

Good signs of progress in 2Q, SubB2M breast cancer study data

INOVIQ (IIQ) has released its 2QFY23 results and subsequently has announced positive results for its SubB2M breast cancer test. As such, our investment view remains intact.

2Q – well funded, overhang removed

IIQ reported cash of \$11.9m at end 2QFY23 and indicated that this represents sufficient funding for its strategic and operational needs. Cash receipts from customers during the quarter were \$118k, and IIQ also received a \$866k R&D tax incentive refund. R&D expense was \$674k; staff costs: \$489k; and admin, corporate & leased asset costs: \$1.37m.

IIQ settled its Walker and Irminger legal proceeding in November. The plaintiffs received the BARD1 Lung Cancer Test (LCT) IP and \$1m (as lump sum). IIQ retained the Breast and Ovarian Cancer IP and will receive 10% of future BARD1 LCT sales until patents expire (5% thereafter). We view this development as a positive, as it removes uncertainty associated with the company.

Positive SubB2M breast cancer results move the ball down the field

An independent retrospective case-control study has analysed IIQ's SubB2M-CA15.3 test in breast cancer (all stages) and determined that it outperforms a leading commercially available CA15.3 tumour marker test, Roche's Elecsys® test. The IIQ test enhances CA15.3, a test commonly used in clinical settings to monitor breast cancer treatment response and recurrence, with SubB2M. The study has determined that the IIQ test enhanced: (1) **sensitivity** to 69% (Roche test: 56%); and (2) **specificity** to 78% (Roche test: 71%).

As the next step, IIQ will now conduct a 500-sample case-control study across all stages of breast cancer to assess the performance of the SubB2M-enhanced tests vs. existing tests. IIQ will also conduct a monitoring study.

IIQ indicated that it expects the SubB2M-CA15.3 test to be ready for launch by a lab partner in December 2023.

Exosome-based ovarian cancer program with UQ reaches critical milestone

In December, IIQ announced the completion of the Ovarian Cancer 97 study (OC97) at the Centre for Clinical Research, the University of Queensland (UQ). The study confirmed the utility of EXO-NET to be used in the development of an EV-based ovarian cancer screening test. The next step is an analytical validation study to assess the test's equivalence in plasma compared with serum using the same patient cohort, before entering a 3,000-sample case-control study in 2HFY24.

Valuation – retained at A\$2.11/share

We value IIQ at A\$195m or A\$2.11 per share (undiluted), using a risk-adjusted net present value (rNPV) method to discount future cash flows through to 2043, consistent with the expiry life of patent families. Key risks to our valuation: demonstrating efficacy, establishing clinical utility, meeting regulatory requirements.

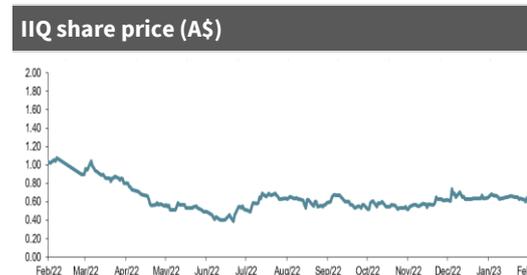


INOVIQ is developing and commercialising next-generation exosome capture tools and precision diagnostics to improve the diagnosis and treatment of cancer and other diseases. The company has commercialised the EXO-NET pan-exosome capture tool for research purposes and the hTERT test as an adjunct to urine cytology testing for bladder cancer. Its cancer diagnostic pipeline includes blood tests in development for earlier detection and monitoring of ovarian, breast and other cancers.

Stock	IIQ.ASX
Price	A\$0.62
Market cap	A\$57 m
Valuation	A\$2.11 (unchanged)

Company data	
Net cash (as at 31 Dec 2022)	\$11.9m
Shares on issue	92.0m

Share price catalysts – 1HCY23	
SubB2M clinical testing – BC and OC monitoring	
Exosome-based OC test development progress	



Source: FactSet.

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Financials

Exhibit 1: Summary financials

INOVIQ LTD IIQ							IIQ-AU						
Year end 30 June, AUD unless otherwise noted													
MARKET DATA													
Price	\$	0.62											
52 week high / low	\$	0.39-1.09											
Valuation	\$	2.11											
Market capitalisation	\$m	57.1											
Shares on issue (basic)	m	92.0											
Options / rights	m	9.3											
Other equity	m	0.0											
Shares on issue (diluted)	m	101.4											
12-MONTH SHARE PRICE PERFORMANCE (AS)													
INVESTMENT FUNDAMENTALS							PROFIT AND LOSS						
		FY20A	FY21A	FY22A	FY23E	FY24E		FY20A	FY21A	FY22A	FY23E	FY24E	
Reported NPAT	\$m	(3.3)	(11.2)	(18.2)	(10.2)	(9.6)	Product revenue	\$m	0.0	0.5	0.3	1.6	12.1
Underlying NPAT	\$m	(3.3)	(11.2)	(18.2)	(10.2)	(9.6)	income	\$m	0.6	1.0	1.8	1.5	2.3
Reported EPS (diluted)	¢	(0.2)	(14.4)	(20.0)	(11.1)	(10.4)	Operating expenses	\$m	(3.9)	(15.5)	(22.3)	(11.9)	(12.2)
Underlying EPS (diluted)	¢	(0.2)	(14.4)	(20.0)	(11.1)	(10.4)	EBITDA	\$m	(3.3)	(13.1)	(18.2)	(9.5)	(9.0)
Growth	%		5947.8%	38.8%	-44.7%	-5.9%	Depreciation & Amortisation	\$m	0.0	(0.9)	(2.1)	(0.7)	(0.6)
Underlying PER	x	nm	nm	nm	nm	nm	EBIT	\$m	(3.3)	(14.0)	(20.3)	(10.2)	(9.6)
Operating cash flow per share	¢	(0.2)	(6.8)	(6.7)	(9.1)	(9.7)	Interest expense	\$m	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Free cash flow per share	¢	(0.2)	(3.0)	(7.1)	(9.1)	(9.7)	Pretax Profit	\$m	(3.3)	(14.0)	(20.3)	(10.2)	(9.6)
Price to free cash flow per share	x	nm	nm	nm	nm	nm	Tax expense	\$m	0.0	2.9	2.1	0.0	0.0
FCF Yield	%	nm	nm	nm	nm	nm	Reported NPAT	\$m	(3.3)	(11.2)	(18.2)	(10.2)	(9.6)
Dividend	¢	0.0	0.0	0.0	0.0	0.0	Weighted average diluted shares	m	1,363.4	77.3	90.9	92.0	92.0
Payout	%	0.0%	0.0%	0.0%	0.0%	0.0%	GROWTH PROFILE						
Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%		FY20A	FY21A	FY22A	FY23E	FY24E	
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%	Revenue	%	nm	nm	(40.9)	5.0	5.0
Enterprise value	\$m	49.7	53.3	42.7	51.0	50.0	EBITDA	%	89.5	303.1	38.4	(47.5)	(6.0)
EVEBITDA	x	(15.3)	(4.1)	(2.3)	(5.4)	(5.6)	EBIT	%	89.5	331.1	44.4	(49.7)	(5.9)
EVEBIT	x	(15.3)	(3.8)	(2.1)	(5.0)	(5.2)	Reported NPAT	%	89.5	242.7	63.2	(44.0)	(5.9)
Price to book (NAV)	x	1.8	2.0	2.0	3.0	2.9	BALANCE SHEET						
Price to NTA	x	1.8	19.6	3.4	7.2	6.4		FY20A	FY21A	FY22A	FY23E	FY24E	
KEY RATIOS							Cash	\$m	7.3	5.0	15.4	7.0	8.1
EBITDA margin	%	nm	nm	nm	nm	nm	Receivables	\$m	0.0	0.2	1.7	0.2	0.2
EBIT margin	%	nm	nm	nm	nm	nm	Other	\$m	0.0	0.4	0.4	0.4	0.4
NPAT margin	%	nm	nm	nm	nm	nm	Current assets	\$m	7.4	5.6	17.5	7.7	8.7
ROE	%	nm	nm	nm	nm	nm	PPE	\$m	0.0	0.6	0.8	0.7	0.7
ROA	%	nm	nm	nm	nm	nm	Intangible assets	\$m	0.0	15.1	11.7	11.1	10.5
Net tangible assets per share	\$	0.3	0.0	0.2	0.1	0.1	Goodwill	\$m	0.0	11.0	0.0	0.0	0.0
Book value per share	\$	0.3	0.3	0.3	0.2	0.2	Other	\$m	0.0	1.1	0.9	1.8	1.7
Net debt/(cash)	\$m	(7.3)	(3.7)	(14.4)	(6.0)	(7.1)	Non current assets	\$m	0.0	27.9	13.3	13.6	13.0
Interest cover/ (EBIT/net interest)	x	nm	nm	nm	nm	nm	Total assets	\$m	7.4	33.5	30.8	21.2	21.7
Gearing (net debt/EBITDA)	x	nm	nm	nm	nm	nm	Trade and other payables	\$m	0.8	0.8	1.0	0.8	0.8
Leverage (net debt/(net debt + equity))	x	nm	nm	nm	nm	nm	Lease liabilities	\$m	0.0	0.3	0.4	0.4	0.4
DUPONT ANALYSIS							Other	\$m	0.1	0.4	0.4	0.4	0.4
Net Profit Margin	%	nm	nm	nm	nm	nm	Current liabilities	\$m	0.9	1.5	1.8	1.5	1.5
Asset Turnover	x	-	0.0	0.0	0.1	0.6	Lease liabilities	\$m	0.0	0.9	0.6	0.6	0.6
Return on Assets	%	nm	nm	nm	nm	nm	Other liability	\$m	0.0	2.1	0.0	0.0	0.0
Leverage	x	1.1	1.2	1.1	1.1	1.1	Non current liabilities	\$m	0.0	3.0	0.7	0.7	0.7
Return on Equity	%	nm	nm	nm	nm	nm	Total liabilities	\$m	0.9	4.5	2.5	2.2	2.2
KEY PERFORMANCE INDICATORS							Net assets	\$m	6.5	29.1	28.3	19.0	19.5
SubB2M					0.2	3.8	Share capital	\$m	19.3	51.8	69.1	70.3	80.3
SubB2M					0.1	3.5	Retained earnings	\$m	(12.8)	(24.0)	(41.9)	(52.3)	(61.9)
EXO-NET Research Use Only					1.1	4.5	Other	\$m	0.0	1.2	1.1	1.1	1.1
EXO-NET DX (Clinical)					0.0	0.0	Total equity	\$m	6.5	29.1	28.3	19.0	19.5
hTert			0.5	0.28	0.3	0.3	CASH FLOW						
HALF YEARLY DATA							Net loss for period	\$m	(3.3)	(11.2)	(18.2)	(10.2)	(9.6)
		2H21	1H22	2H22	1H23	2H23	Depreciation & Amortisation	\$m	0.0	(0.9)	(2.1)	(0.7)	(0.6)
Product revenue	\$m	0.3	0.1	0.2	0.1	0.1	Changes in working capital	\$m	0.4	(0.4)	(1.1)	1.2	0.0
Operating expenses	\$m	(11.9)	(4.4)	(17.9)	(6.0)	(6.0)	Other	\$m	0.3	7.2	15.3	1.3	1.3
EBITDA	\$m	(9.9)	(3.3)	(14.9)	(5.1)	(5.1)	Operating cash flow	\$m	(2.5)	(5.3)	(6.1)	(8.4)	(9.0)
EBIT	\$m	(10.8)	(3.3)	(17.0)	(5.1)	(5.1)	Payments for PPE	\$m	0.0	(0.8)	(0.4)	0.0	0.0
PBT	\$m	(10.8)	(3.3)	(17.0)	(5.1)	(5.1)	Other	\$m	0.0	3.8	0.0	0.0	0.0
Reported NPAT	\$m	(7.9)	(2.7)	(15.5)	(5.1)	(5.1)	Investing cash flow	\$m	0.0	3.0	(0.4)	0.0	0.0
							Equity	\$m	2.5	0.3	18.5	0.0	10.0
							Lease liability payments	\$m	0.0	(0.3)	(0.3)	0.0	0.0
							Other	\$m	(0.2)	0.0	(1.2)	0.0	0.0
							Financing cash flow	\$m	2.3	(0.0)	16.9	0.0	10.0
							Cash year end	\$m	7.3	5.0	15.4	7.0	8.1
							Free cash flow	\$m	(2.5)	(2.3)	(6.5)	(8.4)	(9.0)

Source: MST Access.

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