Stock Data

Share Price:	33.0p
Market Cap:	£20.8m
Shares in issue:	63.05m

Company Profile

Sector:	Biotechnology
Ticker:	MTPH
Exchanges:	AIM, NASDAQ[1]

[1]Note: Ratio 1 ADS : 5 Ord. Shares

Activities

Midatech Pharma plc ('Midatech', 'MTPH', 'the Group') is a developer of therapeutic platform technologies and also focuses on the Research and Development ('R&D') of medicines for the treatment of rare cancers and other lethal diseases through in-house as well as partnered programmes while seeking to license its technologies.

1-year share price performance chart

Source: LSE

Past performance is not an indication of future performance.

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Midatech Pharma plc

Midatech has announced unaudited interim results for the six months ended 30 June 2020. These cover a period of significant transition for the Group, subsequent to which it has raised substantial new equity funding, signed a further major research collaboration for its Q-Sphera™ platform and announced the Termination of its Formal Sale Process. Together these appear to provide endorsement and early validation of the revised corporate policies adopted by its restructured Board following its Strategic Review. These are focused on the exploitation of Midatech's proprietary technology platforms, while limiting future clinical drug development to partnered or grant-funded clinical trails only, with the ambition of lowering operational costs based on collaboration and early partnering which, if successful, will result in licensing and technology transfer agreement fees including milestone payments and royalties. Based on the extended runway recently secured, Midatech now has cash resources sufficient to support current operations through to Q4 2021, by which time tangible progress with respect to its platform collaborations with Big Pharma and the commencement of MTX110's Phase II orphan development should be evident.

Multiple operational and strategic opportunities

Including cash in hand (post loans and redundancy costs related to the closure of its laboratories in Bilbao), the £5.75m equity raise (gross) on 27 July 2020 and the c.US$1m generated through exercise of ADS warrants, the Group considers it now has in excess of 1 year's operational visibility. Spend over the coming period is expected to be directed primarily as follows: (i) To advance the Company's internal pipeline of Q-Sphera products through proof-of-concept and IND-enabling *in vivo* studies for potential out-licensing; (ii) To develop Q-Sphera technology for unique application with biologic active pharmaceutical ingredients; and (iii) For general corporate purposes. There are no approved long-acting formulations of proteins such as monoclonal antibodies, given that they are notoriously delicate and therefore difficult to manufacture at scale in long-acting depot form. Midatech is appropriately cautious about the potential for formulating biologics using Q-Sphera but if it can be done, it could be an important and highly profitable 'game-changer'. It will also use this time to secure further non-exclusive Big Pharma research collaborations while attempting to conclude a legal resolution with Secura Bio Inc. with a view to re-establishing full development of MTX110. Out-licencing discussions will also be discussed for remaining opportunities amongst the Group's development pipeline that contains multiple de-risked value catalysts in underserved markets. Despite ending its formal sale process, the Group's wider strategic review announced on 31 March 2020 continues with management noting that all potential options for extracting value from its technologies and pipeline developments continue to be explored.

Awarding Midatech a prudent valuation of £65.7m

Having estimated Midatech's current cost 'run rate', TPI's model then considers prospective cash flows sourced just two of its technologies. The first being Q-Sphera, which assumes licensing milestones and royalties from five Q-Sphera products over the next five years. Note the Company is today working on three Q-Sphera products with collaborators and two further Q-Sphera products in its internal pipeline. The second comes from its remaining clinical development using its MidaSolve technology, MTX110, which is presently in advanced Phase II trial preparations and for which TPI anticipates commercialisation of just one orphan indication. Discounted cash flows are summed over a prospective 10-

years to which a terminal growth/contraction value is then added along with net cash, after offsetting anticipated administrative and continuing R&D costs for the period. This results in a £65.7m current valuation for Midatech, presently equivalent to 104.2p/share.

TPI notes that although Midatech has developed three in-house technology platforms, each with its own unique mechanism to improve delivery of medications to sites of disease having been successfully validated in the clinic, prospective licensing collaborations with Big Pharma presently only exist for Q-Sphera. With in-house development of MTD201 also having been terminated, only one continuing clinical project has been considered, its MidaSolve-based MTX110 orphan development for diffuse intrinsic pontine gliomas ('DIPG'). While the Group's platform-based early stage R&D portfolio is reasonably extensive, for prudence TPI nevertheless places a nil value on all remaining development assets, treating their potential for out-licensing and/or other opportunities (including prospective sales that continue to be reviewed by the Board) as potential future upside only.

Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone.

Midatech - R&D update

Following termination of further inhouse development of MTD201 and a change in strategic emphasis towards lower-risk, lower-cost collaboration and partnering at proof-of-concept stage, the Group's R&D portfolio of clinical and pre-clinical assets has become more diversified as follows:

Midatech Pharma – R&D Platform

ID	API	Therapeutic Area	Administration	Formulation	Pre-clinical	Phase I	Phase II	Partnering Status
Q-Sphera								
MTD211	Small molecule	CNS	Long acting Injectable					
MTD214	Small molecule	Anti-rejection	Long acting Injectable					
MTD215	Monoclonal Antibody	Undisclosed	Long acting Injectable	Investigational				
External: MTX212	Undisclosed	Undisclosed	Long acting Injectable					Partnered
External: MTX213-01	Undisclosed	Undisclosed	Undisclosed					Partnered
MTX213-02	Undisclosed	Undisclosed	Undisclosed					
MTD201	Octreotide	Carcinoid cancer and acromegaly	Long acting injectable	In-house development terminated				
MidaSolve								
MTX110	Panobinostat	Brain cancer in children (DIPG)	Direct to tumour via CED					
MTX110	Panobinostat	Medulloblastoma	Direct to tumour					
MTX110	Panobinostat	Glioblastoma	Direct to tumour via CED					
MidaCore								
MTX114	Methotrexate	Psoriasis Immuno-rx	Topical					

Source: Midatech RNS 10 September 2020

MTX110's initial Phase I study in DIPG patients is being conducted by the University of California, San Francisco and is expected to report safety, tolerability and a recommended dose for Phase II within the next few weeks. Preparations for a Phase II trial of safety and efficacy in 19 patients with Kinderspital, Zurich are well advanced. The study endpoint is expected to be patient survival after 12 months. A further exploratory study of five DIPG patients with Columbia University utilising an alternative CED system has also begun.

Having announced on 5 December 2019 its provisional award of a €2.6m EU Grant for further clinical development of MTX110, Midatech is presently waiting to hear from the EU whether it meets the EU criteria for an SME and if the GlioKIDS grant will be confirmed. The Group is also evaluating MXT110 for the treatment of other forms of childhood brain cancer including medulloblastoma and also glioblastoma multiforme ('GBM'), a fast-growing form of brain cancer in adults. A study of five patients with University of Texas, Houston in medulloblastoma was initiated earlier in 2020.

As was also announced on 9 June 2020, Midatech received a letter from counsel to Secura Bio Inc. purporting to terminate its licence to panobinostat. The Group remains of the view that the grounds for the purported termination of the MTX110 licence agreement are unfounded and, at this time, is considering various avenues for a resolution and/or best options available, which could possibly include a claim for compensation.

Although in-house development of MTD201 has been terminated, the preclinical and two Phase I studies have demonstrated Q-Sphera proof-of-concept as a long-acting injectable formulation technology with several potential advantages compared with other PLGA-based technologies including; predictable kinetics, minimal burst release, improved injectability, simpler reconstitution and now, subcutaneous administration. Midatech continues discussions with interested/well-funded drug development companies regarding possible opportunities for partnering and/or sale of this asset.

Since the start of the Strategic Review, Midatech has developed two additional formulations for its internal Q-Sphera pipeline: MTD211 for application for the central nervous system ('CNS') and another, MTD214 in transplant anti-rejection. Each of the active pharmaceutical ingredients ('APIs') were identified after a comprehensive evaluation of potential candidates. Both MTD211 and MTD214 address large markets and, as long acting injectables, have the potential to offer significant clinical benefits compared with current therapies and, importantly for reimbursement, savings to the healthcare system. Both formulations are currently being optimised in preparation for IND-enabling *in vivo* studies later this year. Once completed, Midatech will seek licensing and technology transfer agreements with partners for further development and, ultimately marketing.

A significant number of latest generation medicines are protein based and could benefit from alternative dosing with long-acting injectables. Although there remain significant technical challenges, Midatech's MTD215 programme is investigating the feasibility of encapsulating a monoclonal antibody using a model protein, representative of closely related therapeutics, to demonstrate proof of concept ('POC'). If successful, the Group would then apply the know-how to commercial opportunities.

Financial results for the six months to end-June 2020

With no revenues from the Group's recently announced feasibility collaborations being recognised in the first half of 2020, the total figure recorded for the period was a modest £0.17m (H1 2019: £0.45m), comprising just R&D works and grant income. R&D costs rose 15% to £3.99m (H1 2019: £3.46m), which included £1.88m (H1 2019 £1.90m) and £0.18m (H1 2019 £0.37m) for projects MTD201 and MTX110, along with redundancy costs of £0.88m and £0.55m write-down of Spanish assets, offset by a negative share based payment charge of £0.35m.

Administrative expenses increased 43% to £2.93m (1H 2019: £2.05m), including £0.35m of one-time costs associated with Spanish Government loans, £0.51m of increased legal and professional fees due in part to the closure of Bilbao operations and in part due to an aborted fundraise in the first quarter of 2020 and £0.07m in respect of UK redundancy costs. Net cash used in operating activities (after changes in working capital) in 1H 2019 was £7.08m, compared with £4.56m in 1H 2019. The balance sheet also recorded impairment of intangible assets of £11.59m (1H 2019: Nil) related to the termination of further in-house development of MTD201 and associated intellectual property R&D and goodwill.

Overall, cash decreased by £6.79m in the period compared to an increase of £6.70m in H1 2019. This resulted in a cash balance at 30 June 2020 of £4.33m (end-2019: £10.93m) after repayment of certain Government loans, borrowings at 30 June 2020 were reduced to £3.51m compared with £6.08m at 31 December 2019.

Midatech Pharma plc - Valuation Model

Model Assumptions: Further to Midatech's strategic review that was first announced on 31 March 2020 and concluded on 23 July 2020 with the termination of its formal sale process, TPI has made various assumptions regarding the Group's forward opportunities in order to derive a current valuation. These include the assumption that no asset sales are concluded as part of the continuing review process, the ending of the purported termination of the MTX110 licence agreement by Secura Bio Inc. without further cost or compensation, ongoing validation of Midatech's technology platforms which result in licensing and technology transfer agreements with its collaborative partners including milestone payments and royalties, along with the successful development of MTX110 for one single indication, which also results in milestone and royalty payment.

Estimating Midatech's current run rate

A current valuation model for the Group must estimate ongoing annual costs (in terms of administration and research & development) going forward. The method adopted is to take the Group's 'run rate' detailed in its recently announced half year results to end-June 2020, from which are extracted one-off/nonrecurring costs incurred in the closing of certain drug development programmes, redundancy costs (Spain and UK), write-offs (Spanish assets), loan repayments and associated legal & professional fees, and then annualising this figure to arrive at a current run rate.

ADMINISTRATION COSTS - RUN RATE (£m)	
From current year Interims	2.92
Less:	
Spain loans	(0.35)
Legal & Professional	(0.51)
UK Redundancy	(0.07)
Continuing Admin costs	1.99
Annualised Run Rate	**4.0**

R&D COSTS - RUN RATE (£m)	
From current year Interims	4.43
Less:	
MTD201	(1.88)
MTX110	(0.18)
Spain/UK Redundancy Costs	(0.88)
Write-down: Spain assets	(0.55)
Share Based Payments	0.35
Continuing R&D overhead	1.29
Annualised Run Rate	**2.60**

Source: Midatech RNS 10 September 2020, TPI

Q-Sphera™ single product in-market cash flow model

Based on the recent signing of two non-exclusive research collaborations with Big Pharma for the use of Midatech's technology platforms, a cash flow projection for incorporation of just Q-Sphera, the Group's advanced microencapsulation and polymer-depot sustained release ('SR') drug delivery platform, is detailed below with a view to demonstrate anticipated fees, milestone payments and subsequent royalties that might be accrued for a single in-market product. TPI then assumes Q-Sphera is utilised for five in-market products over the 15-year forecast period:

PRODUCT IN-MARKET SALES								1	2	3	4	5	6	7	8	9	10	11
	£m	Year						£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Global peak sales	250	5						50	100	150	200	250	250	250	250	250	250	250
PRODUCT CASH FLOWS - SINGLE PRODUCT				1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	£m	Probability		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
		Success	Cum.															
Feasibility	0.5	100%	100%	0.5														
MILESTONES:																		
Licence upfront	3.0	75%	75%	2.3														
Phase I start	1.0	75%	56%		0.6													
Phase III start	2.0	75%	42%			0.8												
Registration approval	4.0	90%	38%					1.5										
TOTAL MILESTONES	10.0																	
Marginal, direct R&D		100%	100%	0.0														
Royalties	7%		38%					1.3	2.7	4.0	5.3	6.6	6.6	6.6	6.6	6.6	6.6	6.6
SINGLE PRODUCT CASH FLOWS				2.8	0.6	0.8	-	2.8	2.7	4.0	5.3	6.6	6.6	6.6	6.6	6.6	6.6	6.6

Source: TPI estimates

The discounted cash flow model constructed below also assumes MTX110 proceeds to registration with orphan drug designation for DIPG over the coming three years, receiving a milestone payment in the fifth year along with the commencement of royalties. The model assumes a market available for MTX110 amounts to 1380 patient/year based on an annual cost/patient of US$135,000, on which basis peak annual sales of US$60m are achieved.

Discounted Cash Flow – 15-year projection

Q-SPHERA CASH FLOWS (Five Products)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Product Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**
Product 1	2.8	0.6	0.8	-	2.8	2.7	4.0	5.3	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Product 2		2.8	0.6	0.8	-	2.8	2.7	4.0	5.3	6.6	6.6	6.6	6.6	6.6	6.6
Product 3			2.8	0.6	0.8	-	2.8	2.7	4.0	5.3	6.6	6.6	6.6	6.6	6.6
Product 4				2.8	0.6	0.8	-	2.8	2.7	4.0	5.3	6.6	6.6	6.6	6.6
Product 5					2.8	0.6	0.8	-	2.8	2.7	4.0	5.3	6.6	6.6	6.6
CASH FLOWS - FIVE PRODUCTS	2.8	3.3	4.2	4.2	7.0	6.9	10.3	14.8	21.5	25.2	29.2	31.9	33.2	33.2	33.2
R&D-non recoverable, inflated at 5%	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
DISCOUNT FACTOR	*0.89*	*0.80*	*0.71*	*0.64*	*0.57*	*0.51*	*0.45*	*0.40*	*0.36*	*0.32*	*0.29*	*0.26*	*0.23*	*0.20*	*0.18*
DISCOUNTED CASH FLOWS - Q-SPHERA	**0.1**	**0.6**	**1.1**	**1.0**	**2.5**	**2.2**	**3.5**	**4.9**	**6.8**	**7.3**	**7.7**	**7.5**	**7.0**	**6.3**	**5.6**

MTX110 CASH FLOWS (One Indication)	£m	Probability		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
DIPG peak sales	60								10	20	30	40	50	55	60	60	60	60
	£m	Probability																
R&D:		Success	Cuml.															
Phase II	(8.0)	1.0	1.0	(4.0)	(4.0)													
Registration	(1.0)	0.6	0.6			(0.6)												
TOTAL COSTS	(9.0)																	
Milestone	5.0		0.6						3.0									
Royalties	0.1		0.6						0.6	1.2	1.8	2.4	3.0	3.3	3.6	3.6	3.6	3.6
CASH FLOWS				(4.0)	(4.0)	(0.6)	0.0	0.0	3.6	1.2	1.8	2.4	3.0	3.3	3.6	3.6	3.6	3.6
DISCOUNT FACTOR				*0.91*	*0.83*	*0.75*	*0.68*	*0.62*	*0.56*	*0.51*	*0.47*	*0.42*	*0.39*	*0.35*	*0.32*	*0.29*	*0.26*	*0.24*
DISCOUNTED CASH FLOWS - MTX110				**(3.6)**	**(3.3)**	**(0.5)**	**0.0**	**0.0**	**2.0**	**0.6**	**0.8**	**1.0**	**1.2**	**1.2**	**1.1**	**1.0**	**0.9**	**0.9**

ADMINISTRATIVE ANNUAL CASH FLOWS	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
CASH FLOWS	(4.0)	(4.1)	(4.3)	(4.4)	(4.6)	(4.7)	(4.9)	(5.1)	(5.3)	(5.4)	(5.6)	(5.8)	(6.0)	(6.2)	(6.5)
DISCOUNT FACTOR	*0.91*	*0.83*	*0.75*	*0.68*	*0.62*	*0.56*	*0.51*	*0.47*	*0.42*	*0.39*	*0.35*	*0.32*	*0.29*	*0.26*	*0.24*
DISCOUNTED CASH FLOWS - ADMIN. COSTS	**(3.6)**	**(3.4)**	**(3.2)**	**(3.0)**	**(2.8)**	**(2.7)**	**(2.5)**	**(2.4)**	**(2.2)**	**(2.1)**	**(2.0)**	**(1.9)**	**(1.7)**	**(1.6)**	**(1.5)**

Source: TPI estimates

Net present values (based on discounted 10-year cash flows and terminal growth rates as detailed below) are then summed before similarly discounted administrative costs in order to create a current valuation. On this basis, TPI places a valuation of £65.7m, equivalent to 104.2p/share, as follows:

Net Present Value - Q-SPHERA (£m)

	Discount rate	Growth rate	£m
NPV-10-year cash flows	12%		64.1
Terminal value		-5%	32.9
TOTAL NPV- Q-SPHERA			**97.0**

Net Present Value - MTX110 (£m)

	Discount rate	Growth rate	£m
NPV-10-year cash flows	10%		2.6
Terminal value		2%	2.6
TOTAL NPV – MTX110			**5.2**

Net Present Value – Administration Costs (£m)

	Discount rate	Growth rate	£m
NPV – 10-year cash flows	10%		(38.6)
Terminal value		3.5%	(5.7)
TOTAL NPV - ADMIN.			**(42.5)**

Midatech Pharma - Summary Valuation (£m)

	15-year DCF	Terminal Value	Total
Q-Sphera (5 Products)	64.1	32.9	97.0
MTX110	2.6	2.6	5.2
Administrative Costs	(36.8)	(5.7)	(42.5)
Estimated Net Cash			6.0*
MIDATECH TOTAL	29.9	29.8	**65.7**

**TPI estimated position net of debt as of September 2020*

Source: TPI

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