

Oxford Biomedica

Novartis extends commercial supply agreement

Oxford Biomedica (OXB) has announced the expansion of its commercial supply agreement with Novartis by five years. While expected, this removes any uncertainty around the future of the partnership and is a validation of OXB's investment in new manufacturing facilities. Novartis is now committed to paying OXB a minimum of \$75m (for vector batches) in manufacturing revenue over the five-year extension. Additionally, OXB will be paid a mid-single digit £m facility reservation fee. As part of this, OXB will dedicate some of its new 7,800m² manufacturing facility (OxBox) to Novartis while also ensuring that at least two of its GMP facilities are capable of commercial supply, essentially ensuring a dual-sourced supply if the need arose. We value OXB at £692m vs £673m previously.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	37.6	(13.1)	(16.7)	0.0	N/A	N/A
12/18	66.8	0.3	4.3	0.0	147.0	N/A
12/19e	76.9	(7.9)	(7.3)	0.0	N/A	N/A
12/20e	89.8	2.9	7.4	0.0	85.4	N/A

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

Novartis committed to CAR-T as programmes expand

OXB has announced that it is now working on five different lentiviral vectors for use in Novartis's CAR-T products. While the targets are undisclosed by OXB, we assume (based on Novartis's recent R&D day) that these are focused on CD19, BCMA, CD22, IL3RA and EGFRvIII. We note that the \$75m minimum revenue announced in the expanded commercial partnership is for vector batches only. As a result, OXB will benefit separately from development revenue for these new assets, which could provide substantial upside to our current assumptions. Kymriah sales have initially been below market expectations (due to a deepening competitive landscape and US manufacturing/specification issues). However, sales continue to demonstrate strong quarter-on-quarter growth (Q319: \$79m vs Q219: \$58m). Kymriah is now approved for reimbursement in over 20 countries, with more than 160 qualified centres able to offer the treatment, and we expect OXB to benefit from increasing royalty and manufacturing revenue.

Expanded partnership validates OxBox investment

OXB's new OxBox facility will more than double capacity and is expected to be ready for commercial vector production in H120. The announcement on the extension of the Novartis commercial supply agreement reinforces the need to continue investing in the growth of OXB. As vector manufacturing capacity continues to be constrained globally, companies like OXB are in a strong position to drive value for their platform. Additionally, OXB's expertise in lentiviral development means it continues to remain extremely attractive to future and existing partners.

Valuation: £692m vs £673m previously

We value OXB at £692m (£9.02/share) vs £673m (£8.77/share) previously. We assume a \$7m (c £5.2m) reservation fee will be spread across the five-year contract with no financial impact until 2021. We have also rolled forward our model.

Corporate update

Pharma & biotech

19 December 2019

Price 632p

Market cap £486m

\$:£0.8; €:£0.88; \$:€0.91

Net cash (£m) at 30 June 2019 26.1
(excluding £11.5m Axovant milestone)

Shares in issue 76.8m

Free float 69%

Code OXB

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 13.9 19.3 (9.8)

Rel (local) 9.8 14.7 (21.1)

52-week high/low 771.0p 496.5p

Business description

Oxford Biomedica's (OXB) LentiVector technology underpins the company's strategy. OXB generates significant revenue from partners that use its technology, notably Novartis, Bioverativ (Sanofi), Orchard Therapeutics and Immune Design. OXB is implementing significant capacity upgrades to enable more partnering/out-licensing agreements.

Next events

New out-licence or partnership H120

AXO-Lenti-PD cohort 2 data H120

OTL-101 BLA/MAA submission 2020

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Exhibit 1: Financial summary
Accounts: IFRS, year-end: December, £000s

	2016	2017	2018	2019e	2020e
INCOME STATEMENT					
Total revenues	27,776	37,590	66,778	76,907	89,799
Cost of sales	(11,835)	(18,442)	(22,763)	(24,240)	(26,807)
Gross profit	15,941	19,148	44,015	52,667	62,991
Administrative expenses	(5,957)	(7,276)	(7,433)	(10,035)	(13,547)
R&D and bioprocessing costs	(24,299)	(21,611)	(29,714)	(44,264)	(46,532)
Other income/(expense)	3,002	1,774	1,064	0	0
Exceptionals and adjustments	0	2,297	5,983	(1,411)	0
Operating profit/(loss)	(11,313)	(5,668)	13,915	(3,043)	2,913
Finance income/(expense)	(8,994)	(6,093)	(8,901)	(6,238)	6
Reported PBT	(20,307)	(11,761)	5,014	(9,280)	2,919
Income tax expense (includes exceptionals)	3,666	2,744	2,527	2,653	2,786
Reported net income	(16,641)	(9,017)	7,541	(6,627)	5,705
Basic average number of shares, m	56	62	65	71	77
Basic EPS (p)	(29.9)	(14.6)	11.6	(9.3)	7.4
Adjusted EBITDA	(6,773)	(2,645)	13,535	5,333	10,868
Adjusted EBIT	(10,448)	(7,020)	9,178	(1,632)	2,913
Adjusted PBT	(19,442)	(13,113)	277	(7,869)	2,919
Adjusted EPS (p)	(28.4)	(16.7)	4.3	(7.3)	7.4
BALANCE SHEET					
Property, plant and equipment	27,514	25,370	31,791	51,119	58,422
Intangible assets	1,330	97	117	113	109
Other non-current assets	657	2,954	10,966	0	0
Total non-current assets	29,501	28,421	42,874	51,232	58,532
Cash and equivalents	15,335	14,329	32,244	8,532	1,256
Inventories	2,202	3,332	4,251	4,527	5,006
Trade and other receivables	6,904	17,088	30,585	37,927	44,284
Other current assets	3,000	2,232	2,446	13,619	13,752
Total current assets	27,441	36,981	69,526	64,605	64,298
Non-current loans and borrowings	34,389	36,864	41,153	0	0
Contract liabilities and deferred income	0	0	6,434	6,434	6,434
Other non-current liabilities	622	630	1,566	9,735	9,735
Total non-current liabilities	35,011	37,494	49,153	16,169	16,169
Trade and other payables	6,003	8,690	11,422	12,163	13,451
Contract liabilities and deferred income	3,313	13,072	17,084	17,084	17,084
Total current liabilities	9,316	21,762	28,506	29,247	30,535
Equity attributable to company	12,615	6,146	34,741	70,420	76,125
CASH FLOW STATEMENT					
Operating profit/(loss)	(11,313)	(5,668)	13,915	(3,043)	2,913
Depreciation and amortisation	3,675	4,375	4,357	6,964	7,955
Share based payments	865	945	1,246	0	0
Other adjustments	(579)	(1,326)	(8,012)	0	0
Movements in working capital	1,423	141	(2,292)	(6,876)	(5,549)
Income taxes paid	4,081	4,512	3,654	2,446	2,653
Cash from operations (CFO)	(1,848)	2,979	12,868	(509)	7,973
Capex	(6,458)	(1,969)	(10,148)	(26,288)	(15,255)
Other investing activities	47	38	52	43	6
Cash used in investing activities (CFIA)	(6,411)	(1,931)	(10,096)	(26,245)	(15,249)
Net proceeds from issue of shares	17,497	385	19,808	50,475	0
Movements in debt	0	8,361	0	(41,153)	0
Interest paid	(3,258)	(10,800)	(4,665)	(6,280)	0
Other financing activities	0	0	0	0	0
Cash from financing activities (CFF)	14,239	(2,054)	15,143	3,042	0
Increase/(decrease) in cash and equivalents	5,980	(1,006)	17,915	(23,712)	(7,276)
Currency translation differences and other	0	0	0	0	0
Cash and equivalents at beginning of period	9,355	15,335	14,329	32,244	8,532
Cash and equivalents at end of period	15,335	14,329	32,244	8,532	1,256
Net (debt)/cash	(19,054)	(22,535)	(8,909)	8,532	1,256

Source: Oxford Biomedica accounts, Edison Investment Research

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