

HUTCHMED

Advancing innovation and increasing core business focus

Update

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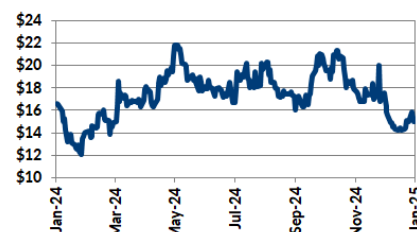
HUTCHMED has secured divestment proceeds to advance its innovative pipeline, including its newly disclosed proprietary next-generation antibody-targeted therapy conjugate (ATTC) platform, through monetising a 45% equity interest in a non-core JV (joint venture). This divestment sharpens the focus onto HUTCHMED's core business and will enable investment into the early-stage ATTC platform. Cash proceeds of c \$608m provide additional financial flexibility as HUTCHMED executes on its goal of sustainable profitability from FY25 onwards. Funds will be directed towards progressing the Oncology/Immunology R&D pipeline – including ATTC assets – and supporting commercialisation of new and existing products in China. Ahead of deal close in Q125 our HUTCHMED valuation remains \$5.94bn/£4.95bn/HK\$46.31bn, equivalent to \$34.07/ADS and 568p/HK\$53.14 per share.

Year-end: December 31	2022	2023	2024E	2025E
Revenues (\$m)	426.4	838.0	608.8	621.2
Adj. PBT (\$m)	(410.4)	58.3	(40.9)	(35.3)
Net Income (\$m)	(360.8)	100.8	3.0	10.4
Earnings per ADS (\$)	(2.13)	0.59	0.02	0.06
Cash (\$m)	631.0	886.3	776.1	773.4
Adj. EBITDA (\$m)	(349.3)	73.9	(20.3)	(3.4)

Source: Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees, \$ refers to USD unless otherwise specified

- Non-core divestment raises cash of c \$608m** HUTCHMED will divest a 45% equity stake in Shanghai Hutchison Pharmaceuticals Ltd (SHPL), a non-core 50:50 JV with Shanghai Pharma Holding, in two linked transactions with Chinese PE fund GP Health Service Capital (acquiring a 35% stake for c \$473m) and JV partner Shanghai Pharma (a 10% stake for c \$135m, increasing its holding to 60%). Subject to shareholder and regulatory approvals, the transactions should close by end-Q125 and represent an attractive valuation of c 15x 2024 PE.
- Funding to demonstrate proof of concept for ATTC assets** Proceeds will help fund R&D, including novel ATTC programmes which combine an antibody with a targeted therapy but overcome some limitations of antibody-drug conjugates (ADCs). The ATTC platform leverages HUTCHMED's knowledge of oncogenic drivers and expertise in discovering and developing highly targeted small molecules. Preclinical data, to be released later in 2025, indicates high potency and synergistic effects. The first ATTC candidates will enter Phase I in H225.
- Upcoming China follow-on launches and global filings** In China, Elunate is now conditionally approved in combination with PD-1 inhibitor sintilimab in 2L endometrial cancer, with NDAs accepted for Orpathys in combination with Tagrisso in 2L MET-amplified NSCLC post-EGFRi therapy, and tazemetostat in 3L follicular lymphoma. However, the approval decision for sovleplenib in ≥2L ITP is delayed due to additional stability testing. Ex-China, FDA filing for savolitinib in Tagrisso-refractory NSCLC by partner AstraZeneca is anticipated in H125.
- Valuation of \$34.07/ADS or 568p/HK\$53.14 per share** We maintain our HUTCHMED valuation and will update our financial model following the closing of the SHPL divestment by end-Q125 and FY24 results due to report in March.

Price (US ADS)	\$15.03
(UK share)	249p
(HK share)	HK\$23.75
Market Cap	\$2.69bn
	£2.18bn
	HK\$20.70bn
Enterprise Value	\$1.89bn
	£1.53bn
	HK\$14.47bn
Shares in issue (ADS)	174.3m
(shares)	871.6m
12 month range	\$11.93-\$21.92
	190.4p-353.0p
	HK\$19.00-35.90
Free float	61.8%
Exchanges	NASDAQ
	AIM
	SEHK
Sector	Healthcare
Company codes	HCM
	HCM.L
	0013.HK
Corporate client	Yes



Company description

HUTCHMED is a Hong Kong headquartered biopharma focused on discovering, developing and commercialising innovative targeted therapeutics and immunotherapies to treat cancer and autoimmune diseases. It has a diverse pipeline of first-in-class/best-in-class selective oral TKIs in development for the China and global markets.

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HUTCHMED: further financial flexibility

HUTCHMED continues to execute on its strategy of achieving sustainable profitability from FY25, through commercial delivery and near-term value creation from the most advanced in-house pipeline assets. Cash proceeds from divestment of non-core operations provides further financial flexibility for its innovative pipeline, including HUTCHMED's newly disclosed next-generation antibody-targeted therapy conjugate (ATTC) platform. Commercial traction in China is building for first wave products and partner Takeda has launched the first global HUTCHMED product. Key pipeline assets are progressing, with multiple near-term clinical and regulatory catalysts for new indications, new markets, and new products. In our view, HUTCHMED is a unique biopharma opportunity with a broad pipeline of largely de-risked late-stage assets, global ambitions supported by large pharma partners, proven commercial execution in China yielding a growing top line, all balanced with shrewd investment. Our HUTCHMED valuation is \$5.94bn/ £4.95bn/ HK\$46.31bn, equivalent to \$34.07/ADS or 568p/HK\$53.14 per share.

On track to become self-sustaining, with a solid pipeline of novel programmes

HUTCHMED enters 2025 having recently achieved several important milestones, paving the way for several new China launches in the coming months for key assets fruquintinib (Elunate) and savolitinib (Orpathys), as well as tazemetostat (3L follicular lymphoma). However, the anticipated approval decision for sovepleinib in $\geq 2L$ ITP (idiopathic thrombocytopenia) is subject to a delay due to additional stability testing required to address a manufacturing issue. Exhibit 1 outlines the potential upcoming launches, and their timing.

Exhibit 1: HUTCHMED's path to sustainability



Source: HUTCHMED

First-wave products gain traction as new indications and markets are added

Recent events for fruquintinib include its conditional approval in China in 2L EMC (endometrial cancer, in combination with PD-1 checkpoint inhibitor sintilimab, Tyvyt), plus the triggering of milestones from Takeda on Fruzaqla launches and reimbursement in Japan (undisclosed receipt) and Europe (\$10m). Savolitinib has also made significant progress with: (1) acceptance of the China NDA with Priority Review for the Orpathys and Tagrisso (osimertinib) combination in 2L MET-amplified non-small cell lung cancer (NSCLC) after disease progression on EGFR

Revenue trajectory supports our expectation of sustained profitability being achievable

inhibitor therapy and, (2) ex-China, the global registration-intent [SAVANNAH](#) study of Orpathys plus Tagrisso in 2/3L NSCLC read out positively with FDA filing by partner AstraZeneca anticipated in the near future.

These late-stage programmes, coupled to already launched products/indications, will all contribute to HUTCHMED's goal of achieving sustainable profitability from FY25. Our forecasts suggest HUTCHMED will generate revenues at the upper end of guided FY24 Oncology/Immunology consolidated revenues of \$300m to \$400m resulting in a small profit for FY24. Note that our FY24e revenue forecast does not include milestone income for fruquintinib approvals/launches in Europe or Japan. FY24 prelims are expected in March.

Divestment proceeds augment balance sheet...

Realisation of value inherent in non-core SHPL boosts already strong balance sheet

Takeda milestones triggered in late-2024 provided a boost to HUTCHMED's already solid financial funding position (end-H124 cash and equivalents of \$802m); however, these were dwarfed by divestment proceeds of c \$608m (RMB 4.478bn) in cash from HUTCHMED's sale of a 45% stake in its non-core joint venture Shanghai Hutchison Pharmaceuticals Ltd (SHPL).

A shrewd investment that has paid significant dividends

SHPL is a 50:50 JV between HUTCHMED and Shanghai Pharma Holding set up to manufacture, sell, and distribute own-brand prescription (Rx) medicines in China. Its portfolio primarily includes traditional Chinese medicines for cardiovascular diseases. SHPL revenue is not consolidated in HUTCHMED accounts; for FY23, consolidated net income attributable to HUTCHMED was \$47.4m. Since SHPL's inception in 2001, HUTCHMED has received c \$370m in cumulative dividends. Following the close of the divestment, HUTCHMED will retain 5% equity interest.

Timing is right, adding more flexibility for progressing the emerging research programmes

The rationale for this transaction is multifarious: it sharpens HUTCHMED's focus onto its core business in line with its strategy outlined in November 2022 ([November 2022 Lighthouse](#)); it allows the value within SHPL to be monetised; and most importantly, the cash proceeds provide flexibility to advance the Oncology/Immunology pipeline. Notably, focused investment will now also be directed into HUTCHMED's proprietary antibody-targeted therapy conjugate (ATTC) platform, with first ATTC candidates expected to enter the clinic in H225.

Exhibit 2: SHPL divestment transaction details

Shanghai Hutchison Pharmaceuticals Limited ("SHPL") ownership	50% owned by HUTCHMED 50% owned by Shanghai Pharmaceuticals Holding Co. Ltd ("SPH") - No existing relationship with GP Health Service Capital ("GPHS")	Expected Timeline - Jan 2025: Extraordinary General Meeting (EGM) Circular issued - Feb 2025: EGM vote - By end of Q1 2025: Closing
Structure of 45% divestment	35% to be acquired by GPHS, with right to designate up to 10% to a 3rd party - SPH to acquire 10%, for a total ownership of 60% at Closing	
Proceeds	- RMB3,483 million (~US\$473m) in cash from GPHS - RMB995 million (~US\$135m) in cash from SPH	
Disposal gain	~US\$477m before taxation	
3-Year Transition	- HUTCHMED proposes General Manager of SHPL - Guarantees to GPHS a minimum net profit (~5% growth)[1]	
Closing Conditions	- Approval of the transactions by HUTCHMED's shareholders - Regulatory approvals for the transactions obtained by the relevant parties - Simultaneous closing	
Extraordinary General Meeting	- An EGM will be convened for approval – a Circular will be issued with details - EGM expected to be held on or around February 2025	

Source: HUTCHMED Note: All considerations in Renminbi (RMB), US dollar (\$) figures based on \$1:RMB7.36 FX rate. Transaction subject to all conditions under the Agreement being satisfied, including but not limited to review, audit, EGM and Circular; [1] Capped at RMB696m (c\$95m)

Deal is expected to close by end-Q125

The divestment (Exhibit 2) consists of two cash transactions structured so that GP Health Service Capital (GP HSC), a China-based private equity fund management company, will acquire a 35% stake in SHPL from HUTCHMED for c \$473m, with Shanghai Pharma acquiring a 10% stake for c \$135m (increasing its holding in SHPL to 60% on closing). Subject to review and audit, HUTCHMED's gain on disposal is expected to be in the region of \$477m pre-tax. Shareholder approval of the transactions will be sought in an EGM scheduled for February and, assuming grant of shareholder and regulatory approvals, the deal should close by end-Q125. We intend to update our financial model following the deal close and further clarity on the associated tax liability and on the treatment of any deferred recognition/consideration in connection with the three-year transition period (during which HUTCHMED will guarantee a minimum net profit growth of SHPL of at least c 5% annually to GP HSC, subject to a \$95m cap).

...allowing ATTC portfolio to progress into the clinic

ATTC is a newly disclosed platform that could offer sizeable clinical benefits

A specific use of divestment proceeds is to progress the antibody-targeted therapy conjugate (ATTC) programmes towards and into clinical studies. ATTCs are a novel class of therapeutic, which incorporate a dual mechanism of action by combining antibodies with targeted therapeutics (or potentially with immunotherapy- or chemotherapy-based frontline standards of care). Conceptually they are similar to traditional cytotoxin-based antibody-drug conjugates (ADCs), but with several differences that confer important benefits (Exhibit 3). These benefits include:

- better efficacy – via synergistic effects of the antibody and small molecule inhibitor payload with selection of the combination designed to maximise this; potential to overcome chemotherapy resistance mechanisms;
- improved safety – highly targeted thus reduce on-target/off-tumour and off-target toxicities; avoid cytotoxin-related toxicities associated with ADCs; with potential for long-term administration; and
- pharmacokinetics – the ATTC format negates the need for oral bioavailability, and can also be used to deliver high molecular weight payloads (such as proton pump inhibitors, [PROTACs](#), etc).

Exhibit 3: Traditional ADCs vs HUTCHMED ATTCs

	 Traditional Antibody-Drug Conjugates (ADCs)	 HUTCHMED Antibody Targeted-Therapy Conjugates (ATTCs)
How it works	• Cytotoxin payload • Target rapidly dividing cells (mostly cancer cells)	• Target proteins required for cancer growth • Synergistic combination effect with antibody • Ability to combine with IO/chemo-based frontline SOC or other target therapy • Overcome chemo resistance • Can be dosed long term
Side effects	Antibody based toxicities Cytotoxin-related key toxicities ^[1] • Hematological toxicity • Hepatotoxicity • Gastrointestinal toxicity • Neurotoxicity, ocular toxicity • Interstitial lung disease	Antibody based toxicities Targeted therapy (TT) payload based • Low on-target and off-tumor toxicity • Low compound base toxicity such as liver, QT, etc • Non-genotoxic, low myelotox, amenable for long term use
Limitation	Resistance to chemotherapy, not specific	Resistance to target therapy?
Predictive biomarker / Sensitive population	No/Not clear Patients with genetic drivers do worse	Clear Patients with genetic drivers should benefit most

Source: HUTCHMED

ATTC builds on existing in-house oncology expertise, with a novel biologics twist

The ATTC platform is underpinned by HUTCHMED's knowledge of oncogenic drivers of disease and expertise in small molecule targeted therapies, having discovered and developed an extensive pipeline of highly selective assets with limited off-target activity, and combination therapy potential, over the past two decades. ATTCs provide a further opportunity to leverage this and develop highly optimised biologics that can target specific proteins required for tumour growth (unlike ADCs) and deliver various modalities of payload.

Preclinical data suggests high potency, great selectivity, and limited toxicity

HUTCHMED has indicated that preclinical data show that ATTCs are highly potent. Full data are likely to be shared at a future scientific conference, with further detail on the ATTC platform and pipeline to be disclosed at a 2025 R&D event. Preclinical work has shown that single administration of an ATTC results in robust anti-tumour activity and durable responses in both *in vitro* and *in vivo* models, including in ADC-resistant models. This anti-tumour activity is also synergistic, inducing a stronger effect than that from separate administration of the individual antibody or targeted therapy components.

First ATTC programme could be in clinic by H225, with several more to follow

Two ATTC candidates are currently in IND-enabling studies, with HUTCHMED aiming to start Phase I trials in H225. Management has stated that the clinical ATTC pipeline could potentially comprise five or six assets within the next 18 months. Cash from the SHPL divestment will accelerate the development of the ATTC platform and pipeline, for both China and global markets. In common with HUTCHMED's broader strategy for addressing international markets with development and/or commercialisation partners, business development activity will be central to plans for ATTCs. ATTC business development is likely to be multi-faceted, potentially covering one or more aspects of each ATTC molecule (novel antibodies, linkers, payloads), or broader development and manufacturing. However, the key step for the ATTC platform technology will be demonstrating clinical proof of concept.

Exhibit 4: Summary of financials

Year-end: December 31	\$'000s	2021	2022	2023	2024E	2025E
INCOME STATEMENT						
Revenues		356,128	426,409	837,999	608,829	621,241
Cost of goods sold		(258,234)	(311,103)	(384,447)	(366,040)	(364,747)
Gross Profit		97,894	115,306	453,552	242,790	256,494
R&D expenses		(299,086)	(386,893)	(302,001)	(199,691)	(191,748)
Selling expenses		(37,827)	(43,933)	(53,392)	(60,767)	(67,448)
G&A expenses		(89,298)	(92,173)	(79,784)	(65,423)	(67,386)
Other revenue/expenses		0	0	0	0	0
Operating Profit		(328,317)	(407,693)	18,375	(83,092)	(70,088)
EBITDA		(321,127)	(399,029)	26,582	(70,407)	(56,065)
Interest income/expense		1,484	8,947	35,386	37,178	29,809
Other income/expense		(10,217)	(11,676)	4,547	5,000	5,000
Profit Before Taxes		(215,740)	(410,422)	58,308	(40,914)	(35,279)
Adj. PBT		(337,050)	(410,422)	58,308	(40,914)	(35,279)
Current tax income		(11,918)	283	(4,509)	(5,939)	(6,653)
Equity in earnings of equity investees, net of tax		60,617	49,753	47,295	50,118	52,624
Net Income		(167,041)	(360,386)	101,094	3,265	10,692
Minority interests		(27,607)	(449)	(314)	(283)	(254)
Net income attributable to equityholders		(194,648)	(360,835)	100,780	2,983	10,438
EPS (\$)		(0.25)	(0.43)	0.12	0.00	0.01
Earnings per ADS (\$)		(1.23)	(2.13)	0.59	0.02	0.06
DPS (\$)		0.00	0.00	0.00	0.00	0.00
Average no. of shares (m)		792.7	847.1	849.7	854.2	854.4
<i>Gross margin</i>		27%	27%	54%	40%	41%
<i>EBITDA margin</i>		N/A	N/A	3%	N/A	N/A
<i>Underlying operating margin</i>		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Current assets		1,212,076	839,888	1,096,839	1,014,664	1,024,911
Cash and cash equivalents		377,542	313,278	283,589	177,562	174,916
Short-term investments		634,158	317,718	602,747	598,500	598,500
Accounts receivable		83,580	97,988	116,894	150,122	153,183
Inventories		35,755	56,690	50,258	45,128	54,962
Other current assets		81,041	54,214	43,351	43,351	43,351
Non-current assets		160,585	189,557	182,934	199,944	201,900
Property, plant & equipment		41,275	75,947	99,727	111,063	107,040
Intangible assets		3,543	3,222	3,085	3,064	3,064
Investments in equity investees		76,479	73,777	48,411	54,106	60,085
Other non-current assets		39,288	36,611	31,711	31,711	31,711
Current liabilities		(311,658)	(353,903)	(403,027)	(374,664)	(377,645)
Short-term debt		(26,905)	0	(31,155)	(26,468)	(26,468)
Accounts payable		(41,177)	(71,115)	(36,327)	(35,228)	(43,719)
Other current liabilities		(243,576)	(282,788)	(335,545)	(312,968)	(307,458)
Non-current liabilities		(21,489)	(38,672)	(133,359)	(101,882)	(71,804)
Long-term debt		0	(18,104)	(48,189)	(55,632)	(54,036)
Other non-current liabilities		(21,489)	(20,568)	(85,170)	(46,250)	(17,768)
Equity		1,039,514	636,870	743,387	738,062	777,362
CASH FLOW STATEMENTS						
Operating cash flow		(204,223)	(268,599)	219,258	(43,572)	16,121
Net income		(167,041)	(360,386)	101,094	3,265	10,692
Non-cash adj & other operating cash flow		(69,640)	33,083	47,018	39,930	42,631
Change in working capital		32,458	58,704	71,146	(86,768)	(37,203)
Investing cash flow		(306,320)	296,588	(291,136)	(25,448)	(15,979)
CAPEX		(16,401)	(36,664)	(32,612)	(24,000)	(10,000)
Change in short term investments		(434,612)	316,440	(285,029)	4,247	0
Investment in an equity investee		144,693	16,812	29,495	(5,695)	(5,979)
Financing cash flow		650,028	(82,763)	48,660	(37,007)	(2,788)
Proceeds from equity		660,501	(47,993)	(3,977)	(35,836)	(0)
Increase in loans		0	(9,170)	61,705	2,756	(1,596)
Other financing cash flow		(10,473)	(25,600)	(9,068)	(3,927)	(1,192)
Net increase in cash		139,485	(54,774)	(23,218)	(106,027)	(2,646)
Exchange rate effects		2,427	(9,490)	(6,471)	0	0
Cash at start of year		235,630	377,542	313,278	283,589	177,562
Cash at end of year		377,542	313,278	283,589	177,562	174,916
Net cash at end of year		984,795	612,892	806,992	693,962	692,912

Source: Company, Trinity Delta Note: Adjusted numbers excludes exceptionals

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