

GENEDRIVE PLC (LON:GDR)

Interim results for the six months to December 2017: HepC test launch just started, disposal of services business within reach

KEY INVESTOR MESSAGES

- Genedrive's PLC (LON: GDR) HepC test just entered the commercial phase as partner Sysmex launched in EMEA and APAC territories in recent weeks
- Re-design of the mTB test in progress, launch date to be announced in the next fiscal year
- Discussions for the disposal of the Services business entered an exclusivity period, expect an update by the end of June
- Careful cash management with a £3.9mln cash balance at the end of February, we would expect a capital raise in the second half of calendar year 2018

SUMMARY

Key highlights were the CE mark granted to Genedrive's PLC (LON:GDR) HCV test and the finalization of distribution agreements with Sysmex for EMEA and APAC territories.

Sysmex has run field studies with excellent results and has just recently started the commercial launch, we expect investors' focus to shift to sales trajectory.

The diagnostic kit for the mTB test is being redesigned and a re-launch date is likely to be announced during the next fiscal year. The commercial strategy will likely involve a distribution agreement similar to the one finalized for the HCV test.

Importantly, a significant contribution to the development of the tuberculosis test will come from the £1.1mn funding provided by Innovate UK.

As previously discussed, Genedrive's management has worked for an extended period to sell their services business; the process has now entered an exclusivity period. We expect an update before the end of June.

We note that management did an excellent job optimizing available cash resources in recent quarters, leaving the company with a cash balance just short of £4mn as of the end of February.

Cash burn in the coming months will be largely influenced by three factors:

- Revenues from HCV test sales
- R&D expenditure
- Potential sale of the services business

The end of the collaboration with the US Department of Defense should also be taken into account when forecasting future cash balances.

All considered, we would expect Genedrive PLC (LON:GDR) to raise capital in the second half of calendar year 2018 (1H of financial year 2018/19).

PHARMA & BIOTECH

21/03/2018

SHARE PRICE	52 WEEK LOW
▲ 38.50p	▲ 27.50p
MARKET CAP	52 WEEK HIGH
▲ £7.20m	▲ 42.50p
CASH FEB 18	NET ASSETS
▲ £3.9m	▲ £3.4m

MAJOR SHAREHOLDERS

1) Calculus Capital :	17.80%
2) Odey Asset Management:	10.69%
3) Hargreave Hale:	8.60%

Shares in Issue	18.69
Avg Volume	12,222
Primary index	AIM
EPIC	LON:DGR
Next Key Announcement	-
Sector	Pharmaceuticals and Biotechnology

SHARE PRICE CHART



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VALUATION

As discussed more in depth in our initiation note of November 2017, we value Genedrive PLC on a SOTP basis.

Based on expected revenue of c. £15 mln in 2025, we value Genedrive's diagnostic division approx. £24 mln.

Including the value we attribute to the Services business and the company's net debt leads to an equity valuation of about £24 mln, 3-4x current market capitalization.


Figure 1: genedrive SOTP valuation

<i>genedrive SOTP valuation</i>					
	<i>EV (£m, present value)</i>	<i>Discount rate</i>	<i>EV (£m, 2025)</i>	<i>Sales multiple</i>	<i>Sales (£m, 2025)</i>
<i>Diagnostics (Genedrive®)</i>	23.8	10%	46.3	3.0	15.4
	<i>EV (£m, present value)</i>	<i>Sales multiple</i>	<i>Recurrent sales (£m)</i>		
<i>Services</i>	2.0	0.5	3.2		
<i>genedrive EV</i>	25.8				
<i>Cash (as of 28/02/2018)</i>	3.9				
<i>Debt (CN estimate of convertible bond value as of 31/12/2017)</i>	5.3				
<i>Net debt</i>	1.4				
<i>genedrive equity value</i>	24.3				
<i>Latest market cap</i>	7.2				

Source: Company data, CN analysis

Figure 2: Genedrive® diagnostic unit

Technology platform brings the power of molecular diagnostics outside of the hospital



- **Rapid results in small hospitals and clinics**

 - Prompt clinical decisions are possible - sample to result in as little as 50 minutes vs days from a service laboratory
- **Easy of Use**

 - Single use disposable reagent cartridge (razor/ razor blade model)
 - Limited training required for operation
- **Real World Robustness and Reliability**

 - Battery pack permits use in poor infrastructure settings
 - Operates in hot and humid conditions present outside laboratories
- **Versatile**

 - Core technology across a range of applications, including human health, animal health, and environmental testing
- **Affordable**

 - System and test price point accessible in world-wide markets

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