

e-Therapeutics

Keeping the faith

Interim results

Pharma & biotech

8 October 2018

Price **7.25p**

Market cap **£20m**

Net cash (£m) at 31 July 2018 7.6

Shares in issue 268.6m

Free float 44.6%

Code ETX

Primary exchange AIM

Secondary exchange NA

e-Therapeutics' (ETX) H118 results were a routine financial update highlighting its continuing focus on partnering the Network-driven Drug Discovery (NDD) platform, out-licensing its NDD-derived preclinical immunoncology (I/O) assets and financial prudence. The H118 operating loss was £2.8m. Cash outflow was £2.0m, resulting in a cash balance of £7.6m at the end of H118. Both R&D and administrative expenses had been reduced from H117.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/17	0.0	(14.1)	(4.1)	0.0	N/A	N/A
01/18	0.0	(6.7)	(2.0)	0.0	N/A	N/A
01/19e	0.0	(5.1)	(1.4)	0.0	N/A	N/A
01/20e	0.0	(4.0)	(1.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H118 financials demonstrate continued prudence

ETX's H118 operating loss was £2.8m (vs £3.7m H117). Both R&D and administrative expenses, of £2.1m and £0.7m respectively, had been reduced compared to those of H117 (£2.7m and £1.0m, respectively). We now estimate that FY19 R&D and administrative expenses will be c £0.9m lower than we had forecast. Cash outflow was £2.0m (H117: £1.6m), which was softened by the £1.4m R&D tax credit (H117: £3.0m). Cash and deposits at the end of H118 were £7.6m compared with £12.4m at the end of H117. We estimate that this cash runway will reach until at least 2020, before which time a licensing transaction inflow is expected.

The pace of I/O transactions has not slowed

The frenetic rate of licensing transactions for preclinical I/O assets like ETX's two most advanced products (described in our previous [note](#)) has not slowed. More recently, this included Boehringer Ingelheim's €210m acquisition of Germany's preclinical-stage ViraTherapeutics, AbbVie's c \$625m licensing transaction of argenx's ARGX-115 and Roche's acquisition of the preclinical I/O company Tusk Therapeutics for €70m upfront plus up to €585m in milestones. ETX has recently demonstrated a transactional track record with the two AI collaborations with Intellegens and Biorelate, aimed at enhancing the NDD platform, and the more recent collaboration with C4X Discovery.

Valuation: Virtually unchanged

In our last [note](#), we changed our preclinical valuation methodology from Lerner's VC method to one where we added the value of a single, median, preclinical transaction to ETX's market capitalisation. The latter represents a market valuation of ETX's NDD platform, while the former represents the value of only one of two possible preclinical licensing transactions. We have maintained this valuation methodology, which has only increased slightly due to transaction values being in dollars or euros. Our valuation is £63.5m or 24p per share.

Share price performance



% 1m 3m 12m

Abs (12.1) (5.2) (31.8)

Rel (local) (11.1) (1.6) (30.2)

52-week high/low 10.6p 5.9p

Business description

e-Therapeutics is a UK-based drug discovery company that has developed an in silico network-driven drug discovery platform. Following a strategic review by the new CEO, the focus is now on commercialisation: securing partners for its platform, discovery and development projects.

Next events

Partnering update H218

FY18 results March 2019

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e-Therapeutics is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'000s	2017	2018	2019e	2020e
Year ending 31 January		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	0
R&D		(10,911)	(5,019)	(3,851)	(3,000)
G&A		(2,641)	(1,749)	(1,242)	(1,000)
EBITDA		(14,200)	(6,696)	(5,035)	(3,995)
Operating Profit (before amort. and except.)		(14,256)	(6,768)	(5,093)	(4,001)
Share-based payment		(99)	(105)	(60)	(50)
Operating profit		(16,456)	(6,873)	(5,153)	(4,050)
Net interest		132	49	23	15
Profit Before Tax (norm)		(14,124)	(6,719)	(5,070)	(3,986)
Profit Before Tax (reported)		(16,324)	(6,824)	(5,130)	(4,035)
Tax		3,073	1,360	1,355	1,000
Profit after tax (norm.)		(11,051)	(5,359)	(3,715)	(2,985)
Profit after tax (as reported)		(13,251)	(5,464)	(3,775)	(3,035)
Average Number of Shares Outstanding (m)		267.1	268.5	268.5	268.5
EPS - normalised (p)		(4.1)	(2.0)	(1.4)	(1.1)
EPS - as reported (p)		(5.0)	(2.0)	(1.4)	(1.1)
Dividend per share (p)		0.0	0.0	0.0	0.0
EBITDA margin (%)		N/A	N/A	N/A	N/A
Operating margin (before GW and except) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed assets		207	206	197	171
Intangible assets		156	135	141	133
Tangible assets		51	71	56	38
Current assets		18,225	11,556	6,714	3,512
Stocks		0	0	0	0
Debtors		3,749	1,455	717	717
Cash		13,975	9,597	5,502	2,795
Other		501	504	495	0
Current liabilities		(1,951)	(1,024)	(704)	(452)
Creditors		(1,951)	(1,024)	(704)	(452)
Other creditors		0	0	0	0
Short-term borrowings		0	0	0	0
Long-term liabilities		0	0	0	0
Long-term borrowings		0	0	0	0
Deferred taxation		0	0	0	0
Other long-term liabilities		0	0	0	0
Net assets		16,481	10,738	6,207	3,231
CASH FLOW					
Operating cash flow		(12,509)	(7,373)	(5,453)	(3,702)
Net interest		194	86	23	15
Tax		3,073	2,968	1,355	1,000
Capex		(22)	(66)	(5)	(5)
Purchase of intangibles		(143)	(5)	(15)	(15)
Acquisitions/disposals		(1,473)	0	0	0
Financing		13	12	0	0
Dividends		0	0	0	0
Other		0	0	0	0
Net cash flow		(10,867)	(4,378)	(4,095)	(2,707)
Opening net debt/(cash)		(24,842)	(13,975)	(9,597)	(5,502)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(13,975)	(9,597)	(5,502)	(2,795)

Source: e-therapeutics, Edison Investment Research

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