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EXO-NET agreement with CDO to grow US revenue opportunity

NEED TO KNOW

- Signs licence and supply agreement with contract diagnostics organisation (CDO) ResearchDx to provide EXO-NET services in the US
- Represents significant opportunity to grow EXO-NET sales in key market
- Builds on existing contract development relationship with partner that has complementary expertise.

IIQ and ResearchDX will deliver EXO-NET-enabled services to US customers: INOVIQ (IIQ) and CDO ResearchDx have signed a licence and supply agreement for IIQ's EXO-NET exosome capture technology in the United States. US customers will be able to access a range of contract research services from ResearchDx powered by EXO-NET technology, including high-throughput exosome isolation, biomarker discovery and diagnostics development services.

Combined capabilities will result in compelling customer offering: ResearchDx specialises in developing and validating IVD diagnostics, which will now include the use of IIQ's EXO-NET technology for exosome diagnostic services. We believe this deal provides an opportunity for IIQ to see meaningful growth in take-up of its EXO-NET platform. We note that the two parties have an existing contract development agreement for development and validation of IIQ's subB2M diagnostics and view this new partnership with ResearchDx to provide EXO-NET enabled exosome diagnostic services as a strategically positive move for IIQ.

Investment Thesis

Diversified portfolio of versatile technology platforms and products: IIQ's portfolio is wide, with its EXO-NET and SubB2M technologies creating substantial new opportunities alongside its existing hTERT test, as well as potential future royalties from BARD1.

Collaboration with UQ to develop ovarian cancer screening test based on EXO-NET technology: This collaboration combines best-in-class exosome capture technology with University of Queensland (UQ) biomarkers for application in liquid biopsies.

SubB2M platform: strong data in ovarian, breast cancers support potential to supercharge current tests and monitor disease progression: The company expects that the SubB2M-CA15-3 breast cancer test could be market-ready for a lab partner from December 2023.

Valuation

We value IIQ at A\$213m or A\$2.31 per share, 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.

Risk

Key risks to our valuation include demonstrating efficacy, establishing clinical utility, and meeting regulatory requirements.

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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.

<https://www.inoviq.com/>

Valuation	A\$2.31 (unchanged)
Current price	A\$0.60
Market cap	A\$55m
Cash on hand	A\$7.8m (30 June 2023)

Upcoming Catalysts/Newsflow

Period	
1QFY24	EXO-NET partnering progress
1QFY24	SubB2M SPR feasibility data
1HFY24	SubB2M/CA125 OC test: analytical data
2QFY24	SubB2M/CA15-3 test: monitoring study data

Share Price (A\$)



Source: FactSet, MST Access.

Year end 30 June, AUD unless otherwise noted

MARKET DATA

Price	\$	0.60
52 week high / low	\$	0.47-0.94
Valuation	\$	2.31
Market capitalisation	\$m	55.2
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 (A\$)

INVESTMENT FUNDAMENTALS

		FY21A	FY22A	FY2AE	FY24E	FY25E
Reported NPAT	\$m	(11.2)	(18.2)	(9.0)	(8.5)	(5.0)
Underlying NPAT	\$m	(11.2)	(18.2)	(9.0)	(8.5)	(5.0)
Reported EPS (diluted)	¢	(14.4)	(20.0)	(9.7)	(9.3)	(4.5)
Underlying EPS (diluted)	¢	(14.4)	(20.0)	(9.7)	(9.3)	(4.5)
Growth	%					
Underlying PER	x	nm	nm	nm	nm	nm
Operating cash flow per share	¢	(5.7)	(6.7)	(7.6)	(6.4)	(3.1)
Free cash flow per share	¢	(2.5)	(7.1)	(8.0)	(6.9)	(3.1)
Price to free cash flow per share	x	nm	nm	nm	nm	nm
FCF Yield	%	nm	nm	nm	nm	nm
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%
Enterprise value	\$m	51.5	40.8	48.1	45.8	44.6
EV/EBITDA	x	(3.9)	(2.2)	(6.2)	(6.4)	(11.9)
EV/EBIT	x	(3.7)	(2.0)	(5.4)	(5.4)	(8.9)
Price to book (NAV)	x	1.9	2.0	2.8	3.2	3.5
Price to NTA	x	19.0	3.3	6.2	5.8	5.8

KEY RATIOS

		FY21A	FY22A	FY2AE	FY24E	FY25E
EBITDA margin	%	nm	nm	nm	nm	nm
EBIT margin	%	nm	nm	nm	nm	nm
NPAT margin	%	nm	nm	nm	nm	nm
ROE	%	nm	nm	nm	nm	nm
ROA	%	nm	nm	nm	nm	nm
Net tangible assets per share	\$	0.0	0.2	0.1	0.1	0.1
Book value per share	\$	0.3	0.3	0.2	0.2	0.2
Net debt/(cash)	\$m	(3.7)	(14.4)	(7.1)	(9.4)	(10.7)
Interest cover/ (EBIT/net interest)	x	nm	nm	nm	nm	nm
Gearing (net debt/EBITDA)	x	nm	nm	nm	nm	nm
Leverage (net debt/(net debt + equity))	x	nm	nm	nm	nm	nm

DUPONT ANALYSIS

		FY21A	FY22A	FY2AE	FY24E	FY25E
Net Profit Margin	%	nm	nm	nm	nm	nm
Asset Turnover	x	0.0	0.0	0.0	0.1	0.3
Return on Assets	%	nm	nm	nm	nm	nm
Leverage	x	1.2	1.1	1.1	1.1	1.1
Return on Equity	%	nm	nm	nm	nm	nm

KEY PERFORMANCE INDICATORS

		FY21A	FY22A	FY2AE	FY24E	FY25E
SubB2M				0.0	0.0	0.2
SubB2M				0.0	0.2	1.9
EXO-NET Research Use Only				0.0	1.1	3.9
EXO-NET DX (Clinical)				0.0	0.0	0.0
hTert		0.5	0.27	0.4	0.3	0.3

HALF YEARLY DATA

		2H21	1H22	2H22	1H23	2H23
Product revenue	\$m	0.3	0.1	0.2	0.2	0.2
Operating expenses	\$m	(11.9)	(4.4)	(17.9)	(6.3)	(4.5)
EBITDA	\$m	(9.9)	(3.3)	(14.9)	(5.6)	(3.4)
EBIT	\$m	(10.8)	(3.3)	(17.0)	(5.6)	(3.4)
PBT	\$m	(10.8)	(3.3)	(17.0)	(5.6)	(3.4)
Reported NPAT	\$m	(7.9)	(2.7)	(15.5)	(5.6)	(3.4)

Source: Company reports, MST Access estimates

PROFIT AND LOSS

		FY21A	FY22A	FY2AE	FY24E	FY25E
Product revenue	\$m	0.5	0.3	0.4	1.6	6.4
income	\$m	1.0	1.8	1.5	0.9	1.2
Operating expenses	\$m	(15.5)	(22.3)	(10.9)	(10.7)	(10.7)
EBITDA	\$m	(13.1)	(18.2)	(7.8)	(7.2)	(3.7)
Depreciation & Amortisation	\$m	(0.9)	(2.1)	(1.2)	(1.3)	(1.2)
EBIT	\$m	(14.0)	(20.3)	(9.0)	(8.5)	(5.0)
Interest expense	\$m	(0.1)	(0.1)	0.0	(0.1)	(0.1)
Pretax Profit	\$m	(14.0)	(20.3)	(9.0)	(8.5)	(5.0)
Tax expense	\$m	2.9	2.1	0.0	0.0	0.0
Reported NPAT	\$m	(11.2)	(18.2)	(9.0)	(8.5)	(5.0)
Weighted average diluted shares	m	92.0	92.0	92.0	111.6	121.4

GROWTH PROFILE

		FY21A	FY22A	FY2AE	FY24E	FY25E
Revenue	%	nm	(41.5)	32.6	(16.9)	5.0
EBITDA	%	303.1	38.4	(56.9)	(7.9)	(48.1)
EBIT	%	331.1	44.4	(55.7)	(4.8)	(41.7)
Reported NPAT	%	242.7	63.2	(50.7)	(4.8)	(41.7)

BALANCE SHEET

		FY21A	FY22A	FY2AE	FY24E	FY25E
Cash	\$m	5.0	15.4	7.8	10.1	11.4
Receivables	\$m	0.2	1.7	1.2	1.2	1.2
Other	\$m	0.4	0.4	0.4	0.4	0.4
Current assets	\$m	5.6	17.5	9.4	11.7	13.0
PPE	\$m	0.6	0.8	0.9	1.3	1.1
Intangible assets	\$m	15.1	11.7	10.7	9.5	8.4
Goodwill	\$m	11.0	0.0	0.0	0.0	0.0
Other	\$m	1.1	0.9	0.6	0.5	0.4
Non current assets	\$m	27.9	13.3	12.1	11.3	10.0
Total assets	\$m	33.5	30.8	21.5	23.0	23.0
Trade and other payables	\$m	0.8	1.0	0.8	0.8	0.8
Lease liabilities	\$m	0.3	0.4	0.4	0.4	0.4
Other	\$m	0.4	0.4	0.4	0.4	0.4
Current liabilities	\$m	1.5	1.8	1.5	1.5	1.5
Lease liabilities	\$m	0.9	0.6	0.4	0.4	0.4
Other liability	\$m	2.1	0.0	0.0	0.0	0.0
Non current liabilities	\$m	3.0	0.7	0.4	0.4	0.4
Total liabilities	\$m	4.5	2.5	1.9	1.9	1.9
Net assets	\$m	29.1	28.3	19.6	21.1	21.1
Share capital	\$m	51.8	69.1	69.1	79.1	84.1
Retained earnings	\$m	(24.0)	(41.9)	(51.1)	(59.6)	(64.6)
Other	\$m	1.2	1.1	1.6	1.6	1.6
Total equity	\$m	29.1	28.3	19.6	21.1	21.1

CASH FLOW

		FY21A	FY22A	FY2AE	FY24E	FY25E
Net loss for period	\$m	(11.2)	(18.2)	(9.0)	(8.5)	(5.0)
Depreciation & Amortisation	\$m	(0.9)	(2.1)	(1.2)	(1.3)	(1.2)
Changes in working capital	\$m	(0.4)	(1.1)	0.2	0.0	0.0
Other	\$m	7.2	15.2	2.9	2.7	2.5
Operating cash flow	\$m	(5.3)	(6.1)	(7.0)	(7.2)	(3.7)
Payments for PPE	\$m	(0.8)	(0.4)	(0.3)	(0.5)	0.0
Other	\$m	3.8	0.0	0.0	0.0	0.0
Investing cash flow	\$m	3.0	(0.4)	(0.3)	(0.5)	0.0
Equity	\$m	0.3	18.5	0.0	10.0	5.0
Lease liability payments	\$m	(0.3)	(0.3)	(0.3)	0.0	0.0
Other	\$m	0.0	(1.2)	0.0	0.0	0.0
Financing cash flow	\$m	(0.0)	17.0	(0.3)	10.0	5.0
Cash year end	\$m	5.0	15.4	7.8	10.1	11.4
Free cash flow	\$m	(2.3)	(6.6)	(7.3)	(7.7)	(3.7)

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