

21 October 2019

Corp

Ticker BVXP:AIM

Pharmaceuticals & Biotechnology

Shares in issue (m) 5.1

Next results FY Apr

Price 3,560.0p

Target price 3,750.0p

Upside 5%

Market cap £183.0m

Net debt/(cash) -£6.5m

Other EV adjustments £0.0m

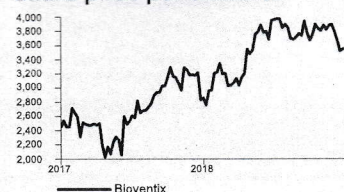
Enterprise value £176.5m

What's changed? From To

Adjusted EPS 126.7 124.8

Target price 3,700.0 3,750.0

Share price performance



%	1M	3M	12M
Actual	-6.6	-3.1	23.0

Company description

Development of monoclonal antibodies for use in immunodiagnostics

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Bioventix*

FY 2019 results – signs of troponin progress

Bioventix reported full-year results in line with expectations, although 4% (£0.3m) higher than expected revenues were offset by higher costs. A 47p special dividend was proposed, resulting in full-year dividend of 120p, up 3%. Strong underlying revenue growth (c.16%), which excludes c.£0.8m of backdated royalties, supported by evidence of early sales traction of troponin, provides a solid base for future growth. We have made minor changes to FY 2020 forecasts as well as introducing FY 2021, which implies c.10% EPS growth. We nudge up our target price to 3750p, which implies a 3.1% FY 2020 free cash flow yield, underpinned by 54% free cash flow/capital employed and 71% ROCE.

- **Results in brief.** Revenues and adjusted pre-tax profit increased 6% and 1%, respectively. Adjusting for the £0.77m of unexpected back-dated royalties in FY 2018, underlying revenues grew 16% (c.10% CER) to £9.3m with adjusted pre-tax profit and EPS rising by 14% and 15% to £7.1m and 114.7p, respectively. A 43p final dividend as well as a 47p special dividend are proposed (2.5% yield), implying a full-year dividend of 120p (+3%). Net cash at year-end was £6.5m (vs. £7.0m).
- **Vitamin D** antibody sales increased by c.27% (+£0.9m) to c.£4.3m, now accounting for c.46% of revenues and still exceeding expectations; some c.£0.25m above forecast, driven by new customers such as Diazyme and Boditech, as well as growth in regions outside the more mature US and European markets where there are signs of sales plateauing. That said, we have underestimated growth
- **Troponin revenues** were £120k and in line with our forecast of £140k. Still in its early stages of adoption and conversion from the low sensitivity tests, we expect revenues to accelerate over time. We forecast revenues of £0.5m and £1.1m in FY 2020 and 2021, respectively, and maintain revenues of troponin should be in the £3.0-3.5m range by 2025.
- **Forecasts.** We have made minor changes to FY 2020, raising revenues by £0.1m and reducing adjusted pre-tax profit by £0.1m, to reflect ongoing investment. EPS is reduced by c.2%, with growth of c.8% in FY 2020. We introduce FY 2021 forecasts, implying 10% EPS growth. Our dividend forecast excludes any special dividend.
- **Valuation.** We are nudging up our target price to 3750p from 3700p, given the introduction of FY 2021 forecasts for 10% EPS growth. At this price target, the stock would trade on a calendar year-adjusted P/E of 31.6x in 2019, dropping to 29.0x 2020 and a 2019 year-end adjusted free cash yield of 3.1% rising to 3.3% in 2020. This is underpinned by rising ROCE and FCF/Capital employed.

Key estimates		2017A	2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	7.2	8.8	9.3	10.1	11.1
Adj EBITDA	£m	5.8	7.0	7.1	7.9	8.7
Adj EBIT	£m	5.8	7.0	7.1	7.8	8.5
Adj PBT	£m	5.8	7.0	7.1	7.8	8.6
Adj EPS	p	96.0	110.9	114.7	124.8	136.8
DPS	p	91.0	116.0	120.0	88.0	98.0

Key valuation metrics		2017A	2018A	2019A	2020E	2021E
EV/EBIT (adj)	x	30.5	25.3	25.0	22.6	20.6
P/E (adj)	x	37.1	32.1	31.0	28.5	26.0
Dividend yield	%	2.6%	3.3%	3.4%	2.5%	2.8%
Free cash yield	%	2.2%	3.2%	3.2%	3.2%	3.7%
Pre-tax ROCE	%	57.0%	63.3%	65.3%	71.4%	63.8%

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Income statement		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	8.8	9.3	10.1	11.1
Gross profit	£m	8.2	8.4	9.2	10.1
EBITDA (adjusted)	£m	7.0	7.1	7.9	8.7
EBIT (adjusted)	£m	7.0	7.1	7.8	8.5
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	0.0	0.0	0.0	0.0
PBT (adjusted)	£m	7.0	7.1	7.8	8.6
Total adjustments	£m	-0.1	-0.1	-0.2	-0.2
PBT (stated)	£m	6.9	7.0	7.7	8.4
Tax charge	£m	-1.2	-1.1	-1.3	-1.4
Minorities	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	5.7	5.9	6.4	7.0
Adjusted earnings	£m	5.8	6.0	6.5	7.2
Shares in issue (year end)	m	5.1	5.1	5.1	5.1
EPS (stated)	p	110.2	114.0	123.7	135.7
EPS (adjusted, fully diluted)	p	110.9	114.7	124.8	136.8
DPS	p	116.0	120.0	88.0	98.0

Cash flow		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m	6.9	7.0	7.7	8.5
Net change in working capital	£m	-0.5	-0.0	-0.4	-0.4
Other operating items	£m	0.1	0.1	0.2	0.2
Cash flow from op. activities	£m	6.5	7.1	7.5	8.2
Cash interest	£m	0.0	0.0	0.0	0.0
Cash tax	£m	-0.6	-1.2	-1.3	-1.4
Capex	£m	-0.1	-0.1	-0.3	-0.1
Free cash flow	£m	5.8	5.8	5.9	6.7
Acquisitions / disposals	£m	-0.1	-0.1	-0.2	0.0
Dividends	£m	-4.9	-6.2	-6.4	-4.7
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	-0.0	0.0	0.0	0.0
Net change in cash flow	£m	0.8	-0.4	-0.7	2.0
Opening net cash (debt)	£m	6.2	7.0	6.5	5.9
Closing net cash (debt)	£m	7.0	6.5	5.9	7.9

Balance sheet		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	0.5	0.5	0.7	0.7
Goodwill & other intangibles	£m	0.0	0.0	0.0	0.0
Other non current assets	£m	0.3	0.4	0.6	0.6
Net working capital	£m	4.1	4.1	4.5	5.0
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	-0.8	-0.8	-0.8	-0.8
Gross cash & cash equivs	£m	7.0	6.5	5.9	7.9
Capital employed	£m	11.0	10.8	10.9	13.4
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	11.0	10.8	10.9	13.4
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	11.0	10.8	10.9	13.4

Growth analysis		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	20.8%	6.2%	8.7%	9.5%
EBITDA growth	%	20.7%	1.5%	10.5%	9.8%
EBIT growth	%	20.5%	1.4%	10.3%	9.6%
PBT growth	%	19.9%	1.4%	10.2%	9.6%
EPS growth	%	15.6%	3.4%	8.8%	9.6%
DPS growth	%	27.5%	3.4%	-26.7%	11.4%

Profitability analysis		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	93.5%	90.6%	91.2%	91.0%
EBITDA margin	%	80.3%	76.8%	78.0%	78.3%
EBIT margin	%	79.6%	76.0%	77.2%	77.3%
PBT margin	%	80.0%	76.4%	77.5%	77.6%
Net margin	%	66.3%	64.5%	64.6%	64.7%

Cash flow analysis		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	94.2%	101.2%	97.3%	96.9%
Cash conv'n (FCF / EBITDA)	%	84.9%	83.3%	76.9%	79.3%
U/lying FCF (capex = depn)	£m	5.9	5.8	6.2	6.7
Cash quality (u/l FCF / adj earn)	%	101.7%	97.5%	94.3%	93.9%
Investment rate (capex / depn)	x	1.8	1.3	3.6	0.9
Interest cash cover	x	n/a	n/a	n/a	n/a
Dividend cash cover	x	1.2	0.9	0.9	1.4

Working capital analysis		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	46.6%	44.6%	44.8%	44.9%
Net working capital / sales	days	170	163	163	164
Inventory (days)	days	12	9	11	12
Receivables (days)	days	159	155	153	153
Payables (days)	days	1	1	1	1

Leverage analysis		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	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		2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	52.7%	55.4%	59.7%	53.4%
RoCE (EBIT basis, pre-tax)	%	63.3%	65.3%	71.4%	63.8%
RoCE (u/lying FCF basis)	%	53.6%	54.0%	56.3%	50.1%
NAV per share	p	214.3	210.5	212.4	260.4
NTA per share	p	214.3	210.5	212.4	260.4

FY 2019 results – signs of troponin progress

FY 2019 analysis

Full-year results to 30 June 2019 had the headwinds of c.£0.77m of back-dated royalties in FY 2018 to contend with and yet full-year revenues still grew by 6%. Underlying revenues were up 16%, and 4% ahead of our forecast.

Figure 1: Summary profit & loss account and analysis

Year to end-June (£m)	2018	2019E	2019A	Delta from forecast (£m)	Growth (%)
Underlying revenues	7.98	8.97	9.29	0.32	16%
Back-dated revenues	0.77	0.00	0.00	0.00	
Total revenue	8.75	8.97	9.29	0.32	6%
Cost of sales	-0.57	-0.63	-0.88	-0.24	
Gross profit	8.18	8.34	8.41	0.07	3%
<i>Gross margin</i>	93.5%	93.0%	90.6%	-240bps	-290bps
Operating expenses	-1.15	-1.21	-1.28	-0.07	11%
EBITDA (adjusted)	7.03	7.13	7.13	0.00	1%
<i>EBITDA margin</i>	80.3%	79.5%	76.8%	-270bps	-350bps
Depreciation	-0.06	-0.06	-0.07	0.00	
EBIT (adjusted)	6.97	7.07	7.06	-0.01	1%
<i>EBITDA margin</i>	79.6%	78.8%	76.0%	-280bps	-360bps
Net interest	0.03	0.02	0.03	0.01	
PBT (adjusted)	7.00	7.09	7.10	0.01	1%
Share based payments	-0.14	-0.15	-0.13	0.02	
PBT (stated)	6.87	6.94	6.97	0.02	
Tax charge	-1.20	-1.22	-1.10	0.11	
Reported earnings	5.66	5.73	5.86	0.13	4%
Adjusted earnings	5.80	5.88	6.00	0.12	3%
Av. Shares (m)	5.1	5.1	5.1		
Fully dil. Shares (m)	5.2	5.2	5.2		
Stated EPS (p)	110.2	111.5	114.0	2.6	3%
Adjusted fully dil. EPS (p)	110.9	112.42	114.7	2.35	3%
Dividend per share (p)	116.0	73.00	120.0	47.0	3%

Source: finnCap

- ▶ Total revenues increased 6% to £9.29m or 16% if one excludes the back dated royalties.
- ▶ Pre-tax profits rose 1% to £6.97m. Excluding back-dated royalties in FY 2018, pre-tax profit increased 14% to £6.09m.
- ▶ Adjusted pre-tax profit rose 1% to £7.10m, or 14% from £6.23m in FY 2018.
- ▶ Adjusted fully diluted EPS increased by 3% to 114.7p.
- ▶ A second interim dividend of 43.0p (+19%) was proposed, resulting in a full-year ordinary dividend of 73.0p, up 20% on FY 2018 (63.0p). A special dividend of 47.0p (55.0p in FY 2018) was also proposed, implying a full-year dividend increase of 3% to 120.0p. In total, the second interim and special dividend payment in November of 90.0p implies a yield of 2.5%.

The company ended the period with cash of £6.5m, a decrease of £0.5m from the prior year, which included the £6.2m dividend payment.

Revenues

Revenues, stripping out the one-off effect of the back-dated royalty stream and the expiry of licence for NT proBNP from one of its customers, increased 18% to £9.28m, which was probably around 12% at constant exchange rates (Figure 2). Around 55% of revenues are denominated in US\$, which strengthened against Sterling by c.13% at the time Bioventix will have received its royalty payments in August. Likewise the Euro strengthened by c.5% over the same period.

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The key components of revenue growth are summarised (Figure 3) as follows:

Figure 2: Revenue breakdown

Year to end-June (£m)	2018	2019	Growth (£m)	Growth (%)
Vitamin D	3.40	4.30	0.90	27%
NT-proBNP	1.05	1.25	0.20	19%
T3	0.46	0.64	0.18	40%
Testosterone	0.66	0.80	0.14	22%
Drug-testing antibodies	0.64	0.49	-0.15	-23%
Progesterone	0.40	0.47	0.07	17%
Estradiol	0.29	0.33	0.04	13%
Troponin	0.03	0.12	0.09	314%
Rest of portfolio, product supply	0.96	0.88	-0.08	-8%
Non-Vitamin D	4.49	4.98	0.49	11%
Underlying revenues (continuing)	7.88	9.28	1.40	18%
NT proBNP (Roche)	0.10	0.01	-0.09	-90%
Revenue (excluding back-dated royalty)	7.98	9.29	1.31	16%
Back-dated royalty	0.77	0.00	-0.77	-100%
Total revenues	8.75	9.29	0.54	6%

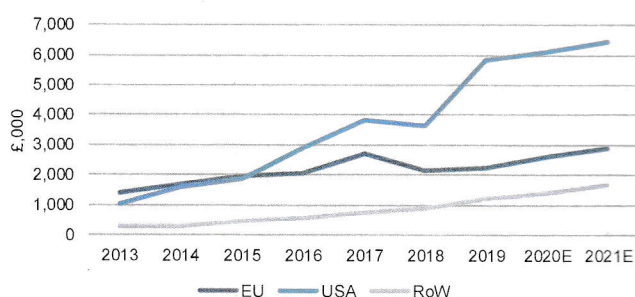
Source: finnCap

► Vitamin D antibody sales increased by c.27% (+£0.9m) to c.£4.3m, now accounting for c.46% 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, where pricing pressure is offsetting volume growth and leading to a flattening of the market in US\$ terms, as evidenced by a number of Bioventix's customer revenue streams which are reported to have reached a plateau. However, growth in markets such as Asia, where Vitamin D testing is still in adoption phases, continues to underpin growth. The company cited two companies, however, that performed well in the downstream market:

- Diazyme (US), which has benefitted from the fact that the assay can be run on general chemistry analysers.
- Boditech (South Korea), which has benefited from the strong underlying demand for the test in this market.
- Solid 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.£4.98m and grew by 11% during the period. This includes troponin revenues of £0.12m, without which revenues increased by c.9%.

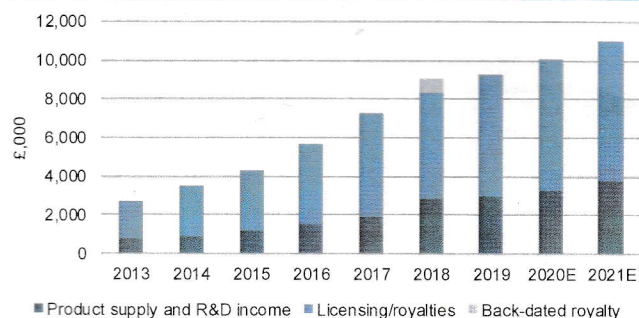
Approximately 24% of revenues are generated from customers in Europe (including the UK), with the balance in the rest of the world (Figure 3).

Figure 3: Revenue by geography



Source: finnCap

Figure 4: Revenue by class of business



Source: finnCap

We estimate that the US accounts for c.£5.5m of revenues with the balance (c.£1.5m) coming from non-US customers, which is growing at c.60%.

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Approximately 68% 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 5). Excluding the backdated revenues, these grew 14% to £6.28m.

The balance of group revenues is product revenues and R&D income, which increased 6% (+£0.16m) to c.£3.01m, driven by increasing physical antibody sales to China. Over the past five years, product revenues have increased by 28% CAGR. Some of the sales are made directly, although the majority are made through five appointed distributors. From these product sales, Bioventix has structured licence agreements with its Chinese customers and "royalty payments already flow in modest terms".

Gross profit

Gross profits rose 1% to £8.41m with margins dropping 290bps to 90.6%. Stripping out the inclusion of back-dated royalties in FY 2018, the underlying gross profit increased 14% (Figure 6). The key reasons for the fall in margin were related to:

- A reduction in antibody stocks, which was a transient effect and should be reversed in FY 2020.
- Inclusion of c.£0.2m of costs relating to external contract chemistry services linked to the biotin and pollution projects.

Adjusted profits and EPS

Operating expenses increased 11% to £1.28m, resulting in adjusted EBITDA growth of 1% to £7.13m. Stripping out the back-dated royalties (£0.77m), adjusted EBITDA increased 14 (Figure 5).

Figure 5: Adjusted for back-dated royalty in FY 2019

Year to end-June (£m)	2018	2018E	2019A	Delta from forecast (£m)	Growth (%)
Underlying gross profit	7.41	8.34	8.41	0.07	14%
Gross margin	92.8%	93.0%	90.6%	-240bps	
EBITDA (adjusted)	6.26	7.13	7.13	0.00	14%
EBITDA margin	78.4%	79.5%	76.8%	-70bps	
PBT (adjusted)	6.23	7.09	7.10	0.01	14%
Adjusted net profit	5.25	5.86	6.00	0.01	14%
Adjusted fully dil. EPS (p)	100.0	112.1	114.7	2.6	15%

Source: finnCap

This resulted in adjusted EPS of c.114.7p, an increase of 15% (excluding the back-dated royalty contribution).

Net cash

Net cash at 30 June was £6.5m, down from £7.0m at year-end FY 2018; the reduction can be attributed to the higher dividend payments, which were £6.2m and included the dividend payment of c.£2.8m relating to the special 55p 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 off 47p (£2.4m) to be paid in November 2019 with the second interim dividend. Key points of note include:

- Free cash flow was flat at £5.83m, some £0.26m better than expected and helped by working capital outflow of £0.05m. Stripping out back-dated royalties, underlying free cashflow actually increased by 15%.
- Tax paid was £1.21m compared with £0.57m.
- Bioventix made a c.£0.1m investment in Pre-Diagnostics of c.£0.1m.
- Dividend payments, including the 55p special dividend (£2.8m), increased 26% to £6.22m.

Figure 6: Summary cashflow

Year to end-June (£m)	2018	2019E	2019A	Delta from forecast (£m)	Growth (%)
EBITDA	6.89	6.98	7.00	0.01	2%
Net change in working capital	-0.54	-0.31	-0.05	0.26	
Share based payments	0.14	0.15	0.13	-0.02	
Other items	0.00	0.00	0.00	0.00	
Cash flow from operating activities	6.49	6.83	7.08	0.26	9%
Cash interest	0.03	0.02	0.03	0.01	
Tax paid	-0.57	-1.22	-1.21	0.01	
Capex	-0.11	-0.03	-0.08	-0.06	
Free cash flow	5.85	5.61	5.83	0.22	0%
Acquisitions/investments	-0.10	-0.10	-0.10	0.00	
Dividends on ord shares	-4.93	-6.22	-6.22	0.00	
Other cash flow items	0.00	0.00	0.00	0.00	
Issue of share capital	0.00	0.02	0.04	0.02	
Net change in cash flow	0.82	-0.68	-0.45	0.24	-155%
Opening net cash (debt)	6.17	6.99	6.99	0.00	
Closing net cash (debt)	6.99	6.30	6.54	0.24	-6%

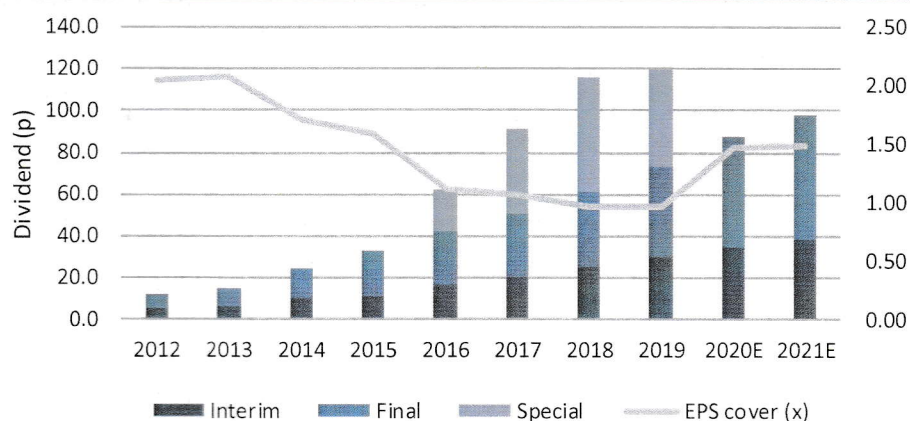
Source: finnCap

Dividend

Bioventix declared a final dividend of 43.0p, payable on 9 November to registered shareholders on 24 October, making a total ordinary dividend of 73.0p for the year; an increase of 20%. The Board also declared a 47p special dividend (55p in FY 2018), which implies a total dividend of 120p, up 3% over FY 2018 (117.0p). The company has paid cumulative dividends of 497.7p since 2009.

20% increase in ordinary dividend plus 47p special dividend. Total 120p (+3%)

Figure 7: Dividend



Source: finnCap

Product assessment and outlook

Vitamin D

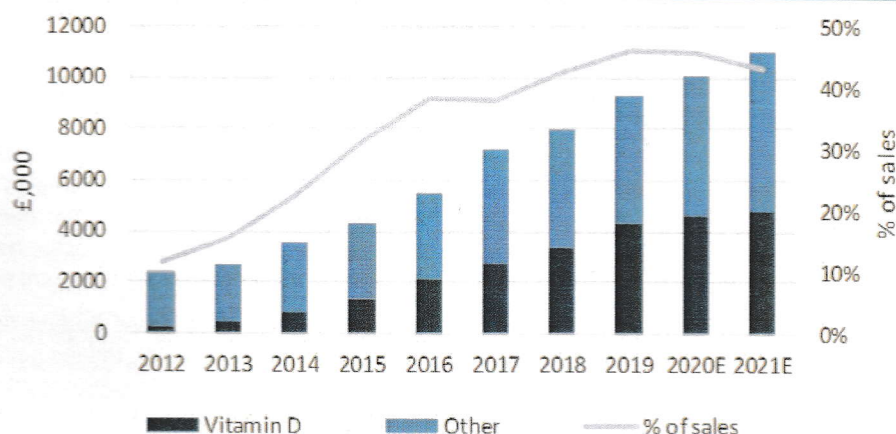
Sales of Vitamin D antibodies (vitD3.5H10) increased by 17% in FY 2019 to c.£4.3m, which was c.£0.25m higher than our forecasts. Revenue growth in the second half moderated to 28% (c.19% CER) (£2.3m) compared with 28% (c.25% CER) in the first half (£2.1m) but still implies sequential 9% half-yearly growth.

Our forecasts for FY 2020 and 2021 assume growth of 8% and 3%, respectively, to £4.6m and £4.8m, comprising:

- ▶ 2-3% growth in its mature markets (US and Europe).

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- Introduction of new products from a number of smaller Vitamin D customers.
- Continued growth in emerging markets.

Figure 8: Vitamin D

Source: finnCap

Troponin

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 and in the US in July 2018. Revenues in FY 2019 were reported to have been £120k, which was in line with our forecasts of £140k and also included some royalties from a separate technology sub-licence with Beckman Coulter.

The high sensitivity troponin test is still in the early stages of adoption and conversion from the low sensitivity tests. We estimate that these revenues reflect a c.2-5% conversion rate and expect this to accelerate over time. We are including revenues of £0.5m and £1.1m in FY 2020 and 2021 respectively.

Peak revenues of troponin in 2025 are still estimated to be in the £3.0-3.5m range.

Rest of portfolio

The balance of the product portfolio accounts for 52% of underlying revenues compared with 57% in FY 2018 and grew by 7% (+£0.3m) to £4.9m in FY 2019.

Within these figures are included shipments of physical antibodies, which increased c.6% (+c.£0.25m) to £3.0m and accounted for 32% of group revenues. 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.

Development pipeline

Bioventix continues to build its long-term research pipeline, which is focused on sustaining growth post 2025 once troponin begins to peak. The following research projects are highlighted:

- ▶ Having developed and transferred a series of secretoneurin antibodies and assay protocols in 2018/19 to CardiNor and its Scandinavian collaborators, Bioventix has paused its development work and we await news in 2020 to see if secretoneurin can be shown to be a clinically relevant cardiac biomarker for arrhythmias.
- ▶ It continues to make a series of antibodies and constructing assays for the testing of amyloid beta fragments in human samples for Pre-Diagnostics and its clinical collaborators who are performing work to identify the utility of these antibodies and assays in dementia diagnostics. Bioventix has indicated that it expects to spend another completing this in-house development phase.
- ▶ During the year, Bioventix produced its first antibodies to biotin, which is used in a number of routine assays. However, these assays can be affected by the consumption of biotin, which is also a vitamin supplement marketed for hair and skin health and that leads to some aberrant results. Bioventix expects to deliver the first candidate antibodies to customers before the end of 2019. Although the principal targeted customer is reported by Bioventix to have solved the issue through internal development, the company believes there are other customers who would be interested.
- ▶ During the year, Bioventix commenced work on producing antibodies to detect air pollutants in human samples. Currently, atmospheric pollution is monitored using static air analysers but direct human exposure or biomonitoring is not routinely performed as there are no convenient tests. Bioventix is generating antibodies and prototype tests that could be used in such direct human exposure biomonitoring.
- ▶ 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: Pipeline development probability of success

↑ Increasing potential value	high	Secretoneurin (CardiNor) Amyloid (Pre-Diagnostics) MyC (King's/St Thomas's)	Pollution monitoring	
	medium		Biotin (own-risk) 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 2020 and introduced forecasts for FY 2021.

- Revenues are increased by c.£0.1m in FY2020, implying growth of 9%. We forecast 9% growth in FY 2021 to £11.1m.
 - Vitamin D forecasts are increased by £0.2m in FY 2020, with 3% growth forecast in FY 2021. Given the past track record and potential for further non-US/Europe market growth, this could be higher.
 - Troponin forecasts are reduced by £0.1m in FY 2020 to £0.5m, which we forecast to rise to c.£1.1m in FY 2021.
 - Other product sales and royalties are left unchanged in FY 2020 at £4.9m (+2%), with growth of 5% to £5.2m in FY 2021.
- Gross profit is reduced by £0.1m to reflect the ongoing costs of external contract chemistry services, which we have forecast to be c.£0.3m and £0.4m in 2020 and 2021, respectively.
- Adjusted EBITDA is reduced by £0.1m in FY 2020, implying growth of 10%, which is maintained into 2021.
- Adjusted pre-tax profits are also reduced by £0.1m to £7.8m in 2020. Statutory pre-tax profit (including share based payments) is expected to be c.£7.7m, an increase of 11%.
- Adjusted EPS is reduced by 2% to 124.8p, implying 8% growth in FY 2020 as we expect tax rate to rise to c.17% from 15.8%. We forecast 10% growth to 136.8p in FY 2021.
- We leave the ordinary dividend unchanged at 88p, an increase of 21%, which does not assume 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 £5.7m at 30 June 2020, some £2.9m lower than our previous forecasts, which is due to:
 - The cost of funding the special dividend the £2.4m (47p).
 - The cost of funding c.£0.3m of capital expenditure.
 - Additional working capital, given the lower than expected trade debtors in FY 2019.

Figure 10: Forecast changes

Year-end June (£m)	2020 Old	2020 New	% ch.	2021 New	Growth (%)
Revenue	10.0	10.1	1%	11.1	9%
Gross profit	9.3	9.2	0%	10.1	9%
Operating profit (adj)	7.9	7.8	-2%	8.5	10%
EBITDA (adj)	8.0	7.9	-1%	8.7	10%
Pre-tax profit (adj)	7.9	7.8	-2%	8.6	10%
EPS - fully diluted (adj)	126.7	124.8	-2%	136.8	10%
DPS (p)	88.0	88.0	0%	98.0	11%
Net cash	8.6	5.7	-34%	7.7	36%

Source: finnCap

Valuation

We are nudging up our target price to 3750p from 3700p, given the introduction of FY 2021 forecasts for 10% EPS growth. At this level, the stock would trade on an adjusted P/E of 33.2x in 2019, dropping to 29.4x 2020 and a free cash yield of 3.3%.

At this price target, the stock would trade on a calendar year-adjusted P/E of 31.6x in 2019, dropping to 29.0x 2020 and a 2019 year-end adjusted free cash yield of 3.1% rising to 3.3% in 2020. This is underpinned further by rising ROCE and FCF/Capital employed.

The stock is yielding 3.2% on the 2019 total dividend, or 2.8% on the final and special dividend. Our forecasts for 2020 and 2021 exclude the payment of a special dividend.

Figure 11: Valuation multiples at target price

	2019	2020E	2021E
Year-end June			
Target share price (p)	3750		
Number of shares in issue (m)	5.1		
Market capitalisation (£m)	192.8		
add net debt/(cash)	-6.5	-5.9	-10.5
Enterprise value (£m)	186.2	186.9	182.3
EV/Sales	20.1	18.5	16.9
EV/EBITDA	26.2	23.7	21.6
EV/EBIT	26.4	23.9	21.8
P/E	32.7	30.1	27.4
P/E (adjusted)	32.9	30.3	27.6
Dividend yield	3.2%	2.3%	2.6%
Free cash yield	3.0%	3.1%	3.5%
Return on Equity	55.4%	59.7%	53.4%
Return on Capital Employed	65.3%	71.4%	63.8%
FCF/Capital employed	53.8%	54.3%	50.2%

Source: finnCap

Other useful information

Key shareholders

Investor	%
Castlefield Fund Partners	19.2%
Peter Harrison	8.3%
Liontrust	7.7%
Gresham House	6.9%
Canaccord Genuity	6.4%
Wastch Advisors	3.0%

Source: Bioventix

Figure 12: 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

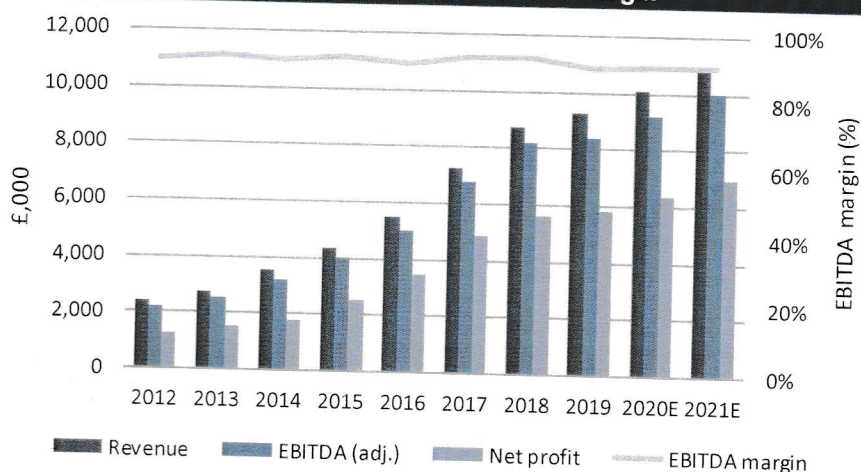
Source: finnCap

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.

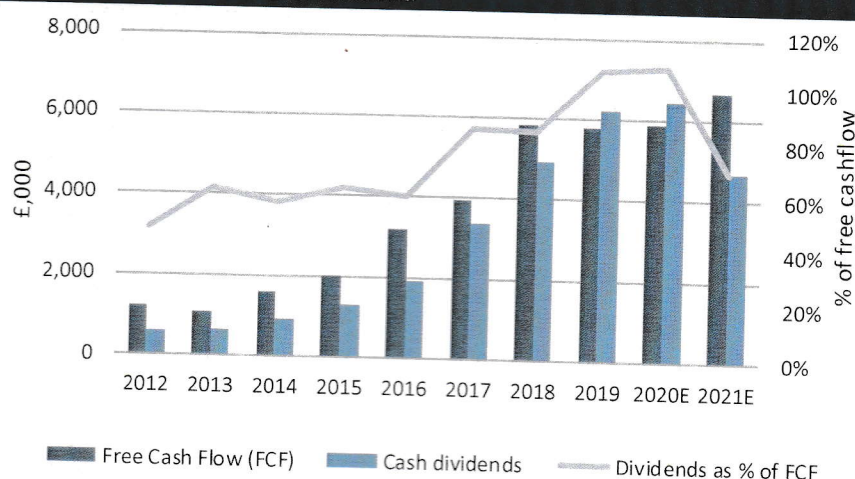
Source: finnCap

Figure 13: Revenues, adjusted EBITDA and EBITDA margin



Source: finnCap

Figure 14: Free cashflow and dividend



Source: finnCap

FY 2019 results – signs of troponin progress

Income statement		2017A	2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun	Jun
Sales	£m	7.2	8.8	9.3	10.1	11.1
Cost of sales	£m	-0.5	-0.6	-0.9	-0.9	-1.0
Gross profit	£m	6.8	8.2	8.4	9.2	10.1
Operating expenses	£m	-0.9	-1.2	-1.3	-1.3	-1.4
EBITDA (adjusted)	£m	5.8	7.0	7.1	7.9	8.7
Depreciation	£m	-0.0	-0.1	-0.1	-0.1	-0.1
Amortisation	£m	0.0	0.0	0.0	0.0	0.0
EBIT (adjusted)	£m	5.8	7.0	7.1	7.8	8.5
Associates/other	£m	0.0	0.0	0.0	0.0	0.0
Net interest	£m	0.1	0.0	0.0	0.0	0.0
PBT (adjusted)	£m	5.8	7.0	7.1	7.8	8.6
restructuring costs	£m	0.0	0.0	0.0	0.0	0.0
share based payments	£m	-0.1	-0.1	-0.1	-0.2	-0.2
other adjustments	£m	0.0	0.0	0.0	0.0	0.0
Total adjustments	£m	-0.1	-0.1	-0.1	-0.2	-0.2
PBT (stated)	£m	5.8	6.9	7.0	7.7	8.4
Tax charge	£m	-0.8	-1.2	-1.1	-1.3	-1.4
tax rate	%	14.7	17.5	15.8	17.0	17.0
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	£m	4.9	5.7	5.9	6.4	7.0
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0	0.0
Adjusted earnings	£m	5.0	5.8	6.0	6.5	7.2
shares in issue (year end)	m	5.1	5.1	5.1	5.1	5.1
shares in issue (weighted average)	m	5.1	5.1	5.1	5.1	5.1
shares in issue (fully diluted)	m	5.2	5.2	5.2	5.2	5.2
EPS (adjusted, fully diluted)	p	96.0	110.9	114.7	124.8	136.8
EPS (stated)	p	96.4	110.2	114.0	123.7	135.7
DPS	p	91.0	116.0	120.0	88.0	98.0

Growth analysis (adjusted basis where applicable)

Sales growth	%	31.3%	20.8%	6.2%	8.7%	9.5%
EBITDA growth	%	35.4%	20.7%	1.5%	10.5%	9.8%
EBIT growth	%	35.8%	20.5%	1.4%	10.3%	9.6%
PBT growth	%	36.7%	19.9%	1.4%	10.2%	9.6%
EPS growth	%	39.1%	15.6%	3.4%	8.8%	9.6%
DPS growth	%	45.6%	27.5%	3.4%	-26.7%	11.4%

Profitability analysis (adjusted basis where applicable)

Gross margin	%	93.2%	93.5%	90.6%	91.2%	91.0%
EBITDA margin	%	80.4%	80.3%	76.8%	78.0%	78.3%
EBIT margin	%	79.8%	79.6%	76.0%	77.2%	77.3%
PBT margin	%	80.6%	80.0%	76.4%	77.5%	77.6%
Net margin	%	68.9%	66.3%	64.5%	64.6%	64.7%

FY 2019 results – signs of troponin progress

Cash flow		2017A	2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun	Jun
EBITDA	£m	5.8	6.9	7.0	7.7	8.5
Net change in working capital	£m	-0.6	-0.5	-0.0	-0.4	-0.4
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	-0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities	£m	5.2	6.5	7.1	7.5	8.2
Cash interest	£m	0.1	0.0	0.0	0.0	0.0
Tax paid	£m	-1.3	-0.6	-1.2	-1.3	-1.4
Capex	£m	-0.0	-0.1	-0.1	-0.3	-0.1
Free cash flow	£m	4.0	5.8	5.8	5.9	6.7
Disposals	£m	0.0	0.0	0.0	0.0	0.0
Acquisitions	£m	-0.2	-0.1	-0.1	-0.2	0.0
Dividends on ord shares	£m	-3.4	-4.9	-6.2	-6.4	-4.7
Other cashflow items	£m	0.0	-0.0	0.0	0.0	0.0
Issue of share capital	£m	0.3	0.0	0.0	0.0	0.0
Net change in cash flow	£m	0.8	0.8	-0.4	-0.7	2.0
Opening net cash (debt)	£m	5.4	6.2	7.0	6.5	5.9
Closing net cash (debt)	£m	6.2	7.0	6.5	5.9	7.9

Cash flow analysis

Cash conversion (op cash flow / EBITDA)	%	90.7%	94.2%	101.2%	97.3%	96.9%
Cash conversion (free cash flow / EBITDA)	%	69.3%	84.9%	83.3%	76.9%	79.3%
Underlying free cash flow (capex = depreciation)	£m	4.0	5.9	5.8	6.2	6.7
Cash quality (underlying FCF / adjusted earnings)	%	79.6%	101.7%	97.5%	94.3%	93.9%
Investment rate (capex / depn)	x	0.5	1.8	1.3	3.6	0.9
Interest cash cover	x	n/a	n/a	n/a	n/a	n/a
Dividend cash cover	x	1.2	1.2	0.9	0.9	1.4

FY 2019 results – signs of troponin progress

Balance sheet		2017A	2018A	2019A	2020E	2021E
Year end:		Jun	Jun	Jun	Jun	Jun
Tangible fixed assets	£m	0.4	0.5	0.5	0.7	0.7
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	0.2	0.3	0.4	0.6	0.6
<i>inventories</i>	£m	0.2	0.3	0.2	0.3	0.3
<i>trade receivables</i>	£m	3.3	3.8	3.9	4.2	4.6
<i>trade payables</i>	£m	-0.0	-0.0	-0.0	-0.0	-0.0
Net working capital	£m	3.5	4.1	4.1	4.5	5.0
Other assets	£m	0.0	0.0	0.0	0.0	0.0
Other liabilities	£m	-0.2	-0.8	-0.8	-0.8	-0.8
Gross cash & cash equivalents	£m	6.2	7.0	6.5	5.9	7.9
Capital employed	£m	10.1	11.0	10.8	10.9	13.4
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	10.1	11.0	10.8	10.9	13.4
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	10.1	11.0	10.8	10.9	13.4
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	%	48.9%	46.6%	44.6%	44.8%	44.9%
Net working capital / sales	days	179	170	163	163	164
Inventory (days)	days	11	12	9	11	12
Receivables (days)	days	168	159	155	153	153
Payables (days)	days	1	1	1	1	1
Capital efficiency & intrinsic value						
Adjusted return on equity	%	49.2%	52.7%	55.4%	59.7%	53.4%
RoCE (EBIT basis, pre-tax)	%	57.0%	63.3%	65.3%	71.4%	63.8%
RoCE (underlying free cash flow basis)	%	39.2%	53.6%	54.0%	56.3%	50.1%
NAV per share	p	197.4	214.3	210.5	212.4	260.4
NTA per share	p	197.4	214.3	210.5	212.4	260.4