

# e-Therapeutics

FY19 results

The benefits of partnerships and cost control

e-Therapeutics' (ETX) FY19 results demonstrated continued financial prudence and its focus on partnering, out-licensing and non-dilutive financing. The FY19 operating loss was £5.1m, which is the same as our estimate. The cash outflow was £3.7m, resulting in a cash balance of £5.9m at the end of FY19. Both R&D and administrative expenses had been reduced from FY18 and the recently announced Novo collaboration generated £0.04m in FY19.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
01/18	0.00	(6.7)	(2.0)	0.0	N/A	N/A
01/19	0.04	(5.1)	(1.5)	0.0	N/A	N/A
01/20e	0.48	(3.5)	(0.9)	0.0	N/A	N/A
01/21e	0.00	(3.0)	(0.8)	0.0	N/A	N/A

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

## FY19 financials

ETX's FY19 operating loss was £5.1m vs £6.8m at the end of FY18 and our estimate of £5.1m. This was softened by a £1.1m R&D tax credit (£1.4m in FY17) and the revenue from the recently announced [collaboration with Novo](#), which added £0.04m in revenues in FY19. The cash outflow was also lower at £3.7m against £4.4m for FY18. This was as a result of lower R&D and administrative spend (£3.7m and £1.5m vs £5.0m and £1.7m for FY18, respectively). ETX ended FY19 with £5.9m in cash and equivalents (vs £9.6m at the end of FY18 and our previous YE19 estimate of £5.5m). There were three moving parts to this higher cash balance: the continued financial prudence, the recent collaboration with Novo in type II diabetes and the slowed investment in the self-funded assets. We estimate that ETX's cash runway will reach through 2021, before which time further collaborative inflows are expected.

## Detailed discussions with potential partners

In the current challenging financing environment for UK-based life science companies, ETX is firstly conserving resources. FY19 was the latest in a three-year trend of sequentially declining six-monthly losses and the lowest half-yearly loss since 2012. In addition, a range of partnering activities are being explored. These two facets come together with the metered investment in the self-funded NDD-derived assets, the board exploring alternative sources of capital that could include non-dilutive funding and also potentially the earlier partnering and cost-sharing for assets and partnerships that may reduce the long-term upside to ETX, but enable nearer-term value creation.

## Valuation: Unchanged ahead of more collaborations

We have updated our valuation to £69.4m or 26p/share, from £63.5m (24p/share), due to the impact of a stronger dollar on the dollar-based comparative transactions. All underlying assumptions remain unchanged. ETX expects more collaborations, and more visible transactions than the Novo collaboration and we would expect these to be incorporated into ETX's valuation when they occur.

Pharma &amp; biotech

5 March 2019

**Price** **4.7p**
**Market cap** **£13m**

Net cash (£m) at 31 January 2019 5.9

Shares in issue 268.6m

Free float 44.6%

Code ETX

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (10.5) (29.1) (46.3)

Rel (local) (11.9) (30.6) (46.6)

52-week high/low 8.8p 4.7p

### 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

Further partnering announcements Ongoing

H1 results September 2019

FY20 results March 2020

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## **Partnering to parry funding challenges**

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ETX's FY19 results announcement pulled no punches on the current financing challenges in the UK for smaller life science companies. However, ETX's results included commentary on the range of partnering and cost-sharing opportunities to address this challenge, which the chairman's statement suggested could include M&A, if appropriate.

### **New partnering opportunities**

As well as the potential partnering of the two network-driven drug discovery (NDD) derived assets and collaborations, like the one recently announced with Novo, which use the NDD platform for specific disease indications, ETX announced a new partnering approach. The collaboration with C4X Discovery, which started last year and uses C4X's human genetic data to feed into ETX's NDD platform, has already generated potentially novel mechanisms of addressing Parkinson's disease. This approach linking the NDD platform is generically applicable to other indications and will be marketed to potential partners as Genome Associated Interaction Networks (GAINs).

### **Changes to our financial model**

We have associated the recent announcement on the collaboration with Novo Nordisk on type II diabetes with the revenues reported in FY19. We estimate that the revenues received in FY19 reflected the first month of a one-year contract in the first instance. We have therefore included the £0.5m remaining revenues from this first phase in FY20.

**Exhibit 1: Financial summary**

	£000s	2017	2018	2019	2020e	2021e
Year ending 31 January		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		0	0	44	484	0
R&D		(10,911)	(5,019)	(3,673)	(3,000)	(2,500)
G&A		(2,641)	(1,749)	(1,485)	(1,000)	(500)
EBITDA		(14,200)	(6,696)	(5,093)	(3,459)	(2,954)
Operating Profit (before amort. and except.)		(14,256)	(6,768)	(5,166)	(3,517)	(3,001)
Share-based payment		(99)	(105)	52	(50)	(50)
Operating profit		(16,456)	(6,873)	(5,114)	(3,566)	(3,050)
Net interest		132	49	29	15	10
Profit Before Tax (norm)		(14,124)	(6,719)	(5,137)	(3,502)	(2,991)
Profit Before Tax (reported)		(16,324)	(6,824)	(5,085)	(3,551)	(3,040)
Tax		3,073	1,360	1,086	1,100	917
Profit after tax (norm.)		(11,051)	(5,359)	(4,051)	(2,401)	(2,072)
Profit after tax (as reported)		(13,251)	(5,464)	(3,999)	(2,451)	(2,123)
Average Number of Shares Outstanding (m)		267.1	268.5	268.5	268.5	268.5
EPS - normalised (p)		(4.1)	(2.0)	(1.5)	(0.9)	(0.8)
EPS - as reported (p)		(5.0)	(2.0)	(1.5)	(0.9)	(0.8)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>						
Fixed assets		207	206	161	131	112
Intangible assets		156	135	119	110	106
Tangible assets		51	71	42	21	5
Current assets		18,225	11,556	7,348	4,904	2,851
Stocks		0	0	0	0	0
Debtors		3,749	1,455	1,116	1,116	1,116
Cash		13,975	9,597	5,904	3,788	1,736
Other		501	504	328	0	0
Current liabilities		(1,951)	(1,024)	(707)	(452)	(451)
Creditors		(1,951)	(1,024)	(707)	(452)	(451)
Other creditors		0	0	0	0	0
Short-term borrowings		0	0	0	0	0
Long-term liabilities		0	0	0	0	0
Long-term borrowings		0	0	0	0	0
Deferred taxation		0	0	0	0	0
Other long-term liabilities		0	0	0	0	0
Net assets		16,481	10,738	6,802	4,583	2,512
<b>CASH FLOW</b>						
Operating cash flow		(12,509)	(7,373)	(5,054)	(3,203)	(2,952)
Net interest		194	86	26	15	10
Tax		3,073	2,968	1,352	1,100	917
Capex		(22)	(66)	(8)	(8)	(8)
Purchase of intangibles		(143)	(5)	(20)	(20)	(20)
Acquisitions/disposals		(1,473)	0	0	0	0
Financing		13	12	11	0	0
Dividends		0	0	0	0	0
Other		0	0	0	0	0
Net cash flow		(10,867)	(4,378)	(3,693)	(1,116)	(2,054)
Opening net debt/(cash)		(24,842)	(13,975)	(9,597)	(5,904)	(3,788)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(13,975)	(9,597)	(5,904)	(3,788)	(1,735)

Source: e-Therapeutics and Edison Investment Management

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