

24 October 2023

1QFY24: Key elements click into place for critical CY24 clinical trials

NEED TO KNOW

- Cash of \$17.83m; strategic review underway
- Gearing up for RC220 human clinical trials in CY2024
- Significant body of work coming together to prepare for these clinical trials

Cash and equivalents of \$17.83m, down 17%: Race has announced its 1QFY24 results, ending the quarter with cash and equivalents of \$17.83m vs. \$21.52m at the end of the last quarter. Key cash outflows were preclinical research expenses, operating costs and production manufacturing for clinical trials. The cash includes a \$1.66m R&D tax incentive refund for FY2022, received in July 2023. The company is currently undertaking a strategic review to optimise its preclinical and clinical programs using its current funds, and plans to announce the results near term.

RC220 being readied for human clinical trials in CY2024: Race has focused its efforts in recent months on laying the groundwork for the human clinical trials of RC220, its proprietary peripheral intravenous formula of bisantrene, planned for CY2024. This has included getting current Good Manufacturing Practice (cGMP) manufacturing underway at Ardena, the leading global contract development and manufacturing organisation. Additionally, good laboratory practice (GLP) toxicology and safety pharmacological studies will begin soon, with Race confident that the required cGMP material will be ready well beforehand.

Investment Thesis

Well-founded proof of concept with historical approval: The history of bisantrene suggests it has a well-understood safety profile, with testing having occurred in over 2,000 patients and previous regulatory approval. Moreover, the previous approvals increase our confidence that the drug will be approved for other indications pursued by Race.

FTO-inhibiting activity looks promising for targeted therapy: Evidence suggests that FTO enzymatic activity is associated with cancer development and metastasis in many cancer types. In-vitro (cell lines) and in-vivo (mouse) studies have shown bisantrene to be a clinically potent inhibitor of FTO enzymatic activity in three different cancer models: AML, breast and glioblastoma. This raises prospects of a new role as a targeted therapy at low doses.

Orphan Drug Designation for AML provides potential exclusivity: Bisantrene has been awarded US Orphan Drug Designation, as AML is an orphan indication. If approved in the US, bisantrene would be protected by 7 years of orphan drug exclusivity. The company is recruiting patients for Phase 2 of its R/R AML combination trial and is also progressing its Phase 1/2 EMD AML trial (in partnership with its CRO), with patients continuing to be screened.

Valuation

Our valuation remains unchanged at A\$5.29 per share (undiluted) pending the outcome of the strategic review. Our valuation incorporates USD/AUD of 0.67.

Risks

Key risks: clinical development delays; unpredictable trial outcomes, regulatory decisions, financing, and commercialisation; and FX assumptions.

Equities Research Australia

Pharmaceuticals, Biotechnology and Life Sciences

Chris Kallos, CFA, Senior Analyst
chris.kallos@mstaccess.com.au



Race Oncology Limited is an ASX-listed specialty pharmaceutical company with a Phase 2/3-ready cancer drug called bisantrene. Race is exploring the use of bisantrene as a new targeted therapy for melanoma and clear cell renal cell carcinoma, which are both frequent fat mass and obesity associated protein (FTO) over-expressing cancers. The company also has compelling clinical data for the use of bisantrene as a chemotherapeutic agent with reduced cardiotoxicity in acute myeloid leukaemia (AML), breast and ovarian cancers and is investigating its use in these areas.

Valuation	A\$5.29 (unchanged)
Current price	A\$0.97
Market cap	A\$151m
Cash on hand	A\$17.8m (30 September 23)

Upcoming Catalysts/Newsflow

Period	
2HCY23	Final results from Israel Phase 2 AML trial
2HCY23	First patient treated in EMD AML trial
1HCY24	Initiation of cardio protection breast cancer trial (subject to strategic review update)

Share Price (A\$)



Source: FactSet, MST Access.

Financial Summary

Race Oncology

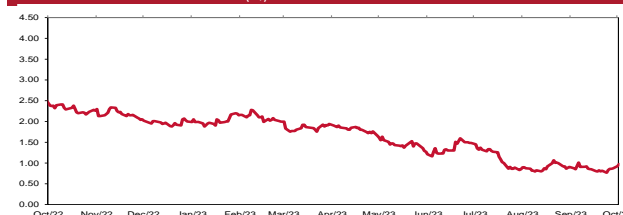
RAC-AU

Year end 30 June, AUD unless otherwise noted

MARKET DATA

Price	\$	0.98
52 week high / low	\$	0.77-2.41
Valuation	\$	5.29
Market capitalisation	\$m	159.0
Shares on issue (basic)	m	163.1
Options / rights	m	8.7
Other equity	m	0.0
Shares on issue (diluted)	m	171.7

12-MONTH SHARE PRICE PERFORMANCE (A\$)



INVESTMENT FUNDAMENTALS		FY22A	FY23A	FY24E	FY25E	FY26E
Reported NPAT	\$m	(11.2)	(9.9)	(10.2)	(10.2)	(10.3)
Underlying NPAT	\$m	(11.2)	(9.9)	(10.2)	(10.2)	(10.3)
Reported EPS (diluted)	¢	(7.3)	(6.2)	(6.2)	(6.3)	(6.3)
Underlying EPS (diluted)	¢	(7.3)	(6.2)	(6.2)	(6.3)	(6.3)
Growth	%		-15.5%	1.0%	0.6%	1.1%
Underlying PER	x	nm	nm	nm	nm	nm
Operating cash flow per share	¢	-4.1	-6.6	-6.1	-6.1	-6.2
Free cash flow per share	¢	-4.1	-6.6	-6.1	-6.1	-6.2
Price to free cash flow per share	x	nm	nm	nm	nm	nm
FCF Yield	%	nm	nm	nm	nm	nm
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%
Enterprise value	\$m	125.5	157.3	149.7	125.5	137.5
EV/EBITDA	x	nm	nm	nm	nm	nm
EV/EBIT	x	nm	nm	nm	nm	nm
Price to book (NAV)	x	4.3	6.2	10.4	31.2	35.8
Price to NTA	x	4.8	7.1	12.7	62.1	68.0
KEY RATIOS		FY22A	FY23A	FY24E	FY25E	FY26E
EBITDA margin	%	nm	nm	nm	nm	nm
EBIT margin	%	nm	nm	nm	nm	nm
NPAT margin	%	nm	nm	nm	nm	nm
ROE	%	nm	nm	nm	nm	nm
ROA	%	nm	nm	nm	nm	nm
Net tangible assets per share	\$	0.2	0.1	0.1	0.0	0.0
Book value per share	\$	0.2	0.2	0.1	0.0	0.0
Net debt/(cash)	\$m	(33.5)	(1.7)	(9.3)	(33.5)	(21.5)
Interest cover/ (EBIT/net interest)	x	nm	nm	nm	nm	nm
Gearing (net debt/EBITDA)	x	nm	nm	nm	nm	nm
Leverage (net debt/(net debt + equity))	x	nm	nm	nm	nm	nm
DUPONT ANALYSIS		FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit Margin	%	nm	nm	nm	nm	nm
Asset Turnover	x	0.0	0.0	0.0	0.0	0.0
Return on Assets	%	nm	nm	nm	nm	nm
Financial Leverage	x	0.0	0.0	0.0	0.0	0.0
Return on Equity	%	nm	nm	nm	nm	nm
KEY PERFORMANCE INDICATORS						
Clinical development pipeline	Indication	Status				
Zantrene® (bisantrene dihydrochloride) - BISECT	AML with extramedullary disease + MDS	Phase 2 ready				
Zantrene® (bisantrene dihydrochloride) - (ISRAEL)	AML (Relapsed or Refractory)	Phase 1b/2				
Zantrene® (bisantrene dihydrochloride)	Breast cancer (late-stage metastatic)	Phase 2 ready				
Zantrene® (bisantrene dihydrochloride)	Anthracycline-naïve metastatic breast cancer	Phase 2b ready				
Zantrene® (bisantrene dihydrochloride)	Melanoma	Pre-clinical				
Zantrene® (bisantrene dihydrochloride)	Kidney cancer (clear cell renal cell carcinoma)	Pre-clinical				
Zantrene® (bisantrene dihydrochloride)	Heart safety study	Pre-clinical				
HALF YEARLY DATA		2H21	1H22	2H22	1H23	2H23
Total Revenue	\$m	-	0.7	-	1.3	1.8
Operating expenses	\$m	(4.3)	(5.5)	(6.4)	(5.9)	(7.8)
EBITDA	\$m	(4.1)	(4.7)	(6.3)	(4.4)	(5.8)
EBIT	\$m	(4.3)	(4.8)	(6.4)	(4.5)	(6.0)
PBT	\$m	(4.3)	(4.8)	(6.4)	(4.4)	(5.5)
Reported NPAT	\$m	(4.3)	(4.8)	(6.4)	(4.4)	(5.6)
PROFIT AND LOSS		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	\$m	0.0	0.0	0.0	0.0	0.0
Other income	\$m	0.7	3.1	3.3	3.3	3.3
Total Revenue	\$m	0.7	3.1	3.3	3.3	3.3
Operating expenses	\$m	(12.0)	(13.6)	(13.6)	(13.6)	(13.6)
EBITDA	\$m	(11.0)	(10.2)	(10.1)	(10.1)	(10.1)
Depreciation & Amortisation	\$m	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	\$m	(11.3)	(10.5)	(10.3)	(10.3)	(10.3)
Net interest	\$m	0.1	0.6	0.2	0.1	0.0
Pretax Profit	\$m	(11.2)	(9.9)	(10.2)	(10.2)	(10.3)
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(11.2)	(9.9)	(10.2)	(10.2)	(10.3)
Weighted average diluted shares	m	153.3	160.7	163.1	163.1	163.1
GROWTH PROFILE		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	%	66.6	342.8	5.4	0.0	0.0
EBITDA	%	80.6	(6.7)	(1.7)	0.0	0.0
EBIT	%	77.0	(6.6)	(1.6)	0.0	0.0
Reported NPAT	%	76.7	(11.4)	2.4	0.6	1.1
DPS	%	nm	nm	nm	nm	nm
BALANCE SHEET		FY22A	FY23A	FY24E	FY25E	FY26E
Cash	\$m	33.5	21.5	11.6	1.7	1.6
Receivables	\$m	0.1	1.7	1.7	1.7	1.7
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.5	0.3	0.3	0.3	0.3
Current assets	\$m	34.2	23.5	13.7	3.7	3.7
PPE	\$m	0.0	0.0	0.0	0.0	0.0
Intangible assets	\$m	3.4	3.1	2.8	2.5	2.2
Other	\$m	0.0	0.0	0.0	0.0	0.0
Non current assets	\$m	3.4	3.1	2.8	2.5	2.2
Total assets	\$m	37.5	26.6	16.5	6.2	5.9
Trade and other payables	\$m	1.3	1.1	1.1	1.1	1.1
Provisions & Tax	\$m	0.1	0.1	0.1	0.1	0.1
Other	\$m	0.0	0.0	0.0	0.0	0.0
Current liabilities	\$m	1.4	1.2	1.2	1.2	1.2
Borrowing and leases	\$m	0.0	0.0	0.0	0.0	0.0
Other liability	\$m	0.0	0.0	0.0	0.0	0.0
Non current liabilities	\$m	0.0	0.0	0.0	0.0	0.0
Total liabilities	\$m	1.4	1.2	1.2	1.2	1.2
Net assets	\$m	36.1	25.5	15.3	5.1	4.7
Share capital	\$m	62.0	61.7	61.7	61.7	71.7
Retained earnings	\$m	(33.7)	(43.6)	(53.8)	(64.0)	(74.3)
Other	\$m	7.8	7.4	7.4	7.4	7.4
Total equity	\$m	36.1	25.5	15.3	5.1	4.7
CASH FLOW		FY22A	FY23A	FY24E	FY25E	FY26E
Net loss for period	\$m	(11.2)	(9.9)	(10.2)	(10.2)	(10.3)
Depreciation & Amortization	\$m	0.3	0.3	0.3	0.3	0.3
Changes in working capital	\$m	1.6	(1.7)	0.0	0.0	0.0
Other	\$m	3.1	0.7	0.0	0.0	0.0
Operating cash flow	\$m	(6.3)	(10.7)	(9.9)	(9.9)	(10.1)
Payments for PPE	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	0.0	0.0	0.0	0.0	0.0
Equity	\$m	29.2	0.0	0.0	0.0	10.0
Net borrowing	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	1.3	(1.3)	0.0	0.0	0.0
Financing cash flow	\$m	30.5	(1.3)	0.0	0.0	10.0
Cash year end	\$m	33.5	21.5	11.6	1.7	1.6
Free cash flow	\$m	(6.3)	(10.7)	(9.9)	(9.9)	(10.1)

Source: Company reports, MST Access estimates

Report prepared by MST Access, a registered business name of MST Financial services ABN 617 475 180 AFSL 500 557

MST Access has been engaged and paid by the company covered in this report for ongoing research coverage. Please refer to full disclaimers and disclosures.

Methodology & Disclosures

MST Access is a registered business name of MST Financial Services Pty Ltd (ACN 617 475 180 "MST Financial") which is a limited liability company incorporated in Australia on 10 April 2017 and holds an Australian Financial Services Licence (Number: 500 557). This research is issued in Australia through MST Access which is the research division of MST Financial. The research and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by MST Access is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a financial product you should read any relevant Product Disclosure Statement or like instrument.

This report has been commissioned by Race Oncology Ltd and prepared and issued by Chris Kallos of MST Access in consideration of a fee payable by Race Oncology Ltd. MST Access receives fees from the company referred to in this document, for research services and other financial services or advice we may provide to that company.

MST Financial also provides equity capital markets ("ECM") and corporate advisory services through its capital markets division, MST Capital Markets ("MST Capital"). MST Capital provides these services to a range of companies including clients of the MST Access service. As such, MST Capital may in future provide ECM and/or corporate advisory services to the company that is the subject of this research report and, accordingly, may receive fees from the company for providing such services. However, MST Financial has measures in place to ensure the independence of its research division is maintained, including information barriers between its Capital Markets and Research teams. In addition, neither MST Access, nor any of its research analysts, receive any financial benefit that is based on the revenues generated by MST Capital Markets or any other division of MST Financial.

The analyst has received assistance from the company in preparing this document. The company has provided the analyst with communication with senior management and information on the company and industry. As part of due diligence, the analyst has independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in the report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing this report and making the recommendation. Where MST Access has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid will either directly or indirectly impact the content provided.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently certified. Opinions contained in this report represent those of MST Access at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results and estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of liability: To the fullest extent allowed by law, MST Access shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained in this report. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by MST Access, and under no circumstances will any of MST Financials' officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content.

General Advice Warning

MST Access Research may not be construed as personal advice or recommendation. MST encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments. The information contained within MST Access Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial instrument or participate in any trading or investment strategy. Analysis contained within MST Access Research publications is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results.

MST Access Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability or use would be prohibited. MST makes no claim that MST Access Research content may be lawfully viewed or accessed outside of Australia. Access to MST Access Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content. MST Access Research is provided to our clients through our proprietary research portal and distributed electronically by MST to its MST Access clients. Some MST Access Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at MST's discretion.

Access & Use

Any access to or use of MST Access Research is subject to the [Terms and Conditions](#) of MST Access Research. By accessing or using MST Access Research you hereby agree to be bound by our Terms and Conditions and hereby consent to MST collecting and using your personal data (including cookies) in accordance with our [Privacy Policy](#), including for the purpose of a) setting your preferences and b) collecting readership data so we may deliver an improved and personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not wish to consent to MST's use of your personal data, please do not access this service.

Copyright of the information contained within MST Access Research (including trademarks and service marks) are the property of their respective owners. MST Access Research, video interviews and other materials, or any portion thereof, may not be reprinted, reproduced, sold or redistributed without the prior written consent of MST.