

Life Sciences

52-WEEK HIGH	51.00p
52-WEEK LOW	21.00p
PRICE	£37.50
MARKET CAP MLN	£40.87

Share Price



Major Shareholders

IP Group plc	17.1%
J O Hambro	10.9%
Ballie Gifford & co ltd	8.5%
Shares in issue	115,956,471
Avg Three-month trading volume	343,233
Primary Index	AIM

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Avacta - interim results confirm progress

Key investor messages

- Avacta Group PLC (LON:AVCT) reported interim results to January 2019, confirming good progress on key development programmes
- Lead immune checkpoint inhibitor programmes continue to move towards in-man clinical data in 2020
- Major development partnership and licence agreement with LG Chem potentially worth more than US\$300mln plus royalties, announced in December
- Post-period end, the additional licensing deal with Moderna provides further validation of Avacta's Affimer platform
- Appointment of Jose Saro as the chief medical officer strengthens Avacta's capabilities for evolving from pre-clinical to clinical
- The Research and Diagnostic Reagents business reports a record sales pipeline

Financial results

Avacta (LON:AVACT) reported revenues of £1.0mln, down from £1.5mln the year before, largely due to the absence of research services revenues for FTEs working on the Moderna collaboration now that assets have been transferred into their development pipeline. We expect revenues from the LG Chem deal to offset this during the remainder of 2019.

The company reported a cash outflow from operations of £2.9mln and ended the period with £11.8mln net cash following the £11.6mln fund-raise in August. We believe that Avacta can comfortably fund ongoing development programmes into 2020.

The company will be moving its year-end from July to December, meaning that the current year will be reported on the basis of a

17-month period (see table below).

Value to shareholders

The major value driver for Avacta, in our view, is the development of its proprietary Affimer technology for therapeutics, particularly in the immune-oncology (I-O) space. I-O therapeutics is a market of over US\$100bn. On p2 we provide a reminder of valuations that can be realised for a pre-clinical I-O technology.

£.mln	July-2018a	Dec-2019e 17 months	Dec-2020e	Dec-2021e
Revenue	2.8	4.3	4.6	5.8
R&D expense	(3.8)	(8.6)	(8.6)	(8.6)
EBIT	(10.4)	(17.1)	(14.1)	(13.6)
Net cash (debt)	5.2	1.4	(10.6)	(21.7)

Source: Capital Network

Alastair Smith, the chief executive officer, was a founder of Avacta, leading the management since the IPO in 2006. He was previously chair of Molecular Biophysics at Leeds University.

Tony Gardiner, the chief financial officer (CFO), joined Avacta from AHR, where he was finance director from 2011. Prior to this he was CFO of Fusion IP PLC, which was acquired by IP Group PLC in 2014.

Valuations in the I-O space

The table below outlines some recent mergers & acquisitions activity in the immuno-oncology space, as a framework for examining valuations. We have included some companies that operate in similar areas to Avacta, for example, Potenza's immune checkpoint inhibitor technology, and others that operate in adjacencies with no overlap, such as Viralytics. We also include some that, like Avacta, are at the pre-clinical stage, plus others that are further advanced.

Acquiree	Acquirer	Date, price	Technology	Stage
Potenza	Astellas	Dec 2018 \$165m upfront, earn-out up to \$240m	Immuno-oncology	Pre-clinical
Tusk Therapeutics	Roche	Sep 2018 \$81m upfront, earn-out up to \$678m	Anti-body based immuno-oncology	Pre-clinical, one year from Phase 1 clinical
BeneVir	Janssen Biotech	May 2018 \$140m upfront, earn-out up to \$900m	Oncolytic viral immunotherapy	Pre-clinical
Viralytics	Merck	Feb 2018 \$394m	Oncolytic viral immunotherapy	Phase I and Phase II
Rigontec	Merck	Sep 2017 €115m upfront, earn-out up to €349m	Immuno-oncology	Phase I

Source: Source Avacta Group PLC

If we look instead specifically at companies that are further advanced in clinical trials, we would highlight the likes of Molecular Partners (SWX:MOLN, market cap US\$400mln) or Ablynx (EBR:ABLX, acquired for EUR3.9bn by Sanofi in 2018).

We argue that the current valuation of Avacta - a market cap of £38mln and an enterprise value of £27mln - attributes very little value to the optionality implied in Avacta's therapeutics pipeline.

In December 2018 Avacta announced a development partnership and licensing agreement with LG Chem Life Sciences for development of Affimer therapeutics for various disease areas

Validation - strong development partners

In order to start applying a fuller valuation to Avacta, the market may be looking for more evidence that Avacta's therapeutics pipeline is advancing successfully. There is already some impressive validation in terms of attracting development partners:

In February 2019 ModernaTX Inc. exercised its option to enter into an exclusive licensing agreement with Avacta. This relates to a potential therapeutic target that has been part of the research collaboration that the two companies began in 2015. Moderna is a US\$7bn market cap biotech company specialising in applications of messenger RNA.

In December 2018 Avacta announced a development partnership and licensing agreement with LG Chem Life Sciences for development of Affimer therapeutics for various disease areas. The agreement included an upfront payment of US\$2.5mIn and additional near-term milestone payments of potentially up to US\$5.5mIn, together with longer-term milestone payments of potentially more than US\$300mIn. Avacta would also receive royalties on future product sales and will have its full research and development costs reimbursed by LG Chem. LG Chem is a division of the Korean conglomerate LG.

We believe that it is realistic to expect that further partnerships and licensing agreements could be announced during 2019.

Many existing immuno-oncology therapies use an antibody to target cancer. Affimers are similar to antibodies but offer performance advantages in some applications

Affimer technology

Affimers are a class of non-antibody binding protein that can be engineered to bind to a specific target. This binding property can be used to target cancer cells in the human body and to make those cells vulnerable to the body's own immune system.

Many existing immuno-oncology therapies use an antibody to target cancer. Affimers are similar to antibodies but offer performance advantages in some applications. More details of Avacta's unique proprietary Affimer technology can be found in the investor presentations section at www.avacta.com

The binding properties of Affimers also have many applications outside of oncology, for example in therapeutics for diseases other than cancer, and in Avacta's revenue-generating Diagnostics and Research Reagents business.

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