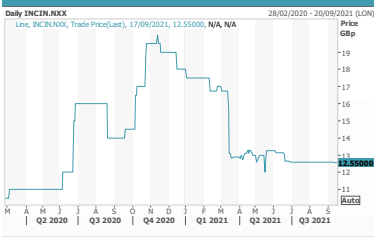




20 September 2021

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	INC
Price (p)	12.5
12m high (p)	18.0
12m low (p)	9.5
Shares (m)	74.1
Mkt cap (£m)	9.3
EV (£m)	8.8
Free float	44%
Country of listing	UK
Market	AQSE APX

Description

Incanthera is a UK-based specialist oncology and dermatology company. 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

Executive Chair	Tim McCarthy
CEO	Simon Ward
COO	Pawel Zolnierczyk
CFO	Laura Brogden
Company Secretary	Suzanne Brocks

+44 161 817 5005

www.incanthera.com

Key shareholders

Directors/PDMR	10.5%
North West Fund	21.8%
Immupharma plc	13.4%
University of Bradford	10.1%
Tyndall IM	6.9%

Diary

Dec'21	Interim results
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Analyst

Martin Hall	020 3693 7075
	mh@hardmanandco.com

INCANTHERA

Making good progress with Sol

Incanthera (INC) was a spin-out from the Institute of Cancer Therapeutics (ICT) at the University of Bradford to exploit development opportunities generated by ICT. Following its listing on the Aquis Growth Exchange in February 2020, INC has been concentrating its resources on the further advancement of lead product, Sol, which is now the subject of progressive discussions with two global cosmetic companies. A recent Placing with institutional investors raised ca.£1.0m net, which is providing the group with a cash runway until the second half of calendar 2022, excluding any income that may be included as part of a licensing deal.

- **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.
- **Sol:** Sol is being developed for preventing the progression of sun-damaged skin (solar keratoses) to skin cancer. Over the past year, INC delivered two successful independent skin studies and filed for a new patent, paving the way for a cosmetic licensing deal. Discussions are under way with two global players.
- **Valuation:** A group of seven AIM-listed peers developing new drugs in the field of cancer currently trade on an average EV of £97.3m (range £5.5m-£244.5m), and a median of £62.7m. The relative EV of these UK companies to the EV of INC is in the range of 0.6x (Evgen) to 28.6x (Redx), with an average of 11.4x.
- **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 major players, especially given management's strategy to out-license products early. Since listing, the focus has been on Sol, a patent-protected, value-added formulation for the treatment and prevention of pre-cancerous and cancerous skin conditions into a sun cream for cosmetic use to prepare it for out-licensing. The current EV does not fully reflect the strong progress, suggesting that there is good upside potential when comparing INC with a group of UK-listed peers.

Financial summary and valuation

Year-end Mar (£000)	2018	2019	2020	2021	2022E	2023E
Sales	603	0	0	0	0	0
SG&A	-1,223	-1,337	-653	-634	-602	-663
R&D	-143	-299	-280	-345	-250	-263
EBITDA	-864	-1,879	-1,091	-881	-759	-834
Underlying EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Reported EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Underlying PBT	-984	-2,012	-1,226	-1,016	-892	-967
Statutory PBT	-984	-2,012	-1,226	-1,016	-892	-967
Underlying EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Statutory EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Net cash/(debt)	143	176	392	957	352	-383
Equity issues	1,021	2,398	1,168	1,495	0	0

Source: Hardman & Co Research Life Sciences Research

About Incanthera

Background

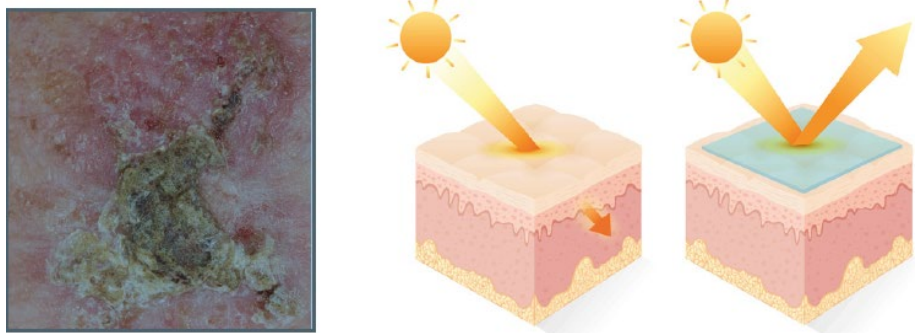
INC was incorporated in 2010 as a spin-out from the University of Bradford's (UoB) Institute of Cancer Therapeutics (ICT) to maximise the development opportunities being generated from this renowned organisation. In 2011, the company entered into an exclusive technology agreement with the university, whereby all the intellectual property (IP) rights in the relevant patents were fully assigned to INC. This provided the company with its core pro-drug delivery platform technology, which can be armed with known cytotoxic warheads to create highly targeted oncology drugs. The pipeline agreement with ICT has now been extended for a further 10 years.

Other technologies and products have been acquired through the acquisitions of Onco-NX (University of Salford spin-out) and Spear Therapeutics – both with an oncology focus.

Sol opportunity

In 2018, INC entered into a product development and licensing agreement with Limeway Pharma Design, a UK-based drug design company specialising in the formulation of dermatological products. INC also owns a specific dermatological drug delivery formulation on which it has pending patents. Through this, INC acquired Sol, which has the potential to be developed as both a cosmetic and a drug; however, the current focus is on a skin cream, preventing the progression of sun-damaged skin (solar keratoses) to skin cancer. The unique selling point (USP) would be the significant advantages that a topical formulation directly onto the skin offers compared with the current standard-of-care, which is oral dosing.

Sol – prevention of skin keratoses



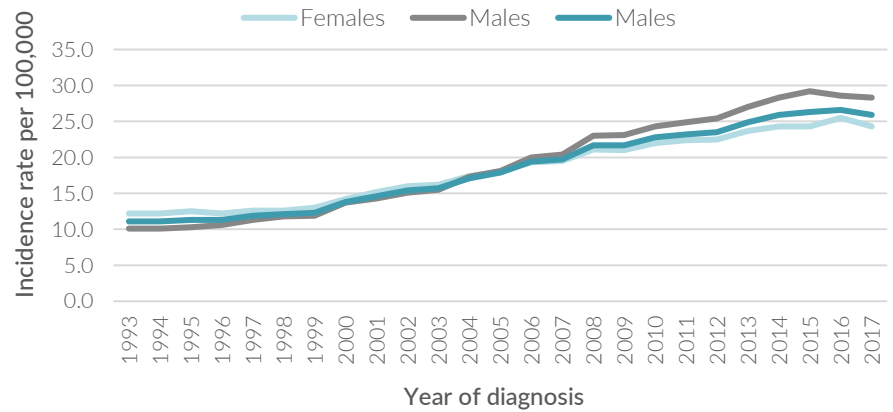
Source: Incanthera annual report 2020

The Sol programme represents a low-risk strategy, as it consists of a topical formulation of an already existing drug known to prevent the onset of sun-induced skin cancers. Oral administration of the active ingredient for Sol is known to prevent the onset of sun-induced skin cancers. INC has incorporated this compound into its proprietary formulation technology to make a product that can be applied topically. In 2019, independent proof-of-principle studies using human skin penetration models showed 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. Further studies on permeation across the skin's barrier and safety – to declare the formulation as “non-irritant” like current baby sun care products – have led to licensing discussions with potential partners. Consequently, INC is aiming to leverage proven formulation technologies and know-how to deliver effectiveness in selected dermatological markets. As such, Sol is a potentially high-value product accessing a multi-billion-dollar market.

Market opportunity

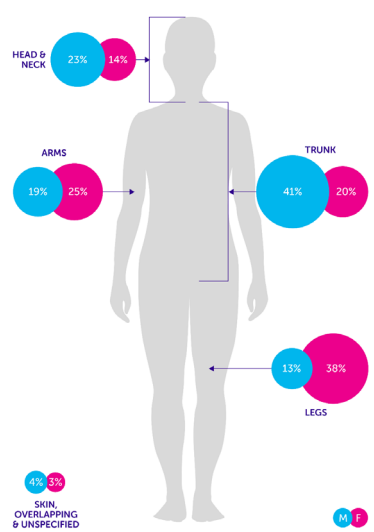
Skin cancer, including solar keratosis, is the most common form of cancer in white populations and deaths arising from invasive melanoma are on the increase.

Incidence of skin cancer in Europe – 1993-2017



Source: Cancer Research UK

Skin cancer by anatomical site



Source: Cancer Research UK

According to Cancer Research UK, over a 25-year period (1993-2017), the incidence of skin cancer in the UK has risen at a compound rate of 3.6% p.a. Although it was more common in females than males in 1993, this trend has been reversed recently. For females in the UK, the incidence of European age-standardised melanoma skin cancer rates increased 101% between 1993-1995 and 2015-2017; for males, the figure was 182%. Part of the reason for this has been changing lifestyles and greater exposure of skin to the sun's damaging UV rays. The increase in incidence has been matched by a rise in the death rate and melanoma skin cancer was the 19th most common cause of cancer death in the UK in 2018, accounting for 1% of all cancer deaths.

Progress during the past 12 months

Skin permeation study

In September 2020, INC published positive results from an independent study at the University College of London School of Pharmacy (SoP), which demonstrated that the active ingredient in a refined formulation of Sol permeated the skin better than a number of comparator products. 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 reaffirmed that INC's refined formulation of Sol also exceeded bioequivalence.

Skin sensitivity study

Also in September 2020, a study 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. 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".

Commercial progress

Armed with these and previous studies, INC began to introduce Sol's technology to a number of potential commercial partners during the past year and confirmed recently that it has prioritised discussions with two global cosmetic companies. The company has confirmed that these discussions continue to progress.

R&D pipeline

Given its limited resources, management is focusing on the development and commercial licence for Sol. The company has other products in its pipeline, the development of which will be accelerated when INC has the necessary resources. A summary of the company’s R&D pipeline is shown in the following graphic.

INC – oncology product pipeline				
Programme			Preparation for licensing	Licensing
Platform	Product	Indication		
Sol	Topical Cream	Skin cancers: solar keratosis (SK), melanoma (SK - \$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	

Source: Incanthera corporate presentation

SWOT analysis

SWOT analysis

- Novel pro-drug delivery platform
- Industry expertise with proven track record in the oncology sector
- Provenance of technology and products
- Close association with the ICT at UoB

- Small player in competitive environment
- Drug development is capital-intensive
- Requirement to raise further capital for asset development
- Commercial licensing deals take time to close

- Time and cost of clinical trials
- Health-related market is highly regulated
- Competitive field; number of technologies
- Market leaders hedge position by entering into multiple deals

- Oncology is a very “hot” area
- Platform flexibility allows targeting of several cancers
- Growing social trend of health awareness related to sun protection
- Big players willing to in-license novel approaches

Source: Hardman & Co Research Life Sciences Research

Investment conclusion

Total funds raised since inception are £8.3m for development and working capital purposes, or £9.8m including some acquisitions made for shares. Much (34%) of this has been invested into R&D, with the cumulative spend currently running at £2.8m plus an unknown quantity of research costs, mostly grant funded, incurred by the universities. This highlights the considerable progress that has been made with limited resources.

Compared with a group of seven AIM-listed peers developing new drugs in the field of cancer, the relative EV of INC is in the range of 0.6x (Evgen) to 28.6x (Redx), with an average of 11.4x, suggesting that there is good upside potential in the event that INC delivers on its stated corporate strategy.

Financial summary

- ▶ **R&D:** Investment in R&D remains highly targeted towards the strategic goal to progress Sol to a commercial cosmetic licence, which would represent a significant value-inflection point.
- ▶ **SG&A:** Despite the increased overhead associated with being a listed company, careful control of general operating costs is maximising the cash runway.
- ▶ **Cash runway:** With a net cash position of £0.96m at 31 March 2021, based on current forecasts, INC has a cash runway into the second half of calendar 2022. This does not allow for any upfront payment that might be part of any licensing deal. More funds will be needed thereafter to progress other products in the pipeline.
- ▶ **Valuation:** INC is trading on an EV of £9.0m. Since our latest report in May 2021, the group of seven AIM-listed peers developing new drugs in the field of cancer have seen mixed movements in share prices, such that the average EV currently £97.3m (range £5.5m-£244.5m), and a median of £62.7m. The relative EV of these UK companies to the EV of INC is in the range of 0.6x (Evgen) to 28.6x (Redx), with an average of 11.4x, 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)	2018	2019	2020	2021	2022E	2023E
Income statement						
Sales	603	0	0	0	0	0
COGS	-189	-106	0	0	0	0
SG&A	-1,223	-1,337	-653	-634	-602	-663
Share-based costs	-32	-270	-293	-37	-40	-42
R&D	-143	-299	-280	-345	-250	-263
Licensing/royalties	0	0	0	0	0	0
Underlying EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Exceptional items	0	0	0	0	0	0
Statutory EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Net financials	0	0	0	0	0	0
Underlying PBT	-984	-2,012	-1,226	-1,016	-892	-967
Statutory PBT	-984	-2,012	-1,226	-1,016	-892	-967
Tax liability/credit	41	24	98	111	50	53
Underlying net income	-943	-1,988	-1,128	-905	-842	-915
Underlying basic EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Statutory basic EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Balance sheet						
Share capital	19	25	1,217	1,482	1,482	1,482
Reserves	217	979	-3	209	-633	-1,548
Loans & borrowings	0	0	0	0	0	0
less: Cash & deposits	143	176	392	957	359	-371
Invested capital	93	828	822	734	490	305
Cashflow						
Underlying EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Non-cash items	152	403	428	172	174	175
Change in working capital	113	-784	-60	-33	12	13
Company op. cashflow	-719	-2,393	-858	-877	-707	-779
Capital expenditure	-8	0	0	0	0	0
Equity issues	1,021	2,398	1,168	1,495	0	0
Change in net debt	55	33	216	565	-599	-729
Opening net cash/(debt)	88	143	176	392	957	359
Closing net cash/(debt)	143	176	392	957	359	-371

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 Chair	Tim McCarthy		
Chief Executive Officer	Simon Ward		
Non-executive director	Alan Warrander	C	C

C = chair

Source: Corporate website

Senior management

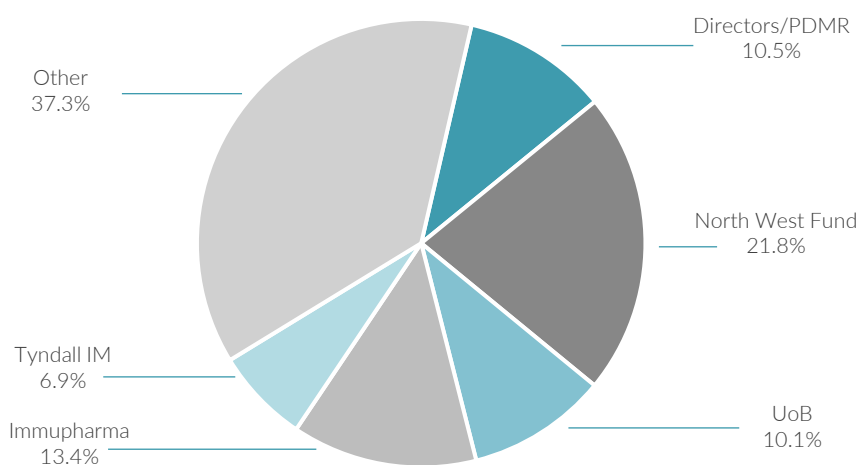
Senior management	
Position	Name
COO	Pawel Zolnierczyk
CFO	Laura Brogden
Company Secretary	Suzanne Brocks

Source: Corporate website

Share capital

On 17 September 2021, there were 74,082,871 Ordinary shares of 2p in issue. In addition, there are 7,350,000 options and 18,084,417 warrants outstanding.

Shareholders



Source: Incanthera

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