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Starpharma Holdings Limited

Biotechnology

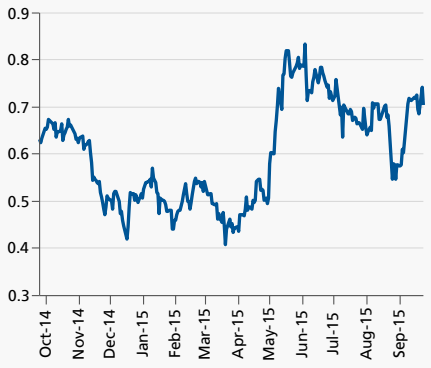
Australian Equity Research
23 September 2015

BUY
unchanged

PRICE TARGET A$1.12
unchanged
Price (24-Sep) A$0.70
Ticker SPL-ASX

52-Week Range (A$):	0.41 - 0.85
Avg Daily Vol (000s) :	386.9
Market Cap (A$M):	222
Shares Out. (M) :	319.1
Enterprise Value (A$M):	191
Last Cash Balance (A$M):	30.8
Last Quarter Cash Burn (A$M):	(3.8)
Major Shareholders:	Allan Gray
	M&G Investments
	Acorn Capital
	Dow Chemical

FYE Jun	2014A	2015A	2016E	2017E
Sales (A$M)	0.3	0.8	3.6	8.6
PBT (A$M)	(9.9)	(19.0)	(7.9)	(0.2)
Net Income (A$M)	(9.9)	(19.0)	(7.9)	(0.2)
EPS (AUc)	(3.11)	(5.94)	(2.49)	(0.08)
Cash Position (A$M)	24.0	30.8	22.9	22.7



Source: FactSet

SPL is developing new pharmaceutical, agrochemical and industrial products based on its proprietary dendrimer polymer technology.

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Company Update

VivaGel secures European marketing approval

Investment Perspective

SPL has secured European marketing approval for the treatment and symptomatic relief of bacterial vaginosis (BV). This approval allows VivaGel to be marketed throughout the European Union and countries that are part of the European Free Trade Association. In addition, the European approval can be used as the basis for securing approvals in certain other jurisdictions. SPL said it is in discussions with a number of potential commercial partners regarding the marketing rights for VivaGel and expects that this approval will expedite the establishment of distribution or licensing deal for VivaGel. We retain our BUY recommendation for SPL and our $1.12 price target, which is based on a 12-year DCF (13.4% discount rate, no terminal value).

Major step closer to commercialisation

Today's announcement puts SPL significantly closer to realising commercial returns from the development of VivaGel for bacterial vaginosis (BV). BV is one of the most common vaginal infections. The opportunity for VivaGel is that the existing treatments, which are primarily oral or vaginal administration of broad spectrum antibiotics, have limited efficacy and side-effects that are both unpleasant and make their long-term use unviable. VivaGel will be the first, new treatment for BV and has the potential to safely provide patients with rapid, long-term relief from the symptoms of BV. This approval will allow VivaGel to be marketed in Europe for the treatment and relief of symptoms of BV. The next steps for SPL will be to secure one or more commercial partners and to establish reimbursement for VivaGel in key European markets.

Clinical trial data has been mixed but encouraging

SPL has conducted multiple clinical trials of VivaGel. In November 2012, SPL reported that its two Phase-3 trials failed to meet the primary endpoint of clinical cure of BV which was measured 2-3 weeks after treatment with VivaGel had stopped. However, it was reported that patients rapidly experienced a rapid reduction in BV symptoms when they administered VivaGel and this was maintained while they continued to administered the product. In April 2013, the company reported data from a Phase-2 trial using VivaGel to prevent the recurrence of BV in patients after they had been treated with antibiotics. Recurrence is a major issue with BV with many patients experiencing 4-6 episodes a year after achieving a temporary cure using antibiotics. Over 80% of patients in treatment arm showed remained BV-free over 16 weeks of administering VivaGel. However, due to an unexpectedly high response in the placebo group, this result was not statistically significant.

Commercial opportunity for effective BV therapy is significant

VivaGel has the potential to be the first new therapy for BV sufferers for some time. It has been reported that up to 30% of women experience BV at some stage during their lives, although in 50%-85% of cases it is asymptomatic. However, for women who do experience symptoms, it can be devastating with the existing treatments only providing a temporary cure and high rates of recurrent infections. SPL is currently conducting two 600-patient, Phase-3 clinical trials for VivaGel for the prevention of recurrent BV. These trials, which started in October 2014, are now 50% recruited.

For important information, please see the Important Disclosures beginning on page 3 of this document.

FINANCIAL SUMMARY

Financial Performance

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
VivaGel Condoms royalty	$M	-	0.3	0.7	1.4	2.4	4.7	6.8	9.6	12.6
BV prevention royalty	$M	-	-	-	-	3.4	6.9	14.1	28.7	58.4
Drug delivery royalty	$M	-	-	-	-	-	-	-	5.6	11.3
Agrochemicals royalty	$M	-	-	-	1.5	3.8	7.5	11.3	13.5	15.0
Milestone payments	$M	-	-	2.9	5.7	15.0	35.0	35.0	75.0	50.0
Other	$M	0.3	0.6	-	-	-	-	-	-	-
Total product revenues	**$M**	**0.3**	**0.8**	**3.6**	**8.6**	**24.6**	**54.1**	**67.2**	**132.4**	**147.2**
		-	-	-	-	-	-	-	-	-
Interest revenue	$M	1.0	0.9	0.5	0.8	1.5	1.8	1.8	1.8	1.8
Grants and tax rebates	$M	4.7	0.0	3.9	2.8	1.8	1.1	0.9	0.7	0.5
Total revenue	**$M**	**6.0**	**1.7**	**8.0**	**12.3**	**27.9**	**57.0**	**69.8**	**134.9**	**149.4**
		-	-	-	-	-	-	-	-	-
R&D expenses	$M	-11.0	-16.3	-11.5	-8.0	-2.5	-2.0	-1.5	-1.0	-0.5
Administration expenses	$M	-4.9	-4.4	-4.4	-4.5	-4.7	-4.9	-5.0	-5.2	-5.4
Other expenses	$M	-	-0.0	-	-	-	-	-	-	-
Total expenses	**$M**	**-15.9**	**-20.6**	**-15.9**	**-12.5**	**-7.2**	**-6.9**	**-6.5**	**-6.2**	**-5.9**
Net profit before tax	**$M**	**-9.9**	**-19.0**	**-7.9**	**-0.2**	**20.7**	**50.1**	**63.3**	**128.6**	**143.5**
		-	-	-	-	-	-	-	-	-
Tax expense	$M	-	-	-	-	-	-	-3.4	-38.6	-43.0
Net profit after tax	**$M**	**-9.9**	**-19.0**	**-7.9**	**-0.2**	**20.7**	**50.1**	**59.9**	**90.1**	**100.4**
EPS (cps)	cps	-3.1	-5.9	-2.5	-0.1	6.5	15.7	18.8	28.2	31.5

Balance Sheet

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash and cash equivalents	$M	24.0	30.8	27.7	27.5	48.1	50.0	50.0	50.0	50.0
Other current assets	$M	4.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Non-current assets	$M	8.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Total assets	**$M**	**36.9**	**44.4**	**41.2**	**41.0**	**61.7**	**63.5**	**63.5**	**63.5**	**63.5**
Current borrowings	$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	$M	3.8	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Non-current borrowings	$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other non-current liabilities	$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Totals liabilities	**$M**	**3.9**	**6.8**	**6.8**	**6.8**	**6.8**	**6.8**	**6.8**	**6.8**	**6.8**
Net assets	**$M**	**33.0**	**37.6**	**34.4**	**34.2**	**54.9**	**56.7**	**56.7**	**56.7**	**56.7**
Contributed equity	$M	140.3	160.9	160.9	160.9	160.9	160.9	160.9	160.9	160.9
Reserves	$M	4.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Retained profit/ losses	$M	-112.3	-131.2	-134.3	-134.6	-113.9	-112.0	-112.0	-112.0	-112.0
Total equity	**$M**	**33.0**	**37.6**	**34.4**	**34.2**	**54.9**	**56.7**	**56.7**	**56.7**	**56.7**

Cash Flow

Year End	June	2014A	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F
Cash received from products & service	$M	0.4	0.5	3.6	8.6	24.6	54.1	67.2	132.4	147.2
Payments to suppliers	$M	-16.1	-19.3	-15.9	-12.5	-7.2	-6.9	-6.5	-6.2	-5.9
Net interest	$M	1.2	1.0	0.5	0.8	1.5	1.8	1.8	1.8	1.8
Grants and rebates	$M	4.7	4.2	3.9	2.8	1.8	1.1	0.9	0.7	0.5
Net tax	$M	-	-	-	-	-	-	-3.4	-38.6	-43.0
Cash from operations	**$M**	**-9.8**	**-13.6**	**-7.9**	**-0.2**	**20.7**	**50.1**	**59.9**	**90.1**	**100.4**
Cash from investing activities	**$M**	**-0.3**	**-0.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net cash from issue of shares	$M	0.2	20.5	-	-	-	-	-	-	-
Net cash from borrowing	$M	-	-	-	-	-	-	-	-	-
Dividends paid	$M	-	-	-	-	-	-48.2	-59.9	-90.1	-100.4
Other financing cash flows	$M	-0.0	-0.0	-	-	-	-	-	-	-
Cash from financing activities	**$M**	**0.2**	**20.5**	**-**	**-**	**-**	**-48.2**	**-59.9**	**-90.1**	**-100.4**
Net increase / decrease in cash	$M	-9.9	6.2	-7.9	-0.2	20.7	1.9	-	-	-
Cash at beginning of the year	$M	33.8	24.0	30.8	22.9	22.7	43.4	45.2	45.2	45.2
Exchange rates	$M	0.0	0.6	-	-	-	-	-	-	-
Cash at end of year	**$M**	**24.0**	**30.8**	**22.9**	**22.7**	**43.4**	**45.2**	**45.2**	**45.2**	**45.2**

Valuation

Risk free rate	%	4.6%
Market premium	%	5.5%
Beta	x	1.6
Discount rate	%	13.4%
Forecast period	years	16
12-month price target	$	$1.12
Current price	$	$0.70
Return	%	61%

SOURCE: *Company reports and Canaccord Genuity estimates*

Appendix: Important Disclosures

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Starpharma Holdings Limited - SPL

Our price target is based on a 12-year discounted cash flow valuation (13.4% WACC, 1.6 beta, no TGR) of risk-adjusted royalty and milestone payments that SPL may receive from products developed using its proprietary dendrimer polymer technology.

Risks to achieving Target Price / Valuation:

Starpharma Holdings Limited - SPL

A significant proportion of our valuation is based on commercial development of VivaGel which is currently in Phase-3 clinical trials for the treatment of bacterial vaginosis. If these trial fail to achieve a clinically meaningful benefit, it will have a significant impact on our valuation. Similarly, the value of the dendrimer formulation technology requires those products to successfully complete several clinical trials and secure regulatory approvals. Finally, the commercial development of most of SPL product is based on current and future partnerships. If the company is unable to secure these, or they are secured on financial terms different to what we have forecast, or the partner does not effectively proceed with commercialising SPL's products, it will impact on the valuation of SPL.

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Global Stock Ratings (as of 09/23/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	621	62.54%	31.88%
Hold	285	28.70%	12.98%
Sell	29	2.92%	3.45%
Speculative Buy	58	5.84%	56.90%
	993*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

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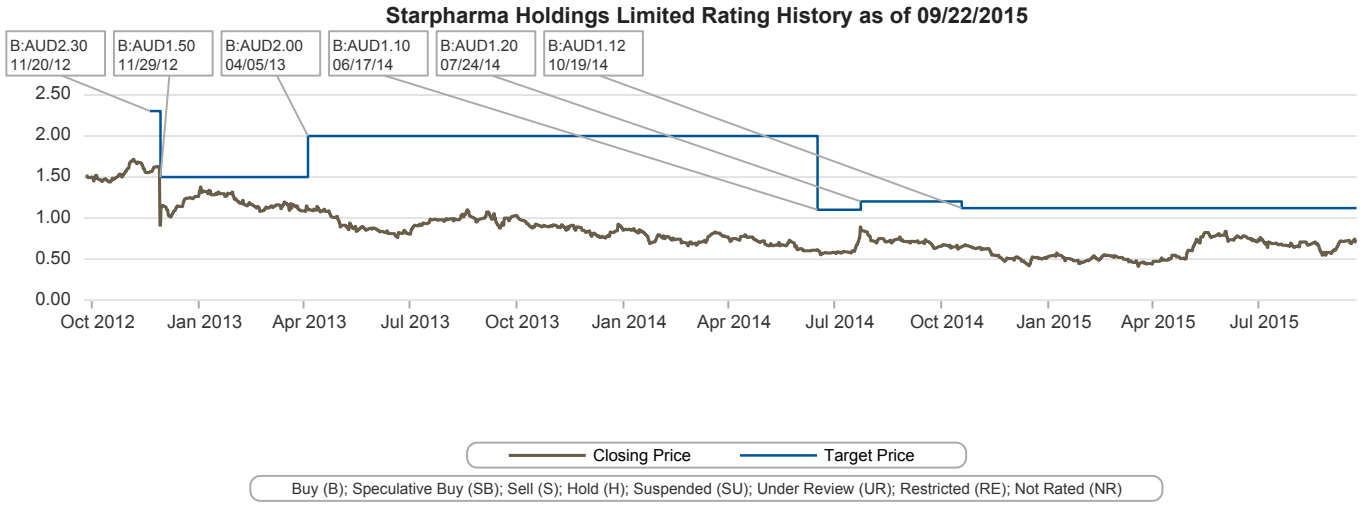

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