EDISON

# Angle

Company update

## Third clinical application emerges

Pharma & biotech

**Angle has announced results from a metastatic breast cancer research study carried out by its KOL partner University of Southern California (USC) Norris Comprehensive Cancer Center. Headline data potentially prove that circulating cancer cells (CTCs) captured using Parsortix have the same biology compared to invasive tissue biopsy and can be used to guide the treatment. While this will have to be replicated in larger-scale trials, it represents a potential third clinical application, in which Parsortix can establish a new standard of care.**

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 04/14 | 0.0 | (2.0) | (2.4) | 0.0 | N/A | N/A |
| 04/15 | 0.0 | (3.6) | (7.5) | 0.0 | N/A | N/A |
| 04/16e | 0.3 | (5.2) | (8.5) | 0.0 | N/A | N/A |
| 04/17e | 2.2 | (3.2) | (5.1) | 0.0 | N/A | N/A |

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

## Metastatic breast cancer is potential third application

Yesterday Angle has announced yet another successful outcome in its strategy to investigate the efficacy of the Parsortix cell separation system in diagnosing and treating various cancers through closely cooperating with key opinion leaders (KOL). Angle's partner USC presented patient data from its metastatic breast cancer study at the American Association for Cancer Research Annual Meeting (AACR) yesterday. While only headline data were released with the peer-reviewed paper likely to be published in coming months, the results demonstrate a statistically significant correlation between gene expression profiles of CTCs and the tissue samples from secondary sites of the metastatic breast cancer. Although the findings need to be replicated in larger-scale studies, these new data imply that Parsortix could replace invasive biopsy in managing breast cancer patients and adds a potential third clinical application for the system after ovarian and prostate cancers.

## Parsortix could replace mainstay tissue biopsy test

The study involved eight patients with metastatic breast cancer, who underwent metastatic tissue biopsy. Parsortix was able to capture CTCs from all the patients. To understand whether CTCs are similar to cancer metastases, researchers used RNA sequencing (RNA-Seq) to compare expression signature of 192 genes. Gene signature is the combined expression pattern of a specific group of genes and is unique to a specific medical condition. The correlation of gene signature obtained from CTCs was significantly similar to that obtained from metastases, thus confirming that CTCs actually reflect the biology of the metastasised cancer, which can be different to the primary tumour.

## Valuation: DCF-based valuation of £95m

Angle will now focus on implementing a clinical trial in partnership with USC and other centres. When there is more clarity about commercialisation in terms of timelines and positioning, we will review our financial forecasts and the assumptions underlying our DCF-based valuation, which is unchanged at £95m or 161p/share for now.

**19 April 2016**

| | |
|---|---|
| **Price** | **70.50p** |
| **Market cap** | **£42m** |

| | |
|---|---|
| Net cash (£m) at 31 October 2015 | 5.8 |
| Shares in issue | 59.0m |
| Free float | 89% |
| Code | AGL |
| Primary exchange | AIM |
| Secondary exchange | OTC QX |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 0.0 | 4.8 | (4.7) |
| Rel (local) | (2.1) | (3.9) | 3.6 |
| 52-week high/low | | 104p | 55p |

### Business description

Angle is a pure-play specialist diagnostics company. The proprietary Parsortix cell separation platform can be used for detecting and harvesting very rare cells from a blood sample, including circulating tumour cells (CTCs). The resulting liquid biopsy enables the analysis of these cells for precision cancer care.

### Next events

| | |
|---|---|
| Results from KOL studies in other cancer indications | H216 |
| Start of enrolment for ovarian cancer clinical trial | H116 |
| FY16 results | July 2016 |

### Analysts


Jonas Peciulis +44 (0)20 3077 5728

Lala Gregorek +44 (0)20 3681 2527

healthcare@edisongroup.com

Edison profile page

## Metastatic breast cancer: Potential third application

The research study took metastatic biopsy samples from a variety of different locations: skin, pleural and pericardial effusion (fluid around the lungs and the heart), breast, cerebrospinal fluid and bone tissue. Cancers have the ability to spread to many different parts of the body, but typically spread to certain locations more than others. In addition, they can metastasise to many target organs or just a few. Breast cancer tends to spread to a number of organs; the most common ones are bone, brain, liver, lung, adrenal glands and pleura.[1,2] Therefore the consistent results when comparing Parsortix versus biopsy from different tissues in various locations adds robustness to the study.

## Positioning in the clinic

More data is needed to better understand the positioning of Parsortix in the management of breast cancer patients. However, if the efficacy is replicated in future clinical studies, Parsortix could potentially replace tissue biopsy. Non-invasive, blood-based tests offer many advantages over tissue biopsy with the most important being patient comfort, ability to follow up during the treatment and cost. In addition, it is not always possible to access a metastatic lesion.

Historically initial treatment decisions were based on the biology of the primary tumour, when the patient is first diagnosed with the disease. However, growing evidence suggest that the cancerous tissue may change its biological properties as it spreads, meaning that initial treatment may no longer be optimal. Recently updated American Society of Clinical Oncology (ASCO) guidelines recommend a biopsy of a metastatic site to guide the decision for treatment.[3]

Typically tissue biopsy is used to obtain breast tumour biomarkers (oestrogen and progesterone receptors, HER2 oncogene) to decide on the most suitable therapy. While there a number of ways to assess the biomarkers, the USC researchers were able to demonstrate similarly significant correlation of expression of clinically actionable genes comparing CTCs to tissue biopsy samples. These genes code targets, for which a drug is already available or in late-stage development, therefore could be used in guiding the treatment for the patients.

## Breast cancer is the most common cancer among women

We keep our valuation of Angle unchanged at £95m or 161p/share. Although we can see a substantial opportunity for Parsortix in metastatic breast cancer, this application is still at an early stage, but yesterday's news is a clear initial proof of concept, in our view. We believe that Angle will provide more details about the development strategy in this direction in the upcoming months. When more information becomes available, we will revisit our forecasts and valuation model. As a reminder, this is a third clinical application gaining momentum. The trial with Parsortix helping to triage women with ovarian masses before surgery is due to start in partnership with the Medical University of Vienna in H116 (our expectation). Recently, another KOL, Barts Cancer Institute (BCI), published initial evidence demonstrating that Parsortix potentially performs as well as or better than current standard of care in terms of detecting early-stage prostate cancer and assessing its severity.

[1] B. Weigelt et al. Breast cancer metastasis: markers and models. Nature Reviews Cancer 5, 591-602 (August 2005).

[2] cancer.org, accessed on 18 April 2016.

[3] C. Van Poznak et al. "Use of Biomarkers to Guide Decisions on Systemic Therapy for Women With Metastatic Breast Cancer: American Society of Clinical Oncology Clinical Practice Guideline. J Clin Oncol 33. 2015 by American Society of Clinical Oncology.

In our valuation, we continue to include only the sales of the Parsortix system for use in research and clinical sales in ovarian mass triaging for operation. For comparison, we estimate c 600 thousand women underwent an operation due to adnexal masses globally. The metastatic breast cancer population is substantially larger with c 247 thousand new invasive breast cancer cases in the US alone each year, of which an estimated 20-30% can become metastatic (cancer.org, Metastatic Breast Cancer Network).

**Exhibit 1: DCF valuation**

| Key assumptions | NPV (£m) |
|---|---|
| Free cash flow model FY16-25e | 17.9 |
| Tapering growth free cash flows FY26-35e | 36.3 |
| Terminal value (2% growth rate assumed) | 35.0 |
| Total NPV | 89.2 |
| Net cash (Oct 30th 2015) | 5.8 |
| Valuation (£m) | 95.0 |
| Valuation/share (p) | 161.2 |
| Discount rate | 10% |
| Tax rate | 20% |

Source: Edison Investment Research

**Exhibit 2: Financial summary**

| £'000s | 2014 | 2015 | 2016e | 2017e |
|---|---|---|---|---|
| Year-end April | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | |
| Revenue | 0 | 0 | 341 | 2,186 |
| Cost of Sales | 0 | 0 | (102) | (648) |
| Gross Profit | 0 | 0 | 238 | 1,537 |
| Research and development | (900) | (1,600) | (3,080) | (2,458) |
| EBITDA | (1,994) | (3,452) | (5,093) | (3,059) |
| Operating Profit (before amort. and except.) | (2,051) | (3,563) | (5,256) | (3,254) |
| Intangible Amortisation | (99) | (204) | (358) | (378) |
| Share-based payments | (61) | (111) | (348) | (480) |
| Other | 0 | 0 | 0 | 0 |
| Operating Profit | (2,211) | (3,878) | (5,963) | (4,112) |
| Net Interest | 13 | 9 | 33 | 15 |
| Profit Before Tax (norm) | (2,038) | (3,554) | (5,223) | (3,239) |
| Profit Before Tax (FRS 3) | (2,198) | (3,869) | (5,929) | (4,097) |
| Tax | 0 | 0 | 200 | 200 |
| Discontinued operations | 960 | (18) | | |
| Net Income (norm) | (1,078) | (3,572) | (5,023) | (3,039) |
| Net Income (FRS 3) | (1,238) | (3,887) | (5,729) | (3,897) |
| Average Number of Shares Outstanding (m) | 45.1 | 47.6 | 59.1 | 59.3 |
| EPS - normalised (p) | (2.39) | (7.50) | (8.50) | (5.12) |
| EPS - normalised and fully diluted (p) | (2.39) | (7.50) | (8.50) | (5.12) |
| EPS - (IFRS) (p) | (2.74) | (8.16) | (9.69) | (6.57) |
| Dividend per share (p) | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | n/a | n/a | 70.0 | 70.3 |
| EBITDA Margin (%) | n/a | n/a | n/a | n/a |
| Operating Margin (before GW and except.) (%) | n/a | n/a | n/a | n/a |
| BALANCE SHEET | | | | |
| Fixed Assets | 1,882 | 1,572 | 1,270 | 940 |
| Intangible Assets | 1,142 | 1,149 | 899 | 610 |
| Tangible Assets | 139 | 423 | 372 | 330 |
| Investments | 601 | 0 | 0 | 0 |
| Current Assets | 4,278 | 9,648 | 4,574 | 1,806 |
| Stocks | 52 | 197 | 196 | 250 |
| Debtors | 328 | 1,008 | 486 | 599 |
| Cash | 3,898 | 8,443 | 3,892 | 957 |
| Other | 0 | 0 | 0 | 0 |
| Current Liabilities | (645) | (1,131) | (934) | (1,252) |
| Creditors | (645) | (1,131) | (934) | (1,252) |
| Short term borrowings | 0 | 0 | 0 | 0 |
| Long Term Liabilities | 0 | 0 | 0 | 0 |
| Long term borrowings | 0 | 0 | 0 | 0 |
| Other long term liabilities | 0 | 0 | 0 | 0 |
| Net Assets | 5,515 | 10,089 | 4,911 | 1,494 |
| CASH FLOW | | | | |
| Operating Cash Flow | (1,899) | (3,413) | (4,533) | (2,908) |
| Net Interest | (4) | 5 | 33 | 15 |
| Tax | 0 | 0 | 150 | 200 |
| Capex | (83) | (325) | (112) | (153) |
| Acquisitions/disposals | 4,326 | 126 | 0 | 0 |
| Financing | (270) | 8,152 | 0 | 0 |
| Dividends | 0 | 0 | 0 | 0 |
| Net Cash Flow | 2,070 | 4,545 | (4,462) | (2,846) |
| Opening net debt/(cash) | (1,828) | (3,898) | (8,443) | (3,892) |
| HP finance leases initiated | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | (89) | (89) |
| Closing net debt/(cash) | (3,898) | (8,443) | (3,892) | (957) |

Source: Angle accounts, Edison Investment Research. Note: Historic reported revenues relate to the legacy business, which has now been divested. FY14 has been restated to exclude discontinued operations.

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com



Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 9258 1161
Level 25, Aurora Place
88 Phillip St, Sydney
NSW 2000, Australia

Wellington +64 (0)48 948 555
Level 15, 171 Featherston St
Wellington 6011
New Zealand