

8 October 2018

Corp

Ticker BVXP:AIM

Pharmaceuticals & Biotechnology

Shares in issue (m) 5.1

Next results H1 Apr

Price 3,220.0p

Target price 3,400.0p

Upside 6%

Market cap £165.5m

Net debt/(cash) -£7.0m

Other EV adjustments £0.0m

Enterprise value £158.5m

What's changed? From To

Adjusted EPS 100.1 112.4

Target Price U/R 3,400.0

Share price performance



%	1M	3M	12M
Actual	-2.4	7.0	18.2

Company description

Development of monoclonal antibodies for use in immunodiagnostics

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Bioventix*

FY 2018 results – 12% upgrades to FY 2019

Full-year adjusted EPS was 11% above our expectations, driven by higher revenues across the majority of its product range. A 55p special dividend was proposed, resulting in full-year dividend growth of 27% to 116p. Strong underlying revenue growth (c.28%), which excludes c.£0.8m of backdated royalties and the loss of a c.£1.0m royalty stream, bodes well for future growth. This was despite a weak start for troponin sales in Europe, which we expect to benefit from Siemens' US launch in July. We have increased FY 2019 forecasts by 11% and introduced forecasts for FY 2020 that imply c.12% EPS growth. We reintroduce a target price of 3,440p, which implies a 3.2% FY 2019 free cash flow yield, underpinned by 51% free cash flow/capital employed and 64% ROCE.

- Results in brief.** Revenues increased 21% (c.12% CER), which included c.£0.8m of backdated royalties, without which growth was c.10% (12% CER). Adjusted pre-tax profits rose 20% to £7.0m with adjusted EPS rising 16% to 110.9p. A 36p final dividend as well as a 55p special dividend are proposed (2.8% yield), implying a full-year dividend of 116p (+27%). Net cash at year-end was £7.0m (vs. £6.2m).
- Revenue growth across the portfolio.** Despite losing £1.0m of revenues post-licence expiry of NT-proBNP and ignoring the one-off £0.8m back-dated royalty payment, growth was seen across all of the portfolio, with Vitamin D rising 23% (43% of underlying sales) and the balance growing at a very impressive 32%.
- Troponin struggling to gain traction, but US launch should help.** Revenues were minimal in the year, although the US launch in July is expected to have a greater impact than seen to date in Europe, given the uptake and switch to the high sensitivity tests experienced by Roche and Abbott. Our forecasts assume FY 2019 revenues of £0.36m (previously £0.5m). We remain convinced that troponin will be a significant product, given Siemens' global diagnostic market share.
- Forecasts.** We are raising forecasts for FY 2019 by 13% at the EPS level. Although implying only 1% EPS growth in FY 2019, underlying growth is c.17% if one excludes the one-off £0.8m of backdated royalties in FY 2018. Our dividend forecast excludes a special dividend. We introduce FY 2020 forecasts, implying 12% EPS growth.
- Valuation.** The shares are currently trading on a FY 2019 P/E of 28.7x, falling to 25.5x and yielding 3.4%. We reintroduce a target price of £34, which implies a 3.2% FY 2019 free cash flow yield, underpinned by 51% free cash flow/capital employed and 64% ROCE.

Key estimates Year end: Jun		2016A	2017A	2018A	2019E	2020E
Revenue	£m	5.5	7.2	8.8	9.0	10.0
Adj EBITDA	£m	4.3	5.8	7.0	7.1	8.0
Adj EBIT	£m	4.3	5.8	7.0	7.1	7.9
Adj PBT	£m	4.3	5.8	7.0	7.1	7.9
Adj EPS	p	69.0	96.0	110.9	112.4	126.7
DPS	p	62.5	91.0	116.0	73.0	87.0

Key valuation metrics		2016A	2017A	2018A	2019E	2020E
EV/EBIT (adj)	x	37.2	27.4	22.7	22.4	20.0
P/E (adj)	x	46.7	33.5	29.0	28.7	25.4
Dividend yield	%	1.9%	2.8%	3.6%	2.3%	2.7%
Free cash yield	%	1.9%	2.4%	3.5%	3.4%	3.7%
Pre-tax ROCE	%	51.9%	57.1%	63.0%	63.8%	57.9%

FY 2018 results – 12% upgrades to FY 2019

Income statement		2017A	2018A	2019E	2020E
Year end: Jun					
Sales	£m	7.2	8.8	9.0	10.0
Gross profit	£m	6.8	8.2	8.3	9.3
EBITDA (adjusted)	£m	5.8	7.0	7.1	8.0
EBIT (adjusted)	£m	5.8	7.0	7.1	7.9
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	0.1	0.0	0.0	0.0
PBT (adjusted)	£m	5.8	7.0	7.1	7.9
Total adjustments	£m	-0.1	-0.1	-0.2	-0.2
PBT (stated)	£m	5.8	6.9	6.9	7.8
Tax charge	£m	-0.8	-1.2	-1.2	-1.3
Minorities	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	4.9	5.7	5.7	6.5
Adjusted earnings	£m	5.0	5.8	5.9	6.6
Shares in issue (year end)	m	5.1	5.1	5.1	5.1
EPS (stated)	p	96.4	110.2	111.4	125.7
EPS (adjusted, fully diluted)	p	96.0	110.9	112.4	126.7
DPS	p	91.0	116.0	73.0	87.0

Cash flow		2017A	2018A	2019E	2020E
Year end: Jun					
EBITDA	£m	5.8	7.0	7.1	8.0
Net change in working capital	£m	-0.6	-0.5	-0.3	-0.5
Other operating items	£m	-0.0	0.0	0.0	0.0
Cash flow from op. activities	£m	5.2	6.5	6.8	7.5
Cash interest	£m	0.1	0.0	0.0	0.0
Cash tax	£m	-1.3	-0.6	-1.2	-1.3
Capex	£m	-0.0	-0.1	-0.0	-0.0
Free cash flow	£m	4.0	5.8	5.6	6.2
Acquisitions / disposals	£m	-0.2	-0.1	0.0	0.0
Dividends	£m	-3.4	-4.9	-6.2	-4.0
Shares issued	£m	0.3	0.0	0.0	0.0
Other	£m	0.0	-0.0	0.0	0.0
Net change in cash flow	£m	0.8	0.8	-0.6	2.2
Opening net cash (debt)	£m	5.4	6.2	7.0	6.4
Closing net cash (debt)	£m	6.2	7.0	6.4	8.6

Balance sheet		2017A	2018A	2019E	2020E
Year End: Jun					
Tangible fixed assets	£m	0.4	0.5	0.5	0.4
Goodwill & other intangibles	£m	0.0	0.0	0.0	0.0
Other non current assets	£m	0.2	0.3	0.3	0.3
Net working capital	£m	3.5	4.1	4.2	4.7
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	-0.2	-0.8	-0.3	-0.3
Gross cash & cash equivs	£m	6.2	7.0	6.4	8.6
Capital employed	£m	10.1	11.1	11.1	13.7
Gross debt	£m	0.0	0.0	0.0	0.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	10.1	11.1	11.1	13.7
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	10.1	11.1	11.1	13.7

Growth analysis		2017A	2018A	2019E	2020E
Year end: Jun					
Sales growth	%	31.3%	20.8%	2.5%	11.0%
EBITDA growth	%	35.4%	20.7%	1.5%	12.0%
EBIT growth	%	35.8%	20.5%	1.4%	12.1%
PBT growth	%	36.7%	19.9%	1.3%	12.1%
EPS growth	%	39.1%	15.6%	1.3%	12.7%
DPS growth	%	45.6%	27.5%	-37.1%	19.2%

Profitability analysis		2017A	2018A	2019E	2020E
Year end: Jun					
Gross margin	%	93.2%	93.5%	93.0%	93.0%
EBITDA margin	%	80.4%	80.3%	79.5%	80.3%
EBIT margin	%	79.8%	79.6%	78.8%	79.6%
PBT margin	%	80.6%	80.0%	79.1%	79.8%
Net margin	%	68.9%	66.3%	65.5%	66.5%

Cash flow analysis		2017A	2018A	2019E	2020E
Year end: Jun					
Cash conv'n (op cash / EBITDA)	%	89.7%	92.3%	95.8%	94.2%
Cash conv'n (FCF / EBITDA)	%	68.5%	83.2%	78.7%	77.6%
U/lying FCF (capex = deprn)	£m	4.0	5.9	5.6	6.2
Cash quality (u/l FCF / adj earn)	%	79.6%	101.7%	94.9%	92.9%
Investment rate (capex / deprn)	x	0.5	1.8	0.4	0.4
Interest cash cover	x	n/a	n/a	n/a	n/a
Dividend cash cover	x	1.2	1.2	0.9	1.5

Working capital analysis		2017A	2018A	2019E	2020E
Year end: Jun					
Net working capital / sales	%	48.9%	46.6%	47.3%	47.3%
Net working capital / sales	days	179	170	173	173
Inventory (days)	days	11	12	10	10
Receivables (days)	days	168	159	168	168
Payables (days)	days	1	1	5	5

Leverage analysis		2017A	2018A	2019E	2020E
Year end: Jun					
Net debt / equity	%	no debt	no debt	no debt	no debt
Net debt / EBITDA	x	no debt	no debt	no debt	no debt
Liabilities / capital employed	%	0.0%	0.0%	0.0%	0.0%

Capital efficiency & intrinsic value		2017A	2018A	2019E	2020E
Year end: Jun					
Adjusted return on equity	%	49.2%	52.4%	53.1%	48.4%
RoCE (EBIT basis, pre-tax)	%	57.1%	63.0%	63.8%	57.9%
RoCE (u/lying FCF basis)	%	39.2%	53.3%	50.4%	45.0%
NAV per share	p	197.2	215.3	215.4	266.2
NTA per share	p	197.2	215.3	215.4	266.2

FY 2018 analysis

Full-year results to 30 June 2017 were influenced by the addition of £0.77m of backdated royalties from one of its customers that had unintentionally failed to pick up in its audit process for the three years 1 July 2014 to 30 June 2017. This was included in the interim results. The underlying performance, however, was 11% above forecast.

Figure 1: Profit & loss analysis

Year to end June (£m)	2017	2018E	2018A	Delta from forecast (£m)	Growth (%)
Underlying revenues	7.25	7.20	7.98	0.78	10%
Back-dated revenues	0.00	0.77	0.77	0.00	
Total revenue	7.25	7.97	8.75	0.78	21%
Cost of sales	-0.49	-0.60	-0.57	0.02	16%
Gross profit	6.75	7.37	8.18	0.81	21%
<i>Gross margin</i>	93.2%	92.5%	93.5%	+100bp	+30bp
Operating expenses	-0.93	-1.07	-1.15	-0.08	24%
EBITDA (adjusted)	5.82	6.30	7.03	0.73	21%
<i>EBITDA margin</i>	80.4%	79.0%	80.3%	+130bp	-10bp
Depreciation	-0.04	-0.04	-0.06	-0.02	48%
EBIT (adjusted)	5.78	6.25	6.97	0.72	21%
<i>EBIT margin</i>	79.8%	78.5%	79.6%	+110bp	-20bp
Net interest	0.06	0.02	0.03	0.01	
PBT (adjusted)	5.84	6.27	7.00	0.73	20%
Share based payments	-0.07	-0.07	-0.14	-0.07	
PBT (stated)	5.77	6.20	6.87	0.66	19%
Tax charge	-0.85	-1.12	-1.20	-0.09	42%
Reported earnings	4.92	5.09	5.66	0.58	
Adjusted earnings	4.99	5.16	5.80	0.64	16%
Av. Shares (m)	5.11	5.14	5.14	0.00	
Fully dil. Shares (m)	5.20	5.20	5.23	0.03	
Adjusted fully dil. EPS (p)	95.99	99.20	110.92	11.72	16%
Stated EPS (p)	96.36	98.98	110.21	11.23	14%
Dividend per share (p)	91.00	64.00	116.00	52.00	27%

Source: finnCap

Total revenues increased 21% to £8.75m, with pre-tax profits rising 19% to £6.87m. Adjusted pre-tax profit rose 20% to £7.0m, with adjusted fully diluted EPS up 16% to 110.9p. A second interim dividend of 36.0p (+16%) was proposed, resulting in a full-year ordinary dividend of 61.0p, up 20% on FY 2017. A special dividend of 55.0p (40.0p in FY 2017) was also proposed, implying a full-year dividend increase of 27% to 116p. In total, the second interim and special dividend payment in November of 91.0p implies a yield of 2.8%.

The company ended the period with cash of £7.0m, an increase of £0.6m from the prior year, which included the £4.9m dividend payment.

Revenues

Underlying revenues, excluding back royalties increased 10%

Revenues, stripping out the one-off effect of the backdated royalty stream, increased 10% to £8.0m, which was probably around 12% at constant exchange rates. Around 55% of revenues are denominated in US\$, which strengthened against sterling by c.5% over the comparable period (\$1.34 vs \$1.27). In contrast, Sterling weakened against the Euro by c.1% (€1.12 vs €1.13), which accounts for c.23% of the group total revenues.

Stripping out licence expiry, revenues increased 28%

More impressive is that within revenues of £8.0m there was the impact of the loss of c.£1.0m of revenues (royalties) from a customer whose licence for pro-NTBNP expired in August 2017. Stripping this out, underlying continuing revenues were c.£7.9m, implying an increase of 28% (Figure 2).

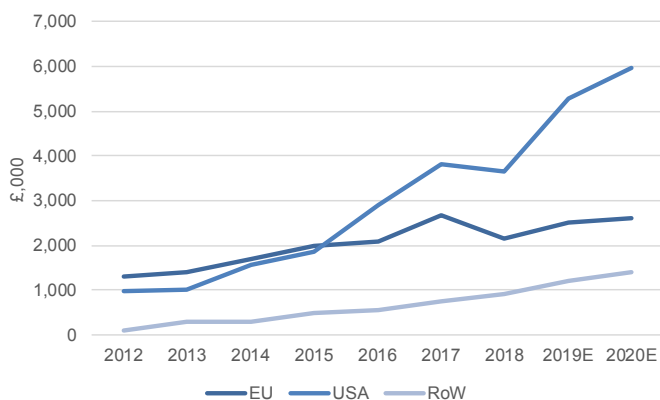
Figure 2: Revenue breakdown

Year to end June (£m)	2017	2018	Growth (£m)	Growth (%)
Vitamin D	2.77	3.40	0.63	23%
NT-proBNP	0.61	1.05	0.44	72%
T3	0.54	0.46	-0.08	-14%
testosterone	0.57	0.66	0.09	15%
drug-testing antibodies	0.48	0.64	0.16	33%
progesterone	0.18	0.40	0.22	123%
estradiol	0.34	0.29	-0.05	-13%
Miscellaneous antibodies, product supply	0.70	1.00	0.40	42%
Non-vitamin D	3.42	4.50	1.08	32%
Underlying revenues (continuing)	6.19	7.90	1.71	28%
NT proBNP (customer licence expiry)	1.06	0.08	-0.98	-92%
Revenue (excluding back-dated royalty)	7.25	7.98	0.73	10%
Back-dated royalty	0.00	0.77	0.77	!
Total revenues	7.25	8.75	1.51	21%

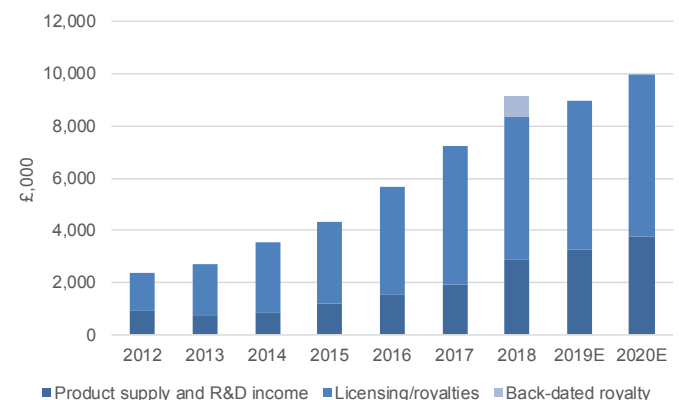
Source: finnCap

Approximately 66% of revenues are generated from customer royalties, which Bioventix receives around two months after the period-end and are translated into Sterling at the prevailing rate (Figure 4). Excluding the backdated revenues, these grew 3% to £5.5m. Excluding the loss of the NT-proBNP royalty stream, underlying royalties increased c.27%.

The balance of group revenues is product revenues and R&D income, which increased 48% (+£0.9m) to c.£2.5m, driven by increasing physical antibody sales to China. Over the past five years, product revenues have increased by 31% CAGR. From these product sales, Bioventix has structured licence agreements with its Chinese customers and “royalty payments have started to flow in modest terms”.

Figure 3: Revenue by geography

Source: finnCap

Figure 4: Revenue by class of business

Source: finnCap

The key components of revenue growth are summarised (Figure 2) as follows:

- ▶ Vitamin D antibody sales increased by c.23% (+£0.6m) to c.£3.4m, now accounting for c.43% of underlying revenues. The strong sustained growth in Vitamin D antibodies is being driven by the continued geographic expansion of its customers into markets outside the US and Europe (eg. Asia) as well as the increased testing for Vitamin D deficiency as part of routine blood testing.
- ▶ Strong growth from its portfolio of other antibodies, which includes both royalties and physical antibody supply. The portfolio includes antibodies for fertility testing (progesterone), antibodies against drugs of abuse and contract NT-proBNP antibodies for one customer. Revenues were c.£4.5m and grew by 32% during the period.

FY 2018 results – 12% upgrades to FY 2019

- ▶ Loss of sales (c.£1.0m) from the termination of a 10-year licence in August 2017. This related to sales of NT-proBNP antibodies (test for heart failure).
- ▶ Shipments of antibodies to China, mainly for R&D purposes and through its distributors, are reported to be progressing well with the company having seen further evidence of usage during the period. Although still relatively modest in size, management remains optimistic that this revenue stream should increase in the future.
- ▶ Backdated royalties of £0.77m, which related to royalties for the 3-year period ending 30 June 2017.

Gross profit

Gross profits rose 21% to £8.2m with margins rising 30bps to 93.5%. The key components to this increase were:

- ▶ The underlying gross margin, stripping out £0.77m of backdated royalties was 92.8%, a decrease of 40bps.
- ▶ Weaker Sterling, particularly against the US\$, is estimated to have affected the gross margin by around 40bps, given that its cost base is denominated in Sterling. At constant currency, we estimate the underlying gross margin to have been c.93.2%.
- ▶ Inclusion of £0.77m of backdated royalties, without which underlying gross profits grew by 10% to £7.4m.

Adjusted profits and EPS

Operating expenses increased 24% to £1.15m, resulting in adjusted EBITDA growth of 21%. Stripping out the backdated royalty (£0.8m), adjusted EBITDA increased 7% to £6.3m (Figure 6).

Figure 5: Adjusted for back-dated royalty

Year to end June (£m)	2017	2018E	2018A	Delta from forecast (£m)	Growth (%)
Underlying revenues	7.25	7.20	7.98	0.78	10%
Back-dated revenues	0.00	0.77	0.77	0.00	
Total revenue	7.25	7.97	8.75	0.78	21%
Gross profit	6.75	7.37	8.18	0.81	
<i>Gross margin</i>	93.2%	92.5%	93.5%		
EBITDA (adjusted)	5.82	6.30	7.03	0.73	21%
<i>EBITDA margin</i>	80.4%	79.0%	80.3%		
PBT (adjusted)	5.84	6.27	7.00	0.73	20%
Adjusted earnings	4.99	5.16	5.80	0.64	16%
Excluding back dated royalty					
Underlying gross profit	6.75	6.60	7.41	0.81	10%
<i>Gross margin</i>	93.2%	91.7%	92.8%		
EBITDA (adjusted)	5.82	5.52	6.26	0.73	7%
<i>EBITDA margin</i>	80.4%	76.8%	78.4%		
PBT (adjusted)	5.84	5.50	6.23	0.73	7%

Source: finnCap

Net cash

Net cash at 30 June was £7.0m, an increase of 13% from £6.4m at year-end FY 2017. This also included a £4.9m dividend payment, of which £2.1m related to the special 40p dividend declared last year. In line with the company's stated intention of maintaining cash balances of at least £5m, the Board has proposed paying a special dividend of 55p (£2.8m) to be paid in November 2018 with the second interim dividend. Key points of note include:

FY 2018 results – 12% upgrades to FY 2019

- ▶ Free cash flow increased 47% to £5.85m. Stripping out backdated royalties, free cashflow increased by 27% to c.£5.1m.
- ▶ Tax paid was £0.6m compared with £1.1m.
- ▶ Dividend payments, including the 40p special dividend (£2.0m) increased 46% to £4.9m.

Figure 6: Summary cashflow

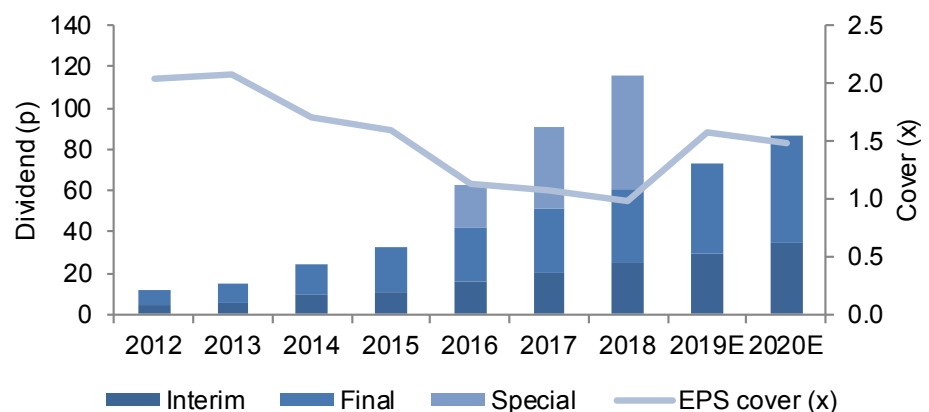
Year to end June (£m)	2017	2018E	2018A	Delta from forecast (£m)	Growth (%)
EBITDA	5.82	6.30	7.03	0.73	21%
Net change in working capital	-0.57	-0.03	-0.54	-0.51	
Share based payments	0.07	0.07	0.14	0.07	
Other items	-0.10	-0.07	-0.14	-0.07	
Cash flow from operating activities	5.22	6.27	6.49	0.22	24%
Cash interest	0.06	0.02	0.03	0.02	
Tax paid	-1.27	-1.12	-0.57	0.55	
Capex	-0.02	-0.03	-0.11	-0.08	
Free cash flow	3.99	5.14	5.85	0.71	47%
Acquisitions	-0.15	0.00	-0.10	-0.10	
Dividends on ord shares	-3.37	-4.93	-4.93	0.00	
Other cash flow items	0.00	0.00	0.00	0.00	
Issue of share capital	0.32	0.00	0.00	0.00	
Net change in cash flow	0.79	0.21	0.82	0.61	4%
Opening net cash (debt)	5.38	6.17	6.17	0.00	
Closing net cash (debt)	6.17	6.38	6.99	0.61	13%

Source: finnCap

Dividend

20% increase in ordinary dividend plus 55p special dividend. Total 116p (+27%)

Bioventix declared a final dividend of 36p, payable on 9 November to registered shareholders on 24 October, making a total ordinary dividend of 61p for the year; an increase of 20%. The Board also declared a 55p special dividend (40p in FY 2017), which implies a total dividend of 116p, up 27% over FY 2017 (91.0p). The company has paid cumulative dividends of 377.7p since 2009.

Figure 7: Dividend

Source: finnCap

Product assessment and outlook

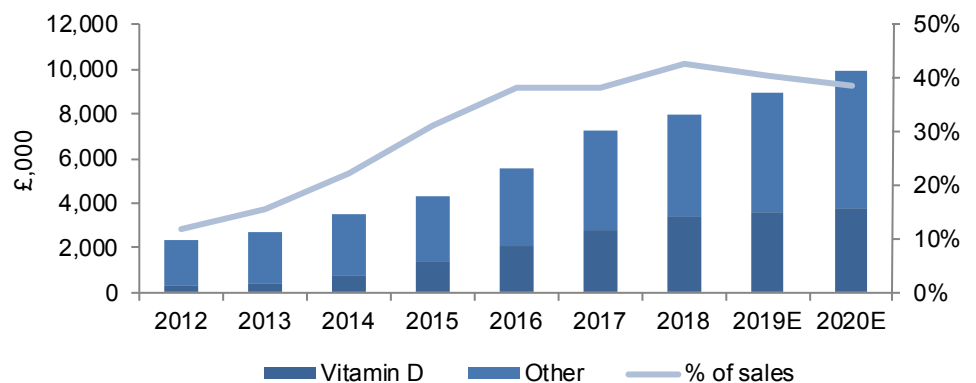
Vitamin D

Sales of Vitamin D antibodies (vitD3.5H10) increased by 23% in FY 2018 to c.£3.4m, which was c.£0.25m higher than our forecasts. Vitamin D accounted for c.43% of continuing group revenues (excludes £0.8m backdated royalty and loss of NT-proBNP royalty), down from 45% in FY 2017 and illustrates the strong growth in the remainder of its portfolio. Revenue growth in the second half moderated to 15% (£1.8m) compared with 34% in the first half (£1.6m) but still implies sequential 13% half-yearly growth.

Management anticipates modest growth in FY 2018 citing “a limited number of smaller customers bringing Vitamin D tests to the market”. Our forecasts for FY 2019 and 2020 assume growth of .7% and 5%, respectively to £3.6m and £3.8m, comprising:

- ▶ 2-3% growth in its mature markets (US and Europe);
- ▶ Introduction of new products from a number of smaller vitamin D customers; and
- ▶ Continued growth in emerging markets..

Figure 8: Vitamin D



Source: finnCap

Troponin update

Siemens Healthineers launched its high sensitivity Troponin I assay in Europe (using Bioventix’s antibody) in May 2017 on both the Dimension EXL and Dimension Vista Systems. Revenues in FY 2018 were minimal and below our expectations for £0.1m. Siemens launched the troponin test in the US in July, a market that has seen a quicker conversion from the low to high sensitivity troponin tests. We understand both Roche and Abbott have been successful in effecting this change. We continue to expect troponin to have a meaningful impact on the longer-term growth of Bioventix revenues; however, we are reducing revenues for FY 2019 from £0.53m to £0.36m. We introduce a FY 2020 forecast of c.£0.9m:

- ▶ Revenues in Europe of c.£0.1m in FY 2019, rising to c.£0.2m in FY 2020.
- ▶ Revenues in the US of c.£0.26m in FY 2019, rising to £0.7m in FY 2020.

Although Bioventix has an exclusive licence agreement with Siemens, the company noted that Beckman Coulter is also offering a high sensitivity troponin assay, which uses a sheep monoclonal antibody developed by another Bioventix licensee. This should generate revenue.

Peak revenues of troponin are estimated to be in the £3-3.5m range.

Rest of portfolio

Whilst Vitamin D and troponin get most of the attention, the balance of the product portfolio should not be underestimated. It now accounts for 57% of underlying revenues

Accounting for 57% of group underlying revenues and growing at 32%

(excludes c.£1m expired licence and £0.8m of backdated royalties) compared with 55% in FY 2017 and grew by 32% (+£1.1m) to £4.5m in FY 2018. The key contributors were:

- ▶ NTproBNP (heart failure) revenues to a second customer increased 72% to c.£1.05m, which compared with our forecast growth of 30%. This was driven by the switch of some Siemens' customers outside the US from BNP to the newer NTproBNP assay as well as the availability of the test on the ADVIA Centaur high-throughput benchtop immunoassay instrument platform. We expect more modest growth in FY 2019 (+10%) and 2020 (+7%).
- ▶ Testosterone (fertility testing) revenues were c.£0.66m, up 15%. We are forecasting 5% growth in FY 2019 and FY 2020.
- ▶ Drug antibody revenues increased 32% to c.£0.64m, driven by ethyl glucuronide (EtG; a metabolite of alcohol) antibody sales for alcohol testing 3-4 days after consumption (to evaluate whether individual is abstaining from alcohol). In addition, THC antibodies for cannabis testing also contributed to this growth. The increase in sales within this group also includes a significant increase in physical antibody sales. Our forecasts for FY 2019 and 2020 assume 10% and 5% growth respectively.
- ▶ Estradiol (fertility) revenues declined 13% to £0.29m. Our forecasts for FY 2019 and 2020 assume 10% and 5% growth respectively.
- ▶ Progesterone (fertility testing) revenues increased 125% to c.£0.4m, driven by continued sales of physical antibody to China. Our forecasts assume a more modest growth rate in FY 2019 and FY 2020 of 10% and 5%, respectively.
- ▶ T3 (thyroid function test) revenues decline 9% to £0.46m. Revenues have been lumpy (+59% in FY 2017 and -20% in FY 2016). Our forecasts for FY 2019 and 2020 assume 10% and 5% growth respectively.
- ▶ The remainder of the portfolio comprise a range of antibodies (royalties and sales of physical antibodies) with revenues of c.£1.0m, which increased c.50% in FY 2018. We have little visibility over the growth, particularly of physical antibodies. We are forecasting £1.1m and £1.2m in FY 2019 and 2020, respectively.

Physical antibody sales increased 33% to £2.4m

Within these figures are included shipments of physical antibodies, which increased c.33% (+c.£0.6m) to £2.4 and accounted for 23% of group revenues (excluding backdated £0.8m royalty). Sales to China make up an increasing proportion of this, driven by the growth of new Chinese diagnostic companies as well as their desire to use Bioventix's antibodies in the development of their own tests. This has resulted in first royalty payments being generated.

Development pipeline

Bioventix continues to build its pipeline. Two products are expected to launch in the next two years:

- ▶ Androstenedione is expected to launch in 2018/19. This is a test for adrenal gland function and is used as part of a panel of fertility tests, although less so than other steroid. We estimate that this could generate revenues of c.£200k over 5 years.
- ▶ T4 (thyroxine) test is expected to follow in the 2020+ timeframe with peak sales <£0.5m. This is a test taken if a TSH tests comes back with an abnormal result.

Additionally, Bioventix has four contract projects where it has developed a number of antibodies that are being evaluated by its customers. These include tests for a particular vitamin deficiency, cancer, thyroid function and infectious diseases.

Figure 9: Development pipeline

Analyte	Therapeutic area	SMA's created	In-house R&D phase	SMA's being evaluated by customer	Clinical development phase	In market
Own-risk (non-exclusive):						
T3 (thyroid)	Endocrinology	1990				1995
Testosterone	Endocrinology	2006				2009
Various drugs	THC/cannabis	2006-2010				2010
Estradiols	Endocrinology	2005				2010
Vitamin D	Osteoporosis	2009-2010				2012
Progesterone	Endocrinology	2011				2013
Androstenedione	Endocrinology	2012				2018/19est
TSH (thyroid)	Endocrinology	2012				2018/19est
T4 (thyroid)	Endocrinology	2012				2020+
Estriol	Endocrinology	2014				
PTH	Endocrinology	2014				
HIVp24	Infectious disease	2015				
BNP	Cardiac markers	2015				
secretoneurin	Cardiac markers	2017				2025+
amyloid	Dementia markers	2017				2025+
Contract R&D (exclusive):						
NT proBNP	Cardiac markers	2004				2007
Tacrolimus	Therapeutic drug	2010				2013
Aldosterone	Endocrinology	2011				2013
Cortisol	Endocrinology	2008				2015
Troponin	Cardiac markers	2006-2007				2017
Undisclosed target	Cancer	2015-2016				2019/2020
Undisclosed target	Infectious disease	2015-2016				
Undisclosed target	Vitamin	2015-2016				
Undisclosed target	Endocrinology	2015-2016				

Source: Company reports, finnCap estimates

Longer-term projects that Bioventix continues to progress include:

- ▶ Secretoneurin. Having developed and transferred a series of secretoneurin antibodies to CardiNor, Bioventix awaits to see if secretoneurin can be shown to be a clinically relevant cardiac biomarker for arrhythmias.
- ▶ Bioventix continues to make a series of antibodies against amyloid beta for Pre-Diagnostics, which is trying to identify whether or not these antibodies can be used in diagnosing dementia. Bioventix expects to complete this in-house development phase in the next year.

Figure 10: Pipeline development probability of success

↑ Increasing potential value	high	Secretoneurin (CardiNor) Amyloid (Pre-Diagnostics) Cardiac MyC (King's London)	Biotin (blocking Abs)	
	medium		virus (contract) T4 (thyroxine)	
	Low		thyroglobulin (contract) Vitamin (contract)	Cancer (contract)
		Low	Medium	high
Increasing probability of success →				

Source: Bioventix

Forecast changes

We have made the following changes to forecasts for FY 2019 and introduced forecasts for FY 2020.

- ▶ Revenues are increased by c.£1.0m or 11% in FY 2019.
- ▶ Adjusted EBITDA increased by £0.7m or 11% to £7.1m.
- ▶ Adjusted pre-tax profits by 11% to £7.1m. Statutory pre-tax profit (including share based payments) is expected to be c.£7.0m.
- ▶ Adjusted EPS increased by 12% to 112.4p.
- ▶ We leave the dividend unchanged at 73p, an increase of 20% and do not forecast any special dividend in the current year. Assuming no corporate or technological opportunities arise in the current year, we would expect the company to return excess cash to shareholders in the form of a special dividend.
- ▶ Net cash is expected to be £6.4m at 30 June 2019, which reflects the fact that the company will fund the £2.8m (55p) special dividend.
- ▶ Our forecasts for FY 2020 assume revenues increase 11% to £10m, with adjusted pre-tax profits and EPS rising by 12% to £7.9m and 126.7p, respectively.
- ▶ Net cash in FY 2020 is expected to rise by £2.2m to £8.6m, assuming no special dividend declaration for FY 2019.

Figure 11: Forecast changes

Year end June (£m)	2019E		% ch.	2020E
	Old	New		New
Underlying revenue	8.0	9.0	11%	10.0
Back-dated royalty	0			
Revenue	8.0	9.0	11%	10.0
Gross profit	7.5	8.3	11%	9.3
Operating profit (adj)	6.3	7.1	12%	7.9
EBITDA (adj)	6.4	7.1	12%	8.0
Pre-tax profit (adj)	6.33	7.1	12%	7.9
EPS – fully diluted (adj)	100.1	112.4	12%	126.7
DPS (p)	73.0	73.0	0%	87.0
Net cash	8.1	6.4	-22%	8.6

Source: finnCap

Valuation

We are re-introducing a target price of 3,400p based on these 2019 forecast changes. Although FY2019 growth seems pedestrian, it compares with FY 2018 in which the company had an unexpected £0.8m backdated royalty windfall, which together with strong underlying growth more than offset the loss of c.£1.0m of revenues that resulted from the expiry of a licence agreement with one customer in August 2017. Excluding the backdated royalty, we expect FY 2019 EPS growth of c.16% with c.12% forecast for FY 2020.

Free cash flow is expected to be £5.2m in FY 2019, rising to £6.2m in FY 2020. Our forecasts assume that the company does not pay a special dividend in FY 2019 or FY 2020 but, given its stated policy of maintaining around £5m of cash on the balance sheet, any excess cash is expected to be returned to shareholders.

At this price target, the stock would trade on a calendar year-adjusted P/E of 30.7x in 2018, dropping to 28.8x 2019 and a free cash yield of 3.3%.

Figure 12: Valuation at target price

Year end June	2018	2019E	2020E
Share price (p)	3400		
Number of shares in issue (m)	5.1		
Market capitalisation (£m)	174.7		
add net debt/(cash)	-7.0	-6.4	-8.6
Enterprise value (£m)	167.7	168.3	166.1
EV/Sales	19.3	18.8	16.9
EV/EBITDA	24.0	23.6	21.1
calendarised EV/EBITDA	23.8	22.4	
EV/EBIT	24.2	23.9	21.3
P/E	30.7	30.3	26.8
P/E (adjusted)	30.9	30.5	27.1
calendarised P/E	30.7	28.8	
Dividend yield	3.4%	2.1%	2.6%
Free cash yield	3.3%	3.2%	3.5%
Return on Equity	52.4%	53.1%	48.4%
Return on Capital Employed	63.0%	63.8%	57.9%
FCF/Capital employed	52.9%	50.7%	45.3%

Source: finnCap

FY 2018 results – 12% upgrades to FY 2019

Income statement		2016A	2017A	2018A	2019E	2020E
Year end: Jun						
Sales	£m	5.5	7.2	8.8	9.0	10.0
Cost of sales	£m	-0.5	-0.5	-0.6	-0.6	-0.7
Gross profit	£m	5.0	6.8	8.2	8.3	9.3
Operating expenses	£m	-0.7	-0.9	-1.2	-1.2	-1.3
EBITDA (adjusted)	£m	4.3	5.8	7.0	7.1	8.0
Depreciation	£m	-0.0	-0.0	-0.1	-0.1	-0.1
Amortisation	£m	0.0	0.0	0.0	0.0	0.0
EBIT (adjusted)	£m	4.3	5.8	7.0	7.1	7.9
Associates/other	£m	0.0	0.0	0.0	0.0	0.0
Net interest	£m	0.0	0.1	0.0	0.0	0.0
PBT (adjusted)	£m	4.3	5.8	7.0	7.1	7.9
<i>restructuring costs</i>	£m	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>share based payments</i>	£m	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.2</i>	<i>-0.2</i>
<i>other adjustments</i>	£m	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Total adjustments	£m	-0.1	-0.1	-0.1	-0.2	-0.2
PBT (stated)	£m	4.2	5.8	6.9	6.9	7.8
Tax charge	£m	-0.7	-0.8	-1.2	-1.2	-1.3
<i>tax rate</i>	%	<i>17.2</i>	<i>14.7</i>	<i>17.5</i>	<i>17.5</i>	<i>17.0</i>
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	£m	3.5	4.9	5.7	5.7	6.5
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	£m	3.5	5.0	5.8	5.9	6.6
<i>shares in issue (year end)</i>	m	<i>5.1</i>	<i>5.1</i>	<i>5.1</i>	<i>5.1</i>	<i>5.1</i>
<i>shares in issue (weighted average)</i>	m	<i>5.1</i>	<i>5.1</i>	<i>5.1</i>	<i>5.1</i>	<i>5.1</i>
<i>shares in issue (fully diluted)</i>	m	<i>5.1</i>	<i>5.2</i>	<i>5.2</i>	<i>5.2</i>	<i>5.2</i>
EPS (adjusted, fully diluted)	p	69.0	96.0	110.9	112.4	126.7
EPS (stated)	p	69.2	96.4	110.2	111.4	125.7
DPS	p	62.5	91.0	116.0	73.0	87.0

Growth analysis (adjusted basis where applicable)						
Sales growth	%	27.3%	31.3%	20.8%	2.5%	11.0%
EBITDA growth	%	34.6%	35.4%	20.7%	1.5%	12.0%
EBIT growth	%	35.2%	35.8%	20.5%	1.4%	12.1%
PBT growth	%	35.3%	36.7%	19.9%	1.3%	12.1%
EPS growth	%	35.6%	39.1%	15.6%	1.3%	12.7%
DPS growth	%	91.7%	45.6%	27.5%	-37.1%	19.2%

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	91.0%	93.2%	93.5%	93.0%	93.0%
EBITDA margin	%	77.9%	80.4%	80.3%	79.5%	80.3%
EBIT margin	%	77.2%	79.8%	79.6%	78.8%	79.6%
PBT margin	%	77.4%	80.6%	80.0%	79.1%	79.8%
Net margin	%	64.3%	68.9%	66.3%	65.5%	66.5%

FY 2018 results – 12% upgrades to FY 2019

Cash flow		2016A	2017A	2018A	2019E	2020E
Year end: Jun						
EBITDA	£m	4.3	5.8	7.0	7.1	8.0
Net change in working capital	£m	-0.6	-0.6	-0.5	-0.3	-0.5
Share based payments	£m	0.1	0.1	0.1	0.2	0.2
Profit/(loss) on sale of assets	£m	0.0	0.0	0.0	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	-0.1	-0.1	-0.1	-0.2	-0.2
Cash flow from operating activities	£m	3.7	5.2	6.5	6.8	7.5
Cash interest	£m	0.0	0.1	0.0	0.0	0.0
Tax paid	£m	-0.5	-1.3	-0.6	-1.2	-1.3
Capex	£m	-0.0	-0.0	-0.1	-0.0	-0.0
Free cash flow	£m	3.2	4.0	5.8	5.6	6.2
Disposals	£m	0.0	0.0	0.0	0.0	0.0
Acquisitions	£m	-0.0	-0.2	-0.1	0.0	0.0
Dividends on ord shares	£m	-1.9	-3.4	-4.9	-6.2	-4.0
Other cashflow items	£m	-0.0	0.0	-0.0	0.0	0.0
Issue of share capital	£m	0.0	0.3	0.0	0.0	0.0
Net change in cash flow	£m	1.2	0.8	0.8	-0.6	2.2
Opening net cash (debt)	£m	4.1	5.4	6.2	7.0	6.4
Closing net cash (debt)	£m	5.4	6.2	7.0	6.4	8.6

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	86.5%	89.7%	92.3%	95.8%	94.2%
Cash conversion (free cash flow / EBITDA)	%	74.8%	68.5%	83.2%	78.7%	77.6%
Underlying free cash flow (capex = depreciation)	£m	3.2	4.0	5.9	5.6	6.2
Cash quality (underlying FCF / adjusted earnings)	%	90.1%	79.6%	101.7%	94.9%	92.9%
Investment rate (capex / depn)	x	0.5	0.5	1.8	0.4	0.4
Interest cash cover	x	n/a	n/a	n/a	n/a	n/a
Dividend cash cover	x	1.7	1.2	1.2	0.9	1.5

FY 2018 results – 12% upgrades to FY 2019

Balance sheet		2016A	2017A	2018A	2019E	2020E
Year End: Jun						
Tangible fixed assets	£m	0.5	0.4	0.5	0.5	0.4
Goodwill	£m	0.0	0.0	0.0	0.0	0.0
Other intangibles	£m	0.0	0.0	0.0	0.0	0.0
Other non current assets	£m	0.0	0.2	0.3	0.3	0.3
<i>inventories</i>	£m	0.2	0.2	0.3	0.3	0.3
<i>trade receivables</i>	£m	2.7	3.3	3.8	4.1	4.6
<i>trade payables</i>	£m	-0.0	-0.0	-0.0	-0.1	-0.1
Net working capital	£m	2.9	3.5	4.1	4.2	4.7
Other assets	£m	0.0	0.0	0.0	0.0	0.0
Other liabilities	£m	-0.5	-0.2	-0.8	-0.3	-0.3
Gross cash & cash equivalents	£m	5.4	6.2	7.0	6.4	8.6
Capital employed	£m	8.2	10.1	11.1	11.1	13.7
Gross debt	£m	0.0	0.0	0.0	0.0	0.0
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	8.2	10.1	11.1	11.1	13.7
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	8.2	10.1	11.1	11.1	13.7
Leverage analysis						
Net debt / equity	%	no debt	no debt	no debt	no debt	no debt
Net debt / EBITDA	x	no debt	no debt	no debt	no debt	no debt
Liabilities / capital employed	%	0.0%	0.0%	0.0%	0.0%	0.0%
Working capital analysis						
Net working capital / sales	%	51.9%	48.9%	46.6%	47.3%	47.3%
Net working capital / sales	days	189	179	170	173	173
Inventory (days)	days	13	11	12	10	10
Receivables (days)	days	178	168	159	168	168
Payables (days)	days	1	1	1	5	5
Capital efficiency & intrinsic value						
Adjusted return on equity	%	43.2%	49.2%	52.4%	53.1%	48.4%
RoCE (EBIT basis, pre-tax)	%	51.9%	57.1%	63.0%	63.8%	57.9%
RoCE (underlying free cash flow basis)	%	39.0%	39.2%	53.3%	50.4%	45.0%
NAV per share	p	162.5	197.2	215.3	215.4	266.2
NTA per share	p	162.5	197.2	215.3	215.4	266.2

Key shareholders

	%
Castlefield Fund Partners	11.2%
Miton Group	9.9%
Peter Harrison	8.3%
Livingbridge	7.5%
Canaccord Genuity	6.4%
Wasatch Advisors	3.0%

Source: Bioventix

Board of directors

Name	Description
Ian Nicholson	Non-executive Chairman
Peter Harrison	Chief Executive Officer
Treena Turner	Non-executive Finance Director
Nick McCooke	Non-executive Director

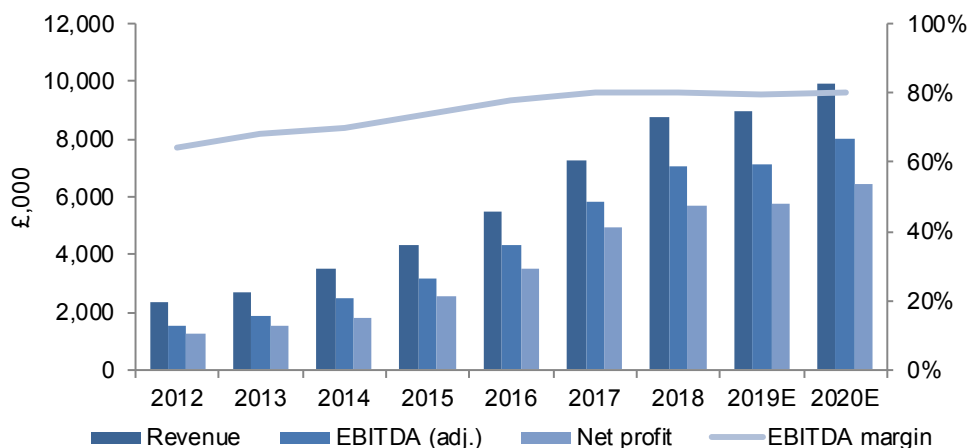
Source: finnCap

Company description

Bioventix is a UK-based biotechnology company specialising in the development of high-affinity sheep monoclonal antibodies (SMAs) for use in immunodiagnostics focusing on the areas of clinical diagnostics and drugs of abuse testing. The high-affinity antibodies created have advantages over conventional mouse monoclonal antibodies where the target is present at low concentration, or where the target is a hapten or small molecule. The use of high-affinity SMAs also confers improved assay sensitivity and precision.

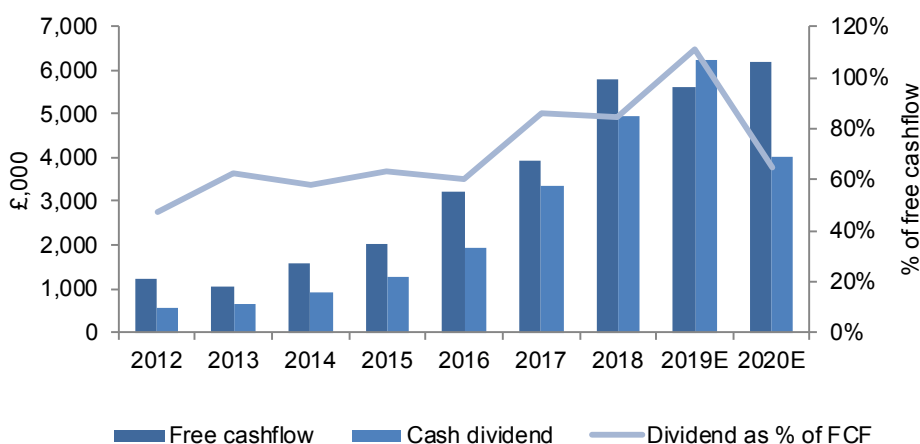
Source: finnCap

Figure 13: Revenues, adjusted EBITDA and EBITDA margin



Source: finnCap

Figure 14: Free cashflow and dividend



Source: finnCap

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The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.

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