

# Oxford Immunotec

## Not your usual diagnostics company

Oxford Immunotec is in transition. Having passed the stage before which most diagnostic companies stall – their first approved test – it has recently restructured, with the \$170m sale of its US diagnostic services business to Quest. Its diagnostic products are now the focus, while the rate of growth of its first (T-SPOT.TB) test, having reached one million tests per quarter, may moderate. Once the financial and operational dust clears on the divestment, the future direction and time to profitability for Oxford Immunotec is likely to be dependent on the use of its c \$200m net cash.

### Q318 results

Oxford Immunotec's total Q3 GAAP revenues grew 7% to \$16.1m, of which product sales were \$15.1m, up 12% (almost entirely TB). Non-GAAP TB revenues rose 15% y-o-y to \$27.9m, reflecting two facets – the inclusion of its services business (recently sold but reclassified under US GAAP as discontinued in Q3) and the growth of its T-SPOT.TB test revenues. The sale of the lower-margin services business lifted Q318 GAAP gross margin to 71.5% (from 65% in Q317). A c \$11m y-o-y reduction (\$0.9m excluding one-off items) in operating expenses to \$16.5m included \$2.4m in transaction costs. Going forward, headcount has almost halved and the kit transfer pricing dynamic has changed, both as a result of the transaction. Reported cash at end-Q318 was \$70.2m (vs \$90.3m end-Q317) but is indicated to be c \$200m following the services business sale. While \$33m of the proceeds was used to pay down debt, the transaction and related cash inflow will improve profitability, facilitate growth in the US and provide strategic flexibility.

### That second product is always harder than the first

A small UK diagnostics company with an approved revenue-generating product in the US and EU and its first positive adjusted-EBITDA quarter is rare when most VCs only whisper about their zombie diagnostics companies. The T-SPOT.TB test has a long heritage of growth, which at this stage may logically be expected to moderate. This reinforces the need for that next leg of growth, and the acquisition of new diagnostic products and technologies may be a component of that growth.

### Valuation: Opacity probably weighs on valuation

The utilisation of all of its tax losses by the transaction means that the company emerging from the simplification will be very different to the one that entered it. The suspension of its revenue guidance has also resulted in opacity on the investment case and this is probably reflected in being valued at only twice net cash.

#### Consensus estimates

| Year end | Revenue (\$m) | PBT (\$m) | EPS (c) | DPS (c) | P/E (x) | Yield (%) |
|----------|---------------|-----------|---------|---------|---------|-----------|
| 12/16    | 86.1          | (26.1)    | (1.00)  | N/A     | N/A     | N/A       |
| 12/17    | 103.1         | (31.1)    | (2.19)  | N/A     | N/A     | N/A       |

Source: Company data, Thomson Reuters I/B/E/S estimates. Note: 2018/19 guidance currently suspended; consensus not restated to reflect the services business divestment.

#### Pharma & biotech

30 November 2018

**Price** **\$15.2**  
**Market cap** **\$401m**

#### Share price graph



#### Share details

Code OXFD  
 Listing NASDAQ  
 Shares in issue 26.4m

#### Business description

Oxford Immunotec is a global diagnostics company focused on developing and commercialising proprietary tests for the management of underserved immune-regulated conditions. The company's T-SPOT.TB test has been approved for sale in over 50 countries, including the US, where it has received pre-market approval from the FDA, and in Europe, where it is CE marked, as well as Japan and China.

#### Bull

- Proven diagnostic development and commercialisation capability.
- Divestment of services business will bring \$170m in cash and a seven-year T-SPOT.TB supply agreement.
- Once simplified, value-generating options like technology and product acquisitions could be a focus.

#### Bear

- Suspension of revenue guidance and opacity on the impact of the transaction.
- Slowing revenue growth in the largest product (T-SPOT.TB).
- US T-SPOT.TB revenue growth now controlled by Quest.

#### Analyst

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