

## Arecor Therapeutics

### Hikma licence milestone achieved

Update

13 January 2022

Arecor has provided an update on its partnered Specialty Hospital programmes with Hikma Pharmaceuticals. AT307 and AT282 are both novel enhanced formulations of existing, albeit undisclosed, marketed injectable products. The transfer of AT307 to Hikma for further development and, importantly, their commitment to seek approval under the FDA 505(b)(2) pathway triggers an undisclosed milestone payment. However, all rights to AT282 have been returned to Arecor following a portfolio review at Hikma; Arecor will assess options for re-partnering AT282. Given Hikma's focus and expertise with differentiated/specialty generic products, this collaboration provides strong external validation of Arecor's capabilities, and we believe Hikma is well placed to capitalise on the potential of AT307. Updating our model generates an Arecor valuation of £174.5m (570p per share) from £179.6m previously.

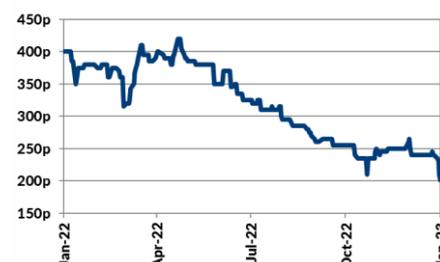
Year-end: December 31	2020	2021	2022E	2023E
Revenues (£m)	1.7	1.2	2.2	4.6
Adj. PBT (£m)	(4.3)	(7.1)	(12.7)	(14.1)
Net Income (£m)	(2.8)	(6.2)	(10.1)	(11.2)
EPS (p)	(0.2)	(0.3)	(0.3)	(0.4)
Cash (£m)	2.9	18.3	12.6	2.6
EBITDA (£m)	(3.3)	(6.3)	(10.9)	(12.4)

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

- AT307 transferred to Hikma** AT307, a novel RTA (ready to administer) formulation of an already marketed specialty hospital product, was developed using Arecor's Arestat proprietary drug formulation technology platform. The Hikma deal was struck in October 2020, with subsequent updates indicating development work was progressing well. In the near-term, we continue to expect limited disclosure from Hikma and Arecor, and model first launch in 2025.
- AT282 eligible for re-partnering** Arecor retains unencumbered rights to AT282 following an internal portfolio review at Hikma. AT282, a novel stable RTU (ready to use) liquid concentrate formulation of an existing marketed product only available as a lyophilised powder requiring reconstitution before use, was initially developed to proof of concept by Arecor prior to the Hikma deal in January 2020. We now include AT282 within Arecor's research stage in-house specialty hospital products portfolio.
- Hikma Specialty Hospital product collaborations** Under Arecor's co-development and licence deal(s) with Hikma, signed in 2020, specific deal terms and the identity of the underlying assets were not disclosed due to commercial sensitivities. Arecor has received upfront payments and a licence milestone on the transfer of AT307. Hikma is responsible for any further development to support abbreviated regulatory filings in the US/EU and other regions, manufacturing, and commercialisation, with Arecor eligible for further development, regulatory and commercial milestones, and undisclosed royalties on sales (assumed high-single to double-digit percentages).
- New valuation of £174.5m, or 570p per share** Incorporating milestone receipt and increasing AT307's probability of success, while removing AT282 as a standalone asset, reduces slightly our Arecor pipeline rNPV model to £174.5m (570p/share) from £179.6m previously.

Price	210p
Market Cap	£70.4m
Enterprise Value	£57.8m
Shares in issue	30.6m
12-month range	210.2-432p
Free float	34.2%
Primary exchange	AIM London
Other exchanges	N/A
Sector	Healthcare
Company Code	AREC

Corporate client Yes



### Company description

Arecor Therapeutics is a revenue-generating clinical stage drug developer, with a well-balanced portfolio of in-house and partnered programmes. Its proprietary Arestat formulation platforms result in enhanced products with lower development risks and less onerous regulatory approvals.

### Analysts

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**Exhibit 1: Summary of financials**

Year-end: Dec 31	£'000s	2019	2020	2021	2022E	2023E
<b>INCOME STATEMENT</b>						
<b>Revenues</b>		<b>748</b>	<b>1,698</b>	<b>1,158</b>	<b>2,195</b>	<b>4,617</b>
Cost of goods sold		0	0	0	0	0
<b>Gross Profit</b>		<b>748</b>	<b>1,698</b>	<b>1,158</b>	<b>2,195</b>	<b>4,617</b>
R&D expenses		(3,085)	(3,937)	(5,386)	(9,964)	(10,961)
SG&A expenses		(1,416)	(1,642)	(2,389)	(4,408)	(7,199)
<b>Underlying operating profit</b>		<b>(3,753)</b>	<b>(3,880)</b>	<b>(6,617)</b>	<b>(12,177)</b>	<b>(13,542)</b>
Share-based payments		(201)	(318)	(484)	(629)	(654)
Exceptionals		0	0	(462)	0	0
Other revenue/expenses		898	452	640	1,120	1,040
<b>EBITDA</b>		<b>(2,688)</b>	<b>(3,259)</b>	<b>(6,268)</b>	<b>(10,904)</b>	<b>(12,360)</b>
<b>Operating Profit</b>		<b>(2,855)</b>	<b>(3,428)</b>	<b>(6,439)</b>	<b>(11,057)</b>	<b>(12,502)</b>
Financing costs/income		(15)	(84)	(21)	92	63
<b>Profit Before Taxes</b>		<b>(2,870)</b>	<b>(3,512)</b>	<b>(6,945)</b>	<b>(10,966)</b>	<b>(12,439)</b>
<b>Adj. PBT</b>		<b>(3,970)</b>	<b>(4,283)</b>	<b>(7,122)</b>	<b>(12,715)</b>	<b>(14,133)</b>
Current tax income		435	760	776	897	1,206
<b>Net Income</b>		<b>(2,435)</b>	<b>(2,752)</b>	<b>(6,169)</b>	<b>(10,069)</b>	<b>(11,233)</b>
<b>EPS (p)</b>		<b>(1.1)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>(0.4)</b>
<b>Adj. EPS</b>		<b>(1.5)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.4)</b>	<b>(0.4)</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>
Average no. of shares (m)		2.3	16.2	23.0	28.8	30.0
<i>Gross margin</i>		100%	100%	100%	100%	100%
<i>EBITDA margin</i>		N/A	N/A	N/A	N/A	N/A
<i>Underlying operating margin</i>		N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>						
<b>Current assets</b>		<b>4,998</b>	<b>3,822</b>	<b>20,515</b>	<b>16,417</b>	<b>7,023</b>
Cash and cash equivalents		3,447	2,898	18,316	12,630	2,633
Short-term investments		0	0	0	0	0
Accounts receivable		809	166	1,423	1,804	1,898
Inventories		0	0	0	309	743
Other current assets		742	758	776	1,673	1,750
<b>Non-current assets</b>		<b>452</b>	<b>462</b>	<b>406</b>	<b>377</b>	<b>390</b>
Property, plant & equipment		353	375	328	305	323
Intangible assets		51	38	30	24	19
Other non-current assets		48	48	48	48	48
<b>Current liabilities</b>		<b>(1,107)</b>	<b>(1,408)</b>	<b>(2,267)</b>	<b>(2,119)</b>	<b>(2,318)</b>
Short-term debt		0	0	0	0	0
Accounts payable		(1,014)	(1,303)	(2,141)	(1,993)	(2,192)
Other current liabilities		(93)	(105)	(126)	(126)	(126)
<b>Non-current liabilities</b>		<b>(128)</b>	<b>(2,102)</b>	<b>(105)</b>	<b>(105)</b>	<b>(105)</b>
Long-term debt		0	(1,698)	0	0	0
Other non-current liabilities		(128)	(403)	(105)	(105)	(105)
<b>Equity</b>		<b>4,216</b>	<b>774</b>	<b>18,549</b>	<b>14,569</b>	<b>4,990</b>
<b>CASH FLOW STATEMENTS</b>						
<b>Operating cash flow</b>		<b>(2,505)</b>	<b>(1,857)</b>	<b>(5,450)</b>	<b>(11,022)</b>	<b>(10,842)</b>
Profit before tax		(2,870)	(3,512)	(6,945)	(10,966)	(12,439)
Non-cash adjustments		389	614	1,156	691	733
Change in working capital		(23)	747	(419)	(1,706)	(327)
Interest paid		0	0	0	92	63
Taxes paid		0	295	758	867	1,128
<b>Investing cash flow</b>		<b>(65)</b>	<b>(49)</b>	<b>(68)</b>	<b>(124)</b>	<b>(155)</b>
CAPEX		(73)	(52)	(69)	(124)	(155)
Acquisitions/disposals		0	0	0	0	0
Other investing cash flows		9	3	1	0	0
<b>Financing cash flow</b>		<b>5,317</b>	<b>1,774</b>	<b>20,931</b>	<b>5,460</b>	<b>1,000</b>
Proceeds from equity		5,424	0	18,565	5,460	1,000
Increase in loans		0	1,840	2,500	0	0
Other financing cash flow		(107)	(67)	(134)	0	0
<b>Net increase in cash</b>		<b>2,748</b>	<b>(132)</b>	<b>15,413</b>	<b>(5,686)</b>	<b>(9,997)</b>
Exchange rate effects		(6)	(43)	5	0	0
Cash at start of year		705	3,074	2,898	18,316	12,630
<b>Cash at end of year</b>		<b>3,447</b>	<b>2,898</b>	<b>18,316</b>	<b>12,630</b>	<b>2,633</b>
<b>Net cash at end of year</b>		<b>3,447</b>	<b>1,200</b>	<b>18,316</b>	<b>12,630</b>	<b>2,633</b>

Source: Company, Trinity Delta Note: Due to subsequent restatement of accounts FY19 relates to the 12-month period ending 31 May 2019.

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