

## Mereo BioPharma

Update

Entering an important 12 month period

19 September 2019

**Mereo BioPharma made significant progress strategically during H119 with the completion of the merger with OncoMed, and now is entering a critical 12-month period. Full 12-month data from the Phase II study in osteogenesis imperfecta (OI) with setrusumab (BPS-804) is due in Q419; promising 6-month data in the open-label arm has already been reported. Phase II data with its second rare-disease asset, alvelestat (MPH-966), in  $\alpha$ -1 antitrypsin deficiency (AATD) is expected in mid-2020. The company will also be looking to partner its non-core assets to strengthen its balance sheet, with negotiations on acumapimod (BCT-197) for acute COPD most advanced. We maintain our valuation of Mereo at 506p/share or \$25.59/ADS.**

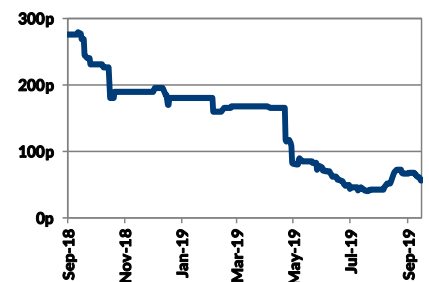
Year-end: December 31	2017	2018	2019E	2020E
Sales (£m)	0.0	0.0	0.0	0.0
Adj. PBT (£m)	(43.3)	(35.1)	(39.0)	(29.3)
Net Income (£m)	(38.8)	(32.0)	(34.2)	(26.2)
Adj. EPS (p)	(51.9)	(42.2)	(40.3)	(26.5)
Cash (£m)	52.5	27.5	16.1	1.8*
EBITDA (£m)	(45.3)	(35.2)	(35.1)	(26.0)

Source: Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals. \*the cash position in FY20 assumes £25m is raised from equity, debt or partnering of assets.

- Full Phase II setrusumab OI data due in Q419** Six-month data from the open-label arm of the Phase II study in OI with setrusumab, suggest the product could have a competitive profile. The mean improvement at six months in bone mineral density (BMD, assessed using HRpQCT) was 3.2%, a level of improvement that is only seen at best after a year with bisphosphonates, the current standard-of-care. The full 12-month data from all 112 adult patients, with three monthly dosing regimens, will be reported in Q419. A Phase III paediatric study in Canada and Europe is ready to begin, though the final design will use the learnings from the current study.
- Alvelestat top-line AATD results expected mid-2020** Recruitment to the Phase II study in AATD with alvelestat (n=165) is progressing as expected, although it took longer than hoped to initiate the trial centres. Mereo now expects top-line data to be published mid-2020. An investigator-led study (ILS) should provide further indication of alvelestat potential in AATD (n=66, data due in H221), and another ILS could expand development of the compound into [bronchiolitis obliterans syndrome \(BOS\)](#), progressive loss of pulmonary function following lung transplantation.
- Partnering needed to strengthen the balance sheet** Mereo has four non-rare disease assets it is looking to partner, two of which it acquired with OncoMed. Negotiations are most advanced with acumapimod for acute COPD, and the outline of a pivotal Phase III study has been agreed with the FDA. Any proceeds from partnering will be used to support the development of the rare disease products.
- Current valuation fails to reflect the six clinical assets** Our rNPV valuation of Mereo is unchanged at 506p/share or \$25.59/ADS (fully diluted), although we have updated our estimates to fully reflect the merger with OncoMed and the H119 results. Its cash position of £36.1m at H119 should enable Mereo to operate to the end of H120, in the absence of a partnering deal or an equity raise.

Price (UK share)	57.5p
(US ADS)	\$3.32
Market Cap	£55.3m
	\$65.0m
Enterprise Value	£38.9m
	\$44.5m
Shares in issue (shares)	98.0m
(ADS)	19.6m
12 month range	40.0p-277.0p
	\$2.18-\$8.48
Free float	68.9%
Exchanges	AIM London
	NASDAQ
Sector	Healthcare
Company codes	MPH.L
	MREO

Corporate client Yes



### Company description

Mereo BioPharma develops and commercialises innovative therapeutics addressing rare diseases. It also has specialty pharmaceutical products that it will partner. The assets are acquired or licensed in at clinical stages from large pharmaceutical companies. The portfolio consists of six compounds that are in clinical development.

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**Exhibit 1: Summary of financials**

Year-end: Dec 31	£'000s	2015	2016	2017	2018	2019E	2020E
<b>INCOME STATEMENT</b>							
Revenues		0	0	0	0	0	0
Cost of goods sold		0	0	0	0	0	0
<b>Gross Profit</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
R&D expenses		(5,445)	(24,563)	(34,607)	(22,704)	(24,869)	(16,883)
G&A expenses		(4,734)	(5,123)	(7,045)	(10,316)	(12,000)	(11,028)
<b>Underlying operating profit</b>		<b>(10,179)</b>	<b>(29,685)</b>	<b>(41,652)</b>	<b>(33,019)</b>	<b>(36,868)</b>	<b>(27,912)</b>
Share-based payments		(2,982)	(6,494)	(3,652)	(2,189)	(1,311)	(1,338)
<b>EBITDA</b>		<b>(13,150)</b>	<b>(36,146)</b>	<b>(45,268)</b>	<b>(35,171)</b>	<b>(35,110)</b>	<b>(25,971)</b>
<b>Operating Profit</b>		<b>(13,161)</b>	<b>(36,179)</b>	<b>(45,304)</b>	<b>(35,208)</b>	<b>(37,144)</b>	<b>(28,214)</b>
Financing costs/income		26	2,458	(1,647)	(2,098)	(2,140)	(1,388)
<b>Profit Before Taxes</b>		<b>(13,136)</b>	<b>(33,722)</b>	<b>(46,951)</b>	<b>(37,306)</b>	<b>(39,285)</b>	<b>(29,601)</b>
<b>Adj. PBT</b>		<b>(10,153)</b>	<b>(27,228)</b>	<b>(43,299)</b>	<b>(35,117)</b>	<b>(39,009)</b>	<b>(29,299)</b>
Current tax income		947	5,331	8,152	5,277	5,049	3,377
<b>Net Income</b>		<b>(12,189)</b>	<b>(28,390)</b>	<b>(38,799)</b>	<b>(32,029)</b>	<b>(34,236)</b>	<b>(26,225)</b>
<b>EPS (p)</b>		<b>(101.5)</b>	<b>(63.4)</b>	<b>(56.2)</b>	<b>(44.8)</b>	<b>(40.4)</b>	<b>(26.8)</b>
<b>Adj. EPS</b>		<b>(78.5)</b>	<b>(51.0)</b>	<b>(51.9)</b>	<b>(42.2)</b>	<b>(40.3)</b>	<b>(26.5)</b>
<b>DPS (p)</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Average no. of shares (m)		12.0	44.8	69.0	71.4	84.8	98.0
<b>BALANCE SHEET</b>							
<b>Current assets</b>		<b>13,845</b>	<b>60,778</b>	<b>63,177</b>	<b>34,495</b>	<b>31,407</b>	<b>15,519</b>
Cash and cash equivalents		12,248	53,578	50,045	25,042	8,222	1,834
Short-term investments		0	0	2,500	2,500	7,828	0
Accounts receivable		396	767	509	609	1,954	1,954
Inventories		0	0	0	0	0	0
Other current assets		1,201	6,433	10,123	6,344	13,403	11,731
<b>Non-current assets</b>		<b>26,017</b>	<b>25,987</b>	<b>33,159</b>	<b>32,781</b>	<b>56,962</b>	<b>54,735</b>
Property, plant & equipment		205	174	153	149	11,805	9,578
Intangible assets		25,813	25,813	33,005	32,632	45,157	45,157
<b>Current liabilities</b>		<b>(3,978)</b>	<b>(3,209)</b>	<b>(9,618)</b>	<b>(16,178)</b>	<b>(27,668)</b>	<b>(12,979)</b>
Short-term debt		0	0	(1,940)	(6,838)	(16,193)	(3,368)
Accounts payable		(3,978)	(1,121)	(3,024)	(4,570)	(5,180)	(3,317)
Other current liabilities		0	(2,088)	(4,654)	(4,769)	(6,294)	(6,294)
<b>Non-current liabilities</b>		<b>(141)</b>	<b>(4,299)</b>	<b>(24,234)</b>	<b>(18,328)</b>	<b>(18,864)</b>	<b>(40,325)</b>
Long-term debt		0	(3,127)	(18,813)	(14,647)	(3,539)	(25,000)
Other non-current liabilities		(141)	(1,172)	(5,422)	(3,681)	(15,325)	(15,325)
<b>Equity</b>		<b>35,743</b>	<b>79,257</b>	<b>62,483</b>	<b>32,771</b>	<b>41,837</b>	<b>16,950</b>
<b>CASH FLOW STATEMENTS</b>							
<b>Operating cash flow</b>		<b>(6,673)</b>	<b>(29,287)</b>	<b>(31,423)</b>	<b>(22,852)</b>	<b>(48,507)</b>	<b>(22,836)</b>
Profit before tax		(13,136)	(33,722)	(46,951)	(37,306)	(39,285)	(29,601)
Non-cash adjustments		3,109	5,100	6,451	3,609	1,083	4,968
Change in working capital		3,328	(1,988)	3,021	2,408	(8,681)	(1,864)
Interest paid		26	375	724	285	(1,625)	(1,388)
Taxes paid		0	947	5,331	8,152	0	5,049
<b>Investing cash flow</b>		<b>(216)</b>	<b>(2)</b>	<b>(4,796)</b>	<b>(33)</b>	<b>33,951</b>	<b>7,812</b>
CAPEX on tangible assets		(216)	(2)	(2,296)	(33)	(15)	(16)
Acquisitions/disposals		0	0	0	0	10,074	0
Other investing cash flows		0	0	(2,500)	0	23,892	7,828
<b>Financing cash flow</b>		<b>19,137</b>	<b>68,357</b>	<b>34,070</b>	<b>(2,073)</b>	<b>(2,535)</b>	<b>8,636</b>
Proceeds from equity		20,005	67,889	15,000	(41)	(998)	0
Increase in loans		0	3,464	20,000	(2,110)	0	(16,364)
Other financing cash flow		(868)	(2,996)	(930)	78	(1,537)	25,000
<b>Net increase in cash</b>		<b>12,248</b>	<b>39,067</b>	<b>(2,149)</b>	<b>(24,959)</b>	<b>(17,091)</b>	<b>(6,388)</b>
Exchange rate effects		0	2,263	(1,384)	(44)	271	0
Cash at start of year		0	12,248	53,578	50,045	25,042	8,222
<b>Cash at end of year</b>		<b>12,248</b>	<b>53,578</b>	<b>50,045</b>	<b>25,042</b>	<b>8,222</b>	<b>1,834</b>
<b>Net cash at end of year</b>		<b>12,248</b>	<b>50,451</b>	<b>31,792</b>	<b>6,057</b>	<b>(3,682)</b>	<b>(26,534)</b>

Source: Company, Trinity Delta; Notes: Our estimates exclude the costs associated with the pivotal Phase III paediatric study with BPS-804, because the timing of the trial is yet to be decided. We include in FY20 long-term debt (other financing cash flow) of £25m, which is indicative of our estimate of the company's capital requirement; this could be achieved through an equity raise, debt or proceeds from partnering non-rare disease assets.

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