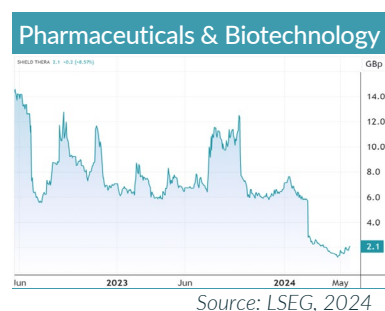




23 May 2024

**Market data**

EPIC/TKR	STX/SHIEF
Price (p)	2.05/0.018
12m high (p)	12.8/0.151
12m low (p)	1.06/0.014
Shares (m)	782.1
Mkt cap (£m)	16.0
EV (£m)	25.6
Free float*	58%
Reporting currency	USD
Country of listing	UK
Market	AIM

*As defined by AIM Rule 26

Description

Shield is a specialty pharma company with an iron replacement product, Feraccru/Accrufer, approved in the US and Europe for the treatment of iron deficiency in adults, with or without anaemia. In the US, Accrufer is co-marketed by Shield and Viatris, with the aim of rapidly expanding its market share. In Europe, Feraccru is marketed by Norgine, with Shield receiving royalties.

Company information

CEO	Greg Madison
CFO	Santosh Shanbhag
Chair	Hans Peter Hasler

+44 (0)191 511 8500

www.shieldtherapeutics.com**Key shareholders**

Directors	2.5%
AOP Orphan AG	39.8%
Hargreaves Lansdown	8.2%
Inventages	7.2%

Diary

20 June	AGM
Jul'24	2Q Accrufer Rx data
Sep'24	Interims

Analyst

Dr Martin Hall

mh@hardmanandco.com

SHIELD THERAPEUTICS

Cash management is key

Shield is a commercial-stage pharma company delivering specialty products that address patients' unmet medical needs, with an initial focus on iron deficiency (ID). Since its US launch in July 2021, Shield and its partner, Viatris, have increased physician awareness of the differentiating characteristics of Accrufer® as an oral ID drug, in order to ramp up prescriptions (Rx) and generate sales traction. Positive Rx momentum in 2022 and 2023, is expected to accelerate in 2024 and 2025 with the revised aim of becoming cashflow positive in 2H'25. This, coupled with extended financing options has obviated any requirement for a capital increase.

- **Strategy:** Shield is commercialising Accrufer alongside its co-marketing partner, Viatris, in the US. Outside the US, Shield's strategy is to out-license commercial rights to partners with appropriate expertise in target markets, which has been achieved so far in Europe, China, Republic of Korea and Canada.
- **Accrufer Rx:** Despite a lower-than-expected outcome in 4Q'23, Accrufer Rx growth was 206% in 2023 to 77,012. Even though 1Q'24 growth was just 1% due to a specific event, 2024 Rx are still expected to grow 125% to 173k. With an ever-improving net Rx price, this should equate to US sales of \$27.5m.
- **Cash position:** Gross cash at the end of 1Q'24 was significantly better than expected at \$10.4m, with cash management heavily influenced by the new CFO. This, coupled with a new \$10m accounts receivable and revised covenants on its existing debt facility, has obviated any need for an equity raise.
- **Risks:** Commercial execution remains the main risk. Rx targets for Accrufer are more realistic now, but still dependent on the absence of events beyond management's control, such as the change of PBM in Texas in 1Q'24. On current forecasts, debt peaks near \$30m before Shield becomes cash generative in 2H'25.
- **Investment summary:** Management is confident that events beyond its control that beset 4Q'23 and 1Q'24 are now history. The focus is very much on delivering more realistic Rx and sales targets for 2024 and 2025 and flexibility in marketing costs for enhanced cash management, such that Shield becomes cash generative in 2H'25 and has no requirement for a cash injection.

Financial summary and valuation

Year-end Dec (\$m)	2020	2021	2022	2023	2024E	2025E
Product sales	0.94	1.40	5.50	13.09	31.43	74.05
R&D	-3.31	-0.80	-1.32	-1.81	-1.00	-0.50
Other income	11.40	0.79	1.11	4.41	0.50	0.50
EBITDA	-0.29	-24.46	-28.55	-30.26	-19.81	-1.76
Underlying EBIT	-3.77	-27.50	-31.40	-31.33	-20.88	-2.83
Underlying PBT	-3.76	-27.50	-30.99	-31.83	-23.66	-6.06
Underlying basic EPS (p)	-3.20	-13.27	-13.49	-4.52	-3.07	-0.80
Statutory basic EPS (p)	-3.79	-13.11	-21.25	-4.59	-3.07	-0.80
Net cash/(debt)	3.97	16.12	-3.95	-6.30	-28.77	-34.85
Equity issues	0.01	40.21	2.67	28.16	0.00	0.00
P/E (x)	-	-	-	-0.4	-0.6	-2.1
EV/sales (x)	-	-	-	1.8	0.7	0.3

Source: Hardman & Co Life Sciences Research

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2023 results

From fiscal 2023, Shield changed its reporting currency to USD. Numbers for 2022 and 2023 have been audited. All years prior to 2022 have been restated by Hardman & Co.

Key features

Operational and commercial

- ▶ **Accrufer Rx:** In 2023, the number of Accrufer Rx-filled in the US was 77,012, a very respectable growth rate of 206%. This was achieved despite the identification of a third-party reporting anomaly which especially impacted 4Q'23.
- ▶ **Co-promotion:** In December 2022, Shield agreed a co-promotion deal with Viatris, ranked #22 in the US. During most of 1H'23, Shield-Viatris expanded the sales team to 100, with all training completed by the end of May. The goal of the enlarged team was to increase physician awareness and generate increased Rxs from the 12,000-13,000 healthcare providers (HCPs).
- ▶ **Non-US achievements:** Good progress was made with partners in Canada, Republic of Korea and China. In Canada, KYE Pharmaceuticals (KYE), filed for approval with Health Canada, with a positive decision anticipated soon, allowing launch later in 2024. In Korea, Korea Pharma completed a pharmacokinetic study with results due in 1H'24.

Financials

- ▶ **Sales:** Product sales increased 149% to \$13.1m (\$5.3m), of which 89% was generated in the US. The sales increase in the US was a combination of Rx growth and an increase in the net selling price to \$137 per Rx.
- ▶ **COGS:** Accounting for the payments to Viatris was always expected to see a sharp increase in COGS in 2023, but the final outcome was also impacted by inventory write-off of some early production product which had a lower shelf-life than current production goods, and some free-sample costs.
- ▶ **Other income:** Only \$0.8m of the \$5.0m up-front payment from Viatris was recorded in 2022, with the remainder recorded as other income in fiscal 2023.
- ▶ **Net cash/(debt):** Unexpected events during 4Q'23 did impact sales and the anticipated cash position, but this was offset by some flexibility in marketing costs. Overall, the gross cash was \$13.95m at year-end and further careful cash control in 1Q'24 has resulted in a better than expected \$10.4m at 31 March.

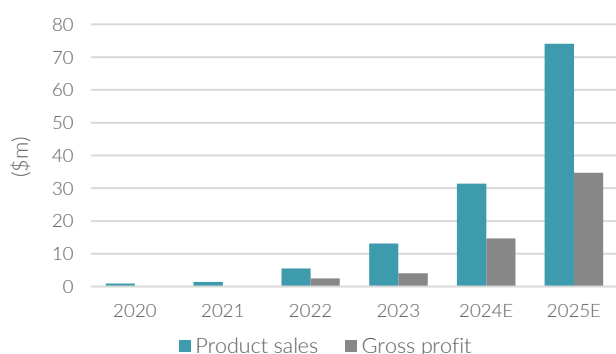
Results summary – actual vs. expectations					
Year-end Dec (\$m)	2022 actual	2023 actual	Growth CER	2023 *forecast	Delta Δ
Accrufer sales	5.25	13.09	+149%	15.27	-2.18
Other income	1.11	4.41	nm	4.30	+0.11
COGS	-3.04	-9.06	+198%	-8.08	-0.98
SG&A	-32.73	-37.08	+13%	-40.51	+3.43
Share-based costs	-0.91	-0.88	-	-0.50	-0.38
Underlying EBIT	-31.40	-31.33	-0%	-30.53	-0.80
Gross cash	3.40	13.95	-	25.66	-11.71
Debt	-7.36	-20.05	-	-20.00	-0.05
Net cash/(debt)	-3.95	-6.30	-	5.66	-11.96

*As previously published in our report dated 15 November 2023

Note: numbers may not add up exactly, due to change in reporting currency and rounding

Source: Hardman & Co Life Sciences Research

Product sales and gross profit



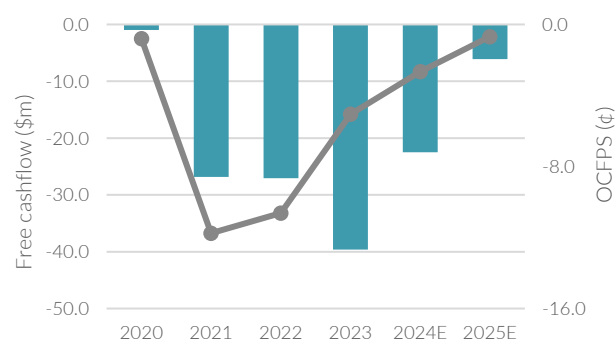
- ▶ The US is the only market in which Shield records product sales. In other countries, it partners with distributors.
- ▶ Shield is recording 100% of net sales of Accrufer in the US, with Viatri's 45% proportion being charged to COGS, reducing the gross margin from 85% to ca.45%.
- ▶ Sales milestones and royalties from commercial partners are treated as "other income", and are not included in these figures.

Total R&D investment



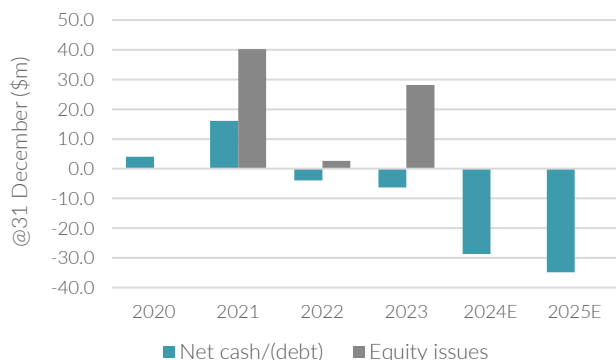
- ▶ Total R&D spend in 2023 peaked at \$4.5m. However, only 40% was recorded through the income statement; the other 55% was capitalised.
- ▶ Main investment is a paediatric study with Feraccru/Accrufer initiated at the end of 2021; this was forecast to cost \$6.5m-\$7.0m over a three-year period. Most of these costs are now behind the group, allowing R&D spend to ease off.

Free cashflow and OFCPS



- ▶ Shield has been cashflow-negative during the investment phase and commercialisation of Feraccru/Accrufer.
- ▶ 2024 cashflows will continue to be dominated by ramp-up in Accrufer marketing spend for the co-promotional programme agreed with Viatri.
- ▶ Rapid acceleration of Accrufer Rx and sales in 2024 and 2025 are expected to see Shield become cashflow positive in 2H'25 and beyond.

Net cash/(debt) and equity issues



- ▶ Gross cash at 31 December 2023 was \$13.9m, offsetting \$20.0m of debt; subsequently gross cash had modestly declined to \$10.4m at 31 March June 2024 and debt was likely to be on the increase via a \$10m account receivable financing.
- ▶ The two funding facilities coupled with careful management of its gross cash are expected to provide sufficient working capital through to cash generation in 2H'25.

Source: Company data, Hardman & Co Life Sciences Research

Accrufer overview & 1Q'24 update

Accrufer 2023 Rx

Challenging targets for expanded sales team in 2023

2023 was always going to be a transitional and challenging year. First, following a co-promotion deal with pharma major, Viatris (ranked #22 in US), the companies embarked on a quadrupling of the sales team to 100, through a staged recruitment and training programme for 80 new personnel, with the aim of having them all fully operational by 4Q'23. Early evidence of the success of this was being monitored through the QoQ Rx growth rates through the year, with the best growth outcome expected in 4Q'24. These were considered to be challenging, but achievable.

Progress was satisfactory until data imperfection picked up in 4Q'23...

For the first three quarters of 2023, everything was progressing broadly as planned. However, in a trading update issued in February 2024, the market was disappointed by news that discussions with its third-party data provider had identified a modest overstatement of the Rx numbers, which has been rectified. There was also a knock-on effect into 4Q'24, which was further impacted by a small shortfall in the sales team at Viatris.

Restatement of 2023 Accrufer Rx data

TRx (000s)	1H'23	2Q'23	3Q'23	4Q'23	2023
Old methodology	10.5	15.8	27.8	36.3	90.5
New methodology	10.1	14.9	23.3	28.6	77.0
Reduction	-4%	-6%	-16%	-11%	-15%
Old QoQ growth	+13%	+51%	+76%	+31%	+259%
Revised QoQ growth	+9%	+48%	+56%	+22%	+206%

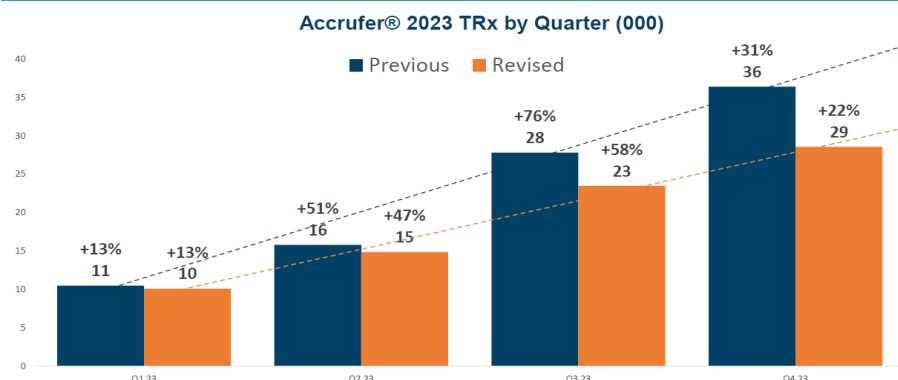
Source: Shield trading statement, Hardman & Co Life Sciences Research

...which altered Rx trajectory

The final outcome for Accrufer Rx in 2023 was of 77,012, which still represents a very substantial three-fold increase over 2022, but the 4Q'23 outcome did alter the QoQ growth trajectory.

Altered trajectory of Accrufer Rx

But Rx still grew 206% in 2023



Source: Shield presentation

4Q Rx shortfall due to several small factors

When it became clear to management that Rx growth was not progressing as expected, it moved quickly to identify and address the issues. There did not appear to be any single cause, but a number of small issues all conspiring to create the weaker performance.

These included:

- **Sales force:** As can be expected with any rapid expansion of sales force, not all the recruits deliver as expected, so there were some eliminations during the quarter. This was more the case with the Viatris team rather than with the Shield team; but overall the field force was light by about 6% in the quarter.

- **Focus:** In order to portray good early performance, new sales members often chase the short-term “low hanging fruits” rather than focusing on the long-term prescriber targets likely to write multiple repeat Rx. The newer recruits seemed to take this unfocused approach which benefited 3Q’23, but the consequence was that it could not be repeated in 4Q’23.
- **Leadership:** In recognition of the second point, management strengthened the leadership in 4Q’23 by adding a Head of Marketing and changing the sales structure, whereby sales vice-presidents now have three sales managers reporting to them rather than six as was the case prior to this change. It is expected that this will improve communications, increase the level of coaching by senior managers and generate more consistency and focus with the target healthcare professionals (HCPs). The overall aim is to have more dedicated teams and keep the finger on the pulse.

Issues addressed and signals are positive in 1Q’24

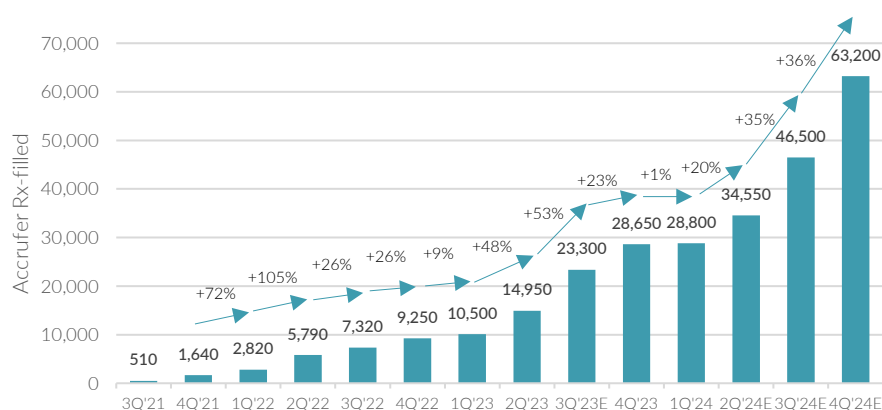
13 weeks (1Q’24) into this programme, management indicated that this more focused approach is moving performance in the right direction. Moreover, the relationship with Viartis remains strong. Management is in regular dialogue with the team responsible for Accrufer within Viartis and were in agreement on how the issues needed to be addressed.

Progress in 2023

The issues highlighted above all conspired to slightly overshadow the good progress that was made in 2023, where many things moved in the right direction albeit at a slower rate:

- Fourfold expansion in the sales team delivered and trained on schedule.
- Development of successful commercial partnership with Viartis.
- Expanded payor coverage, increased HCP prior authorisation submission rates, and revised patient access programmes.
- The above resulted in average net value per Rx expanding from \$119 in 1H’23 to \$145 in 2H’23.
- US sales increased more than threefold (3.3x) to \$11.6m.
- Strengthened commercial leadership in 4Q’23.

Accrufer QoQ Rx and growth rate



Source: Hardman & Co Life Sciences estimates

Outlook for 2024

No material change to 2024 business targets

Taking all the above points into consideration, in the trading statement issued in February 2024, management revised its business targets for the year.

Shield – goals for 2024



Source: Shield presentation

Changes to 2024 expectations

Expectations for 2024 and 2025 adjusted following 2023 outcome...

In February, following the trading statement, we revised (unpublished) our expectations for 2024 and 2025 as shown in the following table. Given that: 1) it takes more time than expected for a new salesperson to penetrate the target prescribers; 2) the Viartis sales team was depleted temporarily by ca.10% – recruitment in progress to be followed by training; 3) the time needed for the new commercial management structure to take effect; and 4) there is a seasonal hiatus in the pharma industry in January following the traditional end-of-year push; it seemed reasonable to assume that QoQ growth during 1Q'24 would be minimal.

Following this, we expected a pick-up in 2Q'24 and then a real jump in growth in 3Q'24 as the full impact of all the above features are minimised, then peaking in 4Q'24. Thereafter, the quarterly growth rate is expected to see the traditional 1Q hiatus and then decelerate through the remainder of 2025, as shown in the following table. Although growth rates have changed, it should be pointed out that there is expected to be a sequential increase in the absolute number of Rx each quarter.

Forecast quarterly Accrufer Rx growth rate

QoQ	1Q'24	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25	4Q'25
Old projections	+25%	+15%	+10%	+8%	+4%	+12%	+8%	+8%
New projections	*0%	+20%	+35%	+36%	+5%	+20%	+15%	+10%

*Actual outcome +1% (see below)

Source: Hardman & Co Life Sciences Research

... but strong Rx growth still anticipated

At that point in time (February 2024), our forecast for the number of Rx was forecast to rise 124% to 172k in 2024 and then 96% to 336k in 2025, still quite demanding, but realistic, targets.

1Q'24 outcome

For the reasons highlighted above, we were not expecting any QoQ Rx growth in 1Q'24. The actual outcome was marginally better than expected at +1% to 28,800. This was achieved despite another unexpected external influence. In the quarter, the Texas State Medicaid programme, representing 35% of Accrufer Rx in 2H'23, changed its PBM. During the transition, the process for prior approvals for Rx

1Q'24 growth better than expected despite unexpected PBM change in Texas

reimbursement became either non-existent or very inefficient, resulting in a severe loss (-28%) of Accrufer Rx. This loss was countered by strong Rx growth in other states, particularly California and New York (+29% combined). A new PBM for Texas was appointed from 1 April and the Shield-Viatris sales and marketing team will be working closely with it to recover the situation. Our forecasts are assuming that full recovery in Texas will take time. The small improvement in Rx for 1Q'24 over our forecast has a small positive effect on the total Rxs for 2024, to 173k.

2025 prospects

Hitting Rx target of 338k in 2025 would equate to sales of \$70m

For 2025, Rx growth is expected to be 96%, giving total Rx of 338k. Coupled with a continual upward improvement in the net selling price as discounts continue to erode, this would generate US sales of \$70m and would result in Shield becoming cashflow generative in 2H'25.

Observations from accounts

Cost of goods sold (COGS)

COGS was always going to rise in fiscal 2023, both in absolute terms and as a percentage of sales, due to the accounting methodology for the Viatris co-promotion activities. Essentially there are three components to COGS:

- ▶ Underlying manufacturing costs of Accrufer and Feraccru for the different markets – ca.5% of end-selling price;
- ▶ Royalty payments to original patent holder, Viatris Ltd – 5% of net sales; and
- ▶ Viatris sales contribution based on a prescribed formula – 45% of net US sales.

COGS higher due to write-off of expiring stock...

However, the increase was much higher than expected, rising 198% to \$9.06m compared with our forecast of \$7.0m, representing 69.2% (55.3%) of sales. In 2022, COGS was a little higher than usual, allowing for the manufacture and supply of free samples to be used by the new Shield-Viatris sales team to promote the product to HCPs. In 2023, while there was still an element of free sampling, but the higher level of COGS was the consequence of writing-off some of the originally manufactured product that had only a two-year shelf life. Consequently, in the absence of these one-offs, we would expect COGS to revert to ca.53% of sales.

Selling, general & administration (SG&A)

... but offset by greater flexibility in advertising spend

Similarly, given the planned expansion, training and management of the 100-person combined Shield-Viatris sales team, the underlying SG&A (excluding share-based payments) was always going to rise in fiscal 2023. However, the final outcome was far better than we had forecast (\$40.6m), rising 283% to \$37.1m. In our opinion, recognising the likely shortfall in sales in 4Q'23, we believe that the new CFO exerted greater scrutiny over the planned marketing costs and either reduced or delayed them. Companies do have reasonable flexibility about the timing of product advertisements. The savings in underlying SG&A more than offset the one-off hit taken in COGS.

Share-based payments (SBP)

While SBP are considered a fundamental cost of running the business and should be included in the calculation of profitability and shareholder returns, they are very difficult to predict and are separated out of reported SG&A into a distinct line of their own in the income statement. For forecasting purposes, they are left constant on the previous year until the interims, when a new number can be applied. In fiscal 2023, SBP increased from \$0.18m in 1H'23 to \$0.88m for the full year.

Tax

Unexpected tax charge due to transfer pricing...

The tax line in the income statement represents a combination of R&D tax credits offsetting corporate tax liabilities. Given that Shield had a total R&D spend of \$4.5m and significant operating losses (i.e. no tax liability), we were understandably expecting a positive contribution from tax. However, governments apply different tax rules in their respective jurisdictions. Consequently, when Shield transfers manufactured Accrufer into the US, it creates a local profit on which there is a tax liability. In fiscal 2023, the net tax charge was \$0.92m. In future years any liability will be netted off against lower tax charges due within the UK patent box scheme.

... should be offset in future

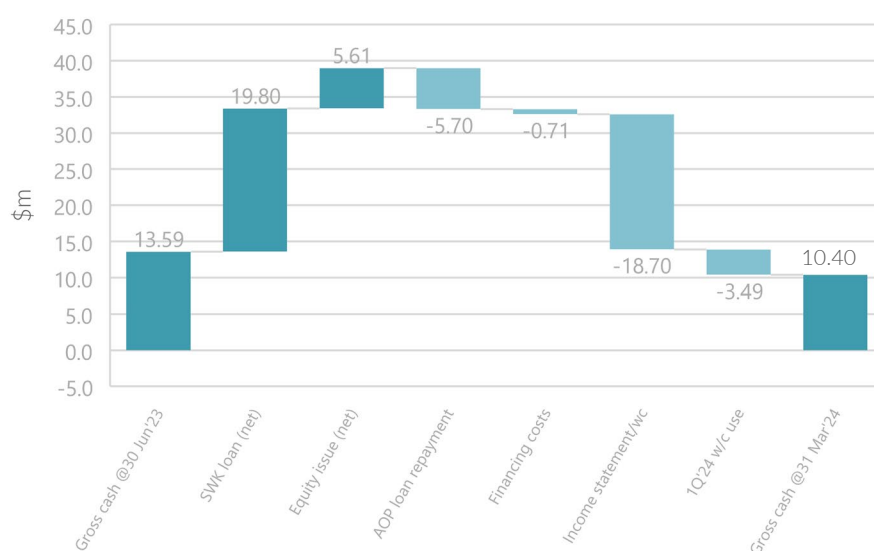
Inventories

Inventories were slightly higher than expected at \$3.2m, but key is high level (\$2.1m) of finished product which Shield can readily turn into cash.

Cash position

At the end of December 2023, the gross cash position was \$13.9m. Obviously, the lower number of Rx's which led to lower US sales affected this position. However, the new CFO has undertaken a review of all costs and the gross cash position at the end of 1Q'24 was significantly better than expected at \$10.4m. The following chart shows a reconciliation of cash over the past 15 months. All of the stated items were already known about and included in our previous forecasts. The variable item was the contribution from the income statement and changes in working capital.

Movement in cash 2H'23 through 1Q'24



Source: Hardman & Co Life Sciences estimates

Loan covenants

Covenants revised and more favourable

The \$20m term loan agreement signed with SWK Financing (SWK) in September 2023 contained minimum revenue financial covenants. The sales shortfall in 4Q'23, would have led to a breach of these covenants, but through regular dialogue with SWK, Shield announced at the same time as taking on a \$10m accounts receivable financing with Sallyport Commercial Finance (Sallyport) on 30 April 2024 that the covenants have been revised to more favourable terms, thereby avoiding any breach.

Aiming to manage cash through to breakeven in 2H'25

It is anticipated that the expected operational activities, coupled with the loan facilities with SWK and Sallyport, will provide sufficient working capital requirements through to cashflow breakeven in 2H'25. The CFO will adopt maximum flexibility in the timing of marketing spend in order to manage Shield's cash position.

Changes to forecasts

While forecasts have changed since our last substantial publication on the company¹, they were revised following the trading updates in February and April, and were summarised in Hardman & Co's *Monthly* publication for May².

¹ <https://hardmanandco.com/research/corporate-research/stx-accelerating-effectiveness-of-enlarged-sales-team/>

² <https://hardmanandco.com/research/corporate-research/the-monthly-may-2024/>

Financial forecasts

Income statement

- **Sales:** Unexpected events in 4Q'23 altered the trajectory of Accrufer Rx growth. The key goal remains to drive top-line sales, with full benefits of a complete and better managed Shield-Viatris sales team expected through 2024 and 2025.
- **COGS:** There are three components to Shields's COGS – apart from the basic product manufacturing costs, there are royalties and Viatris's 45% proportion of net sales. A normalised gross margin is around 45% of net sales.
- **SG&A:** Management intends to continue its planned investment into marketing in order to drive sales growth. However, it does have some flexibility around the timing of this investment to help with the management of its cash position.
- **R&D:** Shield is continuing to invest in the paediatric study required by the regulators. However, much of this R&D spend is capitalised.
- **Other income:** This is a combination of sales milestones from Viatris and regulatory milestones from overseas partners. An approval milestone is expected in 2024 following approval in Canada.
- **Profitability:** Shield is expected to become EBITDA positive during 2H'25. Timing of profitability is dependent on receipt of sales milestones from Viatris and regulatory milestones in China, both more likely to occur in fiscal 2026.

Income statement						
Year-end Dec (\$m)	2020	2021	2022	2023	2024E	2025E
Product sales	0.94	1.40	5.50	13.09	32.28	74.05
COGS	-1.74	-1.35	-3.04	-9.06	-17.09	-39.35
Gross profit	-0.80	0.05	2.46	4.03	15.19	34.71
Gross margin	7.2%	60.2%	44.7%	30.8%	47.1%	46.9%
SG&A (underlying)	-10.06	-26.19	-32.73	-37.09	-34.19	-36.66
Share-based costs	-0.99	-1.36	-0.91	-0.88	-0.88	-0.88
R&D	-3.31	-0.80	-1.32	-1.81	-1.00	-0.50
Other income	11.40	0.79	1.11	4.41	0.50	0.50
EBITDA	-0.29	-24.46	-28.55	-30.26	-19.30	-1.76
Depreciation	-0.03	-0.03	-0.04	-0.04	-0.04	-0.04
Amortisation	-3.45	-3.01	-2.81	-1.04	-1.04	-1.04
Underlying EBIT	-3.77	-27.50	-31.40	-31.33	-20.37	-2.83
Exceptional items	0.00	0.00	-18.11	0.00	0.00	0.00
Statutory EBIT	-3.77	-27.50	-49.51	-31.33	-20.37	-2.83
Net interest	0.00	0.01	0.41	-0.50	-2.77	-3.23
Forex gain/loss	0.27	0.38	0.00	-0.54	0.00	0.00
Underlying PBT	-3.76	-27.50	-30.99	-31.83	-23.14	-6.06
Extraordinary items	0.00	0.00	0.00	0.00	0.00	0.00
Statutory PBT	-3.50	-27.11	-49.10	-32.38	-23.14	-6.06
Tax payable/credit	-0.96	0.32	-0.46	-0.92	-0.33	-0.21
Underlying net income	-3.75	-27.13	-31.45	-32.75	-23.47	-6.27
Statutory net income	-4.45	-26.80	-49.56	-33.29	-23.47	-6.27
Ordinary 1.5p shares:						
Period-end (m)	117.62	215.89	259.39	782.06	782.06	782.06
Weighted average shares (m)	117.40	204.41	233.19	725.22	782.06	782.06
Fully diluted (m)	121.35	211.87	285.79	782.54	844.37	849.37
Underlying basic EPS (¢)	-3.20	-13.27	-13.49	-4.52	-3.00	-0.80
Statutory basic EPS (¢)	-3.79	-13.11	-21.25	-4.59	-3.00	-0.80
Underlying fully dil. EPS (¢)	-3.09	-12.80	-11.00	-4.19	-2.78	-0.74
Statutory fully dil. EPS (¢)	-3.67	-12.65	-17.34	-4.25	-2.78	-0.74
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Hardman & Co Life Sciences Research

Balance sheet

- **Net cash/(debt):** On 31 December 2023, Shield had gross cash of \$13.9m, which had reduced to \$10.9m by the end of March 2024. It has a debt facility of \$20m, which was expanded to \$30m through a new \$10m accounts receivable financing facility. Based on current forecasts, Shield is expected to have net debt of \$28.5m at the end of December 2024.
- **Loan facility:** In September 2023, Shield entered into a \$20m five-year term loan facility with SWK Holdings. This term loan is interest-only (minimum 14.25%) for eight quarters, thereafter it will be interest plus \$1m capital repayment per quarter. Certain sales covenants are attached, but these were renegotiated to more favourable terms at the time Shield took out the additional accounts receivable facility in April 2024
- **Inventories:** Inventories increased 82% to \$3.2m in fiscal 2023. Work in progress remained constant at \$1.1m, with the remainder being finished goods. This means that Shield has the flexibility to release some working capital at a suitable time point, again as part of the overall management of gross cash.
- **Working capital:** Trade debtors increased significantly in fiscal 2023, reflecting the large increase in trading volume in the US. Trade creditors also increased, although to a lesser extent than the receivables. Again this is providing cash management flexibility.

Balance sheet						
@31 Dec (\$m)	2020	2021	2022	2023	2024E	2025E
Shareholders' funds	41.33	55.31	6.54	15.03	-8.44	-14.71
Cumulated goodwill	0.00	0.00	0.00	0.00	0.00	0.00
Total equity	41.33	55.31	6.54	15.03	-8.44	-14.71
Share capital	2.41	4.36	5.37	15.01	14.16	14.16
Reserves	38.92	50.95	1.17	0.02	-22.60	-28.87
Provisions/liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Deferred tax	0.00	0.00	0.00	0.00	0.00	0.00
Long-term leases	0.00	0.00	0.00	0.20	0.00	0.00
Short-term leases	0.04	0.21	0.11	0.21	0.00	0.00
Long-term loans	0.00	0.00	7.25	19.84	30.00	35.00
Short-term debt	0.00	0.00	0.00	0.00	0.00	0.00
less: Cash	4.01	16.33	3.40	13.95	1.49	0.56
less: Deposits	0.00	0.00	0.00	0.00	0.00	0.00
less: Non-core investments	0.00	0.00	0.00	0.00	0.00	0.00
Invested capital	37.35	39.19	10.49	21.33	20.07	19.73
Fixed assets	0.04	0.41	0.24	0.67	0.84	1.05
Intangible assets	37.22	36.20	14.21	16.86	16.03	15.24
Inventories	1.88	2.20	1.76	3.20	2.72	3.27
Trade debtors	0.30	1.10	4.09	9.99	9.48	10.35
Other debtors	0.55	2.85	2.40	3.51	3.51	3.51
Tax liability/credit	0.40	0.78	0.53	0.61	-0.33	-0.21
Trade creditors	-0.54	-1.77	-2.20	-4.05	-4.55	-5.24
Other creditors	-2.50	-2.58	-10.52	-9.47	-7.62	-8.25
Debtors less creditors	-1.79	0.38	-5.71	0.59	0.48	0.17
Invested capital	37.35	39.19	10.50	21.33	20.07	19.73
Net cash/(debt)	3.97	16.12	-3.95	-6.30	-28.51	-34.44

Source: Hardman & Co Life Sciences Research

Cashflow

- **Net cash/(debt):** Our forecasts assume that Shield will fully utilise both its term loan facility and its accounts payable facility, giving debt levels around \$30m at 31 December 2024. Careful management of the timing of planned marketing spend and working capital are expected to maintain a modest gross cash position at the end of each month and at the year end, obviating the need for an equity injection.
- **Capitalised R&D:** Although the paediatric study is continuing, much of the cost is contracted and pre-paid to the contract research organisation conducting the trial. There is likely to be some additional R&D capitalised in 2024, but we expected this to be at a much lower level than in 2023.
- **Working capital:** Timing differences between supply of drugs to US wholesalers and payments have resulted in an increase in working capital, which has been offset by utilisation of the remaining tranche of the Viartis upfront payment during 2023. Increases in trade receivables were as expected for a fast growth business. As Accruer Rx's accelerate and net selling discounts reduce, Shield will have more flexibility with its working capital to manage the gross cash position.

Cashflow						
Year-end Dec (\$m)	2020	2021	2022	2023	2024E	2025E
Underlying EBIT	-3.77	-27.50	-31.40	-31.33	-20.37	-2.83
Depreciation	0.03	0.03	0.04	0.04	0.04	0.04
Amortisation	3.45	3.01	2.81	1.04	1.04	1.04
Share-based costs	0.99	1.36	0.91	0.88	0.88	0.88
Inventories	1.20	-0.35	0.22	-1.45	0.48	-0.54
Receivables	-0.34	-3.96	-2.79	-7.01	0.51	-0.87
Payables	-2.66	2.26	7.27	1.91	0.50	0.69
Change in working capital	-1.80	-2.05	4.70	-6.55	1.49	-0.73
Exceptionals/provisions	0.00	0.00	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.34	0.71	-0.81	0.17	0.00	0.00
Company op. cashflow	-0.77	-24.44	-23.75	-35.76	-16.93	-1.62
Net interest	0.00	-0.04	-0.37	-0.10	-4.19	-3.23
Finance leases	-0.07	-0.11	-0.23	-0.09	0.00	0.00
Tax paid/received	-0.11	0.56	-0.43	-0.72	0.61	-0.33
Operational cashflow	-0.94	-24.03	-24.78	-36.66	-20.51	-5.18
Capital expenditure	0.00	-0.51	-0.06	-0.24	-0.20	-0.25
Capitalised R&D	0.00	-2.32	-2.22	-2.71	-1.50	-0.50
Sale of fixed assets	0.00	0.00	0.00	0.00	0.00	0.00
Free cashflow	-0.94	-26.86	-27.06	-39.61	-22.21	-5.93
Dividends	0.00	0.00	0.00	0.00	0.00	0.00
Acquisitions	-0.03	-0.01	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
Other investments	0.00	0.00	0.00	0.00	0.00	0.00
Cashflow after invests.	-0.97	-26.87	-27.06	-39.61	-22.21	-5.93
Share repurchases	0.00	0.00	0.00	0.00	0.00	0.00
Equity issues	0.01	40.21	2.67	28.16	0.00	0.00
Cost of fundraise	0.00	-2.09	-0.19	-1.35	0.00	0.00
Currency effect	0.82	0.53	-2.83	0.45	0.00	0.00
Loans/cash acquired	0.00	0.37	7.34	10.00	0.00	0.00
Change in net debt	-0.15	12.15	-20.07	-2.35	-22.21	-5.93
OCFPS (p)	-0.80	-11.76	-10.63	-5.06	-2.62	-0.66
Opening net cash/(debt)	4.12	3.97	16.12	-3.95	-6.30	-28.51
Closing net cash/(debt)	3.97	16.13	-3.95	-6.30	-28.51	-34.44

Source: Hardman & Co Life Sciences Research

Valuation

Sum-of-the-parts

Taking all recent events into account, valuation drops from 31p to 17p per share

Our analysis, which pulls together the DCF models for each of the key commercial markets for Feraccru/Accrufer, has been updated following all the recent events. This has generated a revised sum-of-the-parts EV of \$181m/£135m. This is lower than previously forecast, taking into account the new debt facilities, reduction in the near-term Accrufer Rx numbers, discounts that are reducing more slowly than originally forecast and likely timing of milestone receipts. Consequently, our NPV per share has reduced to 17p per share.

Sum-of-the-parts valuation

	NPV (l.c.)	NPV (GBP)	NPV per share
NPV of Accrufer in US	\$122m	£99m	13p
NPV of Feraccru royalty stream in Europe	€25m	£21m	3p
Risk-adjusted NPV of China royalty stream	\$32m	£24m	3p
Enterprise value	\$195m	£144m	18p
Net cash/(debt)	-\$13m	-£10m	-1p
Group valuation	\$181m	£135m	17p

Source: Hardman & Co Life Sciences Research

Market needs visibility of progress to rerating the shares

Given that the shares are currently trading at only 2.0p per share, the market still believes that there is considerable commercial risk and debate about covenants and cash, despite management's strong assertion that no equity issue is needed on current projections. A clear indication that the Texas PBM situation is recovering, coupled with further benefits of the enlarged sales team in each sequential quarter should give the market more confidence to rerate the shares.

Comparator valuations

Covis acquired AMAG for \$647m in November 2020, and CSL bid CHF11.1bn for Vifor in December 2021

There are no directly comparable UK peers – so we continue to observe some global competitors for completeness. In addition, we have been highlighting the need of the pharma majors for M&A activity to bolster R&D pipelines and commercial portfolios. Iron replacement therapy is no exception. Covis (private company) paid an EV of \$647m in November 2020 for AMAG (EV/sales: 2.4x), and CSL bought Vifor for CHF11.1bn in December 2021 (EV/sales: 9.3x). In the event that Accrufer targets are met in the next three years, the stance of Viatrix would become very interesting, in our opinion, especially if the Shield valuation is slow to recover.

Comparative valuation

Company	*Vifor Pharma VIFN	*AMAG (now Covis) AMAG	Akebia Therapeutics AKBA	Shield Therapeutics STX
Ticker				
Local currency	CHF	\$	\$	£
Share price	173.0	13.8	1.15	0.020
Shares in issue (m)	65.0	36.7	209.6	782.1
Market cap (l.c., m)	11,245.0	505.0	241.0	25.3
Mkt cap (£m)	8,875.3	397.4	189.7	15.6
Cash	994.5	168.9	42.0	9.9
Debt	-603.6	-311.2	-37.8	-19.8
EV (l.c., m)	10,854.1	647.3	236.9	33.0
EV (£m)	8,566.8	509.4	186.4	26.0
EV relative to Shield	329.5	19.6	7.2	-

Share prices and currencies taken at close of business on 21 May 2024

*Based on shares in issue at date of completion of acquisition

Source: Hardman & Co Life Sciences Research

Company matters

Registration

Incorporated in the UK with company registration number 09761509.

Registered office:

Northern Design Centre
 Baltic Business Quarter
 Gateshead Quays
 Newcastle
 NE8 3DF

+44 (0)191 511 8500

www.shieldtherapeutics.com

Board of Directors

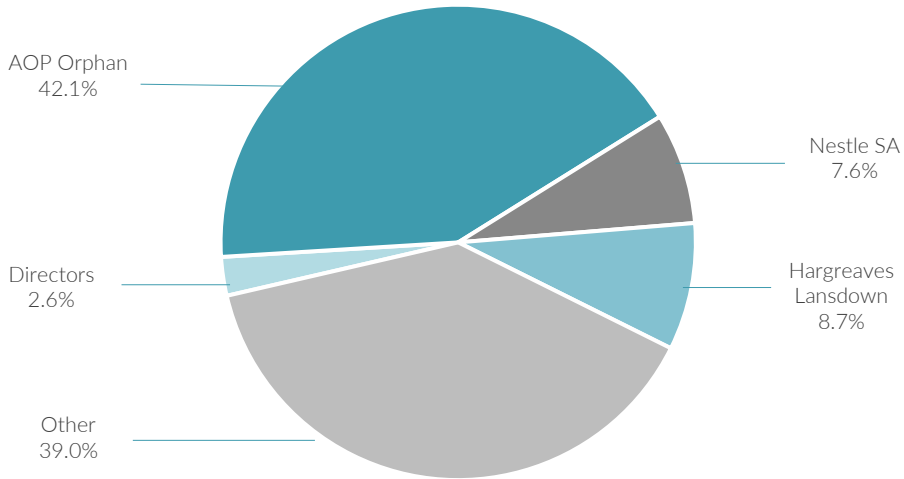
Board of Directors				
Position	Name	Nominations	Remuneration	Audit
Chair	Hans Peter Hasler	C	M	M
Chief Executive Officer	Greg Madison			
Non-Executive Director	Fabiana Lacerca-Allen			M
Non-Executive Director	Peter Llewellyn-Davies	M		C
Non-Executive Director	Anders Lundstrom		C	
Non-Executive Director	Christian Schweiger	M		
Chief Financial Officer*	Santosh Shanbhag			

M = member, C = chair
 *Non-board PDMR appointment
 Source: Company reports

Share capital

On 20 May 2024, there were 782,056,367 Ordinary shares in issue. In addition, there are 57.32m options outstanding.

Share register



Source: Hardman & Co Life Sciences Research

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