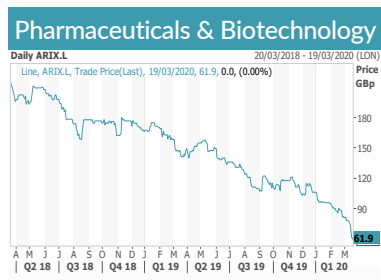




19 March 2020

**Market data**

EPIC/TKR	ARIX
Price (p)	65.3
12m High (p)	163
12m Low (p)	86
Shares (m)	135.6
Mkt Cap (£m)	88.5
Free Float	69%
NAV/share (p)	124
Premium/discount to NAV	-47.4%
Market	LSE

Description

Arix is a publicly listed biotechnology venture capital company. It provides an opportunity for all investors to participate in a balanced portfolio of diverse biotech innovation via a single stock. With a global portfolio of 16 companies and five IPOs achieved since launch in 2016, Arix is a dynamic and modern approach to life sciences venture capital investing.

Company information

Chairman	Jonathan Peacock
CEO	Joe Anderson
COO	Robert Lyne
Finance Director	Marcus Karia
	+44 20 7290 1050
	www.arixbioscience.com

Key shareholders

Directors	1.0%
Link Fund Solutions	19.8%
Fosun	8.2%
Ruffer	6.0%
Takeda Ventures	5.5%

Diary**Analysts**

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ARIX BIOSCIENCE

Fiscal 2019 – moving with the times

Arix Bioscience (Arix) is a listed global venture capital (VC) company that presents an opportunity for institutional and retail investors to participate in the high risk-return profile of early-stage biotech investing. Arix minimises risk through its expert investment team and with portfolio diversification, sourced via its extensive network and partners. Its NAV was £202m on 31 December 2019 – it has invested ca.£162m into its portfolio since launch in 2016, which now includes 16 companies. With a cash position of £55m at 31 December 2019, Arix is well positioned to support its current portfolio of investments.

- **Strategy:** Sourcing benefits from an established network and a strong scientific reputation. The portfolio is diversified by therapeutic area, treatment modality, stage of discovery/development and geography to balance the risk-reward profile of its investments. Value is realised when Arix successfully exits its investments.
- **Fiscal 2019:** Results for the period were in line with expectations. The fair value (FV) of Arix's portfolio declined 17% to £152m (£184m), contributing to a 25% decline in its NAV to £202m (£270m). The decline was mostly caused by the fall in Autolus's share price, which resulted in a £51m fall in Arix's holding value.
- **Outlook:** Arix is not immune to market volatility caused by macroeconomic factors and general sentiment, but the business model does allow flexibility in the timing and mechanism increasing its cash position to expand the portfolio. Meanwhile, portfolio progress, both in terms of liquidity and operations, looks set to accelerate in 2020.
- **Risks:** Value inflection points include PC progression through clinical, regulatory, partnering and financial milestones. Given that 29% of the portfolio value is pre-clinical, the long-term risk lies in the investment team's identification of innovation with clear commercial potential – allowing for successful exits.
- **Investment summary:** Arix stock is currently suffering from a market overhang and some negative sentiment towards biotech that is affecting its share price, and the share prices of some of its portfolio companies have fallen following IPO. Although the portfolio's fundamentals are unchanged, in our view, investors should ensure that they understand the basis of the NAV and its discount before seizing the opportunity to participate in the basket of well-chosen biotech.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Change in FV of investments	5.5	51.2	-58.6	*-25.7	*0.0	*0.0
Operating income	1.9	1.3	0.5	0.2	0.2	0.0
Admin. expenses	-11.0	-11.7	-9.7	-9.0	-8.4	-7.9
Operating profit/(loss)	-7.2	37.5	-70.6	-37.2	-11.0	-10.7
Profit/(loss) before tax	-7.2	37.5	-70.6	-37.2	-11.0	-10.7
Underlying EPS (p)	-9.5	27.2	-49.9	-28.0	-8.1	-8.0
Net cash/(debt)	74.9	91.2	53.7	35.4	25.4	15.7
Capital increase	105.1	83.5	0.0	0.0	0.0	0.0
NAV/share (p)	152.3	200.4	149.1	121.1	113.1	105.1

*Based on share prices and forex at close of business on 18 March 2020

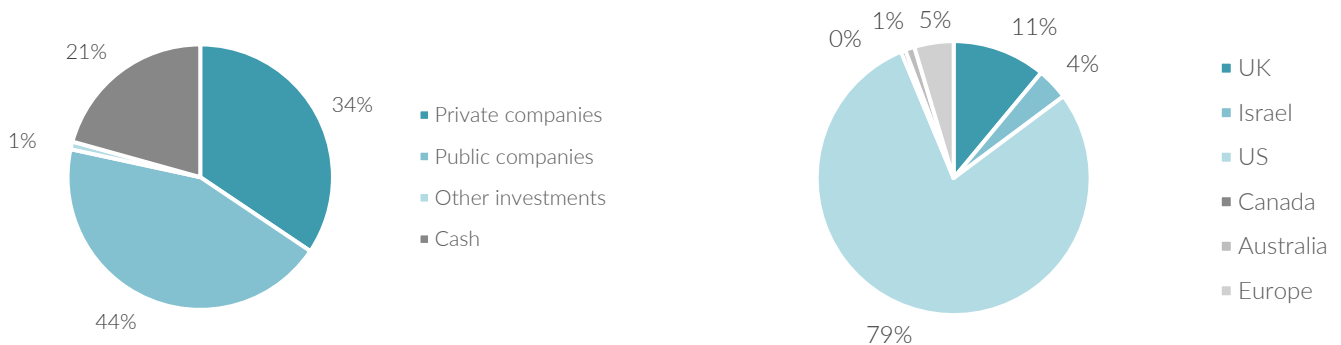
Source: Hardman & Co Life Sciences Research

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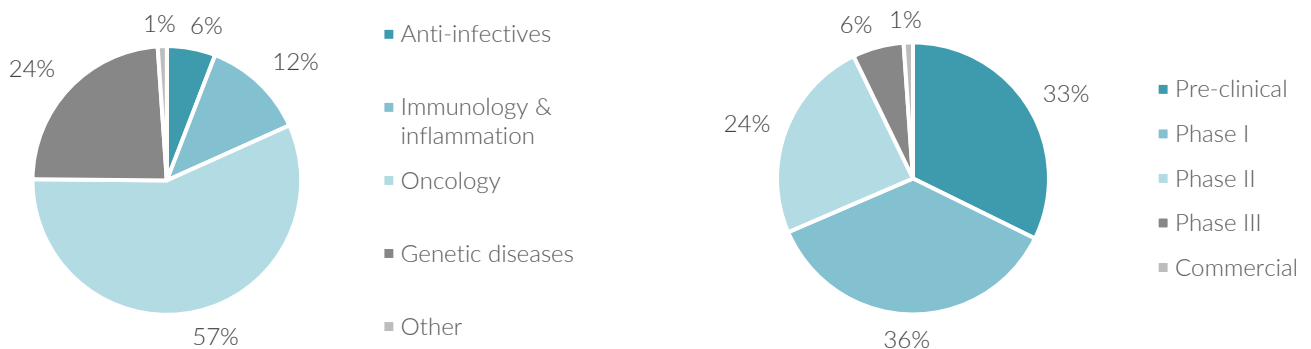
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Arix Bioscience

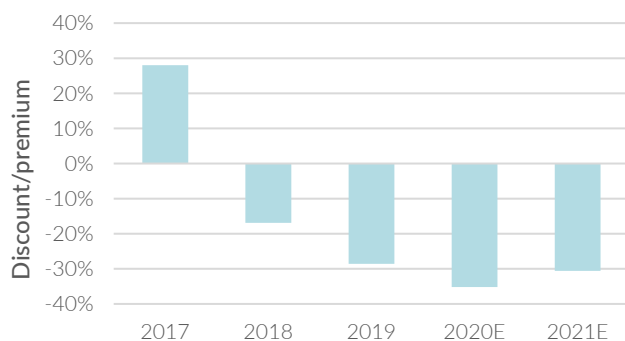
Composition of NAV by asset and geography (FY'20E)



Portfolio diversification by therapeutic area and stage (FY'20E)

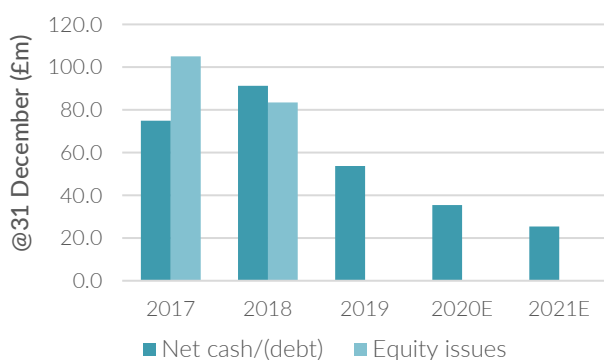


Trading premium/discount to NAV



- ▶ Arix floated on 17 February 2017
- ▶ Its stock has been trading at a discount to NAV since 2018, in part due to general market sentiment towards global biotech
- ▶ Arix's reported NAV/share was 149p at FY'19 and is forecast at 121p at FY'20

Net cash/(debt)



- ▶ Arix recycles cash to its balance sheet on divestment of holdings in its portfolio companies
- ▶ It is forecast to be cash positive into 2022 in the absence of new investments

Source: Company data; Hardman & Co Life Sciences Research

Full-year 2019 results

Key features

- ▶ **Change in FV of investments:** As anticipated from the share price movements of listed companies in the portfolio, unrealised losses on the FV of Arix's total interests (gross portfolio plus other interests) were £62.4m in fiscal 2019, including £3.8m in foreign exchange losses (£2.5m from US-listed companies).
- ▶ **Income:** Fund management fees declined 45% to £0.48m (£0.87m) concomitant with the wind down of the Wales Life Sciences Investment Fund's (WLSIF) contribution to Arix as it "enters the later years of its life". Hardman and Co estimates a residual holding in WLSIF of ca.£2.4m. Total cash proceeds of £4.2m were realised from 'Other Interests'.
- ▶ **Administration costs:** Restructuring at management level has combined with tight control of operating costs to reduce administration expenses by 17% to £9.71m (£11.70m) in FY'19. This was expected and was in line with forecasts and is anticipated to fall further in fiscal 2020.
- ▶ **Tax:** The net tax credit of £5.88m (£5.88m) relates to unrealised revaluations and offsets the charge from the previous period, resulting in no deferred tax assets on the balance sheet at 31 December 2019.
- ▶ **Operational cashflow:** The cost savings fell through to operational cashflow, which improved by £1.63m in the period to -£9.15m, with only minor changes to working capital requirements.
- ▶ **Additions:** Arix made a total £34.9m net (£55.2m) additional investments in the period, composed of ca.£23.6m in follow-on funding into the existing portfolio, and ca.£11.3m in new investments in STipe and Imara.
- ▶ **Disposals:** Arix also realised £8.8m cash from its portfolio, composed of £4.3m from the sale of 11% of its stake in Harpoon at ca.2x cost, and £4.2m from its other interests, including the WLSIF.
- ▶ **Net cash/(debt):** The cost containments and disposals benefited the period-end cash balance, which combined with lease liabilities of £0.96m, led to net cash of £53.7m, which was £5.7m above forecasts.
- ▶ **FV of investments:** In aggregate, the value of Arix's total interests fell 17% on the prior period to £151.9m (£183.9m) at 31 December 2019. There was an increase in the FV of the discovery portfolio to £11.6m (£5.4m), offset by a decrease in the core portfolio £137.6m (£169.3m). The resulting 25% decline in NAV to £202m was £6.1m greater than forecast, in part due to the absence of forecast tax assets.

Arix Bioscience – full-year analysis					
Year-end Dec (£m)	FY'18 actual	FY'19 actual	Growth	FY'19 forecast	Delta Δ
Income	1.33	0.51	-62%	0.37	0.14
Change in FV of investments	51.17	-58.64		-58.19	-0.45
Administration expenses	-11.70	-9.71	-17%	-9.98	0.27
Operating profit/(loss)	37.47	-70.64	-289%	-71.13	0.50
Forex gain/loss	4.58	-4.44		0.00	-4.44
Net income	32.30	-63.98	-298%	-61.17	-2.82
Underlying EPS (p)	27.19	-49.95		-47.75	-2.20
Equity investments	-55.23	-34.86	-37%	-36.10	1.24
Disposals	0.00	8.79		4.25	4.54
Investments at FV	183.98	151.92	-17%	148.90	3.02
Net cash/(debt)	91.22	53.68	-41%	47.96	5.72
NAV	270.17	202.10	-25%	208.19	-6.08

Source: Hardman & Co Life Sciences Research

A transitional year

NAV growth

Arix's ability to continue to deliver NAV growth has been hampered by general US market sentiment affecting the share prices of some of its listed portfolio companies. While floatation of portfolio companies does improve liquidity and allow access to the wider secondary market, it also opens the door to volatility. In the cases of Autolus, Logic and Iterum, which composed ca.41% of the NAV at FY'18, the combined £60m decline in value reduced Arix's NAV to £202m on 31 December 2019.

Although minor in contrast to the effect of Autolus' share price, the NAV was not helped by the concurrent wind down of Arix's legacy interests.

Management has had the additional distraction of an overhang in the share price created by challenges with its shareholder base. In our opinion, however, and despite a challenging year, Arix has delivered operational progress and there are multiple near-term value inflection points across the portfolio (p. 8).

Cash

In 2019, Arix transitioned to a lighter cost base. Administration costs were reduced through changes to the management team and the remuneration approach, with Sir Chris Evans departing (to a consultant role for FY'19 at £0.13m cost), the elimination of the CFO role, and the transition of Jonathan Peacock to non-executive Chairman. Furthermore, the US office in New York has been downsized and is now sub-let, re-basing administration costs to an underlying £8.0-£9.0m p.a.

This approach was complemented with Arix taking the opportunity to harvest £4.3m cash through the sale of 10%-11% of its shares in Harpoon Therapeutics towards the end of the period following its good share price performance post-IPO. This represented a ca.2x multiple on the average cost of its investment.

The year-end cash position was £54.6m (£91.2m), providing adequate capital to support the company's existing portfolio. Of this, £8.5m (£21.0m) was specifically ring-fenced for pre-agreed follow-on investments in existing investments.

Follow-on funding

Additions and disposals in period		
£m	Net invested/(realised)	Comment
Amplify Pharmaceuticals	1.9	Pre-determined milestone, extended series C, additional investors
Artios Pharma	4.3	Pre-determined milestone (pipeline expansion), funds transferred Jan'20
Atox Bio	3.2	Pre-determined milestone (Phase III progression)
Aura Biosciences	3.4	\$40m Series D financing, 33% valuation uplift
Autolus	3.8	\$109m (gross) follow-on financing post IPO
Harpoon Therapeutics	0.4	£4.7m invested in IPO, valuation uplift; £4.3m cash harvested at year-end
Depixus	0.3	
Mitoconix Bio	-0.3	Seed investment - wound down 1H'19
QuenchBio	3.3	Series A - valuation uplift
Other interests	-1.2	£3m investment & £4.2m cash realised across Simbec-Orion & WLSIF (legacy interests)
Total	30.4	

Source: Company reports; Hardman & Co Life Sciences Research

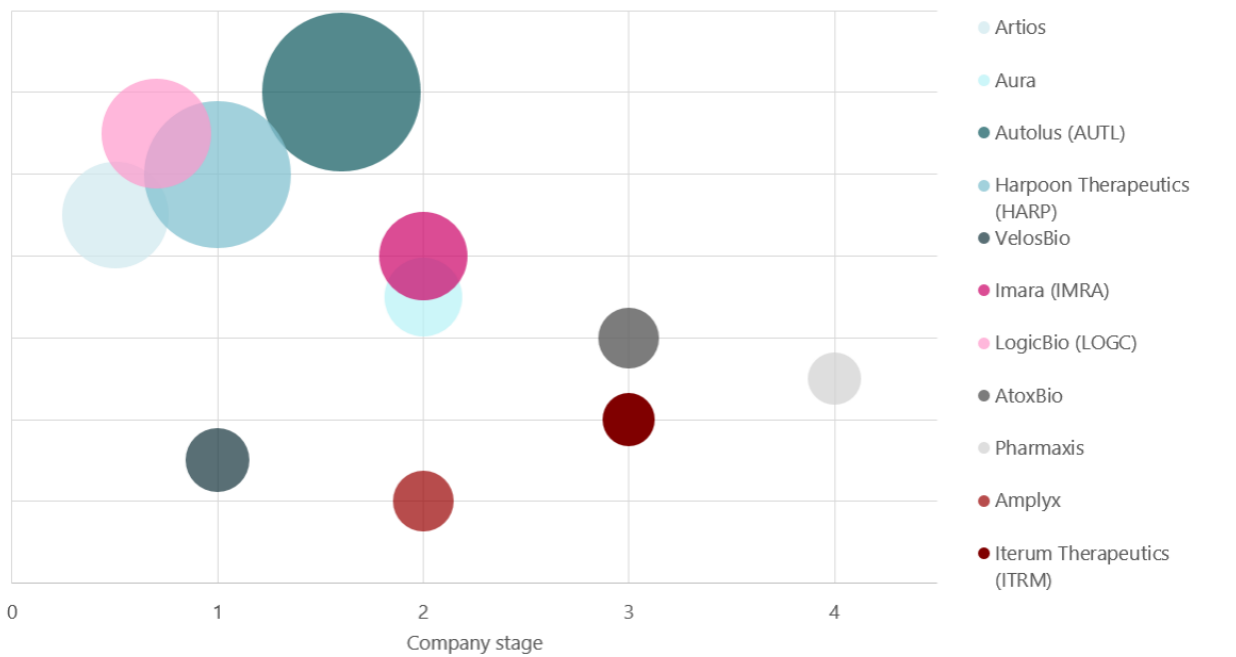
Portfolio companies raised a total \$322m additional capital in FY'19, including \$283m in 1H'19, which saw Harpoon IPO on the NASDAQ. Arix invested a total £34.9m net (£55.2m) across the portfolio in 2019, including ca.£23.6m in follow-on funding across six core portfolio companies and one discovery company, Depixus (received £0.3m):

- ▶ **Harpoon (£4.7m):** Arix invested \$6.0m/£4.7m in Harpoon’s \$70.7m (net) IPO in February 2019, generating a positive revaluation of Arix’s existing holding. Harpoon had a solid cash position of \$155.1m at FY’19, giving it a cash runway into 2021.
- ▶ **Artios (£4.3m):** Although pre-clinical, the £4.3m investment in Artios on the achievement of pre-determined milestones (in-licensed a potential best-in-class drug asset) illustrates Arix’s strategy to provide consistent funding to its most promising investments. At ca.10% of the portfolio value, Artios is carrying out investigational new drug (IND) enabling studies of its DNA damage response drug candidates, with the potential to enter the clinic this year.
- ▶ **Autolus (£3.8m):** Arix contributed \$5.0m/£3.8m to Autolus’s \$108.8m follow-on financing in April 2019, indicating continued conviction that its fundamentals are strong despite the market view. Autolus had cash of \$210.6m at FY’19, giving it a cash runway into 2022.

New investments

Arix added two new companies to its portfolio in the period, investing £9.3m into Imara’s \$63m Series B round in March 2019 for a 9.2% stake, and creating its second European seed company, STipe, with £2.0m, under the expertise of Christian Schetter, one of Arix’s Entrepreneurs-in-Residence (EiR). The former increases the number of rare disease companies in the core portfolio, backing an alternative approach to the treatment of inherited haemoglobin disorders that are of interest to big pharmaceutical companies developing gene therapies in the area. The latter focuses on discoveries in innate immunity, a burgeoning area of scientific and pharmaceutical interest, and is in line with Arix’s strategy to source academic innovation for maximum growth potential and to rebalance the portfolio with additional early-stage private companies.

Diversity in core portfolio at FY’19: company stage, therapeutic area, value



Circle area: asset carrying value at FY’19; Stage: 0=pre-clinical, 4 = commercialised
 Red: anti-infectives; Blue: oncology; Grey: immunology & inflammation; Pink: Rare diseases.
 N.B. Phase II trials (e.g. Autolus’s AUTO1 in adult Acute Lymphoblastic Leukaemia – ALL) may be registrational
 Source: Hardman & Co Life Sciences Research

Performance of existing portfolio

At 31 December 2019, Arix's return across all its interests was 0.9x its investment. This picture obscures the growth in the core portfolio value, at a 1.1x multiple, with three of the five companies in the discovery portfolio having lost value on the basis of valuation ascribed to a recent funding round involving a third party.

Core portfolio

- ▶ **Best performer:** As expected, the best performer in the period was Harpoon, with its share price increasing 8% following its February IPO at \$14/share. Net of additional investments, disposals and forex losses in the period, the value of Arix's holding increased £4.6m to £28.9m (and now sits at 10.4% (11.3%)) – around 2x the average cost of investment.
- ▶ **Worst performers:** The rest of the listed portfolio lost value in the period, with £50.8m, £7.7m, £2.6m and £0.6m being lost off the value of AUTL, LOGC, PXS and ITRM, respectively, a combination of general market sentiment and reaction to news. AUTL discontinued the development of AUTO2 due to the competition in the anti-BCMA space, PXS suffered from the decision of its partner Boehringer Ingelheim to terminate development of one of its licensed assets, and ITRM missed the primary endpoint in its SURE 3 Phase III trial.
- ▶ **Performance to date:** Thus far, holdings in ITRM and VRP have seen the biggest reduction to date, having lost an unrealised £11.4m on the cost of investment, whereas Autolus and Harpoon holdings have increased an unrealised £18.9m.

Multiples at 31 December 2019		
Company	Forecast	Multiple at end-FY'19
Harpoon Therapeutics	1.5x	1.7x
LogicBio Therapeutics	1.6x	1.6x
Autolus	1.6x	1.4x
Aura Biosciences	1.3x	1.2x
Imara	1.0x	1.2x
Amplix Pharmaceuticals	1.1x	1.1x
Artios Pharma	1.1x	1.1x
VelosBio	1.0x	1.1x
Atox Bio	1.1x	0.8x
Pharmaxis	0.7x	0.5x
Verona Pharma	0.3x	0.4x
Iterm Therapeutics	0.2x	0.3x
Core	1.2x	1.1x
Depixus		0.9x
OptiKira		0.5x
PreciThera		0.6x
QuenchBio		1.2x
STIPE		1.0x
Discovery	0.9x	0.9x
Gross portfolio	1.1x	1.1x
Other interests	0.2x	0.1x
Total interests	1.0x	0.9x

Source: Company reports; Hardman & Co Life Sciences Research

Discovery portfolio

- ▶ **Best performer:** Quench Bio performed well in the period, with Arix's stake growing £0.7m (net), resulting in a year-end 1.2x multiple on its investment.
- ▶ **Worst performer:** Failures in the discovery portfolio are not unexpected from time to time, given the very early stage of the science; Arix demonstrated discipline in the deployment of capital with its decision to liquidate Mitoconix before providing any follow-on capital, resulting in only a small loss (£0.5m).

Operational progress

Arix has made good operational progress in the 12 months to 31 December 2019, despite the difficulties outlined above. It is delivering on strategy, with a diversified portfolio of 16 companies towards build out of a portfolio of ca.20 companies, and has set up a number of key inflection points in 2020. In FY'19, Arix's focus was on:

- ▶ **Company creation:** In 2H'19, Arix created a second EU seed company, STipe, under the expertise of its EIR, on strategy to invest in academic science in Europe.
- ▶ **Portfolio company fundraises:** A total of \$1.5bn raised to date, including \$322m.
- ▶ **IPOs:** Harpoon's IPO in February took the total to four successful NASDAQ IPOs since 2018, all at increased valuations, raising a total of \$414m.

Post-period events

Investment strategy

Quench Bio

Arix is moving towards earlier investments, with its first seed company from its LDC partnership with the Max Planck Institute. On 27 January 2020, Arix announced that the “new seed company” that it founded and seeded in stealth mode in 2018 alongside Atlas Venture, had officially launched, following a \$50m Series A, with two new investors – RA Capital and AbbVie Ventures – at a 40% uplift on its 2018 seed financing. Arix’s investment is currently sitting at ca.1.1x cost.

Second European Entrepreneur-in-Residence (EiR)

In keeping with both its strategy to extend further its European presence and to collaborate with big pharma, Arix has appointed a second EiR to be based in Basel, Switzerland, and to focus on strengthening its collaboration with Takeda Ventures (“Takeda”). Dr Roberto Iacone will work on sourcing investment opportunities and company creation, to be funded jointly with Takeda. Dr Iacone has more than 15 years’ experience in life sciences, both in the pharmaceuticals industry and venture capital. He was Director and Global head of Rare Diseases Research at Roche, which included a focus on immunological and neurological disease asset R&D strategy, and was previously EiR at Versant Ventures, where he successfully founded new companies, including Black Diamond Therapeutics (NASDAQ:BDTX). Discussions are ongoing for a US EiR, but the opportunity is currently greater in Europe.

Portfolio investments

- ▶ **Iterum Therapeutics:** On 16 January 2020, ITRM announced a \$51.9m/£39.9m private placement following the failure of its Phase III trial; its cash was \$4.8m at FY’19. The raise will support Iterum in its other Phase III trials for Sulopenem, which are due to report within the next few months. Arix has invested \$1.9m/£1.5m in exchangeable notes (convertible loan) and royalty-linked subordinate notes.
- ▶ **Imara IPO:** A fifth portfolio company NASDAQ IPO successfully closed on 16 March 2020, raising \$75.2m in gross proceeds at a price of \$16/share. Arix invested \$£3.0m/£2.3m in the IPO, following its \$2.7m/£2.1m investment on 25 February; its fully diluted stake currently sits at 9.4% and represents an estimated 1.5x investment multiple.
- ▶ **Autolus:** On 23 January 2020, AUTL announced an underwritten public offering of 7.25m American Depositary Shares (ADSs), equivalent to 7.25m Ordinary shares, at a price of \$11.0 per ADS to raise ca.\$80m. The offering price represented a 12% discount to the previous close. Arix did not participate, thus its stake is now 6.5% (3.37m shares) and is valued at ca.£27.5m.
- ▶ **Verona:** Arix has exited its positions in VRP, realising ca.£2.6m, a modest loss on its investment of ca.£3.7m.

Outlook

In our view, Arix's strategy to create mid-to-long term value is currently unaffected by the decline in its NAV. 2020 will be an important year for the company as it manages volatile capital markets and bolsters its balance sheet through one or a combination of exits, disposal of shares, or a capital increase. Arix has the advantage of being flexible in the timing of its exits and it is able to withstand a poor market relatively better than most individual biotech stocks since it is diversified.

In the meantime, it is likely to carefully control deployment of cash into its investments until value can be realised from the portfolio. Its committed capital is relatively small moving into 2020, and although most of its companies are well financed, it may need to accept diluted stakes if it cannot participate in additional funding rounds.

The Board's expertise in the UK capital markets has been strengthened with the appointment of Mark Breuer and it has been reviewing the performance on the company; it has generated a three-year plan towards delivering value for shareholders. A key focus is likely to be the transition of the ex-Woodford holding to new, long-term investors, which should remove the share price overhang.

This year, there are multiple value inflection points approaching which could give Arix the opportunity to exit or harvest cash. With more than 26 clinical programmes ongoing, Arix is set for a period of rich news flow, particularly in the first half of 2020. Further details on the portfolio and Arix's strategy can be found in our initiation report, *With high risk can come high reward*¹.

- ▶ **STipe:** Final selection of leads and IND-enabling studies.
- ▶ **Iterum Therapeutics:** Phase III data read-outs in complicated UTIs and uncomplicated UTIs, 1H'20.
- ▶ **Autolus:** Phase I, long-term follow-up data in adult ALL expected 2Q'20; initiation of registrational trial in adult ALL in 1H'20; data from Phase I DLBCL and from peripheral T cell lymphoma trials expected mid-20 and 4Q'20, respectively.
- ▶ **Aura:** Next valuation inflection point: initiation of Phase III trial expected by the end of 2020.
- ▶ **Amplix:** Final Phase II data in candidemia expected in FY'20.
- ▶ **Artios:** Initiation of a Phase 1 study in ATM-deficient tumours by end-2020.
- ▶ **AtoxBio:** Read-out of NSTI Phase III data expected in 1H'20.
- ▶ **Harpoon:** Phase I data expected from lead candidate in prostate cancer in 1H'20 and from ovarian cancer trial in 2H'20.
- ▶ **Velos:** VLS-101 initial proof of principle data expected in 2H'20.
- ▶ **Pharmaxis:** Phase Ib results from systemic LOX inhibitor for myelofibrosis and/or pancreatic cancer expected 1H'20. FDA to complete review of Bronchitol by 2Q'20, with launch in 2Q'21 – if approved, Pharmaxis will receive a \$10m milestone payment. Its cash position on 31 December 2019 was AUD\$26m.
- ▶ **Imara:** Updated results from IMR-687 Phase IIa clinical study in sickle cell disease (SCD) expected by end-2020. Initiation of Phase IIb trials for SCD and beta thalassemia expected in 1H'20.

¹ <https://www.hardmanandco.com/research/corporate-research/with-high-risk-can-come-high-reward/>

Financials and investment case

Changes to forecasts

- ▶ **Income:** We are now forecasting a small amount of fund management fee income from the WLSIF in 2020 and 2021 following the greater-than-anticipated income in FY'19.
- ▶ **Change in FV of investments:** Unrealised gains/losses within Arix's portfolio have been updated to reflect the latest foreign exchange rates and share prices of its listed holdings prior to publication, and with its now reported stakes. Forecasts are held at constant exchange rates and share prices, and as such will fluctuate with the market.
- ▶ **Equity investments:** Forecast additional cash invested into the existing portfolio has been reduced based on the committed (but uninvested) capital reported at the end of fiscal 2019.
- ▶ **Disposals:** Until Arix either raises capital or makes a successful exit, we assume baseline disposals of ca.£5m p.a. (e.g. harvesting cash from its listed investments). The 2020 forecast has been increased to reflect the estimated proceeds on sale of Arix's shares in Verona, which took place between 17 January and 7 February, and for the estimated remainder of the WLSIF holdings.
- ▶ **NAV:** On today's share prices alone, the NAV is forecast to decline further in 2020E.

Based on current information and together with careful control of costs, Arix should remain net cash positive in the forecast period. Net cash/(debt) forecasts have improved in 2020 and 2021 due to the reduction in equity investments (associated with Arix's reported committed capital at FY'19) into the existing portfolio and better-than-anticipated cash position at the end of FY'19.

What is more difficult to predict is the precise timing of events or stock market improvements that would trigger revaluations, exits, or capital increases. At this stage, we are not making any estimates of future changes in the fair value of existing investments.

Changes to forecasts						
Year-end Dec (£m)	----- 2020E -----			----- 2021E -----		
	Old	New	Change	Old	New	Change
Income	0.00	0.24	0.24	0.00	0.24	0.24
Ch. in FV of investments	1.08	-25.71	-26.79	0.00	0.00	0.00
Administration expenses	-8.94	-8.99	-0.05	-8.94	-8.41	0.53
Operating profit/(loss)	-11.19	-37.25	-26.06	-12.27	-10.96	1.31
Forex gain/loss	0.00	0.00	0.00	0.00	0.00	0.00
Net income	-9.44	-33.70	-24.25	-10.63	-9.77	0.86
Underlying EPS (p)	-6.97	-24.86	-17.89	-7.84	-7.21	0.63
Equity investments	-26.67	-16.00	10.67	-15.19	-6.10	9.09
Disposals	5.67	6.85	1.18	4.50	0.00	-4.50
Investments at FV	174.15	139.45	-34.70	183.34	143.90	-39.43
Net cash/(debt)	13.49	35.40	21.91	-9.11	20.86	29.97
NAV	198.75	168.41	-30.33	188.12	158.64	-29.48

Source: Hardman & Co Life Sciences Research

Profit & Loss

- ▶ The income statement for Arix is very straightforward, dominated by the change in fair value of its investments and the administration costs.
- ▶ **Change in FV of investments:** The largest component of the income statement for each reporting period is the revaluation of Arix's investments under IFRS9. Its investments are considered to be long-term financial assets and are classified using a fair value hierarchy that reflects the significance of the inputs used in generating the related fair value. For more details, see our initiation report, published 19 February 2020².
- ▶ **Administration costs:** The two main costs of running the business are personnel and premises. These represent an underlying run rate of about £8m p.a., which is being reduced over a two-year period as Arix transitions to a lower cost base.
- ▶ **Operating profit:** Share-based payments, as with all the companies we cover, are considered to be a core component of the remuneration package and are included in the calculation of operating profit.

Profit & Loss account						
Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Income	1.86	1.33	0.51	0.24	0.24	0.00
Change in FV of investments	5.54	51.17	-58.64	-25.71	0.00	0.00
Operating income	7.40	52.50	-58.14	-25.47	0.24	0.00
Administration expenses	-10.99	-11.70	-9.71	-8.99	-8.41	-7.95
Share-based costs	-3.65	-3.33	-2.79	-2.79	-2.79	-2.79
Operating profit/(loss)	-7.24	37.47	-70.64	-37.25	-10.96	-10.74
Net interest	-0.02	0.71	0.77	0.45	0.29	0.15
Forex gain/loss	-0.43	4.58	-4.44	0.00	0.00	0.00
Financial inst. adjustment	0.00	0.00	0.00	0.00	0.00	0.00
Asset gain/(impairment)	0.00	0.00	-1.26	0.00	0.00	0.00
Profit/(loss)before tax	-7.69	38.18	-69.87	-36.79	-10.67	-10.59
Tax payable/credit	0.22	-5.88	5.88	3.10	0.90	0.89
Net income	-7.47	32.30	-63.98	-33.70	-9.77	-9.70
Ordinary 0.001p shares:						
Period-end (m)	96.15	134.82	135.55	135.55	135.55	135.55
Weighted average shares (m)	78.73	118.79	128.10	135.55	135.55	135.55
Fully-diluted shares (m)	78.73	128.52	137.93	145.49	145.59	145.69
Basic EPS (p)	-9.49	27.19	-49.95	-24.86	-7.21	-7.16
Fully-diluted EPS (p)	-9.49	25.13	-46.39	-23.16	-6.71	-6.66

Source: Hardman & Co Life Sciences Research

² <https://www.hardmanandco.com/research/corporate-research/with-high-risk-can-come-high-reward/>

Balance sheet

The balance sheet directly reflects the fair value of Arix's existing investments and the cash awaiting deployment, some of which is already committed to the existing portfolio.

- ▶ **Fair value of investments:** The key driver of the NAV is the fair value of its portfolio company investments ("gross portfolio value"), which fluctuate according to market prices (listed companies), revaluations and additional cash invested.
- ▶ **Cash:** A small proportion of cash is unavailable, being reserved for pre-determined commitments to existing PCs. The level of cash will also vary in the event of any divestments or a capital increase for deployment into new investment opportunities. We do not make forecasts on the timing and magnitude of capital increases or exits, but we do include a baseline rate of cash harvested from the portfolio until an exit/capital increase is achieved. Arix is expected to be cash positive into 2022 on this basis.
- ▶ **Debt:** Other than some modest leases introduced under IFRS16, Arix does not have any debt.

Balance sheet						
@31 Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Share capital	105.1	188.6	188.6	188.6	188.6	188.59
Retained earnings	42.1	82.0	15.7	-18.0	-27.7	-37.45
Other reserves	-0.8	-0.4	-2.2	-2.2	-2.2	-2.20
Total equity	146.4	270.2	202.1	168.4	158.6	148.94
Assets	0.0	0.0	0.0	0.0	0.0	0.00
<i>Core</i>	2.8	169.3	138.0	119.7	119.7	0.00
<i>Discovery</i>	68.5	6.2	11.6	18.1	24.2	0.00
<i>Other interests</i>	0.0	8.5	2.3	1.6	0.0	0.00
Investments at fair value	71.3	184.0	151.9	139.4	143.9	152.54
Intangible assets	2.1	1.8	0.7	0.4	0.1	0.00
Fixed assets	0.5	0.3	0.2	0.1	0.1	0.10
Other long-term assets	0.0	0.0	0.6	0.6	0.6	0.61
Non-current assets	73.9	186.1	153.4	140.6	144.7	153.26
Cash & deposits	74.9	91.2	54.6	36.4	21.8	7.58
Receivables	1.3	2.2	1.1	1.1	1.1	1.11
Other short-term assets	0.0	0.0	0.1	0.1	0.1	0.09
Current assets	76.2	93.4	55.8	37.6	23.0	8.78
Liabilities	0.0	0.0	0.0	0.0	0.0	0.00
Long-term leases	0.0	0.0	-0.3	-0.3	-0.3	-0.27
Long-term debt	0.0	0.0	0.0	0.0	0.0	0.00
Deferred tax	0.0	-5.9	0.0	0.0	0.0	0.00
Short-term leases	0.0	0.0	-0.7	-0.7	-0.7	-0.69
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.00
Payables	-3.7	-3.4	-6.2	-8.7	-8.1	-12.14
Total liabilities	-3.7	-9.3	-7.1	-9.7	-9.1	-13.09
Net assets	146.4	270.2	202.1	168.4	158.6	148.94
NAV/share (p)	152.3	200.4	149.1	124.2	117.0	110
Net cash/(debt)	74.9	91.2	53.7	35.4	20.9	6.6

Source: Hardman & Co Life Sciences Research

Cashflow

- **Change in net cash/(debt):** Operational cashflow largely reflects the administration costs and any share-based payments. Investment cashflow reflects any new investments made in the period, offset by any disposals, except for a modest disposal of non-core assets during 1H'19.

Cashflow						
Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Operating profit/(loss)	-7.2	37.5	-70.6	-37.2	-11.0	-10.74
Change in FV of investments	-5.5	-51.2	58.6	25.7	0.0	0.00
Depreciation	0.2	0.2	0.2	0.1	0.0	0.00
Amortisation	0.3	0.3	0.3	0.3	0.3	0.29
Share-based payments	3.7	3.3	2.8	2.8	2.8	2.79
<i>Receivables</i>	2.0	-0.9	1.1	0.0	0.0	0.00
<i>Payables</i>	-2.1	-0.2	-1.6	-1.0	-0.7	-0.43
Change in working capital	-0.1	-1.2	-0.5	-1.0	-0.7	-0.43
Net interest	0.0	0.0	0.0	0.5	0.3	0.15
Lease payments	0.0	0.0	-0.2	-0.2	-0.2	-0.19
Tax paid/received	0.0	0.0	0.0	0.0	0.0	0.00
Other	0.0	0.0	0.0	0.0	0.0	0.00
Operational cashflow	-8.8	-11.1	-9.4	-9.1	-8.4	-8.13
Equity investments	-50.2	-55.2	-34.9	-16.0	-6.1	-6.10
Disposals	0.0	0.0	8.8	6.9	0.0	0.00
Capital expenditure	0.0	0.0	0.0	0.0	0.0	-0.01
Sale of fixed assets	0.0	0.0	0.0	0.0	0.0	0.00
Other investments	0.0	0.0	0.0	0.0	0.0	0.00
Cashflow after investments	-59.0	-66.3	-35.5	-18.3	-14.5	-14.23
Share repurchases	0.0	-1.2	-1.0	0.0	0.0	0.00
Equity issues	105.1	83.5	0.0	0.0	0.0	0.00
Currency effect	-0.1	0.3	-1.0	0.0	0.0	0.00
Loans/cash acquired	0.0	0.0	0.0	0.0	0.0	0.00
Change in net cash/(debt)	46.0	16.3	-37.5	-18.3	-14.5	-14.23
Opening net cash/(debt)	28.9	74.9	91.2	53.7	35.4	20.86
Closing net cash/(debt)	74.9	91.2	53.7	35.4	20.9	6.63

Source: Hardman & Co Life Sciences Research

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