

Touchstone Innovations

Interim results

Strong deal flow highlights maturing portfolio

Pharma & biotech

4 April 2017

Price **332.63p**
Market cap **£536m**

Net cash and equivalents (£m) at 31 January 2017, not including £50m EIB drawdown

Shares in issue 161.2m

Free float 8.2%

Code IVO

Primary exchange AIM

Secondary exchange N/A

Touchstone Innovations' (IVO) portfolio continues to grow – net portfolio value rose by £47.7m to £382.8m, mainly driven by investments of £29.0m across 18 companies (vs £27.5m in 17 companies in H116) and a fair value gain of £26.5m (mainly from a £21.9m uplift in the value of PsiOxus). Four new additions to the portfolio across both tech and healthcare, and the advancement of projects in both the UCL technology fund and Apollo Therapeutics, continue to strengthen the early-stage pipeline. We anticipate major deal activity to drive further value in the next 12 months.

Year end	Net portfolio value* (£m)	Cash** (£m)	Net fair value gain (£m)	Net asset value (£m)	NAV/share (p)	DPS (p)
07/15	327.2	128.1	21.3	420.1	306	0.0
07/16	335.1	148.3	(56.2)	455.9	283	0.0
07/17e	436.2	116.3	30.0	472.3	293	0.0
07/18e	537.4	26.4	30.0	491.5	305	0.0

Note: *Net value, excludes provisions. **Cash, cash equivalents and short-term investments.

PsiOxus takes the driving seat

Following the uplift in carrying value of PsiOxus Therapeutics to £44.5m (as a result of its \$936m [\$50m upfront] deal with Bristol Myers Squibb [BMS]), it is now the largest single constituent of IVO's portfolio and represents a significant 325% uplift on the £13.7m (26.5% of issued share capital) invested to date. Along with Nexeon (invested £27.4m, carrying value £41.9m) and Veryan Medical (invested £22.1m, carrying value £29.3m), the top three companies represent 30.2% of total portfolio value (60.9% of the total portfolio value is in the top 10 companies).

Post-period portfolio news to lift valuations

March 2017 newsflow should further lift fair valuations. IVO more than doubled its investment in Cell Medica with £13.7m into the recent £60m Series C round; committed £3m to Pulmocide's £25m Series B; and its £3.85m commitment to Garrison's £12m funding round will crystallise a c £3m net fair value gain.

Circassia's [strategic respiratory collaboration](#) with AstraZeneca boosted its carrying value by c £4m compared to end-H117 (£23.6m vs £27.8m as of 04th April).

Financials: H117

A pre-tax profit in H117 of £16.0m (H116: loss of £5.9m) was driven by gains in the quoted (£3.4m gain) and unquoted portfolio (£23.1m). Gains in quoted were mainly driven by the sale of Oxford Immunotec (£11.3m in total, £3.8m attributable to H1), while the unquoted was driven by the £21.9m fair value gain of PsiOxus. These were partially offset by a fair value loss of £8.4m, mainly driven by the £6.2m write-down of Kesios Therapeutics after the failure of its underlying technology. Cash at 31 January stood at £113.3m (not including drawdown of the £50.0m EIB loan).

Valuation: Maturing pipeline yet to be reflected

IVO's shares trade at a c 12.5% premium to our estimated FY17e NAV of 293p/share (at 1 April 2016). We believe this is a modest premium based on the growing maturity of the portfolio and we see near-term potential for uplifts in value.

Share price performance



% 1m 3m 12m

Abs 13.2 (1.3) (12.2)

Rel (local) 14.2 (3.3) (25.3)

52-week high/low 467.9p 280.0p

Business description

Touchstone Innovations (formerly Imperial Innovations) is a technology transfer, incubation and venture investment company. It invests in ventures from Imperial College London, Cambridge and Oxford universities and UCL. Over 99% of its portfolio value is in its 45 accelerated growth companies.

Next events

Cell Medica: Phase II Citadel data H117

Circassia: Phase IIb house dust mite H117

Nexeon: move to pre-production quantities 2017

PsiOxus: Phase I data (SPICE and OCTAVE) 2017

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Touchstone Innovations is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'000s	2014	2015	2016	2017e	2018e
Year end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		3,636	5,099	4,257	4,359	4,463
Cost of sales		(1,005)	(1,769)	(1,395)	(1,396)	(1,438)
Gross profit		2,631	3,330	2,862	2,963	3,025
EBITDA		(8,385)	(8,223)	(9,758)	(10,289)	(10,890)
Operating profit (before GW and except.)		(8,418)	(8,237)	(9,772)	(10,303)	(10,904)
Fair value gains/losses		40,549	21,324	(56,249)	30,000	30,000
Impairments		0	0	0	0	0
Share-based payment		(4,821)	1,161	2,972	(3,000)	(3,000)
Operating profit		27,310	14,248	(63,049)	16,697	16,096
Net interest		106	817	(64)	(680)	(741)
Profit before tax (norm)		(8,312)	(7,420)	(9,836)	(10,983)	(11,645)
Profit before tax (FRS 3)		27,416	15,065	(63,113)	16,017	15,355
Tax		0	0	0	0	0
Profit after tax (norm)		(8,312)	(7,420)	(9,836)	(10,983)	(11,645)
Profit after tax (FRS 3)		27,416	15,065	(63,113)	16,017	15,355
Average number of shares outstanding (m)		102.4	136.2	146.1	161.2	161.2
EPS - normalised (p)		(8.1)	(5.4)	(6.7)	(6.8)	(7.2)
EPS - reported (p)		26.8	11.1	(43.2)	9.9	9.5
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Fixed assets		258,327	333,936	345,615	440,839	542,038
Tangible assets		26	29	18	1,081	1,092
Intangible assets		0	0	0	0	0
Investment Portfolio		257,105	333,268	345,146	439,094	540,282
UCSF (University Challenge Seed Fund) investments		543	460	163	163	163
UCSF loans		0	0	0	0	0
Other		653	179	288	501	501
Financial asset		0	0	0	0	0
Current assets		177,800	130,506	152,792	120,859	31,067
Cash and cash equivalents		176,462	128,097	148,306	116,266	26,364
Financial asset		0	0	0	0	0
Accounts receivable, net		1,338	2,409	4,486	4,593	4,703
Current liabilities		(4,900)	(5,732)	(7,333)	(7,333)	(7,333)
Trade accounts payable		(4,900)	(4,232)	(4,166)	(4,166)	(4,166)
Short-term borrowings		0	(1,500)	(3,167)	(3,167)	(3,167)
Long-term liabilities		(26,445)	(38,639)	(35,184)	(82,103)	(74,263)
Long-term borrowings		(14,830)	(27,222)	(24,089)	(71,680)	(64,512)
UCSF		(640)	(666)	(477)	(477)	(477)
Provisions		(10,975)	(10,751)	(10,618)	(9,946)	(9,274)
Net assets		404,782	420,071	455,890	472,262	491,509
NAV/share (p)		295	306	283	293	305
CASH FLOW						
Operating cash flow		(6,523)	(9,331)	(10,799)	(10,182)	(10,780)
Net Interest		44	875	(24)	(680)	(741)
Tax		0	0	0	0	0
Capex		(23)	(17)	0	(1,077)	(25)
Purchase of trade investments		(32,826)	(59,957)	(71,046)	(71,117)	(71,188)
Proceeds from sale of trade investments		3,370	7,179	4,979	7,169	0
Revenue share paid on asset realisations in trade investments		0	(989)	0	(3,745)	0
Equity financing		146,823	0	98,599	0	0
Short term liquidity investments		0	0	0	0	0
Net cash flow		110,865	(62,240)	21,709	(79,632)	(82,734)
Opening net debt/(cash)		(50,783)	(161,632)	(99,375)	(121,050)	(41,418)
Other		(16)	(17)	(34)	0	0
Closing net debt/(cash)		(161,632)	(99,375)	(121,050)	(41,418)	41,315

Source: Touchstone Innovations, Edison Investment Research.

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