

e-therapeutics

Setting the stage

e-therapeutics ended its FY19 (year-ending 31 January 2019) on a high, securing its first commercial collaboration with Novo Nordisk in December (see [Update note](#)). Business development and cost control were the focus areas for FY19. The Novo deal in Type 2 diabetes marked a first success on the former, providing important validation for e-therapeutics' proprietary Network-Driven Drug Discovery (NDD) platform. Prudent cost management means end-FY19 cash of £5.9m, coupled with an anticipated £1.1m tax credit, provides a two-year runway on our estimates. The goal is to now capitalise on ongoing, and new, business development discussions covering the full range of e-therapeutics' assets and capabilities, to help progress NDD-derived projects and further exploit the NDD platform. Our valuation is £57.8m (21.9p/share).

Year-end: January 31	2018	2019	2020E	2021E
Sales (£m)	0.0	0.04	0.5	0.0
Adj. PBT (£m)	(6.7)	(5.8)	(3.7)	(4.2)
Net Income (£m)	(5.4)	(4.7)	(2.9)	(3.4)
EPS (p)	(2.0)	(1.5)	(1.1)	(1.3)
Cash (£m)	9.6	5.9	3.4	0.1
EBITDA (£m)	(6.7)	(5.7)	(3.7)	(4.2)

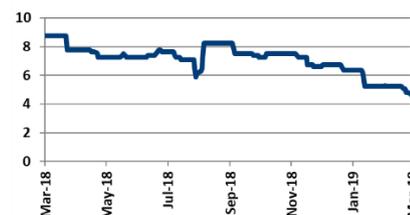
Source: Trinity Delta Note: Adjusted numbers exclude exceptionals

- Many irons in the business development fire** The breadth of e-therapeutics' assets and NDD capabilities means that active business development interactions are ongoing with multiple potential partners. The Novo deal is an exemplar of the application of the NDD platform in the potential discovery of novel biological mechanisms and therapeutic approaches for a specific complex disease area. Further collaborations of this type are sought; other possible transactions under consideration range from cost-sharing deals for internal NDD-derived assets (Tryptophan Catabolism and Immune Checkpoint Modulation) to M&A.
- GAIN-ing new opportunities** Ongoing investment in core technology has generated potentially powerful innovative network-related tools. A prime example is GAINs (Genome-Associated Interaction Networks), which emerged from insights gleaned from work associated with the C4X Discovery Parkinson's disease collaboration. GAINs can interrogate genomic data and link this to an underlying disease mechanism and phenotype - a key challenge in AI approaches to drug discovery. We anticipate e-therapeutics will begin marketing this tool imminently and expect it to be of interest to many large pharma companies.
- Careful cost control continues** FY19 results marked the third year of narrowing half-year losses. FY20 guidance is for a more modest reduction in operating loss. End-January 2019 cash of £5.9m, plus a £1.1m tax credit, provides funding through FY21. Extension of the Novo deal beyond the initial 12-month period, potential payments from new partners/cost-sharing deals, or M&A could extend this further.
- Valuation maintained at £57.8m (21.9p/share)** We have broadly maintained our forecasts based on commendable cost control and spending priorities, which results in no changes to our underlying valuation assumptions. Upside would come from progression of the Novo Nordisk diabetes collaboration into a licensing agreement, and from new deals with large pharma or other partners.

Update

6 March 2019

Price (Sterling)	4.2p
Market Cap	£11.3m
Enterprise Value	£5.4m
Shares in issue	268.6m
12 month range	4.2-8.8p
Free float	28%
Primary exchange	AIM London
Other exchanges	NA
Sector	Healthcare
Company Code	ETX
Corporate client	Yes



Company description

e-therapeutics is a drug discovery company with a proprietary network driven drug discovery (NDD) platform. Following management changes and a strategic review in 2017, the focus is now on optimising its discovery processes and platform and securing industry collaborations and partners for its projects.

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Exhibit 1: Summary of financials

Year-end: January 31	£'000s	2016	2017	2018	2019	2020E	2021E
INCOME STATEMENT							
Revenues		0	0	0	44	500	0
Cost of goods sold		0	0	0	0	0	0
Gross Profit		0	0	0	44	500	0
R&D Expenses		-9,965	-10,911	-5,019	-3,673	-2,874	-2,902
Sales, General and Administrative Expenses		-1,590	-2,614	-1,749	-1,485	-1,312	-1,323
Underlying operating profit		-11,555	-13,525	-6,768	-5,114	-3,685	-4,225
Exceptionals		0	-2,101	0	0	0	0
Other revenue/expenses		0	-704	0	0	0	0
EBITDA		-11,482	-13,469	-6,696	-5,041	-3,661	-4,203
Operating Profit		-11,555	-16,330	-6,768	-5,114	-3,685	-4,225
Interest income		271	132	49	29	22	24
Profit Before Taxes		-11,284	-16,198	-6,719	-5,085	-3,663	-4,201
Adj. PBT		-11,284	-13,393	-6,719	-5,085	-3,663	-4,201
Current tax income		2,464	3,073	1,360	1,086	805	813
Net Income		-8,820	-13,125	-5,359	-3,999	-2,859	-3,389
EPS (p)		(3.3)	(4.9)	(2.0)	(1.5)	(1.1)	(1.3)
Adj. EPS (p)		(3.3)	(3.9)	(2.0)	(1.5)	(1.1)	(1.3)
DPS (p)		0.0	0.0	0.0	0.0	0.0	0.0
Average no. of shares (m)		264.4	267.1	268.5	268.6	268.6	268.6
<i>Gross margin</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>100%</i>	<i>100%</i>	<i>N/A</i>
<i>EBITDA margin</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Underlying operating margin</i>		<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
BALANCE SHEET							
Current assets		28,783	17,724	11,556	7,348	4,546	1,214
Cash and cash equivalents		6,342	4,475	7,097	5,904	3,433	99
Short-term investments		18,500	9,500	2,500	0	0	0
Accounts receivable		1,472	777	595	346	296	296
Inventories		0	0	0	0	0	0
Other current assets		2,469	2,972	1,364	1,098	817	819
Non-current assets		804	207	206	161	151	143
Property, plant & equipment		64	51	71	42	34	29
Intangible assets		740	156	135	119	116	114
Current liabilities		-1,156	-1,951	-1,024	-707	-707	-707
Short-term debt		0	0	0	0	0	0
Accounts payable		-1,156	-1,951	-1,024	-501	-501	-501
Non-current liabilities		0	0	0	0	0	0
Equity		28,431	15,980	10,738	6,802	3,990	650
CASH FLOW STATEMENTS							
Operating cash flow		-8,848	-9,242	-4,319	-3,676	-2,457	-3,320
Profit before tax		-11,555	-16,330	-6,768	-5,114	-3,685	-4,225
Non-cash adjustments		288	2,962	177	125	70	71
Change in working capital		63	1,362	-782	-65	50	0
Interest paid		329	194	86	26	22	24
Taxes paid		2,027	2,570	2,968	1,352	1,086	811
Investing cash flow		13,356	7,362	6,929	2,472	-13	-14
CAPEX on tangible assets		-144	-165	-71	-28	-13	-14
Other investing cash flows		13,500	7,527	7,000	2,500	0	0
Financing cash flow		12	13	12	11	0	0
Proceeds from equity		12	13	12	11	0	0
Other financing cash flow		0	0	0	0	0	0
Net increase in cash		4,520	-1,867	2,622	-1,193	-2,471	-3,334
Exchange rate effects		0	0	0	0	0	0
Cash at start of year		1,822	6,342	4,475	7,097	5,904	3,433
Cash at end of year		6,342	4,475	7,097	5,904	3,433	99
Net cash at end of year		24,842	13,975	9,597	5,904	3,433	99

Source: e-therapeutics, Trinity Delta Note: Adjusted numbers exclude exceptionals.

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