US government departments, Frontex and the United Nations. These customers have provided great references to help expand the business into the commercial sector. The group has added major logos in the trading

Supply chain and logistics by far the biggest opportunity

and shipping space, including BP, Danske Bank, Maersk, BHP, Shell Energy, ExxonMobil, Glencore and Vale.

However, by far the biggest opportunity for the group is in the supply chain and logistics space. This area is characterised by a far greater number of smaller entities and fewer household names.

Windward solutions

Industry sectors:		
Government/public sector	Trading and shipping	Supply chain and logistics
Target markets:		
Navies	Energy & mining companies	Freight forwarders
Coastguards	Traders	Shippers/cargo owners
Intelligence agencies	Shipping companies	Ports & terminals
Customs	Trade and ship finance banks	Carriers
	Insurers	
	Maritime service providers	
Examples:		
Maritime domain awareness	Sanction compliance	Decision support for supply chain professionals
Illegal, unreported and unregulated (IUU) fishing	Cargo data declaration (CDD)	Ocean freight visibility
Lead investigation	Business intelligence	Port & terminal insights
Multi-source investigation	Fuel consumption	Vessel and container ETA prediction

Source: Windward presentation

Revenue model

Cash-generative revenue model and nearly all revenues recurring in nature

The group operates a software-as-a-service (SaaS) subscription revenue model whereby customers often begin with a one-year contract and, after the initial year, sign a long-term contract; typically, for three years. The subscription fees are charged upfront, for the services that are delivered over the term of the contract. This results in a high level of deferred revenue on the balance sheet ($11.3m as at 30 June 2024). Hence the group operates a cash-generative revenue model and nearly all revenue is recurring in nature. The company aims to keep churn below 10%, and, in 1H'24, it fell to 3.2% from 4.7% (in 1H'23).

Routes to market

The group sells directly and through third parties. It has an important partnership with LSEG, which enables it to sell to traders who use the LSEG platform and need to monitor maritime activity. Windward also has a partnership with RightShip, which has helped it gain several important corporate customers, including Cargill, BHP and Rio Tinto.

Generative AI strategy

Development roadmap focused on generative AI

The group's product roadmap is focused on generative AI solutions and is leveraged through the group's alliance with AWS, which gives Windward access to cloud infrastructure as well as the processing power of AWS's AI-based GenAI platform. Importantly, the new GenAI functionality has provided an uplift in pricing for Windward's solutions and is not being given away for free.

We note the recent launches of MAI Expert, Early Detection and Advanced Intelligence.

MAI (Maritime AI) Expert

In June, the group launched MAI Expert, a virtual agent that is a maritime subject matter expert. MAI Expert is powered by generative AI and trained on Windward's proprietary insights/maritime risk expertise to deliver rapidly enhanced productivity.

In the October trading update, the company said that the acceptance rates for MAI Expert had been strong, with six existing commercial customers purchasing access to MAI Expert during their renewal process and several new commercial customers signing up. In addition, the group has started the rollout of MAI Expert to its public sector customers with a similar price uplift. MAI Expert now also supports a multilingual response for customers, allowing them a more local experience.

Early Detection

Launched in October, this is an AI-based solution that identifies anomalies at sea using Windward's proprietary data and advanced algorithms. Early Detection, coupled with MAI Expert, equips commercial and governmental stakeholders with a competitive advantage via early identification of critical events, and delivers both the context and recommendations necessary for swift and informed action. Early Detection was developed in conjunction with key customers and is now fully available to all customers as an additional SaaS-based licence fee, providing a potential uplift to ACV per customer.

Advanced Intelligence

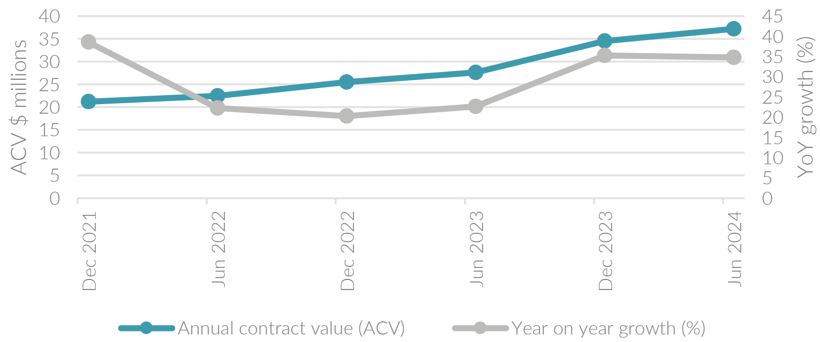
Launched at EURONAVAL 2024, the world's leading naval defence exhibition, in November, this is an AI-powered solution, equipped with a comprehensive suite of features designed to empower intelligence and security organisations to uncover and handle threats more efficiently. Advanced Intelligence is available to all customers via an additional SaaS-based licence fee, enabling further potential growth in ACV per customer.

Key performance indicator

ACV a leading determinant of future revenue

The group's primary KPI is annual contract value (ACV), which provides an indication of future revenue. ACV is defined as the sum of all ACV for customers as of the measurement date. The ACV, for each customer, is the annual committed subscription value of each order booked, for which Windward will be entitled to recognise revenue. For example, a contract for $1m with a committed contractual term of two years would have ACV of $0.5m, making the assumption for any period that the customer renews under the same terms and conditions.

Annual contract value



Source: Company accounts

CUSTODIAN PROPERTY INCOME REIT

Good momentum, modest risk

The structure and investment remit of the real estate investment trust (REIT) have been proven to be resilient and position it strongly for the short- and medium-term future. The investment return emphasis is on income, which is generated from a diverse portfolio with modest capital gearing. Because Custodian Property Income REIT (CREI) is designed to focus on smaller, individual property lot sizes, it acquires at higher asset yields than the market in general. It does not need, therefore, and has not indulged in, anything more than modest capital gearing. Rents are rising, reversionary potential is stronger than for many years and dividends are rising.

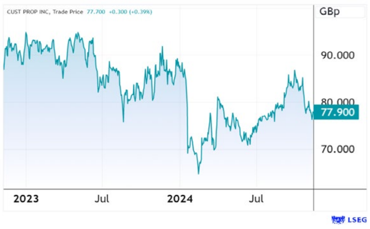
- **Strategy:** This closed-end fund, a REIT, acquires smaller lot-size assets, across a breadth of regional, predominantly urban-centre locations. There is some active management, but no material development. By way of positioning, for some time now, it has been in the in-favour industrial and retail park segments.
- **Many low-risk investment drivers:** The low-risk, yet actively managed, theme is further to be seen in its tenant spread, with 59% very low risk, and this despite targeting asset acquisitions yielding 7+%. Occupancy fell to 89% in the calendar 2022 trough and is now an historic 93.5% but set to rise. Gearing is low.
- **Valuation:** CREI's price to NAV from inception to 2020 traded between 102% and 115%. Since 2022, it has ranged from 75% to 95%. The sector had a difficult time; but, for CREI, this is harsh, taking into account not only the prospects but the results. In the difficult period from 2019/20 to March 2024, asset capital returns averaged -1.9% – a robust, creditable outcome.
- **Risks:** The capital structure is sound, with 28.6% LTV post some year-end sales, but cost of debt is set to rise in 2030. Debt at end-2023/4 was £179m, a fraction over five years to maturity, and 78% of the debt is fixed at 3.4% for over five years. We like the asset class split, but, of course, trends can change.
- **Investment summary:** Management's track record has positioned the REIT well, navigating market changes, Prospective dividends are now at less than 10% below the peak, growing 5% p.a. since 2021. We consider this to be a strong outcome, and is well ahead of the sector average. There is a range of drivers to rental and hence dividend growth from here, notwithstanding debt maturing in 2030.

Financial summary and valuation

Year-end Mar (£m)	2021	2022	2023	2024	2025E	2026E
Gross rental income	38.7	39.0	40.6	43.0	43.4	44.0
Net rental income	33.1	35.6	37.1	38.9	40.3	40.8
Admin expenses	-4.6	-5.5	-6.0	-5.3	-5.5	-5.6
Interest	-4.8	-4.8	-6.3	-8.0	-7.4	-7.6
EPRA earnings	23.7	25.3	24.8	25.7	27.3	27.5
Asset net gains	-19.9	97.1	-90.6	-27.1	4.0	0.0
IFRS profit	3.7	122.3	-65.9	-1.4	31.3	27.5
EPRA EPS (p)	5.6	5.9	5.6	5.8	6.2	6.2
Dividend (p)	5.25	5.0	5.5	5.8	6.0	6.1
EPRA NTA	97.6	119.7	99.3	93.4	94.3	94.5
P/NAV	0.81	0.66	0.80	0.84	0.83	0.84
Dividend yield	6.6	6.3	6.9	7.3	7.6	7.7

Source: Hardman & Co Research

Real Estate



Source: LSEG, 2024

Market data

EPIC/TKR	**CREI**
Price (p)	**79**
12m High (p)	95
12m Low (p)	64
Shares (m)	441
Mkt cap (£m)	348
EV (£m)	516
Free float	90%
Country/Ccy of listing	UK/GBP
Market	LSE main

Priced on 8 November 2024

Description

A UK REIT investing across asset classes and regions. The focus is on smaller lot-size assets. It is also characterised by modest levels of balance sheet debt.

Company information

Fund MD	Richard Shepherd-Cross
CFO	Ed Moore
Chairman, NED	David MacLellan

0116 2408740
www.custodianreit.com

Key shareholders

Directors	1%
Advised clients of Mattioli Woods	61%

Diary

Dec'24	Interim results
Jan'25	xd quarterly

Analyst

Mike Foster mf@hardmanandco.com

A risk-minimising strategy

Main dangers for REITs are i) the shape of the balance sheet, ii) being stuck in asset classes that lose their attraction, and iii) the compromises between yield and risk

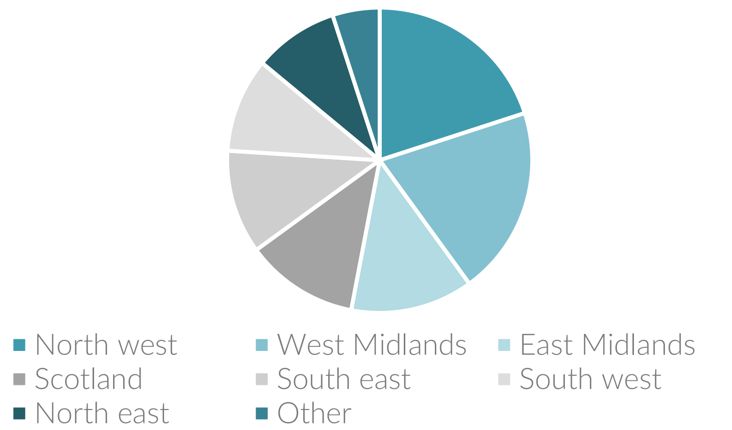
We summarise CREI's risk approach as being measured but active management with progressive positioning of assets to attractive asset classes, while optimising rental yields through a typical lot size of less than £5m. Smaller lot sizes can tend to be acquired at somewhat higher yields on a like-for-like basis and are also in an interesting position when looking to sell. The market at the smaller lot size includes owner occupiers or high-net-worth individuals and, if patience and timing are employed, can occasionally yield excellent results.

Strategically, CREI is well set up to minimise all these points. The small lot size brings a measurable yield pick-up, which obviates need for too much financial gearing and allows flexibility to buying and selling.

CREI acquires smaller lot-size assets, with the average currently being £3.8m. This reduces risk – as long as the assets are good quality – because smaller lot-size assets can be acquired at higher net initial yields. CREI has provided details illustrating that, consistently for decades, smaller lot-size assets transact at 80bps to 200bps higher net initial yields than assets of over £10m lot size. With a higher rental yield, the requirement to financially gear-up the balance sheet in order to achieve a high yield to shareholders is reduced. CREI has been quite able to achieve 5% to 6% dividend yields, as calculated on net asset valuation, without gearing above 30% loan to value (LTV). Its central target is 25% LTV financial gearing.

Not designed for London exposure

Regional split



Source: CREIT

CREI's portfolio is across a breadth of regions. In particular, with its current bias towards logistics and retail warehouses, the spread of regions – which excludes London – is supportive to reducing risk, too. It allows the asset managers to select the most attractive opportunities, situations which bring in good tenants, good asset classes and the right yield, irrespective of geography. On a more micro level, the assets, especially offices, are in city-central locations rather than business parks. The logistics are smaller or "last mile" assets rather than "big boxes", where new supply is concentrated. Indeed "last mile" tends to see logistics assets being replaced by higher-value real estate; so, on a supply/demand basis, the choices built in to the CREI asset strategy reduce risk while keeping the asset yield up.

Logistics and retail warehouses predominate, with offices the third largest asset class. Offices within CREI are well positioned.

CREI is modestly actively managed, both at the individual asset level and also by asset class. There is a level of acquisition and disposal but not something which could be seen as churn. Development risk is a strategically minimal element. That said, in recent months, a £9m asset in Warrington was sold at a good profit post a proactive planning value-capture. Historically, acquisitions have taken the REIT towards the in-favour industrial and retail park segments. Retail warehouses are predominantly defensive businesses by tenant base, including food and homeware or trade/DIY, and many of the assets are complementary to the online offerings by the tenant businesses.

Industrial warehouses are far from the only source of ERV uplift, but they have ERV indicated at 6.7%, compared with net initial yield of 5.4%

Asset class split

Source: CREIT

Experian tenant risk rating

Category	%
Government	2
Very low risk	57
Low/below average risk	21
Above average risk	8
High risk	2
Other/unclassified	10

Source: CREI

A well-positioned portfolio

The risk at the tenant level appears robust, and, in this segment, we turn to the prospects for rental growth. In summary, rental reversion prospects at CREI appear to be at their strongest ever. In the right asset classes, real estate is demonstrating its attribute as a real asset, where rents can benefit from an inflationary macroeconomic environment.

Recent rent rises annualising at 6.8%

4Q'24, showed passing rents continuing their rise, going up in the quarter by 1.7%. There were 15 rent reviews in FY'24, averaging 23% up on the previous rental levels.

ERV potential is at, or near, its decade high

The ERV (estimated rental value by third-party professional valuers) is 11% above current rents. ERV, at end-September 2024, was £49.3m vs. £44.3m FY'25 gross rents. 6.5ppts of this is the theoretical elimination of voids, but it should be noted that, after voids rising during the pandemic, the levels are falling. Perhaps more encouraging still is the estimation that current market rents are ca.5% above passing rents currently being achieved. Offices exhibit significant voids while being fitted out.

Rents in both of the main asset classes favoured in the CREI portfolio are rising above the broader market performance. There is an interesting point on retail parks as, across the market, these tend to have minimal voids and the recent Carpetright bankruptcy is generally expected to see ex-Carpetright assets re-let, and at higher rents. CREI can demonstrate individual examples of rent rises at reviews of 50% or more. Although these are outliers, the market, as well as CREI-created opportunities, point to solid increases.

CREI strategy does not invest in turnaround or value-add repositionings, which require major investment and re-letting. It did acquire a quoted company, DRUM

REIT, bought for £43.5m. This, however, was invested in broadly similar asset types and was secured on a 6.8% net initial yield.

Some corporate activity

On a broader front, in 2023, CREI sought to create value by merging with a similar REIT, but shareholders in the target narrowly voted it down.

More prosaically, there is an element of capital expenditure for sustainability purposes and lesser to raise attractiveness of office assets, primarily fit-outs for prospective tenants. We note, on 31 October 2024, CREI sold an office block at 33% premium to book value. FY'24 capex was £19m. Environmental Performance Certificated (EPC) asset classes A to C were 79% of the total at end-FY'24, up from 70% FY'23. CREI expects all E-rated assets to be improved by end-2025. Expectations are that, by 2030, the legislation may provide for all commercial property to require to be EPC B. CREI is placed, within current capital expenditure plans, to meet requirements.

Investment conclusion

Lower end of risks, higher end of rent uplift prospects and a P/NAV at the lower end of the past decade, just as the interest rate cycle has turned for the better

The portfolio is low risk and is positioned towards strong asset classes. The ERV uplift of 11% to gross rent compares with 10% three years ago. Indeed, end-FY'24 ERV uplift was 18% on the cash passing rent (the difference being lease incentives). This, we believe, is an understated ERV, as the retail warehouse element does not properly reflect the potential short term in the market, which we mentioned above. The potential is strong, quite possibly the strongest for a decade. As to debt funding, this is also healthily placed. The realising of latent ERV far more than compensates for the small rise in interest cost built in for 2030 when the facility expires.

Company presentations and further details can be seen here https://custodianreit.com/investors/

Financials

The table, below, is based on market consensus. We are confident that occupancy levels will improve, and believe rental prospects to be particularly conservative.

Financials

Year-end Mar (£m)	FY'21	FY'22	FY'23	FY'24	FY'25E	FY'26E
Gross rental income	38.7	39.0	40.6	43.0	43.4	44.0
Net rental income	33.1	35.6	37.1	38.9	40.3	40.8
Admin expenses	-4.6	-5.5	-6.0	-5.3	-5.5	-5.6
Interest	-4.8	-4.8	-6.3	-8.0	-7.4	-7.6
EPRA earnings	23.7	25.3	24.8	25.7	27.3	27.5
Asset net gains	-19.9	97.1	-90.6	-27.1	4.0	0.0
IFRS profit	3.7	122.3	-65.9	-1.4	31.3	27.5
EPRA EPS (p)	5.6	5.9	5.6	5.8	6.2	6.2
Dividend (p)	5.25	5.0	5.5	5.8	6.0	6.1
EPRA NTA	97.6	119.7	99.3	93.4	94.3	94.5
Net debt	134.7	125.0	164.2	167.6	162.0	165.0
LTV	24.9%	19.1%	27.4%	29.2%	27.0%	26.0%
EPRA occupancy	91.6%	89.9%	90.3%	91.7%	n.c.	n.c.
Net initial yield	6.6%	5.7%	6.2%	6.6%	n.c.	n.c.
ERV	42.6	45.6	49.0	49.4	n.c.	n.c.
Average lot size	3.5	4.2	3.9	3.8	n.c.	n.c.
WAULT (years)	5.0	4.7	5.0	4.9	n.c.	n.c.
Number of assets	159	160	159	155	n.c.	n.c.
Number of tenancies	265	339	319	335	n.c.	n.c.

Source: CREI and Hardman & Co Research

EDX Medical Group Plc

Written by Mike Hudson, CEO at EDX Medical Group

Principal activities

The principal activities of EDX Medical Group Plc consist of building a portfolio of digitally enabled clinical diagnostic products and services through partnerships and own development resources, whilst establishing the infrastructure to commence commercial operations.

Corporate structure

EDX Medical Group Plc comprises several subsidiaries: EDX Medical Ltd, Torax Biosciences Ltd and Hutano Diagnostics Ltd. The Group is listed on the Apex segment of the AQSE Market.

Business review and strategy

Business proposition

EDX Medical Group Plc operates in the emerging 'digital diagnostics' sector at the convergence of two high growth industries – molecular biology and digital health. We provide biological assays, interpretative analysis and digital data, enabling healthcare professionals to deliver timely and cost-effective personalised patient treatments, leading to improved patient outcomes as a result of early detection and characterisation of disease, enabling the identification of most the effective treatments.

Our vision for digital diagnostics is to combine advanced biology, software and digital tools (AI) to obtain, analyse and report actionable data in real time, unlocking the clinical and economic benefits of 'personalised medicine' whilst enhancing the accuracy, traceability, regulatory compliance and environmental impact of our products.

The Group is an exceptionally strong digital diagnostics partner for our clients, payers and providers of clinical healthcare services, and for technology innovators seeking a partner to develop and commercialise their innovations on the world stage:

- Focus on 'data-rich' molecular diagnostics for clinical use by healthcare professionals.
- Deploying biological testing in both laboratory and 'point of care' formats as needed.
- Validating tests against clinical needs and meeting future regulatory requirements.
- Secure, digital data acquisition, analysis and reporting including digital traceability.

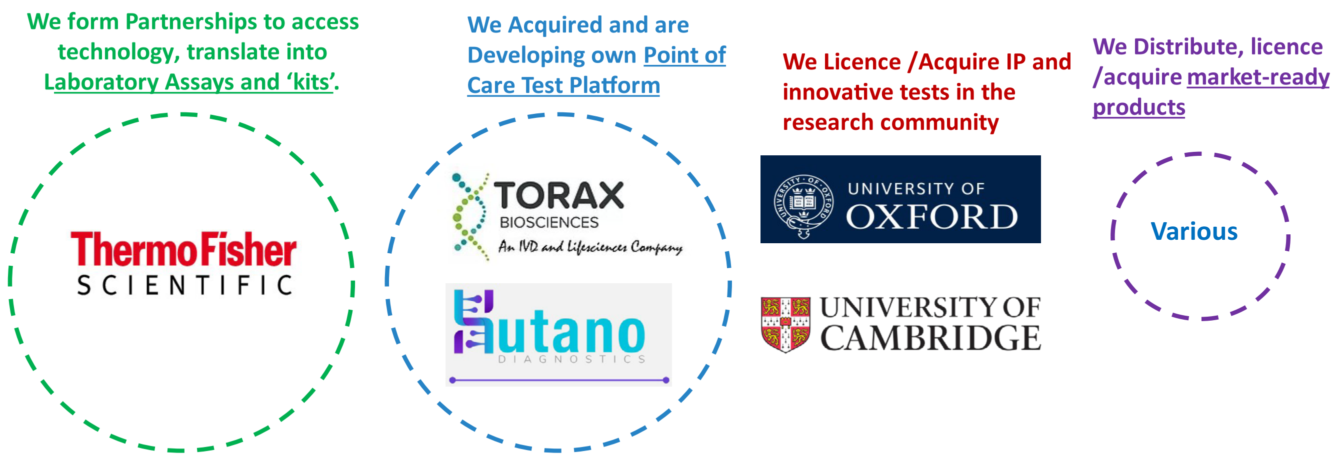
Business model

EDX Medical is an ambitious pioneer in digital diagnostics, intending to grow by its own innovations, acquisition/licensing and strategic collaborations in order to provide a portfolio of digitally enabled clinical diagnostics for the public and private healthcare sector. EDX Medical provides both 'laboratory tests' and 'point-of-care' tests, the two largest sectors of the diagnostics industry, but only focuses in areas where it believes patient's lives can be saved or improved by the timely use of biological personal data.

The Group is investing to secure a significant early 'bridgehead' in the UK and parts of Europe based on providing innovative products and services for clinical healthcare providers and payers. These assays originate in-house or are based on the acquisition or licensing of intellectual property or high performing test products with robust clinical data from third parties. At EDX these are then developed into ISO-accredited laboratory services in collaboration with Thermo Fisher in order to de-risk and ensure scalability, with specialist healthcare logistics provided by Fedex.

EDX will translate many of these laboratory assays into IVDR-compliant 'kits', enabling rapid, low-cost expansion to other laboratory sites globally. The in-house development efforts to create the next generation of point-of-care tests combined with mobile phone digital readers will provide the opportunity to scale the business globally based on the integration of the acquired businesses, Torax Biosciences Ltd and Hutano Diagnostics Ltd.

We are assembling a portfolio of innovative laboratory and point of care test solutions



Source: EDX Medical Group Plc

EDX focuses on the major diseases of our time in terms of lives lost and costs:

- **Cancer:** variable survival rates & high treatment costs, require biological tests to diagnose early and select effective treatments fast.
- **Cardiology:** many patients are dying from identifiable/modifiable risks.
- **Infectious diseases:** rapid differentiation of the cause of infection enables improved patient care and antibiotic stewardship, saving lives and saving money.

EDX provides diagnostics to identify key risks and to guide the selection of optimal therapy:

- **Hereditary genetic risks:** to assess and inform family members of patients who may 'carry' genes associated with cancer or cardiovascular diseases.
- **Early disease detection:** for primary care, screening, to treat early and improve outcomes.
- **Disease characterisation and therapy management:** to improve outcomes whilst saving lives, time and money.

Competition and market

Whilst most players provide either laboratory or 'point-of-care' tests, EDX provides its clients with a portfolio of products and services from both sectors of the global diagnostics business, based on a combination of strong partnerships and in-house resources.

The clinical diagnostics market is seen as attractive but facing a period of change driven by three main factors:

- Increased regulatory requirements, leading to rationalisation of the (approved) tests in the UK and Europe within 2-3 years.
- Increased familiarity with testing and its benefits/cost effectiveness at both individual and population levels is encouraging broad uptake and confidence amongst governments, private healthcare providers and individuals.
- Significant technical improvements, reliability and ESG credentials of tests combined with personal digital device interface for reading and reporting data.

Innovation and new product development – key driver of business growth

With laboratories and experienced staff working with collaborators in both Oxford and Cambridge Universities and associated hospitals, EDX is aligned with two of the world's preeminent universities leading innovation in medicine and clinical care worldwide.

EDX Medical is providing its clients with innovative products and secure, digitally enabled solutions allowing them to deliver high quality, cost-effective personalised patient care.

Regulation and accreditation

EDX Medical Ltd operates under ISO 15189 accreditation and Torax Biosciences to ISO 13485 accreditation. The products placed on the market by the company meet UK and EU standards for clinical laboratory assays or CE-marked / IVDR certified diagnostic products.

Key strengths of the business

The strengths of the EDX Medical business are based on:

- Experienced management and industry access/knowledge to secure products and partnerships as well as finance and company development as an early mover.
- Its focus on clinical testing based on understanding of key diseases.
- Risk-mitigation strategy based on both own developed and third-party tests plus the provision of both ‘laboratory tests’ and ‘point of care’ testing.
- A close working relationship and collaboration agreement with Thermo Fisher to develop commercial laboratory qPCR assays and IVDR ‘kits’.
- Integration of advanced biology with digital tools, with scale-up of laboratory and point-of-care tests supply lines and capabilities to meet future regulations.

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