

## Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

### Market data

EPIC/TKR	AGY
Price (p)	29.0
12m High (p)	39.5
12m Low (p)	23.0
Shares (m)	594.1
Mkt Cap (£m)	172.0
EV (£m)	149.4
Free Float*	37%
Market	AIM

\*As defined by AIM Rule 26

### Description

Allergy Therapeutics (AGY) provides information to professionals related to prevention, diagnosis and treatment of allergic conditions with a special focus on allergy vaccination. The emphasis is on treating the underlying cause and not just the symptoms.

### Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

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[www.allergytherapeutics.com](http://www.allergytherapeutics.com)

### Key shareholders

Directors	0.9%
Abbott Labs	40.5%
Southern Fox	21.4%
Odey	7.4%
Invesco	4.8%

### Diary

2H'18	Ph.III PQ Birch trial
Sep'18	Finals
Nov'18	AGM

### Analysts

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## Allergy Therapeutics

### Steady performance in a tough market

AGY is a long-established specialist in the prevention, diagnosis, and treatment of allergies. Pollinex Quattro (PQ) Grass, the subcutaneous allergy immunotherapy (AIT), continues to gain market share despite being available in the EU only on a 'Named Patient' basis. The Phase III trial, designed to obtain approval for PQ Birch as a biologic in Europe, is well advanced and will report data shortly. As explained at the interim stage, underlying 1H'18 sales growth was affected by a low pollen season in central Europe. A trading statement indicates that this has remained a difficult market, but one in which AGY has continued to make market share gains.

- ▶ **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.
- ▶ **Trading update:** Underlying sales growth in the year to end-June 2018 was 3.5%, which increased to 6.6% on a reported basis, to £68.3m (£64.1m). Given reports of a low pollen season and a correspondingly tough market in 2017, this suggests that AGY saw a good performance and further market share gains.
- ▶ **Costs:** Careful control of marketing and operational costs, combined with timing of R&D spend, resulted in a stronger net cash of £12.2m (£18.8m) at 30 June 2018, £3.7m above forecasts. This suggests that pre-tax profit will emerge nearer -£9.1m in 2018, compared with our previous forecast of -£9.5m.
- ▶ **Risks:** AGY's primary risk lies in the timings of the regulatory approval process, mostly outside of its control, related to the PQ Birch immunotherapy and the European TAV process for full approval as a biological. Ongoing clinical trials do represent a risk, but this is limited by the products' use on a named patient basis.
- ▶ **Investment summary:** AGY is going through an exciting period. It has a clear vision, is gaining market share from competitors, and is leading the race to have its products fully approved and regulated as biologicals – first in Europe, then in the US, where the regulators are demanding change. Read-out from the EU Phase III PQ Birch trial in 2018 will provide the next major value inflection point.

### Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	43.23	48.51	64.14	68.3	76.5	85.7
R&D investment	-3.12	-16.22	-9.30	-17.5	-18.0	-8.0
Underlying EBIT	2.91	-12.34	-2.89	-9.0	-8.8	5.7
Reported EBIT	1.41	-12.53	-2.60	-9.7	-9.5	5.0
Underlying PBT	2.84	-12.45	-2.97	-9.1	-8.9	5.5
Statutory PBT	0.65	-12.21	-2.67	-9.8	-9.6	4.8
Underlying EPS (p)	0.48	-2.36	-0.47	-1.5	-1.4	0.8
Statutory EPS (p)	0.02	-2.29	-0.42	-1.7	-1.6	0.7
Net (debt)/cash	20.14	20.04	18.80	12.2	2.7	5.8
Capital increase	20.08	10.97	0.03	0.3	0.3	0.3
P/E (x)	60.0	-12.3	-61.7	-18.7	-20.0	36.4
EV/sales (x)	3.5	3.1	2.3	2.2	2.0	1.7

Source: Hardman & Co Life Sciences Research

## Full-year trading update

### Headline results

- ▶ **Underlying sales growth:** 2018 group sales were slightly below our currency-adjusted forecast of £70.2m, reaching £68.3m (£64.1m) for the full year. This is 3.5% growth at constant exchange rates (CER) and reflects a good performance in a challenging period for the allergy market.
- ▶ **Cash balance:** On 30 June 2018, AGY held cash of £15.5m (£22.1m), £3.7m better than forecast, helped by careful control of costs throughout the period and improvements in working capital.
- ▶ **Costs:** The cash balance suggests that losses from the P&L account were lower than previously forecast, probably with an emphasis on reduced marketing spend to match the lower sales growth rate, and the timing of R&D spend (-£17.5m from -£18.0m).

AGY FY'18 – actual vs expectations					
Full-year (£m)	FY'17 actual	FY'18 actual*	CER growth (%)	FY'18 forecast	Delta Δ
Group sales	64.1	68.3	3.5	70.2	-1.9
Cash balance	22.1	15.5	NM	11.8	+3.7
Net cash/(debt) est.	18.8	12.2	NM	8.5	+3.7

\*From trading statement released on 12 July 2018

Source: Allergy Therapeutics; Hardman & Co Life Sciences Research

### Growth in a tough market

Both AGY and its main competitors reported, at the end of calendar 2017, that the allergy market had been flat for reasons including a shorter and weaker pollen season. As such, AGY's sales growth of 3.5% at CER during fiscal 2018 demonstrates strong performance and suggests market share gains. Careful control of costs in the period generated a stronger net cash position of £12.2m at the period-end.

### Changes to forecasts

Lower 2018 sales have a knock-on effect of around £3m p.a. over the forecast period. Our cost estimates in 2018 (COGS and R&D) have been reduced by ca.£1.0m, coupled with an improved working capital position (ca.£2.0m), to generate the net cash position reported in the trading statement.

Changes to forecasts				
Year-end June (£m)	2017	2018E	2019E	2020E
<b>Group sales</b>				
Old	64.14	70.20	79.50	89.30
New		*68.30	76.50	85.70
Change		-2.10	-3.00	-3.40
<b>Pre-tax profit</b>				
Old	-2.97	-9.54	-5.68	8.52
New		-9.10	-8.92	5.52
Change		+0.44	-3.24	-3.00
<b>EPS (p)</b>				
Old	-0.45	-1.54	-0.87	1.21
New		-1.55	-1.45	0.80
Change		+0.01	-0.58	-0.41

Source: Hardman & Co Life Sciences Research

## Summary financials

- ▶ **Gross margin:** Improvements to the gross margin in the first half of the year, which were made through moving product into inventory and resulted in 79.4% for 1H'18, mostly unwound in the second half to 74.5%, as manufacturing capacity, and the associated COGS, returned to the 'normal' sales mix.
- ▶ **R&D spend:** R&D costs were heavily biased to 2H'18 due to the ongoing clinical trials, but timing of accruals suggests that they were lower than previously forecast.

Summary financials						
Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
GBP:EUR	1.270	1.338	1.171	1.130	1.130	1.130
<b>Profit &amp; Loss:</b>						
Sales	43.23	48.51	64.14	68.34	76.51	85.74
COGS	-12.18	-14.07	-16.77	-17.46	-19.24	-20.71
Gross profit	31.05	34.44	47.37	50.88	57.27	65.04
Gross margin	71.8%	71.0%	73.9%	74.5%	74.9%	75.9%
Marketing	-17.06	-20.22	-26.89	-26.94	-31.01	-33.37
<b>Product profit</b>	<b>13.99</b>	<b>14.22</b>	<b>20.48</b>	<b>23.94</b>	<b>26.27</b>	<b>31.66</b>
<b>Product margin</b>	<b>32.4%</b>	<b>29.3%</b>	<b>31.9%</b>	<b>35.0%</b>	<b>34.3%</b>	<b>36.9%</b>
G&A	-8.03	-10.33	-14.08	-15.41	-17.02	-17.96
R&D	-3.12	-16.22	-9.30	-17.50	-18.00	-8.00
<b>EBITDA</b>	<b>4.20</b>	<b>-10.68</b>	<b>-1.24</b>	<b>-7.31</b>	<b>-6.82</b>	<b>7.64</b>
Depreciation	-1.01	-1.39	-1.66	-1.66	-1.94	-1.94
Underlying EBIT	2.91	-12.34	-2.89	-8.97	-8.75	5.71
EBIT margin (%)	6.7%	-25.4%	-4.5%	-13.1%	-11.4%	6.7%
Net interest	-0.07	-0.11	-0.07	-0.13	-0.17	-0.19
<b>Pre-tax profit</b>	<b>2.84</b>	<b>-12.45</b>	<b>-2.97</b>	<b>-9.10</b>	<b>-8.92</b>	<b>5.52</b>
Tax	-0.55	-0.86	0.19	-0.10	0.32	-0.43
Net income	2.29	-13.46	-2.78	-9.20	-8.60	4.73
Weighted av. shares (m)	475.2	570.3	592.2	594.1	594.1	594.1
<b>Underlying EPS (p)</b>	<b>0.48</b>	<b>-2.36</b>	<b>-0.47</b>	<b>-1.55</b>	<b>-1.45</b>	<b>0.80</b>
<b>Balance sheet:</b>						
Share capital	0.56	0.60	0.60	0.60	0.60	0.60
Reserves	33.91	29.73	29.36	19.46	10.15	14.54
Liabilities	7.26	11.95	10.67	10.67	10.67	10.67
Debt	1.84	3.37	3.33	3.33	3.33	3.33
less: Cash	21.98	23.41	22.12	15.50	6.03	9.16
<b>Invested capital</b>	<b>27.86</b>	<b>39.32</b>	<b>42.66</b>	<b>49.95</b>	<b>59.15</b>	<b>58.70</b>
Net cash/debt	20.14	20.04	18.80	12.17	2.70	5.83
<b>Cashflow:</b>						
Underlying EBIT	2.91	-12.34	-2.89	-8.97	-8.75	5.71
Working capital	0.21	-1.45	2.16	2.74	0.16	-1.06
Tax & interest	-0.41	-0.30	-1.28	-0.64	-0.94	-0.71
<b>Operational cashflow</b>	<b>3.31</b>	<b>-12.57</b>	<b>0.03</b>	<b>-4.93</b>	<b>-7.59</b>	<b>5.87</b>
Capital expenditure	-1.09	-1.23	-1.50	-1.50	-1.73	-2.59
<b>Free cashflow</b>	<b>2.22</b>	<b>-13.80</b>	<b>-1.47</b>	<b>-6.43</b>	<b>-9.32</b>	<b>3.28</b>
Acquisitions	-2.67	0.00	-0.23	-0.10	-0.10	-0.10
Share issues	20.08	10.97	0.03	0.25	0.25	0.25
<b>Change in net debt</b>	<b>17.88</b>	<b>-0.10</b>	<b>-1.25</b>	<b>-6.58</b>	<b>-9.47</b>	<b>3.13</b>
Hardman FCF/sh. (p)	0.70	-2.20	0.01	-0.83	-1.28	0.99

Source: Hardman & Co Life Sciences Research

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(Disclaimer Version 4 – Effective from January 2018)

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