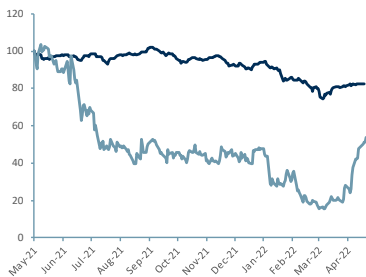


BRIEFING NOTE

52 Wk. Lo/Hi

38.00 – 283.96



AVCT (lighter line) AiM market vs price relative

Friday, 29 April 2022

Close Price	117.00
52 wk Range Low	38.00
52 wk Range High	283.96
MCAP (m)	£340.29
EV (m)	£315.81
Index: Public	AIM
Financial YE	31-Dec
Currency	GBP

Business Activity

Biotech

Key Metrics

Gross debt (m)	£1.90
Cash (m)	£36.97
Net Debt (Cash) (m)	-£35.07
Net Operating Cash (m)	-£16.49
Revenue (m)	£4.15
Net Income (loss) (m)	-£22.09

Key Ratios

(Net Cash) / Shareholder Equity %	-10.31%
-----------------------------------	---------

Healthcare Sector Research

AIM Market Index

ACF Healthcare Team

+44 20 7419 7928

healthcare@acfequityresearch.com

Avacta Group Plc

Core Investment Case

Avacta Group Plc (AIM: AVCT) is a UK-based clinical stage oncology drug and in-vitro diagnostics development company. Avacta is relatively de-risked compared to many biotech peers via its two novel technology platforms strategy: Affimer® and pre|CISION™. If one therapy fails, there are more in the pipeline. Affimer® has applications in diagnostics and therapeutics. pre|CISION™ is used in therapeutics mainly as a targeted chemotherapy platform. The therapeutics division remains the key near term company value driver. P1 first-in-human clinical trial of AVA6000 began Aug 2021. AVCT recently sold its Animal Health unit to Nextmune for £2.3m - cash £0.9m and deferred performance up to £1.4m.

- UK-biotech company w/ applications in diagnostics & therapeutics;
- Lead candidate AVA6000 is the key value driver;
- Successful partnership & licensing deals w/ large pharma;
- Cash & CE at £26.2m vs. NCO burn £(20.5)m as of YE Dec 21.

GBP (m)	MCAP	EV	RoA %	RoE %	NCO	Levered FCF
2022	340.29	315.81	-20.83%	-35.39%	-16.5	-11.9
Multiples	EV/ Revs	P/ S	Trail PE	BV/ Share	P/ B	Current
2022	107.38x	113.24x	N/A	0.21	8.25x	8.79x

Investment Case

AVA6000 is a therapy for patients with, locally advanced or metastatic, selected solid tumours. Pre|CISION™ targets the tumour microenvironment, reducing systemic exposure of healthy tissues.

Avacta Group - UK- biotech company with two novel platforms: Affimer® and pre|CISION™ that de-risk AVCT compared to many biotech peers. The therapeutics pipeline, led by pro-drug candidate AVA6000, is the key shorter term value driver. AVA6000 aims to reduce chemotherapy side-effects tumour-specific activation. If successful, AVA6000 is applicable to a wide range of solid tumours undergoing chemotherapy treatment. The addressable market is valued at US\$ 56.5bn with a CAGR of 11.5%.

Major milestone Phase 1 trial AVA6000: P1 first-in-human clinical trial of AVA6000 began Aug 2021. AVA6000 is a pro-drug targeting patients with locally advanced or metastatic selected solid tumours. AVA6000 is an innovative version of doxorubicin, modified with Avacta's pre|CISION™ platform to improve safety and therapeutic indications. AVA6000 releases doxorubicin only once it is activated at the site of the tumour, minimising toxicities.

Collaborations with leading pharma and biotech companies: Avacta has entered into multiple collaborations for both of its platforms – Affimer and pre|CISION. Avacta has drug development partnerships for its Affimer® platform: 1) ModernaTX, Inc. and LG Chem; 2) a 22% stake in JV AffyXell, the AffyXell JV is itself in a new partnership with Chinese drug developer Biocytogen (gene editing). AVCT has a partnership for its pre|CISION™ platform with Point Biopharma. These partnerships validate the potential of the Avacta platforms.

Avacta has established commercial relationships with IVD companies worldwide to improve the limitations of existing diagnostic testing solutions, by combining Affimer® reagents with leading diagnostic platform technologies.

Multiple opportunities in diagnostics: Avacta via its Affimer® platform is planning to develop a comprehensive range of in vitro diagnostic (IVD) tests. AVCT is developing a pipeline of diagnostic products in infectious respiratory and cardiovascular diseases, cancers, and hormones.

Well-funded for key milestones: Avacta has cash to deliver key diagnostics and therapeutics milestones. Avacta raised £50m in June 2020, which funded the development and delivery of a diagnostic and therapeutic pipeline. Net Cash burn from operations YE21A increased to £(20.5)m vs. (10.6) y/y. AVCT had cash £26.2m YE21A, which will, according to AVCT, carry it to 1H23.

Catalysts

Successful P1 results for AVA6000 trial; new partnerships e.g. AffyXell (AVCT now has a 22% stake post recent milestone); capital raise(s); US expansion.

Operational Strategy

Avacta is focused on building a portfolio of novel cancer therapies and diagnostics using its proprietary Affimer® and pre|CISION™ platforms.

Avacta aims to continue partnership building - e.g. Avacta's 22% holding in Daewoong JV AffyXell. The AffyXell JV collaboration has recently expanded, adding China's Biocytogen and Korea's NTSC.

Avacta's operational strategy of pairing with global pharmaceutical companies will support and eventually help monetize its technology platforms and pipeline.

Combining technologies with Avacta's Affimer platform: AffyXell's recent Biocytogen (China) and KNTSC (Korea) partnership extension adds Biocytogen's gene editing to the Affimer and MSC platform combination as well as KNTSC's infrastructure and project management of pre-clinical trials, all within the Asia market.

By combining technologies AffyXell is aiming to speed up drug development (and so to some extent Avacta de-risks its own business model via its 22% AffyXell JV stake).

Diagnostic division: Develop in-house products as well as enter into licensing deals with partners to explore the use of Affimer® reagents in their diagnostic portfolios. Avacta has licensing deals with a number of companies such as Astrea for bio separations and Biokit for a diagnostics application.

In future, Avacta plans to enter into other deals to promote Affimer® reagents' use in third-party products whilst continuing the development of its own pipeline products.

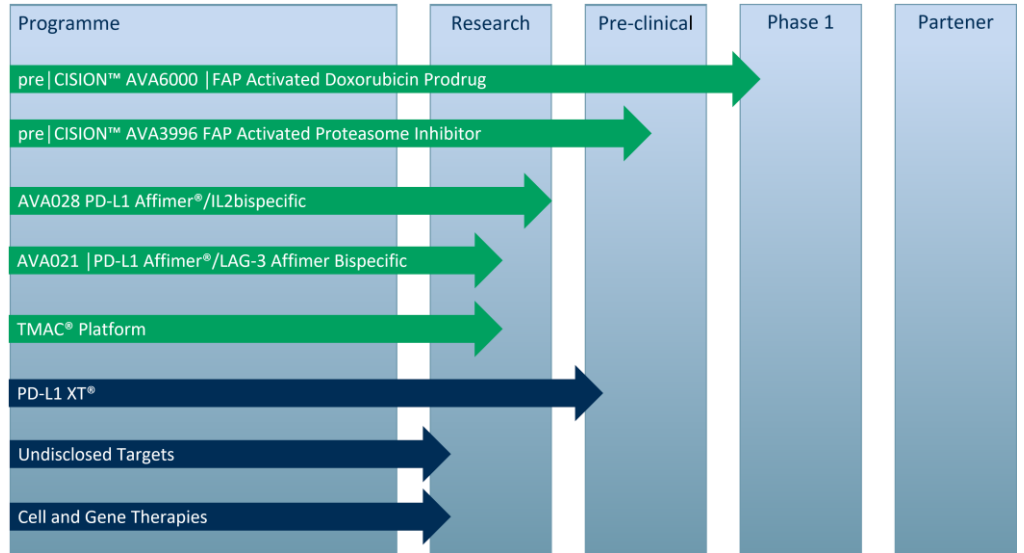
Therapeutic division: This is the primary focus area and, in our view, the main and most significant value driver in the nearer term. Avacta is actively developing its lead drug candidate, AVA6000, which is currently in P1 trials.

The strategy is to develop therapeutic programs in-house to demonstrate initial efficacy and then use the results of the study to initiate interest in entering into licensing agreements with large pharma partners. AVCT expects to earn royalties on sales as part of the agreements.

Avacta's pipeline: AVCT continues to progress on all of its drugs and therapies in its pipeline (exhibit 1).

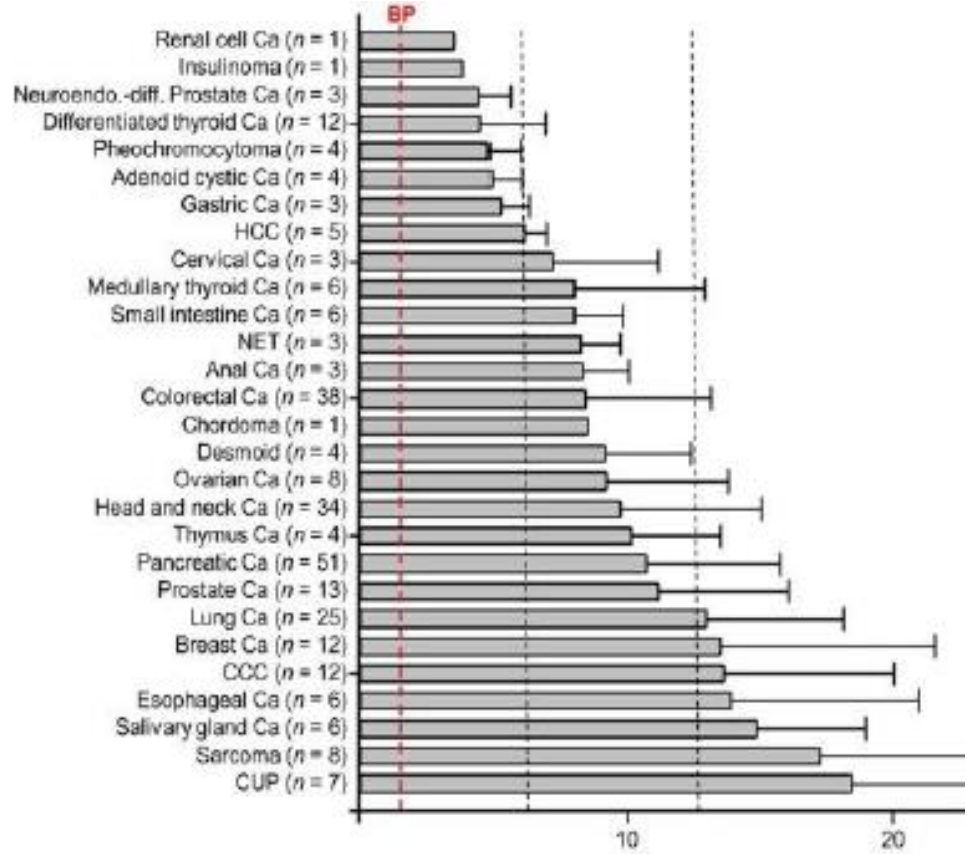
Affyxell 'combines' Avacta's Affimer platform with Daewoongs mesenchymal stem cell (MSC) platform. The Affimer proteins aim to enhance MSC therapeutic effects to create a next gen cell therapy platform.

Exhibit 1: Avacta’s pipeline



Sources: ACF Equity Research Graphics, Company reports.

➤ “FAP High” solid tumours potentially addressable by Avacta’s AVA6000



In SUV max – standardised uptake value

Sources: Company reports.

Management Team

➤ **CEO, Dr. Alastair Smith.**



Alastair has been CEO since 2005 has been responsible for its management and strategic development. Alastair has also led Avacta's M&A activities (public and private). Alastair has successfully delivered multiple secondary fundraisings for Avacta totaling over £120m. Alastair has a Ph.D. in Physics from Manchester University, UK and was Professor of Molecular Biophysics at Leeds University.

➤ **CFO, Tony Gardiner.**



Tony has been CFO of AiM listed Avacta since 2016. Prior, to AVCT from 2011-2016, Tony was the CFO of Fusion IP Plc (AiM listed), an IP commercialization company. Tony has also held senior finance roles at Eversheds LLP, regional telco KCOM Group Plc, Eldon Electric Ltd and Hickson International Plc, having worked for both EY and PWC global accountancy service providers.

Risks

Funding risk – The company has cash of £26.2m as of the end of 2021, which may be sufficient to meet its operational requirements through to 2H23. Additional funding may be required if further research and development activities are needed to expand the company's current programs. Too much new equity (raising money via share issues) will lead to dilution while debt funding will increase interest costs and put pressure on cash flows.

Execution risk – Avacta's products and services have commercial market potential, but the company's proprietary platforms are not yet proven to the level of human treatment commercially. Therefore, its product candidates may not succeed in the trials or meet EMA, FDA or other necessary approval requirements. For example, AVA6000, the lead drug candidate, is currently in Phase 1 trial and therefore remains at significant risk of not reaching commercialization.

Intellectual Property risk: Avacta's products and its technology's success are dependent on the strength of patents. Competitors could attempt to invalidate the company's patents, which could severely impact its ability to realize revenues and cash flows or anticipated margins

Third party risk – Avacta relies on third parties for various stages of its therapeutic development programs - including execution of pre-clinical studies and later-stage development for its drug candidates. Failure by any of these parties to effectively execute such tasks could adversely impact AVCT's operations and timelines.

Personnel risk - Small and mid-sized companies are more dependent on their C-suite/executive management teams than large and mega-cap global companies. The loss of key personnel can have a disproportionate impact on valuation and investor perception compared to similar events at larger more mature (often ex-growth) companies. In the case of healthcare companies lead by their scientific innovators, the key personnel risk is exacerbated.

'Zero-one game' – What makes AVCT different? Drug development, like extractives exploration (oil & gas / mining), is usually a zero / one investment. Companies in these sectors either deliver strong to exceptional investor returns or deliver 'zero' returns. In the case of healthcare, success is often entirely dependent on the completion of trials and ultimately commercialization. Therefore, equity capital invested tends to far exceed any asset value in the case of corporate failure. In Avacta's case, only if the platforms fail does the zero-one risk materialise. If AVA6000 fails there are other pre|CISION™ and Affimer® revenue opportunities in the pipe, suggesting AVCT's risk profile in this area, is significantly lower than typical biotech peers.

Notes [Intentionally Blank]

INDEPENDENCE & DISTRIBUTION

ACF Equity Research Ltd is a provider of issuer-pays research with a clearly defined independent ethic. ACF produces accurate, clear, focused research aimed at a professional investment audience. ACF has excellent distribution capabilities and always aims to provide access without restriction to the widest professional audience. ACF offers a range of additional services to support its clients.

DISCLAIMER

This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. [The opinions expressed in this report herein do not take into account individual investor circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein.] ACF Equity Research Ltd has based this document on information obtained from sources it believes to be reliable, but which it has not independently verified. Neither ACF Equity Research Ltd. nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. [Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by ACF Equity Research Ltd. with respect to future performance. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.]

IMPORTANT DISCLOSURES FOR U.S. INVESTORS

This research report was prepared by ACF Equity Research Ltd., a company authorized to engage in securities activities in the United Kingdom. ACF Equity Research Ltd. is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended. Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through, a registered broker-dealer in the United States. The analyst who prepared this research report is not registered or qualified with the Financial Industry Regulatory Authority ("FINRA") and may not be associated with a U.S. broker dealer and as such, would not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

[Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.]

LEGAL NOTICE

This report is for authorized use by the intended recipient(s) only. It may contain proprietary material, confidential information and/or be subject to legal privilege. No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of ACF Equity Research Ltd. and ACF Equity Research Ltd. accepts no liability whatsoever for the actions of third parties in this respect.

IMPORTANT ADDITIONAL DISCLOSURES FOR U.K. INVESTORS

The information in this report has been prepared by ACF Equity Research Ltd (ACF). The research is published for information purposes only. It is not intended as an offer or solicitation for the purchase or sale of any securities or any financial instruments.

ACF has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any comments or statements made herein do not necessarily reflect those of ACF Equity Research Limited. The material should not be regarded by recipients as a substitute for the exercise of their own judgment. Past performance does not guarantee future performance.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of ACF which may, from time to time, solicit business from any of the companies referred to in this report. The analyst(s) responsible for covering securities in this report may not hold a position in any or related securities in this report in ACF's sector universe or in any other sector in which ACF carries out research. The company does not hold any position in the securities mentioned in this report.

This research report and its contents are intended for professional investors and not for retail investors. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the investment research. ACF Equity Research Limited is authorised and regulated by the Financial Conduct Authority. However the contents of this research report are produced as if ACF Equity Research Limited is unregulated and consequently this report does not contain investment recommendations or ratings.

ACF, its directors, employees and agents accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or part of these materials. The information in this report is provided with the understanding that ACF is not acting in a fiduciary capacity. Certain laws and regulations impose liabilities which cannot be disclaimed. This disclaimer shall in no way constitute a waiver or limitation of any rights a person may have under such laws and/or regulations. Copyright © 2018 ACF Equity Research all rights reserved. Additional information is available upon request.

Copyright 2018 ACF Equity Research Ltd. All rights reserved.

ACF Equity Research Limited, 125 Old Broad Street, London, EC2N 1AR, U.K.

Tel: +44 (020) 7558 8974

Website: www.acfequityresearch.com