

# NetScientific

Commercial update

## Commercial progress across portfolio

Within the month of November 2017, NetScientific portfolio companies had a series of announcements reflecting increased adoption of their products. ProAxis announced increased sales of its research kits and guided to over £1m in sales in 2018. Wanda's partner Health Resource Solutions announced that it would be expanding the deployment of the app to all of its applicable patients. Finally, Vortex announced the first commercial sale of its VTX-1 liquid biopsy platform.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	0.1	(11.3)	(24.4)	0.0	N/A	N/A
12/16	0.5	(12.3)	(20.6)	0.0	N/A	N/A
12/17e	0.6	(9.5)	(12.5)	0.0	N/A	N/A
12/18e	3.5	(12.0)	(14.5)	0.0	N/A	N/A

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

### ProAxis: Research kit catching on

ProAxis announced that it had tripled the number of orders for its Active Neutrophil Elastase Immunoassay (NEIA) kit in H217 over H117, partially as a result of a high number (75%) of repeat orders, and is on a run-rate to surpass £1m in sales in 2018. Outside of the near-term revenue, this is encouraging for both the adoption of further research kits and for the company's point of care neutrophil elastase assay, NEATstik, which was CE marked in September 2017.

### Wanda: 72% reduction in rehospitalisation

The decision of Health Resource Solutions (HRS) to expand the deployment of Wanda was made based on an analysis of the product that revealed that it reduced the rate of rehospitalisation of patients using it by 72% (to 4.5% overall). The product had a 74% compliance rate, and HRS stated that it enabled the company to improve its quality of care without increasing workload for clinicians. This is strong evidence of the utility of this product in the commercial setting.

### Vortex: First liquid biopsy device sold

Vortex has been in the process of a soft launch of its VTX-1 liquid biopsy device through placements with opinion leaders. This has resulted in increased awareness of the product and inclusion in peer-reviewed publications, and recently culminated in the first commercial sale. This is an important milestone, but there remains a high degree of uncertainty regarding the commercial viability of the device.

### Valuation: Increased to £62.1m or 90p per share

We have increased our valuation of NetScientific to £62.1m or 90p per share, from £57.3m or 83p per share. We have increased the value of ProAxis and Wanda, offset by a reduction in Vortex, based on the commercial updates. Otherwise, our valuation remains unchanged. The companies still require additional financing (recorded as a £16m shortfall) and NetScientific has announced ongoing financing efforts for Glycotest, PDS, Vortex and ProAxis, which are expected to close in 2018.

Pharma &amp; biotech

15 December 2017

**Price** **73.50p**
**Market cap** **£51m**

US\$1.32/£

Net cash (£m) at 30 June 2017 11.1

Shares in issue 69.0m

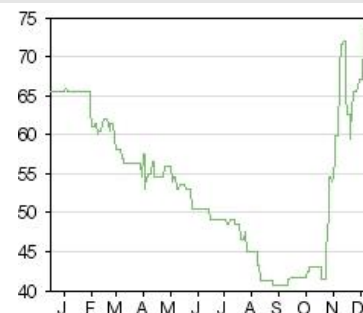
Free float 20%

Code NSCI

Primary exchange AIM

Secondary exchange N/A

#### Share price performance



% 1m 3m 12m

Abs 2.1 77.1 12.2

Rel (local) 1.0 74.1 3.2

52-week high/low 73.5p 40.8p

#### Business description

NetScientific is an IP commercialisation group focused on healthcare with an investment strategy focused on sourcing, funding and commercialising technologies. Its portfolio of four core investments and one material investment is focused on three main sectors: digital health (Wanda), diagnostics (Vortex, ProAxis, Glycotest) and therapeutics (PDS Biotechnology).

#### Next events

Glycotest, PDS, Vortex and ProAxis financing 2018

Glycotest opening CLIA lab H118

PDS and Merck Phase II initiation H118

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## Sales of ProAxis research kits accelerate

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NetScientific announced in November 2017 that ProAxis has seen a significant increase in the number of orders for its Active Neutrophil Elastase Immunoassay (NEIA). This product incorporates the company's proprietary ProteaseTag technology into a kit designed for research purposes, and the customers of this kit include academic and pharmaceutical company scientists. The product was previously provided by request only, but with increasing demand, the company has recently contracted distributor Diagenics Ltd. to market the product in the UK and Ireland. The company stated that H217 sales were three times that of H117, and that it expects a run rate of over £1m in 2018. This is driven in part by a high number of repeat customers: 75% of 2017 customers ordered more product.

ProAxis's ProteaseTag technology uses a small chemical probe that selectively binds to and immobilises activated proteases allowing them to be detected and quantified via ELISA. Other assays either detect the concentration of target proteases regardless of activation state or measure the bulk proteolytic activity from all proteases, whereas ProteaseTags provide a more direct measurement of activity from a single enzyme. This is deployed in the NEIA to provide a measurement of neutrophil elastase (NE) activity, an important biomarker for immune activation. The company also recently CE marked a point of care version of the test, NEATstik, which it intends to market for the detection of exacerbations associated with the lung diseases cystic fibrosis (CF) and chronic obstructive pulmonary disease (COPD). The company recently announced a collaboration with National Jewish Health, a US hospital system and leader in respiratory disease research, to investigate NEATstik in its CF and COPD patients in a clinical trial.

Besides the immediate aspect of increased revenue from sales of the NIEA kit, we believe that this is an encouraging sign for the commercialisation of the NEATstik. The NIEA kit has a range of applicable uses in the research setting outside of CF and COPD, but its increased adoption signals the increased recognition by the research community of the value of measuring NE activity. Moreover, the acceptance of the ProteaseTag brand may have a positive impact on launches of future kits into the research market for other proteases besides NE. The next ProteaseTag kit to be launched will detect active plasmin, an enzyme important for the prevention of thrombosis. The company is also developing other immunoassays for different protease targets important for pulmonary fibrosis and acute respiratory distress syndrome, among others.

## Positive feedback and expanded deployment of Wanda

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Wanda is currently contracted to provide its application platform of the same name to the home healthcare provider Health Resource Solutions (HRS) Home Health, which recently announced in November 2017 that it would expand the deployment of the platform to all of its patients. The Wanda app is a digital health solution for the monitoring and engagement of patients with chronic health conditions, and the current implementation provides support for patients with congestive heart failure and COPD.

HRS Home Health reported that the decision to expand Wanda's deployment was made after an analysis of patient outcomes in its network. Patients using Wanda had a 4.5% probability of being readmitted to the hospital, a reduction of 72%. Moreover, compliance with the application was 74%. HRS went on to state that the platform allowed the company to identify "variances during care delivery" and implement "prevention and intervention techniques." This is highly encouraging for Wanda as it is a direct demonstration of the value proposition that the company offers, and these results can be further leveraged to gain other provider contracts.

Wanda currently has two other contracts with home healthcare providers (A to Z Home Health Care and 24Hr HomeCare). However, the company deprioritised this sales channel in 2017 after failing to gain traction. The company currently markets to other players in the healthcare space with significant vested interests in patient outcomes, including hospitals, payers, and accountable care organisations. We believe that these recent results are encouraging regardless of the setting and we expect to see further sales acceleration.

## Vortex sells first liquid biopsy kit

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Vortex announced in November 2017 that it had received its first commercial order for the VTX-1 liquid biopsy system. The company officially soft-launched the platform in early 2017 and has been focused on placements of the device with targeted opinion leaders. The goal was to drive acceptance of the platform in the scientific community, as evidenced by a recent [publication](#) in which it was used to isolate circulating tumour cells (CTCs) for genomics. This commercial sale is encouraging because it suggests that there has been some degree of positive feedback, although we await further sales to fully assess the commercial viability of the product.

The VTX-1 device is an application of the company's proprietary microfluidic process of isolating CTCs. The platform leverages the differential size and flow properties of CTCs to isolate them from other cells in the blood. Unlike other isolation methods that require the trapping of CTCs with ligands that bind the cells, this technique leaves the CTCs in a pristine state such that they can be further differentiated with labelling or cultured and expanded. Each purification of CTCs requires the use of a disposable microfluidic chip, which may lead to recurring sales in addition to the placement of the capital device.

## Valuation

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We have increased our valuation of NetScientific to £62.1m or 90p per share, from £57.3m or 83p per share. We increased the valuation of ProAxis to £8.1m (for NetScientific's share) from £6.3m to reflect the increased demand for the NEIA kit, as well as an increased ramp rate for the launch of NEATstik on the back of increased interest. Finally, we have increased the probability of success for Wanda to 7.5% from 5.0% (resulting in an increase in value to NetScientific to £12.2m from £8.3m), because we find the metrics released by HRS to be highly supportive of the product's value, which may help it address the significant commercial hurdles that it has faced. This is offset by reduced revenue expectations for 2017. We have reduced the valuation of Vortex's stake to £15.6m from £15.9m to also reflect lower than expected revenue in 2017. We believe that the first commercial sale of VTX-1 is encouraging but, due to its lateness in the year, we do not expect significant recurring revenue in 2017.

**Exhibit 1: Valuation of NetScientific**

Portfolio company	Prob. of success	Profitability	Peak sales (£m)	Margin	rNPV (£m)	Ownership	Share Value (£m)
Vortex	15.0%	2020	138	43%	16.5	95.0%	15.6
Wanda	7.5%	2019	326	52%	16.7	70.9%	11.8
ProAxis	15.0%	2020	47	51%	14.4	56.5%	8.1
Glycotest	10.0%	2020	113	51%	12.1	87.5%	10.6
PDS	10.0%	2022	270	56%	28.1	17.4%	4.9
Total							51.0
Net cash and equivalents (H117) (£m)							11.1
Total firm value (£m)							62.1
Total shares (m)							69.0
Value per share (p)							90

Source: NetScientific reports, Edison Investment Research

## Financials

We have decreased our expected revenue to £0.56m for 2017 (from £1.4m) and to £3.5m for 2018 (from £3.8m), to reflect a slower than expected ramp-up for Vortex and Wanda. This is offset by faster than expected ramp for the NEIA kit from ProAxis. The other adjustments to our forecasts are to reflect the associated expenses with these sales and our models are otherwise unchanged. NetScientific has not provided any additional updates on its ongoing fund-raising activity. It previously stated that Glycotest and PDS financings were expected to close in H217 although, given the lateness in the year, we expect these to occur in 2018. It also previously guided to Vortex and ProAxis Series As in H118. We currently record the financing shortfall as £16m in illustrative debt in 2018.

**Exhibit 2: Financial summary**

	£000s	2014	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		24	122	518	559	3,462
Cost of Sales		0	(6)	(255)	(104)	(821)
Gross Profit		24	116	263	454	2,641
Research and development		(3,098)	(7,256)	(7,443)	(6,343)	(7,197)
Selling, general & administrative		(3,212)	(4,260)	(5,001)	(4,488)	(5,839)
EBITDA		(6,352)	(11,530)	(12,570)	(10,753)	(10,609)
Operating Profit (before GW and except.)		(6,286)	(11,400)	(12,429)	(10,539)	(10,395)
Intangible Amortisation		0	0	0	0	0
Exceptionals/Other		(948)	(1,518)	(666)	0	0
Operating Profit		(7,234)	(12,918)	(13,095)	(10,539)	(10,395)
Net Interest		77	78	86	1,082	(1,587)
Other (change in fair value of warrants)		0	0	(49)	(46)	0
Profit Before Tax (norm)		(6,209)	(11,322)	(12,343)	(9,457)	(11,983)
Profit Before Tax (IFRS)		(7,157)	(12,840)	(13,058)	(9,503)	(11,983)
Tax		30	94	(18)	47	60
Deferred tax		0	0	0	0	0
Profit After Tax (norm)		(6,179)	(11,229)	(12,361)	(9,409)	(11,923)
Profit After Tax (IFRS)		(7,127)	(12,746)	(13,076)	(9,455)	(11,923)
Minority interest		702	1,905	1,881	1,945	1,937
Profit After Tax after minority interest (FRS 3)		(6,425)	(10,842)	(11,195)	(7,511)	(9,986)
Average Number of Shares Outstanding (m)		35.9	38.2	51.1	60.1	69.0
EPS - normalised (p)		(15.3)	(24.4)	(20.6)	(12.5)	(14.5)
EPS - IFRS (p)		(18)	(28)	(22)	(13)	(14)
Dividend per share (p)		0	0	0	0	0
<b>BALANCE SHEET</b>						
Fixed Assets		3,040	2,946	4,054	3,057	4,519
Intangible Assets		10	1	0	0	0
Tangible Assets		348	285	779	1,161	1,543
Other		2,681	2,660	3,275	1,896	2,976
Current Assets		17,720	23,799	11,034	10,013	13,127
Stocks		0	0	0	186	692
Debtors		853	560	1,578	1,119	346
Cash		16,867	23,239	9,456	8,708	12,088
Other		0	0	0	0	0
Current Liabilities		(1,324)	(2,206)	(2,172)	(2,151)	(2,564)
Creditors		(1,281)	(2,156)	(2,044)	(2,028)	(2,441)
Short term borrowings		(43)	(50)	(128)	(123)	(123)
Long Term Liabilities		(740)	0	(80)	(80)	(15,874)
Long term borrowings		(687)	0	(80)	(80)	(15,874)
Other long term liabilities		(53)	0	0	0	0
Net Assets		18,696	24,538	12,836	10,839	(792)
Minority Interest		(1,098)	(1,805)	(3,875)	(5,820)	(7,757)
Shareholder Equity		17,598	22,733	8,961	5,019	(8,549)
<b>CASH FLOW</b>						
Operating Cash Flow		(6,698)	(10,752)	(12,939)	(8,917)	(9,210)
Net Interest		67	38	43	(2)	(1,587)
Tax		19	83	112	47	60
Capex		(336)	(299)	(457)	(596)	(596)
Acquisitions/disposals		(2,181)	(144)	(1,261)	1,053	(1,080)
Financing		0	18,208	0	8,083	0
Dividends		0	0	0	0	0
Other		119	39	66	0	0
Net Cash Flow		(9,010)	7,172	(14,436)	(331)	(12,413)
Opening net debt/(cash)		(25,069)	(16,136)	(23,189)	(9,248)	(8,504)
HP finance leases initiated		0	0	0	0	0
Exchange rate movements		(140)	(212)	(603)	166	0
Other		218	92	1,098	(578)	0
Closing net debt/(cash)		(16,136)	(23,189)	(9,248)	(8,504)	3,909

Source: NetScientific reports, Edison Investment Research

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