

15 May 2009

Asterand

| Year End | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 12/07 | 7.6 | (1.4) | (1.4) | 0.0 | N/A | N/A |
| 12/08 | 15.2 | 3.6 | 3.2 | 0.0 | 7.7 | N/A |
| 12/09e | 13.0 | 1.3 | 1.1 | 0.0 | 22.3 | N/A |
| 12/10e | 15.0 | 1.5 | 1.3 | 0.0 | 18.8 | N/A |

Note: * PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Forecasts confirmed

In yesterday's interim management statement, Asterand reported first-quarter revenue of £3.2m, confirming our full-year forecast of £13m excluding potential future licensing deals. Period-end cash stood at £6.7m, down slightly from £6.9m at the end of 2009, implying adverse seasonal movements in working capital. Extension of a credit facility gives Asterand added flexibility for possible future acquisitions.

Q1 revenue growth

Asterand said its first-quarter revenue came in at £3.2m, up from £2.2m a year earlier. The company was helped by currency effects (growth at constant exchange rates coming in at 10%), but Q108 did include a £450k payment under its contract with the US AFIP, which has since ended. Stripping out this contract and currency effects, we estimate underlying revenue growth of around 38%.

BTG confirms migraine project development

Meanwhile, Asterand's licensee BTG has confirmed that the companies' EP4 antagonist migraine project, BGC20-1531, would begin a Phase IIa study in H209, with data due in H210. Promising analgesic-like activity was seen in a pain study. We do not expect the start of Phase II to trigger a milestone to Asterand, however.

Credit facility extended

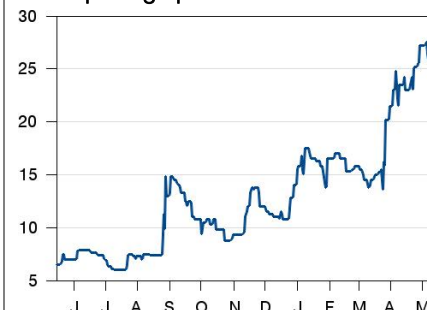
Asterand's interim management statement also pointed out that the company's credit facility with Silicon Valley Bank had been extended from £2m (\$3m) to \$5m, although none of this had yet been drawn down, with no immediate plans to do so. We expect the facility to provide additional flexibility for future strategic moves.

Valuation: Upside still possible

Our DCF model gives a value of around £29m, indicating upside to Asterand's current enterprise value of around £21m, and further IP licensing and more contracts of the type signed with the AFIP could justify a higher rating still.

Price 24.5p
Market cap £28m

Share price graph



Share details

Code ATD
Listing FULL
Sector Pharmaceuticals & Biotechnology
Shares in issue 114m

Price

52-week High 27.5p Low 6.0p

Balance sheet as at 31 March 2009

Debt/equity (%) N/A
NAV per share (p) 10.0
Net cash (£m) 6.7

Business

Asterand supplies human tissue and tissue-related products as well as tissue testing-based services to R&D companies, many of them big pharmas. It was formed in January 2006 through the reverse takeover of Pharmagene of the UK by the private US firm Asterand.

Valuation

| | 2008 | 2009e | 2010e |
|--------------|------|-------|-------|
| P/E relative | 72% | 199% | 198% |
| P/CF | 6.1 | 22.3 | 12.0 |
| EV/Sales | 1.3 | 1.5 | 1.2 |
| ROE | 28% | 9% | 9% |

Geography based on revenues

| | UK | Europe | US | Other |
|----|----|--------|----|-------|
| 6% | 9% | 83% | 2% | |

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Company description: Profitable supplier of human tissue and services

Asterand is a specialist provider of human tissue samples and associated services, and through its large tissue biobank and extensive tissue procurement network can offer its customer companies years of expertise in this highly fragmented but fast growing market. The company is profitable, and its investment case currently rests on it enlarging the scope of its alliances with big pharma, expanding collaborations with academia and governmental organisations and turning to strategic acquisitions of related companies, both public and private.

Asterand is operationally headquartered in Detroit, Michigan, and it is from here that its profitable tissue sample supply business operates, employing around 68 staff. Meanwhile, in Royston, UK, some 22 employees focus on the CRO/service side of the business, carrying out studies for client companies (see Exhibit 1).

Exhibit 1: Asterand's business offering

| 'Product' | Description | Business unit | Location |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| XpressBANK | Biobank of over 200,000 tissue samples and associated clinical and pathology data. Available fixed (in paraffin blocks) or flash-frozen in nitrogen; or as Quad Sets (matched pairs of diseased and adjacent normal tissue; see below). Blood, sputum and tissue derivatives (RNA, DNA, cell lines, etc) also available. | Tissue products | Detroit, Michigan |
| ProCURE | An on-demand service for clients wanting samples not currently in Asterand's biobank. Asterand effectively uses its network to procure the desired tissue. | Tissue products | Detroit, Michigan |
| Target validation | CRO service comprising gene expression and gene and protein localisation work focusing on identifying where targets are expressed in tissue/disease types. | PhaseZERO service | Royston, UK |
| Compound profiling | CRO service dealing with work on live tissues/live cells. Involves investigating drug candidates' pharmacology, looking at biochemical responses in isolated cells or fractions. | PhaseZERO service | Royston, UK |
| ADMET | CRO work primarily in drug metabolism, drug interactions and drug safety. | PhaseZERO service | Royston, UK |

Source: Company presentation; Edison Investment Research

Financials

Our financial model for Asterand is unchanged, and is summarised in Exhibit 2. We note that 2008 sales included £2.6m from a single client, which the company cautioned would generate sales of c £2.3m in 2009. Nevertheless, we expect new and remaining existing contracts to compensate.

Another major factor in 2008 revenue was a \$6.25m cash up-front fee received under a deal in which Allergan licensed worldwide rights to develop Asterand's R99 programme for the treatment of ocular diseases including glaucoma. The up-front fee translated into almost £3.5m of revenue, along with just under £1.4m cost of goods.

Cash at 31 March 2009 stood at £6.7m, and we expect Asterand to finish 2009 with a cash balance of £7.9m, excluding the impact of further licensing deals (not accounted for in our model) and any potential acquisitions. Starting in 2009 the company is switching to reporting in US dollars, given that this is now its main currency, although for simplicity our model continues to show past and future figures in pounds sterling.

Exhibit 2: Asterand financial forecasts

Note: 2006 cash flow shows merger and Pharmagene cash under financing.

| | £'000s | 2006 | 2007 | 2008 | 2009e | 2010e |
|-------------------------------------------------|--------|----------------|----------------|----------------|----------------|-----------------|
| Year end 31 December | | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | |
| Revenue | | 7,535 | 7,608 | 15,211 | 13,000 | 15,012 |
| Cost of sales | | (4,030) | (4,112) | (6,636) | (7,138) | (8,356) |
| Gross profit | | 3,505 | 3,496 | 8,575 | 5,862 | 6,656 |
| EBITDA | | (1,912) | (1,214) | 3,781 | 1,401 | 1,619 |
| Operating profit (before GW and except.) | | (2,457) | (1,597) | 3,572 | 1,151 | 1,369 |
| Goodwill amortisation | | 0 | (14) | (17) | 0 | 0 |
| Exceptionals | | (463) | (570) | 398 | 0 | 0 |
| Share-based payment | | 36 | 108 | (23) | (50) | (50) |
| Operating profit | | (2,884) | (2,073) | 3,930 | 1,101 | 1,319 |
| Net interest | | 225 | 150 | 53 | 100 | 120 |
| Profit before tax (norm) | | (2,232) | (1,447) | 3,625 | 1,251 | 1,489 |
| Profit before tax (FRS 3) | | (2,659) | (1,923) | 3,983 | 1,201 | 1,439 |
| Tax | | 187 | (24) | (108) | (25) | (50) |
| Profit after tax (norm) | | (2,045) | (1,471) | 3,517 | 1,226 | 1,439 |
| Profit after tax (FRS3) | | (2,472) | (1,947) | 3,875 | 1,176 | 1,389 |
| Average number of shares outstanding (m) | | 99.4 | 106.2 | 109.9 | 113.7 | 113.7 |
| EPS - normalised (p) | | (2.1) | (1.4) | 3.2 | 1.1 | 1.3 |
| EPS - FRS 3 (p) | | (2.5) | (1.8) | 3.5 | 1.0 | 1.2 |
| Gross margin (%) | | 46.5% | 46.0% | 56.4% | 45.1% | 44.3% |
| EBITDA margin (%) | | N/A | N/A | 24.9% | 10.8% | 10.8% |
| Operating margin (before GW and except.) (%) | | N/A | N/A | 23.5% | 8.9% | 9.1% |
| BALANCE SHEET | | | | | | |
| Fixed assets | | 1,321 | 1,134 | 1,153 | 1,153 | 1,153 |
| Intangible assets | | 611 | 672 | 689 | 689 | 689 |
| Tangible assets | | 710 | 462 | 464 | 464 | 464 |
| Investment in associates | | 0 | 0 | 0 | 0 | 0 |
| Unquoted investments | | 0 | 0 | 0 | 0 | 0 |
| Current assets | | 10,255 | 7,620 | 15,749 | 16,280 | 18,013 |
| Biobank inventory | | 2,613 | 2,821 | 4,459 | 4,459 | 4,459 |
| Debtors | | 2,734 | 2,600 | 4,410 | 3,900 | 3,500 |
| Cash | | 4,908 | 2,199 | 6,880 | 7,921 | 10,054 |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Current liabilities | | (3,500) | (2,858) | (4,272) | (3,609) | (3,903) |
| Creditors | | (661) | (543) | (712) | (609) | (703) |
| Other creditors | | (2,682) | (2,257) | (3,528) | (3,000) | (3,200) |
| Short-term borrowings | | (157) | (58) | (32) | 0 | 0 |
| Minority interests | | 0 | 0 | 0 | 0 | 0 |
| Long-term liabilities | | (35) | 0 | 0 | 0 | 0 |
| Long-term borrowings | | (34) | 0 | 0 | 0 | 0 |
| Other long-term liabilities | | (1) | 0 | 0 | 0 | 0 |
| Net assets | | 8,041 | 5,896 | 12,630 | 13,824 | 15,263 |
| CASH FLOW | | | | | | |
| Operating cash flow | | (5,413) | (3,088) | 4,440 | 1,248 | 2,313 |
| Net interest | | 225 | 150 | 53 | 100 | 120 |
| Tax | | 95 | 550 | (78) | (25) | (50) |
| Capex | | (112) | (149) | (229) | (250) | (250) |
| Acquisitions/disposals | | 387 | (65) | (18) | 0 | 0 |
| Financing | | 8,878 | 27 | 460 | 0 | 0 |
| Dividends | | 0 | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 79 | 0 | 0 |
| Net cash flow | | 4,060 | (2,575) | 4,707 | 1,073 | 2,133 |
| Opening net debt/(cash) | | (635) | (4,717) | (2,141) | (6,848) | (7,921) |
| HP finance leases initiated | | 0 | 0 | 0 | 0 | 0 |
| Other | | 22 | (1) | 0 | 0 | (0) |
| Closing net debt/(cash) | | (4,717) | (2,141) | (6,848) | (7,921) | (10,054) |

Source: Company accounts/Edison Investment Research

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