BELL POTTER

24 September 2015

Speculative
See Key risks on Page 7
Speculative securities may not be suitable for Retail clients

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Starpharma (SPL)

Regulatory approval for VivaGel BV - a precursor to a licensing deal

Recommendation
Buy (unchanged)
Price
$0.715
Valuation
$1.15 (unchanged)
Risk
Speculative

GICS Sector

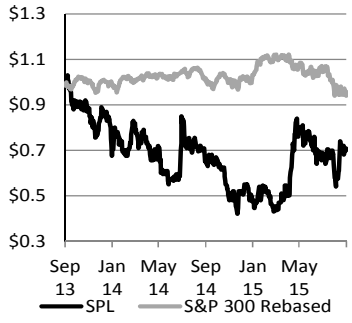
Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**60.8%**
Dividend yield	**0.0%**
Total expected return	**60.8%**
Company Data & Ratios	
Enterprise value	**$197.4m**
Market cap	**$228.2m**
Issued capital	**319.14m**
Free float	**100%**
Avg. daily val. (52wk)	**$291,123**
12 month price range	**$0.41- $0.845**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.69	0.78	0.71
Absolute (%)	2.19	-10.26	-1.41
Rel market (%)	7.59	-0.81	6.28

Absolute Price



SOURCE: IRESS

VivaGel Bacterial Vaginosis product nearing commerciality

Starpharma has announced today that its VivaGel symptomatic relief of Bacterial Vaginosis (BV) product has been granted marketing approval in Europe. The symptomatic relief opportunity is being positioned as an OTC (Over the Counter) consumer product. This means that women will not need to see a doctor to get a prescription and will be able to purchase this off-the-shelf in stores. **This approval is an important milestone for the company as it marks the first approval received for VivaGel for the Bacterial Vaginosis application.** On launch, VivaGel for symptomatic relief of BV will become SPL's second commercial product after the VivaGel coated condom and will serve to further de-risk SPL's VivaGel portfolio.

Approval - a likely precursor to a commercial licensing deal

We view today's approval as a precursor to a commercial licensing deal. We strongly believe that the approval is likely to be the catalyst for accelerating ongoing partnering negotiations for the BV symptomatic relief product towards a potential positive conclusion. We expect a deal, primarily royalty based with modest commercial milestones, to be inked before the end of CY15. We forecast that SPL licenses the product for Ex-US markets for a deal worth US$25m including US$1.5m in upfront, US$23.5m in sales milestones and double digit royalties on sales (BPe 20%).

Approval in other jurisdictions to follow

We expect marketing approvals for the BV symptomatic relief product in other Ex-US jurisdictions to follow over the course of the next few months. SPL expects the EU approval to facilitate faster regulatory approvals in other countries which formally recognise the EU approval.

Maintain Buy and Valuation of $1.15

There is no change in our earnings forecasts. We retain Buy and our DCF valuation of A$1.15/sh. We continue to believe that positive results from Phase I dendrimer-docetaxel trial (due in FY16) could be a game changer for SPL.

Earnings Forecast

Year end 30th June	2014A	2015A	2016E	2017E	2018E
Revenue (A$m)	4.5	4.3	9.3	54.6	45.4
EBITDA (A$m)	-14.5	-18.6	-13.5	43.2	34.4
NPAT (adjusted) (A$m)	-14.6	-19.0	-14.0	30.1	24.6
EPS (adjusted) (cps)	-5.15	-6.11	-4.32	9.27	7.56
EPS growth (%)	N/A	N/A	N/A	NM	-18.4%
PER (x)	N/A	N/A	N/A	7.7	9.5
EV/EBITDA (x)	-13.6	-10.6	-14.6	4.6	5.7
Dividend (¢ps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	-44.4%	-50.5%	-56.4%	53.5%	29.9%

NOTE: REVENUE INCLUDES R&D TAX INCENTIVES. FY16 & FY17 REVENUE ALSO INCLUDE POTENTIAL UPFRONT FROM DOCETAXEL, VIVAGEL SYMPTOMATIC RELIEF AND PREVENTION OF R-BV DEALS AND ROYALTIES. SOURCE: BELL POTTER SECURITIES ESTIMATES

VivaGel for BV nearing commerciality

SPL's lead product VivaGel (SPL7013 Gel) is being developed as a topical microbicide for the prevention of recurrence of Bacterial Vaginosis (R-BV). It is also being positioned as a symptomatic relief product for women suffering with BV in markets outside of the US.

The symptomatic relief opportunity is being positioned as an OTC (Over the Counter) consumer product, whereas the R-BV opportunity will be a prescription (Rx) pharmaceutical product.

Earlier this year SPL submitted for registration in various EX-US jurisdictions a BV symptomatic relief claim for VivaGel.

Starpharma has announced today that its VivaGel symptomatic relief product has been granted marketing approval in Europe. The product will have a label claim for the treatment and rapid relief of Bacterial Vaginosis (BV) including its symptoms. ***This approval is an important milestone for the company as it marks the first approval received for VivaGel for the Bacterial Vaginosis application.***

Our comments:

- **Approval - a likely precursor to a commercial licensing deal:** We view today's approval as a precursor to a commercial licensing deal. We strongly believe that the approval is likely to be the catalyst for accelerating ongoing partnering negotiations for the BV symptomatic relief product towards a potential positive conclusion. The approval in Europe makes our expected timing for a deal before the end of CY15 achievable.
- **Further approvals in other jurisdictions to follow:** We expect marketing approvals for the BV symptomatic relief product in other Ex-US jurisdictions to follow over the course of the next few months. SPL expects the EU approval to facilitate faster regulatory approvals in other countries which formally recognise the EU approval.
- **Becomes second commercial product from SPL's VivaGel Portfolio:** On launch, VivaGel for symptomatic relief of BV will become Starpharma's second commercial product after the VivaGel coated condom. We believe that a commercial deal for the product followed by its launch will serve to further de-risk SPL's VivaGel portfolio.
- **Licensee for BV symptomatic relief may be a potential licensee for the R-BV product in future:** There are various companies who have both prescription and OTC franchises in women's health. From a long term strategic point of view, if the VivaGel symptomatic relief OTC product is licensed to such a group, they could also be potential candidates to license the larger prescription prevention of BV recurrence opportunity. We note that SPL is currently running 2 Phase III R-BV trials under a SPA (Special Protocol Assessment) from the FDA with VivaGel with sites across North America, Europe and Asia.
- **Our potential deal forecasts for the BV Symptomatic Relief opportunity:** We expect a deal, primarily royalty based with modest commercial milestones, to be inked in CY4Q15. At this stage we assume SPL to license the product for Ex-US markets for US$25m including US$1.5m in upfront, US$23.5m in sales milestones on certain sales thresholds being met and double digit royalties (BPe 20%). We estimate peak sales of US$56m (assuming 15% market penetration).

In summary, we expect that the approval for VivaGel for BV symptomatic relief in Europe will be followed by a partnering deal before the end of CY15. We also expect further approvals for the product in other Ex-US jurisdictions over the course of the next few months. Assuming a deal is finalised by end of CY15, we expect launch and first sales from the product in 1HCY16.

Overview of Bacterial Vaginosis infection

Bacterial Vaginosis (BV) is the most common vaginal infection in women of childbearing age (14-49). It is associated with an imbalance in the 'good' and 'harmful' bacteria that are normally found in a women's vagina. Specifically in BV patients the *Lactobacillus* species of bacteria loses its predominance to other bacteria such as those of the *Gardnerella, Mobiluncus* and other anaerobic species. The lactobacilli are largely responsible for maintaining the acidic pH of the vagina.

Disease Prevalence: 29% of US women aged 14-49 have had BV. 30% of BV patients in US have recurrence of symptoms within 3 months of therapy and more than 50% experience a recurrence within 12 months. **Recurrent BV is defined as episodes of 3 BV or more in 12 months.** As an indication BV is an underdiagnosed and undertreated disease.

Symptoms and Risks: The disease is linked to complications like premature delivery, increased risk of sexually transmitted infections (STIs) like HIV and genital herpes, development of pelvic inflammatory disease (PID) and in pregnant women undergoing abortion, it is linked to an increased risk of infection.

Many women with BV have no symptoms. For women with symptomatic BV, the disease affects the quality of life especially if they have chronic and repeated episodes of BV. Common symptoms of BV include:

- Abnormal vaginal discharge
- Unpleasant odour
- Burning during urination
- Itching around outside of vagina

Standard of Care and its quality: There is currently no treatment approved for prevention of recurrence of BV. Current acute treatment options for BV are also few. There exists an unmet need for safe and effective treatments and therapies that can prevent the recurrence of the infection.

Current standard of care for BV acute treatment are the antibiotics metronidazole and clindamycin. They are administered either as a pill or applied topically intra-vaginally. They are not optimal since they have high relapse rates and are also associated with side effects including increased risk of thrush (candidiasis), gastrointestinal side effects, adverse reactions with alcohol consumption and are incompatible with condom use.

The high side effects of antibiotics sometimes lead to non-compliance and incomplete treatment which in turn may lead to development of resistance by the bacteria for the antibiotic therapy. Frequent use of antibiotics is also considered to lead to development of resistance. We note that the high side effects and resistance issues associated with existing antibiotic treatments make them unsuitable for long-term or preventative use.

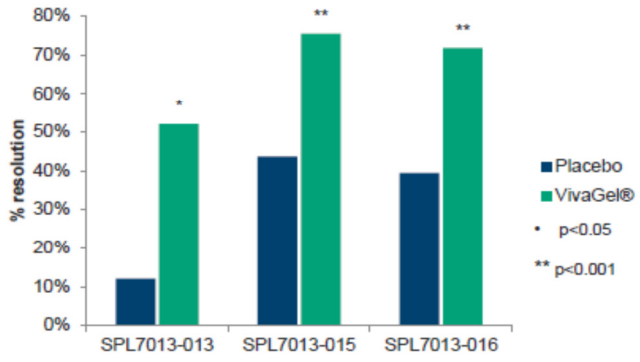
VivaGel for managing BV Symptoms

In Ex-US markets only, SPL is pursuing regional approvals of VivaGel for management of BV symptoms. This is an OTC (over the counter) consumer product. This means that women will not need to see a doctor to get a prescription and will be able to purchase this off-the-shelf in stores. Given that it is women with Symptomatic BV who generally seek treatment, an effective solution for women to reduce or relieve these symptoms is likely to be well received.

Women, who get symptoms of BV for the first time, are more likely to self-medicate (buying an OTC product) rather than going to a doctor for diagnosis. These women would generally consult a doctor if their symptoms persist after self-treatment.

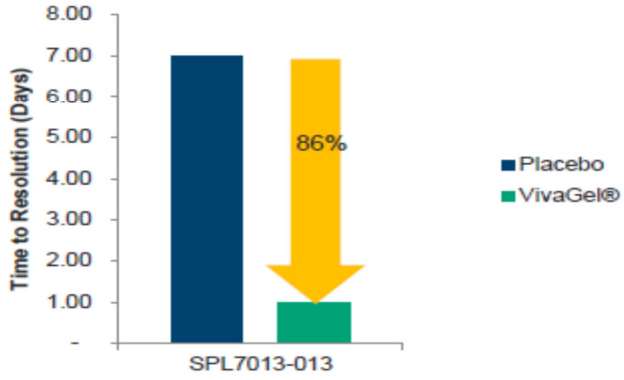
All the clinical trials so far have demonstrated the strong BV symptom resolution effect of VivaGel compared to the placebo gel as long as women remained on treatment. In 3 separate VivaGel trials, VivaGel was shown to provide statistically significant results showing greater odour resolution as compared to placebo (See Figure 1 & 2).

Figure 1 - VivaGel - Resolution of Odour in BV patients



SOURCE: COMPANY DATA

Figure 2 - VivaGel - Rapid resolution of BV related odour



SOURCE: COMPANY DATA

Competitive landscape

For symptomatic relief, SPL is targeting the OTC market in Ex-US jurisdictions.

Indirectly, the company will face some competition from the approved antibiotics such as Metronidazole and Clindamycin for acute treatment of BV.

However, its direct competition will be OTC products which can be clubbed broadly under the heading *'Vaginal pH correction treatments'*. The 'vaginal pH correction' OTC products are intravaginal gels or washes which change the acid balance of the vagina, making it a less hospitable environment for harmful bacteria. There are quite a few of these products available however, most don't have the extent of clinical trials data as SPL has to back their effectiveness claims.

In the OTC market, awareness and brand building efforts play a significant role in driving product adoption. Therefore, VivaGel's success in the OTC market will depend on the marketing and distribution capabilities of its licensee.

Valuation

We value Starpharma using a risk-weighted DCF. Our DCF model uses risk-adjusted revenue numbers based on the probability of success (of reaching the market) assigned to Starpharma's pipeline products. The probability of success we attribute to each drug candidate is dependent on its development phase. Our DCF valuation model is based on a WACC of 16.0% and a terminal growth rate of 1%.

Table 1 - Summary of Valuation

Forecasts	Base case
Enterprise Value from DCF (AUDm)	357.8
Add: Cash at end FY16E (AUDm)	16.2
Less: Debt at end FY16E (AUDm)	0.0
Equity Value (AUDm)	374.0
Total diluted shares at end FY16E (million)	325.6
Value per share (AUD)	**$1.15**
Current Share price (AUD)	$0.72
Expected Capital Growth	60.8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 2 - SPL- Probability-Weighted Sum-of-parts Valuation Summary

Asset	Stage	First Fiscal Year of sales (Est.)	Peak Market share	Peak Sales Global (US$m)	Probability of success	Probability adjusted NPV (A$m)	Value per share (A$)	% Mix
VivaGel BV Symptomatic Relief	First regulatory approval in Europe received	2016 (Ex-US)	15.0%	$56	80.0%	$50	**$0.15**	13.3%
VivaGel BV Prevention of Recurrence	Phase III	2017	25.0%	$647	44.0%	$198	**$0.61**	52.8%
VivaGel Coated Condom - Okamoto	Regulatory certification received	2016 (Japan)	10.0%	$21	80.0%	$6	**$0.02**	1.6%
VivaGel Coated Condom - Ansell	Regulatory approval received for AU,NZ	2015 (Ex-US), 2017 (US)	10.0%	$309	80.0%	$74	**$0.23**	19.8%
Dendrimer-Docetaxel (first solid tumour)	Phase I	2021	15.0%	$511	15.0%	$45	**$0.14**	12.0%
AZN DEP Cancer Drug (lead)	Pre-clinical	2024	NA	NA	NA	$25	**$0.08**	6.8%
Dendrimer-Glyphosate	Field Trials ongoing	2017	10.0%	$763	15.0%	$19	**$0.06**	5.2%
Diagnostics/Laboratory Reagents	On-market	NA	NA	NA	NA	$4	**$0.01**	1.1%
Other Pipeline/Non-allocated	NA	NA	NA	NA	NA	-$63	**-$0.19**	-16.9%
Cash (EOY 2016E)	NA	NA	NA	NA	NA	$16	**$0.05**	4.3%
Debt (EOY 2016E)	NA	NA	NA	NA	NA	-$0.0	**$0.00**	0.0%
Equity Value						**$374.0**	**$1.15**	**100.0%**

GLOBAL PEAK SALES ARE PRE-RISK ADJUSTMENT AND ROYALTIES. BV = BACTERIAL VAGINOSIS. PEAK SALES FOR COATED CONDOM FOR OKAMOTO AND ANSELL ARE BASED ON REGIONS UNDER AGREEMENT WITH THEM. PEAK SALES FOR VIVAGEL SYMPTOMATIC RELIEF IS FOR EX-US MARKETS ONLY. AZN DEP CANCER DRUG ONLY INCLUDES UPFRONT, DEVELOPMENT AND LAUNCH MILESTONES FROM LEAD DRUG UNDER AGREEMENT.

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 3 - Deal Assumptions for SPL

Asset	Indication	Stage at Licensing	Licensee	Fiscal Year Timing of deal (Est.)	Total Deal Value in USDm (upfront plus milestones)	Upfront (USDm)	Developmental & regulatory Milestones (USDm)	Commercial Milestones (USDm)	Royalty Rate (%)
VivaGel	BV Symptomatic Relief (EX-US)	Registration (pre-launch)	TBC	2016	25	1.5	NA	23.5	20.0%
VivaGel	BV Prevention of Recurrence	Phase III complete	TBC	2017	200	5	35	160	25.0%
VivaGel	Coated Condom (Japan)	Pre Regulatory Approval	Okamoto	2011	0	NA	NA	NA	12.0%
VivaGel	Coated Condom (Ex-Japan)	Pre Regulatory Approval	Ansell	2012	0	NA	NA	NA	12.0%
Dendrimer-Docetaxel	First Solid tumour	Phase II ongoing	TBC	2017	200	10	90	100	12.0%
AZN DEP Cancer Drug (lead)	Unknown	Pre-clinical	AstraZeneca	2016	126	2	64	60	NA
Dendrimer-Glyphosate	Crop protection	Pre Regulatory Submission	TBC	2016	0	NA	NA	NA	5.0%

NOTE: OUR DENDRIMER-DOCETAXEL DEAL ASSUMPTIONS ARE CONSERVATIVE REFLECTING ITS EARLY STAGE. IT COULD POTENTIALLY HAVE ADDITIONAL VALUE FOR EACH ADDITIONAL INDICATION THAT THE LICENSEE PURSUES. WE DO NOT INCLUDE COMMERCIAL MILESTONES IN OUR MODEL AT THIS STAGE FOR DOCETAXEL DEAL OR FOR BV PREVENTION OF RECURRENCE. ROYALTIES ARE LIKELY TO BE TIERED FOR EACH DEAL. WE ASSUME FLAT RATE AT MID POINT OF RANGE FOR NOW. AZN DEP CANCER DRUG ONLY INCLUDES UPFRONT, DEVELOPMENT AND LAUNCH MILESTONES FROM LEAD DRUG UNDER AGREEMENT.

SOURCE: BELL POTTER SECURITIES ESTIMATES

Upside Risk to our valuation

We have not modelled SPL's potential revenue flow from its partnerships with Nufarm (agrochemicals), Gowan Company (agrochemicals), Makhteshim Agan (agrochemicals), Eli Lilly (drug delivery), Elanco (drug delivery), GSK (drug delivery) and from its multiple undisclosed partnerships both in drug delivery and agrochemicals. These partnerships

becoming substantial in future and converting to a commercial licensing deal with financial terms would lead to an upside to our estimates.

At this stage we do not model royalties and sales milestones attached to the lead cancer drug under the AstraZeneca (AZN) partnership. Sales milestones are estimated to be US$60m and SPL estimates that royalties over the life of the lead drug could amount to ~US$324m. We also do not include any value for the follow on compounds under the AZN agreement which are each worth up to US$93.3m in milestones. Clarity on the molecular target and targeted indication on lead drug will allow us to model royalties and sales milestones. Other follow on compounds moving into the clinic would be a potential upside to our estimates.

At this stage, we do not value SPL's second internal candidate from drug-delivery Dendrimer-Oxaliplatin, given the early nature of these programmes. These programmes moving ahead into the clinic would be a potential upside to our estimates.

Also, we note that docetaxel (Taxotere) made by Sanofi Aventis is currently approved for multiple indications including breast cancer, head and neck cancer, gastric cancer, prostate cancer and non-small cell lung cancer (NSCLC). SPL has previously reported results from animal studies of dendrimer-docetaxel, which demonstrated that dendrimer-docetaxel has superior efficacy to docetaxel alone across a wide range of tumours namely prostate, lung, ovarian and breast. SPL's closest competitor BIND Therapeutics, which has an improved docetaxel formulation in development, is pursuing NSCLC and prostate cancer indications. At this stage for SPL, we model dendrimer-docetaxel's opportunity for the first solid tumour indication the company may pursue. However, depending on the results from the Phase I trial, which is recruiting patients with various solid tumours, SPL or a potential licensee, may decide to pursue more than one indication in parallel. This could considerably increase the market opportunity for this asset. **Expanded indications for dendrimer-docetaxel could lead to upgrades in our numbers.** We will revisit our assumptions on the basis of the Phase I dendrimer-docetaxel trial results.

Forthcoming Milestones

In terms of news flow over the next 12 months, we expect the following announcements to act as catalysts for a potential re-rating of the stock:

- **1HFY16 - Interim data from the first dose escalation phase of Phase I dendrimer-docetaxel trial on the MTD (maximum tolerated dose);**
- 1HFY16 - Licensing deal for VivaGel for symptomatic relief of BV;
- 1HFY16 - Launch of VivaGel Coated Condom in New Zealand by Ansell and their distributor EBOS group;
- FY16 - Additional regulatory approvals for VivaGel for symptomatic relief of Bacterial Vaginosis (BV) in Ex-US markets;
- FY16 - Additional regulatory approvals for VivaGel coated condom in markets under agreement with Ansell;
- 1HFY16 – Potential licensing deal for agrochemicals program dendrimer-glyphosate;
- **2HFY16- Top line results from dendrimer-docetaxel Phase I trial including the expansion phase of trial;**
- 2HFY16 - Launch of VivaGel coated condom in Japan by Okamoto;
- Early 2HFY16 - Results from the two Phase III trials of VivaGel for Prevention of Recurrence of Bacterial Vaginosis;

In addition, we expect that over the next 6-12 months one or more of SPL's various disclosed or undisclosed partnerships in agrochemicals to expand further, potentially converting to a commercial licensing deal with financial terms attached.

Starpharma Holdings Ltd. (SPL)

COMPANY DESCRIPTION

Starpharma is a Melbourne-based platform company commercialising the science of nanoscale polymers called dendrimers. Its proprietary dendrimer technology is versatile with wide applicability across multiple sectors including pharmaceuticals, agrochemicals and industrial applications. SPL's lead product is VivaGel which is being developed as an anti-microbial coating for Ansell and Okamoto condoms offering protection against Sexually Transmitted Infections, as well as a topical microbicide to prevent the recurrence of the common vaginal infection in women, Bacterial Vaginosis (BV). SPL is also working on improved formulations of leading cancer drugs as well as agrochemicals both internally and with external partners. Substantial shareholders include Allan Gray, M&G and Fidelity. Their combined holdings represent ~32.6%.

INVESTMENT STRATEGY

SPL remains an attractive story with multiple shots on goal. We expect multiple catalysts to play out over the next 6 -12 months which could further de-risk the platform technology and demonstrate its commercial viability. We believe that FY16 will be a watershed year for SPL, with the release of Top-line data from the Phase I dendrimer-docetaxel trial. Positive data from this trial will serve as a proof of concept for SPL's dendrimers to be effective drug delivery agents and substantially de-risk the company. SPL's strong cash position of $30.8m underpins its future growth and we expect to see the company add value in the medium term through commercial revenue from the condom coating asset, the AstraZeneca drug delivery partnership, as well as VivaGel for Symptomatic relief for BV (Ex-US), as well as through progressing clinical trials for dendrimer-docetaxel and VivaGel for prevention of R-BV. We continue to rate SPL as a Buy (speculative).

KEY RISKS

We see the following key stock specific risks to our investment thesis on Starpharma:

- **Clinical risk:** SPL's clinical trials primarily the Phase III R-BV trials and the Phase I dendrimer-docetaxel trial may fail to demonstrate meaningful safety and efficacy. This may jeopardise the potential for SPL to license the products and/or pursue further clinical development.
- **Technology risk:** SPL is a platform company, with its entire pipeline based on its proprietary dendrimer technology. Any setback clinically or commercially is likely to put the viability of the company's technology at risk.
- **Regulatory risk:** Delays in receiving marketing approval or launch for VivaGel coated condom will negatively impact our revenue forecasts. This risk also extends to other pipeline products in terms of getting regulatory agreement to conduct clinical trials and marketing approval for launch in various markets.
- **Partnering risk:** The basic premise behind our investment thesis for SPL is that all its major products get licensed at attractive terms with the partner being responsible for all commercialisation and any further development as required. If SPL fails to secure partnerships at attractive terms, our forecasts will be negatively impacted. Furthermore, if any of SPL's existing collaborations should be terminated, it is likely to shake the markets confidence in SPL's technology and its commercial viability.
- **Commercial risk:** The VivaGel coated condom sales and revenue from partnerships with Okamoto/Ansell could fail to meet our expectations due to poor commercialization effort, delays in launch, unfavourable experience of consumers with the product, better performance of a competing product etc.
- **Funding risk:** Delays in partnering of products and/or increase in costs of trials beyond what we currently estimate may impact SPL's funding position.

SPL has $30.8m cash at the end of FY15 and has burned ~$1.6m/month on average over the last twelve months

Starpharma
as at 24 September 2015

Recommendation	Buy, Speculative
Price	$0.715
Valuation	$1.15

Table 4 - Financial summary

Starpharma (SPL) — **Share price (A$)** **$0.715**
As at 24 September 2015 — **Market cap (A$m)** **228.2**

Profit and Loss

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Revenue*	4.5	4.3	9.3	54.6	45.4
EBITDA	**-14.5**	**-18.6**	**-13.5**	**43.2**	**34.4**
Depreciation & Amortisation	-1.1	-1.2	-1.2	-1.3	-1.3
EBIT	**-15.6**	**-19.8**	**-14.7**	**42.0**	**33.1**
Net interest & Other Income/(Expense)	1.0	0.9	0.7	1.0	1.9
Pre-tax profit (loss)	-14.6	-19.0	-14.0	43.0	35.1
Tax	0.0	0.0	0.0	12.9	10.5
NPAT (adjusted)	-14.6	-19.0	-14.0	30.1	24.6
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit (loss) to shareholders	**-14.6**	**-19.0**	**-14.0**	**30.1**	**24.6**
Reported net profit (loss) to shareholders	-14.6	-19.0	-14.0	30.1	24.6

* Including R&D tax incentive and royalties. FY16 Revenue number includes potential upfront from VivaGel symptomatic relief deal. FY17 revenue number includes potential upfront & milestone from BV prevention of recurrence and docetaxel deal

Valuation data

Y/e June 30	2014A	2015A	2016E	2017E	2018E
Net profit (A$m)	-14.6	-19.0	-14.0	30.1	24.6
EPS (c)	-5.1	-6.1	-4.3	9.3	7.6
EPS growth (%)	N/A	N/A	N/A	NM	-18.4%
P/E ratio (x)	N/A	N/A	N/A	7.7	9.5
CFPS (c)	-3.5	-4.4	-4.4	11.0	8.3
Price/CF (x)	-20.7	-16.3	-16.2	6.5	8.6
DPS (c)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA	-13.6	-10.6	-14.6	4.6	5.7
EV/EBIT	-12.7	-10.0	-13.4	4.7	6.0

Cashflow

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Reported NPAT plus discontinued ops.	-14.6	-19.0	-14.0	30.1	24.6
Non-cash items	2.5	2.0	2.5	2.6	2.6
Working capital	2.3	3.3	-2.8	3.2	-0.1
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Operating cashflow	**-9.8**	**-13.6**	**-14.3**	**35.8**	**27.0**
Capex	-0.3	-0.7	-0.3	-0.3	-0.3
Investments	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Investing cashflow	**-0.3**	**-0.7**	**-0.3**	**-0.3**	**-0.3**
Change in borrow ings	0.0	0.0	0.0	0.0	0.0
Equity issued	0.2	20.5	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
Financing cashflow	**0.2**	**20.5**	**0.0**	**0.0**	**0.0**
Net change in cash	**-9.9**	**6.2**	**-14.6**	**35.5**	**26.8**
Cash at end of period*	24.0	30.8	16.2	51.8	78.6
* Includes effect of exchange rate fluctuations on cash balance					
Free cash flow	**-10.1**	**-14.3**	**-14.6**	**35.6**	**26.8**

Share price now	$0.715
Valuation:	$1.15
Premium (discount) to price	60.8%
Recommendation:	Buy
Risk Rating	Speculative

Profitability ratios

Y/e June 30	2014A	2015A	2016E	2017E	2018E
EBITDA/revenue (%)	N/A	N/A	N/A	79.2%	75.8%
EBIT/revenue (%)	N/A	N/A	N/A	76.9%	73.0%
Return on assets (%)	-39.7%	-42.7%	-48.4%	49.7%	28.4%
Return on equity (%)	-44.4%	-50.5%	-56.4%	53.5%	29.9%
Return on funds empl'd (%)	-44.3%	-50.4%	-56.4%	53.5%	29.9%
Dividend cover (x)	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	0.0%	0.0%	0.0%	30.0%	30.0%

Liquidity and leverage ratios

Y/e June 30	2014A	2015A	2016E	2017E	2018E
Net cash (debt) (A$m)	24.0	30.8	16.2	51.8	78.6
Net debt/equity (%)	N/A	N/A	N/A	N/A	N/A
Net interest cover (x)	N/A	N/A	N/A	NM	NM
Current ratio (x)	7.4	5.2	5.1	12.6	18.1

Balance sheet

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Cash	24.0	30.8	16.2	51.8	78.6
Current receivables	4.4	4.0	4.2	1.2	1.5
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.2	0.2	0.2	0.2	0.2
Current assets	**28.6**	**35.1**	**20.6**	**53.2**	**80.3**
PPE	0.5	0.9	0.9	0.9	0.8
Non-current receivables	0.0	0.0	0.0	0.0	0.0
Intangible assets	7.8	8.4	7.4	6.5	5.5
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	**8.3**	**9.3**	**8.3**	**7.3**	**6.3**
Total assets	**36.9**	**44.4**	**28.9**	**60.5**	**86.6**
Payables	3.1	5.9	3.2	3.4	3.6
Debt	0.1	0.0	0.0	0.0	0.0
Provisions	0.7	0.8	0.8	0.8	0.8
Other liabilities	0.0	0.1	0.1	0.1	0.1
Total liabilities	**3.9**	**6.8**	**4.1**	**4.3**	**4.5**
Shareholders' equity	33.0	37.6	24.8	56.2	82.1
Minorities	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	**33.0**	**37.6**	**24.8**	**56.2**	**82.1**
Total funds employed	**36.9**	**44.4**	**28.9**	**60.5**	**86.6**
W/A shares on issue	284.4	310.1	324.6	324.7	324.7

Interims

Y/e June 30 (A$m)	2H14A	1H15A	2H15A	1H16E	2H16E
Revenue*	1.7	1.9	2.4	6.5	2.9
EBITDA	-8.9	-8.4	-10.2	-4.8	-8.6
Depreciation & Amortisation	-0.6	-0.6	-0.6	-0.6	-0.6
EBIT	-9.5	-9.0	-10.8	-5.5	-9.2
Net interest & Other Income (Expense)	0.4	0.5	0.4	0.4	0.3
Pre-tax profit	-9.1	-8.5	-10.4	-5.0	-9.0
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-9.1	-8.5	-10.4	-5.0	-9.0
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit to shareholders	-9.1	-8.5	-10.4	-5.0	-9.0

*Includes R&D Tax incentive

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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