

Corporate

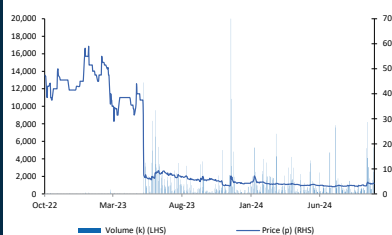
Current price **4.25p**

Sector **Healthcare Equipment and Services**

Code **FAB.L**

Listing **AIM**

Share Performance



% Change **1m 3m 12m**

FAB.L +30.8 +30.8 -26.1

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **4.0**

Shares in issue (m) **95.4**

52 weeks (p) **High Low**

7.2 2.9

Financial year end **31 March**

Source: Company Data, Allenby Capital

Key Shareholders

Shard Capital 11.9%

Unicorn Asset Management 6.7%

Amati Global Investors 5.0%

Rathbone Investment Mgr 4.7%

Invest Northern Ireland 3.4%

Source: Company Data, Allenby Capital

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Fusion Antibodies plc (FAB.L)

Sales recovery with improving gross margin

Further evidence of the recovery in business emerged in the Fusion Antibodies' AGM statement (08.10.24), with disclosure of both a strong increase in both sales and gross margin for the six-month period to 30 September. Unaudited revenues for H1FY25 are c.£1.2m (+c.121%) with gross margin recovering to 29% from 6.5% in H2 FY24. Cash at 30 September was £464k, which – per internal forecasts – gives a runway into H2FY26. The sales pipeline was recently reported at c£700k. We are publishing financial forecasts for FY25 suggesting revenues of £2.0m and indicating potential sales of c£3m for FY26.

- Focus on the revenue recovery:** Unaudited revenues for the six months to 30 Sept 2024 are c. £1.2m (+121%), representing the third sequential six-month period showing solid growth. Q2 revenue can be calculated at c. £678k, representing a run rate of c. £226k/month, vs £174k/month in Q1 and £99k/month in H2 FY24. The Q2 figures may have been unusually strong and thus we have struck a conservative forecast for FY25 revenues of £2.0m, pending visibility on contract wins in the second half.
- Gross margin recovers:** Fusion indicated its gross margin in H1FY25 was 29%, suggesting it is recovering to a more sustainable level from very low levels last year (e.g. 6.5% in H2). Given it is an average, on a monthly basis it should be higher and possibly trending back towards the ~50% figure achieved before sales collapsed a couple of years ago.
- Cash runway to H2 FY26:** Cash is indicated at £464k as of 30 September, down from £1.2m at 30 March, hence a ~£750k outflow over the six months. Cash outflow is falling and the cash runway, per internal financial forecasts, is stated as H2 FY26 (thus beyond September 2025).
- Cautious outlook for H2:** Although Fusion is clearly now in recovery, we remain cautious for the second half period, given the multiple uncertainties that currently seem to be depressing biotech investment sentiment (and thus, indirectly, the propensity from VC-funded biotechs to place contracts for outsourced antibody discovery work). This is reflected in our conservative sales forecast for FY25.
- Revenue remains in the focus for FY25:** We are publishing more details on our financial forecasts for FY2025, showing sales of £2.0m and EBITDA loss of -£1.0m. We believe Fusion will focus on winning contacts at more favourable terms in FY25 as it prioritises rebuilding a sustainable gross margin as well as sales growth.
- Valuation:** Fusion's market cap of £4.3m suggests its EV currently stands at just £3.9m. This ascribes almost no value to Fusion's leading antibody discovery technologies, and hence we suggest the shares to offer a return geared to the company's financial recovery.

Year End: March

(£'000)	2022	2023	2024	2025E
REVENUE	4,799	2,901	1,136	2,000
ADJ. EBITDA	-573	-2,486	-2,068	-1,039
ADJ. PBT	-1,397	-2,859	-2,289	-1,088
ADJ. EPS (p)	-4.6	-10.0	-4.0	-1.1
CASH	1,980	195	1,199	219
EV/EBITDA (x)	NEG	NEG	NEG	NEG

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

Third consecutive half year showing revenue growth

Financial update

Fusion Antibodies' recent AGM statement disclosed unaudited revenues of c. £1.2m for the six months to 30 September 2024, which represents a more than doubling over the £541k recorded in the comparable H1 period in FY24 and the £595k achieved in H2 FY24. Interim FY25 results are expected to be announced in December. Thus, the April to September period represents the third sequential six-month period to have shown significant growth on the prior period, after the Fusion's revenue hiatus in FY2023. It should be noted that the current revenue figure is still well down on the £2.0m to £2.2m per half run rate seen in 2020-2022, although Fusion is now operating at closer to profitability.

As unaudited Q1 FY25 revenue had been previously reported at £522k (three months to 30 June), the Q2 figure can be estimated at £678k. Thus, the run rate has increased to £226k/month in the last quarter, from £174k/month in Q1 and £99k/month in H2 FY24, showing a consistent increase. However, we believe the Q2 figures may have been unusually strong and are potentially above the underlying recovery trendline. Thus, Q3 and Q4 figures may not continue to show this level of growth (this is borne out in our newly published forecasts, discussed later). This would also be consistent with the current uncertainty in the biotech markets, as evidenced by the US stock market indices. Sentiment in the sector is highly sensitive to geopolitics, interest rates and US election outcome among other things.

A key message in the AGM statement was the recovery in gross margin, indicated as 29% in the first half. This is a major recovery as gross margin had fallen to 6.5% in H2 last year as Fusion had to bid keenly to win work given its then uncertain financial situation. Gross margin should continue to increase if Fusion can win some new therapeutic projects with advanced, proprietary technology services like OptiPhage or AI/ML=Ab. We understand gross margin has increased on a month-by-month basis and, given this is an average, it can be assumed to be currently higher. Fusion has enjoyed a ~50% gross margin in the past, although it now has a somewhat different sales mix, with a greater proportion of lower margin, but probably more consistent, diagnostics work.

Cash is indicated at £464k as of 30 September, down from £1.2m at 30 March, hence there has been a c. £750k outflow over the past six months. The cash runway, per management's financial forecasts, is stated as H2 FY26 (thus beyond September 2025). The business plan is to grow the revenue line but focus on improving margins now with the aim of achieving cash neutrality in the short term. The statement is also explicit that Fusion has no plans to raise finance via a share issue in the short term.

The value of the order book was not updated but has been recently disclosed as £700k as of 30 June 2024. This seems to be fairly consistent - it was disclosed at £750k as of 30 March. Fusion has diversified its customer base to include diagnostics, veterinary medicine and research, which it hopes will make it less sensitive to any future adverse changes in biotech sector sentiment.

Fusion has launched two new products in the 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 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 AI/MLab and OptiMAL to represent the main long-term value to Fusion shareholders. Internal development of OptiMAL is currently on hold for financial reasons, but Fusion is working with the US NCI (National Cancer Institute) to validate the OptiMAL platform against novel targets nominated by NCI. The AGM statement disclosed that it is being used to humanise camelid nanobodies (smaller antibody-like fragments that are present in camels) that have many advantages over traditional monoclonal antibodies as medicines.

Forecasts for FY2025

We are publishing financial forecasts for FY2025 for the first time (these having hitherto been delayed because of the uncertainty over the sales recovery). We are currently anticipating revenue of £2.0m. This is likely to be conservative as £1.2m has been booked to date, but there is still uncertainty over sales later in the year. We envisage sales of the order of £3m in FY2025, given the focus will be on winning larger contracts with pricing that provide a realistic gross margin. Our model shows a gross margin on 36% and general and administrative expenditures of £1.6m for the year. With tight working capital management, our model indicates the company would end FY25 with cash of c. £220k. At this point, it could be trading at close to breakeven on a cash basis.

Exhibit 1: Financial summary

Year End: March

(£'000)	FY24 H1A	FY24 H2A	FY24A	FY25 H1E	FY25 H2E
REVENUE	541	595	1,136	1,200	800
ADJ. EBITDA	-1,416	-791	-2,486	-717	-533
ADJ. PBT	-1,417	-792	-2,289	-718	555

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 £4.3m, suggesting an EV of £3.9m. We consider this to represent a geared situation tied to the success of Fusion's recovery plan, given almost no value is being ascribed to its class leading antibody discovery technologies.

Given there is evidence of a turnaround in its fortunes and that sales and margins are 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 \$447m and cash of \$145m, hence an EV of \$302m.

Exhibit 2: Summary income statement

Year to March (£'000)	2022	2023	2024	2025
Revenues	4,799	2,901	1,136	2,000
Cost of goods sold	-2,333	-2,327	-1,104	-1,280
Gross Profit	2,466	574	36	720
Other income	30	11	6	5
R&D Expense	-669	-807	-250	-100
G&A Expenses	-3,131	-2,601	-1,650	-1,630
Underlying operating profit	-1,304	-2,823	-1,858	-1,005
EBITDA	-574	-2,486	-1,614	-1,039
Adjusted EBITDA	-574	-2,486	-1,614	-1,039
Operating Profit	-1,325	-2,858	-1,864	-1,085
Interest income	-6	-1	-12	-3
Profit Before Taxes	-1,331	-2,859	-1,876	-1,088
Current tax income	133	263	145	-46
Net Income	-1,198	-2,596	-1,730	-1,042
EPS (p)	-4.6	-10.0	-3.1	-1.1

Source: Company; Allenby Capital

Exhibit 3: Summary balance sheet

Year end March (£000s)	2022	2023	2024	2025
Current assets	4,282	1,687	2,182	1,021
Cash and cash equivalents	2,049	195	1,119	219
Accounts receivable	1,517	690	557	493
Inventories	585	539	460	263
Other current assets	131	263	46	46
Non-current assets	633	375	157	113
Property, plant & equipment	633	375	157	113
Intangible assets	0	0	0	0
Current liabilities	-1,208	-879	-564	-335
Short-term debt	-66	-35	0	0
Accounts payable & accruals	-466	-480	-564	-335
Accruals/deferred revenues	-561	-177	0	0
Tax payables	-68	-136	0	0
Non-current liabilities	-26	-60	-43	-43
Long-term debt	-3	-40	-23	-23
Other non-current liabilities	-23	-20	-20	-20

Source: Company; Allenby Capital

Exhibit 4: Summary cash flow

Year end March (£000s)	2022	2023	2024	2025
Operating cash flow	-424	-803	-1,636	-865
Net income	-1,198	-2,596	-2,226	-1,042
Non-cash adjustments	780	408	308	144
Change in working capital	127	1,385	345	32
Interest paid/(received)	0	0	0	0
Taxes paid/(received)	-133	0	-63	0
Investing cash flow	-257	-111	1	-2
CAPEX on tangible assets	-258	-114	-2	-2
Financing cash flow	-46	3	2,770	-33
Proceeds from equity	116	0	2,808	0
Increase in borrowings	0	69	0	0
Dividends	-162	-62	-33	-33
Other financing cash flow	0	-4	-5	0
Net increase in cash	-736	-1,993	721	-900
Cash at start of year	2,686	2,049	195	1,119
Cash at end of year	1,950	195	1,119	219

Source: Company; Allenby Capital

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