

Alpha small company research

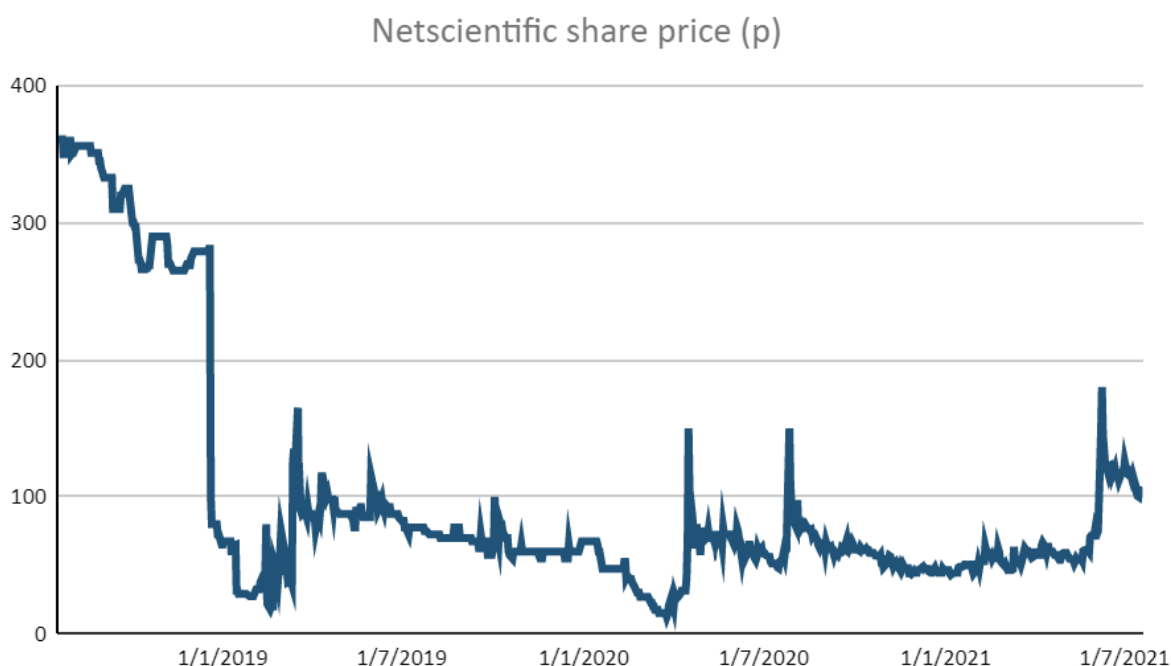
20 July 2021

Back life sciences tech with a hefty margin of safety

This cash-rich technology investment company is on a 43 per cent discount to the read through valuation of its portfolio

Simon Thompson's view:

'Investors willing to back the new management team at **Netscientific (Aim: NSCI)** have a hefty margin of safety built into the current entry price. Net cash and a Nasdaq-listed stake backs up over 75 per cent of the company's current market capitalisation. That effectively leaves £21m of other assets in the price for a bargain basement £5.6m, despite the likelihood of valuation uplifts as portfolio companies move into profit. The directors are actively targeting liquidity events, which provides another likely catalyst for a narrowing of the unwarranted share price discount to the underlying value of Netscientific's portfolio.'



Source: FactSet

Bull points

1. New experienced board and executive management team.
2. Proactive approach to realise value for shareholders.
3. EMV Capital acquisition adds complementary expertise.
4. Increased portfolio scale reduces investment concentration risk.
5. Valuable carried interests in the extended portfolio.
6. Portfolio offers inflexion points for value creation over next 12 to 24 months.
7. Recent placing at 130p raises £7m net proceeds.
8. Cash and stake in PDS Biotechnology covers 77 per cent of market capitalisation.
9. Losses to narrow markedly as portfolio companies commercialise technology.
10. Board costs slashed.

Bear points

1. Chequered history since IPO.
2. Operating losses predicted until 2022.
3. Clinical development risk.

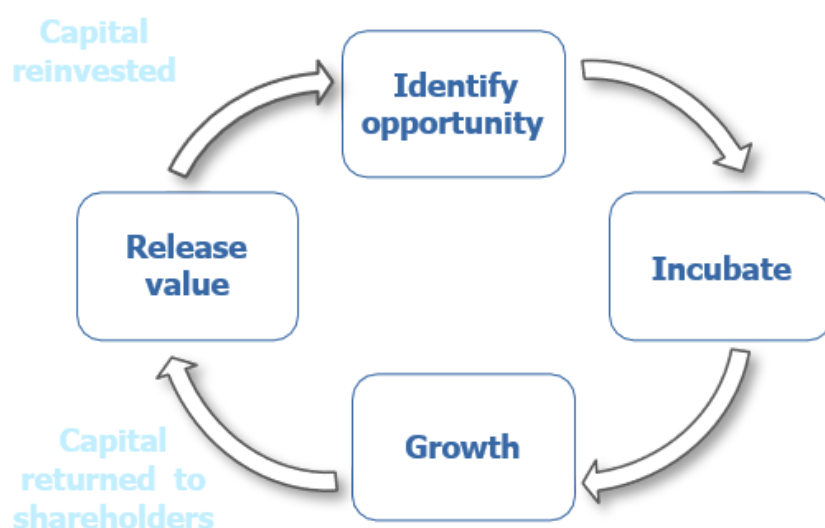
Key information

Netscientific (NSCI)	
Ticker	NSCI
Current price	101p
Target price	163p
Market cap	£21.2m
52 week high	210p
52 week low	41p
Pro forma net cash	£7m – adjusted for £7m net proceeds from June 2021 placing, \$0.5m investment in PDS, and first half operating costs.
Shares in issue	21m
Financial year end	31 December
Next event	Interim results, September 2021
Website	netscientific.net

The fact that shareholders who backed the IPO of **Netscientific (NSCI)** in 2013 have lost more than 90 per cent of their capital highlights the scale of the company's underperformance under previous management who adopted a passive approach to

investing in early stage life sciences, healthcare, and technology companies. The company's cost base was also out of sync with this passive approach.

However, a boardroom clear out in the first quarter last year has brought in an experienced management team (new chairman, chief executive, and finance director) who are focused on delivering shareholder returns through proactive management of the portfolio. Their strategic review included an analysis of each portfolio company's current position, target market, commercial development options, intellectual property, risk profile, core funding needs, grants and other "soft" finance available, value inflection points, exit potential, and the actions and resources to be needed to achieve these.



NetScientific's business model is based on identifying, investing in, and helping to build game-changing companies in the life sciences and sustainability areas. It targets tangible value inflection points and release of value through partial or full exits.

In executing this new strategy, the directors have adopted a greater focus on execution, implementing more efficient procedures and controls, and leveraging where possible the company's investments with third party funding whether through equity, debt or grants, as well as corporate collaborations. The revised strategy aims to boost shareholder value by increasing the value of the company's holdings in portfolio companies, adding new revenue streams, and by targeting appropriate exits and/or liquidity events of the portfolio. In the 2020 financial year, the fair value of directly owned stakes increased by 80 per cent to £21.2m, and this sum has surged again post the financial year-end.

The new management team also concluded that Netscientific would benefit from a larger portfolio offering varying time horizons, stages of development and a wider focus than

the current healthcare portfolio. The major issue being that the company simply didn't have the requisite expertise and resources, below board and chief finance officer level, to fully implement the strategy. That's why last summer's £2.3m all-share acquisition of EMV Capital, an investment services company which has interests in the industrial high-tech, energy, circular economy, smart city, transportation and healthcare sectors, has proved a real game changer.

Netscientific (AIM: NSCI)				
Ord price:	101p	Market Value:	£ 21.2m	
Touch:	100-102p	12-mth high/low:	210p	41p
Dividend yield:	nil			
Net asset value*:	66p	Net cash**	£7m	
Year to	Reported net asset	Pre-tax	Earnings	Dividend
31 Dec	value (£m)	profit (£m)	per share (p)	per share (p)
2017	10.8	-4.40	-6.2	nil
2018	6.2	-4.10	-4.8	nil
2019	5.1	-3.63	-4.3	nil
2020	6.9	-2.38	-2.9	nil
2021^	12.3	-1.78	-8.2	nil
2022^	10.9	-1.44	-5.5	nil
2023^	10.9	-0.08	-1.6	nil

SETSqx

Source: Netscientific annual report, London Stock Exchange

* Net asset value and net cash both proforma at 30 June 2021 after adjusting for June 2021 placing, estimated first half 2021 estimated operating loss and follow-on US\$510,000 (£363,000) investment in PDS Biotechnology in June 2021. Includes intangible assets of £2.6m, or 12.5p a share.

^ WH Ireland NAV and EPS estimates adjusted for June 2021 placing of 5.92m shares and net proceeds of £7m.

Transformational acquisition

The business model of EMV Capital is to syndicate investments between financial and corporate investors, and for its management team to take a strong hands-on role post-investment. Monetisation is through a mixture of corporate finance fees, management and incubation services, and carried interests in the investments it has syndicated.

The complementary acquisition of a corporate finance boutique has created strong synergies that are enabling Netscientific's directors to pursue a commercial and investment strategy. This could deliver materially higher revenues and capital gains for shareholders in the coming years.

The strategy is being pursued through:

More balanced portfolio: The combined portfolio of 17 investee companies (including carried interests in eight companies – see below) provides a broader balance, across more sectors and stages of development, and a range of follow-on investment opportunities.

Targeting exit opportunities: A structured exit programme, with flexibility to exit at the right time to maximise shareholder value.

Improved executive capacity: EMV Capital's founder and managing director Dr Illian Iliev has devoted all of his expertise and time to the operations and portfolio of the enlarged group and has taken the role as Netscientific chief executive. He also has a 19 per cent shareholding in the company, so is well incentivised to deliver for all outside shareholders.

Expanded team: Enhanced team capabilities through the addition of EMV Capital's existing team of investment professionals has provided Netscientific with the capacity to originate, execute and manage a much larger portfolio.

Additional revenues: EMV Capital provides an additional source of recurring revenue and capital gain through its existing business lines.

Co-investment syndication capability: EMV Capital has access to third-party investment funding, including a network of private and institutional sources.

International network of corporate partners: Providing additional channels for growth, support and sources of co-investment.

Specialist IP skills: The EMV Capital team has greater experience in the commercialisation of IP, including patent evaluation and licensing strategy.

Specifically, EMV Capital's model is to syndicate investments between financial and corporate investors in seed, pre-Series A and Series A stages of investment. It then takes a hands-on role post-investment in these portfolio companies with a focus on venture capital-type returns. It also operates a growing Enterprise Investment Scheme (EIS) investment practice, EMVC Evergreen EIS Fund.

This discretionary portfolio makes investments into EIS Qualifying Companies in technologies driving the advancement of British industrial high-tech and its applications including robotics, artificial intelligence, machine vision, electronics, IoT and materials science. EMV Capital is the exclusive adviser to the fund which is managed by Sapphire Capital Partners. Investments are sourced from its network of investors from family offices, wealth managers and institutional and corporate venture capital funds.

As is common in the venture capital industry, EMV Capital has a carried interest arrangement with investors it has introduced into its portfolio companies. Under these arrangements, the business is entitled, on realisation of the investments, to a share of profits (or carried interest) for Capital Under Advisory (the cost to third party investors). The carried interests range between 10 per cent and 20 per cent of profits above a minimum return hurdle rate of up to 10 per cent.

To put the scale of this 'hidden' profit potential into perspective, at the time of the acquisition EMV Capital had carried interests in eight portfolio companies (see table below). Capital Under Advisory was £9.9m at the end of 2019, £12.2m in December 2020 and had increased to £15.8m by mid-March 2021.

Although it is difficult to quantify the exact value of these carried stakes, if we assume an average three times venture capital return on the £15.8m third party investment portfolio, subject to carried interests, then these interests could generate £7.5m of profits for EMV Capital. That's a chunky sum in relation to Netscientific's own market capitalisation of £22m.

Moreover, six of the eight third-party investee companies that EMV Capital has carried interests/profit shares in are already generating revenue.

In addition, Netscientific's house broker WH Ireland estimates that EMV Capital will generate revenue of £0.9m in 2021, up from £0.5m in 2020, rising to £2m in 2024 and £3.3m in 2030. It's an increasingly profitable revenue stream, given the operational leverage of its asset light business model. To put this into perspective, EMV Capital made a profit of £0.16m on revenue of £0.57m in 2019, the year prior to the acquisition.

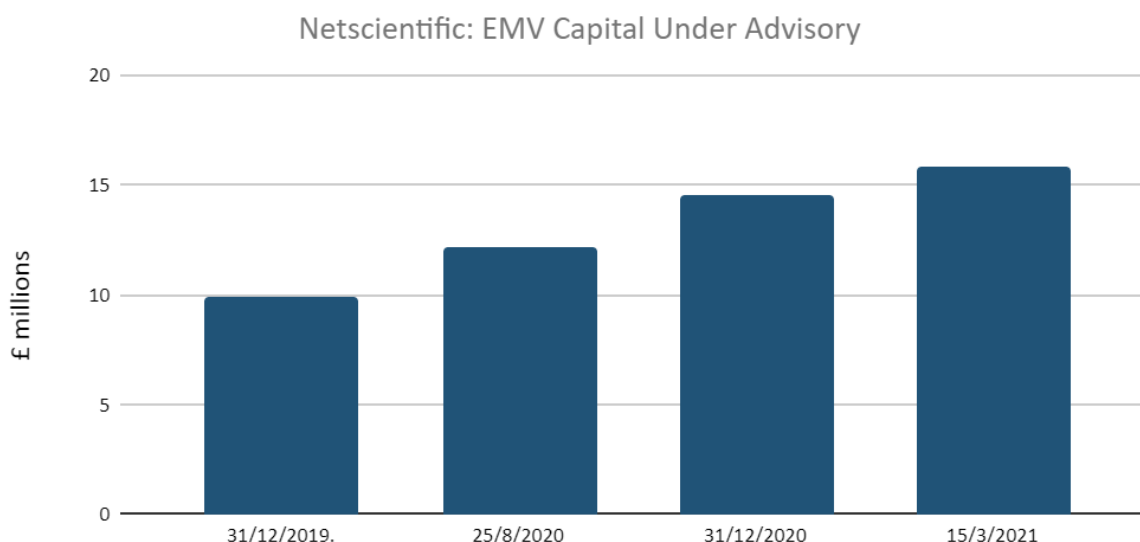
EMV Capital's carried interests and profit shares

Portfolio company	Sector and description	Carried interest arrangements (CIA) or profits share (PS) with investors	Capital Under Advisory
Sofant Technologies Ltd	Semiconductors-Satellite and 5G wireless communications	17-20% (CIA)	£2.3m
Q-Bot Limited	Building automation-Robotics & artificial intelligence	10-20% (CIA)	£2.3m
SageTech Medical Equipment Limited	Chemistry & medical technology-Halocarbon capture	20% (CIA)	£1.1m
Nanotech Industrial Solutions, Inc.	Material science and chemistry	15% (CIA)	£0.7m
PointGrab, Inc.	Building automation-Robotics & AI	15% (CIA)	£3.6m
Wanda Health, Inc.	AI & medical technology-Digital health platform	20% (PS)	£1.3m
Vortex Biosciences, Inc.	Medical technology-Oncology diagnostics	20% (PS)	£2.4m
Insight Photonic Solutions, Inc.	Semiconductors-Akinetic Swept Source Laser	20% (PS)	Warrants for £0.9m

Source: Netscientific 2020 Annual Report. Capital Under Advisory valued at £14.6m at 31 December 2020, and the company has subsequently stated it has increased to £15.8m by mid-March 2021.

Mergers & acquisition activity has been rampant this year, so the business should be doing well. Netscientific's £2.3m investment in EMV Capital was valued by the directors at £3.5m, or 50 per cent more than the acquisition price, in the 2020 accounts. However, this looks far too conservative given the surge increase in the value of Capital Under Advisory since the acquisition was made and the progress being made by the third-party portfolio companies (see Appendix for breakdown of portfolio carried interests).

Netscientific's forthcoming interim results are likely to make for a profitable read in light of the progress being made by its own directly held investments.



Source: Netscientific corporate presentation, April 2021

Portfolio that's now delivering

Netscientific's net asset value of £6.9m at 21 December 2020, adjusted to £13.9m (66p a share) following the £7m net proceeds from the post financial year-end placing at 130p a share, implies the shares are trading on a 52 per cent premium to reported book value. However, the balance sheet valuations are ultra conservative as highlighted by the gap between the £6.2m combined value embedded in the 2020 annual accounts for the group's equity interests in nine companies and their £21.2m fair valuations.

Moreover, there have been some significant uplifts since the 2020 accounts were published which are simply not being reflected in Netscientific's current share price.

Netscientific investment portfolio

Subsidiaries	Description	Fully diluted Interest %	Value in financial statements	Fair Value of stake	
				31-Dec-20	31-Dec-19
EMV Capital Ltd	Venture Capital Investment Company	100.0% Equity	£2.2m	£3.5m	-

ProAxis Ltd	Medical diagnostics - Early stage commercial	95.0% Equity	£0.5m	£3.5m	£2.0m
Glycotest, Inc.	Liver cancer diagnostics - Late stage clinical	51.5% Equity	£0.5m	£11.0m	£8.0m
Sub Total			£3.2m	£18.0m	£10.0m

Portfolio	Description	Fully diluted Interest %	Value in financial statements	Fair Value of stake	
				31-Dec-20	31-Dec-19
PDS Biotech	Immuno-oncology (NASDAQ quoted) - Early stage clinical	5.7% Equity	£2.0m	£2.0m	£1.1m
CytoVale, Inc	Medical biomarker diagnostics - Late stage clinical	1.0% Equity	£0.4m	£0.4m	£0.4m
Epibone, Inc	Regenerative medicine - Late stage clinical	0.8% Equity	£0.3m	£0.3m	£0.3m
G - Tech Medical, Inc	Wearable medical diagnostics - Early stage clinical	3.8% Equity	£0.3m	£0.4m	-
Longevity Biotech, Inc	Therapeutics - Early stage clinical	\$250k Convertible loan note	-	-	-
QuantalX Neuroscience	Medical diagnostics of the brain - Late stage clinical	0.4% Equity	-	£0.1m	-
Sub Total			£3.0m	£3.2m	£1.8m

Source: Netscientific 2020 annual report

PDS Biotechnology

Equity held: 4.7 per cent

Cost: £4.1m

Market value: £9.4m

Fair valuation in 2020 accounts: £2m

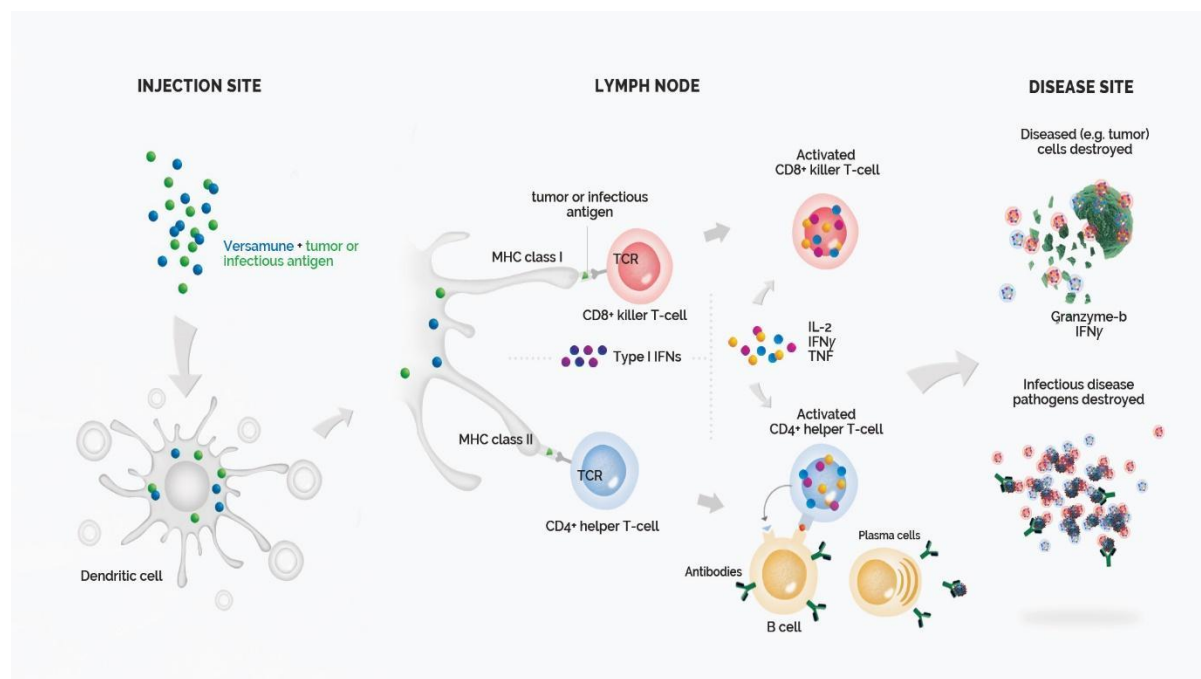
Netscientific's new board made some prescient investments last year, investing £1m at two investment raises at \$1.35 a share (February) and \$2.75 a share (August) in **PDS Biotechnology Corporation** (Nasdaq: PDSB – \$9.59), a \$264m market capitalisation clinical-stage immunotherapy company. It has a pipeline of cancer immunotherapies and infectious disease vaccines based on its proprietary Versamune® T-cell activating technology platform (pdsbiotech.com).

Netscientific also invested \$0.51m in PDS's latest fundraise last month, a \$52m placing at \$8.50 a share. This means the company currently has a holding of 1.338m shares which has an open market value of \$12.8m (£9.4m), or more than double Netscientific's £4.1m cost. The stake was held in the 2020 accounts at £2m, so there will be a massive valuation uplift in the forthcoming interim accounts (at the 30 June 2021 half year end the stake was worth \$16.8m, or £12.2m).

PDS' progress is being closely monitored by Netscientific's chief executive Dr Ilian Iliev who joined the board in April 2021, in line with the new strategy of adopting a more proactive approach to portfolio companies. It's easy to see why other investors have latched onto PDS, too.

Technology: Versamune® (see diagram below) is a proprietary T-cell activating platform technology designed to train the immune system to better protect and fight against disease. Versamune® delivers both a protective disease-specific antibody and powerful curative killer T-cell response with minimal side effects and is engineered for simplicity and ease of administration.

Versamune® platform comprises specific positively charged lipids with custom-designed antigens for different types of disease which stimulate the activation of immunologic pathways associated with increased disease-fighting activity.



Cancer therapeutics pipeline: PDS has three Phase II oncology clinical trials in progress for cancer therapeutics, with preliminary efficacy data anticipated later this year, and safety and immunogenicity data projected to be announced in 2021/2022. Early clinical data and preclinical data suggest potentially superior efficacy, safety and versatility of the platform. It has six products in pre-clinical development of which three are looking at infectious diseases.

Infectious disease vaccines pipeline: PDS is progressing two Versamune®-based infectious disease vaccines, one for SARS-Covid-19, and one for universal influenza. In March 2021, the PDS-led consortium (consisting of Farmacore Biotechnology and Blanver Farmoquímica), received a commitment of up to \$60m from the Secretary for Research and Scientific Training of the Ministry of Science, Technology and Commercialisation of Brazil to support Phase I to III clinical development and manufacturing scale-up of the SARS-Covid-19-based vaccine.

Pending results, the vaccine could be commercially available in Brazil in 2023. The initial target market is Latin America, representing 650m people, or three times the population of Brazil.

Use of latest fundraise: It will support the continued development of PDS' lead HPV oncology candidate (PDS0101) in the three Phase II trials currently underway. In partnership with drug giant **Merck (NYSE:MRK)**, PDS is advancing a combination of

PDS0101 and KEYTRUDA® to a Phase II study in first line treatment of recurrent or metastatic head and neck cancer. In separate partnership with the National Cancer Institute (NCI), and The University of Texas MD Anderson Cancer Center, PDS is conducting additional Phase II studies in advanced HPV associated cancers and advanced localized cervical cancer respectively. PDS also plans to advance two additional pipeline products into human clinical testing in 2022.

PDS Biotech aims to advance and expand its proprietary pipeline programs independently or in collaboration with renowned research institutions and pharmaceutical companies.



Balance of portfolio in the price for free

The point is that the combined £19.9m value (96p a share) of Netscientific's net cash pile (around £7m post the June placing and after factoring in operating costs in the first half of 2021 and £363,000 follow-on investment in PDS); the 4.72 per cent listed-stake in PDS (worth £9.4m); and £3.5m valuation of EMV Capital covers almost all of the group's market capitalisation of £21.2m (101p a share).

So, even if you only value EMV Capital's carried interests at £2.5m, or a third of the potential £7.5m windfall valuation, then it means that all of Netscientific's other portfolio investments – combined fair value of £15.7m (75p a share) in the 2020 accounts – are in the price for free. That's anomalous considering the progress being made by the two

largest investee companies, Glycotest and ProAxis, which account for £14.5m of the £15.7m (75p a share) fair value of Netscientific's seven remaining holdings.

Glycotest

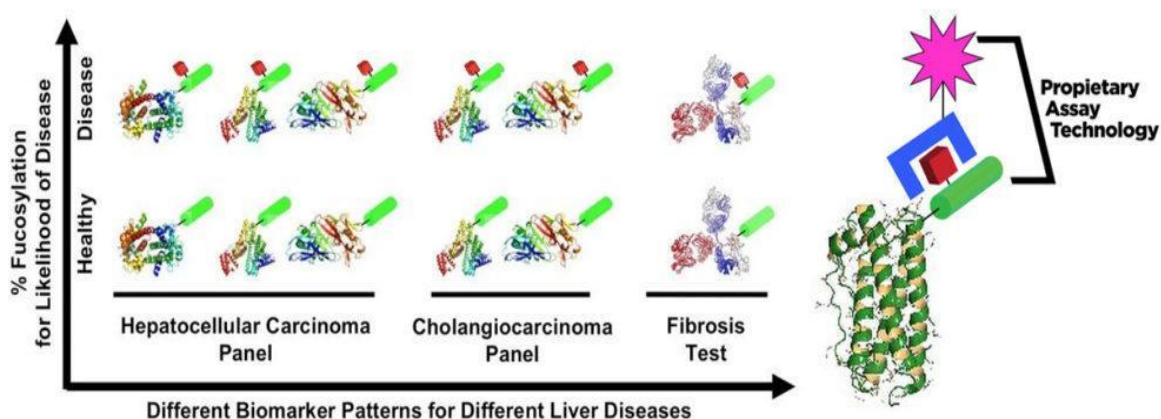
Equity held: 65.6 per cent stake (fully diluted being 51.5 per cent)

Cost: £3.9m

Fair valuation in 2020 accounts: £11m

Glycotest (glycotest.com) is a US-based diagnostics company that is commercialising tests for patients with life-threatening liver diseases, targeted at early-stage diagnosis to reduce mortality and increase survival for this large and growing patient population. The company's Hepatocellular carcinoma (HCC) panel employs unique non-invasive blood tests based on proprietary serum biomarkers, biomarker panels and algorithms, and assay technology that exploit novel sugar-based disease signal chemistry. HCC is the fifth most prevalent form of cancer worldwide and the third leading cause of cancer death.

Glycotest's technology targets targeted at early stage diagnosis of liver cancer and fibrosis-cirrhosis



In 2012, NetScientific backed Glycotest based on technology that originated at the Blumberg Institute and Drexel University College of Medicine in Philadelphia. In 2019, NetScientific negotiated a US\$10m investment and licensing deal with Shanghai Fosun Pharmaceutical Co, whereby Fosun Pharma received a minority stake in Glycotest and the rights to develop and commercialise the HCC Panel in China, for which Glycotest will receive a royalty and retain rights to markets outside China.

Netscientific has invested £3.9m to date in the company and the stake had a fair valuation of £11m in the 2020 accounts based on Shanghai Fosun's funding round, up from £8m at the end of 2019. That's massively above the £0.5m carrying value of the subsidiary in

Netscientific's balance sheet. The uplift looks fully warranted, and there are reasons why it could still be conservative.

Following the new board's review of Glycotest's plans and budgets – Dr Ilian Iliev joined its board as a director and Netscientific's non-executive director Professor Stephen Smith became chairman – cost savings of \$1m were identified, a significant sum in relation to Glycotest's reported loss of £1.57m in 2020. A detailed project management plan was also established for the HCC Panel clinical validation study, capturing detailed enrolment data for each of the participating major medical centers. Despite some Covid disruptions, the clinical trials have progressed well with completion of the enrolment only marginally delayed. The results are due imminently and should be a major value inflection point.

As part of developing its strategy and preparing the financial projections, Glycotest's management commissioned an initial professional reimbursement study, which confirmed the estimated test price was realistic and at the lower end of the reimbursement range. There has been encouraging progress on the "route to market", plans and evaluation of the most appropriate laboratory facilities for growth in the US. There is a huge end market to address.

Liver cancers and fibrosis–cirrhosis market

Liver cancer is a growing global problem. Analysts estimate up to 36m US patients and 938m patients globally could benefit from regular testing for liver cancers and fibrosis–cirrhosis. Another 100m US patients and 1.5bn patients globally are at risk, because they have fatty liver disease that can transition to non-alcoholic steatohepatitis (NASH), the lynchpin between steatosis and cirrhosis in the spectrum of non-alcoholic fatty liver disorders. The use of the tests is expected to significantly improve care and treatment for patients at risk due to viral hepatitis (chronic hepatitis B and C infections) as well as the rapidly growing population with non-viral hepatitis due to obesity and metabolic disease.

In the US market, Glycotest plans to offer the hepatocellular carcinoma surveillance test (HCC Panel) as a clinical testing service, a market estimated to be worth \$800m. In China, where serious liver disease, especially hepatitis B, results in more than 500,000 deaths annually, there is a potential multi-billion-dollar market opportunity for Glycotest's products that are being developed in partnership with Fosun Pharma. Beyond the US and China, Glycotest is evaluating options to harness the best return on the investment.

Analysts at WH Ireland believe that Glycotest could commence commercial sales in 2023, pencilling in revenue of \$3.9m, doubling to \$8m in 2024 (excluding Chinese royalties of \$0.2m and \$0.4m, respectively), generating an operating profit margin of 15 and 20 per cent. Their models suggest the company could be making sales of \$47m and

operating profit of \$14m by 2030. On this basis, an equity valuation of £21.4m, or almost double Netscientific's fair valuation of £11m, doesn't seem unreasonable. It's almost the same as the group's current market capitalisation of £21.2m. That's worth considering given the 65.6 per cent stake in Glycotest is effectively in the price for free.

ProAxis

Equity held: 100 per cent (95 per cent fully diluted)

Cost: £2.6m

Fair valuation in 2020 accounts: £3.5m

ProAxis (proaxis.com) is a health and life sciences company with a focus on respiratory diagnostics. Spun out of Queen's University Belfast, it has a growing base of clients in the pharma industry. Despite some delays and disruption caused by the Covid-19 pandemic, ProAxis made significant advances last year with accelerated investments in its planned growth programmes.

Netscientific previously owned 56.5 per cent of ProAxis but provided 100 per cent of the funding. This was a serious inhibitor on the company's progress and growth. Accordingly, in October 2020, Netscientific's new management team decided to buy out the founders and Queen's University, Belfast on advantageous terms. The agreement included the purchase of the licensed IP. By taking ownership, Netscientific has been able to implement more effective financial and commercial management, target investment, and drive commercialisation. Netscientific chairman John Clarkson is also chairman of ProAxis, and fellow director Professor Stephen Smith is also on the board.

The company's updated strategy is aimed at boosting revenue, profitability and enhancing the value for shareholders. Sales growth is being targeted by expanding sales with ProAxis' current pharma client base and gaining new clients through direct sales efforts, international distributorships, and partnerships. The product portfolio is also being expanded through in-house research & development (R&D) and in-licensing diagnostics from other parties.

To deliver planned growth the company has established the necessary infrastructure, putting in place new management systems, laboratory facilities and equipment, utilising capital investments and non-dilutive grant opportunities. Several projects have progressed from research to the commercial development of products for sale.

ProAxis range of unique molecules, known as ProteaseTags®, have the capacity to rapidly and selectively bind active proteases, including biomarkers of diagnostic and prognostic value.



Targeted market

The refreshed approach comes at a time of growing global focus on diagnostics and monitoring tools for respiratory diseases, a leading cause of death and disability well before the Covid-19 pandemic.

Specifically, ProAxis uses its proprietary ProteaseTag® technology to develop laboratory-based assays for the measurement of active protease biomarkers associated with chronic respiratory diseases such as Chronic Obstructive Pulmonary Disease (COPD), cystic fibrosis and bronchiectasis. A 1,000 plus patient pan-European trial in bronchiectasis patients showed that using NEATstik® (a rapid point-of-care test, which allows the monitoring of active neutrophil elastase levels in sputum samples) enables the identification those patients at highest risk of suffering pulmonary exacerbations over the subsequent 12 months (European Respiratory Journal, 2019).

Admittedly, ProAxis has experienced delays in commercial revenue due to the impact of the Covid-19 pandemic on respiratory research and delayed clinical trials. However, the downturn in sales revenue has been balanced by grant income activity. In fact, the company won five separate grant applications last year with a total projects value of over £1m. These grant-supported projects have supported an accelerated R&D programme, enhancing the existing product portfolio and developing new revenue streams including Covid-19 response.

Analysts at WH Ireland expect ProAxis' revenues to more than treble to £0.7m in 2021, rising to £4m in 2024 and £10m in 2030. Mature operating margin of 30 per cent implies this could be a multi-million-pound profit generator in the making, and one that easily supports a £9m equity valuation and a £8.5m valuation for Netscientific's 95 per cent fully diluted stake. With last year's pre-tax loss of £0.6m on revenue of £0.2m set to reduce markedly, there is scope for further material valuation uplifts on Netscientific's £3.5m fair valuation.

Meet the management

Given the failures of Netscientific's previous management, it's hardly surprising some investors are cautious. However, the new management team has serious credentials.

Chairman **John Clarkson** is an experienced business professional and qualified accountant. Clarkson was partner in charge of the developing services consultancy division in Coopers Deloitte (now PricewaterhouseCoopers (PwC)). Subsequently, he has been an active investor in start-ups, high-tech and growing businesses, where he has been involved in strategy development, fundraising, contract negotiations, remuneration and corporate governance arrangements.

Chief executive **Dr. Ilian Iliev** is also managing director of EMV Capital. He spun EMV Capital out of EcoMachines Ventures, which he co-founded in 2013. Prior to that he co-founded and was chief executive of CambridgeIP which he built into a market and technology business intelligence provider in the UK. He is a board member at a number of Net Scientific and EMV Capital's portfolio companies, including PDS Biotechnology, Glycotest, Sofant Technologies, Pointgrab, Q-Bot, Wanda Health, and also serves as chairman at Vortex Biosciences Inc.

Chief financial officer **Stephen Crowe** has over 20 years of experience across a wide range of financial institutions from blue chip organisations such as AXA to owner managed SME's such as THB Group, and Towergate Partnership. A qualified chartered accountant by profession, Crowe previously had undertaken interim roles within financial services for high growth technology enabled SME's.

Non-executive director **Professor Stephen Smith** has held senior leadership roles in the NHS and academia. He was responsible for the largest merger in the NHS, the creation of the UK's first Academic Health Science Centre in 2007, leading to the creation of Imperial College Healthcare NHS Trust where Smith served as the first chief executive. He also retained his position as Dean of the Faculty of Medicine at Imperial College, London and was responsible for facilitating the commercialisation of life sciences and healthcare. During his career, Smith has spun two companies out of Cambridge – Metris Therapeutics and GNI Group. GNI was established as a start up in Japan in 2001 and achieved an IPO on the Tokyo Stock Exchange six years later.

Non-executive director **Clive Sparrow** joined the NetScientific board in 2020. He had a successful career as a management consultant with two professional services firms: Grant Thornton and PwC. For three years, he worked as a director in HM Treasury, driving the successful delivery of Europe's largest change programme. He has also set up and led two profitable start-up companies.

The new board's remuneration was £361,000 in 2020, significantly less than the £659,000 paid to the previous management in 2019. Four of the directors have share options (exercise prices between 45.5p and 65p) over a total of 857,240 shares, and Iliev holds 3.6m shares, or 19 per cent of the share capital, so growth in the share price offers the greatest financial reward.

Major shareholders

The shares are tightly held with the top six shareholders controlling 60 per cent of the 21m shares in issue. The share price can be volatile, too, as highlighted by the near trebling of the share price from 75p to 210p last month, driven mainly by positive news flow and major re-rating of PDS. Netscientific's share price has halved in value since then on profit taking, so expect above average volatility.

That said, the shares are readily tradeable with bargains as large as 25,000 shares going through the market in the past week.

Netscientific significant shareholders

Shareholder	Percentage (%)
Futura Messis Group (note 1)	19.1%
AB Group, A Beckman SSAS, Lawson Beckman Charitable Trust (see note 1)	16.4%
Canaccord Genuity	11.0%
Hargreaves Lansdown Asset Management	5.6%
Zedra Trust	4.5%
Schroders	3.6%
Total	60.1%

Source: Netscientific 2020 annual report and accounts, London Stock Exchange regulatory filings post June 2021 placing, FactSet ownership data (13 July 2021).

Note 1: Shareholding of Dr Iljan Iliev is held by Futura Messis Group. Dr Iliev and Melvin Lawson, together with certain persons connected with them, are presumed to be acting in concert, as defined by the City Code on Takeovers and Mergers. Lawson is the sole shareholder and a director of AB Group, is a trustee and beneficiary of A Beckman SSAS and is a trustee of Lawson Beckman Charitable Trust, which collectively hold 16.4 per cent of the ordinary shares.

Background to June 2021 placing and financial projections

A key focus of Netscientific's new management approach is to exploit the global opportunities for UK investee companies' expansion into international markets, US companies' expansion into the UK and Europe, and improve access to capital and enhance exit potential. Ultimately, this means realising profits, returns, exits and liquidity events at the right time for shareholders.

The £7m net proceeds from last month's placing will be used for investment in portfolio companies and provide investment in future opportunities. They will also leverage NetScientific's funding to anchor investment syndication based on a capital light business model; expand and increase revenue streams, markets and value of portfolio companies; and for working capital purposes. Funds are being used judiciously as last month's follow-on investment in PDS highlights.

Although Netscientific has been loss-making to date, as revenue ramps up from two loss-making majority owned subsidiaries, ProAxis and Glycotest, both operating cash requirements and losses will narrow markedly. These businesses were responsible for the majority (£2.2m) of Netscientific's pre-tax loss of £2.38m in 2020.

WH Ireland expects Netscientific to report a tiny operating loss in 2023, before moving to profitability in 2024. Net cash flow trajectories follow a similar path. The inflexion point could arrive even sooner in the event of a liquidity event to realise some of the hidden value in both ProAxis and Glycotest.

Operating losses set to narrow markedly as portfolio company revenue rises

12 months to 31 Dec	2019	2020	2021E	2022E	2023E	2024E
Revenue	£0.7m	£0.4m	£1.7m	£3.1m	£7.5m	£12.1m
Operating profit	-£3.6m	-£2.3m	-£1.8m	-£1.4m	-£0.1m	£1.6m

...with operating cash flow improving

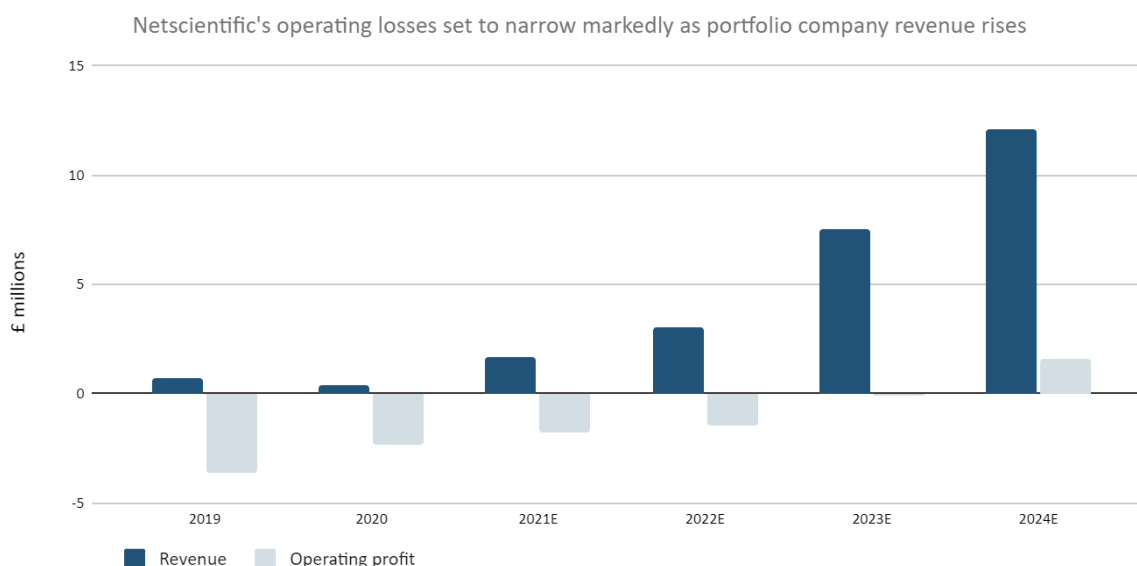
Operating cash flow (post capital expenditure)	£0.3m	-£3.9m	-£2.2m	-£1.8m	-£0.3m	£1.5m
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... and net cash stabilising without the need for further equity funding

Net cash	£3.2m	£1.3m	£6.2m	£4.3m	£4.0m	£5.5m
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Source: WH Ireland forecasts (25 May 2021) and Netscientific annual reports

Narrowing losses and substantial valuation gains should act as catalysts for the share price to align itself more accurately with sum-of-the-parts valuations.



Source: WH Ireland forecasts (25 May 2021) and Netscientific annual reports

Sum-of-the-parts valuations and target price

The best approach to value Netscientific is on a sum-of-the-parts (SOTP) basis as follows:

Proforma net cash: £7m

PDS listed shareholding: £9.4m

EMV Capital: £3.5m (2020 fair valuation in accounts)

EMV Capital carried interests: £2.5m (applying 66 per cent discount to potential £7.5m windfall gain)

Glycotest: £11m (2020 fair valuation in accounts)

ProAxis: £3.5m based (2020 fair valuation in accounts)

Other investee companies: £1.2m

On this basis, I arrive at a SOTP valuation of £38.1m (182p a share), marginally higher than WH Ireland's 162p valuation. Given that the PDS shareholding is Nasdaq-listed then effectively 75 per cent of the current share price is backed by cash and liquid assets. So, even if you apply a 20 per cent liquidity discount to Netscientific's remaining investments, as seems appropriate to do so, I still see fair value at 162p, in line with WH Ireland's own estimate.

There is a realistic chance of achieving that fair value target over a 12-month time frame, and perhaps even sooner given that September's interim results should highlight significant valuation uplifts for all five of the group's largest investments. **Buy.**

Risk assessment

Investment/funding risk. Many of the group's investments are early-stage companies, so require further funding. If milestones are missed and budgets are overspent, then there is the risk that companies could run out of cash before hitting their inflexion points. In the absence of external funding, Netscientific could need to raise further funding from its own shareholders to support portfolio companies.

Clinical development risk. Potential clinical trials for subsidiaries' products may not begin on time, may not be completed on schedule, or at all, or may not be sufficient for necessary clearances or approvals. This could delay or prevent commercialisation of such products. The group tries to mitigate this risk by monitoring progress, working with senior management of investee companies, drawing on experts to input on clinical trials design, understanding the operational details of budgets, and proactively monitoring the progress and cost of each trial.

Regulatory risk. Potential regulatory approvals and clearances may not be achieved on schedule and could delay or prevent commercialisation of such products. The group tries to mitigate this risk by working with portfolio companies to ensure adequate expertise and resources are available, seeking advice from regulatory advisors, and holding consultations with appropriate regulatory bodies at an early stage and following progress closely to measure milestones.

Intellectual property risk. The commercial success of the portfolio companies depends on their ability to obtain and retain adequate patent and other IP protection for their discoveries and for technology licensed from universities and research institutes. Licensed IP is protected by patent, trademark, copyright, as well as confidentiality procedures. These laws, procedures and restrictions provide only limited protection and any such IP rights may be challenged, invalidated, infringed or misappropriated.

The group undertakes IP due diligence, while post-investment, encourages portfolio companies to actively manage IP risks. This is done by using external patent attorneys to review patent protection, conduct a periodic review of new inventions coming out of the companies' R&D, and by careful considerations of licensing arrangements with universities, corporate partners and others.

Competition risk. There is intense global competition in the sectors Netscientific focuses on from new entrants and incumbent corporations. It is normal during due diligence to identify multiple competing approaches to the same problem in the US, EU, China and beyond. Rival products or services could potentially be more effective and/or

cost-effective than the products offered by the portfolio companies, or even if less effective, may end up getting larger investment backing – allowing them to leapfrog Netscientific's portfolio companies. It is important to try and mitigate these risks by strategic portfolio diversification to avoid overdependence on any one portfolio company; performing competitor scans; and being realistic about expectations from individual portfolio assets.

Valuation risk. Netscientific's fair valuation of its investee companies is based on fair value estimates using established International Private Equity and Venture Capital Valuation Guidelines. However, it is difficult to make reliable cash flow estimates given the investee companies are early-stage, start-up or seed companies. Where possible, Netscientific tries to use fair value estimates based on observable market data, such as recent investment by third parties, rather than based on assumptions.

Appendix

EMV Capital's portfolio companies span different levels of development. The majority are already generating commercial revenues, with several attracting corporate co-investment and corporate collaborations. Eight portfolio companies are subject to carried interests as follows:

Sofant Technologies (sofant.com) patented technology enables the passive steering of radio signals in wireless systems, using RF MEMS technology, potentially reducing power consumption by over 70 per cent. Sofant's technology has dual market applications within satellite communications and 5G network infrastructure. The company has achieved a major milestone in collaboration with an industrial partner, continues progress in a project with the European Space Agency, and has reached a key milestone with wafer-level testing indicating that the MEMS devices are highly reliable. EMV Capital deployed £1.6m amongst other internal investors in an oversubscribed fund-raise of £2.3m in July 2020. The company is pre-revenue, and is negotiating advanced purchase commitments.

Q-Bot (<https://q-bot.co>) has potential to disrupt the construction industry by providing a robotic service and digitisation platform technology. Q-Bot's first application is a semi-automated under-floor insulation service using robotic devices to enter void spaces, analyse the underfloor dimensions through machine vision, and spray expanding insulation foam to the calculated required thickness. This reduces the duration of such a project undertaken manually from over 14 days to 2 days or less, and reduces the disruption to homeowners. In 2019, French construction industry giant St.Gobain invested in Q-Bot, building on a Joint Development Agreement. Q-Bot has achieved commercial sales in the UK and France, and has completed Series A funding.

SageTech Medical Equipment (sagetechnical.com) uses patented platform technology that captures, extracts, and purifies halocarbon based gases. SageTech is disrupting the

anaesthesia industry by processing waste volatile anaesthetic agents from patient exhalation. These anaesthetics are significant greenhouse gases, which SageTech can prevent from ever reaching the atmosphere, whilst providing cost savings for hospitals through a new circular economy. SageTech's technology is undergoing advanced pilots with the NHS, and is targeting commercial deployment this year.

PointGrab (pointgrab.com) provides a smart sensing solution for smart buildings and commercial real estate technology industries with its CogniPoint platform. It applies its superior deep-learning technology to the smart buildings and ecosystems where opportunities to gather data are abundant, but real-time analytics of occupants are lacking. The company is backed by ABB Ventures and Signify (formerly Philips Lighting), and has deployments globally with many global companies such as Deloitte and leading banks. PointGrab's offering enables the workplace to adapt to Covid-19, for example by monitoring workplace density and social distancing. The company has achieved commercial sales (over 10,000 sensors globally) by focusing on growth of Software-as-a-Service offering and is looking to enter other markets in collaboration with corporate partners.

Vortex Biosciences (vortexbiosciences.com) is a San Francisco-based oncology diagnostic company that has developed a novel liquid biopsy automated instrument and microfluidic cartridge for the isolation of circulating tumour cells (CTCs) from whole blood without the need for any pre-treatment. Vortex's innovation in CTC capture technology aims to deliver diagnostic tests that improve therapeutic decisions, save lives and revolutionize cancer diagnosis. Its technology integrates cancer biology, microfluidic engineering, clinical research and the identification of cancer therapies and drug targets. The company is growing commercial sales of research use only (RUO) cartridges and is targeting collaborations to scale-up its offering through to FDA clearance towards 2023/24.

Wanda Health (wandahealth.com) is a UCLA-spin-out remote monitoring healthcare analytics and management company for primary care patients with chronic diseases. Wanda's platform reduces hospitalisation rates by collecting data from patients' homes and providing it to clinicians, highlighting the high risks and implementing any procedures to prevent those risks. Wanda has adapted its platform to enable hospitals and healthcare practitioners to monitor thousands of patients for Covid-19 infection rates and compliance. Wanda is growing commercial sales of RUO cartridges and is targeting collaborations to scale-up its offering through to FDA clearance towards 2023/24.

Insight Photonics (sweptlaser.com) has developed an Akinetic semiconductor laser for multiple applications including industrial maintenance and process monitoring for resource efficiency, Light Detection and Ranging (LiDAR), and medical imaging. Insight's first market application is within ophthalmological imaging using optical coherence tomography to scan the retina at a higher resolution than is currently available. It has attracted investments from Zeiss, a German manufacturer of optical systems and optoelectronics. Colorado-based Insight is scaling up through corporate partnerships and has achieved early sales of its core product.

Nanotech Industrial Solutions (<https://nususacorp.com>) is a New Jersey-based developer of nanomaterials for the petrochemical and applied materials industry. Its award-winning technology enables the commercial production of nanoparticles made of tungsten disulphide. When added to lubricants, the particles significantly reduce both friction and wear under conditions of extreme pressure and temperature. The company has partnerships with major corporations, including an investment by leading global chemicals specialist Evonik Industries. It is co-developing new product lines with corporate partners.

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