

# ReNeuron Group

Long-awaited partnering floodgates open

Deal announcement

Pharma & biotech

11 April 2019

**Price** **216p**

**Market cap** **£68m**

£/\$1.31

Estimated net cash (£m) at end-FY19 25.7

Shares in issue 31.6m

Free float 100%

Code RENE

Primary exchange LSE AIM

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 168.3 332.0 163.4

Rel (local) 157.9 305.3 159.6

52-week high/low 222.0p 47.5p

## Business description

ReNeuron is a UK biotech company developing allogeneic cell therapies. The first pivotal Phase IIb trial for CTX neural stem cells for chronic stroke disability is underway. Human retinal progenitor cells (hRPCs) are also being studied for RP (in Phase I/IIa).

## Next events

Full-year results June 2019

Phase I/IIa hRPC additional data H119

Phase I/IIa hRPC study readout H119

Chronic stroke readout Early 2020

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Following-on from ReNeuron's recent striking early-stage data release for its human retinal progenitor cell (hRPC) product in retinitis pigmentosa (RP), and the ongoing partnering interest in cellular therapies, ReNeuron has partnered its two lead products – hRPC and the CTX cell line – for the Chinese market with Fosun Pharma. We have updated our model to reflect the near-term part of the £80m in potential total upfront payments and milestones.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	0.9	(18.2)	(0.49)**	0.0	N/A	N/A
03/18	0.9	(21.0)	(55.66)	0.0	N/A	N/A
03/19e	0.0	(16.1)	(36.45)	0.0	N/A	N/A
03/20e	0.0	(19.3)	(45.89)	0.0	N/A	N/A

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

## Open season on cellular therapies

After the acquisition of two US chimeric antigen receptor T-cell (CAR-T) companies, Kite and Juno, in 2017 for \$12bn and \$8bn, respectively, cellular therapies have become a rich source of licensing and acquisition transactions. With two products in two clinical studies and an exosome platform, it was probably only a matter of time before ReNeuron announced its first deal of 2019. While ReNeuron's first transaction covers two products for the Chinese market, the rest of the world remains available and it is unlikely that this will be the last such transaction it announces. Our model anticipates a further £10m transaction before year end 2020.

## Fosun licenses ReNeuron's lead products for China

In a well-received press release, ReNeuron announced the licence of its two lead products – the CTX and hRPC cell therapy programmes for chronic stroke and degenerative retinal diseases, respectively – to Shanghai and Hong Kong-listed Shanghai Fosun Pharmaceutical Industrial for the Chinese market. The transaction includes a £6m upfront payment, an additional £6m in near-term operational milestones and a further £8m in future regulatory milestone payments that together with post-launch profit milestones, could be worth up to £80m in total. The deal also includes tiered royalties of between 12% and 14% of Chinese sales and Fosun is fully funding the development and commercialisation of ReNeuron's products in China.

## Valuation: Updated for the Fosun transaction

Our previous model did not include Chinese sales for ReNeuron's CTX or hRPC products, so we have added these with some conservative assumptions for penetration and pricing in China, and have used the epidemiology from Japan. In our model we have approximated the announced milestone flow up to launch in China as other income, but left the probabilities of success for both CTX and hRPC unchanged at 25% and 20%, respectively. Our valuation moves from £192m or 608p per share, to £199m or 630p per share.

**Exhibit 1: Financial summary**

	£'000s	2017	2018	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		900	897	43	43
Cost of Sales		0	0	0	0
Gross Profit		900	897	43	43
R&D expenses		(16,648)	(16,657)	(22,656)	(23,788)
SG&A expenses		(4,139)	(4,616)	(5,078)	(5,585)
EBITDA		(19,814)	(20,222)	(17,637)	(19,258)
Operating Profit (before amort. and except.)*		(19,887)	(20,376)	(17,782)	(19,431)
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Operating Profit		(19,887)	(20,376)	(17,782)	(19,431)
Other		0	0	0	0
Net Interest		1,722	(591)	1,693	128
Profit Before Tax (norm)		(18,165)	(20,967)	(16,089)	(19,302)
Profit Before Tax (FRS 3)		(18,165)	(20,967)	(16,089)	(19,302)
Tax		2,592	3,352	4,554	4,781
Profit After Tax (norm)		(15,573)	(17,615)	(11,535)	(14,521)
Profit After Tax (FRS 3)		(15,573)	(17,615)	(11,535)	(14,521)
Average Number of Shares Outstanding (m)		3,164.6	31.6	31.6	31.6
EPS - normalised (p)		(0.49)	(55.66)	(36.45)	(45.89)
EPS - FRS 3 (p)		(0.49)	(55.66)	(36.45)	(45.89)
Dividend per share (p)		0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>					
Fixed Assets		724	912	1,050	1,215
Intangible Assets		0	186	186	186
Tangible Assets		724	726	864	1,029
Other		0	0	0	0
Current Assets		58,136	41,706	31,504	27,968
Stocks		0	0	0	0
Debtors		1,060	1,285	1,285	1,285
Cash		53,061	37,411	25,665	21,902
Other		4,015	3,010	4,554	4,781
Current Liabilities		(5,703)	(5,949)	(5,949)	(5,949)
Creditors		(5,703)	(5,949)	(5,949)	(5,949)
Short term borrowings		0	0	0	0
Short term leases		0	0	0	0
Other		0	0	0	0
Long Term Liabilities		0	0	0	(10,000)
Long term borrowings		0	0	0	(10,000)
Long term leases		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		53,157	36,669	26,605	13,235
<b>CASH FLOW</b>					
Operating Cash Flow		(13,976)	(19,244)	(16,509)	(18,107)
Net Interest		520	383	1,693	128
Tax		1,340	4,357	3,352	4,554
Capex		(532)	(235)	(282)	(338)
Acquisitions/disposals		0	0	0	0
Financing		0	0	0	0
Dividends		0	0	0	0
Other		0	0	0	0
Net Cash Flow		(12,648)	(14,739)	(11,746)	(13,764)
Opening net debt/(cash)		(65,708)	(53,060)	(37,410)	(25,664)
HP finance leases initiated		0	0	0	0
Other		(0)	(911)	0	0
Closing net debt/(cash)		(53,060)	(37,410)	(25,664)	(11,901)

Source: ReNeuron Group, Edison Investment Research. Note: \*Includes Fosun upfront milestone.

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