

NetScientific

PDS agrees to merge with Edge Therapeutics

In late November 2018, NetScientific announced that its portfolio company PDS Biotechnology and Edge Therapeutics (NASDAQ: EDGE) will merge. The new entity will trade on the NASDAQ and PDS's shareholders will maintain majority ownership with a 70% stake, whereas Edge's shareholders will hold the remaining 30%. The transaction is expected to close in Q119 and NetScientific's ownership is expected to decrease to 9.2% (from 13.1%). The newly formed entity says it intends to use the combined cash balance of ~\$25m to initiate several Phase II clinical trials of its PDS0101 cancer vaccine and to fund operations into 2020.

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

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

PDS going public through a reverse merger

NetScientific recently announced that PDS and Edge Therapeutics have entered into a merger agreement. In accordance with the merger, Edge plans to implement a reverse stock split of 5 to 10 outstanding shares (exact ratio to be agreed between Edge and PDS) for one share. The new entity will operate under PDS and will trade on the NASDAQ under a new ticker symbol, which has not yet been disclosed. The transaction is expected to close in Q119.

Funding to initiate Phase II clinical trials

According to the companies, the merger is expected to result in a combined cash balance of ~\$25m and says this should provide funding to enable the company to initiate a number of Phase II clinical trials of PDS's cancer vaccine PDS0101 and fund operations into 2020. This includes its combination study with Merck's checkpoint inhibitor Keytruda (pembrolizumab) in late-stage human papillomavirus (HPV)-positive head and neck cancer.

NetScientific explores strategic alternatives

On 26 November 2018, NetScientific announced that it is interested in exploring strategic alternatives to maximise value for its shareholders. Such approaches include selling the company in its entirety or selling specific holdings in its portfolio of investments. NetScientific is not in discussions with third parties at this time.

Merger agreement

Pharma & biotech

30 November 2018

Price **26.90p**

Market cap **£21m**

US\$1.40/£

Net cash (£m) at 30 June 2018 7.1

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 (7.2) (22.0) (59.2)

Rel (local) (7.4) (15.7) (57.0)

52-week high/low 73.50p 26.50p

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

Regulatory approval of Series A for Glycotest Q418

Complete PDS and Edge merger Q119

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PDS reverse merges with Edge on to the NASDAQ

On 26 November 2018, NetScientific announced that PDS, a private biopharmaceutical company focused on the development of novel cancer immunotherapies and vaccines for infectious diseases, plans to undergo a reverse merger with Edge Therapeutics on to the NASDAQ. In March this year, Edge reported its lead asset EG-1962, a bio-absorbable nimodipine microparticle being developed for the prevention of delayed cerebral ischemia in patients with aneurysmal subarachnoid haemorrhage, failed its Phase III trial. In April, Edge announced it had started to investigate strategic alternatives.

Under the terms of the agreement, PDS shareholders will maintain majority ownership of the combined entity with 70% stake, while Edge shareholders will hold the remaining 30%. Moreover, Edge plans to implement a reverse stock split of between 5 and 10 outstanding shares for one share. PDS's CEO Frank K Bedu-Addo and CSO Gregory L Conn will maintain their leadership roles in the combined entity. The boards of directors of both companies have approved the merger and the transaction is expected to close in Q119 with an anticipated cash balance of ~\$25m at closing.

The focus of the newly combined entity will be on the clinical development of PDS's Versamune-based pipeline. Versamune is a nanoparticle antigen technology based on the use of synthetic positively charged (cationic) lipids. The Versamune platform overcomes a major hurdle in immunotherapy by enabling the unique cancer proteins (antigens) to enter the cytoplasm of the immune dendritic cells directly. This leads to effective priming of tumour-specific killer (CD8+) T-cells to recognise and attack the tumours, leading to tumour cell death. The unique lipid used in the Versamune platform acts as a potent immune activator, which induces proliferation and activation of the primed T-cells. The company plans to initiate multiple Phase II clinical trials for PDS's lead asset PDS0101 in: late-stage HPV-positive head and neck cancer in combination with Merck's checkpoint inhibitor Keytruda (pembrolizumab); grade 2 and 3 cervical and anal neoplasia patients (AIN/CIN); and stage III cervical cancer patients.

Financials

NetScientific recently reported revenue of £0.13m in H118, down from £0.16m in H117. R&D came in at £1.9m, down 36.1% compared to H117, but down only 8.8% compared to H217. SG&A expenses fell 22.3% to £2.3m compared to the same period a year ago, but were up 1.2% sequentially. Loss from operations was £4.6m, down 24.8% compared to H117. Net cash at 30 June 2018 was £7.1m.

Exhibit 1: Financial summary

	£'000s	2016	2017
Year end 31 December		IFRS	IFRS
PROFIT & LOSS			
Revenue		518	386
Cost of Sales		(255)	(245)
Gross Profit		263	141
Research and development		(7,443)	(5,177)
Selling, general & administrative		(5,001)	(5,281)
EBITDA		(12,570)	(10,814)
Operating Profit (before amort. and except.)		(12,429)	(10,593)
Intangible Amortisation		0	0
Exceptionals/Other		(666)	0
Operating Profit		(13,095)	(10,593)
Net Interest		86	1,058
Other (change in fair value of warrants)		(49)	(45)
Profit Before Tax (norm)		(12,343)	(9,535)
Profit Before Tax (IFRS)		(13,058)	(9,580)
Tax		(18)	202
Deferred tax		0	0
Profit After Tax (norm)		(12,361)	(9,333)
Profit After Tax (IFRS)		(13,076)	(9,378)
Minority interest		1,881	1,060
Profit After Tax after minority interest (FRS 3)		(11,195)	(8,318)
Average Number of Shares Outstanding (m)		51.1	61.0
EPS - normalised (p)		(20.6)	(13.6)
EPS - IFRS (p)		(21.9)	(13.6)
Dividend per share (p)		0	0
BALANCE SHEET			
Fixed Assets		4,054	3,805
Intangible Assets		0	0
Tangible Assets		779	891
Other		3,275	2,914
Current Assets		11,034	7,968
Stocks		0	86
Debtors		1,578	1,014
Cash		9,456	6,868
Other		0	0
Current Liabilities		(2,172)	(905)
Creditors		(2,044)	(777)
Short term borrowings		(128)	(128)
Long Term Liabilities		(80)	(70)
Long term borrowings		(80)	(70)
Other long term liabilities		0	0
Net Assets		12,836	10,798
Minority Interest		(3,875)	(4,573)
Shareholder Equity		8,961	6,225
CASH FLOW			
Operating Cash Flow		(12,939)	(10,479)
Net Interest		43	(11)
Tax		112	(131)
Capex		(457)	(399)
Acquisitions/disposals		(1,261)	1,310
Financing		0	8,083
Dividends		0	0
Other		66	(574)
Net Cash Flow		(14,436)	(2,201)
Opening net debt/(cash)		(23,189)	(9,248)
HP finance leases initiated		0	0
Exchange rate movements		(603)	387
Other		1,098	(764)
Closing net debt/(cash)		(9,248)	(6,670)

Source: Company reports

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