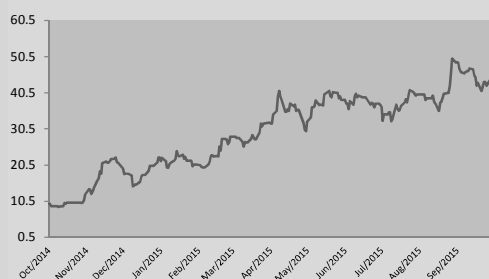


Key Statistics

Code	: OPTI
Listing	: AIM
Sector	: Biotechnology
Market Cap	: £54.1m
Share in issue	: 74.23m
Current Price	: 73p
12 mnth High/Low	: 97p/14.62p

Stock Performance



Source: Fidessa

Financials (y/e Dec)

Estimated cash balance: £3.7m

Source: 7 December 2015 RNS

Company description

OptiBiotix was formed in March 2012 to develop compounds which modify the human microbiome – the collective genome of the microbes in the body – to prevent and manage human disease. OptiBiotix has established a pipeline of microbiome modulators that can impact on lipid and cholesterol management, energy harvest and appetite suppression. The development pipeline is fuelled by its proprietary OptiScreen® and OptiBiotic® platform technologies designed to identify metabolic pathways and compounds that impact on human physiology and bring potential health benefits. These platforms are applicable across a wider range of other human diseases.

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Taking the human microbiome into new territory

The company developing products to modulate the human microbiome to prevent, manage, and treat human disease has last week announced a £1.5m placing at 75p which will help to drive development and commercialisation in its existing programmes but also to pursue opportunities in new application areas. As part of the placing directors of the company subscribed for £110k worth of shares.

Having raised £3.3m at the IPO in August 2014, OptiBiotix has exceeded its promises whilst keeping a tight control on cash burn and net cash is currently estimated to be circa £3.7m.

Part of the placing proceeds will be used to bring more scientific development capability in-house through the recruitment of further scientists, a move which is expected to create additional opportunities with existing and prospective partners.

The company will be turning its attention to further multi-billion dollar markets including **diabetes**, **bone health** and a number of sub sectors of **skin health** which could be an equal, if not larger opportunity than the currently targeted metabolic and cardiovascular markets. We understand that in terms of initial research and scientific understanding the company has already made progress in the above areas.

We have factored in recent progress plus the new product areas into our valuation model applying appropriately conservative risk weightings generating an **indicative valuation of 95.4p**. Of course the ultimate driver of the company's value will be the monetary value of revenues and milestone payments derived from product sales and partnership agreements, and it is now up to OptiBiotix to deliver income from both routes.

Since the August 2014 IPO, OptiBiotix has delivered six new patent filings, five new microbial strain deposits, and four commercial deals. The company's strategic focus on product development through its proprietary proven platforms, whilst seeking to partner with company's who can provide infrastructure and market access, allows it to explore multiple product opportunities for relatively little capital outlay.

This combined with a strong balance sheet gives OptiBiotix multiple opportunities to reach profitability without further recourse to the equity markets.

For analyst certification and other important disclosures, refer to the Disclosure Section

OptiBiotix's achievements to date have validated its technology platforms, and set a precedent that microbial strains that have an effect on human health can be identified and have first human efficacy studies completed within a period of approximately eighteen months for a total development cost of under £0.5m.

The company's work on oligosaccharides will be crucial to future product development, with these novel sugars able to modulate or promote the growth of targeted microbes in humans or industrial processes. This is the platform cornerstoning the development agreement announced last month with Italy's Centro Sperimentale Del Latte (CSL) which researches, develops, manufactures and distributes probiotics, starter cultures, moulds and yeasts for the pharmaceutical, nutraceutical, dairy, food and agricultural sectors all over the world.

However perhaps the most obvious route to take is the development of sweet healthy sugars. The company is therefore creating a dedicated sub platform, SweetBiotix so that it puts more resources into creating zero calorie substitutes for sucrose and fructose with commercially attractive textures, sweetness levels and health benefits. It is likely that the products will also be looking to target satiation (the feeling of fullness) and calorific absorption.

We have reviewed our valuation model to include the new development areas and on existing programmes have adjusted our risk weighting to reflect the progress made.

Existing products: For the Cholesterol product we have reduced our risk discount of commercialisation to 45% reflecting the progression from human studies to pilot manufacture and also the unexpected addition of hypertension as a health benefit of this product as underlined by the recent patent filing. There is already an option agreement in place with a multinational consumer goods company to enter into a definitive agreement now that the trial is complete.

SweetBiotix or novel sugars we have leave unchanged at 75%. Whilst a development agreement is in place with CSL there is still much work to do in terms of strain selection, testing and formulation but we expect rapid progress to be made.

Weight management we have reduced to 55% and expect to be able to reduce this further as we receive updates on the Nizo JV and other commercial applications of this well understood technology.

To OptiBiotix's platforms we have applied lowered our risk discount to 45% as we believe that the product development and third party collaborations announced to date validates both the OptiBiotic and OptiScreen platforms.

New products: The newest product areas that OptiBiotix has disclosed it is developing are SkinCare under its newly formed SkinBiotix platform, and a pre-diabetic supplement which is seeking to help borderline diabetics improve glycemic regulation and avoid developing type II diabetes.

OptiBiotix has already laid the basic scientific foundations for these product areas and now needs to apply its platform technologies to progress them towards human studies. Some of these areas, which we understand are likely to be classified as medical devices, will have higher regulatory hurdles than the company's existing products. If they edge towards the 'medicine' category this will be even higher although we understand this is not the current plan. We have applied the upmost conservatism in terms of risk discount to each of the new development areas at 95%. In terms of the unrisks valuations we use as a starting point, again we take a low 1% share of the relevant market/sub market size or comparator product and applied a 1x multiple. For cosmetic skin care we have taken 2014 levels of Botox Sales (\$2.2bn per Allergan 2014 annual report). For wound care we have not taken the estimated size of the entire wound care market but rather anti-infective wound dressings market (\$7.5bn per Transparency Market Research). For the diabetes treatment we have looked at the estimated size of the diabetic – centric supplements market (over \$1bn per Nutrition Business Journal). For Eczema, Psoriasis and HCAI we have looked at the relevant market size for these therapeutic areas which are \$3.8bn (by 2018 per GlobalData 2012 report), \$6.6bn (in 2013 per PharmaTimes Digital) and \$3.1bn (Transparency Market Research) respectively.

As the company progresses its product development and path to commercialisation on its products, we see further scope to reduce our risk discount and increase the potential market share that the company might attain, leaving scope for upside many multiples of the current share price. The company has done a great job at validating its platforms, advancing its existing portfolio through to commercial deals and scientific. The onus will be now to repeat this in new product areas, but most importantly to start to crystallise some of the value accrued and yet to be generated through the generation of revenues and milestone payment from its partners. This will solidify our investment case and remove some of the speculative nature of our current valuation parameters. As it stands our model suggests an indicative risked valuation of 95.4p some 30.6% above the current share price.

OptiBiotix sum of the parts valuation	Unrisked value £m	Risk weighting	Risked value	
Cholesterol	58.8	45%	32.4	<i>Benecol</i>
SweetBiotix	27.5	75%	6.9	<i>Stevia</i>
Weight Management	20.7	55%	9.3	<i>Herballife</i>
Platform	43.3	45%	23.8	<i>Nestle</i>
Skinbiotics:				
<i>Health Care Acquired Infections</i>	<i>19.4</i>	<i>95%</i>	<i>1.0</i>	<i>HCAI market size</i>
<i>Eczema</i>	<i>23.8</i>	<i>95%</i>	<i>1.2</i>	<i>Eczema therapeutic market</i>
<i>Psoriasis</i>	<i>41.3</i>	<i>95%</i>	<i>2.1</i>	<i>Psoriasis therapeutic Market</i>
<i>Wound Care</i>	<i>46.9</i>	<i>95%</i>	<i>2.3</i>	<i>Anti-infective dressings</i>
<i>Cosmetic skin care</i>	<i>13.8</i>	<i>95%</i>	<i>0.7</i>	<i>Botox</i>
<i>Pre diabetic supplement</i>	<i>6.3</i>	<i>95%</i>	<i>0.3</i>	<i>Diabetic-centric supplements</i>
<i>Cash</i>			<i>2.3</i>	<i>Estimated 2016 year end</i>
Indicative Valuation			82.2	
Diluted shares in issue			86.2	
Indicative valuation per share (p)			95.4	

Source: Hybridan LLP Valuation model

Income Statement

	6 months to 31 May 2015 Unaudited £	6 months to 31 May 2014 Unaudited £	Year to 30 November 2014 Audited £
Continuing operations			
Administrative expenses	(514,431)	(57,643)	(489,015)
Operating loss	(514,431)	(57,643)	(489,015)
Non-Operating Items			
Admission expenses	-	-	(365,038)
Finance income / (costs)	7	-	93
Loss before Income tax	(514,424)	(57,643)	(853,960)
Income tax	-	-	43,254
Loss for the period	(514,424)	(57,643)	(810,706)
Total comprehensive income for the period	(514,424)	(57,643)	(810,706)
Total comprehensive income attributable to the owners of the company	(514,424)	(57,643)	(810,706)
Loss per share			
Basic & Diluted loss per share - pence	0.708p	1.144p	3.03p

Source: OptiBiotix Health PLC Half Year Report

Cashflow Statement

	6 months to 31 May 2015 Unaudited £	6 months to 31 May 2014 Unaudited £	Year to 30 November 2014 Audited £
Reconciliation of loss before income tax to cash outflow from operations			
Operating loss	(565,284)	(57,643)	(854,053)
(Increase)/decrease in trade and other Receivables	(23,944)	291,233	296,616
Decrease in trade and other Payables	(24,507)	(201,548)	(212,913)
Share Option expense	127,728	-	63,770
Depreciation	347	-	244
Net cash outflow from operations	(485,660)	32,042	(706,336)
Interest paid	-	-	-
Interest received	7	-	93
Net cash outflow from operating activities	(485,653)	32,042	(706,243)
Cash flows from investing activities			
Purchases of property, plant and equipment	(1,965)	-	(1,099)
Net cash from acquisition of subsidiary	-	-	251,834
Net cash (outflow)/inflow from investing activities	(1,965)	-	250,735
Cash flows from financing activities			
Share issues	87,753	73,029	3,300,068
Net cash inflow from financing activities	87,753	73,029	3,300,068
Taxation	-	-	25,732
Increase/(decrease) in cash and equivalents	(399,865)	105,071	2,870,292
Cash and cash equivalents at beginning of year	2,870,442	150	150
Cash and cash equivalents at end of year	<u>2,470,577</u>	<u>105,221</u>	<u>2,870,442</u>

Source: OptiBiotix Health PLC Half Year Report

Balance Sheet

	As at 31 May 2015 Unaudited	As at 31 May 2014 Unaudited	As at 30 November 2014 Audited
	£	£	£
ASSETS			
Non-current assets			
Intangibles	2,259,369	-	2,259,369
Property, plant & equipment	2,473	-	855
	<u>2,261,842</u>	<u>-</u>	<u>2,260,224</u>
CURRENT ASSETS			
Trade and other receivables	28,595	10,034	4,651
Current tax asset	94,107	-	43,254
Cash and cash equivalents	2,470,577	105,221	2,870,442
	<u>2,593,279</u>	<u>115,255</u>	<u>2,918,347</u>
TOTAL ASSETS	<u><u>4,855,121</u></u>	<u><u>115,255</u></u>	<u><u>5,178,571</u></u>
EQUITY			
Shareholders' Equity			
Called up share capital	7,100,284	5,742,586	7,078,346
Share premium	3,812,596	1,355,502	3,746,781
Share based payment reserve	218,698	27,200	90,970
Merger relief reserve	1,500,000	-	1,500,000
Accumulated deficit	(8,281,437)	(7,013,950)	(7,767,013)
Total Equity	<u>4,350,141</u>	<u>111,338</u>	<u>4,649,084</u>
LIABILITIES			
Current liabilities			
Trade and other payables	53,106	3,917	77,613
	<u>53,106</u>	<u>3,917</u>	<u>77,613</u>
Non - current liabilities			
Deferred tax	451,874	-	451,874
	<u>451,874</u>	<u>-</u>	<u>451,874</u>
TOTAL LIABILITIES	<u>504,980</u>	<u>3,917</u>	<u>529,487</u>
TOTAL EQUITY AND LIABILITIES	<u><u>4,855,121</u></u>	<u><u>115,255</u></u>	<u><u>5,178,571</u></u>

Source: OptiBiotix Health PLC Half Year Report

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