Advanced Oncotherapy Plc (AVO-GB)
H1 developments lay groundwork for technical execution

**KEY TAKEAWAY**

Advanced Oncotherapy ("AVO") reported a H1/2019 net loss of €11.2m, slightly narrower than in H1/2018 (-2.1% YoY), as higher finance costs (£0.59m) largely offset a decrease in administrative expenses to £11.0m (from £11.3m) and higher tax credits (£0.38m). 2019 has been an exciting period for AVO, which has made significant progress with the technical development of the LIGHT system and secured additional financing of c.£31.2m. We continue to believe in the potential for the LIGHT system to disrupt the radiotherapy market as a result of the proven clinical superiority of proton therapy ("PT"), combined with the implied economic advantages associated with linear accelerators. With much of the technical risk removed, the company is moving towards an important inflection point as it transitions from the development of LIGHT to marketing and commercialisation. We maintain both our OUTPERFORM recommendation and £1.55 target price ("TP").

Operational progress keeps first patient treatment on track for H2/2020E

H1/2019 has seen several key operational milestones in the development of the LIGHT system. The awarding of ISO certification has de-risked the regulatory process and reinforces the company's commitment to deliver a proton therapy system that has the potential to disrupt the radiotherapy market. Structural building work in Harley Street, the site of the company's first proposed commercial installation of LIGHT, was completed in July, thus transitioning the project into the lower-risk fit-out phase. With most of the hardware on track to be delivered to the company's assembly facility in Daresbury by YE2019E, we see limited risk for delays and setbacks and expect first patient treatment in H2/2020E.

Funding secured for final stages of technical development and regulatory activities

Post period end, AVO successfully secured additional equity and debt financing totalling £19.2m, compromising an oversubscribed equity subscription (£14.8m) and a new debt facility (£4.0m). In addition to the equity and debt financing secured in May 2019, this brings the total funds raised in 2019 to more than £31.2m which, in our view, provides a strong endorsement for the potential of the LIGHT system. The proceeds are expected to support both ongoing operational activities and to progress the verification and validation of the LIGHT system towards regulatory approval.

The proton therapy industry offers significant structural growth

We assume a PT conversion rate of 15% by 2030E, which would make it a c.$8.0bn market ($4.5bn for 380 machines in that year sold and $3.5bn for the service 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 with our TP of £1.55 per share representing c.3.7x upside to current trading levels.
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

Base Case - GP Investment Case
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.

Bluesky Scenario
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.

Downside risk
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.

Peer Group Analysis

SWOT

Strength - AVO has a promising modular system, which could be cheaper and faster installed in hospitals.
Weakness - The company is small in size, early stage and has a limited financial strength compared to its competitors IBA, Varian, Hitachi, etc.
Opportunity - Growing clinical evidence and patient driven demand could accelerate adoption rate more than expected.
Threat - 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.

INDUSTRY EXPECTATIONS

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.
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