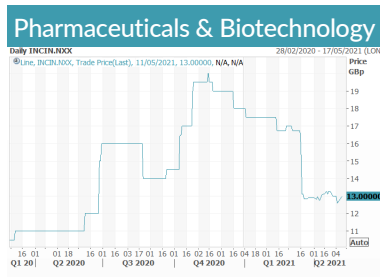




18 May 2021



Source: Refinitiv

Market data

EPIC/TKR	INC
Price (p)	13.5
12m high (p)	18.0
12m low (p)	9.5
Shares (m)	74.1
Mkt cap (£m)	10.0
EV (£m)	9.0
Free float	44%
Country of listing	UK
Market	AQSE APX

Description

Incanthera is a UK-based specialist oncology and dermatology company. The initial focus is on a value-added proprietary formulation sun cream, Sol, that prevents skin cancers. It also owns a novel, targeted, drug delivery platform to deliver cytotoxic warheads directly to cancer cells, in the expectation of improving clinical outcomes, with fewer side effects.

Company information

Executive Chair	Tim McCarthy
CEO	Simon Ward
COO	Pawel Zolnierczyk
CFO	Laura Brogden
Company Secretary	Suzanne Brocks
	+44 161 817 5005
	www.incanthera.com

Key shareholders

Directors/PDMR	10.5%
North West Fund	21.8%
Immupharma plc	13.4%
University of Bradford	10.1%
Tyndall IM	6.9%

Diary

Jun'21	AGM
Dec'21	Interims

Analyst

Martin Hall	020 3693 7075
	mh@hardmanandco.com

INCANTHERA PLC

Significant progress in first anniversary as plc

Incanthera (INC) was a spin-out from the Institute of Cancer Therapeutics (ICT) at the University of Bradford to exploit development opportunities generated by ICT. Following its listing on the Aquis Growth Exchange in February 2020, INC has been concentrating its resources on the further advancement of lead product, Sol, which is now the subject of progressive discussions with two global cosmetic companies. A recent oversubscribed Placing with institutional investors raised ca.£1.0m net and provides the group with a cash runway until the second half of calendar 2022, excluding any income which may be included as part of a licensing deal.

- **Strategy:** INC is a specialist oncology company using a novel pro-drug approach to deliver cytotoxic warheads directly to tumour cells. It intends to develop drugs to a suitable valuation inflection point and then out-license them for late-stage trials, in return for development milestones and royalties.
- **Sol:** Over the last 12 months, INC has delivered two successful independent skin studies and filed for a new patent, paving the way towards a commercial cosmetic licensing deal. Discussions with two global cosmetic players continue to progress and INC will update the market when possible.
- **Cash runway:** In February, INC completed a Placing of shares, raising gross new capital of £1.14m (£0.99m net) for working capital purposes. This left the company with cash of £0.96m at the end of March, which would represent a cash runway into 2H calendar 2022 based on our current forecasts.
- **Risks:** Investments in small, early-stage pharmaceutical companies carry a significant risk, and additional capital will be required for future expansion of clinical programmes. This additional capital may come from commercialisation of Sol, and/or INC may need to raise more capital in the future.
- **Investment summary:** INC offers distinct technology with the potential to attract major players, especially given management's strategy to out-license products early. Since listing, the focus has been on Sol, a patent-protected, value-added formulation for the treatment and prevention of pre-cancerous and cancerous skin conditions into a sun cream for cosmetic use to prepare it for out-licensing. The current EV does not fully reflect the strong progress, suggesting that there is good upside potential when comparing INC with a group of UK-listed peers.

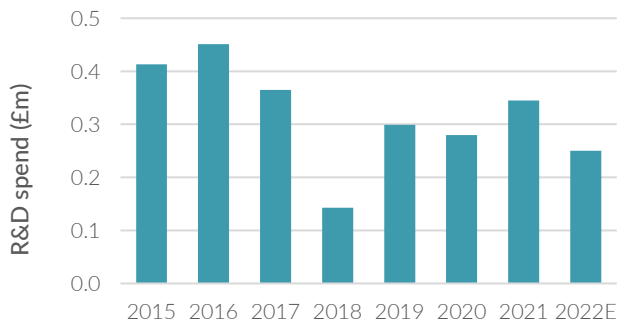
Financial summary and valuation

Year-end Mar (£000)	2018	2019	2020	2021	2022E	2023E
Sales	603	0	0	0	0	0
SG&A	-1,223	-1,337	-653	-634	-602	-663
R&D	-143	-299	-280	-345	-250	-263
EBITDA	-864	-1,879	-1,091	-881	-759	-834
Underlying EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Reported EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Underlying PBT	-984	-2,012	-1,226	-1,016	-892	-967
Statutory PBT	-984	-2,012	-1,226	-1,016	-892	-967
Underlying EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Statutory EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Net cash/(debt)	143	176	392	957	352	-383
Equity issues	1,021	2,398	1,168	1,495	0	0

Source: Hardman & Co Life Sciences Research

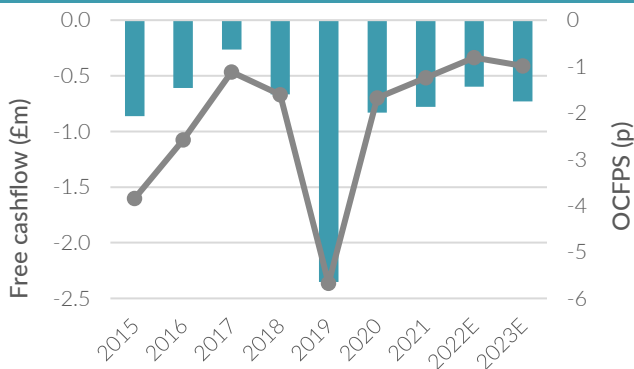
Incanthera plc

R&D



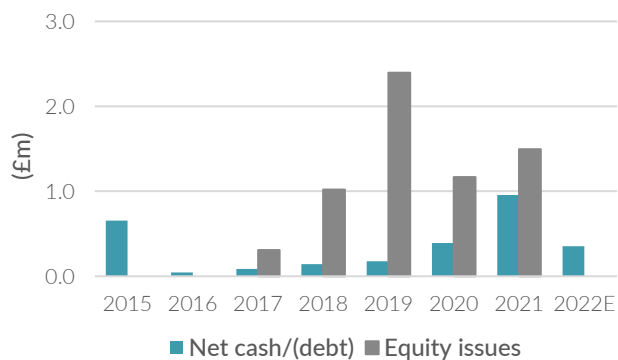
- ▶ R&D spend has been modest to date, aligned closely to the financial resources of the group, and does not allow for the unknown research costs by the universities, which are mostly grant-funded.
- ▶ Currently, INC's cash resources are being directed towards progressing Sol to a cosmetic commercial licence.
- ▶ Development of the earlier-stage pipeline will require further funding, which could come from any Sol upfront payments and/or a capital increase.

Free cashflow and OCFPS



- ▶ The company has been operating with relatively modest financial resources to date.
- ▶ INC will be cash burn for the foreseeable future, as it pushes forward with its R&D programmes.
- ▶ The level of R&D investment will be dependent on the generation of new funds.
- ▶ Forecasts do not allow for any out-licensing income from its development programmes.

Net cash/(debt) and equity issues



- ▶ Total funds raised since inception are £8.5m for development and working capital, or £10.1m including some acquisitions made for shares.
- ▶ At 31 March 2021, INC had gross cash of £957k, and no financial liabilities (debt or leases).
- ▶ Based on current expectations, the company has a cash runway until 2H calendar 2022.

Source: Company data; Hardman & Co Life Sciences Research

Fiscal 2021 results

INC has just published its second set of annual results following its successful listing on the growth market of the Aquis Exchange (AQSE) in February 2020.

Key operational features

- ▶ **Sol development highlights:** INC commissioned two important studies, skin permeation and skin sensitivity, as part of its development programme to make Sol ready for commercial out-licensing. Both studies had positive outcomes that exceeded management's expectations.
- ▶ **Sol commercialisation:** Armed with strong data from these and previous studies, INC began to introduce Sol's technology to a number of potential commercial partners during the past year and confirmed in February 2021 that it has prioritised discussions with two global cosmetic companies.
- ▶ **Patent filing:** In July 2020, INC filed a new patent application covering the use of its novel technology in Sol for the prevention and treatment of solar keratosis and related cancers of the skin. In the event that this patent is granted, IP protection would be extended to 2040. All technology IP within the portfolio is wholly owned and fully patent protected.

Key financial features

- ▶ **Listing:** At the time of its listing on the Aquis Exchange in February 2020, INC raised £1.03m of new capital to fund its strategy. Of this, £0.35m was by way of a deferred subscription, which was received in September 2020.
- ▶ **R&D:** A key reason for listing was to raise the necessary capital to invest in the development of Sol. R&D spend increased 23% to -£0.35m (-£0.28m) in the year, most of which was for the commissioned independent skin permeation and sensitivity studies.
- ▶ **General overhead:** Given its limited resources, the corporate overhead was tightly controlled, with the underlying SG&A cost falling 3% to -£0.63m (-£0.65m) in fiscal 2021. There was also a tax credit of £111k (£98k).
- ▶ **Fundraise:** In March 2021, INC raised £1.14m (gross) new capital by way of an oversubscribed Placing of Ordinary shares at 12p per share to fund its working capital requirements. This compares favourably (+26%) with the 9.5p share price at the time of its listing one year earlier.
- ▶ **Net cash/(debt):** On 31 March 2021, INC had net (and gross) cash of £0.96m on its balance, which based on our forecasts, will provide sufficient working capital through to the second half of calendar 2022 (1H fiscal 2013). This does not include any potential upfront payment on a Sol licensing deal.

INC – fiscal 2021 results, actual vs. expectations					
Year-end Mar (£000)	2020 actual	2021 actual	Growth %	2021 forecast	Delta Δ
R&D	-280	-345	+23%	-345	0
SG&A	-653	-634	-3%	-526	-108
Share-based costs	-293	-37	nm	-20	-37
EBIT	-1,226	-1,016	-17%	-891	-145
Tax credit	98	111	+12%	72	39
Equity issue	1,168	1,495	-	*350	1,145
Net cash/(debt)	392	957	-	*120	837

* before fundraise on 23 March 2021

nm=not meaningful

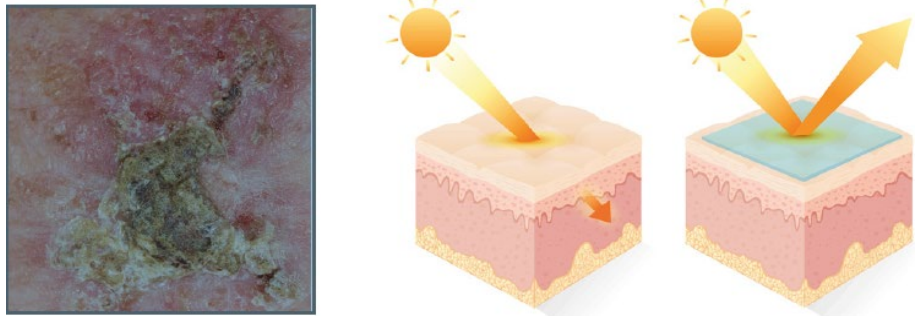
Figures may not add up exactly due to rounding

Source: Hardman & Co Life Sciences Research

Progress with Sol

The rights to Sol were acquired in 2018 through a product development and licensing agreement with Limeway Pharma Design, a specialist in topical formulation design of dermatological products. This product has the potential to be developed as both a cosmetic and a drug, but the present focus is on a skin cream, preventing the progression of sun-damaged skin (solar keratoses) to skin cancer. The unique selling point (USP) would be the significant advantages that a topical formulation directly on to the skin offers compared with the current standard-of-care which is oral dosing.

Incanthera – prevention of skin keratoses



Source: Incanthera annual report 2020

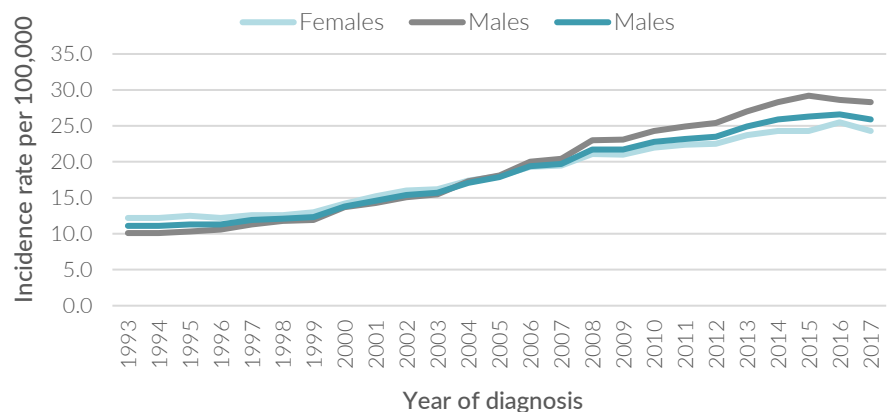
Sol is a topical formulation of orally active drug against solar keratosis

The opportunity

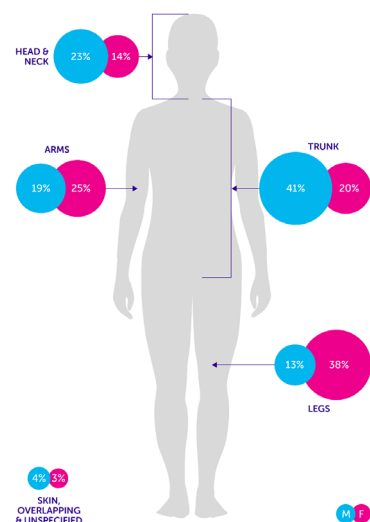
Oral administration of the active ingredient for Sol is known to prevent the onset of sun-induced skin cancers. INC has incorporated this compound into its proprietary formulation technology to make a product that can be applied topically. In 2019, independent proof-of-principle studies using human skin penetration models showed that its original formulation of Sol exceeded the bioequivalence test compared with oral dosing and was suitable for the prevention of actinic keratosis and skin cancer when applied topically. Further studies on permeation across the skin's barrier and safety, to declare the formulation as "non-irritant" as current baby sun care products, have led to licensing discussions with potential partners. Consequently, INC is aiming to leverage proven formulation technologies and know-how to deliver effectiveness in selected dermatological markets. As such, Sol is a potentially high-value product accessing a multi-billion-dollar market.

Skin cancer, including solar keratosis, is the most common form of cancer in white populations and deaths arising from invasive melanoma are on the increase.

Incidence of skin cancer in Europe – 1993-2017



Source: Cancer Research UK

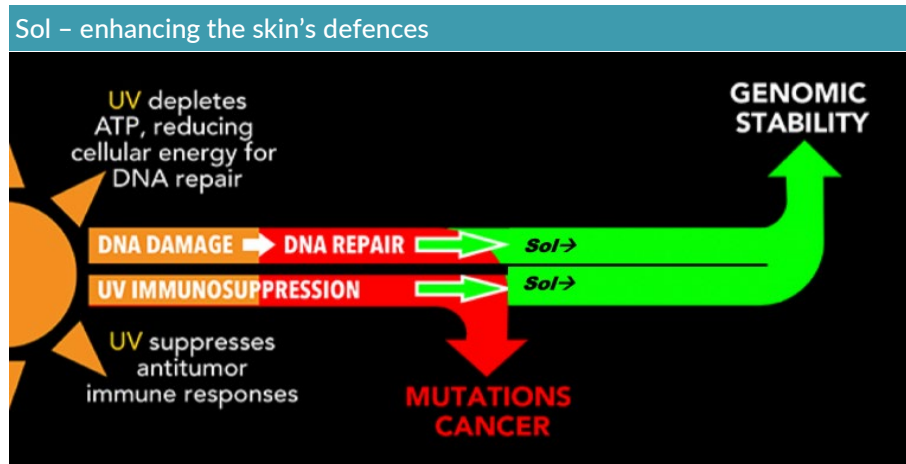
Skin cancer by anatomical site


Source: Cancer Research UK

According to Cancer Research UK, over a 25-year period (1993-2017), the incidence of skin cancer in the UK has risen at a compound rate of 3.6% p.a. Although it was more common in females than males in 1993, this trend has been reversed recently. For females in the UK, the incidence of European age-standardised melanoma skin cancer rates increased 101% between 1993-1995 and 2015-2017; for males the figure was 182%. Part of the reason for this has been changing lifestyles and greater exposure of skin to the sun's damaging UV rays. The increase in incidence has been matched by a rise in the death rate and melanoma skin cancer was the 19th most common cause of cancer death in the UK in 2018, accounting for 1% of all cancer deaths.

Action of Sol

Cells have natural defence and DNA repair capabilities, but this is compromised in skin cells by UV light. Sol is considered by INC and its dermatology advisors to be a natural agent that can enhance the skin's defences and DNA repair capability to counter the harmful effects of UV light.



Source: Incanthera corporate presentation

Progress during the past 12 months
Skin permeation study

In September 2020, INC published positive results from an independent study at the University College of London School of Pharmacy (SoP), which demonstrated that the active ingredient in a refined formulation of Sol permeated the skin better than a number of comparator products. This permeation study used the same human skin penetration model to that used in the previous bioequivalence study comparing topical versus oral administration. Consequently, these new data also reaffirmed that INC's refined formulation of Sol also exceeded bioequivalence.

Skin sensitivity study

Also in September 2020, a study conducted by XCellR8 demonstrated that INC's refined formulation of Sol was found to be "non-irritant" using an *ex vivo* human skin model, an essential test that must be passed for any topical product. In this study, the "non-irritancy" was found to be at least comparable with baby sun protection products tested previously. Sol scored better than the baby products which had an irritancy level described as "very mild".

Commercial progress

Armed with these and previous studies, INC began to introduce Sol's technology to a number of potential commercial partners during the past year and confirmed recently that it has prioritised discussions with two global cosmetic companies. The Company has confirmed that these discussions continue to progress.

Financing the opportunity

Just before the period end, INC strengthened its balance sheet through an oversubscribed Placing of 9.54m shares at 12p per share raising gross new capital of £1.14m (£0.99m net). The price represented a 26% uplift over the price of the shares at IPO in February 2020, reflecting the considerable progress that the company has made in strengthening Sol's commercial potential. The funds will be used to further develop Sol and for general working capital.

Total funds raised since inception are £8.3m for development and working capital purposes, or £9.8m including some acquisitions made for shares. Much (34%) of this has been invested into R&D, with the cumulative spend currently running at £2.8m plus an unknown quantity of research costs, mostly grant funded, incurred by the universities. This highlights the considerable progress that has been made with limited resources.

History of Incanthera	
Date	Event
2010	Incorporation of Incanthera Limited (no. 11026926)
2011	Funding round enabling technology licence from UoB
2012	Assignment of IP rights in the relevant patents from UoB
2014	Acquisition of Onco-NX to gain access to ICT03-Es5 (Equin programme)
2014	Acquisition of Spear Therapeutics Ltd for access to Duo-C programme
2015	Agreement with Stanford University in respect of EP0015 (theranostic)
2017	Commercial deal with Ellipses Pharma Ltd for EP0015
2018	Extension of licensing agreement with ICT for further 10 years
2018	Acquisition of Sol from Limeway Pharma Design
2020	Listing of Incanthera plc on the Aquis Exchange – AQSE Growth Market
2020	New patent filing for Sol skin cancer technology
2020	Successful independent results from permeation and sensitisation studies
2021	Placing to raise £1.14m at 12p per share

Source: Listing particulars, company reports, Hardman & Co Life Sciences Research

R&D pipeline

Given its limited resources, management is focusing on the development and commercial licence for Sol. The company has other products in its pipeline, the development of which will be accelerated when INC has the necessary resources. A summary of the company's R&D pipeline is shown in the following graphic.

INC – oncology product pipeline				
Platform	Programme		Preparation for Licensing	Licensing
	Product	Indication		
Sol	Topical Cream	Skin cancers: solar keratosis (SK), melanoma (SK - \$3.4bn)*	Bioequivalence	Market Launch
EP0015	VDA & Theranostic	Lung, breast, ovarian cancers (\$5.9bn, \$15.3bn; \$1.6bn)*	Pre-clinical	Licensed to Ellipses Pharma Ltd (2017)
	Taxane	Ovarian, prostate cancers (\$1.6bn, \$8.6bn)*	Lead	
Equin	DT Diaphorase activation	Liver, brain, pancreatic cancers (\$0.5bn, \$0.35bn; \$2bn)*	Pre-clinical	
Duo-C	CYP activation	Bladder, colorectal cancers (\$0.36bn, \$8bn)*	Lead	

Source: Incanthera corporate presentation

Financial forecasts

- ▶ **R&D:** Investment in R&D remains highly targeted towards the strategic goal to progress Sol to a commercial cosmetic licence, which would represent a significant value-inflection point.
- ▶ **SG&A:** Despite the increased overhead associated with being a listed company, careful control of general operating costs is maximising the cash runway.
- ▶ **Cash runway:** With a net cash position of £0.96m at 31 March 2021, based on current forecasts, INC has a cash runway into the second half of calendar 2022. This does not allow for any upfront payment that might be part of any licensing deal. More funds will be needed thereafter to progress other products in the pipeline.
- ▶ **Valuation:** INC is trading on an EV of £9.0m. Since our last report in December 2020, the group of seven AIM-listed peers developing new drugs in the field of cancer have seen significant increases in valuations, with the average EV currently £79.5m (range £7.9m-£158.8m), and a median of £78.1m. The relative EV of these UK companies to the EV of INC is in the range of 0.9x to 17.6x, with an average of 8.8x, suggesting that there is good upside potential in the event that INC delivers on its stated corporate strategy.

Summary of financial statements						
Year-end Mar (£000)	2018	2019	2020	2021	2022E	2023E
Profit & Loss						
Sales	603	0	0	0	0	0
COGS	-189	-106	0	0	0	0
SG&A	-1,223	-1,337	-653	-634	-602	-663
Share-based costs	-32	-270	-293	-37	-40	-42
R&D	-143	-299	-280	-345	-250	-263
Licensing/Royalties	0	0	0	0	0	0
Underlying EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Exceptional items	0	0	0	0	0	0
Statutory EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Net financials	0	0	0	0	0	0
Underlying PBT	-984	-2,012	-1,226	-1,016	-892	-967
Statutory PBT	-984	-2,012	-1,226	-1,016	-892	-967
Tax liability/credit	41	24	98	111	50	53
Underlying net income	-943	-1,988	-1,128	-905	-842	-915
Underlying basic EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Statutory basic EPS (p)	-2.3	-4.8	-2.3	-1.4	-1.1	-1.2
Balance sheet						
Share capital	19	25	1,217	1,482	1,482	1,482
Reserves	217	979	-3	209	-633	-1,548
Loans & borrowings	0	0	0	0	0	0
less: Cash & deposits	143	176	392	957	359	-371
Invested capital	93	828	822	734	490	305
Cashflow						
Underlying EBIT	-984	-2,012	-1,226	-1,016	-892	-967
Non-cash items	152	403	428	172	174	175
Change in working capital	113	-784	-60	-33	12	13
Company op. cashflow	-719	-2,393	-858	-877	-707	-779
Capital expenditure	-8	0	0	0	0	0
Equity issues	1,021	2,398	1,168	1,495	0	0
Change in net debt	55	33	216	565	-599	-729
Opening net cash/(debt)	88	143	176	392	957	359
Closing net cash/(debt)	143	176	392	957	359	-371

Source: Hardman & Co Life Sciences Research

Company matters

Registration

Incorporated in the UK with company registration number 11026926

Registered Office:

76 King Street

Manchester

M2 4NH

+44 161 817 5005

www.incanthera.com

Board of Directors

Board of Directors			
Position	Name	Remuneration	Audit
Executive Chair	Tim McCarthy		
Chief Executive Officer	Simon Ward		
Non-executive director	Alan Warrander	C	C

C = chair

Source: Corporate website

Senior management

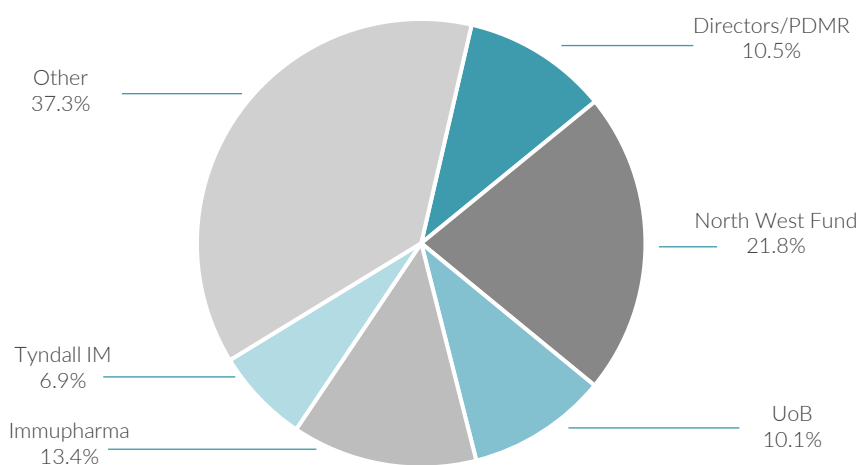
Senior management	
Position	Name
COO	Pawel Zolnierczyk
CFO	Laura Brogden
Company Secretary	Suzanne Brocks

Source: Corporate website

Share capital

On 14 May 2021, there were 74,082,871 Ordinary shares of 2p in issue. In addition, there are 7,350,000 options and 18,752,380 warrants outstanding.

Shareholders



Source: Incanthera

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The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF>

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