

# NetScientific

Steady as she goes

Financial update

Pharma & biotech

NetScientific recently announced half-year results for 2018, with incremental progress continuing to be made, although we are yet to see that progress in reported revenues. In May 2018, Wanda, which focuses on digital health, and its partner Health Resource Solutions (HRS), achieved a 46% reduction in hospital readmissions in a high-risk congestive heart failure (CHF) population. In addition, in August ProAxis announced a CE Mark for a fourth product, the ProteaseTag Active Proteinase 3 immunoassay, which was accompanied by a commercial sale to a large US biotechnology company.

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
12/18e	0.4	(11.1)	(8.5)	0.0	N/A	N/A
12/19e	2.3	(13.4)	(12.3)	0.0	N/A	N/A

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

## Wanda reduces readmissions

In conjunction with partner HRS, use of Wanda's clinical decision support software helped reduce the number of hospital readmissions in a high-risk CHF patient population by 46%. Through continuous monitoring and assessment of patient status, Wanda's technology allowed for the detection of adverse events up to seven days in advance.

## Fourth CE Mark for ProAxis

Recently, ProAxis announced that it had received a CE Mark for its ProteaseTag Active Proteinase 3 immunoassay, which was accompanied by a commercial sale to a large US biotechnology company. The company also announced in September that two of its assays had been selected for inclusion in the BRIDGE study, which will investigate 1,000 patients suffering from bronchiectasis over three years.

## Catalysts potentially coming in H218

The company is anticipating several continued developments for its investments in H218. Glycotest is expected to close on a \$10m Series A fund-raising to help bring its liver cancer panel closer to market. ProAxis is expected to initiate the development of a number of new immunoassays and continue its commercial momentum. Finally, Wanda is looking to expand its partnership with HRS and to add additional commercial deals.

## Valuation: £50.6m or 64p per share

We have reduced our valuation of NetScientific to £50.6m or 64p per share from £67.9m or 86p per share. This is mainly due to a more conservative view of the revenue ramp for ProAxis, Vortex, Wanda and Glycotest (although peak sales remain the same), as reported revenues were trending lower than anticipated, as well as a lower cash balance. This was partly mitigated by rolling forward our NPVs.

19 October 2018

**Price** **26.90p**

**Market cap** **£21m**

US\$1.40/£

Net cash (£m) at 30 June 2018 7.1

Shares in issue 78.6m

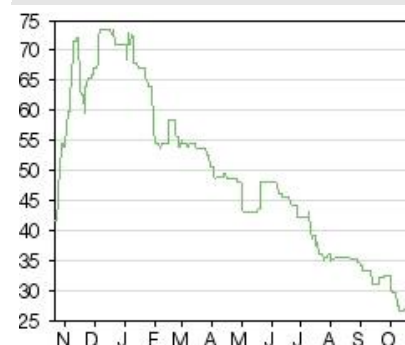
Free float 20.2%

Code NSCI

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (13.2) (29.2) (37.4)

Rel (local) (9.3) (22.6) (33.0)

52-week high/low 73.5p 26.6p

### 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

Glycotest Series A H218

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## Progress at Wanda and ProAxis

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In May 2018, Wanda and its partner HRS announced that they achieved a 46% reduction in hospital readmissions in a high-risk CHF population. As a reminder, Wanda is a digital health company that has developed a software platform for the management of patients with chronic disease. The Wanda application is a [recently patented](#), integrated solution to improve patient monitoring and provide behavioural modification and ultimately reduce hospitalisations. The company has developed applications to monitor patients for CHF and chronic obstructive pulmonary disease (COPD).

The Wanda application collects data from remote monitoring systems and patient self-assessments on mobile devices to monitor disease progression, and uses the company's proprietary analytics to predict disease risk. The information gathered is automatically leveraged by the application to provide behavioural modifications to the patient, as well as to inform the patient's physician care team, should intervention be necessary. The ultimate goal of the application is to reduce the number of hospitalisations by providing more timely feedback based on the patient's status.

The Wanda platform is versatile and, hypothetically, can be employed to monitor a wide variety of chronic diseases. The first module developed for the platform was for the monitoring of patients with CHF. The software integrates the patient's medical record information with regular blood pressure and weight measurements gathered wirelessly from Bluetooth-enabled devices, as well as self-reported symptom assessments. The system was previously tested utilising a 1,500-person trial performed at UCLA. Wanda has developed a module for the prediction of complications associated with COPD, which comes bundled with the CHF module because of the comorbidity of these two diseases.

Also, ProAxis announced that it had received a CE mark for its ProteaseTag Active Proteinase 3 immunoassay, which was accompanied by a commercial sale to a large US biotechnology company. As a reminder, ProAxis was founded in 2013 as a medical diagnostic spinout of Queen's University Belfast in Northern Ireland. ProAxis has developed proprietary molecules, called Protease-Tags, which selectively bind to active proteases and can be used in a range of diagnostic and disease monitoring tools.

Active proteases ('molecular scissors') play a key role in many physiological processes and are considered important therapeutic targets, as well as being biomarkers of many diseases. They may be unregulated in diseases including cancer, heart disease, stroke, Alzheimer's disease, rheumatoid arthritis, multiple sclerosis, cystic fibrosis (CF) and COPD. Current assay systems for proteases utilise chromogenic or fluorogenic substrates, are often complex and may not be sufficiently specific to detect the active form of the enzyme. ProAxis has developed novel and patented Protease-Tags to irreversibly inhibit/trap active proteases. Because they are designed to form a bridge to a solid support via covalent binding, they can be combined with established diagnostic technology platforms such as ELISA, lateral flow or multi-analyte biochips.

The company has also developed a point-of-care test called NEATstik (neutrophil elastase airways test) for routine monitoring of neutrophil elastase (NE). NE is involved in chronic respiratory diseases such as CF and COPD and is an established biomarker of infection and inflammation. NEATstik received a CE mark in September 2017 and is the first-to-market point-of-care NE test in the EU.

## Valuation

We have adjusted our valuation of NetScientific to £50.6m or 64p per share from £67.9m or 86p per share. This is mainly due to a more conservative view of the revenue ramp for ProAxis, Vortex, Wanda and Glycotest (although peak sales remain the same), as reported revenues were trending lower than anticipated, as well as a lower cash balance. We have also made some updates to the ownership stakes. Importantly, we adjusted Glycotest from 87.5% to 67% and Vortex from 95% to 66.1%, which are the fully diluted ownership percentages. This was partly mitigated by rolling forward our NPVs. We expect to update our valuation with the closure of financings for the individual companies. Glycotest, for example, is aiming to close a Series A in H218.

**Exhibit 1: Valuation of NetScientific**

Portfolio company	Prob. of success	Profitability	Peak sales (£m)	Margin	rNPV (£m)	Ownership	Share Value (£m)
Vortex	15.0%	2022	138	42%	12.1	66.1%	8.0
Wanda	7.5%	2020	326	51%	19.8	61.8%	12.3
Proaxis	15.0%	2020	47	50%	15.6	54.0%	8.4
Glycotest	20.0%	2021	113	50%	15.4	66.7%	10.3
PDS	10.0%	2022	270	56%	35.1	13.1%	4.6
Total							43.5
Net cash and equivalents (H118) (£m)							7.1
Total firm value (£m)							50.6
Total shares (m)							78.6
Value per share (p)							64

Source: NetScientific reports, Edison Investment Research

## Financials

NetScientific 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 expense fell 22.3% to £2.3m compared to the same period a year ago, but was up 1.2% sequentially. Loss from operations was £4.6m, down 24.8% compared to H117. We are lowering our 2018 revenue forecasts to £0.4m from £1.9m and our 2019 revenue forecasts to £2.3m from £4.1m, as we take a more conservative view of the revenue ramp for some of the portfolio companies and the revenue run rate is somewhat lower than we would have expected. In addition, we have lowered our 2018 R&D estimate by £2.3m, but have left our 2019 estimate unchanged. We believe an acceleration of SG&A spending will be necessary to drive revenue growth, so we have increased our 2019 SG&A expectations by £2.6m

Cash as of 30 June was £7.1m, and we estimate that the company will need to raise additional funds in the next six months. We record a financing shortfall as £5.8m in illustrative debt in 2018, which could be reduced by successful Series A financings. We also currently estimate the need to raise an additional £10m in 2019 and £5m in 2020 (up from £5m in each year).

**Exhibit 2: Financial summary**

	£'000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		518	386	377	2,295
Cost of Sales		(255)	(245)	(188)	(653)
Gross Profit		263	141	188	1,642
Research and development		(7,443)	(5,177)	(4,924)	(5,114)
Selling, general & administrative		(5,001)	(5,281)	(5,570)	(8,301)
EBITDA		(12,570)	(10,814)	(11,347)	(12,019)
Operating Profit (before amort. and except.)		(12,429)	(10,593)	(11,101)	(11,773)
Intangible Amortisation		0	0	0	0
Exceptionals/Other		(666)	0	0	0
Operating Profit		(13,095)	(10,593)	(11,101)	(11,773)
Net Interest		86	1,058	29	(1,586)
Other (change in fair value of warrants)		(49)	(45)	0	0
Profit Before Tax (norm)		(12,343)	(9,535)	(11,072)	(13,359)
Profit Before Tax (IFRS)		(13,058)	(9,580)	(11,072)	(13,359)
Tax		(18)	202	22	281
Deferred tax		0	0	0	0
Profit After Tax (norm)		(12,361)	(9,333)	(11,050)	(13,079)
Profit After Tax (IFRS)		(13,076)	(9,378)	(11,050)	(13,079)
Minority interest		1,881	1,060	4,647	3,393
Profit After Tax after minority interest (FRS 3)		(11,195)	(8,318)	(6,403)	(9,686)
Average Number of Shares Outstanding (m)		51.1	61.0	75.8	78.6
EPS - normalised (p)		(20.6)	(13.6)	(8.5)	(12.3)
EPS - IFRS (p)		(21.9)	(13.6)	(8.5)	(12.3)
Dividend per share (p)		0	0	0	0
<b>BALANCE SHEET</b>					
Fixed Assets		4,054	3,805	7,734	9,867
Intangible Assets		0	0	0	0
Tangible Assets		779	891	1,058	1,211
Other		3,275	2,914	6,676	8,656
Current Assets		11,034	7,968	7,064	3,801
Stocks		0	86	331	287
Debtors		1,578	1,014	1,057	229
Cash		9,456	6,868	5,676	3,285
Other		0	0	0	0
Current Liabilities		(2,172)	(905)	(1,112)	(2,646)
Creditors		(2,044)	(777)	(978)	(2,512)
Short term borrowings		(128)	(128)	(134)	(134)
Long Term Liabilities		(80)	(70)	(5,864)	(15,864)
Long term borrowings		(80)	(70)	(5,864)	(15,864)
Other long term liabilities		0	0	0	0
Net Assets		12,836	10,798	7,822	(4,842)
Minority Interest		(3,875)	(4,573)	(9,220)	(12,613)
Shareholder Equity		8,961	6,225	(1,398)	(17,455)
<b>CASH FLOW</b>					
Operating Cash Flow		(12,939)	(10,479)	(11,251)	(8,706)
Net Interest		43	(11)	(13)	(1,586)
Tax		112	(131)	24	281
Capex		(457)	(399)	(399)	(399)
Acquisitions/disposals		(1,261)	1,310	0	(1,980)
Financing		0	8,083	5,000	0
Dividends		0	0	0	0
Other		66	(574)	0	0
Net Cash Flow		(14,436)	(2,201)	(6,639)	(12,391)
Opening net debt/(cash)		(23,189)	(9,248)	(6,670)	322
HP finance leases initiated		0	0	0	0
Exchange rate movements		(603)	387	0	0
Other		1,098	(764)	(353)	0
Closing net debt/(cash)		(9,248)	(6,670)	322	12,714

Source: NetScientific reports, Edison Investment Research

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