Trinity Delta

Redx Pharma

Update

Funding secured to support next chapter of growth

4 January 2021

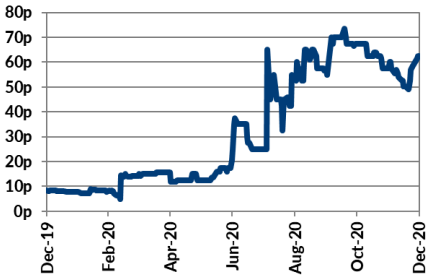
The c £25.6m (gross) investment via a placement and open offer has extended Redx Pharma's cash runway to end-2022, ensuring ample funding to maintain strategic momentum. New monies allow Redx to capitalise on the high-quality opportunities presented by its attractive and well-balanced pipeline and its highly productive discovery platform. The clinical portfolio is focussed on genetically defined cancers and fibrotic diseases and consists of either "first in class" or "best in class" compounds which will be developed in-house to key value-inflection points. New funds will advance the two lead assets (porcupine inhibitor RXC004 in oncology; ROCK2 inhibitor RXC007 in fibrosis) into Phase II proof-of-concept trials, progress earlier stage assets, and expand discovery activities. Our updated valuation is £317.5m, equivalent to 116p/share (81p fully diluted).

Year-end: September 30	2018	2019	2020E	2021E
Revenues (£m)	0.1	3.1	12.7	1.6
Adj. PBT (£m)	(10.5)	(7.5)	(2.6)	(27.9)
Net Income (£m)	(8.8)	(4.3)	(2.0)	(27.4)
Adj.EPS (p)	(7.2)	(4.0)	(1.2)	(10.9)
Cash (£m)	6.5	(3.7)	27.1	27.3
EBITDA (£m)	(10.0)	(6.2)	(1.3)	(27.3)

Source: Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals.

- **Strategy supported by shareholders** The £25.5m placing of 45.6m new shares at 56p/share was supported by new and existing investors, providing valuable external validation of Redx's strategy. Three specialist funds are now disclosed on the shareholder register: Redmile, Sofinnova, and Polar Capital. Largest shareholders Redmile and Sofinnova also converted c 23% of their existing Convertible Loan Notes (CLNs), resulting in updated shareholdings of 79.5% and 9.4% respectively.
- **Funding to end-2022** New funds, existing cash resources, and risk-adjusted forecast milestone income will be invested in progressing and broadening the R&D pipelines. £14m will be directed to RXC004 (completion of Phase I monotherapy and immunotherapy combination trials and planned Phase II studies); £11m to RXC007 (preclinical work, initiation of planned Phase I and Phase II trials); £16m to expand and progress oncology and fibrosis research; with £12m for working capital.
- **Strong technology and management delivery** Redx's medicinal chemistry expertise underpins its proven model, with its discovery platform having generated several promising assets. The most advanced, BTK inhibitor LOXO-305, is wholly owned by Eli Lilly, but impressive Phase I data at ASH 2020 is tangible evidence of Redx's ability to produce high-value assets. The >£48m in equity raised in 2020, as well as potentially lucrative partnerships (AstraZeneca, Jazz Pharmaceuticals), will help fund plans to progress proprietary assets and leverage its discovery capabilities.
- **rNPV valuation of £317.5m or 116p/share** We value Redx Pharma using an rNPV and sum of the parts methodology, with conservative assumptions. Updating our model for recent financing and CLN conversion generates a valuation of £317.5m, equivalent to 116p/share (or 81p/share fully diluted), up from £296m (152p/share; 92p/share fully diluted).

Price	63.5p
Market Cap	£173.9m
Enterprise Value	£146.8m
Shares in issue	273.9m
12 month range	4.5-95.0p
Free float	11.1%
Primary exchange	AIM London
Other exchanges	N/A
Sector	Healthcare
Company Code	REDX
Corporate client	Yes



Company description

Redx Pharma specialises in the discovery and early clinical development of small molecule therapeutics, with an emphasis on oncology and fibrotic disease. Typically, these are progressed through proof-of-concept studies and then partnered for further development. The strategy has been validated by several collaborations.

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Redx Pharma: solid foundations for 2021 delivery

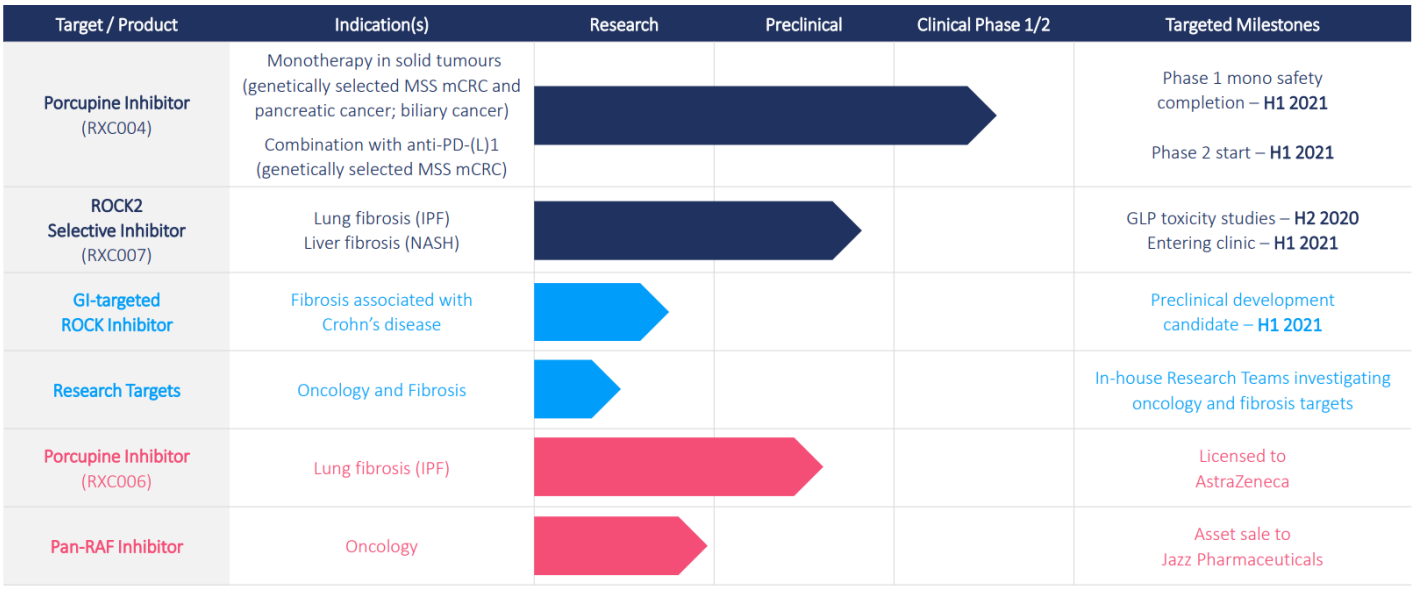
Redx Pharma has turned a corner in 2020, laying important foundations for the future

Redx Pharma has seen a transformation in fortune over the course of 2020, with management delivering on several fronts. The issuance of >£48m in equity and convertible loan notes has provided the financial resources to deliver on its clearly defined strategy (outlined in our September 2020 Initiation) as well as validation from the involvement of knowledgeable specialist shareholders such as Redmile, Sofinnova, and Polar Capital. Collaboration deals with Jazz Pharmaceuticals and AstraZeneca have also strengthened the balance sheet and, with the latter partner, de-risked the pipeline by reducing the weight of the porcupine inhibitor class as a development risk. As Redx enters 2021, the scientific, operational, and personnel foundations are now in place to generate material value.

Funded to advance the proprietary pipeline and for the generation of new clinical assets

Redx is focused on progressing its well-balanced in-house pipeline (Exhibit 1), including delivering first clinical data from lead oncology asset RXC004, and leveraging its medicinal chemistry expertise to generate new clinical candidates (targeting the clinical entry of an average of one annually). Near-term news flow (Exhibit 2) includes RXC004 Phase I monotherapy data, initiation of a RXC007 Phase I trial, and potential progress updates and associated revenues from collaboration partners. Ahead of this, we update our valuation and model for the recent financing transactions, ascribing a £317.5m valuation, equivalent to 116p/share (81p/share fully diluted).

Exhibit 1: Redx Pharma pipeline



Source: Redx Pharma Note: Navy = Redx development, , blue = Redx research, red = partnered programme. MSS mCRC = microsatellite stable metastatic colorectal cancer, IPF = idiopathic pulmonary fibrosis, NASH = non-alcoholic steatohepatitis

Exhibit 2: Key milestones and value drivers to 2022

	2020	2021	2022
PORCN (RXC004)	✓ H1 Ph 1 complete first two dose-escalation cohorts	H1 Ph 1 monotherapy safety completion H1 Ph2 mono expansion start (mCRC, biliary, pancreatic) H1 Ph 1 start - IO combo safety H2 Ph 2 start - IO combo MSS mCRC	Ph 2 data mono MSS mCRC Ph 2 data mono biliary cancer Ph 2 interim data mono pancreatic and combo MSS CRC
ROCK2 (RXC007)	✓ H1 Development Candidate selected H2 GLP toxicity studies	H1 Ph 1 start	H1 Ph 1 safety data readout H2 Ph 2 start
GI-targeted ROCK	Ongoing research	Development Candidate selected	Ph 1 start
Research	Progress discovery activities for Research programmes	Progress discovery activities for Research programmes	Progress discovery activities for Research programmes
PORCN (RXC006)	Out licensing agreement with AstraZeneca	AstraZeneca responsible for development	AstraZeneca responsible for development
Pan-RAF inhibitor	Progress collaboration with Jazz	Progress collaboration with Jazz	Progress collaboration with Jazz

Source: Redx Pharma Note: Navy = Redx development, blue = Redx research, red = partnered programme.

Valuation

Updated valuation of £317.5m, or 116p/share (81p fully diluted)

We update our valuation following the recent financing transactions, to reflect the changes to the company's cash position and number of shares outstanding. Our Redx valuation is now £317.5m, equivalent to 116p per share (81p fully diluted), vs £296m or 152p per share (92p fully diluted) previously. Exhibit 3 summarises the outputs and underlying assumptions of our valuation model, while a detailed overview of our methodology is provided in our September 2020 Initiation.

Exhibit 3: rNPV-based valuation of Redx Pharma

Programme	Total NPV ($m)	Total NPV (£m)	Likelihood of approval	rNPV ($m)	rNPV (£m)	rNPV/ share (p)	Notes
RXC004 (porcupine inhibitor - oncology)	700.4	538.8	18%	82.0	63.1	23.0	Peak sales: $2.55bn (£1.96bn) Launch year: 2027
RXC007 (ROCK2 inhibitor - IPF/NASH)	983.4	756.4	10%	70.0	53.9	19.7	Peak sales: $3.13bn (£2.41bn) Launch year: 2028
RXC006 (AstraZeneca: porcupine inhibitor - IPF)	273.5	210.4	7%	36.3	28.0	10.2	Peak sales: $1.66bn (£1.28bn) Launch year: 2028
Pan-RAF (Jazz Pharma: oncology)	139.5	107.3	7%	26.2	20.2	7.4	Peak sales: $707m (£544m) Launch year: 2029
GI-targeted ROCK (ROCK1/2 - Crohn's disease)	137.3	105.6	5%	32.6	25.1	9.1	Peak sales: $1.61bn (£1.24bn) Launch year: 2029
Discovery engine				160.0	123.1	44.9	
Operating costs	(31.6)	(24.3)		(31.6)	(24.3)	(8.9)	
Net cash	37.2	28.6		37.2	28.6	10.4	At H121e
Total	2,239.6	1,722.8		412.8	317.5	115.9	
Total (fully diluted)				421.9	324.5	81.4	Based on all options and CLNs

Source: Trinity Delta Note: The rNPV of RXC004 and RXC007 includes a deal success factor of 80%, and of 75% for GI-targeted ROCK; other valuation assumptions include a 12.5% discount factor, £/$ FX rate of 1.30, and 10% taxation from 2028 (UK patent box).

Valuation is based on a pipeline rNPV and benchmarking for the discovery platform

Our Redx valuation comprises a sum of the parts that includes a pipeline rNPV and a discovery platform valuation, with the latter based on Redx's output/track record and benchmarked against discovery peers. As always, we employ conservative assumptions throughout our modelling, particularly regarding market sizes and growth rates, net pricing, adoption curves, and peak market penetration.

Clinical progress and clarity on timelines and patient populations will help refine our valuation

The clinical progress of the various pipeline assets should unlock upside, as further data would prompt us to adjust the respective success probabilities that reflect the inherent clinical, commercial, and execution risks that each programme carries. Additionally, as these programmes progress, there should be more insight into the specific oncology or fibrosis patient populations that will be addressed, and this in turn would mean that peak sales (pricing, penetration) and timeline assumptions could be revisited. For example, we expect RXC004 to be developed in selected genetically defined cancers, which could support pursuit of accelerated regulatory approval pathways and command attractive pricing. Similarly, RXC007 has potential utility across a variety of fibrosis indications which have different market dynamics, from the smaller more severe indications (such as IPF) to larger indications such as NASH and diabetic nephropathy.

Financials

New funds extend cash runway to end-2022...

The Placing and Open Offer provide Redx with a cash runway through to end-2022, having bolstered its balance sheet to, we believe, pro forma cash of c £47m vs our FY20e forecast of £27m (as at end-September 2020).

... primarily earmarked for RXC004 and RXC007 clinical development, and research expansion

New funds, coupled with a risk-adjusted forecast of potential milestones from partnered programmes (ie the AstraZeneca RXC006 out-licensing deal and Jazz Pharmaceuticals Ras/Raf/MAPK collaborations), and existing cash resources will allow the company to significantly ramp up R&D investment. We forecast R&D spend of £9.6m and £23.9m in FY20e and FY21e respectively as the discovery engine research activities and staffing return to pre-administration levels, and the pipeline progresses through late preclinical (RXC007) and early clinical (RXC004) development. G&A will also rise to support the growing research organisation, but we expect these costs (c £5-6m pa) to be controlled with more modest growth.

The Placing announcement broke down the expected use of funds as follows:

- **£14m for RXC004 clinical development**: funding completion of current Phase I monotherapy trial (read out in H121), a planned Phase I immunotherapy combination study, and all currently planned RXC004 Phase II proof of concept trials.
- **£11m for RXC007 preclinical/clinical development**: including completion of preclinical work, a planned Phase I study due to start in H121, and the initiation of a planned RXC007 Phase II proof of concept trial.
- **£16m for research pipeline:** expansion and progression of early-stage oncology and fibrosis projects and assets.
- **£12m for general working capital purposes.**

Redmile and Sofinnova convert a proportion of outstanding CLNs

Redx's two largest shareholders Redmile and Sofinnova participated in the Placing but not the Open Offer, and in tandem converted a c 23% of their Convertible Loan Note (CLN) holdings. As a result, Redmile holds 79.5% of Redx shares and £11.2m of CLNs, with Sofinnova holding 9.4% of outstanding shares and £5.9m in CLNs. As a reminder, the CLNs have a three-year term with 0% interest, no early repayment, an option for annual extension, and a 15.5p/share conversion price.

FY20 results expected to report in Q121

We have updated our financial summary (Exhibit 4) to reflect the Placing, Open Offer, and CLN conversion. FY20 results for the 12-months ending 30 September 2020 expected to report in Q121.

AstraZeneca and Jazz partnerships should generate near-term revenues

No changes have been made to our revenue forecasts. For FY20e, these include further collaboration revenues from Jazz Pharmaceuticals and receipt of the $10m upfront payment, as well as revenue under the AstraZeneca RXC006 deal. The latter includes $17m in early payments; we assume that this is structured with an upfront payment (broadly equivalent to that paid by Jazz) with the remainder back-end weighted and expected to be paid by the start of the first clinical trial. Our forecasts only include our assumption of the upfront, given limited visibility on the RXC006 preclinical development timeline and payment schedule. Our FY21e revenue forecast currently only includes pan-RAF collaboration revenue. Contingent on progress with the underlying programmes there is potential for receipt of the second $10m Jazz payment and further AstraZeneca milestone(s).

Exhibit 4: Summary of financials

Year-end: Sept 30	£'000s	2017	2018	2019	2020E	2021E
INCOME STATEMENT						
Revenues		**30,474**	**129**	**3,131**	**12,729**	**1,575**
Cost of goods sold		0	0	(350)	0	0
Gross Profit		**30,474**	**129**	**2,781**	**12,729**	**1,575**
R&D expenses		(8,168)	(5,732)	(6,166)	(9,557)	(23,893)
G&A expenses		(7,600)	(4,874)	(4,004)	(5,240)	(5,349)
Underlying operating profit		**14,706**	**(10,477)**	**(7,389)**	**(2,069)**	**(27,668)**
Share-based payments		(13)	(282)	(45)	(91)	(92)
Exceptionals		(14,008)	(596)	948	69	0
Other revenue/expenses		1,291	1,186	241	386	393
EBITDA		**2,303**	**(10,005)**	**(6,154)**	**(1,350)**	**(27,296)**
Operating Profit		**1,976**	**(10,169)**	**(6,245)**	**(1,705)**	**(27,367)**
Financing costs/income		(330)	23	(90)	(507)	(240)
Profit Before Taxes		**1,646**	**(10,146)**	**(6,335)**	**(2,212)**	**(27,607)**
Adj. PBT		**14,376**	**(10,454)**	**(7,479)**	**(2,576)**	**(27,908)**
Current tax income		(118)	1,301	2,017	256	239
Net Income		**1,528**	**(8,845)**	**(4,318)**	**(1,956)**	**(27,368)**
EPS (p)		**1.4**	**(7.0)**	**(3.4)**	**(1.0)**	**(10.8)**
Adj. EPS		**(12.4)**	**(7.2)**	**(4.0)**	**(1.2)**	**(10.9)**
DPS (p)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Average no. of shares (m)		113.0	126.4	126.4	192.6	254.2
BALANCE SHEET						
Current assets		**27,037**	**9,705**	**5,807**	**27,603**	**27,780**
Cash and cash equivalents		23,806	6,471	3,704	27,117	27,311
Accounts receivable		2,588	2,023	1,232	1,371	1,371
Other current assets		643	1,211	871	(885)	(902)
Non-current assets		**652**	**614**	**551**	**4,248**	**3,880**
Property, plant & equipment		222	191	134	111	69
Intangible assets		430	423	417	409	405
Other non-current assets		0	0	0	3,728	3,406
Current liabilities		**(13,362)**	**(3,950)**	**(4,867)**	**(23,414)**	**(21,387)**
Short-term debt		0	0	(468)	(20,100)	(15,015)
Accounts payable		(13,362)	(3,803)	(3,445)	(2,676)	(5,734)
Other current liabilities		0	(147)	(954)	(638)	(638)
Non-current liabilities		**0**	**(605)**	**0**	**(3,320)**	**(2,998)**
Long-term debt		0	0	0	0	0
Other non-current liabilities		0	(605)	0	(3,320)	(2,998)
Equity		**14,327**	**5,764**	**1,491**	**5,117**	**7,274**
CASH FLOW STATEMENTS						
Operating cash flow		**14,098**	**(17,177)**	**(4,668)**	**139**	**(24,129)**
Profit before tax		1,646	(10,146)	(6,335)	(2,212)	(27,607)
Non-cash adjustments		4,436	656	(782)	880	403
Change in working capital		7,686	(8,391)	(265)	(452)	3,058
Interest paid		330	(23)	13	(134)	(240)
Taxes paid		0	727	2,701	2,057	256
Investing cash flow		**(30)**	**(109)**	**32**	**(19)**	**(24)**
CAPEX on tangible assets		(154)	(132)	(28)	(23)	(24)
Acquisitions/disposals		124	23	60	4	0
Other investing cash flows		0	0	0	0	0
Financing cash flow		**3,980**	**(49)**	**1,869**	**23,294**	**24,347**
Proceeds from equity		11,066	0	0	2,099	24,347
Increase in loans		(1,975)	0	1,000	21,600	0
Other financing cash flow		(5,111)	(49)	869	(405)	0
Net increase in cash		**18,048**	**(17,335)**	**(2,767)**	**23,413**	**194**
Cash at start of year		5,758	23,806	6,471	3,704	27,117
Cash at end of year		**23,806**	**6,471**	**3,704**	**27,117**	**27,311**
Net cash at end of year		**23,806**	**6,471**	**3,236**	**7,017**	**12,296**

Source: Company, Trinity Delta

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Disclaimer

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