Trinity Delta

Redx Pharma

Update

All the ingredients for success now in place

29 June 2022

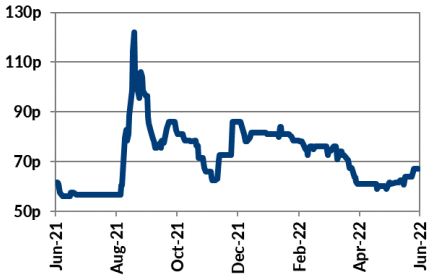
Redx Pharma continues to deliver, with H122 results highlighting broad progress across the pipeline. The lead assets, RXC004, a porcupine inhibitor for oncology, and RXC007, a ROCK2 inhibitor for fibrosis, are advancing through Phase II and Phase I trials respectively, with further value inflection expected during 2022-23. Milestone receipts from AstraZeneca and Jazz Pharmaceuticals are tangible evidence of further progress with partnered programmes. Selection of RXC008, a GI targeted ROCK inhibitor as the next development candidate demonstrates earlier stage development is similarly bearing fruit. Our new rNPV-based valuation, updated to reflect H122 results and the May £34.3m (gross) equity raise, is £458m (vs £434m), or 138p/share.

Year-end: September 30	2020	2021	2022E	2023E
Revenues (£m)	5.7	10.0	19.2	4.0
Adj. PBT (£m)	(8.8)	(15.0)	(21.0)	(44.7)
Net Income (£m)	(9.2)	(21.6)	(21.4)	(45.0)
Adj.EPS (p)	(5.2)	(5.9)	(6.8)	(12.9)
Cash (£m)	27.5	29.6	43.6	31.0*
EBITDA (£m)	(7.5)	(19.1)	(19.9)	(44.3)

Source: Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals. * Our cash forecast assumes receipt of £25m in additional funding in FY23

- **Clinical progress right across the board** Material pipeline progress has continued, with both in-house and partnered assets delivering on track. RXC004, an innovative porcupine inhibitor for genetically selected cancers, is in Phase II trials, with monotherapy arms underway and a checkpoint inhibitor combination arm due to start H222. RXC007, a ROCK2 inhibitor for various fibrosis indications, is set to initiate a Phase IIa IPF trial during 2022. Partnered programmes are also advancing, with AstraZeneca and Jazz Pharmaceuticals R&D progress triggering milestones.
- **Funded through to key inflection points** May's £34.3m (gross) over-subscribed equity raise saw 58.1m new shares placed at 59p/share (no discount to market price). New funds remove a near-term financial overhang and, together with existing cash resources and modest risk-adjusted milestones, provides a cash runway through to end-CY2023 that comfortably supports the comprehensive development plan for key in-house assets. The quality of new and existing institutions supporting the raise, achieved during notably challenging market conditions, is a testament to the strength of the investment case.
- **Executing a clear, and ambitious, strategy** The recent IND clearance for Jazz's JZP815 suggests this will be Redx's fifth discovery programme to enter the clinic. This impressive record is based on acknowledged medicinal chemistry expertise, with an aim to create either best-in-class or first-in-class small molecules addressing clear clinical needs. Active risk management has resulted in a well-balanced pipeline, with a mix of in-house and partnered programmes that should provide a stream of news flow over the next 12-18 months.
- **rNPV valuation of £458m or 138p/share** Following the fund raise we have revisited our rNPV based valuation model. Our updated valuation, still based on conservative assumptions, is £458m or $596m (equivalent to 138p/share).

Price	67.0p
Market Cap	£222.4m
Enterprise Value	£162.7m
Shares in issue	333.35m
12 month range	52.0-129.9p
Free float	13.6%
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 development of small molecule therapeutics, with an emphasis on oncology and fibrotic diseases. It aims to initially progress them through proof-of-concept studies, before evaluating options for further development and value creation.

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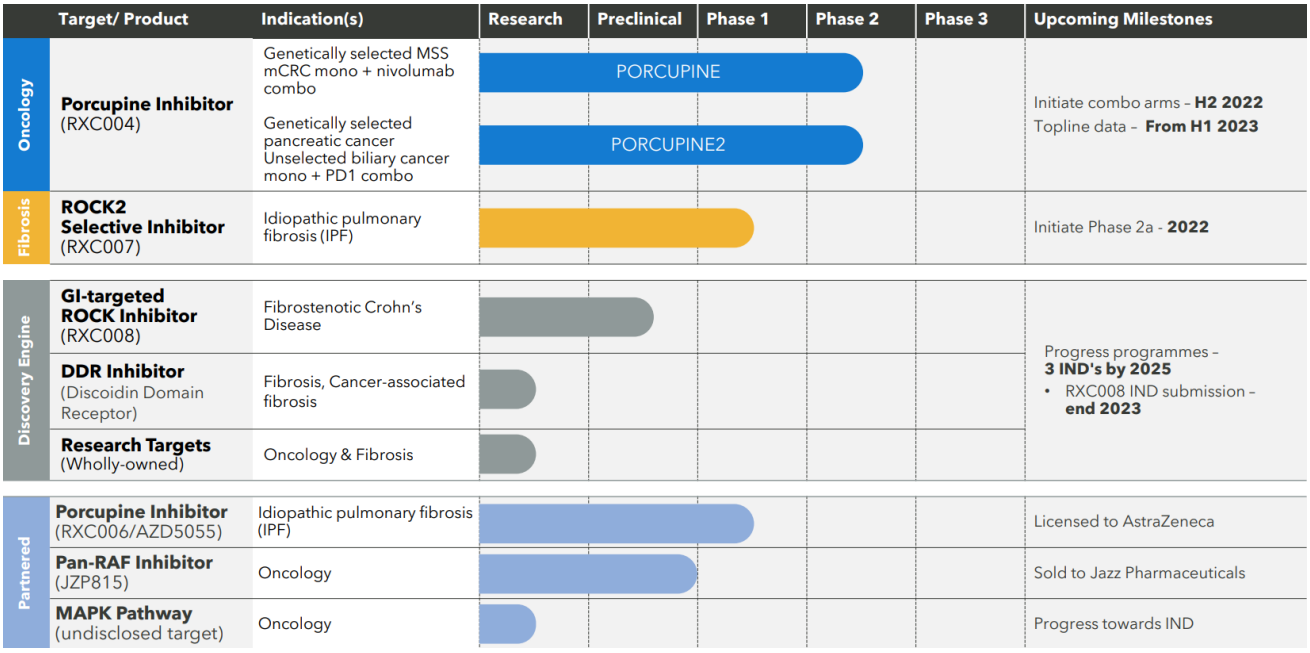
Redx Pharma: delivering on our expectations

Redx Pharma's H122 results confirm progress is being achieved as we expect. The company is increasingly recognised as a creator of innovative and highly differentiated small molecule drug candidates, with the recent IND clearance of Jazz Pharmaceuticals' JZP815 being the latest example. The business model is underpinned by the strength of its medicinal chemistry, where Redx has proven its ability to solve complex targeting issues with five compounds now set to be in the clinic. The experienced management is executing a clear strategy. Risks are actively managed through selective partnering, with attractive deals that retain material financial upside if successful. May's impressive £34.3m equity raise has removed financial uncertainty and allows the completion of Phase II clinical studies for RXC004 and RXC007. It is these programmes that we expect to deliver value-inflection catalysts over the coming 12-18 months. Updating our rNPV model sees our valuation increased to £458m ($595m) or 138p/share.

An attractive investment case with compelling fundamentals

We explored Redx Pharma's investment case in our extensive February 2022 Outlook, where we covered the key in-house programmes and the progress with partnered projects. This included the relevance of the Wnt pathways in selected oncology indications and the format of the RXC004 Phase II proof-of-concept clinical trials, as well as the role of ROCK2 inhibition in various fibrosis indications and how the forthcoming RXC007 Phase II trials should provide valuable insights into its eventual clinical positioning. The Outlook note also explains how Redx is differentiated from its peers, the rationale underpinning the strategy pursued, and the importance of managing development risks (hence the partnered programmes). In this Update note we cover the progress made, near-term news flow and expected development and financial milestones, and, importantly, the financial flexibility and runway resulting from the impressive recent fund raise.

Exhibit 1: Redx Pharma pipeline



Source: Redx Pharma Note: DDR = discoidin domain receptor; GI = gastrointestinal; IND = investigational new drug application; IPF = idiopathic pulmonary fibrosis; MAPK = mitogen-activated protein kinase; MSS mCRC = microsatellite stable metastatic colorectal cancer; RAF = rapidly accelerated fibrosarcoma; ROCK = Rho associated protein kinase

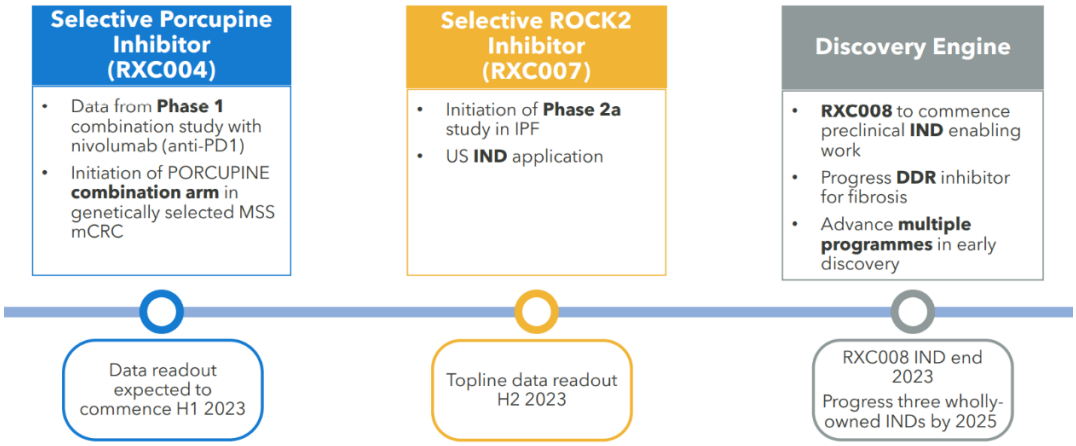
Well-balanced portfolio of wholly-owned and partnered programmes

As context, the recent IND clearance of Jazz Pharmaceuticals' partnered pan-RAF programme, JZP815, means this will be the fifth clinical stage asset discovered by Redx. This impressive track record is tangible evidence of the quality of the discovery platform, which is underpinned by strong medicinal chemistry expertise. The aim is to create either best-in-class or first-in-class small molecules addressing clear, and commercially significant, medical needs. The pipeline is well-balanced, with two clinical in-house programmes and three partnered late preclinical/early clinical assets (outlicenced to AstraZeneca and Jazz Pharmaceuticals). In-house development is focussed on highly selective small molecules, directed at known and scientifically validated pathways, for the treatment of genetically defined tumours and poorly treated fibrotic diseases.

A slew of value inflection points over the next 12-18 moths

Continued delivery across Redx's three investment pillars (RXC004, RXC007, and the discovery engine) mean that there are significant catalysts over 2022 and 2023 (Exhibit 2). While COVID-19 restrictions remain a sensitivity with respect to timings (impacts on patient recruitment into clinical trials is a known industry-wide consequence), we anticipate Redx Pharma will make significant strategic progress.

Exhibit 2: Multiple - fully funded - potential milestones over the next 18 months



Source: Redx Pharma

RXC004: Phase II proof-of-concept trials underway

Addressing selective cancers through the Wnt pathway

RXC004, a highly selective and potent small molecule targeting the porcupine (Porcn) enzyme on the Wnt (Wingless type) signalling pathways, is under evaluation as a monotherapy and in combination with checkpoint inhibitors (CPIs) in various solid tumours. Preclinical studies have shown RXC004 has a promising direct anti-tumour activity in cancer lines with upstream mutations in this pathway, eg RNF43 and RSPO fusion. Additionally, RXC004 enhances the immune response in the tumour micro-environment and hence has a possible dual mechanism of action.

Encouraging initial Phase I data presented at ESMO 2021

RXC004 has completed a Phase I programme, which consisted of three modules in an all-comers population each evaluating a different setting. First Phase I results presented at ESMO 2021, detailed in our September 2021 Update, confirmed that RXC004 has a useful therapeutic window and is safe and well tolerated at the selected Phase II dose. Treatment associated adverse events were dose-related and in line with the expected profile for Porcupine inhibition. Additionally, there were early efficacy indications in genetically selected Wnt ligand driven tumours.

PORCUPINE trials should show proof-of-concept in genetically selected oncology indications

The Phase II programme similarly explores both monotherapy and a CPI combination with two multi-arm trials: PORCUPINE for genetically selected MSS mCRC (microsatellite stable metastatic colorectal cancer) includes a RXC004 monotherapy arm and a combination arm with anti-PD1 agent nivolumab (Opdivo, Bristol Myers Squibb); and PORCUPINE2 which also explores monotherapy and combination with two indications, one in genetically selected metastatic pancreatic cancer and the second in unselected biliary cancer.

First topline results expected to read out in H123

The design of PORCUPINE was presented at ASCO 2022 (American Society of Clinical Oncology). Patient enrolment in the PORCUPINE monotherapy arm initiated in November 2021, with the combination arm expected to start in H222 (once the relevant Phase I dose escalation results are available). PORCUPINE2 initiated patient enrolment in the monotherapy arm in January 2022, with the combination arm similarly awaiting the identification of the optimal dose. The first topline data readouts from both of these programmes are expected in H123.

RXC007: Completing Phase I studies in H122

The ROCK pathways are especially interesting

RXC007 is a novel and highly specific small molecule that selectively targets the ROCK2 (Rho Associated Coiled-Coil Containing Protein Kinase 2) receptor. ROCK is a biologically validated target that sits at a nodal point in a cell signalling pathway, where it modulates inflammatory response and fibrotic processes. The two kinase forms, ROCK1 and ROCK2, have similar functions (especially in fibrosis), but the simultaneous targeting of both appears to be associated with cardiovascular effects (notably hypotension).

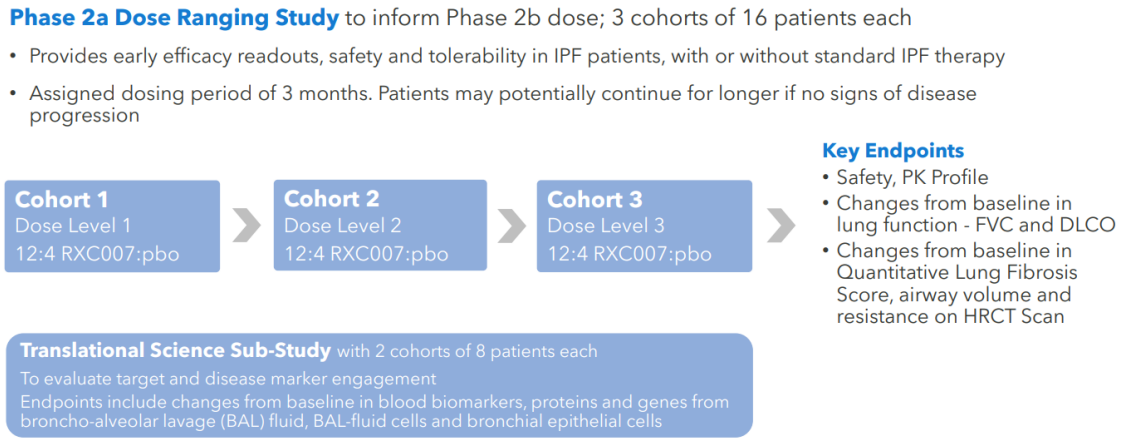
Strong preclinical evidence in many fibrosis animal models

We view RXC007 as a particularly promising asset. Preclinical data have shown good ADME profiles and robust anti-fibrotic effects, with strong data in fibrosis disease models such as idiopathic pulmonary fibrosis (IPF), non-alcoholic steatohepatitis (NASH), and diabetic nephropathy (DN). The preclinical profile suggests RXC007 has the prospect of being disease modifying.

Phase I results confirm safety and tolerability

A Phase I study in healthy volunteers started in June 2021, with results showing excellent safety and pharmacokinetic profiles presented at the Interstitial Lung Disease (ILD) Summit in March 2022. These encouraging data clear the path for a staged Phase II trial programme to begin during 2022.

Exhibit 3: Phase IIa study design



Source: Redx Pharma Note: DLCO = carbon monoxide diffusion coefficient; FVC = forced vital capacity; HRCT = high resolution computerized tomography; Pbo = placebo

Phase II trial design is staged to contain risks and maximise likelihood of success

The first Phase IIa study will be of 12 weeks duration and will assess early efficacy signals, safety, and tolerability in IPF, a progressive lung condition with a poor prognosis despite two approved drugs. The insights, especially around the suitability of biomarkers and target engagement, will guide design of the larger 12-month Phase IIb trial. If successful here, we would expect RXC007 to be explored in other fibrotic indications.

Partnered programmes progressing equally well

Partnership milestones brought in $19m during the period, with a further $5m in June

Redx has two partnerships, with AstraZeneca (AZD5055 for fibrosis) and Jazz Pharmaceuticals (for pan-RAF inhibitor JZP815 and a separate collaboration targeting the MAPK pathway). These partners contributed $19m ($10m and $9m respectively) in milestones during financial H122, with a further $5m triggered post-period, when JZP815 received IND clearance from the FDA in June 2022. JPZ815 is a precision pan-RAF inhibitor being developed for RAS and RAF mutant tumours that was designed to overcome resistance mechanisms to currently approved B-RAF selective drugs.

Jazz confirms advancing one programme and discontinuing the other

The first milestone of $10m (£7.4m) milestone was triggered in December 2021 when Jazz progressed the collaboration focussed on the MAPK pathway into its second year. Post-period, Jazz confirmed plans to progress one candidate towards an IND application, but the second target has been discontinued due to pipeline prioritisation at Jazz.

AZN5055 now in Phase I studies

A $9m (£6.6m) milestone was also triggered in December 2021 on the entry of AstraZeneca's AZN5055 into Phase I clinical trials. AZN5055, previously known as RXC006, is a potent small molecule inhibitor of the Porcupine receptor in development for fibrosis indications. AZN5055 was outlicenced as a preclinical asset, on attractive terms, as a strategic move to lessen Redx's exposure to the Porcupine class.

Discovery efforts still moving at pace

RXC008 confirmed as IND candidate for GI-targeted ROCK

Management aims to have three further wholly owned IND-stage assets for progression into clinical development by 2025. The research focus remains on the attractive pathways that impact selected oncology and fibrosis indications. In March 2022 RXC008 was nominated as the development candidate in its novel GI-targeted ROCK programme. RXC008 is a pan-ROCK inhibitor designed to only work locally in the gut wall and, as it is quickly degraded by metabolic enzymes, to have a short half-life once absorbed. The aim is to avoid the systemic side-effects, notably cardiovascular, that are associated with simultaneous inhibition of ROCK1 and ROCK2 yet still retain the impressive efficacy seen in preclinical models. RXC008's profile is highly differentiated, and it has the potential to be a first-in-class therapy for a debilitating condition: fibrostenotic Crohn's disease.

DDR inhibition is a commercially appealing target for both oncology and fibrosis

In January 2022 management announced it is working on a novel DDR (discoidin domain receptor) inhibitor programme which has entered lead optimisation. The role of DDRs, notably in oncology and fibrosis, and the reasons for industry interest in their selective inhibition was also discussed in our February 2022 Outlook. Redx has developed a number of potent and selective DDR inhibitors with preclinical studies ongoing. These are initially being explored in models of fibrotic disease and offer the potential of disease modifying activities.

Valuation

Updated valuation of £458m, or 138p per share

We update our rNPV-based valuation following H122 results, reflecting also the progress achieved across the in-house and partnered pipeline (including milestone receipts) and, more materially, the impact of May's equity raise. Our valuation is now £458m ($596m), equivalent to 138p per share vs £434m ($565m) or 157.5p per share previously. Exhibit 4 summarises the outputs and underlying assumptions of our valuation model. A detailed overview of our methodology is provided in our September 2020 Initiation.

Exhibit 4: rNPV-based valuation of Redx Pharma

Programme	Total NPV ($m)	Total NPV (£m)	Approval likelihood	rNPV ($m)	rNPV (£m)	rNPV/ share (p)	Notes
RXC004 (porcupine inhibitor - oncology)	836.2	643.3	30%	169.1	130.1	39.0	Peak sales: $2.55bn (£1.96bn) Launch year: 2027
RXC007 (ROCK2 inhibitor - IPF/NASH)	1,173.5	902.7	15%	121.1	93.2	27.9	Peak sales: $3.13bn (£2.41bn) Launch year: 2028
AZD5055 (AstraZeneca: porcupine inhibitor - IPF)	325.2	250.1	15%	53.9	41.5	12.4	Peak sales: $1.66bn (£1.28bn) Launch year: 2028
JZP815 (Jazz Pharma: pan-RAF - oncology)	165.0	126.9	7%	30.0	23.1	6.9	Peak sales: $707m (£544m) Launch year: 2029
RX008 (ROCK1/2 - Crohn's disease)	163.7	125.9	5%	38.8	29.8	8.9	Peak sales: $1.61bn (£1.24bn) Launch year: 2029
Discovery engine				171.3	131.8	39.5	
Operating costs	(45.1)	(34.7)		(45.1)	(34.7)	(10.4)	
Net cash	56.7	43.6		56.7	43.6	13.1	FY22e cash
Total	**2,675.2**	**2,057.9**		**595.8**	**458.3**	**137.5**	
Total (fully diluted)				**613.4**	**471.8**	**97.9**	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 similarly successful 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, clarity on timelines and patient sizes will 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.

Financials

New funds extend development runway to end-2023

H122 was marked by continuing pipeline delivery. End-March 2022 cash of £31.6m (end-September 2021: £29.6m) was boosted by $19m in milestone receipts. This was further augmented post-period by a $5m milestone and more significantly by Redx's key event of 2022, the successful equity raise of £34.3m (gross) in May through placing of 58.1m new shares at 59p/share. This over-subscribed placing raised more than the planned c £30m despite the challenging macro-economic backdrop and was executed at no discount to the prevailing market price (incidentally at a premium to the last December 2020 equity raise of £25.5m gross at 56p/share). Existing major holders (Redmile, Sofinnova, Polar Capital, and Platinum Healthcare) supported the raise, with participation from a new healthcare specialist investor Invus. This capital injection removes a financial overhang, extending the cash runway by an extra year through to key data points. Management have confirmed that the current cash, plus modest risk-adjusted milestones, now provides a cash runway through to end-2023, comfortably supporting the comprehensive development plans for RXC004 and RXC007.

The milestone receipts are "lumpy" by nature

The increased H122 revenue of £8.4m (H121: £2.1m) was largely on account of milestone receipts of £6.68m (H121: nil), with a contribution from collaboration revenues of £701k (H121: £1.32m) and £968k in payments for research and preclinical development services (H121: £780k). AstraZeneca milestones (eg the $9m in December 2021) are recognised on receipt as they relate to contingent consideration on the license previously granted, whereas payments from the Jazz collaborations (predominantly related to the underlying development services) have a deferred recognition element and are recognised as each stage is completed. We note that the target discontinued by Jazz post-period end will trigger the recognition of £5.52m in revenue, representing all remaining contract liabilities relating to this target, in H222.

Clinical progress means R&D investment is set to rise

R&D investment increased to £12.9m (H121: £10.5m) due to set up and initiation of the Phase II programmes for RXC004 and RXC007. We anticipate a material rise in R&D spend if data supports continuing clinical development, as each successive stage is larger and therefore costlier. Positive data may also support broader evaluation of assets in other, related, indications. G&A costs were £4.9m (H121: £3.8m) due to headcount growth and ongoing investment in support infrastructure. H122 net loss was £9.8m (H121: loss of £12.7m) with a loss per share of 3.5p (H121: loss of 5.3p). Despite the increase in staff numbers and investment in support infrastructure, G&A expenses increased more modestly to £6.5m in FY21 (FY20: £4.2m). Finance costs were £1.7m (FY20; £1.0m). This translated into an FY21 net loss of £21.6m (FY20: loss of £9.2m), with loss per share of 8.4p (FY20: 5.4p).

FY22 and FY23 revenue forecasts include milestones received… with upside potential

We expect FY22 revenue of £19.2m, comprised of the $9m (£6.7m) AstraZeneca milestone and recognition of c £12.5m in revenues from Jazz (payments recognised under the Ras/Raf/MAPK collaboration and in relation to the $5m JZP815 IND clearance milestone). Our £4.0m revenue expectation in FY23 relates to revenue recognition from Jazz as the remaining Ras/Raf/MAPK target progresses towards IND enabling studies. While future potential milestone receipts are significant (c $800m in aggregate) there is limited visibility on timings as they are linked to the clinical development progress of AZD5055 and JZP815 which is under the control of their respective licensors.

Exhibit 5: Summary of financials

Year-end: Sept 30	£'000s	2019	2020	2021	2022E	2023E
INCOME STATEMENT						
Revenues		**3,131**	**5,685**	**10,035**	**19,219**	**3,950**
Cost of goods sold		(350)	0	0	0	0
Gross Profit		**2,781**	**5,685**	**10,035**	**19,219**	**3,950**
R&D expenses		(8,339)	(10,460)	(24,445)	(34,223)	(42,437)
G&A expenses		(1,831)	(4,238)	(6,455)	(7,717)	(8,051)
Underlying operating profit		**(7,389)**	**(8,445)**	**(17,080)**	**(20,829)**	**(44,607)**
Share-based payments		(45)	(568)	(3,785)	(1,893)	(1,930)
Exceptionals		948	0	0	0	0
Other revenue/expenses		241	812	1,120	1,142	1,165
EBITDA		**(6,154)**	**(7,536)**	**(19,112)**	**(19,912)**	**(44,280)**
Operating Profit		**(6,245)**	**(8,201)**	**(19,745)**	**(21,579)**	**(45,372)**
Financing costs/income		(90)	(967)	(1,698)	(125)	(83)
Profit Before Taxes		**(6,335)**	**(9,168)**	**(21,443)**	**(21,704)**	**(45,455)**
Adj. PBT		**(7,479)**	**(8,844)**	**(14,993)**	**(20,954)**	**(44,690)**
Current tax income		2,017	(45)	(133)	342	424
Net Income		**(4,318)**	**(9,213)**	**(21,576)**	**(21,362)**	**(45,031)**
EPS (p)		**(3.4)**	**(5.4)**	**(8.4)**	**(7.0)**	**(13.1)**
Adj. EPS		**(4.0)**	**(5.2)**	**(5.9)**	**(6.8)**	**(12.9)**
DPS (p)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Average no. of shares (m)		126.4	170.1	256.4	304.3	342.5
BALANCE SHEET						
Current assets		**5,807**	**29,468**	**35,815**	**53,183**	**33,025**
Cash and cash equivalents		3,704	27,513	29,552	43,594	31,007
Accounts receivable		1,232	1,923	6,231	9,215	1,623
Other current assets		871	32	32	374	395
Non-current assets		**551**	**3,459**	**3,730**	**2,001**	**853**
Property, plant & equipment		134	3,048	3,325	1,813	884
Intangible assets		417	411	405	401	397
Other non-current assets		0	0	0	(214)	(427)
Current liabilities		**(4,867)**	**(10,934)**	**(9,592)**	**(26,400)**	**(34,161)**
Short-term debt		(468)	0	0	(14,247)	(25,000)
Accounts payable		(3,445)	(3,362)	(4,699)	(7,529)	(8,487)
Other current liabilities		(954)	(7,572)	(4,893)	(4,624)	(674)
Non-current liabilities		**0**	**(19,967)**	**(16,821)**	**(1,544)**	**(1,331)**
Long-term debt		0	(16,758)	(14,247)	0	0
Other non-current liabilities		0	(3,209)	(2,574)	(1,544)	(1,331)
Equity		**1,491**	**2,026**	**13,132**	**27,239**	**(1,614)**
CASH FLOW STATEMENTS						
Operating cash flow		**(4,668)**	**395**	**(21,379)**	**(18,567)**	**(37,429)**
Profit before tax		(6,335)	(9,168)	(21,443)	(21,704)	(45,455)
Non-cash adjustments		(782)	2,123	6,116	3,684	3,105
Change in working capital		(265)	6,425	(6,065)	(290)	4,600
Interest paid		13	7	13	(125)	(83)
Taxes paid		2,701	1,008	0	(133)	404
Investing cash flow		**32**	**(55)**	**(754)**	**(151)**	**(158)**
CAPEX on tangible assets		(28)	(59)	(754)	(151)	(158)
Acquisitions/disposals		60	4	0	0	0
Other investing cash flows		0	0	0	0	0
Financing cash flow		**1,869**	**23,469**	**24,143**	**32,761**	**25,000**
Proceeds from equity		0	1,876	24,929	33,577	0
Increase in loans		1,000	22,563	0	0	25,000
Other financing cash flow		869	(970)	(786)	(816)	0
Net increase in cash		**(2,767)**	**23,809**	**2,010**	**14,042**	**(12,588)**
Cash at start of year		6,471	3,704	27,513	29,552	43,594
Cash at end of year		**3,704**	**27,513**	**29,552**	**43,594**	**31,007**
Net cash at end of year		**3,236**	**10,755**	**15,305**	**29,347**	**6,007**

Source: Company, Trinity Delta Note: Short-term debt in FY23E is indicative of our view of Redx Pharma's funding requirement. Redmile/Sofinnova Convertible Loan Note has August 2023 conversion date, with a 15.5p conversion price, equating to a potential 110.3m of new shares. Revenue forecasts do not include any contribution from milestone payments yet to be received.

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