

# Abzena

ThioBridge deal

## Another licence agreement that validates model

Pharma & biotech

Abzena has announced another licensing deal for its proprietary site-specific ThioBridge antibody drug conjugate (ADC) linker technology. This time it is with a Taiwanese biopharmaceutical company (OBI Pharma). The agreement enables the development of OBI Pharma's proprietary ADC, OBI-999. The deal also allows OBI to develop further ADCs as potential treatments for cancer and includes a master services and clinical supply agreement. This again provides important validation of Abzena's ADC technology and hybrid business model. Our rNPV valuation increases slightly to £134m (vs £132m) following inclusion of one ADC being developed through this deal and we note there is potential for more.

11 July 2017

**Price** **47.00p**

**Market cap** **£100m**

US\$1.24/£

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

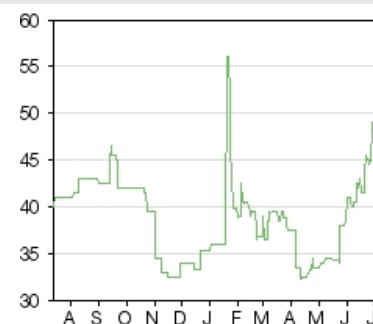
Primary exchange AIM

Secondary exchange N/A

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)	(4.52)	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.

### Share price performance



% 1m 3m 12m

Abs 16.1 40.3 17.5

Rel (local) 18.5 39.8 3.6

52-week high/low 56.0p 32.2p

### 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 *inside* products into the clinic 2017

Phase III andecaliximab (formerly GS-5745) futility analysis in gastric cancer H217

Interim results Q417

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## Another ThioBridge licensing deal

Abzena has announced a licensing deal with OBI Pharma, a Taiwanese biopharmaceutical company for its novel site-specific ThioBridge technology, which links antibodies/proteins to cytotoxic agents. Alongside this, both parties have also entered into a master services and clinical supply agreement for Abzena to provide further manufacturing process development and GMP manufacture of OBI-999 and other ADCs as they are developed. According to the company, the value of the agreement has the potential to reach up to £128m in development/commercial milestones if the partner successfully develops the ADC products. In addition, Abzena would also receive royalties on sales of any approved products that incorporate the ThioBridge technology.

## Continued validation of the business model

This is the third ADC deal announced and in a similar vein to the last deal in early 2017 with the addition of a service agreement. This is another positive step and continues to provide validation of Abzena's hybrid business model – to leverage a broader service, while maintaining potential upside through Abzena *inside*.

## Valuation: Slight increase to £134m, 63p per share

We have increased our valuation slightly to £134m (from £132m) or 63p per share (vs 62p). This is due to the inclusion of a potential ADC product (OBI-999) resulting from this ThioBridge agreement. We include it based on the following assumptions: royalty rate 2.5%; peak sales £1bn; Phase I start 2018 (Phase I IND preparations underway); and developmental milestones c 40% of the possible aggregate value of £128m. We note there is potential for further ADCs to be developed. We believe Abzena is well positioned to grow its integrated service offering following its recent fund-raising (£23.9m net), which should move Abzena's service business to profitability over the next three years. For details please see [here](#).

**Exhibit 1: Financial summary**

	£000s	2015	2016	2017	2018e	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		5,667	9,854	18,654	29,667	41,140	55,443
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	4,377
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	29,910
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	6,345
Operating profit (before GW and except)		(4,795)	(7,618)	(8,607)	(10,093)	(2,650)	3,523
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)	2,568
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)	3,549
Profit before tax (reported)		(5,220)	(10,659)	(9,465)	(11,150)	(3,605)	2,595
Tax		498	961	347	431	384	486
Profit after tax (norm)		(4,218)	(6,413)	(7,983)	(9,653)	(2,214)	4,035
Profit after tax (reported)		(4,722)	(9,698)	(9,118)	(10,719)	(3,221)	3,081
Average number of shares outstanding (m)		71.6	109.4	137.2	213.6	213.6	213.6
EPS - normalised (p)		(5.89)	(5.86)	(5.82)	(4.52)	(1.04)	1.89
EPS - reported (p)		(6.59)	(8.86)	(6.65)	(5.02)	(1.51)	1.44
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>							
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	19,636
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	12,778
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	50,175
<b>CASH FLOW</b>							
Operating cash flow		(4,938)	(11,330)	(8,100)	(7,429)	(137)	6,106
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)	4,796
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)	(12,778)

Source: Abzena, Edison Investment Research

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