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6 May 2020

Avacta Group plc

("Avacta", the "Group" or the "Company")

Preliminary Results for the 17-month period ending 31 December 2019

Strong revenue growth and cash position and multiple major long term growth opportunities established

Significant progress post period end with two partnerships established to develop Affimer-based COVID-19 antigen tests

Avacta Group plc (AIM: AVCT), the developer of Affimer® biotherapeutics and research reagents, is pleased to announce its preliminary results for the 17-month period ending 31 December 2019.

Operating highlights

LG Chem partnership: progressing well and expanding to new targets

- Major therapeutics development partnership and licensing agreement with LG Chem Life Sciences (LG Chem). Potentially generating revenues for Avacta of up to $310 million, plus future royalties on product sales, the agreement included an upfront payment of $2.5 million, pre-clinical milestone payments of up to $5.5 million plus payment of Avacta's full research costs to generate Affimer molecules for the treatment of a range of diseases.
- Excellent progress with initial target during 2019 has led to LG Chem expanding the collaboration and nominating the second and third targets for development.

Collaboration with ADC Therapeutics: partnership to develop Affimer-drug conjugates

- Collaboration agreement with ADC Therapeutics SA (Lausanne, CH) to develop Affimer-drug conjugates combining Affimer technology with ADC Therapeutics' PBD warhead and linker technologies. Under the terms of the agreement, ADC Therapeutics will cover all Avacta's research costs during the collaboration and Avacta will also receive certain fees, development and commercialisation milestones, as well as a royalty on sales of successfully developed products.

Partnership with Moderna Therapeutics: enters next phase as Moderna exercises commercial option

- Moderna Therapeutics Inc exercised its option to enter into an exclusive licensing agreement for Affimers against an undisclosed target; part of an ongoing research collaboration between the two companies. A future regulatory submission by Moderna for an Affimer clinical candidate would trigger the next milestone payment to Avacta.

pre|CISION™ chemotherapy platform: significant opportunity as "*chemotherapy without side effects*" and in novel Affimer drug-conjugates (TMACs)

- Research collaboration and licensing agreement for chemistry developed at Tufts University Medical School has created the pre|CISION chemotherapy platform which is a new class of chemotherapies that are only activated in the tumour thereby improving the safety and tolerability of these effective anti-cancer drugs.

- Avacta's long-term strategy to build a pipeline of novel and differentiated cancer treatments is to combine pre|CISION chemotherapies with Affimer immunotherapies in TMACs to improve the outcomes for patients who do not respond to existing immunotherapies alone.
- Completed IND-enabling studies for first pre|CISION chemotherapy candidate – AVA6000 pro-doxorubicin. The Company is aiming to begin a Phase I dose escalation clinical trial in 2020 to show that the cardiotoxicity of this $1 billion global annual revenue generic drug is significantly reduced, potentially creating a proprietary, blockbuster chemotherapy for advanced soft tissue sarcoma, as well as other cancers, and validating the pre|CISION technology in humans.
- An additional pipeline of more than ten pre|CISION chemotherapies has been established with the most advanced of these, a pre|CISION proteasome inhibitor, approximately 12 months from IND filing.

In-house Affimer therapeutic programmes: first candidate completes cell line development

- Critical milestone of selecting the first Affimer clinical candidate for first-in-human trials for the Affimer platform has been achieved. Initial GMP manufacturing steps for the AVA004-251 PD-L1 blocker clinical candidate have been successfully completed, confirming a high production yield from a routine manufacturing process.

Affimer diagnostics reagents: strong revenue growth and progress with partners towards licensing deals

- Strong growth in revenue reported at £0.8 million for Affimer diagnostics reagents business.
- Appointment of David Wilson, a diagnostics industry veteran with over 25 years of experience, as Commercial Director for Affimer diagnostics reagents.
- Excellent range of ongoing paid-for technology evaluations and Affimer services projects with high-quality, global commercial partners across significant in vitro diagnostic, pharma, biotech and bioprocessing companies with potential for licensing deals.
- Commercial licence agreed with New England Biolabs® (NEB®), a global leader in the discovery and production of enzymes for molecular biology applications. This agreement is to commercialise a product using the Affimer technology for use in both life science research and diagnostics assays.
- A proprietary pipeline of Affimer diagnostic assays aimed at accelerating licensing deals has been established, with the first two, a D-dimer and an estradiol assay, having been completed.

Financial highlights

- Initial up-front milestone payment of $2.5 million received from LG Chem Life Sciences.
- Fundraising completed in November 2019 raising gross proceeds of £9.0 million in order to progress the AVA6000 programme into clinical trials.
- Cash balances at 31 December 2019 of £8.8 million (31 July 2018: £5.2 million)
- Revenues of £5.5 million for 17-month period to 31 December 2019 (12-month period to 31 July 2018: £2.8 million)
- Operating loss of £18.0 million for 17-month period to 31 December 2019 (12-month period to 31 July 2018: £10.4 million)
- Increased R&D investment, driven by strong progress in therapeutic programmes, leading to reported loss of £15.6 million (2018: £8.8 million)
- Loss per ordinary share 13.0p (2018: 13.5p)

Post-period highlights: further therapeutic and diagnostic partnerships adding significant value to the Group

- Established a joint venture in South Korea with Daewoong Pharmaceutical Co. Ltd., (KSX: 069620), a leading Korean pharmaceutical company, to develop the next generation of cell and gene therapies, incorporating Affimer proteins to enhance the immune-modulatory effects. Avacta's own research and development costs in relation to the joint venture will be paid for by the joint venture.
- Paul Fry appointed as Non Executive Director. Paul is Chief Financial Officer of Vectura Group plc, an industry-leading inhaled drug delivery specialist listed on the FTSE Main Market.
- Following a post-period end £5.75 million fundraising the business remains well capitalised with a £10.5 million net cash position as at the 30 April 2020.
- Collaboration with Cytiva (formerly GE Healthcare Life Sciences) to develop and manufacture a rapid test for the COVID-19 coronavirus antigen for mass population screening.
- Collaboration with Adeptrix to develop a high throughput Affimer-based antigen test to diagnose COVID-19 infection, to be used on hospitals' existing installed base of mass spectrometers.

Dr Alastair Smith, Chief Executive Officer of Avacta Group, commented:

"Avacta has over the past few years created huge potential value for shareholders through the establishment of multiple global partnerships and a pipeline of Affimer therapeutics and diagnostics. On top of that, we have taken the therapeutics opportunity to the next level by adding the unique pre|CISION chemotherapy platform. The Company is now delivering this value to shareholders and is in a position to continue to do this in a long term and sustainable manner.

The planned phase I study of AVA6000 pro-doxorubicin in cancer patients is transformational for the Group. If the preclinical performance of this drug is recapitulated in humans, then not only will AVA6000 have the potential to become a proprietary blockbuster in its own right, but the potential of the pre|CISION platform to improve the safety of a range of chemotherapies will have been demonstrated. This is a significant and unique opportunity for the Group to address urgent clinical needs in oncology through advanced chemotherapies and in combination with Affimer immunotherapies.

The strong commercial progress in the Affimer diagnostics business unit is reflected in the number of technology evaluations and growing revenue. Very recently a spotlight has been shone on the power of the Affimer platform to generate diagnostic reagents quickly and with high specificity because of our success in generating diagnostic Affimers for the SARS-COV-2 antigen in our collaboration with Cytiva.

We are focused on building long term, sustainable growth in shareholder value based on the numerous therapeutic and diagnostic opportunities that the Group has created, including a COVID-19 rapid antigen test. I look forward very much to keeping the market up to date as we progress."

- Ends -

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About Avacta Group plc - https://www.avacta.com

Avacta is developing novel cancer immunotherapies combining its two proprietary platforms - Affimer® biotherapeutics and pre|CISION™ tumour targeted chemotherapy. With this approach, the Company aims to address the lack of a durable response to current immunotherapies experienced by most patients. The Company's therapeutics development activities are based in Cambridge, UK.

The Affimer platform is an alternative to antibodies derived from a small human protein. Despite their shortcomings, antibodies currently dominate markets worth in excess of $100bn. Affimer technology has been designed to address many of these negative performance issues, principally: the time taken, and the reliance on an animal's immune response, to generate new antibodies; poor specificity in many cases; large size and cost.

Avacta's pre|CISION platform, activates chemotherapy only in the tumour, thereby limiting systemic exposure and damage to healthy tissues, and thus improving the overall safety and therapeutic potential of these powerful anti-cancer treatments.

By combining these two platforms the Company is building a wholly owned pipeline of novel cancer therapies with the aim of creating effective treatments for all cancer patients including those who do not respond to existing immunotherapies. Avacta expects to take its first drug, a pre|CISION targeted form of the standard-of-care doxorubicin, into the clinic in late 2020.

Avacta has established drug development partnerships with pharma and biotech, including with Moderna Therapeutics Inc., a collaboration with LG Chem to develop treatments for autoimmune and inflammatory diseases worth up to $310m plus future royalties on product sales, a partnership with ADC Therapeutics to develop Affimer drug conjugates and a joint venture in South Korea with Daewoong Pharmaceuticals to develop the next generation of stem cell therapies that incorporate Affimer immuno-modulators. Avacta actively seeks to license its proprietary platforms in a range of therapeutic areas.

The Company benefits from near-term revenues generated from Affimer reagents for diagnostics, bioprocessing and research, through a separate business unit based in Wetherby, UK.

The Avacta diagnostics business unit works with partners world-wide to develop Affimers for evaluation by those third parties with the objective of establishing royalty bearing licensing deals. The Company is also developing a small in-house pipeline of Affimer-based diagnostic assays for licensing.

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Chairman and Chief Executive Officer's Statement

The Group has made significant commercial and operational progress during the reporting period, with several therapeutic development partnerships being established with major pharmaceutical companies that fully fund the development of the Affimer platform in areas of high unmet clinical need: oncology, autoimmune and inflammatory disease. Not only are there significant commercial opportunities arising from these collaborations but the Group has also retained the commercial rights to the Affimers developed for use outside of the collaborative focus, thus growing its own therapeutic pipeline at no additional cost. There are multiple ongoing discussions with new partners and the Board is confident of further therapeutic partnerships during 2020.

Group revenue and in particular the diagnostics division's revenue and order book has grown strongly, which reflects the growing commercial traction for the Affimer platform in markets outside of therapeutics. The Board anticipates that several of the ongoing technology evaluations by diagnostics partners should reach fruition during 2020, propelled in no small part by the recent success in generating Affimer reagents for SARS-COV-2 antigen testing.

The first two in-house clinical candidates for the Affimer and pre|CISION platforms have been developed and the Group is focusing its clinical development resources in 2020 on AVA6000 pro-doxorubicin. This proprietary form of a $1 billion global annual revenue generic chemotherapy has been shown in animal models to have a dramatically improved safety profile and if these data are reproduced in patients then AVA6000 will have the potential to be a blockbuster anti-cancer drug. There is already significant interest from third parties in the AVA6000 programme and the wider pre|CISION pro-drug opportunity. The Group plans to start the AVA6000 phase I trial in late 2020 but, noting that many phase I studies have been halted during the current coronavirus pandemic because of pressure on hospital resources, there may be a short delay to starting the study. We will continue to work hard to start the trial as soon as we are permitted.

The recent announcement of our collaboration with Cytiva (formerly GE Healthcare Life Sciences) to develop a rapid COVID-19 antigen test for mass population screening, and then our immediate success in generating a large number of Affimer reagents that detect the virus spike protein, has shone a spotlight on the power and performance of the Affimer platform. We believe that the technical risk of developing a COVID-19 diagnostic is significantly reduced now that we have a large number Affimer reagents to work with, and our objective is to have a saliva test ready for production as early as possible in the summer. This individual opportunity is significant; there will be a medium-term need for very high volume COVID-19 antigen testing to support the global process of exiting lockdown and getting healthy people back to work. There will also be a long-term need for antigen testing as the disease will remain in some societies for many years. Outside of this opportunity which has raised the profile of the Affimer platform dramatically, there remains significant commercial potential for Affimer diagnostics to deliver long term sustainable revenues.

In addition, the Company has announced a collaboration with Adeptrix (Beverly, MA, USA) to develop and manufacture an Affimer-based BAMS (bead-assisted mass spectrometry) coronavirus antigen test that will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals. The diagnostic test will allow hospitals around the world to utilise their existing installed base of mass spectrometers that are not currently used for COVID-19 testing, thus contributing significantly to the increase in global testing capacity. Avacta's recently developed Affimer reagents that bind the SARS-COV-2 spike protein will be used to provide the capture and enrichment of the virus particle from the sample which could be saliva, nasopharyngeal swabs or serum.

Fund-raising

In October 2019, the Group announced a successful fund-raise of £9.0 million, which was concluded following the placing of new shares issued after the Annual General Meeting held in November 2019.

In April 2020, the Group announced that it had completed a fundraising of £5.75 million through the placing and subscription of new shares to strengthen the Group balance sheet in the light of the challenges created by the coronavirus pandemic and provide funding through 2020 and 2021, with the receipt of the proceeds received after the General Meeting which was held on 23 April 2020.

Board changes

During the period, in January 2019, Alan Aubrey stepped down as a Non Executive Director, having served on the Board since the initial listing of the Group back in 2006 and the Board is grateful for his significant input to the Group over this time. Following the period end, in February 2020, Paul Fry joined the Board as a Non Executive Director and has become the Chairman of the Audit Committee. Paul, who is also Chief Financial Officer of Vectura plc, brings with him a wealth of financial experience across a number of sectors including biotech, pharmaceutical and telecommunications.

Our people

We would like to thank our employees for their continued hard work in driving the Group's progress during this period; in particular the development of our therapeutic programmes towards the commencement of clinical trials and the growing of revenues in our diagnostic business. We would also like to acknowledge the recent effort and commitment shown by the diagnostics team in working long hours and weekends to generate the Affimer reagents for COVID-19 so quickly.

We are pleased that, throughout this period of rapid growth and development, Avacta has managed to retain an entrepreneurial, open and inclusive culture with a high level of employee engagement and satisfaction.

Effects of the COVID-19 pandemic

The Board is continuing to monitor and assess the impact of COVID-19, which is a rapidly changing issue across the world, and the impact it has on the Group's businesses.

As noted above, many clinical trials have been halted due to the pressure on clinicians and hospitals during the current COVID-19 pandemic and the regulators are prioritising submissions related to COVID-19 therapies. Our contract manufacturing and clinical operations partners have reduced staffing levels to maintain social distancing as has the Group. It is prudent to assume a short delay in starting the AVA6000 phase I study. We expect to obtain regulatory approval for the AVA6000 clinical trial from the MHRA in Q3 and dose first patients late in the year or, more likely, early in 2021. This also means that the associated costs are delayed and there is sufficient cash on the balance sheet to complete the phase I trial as well as progressing our other programmes.

Our Animal Health business has seen a slow down as veterinary practices are now focusing on emergency cases, with more routine appointments in relation to allergy or therapy testing being put on hold given the limitations of travel on the UK population at the moment. This will have an impact on revenues in the coming weeks until we emerge from the lock-down caused by the pandemic.

Conversely, the opportunity created by the unique strength of the Affimer platform to rapidly provide highly specific diagnostic reagents for SARS-COV-2 antigen testing is difficult to quantify but clearly very large indeed. The Group has established two commercial partnerships and is in discussion with several others to establish multiple routes to market for the Affimer reagents. This will minimise risk and time to market and maximise the commercial opportunity which is likely to far outweigh the negative impacts of the COVID-19 pandemic.

Outlook

Avacta has over the past few years created huge potential value for shareholders through the establishment of multiple global partnerships and a pipeline of Affimer therapeutics and diagnostics. On top of that we have taken the therapeutics opportunity to the next level by adding the unique pre|CISION chemotherapy platform. The Group is now delivering this value to shareholders and is in a position to continue to do this in a long term and sustainable manner.

The planned phase I study of AVA6000 pro-doxorubicin in cancer patients is transformational for the Group. If the preclinical performance of this drug is recapitulated in humans, then not only will AVA6000 have the potential to become a proprietary blockbuster in its own right, but the potential of the pre|CISION platform to improve the safety of a range of chemotherapies will have been demonstrated. This is a significant and unique opportunity for the Group to address urgent clinical needs in oncology through advanced chemotherapies and in combination with Affimer immunotherapies.

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We are focused on building long term, sustainable growth in shareholder value based on the numerous therapeutic and diagnostic opportunities that the Group has created, including a COVID-19 rapid antigen test. I look forward very much to keeping the market up to date as we progress.

Eliot Forster
Non Executive Chairman
6 May 2020

Alastair Smith
Chief Executive Officer
6 May 2020

Operational Review

Life Sciences - Therapeutics

pre|CISION Targeted Chemotherapies

Summary: During the reporting period the Group established a transformational collaboration and licensing deal to access intellectual property developed by Professor Bill Bachovchin at Tufts University Medical School (Tufts). The long-term objective is to combine Affimer immunotherapies with pre|CISION™ tumour targeted chemotherapies to improve the outcome for cancer patients, the majority of whom do not respond to immunotherapies alone. In the near term, the Group has identified an opportunity to use the pre|CISION platform to dramatically reduce the side effects of standard chemotherapies, whilst maintaining their effectiveness. The first of these is AVA6000 pro-doxorubicin. There is expected to be only a limited impact of the coronavirus pandemic on the timing of the phase I clinical trial of AVA6000 in humans which is expected to start in late 2020 / early 2021.

The Company's long-term strategy is to bring together Affimer immunotherapies with pre|CISION targeted chemotherapies to develop superior cancer treatments with better patient outcomes and high commercial value. In the near term, the tumour targeting chemistry developed at Tufts provides the Company with an opportunity to take generic chemotherapies and reduce their side effects to improve their safety and tolerability whilst maintaining their efficacy. The first of these, AVA6000 pro-doxorubicin will be taken into the clinic in late 2020/early 2021.

When the pre|CISION substrate is chemically attached to a chemotherapy drug, such as doxorubicin, it prevents the drug from entering cells and therefore renders it inactive and harmless. The pre|CISION substrate is removed by an enzyme (FAP□) that is in high concentration in most solid tumours. Removal of the pre|CISION substrate allows the drug to enter and kill cancer cells in the tumour. This enzyme is in very low concentration in healthy tissue and therefore the chemotherapy is activated predominantly in the tumour, reducing the exposure of healthy tissues to the activated drug and reducing side effects caused by the damage to healthy tissues. This improvement in the safety profile of efficacious cancer drugs creates a huge opportunity for the Company through licensing and, in the longer term, through combinations with Affimer immunotherapies.

The pre|CISION substrate can be applied to a wide range of chemotherapies to improve their safety profile but initially the Company is focusing on doxorubicin, which has been the standard-of-care for over 40 years for patients with advanced soft tissue sarcoma. Patients are taken off treatment with doxorubicin due to irreversible heart damage once the cumulative dose reaches a certain level, even if they are experiencing clinical benefit. This is because standard doxorubicin is not targeted to the cancer and therefore the exposure of healthy tissue such as the heart to the drug is the same as the exposure of the tumour. As a result, patients cannot be dosed for long enough to achieve a better median progression free survival than approximately six months, with median overall survival of 12-15 months. This severe cardiotoxicity limits the size of the doxorubicin market, but it is still a $1 billion drug[1].

As part of the collaboration with Professor Bachovchin at Tufts, Avacta has compared the safety and efficacy of standard doxorubicin with AVA6000, a pre|CISION modified form of doxorubicin. In a tumour-burdened mouse model, standard doxorubicin is distributed between the tumour and heart with a 1:1 ratio as expected because it is not targeted, causing the dose limiting severe cardiotoxicity. However, in the case of AVA6000, the level of activated doxorubicin in the tumour increased by a factor 18:1 compared with the heart. This results in dramatic tumour shrinkage and 100% survival at 60 days of the animals treated with AVA6000 compared with 0% survival of the animals treated with standard doxorubicin.

There has been only limited impact of the coronavirus pandemic on progression of AVA6000 into the clinic to date. Avacta has nearly completed IND-enabling studies and plans to file regulatory submission in the UK shortly (late Q2 or early Q3) to allow dosing of first patients with AVA6000 later in the year, or early 2021 depending on patient recruitment. This phase I clinical study will be a dose escalation study with up to 15 patients with a range of soft tissue sarcomas. Initial data are expected within a few months of starting the trial. If these data in humans demonstrate significantly reduced cardio-toxicity, allowing patients to be dosed for longer than with standard doxorubicin, then better overall survival is anticipated and a huge commercial opportunity is created for AVA6000

1 https://www.grandviewresearch.com/press-release/global-doxorubicin-market

and the wider pre|CISION chemotherapy pipeline. More than ten other pre|CISION chemotherapies have been synthesised and tested to varying degrees. The most advanced of these is a pre|CISION form of a proteasome inhibitor closely related to Velcade. This pre|CISION drug, AVA3996, could be ready for IND filing in approximately twelve months.

The Group has prioritised its resources to complete the phase I clinical trial of AVA6000 as it has the potential to deliver a transformational commercial opportunity and value inflection point.

Affimer Therapeutics

Progress of the Affimer platform towards first-time-in-human studies

Summary: The first Affimer clinical development candidate AVA004-251, a PD-L1 antagonist, has been selected and initial cell line development successfully completed. GMP production of AVA004-251 is on hold whilst the Group focuses its resources on AVA6000.

The focus of Avacta's in-house Affimer therapeutic programmes is in immuno-oncology. In order to generate first-time-in-human data for the Affimer platform as quickly as possible, to de-risk the platform from the perspective of potential partners and thereby increase deal value, the Group has selected an inhibitor of PD-L1 as the lead programme. During the reporting period, the clinical development candidate, AVA004-251, was selected and cell line development for it has been completed successfully. High levels of AVA004-251 could be produced from the selected cell line and production of the molecule using a standard GMP manufacturing process was demonstrated. This is an important step because it demonstrates that Affimer drugs can be manufactured using an industry standard process without the need for any changes which would incur additional cost of goods. The Group has now paused the commitment to the next stage of GMP manufacturing of AVA004-251 and the subsequent IND-enabling studies, because it is focusing its resources on the phase I clinical trial for AVA6000. The progression into the clinic of the lead PD-L1 inhibitor and the broader Affimer platform will continue to be fully funded by partners.

Drug Assets Pipeline

Building a pipeline of valuable chemotherapy/immunotherapy drug assets

Summary: The combination of the Company's immunotherapies/chemotherapies is designed to provide a benefit to those patients who do not experience a durable response to existing immunotherapies alone. It is the combination of these two proprietary platforms, Affimer and pre/CISION, that creates a clearly differentiated and highly valuable clinical pipeline for the Group.

In the oncology field it has become clear in recent years that single cancer immunotherapies have limited overall response rates and that combining immune checkpoint modulators such as PD-1, or PD-L1, with chemotherapy improves patients' outcomes. Avacta is in a unique position, with two proprietary platforms, to address this urgent need. The Company's strategy is to bring together Affimer immunotherapies with the pre|CISION targeted chemotherapies to develop superior cancer treatments with better patient outcomes. The Company is doing this in two ways: through co-administered combinations of the two drugs and through a novel drug conjugate in which the pre|CISION substrate is incorporated into the linker that joins the chemotoxin and the Affimer immunotherapy into a single drug molecule called a 'drug conjugate'.

Co-administered combination therapies

Progress in the development of the AVA6000 pro-doxorubicin has been outlined above. The clinical development plans (Phase 1b and 2) for this molecule include combinations with a PD-L1 antagonist in a range of solid tumours carried out with Avacta's AVA004-251 molecule, or with a partner's PD(L)1 inhibitor.

TMAC™ drug conjugates

The pre|CISION substrate can also be incorporated into a chemical linker joining an Affimer immunotherapy with a chemotoxin to create a single drug conjugate molecule that can be delivered to the patient in a single infusion. The linker is cut by the FAP enzyme in the tumour microenvironment releasing and activating the chemotherapy in the tumour alongside the Affimer immunotherapy. By selecting the chemotherapy to have a mechanism of action that stimulates and recruits the immune system to the tumour, the Affimer checkpoint blockade provides synergistic support for this immune response. This *tumour microenvironment activated drug conjugate* (TMAC™) is a new class of drug conjugate for which the Company has made a patent application with Tufts University Medical School.

The first of Avacta's TMACs combines an Affimer PD-L1 inhibitor with a powerful chemotherapy called AVA100 I-DASH (also known as Talabostat Mesylate) that kills macrophage in the tumour microenvironment leading to a significant inflammatory event that attracts the immune system to the tumour. The immune response is then supported by the presence of the Affimer PD-L1 blockade.

Initial efficacy data in mice have been generated by co-administration (two separate molecules) of the lead Affimer PD-L1 candidate AVA004-251 with AVA100 as two separate drugs as an intermediate step towards generating these data for the TMAC. These data show that AVA004-251 performs as effectively as Atezolizumab, a marketed PD-L1 antibody, and also show a synergistic effect of the combination of AVA004-251 with AVA100 as anticipated. In fact, tumours in the animals treated with the combination of the two showed complete regression and developed an immunity to being re-challenged with the same tumour 60 days later.

In order to carry out the same evaluation with the TMAC, an appropriate mouse efficacy model that has been modified to contain the FAP enzyme required to release the chemotherapy from the TMAC has been developed. Post period end, the first data from this engineered mouse model were obtained and clear synergy between the released warhead and Affimer PD-L1 inhibitor was seen, causing a significant slow-down in tumour growth compared with the approved PD-L1 monoclonal antibody inhibitor Avelumab. A number of further pre-clinical animal studies are now planned to investigate in detail the optimum TMAC structure.

Drug Development Collaborations

Summary: The Group has recently reported substantial commercial progress with regards to drug development collaborations. Avacta agreed a therapeutics partnership and licensing deal with LG Chem Life Sciences (LG Chem), potentially worth over $300 million. Moderna, with whom Avacta has been collaborating on several programmes, exercised its option to an exclusive commercial license for Affimer against one particular target. The Group also announced a collaboration with ADC Therapeutics, a Swiss pharmaceutical company that is developing drug conjugates using proprietary warheads licensed from Astra Zeneca. The collaboration with ADC Therapeutics is aimed at developing Affimer-drug conjugates using these warheads. Just post-period end, the Company announced that it had established a joint venture in South Korea with Daewoong Pharmaceuticals to develop engineered stem cell therapies. The Company is continuing its extensive business development activities to generate further such fully funded partnerships and licensing deals.

In Q4 2018 the Group announced that it had agreed an Affimer therapeutics development partnership and licensing agreement with LG Chem, part of the South Korean LG Group. This multi-target therapeutics development agreement provides an upfront payment of $2.5 million and pre-clinical milestone payments of up to a further $5.5 million, plus longer-term clinical development milestones totalling $180 million, dependent on the satisfaction of certain performance conditions. Avacta will also receive royalties on any future product sales and LG Chem will cover the Group's costs of research and development associated with the collaboration. Avacta may receive an additional $130 million in option fees and milestone payments should LG Chem elect to exercise their options for additional targets.

As part of the collaboration, Avacta is generating and carrying out early-stage optimisation of Affimer drug candidates against undisclosed targets in oncology and inflammatory disease. For reasons of confidentiality it is not possible to provide detailed information about the LG Chem collaboration but the Company is able to report

that excellent progress has been made with the first target that LG Chem nominated and that LG Chem has now nominated the second and third targets for development.

LG Chem will be responsible for pre-clinical and regulatory studies, and clinical development for these programmes and worldwide marketing of any resulting products. LG Chem has stated that it aims to make the first regulatory filing for an Affimer therapeutic in 2021.

Moderna Therapeutics (NASDAQ: MRNA) exercised its option to enter into an exclusive licensing agreement with respect to certain Affimers against a potential therapeutic target that has been part of an ongoing research collaboration between the two companies.

In 2015, Avacta and Moderna entered into a collaboration, licensing and option agreement under which Moderna was granted exclusive access to Avacta's Affimer technology for certain collaboration targets and the option to enter into exclusive licensing agreements on pre-agreed terms to further research, develop and commercialise Affimers selected by Moderna. Under the terms of the agreement, Avacta may receive undisclosed payments upon future clinical development milestones and royalties in connection with future product sales.

The Group also announced that it had entered a collaboration and option agreement with ADC Therapeutics SA (Lausanne, CH), a clinical-stage oncology-focused biotechnology company pioneering the development of highly potent and targeted antibody-drug conjugates for patients suffering from haematological malignancies and solid tumours. The agreement is to develop Affimer-drug conjugates combining Avacta's Affimer technology with ADC Therapeutics' pyrrolobenzodiazepine (PBD)-based warhead and linker technologies that it licenses from Astra Zeneca.

As part of the multi-target collaboration, the Group will generate and optimise Affimer binders against three undisclosed cancer targets and provide these to ADC Therapeutics to target its proprietary cytotoxic warheads (PBDs) to the site of the tumour. ADC Therapeutics will carry out pre-clinical research and development programmes to evaluate each of the Affimer-drug conjugates with a view to generating clinical candidates.

Under the terms of the agreement, ADC Therapeutics will cover all Avacta's costs during the collaboration and the Group has retained the rights to use these Affimers in applications outside of drug conjugates. The commercial agreement provides ADC Therapeutics with the opportunity, on a target-by-target basis, to obtain exclusive licences to the Affimer® proteins for clinical development and commercialisation. Upon ADC Therapeutics entering into each of the commercialisation licences and successfully bringing new Affimer-drug conjugates to market, Avacta will receive option fees, development and commercialisation milestones, as well as a single-digit royalty on sales. Further financial details cannot be disclosed.

Post-period end, on the 9 January 2020, the Group announced that it has established a joint venture in South Korea with Daewoong Pharmaceutical Co. Ltd., (KSX: 069620), a leading Korean pharmaceutical company, to develop the next generation of cell and gene therapies, incorporating Affimer proteins to enhance the immune-modulatory effects. All of Avacta's research and development costs associated with the generation of the Affimer proteins for the joint venture will be funded by the joint venture.

Affimer Diagnostics

Summary: Strong growth in revenue reported at £0.8 million following separation from Affimer Therapeutics into two distinct business segments. This revenue is primarily derived from paid-for evaluations of the technology for diagnostics applications, and the generation of anti-idiotypic Affimer reagents to support partners' drug development programmes. The Group also agreed a commercial licence with New England Biolabs for Affimers to use in diagnostic kits. Whilst other ongoing evaluations are progressing well, they have not yet resulted in further licensing agreements and so the Group is now developing a small in-house pipeline of Affimer diagnostic assays ready for licensing and development into products to speed up the process. An experienced Commercial Director, dedicated to the Affimer reagents and diagnostics business, has been appointed to capitalise on growing commercial traction. Post-period end the Company entered into a partnership with Cytiva (formerly GE Healthcare Life Sciences) to develop a rapid point-of-care saliva antigen test for COVID-19 infection and has already generated more than 50 Affimer reagents the specifically bind the virus. A further collaboration has also been entered into

with Adeptrix to develop and manufacture an Affimer-based BAMS coronavirus antigen test that will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals.

The Affimer technology has significant commercial potential outside therapeutic applications. Good commercial traction has now been established in the diagnostics reagents business with strongly growing revenue/order intake and an expanding sales pipeline of high quality, global partners. However, licensing deal flow resulting from technology evaluations has been slower than anticipated and the Company believes that the diagnostics reagents business unit now requires full-time and dedicated commercial leadership at its operating site in Wetherby.

In August 2019, the Company appointed David Wilson, a highly experienced commercial professional in the diagnostics markets, to the role of Commercial Director Reagents/Diagnostics. David brings to Avacta over 25 years' international experience in business development, marketing and sales management in the *in vitro* diagnostic medical devices industry, having held senior commercial and Board level positions in global corporations, angel and venture capital funded start-ups and a sector specific trade association including a twelve-year period at Genzyme Corporation where David led the international sales, marketing and business development functions for the Diagnostics Products division. He is currently a Board member for two early-stage diagnostic businesses developing novel point of care diagnostic testing platforms, and has served on the Executive Committee of the British In Vitro Diagnostics Association (BIVDA). David's role in Avacta mirrors that of Matt Vincent who is VP Business Development and Strategy (Therapeutics).

The reagents business unit is now focusing its business development and operational resources in three areas:

- Paid-for evaluations of Affimer technology with a view to longer-term, royalty-bearing licensing deals for Affimer molecules incorporated into third-party products particularly focused on the diagnostics sector.
- Custom Affimer services to generate Affimer molecules that will be used in-house by a third party to support R&D with particular focus on generating anti-idiotypic Affimers for PK measurements in drug development and clinical trials.
- Development of an in-house pipeline of Affimer diagnostic assays for licensing.

The Company has seven ongoing Affimer evaluations with diagnostic partners including four out of the top ten global diagnostics companies. All of these evaluations have the potential to deliver licensing deals. The licensing deal with New England Biolabs (NEB®), which was announced in Q4 2018, arose directly out of a paid-for technology evaluation in this way. The evaluation with NEB took over two years to complete and the Company is experiencing similar timescales with other partners in the pipeline. In order to circumvent this long evaluation process, the Company announced in 2018 that it would also develop a small number of Affimer diagnostics assays itself.

The Company believes that, by developing the working assays itself, it will be able to progress to commercial licensing deals more quickly than through the process of third-party evaluations in which the partner controls the process. The target of having two assays completed by the end of 2019 was met and a further pipeline of diagnostic assays is now in development for licensing.

A growing short-term revenue stream is being generated from custom Affimer services to generate bespoke Affimer binders for third parties to use in R&D applications. One example of such an application that has generated significant interest is the measurement of the level of a drug in serum samples to support clinical development programmes, so called *pharmacokinetic* (PK) analysis. Reagents that can be used for PK analysis are called anti-idiotypic binders and the Group has demonstrated that it can quickly, with a very high success rate, generate anti-idiotypic Affimers that outperform the market leading anti-idiotypic antibodies.

Since running a marketing campaign to launch this service in 2018, the Company now has multiple custom anti-idiotypic Affimer services projects completed and ongoing with large pharma and biotechs. Each project is worth approximately £40,000 revenue and, in principle, every monoclonal antibody drug in development, of which there are thousands, requires a reagent for PK measurements. Therefore, as the Company builds its reputation for rapidly supplying these critical reagents, it anticipates that it can grow a substantial recurring revenue stream of several millions of pounds.

Post-period end the world has faced a major health crisis arising from the SARS-COV-2 virus which originated in Wuhan, China. In response to this crisis and the urgent need for rapid testing for the COVID-19 infection, on April 8 the Company formed a collaboration with Cytiva (formerly GE Healthcare Life Sciences) to develop a rapid point-of-care saliva test for the virus antigen and on 1 May 2020 entered into a diagnostic collaboration agreement with Adeptrix to develop an Affimer-based BAMS coronavirus antigen test. The point-of-care test will tell the user whether the person is infected now, as distinct from "antibody" tests which tell the user that the person has been infected in the past. The Affimer-based BAMS coronavirus antigen test will provide clinicians with a significant expansion of the available testing capacity for COVID-19 infection in hospitals.

Cytiva Collaboration

The Company has, in only four weeks, generated a large number of Affimer reagents that bind the SARS-COV-2 virus spike protein, that do not cross-react with other related viruses such as MERS and SARS, which can be developed into a lateral flow test strip by Cytiva and others, and into other forms of immunoassays. The work has highlighted two of the key benefits of the Affimer platform - the speed of development and specificity of new binders. Avacta owns all the commercial rights to the Affimers and any tests developed with them. The Company aims to have a working laboratory test before the end of May and is now also transferring Affimer reagents to Cytiva to develop a rapid saliva test for the virus antigen suitable for mass screening of populations. The aim is to have this test ready for production as soon as possible during the summer.

The very rapid success in generating highly specific Affimer diagnostic reagents for the SARS-COV-2 virus has highlighted the enormous potential of the Affimer platform for diagnostics and generated significant commercial interest which the Company is pursuing vigorously.

Adeptrix Collaboration

The diagnostic test will allow hospitals around the world to utilise their existing installed base of mass spectrometers that are not currently used for COVID-19 testing, thus contributing significantly to the increase in global testing capacity. Avacta's recently developed Affimer reagents that bind the SARS-COV-2 spike protein will be used to provide the capture and enrichment of the virus particle from the sample which could be saliva, nasopharyngeal swabs or serum.

Development of a BAMS test capable of diagnosing whether a person has the COVID-19 infection at any specific moment is a quick process and the companies are aiming to have a BAMS test ready for clinical validation, regulatory approval and manufacturing in June. Adeptrix and Avacta are already in discussion with large-scale manufacturing partners to rapidly deploy this new high throughput test.

Animal Health

Avacta Animal Health, as part of the Avacta Group, is an independent laboratory delivering evidence-based animal health solutions, centred on the work-up and management of allergic disease. Its customers include veterinary professionals, laboratories, large commercial organisations, SMEs and academic groups.

Avacta Animal Health develops and manufactures its own test panels, which are either run in house for veterinary professionals in the companion animal and equine field, or sold to laboratories servicing the industry outside of the UK. The research and development team behind the company's products also undertake a variety of internal and contract research projects which employ the latest tools and techniques.

While successfully competing in both UK and global markets, Avacta Animal Health has continued to place a personal approach at the forefront of its work. Maintaining this method in the fast-paced veterinary industry is highly valued and results in unrivalled service and support that is trusted.

Competitive strengths

The only UK laboratory with end-to-end test control, Avacta Animal Health's years of dedication to research and

development underpin its constant drive to make a real-life difference to animal health.

- Experts in the work-up and management of allergic disease
- Experienced and innovative R&D team
- Evidence-based test and therapy solutions
- Dedicated technical team including dermatology consultants
- Comprehensive and practical veterinary literature
- Informative, easy-to-use pet owner resources
- Wealth of educational and training resources for veterinary professionals

Market focus

As the change within the veterinary industry continues at a rapid pace both in practice, for suppliers and for pet owners, Avacta Animal Health's commitment to innovation within the field of allergy remains its core focus and its key to success.

In addition to providing UK specific testing services and therapy options via its own laboratory, Avacta Animal Health's authorised laboratories now serve much of Continental Europe as well as parts of the Asian and Latin American markets. Further projects will look to expand the company's export reach and international customer base, whilst continuing its dedicated provision of tailored and trusted support to veterinary professionals across the UK.

Avacta Animal Health's 2020 programme of events includes attendance at numerous UK conferences in addition to international events such as the World Small Animal Veterinary Association Congress, allowing the business to stay informed of developments within the industry and personally convene with customers and academics.

Development focus

Alongside the science, Avacta Animal Health understands the importance of ensuring its successes in the laboratory make a difference in practice. As well as having qualified vets and vet nurses in its teams, it values the regular conversations it has with veterinary professionals and academics, allowing it to analyse and review what is clinically relevant at any given time.

The year has seen Avacta Animal Health's Senior Veterinary Technical Manager become the first graduate of the BSAVA's Master's Degree in Clinical Veterinary Research (MRes), as well as two of its Territory Managers completing the BSAVA Veterinary Nurse Merit Award in Dermatology. Achievements such as this build on Avacta Animal Health's perfect combination of skills and knowledge which allow it to be agile to both customer requirements and the market needs; delivering high quality projects and tests which remain at the forefront of allergy analysis.

Via Avacta Life Sciences there is an opportunity to scope out new projects using the Affimer technology and, with experience in reproducible research and statistical analysis, all future work will continue to see a strong steer towards data-driven projects involving machine learning and data visualisation. Such analytical techniques will benefit both internal projects and contracted project work.

Financial Review

Revenue

Reported Group revenues for the 17-month period ended 31 December 2019 increased to £5.51 million (year ended 31 July 2018 ('2018'): £2.76 million). Revenues for Avacta Life Sciences increased to £3.33 million (2018: £1.19 million) boosted by the upfront technology access fee arising from the LG Chem collaboration and increasing numbers of custom Affimer projects and funded FTE development projects. Avacta Life Sciences during the period has been separated out into two distinct operating segments, reflecting the Therapeutics operations based from our Cambridge site and the Diagnostics operations at our Wetherby site. Revenues in Avacta Animal Health increased to £2.18 million (2018: £1.57 million) as the division focused on its core pet/equine allergy tests together with expanding its overseas products/services.

The Group adopted the new accounting standard IFRS15 Revenue from Contracts with Customers with effect from 1 August 2018. The adoption of the standard had no material impact on the way the Group recognises revenue from contracts with customers. Further details on the adoption of IFRS15 are disclosed in the Accounting Policies.

Research and amortisation of development costs

During the year, the Group expensed through the income statement £7.86 million (2018: £2.79million) in relation to research costs which relate primarily to the costs associated with the in-house Affimer therapeutic programmes which, in line with other therapeutics-based companies, are expensed given their pre-clinical stage of development. In addition, development costs capitalised in prior periods from the custom Affimer reagents and diagnostics programmes and new Animal Health allergy tests are amortised resulting in a charge of £2.20 million (2018: £0.99 million).

Furthermore, development costs amounting to £1.88 million (2018: £1.94 million) were capitalised within intangible assets during the period and will be amortised over future periods.

Selling, general and administrative expenses

Administrative expenses have increased during the year to £10.06 million (2018: £7.24 million) proportionately in-line with the 17-month period compared to the prior 12-month period. Depreciation also increased proportionately relative to the extended reporting period at £1.64 million (2018: £0.97 million).

Net finance costs

The Group chose to early adopt the new accounting standard IFRS16 Leases with effect from 1 August 2018. As a result of adopting the new standard, an interest charge of £0.01m (2018: £nil) was recognised. Further details on the adoption of IFRS16 are disclosed in the Accounting Policies.

Losses before taxation

Losses before taxation from continuing operations for the year were £18.05 million (2018: £10.39 million).

Taxation

The Group claims each year for research and development tax credits and, since it is loss-making, elects to surrender these tax credits for a cash rebate. The amount is included within the taxation line of the consolidated statement of profit and loss in respect of amounts received and receivable for the surrender of research and development expenditure amounting to £2.44 million (2018: £1.56 million). The Group has not recognised any tax assets in respect of trading losses arising in the current financial year or accumulated losses in previous financial years.

Loss for the period

The reported loss for the period was £15.62 million (2018: £8.83 million). The loss per ordinary share reduced to 12.98 pence (13.49 pence) based on an average number of shares in issue during the period of 120,336,858 (2018: 65,437,007).

Cash flow

The Group reported cash and short-term deposit balances of £8.79 million at 31 December 2019 (2018: £5.22 million).

Operating cash outflows from operations amounted to £14.44 million (2018: £6.77 million). Within the net operating cash outflows there were cash receipts in respect of research and development tax credits amounting to £1.63 million (2018: £1.26 million) which represented the tax refund for the previous financial year.

During the year, capital expenditure remained consistent at £0.62 million (2018: £0.58 million) and capitalised development costs were also consistent at £1.88 million (2018: £1.95 million).

The Group completed two fund-raises via placings during the reporting period. The first fund-raise, which was announced in July 2018, completed in August 2018 and raised £11.62 million gross (£10.89 million net). The second fund-raise announced in October 2019, completed in November 2019 and raised £8.97 million gross (£8.41 million net).

Financial position

Net assets as at 31 December 2019 were £25.81 million (2018: £21.41 million) of which cash and cash equivalents amounted to £8.79 million (2018: £5.22 million).

Intangible assets reduced marginally to £11.80 million (2018: £12.20 million) due to the amortisation charge of £2.20 million (2018: £1.06 million) exceeding the capitalised development costs in the period of £1.88 million (2018: £1.95 million).

The adoption of IFRS16 Leases using the modified retrospective approach has resulted in the recognition of a ‘right-of-use’ asset amounting to £0.78 million in relation to the Group’s three leasehold properties together with a corresponding lease liability of £0.82 million. Further details on the adoption of IFRS16 are disclosed in the Accounting Policies.

Dividends

No dividends have been proposed for the period ended 31 December 2019 (2018: £nil).

Key performance indicators

At this stage of the Group’s development, the non-financial key performance indicators focus around the development of the Affimer technology and customer projects, together with the progress of the first Affimer drug candidate into Phase I clinical trials. In addition, the number of customers evaluating the Affimer technology which may lead to commercial licensing agreements is seen as a growing acceptance of the technology.

The financial key performance indicators focus around three areas:

- Group revenues
- Research and development expenditure, which is either expensed through the Income Statement or capitalised
- Cash and short-term deposit balances

Going concern

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £15.6 million and operating cash outflows of £13.0 million for the period ended 31 December 2019. The directors consider this to be appropriate for the following reasons.

The directors have prepared detailed cash flow forecasts that extend to the end of the financial year ended 31 December 2021. The forecasts take into account the directors' views of current and future economic conditions that are expected to prevail over the period. These forecasts include assumptions regarding the status of therapeutic development collaborations, diagnostic customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the therapeutic and diagnostic research and development programmes.

Whilst there are inherent uncertainties regarding the cash flows associated with the development of both the therapeutic and diagnostic platforms, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due through into the first quarter of 2022. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows. The announcement in January 2020 of the establishment of the joint venture with Korean based pharmaceutical company, Daewoong, will generate significant early stage development income during 2020 and subsequent periods.
- As at 31 December 2019, the Group's short-term deposits and cash and cash equivalents were £8.8 million (2018: £5.2 million).
- In April 2020, the Group announced and completed a fund-raise of £5.4 million (net of expenses) which combined with existing cash balances will provide sufficient working capital through the remainder of 2020 and 2021 to continue to develop the therapeutic and diagnostic platform technologies.
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2020 amounting to £2.5 million (a comparable tax refund of £1.6 million was received in July 2018).
- The Group does not have external borrowings or any covenants based on financial performance.
- The Directors have considered the position of the individual trading companies in the Group to ensure that these companies are also in a position to continue to meet their obligations as they fall due.

The directors have also reviewed these cash flow forecasts in the light of potential impacts from the COVID-19 pandemic. The adjusted forecasts include a severe but plausible downside scenario where access to laboratory sites is prohibited for a period of three months, resulting in lost or delayed revenues, delayed milestone payments, delayed development activities (including slippage on clinical trial programmes), and a slow build back up to previous revenue levels. These adjustments have a minimal impact on forecast short-term cash flows during 2020. The medium-term impact centres around the commencement of clinical trials for the AVA6000 programme which are due to commence towards the end of 2020 or early 2021, the ability to recruit patients to the trial given potential COVID-19 follow-on issues and any delay this may have on the initial Phase I study readouts. This could potentially push the cash spend profile peak from the end of 2020 further into 2021, but with sufficient working capital through into 2022 this should not cause the Company and Group any issues in meeting their liabilities as they fall due during the remainder of 2020 and 2021. The directors also considered the impact of uncertainties due to the UK exiting the European Union, no significant impact on forecast short-term cash flows is expected.

The directors continue to explore additional sources of income and finance available to the Group to continue the development of the therapeutic and diagnostic platforms beyond 2021. The sources of income could come through additional therapeutic collaborations, similar to the LG Chem and Daewoong collaborations, which may include up-front technology access fees and significant early stage development income, with discussions underway with several potential collaborators.

Based on these indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Cautionary statement

The preliminary statements contain forward-looking statements that are subject to risk factors associated with, amongst other things, economic and business circumstances occurring from time to time within the markets in which the Group operates. The expectations expressed within these statements are believed to be reasonable but could be affected by a wide variety of variables outside of the Group's control. These variables could cause the results to differ materially from current expectations. The forward-looking statements reflect the knowledge and information available at the time of preparation.

Events since the end of the financial year

On 8 January 2020, the Group announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. A collaboration agreement has been signed between Avacta, Daewoong and AffyXell. AffyXell will fund Avacta's own research and development costs associated with the generation of the Affimer proteins for the joint venture.

On 6 April 2020, the Group announced that it had completed a fundraising of £5.75 million gross (£5.35 million net) through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received after the General Meeting which was held on 23 April 2020.

Alastair Smith
Chief Executive Officer
6 May 2020

Tony Gardiner
Chief Financial Officer
6 May 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the 17 months ended 31 December 2019

	Note	**2019*** **£000**	2018 £000
Revenue	4	**5,511**	2,763
Cost of sales		**(1,440)**	(893)
Gross profit		**4,071**	1,870
Research costs		**(7,860)**	(2,794)
Amortisation of development costs		**(2,202)**	(989)
Selling, general and administrative expenses		**(10,064)**	(7,239)
Depreciation expense		**(1,636)**	(971)
Share-based payment charge		**(338)**	(308)
Operating loss		**(18,029)**	(10,431)
Finance income		**73**	41
Finance costs		**(98)**	-
Net finance costs		**(25)**	41
Loss before tax		**(18,054)**	(10,390)
Taxation		**2,439**	1,561
Loss and total comprehensive loss for the period		**(15,615)**	(8,829)
Loss per ordinary share:			
Basic and diluted	5	**(12.98p)**	(13.49p)

** These results relate to the 17-month period ended 31 December 2019*

All activities relate to the continuing operations of the Group.

Consolidated Statement of Financial Position as at 31 December 2019

	Note	**2019** **£000**	2018 £000
Assets			
Property, plant and equipment		**2,304**	3,054
Right-of-use assets	6	**780**	-
Intangible assets		**11,800**	12,204
Non-current assets		**14,884**	15,258
Inventories		**156**	187
Trade and other receivables		**2,082**	1,288
Income tax receivable		**2,500**	1,500
Cash and cash equivalents		**8,788**	5,220
Current assets		**13,526**	8,195
Total assets		**28,410**	23,453
Liabilities			
Lease liabilities	6	**(646)**	-
Non-current liabilities		**(646)**	-
Trade and other payables		**(1,778)**	(2,040)
Lease liabilities	6	**(177)**	-
Current liabilities		**(1,955)**	(2,040)
Total liabilities		**(2,601)**	(2,040)
Net assets		**25,809**	21,413
Equity			
Share capital		**17,671**	6,976
Share premium		**9,877**	770
Capital reserve		**-**	1,899
Other reserve		**(1,729)**	(1,729)
Reserve for own shares		**(2,932)**	(2,802)
Retained earnings		**2,922**	16,299
Total equity		**25,809**	21,413

Consolidated Statement of Changes in Equity
for the 17 Months Ended 31 December 2019

	Share capital £000	Share premium £000	Other reserve £000	Capital reserve £000	Reserve for own shares £000	Retained earnings £000	Total equity £000
Balance at 1 August 2017	6,917	633	(1,729)	1,899	(2,651)	24,820	29,889
Total comprehensive loss for the period	-	-	-	-	-	(8,829)	(8,829)
Transactions with owners of the Company:							
Issue of shares	2	9	-	-	-	-	11
Exercise of share options	34	-	-	-	-	-	34
Own shares acquired	23	128			(151)		-
Equity-settled share-based payment	-	-	-	-	-	308	308
	59	137	-	-	(151)	308	353
Balance at 31 July 2018	**6,976**	**770**	**(1,729)**	**1,899**	**(2,802)**	**16,299**	**21,413**
Total comprehensive loss for the period	-	-	-	-	-	(15,615)	**(15,615)**
Transactions with owners of the Company:							
Issue of shares	10,625	8,674	-	-	-	-	19,299
Exercise of share options	32	341	-	-	-	-	373
Own shares acquired	38	92	-	-	(130)	-	-
Equity-settled share-based payment	-	-	-	-	-	338	338
Transfer[1]	-	-	-	(1,899)	-	1,899	-
	10,695	9,107	-	(1,899)	(130)	2,237	20,011
Balance at 31 December 2019	**17,671**	**9,877**	**(1,729)**	**-**	**(2,932)**	**2,922**	**25,809**

[1] *The transfer from the capital reserve to retained earnings relates to the elimination of the original acquisition accounting of Avacta Health Limited, which was dissolved during the period.*

Consolidated Statement of Cash Flows
for the 17-Month Period Ended 31 December 2019

	2019*	2018
	£000	£000
Cash flows from operating activities		
Loss for the period	**(15,615)**	(8,829)
Adjustments for:		
Amortisation and impairment losses	**2,313**	1,885
Depreciation	**1,636**	971
Net loss on disposal of property, plant and equipment	**19**	6
Loss on disposal of intangible assets	**-**	155
Equity-settled share-based payment transactions	**338**	308
Net finance costs	**25**	(41)
Taxation	**(2,439)**	(1,561)
Operating cash outflow before changes in working capital	**(13,723)**	(7,106)
Decrease/(increase) in inventories	**30**	(29)
Increase in trade and other receivables	**(825)**	(11)
Increase in trade and other payables	**78**	376
Operating cash outflow from operations	**(14,440)**	(6,770)
Interest received	**72**	41
Interest elements of lease payments	**(86)**	-
Tax credit received	**1,631**	1,261
Withholding tax paid	**(192)**	-
Net cash used in operating activities	**(13,015)**	(5,468)
Cash flows from investing activities		
Purchase of plant and equipment	**(618)**	(578)
Purchase of intangible assets	**(34)**	-
Development expenditure capitalised	**(1,875)**	(1,945)
Decrease in balances on short-term deposit	**-**	4,000
Net cash used in investing activities	**(2,527)**	1,477
Cash flows from financing activities		
Proceeds from issue of shares	**19,331**	45
Principal elements of lease payments	**(221)**	-
Net cash from financing activities	**19,110**	45
Net increase/(decrease) in cash and cash equivalents	**3,568**	(3,946)
Cash and cash equivalents at 1 August 2018	**5,220**	9,166
Cash and cash equivalents at 31 December 2019	**8,788**	5,220

* *These results relate to the 17-month period ended 31 December 2019*

Notes to the Preliminary Results to 31 December 2019

1 General Information

These preliminary results have been prepared on the basis of the accounting policies which are to be set out in Avacta Group plc's annual report and financial statements for the 17-month period ended 31 December 2019.

The consolidated financial statements of the Group for the 17-month period ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the EU ("adopted IFRSs") and applicable law.

The financial information set out above does not constitute the Company's statutory financial statements for the 17-month period ended 31 December 2019 or the year ended 31 July 2018 but is derived from those financial statements. Statutory financial statements for 2018 have been delivered to the Registrar of Companies and distributed to shareholders, and those for 2019 will be respectively delivered and distributed on or before 30 June 2020. The auditor has reported on those financial statements and their report was:

(i) unqualified;
(ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
(iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the financial statements for 2018 or 2019.

2 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The Company has elected to prepare its parent company financial statements in accordance with applicable UK accounting standards, including Financial Reporting Standard 102 – *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland* ('FRS 102'), and with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis.

During the period, the Group has changed its accounting period to 31 December to bring it in line with the calendar year and therefore the accounts are showing a 17-month period to the comparative 12-month financial year. As such, amounts presented in the financial statements are not entirely comparable.

Functional and presentation currency
These consolidated financial statements are presented in pound sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going concern

The preliminary statements outline the business activities of the Group along with the factors which may affect its future development and performance. The Group's financial position is discussed in the Financial Review along with details of its cash flow and liquidity.

These financial statements have been prepared on a going concern basis, notwithstanding a loss of £15.6 million and operating cash outflows of £13.0 million for the period ended 31 December 2019. The directors consider this to be appropriate for the following reasons.

The directors have prepared detailed cash flow forecasts that extend to the end of the financial year ended 31 December 2021. The forecasts take into account the directors' views of current and future economic conditions that are expected to prevail over the period. These forecasts include assumptions regarding the status of therapeutic development collaborations, diagnostic customer development projects and sales pipeline, future revenues and costs together with various scenarios which reflect growth plans, opportunities, risks and mitigating actions. The forecasts also include assumptions regarding the timing and quantum of investment in the therapeutic and diagnostic research and development programmes.

Whilst there are inherent uncertainties regarding the cash flows associated with the development of both the therapeutic and diagnostic platforms, together with the timing of signature and delivery of customer development projects and future collaboration transactions, the directors are satisfied that there is sufficient discretion and control as to the timing and quantum of cash outflows to ensure that the Company and Group are able to meet their liabilities as they fall due through into the first quarter of 2022. The key factors considered in reaching this conclusion are summarised below:

- The Group continues to develop its therapeutic and diagnostic platform technologies. This is expected to generate significant revenues for the Group over the coming years, aiding both profitability and cash flows. The announcement in January 2020 of the establishment of the joint venture with Korean based pharmaceutical company, Daewoong, will generate significant early stage development income during 2020 and subsequent periods.
- As at 31 December 2019, the Group's short-term deposits and cash and cash equivalents were £8.8 million (2018: £5.2 million).
- In April 2020, the Group announced and completed a fund-raise of £5.75 million which combined with existing cash balances will provide sufficient working capital through the remainder of 2020 and 2021 to continue to develop the therapeutic and diagnostic platform technologies.
- The Group has a tax refund in relation to R&D tax credits due in the second half of 2020 amounting to £2.5 million (a comparable tax refund of £1.6 million was received in July 2018).
- The Group does not have external borrowings or any covenants based on financial performance.
- The Directors have considered the position of the individual trading companies in the Group to ensure that these companies are also in a position to continue to meet their obligations as they fall due.

The directors have also reviewed these cash flow forecasts in the light of potential impacts from the COVID-19 pandemic. The adjusted forecasts include a severe but plausible downside scenario where access to laboratory sites is prohibited for a period of three months, resulting in lost or delayed revenues, delayed milestone payments, delayed development activities (including slippage on clinical trial programmes), and a slow build back up to previous revenue levels. These adjustments have a minimal impact on forecast short-term cash flows during 2020. The medium-term impact centres around the commencement of clinical trials for the AVA6000 programme which are due to commence towards the end of 2020 or early 2021, the ability to recruit patients to the trial given potential COVID-19 follow-on issues and any delay this may have on the initial Phase I study readouts. This could potentially push the cash spend profile peak from the end of 2020 further into 2021, but with sufficient working capital through into 2022 this should not cause the Company and Group any issues in meeting their liabilities as they fall due during the remainder of 2020 and 2021. The directors also considered the impact of uncertainties due to the UK exiting the European Union, no significant impact on forecast short-term cash flows is expected.

The directors continue to explore additional sources of income and finance available to the Group to continue the development of the therapeutic and diagnostic platforms beyond 2021. The sources of income could come through additional therapeutic collaborations, similar to the LG Chem and Daewoong collaborations, which may include up-front technology access fees and significant early stage development income, with discussions underway with several potential collaborators.

Based on these indications, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Changes in significant accounting policies

The Group has initially applied IFRS 15 and IFRS 9 from 1 August 2018. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at 1 August 2018. Accordingly, the information for 2018 has not been restated – it is presented, as previously reported, under IAS 18. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information. The impact of adopting IFRS 15 has not had a material effect on the Group's financial statements.

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments Recognition and Measurement*. The impact of adopting IFRS 9 has not had a material effect on the Group's financial statements.

IFRS 16

The Group early adopted IFRS 16 *Leases* from 1 August 2018. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 August 2018. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

As a lessee, the Group leases a small number of properties for office and laboratory use. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. As such, the property leases were classified as operating leases under IAS 17. On transition, the Group recognises right-of-use assets and lease liabilities for these leases – i.e. the leases are on-balance sheet. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 August 2018. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: The Group applied this approach to all leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

The impact on transition is summarised below.

£'000	**1 August 2018**
Right-of-use assets	1,067
Lease liabilities	(1,033)
Trade and other receivables	(34)

For the impact of IFRS 16 on profit or loss for the period, see Note 6.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments based on the incremental borrowing rate relevant to the lease. The weighted-average rate applied is 7.5%.

£'000	1 August 2018
Operating lease commitments as at 31 July 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	1,176
Adjustment to include commitments where reasonably certain not to exercise an option to terminate a lease	200
Discounted using the incremental borrowing rate as at 1 August 2018	(343)
Lease liabilities recognised at 1 August 2018	**1,033**

A number of other standards are also effective from 1 August 2018 but they do not have a material effect on the Group's financial statements.

3 Segment reporting

Operating segments

In the view of the Board of Directors, the Group has three (2018: two) distinct reportable segments, which are Diagnostics, Therapeutics and Animal Health (2018: Life Sciences and Animal Health), and segment reporting has been presented on this basis. During the 17-month period ended 31 December 2019, the structure of the Group's Life Sciences internal organisation and the format of the information reported internally to the Board has diverged to the extent that the Directors now consider Diagnostics and Therapeutics to be distinct operating segments. The Directors recognise that the operations of the Group are dynamic and therefore this position will be monitored as the Group develops.

The principal activities of each reportable segment are as follows:

Diagnostics: development of custom Affimer proteins for incorporation into customer products and in-house diagnostic assays.

Therapeutics: development of novel cancer immunotherapies combining proprietary platforms.

Animal Health: provision of tools and contract services to assist diagnosis of conditions in animals to enable faster treatment for veterinarians.

Segment revenue represents revenue from external customers arising from sale of goods and services, plus inter-segment revenues. Inter-segment transactions are priced on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group's revenue to destinations outside the UK amounted to 69% (2018: 60%) of total revenue. The revenue analysis below is based on the country of registration of the customer:

	17 months ended 31 December 2019	Year ended 31 July 2018
	£'000	£'000
UK	**1,691**	1,117
Rest of Europe	**851**	601
North America	**496**	999
Asia	**2,473**	46
	5,511	2,763

During the period, transactions with one single external customer, in the Therapeutics segment, amounted to 10% or more of the Group's revenues, £2,442,000. In the year ended 31 July 2018 transactions with two individual customers amounted to 10% or more of the Group's revenues. These revenues were £694,000 for a customer in the Life Sciences segment and £402,000 for a customer in the Animal Health segment.

Operating segment analysis 2019

	Diagnostics	Therapeutics	**Life Sciences Total**	Animal Health	**Total**
	£000	£000	**£000**	£000	**£000**
Revenue	812	2,515	**3,327**	2,184	**5,511**
Cost of goods sold	(454)	(284)	**(738)**	(702)	**(1,440)**
Gross profit	**358**	**2,231**	**2,589**	**1,482**	**4,071**
Research costs	(620)	(7,240)	**(7,860)**	-	**(7,860)**
Amortisation of development costs	(1,600)	-	**(1,600)**	(602)	**(2,202)**
Selling, general and administrative expenses	(3,605)	(2,269)	**(5,874)**	(1,776)	**(7,650)**
Depreciation expense	(612)	(678)	**(1,290)**	(52)	**(1,342)**
Share-based payment expense	(55)	(101)	**(156)**	(34)	**(190)**
Segment operating loss	**(6,134)**	**(8,057)**	**(14,191)**	**(982)**	**(15,173)**
Central overheads					**(2,856)**
Operating loss					**(18,029)**
Finance income					**73**
Finance expense					**(98)**
Loss before taxation					**(18,054)**
Taxation					**2,439**
Amount attributable to equity holders of the Company					**15,615**

Operating profit/loss is the measure of profit or loss regularly reviewed by the Board. Central overheads, which relate to operations of the Group function, are not allocated to the segments.

The information reported to the Board does not include balance sheet information at the segment level. The key segmental balance sheet information is considered to be the segment's non-current assets.

All material segmental non-current assets are located in the UK

Operating segment analysis 2018

The Group has changed the structure of its internal organisation during the period which has caused a change in the composition of the reportable segments. As a result, the corresponding segmental information from the previous financial period has been restated above by disclosing how the prior period Life Sciences segment relates to the current period reportable segments.

	Diagnostics	Therapeutics	**Life Sciences**	Animal Health	**Total**
	£000	£000	**£000**	£000	**£000**
Revenue	345	849	**1,194**	1,569	**2,763**
Cost of goods sold	(138)	(229)	**(367)**	(526)	**(893)**
Gross profit	**207**	**620**	**827**	**1,043**	**1,870**
Research costs	-	(2,647)	**(2,647)**	(147)	**(2,794)**
Amortisation of development costs	(676)	-	**(676)**	(313)	**(989)**
Selling, general and administrative expenses	(2,543)	(1,024)	**(3,567)**	(1,183)	**(4,750)**
Depreciation expense	(511)	(414)	**(925)**	(50)	**(975)**
Share-based payment charge	(90)	(66)	**(156)**	(28)	**(184)**
Segment operating loss	**(3,613)**	**(3,531)**	**(7,144)**	**(678)**	**(7,822)**
Central overheads					**(2,609)**
Operating loss					**(10,431)**
Finance income					**41**
Loss before taxation					**(10,390)**
Taxation					**1,561**
Amount attributable to equity holders of the Company					**(8,829)**

4 Revenue

The Group's revenue is all derived from contracts with customers. As discussed in Note 2, there was no material impact of initially applying IFRS 15 in the current period.

Disaggregation of revenue

In the following table, revenue is disaggregated by both its nature and the timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 3). As discussed in Note 3, there has been a change in reportable operating segments during the period. The comparative information for the prior financial period has been restated by disclosing how the prior period Life Sciences segment relates to the current period reportable segments.

17 months ended 31 December 2019

	Diagnostics	Therapeutics	Life Sciences	Animal Health	Total
	£000	£000	£000	£000	
Nature of revenue					
Sale of goods	-	-	**-**	**1,101**	**1,101**
Provision of services	812	556	**1,368**	**1,083**	**2,451**
License-related income	-	1,959	**1,959**	**-**	**1,959**
	812	**2,515**	**3,327**	**2,184**	**5,511**
Timing of revenue recognition					
Products or services transferred at a point in time	13	1,959	**1,972**	**2,031**	**4,003**
Products or services transferred over time	799	556	**1,355**	**153**	**1,508**
	812	**2,515**	**3,327**	**2,184**	**5,511**

12 months ended 31 July 2018

	Diagnostics	Therapeutics	Life Sciences	Animal Health	Total
	£000	£000	£000	£000	£000
Nature of revenue					
Sale of goods	-	-	**-**	825	**825**
Provision of services	345	849	**1,194**	744	**1,938**
License-related income	-	-	**-**	-	**-**
	345	**849**	**1,194**	**1,569**	**2,763**
Timing of revenue recognition					
Products or services transferred at a point in time	13	-	**13**	1,548	**1,561**
Products or services transferred over time	332	849	**1,181**	21	**1,202**
	345	**849**	**1,194**	**1,569**	**2,763**

5 Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period and the weighted average number of equity voting shares in issue excluding own shares held jointly by the Avacta Employees' Share Trust and certain employees and the shares held within the Avacta Share Incentive Plan ('SIP').

At 31 December 2019, 10,588,313 options (2018: 4,709,820) have been excluded from the diluted weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

	2019	2018
Loss (£000)	**(15,615)**	(8,829)
Weighted average number of shares (number)	**120,336,858**	65,437,007
Basic and diluted loss per ordinary share (pence)	**(12.98p)**	(13.49p)

6 Leases

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The Group leases a small number of properties for office and laboratory use. All leases were previously classified as operating leases under IAS 17. Information about leases for which the Group is a lessee is presented below.

a) Amounts recognised in the balance sheet

	31 December 2019	1 August 2018
	£000	£000
Right-of-use assets		
Buildings	**780**	1,067
Lease liabilities		
Current	**177**	172
Non-current	**646**	861
	823	1,033

b) Amounts recognised in profit or loss

	2019
	£000
Depreciation charge on right-of-use assets	
Buildings	**286**
Interest on lease liabilities	**98**
Expenses relating to leases of low-value assets	**2**

The total cash outflow for leases in the period was £307,000.

7 Post balance sheet events

On 8 January 2020, the Group announced that it had formed a joint venture with Daewoong Pharmaceutical ('Daewoong') which would be based in South Korea. The joint venture, named AffyXell Therapeutics ('AffyXell'), has been established to develop Affimer proteins which will be used by AffyXell for the generation of new cell and gene therapies. The Group made an initial contribution of £217,000 to the joint venture; and a collaboration agreement has been signed between Avacta, Daewoong and AffyXell. Avacta's research and development costs associated with the generation of the Affimer proteins will be funded by AffyXell.

On 6 April 2020, the Group announced that it had completed a fundraising of £5.75 million gross (£5.35 million net) through the placing of 20,833,333 Placing Shares and 11,111,110 Subscription Shares with new and existing investors at a price of 18 pence per share. The issue of the new shares and receipt of the proceeds from the fundraising were received after the General Meeting which was held on 23 April 2020.

- Ends -