Avacta announced that Moderna has exercised its option to enter a commercial licensing agreement for which Avacta may receive undisclosed payments upon future clinical development milestones and royalties on future product sales. This is a hugely positive outcome for Avacta. It not only demonstrates Avacta’s ability to generate a series of effective Affimers to a chosen target, which are likely to have undergone extensive preclinical testing by Moderna, but it also provides further external pharma validation and endorsement of the technology. Given Moderna’s mRNA-based approach, we could see human safety data from Moderna before Avacta itself enters the clinic with its own Affirmer in 2020, which would further enhance the value of the Affimer therapeutic platform. We increase our target price to 125p to reflect the incremental value of this deal.

- **Moderna takes exclusive therapeutic licence.** Moderna exercised its option to enter into an exclusive licensing agreement with respect to certain Affimers against a potential therapeutic target. Avacta may receive undisclosed payments upon future clinical development milestones and royalties on future product sales. Given Moderna’s decision to take Affimers against a single target forward, Avacta should retain the rights to all Affimers and data generated against the other targets in the collaboration, which potentially offers further monetisation opportunities.

- **Moderna.** is developing mRNA medicines that instruct a patient’s cells to produce proteins to combat a range of diseases. Having IPO’d in December, raising c.$600m, and with c.$1.7bn of cash, Moderna is pursuing a broad development programme with 21 mRNA-based drugs in the pipeline, of which 11 are in Phase I/II clinical trials.

- **Financial implications.** The original research collaboration (May 2015), stipulated that Moderna had the option to enter into exclusive license agreements for selected therapeutic Affimer candidates for clinical development and in each case Avacta would be entitled to milestone payments, the total value of which could reach several tens of millions of dollars. Given that Moderna has selected a single target, this gives some guidance as to the milestone amounts that might be expected. We expect the first milestone payment to be received in 2019, when the drug enters Phase I clinical trials.

- **Forecasts and valuation.** No change to forecasts, recognising that the first milestone will probably fall in FY 2020. This therapeutic licence builds on the deal with LG Chem, ($300m “bio-dollars” plus royalties). It illustrates the clear progress that has been made, underpinned by increasing amounts of preclinical data and therefore platform value, and is reflected in our increase in target price to 125p.

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**Key estimates** | Year end: Jul 2017A 2018A 2019E 2020E 2021E
---|---|---|---|---|---
Revenue £m | 2.7 | 2.8 | 3.4 | 4.1 | 4.8
Adj EBITDA £m | -6.0 | -7.3 | -9.4 | -7.8 | -5.2
Adj EBIT £m | -7.6 | -10.1 | -11.3 | -9.7 | -7.1
Adj PBT £m | -7.5 | -10.1 | -11.1 | -9.6 | -7.2
Adj EPS p | -8.9 | -12.6 | -7.6 | -6.1 | -4.8
DPS p | 0.0 | 0.0 | 0.0 | 0.0 | 0.0

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**Key valuation metrics**

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<tbody>
<tr>
<td>EV/EBIT (adj)</td>
<td>x</td>
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<td>-4.3</td>
<td>-3.9</td>
<td>-4.5</td>
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<tr>
<td>P/E (adj)</td>
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<td>-42.4%</td>
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</tbody>
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