

# FLASH NOTE

## BELL POTTER

21 July 2014

HEALTHCARE

### Starpharma (SPL)

VivaGel coated condom wins approval in home market

#### **SPL/Ansell's VivaGel coated condom receives regulatory approval in Australia**

Starpharma's partner Ansell has received marketing approval for the VivaGel coated condom (VCC) from the Australian Therapeutic Goods Administration (TGA). The TGA has granted the Conformity Assessment Certification for VCC, which will be followed by a listing on the Australian Register of Therapeutic Goods (ARTG). Ansell will market the product under their brand, *'LifeStyles Dual Protect'*, which will also carry the VivaGel brand. Ansell plans to launch the product soon (BPe Sep/Oct 2014), with a supporting marketing and sales campaign expected to be rolled out in the coming months. VCC offers dual protection to a consumer in terms of reducing risk of pregnancy as well as added protection against Sexually Transmitted Infections (STIs). Broadly the product would carry a claim on the lines of 'VivaGel is intended to reduce the risk of exposure to viruses that cause STIs, having been shown in laboratory studies, to inactivate up to 99.9% of HIV, HPV and HSV viruses'. Consumer research undertaken by the company and its partners has shown that there is strong interest in the VivaGel coated condom which is encouraging.

#### **Terms of Starpharma's agreement with Ansell**

Ansell holds the marketing rights to the VivaGel coated condom in Australia, US and other countries excluding Japan and some Asian markets. As per the terms of the 2011 agreement, Ansell is responsible for registration, manufacturing and launch of the product and will bear commercialization costs. SPL will be paid royalties (we estimate it to be tiered in the range of 10-15%, but model a flat rate of 12% for now). Ansell is the market leader in Australia with ~70% share of the Australian condom market (est. market size ~\$50m).

#### **Second regulatory approval for VCC builds confidence**

Today's approval by the TGA, follows the earlier approval received in Japan by SPL's partner Okamoto in March this year. **It also marks the first approval received by its partner Ansell** for the VivaGel coated condom. We viewed the Japan approval as the catalyst for investor sentiment returning to the stock highlighting the near term commerciality of VCC. **We view today's approval in Australia as building confidence around Starpharma's ability to commercialise its promising technology as well as serving as a further validation of the underlying platform technology.** We model VCC related royalties to SPL starting FY15. **We estimate royalty revenues from the VCC asset growing from US\$0.6m in FY15 to US\$22m in FY20** as the product launches in additional markets and adoption increases at the back of marketing and brand awareness campaigns undertaken by Okamoto and Ansell. We expect the TGA approval to facilitate faster approval in other markets, which allow for registration of a device under an equivalent classification if it has already been approved by the TGA, such as Singapore.

#### **Maintain Buy rating and Valuation of \$1.07**

We value SPL using a risk-weighted DCF at \$1.07/sh. We retain our Buy recommendation based on the near term VCC related royalties, results from docetaxel trial which could be a game changer and strong

cash position of \$27.8m which should fund it through FY15. Key catalysts for a re-rating include a) launch of VivaGel Coated Condom (VCC) in Japan this quarter, b) launch of VCC in Australia in the next 2-3 months, c) additional regulatory approvals for VCC in FY15, d) Top-line results from dendrimer-docetaxel Phase I trial in CY1H15, e) licensing deal for BV symptomatic relief in FY16 and f) results from Phase III R-BV trials in CY2H15.

**Disclosure:** Bell Potter Securities acted as lead manager in the October 2011 placement and SPP and received fees for that service.

**Recommendation:** Buy, Speculative    **Previous Close:** \$0.70    **Valuation:** \$1.07