Trinity Delta

Redx Pharma

Update

Key Phase II data for lead assets expected during H223

30 January 2023

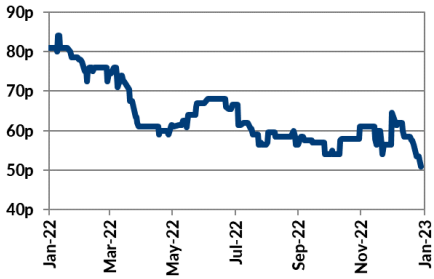
Redx Pharma's two lead assets are in Phase II trials and key data for both are expected during H223. These are RXC004, a porcupine inhibitor for Wnt-ligand dependent solid tumours, and RXC007, a ROCK2 inhibitor in IPF (idiopathic pulmonary fibrosis). Efficacy insights from both datasets should provide valuable information on the commercial potential of each candidate and visibility on next steps. Redx Pharma has discovered and developed five molecules which are currently in clinical trials, and the discovery engine and differentiated medicinal chemistry expertise continue to bear fruit, with a growing earlier stage preclinical pipeline. This includes RXC008, a GI targeted ROCK inhibitor, which is progressing towards IND/CTA submission by end-2023 for fibrostenotic Crohn's disease. Cash resources should be sufficient through key H223 value inflection points. Our rNPV-based valuation is £461m (from £458m), or 138p/share.

Year-end: September 30	2021	2022	2023E	2024E
Revenues (£m)	10.0	18.7	3.9	1.0
Adj. PBT (£m)	(18.8)	(17.3)	(44.1)	(49.7)
Net Income (£m)	(21.6)	(18.0)	(47.2)	(52.9)
Adj.EPS (p)	(7.4)	(5.9)	(12.9)	(11.2)
Cash (£m)	29.6	53.9	13.6	1.5*
EBITDA (£m)	(19.1)	(15.4)	(44.8)	(50.2)

Source: Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals. * Our cash forecast assumes receipt of £35m in additional funding during CY23

- **RXC004 monotherapy data due H123 but combo data +CPI in H223 will be key** The first RXC004 data from the ongoing Phase II trials will be in H123 from the monotherapy biliary tract cancer (BTC) arm of PORCUPINE2. The primary efficacy hypothesis in BTC is that RXC004 will reverse Wnt-driven immune evasion so it is this combination data (+ checkpoint inhibitors) due in H223 that will be key for assessing efficacy given the synergistic effects.
- **First RXC007 IPF efficacy insights in H223** A Phase IIa trial of RXC007 in idiopathic pulmonary fibrosis (IPF) was recently initiated with top-line data expected H223. This dose-ranging study will provide initial efficacy insights and will inform the design of a Phase IIb trial, which could also be expanded to include interstitial lung diseases (ILDs).
- **Cash runway into early 2024** End-September 2022 cash of £53.9m should be sufficient to fund planned operations through key data points across the clinical pipeline into 2024, including the focus data readouts for RXC004 and RXC007 during H223. This also factors in an expected uptick in R&D spend in FY23 as trials progress but conservatively does not include the receipt of any unknown partner milestones, which could extend the cash runway.
- **rNPV valuation is £461m or 138p/share** Our risk-adjusted pipeline NPV model has been updated to reflect FY22 financial results and the recent start of a Phase I study for JZP815 by partner Jazz Pharmaceuticals. Our updated valuation, based on our revised forecasts which remain conservative, is largely unchanged at £461m ($553m), from £458m, which is equivalent to 138p per share.

Price	51.0p
Market Cap	£175.8m
Enterprise Value	£121.9m
Shares in issue	334.9m
12 month range	50.2-85.9p
Free float	13.1%
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 development of small molecule therapeutics, with an emphasis on oncology and fibrotic diseases. It aims to progress them through proof-of-concept studies, before evaluating options for further development and value creation.

Analysts

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Redx Pharma: All eyes on pipeline data this year

Redx Pharma's differentiated medicinal chemistry expertise has been proven by its consistent track record, having discovered and developed five molecules which are now in the clinic, including two wholly-owned assets in Phase II trials. The strategy is to partner certain assets, sometimes as early as preclinical, and deals are already in place with AstraZeneca and Jazz Pharmaceuticals; meanwhile, selected in-house programmes are being developed to key value-inflection points. This has led to a well-balanced and diverse pipeline. The proprietary lead assets focus on selected oncology indications, with RXC004 in development in solid tumours, and broader fibrosis diseases, and with RXC007 being examined in lung fibrosis (IPF) and with potential to be expanded to the broader immune mediated interstitial lung diseases (ILDs). These lead compounds are progressing through Phase II clinical trials, with data due to be released throughout the coming 12-24 months and key insights expected during H223. Our Redx Pharma rNPV based valuation is £461m ($553m) equivalent to 138p per share.

Data for lead wholly-owned clinical assets expected throughout 2023

Redx Pharma has two wholly-owned assets in Phase II trials: RXC004 in Wnt-dependent solid tumours, and RXC007 in IPF, a fibrotic lung disorder. Key data for both are expected during 2023, notably during H223, with details outlined below. In addition, gastro-intestinal pan-ROCK inhibitor RXC008, potentially for fibrostenotic Crohn's disease, is expected to be submitted for IND/CTA clearance for progression into the clinic by end-2023, with patient enrolment starting in 2024. Redx Pharma is aiming to generate three INDs, including RXC008, by the end of 2025. A summary of Redx Pharma's pipeline is shown in Exhibit 1.

Exhibit 1: Redx Pharma pipeline

	Target/ Product	Indication(s)	Research	Preclinical	Phase 1	Phase 2	Phase 3	Upcoming Milestones
Oncology	**Porcupine Inhibitor** (RXC004)	Genetically selected MSS mCRC monotherapy + anti-PD-1 combination			PORCUPINE			Topline data - **from H1 2023**
		Genetically selected pancreatic cancer monotherapy Biliary cancer monotherapy + anti-PD-1 combination			PORCUPINE2			
Fibrosis	**ROCK2 Selective Inhibitor** (RXC007)	Idiopathic pulmonary fibrosis (IPF)						Phase 2a topline data - **H2 2023**
	GI-targeted ROCK Inhibitor (RXC008)	Fibrostenotic Crohn's disease						IND/CTA submission - **end 2023**
Discovery Engine	**DDR Inhibitor** (Discoidin Domain Receptor)	Fibrosis, cancer-associated fibrosis						Progress programmes - **target of 2 INDs by 2025**
	Research Targets (Multiple Programmes)	Oncology & fibrosis						
Partnered	**Porcupine Inhibitor** (RXC006/AZD5055)	Idiopathic pulmonary fibrosis (IPF)						Licensed to AstraZeneca
	Pan-RAF Inhibitor (JZP815)	Oncology						Sold to Jazz Pharmaceuticals
	MAPK Pathway Target	Oncology						Progress Jazz collaboration

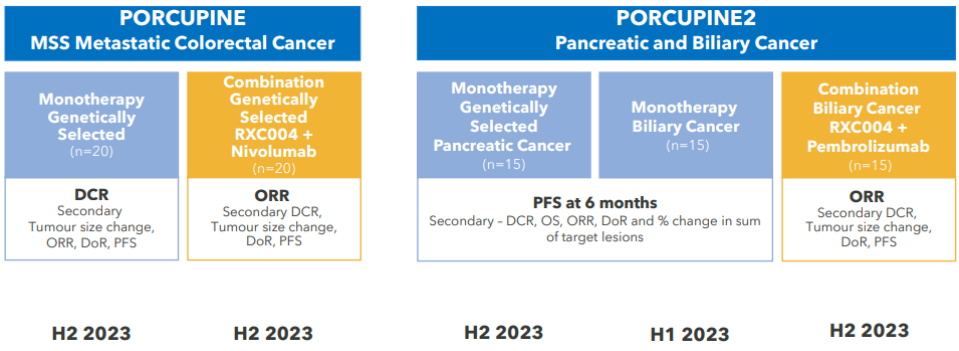
Source: Redx Pharma Note: DDR = discoidin domain receptor; GI = gastrointestinal; IND = investigational new drug application; IPF = idiopathic pulmonary fibrosis; MAPK = mitogen-activated protein kinase; MSS mCRC = microsatellite stable metastatic colorectal cancer; RAF = rapidly accelerated fibrosarcoma;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

RXC004: Combination data will be key

RXC004 is in a Phase II programme in solid tumours with data expected during 2023

RXC004 is an innovative porcupine inhibitor for Wnt-ligand dependent cancers. Two Phase II trials are ongoing (Exhibit 2): PORCUPINE in genetically selected microsatellite stable metastatic colorectal cancer (MSS mCRC) and PORCUPINE2 in genetically selected pancreatic and unselected biliary cancer. For a detailed overview of RXC004, including the role of Wnt signalling and prior Phase I data, please refer to our February 2022 Outlook.

Exhibit 2: RXC004 Phase II programme and timings for top-line data



Source: Redx Pharma Note: DCR = disease control rate; DoR = duration of response; ORR = overall response rate; OS = overall survival; PFS = progression free survival

First RXC004 readout will be monotherapy data during H123…

The first data expected during 2023 from the Phase II RXC004 programme are top-line results from the monotherapy biliary cancer arm of PORCUPINE2, which are anticipated during H123. Other RXC004 monotherapy data include from the genetically selected pancreatic cancer arm of PORCUPINE2 and from PORCUPINE, both of which are expected during H223.

…which will provide information on toxicity and tolerance but is unlikely to show responses…

Key data from the monotherapy arms of the Phase II programme will be toxicity and tolerance, rather than efficacy, in our view. This is owing to patients having advanced, hard-to-treat disease, in addition to RXC004's mechanism which, on its own, is cytostatic (slows cell growth) rather than cytotoxic (kills tumours). Hence, at best we expect to see evidence of disease stabilisation rather than improving outcomes (as measured by responses). A similar outcome was observed in the Phase I study of Novartis' Wnt inhibitor WNT974, where 16% of patients had stable disease but there were no responses. Therefore, we only expect responses in the monotherapy arms (partial or complete) if there is some residual synergistic effect from prior treatment regimens, notably checkpoint inhibitors (CPIs).

…with CPI combination data during H223 the key for assessing efficacy

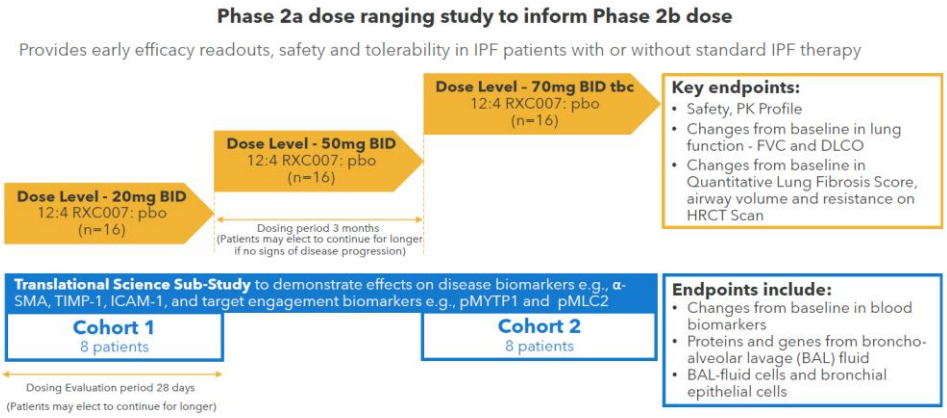
The true indication of RXC004's potential efficacy, and likely the biggest commercial opportunity, will therefore arise from combination studies with CPIs, with data expected H223 from both PORCUPINE2 in biliary cancer (+ Keytruda, Merck) and PORCUPINE (+ Opdivo, Bristol Myers Squibb). The combination with CPIs is important as RXC004 also has an immune-enhancing effect which turns non-responsive "cold" tumours to "hot", and hence could act synergistically with PD-1/PD-L1 inhibitors, such as Keytruda and Opdivo, which are generally ineffective in "cold" tumours. We note that Keytruda is on-track to deliver >$20bn in global sales in 2022, even though only around 15-20% of patients achieve durable responses with immunotherapy. Thus, there could be significant commercial potential for any agent(s) that can improve immunotherapy outcomes.

RXC007: Initial focus on IPF with plans to expand to ILD

RXC007 is in a Phase IIa trial in IPF

RXC007 is a novel and highly specific small molecule that targets the ROCK2 (Rho Associated Coiled-Coil Containing Protein Kinase 2) receptor. A Phase IIa trial (Exhibit 3) in idiopathic pulmonary fibrosis (IPF) started in October 2022. For more details on RXC007, its mechanism, previous preclinical data which suggest the potential to be disease modifying, and prior Phase I results, please see our October 2022 Update.

Exhibit 3: RXC007 Phase IIa study design



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

Initial top-line IPF data are expected during H223

The ongoing Phase IIa trial will investigate escalating doses of RXC007, both with and without standard of care (SoC) in IPF (nintedanib or pirfenidone) over 12 weeks, and will assess early efficacy signals, safety, and tolerability. Initial top-line data are expected during H223. If positive, these data will inform dosing and the design of a larger 12-month Phase IIb trial, which will likely explore RXC007 plus SoC over 12 months in IPF with lung function (FVC) as a primary endpoint.

RXC007 development could be expanded to broader indications including ILD in the future

Pending initial Phase IIa data, the future Phase IIb trial could also expand development to include interstitial lung diseases (ILD). This is a much broader indication, with IPF representing only around 20-50% of ILDs. This is supported by preclinical data in models of GVHD (Graft vs Host disease) which suggest RXC007 could have an impact on immune-mediated fibrotic diseases such as ILD, in addition to systemic sclerosis.

Valuation

rNPV valuation of £461m, or 138p per share

We value Redx Pharma as a classic drug discovery and development play, with our sum of the parts rNPV-based model generating a valuation of £461m ($553m), equivalent to 138p per share. Exhibit 4 summarises the outputs and underlying assumptions of our valuation model. Our February 2022 Outlook provides a detailed overview of our valuation methodology.

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)	881.2	734.4	30%	187.4	156.1	46.6	Peak sales: $2.55bn
RXC007 (ROCK2 inhibitor - IPF/NASH)	1,225.1	1,020.9	15%	130.5	108.8	32.5	Peak sales: $3.13bn
AZD5055 (AstraZeneca: porcupine inhibitor - IPF)	324.1	270.1	15%	42.0	35.0	10.5	Peak sales: $1.66bn
JZP815 (Jazz Pharma: pan-RAF - oncology)	145.9	121.6	10%	12.3	10.3	3.1	Peak sales: $707m
RX008 (ROCK1/2 - Crohn's disease)	167.2	139.3	5%	38.8	32.3	9.6	Peak sales: $1.61bn
Discovery engine				163.3	136.1	40.6	
Operating costs	(37.6)	(31.3)		(37.6)	(31.3)	(9.3)	
Net cash	16.3	13.6		16.3	13.6	4.1	FY23e cash
Total	**2,722.4**	**2,268.6**		**553.1**	**461.0**	**137.6**	
Total (fully diluted)				**569.3**	**474.4**	**98.1**	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 1.20, 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

Cash of £53.9m should be sufficient beyond key value inflection points during H223

End-September 2022 cash was £53.9m (31 March 2022: £31.6m; 30 September 2021: £29.6m), which includes proceeds from the June 2022 £34.3m (gross) equity placement and a total of $24m (£18.1m) in milestones received during the fiscal period to end-September 2022, including a $5m milestone from partner Jazz Pharmaceuticals in June 2022. Management has outlined that these funds, plus modest risk-adjusted milestones, should be sufficient to fund planned operations through key data points across the clinical pipeline into 2024, which includes the focus data readouts for RXC004 and RXC007 during H223.

Milestone receipts are "lumpy" and are expected to be less frequent going forwards

FY22 revenues increased to £18.7m (FY21: £10.0m) owing to both higher milestone related revenue of £10.7m (FY21: £5.0m) and research collaboration income of £6.9m (FY21: £2.8m). During FY22 Redx Pharma received $24m (£18.1m) of cash as milestones, including: (1) $10m (£7.4m) from Jazz Pharmaceuticals in December 2021 for progress in the MAPK collaboration; (2) $9m (£6.7m) from AstraZeneca in December 2021 on Phase I initiation for RXC006 (AZD5055); and (3) $5m (£4m) from Jazz Pharmaceuticals in June 2022 for IND clearance for JPZ815, with a Phase I trial subsequently initiated in November 2022. 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. Future milestone receipts are not expected to be as frequent as partnered candidates advance to later, and therefore longer, studies.

R&D will likely continue to increase and clinical programmes progress

R&D costs remained tightly controlled at £28.6m (FY21: £24.4m) despite continued pipeline progress and advancement. We anticipate a material increase in R&D spend given Phase II programmes are now ongoing for two candidates and forecast £40.0m in FY23e and £42m in FY24e. G&A also increased to £10.2m (FY21: £6.5m). This led to a FY22 operating loss of £16.3m (FY21: loss of £19.7m) and a net loss of £18.0m (FY21: loss of £21.6m).

Forecasts do not include any unknown/uncertain milestones given limited visibility

Our future revenue forecasts do not include any unknown and/or uncertain milestones, hence we only include remaining deferred revenue recognition of previously received milestones of £3.9m in FY23e and £973k in FY24e, which relate to the Jazz Pharmaceuticals collaboration. 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 are under the control of their respective licensors.

Exhibit 5: Summary of financials

Year-end: Sept 30	£'000s	2020	2021	2022	2023E	2024E
INCOME STATEMENT						
Revenues		**5,685**	**10,035**	**18,690**	**3,920**	**973**
Cost of goods sold		0	0	0	0	0
Gross Profit		**5,685**	**10,035**	**18,690**	**3,920**	**973**
R&D expenses		(10,460)	(24,445)	(28,563)	(39,988)	(41,988)
G&A expenses		(4,238)	(6,492)	(10,229)	(11,087)	(11,657)
Underlying operating profit		**(8,445)**	**(17,117)**	**(15,737)**	**(42,703)**	**(48,130)**
Share-based payments		(568)	(3,785)	(4,365)	(4,452)	(4,541)
Exceptionals		0	0	0	0	0
Other revenue/expenses		812	1,157	3,836	1,534	1,565
EBITDA		**(7,536)**	**(19,112)**	**(15,380)**	**(44,807)**	**(50,237)**
Operating Profit		**(8,201)**	**(19,745)**	**(16,266)**	**(45,621)**	**(51,106)**
Financing costs/income		(967)	(1,698)	(1,538)	(1,412)	(1,609)
Profit Before Taxes		**(9,168)**	**(21,443)**	**(17,804)**	**(47,032)**	**(52,716)**
Adj. PBT		**(9,412)**	**(18,815)**	**(17,275)**	**(44,114)**	**(49,739)**
Current tax income		(45)	(133)	(201)	(200)	(210)
Net Income		**(9,213)**	**(21,576)**	**(18,005)**	**(47,232)**	**(52,926)**
EPS (p)		**(5.4)**	**(8.4)**	**(6.1)**	**(13.7)**	**(11.9)**
Adj. EPS		**(5.6)**	**(7.4)**	**(5.9)**	**(12.9)**	**(11.2)**
DPS (p)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Average no. of shares (m)		170.1	256.4	294.2	344.1	445.2
BALANCE SHEET						
Current assets		**29,468**	**35,815**	**59,378**	**15,256**	**1,882**
Cash and cash equivalents		27,513	29,552	53,854	13,619	1,456
Accounts receivable		1,923	6,231	5,498	1,611	400
Other current assets		32	32	26	26	26
Non-current assets		**3,459**	**3,730**	**3,099**	**987**	**(1,244)**
Property, plant & equipment		3,048	3,325	2,699	2,164	1,587
Intangible assets		411	405	400	396	392
Other non-current assets		0	0	0	(1,573)	(3,223)
Current liabilities		**(10,934)**	**(9,592)**	**(27,205)**	**(9,593)**	**(44,023)**
Short-term debt		0	0	(15,731)	0	(35,000)
Accounts payable		(3,362)	(4,699)	(5,958)	(7,998)	(8,398)
Other current liabilities		(7,572)	(4,893)	(5,516)	(1,596)	(625)
Non-current liabilities		**(19,967)**	**(16,821)**	**(1,951)**	**(378)**	**1,272**
Long-term debt		(16,758)	(14,247)	0	0	0
Other non-current liabilities		(3,209)	(2,574)	(1,951)	(378)	1,272
Equity		**2,026**	**13,132**	**33,321**	**6,272**	**(42,112)**
CASH FLOW STATEMENTS						
Operating cash flow		**395**	**(21,379)**	**(8,470)**	**(39,960)**	**(46,874)**
Profit before tax		(9,168)	(21,443)	(17,804)	(47,032)	(52,716)
Non-cash adjustments		2,123	6,116	6,776	6,678	7,020
Change in working capital		6,425	(6,065)	2,038	2,007	638
Interest paid		7	13	187	(1,412)	(1,609)
Taxes paid		1,008	0	333	(200)	(207)
Investing cash flow		**(55)**	**(754)**	**(241)**	**(275)**	**(289)**
CAPEX on tangible assets		(59)	(754)	(262)	(275)	(289)
Acquisitions/disposals		4	0	21	0	0
Other investing cash flows		0	0	0	0	0
Financing cash flow		**23,469**	**24,143**	**32,982**	**0**	**35,000**
Proceeds from equity		1,876	24,929	33,798	0	0
Increase in loans		22,563	0	0	0	35,000
Other financing cash flow		(970)	(786)	(816)	0	0
Net increase in cash		**23,809**	**2,010**	**24,271**	**(40,235)**	**(12,163)**
Cash at start of year		3,704	27,513	29,552	53,854	13,619
Cash at end of year		**27,513**	**29,552**	**53,854**	**13,619**	**1,456**
Net cash at end of year		**10,755**	**15,305**	**38,123**	**13,619**	**(33,544)**

Source: Company, Trinity Delta Note: Short-term debt in CY23/FY24e 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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