



7 December 2020

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	ARIX
Price (p)	176
12m High (p)	180
12m Low (p)	59
Shares (m)	135.6
Mkt Cap (£m)	239
NAV/share (p)	274
Premium/discount to NAV	-36%
Free Float	71%
Market	Main

Description

ARIX is a publicly listed biotechnology venture capital company. It provides an opportunity for all investors to participate in a balanced portfolio of diverse biotech innovation via a single stock. With a global portfolio of 16 companies and five IPOs achieved since launch in 2016, Arix is a dynamic and modern approach to life sciences venture capital investing.

Company information

Exec. Chairman	Naseem Amin
MD	Jonathan Tobin
MD	Christian Schetter
COO	Robert Lyne
Finance Director	Marcus Karia

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www.arixbioscience.com

Key shareholders

Directors	0.1%
Acacia Research	19.1%
Fosun	8.2%
Ruffer	6.1%
Takeda Ventures	5.5%

Diary

Mar'21	2020 results
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ARIX BIOSCIENCE

Artios attracts Merck KGaA in deal up to \$7bn

Arix Bioscience (ARIX) is a listed global venture capital (VC) company that presents an opportunity for institutional and retail investors to participate in the high risk-return profile of early-stage biotech investing. ARIX minimises risk through a combination of an expert investment team and portfolio diversification. Along with its 2020 interim results, management provided the market with some aspirational targets for the next three years, which would see the NAV double to ca.£500m. Last month, Merck & Co declared the acquisition VelosBio for \$2.75bn, now Merck KGaA has announced a collaboration with Artios, potentially worth up to \$7bn.

- **Strategy:** ARIX sources investments from an established network and a strong scientific reputation. The portfolio is diversified by therapeutic area, treatment modality, stage of discovery/development and geography to balance the risk-reward profile. Value is realised when ARIX successfully exits its investments.
- **Artios Pharma:** Merck KGaA has announced a strategic collaboration with Artios to gain access to its novel DNA Damage Response (DDR) technology in oncology. Merck will pay \$30m in upfront and short-term milestones in return for rights for the exclusive development of drugs for up to eight targets. If Merck exercises this option, in addition to double-digit option fees, Artios would be eligible for milestones of up to \$860m per target, giving a potential headline deal size of \$7bn.
- **ARIX holds 14.6%:** ARIX is the biggest shareholder in Artios, with 14.6% of the outstanding share capital (12.7% on a fully diluted basis). Since inception, ARIX has invested in every tranche of Artios's two funding rounds, making a total investment of £13.8m. The holding value of this investment at 30 June 2020 was £19.1m, representing 9.4% of the gross portfolio value.
- **Market reaction:** As expected, the market responded favourably to this news, with the shares rising 18.5p, or 12%, adding £25m to the market capitalisation, reflecting the potential NAV uplift, additional credibility in the ARIX story, and a narrowing of the NAV discount. In the event that just one of the collaboration targets is successful, Merck will have to make a decision about whether it will be cheaper in the long term to own the whole of Artios.
- **Investment summary:** Two major deals in quick succession have demonstrated that ARIX has invested in interesting technologies that are attracting keen interest from the pharmaceutical majors. Having set itself some ambitious targets for the next three years, these deals suggest that the targets should be met comfortably, so the market should be narrowing the discount to NAV.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Change in FV of investments	5.5	51.2	-58.6	*143.4	-	-
Other income	1.9	1.3	0.5	0.2	0.2	0.0
Administrative expenses	-11.0	-11.7	-9.7	-7.0	-5.5	-5.6
Operating profit/(loss)	-7.2	37.5	-70.6	130.5	-7.2	-7.6
Profit/(loss) before tax	-7.7	38.2	-69.9	130.7	-6.9	-7.3
Underlying EPS (p)	-9.5	27.2	-49.9	88.9	-4.7	-5.0
Net cash/(debt)	74.9	91.2	53.7	32.1	167.8	156.0
Equity issues	105.1	83.5	0.0	0.0	0.0	0.0
NAV/share (p)	152.3	200.4	149.1	274.0	-	-

*Based on share prices and forex at close of business on 3 December 2020

Source: Hardman & Co Life Sciences Research

Artios-Merck research collaboration

Merck, ranked 22nd in global pharmaceuticals, and Cambridge-based Artios, have announced a three-year global strategic collaboration, whereby the two groups will conduct research on novel DDR targets in oncology. Merck has the right to opt into exclusive development and commercialisation of compounds for up to eight targets.

Since inception in 2015, Artios has developed expertise in DDR targets with the aim of targeting treatment in cancer more effectively and the promise of delivering precision medicine. The expectation is that this research collaboration will leverage the significant expertise and R&D resources of Merck with the potential of Artios's discovery platform of novel DNA repair nuclease inhibitors and targets that it has been developing.

For clarity, the deal does not include Artios's small-molecule ATR (ataxia telangiectasia and rad3-related kinase) inhibitor (in-licensed from MD Anderson) and Pol Theta (Polθ) programmes, on which Artios will now focus its internal efforts.

Deal summary

- ▶ Artios will receive \$30m/£23m in upfront and near-term milestones.
- ▶ Merck has the right to opt into exclusive development of compounds on up to eight targets.
- ▶ If Merck chooses to exercise this option, it will pay double-digit option fees.
- ▶ Artios will be eligible to receive up to \$860m in milestones for each target, in addition to double-digit royalty payments on net sales of each product commercialised by Merck.
- ▶ Subject to specific conditions, Artios has opt-in rights for joint development and commercialisation with Merck KGaA for the programmes.

With the upfront payment and eight potential targets, each with potential milestones of up to \$860m, the deal has a headline value of up to \$7bn. In the event that just one or two of these targets is successful, in our opinion, Merck will face a decision about paying all the associated milestones to Artios, or simply take a view that it will be cheaper in the long term to buy the whole company.

Merck's view

Under the terms of the agreement, the companies will leverage Artios's proprietary nuclease targeting discovery platform to jointly identify multiple synthetic lethal targets for precision oncology drug candidates. During this joint research collaboration, Merck will contribute its significant expertise and resources in the field of DDR and will have exclusive worldwide rights to develop and commercialise selected therapeutics discovered under the collaboration.

"...Targeting DNA damage response has the potential to provide an important therapeutic option for many patients in need of new treatments. We are excited about working with Artios to develop novel precision oncology medicines as we move towards changing the current paradigm in cancer treatment. This collaboration further strengthens our leadership and expertise in the field and discovery of DDR inhibitors and complements our multiple innovative assets currently being evaluated in several Phase I and Phase II clinical studies...."

Source: Andree Blaukat
Head of Translational Innovation Platform Oncology & Immuno-Oncology at Merck

Development of Artios

Artios Pharma Limited was incorporated (registration number: 09931309) on 29 December 2015 and has its registered office on a scientific incubator site at Babraham Research Campus, Cambridge, UK.

Artios is focused on the DNA damage response pathways, which are thought to selectively kill cancer cells through a concept called “synthetic lethality”. DDR pathways contain three major components (some with overlapping functions): sensors, signal transducers and effectors. Cancer cells often rely on non-primary DDR pathways for survival, which allows them to evolve resistance to therapies. Inhibiting these DDR pathways results in cell death through synthetic lethality.

Artios has a strong management team with an exceptional track record in this technology, having played key roles in the discovery of Lynparza® (AstraZeneca). To date, the company has raised £90m through two funding rounds, which were both tranches. ARIX has participated in every tranche of both rounds, making a cumulative investment of £13.8m and giving it a 14.6% stake in the issued share capital (12.7% on a fully diluted basis) and making it the largest shareholder among a strong syndicate of investors, including the venture arms of four major pharmaceutical companies.

Artios funding history							
Date	Round	Tranche	Price	Capital increase		ARIX holding	
				Shares	Raise	Shares	Invested
Sep'16	Series A	1	71p	13.03	£9.3m	2.53m	£1.8m
Dec'17	Series A	2	75p	12.00	£9.0m	2.46m	£1.9m
Aug'18	Series B	'A'	75p	9.00	£6.8m	2.67m	£2.0m
Aug'18	Series B	'B'	95p	31.58	£30.0m	3.89m	£3.7m
Dec'19	Series B	'B'	95p	36.84	£35.0m	4.53m	£4.3m
Total				*110.5	£90.0m		£13.8m
ARIX	'A' shares					7.65m	
ARIX	'B' shares					8.82m	
ARIX						16.07m	

**includes Ordinary shares issued at nominal value
Source: Hardman & Co Life Sciences Research*

Another boost to IRR and track record

At the end of 2019, ARIX's stake in Artios was valued at £15.2m and it represented 10.2% of its gross portfolio value. At its interim results, ARIX raised the value of its holding by £3.9m to £19.1m on the back of progress with its ATR inhibitor and Polθ programmes, which are in the process of being prepared for IND submissions, with clinical development due to start in 2021. The collaboration announced today between Artios and Merck does not include Artios's lead programmes, Polθ and ATR inhibitors, for which Artios will retain all rights.

The Artios-Merck collaboration is likely to result in an uplift to ARIX's holding value in Artios when the NAV is recalculated at the end of the year. For example, another Artios shareholder, IP Group (IPO.L), stated that the value of its holding (11.7%) may increase in value by 45%-136% when it is reassessed on 31 December. The 18.5p rise in ARIX shares on this news added £25m to the market capitalisation, which reflects a potential uplift to year-end NAV and a further narrowing of the discount to NAV on greater appreciation of the ARIX story by the market.

This news is the second significant event, over and above any clinical news, at one of its portfolio companies in the past two months, adding further impetus to the IRR from its investments and its development of a strong track record.

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