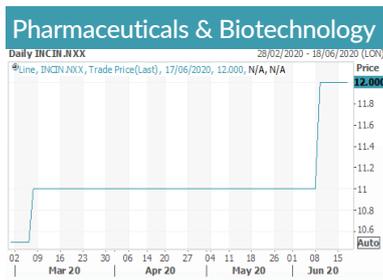




19 June 2020

**Market data**

EPIC/TKR	INC
Price (p)	12.0
12m High (p)	12.0
12m Low (p)	9.5
Shares (m)	60.9
Mkt Cap (£m)	7.3
EV (£m)	6.9
Free Float	38%
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%
University of Bradford	12.3%
Immupharma plc	11.9%

Diary

15 Jul	AGM
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Analyst

Martin Hall	020 7194 7622
	mh@hardmanandco.com

INCANTHERA

Preparing Sol for commercialisation

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. INC listed on the Aquis Exchange in February 2020, raising £1.2m new capital for the development of an advanced topical skin product, Sol, that prevents sun damage developing into skin cancers, which should be ready for commercialisation with a partner in the near term.

- **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.
- **Focus:** INC is developing lead candidate, Sol, a topical cream containing an active ingredient known to prevent skin cancer, for the skincare market. An optimised programme of work is aimed at preparing the product to be ready for commercialisation – a significant value inflection point.
- **Financials:** INC has just released its inaugural set of results, following a successful listing on the Aquis Exchange (AQSE) in February 2020. Tight control of costs meant that the company reported modestly better-than-expected numbers. At 31 March, it had net cash of £392k and a call option for a further £350k.
- **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 focus, initially, will be on a 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.

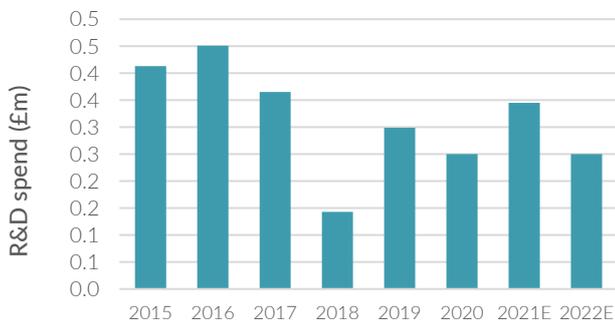
Financial summary and valuation

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

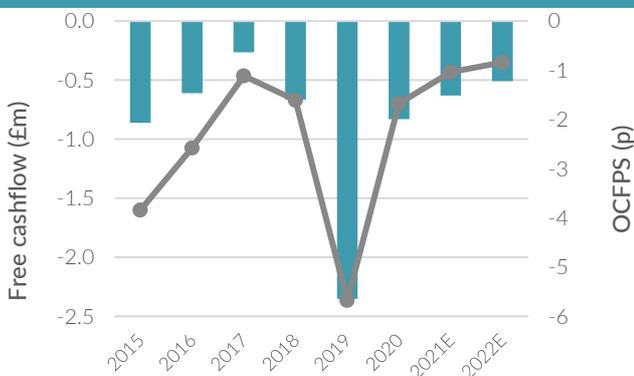
Incanthera

R&D



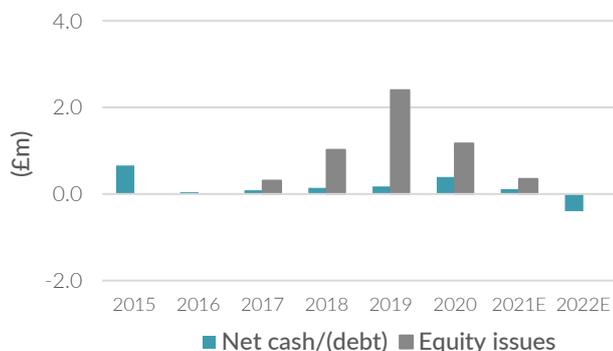
- ▶ R&D spend has been modest to date, aligned closely to the financial resources of the group, and does not allow for the unknown research costs by the universities, which are mostly grant-funded.
- ▶ INC's resources are being directed towards progressing Sol to a stage that is ready for commercialisation.
- ▶ 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 £7.1m for development and working capital, or £8.6m including some acquisitions made for shares.
- ▶ The company has a call option for over £350k of additional funds, which we expect it to exercise in the next six months.
- ▶ The company has a current cash runway until August 2021.

Source: Company data; Hardman & Co Life Sciences Research

Initiation and corporate update

Introduction

UoB's Institute of Cancer Therapeutics provided development platform for INC...

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. Recently, the pipeline agreement with ICT was extended for a further 10 years.

...boosted by series of acquisitions and research agreements

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.

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. Initially, this lead product is being developed as a skin cream, preventing the progression of sun-damaged skin (solar keratoses) to skin cancer. INC intends to focus its limited resources on developing this opportunity for commercialisation with a partner in the near future.

Originating from UK universities, including Bradford and Salford, all its technologies have good provenance, supported by a strong IP position.

History of Incanthera

Date	Event
2010	Incorporation of Incanthera Limited (no. 11026926)
2011	Funding round enabling technology licence from UoB
2012	Assignment of IP rights in the relevant patents from UoB
2014	Acquisition of Onco-NX to gain access to ICT03-Es5 (Equin programme)
2014	Acquisition of Spear Therapeutics Ltd for access to Duo-C programme
2015	Agreement with Stanford University in respect of EP0015 (theranostic)
2017	Commercial deal with Ellipses Pharma Ltd for EP0015
2018	Extension of licensing agreement with ICT for further 10 years
2018	Acquisition of Sol from Limeway Pharma Design
2020	Listing of Incanthera plc on the Aquis Exchange – AQSE Growth Market

Source: Listing particulars, Hardman & Co Life Sciences Research

INC has proven its strategy by out-licensing one product already

In July 2017, INC 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 INC.

To get INC to where it is today, ca.£7m cash for working capital has been invested into the company

Through a series of funding rounds, INC has raised £7.1m to get the company to where it is today, plus a further £1.5m in shares for some of the acquisitions. Based on the last closing price, the outstanding share capital of INC was valued at £7.3m. Consequently, the market is only reflecting the cash investment that has been made to date, with no allowance for any progress and value that has been added, nor any potential future value to be added.

R&D pipeline

Initially focused on Sol...

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

INC has the opportunity to develop a portfolio of oncology products across a number of cancer indications. Its lead candidate is Sol, a potentially innovative topical product for the treatment of solar keratosis and the prevention of skin cancers. This has achieved proof-of-concept and is currently being prepared for licensing to a commercial partner. A study, using human skin penetration models, demonstrated that the company's advanced formulation technology exceeded the bioequivalence test, confirming its use as a topical product. 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 commercialisation with 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.

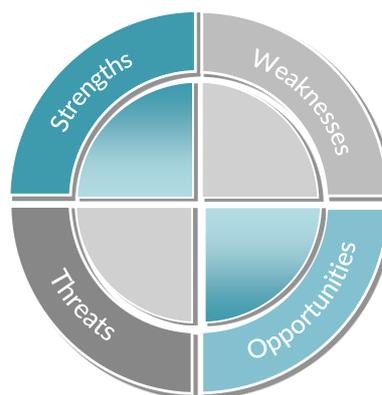
Incanthera pipeline				
Acquisition				
Platform	Product	Indication	Preparation for licensing	Licensing
Sol	Topical Cream	Actinic Keratosis, melanoma & Sun care (US\$13.7bn)*	Bioavailability & Superiority	Market launch
EP0015	VDA and Theranostic	Lung, breast, ovarian cancers (\$5.9bn, \$15.3bn, \$1.6bn)*	Pre-clinical	Licensed
	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 annual report 2020

SWOT analysis

Incanthera – 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
- 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



- 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
- 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 Life Sciences Research

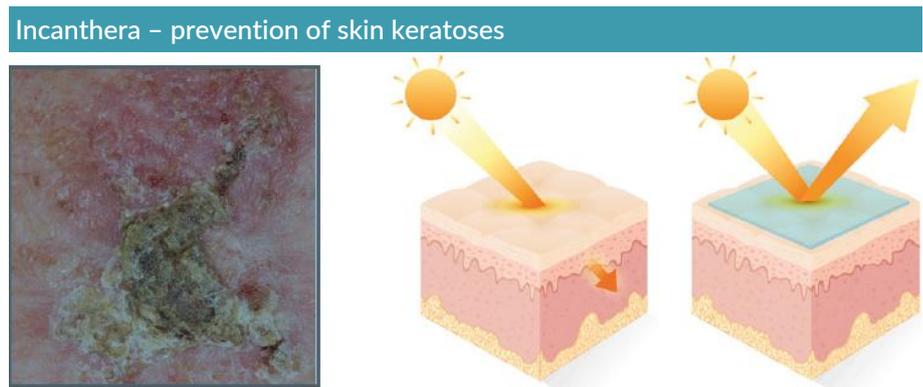
Investment summary

INC has a proven business model already through the acquisition, preparation and commercialisation of EP0015 to Ellipses Pharma. The resources 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 partnering deal, together with new funds raised on the back of this positive track record, would be used to develop other products in R&D.

Focus on Sol

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 will be developed as a skin cream, preventing the progression of sun-damaged skin (solar keratoses) to skin cancer.



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

The opportunity

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. When taken orally, this drug has been shown to prevent progression and recurrence of common solar keratosis to skin cancer (including melanoma). The University College London School of Pharmacy was commissioned to perform independent proof-of-principle studies using human skin penetration models, which demonstrated that INC's advanced formulation technology exceeded the bioequivalence test and is able to deliver a topical product for the prevention of actinic keratosis and skin cancer. As such, Sol is a potentially high-value product accessing a multi-billion-dollar market.

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

Incanthera's strategy

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. The strategic aim of the company is to have Sol ready for commercialisation with a partner in the near term.

Suncare market estimated at ca.\$12bn in 2018...

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

Commercial opportunity

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, suncare 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 suncare market was valued at \$12.0bn and was 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, INC has raised a total of £8.6m, including equity issued in exchange for acquired IP. As part of its listing on the AQSE, the company has a call option for £350k of additional funds.
- ▶ **R&D:** Investment in R&D will be carefully controlled, with the majority of the spend being on Sol, in order to get the product ready for commercialisation, which would represent a significant value inflection point.
- ▶ **Cash runway:** Careful control of both R&D spend and corporate overheads during fiscal 2021 suggest that the company will have a cash runway until August 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 £6.9m. From a group of seven AIM-listed peers developing new drugs in the field of cancer, the average EV is £31.5m (range £2.1m-£136.3m), and the median is £19.6m. The relative EV of these UK companies to the EV of INC is in the range of 0.3x to 19.5x, with an average of 4.5x, 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

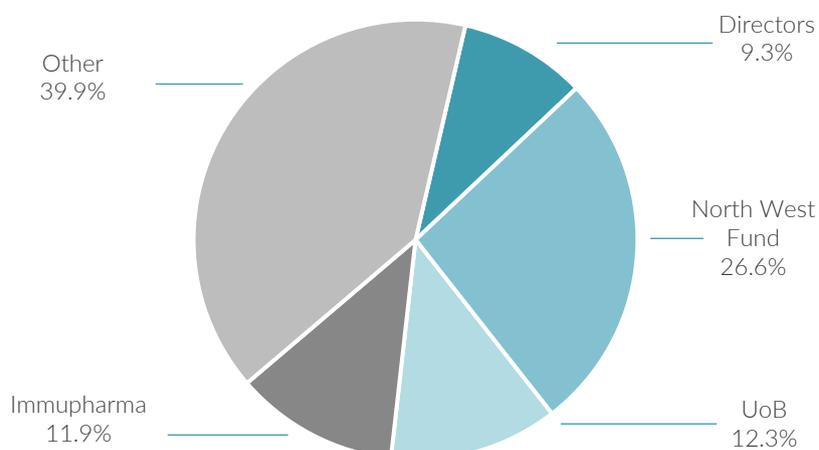
Senior management	
Position	Name
COO	Pawel Zolnierczyk
CFO	Laura Brogden
Head of Communications	Suzanne Brocks

Source: Corporate website

Share capital

At 15 June 2020, there were 60,859,910 Ordinary shares of 2p in issue. In addition, there are 13,268,628 share options, warrants and subscriptions outstanding.

Shareholders



Source: Incanthera

Notes

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The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com