Trinity Delta

Hutchison China MediTech

Update

Innovative pipeline closer to realising its potential

10 August 2020

Hutchison China MediTech (Chi-Med) continues to gather momentum as its pipeline gets closer to unlocking its potential. Increased visibility for the three lead assets with multiple catalysts in the next 6 to 18 months suggest significant upside potential. In China, Chi-Med is leveraging its established base to build a fully integrated oncology business, with its c 320-strong China Oncology commercial team set to take over Elunate marketing from October and execute its first unpartnered China launch in Q420 assuming surufatinib approval. A ninth drug candidate discovered in-house (HMPL-306) has entered the clinic in China, while five assets are in development for global markets. The first FDA submission (surufatinib) should start before year-end, with fruquintinib and savolitinib in or approaching global registration trials. Our updated valuation is £5.87/share or $38.17/ADS.

Year-end: December 31	2018	2019	2020E	2021E
Sales (US$m)	214.1	204.9	214.8	318.7
Adj. PBT (US$m)	(86.7)	(141.1)	(202.6)	(188.3)
Net Income (US$m)	(71.3)	(103.7)	(132.9)	(141.3)
Earnings per ADS (US$)	(0.57)	(0.80)	(1.00)	(1.02)
Cash (US$m)	301.1	217.2	279.7	217.0*
Adj. EBITDA (US$m)	(69.7)	(100.7)	(121.7)	(125.2)

Source: Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees. *2021E cash includes $100m from assumed warrant exercise.

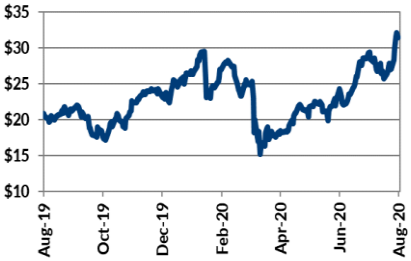
- **Secure China footprint, three assets launched or filed** First China approval for surufatinib (epNET) could come in H220, with the growing China Oncology commercial team preparing for subsequent launch. From October 1, this team will also take over marketing of Elunate (fruquintinib) from China partner Eli Lilly. NDA acceptance is pending in pNET, surufatinib's second indication. Savolitinib's first NDA has been accepted and Priority Review status granted in MET ex14m NSCLC. Potential first savolitinib approval and China launch (by AZ) could occur in 2021.

- **Global toehold becoming more secure** A rolling NDA submission for surufatinib in NET will begin late-2020, with the MAA following in 2021. Planning for a late-2021 US launch is underway. Enrolment in the Phase II SAVANNAH study (2L/3L EGFRm+/MET+ NSCLC) of savolitinib + osimertinib should complete early-2021; interim data from the first 50-pts will guide next steps, including the potential registration pathway. Global savolitinib studies are planned in MET ex14m NSCLC and in PRCC. Fruquintinib recently initiated FRESCO-2, a global pivotal trial in CRC.

- **Well-funded to execute on R&D and commercial plans** Chi-Med's >$400m in available cash resources at end-H120, plus $100m strategic investment by General Atlantic received in July, provides a cash runway through 2021. This is sufficient to support pipeline investment and the further expansion of commercial capabilities in China and Globally. An additional up to $100m investment may be received before January 2022 should General Atlantic exercise warrants associated with its PIPE.

- **Valuation increased to £5.87/share or $38.17/ADS** We update our DCF-based sum-of-the-parts model to reflect clinical and regulatory progress and the impact of the Elunate deal amendment. Our valuation is now £4.17bn (£5.87/share), or $5.42bn ($38.17/ADS), up from £3.61bn (£5.08/share), or $4.69bn ($33.00/ADS).

Price (UK share)	475p
(US ADS)	$31.52
Market Cap	£3.38bn
	$4.48bn
Enterprise Value	£3.11bn
	$4.12bn
Shares in issue (shares)	710.6m
(ADS)	142.1m
12 month range	258p-482p
	$14.74-$32.50
Free float	53.2%
Exchanges	AIM
	NASDAQ
Sector	Healthcare
Company codes	HCM.L
	HCM
Corporate client	Yes



Company description

Hutchison China MediTech is a Hong Kong headquartered biopharma focused on discovering, developing and commercializing innovative targeted therapeutics and immunotherapies to treat cancer and autoimmune diseases. It has a diverse pipeline of first-in-class/best-in-class selective oral tyrosine kinase inhibitors in development for the China and global markets.

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Chi-Med: good things come in threes

Hutchison China MediTech's (Chi-Med) H120 results provide further confirmation that the clinical pipeline is continuing to deliver as it approaches several key catalysts over the coming quarters. The three late-stage assets – fruquintinib (Elunate), surufatinib, and savolitinib - all have important clinical and regulatory news flow in the next six months in Chi-Med's home market and globally. The next wave of product candidates is progressing through clinical development with HMPL-523 (Syk inhibitor) and HMPL-689 (PI3Kδ inhibitor) taking a parallel China and Global development path in non-Hodgkin's lymphoma. Further discovery assets are also preparing to enter the clinic. With >$400m of available cash resources and fresh financing of $100m secured from new investor General Atlantic, Chi-Med has the funds to maintain pipeline momentum to fully exploit the clinical opportunities and to support planned expansion of its commercial infrastructure. Our updated Chi-Med valuation is £5.87/share or $38.17/ADS, up from £5.08/share, or $33.00/ADS .

Exhibit 1: Status of lead assets (left) and early-stage pipeline (right)

Source: Chi-Med Note: [1] in planning; [2] investigator-initiated trials; [3] US NDA in planning; Red= Global; Blue= China; Triangle = Major action in last six months; Arrow = in transition

Material momentum being created in China

Commercial traction in China is beginning to translate into meaningful revenues. Revenue growth should reset onto a steeper trajectory from Q420 with Chi-Med receiving a greater share of Elunate economics as it takes over marketing responsibility, as well as effecting its first unpartnered launch with surufatinib in epNET (extra-pancreatic neuroendocrine tumours). Globally, the infrastructure is being established to support the global development pipeline, with a first FDA filing for surufatinib in NET on track to begin by year end, the recent initiation of a pivotal study (fruquintinib in metastatic colorectal cancer, mCRC), and the potential for savolitinib to be in three registration studies during 2021.

Leveraging the China commercial infrastructure

Building a sizeable domestic commercial oncology operation

In China, Chi-Med is leveraging its established base to build a fully integrated oncology business. Its first approved product, Elunate (fruquintinib) was launched by China partner Eli Lilly in late-2018 as a therapy for 3L mCRC. Chi-Med's China Oncology commercial team set to take over Elunate marketing on October 1, following an amendment to their 2013 China licensing, co-development and commercialisation deal. The rationale for the deal amendment is to maximise Elunate's potential in China.

NDRL listing is helping Elunate gain market traction

Elunate's inclusion on the National Drug Reimbursement List (NDRL) from January 1, 2020 has broadened patient access resulting in a 174% increase in prescriptions in H120 vs H119 to the equivalent of 18,800 monthly cycles (H119: 6,850). Chi-Med has indicated that this represents a c 14% market share (up from c 5% at end-2019). For H120, Eli Lilly's in-market sales were $14m (H119: $11.4m), with Chi-Med receiving $8.6m in manufacturing revenues and royalties (H119: $4.7m).

Revised Elunate deal should be a positive result for all parties

Under the terms of the 2020 amendment, which is associated with no upfront payment, Eli Lilly will maintain exclusive commercialisation rights to Elunate and will continue to consolidate China sales. Chi-Med will become responsible for development and execution of all local and regional detailing, promotion, and marketing activities in China. Both partners will continue to collaborate on the formation and executing of the national marketing strategy. From an economic perspective, Chi-Med will receive a 70-80% share of gross profits (up from a range spanning 15-29% previously) linked to pre-agreed sales targets, in the form of royalties, manufacturing and service payments.

A growing commercial footprint that will have the necessary broader and deeper reach

Chi-Med has been investing in the expansion of its China Oncology commercial team, which now numbers >320 (up from c 90 at end-2019). It is targeting 400 by end-2020, which represents a salesforce around three times larger than that currently deployed by Eli Lilly for Elunate. Chi-Med's commercial infrastructure also has a broader and deeper reach covering 1,300 of the top oncology centres, c 95% of the market opportunity. By 2023, Chi-Med's goal is to drive Elunate market penetration in mCRC towards 40% and grow its sales team to 900+ to support future product launches. These will include fruquintinib in its second indication of gastric cancer (the second and final interim analysis of the pivotal FRUTIGA Phase III study occurred in June 2020 and the trial should complete enrolment in late-2020/early-2021) as well as the in-house launch of surufatinib.

Surufatinib will be the first unpartnered asset to be approved and launched

Subject to regulatory approval, surufatinib will launch in its first indication (epNET) in China in late-2020. This will mark a watershed for Chi-Med, as the first unpartnered launch by its commercial team. Approval in a second indication could follow soon after in 2021: the acceptance of surufatinib's China NDA for pNET (pancreatic NET) is expected imminently. Our February 2020 Update provides an overview of surufatinib's clinical data and market opportunity. We also note that pivotal data from the SANET-p trial in pNET will be presented at the European Society of Medical Oncology 2020 meeting (ESMO 2020, September 19-21).

Savolitinib is following closely behind, with its launch likely next year

A third asset, savolitinib, could also be approved and launched in its first indication in China during 2021; however, this launch would be executed by global partner AstraZeneca. Savolitinib's China NDA has been accepted for review and Priority Review granted as a monotherapy for non-small cell lung cancer with MET exon 14 skipping mutations (MET ex14m NSCLC). Potential approval in China would be the first approval of savolitinib anywhere in the world.

Global Innovation: on a similar regulatory pathway

Commendable progress in the global regulatory pathways

Chi-Med has also made significant strides with progressing the lead assets for the global market from a clinical and regulatory perspective. Three US FDA Fast Track Designations for fruquintinib (CRC) and surufatinib (pNET and epNET) have been granted. Chi-Med will also begin its first FDA submission in late-2020, with a rolling NDA for surufatinib in NET that is supported by China Phase III and US

bridging data. Filing acceptance of this NDA is subject to FDA review of the complete application, although planning is underway for a potential late-2021 US launch. Chi-Med has not disclosed its commercial strategy, but given that NET is a niche indication and surufatinib has a highly differentiated mechanism of action, it is understood that a relatively modest commercial organization could cover the key NET centres.

Scientific advice from the EMA's Committee for Medicinal Products for Human Use (CHMP) has indicated that the existing clinical data package could also form the basis to support an MAA for surufatinib in NET in Europe. Chi-Med is planning MAA submission in 2021. In Japan, pending regulatory interaction will confirm surufatinib's development strategy and potential path to registration in this region.

FRESCO-2 pivotal fruquintinib clinical trial is underway

Fruquintinib recently initiated the c 500-pt global pivotal Phase III FRESCO-2 trial in 3L mCRC, which is being carried out in 100 sites across the US, Europe, and Japan. Sites are now open and screening patients with the first patient expected to be dosed soon. FRESCO-2 enrolment is anticipated to complete by end-2021.

Savolitinib progressing with three lead indications, with first global launch as early as 2022

The next steps for the global development of savolitinib monotherapy in MET ex14m/del NSCLC and for the resumption of clinical development in PRCC (papillary renal cell carcinoma) are under evaluation by AstraZeneca and Chi-Med. This means there is potential for savolitinib to be in registration studies for three indications in 2021. 2L/3L EGFRm+/MET+ NSCLC is the lead indication for the global market where the savolitinib + osimertinib (Tagrisso, AstraZeneca) combination is being studied in the 200-pt SAVANNAH Phase II trial in patients who have progressed on prior osimertinib therapy. Data from an internal interim analysis of the first 50 patients (largely treated in the ≥3L setting) is being collated and analysed. This and a further interim analysis will be used to inform regulatory strategy. Subject to the strength of the data and to agreement with the regulators, there may be potential for an accelerated approval pathway, with SAVANNAH supporting an NDA filing with a confirmatory post-approval trial. First global launch for this combination could occur in 2022.

Earlier stage innovation: PD-1 combinations

Cleaner side-effect profile means combination with other treatments is possible

Chi-Med's strategy for its three lead assets has been to select indications that facilitate a rapid path to market, typically as monotherapies, with further development of follow on indications and combination approaches to maximise their potential. The selectivity of Chi-Med's tyrosine kinase inhibitor assets typically means high efficacy and fewer side-effects, which lends them to combination with various other drug modalities including chemotherapies and immunotherapies, such as PD-1/PD-L1 checkpoint inhibitors.

Increasing oncology treatments favour employing synergistic approaches

Immuno-oncology is a clinically and commercially important field. Chi-Med is exploring combinations of fruquintinib and surufatinib with PD-1 inhibitors via multiple collaborations which have the potential to generate highly efficacious, and highly lucrative, therapeutic options in China and globally. The rationale for this combination approach is to improve therapeutic outcome through potentially synergistic mechanisms of action, ie simultaneously inhibiting tumour angiogenesis and tumour cell signalling or immune evasion.

A number of collaborations are already in place

Three global collaborations have been secured to date: Shanghai Junshi (for Tuoyi, toripalimab) for surufatinib only, and with Innovent Biologics (Tyvyt, sintilimab) and Beigene (tislelizumab) for both assets. Additionally, a China collaboration has been signed with Genor to explore the combination of fruquintinib with geptanolimab. The most advanced combinations are the China proof of concept studies of surufatinib + Tuoyi in eight solid tumour types and of fruquintinib + Tyvyt in five solid tumour types. Initial data on the surufatinib/Tuoyi combination was presented earlier this year at the American Association of Cancer Research (AACR) meeting, which we covered in our April 2020 Update. Numerous China and Global Phase I studies for the various combinations are in planning.

Earlier stage innovation: the next wave

HMPL-306 is the ninth in-house asset to progress into the clinic

Chi-Med's next wave of innovation is also advancing. The recent Phase I start of IDH1/2 dual inhibitor HMPL-306 in China brings the number of early-stage assets in active development to four. HMPL-306 is the ninth asset to be discovered in-house at Chi-Med and was designed to overcome the resistance mechanism of mutant IDH (isocitrate dehydrogenase) seen in various haematological cancers.

Moving towards parallel China and Global clinical development

Haematological cancers, in particular B cell malignancies, are the target indications for Chi-Med's most advanced early programmes, Syk inhibitor HMPL-523 and PI3Kδ inhibitor HMPL-689. Dose expansion in the China Phase Ib studies is underway, with the intention to firm up plans in 2020 for the move into registration intent studies. Across the US and Europe, over 20 sites are enrolling into the Phase I studies, with multiple dose cohorts already completed. China development of both assets is further ahead than for the US/Europe. However, compared with the sequential development of the first wave of innovation for the China and Global markets, over time Chi-Med has been decreasing this interval and is moving towards developing assets for both markets in parallel.

A healthy stream of early-stage programmes is coming through

The number of assets in Chi-Med's clinical pipeline is expected to expand in the coming years. The company has announced that it has a further five novel drug candidates in pre-IND regulatory toxicity studies and is targeting dual US and China IND submission during 2020-21. The mechanisms of actions of these candidates are undisclosed, but notably, one of the programmes is a monoclonal antibody. This is the first visible sign that Chi-Med is making inroads into large molecule development, following prior indications that it intends to add biologic development capability and assets, either through in-house development or M&A.

Valuation

We value Chi-Med using a sum-of-the-parts methodology, with an rNPV model for the Innovation Platform and an earnings-based multiple for the Commercial Platform. Full details of our methodology can be found in our April 2020 Outlook.

Progress means valuation raised to £4.17bn (£5.87/share), or $5.42bn ($38.17/ADS)

Following H120 results, we have reviewed our assumptions, making updates to reflect the most recent Chi-Med guidance on clinical and regulatory timelines, with proceeds from the General Atlantic PIPE captured in proforma net cash of $354m. Our updated Chi-Med valuation is now £4.17bn (equivalent to £5.87/share), or $5.42bn ($38.17/ADS), up from £3.61bn (£5.08/share), or $4.69bn ($33.00/ADS) previously. The Innovation Platform accounts for the bulk of the valuation, £3.10bn (£4.37/share) or $4.03bn ($28.38/ADS), with the Commercial Platform representing £772m (£1.12/share) or $1,003m ($7.26/ADS).

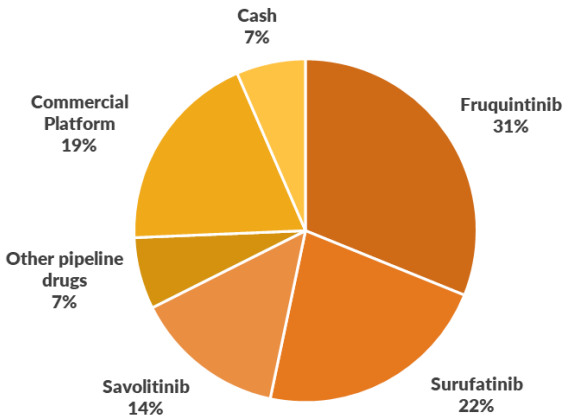
Largest increase is due to the later-stage programmes

The key changes to our assumptions include: increasing the probability of success for savolitinib in NSCLC (China) to 90% following NDA acceptance and for fruquintinib in CRC (Global) to 64% on initiation of the FRESCO-2 trial; updating Chi-Med's share of the economics for Elunate (China) to reflect the recent deal amendment; bringing forward potential surufatinib (Global) launch in NET by two years to 2022 given accelerated US timelines. We have also reviewed the earlier-stage pipeline, adding IDH1/2 inhibitor HMPL-306 to our valuation, so that we now explicitly value four of the next wave of clinical assets. In line with our house philosophy, we continue to employ conservative assumptions throughout.

The three key programmes contribute two-thirds of our model's valuation

The relative contributions of each drug asset to our valuation are shown in Exhibit 2, with the detailed components of our Innovation Platform rNPV are presented in Exhibit 3. Looking at the elements of our rNPV valuation in more detail: fruquintinib remains the largest contributor, amounting to £1.83/share (£1.3bn) or $11.88/ADS ($1.7bn), followed by surufatinib (£1.30/share, $8.47/ADS) and savolitinib (£0.84/share, $5.46/ADS) being the next most valuable clinical assets.

Exhibit 2: Relative contributions of Chi-Med programmes to valuation



Source: Trinity Delta

We emphasise that any number of incremental improvements on our base case scenarios (notably with clinical, regulatory, and commercial progress in the Innovation Platform) could result in sizeable uplifts in our valuation.

Exhibit 3: rNPV-based valuation of Hutchison China MediTech

Drug	Indication	Total NPV ($m)	Likelihood of approval	rNPV ($m)	rNPV/ ADS ($)	rNPV/ share (£)	Notes
Savolitinib	PRCC (China)	28	64%	21	0.15	0.02	Peak sales: $47m; Launch: 2024
	PRCC (US/EU)	84	64%	54	0.38	0.06	Peak sales: $292m; Launch: 2023
	ccRCC (China)*	50	45%	23	0.16	0.02	Peak sales: $176m; Launch: 2025
	ccRCC (US/EU)*	163	45%	73	0.52	0.08	Peak sales: $1.1bn; Launch: 2025
	NSCLC (China)	195	90%	176	1.24	0.19	Peak sales: $239m; Launch: 2021
	NSCLC (US/EU)	521	64%	334	2.35	0.36	Peak sales: $1.5bn; Launch: 2022
	Gastric (China)*	80	45%	36	0.25	0.04	Peak sales: $215m; Launch: 2024
	Gastric (US/EU)*	91	45%	41	0.29	0.04	Peak sales: $640m; Launch: 2025
	Prostate (Global)*	88	20%	18	0.12	0.02	Peak sales: $614m; Launch: 2025
	Total	**1,300**		**775**	**5.46**	**0.84**	
Fruquintinib (Elunate)	CRC (China)	280	100%	280	1.97	0.30	Peak sales: $122m; Launch: 2018
	CRC (US/EU)	767	64%	482	3.39	0.52	Peak sales: $1.2bn; Launch: 2023
	Gastric (China)	453	64%	290	2.04	0.31	Peak sales: $315m; Launch: 2022
	Gastric (US/EU)	276	45%	117	0.82	0.13	Peak sales: $640m; Launch: 2024
	Other tumours (China)	558	35%	195	1.37	0.21	Peak sales: $318m; Launch: 2021
	Other tumours (US/EU)	1,303	25%	324	2.28	0.35	Peak sales: $1.5bn; Launch: 2022
	Total	**3,637**		**1,688**	**8.47**	**1.83**	
Surufatinib	Pancreatic NET (China)	49	90%	44	0.31	0.05	Peak sales: $25m; Launch: 2021
	Pancreatic NET (US/EU)	246	64%	156	1.10	0.17	Peak sales: $162m; Launch: 2022
	Other NET (China)	189	90%	169	1.19	0.18	Peak sales: $79m; Launch: 2020
	Other NET (US/EU)	836	64%	533	3.75	0.58	Peak sales: $528m; Launch: 2022
	Biliary tract (China)	297	45%	132	0.93	0.14	Peak sales: $190m; Launch: 2023
	Biliary tract (US/EU)	381	45%	169	1.19	0.18	Peak sales: $344m; Launch: 2024
	Total	**1,996**		**1,203**	**8.47**	**1.30**	
HMPL-689	B-cell malig. (China)	67	25%	9	0.07	0.01	Peak sales: $109m; Launch: 2024
	B-cell malig. (US/EU)	451	15%	61	0.43	0.07	Peak sales: $488m; Launch: 2025
	Total	**517**		**71**	**0.50**	**0.08**	
HMPL-523	B-cell malig. (China)	62	25%	8	0.06	0.01	Peak sales: $109m; Launch: 2024
	B-cell malig. (US/EU)	428	15%	52	0.36	0.06	Peak sales: $585m; Launch: 2026
	Total	**489**		**60**	**0.42**	**0.07**	
HMPL-306	AML	365	15%	51	0.36	0.05	Peak sales: $384m; Launch: 2025
HMPL-453	Solid tumours	784	25%	186	1.31	0.20	Peak sales: $800m; Launch: 2025
Hutchison MediPharma (Innovation Platform)		**9,089**		**4,033**	**28.38**	**4.37**	
China Healthcare (Commercial Platform)		1,037		1,037	7.29	1.12	Based on FY20e earnings of $53.4m and a multiple of 19.4x
Net cash		354.2		354.2	2.49	0.38	Pro forma (H120 + PIPE)
Total		**10,480**		**5,424**	**38.17**	**5.87**	
Discount rate						12.5%	
Exchange rate						1.28	USD:GBP
Taxation						20.0%	

Source: Trinity Delta Note: * = currently not focus indications for Chi-Med; pRCC = papillary renal cell carcinoma; ccRCC = clear cell renal cell carcinoma; NSCLC = non-small cell lung cancer; CRC = colorectal cancer; NET = neuroendocrine tumours; AML = acute myeloid leukaemia

Financials

COVID-19 impact at H120 was contained, with solid underlying growth

Chi-Med's H120 group revenue of $106.8m was up 4% (9% CER) from $102.2m in H119. This growth was attributable to higher collaboration sales (service fees and milestones) from the Innovation Platform (H120: $7.8m vs H119: $7.3m) and higher consolidated revenues from the Commercial Platform (H120: $99.0m vs H119: $94.9m). The Rx drug subsidiary Hutchison Sinopharm performed particularly strongly despite limitations posed by COVID-19, and rising Elunate-derived income also boosted revenues. Eli Lilly reported in market sales of $14m (H119: $11.4m) for Elunate, with Chi-Med reporting $8.6m in manufacturing revenues and royalties (H119: $4.7m).

Operating loss reflects continued investment in R&D and commercial infrastructure

The H120 group operating loss of $49.7m (H119: loss of $45.4m) reflected increased R&D pipeline investment and growth in the China Oncology commercial organisation. By division, the Innovation Platform (China Oncology and Global Innovation) posted a net loss of $73.6m (H119: net loss of $67.1m), while the Commercial Platform generated a $35.5m net profit (H119: net profit of $31.0m).

Advancing nine programmes through China and Global clinical development

Profits from the Commercial Platform offset a material portion of investment in the Innovation Platform (Hutchison MediPharma); however, R&D investment is steadily rising as the broad China and Global development pipeline of nine novel drug candidates, with five in global development, advances into later-stage trials. H120 R&D spend was $74.0m (up 6.8% from $69.3m) and is expected to rise further as pivotal studies initiate, early-stage assets progress, and new INDs are filed. We expect R&D spend of $194.6m and $223.8m for FY20 and FY21, respectively. Capex will also increase, largely connected to the new Shanghai manufacturing facility; we forecast this will cost c $120m in aggregate.

SG&A expenses also set to rise as China launch preparations gather pace

The expansion of China Oncology and Global Innovation clinical and regulatory activities contributes to a 18.6% rise in admin expenses to $21.7m (H119: $18.3m). Selling expenses were 24.0% lower at $5.7m (H119: $7.5m), although we expect these to rise as China Oncology commercial activities are expanded to support Elunate commercialisation under the revised agreement and surufatinib launch. Changes to our key estimates are shown in Exhibit 4.

Exhibit 4: Summary of changes to estimates

	Sales ($m)			Adj. EBITDA ($m)			Earnings per ADS ($)		
	Old	New	Change	Old	New	Change	Old	New	Change
2020E	210.3	214.8	2.1%	(157.1)	(121.7)	N/A	(1.22)	(1.00)	N/A
2021E	274.2	318.7	16.2%	(133.5)	(125.3)	N/A	(1.11)	(1.02)	N/A

Source: Trinity Delta

Cash outflow of $140-$160m is expected

Chi-Med's FY20 guidance remains for Innovation Platform adjusted (non-GAAP) operating loss of $180m to $210m and a negative adjusted (non-GAAP) group net cash flow of $140m to $160m. This guidance reflects investment into advancing the pipeline (including the global FRESCO-2 fruquintinib registration study and US regulatory submission for surufatinib), capex into small molecule manufacturing, and supporting the China and US commercial infrastructure. Notably, this guidance also assumes no material impact from the COVID-19 pandemic.

Ample financial resources are held within the Group

At end-June 2020, Chi-Med had cash resources of more than $400m, consisting of cash, cash equivalents, and short-term investments of $281m and unutilised bank facilities of $119m. A further $103m in available cash resources was held at the non-consolidated JVs. Additionally, the $100m proceeds from the General Atlantic private placement were received in July 2020, and Chi-Med is also due to receive its share (post tax) of the $95m Guangzhou land compensation agreement as a dividend payment during H220 and H121.

Maintaining momentum is important, in our view

Chi-Med is amply funded into 2021, with the resources to maintain pipeline momentum given the clinical opportunities and to support planned commercial infrastructure expansion. We highlight that up to $100m in further funding would be obtained on exercise of warrants granted to General Atlantic in conjunction with the private placement. These warrants for 3.33m ADS at a price of $30/ADS can be exercised at any point before January 3, 2022.

Exhibit 5: Summary of financials

Year-end: December 31	$'000s	2017	2018	2019	2020E	2021E
INCOME STATEMENT						
Revenues		**241,203**	**214,109**	**204,890**	**214,825**	**318,711**
Cost of goods sold		(175,820)	(143,944)	(160,152)	(164,035)	(212,608)
Gross Profit		**65,383**	**70,165**	**44,738**	**50,791**	**106,103**
R&D expenses		(75,523)	(114,161)	(138,190)	(194,554)	(223,819)
Selling expenses		(19,322)	(17,736)	(13,724)	(14,736)	(19,597)
G&A expenses		(23,955)	(30,909)	(39,210)	(43,587)	(50,959)
Underlying operating profit		**(53,417)**	**(92,641)**	**(146,386)**	**(202,086)**	**(188,271)**
Other revenue/expenses		0	0	0	0	0
EBITDA		**(50,839)**	**(89,051)**	**(141,444)**	**(196,558)**	**(178,606)**
Operating Profit		**(53,417)**	**(92,641)**	**(146,386)**	**(202,086)**	**(188,271)**
Interest income/expense		(235)	4,969	3,914	250	714
Other income/expense		116	1,017	1,367	(758)	(758)
Profit Before Taxes		**(53,536)**	**(86,655)**	**(141,105)**	**(202,595)**	**(188,316)**
Adj. PBT		**(53,536)**	**(86,655)**	**(141,105)**	**(202,595)**	**(188,316)**
Current tax income		(3,080)	(3,964)	(3,274)	(5,204)	(6,370)
Equity in earnings of equity investees, net of tax		33,653	19,333	40,700	74,888	53,356
Net Income		**(22,963)**	**(71,286)**	**(103,679)**	**(132,911)**	**(141,329)**
Minority interests		(3,774)	(3,519)	(2,345)	(8,960)	(4,360)
Net income attributable to equityholders		**(26,737)**	**(74,805)**	**(106,024)**	**(141,870)**	**(145,689)**
EPS ($)		**(0.04)**	**(0.11)**	**(0.16)**	**(0.20)**	**(0.20)**
Earnings per ADS ($)		**(0.22)**	**(0.57)**	**(0.80)**	**(1.00)**	**(1.02)**
DPS ($)		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Average no. of shares (m)		617.2	664.3	665.7	697.9	714.7
Gross margin		*27%*	*33%*	*22%*	*24%*	*33%*
EBITDA margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Underlying operating margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
BALANCE SHEET						
Current assets		**432,195**	**370,541**	**317,022**	**377,543**	**342,947**
Cash and cash equivalents		85,265	86,036	121,157	98,664	60,975
Short-term investments		273,031	214,915	96,011	181,074	156,074
Accounts receivable		42,270	42,958	43,254	47,085	69,854
Inventories		11,789	12,309	16,208	17,976	23,300
Other current assets		19,840	14,323	40,392	32,744	32,744
Non-current assets		**165,737**	**161,577**	**148,100**	**171,418**	**192,661**
Property, plant & equipment		14,220	16,616	20,855	34,745	47,985
Intangible assets		3,738	3,533	3,387	0	0
Investments in equity investees		144,237	138,318	98,944	113,644	121,648
Other non-current assets		3,542	3,110	24,914	23,028	23,028
Current liabilities		**(104,600)**	**(85,479)**	**(113,101)**	**(121,051)**	**(134,992)**
Short-term debt		(29,987)	0	0	0	0
Accounts payable		(24,365)	(25,625)	(23,961)	(26,965)	(40,774)
Other current liabilities		(50,248)	(59,854)	(89,140)	(94,086)	(94,218)
Non-current liabilities		**(8,366)**	**(34,384)**	**(39,118)**	**(39,127)**	**(39,127)**
Long-term debt		0	(26,739)	(26,818)	(26,839)	(26,839)
Other non-current liabilities		(8,366)	(7,645)	(12,300)	(12,288)	(12,288)
Equity		**484,966**	**412,255**	**312,903**	**388,783**	**361,489**
CASH FLOW STATEMENTS						
Operating cash flow		**(8,943)**	**(32,847)**	**(80,912)**	**(113,143)**	**(139,784)**
Net income		(22,963)	(71,286)	(103,679)	(132,911)	(141,329)
Non-cash adjustments & other operating cash flow		28,525	31,276	6,662	17,207	15,829
Change in working capital		(14,505)	7,163	16,105	2,561	(14,283)
Investing cash flow		**(260,780)**	**43,752**	**119,028**	**(105,631)**	**2,095**
CAPEX		(5,019)	(6,364)	(8,565)	(20,568)	(22,905)
Change in short term investments		(248,761)	58,116	118,904	(85,063)	25,000
Investment in an equity investee		(7,000)	(8,000)	8,689	0	0
Financing cash flow		**273,196**	**(8,231)**	**(1,493)**	**196,343**	**100,000**
Proceeds from equity		291,737	(2,322)	(95)	197,574	100,000
Increase in loans		(16,947)	(4,627)	(116)	0	0
Other financing cash flow		(1,594)	(1,282)	(1,282)	(1,231)	0
Net increase in cash		**3,473**	**2,674**	**36,623**	**(22,430)**	**(37,689)**
Exchange rate effects		2,361	(1,903)	(1,502)	(63)	0
Cash at start of year		79,431	85,265	86,036	121,157	98,664
Cash at end of year		**85,265**	**86,036**	**121,157**	**98,664**	**60,975**
Net cash at end of year		**328,309**	**274,212**	**190,350**	**252,899**	**190,210**

Source: Company, Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees. *2021E cash figure includes assumed receipt of $100m in new funds from warrant exercise

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Disclaimer

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