CONCEPTA PLC (CPT.L)

HEALTHCARE

26/10/2016

SHARE PRICE	52 WEEK LOW
19.50p	8.25p
MARKET CAP	**52 WEEK HIGH**
£21.38m	56.25p
NAV	**NET DEBT**
$1.3m	$0.036m

European partnership to lead to added value

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The development phase of the product has been completed and the company has already obtained commercialization approval in China. We expect first sales in China to be realized in 4Q16. The company will also file its product for approval to the UK regulatory agency for the marketing and commercialization of the product in the UK and in the EU as a whole. We expect regulatory approval before the UK leaves the EU.

Concepta has one commercialization agreement with a distributor in China who focuses on marketing the device to both hospitals as well as to consumers directly through online sales. The company wants to expand and collaborate with other distributors in China in order to increase its reach. We believe the company will look for a partner for the commercialization of its product in the EU. Here, the device will be sold to consumers directly through online sales.

We believe that the EU represents the most valuable market opportunity for Concepta. We think that the recently appointed and experienced CEO Mr. Henau will lead the company to break-even as soon as next year. In addition, we believe he will close a commercial partnership deal on the company's device in the EU.

This clearly is a very exciting time for Concepta. The company will soon commercialize its first set of products in China and later in the EU. Our main assumption, namely a commercialization partnership for Concepta's device in the EU, justifies our estimated fair share price of 23.85p. This represents a premium of almost 20% on top of the current share price.

COMPANY OVERVIEW

Concepta was founded by Michael Catt and Zhang Zhi Gang, each of whom has a background in women's health diagnostics, in 2013. In July 2016, Concepta acquired public shell company Frontier Resources International PLC in a reverse merger transaction and, subsequently, became an AIMlisted company. Concepta has its registered office in York and a research laboratory as well as some capacity for manual assembly of its device in Colworth, Bedfordshire. Concepta is setting up a manufacturing site in Yorkshire, using a "pick and place" machine which will automate the assembly process for high volumes. Currently, Concepta has a limited number of employees which is increasing to fill positions in line with getting ready for commercialization.

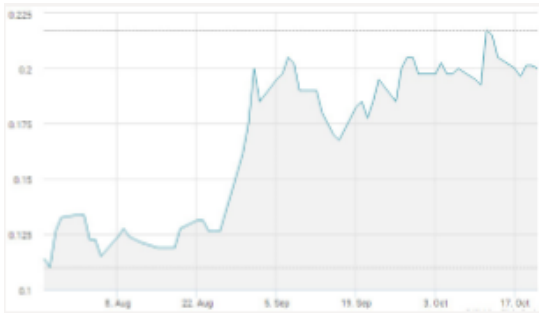
Concepta develops and commercializes a medical diagnostic device, named MyLotus, that may offer a solution for women with unexplained infertility. Currently, there is virtually no assistance for women who have been trying to get pregnant for longer than 12 months. In most countries, in vitro fertilization (IVF) is offered as a solution but only after 2 years of trying to get pregnant. Concepta's unique product offering addresses a specific area of unexplained infertility that women can check themselves. The ability to quantify personal hormone levels enables the identification of the fertile period for a large number of women, especially those whose hCG and LH levels vary from mean levels. Thus, the more accurate diagnosis that is produced by Concepta's device improves women's probability of conception.

MAJOR SHAREHOLDERS

1) **Mercia Technologies – 18.32%**
2) **Finance Yorkshire – 11.63%**
3) **Angel CoFund – 10.69%**

Shares in Issue	109.63m
Avg Volume	260,870
Primary index	AIM
EPIC	CPT.L
Next Key Announcement	Full Year Results
Sector	Healthcare

SHARE PRICE CHART



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STRATEGY

Concepta will first launch its product in China. The regulatory agency CFDA approved the product in early-2016. Final tests are currently being conducted in Chinese hospitals by Concepta's distribution partner. In China, Concepta targets both hospitals as well as consumers directly through online sales. As we will specify later on, we believe Concepta's most valuable market opportunity lies in the EU rather than in China. We view cash flow from Chinese operations mainly as income to finance operations and product development in the EU.

In the EU, Concepta targets only consumers directly through online sales. In order to take full advantage of the European market the company realizes that it will need to partner to fully realize the potential of mobile health. The Company is in a position to fully commercialise its core product range of fertility. Its technology platform lends itself to exploring personalised medicine opportunities, for which a partnership will be sought. Ideal partners should have a large foothold in the EU and must have a clear focus on the combination of the healthcare and consumer goods industries. Netherlands-based Philips is a clear example of how an ideal partner for Concepta could look like.

VALUE DRIVERS & NEWS FLOW

We will now list a number of value drivers that we view as important for the company.

First and foremost, we want to mention Mr. Erik Henau who was appointed CEO this summer. With over 35 years of experience in global sales and marketing of medical devices, including diagnostics, he is exactly the kind of person Concepta needs right now. We expect that Mr. Henau will be key in leading the company to future distribution deals in China and a commercial partnership in the EU.

This brings us to our next value driver, which is a commercial partnership in the EU. A deal with the right partner in the EU will lead to increased awareness among consumers and, more importantly, general practitioners to whom women with unexplained infertility will first turn. Concepta recognises this and mobilising key opinion leaders is also part of its own marketing efforts.

The last value driver we want to mention is product registration. The company has already obtained approval to market and commercialize its device from the Chinese authorities. Since we believe the EU is the more valuable market, approval of its device in the EU will be imperative to be able to fully exploit the device's market potential. We believe Britain will still be part of the EU by the time of UK approval. Should regulatory review be delayed, there is a risk that rollout of the product in the EU will also be delayed.

In the table below we have outlined the most important news flow we expect to happen over the next 12 months. The 3rd column gives our view on the relevance of this news flow and potential impact.

Potential share price triggers next 12 months

News Flow	Period	Impact (High/Medium/Low)
Deal with Chinese distributor & first sales	4Q16	Medium
Deals with other Chinese distributors	2017	Medium
Product registration UK & EU	2H17	High
Commercialization deal EU	end-17	High

Source: LSRI estimates

MARKET OPPORTUNITY & MARKET DEVELOPMENT

With its device, Concepta is targeting women who have not become pregnant after the first 6 months of trying to conceive. According to the company, this equals on average 0.36% of the total population in any given market. More accurately, Concepta targets 1.2mln Chinese (4mln Chinese of which 30% can afford the product) and 1.7mln Europeans. With a price of £ 200-250 per device, Concepta's market opportunity equals about £ 250mln in China and £ 350mln in the EU leading to a total of £ 600mln.
The mobile health (mHealth) industry, which includes personal diagnostics such as Concepta's device, represents a fast growing market within the pharmaceutical industry. By some estimates, the industry will grow at a high double-digit CAGR and reach USD 60bln by 2020. We believe this is a very favourable development in the sense that a high share of the market that is targeted by Concepta will accept and make use of diagnostic devices such as MyLotus. This favourable development does not, however, make Concepta's targeted market any larger.

FINANCIAL STATEMENTS

On page 7, we have outlined our estimated financial forecast for the years 2016 and 2017. Our starting points for our forecast are the pro forma balance sheet and the intended use of funds which can be found in Concepta's AIM admission document. In our preparation of the financial statements, we have assumed a market launch in China in 4Q16 which still results in a loss in 2016 (-£0.3mln) but will lead the company to break-even in 2017 (£0.0mln rounded). We expect that increasing operating efficiencies, such as Concepta's switch to an automated production facility in Yorkshire, will contribute to higher margins and a first profit in 2017. We expect operating efficiencies and margins to increase further going into 2018.

We expect the company to announce an EU commercialization partnership shortly after approval of its product in the EU, which we expect to take place in 2H17. Market launch in the EU is then scheduled for end-2017. Financial forecasts beyond 2017 reflect this European market launch and Concepta's partnership for the EU.

RISK-ADJUSTED DCF-BASED VALUATION

Preparing a valuation for a small-sized company that is at such an important stage (start of commercialization of it first and only device) is a challenging exercise and requires many assumptions. We want to notify the reader that, over time, our estimates in this chapter may require further finetuning which in turn may impact our valuation. The most important variables that we use as input for our valuation are outlined in the tables on the next page.

Even though we believe there is a sizeable market for Concepta's device in China, we also recognize the Chinese market is a fragmented market which leads to a relatively low penetration rate. We estimate this rate to be at a current 25% for China as a whole. Given that Concepta has one distribution agreement with a Chinese distributor nearby China's capital Beijing, we expect that Concepta will first and foremost focus on distributor partnerships for coverage in China's large east coast cities and surrounding areas including Shanghai and Hong Kong. Due to this focus, we estimate a penetration rate for Concepta in China as a whole at 12.5%. The upside is that the pharmaceutical market in China is growing at a fast pace. This is mainly due to an ever increasing potential customer base. We estimate an average growth rate of 12.5% per year.

Main variables for risk-adjusted valuation

	Market Size (Mln)	Penetration Rate	Market Share	Sales Growth
Concepta (CN)	£250	12.5%	80%	12.5%
Concepta (EU)	£350	100%	80%	1.0%

Source: LSRI estimates

	Top Sales (Mln)	Success Rate/ Stage	Discount Rate	Estimated Royalty	Value (Mln)
Concepta (CN)	£78	100% / approved	20%	5.5%	£4.5
Concepta (EU)	£310	90% / regul. reviews	20%	5.5%	£21.7

Source: LSRI estimates

We have a more favourable view on Concepta's chances for the EU. There are virtually no barriers to reach customers in the EU. This in turn leads us to believe that top sales in the EU will be able to reach higher levels than in China. Whereas sales growth in China will come from more customers, sales growth in the EU will need to come from higher prices. However, we do not foresee large price jumps as can be witnessed in other areas in the pharmaceutical industry. After all, Concepta's device is not a necessity (as some drugs are) and a higher price could withhold certain customers from buying the product, leading to suboptimal sales volumes. We estimate that the price increase of Concepta's device in the EU will be largely in line with inflation.

We have assumed a high discount rate for Concepta of 20%. We justify this relatively high rate by the small size of the company and by an absence of sales at this point in time; the company has yet to prove there is strong market demand for its product. What further justifies our relatively high discount rate is that the company is currently a one-trick-pony which makes it vulnerable to potential adverse shocks.

In our view, the total value of Concepta consists out of the combined discounted future value of Concepta's device in China and the EU, which is equal to £ 26.2mln (£ 4.5mln + £ 21.7mln). Concepta's current net cash balance will be used for operations going forward. With close to 110mln shares oustanding the per share value of Concepta equals 23.85p.

INVESTMENT CASE

In this initiated coverage on Concepta, we believe we have touched upon the most important value drivers for the company in the nearby future. The single most important value driver is Concepta's ability to land a commercialization partnership for its device in the EU. This assumed partnership justifies our current fair share price estimate of 23.85p which represents a premium of close to 20% on top of the current share price.

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