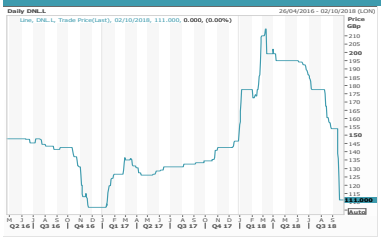
Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	DNL
Price (p)	111.0
12m High (p)	215.8
12m Low (p)	110.0
Shares (m)	61.3
Mkt Cap (£m)	68.1
EV (£m)	50.8
Free Float*	19%
Market	AIM

**As defined by AIM Rule 26*

Description

Diurnal is a UK-based specialty pharma company targeting patient needs in chronic, potentially life threatening, endocrine (hormonal) diseases. Alkindi has received approval from the European Commission, with first sales started in May 2018; while Chronocort is in Phase III trials.

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

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Key shareholders

Directors	3.0%
IP Group	44.0%
Finance Wales	18.8%
Invesco	11.7%
Oceanwood Capital	7.1%
Polar Capital	3.4%

Diary

4Q'18	EU Ph. III Chron. readout
4Q'18	Alkindi US reg. submission
4Q'18	US Ph. III Chron. (CAH)

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DIURNAL GROUP

First commercial revenues

Diurnal (DNL) is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Following approval from the European Commission, Alkindi is being launched in key EU markets through DNL's own commercial infrastructure, starting with Germany and now launched in the UK. Additional territories will follow during 2018 and 2019. Meanwhile, the company is pushing forward with Alkindi and Chronocort clinical trials in the US. Cash at the end of the period was £17.3m.

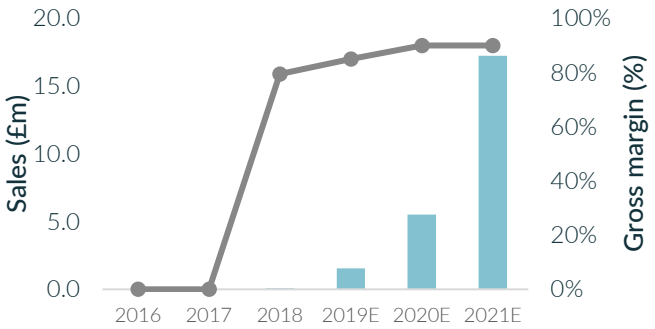
- **Strategy:** Diurnal's strategic goal is to create a valuable 'Adrenal Franchise' that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand the product offering to other related conditions.
- **Results:** Reported operating losses of £16.98m (-£12.08m) largely reflect the increased investment in R&D. This fell through the cashflow statement, leaving the company with net cash at the end of June of £17.3m, including the completion of a Placing for £10.5m gross in March.
- **First sales:** The results provide the first 46 days' sales figure for Alkindi in Germany, at £73k. For the main European countries, there will be a staged roll-out, influenced by conclusion of pricing negotiations on a country-by-country basis. Since 3 September, Alkindi has also become available in the UK.
- **Near-term milestones:** Important value inflection points are due before the end of calendar 2018: headline data for Phase III Chronocort in the EU; start of Chronocort Phase III in the US; and readout of the US Phase III for Alkindi, which will be followed by an end-of-Phase III review meeting with the FDA.
- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, is DNL's first product on the market. It will be followed shortly by Chronocort for adults. The cortisol replacement market is for conditions that need life-long treatments, and it has a potential value of $3.5bn. DNL will be reporting on a number of potential valuation inflection points during the remainder of 2018.

Financial summary and valuation

Year-end June (£m)	2016	2017	2018	2019E	2020E	2021E
Sales	0.00	0.00	0.07	1.54	5.53	17.23
SG&A	-1.99	-3.23	-6.21	-7.77	-9.40	-11.13
R&D	-3.89	-8.34	-10.02	-10.83	-7.58	-7.20
EBITDA	-5.87	-11.56	-16.16	-17.28	-11.99	-2.81
Underlying EBIT	-5.88	-11.56	-16.17	-17.29	-12.01	-2.83
Reported EBIT	-6.99	-12.08	-16.98	-18.14	-12.90	-3.76
Underlying PBT	-5.95	-11.64	-16.30	-17.20	-11.99	-2.87
Statutory PBT	-7.06	-12.16	-16.91	-18.05	-12.89	-3.80
Underlying EPS (p)	-12.48	-17.05	-25.68	-22.27	-15.51	-0.83
Statutory EPS (p)	-15.02	-18.04	-26.78	-23.65	-16.96	-2.36
Net (debt)/cash	26.88	16.37	17.28	2.47	-7.79	-11.57
Capital increases	24.52	0.05	13.40	0.00	0.00	0.00

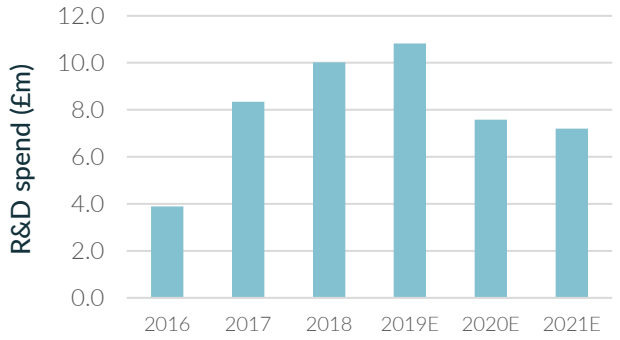
Source: Hardman & Co Life Sciences Research

Sales and gross margin



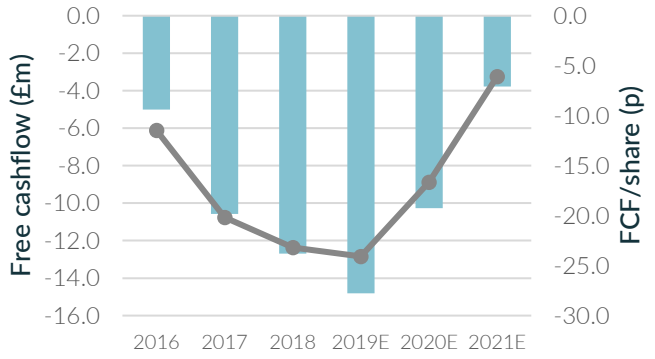
- Alkindi launched in Germany on 15 May 2018, generating first sales, followed by the UK on 3 September
- Roll out into other European countries will continue in calendar 2018-19
- Gross margin is forecast to be stable at ca.90%
- First sales in Israel are expected during 2020
- Chronocort first sales anticipated in 2021 in Europe

R&D investment



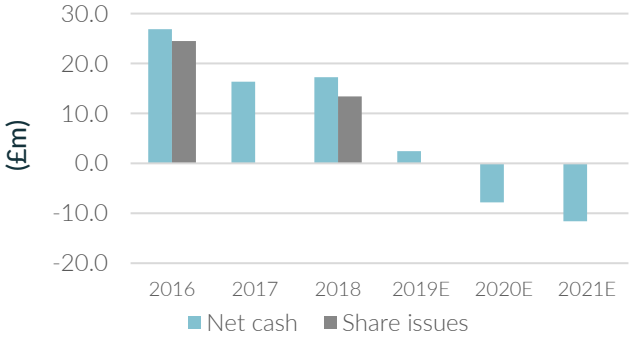
- The spend on R&D is expected to increase slightly in 2019 with the start of the US CAH and AI studies and completion of the European Phase III registration study with Chronocort and then decrease in the subsequent years, as key trials come to an end
- R&D investment expected to continue for the foreseeable future into the next wave of products

Free cashflow



- Cashflow forecasts are driven largely by the R&D investment and corporate overheads
- A European subsidiary has been established and a sales force of 14 has been recruited through Ashfield for the commercial infrastructure

Net cash and capital increases



- At 30 June 2018, net cash was £17.3m
- Placing to raise £10.5m (gross) in April 2018; concomitantly IP group converted its £3.5m loan into equity
- Forecasts suggest that further capital will be needed some time during the next 12 months to support R&D and commercial investment

Source: Company data; Hardman & Co Life Sciences Research

2018 results

Key features

Operational highlights

- **Alkindi:** First commercial sales generated following the launch in Germany on 15 May 2018 as cortisol replacement therapy in adrenal insufficiency (AI) from birth to 18 years old. Launch in the UK commenced post period-end on 3 September. In the US, the registration package is moving ahead with the food matrix compatibility study successfully completed. Readout of the US bioequivalence study is due shortly, followed by submission of the proposed regulatory package to the FDA for an end-of-Phase III meeting in late 2018.
- **Chronocort:** Enrolment into the European Phase III Chronocort trial for congenital adrenal hyperplasia (CAH) has been completed, with headline data expected in 4Q'18. In the US, a Phase III trial is due to start in 4Q'18, following FDA acceptance of the protocol. A US Phase II trial in AI is expected to commence around the end of the year.
- **Pipeline:** With its vision to become "a world leading endocrinology speciality pharma company", DNL is pursuing a pipeline of pre-clinical and clinical assets. The next milestone being headline results from the Phase I/II trial with DITEST in hypogonadism, anticipated to complete end-2018.

Commercial highlights

- **First sales:** Alkindi is now available in Germany and the UK, with a rollout scheduled for other major European countries.
- **Sales infrastructure:** The commercial infrastructure and supply chain are in place for Alkindi throughout Europe, with Ashfield Healthcare building up a team of commercial staff. The infrastructure will be used also for the subsequent product, Chronocort.
- **Distribution:** Outside its core territories, DNL continues to expand its commercial infrastructure in countries that recognise the EU market authorisation dossier for Alkindi and, subsequently, Chronocort; the company is entering into local distribution agreements with specialist partners.

Financial highlights

- **Sales:** First revenues were received for Alkindi, representing just 46 days of sales in Germany. Although slightly lower than forecast, timing and pipeline fill in the early days are difficult to predict. The initial gross margin was lower than the long-term expectation, at ca.80%, but will rise with increasing volumes.
- **R&D:** Investment in 2018 was forecast to be higher than in 2017 given the ongoing trial programme and regulatory costs; the outcome was in line with expectations at -£10.0m (-£8.3m).
- **SG&A:** Administration costs increased 92% to -£6.2m (excluding a currency benefit of £0.20m) vs -£3.23m, reflecting the addition of key personnel from Ashfield (a commercial team of 14) and the building up of market access across Europe.

- **Net cash:** At 30 June 2018, net cash on the balance sheet was about £0.5m higher than forecast at £17.3m.
- **Placing:** The cash balance was boosted by the Placing of new shares in April 2018, raising £10.5m (£9.9m net) new capital.

Diurnal fiscal 2018 – actual vs expectations

Year-end June (£m)	2017 Actual	2018 actual	Growth %	2018 Forecast	Delta Δ
Sales	-	0.07	-	0.13	-0.06
COGS	-	-0.01	-	-0.01	+0.00
Gross margin	-	79.5%	-	90%	-
R&D spend	-8.34	-10.02	+20%	-10.5	-0.48
Administration costs	-3.22	-6.21	+92%	-6.03	+0.18
Underlying EBIT	**-11.56**	**-16.17**	**+40%**	**-16.41**	**-0.24**
Net cash/(debt)	16.37	17.28	-	16.74	+0.54

Source: Diurnal, Hardman & Co Life Sciences Research

2018-19 milestones:

Key value inflections point for 2018-19

Milestones	Date	Status
Chronocort EU Phase III complete (CAH)	3Q'18	✓
Alkindi launch in UK	3Q'18	✓
Chronocort US Phase III to commence (CAH)	4Q'18	
Chronocort European Phase III headline data (CAH)	4Q'18	
Alkindi US Phase III readout (AI and CAH)	4Q'18	
Alkindi US FDA submission (AI and CAH)	End 2018	
Chronocort US Phase II to commence (AI)	End 2018	
DITEST Phase I/II complete	End 2018	
Chronocort European regulatory submission (CAH)	3Q'19	
Alkindi US NDA submitted (AI and CAH)	3Q'19	

Source: Diurnal, Hardman & Co Life Sciences Research

Alkindi commercial rollout

Commercial infrastructure

Over the past 18 months, Diurnal has been putting in place European commercial infrastructure in readiness for the approval of Alkindi, which will also be used for subsequent products, commencing with Chronocort.

Establishing European supply chain and commercial infrastructure

DNL will retain the full value of Alkindi through direct commercialisation

In Europe, Diurnal will retain the full value of Alkindi through direct commercialisation. The company has been working closely with a number of relevant partners in order to be ready for commercial launch:

- **Manufacturing:** Already established (since 2012) with the experienced and specialist GMP supplier, Glatt Pharmaceutical Services GmbH, to produce solid pharmaceutical dosage formulations based on multi-particulate systems.
- **Packaging:** Agreement with Delpharm for its expertise in supply chain management.
- **Sales & marketing:** Appointment of Ashfield Healthcare for sales and medical infrastructure support to establish a European network of medical liaison staff.

DNL has built commercial infrastructure over past 12 months

Ashfield Healthcare has established a Europe-wide network of medical liaison staff. Ashfield, together with DNL, has built up a team of 14 commercial staff. This number will be expanded to peak at 20-30 (once Chronocort is launched), which is considered sufficient, as patients are usually centralised within specialist endocrinology centres. The commercial organisation includes the following:

- seven medical science liaison staff (covering Germany, the UK, France, Italy and Spain).
- six key account managers (covering Germany, the UK, Italy and Spain).
- one market access manager; and
- supplemented by an in-house commercial team.

Through Ashfield, DNL is establishing a flexible EU commercial organisation that can be modified rapidly, if the need arises, without the requirement for significant upfront investment, and that can be deployed for a number of products.

In addition, with this commercial and distribution infrastructure in place, DNL becomes a more attractive partner for companies, especially US-based biotech, with drugs in the endocrine field that are looking to out-license for commercialisation in Europe.

To mitigate the potential risk effect of Brexit, DNL has established a wholly-owned subsidiary, Diurnal Europe B.V. in the Netherlands.

Launch rollout

Despite being a centralised EU authorisation, there will be a staged roll-out of Alkindi influenced largely by the timetable for agreeing pricing with the relevant authorities in individual countries. This is normal practice for drugs approved in the EU. Following the launches in Germany and the UK, Alkindi roll-out is likely to continue with the Netherlands in 4Q'18, with France expected to be the slowest country to roll out.

Alkindi packaging

Source: Diurnal FY 2018 results presentation

Pricing is likely to be in line with Plenadren at ca.$6,300 p.a.

Pricing

Diurnal is aiming to closely align the price of Alkindi to that for Plenadren, Shire's once-daily modified release formulation of hydrocortisone. The cost of treatment with Plenadren is ca.$6,300 p.a.

Distribution agreements in key territories

In some countries, DNL will expand its commercial activity through the use of local distributors that have knowledge of the endocrine and niche markets. Agreements have been signed already with Medison Pharma (March 2017) and Emerge Health Pty (February 2018) for Israel and Australia & New Zealand, respectively. Both entities are responsible for the submission of the regulatory dossier in their respective territories, with the submission based on the European regulatory dossier and published clinical trial data. Market authorisation is expected to take a year in each country and first sales are, therefore, expected during 2020. Both Alkindi and Chronocort will be distributed through these commercial schemes.

Commercial partners

Country	Partner	Marketing & Distribution Agreement	First Revenues	Patents Granted	Annual Addressable Market
Israel	Medison Pharma Ltd	✓	2020	✓	$6.3m
Australia & New Zealand	Emerge Health Pty	✓	2020	✓	$10.2m
Japan	TBA	TBA	TBC	✓	$415m

Source: Diurnal FY 2018 results presentation

Following the grant of its patents for Alkindi and Chronocort in Japan, DNL is on the look-out for a distribution partner for this market, which has ca.6,700 addressable patients with CAH and 58,000 with AI, giving an estimated market worth $415m.

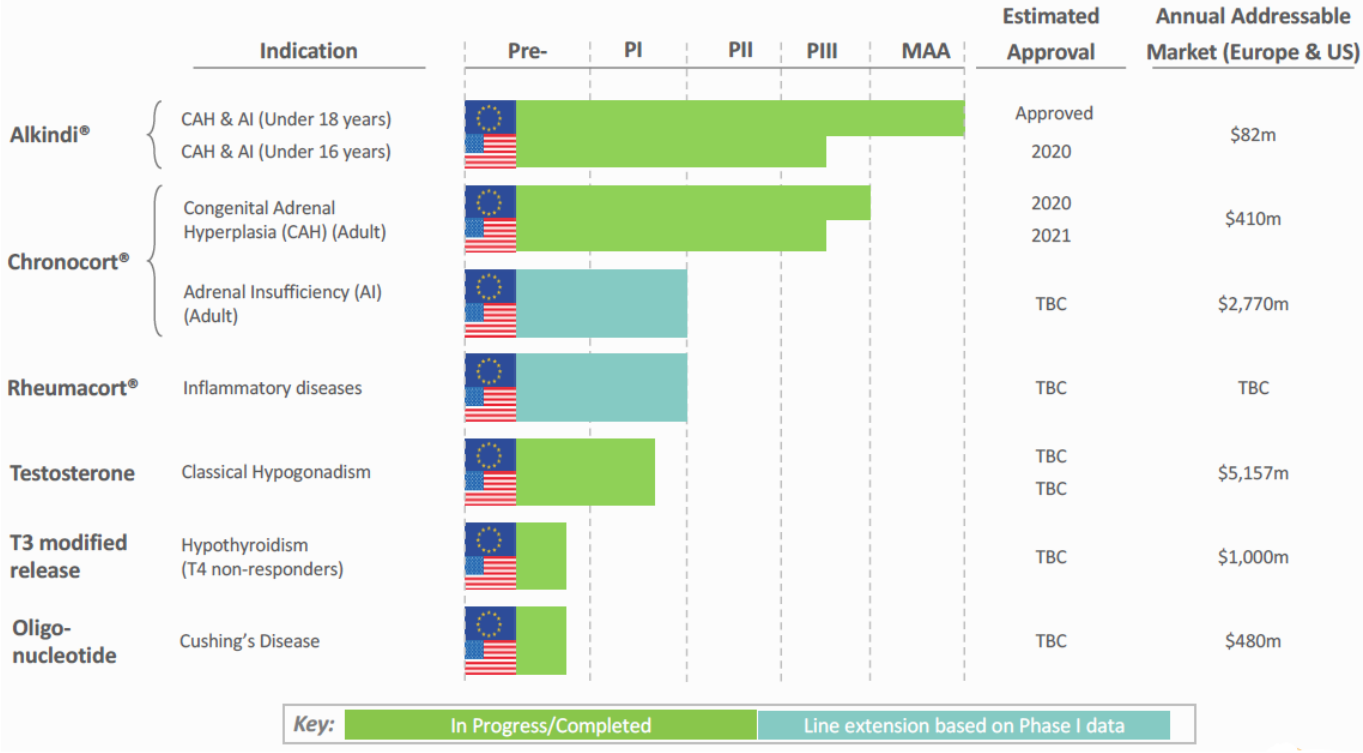
Building an endocrinology pipeline

Pipeline

DNL has developed a pipeline with multiple endocrinology conditions. In 2018, the company achieved a major milestone with the EU approval of Alkindi for adrenal insufficiency (AI) and congenital adrenal hyperplasia (CAH) for paediatric use. Further milestones are expected to be reached before the calendar year-end.

Five products are currently in the pipeline, with three in clinical development, including its second lead asset, Chronocort, and two under pre-clinical evaluation.

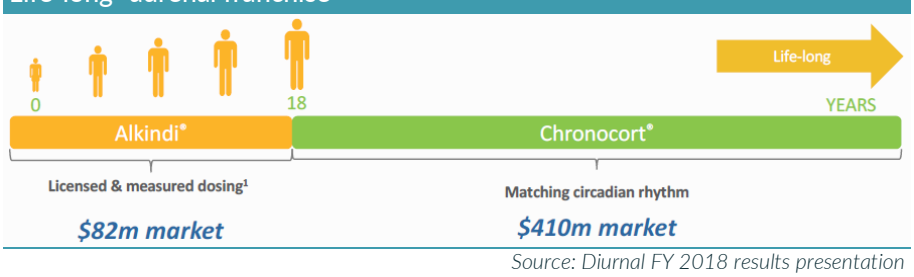
Diurnal – R&D pipeline



Source: Diurnal

With Alkindi and Chronocort, the aim is to create a life-long "adrenal franchise", whereby patients start with Alkindi and then move on to Chronocort for the rest of their lives. In order to make the transition from Alkindi to Chronocort, DNL has developed a 2mg dose of Chronocort, which will be in addition to the existing 5mg, 10mg and 20mg doses.

Life-long "adrenal franchise"



Source: Diurnal FY 2018 results presentation

Alkindi

European market authorisation

EU approval of Alkindi for both AI and CAH…

On 9 February, following the positive opinion from the EMA's Committee for Medicinal Products for Human Use (CHMP), Diurnal received Paediatric Use of Marketing Authorisation (PUMA) from the European Commission for the use of Alkindi in AI and CAH. This drug is being targeted at new-borns and children up to 18 years of age. This represented a major milestone for the company, demonstrating its ability to progress an asset through the clinical development and regulatory pathway to commercialisation. Few UK biotech companies have achieved this.

…making it the first licensed paediatric treatment for these conditions

To date, there has not been a child-friendly hydrocortisone replacement product for the above age groups in either Europe or the US. Alkindi represents the first-in-class licensed product. From the outset, DNL designed Alkindi to overcome the well-known drawbacks associated with the unlicensed treatments used currently to treat this patient population. The goal with Alkindi is to deliver improved compliance, improved disease control and a reduction in disease symptoms caused by the highly variable dosing obtained with current formulations.

Initial sales

In Germany, Alkindi is available in key prescriber centres through a distribution network of 40 wholesale depots. From these, DNL is able to monitor re-ordering patterns. In fiscal 2018, Alkindi sales in Germany were only for a very short period following launch. In addition, patients see their endocrinologists only every three to six months, so many would not have had a consultation during the reporting period.

From 3 September 2018, Alkindi has also become available in UK, through distribution from four wholesale depots.

US Phase III trial

The US Phase III trial with Alkindi is expected to complete before the end of the year …

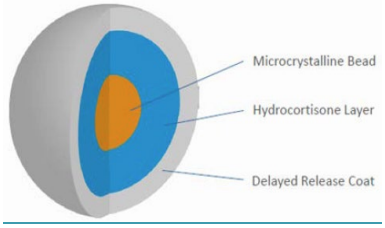
Meanwhile, development is progressing well in the US, with DNL building up the regulatory programme. As part of the registration package, the European clinical trial data will be used, as well as two additional studies:

- A food matrix study has been completed successfully in healthy volunteers, which confirmed the pharmacokinetics of Alkindi together with safety and tolerability.
- An Investigational New Drug (IND) application is now open in the US, following advice from the FDA, for a bioequivalence study in 24 healthy adult volunteers. This will be a single centre, open-label and single-dose study evaluating the bioavailability of Alkindi compared with Cortef, the US standard-of-care immediate release hydrocortisone tablet. Results of the bioequivalence study are expected in 4Q'18, with feedback from the FDA expected shortly after.

…with estimated approval in 2020

DNL is confident that no further studies will be required by the FDA for the US registration of Alkindi. It is, therefore, planning to submit the regulatory package in 3Q'19 (following an end-of-Phase III meeting expected at the end of 2018), for an estimated approval before the end of 2020.

Chronocort

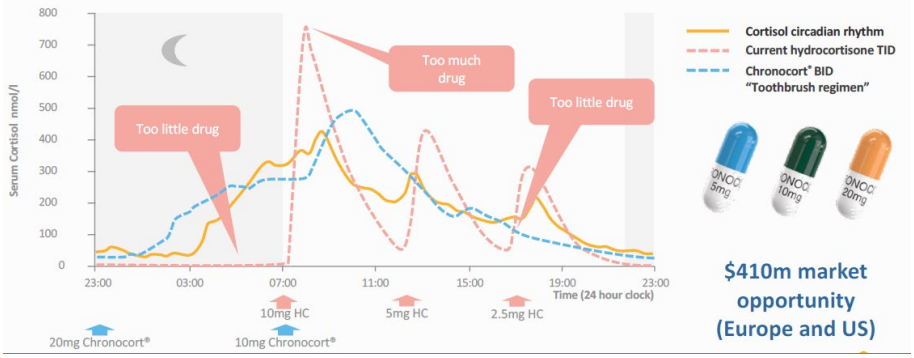


Source: Diurnal

Chronocort

Chronocort is a hydrocortisone preparation designed to mimic the natural circadian rhythm of cortisol when given in a twice daily "toothbrush" regimen.

Chronocort: mimicking the natural level of cortisol



Source: Diurnal FY 2018 results presentation

The current standard of care, typically steroids such as hydrocortisone, prednisolone or dexamethasone, is not giving a satisfactory result, nearly two thirds of patients have poor disease control, monitored by the plasma level of androgens. In a six-month Phase II trial, Chronocort produced better control of morning androgens in 94% of patients compared with 31% in the control group taking standard treatment.

European Phase III trial in CAH

Patient recruitment in the Phase III trial for the treatment of CAH in adults has now been completed. A total of 122 patients across 11 sites (seven countries including one site in the US) have been enrolled in the six-month study, and the trial will evaluate Chronocort compared with standard-of-care. Headline data are expected before the end of 2018. The primary end-point is the control of androgens by the same or lower total daily dose of steroid when treated with Chronocort compared with standard treatment. The secondary and exploratory end-points include an assessment of body mass index, bone turnover, and levels of fatigue.

An open-label and long-term study, intended to support the registration and commercialisation of Chronocort, is ongoing in CAH patients. DNL indicated that 80% of the patients took part in the study, with 90% remaining within the trial so far. Safety, efficacy and tolerability are being monitored.

US Phase III trial in CAH

Recruitment for the US Phase III trial expected to start in 4Q'18…

DNL has discussed the design of the US Phase III registration trial with the FDA, which will be slightly different from the EU study. The US regulator has requested that CAH patients are enrolled in a randomised fashion to receive either a single type of medication (hydrocortisone, dexamethasone, or prednisone) or Chronocort, both twice-daily. A total of 150 patients will be treated for 12 months, the primary end-point being the proportion of patients achieving biochemical control with Chronocort vs. standard-of-care. A number of secondary end-points including weight, body composition, hirsutism, fatigue and quality of life will be used to determine clinical benefit of Chronocort over standard-of-care. As with the European study, a long-term follow-up programme will also be offered to patients completing treatment for assessing the long-term safety of Chronocort.

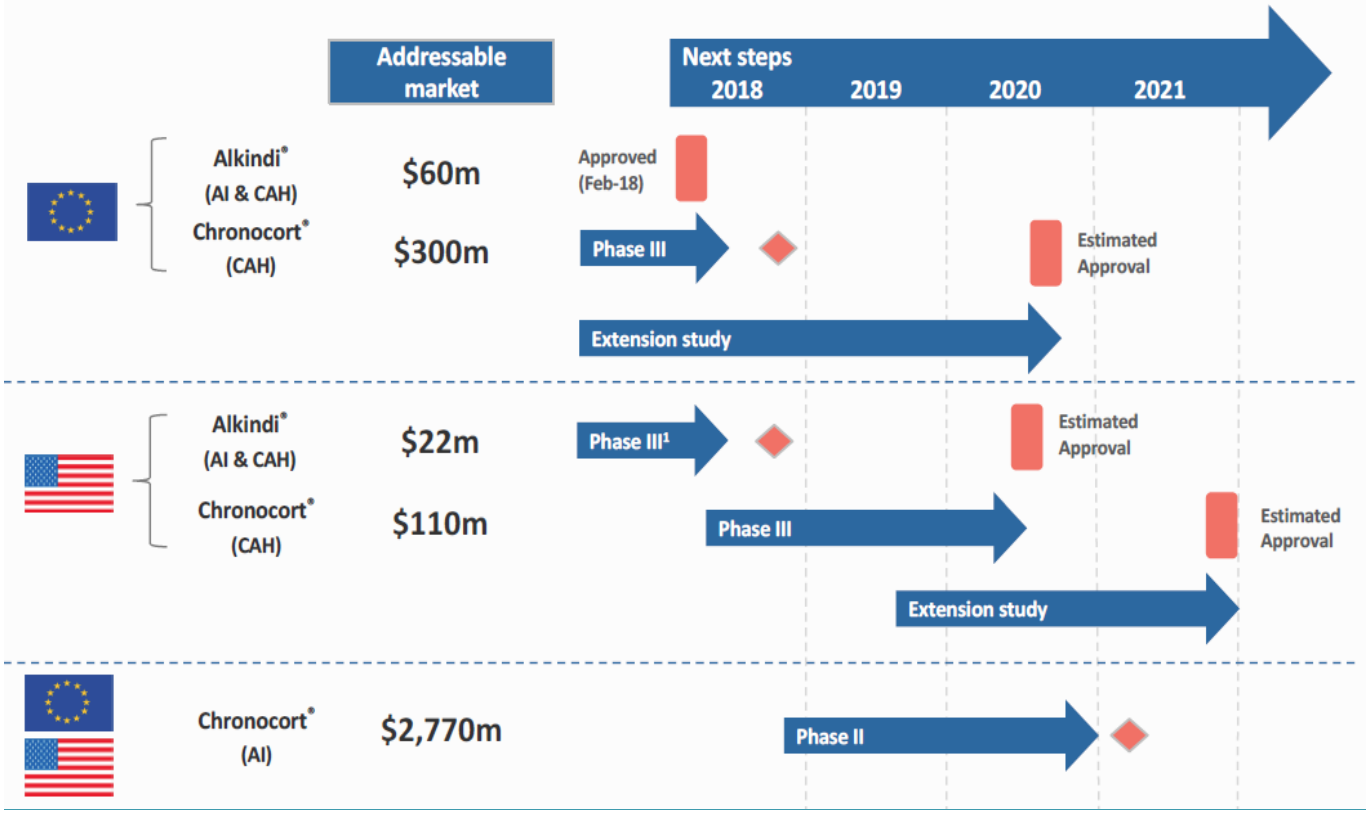
…with headline data due in 2020

Completion of this study is anticipated during 2020, with headline data expected around 2H'20. FDA approval is likely to be at the end of the subsequent year. In the US, DNL will seek a partner for commercialisation to gain the optimal market access.

US and European Phase II trial in AI

To expand the use of Chronocort and embrace the larger market of AI in Europe and the US, a single Phase II proof-of-concept study is expected to start around the end of 2018. Patients will be treated for 12 months, with headline data expected in 2021.

Diurnal – Development timetable



1 Subject to confirmation from the FDA
Source: Diurnal FY 2018 results presentation

Earlier stage products

European Phase I/II in hypogonadism

DNL is progressing DITEST, a new oral formulation of native testosterone for the treatment of male hypogonadism. The proof-of-concept open-label Phase I study is designed to evaluate the pharmacokinetic, safety, tolerability and food compatibility of DITEST in 12 patients with primary and secondary hypogonadism. The study is expected to complete around the end of 2018.

Potential treatment for Cushing's disease

DNL is also evaluating an oligonucleotide siRNA (silencing RNA) acting on the pituitary gland for a potential treatment of Cushing's disease, a condition characterised by an excess of cortisone secretion. DNL is currently assessing the potency of different formulations.

Hypothyroidism

DNL is looking at its options in the development of a modified-release T3 for the treatment of underactive thyroid gland (hypothyroidism). The NIH indicated that the condition affects 4.6% of the US population and that remains an unmet medical need.

External opportunities

Management is considering all available options, including external opportunities, to further develop its endocrinology franchise and maximise the products that it can put through its commercial network.

Financials forecast

Profit & Loss

- **Sales:** First group product sales from Alkindi recorded from 15 May 2018 in Germany. The 2019E sales figures will depend on two factors which are difficult to predict: time of reimbursement in remaining European countries and the cycling of patients back through on visits (typically three-to-six month cycle).
- **SG&A:** Large increase in 2018 with the preparation of the European commercial infrastructure to maximise the Alkindi commercial opportunity. The reported number benefited from a non-cash £0.2m forex gain, which we include under financials.
- **R&D:** Investment will continue at current levels given the ongoing clinical trial programme and pending start of US trials for Alkindi and Chronocort.

Profit & Loss account						
Year-end June (£m)	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Sales	0.00	0.00	0.07	1.54	5.53	17.23
COGS	0.00	0.00	-0.02	-0.23	-0.56	-1.73
SG&A	-1.99	-3.23	-6.21	-7.77	-9.40	-11.13
R&D	-3.89	-8.34	-10.02	-10.83	-7.58	-7.20
EBITDA	-5.87	-11.56	-16.16	-17.28	-11.99	-2.81
Deprec & amortis	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Licensing/royalties	0.00	0.01	0.00	0.00	0.00	0.00
Underlying EBIT	**-5.88**	**-11.56**	**-16.17**	**-17.29**	**-12.01**	**-2.83**
Share-based costs	-0.49	-0.52	-0.81	-0.85	-0.89	-0.94
Exceptional items	-0.62	0.00	0.00	0.00	0.00	0.00
Statutory EBIT	-6.99	-12.08	-16.98	-18.14	-12.90	-3.76
Net interest	-0.07	-0.09	-0.13	0.09	0.01	-0.04
U/L pre-tax profit	**-5.95**	**-11.64**	**-16.30**	**-17.20**	**-11.99**	**-2.87**
Reported pre-tax	-7.06	-12.16	-16.91	-18.05	-12.89	-3.80
Tax liability/credit	0.49	2.73	2.28	3.54	2.48	2.36
Tax rate	-7%	-22%	-13%	-20%	-19%	-62%
Underlying net income	**-5.46**	**-8.91**	**-14.02**	**-13.66**	**-9.51**	**-0.51**
Statutory net income	-6.57	-9.43	-14.62	-14.51	-10.40	-1.45
Ordinary 5p shares:						
Period-end (m)	52.21	52.21	61.34	61.34	61.34	61.34
Weighted average (m)	43.75	52.24	54.60	61.34	61.34	61.34
Fully-diluted (m)	43.75	52.24	54.60	61.34	61.34	61.34
Underlying basic EPS (p)	**-12.5**	**-17.1**	**-25.7**	**-22.3**	**-15.5**	**-0.8**
Statutory basic EPS (p)	-15.0	-18.0	-26.8	-23.7	-17.0	-2.4
U/l fully-diluted EPS (p)	**-12.5**	**-17.1**	**-25.7**	**-22.3**	**-15.5**	**-0.8**
Stat. fully-diluted EPS (p)	-15.0	-18.0	-26.8	-23.7	-17.0	-2.4
DPS (p)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Source: Hardman & Co Life Sciences Research

Balance sheet

- **Net cash:** At 30 June 2018, DNL had net cash of £17.3m (zero debt). This was boosted by the Placing of new shares in April, raising £10.5m gross (£9.9m net).
- **Inventory:** Due to the long shelf-life and just-in-time supply, management does not expect to hold significant levels of inventory of either Alkindi or Chronocort.

Balance sheet

at 30 June (£m)	2016	2017	2018	2019E	2020E	2021E
Shareholders' funds	25.93	17.08	16.88	2.37	-8.03	-9.48
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Total equity	25.93	17.08	16.88	2.37	-8.03	-9.48
Share capital	2.61	2.62	3.07	3.07	3.07	3.07
Reserves	23.32	14.46	13.81	-0.69	-11.10	-12.54
Provisions/liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax	0.00	0.00	0.00	0.00	0.00	0.00
Long-term debt	3.24	3.51	0.00	0.00	0.00	0.00
Short-term loans	0.00	0.00	0.00	0.00	0.00	0.00
less: Cash	16.11	8.88	17.28	2.47	-7.79	-11.57
less: Deposits	14.00	11.00	0.00	0.00	0.00	0.00
Invested capital	-0.94	0.71	-0.40	-0.10	-0.24	2.09
Fixed assets	0.00	0.02	0.03	0.03	0.05	0.06
Intangible assets	0.01	0.00	0.02	0.02	0.02	0.02
Inventories	0.00	0.00	0.12	0.15	0.54	1.68
Trade debtors	0.00	0.00	0.08	0.26	0.92	2.87
Other debtors	0.53	4.03	5.02	4.77	4.53	4.30
Tax credit/liability	0.00	0.00	0.00	2.91	3.01	2.42
Trade creditors	0.00	-1.72	-3.32	-3.52	-3.72	-3.92
Other creditors	-1.48	-1.62	-2.35	-4.72	-5.59	-5.34
Debtors less creditors	-0.95	0.68	-0.57	-0.30	-0.84	0.33
Invested capital	-0.94	0.71	-0.40	-0.10	-0.24	2.09
Net cash/(debt)	26.88	16.37	17.28	2.47	-7.79	-11.57

Source: Hardman & Co Life Sciences Research

Cashflow

- **Working capital:** Because of the long shelf-life and relatively low volumes, there is no significant increase in working capital requirement.
- **Placing:** £10.5m (gross)/£9.9m (net) new capital was raised in the Placing in April
- **Loan:** At the same time as the Placing, IP Group converted its outstanding convertible loan and accrued interest (total ca.£3.5m) into shares. Since our model monitors change in net debt, this is accounted for as part of the capital increase to reflect the movement from debt into shares.
- **Capital increase:** Based on our forecasts, in order to support the commercialisation of products and the clinical trial programme, the company will need to raise more capital sometime during the next 12 months. We expect that this will come after potentially positive news – the Chronocort Phase III trial results or clear evidence of Alkindi sales traction in Europe.

Cashflow

Year-end June (£m)	2016	2017	2018	2019E	2020E	2021E
Trading profit	-5.88	-11.56	-16.17	-17.29	-12.01	-2.83
Depreciation/amortisation	0.01	0.01	0.01	0.01	0.01	0.01
Inventories	0.00	0.00	-0.12	-0.03	-0.39	-1.14
Working capital	0.95	1.09	0.66	-0.41	-1.25	-3.29
Other	-0.62	-0.27	0.00	0.00	0.00	0.00
Company op cashflow	**-5.55**	**-10.74**	**-15.50**	**-17.68**	**-13.25**	**-6.10**
Net interest	0.04	0.19	0.11	0.00	0.01	-0.04
Tax paid/received	0.49	0.00	2.74	2.91	3.01	2.42
Operational cashflow	-5.02	-10.55	-12.66	-14.77	-10.22	-3.72
Capital expenditure	0.00	-0.02	-0.02	-0.02	-0.03	-0.03
Free cashflow	**-5.02**	**-10.57**	**-12.69**	**-14.81**	**-10.27**	**-3.78**
Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	0.00	0.00	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Cashflow after investments	-5.02	-10.57	-12.69	-14.81	-10.27	-3.78
Share repurchases	0.00	0.00	0.00	0.00	0.00	0.00
Share issues	24.52	0.05	13.40	0.00	0.00	0.00
Change in net debt	**20.83**	**-10.51**	**0.91**	**-14.81**	**-10.27**	**-3.78**
Hardman FCF/share (p)	-11.5	-20.2	-23.2	-24.1	-16.7	-6.1
Opening net cash	6.05	26.88	16.37	17.28	2.47	-7.79
Closing net cash	**26.88**	**16.37**	**17.28**	**2.47**	**-7.79**	**-11.57**

Source: Hardman & Co Life Sciences Research

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