

Shield Therapeutics

Interim results

The land of opportunity awaits Accrufer

Pharma & biotech

8 August 2019

Price **161p**
Market cap **£187m**

£0.80/US\$; £0.90/€

Net cash (£m) at 30 June 2019 6.6

Shares in issue 116.4m

Free float 29%

Code STX

Primary exchange AIM

Secondary exchange N/A

Shield Therapeutics' interim results highlight a momentous year to date, with the FDA approval of primary asset Feraccru/Accrufer, for the treatment of iron deficiency (ID) in adults with any underlying cause. Royalties received from early sales of the product in the UK and Germany by partner Norgine are encouraging. The AEGIS-H2H study reported positive data, strengthening the product's profile and leading to a €2.5m development milestone from Norgine. We expect a further ramp up in sales in 2020/2021 as pricing and reimbursement conclude in some European countries, leading to ongoing rollouts. A key inflection point is a US partnering deal, which management guides could be concluded by end-2019; an upfront licensing payment would extend Shield's cash reach beyond our forecast of H220. We value Shield at £273m.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	0.64	(18.42)	(15.2)	0.0	N/A	N/A
12/18	11.88	(5.15)	(1.5)	0.0	N/A	N/A
12/19e	3.14	(7.73)	(5.1)	0.0	N/A	N/A
12/20e	3.17	(8.51)	(6.3)	0.0	N/A	N/A

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

Norgine execution key to EU opportunity

Feraccru is available in Germany and the UK for the treatment of ID in adults, through partner Norgine; sales in H119 led to £0.3m in royalties. Feraccru is initially benefiting from Norgine's footprint in gastroenterology offices. Sales uplift will depend on pricing and reimbursement during the rollout through Europe (2020 onwards) and the presentation of positive AEGIS-H2H data (non-inferiority to IV iron), which should strengthen Feraccru's appeal to prescribers. Other near-term inflection points include a US partnering deal, which we assume will occur in the next 12 months and currently forecast deal terms of a £15m upfront and a flat 20% royalty rate. Negotiations for out-licensing the rights to Feraccru in China are also underway and could present further upside to our base-case assumptions.

Financials: Cash runway into 2020

Shield reported revenues of £2.6m and a net loss of £2.0m in H119 (H118: £8.0m), benefiting from the €2.5m milestone payment and a significant reduction in SG&A as it is no longer directly marketing the drug itself. We have adjusted our forecast R&D cost down (paediatric study), in line with company guidance. The H119 cash position of £6.6m implies a runway into H220. A US partnering deal should enable an upfront licensing payment to extend the cash runway. We now forecast a 2019 cash burn of £5.5m and sustainable profitability from 2022.

Valuation: £273m or 233p/share

We have rolled forward our model and updated for net cash of £6.6m, which coupled with the lower R&D maintains our valuation at £273m. It is based on an NPV of Feraccru for ID related anaemia in Europe and the US, with conservative peak sales of €133m and \$420m, respectively. Should partners be able to utilise the full breadth of the ID labels attained, there might be significant upside potential.

Share price performance



%	1m	3m	12m
Abs	30.5	48.4	411.1
Rel (local)	55.4	67.2	449.89
52-week high/low		196p	31p

Business description

Shield Therapeutics is a commercial-stage pharmaceutical company. Its proprietary product, Feraccru, is approved by the EMA and FDA for the treatment of iron deficiency. Feraccru is marketed through partners Norgine, AOP Orphan and Ewopharma.

Next events

Out-licensing US rights to Feraccru	H219
Publication of AEGIS-H2H data	Q319
Launches in the US and additional EU states as covered by Norgine	2020/2021

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Exhibit 1: Financial summary

Year end 31 December	£000s	2017	2018	2019e	2020e
PROFIT & LOSS					
Revenue		637	11,881	3,139	3,169
Cost of sales		(155)	(311)	(544)	(1,718)
Gross profit		482	11,570	2,595	1,450
Gross margin %		76%	97%	83%	46%
SG&A (expenses)		(16,722)	(12,438)	(7,324)	(6,758)
R&D costs		(4,711)	(4,300)	(3,000)	(3,000)
Other income/(expense)		0	0	0	0
EBITDA		(18,514)	(2,814)	(5,405)	(6,050)
Depreciation and amortisation		(2,437)	(2,354)	(2,324)	(2,258)
Reported Operating Income		(20,951)	(5,168)	(7,729)	(8,308)
Exceptionals and adjustments		(2,571)	0	0	0
Adjusted Operating Income		(18,380)	(5,168)	(7,729)	(8,308)
Finance income/(expense)		(43)	15	0	(200)
Reported PBT		(20,994)	(5,153)	(7,729)	(8,508)
Profit Before Tax (norm)		(18,423)	(5,153)	(7,729)	(8,508)
Income tax expense		1,406	3,359	1,800	1,200
Reported net income		(19,588)	(1,794)	(5,929)	(7,308)
Average Number of Shares Outstanding (m)		112.4	116.4	116.4	116.4
Year-end number of shares, m		112.4	116.4	116.4	116.4
Basic EPS (p)		(17.43)	(2.00)	(5.09)	(6.28)
EPS - normalised (p)		(15.2)	(1.5)	(5.1)	(6.3)
Dividend per share (p)		0.00	0.00	0.00	0.00
BALANCE SHEET					
Property, plant and equipment		13	8	6	4
Goodwill		0	0	0	0
Intangible assets		29,961	30,957	30,085	28,079
Other non-current assets		0	0	0	0
Total non-current assets		29,974	30,965	30,091	28,083
Cash and equivalents		13,299	9,776	4,230	7,602
Inventories		125	109	598	1,888
Trade and other receivables		1,572	1,031	1,974	6,964
Other current assets		0	1,500	1,500	1,500
Total current assets		14,996	12,416	8,303	17,953
Non-current loans and borrowings		0	0	0	8,000
Other non-current liabilities		0	0	0	0
Total non-current liabilities		0	0	0	8,000
Trade and other payables		3,501	2,548	2,990	9,440
Current loans and borrowings		0	0	0	0
Other current liabilities		262	403	403	403
Total current liabilities		3,763	2,951	3,393	9,843
Equity attributable to company		41,207	40,430	35,001	28,193
CASH FLOW STATEMENT					
Reported net income		(19,588)	(1,794)	(5,929)	(7,308)
Depreciation and amortisation		2,437	2,354	2,324	2,258
Share based payments		560	1,013	500	500
Other adjustments		39	4	0	0
Movements in working capital		(186)	(255)	(990)	171
Interest paid / received		0	0	0	0
Income taxes paid / received		587	(1,500)	0	0
Cash from operations (CFO)		(16,151)	(178)	(4,096)	(4,379)
Capex		(3,408)	(3,345)	(1,450)	(250)
Acquisitions & disposals net		0	0	0	0
Other investing activities		0	0	0	0
Cash used in investing activities (CFIA)		(3,408)	(3,345)	(1,450)	(250)
Net proceeds from issue of shares		11,880	0	0	0
Movements in debt		0	0	0	8,000
Other financing activities		0	0	0	0
Cash from financing activities (CFF)		11,880	0	0	8,000
Cash and equivalents at beginning of period		20,978	13,299	9,776	4,230
Increase/(decrease) in cash and equivalents		(7,679)	(3,523)	(5,546)	3,371
Cash and equivalents at end of period		13,299	9,776	4,230	7,602
Net (debt) cash		13,299	9,776	4,230	(398)

Source: Company accounts, Edison Investment Research

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