

Shield Therapeutics

Business update

2019 a landmark year

Today's 2019 business and trading update highlights a landmark year for Shield Therapeutics. Feraccru/Accrufer (oral ferric maltol) is making inroads in Europe, with sales volumes growing 67% through commercialisation partner, Norgine. Importantly, the AEGIS head-to-head study proved Feraccru/Accrufer to be non-inferior to IV iron therapy, a strong marketing tool for an oral treatment. In July 2019, the FDA approved the product for the treatment of iron deficiency in patients with any underlying cause – the broadest possible label. Momentum has continued into 2020 with an out-licensing deal with China-based Beijing Aosaikang Pharmaceutical (ASK Pharm) that covers China, Hong Kong, Macau and Taiwan. The next key inflection point is a US partnering deal, which we assume will occur in the next 12 months. We value Shield at £345m.

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	2.92	(7.82)	(5.2)	0.0	N/A	N/A
12/20e	11.74	0.27	1.3	0.0	N/A	N/A

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

US and further European launches lie ahead

The company expects FY19 revenues of £2.9m (2018 £11.8m) with £2.3m from milestones and £0.6m in sales-related revenues. The original approved European label for Ferracru was narrower and there have been reimbursement constraints related to this. Norgine is focusing its field-based detailing on the AEGIS H2H study and is in the process of submitting pricing and reimbursement applications to key European markets. Under the China deal ASK Pharm will complete any required clinical trials and file the marketing authorisation for the treatment of iron deficiency in all territories covered by the deal; we forecast China launch in 2023. The US is a key market and Shield is in detailed discussions with potential commercial partners. We expect Accrufer launch later this year once a partner has been found.

Financials: Cash runway extended into 2021

Shield reported a FY19 cash position of £4.1m, but the post period end upfront payment of \$11.4m from ASK Pharma extends the cash runway into 2021. We expect a US partnering deal (2020) and associated upfront licensing payment to strengthen the balance sheet, further reducing the requirement for a capital increase. With ongoing growth in Europe and a US launch on the horizon, we forecast that sustainable profitability is achievable from 2022, with gross margins nearing c 50–60% in the long term.

Valuation: £344.7m or 294p/share

Our revised valuation is £344.7m or 294p/share vs £346.8m or 296p/share (derived from an rNPV model). Our base assumptions for Shield remain unchanged and our valuation reflects an end-2020 net cash forecast of £8.5m and we have updated for FX and rolling forward our model. Our NPV calculation is based on Feraccru achieving peak sales of €133m in Europe, \$420m in the US and \$126m in China.

Pharma & biotech

27 January 2020

Price **164.5p**
Market cap **£192m**

£0.76/US\$; £0.91/€

Estimated net cash (£m) at 31 December 2020 8.5

Shares in issue 116.4m

Free float 29%

Code STX

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (9.4) (10.8) 304.2

Rel (local) (8.8) (14.6) 260.2

52-week high/low 196.0p 42.4p

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 2020

Launches in the US and additional EU states as covered by Norgine 2020/21

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Exhibit 1: Financial summary

Year end 31 December	£000s	2017	2018	2019e	2020e	2021e
PROFIT & LOSS						
Revenue		637	11,881	2,924	11,746	8,369
Cost of sales		(155)	(311)	(415)	(1,719)	(4,081)
Gross profit		482	11,570	2,510	10,028	4,288
Gross margin %		76%	97%	86%	85%	51%
SG&A (expenses)		(16,722)	(12,438)	(7,324)	(6,758)	(6,107)
R&D costs		(4,711)	(4,300)	(3,000)	(3,000)	(3,000)
Other income/(expense)		0	0	0	0	0
EBITDA		(18,514)	(2,814)	(5,490)	2,528	(2,712)
Depreciation and amortisation		(2,437)	(2,354)	(2,324)	(2,258)	(2,107)
Reported Operating Income		(20,951)	(5,168)	(7,815)	269	(4,819)
Exceptionals and adjustments		(2,571)	0	0	0	0
Adjusted Operating Income		(18,380)	(5,168)	(7,815)	269	(4,819)
Finance income/(expense)		(43)	15	0	0	0
Reported PBT		(20,994)	(5,153)	(7,815)	269	(4,819)
Profit Before Tax (norm)		(18,423)	(5,153)	(7,815)	269	(4,819)
Income tax expense		1,406	3,359	1,800	1,200	600
Reported net income		(19,588)	(1,794)	(6,015)	1,469	(4,219)
Average Number of Shares Outstanding (m)		112.4	116.4	116.4	116.4	116.4
Year-end number of shares, m		112.4	116.4	116.4	116.4	116.4
Basic EPS (p)		(17.43)	(2.00)	(5.17)	1.26	(3.62)
EPS - normalised (p)		(15.2)	(1.5)	(5.2)	1.3	(3.6)
Dividend per share (p)		0.00	0.00	0.00	0.00	0.00
BALANCE SHEET						
Property, plant and equipment		13	8	6	4	3
Goodwill		0	0	0	0	0
Intangible assets		29,961	30,957	30,085	28,079	26,223
Other non-current assets		0	0	0	0	0
Total non-current assets		29,974	30,965	30,091	28,083	26,226
Cash and equivalents		13,299	9,776	4,110	8,486	3,523
Inventories		125	109	456	1,889	2,242
Trade and other receivables		1,572	1,031	1,440	6,775	12,410
Other current assets		0	1,500	1,500	1,500	1,500
Total current assets		14,996	12,416	7,505	18,650	19,675
Non-current loans and borrowings		0	0	0	0	0
Other non-current liabilities		0	0	0	0	0
Total non-current liabilities		0	0	0	0	0
Trade and other payables		3,501	2,548	2,278	9,445	12,332
Current loans and borrowings		0	0	0	0	0
Other current liabilities		262	403	403	403	403
Total current liabilities		3,763	2,951	2,681	9,848	12,735
Equity attributable to company		41,207	40,430	34,915	36,885	33,166
CASH FLOW STATEMENT						
Reported net income		(19,588)	(1,794)	(6,015)	1,469	(4,219)
Depreciation and amortisation		2,437	2,354	2,324	2,258	2,107
Share based payments		560	1,013	500	500	500
Other adjustments		39	4	0	0	0
Movements in working capital		(186)	(255)	(1,026)	399	(3,101)
Interest paid/received		0	0	0	0	0
Income taxes paid/received		587	(1,500)	0	0	0
Cash from operations (CFO)		(16,151)	(178)	(4,216)	4,626	(4,713)
Capex		(3,408)	(3,345)	(1,450)	(250)	(250)
Acquisitions & disposals net		0	0	0	0	0
Other investing activities		0	0	0	0	0
Cash used in investing activities (CFIA)		(3,408)	(3,345)	(1,450)	(250)	(250)
Net proceeds from issue of shares		11,880	0	0	0	0
Movements in debt		0	0	0	0	0
Other financing activities		0	0	0	0	0
Cash from financing activities (CFF)		11,880	0	0	0	0
Cash and equivalents at beginning of period		20,978	13,299	9,776	4,110	8,486
Increase/(decrease) in cash and equivalents		(7,679)	(3,523)	(5,666)	4,376	(4,963)
Cash and equivalents at end of period		13,299	9,776	4,110	8,486	3,523
Net (debt)/cash		13,299	9,776	4,110	8,486	3,523

Source: Company accounts, Edison Investment Research

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