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4 February 2011

Scancell Holdings (SCLP.L)

Price: 77.5p
Biotechnology sector

Recent Actions Set to Accelerate Trial Enrollment

UPDATE

- ***New centres to the rescue***

  Scancell recently received approval for a fourth UK patient recruitment site for its SCIB1 Phase I study and has plans to bring a fifth centre on-line in short order. These two additional sites had been in the works all along, but the original plan was to bring them in for the upcoming Phase II trial.

- ***Review Committee gives thumbs-up to escalate dose and recruit next cohort***

  With the completed dosing of the first cohort, the Committee has analyzed the data and approved the advancement of the trial to the second cohort, escalating the dosage in the process.

- ***Approval attained for expanded patient population***

  In further broadening the net for new patients, Scancell has received permission to enroll less sick patients in the remaining Phase I cohorts. Not only should this speed the pace of enrollment, but it also should improve the immune responses of the patients as later stage melanoma patients typically have weakened immune systems.

- ***Competitive trials less of an issue; enrollment dynamics should improve***

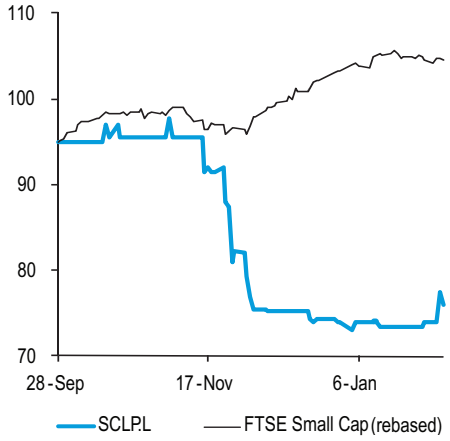
  Two late stage melanoma products have made it more difficult for Scancell to enroll patients in its Phase I trial for SCIB1. While competitive trials[1] will remain a challenge, the protocol amendment noted above allowing for all Stage III and IV malignant melanoma patients to participate should significantly help recruiting for this trial.

- ***Interims filed, results in-line with our expectations***

  The costs incurred in the first half of the fiscal year were in-line with our forecasts. As noted in an earlier note, however, the likelihood of licensing revenue in the calendar year has diminished with the delays in the Phase I trial. In turn, we believe there will be a need to raise capital as early as this summer.

[1] a combination of one late stage trial (B-raf product) and one compassionate use programme (ipilimumab)

Price chart (p)



Current fair value of equity	
Expected value	£15.8m
Value per share	**£0.99**
Optimistic scenario	£27.5m
Value per share	**£1.73**

Company details	
Quote	
Shares	
- AIM	SCLP
Shares issued (m)	15.9
Fully diluted (m)	16.7
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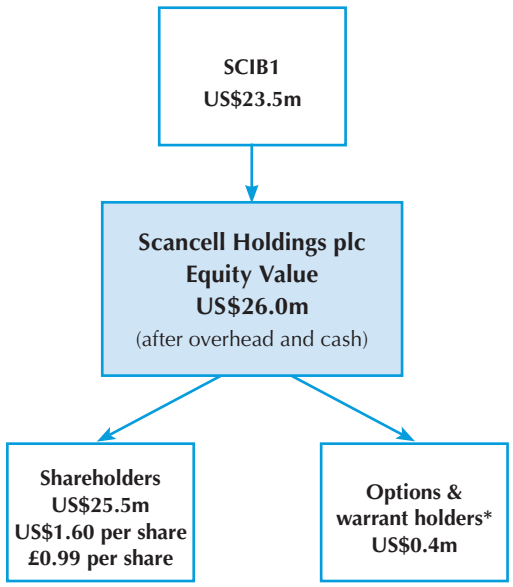
Fair value summary (US$m)

Scenario	Core	Optimistic
Development drugs		
- SCIB1	23.5	42.8
Less: overhead	4.2	4.2
Expected value of pipeline	19.3	38.6
Add: other assets	2.1	2.1
Add: starting cash + new funds	4.6	4.6
Total current value for firm	26.0	45.3
Less: Bank & other debt	0.0	0.0
Total value to equity claims	26.0	45.3
Less: warrants & options	0.4	0.4
Ordinary equity holders	25.5	44.8
Value per share (US$)	**1.60**	**2.81**
Value per share (£)	**0.99**	**1.73**

Components of Scancell's entity value



* includes expected value of contingent option claims

Summary of detailed SCIB1 valuation (US$m)

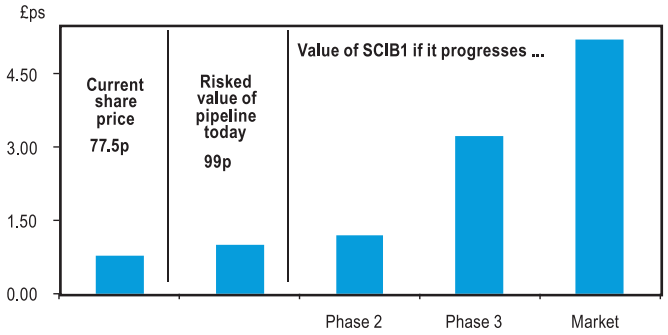
SCIB1	Core	Optimistic
*Royalty revenue**		
EV of royalties	**85.8**	**175.0**
Likelihood of success (PoS)	**21%**	**21%**
EMV of royalties	**18.3**	**37.4**
Add: EMV of upfront payments**	3.2	5.0
Add: EMV of milestone payments**	9.3	12.8
less: EMV of development costs**	1.1	1.1
EMV***	**29.8**	**54.2**
per share		
- US$ ps	1.87	3.40
- £ ps	1.15	2.09
After tax EMV	**23.5**	**42.8**

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

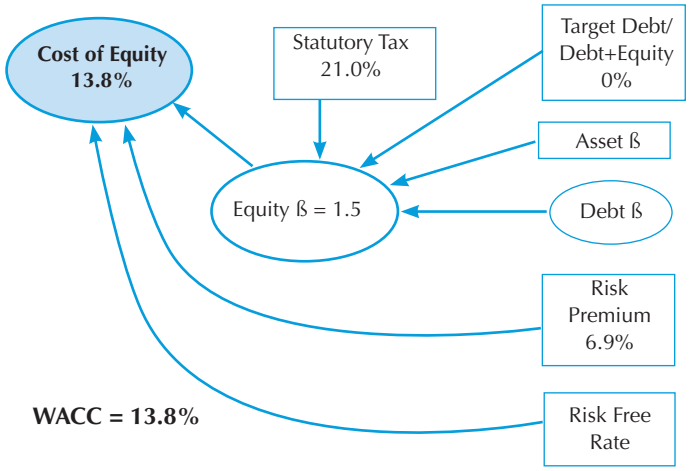
** net upfront, milestone and development costs have been risked based on probability of being incurred or received

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

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



Weighted cost of capital



Clinical Update
As has been discussed in a prior note, Scancell has experienced slower patient enrollment in the SCIB1 trial than originally anticipated. The recent news on expanded patient inclusion protocols, increased number of recruitment centres, and approval from the safety committee to commence enrolling the second cohort, however, is all a step in the right direction. While the recruitment of subsequent patients is inherently lumpy and somewhat random and will likely remain so, the recent news greatly improves the likelihood that recruitment rates will accelerate. Accordingly the timeline for the remainder of the Phase I trial and the completion of the Phase II trial will more likely proceed to plan.

As it stands today, the Company continues to expect the Phase II trial to kick off in Q3 and finish by the end of 2012. The fourth patient recruitment centre in Leeds has received central approval and now awaits local R&D approval, a bureaucratic step that is not expected to cause any further significant delays. Patients are currently identified at the three original centres and could be enrolled and dosed within weeks.

As a reminder, the full Phase I trial consists of three cohorts of three patients each, receiving escalating dosages through the progression of cohorts. The safety committee meets after the last patient in each cohort has received three injections, analyzes the resulting data, and grants its approval to proceed to the next cohort of patients. We expect Phase II of the trial to initiate in Q3 of this year, several months prior to the official end of Phase I.

Operational Update
Scancell continues its work towards expanding its portfolio by testing numerous candidates for what will eventually become SCIB2. While the Company will not make any official announcements on its progress until it has sound, reproducible anti-tumor data in hand, it has conveyed to us that its initial data looks extremely promising. To date, Scancell has worked to put relevant epitopes into the Immunobody structure and demonstrate a high avidity response. Now, the next step entails testing these candidates in animal tumour models (in vivo). We are encouraged by the pace of the progress and would not be surprised to see a statement from the Company on its development of SCIB2 before the end of the calendar year. The key goal, however, remains for Scancell to have animal data in hand when it negotiates a licensing agreement or sale of its assets, estimated to be in late 2012 or early 2013.

Financial Update
The operating results for the six month period ended October 31, 2010 were in-line with our estimates. The cash in the bank at the end of the six month period totaled £1,740,925. With an estimated average burn rate of £100,000 per month, we believe the Company is currently holding approximately £1.4 million in cash and cash equivalents. The cash burn is likely to be closely tied to the pace of patient recruitment. As this pace is expected to accelerate, so shall the cash burn. With the delays encountered to date with the Phase I trial likely to delay the receipt of licensing revenues, cash totals would likely run too low for comfort as the Company neared the end of the Phase II trial in late 2012. As a result, we believe it is likely, and prudent, that Scancell will seek out additional funds in the capital markets later this summer, prior to the start of its Phase II trial. While additional dilution would result, the funds will place the Company in a much stronger negotiating position with potential partners.

Conclusion
As is typical with almost all early stage biotech companies entering the clinic, Scancell has had to adapt to unexpected challenges over the past couple of quarters. While it may be too early to declare victory over these challenges, we have been impressed with the ability of this management team to adjust to situations in an expeditious manner and seek out professional, alternative solutions. We still believe that the clinical efficacy of the compounds will carry the day and decide the ultimate outcome of this Company. However, the ability of management to navigate the recent delays in the ongoing clinical trial has us confident in the leadership qualities of this group and should prove invaluable as the business matures.

Financials

Profit & Loss

Year ending April (£000's)	2009A	2010A	2011E	2012E
Revenues				
Upfront payments	0	0	0	0
Milestone payments	0	0	0	0
Licensing/royalty revenues	0	0	0	500
Net revenues	0	0	0	500
Development costs	648	1,069	650	500
Other development costs	0	0	121	133
Gross profits	(648)	(1,069)	(771)	(133)
Administrative expenses	428	751	851	751
Other income	213	38	0	0
Depreciation	27.77	22.65	22.99	23.29
Profit from operations	(891)	(1,805)	(1,645)	(908)
Interest income	57	2	2	1
Pretax income	(834)	(1,803)	(1,643)	(907)
Tax	—	—	—	—
Tax credit	(48)	(66)	(50)	(50)
Net tax	(48)	(66)	(50)	(50)
Net income	(786)	(1,737)	(1,593)	(857)
EPS (p)	(9.4)	(16.2)	(10.0)	(5.4)

Balance Sheet

Year ending April (£000's)	2009A	2010A	2011E	2012E
Non-current assets				
Property plant & equipment	82	132	134	135
Goodwill	3,415	3,415	3,415	3,415
Total	3,497	3,547	3,549	3,551
Current assets				
Debtors	405	123	123	123
Cash & equivalents	1,519	2,830	1,235	377
Total	1,924	2,953	1,358	499
Total assets	5,421	6,500	4,907	4,050

Balance Sheet

Year ending April (£000's)	2009A	2010A	2011E	2012E
Current liabilities				
Creditors	167	452	452	452
Total	167	452	452	452
Net assets	5,254	6,048	4,455	3,598
Shareholder's equity				
Total equity	5,254	6,048	4,455	3,598

Cashflow

Year ending April (£000's)	2009A	2010A	2011E	2012E
Operating profit (loss)	(891)	(1,828)	(1,645)	(908)
Depreciation charges	28	23	23	23
Govt Grants & Decrease/ (Increase) in debtors	(312)	141	0	0
Increase in creditors	78	160	0	0
Net cash from operations	(1,098)	(1,504)	(1,622)	(884)
Cashflow from investing				
Property plant & equipment purchases	(23)	(72)	(25)	(25)
Taxation	39	190	50	50
Returns on investments and servicing of finance	57	2	2	1
Acquisitions	880	0	0	0
Net cash from investing activities	952	121	27	26
Cashflow from financing activities				
Net issue of ordinary shares	1,665	2,695	0	0
Net cash from financing	1,665	2,695	0	0
Net increase (decrease) in cashflow	1,519	1,311	(1,595)	(859)
Opening cash equivalents	0	1,519	2,830	1,235
Closing cash equivalents	1,519	2,830	1,235	377

Source: Objective Capital

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