

AVACTA GROUP PLC (LON:AVACT)

A licensing-driven business model to maximize Affimer's potential across therapeutics and diagnostic applications

KEY INVESTOR MESSAGES

- Preliminary results for the financial year ending July 31, 2018 reveal a company on track to achieve key development and licensing milestones in the near term
- Lead in-house immuno-oncology programmes to produce the first in-human data by 2020/2021
- Affimer-drug conjugates (AfDC) co-developed with Tufts University to deliver in-vitro proof of concept (PoC) in 2019
- Multiple Affimer reagents' partnerships could be announced over the next twelve months
- After the recent fundraising the company is well funded for the next 18-24 months
- Avacta's market cap is well below comparable peers; key inflexion points over the coming 2-3 years point to significant upside

RECENT PROGRESS LEAVES US OPTIMISTIC ON KEY INFLECTION POINTS TO BE MET RIGHT ON TIME

Over the last year or so, management has delivered significant progress in bringing its Affimer platform into to the commercial stage, across both therapeutics and diagnostic applications.

This (and the recent fundraising) leaves us confident that Avacta is on track to meet key development targets over the next 2-3 years. Their main therapeutic programmes (in-house PD-L1/LAG3 bispecific Affimer and Affimer-drug conjugates co-developed with Tufts University) are on track to deliver key data points between 2019-2021.

As part of a broader portfolio development plan, several partnerships (Moderna, FIT Biotech, OncoSec and Iksuda Therapeutics) continue to progress well and may certainly bring a healthy degree of risk-diversification and upside to the investment case over the coming years.

The Affimer reagents business is being built around external technology evaluations, of which many are in progress, and an internal pipeline of assays readily available for licensing. From this basis, we expect Avacta to announce multiple royalty-bearing deals over the coming months.

PHARMA & BIOTECH

03/10/2018

SHARE PRICE	52 WEEK LOW
▲ 24.13p	▲ 21.00p
MARKET CAP	52 WEEK HIGH
▲ £28.8mln	▲ 73.00p
CASH	NAV
▲ £5.2mln	▲ £21.4mln

MAJOR SHAREHOLDERS

- 1) IP Group: 18.15%
- 2) Baillie Gifford & Co Limited: 8.54 %
- 3) J O Hambro: 7.88%

Shares in Issue	145.46m
Avg Volume	80,846
Primary index	AIM
EPIC	LON:AVACT
Next Key Announcement	-
Sector	Pharmaceuticals and Biotechnology

SHARE PRICE CHART



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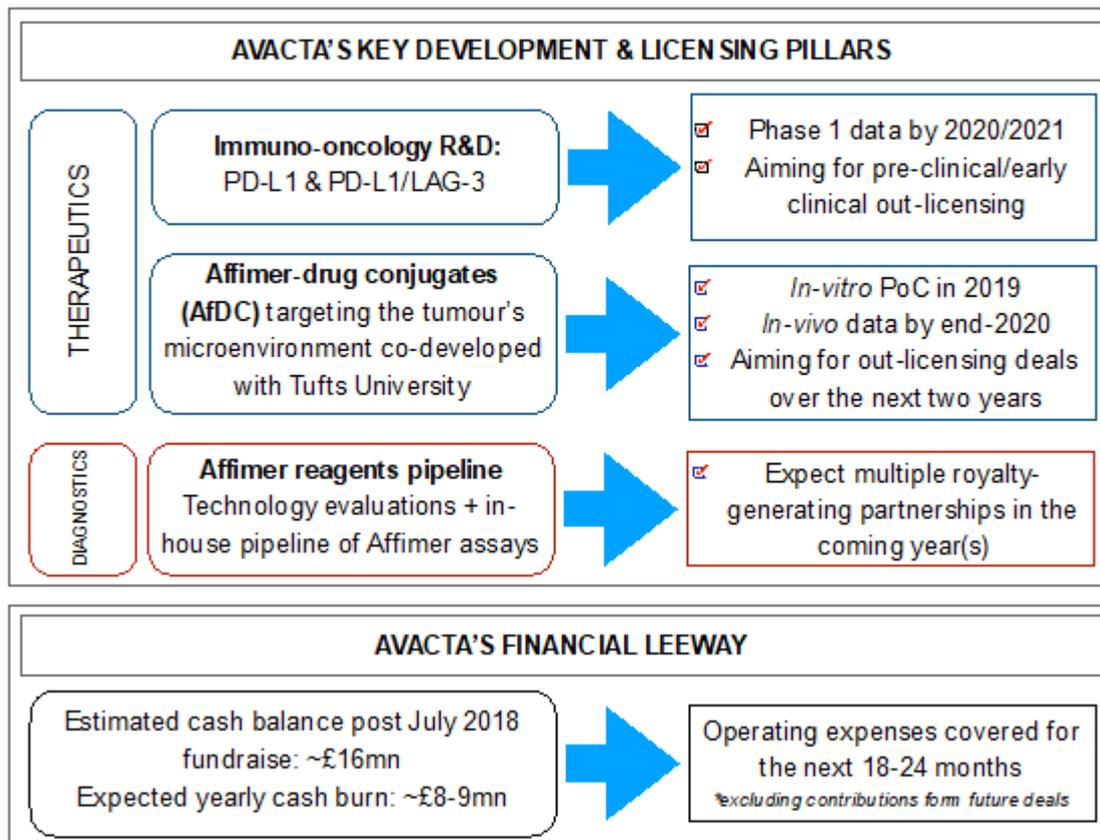
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Figure 1: Avacta in a nutshell

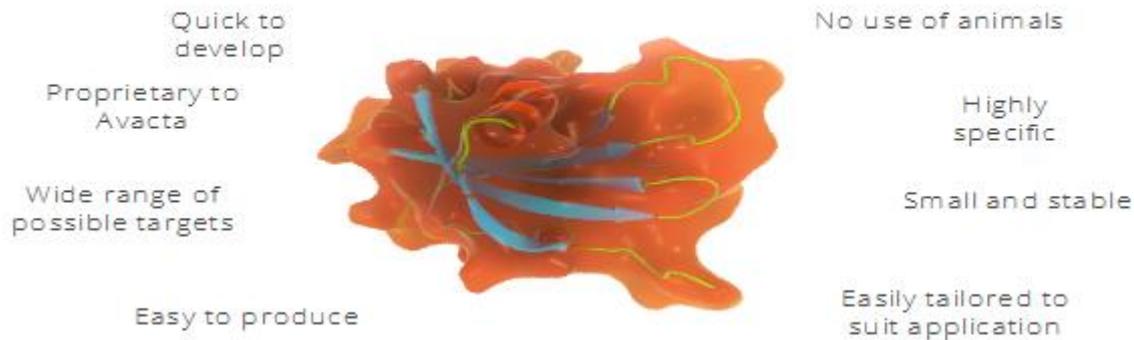


Source: CN analysis, company data

Figure 2: Avacta's target markets by segment



The addressable market for Affimer-based targeted biologic therapies is already worth in excess of US\$75bn and is growing rapidly. Despite no shortage of competitors, Avacta's Affimer platform's unique features and recent development progress (e.g. increased ability to fine tune Affimers' half-life) put the company in a favourable position to start finalising partnerships with big pharma in the near term (Avacta has one of the only two single-molecule bispecific PD-L1/LAG-3 inhibitors).

Figure 3: Affimer's key competitive advantages


recent portfolio development progress, Avacta's market capitalisation is still significantly lower than biotech peers with unique protein-based platforms and drug candidates in the clinical stage, where Avacta is on track to be by 2020/2021.

Figure 4: Comparable peers market cap

Company	Stock exchange	Dev. Stage	Market Cap
Pieris Pharmaceuticals	NASDAQ US	Phase 1-2	\$290mn
Molecular Partners	SIX SWISS	Phase 2-3	\$470mn
Avacta	LONDON	Pre-clinical	\$35mn

Source: CN analysis, Google Finance (rounded, as of 2/10/2018)

As investors are likely waiting for a tangible proof of Affimer's commercial potential, either in terms of a collaboration with big pharma or the first in-human data, the current stock price may provide an extremely attractive entry point for those who want to maximise their upside, already persuaded by Affimer's strong scientific rationale and pre-clinical evidence.

In this respect it is also worth mentioning Ablynx's US\$4.8bn takeover by Sanofi in January 2018. The valuation of Ablynx, the leading non-antibody therapeutic platform, at the time of the deal reflected, of course, the fact that their lead drug was already under regulatory review, but a large portion of it was in our view related to the value attributed to their rich pipeline and their platform technology called Nanobodies. It is well known that Novo Nordisk was also looking at Ablynx and therefore it is likely that they continue to have interest in an alternative therapeutic platform like Avacta's Affimer.

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