

Abzena

FY17 results

Focus on integration and growth

Pharma & biotech

Abzena reported solid FY17 results with underlying revenue growth of 41% (to £18.7m). In FY17, Abzena continued to focus on the integration of its service offering across its three sites (US and UK), which has been expanded by its recent placing of £25m gross (issuing 75.8m new shares at 33p). We expect this to enable strong growth and take Abzena to profitability in FY20, which will be a significant milestone for the company. We maintain our valuation at £132m, 62p per share, but note potential upside as it demonstrates growth and as Abzena *inside* products progress.

20 June 2017

Price **41.50p**
Market cap **£89m**

US\$1.27/E

Net cash (£m) at 31 March 2017 (pro forma adjusted for the fund-raise) 28.0

Shares in issue 213.6m

Free float 39%

Code ABZA

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	21.2	5.1	(7.8)
Rel (local)	22.0	3.7	(26.3)

52-week high/low 56.00p 32.25p

Business description

Abzena is a UK group that offers a range of services and technologies for biopharmaceutical development including immunogenicity tests, protein engineering, bioconjugation, polymer/synthetic chemistry, biomanufacturing and ADC chemistry.

Next events

Further Abzena <i>inside</i> products into the clinic	2017
Roche update SDP051	2017
Phase III andecaliximab (formerly GS-5745) futility analysis in gastric cancer	H217

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Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	9.9	(7.4)	(5.86)	0.0	N/A	N/A
03/17	18.7	(8.3)	(5.82)	0.0	N/A	N/A
03/18e	29.7	(10.1)	(4.53)	0.0	N/A	N/A
03/19e	41.1	(2.6)	(1.04)	0.0	N/A	N/A

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

Funded to deliver on its growth plans

Abzena recently announced a £25m (£23.9m net) fund-raising through a placing of 75.8m shares at a price of 33p each. The funds will be used to expand its services, capabilities and capacity across its three service areas: biomanufacturing, chemistry and research services. The company has indicated that the investments will be complete and resulting capability and capacity in use in H218, Q118 and late 2017, respectively. Abzena's target over the next three years is to grow its service business revenue by c.40% (CAGR) and improve gross margins to 50% (from 41% in FY17), which should move it towards profitability in a shorter time frame.

Abzena *inside* clinical pipeline maturing

The Abzena *inside* pipeline has grown to 12 products now in the clinic and progressing toward commercialisation, most notably Gilead's andecaliximab (formerly GS-5745) in gastric cancer, in Phase III. In FY17, Abzena announced a second ThioBridge ADC technology deal and two Composite Human Antibody licence agreements. According to the company, these deals in total have the potential to deliver \$554m in licence fees and milestone payments plus royalties on commercial sales of products. Also recently announced was the acquisition of True North Therapeutics and its Abzena *inside* product TNT009 for up to \$825m by Bioverativ. These deals provide validation of Abzena's technology, which indicates there is potential upside via the Abzena *inside* pipeline as well as demonstrating the quality of service that can be provided, which should underpin its growth.

Valuation: Maintained at £132m

We maintain our rNPV at £132m, or 62p/share, having recently upgraded it to reflect the increase in forecast service revenues, improved gross margin and higher cash. Having incorporated the reported FY17 results into our model, we maintain our main assumptions at this stage but believe Abzena is well positioned to grow its integrated service offering and, as its Abzena *inside* products move through the clinic and onto the market, we expect upside to our current estimates.

Exhibit 1: Financial summary

	£'000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		5,667	9,854	18,654	29,667	41,140	55,075
of which: Biology		4,158	5,299	5,719	8,237	9,061	11,132
Manufacturing		594	2,096	5,316	11,789	19,571	27,992
Chemistry		657	2,174	6,961	8,891	10,669	11,942
Total Service revenues		5,409	9,569	17,996	28,917	39,301	51,066
Licenses/milestones/royalties		258	285	658	750	1,839	4,010
Cost of Sales		(2,532)	(5,319)	(10,547)	(17,350)	(20,830)	(25,533)
Gross Profit		3,135	4,535	8,107	12,317	20,310	29,543
R&D expenses		(2,989)	(4,216)	(3,849)	(3,984)	(4,183)	(4,392)
SG&A expenses		(5,634)	(9,047)	(14,611)	(19,492)	(19,784)	(22,950)
EBITDA		(4,510)	(6,817)	(7,450)	(7,208)	127	5,978
Operating Profit (before GW and except)		(4,795)	(7,618)	(8,607)	(10,093)	(2,650)	3,155
Intangible Amortisation		(504)	(588)	(723)	(666)	(607)	(554)
Depreciation		(285)	(801)	(1,157)	(2,885)	(2,777)	(2,822)
Exceptionals		0	(2,542)	0	0	0	0
Other		0	(155)	(412)	(400)	(400)	(400)
Operating Profit		(5,299)	(10,903)	(9,742)	(11,159)	(3,657)	2,201
Other		0	0	0	0	0	0
Net Interest		79	244	277	9	52	27
Profit Before Tax (norm)		(4,716)	(7,374)	(8,330)	(10,084)	(2,598)	3,182
Profit Before Tax (reported)		(5,220)	(10,659)	(9,465)	(11,150)	(3,605)	2,228
Tax		498	961	347	431	384	486
Profit After Tax (norm)		(4,218)	(6,413)	(7,983)	(9,653)	(2,214)	3,668
Profit After Tax (reported)		(4,722)	(9,698)	(9,118)	(10,719)	(3,221)	2,714
Average Number of Shares Outstanding (m)		71.6	109.4	137.2	212.9	212.9	212.9
EPS - normalised (p)		(5.89)	(5.86)	(5.82)	(4.53)	(1.04)	1.72
EPS - reported (p)		(6.59)	(8.86)	(6.65)	(5.03)	(1.51)	1.27
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed Assets		10,432	27,347	33,494	40,951	40,575	39,207
Intangible Assets		8,942	23,177	25,882	25,224	24,625	24,080
Tangible Assets		1,490	4,170	7,612	15,727	15,950	15,127
Other		0	0	0	0	0	0
Current Assets		20,924	22,108	11,267	17,338	14,840	19,269
Stocks		817	1,379	1,876	1,876	1,876	1,876
Debtors		3,161	5,436	4,982	4,982	4,982	4,982
Cash		15,799	13,724	4,135	10,480	7,982	12,411
Other		1,147	1,569	274	0	0	0
Current Liabilities		(2,354)	(5,850)	(6,319)	(6,319)	(6,319)	(6,319)
Creditors		(2,354)	(5,488)	(6,032)	(6,032)	(6,032)	(6,032)
Short term borrowings		0	0	0	0	0	0
Short term leases		0	0	(169)	(169)	(169)	(169)
Other		0	(362)	(118)	(118)	(118)	(118)
Long Term Liabilities		(1,153)	(2,549)	(2,508)	(2,455)	(2,402)	(2,349)
Long term borrowings		0	0	0	0	0	0
Long term leases		0	0	(494)	(441)	(388)	(335)
Other long term liabilities		(1,153)	(2,549)	(2,014)	(2,014)	(2,014)	(2,014)
Net Assets		27,849	41,056	35,934	49,515	46,694	49,808
CASH FLOW							
Operating Cash Flow		(4,938)	(11,330)	(8,100)	(7,429)	(137)	5,739
Net Interest		79	244	277	115	158	133
Tax		(133)	371	1,665	705	384	486
Capex		(1,082)	(2,047)	(3,320)	(11,008)	(3,008)	(2,008)
Acquisitions/disposals		0	(9,357)	0	0	0	0
Financing		19,037	20,013	(89)	23,900	0	0
Dividends		0	0	0	0	0	0
Other		79	31	(22)	62	105	80
Net Cash Flow		13,042	(2,075)	(9,589)	6,345	(2,498)	4,429
Opening net debt/(cash)		(2,757)	(15,799)	(13,724)	(4,135)	(10,480)	(7,982)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	0	0
Closing net debt/(cash)		(15,799)	(13,724)	(4,135)	(10,480)	(7,982)	(12,411)

Source: Edison Investment Research, Abzena accounts

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