

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.

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

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.

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

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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.

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 30 th 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.

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