Advanced Oncotherapy Plc (AVO-GB)
Purchase of LIGHT system highlights growing commercial momentum

Key Takeaway

Advanced Oncotherapy ("AVO") has announced the purchase of a LIGHT system by The Mediterranean Hospital of Limassol in Cyprus. In addition to the purchase price of €50m (£41.6m), the parties have entered a profit share agreement entitling AVO to a portion of the net profits from the new facility. With the manufacturing of the key hardware components of the first LIGHT system completed, technical risk has largely been removed in our opinion. The sale of the first commercial LIGHT system in Europe indicates AVO’s focus has progressed from technical to commercial execution. We reiterate both our OUTPERFORM recommendation and target price ("TP") of GBP 155.

Cyprus’s healthcare system is undergoing significant upgrade and reform
The Mediterranean Hospital of Limassol is one of the largest private hospitals in Cyprus. The hospital is the first centre integrated into the newly created National Health System formed in 2017 to modernise and upgrade Cyprus’s health sector and bring it on par with its European peers in terms of efficiency and affordability. By improving the country’s healthcare infrastructure, the government also hopes to establish Cyprus as a centre for international patients seeking to gain access to high quality care. In our view, the LIGHT system is complementary to this vision given not only its clinical advantages over conventional proton therapy ("PT") systems, but also due to its affordability and efficiency which in turn facilitate access to PT. Installation of the 3 treatment room facility is expected to commence by YE2023E, coinciding with the completion of construction work at the site.

Technical execution de-risked, now advancing commercialisation.
The announcement of the system purchase follows a number of newly revealed commercial and technical partnerships. Firstly, AVO announced a two-year research collaboration with The Cleveland Clinic to demonstrate the benefits of proton minibeams, a key feature of the LIGHT system, in treating cancers. AVO also signed a memorandum of understanding with The London Clinic to operate the first commercial LIGHT facility on Harley Street in London under a profit-sharing agreement, superseding a joint venture with Circle Health signed in 2015. Technical / development risks for the LIGHT system are now largely removed, with the key hardware components of the first system manufactured and AVO is now focused on verification and validation activities. Hence, in our view, the first commercial sale of a LIGHT system in Europe indicates that AVO has shifted focus from developing the platform to marketing and commercialisation. We expect further news flow to follow throughout 2020E.

AVO is ideally positioned to exploit the growing PT market
We believe that AVO is ideally positioned to penetrate the growing PT market. LIGHT’s advantageous technical properties have profound implications for both clinical efficacy as well as affordability: (1) the proton beam allows better targeting of tumours while reducing radiation to surrounding healthy tissue compared with conventional radiotherapy, and (2) the system’s linear design minimises the generation of stray radiation, thus decreasing the need for expensive shielding. As a result, we expect LIGHT to facilitate the wider adoption of PT beyond the currently reimbursed indications.

The PT industry offers significant structural growth
We assume a radiotherapy ("RT") to PT conversion rate of 15% by 2030E, which would make it a c.$8.0bn market ($4.5bn for 380 machines sold in that year and $3.5bn for the servicing of all machines installed up to 2030E). PT is among the most attractive sub-sectors in medtech, in our view. With the development timeline on schedule and first patients due to be treated in H2/2020E, we believe that AVO offers strong upside potential.
**COMPANY DESCRIPTION**

Advanced Oncotherapy plc, together with its subsidiaries, focuses on providing radiotherapy systems for cancer treatment through the use of a novel proton therapy technology to healthcare providers and hospitals. It is developing Linac Image Guided Hadron technology, a next generation of proton therapy system for treating cancer. The company was formerly known as CareCapital Group plc and changed its name to Advanced Oncotherapy plc in September 2012. Advanced Oncotherapy plc was incorporated in 2005 and is headquartered in London, the United Kingdom.

**SCENARIOS**

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<th>Scenario</th>
<th>Description</th>
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<tr>
<td><strong>Base Case - GP Investment Case</strong></td>
<td>Proton therapy penetrates the conventional radiation therapy market by 15% in 2030. AVO will be able to get a market share of around 15%. Price per treatment room will come down to $7.5m and accelerates sales growth.</td>
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<td><strong>BlueSky Scenario</strong></td>
<td>Proton therapy penetrates at a faster pace and goes up to 30% or higher. AVO will maintain or increase market share in an oligopolistic market. Price per treatment rooms will be as high as $15m - scale effects improve margins.</td>
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<td><strong>Downside risk</strong></td>
<td>Proton therapy penetrates at a slower pace and goes up to only 10% by 2030. AVO may have significant delays and its market share in PT remains low as a result (10%) in 2030. Competitors could develop a competing linac with a modular system.</td>
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**Peer Group Analysis**

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<th>SWOT</th>
<th>INDUSTRY EXPECTATIONS</th>
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<td><strong>Strength</strong></td>
<td>The industry is expected to benefit from a higher adoption rate for proton therapy fuelled by growing clinical evidence. Prices for treatment rooms are not that high when broken down on a per patient basis vs. modern drug therapy. Thus, prices for PT treatment rooms are expected to come down only moderately. Software and better of imaging is expected to improve beam delivery and help adoption rates.</td>
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<td><strong>Weakness</strong></td>
<td>- AVO has a promising modular system, which could be cheaper and faster installed in hospitals.</td>
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<td><strong>Opportunity</strong></td>
<td>- The company is small in size, early stage and has a limited financial strength compared to its competitors IBA, Varian, Hitachi, etc.</td>
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<td><strong>Threat</strong></td>
<td>- Growing clinical evidence and patient driven demand could accelerate adoption rate more than expected.</td>
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<td>- Capital constraints on healthcare budgets and underwhelming evidence for PT could be replaced by carbon ion RT. Partnerships are instrumental for AVO’s success and there is a significant risk of terminations or delays.</td>
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<tr>
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<td>- AVO has a promising modular system, which could be cheaper and faster installed in hospitals.</td>
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- Advanced Oncotherapy Plc (AVO-GB)
- Medical Technology (MT)

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goetzpartners securities Limited
The Stanley Building, 7 Pancras Square, London, N1C 4AG, England, UK.
Tel: +44 (0)203 859 7725
www.goetzpartnerssecurities.com