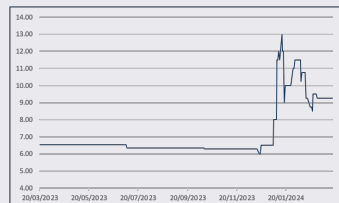


25 MARCH 2024

Ticker INC

Share price 9.8p
Market cap £9.0m

Share price performance 1 yr



Source: Aquis

Company description

Founded as a spin-out from the Institute of Centre Therapeutics at the University of Bradford in 2010, Incanthera is a UK-based specialist in dermatological cancer treatments. Products include a UV cream, Sol, to prevent skin cancer development, and a targeted drug delivery vector for cancer cells designed to improve treatment and minimise side effects. The latest product development, *Skin+CELL*, is a high-end cosmetic designed to deliver Vitamin B3 niacinamides which promote dermatological health and cell regeneration.

Board & Management

Chairman - Tim McCarthy

CEO - Dr Simon Ward

CFO - Laura Brogden

Company Secretary - Suzanne Brocks

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BREAKTHROUGH DISTRIBUTION DEAL

On 18th December 2023 Incanthera announced a deal with Marionnaud in Switzerland to distribute '*Skin+CELL*', its advanced dermatological solution for the delivery of vitamin B3 for skin protection and cosmetic rejuvenation. This gives Incanthera access to a high-end cosmetics distribution presence in Europe, and in addition, ownership of Marionnaud by AS Watson, the largest cosmetics distributor in Asia, offers significant new market opportunities further afield.

Incanthera has developed topical (skin cream) methods for delivering B3 (an activated form of niacinamide) and other cosmetic compounds, which enhance dermatological health and repair, directly into the skin's cells to optimise cellular health, energy and protective capabilities.

Its Skin+CELL products appeal to the high-end cosmetic market-demand for skin care that offers anti-aging and protective properties.

The purpose of this exercise is to demonstrate the scale of the opportunity Incanthera addresses, i.e. the combination of the appeal of *Skin+CELL* in the pharma-cosmetics market niche plus the distribution relationships Incanthera has developed with the Watson Group.

- Under the terms of the deal *Skin+CELL* will be available initially in c.100 of Marionnaud's stores in Switzerland and Austria from Q2 2024, offering the opportunity for staff to familiarise with the product and marketing approach. This will be followed by roll out to Marionnaud's remaining 1,100 stores across European markets from 2024 onwards.
- To meet initial demand, Incanthera will supply 50,000 units, via the Swiss manufacturer Frike Cosmetic A.G. Incanthera has allocated to Frike full responsibility for the manufacturing, packaging and quality control of its skincare product range for international retail contracts. Based in central Switzerland, Frike manufactures a wide range of cosmetic and healthcare products for major brands across Europe, providing services from lab testing and production to assembly, warehousing and distribution.

Subsequently, there is the opportunity to distribute *Skin+CELL* into major Asian markets, backed by strong consumer appetite for skincare and health and beauty products – especially those carrying the imprimatur of Swiss branding – via A.S. Watson's strong retail presence with c.7,600 outlets in Asia: China (3,836 stores), Malaysia, Thailand and the Philippines, out of a total of 16,142.

In this report we assess the potential financial impact of what **Chairman Tim McCarthy has called a "truly transformational deal for the company"**¹. Our hypothetical impact study suggests two scenarios:

- **Scenario 1.** Initial distribution via the Marionnaud network of c.1,200 outlets in Switzerland, Austria and across Europe, with successful take-up leading to increased momentum of product profile and customer interest. This indicates the potential to generate initial annual revenue in year 1 of c.£10m, growing to c.£33m in year 2.
- **Scenario 2.** Take-up throughout the A.S. Watson Group of c.8,000 distributors in China and Asia. The impact of broadened distribution takes year 3 revenue above the £90m level.

Fund raise. On 18 December the company announced a fundraise of £1.0m (gross) for the launch of *Skin+CELL*, comprising £0.8m for 11,428,571 shares at 7.0p/share and conversion of £0.2m by the University of Bradford (2,857,143 shares).

¹ Proactive Investors interview, 11th January 2024.

INCANTHERA – DEVELOPMENT PATH

SPIN-OUT ORIGINS

Incanthera was founded in 2010 a spin-out from the University of Bradford Institute of Cancer Therapeutics (ICT), which itself was established in 2005, with the aim of identifying, developing and commercialising novel technologies in its field; oncology and dermatology. The initial focus of Incanthera was on the targeted novel drug delivery of cytotoxins to treat cancers in a process of development to delivery and out-licensing. The company has made a series of acquisitions:

- **2011**, acquisition of EP0015 from the ICT projects pipeline.
- **2014**, acquisition of Onco-NX (Equin programme), Duo C technology (ICT pipeline) and Spear Therapeutics Ltd., (Duo-C programme).
- **2015/16**, acquisition of EP0015 a theranostic (therapeutic/diagnostic) from the ICT pipeline and a taxane from the ICT pipeline, for the identification (in conjunction with PET scanning) and targeted treatment of lung, breast, ovarian and prostate cancers.
- **2018**, acquisition from Limeway Pharma Design of the rights to *Sol*, a skin cream designed to treat sun-damaged skin (solar keratoses) and prevent the development of skin cancers by enhancing natural dermatological defences to UV radiation (patented in 2020).

SKIN+CELL KEY TECHNOLOGY: B3 DELIVERY

Following the conclusion of a commercial deal for the initial distribution of Incanthera's *Skin+Cell* cosmetic skin treatment we assess potential financial impact through a range of scenarios.

Incanthera has developed technologies which are effective in delivering bioactive B3 (active niacinamide compounds) through the dermal barrier directly. A range of cosmetic formulations will be marketed as *Skin+CELL*. Vitamin B3 (niacin) acts as coenzyme for c.400 enzymes important for the nervous and digestive systems, and skin. The aim of Incanthera's B3 delivery technology is to enhance skin health and repair, improve skin tone and add protection. It is therefore attractive as a cosmetic with pharmaceutical properties.

As illustrated, human skin as an organ consists of eight principal layers, the outer four or five of which, (the stratum compactum) form the protective epidermis. The uppermost, outer layer of the epidermis consists of c.25-30 layers of flattened dead lower level keratinocytes which have been transformed into corneocytes – keratin packages without a nucleus or internal organelles – akin to a 'chain mail' protective barrier but with cells which are continuously shed. This barrier, resistant to water loss and chemically difficult to penetrate, is impervious to proteins, sugars, peptide and nucleic acids with molecular weights above 100kDa² (1 Da (1 Dalton), is equal to one hydrogen molecular atom, 1g/mol. An amino acid has an average molecular weight of 110Da).

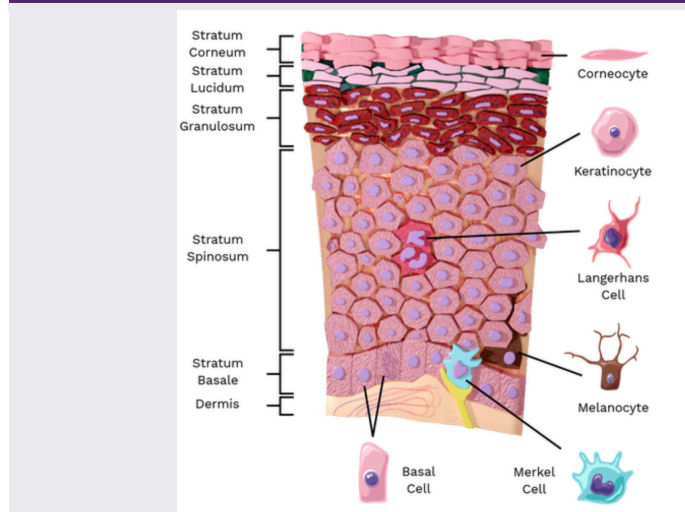
Studies indicate some success in the use of retinoids, kinetin, soy protease, green teas (camellia senensis) and niacinamides in the treatment of skin damage and as 'anti-aging' agents, reducing damage from sun exposure and removing pigmentation and wrinkles. Niacinamide— specifically niacinamide adenosine dinucleotide (NAD) and niacinamide adenosine dinucleotide phosphate (NADP) - serves to reduce oxidation in a number (c.40) of cellular reactions, with benefits for skin health and appearance, including improved skin structure leading to reduced fine lines and wrinkles, or reduced yellowing resulting from protein oxidation (Maillard reaction). Early studies³ indicated the possibility of percutaneous skin penetration. This is the key property for which Incanthera offers a solution.

Incanthera has developed the technology to deliver niacinamide compounds past the skin's barrier layers through topical application.

² Journal of Clinical and Aesthetic Dermatology, 3-02-2020 J Levin and S Momin, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2921764>.

³ Feldmann RJ, Maibach HI. *Absorption of some organic compounds through the skin in man*. J Invest Dermatol. 1970;54:399-404.

Incanthera's technologies deliver compounds for cellular skin health and repair



Source: theory.labster.com.

KEY DISTRIBUTION DEAL

Commercial launch of *Skin+CELL* initially in Switzerland and Austria, and subsequently across a wider European footprint followed by development of marketing in Asia.

On 18 December 2023 Incanthera announced a commercial deal to launch of *Skin+CELL* as a luxury skincare brand with Marionnaud Switzerland & Austria, part of the A.S. Watson Group, the Hong Kong-based international health, beauty, and lifestyle brand retailer with 16,100 stores serving 5.3bn customers across 28 markets. The A.S. Watson Group is owned by the international conglomerate CK Hutchison Holdings (mkt cap £14.8bn). Specifically:

- *Skin+CELL* will be available initially in 100 of Marionnaud's stores in Switzerland and Austria from Q2 2024, followed by roll out to its remaining 1,100 stores across European markets from 2024 onwards.
- To meet initial demand from Switzerland and Austria, Incanthera will supply 50,000 units, via the Swiss manufacturer Frike Cosmetic A.G. Frike has assumed responsibility for the manufacturing, packaging and quality control of Incanthera's skincare product range for international retail contracts.
- Subsequent distribution is planned for Asia, backed by consumer appetite for skin-care and health and beauty products, and A.S. Watson's strong retail presence.

The Marionnaud deal will be managed through Skin and Cell AG, a wholly-owned Incanthera subsidiary based in Switzerland, formed specifically for the worldwide product promotion and distribution.

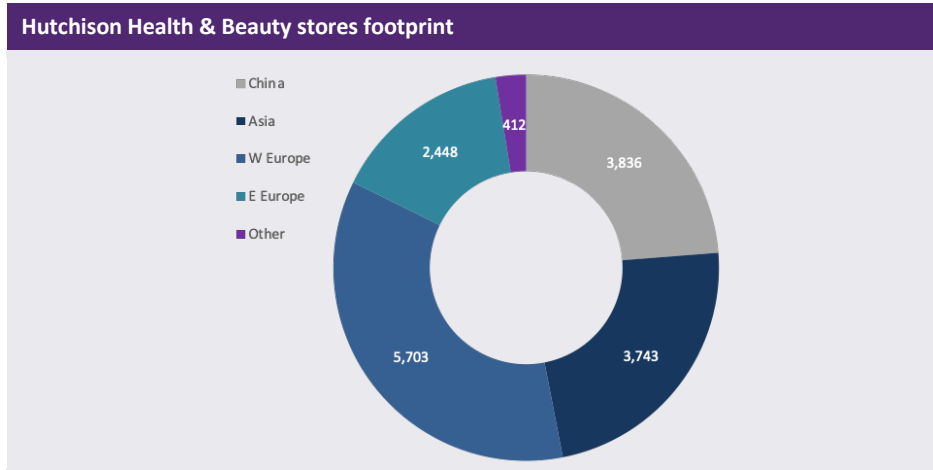
ESTIMATED MARKET OPPORTUNITY

The deal with Marionnaud gives Incanthera access to broad market presence and links with larger partner organisations:

- As noted, initial access via c.100 Marionnaud outlets in Switzerland and Austria to enable product familiarisation.
- Subsequent access to Marionnaud's network of c.1,100 branches and outlets in the rest of Europe.
- Planned access to A.S. Watson's network of retail outlets. Via its ownership of Watson Group Hutchison has an extensive retail presence across China, Malaysia, Thailand, Philippines and Turkey. As Hutchison notes in its 2022 AR (p30): "Watsons is the leading health and beauty retail chain in Asia with strong brand name recognition and extensive geographical coverage". Watson's brand presence includes: Kruidvat and Trekpleister in the Netherlands, Rossmann GmbH (4,000 outlets), Superdrug (UK), savers (UK economy health and home beauty), Drogas (Latvia, Lithuania), ICI Paris XL (cosmetics in

Netherlands, Belgium, Luxembourg) and The Perfume Shop (UK and Ireland with 215 outlets and an online presence).

Excluding discount retail outlets we estimate the Watson connection offers the opportunity to access a distribution network totalling over 16,000 stores in 28 markets.



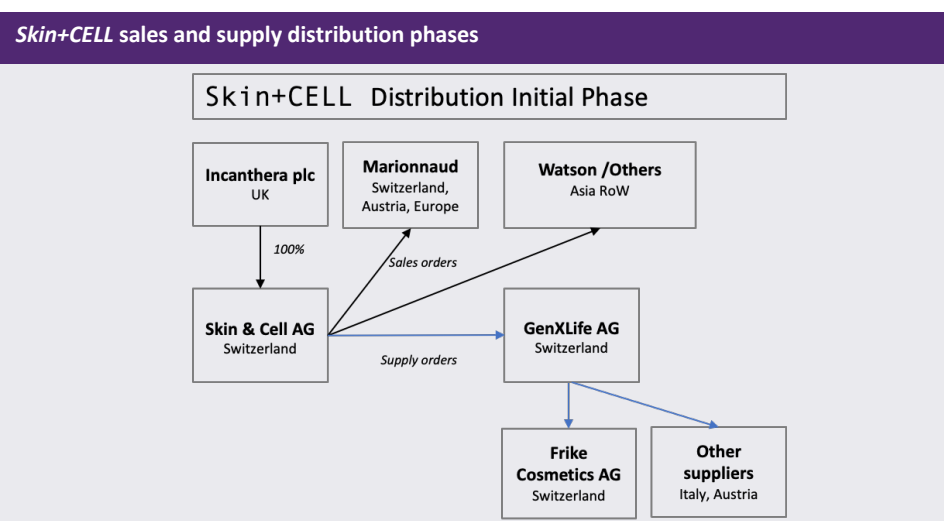
Source: Hutchison Group AR 2022.

BUSINESS MODEL: SALES AND SUPPLY DISTRIBUTION NETWORK

As illustrated below, Incanthera has established a production, distribution and sales network across Europe and, via A.S. Watson, into Asia and the Far East. Incanthera plc (UK) licences *Skin+CELL* production via *Skin+CELL* AG, a 100%-owned Swiss subsidiary, for sales distribution initially across Europe, via Marionnaud and latterly via the Watson network.

- Initial phase distribution in Switzerland and Austria: c. 50,000 units.
- Subsequent (Scenario 1) across Europe: c.250,000 units, increasing to 1.0m units p.a.
- Expansion in into Asia, Far East and RoW: >3.0m units p.a. (Scenario 2).

Incanthera retains the right to commercial discussions for potential licensing deals with other organisations in all other global territories outside of those in which Watson Group has geographical exclusivity to *Skin+CELL*.



Source: Company data.

QUANTIFYING THE *SKIN+CELL* OPPORTUNITY

HYPOTHETICAL IMPLICATIONS

We present a series of entirely hypothetical revenue development scenarios for the distribution of *Skin+CELL* across a series of European and Asian geographies.

Positioning as a luxury cosmetic would be aided by 'Swiss' branding in the important process of establishing a 'must have' niche in the skincare marketplace and building market presence momentum. This might include approval by increasingly important online influencers or adoption by personality opinion formers.

The key elements of the *Skin+CELL* opportunity are: complete satisfaction on the part of distribution partner Marionnaud in the product efficacy and manufacture to the highest standards by Frike Cosmetic AG and positioning as a luxury cosmetic. We outline one possible progression as:

- **Scenario 1.** Successful roll-out across c.1,200 Marionnaud outlets in Switzerland, Austria and Europe, with successful take-up leading to an increased momentum of product profile and customer interest, and active marketing. The estimated FY25 potential revenue is c.£10m, increasing to c.£33m in FY26, steadily increasing further in subsequent years.
- **Scenario 2.** Wider product take-up throughout the A.S. Watson Group of distributors in China and Asia.

These scenarios are the product of a comparatively straightforward process of projection within sales and distribution networks which are well-established in terms of both market presence and operational systems.

We do not consider that *Skin+CELL* has to 'displace' popular skin cream brands such as Clarins, as it is positioned as a pharma-cosmetic which occupies a unique niche in the product ranges offered by Incanthera's sales and distribution partners. This also sets *Skin+CELL* apart from products in the 'wellness' or 'herbal remedy' market segment.

CONCLUSION

As noted, the purpose of this exercise is to demonstrate the scale of the opportunity Incanthera addresses: the combination of the appeal of *Skin+CELL* in the pharma-cosmetics market niche plus the distribution relationships Incanthera has developed with the Watson Group. Scenario 1 outlines the immediate opportunity presented in the current FY; Scenario 2 maps out the full potential in prospect.

Skin+CELL potential revenue pathway scenarios Financial Year ended March 31

Scenario 1	2025	2026	2027	2028	2029	2030
Av. unit price (£)	34	35	35	35	35	35
Stores	1,200	1,200	1,200	1,200	1,200	1,200
Units/store/wk	5	15	17	19	20	21
Units sold	300,000	936,000	1,060,800	1,185,600	1,248,000	1,310,400
Revenue £m	10.1	32.8	37.1	41.5	43.7	45.9
Estimated EBIT margin	27.0%	30.0%	33.0%	36.0%	36.0%	36.0%
Scenario 2	2025	2026	2027	2028	2029	2030
Av. unit price (£)	34	35	35	35	35	35
Stores	1,200	1,200	3,000	5,000	8,000	10,000
Units/store/wk	5	15	17	19	20	21
Units sold	300,000	936,000	2,652,000	4,940,000	8,320,000	10,920,000
Revenue £m	10.1	32.8	92.8	172.9	291.2	382.2
Estimated EBIT margin	27.0%	30.0%	33.0%	36.0%	36.0%	36.0%

Source: Stanford Capital Partners estimates.

SUMMARY FINANCIAL DATA

Below summarises Incanthera's financial position as of the 30 September 2023, FY24, Interim, subsequent to which, on 18 December 2023, the company raised £1.0m (gross).

Financial summary FY22 to H1 24			
Yr to March 31 (£m)	FY22	FY23	H1 24
Revenue	0.000	0.000	0.000
Sum Op-ex	(0.937)	(0.811)	(0.587)
One-off costs	(0.148)	(0.149)	(0.028)
EBIT Adjusted	(0.937)	(0.811)	(0.587)
EBITDA Reported	(1.085)	(0.960)	(0.615)
EBITDA Adjusted	(0.937)	(0.811)	(0.587)
PBT Reported	(1.085)	(1.447)	(0.615)
PAT Reported	(1.008)	(1.372)	(0.615)
Operating Cash Flow	(0.818)	(0.818)	(0.587)
Cash generated by operations	(0.769)	(0.528)	(0.105)
Net OpFCF	(0.662)	(0.453)	(0.105)
Share issue	0.000	0.161	0.098
Net increase in cash / equivalents	(0.662)	(0.292)	(0.007)
Cash at beginning of year	0.957	0.295	0.003
Cash at year end	0.295	0.003	(0.004)
Sum Fixed Assets	0.540	0.059	0.059
Sum Current Assets	0.488	0.138	0.102
Sum Current Liabilities	(0.196)	(0.280)	(0.633)
Sum Long-term liabilities	0.000	(0.131)	(0.195)
Net Assets	0.832	(0.214)	(0.667)
Share Capital	1.482	1.528	1.556
Share Premium	5.055	5.169	5.239
Reserves	3.954	4.122	4.186
Retained earnings	(9.659)	(11.033)	(11.648)
Equity	0.832	(0.214)	(0.667)

Source: Company data.

APPENDIX I: BOARD

TIM MCCARTHY - NON-EXECUTIVE CHAIRMAN

Tim has 40 years' international senior level business experience in the Healthcare, Biotech and Technology sectors. He is CEO of ImmuPharma plc an AIM quoted specialist drug discovery and development company and Chairman of 4basebio PLC, an AIM quoted company developing next generation gene therapy technologies and solutions. Tim is a former CEO and Finance Director of a number of public and private companies, including Alizyme plc and Peptide Therapeutics Group plc. He has also co-founded a number of healthcare and biotechnology companies.

Tim is a Fellow of the Association of Chartered Certified Accountants, and has an MBA from Cranfield School of Management

DR SIMON WARD - CHIEF EXECUTIVE OFFICER

Simon is a co-founder of Incanthera and has more than 30 years' senior experience in academia and business. He was a founder and CEO of Molecular SkinCare Limited, a pioneer and developer of novel dermatology products for the prevention and management of skin diseases. As CSO of York Pharma plc, he was responsible for bringing innovative dermatology product through to market.

Simon graduated from the University of London's School of Pharmacy (UK) with a Joint Honours Degree in Pharmacology and Toxicology and was awarded a DPhil in the Department of Human Anatomy, Oxford University under a Glaxo Group Research Studentship.

LAURA BROGDEN – CHIEF FINANCIAL OFFICER

Laura Brogden has 20 years' experience heading up the finance function for SMEs across a diverse range of industries. She is a Partner in Fact3 LLP which provides accounting, HR and IT support for SMEs.

Laura is an Associate of the Chartered Institute of Management Accountants.

SUZANNE BROCKS – HEAD OF COMMUNICATIONS, COMPANY SECRETARY

Suzanne has over 30 years' City experience.

She was a Senior Director in Financial and Corporate Communications with Buchanan Communications, advising on IPOs and mergers and acquisitions, in addition to general financial public relations consultancy and strategic direction for a wide range of public companies. Previously Suzanne was a Relationship Manager in private banking with Hill Samuel advising clients in London and the Far East.

CAROLINE MURRAY – NON-EXECUTIVE DIRECTOR

Caroline's work across healthcare, market positioning and strategic implementation brings extensive product management, and marketing and commercialisation experience to the Board. Over the course of 30 years senior positions held in the pharmaceutical industry, including Novartis and Bristol Myers Squibb, have combined expertise in dermatology and healthcare with commercial experience.

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