

Starpharma Holdings Ltd SPL (\$0.57)

S&P/ASX 300 = 4538.0

SPECULATIVE BUY

Stellar Funding for Starpharma

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Event

- ▲ SPL has been awarded US\$20.3m (approximately A\$26.4m) of development funding from the US-based National Institute of Allergy and Infectious Diseases (NIAID), a part National Institute of Health (NIH).
- ▲ The funding has been provided to support the existing non-clinical and clinical development program for SPL's lead product, VivaGel™ as a microbicide to prevent infection of women with the HIV virus which is the cause of AIDS.
- ▲ The funding is being provided without any commercial obligations on future revenues that SPL may receive once the product reaches market, SPL is able to apply the funds to elements of the development program that are contracted out to third parties.
- ▲ We believe that this may be one of the largest awards that the NIH has ever made to support the development of an Australian technology.
- ▲ As NIH is one of the most significant research organisations in the world, this level of financial backing is a strong endorsement of SPL's technology and the encouraging nature of the data that as been generated to date on the prevention of HIV infection by VivaGel™.
- ▲ The funding will support all of the non-clinical elements of the VivaGel's development program for HIV, including scale-up manufacturing, as well as a significant proportion of the clinical development program.
- ▲ Through the reduction in R&D costs, the funding by the NIH has increased our probability adjusted NPV of VivaGel™ from \$44.8m (\$0.40 per share) to \$62.1m (\$0.56 per share).
- ▲ With SPL's equity holding in DNT valued at \$0.36 and other technology at \$0.13, we have revised upward our valuation for SPL from \$0.90 to \$1.05.

Company Statistics & Performance

Shares on issue: 111.2m
Daily Vol: 230,000
Est. Cash:\$6.7m

Market Cap: \$67.8m
52 Week Range: \$0.39 - \$1.00
Net cash burn:\$5.9m pa



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Impact of US\$20m Funding by NIH

- ▲ The US\$20m funding of the VivaGel™ project by the NIH provides a strong endorsement of the SPL's technology for the development of a microbicide to prevent HIV infection in women and also has a significant impact on the economics of the project as well as the risk profile of the company.
- ▲ In our initiation of coverage report (23 September 2005), we estimated that the non-clinical elements of the development program for VivaGel™ would cost approximately A\$5-6m and the clinical efficacy study for HIV would cost approximately A\$20-\$30m.
- ▲ As the company had A\$8.2m in the bank on 30 June 2005, it seems likely that there would be a need to raise a significant amount of cash within the next 6-12 months before committing to some of the future stages of the development program for VivaGel™.
- ▲ Based on SPL's share price prior to the announcement of the funding, the capital requirements to support the full development program of VivaGel™ for HIV could have resulted in significant dilution of existing shareholders by up to 35%.
- ▲ Furthermore, as the outcome of all such capital raising activities is uncertain, this may have resulted in some delays in initiating some elements of the development program for VivaGel™.
- ▲ As the funding comes with no downstream commercial obligations for SPL, this will allow the company to either take the product to market itself or secure a very favourable licensing deal for a late stage product with a minimal future investment.
- ▲ With the majority of costs for the VivaGel™ HIV program now covered by the NIH funding, SPL can use its existing cash for building other elements of its intellectual property portfolio.
- ▲ An additional benefit is that data from many elements to the VivaGel™ HIV development program can be applied to the use of VivaGel™ for other therapeutic indications such as the prevention of HSV-2 infection (genital herpes) and other STIs.
- ▲ The development of scale-up manufacturing of VivaGel™ and the long term safety data will be applicable for all indications that this product is developed for.
- ▲ The tie in with the NIH not only provides a strong endorsement on the application of SPL's dendrimer technology for the development of microbicides but will provide access to key investigators and opinion leaders who will play an essential role in ensuring the successful development and commercialisation of VivaGel™.
- ▲ In particular, we are anticipating that one of the significant customers of VivaGel will be world health organisations who will purchase VivaGel™ for distribution in developing countries to reduce the spread of HIV.
- ▲ As many of the leading personnel in these organisations have relationships with the NIH, the endorsement of the NIH will play a significant role in both generating awareness and validating SPL's technology for this application.
- ▲ We have revised our probability adjusted DCF for VivaGel™ from \$44.8m (\$0.50 per share) to \$62.1m (\$0.56 per share) as a result of the majority of development costs being covered by the NIH funding.
- ▲ As a consequence, our valuation for SPL has been revised upwards from \$0.90 to \$1.05.

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