

16 JULY 2024

Ticker INC
Share price 28p
Market cap £32m

Share price performance 1 yr



Source: Aquis

Company description

Founded as a spin-out from the Institute of Cancer Therapeutics at the University of Bradford in 2010, Incanthera is a UK-based specialist in dermatological cancer treatments. Products include 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.

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INITIAL SALES – A BRIGHT OUTLOOK

Incanthera has addressed the problem of topically delivering B3 niacinamide compounds, effective in repairing (sun exposure) skin damage and removing pigmentation and wrinkles¹, past the upper skin barrier. Having closed a deal in late 2023 the Group will begin distribution in September 2024 of its *Skin+CELL* product in Switzerland and Austria via Marionnaud, a part of the Watson Health and Beauty cosmetics group with 12 retail brands and c.16,500 outlets in 28 countries in Europe, Asia and the Far East. We update on promising early progress and introduce earnings estimates for the coming three years.

Incanthera has a highly-scalable business model based on its partners' expertise in market access, manufacturing and distribution. Incanthera's low central cost structure means that top line growth has the potential to translate into high margins and strong cash-generation.

- **Progress in 2024-25.** *Skin+CELL* will be available, initially, in c.60 of Marionnaud's stores in Switzerland and Austria at launch in September 2024. This will be followed by roll out to Marionnaud's remaining stores across European markets.
- **Rapid increase in scale and supply.** The initial production order for 25,000 units was subsequently increased to 50,000 units (25 March) and doubled again to 100,000 units (3 June). Incanthera has confirmed (11 July) that a further production order has been placed for 250,000 units, which underpins our FY25 revenue estimate of c.£12m.
- **The opportunity** to expand distribution into to A.S. Watson's retail network is becoming a reality, giving further access across Europe (8,300 outlets) and Asia (7,900 outlets in China, Malaysia, Thailand and the Philippines; a total of 16,491 at year-end FY23²).

We introduce earnings estimates to FY27E:

- FY25 revenue of £11.8m, (adj.) EBITDA of £3.1m, 26.1% margin.
- FY26 revenue of £35.0m, (adj.) EBITDA of £11.8m, 33.6% margin.
- FY27 revenue of £92.8m, (adj.) EBITDA of £34.0m, 36.7% margin.

Our revenue outlook demonstrates the key feature of the Incanthera business model which is the combination of 'outsourced' manufacturing and distribution combined with low centralised costs, through which top line growth translates into margin expansion and strong cash generation.

Our peer group-based valuation indicates an equity value of 200p/share.

Incanthera recently completed a fundraise (21 June 2024) of £2.6m (gross).

Earnings outlook

Yr to March 31 (£m)	2023	2024E	2025E	2026E	2027E
Revenue	-	-	11.79	35.00	92.82
EBITDA (adj)	(0.81)	(0.85)	3.07	11.75	34.04
Pre-Tax Profit (adj)	(0.81)	(0.85)	3.07	11.75	34.04
EPS (adj. p)	(0.98)	(1.10)	2.73	7.55	21.88
Net debt (cash)	0.13	1.26	(5.62)	(14.33)	(39.74)
EV/Rev	N.M	N.M	2.3x	0.8x	0.3x
EV/EBITDA	N.M	N.M	8.6x	2.3x	0.8x
P/E	N.M	N.M	10.1x	3.7x	1.3x
(adj.) EBITDA Mrg			26.1%	33.6%	36.7%

Source: Company data, Stanford Capital Partners estimates. ¹Stanford Capital Partners' report [Breakthrough Distribution Deal](#), 25 March 2024. ²Hutchison annual report 2023.

INITIAL *SKIN+CELL* SHIPMENT

SKIN+CELL EFFECTIVE B3 DELIVERY

Incanthera's *Skin+CELL* safely passes through the skin surface barrier to deliver bioactive B3 niacinamide compounds into lower epidermal layers through topical delivery (cream application). Niacinamides have been shown to be effective in repairing (sun exposure) skin damage or removing pigmentation and wrinkles. Incanthera's *Skin+CELL* presents an effective 'anti-ageing' pharma-cosmetic market opportunity, which has been grasped by the Watson Group with its extensive retail network across Europe, Asia and the Far East.

CURRENT AND PLANNED DISTRIBUTION

Incanthera announced a commercial deal on 18 December 2023 to launch *Skin+CELL* via A.S. Watson company, Marionnaud, in Switzerland and Austria. As we have noted, this provides an entry point to Watson's extensive retail distribution network. Currently:

- *Skin+CELL* is to be launched in September 2024 through c.60 Marionnaud stores in Switzerland and Austria and managed by Incanthera's Swiss subsidiary, Skin & Cell A.G., which is responsible for worldwide product promotion and distribution.
- *Skin+CELL* is marketed in five different forms (Face, Hand, Body, Serum and Eye Cream) at different price points. It is Marionnaud's responsibility to decide the retail pricing structure: from this we estimate that Incanthera receives c.40% as its revenue input. From initial data we derive an average revenue per unit for Incanthera of £34 (subject to CHF exchange rates); we would expect this to evolve according to the combination of product popularity and Marionnaud's pricing decisions.
- Incanthera currently has a total of 350,000 units in production for delivery in FY25.
- Incanthera will receive payment on delivery. The company estimates that production at this stage is self-funding, but is evaluating the use of non-dilutive working capital finance options in order to boost inventory build.
- Incanthera supplies *Skin+CELL* via the Swiss manufacturer Frike Cosmetic A.G., which provides all manufacturing, packaging and quality control. This, together with the cost of materials and containers, represents the initial COGS element for Incanthera, from which we estimate an initial 76% gross margin contribution.
- Incanthera has additional very low direct costs (FY25E 3.28% of revenue) which also contribute to COGS.
- Incanthera established its relationship with Marionnaud and the Watson Group via a Swiss intermediary, GenXLife A.G., to whom it pays a Partnership fee of 50% of gross margin.
- As a result, Incanthera derives an effective c.36% gross margin.

In summary, Incanthera's business model combines:

- Outsourced manufacturing via Frike Cosmetic A.G to deliver the product to the standard required.
- Distribution via the extensive Marionnaud/Watson marketing network, backed by established presence and expertise.
- A Partnership fee from gross profits minus direct costs.
- Low centralised operating costs.

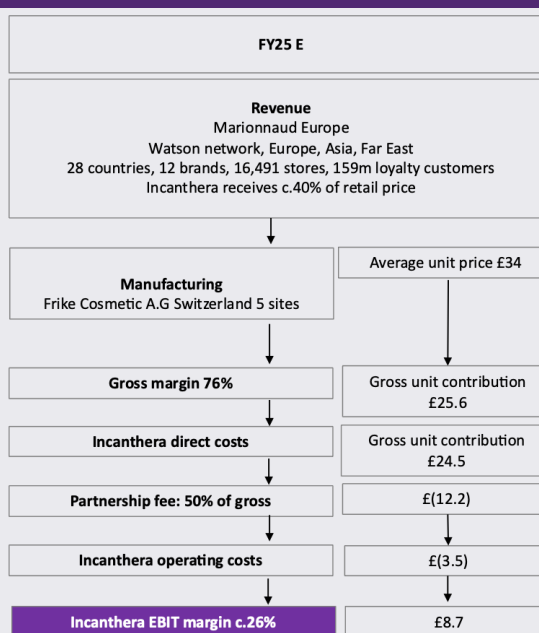
BUSINESS MODEL

Incanthera has outsourced manufacturing and distribution; low centralised costs means that gross profitability is transferred to PBT.

A HIGHLY SCALABLE BUSINESS MODEL

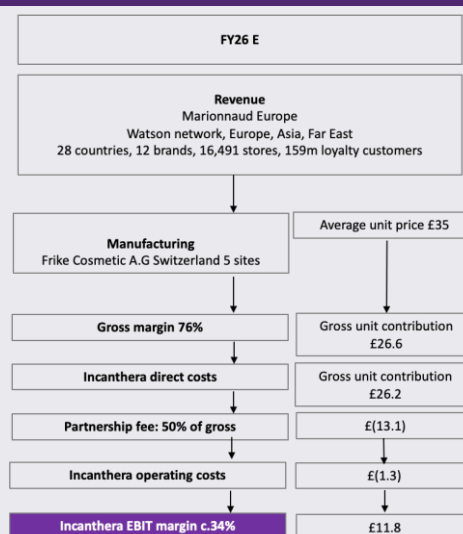
As illustrated below, the *Skin+CELL* business model is **highly scalable** due to breadth of market access via the Watson Group and outsourced manufacturing (containers sourced from Italy and Frike Cosmetic A.G. processing) combined with **Incanthera’s low centralised costs**. As a result, illustrated below, we expect **(adj.) EBIT margin expansion** post FY25 as volume shipments and sales grow but overheads remain low.

Incanthera business model: FY25, c.26% (E) EBIT margin



Source: Company data, Stanford Capital Partners estimates.

Incanthera business model: FY26, c.34% (E) EBIT margin



Source: Company data, Stanford Capital Partners estimates.

BUSINESS MODEL

In contrast to the projected rapid ramp-up in scale of shipments and revenue, Incanthera's own centralised costs remain minimal, and are set to grow only marginally. This translates into the prospect of strong profit growth and cash generation.

IMPACT ON PROJECTED P&L

We estimate Incanthera's FY25 underlying centralised operating costs (excluding non-recurring items) at £1.21m, which we assume to grow at 10% p.a. This means that the expansion of sales reach, via the Watson Group, and resulting sales volume and gross contribution feeds through to expanded (adj.) EBIT margins. Below we summarise the impact on P&L in the forecast years 2025-2027, indicative of (adj.) EBIT margin expansion from an initial c.26% towards c.37%.

- FY24/25 unit volume rising from 25,000 to 100,000, followed by 250,000. This results in FY25 E revenue of £11.8m, adj. EBIT £3.1m, 26.1% margin.
- FY25/26 unit volume of 1.0m. FY26 E revenue: £35.0m, adj. EBIT £11.8m, 33.6% margin.
- FY26/27 unit volume of 2.65m. FY27 E revenue: £92.8m, adj. EBIT £34.0m, 36.7% margin.

P&L outlook to FY27 E

Yr to March 31 (£m)	FY 25E	FY 26E	FY 27E
Stores	200	1,450	3,000
Units '000	350	1,000	2,652
Av Product Price (£)	33.7	35.0	35.0
Revenue	11.8	35.0	92.8
<i>YoY</i>		197%	165%
Gross incl. direct costs	8.57	26.17	70.07
<i>Margin</i>	72.7%	74.8%	75.5%
COGS	(3.217)	(8.826)	(22.745)
Partnership fee GenXLife	-50.0%	-50.0%	-50.0%
Partnership fee GenXLife	(4.29)	(13.09)	(35.04)
Gross: Incanthera	4.29	13.09	35.04
<i>Margin</i>	36.4%	37.4%	37.7%
Operating costs	(1.41)	(1.33)	(1.47)
Operating costs, ongoing	(1.21)	(1.33)	(1.47)
Operating costs, one-off	(0.20)	0.00	0.00
<i>Op-ex YoY</i>	0.0%	-5.6%	10.0%
EBIT Reported	2.87	11.75	34.04
EBIT Adjusted	3.07	11.75	34.04
<i>Margin</i>	26.1%	33.6%	36.7%

Source: Company data, Stanford Capital Partners estimates.

FY25 one-off costs.

We expect FY25 one-off operating costs, including share issue costs (June 2024), c.£0.20m.

Warrant exercise

Our FY25 estimates include a c.£0.7m contribution from the expected exercise of warrants for 7.4m shares priced at 9.5p.

EXPANSION PHASES

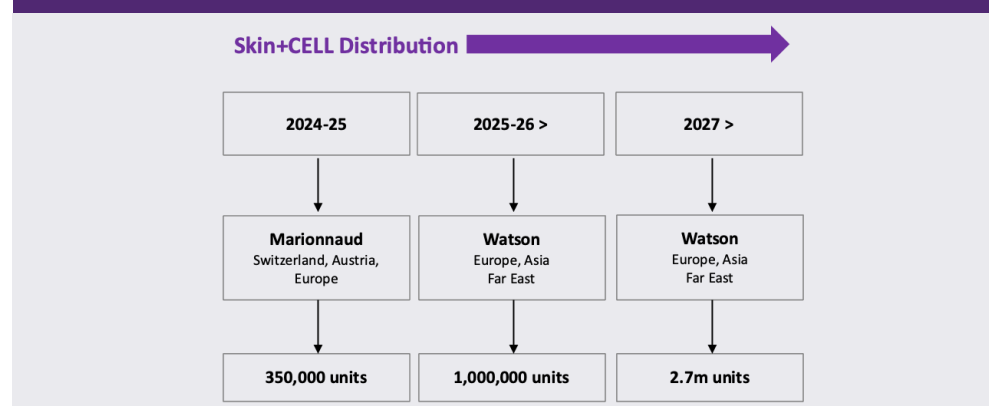
BUSINESS MODEL: EXPANSION PHASES

Following initial marketing in Europe, from 2026 we expect expansion into the Watson network in Asia and the Far East.

Our outlook assumes expansion in phases:

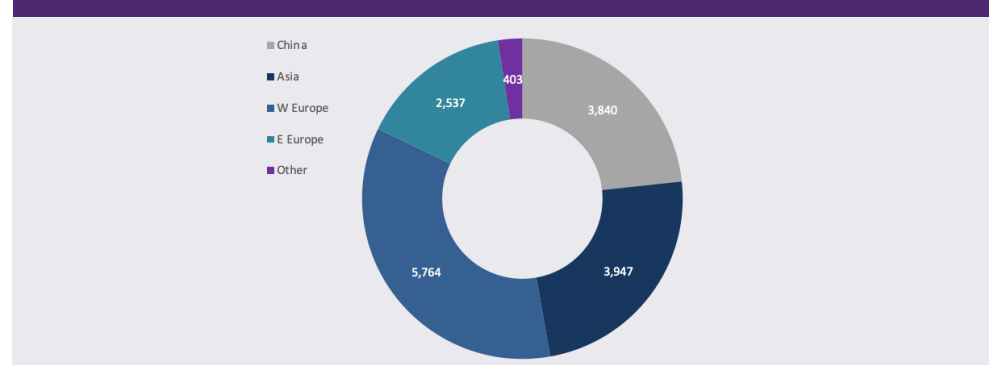
- Phase I:** In December 2023 Incanthera announced a deal to supply Marionnaud outlets in Switzerland and Austria. This resulted in:
 - 18 December 2023: initial production of 25,000 units.
 - 25 March 2024: initial production order increased to 50,000 units.
 - 3 June 2024: initial production order increased to 100,000 units.
 - 11 July 2024: second production order confirmed for 250,000 units.
- Phase II:** From FY26 onwards: access to A.S. Watson's network totalling 16,491³ retail outlets in Europe and across China, Malaysia, Thailand, Philippines and Turkey. In Europe Watson's brand presence currently includes: in the Netherlands, Kruidvat and Trekleister; Rossmann GmbH with 4,700 outlets in Germany, Poland, Hungary, Czech Republic, Turkey, Albania, Kosovo and Spain; in UK and Ireland, Superdrug and The Perfume Shop; Drogas in Latvia and Lithuania; and ICI Paris XL in France, Netherlands, Belgium and Luxembourg.
- To supply Watson's Asia and Far East market for FY27 we estimate a requirement for c.2.7m units.

Skin+CELL distribution roadmap



Source: Company data, Stanford Capital Partners estimates.

Hutchison Health & Beauty, Watson, stores footprint, 2023



Source: Hutchison Group AR 2023, p28. ³ Hutchison 2023 Annual Report p26.

WATSON NETWORK CONTINUES TO EXPAND

The Watson network continues to expand, recording FY23 revenue growth of 12%YoY, notably in Europe and Asia.

As evident in latest figures published by Watson owner, Hutchison, for its Health & Beauty division, the Watson retail cosmetics network continues to grow.

As Hutchison notes (FY23 AR p25) its retail division “consists of the AS Watson group of companies, the world’s largest international Health and Beauty (“H&B”) retailer with a 159 million loyalty member base”. Hutchison H&B continued to expand in 2023, adding 49 outlets (+2%) and growing revenue 12%YoY (excluding ‘Other’, principally comprising PARKnSHOP, Watson’s Wine). Revenue growth was led by Asia, + 20%YoY, and E. Europe, +16%, with EBITDA profitability also led by E. Europe (+12.6%) and Asia (+10.3%; local currency +23%), and EBITDA overall +12%YoY. Hutchison notes (2023 AR p30):

- “Watsons is the leading health and beauty retail chain in Asia with strong brand name recognition and extensive geographical coverage ... The growth in EBITDA and EBIT was primarily attributable to operations in Thailand, Malaysia and the Philippines from increase in store footfall as well as incremental margin from continued store network expansion.”
- H&B W Europe added a net 61 stores to record over 5,700 by 31 December 2023.
- H&B E Europe recorded over 2,500 stores.

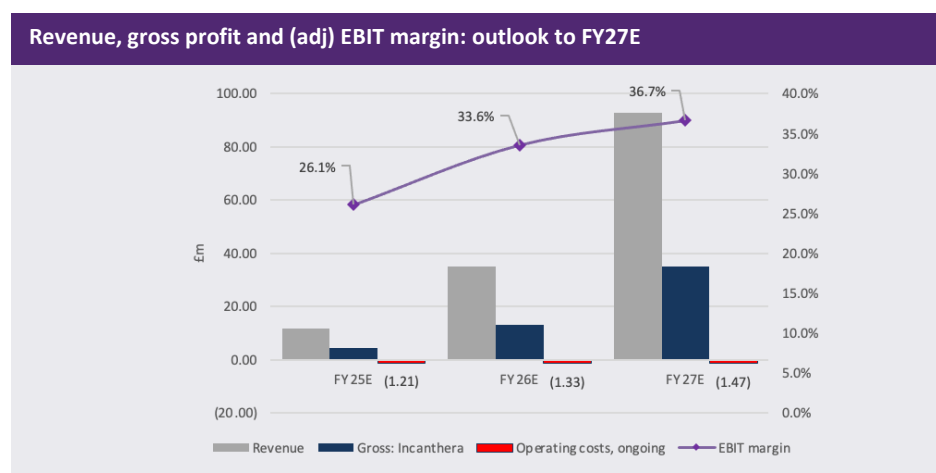
Hutchison Health & Beauty (AS Watson) FY23 performance					
Stores, Revenue		2023	HK\$m	US\$m	HK\$YoY
	China	3,840	16,453	2,139	-1.0%
	Asia	3,947	35,235	4,581	20.0%
	W Europe	5,764	86,267	11,215	10.0%
	E Europe	2,537	22,262	2,894	16.0%
	Other	403	23,127	3,007	-15.0%
Total		16,491	183,344	23,835	12.0%
	China & Asia	7,787	51,688	6,719	12.0%
	Europe	8,301	108,529	14,109	12.0%
EBITDA		Mrg	HK\$m	US\$m	HK\$YoY
	China	6.3%	1,042	135	-1.0%
	Asia	10.3%	3,627	472	20.0%
	W Europe	9.8%	8,475	1,102	10.0%
	E Europe	12.6%	2,803	364	16.0%
	Other	1.2%	279	36	-15.0%
Total		8.9%	16,226	2,109	12.0%
	China & Asia	9.0%	4,669	607	12.0%
	Europe	10.4%	11,278	1,466	12.0%

Source: Hutchison Group AR 2023, p25.

MEDIUM-TERM OUTLOOK

IMPACT OF EXPANSION VIA THE WATSON NETWORK

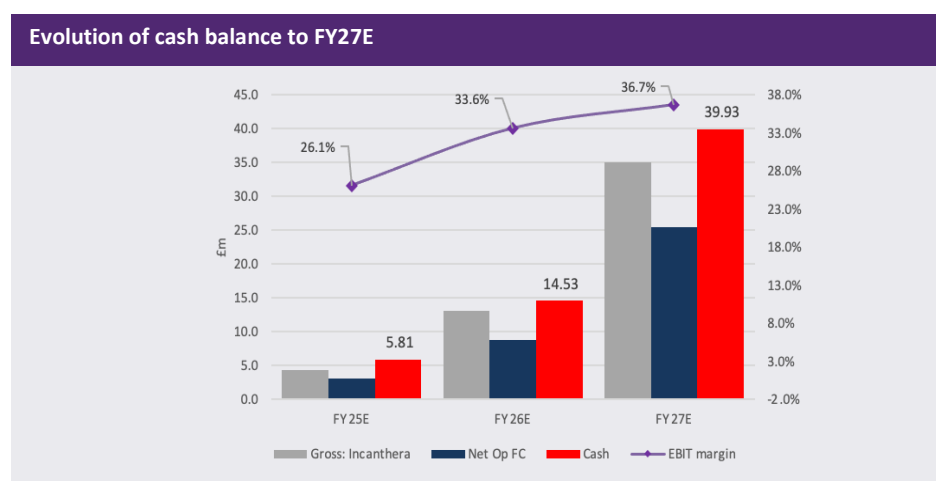
Below illustrates the initial impact of planned increases in *Skin+CELL* unit production combined with expansion of sales reach through the Marionnaud network, followed by distribution through the Watson retail network into Asia.



Source: Company data, Stanford Capital Partners estimates.

This outlook does not take account of any variation in average unit price, for example, should this rise as more expensive products prove popular.

Below illustrates the evolution of cash generation and indicative year-end cash balances, inclusive of provision in cashflow for inventory build to meet production requirements.



Source: Company data, Stanford Capital Partners estimates. Net Op FC: Net operating free cashflow: cash from operations post tax and capital expenditure.

VALUATION

COMPARATIVE VALUATION

We adopt a comparative valuation approach based on analogies between Watson as “the world’s largest international Health and Beauty (“H&B”) retailer with a 159 million loyalty member base” (Hutchison FY23 AR p25) and a range of global cosmetics and healthcare products providers. As illustrated below, we have located Incanthera in terms of:

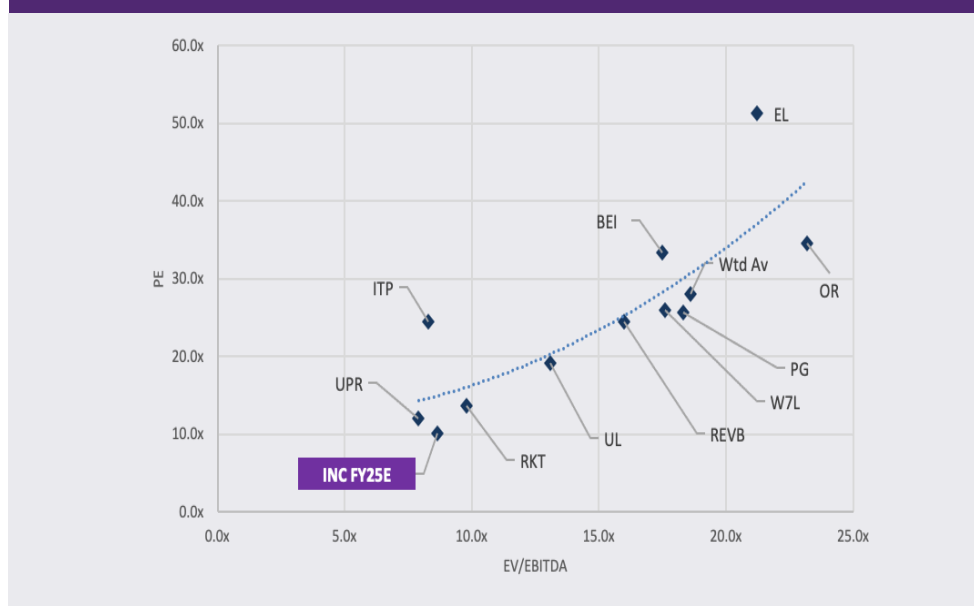
- FY25E EV/EBITDA / PE.
- EV/EBITDA /EV / Revenue.

We match against a range of well-known international cosmetics and consumer peers to A.S. Watson, plus two LSE AIM peers. A number of peers, e.g. The Proctor & Gamble Company, market cap £310bn, are of sizeable scale, however Watson owner CK Hutchison Holdings has a market cap of US\$18.3bn whilst Hutchison Health & Beauty recorded FY23 revenue of HK\$183bn (US\$23.8bn) and EBITDA of US\$2.1bn, i.e. in a similar bracket in terms of size and market presence.

The peer group comprises: The Proctor & Gamble Company (ticker: PG), L’Oréal S.A (OR), Unilever PLC (UL), The Estée Lauder Companies Inc. (EL), Reckitt Benckiser Group PLC (KT), Beiersdorf Aktiengesellschaft (BEI), Interparfums SA (ITP), Uniphar PLC (UPR), Wapaint London PLC (W7L), and Revolution Beauty Group PLC (REVB).

- The peer group (total market cap £715.1bn) market cap-weighted EV/EBITDA (+1 year) is 18.6x, EV/Revenue 4.5x, PE 28.0x
- On FY25E earnings, Incanthera currently trades on 8.6x EV/EBITDA.
- For Incanthera, the read-across peer group market cap weighted EV/EBITDA multiple indicates **a per share value of 200p**, based on:
 - FY26E (adj.) EBITDA of £11.8m.
 - FY26E net cash of £14.3m.

Comparative valuation: EV/EBITDA, PE



Source: Company data, Stanford Capital Partners estimates, Koyfin.

FINANCIAL DATA

P&L							
Year to 31 March (£m)		FY23	H1 24	FY 24E	FY 25E	FY 26E	FY 27E
Revenue					11.79	35.00	92.82
	YoY	N.M.	N.M.	N.M.	N.M.	197%	165.2%
Gross					8.96	26.60	70.54
	Margin				76.0%	76.0%	76.0%
Direct costs					(0.39)	(0.43)	(0.47)
	Direct costs % of rev				3.3%	1.2%	0.5%
Gross incl. direct costs					8.57	26.17	70.07
	Margin				72.7%	74.8%	75.5%
COGS					(3.22)	(8.83)	(22.75)
Partnership fee GenXLife					-50.0%	-50.0%	-50.0%
Partnership fee GenXLife					(4.29)	(13.09)	(35.04)
Gross: Incanthera					4.29	13.09	35.04
	Margin				36.4%	37.4%	37.7%
Operating costs, ongoing		(0.81)	(0.59)	(0.85)	(1.21)	(1.33)	(1.47)
Operating costs, one-off		(0.15)	(0.03)	0.00	(0.20)	0.00	0.00
EBIT Reported		(0.96)	(0.62)	(0.85)	2.87	11.75	34.04
EBIT Adjusted		(0.81)	(0.59)	(0.85)	3.07	11.75	34.04
	Margin				26.1%	33.6%	36.7%
Amortisation		0.00	0.00	0.00	0.00	0.00	0.00
Depreciation		0.00	0.00	0.00	0.00	0.00	0.00
EBITDA Reported		(0.96)	(0.62)	(0.85)	2.87	11.75	34.04
EBITDA Adjusted		(0.81)	(0.59)	(0.85)	3.07	11.75	34.04
	Margin				26.1%	33.6%	36.7%
Financial income		0.00	0.00	0.00	0.00	0.00	0.00
Financial expense		0.00	0.00	0.00	0.00	0.00	0.00
One-off items		(0.49)	0.00	0.00	0.00	0.00	0.00
PBT Reported		(1.45)	(0.62)	(0.85)	2.87	11.75	34.04
PBT Adjusted		(0.81)	(0.59)	(0.85)	3.07	11.75	34.04
Tax		0.075	0.000	0.000	0.000	(2.938)	(8.510)
	Reported tax rate					25.0%	25.0%
	Tax rate % adjusted					25.0%	25.0%
PAT Reported		(1.37)	(0.62)	(0.85)	2.87	8.81	25.53
PAT Adjusted		(0.74)	(0.59)	(0.85)	3.07	8.81	25.53
Basic wtd. Av. shares (m)		75.212	77.242	77.242	112.774	116.680	116.680
Dilutive		0.000	0.000	0.000	0.000	0.000	0.000
Diluted wtd. av. shares (m)		75.212	77.242	77.242	112.774	116.680	116.680
EPS Reported Basic (p)		(1.8)	(0.8)	(1.1)	2.5	7.6	21.9
EPS Reported Diluted (p)		(1.8)	(0.8)	(1.1)	2.5	7.6	21.9
EPS Adjusted Basic (p)		(1.0)	(0.8)	(1.1)	2.7	7.6	21.9
EPS Adjusted Diluted (p)		(1.0)	(0.8)	(1.1)	2.7	7.6	21.9

Source: Company data, Stanford Capital Partners estimates.

Cashflow						
Year to 31 March (£m)	FY23	H1 24	FY 24E	FY 25E	FY 26E	FY 27E
LBT/PBT (rptd.)	(1.45)	(0.62)	(0.85)	2.87	11.75	34.04
One-off items	0.56	0.03	0.00	0.20	0.00	0.00
D&A	0.07	0.00	0.00	0.00	0.00	0.00
Operating Cash Flow	(0.82)	(0.59)	(0.85)	3.07	11.75	34.04
Working capital						
(Increase)/Decrease inventories	0.00	0.00	0.00	(3.55)	(10.83)	(23.76)
(Increase)/Decrease in receivables	0.06	0.03	0.06	(1.45)	(2.86)	(7.13)
Increase/(Decrease) in payables	0.23	0.45	(0.28)	1.45	2.86	7.13
Movement in working capital	0.29	0.48	(0.22)	0.00	0.00	0.00
Cash generated by operations	(0.53)	(0.11)	(1.07)	3.07	11.75	34.04
Tax (paid)/received	0.08	0.00	0.00	0.00	(2.94)	(8.51)
Net cash from operations	(0.45)	(0.11)	(1.07)	3.07	8.81	25.53
Investing activities	0.00	0.00	0.00	0.00	0.00	0.00
PPE	0.00	0.00	0.00	0.00	(0.10)	(0.12)
Other	0.00	0.00	0.00	0.00	0.00	0.00
Net cash used in investing	0.00	0.00	0.00	0.00	(0.10)	(0.12)
Net OpFCF	(0.45)	(0.11)	(1.07)	3.07	8.71	25.41
Financing activities						
Borrowings	0.00	0.00	0.00	0.00	0.00	0.00
Interest paid	0.00	0.00	0.00	0.00	0.00	0.00
Share issue (net)	0.16	0.10	0.00	3.09	0.00	0.00
Warrant exercise	0.00	0.00	0.00	0.71	0.00	0.00
Net cash from financing	0.16	0.10	0.00	3.80	0.00	0.00
Net increase in cash	(0.29)	(0.01)	(1.07)	6.88	8.71	25.41
Cash at beginning of year	0.30	0.00	0.00	(1.07)	5.81	14.53
Cash at year end	0.00	(0.00)	(1.07)	5.81	14.53	39.93
Net debt / (cash)	0.13	0.20	1.26	(5.62)	(14.33)	(39.74)

Source: Company data, Stanford Capital Partners estimates.

Balance sheet

Year to 31 March (£m)	FY23	H1 24	FY 24E	FY 25E	FY 26E	FY 27E
Fixed Assets						
Intangible assets	0.06	0.06	0.06	0.06	0.06	0.06
PPE net	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax, other	0.00	0.00	0.00	0.00	0.00	0.00
Sum Fixed Assets	0.06	0.06	0.06	0.06	0.06	0.06
Current Assets						
Inventories	0.00	0.00	0.00	3.55	14.38	38.15
Trade receivables	0.06	0.03	0.00	1.45	4.32	11.44
Tax assets	0.07	0.07	0.00	0.00	0.00	0.00
Cash, Equivalents	0.00	(0.00)	(1.07)	5.81	14.53	39.93
Sum Current Assets	0.14	0.10	(1.07)	10.82	33.23	89.52
Total Assets	0.20	0.16	(1.01)	10.88	33.28	89.58
Current Liabilities						
Trade payables	(0.28)	(0.63)	0.00	(1.45)	(4.32)	(11.44)
Sum Current Liabilities	(0.28)	(0.63)	0.00	(1.45)	(4.32)	(11.44)
Total Assets less Current Liabilities	(0.08)	(0.47)	(1.01)	9.42	28.97	78.14
Long-term Liabilities						
Borrowings	(0.13)	(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
Sum Long-term liabilities	(0.13)	(0.20)	(0.20)	(0.20)	(0.20)	(0.20)
Total liabilities	(0.41)	(0.83)	(0.20)	(1.65)	(4.51)	(11.64)
Net Assets	(0.21)	(0.67)	(1.20)	9.23	28.77	77.94
Capital & Reserves						
Share Capital	1.53	1.56	1.53	1.53	1.53	1.53
Share Premium	5.17	5.24	6.75	14.31	25.04	48.68
Reorganisation reserve	2.72	2.72	2.72	2.72	2.72	2.72
Warrant reserve	1.13	1.13	0.00	0.00	0.00	0.00
Other reserves	0.02	0.06	0.02	0.02	0.02	0.02
SBP reserve	0.26	0.29	0.29	0.29	0.29	0.29
Retained earnings	(11.03)	(11.65)	(12.50)	(9.63)	(0.81)	24.72
Equity	(0.21)	(0.67)	(1.20)	9.23	28.77	77.94
Net debt / (cash)	0.13	0.20	1.26	(5.62)	(14.33)	(39.74)

Source: Company data, Stanford Capital Partners estimates.

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