Research as a Service

Adalta Ltd

Developing a truly novel antibody

Biotechnology

4 September 2020

Adalta (1AD:ASX) is a clinical stage drug development company using its proprietary i-body (single domain antibody) technology platform to develop biopharmaceuticals against targets that challenge traditional antibody approaches. The i-body technology mimics the shape and stability of a unique antigen-binding domain first discovered in sharks and then developed as a human protein. The result is a protein capable of interacting with high selectivity, specificity and affinity with previously difficult to access targets such as G-protein coupled receptors (GPCRs) that are implicated in many serious diseases. 1AD's lead i-body candidate is AD-214 for the treatment of Idiopathic Pulmonary Fibrosis (IPF) and Interstitial Lung Disease (ILD). 1AD has previously been granted orphan designation for IPF and is currently conducting a Phase-1 (safety) trial in up to 44 healthy volunteers divided into 7 cohorts, to be followed up by up to 54 ILD and IPF patients. The primary endpoint of the trial is safety and tolerability, although pharmacodynamic and pharmacokinetic activity will also be investigated. While continuing to advance this Phase 1 trial 1AD is also conducting additional pre-clinical studies for additional indications and partnering opportunities and new i-body targets, and further investing in manufacturing and their i-body platform. To this end the company is currently undertaking an $8m capital raise to support such activities. 1AD also generates revenue from a co-development collaboration with GE Healthcare (GEHC) to discover i-bodies against a GE target. The company relies on equity capital, R&D tax rebates, licence and collaboration income and other government grants for funding.

Business model

1AD has a two-fold strategy to revenue generation. Firstly, progress company owned drugs or antibodies to clinical trial, with AD-214 the first example. Partnering opportunities will be examined at each stage of the drug development process with a view to securing upfront, milestone and royalty-based payments in partnering. The second is to collaborate with other biopharmaceutical companies to develop product candidates against other classes of receptors, in other indications, with GEHC being the first example. In this case research fees and milestones/royalties would also be payable. FY20 income from this activity was $0.6m.

Recent company commentary

The first healthy patient was treated in the phase 1 safety trial in July 2020, a key and long-awaited milestone for the company. The first readout from this trial is expected early CY2021. The company successfully raised $4m in a placement at $0.10cps and is undertaking a $4.1m rights issue at the same price to fund the development of AD-214 and a continuous improvement of the i-body platform. Over FY20 1AD received $0.6m in licence & collaboration revenue and $3.2m in various government grants. FY20 cash burn was $5.9m suggesting the current cash on hand and the recent equity raising should provide a 2-year runway.

Novel drugs with unmet needs often have few peers

Relative to "biotech" peers 1AD is early stage with a genuinely novel drug (or antibody). 1AD's initial target indication (IPF) is also a particularly debilitating indication and very difficult to treat, hence its orphan drug status. This is different to many small Australian listed biotechs that favour repurposing an existing drug for new indications, taking away many of the safety and manufacturing risks but reducing the IP potential. As a result 1AD and AD-214 should be seen as a high risk, high return biotech play. There are a few unlisted global companies undertaking similar studies using Llama single domain antibodies, with Exonbio out of the US, Ablynx (acquired by Sanofi for US$5b) and ArgenX (NASD:ARGX) as good examples. To quote the primary researchers "Llama antibodies have all the characteristics we expect from mammalian immune systems…however they also include a group of smaller antibodies…that are unique and functional".

Share details

ASX Code	1AD
Share price (3-Sep)	$0.10
Market Capitalisation	$21.4M
Shares on issue post entitlements issue	244.9M
Net cash at 30/06/2020	$3.37M
Free float	82.6%

Share performance (12 months)

Upside Case

- Meets phase 1 primary endpoint
- Secures partner before or during Phase 2
- Accelerates licencing of other drugs

Downside Case

- Fails to manufacture AD-214 at scale
- Misses Phase 1 primary endpoint
- Fails to secure further funding

Catalysts/upcoming events

Read-out from Phase-1 safety trial in healthy volunteers (Q3FY21)

Lung images from Phase 1 trial in ILD patients (mid CY2021)

Comparable companies (Aust/NZ)

Dimerix (ASX:DXB), Kazia Therapeutics (ASX:KZA), Pharmaxis (ASX:PXS)

Top 5 shareholders (post placement pre rights issue)

Yuuwu Capital LP	26.5%
Platinum Investment Management Ltd	12.4%
Meurs Holdings Pty Ltd	5.1%
Knight61 Investments	1.9%
CityCastle (Leon Serry)	1.7%

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FINANCIAL SERVICES GUIDE

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Effective Date: 26th November 2018

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