RNS Number : 5130I
Fusion Antibodies PLC
05 December 2022

Prior to publication, the information contained within this announcement was deemed by the Company to constitute inside information for the purposes of Article 7 under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). With the publication of this announcement, this information is now considered to be in the public domain.

5 December2022

Fusion Antibodies plc
("**Fusion**" **or the "Company**")

Half year Report

Fusion Antibodies plc (AIM: FAB), an Early Discovery Contract Research Organisation ("CRO") specialising in pre-clinical antibody discovery, engineering and supply for both therapeutic drug and diagnostic applications, announces its unaudited interim results for the six months ended 30 September 2022 ("H1 FY2023") and provides an update on R&D projects as well as the development of an Integrated Therapeutic Antibody Services offering.

Operational highlights

- New approach introduced for selling combined services: Integrated Therapeutic Antibody Services
- Appointment of Adrian Kinkaid as CEO in August 2022
- Continued successful progress in development of the OptiMAL^{TM} library
- Small number of projects delayed by clients as they seek further investment

Financial highlights

- Revenues of £1.9 million (H1 FY2022: £2.4 million)
- Expenditure on R&D increased by 7% to £0.45 million (H1 FY2022: £0.42 million)
- Loss of £1.1 million (H1 FY2022: £0.6 million loss)
- Cash position at 30 September 2022 was £1.2 million (31 March 2022: £2.0 million)

Commenting on the interim results, Adrian Kinkaid, CEO of Fusion Antibodies plc, said:
"*We are re-positioning the Company's service offering to best serve our clients in therapeutic antibody drug discovery. Following the restructuring of our commercial team and once again attending in-person conferences this is the right time to re-align our services with client needs. By integrating our current Discovery, Engineering and Supply services into one integrated end-to-end service we aim to enhance the client journey with the development of high performing antibodies to their targets. The integrated approach has been trialed with an existing client with exceptionally good results and will be augmented by the new OptiMAL^{TM} mammalian display technology in due course. While this has*

been a challenging period, the Board believes that we can deliver the H2 performance necessary to continue to build shareholder value in the Company."

Fusion will host a presentation on the results open to all investors via the Investor Meet Company platform at 10.00am on Friday, 9 December 2022, delivered by Dr Adrian Kinkaid, CEO and James Fair, CFO. The Company is committed to providing an opportunity for all existing and potential investors to hear directly from management on its results whilst additionally providing an update on the business and current trading.
Investors can sign up to Investor Meet Company for free and add to meet Fusion Antibodies plc via the following link: https://www.investormeetcompany.com/fusion-antibodies-plc/register-investor

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About Fusion Antibodies plc

Fusion is a Belfast-based Collaborative Research Organisation ("CRO") company, listed on AIM, providing an integrated end-to-end range of antibody engineering services for the development of antibodies for both therapeutic drug and diagnostic applications.

Fusion provides a broad range of services in antibody generation, development, characterisation, optimisation, and small-scale production. These services include antigen expression, purification and sequencing, antibody humanisation using Fusion's proprietary CDRx^{TM} platform and cell line development, producing antibody generating stable cell lines optimised for use downstream by the customer to produce material for clinical trials. Since 2012, the Company has successfully sequenced and expressed over 250 antibodies and successfully completed over 200 humanisation projects for its international customer base, which has included eight of the top 10 global pharmaceutical companies by revenue.

At every stage, our client's vision is central to how we work in combining the latest technological advances with cutting edge science. In this work our world-class humanization and antibody optimization platforms harness the power of natural somatic hypermutation (SHM) to ensure the best molecule goes to the clinic. Fusion Antibodies' growth strategy is based on enabling Pharma and Biotech companies get to the clinic more effectively, using molecules with optimized therapeutic profile and enhanced potential for successful development and approval and, ultimately, on speeding up the drug discovery and development process. The announced Integrated Therapeutic Antibody Services ("ITA") offering will enhance the efficiency of this process by providing a continuous service offering from target nomination to stable cell line. Fusion's use of SHM to create a fully human antibody library to capture the human antibody repertoire will address a continuing market need in antibody discovery.

Fusion Antibodies' emphasis on antibody therapeutics is based on the size and growth rate in the sector, with the market valued at $135.4 billion in 2018 and forecast to surpass $300 billion by 2025, a CAGR of 14.26%. As of May 2021, there were 100 approved antibody therapies on the market and more than 570 antibody therapies in clinical development.

Operational Review

The Company has had a commercially challenging six months to 30 September 2022. In this backdrop, the Company is introducing a new integrated approach in response to client needs and to ultimately increase revenues. The focus for our R&D has continued on the OptiMAL™ library project, with investment in R&D increased by 7% over the same period in the previous year.

Revenues for the six-months ended 30 September 2022 were lower than the same period last year, due to a combination of factors. Notably a small number of valuable projects have been suspended by clients due to delayed investment into those businesses. Clients have suggested that we should expect these projects to recommence once their funding is secured. We saw a return to some face-to-face conferences and events in FY2022. However, the effect on new orders from the reduction of contact and lead generation while the Covid-19 pandemic restrictions were in place continues. Alternative measures that were implemented during the exceptional period of travel restrictions did not yield as good as results in comparison to face-to-face meetings due to the highly technical nature of the business.

Demand for our core Humanisation and RAMP™ services has continued to be strong with modest growth in revenues compared with H1 FY2022. Transient gene expression has also performed well. The geographic spread was similar to that for full year FY2022 including business through our Asian-distributors.

In April 2022 a new Head of Commercial activities joined the Company and, as previously announced, the new CEO, Adrian Kinkaid, joined in August this year. They are working together to raise the profile of the Company in our market and promote our services internationally, including Company attendance at eight specialist conferences in Europe and North America between September and December. There has also been a significant restructuring of the Company's commercial team and a curation of the customer relationship management database. We are pleased to note that customer visits to Fusion's laboratories have also recommenced in recent weeks with customers from Japan and USA as well as a team from our partner, Eurofins Discovery.

Integrated Therapeutic Antibody Service ("ITA")

At every stage, our client's vision is central to how we address their project. ITA pulls together all our current services to enhance the efficiency of this process and provide a continuous service from target discovery to a final stable cell line ready for larger scale production and is consistent with Fusion's established philosophy to "begin with the end in mind". This approach is a natural evolution of the aim to be a research partner with our customer, providing more services and with additional success milestones and royalties arising from such projects. When the OptiMAL™ platform is commercially ready it will be incorporated into the ITA.

Research and Development

Additional resources have been invested in R&D and development work on OptiMAL™, the class leading Mammalian Antibody Library, has continued throughout the period. Each stage of the programme has now been

validated and work is currently ongoing on extracting and evaluating antibodies to oncology targets. We continue to build a body of data with a view to establishing commercial relationships for further validation by the end of the financial year.

To maintain our position at the forefront of the antibody sector we take advantage of technological advances in the delivery of our existing services. This involves in-house innovation, continuing professional development of our scientific staff and periodic updating of our equipment.

Financial Review

Revenues for the six-month period ending 30 September 2022 were £1.86 million (H1 FY2022: £2.44 million). Included in the H1 FY2022 revenues was the one-off £150,000 milestone with no milestones received in H1 FY 2023. The Company continues to retain an interest of a future success milestone or royalty in 13 client projects. The revenues of £1.86 million represents a reduction from the underlying £2.3 million revenues in H1 FY2022.

The 33% gross profit percentage on underlying revenues was lower than in the same period last year due to an under-utilisation of available capacity for fee generating projects (H1 FY2022: 46%), some of the spare capacity being deployed to support the internal R&D efforts.

R&D expenditure in H1 FY2023 was £452,000, an increase of 7% over the comparable period in FY2022 reflecting the continuing investment particularly in in the OptiMAL^{TM} Library project.

SG&A expenditure of £1,419,000 was £53,000 lower than in H1 FY2022 due in part to professional fees incurred in the previous period.

Operating loss for the period resulting from the above was £1,256,000 (H1 FY2022: £650,000 loss).

Cash used in operations was £754,000 compared with £505,000 used in H1 FY2022. The H1 FY2023 operational outflow includes the £452,000 investment in R&D. The Company continues to hold elevated levels of consumable stocks to mitigate against current supply chain risks caused by both the COVID-19 pandemic and Brexit. The total outflow was £851,000 and the closing cash balance at 30 September 2022 was £1,198,000.

Key Performance Indicators

The key performance indicators (KPIs) regularly reviewed by the Board are:

KPI	**H1 2023**	H1 2022
Underlying revenue growth	**(19)%**	20%
EBITDA*	**(£1.008m)**	(£0.275m)
Cash used in operations	**(£0.754m)**	(£0.505m)

* Earnings before interest, tax, depreciation and amortisation

The investment in R&D and the impact on EBITDA is set out in Note 12 to these statements. EBITDA for the period was a loss of £1,008,000 (H1 FY2022: £275,000 loss) and adjusting for research and development expenditure shows an EBITDA loss excluding R&D of £556,000 for the period (H1 FY2022: £149,000 profit).

Outlook

In the Company's Annual Report 2022 we commented on the considerable uncertainty arising from global macro conditions. Events since that date have not eased concerns with political uncertainty and market volatility in the UK along with other global factors, although predictions are suggesting less volatility and reducing inflationary

pressures ahead. Challenges remain for our international customer base and we continue to meet these challenges and capitalise on the opportunities presented.

Based on a current assessment of the sales pipeline and as a result of greater lead generation from face-to-face meetings, the Board believe we can deliver an improved performance in H2 and continue to build value in the Company.

Statement of Directors' Responsibilities

The Directors confirm, to the best of their knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS34 'Interim Financial Reporting';
- The interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules of the of the United Kingdom's Financial Conduct Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and gives a true and fair view of the assets, liabilities, financial positions and profit for the period of the Company; and
- The interim management report includes a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, being a disclosure of related party transactions and changes therein since the previous annual report.

On behalf of the Board

Dr Simon Douglas
Non-executive Chairman

5 December 2022

Condensed Statement of Comprehensive Income

For the six months ended 30 September 2022

	Notes	**6 months to 30.09.22 Unaudited £'000**	6 months to 30.09.21 Unaudited £'000	Year to 31.03.22 Audited £'000
Revenue		**1,863**	2,441	4,799
Cost of sales		**(1,256)**	(1,240)	(2,333)
Gross profit		**607**	1,201	2,466
Other operating income	1	**8**	46	30
Administrative expenses	3	**(1,871)**	(1,896)	(3,821)
Operating loss		**(1,256)**	(649)	(1,325)

Finance income	4	**1**	1	1
Finance costs	4	**(7)**	(3)	(9)
Loss before tax		**(1,262)**	(651)	(1,333)
Income tax credit	5	**146**	67	133
Loss for the period		**(1,116)**	(584)	(1,200)
Total comprehensive expense for the period		**(1,116)**	(584)	(1,200)
		Pence	Pence	Pence
Basic loss per share	6	**(4.3)**	(2.3)	(4.6)

Condensed Statement of Financial Position

As at 30 September 2022

	Notes	**As at 30.09.22 Unaudited £'000**	As at 30.09.21 Unaudited £'000	As at 31.03.22 Audited £'000
Assets				
Non-current assets				
Intangible assets		**-**	1	-
Property, plant and equipment	7	**743**	941	633
		743	942	633
Current assets				
Inventories		**552**	562	585
Trade and other receivables		**1,212**	1,715	1,517
Current tax receivable		**277**	166	131
Cash and cash equivalents		**1,198**	1,987	2,049
		3,329	4,430	4,282
Total assets		**3,982**	5,372	4,915
Liabilities				
Current liabilities				
Trade and other payables		**1,057**	954	1,142
Borrowings	8	**83**	128	66
		1,140	1,082	1,208
Net current assets		**2,100**	3,348	3,074
Non-current liabilities				
Borrowings	8	**250**	24	3
Provisions for other liabilities and charges		**20**	20	20
Total liabilities		**1,410**	44	23

Net assets		**2,572**	4,246	3,684
Equity				
Called up share capital	12	**1,040**	1,037	1,040
Share premium reserve		**7,647**	7,611	7,647
(Accumulated losses)/retained earnings		**(6,115)**	(4,402)	(5,003)
Equity		**2,572**	4,426	3,684

Condensed Statement of Changes in Equity

For the six months ended 30 September 2022

6 months ended 30 September 2022 Unaudited	**Called up share capital £'000**	**Share premium reserve £'000**	**Accumulated losses £'000**	**Equity £'000**
At 1 April 2022	**1,040**	**7,647**	**(5,003)**	**3,684**
Loss for the period	**-**	**-**	**(1,116)**	**(1,116)**
Issue of share capital	**-**	**-**	**-**	**-**
Share options - value of employee services	**-**	**-**	**4**	**4**
Total transactions with owners, recognised directly in equity	**-**	**-**	**4**	**4**
At 30 September 2022	**1,040**	**7,647**	**(6,115)**	**2,572**

6 months ended 30 September 2021 Unaudited	Called up share capital £'000	Share premium reserve £'000	Retained earnings £'000	Equity £'000
At 1 April 2021	1,024	7,547	(3,824)	4,747
Loss for the period	-	-	(584)	(584)
Issue of share capital	13	64	-	77
Share options - value of employee services	-	-	6	6
Total transactions with owners, recognised directly in equity	13	64	6	83
At 30 September 2021	1,037	7,611	(4,402)	4,246

Year ended 30 March 2022 Audited	Called up share capital £'000	Share premium reserve £'000	(Accumulated losses)/ Retained earnings £'000	Equity £'000
At 1 April 2021	1,024	7,547	(3,824)	4,747
Loss for the year	-	-	(1,200)	(1,200)
Issue of share capital	16	100	-	116
Share options - value of employee services	-	-	21	21
Total transactions with owners, recognised directly in equity	16	100	21	137
At 31 March 2022	1,040	7,647	(5,003)	3,684

Statement of Cash Flows

For the six months ended 30 September 2022

	6 months to 30.09.22 Unaudited £'000	6 months to 30.09.21 Unaudited £'000	Year to 31.03.22 Audited £'000
Cash flows from operating activities			
Loss for the period	**(1,116)**	(584)	(1,200)
Adjustments for:			
Share based payment expense	**4**	7	21
Depreciation	**248**	373	749
Amortisation of intangible assets	**-**	1	2
Finance income	**(1)**	(1)	(1)
Finance costs	**7**	3	9
Income tax credit	**(146)**	(67)	(133)
Decrease/(increase) in inventories	**32**	(82)	(105)
Decrease/(increase) in trade and other receivables	**304**	(275)	(77)
(Decrease)/increase in trade and other payables	**(86)**	120	309
Cash used in operations	**(754)**	(505)	(426)
Income tax received	**-**	-	101
Net cash used in operating activities	**(754)**	(505)	(325)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(358)**	(191)	(258)
Finance income - interest received	**1**	1	1
Net cash used in investing activities	**(357)**	(190)	(257)
Cash flows from financing activities			
Proceeds from issue of share capital	-	77	116
Proceeds from new borrowings	323	-	-
Repayments of borrowings	**(56)**	(78)	(162)
Finance costs - interest paid	**(7)**	(3)	(9)
Net cash generated (used in)/generated from financing activities	**260**	(4)	(55)
Net decrease in cash and cash equivalents	**(851)**	(699)	(637)
Cash and cash equivalents at the beginning of the period	**2,049**	2,686	2,686
Cash and cash equivalents at the end of the period	**1,198**	1,987	2,049

Notes to the Interim Results

1 Basis of Preparation

The condensed financial statements comprise the unaudited results for the six months to 30 September 2022 and 30 September 2021 and the audited results for the year ended 31 March 2022. The financial information for the year ended 31 March 2022 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 March 2022 have been filed with the Registrar of Companies. The Independent Auditor's Report on the Annual Report and Financial Statements for 2022 was unmodified and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

The condensed financial statements for the period ended 30 September 2022 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the UK. The information in these condensed financial statements does not include all the information and disclosures made in the annual financial statements.

Going concern

At 30 September 2022 the Company had a cash balance of £1.198 million. The Directors have reviewed detailed projections for the Company. These projections are based on estimates of future performance and have been adjusted to reflect various scenarios and outcomes that could potentially impact the forecast outturn. Based on these estimates, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for 12 months from the reporting date. Accordingly, they have prepared these condensed financial statements on the going concern basis.

Accounting policies

The condensed financial statements have been prepared in a manner consistent with the accounting policies set out in the financial statements for the year ended 31 March 2022 and on the basis of the International Financial Reporting Standards (IFRS) as adopted for use in the UK that the Company expects to be applicable at 31 March 2023. IFRS are subject to amendment and interpretation by the International Accounting Standards Board (IASB).

2 Segmental information

For all the financial periods included in these condensed financial statements, all the revenues and costs relate to the single operating segment of research, development and manufacture of recombinant proteins and antibodies.

3 Administrative expenses

	6 months to 30.09.22 Unaudited £'000	6 months to 30.09.21 Unaudited £'000	Year to 31.03.22 Audited £'000
Research & development	**452**	424	699
Selling, general and administration	**1,419**	1,472	3,122
	1,871	1,896	3,821

4 Finance income and costs

Income	**6 months to 30.09.22 Unaudited £'000**	6 months to 30.09.21 Unaudited £'000	Year to 31.03.22 Audited £'000
Bank interest receivable	**1**	1	1

Cost	**6 months to 30.09.22 Unaudited £'000**	6 months to 30.09.21 Unaudited £'000	Year to 31.03.22 Audited £'000
Interest expense on other borrowings	**7**	3	9

5 Income tax credit

	6 months to 30.09.22 Unaudited £'000	6 months to 30.09.21 Unaudited £'000	Year to 31.03.22 Audited £'000
Current tax	**(146)**	(67)	(133)

6 Earnings per share

The calculation of earnings per share is based on loss after tax from continuing operations for six months to 30 September 2022 of £1,116,000 (6 months to 30 September 2021: £584,000 loss, year to 31 March 2022: £1,200,000 loss).

The weighted average number of shares used in the calculation of the basic earnings per share are as follows:

	6 months to 30.09.22 Unaudited Number	6 months to 30.09.21 Unaudited Number	Year to 31.03.22 Audited Number
Issued ordinary shares at the end of the period	**26,014,946**	25,918,280	26,014,946
Weighted average number of shares in issue during the period	**26,014,946**	25,821,959	25,945,780

Basic earnings per share is calculated by dividing the basic earnings for the period by the weighted average number of shares in issue during the period.

7 Property, plant and equipment

	Right of use assets £'000	Leasehold property £'000	Plant & machinery £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost					
At 1 April 2022	240	814	2,356	301	3,711
Additions	323	16	7	12	358

Disposals	226	-	-	-	(226)
At 30 September 2022	337	830	2,363	313	3,843
Accumulated depreciation					
At 1 April 2022	210	752	1,891	225	3,078
Disposals	(226)	-	-	-	(226)
Depreciation charged in the period	33	42	154	19	248
At 30 September 2022	17	794	2,045	244	3,100
Net book value					
At 30 September 2022	**320**	**36**	**318**	**69**	**743**
At 31 March 2022	30	62	465	76	633

8 Borrowings

	At 30 September 2022 £'000	At 30 September 2021 £'000	At 31 March 2022 £'000
At 1 April	**69**	230	230
Additions in period	**323**	-	-
Interest	**7**	3	9
Repayments	**(66)**	(81)	(170)
At period end	**333**	152	69
Amounts due in less than 1 year	**83**	128	66
Amounts due after more than 1 year	**250**	24	3
	333	152	69

Borrowings are secured by a fixed and floating charge over the whole undertaking of the Company, its property, assets and rights in favour of Northern Bank Ltd trading as Danske Bank.

9 Retirement benefits obligations

The Company operates a defined contribution scheme, the assets of which are managed separately from the Company.

10 Transactions with related parties

The Company had the following transactions with related parties during the period:

Invest Northern Ireland is a shareholder in the Company. The Company leases its premises from Invest Northern Ireland and received invoices for rent and estate services amounting to £42,000 (6 months ended 30 September 2021: £41,000, year ended 31 March 2022: £78,000). A balance of £nil (30 September 2021: £nil, 31 March 2022: £nil) was due and payable to Invest NI at the reporting date

11 Events after the reporting date

There have been no events from the reporting date to the date of approval which need to be reported.

12 Reconciliation of loss to EBITDA and EBITDA excluding R&D expenditure

	6 months to 30.09.22 Unaudited	6 months to 30.09.21 Unaudited	Year to 31.03.22 Audited

	£'000	£'000	£'000
Loss before tax	**(1,262)**	(651)	(1,333)
Finance income/expense	**6**	2	8
Operating loss	**(1,256)**	(649)	(1,325)
Depreciation and amortisation	**248**	374	751
EBITDA	**(1,008)**	(275)	(574)
Expenditure on research and development	**452**	424	699
EBITDA excluding research and development	**(556)**	149	125

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