29 April 2021

Corp

Ticker	**AGL:AIM**
Pharmaceuticals & Biotechnology	
Shares in issue (m)	215.4
Next results	H1 Oct
Price	**107.0p**
Target price	165.0p
Upside	54%
Market cap	**£230.5m**
Net debt/(cash)	-£28.6m
Other EV adjustments	£0.0m
Enterprise value	£201.9m

What's changed?	From	To
Adjusted EPS	-8.7	-8.6
Target price	150.0	165.0

Share price performance

%	1M	3M	12M
Actual	34.6	30.5	57.4

Company description

Offering precision medicine solutions in the liquid biopsy market using a CTC capture system, Parsortix.

Mark Brewer
Director of Research
mbrewer@finncap.com
020 7220 0556

Arshad Ahad
Research Analyst
aahad@finncap.com
020 7220 0552

Sales desk 020 7220 0522

Trading desk 020 7220 0533

* denotes corporate client of finnCap

ANGLE*

FY 2020 – progressing towards FDA clearance

ANGLE's results to 31 December 2020 showed revenues and an adjusted net loss of £0.8m and £11.2m compared with £0.6m and £7.2m, respectively (8 months to December 2019). Year-end cash of £28.6m was c.£3m better than we expected, mainly related to timing events including fit-out costs for its recently opened clinical labs in the US and UK. The company's confirmation that it intends to submit its responses to the FDA in May, supports our expectation of an H2 clearance, which will be a major value infection point – de-risking ANGLE further. We make minor revisions to our forecasts to reflect some technical accounting changes that also bring ANGLE into line with its US peers and raise our target price to 165p; with FDA clearance, we expect to lift this to at least 220p. With clearance opening up the opportunity for ANGLE and partners to exploit fully the multi-billion dollar liquid biopsy market, we continue to see substantial upside.

- **Results in brief:** Revenues for FY 2020 were £0.8m, up from £0.6m in the 8 months to December 2019 and broadly in line with unaudited 12 months ending 2019. An adjusted net loss of £11.2m (statutory £11.6m) compared with a restated net loss of £7.2m. Net cash was £28.6m, providing a cash runway to at least mid-2022 and the company has a high level of discretionary expenditure.
- **FDA update and progress report:** ANGLE confirmed that the response to the Additional Information Request (AIR) from the FDA received in February, which includes some additional requested analytical studies, will be submitted in May 2021, supporting the view that FDA regulatory clearance should occur during H2 2021.
- **Ovarian cancer test:** Confirmation that its 200-patient clinical verification study completed enrolment this month and that headline results are expected by year-end 2021 should coincide broadly with the accreditation of its clinical labs in the UK and US, enabling ANGLE to launch a clinical assay for the detection of ovarian cancer in women with an abnormal pelvic mass as a Laboratory Developed Test (LDT). This opens up an immediate $200m market in the US alone that could scale to as much as $1.8bn in time.
- **Outlook:** FDA clearance will be a watershed moment for the company. It opens up a potential $3.9bn per annum testing market for metastatic breast cancer, and should trigger multiple commercial opportunities, both directly and through additional partnerships. Nearer term, we expect further pharma services contracts to underpin forecasts.
- **Tweaking forecasts; 10% TP rise:** We have made minor changes to forecasts to reflect the change in treatment of some development expenses, with year-end net cash of £5.8m (previously £5.5m). We raise our target price to 165p (from 150p) as we roll forward our rNPV. We envisage this rising to at least 220p on receiving FDA clearance.

Key estimates Year end:		2019A Dec	2020A Dec	2021E Dec	2022E Dec	2023E Dec
Revenue	£m	0.6	0.8	2.2	5.0	12.5
Adj EBITDA	£m	-7.8	-12.2	-19.3	-16.3	-10.4
Adj EBIT	£m	-8.6	-13.3	-21.3	-18.3	-12.4
Adj PBT	£m	-8.6	-13.3	-21.5	-18.5	-12.6
Adj EPS	p	-4.4	-6.3	-8.6	-7.4	-4.8
DPS	p	0.0	0.0	0.0	0.0	0.0
Key valuation metrics						
EV/EBIT (adj)	x	-23.5	-15.2	-9.5	-11.0	-16.3
P/E (adj)	x	-24.6	-17.0	-12.4	-14.4	-22.1
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-4.0%	-3.8%	-9.9%	-6.6%	-4.3%
Pre-tax ROCE	%	-32.3%	-38.8%	-135.6%	-189.3%	-134.0%

FY 2020 – progressing towards FDA clearance

Income statement		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Sales	£m	0.8	2.2	5.0	12.5
Gross profit	£m	0.6	1.7	3.7	9.3
EBITDA (adjusted)	£m	-12.2	-19.3	-16.3	-10.4
EBIT (adjusted)	**£m**	**-13.3**	**-21.3**	**-18.3**	**-12.4**
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	-0.0	-0.2	-0.2	-0.2
PBT (adjusted)	**£m**	**-13.3**	**-21.5**	**-18.5**	**-12.6**
Total adjustments	£m	-0.4	-0.8	-0.8	-0.8
PBT (stated)	£m	-13.7	-22.3	-19.3	-13.4
Tax charge	£m	2.1	2.8	2.4	2.2
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-11.6	-19.5	-16.9	-11.3
Adjusted earnings	**£m**	**-11.2**	**-18.6**	**-16.0**	**-10.4**
Shares in issue (year end)	m	215.4	215.4	215.4	215.4
EPS (stated)	p	-6.5	-9.0	-7.8	-5.2
EPS (adjusted, fully diluted)	**p**	**-6.3**	**-8.6**	**-7.4**	**-4.8**
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Sales growth	%	31.2%	187.9%	127.3%	151.6%
EBITDA growth	%	-56.4%	-58.7%	15.6%	36.4%
EBIT growth	%	-55.2%	-59.8%	14.1%	32.2%
PBT growth	%	-54.9%	-60.9%	13.9%	31.8%
EPS growth	%	-44.5%	-37.4%	13.9%	35.0%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Gross margin	%	78.3%	75.6%	75.0%	74.0%
EBITDA margin	%	n/m	-880.9%	-326.9%	-82.6%
EBIT margin	%	n/m	-970.4%	-366.8%	-98.8%
PBT margin	%	n/m	-977.8%	-370.3%	-100.4%
Net margin	%	n/m	-848.7%	-321.5%	-83.0%

Cash flow		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
EBITDA	£m	-12.4	-20.0	-17.0	-11.1
Net change in working capital	£m	0.2	-1.6	-0.3	-0.5
Other operating items	£m	1.0	0.8	0.8	0.8
Cash flow from op. activities	**£m**	**-11.2**	**-20.8**	**-16.5**	**-10.7**
Cash interest	£m	0.0	0.0	-0.2	-0.2
Cash tax	£m	3.4	2.1	2.8	2.4
Capex	£m	-0.5	-3.3	-0.5	-0.6
Other items	£m	-0.5	-0.9	-0.8	-0.8
Free cash flow	**£m**	**-8.8**	**-22.9**	**-15.1**	**-9.8**
Acquisitions / disposals	£m	0.0	0.0	0.0	0.0
Dividends	£m	0.0	0.0	0.0	0.0
Shares issued	£m	18.7	0.0	0.0	0.0
Other	£m	-0.5	-0.9	9.3	9.3
Net change in cash flow	**£m**	**9.3**	**-23.8**	**-5.9**	**-0.6**
Opening net cash (debt)	£m	18.8	28.6	5.8	-9.3
Closing net cash (debt)	**£m**	**28.6**	**5.8**	**-9.3**	**-19.1**

Cash flow analysis		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Cash conv'n (op cash / EBITDA)	%	n/m	n/m	n/m	n/m
Cash conv'n (FCF / EBITDA)	%	70.8%	114.1%	88.9%	88.8%
U/lying FCF (capex = depn)	£m	-9.5	-21.5	-16.6	-11.3
Cash quality (u/l FCF / adj earn)	%	84.4%	115.6%	103.3%	108.3%
Investment rate (capex / depn)	x	0.5	1.7	0.3	0.3
Interest cash cover	x	n/a	n/a	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Net working capital / sales	%	-152.0%	7.8%	27.9%	16.5%
Net working capital / sales	days	-555	28	102	60
Inventory (days)	days	355	73	37	18
Receivables (days)	days	691	110	73	73
Payables (days)	days	1,601	154	8	31

Balance sheet		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Tangible fixed assets	£m	1.2	3.6	3.1	2.6
Goodwill & other intangibles	£m	3.7	3.6	2.3	2.2
Other non current assets	£m	1.2	1.2	1.2	1.2
Net working capital	£m	-1.2	0.2	1.4	2.1
Other assets	£m	2.1	2.8	2.4	2.2
Other liabilities	£m	-1.4	-1.5	-1.5	-1.9
Gross cash & cash equivs	£m	28.6	5.8	0.7	0.9
Capital employed	**£m**	**34.3**	**15.7**	**9.7**	**9.3**
Gross debt	£m	0.0	0.0	10.0	20.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	34.3	15.7	-0.3	-10.7
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	**£m**	**34.3**	**15.7**	**9.7**	**9.3**

Leverage analysis		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Net debt / equity	%	no debt	no debt	n/a	n/a
Net debt / EBITDA	x	n/a	n/a	n/a	n/a
Liabilities / capital employed	%	0.0%	0.0%	103.5%	216.2%

Capital efficiency & intrinsic value		2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec
Adjusted return on equity	%	-32.6%	-118.6%	n/m	96.9%
RoCE (EBIT basis, pre-tax)	%	-38.8%	-135.6%	-189.3%	-134.0%
RoCE (u/lying FCF basis)	%	-27.5%	-137.2%	-171.3%	-122.0%
NAV per share	p	15.9	7.3	-0.2	-5.0
NTA per share	p	14.2	5.6	-1.2	-6.0

FY 2020 analysis

These preliminary results reflect the 12 months to 31 December 2020 (Figure 1). Prior year 2019 financials (8 months to 31 December 2019) have been restated. They were non-cash and take account of technical accounting matters: (i) c.£1.3m of capitalised product development costs do not meet IAS 38 criteria and should be expensed rather than capitalised; and (ii) exchange gains/losses on overseas Group balances now recognised through the income statement, resulting in a c.£0.3m foreign currency adjustment.

There was no impact on cash but we view these changes positively as expensing such costs brings ANGLE into line with its peer group and such treatment would be helpful prior to a potential NASDAQ listing and reflects standard US accounting and helps meet investor expectations and understanding. It is not a surprise that the company has undertaken a detailed review given the appointment of PwC and planning for a potential NASDAQ listing.

The profit & loss account continues to reflect the early stages of commercial adoption of Parsortix with sales of Parsortix instruments and consumable cassettes into the Research Use Only (RUO) market.

Figure 1: Summary Profit & Loss account

Year to end December (£m)	Actual 8 mths 2019	Restated 8 mths 2019	Delta	12 mths 2020E	12 mths 2020A	Delta from forecast (£m)
Revenue	0.6	0.6	0.0	0.6	0.8	0.1
Cost of Goods Sold	-0.1	-0.1	0.0	-0.2	-0.2	0.0
Gross Profit	**0.4**	**0.4**	**0.0**	**0.5**	**0.6**	**0.1**
gross margin	*75.6%*	*75.6%*		*75.1%*	*78.3%*	*+320bp*
Other operating income	0.1	0.1		0.1	0.1	0.0
Administrative expenses	-7.9	-9.2	-1.3	-12.6	-14.1	-1.5
Share based payments	-0.3	-0.3		-0.6	-0.3	0.3
Total costs	-8.2	-9.5	-1.3	-13.2	-14.4	-11.2
Company Stated EBIT	**-7.7**	**-9.0**	**-1.3**	**-12.6**	**-13.7**	**-1.1**
Share based payment	0.3	0.3		0.6	0.4	-0.2
Adjusted EBIT	**-7.4**	**-8.6**	**-1.2**	**-11.9**	**-13.3**	**-1.4**
add back depreciation	0.7	0.7	0.0	1.2	1.1	-0.1
add back amortisation	0.1	0.1	0.0	0.2	0.1	-0.1
Adjusted EBITDA	**-6.6**	**-7.8**	**-1.2**	**-10.6**	**-12.2**	**-1.6**
Net finance cost	0.0	0.0	0.0	0.1	0.0	
Profit Before Tax	-7.7	-9.0		-12.7	-13.7	-1.1
Adjusted PBT	**-7.4**	**-8.6**	**-1.2**	**-11.9**	**-13.3**	**-1.4**
Taxation (adjusted)	1.5	1.5		1.9	2.1	0.2
Net Profit	-6.2	-7.6	-1.3	-10.8	-11.6	-0.8
Adjusted Net Profit	**-5.9**	**-7.1**	**-1.2**	**-10.0**	**-11.2**	**-1.2**
Average shares in issue (m)	163.7	163.7		176.3	178.0	2
Fully dil. shares in issue (m)	163.7	163.7		176.3	178.0	2
Earnings per Share (EPS) p	-3.8	-4.6	-0.8	-6.1	-6.5	-0.4
Adjusted EPS (p)	**-3.6**	**-4.4**	**-0.7**	**-5.7**	**-6.3**	**-0.6**
Adjusted fully dil. EPS (p)	**-3.6**	**-4.4**	**-0.7**	**-5.7**	**-6.3**	**-0.6**

Source: finnCap

The key points to note include:

- Revenues were £0.8m, which compared with £0.6m in the audited 8 months to December 2109 and c.£0.8m in the unaudited 12 months to December 2019. This excludes £79k of grant income. Revenues comprised:
  - Instrument sales were c.£0.5m, which included the sale of 11 Parsortix systems, some of which had been placed on a rental basis in 2019, with a strong end to the year as a result of Brexit concerns from some European customers.

- Consumable cassette (sample processing) sales were c.£0.25m, which compares with c.£0.3m in the 8 months to December 2019. COVID-19 restrictions reduced activity levels amongst many of its customers, which accounted for this decline.
- Warranties, service and other income (c.£50k) on the installed instrument base.

- Gross profit was £0.6m, with a gross margin of 78.3%, which compares with 75.6% in the 8 months to 31 December 2019. This was 320bps higher than estimated and just reflects a different product/service mix between the periods.
- Total operating costs were £14.4m in the year, representing an underlying 6% increase in pro rata costs and up from £9.5m (restated from £8.2m to reflect expensing of R&D) in the 8 months to 31 December 2019.
  - Cash costs were c.£12.7m, up from £7.0m in the 8 months to 31 December 2019 and up c.13% on a pro rata basis compared with £11.2m in the 12 months to December 2019.
  - Non-cash costs (depreciation, amortisation, impairment and share-based payments) were £1.7m, which compares with c.£1.2m in the restated audited 8 months to December 2019 and c.£1.7m in the 12 months to December 2019.
- Operating losses consequently were £13.7m, which compares with a restated operating loss of £9.0m (previously £7.7m) in the 8 months to December 2019. This is c.14% higher than the unaudited loss of c.£12.1m in the 12 months to December 2019.
- Adjusted EBITDA rose to £12.2m in 2020, which compares with a restated c.£7.8m loss (previously £6.6m), in the eight months to 31 December 2019 and a c.£10.5m loss in the year to December 2019.
- Statutory pre-tax loss was £13.7m, which compares with a restated £9.0m loss in the 8 months to December 2019, implying an adjusted loss of £13.3m.
- The statutory net loss was £11.6m, which implies an adjusted (add back share-based payments) net loss of c.£11.2m. This takes into account a tax credit (c.£2.1m vs c.£1.5m in the 8 months to December 2019) due to the increased R&D investment that qualifies for tax relief/tax credit.

Net cash at 31 December 2020 was £28.6m, which compared with £18.8m at 31 December 2019 (Figure 3). This was £3.0m higher than we estimated and attributed to timing differences including lower capital expenditures relating to the fit-out of clinical laboratories, which is expected to shift into 2021.

Figure 2: Summary cashflow statement

Year to end December (£m)	2019 8M	2019 8M re-stated	Delta	2020E 12 M	2020A 12M	Delta from f'cast (£m)	Ch (%)
EBITDA	-6.9	-8.2	-1.3	-11.3	-12.6	-1.3	82%
Net working capital	-0.4	-0.8	-0.3	-0.4	0.2	0.6	
Share based payments	0.3	0.3	0.0	0.6	0.4	-0.2	
Other items	0.1	0.3	0.3	0.1	0.7	0.6	
Cash flow from operations	**-6.9**	**-8.3**	**-1.4**	**-10.9**	**-11.2**	**-0.3**	**62%**
Cash interest	0.0	0.0	0.0	0.0	0.0	0.0	
Tax paid	-0.1	-0.1	0.0	3.4	3.4	0.0	
Capex	-2.0	-0.6	1.4	-3.6	-0.5	3.1	
Other Items	-0.2	-0.2	0.0	-0.6	-0.5	0.1	
Free cash flow	**-9.2**	**-9.2**	**0.0**	**-11.7**	**-8.8**	**2.9**	**-4%**
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	
Issue of share capital	16.9	16.9	0.0	18.5	18.7	0.1	
Net change in cash flow	7.5	7.5	0.0	6.2	9.3	3.1	
Opening net cash (debt)	11.0	11.0	0.0	18.8	18.8	0.0	
Closing net cash (debt)	**18.8**	**18.8**	**0.0**	**25.6**	**28.6**	**3.0**	**52%**

Source: finnCap

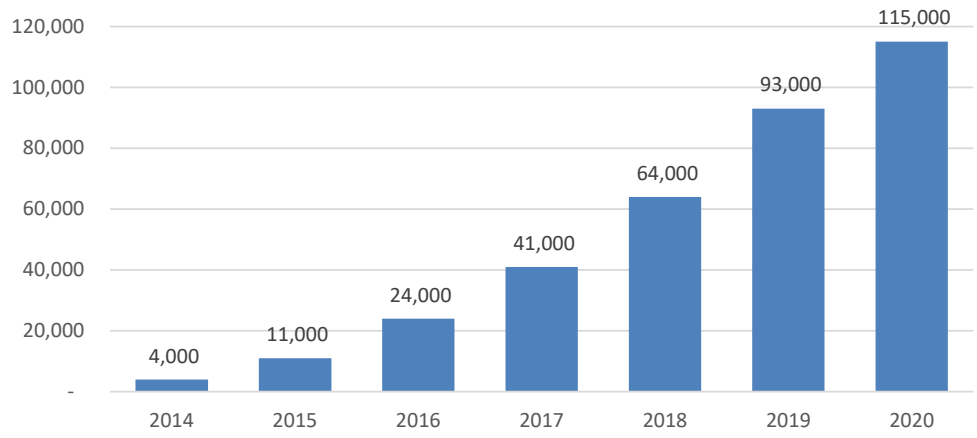
The key drivers of cashflow include:

- Operating cash outflow was c.£11.2m, which compared with a restated outflow of £8.3m in the 8 months to December 2019. It was c.£0.3m higher than our forecasts with higher EBITDA losses offset partially by a working capital inflow and exchange rate differences (c.£0.6m).
- Free cash outflow of c.£8.8m compares with £8.3m restated outflow in the 8 months to December 2019. This was £3.9m better than our forecast and was mainly due to timing differences with lower capital expenditures, which were c.£0.4m in the period compared with our forecast of £2.2m.
- Cash from the share placing in October 2020 raised c.£18.5m net of expenses.

Parsortix

There is currently an installed base of over 200 Parsortix instruments, spread among clinical trial sites, key opinion leaders (KOLs) and customer laboratories.

Figure 3: Cumulative Parsortix processed samples



Source: ANGLE

During the year, Parsortix continued to be widely used by leading researchers, generating new applications for the platform through breakthrough research:

- Over 115,000 blood separations have now taken place using the Parsortix system, up from c.93,000 at 30 December 2019 (implied 24% growth on annual separations of 24,000). This includes both commercial sales as well as separations undertaken in ANGLE's laboratories and clinical trial sites.
- The body of evidence for Parsortix continued to build during the year, with 26 (up from 23 in April 2020) separate cancer centres having published 37 positive peer-reviewed publications on their use of the Parsortix system as of 31 December 2019. This has increased to 41 peer-reviewed publications as of 29 April 2021.
- Independent cancer centres throughout Europe and North America are working on developments in 24 (previously 23) different solid tumour cancer types, covering some 85% of solid tumour cases, whereas ANGLE is focused on breast cancer and ovarian cancer triage, two markets in the US only, which ANGLE estimates to be worth c.$4.0bn and c.$1.8bn, respectively. FDA clearance would pave the way for additional clinical applications and laboratory developed tests to be developed in this wide range of cancers.

FDA (breast cancer)

ANGLE is seeking to become the first company to receive FDA Class II clearance for a product for harvesting intact circulating tumour cells (CTCs) from patient blood for subsequent analysis.

Having submitted a De Novo submission on 25 September 2020, ANGLE received notification from the FDA on 20 October 2020 that the submission had been accepted, which triggered the substantive review. As ANGLE indicated on 4 March, the FDA provided a written response in the form of an Additional Information Request (AIR). ANGLE confirmed that the response to the AIR will be submitted in May 2021, supporting the view that that regulatory clearance should occur during H2 2021.

As indicated in previous reports, FDA clearance, which is considered the gold standard for medical devices, will be a major watershed for the company. We expect FDA clearance to:

- Stimulate broad clinical use of the Parsortix system in metastatic breast cancer, a market that is estimated by the company to be worth c.$4bn in the US alone, given the ability (unlike with tissue biopsies) to do repeat testing. We expect ANGLE and other reference laboratories, including those at the four cancer centres that participated in the FDA studies, to develop LDTs, which should generate LDT revenues ahead of any formal MBC clinical applications, which ANGLE is expected to pursue through relevant clinical studies. The initial market is expected to be for harvesting CTCs in MBC patients where a tissue biopsy is not possible and which is clearly supported by NCCN guidelines. There are an estimated 70-90k metastatic breast cancer patients in the US, of which c.50% are unable to have a tissue biopsy. Assuming an initial price of c.$500 per test, this implies an immediate market opportunity of c.$21m, which ANGLE is expected to enter in FY 2021 post-FDA clearance. The larger market opportunity exists in diagnosing the presence of metastatic breast cancer, use for therapy selection and remission monitoring after diagnosis.
- Accelerate existing research use only (RUO) sales to leading translational researchers, given the competitive advantage afforded Parsortix as the only FDA-cleared device with such a label.
- Expand RUO sales for pharma services in drug trials given the credibility of FDA clearance. The recent announcement of a $1.2m contract (over 18 months) from a large cancer-focused pharmaceutical company, using Parsortix in two Phase I and a Phase III study, shows, however, that this is not absolutely necessary.
- Catalyse ANGLE's product-led strategy for clinical sales of Parsortix instruments and consumables direct to hospitals and corporate partners.
- Provide a product-based solution with optimum sample (intact cell) that is compatible with multiple downstream analysis techniques, which enables ANGLE to become both an equipment supplier and a diagnostic test provider.

Figure 4: Commercial opportunities post FDA clearance

Research	Pharmaceutical companies	Laboratory Developed Tests	Clinical Products
Leveraged R&D drives new applications	Large-scale research use sales	LDTs in a service laboratory	Product sales to hospitals
	Drug trials	ANGLE: Ovarian cancer triage	Metastatic breast cancer
	Companion diagnostics	Metastatic breast cancer	Abbott – PathVysion

Source: Company data, finnCap

Ovarian cancer

ANGLE is developing an ovarian test that could be used to "triage" patients presenting with an abnormal pelvic mass to discriminate between a benign pelvic mass condition and a malignant ovarian cancer, and then determine the appropriate surgical pathway.

Following recent confirmation that the 200-patient clinical verification study at the University of Rochester Wilmot Cancer Center has completed enrolment (hindered by COVID-19 restrictions March to October 2020), we expect headline results in Q4 2021.

Assuming the study results match those seen in the earlier 200-patient study (presented in 2018), this would imply a best-in-class assay with both high sensitivity (correctly detecting cancer) and, critically, high specificity (correctly detecting no cancer i.e. low false positives).

The intention is then to make this clinically verified assay available as an LDT to be run out of a CLIA service laboratory, which is expected to include ANGLE's clinical laboratories in the US and UK once the relevant accreditations have been received.

In the US, there are c.0.75m women who present with an abnormal pelvic mass per annum. Of these, around 30% (c.0.2m) require surgery, which implies a c.$200m market assuming a c.$1,000 test (similar to Aspira Women's Health's OVA-1 and OVERA tests which have weaker performance than Parsortix, which means that Parsortix may secure higher reimbursement).

The total addressable market in the US, which includes watchful waiting/monitoring and remission monitoring following surgery, is estimated by ANGLE to be worth c.$1.8bn per annum, implying a global market of at least c.$3bn.

Corporate partnerships

Whilst there is no news on partnership progress, ANGLE continues to target corporate partnerships with global healthcare companies with the resources and footprint to accelerate commercial development within relevant markets. These relationships provide access to their sales and distribution channels as well as larger economic resources. ANGLE has three such partnerships in place (Figure 5).

Figure 5: Partnerships

Partnership	Company
Collaboration to use PathVysion (world's leading HER-2 FISH probe in solid tissue biopsies) to identify breast cancer HER-2 status with a liquid biopsy	Abbott
Co-marketing agreement to sell Parsortix into its global customer base as well as to develop its first application to detect AR-V7 in prostate cancer	QIAGEN
Research project to harvest and analyse CTCs in breast and rectal cancers. This is a four-year EU research grant-funded programme working to assess the combination of liquid biopsy solutions with imaging solutions.	Philips

Source: finnCap

The Abbott partnership is designed to show that harvested CTCs from blood samples can be subjected to FISH analysis to determine their HER-2 status in the same way that FISH analysis is undertaken in routine tissue biopsies. A successful FDA metastatic breast cancer study outcome, which is using Abbott's PathVysion probes to determine HER-2 status, will likely drive a formal marketing partnership, in our opinion, as it would enable Abbott to expand substantially the size of the FISH HER2 market (perhaps 2-4x) given the ability then to undertake blood-based repeat tests.

News flow

We expect the following news flow over the next 6-18 months (Figure 6).

Figure 6: Newsflow

Date	Events	Status
25-Sep-20	FDA submission of Parsortix	✓
Mar-21	Clinical laboratories established in the US and UK	✓
Apr-21	Ovarian cancer verification study patient enrolment complete	✓
H2 2021	FDA approval of Parsortix in metastatic breast cancer	
H2 2021	CLIA accreditation (or equivalent) for clinical laboratories	
Q4 2021	Ovarian cancer verification study results and launch as LDT	
2021/2022	Additional corporate partnership deals, with medtech (downstream analysis), pharma (companion diagnostics), Clinical Research Organisations (drug trials) and/or reference laboratories (Laboratory Developed Tests)	
Ongoing	Further pharma service contracts	
Ongoing	Customer peer-reviewed publications, posters and presentations. 11 new papers were published in 2020 with 4 published YTD 2021	
2021	Product development progress including updating Parsortix instrument and Parsortix harvest chip	
2021/22	Development of own LDTs (e.g. PD-L1 immunotherapy, HER2 FISH test)	

Source: finnCap

Forecasts

We have made minor changes to our forecasts to reflect the change in accounting policy, expensing the future development costs that we had previously capitalised (c.£0.2m per annum FY 2021-2023) and shifting the capital expenditures that we had forecast for 2020 into 2021. We now forecast c.£3.2m of capex in 2021 vs. £1.8m.

Consequently, we forecast cash at 31 December 2021 to be c.£5.8m, extending the cash into mid-2022 and well past the significant valuation inflection point of FDA clearance.

Figure 7: Forecast changes

	2021E				2022E				2023E			
Year-end December (£m)	Old	New	Delta (£m)	% ch.	Old	New	Delta (£m)	% ch.	Old	New	Delta (£m)	% ch.
Revenue	2.2	2.2	0.0	0%	5.0	5.0	0.0	0%	12.5	12.5	0.0	0%
Gross profit	1.7	1.7	0.0	0%	3.8	3.7	0.0	0%	9.3	9.3	0.0	0%
Expenses	-20.7	-20.9	-0.2	1%	-19.7	-19.9	-0.2	1%	-19.3	-19.5	-0.2	1%
EBITDA (adj)	-19.0	-19.3	-0.2	1%	-16.0	-16.2	-0.2	1%	-10.0	-10.3	-0.2	2%
EBIT (adj)	-21.2	-21.2	0.0	0%	-18.3	-18.2	0.2	-1%	-12.4	-12.3	0.2	-1%
Pre-tax profit (adj)	-21.4	-21.3	0.0	0%	-18.5	-18.3	0.2	-1%	-12.6	-12.5	0.2	-2%
Net loss (adj)	-18.5	-18.5	0.0	0%	-16.1	-15.9	0.2	-1%	-10.5	-10.3	0.2	-2%
Adj. fully di. EPS (p)	-8.6	-8.6	0.0	0%	-7.5	-7.4	0.1	-1%	-4.9	-4.8	0.1	-2%
Net cash	5.5	6.0	0.4	8%	-9.5	-9.3	0.3	-3%	-19.3	-19.1	0.1	-1%

Source: finnCap

Valuation

Value lies not in the Research Use Only (RUO) revenues but in the establishment of Parsortix liquid biopsy as a cell separation system that can be applied to a broad range of clinical applications (diagnosis, therapy decision-making, therapy monitoring, recurrence monitoring and, potentially in the longer term, screening), which we expect to be catalysed further by FDA clearance. Consequently, we believe a DCF valuation is appropriate rather than a multiple-based approach (Figure 8).

Figure 8: Risk-adjusted DCF valuation

Year-end December (£m)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Sales	2	5	13	22	41	72	118	178	249	323	
% growth		127%	151%	78%	85%	75%	65%	50%	40%	30%	
EBITDA	-19	-16	-10	-3	8	16	28	46	70	97	
Working capital	-2	0	-1	-1	-1	-1	-1	-2	-2	-2	
Cash tax	2	3	2	2	2	0	0	-7	-12	-17	
Capital expenditure	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1	
Group Free Cash Flow	**-22**	**-14**	**-9**	**-2**	**8**	**14**	**26**	**37**	**55**	**76**	**76**
Discounted Cash Flow	-22	-13	-7	-2	6	9	15	19	26	32	29
Risk adjusted probability	**80%**										
Discounted Cash Flow	-17	-10	-6	-1	4	7	12	15	20	26	24
Sum of Discounted Cash Flows	49.3										
Terminal Value	300.0										
Enterprise Value (£m)	**349.4**										
add cash (December 2021)	5.8										
minus debt requirement	0.0										
Implied Equity Value (£m)	**355.2**										
number of shares in issue (f. dil) (m)	215.4										
Implied share price (p)	**165**										

Source: finnCap

We have rolled forward our discount year to 2021, with the following inputs remaining broadly unchanged from the research note we published at the time of its placing in October 2020:

- Published forecasts to 2025, together with estimated revenue growth to 2030, which implies revenues of c.£320/$400m. As a sanity check, we would point to Exact Sciences revenues, in which consensus revenue forecasts for Cologuard test are $1.2bn in its sixth year.
- A discount rate of 10%.
- Probability of FDA clearance of 80% and consequent revenue growth.
- A 2% terminal growth rate.
- Cash at 31 December 2021 of £5.8m.

Consequently, we raise our target price from 150p to 165p. We would anticipate this rising to at least 220p on the back of FDA clearance.

Other useful information

Key shareholders

	%
Conifer Management	9.6%
Morgan Stanley	6.5%
Dermot Keane	5.9%
Fidelity International	5.3%
Chelverton Asset Mgt	4.0%
Andrew Newland	3.3%

Source: ANGLE

Board of directors

Name	Description
Garth Selvey	Non-executive Chairman
Andrew Newland	Chief Executive Officer
Ian Griffiths	Chief Financial Officer
Jan Groen	Non-executive Director
Brian Howlett	Non-executive Director

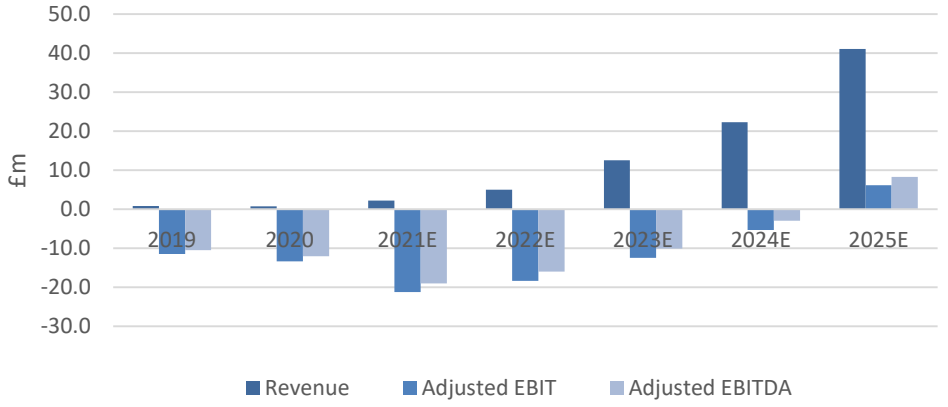
Source: finnCap

Company description

ANGLE is an early-stage, revenue-generating cancer diagnostics company targeting the liquid biopsy market with an addressable market in the US alone estimated to be worth c.$4.0bn p.a. in metastatic breast cancer and c.$1.8bn p.a. in the ovarian cancer pelvic mass triage test. The company has developed a patent-protected microfluidic cell separation technology, Parsortix, which is able to capture very rare circulating tumour cells (CTCs) from a patient's blood sample. These CTCs can be analysed with various existing diagnostic techniques to determine the course of therapy for a patient and provide personalised precision medicine. The revenue model is a scalable, product-based one, with a strong recurring revenue stream (per-use cassettes and service). In use and adopted by leading global cancer centres, the prospect of FDA clearance in Q1 2021 for the first approved CTC system for harvesting cancer cells for analysis is feasible, given FDA performance review times. This should accelerate adoption rates initially amongst pharma/biotech companies and later by the wider clinical laboratory market.

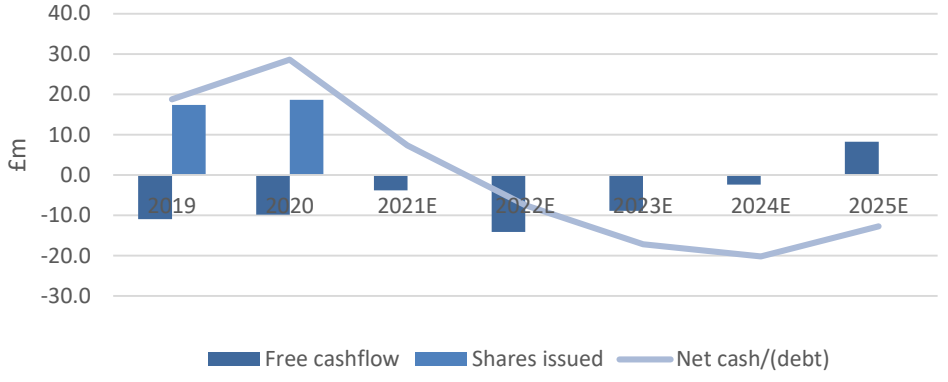
Source: finnCap

Figure 9: Key financial metrics



Source: finnCap

Figure 10: Net cash (debt)



Source: finnCap

Income statement		2019A	2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec	Dec
Sales	**£m**	**0.6**	**0.8**	**2.2**	**5.0**	**12.5**
Cost of sales	£m	-0.1	-0.2	-0.5	-1.2	-3.3
Gross profit	**£m**	**0.4**	**0.6**	**1.7**	**3.7**	**9.3**
Operating expenses	£m	-8.2	-12.8	-21.0	-20.0	-19.6
EBITDA (adjusted)	**£m**	**-7.8**	**-12.2**	**-19.3**	**-16.3**	**-10.4**
Depreciation	£m	-0.7	-1.1	-1.9	-2.0	-2.0
Amortisation	£m	-0.1	-0.1	-0.1	-0.0	-0.0
EBIT (adjusted)	**£m**	**-8.6**	**-13.3**	**-21.3**	**-18.3**	**-12.4**
Associates/other	£m	0.0	0.0	0.0	0.0	0.0
Net interest	£m	-0.0	-0.0	-0.2	-0.2	-0.2
PBT (adjusted)	**£m**	**-8.6**	**-13.3**	**-21.5**	**-18.5**	**-12.6**
restructuring costs	*£m*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
share based payments	*£m*	*-0.3*	*-0.3*	*-0.7*	*-0.7*	*-0.7*
other adjustments	*£m*	*-0.1*	*-0.1*	*-0.1*	*-0.1*	*-0.1*
Total adjustments	£m	-0.4	-0.4	-0.8	-0.8	-0.8
PBT (stated)	**£m**	**-9.0**	**-13.7**	**-22.3**	**-19.3**	**-13.4**
Tax charge	£m	1.5	2.1	2.8	2.4	2.2
tax rate	*%*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	**£m**	**-7.6**	**-11.6**	**-19.5**	**-16.9**	**-11.3**
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	**£m**	**-7.1**	**-11.2**	**-18.6**	**-16.0**	**-10.4**
shares in issue (year end)	*m*	*172.8*	*215.4*	*215.4*	*215.4*	*215.4*
shares in issue (weighted average)	*m*	*163.7*	*178.0*	*215.4*	*215.4*	*215.4*
shares in issue (fully diluted)	*m*	*163.7*	*178.0*	*215.4*	*215.4*	*215.4*
EPS (adjusted, fully diluted)	**p**	**-4.4**	**-6.3**	**-8.6**	**-7.4**	**-4.8**
EPS (stated)	p	-4.6	-6.5	-9.0	-7.8	-5.2
DPS	**p**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Growth analysis (adjusted basis where applicable)						
Sales growth	%	-7.5%	31.2%	187.9%	127.3%	151.6%
EBITDA growth	%	0.4%	-56.4%	-58.7%	15.6%	36.4%
EBIT growth	%	0.3%	-55.2%	-59.8%	14.1%	32.2%
PBT growth	%	-0.1%	-54.9%	-60.9%	13.9%	31.8%
EPS growth	%	42.4%	-44.5%	-37.4%	13.9%	35.0%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	75.6%	78.3%	75.6%	75.0%	74.0%
EBITDA margin	%	n/m	n/m	-880.9%	-326.9%	-82.6%
EBIT margin	%	n/m	n/m	-970.4%	-366.8%	-98.8%
PBT margin	%	n/m	n/m	-977.8%	-370.3%	-100.4%
Net margin	%	n/m	n/m	-848.7%	-321.5%	-83.0%

Cash flow		2019A	2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec	Dec
EBITDA	£m	-8.1	-12.4	-20.0	-17.0	-11.1
Net change in working capital	£m	-0.8	0.2	-1.6	-0.3	-0.5
Share based payments	£m	0.3	0.3	0.7	0.7	0.7
Profit/(loss) on sale of assets	£m	0.0	0.0	0.0	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	0.2	0.7	0.1	0.1	0.1
Cash flow from operating activities	**£m**	**-8.3**	**-11.2**	**-20.8**	**-16.5**	**-10.7**
Cash interest	£m	0.0	0.0	0.0	-0.2	-0.2
Tax paid	£m	-0.1	3.4	2.1	2.8	2.4
Capex	£m	-0.6	-0.5	-3.3	-0.5	-0.6
Other items	£m	-0.2	-0.5	-0.9	-0.8	-0.8
Free cash flow	**£m**	**-9.2**	**-8.8**	**-22.9**	**-15.1**	**-9.8**
Disposals	£m	0.0	0.0	0.0	0.0	0.0
Acquisitions	£m	0.0	0.0	0.0	0.0	0.0
Dividends on ord shares	£m	0.0	0.0	0.0	0.0	0.0
Other cashflow items	£m	-0.2	-0.5	-0.9	9.3	9.3
Issue of share capital	£m	16.9	18.7	0.0	0.0	0.0
Net change in cash flow	**£m**	**7.5**	**9.3**	**-23.8**	**-5.9**	**-0.6**
Opening net cash (debt)	£m	11.0	18.8	28.6	5.8	-9.3
Closing net cash (debt)	**£m**	**18.8**	**28.6**	**5.8**	**-9.3**	**-19.1**

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	n/m	n/m	n/m	n/m	n/m
Cash conversion (free cash flow / EBITDA)	%	113.2%	70.8%	114.1%	88.9%	88.8%
Underlying free cash flow (capex = depreciation)	£m	-9.4	-9.5	-21.5	-16.6	-11.3
Cash quality (underlying FCF / adjusted earnings)	%	131.8%	84.4%	115.6%	103.3%	108.3%
Investment rate (capex / depn)	x	0.9	0.5	1.7	0.3	0.3
Interest cash cover	x	n/a	n/a	n/a	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/a	n/a	n/a

Balance sheet		2019A	2020A	2021E	2022E	2023E
Year end:		Dec	Dec	Dec	Dec	Dec
Tangible fixed assets	£m	1.5	1.2	3.6	3.1	2.6
Goodwill	£m	0.0	0.0	0.0	0.0	0.0
Other intangibles	£m	4.0	3.7	3.6	2.3	2.2
Other non current assets	£m	1.5	1.2	1.2	1.2	1.2
inventories	*£m*	*0.8*	*0.7*	*0.4*	*0.5*	*0.6*
trade receivables	*£m*	*0.6*	*1.4*	*0.7*	*1.0*	*2.5*
trade payables	*£m*	*-2.4*	*-3.3*	*-0.9*	*-0.1*	*-1.1*
Net working capital	£m	-1.0	-1.2	0.2	1.4	2.1
Other assets	£m	3.4	2.1	2.8	2.4	2.2
Other liabilities	£m	-1.6	-1.4	-1.5	-1.5	-1.9
Gross cash & cash equivalents	£m	18.8	28.6	5.8	0.7	0.9
Capital employed	**£m**	**26.6**	**34.3**	**15.7**	**9.7**	**9.3**
Gross debt	£m	0.0	0.0	0.0	10.0	20.0
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	26.6	34.3	15.7	-0.3	-10.7
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	**£m**	**26.6**	**34.3**	**15.7**	**9.7**	**9.3**

Leverage analysis						
Net debt / equity	%	no debt	no debt	no debt	n/a	n/a
Net debt / EBITDA	x	n/a	n/a	n/a	n/a	n/a
Liabilities / capital employed	%	0.0%	0.0%	0.0%	103.5%	216.2%

Working capital analysis						
Net working capital / sales	%	-173.8%	-152.0%	7.8%	27.9%	16.5%
Net working capital / sales	days	-635	-555	28	102	60
Inventory (days)	days	495	355	73	37	18
Receivables (days)	days	394	691	110	73	73
Payables (days)	days	1,523	1,601	154	8	31

Capital efficiency & intrinsic value						
Adjusted return on equity	%	-26.8%	-32.6%	-118.6%	n/m	96.9%
RoCE (EBIT basis, pre-tax)	%	-32.3%	-38.8%	-135.6%	-189.3%	-134.0%
RoCE (underlying free cash flow basis)	%	-35.3%	-27.5%	-137.2%	-171.3%	-122.0%
NAV per share	p	15.4	15.9	7.3	-0.2	-5.0
NTA per share	p	13.1	14.2	5.6	-1.2	-6.0

Research					
Arshad Ahad	020 7220 0552	aahad@finncap.com	Guy Hewett	020 7220 0549	ghewett@finncap.com
Mark Brewer	020 7220 0556	mbrewer@finncap.com	Michael Hill	020 7220 0554	mhill@finncap.com
David Buxton	020 7220 0542	dbuxton@finncap.com	Nik Lysiuk	020 7220 0546	nlysiuk@finncap.com
Kimberley Carstens	020 7220 0548	kcarstens@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Michael Clifton	020 3772 4682	mclifton@finncap.com	Nigel Parson	020 7220 0544	nparson@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Charlie Long	020 3772 4683	clong@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Jonathan Wright	020 7220 0543	jwright@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com			
Equity Capital Markets					
Andrew Burdis	020 7220 0524	aburdis@finncap.com	Tim Redfern	020 7220 0515	tredfern@finncap.com
Richard Chambers	020 7220 0514	rchambers@finncap.com	Sunila de Silva	020 7220 0521	sdesilva@finncap.com
Barney Hayward	020 7220 0518	bhayward@finncap.com	Charlotte Sutcliffe	020 7220 0513	csutcliffe@finncap.com
Alice Lane	020 7220 0523	alane@finncap.com			
Sales					
Henry Botting	020 7220 0516	hbotting@finncap.com	Jonathon Webb	020 7220 0511	jwebb@finncap.com
Louise Talbot	020 3772 4651	ltalbot@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com
Malar Velaigam	020 7220 0526	mvelaigam@finncap.com			
Investor Relations					
Brittany Lambert	020 7220 0592	blambert@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Lucy Nicholls	020 7220 0528	lnicholls@finncap.com			
Sales Trading					
Kai Buckle	020 7220 0529	kbuckle@finncap.com	Danny Smith	020 7220 0533	dsmith@finncap.com
Mark Fidgen	020 7220 0536	mfidgen@finncap.com			
Market Makers					
Steve Asfour	020 7220 0539	sasfour@finncap.com	Shane Watters	020 7220 0535	swatters@finncap.com
James Revell	020 7220 0532	jrevell@finncap.com			
Investment Companies					
Johnny Hewitson	020 7720 0558	jhewitson@finncap.com	Pauline Tribe	020 7220 0517	ptribe@finncap.com
Monica Tepes	020 3772 4698	mtepes@finncap.com	Mark Whitfeld	020 3772 4697	mwhitfeld@finncap.com

1 Bartholomew Close
London EC1A 7BL
Tel 020 7220 0500
Fax 020 7220 0597
Email info@finncap.com
Web www.finncap.com