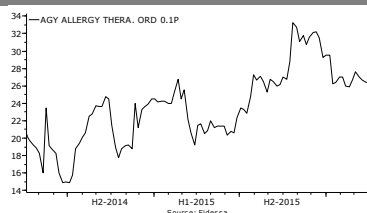


## Pharmaceuticals &amp; Biotech



Source: Fidessa

## Market data

EPIC/TKR	AGY
Price (p)	26.5
12m High (p)	34.8
12m Low (p)	19.0
Shares (m)	589.2
Mkt Cap (£m)	156.1
EV (£m)	124.6
Free Float*	37%
Market	AIM

\*As defined by AIM Rule 26

## Description

AGY provides information to professionals about prevention, diagnosis and treatment of allergic conditions with special focus on allergy vaccination, a successful treatment that deals with the underlying cause and not just the symptoms!

## Company information

CEO	Manuel Llobet
CFO	Ian Postlethwaite
Chairman	Peter Jensen

01483 685 670

www.allergytherapeutics.com

## Key shareholders

Directors	0.9%
Abbott Labs	40.8%
Southern Fox	21.2%
Odey	7.3%
Invesco	5.8%
Blackrock	3.2%

## Next event

2Q 2016	G204 US dosing trial
Sept 2016	Finals
2H 2016	EU PQ Birch trial
Nov 2016	AGM

## Analysts

Martin Hall	020 7148 1433
	mh@hardmanandco.com
Gregoire Pave	020 7148 1434
	gp@hardmanandco.com

## Allergy Therapeutics

## Responding to investment

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The first half of fiscal 2016 has been fueled by the progress made in the clinical trials required to get full marketing approval as a biological in both the US and Europe. Key results are due in both set of trials in the forthcoming six months. Meanwhile, investment in marketing of Pollinex Quattro in Europe to expand market share ahead of full marketing approval has borne fruit in the first half. The company is well funded to deliver on its strategy with its short-course allergy vaccines expected to enter the market as a disruptive technology in 2019.

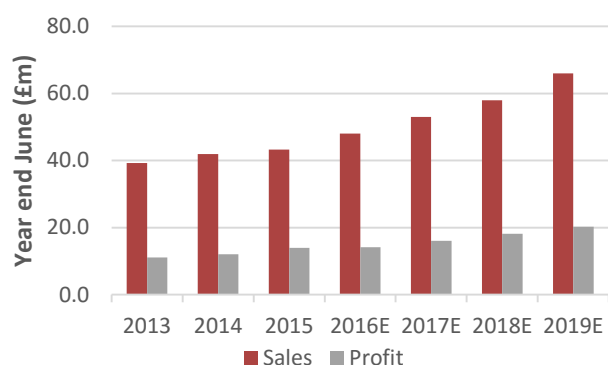
- **Sales:** AGY had already announced to the market that underlying sales growth in 1H'16 was +12% but, given that most sales are in Euros, this would be reduced significantly on translation. However, there was a positive effect from the first contribution from Alerpharma, so sales emerged £0.5m above expectations.
- **Marketing:** Management has taken a strategic decision to invest in marketing to build position and market share in preparation for the approval of Pollinex Quattro as a biological. This spend emerged £0.3m ahead of forecast. Trading margin on products emerged at 41.4% versus 43.9% in 1H'15.
- **R&D:** 1H'16 was successful for R&D. One US trial (G102) was completed and a second (G204) is fully recruited, as is the case in Europe with Pollinex Quattro (PQB 204). Total R&D spend was £0.5m lower than forecast at £6.5m, but timing, cost and extra trial work will push up the full year number by £2m to £15m.
- **Forecasts:** Sales forecasts have been increased between 4-9% in each of the next three years reflecting market share gains in response to marketing spend. Total R&D investment has been increased by £9.0m to £50.0m for the period 2016-2019, reflecting increased trial costs and spend on new technologies.
- **Investment summary:** AGY is at a very interesting point in its development. All the trials needed for full approval of its allergy vaccines as biological products in both the US and Europe have made significant progress. Meanwhile, corporate strategy to invest in market share ahead of these approvals has been successful, albeit at slightly reduced margins. Trial outcomes later in 2016 will be key.

## Financial summary and valuation

Year end June (£m)	2013	2014	2015	2016E	2017E	2018E
Sales	39.28	41.96	43.23	48.00	53.01	58.00
R&D investment	-2.54	-2.96	-3.12	-15.00	-16.00	-11.00
Underlying EBIT	0.85	1.39	2.23	-11.27	-11.30	-5.28
Reported EBIT	0.67	1.21	0.72	-11.77	-11.30	-5.28
Underlying PTP	0.62	1.27	2.16	-11.37	-11.46	-5.49
Statutory PTP	0.43	1.08	0.65	-11.87	-11.46	-5.49
Underlying EPS (p)	0.17	0.20	0.34	-2.05	-2.03	-1.02
Statutory EPS (p)	0.13	0.16	0.02	-2.14	-2.03	-1.02
Net (debt)/cash	0.65	2.25	20.19	19.17	7.13	0.94
Shares issued	0.15	0.00	20.08	11.00	0.25	0.25
P/E (x)	157.4	129.4	78.0	-12.9	-13.1	-26.0
EV/sales (x)	3.2	3.0	2.9	2.6	2.3	2.1

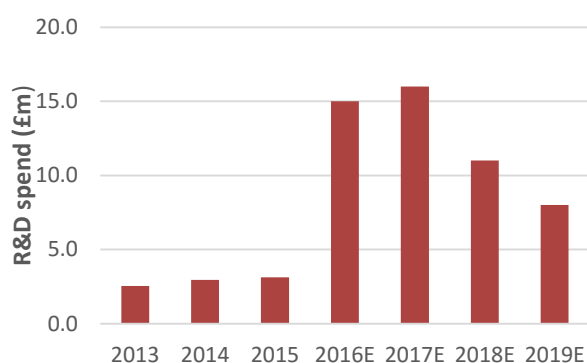
Source: Hardman &amp; Co Life Sciences Research

### Product analysis



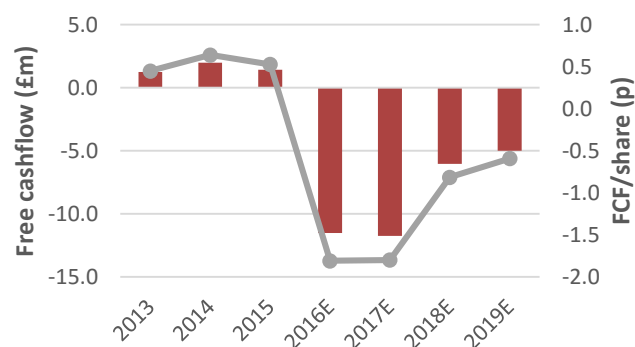
- ▶ AGY has a solid existing portfolio of products for allergy immunotherapy
- ▶ Products have shown consistent growth over the last four years even though their availability is limited
- ▶ After taking account of manufacturing, distribution and marketing costs, in-market products are profitable
- ▶ Product margins have risen consistently over the last four years, reaching 32.4% in fiscal 2015

### R&D investment



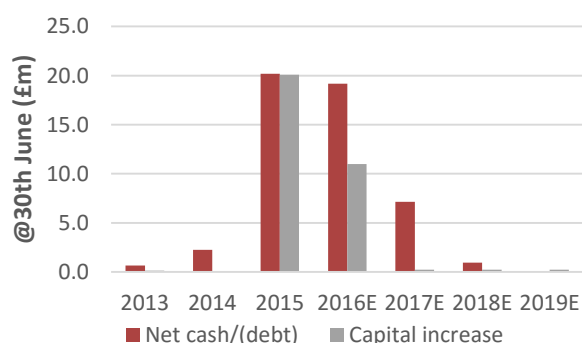
- ▶ Cumulative investment in R&D since 2000 has been £80m and looks set to be another £50m in next four years
- ▶ R&D investment is forecast to rise substantially to get Pollinex Quattro onto the market in the US and formally approved in Europe
- ▶ Three key US trials will cost ca.£20m over the next three years, but will pave the way to FDA approval
- ▶ Smaller trials are also required for EU approval, with Germany being the lead country

### Free cashflow



- ▶ In each of the last three years, AGY has generated free cashflow from operations
- ▶ Considerable investment in R&D and marketing will result in two years' of cash burn
- ▶ Cash requirement towards the end of this decade will be dependent on commercialisation strategy in US
- ▶ In following the inorganic growth strategy, although acquisitions tend to be small, more cash could be required

### Net cash



- ▶ AGY has consistently generated cash over the last three years, even after R&D investment
- ▶ £20m was raised in March 2015 largely to fund the key US trials and a further £11m for working capital in Dec 2015
- ▶ AGY usually takes on seasonal overdrafts and this could be extended if required ahead of the regulatory approvals
- ▶ Should management decide to commercialise Pollinex Quattro in the US by itself, AGY will require working capital for investment in sales infrastructure

Source: Company data; Hardman & Co Life Sciences Research

## Interim results

### Key features

**12% underlying sales growth...**

**...improved market share**

**Driven by marketing investment**

- ▶ The market had already been alerted that underlying sales growth was very strong at +12%. However, in addition to this there was an initial contribution from Alerpharma, therefore reported sales were £0.5m better than forecast.
- ▶ One reason for the strong sales growth in an overall flat market was the strategic investment that management has made in marketing. Although this had been well flagged and despite the positive effect on translation, the spend was £0.3m higher than forecast.
- ▶ Reported G&A benefitted from currency translation of USD deposits (+£1.1m), offset by Euro translation of derivatives (-£0.8m), which we treat as exceptional. Underlying G&A was exactly in line with forecasts at £4.0m.
- ▶ Timing of R&D payments is difficult to predict. In 1H'16 AGY completed the first (G102 – safety study) of three US trials and commenced the second (G204 – dose selection study) required for regulatory approval. In addition, the PQ Birch study is underway in Europe and new costs are being incurred following the acquisition of VLP technology. Consequently, we were forecasting higher R&D costs in 2H'16, which will continue into 2017 and beyond.
- ▶ Taking all these differences into account, both underlying EBIT and pre-tax profits were £0.6m better than expected.
- ▶ The better than forecast pre-tax profit fell through to the cashflow and balance sheet. Coupled with better working capital requirements, benefitting from the weaker Euro, the change in net cash (+£11.4m including £11.0m capital increase) was also better than forecast, leaving net cash at the end of the period at £31.6m versus £30.9m forecast.
- ▶ During the period, AGY issued 41.00m shares @28p, raising £10.9m net of costs to provide increased working capital, and to fund growth opportunities such as Virus-Like Particle (VLP) technology that takes the group into new, but complementary areas, such as peanut allergy (see note dated 24<sup>th</sup> Feb 2016)

**Company raised £11.0m gross funds for working capital purposes**

### Interim analysis

Half-year analysis £m	1H'15 actual	1H'16 actual	1H'16 forecast	Delta £m
Sales	28.2	29.0	28.5	+0.5
COGS	-6.8	-7.3	-7.4	+0.1
Gross Profit	21.4	21.6	21.1	+0.5
Gross margin	75.0%	75.9%	74.0%	
Marketing	-8.9	-9.8	-9.5	-0.3
<b>Product profit</b>	<b>12.5</b>	<b>11.8</b>	<b>11.6</b>	<b>+0.2</b>
Product margin	43.9%	41.4%	40.7%	
G&A	-3.7	-4.0	-4.0	-0.0
R&D	-1.1	-6.5	-7.0	+0.5
<b>EBITDA</b>	<b>8.4</b>	<b>2.0</b>	<b>1.3</b>	<b>+0.8</b>
Depreciation & Amortisation	-0.6	-0.8	-0.6	-0.1
Other income	0.0	0.0	0.0	+0.0
<b>Underlying EBIT</b>	<b>7.7</b>	<b>1.2</b>	<b>0.6</b>	<b>+0.6</b>
EBIT margin	27.1%	4.4%	2.1%	
<b>Underlying PBT</b>	<b>7.7</b>	<b>1.2</b>	<b>0.6</b>	<b>+0.6</b>

Source: Hardman & Co Life Sciences Research

## Currency

*Headwind from currency translation appears over...*

*...but strength in USD benefits the balance sheet*

The main currency hit has already been taken. First, the key trading currency, the Euro, has started to strengthen since the period end against the reporting currency and we do not see the need to change forecasts which are based on an average for fiscal 2016 of 1.36. Secondly, the trading activities of AGY are heavily biased to the first half of the year, so even if the Euro were to strengthen further, it will not have a material impact on forecasts.

Recent strength in the USD is beneficial to the group. Last year it raised £20m to fund the US R&D programme for GrassMATAMPL. On closing the funding round, management placed this cash on deposit in the US. Therefore, retranslating at each period end benefits the P&L if the USD strengthens, even though the cash pile is being eroded as the trials complete. At 31<sup>st</sup> December the USD was 1.48; whereas today it is 1.42.

Half year split						
(£m)	1H'15	2H'15	2015	1H'16	2H'16E	2016E
Sales	28.2	15.0	43.2	29.0	19.0	48.0
COGS	-6.8	-5.4	-12.2	-7.3	-7.4	-14.7
Gross Profit	21.4	9.7	31.1	21.6	11.7	33.3
Gross margin	75.9%	64.2%	71.8%	74.7%	61.3%	69.4%
Marketing	-8.9	-8.2	-17.1	-9.8	-9.3	-19.2
<b>Product profit</b>	<b>12.5</b>	<b>1.5</b>	<b>14.0</b>	<b>11.8</b>	<b>2.3</b>	<b>14.1</b>
Product margin	44.4%	9.8%	32.4%	40.7%	12.2%	29.4%
G&A	-3.9	-4.8	-8.7	-4.0	-6.4	-10.4
R&D	-1.1	-2.1	-3.1	-6.5	-8.5	-15.0
EBITDA	8.2	-4.6	3.5	2.0	-12.0	-10.0
Deprec & Amortis	-0.6	-0.6	-1.3	-0.8	-0.5	-1.3
Other income	0.0	0.1	0.1	0.0	0.0	0.0
<b>Underlying EBIT</b>	<b>7.5</b>	<b>-5.3</b>	<b>2.2</b>	<b>1.2</b>	<b>-12.5</b>	<b>-11.3</b>
Share based costs	-0.2	-0.2	-0.4	-0.2	-0.3	-0.5
Exceptional items	0.0	-1.1	-1.1	0.3	-0.3	0.0
Reported EBIT	7.3	-6.6	0.7	1.4	-13.1	-11.8
Net financial income	-0.1	0.0	-0.1	-0.1	0.0	-0.1
<b>Underlying pre-tax profit</b>	<b>7.4</b>	<b>-5.3</b>	<b>2.2</b>	<b>1.2</b>	<b>-12.5</b>	<b>-11.4</b>
Reported pre-tax	7.2	-6.6	0.7	1.3	-13.2	-11.9
Taxation	-0.1	-0.4	-0.5	-0.2	-0.2	-0.4
<b>Underlying net income</b>	<b>7.3</b>	<b>-5.7</b>	<b>1.6</b>	<b>0.9</b>	<b>-12.7</b>	<b>-11.8</b>
Statutory net income	7.1	-7.0	0.1	1.1	-13.3	-12.3
Weighted average shares (m)	451.6	498.8	475.2	559.5	586.9	573.2
Fully diluted shares (m)	475.2	521.3	498.2	581.8	609.2	595.5
<b>Underlying Basic EPS (p)</b>	<b>1.62</b>	<b>-1.28</b>	<b>0.34</b>	<b>0.16</b>	<b>-2.22</b>	<b>-2.05</b>
<b>U/I Fully-diluted EPS (p)</b>	<b>1.54</b>	<b>-1.21</b>	<b>0.32</b>	<b>0.16</b>	<b>-2.13</b>	<b>-1.98</b>
Statutory Basic EPS (p)	1.57	-1.55	0.02	0.19	-2.33	-2.14
Stat. Fully-diluted EPS (p)	1.49	-1.47	0.02	0.18	-2.24	-2.06

Source: Hardman & Co Life Sciences Research

## Liability risk

*Potential liability in Germany from increased manufacturers rebate*

In recent years, AGY has benefited from an exemption from the increased manufacturers rebate on pharmaceutical products in Germany. In February 2015, the Federal Office for Economics & Export (BAFA) made a decision to reverse this exemption. For periods up to December 2012, the exemptions have been ratified, but this decision does effect the exemption in fiscal year to end June 2013 (€1.4m).

The European Commission has concluded an investigation into whether such exemptions equate to state aid, and determined that they did not. However, this decision has gone to appeal. In the event that the decision is overturned in the appeal court and the exemptions are considered to be illegal state aid, the AGY would have to repay them. To date, the total potential liability is ca.£5m. AGY's legal advice is that this will not be overturned and, therefore, there is no provision in the accounts to cover this potential liability.

## R&D update

A full update on AGY's ongoing trial programme, together with a summary of its acquisition of VLP technology that it intends to use to develop products for food allergies was provided in our note dated 24<sup>th</sup> Feb 2016 and available on RNS Reach (via the AGY ticker) and on our website ([www.hardmanandco.com](http://www.hardmanandco.com)).

Trials are scheduled to be completed for regulatory submissions in both the US and EU in 2018 such that launches could take place during 2019. Timing of launches will be dependent on the timing of approvals relative to the relevant allergy season.

### *US trials with GrassMATAMPL*

- ▶ **G102 – Safety study:** Completed successfully ahead of schedule, demonstrating the safety of two new doses of GMM, allowing AGY to move on to the second trial in early December 2015
- ▶ **G204 – Dose selection study:** Progress has been rapid such that the trial has fully recruited already the 250 patients for the trial. The trial is expected to report at the end of June 2016
- ▶ **Controlled environment chamber:** Apart from the core dose selection part of the study, G204 protocol is important also for using a controlled environment. This eliminates extraneous factors that can occur in field studies and means that trials can be run out of season. Similar chambers will be used for the larger efficacy study (G304)

### *European trials with Pollinex Quattro*

- ▶ **PQB 204 – Birch:** The target 350 patients were fully recruited by November 2015 and the study moved to the active phase. Which is comparing rhinoconjunctivitis symptoms score in PQ treated patients versus placebo. The study is scheduled to report in 2H 2016
- ▶ **Phase III study:** The optimal dose form PQB 204 will be used in the phase III efficacy study, which is due to start in 1Q 2017

### *VLP – Peanut allergy*

AGY intends develop Polyvac peanut using VLP technology. It is expected to start proof-of-concept studies in 2016 which are likely to take about three years. Then it will enter Phase I trials.

This technology has the potential to give AGY access to some very large markets that could drive growth beyond the current forecast period for Pollinex Quattro and GrassMATAMPL.

## Changes to forecasts

### Sales

*Responding to marketing spend...*

*sales forecasts have been increased by 4-9% in each of next three years*

*Sales growth now expected to be +10±1% in each year until the approvals for Pollinex Quattro come through*

Sales have clearly responded favourably to the increased marketing investment and this is now being reflected in our sales forecasts. Previously, we had taken a cautious view that the marketing investment was needed to at least maintain market share in an overall flat market in Europe. However, we now believe that AGY will continue to gain market share because of its better product offering.

In addition, even though AGY does not have much business in France, it might see a knock-on benefit from the fact that Stallergenes, one of its main European competitors, faced manufacturing difficulties at the end of 2015. Even though these have been resolved the market may have altered some of its supply arrangements.

Consequently, taking all this into account, we are now forecasting steady sales growth, around +10±1% in each of the next three years. In 2019, the impact of PQ Birch in Europe should start to come through, with the US following in fiscal 2020. The changes to our sales forecasts are highlighted in the table below.

#### Sales forecast – Responding to marketing spend

Year end June (£m)	2016E	2017E	2018E	2019E
Old forecast	46.1	49.3	53.3	58.0
New forecast	48.0	53.0	58.0	66.0
<b>Delta</b>	<b>+4.2%</b>	<b>+7.5%</b>	<b>+8.9%</b>	<b>+13.8%</b>
Growth rate*	+11.0%	+10.4%	+9.4%	+13.8%

\*2016 based on £/€1.36 then CER for following years

Source: Hardman & Co Life Sciences Research

### Research & Development

*Significant progress in R&D....*

*...but costs will be higher*

The company has had a very successful period of R&D in the first half of fiscal 2016 making progress in clinical trials of GrassMATAMPL and Pollinex Quattro in the US and Europe respectively. Despite this, R&D spend emerged £0.5m lower than forecast for the half year. However, R&D looks set to rise in the second half of the year and beyond for a number of reasons:

- ▶ **Cost of trials:** Management indicated that the cost of undertaking its clinical trial programme is coming in higher than anticipated
- ▶ **Timing of payments:** Payments to contract research organisations are staged, dependent on trial progress, and are therefore difficult to predict. Given that trials are at least on schedule, higher payments are now anticipated in 2016
- ▶ **Acarovac Quattro:** Using the same technology platform as that used for Pollinex Quattro, AGY has commenced the development of Acarovac Quattro for the treatment of dust mite allergy. This is the most common allergy in the world. AGY is preparing for Phase I trials to start in early 2017 with a view to launching on a 'named Patient' basis in Spain. These are new costs that had not been allowed for in previous forecasts
- ▶ **New projects:** Acquisition of the VLP rights has led to new projects targeting food allergies. Although only at an early planning stage, this is an additional cost that had not been included in previous forecasts. It will also be a rising ongoing cost

- **Adjuvants:** AGY is at the forefront of aluminium-free adjuvant work and is undertaking feasibility studies to investigate whether MCT (Micro-crystalline Tyrosine) has an additive/synergistic effect when used with other vaccines beyond allergies eg influenza and malaria

*Forecast R&D investment has been increased by £9.0m to a total spend of £50.0m over the next four years*

Taken together, the cost of R&D investment is now expected to be £15.0m in 2016, £2.0m higher than previously forecast. Moreover, although some of this is down to timing of CRO payments, increased costs of US trials, the new trials with Arcarovac Quattro and VLP-related projects will result in higher ongoing costs. The overall effect of this is to increase cumulative R&D spend by £9.0m over the next four years from £41.0m to £50.0m, as shown in the following table.

Impact of R&D expenditure				
Year end June (£m)	2016E	2017E	2018E	2019E
Old forecast	-13.0	-12.0	-10.0	-6.0
New forecast	-15.0	-16.0	-11.0	-8.0
<b>EPS changes</b>				
Old forecast	-1.72	-1.40	-0.92	-0.28
New forecast	-2.05	-2.03	-1.02	-0.48

*Source: Hardman & Co Life Sciences Research*

## Longer-term forecasts

Readers should be aware that our forecasts are based on the assumption that, once approved by the FDA, Allergy Therapeutics will market GrassMATAMPL in the US by itself. In order to achieve the sales forecasts, the company would need to invest in sales and marketing infrastructure, which is reflected in the significant rise in marketing spend which starts to appear in 2019 forecasts and beyond. This, in turn, has a negative impact on cashflows until the sales come through.

At this point in time, management has not stated which business model it is likely to adopt in the US. It is possible that AGY out-licenses its products in the US and will be rewarded through a supply and royalty arrangement. Under these circumstances, the company would not need to make the suggested investment in marketing infrastructure and this would necessitate an appropriate re-adjustment in our forecasts.

*Forecasts assume that AGY will sell in the US itself...*

*....but it could out-license the products to a partner...*

*...all options currently being left open*



## Detailed financials

### Profit & Loss

- Forecasts have been adjusted to reflect the increased sales expectations, and the revised R&D investment to £15.0m in 2016 and to £16.0 in 2017
- On 17<sup>th</sup> November 2015, Allergy Therapeutics raised gross funds of £11.5m (£11.0m net) through a Placing of 41.0m shares at 28p per share
- EPS forecasts have been adjusted to reflect the increased investment in R&D and the share issue, with forecast EPS losses changing from -1.81p to -2.05p
- Forecasts are sensitive to currency. Most trading activities are priced in Euros which has been detrimental in 1H 2016, but has stabilised recently. Cash raised in 2015 to fund the US clinical trial programme is held on deposit in USD.

Profit & Loss account								
Year end June (£m)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
<b>Sales</b>	<b>39.28</b>	<b>41.96</b>	<b>43.23</b>	<b>48.00</b>	<b>53.01</b>	<b>58.00</b>	<b>66.01</b>	<b>100.25</b>
COGS	-11.95	-11.95	-12.18	-14.70	-15.99	-17.27	-19.52	-24.03
<b>Gross profit</b>	<b>27.33</b>	<b>30.00</b>	<b>31.05</b>	<b>33.30</b>	<b>37.01</b>	<b>40.73</b>	<b>46.49</b>	<b>76.22</b>
Marketing	-16.28	-17.92	-17.06	-19.18	-20.95	-22.63	-26.22	-40.81
<b>Product profit</b>	<b>11.05</b>	<b>12.08</b>	<b>13.99</b>	<b>14.12</b>	<b>16.07</b>	<b>18.10</b>	<b>20.27</b>	<b>35.40</b>
Product margin	28.1%	28.8%	32.4%	29.4%	30.3%	31.2%	30.7%	35.3%
G&A	-7.66	-7.80	-8.71	-10.39	-11.37	-12.38	-14.36	-17.80
R&D	-2.54	-2.96	-3.12	-15.00	-16.00	-11.00	-8.00	-8.00
EBITDA	2.19	2.68	3.52	-9.98	-10.01	-3.99	-0.79	10.90
Depreciation & Amortisation	-1.34	-1.29	-1.29	-1.29	-1.29	-1.29	-1.29	-1.29
Other income	0.00	0.08	0.07	0.00	0.00	0.00	0.00	0.00
<b>Underlying EBIT</b>	<b>0.85</b>	<b>1.39</b>	<b>2.23</b>	<b>-11.27</b>	<b>-11.30</b>	<b>-5.28</b>	<b>-2.08</b>	<b>9.61</b>
Share based costs	-0.18	-0.18	-0.41	-0.50	0.00	0.00	0.00	0.00
Exceptional items	0.00	0.00	-1.10	0.00	0.00	0.00	0.00	0.00
Statutory Operating profit	0.67	1.21	0.72	-11.77	-11.30	-5.28	-2.08	9.61
Net financial income	-0.24	-0.13	-0.07	-0.09	-0.16	-0.21	-0.21	-0.21
<b>Pre-tax profit</b>	<b>0.62</b>	<b>1.27</b>	<b>2.16</b>	<b>-11.37</b>	<b>-11.46</b>	<b>-5.49</b>	<b>-2.30</b>	<b>9.39</b>
Exceptional items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported pre-tax	0.43	1.08	0.65	-11.87	-11.46	-5.49	-2.30	9.39
Reported taxation	0.10	-0.34	-0.55	-0.40	-0.44	-0.48	-0.53	-0.56
Minorities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Underlying net income</b>	<b>0.72</b>	<b>0.92</b>	<b>1.61</b>	<b>-11.77</b>	<b>-11.90</b>	<b>-5.98</b>	<b>-2.83</b>	<b>8.83</b>
Statutory net income	0.54	0.74	0.11	-12.27	-11.90	-5.98	-2.83	8.83
Period-end shares in issue (m)	409.9	451.5	545.8	586.9	586.9	586.9	586.9	586.9
Weighted average shares (m)	427.0	451.5	475.2	573.2	586.9	586.9	586.9	586.9
Fully diluted shares (m)	445.7	471.5	498.2	595.5	612.2	617.2	622.2	630.2
<b>Underlying Basic EPS (p)</b>	<b>0.17</b>	<b>0.20</b>	<b>0.34</b>	<b>-2.05</b>	<b>-2.03</b>	<b>-1.02</b>	<b>-0.48</b>	<b>1.50</b>
<b>U/I Fully-diluted EPS (p)</b>	<b>0.16</b>	<b>0.20</b>	<b>0.32</b>	<b>-1.98</b>	<b>-1.94</b>	<b>-0.97</b>	<b>-0.45</b>	<b>1.40</b>
Statutory Basic EPS (p)	0.13	0.16	0.02	-2.14	-2.03	-1.02	-0.48	1.50
Stat. Fully-diluted EPS (p)	0.12	0.16	0.02	-2.06	-1.94	-0.97	-0.45	1.40
DPS (p)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research



## Balance sheet

- ▶ Net proceeds of £11.0m from the Placing in November 2015 have been included in forecasts
- ▶ The net cash position is now forecast to be £19.2m at the end of June 2016, about 50% of which will be on deposit in US\$
- ▶ Increased on-going R&D investment suggests that AGY will remain net cash positive at the end of fiscal 2018. Beyond this point, marketing strategy in the US will be important.
- ▶ The company usually takes on short-term debt during each financial year to offset the seasonality of the business and may well extend this overdraft facility for a short period if required

Balance sheet								
@ 30th June (£m)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Shareholders' funds	14.67	15.08	34.47	22.20	10.30	4.32	1.49	10.32
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total equity	14.67	15.08	34.47	22.20	10.30	4.32	1.49	10.32
Share capital	0.42	0.42	0.56	0.60	0.60	0.60	0.60	0.60
Reserves	14.25	14.66	33.91	21.60	9.71	3.73	0.90	9.73
Capitalised R&D	15.17	10.83	9.43	20.06	30.37	34.57	34.98	34.65
Minorities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.30	0.22	0.21	0.21	0.21	0.21	0.21	0.21
Deferred tax	-0.04	-0.04	0.30	0.30	0.30	0.30	0.30	0.30
Long-term loans	0.00	0.07	1.55	1.55	1.55	1.55	1.55	1.55
Bank overdrafts	0.61	0.05	0.25	0.25	0.75	6.95	12.09	15.25
less: Cash & securities	1.26	2.03	21.20	20.18	8.65	8.65	8.65	8.65
less: Marketable securities	0.00	0.35	0.78	0.78	0.78	0.78	0.78	0.78
less: Non-core investments	3.06	3.21	3.16	3.16	3.16	3.16	3.16	3.16
<b>Invested capital</b>	<b>32.61</b>	<b>27.04</b>	<b>27.81</b>	<b>27.20</b>	<b>37.64</b>	<b>42.06</b>	<b>44.78</b>	<b>56.44</b>
Fixed assets	7.34	7.03	8.75	8.88	9.07	9.33	9.83	11.09
Intangible assets	1.35	1.29	2.02	1.74	1.46	1.18	0.90	0.62
Capitalised R&D	15.17	10.83	9.43	20.06	30.37	34.57	34.98	34.65
Goodwill	2.56	2.48	2.98	2.98	2.98	2.98	2.98	2.98
Stocks	6.01	6.47	6.75	7.09	7.33	7.52	8.56	13.00
Trade debtors	3.13	2.76	2.84	3.15	3.48	3.81	5.95	14.98
Other debtors	4.06	2.61	2.22	2.22	2.22	2.22	2.22	2.22
Trade creditors	-3.05	-2.46	-3.05	-3.39	-3.74	-4.09	-8.72	-19.45
Tax liability	-0.54	-0.59	-0.59	-0.59	-0.59	-0.59	-0.48	-0.53
Other creditors	-3.42	-3.37	-3.53	-14.95	-14.94	-14.86	-11.43	-3.11
Debtors less creditors	0.18	-1.06	-2.11	-13.56	-13.57	-13.51	-12.46	-5.89
<b>Invested capital</b>	<b>32.61</b>	<b>27.04</b>	<b>27.81</b>	<b>27.20</b>	<b>37.64</b>	<b>42.06</b>	<b>44.78</b>	<b>56.44</b>
Net cash/(debt)	0.65	2.25	20.19	19.17	7.13	0.94	-4.21	-7.37
Net debt/equity (%)	4%	15%	59%	86%	69%	22%	-281%	-71%
After-tax ROIC	3%	5%	7%	-42%	-31%	-14%	-6%	16%
Net asset value/share (p)	3.44	3.34	7.25	3.87	1.76	0.74	0.25	1.76
Stock days	193	191	198	166	165	151	146	154
Debtor days	29	26	24	23	23	23	27	38
Creditor days	86	84	83	80	81	83	120	214

Source: Hardman &amp; Co Life Sciences Research

## Cashflow

- ▶ The incremental increase (ca.£9.0m) in R&D investment in 2016 and beyond drops straight through to the cashflow statement. This is likely to be offset, in part, should recent weakness in sterling against its main trading currencies be maintained through the forecast period
- ▶ The issue of 40.0m shares at 28p, raising £11.0m of net cash is included in the cashflow statement under share issues
- ▶ Forecasts do not include any up-front payment for acquisition of the VLP licence which has not been disclosed
- ▶ Our risk adjusted NPV for the company has decreased from 93p per share to 92p per share taking into account the increased sales forecasts, increased R&D investment, and the increased number of shares in issue following the Placing

Cashflow								
Year end June (£m)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Trading profit	0.85	1.39	2.23	-11.27	-11.30	-5.28	-2.08	9.61
Depreciation	0.97	1.01	1.01	1.01	1.01	1.01	1.01	1.01
Amortisation	0.37	0.28	0.28	0.28	0.28	0.28	0.28	0.28
Stocks	0.77	-0.63	-0.42	-0.35	-0.24	-0.19	-1.04	-4.44
Working capital	-1.42	0.78	0.63	0.45	0.25	0.05	-0.95	-6.45
Exceptionals/provisions	0.00	0.00	-1.10	0.00	0.00	0.00	0.00	0.00
Disposals	0.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.08	0.14	0.29	0.00	0.00	0.00	0.00	0.00
<b>Company op cashflow</b>	<b>2.23</b>	<b>2.97</b>	<b>2.92</b>	<b>-9.88</b>	<b>-10.00</b>	<b>-4.13</b>	<b>-2.78</b>	<b>0.01</b>
Net interest	-0.19	-0.03	-0.24	-0.09	-0.16	-0.21	-0.21	-0.21
Tax	-0.11	-0.05	-0.17	-0.40	-0.40	-0.44	-0.48	-0.53
Operational cashflow	1.92	2.89	2.51	-10.37	-10.55	-4.78	-3.48	-0.74
Capital Expenditure	-0.66	-0.90	-1.09	-1.15	-1.20	-1.26	-1.52	-2.27
Capitalised R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sale of fixed assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Free cashflow</b>	<b>1.26</b>	<b>2.00</b>	<b>1.42</b>	<b>-11.51</b>	<b>-11.76</b>	<b>-6.04</b>	<b>-4.99</b>	<b>-3.01</b>
Dividends	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	-0.16	-0.02	-2.67	-0.20	-0.23	-0.10	-0.10	-0.10
Disposals	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other investments	-0.36	-0.28	-0.28	-0.30	-0.30	-0.30	-0.30	-0.30
<b>Cashflow after investments</b>	<b>0.75</b>	<b>1.69</b>	<b>-1.52</b>	<b>-12.01</b>	<b>-12.29</b>	<b>-6.44</b>	<b>-5.39</b>	<b>-3.41</b>
Share repurchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Share issues	0.15	0.00	20.08	11.00	0.25	0.25	0.25	0.25
Currency effect	0.05	-0.08	-0.25	0.00	0.00	0.00	0.00	0.00
Borrowings acquired	0.00	0.00	-0.37	0.00	0.00	0.00	0.00	0.00
<b>Change in net debt</b>	<b>0.95</b>	<b>1.61</b>	<b>17.93</b>	<b>-1.01</b>	<b>-12.04</b>	<b>-6.19</b>	<b>-5.14</b>	<b>-3.16</b>
Hardman cashflow/share (p)	0.45	0.64	0.53	-1.81	-1.80	-0.81	-0.59	-0.13
Opening net cash	-0.30	0.64	2.26	20.19	19.17	7.14	0.94	-4.20
<b>Closing net cash</b>	<b>0.64</b>	<b>2.26</b>	<b>20.19</b>	<b>19.17</b>	<b>7.14</b>	<b>0.94</b>	<b>-4.20</b>	<b>-7.36</b>

Source: Hardman & Co Life Sciences Research

## Disclaimer

*Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.*

*The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/>*

*Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.*

*Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.*

*Hardman & Co does not make recommendations. Accordingly, we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.*

*Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.*

*This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.*

*This report may not be reproduced in whole or in part without prior permission from Hardman & Co.*

*Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.*

*Hardman & Co Research Limited (trading as Hardman & Co)  
11/12 Tokenhouse Yard  
London  
EC2R 7AS  
T +44 (0) 207 929 3399*

*Follow us on Twitter @HardmanandCo*

*(Disclaimer Version 2 – Effective from August 2015)*

## Hardman Team

### Management Team

+44 (0)20 7929 3399

John Holmes	jh@hardmanandco.com	+44 (0)207 148 0543	Chairman
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 148 0544	CEO

### Marketing / Investor Engagement

+44 (0)20 7929 3399

Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Neil Pidgeon	nrp@hardmanandco.com	+44 (0)207 148 0546

### Analysts

+44 (0)20 7929 3399

#### Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Meghan Sapp	ms@hardmanandco.com

#### Bonds

Brian Moretta	bm@hardmanandco.com
---------------	---------------------

#### Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

#### Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com

#### Financials

Brian Moretta	bm@hardmanandco.com
Mark Thomas	mt@hardmanandco.com

#### Life Sciences

Martin Hall	mh@hardmanandco.com
Gregoire Pave	gp@hardmanandco.com

#### Media

Derek Terrington	dt@hardmanandco.com
------------------	---------------------

#### Mining

Ian Falconer	if@hardmanandco.com
--------------	---------------------

#### Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com

#### Property

Mike Foster	mf@hardmanandco.com
-------------	---------------------

#### Services

Mike Foster	mf@hardmanandco.com
-------------	---------------------

#### Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

#### Technology

Mike Foster	mf@hardmanandco.com
-------------	---------------------

#### Utilities

Nigel Hawkins	nh@hardmanandco.com
---------------	---------------------

### Hardman & Co

11/12 Tokenhouse Yard  
London  
EC2R 7AS  
United Kingdom

Tel: +44(0)20 7929 3399  
Fax: +44(0)20 7929 3377

[www.hardmanandco.com](http://www.hardmanandco.com)

