Deinove

H117 results

Cash conservation and operational progress

Alternative energy

A refocused business, a strengthened management team and progress with its underlying research programmes suggest Deinove is on course to generate commercial revenues in 2018. Delivery in line with our long-term forecasts would indicate a potential valuation of €4.3/share.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	0.5	(7.3)	(66.8)	0.0	N/A	N/A
12/16	0.8	(6.9)	(64.6)	0.0	N/A	N/A
12/17e	0.8	(8.6)	(65.7)	0.0	N/A	N/A
12/18e	2.9	(6.8)	(44.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Net loss stable and healthy cash position

The results for H117 were broadly in line with our FY17 projections at the net profit level. Lower revenue and higher costs (the result of the consolidation of Deinobiotics from 1 January 2017) contributed to a bigger operating loss (€4.8m) than we might have expected (Edison FY17e: -€8.0m). However an exceptional gain on the sale of shares in Carbios (€0.4m) and an R&D tax credit of €1.3m (€0.7m H116) left the net loss at €3.3m for the year (€3.4m loss in H116). Net cash was €6.6m at H117, vs €9.3m at FY16 (Edison previous FY17e: €5.4m).

Progress in H117 and post period end

Deinove continued to make progress in H117. The management team was strengthened to reflect the new corporate focus, Deinove acquired the minority shareholding of Deinobiotics and issued two patent applications for an antibiotic molecule (January). A partnership in cosmetics was signed with Greentech (March) and the COLOR2B project passed the second phase (April). The animal feed project with Flint Hills Resources continues and Deinove believes that one or two strains of bacteria may be selected in 2018 for industrialisation. Since the period end the carotenoids programme has entered the industrialisation phase, which is expected to lead to the production of the first batches of carotenoids in 2018. Deinove also announced (September) that its AGIR project, carried out jointly with the Charles Viollette Institute, had been selected by the Investments for the Future programme, entitling the project to funding of €14.6m in 2017-22.

Valuation: Potential upside

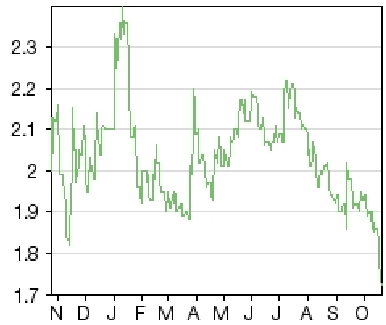
We have adjusted our forecasts to reflect the H117 results and the recent news of the AGIR funding. We now expect higher revenue, higher cash balances associated with additional grant funding, and a rise in long-term debt to reflect additional repayable advances from the Investments for the Future programme. We have also increased our projections for costs to reflect the additional expenses associated with the consolidation of Deinobiotics. Following the adjustments to forecasts, our DCF valuation indicates that Deinove could be worth €4.3/share (€4.4/share previously). At current levels (c €2/share), we believe the market appears to be applying a c. 50% probability of Deinove meeting our long-term projections.

23 October 2017

Price	**€1.72**
Market cap	**€18m**

Net cash* (€m) at H117 *Company definition	6.6
Shares in issue	10.6m
Free float	72%
Code	ALDEI
Primary exchange	Euronext Growth
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(9.9)	(20.0)	(20.7)
Rel (local)	(12.0)	(22.5)	(33.5)
52-week high/low		€2.4	€1.7

Business description

Deinove is a biotechnology company that discovers, develops and produces high value-added compounds from rare bacteria, including Deinococcus bacteria.

Next events

FY17 results	March 2018

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Edison profile page

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H1 results show a steady performance

In our view, for a company such as a Deinove, the short term-financials are less important than the long-term outlook for the company. However, reassuringly, the results for H117 were broadly in line with our full year projections at the net profit level. Although lower revenue and higher costs (the result of the consolidation of Deinobiotics from 1 January) contributed to a bigger operating loss (-€4.8m) than we might have expected (Edison FY17 forecast: -€8.0m), an exceptional gain on the sale of shares in Carbios (€0.4m) and an R&D tax credit of €1.3m (vs €0.7m in H116) left the net loss at €3.3m for the half-year. The net loss for H117 was of a similar magnitude to the net loss in H116 of €3.4m, and in line with our last published estimate for a FY17 net loss of €6.8m.

Financial resources (cash position) were €6.6m at H117, versus €9.3m at FY16 (last published Edison FY17 forecast €5.4m). The net reduction of c €2.7m over the first six months of the year reflected opex (excluding depreciation) of €4.1m and capex of €0.9m, offset by proceeds from the sale of the Carbios stake (€0.5m), the absorption of the liquid resources of Deinobiotics following its consolidation (€0.6m), and the issue of equity (€1.2m) from the Kepler Cheuvreux line.

Exhibit 1: Interim profitability – comparison of key figures

€000s	H116	H117	H117 vs H116 change (%)
Total operating revenue	208	140	(33)
Total operating costs	(4,363)	(4,898)	12
Operating profit/(loss)	(4,155)	(4,758)	15
Net profit/(loss)	(3,382)	(3,345)	(1)
Net cash	10,359	6,584	(36)

Source: Deinove, Edison Investment Research

Operational and organisational progress in H1

Following its strategic refocus (suspension of the biofuels programme) announced last autumn, Deinove has continued to make significant operational progress. The management team was strengthened in January 2017 to reflect the new corporate focus, with the appointment of four directors with expertise in the pharmaceutical industry. In January Deinove also acquired the minority shareholding of Deinobiotics and issued two patent applications for an antibiotic molecule. A partnership in cosmetics was signed with Greentech in March 2017 and Deinove is aiming to bring its first ingredient to market in 2018. The COLOR2B project, developed in partnership with Avril, continues to advance, and passed the second phase in April. The project is now progressing to the final phase (targeted for conclusion in 2018), with the ultimate goal of beginning to market the ingredients. The animal feed project with Flint Hills Resources also continues and Deinove believes that one or two strains of bacteria may be selected in 2018 for industrialisation.

Post-period progress and funding

Since the period end, the carotenoids programme, conducted with Processium, has entered the industrialisation phase. Phase 2 is expected to continue for the remainder of 2017 and lead to the production of the first batches of the carotenoid for sale in 2018.

In addition, on 12 September, Deinove announced that its AGIR project (Antibiotics against Resistant Infectious Germs), carried out jointly by its subsidiary Deinobiotics and the Charles Viollette Institute, had been selected by the Investments for the Future programme, entitling it to funding of €14.6m. The funding package takes the form of grants (recognised as revenue in the P&L) and repayable advances (treated as equity by Deinove). We expect Deinove's share of the revenue (c €10.4m) to be received in five tranches spread over the period 2017-22, with the first tranche payable in FY17. We expect only minimal rises in the costs associated with the programme.

The funding not only recognises the significant progress the antibiotics project has made, but the additional revenue will also constitute a valuable source of funding and help Deinove finance its ongoing AMR research programme (preclinical/Phase 1). Ultimately, development may be acquired by a big pharma company and our DCF model assumes a one-off payment by a large pharmaceutical company in 2020 ($12m) to acquire development rights.

Forecast changes

We have adjusted our forecasts to reflect the H117 results and the recent news of the AGIR funding. Despite the fall in revenue in H117 we now expect slightly higher revenue in FY17 and FY18, associated with additional grant funding and a rise in long-term debt to reflect additional repayable advances from the Investments for the Future programme. Cash balances are also projected to be higher thanks to the additional revenue from the AGIR funding. However we have also increased our projections for costs to reflect the additional expenses associated with the consolidation of Deinobiotics and a small amount of additional expenditure related to the antibiotics programme.

Exhibit 2: Changes to key forecasts

	Revenue (€m)			EBITDA (€m)			Net cash (€m)		
	Old	New	% change	Old	New	% change	Old	New	% change
2017e	0.5	0.8	64	(7.2)	(7.9)	-10	5.4	6.2	15
2018e	2.6	2.9	11	(5.1)	(5.8)	-14	3.5	5.4	54

Source: Edison Investment Research. Note: Cash balances shown are the company's definition.

Valuation

We continue to use DCF as our principal valuation tool and our long-term assumptions remain broadly unchanged from those set out in our outlook note, Implementing the new strategy, published on 1 September 2017. Based on our long-term assumptions (using a discount rate of 12.5% and a terminal growth rate of 0%) and reflecting adjustments made to our forecasts post the H117 results, we calculate that Deinove could be worth €4.3/share (versus €4.4/share previously). At current levels (c €2/share), we believe the market appears to be applying a 50% probability of Deinove meeting our projections. Reducing the discount rate to 10%, but maintaining assumptions for the terminal growth rate, would indicate a value of €6.5/share.

Exhibit 3: Probability-adjusted valuation

Antibiotics	100%	75%	75%	75%	50%	50%
Cosmetics	100%	100%	75%	75%	75%	50%
Nutrition	100%	100%	100%	75%	75%	50%
Valuation (€/s)	**4.3**	**3.8**	**3.6**	**3.1**	**2.6**	**1.9**

Source: Edison Investment Research

Exhibit 4: Financial summary

€'000s	2015	2016	2017e	2018e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	492	793	819	2,884
Cost of sales	0	0	0	0
Gross profit	492	793	819	2,884
EBITDA	(7,309)	(6,983)	(7,911)	(5,800)
Operating profit (before amort. and except.)	(7,331)	(6,956)	(8,611)	(6,686)
Intangible Amortisation	(634)	(736)	(370)	(426)
Exceptionals	(10)	283	348	0
Other	0	0	0	0
Operating profit	(7,975)	(7,409)	(8,633)	(7,112)
Net Interest	(14)	15	(38)	(65)
Profit before tax (norm)	(7,345)	(6,941)	(8,649)	(6,751)
Profit before tax (FRS 3)	(7,989)	(7,394)	(8,671)	(7,177)
Tax	1,633	1,115	1,707	2,099
Profit after tax (norm.)	(5,712)	(5,826)	(6,942)	(4,652)
Profit after tax (FRS 3)	(6,356)	(6,279)	(6,964)	(5,078)
Average number of shares outstanding (m)	8.6	9.0	10.6	10.6
EPS - normalised (c)	(66.8)	(64.6)	(65.7)	(44.1)
EPS - (IFRS) (c)	(74.3)	(69.6)	(66.0)	(48.1)
Dividend per share (c)	0.0	0.0	0.0	0.0
Gross margin (%)	N/A	N/A	N/A	N/A
EBITDA margin (%)	N/A	N/A	N/A	N/A
Operating margin (before GW and except.) (%)	N/A	N/A	N/A	N/A
BALANCE SHEET				
Fixed assets	1,968	2,366	5,940	5,228
Intangible assets	117	201	3,474	3,048
Tangible assets	1,055	853	1,154	869
Investments	796	1,312	1,312	1,312
Current assets	15,359	11,537	9,162	8,313
Stocks	0	0	0	0
Debtors	2,393	1,792	2,503	2,503
Cash	11,932	9,316	6,231	5,381
Other	1,034	429	429	429
Current liabilities	(2,719)	(2,142)	(3,590)	(5,907)
Creditors	(2,719)	(2,142)	(3,590)	(5,907)
Short-term borrowings	0	(0)	0	0
Long-term liabilities	(6,512)	(9,193)	(11,325)	(12,525)
Long-term borrowings	(6,497)	(9,178)	(11,310)	(12,510)
Other long-term liabilities	(15)	(15)	(15)	(15)
Net Assets	8,096	2,568	187	(4,891)
CASH FLOW				
Operating cash flow	(7,324)	(6,079)	(7,304)	(3,800)
Net Interest	(14)	15	(38)	(65)
Tax	1,633	1,115	2,185	2,416
Capex	(289)	(620)	(1,001)	(600)
Acquisitions/disposals	756	(479)	(3,642)	0
Financing	14,257	752	4,582	0
Dividends	0	0	0	0
Net cash flow	9,019	(5,297)	(5,217)	(2,050)
Opening net debt/(cash)	3,584	(5,435)	(138)	5,079
HP finance leases initiated	0	0	0	0
Other	0	0	0	0
Closing net debt/(cash)	(5,435)	(138)	5,079	7,129
Closing net debt/(cash) (Company Definition)	(12,432)	(9,316)	(6,231)	(5,381)

Source: Company accounts, Edison Investment Research. Note: The FY16 figures have not been restated to reflect the consolidation of Deinbiotics.

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