

# Oxford BioMedica

## Novartis extends manufacturing collaboration

Novartis has broadened the terms of its CTL019/CART-019 manufacturing collaboration with Oxford BioMedica, with additional incentives for capacity expansion and process optimisation. The new agreement includes \$14m upfront, of which \$4.3m is an equity stake, with potential to receive a total of \$90m over the next three years if the objectives are met. The deal clearly validates both the LentiVector platform and, equally importantly, the production skills and technical expertise being developed.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/12	7.8	(9.5)	(0.7)	0.0	N/A	N/A
12/13	5.4	(12.4)	(0.8)	0.0	N/A	N/A
12/14e	10.8	(6.7)	(0.3)	0.0	N/A	N/A
12/15e	22.8	0.0	0.1	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

### Deal validates the LentiVector technology platform

Novartis's decision to expand the original manufacturing agreement, signed in May 2013, to produce clinical trial material for the CTL019/CART-019 development programme is highly encouraging. CTL019/CART-019 is a high-profile programme that addresses various forms of late-stage and refractive leukaemia. It uses a lentiviral vector to genetically modify a patient's own T cells such that they express an antibody-like protein that targets the CD19 antigen on B cells. Such ex vivo techniques are typically difficult to scale up easily and Novartis's choice of production partner helps validate both Oxford BioMedica's LentiVector technology platform and its growing viral vector production expertise.

### Novartis may pay \$90m over the next three years

Under the terms of the new agreement Novartis will pay \$14m upfront for a non-exclusive licence to the LentiVector platform, with a possible total value of \$90m. The manufacturing contract has an initial three-year term, with payments and incentives for successful production process optimisation and capacity improvements. \$4.3m is through an equity stake, with 70.81m new shares issued at 3.8p. Additionally, undisclosed royalties (assumed to be low single digit) will be payable on sales of CTL019 and other related cell products.

### Valuation: Raised from 4.1p to 5.4p per share

Our valuation is based largely on an rNPV model of the late-stage pipeline, as we have chosen not to include the value of other less visible, but arguably just as important assets such as the intellectual property estate (where the royalty stream could be material). This deal raises the profile of the production expertise and we have included a maiden contribution to our valuation. The incremental NPV of 1.6p a share is based on conservative assumptions and, together with fine-tuning our expectations for other pipeline projects, sees our valuation rise from 4.1p to 5.4p a share. We expect to revisit our valuation once the visibility of the likely magnitude of the contribution from the manufacturing revenues increases.

Major contract update

Pharma & biotech

16 October 2014

**Price** 3.88p

**Market cap** £100m

US\$1.60/£

Net cash (£m) as at December 2013 2.2

Shares in issue 2,565m

Free float 98%

Code OXB

Primary exchange LSE

Secondary exchange N/A

#### Share price performance



% 1m 3m 12m

Abs (0.6) 37.2 63.9

Rel (local) 8.6 48.0 72.6

52-week high/low 4.2p 2.0p

#### Business description

Oxford BioMedica has a leading position in gene-based therapy. The LentiVector technology is wide ranging and underpins much of the development pipeline, notably the ophthalmology projects, and increasingly the manufacturing capabilities.

#### Next events

RetinoStat trial results Q414

FY14 results March 2015

Product collaborations Undisclosed

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**Exhibit 1: Financial summary**

	£000s	2012	2013	2014e	2015e	2016e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		7,756	5,375	10,800	22,763	29,963
Cost of Sales		(667)	(1,140)	(3,300)	(9,056)	(16,281)
Gross Profit		7,089	4,235	7,500	13,706	13,682
R&D		(14,015)	(13,750)	(11,260)	(10,500)	(10,550)
General & admin		(3,619)	(3,422)	(3,490)	(3,578)	(3,685)
Other: revenue/(expenditure)		58	114	100	100	100
Operating Profit		(10,487)	(12,823)	(7,150)	(271)	(453)
Amortisation		(370)	(396)	(370)	(370)	(370)
Exceptionals		0	0	0	0	0
Share-based payments		(450)	0	0	0	0
EBITDA		(9,066)	(11,756)	(6,180)	699	517
Operating Profit (before GW and except)		(9,667)	(12,427)	(6,780)	99	(83)
Net Interest		138	60	50	(100)	(150)
Profit Before Tax (norm)		(9,529)	(12,367)	(6,730)	(1)	(233)
Profit Before Tax (reported)		(10,349)	(12,763)	(7,100)	(371)	(603)
Tax		1,619	1,667	1,665	1,553	1,560
Profit After Tax (norm)		(7,910)	(10,700)	(5,065)	1,551	1,327
Profit After Tax (reported)		(8,730)	(11,096)	(5,435)	1,181	957
Average Number of Shares Outstanding (m)		1,146.5	1,416.1	1,990.5	2,564.8	2,564.8
EPS - normalised (p)		(0.7)	(0.8)	(0.3)	0.1	0.1
EPS - reported (p)		(0.8)	(0.8)	(0.3)	0.0	0.0
Gross Margin (%)		91.4%	78.8%	69.4%	60.2%	45.7%
EBITDA Margin (%)		(116.9%)	(218.7%)	(57.2%)	3.1%	1.7%
Operating Margin (before GW and except) (%)		(124.6%)	(231.2%)	(62.8%)	0.4%	(0.3%)
<b>BALANCE SHEET</b>						
Fixed Assets		6,833	6,703	6,433	12,963	19,493
Intangible Assets		2,931	2,633	2,263	1,893	1,523
Tangible Assets		3,902	4,070	4,170	11,070	17,970
Investment in associates		0	0	0	0	0
Unquoted investments		0	0	0	0	0
Current Assets		17,590	6,941	31,180	37,779	45,145
Stocks		0	680	0	0	0
Debtors		1,705	2,592	2,100	2,200	2,400
Cash		14,061	2,169	27,580	34,079	41,245
Other		1,824	1,500	1,500	1,500	1,500
Current Liabilities		(4,270)	(4,214)	(5,165)	(16,865)	(29,865)
Short term borrowings		0	0	(2,000)	(14,000)	(27,000)
Creditors		(881)	(1,218)	(1,200)	(1,200)	(1,200)
Other creditors		(1,821)	(1,716)	(1,665)	(1,665)	(1,665)
Provisions		0	0	0	0	0
Deferred revenue		(1,568)	(1,280)	(300)	0	0
Long Term Liabilities		(510)	(532)	(5,532)	(5,532)	(5,532)
Long term borrowings		0	0	(5,000)	(5,000)	(5,000)
Deferred revenue		0	0	0	0	0
Other long term liabilities		(510)	(532)	(532)	(532)	(532)
Net Assets		19,643	8,898	26,916	28,345	29,241
<b>CASH FLOW</b>						
Operating Cash Flow		(11,470)	(13,005)	(5,326)	599	317
Net Interest		169	61	50	(100)	(150)
Tax		1,436	1,990	1,600	1,500	1,500
Capex		(476)	(839)	(700)	(7,500)	(7,500)
Acquisitions/disposals		0	0	0	0	0
Financing		10,262	0	22,788	0	0
Dividends		0	0	0	0	0
Other		(195)	(98)	0	0	0
Net Cash Flow		(274)	(11,891)	18,411	(5,501)	(5,833)
Opening net debt/(cash)		(14,294)	(14,061)	(2,169)	(20,580)	(15,079)
HP finance leases initiated		0	0	0	0	0
Other		41	(1)	0	0	0
Closing net debt/(cash)		(14,061)	(2,169)	(20,580)	(15,079)	(9,245)

Source: Company reports, Edison Investment Research.

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