

NetScientific

Advancing on multiple fronts to commercialisation

Financial results

Pharma & biotech

NetScientific recently announced full-year results for 2017. It was a year of progress for the company, which is carrying forward into 2018. In February 2018, ProAxis had its first commercial sale of Neutrophil Elastase Airways Test (NEATstik) for measuring active neutrophil elastase, in this case to a research lab conducting a respiratory clinical trial with a pharmaceutical company. In March, Vortex announced a collaboration with BioView for automated clinical biomarker identification of circulating tumour cells.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/16	0.5	(12.3)	(20.6)	0.0	N/A	N/A
12/17	0.4	(9.5)	(13.6)	0.0	N/A	N/A
12/18e	1.9	(12.4)	(13.5)	0.0	N/A	N/A
12/19e	4.1	(9.7)	(10.8)	0.0	N/A	N/A

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

First commercial sale of NEATstik

In February, ProAxis announced the first commercial sale of NEATstik, a lateral flow device for rapid, easy monitoring of neutrophil elastase levels in the clinic or home from sputum samples. Neutrophil elastase is involved in chronic respiratory diseases such as cystic fibrosis and chronic obstructive pulmonary disease (COPD) and is an established biomarker of infection and inflammation.

Vortex collaboration with BioView

In March, Vortex announced a collaboration with BioView, an Israel-based company that provides automated cell imaging and analysis solutions. The purpose of this collaboration is to enable automated identification of clinical biomarkers expressed by circulating tumour cells that have been collected by Vortex's platform.

Equity raise announced

NetScientific announced a share offering to raise £5m in gross proceeds, which was approved by shareholders at the General Meeting on 16 April 2018. Woodford funds, which already owns 45.0% of NetScientific, subscribed to approximately £3m worth of the offering. According to the company, this will provide enough cash to fund operations into 2019.

Valuation: £67.9m or 86p per share

We have adjusted our valuation of NetScientific from £70.5m or 102p per share to £67.9m or 86p per share. This is mainly due to a more conservative view of the revenue ramp for Vortex, Wanda and Glycotest (though peak sales remain the same) and a higher share count following the equity raise, which was partly mitigated by rolling forward our NPVs to 2018. We expect to update our valuation with the closing of financings for the individual companies, due in 2018, and following the closing of the recently announced financing for NetScientific itself.

18 April 2018

Price **48.50p**

Market cap **£38m**

US\$1.40/£

Net cash (£m) at 31 December 2017 6.7

Shares in issue 78.6m

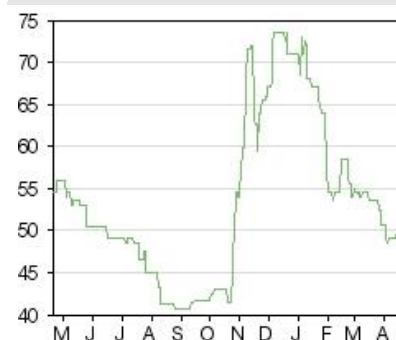
Free float 20.2%

Code NSCI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (9.4) (27.6) (11.0)

Rel (local) (10.0) (22.9) (10.4)

52-week high/low 73.5p 40.8p

Business description

NetScientific is a healthcare IP commercialisation group with an investment strategy focused on sourcing, funding and commercialising technologies. Its portfolio of four core investments and one material investment is in three main sectors: digital health (Wanda), diagnostics (Vortex, ProAxis, Glycotest) and therapeutics (PDS Biotechnology).

Next events

Glycotest Series A H118

Vortex fundraising or partnership H218

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ProAxis progress

NEATstik is an immunoassay for routine, point-of-care monitoring of neutrophil elastase. Neutrophil elastase is involved in chronic respiratory diseases such as cystic fibrosis and COPD, as neutrophil elastase activity is responsible for significant airway damage and is a strong predictor of lung function decline. Detecting increased neutrophil elastase levels earlier can reduce exacerbations and hospitalisation risk in patients with cystic fibrosis and COPD and improve health outcomes. The recent sale of NEATstik for use in a clinical trial helps to validate the approach and the technology.

As a reminder, ProAxis also announced in January that it had received a CE mark for a test to detect active plasmin using its ProteaseTag technology. Plasmin is a protease present in the blood that, among other functions, breaks down the fibrin protein found in blood clots. It is implicated in inflammatory disorders of the lung, such as idiopathic pulmonary fibrosis (IPF) and acute respiratory distress syndrome (ARDS), because these conditions are characterised by the impairment of fibrin breakdown, which may contribute to the pathology of these disorders. The plasmin assay may therefore be useful in the lab for the development of treatments for these disorders.

All of this will help ProAxis continue its commercial momentum. ProAxis previously announced it had tripled the number of orders for its Active Neutrophil Elastase Immunoassay kit in H217 over H117, partially as a result of a high level (75%) of repeat orders. Due to this momentum, NetScientific continues to expect ProAxis to generate around £1m in revenues in 2018.

Valuation

We have adjusted our valuation of NetScientific from £70.5m or 102p per share to £67.9m or 86p per share. This is mainly due to a more conservative view of the revenue ramp for Vortex, Wanda and Glycotest (although peak sales remain the same) and a higher share count following the equity raise, which was partly mitigated by rolling forward our NPVs to 2018. We expect to update our valuation with the closing of financings for the individual companies, expected in 2018 (Glycotest for example is aiming to close a Series A in H118), and following the closing of the recently announced financing for NetScientific itself.

Exhibit 1: Valuation of NetScientific							
Portfolio company	Prob. of success	Profitability	Peak sales (£m)	Margin (%)	rNPV (£m)	Ownership (%)	Share value (£m)
Vortex	15.0%	2020	138	43%	16.3	95.0%	15.5
Wanda	7.5%	2020	326	52%	16.6	70.9%	11.8
Proaxis	15.0%	2020	47	51%	15.3	56.5%	8.6
Glycotest	20.0%	2021	113	51%	17.7	87.5%	15.5
PDS	10.0%	2022	270	56%	29.8	17.4%	5.2
Total							56.6
Net cash and equivalents (H217 + offering) (£m)							11.3
Total firm value (£m)							67.9
Total shares (m)							78.6
Value per share (p)							86
Source: NetScientific reports, Edison Investment Research							

Financials

NetScientific reported revenue for 2017 of £0.39m and an operating loss of £10.6m. We are lowering our 2018 revenue forecasts from £3.5m to £1.9m as we take a more conservative view of the revenue ramp for some of the portfolio companies, although the growth rate remains high at 385%. We are also introducing our 2019 forecasts, which feature revenues of £4.1m.

Cash as of the end of the year was £6.9m, which the company has said is enough to fund the business until the end of June 2018. Hence, NetScientific announced a share offering to raise £5m in gross proceeds, which was approved by shareholders at the General Meeting on 16 April 2018. Woodford funds, which already owns 45.0% of NetScientific, subscribed to approximately £3m worth of the offering. According to the company, this will provide enough cash to fund operations into 2019. We record a financing shortfall as £11m in illustrative debt in 2018, which could be reduced by successful Series A financings.

Exhibit 2: Financial summary

	£'000s	2015	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		122	518	386	1,873	4,132
Cost of Sales		(6)	(255)	(245)	(428)	(1,207)
Gross Profit		116	263	141	1,445	2,925
Research and development		(7,256)	(7,443)	(5,177)	(7,197)	(5,114)
Selling, general & administrative		(4,260)	(5,001)	(5,281)	(5,560)	(5,911)
EBITDA		(11,530)	(12,570)	(10,814)	(11,533)	(8,321)
Operating Profit (before amort. and except.)		(11,400)	(12,429)	(10,593)	(11,312)	(8,100)
Intangible Amortisation		0	0	0	0	0
Exceptionals/Other		(1,518)	(666)	0	0	0
Operating Profit		(12,918)	(13,095)	(10,593)	(11,312)	(8,100)
Net Interest		78	86	1,058	(1,126)	(1,626)
Other (change in fair value of warrants)		0	(49)	(45)	0	0
Profit Before Tax (norm)		(11,322)	(12,343)	(9,535)	(12,438)	(9,726)
Profit Before Tax (IFRS)		(12,840)	(13,058)	(9,580)	(12,438)	(9,726)
Tax		94	(18)	202	62	204
Deferred tax		0	0	0	0	0
Profit After Tax (norm)		(11,229)	(12,361)	(9,333)	(12,376)	(9,522)
Profit After Tax (IFRS)		(12,746)	(13,076)	(9,378)	(12,376)	(9,522)
Minority interest		1,905	1,881	1,060	2,111	1,019
Profit After Tax after minority interest (FRS 3)		(10,842)	(11,195)	(8,318)	(10,266)	(8,502)
Average Number of Shares Outstanding (m)		38.2	51.1	61.0	75.8	78.6
EPS - normalised (p)		(24.4)	(20.6)	(13.6)	(13.5)	(10.8)
EPS - IFRS (p)		(28.4)	(21.9)	(13.6)	(13.5)	(10.8)
Dividend per share (p)		0	0	0	0	0
BALANCE SHEET						
Fixed Assets		2,946	4,054	3,805	5,063	7,221
Intangible Assets		1	0	0	0	0
Tangible Assets		285	779	891	1,069	1,247
Other		2,660	3,275	2,914	3,994	5,974
Current Assets		23,799	11,034	7,968	12,017	5,309
Stocks		0	0	86	375	516
Debtors		560	1,578	1,014	187	413
Cash		23,239	9,456	6,868	11,455	4,379
Other		0	0	0	0	0
Current Liabilities		(2,206)	(2,172)	(905)	(2,517)	(2,192)
Creditors		(2,156)	(2,044)	(777)	(2,389)	(2,064)
Short term borrowings		(50)	(128)	(128)	(128)	(128)
Long Term Liabilities		0	(80)	(70)	(11,264)	(16,264)
Long term borrowings		0	(80)	(70)	(11,264)	(16,264)
Other long term liabilities		0	0	0	0	0
Net Assets		24,538	12,836	10,798	3,300	(5,926)
Minority Interest		(1,805)	(3,875)	(4,573)	(6,684)	(7,703)
Shareholder Equity		22,733	8,961	6,225	(3,384)	(13,629)
CASH FLOW						
Operating Cash Flow		(10,752)	(12,939)	(10,479)	(8,663)	(8,275)
Net Interest		38	43	(11)	(1,126)	(1,626)
Tax		83	112	(131)	62	204
Capex		(299)	(457)	(399)	(399)	(399)
Acquisitions/disposals		(144)	(1,261)	1,310	(1,080)	(1,980)
Financing		18,208	0	8,083	4,600	0
Dividends		0	0	0	0	0
Other		39	66	(574)	0	0
Net Cash Flow		7,172	(14,436)	(2,201)	(6,607)	(12,076)
Opening net debt/(cash)		(16,136)	(23,189)	(9,248)	(6,670)	(63)
HP finance leases initiated		0	0	0	0	0
Exchange rate movements		(212)	(603)	387	0	0
Other		92	1,098	(764)	0	0
Closing net debt/(cash)		(23,189)	(9,248)	(6,670)	(63)	12,013

Source: NetScientific reports, Edison Investment Research

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