

e-Therapeutics

Strategy update

Strategic review complete: focus on deal-making

Pharma & biotech

27 July 2017

Price **12.25p**
Market cap **£33m**

Net cash (£m) at end-January 2017	14
Shares in issue	268.4m
Free float	74%
Code	ETX
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	1.0	48.5	(5.8)
Rel (local)	0.9	45.7	(15.8)
52-week high/low		13.5p	7.4p

Business description

e-Therapeutics is a UK-based drug discovery company that has developed a proprietary network pharmacology 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

AI Pharma summit, Boston	26-27 July 2017
Interim results	26 September 2017
Preclinical data	H217/H118
Potential new programmes	H217
Partnering deal(s)	2018 onwards

Analysts

Charlotte Hetzel	+44 (0)20 3077 5700
Linda Pomeroy	+44 (0)20 3077 5738

healthcare@edisongroup.com
[Edison profile page](#)

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

New CEO Dr Ray Barlow, who joined e-Therapeutics (ETX) in April, has undertaken a business and strategic review, assisted by an independent industry-wide expert panel. The portfolio has been rationalised from six to two preclinical immuno-oncology programmes; two programmes are available for out-licensing, while data will be published on two others to showcase and validate the proprietary network pharmacology discovery platform. This will secure ETX's cash runway comfortably to the end of 2019, free capacity to add new programmes in H217 and enable further investment in the platform. The management team is now focused on external collaborations and partnerships to provide validation and generate revenue. ETX's attendance at industry conferences, including one in Boston this week, will help to raise its profile.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/16	0.0	(11.1)	(3.3)	0.0	N/A	N/A
01/17	0.0	(13.4)	(3.9)	0.0	N/A	N/A
01/18e	0.0	(8.9)	(2.6)	0.0	N/A	N/A
01/19e	0.0	(9.0)	(2.7)	0.0	N/A	N/A

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

Expert panel confirms utility of ETX's approach

Dr Barlow's significant business development experience is driving the ongoing transformation at ETX. His 'root and branch' review of the company included the views of an independent panel of industry experts with scientific/commercial backgrounds at AstraZeneca, Pfizer, Merck & Co and biotechs. It confirmed the productivity of the network-driven discovery (NDD) approach and its potential advantages in terms of time (nine months or less from concept to hits vs >24 months by standard methods), cost, and number/quality of output molecules.

Priorities: Platform and two immuno-oncology assets

The internal portfolio has been rationalised to two immuno-oncology programmes: checkpoint signalling modulation and tryptophan breakdown, both currently at the medicinal chemistry stage. ETX will fund these in-house into pre-clinical. Other programmes, including hedgehog signalling (large data package) and anti-influenza (innovative) will be actively marketed for out-licensing. Data from other projects will be published to validate the NDD approach. This will free up funding to invest in the AI/computational/data platform and develop new network models in complex diseases such as neurodegeneration, fibrosis and triple negative breast cancer. However, additional programmes will require external funding or partnerships.

Focus on partnering deals from 2018 onwards

No change to our numbers: cash of £14m (as of end-January 2017), tax credits (£2.8m received June 2017) and prudent cost control give ETX a secure cash runway to the end of 2019. However, deals remain key to unlocking value and the new team is focused on arranging meetings with potential collaborators. Attendance at industry conferences and data publication will raise the profile of the new management and the innovative discovery platform.

Exhibit 1: Financial summary

	£000s	2016	2017	2018e	2019e
Year ending 31 January		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	0
R&D		(9,965)	(10,911)	(7,500)	(7,500)
G&A		(1,375)	(2,614)	(1,475)	(1,531)
EBITDA		(11,267)	(13,469)	(8,995)	(8,951)
Operating profit (before amort. and except.)		(11,340)	(13,525)	(8,975)	(9,031)
Intangible amortisation		0	(2,805)	0	0
Exceptionals/special items		0	0	0	0
Share-based payment		(215)	(99)	(250)	(250)
Operating profit		(11,555)	(16,429)	(9,225)	(9,281)
Net interest		271	132	110	40
Profit before tax (norm)		(11,069)	(13,393)	(8,865)	(8,991)
Profit before tax (as reported)		(11,284)	(16,297)	(9,115)	(9,241)
Tax		2,464	3,073	1,800	1,800
Profit after tax (norm.)		(8,605)	(10,320)	(7,065)	(7,191)
Profit after tax (as reported)		(8,820)	(13,224)	(7,315)	(7,441)
Average number of shares outstanding (m)		264.4	267.1	268.4	268.4
EPS - normalised (p)		(3.3)	(3.9)	(2.6)	(2.7)
EPS - as reported (p)		(3.3)	(5.0)	(2.7)	(2.8)
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		804	207	312	417
Intangible assets		740	156	251	346
Tangible assets		64	51	61	71
Current assets		28,783	17,724	11,838	4,577
Stocks		0	0	0	0
Debtors		3,941	3,749	2,549	2,549
Cash		24,842	13,975	9,289	2,028
Other		0	0	0	0
Current liabilities		(1,156)	(1,951)	(1,951)	(1,951)
Creditors		(1,156)	(1,951)	(1,951)	(1,951)
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		28,431	15,980	10,199	3,043
CASH FLOW					
Operating cash flow		(11,204)	(11,711)	(7,695)	(8,951)
Net interest		329	194	121	75
Tax		2,027	2,570	3,073	1,800
Capex		(6)	(22)	(50)	(50)
Purchase of intangibles		(138)	(143)	(135)	(135)
Acquisitions/disposals		0	(1,768)	0	0
Financing		12	13	0	0
Dividends		0	0	0	0
Other		0	0	0	0
Net cash flow		(8,980)	(10,867)	(4,686)	(7,261)
Opening net debt/(cash)		(33,822)	(24,842)	(13,975)	(9,289)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(24,842)	(13,975)	(9,289)	(2,028)

Source: Edison Investment Research, e-Therapeutics accounts

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisors and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by e-Therapeutics and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers" exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.