



Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	INC
Price (p)	17.0
12m High (p)	18.0
12m Low (p)	9.5
Shares (m)	64.5
Mkt Cap (£m)	11.0
EV (£m)	10.6
Free Float	36%
Market	AQSE Growth

Description

Incanthera is a specialist oncology company that offers two distinct programmes. The initial focus is on a value-added proprietary formulation sun cream, Sol, that prevents skin cancers. It also owns a novel, targeted, drug delivery platform to deliver cytotoxic warheads directly to cancer cells, in the expectation of improving clinical outcomes, with fewer side effects.

Company information

Exec. Chairman	Tim McCarthy
CEO	Simon Ward
COO	Pawel Zolniercyk
CFO	Laura Brogden
	+44 161 817 5005
	www.incanthera.com

Key shareholders

Directors	9.3%
North West Fund	26.6%
Immupharma plc	15.4%
University of Bradford	12.3%

Diary

Jun'21	2021 final results
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Analyst

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INCANTHERA

Solid progress since listing

Incanthera (INC) is a spin-out from the Institute of Cancer Therapeutics (ICT) at the University of Bradford to exploit development opportunities generated by ICT. This has provided the company with its core pro-drug delivery platform technology, to which additional technologies/products have been acquired, all focused on producing better clinical outcomes for cancer patients. With the new capital raised when it listed on the Aquis Growth Exchange in February 2020, INC has further advanced the development of its refined Sol formulation towards the point where it can be out-licensed to a partner for commercialisation.

- **Strategy:** INC is a specialist oncology company using a novel pro-drug approach to deliver cytotoxic warheads directly to tumour cells. It intends to develop drugs to a suitable valuation inflection point and then out-license them for late-stage trials, in return for development milestones and royalties.
- **Interims:** 1H'20 has been characterised by careful control of the corporate overhead allowing resources to be focused on the development of Sol. Consequently, SG&A decreased 12% to -£297k (-£338k), while investment in R&D was substantial -£155k (-£0k). Gross cash at 30 June was £433k.
- **Sol progress:** Solid progress has been made with the development of Sol during 1H'20, with independent studies showing that it permeates the skin at least as well as established commercial products and that it is "non-irritant" in sensitivity tests, which means that it is both comfortable and safe to use topically.
- **Risks:** Investments in small, early-stage pharmaceutical companies carry a significant risk, and additional capital will be required for future expansion of clinical programmes. This additional capital may come from commercialisation of Sol, and/or INC may need to raise more capital in the future.
- **Investment summary:** INC offers distinct technology with the potential to attract the attention of the majors, especially given management's strategy to out-license products early. The early focus has been on the patent-protected, value-added, sun cream, which represents a relatively quick and low-risk cosmetics project. The current EV suggests that there is good upside potential when comparing INC with a group of UK-listed peers working in the same field.

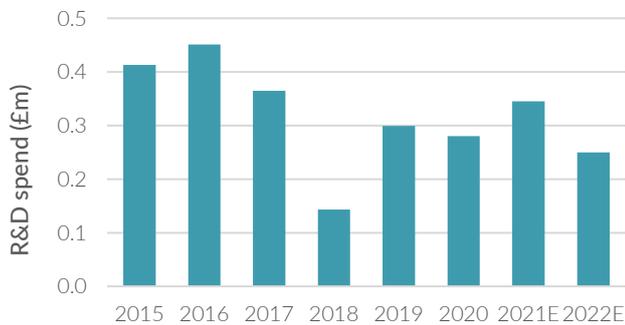
Financial summary and valuation

Year-end Mar (£000)	2017	2018	2019	2020	2021E	2022E
Sales	0	603	0	0	0	0
SG&A	-676	-1,223	-1,337	-683	-526	-473
R&D	-365	-143	-299	-250	-345	-250
EBITDA	-954	-864	-1,879	-1,091	-757	-612
Underlying EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Reported EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Underlying PBT	-1,075	-984	-2,012	-1,226	-891	-743
Statutory PBT	-1,075	-984	-2,012	-1,226	-891	-743
Underlying EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Statutory EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Net cash/(debt)	88	143	176	392	120	-382
Equity issues	309	1,021	2,398	1,168	350	0

Source: Hardman & Co Life Sciences Research

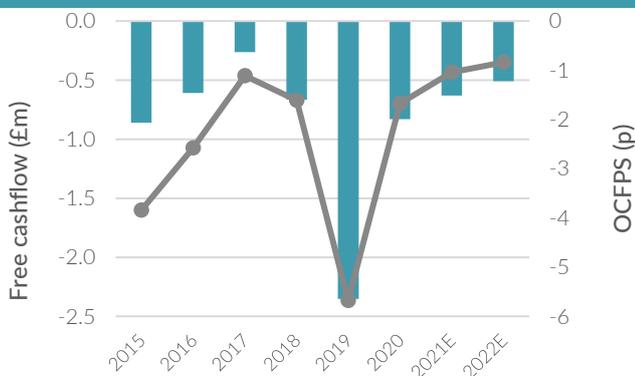
Incanthera

R&D



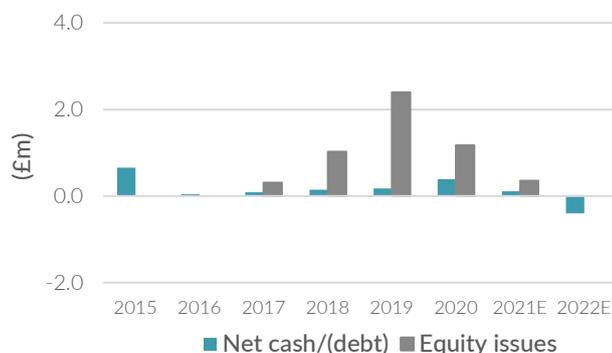
- ▶ R&D spend has been modest to date, aligned closely to the financial resources of the group, and does not allow for the unknown research costs by the universities, which are mostly grant-funded.
- ▶ INC's resources are being directed towards progressing Sol to a stage that is ready for commercialisation.
- ▶ Development of the earlier-stage pipeline will require further funding, which could come from any Sol upfront payments and/or a capital increase.

Free cashflow and OCFPS



- ▶ The company has been operating with relatively modest financial resources to date.
- ▶ INC will be cash burn for the foreseeable future, as it pushes forward with its R&D programmes.
- ▶ The level of R&D investment will be dependent on the generation of new funds.
- ▶ Forecasts do not allow for any out-licensing income from its drug programmes.

Net cash/(debt and equity issues)



- ▶ Total funds raised since inception are £7.4m for development and working capital, or £9.0m including some acquisitions made for shares.
- ▶ At 30 September 2020, INC had gross cash of £433k, and no financial liabilities (debt or leases).
- ▶ The company has a current cash runway until June 2021.

Source: Company data; Hardman & Co Life Sciences Research

Interim 2021 results

Following a successful listing on the growth market of the Aquis Exchange (AQSE) in February 2020, INC has just released its results covering the trading period for the first half of fiscal 2021.

Key operational features

- ▶ **Permeability study:** An independent study run by the School of Pharmacy, University of London, demonstrated that INC's revised formulation of Sol permeated the skin better than four comparator products. In addition, the bioavailability (blood levels) exceeded those achieved following oral delivery.
- ▶ **Sensitisation study:** In September, an independent study run by XCellR8 Ltd, demonstrated that INC's Sol formulation was "non-irritant" in an *ex vivo* model of human skin, an important observation for any product that is intended for topical application.
- ▶ **Patent filing:** In July, INC announced that it has filed a new patent application covering the use of its novel technology in Sol. In the event that this patent is granted, IP protection would be extended to 2041.

Key financial features

- ▶ **Operating costs:** Management has focused the company's limited resources on the further development of Sol towards commercialisation and value-inflection points.
- ▶ **SG&A:** Underlying administrative costs in 1H'21 decreased by 12% to -£297k (-£338k), despite the increased costs normally associated with being a listed company, highlighting the careful management of costs.
- ▶ **R&D:** In order to progress Sol closer to commercialisation, INC commissioned the two aforementioned development studies, resulting in R&D investment spend of -£155k (-£0k), which was £30k higher than anticipated.
- ▶ **Subscription:** At the time of its IPO, INC entered into subscription agreements with Immupharma (IMM.L) and its Chairman to subscribe for additional shares in the company. The subscriptions were completed at the end of September 2020, raising an additional £350k for working capital purposes. Following the issue of new shares, IMM has increased its shareholding in the company to 15.35%.
- ▶ **Net cash/debt:** At 30 September, INC had gross cash of £433k on its balance sheet and no debt.

Interim results summary – actual vs. expectations					
Half-year-end Sep. (£000)	1H'20 actual	1H'21 actual	Change CER	1H'21 forecast	Delta Δ
Sales	0	0	-	0	-
SG&A	-338	-297	-12%	-320	+23
Share-based costs	-147	-19	-	-10	-9
R&D	0	-155	-	-125	-30
Underlying EBIT	-485	-471	+42%	-455	-16
Gross cash	628	433	-	*400	-
Net cash/(debt)	628	433	-	*400	+33

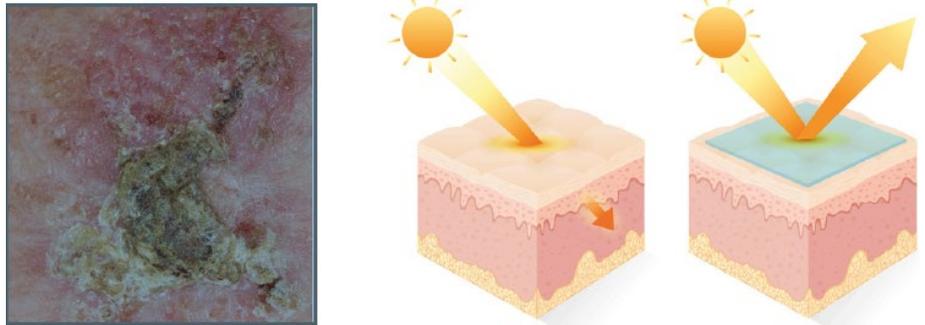
*Adjusted for the share Subscription on 29 September 2020
 Note: numbers may not add up exactly due to rounding
 Source: Hardman & Co Life Sciences Research

Sol development update

Background

In 2018, INC entered into a product development and licensing agreement with Limeway Pharma Design, an expert company in the topical formulation design of dermatological products. Through this, INC acquired Sol, which has the potential to be developed as both a cosmetic and a drug. Initially, it is being developed as a skin cream, preventing the progression of sun-damaged skin (solar keratoses) to skin cancer.

Incanthera – prevention of skin keratoses



Source: Incanthera annual report 2020

Sol is a topical formulation of orally active drug against solar keratosis

The opportunity

The active ingredient for Sol, given orally, is known to prevent the onset of sun-induced skin cancers. Incanthera has incorporated this compound into its proprietary formulation technology to produce a drug that can be applied topically. During 2019, in independent proof-of-principle studies using human skin penetration models, INC had demonstrated that its original formulation of Sol exceeded the bioequivalence test compared with oral dosing and was suitable for the prevention of actinic keratosis and skin cancer when applied topically. As such, Sol is a potentially high-value product accessing a multi-billion-dollar market.

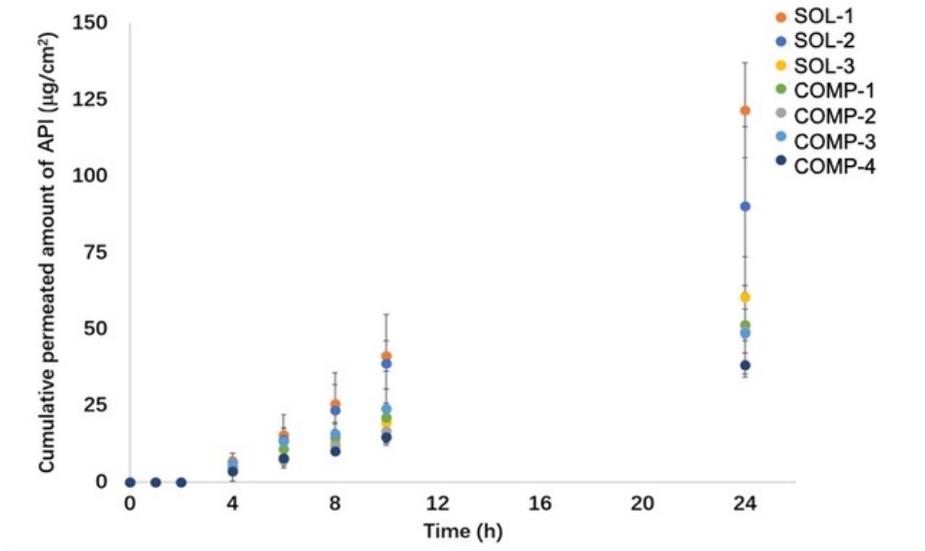
Skin permeation study

During 1H'20, INC has continued to further progress the development of Sol in line with its strategic goals. Results from an independent study commissioned with and run by the University College of London School of Pharmacy (SoP), demonstrated that the active ingredient in a refined formulation of Sol permeated the skin better than a number of comparator products.

The following graphic shows that Sol delivered a greater permeation of the active ingredient at a number of time points compared with that achieved with four other commercially available products. The difference was statistically significant ($p < 0.05$) at 24h.

This permeation study used the same human skin penetration model to that used in the previous bioequivalence study comparing topical versus oral administration. Consequently, these new data also reaffirmed that INC's refined formulation of Sol also exceeds bioequivalence.

Results from permeation study



Source: Incanthera

Skin sensitivity study

Also during 1H'20, a study commissioned with and conducted by XCellR8 demonstrated that INC's refined formulation of Sol was found to be "non-irritant" using an *ex vivo* human skin model, an essential test that must be passed for any topical product.

XCellR8 Ltd, in collaboration with Cutest Ltd (a contract research organisation (CRO) with particular expertise in clinical trials using topical applications), has previously demonstrated a very good correlation between results using the methodology of this study and those obtained in clinical mildness studies.

In this study, the "non-irritancy" was found to be at least comparable with baby sun protection products tested previously. Sol scored better than the baby products which had an irritancy level described as "very mild".

Extending the IP

In July, INC announced that it had filed a new patent application covering the use of its novel technology in Sol for the prevention and treatment of solar keratosis and related cancers of the skin. In the event that this patent is granted, IP protection would be extended to 2041.

Summary

Significant progress has been achieved during 1H'21 with the development of INC's refined version of Sol, highlighting the potential value of this asset. The exemplary penetration of Sol into the skin, from where it can deliver the required bioequivalence of active ingredient known to be clinically effective, has been supported by the "non irritancy" outcomes from the sensitivity study showing that the topical application of Sol onto human skin is both comfortable and safe.

Financial forecasts

- ▶ **Financial history:** Since incorporation, INC has raised a total of £9.0m, including equity issued in exchange for acquired IP.
- ▶ **R&D:** Investment in R&D is being highly targeted towards the strategic goal to progress Sol to a point where it is ready for commercialisation, which would represent a significant value-inflection point.
- ▶ **Cash runway:** Focused R&D spend coupled with careful control of the corporate overhead during fiscal 2021 suggest that the company will have a cash runway until June 2021. More funds will be needed thereafter to progress other products in the pipeline, which could come from either commercialisation deals and/or equity issues.
- ▶ **Valuation:** INC is trading on an EV of £10.6m. Since our latest report in June, the group of seven AIM-listed peers developing new drugs in the field of cancer have seen significant increases in valuations, with the average EV currently £59.4m (range £6.4m-£173.3m), and a median of £53.0m. The relative EV of these UK companies to the EV of INC is in the range of 0.6x to 16.3x, with an average of 5.6x, suggesting that there is good upside potential in the event that INC delivers on its stated corporate strategy.

Summary of financial statements						
Year-end Mar (£000)	2017	2018	2019	2020	2021E	2022E
Profit & Loss						
Sales	0	603	0	0	0	0
COGS	0	-189	-106	0	0	0
SG&A	-676	-1,223	-1,337	-683	-526	-473
Share-based costs	-34	-32	-270	-293	-20	-20
R&D	-365	-143	-299	-250	-345	-250
Licensing/Royalties	0	0	0	0	0	0
Underlying EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Exceptional items	0	0	0	0	0	0
Statutory EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Net financials	0	0	0	0	0	0
Underlying PBT	-1,075	-984	-2,012	-1,226	-891	-743
Statutory PBT	-1,075	-984	-2,012	-1,226	-891	-743
Tax liability/credit	120	41	24	98	72	50
Underlying net income	-955	-943	-1,988	-1,128	-818	-693
Underlying basic EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Statutory basic EPS (p)	-4.0	-2.3	-4.8	-2.3	-1.3	-1.1
Balance sheet						
Share capital	10	19	25	1,217	1,217	1,217
Reserves	175	217	979	-3	-471	-1,165
Loans & borrowings	0	0	0	0	0	0
less: Cash & deposits	88	143	176	392	120	-382
Invested capital	97	93	828	822	626	434
Cashflow						
Underlying EBIT	-1,075	-984	-2,012	-1,226	-891	-743
Non-cash items	155	152	403	428	154	151
Change in working capital	539	113	-784	-60	19	16
Company op. cashflow	-381	-719	-2,393	-858	-718	-576
Capital expenditure	0	-8	0	0	0	0
Equity issues	309	1,021	2,398	1,168	350	0
Change in net debt	45	55	33	216	-272	-502
Opening net cash/(debt)	43	88	143	176	392	120
Closing net cash/(debt)	88	143	176	392	120	-382

Source: Hardman & Co Life Sciences Research

Company matters

Registration

Incorporated in the UK with company registration number 11026926

Registered Office:

76 King Street

Manchester

M2 4NH

+44 161 817 5005

www.incanthera.com

Board of Directors

Board of Directors			
Position	Name	Remuneration	Audit
Executive Chairman	Tim McCarthy		
Chief Executive Officer	Simon Ward		
Non-executive director	Alan Warrander	C	C

C = chair

Source: Corporate website

Senior management

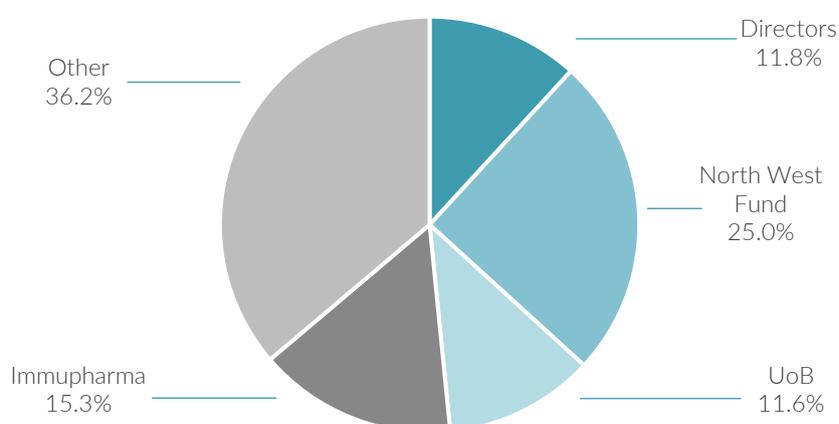
Senior management	
Position	Name
COO	Pawel Zolnierczyk
CFO	Laura Brogden
Head of Communications	Suzanne Brocks

Source: Corporate website

Share capital

At 5 December 2020, there were 64,544,121 Ordinary shares of 2p in issue. In addition, there are 9,584,447 options and warrants outstanding.

Shareholders



Source: Incanthera

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