

InMed Pharmaceuticals

Progressing their programs

Financial update

Pharma & biotech

20 September 2018

Price **C\$0.76**

Market cap **C\$130m**

C\$0.79/US\$

Net cash (C\$m) as at 30 June 2018 26.5

Shares in issue 170.6m

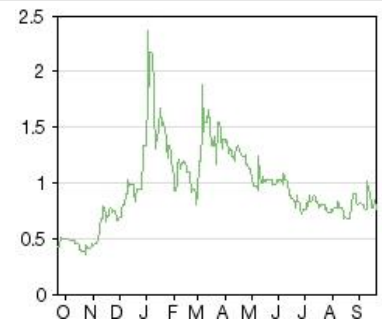
Free float 92.1%

Code IN

Primary exchange TSX

Secondary exchange OTC Markets

Share price performance



% 1m 3m 12m

Abs 11.8 (5.0) 81.0

Rel (local) 13.0 (4.0) 71.4

52-week high/low C\$2.4 C\$0.4

Business description

InMed is a Canada-based biopharmaceutical company focused on manufacturing and developing cannabinoids. Its biosynthesis platform may be able to produce cannabinoids for less cost and with improved purity compared to currently used methods. The company is also developing a proprietary pipeline, including INM-750 for epidermolysis bullosa, a serious, debilitating orphan indication.

Next events

INM-750 discussions with regulators H119

INM-750 IND filing H219

Analysts

Maxim Jacobs +1 646 653 7027

Nathaniel Calloway +1 646 653 7036

healthcare@edisongroup.com

[Edison profile page](#)

**InMed Pharmaceuticals is a
research client of Edison
Investment Research Limited**

InMed continues to make progress on its biosynthesis platform, optimizing the genes that lead *E. coli* to express the cannabinoids and scaling up the fermentation process, both crucial steps needed to achieve commercial scale to address the market. InMed is also optimizing the formulation for INM-750 for epidermolysis bullosa (EB). A final formulation is expected by the end of 2018. The company is also conducting pharmacology, toxicology and other pre-clinical studies in preparation for detailed discussions with regulatory authorities, which it expects to occur in H119. InMed is on track for an IND filing in H219.

Year end	Revenue (C\$m)	PBT* (C\$m)	EPS* (C\$)	DPS (C\$)	P/E (x)	Yield (%)
06/17	0.0	(3.2)	(0.03)	0.00	N/A	N/A
06/18	0.0	(5.3)	(0.04)	0.00	N/A	N/A
06/19e	0.0	(7.5)	(0.04)	0.00	N/A	N/A
06/20e	0.0	(11.5)	(0.06)	0.00	N/A	N/A

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

Increased interest in biosynthesis strategy

Cronos Group, a c US\$2bn Nasdaq-listed cannabis grower and marketer, recently signed an agreement with Ginkgo Bioworks to synthesize eight cannabinoids in yeast, helping validate InMed's strategy as Cronos believes "biosynthesis is a potentially disruptive and cost effective means to produce cannabinoids at a commercially viable scale with limited CapEx." Cronos expects to commit US\$22m in research and foundry funding and will issue equity upon the achievement of certain milestones. That equity is currently valued at US\$170m.

INM-750 progressing in EB

InMed is developing INM-750, a topical cannabinoid cream, for EB, a debilitating genetic disorder characterized by skin fragility leading to blistering and wounding. The company believes the product could provide symptomatic relief in all patients and potentially treat the underlying disease in a subset of patients, and expects to file an IND in H219 following regulatory discussions in H119.

Funding secured into FY21

On 21 June 2018, InMed raised net proceeds of C\$13.5m. 16.6m units were issued at \$0.90 per unit with each unit consisting of a common share and a warrant. The warrants are exercisable at \$1.25 for a period of 24 months. The company had C\$26.5m in cash at 30 June and we believe this provides runway into FY21.

Valuation: C\$234m or C\$1.37 per basic share

We have adjusted our valuation from C\$221m or C\$1.45 per basic share (C\$1.20 per diluted share) to C\$234m or C\$1.37 per basic share (C\$1.05 per diluted share). The total value increased due to a higher level of net cash while the per share value decreased because of a larger number of shares outstanding. Otherwise, our valuation estimates are unchanged.

FY18 results and development update

InMed recently reported its FY18 results and provided a development update. With regards to the biosynthesis platform, the company continues to work on optimizing the genes to get *E. coli* to express the cannabinoids and scaling up the fermentation process – the crucial steps needed to achieve commercial scale to address the market. On the earnings call, the company suggested that it will be able to start talking to growers about supplying cannabinoids in about 12 months, which is approximately in-line with our estimates.

INM-750 for EB remains on track for an IND filing in H219. Formulation studies are ongoing and a final topical formulation is expected by the end of 2018. The company is also conducting pharmacology studies to assist its understanding of the roles of each of the two cannabinoids that comprise INM-750. These, as well as other pre-clinical studies that the company is conducting, such as toxicology and dose-finding studies, will help prepare InMed for detailed discussions with regulatory agencies, which it expects to occur in H119. Following these discussions, the company expects to conduct another set of pre-clinical studies following guidance from regulators.

Cronos-Ginkgo Bioworks deal

We believe that the recently announced deal between Cronos Group and Ginkgo Bioworks helps to validate InMed's stated strategy of developing cannabinoids in its biosynthesis platform. Cronos Group is a Nasdaq-listed cannabis grower and marketer with a c US\$2bn market capitalization and a presence in four continents. While it uses traditional growing methods, Cronos believes "biosynthesis is a potentially disruptive and cost effective means to produce cannabinoids at a commercially viable scale with limited CapEx." Per the agreement, Cronos will fund R&D related to the biosynthesis of cannabinoids in yeast (as opposed to InMed's *E. coli* based platform) and foundry expenses at Ginkgo, which are expected to be US\$22m. Cronos will also issue tranches of common shares once target cannabinoids can be produced for less than US\$1,000 per kilogram at a scale of greater than 200 liters (see Exhibit 1). As a comparison, the wholesale price of cannabis flower in Washington State is US\$2,530 per kilogram as of September 2017 (source: TopShelfData). At the closing price on 18 September, the value of those shares is equal to US\$170m despite only covering eight cannabinoids. The value of a platform that could synthesize 90+ cannabinoids would likely be much higher, in our view.

Exhibit 1: Cronos-Ginkgo deal milestones

Target Cannabinoid	Milestone shares	Value of shares (\$m)
THC(A)	2,934,981	33.9
CBD(A)	2,201,235	25.4
CBC(A)	1,467,490	17.0
CBG(A)	1,467,490	17.0
THCV(A)	2,201,235	25.4
CBGV(A)	1,467,490	17.0
CBDV(A)	1,467,490	17.0
CBVC(A)	1,467,490	17.0
Total	14,674,901	169.6

Source: Cronos Group. Value of shares based on closing price at 18 September 2018

With regards to Ginkgo competing with InMed, it is unclear when Ginkgo started researching biosynthesizing cannabinoids but it is possible that InMed has as much as a three-year head start. Also, while InMed has the freedom to operate in *E. coli*, the patent landscape to use yeast is more crowded (Teewinot Life Sciences and Librede both have patents to manufacture cannabinoids in yeast) and it may prove challenging for Ginkgo to find a way through. Also, at present, the cost of starting materials to produce cannabinoids in yeast are believed to be higher than \$1,000 per kilogram, so it is unclear whether Ginkgo will be able to hit its cost-efficiency target.

Valuation

We have adjusted our valuation from C\$221m or C\$1.45 per basic share (C\$1.20 per diluted share) to C\$234m or C\$1.37 per basic share (C\$1.05 per diluted share). The total value increased due to a higher level of net cash as a result of the placement, while the per share value decreased because of a larger number of shares (and options in the case of the diluted share value) outstanding. Otherwise, our valuation estimates remain unchanged.

Exhibit 2: InMed valuation table					
Program	Stage	Probability of success	Launch year	Peak sales (C\$m)	rNPV (C\$m)
Biosynthesis (manufacturing)	Development	23%	2020	1,574	\$196
INM-750	Preclinical	5.0%	2026	345	\$11
Total					\$207.0
Net cash and equivalents (As of 30 June 2018) (C\$m)					\$26.5
Total firm value (C\$m)					\$233.5
Total basic shares (as of June 2018, m)					170.9
Value per basic share (C\$)					\$1.37
Options and warrants (as of June 2018, m)					50.5
Total diluted shares (m)					221.4
Value per diluted share (C\$)					\$1.05
Source: Edison Investment Research					

Financials

InMed reported an operating loss of C\$8.5m for its fiscal 2018 (year ending 30 June 2018) up from C\$4.5m for FY17. R&D expenses were C\$1.9m in FY18, up from C\$0.7m in FY17. We have made only slight adjustments to our estimates following this earnings release and have also introduced our FY20 numbers. We expect losses to increase steadily (to C\$10.8m in FY19 and C\$14.9m in FY20) as the company advances its manufacturing platform and proprietary pipeline with projected R&D spending of C\$3.9m in FY19 and C\$7.7m in FY20.

On 21 June 2018, the company raised net proceeds of C\$13.5m. 16.6m units were issued at a price of \$0.90 per unit with each unit consisting of a common share and a warrant. The warrants are exercisable at \$1.25 for a period of 24 months. The company had C\$26.5m in cash at 30 June and we believe this provides runway into FY21.

Exhibit 3: Financial summary

	C\$'000s	2016	2017	2018	2019e	2020e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of Sales		0	0	0	0	0
Gross Profit		0	0	0	0	0
Research and development		(379)	(746)	(1,927)	(3,854)	(7,709)
Selling, general & administrative		(1,337)	(2,321)	(3,367)	(3,502)	(3,642)
EBITDA		(1,890)	(3,263)	(5,530)	(7,592)	(11,586)
Operating Profit (before amort. and except.)		(1,803)	(3,165)	(5,412)	(7,474)	(11,469)
Intangible Amortisation		0	0	0	0	0
Exceptionals/Other		(574)	(1,309)	(3,197)	(3,324)	(3,457)
Operating Profit		(2,377)	(4,474)	(8,609)	(10,799)	(14,926)
Net Interest		0	0	88	0	0
Other (change in fair value of warrants)		0	0	0	0	0
Profit Before Tax (norm)		(1,803)	(3,165)	(5,324)	(7,474)	(11,469)
Profit Before Tax (IFRS)		(2,377)	(4,474)	(8,521)	(10,799)	(14,926)
Tax		0	0	0	0	0
Deferred tax		0	0	0	0	0
Profit After Tax (norm)		(1,803)	(3,165)	(5,324)	(7,474)	(11,469)
Profit After Tax (IFRS)		(2,377)	(4,474)	(8,521)	(10,799)	(14,926)
Average Number of Shares Outstanding (m)		60.2	96.8	142.5	178.1	185.2
EPS - normalised (c)		(2.99)	(3.27)	(3.74)	(4.20)	(6.19)
EPS - IFRS (\$)		(0.04)	(0.05)	(0.06)	(0.06)	(0.08)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		1,464	1,392	1,329	1,281	1,295
Intangible Assets		1,459	1,365	1,274	1,274	1,274
Tangible Assets		5	27	56	8	21
Other		0	0	0	0	0
Current Assets		188	6,945	26,734	19,303	7,870
Stocks		0	0	0	0	0
Debtors		0	0	0	0	0
Cash		54	6,708	26,477	19,046	7,613
Other		133	237	257	257	257
Current Liabilities		(590)	(370)	(938)	(938)	(938)
Creditors		(590)	(370)	(938)	(938)	(938)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		0	0	0	0	0
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
Net Assets		1,062	7,966	27,126	19,646	8,227
CASH FLOW						
Operating Cash Flow		(499)	(3,076)	(4,672)	(7,356)	(11,350)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(1)	(25)	(56)	(75)	(83)
Acquisitions/disposals		0	0	0	0	0
Financing		388	9,755	24,483	0	0
Dividends		0	0	0	0	0
Other		0	0	0	0	0
Net Cash Flow		(112)	6,654	19,756	(7,431)	(11,433)
Opening net debt/(cash)		(167)	(54)	(6,708)	(26,477)	(19,046)
HP finance leases initiated		0	0	0	0	0
Exchange rate movements		0	0	0	0	0
Other		0	0	14	0	0
Closing net debt/(cash)		(54)	(6,708)	(26,477)	(19,046)	(7,613)

Source: Edison Investment Research, company accounts

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by InMed Pharmaceuticals and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.