

## Corporate

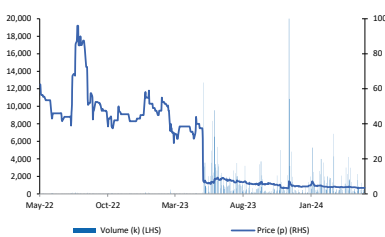
 Current price **3.45p**

 Sector **Healthcare Equipment and Services**

 Code **FAB.L**

 Listing **AIM**

### Share Performance



% Change	1m	3m	12m
<b>FAB.L</b>	-9.2	-15.9	-49.8

Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **3.3**

 Shares in issue (m) **95.4**

 52 weeks (p) **High** **Low**
**9.3** **3.2**

 Financial year end **31 March**

Source: Company Data, Allenby Capital

### Key Shareholders

 Unicorn Invest **6.7%**

 Amati Global Investors **5.0%**

 Rathbone Investment Mgr **4.7%**

 Invest Northern Ireland **3.4%**

 Marex Financial **3.1%**

Source: Company Data, Allenby Capital

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# Fusion Antibodies plc (FAB.L)

## Gauging the trajectory of sales recovery

Evidence of a stabilisation in business activity with the early signs of a recovery emerged in the recent the year-end trading update (30.04.24) and in management commentary at an investor presentation (16.05.24) at Fusion Antibodies plc. The update suggests revenue of £599k was recorded in the H2 FY24, in line with expectations set at the time of the last fundraising. This represents a ~10% rise over H1's £541k, although this is still well down on the comparative period. However, revenue in the fourth quarter was 47% higher the first quarter of FY2024 and commentary suggests it is continuing to grow on a month-by-month basis. The sales pipeline is now being rebuilt with the orderbook standing at £0.75m at 31 March 2024. Cash at the year-end stood at £1.2m.

- Focus on the revenue recovery:** Unaudited revenue in FY2024 was disclosed at £1.14m, in line with our expectations. Although this is down by 61% on FY2023, it suggests £599k was recorded in H2 (Oct to Mar). This figure represents a ~10% rise over the £541k recorded in H1 (Mar to Sept), although this is still well down on the £1.04m recorded in comparable period in FY2023. Management commentary suggests that revenue in the fourth quarter (Jan-Mar) was 47% higher than in the first quarter of FY2024 (Apr to Jun).
- US biotech market improving:** A recovery in the US biotech market between November and March seems to have led to a better environment for financing for public and private companies. This in turn seems to be supporting a greater propensity from VC-funded biotechs – that remains the most important customer group despite Fusion's efforts to diversify its customer base - to place contracts for outsourced antibody discovery work.
- Growing sales pipeline and order book:** There has been a significant increase in sales pipeline, with the order book at 31 March 2024 standing at £0.75m (and described as having risen in April). In February the value of quotes considered to be "live" was in excess of £3m, a figure that was described as having declined slightly since then as prospects have been converted into orders. In February, Fusion disclosed a \$650k follow-on project from the undisclosed US biotech company where it had won a \$1.8m contract in 2021, that should be recognised in FY2025.
- Revenue remains the focus for FY25:** We are not yet publishing formal financial forecasts for FY2025, pending some additional visibility over confirmed contracts. We have previously indicated that we expected FY2025 sales to be in the region of £2m and this remains the case. Much now depends on the trajectory of the financial recovery. We note Fusion may have to recruit some staff to service a growing revenue line and that EBITDA would be difficult to predict since gross margin is sensitive to the contract mix. Cash was confirmed at £1.2m at the year end.
- Valuation:** Fusion's market cap of £3.3m suggests its EV currently stands at just £2.1m, based on the year-end cash. This ascribes negligible value to Fusion's leading antibody discovery technologies, and hence we continue to consider the shares to offer an interesting special situation geared to the company's financial recovery.

### Year End: March

(£'000)	2021	2022	2023	2024E
<b>REVENUE</b>	4,165	4,799	2,901	1,140
<b>ADJ. EBITDA</b>	-535	-573	-2,486	-1,614
<b>ADJ. PBT</b>	-1,264	-1,397	-2,859	-1,876
<b>ADJ. EPS (p)</b>	-11.4	-4.6	-10.0	-3.1
<b>CASH</b>	2,523	1,980	195	1,455
<b>EV/EBITDA (x)*</b>	NEG	NEG	NEG	NEG

Source: Company; Allenby Capital. Allenby Capital acts as Nomad &amp; Joint Broker to Fusion Antibodies.

## H2 revenue sees modest growth over H1

### Financial update

Fusion Antibodies confirmed FY24 (year to end March) unaudited revenue of £1.14m in a recent trading update, in line with guidance in February and Allenby Capital forecasts. Subtracting FY24 H1 unaudited revenue of £541k, suggests H2 revenue of £599k, a slight increase sequentially half on half. Audited FY24 results will be published later in the year (August in previous years).

Results in February and March 2024 were described as the two "highest earning" months of the financial year, while revenue in the fourth quarter of FY24 (Jan-Mar) was described qualitatively as being 47% higher than the first quarter of FY2024 (April to Jun 2023), again suggesting the rising trend. The USD exchange rate has been broadly stable over the year, which suggests there was no material currency impact (we presume most contracts are priced in USD).

Fusion reported its client conversion rate improved throughout FY2024 and that there had been a significant increase in the value of sales pipeline, with the orderbook at 31 March 2024 standing at £0.75m. This was also described as having increased in April by management in an investor presentation.

We suspect the stabilisation has seen has been driven by a recovery – albeit from a low base – in the traditional human therapeutics business that has in turn been helped by the improvement in the US biotech markets in recent months that has provided a better environment for financing for VC funded biotechs. This will have included the \$650k follow-on project won from an existing undisclosed US biotech client.

#### Efforts made to diversify customer base

Over 2023, Fusion made considerable efforts to diversify its customer base to include diagnostics, veterinary medicine and research applications. This, it is hoped that, will make it less sensitive to sudden adverse changes in biotech market sentiment.

Fusion also launched two new products last year: AI/ML-Ab, an offering designed to leverage artificial intelligence and machine learning; and OptiPhage, a means to offer its OptiMAL technology in an industry standard phage display screening format. It also reorganised its existing product offerings into a combined Integrated Therapeutic Antibody Service. OptiPhage is also suitable for non-human species, such as rabbit and mouse (both used widely in research applications), and the first contract with a research antibody provider was announced in April.

OptiMAL combines two technologies: the Opti library design which closely models the natural human immunome allowing focussed libraries of c.  $10^8$ - $10^9$  antibodies to be constructed from hugely diverse repertoire of  $10^{45}$  possibilities; and Mammalian display: which presents multiple copies of a fully intact antibody to be presented on the surface of a mammalian cell. This has multiple advantages including cell selection based on the actual antibody and filtering out less well-expressed antibody sequences.

We consider the AI/MLab and OptiMAL initiatives to represent the main long-term value to Fusion shareholders. Internally, development OptiMAL is currently on hold for financial reasons, but Fusion is working with the US NCI (National Cancer Institute) to validate OptiMAL platform against novel targets nominated by NCI.

#### Year end cash of £1.2m

Fusion's cash position at 31 March is reported at £1.2m and is in line with expectations. Although we are not publishing financial forecasts at this point, we believe this should provide a runway at least into mid CY2025 (Fusion's FY26), beyond the point where Fusion aims to be trading on a cash neutral basis. This is important given that Fusion had to

undertake a deeply discounted fundraising last year and another earlier this year, albeit on much better terms (i.e. a small discount).

We have made some minor revisions to our model to reflect the known revenue but have not otherwise made any substantive changes. We are not yet publishing formal financial forecasts for FY2025, pending some additional visibility over contract wins. We have previously indicated that we expected FY2025 sales to be in the region of £2m and this remains the case. We note Fusion may have to recruit some staff to service a growing revenue line and that EBITDA would be difficult to predict since gross margin is sensitive to the contract mix. Our model assumes a cost base of c. £250k/month and we anticipate revenue recovering to around these levels by mid/late 2024. The revised forecasts are shown in the table below.

#### Exhibit 1: Financial summary

Year End: March

(£'000)	FY23 H1A	FY23 H2A	FY23A	FY24E H1	FY24 H2E
REVENUE	1,863	1,038	2,901	541	599
ADJ. EBITDA	-1,008	-1,450	-2,486	-1,073	-541
ADJ. PBT	-1,262	-1,605	-2,859	-1,204	-672

Source: Company; Allenby Capital

#### Short-term cash and revenue generation crucial

### Sensitivities

The key sensitivities to the investment case remain Fusion's ability to secure new contracts and manage its costs in the short-term as revenue recovers. Medium-term, the key issue will be to resume development and commercialise OptiMAL technology and take advantage of the industry trend in favour of AI developments with its AIML-Ab approach.

#### Special situation geared to recovery

### Valuation

Fusion's market capitalisation is £3.3m, suggesting an EV of £2.1m, based on year £1.2m end cash. We consider this to represent an interesting special situation geared to the success of Fusion's recovery plan, where almost no value is currently being ascribed to its class leading antibody discovery technologies. This unusual situation has arisen as a result of the steep decline in revenue Fusion experienced in H2 FY23 that extended into FY24.

Given there is evidence of a turnaround in its fortunes and helped by an improved funding environment for biotech generally and its order book is now on an upward trajectory, our investment thesis is that investors will start to recognise the value inherent in Fusion's class leading antibody discovery technology. To highlight this, we would draw attention to the valuation of Absci (Nasdaq: ABSI), an albeit much-larger US/Canadian-based firm that has an AI-led approach to antibody drug design. This company has a market capitalisation of \$535m and cash of \$72m, so has an EV of \$463m.

**Exhibit 2: Summary income statement**

Year to March (£'000)	2021	2022	2023	2024E
<b>Revenues</b>	<b>4,165</b>	<b>4,799</b>	<b>2,901</b>	<b>1,140</b>
Cost of goods sold	-2,141	-2,333	-2,327	-1,104
Gross Profit	2,024	2,466	574	36
Other income	194	30	11	6
R&D Expense	-613	-669	-807	-250
G&A Expenses	-2,835	-3,131	-2,601	-1,650
Underlying operating profit	-1,230	-1,304	-2,823	-1,858
<b>EBITDA</b>	<b>-535</b>	<b>-574</b>	<b>-2,486</b>	<b>-1,614</b>
Adjusted EBITDA	-535	-574	-2,486	-1,614
Operating Profit	-1,249	-1,325	-2,858	-1,864
Interest income	-15	-6	-1	-12
Profit Before Taxes	-1,264	-1,331	-2,859	-1,876
Current tax income	-1,635	133	263	145
<b>Net Income</b>	<b>-2,899</b>	<b>-1,198</b>	<b>-2,596</b>	<b>-1,730</b>
<b>EPS (p)</b>	<b>-11.4</b>	<b>-4.6</b>	<b>-10.0</b>	<b>-3.1</b>

Source: Company; Allenby Capital

**Exhibit 3: Summary balance sheet**

Year end March (£000s)	2021	2022	2023	2024E
<b>Current assets</b>	<b>4,705</b>	<b>4,282</b>	<b>1,687</b>	<b>2,201</b>
Cash and cash equivalents	2,686	2,049	195	1,455
Accounts receivable	1,440	1,517	690	359
Inventories	480	585	539	242
Other current assets	99	131	263	145
<b>Non-current assets</b>	<b>1,125</b>	<b>633</b>	<b>375</b>	<b>175</b>
Property, plant & equipment	1,123	633	375	175
Intangible assets	2	0	0	0
<b>Current liabilities</b>	<b>-996</b>	<b>-1,208</b>	<b>-879</b>	<b>-631</b>
Short-term debt	-163	-66	-35	0
Accounts payable & accruals	-344	-466	-480	-271
Accruals/deferred revenues	-373	-561	-177	-177
Tax payables	-71	-68	-136	-136
<b>Non-current liabilities</b>	<b>-87</b>	<b>-26</b>	<b>-270</b>	<b>-270</b>
Long-term debt	0	-3	-250	-250
Other non-current liabilities	-87	-23	-20	-20

Source: Company; Allenby Capital

**Exhibit 4: Summary cash flow**

Year end March (£000s)	2021	2022	2023	2024E
<b>Operating cash flow</b>	<b>-1,136</b>	<b>-424</b>	<b>-1,885</b>	<b>-1,152</b>
Net income	-2,899	-1,198	-2,596	-1,730
Non-cash adjustments	748	780	408	297
Change in working capital	-688	127	566	419
Interest paid/(received)	0	0	0	12
Taxes paid/(received)	1,703	-133	-263	-150
<b>Investing cash flow</b>	<b>-362</b>	<b>-257</b>	<b>-111</b>	<b>-50</b>
CAPEX on tangible assets	-365	-258	-114	-50
Financing cash flow	2,647	-46	3	2,605
Proceeds from equity	2,815	116	0	2,655
Increase in borrowings	-182	0	69	0
Dividends	0	-162	-62	-50
Other financing cash flow	14	0	-4	0
<b>Net increase in cash</b>	<b>1,149</b>	<b>-736</b>	<b>-1,993</b>	<b>1,403</b>
<b>Cash at start of year</b>	<b>1,537</b>	<b>2,686</b>	<b>2,049</b>	<b>52</b>
<b>Cash at end of year</b>	<b>2,700</b>	<b>1,941</b>	<b>52</b>	<b>1,455</b>

Source: Company; Allenby Capital

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