BELL POTTER

2 December 2015

Speculative
See Key risks on Page 7 & Biotechnology Risk Warning on Page 9
Speculative securities may not be suitable for Retail clients

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Starpharma (SPL)

AstraZeneca selects second oncology compound under collaboration

Recommendation
Buy (unchanged)
Price
$0.80
Valuation
$1.15 (unchanged)
Risk
Speculative

GICS Sector

Pharmaceuticals & Biotechnology

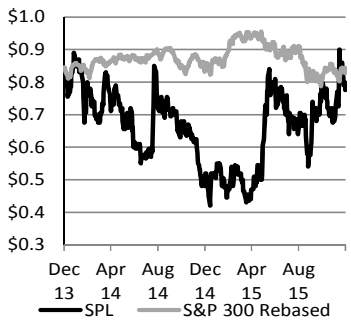
Expected Return	
Capital growth	**43.8%**
Dividend yield	**0.0%**
Total expected return	**43.8%**

Company Data & Ratios	
Enterprise value	**$230.3m**
Market cap	**$256.4m**
Issued capital	**320.48m**
Free float	**100%**
Avg. daily val. (52wk)	**$300,927**
12 month price range	**$0.41- $0.98**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.70	0.58	0.51
Absolute (%)	10.71	34.78	51.96
Rel market (%)	11.99	32.81	54.18

Absolute Price



SOURCE: IRESS

Second candidate selected by AZN under collaboration

SPL announced today that its partner AstraZeneca (AZN) has selected a second novel oncology molecule in its pipeline to develop using SPL's DEP technology. Similar to the lead drug under the collaboration, this compound is also a novel small molecule oncology molecule, belonging to the defined family of targets under the agreement. SPL will now commence work on this second project to develop dendrimer enhanced versions of this molecule, which will be funded by AZN. We expect that AZN should be in a position to select a DEP-enhanced version of its molecule to progress to scale up and formal pre-clinical toxicology studies within the next 12 months. Under the terms of the Sep'15 deal, SPL received US$2m as upfront payment and is eligible to receive an additional US$124m in development, regulatory and sales milestones on the lead product and up to US$93.3m in milestones on each follow on product, plus undisclosed tiered royalties on sale (BPe low single-digit to low double digit).

Strong Vote of confidence for SPL

We are impressed with the speedy progress of the collaboration which is indicative both of AZN's deep interest in SPL's DEP technology and also of its satisfaction with the results seen with the first DEP enhanced compound. We view this vote of confidence from AZN as a strong endorsement and validation of SPL's DEP platform. It also suggests reassuring progress in SPL's partnership with AZN on the first dendrimer enhanced compound and in our view bodes well for long term collaboration between them. We expect the ongoing progress in AZN/SPL's partnership to have positive implications for the rest of SPL's drug delivery pipeline. In our view, this partnership combined with the encouraging results from SPL's ongoing Phase I DEP-docetaxel trial could be the catalyst for SPL to attract additional partners in drug delivery in the near future.

Maintain Buy and Valuation of $1.15

No changes to earnings. We retain our Buy recommendation and DCF valuation of A$1.15/sh. Key catalyst - Results from Phase I DEP docetaxel trial (FY16).

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	9.28	7.57
EPS growth (%)	N/A	N/A	N/A	NM	-18.4%
PER (x)	N/A	N/A	N/A	8.6	10.6
EV/EBITDA (x)	-15.9	-12.4	-17.1	5.3	6.7
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

AstraZeneca selects second oncology drug under collaboration with SPL

Event: Starpharma (SPL) has announced today that its partner AstraZeneca (AZN) has selected a second novel oncology molecule in its pipeline to develop using SPL's DEP technology. The compound will be developed under their existing licensing agreement inked in September 2015.

SPL will now commence work on this second project to develop dendrimer enhanced versions of this novel oncology molecule, which will be funded by AZN.

Key Highlights

- This second compound will be developed under the existing licensing agreement between the two companies signed in Sep'15.
- Similar to the lead drug under the collaboration, this second compound is also a novel small molecule oncology molecule in AZN's pipeline. It belongs to the defined family of targets under the agreement.
- SPL will now use its DEP technology to improve the pharmaceutical properties or therapeutic profile of this drug. This work will be funded by AZN as per the terms of their agreement.
- Various DEP-enhanced versions of the drug will be developed by SPL.
- Based on the timeline of work carried out between the two companies on the first molecule, we expect that within the next 12 months, AZN could be in a position to select DEP-enhanced version of this second molecule to develop further.
- We expect that once AZN selects a DEP-enhanced version of its molecule to progress to scale up and formal pre-clinical toxicology studies, with the view of ultimately progressing it into the clinic, it would trigger a milestone payment to SPL. Hence we expect the first milestone payment to SPL for this second compound could be triggered towards the end of CY16. We estimate the milestone payment to be ~US$1-2mn, with additional milestones for the compound likely payable on IND approval and initiation of a Phase I trial.

Details of the SPL- AZN Deal inked in September 2015

- The deal is for a preclinical dendrimer enhanced novel oncology molecule in AZN's pipeline which AZN & SPL have been working on since 2014 and related compounds belonging to a defined family of oncology targets.
- AZN paid SPL US$2m as cash upfront payment on signing of the deal.
- The lead product is worth up to US$124m alone, including US$64m in development and launch milestones and US$60m in sales milestones receivable on annual sales thresholds being met.
- SPL will also be eligible to receive up to US$93.3m additionally in development, regulatory and sales milestones on each follow on product.
- AZN will bear all future development and commercialization costs related to the products under the agreement.
- SPL will also receive undisclosed royalties on product sales. As per SPL estimates, the royalties over the life of the lead drug could amount to ~US$324m. The company has

not disclosed the royalty rates under the deal. We estimate royalties to be tiered and in the range of low single digits to low double digits.

- The deal does not include SPL's internal drug delivery candidate dendrimer-docetaxel or any of the other established oncology products which SPL is using its DEP technology to improve, including the antibody-targeted DEP conjugates.
- Although not specified, we believe that the deal focuses on small molecule oncology molecules. Our belief is based on the fact that the spokesperson for AZN at the time of the deal whose comments were mentioned in SPL's ASX release was Susan Galbraith, Head of the Oncology Innovative Medicines Unit (IMed) at AZN. The IMED unit at AZN focuses on scientific advances in small molecules. AZN has a different unit which focuses on biologics.
- The molecular target for the compounds under the agreement has not been disclosed. Our analysis of AZN's existing interest in drug delivery through other collaborations and some of their pre-clinical oncology pipeline leads us to speculate that the oncology molecule could be a selective small molecule kinase inhibitor or it could be a Kinesin spindle protein (KSP) inhibitor. Both these class of compounds are considered to be good targets for oncology drug development, however have limitations in the form of toxicities especially bone-marrow toxicities. Given the safety data we have seen with SPL's internal DEP-docetaxel program with the absence of neutropenia, we believe the DEP technology to be well suited for improving the abovementioned class of compounds.
- The targeted indications for the compounds under the agreement have not been disclosed. However, we note that AZN's oncology pipeline is focused principally on four disease areas - breast, ovarian, lung and haematological cancers. AZN is also exploring other tumour types where there is unmet medical need. Therefore there is possibility that the two DEP drug candidates targets either solid tumours or haematological cancers.
- The lead DEP-enhanced oncology molecule under SPL/AZN's collaboration is in pre-clinical stage of development. We expect another year of further preclinical development (IND enabling studies) and then this compound should be ready to move into Phase I trials (BPe end of CY16).

Our comments

- **Selection of second oncology molecule to apply DEP technology a vote of confidence from AstraZeneca:** In our view, the selection of a second molecule within 3 months from the licensing agreement between the two companies is a strong endorsement and validation of SPL's DEP platform. We are pleased with the speedy progress of the collaboration between the two companies. This progress is indicative both of AZN's deep interest in SPL's DEP technology and also of its satisfaction with the results seen with the first DEP enhanced compound.

  It also suggests reassuring progress in SPL's partnership with AZN on the lead dendrimer enhanced oncology molecule under the collaboration and in our view bodes well for long term collaboration between them.
- **Progress in AZN partnership combined with positive results from DEP-docetaxel Phase I trial could be catalyst for new drug delivery deals:** We expect the ongoing progress in AZN/SPL's partnership to have positive implications for the rest of SPL's drug delivery pipeline. In our view, this partnership combined with the encouraging initial results from SPL's ongoing Phase I DEP-docetaxel trial could be the catalyst for the company to attract additional partners in drug delivery in the near future.

- **Potential for expansion of collaboration between AZN and SPL:** For compounds under its current deal with AZN, SPL is using its DEP technology to 'passively target' the tumour.

  SPL is now also using an 'active target' approach with its DEP technology to develop antibody-drug conjugates (ADCs). SPL recently released encouraging results from a mice study in ovarian cancer with its antibody-targeted DEP conjugate. This mice study in ovarian cancer showed improved activity and survival benefit of treatment with SPL's Herceptin-targeted DEP conjugate over the two marketed agents from Roche (Herceptin and Kadcyla).

  We note that AZN has been boosting its Antibody-Drug Conjugate (ADC) capability through collaborations and acquisitions. Therefore with the expansion of SPL's DEP platform to ADC's, it opens up the possibility of AZN looking at a wider application of SPL's DEP-technology. This creates a potential opportunity for expansion of collaborations between the two companies.

In summary, we are impressed with the speedy progress of the collaboration between the two companies and view the selection of the second molecule by AZN as a vote-of-confidence for SPL's DEP technology. We believe AZN as a partner is a good strategic fit for SPL given its focus on oncology and its specific experience and capabilities in drug conjugates. Today's announcement reassures us that SPL's partnership with AZN on the lead dendrimer enhanced oncology molecule under the collaboration is also progressing well. We do not include any value for the second molecule under the collaboration in our forecasts for SPL at this stage. There is no change to our forecasts and valuation for Starpharma.

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)	325.3
Value per share (AUD)	**$1.15**
Current Share price (AUD)	$0.80
Expected Capital Growth	43.8%

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 including the second molecule selected by AZN 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, or its latest Herceptin-targeted DEP conjugate 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 and drug delivery 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 ~32.5%.

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 $26.1m 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 had $26.1m cash at the end of 1QFY16 and has burned ~$1.8m/month on average over the last twelve months

Starpharma
as at 2 December 2015

Recommendation	Buy, Speculative
Price	$0.80
Valuation	$1.15

Table 4 - Financial summary

Starpharma (SPL) — **Share price (A$)** **$0.800**
As at 2 December 2015 — **Market cap (A$m)** **256.4**

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	8.6	10.6
CFPS (c)	-3.5	-4.4	-4.4	11.0	8.3
Price/CF (x)	-23.2	-18.2	-18.1	7.2	9.6
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	-15.9	-12.4	-17.1	5.3	6.7
EV/EBIT	-14.8	-11.6	-15.7	5.5	6.9

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 borrowings	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	$0.800
Valuation:	$1.15
Premium (discount) to price	43.8%
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	324.4	324.5	324.5

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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