

Midatech Pharma

Pharma and biotech

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Announced acquisition to expand portfolio

Midatech announced an all-stock acquisition of Bioasis Technologies (a Canada-based biopharmaceutical company) by issuing 75,884,553 new shares at an exchange ratio 0.9556 per Bioasis share. This translated to a deal value of c C\$7.4m (c £4.4m) at the time of the announcement (at c 5.8p per Midatech share) but is subject to change based on share price movements. The proposed acquisition is expected to close in Q123, contingent on regulatory and shareholder approval. In parallel, Midatech announced a two-stage equity raise worth US\$10.0m (£8.2m), which will be utilised to support working capital requirements of the combined business and partially pay Bioasis's outstanding debt. Following the acquisition, Midatech now intends to maintain a dual listing (AIM and NASDAQ).

A synergistic acquisition

The proposed acquisition makes strategic sense as it diversifies Midatech into a novel drug development vs a pure-play drug delivery platform. We also see synergies as the lead assets of both companies (Midatech-MTX110 and Bioasis-CRES101) target the CNS space, in particular rare and orphan indications. In addition, both companies own their respective proprietary drug delivery platforms with Bioasis's xB³ platform (designed to cross the blood brain barrier) holding several licensing and co-development agreements with upwards of US\$200m in potential milestone payments.

New equity raises to provide operational headroom

Midatech also announced a two-step equity raise totalling US\$10m (£8.2m), comprising a registered direct offering to existing shareholders for gross proceeds of US\$0.4m (c £0.3m) at 3.3p/share (concluded on 16 December) and a private placement to raise an additional US\$9.6m (c £7.9m). The additional capital will be used to support the working capital needs of the combined business and repay a portion of Bioasis's outstanding debt (c C\$2.4m) with Lind Global Macro Fund. In addition, Midatech will be extending a short-term loan worth US\$0.75m (across three tranches) to Bioasis to support its working capital requirements.

Merged business to maintain a dual listing

Although Midatech initially communicated plans to delist from AIM following the acquisition, it now intends to maintain a dual listing on AIM and NASDAQ and trade under the ticker BDRX. Management estimates that the current cash balance (c £3.6m) will provide operational cash runway until Q123, which could extend to Q423 on successful conclusion of the fund-raise and acquisition.

Historical financials

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/18	1.94	(11.8)	(339.0)	0.0	N/A	N/A
12/19	0.67	(10.9)	(50.0)	0.0	N/A	N/A
12/20	0.34	(11.1)	(22.9)	0.0	N/A	N/A
12/21	0.58	(6.1)	(6.8)	0.0	N/A	N/A

Source: Midatech company filings. Note: PBT and EPS are normalised.

Price **2.6p**
Market cap **£3m**

Share price graph



Share details

Code	MTPH
Listing	AIM
Shares in issue as on 19 December 2022	108.3m
Net cash at 13 December 2022	c £3.6m

Business description

Midatech Pharma is platform-based drug delivery specialist founded in 2000 and listed on AIM in 2014. Its three technology platforms, Q-Sphera (for a sustained release of drugs), MidaSolve (nano inclusion for local delivery) and MidaCore (gold nanoparticles for targeted delivery) are designed to re-engineer and reformulate existing therapeutic drugs with the aim of improving biodistribution and delivery. The focus is now on the QSphera development pipeline and the clinical asset MTX110 (for brain cancer).

Bull

- Scalable technology platforms with a broad product pipeline.
- First-in-class potential in brain cancers.
- Early success in encapsulating a mAb.

Bear

- Challenges in finding partners/out-licensing opportunities if deal with Bioasis falls through.
- Challenging macroeconomic environment making fund-raising difficult.
- Earlier-stage product out-licensing strategy may limit upside potential of partnership deals.

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Bioasis acquisition: A strategic move

Bioasis Technologies, listed on the TSX Venture Exchange (TSXV: BTI), is a development-stage biotechnology company focused on developing products for the diagnosis and treatment of neurological diseases and disorders. Traditionally focused on its proprietary drug delivery platform xB³ (for delivering therapeutics across the blood brain barrier), the company diversified into therapeutics with the [June 2022 acquisition of Norway-based Cresence](#), which brought on board three clinic-ready assets – all epidermal growth factor (EGF) therapeutics being evaluated for the treatment of CNS indications such as optic neuritis associated with multiple sclerosis (MS), Guillain-Barre syndrome (GBS) and chronic inflammatory degenerative polyneuropathy (CIDP), respectively.

In addition to its therapeutic programmes, Bioasis also holds several licensing and co-development agreements for its xB³ platform with companies such as Chiesi Farmaceutici, Prothena Corporation, Janssen Pharmaceutica (a Johnson and Johnson subsidiary) and Neuramedy, which has netted the company a combined US\$1.3m in upfront fees with potential to receive c US\$240m in royalty payments, should the agreed milestones be met. Midatech too has an ongoing collaboration with Janssen for its Q-Sphera platform, for which the company has received a combined US\$1.2m in payments to date. Exhibit 1 lists the two companies' strategic partnerships.

Exhibit 1: Midatech and Bioasis strategic partnerships

Partner Overview	Platform(s)	Indication(s)	Proceeds Received	Potential Future Proceeds
 2020 revenue of USD\$2.3B	bioasis xB ³	<ul style="list-style-type: none"> Four undisclosed lysosomal disorders 	<ul style="list-style-type: none"> USD\$3.0M 	<ul style="list-style-type: none"> Up to USD\$138M Royalty on net sales
 NASDAQ:PRTA	bioasis xB ³	<ul style="list-style-type: none"> Undisclosed neurodegenerative disease 	<ul style="list-style-type: none"> USD\$1.0M 	<ul style="list-style-type: none"> Up to USD\$33M Royalty on net sales
 South Korean based biotech	bioasis xB ³	<ul style="list-style-type: none"> Parkinson's Multiple System Atrophy 	<ul style="list-style-type: none"> USD\$0.3M 	<ul style="list-style-type: none"> Up to USD\$72M Royalty on net sales
 Janssen Midatech	bioasis xB ³ midatech Q-Sphera	<ul style="list-style-type: none"> R&D for future products Formulation feasibility on two large molecules 	<ul style="list-style-type: none"> USD\$1.2M 	<ul style="list-style-type: none"> USD\$0.8M (plus license potential)

Source: Bioasis shareholder presentation, December 2022

To broaden Midatech's portfolio and generate synergies

Midatech believes that acquiring Bioasis's therapeutic portfolio will help it broaden its offerings and position itself as a drug development company (rather than a dedicated drug delivery company) focused on rare and orphan conditions (where much of Midatech's recent research has been directed regarding MTX110). A focus on the rare diseases space is strategic for Midatech, given the ability to conduct smaller clinical trials, command higher drug prices and gain market exclusivity and a possible faster route to the market, driven by regulatory support for therapeutics targeting these conditions. Management also believes that a broader development pipeline following Bioasis's integration would reduce its reliance on R&D collaborations and third-party licensing for developing novel products (a typical go-to-market strategy for drug delivery companies). Management also anticipates a decline in overall operating expenses as a combined entity, which is likely to be driven by expected cost synergies arising from the acquisition. As highlighted earlier, the deal also brings on board Bioasis's drug delivery platform xB³, for which the company holds several licensing and co-development agreements with the potential to generate upwards of US\$200m in milestone payments, should various performance conditions be met.

Exhibit 2 presents a snapshot of the combined entity's development pipeline. We understand that, following the merger, the initial focus for the group will be on Midatech's MTX110 (to be renamed BDY110) currently being evaluated in aggressive brain cancer such as glioblastoma (GBM) and diffuse intrinsic pontine glioma (DIPG) and Bioasis's CRES-101 (to be renamed BDY101) for optical neuritis associated with MS.

Exhibit 2: Midatech + Bioasis (Biodexa)'s clinical pipeline

	Product	Preclinical	Phase I	Phase II	Upcoming Catalysts	
	MTX110 (to be renamed BDY110) Panobinostat	DIPG (Diffuse Intrinsic Pontine Glioma)				Initial Focus
		Glioblastoma			<ul style="list-style-type: none"> • H1 2023 Phase II IND filing • H1 2023 First Patient First Visit • H2 2023 Cohort A data 	
	CRES101¹ (to be renamed BDY101) EGF1-48	Optic Neuritis				Initial Focus
					<ul style="list-style-type: none"> • Q1 2023 Commence manufacture • Q1 – Q4 2023 Multiple preclinical data presentations and publications 	
	CRES102¹ (to be renamed BDY102) EGF1-48	Guillain-Barre				
	CRES103 (to be renamed BDY103) EGF1-48	CIDP ²				
	XB3-008 (to be renamed BDY108) xB ³ Iduronate 2-Sulfatase	Hunter's Syndrome				
					<ul style="list-style-type: none"> • Q3, ODD filings 	
					<ul style="list-style-type: none"> • Q2, 2023 preclinical data presentation 	

1. Accelerated pathway to Phase 2 based on completed clinical studies subject to agreement by regulatory authorities.
2. Chronic inflammatory demyelinating polyneuropathy

Source: Bioasis shareholder presentation, December 2022

Fund-raising: To meet pre-specified objectives

Coinciding with the acquisition, Midatech has announced a two-stage equity issue with Armistice Capital to raise a total of US\$10m (c £8.2m) in gross proceeds. The first stage of the fund-raising has now been completed and was executed through the issue of an additional c 9.9m Midatech shares for 3.3p per share (equivalent to 394k American Depository Shares (ADSs) at US\$1.0 per ADS given the ratio of 25 shares per ADS), raising a total of US\$0.3m (c £0.2m) in net proceeds. Management intends to utilise the net proceeds from the raise, along with part of its existing cash balance (£3.6m), to extend a short-term bridge loan of US\$0.75m (c £0.61m) to Bioasis (across three tranches of US\$0.25m each on 19 December 2022, 3 January 2023 and 6 February 2023) in order to support its immediate working capital needs. The loan will attract an interest rate of 2% per month and will be repayable by 30 June 2023.

The second fund-raising targets raising gross proceeds of US\$9.6m through a private placement against the issue of c 14.6m ordinary shares (equivalent to 584k ADSs) at US\$1.0/ADS and c 9.0m pre-funded warrants (to purchase a similar number of ADSs) at US\$0.999/pre-funded warrant, which can then be exercised at a nominal price of US\$0.001/unit. Additionally, Armistice Capital will be awarded A and B warrants (10m each) to purchase a similar number of ADSs on execution. The A and B warrants will have an expiration period of one and six years, respectively and under revised terms can be converted at an exercise price of US\$1.1/unit (previously US\$1.0/unit), potentially generating additional capital for the combined entity. The placing price will be the lower of US\$1.0 per ADS (or US\$0.999 per pre-funded warrant) and the 20-day volume weighted average price (VWAP) on the day before completion of the acquisition, less 10%. We note that if the VWAP is less than US\$0.9, Midatech holds the right to terminate the private placement without penalty. The placement is contingent on completion of the acquisition, shareholder approval of the proposed resolutions along with approval by Bioasis shareholders.

The net proceeds from the private placement (expected to be US\$8.6m or c £7.0m) will be used to pay off part of Bioasis's debt due to Lind Global Macro Fund (raised in June 2021) and to support

the operations of the combined business. Management anticipates an operational cash runway into Q423 if the acquisition and funding materialise. We estimate that Midatech will be obligated to make a cash payment of C\$2.4m to Lind on behalf of Bioasis, which includes 50% of the outstanding principal and 100% of the accrued pre-paid interest from the initial loan. The remaining 50% of the principal amount will be settled by Midatech issuing 20.6m shares to Lind. In addition, Midatech will issue c 27.9m shares to Ladenburg Thalmann & Co against US\$2m owed by Bioasis for the investment banking agreement. In all, Midatech estimates pro forma shares outstanding of 247.3m for the combined entity following completion of the acquisition on a non-diluted basis and 909.6m on a fully diluted basis.

Deal terms: An all-stock acquisition

The acquisition of Bioasis will be implemented through a statutory plan of arrangement (as per the laws of the Province of British Columbia, Canada), which is subject to approval by the court and both companies' shareholders, along with successful completion of the private placement to raise US\$10m in gross proceeds. Under the terms of the agreement, Midatech will acquire the total outstanding (and yet-to-be issued) share capital of Bioasis Technologies, for a nominal purchase consideration of C\$7.4m (c £4.4m) as on the acquisition date (at 5.8p/share), based on a share exchange ratio of 0.9556 Midatech share for each Bioasis share. Midatech will issue a total of c 75.9m shares (77% of the currently issued shares) of 0.1p each as acquisition consideration. We highlight that the total consideration is subject to variability depending on share price movements.

Midatech initially intended to delist from the AIM unit of the London Stock Exchange post acquisition (expected in Q123), due to the purported higher trading liquidity on the Nasdaq and to save on the costs associated with managing a dual listing. However, following feedback received from shareholders, management has now revoked its decision and plans to maintain a dual listing on both AIM and Nasdaq. The newly listed shares/ADSs of the combined entity will commence trading under the name Biodexa (BDRX) following the completion of the acquisition. The likely post-acquisition shareholding (assuming completion of the private placement at US\$1.0/ADS) structure is presented in Exhibit 3 below.

	Basic shareholding	Fully diluted shareholding
Existing Midatech shareholders	39.8%	13.1%
Midatech direct share offering to Armistice Capital	4.0%	1.1%
New private placement (Armistice Capital)	5.9%	56.6%
Existing Bioasis shareholders	30.7%	11.6%
Lind Global Macro Fund	8.3%	6.8%
Ladenburg Thalmann & Co	11.3%	10.2%
Cresence Founders	-	0.6%
Total	100.0%	100.0%

Source: Midatech offer document, dated 13 December 2022

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