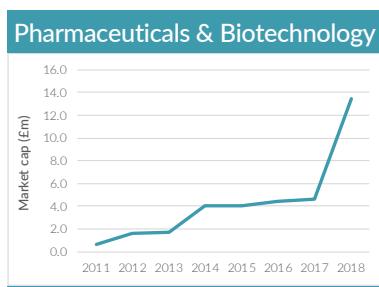




25 October 2019

**Market data**

EPIC/TKR	INC
Last funding	2018
Price	550p
Shares in issue	2.43m
Last post-money valuation	£13.4m
IPO target raise	£2.0m-£3.0m
Target market	NEX

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 system 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
CFO	Laura Brogden

www.incanthera.com

Key shareholders

Directors	7.8%
North West Fund	33.3%
University of Bradford	15.4%
ImmunoPharma plc	15.0%
Founders	2.7%
Maven Capital (NPIF NW)	1.9%

Diary

4Q'19 IPO on NEX Exchange

Analysts

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INCANTHERA

Realising near-term value in oncology

Incanthera is a spin-out from the Institute of Cancer Therapeutics at the University of Bradford to exploit development opportunities generated from this prestigious organisation. This has provided the company with its core pro-drug delivery platform technology, to which additional technologies/products have been acquired from esteemed establishments, all focused on producing better clinical outcomes for cancer patients. At IPO, Incanthera will seek £2m-£3m to complete development of an advanced topical skin product, Sol, containing an active ingredient that prevents sun damage developing into skin cancers, ready for licensing within 18 months' time.

- ▶ **Strategy:** Incanthera is a specialist oncology company progressing technologies that aim to deliver improved patient outcomes. Its strategy is to develop products and drugs to the earliest point at which they can be out-licensed, in return for revenue-generating development milestones and royalties.
- ▶ **Focus:** Initially, Incanthera will complete the development of Sol, a topical cream containing an active ingredient known to prevent skin cancer, for the skincare market. An optimised programme of work has been prepared to have Sol ready for licensing in ca.18 months' time, after a successful listing on the NEX exchange.
- ▶ **Opportunity:** Global awareness of the damaging effects of the sun's rays has led to a sun care market worth ca.\$12.0bn in 2018, and projected have 5% CAGR to 2025. Graduation of the market from simple sun protection to a quality cosmetic is also driving the demand for innovative value-added products.
- ▶ **Risks:** Investments in small, early-stage pharmaceutical companies carry a significant risk, and additional capital will be required in the future for further expansion of its clinical programmes. Management intends to undertake an IPO on NEX, but there is no guarantee on timing, nor on the quantum of cash raised.
- ▶ **Investment summary:** Incanthera offers distinct programmes with the potential to attract the attention of the majors, especially given management's strategy to out-license products early. The focus, initially, will be on a patent-protected, value-added, sun cream, which represents a relatively quick and low-risk cosmetics project. Our cashflow analysis, based on a raise of £2m-£3m at IPO and approved by HMRC for VCT/EIS tax relief, gives a cash runway of 24 months.

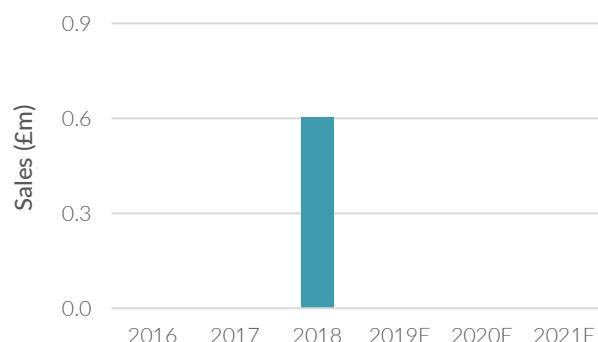
Financial summary and valuation

Year-end Mar (£000)	2017	2018	2019E	2020E	2021E
Sales	0	603	0	0	0
SG&A	-676	-1,223	-920	-700	-500
R&D	-365	-143	-330	-350	-550
EBITDA	-954	-864	-1,485	-1,195	-895
Underlying EBIT	-1,075	-984	-1,550	-1,350	-1,050
Reported EBIT	-1,075	-984	-1,550	-1,350	-1,350
Underlying PBT	-1,075	-984	-1,550	-1,350	-1,050
Statutory PBT	-1,075	-984	-1,550	-1,350	-1,350
Underlying EPS (p)	-100.7	-57.6	-74.6	-50.8	-35.3
Statutory EPS (p)	-100.7	-57.6	-74.6	-50.8	-45.4
Net (debt)/cash	88	143	165	1,796	904
Equity issues	309	1,021	2,497	2,500	0

Source: Hardman & Co Life Sciences Research

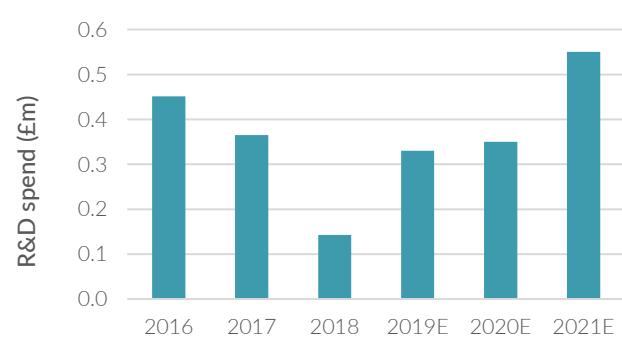
Incanthera

Sales



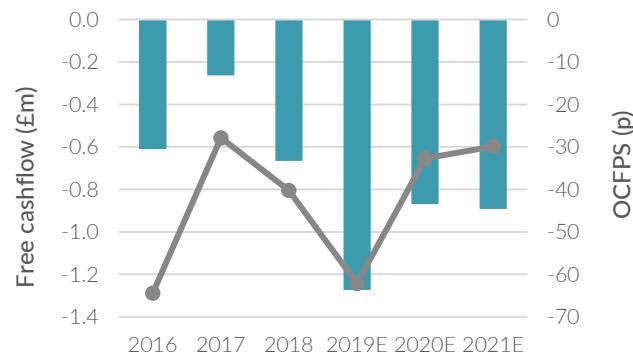
- ▶ Sales are related to services being provided by Incanthera to Ellipses Pharma, an existing licensing partner.
- ▶ Sales are largely “pass-through” costs and carry a low margin.

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.
- ▶ Future R&D spend will be conditional on the level of funds raised at IPO, most of which will be earmarked for Sol.
- ▶ Development of the earlier-stage pipeline will require further funding.

Free cashflow and OCFPS



- ▶ The company has been operating with relatively modest financial resources to date.
- ▶ Incanthera 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 quantum of funds raised at IPO.
- ▶ Forecasts do not allow for any out-licensing income from its drug programmes.

Net cash and equity issues



- ▶ Total funds raised since inception are £7.41m.
- ▶ Forecasts are based on the assumption that the company will raise £2.5m (gross, and mid-point of target range) at IPO, giving it a cash runway of 24 months.

Source: Incanthera, Hardman & Co Life Sciences Research

Incanthera – a snapshot

Incanthera provides development platform for UoB's Institute of Cancer Therapeutics...

...boosted by a series of acquisitions and research agreements

Incanthera was incorporated in 2010 as a spin-out from the University of Bradford's (UoB) Institute of Cancer Therapeutics to maximise the development opportunities being generated from this renowned organisation. This provided the company with its core pro-drug delivery platform technology, which can be armed with cytotoxic warheads to create highly-targeted oncology drugs, with potential for improved patient outcomes. Recently, the pipeline agreement with the UoB was extended for a further 10 years.

Most recently (in 2018), Incanthera acquired Sol, a formulation technology delivering an active ingredient known to prevent sun-related skin cancer. Other technologies and products have been secured through the acquisitions of Onco-NX Ltd (University of Salford spin-out) and Spear Therapeutics Ltd, both with an oncology focus, and an agreement with the Trustees of the Leland Stanford Junior University (Stanford) for tumour-targeted theranostics – a combined therapeutic/diagnostic tool.

History of Incanthera

Date	Event
2019 TBC	IPO of Incanthera plc
2018	Product development and licensing agreement to acquire Sol
2018	Funding round to raise £1.26m (gross) funds at 550p per share
2018	Technology agreement with the UoB extended for a further 10 years
2017	Out-licensing deal with Ellipses Pharma Ltd for initial EP0015 clinical trial
2016	Acquisition of EP0015
2015	Agreement with Stanford University in respect of EP0015
2014	Acquisition of Onco-NX Ltd to gain access to Equin programme
2014	Acquisition of Spear Therapeutics Ltd to gain access to Duo-C programme
2012	Assignment of IP rights in the relevant patents from UoB to EP0015
2011	Funding round enabling technology licence from UoB
2010	Incorporation of Incanthera Limited (no. 11026926)

Source: Incanthera, Hardman & Co Life Sciences Research

Aim to develop Sol ready for out-licensing within ca.18 months' time

In 2018, Incanthera entered into a product development and licensing agreement with a UK-based formulation design company to acquire Sol, which has the potential to prevent the transformation of solar keratoses into skin cancers. Incanthera intends to develop this opportunity for a licensing deal within 18 months' time, following its IPO on the NEX Exchange.

Incanthera already has one out-licensed product

In July 2017, Incanthera entered into a series of agreements with Ellipses Pharma Ltd, a company established to provide a source of capital to fund clinical trials of innovative cancer drugs. As part of this deal, Ellipses acquired the rights to develop and commercially exploit EP0015 for solid tumours, in return for milestone and royalty payments, proving the strategic concept of Incanthera.

Last round of funding provides pre-IPO capitalisation of £13.4m

To get Incanthera to where it is today, the company has raised gross funds of £7.41m through a series of funding rounds, the last round being between March and October 2018 to raise a total of £1.26m at a price of 550p per share. At the latest issue price, the outstanding share capital of Incanthera is valued at £13.4m.

Focus on cancer

Through close relationship with Institute of Cancer Therapeutics, Incanthera's focus is on finding new cancer treatments

Incanthera has a continuing close working relationship with the UoB's Institute of Cancer Therapeutics, which has a mission to research and develop new cancer treatments that deliver effective treatments directly to the tumour, or prevent cancer from spreading to other sites. Incanthera is looking to develop therapeutic medicines with improved efficacy through greater selectivity towards cancer cells and to address the plethora of adverse side effects seen with current treatments.

Initially focused on Sol...

...Incanthera also has solid pipeline of drugs targeting several types of cancer

R&D pipeline

Incanthera has the opportunity to develop a portfolio of oncology products across a number of cancer indications. Its lead candidate is Sol, a therapeutic and aesthetically active skin cream for preventing the progression of solar keratoses from sun damage to skin cancer. The cream also prevents the recurrence of skin cancers in patients previously diagnosed and treated. Only a modest amount of development work is required to have this product ready for out-licensing to a cosmetics company. This proof of strategy, coupled with any upfront payment, will be used to pave the way for the development of its other drug candidates.

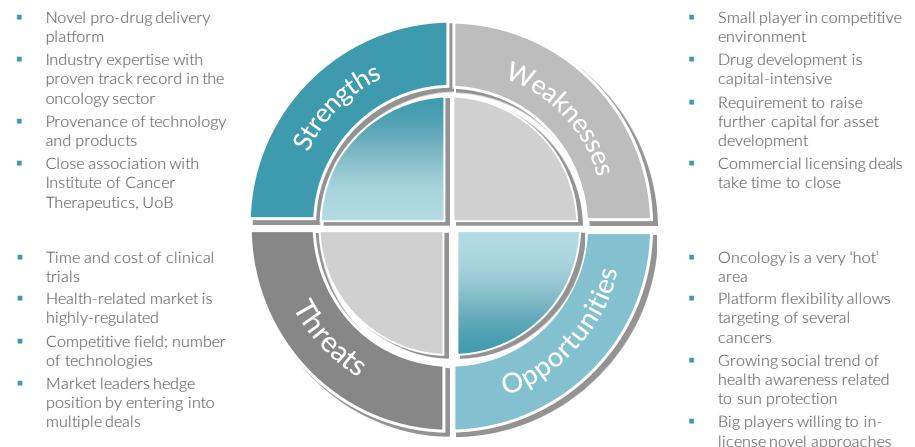
Incanthera pipeline				
Acquisition			Preparation for Licensing	Licensing
Platform	Product	Indication		
Sol	Topical Cream	Skin cancers: Actinic keratosis, melanoma (\$3.4bn)*	Bioequivalence →	Market Launch
EP0015	VDA & Theranostic	Lung, breast, ovarian cancers (\$5.9bn, \$15.3bn, \$1.6bn)*	Pre-clinical →	Licensed to Ellipses Pharma Ltd (2017)
	Taxane	Ovarian, prostate cancers (\$1.6bn, \$8.6bn)*	Lead →	
Equin	DT Diaphorase activation	Liver, brain, pancreatic cancers (\$0.5bn, \$0.35bn, \$2bn)*	Pre-clinical →	
Duo-C	CYP activation	Bladder, colorectal cancers (\$0.36bn, \$8bn)*	Lead →	

*Market size estimates sourced from external commercial sector reports

Source: Incanthera, Hardman & Co Life Sciences Research

SWOT analysis

Incanthera – SWOT analysis



Source: Hardman & Co Life Sciences Research

Investment summary

Incanthera has proven its business model already through the acquisition, preparation and out-licensing of EP0015 to Ellipses Pharma. Funds raised at IPO will be focused on Sol, which represents a relatively quick, low-risk project and near-to-market product, given that its active ingredient is an established oral cancer drug. Any upfront payment from a licensing deal, together with new funds raised on the back of this positive track record, would be used to develop other products in its R&D pipeline.

Lead development product – Sol

Background

In 2018, Incanthera entered into a product development and licensing agreement with a UK-based pharmaceutical design company, which is a specialist in the formulation of dermatological products and owns a specific dermatological drug delivery formulation on which it has pending patents. Through this, Incanthera acquired Sol, which has the potential to be developed as both a cosmetic and a drug. Initially, it will be developed as a skin cream, preventing the progression of sun-damaged skin (solar keratoses) to skin cancer.

The opportunity

Sol will be topical formulation of orally active product against solar keratoses

The Sol programme represents a low-risk strategy, as it consists of a new formulation of a well-established skin care product that is generally used to treat acne and other skin-related problems, but with an improved trans-dermal delivery. When taken orally, this drug has been shown to prevent progression and recurrence of common solar keratosis to skin cancer (including melanoma). Incanthera re-formulated this product into its patent-protected dermal delivery technology, and has demonstrated its superiority as active drug levels locally are equivalent to, and in excess of, those achieved following oral administration (summer 2019). By doing this, Incanthera is able to present a potentially high-value product offering in Sol, accessing a multi-billion-dollar market.

Incanthera's strategy

Sol's topical formulation aims to improve effect of active compound

The strategy is straightforward, carefully thought-through and benefiting from industry experience: to develop an improved topical skin formulation for delivery of a known agent that already has proven oral activity. Initially, Sol would be targeted at customers and patients looking to gain added skin protection from the sun, together with the claim of preventing melanoma. The regulatory demands for a cosmetic are much less onerous than for a drug, but the company will still need to perform a sensitisation study in a small cohort of humans. The rate-limiting step in the schedule is the stability testing to provide real-time shelf-life information, critical for the distribution chain. Taking all the points together, Incanthera should have Sol ready for out-licensing to a cosmetic partner within 18 months' time.

Schedule for the development of Sol for out-licensing

Steps	Comment	Timeline
Bioequivalence	Proven comparability with oral product	✓
Manufacturing	Scale-up under GMP conditions	3-12 months
Stability testing	Real-time, rate-limiting step	6-24 months
Sensitisation study	Standard "Patch" test in humans	18-24 months
Out-licensing	Key goal for company	18 months

Source: Hardman & Co Life Sciences Research

Commercial opportunity

Sun care market estimated at ca.\$12bn in 2018...

...a market dominated by major multinationals on look-out for new value-added products

There is an increasing global awareness of the harmful effects of prolonged exposure of unprotected skin to the sun's UV rays. In addition, consumers are cognizant that their skin needs as much help as possible in dealing with sunlight. Consequently, over the last five years, sun care products have graduated from being exclusively for skincare to becoming a multi-functional beauty product, helping to drive the market. Hardman & Co estimates that, in 2018, the global sun care market was valued at \$12.0bn and growing at ca.5.0%. This market is dominated by large multinationals, active in the M&A area, including Johnson & Johnson, Beiersdorf AG, L'Oréal, Coty and Shiseido, who are constantly looking for new value-added products, such as Sol, to boost sales and growth prospects.

Financial forecasts

- ▶ **Financial history:** Since incorporation, Incanthera has raised a total of £7.41m, including equity issued in exchange for acquired IP, at an average price of 305p per share, to get the company to where it is today.
- ▶ **IPO funding:** Forecasts assume that Incanthera will raise £2.5m when its shares are listed on the NEX exchange, which will be used predominantly to get Sol to a position where it is ready for market launch and can be out-licensed; the fund raise will also be used for general working capital purposes.
- ▶ **R&D:** Investment in R&D will be carefully controlled, with the majority of the spend being on Sol, in order for the product to become ready for out-licensing – a significant value inflection point.
- ▶ **Cash runway:** Careful control of R&D spend and corporate costs suggest that the company will have a cash runway until the end of calendar 2021. More funds will be needed thereafter to progress other products in the pipeline, which could come from either out-licensing deals and/or equity issues.
- ▶ **Valuation:** From a group of seven AIM-quoted UK peers working in a similar therapeutic field, the average EV is £19.0m (range £1.1m-£63.3m), and the median is £13.4m. The relative EV of these UK companies to the valuation of Incanthera at its last funding round is in the range of 0.1x to 4.9x, with an average of 1.5x.

Summary of financial statements					
Year-end Mar (£000)	2017	2018	2019E	2020E	2021E
Profit & Loss					
Sales	0	603	0	0	0
COGS	0	-189	0	0	0
SG&A	-676	-1,223	-920	-700	-500
Share-based costs	-34	-32	-300	-300	0
R&D	-365	-143	-330	-350	-550
Licensing/Royalties	0	0	0	0	0
Underlying EBIT	-1,075	-984	-1,550	-1,350	-1,050
Exceptional items	0	0	0	-300	0
Statutory EBIT	-1,075	-984	-1,550	-1,650	-1,050
Net financials	0	0	0	0	0
Underlying PBT	-1,075	-984	-1,550	-1,350	-1,050
Statutory PBT	120	41	23	0	0
Tax liability/credit	120	41	23	0	0
Underlying net income	-955	-943	-1,527	-1,350	-1,050
Underlying basic EPS (p)	-100.7	-57.6	-74.6	-50.8	-35.3
Statutory basic EPS (p)	-100.7	-57.6	-74.6	-62.1	-35.3
Balance sheet					
Share capital	10	19	24	24	24
Reserves	175	217	1,056	2,206	1,156
Loans & borrowings	0	0	0	0	0
less: Cash & deposits	88	143	165	1,796	904
Invested capital	97	93	915	434	276
Cashflow					
Underlying EBIT	-1,075	-984	-1,550	-1,350	-1,050
Change in working capital	539	113	-128	5	6
Company op. cashflow	-381	-719	-1,313	-890	-889
Capital expenditure	0	-8	-2	-2	-3
Equity issues	309	1,021	2,497	2,500	0
Change in net debt	45	55	22	1,631	-891
Opening net cash/(debt)	43	88	143	165	1,796
Closing net cash/(debt)	88	143	165	1,796	904

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

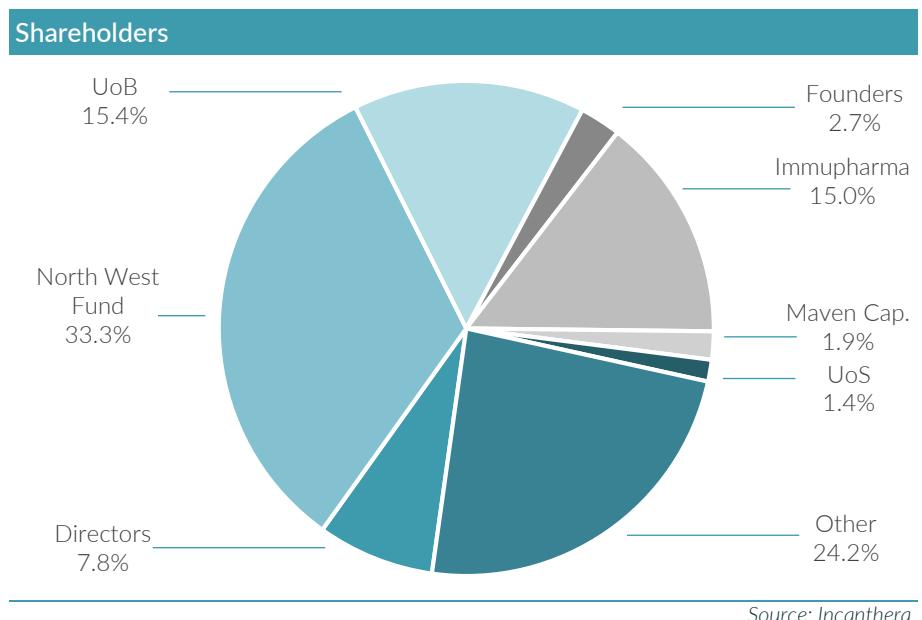
Board of Directors

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

TBC: M = member; C = chair
Source: Incanthera

Share capital

At 31 August 2019, there were 2,428,219 Ordinary shares of 1p in issue. In addition, there were 216,361 options. However, any outstanding options will lapse at the time of the IPO, and will be replaced by a new option scheme after the company is listed on the NEX exchange.



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