

22 December 2009

Scancell (SCLP.PLUS)

Price: 52.5p

Biotechnology sector

“Steady as she goes” is a good way to describe the Scancell story over the past several months. Key milestones have been met and the Company continues to move towards an April 2010 kick-off for the Phase I/II clinical trial of its lead drug to treat melanoma.

KEY POINTS

- **Scancell partners with well-respected, multi-national CRO for upcoming clinical trial** – Scancell has entrusted its Phase I/II trial to PharmaNet Development Group, a global, drug development services company with a particular expertise in oncology including more than 200 studies, at over 9600 investigative sites with over 50,000 patients.
- **DNA vaccine successfully manufactured ahead of trial start** – Cobra Biomanufacturing, Scancell’s contract manufacturer for SCIB1, has successfully completed the Good Manufacturing Practice (‘cGMP’) production of Scancell’s DNA vaccine in anticipation of the Phase I/II clinical trial early next year.
- **Balance sheet remains strong; additional funding in the works** – at the time of our initiation report in September, Scancell had approximately £1 million on its balance sheet and a monthly burn of roughly £70,000. Since that time, we do not believe the Company has had any unplanned expenditures. The need for funding, however, remains with clinical trial costs on the horizon. As planned, Scancell is working on securing between £1.5 million and £2 million in additional financing and so far does not expect the capital raise to delay the onset of the trial.

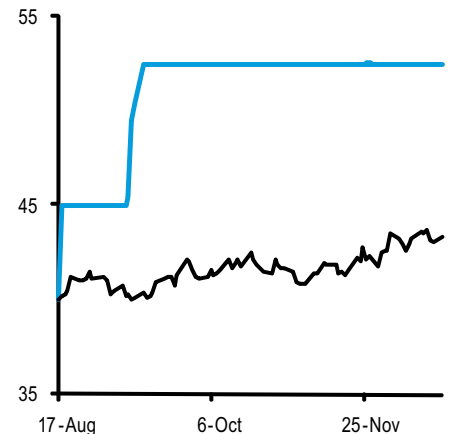
COMMENT

Granted, the story at Scancell begins to take true shape only when the data from the clinical trials for its lead drug candidate, SCIB1, comes into focus. However, the preparation for those trials and the execution of strategic initiatives can be critical to the long term success of the business. As the last few months have demonstrated, Scancell continues to deliver as promised and has put itself in position to begin its Phase I/II clinical trial for SCIB1 in April, its original targeted date. Scancell plans to submit its application required to initiate the trial by 29 December 2009, with the typical turnaround time of around three months.

The preparation to begin the trial is in full gear. Scancell has successfully forged alliances with well respected partners in the field and, as a result, has cGMP-manufactured material on the shelf and ready for deployment in the trial. Its CRO partner, PharmaNet, is one of the top CROs in the industry and has a solid reputation for early-stage trials in the oncology sector. The two companies have already begun selecting clinical investigator sites and should have no problem hitting the ground running once approval is in hand to start the trial.

Finally, we believe Scancell is well positioned financially, although it will need additional capital to fully fund the Phase I/II clinical trial for SCIB1. The plan is to secure up to £2 million by the end of Q1 2010 and it is our belief that progress has been made in these efforts. We remain confident that the Company will be successful in its capital raise. We view the ability to secure this capital along with the application submission and subsequent approval as the two key events we will be closely monitoring over the coming months.

Price chart (p)



— SCLP.PLUS — Pharmaceuticals (rebased)

Current fair value of equity

Expected value	£5.27m
Value per share	£0.59
Optimistic scenario	£13.7m
Value per share	£0.95

Company details

Quote

Shares	
- PLUS	SCLP
Shares issued (m)	8.9
Fully diluted (m)	9.6
Website:	www.scancell.co.uk

Analysts:

Scott Davidson, CFA
scott@objectivecapital.co.uk

Objective Capital Research Limited

Token House

11-12 Tokenhouse Yard

London EC2R 7AS

Tel: +44-(0)870-080-2965

Fax: +44-(0)203-137-0076

US toll-free: 1-888-802-7215

editor@objectivecapital.com

Corporate: www.ObjectiveCapital.com

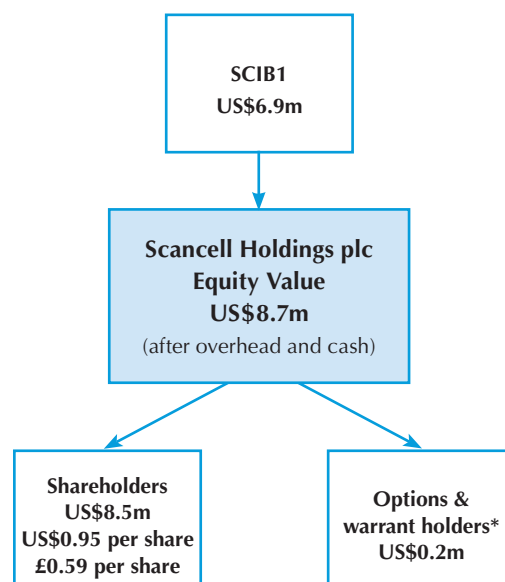
Research: www.ObjectiveCapital.co.uk

Fair value summary (US\$m)

Scenario	Core	Optimistic
Development drugs		
- SCIB1	6.9	12.1
Less: overhead	2.4	2.4
Expected value of pipeline	4.5	9.7
Add: other assets*	1.7	1.7
Add: starting cash + new funds	2.5	2.5
Total current value for firm	8.7	13.9
Less: Bank & other debt	0.0	0.0
Total value to equity claims	8.7	13.9
Less: warrants & options	0.2	0.2
Ordinary equity holders	8.5	13.7
Value per share (US\$)	0.95	1.53
Value per share (£)	0.59	0.95

* expected risked value of milestones due from Arana

Components of Scancell's entity value



* includes expected value of contingent option claims

Summary of detailed SCIB1 valuation (US\$m)

SCIB1	Core	Optimistic
Royalty revenue*		
EV of royalties	62.9	128.2
Likelihood of success (PoS)	7%	7%
EMV of royalties	4.2	8.6
Add: EMV of upfront payments**	1.4	2.2
Add: EMV of milestone payments**	3.7	5.1
less: EMV of development costs**	0.5	0.5
EMV***	8.7	15.3
per share		
- US\$ ps	0.98	1.71
- £ ps	0.61	1.06
After tax EMV	6.9	12.1

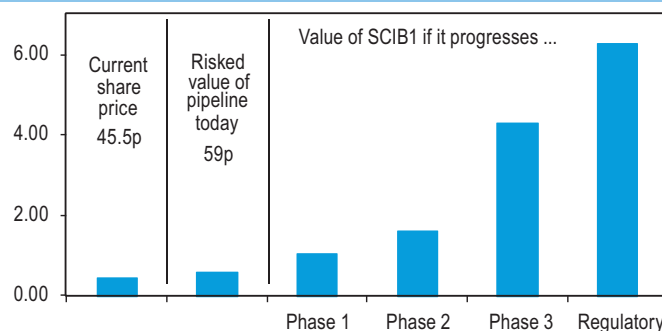
* EV = expected value; EMV = expected monetary value (i.e., risked expected value)

** net upfront, milestone and development costs have been risked based on probability of being incurred or received

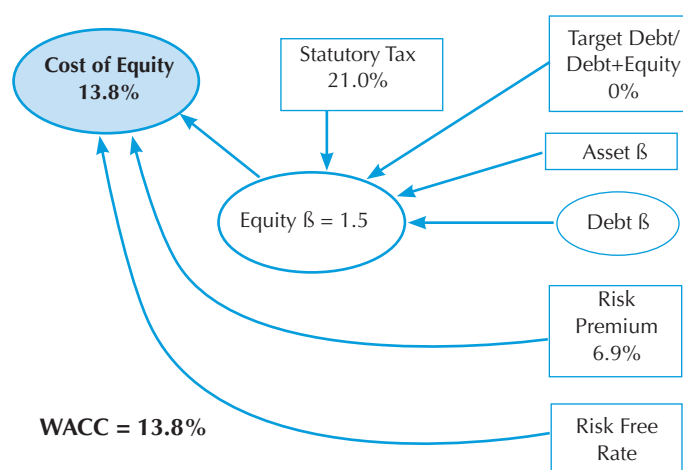
*** royalty, upfront and milestone payments are based on a standalone licencing deal and assume no premium for the technology platform

Note: see page 19 of our Initiation note for revenue forecasts and page 26 for detailed SCIB1 valuation

Current EMV and value if pipeline is successful (£ps)



Weighted cost of capital



Profit & Loss					
Year ending April (£000's)	2008A	2009A	2010E	2011E	2012E
Revenues					
Upfront payments	0	0	0	0	0
Milestone payments	0	0	0	0	0
Licensing/royalty revenues	0	0	0	0	0
Net revenues	0	0	0	0	0
Development costs	241	713	110	621	633
Gross profits	(241)	(713)	(110)	(621)	(633)
Administrative expenses	269	402	422	422	422
Other income	0	213	0	0	0
Depreciation	27	28	27	27	26
Profit from operations	(510)	(902)	(559)	(1,069)	(1,081)
Interest income	61	57	81	92	58
Pretax income	(449)	(845)	(478)	(977)	(1,023)
Tax	0	0	0	0	0
Tax credit	(44)	(185)	(50)	(50)	(50)
Net tax	(44)	(185)	(50)	(50)	(50)
Net income	(406)	(660)	(428)	(927)	(973)
EPS (p)	(5.6)	(7.4)	(3.2)	(6.9)	(7.3)

Balance Sheet					
Year ending April (£000's)	2008A	2009A	2010E	2011E	2012E
Non-current assets					
Property plant & equipment	87	82	80	79	77
Total	87	82	80	79	77
Current assets					
Debtors	51	405	250	250	250
Cash & equivalents	998	1,519	3,048	2,122	1,151
Total	1,049	1,924	3,298	2,372	1,401
Total assets	1,136	2,006	3,378	2,451	1,478
Current liabilities					
Creditors	88	167	167	167	167
Total	88	167	167	167	167
Net assets	1,047	1,839	3,212	2,284	1,311
Shareholder's equity					
Total equity	1,047	1,839	3,212	2,284	1,311

Cashflow					
Year ending April (£000's)	2008A	2009A	2010E	2011E	2012E
Operating profit (loss)	(510)	(902)	(559)	(1,069)	(1,081)
Depreciation charges	27	28	27	27	26
Government grants	0	-213	0	0	0
Decrease/(Increase) in debtors	12	-207	155	0	0
Increase in creditors	31	78	0	0	0
Net cash from operations	(440)	(1,216)	(377)	(1,043)	(1,055)
Cashflow from investing					
Property plant & equipment purchases	(1)	(23)	(25)	(25)	(25)
Taxation	(149)	39	50	50	50
Returns on investments and servicing of finance	61	57	81	92	58
Net cash from investing activities	(89)	73	106	117	83
Cashflow from financing activities					
Net issue of ordinary shares	21	1,665	1,800	0	0
Net cash from financing	21	1,665	1,800	0	0
Net increase (decrease) in cashflow	(507)	521	1,529	(926)	(972)
Opening cash equivalents	1,505	998	1,519	3,048	2,122
Closing cash equivalents	998	1,519	3,048	2,122	1,151

Source: *Objective Capital*

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