hardman&co

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	AGY
Price (p)	27.3
12m High (p)	28.4
12m Low (p)	17.5
Shares (m)	593.4
Mkt Cap (£m)	161.7
EV (£m)	137.8
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

AGY develops, manufactures and sells products related to prevention, diagnosis and treatment of allergic conditions with special focus on allergy vaccination and a successful treatment dealing with the underlying cause and not just the symptoms.

Company information	
CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen
	+44 1903 845 820
	www.allergytherapeutics.com

Key shareholders	
Directors	0.7%
Abbott Labs	40.5%
Southern Fox	21.4%
Odey	7.4%
Invesco	5.7%
Blackrock	3.2%

Diary	
13 Feb	Hardman report
Sept-17	Finals
Nov-17	AGM

Analysts	
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Allergy Therapeutics

Progressive development across portfolio

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro continues to gain market share despite being available in EU only on a 'Named Patient' basis. Trials to obtain full approval as a biological have progressed well in EU with the first patient recruited in the pivotal birch pollen allergy vaccine Phase III trial. US trials are back on-track with a new safety trial underway. A Phase I study of Acarovac MPL, a 'dust mite allergy' vaccine, has been approved in Spain for 32 patients. Finally, Polyvac Peanut has completed pre-clinical testing and has potential to significantly disrupt the peanut allergy market.

- **Sales**: Underlying sales were strong during H1'17, with +18% CER growth to £34.2m. Sales were greatly strengthened on translation to £40.4m since >94% of the company's sales are generated in mainland Europe. In Europe, AGY's market share has reached 13%, whilst its global market share is up to 8.2%.

- **Clinical development:** AGY announced three significant updates to its clinical-stage therapies this period. Notable was the first recruitment to the Phase III trial of the birch allergy therapy in EU, the first Pollinex Quattro candidate to enter Phase III, and also CTA approval of the first clinical trial of Acarovac.

- **R&D:** AGY continues to invest in pre-clinical research alongside its clinical stage portfolio. Research is underway to explore the application of proprietary adjuvant technologies to infectious disease vaccines, including malaria. For Polyvac Peanut, positive efficacy and safety data were reported in a proof-of-concept study.

- **Forecasts:** Our forecasts for the full year have not changed; they were last altered following the Jan'17 trading update. Total R&D investment is forecast to accelerate in 2H'17 and rise further when the larger US trials get underway in fiscal 2018. The ongoing EU trials are less expensive relative to US trials.

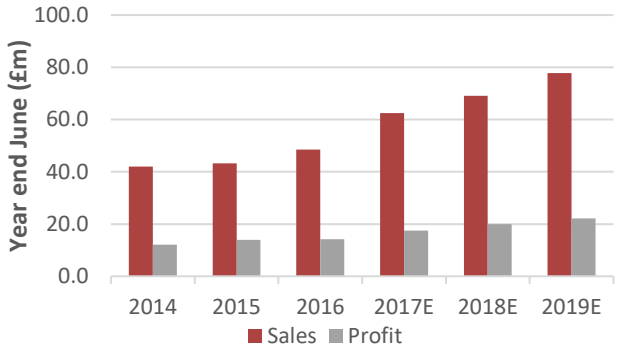
- **Investment summary:** It is an exciting time for AGY, which is gaining market share for its Pollinex franchise in Europe and which is investing heavily in clinical development to achieve full Pollinex Quattro EU registration. The planned route into the US is back on track following FDA discussions. Read out from the EU Phase III PQBirch trial in 2018 will provide the next major value inflection point.

Financial summary and valuation

Year end June (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	41.96	43.23	48.51	62.5	69.1	77.8
R&D spend	-2.96	-3.12	-16.22	-10.5	-15.0	-16.0
Underlying EBIT	1.39	2.91	-12.19	-4.9	-7.6	-7.1
Reported EBIT	1.21	1.41	-12.38	-4.6	-8.1	-7.6
Underlying PTP	1.27	2.84	-12.30	-5.0	-7.8	-7.3
Statutory PTP	1.08	0.65	-12.06	-4.7	-8.3	-7.8
Underlying EPS (p)	0.20	0.48	-2.33	-1.0	-1.5	-1.5
Statutory EPS (p)	0.16	0.02	-2.29	-1.0	-1.6	-1.5
Net (debt)/cash	2.25	20.14	18.86	10.8	1.4	-7.9
Shares issued	0.00	20.08	10.97	0.3	0.3	0.3
P/E (x)	124.5	52.8	-11.7	-26.6	-18.0	-18.7
EV/sales (x)	3.2	3.1	2.8	2.2	2.0	1.8

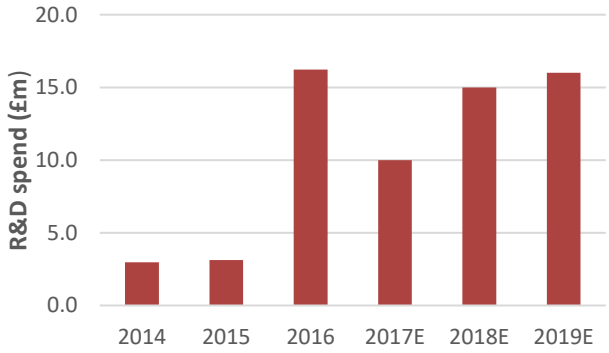
Source: Hardman & Co Life Sciences Research

Product analysis



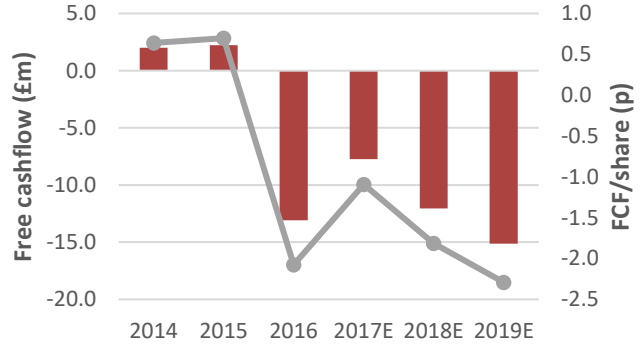
- AGY has a strong portfolio of products for allergy immunotherapy
- Products have shown consistent growth over the last five years even though their availability is limited by regulators
- After taking account of manufacturing, distribution and marketing costs, in-market products are profitable
- Investment in marketing ahead of formal approvals has resulted in a 1pp market share gain to 13%

R&D investment



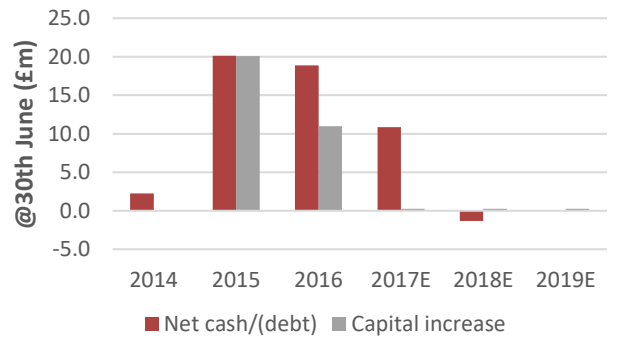
- Cumulative investment in R&D since 2000 has been £110m and looks set to be another £30m in next three years
- Timing of clinical trials, especially those performed in the US, has a significant impact on cashflows
- Three trials for the US market will cost £15-20m over the next three years, but will pave the way to FDA approval
- Trials for EU approval continue apace, with Germany being the lead country

Free cashflow



- Products sold into the market are profitable and cash generative
- Considerable investment in R&D and marketing will result in a planned period of cash burn
- Cash requirement towards the end of this decade will be dependent on commercialisation strategy in the US
- In following an inorganic growth strategy, although acquisitions tend to be small, more cash might be required

Net cash/(debt)

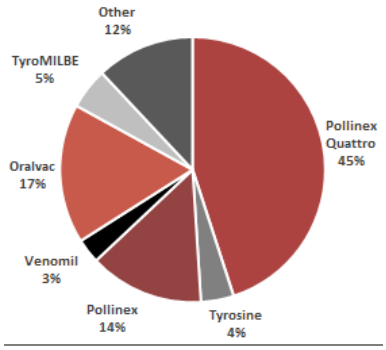


- Net cash at 31st December 2016 was estimated at £24.4m
- Re-balancing of the R&D spend leaves AGY adequately funded for the next 18 months
- AGY usually takes on seasonal overdrafts and this could be extended if required ahead of the regulatory approvals
- Should management decide to commercialise 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

Sales by product – FY2016



Source: Allergy Therapeutics

Key features

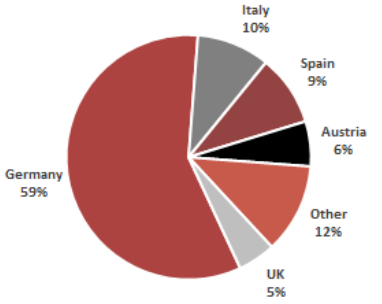
- **Sales** were reported to the market in the January trading update, with underlying growth of +18% to £40.4m (£29.0m), the reported number includes a currency benefit on translation of +£6.2m
- **COGS:** Manufacturing costs were higher than expected at -£8.9m reflecting the translational effect of costs from Alerpharma (Spain). The gross margin increased 2.0 percentage points to 77.9% (75.9%)
- **Marketing:** Broadly in-line with forecasts at -£13.8m (-£9.8m) reflecting the increased investment, coupled with a significant forex impact
- **Product profitability:** One of our key measures of group performance, product profit rose +50% to £17.7m (£11.8m), with margins rising 2.3pp to 43.7%
- **R&D:** Expenditure decreased -42% to-£3.8m (-£6.5m), which was £2.2m less than forecast (prior to the trading update). This was largely due to timing differences in payments caused by a rescheduling of the US trial timetable. Overall expenditure in 2017 is expected to be around -£10.5m as the trial programmes accelerate in the second half of the year
- **G&A:** Administration costs were markedly higher at -£7.2m (-£3.7m), but this figure was not materially different from that reported for 2H'16 when investment was made in corporate infrastructure/personnel
- **Underlying EBIT:** There was a large increase in operating profit during 1H'17 to £6.7m (£1.5m), generating a margin of 16.5% (5.3%). Although part of this gain was due to the positive effect of sterling weakness, there was still good improvement on a CER basis
- **Net cash/(debt):** AGY has been strongly cash generative (+£5.0m) during 1H'17, giving rise to a net cash position of £24.4m at the end of the reporting period

Interim analysis

Half-year analysis £m	1H'16 actual	1H'17 actual	1H'17 forecast	Delta £m
Sales	29.0	40.4	*38.2	+2.2
COGS	-7.3	-8.9	-8.1	-0.8
Gross profit	21.6	31.5	30.1	+1.4
Gross margin	75.9%	77.9%	78.7%	-0.7pp
Marketing	-9.8	-13.8	-13.6	-0.2
Product profit	**11.8**	**17.7**	**16.5**	**+1.2**
Product margin	41.4%	43.7%	43.2%	+0.5pp
G&A	-3.7	-7.2	-4.7	-2.5
R&D	-6.5	-3.8	-6.0	+2.2
EBITDA	**2.3**	**7.6**	**6.6**	**+1.0**
Depreciation & Amortisation	-0.8	-0.8	-0.8	-
Other income	0.0	0.0	**0.0**	-
Underlying EBIT	**1.5**	**6.7**	**5.9**	**+0.8**
EBIT margin	5.3%	16.5%	15.3%	+1.2pp
Underlying PBT	1.5	6.7	5.8	+0.9
Net cash/(debt)	**31.6**	**24.4**	**20.0**	**+3.9**

**Forecast prior to January trading update*
Figures may not add up exactly due to rounding
Source: Hardman & Co Life Sciences Research

Sales by geography – FY2016



Source: Allergy Therapeutics

Sales update

Sales grew +18% at CER to a reported £40.4m, an exceptional performance for AGY in the low/flat European market. AGY has a leading position in short-course subcutaneous immunotherapy (SCIT) and around 99% of the company's sales are in Europe at present, mostly on a 'named patient' basis except for six approved older products. AGY market share grew to 12.6% in its European operating territories. In USD terms, Hardman estimates that the global allergy market fell by 4.8% to $981m ($1,030m) in calendar 2016; AGY's global market share grew 1.7pp to 8.2%.

Organic sales growth and market share gains are being driven by:

- Competitive technical advantage – cheaper, convenient short-course therapies involving just four injections, compared to the usual 50 in US and 12-14 in EU
- AGY's reputation as a reliable supplier – 99% of orders delivered on time in 2016

The allergy market is sensitive to manufacturer-doctor relationships due to the frequency of interactions among doctors and patients: brand credibility is critical to sales performance. AGY further invested in manufacturing plus regulatory and customer teams this period, ensuring its growth and good reputation continues. Acarovac Plus sales also did well, with the dust mite allergy therapy now launched in Austria in addition to Spain. Finally, Synbiotics sales – products that combine prebiotics and probiotics to modulate the allergic response – were strong in Italy. It should be noted that sales of pollen allergy products are usually higher in the first half of the fiscal year since demand increases in association with the summer season.

Half year split

(£m)	1H'16	2H'16	2016	1H'17	2H'17E	2017E
Sales	**29.0**	**19.6**	**48.5**	**40.4**	**22.1**	**62.5**
COGS	-7.3	-6.7	-14.1	-8.9	-7.0	-15.9
Gross profit	**21.6**	**12.8**	**34.4**	**31.5**	**15.0**	**46.5**
Gross margin	74.7%	65.5%	71.0%	77.9%	68.2%	74.5%
Marketing	-9.8	-10.4	-20.2	-13.8	-13.1	-27.0
Product profit	**11.8**	**2.4**	**14.2**	**17.7**	**1.9**	**19.6**
Product margin	40.7%	12.4%	29.3%	43.7%	8.6%	31.3%
G&A	-3.7	-6.6	-10.3	-7.2	-6.8	-13.9
R&D	-6.5	-9.7	-16.2	-3.8	-6.7	-10.5
EBITDA	2.3	-12.8	-10.5	7.6	-10.8	-3.2
Depreciation & Amortis	-0.6	-0.7	-1.4	-0.8	-0.9	-1.7
Other income	0.0	0.2	0.2	0.0	0.0	0.0
Underlying EBIT	**1.5**	**-13.7**	**-12.2**	**6.7**	**-11.6**	**-4.9**
Share based costs	-0.2	-0.2	-0.3	-0.3	-0.2	-0.5
Exceptional items	0.0	0.1	0.1	0.9	-0.1	0.7
Reported EBIT	1.4	-13.8	-12.4	7.2	-11.9	-4.6
Net financial income	-0.1	0.0	-0.1	0.0	-0.1	-0.1
Underlying pre-tax profit	**1.5**	**-13.8**	**-12.3**	**6.7**	**-11.6**	**-5.0**
Reported pre-tax	1.3	-13.4	-12.1	7.2	-11.9	-4.7
Taxation	-0.2	-0.8	-1.0	-0.4	-0.7	-1.1
Underlying net income	**1.2**	**-14.5**	**-13.3**	**6.3**	**-12.4**	**-6.1**
Statutory net income	1.1	-14.1	-13.1	6.8	-12.7	-5.8
Weighted average (m)	559.5	581.2	570.3	591.4	594.9	593.2
Fully diluted shares (m)	581.8	596.6	589.2	610.3	615.8	613.0
Underlying Basic EPS (p)	**0.22**	**-2.55**	**-2.33**	**1.06**	**-2.09**	**-1.02**
Statutory Basic EPS (p)	0.19	-2.48	-2.29	1.16	-2.14	-0.98
U/l Fully diluted EPS (p)	**0.21**	**-2.47**	**-2.26**	**1.03**	**-2.02**	**-0.99**
Stat. Fully-diluted EPS (p)	0.18	-2.40	-2.22	1.12	-2.07	-0.95

Source: Hardman & Co Life Sciences Research

Clinical development update

Pollinex Quattro (PQ), the advanced allergy platform with three technological components – modified allergens, microcrystalline tyrosine (MCT), and monophosphoryl lipid A (MPL) – has been available in the EU on a 'named patient' basis for 18 years. It is targeted to different allergies by replacing the allergen and is administered as a short-course (four dose) treatment over a three-week period. To expand market access, in 2011 AGY agreed clinical development plans towards achieving PQ market approval as a biological therapy in Europe.

30% of all products submitted to TAV....

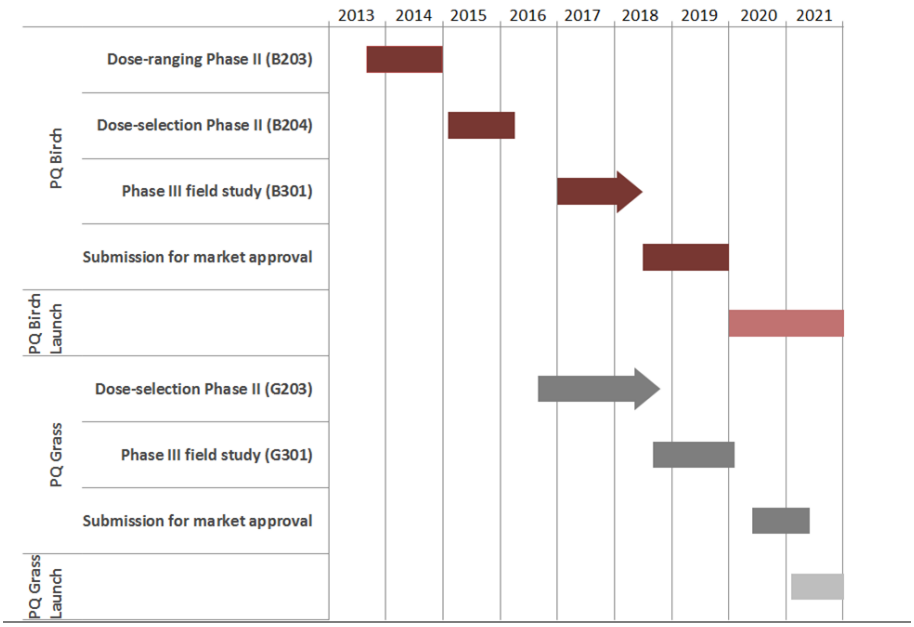
...now removed and no longer on the market (Dr Vieths, 2016)

AGY submitted ten therapeutic products to the Paul Ehrlich Institut regulatory process, Therapieallergene-Verordnung (TAV), for approval initially in Germany only, and to facilitate access to other European countries. 100% of this portfolio is still in the process. In the US, the company is developing Grass MATA MPL (PQGrass outside US) for approval via Biologics Licence Application (BLA).

Birch – phase III trial update

In line with plans, the first of 550 patients was recruited in March 2017 to the Phase III trial (B301) of PQBirch being undertaken in Austria, Germany, Sweden and Poland. PQBirch is an aluminium-adjuvant free, ultra-short course immunotherapy for birch pollen allergy: the trial will assess safety and efficacy in reducing rhinoconjunctivitis symptoms, and is designed to fulfil TAV requirements. Market authorisation in Germany is anticipated earliest in 2020.

Clinical development plan



Dates refer to calendar year

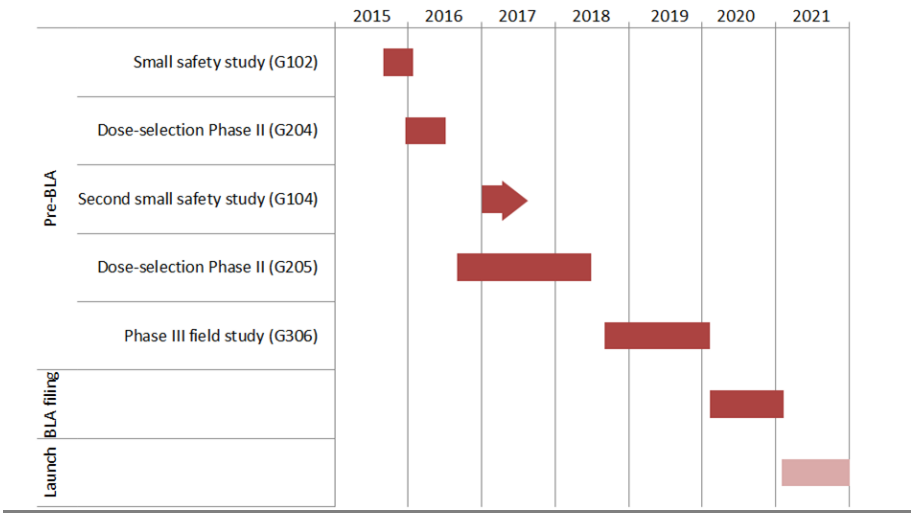
Source: Allergy Therapeutics; Hardman & Co Life Sciences Research

Grass MATA MPL – dose evaluation update

In late 2015, MATA MPL demonstrated inconclusive results in the US dose-ranging study (G204). The programme was revised with the FDA in 2016, so AGY is now undertaking another safety study (G104) to evaluate an additional dosing strength.

Following successful completion, a new dose-ranging conjunctival provocation study (G205) will be performed, this time in Europe (planned H2'17), to replace the original G204 study. This will provide the optimal dose for a Phase III field study (G306), also to be performed in Europe.

MATA MPL – revised clinical development plan



Dates refer to calendar year

Source: Allergy Therapeutics; Hardman & Co Life Sciences Research

Acarovac MPL – dust mite allergy update

The first clinical trial of AGY's dust mite allergy immunotherapy, Acarovac MPL, also based on the PQ platform, was approved this half. The Phase I trial investigating safety and tolerability received Clinical Trial Application (CTA) approval in Spain and is expected to begin immediately. The therapy will build on the previous version, Acarovac Plus which has demonstrated efficacy, by utilising the MCT and MPL technologies. MCT is a natural, biodegradable adjuvant that acts via a depot mechanism, retaining the allergoid and MPL adjuvant near the injection site. It will be the only house-dust mite immunotherapy in development utilising these technologies. If the Phase I trial is successful, Acarovac MPL will be launched in Spain on a named-patient basis. The MCT patent is due to expire in 2032.

Pre-clinical R&D update

Bencard Adjuvant Systems

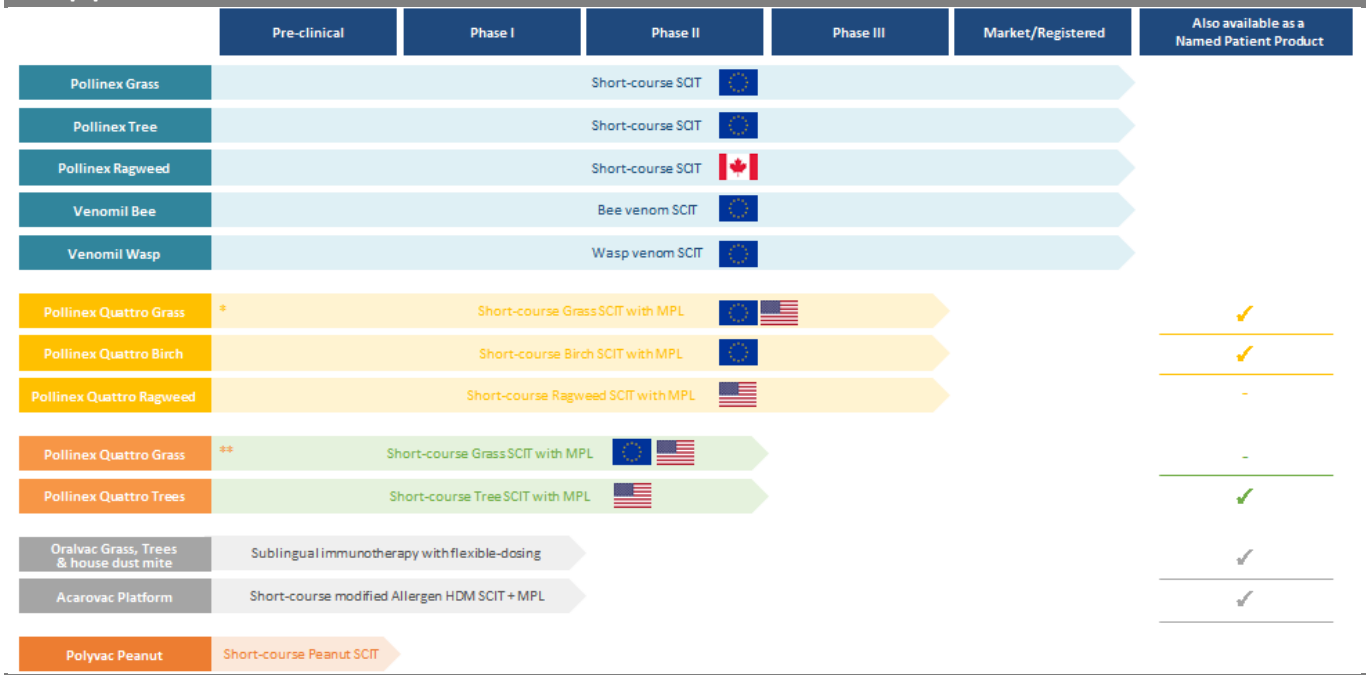
Outside of allergy therapeutics, the Bencard division has been researching the application of AGY's adjuvant systems to infectious disease vaccines, including MCT in influenza and malaria, and MCT with virus-like particles in malaria. The latter showed enhanced efficacy, which in vaccines implies increased immunogenicity via better T cell and B cell responses, and increased protection against *Plasmodium berghei* (rodent malaria parasite) and *P. vivax* (human malaria parasite). The results from three studies have been submitted to scientific journals.

Virus-like particles (VLPs) – peanut allergy

The Hardman note in Feb'17 described in detail AGY's progress in peanut allergy. In summary, the candidate was protective against peanut anaphylaxis *in vivo*. The vaccine is based on VLPs which induce protective immunity – a successful peanut allergy vaccine has the potential to disrupt the $8bn pa peanut allergy market. AGY will now progress the vaccine to the next stage of pre-clinical development.

Pipeline status

AGY pipeline – 1H'17 status



**0.5mL formulation*
*** 1.0 mL formulation*
Source: Allergy Therapeutics

Newsflow

Based on the information described above, AGY is expected to have a series of trial results over the next 2-3 years in the run up to EMA and FDA regulatory submissions. PQ Birch is expected to be first launched in fiscal 2020 in Europe, probably Germany first. For PQ Grass/MATA MPL, the same trials in Europe are being used for both EMA and FDA submissions, with simultaneous submissions expected in 2020 earliest, for possible launch in 2021.

Pipeline news flow

Date	Event
2H'17	G104 High dose safety study (will not be published)
2H'17	1st patient treated PQ Birch Phase III (B301)
2H'17	CTA approval PQ Grass Phase II
2H'17	1st patient treated PQ Grass Phase II (G203/205) – conjunctival provocation test
2H'17	Results expected from Acarovac MPL (AM101)
2018/19	Phase III trial with PQ Grass (G301/306) in the Autumn – if G203/205 successful
2018	B301 results expected
2019/20	G301/306 field trial results

PQ = Pollinex Quattro
Source: Hardman & Co Life Sciences Research

Detailed financials

Profit & Loss

- **Sales:** Underlying growth of +13% is forecast for fiscal 2017, which will have ca.£7.5m currency benefit on translation
- **R&D:** The investment split for 2017 will be significantly biased to 2H'17. In addition, most of these costs will be invoiced in EUR
- **Forex:** There is a large currency benefit at the sales level due to the weakness of GBP against the EUR. However, there is a natural hedge with most of the marketing and R&D costs also being in EUR, limiting the impact on profits

Profit & Loss account						
Year end June (£m)	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
GBP:EUR	1.198	1.270	1.338	1.170	1.170	1.170
GBP:USD	1.626	1.576	1.484	1.260	1.260	1.260
Sales	**41.96**	**43.23**	**48.51**	**62.49**	**69.09**	**77.83**
COGS	-11.95	-12.18	-14.07	-15.94	-17.35	-19.23
Gross profit	**30.00**	**31.05**	**34.44**	**46.55**	**51.75**	**58.60**
Marketing	-17.92	-17.06	-20.22	-26.99	-29.43	-33.69
Product profit	**12.08**	**13.99**	**14.22**	**19.56**	**22.32**	**24.91**
Product margin	28.8%	32.4%	29.3%	31.3%	32.3%	32.0%
G&A	-7.80	-8.03	-10.33	-13.94	-14.93	-16.03
R&D	-2.96	-3.12	-16.22	-10.50	-15.00	-16.00
EBITDA	2.68	4.20	-10.53	-3.21	-5.94	-5.46
Depreciation & Amortis.	-1.29	-1.29	-1.39	-1.67	-1.67	-1.67
Other income	0.08	0.07	0.15	0.00	0.00	0.00
Underlying EBIT	**1.39**	**2.91**	**-12.19**	**-4.87**	**-7.61**	**-7.13**
Share based costs	-0.18	-0.41	-0.33	-0.50	-0.50	-0.50
Exceptional items	0.00	-1.10	0.14	0.74	0.00	0.00
Statutory EBIT	1.21	1.41	-12.38	-4.63	-8.11	-7.63
Net financials	-0.13	-0.07	-0.11	-0.09	-0.15	-0.17
Pre-tax profit	**1.27**	**2.84**	**-12.30**	**-4.97**	**-7.75**	**-7.29**
Exceptional items	0.00	-0.68	0.43	0.00	0.00	0.00
Reported pre-tax	1.08	0.65	-12.06	-4.73	-8.25	-7.79
Tax payable/credit	-0.34	-0.55	-1.01	-1.11	-1.22	-1.34
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
Underlying net income	**0.92**	**2.29**	**-13.31**	**-6.08**	**-8.97**	**-8.63**
Statutory net income	0.74	0.11	-13.07	-5.84	-9.47	-9.13
Ordinary shares:						
Period-end (m)	451.5	545.8	589.2	593.4	593.4	593.4
Weighted average (m)	451.5	475.2	570.3	593.2	593.4	593.4
Fully diluted (m)	471.5	498.2	589.2	613.0	618.3	623.3
Underlying Basic EPS (p)	**0.20**	**0.48**	**-2.33**	**-1.02**	**-1.51**	**-1.45**
Statutory Basic EPS (p)	0.16	0.02	-2.29	-0.98	-1.60	-1.54
U/l Fully-diluted EPS (p)	**0.20**	**0.46**	**-2.26**	**-0.99**	**-1.45**	**-1.38**
Stat. Fully-diluted EPS (p)	0.16	0.02	-2.22	-0.95	-1.53	-1.47
DPS (p)	0.00	0.00	0.00	0.00	0.00	0.00

Source: Hardman & Co Life Sciences Research

Balance sheet

- **Net cash/(debt):** At 31st December 2016, AGY had net cash of £24.4m, a rise of £5.5m compared to the position at the end of June 2016, reflecting the strong cash generation from product sales during 1H'17. This is comprised of a cash balance of £27.8m and debt of -£3.4m
- **Year-end position:** Cash will outflow during 2H'17 due to the seasonality of the business and also due to increased investment in clinical trials, leaving forecast net cash at ca.£11m at the end of in June 2017
- **Seasonal overdraft:** The company maintains a seasonal loan facility, but with strong cash generation during 1H'17, it was not utilised

Balance sheet

@30th June (£m)	2014	2015	2016	2017E	2018E	2019E
Shareholders' funds	15.08	34.47	30.32	24.49	15.02	5.88
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Total equity	15.08	34.47	30.32	24.49	15.02	5.88
Share capital	0.42	0.56	0.60	0.60	0.60	0.60
Reserves	14.66	33.91	29.73	23.89	14.42	5.29
Capitalised R&D	10.83	9.43	21.13	26.47	34.71	42.15
Minorities	0.00	0.00	0.00	0.00	0.00	0.00
Provisions/liabilities	0.22	0.21	0.26	0.26	0.26	0.26
Deferred tax	-0.04	0.30	0.33	0.33	0.33	0.33
Long-term loans	0.07	1.55	3.07	3.07	3.07	3.07
Short-term loans	0.05	0.30	1.48	2.98	7.98	17.98
less: Cash	2.03	21.20	23.41	16.86	12.45	13.12
less: Deposits	0.35	0.78	0.00	0.00	0.00	0.00
less: Non-core invests.	3.21	3.16	4.05	4.05	4.05	4.05
Invested capital	**27.04**	**27.86**	**39.32**	**46.87**	**55.04**	**62.68**
Fixed assets	7.03	8.75	9.67	9.58	9.55	9.79
Intangible assets	1.29	2.02	2.08	1.80	1.52	1.24
Capitalised R&D	10.83	9.43	21.13	26.47	34.71	42.15
Goodwill	2.48	2.98	3.27	3.27	3.27	3.27
Inventories	6.47	6.75	7.69	9.41	9.90	11.16
Trade debtors	*2.76*	*2.84*	*4.68*	*6.03*	*6.66*	*8.79*
Other debtors	*2.61*	*2.22*	*1.84*	*1.84*	*1.84*	*1.84*
Tax liability/credit	*-0.59*	*-0.59*	*-1.43*	*-1.43*	*-1.43*	*-1.22*
Trade creditors	*-2.46*	*-3.05*	*-3.11*	*-4.01*	*-4.43*	*-9.34*
Other creditors	*-3.37*	*-3.53*	*-6.51*	*-6.09*	*-6.55*	*-5.00*
Debtors less creditors	-1.06	-2.11	-4.53	-3.66	-3.91	-4.93
Invested capital	**27.04**	**27.81**	**39.32**	**46.87**	**55.04**	**62.68**
Net cash/(debt)	**2.25**	**20.14**	**18.86**	**10.81**	**1.40**	**-7.93**

Source: Hardman & Co Life Sciences Research

Cashflow

- **1H'17 inflow:** From the trading side there is a natural bias to the first half of the year because of the seasonality of business. Product sales are profitable and cash generative. In the absence of significant R&D investment during the period, much of this drops all the way through the accounts
- **R&D investment:** Initiation of new trials for both the EMA and FDA regulatory processes will see a marked increase in R&D spend during 2H'17. This will extend into fiscal 2018 as the company embarks upon late stage Phase III trials for the US
- **Net debt:** Consequently, AGY is forecast to burn cash in each of the next two years. It is expected to have net cash of ca.£11.3m at the end of fiscal 2017, dropping to ca.£2.0m at the end of fiscal 2018

Cashflow

Year end June (£m)	2014	2015	2016	2017E	2018E	2019E
Trading profit	1.39	2.91	-12.19	-4.37	-7.54	-8.29
Depreciation	1.01	1.01	1.39	1.39	1.39	1.39
Amortisation	0.28	0.28	0.28	0.28	0.28	0.28
Inventories	-0.63	-0.42	*-0.59*	*-1.72*	*-0.49*	*-1.25*
Receivables			*-0.37*	*-1.35*	*-0.64*	*-8.79*
Payables			*-0.50*	*0.90*	*0.42*	*9.38*
Working capital	0.78	0.63	-1.45	-2.17	-0.71	-0.66
Exceptionals/provisions	0.00	0.29	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.14	-0.97	-1.48	0.00	0.00	0.00
Company op cashflow	**2.97**	**3.73**	**-13.46**	**-4.88**	**-6.58**	**-7.29**
Net interest	-0.03	-0.24	-0.39	-0.09	-0.14	-0.17
Tax payable/credit	-0.05	-0.17	0.09	-1.01	-1.11	-1.22
Operational cashflow	2.89	3.32	-13.75	-5.97	-7.83	-8.67
Capital Expenditure	-0.90	-1.09	-1.23	-1.29	-1.36	-1.63
Capitalised R&D	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
Free cashflow	**2.00**	**2.23**	**-14.98**	**-7.27**	**-9.19**	**-10.30**
Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	-0.02	-2.67	0.00	-0.23	-0.10	-0.10
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other investments	-0.28	-0.28	-0.26	-0.30	-0.30	-0.30
CF after investments	**1.69**	**-0.71**	**-15.24**	**-7.80**	**-9.59**	**-10.70**
Share repurchases	0.00	0.00	0.00	0.00	0.00	0.00
Share issues	0.00	20.08	10.97	0.25	0.25	0.25
Currency effect	-0.08	-1.10	3.00	0.00	0.00	0.00
Borrowings acquired	0.00	-0.37	0.00	0.00	0.00	0.00
Change in net debt	**1.61**	**17.89**	**-1.28**	**-7.55**	**-9.34**	**-10.45**
Opening net cash	0.64	2.26	20.14	18.86	11.31	1.98
Closing net cash	**2.26**	**20.15**	**18.86**	**11.31**	**1.98**	**-8.48**
Hardman FCF/share (p)	0.64	0.70	-2.41	-1.01	-1.32	-1.46

Source: Hardman & Co Life Sciences Research

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